

Exhausted Globalisation

Exhausted Globalisation:

*Between the Transatlantic
Orientation and the Chinese
Way*

By

Michael Hüther, Matthias Diermeier,
and Henry Goecke

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PREFACE

After the fall of the Iron Curtain in 1989-1990, globalisation began with high hopes for global wealth growth and political modernisation, in the form of increasingly open and democratic societies. Today, globalisation seems exhausted - the division of labour is no longer intensifying, global trade is barely expanding more than world production, the number of dynamic economies is stagnating, many developing countries are persistently lagging behind, a number of emerging markets remain sluggish and some industrial states, when faced with continuous distributional implications, are witnessing a renaissance of protectionist policies.

In order to understand the downturn of our – the “second” – globalisation – it is essential to first and foremost put it into the historical perspective of the “first” globalisation from 1870 to 1914. The peculiarity of our time is only comprehensible in light of the success sparked by economic openness and international interconnection, as well as by taking an in-depth look at the historical heritage of disintegration, autarky and decolonisation of that period. Secondly, it is necessary to elucidate fairly all the aspects of economic globalisation – migration, trade, capital movements, and transfer of knowledge. In doing so, the reasons for the downturn emerge: the lack of adequate institutions in the developing and newly industrialised economy, illusions about the inevitable automatism of capitalist efficiency in developed countries, and the conflict surrounding the purpose, responsibilities and design of multilateral institutions.

The exhausted globalisation is predominantly a manifestation of an underestimated normative conflict between the transatlantic West and its ideas of 1789 (revived in 1989) and the Chinese move, outlined by Deng Xiaoping, to shape the world economy on the basis of a newly developed meritocracy – a model grounded on differently defined values. Ultimately, the western conception of non-derogable human rights, the rule of law, the separation of powers, as well as the sovereignty of the people and the representative democracy, collides with the Chinese dominance of the state interest, the authoritative one-party system and the supremacy of the party and governmental institutions. Sustainable globalisation – at least as

regards the challenges of climate change and digitalisation – can only be achieved by addressing this normative conflict. Thus, there is a need to clarify the mind-set of transnational norms and institutions, to find a solution for the lack of trust in developing countries, and to strengthen civil society. The way forward bears deep potential conflicts that must be worked out through a protracted and detailed process, which is unavoidable, nonetheless, if countries from all parts of the world are to participate in an inclusive and equitable globalisation process, embedded in civil society and ecologically sustainable.

The story of this book begins with Michael Hüther's research and teaching experience as part of his Gerda Henkel Visiting Professorship at Stanford University's Department of German Studies, in the autumn semester of 2016. On this occasion, the authors have chosen globalisation as a transatlantic research topic in a dual sense. Like every creative writing process, the topic is developed continuously, thus opening up new dimensions. Thankfully, we can look back on a stimulating period of shared learning and thinking. We are extremely grateful for the generous financial support of the Gerda Henkel Foundation, without which, this book would not have been possible.

Furthermore, this book could not have been completed at this time without the unwavering support of many. We wish to thank the student staff in the directorate of the institute: Melinda Fremerey, Pekka Sagner, Onur Seker and Ekaterina Yurinskaya. We also thank Christopher Lin Xin Lu, Stanford University, for his work on funded old-age pension schemes in sub-Saharan Africa during his study visit to Cologne. We are grateful for the advice and criticism that we now expect from the readers – because the labour-and knowledge-sharing process that every book entails does not end with the writing, only with the reading.

Michael Hüther, Matthias Diermeier, and Henry Goecke

Cologne, May 2018

CHAPTER ONE

THE ILLEGIBILITY OF OUR TIME

*“How can something
that our political leaders – and many economists –
said would make everyone better off be so reviled?”*

—Joseph E. Stiglitz, 2016

Varied are the crisis signs of our time. Social cohesion is dwindling, political structures are eroding and the economic situation has become worrisome. Contemporary historians speak of a *trend reversal* (Rödder, 2015) in the face of new developments, setbacks, clashes of development, the erosion of certainties, insecurity, loss of leadership, new types of conflict – both despite and because of increasing global interdependence – and seemingly dwindling political power. The contemporaneity and densification of a refusal to accept the current situation have opened the door for speculation which it is clear cannot be captured, described or even localised by experiences, tendencies, trends or path dependencies. If the non-contemporaneity through which different temporal strata greet us becomes simultaneously powerful, then a loss of direction is hardly surprising and the hypothesised reversal of the trend becomes highly plausible.

