

# Changing Dynamics of the Global Economic Market: An Analysis of Economic Growth, International Trade and Foreign Investment

*Dr. Amit Kumar Tiwari<sup>1</sup>*

*Anjali Neraliya<sup>2</sup>*

*Dr. Praveen Kumar<sup>3</sup>*

*Received: 02/01/2026  
accepted: 05/04/2026  
Published: 20/08/2026*

## Abstract

**Purpose:** This paper examines the changing dynamics of the global economic market by analysing the interlinkages among economic growth, international trade and foreign direct investment (FDI) in the period following the COVID-19 pandemic. The study seeks to identify how geopolitical tensions, supply-chain reconfiguration and shifting monetary conditions have altered the traditional growth–trade–investment nexus that underpinned globalisation for much of the past three decades.

**Design/methodology/approach:** The paper adopts a conceptual and empirical secondary-data research design. It synthesises macroeconomic time-series data published by the World Bank, the World Trade Organization (WTO), the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF) for the period 2019–2025, and interprets these trends through established theoretical lenses, including the eclectic (OLI) paradigm, new trade theory and endogenous growth theory. Trend analysis, comparative tabulation and graphical representation are used to trace structural shifts in growth, trade and investment flows.

**Findings:** The analysis shows that global economic growth has stabilised at a lower average rate of around 2.7–2.9 per cent a year since 2023, compared with the pre-pandemic trend, while world merchandise trade volumes have become markedly more volatile, contracting in 2023 before recovering only gradually. Global FDI flows have weakened structurally, falling for two consecutive years once volatile conduit-economy transactions are excluded, with investment increasingly concentrated in a small number of advanced and large emerging economies. The findings point to an emerging pattern of selective, security-conscious globalisation rather than an outright reversal of economic integration, marked by nearshoring, friend-shoring and rising industrial policy activism.

**Practical implications:** The findings carry implications for policymakers, multinational enterprises and investors. Governments in developing and emerging economies need to strengthen investment-facilitation frameworks, diversify export baskets and build fiscal buffers against volatile capital flows, while multinational firms need to reassess global value chain configurations in light of reshoring and de-risking strategies. International institutions may need to recalibrate trade and investment governance frameworks to address fragmentation risks.

**Originality/value:** The paper contributes to the literature by integrating the most recent (2023–2025) global growth, trade and investment data into a single comparative framework and by linking observed empirical shifts to competing theoretical explanations of globalisation, deglobalisation and "solubilisation." It offers an updated, evidence-based perspective for researchers, practitioners and policymakers engaging with the post-pandemic international economic order.

---

<sup>1</sup> Assistant Professor Department of Commerce, Atal Bihari Vajpayee Government College Nagarda, District – Sakti (CG)

<sup>2</sup> Assistant Professor, Department of Commerce, Government College Khurai Sagar Madhya Pradesh

<sup>3</sup> Assistant Professor, Professional Studies, Gokul Global University Siddhpur Gujarat India, Email ID- [praveenkumar78780@gmail.com](mailto:praveenkumar78780@gmail.com), Corresponding Author: Dr. Praveen Kumar\*\*\* ORCID id - 0009-0008-0043-8578

**Keywords:** Economic growth; International trade; Foreign direct investment; Globalisation; Deglobalisation; Global value chains; Trade policy

**Paper type:** research paper

**JEL Classification:** F02, F14, F21, F43, O47

## 1. Introduction

The structure of the global economy has undergone a series of profound shifts over the past decade. The long era of rapid trade liberalisation and expanding cross-border investment that characterised the 1990s and 2000s has given way to a more uneven and contested phase of globalisation. The COVID-19 pandemic exposed the fragility of tightly optimised global value chains, the Russia Ukraine conflict disrupted energy and commodity markets, and rising strategic competition between major economies has encouraged a wave of industrial policy, export controls and reshoring initiatives (Baldwin, 2016; Antràs, 2020). Against this backdrop, economic growth, international trade and foreign direct investment (FDI) historically the three pillars reinforcing one another under the logic of globalisation now appear to be moving along more divergent and, at times, conflicting paths.

This changing configuration matters because economic growth, trade and FDI have conventionally been understood as mutually reinforcing forces. Trade openness has long been associated with productivity gains through specialisation and economies of scale (Krugman, 1980; Grossman and Helpman, 1991), while inward FDI has been shown to transmit technology, managerial know-how and capital to host economies, thereby raising their long-run growth potential (Borensztein, De Gregorio and Lee, 1998; Dunning, 1988). When these channels function smoothly, growth in one region generates demand for imports, which in turn incentivises investment by multinational enterprises (MNEs) seeking to serve or supply that market. However, when trade and investment become subject to geopolitical friction, this circular and cumulative process can weaken, with consequences for productivity growth, price stability and the distribution of economic opportunity across countries.

Recent data illustrate the scale of this transformation. World real GDP growth slowed to an average of below 3 per cent a year in 2023–2025, compared with average growth of close to 3.8 per cent in the decade preceding the pandemic (World Bank, 2024). World merchandise trade volumes contracted by 1.2 per cent in 2023 before staging only a modest recovery in 2024–2025 (World Trade Organization [WTO], 2024a, 2025a). Global FDI inflows, meanwhile, have fallen for two consecutive years once volatile flows through European conduit economies are excluded, a pattern that UNCTAD (2025) describes as a deepening slowdown in productive, job-creating capital flows. These trends raise an important research question: is the global economy entering a period of genuine deglobalisation, or is it undergoing a more selective reconfiguration sometimes termed "solubilisation" or "friend-shoring" in which trade and investment persist but are redirected along geopolitical and security-driven lines (Rodrik, 2018; Aiyar et al., 2023)?

