



A Closer Look at Globalization

The Positive Facets and the Dark Faces
of a Complex Notion

Background Paper

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Overview

The articles included in the background paper **A Closer Look at Globalization – The Positive Facets and the Dark Faces of a Complex Notion** have been written in preparation for the 16th Trilogue Salzburg, which focuses on the intricate phenomenon of globalization. Not only does globalization encompass international trade and cross-border production, it also includes the free exchange of ideas and knowledge, the mutual influence exerted by different cultures and traditions, global movements of civil society, and international migration.

This background paper addresses the question as to how states, business and the arts should deal with the discomfort and fears that indisputably exist in (Western) societies. It is worth taking a closer look at the real roots and causes of these concerns. On the other hand, the existing benefits provided by open economies and states should not be disregarded, although these benefits might not serve as a consolation for globalization's losers. The paper includes seven original pieces of research that examine how we can deal with globalization.

The first article, **A Closer Look at Globalization – Roots and Remedies**, gives an overview of the phenomenon of globalization and summarizes the positive and negative effects on an individual, organizational and international level. The article also distills recommendations for how Europe could address the challenges caused by globalization.

The author of **Is G20-led Multilateralism Reaching its Limits?** argues that the G20 is worth preserving and that it is therefore important to undertake a roots-and-branches pruning of the G20 structure. The author describes how a successful neighborhood policy could be shaped to respond to conflicts today and makes a number of procedural and policy recommendations that the G20 should take into account.

The research paper **Economic Globalization Under Pressure – Why People in Industrial Nations Are Increasingly Critical of Globalization** analyzes the economic effects of globalization. The author argues that growing economic interdependence produces positive growth effects for all relevant national economies while giving rise to losers in addition to winners within each country. The article concludes with a recommend action plan for the European Union.

Globalization – Learning from the Past shows that the world has been connected for more than three millennia and that whoever wishes to foresee the future must consider the past. The author discusses various developments throughout history to show that globalization is not new. The article concludes with policy recommendations based on lessons learned from the past.

The authors of the research paper **Globalization and Cultural Identity – The Perspective of Contemporary Art** focus on contemporary art as an indicator and avant-garde of global developments in general. They show that there are no static communities, no fixed identities and no "authentic" cultures. The article concludes with a number of insights and recommendations.

The sixth article presents the latest results from research examining the extent of the shadow economy and tax evasion worldwide, as well as the development of international and transnational organized crime. The author shows the influence that the shadow economy, tax evasion and transnational organized crime is having on the global economy and concludes with policy recommendations from the perspective of **The Dark Side – Crime Has Gone Global**.

The article **Migration and Globalization – Forms, Patterns and Effects** explores the relationship between globalization and migration, and the impact of globalization and other main trends and drivers on population movements. It concludes with a summary of main findings and policy recommendations as to how decision makers in the EU could incorporate best practices and ideas into policy-making and, moreover, how the Union should deal with the effects of globalization and migration in response to current and emerging challenges.

The author of **Sino-US Relations in the Trump Era: A Conflict in the Making?** argues that the future of US-China relations appears to be increasingly uncertain, a situation that leaves Europe in a difficult situation, since it must cultivate its relations with each while maintaining strategic neutrality with regards to US-China relations. The article shows the implications of different scenarios for Europe and concludes with recommendations for the European Union.

This background paper is designed to provide in-depth analyses of various aspects of the two issues that will be examined during the conference sessions, namely **Addressing the Discomfort: Explaining the Roots of Fears and Frustration**, which will focus on the positive and negative facets of globalization, and **Globalization 4.0: A Possible Track**, which will explore possible strategic and tactical approaches to an updated globalization process.

A Closer Look at Globalization – Roots and Remedies

Jörg Habich | Verena Nowotny

I Introduction

Development – of any kind – is rarely linear. It therefore seems overly simplistic to assume that things should always stay the same. Still, with regard to globalization, people tend to do exactly that. For the past 30 years or more, the global economy has been run based on three main beliefs: that globalization will continue to increase, that trade is the route to growth and development, and that economic power is moving from the West to the East. More recently, it has further been taken as a given that our levels of interconnectedness – both physical and digital – will rise without limits.¹

At the beginning of 2017, however, evidence was piling up that the globalization of the world economy, and more broadly the international liberal order, was in hasty retreat. The election of Donald Trump as US president, the vote of the British people to leave the European Union and the presence of political strongmen in Russia, Turkey and North Korea all seem to forebode a new era in which globalization could potentially be reversed.

On the other hand, the international exchange of culture, traditions and lifestyles seems to continue unabated: Even in the remotest mountains of China one can see indigenous people wearing Western clothes; Coca Cola distributes its products in 206 countries; people are sipping coffee in Starbucks outlets throughout Asia; yoga is part of everyday life for many Western women and men; sushi has become an ordinary meal for most people in Europe and the US. Whether the globalization constitutes a homogenization of world cultures (convergence hypothesis) e.g. on business, art, music or creates a heterogenization of cultures (divergence hypothesis) has not been answered, yet.²

In 1999, the then secretary general of the United Nations, Kofi Annan, claimed that “globalization is an irreversible process, not an option.” Almost 20 years later, experts and politicians sound less certain about the future of globalization – and what this might imply.

Given the rising skepticism, it seems necessary to rethink the complex notion of globalization and what has led to the increasingly prevailing sentiment that it is the source of all evil being visited upon people, especially in the Western world.

This article analyzes some of the roots of the deep mistrust of globalization and whether globalization is actually the proper target, as there might be other forces at work as well. It will address positive facets and dark faces of globalization on an individual, national and international level. The article concludes with a set of recommendations for the European institutions, in order to enhance the ongoing debate of globalization.

¹ Livesey, Finbarr, *From Global to Local*, Profile Books Ltd., 2017.

² Appadurai, Arjun. *Modernity at Large: Cultural Dimensions of Globalization*. Minneapolis 1997; Abderrahman Hassi and Giovanna Storti. *Globalization and Culture: The Three H Scenarios*. In: Cuadra-Montiel, Hector: *Globalization - Approaches to Diversity*, Rijeka 2012.

II The Meaning of Globalization

1. Definitions and Traits of Globalization

In general, globalization refers to the free movement of goods, capital, services, people, technology and information, and it is the action or procedure of international integration of countries arising from the convergence of world views, products, ideas and other aspects of culture.³ Despite its impacts on all aspects of human life and interaction, there is no commonly shared definition of globalization. However:

In the majority of the proposed definitions of “globalization” the factors that play a major role are the expansion, concentration, and acceleration of worldwide relations. Definitions often also contain various diagnoses of our present era. Inherent in them is often the question of whether globalization means the demise of the nation-state, whether it will usher in cultural homogeneity throughout the world, or whether it will bestow new meaning on the concepts of time and space.⁴

This modern understanding of globalization was coined in the 1980s, largely influenced by Theodore Levitt. He proposed that technology and globalization are the world’s driving forces and contributed to the notion’s popularity, well before the internet.⁵

With regard to economic globalization, the International Monetary Fund defined trade, capital movements, movement of people, and the spread of knowledge and technology as the four major traits of globalization,⁶ quite similar to the five key determinants identified by UNESCO⁷:

- To encourage economic growth and investment, governments have privatized many previously government-owned services and industries and deregulated economic activity to allow market forces greater scope. The lending and development policies of international agencies and banks, to open their economies to international goods, services, practices and ideas.
- Large multinational corporations have replaced governments as the vehicle for economic domination and many have grown to be larger and more powerful than most countries.
- Rapid advances in technology, especially in manufacturing, communication and transport in recent decades, have seen the Industrial Revolution replaced by the Information and Services Revolution.
- Advances in communication technologies and the media have intensified daily experiences of global connectedness and contributed to a “global consciousness” that normalizes and, thus, encourages more global connectedness.
- The rise in per capita income generated by these processes has fuelled a massive rise in consumerism and created a perpetual cycle – or a treadmill – of production and consumption.

³ Albrow, Martin and Elizabeth King (eds.), *Globalization, Knowledge and Society*, London 1990.

⁴ Osterhammel, J., and Petersson, N. P., *Globalization: A Short History*, Princeton: NJ, 2005.

⁵ Levitt, Theodore, “The Globalization of Markets,” *Harvard Business Review*, May-June 1983.

⁶ International Monetary Fund, *Globalization: Threat or Opportunity?*
<https://www.imf.org/external/np/exr/ib/2000/041200to.htm> [retrieved July, 11, 2017].

⁷ UNESCO. *Teaching and Learning for a Sustainable Future*. 2017.

2. A Very Short History of Globalization

Though globalization is believed to have begun about 2,000 years ago with the creation of the Silk Road, no definitive starting point has been identified for this phenomenon. Historically, the distribution of goods and services was accompanied by the spread of values and religions and the movement of people. The Silk Road was an ancient network of trade routes which were central to cultural interaction for centuries, originally through regions of Eurasia connecting the East and West and stretching all the way to and from the Korean peninsula. Thus, the Silk Road encompassed essential elements that are now labeled as globalization.

Silk Road



While trade was responsible for less than 20% of world gross domestic product (GDP) in the early 1970s, it now represents around half. And even if the traditional trade in goods is broadly stabilizing, other forms of exchange, such as data flows, are growing exponentially. Estimates show that with an appropriate framework, the value of the data economy will increase to €739 billion by 2020, representing 4% of overall EU GDP, more than doubling today's value.⁸

Globalization did not evolve linearly, but rather in phases. Economic researchers usually speak of three waves of globalization since the beginning of the 20th century. The first came to an abrupt standstill in the 1920s and stayed dormant until the 1940s; interestingly enough, however, the wars and crises of those years were of truly worldwide scope. The second wave brought global institutions and regulations for international exchange, mass tourism and global media and entertainment, and the universal spread of Western patterns of consumption. Problems such as environmental damage, competition for scarce resources (oil, for example), and even terrorism began to assume a transcontinental character. By the early 1980s many of the elements of contemporary globalization were in place.⁹

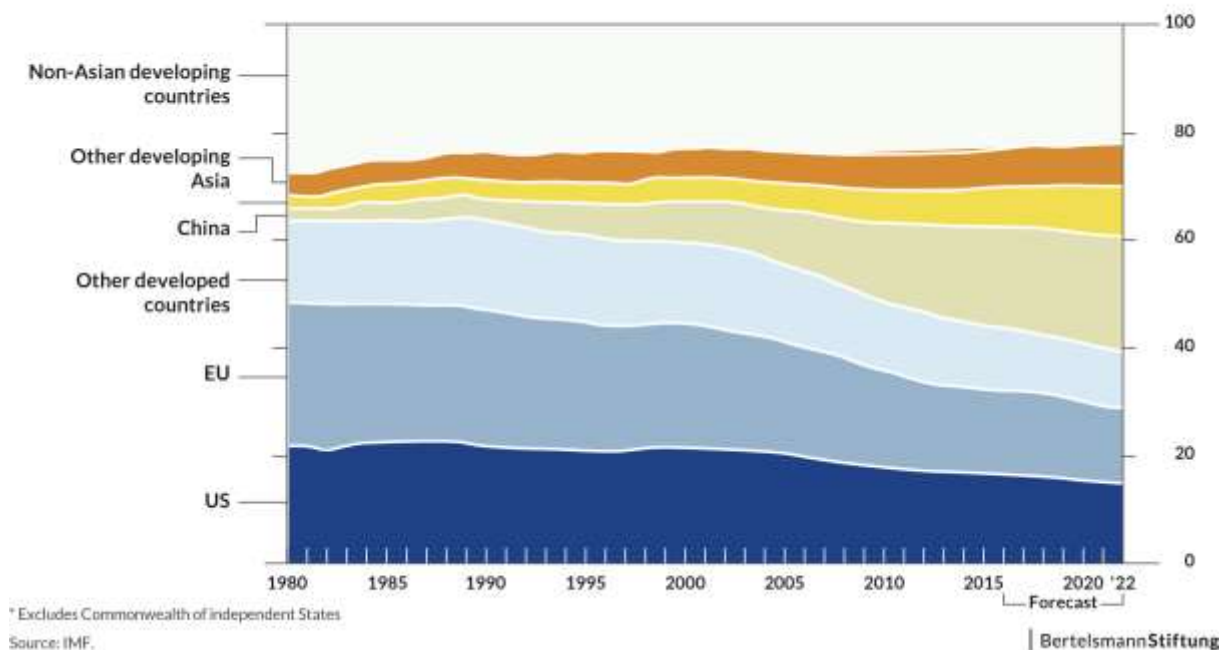
⁸ EU Commission, Reflection Paper: Harnessing Globalisation, May 10, 2017.

⁹ Osterhammel, Jürgen, Petersson, Niels P., Globalization. A Short History, Princeton University Press, 2005.

The globalization of manufacturing over the past 30 years, particularly with regard to China, has been driven by “labor cost arbitrage” – outsourcing labor-intensive production to where wages are low. The rise of the “Factory Asia” supply chain not only helped to lift hundreds of millions in Asia out of poverty, but also increased living standards in the Western world by reducing prices for consumer goods. One impressive example of how people benefit from globalization is South Korea: In the 1960s, GDP per capita in South Korea equaled that of Egypt. Now South Koreans enjoy per capita GDP that is ten times higher than that found in the crisis-struck North African nation.

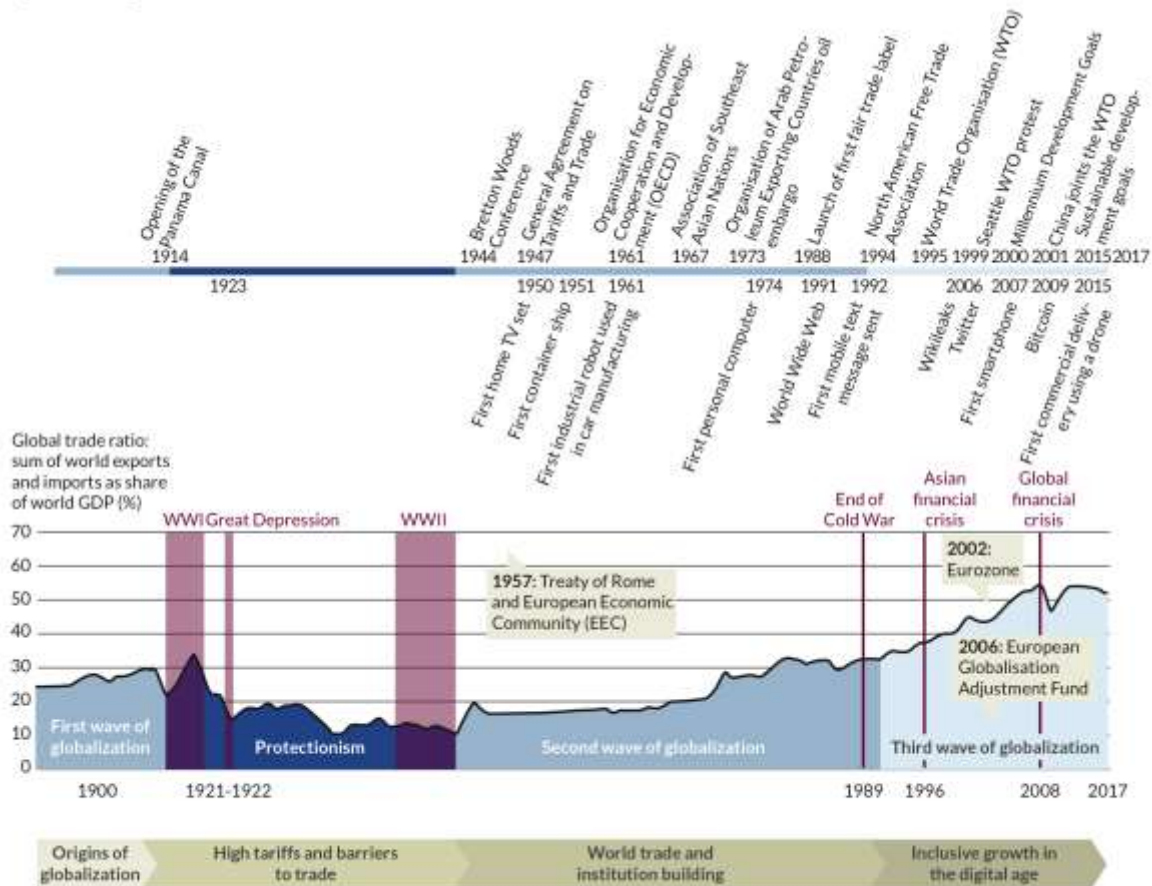
Rising Asia - The changing shape of the world economy

Share of global gross domestic product*, at purchasing power parity (%)



Since the 1990s, globalization has changed radically, as the internet has reduced the costs of moving ideas, and fueled a further unbundling. Now that it is cheaper, faster and safer to coordinate international production, supply chains ignore borders and sprawl around the world. With many products made everywhere, trade has been, in effect, denationalized.

The phases of globalization



Source: European Commission (2016), Klasing and Milionis (2014), World Bank (2017); adapted from the National Bureau of Economic Research Macrohistory Database

BertelsmannStiftung

During the third wave, criticism of globalization shifted from exploitation of developing countries to disadvantages for developed countries. A severe undermining of confidence in established political movements, resulting from the global financial crisis of 2008 and exacerbated by economic inequality, has led to the rise of populism and a rejection of the liberal values underpinning globalization and democracy. After decades of moving towards more openness, many countries in both the developing and advanced worlds have reversed course. What 2008 did was to shake people's faith in the whole system.

III The Growing Discontent

1. Where Does the Anger Come From?

Globalization has been an outcome, not an objective. It has been an outcome of policies over the past decades that treated openness as a virtue, including openness to trade, to ideas, to capital, to cultural interplay and (even) to migration. It is a process that is susceptible to all kinds of influences that might reinforce or weaken its effects.

The reasons for embracing the policies of openness seemed evident: because it made lives better – worldwide. Poverty and famine have been drastically reduced; life expectancy has increased significantly; since 1950 per capita income has risen by 500% worldwide; and infant mortality has fallen by 50%. The narrative about globalization was, therefore, a positive one – a narrative of progress and prosperity.

In the early years of the 21st century, however, the narrative began to change. People began to feel that unfair competition from foreigners destroys jobs at home; unfettered migration leads to abuse of public services and threatens culture and national identity; big businesses use foreign boltholes to dodge taxes, while small companies have a hard time surviving due to high taxes and social security contributions; inequality is on the rise and “the rich” are shaping laws and regulations according to their needs, thus getting richer in the process.

The consequence has been a widespread feeling that the system is not fair and that globalization primarily helps the elite and large corporations. Many people have lost faith in the idea that deregulated markets lead to broad prosperity. Instead they are turning back to the notion of borders and regulations – and, from a variety of different positions, a countermovement against globalization is taking shape.

On one side, there are the critics on the left. They have long viewed capitalism as a threat and have found new symbols to serve as perfect protest targets: multinational trade agreements such as TTIP or CETA. They argue that national laws and regulations will be sacrificed in ways that will benefit only a small number of companies. Further support comes from an altogether different camp, located on the right wing of the political spectrum. The anger there is focused largely on immigrants, the European common currency and open borders, regardless whether for people or goods. The new dividing line is between those who support and those who oppose an open society. Those sceptical of an open society in both camps are connected by their diffuse fear of being left behind.

These critiques, of course, contain some truth: There are those who lose out from openness. An increasing part of the population in the US, for example, has not benefited from the country's constantly growing economy. American blue-collar workers have had to accept decreasing pay checks for the past 20 years; increasingly, the salaries of middle-class and white-collar workers have been under pressure. Even in Austria, one of the richest countries in the world, real household incomes have decreased in recent years. The same is true for most middle-class households in the EU. Consequently, people are anxious about their future and feel that their children's prospects will be worse than their own.

2. Who Is to Blame?

Determining whether globalization is in fact the cause of unfairness and inequality is far from straightforward. There are many popular examples of correlation not being causation. The same is true for our understanding of a globalized economy. We have mixed up many things which are different – like declines in transport costs, the deployment of dense communication networks and changes in production technologies – and put them all in a box labelled “globalization.”¹⁰ The semantic thicket has become so dense that it seems necessary to cut a trail through it and disentangle the various threads.

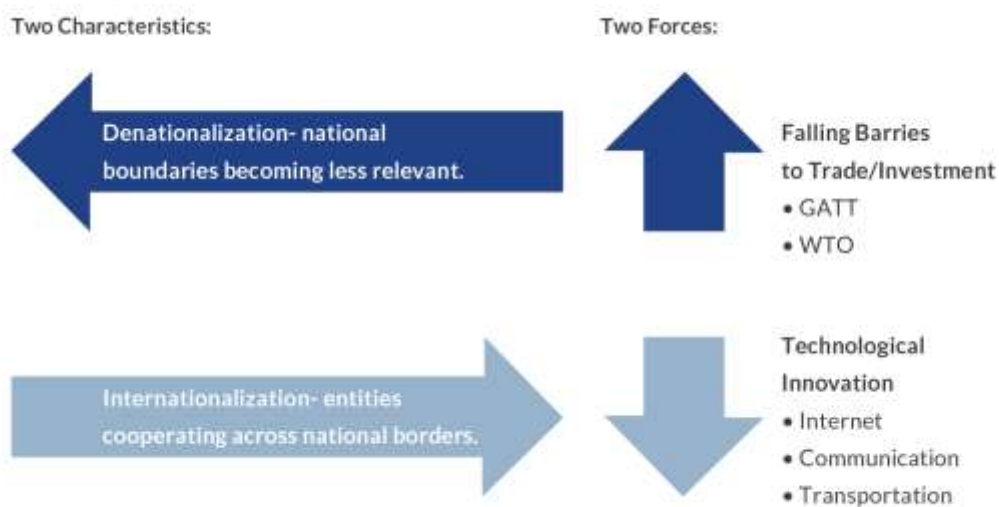
There are various forces at work in the restructuring of the global economy. One of those is **technological progress**. Technology alone, however, does not determine globalization, nor does it rule out competing versions of globalization at any one moment in time. If technology was the only thing that mattered, the Chinese, with their superior naval technologies, would have prevented

¹⁰ Livesey, Finbarr, From Global to Local, Profile Books Ltd., 2017.

their empire from being colonized by Western forces; the British Empire would still be thriving thanks to the huge advantages it gained from the Industrial Revolution.¹¹

Similar to industrialization, globalization has accelerated through technological advances. Especially the development of the internet and improvements in communication technologies and transport have contributed to a more interrelated, interdependent and exchange-oriented world. As shown in the figure below, it seems that different factors influence globalization: On one hand, falling barriers to trade and investment as well as technological innovations like the internet, communication and transportation encourage globalization; on the other hand, denationalization and internationalization support its development.

Globalization



Source: Wild, J., Wild, K., & Han, J. (2008), *International Business: The Challenges of Globalization*, Upper Saddle River, NJ: Pearson Prentice Hall.

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Carl Bildt, former prime minister of Sweden, claims that some industries have vanished due to new technologies – subsequently leading to higher productivity – and not because of globalization. He also attributes increasing inequality mainly to technological developments, not to trade.¹² Technological change has also increased demand for skilled labor but reduced the number of jobs for those with lower levels of qualifications, particularly in manufacturing.

As the world learned from the bankruptcy of Lehman Brothers in September 2008, the **financial system** has become a decisive factor in globalization. The flow of money, which up until that point had moved around the world at increasingly rapid rates, essentially came to a standstill – threatening economies from the US to Asia.

Despite the unanimous lip-service by central bankers around the world to “restore faith in the financial system,” the decoupling of the monetary system from the real economy continues. Money is rocketing around the world fast than ever – and investing has become even more volatile. An influx of liquidity from abroad rapidly heats up the economies in the countries in question – and they land even harder once the capital is pulled out again. In June 2016, the IMF – referring to the free flow of capital – concluded that “growth benefits are uncertain; costs in terms of increased

¹¹ King, Stephen D., *Grave New World*, Yale University Press, 2017.

¹² Bildt, Carl, *Restoring Faith in Globalization*, Project Syndicate, February 16, 2017.

economic volatility and crisis frequency seem more evident.” It is, however, evident that economic crises lead to an increase in inequality.

In the aftermath of the financial crisis of 2008 people legitimately called for some kind of **justice**: Are those responsible for this financial disaster at least somehow being held responsible? Although it is true that a number of high-ranking managers had to leave their posts – CEOs such as John Thain of Merrill Lynch, Richard Fuld of Lehman Brothers, Martin Sullivan of AIG, Marcel Ospel of UBS, Charles Prince of Citigroup – for almost all of them, their inglorious resignation was sweetened with bonus payments, a provocation in the eyes of taxpayers who felt that they were the only ones to bear the negative effects of the financial crisis.

This feeling that the current economic system is not fair and primarily helps those who already have more than enough was exacerbated by those who purposely abuse the system – out of criminal motives or simply because they have the power to do so. Overly powerful corporations that are escaping national controls such as Apple, Ikea, Amazon, Zara, Google or Facebook have the means to shirk tax obligations in a way that middle-class citizens cannot. The European Commission works hard to confront these corporations in order to retrieve some of the tax revenues that are owed; still, this might not suffice to placate a disgruntled public.

Tax havens are the “tumors” of the globalized world. Oligarchs and Mafiosi use them for shady deals while ostensibly reputable companies take advantage of them to avoid contributing their fair share to society in form of taxes. Especially in developing countries, tax evasion is one of the most serious problems. State finances are eroding. Georgia, Bolivia and Zimbabwe have a tax evasion rate of between 5% and 8% percent of GDP on average over the years 1999 to 2015. These figures represent enormous sums. Austria, Switzerland and the United States have the lowest tax evasion rates, i.e. between 0.8% and 1.3% of GDP, which is still considerable.¹³

The belief that politics does not serve the citizens and that the economy does not serve the people has taken firm hold. On top of this feeling of distrust, ubiquitous **terrorism** has added a further layer of insecurity to people’s emotional state. Conflicts that once seemed too far away to interfere in everyday life now trigger waves of refugees knocking on Europe’s doors. Despite its name, the Islamic State (IS) is a classic non-state actor that has been able to gain support via social media. The cybersphere has created opportunities for nations to attack and undermine each other – from interfering in national politics to attacking critical infrastructure.

As often, it was the US military that coined an acronym that perfectly describes the challenging mixture we are confronted with: VUCA stands for the volatility, uncertainty, complexity and ambiguity of general conditions and situations. The notion of VUCA was introduced by the US Army War College to describe the more volatile, uncertain, complex and ambiguous multilateral world which resulted from the end of the Cold War.

The increased volatility has a double effect: Not only the frequency of unplanned events increases, their amplitude also grows. Trend scout Holm Friebe uses the metaphor of a resonance disaster – the physical phenomenon of the destruction of a building or a technical mechanism by induced vibrations at a system’s resonance frequency, as happened to the Tacoma Narrows Bridge when

¹³ Schneider, Friedrich, *The Dark Side: Crime Has Gone Global*. In: *A Closer Look at Globalization – The Positive Facets and the Dark Faces of a Complex Notion*, Gütersloh. 2017.

soldiers walked over it in lockstep in 1940. As our world has become more and more interconnected and feedback loops increase, the probability of resonance disasters rises as well.¹⁴

IV A Closer Look at a Multilevel Challenge

These impacts of globalization and related developments are felt on all levels of human life and interaction. The types of changes and challenges they pose differ. Individuals, companies, nation-states and international regimes are all affected by globalization in their own way, positive and negative. The dynamics of cultural globalization encompass both – push and pull. With regards to this effects it will be crucial to manage globalization.

1. Impacts on an Individual Level

The influences of globalization on the individual level are felt by everyone. The individual perception of globalization differs as much as globalization's effects do. For example, a study conducted by the Bertelsmann Stiftung showed that only slightly over 50% of the Germans polled viewed free trade as positive.¹⁵

Effects on the individual	
Positive Effects on the Individual	Negative Effects on the Individual
Increase in personal freedom and choice	The gap between rich and poor is increasing
Lower prices of luxury goods	Outsourcing of unskilled labor
Increased communication	Pollution
Decreasing cost of living	Possible loss of Identity
Year-round supply of variety of food and exotic products	Losses for everyone excluded from globalization (e.g. no access to internet)
Creation of a variety of new fields of work	Local crises can have global impacts
Decrease of poverty worldwide	Increase in competition
Increase of employment in developing countries	Increase in demand of flexibility
Worldwide mobility	Lower quality of products
Increase in wealth of people working in fields connected to international trade	Poor making conditions (in some cases)
Better opportunities	Risk of being left behind without knowledge of English
International labor demand	Increase in international movement of refugees
English as predominant language simplifies communication	
Increase of health, education, expectation of life	

| BertelsmannStiftung

Even when this list of benefits and disadvantages does not contain an exhaustive list, the Table “Effects on the Individual” depicts a variety of assets and drawbacks for the individual. The table shows that globalization could have positive as well negative consequences and therefore it might depends whether the phenomenon could be seen as an opportunity or a threat. Unsurprisingly many of the advantages have an equivalent that causing a disadvantage for others. Even though globalization is believed to be a win-win rather than a zero-sum game, there are always winners and losers from certain effects. The differences between rich and poor are a prime example.

¹⁴ Friebe, Holm. Resonanzkatastrophe. Zukunftsreport 2017, Zukunftsinstitut.

¹⁵ Bluth, Christian. Einstellungen zum globalen Handel und TTIP in Deutschland und den USA. Gütersloh 2016.

2. Impacts on an Collective Level

Additionally there are positive and negative effects of the globalization on a broader scope. A Bertelsmann Stiftung report analyzes the extent to which 42 developed and emerging nations have benefited from globalization and can continue to benefit from it in the future.¹⁶ The Table “Effects on a collective level” summarizes some effects on companies, nations or a cross-border level.

Effects on a collective level	
Positive effects collective level	Negative effects on a collective level
Stronger dependencies between nations; partnership	Loss of cultural identity
Cultural Homogenization	Domino effects across borders
Increase understanding and goodwill of different countries	Sensitivity to (economic) shocks and technological networks
Optimized resource allocation	Adverse effects on social welfare
Global scope; Solving global challenges like environmental protection	Harmful effects on SME
Multinational or transnational corporations	Hostile to humanism
Increased access to resources like healthcare or water effecting life expectancy levels	Erosion of democracy
Spread of democratic ideas	Gender-insensitive
Equalization of income distribution among nations	Destructive of environment
Providing better education	Exploitation of underdeveloped countries
Free trade for companies; exchange of goods and services	Brain drain
Decrease of prime costs	(Armed) conflicts e.g. over natural resources
Access to know-how and natural resources	Flight and expulsion
International investments; free access to financial markets	Risk of diseases
Specialization	Inequality and environmental degradation
Spread of know-how or technologies	
Diversity	

Source: author's own diagram.

| BertelsmannStiftung

V Knowledge is Key

The key of being successful – or the difference between being a winner and becoming a loser of the globalization process – might be the access, the utilization or the distribution of knowledge. “Informatization” is a word rarely used when talking about globalization. It is defined as “the unprecedented growth in the speed and quantity of information production and distribution and the increased role of ICT-assisted knowledge processes, systems, and networks in society.”¹⁷ This very much IT-based definition only covers part of the phrase’s potential application.

With regard to globalization, it would be much more useful to look at informatization as “the global and instant availability of information, negating information asymmetries.” In a world with or without falling barriers and with nearly unlimited technical support, every piece of information is always available everywhere. When perfect information is not available, the principal cannot directly ensure

¹⁶ Böhmer, Michael; Funke et al. Globalization Report 2016. Who benefits most from globalization?, Gütersloh 2016. See also: Petersen, Thieß. Economic Globalization Under Pressure – Why People in Industrial Nations Are Increasingly Critical of Globalization. In: A Closer Look at Globalization – The Positive Facets and the Dark Faces of a Complex Notion, Gütersloh. 2017.

¹⁷ Anttiroiko, Ari-Veikko. “Democratic E-Governance” in Khosrow-Pour, M. Encyclopedia of Information Science and Technology. Second Edition.

that the agent is always acting in the principal's best interest.¹⁸ If all information is available, information asymmetry cannot be utilized. In the context of globalization, it is essential to know who has all the necessary information. The prevention of information asymmetries becomes a competitive advantage.

Consequently, the new definition of informatization challenges the current understanding of globalization by raising different questions about the nature of globalization. All aspects of globalization can be reduced in one way or another to an increase in information. As a key factor the access, utilization and distribution of knowledge or in other words Informatization:

- explains why protectionism does not help: protectionism does not prevent people from receiving information;
- explains why there are always winners and losers: those who have no access to the information network will be on the losing side;
- raises demand for control of information's creators and distributors: both the media and distributors such as Google and other multinationals need to be monitored;
- can increase international trade by reducing information asymmetries: equal opportunities result in more participants;
- explains the increasing gap between rich and poor: the rich usually have better access to information;
- explains shifting cultures, and the fear of a loss of identity: new information about products, ideas and ideologies can reach individuals;
- explains the concern about global problems, e.g. terrorism and world hunger: threats and problems seem closer because of all the new information now available; and
- knowledge of factors such as lower wages in other countries is the reason why companies shift production.

Having this in mind, the access, the utilization and the distribution of knowledge must be managed to increase the positive effects of globalization.

VI Recommendations

The public debate about globalization is currently dominated by its foes, the "losers" of globalization. Those who see more chances and opportunities in globalization and technological progress tend to be less vocal. The following recommendations pursue three main goals:

1. Making globalization more "manageable" for citizens.
2. Making citizens more agile and thus more capable of managing their own futures under changing conditions.
3. Eliminating the drawbacks of globalization without destroying its advantages.

Given those goals, this paper recommends the following:

- **Think "glocal"**: By reconciling global outreach and local needs, citizens will regain their grasp of local affairs. As demonstrated by "The Global Parliament of Mayors," initiated by political theorist and civil-society specialist Benjamin R. Barber, local politicians can benefit

¹⁸ Eisenhardt, Kathleen M. (1989). "Agency Theory: An Assessment and Review." *The Academy of Management Review*, 14(1), 57-74.

from global relations and learn from best practices worldwide and, at the same time, apply these learnings to their local communities.

- **Set goals for globalization:** As mentioned, globalization has been the outcome, not an objective. In order to generate understanding and approval of policies that require a global approach (e.g. climate change, fight against terrorism). Principles and goals need to be discussed and established.
- **Be an active globalizer:** Europe as a whole has mainly benefited from globalization; however, the EU's contribution to shaping globalization has been minor compared to the US or China. The European Union needs to actively work on the global rulebook in order to secure standards, especially in the areas of sustainability, fair competition, and rule of law.
- **Empowerment by education:** Equal access to high-quality education and training provides citizens with the agility to adapt to changing professional demands. Already 90% of all jobs require at least some level of digital skills – education and training programs need to be improved to provide these necessary skills (capability approach).
- **Support for local transformation:** While the benefits of globalization are widely spread, the costs are often localized. Support at the local and regional level can help to overcome negative effects.

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Is G20-led Multilateralism Reaching Its Limits?

Gary Litman

I Is G20-led Multilateralism Reaching Its Limits?

In the Western tradition, crises beget institutions; in other traditions they bring about consolidation of power by charismatic leaders. From the Concert of Nations to the Bretton Woods agreements, each time European states survived a major crisis they sought to establish new institutions, with formal rules intended to smooth over differences, set procedures and open new opportunities for progress.¹ These institutions would dress the influence of the dominant player, frequently the victorious power, in the clothes of a benign leader surrounded by technocratic experts. Modern Chinese history is different. In the Chinese experience, dramatic events call forth strong national leaders rather than institutions. Russia has been vacillating over the last 200 years between joining European bodies and practicing ruthless authoritarianism. Russia was present at the creation of every major international institution, till it quit or was booted out. Recently, it does not feel it has much to show for its participation in multilateral bodies. Given these divergent traditions, recent events have led to predictable responses. When the world was shocked by the attack on the World Trade Center towers, the “West” resorted to coalitions; in the “East,” the rulers offered personal assurances to their respective populations. When the world financial crisis hit the major markets, the US, Germany and the UK invested political capital in the first relevant collective body, the G20, while the leaders of Saudi Arabia, Russia, China, India and Turkey consolidated power and thus reassured their stakeholders that the crisis would be overcome.