The various facets of this trend reversal can be observed in varying degrees of intensity in the economically well-developed countries of the West. For the purposes of this discussion, the West is considered to comprise Europe and North America, thus the transatlantic area in the northern hemisphere (Winkler, 2015). The common denominator in national trend reversals is the perception of globalisation, and its real and perceived consequences for employment, income distribution and social cohesion. This links with feelings of powerlessness, which are not limited to the underprivileged and the ‘left behind’. Furthermore, there is a desire among affluent citizens to secure what they have achieved by resisting further reform pressure. The great narrative of freedom, which burst onto the global landscape with the fall of the Berlin Wall and the Iron Curtain, has always had a political as well as an economic component, each guiding the other and expanding the opportunities for action. This narrative has now lost its

self-evident nature, precisely because of its unrestricted obtrusiveness and the feeling of foreign influence from afar.

Identity issues come into play in a broad sense: at the level of the individual in terms of the self and collective belonging, at the level of society in terms of the significance and cohesive power of classes, backgrounds and communities, and in the global context in terms of the importance of the nation in transnational contexts, dependencies and structures. The flip side of the identity struggle is a lack of orientation which is evident in daily life and makes life difficult to manage. This complexity is linked with very different economic realities in the different states. This book will attempt to decode this situation and make sense of our time. According to the working hypothesis, the key to this lies in the understanding and in the necessary – since it is unavoidable – normative localisation of globalisation. This is because the self-evident nature of Western-style globalisation is just as untenable as the idea of a value-free, purely market-driven global economy.

First, we consider the reversal of the trend in closer detail (Section 1.1). The key driver – globalisation – is then conceptualised and defined (Section 1.2), allowing us to take a closer look at the current illusions which pervade globalisation (Section 1.3). Finally, two classifications are used as the basis for the analysis which follows: networks and hierarchies as models of understanding of historical developments (Section 1.4) as well as the issue of the normative quality of globalisation (Section 1.5).

1.1 Reversal of the trend: delayed coincidence of significant new era

It seems that the new era heralded for some time by intellectuals is now manifesting itself in the trend reversal taking place in most advanced Western countries, albeit for quite different reasons. Postmodernism, crisis of the welfare state, post-democracy – these terms are established elements of socially critical debates and represent an assessment of a fundamental shift through which applied practices are becoming obsolete or are quite simply coming under pressure to reform.

- As far back as 1979, French philosopher and literary theorist Jean-François Lyotard took his concept of *postmodernism* to the public (Lyotard, 1979). His interpretation at the time was based on the assessment that the great narratives (“meta-narratives”) of the Enlightenment, of idealism and of historicism had lost their powers of

persuasion, of legitimacy and of orientation. The progressive idea of emancipation of the individual, the idealistic prospect of a superior, unifying and self-aware spirit (as described by Georg Wilhelm Friedrich Hegel, philosopher and important figure of German idealism) and the idea of meaningful historical progress had become ineffective without the delivery of a replacement. Consequently, there was no longer a project of modernity to which social action had to be subordinated. This signalled the end of ideologically localised action programmes with their comprehensive promise of individual insouciance under the welfare state and of economic state governance within the meaning of Keynesian economics. This would be no real loss, however, as it would mean regaining opportunities for political activity and the democratic responsibility of the individual. *But how can this be achieved?*

- In the mid-1980s, the *crisis of the welfare state* became a central concern. This topic as well as the exhaustion of utopian energies were addressed by German philosopher Jürgen Habermas, for example (Habermas, 1985). From today's point of view, after experiencing genuinely profound social reforms with a virtually unchanged high rate of social provisions, this debate seems somewhat strange and hypertrophic. Against the background of the expansion of the social system which took place until the mid-1970s – ultimately slowed only by the macroeconomic impacts of the oil crisis and a flagging visionary zeal for reform – in addition to smaller cuts and social benefit cutbacks after 1980, many contemporaries still find merit in the idea of a welfare state crisis. Even today, social scientists in particular continue to view the year 1975 as both a pinnacle and a turning point in the expansion of the welfare state (Zürn, 1998; Streeck, 2013). Admittedly, this is bound up with the positing of a specific, historically defined conceptualisation of the welfare state as absolute and independent from context, but fully in line with a history of salvation (*Heilsgeschichte*). *But where does a history of salvation with a diminishing relationship to reality and no option for change lead?*
- At the beginning of the 21st century, British political scientist and sociologist Colin Crouch (2005, 2011) used the term *post-democracy* to describe a significant loss of public space and thus of social cohesion. This is likely to come about if the public debate around the resolution of relevant issues is dictated by communication agencies, lobby groups and think tanks, rather than by well-grounded public and political discussion. The vast majority of citi-

zens keep to themselves in the face of political drama and respond only to certain strong signals. Discourse no longer takes place in public spaces. Instead of participation, there is spectacle. One might well suppose that the driving force is the global pressure to reform national institutions and the vain attempt of the political class to counter this pressure. The infinite diversity and plurality of opinion in new media are likely to act as contributing factors, intensifying the problem. Even the most absurd opinions find their way into the public eye; where traditional media previously underwent quality assurance processes and filtering due to their clear positioning, these measures are now lacking. Thus, the individual has to swim directionless through the sea of opinions. By way of compensation, this encourages escalation, a fixation on prejudices, a predisposition towards protests and a distrust of the institutions traditionally involved in shaping public opinion, as well as the political regulation of differences of opinion and conflicts of interest. Consequently, it becomes difficult to achieve basic social consensus on the elementary principles of cooperation and on key goals. *But what does the absence of a common need for democracy mean for a society?*