This paper addresses that question by bringing together macroeconomic data on growth, trade and FDI for the period 2019–2025 and interpreting the observed patterns through established theoretical frameworks. The specific objectives of the study are: (i) to trace the trajectory of global economic growth, international trade and FDI since the pandemic; (ii) to identify the structural and geopolitical drivers underlying observed shifts; (iii) to assess the extent to which these shifts represent deglobalisation as opposed to a reconfiguration of globalisation; and (iv) to draw out the practical implications of these dynamics for policymakers, firms and investors. The remainder of the paper is organised as follows. Section 2 reviews the relevant theoretical and empirical literature. Section 3 presents the conceptual framework guiding the analysis. Section 4 outlines the research methodology.

Section 5 presents the empirical trend analysis, supported by figures and tables. Section 6 discusses the findings in light of the literature. Section 7 draws out practical implications, Section 8 notes the limitations of the study and avenues for future research, and Section 9 concludes.

## **2. Literature Review**

### **2.1 Economic Growth and Globalisation**

Neoclassical and endogenous growth theories both assign an important role to openness in shaping long-run growth outcomes. Solow's (1956) growth model treats technological progress as exogenous, implying that trade and capital flows matter mainly insofar as they affect capital accumulation. Endogenous growth theory, by contrast, treats knowledge spillovers, innovation and human capital accumulation as central to sustained growth, and views trade and FDI as important conduits through which such spillovers occur across borders (Romer, 1990; Grossman and Helpman, 1991). Empirically, cross-country growth studies have generally found a positive, if not always statistically robust, association between trade openness and growth (Dollar and Kraay, 2004; Frankel and Romer, 1999), while more recent work has emphasised that the growth effects of openness are conditional on complementary institutional quality, human capital and financial development (Rodrik, Subramanian and Trebbi, 2004).

A parallel literature has examined the limits of the growth-globalisation relationship, particularly following the 2008 global financial crisis. Stiglitz (2002) and subsequently Rodrik (2011, 2018) argued that unmanaged globalisation can generate distributional tensions that eventually provoke political backlash, undermining the durability of open trade and investment regimes. This literature anticipated, to a degree, the protectionist and industrial-policy trends that have become more visible since 2018.

### **2.2 International Trade and the Growth Nexus**

The theoretical foundations of the trade-growth relationship rest on comparative advantage (Ricardo, 1817) and factor endowment theory (Heckscher and Ohlin, as formalised by Ohlin, 1933), later extended by new trade theory to account for intra-industry trade driven by economies of scale and product differentiation (Krugman, 1980). Baldwin's (2016) account of the "great convergence" describes how the combination of falling communication costs and the fragmentation of production into global value chains (GVCs) allowed developing economies, particularly in Asia, to industrialise rapidly by specialising in specific production stages rather than whole industries. This GVC-centred model of trade dominated the period from the 1990s through the mid-2010s.

More recent literature, however, documents a deceleration and restructuring of this model. Antràs (2020) argues that the pandemic accelerated a pre-existing trend toward the reconfiguration of GVCs, driven by rising wages in China, automation, and firms' growing preference for supply-chain resilience over pure cost minimisation. The WTO's own analysis attributes the sluggishness of trade growth relative to GDP growth after 2023 to weak investment, elevated trade policy uncertainty and the reintroduction of tariffs and export restrictions by major economies (WTO, 2024a, 2024b). Aiyar et al. (2023), writing for the IMF, coin the term "geoeconomic fragmentation" to describe the tendency of trade and investment flows to realign along geopolitical blocs rather than purely economic criteria, a phenomenon they associate with potential long-run losses in global output.

### **2.3 Foreign Direct Investment and Economic Growth**

Dunning's (1988) eclectic, or OLI, paradigm remains the dominant analytical framework for explaining why firms invest abroad, holding that outward FDI occurs when firms possess ownership-

specific advantages, when there are location-specific advantages to producing in the host country, and when internalising production is more efficient than licensing or arm's-length trade. Building on this framework, empirical growth studies have generally found that FDI contributes positively to host-country growth, particularly where the host economy has sufficient human capital and financial market depth to absorb the accompanying technology transfer (Borensztein, De Gregorio and Lee, 1998; Alfaro et al., 2004). Nonetheless, the growth dividend from FDI is not automatic: several studies note that the benefits of FDI depend heavily on the sector and mode of entry, with greenfield investment generally associated with larger employment and productivity effects than cross-border mergers and acquisitions (UNCTAD, 2024).

UNCTAD's annual World Investment Report series provides the most authoritative and continuously updated empirical record of global FDI trends. Its recent editions document a marked slowdown in global FDI since 2022, driven by tighter financing conditions, a steep fall in international project finance for infrastructure, and growing geographical concentration of investment in a small number of destination economies (UNCTAD, 2024, 2025). This empirical pattern is consistent with the broader "geoeconomic fragmentation" literature and suggests that FDI, historically among the more stable components of international capital flows, has become increasingly sensitive to geopolitical risk.

## **2.4 Deglobalisation, Slowbalisation and Reshoring: Emerging Debates**

A growing body of literature debates whether recent trends represent a genuine reversal of globalisation or a slower, more selective phase of it. The term "slowbalisation," popularised in policy commentary and adopted in subsequent academic work, describes a plateauing of trade and FDI relative to GDP without an outright collapse in cross-border integration (The Economist, 2019, as discussed in subsequent academic literature; Antràs, 2020). Others emphasise more active forms of realignment, including "reshoring" (relocating production to the home country), "nearshoring" (relocating to geographically proximate countries) and "friend-shoring" (relocating to politically aligned countries), each of which implies a redirection rather than a reduction of global economic activity (Aiyar et al., 2023; UNCTAD, 2025). The empirical evidence reviewed in Section 5 of this paper is used to assess where, along this spectrum, the current phase of the global economy is best located.

