

Opinion **Davos**

## Davos 2018: The liberal international order is sick

Delegates need to consider what is to be done to save the model from wreckage

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Last year, Donald Trump was a [spectre](#) haunting the World Economic Forum's annual meeting, in Davos. This year, he [may be there](#) in the flesh. If so, it will be an uncomfortable encounter. He rejects the tenets of the liberal international order promoted by his country over seven decades. These values also animate the WEF. They are what make it something more than just a forum for world's rich and powerful.

As Princeton's John Ikenberry argues in a [recent article](#), the "US and its partners built a multi-faceted and sprawling international order, organised around economic openness, multilateral institutions, security co-operation and democratic solidarity". This system won the cold war. That victory, in turn, promoted a global shift towards democratic politics and free-market economics.

Today, however, the liberal international order is sick. As [Freedom in the World 2018](#), published by Freedom House, a US state-funded non-profit organisation, states, "Democracy is in crisis". For

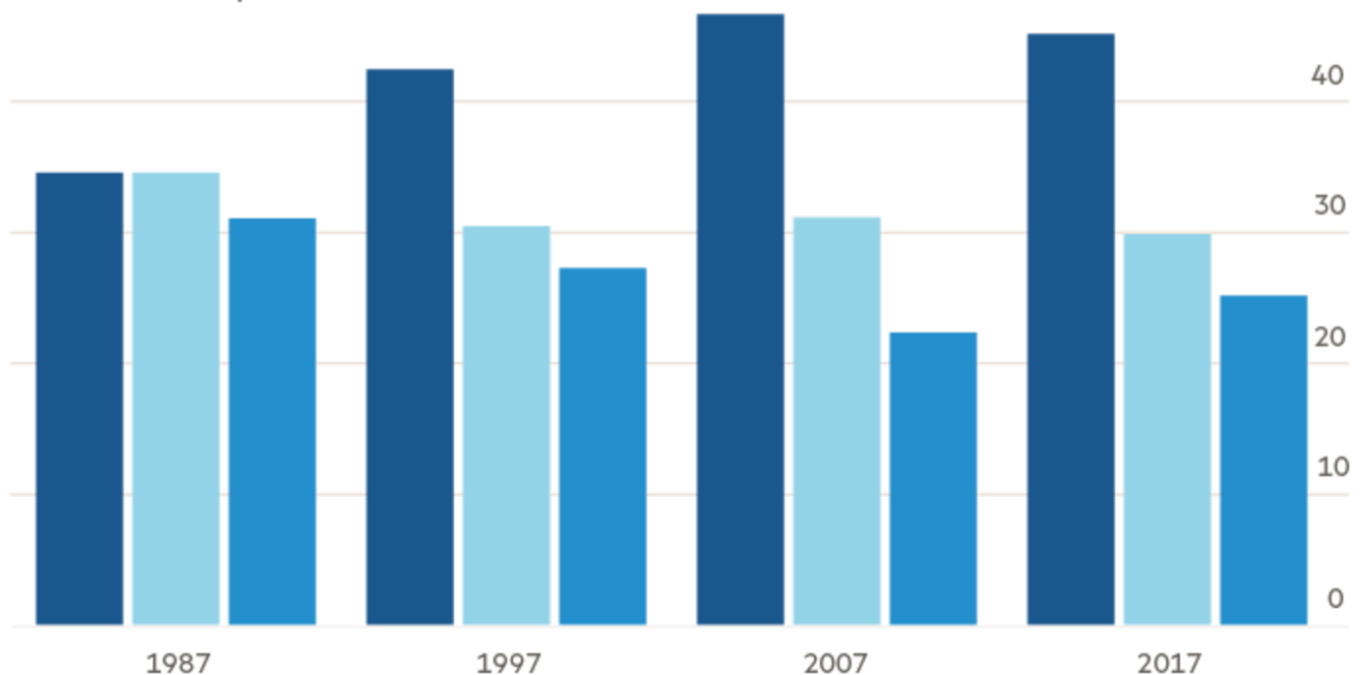
the 12th consecutive year, countries that suffered democratic setbacks outnumbered those that registered gains. States that a decade ago seemed promising success stories — such as Turkey and Hungary — are sliding into authoritarian rule.

Yet now, when potent authoritarian regimes challenge democracy, the US has withdrawn its moral support. Mr Trump even shows sympathy for autocrats abroad. Worse, argues Freedom House, he violates norms of democratic governance.

