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The Crossroads of Capitalist Globalisation

Introduction.

The modern era of globalisation began in the 1970s. It was characterised by ever-increasing economic liberalisation underpinned by an ideological belief that the free market is the best way to organise economic activity. The United States of America led this process through its position at the core of the Washington Consensus institutions. After three decades of 'wild capitalist globalisation' the international system of political economy stands at a crossroads, facing a series of fundamental contradictions arising from the unconstrained operation of the free market. Humanity faces a Darwinian challenge of species survival. America's interaction with China and the Muslim world will be critically important in determining the resolution of the contradictions that confront the human race. It is an open question whether this interaction will end in terrifying conflict or in cooperation.

1. The two-edged sword of capitalist globalisation

1.1 Capitalist Rationality in the Era of the Global Business Revolution

For over two thousand years, through the mechanism of marketplace competition in the pursuit of profit, capitalism has been the key force propelling forward human ingenuity to increase productivity and improve material well-being. Financial institutions and mechanisms have been centrally important to the growth of capitalism. Since the 1970s capitalist competition has reached a new peak of intensity as capitalism has penetrated ever more deeply into the four corners of the globe.

During this period, there took place an unprecedented concentration of business power. Far from mergers and acquisitions mostly failing, most mergers and acquisitions succeeded in advancing the long-term competitive position of the firms that undertook them. In almost every sector, a handful of 'system integrator' firms stand at the centre of their respective global supply chains, upon which they exert tremendous pressure. This 'cascade effect' caused high-speed industrial consolidation over large areas of the supply chain.

In terms of mainstream economic theory, this should have brought the capitalist system to a juddering halt, as oligopolists colluded to restrict output, reduce investment in technical progress and raise prices. Instead, this period witnessed the extraordinary intensification of oligopolistic competition. Giant firms in every sector fight with each other to produce better, cheaper and more long-lasting products. The world's top 1400 firms spend \$ 550 billion annually on R&D. The top 100 firms account for three-fifths of the total R&D expenditure. In other words, around 100

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giant firms, which compete intensely with their rivals, account for the lion's share of global technical progress.

This period witnessed ever-deeper intermeshing of national economies, drawn together by the bonds of trade and, even more, by cross-border investment by international firms. It widened the scope for individual freedom from control by others over their lives, and provided the foundation for democratic institutions. It witnessed the construction of a global culture, facilitated by the amazing advances in information technology. It contributed to peace among nations thanks to the market's function of nurturing contacts and trust across national boundaries. The advances achieved by the globalisation of capitalism appeared all the more striking, when set against the failure of non-capitalist systems of economic organisation.

1.2 The Contradictions of Capitalism in the Era of the Global Business Revolution

At the same time as liberating human beings to a greater degree than ever before from the constraints that bind them, the impact of the unrestrained free market produced profound contradictions. We live in 'the best of times', but we also live in 'the worst of times'.

The natural world has been used as a limitless resource to be exploited for profit by human beings. We not only face the prospect of devastating climate change. The destruction of the natural world raises the prospect that humans will face an 'age of loneliness' within a few decades. This raises profound questions about the relationship of human beings to the world around them: 'Can any civilisation wage relentless war on life without destroying itself and without losing the right to be called civilised?' (Rachel Carson, *Silent Spring*).

The past three decades have seen large increases in inequality within both rich and poor countries, and the persistence of grotesque inequalities in the distribution of global income and wealth. The top two per cent of the global population have around one-half of total global wealth, while the bottom fifty per cent of humanity have only one per cent. A small minority of the world's population is employed in or close to the value chain of leading global companies. They enjoy greatly superior incomes and conditions of work compared with the vast majority of humanity, who work either in labour-intensive farming or in the non-farm 'informal sector', where conditions of work and real incomes have changed little over centuries.

The landscape of industrial competition is extraordinarily uneven. The high-income economies contain just 15 per cent of the world's total population. Firms headquartered in these countries account for over nine-tenths of the companies listed in both the *Fortune 500*, which ranks firms by sales revenue, and the *FT 500* list of the world's leading firms, which rank firms by market capitalisation. They account for almost all of the world's top 1,400 firms ranked by expenditure on research and development. Today's high income countries all used state industrial policy to stimulate their respective national firms. Only through such state industrial policy, adapted for the conditions of the early twenty-first century and the particular circumstances of each country, can large firms from developing countries hope to 'catch-up' with the world's leading firms.

