

# Reverse Globalization? It's Much More Complicated Than That

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**Lord William Hague**, SENIOR ADVISOR, TENEO

It was apparent early on in 2020 that the COVID-19 crisis would be likely to act as a great accelerator of some of the most powerful emerging megatrends in world affairs. In the realm of political ideas, the crisis has intensified a focus on inequality that had already become more pronounced after the global financial crisis. Since the economic impact of this pandemic falls particularly on younger people and less skilled workers, the coming years will see much heightened expectations of governments and corporations to take action to address the consequences.

At the same time, fiscal conservatism, already under great pressure, has been killed off. Even in Germany and the United Kingdom, centre-right governments have joined in massive spending to alleviate the crisis. Governments in the 2020s will be far more tolerant of debt levels previously thought unsustainable, as well as of some degree of inflation to erode their vast liabilities.

Many geopolitical trends have also been speeded up. Oil producing countries are experiencing an early taste of the coming energy transition. The Eurozone has been forced to confront fundamental issues about its cohesion which would otherwise have remained unresolved for years. The greater resilience of Asian economies in the face of the crisis is accelerating the arrival of a pacific century, in which more than a half of global GDP is concentrated in the Asia-Pacific region.

Most important of all, tensions between the United States and China have increased exponentially. An emerging superpower rivalry has broken fully out into the open. This has rapidly spilled over into new issues about corporate ownership and the sharing of technology. Such divisions between the two largest economies in the world inevitably speed up a nascent process of de-globalisation, and seriously inhibit the effective operation of most global institutions.

There are three key points to make about these trends. The first is that they should in the main be seen as a speeding up of existing developments rather than a change of direction. Secondly, they do add up to a reversal of many important aspects of globalisation. Third, however, new habits of cooperation are likely to emerge outside existing structures, with a wave of innovation in both policies and technologies creating new

opportunities. The overall picture is therefore much more complex than a straightforward trend of globalisation in reverse.

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## A New Form of Globalisation

Driven by three factors



Policy



Technology



Opportunity

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## Creating New Opportunities

The situation in the United Kingdom is a good example of these three points. The official departure from the European Union took place on 31st of January, and many observers were expecting that the British government would ultimately delay the expiry of the transition period at the end of 2020. However, the effect of the COVID crisis has been to reinforce the determination of ministers to terminate the transition on schedule and obtain more immediate freedom to pursue their own policies. Up to a late stage in the negotiations, they have proved unwilling to set out a framework of state aid policies. This is because doing so might restrict their future freedom to support particular sectors of the economy, even though that has made agreement with the EU on free trade much more difficult.

Meanwhile, the agreement among EU members to create a €750 billion spending programme, with the issuing of mutually guaranteed debt, has underlined the reality that Britain could not conceivably contemplate being part of EU budgetary arrangements from 2021 onwards.

In the UK, then, we can see clearly that the events of 2020 have reinforced a direction that was already established. On the face of it, that direction does involve a retreat from several aspects of globalisation. Britain after Brexit is likely to be a less attractive home for businesses, with complex supply chains stretching across the continent of Europe. It is less likely to have regulations and standards in common with neighbouring countries.

The UK will not be participating in new European initiatives and is being excluded from some key ones in which it was involved, such as the Galileo satellite programme. Most migrant workers from EU countries will find it harder to move to Britain.

It is hard to deny that much of this represents a reaction against globalisation. Many of the people who voted for Brexit were indeed rebelling against global economic trends, loss of national sovereignty, and apparently easy migration. There was a nationalistic element in the campaign to leave the EU. When President Trump imposed tariffs in an effort to protect the U.S. steel industry, the leading Brexiteer Nigel Farage asked, “Is there anything wrong with protectionism?”

Yet in the leadership of the pro Brexit movement, there was always a stronger strand of support, not for nationalism, but for a different form of globalism. Boris Johnson argued in May 2016 that “If we vote ‘Leave’ we will be able to forge bold new trade deals with growing economies around the world. These are deals that the EU has tried and failed to achieve due to protectionist forces in Europe.” The Leave campaign argued that their success would be the opposite of isolation. The UK would use freedom from EU law to develop a strengthened international voice and “to promote more effective and faster international co-operation, often at a global level.”

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## Differing Forms of Globalism

While observers around the world are entitled to be sceptical about whether the UK outside the EU will be more rather than less global in its outlook, there is no doubting that such a goal is the sincere intention of the people who promoted Brexit – and who are now leading the British government. It is certainly their objective to make the UK more attractive to global businesses – adding credibility to that by announcing that future financial services

regulation will be designed to promote the competitiveness of businesses based in Britain as well as guard against systemic risk. They are significantly expanding government funding for research in life sciences, clean energy, space, design, computing, robotics, and artificial intelligence. A fast track immigration system is to be introduced for the best and brightest scientists and researchers.