While the respective trend reversals and restructurings were also considered plausible in their time, these did not create any concerns relating to trend reversals as a rupture of civilisation in the way that this is experienced now and in the way the depth and extent of the *Fin-de-Siècle* mood at the turn of the 20th century is remembered. Furthermore, a larger number of societies became similarly contemplative, even to the point of depressive self-abandonment. From the point of view of contemporaries, the era described by historians as “the long 19th century” did not seem to want to end (Bauer, 2004). This resulted in an unprecedented frankness of expectation amongst the social elite, which led to uncertainty and made it appear as if the status quo were on thin ice. Prostration rather than affirmation, world-weariness rather than willingness to learn, and a sense of doom rather than a spirit of optimism were characteristic of the time. The high momentum of modernisation in the second half of the nineteenth century set in motion many processes of change that to contemporaries seemed to be unconnectable loose ends – history without meaning.

There are many similarities today: there is a huge degree of uncertainty about future social, political and economic development, leaving equally significant room for speculation. What was considered unthinkable for a long time has become frighteningly close to reality. The erosion of trust

has resulted in a significant loss of orientation and prompted a search for meaning. At the same time, the issue is clearly not restricted to the elite, as was the case at the turn of the 20th century. Large sections of the population are experiencing uncertainty and, despite a stable economic situation, even in Germany the middle class feels increasingly under threat. The postmodern loss of trust and feeling of insecurity are today reflected in a diverging network of values. While this has resulted on the one hand in the evolution of *post-materialism*, which questions the pursuit of material possessions per se and triggers a conflict with prevailing social guidelines, it has also brought about the development of an orthodox, almost romanticised return to the past – a nationalistically motivated conservatism. As demonstrated by the political developments of liberal Western democracies, this now systemic conflict holds huge explosive power.

Postmodernism, the crisis of the welfare state and post-democracy collectively offer a meaningful insight into the mood of uncertainty, capture the ominous deus ex machina resulting from the almost universal pointing of fingers at globalisation, and provide an overview of the trend reversal outlined above with their three perspectives. Their topicality and significance can also be explained by the fact that the perceived interminability of, and thus lack of alternatives to, the achieved normality of saturated society is as much a problem as the crisis itself.

The economic and financial crisis of 2008/09 can be seen as the catalyst for the trend reversal, and was simultaneously interpreted as a social catastrophe and an overstretching of political capabilities. The crisis was caused by an economic system that had been shaped by globalisation and which had become far removed from the norms of humanity – which demanded primacy of the economy and codified all life contexts with a sanctified self-interest. The idea that the system is criminal led to the thesis that, in its present stage of development, capitalism as a system is misaligned. Not unlike the situation after 1900, the fact that fundamental values of social coexistence were endangered during the crisis explains the existential-critical view of our economic and social order. *Fin du Capitalisme* rather than *Fin de Siècle*?

In the search for an explanation to the current upheavals – which are comparable across almost all established societies – the economic and financial crisis is still not sufficient. The effects across countries varied too widely, economic policy conditions and social constellations are too specific, and the global consequences were ultimately less dramatic than anticipated. In short, the scale of disenchantment in the developed economies and in the

emerging and developing economies is too profound to be understood simply as a response to this crisis. It seems as though a central function of our era – to deliver amicable, efficient and effective coordination services – is being called into question because the promise to advance the market economy, while admittedly interpreted differently, is no longer supported. In fact, in the period since the turn of the millennium, the prospect of a fundamentally progressive increase in real income and thus in the scope for action has proved increasingly unrealistic in many countries. The perception of globalisation has changed, and the engine of wealth creation and sought-after democratisation has become a source of threat and overstrain.

Even in economies with sound development and record employment, such as Germany, it is the majority and not the minority that is likely to express fear about future development, individual opportunities and, above all, personal status. There is certainly a sense that, while the glut of new jobs (in Germany) has halted the trend towards greater inequality of net income, it could not reverse it. This is based on the widespread perception that globalisation in times of digital transformation is the main reason for the adjustment burden placed on employees, whether through higher productivity requirements, wage pressure or increased job risks. Therefore, the overarching explanation can also be found only at the global level, namely in the crisis of globalisation and the associated frustration on many sides.

