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# THE END OF GLOBALISATION AS WE KNOW IT

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*While it is impossible to predict the outcome of the war in Ukraine in the short term, we can more confidently assess its medium-term consequences. The Russian invasion of Ukraine and the unprecedented sanctions with which the west has responded will be a watershed in the trajectory of the global economy. The consequences of the economic isolation of Russia will long outlive the duration of the war and the sanctions. Globalisation will never fully recover from this blow.*

After Russia launched a full-scale invasion of Ukraine on 24 February 2022, western countries have responded with exceptionally harsh economic sanctions[1]. The European Union, as Russia's main trading partner accounting for 38% of its exports, played a key role. Its position as Russia's main export destination provides it with leverage, but this is partly neutralized by its own dependence on imports of Russian gas and oil. As a result, the EU has often been accused of handling Russia with kid gloves. In response to Russia's occupation of Crimea and the downing of the MH17 plane in 2014, the EU reacted mainly with diplomatic sanctions and restrictive measures limited to individuals and specific companies.

The speed and scale of the EU's response to the Russian invasion of Ukraine therefore came as a surprise to many. Germany, often among the most hesitant EU member states when it comes to using sanctions in general and against Russia in particular, decided to shelve the Nord Stream 2 pipeline. The EU closed its airspace for all Russian carriers. More significantly, on March 2nd seven Russian and three Belarusian banks were banned from the Brussels-based SWIFT financial messaging system and hence excluded from international financial markets, a move considered a last resort "financial nuclear weapon"[2] just a week earlier. At least as consequential was the ban on transactions and freezing of the assets of the Russian and Belarussian Central Banks.

The EU has extended asset freezes to more Russian individuals, including President Putin and Minister of Foreign Affairs Lavrov, and has broadened export controls in the energy, transport and technology sector. The Union, together with other countries, stopped treating Russia as a most favoured nation within the World Trade Organisation, enabling it to further impose restrictions on imports from Russia.

The goal of these (currently four) packages of sanctions is to run dry the financial and material flows supporting Russia's war in Ukraine. The French Economy Minister Bruno Le Maire even undiplomatically stated that the objective is to "cause the collapse of the Russian economy", a quote from which he later backtracked[3]. While stopping the imports of Russian hydrocarbons seems impossible in the immediate future, the EU has now made it an explicit short-term goal.

Russia is responding with its own countersanctions, such as restrictions on raw material exports and threats to nationalize western companies.

### From liberal peace to weaponised interdependence

The events of the past weeks shake some age-old convictions about the relationship between economic and foreign policy. It has long been believed that increased economic integration would lead to the spread of democracy to every corner of the world and make war in the globalised era unthinkable. This "liberal peace theory"[4], popularized by Thomas Friedman's dictum that two countries that both have a McDonald's would not go to war with each other[5], has been considered one of the few true "laws" of politics. The law has now been falsified. Globalisation, or the presence of McDonald's, did not stop Russia from invading Ukraine, but the war has now forced McDonald's to stop operating in Russia.

The idea that economic interdependence guarantees international political stability and friendship had already lost some of its lustre before the war in Ukraine. The concept of "weaponized interdependence" coined by Henry Farrell and Abraham Newman in 2019[6], which argues that asymmetric interdependence can be leveraged by states to pursue strategic interests, has rapidly gained currency. The weaponization of SWIFT to try to choke the Russian financial system is a crystal-clear illustration of their argument.

Not only academics but also policymakers have in recent years started to abandon the idea that trade and foreign policy can be neatly separated or that their goals are always mutually reinforcing. In the EU, this view that was still dominant no more than a decade ago is now widely considered to be "naïve". The shortage of personal protective equipment in the first weeks after the covid outbreak that left EU Member States scrambling for masks and gloves, and the humiliating Chinese "facemask diplomacy" towards Italy and others, drove home the insight that import dependence can be a matter of public health and national security, not just a desirable feature of an optimal global division of labour. More generally, global value chains and just-in-time business models that were long considered the high-water mark of economic efficiency now became seen as causes of supply chain disruption and economic stagflation.

The European Union responded to the covid pandemic and its economic fallout by rethinking its trade policy. In its 2021 trade policy review it put forward "open strategic autonomy" as its new guiding principle. This implies that the EU's trade policies should help ensure that the EU is able to make its own choices and shape the world in line with its strategic interests and values, rather than undermining this ability. But the practical elaboration of this new principle was far from revolutionary. Open strategic autonomy was not interpreted as an imperative to reduce interdependence but rather as a stimulus to diversify dependencies, complemented with the build-up of production capacities and reserves in a limited set of strategic goods[7].

### This time is different

While in the recent past, globalization has managed to survive blows dealt by not only a pandemic but also a global financial crisis[8], politicisation, populism, and inequality and climate change challenges, this time might be different. Now, an entire economy, the ninth largest in the world (when counting the EU as a whole), is being cut off from the global economy, or at least from its western hemisphere. Russia, which had prepared for additional sanctions but not of the scope and severity that they turned out to be, is now struggling to rearrange its economy and financial system to become largely independent from the west (except for energy, for now), with some help of countries like China and India.

Since the war in Ukraine and the sanctions against Russia, governments and firms no longer have the luxury to ignore geopolitics in their decision-making. Governments will become increasingly less tolerant of overdependence on imports of strategic supplies. This will not be limited to fossil fuels or Russia. The dynamics that unfolded in the past weeks will amplify concerns among policymakers about relying on (potential) strategic rivals for the imports of medicines, critical raw materials[9], microchips, and the like. Inward and outward investment will be scrutinised even more critically for security risks. Governments will try to escape networks in which they find themselves in a vulnerable position. Already, China and Russia have been exploring alternatives to SWIFT and are considering joining forces in this respect.

