**Headline:** The New Fault Lines in a Post-Globalized World

**Teaser:** The new normal will usher in the most profound changes since World War II.

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**[Article Body:]**

The coronavirus pandemic has upended the global economic system, and just as importantly, cast out 40 years of neoliberal orthodoxy that dominated the industrialized world.

Forget about the “[new world order](https://en.wikipedia.org/wiki/New_world_order_(politics)#Post-Cold_War_%22new_world_order%22).” Offshoring and global supply chains are out; regional and local production is in. Market fundamentalism is passé; regulation is the norm. Public health is now more valuable than just-in-time supply systems. Stockpiling and industrial capacity suddenly make more sense, which may have future implications in [the recently revived antitrust debate](https://www.amazon.com/Curse-Bigness-Antitrust-New-Gilded/dp/0999745468) in the U.S.

Biodata will drive the next phase of social management and surveillance, with near-term consequences for the way countries handle immigration and customs. Health care and education will become digitally integrated the way newspapers and television were 10 years ago. Health care itself will increasingly be seen as a necessary public good, rather than a private right, until now in the U.S. predicated on age, employment or income levels. Each of these will produce political tensions within their constituencies and in the society generally as they adapt to the new normal.

This political sea change doesn’t represent a sudden conversion to full-on socialism, but simply a case of minimizing our future risks of infection by providing full-on universal coverage. Beyond that, as Professor Michael Sandel [has argued](https://www.nytimes.com/2020/04/13/opinion/covid-workers-healthcare-fairness.html?action=click&campaign_id=39&emc=edit_ty_20200413&instance_id=17601&module=Opinion&nl=david-leonhardt&pgtype=Homepage&regi_id=70016880&segment_id=24957&te=1&user_id=57579fd1869c27759c6d379f8aeef761), one has to query the “moral logic” of providing “coronavirus treatment for the uninsured,” while leaving “health coverage in ordinary times… to the market” (especially when our concept of what constitutes “ordinary times” has been upended).

Internationally, there will be many positive and substantial international shifts to address overdue global public health needs and accords on mitigating climate change. And it is finally dawning on Western-allied economic planners that the military price tag that made so-called cheap oil and cheap labor possible is vastly higher than investment in advanced research and next-generation manufacturing.

This also means that the old North (developed world) versus South (emerging world) division that [long preoccupied scholars and policymakers in the post–World War II period](https://tinyurl.com/vert6h2) will become increasingly stark again, particularly for those emerging economies that have hitherto attracted investment largely on the grounds of being repositories of low-cost labor. They will now find themselves picking sides as they seek assistance in an increasingly divided and multipolar world.

The fault lines of the next economic era have already begun to surface, creating friction with the previous international structure of banking and finance, trade and industry. There is a force beyond elites and critical industries driving this: The proletariat has literally become the “precariat.”

In the U.S. and Europe, the staggering number of service economy workers are going to be quickly politicized by the shortfalls: People have seen a collapse in income, and big failures in education, and health care. Union-busting, pension fleecing, and austerity budgets and new technologies that concentrate wealth away from labor have created a circumstance where ownership and profit models must be revisited to sustain stability. The needs are too acute to be distracted by the lies of Trump, or the inadequate responses in other parts of the industrialized world. The current crisis will likely prompt geopolitical and economic shifts and dislocations we haven’t seen since World War II.

**Death of Chimerica, the Rise of New Production Blocs**

One of the biggest casualties of the current order is the breakdown of “[Chimerica](https://www.wsj.com/articles/trump-and-the-chimerica-crisis-1525635323),” the decades-old nexus between the U.S. and Chinese economies, along with other leading countries’ partnerships with Chinese manufacturing. While the geopolitics of blame for the origins of coronavirus continue to shake out, the process that saw a decrease in exports from China to the U.S. from [$816 billion in 2018 to $757 billion in 2019](https://www.forbes.com/sites/kenrapoza/2020/04/07/new-data-shows-us-companies-are-definitely-leaving-china/#7e244a8140fe) will accelerate and intensify over the next decade.

