



## GLOBALIZATION, EUROPEAN UNION AND ECONOMIC INTEGRATION

### The Global Order

The universe of global economic relations facing the intimidating winds of change has compelled the major stakeholders of the system to expedite the process for a new set of rules. The change is still unfolding. It is far too early to forecast how the new book of rules of global trade and economic activities will finally be shaped. However, the profound changes brought about by the technological breakthroughs bring into the discussions a sense of urgency. And of course as always time is of the essence.

However, certain clues as to how the new architecture is molding and what the instruments shaping the new set-up are. One thing is sure; the global architecture conceived, agreed and implemented for the last seven decades is facing an unprecedented challenge today. The challenge arises predominantly from democratic choices the nations make, mostly initiated by populist politicians.

The process of demise of the existing global political and economic order has been accelerated by the so-called "populist nationalists". This reversal suggests to a new age that is drastically different from the old global order. The new age will have key implications by redefining the weight of nations in international relations. Obviously geopolitical considerations will have a major say in the new emerging system.

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<sup>1</sup> <http://www.tepav.org.tr/en/ekibimiz/s/1261/Bozkurt+Aran>

To sketch the existing global order a few broad strokes could be sufficient. How it functioned for the last seven decades; why we arrived at this historical juncture and what to expect in the future.

World War II victors agreed to a new global financial order in Bretton Woods to ensure financial stability, prevent extreme imbalances and unfair competition in the global economy. They have established the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade that turned into the World Trade Organization in 1995. The Bretton Woods system has fulfilled its function and provided a relative stability to international finance and trade for the last seven decades.

The western liberal world order prevailed by forming coalitions initiated by the US and supported by the European countries. The Atlantic Alliance – NATO – has kept the global order and kept Europe free from aggression. The US used to base over 300 thousand American soldiers in Europe to balance the perceived threat arising from the Soviet bloc. Some even argued that the fall of the Berlin Wall and the collapse of the Soviet Union marked the end of the history and claimed that the Western liberal order had prevailed for good.

At the outset globalization was accepted by all and the membership to the Bretton Woods organizations had become universal. Countries like China and Russia became the stakeholders in the system. It was then argued that globalization benefitted all, turning the world into a global village.

## **The Challenges**

Early on the challenges to the system were responded in a “multilateral” mode. However, to keep the basic structure of the system intact while confronting the issues that jeopardize the very essence of the Bretton Woods system has become a major challenge.

The crisis of 2008 has accelerated the dispersion of economic power. Reference to emerging economies and the developing countries as the provider of solutions to the global problems were increasingly made. On the political sphere, Russia became more assertive in its approach to Europe and proved its capabilities by introducing “little green men” to Crimea and stepped up its discourse vis a vis Ukraine.

Europe felt the need of a deterrent force for the security at a time when the US emphasis on Atlantic relations weakened and the US started to demand forcefully an increase in European defense expenditures.

On the economic side, uncertainties also began to accumulate. Jubilation for the globalization began to decline as the system could not adequately respond to the needs of the changing nature of the international economic relations. No new multilateral liberalization has been completed since 1994 Uruguay Round. Yet the new issues had to be tackled and solutions had to be found to keep the multilateral system functioning.

At that juncture the developed industrialized countries embarked on regional “plurilateral” quests such as the Trans Pacific Partnership with 12 countries, Trans-Atlantic Trade and Investment Partnership with the 28 countries of the EU. Both of the initiatives were spearheaded by the US.

China responded by embarking on Regional Comprehensive Economic Partnership with 16 countries of the Pacific Rim.

23 countries including Turkey started the negotiations on Trade in Services Agreement. The G-7 and G-20 configurations were established to respond to the challenges brought by the global system however their final communiques are of non-binding nature though carry a certain weight.

All of these initiatives produced meager results and the globalization as well as rule-based liberal trade, considered as the engine of global economic integration has lost dynamism.

## The Order Reversing

For some the issue is not the loss of dynamism but the reversal of globalization. According to Martin Wolf of the Financial Times “the era of large-scale trade liberalization is over” and “globalization has reached a plateau and in some areas is in reverse.” The era of neo-liberalism is over. The era of neo nationalism has just begun.<sup>2</sup>

It is a fact that “between 1960 and 2015 world trade grew at an average of 6.6 per cent, in real terms, while output grew at an average rate of 3.5 percent...world output grew at 2.4 per cent. Not only has the growth of trade slowed, but the gap between trade growth and that of output also fell sharply.”<sup>3</sup> This cannot be explained only by the rise of protectionism or weak enthusiasm for trade liberalization. Political and social concerns should also be taken into consideration, in particular the issue of employment.

The multinational companies have been diverting their production capabilities to the countries where labor is cheap. The scholars have determined that the employment particularly in manufacturing has been in the decline for half a century in advanced economies mainly as a result of rising trade within global value chains. We should also acknowledge the xenophobic sentiment of the labor in developed countries as a reaction to the globalization and the free movement of labor.

At the same time the public reaction to the proposed “investor state dispute settlement” procedures of TPP and the TTIP is conceived by many in the developed economies as an infringement of democratic sovereignty.