## Democratic recession

% of countries by classification

■ Free ■ Partly free ■ Not free



Source: Freedom House  
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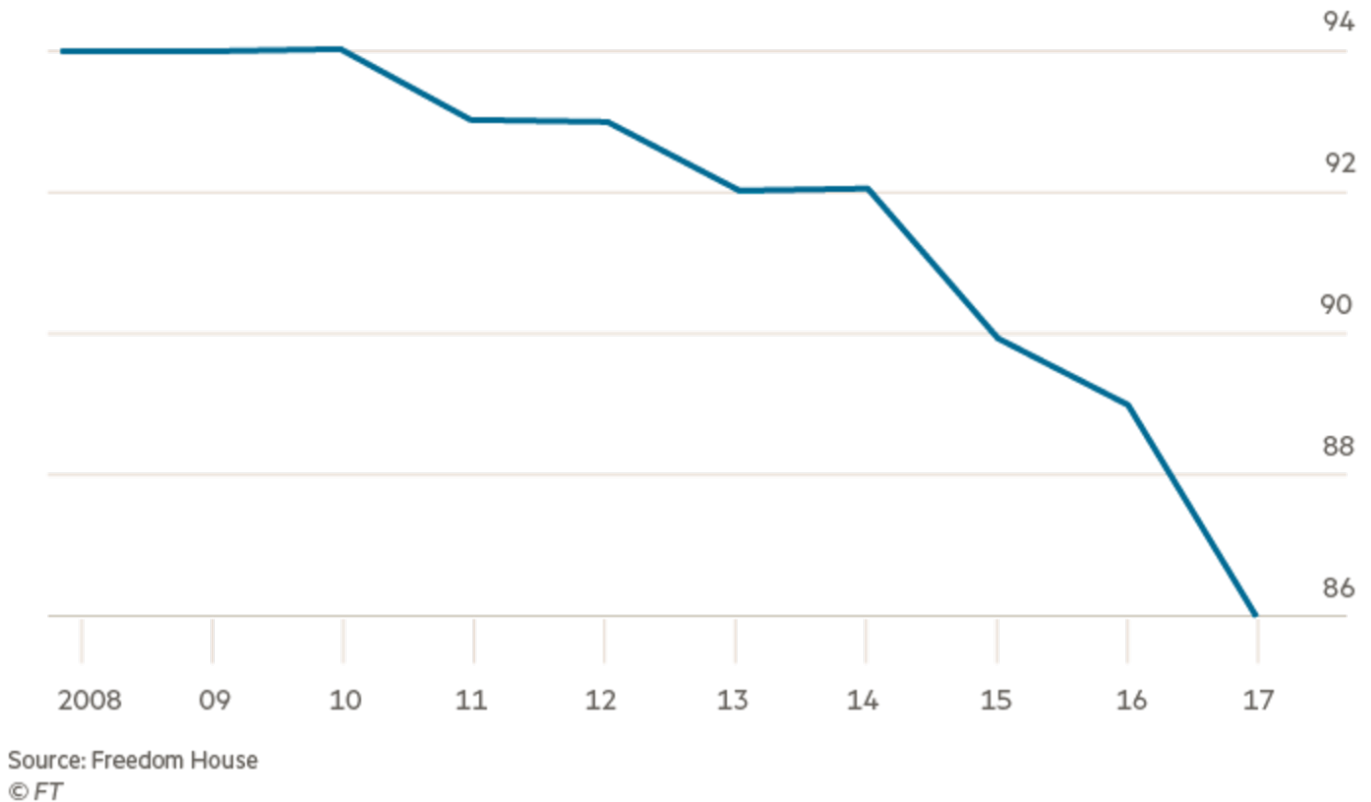
Under Mr Trump, the US also questions the fabric of international co-operation — security treaties, open markets, multilateral institutions and attempts to address such global challenges as climate change. It has, instead, proclaimed its intention to look after its own interests, even at the direct expense of longstanding allies. Relations are now to be transactional.

Nor is the underpinning of the world economy in better shape. The economy may be [recovering](#), but no significant trade liberalisation has occurred since China's [accession](#) to the World Trade Organization in 2001. Brexit will also prove to be an act of [deglobalisation](#). [Trade](#) and [capital](#) flows have been growing no faster than world output. Hostility to immigration is rampant. China, a new superpower, even [tightly controls](#) the flow of ideas.

Those who believe in the symbiosis of democracy, a liberal world economy and global co-operation simply have to find all this more than a little scary.

## Even in the US

US 'Freedom In the World' aggregate score



So why has this happened? The answer consists of changes in the world and in the domestic condition of countries, especially that of the high-income democracies. Among global changes, the most important are the declining relevance of the west as a security community after the end of the cold war, together with its diminishing economic weight, especially in relation to China.

