



Globalisation

Peter van Ham

Introduction

At the core of the chapter on globalisation in the 2012 Strategic Monitor was the concept of global governance. Globalisation was understood as an ongoing process of global political, economic, and cultural integration and a thickening of the web of international relationships. In addition to the question of what possibilities the international community has for controlling the globalisation process, the crucial issue was what sort of guiding influence Europe still has on international developments in an era characterised by increasing unpredictability. The unpredictability of the globalisation process is largely the result of the spreading financial and economic crisis. One of the conclusions of the 2012 Strategic Monitor was that this crisis emphasises the fact that globalisation is not without risks and that these risks are worrisome and acute. In addition, it was concluded that the opportunities for political control were shrinking. The latter was partly due to the declining influence of the Western powers, whose dominant role is being replaced by a power vacuum that other regions and emerging powers are only too happy to fill based on their own values and interests. Also partly due to the crisis, the dissatisfaction and scepticism of citizens have increased, resulting in a further decline in faith in institutions such as national governments and international organisations. The previous Monitor also foresaw a further shift towards a 'hybrid world'—i.e., a world in which major policy processes are controlled by a multitude of both state and non-state actors. In addition, it was observed that neoliberalism as the dominant economic ideology had come under strain, and it was uncertain how relevant and decisive international multilateral institutions could still be in the light of the ongoing power shifts.

This chapter will discuss the main events of the past year in the area of globalisation and will touch upon the probabilities and uncertainties for the next five to ten years. We will pay special attention to the possibilities of regulating financial markets (see Box 1) and the dangers in Europe of political instability and radicalisation caused by the financial and economic crisis (see Box 2).

1 Significant changes in the past year

In the past year, the developments described above continued. The process of globalisation has experienced more continuity than change. It is a process that is characterised by shifts in economic, political, and to a lesser extent military power, one that is driven by developments that have been unfolding for several decades in technology, communication, and transportation. The move towards a world order in which non-state actors—from NGOs and businesses to criminal and terrorist networks—are increasingly important has continued, thereby accentuating the development of a more 'hybrid world'.

There have been no significant changes in trends but rather a confirmation of the previously observed trend towards fragmentation in the field of governance. Indeed, the

Box 1 Financial regulation as a challenge

The global economic and financial crisis has made it clear that the negative effects of globalisation bear upon all countries. The huge trade and financial links between countries and markets lead to interdependence. The existing post-war institutional infrastructure—based on the IMF and the World Bank—is no longer adequate. In response to the financial and economic crisis, the G20 has since 2008 proved to be an important informal forum where the leaders of the nineteen most important countries plus the EU meet to coordinate their policies and to propose solutions. The G20 represents two-thirds of the world population and accounts for 85 percent of total world production.

Despite the momentum for improved financial regulation and the emergence of the G20, however, the international community has failed to take any real steps towards stronger international management in this area. Instead, regulation has remained mostly light touch, with robust multilateral and binding global governance out of the question. This is due to a number of reasons. First, key international actors have other ideas and interests with regard to the necessity, urgency, and direction of possible reforms. The second reason for the lack of coordination is that the financial sector is very complex and multifaceted. The sector includes not just banks but also a variety of financial institutions ranging from pension funds to insurance companies. The financial products in this sector are often complicated, and there is a lack of transparency, as a result of which it remains difficult to control and regulate.