While a decoupling is unlikely to lead to armed conflict, a Cold War style of competition could emerge as a new global fault line. Much as the Cold War did not preclude some degree of collaboration between the U.S. and the former Soviet Union, so too today there may still be areas of cooperation between Washington and Beijing from climate to public health, advanced research to weapons proliferation.

Nor does this shift necessarily spell the sudden collapse of Chinese power or influence—it has a colossal and still-growing domestic market and is on the international leaderboard for a wide range of advanced indicators. But its status as the world’s most desirable offshore manufacturing hub is a thing of the past, along with the economic stability that steady inflows of foreign capital brought with it. It does show a susceptibility to domestic stress, with the Hong Kong protests last year providing a hint of what is in store as the party leadership can’t pivot to new realities that include slower economic growth and declining foreign investment.

As investment flows turn inward back to industrialized countries, there will likely be corresponding diminution of the global labor arbitrage emanating from the emerging world. In general, that’s a negative for the global South, but potentially a positive factor for workers elsewhere, whose wages and living standards have stagnated for decades as they lost jobs to competing overseas low-cost manufacturing centers (the increase in inequality [is principally](https://www.theamericanconservative.com/articles/is-big-necessarily-bad/) a product of 40 years of sustained attacks on unions). The jobs won’t be the same, but to be sure, manufacturing incomes exceed those of the service industry.

As each country adopts a “[sauve-qui-peut](https://www.imdb.com/title/tt0079854/)” mentality, businesses and investors are drawing the necessary conclusions. Coronavirus has been a wake-up call, as countries trying to import medical goods from existing global supply chains face a [shortage of air and ocean freight options](https://fortune.com/2020/03/11/75-of-companies-report-coronavirus-has-disrupted-their-supply-chains/) to ship goods back to home markets. Already, the Japanese government has announced its plans “to spend over $2 billion to help its country’s firms move production out of China,” [according to the Spectator Index](https://twitter.com/spectatorindex/status/1248070712079699968). The [EU leadership](https://www.ft.com/content/e14f24c7-e47a-4c22-8cf3-f629da62b0a7) is publicly indicating a policy of subsidy and state investment in companies to prevent Chinese buyouts or undercutting prices.

Two billion dollars is small potatoes compared to what is likely to be spent by the U.S. and other countries going forward. And it can’t simply be done via research and development tax credits. The state can and must drive this redomiciling process in other ways: via [local content requirements (LCRs)](https://www.salon.com/2019/01/06/time-for-a-real-industrial-policy_partner/), tariffs, quotas and/or government procurement local sourcing requirements. And with a $750-billion-plus budget, the U.S. military will likely play a role here, as it [ponders disruptions from overseas supply sources](https://www.nationaldefensemagazine.org/articles/2020/3/18/coronavirus-makes-air-force-worry-about-supply-chains).

Of course, if the U.S. does this, other parts of the world—China, the EU, Japan—will likely do the same, which will accelerate the regionalization trends in trade. This may mean that some U.S. firms will have to operate in foreign markets through local subsidiaries with local content preferences and local workforces (that is how it worked in the 1920s—Ford UK was a mostly local British company, different from the U.S. Ford Motor Company, but with shared profits).

An examination of U.S. planning for the post-1945 world reveals the emphasis was on free trade in raw materials mostly, not finished goods. (The U.S. only adopted one-way “free trade” with its Asian and European allies later as a Cold War measure to accelerate their development and keep them in the American orbit.)

Domestically within the U.S., as [Dalia Marin writes](https://www.project-syndicate.org/commentary/covid19-and-robots-drive-manufacturing-reshoring-by-dalia-marin-2020-04), the coming declines in interest rates will accelerate “robot adoption” by 75.7 percent, with concentration “in the sectors that are most exposed to global value chains. In Germany, that means autos and transport equipment, electronics, and textiles—industries that import around 12 percent of their inputs from low-wage countries. … Globally, the industries where the most reshoring activity is taking place are chemicals, metal products, and electrical products and electronics.”

