Pushback: Reflections on Global Economic Trends and Political Flashpoints

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This keynote speech discussed two seminal events of 2016: the UK vote on Brexit, and the election of Donald J. Trump in the United States. In retrospect, 2016 will be seen as the year when growing nationalism and anti-globalization sentiment began to affect the core of the Western economic order. In the immediate aftermath of the Brexit vote, former World Bank chief Robert Zoellick issued a call for a major bilateral trade agreement between the UK and the US, which could strengthen Britain’s hand in its upcoming negotiations with the EU. Shortly thereafter, a lead editorial in the Wall Street Journal came out in favor of an “Anglosphere” in trade among English-speaking countries. It would appear that the fallout from the events of 2016 is only just getting underway.

To explain shifts in public attitudes toward globalization, as well as rising geopolitical tensions in Europe and Asia, the speaker evoked three phases that have characterized the West since 1945. In the first phase, from the late 1940s until the opening of China in 1978 and the fall of the Berlin Wall in 1989, the West experienced a truncated world that, in retrospect, amounted to a “cocoon” for Western economies. It was a world of walls – from the Berlin Wall and the Iron Curtain to China walling itself off from the world as it went through the Great Leap Forward and the Great Cultural Revolution – constructed by the other side. This reality limited any potential impact of large-scale immigration and inexpensive foreign labor on the Western economies. Nostalgia for this era, which the French call “Les 30 Glorieuses,” infuses the populism that has emerged in many Western countries today.

With the collapse of walls in 1989 and 1991, a second phase got underway. In 1978, China had begun opening its economy and vast labor force to the outside world, and global capital quickly began seeking out the least expensive labor worldwide, leading to the widespread outsourcing and far-flung supply chains that have characterized globalization ever since. The Soviet Union had collapsed, a weakened Russia was on its knees, and China had not yet begun to translate eventual economic growth into a stronger position politically and militarily. Especially in the United States, the idea took hold that Western values had now prevailed for all time and had become truly universal. Decisions such as NATO and EU expansion were taken with the express purpose of rapidly extending this liberal world order, and under the doctrine of transformational diplomacy, the administration of George W. Bush declared the right to intervene militarily in other countries in the name of human freedom. In retrospect, this period amounted to a bubble – a normative bubble – in which the actual difficulties of spreading Western democracy and values to other political cultures, especially militarily, were underestimated.

In the aftermath of the 2008 financial crisis, a third phase is underway. Now clearly manifest in the events of 2016, this era is characterized by “pushback” on numerous fronts. In contrast to the 1990s, countries such as Russia and China are now strong enough to reassert themselves in their own regions, as indicated by their actions on Ukraine and the South China Sea. Western voters have begun pushing back at the polls against globalization and trade agreements. US Treasury Secretary Jack Lew has argued that Brexit reveals how large swaths of the working and even middle class in the West now believe they have not benefited from globalization. And recent G-20 meetings have warned that without more inclusive growth in Western economies, populism and anti-globalization attitudes are likely to grow.

With this new phase of pushback, political and military flashpoints have emerged as the U.S. responds in keeping with a longstanding goal of U.S. national security policy: to prevent any potential “peer competitor” from dominating its own region and thus acquiring the potential to project power globally. China’s rise led to the Obama administration’s “Pivot” to Asia in 2010, consisting of three elements. First, a trade agreement – the Trans Pacific Partnership (TPP) – designed to exclude China. Second, a more forceful U.S. position on the South China Sea, insisting that island disputes be resolved multilaterally in accordance with international law, rather than bilaterally as China would prefer. And third, a relative shift of U.S. military resources to the Asian theater.

As China pushes back in the South China Sea by transforming undersea reefs into artificial militarized islands, the risk of military confrontation between the U.S. and China is growing. At the same time, with both U.S. presidential candidates having turned against the TPP under electoral pressure, the future of the Pivot policy is in question. Similarly, Russia’s actions in Georgia and now Ukraine constitute resistance against further NATO and EU eastward expansion and have created a danger of escalation as NATO responds with new military deployments.

Meanwhile, security experts such as former Secretary of Defense William Perry warn that a dangerous new arms race is underway fueled by destabilizing new weapons systems such as Prompt Global Strike (PGS), which is based on hypersonic technologies. Other flashpoints include the Middle East, where the battle against ISIS continues and both Syria and Iraq risk fragmentation. Regional rivalry has flared between Saudi Arabia and Iran, while increased cooperation among Russia, Turkey and Iran has effectively sidelined the U.S. on Syria policy, at least temporarily.

Other issues discussed included climate change, population growth (especially in Africa, which the UN predicts will be home to 40 percent of humanity by the year 2100), immigration, and the impact of robotics and artificial intelligence on human labor. All of these constitute potential disruptors facing individual states and the global economy going forward.

Economic analysts and planners face an increasing need to factor in the impact of rapidly-changing political trends, domestic opinion, and potential flashpoints. In particular, as the events of 2016 illustrate, the emergence of populist and nationalist movements in Western democracies that derive strength from anti-globalization sentiment will have to be carefully assessed and taken into account.