Deglobalization as a Global Challenge

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About the Author

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About the Global Economy Program

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China’s role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.
Executive Summary

The world is threatened by backlashes against globalization, or “deglobalization,” and, remarkably, these are particularly pronounced in the countries that drove the construction of an international order in the second half of the twentieth century. There are also attempts to build an alternative new “globalization 2.0,” which rely on infrastructure investment as a way of building trade and financial ties that circumvent previous linkages. This paper looks at the interrelations between moves toward trade protection, the limitations of movements of people, the regulation of capital flows and the attempts to restrict information access. Strains appear when the political institutions that are supposed to “manage” globalization, at either a national or a supranational level, cannot live up to expectations, and a cycle of disillusion and disenchantment sets in. The paper then considers how international governance might best work in the current circumstances — as a quasi-judicial process, as a provider of confidential advice about policy linkages and spillovers, as a public voice in a debate or as a manager of data openness.

The latter aspect, coordinating the availability of continually updated big data, may constitute the best response to the potential offered by a radically transformed technology of communications. It will also be important to frame this data in a common language, creating what the poet Goethe in the early nineteenth century termed “world literacy.”

Introduction

Radical doubts are gripping the global economy. The world appears to be wavering between two alternatives: either a wave of backlash and deglobalization, with nationalism and market segmentation, and national priorities set against “globalism”; or a transition to a very new kind of globalization, sometimes referred to as globalization 2.0. The Brexit referendum and the election of Donald Trump have brought a new style of politics. These developments constitute a major challenge to the liberal international order constructed after the defeat of Nazism in 1945 and strengthened after the collapse of the Soviet system between 1989 and 1991. While the United States and the United Kingdom were the main architects of the post-1945 order, with the creation of the United Nations system, they now appear to be pioneers in the reverse direction, steering an erratic, inconsistent — and domestically highly contested — course away from multilateralism. Robust defences of globalization come from elsewhere — from Canada, France, Germany and also from China.

Both globalization and deglobalization have, historically, been steered by particular great powers, and, inevitably, reflect something of their domestic political priorities. Creating globalization 1.0 in 1945 was interpreted by the US administration at the time as a way of internationalizing the policy priorities (notably full employment) of the New Deal, and locking them into place through international agreements and commitments that would be harder to unravel than domestic legislation.1 Now the United Kingdom — in the case of Brexit — and the United States — in the case of the Paris climate agreement — are committed to spend several years negotiating a “better deal.” Donald Trump’s key advisers — the people usually treated as “grown-ups” in an unpredictable administration — explained the background of the disastrous Taormina G7 summit: “The president embarked on his first foreign trip with a cleareyed outlook that the world is not a ‘global community’ but an arena where nations, nongovernmental actors and businesses engage and compete for advantage” (McMaster and Cohn 2017).

1 See Ikenberry (2000); see also Borgwardt (2007).
Globalization 2.0, by contrast, has a distinctly Chinese cast. The focus on large infrastructure projects in order to promote the vigorous economic integration of a large region raises rather different issues than populist-driven deglobalization. One of the features of previous globalization backlashes was a move to regionalism, regional security regimes and regional trading blocs. There is an analogy with the sudden movements of tectonic plates on the earth’s surface that produce earthquakes and tsunamis: the strains emerge most clearly in areas where the regional ambitions of great powers overlap.

Why and where is the backlash occurring? Is there anything worth defending about the old-style globalization, globalization 1.0? And, if so, how can and should it be defended? This paper suggests how the global framework can be readjusted in the light of geopolitical changes, and, in particular, as a way of thinking about how economic and social interactions are related to fundamental human values. The paper considers policies in respect to trade, migration, capital mobility, information, rules and underlying values.