The American-led, global free market in money was at the core of capitalist globalisation. For three decades the Washington Consensus institutions, closely supported by the Wall Street lobby, relentlessly hectored the governments of developing countries to privatise and liberalise their financial systems in order to obtain the benefits from free markets in finance. The key to the vast profits earned by the giant financial firms based in the high income countries was their freedom to act almost without restraint in order to achieve huge increases in leverage. At the core of the Washington Consensus was the confidence that unregulated financial markets based on privately owned banks were self-correcting. The financial crisis demolished this 'free market fundamentalist' view. By the end of 2008 it was undeniable that the basic cause of the crisis was 'within the market itself'.

The contradictions arising from unconstrained, 'wild' capitalism threaten the very existence of the human species. If human beings are to resolve these contradictions it is urgently necessary to establish global mechanisms to contain the 'monster' of unconstrained global capitalism that we ourselves have created. However, to establish the regulation necessary for sustainable global development requires cooperation between countries whose national interests diverge. While the capitalist economic system has become global in scale politics is mainly conducted at a national level. The mechanisms for the world's citizens to control the global capitalist system are weak. The interests of individual nations are strong. Military force remains a central part of international relations. It is a strange paradox that after three decades of peaceful capitalist globalisation America spends \$ 2 billion per day on the military, and that it possesses a stock of 8,000 active or operational nuclear weapons, 2,000 of which are on hair trigger alert, ready to be used with 15 minutes warning.

2. Groping for a Way Forward.

2.1 Conflict or Cooperation?

At the dawn of the twenty-first century, despite the fact that the zenith of American power has already passed, America sits at the centre of global political economy. The free market policies that lie beneath the comprehensive global system crisis are the child of the Washington Consensus. The Social Darwinist policies that America has promoted globally have produced profound contradictions within America itself as well as in the relationship between the United States and the rest of the world.

Ever since the publication of Samuel Huntington's famous book it has become widely accepted in America that there is a 'The Clash of Civilisations' with both China and the Muslim world, each of which contains 1.3 billion people. In fact, neither China nor the Muslim world is hostile to capitalism. They each have their own rich traditions through which they can contribute to a sustainable future for humanity in the twenty-first century. The possibility of their doing so will be much greater if America is able to develop an evolving pattern of 'constructive engagement' with both of them. 'Destructive engagement' will lead to disaster.

2.2 The United States and China.

The essence of capitalism is its propensity towards universalism. In the pursuit of profit capitalism pushes beyond local boundaries, whether village, town, region or country. However, there is a persistent tension between capitalism's universal impulse, and the nation. In the process of constructing modern capitalism, against the

expectations of nineteenth century political economists, the national state propelled capitalism forward and reinforced the sense of national identity and interests, through the mechanisms of mass education, the mass media and government ideology. The rise of modern capitalism in the late nineteenth century erupted into the international conflict that dominated much of the twentieth century. Even in the era of capitalist globalisation, there persists a profound tension between the national state and the international impulse of capital. The tension is crystallised today in the relationship between America and China.

The possibility that the relationship between America and China might result in terrifying conflict is attracting increased attention. Political commentators routinely refer to the Peloponnesian Wars in which the rising Athenian power fought a long and destructive war with the dominant power, Sparta: 'The Peloponnesian War not only lasted for a long time, but it brought unprecedented suffering for Hellas. Never before had so many cities been captured and devastated; never had there been so many exiles; never such loss of life, both in actual warfare and in internal revolutions' (Thucydides, *The Peloponnesian Wars*).

