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DEGLOBALIZATION IN INTERNATIONAL FINANCE AND PAYMENTS: A NEW PARADIGM OR A PHASE IN GLOBALIZATION'S EVOLUTION?

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ABSTRACT

This paper examines the phenomenon of deglobalization in international finance and payments, assessing whether it represents a fundamental shift or a temporary phase within the broader process of globalization. Using a combination of theoretical analysis and empirical assessment, the research introduces the Deglobalization Coefficient, a novel metric that synthesizes key financial indicators, including cross-border capital flows, trade restrictions, and international payment diversification. Data from sources such as the United Nations Trade and Development and the Bank for International Settlements provide insights into trends from 2007 to 2022, a period marked by financial crises, trade policy shifts, and geopolitical tensions. The findings indicate that the world economy is undergoing a moderate level of financial deglobalization, with increasing regionalization of finance and greater national autonomy in monetary policy. However, the study also highlights the counterbalancing role of digitalization, which sustains financial integration despite protectionist tendencies. The research contributes to the ongoing debate on the future of globalization, offering a systematic approach to measuring deglobalization trends in financial markets.

Keywords: *Globalization, Deglobalization, International Finance, Payments, Trade Policy, Capital Flows, Digitalization, Deglobalization Coefficient*

1. INTRODUCTION

The global economy is facing new challenges, including overcoming the slowdown in the economies of the world and minimizing the risks due to the depressed world economic processes. In addition, states must manage international business and trade in the face of increasing deglobalization. Globalization is a process of increasing interdependence and integration into the world economy. Deglobalization, the second core concept explored in this study, represents the opposite of globalization - it is a process marked by declining interdependence and reduced integration among nation-states within the global economy.

Globalization and deglobalization have historically alternated in cyclical patterns. According to Jones (2005), the first era of globalized economy took place between 1840 and 1929. Then the Great Depression and World War I led to the first deglobalization of 1929-1979. At the time, the

world was still recovering from World War II, Western countries tried to eliminate trade barriers and many countries joined the WTO. The other period of globalized economy started after 1979 and was stopped by the global financial crisis of 2008. Suspicion of financial systems and multinational companies causes nations to fear income inequality and division. That drew the public and politicians' attention, and the calamity gave birth to an alternative model of deglobalization.

The world economy has transitioned from a phase of intense integration to an era of orderly deglobalization. Although economic globalization has generally favored financial integration, new developments point toward a resetting of the tables rather than a wholesale reversal (Paul, 2023). Deglobalization, in both theory and empirical analysis, is not a singular event but a recurring phenomenon in response to global economic crises, trade policy changes, and geo-political shifts (Chase-Dunn & Inoue, 2023). Digitalization and fintech are playing an increasingly important role in this landscape, presenting both new opportunities for global integration, and risks to financial stability (He, 2021).

Globalization and deglobalization have historically fluctuated in response to economic and political dynamics. The first significant globalizing upsurge in the late 19th and early 20th centuries was interrupted by the two World Wars and the Great Depression (Jones, 2005). This wave of deglobalization was characterized by increased protectionism, financial nationalism and regional economic disintegration (Goldberg & Reed, 2023). The post-Second World War period saw the rise of international financial institutions, including the International Monetary Fund (IMF) and World Bank, and initiated an era of financial liberalization (Eichengreen et al., 2021). The 2008 global financial crisis brought back the debate about the sustainability of globalization due to financial instability, rising economic inequality, and main nationalist policies shaping trade and corporate investment flows (McCauley et al., 2017).

Some authors (Witt, 2019) claim that we are living in the times of a second globalization, a selective globalization, compared with the one that developed after 2008, where financial integration is in place, but it is based more and more on regional arrangements in the economy rather than a global one. A key catalyst for this transformative process has been digitalization, with advances in cross-border payment systems, blockchain technology, as well as the explosion in fintech offering solutions, accelerating the pace of international transactions and raising risks to financial stability (He, 2021). Some writings underscore the resilience of globalization during crises, while others underscore the increased instances of financial fragmentation and the greater reliance on regional financial institutions, with the rise of economic nationalism among them as hallmarks of the current age (Lamba, 2021).

The motivation of the current research is the phenomenon of deglobalization in international finance and payments and, in particular, it aims to explore whether it is a systemic change in the global economy or a cyclical period amid the longer trajectory of globalization.

This paper intends to study the extent, character, and implications of the process of financial deglobalization by presenting the Deglobalization Coefficient, designed to capture the changes in the effectiveness of cross-border capital flow, trade policy, payment institutions, and monetary sovereignty.

To that end, the paper, combining theoretical-descriptive and empirical approach, will analyze main financial indicators during the period 2007-2022, and measure the level of globalization in international payments using a synthetic index represented by the value of five indicators weighted for accuracy of measurement.

The constraints of this study are associated with the lack of universal availability and frequency of global financial data, including three-year gaps in some of the key ratios, and the requirements to supplement quantitative variables with qualitative judgments due to the lack of globally commensurable data.

This paper adopts an operational definition of "financial deglobalization" as a multi-dimensional process characterized by declining cross-border financial flows, rising monetary and regulatory autonomy at the national level, the proliferation of trade and investment barriers, and the fragmentation of global payment infrastructures. While deglobalization can occur cyclically in response to crises, the present study also investigates whether structural features - such as the rise of regional institutions and national digital currencies - indicate a paradigmatic transformation. The analysis distinguishes between flow-based indicators (quantitative) and institutional fragmentation (qualitative), enabling a nuanced assessment of both cyclical and structural dimensions.

To guide the analysis, the following hypotheses are proposed:

H1: Cross-border capital flows have declined on average since 2007, indicating a shift toward financial deglobalization.

H2: Diversification in international payments has increased, reflecting resilience in cross-border financial connectivity.