## **2.5 Synthesis and Research Gap**

Read together, the four strands of literature reviewed above suggest a field that is theoretically well equipped to explain why growth, trade and FDI are normally linked, but less well equipped to explain why these linkages might weaken or fragment simultaneously across multiple regions. Growth theory explains why openness should raise long-run output; trade theory explains the gains from specialisation and the rise of global value chains; the OLI paradigm explains the location choices of multinational firms; and the emerging fragmentation literature identifies geopolitics as a new and increasingly important moderating variable. What remains comparatively underdeveloped is an integrated, up-to-date empirical account of how growth, trade and FDI have moved together or apart since the pandemic, using the most recent data available. Much of the empirical literature on geoeconomic fragmentation and slowbalisation was written using data through 2022 or early 2023 (e.g., Aiyar et al., 2023), predating the sharpest divergence in regional FDI patterns documented by UNCTAD's 2025 report and the persistence of below-trend trade growth confirmed by the WTO's October 2025 update. This paper addresses that gap by extending the empirical horizon to 2024–2025 and by explicitly triangulating growth, trade and FDI data within a single comparative framework, rather than treating each variable in isolation as much of the existing literature tends to do.

## **3. Theoretical Framework**

The paper adopts an integrative conceptual framework that treats economic growth, international trade and FDI as three interdependent nodes of the global economic system, mediated by a set of structural and geopolitical moderating forces. Growth generates demand for imports and creates location advantages that attract FDI, consistent with Dunning's (1988) OLI paradigm; trade openness raises productivity through specialisation and technology diffusion, consistent with new trade theory (Krugman, 1980) and endogenous growth theory (Grossman and Helpman, 1991); and FDI, in turn, embeds firms within host-country production networks, reinforcing trade linkages through intra-firm and intra-industry trade (Borensztein, De Gregorio and Lee, 1998). Historically, this triangular relationship has been mutually reinforcing during periods of policy liberalisation and technological diffusion.

However, the framework used in this paper also incorporates moderating variables that can weaken or redirect these linkages: geopolitical risk and strategic rivalry, industrial policy and subsidy competition, monetary policy tightening and the associated cost of capital, and supply-chain resilience considerations following the COVID-19 shock. These moderating forces are treated as exogenous shocks that alter the strength and direction of the growth–trade–investment linkages without necessarily severing them altogether. This conceptual lens allows the empirical trends documented in Section 5 to be read not simply as evidence of "more" or "less" globalisation, but as evidence of a changing composition and geography of global economic integration.

#### 4. Research Methodology

This study follows a conceptual and empirical secondary-data research design, a method well suited to macro-level analysis of structural change in the global economy where controlled experimentation is not feasible. The approach combines a structured review of the theoretical and empirical literature with a trend and comparative analysis of macroeconomic time-series data.

**Data sources.** The empirical component draws on publicly available secondary data published by four principal international organisations: (i) the World Bank's Global Economic Prospects reports (World Bank, 2022, 2024) and World Development Indicators database, for global and regional GDP growth; (ii) the World Trade Organization's Global Trade Outlook and Statistics series (WTO, 2023, 2024a, 2024b, 2025a, 2025b), for merchandise and commercial services trade volumes and values; (iii) UNCTAD's World Investment Report series and Global Investment Trends Monitor (UNCTAD, 2021, 2022, 2024, 2025), for global and regional FDI inflows; and (iv) the International Monetary Fund's World Economic Outlook database, used as a cross-check for global growth estimates. All figures are drawn directly from these institutional publications and are cited at the point of use; no primary data collection was undertaken.

**Analytical technique.** The study employs descriptive trend analysis: annual data for the period 2019–2025 (with 2025 figures representing the most recent official projections available at the time of writing) are tabulated and plotted to visualise the trajectory of growth, trade and FDI before, during and after the pandemic shock. Percentage changes are used throughout to preserve comparability across variables measured in different units (index points, US dollars and growth rates). Because the purpose of the analysis is to characterise structural shifts in the global economy rather than to estimate causal parameters, the paper does not employ inferential econometric techniques such as regression or panel estimation; instead, it applies comparative and interpretive analysis grounded in the theoretical framework set out in Section 3. This approach is consistent with established practice in policy-oriented economic research published by international organisations and in conceptual reviews within international business and economics journals (e.g., Dunning, 1988; Rodrik, 2018).

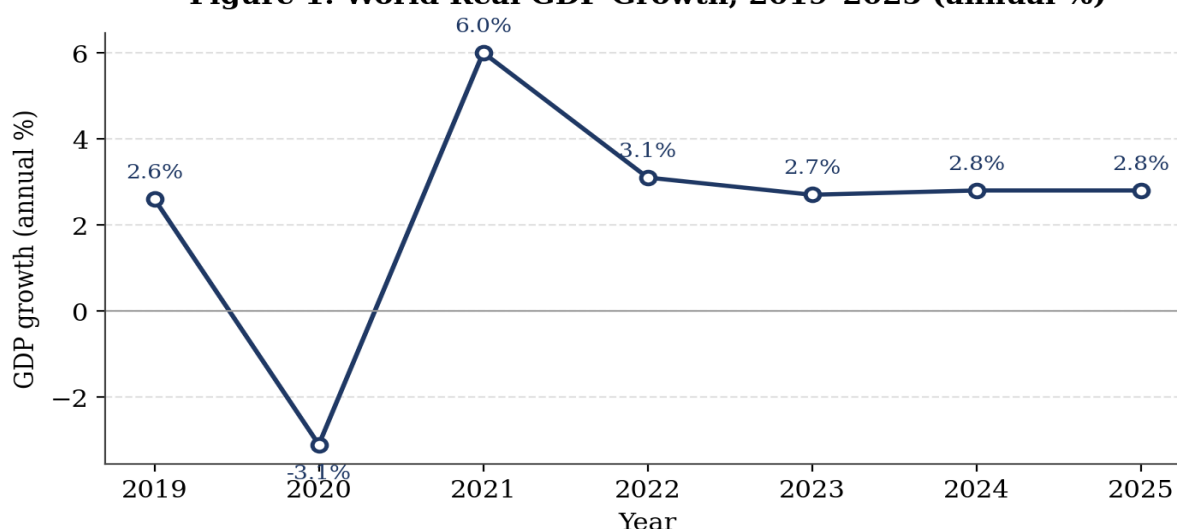
Limitations of the approach, including the reliance on secondary, institutionally reported data and the descriptive (rather than causal) nature of the analysis, are discussed in Section 8.