As the coronavirus pandemic is illustrating, a viable industrial ecosystem cannot work effectively if it is dispersed to too many geographic extremities or there are insufficient redundancies built into the transportation of goods back into the home market (rail, highway, etc.). *Proximity* has become a significant competitive advantage for manufacturers, and a strategic advantage for governments. But the U.S. government must play an expanded role in the planning process. The U.S. is still a leader in many high-tech areas, but is suffering the consequences of a generation-long effort to undermine the government’s natural role as an economic planner.

In the form of the regionalized blocs that are being sketched, in the Americas, Mexico is likely to be one of the leading recipients of American foreign direct investment (FDI). It already has a [$17 billion medical device industry](https://www.washingtonpost.com/world/the_americas/mexican-medical-manufacturers-boost-production-for-us-hospitals-while-country-struggles-with-its-own-coronavirus-outbreak/2020/04/03/0e624fea-7517-11ea-ad9b-254ec99993bc_story.html) and is sure to absorb much more capacity from China. This has [already started to happen as a result of the U.S.–Mexico–Canada Agreement (USMCA, or new NAFTA)](https://www.forbes.com/sites/kenrapoza/2020/04/07/new-data-shows-us-companies-are-definitely-leaving-china/#3b03670340fe). Furthermore, the [Washington Post reports](https://www.washingtonpost.com/world/the_americas/mexican-medical-manufacturers-boost-production-for-us-hospitals-while-country-struggles-with-its-own-coronavirus-outbreak/2020/04/03/0e624fea-7517-11ea-ad9b-254ec99993bc_story.html) that “[a]s demand soars for medical devices and personal protective equipment in the fight against the coronavirus, the United States has turned to the phalanx of factories south of the border that are now the outfitters of many U.S. hospitals.” This is in addition to the [thousands of assembly plants already in place](https://www.dallasnews.com/news/public-health/2020/03/24/companies-in-el-paso-juarez-gear-up-to-manufacture-medical-supplies/) in Mexico since the establishment of NAFTA. Indeed, if the jobs that had moved to China move to Mexico, Central America, and South America, this likely addresses many long-standing social tensions in regard to immigration management, currency imbalances and corresponding black market industries (ironically, it also likely means the end of Trump’s wall, as the industrial ecosystem of the Americas becomes more cohesive and widespread).

**Big Business Is Good Business**

But this will also have significant impacts closer to home: Much as Franklin Delano Roosevelt ultimately [prioritized domestic ramp-ups in wartime production over trust-busting](https://newrepublic.com/article/148239/myth-roosevelt-trustbusters), so too national champions are likely to feature more prominently today, as domestic scale and balance sheet strength are given precedence to accommodate the drive to revive employment quickly, [and work collaboratively to halt the spread of the coronavirus](https://www.bloomberg.com/news/articles/2020-04-10/apple-google-bring-covid-19-contact-tracing-to-3-billion-people). The scale of companies will not be regarded as a political problem if they can both deliver for consumers and show the capacity of following political direction for what the public’s needs are. Tech companies like Apple and Google are stepping up to fill the void left by [massive federal government dysfunction](https://link.axios.com/click/19998593.24553/aHR0cHM6Ly93d3cuZXhwcmVzc25ld3MuY29tL25ld3MvbG9jYWwvYXJ0aWNsZS9UaG91c2FuZHMtaGl0LWhhcmQtYnktY29yb25hdmlydXMtcGFuZGVtaWMtcy0xNTE4OTk0OC5waHA_dXRtX3NvdXJjZT1uZXdzbGV0dGVyJnV0bV9tZWRpdW09ZW1haWwmdXRtX2NhbXBhaWduPW5ld3NsZXR0ZXJfYXhpb3NhbSZzdHJlYW09dG9w/5a3aa70c99964ac9448b5240B036852a2). The “[break up Big Tech](https://medium.com/@teamwarren/heres-how-we-can-break-up-big-tech-9ad9e0da324c)” voices are nowhere to be heard at the moment.

We still need a more robust form of regulation for these corporate behemoths, but via a system of regulation that is “function-centric,” rather than size-centric. As co-author Marshall Auerback [has written before](https://www.theamericanconservative.com/articles/is-big-necessarily-bad/), this kind of regulation “restricts the range of corporate activities (e.g., structural separation so as to prevent companies like Amazon and Google from owning both the platform as well as participating as a seller on that platform), or the prices such companies can charge (as regulators often do for utilities or railways). These considerations would be ‘size neutral’: they would apply independently of corporate size per se.”

