

World in transition - the 4 big challenges

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Rapid change is now a constant, globally important institutions are questioned or coming apart, a lot of churn is happening, in society, in the economy, and geopolitical shifts are in the offing.

You are familiar with William Butler Yeats' poem *The Second Coming*. I think it captures the mood presented by the profound challenges we face today. We all know the lines: "Things fall apart. The centre cannot hold." It is invoked so often it is now a cliché.

The second verse and last line may be less familiar: "And what rough beast, its hour come round at last, Slouches towards Bethlehem to be born." Some literary critics interpret the "rough beast" according to the era. It can be a historical force, communism, fascism, the atomic bomb or something malignant. Is the "rough beast" today's terrorism, populism, political conflict or a pandemic?

Now that I have provided the setting, let me turn to the four big challenges the world is faced with today.

CHALLENGE I

Disruption. The Covid-19 virus spread silently and swiftly and became a pandemic in a couple of months. Everyone in the world has been disrupted. Many wise people are describing Covid-19 as a historical watershed. It is a searing experience that has touched the lives of every person in the world in a way no other threat has done before.

Covid-19 has taught us many lessons. Many things we took for granted were changed. Disruption was experienced in every domain - freedom of movement, freedom of association, freedom from fear and anxiety for personal well-being. We fear the loss of business, our jobs. We worry about health security and food security. Never have citizens felt more trapped whether they live in democracies or authoritarian systems.

The question everyone is asking is how will Covid-19 change the world? There are different takes.

In an op-ed in *The Straits Times* in April, I took the position that I do not see a great transformation happening post-Covid-19. Some things will change. Some trends which are already there will be accelerated. But in the end, the national DNAs of countries will assert themselves and things will settle into a new normal, a bit like the old normal. I was in the United States as ambassador when Sars happened. I was there during the Sept 11 attacks and for the global financial crisis in 2008-2009. Each time there was a lengthy self-examination of the problem and the ramping up of defences, a resolve to bring change, but things settled back to much like before.

The International Monetary Fund has predicted that the pandemic will trigger the worst recession since the Great Depression. We will see major economic restructuring. Job losses will be painful, staggering and tragic. Technology use would be accelerated and further developed and e-commerce would gain more ground. People will be more interested in working from home and want flexible working hours. Supply chains will be reconfigured but that was already happening before the pandemic.

The pandemic has seen the return of the state as a positive force where societies have argued for shrinking government. More than ever the pandemic has shown that decisive and active government can better deal with controlling the coronavirus outbreak. In the matter of geopolitics, we will see emerging trends accelerated, particularly in the US-China rivalry.

I believe the importance of the human connection has been brought clearly into relief during our lockdowns and though we connect online, we need to socialise, to meet and gather. We will go to the shops. There will be pent-up demand for travel again.

Let me leave you with this thought. Over the long term the disruption caused by technological development to the way we live, work, play and learn would be deeper and more severe than the disruption by Covid-19.

CHALLENGE II

Democracy falters. We are hearing a steady stream of voices from the West suggesting democracy has failed and asking why it has failed.

At the end of World War II, the United States and Europe emerged the winners of the war. The Soviet Union was technically on the winning side too as one of the allies in the military alliance to defeat Germany and Japan, but it was an uneasy alliance and the Iron Curtain came down soon after and the Cold War officially began. The world thereafter divided into two camps - the alliance of pro-West, free market democracies and the alliance of centrally planned, command economies of the communist countries. For the next 50 years after the end of WWII, democracy and communism were rival systems for the hearts and minds of the new states in various regions in the world. The collapse of the Soviet Union in 1992 was, for many politicians and intellectuals in Western countries, the triumph of the West, and Francis Fukuyama declared prematurely it was the end of history. It was the triumph of democracy over communism.

Today we hear a great deal about a crisis in democracy in the US and Europe where the systems were born and evolved. It is not the first time that both continents have mourned for democracy. The rise of fascism in the 1930s prompted the same dark forebodings and spawned many explanations. Now a fresh slew of books has appeared: *How Democracies Die* (2018), *Democracy In Chains* (2019), *How Democracy Ends* (2019), *Rupture: The Crisis Of Liberal Democracy* (2018), *Can Democracy Survive Global Capitalism?* (2018), *Democracy And Its Crisis* (2017) to name a few.

The West is going through this self-examination and angst again. The question is why? What does this tell us about societies? And what lessons must Singapore be alert to with developments halfway round the world?

In a sense it speaks to the strength of the democratic system that there is the existence of a healthy discourse to find improvement. The election of Donald Trump as US President, Brexit and extreme populist politics popping up in so many countries have raised more questions about the health of democracy, its institutions, processes and even the very idea of liberalism itself.