## 5. Global Economic Trends: Data Analysis

### 5.1 Trends in Global Economic Growth

World real GDP growth followed a pronounced V-shaped pattern around the pandemic shock before settling onto a lower plateau (Figure 1). Growth of 2.6 per cent in 2019 gave way to a contraction of roughly 3.1 per cent in 2020 as lockdowns suppressed activity worldwide, followed by a sharp rebound of around 6.0 per cent in 2021 as pent-up demand and fiscal stimulus drove a rapid recovery (World Bank, 2022). Since then, growth has decelerated and stabilised in a narrow band of 2.7–3.1 per cent a year in 2022–2025 (World Bank, 2024; WTO, 2024b). This deceleration reflects the combined effect of monetary tightening undertaken by major central banks to control inflation, the unwinding of pandemic-era fiscal support, and persistent geopolitical uncertainty (World Bank, 2024).

**Figure 1. World Real GDP Growth, 2019–2025 (annual %)**



Source: Compiled by the author from World Bank, Global Economic Prospects (2022, 2024); WTO, Global Trade Outlook and Statistics (2024, 2025); IMF, World Economic Outlook (2024). 2025 figure is a projection.

**Source:** Compiled by the author from World Bank, Global Economic Prospects (2022, 2024); WTO, Global Trade Outlook and Statistics (2024a, 2025a); IMF, World Economic Outlook (2024). Figure for 2025 is a consensus projection.

**Table 1. World Real GDP Growth, 2019–2025 (annual %)**

| Year | GDP growth (%) | Notable driver                            |
|------|----------------|-------------------------------------------|
| 2019 | 2.6            | Pre-pandemic baseline growth              |
| 2020 | -3.1           | COVID-19 lockdowns and demand collapse    |
| 2021 | 6.0            | Fiscal stimulus and post-pandemic rebound |
| 2022 | 3.1            | Russia–Ukraine war; energy price shock    |

| Year | GDP growth (%) | Notable driver                             |
|------|----------------|--------------------------------------------|
| 2023 | 2.7            | Monetary tightening; banking-sector stress |
| 2024 | 2.8            | Disinflation; gradual policy easing        |
| 2025 | 2.8 (proj.)    | Continued moderate, below-trend expansion  |

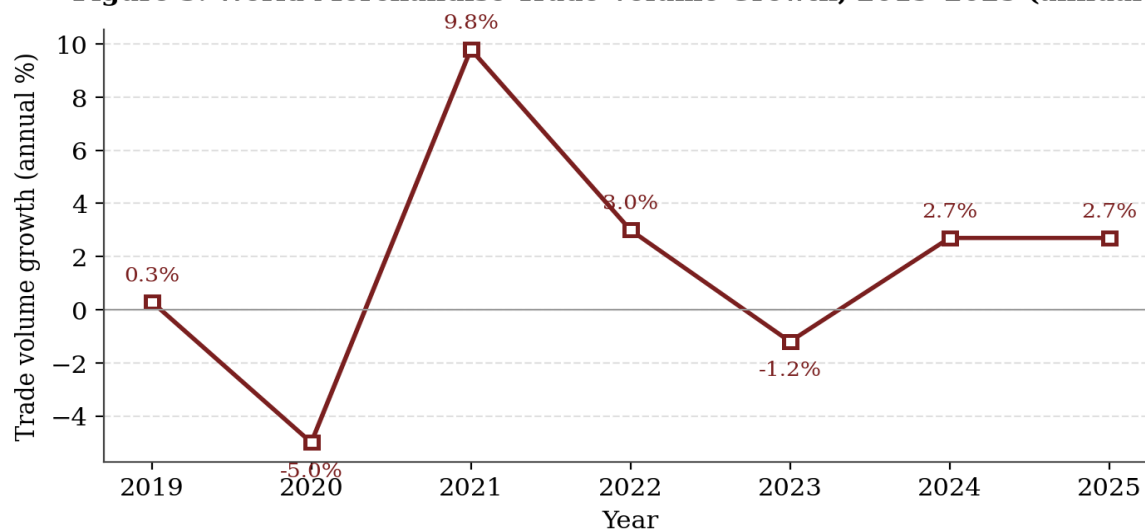
**Source:** World Bank (2022, 2024); WTO (2024b); IMF World Economic Outlook database (2024). Author's compilation.

Two features of this trend are notable for the present analysis. First, the average growth rate since 2022 (approximately 2.8 per cent) is close to a full percentage point below the average recorded in the decade before the pandemic, suggesting a durable, rather than purely cyclical, deceleration in the pace of global economic expansion (World Bank, 2024). Second, the composition of growth has shifted, with emerging market and developing economies—particularly in Asia—accounting for a growing share of the global total, even as their own growth rates have moderated from the exceptionally high levels of the 2000s (World Bank, 2024).

## 5.2 Trends in International Trade

World merchandise trade volumes have exhibited even greater volatility than output over the same period (Figure 3). Trade volume grew only marginally in 2019 (0.3 per cent), collapsed by around 5.0 per cent in 2020, then surged by 9.8 per cent in 2021 as global demand for goods rebounded faster than services consumption during the pandemic (WTO, 2023). This was followed by a marked slowdown to around 3.0 per cent growth in 2022 and an outright contraction of 1.2 per cent in 2023 the first such contraction outside a global recession year in over a decade before a modest recovery of roughly 2.7 per cent in both 2024 and 2025 (WTO, 2024a, 2024b, 2025a).

**Figure 3. World Merchandise Trade Volume Growth, 2019-2025 (annual %)**



Source: Compiled by the author from WTO, Global Trade Outlook and Statistics (2023 Update October; 2024 Update October; 2025 Update October). 2025 figure is a projection.