1.2 What is meant by globalisation?

The term globalisation has hitherto been used without conceptual specification or temporal allocation, in line with the prevailing public understanding. Some *definitions of terms* are offered for the subsequent considerations on definition, in order to facilitate the discussion of the general, everyday notion of globalisation as a process. For while the term globalisation is regularly used as a “*diagnosis of the present*” (Osterhammel, Petersson 2012, 7), its meaning is in fact extremely complex. It is impossible to reach a consensus on a compelling, all-encompassing, acceptable and consistent definition of the term due to its historical character and because the term is so ideologically charged (“obstacles of the globalisation debate”, Beck, 1997, 9).

In terms of conceptual history, the findings are reasonably clear: globalisation first appeared in literature in the 1940s (Gronholz, 2012, 103), and books on global history – as the historiographic reflex of contemporary

findings – first came onto the market after 1960 (Reinhard, 2016, 1256; Adelman, 2017). In economic research in particular, real attention was given to the term only when it was later brought back into the discussion by Theodore Levitt and rose to prominence once again. Its usage followed the actual development, which has since been marked by an increase in global *economic interconnection and interdependence*. With Levitt's publication "The Globalization of Markets" in 1983, globalisation was the word on everyone's lips (Levitt, 1983).

At the same time, the concept was still open to interpretation. The German Council of Economic Experts, for example, debated the "progressive international division of labour" for the first time in their 1985/86 annual report:

"A worldwide network of real economic and financial relations has further intensified the interconnected nature of national and foreign markets. In the case of a number of commodities meanwhile, the global integration of markets has progressed to such an extent that it is practically possible to speak of world markets." (German Council of Economic Experts, 1985, para. 140)

The following annual report addresses economic policy and highlights the responsibility that strong economies have "towards the international community as a whole" (German Council of Economic Experts, 1986, para. 218). In contrast to the concept of internationalisation, globalisation refers to its own design quality, which by its very nature is incompatible with existing national structures and instead places these under significant adaptation requirements.

Since 1990 in particular, the concept of globalisation has experienced an unfettered boom and has been used as a melting pot for global, intercontinental, transnational, and intercultural cooperation between the most diverse associations. If activists criticise globalisation, it is the distribution of profits resulting from the efficient allocation of capital and labour, as well as the associated power struggle which take centre stage. The concern is that globalisation threatens democratic sovereignty, legitimacy and justification in the nation state. When former German Finance Minister Schäuble spoke of a "rendezvous with globalisation" (Schäuble, 2015), he addressed migratory pressure towards Europe. Politically speaking, two assessments of globalisation are offered with almost dogged persistence worldwide, in line with the overall economic situation in the country in question: the desirability and irreversibility of globalisation, and the rejec-

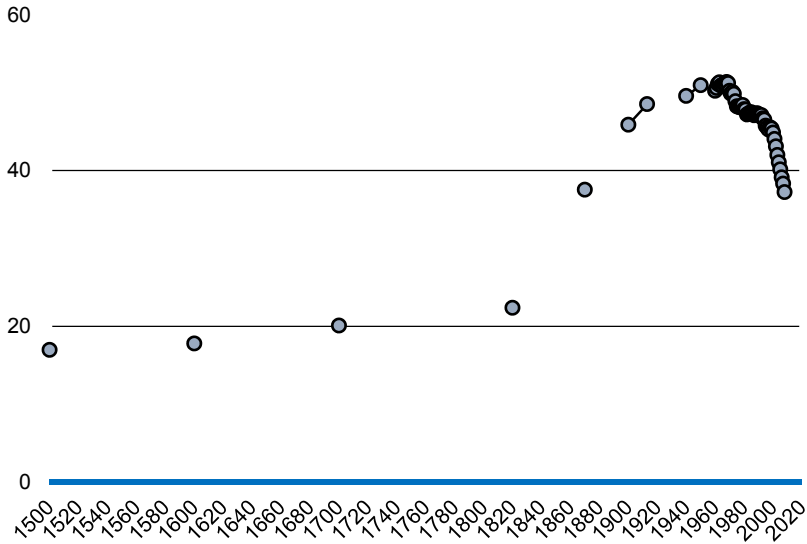
tion and containability of the process. A middle position addresses political malleability. However:

“It [globalisation] is not the only suitable basic concept, for there exist considerable counter-movements. One of these, regionalisation, is even caused by economic globalisation. [...] The fragmentation of megacities into ethnically and culturally disparate groups is also a counter-movement, as is the strengthening of national sentiment in young democracies. Furthermore, we must not forget the diversity of languages, customs and religions.” (Höffe, 1999, 20 f.)

What’s more, historians warn us to consider that the present day has a tendency to overestimate itself and to overlook earlier attempts at globalisation. “This double scepticism is justified for present-day globalisation is merely a trend – not the final result. We live in a ‘civilisation in transition’; we do not (yet) live in a world society that is globally interconnected in every respect” (Höffe, 1999, 25).

