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# What kind of capitalism?

Print

The liberal sort may rebound as economies revive

Oct 12th 2013 | From the print edition



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GLOBALISATION'S OBITUARY HAS been written many times. In the 1970s and 1980s the multilateral trade system was regarded as moribund or even dead. In 1999 and 2000 international summits were besieged by anti-globalisation protesters. In 2002 the war on terrorism and the economic slump prompted this newspaper to ask, "Is globalisation at risk?"

The worldwide financial crisis five years ago dealt it another blow. It survived but, as this special report has shown, it has changed: policymakers and the public are more doubtful about allowing it to develop without constraints and more anxious to shape the flows of trade, capital and people. From America to Egypt, the fruits of globalisation went mostly to those at the top, causing growing resentment among the middle and working class and undermining political support for open borders.

Is this just a pause in the spread of globalisation, much as in the 1970s and 1980s, or, more ominously, could it signal a move towards greater isolationism and growing international economic friction?

As this special report has noted, historically globalisation has needed a hegemon. America seems to be retreating from that role and China is not yet ready for it. So far it has opened itself to foreigners only when it sees a clear benefit to itself. As one

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foreign executive who has spent decades in China puts it, “the defining ideology in China is the ideology of nationalism. Its view is, ‘foreign capital should be here as long as it is useful to us’. It’s not an intellectual commitment to open markets and a level playing field.”

In the 1980s the strategic military alliance between America and Japan ensured that economic tensions were never allowed to get out of hand. By contrast, economic and geopolitical tensions between America and China tend to reinforce each other. America’s prohibitions on government purchases of Chinese-made telecommunications gear are prompted by fears that they would expose critical American infrastructure to Chinese attack. China, for its part, has until recently treated the nascent Trans-Pacific Partnership as the economic counterpart to America’s military “pivot” to Asia: an attempt to “encircle” China and contain its rise.

Given such political headwinds, the surprise is not that globalisation has struggled, but that it has not struggled more. One reason is that the lessons of the 1930s have been taken on board. Central banks in the countries hit hardest by the financial crisis have pursued unprecedented monetary expansion. That drove down their exchange rates, triggering protests and some protectionist reaction, but far less than in the 1930s.

The anti-globalisers lack an ideological focus. “In the 1930s there were very powerful alternative ideologies—communism and fascism,” says Harold James, an economic historian at Princeton University. Now “we have anti-globalisation, with no set of beliefs that would really sustain anti-globalisation.” Others may envy the way China’s communist party has transformed the economy, but few wish to embrace its political ideology.

Certainly in recent years state capitalism has emerged as a competitor to liberal capitalism, causing a shift towards gated globalisation. But so far the state capitalists are sticking to the rules of the global system. Russia has joined the WTO and is hoping to join the OECD. And state capitalism itself is less able to deliver sustainable growth, one reason why India, Brazil and Indonesia suffered runs on their currencies this past summer.

John Ikenberry, a political scientist at Princeton, notes that even as America’s hegemony has eroded, more of the rest of the world is now democratic and at least nominally committed to free-market capitalism than in the 1980s, when globalisation last paused. That, he thinks, should help its institutions survive.

So the chances are that globalisation will not go into reverse. The power of technology to erase distance is too strong, and the economic benefits of international trade and foreign investment are too widely accepted. But nor will globalisation regain the broad and often unquestioned support it had before 2008. The risk is not that the gates to globalisation will be slammed shut altogether, but that governments will make them too effective: that export promotion will shade into protectionism and wasteful industrial policy, that the crackdown on banks and capital flows will deprive deserving countries and businesses of capital, and that the proliferation of rules and regulations will breed costly bureaucracy and rent-seeking. Political leaders, most of all in America and China, must not lose sight of the huge benefits that a freer flow of people, trade and capital has brought over the decades, even if such flows occasionally go awry. Gates must remain the exception, and openness the rule.

From the print edition: Special report

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**What kind of capitalism?**

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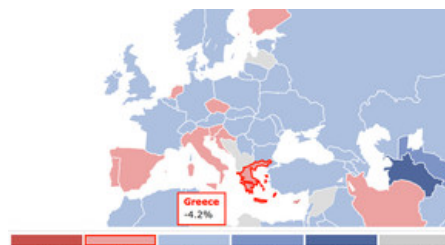
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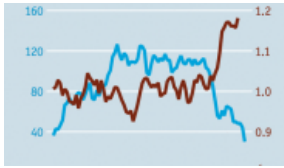
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