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GLOBALIZATION DIES AND GIVES WAY TO A MULTIPOLAR WORLD ORDER

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In a 1992 speech in Fulton, Missouri, Mikhail Gorbachev stated, "On today's agenda is not just a union of democratic states, but also a democratically organized world community. Thus, we live today in a watershed era. One epoch has ended, and another is commencing. No one yet knows what it will be like."[1] Gorbachev was right then, and if the speech were given today, these words would also ring true.

The fall of communism was the key event in catalyzing globalization. It was the bookend that opened up new trends that saw the flow of people, money, commerce, and, importantly, ideas and cultures. In particular, the fall of communism led to a sharp rise in the creation of new countries (some thirty-four have been created since 1990), and in the spread of democracy (between 1988 and 2005, the proportion of countries classified as Free rose from 36 to 46 percent globally, according to Freedom House's Freedom in the World Report 2019). In that respect, the fall of communism was a vital moment in opening up the question of sovereignty and linking it to the rise of globalization.

Since the fall of communism, the ripple of globalization through the world has lifted billions out of poverty according to World Bank data and spawned new technologies. This great period in world history is now at an end, decisively crashed by the coronavirus crisis, having already atrophied in the face of rising indebtedness, trade wars, and the vandalization of international institutions like the World Health Organisation and World Trade Organisation by populist leaders such as Donald Trump. Now, with deadly and decisive timing, the bookend that closes the period of globalization is the subsuming of Hong Kong in the sense that its "two systems" of government have now been replaced by a single, Chinese approach. This process,

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1. Mikhail Gorbachev, *River of Time and the Imperative of Action*, AM. NAT'L CHURCHILL MUSEUM (May 6, 1992), https://www.nationalchurchillmuseum.org/the-river-of-time-and-the-imperative.html.

the smothering of any sovereignty that Hong Kong enjoyed, is another important moment in how sovereignty touches on globalization.

In the past thirty years, this relationship has evolved, but the tectonic evolution of both globalization and how we view the sovereignty of nations (for example, in the case of the EU some nations have pooled sovereignty) has been accelerated by the coronavirus crisis, and the many responses to it. Indeed, the defining characteristic of the coronavirus crisis has been its speed. For example, in the initial financial market reaction to the crisis, the main indices markets fell dramatically, at a rate not seen in decades.[2]

This speed is evidenced by the sudden restriction placed on human movement by the crisis, and the fact that, in general, we are used to dealing with single set piece economic or financial crises (market bubble, classic recession, regional—EM or EU—crisis), not five overlapping crises at the same time. The speed and drama of the crisis are heightened by the fact that it is breaking things—diplomatic relations, investment funds, political careers, and economies (for instance, the initial economic shock saw European industrial production drop by 25 percent according to Eurostat). Moreover, the difficulties created by the coronavirus crisis will be compounded by the fact that it occurs at the end of a long, somewhat sluggish expansion phase of the business cycle.

At a more structural level, the coronavirus crisis is a resilience test of the international world order, and a sharp catalyst for the end of globalization. It has brought into focus many of the deepening fault lines in the world economy, such as the damage to commerce caused by the trade war between the US and China, and mounting indebtedness (according to the IMF, world median debt in 2021 is projected to be up by about 17 percent of GDP in advanced economies, 12 percent in emerging economies, and 8 percent in low-income countries).

Notably, many of these fault lines will be more pronounced after the coronavirus crisis. It is a certainty that the coronavirus crisis and the end of globalization, which it has hastened, will change the way in which sovereignty is viewed.

In the run-up to the crisis, the world economy was beset by a range of contradictory forces—stock markets were at all-time highs against a backdrop of sluggish wage growth, investment spending, and feeble productivity (for example, according to the Bank of England, productivity in the UK is at a multi-decade low). Like an aging athlete, there was a sense that economic performance could only be sustained by the elixirs of central bank

2. The S&P 500 stock market index dropped from a level of 3225 on February 23, 2020, to a low of 2237 on March 23, 2020, a drop of a third. *See, e.g.*, *US Stocks Slide Nearly 6% on Worst Day Since March*, FIN. TIMES (July 12, 2020), https://www.ft.com/content/bdd0451a-7ef9-4ba7-89b9-dba3312cc20d.

asset purchases and rising debt loads (according to the IMF, world debt may soon reach $200 trillion).