While the outlook on globalisation remains open, two features – or more precisely two manifestations – have become apparent: on the one hand, the *worldwide networking of actors, organisations, processes, structures and markets*, and on the other *the emergence of global players, organisations, processes, structures and markets*. In conceptual terms, *globalisation and globality* can be juxtaposed to capture the *tension between dynamism, constant evolution and a tangible worldwide radius of action*. Either way, the result is an *expansion of foreign influence*. However, this is neither interminable nor irreversible, and may even come to a temporary halt or bring about national, regional or local counter-movements. A teleological interpretation involving the continuous densification of interwoven connections and thus an increase in foreign influence is presentable only in normative terms, but is not analytically compelling.

Figure 1.1: Shifts in globalisation: On the increasing and decreasing importance of the West G7 (US, UK, F, GER, IT, CAN, J) share of global GDP, in per cent



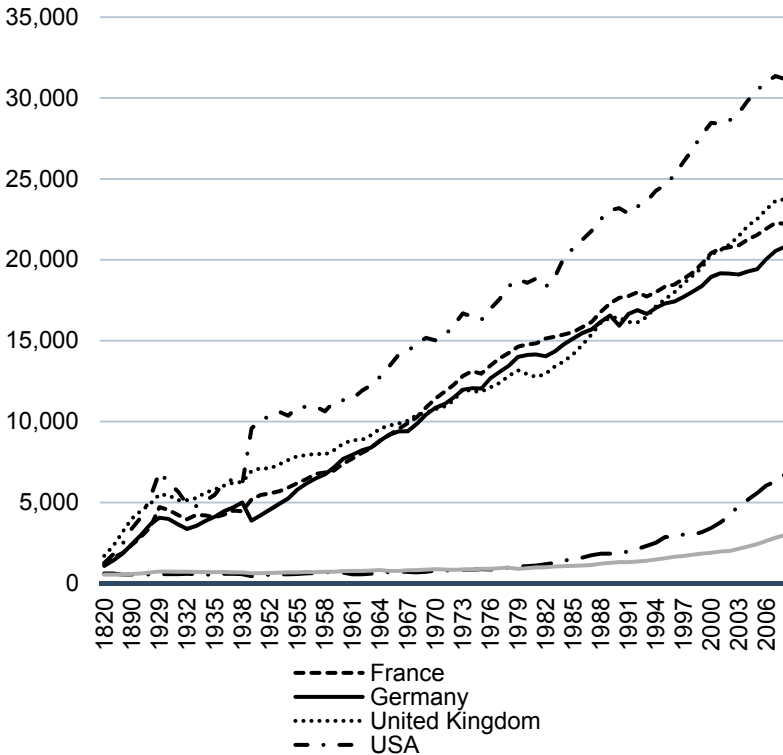
Source: Maddison Project (2009); own calculations

The prevailing understanding of globalisation is put into perspective even more when one considers a *historical comparison dating back to 1500* showing the share of the world's gross domestic product held by the classic seven major industrialised countries – the US, the UK, France, Germany, Italy, Canada and Japan (Figure 1.1). While the transatlantic West and Japan dominated the global economy until the middle of the 20th century and could boast a huge rise in importance starting in the middle of the 19th century, they have since experienced a slow, and then more noticeable loss of importance.

This is in line with the evolution of average per capita income (Figure 1.2). Industrialisation helped newly industrialised countries escape the Malthusian trap – in which a lack of productivity growth in agricultural production results in limited growth of food production and thus restricts population development – and allowed the overwhelming majority of people to live above subsistence level; this process has also been seen in the emerging economies of India and China since the 1980s. At the same time, globalisation has become decolonised and globalised, and there is still plenty of potential to advance these developments if we consider the

world's most excluded and most fragile economies – particularly those in Africa, but also some in Asia. The real challenge facing the West today is that political governance is coming under pressure, and with it the implied normative foundation of Western globalisation.

Figure 1.2: The end of the Malthusian trap
GDP per capita in international Geary-Khamis dollars



Source: Maddison Project (2009)

In many of the visions put forward, the globalised world – captured by the concept of globality as a condition – is one which has liberated itself from infighting and the battle of nations. In this regard, “the modern, sovereign state [...] was one of the most popular exports of European expansion” (Reinhard, 2016, 1280). Only through globalisation was it able to achieve

its breakthrough in the modern age, thanks to the resulting establishment of globally effective organisational structures and models of power. However, globalisation was subsequently forced to turn against the nation-state potency which had nourished it, maturing as a result into *denationalisation*.

