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The Global System: New Developmental Model Needed?

By Christopher H. Lim and Tan Ming Hui

Synopsis

The ever-shifting “tectonic plates” of economics, business, technology, politics, and security around the world has created an era of uncertainty, resulting in declining global confidence. Where do we go from here?

Commentary

A DECADE has passed since the 2007/2008 global financial crisis. To mitigate the financial shock from developing into a full-blown global depression, the US Federal Reserve, the European Central Bank and the Bank of Japan have pumped in a combined stimulus of more than US\$13 trillion, and interest rates are kept at an all-time low of close to zero or even below zero.

Nevertheless, quantitative easing is not a sustainable solution, and despite firmer economic growth indicators last year, the global financial system is still in a frail state. In fact, the last 10 years saw the emergence of disturbing socio-economic trends, including a surging global debt to GDP ratio, extremely uneven wealth distribution, and most worryingly, a “global trust capital deficit”.

Shifting “Tectonic Plates”

Global debt reached a record high of [US\\$233 trillion](#) in the third quarter of 2017. The [Financial Times](#) warns that “the global economy is living on borrowed time”. Growth has been beyond anticipation, and governments will struggle to pay off the interests. While a full-blown debt crisis has not materialised, the vulnerabilities are apparent. This is on top of the rising [global wealth inequality](#) and [rising youth unemployment](#) in the post-crisis years.

Furthermore, the stock market has suddenly begun to turn southwards in February, signalling continued market volatility globally. Investors are now bracing themselves for rising inflation and interest rates.

For the average workers who have lost their jobs and or are at risk of losing their pensions, the frailty, the uncertainty, and the unsustainability of the current economic system are very real. Living in the age of the Fourth Industrial Revolution, workers also face unprecedented job insecurity.

Employment across sectors has become uncertain as new technological developments threaten to take over the workforce, and will affect even the well-educated or the highly qualified. As long as the work can be codified, regardless of whether it is manual-based or knowledge-based, many jobs can be taken over by computers and robots in the future.

Overall, these economic trends form “tectonic plates”, alongside with other security and social issues such as living with anxiety in the face of rising terrorism and climate change, constantly pushing and pulling at one another. The shifting forces gradually build up pressures that might very well result in another global economic earthquake.

“Global Trust Capital Deficit”

The end of World War II heralded in a new age of globalisation. Under the leadership of the United States and the United Kingdom, the Bretton Woods agreement and the development of global institutions such as the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the World Bank, set the stage for the new economic order. Despite occasional hiccups, this new order has generated wealth, peace and poverty eradication for most parts of the OECD and many Asian emergent economies until 2007.

Since the 2007/2008 global financial crisis, however, the prolonged, unsettling, and unresolved socio-economic woes are eroding the [confidence](#) in the Anglo-Saxon system and its international institutions. A [trend](#) has been observed at the international level over the past decades, where developing economies have been moving away from IMF funding and instead have been creating alternative, regional funding sources.

Even the developed West, including the US and the UK, has increasingly lost trust and hope in the world order they were responsible for creating. Western democratic governments have started to lose their bearings and become more [inward looking](#). Fears of job competition, terrorism, and erosion of local identity bases, have led to the surge of right-wing nationalism, populism, and xenophobic sentiments observed globally, especially in the developed West.

In addition, there is a growing unease within NATO and a perception that the security warranty from the US may no longer be valid. Shortly after meeting with President Trump in May 2017, German Chancellor Angela Merkel said that Europeans must take “fate into [our] own hands”. Later, in December 2017, the Permanent Structured

Cooperation (PESCO) was formally established, with 25 European Union member states agreeing on closer security and defence cooperation.

Can China Provide a New Safe Harbour?

Given the above, we want to start a conversation on how the “global trust capital deficit” could be reestablished.

The decline of the developed West has been eclipsed by China’s reemergence as a world economic power. According to the IMF, China had [overtaken](#) the US in their share of the global GDP in 2014, producing 17% of the world’s GDP (on PPP basis) compared to the USA’s 16%.

In response, many have debated whether China would rise up to fill the leadership role in the global economic order and offer a new economic paradigm. This self-confident posture has been echoed within China itself, especially during the recent 19th Communist Party Congress. During his opening speech, Chinese President Xi Jinping emphasised China’s commitment towards international cooperation and global economic integration, announcing that it was time for China to take global leadership as part of China’s plan to make the “Chinese Dream” a reality.

However, there seems to be a feeling of unease toward the idea of a China-led world order, especially from the perspectives of Western intellectuals and media. Since the onset of colonialism in the 15th century, global leadership has been dominated by the Western hemisphere. In addition, they are wary of the incompatibility between the current Chinese political system and the Western ideals of democracy and freedom.

Given the current atmosphere of distrust in globalisation and the international world order, what assurance can China give the world that the Chinese model can provide a new “safe harbour”?

With the recent [high tariffs imposition](#) on certain goods initiated by the US, the world could potentially descend into trade wars. It is opportune for China to provide some stability and decrease tensions by accelerating its Maritime Silk Road half of the Belt and Road Initiative.

For example, in the Southeast Asian region, China could expedite port and shipping development to promote trade and connectivity. Furthermore, this enhanced connectivity can be an incentive for ASEAN+6 to conclude the Regional Comprehensive Economic Partnership (RCEP) as early as possible.

On the investment front, China can also increase and widen its investments in the ASEAN region, particularly in growth sectors which can provide more skilful jobs to meet the aspirations of an increasingly educated working population in Southeast Asia.

More importantly, as humans continue to get caught between the constantly moving tectonic forces, rather than relying on a single new safe harbour, perhaps the world should think about creating a network of safe harbours that are competing and collaborating as in a free market.

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