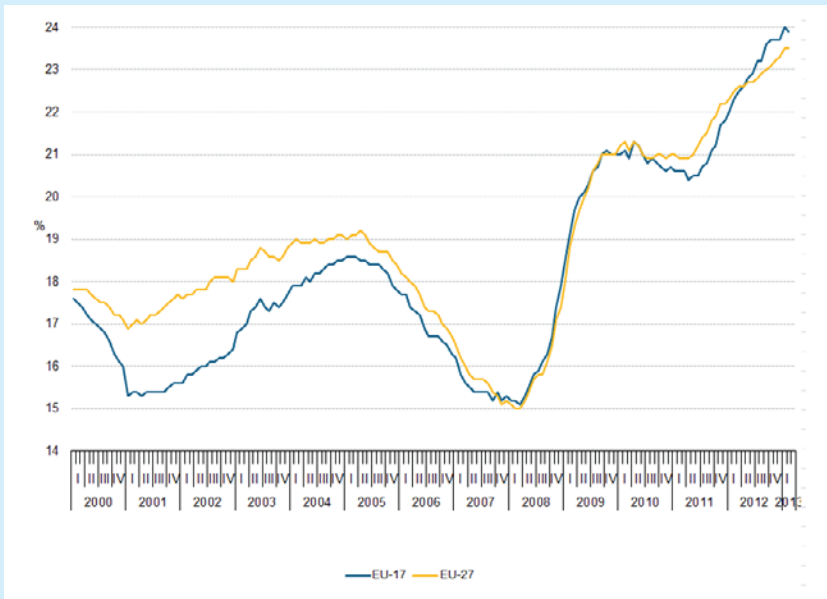
Third, the ongoing crisis demonstrates that the economic policies of countries (e.g. Greece) may have direct adverse consequences for other countries in the form of financial risks, declining growth, etc., which in turn give rise to frictions between countries. The experiences of recent years have proven the existence of an unmistakable governance deficit: the need for policy coordination and cooperation is great, but the mechanisms for achieving them are inadequate. The negative effects of the global economic crisis, however, are felt worldwide. The hope must therefore be aimed at the emergence of a growing political awareness that countries must address this governance deficit for their own—enlightened—interest. Although such a cultural shift is not yet forthcoming, the closer cooperation within the G20 can potentially contribute in this regard.

demand for legitimate and effective governance of the many processes of globalisation has remained high, partly under pressure from the globalisation process itself. Western countries—including the US—are witnessing a decrease in their economic and political influence. The reform of existing international organisations from the UN to the IMF is not keeping up with the need to make room for more influence for emerging powers. In addition, the need for improved governance of economic and financial regulation remains undiminished. Existing initiatives (such as the coordination between central banks via the Basel Committee) are encountering many obstacles. As further elaborated in Box 1, policy coordination through the G20 only takes place to a limited extent. Such more informal arrangements were unable to fill the leadership vacuum in 2012 due to their lack of decisiveness and legitimacy.

Box 2 Political instability and radicalisation in Europe

Youth unemployment is one of the major problems caused by the financial crisis. In the EU, there are currently more than 5.5 million young people without work. In Greece and Spain, youth unemployment is over 50 percent, in Portugal and Italy, over 30 percent, and in France it is around 25 percent. Figure 1 shows the trend in youth unemployment since 2000. It shows that since the start of the economic crisis, youth unemployment in the EU has increased dramatically. In the absence of economic growth, this large group of young people out of work is in a fairly hopeless situation and is already being called the lost generation: they are the losers of globalisation. The economies in the southern part of the eurozone have been hit particularly hard by the financial crisis and have committed themselves to implementing tough austerity measures for many years in order to be eligible to receive support from the European Central Bank and from the European emergency fund.

Figure 1 Youth unemployment in Europe 2000-2013 (Eurostat 2013).



In Greece, Spain, and Portugal, outrage over the strict guidelines that their own governments must comply with is growing. This is putting the already fragile support for these relatively young democracies under pressure. Add to that the knotty problem between Catalonia and the central government in Madrid and we see a scenario unfolding in southern Europe of political instability and even growing radicalism and separatism. Extremist parties—both on the left and the right of the political spectrum—can count on more support among the population, which is directing its dissatisfaction towards both its own government and Brussels. The consequences are potentially far-reaching. First, it undermines the broad support for the process of globalisation and for further European integration. When large social groups no longer see any (personal) advantage in integration, their support for the EU disappears.