This is the price that must be paid, so to speak, by those who are determined to open up the markets and accept the temporary adjustment burden which results. In other words, *globalisation as a manifestation of global freedom* takes on a distinctive normative quality, however, this may and does in fact conflict with other norms, such as that of *national sovereignty as a claim to geographically defined autonomy, security, identity and unique position*. At the same time, the question arises as to whether and how global developments can be adequately regulated. *Globalisation is thus interpreted in a variety of different ways: as a process that puts the nation state under pressure to adapt, or even endangers it; as a global standardisation of cultural orientations and standards; or as a reconception of space and time through the connection of the non-simultaneous*.

At the same time, understanding globalisation as *denationalisation* (Osterhammel, Petersson, 2012, 11) implies not only a focus on free trade in goods and services, but also on the free movement of capital and the mobility of labour as well as on the cross-border transfer of technologies and ideas. These types of compensatory movements via the unimpeded or almost unrestricted mobility of production factors – particularly under the conditions of an accepted economic policy paradigm (Washington Consensus) – justify the expectation that globalisation first and foremost represents the harmonisation of economic conditions and also ultimately refers to political influence on the economy. Globalisation has been referred to as “institutional softening” (Beck, 1997, 17). The driving forces behind this pressure to conform are political, technical and demographic in nature:

- From a *political perspective*, the history of the Western world since the Second World War has been driven by efforts to liberalise economic exchange ranging from trade in goods, to the creation of the World Trade Organization with the conclusion of the 1992 Uruguay Round on trade in services. In parallel with these developments, capital movements were liberalised after 1980, taking into consideration the state of the international monetary system, the risk culture as well as the national level of freedom afforded to monetary policy. Even the past failure of the Bretton Woods global monetary system is actually seen by most contemporary economists

as desirable liberalisation. The result was freely fluctuating exchange rates, like other prices, enabling a national “objectivisation” of the money supply, i.e. the uninterrupted orientation of monetary policy towards the goal of price stability (German Council of Economic Experts, 1974). The maturation of these deregulation and liberalisation processes was less straightforward than expected, however, and was not completely independent of the other driving forces of globalisation: technical/instrumental and demographic changes.

- In recent decades, *technical/instrumental* advancements have resulted in a dramatic reduction in costs relating to transport and spatial considerations. This relates to information and communication technologies, but also includes the introduction of containers for the standardisation of bulk transport. We might also mention the financial innovations which can likewise be understood as a response to the end of the Bretton Woods global monetary system and the new consideration of currency risk. Instead of investment diversification, product innovations such as derivatives, swaps and options, and process innovations such as value at risk (risk management) paved the way for alternative approaches to hedging investment risks. These innovations thus made it possible to deal more appropriately with the globally changing risk landscape (as well as with the potential of crises to create dysfunction, as was to be learned after 2007). At their core, the advancements in risk management were nothing more than an accelerated option for the global division of labour, thus reducing the costs involved in overcoming spatial considerations.
- The dynamic *growth in the global population* since the Second World War has dramatically increased the pressure on developing countries to participate in the growing prosperity of the West. Rapid population growth has made it difficult for economies with structural weaknesses and low momentum to integrate people into productive processes. Inadequate institutions and faulty policies, in particular, were to blame for weak economies. Against this background, the transition from colonial status – which was generally associated with the exploitation of resources by the colonial power, low levels of educational opportunities and weak domestic institutions – to political independence ran seamlessly only in the rarest cases, and was almost always associated with huge economic, social and political cost. For a long time, the countries known collectively as the “Third World” were dominated by hopes of a devel-

opment process shaped more by state control than by market-oriented regulation (UNCTAD process). This changed with the opening of the Eastern Bloc in 1990, however, and the free market solution gained widespread acceptance.

These three effect clusters, combined in particular with the collapse of the Eastern Bloc and the forced opening of China after 1990, illustrate the special *historical situation* and how the lives of many people were characterised by these events, with the result that globalisation became established as the name for this period – and rightly so (Osterhammel, Petersson, 2012, 7). A historical analysis rapidly results in a broadening of perspective, however, as this globalisation can also be integrated into the larger temporal context of Western modernisation. This can be described as beginning with the revolutionary era between 1750 and 1850 and has more in common with megatrends such as rationalisation, secularisation, individualisation, industrialisation and urbanisation, amongst others.

Similarly, in certain earlier historical periods, there have been very high degrees of economic interconnection, interdependence and cooperation relative to the level of world integration at the time, differing significantly from both previous and subsequent periods. Time and again, there have been “*attempts at globalisation*” which have proven unsuccessful. With the European discovery of America in 1492, mankind realised for the first time that there was more to the world than anyone could have reasonably suspected. Since then, “capacity-building interdependencies over long distances” have emerged time and again (Osterhammel, Petersson, 2012, 25, 112). However, a comparative analysis focused in particular on the period referred to as the “first globalisation”, i.e. the decades prior to the First World War. This period saw the development of the first global interdependencies, as well as the politicisation of globalisation.