In the engine room of the world economy, globalization was slowing. Trade levels (relative to GDP), perhaps the most straightforward representation of globalization, were dipping toward levels not seen since the global financial crisis (according to the IMF, world trade to GDP dropped to a level of 52 percent in 2009, and it briefly dropped below this in the first half of 2020). In particular, the tenor of world trade was undercut by the trade war between America and China, the recrafting of NAFTA, and the threat of a trade war on Europe from the Trump administration. Multinationals, which in the early stages of globalization were described as the "B-52's of globalization," had begun to retrench, rethinking supply chains and at the margin investing less in capacity in emerging economies and publicly declaring a wish to "bring jobs home" (for instance, in March of 2018 Trump boldly announced in a series of tweets "Trade Wars are Good and Easy to Win").

Other aspects of globalization, such as the flow of finance between countries and regions according to the Organisation for Economic Co-operation and Development (OECD), the flow of people, and the flow of ideas, have also slowed from high levels. Politically, globalization and the liberal order that acts as its skeleton have been vandalized by populist politicians in recent years, with many of them ascribing side effects to it (notably inequality) that are in fact outcomes from national-level policy choices (of note is that income inequality in the US is markedly higher than in Canada).

Against this backdrop, the demise of globalization—a world that is interconnected and interdependent, and where sovereignty has in some cases been shared—has been dramatically hastened by the coronavirus crisis. Travel, labor markets, and certain elements of consumer spending are just some things that have stopped and may never be the same again.

The most disappointing aspect of the crisis so far, from the viewpoint of globalization, is the lack of international economic policy coordination. In previous international crises, there was always a sense of a "committee to save the world," led by the likes of former Treasury Secretaries Nicholas Brady, Robert Rubin, or, more recently, Gordon Brown (formerly the Chancellor of the Exchequer in the UK, and prime minister from 2007 to 2010). The lack of policy coordination between the large countries of the world is a testament to the fracturing of the world order and the growing difficulty in marshalling a consensus view and call to action on the part of groups like the G20 and G7, let alone the G2 (composed of the US and China). Collaboration and the pooling of sovereignty in a time of crisis have been rejected, and in many cases, countries have aggressively underlined the sovereignty of their borders—for example, in restricting the movement of people, even across the European Union.

This fracturing has undercut globalization and points to the noisy transition toward a new order in politics, economics, finance, and geopolitics. As with so many transition periods through history—1912, 1930s, 1950s, 1991—this transition from the "end of globalization" to something else will be uncertain and loaded with risks and will involve the testing of sovereignty.

"What's next after globalization" can go one of two ways. The first is to follow the path, or mistakes, of history, which some people are doing eagerly, and replay the misery of the 1920s and 1930s. This is a nasty, brutish scenario, and its specter should serve to drive policymakers back on track toward more constructive outcomes. From the point of view of sovereignty and the current world order, it would involve a rejection of international institutions, very limited cooperation between strategic competitors, and a reinforcing of national borders and prejudices. A second, more complex scenario is that we leave a globalized world and embark toward a multipolar one. This passage will carry plenty of scope for friction and tension between nations, volatility across markets, and growing pains of new trends. As with the beginning of globalization, sovereignty will have to be reimagined.

A multipolar world will be one dominated by at least three large regions—the US, the EU, and China (the India-Dubai region is a potential fourth pole)—which do things increasingly distinctively. The internet is an example of this. In the early days of globalization and the internet, it was a global network with an underdeveloped sense of sovereignty. In the mid-2000s, Google had a nearly one-third market share in the search market, but it is now shut out of that jurisdiction as China has its own walled-off internet (China operates a broad censorship program of its internet and does not allow access to Western search engines such as Google). Similarly, America owns internet giants, while Europe regulates the internet; most notably Europe has introduced the General Data Protection Regulation (GDPR), which allows its citizens to know what elements of their data are stored by internet companies.

