



The forces reshaping globalization: the implications for business

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The liberal global economic order is now in rapid decline. A scenario of where the global economy fragments is now emerging which will have profound implications for countries and multinational corporations going forward. According to historian Niall Ferguson, peak globalization was reached just prior to the (Atlantic) financial crisis from September 2008.

Populism, trade protectionism, Sino-America rivalry, restrictions on immigration and the dramatic impact of the Covid pandemic that has wrought havoc on global supply chains have all accelerated this trend.

The current conflict in Ukraine on the eastern borders of the European Union will deal a further severe blow to globalization – an integrative arrangement that has been central to global economic growth, development and poverty alleviation since the end of the Cold War over the past three decades. In recent weeks, the political foundations of Europe have been fundamentally shaken beyond recognition. In response, a trend toward fragmentation of the global economy will set in with the flows of trade, capital and labour all having been significantly impacted. This is an unprecedented challenge to the existing global liberal order.

What then will emerge?



A multipolar economy has already begun to emerge that has been characterized by separate but overlapping networks in which countries self-organize in trade and investment, finance, technology and even military alliances. The largest networks are forming around “hub economies” – most notably the United States, China, and Europe – but now a Europe that is withdrawing from the Russian economy and its client states in the wider region. As western multinationals exit and impose sanctions on Russia and its neighbouring allies, the country could well become cut off from western capital markets, trade and technology.

Beyond these two confrontational networks that could well emerge in the European context, other networks

will revolve around the United States and China and will not be fully mutually exclusive. Many countries will find it possible to straddle both and navigate between them wherever it is beneficial for them to do so. Whilst most emerging countries sought to emulate the Western model of development, they are now provided an alternative approach in the form of China.

Under extreme American (and now European) government pressure, they are now devolving into separate networks each dedicated to serving the US, the EU, China and a very marginalized Russia and its few allies. But they ultimately cannot be separated due to the complexity of these value chains and the thousands of (Chinese) suppliers to American companies. The paradox is that whilst the

increasingly distinct. Another trend is the likely reinforcing of Asia as a distinct trading bloc with China at its centre. In light of China's demand for commodities this will have strategic geo-economic consequences for developing countries, which have primary commodities as their main exports.

Whilst all expected strategic rivalry between Washington and Beijing to define the emerging global order, the European theatre has suddenly become the focal point.

At the level of business, global value

chains are facing severe disruption. How geopolitical tensions impact the operations of global business of multinationals from here remains uncertain. We can most certainly anticipate a further retrenchment from globalization. Regardless of what the future holds, it is clear multinationals reliant on global supply chains must seriously consider how geopolitical factors will impact their strategies and risk mitigation efforts.

We are facing a fragmented global economy that will be much less efficient

US seeks to sanction Chinese technology companies, technological advances are making connections between the two economies more complex and often indistinguishable.

The rise of China has been a game changer challenging the dominance of the West and the politically liberal order. China, however, claims its own unique values and traditions and pushes back against the West's political values of universality.

As its economic power has grown, China has increasingly clashed with the established liberal order as shaped by Western interests. Two separate networks are now forming with one led by Washington and the other by Beijing that are mutually suspicious and

than the previous liberal market arrangement that has shaped the global order and the structure of multinational corporations over the past three decades. It is tragic that this emerging fractious order will be far less effective in dealing with global issues such as climate change not to mention the Covid pandemic. Whilst we do not know what the new system that is replacing multilateralism will be, it is clear that the forces of conflict are dividing the world into new blocs based on capitalist democracy, market authoritarianism and an isolated autocracy. Going forward a postglobalization world is a deeply uncertain one.

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