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The beginning of a new globalisation

Prior to the pandemic, capital used to move seamlessly, while workers didn't. Now, this trend could be reversed

Globalisation, as we knew it — until the pandemic — was asymmetric. Capital was able to move almost seamlessly, while workers were generally corralled in the countries where they lived.

This increased mobility of capital, compared with the post-war decades before this phase of globalisation, was made possible by improvements in banking technology and much more flexible rules ('open capital accounts') on transferring capital abroad. But perhaps most important was the expectation that one could invest in far-away destinations without significant risk that the assets would be expropriated or nationalised.

The new globalisation taking shape looks asymmetric too, but exactly the reverse of the old. Labour will become increasingly global, while movements of capital will be fragmented. How did this come about?

The effects of remote work

Globalisation of labour will be achieved through remote work. While the technology required existed before the pandemic, Covid-19 enabled a decisive shift towards its more frequent use. Companies and workers discovered that jobs previously believed to oblige a physical presence could be done from home — or, for that matter, almost anywhere in the world.

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This led many not only to begin working from home but to move to different and cheaper locales, while continuing to be remunerated at the old rates — paying, for example, a much lower rent in San Antonio, Texas while keeping a New York salary. It is the first time in history that such a decoupling between jobs and the physical presence of workers could be

implemented.

The trend need not however stop at countries' borders. It can, and has, spread beyond: there is simply no reason why a company would continue hiring United States labour at (say) $50 or $100 an hour while the same job can be done in India or elsewhere for $10 or $20. Indeed, the new (Indian) worker may be better off at much lower salary than the US worker was at his old, nominally higher salary, simply because of lower prices in India.

Thanks to this 'arbitrage' of discrepant prices, the US capitalist class gains through the payment of lower dollar wages, while the international working class gains through an improvement in its standard of living. It is a win-win situation — except, of course, for the rich-country labour.

Financial globalisation and sanctions

Globalisation of capital will, on the contrary, go into reverse. Here the reasons are geopolitical — although to some extent also fiscal, as the imposition of a global minimum corporation tax of 15 per cent makes tax avoidance through selective accounting less attractive.

The geopolitics concerns increasing tensions and conflict between the US and Russia and China. Whatever the outcome of the standoff over Ukraine (at this writing totally unpredictable), Russia will be subjected — whether next week or next year — to comprehensive financial and trade sanctions. This would basically cut a chunk of the world economy out of financial globalisation.

True, Russia is not a huge chunk: its gross domestic product is some 3 per cent of global GDP (at purchasing-power parities), its exports just over 2 per cent of the world total. But the message is unambiguous, especially if considered in light of the similar US sanctions levied against Iran, Venezuela, Cuba, Myanmar, Nicaragua and so on — more than 20 countries are currently targeted in one way or another.

As this list indicates, these sanctions are extremely difficult to overturn. Nobody can buy a Cuban cigar in the US. The embargo is now more than 60 years old and, despite a modest effort under Barack Obama's presidency, nothing has changed. In effect, Donald Trump's administration reversed some earlier decisions and imposed a slew of new sanctions. It's the same story when it comes to Venezuela, Syria, and Iran.

The recent seizure by the

The stickiness of US sanctions can best be

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illustrated by the Jackson-Vanik amendment, which targeted Soviet trade in response to the inability of Soviet Jews to emigrate to Israel. The amendment was introduced in 1974 when emigration from the Soviet Union was (to put it euphemistically) very difficult. But after a liberalisation under the reformist leadership of Mikhail Gorbachev in the 1980s, followed by the break-up of the Soviet Union, it is estimated that 2-3 million Jews left the USSR or later the Russian Federation for Israel or other countries.

Yet the amendment remained on the statute books, its non-application contingent on annual verification by the US administration that Russia was not in contravention. It is hard to imagine a more absurd situation. Eventually, Jackson-Vanik was rescinded — but only to be replaced by the Magnitsky Act, whose objectives are the same, even if the rationale (the death in prison of an eponymous tax lawyer, investigating a huge fraud purportedly involving Russian tax officials) was different.

Assets are no longer safe in America

The recent seizure by the US of assets of the Afghan government — with half of their amount to compensate the families of the victims of the '9/11' attacks — is indicative of the trend. So is the speculation that, in the next round of anti-Russia sanctions, assets of oligarchs deemed close to the president, Vladimir Putin, will be frozen or expropriated. They signal to any company originating in a country which might, at some point, be in Washington's crosshairs that it should think twice about maintaining assets in the US.

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This applies with particular force to China. By any sensible extrapolation, were Sino-American relations to take another turn for the worse, assets of Chinese state-owned companies, as well as those of individuals 'close to' the Communist Party of China (which can be anyone), would be heavily exposed. China holds more than $1 trillion of US government bonds. They could become just so many pieces of worthless paper.

The same fate could befall (say) companies in Nigeria (given its problematic relationship between democracy and the military) or Ethiopia (sanctions are already imposed due to the civil war with

Tigrayan autonomous forces). The list of possible reasons to freeze assets is endless: civil wars, drug trafficking, lax banking regulations, different political systems, human-rights violations, alleged genocide.

If enough capitalists come to the same conclusion about the lack of safety of their wealth, they will try to 'park' it in places where political decisions are less likely to intrude. This might mean Singapore, Bombay, or other places in Asia. One could imagine the dilemma of wealthy Hong Kong businessmen, whose assets could be expropriated by the Chinese authorities or, if they managed to move their wealth to the US, by the American powers that be — expropriated for either being not close enough to the CPC or too close.

Dramatic politicisation of financial coercion will inevitably bring fragmentation in the movement of capital. While in the past oligarchs fled to the US, and the United Kingdom, seemingly correctly believing that no matter how their wealth was made it would be welcome in the west, they may now flee elsewhere — and in doing so unwittingly engender a more multipolar financial world.

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Branko Milanović
New York City

Branko Milanović is a visiting professor at the City University of New York. Prior to that, he was, among other things, senior economist of the research department at the World Bank. For his book *Global Inequality. A New Approach for the Age of Globalization* he won the Hans-Matthöfer-Prize awarded by the Friedrich-Ebert-Stiftung. Most recently he published *Capitalism, Alone: The Future of the System That Rules the World.*