The Challenge

In the face of new uncertainties and challenges, conventional wisdom is on the retreat. Defenders of globalization are hesitant. They try to sum up the multiple gains from the globalization of the past decades — in particular, the lifting of large numbers of people (especially in Asia) out of poverty. But they also almost universally now acknowledge that there have been many costs, and call for more effective mechanisms to compensate the losers of globalization (and of the technical change that is beginning to be seen as an increasingly more revolutionary influence in terms of job displacement). Christine Lagarde (2016), managing director of the International Monetary Fund (IMF), speaks of creating an “inclusive” global economy in order to counter anemic growth that has been “too low for too long, benefiting too few.” She added: “But as our ‘new mediocre’ is less acute, it is also more divisive and subtle than a full-blown crisis, and it could prove just as toxic as the recovery has so far proven elusive” (ibid.).

Compensating the losers of globalization may be a tough task, in that the current and future gains from globalization out of which the compensation would need to be paid may be quite small, and it is plausible to think of a diminishing marginal utility of globalization, with the big gains coming at the beginning and a gradual attenuation then setting in. By contrast, with time, both the scope and scale of globalization losses increases. If redistribution occurs in a national setting, the exercise becomes even more difficult because the factors of production are mobile. Taxes on capital would induce enterprises to move. But higher taxes on labour would also lead to highly productive and well-paid workers moving elsewhere. So unless there are limitations on some kinds of globalization, the compensation concept is hard.2

The problem today is that the negative sides (costs) of globalization are hard — perhaps impossible — to disentangle from the positive sides (gains). That may be why “globalization” over a long period of time has been subject to pendulum swings and backlashes. Periods of substantial integration — at the time of the Roman Empire, under the Pax Mongolica, which is now sometimes held up as the beginning of globalization (Findlay and O’Rourke 2008, 108), or the age of European explorations in the sixteenth century, or the eighteenth-century creation of the French and British empires, or the late-nineteenth-century so-called “first globalization” — have been followed by periods of disenchantment.

Those periods of backlash produce political innovation with the intent of “managing” deglobalization. Some of those innovations are still with us: in particular, it is sometimes suggested that the United States began with a globalization backlash — an eruption of protest against a global corporation (the East India Company) and the global British Empire. In other words, the Boston Tea Party is still with us.

At the outset, it is worth setting out an additional problem. Periods of intense globalization also involve the exchange of ideas, and they tend to be periods of very rapid technical advance. These, in turn, drive integration further: in the early modern period, the design of the Dutch ships (the fluyt); in the second half of the nineteenth century,

2 This point has been powerfully made by the German economist Gernot Müller.
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the steamship, the cable and then the electrical engine; in the late twentieth century, most fundamentally, information technology (IT). The link between openness and technical change through a transnational “republic of letters” has been recently placed by Joel Mokyr (2016) at the heart of the story of human progress. The technical changes lead to changes in living conditions — and to job losses as established trades become irrelevant — and a good deal of the literature is thus devoted to assessing what proportion of labour displacement may be attributed to technology rather than trade.

A difference in the sort of change might be noted. Technical innovation works with globalization, and is diffused by globalization, while political innovation often works to harness the effects of globalization and limit the extent of technical transfers, in short, to constrain globalization. Strains appear when political institutions that are supposed to “manage” globalization, at either a national or a supranational level, cannot live up to expectations, and a cycle of disillusion and disenchantment sets in. Politics confronts two challenges: at times it overpromises, and creates an excessive confidence in its ability to manage; and then it fails to live up to the expectations, and electorates look for radical new alternatives.

Thus, it is fundamentally no surprise — or it should be no surprise to the historically literate — that while the world economy currently looks quite dynamic, measures of political risk indicate great and indeed increasing strains.