These hypotheses are tested through both quantitative data analysis and qualitative assessment of institutional developments.

2. LITERATURE REVIEW

In recent years, the concept of deglobalization has gained significant attention in the realm of international finance and payments, as nations grapple with the implications of a shifting global landscape. The post-2008 global financial crisis international system seems to be moving into a new phase of structural deglobalization, which results from challenges to capitalist neoliberalism, environmental breakdown, and increasing inequality (Chase-Dunn, Álvarez & Liao, 2023). Such structural pressures have also been amplified by increasing geopolitical tensions, populism, and protectionism. The historic reasons behind these changes go back to the neoliberal economy and the 1990s "Washington Consensus", which weakened states' control over the economy and expanded that of private companies and financial institutions (Paul 2023). In retaliation, a number of governments have tried to reclaim their control over exchange rates by the imposition of capital controls and by encouraging local currencies and domestic (rather than global) investment strategies (Abdal and Ferriera, 2021). Kim, Li, & Lee (2020) claim that deglobalization leads to declines in banking system interconnectedness and foreign direct investment (FDI), alongside increases in transaction costs and market volatility. Witt (2019) underlines that deglobalization is a political project that has nothing to do with economic, and moral incentives, as it destroys societies' resilience and trust in global finance governance. The splintering of global standards and the trend toward bilateral or regional accords (such as CBDCs or local currency agreements) are broader manifestations of a shift toward economic nationalism. Goldberg and Reed (2023) also emphasize that increasing trade and financial barriers transform international payments to rely more on regional trade and be dominated by the inefficiency of global capital markets. The Bank for International Settlements (2018) also posits that this fragmentation pushes up borrowing costs, especially for developing countries, by weakening global liquidity and integration.

2. 1. HISTORICAL AND CYCLICAL PERSPECTIVES

Brawley (2021) provides a long-term historical perspective, emphasizing that globalization has always fluctuated, shaped by political and economic cycles. The current retreat may be viewed as another fluctuation rather than as a structural termination. Paul (2023) similarly notes that although the pandemic highlighted risks in global supply chains and financial networks, it also

demonstrated the resilience of global financial coordination - through rapid cross-border fiscal and monetary responses. Altman and Barnes (2024) strengthen this point, contending that global flows are surprisingly strong, especially of capital and data. They also regard current trends as evolutionary, not as a return to the primitive. Yet, most authors concede that the course of globalization is shifting. While goods trade may have peaked or fallen, services and digital flows have continued to increase (Goldberg and Reed, 2023). As national resilience and autonomy are increasingly emphasized, the world's economy is becoming more selective and fragmented in international finance. These accounts show that financial deglobalization is not a single event that suddenly takes place, but a multifaceted and dynamic process (Aryati and Susilawati, 2025). It is a mix of structural change, technological bifurcation, empirical retreat, and historical pendulum. As a result, policymakers and financiers conduct their business in a universe of both integration and fragmentation, but in which the governing frameworks should change to manage these competing pressures for openness and autonomy.

2. 2. EMPIRICAL FINANCIAL FLOWS AND FRAGMENTATION

McCauley et al. (2017) note a quantitatively significant reduction in cross-border banking and lending after 2008 due to stricter regulation and a reorientation towards the domestic economy. This aligns with the broader trend of financial deglobalization, where banks are increasingly looking inward. Chase-Dunn and Inoue (2023) describe these dynamics as part of long-run cycles in which global capital mobility contracts, giving rise to regional institutions and limiting global financing options. Eichengreen et al. (2021) offer a more nuanced perspective, referring to financial globalization as a "two-edged sword": on one hand, it can foster development; on the other hand, it allows for the spread of volatility in emerging markets. They believe that controlling financial flows is important for achieving inclusive financial globalization. Daniels et al. (2022) emphasize that financial deregulation has two sides: it facilitates integration, but it also makes countries more susceptible to sudden shocks. During crises, such as the global financial crisis or the COVID-19 pandemic, those vulnerabilities are more apparent, leading to a withdrawal from integration.

2. 3. TECHNOLOGICAL ENABLERS AND CONSTRAINTS

Simultaneously, digitalization has also become a key factor shaping international finance, facilitating globalization and, at the same time, underpinning fragmentation. Cloud computing, blockchain, and fintech platforms are increasing the speed and scope of financial transactions and undergirding ongoing globalization in payments (He, 2021). Digital platforms have facilitated instant fund transfers, automated financial processes, and improved data analytics in risk management (Kakizhanova et al., 2025). Decentralized and blockchain-based markets could circumvent traditional regulatory oversight, thus raising systemic risks and speculative volatility (He, 2021). Cryptocurrencies and digital assets proliferate, posing regulatory challenges, while data localization policies and national digital currencies (e.g., CBDCs) strengthen financial sovereignty - potentially accelerating deglobalization. Lamba (2021) introduces this paradox, noting that even as DeFi technologies potentially replace traditional payments systems, they also harness an alternate, localized financial ecosystem. This 'technological obstaclization' implies that digitalization has a dual capability in the sense that it is both a force of globalization and a force of deglobalization.

3. HISTORICAL EVOLUTION OF GLOBALIZATION

The following elements can be identified as components of globalization: cross-border flows of trade, investment, data, ideas and technology, and people, including workers, tourists, and students. Global

trade, measured by the ratio of world exports to world GDP, is a proxy for economic integration.

There are five periods of modern-age globalization.

In the first period, from 1870-1914, economic integration increased, driven by the steamship and other advances that allowed more goods to move more cheaply between markets.