Capitalism has always had its plutocrats, but scaling back America’s overly financialized model (by preventing stock buybacks, to cite one example) would represent a useful reform and prevent a lot of economic waste. Instead of going to enrich executives and shareholders beyond the dreams of [Croesus](https://en.wikipedia.org/wiki/Croesus), that measure might help to ensure that the profits of these companies will be directed to the workers’ wages (which also means supporting increased unionization), or plowed back into investment (e.g., increased robotics).

**Biodata, Privacy, and an End to Pandemic Profiteering**

And there are fault lines in the business world. The pharmaceutical and medical research industries face immense pressure from other businesses to end the pandemic so they can get back to profitability. That means temporarily setting aside profits and pooling intellectual property to encourage collaborative efforts on the part of biotech and pharmaceutical companies to find proper treatments for COVID-19, and make them freely available, especially if governments were to waive antitrust scrutiny in exchange for all of the data Big Pharma companies collectively hold. As [the Guardian reports](https://www.theguardian.com/commentisfree/2020/apr/02/coronavirus-vaccine-big-pharma-data), “[t]here is a precedent. Last June, 10 of the world’s largest pharmaceutical companies—including Johnson & Johnson, AstraZeneca and GlaxoSmithKline—[announced they would pool data](https://www.biopharmatrend.com/post/97-pharma-companies-join-forces-to-train-ai-for-drug-discovery-collectively/) for an AI-based search for new antibiotics, which are urgently needed as antibiotic-resistant bacteria have proliferated across the world, threatening the growth of untreatable disease.”

[Privacy advocates are already expressing concerns](https://www.nytimes.com/2020/03/23/technology/coronavirus-surveillance-tracking-privacy.html) about a growing and overweening medical surveillance state. These surveillance concerns lack historical context: From the 19th century on, serious health problems were met by hardline government policies to reduce them. Policies ranging from quarantine to vaccine were not always mandatory, but there was an understanding that personal concessions had to be made to manage a huge population and an advanced society; the Constitution was not a suicide pact. We can further alleviate those concerns today by ensuring that the information uncovered does not become a precondition or additional cost of receiving insurance coverage. In light of coronavirus, cost savings of incorporating biodata into immigration and customs are a no-brainer for governments, and are certain to cause friction with individuals who may not want to give blood or saliva to get a visa or work permit, and agribusiness leaders who know that safety measures cut into profitability. But the scales have tipped in the other direction.

**North Versus South**

What about the other countries in the developing world that don’t have close geographic proximity to a home market, or abundant supplies of key commodities required for 21st-century manufacturing needs, or even a well-developed manufacturing base (in other words, the countries that have hitherto been large recipients of investment solely on the grounds of cheap labor)? Many of them have faced immediate pressure with the collapse in global trade, unprecedented capital flight that is sure to grow as the coronavirus spreads, all the while coping with COVID-19 with highly inadequate health systems.

In the meantime, [the multi-trillion-dollar market for emerging market debt](https://foreignpolicy.com/2020/03/28/coronavirus-biggest-emerging-markets-crisis-ever/), both sovereign bonds and commercial paper, has collapsed. Many of these countries, via their state pension funds and sovereign wealth funds, have become the ultimate endpoint for many of the newer asset-backed securities that finally revived years after the 2008 financial crisis. This has become the potential new stress point in the $52 trillion “[shadow banking](https://www.cnbc.com/2019/04/11/shadow-banking-is-now-a-52-trillion-industry-and-posing-risks.html)” market. The U.S. Federal Reserve has sought to ease the funding stresses of much of the developing economies by offering central bank swap lines. It has also broadened prime dealer collateral acceptance rules, and set up commercial paper swap facilities, all of which have eased short-term funding pressures in these economies that have incurred substantial dollar liabilities.