Trade Flows

Trade has become again a sensitive element in the globalization debate. The past few months have provided some subtle verbal hints. The Group of Twenty (G20) finance ministers’ meeting in Baden-Baden in March 2017 dropped a part of the proposed communiqué that pledged resistance to trade protection, and in April the same debate with the same outcome occurred at the International Monetary and Financial Committee (IMFC) meeting. The communiqué read: “We reinforce our commitment to achieve strong, sustainable, balanced, inclusive, and job-rich growth. To this end, we will use all policy tools — monetary and fiscal policies, and structural reforms — both individually and collectively. We reaffirm our commitment to communicate policy stances clearly, avoid inward-looking policies, and preserve global financial stability” (IMFC 2017). The previous communiqué (October 2016) had included the phrasing, “We reaffirm our commitment to communicate policy stances clearly and resist all forms of protectionism. We will also redouble our commitment to maintain economic openness and reinvigorate global trade as a critical means to boost global growth” (IMFC 2016). In April 2017, a new clause, mobilizing against “global imbalances,” was substituted for the resisting protectionism sentence. Do these verbal skirmishes matter?

Mounting trade protectionism was the main element in the classic moments of deglobalization, in particular, in the waning of the so-called “first age” of globalization in the late nineteenth century. Before World War I, tariff protectionism was an important part of the coping mechanism — a sure way of protecting losers of globalization, while also ensuring that there were gains. Advanced countries (with the notable exception of the United Kingdom) set relatively high rates of industrial protection — highest in the United States — while those who were also colonial powers imposed low manufactured tariffs on colonial and semi-colonial territories (Findlay and O’Rourke 2008, 401).

In the interwar years, protection occurred on a larger scale, which then started to clearly undermine and erode the gains from globalization. For a long time, analysts were convinced that the Smoot-Hawley tariff was the decisive event that drove the world into depression, as countries reacted to protectionism elsewhere. That historical picture has largely been revised.3 Smoot-Hawley was a mistake, with some dramatic implications (for the Japanese silk industry), but by 1931 there were signs of recovery. In the aftermath of a worldwide contagious financial crisis in 1931, however, the world moved to limit trade with higher tariffs but also, increasingly, through restrictive quotas.

The 1930s brought recovery in some industrial countries, although it was often unsatisfactory, with poorer goods substituted for imported goods, and a lesson that was quite widely learned: that it was better to concentrate on import substitution in order to achieve effective

3 For the new standard interpretation, see Irwin (2011).
growth. The import protection strategy reduced competition in all countries, and increased the costs of development. It made sense, however, as a mechanism for restricting the impact of foreign-imposed monetary deflation.4

Because of the often very intensely localized impact of foreign trade, job losses are easily presented in stories about the disruptive impact of trade — then, as now. The Rust Belt of the United States includes some states that are central to the election process because they are narrowly contested: that magnifies their concerns about deindustrialization. In a similar way, areas of Britain that were shocked by trade with China voted for Brexit, presumably thinking that a post-EU United Kingdom could handle its trade policies more aggressively (even though many proponents of Brexit insisted that they wanted a more “global Britain”) (Colantone and Stanig 2016; see also Autor, Dorn and Hanson 2013). In France, the emotional highpoint of the 2017 presidential election campaign was a clash between patriots and globalists at a factory in Amiens, where Marine Le Pen, leader of the National Front party, had come to promise assistance to workers threatened by job losses as household equipment production moved to Poland.

Today, the debate about trade protectionism looks as important as it was in previous periods of deglobalization, but the implementation may well play a lesser role. The words are likely to be hotter and tougher than the actions. There are many aggressive trade strategists in the Trump administration, from Commerce Secretary Wilbur Ross to the head of the new National Trade Council, Peter Navarro, author of a book entitled *Death by China*. The president has often expressed a vigorous sympathy for this case.

But so far, at least, the trade conflicts on the part of the US administration are coming in unlikely areas — not with China or Mexico, which were rhetorically targeted in the election campaign, but against Canada and South Korea. Why? The paper and pulp producers who face Canadian competition are geographically concentrated, and can mount a powerful campaign. But the first countries targeted are also more vulnerable members of the international system and, in consequence, trade deals are a less important bargaining chip. The further most likely outcomes of US anti-trade rhetoric are measures to penalize particular sectors, for instance, German automobile exports.