These actions are in support of an ambitious goal. The programme set out after the decisive Conservative election victory in December 2019 states, “We are committed to making the UK a global science superpower that attracts brilliant people and businesses from across the world.” The British government is also pursuing plans to establish new Freeports. In 2021 it will be hosting the Cop 26, the major global conference on climate change. And it is seeking free trade agreements around the world that are at least as radical as those that it would have enjoyed through EU membership.

While partly originating as a revolt against globalisation, Brexit and its aftermath might therefore produce consequences which are much more complex to interpret and bring new opportunities for businesses, as well as threats. The UK thus illustrates our third point: that serious setbacks suffered by globalisation should not necessarily be seen as a wholesale retreat.

The European Union itself has also illustrated a capacity for innovation and resilience in the face of crisis. It began 2020 very badly, with widespread fury in Italy at the apparent abandonment of the country as it became the first victim of COVID-19 on the continent. At

the same time, the German constitutional court issued a ruling that struck at the very foundations of the legal order underpinning the Eurozone. Populist and nationalist forces have risen strongly in Europe over the last decade and should not be underestimated. A prolonged crisis, accompanied by very high unemployment, could strengthen those forces further.

Yet overall, the EU has taken a bigger step forward than anyone could have expected a year ago. A major change of policy in Germany concerning the issuing of common debt has established a crucial new precedent. Europe faces immense strategic challenges, often lacking cohesion in deciding how to react to Russia and China, and way behind the U.S. and China in technological leadership. Like the UK, however, it is showing a capacity for policy innovation. The result is that even at a time of a retreat from globalisation, a German banker working in Milan will feel no less European than before, just as an Indian scientist working in Oxford will feel no less part of a global community.

## Absence of Global Leadership

Truly global institutions are finding it much more difficult to innovate in the face of their declining effectiveness over recent years, and the acceleration of that trend brought by the COVID-19 crisis. Perhaps the most striking feature of the onset of the crisis was the absence of global leadership and cooperation, with even friendly countries closing borders without consultation and seeking to buy up medical supplies to the exclusion of others. The crisis has revealed that a decade of decline had already taken place in global governance. Coming on top of that, it has accelerated the deterioration.

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The World Health Organisation is an obvious example. Having struggled to respond to the Ebola crisis of 2014, it had succeeded in implementing some internal reforms but remained poorly funded for the scale of its

task. Voluntary contributions account for a large proportion of WHO spending. Most of these are earmarked for specific issues and projects, allowing little coherence for how it spends its budget. The failure to contain the initial spread of COVID-19 has led to the denunciation of the organisation by the United States as “a political, not a science-based organisation.” At the time of writing, the U.S. is committed to withdrawal from the WHO and working towards the creation of an alternative global health structure outside the boundaries of the UN system.

In the global financial crisis, the G20 became the most important instrument of international coordination. In this crisis, its response has been limited, light, and limp. G20 leaders took weeks to consult each other and have been much criticised for lack of vision. Former British Prime Minister Gordon Brown has particularly focused on the absence of decisive action to help developing countries, saying the G20 have gone AWOL – “absent without lending” – with their inactivity, meaning that allocations from the IMF and the World Bank to poorer countries will remain a fraction of what is required.

Proceedings on the UN Security Council have illustrated both the poor state of global governance and the reasons for it. The council took over 100 days to agree on a resolution calling for a global ceasefire in the light of the pandemic. The issues which delayed its adoption included a row between the U.S. and China over whether the WHO should be mentioned and endorsed, concerns on the part of Russia about the impact on its position in Syria, and worries in the U.S. about what a ceasefire could mean for anti-terrorism activities.

In the meantime, the global arms control regime has been steadily deteriorating. Key pillars of the Cold War nuclear agreement have either collapsed (such as the INF treaty) or are set to expire (such as the New START Treaty). There is increasing rivalry and suspicion concerning military activities relating to space. The difficulties are compounded by arms control issues becoming three-way. Even with political will, it would be difficult to agree to consistent frameworks between the U.S., Russia and China, all at very different levels of military strength and development. In the absence of any political drive to solve these problems, there is very little chance of progress.

In an interview in June, the UN Secretary General Antonio Guterres gave a blunt analysis of the situation – “we see that the very dysfunctional relationship that exist today between United States – China, United States – Russia, makes it practically impossible for the Security Council to take any meaningful decision that would be fundamental to fight COVID-19 effectively.” Summing up the situation across the board, he said “even where we have in the multilateral system some teeth, as is the case of the Security Council, it has shown very little appetite to bite.”

The same is true of the World Trade Organisation. It is struggling to provide all three of its main functions – administering multilateral trade rules, serving as a forum for trade negotiations, and providing a mechanism for settling trade disputes. Again, the huge issue of how to accommodate China has proven to be a fundamental problem. Demands from western countries for transparency from China are seen in Beijing as a challenge to its model of economic growth. The strong stance taken by the Obama administration has been succeeded by the militant approach of President Trump.