The G20 has been trying to have it both ways: It is an expert-driven body for those who are comfortable with such a notion, and it is a gathering of “leaders” for those who personalize power. In 2017, the two camps are finding that they are not that different from each other. In the West, the belief in charismatic leaders and skepticism about institutions, especially multilateral ones, have been on the rise, while China and Russia are building various regional organizations, from the Shanghai Cooperation Council to the Eurasia Economic Union to new development finance banks. The particular form of multilateralism embodied by the G20 has turned out to be highly flexible and may yet prove essential for global economic growth. This paper argues that it is worth preserving and therefore it is important to undertake a roots-and-branches pruning of the G20 structure.

II Who Are the G20 Today?

The leaders of the 19 largest national economies of the world plus the European Union and the international financial institutions have sustained their membership in the G20 as a unique club that has no firm rules, membership fees or even place of residence.² They are not bound by a convention or even by-laws. Any newly elected government, be it the Trump Administration or the Macron Republic, is immediately confronted with a packed calendar of international meetings prepared by its predecessor together with the rotating chair of the G20. Whether one believes in it or not, one has to show up, and check out the shoes left by his or her predecessor. Ostensibly, the

¹ “Total war had lent prestige to those civil servants who had organized the supplies, communications, and fuel without which the fighting itself would have been impossible. It had produced new forms of wartime cooperation, such as the Allied Maritime Transport Council, an unglamorous body for the coordination of shipping that exemplified an international executive run not by diplomats by experts.” Mark Mazower, *Governing the World: The History of an Idea, 1815 to The Present*, p.143.

² The clearest authoritative guide to all the standing groupings of countries can be found here: <http://www.imf.org/en/About/Factsheets/A-Guide-to-Committees-Groups-and-Clubs#G20>.

principals are committed to only one thing: an annual ritual of having face time with each other. Therefore, the G20 is conceived as a top-down process. To keep the leaders engaged, a whole machinery of sherpas, ministerial staff, task forces and international organizations has emerged.

In 2017, the G20 Summit in Hamburg presented a novel experience for all concerned. Continuing political shifts are a lagging indicator that not all is fine in this, the best of all worlds. The recent political winds have cracked the comfortable carapace of verbiage that for years obscured and constrained the functioning of many top-level political forums, such as the G7 and the G20. The talk about shared values and visions is peeling off, to reveal the hard core of these institutions, which have emerged to establish the soft law of global economic norms. On immediate practical issues, from continuing “easy money” policies to confronting epidemics, there was a meeting of the minds. On the issues that have become politicized and reduced to buzzwords, or elevated to articles of faith, like “combating climate change” or “free trade,” the delegations ended up squandering political capital. For the institutions at the table – the European Union, IMF and World Bank – the spectacle was especially painful, since they could see how the same tensions could play out within these bodies, which are dominated by the same national politicians. Uniquely among the members of the G20, the European Union is awkwardly represented by two appointed officials and also indirectly by the other European leaders at the table *sans* UK, which does not project the image of stability and leadership potential. On the road to Hamburg, the G20 looked exceeding fragile. Before the Hamburg Summit, the frequently discussed alternative to the G20 was a G2, or even G1. However, a more likely and fraught alternative to the G20 may be a total and chaotic collapse of international economic cooperation. The many critics of the G20, both inside the hall and protesting out in the streets, need to keep this in mind.

A decade into its current incarnation, the G20’s record is that of failed foresight and successful emergency measures. Created to sort out the Asian currency crisis, it proceeded to miss the risks building up in the global financial system. However, when the crisis hit in the wake of the Lehman Brothers collapse, the G20 proved essential and effective. It coordinated emergency steps that have softened the blow and set the path towards restoring a large measure of confidence. That was then. For stakeholders today, it is important to debate what the G20 instrument is now, and what it should be.

III What Do They Do Together?

Conjured up as the crisis management committee to hold the world economies together after the financial meltdown, the G20 continues to play that role. Unfortunately, it is not the only thing that it does. The G20 is also becoming a show in search of an audience.

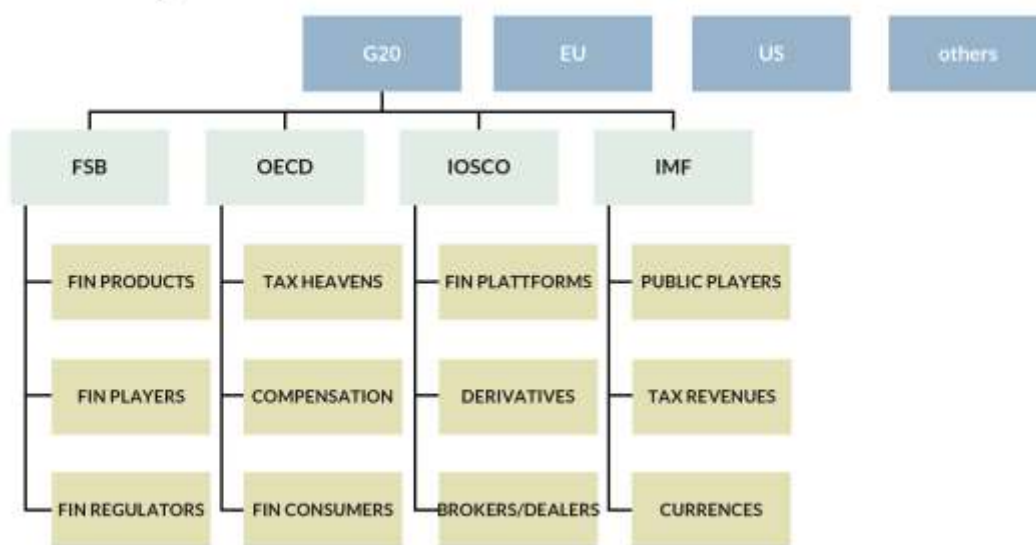
The current function of the G20 is to offer a visual spectacle of global political leadership, which should give comfort to the markets and other stakeholders in times of economic turmoil. As long as the family photo shows, together, the main global creditors and borrowers, the currency emitters and the main currency hoarders, the largest buyers and largest sellers of goods and services, the world can take heart. The 2017 Hamburg Summit is a perfect case in point: Despite the protests outside and the disagreements inside, the photo came out just fine and the markets stayed calm.

As initially set up, the G20 reflected the 2008–2009 analysis of the causes of the crisis, and the tools needed to avoid a devastating global depression. The risks were catalogued and the players asked to handle them with all the resources – and all the imagination – they possessed. In its finance-focused design, it reflected the assessment of the risks lurking in the system, and the

centers of competence to address them. Since the risks were financial, so were the responses: Financial products, actors, stock exchanges, transactions, consumers and regulators needed to be looked at through the prism of what else could go wrong. The best ideas had to be presented to the political leaders. Speedy decision-making was essential. The policy makers had to make dramatic decisions faster than the markets, and with the explicit purpose of restoring confidence in the markets. Given the global nature of capital markets, the governments needed each other to act together as much as possible.

As politicians were “staring into the abyss,” the US and EU quickly established the institutional architecture of the G20:

The G20: Gears and cogs

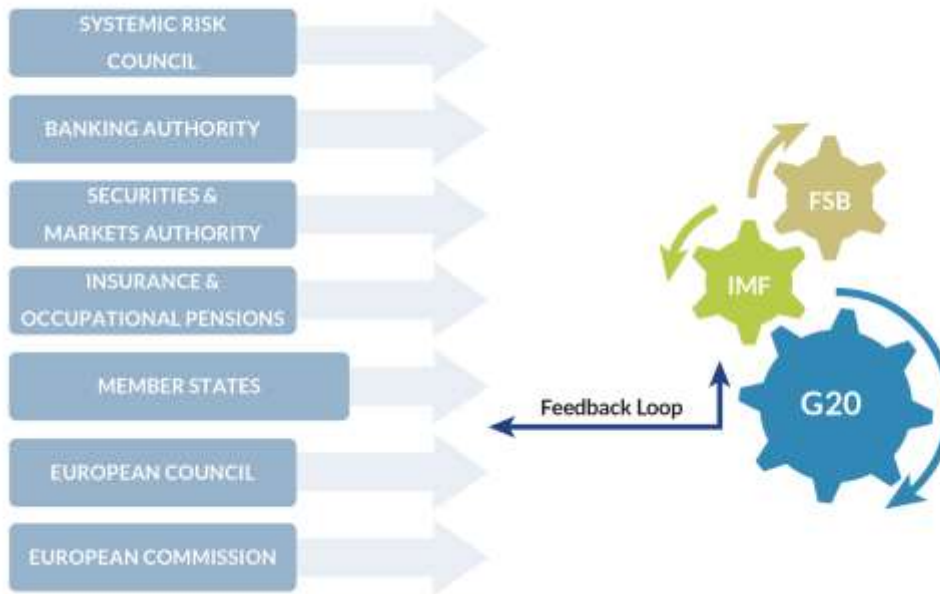


Source: author's own diagram.

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This financial track that started the G20 remains somewhat independent of the G20 Summit: It includes central banks, ministers of finance, market regulators and the IMF. This track meets at least twice a year at a senior level. Given the centrality of the financial track, it has dedicated sherpas who are typically ensconced within the ministries of finance. The predominance of the US dollar and US-based derivatives made it only natural that the US would enjoy a clear and welcome leadership role in the G20 process. At the outset, the Eurozone was still somewhat complacent. As the crisis of private finance morphed into a crisis of public debt, the Eurozone became much more cognizant of its vulnerability and the potential for social and political upheavals. From the European perspective at the time, the cogs and wheels of engagement with the financial track alone could be schematically presented as follows:

The G20: Links to EU



Source: author's own diagram.

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The picture became much more complex as the EU, Eurozone, ECB, IMF and Germany were knitting together a structure to address the member-state level fall-out from the financial crisis while playing an intermittently important role within the G20 itself.

By 2011, the G20 focus shifted to prospective risks and a search for policies that would produce lasting economic growth. The tool for that was proposed by the IMF *inter alia* in the form of a mutual assessment process:

Summary of the G20 MAP Process

Feedback Loop

- Action-oriented vehicle – created from the crucible of the crisis
- Followed a remarkable period of global cooperation (e.g., London G20 meetings)

Key Motivation

- Addressing global fault lines from crisis to recovery
- Maintaining a spirit of collective action

Contours

- The process sought to identify a set of policies to deliver on the growth objectives
- Accountability framework – enforcement through peer review

Evolution

- Greater focus on „external sustainability“ and imbalances
- Identify key imbalances, root causes, policies (country-specific analysis)

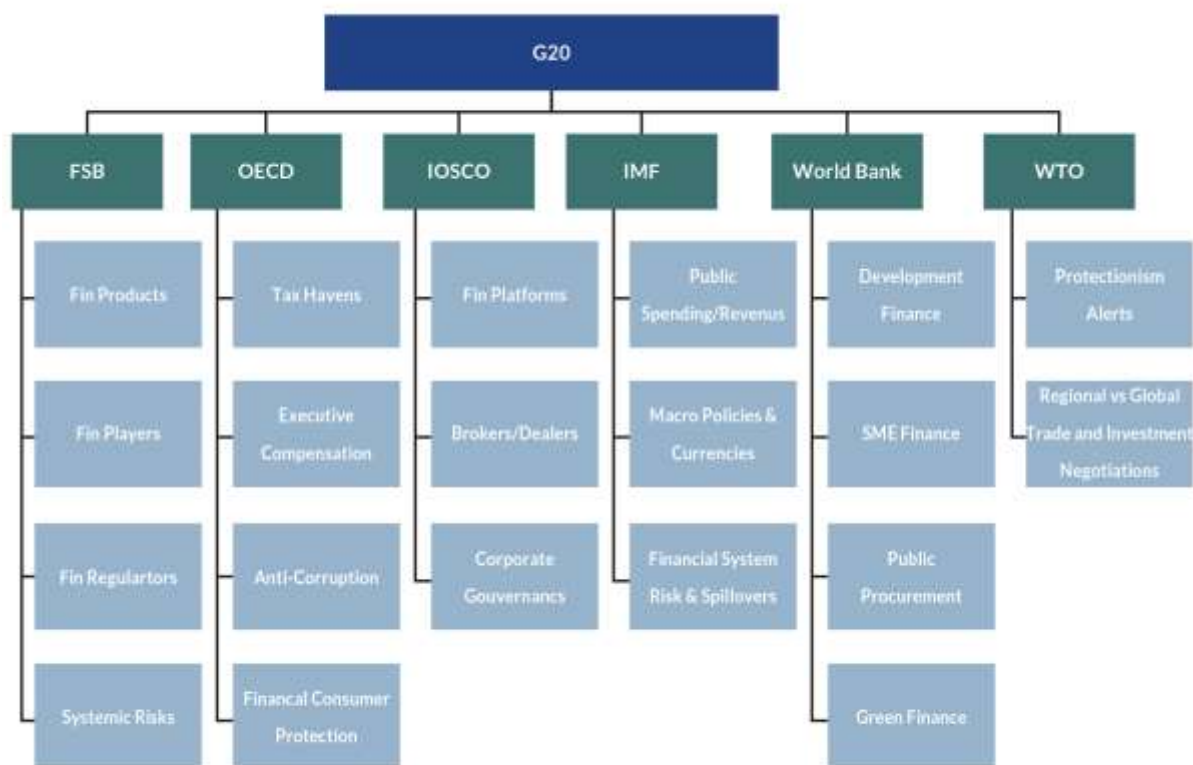
Source: IMF Research Department (2012).
<https://www.imf.org/About/Factsheets/Sheets/2016/07/27/15/48/G20-Mutual-Assessment-Process-MAP?pdf=1>

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This tool has been confirmed by the 2017 Hamburg Summit as a “member-led member-owned peer review mechanism.”³

The shift towards the growth objectives was much needed as a confidence signal to the markets. Yet it opened the cracks for every interest group to insert their particular agenda items. The concept of a rotating presidency, which was initially a barrier against over-institutionalizing the G20, became its own opposite since it invited every new chair to look for ideas to leave its own mark.⁴ While the US and the Eurozone continued their dogged pursuit of financial risks, and ways to moderate them, other members of the club felt that they had the leave to engage in other matters. The business community, and especially companies with global value chains, noticed that the process was expanding and beginning to touch their operations in many unexpected ways, far beyond the initial basic issue of access to credit or, as some observers put it at the time, Main Street vs. Wall Street. Business looked at the G20 process as a novel policy cascade that created soft law emanating from the lofty G20 Summit and turning into a regulatory flood in some welcoming terrains.

The G20: Policy cascade



Source: Policy cascade (2013).

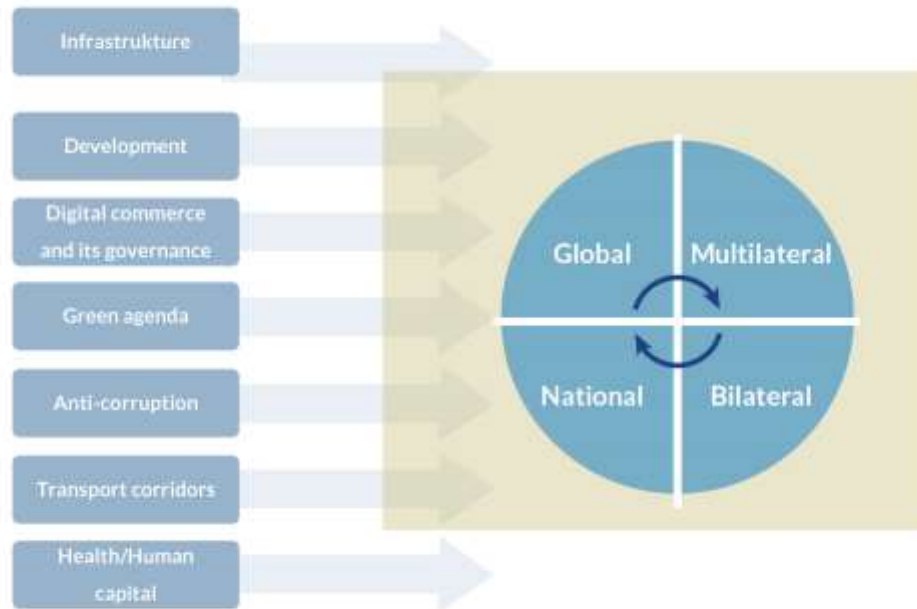
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³ In G20-speak, the authors now have to clarify, without any irony, that this “member-owned” review is based “on the use of indicators developed under the Enhanced Structural Reform Agenda, an assessment by the International Monetary Fund (IMF), the OECD and the World Bank Group (WBG).” G20 Hamburg Action Plan. https://www.g20.org/Content/DE/_Anlagen/G7_G20/2017-g20-hamburg-action-plan-en.html?nn=2186554.

⁴ “At the end of the day, it is politicians who set the ground rules that determine the economy’s fortunes – in their fiscal and labor market policies, say, but also in competition policy or investment in education and research. All these factors impact on economic growth and on real earnings, too, which are the source of savings.” Andreas Dombret, member of the executive board of the Deutsche Bank, February 26, 2015.

Within a few years, every rotating presidency added its own flavor, frequently dictated by the electoral calendar. Here, for example, is how policy priorities looked to business on the eve of China's presidency in late 2015:

Where will China G20 make its mark?



Source: US Chamber of Commerce.

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In this context, the US leadership was less relevant – the machinery shifted towards playing up to national audiences.

The G20 sherpas realized they were no longer responsible for the global economy but for the political messaging of the host nation, and also for that of their respective governments. The language of the communiqués was getting lengthier; it shifted from decisions to hortatory calls, all sorts of taskings to other international institutions, reports, bench-marking and fact-finding exercises. As an example, one can take a look at the title of and list of abbreviations in one of the numerous G20-commissioned reports from last year: *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries, Prepared for Submission to G20 Finance Ministers, July 2016, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations (UN), World Bank Group (WBG)*. The otherwise thoughtful report begins with:

Acronyms

AEOI	Automatic Exchange of Information	ODA	Official Development Assistance
ATAF	African Tax Administration Forum	OECD	Organisation for Economic Co-operation and Development
ATAIC	Association of Tax Administrations in Islamic Countries	PITAA	Pacific Islands Tax Administrators Association
ATI	Addis Tax Initiative	PCT	Platform for Collaboration on Tax
BEPS	Base Erosion and Profit Shifting	RA-FIT	Revenue Administration's Fiscal Information Tool
CATA	Commonwealth Association of Tax Administrators	RTO	Regional Tax Organization
CIAT	Inter-American Center of Tax Administration	SARA	Semi-Autonomous Revenue Authority
CD	Capacity Development	SDGs	Sustainable Development Goals
CREDAF	Centre de rencontres et d'études des dirigeants des administrations fiscales	SGATAR	Study Group on Asian Tax Administration and Research
DAC	Development Assistance Committee	TA	Technical assistance
DRM	Domestic resource mobilization	TADAT	Tax Administration Diagnostic Tool
FARI	Fiscal Analysis for the resource Industrie	TPA-TTF	Tax Policy and Administration Topical Trust Fund
FTA	Forum on Tax Administration	TIWB	Tax Inspectors Without Borders
IMF	International Monetary Fund	UN	United Nations
IOs	International Organizations joined in the Platform for Collaboration on Tax: the IMF, OECD, UN and WBG	UNDP	United Nations Development Programme
IOTA	Intra-European Organisation of Tax Administrations	WBG	World Bank
ISORA	International Survey of Revenue Administrations		

Source: author.

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Once national political discourse seeps into the G20 process, it is difficult to push it back out. One can justify anything on the grounds that it helps, or hurts, economic growth prospects and therefore should be put on the G20 agenda. The mission creep of the forum means that it brings into the discussion more political issues derived from national partisan battles, which threatens to undermine the G20's capacity to address its core mission.⁵ It is one thing to use G20 meetings to probe new ideas on the margins, and another to spend precious time together on discussions of the specific language of public communiqués on these issues. Is it really necessary for the G20 political leaders to tell each other how they see the development of SMEs in their countries? SMEs did not cause the financial crisis, nor will they pull the world out of it. Are the G20 gatherings the right occasion to opine at regular intervals on climate change when the UN has an established forum and painfully negotiated process for just that purpose? One can even make the case that the G20 is not the place to rehash old or launch new discussions about issues squarely in the competence of the WTO. For example, reflecting its internal frustrations, the EU went into the 2017 Hamburg Summit with a nine-point statement that *inter alia* repeated calls for "open and fair" trade, threatened retaliation against protectionism, called for revisiting how globalization impacts people, indicated that the private sector be held responsible for the fall-out from globalization, demanded that the G20 somehow "empower" workers and extolled the benefits of a global economy for all – within one pregnant paragraph.⁶ It is difficult to imagine the G20 heads of state engaging in a productive discussion of such inconsistent messages, especially since some of the G20 leaders

⁵ For the sheer ambition of the G20 technocrats, look no further than the national comprehensive growth strategies that each of the G20 countries was compelled to submit in 2014, and had reviewed in 2015. As one example, here is the link to Saudi Arabia's strategy: http://g20.org.tr/wp-content/uploads/2014/12/g20_comprehensive_growth_strategy_saudi_arabia.pdf.

⁶ The EU at the G20 summit in Hamburg: Joint letter of Presidents Juncker and Tusk, July 4, 2017. http://europa.eu/rapid/press-release_STATEMENT-17-1909_en.htm.

are members of the EU and had to avoid showing any inconsistency with the already internally inconsistent statement.

As different stakeholders developed access to the G20 process, they have started using it for their narrower interests: The financial sector further peeled off the finance track; the health industry launched its global health initiatives; infrastructure and mining interests set up a separate hub in Australia; youth groups, consumer groups, SME forums, think tanks, women's groups and science organizations all appropriated the magical number and organized Y20, T20, C20, B20 and so on. BRICS countries have decided that they will have their own caucus within the G20, while the rotating chair invites seemingly random non-G20 parties to various segments of the summit.⁷

The sense of urgency and the sense of responsibility initially drove the G20 to rely heavily on very senior political advisors to the heads of state and government involved. These sherpas were given political clout to pull resources, ideas and commitments from across their respective executive bodies. While there was no shortage of finger-pointing about the causes of the crisis, top policy leaders were mobilized to avoid the worst. That is no longer the case. As the acute phase of the financial turmoil receded, the governments changed, the agenda got watered down and the powers of the sherpas ebbed, along with their capacity to make governments work together. The G20 sherpas are now limited to promoting the habit of cooperation among political leaders. Indeed, at a working level is it important that civil servants remain current on each other's analysis, capacity, limitations and ambitions. The frequent meetings and video conferences allow a common language to emerge, a sort of peculiar G20-speak that is indispensable as a shortcut in discussions.

By the end of 2016, as disdain for and distrust of institutions was becoming more palpable in the US and parts of Europe, China as the rotating G20 chair was still going full bore to advance the most ambitious architecture for this pliable forum. It appeared that China was out to prove that it was now the power most willing and able to put trust in institutions and derive political capital from doing so. The 2016 G20 communiqué came out with a list of annexes that ran to over 500 pages. Germany had to follow-up on a substantial portion of that agenda, out of deference to the Chinese government's legacy. Even though at the outset of 2017 Finance Minister Wolfgang Schäuble pointedly tried to cut down priorities to four bullets,⁸ the public calendar of meetings for just one month, May 2017, looked something like this:⁹

⁷ https://www.g20.org/Webs/G20/EN/G20/Civil_society/civil_society_node.html;jsessionid=BBEDC3B76920C796B9D42ED6130C749F.s1t1.

⁸ http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/To_the_point/to-the-point-g20.pdf?__blob=publicationFile&v=11.

⁹ https://www.g20.org/Webs/G20/EN/G20/Calendar/calendar_node.html#doc2189410bodyText6.

Timeline

May 2017

2	Workshop - Sustainability Working Group	17	Labour20 Dialogue
2 - 4	Global Partnership for Financial Inclusion (GPFI) Forum and GPFI Meeting	18 - 19	Sherpa Meeting
2 - 3	Business20 Dialogue	18 - 19	Labour and Employment Ministers Meeting
3 - 4	Sustainability Working Group	19 - 20	Health Ministers Meeting
4 - 5	Trade and Investment Working Group	29	Turning the Tide - The Sustainable Development Goals and the Ocean (Think20)
10 - 12	Development Working Group	30 - 31	Framework Working Group
14 - 15	Agriculture Deputies	30	Think20 Dialogue
15 - 17	Employment Working group	30/5 - 1/6	Conference "Marine Litter"

Source: author

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A glance at these seemingly routine, friendly, technical meetings would soothe frayed nerves. And yet the global crisis is arguably still roiling the planet. Ultimately, Germany has succeeded in trimming down the process. By the time of the summit, the new political leaders and their sherpas, from Argentina to Korea, the US and UK, France and Saudi Arabia, had been asked to select a limited number of issues they could somehow relate to. Given the fraught process of separating the EU agenda from that of the UK, and the continuing tension of priorities between the Eurozone and the rest of the EU, everyone in Hamburg must have been painfully aware that the structure of the G20 is very fragile and the European input might reflect more Europe's internal strife than a genuine G20 mission.¹⁰

IV What Does the G20 Offer to the World Today?

In hindsight, it seems clear that the real mission of the G20 was not to preserve globalization. No one institution has created or can save globalization. Each one of them, from GATT on, made progress in reducing the friction in global flows, but none was its source or savior. The G20's unique mission was to rescue nation-states buffeted by the sudden collapse of the financial scaffolding of globalization.

The 2017 G20 Summit in Hamburg has demonstrated that the underlying causes of the economic downturn that started 10 years ago remain unaddressed to a great degree. The gathering's declaration states that "progressing our joint objective" remains the highest priority.¹¹ It then offers painstakingly worded assurances that leaders are going to be working towards "building resilience, improving sustainability and assuming responsibility." Little is said about the lessons learned during the financial crisis and in the 10 years since. Arguably, some remedies applied by *inter alia* the US, EU, China and Brazil have their own addictive side effects, including slow growth, unsustainable public debt and fraying social safety nets. The threat of market volatility is lurking behind every new record set by the stock exchanges.¹² Trust in international and many national

¹⁰ The colorful G20 history from 2011 to 2014, including recriminations that it was used to settle internal EU scores, is still haunting some G20 veterans. It also shows the risks of abusing the forum. http://www.corriere.it/english/14_maggio_15/plot-against-berlusconi-70c83fd8-dc29-11e3-8893-5231acf0035c.shtml?refresh_ce-cp
<https://www.theguardian.com/world/2011/nov/04/g20-summit-markets-judgment>.

¹¹ G20 Leaders' Declaration: Shaping an interconnected world. https://www.g20.org/Content/EN/_Anlagen/G20/G20-leaders-declaration.pdf?__blob=publicationFile&v=6.

¹² In the IMF-speak offered by the G20, a similar message reads as follows: "The fragile conjuncture increases the urgency of a broad-based policy response that strengthens growth and manages vulnerabilities. In advanced

institutions has not been restored. The summit did recognize some new risks, especially in the digital domain and the potential health-care finance crisis that is inseparable from the overall vulnerability of public finance. It has also successfully limited the number of documents generated by the G20 and supporting institutions, highlighted political support for several existing initiatives and avoided constraining the choices of the next G20 presidency. And yet it is struggling to draw the line between its core *raison d'être* as a crisis management committee and the tendency to behave as a global supervisory board that sets general goals and frets about mission statements. A drift toward a “UN-lite” institutional format dilutes the G20’s value as the global crisis management committee, the need for which is as strong as it has ever been.

In a somewhat paradoxical way, the result is that only very few G20 members have sufficient political capital to invest in the process to make it relevant, which in turn is bringing about a consolidation of power within the forum. With everyone stepping back, the US, China and Germany, supported by the IMF, OECD and FSB, are by default calling the shots, with the rotating chair influencing the calendar, format and sometimes the public themes. In this geometry, the US is now a reluctant player.

Since the crisis flared up in the US financial markets and was initially addressed with drastic actions by the Federal Reserve using its powers to create reserve currency, it is natural that the US was at the center of policy decisions. However, one can argue that it was not an exercise of US power, and thus not a harbinger of a unipolar world. In fact, US policy makers instantly realized the need for a global push in the same direction of increased demand. Therefore, one should not be surprised that the United States that had entered the crisis first and led the world in devising rescue packages is now reducing its ambitions in the G20 process. From the US point of view, the G20 risks spreading itself thinly to the point of stretching its own credibility. The challenge for the G20 is to bring the agenda back to its core, dress it in language that is clear to the public and step back from putting further burdens on the creaking network of post-war international institutions.

The saving grace of the G20 is in its capacity to recover from the affliction of abstruse acronyms, and resume its mission of systemic risk mitigation. That would be a G20 worth investing in. By comfortably straddling the cultures with a history of institution-building and the societies relying on personalized leadership, the G20 offers a necessary platform, one that cannot be created without its members having survived a major crisis together. While many institutions have emerged to address positive problems, from the UN Postal Union to ICANN, it is the institutions that come out of the crucible of global crises that have precious shared experiences and hold out the hope of preventing catastrophes. They should be spared leadership contests or bureaucratic capture. The 2017 Hamburg Summit demonstrated that the G20 has the resilience to overcome political turmoil and remain probably the only major forum that has come out of a deep economic crisis without a major war. It has to prepare itself for the next economic shock and stay focused on that essential mandate.

economies, this requires a mix of mutually reinforcing demand and supply policies, including continued accommodative monetary policy and supportive fiscal policies—making the best possible use of fiscal space (for example, through infrastructure spending) where it exists and ensuring a strong medium-term fiscal framework is in place.” Staff Note for the G20 – A Guiding Framework for Structural Reforms, April 2016.

V Policy Highlights

Reflections about the governance of globalization lead to the conclusion that the G20 is and should be playing an important role in stabilizing global economies and sustaining healthier relationships between powerful national institutions. To play that role, the G20 may take into account a number of procedural and policy recommendations:

In terms of process:

- The G20 needs to restore the informal primacy of the leaders' summit. To cut down on the formality and bureaucratic intrusion, it could set aside the whole idea of producing a formal, detailed communiqué. Once liberated from wordsmithing, the staff could focus on their respective principals and their shared purpose.
- The G20 Summit should be the occasion to assess economic risks as seen by the leaders, not only by the established international institutions. These institutions already have their voice and process of arriving at policy recommendations. The G20 should be the occasion for political leaders to hear each other as they are.
- It is important to divorce the process from the dictate of the host nation's political calendar. There is no need for the chair and the host to be the same government. One should consider setting one permanent or semi-permanent meeting location, or meet in countries that are not G20 members.
- The G20 should suspend the practice of creating new task forces and working groups where members headline diverse pet subjects. If the majority does not intend to work on an issue, it can be taken off the G20 Summit agenda.
- Ministerial meetings should be elevated in terms of their ambition. They should not be limited to simply working out a paragraph for the summit to endorse. Stakeholders should be more involved in the ministerial meetings who have compelling contributions to the global risk-assessment and risk-management discussions.
- The G20 needs to communicate clearly and frequently its purpose and the fact that it is not a formal organization that needs to have outreach, an administrative process or formal governance.
- Ultimately, the G20 should consider having a neutral non-bureaucratic "clearing center" where members can look for relevant information, and outside stakeholders can contribute relevant data and analysis.
- The European Union faces a major challenge in that it must be able to contribute to the G20 discussion without imposing its own highly institutionalized way of forging policies. It should consider opting out of having a two-headed presence, which creates inevitable tensions with the European heads of state already at the table and thus diminishes the standing of these politicians and the EU institutions themselves.
- On the other hand, in terms of the most important financial track of the G20's work, the Eurozone leadership should probably take the lead. National authorities are sufficiently invested in the Eurozone mechanism to trust Eurozone leaders to represent them.

In terms of policy:

- The G20 needs to reaffirm its purpose, i.e. to call attention to major economic risks facing the largest economies and seek opportunities to avert the worst or at least the most contagious of them. The G20 is not a globalization fraternity because, to address the risks, it has to take into account the views of members who may not share the same outlook.
- The G20 should establish a political consensus in terms of lessons learned from the crisis, and leave it to academia to debate it further.
- With a decade behind it, the G20 needs to refresh its list of risks that are still capable of provoking a global depression. The summits will serve as the moment for each member to reflect on specific risks, each from its own point of view.
- There are clear global risks presented by financial bubbles, high commodity volatilities and external shocks, such as pandemics and massive infrastructure failures, which will involve digital infrastructure. If new economic risks are identified, they can be added to the discussion list.
- Positive recommendations on how to structure green finance or reform labor markets already have their place for expert discussions. These are important themes that already have found their “homes,” and usually for a good reason. Ministerial meetings can be briefed on new ideas and developments where there are no relevant fora, and no capacity to create one.
- In policy, the EU is again handicapped by being a hybrid entity, partly sovereign power and partly an instrument of other sovereign powers. It faces additional risks of fracture, something that was dramatically heightened by the specific financial crisis that the G20 was called upon to address. Arguably, it has chosen well to be the leading voice for financial-market and public-finance transparency and needs to stay on that message during every new development in financial technology and public policy. The EU has a particular responsibility for and interest in avoiding G20 mission creep.
- Among G20 members, the EU also has at least one area of unique strength, which derives from its experience trying to make the sum of sovereignties, economies and legal regimes greater than that of its parts: the area of integrity and transparency in business and governance, the failure of which was one of the root causes of the latest financial crisis. Chancellor Merkel was among the first in 2008 to raise the issue of corporate governance and integrity as an essential part of a positive G20 agenda. The EU can build on this record and demonstrate in this area where collective efforts can pay off in reducing the risk and scale of the next crisis. The Hamburg Summit appears to lay the foundation for such a project in its focus on corruption.¹³ Any one nation-state will find it difficult to preach higher standards, but the EU can and should.

The risk to the G20 itself is that it will lose sight of its mission and merely reflect the political ambitions of member governments and outside groups. If that happens, the next crisis will be missed again, and a new crisis management committee will hopefully emerge. Any such new club is unlikely to be as inclusive as the G20. In fact, the alternative to the G20 may not be a club at all, but the collapse of the international economic policy dialogue, which makes it all the more important to rescue the G20 from losing sight of its core mission.

¹³ Annex to G20 Leaders Declaration: G20 High Level Principles on Organizing Against Corruption. <http://www.g20.utoronto.ca/2017/2017-g20-acwg-anti-corruption.html>.

Economic Globalization Under Pressure – Why People in Industrial Nations Are Increasingly Critical of Globalization

Thieß Petersen

I Main Impacts of Increasing Globalization on Industrial Nations

In this paper, economic globalization is understood to be the economic interdependence of all countries, with interdependence referring to both the exchange of factors of production (labor, capital, technology, knowledge) and the exchange of products (goods and services, intermediate and end products, consumer and capital goods).

1. Background

The growing economic interdependence among the world's countries essentially means that there is an increasing cross-border exchange of goods, services, labor, capital and technology. This only occurs, however, when levels of scarcity – and, consequently, prices – differ in the relevant countries.

- **International trade** takes place when prices for consumer goods or for intermediate goods and services differ among countries.
- **Investments** are made **abroad** when higher returns are to be had there than in the domestic market.
- **Migration** occurs when different living conditions – above all, opportunities for earning an income – exist in different countries.

This results in two key consequences:

- A better distribution of scarce factors of production occurs. This produces **positive growth effects** for all relevant **national economies** (see Section 2).
- The **relative scarcities** among the individual economies **change**. For example, when low-skilled workers are needed to create goods and the production of those goods is outsourced to low-wage countries, this worsens the prospects of finding a job and earning a decent income for low-skilled individuals in industrial nations such as Germany. Globalization thus produces **losers** in addition to **winners within** each country (see Section 3).