The same distinctiveness will be true in these regions' approaches to democracy, climate change, economics, and diplomacy. The stress test provided by the coronavirus appears to confirm the development of a multipolar world—the rivalry between the US and China has intensified, the US has "pirated" protective equipment and medical research destined for Europeans, and there is a great deal of talk about bringing supply chains (i.e., pharmaceuticals) "back home." Last June, French President Emmanuel Macron was one of a number of EU leaders who wrote to the European Commission president to demand that Brussels give incentives to develop production capacity in the bloc for critical ingredients and medicines.

More profoundly, the way each region has approached the crisis is distinct, and reveals much about social contracts in each region—in the US leaders showed concern for the economy by speaking of "the cure being worse than the disease," in China social control has been severe and information scant, whilst in Europe social welfare systems may prove the bedrock upon which the crisis is resolved (the EU approach to the economic aspects of the coronavirus crisis rested largely on provision of welfare through existing social systems, and on keeping people employed through flexible and partial labor markets schemes).

Should the coronavirus hasten our path down the road toward a multipolar world, it points to a competing rather than single international economic model (such as the maligned Washington Consensus), in the context of common economic problems (low productivity, high debt). In turn, each of these regions will reinterpret and reinforce its regional sovereignty and identity.

In this way, whereas the globalized world was driven by multinational corporations, consumers, and markets, the multipolar world will be driven by the very different philosophies or values of the large regions. These distinct philosophies will drive the power and security of the regions, as well as the way they tackle the mounting political, environmental, and economic challenges the world faces.

Indeed, while we are used to talking about the twentieth century as being America's, and the possibility of the twenty-first century as being China's, the reality is that it will be a contested century, driven by a battle of emerging philosophies. Let's take each in turn.

America is still Rome, the world's dominant power. It is still the strongest in the three "f's"—firms, finance, and fighting. America's aim is to preserve its place as the world power, but as its soft power diminishes, it will use other means—finance, perhaps—to maintain its influence. The greatest risk to America is not external but internal; if it does not resolve the imbalances created by capitalism—extreme wealth inequality, record levels of indebtedness, and falling human development—the political pendulum will swing wildly.

Europe, which is often underestimated as a coherent world power, is slowly becoming more strategic in that it sees the urgent need to be a competitor to China and the US. Important European institutions and think tanks, like Germany's BDI, have issued papers on how Europe can, for example, cope with the ascent of China as a world power. As a result, it will need to do several things: the first is to make the benefits of its social democratic philosophy or values clearer to its citizens, and the second is to boost its economic growth, which is anemic. The coronavirus crisis has helped with the former but exacerbated the latter. In more detail there is a greater appreciation on the part of Europe's citizens that its social welfare systems have supported them, but there has yet been little durable rebound in its economic activity with economic stimulus plans being enacted very slowly.

China's philosophy, or the Chinese Dream, is deeply ingrained in its history—something few in the West seem to bother to study. A few hundred years ago, China was the world's largest economy. In the present, it wants to regain that dominant economic position and, geopolitically, become the lynchpin of Asia. China has manifestly not permitted the coronavirus to derail its "Dream," even though components of it, such as the One Belt and Road Initiative, are now badly damaged in terms of reputation and funding (lending by the China Development Bank and the Export-Import Bank of China fell from a peak of $75 billion in 2016 to just $4 billion in 2020, for example).

Beyond the shock of the coronavirus crisis, China, or rather the Chinese Communist Party (CCP), desperately needs economic growth to sustain its part of the bargain with the Chinese people—where liberty is exchanged for stability. Unemployment and social unrest are the two biggest risks to the CCP, which internally has as many debates and factions as the Democrats or Tories, we just don't see or hear them. The big surprise in and for China is that the next ten years are not about growth but social policy—a rerun of Roosevelt's America, in the sense that its next phase of economic development may be accompanied by the building out of a comprehensive welfare system.