**Source:** Compiled by the author from WTO, Global Trade Outlook and Statistics Update, October 2023, October 2024 and October 2025. Figure for 2025 is a WTO Secretariat projection.

**Table 2. World Merchandise Trade Volume and Commercial Services Trade Growth, 2019–2025**  
 (annual %)

| Year | Merchandise trade volume growth (%) | Commercial services trade growth (%) |
|------|-------------------------------------|--------------------------------------|
| 2019 | 0.3                                 | n/a                                  |
| 2020 | -5.0                                | n/a                                  |
| 2021 | 9.8                                 | n/a                                  |
| 2022 | 3.0                                 | n/a                                  |
| 2023 | -1.2                                | 9.0 (value terms)                    |
| 2024 | 2.7                                 | 6.8                                  |
| 2025 | 2.7 (proj.)                         | 4.6 (proj.)                          |

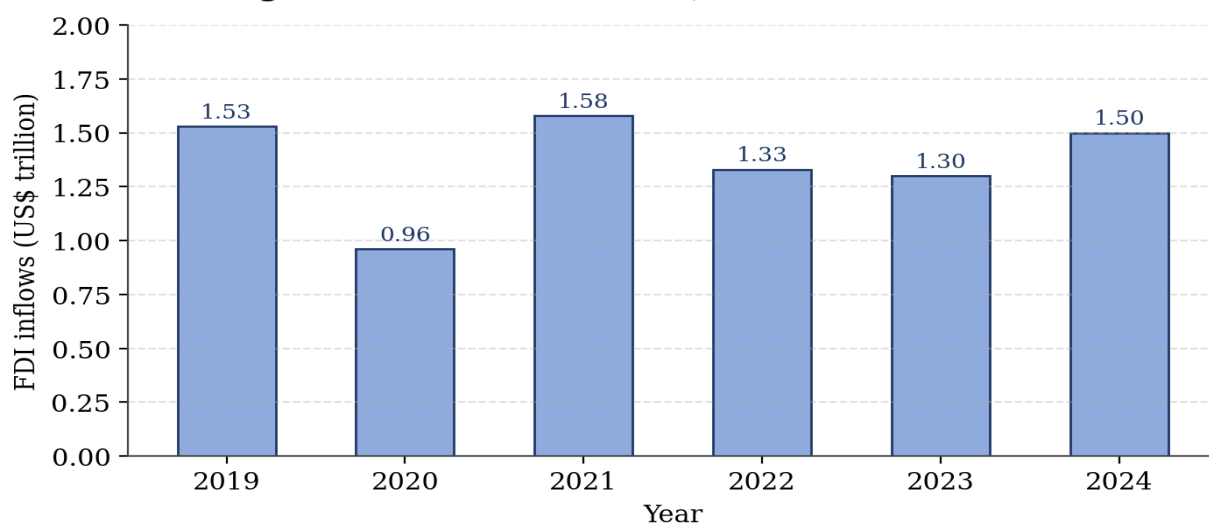
**Source:** WTO, Global Trade Outlook and Statistics (2024a, 2024b) and Update, October 2025. Services trade growth for 2023 reported in value terms owing to data availability; subsequent years reported in volume terms. Author's compilation.

The WTO (2024a) attributes the 2023 contraction largely to weakness in European trade, particularly reduced demand for manufactured goods amid high energy costs and monetary tightening, together with post-pandemic normalisation of goods consumption as households shifted spending back toward services. Notably, trade growth has consistently lagged GDP growth since 2023, reversing the pre-2008 pattern in which trade routinely grew faster than output—a divergence that the WTO (2025b) links to elevated trade policy uncertainty, the reintroduction of tariffs by major economies, and increased friction in cross-border investment that would otherwise support trade in intermediate goods. Digitally delivered services have been a partial counterweight, with such exports reaching US\$4.25 trillion in 2023, up 9 per cent year-on-year and accounting for close to 14 per cent of total world exports (WTO, 2024a), underscoring a gradual compositional shift of global trade toward services and digital transactions.

### 5.3 Trends in Foreign Direct Investment

Global FDI inflows have followed a distinct and, in several respects, more troubling trajectory than trade (Figure 2). Inflows fell sharply from around US\$1.53 trillion in 2019 to roughly US\$0.96 trillion in 2020, reflecting the sudden halt in cross-border mergers, acquisitions and greenfield investment during the pandemic (UNCTAD, 2021). A strong rebound followed in 2021, with flows reaching approximately US\$1.58 trillion (UNCTAD, 2022), before declining again to around US\$1.33 trillion in 2022 and US\$1.30 trillion in 2023—a fall of about 2 per cent that year, or more than 10 per cent once volatile flows through European conduit economies are excluded (UNCTAD, 2024).

**Figure 2. Global FDI Inflows, 2019-2024 (US\$ trillion)**



Source: Compiled by the author from UNCTAD, World Investment Report (2021, 2022, 2024, 2025) and UNCTAD Global Investment Trends Monitor No. 48 (2025). 2024 figure includes conduit-economy flows.

**Source:** Compiled by the author from UNCTAD, World Investment Report (2021, 2022, 2024, 2025) and Global Investment Trends Monitor No. 48 (2025).

**Table 3. Global FDI Inflows, 2019-2024 (US\$ trillion, and annual % change)**

| Year | FDI inflows (US\$ trillion) | Annual change                      |
|------|-----------------------------|------------------------------------|
| 2019 | 1.53                        | —                                  |
| 2020 | 0.96                        | -35% (pandemic collapse)           |
| 2021 | 1.58                        | +64% (post-pandemic rebound)       |
| 2022 | 1.33                        | -16%                               |
| 2023 | 1.30                        | -2% headline; >-10% excl. conduits |
| 2024 | 1.50                        | +4% headline; -11% excl. conduits  |

**Source:** UNCTAD, World Investment Report (2021, 2022, 2024, 2025); UNCTAD, Global Investment Trends Monitor No. 48 (2025). "Conduit economies" refers to European jurisdictions used as pass-through points for multinational financial flows.