The globalization reversed itself in the second period, from the outbreak of the First World War in 1914 until the end of World War II in 1945. World War I caused continued economic dislocation, which included Russia's withdrawal from world trade after the Communist Revolution in 1917, the Spanish flu pandemic of 1918, monetary instability in the early 1920s, new immigration restrictions, the Great Depression, beginning in 1929, and the outbreak of protectionism in the 1930s. This turmoil reduced integration, and the world economy fell into a crisis.

Economic integration was restored in the third period, the three decades after World War II. The American leadership helped to create new institutions for economic cooperation, such as the General Agreement on Tariffs and Trade, allowing countries to reopen their economies to trade and investment. These steps led to a golden era of growth.

The geographic scope of the third phase - limited to the United States, Western Europe, Japan, and a few other countries - restrected how far the global economic integration could go. The Soviet bloc of communist states and China were the non-market economies that did not participate for political and economic reasons. Additionally, the developing world in Latin America, South Asia and Africa chose its own path of import substitution while remaining relatively isolated.

In the fourth period, from the 1980s to the financial crisis of 2008, economic integration rose to a historically unprecedented global scale. Led by China and India, developing countries began to remove trade barriers. The Soviet bloc in Eastern Europe moved towards democracy and economic liberalization with the fall of the Berlin Wall in 1989, followed by the collapse of the Soviet Union in 1991. Changes in technology – the shipping container and improvements in information and communication technologies – were also fueling integration and leading to the creation of global supply chains. Global growth was strong, and global poverty declined significantly.

Measured by trade flows, this fourth era of globalization appears to have peaked in 2008. The ratio of world trade to GDP had been falling since the Great Recession. While, the world trade recovered in 2010 from the 2009 shock, the world economy has since entered a fifth historical period, sometimes called "slowbalization".

In recent decades, trade has tended to grow faster than the world output, while trade growth has been unusually weak in recent years. The volume of world trade actually declined in 2019, even though the world economy grew relatively steadily. There are a number of factors at play. The growth of global value chains – the spread of supply networks between countries – has leveling off. The reform agenda has stalled around the world. Under President Xi Jinping, with policies to promote the local population and develop leading industries (the Made in China 2025 initiative), China is beginning to turn inward and its exports as a share of GDP are declining. China remains an export power, but its export share fell from 31 percent in 2008 to just 17 percent in 2019, as Nicholas Lardy notes (Irwin, 2020).

Under President Donald Trump, the United States has adopted an "America First" policy, moving away from trade liberalization (withdrawing from the Trans-Pacific Partnership) and towards protectionism. The American administration is imposing tariffs on steel and aluminum imports for national security reasons, spreading trade barriers. The United States also started a trade war with China over its unfair trade practices, significantly reducing bilateral trade. President Trump's economic advisers have equated economic security with national security and have spoken of a desire to sever the supply chains that make the United States dependent on China. Tensions between the two countries have loosened their relationship in some cases,

known as the "decoupling" between the world's two largest economies. This separation does not mean that integration shrinks to nothing, only that it is significantly reduced.

Thus, even before the pandemic hit, several factors were reducing globalization. The COVID-19 pandemic definitely added further momentum to the deglobalization trend. The French President Emmanuel Macron stressed that the coronavirus is "changing the nature of the globalization we have lived with for the last 40 years", adding that it is "clear that this type of globalization is reaching the end of its cycle" (Irwin, 2020).

The pandemic heightened concerns around the world that supply chains had gone too far. Export bans were imposed on inadequate domestic production of medical equipment, personal protective equipment, and pharmaceuticals. Such policies exacerbated scarcity, the opposite of the expected effect. (During the 2012 food crisis, export bans drove up world prices and led to short-term shortages.) Past experience shows that when some countries begin to restrict trade in critical goods, others are likely to follow suit. This trend is not unprecedented; as Adam Smith noted in his book "Wealth of Nations" long ago: "The very bad policy of a country may render it somewhat dangerous, and imprudent to ascertain what would otherwise be the best" (Irwin, 2020).

Experience also shows that fear causes states to turn inward. Many countries are now rethinking their trade dependence. Phil Hogan, the European Union's Trade Commissioner, said the EU needs to think about how to ensure the strategic autonomy. Scott Morrison, the Prime Minister of Australia, told its Parliament that open trade had been a fundamental part of their prosperity for centuries but they also need to look carefully at their domestic economic sovereignty. Japan is also beginning to explore how to break its dependence on China for supply chains and produce more at home.

The world economy is at a critical turning point in history, where fears of dependence on others are growing. An inward turn does not mean the end of globalization, only a partial reversal.

4. METHODOLOGY

This study employs a combination of theoretical analysis and empirical assessment to evaluate the extent of deglobalization in international finance and payments. The Deglobalization Coefficient introduced here is a new index. It is inspired by previous composite indices.

Two most notable indices of globalization for international finance and payments are the Chinn-Ito Index and the KOF Globalization Index. The Chinn-Ito Index (Chinn and Ito, 2006) measures the de jure openness of the capital account of a country, using data on cross-border financial transaction restrictions from the IMF. It observes a country's legal and institutional attitude towards financial globalization, which can be used to explain regulatory restrictions and the mobility of capital. In contrast, the KOF Globalization Index (Gygli et al., 2019) includes a distinct Financial Globalization component within its Economic Globalization dimension, which measures the de facto integration of a country into global financial markets through data on international investment positions, income payments to foreign nationals, and financial flows. These indices are now the most widely cited variables in measurements of globalization, but both are partially flawed because they do not capture all aspects of restrictions on FDI: the Chinn-Ito index covers only legal restrictions, while the KOF index conflates financial openness with more general economic variables. This context provides a rationale for a new index (as suggested in the paper above) that could provide a more focused, multi-dimensional and updated measure of globalization in payments and international financial connectivity, which might incorporate themes like digital cross-border transactions, decentralized finance, and real-time payment infrastructure - themes that are not extensively covered in the existing indices.

