

DEGLOBALISATION IN A MULTI- POLAR WORLD

The world economy is contracting and states are trying to save and protect national companies. Companies are tending to retreat to their regions of origin. This could be the beginning of a new multi-polar world order.

Do companies still have home countries?

For thirty years the bearing idea in the West has been that the state should step back and make room for the market forces. The state has been characterised as a dinosaur, constantly outshone by the flexible, rational market. Regulation simply impedes the progress of the market towards the optimal solution.

The evolution of this view was made easier by the fall of the Wall in 1989. The collapse of communism seemed to show that planning – the more central, the more dangerous – led to ineffective-

ness and inflexibility. Neoliberalism was also given ammunition by thinkers who from different standpoints questioned social engineering.¹ If the critique of reason in post-modernism was correct, then planning was an impossibility anyway.

There have been many variations on this theme. The nation-state is said to have had its day in the global economy. Companies no longer have home countries, it has been said, since both ownership

¹⁾ See for example Zygmunt Bauman, *Modernity and the Holocaust*, 1989.

and production are international. To an increasing degree, saying that a car is manufactured in a certain country means that components from all over the world are assembled there.

However, in 2007–2008 another Wall fell – Wall Street. On the home turf of the market economy – the USA – the state has stabilised the financial sector with massive cash infusions and has in effect nationalised companies. Prior to that, the economy was upheld by household consumption, which was largely based on indebtedness. Now, households are saving, but the state is running up huge deficits to stimulate the economy. One could also call it the nationalisation of indebtedness.

The state has received a new mandate as a regulatory body. It is not only because of the crisis. Behavioural scientists have questioned the image of the rationally choosing individual. People need the support of institutions – one of which is the state – to be able to deal with the options, say Richard Thaler and Cass Sunstein in the book *Nudge* (2008). Significantly, Sunstein was recently appointed by Barack Obama as Administrator of the Office of Information and Regulatory Affairs, aka the “regulation czar”.

The visible hand of the state

China’s development too gives cause for renewed reflection on the role of the state in the economy. Several of the Chinese state companies that ten years ago were considered doomed are today major international players. Successful state companies are showcased as the cornerstones of a “socialist market economy”. In Paris last February, at the Glasshouse Forum seminar “Is

there a China model?”, Zhiyuan Cui from Tsinghua University in Beijing asserted that strong state companies do not preclude the development of the private sector.² Profitable state companies enable lower taxation and reduced public indebtedness, which also provides favourable conditions for business. As has been shown by among others Yasheng Huang in his book *Capitalism with Chinese Characteristics* (2008), the role of entrepreneurship has been overestimated in China. The state has constantly played a proactive role, and this has been reinforced in recent years.

State capitalism, in which the state is the leading economic player and uses the markets mainly for political gain, is taking an increasingly dominant role at global level.

The developing countries that have not followed the recommendations of the Washington Consensus to deregulate and downsize the state have fared better. The position of the state perhaps also gives better prospects of handling the crisis. Wei-Wei Zhang at the Centre for Asian Studies in Geneva and Fudan University in Shanghai stated at the Glasshouse Forum seminar that China would be the first major economy to emerge from the crisis. When Chinese exports drastically slumped, many were quick to reject the notion of decoupling – that Asia, and above all China, generated so much of its own drive that it was no longer so dependent on the economic cycle in the West. However, as the Chinese economy is gaining momentum after the enormous economic stimulus package, increasing numbers are begin-

ning to feel that there is something in decoupling (see *Financial Times*, 11 June 2009, “Decoupling gains new group of cheerleaders”).

Naturally, they want to maximise the return, but that can be political as well as economic.

As Ian Bremmer has pointed out in his essay “State Capitalism Comes of Age” in *Foreign Affairs* (May/June 2009) the state’s strong hand in the economy signals a strategic rejection of the free market doctrine. State capitalism, in which the state is the leading economic player and uses the markets mainly for political gain, is taking an increasingly dominant role at global level. Governments own the biggest oil companies and control three-quarters of the world’s energy resources. Sovereign wealth funds represent one-eighth of global investments today. Through the crisis, their net value had fallen to USD 3 trillion in 2008, but that is more than all the world’s hedge funds combined. The value of sovereign wealth funds is estimated to increase to USD 15 trillion by 2015. Naturally, they want to maximise the return, but that can be political as well as economic. Such systems can strive in a long-term perspective for political and economic growth.³

State capitalism and deglobalisation

Previously, we have experienced deglobalisation once in Europe: when it replaced internationalisation before the First World War. It was intertwined with the first and second world wars. There is nothing to say that deglobalisation must

have such destructive consequences. Then, the Western world was predominant, whereas today we seem to be heading for a multi-polar situation. What shape will possible deglobalisation take in a multi-polar world? When the West faces powerful state players who incorporate a political agenda in their economic doings, is it not necessary to respond with a similar pooling of resources?