2. Globalization's Growth Effects

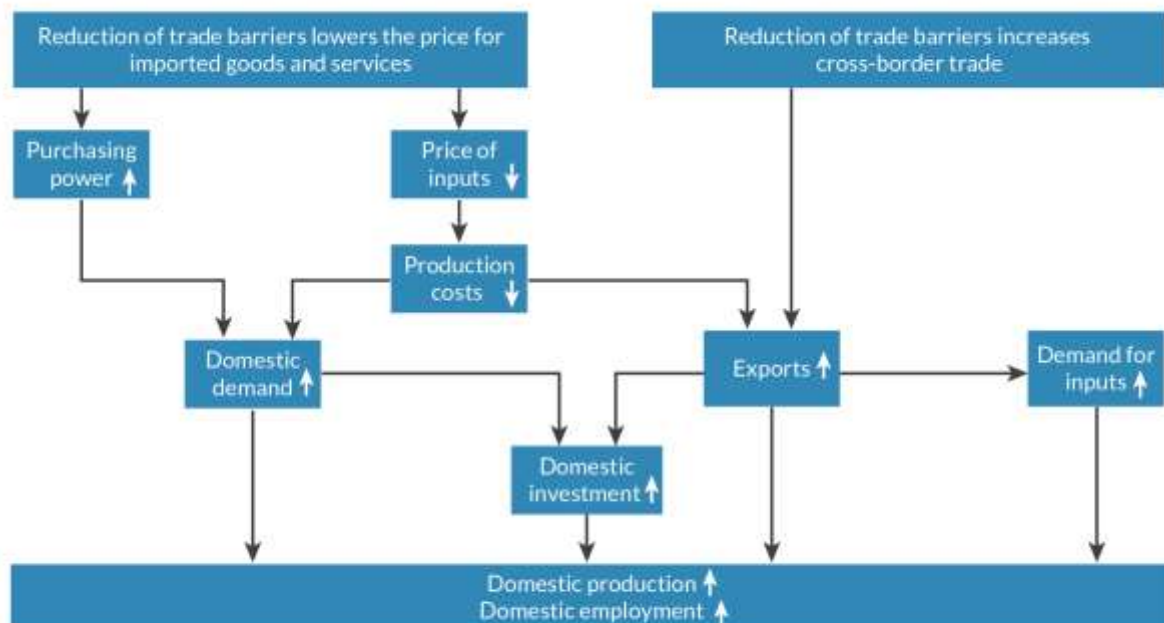
An intensification of economic globalization means, first, reducing obstacles to trade, i.e. customs duties and non-tariff barriers. As a direct result of this reduction, the costs of cross-border trade **decline** and, with them, **prices** for internationally traded goods.

- If Germany levies a 5-percent **duty** on a car **imported** from the United States and this duty is then eliminated, the price that German consumers must pay for the car goes down by 5 percent.
- **Non-tariff trade barriers** (e.g. special approval or oversight procedures for products from abroad) also lead to higher costs, including costs stemming from duplicate certifications, tests and approval procedures. Reducing these trade barriers thus also leads to lower prices.

Increasing economic globalization between two countries therefore leads to lower prices for the goods traded by those countries. This produces positive effects in terms of economic growth and employment in both countries (see Figure “Diagram of the relationship between reduced trade barriers and economic growth”)

- **Consumers** benefit from lower prices for imported products, since the purchasing power of their incomes increases. The **greater purchasing power** boosts demand for domestically produced consumer goods and thus boosts production and employment in the consumers’ own country.
- Domestic **companies** can acquire the **intermediate goods and services** they need for their own production at a lower price from producers abroad. This **reduces** their **production costs** and, subsequently, the price of their own goods. Domestic consumers benefit from falling prices, which leads to a further increase in production and employment.
- The lower production costs improve the **international competitiveness** of domestic companies, which can then **export** more goods to the rest of the world. The resulting increase in production also has a positive impact on employment.
- The dismantling of trade barriers makes it easier to **export** to economically integrated partner countries. Domestic companies can thus increase their exports even more and boost their production and employment levels.
- Companies that do not export directly also benefit from expanded export activities if they deliver **intermediate goods or services** to businesses that do export. These companies thus also experience an increase in production and employment.
- When both domestic consumer demand and exports grow, domestic companies must expand their **production capacity**, i.e. their inventory of machines and the buildings that house them. That results in greater **investment**. This leads to an increase in production and employment at the companies that create the corresponding production capacity.

Diagram of the relationship between reduced trade barriers and economic growth



The growth effects outlined above which result from the increasing economic integration of two or more countries are essentially generated by a rise in the volume of cross-border trade between the relevant countries, which, in turn, is the result of **lower trade costs** (static growth effects).

In addition, economic integration leads to an **increase in innovation and productivity**, which then reduces the production costs and prices of the affected goods (dynamic growth effects). The reduction of trade barriers results in two key productivity-increasing effects:

- The dismantling of international trade barriers allows companies to produce for a larger market. The ensuing **economies of scale** result in lower unit costs and lower prices, so that consumers benefit from an additional increase in purchasing power.
- The greater trade between countries increases **competitive pressures**. If companies want to stay competitive internationally, they must respond to these pressures by innovating and achieving technical advances. A **reduction in costs** through **technical progress** generates an increase in productivity. This implies that more goods can be produced with same volume of production factors. In other words, the economy grows. At the same time, prices fall due to technical progress, which in turn increases domestic consumer demand.

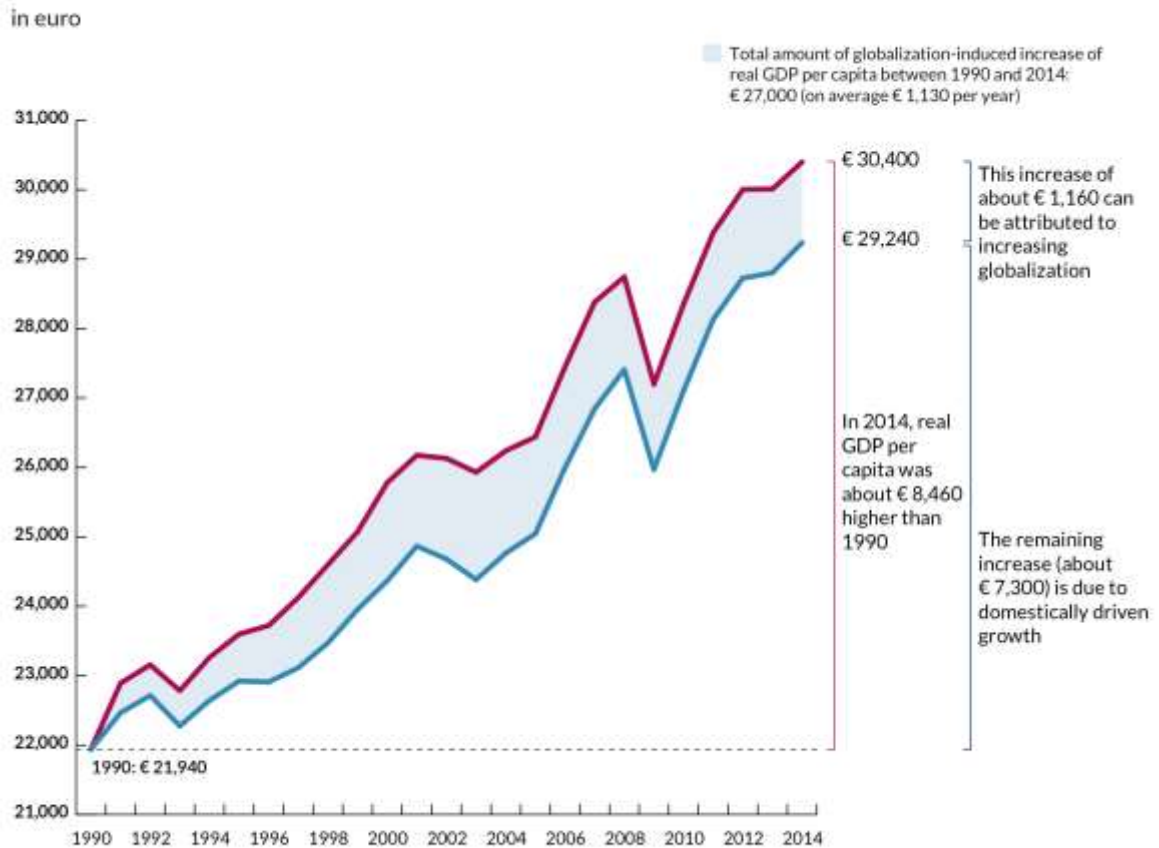
When ongoing economic integration allows for a free cross-border exchange of **production factors**, additional increases in productivity result: Greater cross-border mobility of labor and capital means the available factors of production can be deployed where they create the greatest value. This targeted use of production factors improves productivity and, because of falling prices and increased international competitiveness, generates further growth.

The static and the dynamic **growth effects** that occur in the relevant countries as part of increasing economic integration **mutually reinforce** each other. If production and employment increase in Germany, for example, consumer demand for goods and services subsequently rises. Greater demand also then exists for foreign products; production, employment and income all rise in foreign countries as well. The greater economic growth abroad thus leads to an increase in German exports to these countries.

These interrelationships are not merely theoretical, but documented by the Bertelsmann Stiftung in its **Globalization Report 2016** (Bertelsmann Stiftung 2016a). The growth-promoting effect of increasing globalization can be observed, for example, in **Germany's** economic development (see Figure "The development of real GDP per capita in Germany, with and without increasing globalization"):

- In 1990, Germany's real per capita GDP was €21,940. By 2014 it had risen to €30,400 (an increase of €8,460).
- Without increasing globalization, real per capita GDP would only have increased to €29,240 between 1990 and 2014. Real per capita GDP was therefore €1,160 higher in 2014 than it would have been without ongoing globalization.
- Over the entire time period, the increase in per capita GDP sums to €27,000. Distributed across the 24 years, that means increasing globalization resulted in an average annual increase in per capita GDP of €1,130 in Germany.

The development of real GDP per capita in Germany, with and without increasing globalization



Source: Prognos 2016

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This calculation was carried out for 42 countries included in the report; all of the countries exhibited globalization-induced GDP growth (see Table 1). What is noticeable here is that absolute growth is lowest in the BRIC countries (Brazil, Russia, India and China). Above all, this can be attributed to the low starting level of per capita GDP: When the starting value is €1,000, then a 10-percent rise results in a gain in income of €100. If, however, GDP is €10,000 and growth is only 2 percent, then the result is a greater absolute increase in income of €200.

Gains in real GDP per capita due to increasing globalization during the period 1990 to 2014 in selected countries

Ranking	Country	Cumulative real GDP per capita gain from 1990 in euros*	Average annual GDP per capita gain from 1990 in euros
1.	Japan	35,300	1,470
2.	Switzerland	32,700	1,360
3.	Finland	32,100	1,340
4.	Denmark	29,100	1,210
5.	Ireland	27,100	1,130
6.	Germany	27,000	1,130
7.	Israel	24,900	1,040
8.	Austria	21,100	880
9.	Greece	21,100	880
10.	Sweden	20,400	850
:	:	:	:
12.	Italy	18,800	780
:	:	:	:
17.	Netherlands	16,500	690
18.	United Kingdom	16,200	680
19.	France	15,600	650
20.	Canada	15,500	650
:	:	:	:
23.	United States	11,700	490
:	:	:	:
39.	Brazil	2,900	120
40.	Russia	2,800	120
41.	China	1,700	70
42.	India	400	20

* In Euros (real = Y2000 prices)

Source: Prognos 2016

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3. Globalization's Employment and Income Effects¹

The point of departure for the following is the fact that developing and **emerging countries** such as **India** have a relatively **large supply of labor**. Developed **industrial countries** such as **Germany**, however, have a comparatively **small labor supply**. As prices for labor, a production factor, are set in the market, this relative scarcity determines wage levels: In labor-poor industrial nations like Germany, the relatively high scarcity of labor, combined with a high standard of living, results in relatively high wages. In an emerging economy such as India, the relatively high supply of labor and low standard of living result in relatively low wages.

To the degree that international structures allow for a **migration** of labor among countries, the **difference in wages** serves as an incentive for Indian workers to move to Germany. Immigration increases the supply of labor on the German job market. In India, in contrast, the supply of labor diminishes. The changes in supply cause wage levels in both countries to shift:

¹ Information in this section is taken from Petersen 2016a.

- In **Germany**, the increased labor supply results in a **decrease in wages**.
- In India, the smaller supply of labor causes an increase in wages. Theoretically, the migration flows would continue until the wages in both countries reach the same level.

Given this situation, industrial countries often resist opening their borders to foreign workers. Yet even when there are no migration flows between countries, the **international division of labor** can result in wage equalization. This occurs when individual economies specialize in producing certain products which are then traded internationally:

- Because of its large labor supply and the low wages that result, **India** has a **competitive advantage** internationally when it comes to manufacturing **labor-intensive** goods. India consequently focuses on producing these goods. This results in greater demand for labor, since more workers are needed to produce greater amounts of the goods. The increased demand for labor in India leads to higher wages.
- **Germany** has a competitive advantage when it comes to producing capital- and technology-intensive products. The production of these goods therefore increases. Conversely, Germany limits the production of **labor-intensive** goods. With that, there is a decline in demand for labor in Germany. This, in turn, results in a decrease in wages. Employment also declines.

In advanced economies, the international division of labor and the resulting foreign trade have caused a **decline in both employment and wages**. This phenomenon has now been extensively researched and documented:

- Autor, Dorn and Hanson show that **Chinese imports** in the **United States** have led to a rise in unemployment and a decrease in wages. Their analysis covers the time period from 1990 to 2007 (Autor, Dorn and Hanson 2013).
- The Bertelsmann Stiftung conducted a study which examined how imports from China, Eastern Europe and Latin America affected wage levels and employment in **Germany** between 1995 and 2007. Here, too, imports from labor-intensive, low-wage countries were seen to reduce wages and employment (Bertelsmann Stiftung 2016b: 12). Current research by Südekum, Dauth and Findeisen confirm these findings (Südekum, Dauth and Findeisen 2017).

In addition to the general impact of foreign trade on wage and employment levels in developed countries, an additional employment-related effect exists: The international division of labor exacerbates the **difference in wages** between **high-** and **low-skilled workers** in industrial nations. Developed countries such as Germany focus on production processes that primarily require capital, technology and highly qualified labor. The resulting stronger demand for these three production factors leads to a rise in the prices of these factors, meaning, among other things, that **wages rise** for **highly qualified** workers. Conversely, emerging and developing countries focus on production processes that require a large amount of human labor – low-skilled labor, above all. The result is a decline in the demand for low-skilled workers in industrial countries. There are therefore fewer job opportunities for low-skilled workers in industrial nations and the wages these workers receive decrease as well.

4. Interplay Between Globalization and Technological Progress

In industrial countries, the key economic disadvantages of globalization thus impact the workforce – above all, its low-skilled members. However, the negative income and employment effects for this group are **not exclusively** the result of increasing **globalization**. Another factor of at least equal importance is **advancing technology**, which results from the pressure to reduce costs that businesses in a competition-based economy face:

- In a market economy based on **competition**, companies must permanently reduce their production costs in order to remain competitive with their peers and to avoid being excluded from the market.
- An effective instrument for reducing costs is the **use of modern technologies**, which increase overall productivity and thus reduce production costs. In highly developed economies, technological advances generally lead to one production factor, **labor**, being **replaced by** another, **capital**. This results in a **decline** in the **employment level**, downward **pressure on wages** and thus an increased income flow for the production factor of capital.

These market mechanisms would function even in an economy that is completely isolated from the rest of the world. While it is true that globalization increases the need to reduce costs since it causes the number of potential competitors to rise dramatically, **economic isolation** would only partially diminish the downward pressure on costs; it would **not prevent it** completely. Competition-induced technological advances which lead to human labor being replaced by machines and digital technologies **cannot be stopped** over the **long term** even through economic isolation.

5. Preliminary Conclusion

In sum, the **international division of labor** and the subsequent cross-border trade activities in industrial nations result in an **increase in GDP** in the relevant economies. At the same time, this form of economic globalization produces **not only winners** in each country, but also **losers**. In industrial nations, these are the workers – in particular, **low-qualified** individuals and **employees** in sectors particularly exposed to **competition** from **emerging economies** (above all, China and Eastern European nations).

II Economic Globalization and Populism

1. Background

There are numerous factors that lead people in industrial nations to have a critical attitude towards globalization: falling minimum social standards, an increase in social inequality, and the transference of costs to society at large, for example in the form of environmental pollution. A new chorus of voices critical of globalization has recently made itself heard, expressing its criticism in the form of **populism** and **protectionism**.

I believe that the growing populism in industrial countries is essentially the result of increasingly critical attitudes towards globalization, which can be traced back to the **issue of global distribution**. This, in turn, is closely related to the **growing economic interdependence** of the world's national economies, since the reduction of barriers – which facilitates the cross-border exchange of goods, services, capital, technology and labor – leads to a worldwide equalization of the prices for scarce goods. This principle of **economic convergence** also applies to the prices for production factors, i.e. to wages and to interest rates (as the price of capital). As wages and interest rates converge, so do the incomes people earn, i.e. per capita GDP (for more relating to the

following discussion, see Petersen 2016b). This trend means that the difference in income declines between people living in industrial nations and those in less developed economies. And when one considers that the populations of developing and emerging countries are expected to grow significantly in coming decades while Europe's population is expected to decline, a convergence of per capita GDP would mean that **per capita income in industrial nations will also decline**.

Industrial nations still benefit to a greater degree from increasing globalization as measured by per capita GDP. As Figure "The development of real GDP per capita in Germany, with and without increasing globalization" in Section 2 shows, the **absolute increases in per capita GDP** resulting from globalization are larger in the industrial nations than in the emerging economies. One reason for this is that the industrial nations are currently using **barriers to protect** themselves from the advances being made by emerging and developing countries:

- Barriers have been put in place to prevent the **immigration** of workers from less developed countries.
- The same is true for competition from **agricultural products** produced by developing and emerging countries, since industrial nations generally impose much higher import duties on agricultural products than on industrial products, for which advanced economies have a considerable competitive advantage (see Table 2).

Tariffs on imports for different product groups in selected industrialized countries, simple average

in percent

Country	All products	Agricultural products	Non-agricultural products
Switzerland	6.7 %	36.1 %	1.8 %
Canada	4.2 %	16.7 %	2.2 %
Japan	4.0 %	12.9 %	2.5 %
European Union	5.1 %	10.7 %	4.2 %
USA	3.5 %	5.2 %	3.2 %

Source: WTO 2016: 8–24.

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An intensification of economic globalization would mean dismantling these barriers. The danger would thus grow that the income and material well-being of people in the advanced economies would decline. In that case, there would **indeed** be a **redistribution of global wealth** in favor of the emerging and developing countries.

2. Key Reasons Why People in Industrial Nations Are Critical of Globalization

Despite the growth-promoting effects of increasing globalization (see Section "Globalization's growth effects") which have been shown to exist in industrial nations, globalization is under considerable pressure in advanced economies. I see three key reasons for this:

- The catalyst for critical attitudes towards globalization is, as previously mentioned, the **global distribution conflict**. Increasing globalization means that high-wage workers in industrial nations are competing to a greater degree with low-wage workers in emerging and developing countries. For workers in industrial nations, this generally means **falling wages** and **rising unemployment** – above all for low-skilled, but also for high-skilled individuals.

- The objectively recognizable disadvantages for workers in industrial nations lead to a subjective **fear of downward mobility**, which people also experience who are not yet unemployed. In addition to the **globalization-induced fear** of unemployment and reduced income, the fear also exists of **technology-driven unemployment** (robots replacing people) and of **elderly poverty** caused by **demographic** change.
- Overcoming these fears is the primary responsibility of the welfare state. However, as part of the **supply-side economics** implemented since the 1980s in many industrial nations, **social security mechanisms** (protection against dismissal, unemployment compensation, social transfers, pension levels, etc.) have been **weakened** in order to improve the international competitiveness of domestic businesses by lowering taxes and contributions to social security programs.

There is growing empirical evidence in support of the theory that the negative employment and income effects resulting from increasing globalization are leading to greater criticism of globalization and causing a surge in populism. The following briefly examines two studies supporting this view.

Germany: Globalization increases support for right-wing parties

Research by Christian Dippel, Robert Gold and Stephan Heblich has shown that globalization has had a statistically significant impact on how people in **Germany** vote (for more relating to the following discussion, see Dippel, Gold and Heblich 2016a). As an indicator of globalization, the authors use **Germany's foreign trade** with **China** and **Eastern European** countries. The study examines the impact of this trade on the share of the vote received by right-wing parties during national elections. The study covers the time period from 1987 to 2009. The right-wing parties examined in this period include the NPD (Nationaldemokratische Partei Deutschlands or National Democratic Party of Germany), Die Republikaner (The Republicans) and the DVU (Deutsche Volksunion or German People's Union) (Dippel, Gold and Heblich 2016b: 10). Results from 408 rural districts reveal the following:

- In the **regions** that have experienced **especially strong competition** from **imports** from China and/or Eastern Europe, **right-wing** parties have received a **significantly higher** share of the vote in national elections. To the extent that a region's export opportunities improve, the share of the vote received by these parties declines.
- An examination of **individual-level data** shows that, in particular, low-skilled workers in manufacturing industries who are especially affected by competition from Chinese and Eastern European exports support right-wing parties.

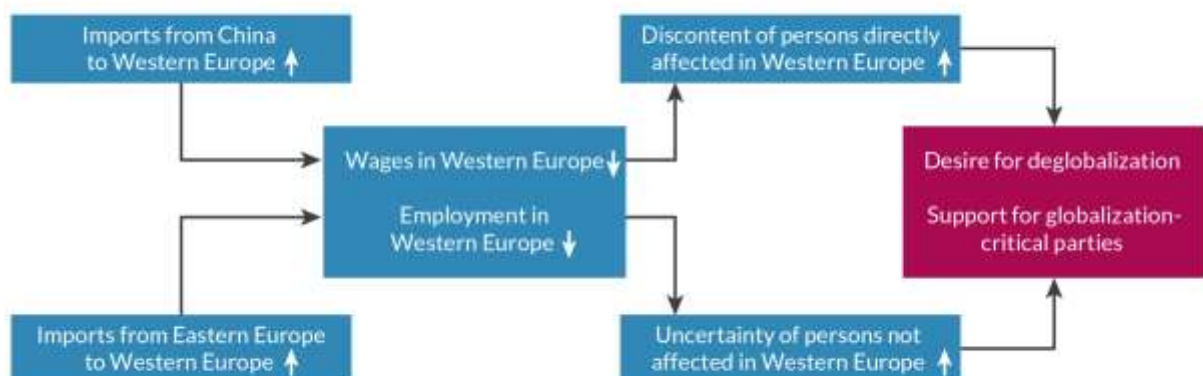
United Kingdom: Globalization increases support for Brexit

Italo Colantone and Piero Stanig from Bocconi University examined the impact that various factors had on the **Brexit referendum** in the United Kingdom (for more relating to the following discussion, see Colantone and Stanig 2016). The authors researched the development of **Chinese imports** in the UK, among other aspects; more specifically, they looked at how imports developed in 167 regions between 1990 and 2007. Econometric calculations were used to see if higher levels of imports from China had a statistically significant effect on electoral results. The study's main findings can be summarized as follows:

- The **percentage** of voters **supporting the “Leave” option** was **consistently higher** in **regions** that have been **particularly impacted** by **Chinese imports**. These regions are largely those that originally had a significant number of companies in the manufacturing industry. The **percentage** of **immigrants** in the region had **no** statistically significant **impact** on how people voted in the Brexit referendum.
- Calculations based on **individual-level data** confirm these findings. There was a higher percentage of Brexit supporters in those regions that face particularly strong competition from Chinese imports, something which remains true regardless of the voter’s specific employment situation: Even people working in the **service sector** in regions with high levels of Chinese imports tended to be in favor of leaving the EU, even though they were not directly affected by Chinese imports. The level of Brexit support did not depend on whether people were unemployed or if they were low-skill workers. Thus, the key factor determining a higher level of support for Brexit was not the situation of the individual or household, but the **economic situation of the region**.
- In sum, Colantone and Stanig state: “Hence, we can claim that globalization of trade, as captured by our import shock measure, is causally driving support for Brexit. In addition, voters seem to react sociotropically to the globalization-induced shock” (Colantone and Stanig 2016: 37).

The connection between globalization and populist tendencies can, I believe, be **summarized** as follows: The key factor giving rise to critical attitudes in industrial nations towards globalization is **competition** from **emerging economies**, which, because of their lower wage levels, have a competitive advantage for industrially produced goods. The result in industrialized nations is downward pressure on wages in the manufacturing sector and a decline in employment. This leads to **dissatisfaction** among individuals impacted by import-related employment effects. At the same time, people not yet affected experience increased **anxiety** about their own economic situation. The desire to eliminate the **cause of the dissatisfaction** and anxiety leads dissatisfied and anxious voters to turn to parties critical of globalization (see Figure “Diagram of the relationship between foreign trade with developing countries and voting behavior in Western European countries”).

Diagram of the relationship between foreign trade with developing countries and voting behavior in Western European countries



Source: author's own diagram.

This connection between globalization and populist tendencies was also confirmed by an **EU-wide survey** carried out by the Bertelsmann Stiftung in mid-2016. The survey shows that “those who feel close to populist parties are mainly motivated by fear of globalization” (De Vries and Hoffmann 2016: 3).

3. Why Has There Now Been a Surge in Critical Attitudes Towards Globalization?

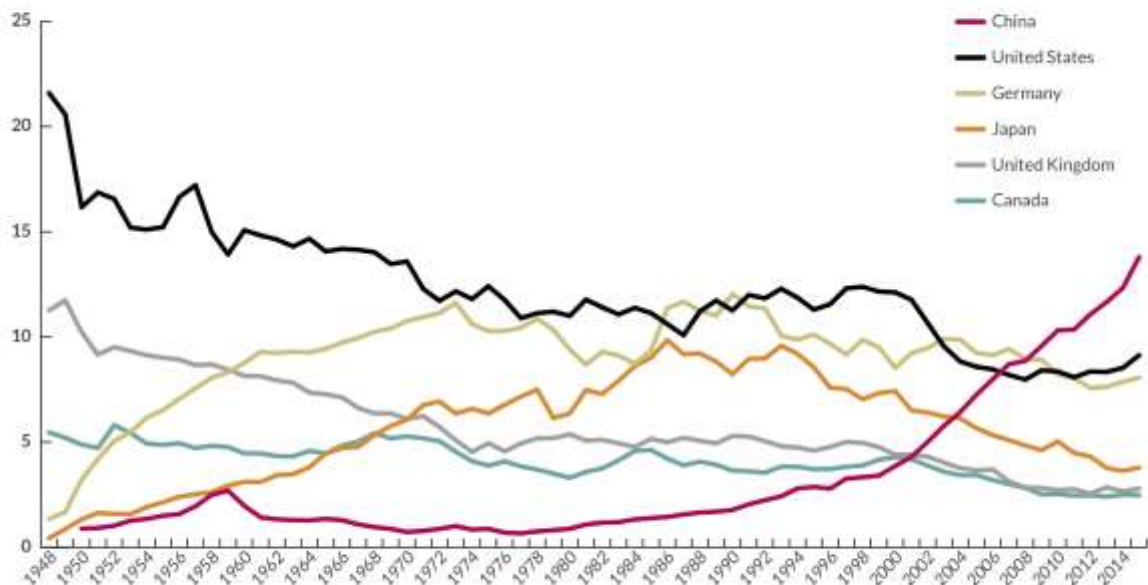
I believe there are **three key reasons** for the rapid growth of critical attitudes towards globalization that we are now seeing in many industrial countries.

Integration of Eastern Europe and China into the global economy

Until the 1990s, the developed countries were the world’s leading exporters (see Figure “Share of global exports of goods for selected countries between 1948 and 2015”). Trade among industrial countries put only limited pressure on wages and employment, since wage levels in those countries are more or less the same. Once Eastern Europe (fall of the Iron Curtain) and China (WTO member since 2001) became part of the global division of labor and global trade flows, **competition from imports** from these countries caused employment and wages in Germany to fall. At the same time, benefits provided by social security systems were reduced, so that the wage and employment effects resulting from this competition had a noticeable impact on the lives of certain segments of the German population.

Share of global exports of goods for selected countries between 1948 and 2015

figures are percentages



Source: UNCTADstat, data downloaded on 21/06/2016.

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The impact on wages and employment in the industrial nations resulting from competition with emerging countries can be seen, above all, in the pressure stemming from imports from **China**. This pressure has increased markedly since China became a member of the World Trade Organization (WTO) in 2001. Moreover, China has been the **world’s largest exporter since 2009**. In 2015, Chinese goods accounted for almost 14 percent of all exports worldwide. As a result, the negative employment effects resulting from this form of globalization are increasing for industrial nations.

Lehman bankruptcy

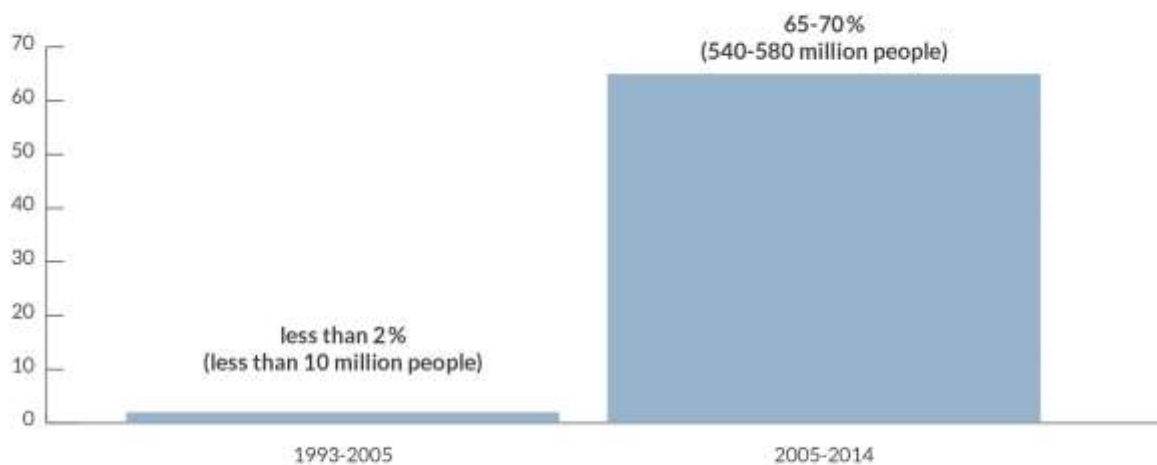
Another key cause of the increasing criticism of globalization is the **financial and economic crisis** that ensued after the Lehman bankruptcy in 2008. Three aspects are significant in terms of critical attitudes towards globalization:

- Helplessness in the face of **anonymous globalized market forces** which caused a local event to have worldwide repercussions in a very short amount of time and to which national governments were unable to respond, apart from spending billions on credit-financed measures for stimulating the economy and rescuing banks.
- The fact that after years of reductions in government expenditures and in benefits provided by social security programs, **billions** were **suddenly** available to rescue the banking and financial system, which was largely responsible for causing the Lehman bankruptcy.
- The economic recession that led to a global rise in **unemployment** and thereby reduced the income of the jobless, while also causing a **decline in wages** due to the weaker demand for labor.

Growing **competition** with producers in **low-wage countries** (above all in Asia and Eastern Europe), growing **unemployment** following the **Lehman bankruptcy** and the ensuing **wage pressures** are the main reasons why market incomes for households in many advanced economies were lower in 2014 than they were in 2005. The McKinsey Global Institute published a study in July 2016 that examined the change in market incomes in 25 industrial nations (for more information on the following, see McKinsey Global Institute 2016: 1–3):

- A comparison of the **market incomes** of households in 25 industrial countries in 2005 with market incomes in 1993 showed that for some **2 percent** of all private households, market income was **lower** or at best just as high **in 2005** as in 1993. In absolute figures, this was true for fewer than 10 million people.
- When the years **2014** and **2005** were compared, however, between **65 and 70 percent** of all households had a market income in 2014 that was lower or equal to their market income in 2005. This was true for between 540 and 580 million people (see Figure “Percentage of households with flat or falling market income in the past decade”).

Percentage of households with flat or falling market income in the past decade



Population-weighted average of 25 advanced economies (Australia, Austria, Belgium, Canada, Czech Re-public, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States).

Source: McKinsey Global Institute 2016: 3.

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Influx of refugees to Europe

The final reason for **globalization-induced populism** is, in my estimation, the large influx of **refugees** to Europe. This has clearly demonstrated that opening borders – for people or for trade – changes the scarcity relationships in all participating countries and thus automatically creates winners and losers. It also shows that a more equal distribution of global GDP leads to a **decline in per capita GDP** for people living in industrial nations.

4. Which Responses Are Needed?

This paper does not offer sufficient scope for outlining a set of responses that could counterbalance the criticism of economic globalization and defuse the resulting populism. One key point must be mentioned, however: It is essential that the dividends from globalization be distributed **in Europe** in such a way that everyone shares in the increased income. This would require **strengthening social security systems** in order to reduce people's fear of change. In addition to compensation for lost income, **further training** must be offered to the jobless to make it easier for them to move into sectors that are benefitting from globalization. This, in turn, requires **governments** that are **capable of taking action** and that also have **sufficient tax revenues** at their disposal.

A consensus must be found within society on how, exactly, these policy instruments should be designed, both in terms of where the revenues to fund them should come from and how those revenues should be spent. This consensus must also take unintended side effects and other interdependencies into account. One crucial point: **Society at large** must make the **fundamental decision** to achieve a more equitable distribution of globalization's dividends, thereby placing a greater policy focus on **globalization's losers**. In terms of advanced economies such as Germany, Table 3 shows roughly which of globalization's winners and losers must be included when globalization's gains are redistributed. If such a redistribution is not undertaken, severe social and political tensions could arise which threaten the well-being of the overall economy (Heilmann 2017: 12).

Potential winners and losers of increasing globalization in advanced economies

Country	Potential winners	Potential losers
Factors of production	Capital, technology and skilled labor	Labor, especially unskilled labor
Products	Capital and technology intensively produced goods and services as well as local services	Labor intensively produced goods
Foreign trade relations	Exports to developed industrialized countries	Intense competition with suppliers from emerging economies (especially Asia) and Eastern Europe

Source: author's own diagram.

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A **redistribution** of globalization's gains must also be considered on the **global level**. If resistance to economic globalization grows in regions that have been left behind as globalization has progressed (above all, Africa), protectionist measures might be implemented that could lead to a global trade war. Advanced economies would also suffer as a result. **Better integration** of emerging and, even more importantly, developing countries would therefore be in the long-term interest of the industrial nations.

What is necessary here is a **reduction** of the **asymmetric barriers** currently hindering the globe's economic interdependencies (high capital mobility versus limited migration, high import duties on agricultural products versus low import duties on industrial products; see Section "Background"). This produces several irresolvable **dilemmas**:

- If these barriers are dismantled, the absolute difference in income will decline between industrial nations, on the one hand, and emerging and developing countries, on the other. This means, however, there will be a **fall** in the **real per capita GDP** in the **industrial nations**, since the difference cannot be overcome solely by growth of per capita income in emerging and developing countries. This fact would undoubtedly prove beneficial to populists in the US and Europe.
- If the barriers described above are not reduced or only reduced to a limited extent, the absolute difference in income will increase between the industrial nations and the rest of the world. Globally this would lead to **growing redistributive pressures** which could result in greater **migration flows**. This, too, would further the populist cause.

Thus, the **redistribution of global wealth** will be one of the key challenges of the coming decades.

III Recommended Action Plan for the EU

- Stabilization of the euro area through better coordination of economic and fiscal policy. This includes transfer payments within the euro area, which is not optimal as a currency area and which, for its long-term functioning, requires financial payments to redistribute resources from economically robust to economically weak regions.
- Stabilization of the EU through better compensation for those persons and regions which become disadvantaged in terms of income and employment due to the opening of borders to foreign imports. This applies to inner-European trade taking place within the Single Market and to trade with non-European nations resulting from free trade agreements and reduced trade barriers in general.
- Clearly demonstrating opposition to protectionist tendencies by signing free trade agreements with other countries and regions. In doing so, the EU should make concessions

to economically weaker countries, e.g. by providing temporary protection to agricultural producers and to not-yet-competitive industries in economically less developed nations.