Second, this dissatisfaction undermines confidence in national democracy, as individual European governments have less say in determining the level and allocation of public spending. Because southern Europe only has a short history of democracy, growing anti-democratic sentiment in this region is a reason for concern. This also applies to Central European countries, including Hungary, where the nationalist party Jobbik can count on much support. Third, this trend of *Politikverdrossenheit* (disillusionment with politics) results in radicalisation, with the risk of increasing support for extreme anti-establishment groups. This can manifest itself in relatively moderate support for organisations such as Occupy but also in radical groups and movements that use public dissatisfaction in order to legitimise violence.

In this regard, it should be noted that the actual economic and financial integration of OECD countries has increased steadily in recent decades. This is less true for developing countries and the BRICS. China, for instance, is closely intertwined with the world economy in terms of trade, while the Chinese financial market remains largely closed to foreign investors. At the same time, as will be explained in the chapter on Economy, beneath the surface of globalisation a trend of 'regionalisation' is occurring, in the sense that economic developments in the OECD countries (the US, Europe, and Japan) are no longer inextricably linked with those of the BRICS and other non-OECD countries. The latter are characterised by their own economic dynamism. According to some observations, in this respect we can even speak of a kind of 'deglobalisation' in the world economy.

The key changes in the EU have carried on in the past year. To cope with the euro crisis, steps are being taken to move towards deeper economic integration and political union, and even the prospect of a European federation lies ahead. However, it remains uncertain whether European political integration is attainable. The financial and economic stability of the EU also remains uncertain. The economic crisis, which is affecting southern Europe particularly hard, is leading to radical and long-term austerity measures that national governments have to follow, in the opinion of 'technocrats' in Brussels, in order to remain eligible for economic and financial aid. Rising unemployment, particularly among the youth, will lead to a growing risk of social unrest, with a real chance of escalation and a growing aversion to existing parliamentary democracy (see Box 2).

We therefore conclude that the trend towards fragmentation within the international governance structure has continued in the past year. The factors that give rise to this conclusion have persisted. There has not been an increase in international cooperation in the political, economic, and financial areas. Existing international organisations remain under pressure to provide effective multilateral solutions, which are rarely achieved and only with much difficulty. The major multilateral and transnational governance structures remain active but are experiencing increasing problems with their legitimacy and effectiveness in a rapidly changing world in terms of the distribution of power.

More informal, so-called multilateralism-light arrangements such as the G20 have only been able to reverse the governance deficit to a limited extent.

Scenario framework

No significant changes have occurred in the scenario framework in the past year.

Globalisation as a driving force remained squarely in the fragmentation quadrant in 2012.

This means that non-state actors play a greater role in the international system than state actors and that effective international cooperation is lacking.

2 The next five to ten years: Probabilities and uncertainties

Probabilities

- Globalisation as a process of economic, political, and cultural integration and the thickening of the web of international relationships continues, but the opportunities for managing and controlling this process will come under pressure as a result of fragmentation and shifts in the distribution of power.
- The Western system of values, reflected in the neoliberal model and the democratic system, will further lose its appeal.
- The representativeness crisis that national governments (particularly in Europe) and international institutions are suffering will continue.
- Due to the economic crisis, there is a greater risk of radicalisation and extremism.

Uncertainties

- Will existing international institutions be able to adapt to changing international relations?
- Will the G20 take on the role of world economic leadership?
- Will the European Union be able to extricate itself from the economic crisis?

