Michael F. Oppenheimer is clinical associate professor at the NYU Center for Global Affairs.

The End of Liberal Globalization

Michael F. Oppenheimer

The liberal form of globalization that has shaped the world over the past 60 years is in steep decline. The reason for that decline—principally, the loss of American hegemony—is now coming into focus, but what will replace the liberal form of globalization remains unclear.

The globalization that we have come to know (and from which many have benefited greatly) has encompassed faster and more frequent transnational interactions in trade, finance, technology, and ideas, and it has widened the range of global players from diplomatic representatives and firms to individuals, civil society groups, mid-level government officials, and terrorist organizations. These actors have had a deepening influence on the conditions of life in communities around the world, and on the policies and structures of states.

The conventional wisdom views the effects of these structural changes as strongly positive: more open political and economic systems, increased prosperity, and mitigation of conflict. While it acknowledges negative effects—income inequality, financial volatility, economic and physical insecurity—these are considered surmountable with improved national and global governance, and the continued spread of markets.

But the idea that liberal globalization is the only form of globalization is erroneous. Many aspects of globalization—the rapid advance and diffusion of technology, the proliferation of private transnational actors, the centrality of economic growth, and the importance of the global economy in the aping of national economic policy—are well established and probably irreversible. But that form of globalization—of progressively open markets, non-discrimination in trade and investment, strong rule-based global institutions, and the spread of democratic politics—is in steep decline. And this decline will imperil the economic and political benefits of growth, poverty alleviation, and relative peace among great powers, which have characterized the post-World War II system.

That decline is already underway, but the shape of globalization that emerges after U.S. hegemony is less clear. The new globalization will be—inevitably—more heterogeneous. Hopefully, it also still will be open and multilateral, and still delivering robust growth and alleviating poverty. U.S. encouragement will be essential but not sufficient for this vision, given the emerging multipolar distribution of power. But if America continues an anachronistic pursuit of primacy over this new order it will invite resistance, and will accelerate a trend towards a mercantilist scramble for markets, capital, and resources among powerful states and non-state actors.

A Brief History of Globalization & U.S. Power

Globalization as we know it today is not the spontaneous result of market forces, but of political decisions and diplomatic compromises that produced a liberal structure that enabled national and global markets. In the aftermath of World War II, policymakers saw effective national governance as essential to distributing the gains and mitigating the disruptions of trade and financial

Published by World Policy Institute

liberalization, and to providing the internal regulatory structure necessary for the efficient functioning of markets. International regimes also were essential to establish rules of liberal behavior (and conditions in which they could be suspended), procedures for adjudicating disputes, penalties for backsliding, incentives for moving towards greater market openness, and opportunities for new membership. American power was ever-present: a source of market demand, financial liquidity and stability, and physical security.

Enabled by American hard and soft power, globalization emerged slowly, at first, in the war's aftermath; then accelerated greatly with trade and capital market liberalization in the 1960s and 1970s; and expanded further with the widespread adoption of neo-liberal economic reforms, the collapse of the Soviet empire, and the emergence of China and India as new powers in the 1990s. This system of increased transparency, robust innovation and growth, rapid transfers of wealth and power, regional and global political integration, was very much the world that had been imagined by the post-war generation of American policymakers.

Americans invested heavily in this vision with massive Marshall Plan assistance tied to European economic integration; effective multilateral institutions resting on principles of non-discrimination and progressive liberalization of trade and payments; a strong and stable dollar to facilitate global transactions and provide secure reserves for central banks; a large and open U.S. market offering economies of scale and investment opportunities for struggling European firms; and a strategic environment that provided security and reassurance in the face of Soviet power and a renewed German economy.

This system was promoted by a willingness to bargain with states whose power couldn't command it, but whose long-term collaboration was essential to the liberal vision. The reconciliation of efficiency and open markets, strongly favored by Washington, with European commitment to autonomy and full employment, created strong momentum toward trade liberalization, but also permitted controls on capital flows and exceptions to trade openness when pressures from unemployment required. This system of "embedded liberalism" thus acknowledged the dependence of politically sustainable globalization on effective national governance.