Politicians automatically say that they will divest themselves of the companies they have nationalised as soon as possible, but if one does not acknowledge the dichotomy between incompetent state and smart market, there need be no such deadline. As Daniel W. Drezner points out in his report for Glasshouse Forum *Alphabet Soup: The Political Economy of the Great Recession*, interventions create their vested interests wanting to retain ownership.⁴ Obama’s administration seems to find it increasingly expedient to have greater control over Fannie Mae and Freddie Mac.

There is also a basis for evaluating the privatisations that have been carried out in the West, for example in energy, transport, schools and health-care. An example: in *La trahison des économistes* (2008), the French economist Jean-Luc Gréau points out that the deregulation of the US energy market has actually brought *higher* prices and

2) See Glasshouse Forum’s website, http://www.glasshouseforum.org/news_film_chinamodel_teaser.html

3) In his report for Glasshouse Forum, *White Whale or Red Herring? – Assessing Sovereign Wealth Funds*, Daniel W. Drezner found no examples to date of their being steered by a political agenda.

4) The report is presented in this issue of *LookingGlass*, see page 6.

that when dealing with competing companies, consumers are in a weaker negotiating position than when dealing with a state monopoly. The European Commission has also decided to investigate the electricity market now that it has become apparent how deep dissatisfaction runs among consumers (*Financial Times*, “Brussels to probe electricity market”, 1 February 2009).

Public purpose or private profit?

Even though the left and right with combined efforts have both conjured up the image of a state in retreat, that is not what has been happening in the last 30 years. The state still exists, at roughly the same size; what has changed is the *way* in which it exists. State intervention is not always identical to public purpose.

The USA is characterised by a discrepancy between image and reality that is reminiscent of the East European communist states, says economist James K Galbraith in the book *The Predator State – How Conservatives Abandoned the Free Market and Why Liberals Should Too* (2008). The ideology of the US right has long since become a myth; it does not steer actions but still sets the framework for the debate. The right has tiptoed away from its attempts to liquidate the state and is concentrating on benefiting from it.

The USA is not a free market society with an underdeveloped state sector.

How can we know that the programme of the right is a myth? One need only look at the institu-

tions, says Galbraith. Those created under periods of public action in the history of the USA – the New Deal in the 30s, the Great Society in the 60s – are still intact. The USA is not a free market society with an underdeveloped state sector. The armed forces, farming, healthcare, continued education, housing, pensions and social security represent almost 40 per cent of the total consumption of goods and services in the USA. As regards middle class welfare policy, Reagan did not fundamentally change reality on the ground.

The myth about the withdrawal of the state acts as a screen behind which oligarchs can exploit it.

What has changed is who can channel and take possession of public resources. Even the USA has oligarchs, says Galbraith, a powerful class with good connections. This circle has no interest in shrinking the state, since they earn money from it, but they have no loyalty towards a nation, only towards the interests of their own group. Former IMF economist Simon Johnson makes the same observation in his essay “The Quiet Coup”: the ties between the financial sector and the state are extremely strong (*The Atlantic*, May 2009). The myth about the withdrawal of the state acts as a screen behind which oligarchs can exploit it. The question is whether companies’ sudden recollection of their home countries is a device to access public funds or whether it represents a genuine change of scenery.

(See further discussion with James K Galbraith, page 20.)

Murky protectionism

The implementation of a kind of protectionism through aid to banks and car manufacturers does not stop almost everyone publicly lauding free trade. The term protectionism is used as a tool to silence people. Free trade has become a key weapon in the fight against the status of labour and the workers, Galbraith thinks. Global competition presses down pay in the developed countries. When companies are threatened by global competitors, the negotiating position of the workers is also undermined.

If there really was free trade in this field, then the pay of American doctors would come down to European levels, and the cost of medical care would be dramatically reduced.

Free trade puts pressure on labour, but not all types of labour. In a discussion related to Galbraith’s, Dean Baker, co-director at the Center for Economic and Policy Research in Washington, states that it is only unqualified labour that is exposed to global competition (see *The Conservative Nanny State. How the Wealthy Use the Government to Stay Rich and Get Richer*, Center for Economic and Policy Research, 2006). By increasing access to a less trained workforce and limiting the supply of qualified workforce, it has been possible to achieve upward redistribution of welfare within the income pyramid. This appears to be natural way for the market to operate, and it is difficult to ascertain how much protectionism there is that is protecting the well-educated. For example, there are a number of obsta-

cles to overseas doctors becoming established in the USA. If there really was free trade in this field, then the pay of American doctors would come down to European levels, and the cost of medical care would be dramatically reduced. Regardless of whether this is a consequence of a conscious strategy, Baker is describing a reality: it is above all those with a shorter education who feel the pressure of globalisation.

(See further discussion with Dean Baker, page 23.)

War of subsidies

The alternative to removing the protection of the well-educated would be to increase protection for the less qualified. It is evident that governments all over the world are now pursuing different forms of protectionism.⁵ This is above all in the form of different aid measures, and is known as murky protectionism. It is more or less a cast-iron law of politics that aid measures are followed by attempts to favour domestic players rather than overseas players. If the tax payer’s money is used to save national banks or companies, then it is just a short step to demand in return that they favour the taxpayers in the country in question. This quite easily happens at the expense of others in another country, in particular when there is over-capacity.