As the emerging world central banks then start to lend on those lines to their own banks, it should start to alleviate the shortage of dollars in the offshore dollar funding markets. We are starting to see some easing of stresses, [notably in Indonesia](https://www.wsj.com/articles/bond-investors-are-back-even-in-indonesia-11586263345)—because it’s an exporter of resources more than a cheap labor price economy.

But whereas in previous emerging markets crises, China was able to buttress these economies via initiatives such as the “[Belt and Road Initiative](https://en.wikipedia.org/wiki/Belt_and_Road_Initiative),” Beijing itself is likely to be buffeted by the twin shocks of declining global trade and a reversal of foreign direct investment, which declined 8.6 percent in the first [two months of this year](https://economictimes.indiatimes.com/news/international/business/coronavirus-drags-chinas-fdi-down-8-6-in-jan-feb/articleshow/74615150.cms).

Longer-term, many other countries face comparable challenges to China: Capital controls, collapsing domestic currencies, and widespread debt defaults are likely to become the norm. That’s already [happened to serial defaulter Argentina again](https://www.latinfinance.com/daily-briefs/2020/4/8/sp-cuts-argentina-credit-rating-to-selective-default). South Africa has been [downgraded to junk status](https://www.nasdaq.com/articles/moodys-downgrades-south-africa-rating-to-junk-keeps-negative-outlook-2020-03-27). Turkey remains vulnerable. The so-called “BRICS” economies—Brazil, Russia, India, China and South Africa—are all sinking like bricks. The problem is exacerbated by the fact that coronavirus and likely future pandemics will create additional stresses on developing economies that depend on their labor price advantage in the international marketplace to survive.

By contrast, countries like South Korea and Taiwan have had a “good crisis.” Both have vibrant manufacturing sectors and created successful multiparty democracies. [Foreign investment in South Korea](https://tinyurl.com/rqq2zah) continued to grow in the first quarter of this year, as it rapidly moved to contain the spread of COVID-19 through an extensive testing regime (while keeping its economy open). Similarly in Taiwan, by activating a national emergency response system launched in 2004 (following the SARS virus), that country has mounted [a thoroughly competent coronavirus intervention of unprecedented effectiveness](https://jamanetwork.com/journals/jama/fullarticle/2762689). The results speak for themselves: as of April 15, in [South Korea, a mere 225 deaths](https://www.worldometers.info/coronavirus/country/south-korea/), while in [Taiwan, an astonishingly low total of six deaths](https://www.worldometers.info/coronavirus/country/taiwan/) in a country of 24 million people—this despite far more exposure to infected Chinese visitors than Italy, Spain or the U.S.

Of course, the very success of Taiwan’s response revives another potential fault line, namely the tension underlying the [“One China”](https://en.wikipedia.org/wiki/One-China_policy) policy. Before COVID-19, it is noteworthy that the WHO “even refused to publicly report Taiwan’s cases of SARS until public pressure prompted numbers to be published under the label of ‘Taiwan, province of China,’” [according to Dr. Anish Koka](https://thehealthcareblog.com/blog/2020/04/11/the-covid-pandemic-who-dunnit/?fbclid=IwAR3NQkWOQSlSnsacEfmwyKLEfpeJByXjTVuENFLrIvO1xZQFjlpwJHymYC8). At the very least, Taiwan’s divergent approach and success at fighting the pandemic will bolster its pro-independence factions.

The question of foreign nations upholding Taiwan’s sovereignty with regard to China is increasingly thorny, given Beijing’s growing military capacities. This will present an ongoing diplomatic challenge to Western parties who seek to increase engagement with Taipei without heightening tensions in the region.

**A Recalculation of ‘Economic Value’**

We have outlined many fault lines likely to be exposed or exacerbated as a consequence of COVID-19. Happily, there is one fault line likely to be slammed shut: namely, the false dichotomy that has long existed between economic growth and environmentalism. The [Global Assessment from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services](https://ipbes.net/news/Media-Release-Global-Assessment) reports that “land degradation has reduced the productivity of 23 percent of the global land surface, up to US$577 billion in annual global crops are at risk from pollinator loss and 100-300 million people are at increased risk of floods and hurricanes because of loss of coastal habitats and protection.” Likewise, the study cites the fact that as of 2015, 33 percent of marine fish stocks “were being harvested at unsustainable levels,” and notes the rise of plastic pollution (which “has [increased tenfold since 1980](https://ipbes.net/news/Media-Release-Global-Assessment)”), both of which play a key role in degrading ecosystems in a manner that ultimately destroys economic growth.