This system was reinforced and extended through large U.S. injections of political capital. Successive rounds of trade liberalization were proposed, structured, and brokered by American policy. Congress delegated portions of its authority over trade to the president, providing negotiators with additional clout and facilitating congressional endorsement of results. As trade liberalization proceeded to reduce tariffs and eliminate quotas, the agenda shaped by Washington drove globalization further by broadening the definition of "restriction." The term soon encompassed domestic policies that distorted trade and investment flows, including distortions of newly tradeable goods and services; the General Agreement on Tariffs and Trade (GATT) regime was replaced with with the far more robust World Trade Organization (WTO), and the new regime extended to China, the former Soviet empire, and other emerging markets. These changes catapulted the world, in just 40 years, from an age of poverty, autarchy, insecurity, and political fragility to an era of globalization, poverty alleviation, strong institutions, and peace between the great powers. None of this would have been imaginable without American power deployed at the service of liberal ideas.

It is tempting to believe that the hard and soft power advantages the United States enjoyed within its Cold War coalition can continue to provide the essential substructure for a prolonged and effective functioning of markets on a more global scale. An abiding commitment to liberal ideas, including effective national governance and strong multilateral institutions, can extend the gains from collaboration and consolidate norms of global behavior. In the process, U.S. power could become the "invisible hand" injecting ideas, political capital, and security into the system. The resistance to American power that realists forecast as the Cold War system yielding to unipolarity could thus be avoided by embedding U.S. power in regimes widely considered to impose rules on all actors, producing a benign form of competition over the structure and the returns of a growing global economy.

However, the Cold War-era synthesis of American power and legitimacy rested on several transitory factors:

• bipolar conflict with a powerful and dangerous Soviet adversary produced strong incentives for compromise among the United States and its allies, and a strong common interest in conferring legitimacy on U.S. power;

• American economic and military preeminence within its coalition delayed competitive threats (until the transitory Japanese technological challenge of the 1980s), and facilitated U.S. political acceptance of economic and strategic free riding by allies;

• the compelling and recent experience of inter-war economic and political collapse, attributed to weak global institutions, U.S. detachment, and European appeasement, provided powerful lessons to a new generation of decision makers;

• an American polity of liberal politics, bipartisanship in foreign policy, and East Coast intellectual primacy maintained policy continuity, reassured others of the reliability of security commitments, and provided lobbying opportunities for governments whose future was primarily dependent on influencing American political leadership.

Absent these conditions, U.S. policy bears little resemblance to the liberal hegemony of the Cold War period. The combination of assertive neoliberalism (a Clinton-era form of regime change) and the more recent embrace of preventive war suggest that liberal internationalism's greatest challenges have come from America's own lack of self restraint. This excess of self regard and inflation of capability has had different manifestations in the last two administrations—a consequence of events (the threatless decade of the 1990s, then 9/11), different constituencies (global high-tech vs. defense and resources), and different degrees of fondness for the use of force.

But the results are similar. The United States has not met new threats with the same mix of skillful diplomacy, realistic assessment of capabilities, and liberal ideas that shaped the brilliant innovations of post-war American foreign policy. A still-robust but ill-governed American hegemon now precipitates resistance from others, in the form of "soft balancing" from rising powers and violent asymmetric attacks against Americans at home and abroad. An extraordinary drop in the esteem with which America is regarded by foreign publics, in a world trending towards populism, will prolong this resistance. Globalization, which many have viewed as the natural outgrowth of innumerable economic decisions of private actors enabled by liberal hegemony, has become the object of competition among strong, mercantilist states, and the target of rogue states and non-state actors.

Thus, the carrying capacity of American hegemony is much diminished. The underlying forces that both restrained U.S. power and generated consent by others, have weakened greatly. Bipolar conflict has been replaced by asymmetric and diffuse threats more uncertain and lethal, less subject to the conventions of deterrence and containment, and more challenging to effective decisionmaking within multilateral institutions. American material preeminence, and its conversion into effective influence, confronts the rapid global spread of technology, the rise of China, India, and other emerging

Published by World Policy Institute

markets, and the expanding influence of oil exporters in a market that will favor sellers for some time to come.