Capitalist development has a long history in China. Prior to the early modern period China's embryonic capitalism was far more developed than that of Europe. China's capitalist development took place within the context of a powerful state that, in periods when the system functioned well, shaped the pattern of capitalist development in numerous ways to meet common social interests. This was the foundation of its hugely impressive long-run economic and social development. Confucianism nurtured a deeply developed concept of 'duty' which was the foundation of collective action and social prosperity. Confucianism was a complete philosophy. It combined a carefully thought out system of morality for rulers, bureaucrats and ordinary people with a comprehensive analysis of concrete ways of both stimulating and controlling the market. When the system worked well the government attempted in an non-ideological, pragmatic fashion to solve practical problems that the market could not solve.

The fact that the system went through regular cycles when these principles were poorly observed, rulers and bureaucrats were corrupt and the economy and society foundered should not blind us to the underlying coherence and lasting benefit from this integrated system of philosophy and public action. China's policy-makers today can gain inspiration from this experience, 'using the past to serve the present', as they struggle to find their own path through which to relate to capitalism's surging power and contradictory character.

In China after the 1970s the combination of political stability under the leadership of the Chinese Communist Party, and experimental economic system reform and opening up, resulted in a remarkable period of development. China is unique among large late-comer countries in its degree of openness to trade, international capital and business, and international culture. China's ever-expanding incorporation into global capitalism has transformed the country's productive forces and social relationships, producing enormous benefits for Chinese people.

However, China's deep integration with global capitalism has led to wide-ranging problems that threaten the entire social, economic and political system. These include

the explosive growth of inequality, drastic deterioration in the physical environment, the harsh challenge of the 'Global Business Revolution' for Chinese firms, widespread corruption, and the difficulties of reforming its financial sector. China faces the daunting prospect that while it is still a lower middle-income country it will become 'grey' and will move out of the 'Lewis' phase of economic development with unlimited supplies of labour. Within only a few years these developments will profoundly affect its political economy.

The Chinese government is working hard to overcome the country's immense development challenges. These include policies to equip the country's leading firms to compete internationally, to mitigate the unequal distribution of income, to improve health and educational for the mass of the population, to improve energy efficiency, to reduce environmental pollution, and to tackle corruption. No sector is more vital to the government's reform efforts than finance. China is groping for a way to achieve 'harmonious development', which establishes a balance between China's inland and coastal regions, urban and rural areas, society and economy, and nature and man.

Traditional China was the most isolated of the great civilisations of the ancient and medieval world, cut off from them by physical barriers. The concept of 'Great Harmony' is not in principle confined to China. Many people in China hope and believe that its ancient civilisation can make an important contribution towards building cooperative institutions that can contribute towards ensuring a globally sustainable future for all human beings. The idea that China is already a superpower is already deeply ingrained in American public consciousness. However, despite its rapid development China is still far behind the development level of the high-income countries (Table) and has many interests in common with other developing countries.

China has a highly developed sense of its own national interests and has numerous urgent domestic development problems that need to be resolved. However, since the 1970s, the Chinese government has emphasised repeatedly its commitment to 'reform and opening up', and constructive engagement with the international community of nations in a non-ideological, pragmatic fashion.

Capitalist globalisation brought enormous benefits to America. China's increasing involvement in the global capitalist economy contributed greatly to American prosperity. American firms benefit from their investments in China. American high technology companies benefit by their sales to China and by employing large numbers of Chinese scientists and engineers. American consumers benefit from China's cheap exports. The American Government benefits from China's bond purchases.

However, global capitalism has also given rise to intense contradictions within American capitalism in respect to social inequality, energy security, the environment, and financial fragility. There is a growing perception that China's rise threatens the dominant position of its firms, as well as its social stability, the identity of American firms, its energy security, its natural environment and its financial stability. These perceptions influence decisions taken by the leadership and they can be exploited by politicians in a time of socio-economic crisis. America now faces the prospect of a prolonged period of economic difficulties, which increases the possibility of looking upon China as the scapegoat. Ever since Independence America has a long history of

achieving internal political stability by uniting the nation against a perceived external threat.

The degree of inter-connectedness in world affairs is now so great that it is no longer possible even for the strongest political economy in the world to establish 'national' security within its own borders. It is a delusion to imagine that in a globalised political economy even the most powerful economy can isolate itself securely within its own national boundaries while contradictions rage in the world around it.