First — and the most obvious reason why large-scale trade wars are likely to develop immediately — the costs for would-be trade warriors are high. In particular, if the social problem that is being addressed is the increased inequality in industrial countries, trade is a remedy rather than a cause. There is substantial evidence that the gains from trade are greatest for poorer consumers (Costinot and Rodriguez-Clare 2014; Fajgelbaum and Khandelwal 2016). Or, put more simply, many poor people in industrial countries have become hooked on cheap imports — from T-shirts to iPhones to low-cost food.

Second, trade between specialized and clustered providers of niche goods is the hallmark of modern globalization, as opposed to the nineteenth-century version, which was principally an exchange of commodities against manufactured goods. The modern economy is driven as much by cheap information flows as by the ability to move goods cheaply, as Richard Baldwin (2016) has recently demonstrated.

Third, substantial job losses have already occurred, and are unlikely to be reversed by changing trade patterns. It is not easy to “protect the losers” any more. Many of the jobs have already disappeared. For instance, in steel, 140,000 jobs are left in the United States, while there are 4.7 million steelworkers in China. Marine Le Pen focused on the loss of textile jobs in northern France: in Calais, when, in 2005, the European Union abolished textile import quotas, there were 30,000 jobs in lace-making producing luxury products for the elite. Today, there are only a few thousand lace workers, but teenagers all over Europe wear cheap lace products made in Asia or eastern Europe.

There is a possibility that the complex global value chains that constitute the modern trading environment (as opposed to the classical exchange of manufactured goods for raw materials) may be constantly tweaked, adjusted and even shortened: fashion shifts and just-in-time technology make long-distance transport less desirable, and some part of the oft-remarked slowing down of global trade after 2012 may be due to this effect, rather than to the bite of a new protectionism.

But trade in goods covers a shrinking proportion of economic activity. We are more dependent

4 The case was made classically by Lewis (1949).
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The critical issue is services — and who provides them. Services are more heavily protected. They can be internationalized in some cases — paralegal work, many medical services (for example, radiology) — but not in others (for example, tourism and hospitality). That is why the most realistic and, incidentally, also the most optimistic scenarios on how to avoid anti-globalization populist backlashes focus on improving the quality and provision of a wider array of services.

Migration: Flows of People

Migration flows raise questions of cultural incompatibility. As in the case of trade, the arguments are not new. Before World War I, the great German scholar Max Weber delivered a stunning argument about why globalization was flawed: it led to gains by culturally inferior people. Weber’s first major work, which brought him to this conclusion, was the study of Polish agricultural workers flooding into eastern Germany.

Migration has been a critical issue in the Brexit campaign, in the election of Donald Trump and in continental Europe. It was the apparently uncontrolled wave of immigration in 2015 that did the greatest damage to Angela Merkel’s reputation in Germany — and that was then used elsewhere, and especially in France, to turn populism into a powerful anti-German brand. Conversely, the peculiar fact that Japan is almost unique among industrial countries in not having a populist insurgency may be closely related to the virtual absence of immigration (although there is a tradition of populism in Canada, including the recent Reform Party of Canada, it is also absent from the current wave of populist responses to the financial crisis, perhaps as the result of the limited Canadian effects of the crisis because of resilient Canadian institutions). Will China experience the same effect — or will an anti-immigration backlash emerge that is targeted against the “greater China diaspora” who return to the People’s Republic of China?

The migration debate links two elements — first, fear of a loss of jobs (to the “Polish plumber”) and income reductions and, second, the fear of increased welfare costs — to older and deeper arguments about cultural difference. The arguments are intertwined, and critics of immigration point out that migrants strain the infrastructure — transport, housing, health provision — while injecting an alien and menacing culture. In Europe, the attention has focused on Islamicization.