The allocation of quality weights in the newly-developed Globalization Coefficients is based

on the theoretical importance and empirical measurability of the individual indicators. The payment diversification indicator received the highest weight (50) because, besides its empirical observability, based on consistent BIS data over the years, it has a strategic dimension that is relevant to the digital age. In a context where financial systems are increasingly shaped by innovations in cross-border payment technologies, changes in currency usage and transaction platforms provide one of the clearest signals of structural financial shifts. Cross-border capital flows received a weight of 20, acknowledging their foundational role in globalization and deglobalization processes but also accounting for their cyclical nature and sensitivity to short-term economic shocks, which may reduce their ability to capture longer-term structural transformations. The rest of the variables, including national monetary independence, trade protection, and regional financial system development, were weighted 10 each. This indicates the high theoretical significance of these measures, but also their limited global quantitative data availability, thus limiting their empirical comparability across countries and years. These weights seek to reconcile the concerns of theoretical importance and statistical robustness, thereby maintaining the timeliness and methodological validity in the development of the Deglobalization Coefficient.

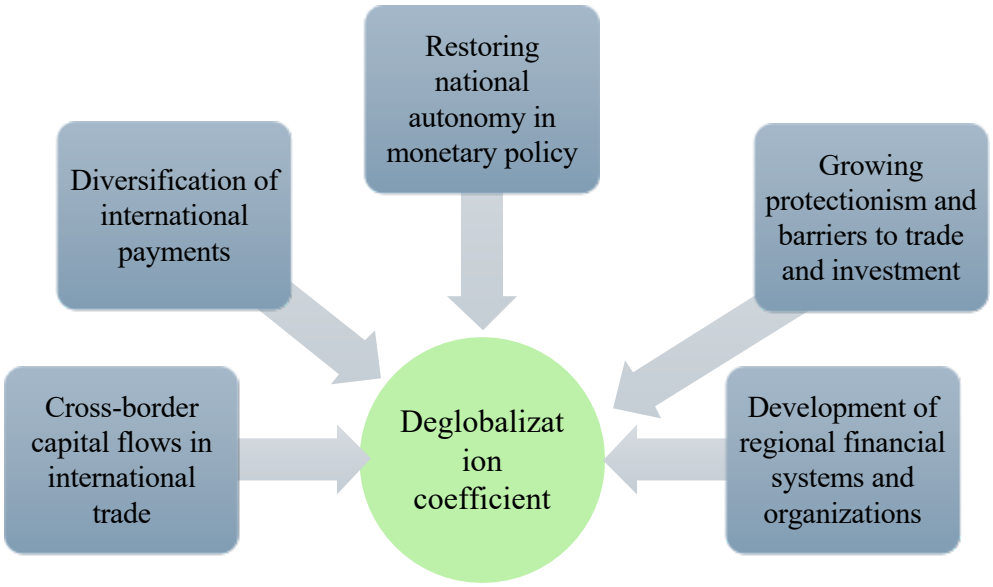
One methodological constraint of this study is the use of mixed data frequencies, particularly the triennial data series for payment diversification (sourced from the BIS OTC foreign exchange turnover surveys) versus the annual or more frequent data available for other indicators. To preserve cross-indicator comparability, all variables were analyzed on a synchronized three-year basis, using geometric mean growth rates over equivalent intervals (2007–2010, 2010–2013, etc.). This approach ensures that temporal misalignment does not bias the coefficient's calculation. However, it reduces temporal granularity. Future refinements could explore interpolating high-quality annual estimates from triennial series, although this would introduce additional modeling assumptions that may affect reliability.

5. EMPIRICAL STUDY

The concept of the Deglobalization Coefficient was developed as a response to the increasing need for a quantifiable measure of financial deglobalization. While existing literature discusses the decline of global financial interconnectedness, there has been a lack of standardized metrics to assess the degree and pace of this phenomenon. The Deglobalization Coefficient integrates multiple financial indicators to provide a comprehensive and systematic approach to measuring the extent of deglobalization. By analyzing trends in cross-border capital flows, trade barriers, and monetary policy shifts, the coefficient offers a structured framework to evaluate global economic shifts and inform policy decisions.

The coefficient is derived from key economic indicators, including cross-border capital flows, trade restrictions, and international payment diversification. Data sources include the United Nations Trade and Development and the Bank for International Settlements. The research period spans from 2007 to 2022, covering significant financial crises and policy shifts that have influenced the global financial landscape.

Figure 1. Structure of the Coefficient of Deglobalization



Source: The authors

The deglobalization index contains five indicators (Figure 1). Two of them are quantitative and based on databases – cross-border of international payments and diversification of international payments.

In this scientific work, the development of cross-border capital flows in international trade was explored using the indicator Foreign direct investment: Inward and outward flows and stock, annual (United Nations Conference on Trade and Development, 2022). In this research, it is designated as CBC. The data is taken on a three-year basis, which is necessary due to the need to ensure comparability over time with the other quantitative variable used in this study of the deglobalization process. The data cover the period from 2007 to 2022, grouped in three-year intervals.

For the study of the diversification of international payments, the indicator "Turnover of OTC foreign exchange instruments" by currency was used. The data are taken from BIS (Bank for International Settlements, 2022). The data cover the period from 2007 to 2022, based on three-year intervals.

The three qualitative indicators are theoretical in nature, and they are: 3/ Restoring national autonomy in monetary policy (NA), 4/ Growing protectionism and barriers to trade and investment (PB), and 5/ Development of regional financial systems and organizations (FSO).