- Reducing differences in income and prosperity between Europe and less developed countries, above all those in Africa. Possible measures include making it easier for businesses in these countries to obtain credit, increasing the amount of development aid provided, and voluntarily and unilaterally lowering trade barriers for these countries (renunciation of reciprocity).

IV Conclusions

The international division of labor and the resulting cross-border trade are leading to a rise in gross domestic product (GDP) in the world's developed **industrial nations**. At the same time, this form of globalization is producing **losers** in each country in addition to **winners**. In the industrial countries, the losers are workers, above all low-skilled individuals, and employees working in sectors that face a high level of competition from emerging economies (above all China and Eastern European nations). This competition has existed for decades. As for the **current** rise in critical attitudes towards globalization, I see **two** key causes:

- Until well into the 1980s, international trade took place largely between the industrial nations, which all had relatively high wage levels. Only after the fall of the Iron Curtain (1989), China's joining the World Trade Organization (2001) and the EU's eastward enlargement (2004) did competitive pressures increase vis-à-vis low-wage countries. The employment and wage-reduction effects resulting from the international division of labor have only made themselves felt to a noticeable degree since then.
- The key catalyst for the increasingly critical attitudes towards globalization is the **financial and economic crisis** that resulted from the bankruptcy of Lehman Brothers. Three aspects are significant here: (1) The helplessness in light of anonymous globalized market forces, which transported a local event around the globe, (2) the fact that after many years of reductions in government expenditures and in the benefits provided by social security systems, billions were suddenly available to save the banking and financial system and (3) the economic collapse that led to a worldwide increase in unemployment, thereby reducing the incomes of the jobless and putting downward pressure on wages as a result of the slackening demand for labor.

I see the following connections between globalization and **populist tendencies**:

- A key aspect fueling the critical attitudes towards globalization in industrial nations is the competition from emerging economies such as China and Eastern European countries. This competition leads to downward pressure on wages in the industrial nations' manufacturing industries and a decline in employment. The people **impacted** by these developments become dissatisfied as a result.
- At the same time, people not yet affected by the import-related employment effects experience greater anxiety about their own economic situation.
- The desire to eliminate the cause of the dissatisfaction and anxiety leads dissatisfied and anxious voters to support political parties that are critical of globalization.

As for counteracting this criticism, I believe it is crucial to distribute **globalization's dividends** in the industrial nations in such a way that everyone benefits from the increase in income. A general consensus must be found in society for how the relevant policy instruments should be structured;

this consensus must also take unintended side effects and interdependencies into account. What is crucial, however, is that society makes the fundamental decision to put a greater policy focus on globalization's losers. If countervailing measures of this nature are not taken, serious social and political tensions could arise, threatening the well-being of the entire economy.

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Globalization – Learning From the Past

Peter Frankopan

I Introduction

We are living in a time of change. The world suddenly feels like a complex, dangerous and unfamiliar place. Migration and refugee crises compete for attention on the news with rising religious fundamentalism across multiple continents. Tensions between Washington and Moscow, Riyadh and Doha, the Sunni and Shi'a, Beijing and Delhi show an age where confrontation seems to be replacing cooperation, where rivalries and hostilities are rising and collaboration receding.

Nowhere is this better shown than in the case of the United Kingdom voting and now working out how to leave the European Union, or the withdrawal of the United States both from the Paris climate accord and from the Trans-Pacific Partnership Agreement. Aggressive and in some cases unrealistic promises made by politicians of all political persuasions are one of the dominant themes of the present day – fuelled by the sense of fear, but also by the fear of change.

These anxieties have multiple triggers. One, of course, is the reality of terrorist attacks and the uncertainty of how to best protect citizens in the developed world. But another comes from environmental change, both because of the uneven and in some cases devastating impact it will have on significant parts of the world's population in the near future, and also because of the realization that climatic variations affect us all, whether through drought or flood, pollution or contamination, or from the massive dislocations that can be caused as a result.

And then there are the rapid technological advances that are changing the way we gather information, and also how we live, shop and travel. There is a growing awareness too that these advances have a dark side: Unsettling cyber-attacks, state-sponsored and otherwise, have become both increasingly common and increasingly large-scale, targeting businesses and infrastructure, from transportation networks to hospitals and health-care providers. The role of digital technology as a disruptive influence, from interference in elections to the dissemination of "fake news," means that we are suddenly aware that the ways that we are connected are a great deal more complicated than just whether we like each other's holiday photos or can book a flight while out jogging, or ordering a slightly cheaper copy of the book you want to read and having it delivered to your door.

Change is all around us. But thinking that we are living through a particularly trying and difficult time would be a mistake. While it is tempting to think that we are in uncharted territory, that the problems we face are unique, doing so is dangerous – for two reasons. First, it prioritizes emotional conclusions, based on anxieties and on fears of the unknown, which in turn prompts the question of how to return to something "normal," of how to turn back time, of how to avoid dealing with reality. Second, it prioritizes our own age, and discards valuable lessons of the past that are not just revealing but absolutely essential.

II Globalization as Political Capital

As Machiavelli put it in his *Discourses*, "Wise men say, and not without reason, that whoever wishes to foresee the future must consult the past." Perspective and context matter, because they allow us the chance to better understand similar periods of change and transition, and provide the opportunity to anticipate the challenges and opportunities of the present and of the years to come. For while history does not repeat itself, looking back at previous periods for examples, parallels

and analogies can prove richly rewarding. Nowhere is this more apparent than in the question of globalization.

In the summer of 2016 when campaigning for the US election was at its height, Donald Trump, the Republican candidate for the presidency, delivered a speech in Monessen, Pennsylvania. His aim was to appeal to the workers at a metals recycling facility – by explaining to them why their world was changing. Life for all American workers was becoming more difficult, he said. He had a plan, he declared at the start of his address: “how to Make America Wealthy Again.”

The working class in the United States, he stated, had been betrayed. “Our politicians have aggressively pursued a policy of globalization, moving our jobs, our wealth and our futures to Mexico and overseas.” He was himself partly responsible for this, he admitted, though after experiencing a Damascene revelation, about which he did not provide any details, he was no longer to blame. “Globalization has made the financial elite, who donate to politicians, very, very wealthy. I used to be one of them. I hate to say it, but I used to be one.” (This was edited out of the transcript released by Trump’s campaign team).

Globalization had “left millions of our workers with nothing but poverty and heartache.” The “leadership class” in the US that “worships globalism over Americanism” had destroyed the country. Proud craftsmen, tradespeople and factory workers had seen the “jobs they love shipped thousands and thousands of miles away.” The middle classes too had suffered terribly, he said. “This wave of globalization has wiped out totally, totally our middle classes.” As a result, many towns in Pennsylvania that had once been “thriving and humming are now in a state of disrepair.”

The art of politics is to refine a message that resonates with the electorate, and to be able to articulate both what the problems are and to offer solutions to them. As such, it matters less whether Donald Trump’s speech in Monessen – and many others like it during the election campaign – was fair and accurate than whether his words fell on fertile ground. The fact that he was elected in November 2017 was in no small part due to his appeal to “Make America Great Again.” Trump did not pull his punches when it came to identifying who had gained as the United States had lost. The Chinese are “using our country as a piggy bank to rebuild China,” he said on another occasion; “we have to stop our jobs being stolen from us.” For many voters, the perception of the recent past is that the US has been losing ground while others have benefited at its expense – and that it is time to reverse that trend.

In the US, globalization has become a convenient catch-all to demand change in the face of the calls to stop “jobs being stolen” and to help raise GDP and standards of living – to breathe life back into towns that are no longer “thriving and humming.” As is so often the case in politics, of course, the data tells a different story.

III The Real Effects of Globalization

In fact, per capita GDP has risen steadily in the last decade – just as it did in the decade before, while the unemployment rate has fallen steadily and consistently since 2010.

US GDP (per capita)

2010	2011	2012	2013	2014	2015	2016
\$48,347	\$49,791	\$51,450	\$52,787	\$54,499	\$56,207	\$57,467

Source: World Bank.

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US Employment rate

2010	2011	2012	2013	2014	2015	2016
9.9%	9.1%	8.3%	7.6%	6.3%	5.5%	4.9%

Source: US Bureau of Labor Statistics.

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Perception and reality are two very different things. What has changed dramatically has been the level of income inequality, where the earnings and assets of the top 1% have soared disproportionately, while the incomes of the bottom 50% have not changed for decades. The issue around globalization, at least in an American context, is not about the impact on jobs or on economic growth; rather it is the effect it has had on the distribution of income within society. Globalization has brought rewards, in other words. The problem is that these have not been shared equally.

Average post-tax in the US: Bottom 50%

1980	2014
\$21,000	\$25,000

Source: Piketty, Saez, Zucman, 'Distributional National Accounts: Methods and Estimates for the United States', NBER Working Paper No. 22945 (December 2016).

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Average post-tax in the US: Top 1%

1980	2014
\$344,000	\$1,000,000

Source: Piketty, Saez, Zucman, 'Distributional National Accounts: Methods and Estimates for the United States', NBER Working Paper No. 22945 (December 2016).

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Perhaps not surprisingly, therefore, others have been quick to pick up on this. Vladimir Putin, for example, has noted that globalization has caused problems precisely because it has exacerbated imbalances between the rich and the poor, stating that “it is essential to transform globalization from something for the select few into something for all.”

Others, however, take a different view. Angela Merkel of Germany sees globalization as a mechanic that can and should make the world a better place for all. It is vital, she has argued, that it is calibrated correctly: This is why the Paris climate accord is so important, she said. This is “not just any old agreement, but a central agreement for shaping globalization.” Creating a stable global environment, where carbon emissions, pollution and global warming are tackled properly is vital for the future of all of us. Globalization is not part of the problem; it is part of the solution.

Then there is President Xi Jinping of China, who used his speech at Davos in 2017 to offer a robust defense of globalization – and to pre-empt any efforts to throttle trade by imposing tariffs or putting up barriers or other artificial protection to shield industries and jobs. “The problems troubling the world,” he said in a thinly veiled barb at President Trump, “are not caused by globalization.” Any effort to curtail exchange, he warned, would be futile: “No one will emerge as a winner from a trade war.”

Globalization, then, is front and center in the political mainstream at the moment. It is used by world leaders as a catch-all to blame for domestic, economic and geopolitical problems, but also as a vital matrix to enable the exchange of goods. The word itself is one that is heavy with meaning, used by some to champion free trade and openness, but also by protestors as a driver of inequality, unfairness and a raft of other criticisms.

IV The Historical Context of Globalization

Part of the reason for these wildly differing views is that the word itself is an unwieldy and even meaningless one. It is generally understood to refer to the process by which states, but also multinational businesses and agencies, develop international influence, conduct exchanges and have connections not just nationally or across neighboring countries, but across different continents too. It sounds reassuringly new. It is not.

For more than three millennia, the world has been connected. Traders and travelers brought goods, fashions, languages and ideas across thousands of miles. Glass beads recently discovered in Denmark bear witness to trade between Egypt and Mesopotamia in the late Bronze Age – that is to say in the 14th to 12th centuries BC. When Darius the Great, King of Persia, built a magnificent palace at Susa two and a half thousand years ago, he did so not with materials from the surrounding area; rather, he used the best that money could buy – from all corners of the world. Ebony and silver were brought from Egypt, fine gold and lapis from central Asia and ivory from India.

Darius was not alone in trying to source the best products – and the best craftsmen. Our global past has been shaped by the search for information, but our natural curiosity by our desire to find things that are new, rare and (therefore) valuable. This extends across every sphere, from military technology to architecture, from fashion to food. Historians writing two thousand years ago record the demand in China for things like Red Sea pearls, jade and lapis, but also for onions, cucumbers, pomegranates and pistachios. Peaches that came from Samarkand were highly prized in China two millennia ago, famed for being “as large as goose eggs”; thanks to their rich, yellowy color, they were known as “Golden Peaches.”

Two thousand years ago, demand for gold, frankincense and myrrh was not limited to the three kings who arrived in Bethlehem: They were immensely popular in East Asia too, where high prices were paid for all three. Trade linked peoples and cultures from east to west as well, bringing textiles like silk but also ceramics and other highly crafted objects from China and South East Asia.

Of course, Europe, Africa and Asia sat apart from the Americas until ocean-going vessels were able to cross the Atlantic, and not long after the Pacific Ocean too. But long before the journeys of Columbus, Magellan and others, traders, explorers, holy men and travelers established connections that allow us to talk of globalization not as a modern or even a medieval concept, but one that dates back far into the classical age.

In the late 19th century, the German geographer Ferdinand von Richthofen came up with a name for the networks criss-crossing the spine of Asia and linking the Pacific Ocean in the east with the Mediterranean and Atlantic coasts of Europe and Africa in the west, and spanning from the Indian Ocean to the Baltic and North Seas. He called them “the Silk Roads” (die Seidenstraßen).

Like all names and labels, the name is as useful as it is problematic: Richthofen could have chosen any number of goods to describe the connections, and indeed he could have used ideas, beliefs, faiths or fashions too. It is also the case that popular imagination has now made the Silk Roads into a holiday idea for adventurous tourists, keen to go off the beaten track and see something unusual in Central Asian republics whose names ooze with exoticism.

The aim of coming up with a single name, however, was to try to explain precisely the connections that facilitated, enabled and even stimulated exchanges of all kinds across great distances. In truth, most such exchanges were local – especially those that were frequent: Travelers like Marco Polo and Ibn Battuta in the later Middle Ages were rare examples of individuals who made long journeys themselves. But that is not to say that trade did not find its way from one side of the world to another – for it did.

In the Roman Empire, for example, vast quantities of goods reached the Eternal City from the east. These included fashionable shoes, tasty recipes but also silk. So much material was being bought by the women of Rome two thousand years ago that some commentators complained about the decidedly un-Roman styles: They revealed far too much of a woman’s curves; others were concerned about the cost. It was appalling, wrote Pliny the Elder, that money was being spent on silk that was made outside the Roman Empire. Not only did this mean that there was little benefit to the domestic monetary economy; it also meant that those of Rome’s neighbors – and potential rivals – were being enriched.

These parallel concerns about globalization were as difficult to answer in the age of the Caesars as they are today. It was all very well proposing tariffs, raising taxes and trying to stifle trade; but this would simply serve to deprive those in Rome of the things that they wanted. The Romans recognized that blocking consumers spending their money on the things they wanted was neither practical nor sensible.

It was not just silk that was traded. So too were all manner of goods, notably spices. Tamil literature talks of ships splashing foam across their prows as they sailed through the Indian Ocean bringing merchants keen to buy pepper. Such was the scale of exchange between the Mediterranean, primarily through North Africa, but also via Syria and Palestine, that coins in the Indus valley began to be struck that looked and felt like Roman coinage, weighed the same and was worth the same: effectively a single, global currency to enable quick and easy trade between peoples wanting to buy from and sell to each other.

Globalised trade and communication routes



Source: Ancient History Encyclopedia

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V Exchange in the Past, Present and Future is not just about Trade

It was not just goods and money that coursed along the Silk Roads. So too did faiths and beliefs, with Christianity, Buddhism and later Islam spreading – sometimes through force and conquest, but more often through persuasion and, above all, through subtle combination and elision with existing religions. Priests and holy men competed with but also borrowed from each other to explain how to worship and how to win God’s goodwill, and also how to answer profound questions such as what the meaning of life was and what happened after death. Many religions found common ground with each other in terms of basic concepts: The halo, for example, is used in Buddhist art, as it is in Zoroastrianism, which was the dominant religion in Persia, just as it is in Christian visual art. Globalization is not just about commercial trade. It is also about cultural, intellectual and spiritual exchange.

In fact, casting the net as wide as possible allows for the best possible answers to understand and explain the causes and effects of what happens when people’s horizons expand from their village to their local region, from their region to their political center, from their political center to neighboring realms and from there to the wider world.

In the ancient world, Chinese diplomats were extremely interested in understanding the world beyond the frontiers of the Heavenly Kingdom, keen to gather information about other people and the benefits and challenges that could come from dealing with them. This included finding out about Rome – an empire where “the walls of the towns are made of stone,” where “pines and cypresses” were very common, and where the people were “tall and honest.” This found an echo in Rome itself, where the Emperor Augustus commissioned surveys of the towns, ports and trade stations across the spine of Asia, both by land and by sea.

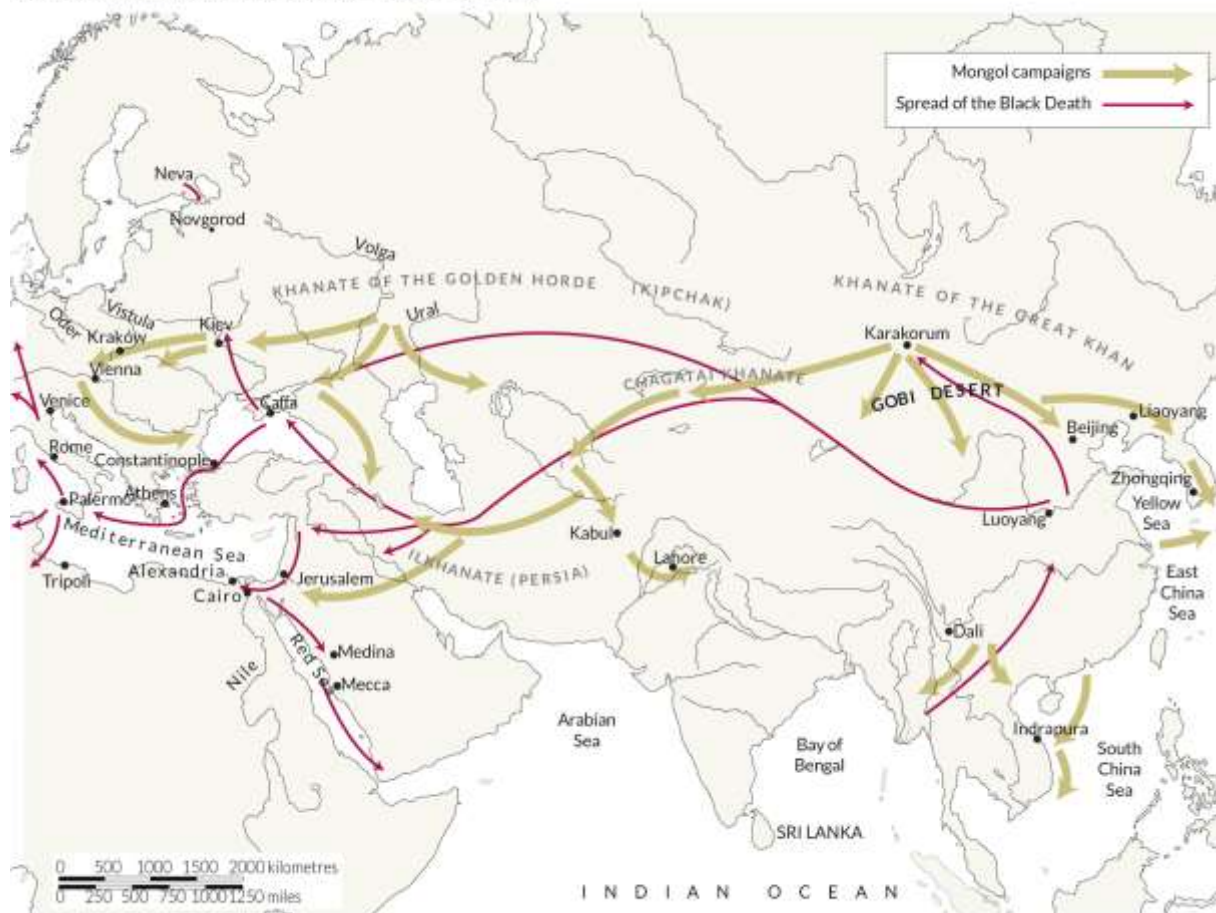
The connections were vectors for the spread of technology. Of course, there was particular interest in military advances – both because these could bring decisive advantages, but also because there were real risks in being behind the curve and potentially at the mercy of others who had invested in scholarship, innovation and the military. One example comes from the keen interest that the

Mongols took in siege warfare practices that they came across when their armies reached Syria in the 13th century.

Just as global trading patterns facilitated the transmission of goods and ideas, so too were they vectors for the dissemination and spread of other things – such as pathogens. The Black Death which ravaged the Middle East and Europe in the 1340s followed exactly the land and maritime routes linking the plague foci of Central Asia, inadvertently carried by caravan and by ship, infecting ever greater numbers along the way. The same is true in today's day and age: The spread of recent cases of avian and swine flu have mirrored exactly domestic and inter-continental travel routes. Understanding and assessing globalization involves a great deal more than simply focusing on trade and commerce.

Pathogens spread by the way our ancestors travelled and moved in the past could have dramatic and devastating effects – as was the case not only with the bubonic plague, but with smallpox in Central America in the 16th century. So too were flora and fauna changed by new species being introduced, deliberately or otherwise. Recent archaeology shows how the bur clova spread from North to Southern Africa in the 8th century, thanks to movements of people. Today, similar examples can be demonstrated by the arrival of the larger grain borer beetle, native to Central and South America, which has spread across Eastern and more recently Western Africa, with devastating effect.

Death and destruction in the 13th and 14th centuries



Source: Frankopan, Peter. The Silk Roads: A New History of the World. London 2015.

The effects of invasive pests being brought in consignments of goods are eye-watering. One recent survey put the annual costs to farmers at nearly half a trillion dollars thanks to the devastation of indigenous crops, the impact on domesticated animals and more general wildlife and the resistance to existing pesticides. These unexpected and often unnoticed effects of globalization are as damaging and important as the headlines concerning rising inequality or the sense of a rapidly changing world that seems unfamiliar to so many.

VI Reassessing Global Paradigms: Change as Normal

And therein lie the two most obvious and powerful conclusions. First is that geopolitical change is normal – and cannot be halted. Attempts to maintain a notional balance of power end badly, as the First World War proved. Attempts to effect regime change to install a more reliable, more pliant or more corruptible leader also end badly – as the case of Iran in 1953, Iraq in 2003 and, most recently, Syria have shown. It is impossible to turn the clock back, to reset to a time that seemed and felt happier, simpler and easier to recognize.

Much though Trump, Brexit and other movements across Europe like to promise a world that restores the glory days of the past, the truth is that it is not possible to recapture history. What matters is being able to adapt, to be able to engage with and understand the world and why it is changing – rather than fight the fact that it is. The World Bank estimates that 800 million people have been removed from below the poverty line in China alone. But many other countries too have been transformed in recent decades – above all in Africa and Asia. Not one of the fastest growing economies of the last fifteen years has been located in the western hemisphere.

It is not so much wishful thinking as naïve and potentially reckless when people blame globalization, try to propose barriers or try to reverse the process of change in the assumption that slowing growth in India, China or elsewhere means diverting growth to their own country. Trade tariffs serve to deprive oxygen, rather than encourage its availability; tariffs protect and reward weak businesses by giving artificial support, which in turn removes incentives to innovate and compete. In the worst case, they create an unbalanced playing field that is itself the basis for escalation of antipathy and even hostility that can lead to direct action. The underlying causes of war are always linked to asymmetries between the needs of countries and the demands they impose on their neighbors and commercial rivals: We need only think about how the rapid economic growth of both Germany and Russia in the late 19th and early 20th centuries underpinned what became the worst conflict in human history.

Globalization is not new. What is significant about the world of today is the acceleration in the way we are able to trade goods, the speed at which we can gather information and even move from A to B. Air routes, digital networks and the ability to use multiple currencies instantaneously present specific fragilities. None are dangerous in themselves; and in fact they are even necessarily dangerous taken together. They present problems in the same way that driving a car presents a problem. As long as the driver is competent, there should be no difficulty. But if the car is moving too fast, then the risks rise extremely sharply.

VII Conclusions

The primary problem with globalization is less about winners and losers and the challenges posed by new technologies. Rather it is about the ability to react promptly and effectively. It is difficult for those in political life to make decisions that are positive and make the world a better place. Politics

is relentless, difficult and often even thankless. What politicians can do, however, is avoid making bad decisions. The better informed, the more open-minded and intellectually curious those in leadership positions are, the better the chances they can avoid mistakes that have long-term consequences which can in some cases be disastrous.

There is as much chance of reversing globalization, meanwhile, as there is of being able to turn back time. Those who complain most and loudest about globalization are those who feel – rightly or otherwise – that the place they wanted to have in the world is not being delivered to them as expected. As such, anti-globalization is neither an unreasonable nor an illogical response: After all, who would not prefer to be richer, have better prospects and the chance of a better life than currently seems likely? And yet, as *The Financial Times* noted, the stark reality for those aged 18 to 30 and growing up in Europe today is that they are all but certain to be less well-off than their parents. It is the first time for several centuries that this is all but inevitable – in the absence of major global dislocation.

The correct response, of course, is to engage with change by first understanding it, and then working through its likely consequences. We are singularly poorly prepared to do so in Europe as a result of the way in which we look at the world around us – starting with the way we look at history. Our students at schools and university spend little or no time learning about Persia and Iran, about the Middle East at its apogee, about imperial China or Mughal India. These are footnotes to the standard story that focuses on the greatness of Europe, its generals and its leaders.

There can be little doubt that in much of the developed world, globalization has a bad name. It is blamed for rising inequality, for a galloping pace of change that many find uncomfortable and even for the mechanism by which the environment can be improved (or damaged) for future generations. In the developing world, the opposite is the case: For huge numbers of people – numbering not in their millions, their tens of millions or even hundreds of millions, but in their billions – globalization has been positive and transformational.

To change perceptions of globalization, the single most important thing to do is to educate – from the youngest age – about the connections that have made our history. Explaining that while communities have sometimes sought each other out to fight over resources, they have much more often and more successfully worked out how to trade with and borrow and learn from those with different commodities and skills and different ways of living, praying and speaking, and how to cooperate and collaborate to build stable, prosperous and tolerant relations.

One of the greatest challenges we face in the modern world – especially in the developed world – is the laziness we have in looking to other regions, other continents and other peoples and taking the time to learn about them. We expect others to mould themselves in our image, and we take offense when they do not do so. It seems obvious to us that the rest of the world should want to be like us in Europe and the United States, because our perception of ourselves is one that is sugar-coated and superficial.

We forget that the greatest atrocity in human history, the Holocaust, took place in Europe. We forget that Europe's engagement with most parts of the world was a poisonous one, where settler colonies in the Americas, Australia and some parts of Africa led to the effective extermination of the indigenous populations. We forget that the west's history of persecution of minorities because of skin color, gender, sexuality and religious persuasion have been intense – and in some cases came to an end only recently. Women in Uzbekistan were allowed to vote before their counterparts in Britain were given the same rights; segregation for black Americans was something that had not

formally ended by the time of the deaths of Marilyn Monroe and John F. Kennedy; same-sex marriage is still uniform across the European Union. Our own tolerance and enlightenment are recent – and it is important to recognize that fact.

Globalization is the *mot de nos jours*. It is a word that evokes strong responses. But there is no “choice” in whether it is something we like or do not like, a process we can speed up or slow down. We have always been connected. And history shows that while those connections can present problems – particularly when it comes to disease or, in the modern world, the way that cyber-criminals or would-be terrorists can communicate – we should also remember that globalization is the way that has allowed human beings to share ideas about science and art; it is the way that has enabled us to create and preserve objects of singular beauty; it is the way we have been able to learn, share and build civilization together.

It is often the case that we are scared of things we do not understand. It is worth taking the time to think and reflect before we reach for simplistic words and terms that we can blame for everything and anything that we do not like. The world is changing. Trying to stop that happening does not seem to be either a sensible thing to try to do, or a realistic option.

VIII Recommendations

- Politicians, policy makers and strategists need to have a better and wider understanding of global affairs and, in particular, a stronger grasp of inter-connections between and across other continents. The narrowness of focus on European affairs means that the big picture is not only lost, but that some of the inevitable consequences of globalization are not being recognized – and will be dealt with too late.
- Education must adapt starting in primary school in order to better prepare children and the next generation of leaders – in business, the private and public sectors, charity and within individual families – for the world around them. The fact that university graduates in Europe cannot name an Indian film star, a Chinese singer, a Nigerian novelist or a South American contemporary artist tells its own story. I wonder how many at the Trilogue can do so. And if they cannot do so, why can they not do so?
- The European Council, EU Commission and EU member states have proud histories and a strong record of cooperation. This should be expanded exponentially into neighboring states and beyond: For example, non-EU students from the developing world – including states whose futures matter to those of Europe for good and/or for bad – should be encouraged to study at leading European universities. Fees for non-EU students are set at a level that rarely attracts on merit. Widening bilateral scholarship programs is a priority. The EU does much good work on education; but it should do more. A lot more.
- Europe is at a crossroads – institutionally, economically, socially and culturally. It is impossible to assess what can, should and might happen next without understanding what has brought us to this point in time. In the first instance, that requires us to take a new approach to learning about the past. Politicians and policy makers revert to the truisms about the 19th and 20th centuries that they learned at school. The time has come to demand those in public service be better informed about all the world, rather than our own, small and once irrelevant little corner of it.

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Globalization and Cultural Identity – The Perspective of Contemporary Art

Dessislava Dimova | Eckhart J. Gillen

I Introduction

This paper focuses on contemporary art as an indicator and avant-garde of global developments in general.

Globalization has been the dominant force in shaping the arts since 1989. A lot of the problems that globalization urgently presses upon us have been already discussed and experimented with in the arts.

Contemporary visual arts have been at the forefront of the new relationship between culture and global markets. In the last decades, contemporary art has also become an open space where other artistic and social fields meet and interfere – dance, theatre, cinema, poetry, music, architecture, political debate, activism.

Historically, in times of crisis and human tragedy artists have searched to give expression to the nameless suffering and to open up new perspectives for the future. Today, when communities strive to find meaning and dignity in the face of conflict, displacement and deep social, economic and technological changes, art again can help us imagine a common future.

Each aspect of art's production, circulation and consumption has been affected by globalization. The domination of the market and the demand for performativity and efficiency have been some of the negative effects. It is precisely from the position of being fully inscribed in the contradictions of globalization that art has been able to address the tensions of contemporary society earlier and with a more acute sensibility than any other field.

II The Question of Cultural Identity

One of the biggest fears related to globalization is that it creates uniformity and erases cultural identities. However, globalization also produces the counter-demand for authenticity, which is a valuable currency on the global market. Cultural identities are entangled in this intersection of the local and global, authentic and universal. A focus on local specificity and traditional cultural identities is often the immediate response to the sweeping forces of globalization. The example of art shows that local art scenes strive for inclusion and recognition, and global art is a network of local contexts and particularities. Thus the perspective of art reformulates the question of cultural identity. It is not whether universality is better than local specificity and vice versa. The most important question in regards to cultural identity is if and how it contributes to social resilience in the face of the massive challenges confronting contemporary societies. Is resilience a function of a strong identity or rather of a flexible identity? Or is it that identities should be mobilized towards a sense of community, purpose and future?

III Why Art?

1. Art as a Witness

There is a lot of information about what is happening in the world today, but it comes from limited channels, often following very specific agendas. Many pressing problems do not gain sufficient media attention or are treated from a limited perspective. Art offers alternative informational channels, and bears witness to events and their consequences that otherwise remain hidden. The testimonies of art might not be as clear-cut and easy to understand as the one-dimensional messages of mass media. Nevertheless this is precisely the kind of witness we need today – one that accounts for the human dimensions of the changes we experience and grasps their contradictory, often irreconcilable causes.

2. Working with the Contradictions

Art and culture have been entangled in the same flaws that globalization has brought elsewhere – joining an expanding global market and mainstream culture, profiteering from local specificities and exoticizing local communities, and creating new global elites, to name but a few. Critical avant-garde art has always been located within a fragile equilibrium between autonomy and dependence on forces outside of art. A fully independent art would be purely elitist and cut off from the problems of society. Art that is too dependent on politics, market or other social pressures would be a pure instrument of power, or entertainment. Contemporary art is the product of the very conflicting social reality it seeks to overcome. It offers models for future society from within the current contradictions.

3. Future Communities

There are two main aspects that characterize art's importance for society: communities and future. From modernism's idea of a universal language that unites all, to contemporary global art's giving voice to under-represented communities, art has always strived to unite. These ideals have never been without problems, but they underline the human desire to establish communities across borders, where everybody can participate and be heard with their own voice. Art is ultimately a laboratory for the future, where even the most difficult problems are confronted and tested through methods no other field possesses – the personal and the collective experience, perception, human response, affects.

IV Globalization and Art

The year 1989 is considered by historians as the beginning of the “global turn” in art. “[T]he global events of 1989 and after—the reunification of Germany, the fragmentation of the Soviet Union, the rise of global trade agreements, the consolidation of trading blocks, and the transformation of China into a partially capitalist economy—changed the character of the art world profoundly.” “The art world swiftly reconfigured itself. A rash of art events peppered the globe, while artists of many nations, ethnicities, and cultures long ignored in the West were born to critical and commercial success.”¹

¹ Julian Stallabrass, *Art Incorporated. The Story of Contemporary Art*, Oxford University Press, Oxford 2004, p. 1.

1. Cultural Aspects

“The terrible nearness of distant places.”²

The main consequence of globalization for the arts was the bringing of different experiences coming from various geopolitical contexts into one common world. If distant cultures were previously regarded only as “anthropological” phenomena, globalization brought them to the forefront of the most avant-garde art practices. Cultural diversity became the most sought after currency in the arts. In global market terms it meant exoticism, but within art it was a tool for challenging hegemonic views.

The dynamic between local and global

The dynamic between local and global in art manifests along two seemingly contradictory lines. On the one hand, art has always strived to reach beyond borders. Globalization offered the possibility of inclusion and sharing, which art embraced. On the other hand, globalization put art right at the center of global market forces and new hegemonies and inequalities. Globalization in the negative sense was seen as a new colonial force, and art developed its critique of globalization borrowing heavily from the apparatus of postcolonial discourse with its focus on difference and local identity.

Today, the desire to create a global community, while remaining sensitive to differences and conflicting visions of the world, is still the positive, creative contradiction at the heart of global art.

Contemporary art = global art

Contemporary art in its current form emerged as a reaction to and a product of the forces of globalization. Contemporary art is global art, and vice versa – truly global art can only be contemporary.³

Globalization brought into the art world practices from various regions, with diverse cultural-heritage, political and social contexts. This made it difficult to sustain the Western modernist notions of art based on ideas of art history and universal formal language. Artists had to find a new common ground. Formally one such ground was the **language of mass media** (video, documentary photography), which was shared and understood by all. Another element was the sense of participation in a common “**contemporary**” time, marked by cultural diversity, migration, information flows and local conflicts. The engagement with the problems of its time became the definition of the contemporaneity of art.

2. Economic and Political Factors

Politics, market and symbolic capital

Important political and economic decisions, like the Maastricht Treaty from 1992, gave particular importance to art and culture and turned them into a symbol of global free trade. The art market gained a new, unprecedented power and is one of the main institutions of contemporary art at the forefront of globalization. The financial dependencies of global art are not limited to the market itself. Major banks have become important partners for big international events, from art fairs to

² Okwui Enwezor, “The Black Box”, in Catalogue, Documenta11_Platform5: Exhibition, ed. Okwui Enwezor et al., Ostfildern-Ruit: Hatje Cantz Verlag, 2002, p. 44.