If America seeks long-term security it faces a 'choice of no choice'. It must cooperate with Communist China to support the construction of a harmonious society internally within China. The areas of necessary cooperation include resolving China's energy needs, its ecological difficulties, its financial system reform, and reform of its health and education system, and supporting China's efforts to establish a just distribution of income. In other words, it must accept and contribute to China's peaceful development, even if that means accepting that the resulting system of political economy will look very different from that of the United States today.

America and China have no choice but to cooperate to solve the global challenges produced by capitalist globalisation, and work together to build the global institutions that are necessary to ensure a sustainable future for the human species.

2.3 The United States and Islam.

The widespread hostility in the Muslim world against the 'West', especially America, is a consequence of a set of inter-related historical factors that have little to do with religion, let alone class struggle and hostility to capitalism. However, the fact that Muslims have an identity that transcends national boundaries has contributed to an anger and resentment that is international, and unites much of the world's Muslim population. Naturally, the form in which this anger is expressed employs language and imagery from the Koran and the surrounding belief system. This does not mean that the conflict has religious origins. It does not mean that there is a 'clash of civilisations'.

Islam is not opposed to capitalism. The medieval and early modern Muslim world constituted a vast unified free trade area, with all the benefits for specialisation, the division of labour and the diffusion of knowledge that flowed from this. From the late nineteenth until the middle of the twentieth century, from Indonesia through to North Africa, the Muslim world was mostly ruled by the colonial powers. International capital penetrated most Muslim countries. A national capitalist class emerged. Despite widespread anger at the long period of rule by foreign powers the late nineteenth and early twentieth century saw a significant advance of modern industrial capitalism across the Muslim countries.

In the wake of colonialism most Muslim countries pursued some form of socialist planning, within the overall context of a mixed economy. From the late 1960s onwards, they mostly implemented some form of '*infitah*', or 'opening up' to international trade and capital flows, alongside privatisation of nationalised industries. A broad swathe of Muslim countries from Indonesia through to Turkey achieved quite rapid growth of output from the 1970s onwards under different forms of modern

capitalism and realised wide-ranging improvements in health, education and women's position in society.

Since the earliest days capitalist development in the Muslim world has been characterised by broadly similar inequalities in wealth, income and power as characterised capitalism in other parts of the developing world. In both the medieval and modern Muslim world revolutionary social and political movements arose that sought to overthrow capitalism. As in other parts of the world, they sought to establish communist societies based on collective ownership and egalitarian income distribution. Like Christianity, Islam can be used as the basis for a fundamental and often violent opposition to the injustice, inequality, individualism and commercialisation that is inherent in capitalism. In the Muslim world millenarian movements have used the language of Islam to express their protest at the injustice of capitalist development. However, they rarely, if ever, toppled the existing socio-political structures. The attempt violently to overthrow a society based on private property and to establish a form of communism remained at the margins of the Muslim world, both physically and intellectually. The notion that there is a fundamental 'clash of civilisations' between an anti-capitalist Islam and the capitalist West is refuted by over 1300 years of Muslim history.

Both in the Muslim Middle Ages and in the world of modern Muslim capitalist development, there has been an intense debate about how best to ensure that Muslim society can peacefully produce social harmony. Muslim criticism of capitalist injustice has centred on the ways in which private property and material incentives can be constrained to serve the collective social interest while allowing society to benefit from the explicitly recognised dynamic character of market competition and private property. The main body of critical Muslim thought has been preoccupied with achieving harmonious development between different social interests. It has emphasised finding a balance between the extremes of individual rights and social duties, and between the pursuit of profit and using the usufruct from capital to serve the social interest. It has recognised the benefit to society of competitive markets while wishing to regulate commercial behaviour through laws and individual conscience, acquired through education, in such a way as to serve the social interest, and establish a 'moral economy'.

Since the 1940s the Middle East has been a focal point of American international relations, alongside its Cold War struggle with the USSR, and the still unresolved relationship with China. America has unceasingly and extensively intervened in the region. America's relentless pursuit of oil and 'energy security', combined with its deeply ideological goals and its unstinting support for Israel, have undermined capitalist development in the Middle East.