Unlike trade, the distributive effects of large-scale immigration fall most heavily on the poor and unskilled. Their incomes are eroded by competition, while the shift in price between skilled and unskilled labour benefits the well-off, who gain, in particular, from the cheaper provision of a multitude of household services (such as cleaning, childcare, care for the elderly and lawn mowing).

Skilled immigration may produce general welfare gains — although particular groups (such as doctors, engineers and architects) will try to protect their incomes by making it expensive to qualify for practice in a new country.

While trade wars are less likely, migration wars take up more profound cultural themes — and are likely to drive today’s globalization backlash.

Capital Flows

Capital flows have always appeared to be the Achilles heel of globalization. They are prone to dramatic reversals, or sudden stops. The most recent sudden stop, the Asian Financial Crisis of 1997-1998, was a turning point in the debate about global economic governance, and helped to induce many emerging market economies, especially in Asia, to self-insure by building up reserves. It also prompted a greater caution about capital market openness.

There are many clear benefits that follow from capital flows. They increase when there is more human capital in the receiving countries, and when there is greater financial openness, but there are also great dangers where the financial institutional
framework is underdeveloped (Prasad et al. 2003; Dell’Ariccia et al. 2008). But there are also risks.

The major historical episodes of deglobalization have occurred in the wake of major capital market crises. While the Great Depression, and particularly the contagious financial crisis of 1931, is well known, the panic of 1907, which started in the United States but had worldwide repercussions, is much less well analyzed. In particular, it shows how financial crises may lead to a reorientation of thinking. The panic of 1907 focused attention on how global vulnerabilities were exacerbated because of the dependence on a UK-centred financial system; 2008 brought the same degree of attention to the US-centred system.

When capital moves easily, it looks international and anonymous; when capital retreats, people become highly sensitive to whose capital — and whose interests — is driving the process. Since 2008, there has been a partial renationalization of finance, driven, in particular, by regulation concerns. Along with the treatment of residence issues (that is, migration), the most explosive issues between the United Kingdom and the European Union in the Brexit negotiations are likely to concern financial services. Even before the Brexit vote, the European Union was sharpening its approach to the doctrine of equivalence, in which institutions regulated in an equivalent regime were permitted to be active in the European Union. The move to lighter regulation in the United States with the revision of the Dodd-Frank framework is also pushing the European Union to exclude what it regards as dangerously or unfairly regulated foreign institutions.

Nevertheless, there has been agreement in the major recent international meetings about quite detailed specifics on continued cooperation in regard to financial regulation. In March 2017, the G20 finance ministers agreed in Baden-Baden to “recognise the importance and benefits of open capital markets and of improving the system underpinning international capital flows while continuing to enhance the monitoring of capital flows and management of risks stemming from excessive capital flow volatility” (G20 Finance Ministers and Central Bank Governors 2017). They reiterated a “commitment to support the timely, full and consistent implementation and finalisation of the agreed G20 financial sector reform agenda” (ibid.). At the otherwise contentious G7 summit in Taormina, the leaders of the major industrial countries, including US President Donald Trump, agreed to “commit to tackling all forms of corruption and tax evasion, as a means of reinforcing public trust in governments and fostering sustainable global growth” (G7 Leaders 2017). While some may see these statements as little more than a routine invocation, they also lay the basis for a concrete cooperation that could have precise consequences, as obscure tax practices in major countries are brought to light and to justice.

Information Flows

The discussion of financial flows is particularly sensitive because it is linked to information — financial information lays open the structure of an economy, and its capacity to influence international politics. In the immediate aftermath of the 2008 financial crisis, financial institutions were often termed weapons of mass destruction; it is only more recently that information is seen as the true weapon — or the best instrument for the application of national power.

The data that connects the information economy depends on complex software and interaction systems managed by large and almost exclusively US corporations: Google, Microsoft, Facebook or even Amazon, as well as by (again mostly US) telecom firms (Sprint and Verizon). The Edward Snowden leaks about the National Security Agency have shed a light on how global networks are used as a source of intelligence and power. The new information fed into a long-established critique of the international financial system in Russia and China that saw the dollar as an instrument of American power, and a fear of the implications of American financial sanctions.