³ Hans Belting, “Contemporary Art as Global Art – A Critical Estimate,” in Hans Belting and Andrea Buddenseig (eds.): The Global Art World, Ostfildern 2009: http://rae.com.pt/Belting__Contemporary_Art_as_Global_Art.pdf, accessed June 12, 2017.

artist prizes, influencing the success of artists. Multinational corporations join artistic causes or build their own exhibition spaces.⁴

Art as resource

A new understanding of the political and economic expediency of art and culture put them on the agenda of transnational organizations, national governments, municipalities and businesses alike. While culture has been used in modernity for national politics (“national treasures”) or as an ideological tool (during the Cold War), globalization brought about a more general perception of culture as resource. The arts are used for everything from promoting education and social consciousness and proposing positive models for solving social conflicts to stimulating tourism and the creative economy.⁵ Art’s dependencies today go far beyond the market.

3. Global Art – Myth and Reality

Just like in the economy in general, in the sphere of art, too, globalization is uneven and access to it is not the same everywhere. While globalization is the major tendency and theme in the arts, truly globalized art (in terms of structure and functioning) represents only one part of the arts system.

This is also the case in the art market, which we tend to perceive as the ultimate manifestation of globalization in the visual arts. Globalization is strongest at the top segment of the market, and even there only three countries dominate. According to the reports of TEFAF, these are the US, UK and China (about 80% of the total market). Artists and collectors also come from only a few countries, predominantly from North America and Europe (about 60%).⁶ Collectors often prefer to collect art locally (the American art market for example is largely driven by its national artists⁷), and museums and galleries tend to represent artists on a local basis. Artists are still predominantly supported on a national, or at best regional principle (grants).

V Structural Changes in Global Art

The three main structural elements of globalized art became the **art market**, the **biennials** and the **migration** of artists in relationship to **cities**.⁸ Museums remain important, but are somewhere in the middle. In their traditional role of conservation and rarefication, they create value based on exclusivity, similarly to the market. At the same time, in order to justify funding, they need to attract large publics, which they do by creating events and a fast turnover of artists and themes, like the biennials.

⁴ Artprice, “Financialisation of the Art Market”:
<https://www.artprice.com/artprice-reports/the-art-market-in-2016/financialisation-of-the-art-market/>, accessed June 12, 2017.

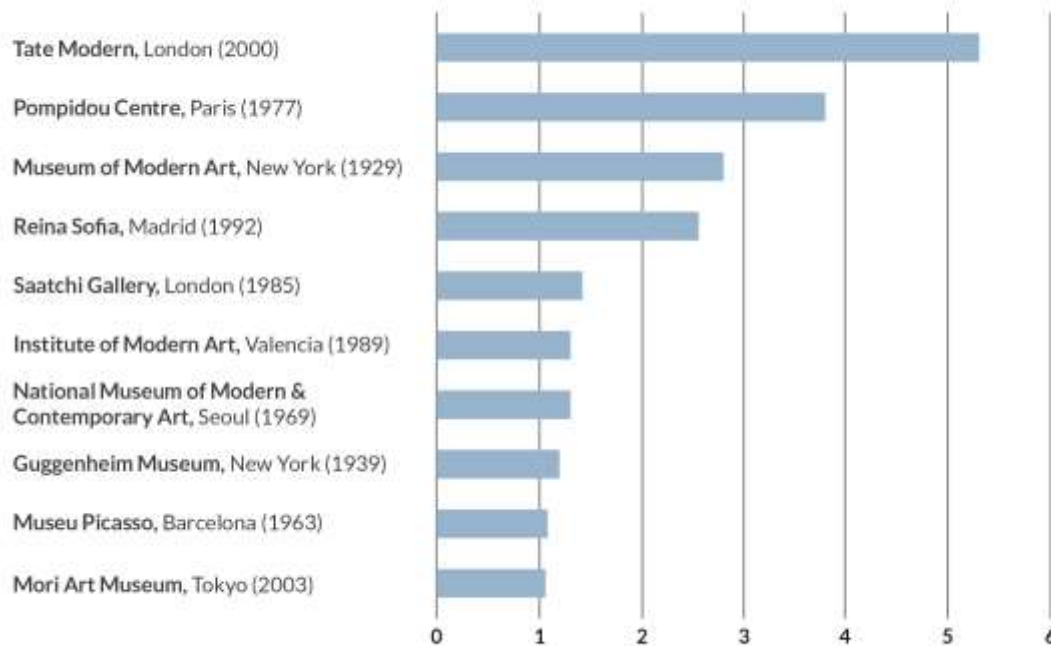
⁵ George Yudice, *The Expediency of Culture: Art in the Global Era*, Duke University Press, 2003.

⁶ Olav Velthuis, “There Is No Single, Global Art Market,” *The Art Newspaper*, June 22, 2015:
<http://theartnewspaper.com/market/art-market-comment/there-is-no-single-global-art-market/>, accessed June 12, 2017.

⁷ Artprice, “Top Price American Art”:
<https://www.artprice.com/artprice-reports/the-art-market-in-2016/top-price-american-art/>, accessed 12.06.2017

⁸ Peter Osborne, *Anywhere or Not at All: Philosophy of Contemporary Art*, London: Verso, 2013, p. 162.

Ten most popular modern art museum*, by 2012 visitors, annually in Millionen
(Opening year)



* Holding mainly 20th-century and later

Source: The Art Newspaper, individual museums, available: The Economist <http://www.economist.com/news/special-report/21591705-why-so-many-museums-are-venturing-new-works-wing-and-prayer>

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The **art market** is currently the dominant logic behind the developments in art and its structures. It is one of the strongest global markets (\$45 billion in 2016 according to TEFAF and \$56.6 billion according to Art Basel/USB).⁹ The market competes with the museums and other institutions in the creation of value in the arts. Today more and more collectors are building their own museums, while public museums are increasingly dependent on private funding. Art fairs have their own exhibition and discussion programs, assuming functions of public institutions.

A word of caution: “the art market” as a term is often used very generally, referring to a larger tendency of financialization and privatization of interests in the arts.¹⁰ Financial speculation, for example, happens as a rule on the secondary market (auctions) and does not have a substantial effect on current production. The prices at art auctions have little relation to the quality and the relevance of the artworks.¹¹

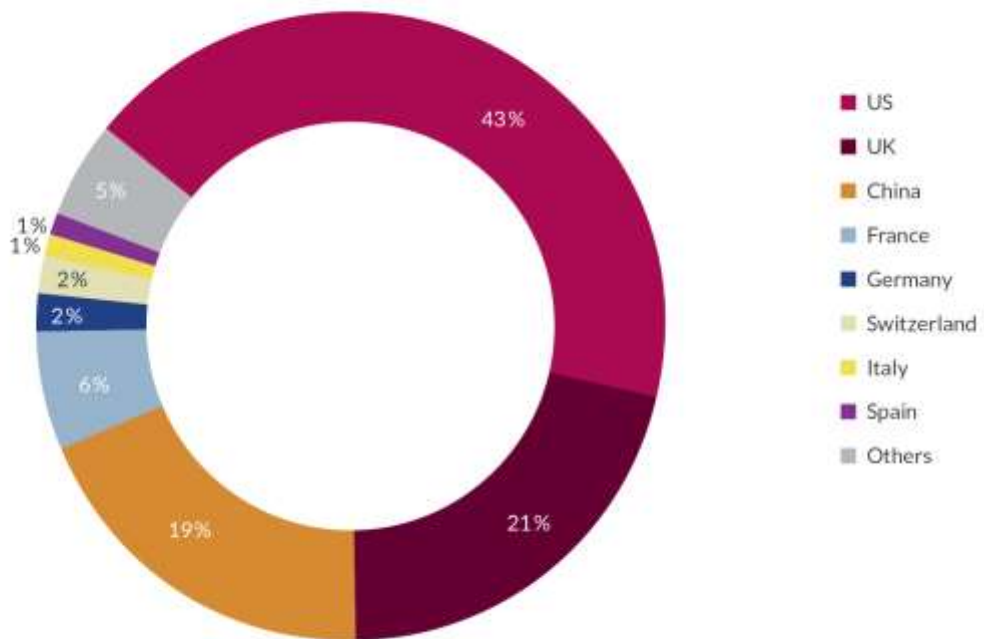
⁹ Scott Reyburn, “What’s the Global Market Really Worth? Depends Who You Ask,” The New York Times, March 23, 2017:

<https://www.nytimes.com/2017/03/23/arts/global-art-market.html>, accessed June 12, 2017.

¹⁰ Other, more appropriate terms are necessary here; philosopher Peter Osborne, for example, proposes “art industry,” which refers to the overall domination of rules of efficiency and profit – a new kind of coexistence between the art and culture industry.

¹¹ Wolfgang Ullrich, *Siegerkunst. Neuer Adel, teure Lust*, Berlin, Klaus Wagenbach, 2016.

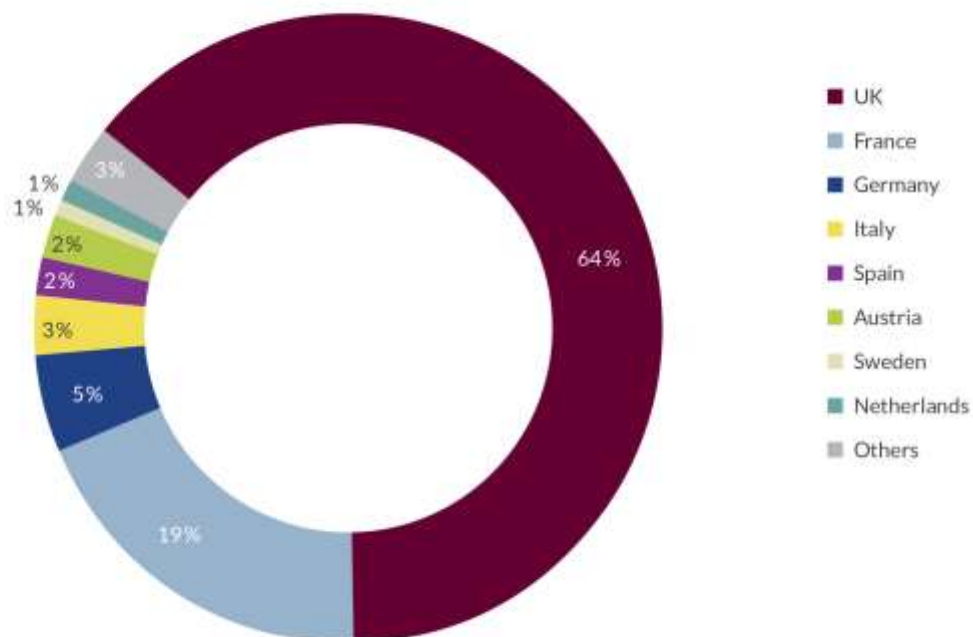
Global art market share by value in 2015



Source: Arts Economics (2016).

| BertelsmannStiftung

EU art market share by value in 2015



Source: Arts Economics (2016).

| BertelsmannStiftung

Biennials (and large-scale international events and exhibitions in general) have arguably more importance on creative trends in the arts. They claim to provide an alternative to the art market, focusing on events and practices that are not immediately commodifiable. However they participate in the larger political and economic instrumentalization of art as resource.¹² Biennials embody the new global situation by creating a flexible, moving system, which mimics the market’s capacity to cross borders and appropriate cultural difference, but at the same time challenges the old cultural

¹² “[Biennials] are the Research and Development of the transnationalisation of the culture industry,” in Osborne, 2013, p. 164.

centers and creates new ones. Biennials often function as temporary institutions in places where there is little support for contemporary art and bring international attention to their local contexts. The temporary structure of the event and its spectacularity has brought unprecedented numbers of people to contemporary art, which stimulates local developments like cultural tourism.

Artists embody global **migration** in its different forms – from the free movement of the elites to the pure necessity to move in order to be part of the art scene, in which the old Western centers still hold primacy. Most artists' biographies situate them in at least two cities (usually one of origin and one Western artistic center) between which they navigate their personal lives and careers. This is also one of the reasons for contemporary's art interest and identification with **cities**. Global art and culture are urban phenomena; the tensions of diversity are felt most acutely in urban areas. Art mirrors the metropolis as a global constellation of multiple places and flows – information, people, and products ("art as displaced urbanism"¹³).

The 2015 Venice Biennale in Numbers

Artist Birthplace vs. Home Base



Artists born in Europe and North America dominated the Biennale's main exhibition in 2013, representing over 80 % of those on view.

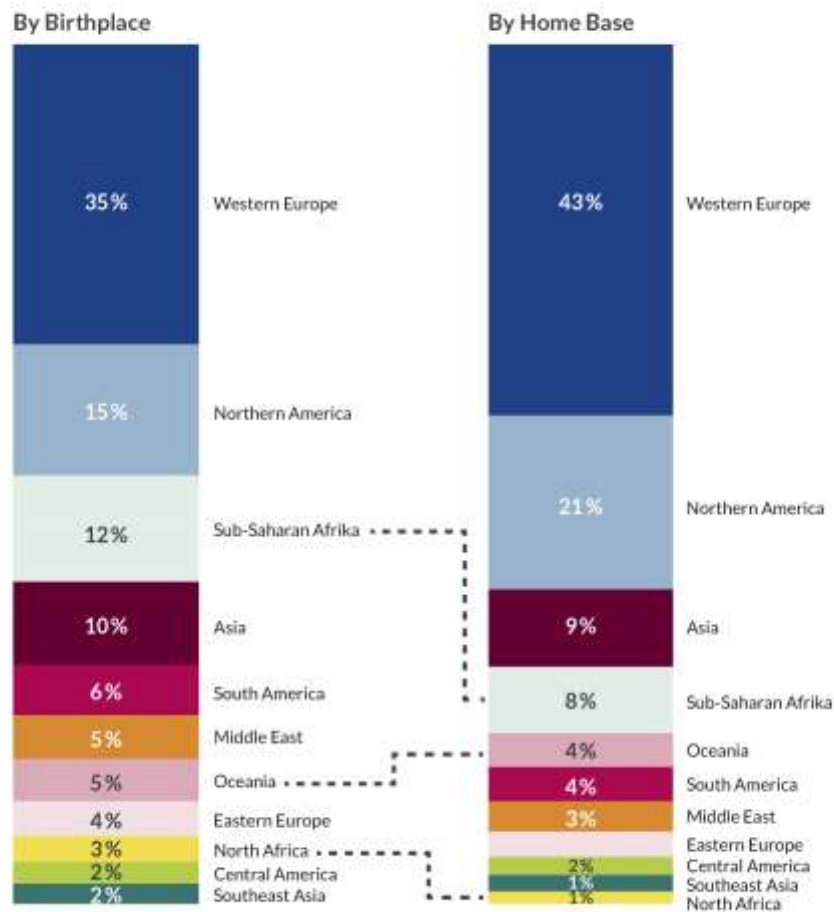
In 2015, that figure has dropped by some 30 %, with more artists coming from the Asian continent than from North America, and major increases in the representation of Africa, Latin America, and Oceania.

Source: <https://www.artsy.net/article/artsy-editorial-the-2015-venice-biennale-in-numbers>.

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¹³ Osborne, 2013, p. 158.

Artsy 2015 Venice Biennale Statistics



Source: <https://www.artsy.net/article/artsy-editorial-the-2015-venice-biennale-in-numbers>.

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VI The Case of Europe

Europe is a particular example when we speak of globalization and culture. The Union itself represents a transnational community of local cultures and contexts. There often seems to be a conflation between the negative perception of globalization and the project of Europe. Europe represents cultural hegemony for both the non-European world, and the European countries themselves.

Even core countries like Germany can feel threatened by global cultural developments. An example is the current backlash against Chris Dercon's appointment as the new director of the Volksbühne in Berlin. His international program is seen as an aggression of globalization against local culture.¹⁴ A different problem, yet with similar response, is currently being debated in Belgium. The impending establishment of a branch of the French Centre Pompidou in Brussels is seen as a hegemonic takeover, especially in light of the lack of art institutions and museums in the capital.

However, in the course of the last year, with the threat of the disintegration of the European Union, it was precisely artists who stood up to defend the idea of a united Europe. Wolfgang Tillmans created posters to plead against Brexit. Anish Kapoor, together with a large group of artists, initiated

¹⁴ Guy Chazan, "Backlash in Berlin," Financial Times, May 26, 2017:

<https://www.ft.com/content/0d3bff86-3ee6-11e7-9d56-25f963e998b2>, accessed June 12, 2017.

the platform “Hands off our revolution,” which aims to support the European project in various artistic ways.¹⁵ In the same vein, and to counterbalance the lack of cultural issues on the agenda of global and European summits, Bozar in Brussels is currently organizing the initiative “Cultural workers for Europe.”¹⁶

VII History and Recent Developments in the Global Art World

Exhibitions (with their specific temporality and focus on geopolitics) rather than individual artworks have been the distinctive form of globalization in arts and culture.

It is commonly accepted that the first instance to mark a decisive change in attitudes was the exhibition “Magiciens de la terre,” curated by Jean-Hubert Martin for Beaubourg in Paris in 1989. For the first time, non-Western artists were represented not in an anthropological context but together with Western artists. There were multiple earlier efforts in this direction of inclusion of the peripheries, drawing the first lines of a globalist approach. The Havana biennials, for instance, famously proclaimed alternative internationalism without the dictate of Euro-centrism (1984, 1986, 1989).¹⁷

Documenta X (1997), curated by Catherine David, marked art’s decisive turn towards the political, social, economic and cultural issues of the contemporary globalized world. David also mapped the three most important lines of art’s engagement with globalization: postcolonial discourse, urbanism, and new communicational technologies. The next Documenta 11 (2002), curated by Okwi Enwezor, took a more postcolonial perspective and was critical of global trends, revealing persisting hegemonies. To counter that, the exhibition was divided into five platforms, spread across five locations around the world: Vienna, Berlin, New Delhi, St. Lucia and Lagos. This delocalizing trend has been continued by most subsequent Documentas, with the current one being shared between Kassel and Athens.

The dominant art discourses today continue to be developed by biennials and similar large-scale art events. According to data by the Biennial Foundation, there are currently more than 200 contemporary art biennials operating all over the world.¹⁸ Some of them are old structures, which are constantly trying to respond to global challenges. The Venice Biennale – the oldest (1895) – is based on national pavilions but each year includes new, formerly unrepresented countries. The last several editions of Documenta (since 1955) in Kassel have tried to spread to other locations. Among the biennials that have been in the forefront of globalization are those in Istanbul, Sharja, Taipei, Gwangju, Berlin, Sydney, Shanghai, Lyon, Havana, Moscow, Bucharest and Dakar. Some have their beginnings in the 1980s and 1990s, others are fairly recent like that of Marrakesh, which was founded in 2005. Manifesta (1996) is a European travelling biennial, which changes city with every edition.

In Asia hundreds of museums and centers for contemporary art have been created in the last decade. In Japan, department stores have opened their own galleries. In China, a museum is a symbol of civility and modernity and it corresponds better to the state authority’s control over culture than an art fair or a biennial.

¹⁵ <http://handsoffourrevolution.com/>

¹⁶ <http://culturalworkersfor.eu/>

¹⁷ Belting, 2009.

¹⁸ <http://www.biennialfoundation.org/home/biennial-map/>, accessed June 12, 2017.

The Gulf is taking a slightly different path with the creation of the Sharja biennial and the Dubai Art Fair. The Global Art Forum of Dubai Art Fair began in 2007 and until this day brings together important art practitioners from all over the world to discuss the future of culture and the effects of globalization. The forum is symptomatic of the uses of contemporary art not only as an economic project, but as a message of globalization, liberalism and inclusiveness.

The courteous symbiosis between critical contemporary art and political and economic power is not always without conflicts. This was the case of Manifesta 6, planned to happen in 2006 in Nicosia, which became the first biennial to be cancelled because of conflict with local political authorities. In 2014, many artists invited to participate in the Sydney biennial decided to boycott it. The reason was that one of the companies supporting the biennial has been administering questionable immigrant detention centers on behalf of the government.

The 2015 Venice Biennale in Numbers

5 of the artists have been arrested for political reasons relating to their work



Inji Efflatoun

Arrested in 1959 for her anti-Egyptian-establishment position, Afflatoun spent four years moving between women's prisons – an experience that radically impacted her practice as a painter.



Kutluğ Ataman

Ataman was arrested and tortured in 1980 after Turkish authorities found his films documenting the protests surrounding that year's military coup; he was released after 28 days.



Osama Al-Habaly
(Abounaddara Collective)

Al-Habaly, a member of the filmmaking collective Abounaddara – whose associates retain anonymity to avoid persecution for conducting journalism in the volatile region – disappeared in 2012 after being arrested at the border crossing into Syria from Lebanon, and remains unaccounted for.



**Invisible Borders:
Trans-African Photographers**

Three members of the group were arrested in N'Djamena, Chad, in 2011 for taking photographs in a city market. They were released after a local businessman vouched for their good intentions.



Tania Bruguera

Bruguera underwent a series of highly visible detentions earlier this year after attempting a performance piece in a public square in Havana, Cuba, in which she granted anyone in attendance one minute of free speech on a soapbox.

VIII Conclusions and Recommendations

What we can learn from art's relationship to globalization is that there are no static communities, no fixed identities and no "authentic" cultures. Art promotes new forms of cultural identities on the basis of cultural specificities and history, but with a focus on flexibility in view of bigger, common goals.

In the last years, with the cuts in public support for art and the pressures of its increasing dependence on private funding, there has been a greater conceptual (if not yet actual) disengagement of the arts from market forces. This tendency has opened up a new space for redefining public engagement with art and culture and the social role they could take today.

- There is a lack of an open and public debate between art and policy makers. Art and culture are currently the most dynamic space where new forms of communities and of European identity are debated and tested. Despite that fact, art and culture are excluded from major discussions on the future of Europe. Recommendation: Creating possibilities for art and culture to interact with decision makers; a better, more sensitive representation of the interests of culture in European politics.
- Art works with and not against the tensions at the heart of globalization: on the one hand, the desire for free movement of ideas and people; on the other, the necessity to represent local realities and engage with publics locally. Recommendation: Promoting strong and confident local cultures in view of their contribution to the world cultural heritage; looking for historical and contemporary connections and shared ideas.
- The role of art is not to appease conflicts and dissent, but to make them visible and offer alternative horizons for creating new alliances. Art's lesson is that tensions and disagreement are not to be avoided, but to be voiced and used for productive change. Recommendation: Stimulating art's role as a public sphere and supporting art as a channel for communication and debate.
- Recent budget cuts make art institutions and practices vulnerable to private interests. Variety, risk-taking and public awareness are threatened to be replaced by a very limited, market-sanctioned version of art. Recommendation: Given the power of the market and other external pressures, it is crucial that art have more alternative support if it is to maintain its critical public function.
- Today's culture and communities are essentially urban phenomena, less and less formed by traditional local identities. Cities are the place where global trends find local meaning. Art imagines and encourages new types of communities based on shared ideas of a common future and new forms of collectivity that follow urban developments. Recommendation: Supporting and creating spaces for art and culture in cities, where new types of communities could be debated and practiced through open discussion and cultural activities.

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The Dark Side: Crime Has Gone Global

Friedrich Schneider

I Introduction

Over the last three decades the growth of the world economy has been quite high and improved economic well-being all over the globe. However, this development has been accompanied by some negative developments. These negative processes are the following: First, crime has also gone global and, second, there has been a strong increase in criminal proceeds from international organized crime, from financial and tax fraud over the last 25 years and from a rising shadow or underground or cash economy worldwide. Moreover, third, organized crime has a significant influence on the official economy; for example a significant increase in expenditures for the police and judiciary. In this paper I will deal with some aspects of this “dark” side of a globalized economic world. The goal of the paper is to shed some light on this dark side, in order to improve our knowledge about the shadow economy, organized crime, tax fraud and other criminal developments worldwide (e.g. cybercrime).

In the next Chapter I present the latest results describing the size and development of the shadow economy and tax evasion worldwide. In Chapter III the size and development of international crime activities, including cybercrime, is shown. Chapter IV deals with globalization and transnational organized crime. Chapter V analyzes the influence of the shadow economy, tax evasion and transnational organized crime on the global economy. Finally, in Chapter VI some concluding remarks are made, along with 15 concrete policy recommendations for fighting the shadow economy and tax evasion as well as organized crime.

II Introduction and Theoretical Considerations of the Shadow Economy

Up to now the shadow economy is by nature difficult to measure. Agents engaged in shadow (underground) economy activities try to stay undetected. The request for information of the extend of the shadow economy and its development over time is motivated by its political relevance. Moreover, the total economic activity, including official and unofficial production of goods and services is important in the design of economic policies that respond to fluctuations and economic development over time and across space. Furthermore, the size of the shadow economy is a core input to estimate the extend of tax evasion and thus for decisions on its adequate control.

Empirical research into the size and development of the global shadow economy has grown rapidly (see Feld and Schneider 2010; Schneider 2011, 2015; Schneider and Williams 2013; Williams and Schneider 2016; and Hassan and Schneider 2016). Newer research on the size and development of the shadow economy worldwide starts with the fact that we have no unique worldwide definition of what we mean when we talk about the shadow, grey or underground economy. The OECD's definition is the following: Shadow or underground economic activities which clearly fall within the production boundary of national accounts statistics (meaning they are legal) are deliberately concealed from public authorities for the following reasons:

- to avoid the payment of income, value added or other tax payments;
- to avoid the payment of social security contributions;
- to avoid having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc.;
- to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.

The main reasons why people work in the shadow economy and undertake tax evasion are the following:

- tax and social security contribution burdens;
- intensity of regulations;
- public sector services;
- tax morale;
- unemployment;
- self-employment;
- size of the agricultural sector;
- official income;
- quality of public institutions (corruption); and
- federal (direct democratic) systems.

The main indicators in which shadow economies are reflected are:

- official GDP;
- cash; and
- official employment.

All ten reasons play a role, but especially tax burden, regulation, unemployment, self-employment and size of the agricultural sector are major driving forces for smuggling, do-it-yourself activities and neighbors helping each other. Hence, mostly the macro estimates like the MIMIC and Currency Demand Estimations include these activities to a large extent and, hence, these estimates are higher than the “true” shadow economy estimates. In order to consider this, an upper and lower bound for the shadow economy and/or tax evasion is provided.

1. Some Remarks on How to Estimate the Shadow Economy

To estimate the size and development of the shadow economy we have three estimation procedures:

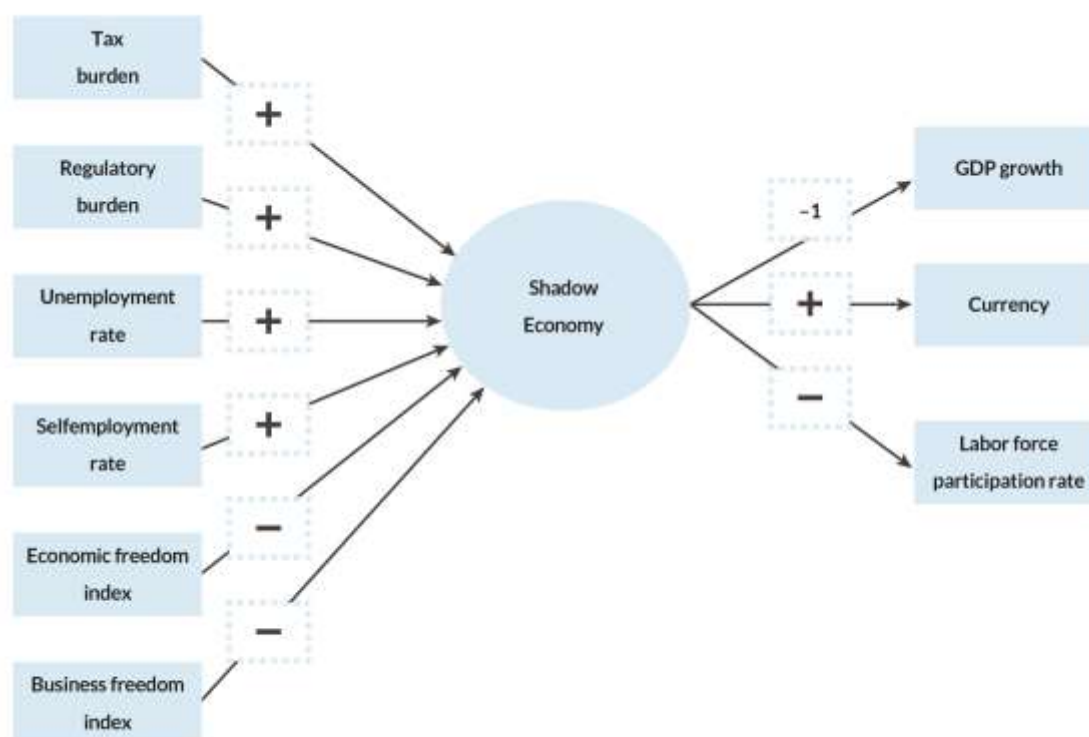
- Direct approaches which use the micro level to determine the size of the shadow economy. Quite often this is done through surveys and by calculating discrepancies in national accounts.
- Indirect approaches which make use of macroeconomic indicators, proxying the development of the shadow economy over time, e.g. the Currency Demand approach.
- Statistical methods that use statistical tools to estimate the shadow economy as an unobserved or latent variable, e.g. the MIMIC (Multiple Indicator, Multiple Causes) method.

The Currency Demand approach assumes that informal transactions take the form of cash payments, in order not to leave an observable trace for the authorities, and that an increase in the size of the informal economy will, consequently, increase the demand for currency. To isolate this

“excess” demand for currency, the econometric time series approach is used in which the currency demand is a function of conventional factors (e.g. income, interest rate, etc.) and factors causing people to work in the informal economy (e.g. direct and indirect tax burden, government regulation, etc.). By estimating such an equation and then making a simulation by assuming that the factors which cause people to work in the shadow economy are captured at the lowest value, one gets a positive value between simulation and the actual equation. Assuming that the velocity of money is the same in the shadow economy as in the official one, one gets a value added figure.

The Multiple Indicators Multiple Causes method explicitly considers several causes, as well as the multiple effects, of the informal economy. The methodology makes use of the relatives between the observable causes and the effects of an unobserved variable, in this case the informal economy. The concept behind the MIMIC approach is shown in Figure “Hypothesized MIMIC path of estimating the shadow economy”.

Hypothesized MIMIC path for estimating the shadow economy



Source: Schneider (2017).

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Hence, the MIMIC model simultaneously takes into account different causes and indicators that directly influence the development of the shadow economy over time.¹

2. Results of the Size of the Shadow Economies Worldwide, 1991 to 2015

In Table “Size of the shadow economies of different country groups” the size of the shadow economies of different country groups is shown using the MIMIC and the adjusted MIMIC approach. The macro MIMIC approach is an upper bound limit to the shadow economy’s possible size, and the adjusted MIMIC approach is a lower bound, corrected for double counting and other problems,

¹ As noted, this paper does not include an extensive discussion or critique of the estimation procedures. See Feld and Schneider (2010), Williams and Schneider (2016) and Schneider (2017).

e.g. do-it-yourself activities, neighbors helping each other and smuggling. The “true” size of the shadow economy perhaps lies in between these boundaries. If we consider Table “Size of the shadow economies of different country groups (Macro-MIMIC + adj. MIMIC)”, we clearly see that the OECD countries have the smallest shadow economy, with an average value over 1991 to 2015 of 19.5%, followed by East Asian countries at 23.5%, then Middle East and North Africa at 25.1%. The largest shadow economies can be found in Latin American and Caribbean countries at 38.8%, and Sub-Saharan African countries at 39.5%.

Size of the shadow economies of different country groups (Macro-MIMIC + adj. MIMIC)

Macro-MIMIC + adj. MIMIC method		Size of the shadow economy ¹⁾			
Country groups (adjusted values)	No. of countries	Years 1991-1999	Years 2000-2009	Years 2010-2015	Average over 1999 - 2015
East Asia	19	25.53	23.86	21.08	23.49
		[16.59]	[15.51]	[13.70]	[15.27]
Middle East and North Africa	18	27.31	24.34	23.81	25.15
		[17.75]	[15.82]	[15.48]	[16.35]
Europe	37	28.12	24.79	22.77	25.23
		[18.28]	[16.11]	[14.80]	[16.40]
South Asia	7	34.75	32.31	27.58	31.55
		[22.59]	[21.00]	[17.93]	[20.51]
Sub-Saharan Africa	42	42.36	39.98	36.13	39.49
		[27.53]	[25.99]	[23.48]	[25.67]
Latin America Caribbean	24	42.29	39.33	34.80	38.81
		[27.49]	[25.56]	[22.62]	[25.22]
OECD	34	21.42	18.84	18.24	19.5
		[13.92]	[12.25]	[11.86]	[12.68]
Average over all countries	181	31.68	29.06	26.34	29.03
		[20.59]	[18.89]	[17.12]	[18.87]

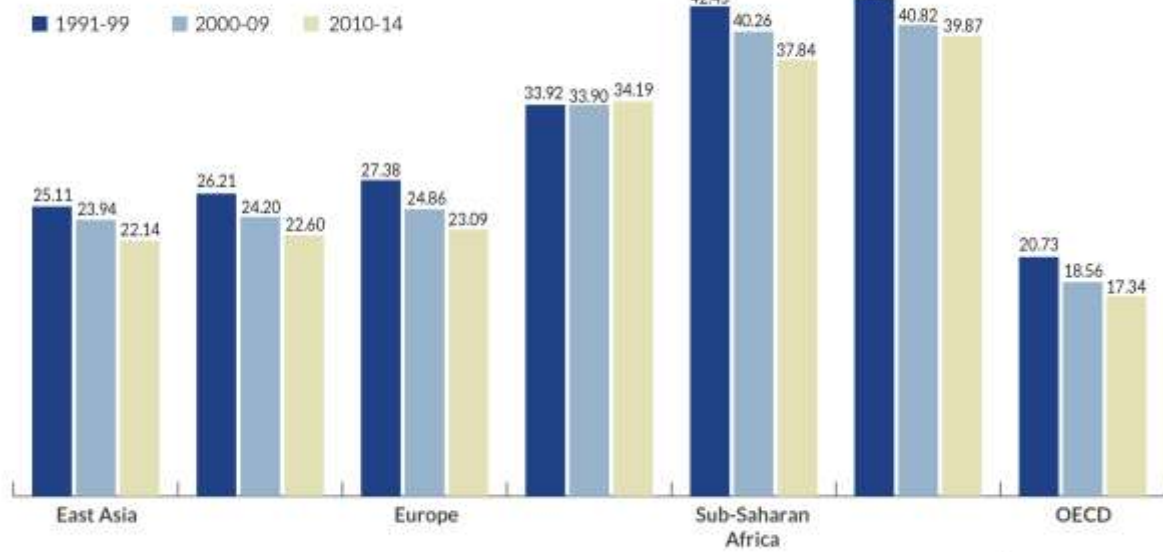
1) Unweighted averages.

Source: Medina and Schneider (2017).

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Figure “Shadow economy by region” shows the development over time for these country groups. We clearly see that we have a declining trend in the size and development of the shadow economy over the period 1991 to 2014. Only for South Asia this is not true. There we have a slight increase in the shadow economy, or it remains stable at around 34%.

Shadow economy by region (average, percent of GDP)



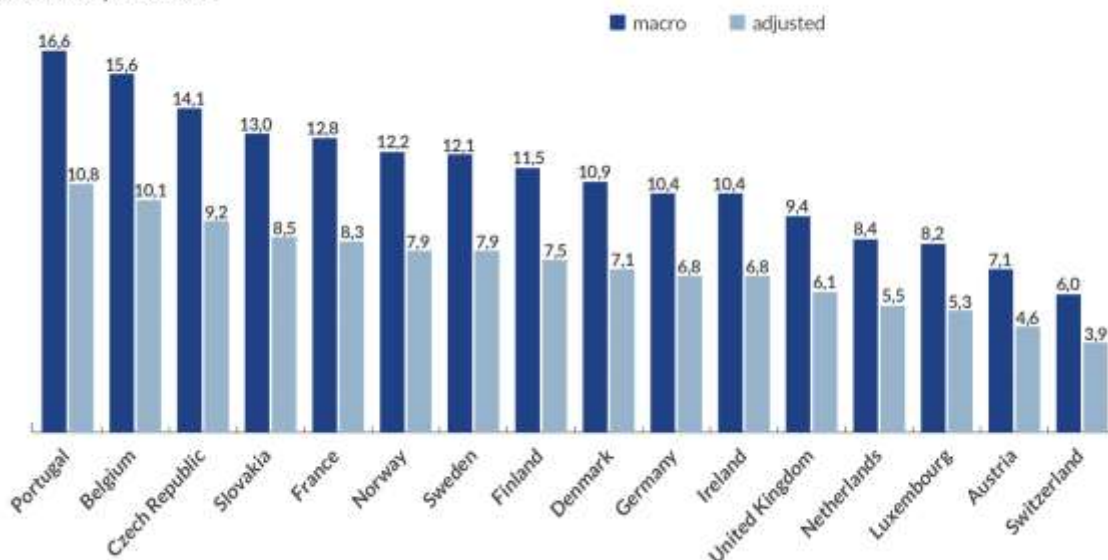
Source: Medina and Schneider (2017).

