

Globalization in our times. An ebb, or pause, or the end?

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Abstract

Globalization in our times, which gathered momentum from 1980, has been confronted with mounting economic problems and political challenges. Three decades later, by 2010, the smooth sail of globalization had already been disrupted by the global financial crisis and the Great Recession. Its crises have become progressively more acute since then. The underlying causes were largely economic but the consequences are also political, revealing striking parallels with the world that existed a century earlier. And there is much that we can learn from history. The past and the present both suggest that this epoch of globalization might be nearing its end.

The present era of globalization, which gathered momentum from 1980, has created unparalleled opportunities and posed unprecedented challenges. In just over four decades, there has been a dramatic transformation in both perceptions and realities of the process and its outcomes. To begin with, for the ideologues, markets and globalization were perceived as a *mantra*, if not a magic wand, that could lead the world into a golden age of prosperity. So much so that Francis Fukuyama described it as 'The End of History'. The advance of markets was matched by a retreat of the State across the world. But this did not last long. By 2010, the smooth sail globalization was disrupted. The following decade belied expectations of the ideologues, as unfolding reality revealed mounting economic problems and formidable political challenges. Globalization is now under stress and at risk. So much so that, in late 2023, *The Economist* cover story asked the question 'Are Free Markets History?', as it lamented the rise of homeland economics.

In the economic sphere, this era of globalization witnessed rapidly rising income inequalities among people, while the distribution of wealth became even more unequal. The income gap between rich and poor countries widened. In sum, the prosperity created by globalization was captured by a few excluding the many, leading those excluded to voice their discontents with globalization. The global economic crisis in 2008, precipitated by financial liberalization led to a contraction in international trade and investment flows, combined with a volatility in capital flows, while the Great Recession that followed led to a sharp slowdown in economic growth. Yet, governments sought to focus on balancing budgets and managing inflation, at the expense of both output and employment, accentuating the difficulties of those excluded. Such macroeconomic policies were shaped by globalization, as governments were sensitive to perceptions in international financial markets.

The political consequences were no surprise. Economies might have become global but politics remained national. There was a political backlash in the form of resurgent nationalisms riding on populist or chauvinist sentiments. In industrialized countries,

nationalist-populist political parties, or xenophobic populist leaders, exploited fears about openness in immigration and trade as a threat to jobs. In developing countries, nationalist-populist political leaders exploited economic inequalities, social divides, and ethnic or religious identities, to challenge or oust incumbent governments. It would seem that such political parties or leaders from outside the mainstream captured the political space created by unequal outcomes and social discontents associated with globalization.

This has been associated with a widespread resurgence of nationalisms. In the West, nationalist conservative political parties are in office as governments, or a part of coalition governments, or close contestants for political power in elections to come. Similarly, in a significant number of countries in the Global South, populist authoritarian political parties or leaders, often elected through a democratic process, articulate their strong belief in nationalism. Inevitably, such political ideologies stress their perception of national interest, sometimes associated with militarism, empowering governments. In doing so, they often erode the autonomy of institutions and freedoms of citizens. It is no surprise that such governments also shun the idea of international collective action, for it is perceived as ceding space in terms of national sovereignty. Yet, such cooperation between countries is both necessary and desirable to preserve *global public goods* such as peace, environment, or human health, and regulate *global public bads* such as wars, environmental degradation, or pandemics.

The changing international context has injected a new political challenge. Globalization has always required a hegemon to set the rules of the game and ensure conformity by players. This role was performed by the United States. However, the economic resurgence of Asia, particularly China, juxtaposed with the aftermath of the global economic crisis, both attributable partly to globalization, have eroded its economic dominance and political hegemony. And, the United States, almost in a withdrawal syndrome, seems to be relinquishing its political leadership role in the world. Russia, not quite a USSR, strives for a seat at the high-table. More importantly, there is a pronounced shift in the balance of economic power, from the West to Asia, and from the United States to China that now seeks superpower status. However, there is no country, yet, that could replace the United States as the hegemon.

By 2020, an uncertain future for globalization already loomed large on the horizon. But more was to come. A novel coronavirus emerged from China, surfaced in different parts of the world in early 2020, as international travel rapidly transformed it into a global pandemic. It prompted repeated and prolonged lockdowns everywhere, which shut down economic activities – manufacturing and services – leading to a sharp contraction in output and employment across countries. This meant a serious disruption in integrated global production networks. Just-in-time production systems were paralyzed, as intermediates and components made in China or East Asia were no longer available. International trade and investment flows were inevitably stifled, while draconian restrictions on cross-border movements of people, stalled the rhythm of globalization.