The headline recovery to US\$1.5 trillion in 2024 masks a more concerning underlying picture. UNCTAD (2025) reports that, once conduit-economy flows are excluded, global FDI actually fell by around 11 per cent in 2024—the second consecutive annual decline—driven overwhelmingly by a collapse in European investment (down 58 per cent, with some individual countries such as Germany recording declines of nearly 90 per cent) and a marked fall in international project finance, particularly for renewable energy, transport and water and sanitation infrastructure (down 26 per cent overall, and by 30–32 per cent in these specific sectors). By contrast, North America recorded a rise in FDI of around 13–23 per cent across the two years, driven substantially by semiconductor megaprojects, and

the United States remained both the largest source and largest destination of global FDI (UNCTAD, 2025). FDI in the digital economy grew by around 14 per cent in 2024, but this growth was highly concentrated, with ten countries accounting for roughly 80 per cent of new digital investment projects (UNCTAD, 2025), reinforcing the pattern of geographic concentration observed across FDI flows more broadly.

#### 5.4 Regional Shifts and Structural Reconfiguration

Taken together, the growth, trade and FDI data reviewed above point to three structural shifts in the geography and composition of global economic activity. First, there is a clear divergence between North America, which has strengthened its position as an investment destination on the back of industrial policy incentives (including semiconductor and clean-technology megaprojects), and Europe, which has experienced a pronounced and broad-based decline in inward investment (UNCTAD, 2025). Second, developing Asia has continued to attract a large share of greenfield project announcements UNCTAD (2024) notes that nearly half of all developing-country greenfield announcements in 2023 were concentrated in South-East Asia—consistent with the reshoring and "friend-shoring" hypothesis under which supply chains are being redirected toward geopolitically aligned or lower-risk production locations rather than withdrawn from international commerce altogether. Third, the poorest and most vulnerable economies, including least developed countries (LDCs) and small island developing states, continue to receive only a marginal share of global FDI (around 2 per cent for LDCs in 2024), despite posting some of the highest reported percentage gains, underscoring the low base from which these economies are starting and the continued concentration risk in global investment patterns (UNCTAD, 2025).

**Table 4.** Regional FDI Inflows, 2024: Selected Regions (annual % change)

| Region / economy               | 2024 FDI change   | Key driver                                                   |
|--------------------------------|-------------------|--------------------------------------------------------------|
| North America                  | +13% to +23%      | Semiconductor and technology megaprojects                    |
| United States                  | +20% (approx.)    | Reshoring incentives; large M&A activity                     |
| Europe (overall)               | -58%              | High borrowing costs; energy-cost legacy; investor caution   |
| Germany                        | -89%              | Manufacturing downturn; energy competitiveness concerns      |
| Africa                         | +75%              | Concentrated in a single mega infrastructure project (Egypt) |
| Least developed countries      | +9% (to US\$37bn) | Low base; still only ~2% of global FDI                       |
| Small island developing states | +14%              | Low base; narrow project concentration                       |

**Source:** UNCTAD, World Investment Report 2025 (2025); UNCTAD Global Investment Trends Monitor No. 48 (2025). Percentages reflect year-on-year change in FDI inflows for 2024 as reported in cited sources.

Table 4 illustrates the extent of regional divergence underlying the modest headline growth in global FDI in 2024. The scale of the swing between North America and Europe—running to more than 70 percentage points is unusually large by historical standards and is difficult to explain through conventional determinants of FDI location choice, such as market size or labour costs, which change only gradually over time. Instead, the pattern is more consistent with a rapid reallocation of investment toward jurisdictions offering stronger industrial policy incentives, lower energy-cost uncertainty and closer geopolitical alignment with the investing country, reinforcing the friend-shoring interpretation advanced by UNCTAD (2025) and Aiyar et al. (2023).

## 6. Discussion

The empirical evidence assembled in Section 5 supports a nuanced reading of the changing dynamics of the global economic market one that lies between the two poles of "deglobalisation" and "business as usual" globalisation. On one hand, the data do not support a wholesale retreat from international economic integration: world trade in commercial services and digitally delivered services has continued to expand at a healthy pace, greenfield investment announcements in developing Asia have remained robust, and total FDI, even on a conduit-adjusted basis, remains well above the levels recorded during the depth of the pandemic. This is broadly consistent with the "slowbalisation" thesis, under which global integration continues but at a slower and more uneven pace than during the pre-2008 golden era of hyper globalisation (Antràs, 2020).

On the other hand, several features of the data are consistent with a more active process of geoeconomic fragmentation, as described by Aiyar et al. (2023). The sharp divergence between North American FDI gains (driven by industrial policy and reshoring incentives in strategic sectors such as semiconductors) and the collapse of European investment suggests that capital is increasingly flowing along lines shaped by strategic and security considerations rather than by relative rates of return alone. Similarly, the persistent gap between trade growth and GDP growth since 2023 in contrast to the pre-2008 norm in which trade routinely outpaced output suggests that the elasticity of trade to income growth has fallen, plausibly reflecting the reintroduction of tariffs, non-tariff barriers and investment screening measures by several major economies (WTO, 2025b).

These findings are consistent with, and extend, the theoretical framework proposed in Section 3. The weakening of the growth–trade–investment nexus is not uniform across regions: it is most pronounced in relationships between geopolitically misaligned economies (for example, within parts of Europe, and between Europe and some Asian trading partners) and least pronounced within blocks of politically aligned economies, where trade and investment linkages have, if anything, intensified. This pattern lends empirical support to the friend-shoring hypothesis and suggests that global economic integration is being reorganised along new geographic and political fault lines rather than uniformly reversed (UNCTAD, 2025; Aiyar et al., 2023).