I am not saying Western democracy is faltering because of any single individual. The trajectory of US politics was set before President Trump came into the picture. His election was facilitated by highly polarising debate, loss of tolerance, evaporating trust for the political system, patent inequalities, extreme allegations online, and the swirl of post-truth facts or fake

facts. Brexit raises questions about referendums and party politics as well as the ability of democracies to absorb globalisation and immigration.

The Pew Research Centre in a poll in 2018 across 27 countries found more people dissatisfied than satisfied with the way democracy worked.

So what went wrong?

- 1. First of all, people react to forces shaping their lives and the economy.
- 2. Then there are country-specific narratives that affect people's perception of the political system.

There is no doubt that from the end of the 20th century, the full force of globalisation and technology left their mark on society and countries. Globalisation brought the world together, increased trade, spurred growth and speeded the movement of people across borders. But globalisation also has a dark side. There are winners and losers.

Globalisation ushered in the supply chain revolution. It worked for the effective and competitive companies and the ambitious who could make connections globally, manufacturing goods, selling goods, selling services. But large numbers of workers in the older industrialised countries found their factories moving overseas and their jobs and communities disrupted. Furthermore, technology effectively increased productivity and more jobs were displaced. To the job anxiety, there is an added aggravation from increased migration. Over time, the numbers look threatening and fears of loss of identity, a "us versus them" mentality took hold of a segment of the electorate. "America First" and Brexit were political responses to these issues.

Then there is the growing inequality in many countries. Federal Reserve data in 2018 shows the richest 10 per cent in the US held 70 per cent of total household wealth. To these general trends that fuel dissatisfaction, we can add the politics of individual countries that has given the impression that democracy has degraded. The institutions and leaders are not performing. In the US, Congress is gridlocked. Politics is polarised. Little wonder the Edelman Trust Barometer shows trust in elected leaders has been eroded severely. Interestingly, countries in Asia still have trust in their politicians and in Singapore the trust level is high (70 per cent). Western democracies did quite badly.

We are only beginning to appreciate the value of trust in the functioning of democracy and good government. Here I am talking of trust in the political institutions, political processes and the political leaders which makes negotiations and working out compromises achievable. This is necessary in a democracy and good governance.

In the recession of 1984-1985, Singapore leaders managed to persuade workers to accept a cut in the CPF contribution to preserve jobs and keep investors in the country. At that time employers contributed 25 per cent to their employees' CPF, employees 25 per cent. They added that if the economy improved, the CPF cuts would be restored. CPF was gradually restored, but never up to 25 per cent. However, other benefits and opportunities kicked in when the economy grew, and people accepted it.

Much has been spoken of how social media has exponentially rendered governance more difficult. George Yeo in the 24th Gordon Arthur Ransome Oration, eloquently described the impact of social media, which creates echo chambers fragmenting society, but also

reintegrates and combines the elements into new nodes in the networks with new identities based on ethnicity and religion.

It is no wonder people take to the streets to express their anger at the system - the yellow vests in Paris, protesters in Hong Kong, and in the US, the Black Lives Matter protests. If democracies are faltering, can they be fixed? Some writers ask dramatically if in Western democracies the people can recognise when the system is performing at sub-par and would they know the system is dying a slow death.

You can say the political system is not performing optimally. But my sense is that American democracy can survive any individual or any collection of people's misuse. It needs fixing. However, it is not just about changing leaders, it is reforming the process as well, which is complicated.

At a Chicago Council Conference on Global Cities a few years ago, I made the point that "the essence of democracy is government responsiveness to people". It is not the Schumpeterian idea of alternation of power between two competing parties. Power can pass between governing party and opposition and nothing changes for the people. People must know leaders are listening and responding to their greatest needs and institutions can deliver.

CHALLENGE III

Capitalism flounders. When Thomas Piketty published *Capital In The Twenty-First Century*, his book became an instant hit. His book appeared at the right time when economists, business leaders, media commentators, politicians but, most importantly, workers, were beginning to question if capitalism as a model, as a system works for society and the economy.

Why so? Piketty argues that "when the rate of return in capital exceeds the rate of growth in output and income as it did in the 19th century and seems likely to do so in the 21st, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based".

What went wrong with capitalism? Branko Milanovic, centennial professor at the London School of Economics, pointed out that capitalism has gone through three phases.

- 1. Firstly, classical capitalism of the 19th century when fortunes were made from owning, not working.
- 2. Social democratic capitalism which saw the growth of welfare states in Europe, starting after WWII and ending in the 1980s, softening the hard edges of capitalism.
- 3. Now, there is present-day liberal capitalism or liberal meritocratic capitalism "where rich individuals are capital rich and labour rich".