Finally, repeated pandemics over the past few decades have shown these are not blips, but recurrent features of today’s world. Hence, there is an increasing public appetite for regulation to deal with this ongoing problem. Some industries, such as agribusinesses, won’t like this, but the concerns are well-founded. According to [expert Josh Balk](https://citizentruth.org/factory-farms-create-the-perfect-conditions-to-spread-viral-infections-like-covid-19/), 75 percent of new diseases start in domestic and wild-caught animals, and 2.2 million people die each year from illnesses transferred from animals. The majority of these are transferred from poorly regulated factory farm chickens, cows and pigs; still, the “[wet markets”](https://www.todayonline.com/chinaindia/modernising-china-wet-markets-will-limit-its-pandemics) of Asia and Africa, and the trade in potential “[transfer species](https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2546865/),” such as pangolins, a major driver of the [$19 billion-a-year](https://www.usatoday.com/story/news/world/2013/06/24/elephant-rhino-security/2447233/) global trade in illegal wildlife, must also be addressed. Beijing has suggested it will [ban trade in illegal wildlife and seek tighter regulation of the wet markets](https://www.businessinsider.com/china-ban-illegal-animal-trade-tighten-supervision-on-wet-markets-2020-2). The latter in particular may be easier said than done, according to [Dr. Zhenzhong Si](https://uwaterloo.ca/ecological-agriculture-in-china/about/people/zhenzhong-si), a research associate at Canada’s University of Waterloo who specializes in Chinese food security, sustainability, and rural development. Dr. Si [argued that](https://www.bloomberg.com/news/articles/2020-04-08/wuhan-is-returning-to-life-so-are-its-disputed-wet-markets) “[b]anning wet markets is not only going to be impossible, but will also be destructive for urban food security in China as they play such a pivotal role in ensuring urban residents’ access to affordable and healthy food.”

To be fair, this isn’t the first time that the sacred tenets of the global economic framework have dealt with a crisis that seemed to usher in a new era. The same thing happened in the aftermath of the financial crisis of 2008. But that was largely seen as a financial crisis, a product of faulty global financial plumbing that nobody truly understood, as opposed to a widespread social collapse closely approximating the conditions of the Great Depression as we have today.

Not only has the current lockdown put the entire global economy into deep freeze, but it also came amidst a backdrop of widespread political and social upheaval, and a faux recovery whose fruits were largely restricted to the top tier. A collateralized debt obligation is not intuitively easy to grasp. By contrast, being forced to stay at home, deprived of vital income and isolated from loved ones, while health care workers perish from overwork and lack of protective gear, is a different order of magnitude.

Even as we re-integrate, it is hard to envisage a return to the “old normal.” Trade patterns will change. Self-sufficiency and geographic proximity will be prioritized over global integration. There will be new winners and losers, but it is worth noting that the model of capitalism we are describing—one that does not feature obscenely overcompensated CEO pay co-existing with serf labor and the widespread offshoring of manufacturing—has existed in different forms in the U.S. from 1945 into the 1980s, and still exists in parts of Europe (Germany) and East Asia (Japan, South Korea, Taiwan) to this day.

Our everyday lives will be impacted as selective quarantines and some forms of social distancing become the new normal (much as they were when we dealt with tuberculosis epidemics). All of this has implications for a multitude of industries: restaurants, leisure, travel, tourism, sporting events, entertainment, and media, as well as our evolving definition of “essential” industries. Even our concept of personal privacy will likely have to be amended, especially in regard to medical matters. Concerns about medical surveillance—stigma (STDs, alcoholism, mental illness) and denial of insurance—can be alleviated if everyone is guaranteed treatment regardless of ability to pay, which will mean greater government intrusion into the lives of citizens and activities of businesses as the public sector seeks to socialize costs.

Taken in aggregate, we are about to experience the most profound social, economic and political changes since World War II.