The “first globalisation” was characterised by the *maturation of industrialisation* in Europe and in the Eastern United States, by the establishment of common institutions – such as the Gold Standard world monetary system – and the mercantilistic use of colonies for the supply of raw materials, as well as by *imperialism* as an attempt in terms of power politics to anchor the nation-state under the conditions of modern industry beyond its own territory. The whole of the 19th century can be summed up under the rubric of acceleration, driven by technical innovations and catch-up processes on the part of late-blooming nations in an effort to compete with more advanced early industrialised countries (Osterhammel, 2009).

Box 1.1: Conceptual facets of globalisation

What it's all about: globalisation and globality

- Worldwide networking of actors, organisations, processes, structures and markets
- Emergence of global actors, organisations, processes, structures and markets
- Dimensions: migration, goods trading, capital movement and diffusion of knowledge

Consequences: expansion of foreign influence and mutual dependencies

- Denationalisation puts nation state and democratic sovereignty under pressure
- Unification of cultural orientations and standards
- New conception of space and time through the connection of the non-simultaneous

Relativisations of absoluteness

- Attempts at globalisation throughout history
- Current counter-movement – regionalisation and fragmentation of megacities
- The losers of globalisation and criticisms of globalisation: search for identity

This period demands attention because following the proliferation of industrialisation – which made a permanent escape from the Malthusian trap possible thanks to the creation of capital and advancements in productivity, and at the same time brought about a change in crisis understanding – a new kind of networking emerged for the first time in modern economic life. Unlike in previous periods, companies – and increasingly international companies – rather than states were the primary drivers. The states, on the other hand, became increasingly important as forces of order and moved further and further away from entrepreneurial power. It is the new state-company pecking order that connects this phase of globalisation with

that of the modern day, distinguishing it from earlier phases. When discussing the progress of today's "*second globalisation*", it is useful to examine this first globalisation of the modern world in order to answer questions relating to impact factors, dependencies, conditions and potentials.

Even given all these considerations and references, there is no final conceptualisation of globalisation – rather there are approximations, reached by taking various different paths. The result is a series of structural features which underlie and provide an orientation for further considerations (Box 1.1).

1.3 Illusions about contemporary globalisation

Contemporary globalisation, which took off after 1990, was associated with a great sense of euphoria. US political scientist Francis Fukuyama spoke of the supposed elimination of world political controversy in his eponymous 1992 book "The End of History and the Last Man" (Fukuyama, 1992). Against a background of liberalised capital movements, the collapse of the Eastern Bloc and the opening up of many developing countries to the market economy, it seemed like a global departure into a brave new world – and with a clear economic policy orientation based on the *Washington Consensus*. Fiscal consolidation, liberal trade policy, deregulated markets, privatisation, and debureaucratisation were central criteria of the economic policy and undoubted conditions of success defined and accepted by the transatlantic West, and to be accepted without question by emerging and developing countries.

In the absence of a tangible alternative – the centralised economies had just been wiped out and the hope among developing countries for a third way had diffused into uncertainty – globalisation was often associated with high expectations. As it happens, the integration into the global division of labour of many countries that had previously been excluded from global markets brought tangible economic benefits. Global absolute poverty was significantly decreased and average life expectancy increased. Even across much of Africa – the continent that has long been completely forgotten by economists – things have begun to change for the better. But things have not been "good" there for a long time, and expectations of a fundamental improvement in living conditions have often gone unfulfilled. The result is a very mixed picture.

Some countries have experienced surprisingly successful economic decades under globalisation, as can be evidenced for the period between the

fall of the Berlin Wall and the global financial crisis (Lakner, Milanovic, 2015): the development of global income across various groups known as the “Elephant Curve” has even found its way into literature. As shown by the curve, the large increase in income among the poorer half of the population form the elephant’s back, while the stagnant income of the western middle class combined with strong income growth among the super-rich form the elephant’s raised trunk. The emancipation from poverty of lower income groups in developing countries is due to the East Asian, and in particular the Chinese growth story. More people have been lifted out of poverty here than the residents in all the Member States of the European Union combined.

As a result, the proportion of the world’s population affected by hunger and poverty has never been so small – and almost no-one is talking about the Malthusian trap. The burden is borne by the first part of the trunk of the elephant, however: the lower middle class of industrialised countries. This group were between the 75th and 90th income percentile worldwide in the late 1980s and were virtually unable to realise any real income growth in the 20 years that followed. In many developing countries, a catch-up process based on the Chinese model has been much less dynamic, or has failed to take place at all. Thus the part of the globalisation story which tells of economic convergence, particularly in the developing countries, has proven questionable. Capital mobility in developing countries has not progressed to the extent anticipated by theorists.