One obvious answer is to develop alternative networks — as Americans and Germans did then — in order to stem the leak of information. For China, Baidu is an obvious alternative to Google, as Alibaba is to Amazon; Russia has VK.com as a rival to Facebook. Alternative systems of information management may become a way of dividing the world into new blocs that can no longer communicate easily with each other.
Rules and Legitimacy

Capital market difficulties raise the question of coordination and rules. Who makes the rules on which the interconnected system depends? And who ensures that they are beneficial to all? Nineteenth-century globalization was built on a largely British set of rules — including court decisions about debt claims. In the second half of the twentieth century, by contrast, the United States was at the centre of currency arrangements and the ultimate defender of the multilateral system.

Donald Trump is the first president to openly address the question of the decline of the United States. The withdrawal of the United States from the Paris Agreement has raised, in an acute form, the non-American future of international governance.

How destructive can declining hegemons be? It might be thought that the long decline of Britain was not particularly destructive, and the systemic dangers came from the competition to replace Britain, and from the neurosis of rising powers, not from the blasé weariness of declining hegemons. The really high risks came mostly from other countries (notably Germany) competing to replace Britain.

Can the United States be replaced by a new leadership, and what would it take for this to happen? China and Europe — or, more accurately, Germany — now see themselves cast, perhaps reluctantly and hesitantly, as the new defenders of a global order. China and Germany are increasingly aligned on climate change issues, where President Trump’s emphasis on coal appears obstructive and destructive. There is a clear Chinese-German alliance building on resistance to trade protectionism as an exercise in locking oneself in a dark room, a Chinese phrase that Chancellor Angela Merkel singled out as “very memorable” (Donahue 2017). Chinese President Xi Jinping (2017) has been particularly forceful, stating in Davos that, “From the historical perspective, economic globalization resulted from growing social productivity, and is a natural outcome of scientific and technological progress, not something created by any individuals or any countries. Economic globalization has powered global growth and facilitated movement of goods and capital, advances in science, technology and civilization, and interactions among peoples.”

The German media at times call on Germany to replace the United States, and to fill the void left after January 2017. The New York Times responded to the election with an article under the headline, “As Obama Exits World Stage, Angela Merkel May Be the Liberal West’s Last Defender” (Smale and Erlanger 2016). The clearest recent statement by the German Chancellor was in her budget speech on November 23, 2016, when she emphasized that increasing globalization created a greater need to act collectively, and that Germany could not on its own “fight the whole problem of worldwide hunger, solve the issue of 65 million refugees, or change political order everywhere in the sense that we would like.” But Merkel added that Germany should try to shape globalization in the light of its experience with the social market economy in a multilateral setting, and should not “withdraw.” In particular, “the G20 was the attempt to shape globalization in a human way and to provide for a sensible financial and economic order with the largest and most important economic powers of the world.” German leaders have also started to make a case that Germany can promote globalization in the absence of a United States that is less engaged (as it is — and has been — a less open economy, because of its size).

Germany is not well placed to act as a hegemon: it is too small. China is triply vulnerable. Its relatively underdeveloped and partially protected financial sector is crisis-prone. The large infrastructure initiative (New Silk Road) creates a problem of dependence in the areas opened up by the new Chinese communications thrust. Finally, there is a worry about democratic control; the lack of democracy has been at the heart of anti-globalization critiques of multilateralism in rich countries.

5 See, for example, Kurbjuweit (2016).
7 Ibid.
8 See Jacoby and Meunier (2010).
Managing Globalization

Managing globalization — and staving off destructive deglobalization — requires institutions that work to the general benefit, not to the advantage of one powerful (or, even worse, one declining) country. Part of the lack of legitimacy of the League of Nations in the interwar era lay in the fact that its thinking was dominated by Britons who saw it as a way to save British influence on the cheap. That perception lay behind its inability to respond to both security crises and financial crises in 1931, when the Japanese invasion of Manchuria and the Central European financial crisis rocked the boat of internationalism simultaneously.