The return of national autonomy in monetary policy is one of the key characteristic elements of financial deglobalization, in which states desire to reassert dominance in their respective monetary tools and exchange rates. This reassertion is most recently illustrated by heightened imposition of capital controls, the emergence of central bank digital currencies (CBDCs), and the anchoring of domestic relations to monetary stability rather than global financial integration (Abdal and Ferreira, 2021; He, 2021). The environment since 2008, characterized by monetary nationalism and macroprudential regulation, has reinforced this inward turn. For developing countries, restoring monetary sovereignty has become critical in order to protect themselves from erratic capital flows and external shocks (Eichengreen et al., 2021). The move towards monetary sovereignty also marks a broader shift away from global monetary governance in entities like the IMF, toward a fragmentation of the interdependencies that characterized the heyday of globalization.

Protectionism has made a comeback as a major force in the global economy, perhaps even more so following the global financial crisis and amid intensifying geopolitical competition. Trade barriers, tariffs, and investment limitations have increased, with nations retrenching and

pursuing one or another form of defensive economic policies to insulate contributors from unemployed workers and unprofitable industries and to decrease reliance on global supply chains (Goldberg and Reed, 2023; Foroohar, 2022). This change reflects economic grounds but is also driven by strategic concerns related to national security, technological sovereignty, and political populism. The U.S.-China trade war, the EU's progress toward "strategic autonomy," and parallel policies in Japan and India illustrate this pattern. Thus, the revival of trade and investment barriers signals a qualitative shift in the global economy - from liberalization to economic nationalism (Kim, Li and Lee, 2020). It highlights the impact of state policy on consciously made, and frequently limiting, international financial integration.

The emergence of regional financial architectures is both a reflection of and a driver of financial deglobalization. As trust in international multilateral institutions wanes, more countries are looking for regional responses to channels of financing, monetary coordination, and joint responses in the event of a crisis. This includes other institutions like the Beijing-led AIIB, the ESM and regional currency arrangements like the CMI (Chase-Dunn and Inoue, 2023; Witt, 2019). Regionalism leads to financial resilience by decoupling oneself from global capital markets and by enhancing intra-regional trade and investment. Not that it always has to be isolationism, but it is certainly a move in the locus of financial governance from the global to the regional level. This pattern reinforces a fractured international financial order that is increasingly characterized by multiple overlapping domains of financial coordination and sovereignty (Brawley, 2021).

Limitations of the study:

- All metric data were taken on a three-year basis to ensure comparability over time. This is necessary due to the specificity of one of the variables related to the diversification of currency payments, namely the "Turnover of OTC foreign exchange instruments".
- Metric data uses relative shares in the form of growth rates to measure the actual increase or decrease, regardless of the nature of the variable.
- The research period is from 2007 to 2022. The study examines the development of certain variables from 2007. This year is significant because the period 2007-2008 marked the beginning of the Global Financial Crisis. The last year of the research period is 2022, which is the last year with available data for the variable "Turnover of OTC foreign exchange instruments". Therefore, all metric data are limited to this year in order for the study to meet the condition of comparability over time.
- Two metric variables were used in the formation of the deglobalization coefficient. The remaining three were formed on the basis of theoretical comparative analysis due to the lack of a common metric variable for the entire world for each of them, i.e., ensuring data comparability by location.

5. 1. METHODOLOGICAL FRAMEWORK

In the statistical analysis of the formed coefficient of deglobalization in the present study, the analysis of CBC and IP (the two quantitative metric variables) is limited to the analysis through the Actual Growth Rate and the Geometric Mean Growth Rate. These are among the most frequently used methods in practice for studying general development, which allow analyzing the general development of the dynamic series without having to decompose them. These methods were chosen due to the generalizing and averaging nature of the metric, as the purpose of the coefficient of deglobalization is to explore whether there is deglobalization or not in a specific period of time. If the goal was to predict a future scenario, other econometric methods, such as modeling a development trend, would be used.

The actual growth rate is a measure that includes a relative growth in absolute volume. The

measure represents the percentage change over the previous period. In the case of annual data, this refers to the previous year.

The actual growth rate has the following general form:

$$gr_{t/t-1(\%)} = \left(\frac{Y_t}{Y_{t-1}} - 1\right)100 = \left(\frac{Y_t - Y_{t-1}}{Y_{t-1}}\right)100 \quad (1)$$

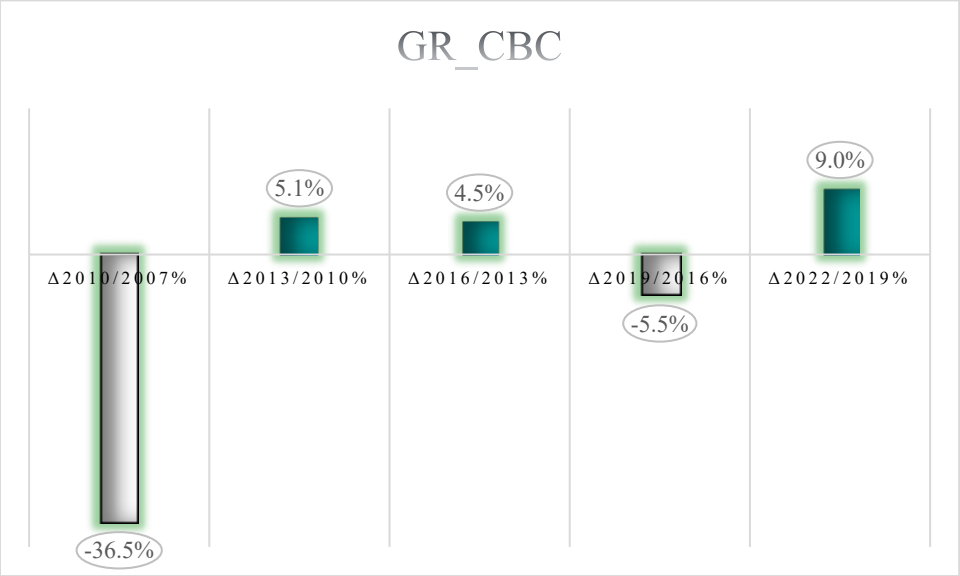
The geometric mean growth rate is "the geometric mean of the individual growth rates" (Atanasov, 2018).

$$\overline{T} = \sqrt[n-1]{\frac{y_n}{y_1}} \quad (2)$$

Study of the general development of cross-border capital flows in international trade

In the study of cross-border capital flows in international trade, growth rates were calculated within the study period in order to track the overall development of Foreign Direct Investment: inflows, outflows, and stock, annual (GT_CBC).