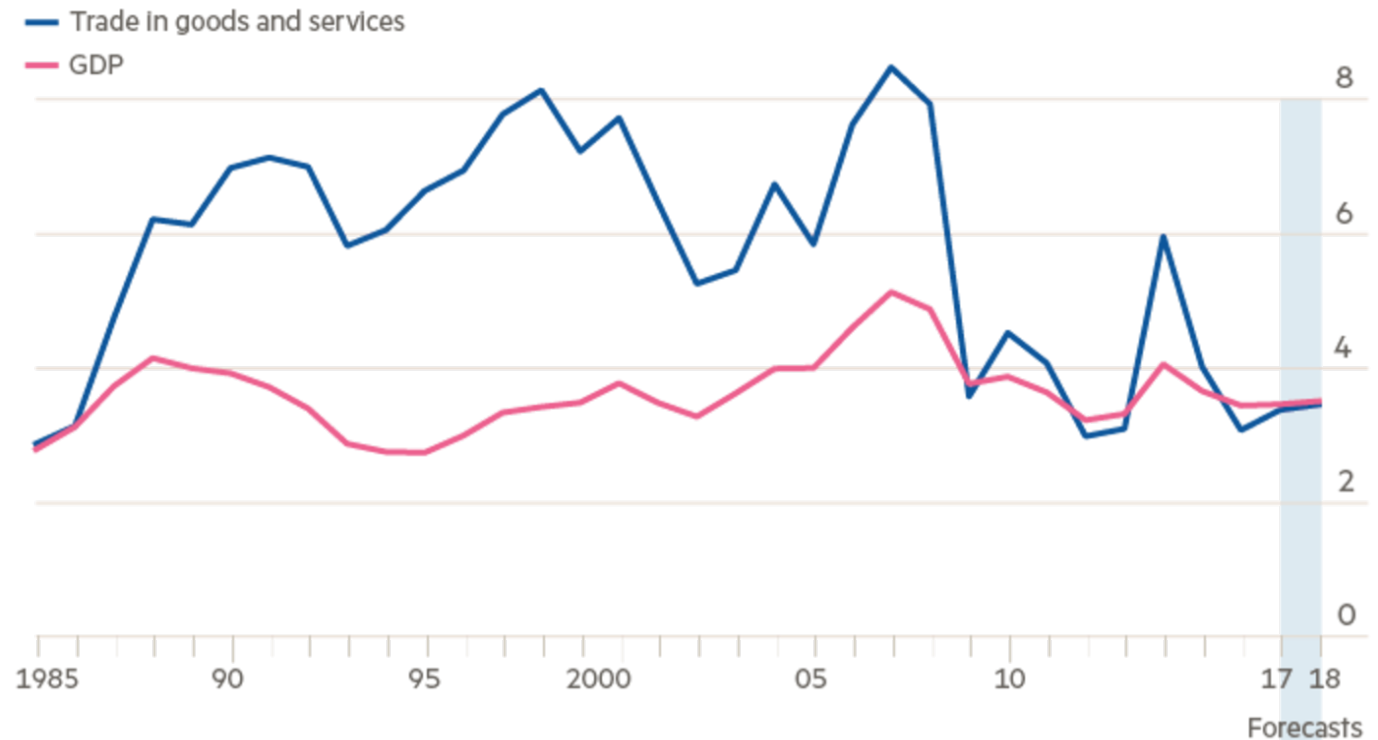
Many Americans feel they have both less reason and less ability to be generous to erstwhile partners. Among domestic changes, many in high-income countries feel that the liberal global order to which their countries have been committed has done little for them. It is generating, instead, the sense of lost opportunities, incomes and respect. It may have brought [vast gains](#) to the sorts of people who frequent Davos, but far less to everybody else. Especially, after the shock of the financial crisis, the tide does not seem to be rising and, if it is, it is certainly not lifting all boats.

As Mr Ikenberry summarises: “The crisis of the liberal order is a crisis of legitimacy and social purpose.” Mr Trump’s programme, which I label “[pluto-populism](#)”, is a recognisable result of all

this. It tells its supporters that their interests will no longer be sacrificed: they will come first. The fact that the policies of the administration are unlikely to deliver any such benefits may be irrelevant. Not enough people are listening to those who argue this.

## Global trade stagnates

Annual volume growth (five-year moving average, %)



Source: IMF  
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For those who believe a liberal international order rooted in democratic politics is ethically right and the best way to reconcile global co-operation with domestic legitimacy, this is depressing. Davos men and women have to consider what is to be done to save the global order from wreckage.