The situation might have improved in early 2022. But that was thwarted by the Russia-Ukraine war, which disrupted global supply-chains, particularly in food and fuels. Russia and Ukraine together are an important source of supply for wheat, maize and edible oils in the world market, while Russia is a primary source of oil and natural gas.

This led to double-digit inflation that hurt the poor and the vulnerable everywhere. The Israel-Hamas conflict that has erupted on both sides of the Gaza Strip, could escalate into a larger war and shatter the fragile peace in the Middle East. These wars might be localized but the continuing conflict has created global ripples. It has also accentuated uncertainty and risk in economics and politics, making markets nervous, constituting another body blow to globalization.

What is more, the world is in a state of flux. Economies are going through difficult times, if not crises. Politics within countries is contentious. The geo-political divides are visible and sharper than they have been for decades. International relations are strained. And there are several flashpoints. It would seem that our world in the third decade of the 21st century presents a picture which has striking similarities with the world that existed a century earlier. The potential implications are worrisome.

The preceding era of globalization, 1870-1914, which seemed unstoppable at the time, was brought to an abrupt end by World War I. In 1918, when the war ended, soldiers returning home from Europe transformed the Spanish Flu into a worldwide pandemic that cost 50 million lives. Even as the United States entered the roaring 1920s, Europe struggled with problems of reconstruction, slow growth and hyperinflation. Economic inequalities between and within countries rose. Mussolini captured power in Italy. Unequal terms in the Treaty of Versailles, required Germany to pay financial reparations, disarm, lose territory, and give up all its colonies. This peace, enforced by war, did have its economic and political consequences. By 1930, the Nazis were the second largest political party in Germany and, in 1933, Hitler was appointed Chancellor. Both Mussolini and Hitler rapidly transformed dictatorship into fascism.

In October 1929, the Great Crash in stock markets of the United States led into the Great Depression, which spread worldwide and persisted through the 1930s. Economic nationalisms surged almost everywhere as countries adopted 'beggar-thy-neighbour' policies, restricting imports to protect domestic output and employment. Economic troubles led to political churns that spurred nationalism and militarism across countries, particularly in Germany, Japan and Italy. Indeed, Germany and Japan, rising powers that were latecomers to industrialization and empire, aspired to a larger role in a world dominated by Great Britain and the United States, as it was in transition from *Pax Britannica* to *Pax Americana*. In this quest, during the late 1930s, Germany pushed Europe closer to war, which was declared in September 1939. Japan did so in December 1941, when it attacked the United States and the British Empire in Asia.

There are striking similarities between this past and our present. The financial crisis of 2008 spread worldwide through contagion. The Great Recession followed in its aftermath. The slowdown in growth unleashed protectionisms, disrupting the smooth sail of globalization. Inequalities in the distribution of income and wealth between people within countries, as also between rich and poor people in the world, increased rapidly since 2000. Slow growth, persistent inflation, and unemployment (much higher for youth), have accentuated discontents among people. The Coronavirus pandemic led to a serious disruption in integrated global production networks. Large international firms are contemplating relocating or dispensing with offshore production, as an insurance against shortages or disruption, reinventing established business models. Governments, worried about global risks, are in search of national economic security

or strategic autonomy to reduce dependence on the outside world. The present era of globalization, which seemed unstoppable fifteen years ago, is under stress and at risk.

History suggests that globalization has always been a fragile process. It has come to an abrupt or unexpected end thrice during the past millennium. The underlying processes were embedded in the consequences of globalization, ranging from the spread of pandemics to economic or political conflict between winners and losers, whether countries or people. The earliest wave of globalization in the Mongol Empire (1240-1350), *Pax Mongolica*, ended in the mid-14th century when plague germs carried from Central Asia to Europe culminated in the Black Death which killed one-third the population of Europe. The next wave of globalization in the *Age of Mercantilism* (1520-1780), which began life with the Voyages of Discovery, ended circa 1810, with conflict culminating in the Napoleonic Wars. The third wave of globalization, during the era that Eric Hobsbawm describes as the *Age of Empire*, ended in 1914 with a World War.

It is clear that globalization in our times is confronted with multiple crisis and faces an uncertain future. The rich industrialized countries – United States, Western Europe and Japan – and their large international firms, which praised open world markets for international trade, investment and finance, now seek to revive industrial and trade policies driven by concerns about unemployment at home, trade deficits with China, and immigration from countries in the Global South. At the same time, the political consequences of globalization have unleashed resurgent nationalisms and empowered nation states.

It is clearly not the end of history. It is not the end of geography either. In my view, the crisis in globalization is more than a slowdown or an ebb. Even if it is impossible to predict what the trigger might be, it seems to me that our epoch of globalization could be nearing its end. History does not repeat itself. But, as Mark Twain once said, it does often rhyme. And it would be wise to learn from history.

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