In recent decades the socio-economic inequality and cultural discontent generated in large part by globalization has created a political backlash in segments of society. While exponents of populism and nationalism often pressure politicians to favor more protectionist agendas, the electorates of many developed and developing countries nevertheless remain fiercely divided over national economic policy. How strong are insular political forces in the United States today and in leading regional actors such as Britain, France, Brazil, and India? To what extent can national and international institutions contain the negative effects of globalization (and those of the pandemic and the conflict in Ukraine) while curbing the threat of populism and nationalism to international trade and cooperation?

Economic Populism and Nationalism: Challenges to Globalization

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Following WWII, world leaders came together in an unprecedented fashion to create international institutions – and unlike the attempt after WWI - they actually lasted. In the latter half of the 20th century, countries reformed their political structures, forged alliances and accelerated global trade. After decades of economic growth and cooperation, many countries have prospered from globalization. Yet some segments within those countries feel left behind. The inequality has fueled a backlash: electorates of many countries are supporting populist leaders to favor protectionist and nationalist policies. Today many leaders remain stalwart in their attempts to either benefit from globalization or shake their countries loose of it.

Introduction

The decades following the Second World War brought unprecedented international economic competition and political cooperation.[1] Many countries adopted inclusive political institutions and distributive economic institutions that facilitated peace and prosperity. Globalization brought with it an international rules-based order and institutions such as the United Nations, the World Bank, and the International Monetary Fund. These institutions and supporting norms established means for countries to work together to rebuild the world. International military alliances reinforced the mutual economic interests of the West and aligned states as two opposing hegemons – the US and the USSR – faced off in the Cold War.

The post-WWII world economy grew at ever-increasing rates.[2] National economies matured, and Allied navies facilitated safe transoceanic trade based on comparative advantage, reinforcing a virtuous growth cycle. The Soviet collapse in 1991 reduced strategic competition and facilitated even greater international cooperation and economic integration through the World Trade Organization (WTO). NATO and the European Union expanded to fill voids. Many leaders emphasized “rising tide lifts all boats” sentiments and sought to continue this arc into the 21st century with the emergence of the world’s next power - China.

This harmonious version of events is only one perspective, though. The post-war world was not without norm defying, partial reforms, acts of economic harm, proxy fights, crises, and open conflict. Critics of globalization came to view it not for its merits but for the real or perceived dangers and costs of interdependence, socio-economic inequality, and sustained impoverishment of those marginalized and left behind.

The tradeoffs of globalization continue to fuel populist and nationalist movements in countries around the world resulting in changes in power, policy, and behavior. Some countries failed to reform or became stuck in vicious cycles with extractive elitist regimes. China's years-long general unwillingness to abide by rules and norms led the United States to abandon its aspirational engagement policy (such as admitting China into the WTO) for a more rivalrous one.[3] The coronavirus pandemic exposed the vulnerabilities of global supply chains and the cascading effects of disruptions and monetary policy decisions. Russia's invasion of Ukraine has brought more economic headwinds and tests to international resolve.

Varying Outcomes with Degrees of Liberalization, Wealth Distribution, and Globalization

In the last 75 years since the last global war, many countries improved their standard of living and enjoyed domestic stability. Many point to political liberalization and inclusive economies as the proximate causes of this. Globalists go a step further and point to international participation as another major cause of economic growth.[4] There are cases where countries have cooperated in international institutions to varying degrees and economies grew generally in line with participation levels. However, not all populations always enjoy uniform increases in standards of living even with international engagement, largely due to exclusive (meaning elite control and/or benefit at the expense of many) domestic political and economic institutions.

Asia provides amazing examples of growth following reforms. Following WWII, after recovering from extensive destruction, Japan was the first country to embark on economic reforms (although they are facing some challenges with population growth, age, and economic retractions of late). The "Asian Tigers" were next, comprising Hong Kong, Taiwan, Singapore, and South Korea. These countries all opened their markets to the world, improved economically, and enjoyed those gains broadly amongst their populations.[5] Other moderate global participants include Vietnam and Costa Rica. Their political institutions differ, but their governments invest well. They both are moderately engaged globally with marginal economic growth, and the results have been shared by the population broadly enough to ensure domestic stability.[6]