Figure 2. Growth Rate of Foreign Direct Investment: Inward and Outward Flows and Stock (%)



Source: The authors

The chain-wise growth rate in 2010 was -36.5%, which means that cross-border capital flows in international trade decreased by 36.5% compared to 2007. In 2013, the growth rate was +5.1%, which means that cross-border capital flows increased by 5.1% compared to 2010. In 2016, the rate was +4.5%, which means that cross-border capital flows in international trade increased by 4.5% compared to 2013. In 2019, the value of the growth rate was -5.5%, which indicates that cross-border capital flows in international trade decreased by 5.5% compared to 2016. It increased by 9% in 2022 compared to 2019 (Figure 2).

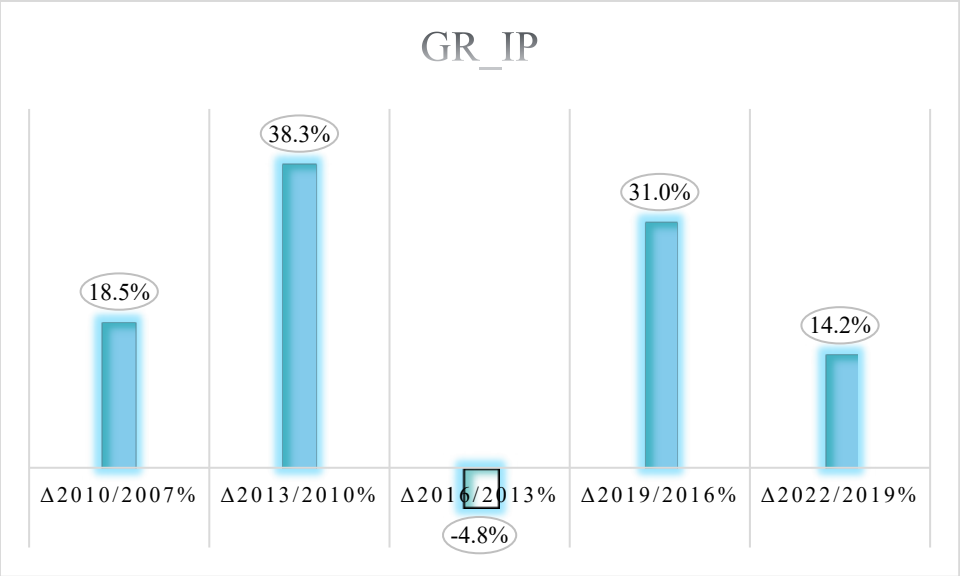
The geometric average growth rate is -6.4%. During the period 2007-2022, cross-border capital flows in international trade decreased by 6.4% on average every three years, which is a prerequisite for the existence of a deglobalization process. The decline in cross-border capital flows is associated with less international investment (FDI, portfolio investment), less participation in global financial markets, and reduced integration between banking systems. As a result, the global economy is becoming more fragmented. The decline in cross-border capital flows at a sustained rate of -6.4% is not only a symptom but also a prerequisite of deglobalization, as it

limits the main mechanisms of global economic connectivity – finance, investment, and trade interactions.

5. 2. STUDY OF THE GENERAL DEVELOPMENT OF THE DIVERSIFICATION OF INTERNATIONAL PAYMENTS

To analyze the diversification of international payments, growth rates were calculated in order to be able to follow the general development of the Turnover of OTC foreign exchange instruments (%) (GT_IP).

Figure 3. Growth Rate of Turnover of OTC Foreign Exchange Instruments (%)



Source: The authors

Figure 3 presents the growth rates of the turnover of OTC foreign exchange instruments on a chain-wise basis (%). The growth rate on a chain-wise basis in 2010 was +18.5%, which means that the turnover of OTC foreign exchange instruments increased by 18.5% compared to 2007. In 2013, the growth rate was +38.3%, which shows that the turnover of OTC foreign exchange instruments increased by 38.3% compared to 2010. In 2016, the rate was -4.8%, which means that the turnover of OTC foreign exchange instruments decreased by 4.8% compared to 2013. In 2019, the growth rate was +31%, which means that the turnover of OTC foreign exchange instruments increased by 31% compared to 2016. There was a +14.2% increase in the turnover of OTC foreign exchange instruments in 2022 compared to 2019.

The geometric average growth rate is +3.1%. During the period 2007-2022, the turnover of OTC foreign exchange instruments increased by 3.1% on average every three years, which can be a prerequisite of no deglobalization in the period under review. If global currency trading is expanding, then financial linkages are not weakening but remain intense or even increasing. The +3.1% growth in OTC foreign exchange instruments indicates continued or even increasing global financial linkages, which contradicts the idea of complete or strong deglobalization in the period 2007–2022. The current result of the increase in the Turnover of OTC foreign exchange instruments confirms the findings of Todorova et al. (2024), whose model demonstrated that, in the period from 1989 to 2022, foreign exchange turnover increased by an average of 569.13 billion US dollars every three years.