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Finally, Figure “Size of the shadow economy of 16 European countries in 2017” shows a forecast of the size of the shadow economy for 16 European countries, again using the MIMIC macro and adjusted procedure. We clearly see that Portugal, Belgium and Eastern European countries have a shadow economy of 15% to 16%, and Luxemburg, Austria and Switzerland have a shadow economy of around 6% to 7%. Again, the adjusted values are presented as a minimum value, so that the reader gets an idea in which range the “true” size of the shadow economy for these countries may lie.

Size of the Shadow Economy of 16 European Countries in 2017- macro and adjusted

Shadow economy in % of GDP



Source: Own calculations.

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3. Results of the Size of Tax Evasion Worldwide, 1991 to 2015

Table “Level of tax evasion in % of GDP of the 15 countries with the highest and the lowest shadow economy of all 158 countries” shows that, especially in developing countries, tax evasion is one of the most serious problems. State finances are eroding. Georgia, Bolivia and Zimbabwe have tax evasion levels of between 5% and 8% percent of GDP as an average over 1999 to 2015. These

levels are quite huge. Austria, Switzerland and the United States have the lowest amount of tax evasion, between 0.8 and 1.3% of GDP, which is still considerable.

Level of tax evasion in % of GDP of the 15 countries with the highest and the lowest shadow economy of all 158 countries; averages over 1999 to 2015

	Country	Tax Evasion	Tax Evasion Adj.
highest	Georgia	8.4	5.5
	Bolivia	8.1	5.3
	Zimbabwe	7.9	5.1
	Nigeria	7.3	4.8
	Guatemala	7.1	4.6
	Benin	7.0	4.5
	Haiti	6.9	4.5
	Gabon	6.8	4.4
	Peru	6.8	4.4
	Azerbaijan	6.8	4.4
	Tanzania	6.8	4.4
	Myanmar	6.7	4.3
	Thailand	6.6	4.3
	Gambia, The	6.1	4.0
	Belize	6.1	4.0
lowest	Iceland	2.1	1.3
	Vietnam	2.0	1.3
	Germany	2.0	1.3
	Hong Kong SAR, China	1.9	1.2
	Australia	1.8	1.2
	Netherlands	1.8	1.2
	United Kingdom	1.7	1.1
	New Zealand	1.7	1.1
	China	1.5	0.9
	Singapore	1.5	1.0
	Luxembourg	1.4	0.9
	Japan	1.4	0.9
	Austria	1.3	0.8
	Switzerland	1.2	0.8
	United States	1.2	0.8
Average over all 158 countries		4.2	2.7

Source: Own calculations.

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Tax evasion resulting from the shadow economy and other activities is a serious problem. Thus, a goal that must be given top priority is reducing the shadow economy by turning the “black” value added found there into official value added.

Finally, Table “Level of tax evasion in % of GDP for different country groups” shows the level of tax evasion for different country groups worldwide. Similar to the figures in Table “Size of shadow economies of different country groups”, tax evasion is lowest in the OECD countries at 2.54% [1.63%] of GDP. The highest level is in Sub-Saharan African countries at 5.13% [3.34] and Latin American and Caribbean countries at 5.05% [3.28%] of GDP. The figures here are remarkably high and show how urgent it is that measures be taken against tax evasion. As the size of the shadow economy is decreasing for most country groups, the same trend can be seen for tax evasion.

Level of tax evasion in % of GDP for different country groups (macro values)

Macro values		Level of tax evasion in % of GDP ¹⁾			
Country groups [adjusted values]	No. of countries	Years 1991-1999	Years 2000-2009	Years 2010-2015	Average over 1999 - 2015
East Asia	19	3.32 [2.16]	3.10 [2.02]	2.74 [1.78]	3.05 [1.99]
Middle East and North Africa	18	3.55 [2.31]	3.16 [2.06]	3.20 [2.01]	3.27 [2.13]
Europe	37	3.66 [2.38]	3.22 [2.09]	2.96 [1.92]	3.28 [2.13]
South Asia	7	4.52 [2.94]	4.20 [2.73]	3.59 [2.33]	4.10 [2.67]
Sub-Saharan Africa	42	5.51 [3.58]	5.20 [3.38]	4.70 [3.05]	5.13 [3.34]
Latin America Caribbean	24	5.50 [3.57]	5.11 [3.32]	4.52 [2.94]	5.05 [3.28]
OECD	34	2.78 [1.81]	2.45 [1.59]	2.37 [1.54]	2.54 [1.65]
Average over all countries	181	4.12 [2.68]	3.78 [2.46]	3.42 [2.23]	3.77 [2.45]

1) Unweighted averages
Source: Own calculations.

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III Size and Development of International Crime Activities

1. Some Remarks about Money Laundering

It is obvious that “crime” or dirty money is laundered. This has the purpose of making dirty money appear legal (see Walker 1999, 2007). There are many methods of money laundering; Table “The methods of money laundering and the use of cash” briefly explains the 12 most common methods based on Unger (2007) and Schneider (2015). Which of these methods is chosen depends on the type of crime and on the institutional arrangements in the country where the criminal money is “earned.” For example, Method 8 (business ownership) is quite often used in the drug business.

The methods of money laundering and the use of cash

1	Wire transfers or electronic banking (no cash)	The primary tool of money launderers to move funds around in the banking system. This can conceal the illicit origins of the funds or just place the money where the launderers need it. Often the funds go through several banks and even different jurisdictions.
2	Cash deposits (only cash)	Money launderers need to deposit cash advances into bank accounts prior to wire transfers. Due to anti-money-laundering regulations they often 'structure' the payments, i.e. break them down into smaller amounts. This is also called 'smurfing'.
3	Informal value transfer systems (IVTS) (mostly cash)	Money launderers need not rely on the banking sector, other transfer providers, such as the Hawala or Hindi are readily available to undertake fund transfers. These systems consist of shops (mainly selling groceries, phone cards or other similar items), which are also involved in transfer services. IVTSs enable international fund transfers, as these shops are present in several jurisdictions.
4	Cash smuggling (only cash)	Money launderers might mail, Fedex or simply carry cash with them from one region to another, or even to different jurisdictions.
5	Gambling (mostly cash)	Casinos, horse-races and lotteries are ways of legalizing funds. The money launderer can buy (for 'dirty' cash) winning tickets – or in the case of casinos chips – and redeem the tickets or the chips for a 'clean' bank check. Afterwards, the check can be easily deposited in the banking sector.
6	Insurance policies (no cash)	Money launderers purchase single premium insurance (with dirty cash), redeem early (and pay a penalty) in order to receive clean checks to deposit. Longer term premium payments might make laundering even harder to detect.
7	Securities (no cash)	Securities are usually used to facilitate fund transfers, where underlying security deals provide cover (and legitimate looking reason) for transfers.
8	Business ownership (only cash)	Money might be laundered through legitimate businesses, where criminal funds can be added to legitimate revenues. Cash-intensive operations, such as restaurants, are especially well suited for laundering.
9	Shell corporations (little cash)	Money launderers might create companies exclusively to provide cover for fund transfers without legitimate business activities.
10	Purchases (mostly cash)	Real estate or any durable good purchases can be used to launder money. Typically, the item is bought for cash and resold for clean money, like bank checks.
11	Credit card advance payment (only cash)	Money launderers pay money in advance with dirty money, and receive clean checks on the balance from the bank
12	ATM operations (only cash)	Banks might allow other firms to operate their ATMs, i.e. to maintain and fill them with cash. Money launderers fill ATMs with dirty cash, and receive clean checks (for the cash withdrawn) from the bank.

Source: Unger (2007, pp.195-196) and own remarks.

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In big cities, substantial amounts of cash are earned by drug dealers in many different places, which they infiltrate into cash-intensive operations such as restaurants, which are especially well suited for money-laundering purposes, by adding the criminal proceeds to the “legal” turnover of the business. Table “The methods of money laundering and the use of cash” also shows that cash is predominantly used in 8 out of the 12 methods. Quite obviously, when money laundering makes use of cash deposits (Method 2), cash smuggling (Method 4), business ownership (Method 8), credit card advance payments (Method 11) or ATM operations (Method 12), only cash is generally involved in these transactions. Only for wire transfers, the purchase of insurance policies, security purchases and the creation of shell corporations is cash of little or no importance. Therefore, cash is quite important for money launderers.

Unger (2007) estimates the amount of laundered money in the top 20 destination countries for laundered money. These figures are shown in Table “The amount of laundered money for the top 20 destinations of laundered money, 2005”. In the table, two estimates are presented, one by Walker (1999, 2007) and one by the IMF. The Walker figure of 2.85 trillion USD is much larger than the IMF figure of 1.50 trillion USD (both figures are for the year 2005). Walker’s figures have been criticized as too high, which was one reason why the IMF estimates are shown, too.

Table “The amount of laundered money for the top 20 destinations of laundered money, 2005” clearly demonstrates that two-thirds of worldwide money laundering is undertaken in the 20 countries listed. One should realize that most of these countries are highly developed and have quite sizeable legal/official economies, which makes them highly attractive for re-investing the laundered proceeds. What is also notable is that the table only includes a few small countries, offshore countries (OFCs) and tax havens, such as the Cayman Islands, Vatican City, Bermuda and Liechtenstein. Most countries that attract money-laundering flows are major economic players. The United States has the largest share of worldwide money laundering at almost 19%, followed by the Cayman Islands (4.9%), Russia (4.2%) and Italy (3.7%). However, smaller countries like Switzerland (2.1%), Liechtenstein (1.7%) and Austria (1.7%) are also attractive. If one takes the lower IMF values for Austria, Switzerland and the United Kingdom, about 5.5% of the total amount is laundered in these three countries, which comes close to roughly 10% of their official GDP. Yet it needs to be emphasized that it is not clear whether this money is “only” laundered in these countries or whether it also remains there. The money may well leave these countries after the laundering process. In general, Table 3.2 shows how substantial the amount of laundered money is and that two-thirds of these funds are concentrated in only 20 countries.

The amount of laundered money for the top 20 destinations of laundered money, 2005

Rank	Destination	% of world-wide money laundering	Walker estimate 2.85 trillion USD Amount in billion USD	IMF estimate 1.5 trillion USD Amount in billion USD
1	United States	18.9%	538,145	283,500
2	Cayman Islands	4.9%	138,329	73,500
3	Russia	4.2%	120,493	63,000
4	Italy	3.7%	105,688	55,500
5	China	3.3%	94,726	49,500
6	Romania	3.1%	89,595	46,500
7	Canada	3.0%	85,444	45,000
8	Vatican City	2.8%	80,596	42,000
9	Luxembourg	2.8%	78,468	42,000
10	France	2.4%	68,471	36,000
11	Bahamas	2.3%	66,398	34,500
12	Germany	2.2%	61,315	33,000
13	Switzerland	2.1%	58,993	31,500
14	Bermuda	1.9%	52,887	28,500
15	Netherlands	1.7%	49,591	25,500
16	Liechtenstein	1.7%	48,949	25,500
17	Austria	1.7%	48,376	25,500
18	Hong Kong	1.6%	44,519	24,000
19	United Kingdom	1.6%	44,478	24,000
20	Spain	1.2%	35,461	18,000
	SUM	67.1%	1,910,922	1,006,500

Source: Unger (2007, pp.195-196).

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2. Transnational Crime Proceeds²

Worldwide and regional figures

“Dirty” money from crime is earned through various underground activities, like drug and weapons dealing as well as human trafficking. How much illicit crime money in all its forms is there? The most widely quoted figure for criminal proceeds from money laundering is the IMF consensus range of 2.0% to 5.0% of global GDP in 1998 (compare IMF 2001 and UNODC 2011).

Tables “FATF estimate of worldwide money laundering” and “IMF estimates of laundered money worldwide” show the FATF and IMF estimates of money laundered worldwide for a similar period (FATF estimates for 1988 to 2005 and IMF estimates for 1996 to 2009). Considering first the FATF estimates, worldwide money laundering was 2.0% of global GDP in 1988, which increased to 3.5% in 1996 and decreased again to 3.0% in 2005. The IMF estimates vary between 2.0% and 5.0% over the period 1996 to 2009. In absolute terms, worldwide money laundering increased by 36.0% from 1996 to 2005 and by 33.0% from 2005 to 2009, which is quite a large increase. The FATF and IMF figures cover a more or less similar range.

FATF estimate of worldwide money laundering (1988 to 2005)

Estimation of laundered crime proceeds		
Year	in bn USD	As a percentage of global GDP
1988	340.00	2.0 %
1996	1,100.00	3.5 %
2005	2,300.00	3.0 %

Source: IMF (2001), UNODC (2011, p. 19) and own calculations.

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IMF estimates of laundered money, worldwide (1996 to 2009)

Estimation	Minimum	Mid-point	Maximum	Increase in %
IMF estimates of money laundered as a percentage of global GDP	2.0 %	3.5 %	5.0 %	-
Estimate for 1996 in billion USD	600	1,100	1,500	-
Estimate for 2005 in billion USD	900	1,500	2,300	36.0 %
Estimate for 2009 in billion USD	1,200	2,000	2,900	33.0 %

Source: UNODC (2011, p. 19).

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Table “Updated FATF model of global amounts laundered” shows the FATF estimates of money laundered globally up to the year 2009. The FATF model starts with an estimate of drug sales, which is then used to calculate the total amounts laundered from all criminal proceeds. For the year 2003 the FATF estimate of the total amounts laundered (from all criminal proceeds) is 880 billion USD, or 2.4% of world GDP. Extrapolated to the year 2009, the calculation reaches 1.4 trillion USD.

² For a detailed analysis see Schneider (2008a, 2008b, 2009, and 2011), Schneider and Windischbauer (2008), Schneider, Dreer and Riegler (2006), and Takats (2009).

Updated FATF model of global amounts laundered

Estimate of drug sales in key markets (1988)	124 bn USD
As a percentage of global GDP (1988)	0.8 %
Estimate of drug sales in key markets (UNODC estimate for 2003)	322 bn USD
As a percentage of world GDP	0.9 %
Assumed proportion that is laundered (initial FATF estimate)	66 – 70 %
Estimate of amounts laundered related to drugs (2003)	220 bn USD
Proportion in % of global GDP (2003)	0.6 %
Estimated proportion of drugs in total amounts laundered (initial FATF estimate)	25.0 %
Estimated total amounts laundered in 2003	880 bn USD
As a percentage of GDP	2.4 %
Extrapolated to global GDP in 2009	1.4 trillion USD

Source: UNODC (2011, pp. 31-32).

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Table “Annual money laundering by region” shows money laundering by region over the period 2000 to 2005. North and South America have by far the biggest share, at 37.8% in 2000, which remains more or less constant until 2005, at 37.7%. The region Asia Pacific follows with a modest increase in the share of money laundering from 29.7% in 2000 to 31.5% in 2005. Europe's share of total money laundering decreased slightly from 27.8% in 2000 (of all laundered proceeds) to 26.0% in 2005.

Annual money-laundering by region, billion USD (2000-2005)

Region	2000		2002		2005 ¹⁾	
America	313	37.8 %	328	38.3 %	350	37.7 %
Asia-Pacific	246	29.7 %	254	29.7 %	292	31.5 %
Europe	230	27.8 %	234	27.3 %	241	26.0 %
Middle East / Africa	38	4.6 %	40	4.7 %	44	4.7 %
Total	827	100.0 %	856	100.0 %	927	100.0 %
In % of GDP	2.7 %		2.6 %		2.0 %	

Source: UNODC (2011, p. 33) and own calculations; 1) projection.

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Table “Cross-border flows of global ‘dirty money’” shows the cross-border flows of global “dirty money” in trillion USD over the period 2000 to 2005. This includes financial and tax fraud money and all money which leaves a country for a criminal reason. Table “Updated FATF model of global amounts laundered” shows that the overall amount of dirty money laundered varies from 1.1 to 1.6 trillion USD between 2000 and 2005 and increases to 1.7 to 2.5 trillion USD in the year 2009. This is quite a large sum and it accounts for between 2.9% and 4.3% of world GDP. Moreover, 10.0% to 15.0% of this sum takes the form of cash. The classical criminal component lies only between 27.0% and 31.0% of total dirty money. Hence, it is clear that money resulting from capital flight and tax fraud is by far the biggest proportion of dirty money.

Cross-border flows of global 'dirty money' (including financial and tax fraud) in trillion USD, shown as a percentage of average GDP over the 2000-2005 period; cash 10-15%

Variable	2000-2005			extrapolated to 2009		
	low trillion	high trillion	in % of GDP 2000-2005	low trillion	mid-point trillion	high trillion
Overall amounts laundered	1.1	1.6	2.9%-4.3%	1.7	2.1	2.5
of which criminal component	0.3	0.5	0.9%-1.5%	0.5	0.7	0.9

Source: UNODC (2011, p. 34) and own calculations.

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Table "Proceeds of transnational crime and the use of cash" shows the different types of proceeds from transnational crime (from 2003 to 2009) as well as their shares of total proceeds. Here we have clear-cut results: Drugs are the biggest business with 50.0% of the total, followed by counterfeiting with 39.0%, human trafficking with 5.0% and oil with 2.0%. The proceeds from all other types of crime are much lower. In total we have a sum of approximately 650 billion USD, which amounts to 1.1% of global GDP in 2009. The drug business is also the most cash-intensive activity, with a cash share of 80.0%. Counterfeiting proceeds consist of 30.0% cash, the proceeds from human trafficking are 50.0% cash, whereas illicit trading in oil involves only 10.0% cash.

Proceeds of transnational crime and the use of cash (time range 2003-2009)

Type of Crime	billion USD	in % of total proceeds	Sources
1 Drugs (cash 80 %)	320	50.0 %	UNODC, World Drug Report, Washington D.C., 2005 (data refer to 2003)
2 Counterfeiting (cash 30 %)	250	39.0 %	OECD, Magnitude of Counterfeiting and Piracy of Tangible Products, Paris, 2009
3 Human trafficking (cash 50 %)	31.6	5.0 %	P. Belser (ILO), Forced Labor and Human Trafficking: Estimating the Profits, 2005
4 Oil (cash 10 %)	10.8	2.0 %	GFI estimate based on Baker 2005 (quantities) and US Energy Information Administration (prices: 2003-2010)
5 Wildlife (cash 50 %)	7.8-10	1.4 %	GFI estimate based on Francesco Colombo, "Animal Trafficking - A Cruel Billion-Dollar Business," Inter Press Service, September 6, 2003; Coalition Against Wildlife Trafficking, World Wildlife Fund
6 Timber (cash 50 %)	7.0	1.1 %	GFI estimate for 2009 based on Wood Resources International, OECD, Paris, various years
7 Fish (cash 50 %)	4.2-9.5	1.1 %	GFI estimate for 2010, based on Norwegian national advisory group - against organized IUU-fishing (FFA) and United Nations Food and Agriculture Organization
8 Art and cultural property (30 % cash)	3.4-6.3	0.8 %	GFI estimate based on Interpol, International Scientific and Professional Advisory Council of the United Nations Crime Prevention and Criminal Justice Programme
9 Gold	2.3	0.4 %	GFI estimate based on estimates from UNODC, 2010 and other sources on illegal gold trade in DRC, South Africa and Peru
10 Human organs (cash 50 %)	0.6-1.2	0.1 %	GFI estimate based on United Nations
11 Small arms and light weapons (cash 70 %)	0.3-1.0	0.1 %	GFI estimate based on Small Arms Survey and UNODC
12 Diamonds and coloured gemstones	0.9	0.1 %	GFI estimate for 2009 based on UN, Kimberley Process: Rough Diamond Statistics and US Geological Survey
Total (1)-(12) (midpoint estimates)	645	100.0 %	Own calculations
Total (1)-(12) rounded	650	-	Own calculations
In % of global GDP in 2009	1.1 %	-	Own calculations
In % of average global GDP, 2000-2009	1.5 %	-	Own calculations

Source: UNODC (2011, p. 36) and own remarks.

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Finally, in Table "Estimates of worldwide turnover of organized crime" the various estimates or "guesstimates" of worldwide turnover of organized crime in billion USD are shown. Table "Estimates of worldwide turnover of organized crime" clearly shows a huge range and it is left to the reader to make his or her own judgment of plausibility. The median of all estimates is 1,900 billion USD for the year 2009, and the 2009 average is 2,100 billion USD or 3.6% of world GDP. The confidence interval lies between 1,600 and 2,600 billion USD or 2.7% to 4.4%.

Estimates of worldwide turnover of organized crime, billion USD and as a percentage of GDP

Origin/study	Year	Volume in bill USD (worldwide)	Percentage of global GDP
M. Schuster	1994	500-800	0.9% - 3.0%
International Monetary Fund and Interpol	1996	500	1.6%
UN estimates	1994/98	700-1,000	2.4%-3.4%
S. Kerry	1997	420-1,000	1.4%-3.3%
J. Walker	1998	2,850	9.5%
National Criminal Intelligence Service	1998	1,300	4.3%
	2001	1,900	5.9%
	2003	2,100	5.6%
E. Takats (2009)	2005	600-1,500	1.3%-3.3%
J.D. Agarwal and A. Agarwal (2006)	2005	2,000-2,500	4.4%-5.5%
Global Financial Integrity (2011) (estimate for transnational crime)	2000-2009	650	1.5%
J. Walker (based on J. Walker and B. Unger) (2009)	2001	1,000	3.4%
Median of all estimates ¹⁾	2009	1,900	3.3%
Inter-quartile range of all estimates ¹⁾	2009	1,500-2,400	2.6%-4.1%
Average of all estimates ¹⁾	2009	2,100	3.6%
Confidence interval of the mean (95%) ¹⁾	2009	1,600-2,600	2.7%-4.4%

1) extrapolated to global GDP in 2009. For exact sources of the individual estimates see UNODC (2011, p. 38).

Sources: adapted from UNODC (2011, p. 38).

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National Crime Proceeds

United States of America

In Table “Estimated earnings from criminal activity” in the United States” the estimated earnings from criminal activities for the United States are shown over the period 1965 to 2010. Table “Estimated earnings from criminal activity in the United States” contains two series: estimated criminal income including financial and tax fraud proceeds and estimated criminal income excluding financial and tax fraud proceeds (share of cash in these proceeds on average 40.0%). In absolute figures one observes a strong increase from 49 billion USD in 1965 to 1,043 billion USD in 2010. If one standardizes these figures in percent of GDP, one observes a modest increase up to the year 2000; it was 6.8% in 1965 and 8.0% in 2000, then it decreased to 7.0% in 2010. If one considers the ratio of traditional criminal income in percent of total illicit income (criminal plus financial and tax fraud income), one realizes that classical criminal income ranges between 29.0% in the years 2000 and 2010 and a maximum of 49.0% in 1985. This clearly shows that financial and tax fraud is again by far the largest crime figure in the US.

Estimated earnings from criminal activity¹⁾ in the United States, billions of current USD (1965-2010)

Year	Financial and tax fraud included		Criminal income (financial and tax fraud excluded) (average cash 40%)		Ratio of criminal income in total illicit income
	Estimated criminal income	in % of GDP	Estimated criminal income	in % of GDP	
1965	49	6.8 %	18	2.5 %	37 %
1970	74	7.1 %	26	2.5 %	35 %
1975	118	7.2 %	45	2.7 %	38 %
1980	196	7.0 %	78	2.8 %	40 %
1985	342	8.1 %	166	4.0 %	49 %
1990	471	8.1 %	209	3.6 %	44 %
1995	595	8.0 %	206	2.8 %	35 %
2000	779	8.0 %	224	2.3 %	29 %
2010 ²⁾	1,043	7.0 %	300 (235-350)	2.0 % (1.6 %-2.3 %)	29 %

1) Criminal activities include: trafficking in illicit drugs, human trafficking, burglary, larceny-theft, motor vehicle theft, robbery, fraud, arson, non-arson fraud, counterfeiting, illegal gambling, loan sharking and prostitution. Tax evasion and tax fraud crimes include federal income, federal profits and excise tax evasion.
2) Tentative UNODC estimate based on previous estimates and trends derived from new drug and crime data.

Source: UNODC (2011, p. 20) and own remarks.

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Australia

Table “Estimated criminal proceeds in Australia” shows select figures for Australia, demonstrating that fraud, drugs and shoplifting are the three biggest types of crime in Australia. In total, the criminal proceeds in Australia reached 10.9 billion Australian dollars or 7.1 billion USD in 2003 (minimum estimates), ranging between 1.5% (2003) and 2.8% (1998) of Australian GDP. Table 3.9 shows the cash shares of the different criminal activities. Theft, stealing from persons and burglaries have the largest cash shares at 95.0%, 90.0% and 90.0%, respectively, followed by drug activities and robbery and extortions with a cash share of 70.0%. The lowest use of cash can be found in the areas of fraud and car theft, at only 30.0%.

Estimated criminal proceeds in Australia, million AUD (1998 and 2003)

Illegal Activities	2003 (revised estimates)		Mid-point estimates in % of GDP	
	min	max	1998	2003 (rev.)
1 Fraud (30 % cash)	3,000	3,500	1.8 %	0.4 %
2 Drugs (70 % cash)	2,000		0.2 %	0.3 %
3 Theft (95 % cash)	2,500		0.3 %	0.4 %
4 Shoplifting (50 % cash)	1,020	2,460		0.2 %
5 Car theft (30 % cash)	654			0.1 %
6 Stealing from persons (90 % cash)	545			0.1 %
7 Other theft (50 % cash)	659			0.1 %
8 Burglaries (breaking and entering) (90 % cash)	1,193		0.2 %	0.2 %
9 Assaults	979		0.1 %	0.1 %
10 Homicide	323		0.0 %	0.0 %
11 Property damage	510		0.2 %	0.1 %
12 Robbery and extortion (70 % cash)	37		0.0 %	0.0 %
Total (1)-(12) in million AUD	10,920	12,860	2.8 %	1.5 %
Total (1)-(12) in million USD	7,100	8,300		
In % of GDP	1.4 %	1.6 %		

Sources: adapted from UNODC (2011, p. 24) and own remarks.

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Netherlands

Table “Estimated unlawful earnings in the Netherlands” shows the criminal proceeds for the Netherlands. Again, the remarkable result can be seen that 73.3% of all criminal proceeds come from financial, social security and tax fraud, followed by drugs at 12.4% and illegal workers at 3.1%. In the Netherlands, criminal proceeds range from 11.0 to 19.0 billion euros, or between 2.6% and 4.3% of official GDP. Table “Estimated unlawful earnings in the Netherlands” also shows the different cash shares of the various criminal activities in the Netherlands. As in Australia, theft and burglary have the highest cash shares at 95.0% and 90.0%, respectively. The drug business and illegal workers have a cash share of 70.0%, prostitution has a share of 60.0% and illegal gambling and copying involves only 30.0% cash.

Estimated unlawful earnings in the Netherlands, million EUR (2003)

Type of Crime	Proceeds of crime, million €	Proceeds of crime mid-point estimates as % of total
1 Financial, social security and tax fraud ¹⁾	7,735 - 15,450	73.3%
2 Drugs (cash 70 %)	1,960	12.4%
3 Illegal workers (cash 70 %)	490	3.1%
4 Prostitution (cash 60 %)	460	2.9%
5 Theft (cash 95 %)	345	2.2%
6 Burglary (cash 90 %)	340	2.1%
7 Fencing	190	1.2%
8 Illegal gambling (cash 30 %)	130	0.8%
9 Illegal copying (cash 30 %)	90	0.6%
10 Computer-crime	26	0.2%
11 Violent offences	6	0.0%
12 Other offences	187	1.2%
Total (1)-(12) in million EUR	11,959 - 19,674	
Total (1)-(12) in million USD	13,500 - 22,300	
As a percentage of GDP	2.6 % - 4.3 %	

1) based on the assumption that between 5% and 10% of the total amounts were discovered and reported.

Source: Unger (2007, p. 66) and own remarks.

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Italy

Finally, Table “Estimates of the income and profits of organized crime in Italy” shows criminal proceeds in Italy. Criminal proceeds from drugs are by far the largest amount at 60.0 billion euros, followed by ecomafia/agromafia activities at 16.0 billion euros and loan sharking at 15.0 billion euros. Total income from criminal proceeds is 135.0 billion euros or 8.9% of Italian GDP – quite a high figure. Additionally, Table 3.13 shows the share of cash in the different types of organized crime in Italy. Prostitution, at 60.0–80.0%, and arms trafficking, at 70.0%, are the most cash-intensive activities, followed by theft and robbery at 50.0–70.0% and drug trafficking, human trafficking and gambling at 50.0%.

Estimates of the income and profits of organized crime in Italy (2009)

Income	In billion EUR	
1 Trafficking drugs (50 % cash)	60.00	
2 Trafficking in human beings (50 % cash)	0.87	
3 Arms trafficking (70.0 % cash)	5.80	
4 Smuggling	1.20	
Subtotal trafficking (1)-(4)		67.87
5 Protection racket	9.00	
6 Loan sharking (usury)	15.00	
Subtotal, predatory activities' (5)+(6)		24.00
7 Theft and robbery (cash 50-70 %)	1.00	1.00
8 Procurement	6.50	
9 Agro-crime	7.50	
10 Games and gambling (50.0 % cash)	2.50	
11 Counterfeiting	6.50	
12 Illegal construction	2.00	
Subtotal - illegal economic activities (7)-(12)		25.00
13 Ecomafia/agromafia	16.00	16.00
14 Prostitution (cash 60-80 %)	0.60	0.60
15 Financial gains	0.75	0.75
Total income in bn EUR (1)-(15)	135.22	135.22
Total income in bn USD (1)-(15)		188.58
Total income in % of GDP		8.9 %

Source: adapted from UNODC (2011, p. 26) and own remarks.

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Costs and proceeds of cybercrime – the latest development in international organized crime

According to Anderson et al. (2013), in the last 10 to 15 years cybercrime has originated from white-collar crimes. In 2007, the European Commission defined cybercrime as follows:

- traditional forms of crime such as fraud or forgery, though committed over electronic communication, networks and information systems;
- the publication of illegal content over electronic media; and
- crimes unique to electronic networks.

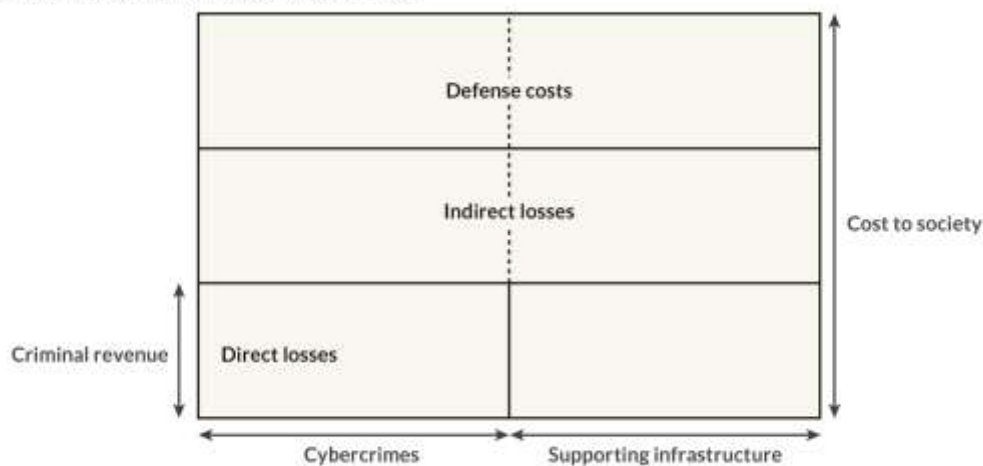
Today, cybercrime takes many forms, such as online banking fraud (phishing), fake anti-virus software, fake computer programs and fake error messages. In a first systematic paper, Anderson et al. (2013) make an initial attempt to measure the cost of cybercrime and/or the criminal proceeds from some types of cybercrime. Cybercrime is a rather new development and is certainly becoming increasingly important. What type of cybercrime costs can be observed? Anderson et al. (2013, p. 269) state the following four:

- costs in anticipation of cybercrime, such as antivirus software, insurance and compliance;
- costs as a consequence of cybercrime in the form of direct losses and indirect costs, such as weakened competitiveness as a result of intellectual property compromise;
- costs in response to cybercrime, such as compensation payments to victims and fines paid to regulatory bodies; and
- indirect costs such as reputational damage to firms, loss of confidence in cyber transactions by individuals and businesses, reduced public-sector revenues and the growth of the underground economy.

These types of costs are shown in Figure “Framework for analyzing the cost of cybercrime”, which depicts the framework used by Anderson et al. to analyze the costs of cybercrime and some criminal revenues. From Figure “Framework for analyzing the cost of cybercrime”, one clearly sees that criminal revenues or criminal proceeds can be derived from the direct losses of the victims of cybercrime. Direct losses (or proceeds of national or transnational criminal activities) include:

- money withdrawn from victims’ accounts;
- stolen software; and
- faked financial transactions.

Framework for analyzing the costs of cybercrime



Source: Anderson, et al. (2013, p. 270).

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What does one know about the costs (and, to some extent, proceeds of criminal activities) in the area of cybercrime? Anderson et. al (2013, pp. 294–295) provide an interesting table (Table “An estimation of the various cost components of cybercrime”) giving a first estimation of the costs (and, in part, proceeds) of cybercrime.

Considering the four cost components shown in Table “An estimation of the various cost components (partly proceeds) of cybercrime” (costs of genuine cybercrime, costs of transitional cybercrime, costs of cybercriminal infrastructure, costs of cybercrime against public institutions), one clearly sees that Component 4 (cost of crime against public institutions, i.e. welfare and tax fraud) becoming “cyber” is by far the largest, covering 67.5% of all costs of cybercrime, corresponding to an estimated global total of 150.2 billion USD. Looking at the global estimates of the other components of cybercrime, one sees that the costs of “genuine cybercrime” worldwide are 3.5 billion USD, or 1.6% of the total costs of cybercrime. The 3.5 billion USD can also be seen as the major part of the proceeds of genuine cybercrime activities. If one considers Component 2 (costs of transitional cybercrime), one sees that it amounts to 44.2 billion USD or 19.8% of the total costs of cybercrime. At 24.8 billion USD, the costs of cybercriminal infrastructure are quite sizable as well; they amount to 11.9% of the total costs. As already noted, the costs of traditional crimes becoming cyber are, at 150.2 billion USD, the largest part of the costs of cybercrime. Again, this could at least partly be seen as the criminal proceeds from cybercrime activities in these areas, especially tax fraud. In general, Table 3.14 clearly demonstrates that the costs and proceeds of cybercrime activities are sizable. They will certainly rise in the future because using electronic networks for criminal activities is becoming more and more attractive.