The paradigm deeply embedded in the minds of America's postwar generation (the centrality of Europe, the imperatives of collaboration and strong institutions, the need for permanent American engagement) has yielded both to new realities and to a new generation with different formative experiences. American political life has polarized, its demographics have shifted geographically and ethnically, its economic life has become more insecure, its discourse is more influenced by religion, and its overall behavior is less intelligible to the outside world.

Globalization Without Hegemony

These shifts in American policy are structural, not a matter of presidential idiosyncrasy. Inflated thoughts about the indispensability of American power predate George W. Bush's presidency, and describe a post-Cold War trend in American foreign economic policy that rejected the embedded liberal compromises reached at Bretton Woods in 1944 that gave birth to the World Bank and the International Monetary Fund (IMF). Washington sought instead to internationalize the market fundamentalism that took hold in American politics in the 1980s. Thus emerged the Washington Consensus, which called for the rapid opening of trade and financial markets, deregulation, privatization, and diminished government spending.

These market-friendly reforms were pursued aggressively through conditionality attached to IMF and World Bank lending, bilateral assistance, and WTO negotiations. This was soft power applied with the same willfulness the Bush administration devoted to forceful regime change. And more than any other single factor, it has generated increasingly open and effective resistance, as evidenced by the leftist populism in Latin America, and increasing protectionism.

The indications of resistance to U.S. influence over the world economy and its governance are numerous, clear, and incontrovertible. Washington's diplomatic leverage over the global trading system is in steep decline. This is clear from the Doha disaster (the first post-war global trade negotiation to fail) and the growing threat of discriminatory bilateral and regional trade arrangements (such as the "pan-Asian comprehensive economic partnership" proposed by Japan, a European Union focused on its own internal development, America's own North American Free Trade Agreement), which will absorb more attention as global trade negotiations fail or drag on inconclusively. Bilateral agreements are proliferating, including recent U.S. trade pacts with Australia, Bahrain, Morocco, Oman, Singapore, the Dominican Republic, and five Central American countries, plus several more awaiting congressional approval. Such discriminatory deals are precisely what the U.S.-inspired post-war order was designed to prevent.

Part of the story here is the weakening of the domestic requirements of liberal hegemony. The United States has proven unable to reform its own agricultural policies, thus depriving itself of leverage over EU or Japanese agricultural protectionism. Successive presidents have failed to gain (Clinton) or maintain (Bush) "fast track" trade authority, which gives the executive branch authority to negotiate trade agreements and submit the entire package to Congress. And that authority, long recognized as an essential requirement to effective participation in global trade talks, is unlikely to be revived in the next administration given the populist rhetoric of the current presidential campaign. Underlying these internal weaknesses is a broad sense of economic insecurity and the reality of wage stagnation and widening income inequalities, aggravated by the coming recession, attributed, rightly or not, to globalization. Whatever the cause, a more robust program of financial support to workers who have lost their jobs or seen their wages reduced due to imports might have diluted some of the animus directed at globalization (and increasingly at China), but a more generous safety net is a tough sell given current budget woes.

The America-centric international financial architecture is equally shaky. The IMF, dominated by developed countries, has failed to emerge from the Asian financial crisis of the late-1990s with any renewed sense of its role, either in surveillance over exchange rates or in lending to developing countries. It has slept through the crisis over China's currency policy and the huge global imbalances in trade accounts, thus failing to encourage the currency stability essential for trade liberalization. An increasing number of former clients—Argentina, Brazil, Russia, and Bolivia—have turned their backs on the Fund, preferring to access private financial markets and sovereign funds. Thus the IMF's current loan portfolio stands at $11 billion, its lowest value in 20 years and an 84 percent reduction from its $70 billion portfolio in 2003. The Fund currently has $252 billion in assets for lending, meaning that only 4 percent of its available funds are in outstanding loans. As the Fund's main source of income is interest payments on loans, it now has an operating deficit of $108 million, which is projected to grow to $386 million by 2010.