By far the largest oil reserves in the world are located within the national boundaries of the country that was the birthplace of the Prophet Muhammad. It is where the key sites of the Islamic religion are located. A large fraction of the remaining oil reserves are located in the surrounding territories that formed the early core of Islam. Spurred on by the lobbying power of giant oil companies, the governments of the leading high-income countries have intervened unceasingly in the political evolution of the oil-producing countries of the Middle East in order to ensure the satisfaction of their national energy needs. These relentless geo-political and military interventions, right

through to the recent invasion of Iraq, in the pursuit of oil supplies from the region that is the core of the Islamic religion, have resulted in common sentiments of hostility among Muslims towards Western governments, especially America.

America helped to bring about the downfall of the democratically elected Mossadeq government in Iran in 1953 and the re-installation of the Shah in its place. Since the overthrow of the Shah, America has tried ceaselessly to bring about the overthrow of the Iranian regime. It supported Iraq in its war with Iran. It has exercised a long-term and intensifying economic blockade of Iran. For many years in the latter phase of Saddam Hussein's rule it administered an economic blockade of Iraq, causing serious damage to the welfare of Iraqi people. Having long supported undemocratic regimes in the interest of *realpolitik*, it belatedly attempted to implement a policy of establishing a so-called 'New Middle East', based on democratic institutions throughout the region. This was widely perceived in the Muslim world as a fig-leaf to disguise the attempt to put into place regimes sympathetic to American interests in the region, including access to oil for American oil companies.

Despite widespread dislike of the Saddam Hussein regime, the American invasion of Iraq was greatly resented by a large body of Muslim opinion throughout the Muslim world. The invasion brought chaos to Iraq, and threatened to engulf the surrounding regimes. This brought even greater resentment among Muslims worldwide. America has consistently supported authoritarian, pro-American governments in the oil-producing Muslim countries. There is widespread anger at America in the Muslim world for bolstering these corrupt and highly unequal systems of political economy. The fact that America stations a massive military force in the Middle East is widely resented in the Muslim world as an intrusion upon the region's sovereignty.

The colonisation of Palestine by Jewish immigrants and the subsequent establishment of a separate Jewish state of Israel is a massive obstacle in the way of positive relations between the Muslim world and the West. Instead of migrating to the region to become part of a larger Middle East state (a 'Greater Syria') to which they might have made an invaluable contribution, the Jewish immigrants set out to build a separate state in which people of the Jewish religion would constitute the overwhelming majority. The colonisation of Palestine from the late nineteenth century onwards was conducted in the face of ferocious opposition from the native population. The Jewish colonists angered Muslims by their propagation of the myth of an empty 'Promised Land', that God had always intended should be re-occupied by the Jews, his 'Chosen People'. Israel constructed an immensely powerful military machine with enormous American support, which enabled it to defeat its Arab neighbours in a succession of military conflicts.

Muslims around the world were greatly angered by the fact that Israel relentlessly extended its boundaries, including the territories seized after the 1948 War and those seized after the Six Day War. They were angered by its refusal to countenance the return of East Jerusalem and the return of Palestinian refugees to Israel. They were angered by the fact that Israel strongly resisted the return of the Occupied Territories on the West Bank, Gaza, and the Golan Heights, and that it settled a large number of Jewish people in the Occupied Territories. They were angered by the fact that Israel received powerful diplomatic, financial and military support from Western powers, including Britain and France, but especially from America, with its immensely

influential Zionist lobby. They were angered at French assistance to Israel to develop nuclear weapons, and at the fact that America turned a blind eye to this. They were angered at Israel's invasion of Lebanon and its cruel treatment of Palestinians in Gaza, culminating in all-out military attack.

America has failed comprehensively over the long-term in its policies towards the Muslim world. It was already widely unpopular among Muslims prior to the attack on Iraq. After the attack perceptions of America among wide sections of the world's Muslim population sunk to a new low.

The Pew Global Attitudes Survey of 2007 showed that across much of the Middle East, a large majority of the population (60-90 per cent) hold an unfavourable attitude towards America. Such views are not confined to Muslims in the Middle East. They are held widely across the Muslim world. In Indonesia, Pakistan and Malaysia, 70-90 per cent of the population hold an unfavourable attitude towards America.