In today's liberal meritocratic capitalism, there are many professionals, executives, who draw high salaries because of their talent and expertise as well as income from financial assets. The elite is more diverse in gender and ethnicity, but this masks the fact of increasing inequality. Milanovic argues that the last 40 years has seen the growth of a semi-permanent upper class that is quite cut off from the rest of society. So the division in the society grows along with the resentment.

So what is the solution? Piketty came up with radical suggestions, not all new. He advocated a social state and a progressive income tax system - a tax rate of 80 per cent for those earning

US\$500,000 (S\$697,500) to US\$1 million and 50 to 60 per cent on those earning US\$200,000. Then there is an annual wealth tax of 10 per cent on large fortunes. These ideas will not fly. French president Francois Hollande tried the 75 per cent super tax and had to roll it back to 45 per cent as less tax revenue was collected because of less economic growth and capital flight.

In the US, there is talk of a return to socialism in some quarters. Still, overall, Americans aged 30 and above, and that is the majority, are fully supportive of capitalism. Frankly, not many Americans understand what socialism really means. That may explain why Bernie Sanders, though he is 78 years old, won more support from young people than Pete Buttigieg, simply because he advocates more socialist-inspired policies.

Glenn Hubbard, chairman of the Council of Economic Advisers under president George W. Bush, makes more modest suggestions than Piketty or Sanders. In an opinion piece in the Economist titled America Needs To Fix Capitalism To Save It, he argues firmly that one of the roles for an economic system is to improve standards and to deliver prosperity widely. Hubbard suggests introducing policies that provide greater opportunity for people and boost social insurance. The Trump presidency has not defined the problems this way. President Trump has relied on tax cuts, cutting better trade deals, reducing trade deficits to create more jobs and presumably to help redistribution. He has had some success in creating more jobs, but there is little evidence that the corporations have shared the savings from tax cuts to raise the wages of their employees. Covid-19 has wiped out all that and claims for unemployment benefits are at a historic high.

CHALLENGE IV

World order unravels. For more than 70 years we have lived and prospered by the American-led liberal international order and a Pax Americana in the Asia-Pacific. That order is changing. The rise of China and its impact is what countries in the international community are responding to. How China behaves, how the US behaves and the responses of the region and the rest of the world will shape the emerging new order. There is a sense that there has been a quick unravelling of the established liberal international order in recent years. Why is this so?

John Mearsheimer from the University of Chicago argues that the liberal international order existed only after the end of the Cold War when the US emerged the hegemon. From WWII to the end of the Cold War, there were two bounded orders. One led by the US with its friends and allies, the other by the Soviet Union and its friends and allies. The values of the US-bounded order included liberal values such as free market, free trade and free movement of capital, free movement of peoples, democracy and freedoms. It was an order built on strong military alliances. It was also realist and included some authoritarian regimes which were anti-communist. It excluded the Soviet Union and China. The Soviet Union had its bounded order of allies and partners based on shared ideological goals and military and security objectives. It was not until the end of the Cold War and the US emergence as the world's hegemon that we saw the creation of the liberal international order. The West led by the US launched a policy of promotion of democracy and human rights globally. China and Russia were included in this order and they were allowed to participate in the institutions. China's growth and rise was greatly helped by this inclusion. Two developments started the unravelling of the existing order.

- 1. The election of Donald Trump as the 45th President of the US
- 2. The election of Xi Jinping as the President of the People's Republic of China.

President Trump advocated an "America First" and "Make America Great Again" approach in all his policies and came into office distinctly negative towards multilateralism and multilateral agreements. When the largest economy in the world takes this direction, it can be destabilising for the rest. President Xi came into office as a leader of a more confident China. He came in offering ambitious visions. A "China Dream" for the Chinese people and a Belt and Road Initiative for the world. But it was the "Made in China 2025" that was seen as a direct threat to the US economy and security. In combination, the last three initiatives sent the message to the West that China was taking steps to reshape the existing liberal international order.

The fact that it stepped up its activity in the South China Sea, steadily from 2008, caused unease in the region.

The dynamics of the restructuring of the international order have been unleashed more speedily and intensely than anticipated. There is a debate going on in China on what sort of role China will play and should play in world affairs. The Covid-19 pandemic offered China a unique opportunity to step into the role of global leadership given the absence of the US on this issue. The US, caught unprepared, has been struggling with a chaotic response to the coronavirus. This has further fuelled the rivalry.

Given the direction the US-China relationship has taken, John Mearsheimer predicts a return to two bounded orders as occurred after WWII, only this time it will be the US and China. Will the two bounded orders re-emerge? It depends on whether allies will line up unambiguously. The European Union would want to preserve a role for itself as a pole, and it is well known that there are differences between the US and EU on major issues. So there will be three poles or 2½ poles. It is not certain that China wants to confine itself to a clearly bounded order. World order is unravelling.

My own sense is that the changing world order will look a lot messier before it becomes clearer.

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