Frustration among developing countries with the Fund's neoliberal policy bias, its governance structure dominated by rich countries, and its performance in Asia and South America, have spawned new regional financing efforts. Following the Asian financial crisis, the Chiang Mai Agreement of 2000 among the Association of Southeast Asian Nations (ASEAN) +3 (China, Japan, and South Korea) established an Asian Monetary Fund that commits each member to set aside a portion of its considerable reserves for balance of payments support to other members in case of crisis. Last year, Brazil and Venezuela announced the formation of the Bank of the South with a similar mandate, financed largely by Venezuelan oil revenues.

Any major U.S. effort to strengthen the IMF, by reallocating voting shares towards emerging market countries, enlarging mandates or reinvigorating the policy agenda (more effective currency surveillance in particular) will suffer from diminished leverage. The American economy represents a declining share of global output, and, at recent growth rates, will be surpassed by China sometime around 2020. The U.S. portion of global trade is also diminishing. The dollar continues to fall against other currencies, while the pace at which foreign central banks are diversifying their reserve assets away from dollars has quickened. Emerging markets and oil exporters, owning huge pools of savings, will demand greater influence over the financial governance structure, even as they demand less of borrowers in terms of liberal conditionality. The United States will find itself, as it has been at Doha, trying to find common ground between rising powers and rich countries clinging to inherited privileges. It no longer has the power to succeed in this effort.

Many countries clearly have options outside the Bretton Woods architecture. Those seeking greater economies of scale have reduced trade barriers on a regional or bilateral basis, and in some cases have liberalized unilaterally to expand their access to lower-cost, higher-quality consumer goods and manufacturing inputs. Those with acceptable risk profiles can finance growth by accessing private markets and the rapidly expanding pool of savings controlled by the governments of China, India, and the resource exporters.

The point here is that the leverage available to global institutions and their most powerful members to keep the world on a liberal trajectory is much diminished by a loss of market share to frequently illiberal sovereign lenders and private actors whose risk assessment may privilege stability and market size over non-discriminatory treatment of trade and investment.

Three principle factors challenge liberal globalization. These factors, as they reinforce each other, do not doom the project, but they demand a very different style of American leadership, enabled by a restoration of effective domestic governance to reduce economic insecurity.

The first factor is the excessive zeal with which market fundamentalism was pursued, in any forum—bilateral, regional, or multilateral—where the United States thought it enjoyed leverage. That this project has been dubbed the Washington Consensus says volumes in a world that is increasingly multipolar in its distribution of economic and political influence. The grudging acceptance of this growth formula varied greatly depending on market size and access to private capital, and those developing countries that borrowed selectively from the orthodoxy—such as China and Malaysia—managed to weather the Asian financial crises much better than those that had liberalized their treatment of short-term capital flows.

In any event, the liberal project has suffered from the effects of neoliberal excesses on developing countries, exposing them to increased financial volatility and widening income inequalities. American credibility has been weakened by its insistence that the liberal order demanded conformance to a formula of market opening, privatization, and deregulation, and from the deep suspicion that neoliberalism was motivated more by mercantilism and fantasies of primacy than by sound economic advice.

The flawed track record of neoliberalism, and its close association with U.S. interests and power, has facilitated the election of populist governments throughout Latin America, where income inequality is a major political issue, and sensitivities to American influence run high. These populist governments are not shopping for alternative models to the Washington formula, nor are they rejecting globalization. What they are rejecting is a growth recipe based on what Americans like to think of as their historical experience, and a structure of global governance tilted towards the interests of developed countries.

What they seek are pragmatic, homegrown solutions to the problems of growth, poverty, and inequality that rest on robust markets, effective government, domestic consensus, and collaboration with likeminded states. This process, of democratically elected governments defining alternate paths to growth, is a perfectly viable approach to a politically sustainable—and still market-based—globalization. But it is not an approach that promotes American power.

