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# The Double-Edged Sword of Globalisation



By Jonathan Story , INSEAD Emeritus Professor of International Political Economy

**Seven long-term trends underscore both the hope and the threat that globalisation has brought to our world.**

From the collapse of Communism until mid-2008 when the financial crisis came to a head, it seemed that the U.S., to quote the words of Harvard University's Joseph Nye, was "bound to lead".<sup>[i]</sup> In this unipolar period, the United States appeared to have become, as noted by French Foreign Minister Hubert Vedrine, not so much a superpower but a "hyperpower", driving towards a One World of shared prosperity, democracy and better living conditions for all.

The global complexities exposed and exacerbated by the financial crisis put an end to this over-simplistic view. We now see that globalisation has brought about a world of widening prosperity alongside deeper imbalances; greater opportunities (e.g., in business or the arts) alongside mounting burdens placed by humanity on nature; reduction in major military conflicts alongside an ever-rising potential for extreme violence; and unprecedented spread of wealth alongside more numerous financial crises.

## World-making trends

Seven longer-term trends lie behind this deeply contradictory state of affairs. I leave out Latin America and Africa for reasons of space, not because of their intrinsic interest and importance.

- 1) The growth of indebtedness of the U.S., the U.K. and the European Latin nations, and the emergence of Asia and northern continental Europe as the world's prime creditors. In 2001, the U.S., the U.K., along with France and Germany, despite the costs incurred from unification, had stable or rapidly falling public sector debt. Over a decade later, their public sector debts had soared to between 70 and 90 percent of GDP, with payment on the debt growing three to four times faster than their real economies.
- 2) The recognition that the U.S. is not omnipotent. As noted above, the crash of 2008 quashed Washington and Wall Street's fantasy of America's unipolar primacy in world affairs. It was not just because U.S.-trained economists' assumptions about how the world political economy operates had proved deficient; there also had been a happy consensus that somehow U.S. exceptionalism exempted the U.S. from the afflictions of less fortunate peoples. Yet **as Reinhardt and Rogoff noted**, the U.S. was no exception to the pattern which saw systemic banking crises preceded, as elsewhere, by asset price bubbles, large capital inflows and credit booms.
- 3) Recognition in the capitals of the Western world that the global economy is changing shape at unprecedented pace. This was reflected in the decision to widen the Group of 8 (G-8) advanced industrial countries, plus Russia, to the Group of 20 (G-20) major economies, which took shape at the Washington Conference of November 2008 followed by the London summit of April 2009. Taken in the aftermath of the financial crash, the expanded forum reflects the view that the emerging global economy requires more inclusive representation at the world's top table.
- 4) There is a vacuum of power at the centre of world affairs. While the pre-eminence of the U.S. seems barely affected by the whirl of changes in global affairs, it has helped to shape a world that consistently challenges its status. This de-centralising global polity makes it increasingly difficult for the lead powers to impose their preferences and rules on the world. Meanwhile the world's rising powers have neither the capability nor the willingness to take the lead.

5) The rise of China and India - which between them account for 37 percent of the world's population, 40 percent of the labour force, and a rising 18 percent of product - is reshaping the balance of power in the Asia-Pacific and the Eur-Asian continent. China's rapid development as a prospective great power has led India to strengthen its relations with the U.S. and the countries of Southeast Asia, as well as to pursue closer relations with Japan and South Korea. The significance of this longer term trend is to greatly modify the time horizon of China's rise and America's relative decline in the pecking order of world powers: *the U.S. may be expected to build coalitions and alliances to counter China's rise, and thereby greatly prolong its central role in Asian, and in world, affairs.*

6) The International Energy Agency predicts that global energy demand will grow 36 percent between 2009 and 2035. [iii] China and India are expected to lead the way, with the Middle East not far behind. The market power of the very few oil-producing countries that hold substantial reserves - mostly in the Middle East - is set to increase rapidly. They already have about 40 percent share of the oil market and the IEA expects this share to grow strongly in the future. As long as the world runs on oil, the region will remain fundamental to the world power balance. As long as China retains capital controls, the dollar may be expected to reign as the key commodity currency: *as soon as the Yuan becomes convertible, the dollar's supremacy as the currency for oil and commodities trade is sure to be contested.*

7) Last but not least is the emergence of the EU as the world's emporium. It is overwhelmingly the world's prime recipient of inward investment, and by far the largest source of foreign direct investment in the world. The EU is home to 148 of the global Fortune 500 corporations. Meanwhile, Germany has become to the rest of Europe what first Japan, and now China, is to Asia. Since the Euro crisis started in 2010, the southern countries have in effect asked the northern countries to bail them out, while the northern countries have asked the southern countries to cut wages and slash government spending. The failure to resolve this fundamentally political dispute within the EU is magnified by Europe's centrality in the world economy.

## **A shift in historical perspective**

Changes that seem tumultuous when experienced in real time, take time to work their effect on the structure of world affairs. One of the features of globalisation is that events can no longer be conceived as sequential where

“one damned thing follows another”, so much as punctuated by the interaction of both ongoing forces and of pasts long gone. The modern world features both a trend to uniformity offset by a much greater complexity, and therefore variety, within human societies. It is a far more interesting, promising, and precarious world than could have been imagined 20 years ago.

*This essay is based on a chapter in **The Purpose of Business**, just out from Palgrave Macmillan.*



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[\[i\]](#) Joseph Nye, Bound to Lead: The Changing Nature of American Power, Basic Books, 1990.

[\[ii\]](#) See the IEA World Energy Outlook 2010, Paris 2010.

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