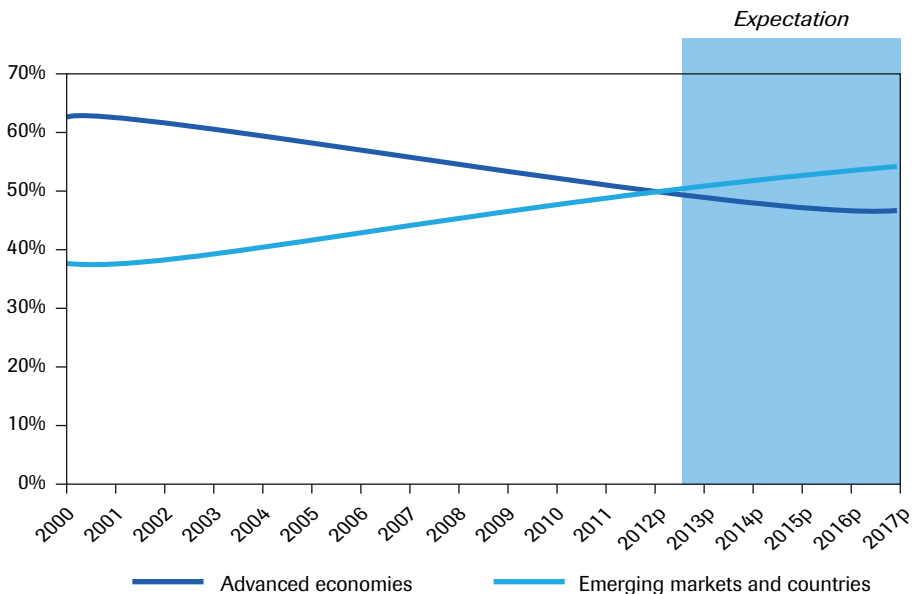
When previewing the next five to ten years, a distinction should be made between on the one hand the progress of actual globalisation as it is driven by developments in the fields of economy, technology, communications, etc. and a further internationalised business world with a stronger presence of non-Western companies (see box 3), and on the other hand the ability of the international community to control this process. It is evident that both dimensions are closely interrelated. An example is the global financial system with its 'hot money', which is increasingly being seen as a threat to the stability of the world economy and thus requires regulation. When considering what developments in the field of globalisation are imaginable, several scenarios are possible, ranging from the development of a new, effective, and legitimate multilateral system, and increasing regionalisation with bloc-to-bloc mercantilism to fragmentation, rampant nationalism, and deglobalisation. The most likely scenario is a continuation of globalisation together

Box 3 The rise of large, non-Western corporations

The annual ranking of the world's largest corporations conducted by Forbes—known as the Global 2000—confirms the continued rise of the non-Western private sector. The emerging economies in particular have seen their share in the ranking rise significantly. The US (524 companies) and Japan (258 companies) still top the list, but China's share has increased significantly with fifteen new companies on the list. The shares of South Korea (68 companies) and India (61) have also risen considerably. The emergence of Thailand, the Philippines, Saudi Arabia, and the UAE in the list is striking. China has two corporations represented in the top ten of the list, with the Industrial and Commercial Bank of China (ICBC) at number 5 and PetroChina in seventh place. Brazil's Petrobras is tenth in the ranking. According to an investigation by CNN, in 2012, four of the ten largest companies in the world were from non-Western countries (Sinopec Group, PetroChina, State Grid, and Toyota).

with a trend of fragmentation—especially with regard to possibilities for controlling the globalisation process. The question is whether this will happen without the occurrence of major shocks, crises, or game changers.

Figure 2 The size of the economy as a share of global GDP, expressed in PPP terms (PwC 2012).