The dubiousness of a narrative of globalisation which has been glorified and simultaneously described as simplistic and equalising has been obvious for some time, and has been formulated as such. Joseph Stiglitz (2003, 2016) noted at the beginning of the new millennium that the process might cause some to be left behind, and the idea of ‘globalisation losers’ has been echoed by others. In economic theory, there is no doubt that increased integration through the opening up of markets will necessarily produce income and substitution effects. The global opening of markets brought with it changes in the cost of simple, unskilled labour, first through free trade and then through free movement of people. Such labour is almost completely homogeneous, and jobs are easily interchangeable. As a result, it has been observed in many countries that, despite free trade bringing reduced prices for relevant goods, the lower classes not only felt left behind, but were actually left out of general prosperity development for a long time and suffered tangible real income losses. At the same time, increased economic integration through the improved allocation of capital promotes innovation and growth, generally making it possible to achieve a

higher income level. The extent to which the success of the winners goes at least some way towards making up for the misfortune of the losers is another question. Whether there will be an increase in the employment of lower skilled people, as is currently being seen in Germany, will depend on factors such as the structure of production and its regional distribution, as well as the educational resilience of those affected.

These tensions can be extended further if we consider denationalisation, as well as increasing heteronomy and foreign influence, to be consequences of globalisation. Against this background, the “*globalisation paradox*” and “political trilemma” pinpointed by Dani Rodrik (2011) seem plausible. According to these theories, the achievements of modernity – democracy, national self-determination and globalisation without borders – cannot be enjoyed at the same time. The underlying idea of this argument is that globalisation defines the same economic conditions for all, and therefore places a pressure to reform on politics and society, which is hard to escape. What began – and is still seen – as an expression of freedom, will ultimately lead to a loss of freedom in terms of national sovereignty. The primacy of politics can no longer be guaranteed. Globalisation with no sense of order may encourage this development trend. These plausible notions are subject to some restrictions, however. For example, it should be borne in mind that a balance between the different actors will always be reached, as reflected in the relativisations of globalisation. What is more, the globalisation of capital flows, which Rodrik addresses explicitly, is actually aimed at institutional conditions in the classic regulatory sense – consistency of order, stability and reliability, legal certainty – and not at freely plundering economies in the name of uniformity.

This obviously counterproductive finding results in the illusions considered central here, which are connected with contemporary economic globalisation despite all the progress that has been made, and which are now becoming increasingly apparent and perceptible:

(1) Firstly, there is an *illusion of efficiency for developing countries*. The expectation that a free market economy will automatically open the way to income generation through capital formation has proven naive to say the least. In fact, many development potentials in the least developed countries remain untapped and their financial integration into the global economy lags behind what had been achieved during the first globalisation, in the decades before and after 1900 (Schularick, 2006). Instead, financial integration in the modern age most often occurs between economically advanced countries. The regulatory and institutional inadequacies in the least

developed countries are given as an explanation – and this is not an implausible proposal. In addition, the emerging economies that have been fuelling the imagination of the capital markets for over a decade are now faced with structural difficulties which can also be attributed to these inadequacies. For many emerging economies (particularly China, but also Brazil), the risk of the middle income trap is evident. It has been argued that the neglect of institutions in mainstream economics and the crowding out of regulatory policy via the pragmatism of everyday life are now making themselves felt. The isolated analysis of market size and of the dynamics expected as a result has narrowed the focus afforded in such a way that the resultant insights into the period have become arbitrary and worthless.

Furthermore, the period since the 1950s, during which developing countries have gained the right to self-determination and ultimately state sovereignty (decolonisation), has been a tense time for globalisation. When it comes to catch-up and development processes in particular, global market integration and state claims of sovereignty do not readily fit together, at least not where there are no credible and effective transnational structures which facilitate *integration gains through institutional confidence*. During the “first globalisation” in the decades before the First World War broke out, this confidence was actually supplied by the colonial regime of Europe – albeit almost unconsciously and not as a result of targeted political governance. There is no doubt that many of the benefits of this integration, stemming from the exploitation of raw materials and labour in the colonies, have been redirected back into European economies. Nevertheless, the colonial order contributed a reliable framework in its time which resulted in a temporary stabilisation of expectations.

The institutional shortcomings of the “second globalisation” inhibit the catch-up processes of many developing countries, with the consequence of increasing distribution problems in developing nations. These problems are manifested in regional conflicts, which promote new power structures and exacerbate economic imbalances. This creates high migratory pressure, as many people (no longer) have no (any) realistic prospect of a reasonably successful life with access to sufficient resources under stable environmental conditions. This challenge is likely to intensify as digitisation increases the pressure on emerging and developing economies. This is because 3D printing has made back-sourcing to developed countries more attractive, and because ensuring the reliability and security of data streams requires the involvement of credible institutions.