

Deglobalization, derisking and deregulation: Crack the 3D code

Nations must navigate all three well to balance their openness with resilience and global integration with domestic strength



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When flight attendants instruct passengers to secure their own oxygen masks before helping others, they acknowledge a fundamental truth: In times of crisis, self-preservation must precede collective action. Today's global economy faces a similar moment of reckoning. As nations grapple with supply-chain vulnerabilities, geopolitical tensions and economic uncertainty, they are increasingly adopting a 'mask-first' approach, prioritizing domestic resilience over global integration.

This shift manifests through what we call the 'Three Ds': deglobalization, derisking and deregulation. While these trends dominate policy discussions worldwide, their actual impact varies significantly between rhetoric and reality. Understanding this distinction is crucial for navigating the new economic landscape and identifying opportunities amid apparent fragmentation.

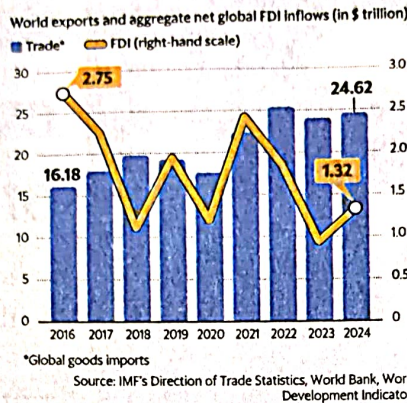
Despite widespread talk of de-globalization, the data tells a more nuanced story. World merchandise trade reached an all-time high in 2024, at close to \$25 trillion, driven partly by the AI boom that has led to explosive demand for technology exports, particularly from Asia. Taiwan and China have emerged as critical suppliers in this new economy, while services trade continues to show remarkable resilience. The overall imports of services from the US registered a record high of \$841 billion in 2024 and a figure of over \$200 billion in the first quarter of 2025. DHL's Global Connectedness Index, which measures international flows of trade, capital, information and people relative to the size of domestic activity, was at a record high of 25% in 2022 and 2023, with a number in the same range projected for 2024.

However, beneath these aggregate figures lie important distributional effects. For example, certain sectors and individuals, from Indian shrimp farmers to IT professionals, experience the benefits and challenges of globalization differently. High-frequency indicators also reveal stress points. The FedEx stock price, often considered a leading indicator of global trade health, has shown discernible declines, while policy changes like the US H-1B visa fee hike signal potential shifts in cross-border labour mobility.

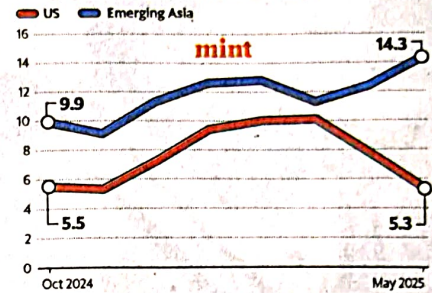
Capital flows present perhaps the clearest evidence of changing patterns. World net foreign direct investment (FDI) has declined notably, though it remains orders of magnitude smaller than merchandise flows. Meanwhile, global migration reached historic highs in recent years. Yet, fresh US data from the Pew Research Center shows a reduction in the country's foreign-born population by roughly one million (as of June 2025), alongside an 85% drop in border apprehen-

Is deglobalization mostly rhetoric and derisking the reality?

International trade in goods has continued to expand although global capital flows have been uneven. China has grown its shipments to emerging Asian markets against a slump in exports to the US.



Year-on-year growth (%) in China's exports to the US and emerging Asia (three-month moving average)



GOPAKUMAR WARRIAR/MINT



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sions reported by The Global Statistics.

While deglobalization remains more rhetorical than factual, derisking represents a genuine shift in how nations approach global integration. Countries are actively reallocating resources, rebalancing supply chains and seeking optimal positions within global value chains rather than simply maximizing integration.

China exemplifies this transition. Despite facing pressure from various trade partners, Chinese output and trade data remain surprisingly resilient. The country has successfully rebalanced itself away from certain markets while maintaining overall economic momentum. This demonstrates that derisking need not mean economic isolation.

India has emerged as a particularly compelling case study in navigating these Three Ds. Instead of choosing between global integration and a domestic focus, Indian policymakers have crafted a nuanced approach that combines targeted strategic derisking with domestic deregulation.

The country's derisking strategy centres on a strategic industrial policy designed to achieve the twin goals of employment generation and value addition. Production-linked incentive schemes have attracted significant investment in critical sectors, while supply-chain derisking has transformed India's approach to defence and pharma procurement. Strategic trade alliances with the UK are already operational, with similar arrangements in progress with the EU and US.

Simultaneously, India has embraced the third D, domestic deregulation, to enhance domestic competitiveness. The digital startup ecosystem benefits from streamlined registration processes, while GST 2.0 promises to further reduce compliance

burdens. This regulatory modernization can help India walk a delicate tightrope between keeping necessary oversight of critical sectors while unleashing entrepreneurial energy.

Agro-industrialization must be a key pillar of this strategic industrial policy. This requires a decentralized and granular approach with an emphasis on underdeveloped states like Bihar that possess tremendous potential, given their comparative advantage in resources such as groundwater and labour.

Significant challenges remain in this interconnected world. Exports and imports are inextricably linked through global supply chains. Taxes on imports can effectively become taxes on exports, potentially undermining competitiveness. The principle of comparative advantage suggests that even the most efficient economies can benefit from specialization, making complete self-reliance both impossible and undesirable.

A key task is to find the right position within evolving global value chains. As more advanced economies like China vacate certain spaces in what economists call the 'flying geese' model of development, opportunities emerge for countries that can adapt quickly. Derisking is not about complete decoupling, but about building redundancy and resilience into economic relationships.

Success in this new environment requires a laser focus on strategic sectors, combined with quantifiable targets, robust monitoring mechanisms and carefully calibrated incentives that include both rewards and penalties, to ensure that policies translate into measurable macroeconomic outcomes. Equally crucial are robust compensatory measures for displaced workers through active labour market programmes to manage resistance to change and address the transition costs that arise from specialization and trade.

All in all, the global economy stands at an inflection point. While deglobalization rhetoric dominates headlines, the reality is more complex. It is characterized by evolving rather than declining interconnectedness. Derisking represents a genuine shift towards more resilient economic relationships, while deregulation should help raise domestic competitiveness.

Countries that can skilfully navigate these three Ds, balancing openness with resilience and global integration with domestic strength, will be best positioned to thrive. Those that master this balance will define the next chapter of economic history as circumstances change. India's approach offers a compelling template, but monitoring and execution will be key.