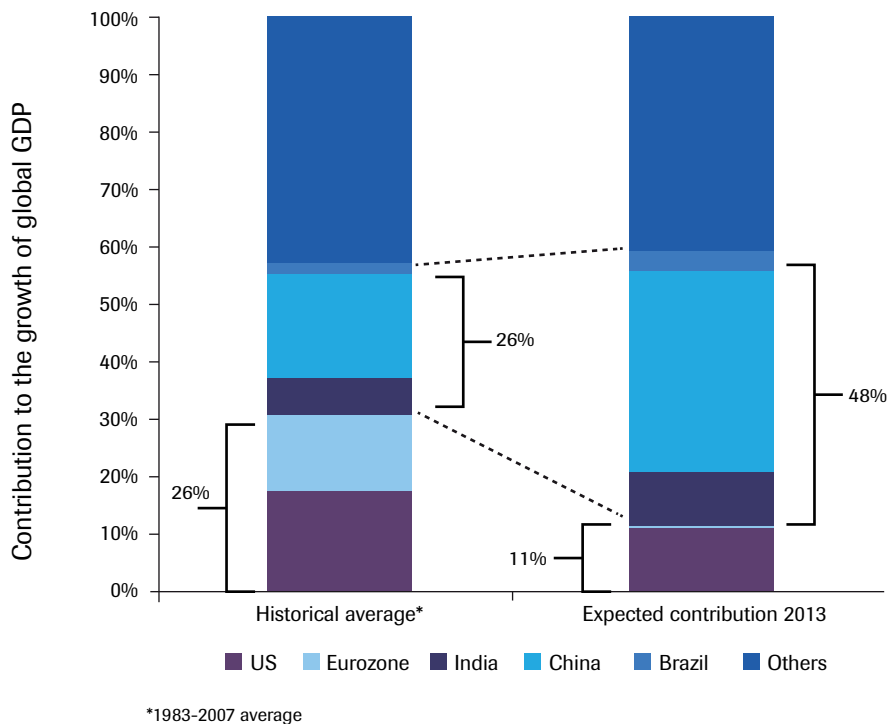


The International Monetary Fund (IMF) classifies 35 economies with a high GDP per capita and a significant level of industrialization as advanced economies.

The process of decoupling, in which emerging powers act as independent poles of growth, and regionalisation will probably continue. For example, Figure 2 illustrates that in 2013, emerging and developing countries together made up a larger share of the world economy than the industrialised countries for the first time since reliable economic statistics became available.

In addition, Figure 3 shows that the same emerging economies and developing countries will increasingly determine the growth of global GDP.

Figure 3 China, India, and Brazil will be responsible for half of the growth in global GDP in 2013 (PwC 2012).



The ongoing economic crisis undermines the appeal of the Western capitalist model. The rise of the BRICS, the Gulf States, and countries such as Turkey and Indonesia will be accompanied by other norms regarding the relationship between state and society. As a result, the neoliberal model—with the capitalist ideology known as the Washington Consensus still an ideological driver behind the process of globalisation—will come further under pressure, for example within the IMF. It is after all inevitable that countries such as China, Russia, and the Gulf States will want to spread their autocratic social model within international institutions (see the concept of the 'Beijing Consensus' as an

alternative to the Washington Consensus). Note in this regard that it is almost certain that the influence of these countries within the world economy and particularly within Europe will increase. China's willingness to contribute to solving the debt problems of some southern European countries reveals the new global economic and political power configuration, for any Chinese contribution to a bailout of these countries would not occur without implicit and/or explicit political obligations. It would also at the very least dent the image of the neoliberal model. At the same time, however, the ongoing communications revolution will lead to more people power, as a result of which the aforementioned megatrend—the decline of neoliberalism—could be mitigated. In any case, as a result of the ongoing economic crisis, more people will feel like 'losers' of globalisation, with a greater risk of radicalisation and extremism as a result.

In the coming years, the multilateral system as an instrument to control the process of globalisation is likely to further fragment. Central to this is the question of whether the Western countries are willing to make space for emerging countries and whether the latter are willing to take on some of the burdens and responsibilities of international governance. The uncertainty in all of this focuses on the European Union and its ability to find a sustainable solution to the euro crisis.

Scenario framework

For the next five to ten years, there will be a shift in the scenario framework in the direction of the non-state and non-cooperative poles within the fragmentation quadrant. This does not differ from the trends that were considered probable in the previous edition of the Monitor. Compared with the 2012 Strategic Monitor, the scenario outlined in this edition assumes that there will be a slight decline in the importance of the state as well as less cooperation. The differences are, however, negligible.