These philosophies or ways of doing things are diverging and point to a world of more friction. This will be exacerbated by scarcity—scarcity of economic growth and productivity—and by the constraints that high debt levels and severe climate damage place on policymakers' room for maneuver.

The makings of a multipolar world will be defined by the three large regions defining their sovereignty. China is moving aggressively to test and reinforce its sovereignty over Taiwan and Hong Kong and is both physically and legally testing its border with India. For example, there have been skirmishes between Chinese and Indian troops on the Himalayan border between the two countries, and Chinese fighter jets now regularly fly into Taiwanese airspace. In addition, we can expect the South China Sea to become the focal point as China augments naval bases and more forcefully polices what it believes are its territorial waters.

In Europe, the debate over sovereignty will likely focus less on enlargement of the Union, but rather its deepening and the transfer of greater powers to the Commission from individual countries, such as the way trade policy is now centralized. Two early signs of this are the challenging of the policies of the European Central Bank (and by extension the European Court of Justice) by the German Constitutional Court, and the agreement by eurozone nations to permit the EU to borrow in its own name and to impose taxes on digital transactions and carbon as envisaged in the EU's Recovery and Resilience program.

The shape of the multipolar world will also be determined by the economic policy response to the coronavirus crisis. As noted earlier, the economic shock from the coronavirus crisis has been speedy and severe because of these economic fault lines, and beyond the immediate rebound from this crisis, these fault lines will drive economic policy decisions, such as the size of economic stimulus packages. It would be much better that they are resolved collectively and collaboratively.

Debt is one area that deserves attention. Prior to the coronavirus crisis, the world's debt-to-GDP ratio was at a level matched in recent decades only in the aftermath of the Second World War.[3] It could now balloon toward the levels reached after the Napoleonic Wars.[4] At some point in the near economic future, this debt will congest the world economic system—what is required in the near term is an international framework that reclassifies new debt and reworks the rules surrounding which investors can hold different types of debt. The aim is to make the stock of world debt more tradeable and less of an encumbrance to balance sheets.

At the same time, there is an urgent need to speed the restructuring of corporate debt in the US and China. This will be easier to do under common bankruptcy rules, accounting norms, and business practices. That is to say that common frameworks for the treatment of investors in both countries will facilitate a speedier restructuring process, as opposed to one where international investors are unsure of their claims. However, the risk is that these practices are diverging rather than converging so that there is a siloing of regions and countries according to corporate governance and capital market approaches.

Indebtedness, like climate change, is just one area where governments decide to lumber on. This approach may succeed until, in several years' time, the burden becomes too much and there is a need to repeat the international debt obligation restructuring of the 1924 Dawes Plan. If this occurs, it will mark a pivotal moment in the path that international sovereignty takes. One of the trends associated with globalization is that it has spread a largely Anglo-Saxon approach to finance and corporate governance. A phase of large-scale debt restructuring could take place under a unified international approach, or it may occur in a way that deepens regional approaches to corporate governance, such as "Germanic capitalism," which, for example, focuses much more on long-term bank lending as a means of funding companies.

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3. *Global Debt Database*, INT'L MONETARY FUND, https://www.imf.org/external/datamapper/datasets/GDD (last visited Feb. 22, 2021).

4. A useful note from the Banque de France shows how debt levels in the U.K. and France rose toward 200 percent of GDP after the Napoleonic Wars. Jim Reid et al., *The History and Future of Debt*, DEUTSCHE BANK RSCH. (Sept. 23, 2019), https://www.dbresearch.com/servlet/reweb2.ReWEB;REWEBJSESSIONID=D3900B6D8A6E888EFFB3840B89114A7A?rwsite=RPS_EN-PROD&rwobj=REDisplay.Start.class&document=PROD0000000000500445#.

The coronavirus crisis is an appalling humanitarian issue. Economically, it serves to remind us that the world is becoming more fractured. The risk is that some of the remedies and policy methods applied make this fracturing greater, until at some point these schisms become overbearing and lead to more crises—such as a debt crisis—that then force a greater reckoning.