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Digitalization, Disruption, and Divisions: Is Multilateral Cooperation Ready for the Next Wave of Globalization?

By Joel Ng and Kaewkamol Pitakdumrongkit

SYNOPSIS

Capital and production globalized in the 20th century, and digitalization has now enabled the globalization of labour's contribution to economic activity. Rapid transformation and disruption will follow, and national and multilateral regimes may struggle to stay ahead of this.

COMMENTARY

The 21st century is seeing the complete globalization of economic systems because of rapid digitalization. Whereas the 20th century witnessed partial globalization of capital (finance) and production (supply chains), labour was excluded beyond an elite few in some advanced economies. The globalization of these processes led to disruptions as labour, territorially-bound by geography, was unable to catch up with the economic winds that left winners and losers in their wake.

While some expected the lifting of the COVID-19 pandemic restrictions to allow workplaces to return to 'normal', a significant shift occurred that makes this less likely. Rapid digitalization in the 21st century perpetuates a new dimension for globalization. It has unlocked the globalization of labour, the third key element of economic systems.

Digitalization

Labour's globalization is occurring in a different way. As digital goods and services are unbound by geography, so too is the *produce* of labour in this sector. While work-from-home predated COVID-19, the pandemic accelerated this trend. Lockdowns became the testbeds for 'virtual' offices. It quickly became clear to both businesses and

governments that many kinds of market activities, especially those involving the production and delivery of digital goods or services, could be effectively coordinated from “homes”.

Certain types of labour are now able to offer their services [anywhere in the world](#) regardless of the physical restrictions on the individual. This phenomenon will grow as shares of the economy that are digitalized increase. Labour that is unbound by the office within a country will also be unbound by geography across the world.

The implication of this third wave of globalization of labour services for the global economy is that where workers choose to operate from, and where they choose to contribute their economic value to, will now become independent factors. This will affect relations between workers and employers. Digital workers may negotiate contracts where they no longer need to move, even as they are potentially able to participate in the most vibrant parts of virtual economic activities. To businesses, this third wave opens up new opportunities for them to source workers wherever they may be found. This could reconfigure supply chains, alter cross-border investment, and affect ties between economies.

Disruption

While the above changes are still developing and not well understood, what is clear is that they will be significant, and the multilateral system cannot afford to be behind the curve. While multilateral regimes to date have still not fully addressed the vicissitudes of the globalization of capital and production, the growth of labour virtualization will mark a new phase of globalization where digital goods and services may be supplied to any part of the world.

The challenges, as economic activities reroute according to virtual market logics, will be disruptive to territorially-bound economies or regimes. Some examples include unsettling regulatory frameworks, [tax jurisdictions](#), [information security](#), currency controls, [cross-border arbitrage](#), domestic labour [shortages](#) or [imbalances](#), and [migration flows](#).

From an individual’s perspective, being based in a low cost-of-living domicile while earning in a high income economy may appear to be the [ideal scenario](#), but little is known of the consequences should this restructuring occur on a global scale. In a high-cost but labour-scarce country like Singapore, this could be unsettling, but it would be better to be ahead of the curve than behind it.

Divisions

History teaches us that globalization can cause divisions. There was resistance to the earlier waves of globalization of finance and production, typically by those unable to reap their benefits. This culminated in the ‘Anti-Globalization’ movement visible during the late 1990s and forms of populism today. But their resistance eventually faded or failed to block these globalizing processes.

This time, however, some of the new actors grappling with changes beyond their control will be the nation-states. These still territorially-bound entities will likely have a

weaker hand to negotiate or attract economic activities which operate in global domains. The new wave of globalization exposes the vulnerabilities of all countries regardless of size. For example, Singapore may struggle to hire virtual workers in the future. While the city-state offers relatively low income tax rates, its high accommodation costs may result in the exodus of workers to places where housing expenses are lower.

The second lesson of history is that the great eras of multilateral institution-building occurred in the periods after World War 2 and the Cold War. Unlike then, there is no similar recovery from conflict today that may bring about strong alignments of national interests, which is one of the key elements for successful multilateralism.

Also, the current state-state and state-market dynamics are fundamentally different from those in the past. This means that using the same approaches or ideas to create a multilateral framework will be daunting. It will likely be slower and fraught with distrust and unwillingness to compromise. The odd of achieving effective multilateral governance will likely be slim.

The Future of Multilateral Frameworks

The immediate implication for multilateral regimes is that they must be rethought and reimaged so that countries will be better prepared for change. Assessing how the virtualization of work will affect economic activities and therefore traditional systems across multiple regulatory regimes is vital. Digital labour activities are inherently mobile, so the changing nature of work needs to be better understood alongside digitalization. Such rethinking and reimagining will happen against the backdrop of rising tensions between the world's great powers – China and the US – which are promoting different ideas for the future world order.

International cooperation needs to be revived and redoubled along lines that are not defined by great power competition. Although their rivalry will not abate anytime soon, countries can still drive multilateralism by fostering networks of partnerships, which can design the frameworks to manage such competition.

Placing attention on these new trends is the first step. While everyone may have their individual anecdotal accounts of how 'work-from-home' accelerated during COVID-19, more systematic analysis is necessary. We need to understand how human resource departments, businesses (particularly technology companies at the forefront of digital goods and services), governments, and most especially people, view this emerging phenomenon and therefore how national frameworks are developing.

Secondly, as history shows, uncoordinated, unilateral actions are often the first reactions to disruption, and avoiding this possibility means that multilateral frameworks will be needed to cope with the virtualization of labour. Convening discussions of these trends to craft a multilateral agenda alongside 'smart cities' and 'digitalization' summits will be needed to understand how best to reap the benefits of the next wave of globalization and to avoid the potentially divisive disruptions.

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