An estimation of the various cost components (partly proceeds) of cybercrime

Type of cybercrime	UK Estimate (in bn USD)	Global Estimate (in bn USD)	Reference-period	Criminal revenue	Direct losses	Indirect losses	Defense cost
1. Cost of genuine cybercrime							
Online banking fraud							
• phishing	0.016	0.32	2007	x?	x?		
• malware (consumer)	0.004	0.07	2010	x↓	x↓		
• malware (businesses)	0.006	0.20		x↓	x↓		
• bank tech. countermeasures	0.050	1.00	2010				x?
Fake antivirus	0.005	0.10	2008-10	x↑	x↑		
Copyright-infringing software	0.001	0.02	2010	x↑	x↑		
Copyright-infringing music etc.	0.007	0.15	2011	x↓			
Patent-infringing pharma	0.014	0.29	2010	x			
Stranded traveler scam	0.001	0.01	2011	x↓			
Fake escrow scam	0.010	0.20	2011	x↓			
Advance-fee fraud	0.050	1.00	2011	x↓			
SUM of 1 in bn USD (in % of total costs)	0.164 (0.9 %)	3.50 (1.6 %)					
2. Cost of transitional cybercrime							
Online payment card fraud	0.21	4.20	2010		(x)		
Offline payment card fraud							
• domestic	0.11	2.10	2010		x↓		
• international	0.15	2.94	2010		x↓		
• bank / merchant defense costs	0.12	2.40	2010				x↓
Indirect costs of payment fraud							
• loss of confidence (consumers)	0.70	10.00	2010			x?	
• loss of confidence (merchants)	1.60	20.00	2009			x?	
PABX fraud	0.19	4.96	2011	x↑	x↓		
SUM of 2 in bn USD (in % of total costs)	3.07 (6.7 %)	44.20 (19.8 %)					
3. Cost of cybercriminal infrastructure							
Expenditure on antivirus	0.17	3.40	2012				x↑
Cost to industry of patching	0.05	1.00	2010				x?
ISP clean-up expenditures	0.00	0.04	2010			x?	
Cost to users of clean-up	0.50	10.00	2012			x?	
Defense costs of firms generally	0.50	10.00	2010				x?
Expenditure on law enforcement	0.02	0.40	2010				x↑
SUM of 3 in bn USD (in % of total costs)	1.24	24.84 (11.9 %)					
4. Costs of cybercrime against public institutions							
Welfare	1.90	20.00	2011	x↑	(x)		
Tax fraud	12.00	125.00	2011	x?	(x)		
Tax filing fraud	--	5.20	2010	x↑	(x)		
SUM of 4 in bn USD (in % of total costs)	13.90 (75.7 %)	150.20 (67.5 %)					
SUM of 1 - 4 in bn USD (in % of total costs)	18.37 (100 %)	222.70 (100 %)					

Estimating costs and scaling: Figures in boldface are estimates based on data or assumption for the reference area. Unless both figures in a row are bold, the non-boldface figure has been scaled using the UK's share of world GDP. Extrapolations from UK numbers to the global scale should be interpreted with utmost caution. A threshold to enter this table is defined at \$10m for the global estimates.

Legend: x: included, (x): partly converted; with qualifiers x↑ for likely over-estimated, x↓ for likely underestimated, and x? for high uncertainty.

Source: Anderson et al. (2013, pp. 294-295).

IV Globalization of Transnational Organized Crime

Chapter III nicely demonstrates that there has been a remarkable increase in transnational organized crime proceeds and that they are spread all over the world. It bears repeating that it is very difficult to arrive at precise figures and that the figures might include severe double- or triple-counting, as money from criminal activities is quite often detected or present in one country, but has come from another country where it has already been counted. Hence, one should be very careful when interpreting these rather large figures. Yet the general development, especially the increase from 2000 on, clearly shows that there has been a globalization of criminal activities and that they represent 1% to 3% of world GDP, a sizeable figure which should be of concern by all policy makers. The globalization of transnational organized crime is a consequence of the globalization of legal activities; obviously criminals also take advantage of capital, goods and service markets that are open and free in order to optimize their proceeds. Due to the different legal systems, it is quite easy for them to transfer these criminal proceeds around the world using fake firms or shell companies, to “whitewash” the proceeds and then invest them as “legal” proceeds. The globalization of money from criminal activities is an important development that requires our attention. We should see this as a challenge for all of the world’s governments.

V The Influence of the Shadow Economy, Tax Evasion and Transnational Organized Crime on the Global Economy

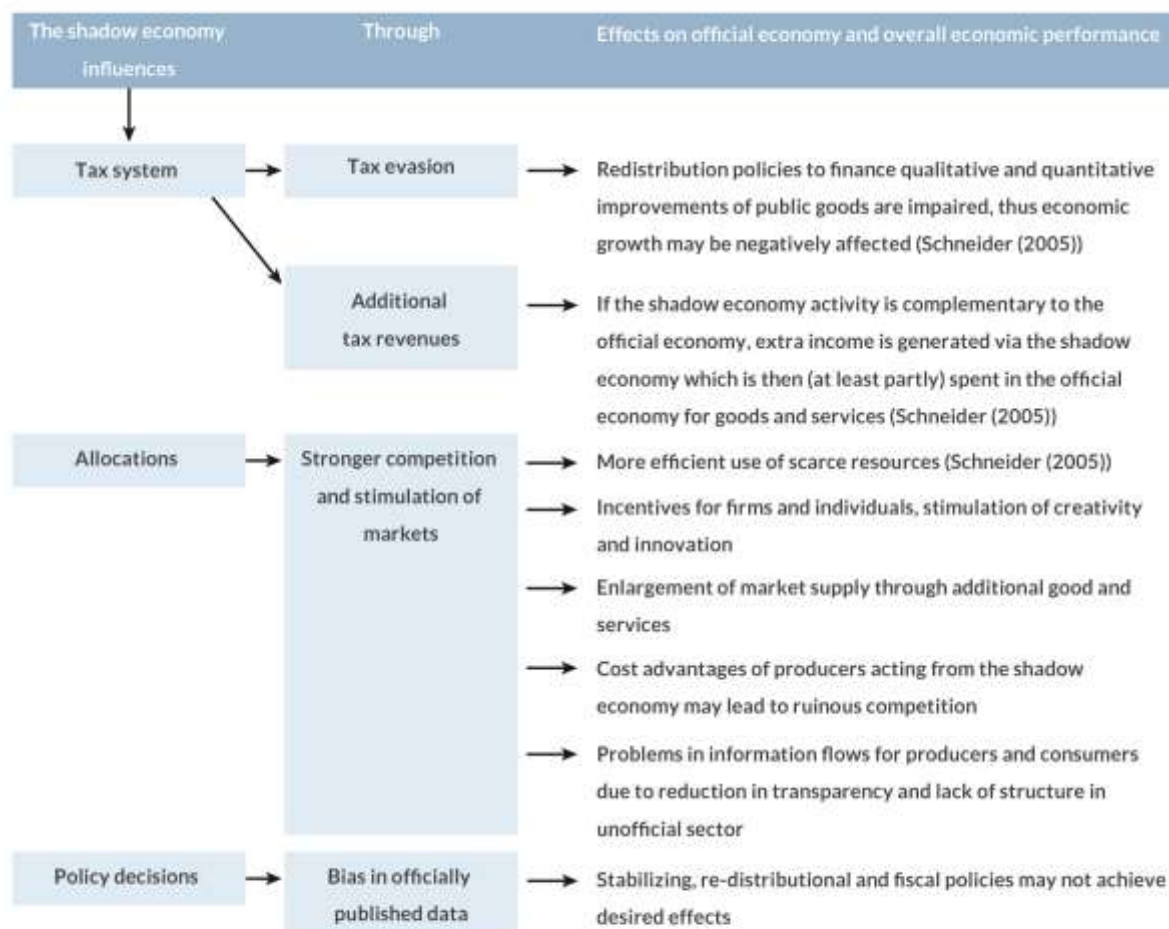
1. The Shadow Economy

It is not clear a priori whether the shadow economy promotes or harms economic growth. On the one hand, lower tax collections due to leakages into the informal or underground sector would reduce direct and indirect government spending, while also adversely affecting the incentives of tax-paying firms. This would cause economic growth to decline and an expansion of the informal sector. On the other hand, the informal sector might provide greater competition to and be more efficient than the formal sector, possibly resulting in greater economic growth. Among other effects, the presence of the shadow economy enables formal-sector firms to outsource services cheaply and evade stringent regulations. Not only are these theoretically opposite effects ambiguous, the resulting empirical evidence regarding the effects of the informal sector on economic growth is also ambiguous (see Schneider and Enste 2000).

Obviously there are many interactions between the official (registered) and unofficial (shadow) economies. Therefore, it is not surprising that there is a continuous interaction between these two economies. Schneider (2005, 2010) emphasizes that the official part of the economy could never work efficiently if it were totally separated (disentangled) from the unofficial part. A study carried out by the OECD highlights these concerns further, namely that the shadow economy permanently competes with the official economy; on the other hand, Lubell (1991) and Schneider (2005) state that the formal and informal economies also complement each other. Other studies such as those by Besozzi (2001) and Schneider (2005) show that a certain influence by the shadow economy on the efficient functioning and development of the official economy cannot be denied.

In principle, these interactions stem from three main topics that are influenced by the shadow economy, namely taxation, general locations and biased effects of economic policies. The interactions and their effects originating from these three main sources are shown in Table “Interactions between the shadow and official economies”.

Interactions between the shadow and official economies



For a more detailed discussion on outcomes of economic policy based on biased data, see McGee and Feige (1989), Fleming, Romari, and Farrell (2000),

Schneider (2005, 2010), Schneider and Enste (2002).

Source: Schneider and Hametner (2014, p. 298).

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An answer can only be given after a careful empirical analysis is undertaken for each country. One major result of the analysis is that the positive effects may dominate in a shadow economy of below 10% to 12%, but shadow economies that are larger, which is the case for the world's major countries, certainly harm development of the official economy.

2. Transnational Organized Crime

As we saw in Chapter III, 1.4 trillion US dollars, or 2.5% of world GDP, resulted from all types of transnational crime in 2009 on a global basis (UNODC 2011, pp. 31–32). These figures are preliminary and have quite a large margin of error, but they still give a clear indication of how important money laundering and the turnover from transnational crimes currently are. Obviously, transnational crime has a negative effect in the countries where it happens. All criminal activities do more harm than good, except to those who receive the funds and are able to spend them. On the other hand, whitewashed money is reinvested in other countries and, if it is not detected as stemming from criminal activity, produces further economic growth and well-being. Hence, it is difficult to draw a clear-cut conclusion here as well. Obviously, crime creates huge costs and much more than the benefits from the reinvested money. At the same time, the costs and benefits are distributed disproportionately. Quite often whitewashed money is reinvested in highly developed

OECD countries where legal profits are the highest. Hence, these countries profit from crime proceeds too. As we have seen, the laundered crime proceeds can easily range up to 500 billion US dollars, which means this effect is not negligible. On the other hand, the costs to individual countries in the form of additional judicial and prison systems are tremendous, in addition to the considerable damage done by the criminal activity itself and the impact on victims. There is not sufficient space here to provide additional figures on the costs of prevention, which would have to be examined country by country to be meaningful. Yet these general remarks clearly show the considerable burden criminal proceeds have on countries all over the world. A prime goal should therefore be to reduce these criminal activities.

VI Concluding Remarks and Policy Recommendations

1. Concluding Remarks

Organized crime has gone global and created a dark side to our world economy. Shadow economies and tax evasion have spread all over the world, as have international and transnational crime and the resulting proceeds. In a globalized world we should be aware of these facts.

What can we learn from these facts?

- Crime and tax evasion create huge costs to our societies and countries and major efforts should be undertaken to reduce them.
- In order to do this, much stronger and more efficient institutional cooperation is needed. Not only is an efficient and quick exchange of data necessary, international prosecutors must be able to investigate in different countries.
- Only when countries cooperate better internationally will it be possible to effectively fight international crime.

What concrete steps can be taken? Policy recommendations are made in Section 6.2 to reduce the shadow economy and tax evasion; recommendations for reducing organized crime are made in Section 6.3.

2. Policy Recommendations for Reducing the Shadow Economy and Tax Evasion

In every country the government faces the challenge of undertaking policy measures which reduce the shadow economy and tax evasion. However, the crucial question is, is this a blessing or a curse? Possible answers are:

- If one assumes that roughly 50% of all shadow economy activities complement those of the official sector (i.e. those goods would not be produced in the official sector), then the development of total (official + shadow economy) GDP is always higher than the official amount.
- A decline in the shadow economy will only increase a country's total wealth if policy makers succeed in transferring the shadow economy activities into the official economy, because the value added of most activities in the shadow economy is equivalent to the value added of official activities.
- Therefore, policy makers should choose policy measures that strongly increase the incentives to transfer production from the shadow economy to the official sector. Only then will the decline in the shadow economy benefit the entire economy.

What steps could one take?

- One strategy for reducing the shadow economy is lowering unemployment through economic policy. Unemployment can be reduced when the government increases spending on public infrastructure and on education. A primary effect here is that more people are needed in the economy, especially in the construction sector (a sector in which we observe a high shadow economy). Secondly, if they are better educated, people can more easily find a job. Government can also improve the country's competitiveness by investing in infrastructure and education, making it attractive for foreign investment.
- The impact of self-employment on the shadow economy is only partly controllable by the government. Governments can deregulate the economy and make self-employment easier, thereby incentivizing people to become their own entrepreneurs. This would potentially reduce unemployment and positively contribute to efforts to control the size of the shadow economy. If the government succeeds in increasing self-employment, the probability that the self-employed will create additional jobs is high, and when creating one's own business in a country is worthwhile, then it is also worthwhile to stay legal and enjoy the greatest profit from it. Hence, this also reduces shadow economy activities.
- These two policies need to be accompanied by the strengthening of institutions and trust in public institutions (especially in developing countries!) to reduce the probability that the self-employed shift a substantial share of economic activities into the shadow economy. Good governance and effective functioning of public institutions are essential for a market economy and crucial for preventing people from going underground. Especially in developing countries, great emphasis should be put on ensuring government institutions function and corruption is low – essential factors for getting the official economy to grow.
- In addition to these measures, policy makers should focus on reducing overall taxation, especially indirect taxation and customs duties. Reducing the overall tax burden is a key policy recommendation for highly developed OECD countries, because a high tax and social security burden is the driving force causing people to work in the shadow economy and evade taxes. In developing countries, the lowering of customs duties and indirect taxation is perhaps the most important policy instrument for reducing the shadow economy and tax evasion.
- Equally important is the quality of institutions (again, especially in developing countries), i.e. creating democratic and transparent institutions with lesser regulatory burden, corruption and bureaucracy in order to restore people's trust and confidence in public institutions.
- Another step is reducing administrative burden on business by simplifying the procedures for obtaining licenses, accelerating the release of documents required for entrepreneurship, reducing bureaucratic barriers and increasing the transparency of the relevant processes.
- Finally, policy makers can discourage the use of cash by increasing the popularity of electronic payments. Key measures in this regard should focus on: development of adequate infrastructure for bank cards and other electronic payments, particularly in the service sector and in rural areas (especially in developing countries); creating incentives for companies that encourage their customers to use electronic payments and that pay the salaries of their employees into a bank account (again, especially in developing countries); and organizing unscheduled inspections in companies to verify that card terminals and other related infrastructure work correctly.

What type of policy conclusions can one now draw?

- The shadow economy and tax evasion are a complex phenomenon present to a large extent in all types of economies. People engage in tax evasion and activities in the shadow economy for a variety of reasons resulting from government actions, most notably taxation and regulation, and the non-functioning of public institutions (especially in developing countries).
- From a public choice perspective, a second conclusion is that governments may not have a great interest in reducing the shadow economy due to the fact that: income earned in the shadow economy, especially in developing countries, provides a minimum standard of living to one-third of the working population; between 40 and 50 percent of shadow economy activities have a complementary character, which means that additional value added is created and this increases overall (official and unofficial) GDP; and at least two-thirds of the income earned in the shadow economy is immediately spent in the official economy and, hence, has a stabilizing function.

3. Policy Recommendations for Combating Transnational Crime

From our results and discussion in Chapter 3 we can draw nine concluding policy recommendations:

- The proceeds from transnational crime are extremely difficult to estimate scientifically. They are defined differently in almost every country, the measures taken against them are different and vary from country to country, and it is not at all clear which portion of revenues from transnational crime stays in a country.³
- Hence, we have no or little empirical evidence whether these dirty or “whitewashed” financial proceeds “stay” in a country or are transferred to other countries, resulting in a severe double-counting problem.⁴ To repeat, it is crucial that better data be collected on the proceeds, profits and turnover of organized crime. Research here is urgently needed to standardize the figures and make them comparable, so that we have a reliable basis for making policy recommendations. Certainly, this would be a job for the IMF, World Bank or United Nations in collaboration with university research institutes.
- Reducing transnational crime activities is very difficult, as there are no efficient and powerful international organizations which cooperate to effectively fight transnational crime. The concrete policy recommendation is therefore to strengthen international organizations in the effort to fight organized crime. This means relinquishing some state power and giving international organizations the right to work within individual countries as quickly and efficiently as needed.
- Governments should set the key goal of reducing tax fraud and/or other illegal cross-border capital flows on the national and international levels, e.g. the rigorous fight against tax havens should be given high priority.

³ The definition of money laundering varies considerably from country to country, and there are also no internationally organized efforts to fight money laundering. The result is that little has been done so far.

⁴ Some first attempts have been made, for example by the FATF and sub-organizations of the UN (see UNODC 2004, 2005; FATF 2004, 2005a, 2005b, 2006).

- Cash is still used for many criminal activities because it cannot be traced. A reduction in cash can reduce criminal activities by increasing transaction costs, but as the profits of criminal activities would still be very high, the reduction would be modest (5% to 10% at most). The policy recommendation here is not to abolish cash, because this would not be an efficient means of fighting tax evasion and the shadow economy, and especially not organized crime; the recommendation is to reduce criminal activities at their source.
- In order to be more efficient in fighting transnational crime, the various national criteria (how to define money laundering, tax evasion and other criminal activities) should be harmonized in such a way that there is a precise understanding of what aspect of criminal activity is being dealt with.
- All countries should agree to an automatic information exchange on tax fraud and other criminal activities, as well as on criminal figures.
- An effective instrument for penalizing those countries that do not cooperate would be excluding them from the SWIFT system, which is needed for transferring money internationally.
- Another more controversial step would be legalizing drugs and prostitution, two of the most widespread crimes. If the drug business were legalized, it would be possible to reduce its turnover of over 500 billion US dollar considerably (by 50%). One argument in favor of this step is that one can legally drink as much alcohol as one wants, but it is illegal to take drugs. The same is true of prostitution.

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Migration and Globalization – Forms, Patterns and Effects

Thanos Dokos

I Introduction

Starting with the slow outward movement of our common African ancestors, migration is as old as humanity itself and played an important role in the evolution of culture and civilization. Without migrants spreading their various cultures, languages, religions, customs, ideas and ways of life, the course of world history most certainly would have evolved quite differently. As the global population increased from 3.7 billion in 1970 to 7.2 billion today, globalization, economic inequalities and demographic developments have contributed to sizeable migratory flows, predominantly from the Global South to the Global North. Europe is faced today with a conflict zone stretching across the Middle East and North Africa, and with several fragile countries, rapidly growing populations, rising urbanization and huge economic inequalities in sub-Saharan Africa and South Asia.

Europe is currently faced with daunting challenges: monitoring and protecting its borders, managing migration flows, attracting skilled labor to address its economic needs, managing tension with migrant communities (especially Muslim ones) to protect social cohesion and stability and integrating those communities to the greatest extent possible. There appears to be a divergence between the economic rationale, on the one hand, and the social cohesion and internal security rationales, on the other, in the context of a European migration policy. In principle, demand for labor might encourage a more liberal attitude toward economic migrants from the Global South, and/or the development of new guest-worker arrangements with North African and other states in Europe's extended southern neighborhood, on a national or European level. As a result of current trends, European economies may benefit while social cohesion and internal stability may deteriorate. Migration pressures are expected to become more acute in the future.

This evolving refugee/migration crisis, if not successfully managed, may become an existential threat for an EU already weakened by euroskepticism, the financial crisis and Brexit. There seems to be a new division inside the Union, between a German-led group supporting a European solution to the refugee problem and the Visegrad group and like-minded countries, as well as far-right political parties across Europe, arguing in favor of fences and a Europe-fortress mentality.

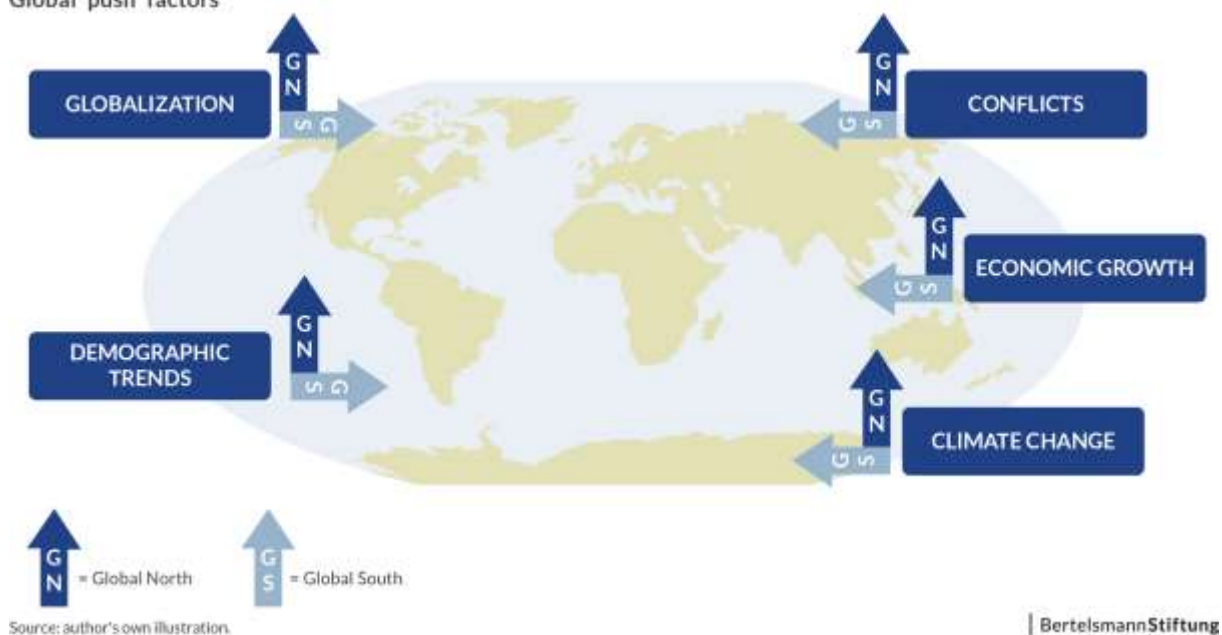
Using a scenario-based approach, this paper will briefly explore the relationship between globalization and migration, and the impact of globalization and other main trends and drivers on population movements. Then it will make an effort to answer two key questions: (1) What are the emerging or new patterns of migration? (2) What do future scenarios of migration look like and what do they imply? In this context, a number of more specific issues will be addressed, including the impact of globalization on migration, brain-drain phenomena and integration policies.

The paper will conclude with a summary of main findings and a short list of policy recommendations as to how decision makers in the EU could incorporate best practices and ideas into policy-making and how the Union should pursue or deal with the effects of globalization and migration to respond to current and emerging challenges.

II Global and European Trends and Drivers¹ Affecting Migration

The pace and direction (in order to cover not only the “core” but also the “gap”) of globalization is only one of several trends and drivers influencing population movements, albeit an important one. Others include (a) global and regional demographic trends (especially regional population increase/decrease and the pace of urbanization); (b) the state of the global economy (will the rise of the rest continue? If yes, this may significantly affect South-South migration); (c) the number and intensity of regional, interstate and intrastate conflicts; and (d) the impact of climate change. It is also argued that the “migration weapon” has been used by transit states (like Iran or Turkey) and non-western great powers (like Russia) to instrumentalize the flows for political reasons. If this is indeed the case, similar actions may be repeated in the future.

Global 'push' factors



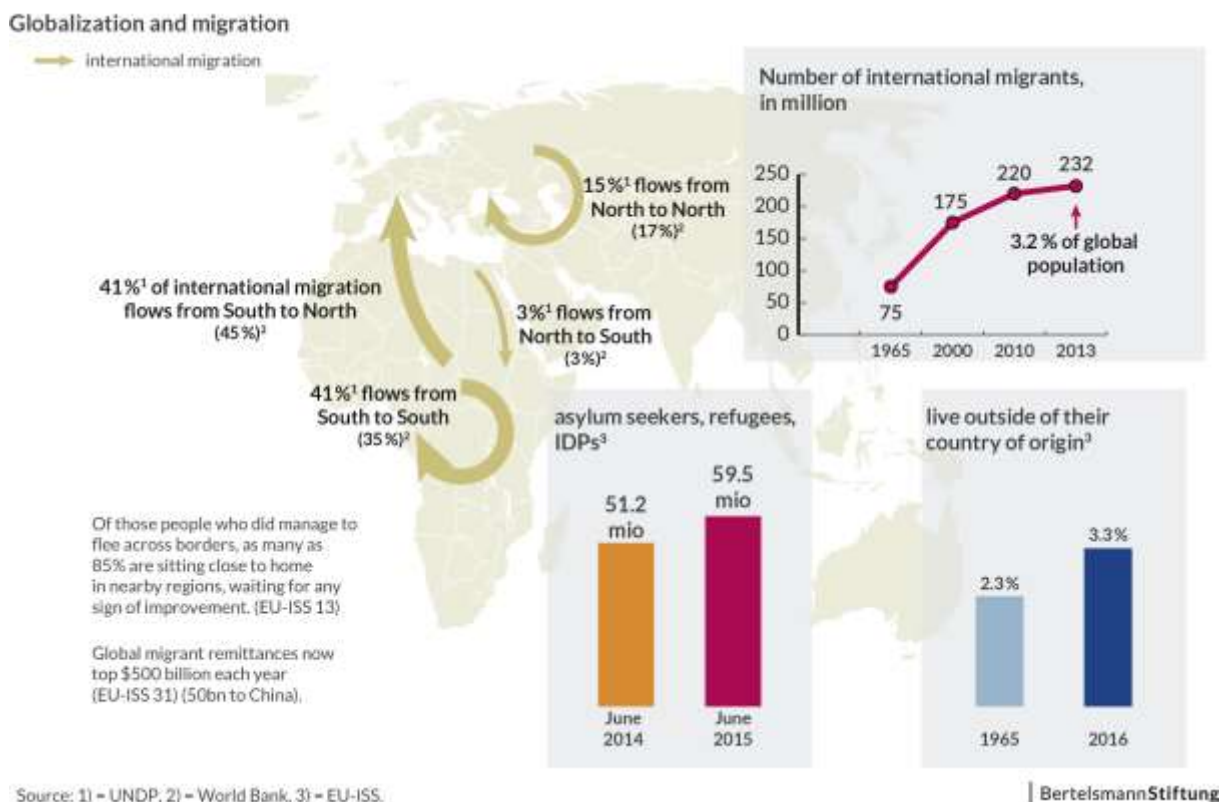
In addition to the above “push” factors, there are “pull” factors at play, such as the policies of receiving countries (with emphasis on European ones, for the purposes of this paper). Relevant factors will be both quantitative (total size of flows to Europe, as well as numbers per receiving country) and qualitative (skills, country of origin and other characteristics of migrants). Other relevant factors will be the state of the EU (integration vs. disintegration, economic and demographic factors, the rise of populism and the salience of security issues [terrorism + radicalization], as well as migration and integration policies at the European and national level.

¹ NATO defines a trend as the evolution of repetitive events. Consequently, trends show how the components (domains) are changing. (FSE 2025, p. 11) According to the DCDC, a trend is a discernible pattern of change (Global Strategic Trends Out to 2040, p. 6). According to the DCDC, a driver is a factor that directly influences or causes change (Global Strategic Trends Out to 2040, Strategic Trends Programme, UK Ministry of Defence, 4th edition, January 2010, p. 6). For NATO, a driver designates the course of an event that results in a specific trend into a component (Future Security Environment (FSE) 2025, Supreme Allied Commander, Transformation, Norfolk, Virginia, June 2007, p. 11). Jair van der Lijn defines drivers as underlying causes or incentives for an actor or phenomenon (Jair van der Lijn, Crystal Balling Future Threats 2020–2030: Security Foresights of “Actors” and “Drivers” in Perspective, Defense & Security Analysis, Vol. 27, No. 2, June 2011, p. 149).

1. Globalization and Migration

“Globalization is truly the megatrend of our times” and its impact is being increasingly – although unequally – felt in almost every region of the world. Anthony Giddens defined globalization as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. Globalization, interchangeably treated as a process, a condition, a system, a force and an age, can also be described as the expansion and intensification of social relations and consciousness across world time and world space. Most experts would agree that globalization as a process has been ongoing for more than 500 years, as it is linked to the 16th century emergence of capitalism in Europe and the subsequent expansion of the capitalist world-system around the globe. It should be noted that the process has reached its peak during the past 25 years (facilitated by the end of the Cold War).

For several years now, distant events have been having a deeper impact on our lives. The boundaries between domestic matters and global affairs have become increasingly blurred and local developments may come to have enormous global consequences. The term globalization is often being used to describe this interconnectedness between the global and local levels. Although few would dispute the fact that globalization has led to a substantial reduction of global disparities in wealth and well-being between the Global North and the Global South, there is also little doubt that sizeable groups inside countries have not benefited from globalization (“the losers” of globalization).



Furthermore, there is a clear connection between globalization and population movements, especially migratory ones. The two spheres unavoidably overlap and are interconnected. Globalization causes migration and migration contributes to the intensification of socioeconomic and political relations across borders. Globalization has indeed dislocated millions of people and set in motion population movements that are now hard for anyone to control. This represents a

serious political challenge to nation-states, which often can no longer effectively regulate who crosses their borders, either because they are unable to enforce immigration laws or lack the resolve to do so, raising the critical question of whether national boundaries are on the way to obsolescence.

A certain level of uncertainty exists around the extent to which globalization and technological change will continue to have an impact on future migration trends. Technology and economic development make it increasingly easy for migrants to travel inexpensively, to learn about available routes and to stay in touch with family and community members abroad, but the level of use and absorption is difficult to measure. Continuing globalization is likely to support migration trends as well, as the expansion of media, languages and businesses facilitates interactions across borders. Telecommuting and outsourcing, however, may act as a restraint on migration.

Brexit, the Trump election and strong anti-globalization voices in various European countries have led to speculation that the globalization era may be coming to a sudden end or that, at a minimum, globalization's tempo is decelerating and its role declining. Our working assumption is that globalization may, perhaps, slow-down as a global trend or be temporarily and partially reversed in some regions of the world, but a return to the pre-globalization era is highly unlikely – unless, of course, a game changer (“black swan”) of global dimensions takes place.

Game changers

are low-probability, high impact events.

Were they to take place, they would not only transform the whole region but their consequences would affect much if not the whole globe. To give just one example, it would be far from a 'black swan' if a populous state in the immediate periphery of Europe experienced a complete collapse producing unmanageable number of economic migrants and asylum seekers.

Source: author.

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2. Global and Regional Demographic Trends

The global population in 2016 was estimated at 7.5 billion and is thought to be increasing by approximately 80 million (1.15%) every year. There is a general consensus among experts that global population growth will continue, almost exclusively in middle-income and lower-income countries, and world population will grow to between 8 and 9.6 billion by 2050. In the period 2010–2020, roughly 98% of the increase will be taking place in developing countries and six countries will account for half of the projected increase: India, China (although it will also be faced with problems caused by an ageing population), Pakistan, Nigeria, Bangladesh and Indonesia. At the same time, over 20 countries, mostly in Europe, have declining populations. This number could reach 44 by 2050.

World population growth from 2008 to 2050



Source: author's own illustration.

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In 2016, the population of the EU-28 was estimated at 510.1 million (minus 64 million, if one excludes the UK). Over the past decade, it grew on average by 1.36 million people (0.27%) per year, with growth unequally distributed across member states. Countries in Central and Eastern Europe, as well as those hit worst by the economic and financial crisis, are experiencing a population decline, while others are faring relatively better. In 2013, about 20% to 25% of the population increase was “natural,” while net migration accounted for most of the rest (although migration levels vary from year to year).

According to the UN's lower variant, the EU-27 population in 2030 could be around 2% lower than the 2010 population (possible changes in the levels of migration cannot be easily factored into such estimates). Another disconcerting forecast is that whereas median age in 1980 was 34 in Europe and 33 in Japan, in 2030 it will be 44.7 in the EU-27, 52 in Japan and only 39.5 in the US (up from 37 in 2010). The global median age will be 33.2, whereas in Africa it will be 21.3. It is also projected that in the EU-27 of 2060, the over-80s will equal the proportion of young people (0–14) at around 15%. The 15–64 age group will shrink to 57% of the population, whilst those aged 65–80 will substantially expand to 28%. In fact, most of the EU member states will become post-mature states. At the same time, the expanding use of artificial intelligence-related technologies (robotics) will lead to the loss of an unknown number of middle-class jobs and the creation of (an almost certainly smaller number of) high-skill ones. The current trend in developed economies is to move away from labor-intensive sectors, but the full transition to a new economic model is not yet visible.

The long-term trend of urbanization is expected to continue globally, regardless of countries' income levels (although the change will be much more visible in the Global South), as a result of economic opportunities in cities, modernization of transport, population growth and a variety of involuntary conditions. Predictions suggest slightly more than half the world's population will live in

cities, and over 300 cities in the developing world (middle-income and low-income countries) will have more than 1 million inhabitants. It is expected that approximately 65% or more of the world's population will live in cities by 2050. Urbanization is likely to be driven by population momentum, the expansion of urban areas and the arrival of new migrants (internal and external). Although experts agree that urbanization will continue to be a major driver of internal migration (thus, in some cases, increasing state fragility), the situation is less clear regarding its impact on international migration. While urbanization will probably not have identical consequences for various countries and regions, it looks quite likely that a combination of population increase in major urban centers in the South and slow economic growth and lack of employment there may contribute to higher South-North and (perhaps) South-South migratory movements.

3. State of Global Economy

Although there is no consensus on the “decline of the West,” few would dispute the “rise of the rest.” Over the past three decades there has been impressive economic growth in the developing world, which resulted in decreasing inequality between countries, including a significant reduction in poverty rates (especially rates of extreme poverty). There is now a growing global middle class which already includes more than two billion people. Despite the remarkable progress, economic inequalities continue to be substantial and distribution and access to resources (energy, food, freshwater) will remain uneven. Furthermore, there is concern about the fragility of many low-income developing states, as well as about the impact of mega-cities on economic development and migration trends.

The main trend in Africa, a key region for Europe because of its geographic proximity and demographic growth, is increased investment in and exploitation of the continent's rich resource base by various extra-regional state and non-state actors. Because of its oil and mineral wealth, Africa will elicit much greater commercial attention and become the focus of a large number of international investors. However, it is highly uncertain that future African governments will succeed where most have thus far failed: in transforming this wealth into sustainable development.

4. Number and Intensity of Regional, Interstate and Intrastate Conflicts

Political upheaval in regions such as the Middle East, the Maghreb, the Sahel and the rest of sub-Saharan Africa, and South Asia is heavily affecting refugee and migration trends in Europe. According to the IISS, the number of interstate and intrastate conflicts (as well as cases of hybrid warfare) has in fact decreased, from around 70 in 2001 to just 42 in 2014 (albeit with a substantially higher number of fatalities) and 40 in 2016 (with a small decline in fatalities). However, some of these conflicts have been persistent and intractable, with local animosities being exploited by third countries in pursuit of geopolitical or commercial interests. The emergence of new hotspots has resulted in a higher demand for humanitarian relief efforts and in growing numbers of internally displaced persons worldwide, as well as waves of refugees heading towards the economically developed and politically stable countries of Europe and North America (but also neighboring countries such as Jordan, Lebanon and Turkey, in the case of refugees from Syria). The capacity of the international community to address such conflicts has evolved in rather contradictory ways.