Problems occur, however, when economic outcomes – whether they result in marginal or great increases in wealth, bypass most of the population. An excellent example is Libya, where a coup overthrew the autocratic monarchy in 1969. The coup leaders aimed to share the benefits of exporting oil with the entire country but failed to completely follow through, a possible middle-income (or partial reform) trap (where reforms initially produce marginal political and economic improvement but stagnate over time).[7] This ultimately resulted in a violent overthrow of Qaddafi and the revolutionaries 50 years later; and Libya is still struggling to end internal strife and rebuild.[8]

Similar stagnation has occurred throughout Latin America. The OECD cites that the region has enjoyed marginal gains in many areas, but still suffers from problems with taxes, education, investment, gender gaps, employment and upskilling, and reliance on commodity exports. Wealth and power are concentrated amongst elites who govern ineffectively with rampant corruption, leaving a people with little trust in political institutions and elections. [9]

Sadly, the continent of Africa offers many examples of countries that have not only experienced marginal economic growth; in many countries the wealth is very narrowly concentrated amongst incumbent elites. This concentration of wealth leads to brutal struggles among competing elites as well as mass protests against poverty and inequality. The argument could be made that political instability and conflict prevent international investment and economic growth. The continent has experienced nearly half of the world's attempted or successful coups since 1950,[10] and houses 13 of the world's worst 20 Gini coefficient scores (a World Bank index measuring national income inequality).[11]

These cases help identify the complex relationship between globalization and balanced development: participation in global trade by itself does not guarantee positive gains that reduce poverty and stabilize politics. The inclusivity of domestic political institutions and a reasonable distribution of economic gains within a country largely influence overall outcomes as well.

Global Trends & Market Dynamics

Economic recessions and financial crises have often crossed borders, even before WWII (e.g., the 1929 Stock Market crash and subsequent global Great Depression). Today, global markets appear to be increasingly competitive and interconnected; and the world narrowly avoided repeated disasters in 2008 and 2020. Market dynamics, economic growth models and technology could explain the effects of increased interconnectedness and competition. While classical economists may describe the process as creative destruction, the effects are visceral and fuel nationalist and populist policies for those negatively affected.

Given the general economic development arc from an agricultural to a manufacturing to a service-based economy, as more emerging markets develop, the supply of goods and services in the world market naturally increases. Countries further along in this development arc likely have higher input and labor costs than those catching up. This increases competition on price and creates pressure to shift sourcing goods and services away from countries with higher costs (known as offshoring). Also, more recent (state, private, or foreign) investment in emerging markets may gain the benefit of physical capital that is on the frontier of technology and efficiency, such as what happened in Japan post-WWII to propel it to a powerful force in the world steel market.[12]

Another explanation is that the world is simply becoming more connected with more physical infrastructure, lean and efficient shipping, and telecommunications. These pathways enable foreign firms to penetrate markets (or, on the other side of the coin for consumers to have more choice) in areas that before may have had natural (not purposely protective) barriers. More advanced markets in previously remote places now must compete with new entrants and/or retain customers who have more options. For example, skilled labor in advanced markets now must compete with skilled labor in cheaper countries that can connect remotely.

The amount and manner of state investment in infrastructure, education, and economic production greatly impacts outcomes. As emerging markets accumulate wealth the state could propel a virtuous cycle of growth and disciplined investment that enables a national economy to better compete globally. This advantage could be compounded if advanced countries are undisciplined with their own spending to remain competitive and are caught flat-footed when new entrants emerge. This debate is currently ongoing with the US and China; the PRC's state spending could favorably be characterized as investment for growth or regarded as state subsidization and unfair economic competition.

Notable Current Global Examples

Exogenous shocks, as well as the fallout from the dynamics described above can bring negative outcomes for countries. The COVID-19 pandemic disrupted many markets, brought fear, uncertainty, and financial losses for much of the globe. This economic fallout fueled much protectionist fervor. In sum, the 21st century brings numerous challenges to the post-Cold War unipolar order as well as increased opposition to and perhaps reversal of globalization trends. Even in advanced economies that may have benefited from globalization in the past, policies described as nationalist, populist and protectionist are gaining support. While these political trends may prove to be short lived or their causes subject to debate, they are ongoing.

First, the People's Republic of China reported an average 8% annual GDP growth since 1961, largely driven by becoming the world's preeminent manufacturer (the US reported only 3% average annual GDP growth over the same time period).[13] This manufacturing explosion not only changed a wide variety of global industries, but it has also played a part influencing populist and protectionist policies in areas where that manufacturing once was. These pressures will likely increase with China's Belt and Road Initiative. Not only will China likely retain its manufacturing, this massive state-backed international investment endeavor will now seek underdeveloped markets for future influence and large returns.