At the inaugural session of the Bretton Woods international monetary conference, US Treasury Secretary Henry Morgenthau had propounded a vision: “I hope that this Conference will focus its attention upon two elementary economic axioms. The first of these is this: that prosperity has no fixed limits. It is not a finite substance to be diminished by division. On the contrary, the more of it that other nations enjoy, the more each nation will have for itself.... The second axiom is a corollary of the first. Prosperity, like peace, is indivisible. We cannot afford to have it scattered here or there among the fortunate or to enjoy it at the expense of others.”

The French language uses the word globaliser, but it has a rather different meaning (when French people speak of globalization, they generally use the term mondialisation). Globaliser in French means to establish linkages between different issue areas: between, for instance, security and economics or, more generally, between the assessment of different kinds of risks. At the end of World War II, in designing a new order for the peace, the United Nations and the economic institutions were designed with a deliberate symmetry: the five most powerful states were the five permanent members of the UN Security Council, but also had the five largest quotas, and permanent seats, in the World Bank and the IMF; but then the systems moved apart, as the Soviet Union never ratified the Bretton Woods agreements, and as the Communist revolution left at first the small Republic of China (Taiwan) as the holder of the IMF seat. As a consequence, neither the Soviet Union nor China was initially included in the Bretton Woods institutions, although the Soviet Union was a member of the United Nations.

The vision of 1944-1945 was all about issue linkage, but then the economic and political issues became separated. The result is that they are harder — or impossible — to solve. It is time to revive the spirit that prevailed after the end of World War II, and devise institutional settlement that not only provides the technical means to minimize the impact of financial crises, but also brings countries together in a more general agreement about shared ways of proceeding.

There are three distinct ways in which multilateral governance institutions have historically operated. The first, and probably initially most attractive — but also most uncertain in terms of its legal status — is a judicial or quasi-judicial role in arbitrating disputes between countries. There are many cases that look as if they require arbitration: trade disputes, or — often associated with trade disputes — debates about whether currencies are unfairly valued so as to produce a subsidy for exporters.

The new emphasis on sovereignty in the United Kingdom, and elsewhere in Europe where “sovereignists” confront “globalists,” pushes back against this type of arbitration. In the past, the United States used the World Trade Organization (WTO) dispute settlement mechanism as an explanation of why trade had to remain open: George W. Bush imposed a 30 percent steel tariff; in 2003. the WTO ruled against it, and the imposition was lifted.

Currency misalignment was a much more difficult issue for international settlement, and in the most important cases — with Japan in the 1980s or with China in the 2000s — the IMF backed away from formal declarations that a currency was deliberately undervalued.

The second style of multilateralism involved institutions acting as sources of private advice to governments on policy consistency and on the interplay between policy in one country and those in the rest of the world: explaining and analyzing feedbacks and spillovers, and offering policy alternatives. That sort of consultation — rather than a formal arbitration procedure — was the main vehicle for discussion of currency undervaluation issues in the 2000s.

The essence of this kind of advice is that it is private. It is like speaking with a priest in the confessional. The outcome may be that behaviour or policy changes, but the outside
world will not really understand the reason why or the logic that compels better behaviour.

The third is as a public persuader with a public mission. British Prime Minister Gordon Brown liked to use the phrase “ruthless truth-telling” or “speaking truth to power” with regard to the advice of multilateral institutions. There is an increasing recognition of the limits of secret diplomacy and behind-the-scenes advice. Societies cannot be moved unless there is a genuine consensus that they are moving in the right direction. The backlash against globalization is fed by a climate of suspicion: experts, economists and international institutions are not trusted. In the course of the 2000s, the G20 and the IMF moved to public assessments of how policy spillovers affected the world.