To depict globalization since 1990's Richard Baldwin a Geneva based economist, concludes “that coordinating international production is cheaper, faster and safer, supply chains ignore borders to go sprawling across the world... With many products made everywhere, trade has been in effect denationalized.” Developing country workers have increased their productivity by the technology provided by the know-how of the companies of the developed countries and thus became the competitors to the advanced economy's blue collar workers without leaving their homes. So the Mexican worker in Mexico working in the Ford factory replaces the US worker in Detroit by the know-how provided by the US Ford Motor company.

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<sup>2</sup> ‘Global Trumpism’, Mark Blyh, *Foreign Affairs*, November 15, 2016.

<sup>3</sup> ‘Sluggish global trade growth is here to stay’, Martin Wolf, *Financial Times*, October 25, 2016.

Whereas, globalization and economic integration brought to plain sight the visual presence of foreign work force enthused by migration and caused a series backlash to the prevailing liberal order. The politically unstable countries in the vicinity of advanced economies have fallen victim to internal chaos that forced large proportion to engage in asylum seeking thus aggravating the perception that liberal order is under attack.

Blue collar workers now have become the determining force that can alter the course of political directions of the democratic countries by their votes. Anti-global sentiment of the blue collar workers channeled into political force by the “populist nationalists” changed the political environment substantially in major developed countries. Anti-globalization drive is being supported from the diverse segments of the societies. The electoral victory of President elect Donald Trump, a populist nationalist, is in a way repudiation of seven decades of US economic policy.

Prof. Dr. Henrik Enderlein Associate Dean of Jacques Delors Institut - Berlin depicts this phenomenon as “an unholy alliance, a strange connection between structurally conservative leftist and nation-state romantics.” The emerging new structure does not fit into the clean left-right model of the past. Enderlein says that the new dividing line is between those who support and those who oppose an open society; those skeptical of an open society in both camps are connected by their fear of being left behind. The left-leaning parties such as Podemos in Spain or Syriza in Greece, right-wing groups like Front National of France found common ground in their opposition to globalization.<sup>4</sup>

The appealing yet the dangerous discourse of the populism emanating from both the left and the right is surfaced after the current economic crisis. The resentment since 2008 is targeting impunity of elites. The easily noticeable presence of migrants increased the feeling.

Inequality has become more visible in industrialized economies. It seemed that after three decades of the liberal order, now some societies are pervaded by an illiberal authoritarian mood. The populist nationalist discourse of antiestablishment politicians has begun to lead the people against a rigged system.

Too early to make any judgment however the platform on which Mr. Trump got elected will force him to make certain choices he advocated during his election campaign. TPP will not be ratified. TTIP negotiations will go nowhere. NAFTA related the tension between US and Mexico and Canada will increase. Chinese- American trade relations could easily be turned into a trade war. The Iran nuclear deal could be unraveled. The issue of climate change will be undermined.

Mr. Trump accompanied by the National Front’s Marina Le Pen of France, Hofer of Austria, Beppe Grillo of Italy, Freedom Party’s Wilders of Holland, Alternative for Germany’s Petry of Germany, UK Independence Party’s Farage of England, Podemos’ Iglesias of Spain and Syriza’s Tsipras of Greece do carry a formidable force against globalization. The US presidential elections, Brexit, Italian referendum, Greece’s economic crisis are in a way can be

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<sup>4</sup> ‘A Turning Point for Globalization; Inequality, Market Chaos and Angry Voters’, by Spiegel Staff, Spiegel online, November 17, 2016, <http://www.spiegel.de/international/world/globalization-failures-have-world-at-a-turning-point-a-1121515.html>

seen as the proof that advanced economies are faced with difficulty in coping with the consequences of globalization.

On the other side the leaders of the major political movement who have put together and carried out the liberal order should be able to find the stamina and the courage to prove their relevance. It is obvious that the democracies have not been successful in delivering to less privileged or to the ones left behind and discarded by the technological advances induced by globalization.

How can faith and confidence be restored to the liberal order? How can the societies demonstrate that globalization can create more opportunities and be more equitable across the social spectrum? Are we putting too much responsibility on the politicians like Merkel of Germany or Trudeau of Canada and few others and expect them to do a major reversal of the anti-globalist sentiment?

### **The Approach of Turkey**

In general Turkish society's interaction with globalization is positive. Turkey has benefitted from free and fair trade environment and has been one of the founding fathers of the Bretton Woods system. Today in Turkey the main engine of growth is considered to be the exports.

Of course there is a backlash due to the inequalities inherent in today's society. However this sentiment has not translated into a major rage in the society. The existing feeble anti globalist or euro-sceptic sentiment in Turkey is not necessarily related to economic shortcomings. The view in Turkey that Europe is the gatekeeper of liberal humanistic values has been diluted substantially by the subdued reaction of the Europeans to the human tragedies occurring next door to the continent. The European newfound amorality and indifference regarding the tragedy in Syria left a dent on the Turkish perception of the genuineness of European humanistic values.

Turkey is hosting 3 Million Syrian refugees, as of today. The reluctance of the European countries first to acknowledge the sacrifice of the Turkish people then share the burden of the refugees has built up a negative impression. Some European countries tried to keep the asylum seekers out of their countries by building razor wired fences on their borders. The rise of xenophobic approach to Islam in Europe has also received much attention about double standards of the European countries.

Turkey has been engaged with Europe throughout the last millennium not because of economic benefits, but the engagement might breed. Turkey is better off compared to some EU members. Turkey is waiting at the door steps of EU since 1963 for more than six decades. This prolonged engagement has naturally caused much resentment and frustration in Turkish society.