Overwhelming majorities of the population across the Muslim world consider that the America 'favours Israel too much'. In America itself only eleven per cent of the population in the Pew Survey sympathises with the Palestinians in the Israel-Palestinian dispute, but in every single Muslim country an overwhelming majority of people sympathises with the Palestinians. A majority of people in almost all countries (not just Muslim ones) believe that America promotes democracy mostly where it serves its own interests. An overwhelming majority (60-80 per cent) of people in Muslim countries 'oppose US-led efforts to fight terrorism'. However, there is little evidence of support for so-called 'Islamic fundamentalism'.

If America wishes to re-build its global leadership role it has no choice. It must comprehensively re-assess its relationship with the Muslim world and work patiently to establish a long-term constructive engagement. It must fundamentally re-assess its whole strategy, away from the pursuit of ideological goals, unquestioning support for Israel, and the use of military force to achieve energy security. Instead it must develop consistent policies for long-term, non-ideological, constructive engagement with the diversity of Muslim tradition and its current reality.

Conclusion.

Humanity stands at a crossroads. The era of 'wild capitalist globalisation' has drawn to a close, hastened by the global financial crisis. The contradictions of capitalism in the early twenty-first century are, for the first time, global in nature. In the search for solutions to the multiple threats to the sustainability of life for the human species, there is no alternative other than to work together across national frontiers, cultures and levels of development, to find a pragmatic, non-ideological, cooperative way to overcome these threats. Global institutions are necessary to resolve the global contradictions of wild capitalism.

America's relationship with China and the Muslim world is central to the prospect for global regulation. The mainstream of neither the Confucian nor the Islamic world has sought to destroy capitalism. Rather, it has sought to regulate the market in the wider social interest. The Confucian and Islamic traditions can each contribute to the ethic of the moral economy that sits at the heart of the regulatory system that is needed to resolve the profound contradictions that confront the human species. It is an ethic that combines a concern with individual rights and freedoms with a concern for duties and

responsibilities towards the collective interest. Polarisation of discussion into a choice between American 'Enlightenment' values and Oriental 'Confucian' and 'Muslim' values is destructive to progress in regulating the capitalist global market to which all nations now inescapably belong.

The Darwinist threats that face the human species derive from the nature of capitalist globalisation itself. The solutions also are immanent within the universal tendencies of capitalism. America bears a heavy burden of historical responsibility. It has the opportunity to grasp the nettle of leadership and build on its own traditions to lead the world towards cooperation and harmony, or it can pursue its own self-interest, wrapped in the cloak of ideology, and lead the world towards disaster. The path taken by the United States at this 'crossroads' in its own history and in that of the human race as a whole will determine the outcome for the whole human species. This is a mighty 'new frontier' in American history.

Appendix.

China and the World Turned Upside Down.

	China	High Income Countries	China as percentage of High Income Countries
Population (million) (2006)	1,312	1,031	127
Gross National Income (at official rate of exchange) (2006):-			
- Total (\$ billion)	2,621	37,732	6.9
- \$ per person	2,000	36,608	5.5
Gross National Income (PPP \$) (2006):-			
- Total (\$ billion)	6,119	36,005	17.0
- \$ per person	4,660	34,933	13.3
Manufacturing value-added (\$ billion, 2006)	752	5,383	14.0
Household consumption (billion PPP \$, 2006)	2,019	22,323	9.0
International trade:-			
-Exports (\$ billion) (2006)	969	8,451	11.5
-Imports (\$ billion) (2006)	791	8,984	8.8
<i>FT 500</i> companies (2009)	27*	436	6.2
<i>Fortune 500</i> companies (2009)	34*	440	7.7
<i>Global 1400</i> companies (2008) **	9	1,363	0.7
of which: top 100	0	100	0
IMF voting rights (%)	3.66	60.5	
CO2 emissions:-			
- total (million tons, 2004)	5,006	13,382	37.4
- per capita (tons, 2004)	3.9	13.1	29.8

Notes

* excluding Hong Kong.

** The top 1400 companies ranked by R&D expenditure.