This third style of action looks more appropriate than the secretive processes of the second in an age of transparency, when IT looks less secure, when secrets leak and when WikiLeaks flourish. Now it is unwise to assume that anything is secret. Former diplomats publish indiscreet memoirs. Officials tweet about what they are doing. The accessibility of information opens a fundamental dilemma. Policy advice is invariably quite complicated. Spillovers and feedbacks require a great deal of analysis and explanation, and cannot easily be reduced to simple formulations.

Should international institutions be more like judges, or priests or psychoanalysts, or persuaders? On their own and by themselves, the traditional roles are no longer credible. But multilateral institutions will also find it impossible to take on all three roles at the same time. Judges do not usually need to embark on long explanations as to why their rulings are correct. If they just act as persuaders, maintaining a hyperactive tweeting account, they will merely look self-interested and lose credibility. But if the judges are secret — such as the World Bank’s International Centre for Settlement of Investment Disputes — they may be more efficient (as measured by the gains arising out of their rulings), but they will lose legitimacy.

It is easy to see why the institutions that successfully built the stability of the post-1945 order might be despondent in the face of apparently insuperable challenges. But there is a way out that harnesses the new technologies, and that allows for a successful mediation of disputes that threaten to divide but also to impoverish the world.

The post-crisis world is one in which ever larger and more updated amounts of data are available. In the past, it was months or years before accurate assessments of the volume of economic activity or of trade could be concluded. Now real-time data on a much broader set of measurable outcomes is available. Some analysts, such as the Israeli historian Yuval Noah Harari, see data as a new religion. Managing and publishing that data in accessible and intelligible ways can be a critical way of forming the debate about the future and about the way individuals, societies and nations interact. Instead of a judge, multilateral institutions can become purveyors of the costs and benefits of alternative policies. They need to work on ways of letting data speak.

Values

Data speaking on its own will, however, not hold the world together. In his great television debate with Marine Le Pen, Emmanuel Macron spoke of France being engulfed for the past 20 years in a deep moral crisis. There is a need for a common language in which to discuss that data: in short, how to frame the facts.

The search for that language has been a long-standing preoccupation. At the beginning of the modern adventure in globalization, and toward the end of his own life, Goethe recorded his thoughts on a world ethos. In 1827 he said, “If we Germans do not look out of the narrow circle of our own environment, we will too easily get into a pedantic conceit. I therefore like to look at foreign nations and advise everyone to do it on their own. National literature does not say much by itself; the epoch of world literacy is now, and everyone must now work to speed on this epoch.”

Are there universal human values on which an effective international system can be based? In making the postwar order, there was exactly this striving to find something genuinely universal. The UN Universal Declaration on Human Rights

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9 See http://gutenberg.spiegel.de/buch/-1912/80 (author’s translation).
was born of exactly such an effort. Article 1 states that “All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.” The crucial impetus for this remarkable passage was given by the Confucian scholar P. C. Chang, who especially insisted on the insertion of “conscience.” Chang drew on Chinese tradition, in particular on Mencius: “As far as what is genuinely in him is concerned, a man is capable of becoming good. As for his becoming bad, that is not the fault of his native endowment” (Twiss 2008).

The vision that underlay that order disintegrated in the late-twentieth-century wave of globalization. By the end of the twentieth century, a juxtaposition framed the debate between the over-individualistic “Western” version and the “Asian” alternative, in which trust, community and solidarity played a much bigger part. In 2009, in the immediate aftermath of the financial crisis, the governor of the People’s Bank of China, Zhou Xiaochuan (2009), in a frontal attack on American hegemony, emphasized the importance of Confucianism, which values “thrift, self-discipline, Middle Ground and anti-extravagancy.” Today, there may be a wider recognition of the centrality of a principle of sustainability. Humanity’s relation with nature and the environment, and this generation’s obligations to future generations as a way of repaying its debt to the past, to its ancestors, are the basis of a sensibility with which data and facts should be considered.

**Author’s Note**

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**Works Cited**


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