The observed slowdown in project finance for renewable energy, transport and water and sanitation infrastructure is a further point of concern that connects the growth–trade–investment nexus to the broader sustainable development agenda. Because international project finance is disproportionately important for the poorest and most infrastructure-constrained economies, its decline risks widening, rather than narrowing, the development gap between advanced and low-income economies a dynamic that runs counter to the convergence process described by Baldwin (2016) as a defining feature of the earlier globalisation era.

The interaction between monetary policy and these trends also deserves emphasis. The synchronised monetary tightening undertaken by major central banks between 2022 and 2023, in

response to the post-pandemic inflation surge, raised the global cost of capital at precisely the time when infrastructure and project-finance investment much of it long-dated and sensitive to interest rates—was most needed to support the recovery in developing economies. UNCTAD (2024, 2025) directly links the steep decline in international project finance to this tightening cycle, noting that project finance deals fell by around a quarter in number and by roughly half in value in 2023, with further declines in 2024 concentrated in renewable energy, transport and water and sanitation projects. This suggests that cyclical monetary conditions and structural geopolitical realignment have been mutually reinforcing over this period: tighter global financial conditions have amplified investors' pre-existing tendency to favour familiar, politically aligned and lower-risk destinations, accentuating the regional divergence documented in Table 4 rather than offsetting it.

It is also worth situating these findings against the historical experience of previous globalisation cycles. Historically, periods of elevated geopolitical tension such as the interwar period of the twentieth century were associated with pronounced and prolonged reductions in trade and capital mobility (Baldwin, 2016). The current episode differs in at least one important respect: multilateral trade and investment institutions, including the WTO and various regional and bilateral investment frameworks, remain functional, and digitally delivered services trade has continued to expand briskly even as goods trade and traditional FDI have slowed (WTO, 2024a). This suggests that, while the current period shares some features with earlier deglobalisation episodes, it is better characterised as a partial and selective reorganisation of global economic integration than as a comprehensive retreat from it.

## 7. Practical Implications

For national policymakers, the findings underscore the importance of building resilience against increasingly volatile trade and investment flows. Governments in developing and emerging economies should prioritise investment facilitation reforms streamlining approval processes, improving regulatory transparency and strengthening digital government services measures that UNCTAD (2024) identifies as central to attracting investment in an increasingly competitive and risk-averse global environment. Diversifying export baskets and trading-partner concentration can help reduce exposure to demand shocks originating in any single region, while building fiscal and external buffers can help cushion the impact of sudden reversals in capital flows.

For multinational enterprises, the evidence of reshoring, nearshoring and friend-shoring suggests that global value chain configurations optimised purely for cost minimisation may carry greater geopolitical and operational risk than in the past. Firms may need to weigh the benefits of supply-chain diversification and regional redundancy against the efficiency losses associated with moving away from single, low-cost production hubs (Antràs, 2020). The concentration of FDI in strategic sectors such as semiconductors and clean technology also suggests that firms operating in these sectors face both greater policy support (through subsidies and incentives) and greater scrutiny (through investment-screening regimes) than firms in less strategically sensitive industries.

For international institutions and multilateral bodies, the findings suggest a need to recalibrate trade and investment governance frameworks to address the risk of fragmentation while preserving the gains from economic integration. This could include strengthening dispute-settlement and investment-facilitation mechanisms, developing frameworks to mobilise private and institutional capital for infrastructure and Sustainable Development Goal (SDG)-related investment in developing countries, and improving transparency around industrial policy measures to reduce the risk of an uncoordinated subsidy race (UNCTAD, 2025; WTO, 2025b).

Small and medium-sized enterprises (SMEs) engaged in cross-border trade face a distinct set of implications. Because SMEs typically have less capacity than large multinationals to absorb the fixed costs of supply-chain diversification or to navigate complex investment-screening and export-control regimes, the fragmentation trends documented in this paper risk disproportionately disadvantaging smaller exporters and investors. Trade-support institutions and export credit agencies may therefore need to expand advisory and risk-mitigation services including market diversification support and trade finance guarantees specifically targeted at SMEs operating in sectors exposed to geopolitical realignment, such as electronics, automotive components and industrial machinery.

Finally, the marked decline in project finance for renewable energy and water and sanitation infrastructure has direct relevance for climate and development policy. Institutional investors, development finance institutions and multilateral development banks may need to play a more active, catalytic role in de-risking long-dated infrastructure investment in developing economies, for example through blended finance instruments and guarantees, to prevent the current slowdown in private project finance from translating into a lasting infrastructure and climate-finance gap (UNCTAD, 2025).

## 8. Limitations and Directions for Future Research

This study has several limitations that should be acknowledged. First, the analysis relies on secondary, institutionally reported data; while these sources (World Bank, WTO, UNCTAD and IMF) are widely regarded as authoritative, they are subject to periodic revision, and figures for the most recent years (particularly 2025) remain projections rather than final outturns. Second, the descriptive and interpretive nature of the analysis means that the paper identifies associations and plausible explanatory mechanisms rather than establishing causal relationships between geopolitical shocks and observed trade and investment outcomes; future research employing panel econometric methods, gravity models of trade and investment, or event-study techniques around specific policy shocks (for example, the imposition of new tariffs or export controls) could usefully complement the trend analysis presented here. Third, the paper focuses on aggregate global and regional patterns; country-level and sector-level analysis particularly of strategic sectors such as semiconductors, critical minerals and clean energy technology would provide a more granular understanding of how reshoring and friend-shoring dynamics are unfolding in practice. Finally, as data for 2025 and beyond become available, future research should revisit whether the patterns identified here represent a lasting reconfiguration of the global economy or a transitional phase associated with a specific and time-bound set of geopolitical shocks.