Even before the pandemic, growth in world trade was faltering. The long-established relationship between world economic growth and trade growth seemed to break down in recent years, and trade between the U.S. and China fell by nearly 17% in 2019. The value of

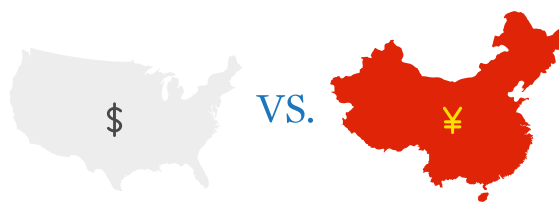
world merchandise exports peaked in 2018, and there were signs already of the emergence of a new trend towards localisation in the world economy, with businesses looking for ways to bring manufacturing closer to their consumers.

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## U.S.-China Relations

### Emergence of a New Economic Superpower

Tensions between the U.S. and China continue to grow



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If this was indeed an emerging trend, 2020 will have given it a very big push. Many governments have set out ambitions for more concentrated national supply chains in goods that are deemed essential to national health or security. Several western countries are legislating for much tighter restrictions on Chinese investments and acquisitions on security grounds. The strategic rivalry that has built up between the U.S. and China has started to reach into the corporate world, as shown so dramatically in events surrounding

TikTok, and felt ever more keenly by financial institutions based in Hong Kong.

The emergence of China as a great power of the 21st century would always have been a challenging event for the United States, even if the two countries' political systems were similar in nature. But what really makes this strategic rivalry so momentous and globally divisive is that it is between two societies based on a fundamentally different idea of the relationship between the state and the individual. In turn, this leads to opposing concepts of how technology can be used at a time of rapid technological innovation and competition. The stakes become too high to permit the other power unchallenged technological leadership, leading to a withdrawal of cooperation that spreads rapidly across industrial and financial sectors. It is this seemingly inescapable problem that is turning the tide against globalisation.

## Grounds for Hope

This is a bleak prognosis. If globalisation has brought lower costs, minimal inflation, stronger growth, and higher employment around the world, it must be likely that its reversal will bring the opposite in each case. Consumers will be worse off, business subject to greater uncertainty and restriction, and politics always in danger of lurching towards nationalism. Yet there are at least three grounds for hope – factors that could mitigate these effects, as well as providing many new opportunities for the future.

The first is that new groupings of nations and novel forms of cooperation between them are likely to arise in the absence of effective global governance. There is considerable support among leading democracies, for instance, for the G-7 to expand into the D10, encompassing Australia, South Korea and India. While this will be more difficult than it sounds – India guards its independence in foreign policy very jealously – the idea is an indication of how new geopolitical groupings might develop. In trade, the drive for new bilateral and multilateral agreements goes on, as evidenced by the recent EU-Japan deal and the formation of the Transpacific Partnership,

even without the United States. If the UK succeeds in joining the latter, it will be an encouraging indication that new and innovative trade agreements are possible.

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The second reason for hope is that a major crisis is often a spur to innovation, and particularly so when it is accompanied by intense competition between great powers. COVID-19 has already brought much innovation in healthcare and communication, and it seems likely that the threat of future pandemics will bring further changes to the way cities work and companies are organised. Large-scale corporate restructuring is underway. Supply chains will become more diverse and less concentrated. The McKinsey Global Institute has also noted in a study this year that “building supply chain resilience can take many forms beyond relocating production,” including using new technologies.



And as the U.S. and China both seek to lead the world in the development of AI and quantum computing, there is vast scope for the combination of private sector ingenuity and public sector resources to bring major breakthroughs.

These factors point to the need for companies to build resilience, ride new waves of innovation, and be alert to the potential dramatic business implications of shifting global political alignments. In addition, there is a third basis for hope about the future of global cooperation and the opportunities that it can bring, but it is more speculative and too early to assess with any confidence. This is that the world is receiving a major psychological shock, and the long-term consequences of that can be beneficial just as the immediate consequences are very harmful.

The COVID-19 crisis is the most universal event in human history, affecting virtually every business and household in the world. It is underlining the extent and immediacy of global interdependence. It may well cause large numbers of people to think about the world and their responsibilities in a new way. In today's circumstances, you have to be an optimist to think that humanity can agree to live in a more sustainable way, while simultaneously developing new global working habits to reduce friction and conflict. You certainly have to be optimistic to think that the U.S. and China can develop a framework of cooperation that will set limits and safeguards to their new age of rivalry. Yet throughout history, the optimists have often turned out to be right. It is far from unimaginable, despite all the adverse pressures, that billions of people will find among themselves the ingenuity and leadership to reinvent global cooperation with all the benefits and opportunities it can bring.