While China's unipolar ambitions are debated, its desire to match the US as rival superpower is thinly veiled.[14] Even if Beijing does not seek unipolarity, their disregard for international norms and institutions signals an awareness of the impact it has on the global economy and understanding of where it can push limits. Even after joining the WTO in 2001, China is repeatedly accused of unfair tariffs, stock market manipulation, "debt diplomacy," state subsidization of industries and currency devaluation leading to unfair trade deficits are common (although accusations often go both ways).[15]

The United Kingdom is another notable example of national self-interest trumping global participation. Seeking distance from select dysfunctional economies in the EU and to regain more national sovereignty, the UK passed Brexit in 2020. Although this shocked many and brought much uncertainty, the UK and EU reached an amenable agreement that kept many critical financial ties in place without much fallout.

Winds from Russia have pushed views on globalization both ways. Following the fall of the Soviet Union, many questioned the need to sustain domestic and international efforts meant to challenge the USSR. However, with the invasion of Ukraine those sentiments may have reversed course. Surprisingly Germany, which is normally leads a collective EU, has had a somewhat muted reaction; while France, which before has often acted in its self-interest, has had a very bold reaction. Russia profoundly impacts European (and global) energy markets, and this winter will only increase the pressure in that market. Unfortunately, not all the world has joined in sanctions and Russia has been able to sustain energy exports and retain at least sufficient revenue to sustain the conflict.

Other nationalist and populist leaders and movements around the world working against globalization include Jair Bolsanor in Brazil; Narenda Modi in India; Joko Widodo in Indonesia; and Georgia Meloni in Italy. These leaders and their parties have tremendous influence on policy in countries with large economies and can certainly influence whether they take a globalist or self-interested course.

One final group worth discussion is OPEC, as oil prices greatly impact the world economy.[16] While OPEC is a regional organization focused on a single commodity, its members are relatively homogeneous in terms of ends, ways and means. Also, while not controlled by any one nation, Saudi Arabia does exert much influence in this bloc and can steer it towards its national interests.

Current and Historic American Tensions

Coming out of WWII as a hegemon and in a (perhaps fleeting) unipolar moment, America often enjoyed the ability to "set the rules of the game" in the world order. One may assume that with this ability there would never be domestic tension over globalization - why, when you can set the rules to align with your interests, would you not set them or change them exactly as you wish? Upon examination, events show us that even with hegemonic status the US has experienced tensions in attempting to exert that influence.

Since Marx's writing, many have deemed communism as a threat to political liberty and to open markets. The US has occasionally taken it upon itself to defend the world order against the threat of this ideology. Shortly after WWII, the US continued to support the Republic of China even after the communists won the Chinese Civil War in 1949. This led the Soviet Union to boycott the newly formed UN Security Council. Following North Korea's invasion of South Korea in 1950, the absence of a Soviet veto enabled the US to quickly lead the UN in a three-year conflict on the Korean peninsula to reestablish the international border and contain communism. A decade later, fears of the "domino theory" regarding South Vietnam and southeast Asia as a whole threatening the international order largely influenced American policy makers' decisions to continue to escalate the Vietnam War.

For some observers, these events demonstrated an alignment of America's national interests with globalization and international institutions. Both the Korean and Vietnam wars were rooted in the fear that the expansion of communist ideology threatened the international order and US national interests. Yet both wars became deeply unpopular and caused domestic strife over America's role in the world and what acceptable costs were for the US as a hegemon to supervise the global order.

Quickly following Vietnam, energy shocks in the 1970s also caused domestic tension over America's role. After the US financially supported Israel in the Yom Kippur War in 1973, OPEC instituted an oil embargo that lasted over six months. Also, following the Iranian Revolution in 1979 it was America's turn to institute a boycott on Iranian oil. Both events had a costly financial impact on Americans (during already economically challenging times), and generated opposing viewpoints on the relative value of an interdependent world economy. Renewed public and political support for the US becoming energy self-sufficient was one important outcome of this debate.

After many decades in which ever-increasing globalization reduced the footprint of domestic manufacturing, many Americans became distrustful of international organizations. The area of the US known as the "Rust Belt" was particularly affected by offshoring its electorate was increasingly outspoken against America's existing open trade practices. In 2016, this part of the country was largely credited with changing historical voting and swinging the election to President Trump, the preferred candidate for many populist and nationalist voters.