## 9. Conclusion

This paper set out to examine the changing dynamics of the global economic market by analysing recent trends in economic growth, international trade and foreign direct investment. The evidence indicates that the global economy has entered a period of lower and more uneven growth, more volatile and slower-growing trade, and structurally weaker, more geographically concentrated FDI, relative to the patterns that prevailed before the pandemic. Rather than a uniform retreat from globalisation, however, the data point to a selective reconfiguration of global economic integration, in which trade and investment increasingly flow along geopolitically aligned corridors, strategic sectors attract disproportionate policy support and capital, and the poorest economies remain at risk of being left further behind in the competition for investment. These findings suggest that the traditional growth-trade-investment nexus that underpinned globalisation for three decades has not been dismantled, but has been reorganised around a new set of geopolitical and security-driven considerations.

Understanding this reorganisation—and its implications for growth, development and firm strategy will be an important task for economic research and policy analysis in the years ahead.

## References

1. Aiyar, S., Chen, et al (2023) Geoeconomic Fragmentation and the Future of Multilateralism, IMF Staff Discussion Note SDN/2023/001. Washington, DC: International Monetary Fund.
2. Alfaro, L., Chanda, A., Kalemli-Ozcan, S. and Sayek, S. (2004) 'FDI and economic growth: the role of local financial markets', *Journal of International Economics*, 64(1), pp. 89–112.
3. Antràs, P. (2020) 'De-globalisation? Global value chains in the post-COVID-19 age', NBER Working Paper No. 28115. Cambridge, MA: National Bureau of Economic Research.
4. Baldwin, R. (2016) *The Great Convergence: Information Technology and the New Globalization*. Cambridge, MA: Harvard University Press.
5. Borensztein, E., De Gregorio, J. and Lee, J.-W. (1998) 'How does foreign direct investment affect economic growth?', *Journal of International Economics*, 45(1), pp. 115–135.
6. Dollar, D. and Kraay, A. (2004) 'Trade, growth, and poverty', *The Economic Journal*, 114(493), pp. F22–F49.
7. Dunning, J. H. (1988) 'The eclectic paradigm of international production: a restatement and some possible extensions', *Journal of International Business Studies*, 19(1), pp. 1–31.
8. Frankel, J. A. and Romer, D. (1999) 'Does trade cause growth?', *American Economic Review*, 89(3), pp. 379–399.
9. Grossman, G. M. and Helpman, E. (1991) *Innovation and Growth in the Global Economy*. Cambridge, MA: MIT Press.
10. Krugman, P. (1980) 'Scale economies, product differentiation, and the pattern of trade', *American Economic Review*, 70(5), pp. 950–959.
11. Ohlin, B. (1933) *Interregional and International Trade*. Cambridge, MA: Harvard University Press.
12. Ricardo, D. (1817) *On the Principles of Political Economy and Taxation*. London: John Murray.
13. Rodrik, D. (2011) *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & Company.
14. Rodrik, D. (2018) 'Populism and the economics of globalization', *Journal of International Business Policy*, 1(1–2), pp. 12–33.
15. Rodrik, D., Subramanian, A. and Trebbi, F. (2004) 'Institutions rule: the primacy of institutions over geography and integration in economic development', *Journal of Economic Growth*, 9(2), pp. 131–165.
16. Romer, P. M. (1990) 'Endogenous technological change', *Journal of Political Economy*, 98(5, Part 2), pp. S71–S102.
17. Solow, R. M. (1956) 'A contribution to the theory of economic growth', *Quarterly Journal of Economics*, 70(1), pp. 65–94.
18. Stiglitz, J. E. (2002) *Globalization and Its Discontents*. New York: W. W. Norton & Company.

19. United Nations Conference on Trade and Development (UNCTAD) (2021) World Investment Report 2021: Investing in Sustainable Recovery. Geneva: United Nations.
20. United Nations Conference on Trade and Development (UNCTAD) (2022) World Investment Report 2022: International Tax Reforms and Sustainable Investment. Geneva: United Nations.
21. United Nations Conference on Trade and Development (UNCTAD) (2024) World Investment Report 2024: Investment Facilitation and Digital Government. Geneva: United Nations. Available at: <https://unctad.org/publication/world-investment-report-2024> (Accessed: 12 September 2026).
22. United Nations Conference on Trade and Development (UNCTAD) (2025) World Investment Report 2025: International Investment in the Digital Economy. Geneva: United Nations. Available at: <https://unctad.org/publication/world-investment-report-2025> (Accessed: 12 September 2026).
23. United Nations Conference on Trade and Development (UNCTAD) (2025) Global Investment Trends Monitor, No. 48. Geneva: United Nations. Available at: <https://unctad.org/publication/global-investment-trends-monitor-no-48> (Accessed: 12 September 2026).
24. World Bank (2022) Global Economic Prospects, January 2022. Washington, DC: World Bank.
25. World Bank (2024) Global Economic Prospects, January 2024. Washington, DC: World Bank. Available at: <https://www.worldbank.org/en/publication/global-economic-prospects> (Accessed: 12 September 2026).
26. World Trade Organization (WTO) (2023) Global Trade Outlook and Statistics Update, October 2023. Geneva: WTO.
27. World Trade Organization (WTO) (2024a) Global Trade Outlook and Statistics, April 2024. Geneva: WTO. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_outlook24\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_outlook24_e.pdf) (Accessed: 12 September 2026).
28. World Trade Organization (WTO) (2024b) Global Trade Outlook and Statistics Update, October 2024. Geneva: WTO. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/stat\\_10oct24\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/stat_10oct24_e.pdf) (Accessed: 12 September 2026).
29. World Trade Organization (WTO) (2025a) Global Trade Outlook and Statistics, April 2025. Geneva: WTO. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_outlook25\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_outlook25_e.pdf) (Accessed: 12 September 2026).
30. World Trade Organization (WTO) (2025b) Global Trade Outlook and Statistics Update, October 2025. Geneva: WTO. Available at: [https://www.wto.org/english/news\\_e/news25\\_e/stat\\_07oct25\\_e.pdf](https://www.wto.org/english/news_e/news25_e/stat_07oct25_e.pdf) (Accessed: 12 September 2026).