The second principle factor challenging liberal globalization is the rise of the so called BRICs (Brazil, Russia, India, China) and the more recent emergence of oil exporters operating in tight, demand-driven markets, and in a position to leverage huge financial surpluses. This either will force reform of globalization's institutional structure, or marginalize it. Thus far, the latter possibility seems more likely. International trade and financial organizations thrived under Cold War conditions because of relatively small, homogenous membership and shared strategic interests. Even assuming a more restrained post-Cold War approach, these organizations would have faced severe challenges given the sudden expansion of membership and that membership's greater diversity.

But superimposed on the management headache of almost universal membership in the Bretton Woods institutions is the political and economic competition between the West and the BRICs. The progressive enfeeblement of these organizations is thus a strong possibility. The greater availability of development assistance and investment from developing markets also has weakened rich country leverage—for better or worse—over the behavior of developing countries, and has precipitated a heightened scramble for discriminatory access to resources and markets in the developing countries.

The third challenge to liberal globalization comes from internal American developments. The debate about foreign economic and security policy has become deeply partisan, and what policy America takes going forward will depend much more than previously on election results. Protectionism in defense of manufacturing and service jobs, particularly as the United States enters a recession, is a virtual inevitability with a Democratic Party victory, with much of the ire directed at China. A Republican win will see greater resistance to inward foreign investment, on national security grounds, despite the fact that such investment is the flip side of the dollar glut, and is an important source of finance for U.S. firms. The security policy impulses of the two parties are even more disparate, beginning with our posture in Iraq and the Middle East, and extending to disagreements about U.S. grand strategy.

Policy continuity, and the faith of other states in sustained liberal leadership, is in serious jeopardy. The temptations of primacy and the economic insecurities of globalization will set up contradictory pressures on policy, between micro-managing the global system, and withdrawal. The first extreme exaggerates American power, the second underrates it. Whether this volatility in policy reflects demographic and normative shifts in American politics or more transitory—even accidental—electoral outcomes is open to debate. But neither policy extreme will sustain a liberal form of globalization.

Two Future Globalization Scenarios

The best plausible scenario is heterogeneous globalization, a globalization that reflects a wider distribution of wealth and power, but still benefits from Washington's commitment to a liberal agenda. The shape of globalization—the rules governing trade and investment, the power structure within global and regional institutions, the direction and size of global flows—in this scenario emerges from bargaining among strong states and expanding international civil society with roughly equal soft power, but divergent interests and domestic structures. Under a scenario of heterogeneous globalization, Washington would support the reform of global institutions to increase emerging country representation; manage its economy to maintain openness and confidence in the dollar (even as central banks diversify their reserves); and apply hard power, with the collaboration of others, to securing this highly vulnerable system from asymmetric threats.

There are numerous convictions underlying this scenario. A globalization that works is not self-sustaining. Some form of positive U.S. engagement is essential: the overall orientation remains one of openness and non-discrimination. Washington's willingness to invest in a more multipolar version of globalization, less modeled on the American experience, less organized around U.S. commercial and financial interests, reflects a country both chastened by recent experience with its strategy of primacy, and aware that its prosperity requires a renewed commitment to the project.

This policy of self restraint would diminish resistance to U.S. power, while it invites diverse and locally adapted strategies of global economic engagement. The Clinton/Bush emphasis on regime change then would become an object lesson, useful—as the now-receding memory of the inter-war period used to be—in demonstrating how not to engage the world, while the imperatives of globalization would prevent an over-correction towards political and economic isolationism. In this scenario, the world would rediscover the practical value of American power.

