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The Prospects for Globalisation under Trump

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SYNOPSIS

Globalisation is in a fragile state. Growing international tensions combined with protectionism and other systemic vulnerabilities in the Trump era could propel us into a dangerously unsettled future.

COMMENTARY

Globalisation is usually thought to have significantly raised the living standards of most of the world's population. Also, there is the old adage that the more people trade together, the less they fight. For both reasons, there is concern that globalisation may be in trouble at a time when world leaders are talking tariffs and terrorists are sinking merchant ships. So the question arises: Are we heading into a darker, bleaker mercantilist world where both peace and prosperity are at serious risk? There seem to be six interconnected reasons why this might be so. Some derive from the nature of the system itself, others from its reliance on shipping.



While the future of globalisation remains uncertain, it will continue to shape world politics.
Image from Flickr.

Six Reasons for Concern

First, like any market, the sea-based globalisation system is subject to natural perturbations. In line with the economist David Ricardo's theory of "comparative advantage", it makes sense for countries to concentrate on producing what they are good at and to import everything else. This also encourages a "distributed manufacturing" approach where something is sequentially produced between a number of different countries. But such supply chains are sensitive to disruption. The poor performance of some of the system's main economic constituents can be disruptive too. Chinese economic dynamism has in part compensated for the lacklustre performance of the European economy, so its slowdown since the impact of the COVID pandemic has been an increasing cause for concern. These developments may well undermine confidence, raise tensions, aggravate trade fragmentation and hurt growth.

Second, in a developing market there are always winners and losers. The latter are chiefly responsible for a global rise in protectionist sentiment. Capital has arguably benefitted much more than labour, leading to greater social inequality both domestically and between nations. The downtrodden see globalisation as undermining their way of life, their independence, their beliefs, and their future prospects. Hence the rise of an angry domestic populism, which has already changed the nature of Western politics, not least in the United States. This produces a generation of leaders focused on "defending" their vulnerable constituents through protectionist measures. They may also seek to promote sovereign strategic capabilities in the same way. Trade wars then become more likely.

Third, conflict usually inflicts collateral damage on trade and does so in two ways. History shows that "neutral" global trade suffers when the belligerents attack each other's shipping in wartime. The tanker war of the 1980s and the Russo-Ukraine war are two of the most obvious examples. Nor are attacks by conventional military means the only form of such attacks. The Russian *NotPetya* cyber assault on Odessa in 2017, which had dire consequences for Maersk, the Danish shipping giant, and recent cable cutting incidents, illustrates the point.

In times of contested peace, however, the costs and risks of war so clearly demonstrated in the Ukraine and Gaza wars, have increased interest in "economic statecraft", in which weaponised trade rather than military force becomes a principal means of persuasion, coercion, or war. Strategic motivations take precedence over commercial ones. Damaging an adversary in this way, or protecting oneself against it, damages the system too. Countries, for example, will aim to reduce dependency on possible adversaries by "friend-shoring" even if it makes little sense economically. The sanctions campaign launched against Russia after its invasion of Ukraine in February 2022, for example, may have damaged the world economy less than Russia's direct military attack on Ukrainian trade, but by distorting the market it has inflicted harm all the same. Some of its second order consequences can be serious too. Attempting to evade Western sanctions, the Russians resorted to the use of a "dark fleet" of vessels that were dubiously operated and represented a danger to themselves, other users, the sea-based system as a whole and the operating principles on which it relies.

The global system may also suffer indirectly, when belligerents lose productive capacity and/or switch effort into military production and away from more profitable manufacturing or investment in health, education, non-military R&D, etc. Neutral bystanders are likely to suffer associated inflation in commodities and manufactured goods, reduced aid, and less direct foreign investment. In consequence, global growth suffers.