It would be possible merely to hope for the best. As the economy recovers, optimism may return. This should, in turn, assuage at least some of the discontent. But this is facile. The forces leading to divergent outcomes within our economies are powerful. It is far from evident that even [financial fragility](#) has been eliminated.

Instead of complacency, we need to confront two fundamental questions.

## As does finance

Stock of global foreign Investment liabilities (\$tn)

Equity-related

Equity

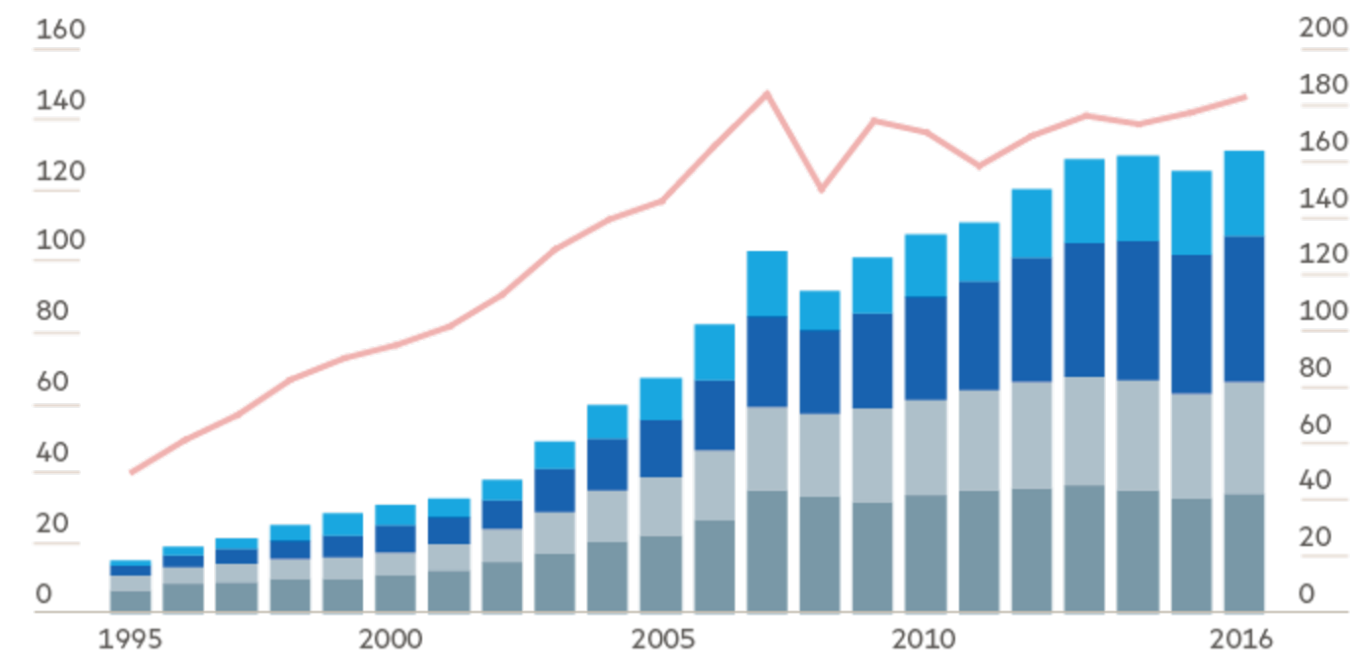
FDI

Debt-related

Debt securities

Lending and other Investment

Foreign  
Investment  
liabilities  
(as a % of GDP)



Source: McKinsey Global Institute  
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The first is which is the more important if it comes to a hard choice: domestic political cohesion or international economic integration? At the margin, it has to be the first. Economic life demands political stability. The range of policies — fiscal, monetary and financial — must make the bulk of the population feel their interests count. Otherwise, democratic stability is in peril.

The second is where to focus efforts at global co-operation. The answer must be that managing the global commons and maintaining global stability comes first. While I would like to see further liberalisation of trade, it has to be done in the right way and is no longer a high priority. Still less pressing is opening borders further to free movement of people or even maintaining free flow of global capital. Politics are overwhelmingly national. The results of political choices must satisfy the people of each country.

Mr Trump is not the cure. But he is evidently a symptom. The liberal international order is crumbling, in part because it does not satisfy the people of our societies. Those who attend Davos need to recognise that. If they do not like Mr Trump's answers — they should not — they need to advance better ones.

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