This scenario also requires that the United States, in its domestic governance, meet tests that reflect emerging global norms and the increased impact of publics on foreign policy. For this scenario to succeed the United States would need to overcome the natural tendency of other states to balance against American power. But it also would need to address the widening skepticism among foreign publics about American governance. Cold War threats conferred an easy legitimacy, encouraging consensus and enabling others to overlook differences in values and internal politics. American leadership in a globalizing system, without Cold War simplicities, will have to measure up to others' rising expectations. Issues such as income inequality, race and gender, the death penalty and the size of the American prison population, energy consumption and environmental degradation, the electoral system, and the balancing of executive power will greatly influence the consent others grant to America.

The scenario also places extensive demands on global management in two respects. Strong institutions governed by multiple actors of diverse interests and internal structures will be infinitely more challenging than hegemonic stability. The simplifying assumption that many globalization advocates make in advancing their vision, namely a growing convergence around a neo-liberal model, would not be permitted in this scenario. Strong states must reform the present structure and invest it with credibility, then let it work without assurances that it will not produce unintended consequences for security or growth. We also must assume that heterogeneous globalization coexists with the persistence of insecurity, from threats that emerge or are enabled by globalization itself, and from interstate rivalry. An effective security architecture that secures a globalization not dominated by any one state or coalition, may be a logical contradiction.

This diminished America-centric vision may thus yield to illiberal globalization, a second scenario in which the United States attempts to exert domination over a rapidly changing global system, blocking (or lacking the power to broker) reform of global institutions, promoting a neo-liberal agenda for others, while adopting mercantilist policies in the face of competitive threats from China, India, or the European Union. Under this scenario, China would aggressively attempt to undermine liberal principles of conditionality, while the European Union pushes standards of state behavior centered on the environment, human rights, and social policy. Globalization would continue in the sense of expanded global flows across porous borders, but these flows would face more restraints, while the global governance structure would become less legitimate and more of an arena for interstate competition over the rules. Strong governments would involve themselves deeply in negotiating special advantages for their competitive industries with one hand, while protecting or subsidizing declining industries with the other. This is a fundamentally different situation than exists today.

The tilted international playing field produced by a half century of Western-dominated global trade and financial negotiations would provoke many emerging countries to opt out, turning their attention to regional trade and investment arrangements among economically and politically more homogeneous states. This would still be globalization, but with fewer legal protections for weak countries; operating at lower levels of efficiency and growth; with less capacity for poverty alleviation; and with weaker institutions and less resilience in the face of inevitable shocks. This more diffuse form of globalization would also, inevitably, have less spillover into politics, culture, and values.

This scenario represents not a rejection of globalization, but a failure to come to terms with multipolarity, an anachronistic embrace of American exceptionalism, and others' natural inclination towards resistance. With "hard balancing" beyond the near-term capacity of most states, resistance to American power would focus on the global economy. This would produce greater competition for resources; efforts to control leading-edge technologies; the seeking of preferential access to markets and capital; strategically motivated attacks on the dollar; protectionism targeted at others' competitive industries; regional agreements designed to diminish the influence of outside powers; and other forms of "geonomic" competition. One could imaging several examples, such as a gas cartel organized around Russia and emerging gas producers in Asia and the Middle East; regional trade agreements adopting local content requirements to draw foreign direct investment away from other regions; widespread imposition of export controls on leading-edge technologies to competing markets; or Chinese use of dollar reserves to buy up strategic industries where regulators permit. Globalization, a force unto itself in the liberal narrative, is here subordinate to international politics, shaping the goals and instruments of states vying for power and influence, the prize in a multipolar competition.

Heterogeneous globalization is clearly the preferred scenario, but whether it can be achieved will depend on Washington's commitment to leadership in a world of strong and assertive partners/rivals with distinctive views of global and domestic governance. Global institutions will need to be reengineered, and the hard and often inconclusive bargaining to come will tempt the United States to overreach or to withdraw. Wider variations in economic structure and practice will have to be accommodated, without sacrificing principles of openness and non-discrimination. Market incentives will have to substitute for diplomatic heavy lifting in promoting liberal treatment of trade and investment. Embedded liberalism, the accommodation of U.S. power to divergent interests in postwar Europe, will have to be reinvented for a far more complex world. ●

Published by World Policy Institute