CHATHAM HOUSE
The Royal Institute of International Affairs

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SESSION TWO | NATIONAL POLITICS AND THE GLOBAL ECONOMY

Overcoming the Risks and Contradictions of Globalization

Open markets and technological advances have the potential to empower and enrich everyone, but they present political challenges to governments that require coherent national and multilateral policy-making.

Today's global economy appears riven by contradictions. Steady growth in much of the developing world – enabled by the opening of markets to goods, services, investment and technology – has lifted hundreds of millions of people out of poverty. Yet more than 1.2 billion people still live in extreme poverty, and even the better off have profited unevenly from liberalizing markets. As the global economy prospered between the mid-1990s and the late 2000s, the median income of the 'upper middle class', in countries as diverse as Argentina, the United States and France, stagnated. The current debates over 'inequality' and 'exclusion' imply that while the wealthy are able to take full advantage of an ever-integrating global economy, the majority experience scant returns.

Can governments be confident that it is just a matter of time before a rising tide of global economic integration lifts all boats? Or are there structural deficiencies in today's capitalist model that require more active government intervention to resolve? And how will the world's changing demographic profile help or hinder efforts at adjustment?

The contradictions

Two contradictions in the globalized economy stand out in particular. The first concerns the way in which open markets create both benefits and negative distortions for societies. Openness to trade and foreign investment can break internal oligopolies and weaken vested interests. Export markets enable countries to profit from their natural and human endowments. In both cases, workers have a greater opportunity to move up the value chain by earning, spending and saving more.

However, without a globally level playing field, market opening can just as easily disenfranchise domestic producers and threaten the jobs they sustain. Markets continue to be regulated by governments, which have national priorities and must respond to domestic pressures. Even as cross-border markets have deepened on many fronts, governments continue to use product standards, health and safety regulations, tax policies and currency intervention to provide preferential treatment to their own citizens and companies.

The result is that the winners and losers from globalization are not necessarily determined by their skill and national endowments. And there appears to be a growing divergence of opportunity between those – such as bankers and asset managers – who direct global flows of goods, services and capital and those who are the objects of this globalization. Critics argue that the first group gets steadily richer in an open global economy, while the second group –

from the blue-collar and office workers of multinational companies to waiters, carers and taxi-drivers – sees incomes stagnate.

A second major contradiction in the modern global economy concerns the simultaneously empowering and disrupting effects of technological progress. Technology can raise productivity and make expensive goods and services cheaper, thus helping economies to grow and generate wealth. But it can also disrupt traditional forms of manufacturing or service provision. The question is whether technological disruption principally releases labour into alternative forms of employment that are more productive and remunerative. If so, the overall income in an economy will rise.

Yet technology can also open a divide between those at the top, who are technologically integrated and well paid, and those at the bottom of the economic ladder, stuck in low-income service provision. Continuing advances in computing power also create the prospect that many of the technologically literate – even those programming the new internet of things – will be disenfranchised by self-learning machines or artificial intelligence.

The demographic challenge

Even as governments struggle with the impacts of globalization on their societies, many of those societies are ageing structurally. And not just in Europe, where the World Bank expects more than a third of people to be aged over 60 in 'less than four decades'; or in Asia, where Japan and South Korea are already experiencing population decline. Emerging economies, from Mexico to China, are also undergoing a transition from youthful to ageing societies. Demand for welfare provision will grow in these countries, just as its burden is already affecting developed economies.

Ageing societies make it difficult to generate economic growth. They consume more and produce less. If older people remain in or re-enter the workforce (90 per cent of new employment in the UK in 2008–14 was accounted for by those over 50), their presence can depress wage growth.

Increasing longevity also makes pensions, health care and other social services costlier. Unsustainable social welfare commitments have contributed to rising public debt levels in Europe and the United States. In developing countries, a lack of welfare provision may prompt societies to save too much, constraining healthy economic growth. China is grappling with precisely this challenge, as it tries to shift from export- and investment-driven growth towards a more consumption- and service-led economy.

Options

Three practical options are available to policy-makers to try to mitigate these contradictions and challenges. First and most important are microeconomic policies. By providing better education, apprenticeships, career training and less rigid labour markets, policy-makers in developed economies can help their societies to adapt to the pressures of globalization and technological advance. Education can also have a catalytic effect on developing economies, especially where young women are given equal opportunities to young men. Developing-country governments also need to provide the necessary physical and institutional infrastructure to unlock growth. This not only means building roads, railways and ports, but also enforcing the rule of law, tackling corruption and removing economically distorting price subsidies on staple goods.

Second, investment in technology can open new opportunities for sustainable growth. In the developed world, new manufacturing technologies are driving an 'onshoring' of jobs, as producers deliver customized products more rapidly while keeping inventories to a minimum. New technology can replace centralized energy infrastructure with more flexible, distributed systems that can lower costs while reducing carbon emissions. Technological innovation also has the potential to reduce health care costs for ageing societies through self-diagnosis and treatment, and through robotized caring.

In the developing world, technology offers societies the opportunity to leapfrog expensive traditional energy, educational, medical and communications infrastructures, and to deliver government services at lower cost and with less scope for corruption. Used effectively, technology can convert the massive migration of people to urban centres into an engine for progress rather than a driver of misery. As Mathieu Lefevre argued in the February–March edition of *The World Today,* about 400 mid-sized cities (with an average of less than 2 million inhabitants) could generate 40 per cent of global economic growth in the next 15 years.

But however competent and far-sighted governments prove to be, they will still need to collaborate if they are to draw on the full potential benefits of globalization. This is where the third policy option comes in. Faced with the growing protectionist instincts of populist political movements that reject the benefits of globalization, policy-makers need to coordinate their economic policies at multilateral levels in ways that reflect countries' economic interdependence. Regional institutions, from the European Union to the Association of Southeast Asian Nations (ASEAN), are essential components in this process, given that they can help governments to lower barriers and coordinate standards at a pace and within a cultural context that will be less disruptive than some multilateral initiatives.

Competent government, acting in partnership and unlocking the potential of rapid technological advance and deepening regional economic integration, can overcome some of the growing contradictions of globalization, even as the world enters an uncertain period of demographic change and a sharpening contest between economic winners and losers.