Private firms as well will have to factor in the higher plausibility of disruptive conflict and sanctions in their investment and supply chain decisions. Many western multinationals have pulled out of Russia in recent weeks to escape the collateral damage of sanctions or to protect their corporate image. The costs of dismantling operations in Russia from one day to the next run high. The loss for BP of selling its 20% stake in the Russian oil company Rosneft alone is an estimated $25 billion[10].

Even if the war would be peacefully resolved soon and sanctions on Russia would be withdrawn, it is unlikely that foreign companies would be as willing to risk investing in the country as they have been in the past. This logic exceeds Russia. Investors and companies can be expected to factor in a much more significant probability of conflict, followed by disruptive sanctions, such as after a Chinese incursion into Taiwan[11].

**Security-driven deglobalisation**

It is not fanciful to imagine that the war in Ukraine and the sanctions of the west against Russia will increasingly split the world economy in (at least) two parts. Global value chains, which have always been more regional in nature than their term suggests, might be rewired within a western and an eastern hemisphere. The war in Ukraine could in this way succeed in bringing about some degree of deglobalisation, a goal long pursued by social justice activists.

Security-driven deglobalisation might bring some positive side effects. It could lead to a reinforcement of efforts to decarbonise the economy to reduce dependency on autocratic fossil fuel exporting countries, like the European Commission has proposed with its REPowerEU plan, announced less than two weeks after the start of the war. It may result in more transparency about financial transactions and do away with "golden passport" programs with which cash-strapped countries tried to lure oligarchs. It might shorten supply chains, decrease transportation costs and associated negative externalities and curtail regulatory competition as firms' opportunities to outsource and relocate are curtailed.

But deglobalisation that is driven by a mutual suspicion about the threat that interdependence could be weaponised should not be unequivocally welcomed. When the economy and trade become predominantly perceived through a geopolitical lens, this could lead to a prioritization of security and defence not only over efficiency but over sustainability and social justice as well. Moreover, we should not succumb to the logical fallacy that because interdependence did not prevent war, autonomy will guarantee peace. Decoupling between major powers would make the economic weapon of sanctions obsolete, leaving standing by or responding with military means as the remaining options.

Finally, countries in the global south will watch the west's change in trade course with bitter irony. They have since long warned that free trade threatens their security, not in military terms but to ensure sufficient food for their populations. The response that they received is that food security is better guaranteed through cheap imports than via domestic production support or stockholding. Now, the war in Ukraine and the sanctions against Russia risk causing food shortages in some of the poorest countries in the world, many of which depend heavily on Ukraine or Russia for wheat imports. The world has an obligation to prevent famines as another tragic consequence of this war. And when the link between trade and security is redefined, the global south's interests and views cannot be forgotten.

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[1] I would like to thank Niels Gheyle and Jan Orbie for helpful comments on an earlier version of this paper.

[2] Giorgio Leali, "France not opposed in principle to cutting Russia from SWIFT: Bruno Le Maire," *Politico*. February 25, 2022. https://www.politico.eu/article/frances-le-maire-not-against-cutting-russia-out-of-swift/

[3] Davide Basso, "Le Maire backtracks after talking of 'economic and financial war' against Russia." *Euractiv.* March 2, 2022. https://www.euractiv.com/section/politics/short_news/le-maire-backtracks-after-talking-of-economic-and-financial-war-against-russia/

[4] E.g. Michael W. Doyle "Three Pillars of the Liberal Peace." *American Political Science Review* 93 no. 3 (2005): 463.

[5] Thomas L. Friedman, "The Lexus and the Olive Tree: Understanding Globalization," (New York: Picador, 1999).

[6] Henry Farrell and Abraham L. Newman, "Weaponized interdependence: How global economic networks shape state coercion," *International Security* 44, no. 1 (2019): 42-79. See also Andrej Krickovic, "When interdependence produces conflict: EU–Russia energy relations as a security dilemma." *Contemporary Security Policy* 36, no. 1 (2015): 3-26.

[7] Cfr. Jacobs, Thomas, Ferdi De Ville, Niels Gheyle and Jan Orbie. "The hegemonic politics of 'strategic autonomy' and 'resilience': COVID-19 and the dislocation of EU trade policy." *Journal of Common Market Studies* (2022, forthcoming).

[8] Ferdi De Ville and Jan Orbie, "The European commission's neoliberal trade discourse since the crisis: Legitimizing continuity through subtle discursive change," *The British Journal of Politics and International Relations* 16, no. 1 (2014): 149-167.

[9] Cfr. Tobias Gehrke, "Putin's critical raw materials are a threat to EU economic security," *Egmont Institute*, March 15, 2022, https://www.egmontinstitute.be/putins-critical-raw-materials-are-a-threat-to-eu-economic-security/.

[10] Ron Bousso and Dmitry Zhdannikov, "BP quits Russia in up to $25 billion hit after Ukraine invasion," *Reuters*, February 28, 2022, https://www.reuters.com/business/energy/britains-bp-says-exit-stake-russian-oil-giant-rosneft-2022-02-27/.

[11] Hudson Lockett and Edward White, "Investors in Taiwan seek to hedge against risk of conflict with China," *Financial Times*, March 15, 2022, https://www.ft.com/content/f5c45861-599d-412f-85e7-13f86963f5bb/.