

IN THE WAKE OF THE ECONOMIC crisis, most of the discussion has been about stimulus, reforms, and bankers' pay. Yet the big story is the reordering of power and the advent of a radically new form of globalization.

For the first time, the United States and Europe have had to rely on emerging economies to overcome a crisis. The perception that the meltdown was caused by U.S.-style capitalism has greatly diminished America's prestige. The Washington Consensus is dead, and the West no longer has a monopoly on the solutions to global governance.

Meanwhile, the crisis has highlighted fissures in Europe's architecture and the limits of integration. The lack of a coordinated response has been striking.

Although the EU emerged from recession ahead of the U.S., unemployment is expected to increase in 2010 in almost every EU country. Debt levels have risen substantially as a result of the stimulus, and will be exacerbated by rising welfare costs owing to the aging population. Resurgent state intervention will worsen the rigidity of Europe's economies and hamper entrepreneurship. The picture for the next few years is of slow growth, high unemployment, and high public debt.

Also passing is an economic phase best described as "Asia and Germany make and America takes." The real cause of the crisis was not bankers' greed but imbalances in global savings, investment, and trade that have been widening for 20 years. These were the result of the symbiosis between the high-consumption, laissez-faire Anglo economies and the export-led, neo-mercantilist economies of East Asia and Germany. The enormous trade sur-



ECONOMICS **POWER**

GLOBALIZATION REVOLUTION

BY CLAUDE SMADJA AND
CLYDE PRESTOWITZ

pluses accumulated by the big exporters, coupled with the widening U.S. deficits and the enormous capital flows necessary to finance them, led to a huge distortion of both interest rates and risk management. The system was unsustainable and duly collapsed.

This has sparked all kinds of discussions about the need for Anglo countries to consume less and produce and export more, and neo-mercantilists to do the opposite. Such talk is comforting, but so far the major players have done nothing to execute it. Even if leaders did decide to reverse their priorities, moreover, it's not clear they could. We are speaking, after all, of a tectonic shift in the global economic structure that would mean a similar shift in political power.

Yet that shift must come; the days of export-led growth will soon be over. This will not mean an end to globalization, but it will revolutionize the game.

China has become the point of final

assembly of a regionally integrated Asian manufacturing system. Many businesses are now reassessing their dependency on such systems, and increased transportation costs will intensify the process. Production is likely to move closer to end markets. That means a shift toward more regional and national supply chains.

The likely result is that we will see a fragmentation of economic models. The time when globalization meant Americanization is over; the compact of a market economy and political democracy has been buried. We may see a return to greater state intervention and even authoritarianism instead, as the China-Singapore model gains greater acceptance. Even

Europe has become more cautious about promoting freer markets.

The resulting world will be much more multifaceted and messy. The shift to a G20 has been welcome, but it will also mean a less wieldy system of global governance. Nationalism will rise, as even the U.S. may become less interested in securing global goods than in its own revitalization.

If it's all to turn out well, leaders must learn to play this very new and complicated game.

The fiasco of the Copenhagen climate summit underlines not only the urgency of the process, but also how hard it will be.

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SMADJA is president of Smadja & Associates Strategic Advisory. PRESTOWITZ is president of the Economic Strategy Institute.