



The End of Globalisation?

Political science suggests that a reversal, or even collapse, of globalisation is a distinct possibility.

This is the first part of a two-part article

For most of the past 25 years, globalisation was seen as an unstoppable force, as sure to advance as the sun rises in the east. But increasingly, it looks more vulnerable than inexorable. Causes for concern are easy to find. For instance, the last set of World Trade Organisation negotiations over further trade liberalization, the Doha Round, was a failure; Donald J. Trump has disavowed free trade agreements such as NAFTA and the Trans-Pacific Partnership (TPP); Brexit will reduce economic integration between the United Kingdom and the European Union, and possibly between the U.K. and the world; and regional opposition almost scuppered the Canada-EU Comprehensive Economic and Trade Agreement (CETA). Is the age of globalisation coming to an end?

A brief history of globalisation

While globalisation seems like a product of our times, **the current wave is at least the second in the past 200 years.** The first wave began in the first half of the 19th century, as the U.K. embraced the Ricardian logic of comparative advantage and free trade and then opened up its markets. After some ups and downs, the first wave collapsed as countries responded to the Great Depression beginning in 1929 by closing off their economies. The current

wave began after World War II and accelerated after the end of the Cold War. How long it will last is unclear, but given recent events, it is fair to ask whether its halcyon days may be over.

Drivers of globalisation

Social scientists have long argued over the causes of booms and busts in globalisation. Simply put, they see two forces at work.

One is innovation. Globalisation has greatly benefitted from faster and cheaper communications and transportation. These, in turn, have depended on technological progress such as the internet and larger ships. Unless levels of innovation drop markedly, technology is likely to continue to provide a basis for further globalisation.

The second force is politics. In essence, while technology makes further globalisation possible, politics determines whether this potential will be captured. It was politics that enabled the beginning of the two waves. The key turning point in the 1840s was a political decision: the repeal of the Corn Laws, which protected British agriculture from imports – one of the most consequential and least known events in modern history. After World War II, the United States took the lead in opening markets and creating an infrastructure for the international

economy, such as the General Agreement on Tariffs and Trade, predecessor of the WTO.

Likewise, it was politics that ended the first wave. After 1929, governments closed down their economies through protectionist measures such as the infamous U.S. Smoot-Hawley Tariff Act of 1930.

Political science has evolved a range of theories to account for these political decisions. For the sake of simplicity, I focus on the two arguably most dominant approaches: liberalism and realism.

Liberalism

Liberalism in this article refers to the political science theory by that name, not the philosophical school of thought by the same name or any specific outcome. Liberalism as theory allows for very illiberal outcomes.

The essence of liberalism is that globalisation will survive as long as political actors, such as voters, associations, and firms, in favour of globalisation retain more power than those opposing it. For this to happen, a preponderance of actors needs to be convinced that they are winners of globalisation (it is fairly irrelevant whether this is actually true – politics is rarely based on “truth”).

The problem is, while globalisation tends to increase overall wealth – the pie gets bigger – not everyone gains equally, and some actually lose. The angry U.S. blue-collar workers plumping for Trump and the rural anti-EU voters in Britain, for instance, see globalisation as a project that benefits the elites at their expense. **There is some truth to this.** In the U.K., this contributed to the Brexit vote, and in the U.S., this helped bring Trump to the presidency. While Brexit has not yet happened, and while there is no telling what Trump will do when actually in office, the political debate has clearly shifted against economic openness.

The good news is that to the extent liberalism identifies the core of the issue, there is a remedy: redistribution of part of the spoils of globalisation to turn the losers into winners. In 1982, political scientist John Ruggie coined the term “**embedded liberalism**” for this approach: enable globalisation, but contain its adverse effects through social security systems and active labour market policies such as retraining. Similar instincts are visible in recent commentaries, such as those by *The Economist* and by **BCG**.

But as Ruggie pointed out, such embedding of the economy in society may not be possible if markets are completely free, as investors would seek to avoid economies trying to implement costly social and labour policies. For this recipe to work, then, it

may be necessary to put a limit on the freedom of markets – not to destroy them, but to save them.

Realism

Realism, on the other hand, posits that waves of globalisation essentially mirror the rise and decline of global hegemonies, that is, overwhelmingly powerful states. In the 19th century, globalisation was enabled by Britain. By the Great Depression, the U.K. had been eclipsed by the U.S. The U.S., however, was unwilling to take the leadership role, and so the first wave ended. After World War II, the U.S. stepped up to support globalisation, first in the Western camp of the Cold War, then globally after 1990.

To the extent realism is correct that a hegemon is needed for globalisation to happen, the outlook seems bleak. The U.S. is still very powerful, with the world’s mightiest military and second-largest economy. But it is clearly a hegemon in decline, relative to other nations (and relative power is what matters to realism). The closest rival to American hegemony is China, which has surpassed the U.S. in terms of GDP at purchasing power parity and is rapidly building up its military. Already we can see China challenging the American world order, whether in the **South China Sea** or through the creation of the **Asian Infrastructure Bank** to rival the Asian Development Bank. If the U.S. indeed abandons the TPP, it seems likely that China will step in with a **scheme** of its own.

Under realism, three broad scenarios are possible. First, a new global hegemon emerges and takes over from a declining U.S. to maintain the system. Globalisation, as we know it, survives.

Second, a new global hegemon takes over but reshapes the system according to its preferences. Globalisation may then survive as a high-level phenomenon, though the rules of the game may change considerably. In particular, a new hegemon may leave considerably less space for other states to benefit from trade and investment – think of the economic relationship between the Soviet Union and its satellites.

Third, no new *global* hegemon emerges. Rather, different parts of the world come under different *regional* hegemonies – say, the U.S. in the West and China in the East. Globalisation would then make room for regionalisation, that is, the coexistence of different rules of the game for trade, investment, and the movement of people in different parts of the world. In the extreme, little exchange may occur between the regions. The Cold War era comes to mind as an example.

Which of these is the most likely? Given that China

would need to democratise if it wanted to **get truly rich**, and given that democratisation seems highly unlikely for now, the third scenario seems the most probable: China will not be strong enough to displace the U.S. completely, and the U.S. will not be strong enough to prevent China from taking control of its sphere of influence. A Trumpian retreat from the world economic order would accelerate this process, and the U.S. sphere of influence may become smaller than it could have been otherwise. Obviously, this scenario contains an assumption that the interests of China and the U.S. are not aligned with respect to the world economic order. This is not a strong assumption. On balance, political science theory predicts that globalisation as we have known it in the past two decades is likely to be in trouble.

Part two of this article: "The End of Globalisation? How Executives Should Respond".

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