To take a fresh example: the German government negotiated an agreement that saved most jobs at Opel in Germany. It meant that a plant in

5) See Jagdish Bhagwati and Arvind Panagariya, “Legal trade barriers must be kept in check”, *Financial Times*, 11 June 2009.

Belgium had to be closed down. (See *Financial Times* 7, June 2009, “Time to safeguard Europe’s single market”.) It is hardly unthinkable that the Belgians in turn will take countermeasures. In “Bailouts: how to discourage a subsidies war”, Simon J Evenett and Frédéric Jenny argue that there is a risk of subsidies war which can burden state finances and in addition lead to incorrect allocation of resources.⁶

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But have we not been in such a subsidies war for some time now, and will it not be exacerbated by the progress of state capitalism? The Chinese government is criticised in *A Power Audit of EU-China Relations* (2009) from the think tank European Council on Foreign Relations, ECFR, written by John Fox and François Godement, for exploiting the openness of the EU and at the same time hampering the establishment of overseas companies on the Chinese market. Authorities have for example made demands on the car industry that within five years at least 60 per cent of the components in new cars shall be manufactured in China, and there are similar demands for the railway industry. The EU and USA are preparing to bring China before the WTO because Beijing is giving domestic manufacturers access to raw materials at below market prices, which is making it difficult for overseas companies to compete. (See *Financial Times*, 13 June 2009, “China faces WTO action on raw materials”.)

The question is whether Western countries have any choice if they are subjected by state capitalism to murky protectionism and other forms of protectionism. The process is reminiscent of the arms race logic. It has turned out that we still live in a world of nation states and that these collectives, their cooperation notwithstanding, are competing. We have been so fixed in the perception that free trade is a win-win situation that it is difficult to absorb the fact that one nation can weaken another in a co-ordinated way by driving its companies out of business.

Decoupling and regionalisation

We do not know for sure which forms deglobalisation can take, if it really is such a persistent pendulum movement we are facing. Reactions have a tendency to generalise, since we like to live with cohesive pictures of the world and avoid too much dissonance. If the global economic currents were to slow down, then according to this supposition we would see a series of contractive phenomena: more emphasis on the local or regional, perhaps a division of the world into spheres of interest which reflect the multi-polar power relations.

If we are facing a multi-polar world with different values and political systems, a division into such spheres of interest is fully possible.

One such example is Russia’s sudden decision to withdraw its application to join the WTO, instead to concentrate on building a bloc of former Soviet

states. Moscow is assuming that regional power blocs will grow in significance when the power of the USA declines. If we are facing a multi-polar world with different values and political systems, a division into such spheres of interest is fully possible. If decoupling actually gains momentum, it can for example mean that China will successively carve out its sphere and become less dependent on the West.

Contraction and contract

Naturally, there is contraction in Europe too. It is clear from the newly published report *Re-inventing European growth* by Marc Lhermitte of Ernst & Young that companies in the West are retreating to their countries of origin and historical markets.⁷ At the same time as company leaders are of the opinion that China has the greatest capacity to deal with the crisis, they have become more restrictive in localising projects there. China is increasingly seen as a trade partner, more attractive for its buying power than for its workforce. The companies also see Europe’s flexibility as a resource in a crisis. It stabilises both consumption and the political situation. What were previously highly charged issues – labour market flexibility, different types of obstacle to business, as well as high social charges and restrictive work hours in France, have faded away. Only 2 per cent are today demanding greater labour law flexibility, compared to 42 per cent in 2008.

The internationalisation of the economy tends to lead two reduced differentials between countries but increased differentials *within* countries. So can the slowing internationalisation of the econo-

my in fact make it easier to create equality within countries and relatively homogeneous regions? Is there in other words a connection between contraction and social contract? This is a sort formulated among other things in the French debate by among others Emmanuel Todd and Jean-Luc Gréau.⁸ They argue for European protectionism that will prevent European workers from competing for example with Chinese workers causing a fall in pay levels. If Chinese companies want to export to Europe, they would mean to set up factories here that pay European salaries. In the long run this would also be good for companies, according to the argument, since many jobs, and well-paid ones, would keep demand at a higher level. In that perspective, constant cost-cutting would appear short-sighted: it would perhaps satisfy the shareholders for the moment but in the long term would saw off the branch they are sitting on.

6) In the e-book *The collapse of global trade, murky protectionism and the crisis: recommendations for the G2*, ed Peter Baldwin and Simon Evenett.

7) The report may be downloaded here: <http://www.kht-tarkastaja.fi/UK/en/Newsroom/News-releases/EAS---09-06-04---European-inward-investment>

8) See Jean-Luc Gréau, *La trahison des économistes* (2008) and Emmanuel Todd, *Après la démocratie*, 2008.