5. 3. COEFFICIENT OF DEGLOBALIZATION

This study examines five indicators identifying and shaping the process of deglobalization. The first two indicators are studied using statistical methods for analyzing time series, namely the geometric mean growth rate. The other indicators are determined using a complex of scientific research methods, such as theoretical-descriptive analysis, inductive method, and deductive analysis. Of particular importance to the study of the process of deglobalization is the unification of the five indicators into a single coefficient reflecting their combined impact. The coefficient aggregates the findings of the five indicators through a weighted averaging method.

Deglobalization indicators are shown in Table 1.

Table 1. Codes and weights of deglobalization indicators

Deglobalization indicators	Abbreviation	Weighted code	Quality weight
Cross-border capital flows in international trade	CBC	1	20
The diversification of international payments	IP	0	50
Restoring national autonomy in monetary policy	NA	1	10
Growing protectionism and barriers to trade and investment	PB	1	10
Development of regional financial systems and organizations	FSO	1	10

Source: The authors

Table 1 presents information about the five indicators. The abbreviation column presents short codes for each of them. The column "Weighted code" presents the results of the study conducted on the five indicators regarding the deglobalization process. This information is presented through a code. Code 1 indicates that "A deglobalization process is underway". Code 0 indicates that "A deglobalization process is not underway". For the CBC and IP indicators, there is a quantitative measurement, and this allows for a more precise specification of the deglobalization process. For the remaining three indicators, NA, PB and FSO, the results are based on a descriptive analysis. For them, only two options can be accepted. One is that a process is underway, and the other is that it is not. To compare and place the five indicators on equal terms, the first two, CBC and IP, are reduced to a dichotomous response. With this procedure, the five indicators are comparable and can be included in one joint coefficient.

The "Quality weight" column presents the weights given to each of the indicators in order to rank them by importance and to reflect the real effect of the individual indicators on the overall coefficient. The deglobalization coefficient is sensitive to the weights of the individual indicators. In the event of a possible change in the weights, the change would occur in the result obtained after evaluating the coefficient. The indicator with the highest weight - "The diversification of international payments" - has a particular weight and sensitivity. At present, it accounts for 50% of the overall result when evaluating the coefficient.

The coefficient is calculated using an averaging procedure based on the arithmetic mean formula. The numerator is composed of the sum of the weighted coded results of the five indicators, where each is multiplied by its assigned "Quality weight". The denominator of the coefficient is composed of the number of indicators multiplied by the average "Quality weight" for the five indicators. The denominator represents:

$$N\left(\frac{100}{N}\right) = 5\left(\frac{100}{5}\right) = 100 \quad (3)$$

where N is the number of the indicators (variables) and 100 is the sum of the "Quality weights".

The coefficient of deglobalization has the following form:

$$CDG = \frac{(CBC*20)+(IP*50)+(NA*10)+(PB*10)+(FSO*10)}{100} \quad (4)$$

The deglobalization coefficient ranges from 0 to 1. There are five possible results from its calculation, and five possible interpretations corresponding to them. These are presented in Table 2.

Table 2. Value of the coefficient and the outcomes

Value of the coefficient	Score/Outcome
CDG = 0	There is no deglobalization
0 < CDG ≤ 0.3	Small degree of deglobalization processes
0.3 < CDG ≤0.7	Moderate degree of deglobalization processes
0.7 < CDG < 1	Large degree of deglobalization processes
CDG = 1	There is absolute deglobalization.

Source: The authors

The results of the estimated coefficient of deglobalization (CDG) is:

$$CDG = \frac{(1*20)+(0*50)+(1*10)+(1*10)+(1*10)}{100} = \frac{50}{100} = 0{,}50 \quad (5)$$

The deglobalization coefficient is estimated at a value of 0.50. This result indicates a moderate level of ongoing deglobalization. A moderate degree of deglobalization in the context of international payments suggests a partial and gradual move away from a fully integrated and interconnected global financial system.

6. DISCUSSION

6. 1. INTERPRETING THE DEGLOBALIZATION COEFFICIENT

The Deglobalization Coefficient provides a general average of 0.50, yet it aggregates significant divergences between the underlying indicators. For example, FDI growth is negative (-6.4%) over the study period, which indicates falling cross-border capital flows and it supports the suggestion of fragmentation. By contrast, the turnover of OTC forex instruments rose on average by 3.1%, suggesting ongoing - and perhaps increasing - payment diversification. This apparent contradiction reflects the multi-dimensional nature of financial globalization, in which some channels retract while others evolve or adapt. Rather than undermining the validity of the coefficient, these divergent trajectories highlight the need to interpret it as an index of balance between opposing forces. Disaggregating the coefficient also enables more granular insights: for example, increasing digitalization may temporarily offset the effects of reduced FDI by sustaining integration in payment systems.

The data support these initial hypotheses. Hypothesis 1 (H1) is supported: the average growth rate of cross-border capital flows during 2007-2022 implied a negative trend (-6.4%), consistent with financial deglobalization. The sample average increase (+3.1 percent) of OTC foreign exchange transactions also confirms Hypothesis 2 (H2) that international payment diversification has expanded. This, in turn, indicates the coexistence of global financial linkages with fragmentation. Taken together, these findings strengthen the perception of deglobalization as a moderate and multifaceted phenomenon, rather than as an all-encompassing anti-globalization reversal.

6. 2. PRESENT AND FUTURE PROSPECTS

Is the world economy decoupling? Many observers say yes. For example, Irwin (2020) asserts that the Great Recession of 2008-10 has signaled a historical inflection point in global eco-

nomic integration. In reaction to the pandemic and economic crisis, it appears that politicians will take project-based steps to reinforce/augment the trend of deglobalization.

At its core, globalization involves firms buying things in one country and combining them with something else in another country to sell the final product for profit. In other words, globalization is driven by arbitrage. Arbitrage is profitable when the international discrepancy in relative prices exceeds the cost of transporting goods across borders. As long as international arbitrage remains profitable, globalization will advance.