Fourth, the globalisation system can, and has been, directly attacked by those unsympathetic to the values that go with it, or who see themselves as representing the interests of its downtrodden victims, or simply as a way of advancing their agenda. Such attacks may be directed against the system's ports and shore-side infrastructure or the shipping that is the primary means by which sea-based trade is conducted. The Al Qaeda attacks on the World Trade Towers in September 2001 are the obvious example of the first and Houthi attacks on Red Sea shipping of the second. Neither campaign brought the system down, or as yet seems likely to. But they have certainly inflicted varying degrees of damage on it. The 250 or so Houthi attacks by the end of 2024 deprived the Egyptian government of most of its revenue from Suez Canal transits, risked environmental disaster, and contributed to shipping delays, port congestion, and higher freight costs through longer alternative routes and much increased marine insurance.

Fifth, globalisation is threatened by criminal and terrorist groups who are themselves often transnational, if not globalised. International maritime crime in its manifold forms (piracy, drugs and people smuggling, etc), and the unsustainable plundering of marine resources all threaten to undermine the good order at sea on which depends the safe and timely passage of the international shipping that keeps the system going. While such operations are conducted in pursuit of pecuniary gain, terrorists may also be involved in support of a political cause. The two may, moreover, conflate. Terrorists have long been involved in the trade in illicit drugs, for example.

Sixth and finally, globalisation is absolutely reliant on a shipping industry that has its own frailties. Intense competition has produced a supply-chain philosophy of "just enough, just in time" that increases the system's vulnerability to disruption, particularly given the lamentably low reserve stocks of life essentials such as oil and food that most countries hold. The marine transportation system's increased reliance on much larger tankers and container ships and nodal hub-ports intended to supply the needs of local regions through feeder shipping produce multiple critical points of failure.

Moreover, the industry is facing a plethora of technical challenges that some liken to the arrival of the first container in 1953. These include multimodality between both routes and competing means of transport (such as the possible use of dirigibles, and/or unmanned ships), smart AI-shaped networks, increasingly sophisticated quayside infrastructure, and so on. These technologies improve cost-effectiveness by reducing personnel costs, port fees, and wasteful loitering time, but make for an increasingly complex system which only works well when everything does; but at the same time there is more that can go wrong. On top of this, the industry has to respond to the considerable challenge of making its ships and their operational support carbon-neutral and environmentally cleaner.

International shipping is a massive industry necessarily run on the tightest of margins and subject to a host of operational risks, including dockyard strikes, acute labour shortages and simple accidents such as the grounding of the *Ever Given* in the Suez Canal or the *Dali's* collision with the Francis Scott Key Bridge in Baltimore. Both inflicted massive, if temporary, economic damage on the system. The COVID pandemic starkly revealed how quickly such troubles can escalate into major supply-chain insecurity.

System Failure?

Added together, these six risks in combination, whether accidental or deliberate, could lead to “hysteresis” (that is, the inability of a system to recover its equilibrium after a shock of some kind), plunging us all into a more malignant future. Previous versions of globalisation have suffered like this. The system prevailing at the end of the 19th century collapsed with dire consequences in the face of intense commercial rivalry, the discontent of the disadvantaged and growing nationalism. Worse still, in some respects, our variant of globalisation faces an extra range of threats (most obviously international terrorism, pandemics, resource depletion, and environmental degradation) that previous ones did not.

Against all this depressing prognosis, however, there are countervailing arguments. There is already domestic and international pushback against president-elect Trump’s protectionist agenda. The current success of the container shipping sector shows that the sheer size and complexity of the shipping industry nearly always provides profitable workarounds for any adversity. Some parts of the industry suffer, others prosper. Moreover, the search for bilateral and multilateral free trade deals continues apace. Above all, UNCTAD, the United Nations’ trade body, has reported that international trade actually continues to expand although it has still not fully recovered from the effects of the COVID pandemic. A closer look, though, shows that the currently expected 3.6 per cent trade expansion towards a record projected annual total of US\$33 trillion is in part explained by inflation and the basically unproductive maritime services necessary only because of the threats described above.

It is hard to avoid the conclusion that things could go either way. Much will therefore depend on the policy of the Trump administration. The present and future state of globalisation is quite uncertain but will remain a major determinant of the shape and nature of world politics — and of its future dangers.

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