The US instituted many protective trade practices under the Trump administration. While arguments for establishing leverage in trade negotiations are generally accepted, the outcomes of such practices are mixed. Workers and firms in certain sectors have benefitted from new trade policies, while others have suffered. New trade agreements and balances were little different, and American consumers and firms ended up paying the overwhelming amount of the tariffs, not the exporting countries. Overall, some benefited but those that support America's role as leading global free markets were very critical. The policies remain generally unchanged under the Biden administration.

Going forward, American monetary policy will have both domestic and international impacts. Due to monetary and fiscal policy during the pandemic and to global economic conditions, the US currently has the highest money supply on record and is experiencing inflation unseen in nearly 50 years. This inflation affects every American and is regressive - affecting the poorest the most.

While monetary policy theory would support reducing the money supply to combat inflation, such a policy would make American exports more expensive on the world market, especially as other currencies continue to depreciate against the dollar. This will make imports cheaper for consumers and firms, but likely produce another negative impact on American manufacturing. Also, as approximately three-quarters of global financial transactions involve the US dollar (depending on what metrics are used), a strengthening dollar has a negative impact on other countries.[17] In this circumstance, what is good for America may be bad for the world.

What to Do?

Perhaps a future world will find a way to be economically interconnected without any negative effects, but history has shown how challenging that will be. While a globalized world has brought ever increasing prosperity to incentivize cooperation for mutual benefit, it has not been without the tradeoffs of creative destruction. Business cycles, shocks and market failures, internal and external conflicts, and individual, group and national self-interest are often opposing forces. Such forces have led large segments of society with strong feelings of economic and cultural loss. Not only do many citizens fell left behind economically; they believe that globalization threatens their very culture through the behavior of rapacious elites, unchecked immigration, and extreme liberal ideology.

Smoothing business cycles (specifically dampening recessions) may reduce subsequent self-interested pullback from world trade. Perhaps governments and central banks can attempt to "smooth out" business cycles with their monetary and fiscal policies and balance market freedom for growth with oversight and regulation to prevent crises. Governments can also be prudent with national investment, with advanced economies avoiding complacency or overprotection of uncompetitive industries for when the "water inevitably comes over the levee." But public policy must also work to address the concerns that enable populist politicians to capitalize on societal discontent. Massive government-supported training programs to provide the skills to navigate the economy of the 21st century is one possible approach. So, too, is the humane but effective regulation of immigration that alleviates the fear of many that their country and way of life are being overwhelmed by external forces. Perhaps most important, citizens must feel that the government is transparent, democratic, and represents their fundamental interests. Such changes would likely increase the level of responsible civic engagement in politics and weaken the attractiveness of populist demagogues.

History has shown that it may be better for all if a hegemon shapes the world as it wants. But to do so it must lead. It also must do so without simply maximizing self-interest or mercantile zero-sum practices. Expanding the pie and sharing it attracts partners, increases stability and reduces enforcement costs. That is not to say that efforts to increase prosperity will come at no cost, but imagine the counterfactuals of a world with fewer friends working towards mutual benefit.

America, while not perfect, has demonstrated good leadership in a liberalized world. When it has pulled back, history has shown that other nations are eager to fill the void and shape things as they wish. As China continues to rise in the 21st century, it is up to the US to both lead and engage in liberal global institutions to sustain their merits. Creating the equivalent of a Melian Dialogue in which weak states are forced to submit to the will of the strong will only increase the risk of not achieving prosperity for all. Non-hegemonic countries are unlikely to resign themselves to suffering what they must indefinitely. The US must restore and sustain faith in the global order it protects to guard against the temptation for countries to defect to a rival order-in-waiting. Pulling back from one order may ultimately result in ending up in a worse one later.

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- *Populism and the Question of How to Respond to It* by Cristobal Rovira Kaltwasser
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- *"Redefining Populism"* by Isaac Chotiner
- *"China seeks a world worder that defers to states and their rulers"* The Economist.
- *"Here's the real reason Rust Belt cities and towns voted for Trump"* by Josh Pacewicz

Discussion Questions

- Can countries prosper without participating in globalization? What if they do but elites extract all the wealth?
- Are international institutions resilient enough to last?
- Is it possible to contain the negative effects of globalization?
- Should the US lead global free trade and international institutions? If so, how? Why and how should other countries participate?
- Can countries that have large populist movements find a way to benefit from globalization peacefully?

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