Although goods trade peaked in 2008, the ratio of world trade in services to the unweighted average of gross domestic product has continued to grow. The share of services in total world export revenues currently exceeds one fifth (Baldwin, Freeman, Theodorakopoulos, 2023). In other words, not only is globalization not finished, but the shape of globalization will change in the near future and likely keep changing.

But the close of the era of rapid globalization - the second decoupling, which started around 1990 - has been getting a lot of attention and is well supported by the data. Other observers take things a step farther and assert that the world economy is actively deglobalizing, a view articulated in Rana Foroohar's 2022 book Coming Home: The Road to Prosperity in a Post-Global World (Foroohar, 2022).

Others say that the deglobalization view misses the essential evidence indicating that globalization has advanced rather than receded. While the goods-to-GDP trade ratio peaked 15 years ago, the services-to-trade ratio is still skyrocketing and already accounts for a fifth of world trade (Baldwin, Freeman, Theodorakopoulos, 2023). The case for the future expansion of services trade can be made on four grounds. The first is that barriers to trading in services are higher than those in goods but are declining more rapidly. The second is that ICTs (information and communication technologies) lower the cost of service trade. The third - demand, third only of necessity - is not a constraint (or supply-side), as is the fourth. The bottom line is straightforward: trade costs for services are much higher and are declining more rapidly than for goods, so services trade is likely to keep growing robustly for years to come - and at a more rapid pace than trade in goods. In other words, it implies a future of commerce in services. Even if the world trade in goods is now shrinking, when we consider the increased intensity of trade in services and the importance of intermediate services, the end of globalization appears widely exaggerated.

Comparing the "strong side" (the side supporting the driving force) between globalization and deglobalization, the possibility of deglobalization is very small. Firstly, with the advent of globalization, the developing world is in the process of expanding while the world system is slowly rising out of the unilaterally dominant system of developed capitalist countries. Developing countries do not have antipathy towards globalization, they are hopeful of promoting it, at least when they can gain from it. Their support for globalization is a critical counterbalance to the posturing of deglobalization seen in some wealthy Western countries. Moreover, the information age has come and cannot be reversed, and the information industry has developed to a point where it cannot be stopped either. The networked society established by IT computing will be an important powerhouse for the resurgence of globalization. It will bring people and things together around the world ever more close together. If the information society and the networked society continue to develop, there can be no deglobalization. Last but not least, with the influence of cultural globalization, the possibility of the next deglobalization also weakens.

Empirical findings of the present paper indicate that, despite some dimension of financial globalization still working, the global economy has recently been heading toward a kind of managed deglobalization. The Deglobalization Coefficient, based on significant economic indicators, shows that financial fragmentation is advancing at a moderate speed. This trend is visible in the reduction of transnational capital flows, growing dependence on regional financial institutions,

and efforts at the national level to enhance economic sovereignty (Kim, Li & Lee, 2020).

Strategic reallocation of global value chains (GVCs) is the most important force that is motivating financial deglobalization. Faced with trade wars and economic uncertainty, MNCs have favored supply chain resilience over efficiency, resulting in a drop in the hyper globalization of manufacturing production (McCauley et al., 2017). Protectionist measures, including trade tariffs and capital controls, have also resulted in a more divided financial environment, where nations are working to shore up domestic economic sovereignty (Brawley, 2021).

The extent to which globalization is getting transformed rather than going into decline is still hotly debated. Some contend that the trade in goods has plateaued, but that the globalization of services still marches ahead. With the advent of digital finance, remote work, and digital service platforms, we are witnessing a move towards economic integration of non-tangibles (Altman & Barnes, 2024). Yet, a more fundamental fragmentation of the global economic order, as a consequence of restrictive financial risks and barriers to international trading (Witt, 2019), cannot be ruled out.

6. 3. DIGITALIZATION AS A DUAL FORCE

Digitalization plays an inherently ambivalent role in the deglobalization debate. Digital technologies, including blockchain, mobile payments and cloud-based platforms, enable cross-border connection while also improving financial inclusion, acting as drivers for further globalization (He, 2021; Altman & Barnes, 2024). Conversely, digital sovereignty, the proliferation of central bank digital currencies (CBDCs), and national-level data regulations could accelerate fragmentation by entrenching financial flows within domestic governance systems. This paper presents a conditional duality: digitalization supports global integration where interoperability exists, yet promotes deglobalization where digital infrastructures are subject to national regulatory control.

This discussion section highlights the practical implications of the Deglobalization Coefficient, which provides a quantifiable measure of how global financial systems are evolving. As financial policymakers and institutions navigate between the benefits of financial integration and the pressures of economic nationalism, the coefficient offers a useful tool for assessing trends and anticipating future developments.

7. CONCLUSION

The findings of this study indicate that while some aspects of financial globalization remain resilient, key indicators suggest that international financial markets are undergoing a process of controlled deglobalization.

The empirical analysis of cross-border capital flows and international payment diversification suggests a moderate shift away from global financial integration. The moderate value of the Deglobalization Coefficient reveals that while certain elements of globalization - such as cross-border capital flows - are retreating, others, like digital payment systems and financial technology, are evolving and sustaining global interconnectedness. Rather than signaling the end of globalization, the observed trends point to its reconfiguration under new geopolitical, economic, and technological pressures.

As financial systems become more regionalized and states prioritize economic sovereignty, the global financial architecture is being reshaped in complex ways. These developments highlight the need for adaptive international financial governance that balances integration with resilience. Future research should investigate how emerging technologies - especially decentralized finance, central bank digital currencies, and artificial intelligence - will influence the next phase of financial globalization or deglobalization.

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