Furthermore, the increasingly complex and fragmented nature of the current international system may allow for the creation of “black holes” (ungoverned spaces). The emergence of such fragile, unstable, dysfunctional or failed territories/states can have important destabilizing consequences not only for neighboring states but also much further away. In some cases, such states may also constitute “black holes” for the whole international system. There are a number of states in the Middle East and sub-Saharan Africa which may be classified in the above categories. In some

cases, they may constitute safe heavens for a wide variety of criminal activities, with only local or limited regional impact. In other cases, such as Somalia (piracy), the impact is much wider.

It would be rather futile to try to make a prediction about the future of conflict, including the number of flashpoints and the efficiency of international conflict management mechanisms, other than to say that it will remain a feature of international and regional politics and, thus, a significant contributing factor to population movements towards safer areas.

5. Climate Change

Environmental issues will increasingly affect economic, social and political developments throughout the world. Even if one doesn't endorse Jared Diamond's warning that "we are on an unsustainable course driving toward global societal change" and our collective demographic, societal and environmental problems are "like time-bombs with fuses of less than 50 years", the consequences will nevertheless be severe. The impact of climate change will be even more acute in vulnerable regions and groups that face multiple stresses at the same time: pre-existing conflict; poverty and unequal access to resources; weak institutions; food insecurity; and incidence of diseases.

Although there is still uncertainty about the exact magnitude, rate and geographical impact of climate change, President Trump's decision to withdraw from the Paris Agreement may have extremely disturbing consequences for global efforts to mitigate the effects of climate change. As a rule, wealthier countries and individuals will be better able to adapt to the impacts of climate change. In the developing world, even a relatively mild climatic shift can trigger or exacerbate food shortages, water scarcity, destructive weather events, the spread of diseases, human migration and natural resource competition. These crises are all the more dangerous because they are interwoven and self-perpetuating. It is expected that the combination of population increase and density and permanent loss of territory as a result of flooding (for example, in countries such as Bangladesh and Vietnam) or other climate change-related effects will force significant numbers of people (estimates range from 50 to 200 million by 2050) into internal or external migration.

Global migration trends and drivers (evolution of "push" factors)

Trends + drivers	Pessimistic scenario	Medium scenario	Optimistic scenario
Globalization	Countries start closing their borders to the movement of goods and people; protectionism returns with a vengeance and this has a strong negative impact on economic growth for most countries and unemployment rises; as a result, migratory flows increase (mostly South to North)	Business as usual; globalization remains a dominant trend, but huge inequalities inside countries and between regions ('core' and 'gap') remain; migratory flows (mostly South to North) continue largely unaffected	Inequalities inside countries and regions are being addressed somewhat successfully (expanding the 'core' and 'shrinking' the gap); migratory flows decline, they are mostly South-South and flows to the North are generally regulated
Demographic Developments (2050)	Population increase in developing countries in Europe's broader neighborhood (according to UN high scenario) continues and is a major contributing factor to the increase of migratory flows to the EU	Population gradually stabilizes in the South (UN medium scenario) and its contribution to migratory flows to the EU is manageable, provided the Union develops the right set of policies	There is a degree of convergence between population increase in the developing world and population decrease + ageing in Europe; therefore demographics' contribution to migratory flows is quite limited
State of global economy (examined in conjunction with globalization)	General deceleration of the global economy contributes to increased migratory flows mainly from South to North and to some 'rising' countries in the South	Economic growth in selected countries in the South; economic developments in Africa and in some highly populated Asian countries are less than impressive and migratory flows from those countries to the North or the more developed South continue	The 'rest' continue to rise and the impact is spreading across the South; South to South migration increases, migration South to North decreases, migratory flows decline in absolute numbers
Conflicts	Significant increase in the number of conflicts and a growing number of weak/fragile/failed states contribute to greater flows of refugees to safe destinations	Slight increase or decrease in the number of conflicts; little change from current levels of refugee flows	Significant reduction in the number of conflicts in combination with more efficient conflict management by the international community; as a result, visible reduction in the number of refugees
Climate change	International mitigation efforts fail; massive waves of displaced people (environmental refugees/migrants) numbering in the tens or hundreds of millions; the majority will initially move to neighboring countries (thus exacerbating existing problems), but the flows to Europe will be significant	Moderately successful international mitigation efforts; current numbers of environmental refugees/migrants will keep rising; although it's quite difficult at this stage to provide any accurate estimates, Europe should expect a fairly substantial number of new arrivals	International mitigation efforts are generally successful; there is a steady stream but no avalanche of environmental refugees/migrants
Overall impact on migration	Very substantial increase of migratory flows	Significant increase	Small increase in migratory flows (more visible in the South to North direction)

Source: author's own illustration.

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Evolution of Europe's pull factors

European pull factors	Pessimistic scenario	Medium scenario	Optimistic scenario
Demographic change	Demographic decline in most EU member states accelerates; Europe urgently needs to import skilled labour	Continuation of current trends; Europe needs to import skilled labour	Modest improvement; Limited need to import skilled labour
State of the EU	Integration slows even more; the EU looks more like a free market than a Union of states; there are 27 national migration policies with little coordination at the EU level	Business as usual; continuing difficulties in agreeing to a common EU migration policy; there is, however, a higher degree of coordination and cooperation among the majority of member states	Integration process picks up speed; the EU develops a common EU migration policy (including a common asylum policy) and burden sharing allows the Union to successfully manage the migration challenge
State of the economy	Negative or low growth in most member states	Slight overall improvement but the EU is still lagging behind its main competitors	Significant (at least by EU standards) growth; visible gains in the field of competitiveness (which may be achieved, however, at the expense of social welfare policies)
State of the society	Populism, xenophobia/islamophobia are on the rise; jihadist terrorism remains a threat to European internal security; increased radicalization in many EU member states	Support for populism and feelings of xenophobia/islamophobia remain rather strong but not a dominant trend in European societies; Relations with immigrant communities remain fragile; occasional terrorist incidents continue to take place but radical elements remain relatively marginalized	Support for populism and xenophobia/islamophobia are declining; Terrorist incidents and violent radicalization are very rare; There is significant improvement in relations and systematic cooperation with immigrant communities
Integration of migrant communities	Ghettoization phenomena continue and even intensify; as a result, violent radicalization increases;	No noticeable change as integration remains a challenge for most EU member states and violent radicalisation is not exactly rare	More successful integration of immigrant communities; violent radicalization cases are extremely rare
Overall consequences for migration	Pull factors are weakening; Europe will not be an attractive destination for high-skill migrants; migration management will be a critical challenge	No visible change; Europe remains a relatively attractive destination for high-skilled migrants and a quite attractive destination for low-skilled migrants; migration management difficult but not impossible	Pull factors become stronger; there is no significant threat for Europe's social cohesion and internal security; Europe becomes a very attractive destination for high-skilled migrants; migration management relatively easier

Source: author's own illustration.

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Any scenario-drafting will have to take into account the fact that Europe will be significantly short of labor for at least the next 25 years due to the general ageing of European populations and negative demographic growth in most European countries (with the notable exceptions of France and the UK). At the same time, the population in North Africa and the Middle East is projected to double from 240 million in the early 1990s to almost 500 million by the year 2020 and will continue rising until 2050. (It is interesting to note that the population ratio between the northern and the southern shores of the Mediterranean changed from 2-to-1 in the 1980s to 1-to-2 in the second decade of the 21st century.) The projected population increase is even more staggering in much of sub-Saharan Africa and parts of Asia.

Demographic pressures of this magnitude are producing relentless urbanization and social and economic strains, and a steady stream of migrants seeking jobs and social services (a process which starts well to the south of the Mediterranean). Flows of migrants/refugees are expected to further increase as a result of various conflicts and, in the near future, climate change. A quick end to the Syrian drama with a political solution through diplomatic efforts – however unlikely this may seem in the immediate future – will certainly reduce the current number of asylum seekers (and a number of refugees may decide to return, provided the highly challenging task of reconciliation and reconstruction is successfully carried out). Yet migration flows because of economic, environmental and security reasons will remain, for the foreseeable future, a major, even critical challenge for

Europe, which will need to develop an efficient long-term migration management policy. On the basis of the above, one can outline three scenarios: (a) pessimistic (negative change); (b) medium (little or no change); and (c) optimistic (positive change). Both external and domestic drivers will be included in this analysis, as well as possible policy choices by the EU. All the above scenarios can be depicted in a rather complex three-dimensional matrix. It is hoped that such an analysis may be helpful for policy makers as they try to minimize the likelihood of the pessimistic scenario and increase the probability of the optimistic.

Scenarios Regarding Europe's Migration Policies

Pessimistic scenario	EU countries continue to strongly disagree about a common migration policy. The rift is so deep that a number of member-states, mostly from Central and Eastern Europe, hold referenda and even threaten to leave the Union if EU institutions apply sanctions against them. Cooperation across the EU is very limited and takes place only on a bilateral and small group level. The sheer number of refugees/migrants overwhelms Europe, who tries unsuccessfully to close its borders. A number of countries even decide to use deadly force to stop waves of refugees/migrants from crossing their borders.
Medium scenario	There is some progress in controlling and protecting Europe's borders and limited agreement on a common migration policy, but disagreement continues on burden sharing. Overall, the Union remains deeply divided on the issue of migration.
Optimistic scenario	EU countries manage to agree to a European migration policy, including a common asylum policy, a fully functional European Borderguard/Coastguard agency and a burden-sharing mechanism (which will include a functioning resettlement policy and sufficient economic, technical and other assistance to frontline states, as well as to key countries in the Southern neighborhood).

Source: author.

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The EU will also be faced with a difficult predicament as a result of demographic trends: the fact that an increasing retired population will need to be funded by a shrinking workforce will exert significant pressures on public pensions and healthcare systems. In the future, Europe will need to attract migrants both to offset the ageing of its population and to meet the demand for high-skilled workers. However, competition with other developed and emerging economies in attracting skilled migrants may become increasingly difficult. Also, EU citizens may come to regard migrants as economic competitors, not contributors due to high unemployment rates.

However, as mentioned in the introduction, the economic rationale for skilled workers may find itself in conflict with the social cohesion and security rationales as European countries have been faced with significant difficulties in their efforts to integrate Muslim minorities into the social mainstream and the relationship between immigrant Muslim communities and the majority populations has often been problematic. Although it should not be perceived as a zero-sum game, achieving a satisfactory synthesis between economics, social cohesion and security will not be an easy endeavor.

III Demographic Trends and Migration – Two Critical Future Challenges for the EU

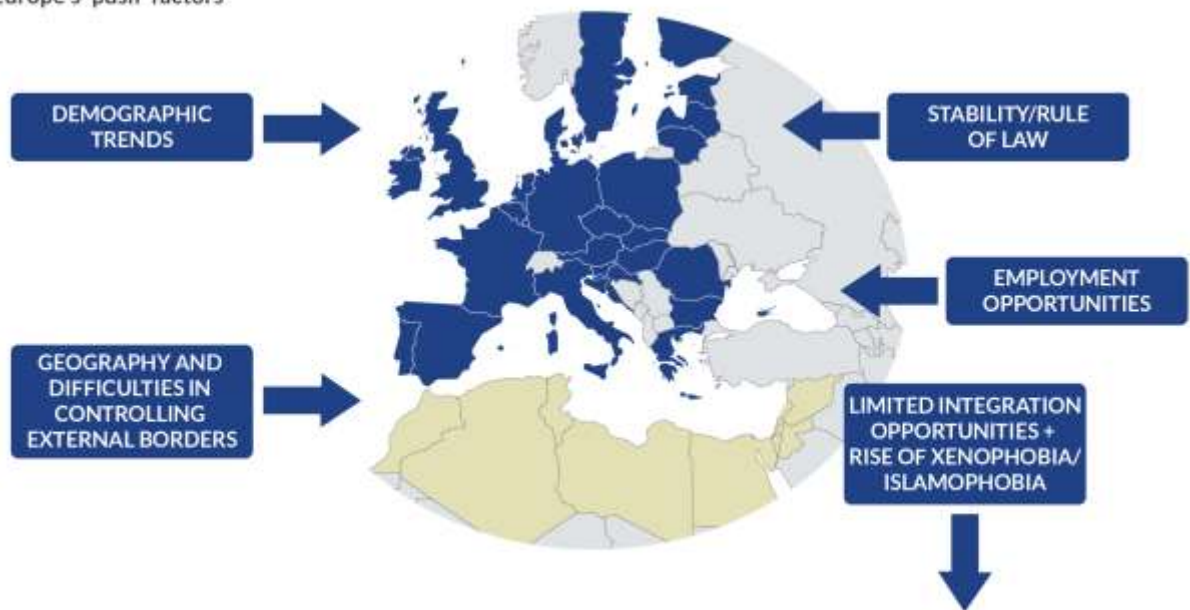
(second in importance only to the survival of the European integration project)

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Europe's 'push' factors



Source: author's own illustration.

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Globalization will continue to be an important driver for migration, but not the only or the most important one. Efforts to mitigate climate change will be the determining factor in the number of environmental migrants/refugees; moreover, the number, intensity and management of conflicts will be the key factor that will determine the size of the refugee flows. Migration trends will be affected not only by globalization, but also by the state of the global economy and the pull factors in countries of destination. If globalization continues unabated, it will initially contribute to the increase in migration flows. Economic development in parts of the Global South will direct migratory flows in this direction as well. Above a certain level of arrivals, however, destination countries both in the Global North and the Global South will be forced to try to exercise more control over their borders, thereby imposing limited restrictions on the process of globalization until migration flows decline to manageable levels. As a general rule, the effects of migration follow an inverse-U shape, with gains from moderate migration and losses from high migration. For countries of origin the problem is far less severe, unless there is serious brain drain.

A number of scenarios have been outlined in this paper, each with a different degree of probability. We think the most likely one will include the following developments: Globalization will continue, perhaps at a slightly slower pace, and current demographic trends will not change for at least the next 20 years (decline in Europe, growth in the Global South, high growth in some countries, especially in Africa). There will be more South-South migration, but substantial flows of migrants

(+refugees) to Europe will continue for several more years. The need for skilled labor in Europe will increase (despite some brain drain from the European South and the increasing use of AI technologies) and there will be competition with other developed economies (North America, Australia) and, to a smaller extent, rising economies to attract talent. In addition, although it is hoped that the migration debate will not become overtly securitized, there will be an important security dimension because of concerns about jihadist terrorism, increasing radicalization of Muslim communities and rising xenophobia/Islamophobia in many EU countries. Finally, disagreements between EU member states on a common migration policy will almost certainly continue and the debate will remain toxic.

Due to the complexity of the problems noted above and their often unpredictable interactions, there are no easy, quick or one-dimensional solutions. There is also considerable uncertainty about the evolution of the regional security environment as a result of the several unknown variables in the respective security equations. Any new strategy for migration and refugee management will therefore need to focus mainly on the world beyond the EU's borders in an attempt to address the root causes of migratory flows by mitigating climate change, helping to broker an end to various conflicts in Europe's southern neighborhood and providing people with opportunities as close to home as possible through implementation of a comprehensive preventive strategy.

IV Recommendations

As there is no magic bullet to deal with Europe's migration challenge (or its demographic crisis), an effective management policy will of necessity be multidimensional and should have the following components (not necessarily in this order):

- The most efficient but also the most difficult measure to implement for reducing population flows is the timely provision of developmental assistance to countries of origin (preventive approach) in combination with efforts to promote good governance.
- More intensive and effective conflict-resolution efforts in Europe's broader southern neighborhood should be made to prevent, resolve or manage interstate and intrastate conflicts (with a special emphasis on preventing the emergence of weak/fragile/failed states).
- A carrot-and-stick approach should be adopted towards countries of origin to encourage them to accept the repatriation of larger numbers of economic migrants.
- Effective integration policies for migrants should be introduced in European societies (something that would also attract high-skilled migrants). The role of education is key, but the challenges will most likely be substantial as not all refugees may be able or even willing to be sufficiently integrated. Numbers are also important, as the integration capacity of European societies is not unlimited and social cohesion and internal security may be negatively affected.
- Incentives (such as economic benefits or an increase in social welfare support) may alleviate Europe's demographic problem. However, even where applied – such as in some of the Nordic countries – results have not been highly satisfactory. Furthermore, to become more competitive, the EU cannot afford a large-scale increase in social expenditures (a decrease may in fact be necessary). Therefore, the EU's efforts to address its demographic

deficit by achieving a higher birth rate can help, but cannot solve, the problem all by themselves. Elderly, youth and female participation in the labor force may also make a contribution to addressing the problem.

- More efficient protection of the EU's external borders is needed, as is better coordination and efficiency on issues of internal security. Necessary measures would include the significant strengthening of the European Border and Coast Guard, the development of a system of high-technology sensors to protect the most sensitive of the EU's borders, various initiatives designed to promote more effective cooperation between intelligence and law enforcement agencies, and the establishment of an EU information clearing house.
- A High-Level Migration Council (composed of senior former policy makers, statesmen and experts) should be created to draft a long-term migration strategy for the EU.

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Sino-US Relations in the Trump Era – A Conflict in the Making?

Bernhard Bartsch | Angela Stanzel

I Introduction

The future of US-China relations appears to be increasingly uncertain under the leadership of US President Donald Trump. If anything, President Trump has been sending mixed signals to China, creating the very uncertainty the Chinese government is known to be averse to. This leaves Europe in a difficult situation: It must cultivate its relations with each while maintaining strategic neutrality with regards to US-China relations.

Beginning in March 2017, the Bertelsmann Stiftung began a series of workshops to discuss the implications of different scenarios for Europe. Possible Sino-American conflicts, be they political, economic or military, were considered alongside with the possibility of a G2-world in which the United States and China form a coalition and tend to dominate world affairs.

At the beginning of the process, President Trump had already created a “diplomatic disaster” (New York magazine) in US-China relations – only to de-escalate the situation later. Trump had broken with decades of US foreign policy by accepting a congratulatory phone call from Taiwan's President Tsai Ing-wen in December 2016. Shortly thereafter, Trump also suggested in an interview that the “One China” policy, which recognizes only one China including Taiwan, could be questioned. At the beginning of 2017, Trump then assured his Chinese counterpart that the US administration would stand by the “One China” principle. Soon, a new topic then dominated US-China relations: North Korea's missile tests, which prompted US Secretary of State Rex Tillerson to travel to China, Japan, and South Korea for talks on the issue. Trump has since been seeking support from China to pressure Pyongyang, although he has also expressed his willingness to go it alone, stating in a tweet: “If China is not going to solve North Korea, we will.” His early April claim that he was deploying a US aircraft carrier to the waters of the Korean Peninsula to send Pyongyang a warning, proved incorrect as the carrier was heading in another direction. However, many observers consider the US administration's order to bomb Syria in April to mark a signal directed at North Korea. China in the meantime has urged the United States to restrain from actions that would further provoke Pyongyang, though, as several experts have noted, it has been remarkably silent on Trump's remarks on issues such as North Korea's behavior.

II US-Chinese Relationship

Contrary to what some experts had expected, Trump has gradually softened rather than hardened his stance on China. The meeting between Trump and Chinese president Xi Jinping in Mar-a-Lago at the beginning of April ended on a surprisingly positive note with Trump commenting, “We have made tremendous progress in our relationship with China,” and “the relationship developed by President Xi and myself, I think, is outstanding.” His daughter Ivanka Trump, as so many times previously, took a soft-power approach and had Trump's granddaughter sing a traditional Chinese song and recite a traditional Chinese poem to the Chinese leader and his wife. Ivanka and her husband, Jared Kushner, a senior advisor to Trump, have likely played a role in what the Global Times saw as an attempt to “balancing Trump's harsh posture” on China. Kushner, a major real estate investor, is in business with Chinese companies himself (such as the Chinese insurance company Anbang). During the Mar-a-Lago meeting, Trump and Xi agreed on promoting the “healthy development of bilateral trade and investment” and on a “hundred-day plan,” which includes a sharp increase of US exports to China in order to reduce the US trade deficit. Previously,

Trump had repeatedly accused China of manipulating its currency at the expense of the United States, an accusation he withdrew shortly after his meeting with Xi, saying he will not name China a currency manipulator.

As initial tensions between the United States and China have cooled down, this has come much to the relief of Germany (and the EU as a whole), as the German economy in particular would suffer from the effects of a US – China conflict. Nevertheless, Germany, like several other countries, continues to anxiously watch Trump's every next step. Not least because Germans have also been concerned about Trump's attacks directed at Germany for using the euro to exploit the United States and other EU countries. But Germans are even more concerned about Trump's general turn toward trade protectionism and withdrawal from the United States' commitment to global free trade. While Trump shifted to a softer approach towards China, his trade protectionism has put Germany under pressure as a defender of global free trade. At the March G20 meeting in Baden-Baden, Germany advocated a common position among member countries to commit to global free trade. Breaking from the past, the United States did not sign on to this commitment and exited from the Paris Agreement on Climate Change. Leveraging the current situation, China has begun presenting itself even more as a defender of global free trade (most visibly during Xi's January speech in Davos) and will likely now lead on implementing the Paris agreement. Trump has left Europeans with doubts about the role he sees the United States playing in a rules-based world order in which China is not seen as a truly responsible stakeholder.

Trump's approach to foreign and economy policy appears transactional and focused on deal-making rather than long-term strategic planning. Even though Trump has refrained from renewing his attacks on China and appears to be more accommodating, our workshop participants expressed uncertainty with regard to his future actions. Concerns over potential conflicts arising – most likely an economic conflict, though political and even military conflicts are considered possible – were raised by the discussants. But given Trump's signals to accommodate China's interests, our participants also thought a debate on a G2-world was worth having – a scenario where the United States and China accommodate each other's interests and/or accept each other's hegemony in their respective regions.

III Implications of the Sino-US Relations

Workshop participants broadly agreed that an economic conflict between the United States and China would create a dilemma for Europe, which is highly dependent on good economic relations with both. In the event of an economic conflict, and to some degree in the event of a political or military conflict, Europeans might be forced to choose sides with either the United States or China. Such a development could divide Germany (particularly on a ministerial and industry level) and, to an even greater degree, the EU. Workshop participants discussed concerns that nearly any conflict – and under some circumstances even a G2 world – would require the EU to take a side. And while NATO alliances render Europe's allegiance clearly defined in a military conflict, taking a side on trade issues will prove difficult given that China represents major future markets to European industries. Nonetheless, the discussants agreed that the risks faced by Europe in an economic, political or military conflict between the United States and China are largely similar. These risks include an economic downturn in a context of higher trade barriers and a disruption of global value chains. Other risks discussed include the erosion of the global trading and financial system, of standards, norms and trust, and the deterioration of globalization more generally.

However, the workshop participants identified opportunities for Europe in each of these conflicts as well as the G2 world scenario. Whatever the conflict, Europeans would have the opportunity to profit from the situation. Europeans could profit from a US-China economic boycott, which might prompt China to focus more on its relations with Europeans. As one of the workshop participants put it: “China will buy Airbus not Boeing.” A US-China conflict might also create an economic or political vacuum which Europe could fill. For instance, given the likely withdrawal of the United States from the Trans-Pacific Partnership (TPP), Europeans could take this opportunity to negotiate EU free trade agreements with Asia. By taking a more proactive stance in this regard, the EU would appear more attractive as a political and economic partner in becoming several countries’ “partner of choice.” This would also strengthen the EU’s relationship with other countries and would give Europeans more influence in setting regional or even global norms and standards. The parties in conflict may see Europe as a neutral actor, offering the EU the opportunity to act as a mediator.

As for European responses to a US-China conflict or a G2 world, discussants emphasized the need for a unified EU strategy that would frame any meaningful attempts to develop solutions. While discussing each conflict scenario, we heard recommendations such as “push EU unity and identity,” “work on European cohesion” or “support proactive movements like PULSE of Europe,” in short, we repeatedly heard the need for Europeans to reach consensus on core values and principles as a means of preventing division. In addition, an overwhelming majority of our workshop participants believed the EU must reduce its dependency on both the United States and China by, for instance, diversifying its trade relationships and R&D work. Europeans should also work to become more digitally independent by, for instance, promoting European “unicorns” and any kind of innovation while preventing a European brain drain. Furthermore, Europeans should work on establishing “technology emancipation” which involves strengthening software development within the EU. Germans in particular called for a strengthening of the EU’s industry policy and domestic markets. In addition, discussants noted, the EU should strengthen its expertise and analysis of China and Asia in order to have the capacity to react appropriately to potential conflicts in Asia. Greater expertise would also enable the EU to tackle issues such as the protection of European key technologies and sensitive infrastructure. The EU’s lack of cyber capabilities, be it in the area of warfare or data protection, turned out to be a major concern among the workshop participants. Another concern demanding concrete action is Europe’s own role in the run-up to a potential conflict, in particular, the impact of its transfers of dual-use technologies. The EU, according to some participants, currently does not have the capacity to even define the technologies that could be used as military equipment. The EU does not have in-depth knowledge of the impact of dual-use technology sales to countries such as China. The EU should therefore establish an EU-wide foreign investment screening mechanism, a debate that France, Germany and Italy have already initiated in February on the EU level.

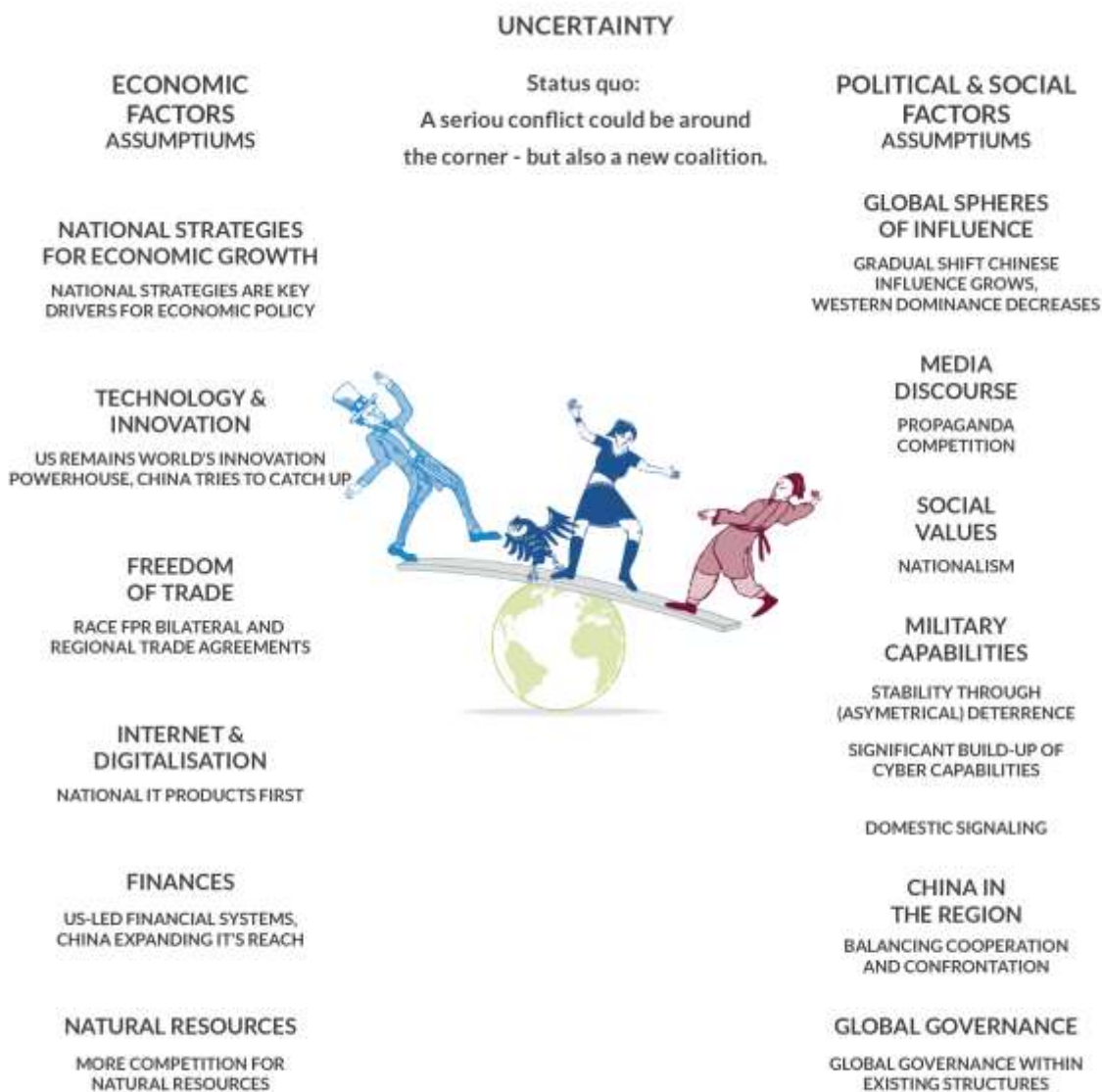
Finally, a large majority of the workshop participants also thought the EU should develop its soft power and thereby increase its attractiveness as a partner for other countries. The need for the EU to prove attractive to other countries would be particularly important in a G2 world. Indeed, it is even more imperative that Europeans strengthen partnerships with other emerging countries such as India.

IV Different Scenarios

1. Scenario: Uncertainty

Status quo: A serious conflict could be around the corner – but also a new coalition.

This scenario is based on the assumption that the status quo continues. It implies an ongoing range of possibilities. As is currently the case, this scenario involves a high degree of precariousness: a serious conflict between the United States and China could easily and quickly emerge, but a new coalition between the two is equally conceivable.



Source: author's own illustration.

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2. Scenario: Political Confrontation

The United States and China become involved in a political conflict.

This scenario is based on the assumption that the United States and China are engaged in an open political conflict. There are many areas of political sensitivity between the two countries: territorial issues like Taiwan, the North Korea issue and the United States' military alliance with South Korea

and Japan, support for Chinese dissidents or American whistle-blowers. Political conflicts are mostly fought with the weapons of words, statements, protocol, meeting schedules and propaganda. The arena can be bilateral dialogues, multilateral meetings or institutions of global governance. A political conflict will often be seen by the public as a drama acted out on the stage of the news media. In the world of diplomacy, however, they are highly serious and sensitive affairs – not least because political conflicts are difficult to contain and can easily spill over into the more tangible fields of economic or even military conflict.



Source: author's own illustration.

3. Scenario: Military Escalation

The United States and China engage in a military conflict.

In this scenario, the United States and China engage in military conflict. Throughout the escalating tensions that have led to an outbreak, both sides have invested significantly in their military, primarily in cyber capabilities. Especially in the United States, this massive expenditure has resulted in a surplus capacity that has only exacerbated the pressure to act. It is this escalation which has finally lured the two states into open hostilities. Although the conflict might help both countries (at least temporarily) divert attention away from their domestic problems, both sides are aware of each other's destructive potential. As a result, the two military superpowers are from the outset interested in limiting the scope of the conflict without losing face.



4. Scenario: Economic Conflict

The United States and China engage in some kind of economic conflict.

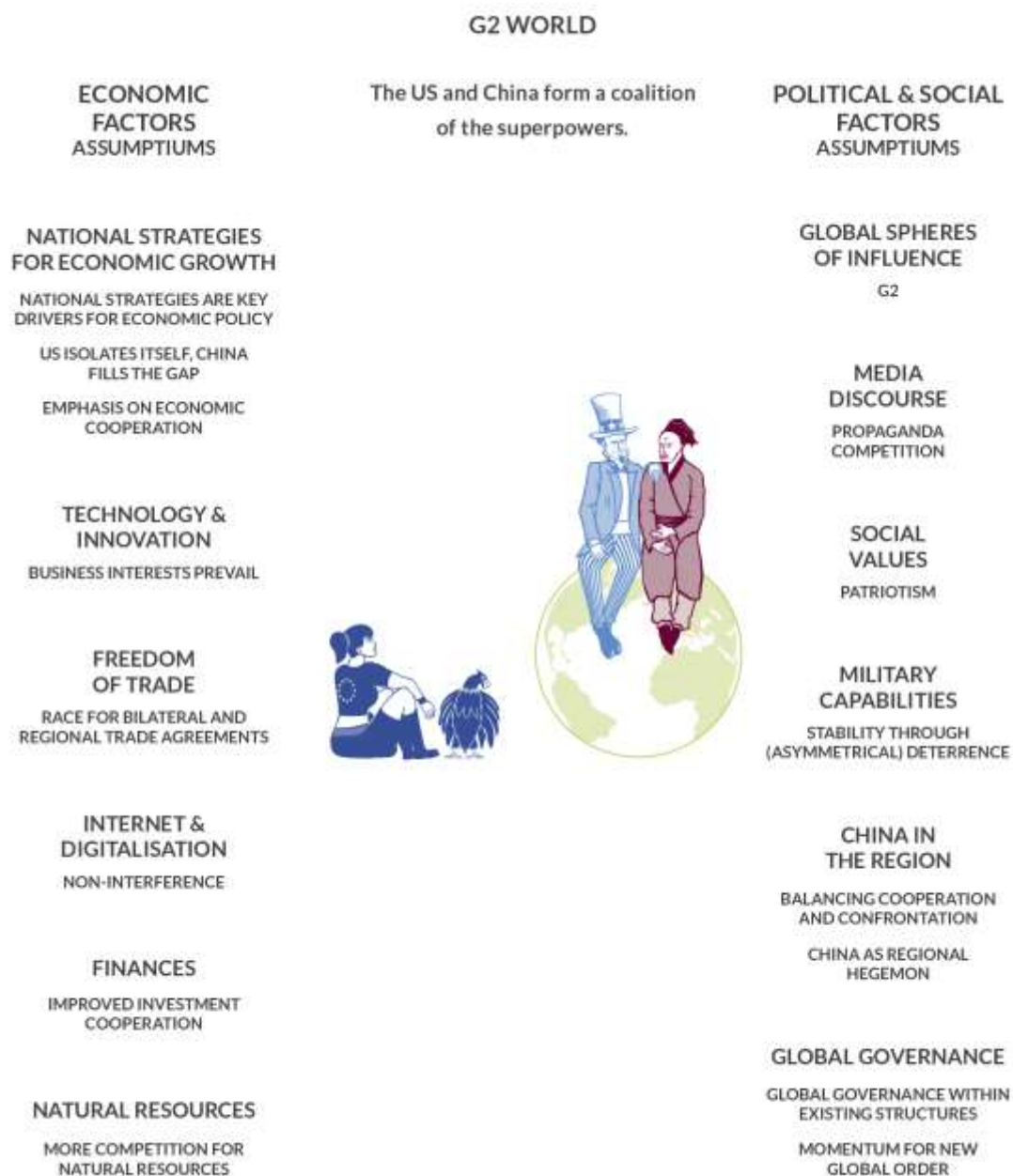
This scenario assumes that the United States and China will engage in open economic conflict. An all-out trade war, with the introduction of escalating tariffs, boycotts, trade barriers and possible exchange rate conflict, will lead to a sharp decrease in business relations between the two countries. Restrictions on bilateral investment might be introduced and the two parties could try to find alternative partners for investments and cooperation. The “America first” doctrine could lead to a US focus on domestic markets, whereas China might push aggressively for more foreign direct investment and increase its development assistance for developing countries.



5. Scenario: G2 World

The United States and China form a coalition of the superpowers.

This scenario is based on the United States and China forming a coalition of superpowers. Such a coalition would look less like a love affair and more like a marriage of convenience – at best. The two countries would retain their social, ideological, economic, political and military differences, but a pragmatic approach pursued by both would result in a mutual understanding that each party can more easily advance their respective interests if they invest less in direct competition with each other. Such an approach would also give the United States and China the opportunity to focus on containing the power of other actors with the potential to challenge the global order, such as the EU, Russia, Turkey, India or Brazil.



V Recommendations

Some strategic implications for Europe:

- Europe will have a hard time cultivating its relations with the United States on the one side and China on the other – while retaining strategic neutrality in both directions.
- Different actors – in particular political and economic actors – may be pulling Europe in different directions.
- The multilateral, rules-based world order that Europeans hope for is under pressure – and China’s “Belt and Road” is perceived as a factor in this pressure.
- For Europe to play any significant role in the future world order, it has to act as one – an achievement which, at the moment, is a lot to hope for.

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