3 Strategic shocks

Strategic shocks

- The eurozone falls apart.
- Social unrest in Europe in response to the economic crisis.
- A large-scale cyber attack on Western countries' critical infrastructure.

The shocks identified in the 2012 Monitor remain relevant and conceivable (a breakup of the eurozone, social unrest in Europe in response to the economic crisis, the vulnerability of critical infrastructure to cyber attacks). The probability that the eurozone will fall apart is undiminished. The risk of social unrest within eurozone countries has increased.

The eurozone falls apart. This risk is still present in the light of the fragility of the European economy, the difficult decision-making involved in finding a sustainable approach, and the socio-economic problems in the southern eurozone countries in particular.

Social unrest in Europe in response to the economic crisis. The risk of a serious disruption of society with political consequences in one or several eurozone countries has increased.

A large-scale cyber attack on Western countries' critical infrastructure. Such a shock is imaginable precisely because of the spread of certain technologies and the vulnerability of open societies.

4 Winners and losers

Due to the uncertainty of the process of globalisation, there are no clear winners we can designate in terms of driving forces. There are, however, losers, which we can divide into three categories. First, there are the geopolitical losers, among which we can count Europe and the US. Their political influence in the world is waning, the consequences of which are being emphatically exposed by the economic and financial crisis. This means in particular that the US will be forced to play another, probably more modest, role. For Europe, this means that the role of free rider on the back of American *Realpolitik* is no longer sustainable. Second, there are the ideological losers, especially the waning soft power of the Western model, which is based on neoliberalism. China has repeatedly stated that it is pursuing an ideologically 'neutral' policy, but this means nothing more than the abolition of the basis of neoliberal institutions such as the IMF and the World Bank (as well as the policies of the G20). Third, there are the actual, real losers: the large and growing group of people in the world who do not benefit from globalisation. Globalisation often means a threat to traditional forms of life, security, and identity. Too often we assume that these groups are mainly to be found outside the West. However, the economic and financial crisis has now made it clear that even in our modernised society there are large groups of losers and laggards that have neither the skills nor the mentality to take advantage of the possibilities of an open and fluid society.

5 Implications for global security and stability

The reduced governability of global policy processes has a corresponding negative effect on security and stability. Due to the waning capabilities and willingness of the US to act as a leader, a power vacuum is left that is only partially being filled by other actors (BRICS, international organisations, and non-state actors). For the next four years, the US under President Obama will probably not make a clear claim to a leading role on the world stage, thus creating the risk that possible strategic catastrophes (such as an Iranian nuclear weapon) cannot be averted. For the EU, the current trend towards



A woman in Madrid holds a protest sign with the text 'We are workers, not assholes' during a strike against new austerity measures. Internal tensions within Spain have risen as a result of the economic crisis.

Photo: Maldita La Hora

strategic irrelevance will persist: it will play a weak role in global security matters. Indeed, a possible collapse of the EU would be the death knell for existing transatlantic partnerships, especially NATO. In anticipation of this, NATO is already moving towards an alliance of global partnerships, which reinforces the trend of coalitions of the able and willing. In the area of security as well, we see more fragmentation. The dystopia of an approaching 'G-zero' world—where leadership is scarce or even non-existent—continues to exist, and it is becoming less likely that this is a self-defeating nightmare.

Conclusion

The process of globalisation is likely to continue, but the governance necessary to steer the risks of globalisation in the right direction continues to lag behind actual developments. This applies in particular to the global financial-economic and monetary system. Imbalances are therefore likely to become more acute. In addition, it is striking that in the process of globalisation, the centre of gravity (especially in terms of economic

growth and activity) is shifting to the emerging countries, mirroring the ongoing shifts in the global distribution of power. Finally, wherever large numbers of 'losers of globalisation' are found in certain generations and countries, this indicates a growing danger of socio-economic unrest and possible radicalisation.