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**Article**

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Ben Zissimos

## The End of the End of History: A Political-Economy Perspective

Are we coming to the end of the “end of history” that Fukuyama (1989) envisaged four decades ago? His argument is that over time, liberal democracy has proved to be a fundamentally better system, ethically, politically and economically, than any of the alternatives, and therefore, once it is established, it will not be supplanted by any other system. This would have fundamental implications for geoeconomics and geopolitics. Endorsed by enduring liberal democracy, global capitalism would provide rising standards of living across the board, and this would promote global peace. The bankruptcy of the Soviet Union, the fall of the Berlin Wall and the end of the Cold War in 1989 seemed to confirm Fukuyama’s argument. How different the world looks today. China, a one-party state, is challenging the United States (US) as the world’s greatest superpower, leading other states to consider following China’s example. Even in countries where liberal democracy was once thought to be unassailable, the spread of populism now seems to threaten to undermine it from within.

If we are now at the end of the “end of history”, what should we expect the geopolitical and geoeconomic contours of the world to look like in the future? Increasing competition and tension between the US and China are changing the geopolitical landscape. This seems to suggest the possibility of a bipolar world with two blocs, where one bloc of countries remains under US influence while another bloc gravitates towards China. Is this a realistic scenario? If so, what are the implications? The purpose of this contribution is to provide a perspective on this set of questions, using insights we have gained from the field of political economy.

Based on the logic of the political economy frameworks considered, I argue that we are indeed heading towards a bipolar world where countries gravitate either towards the US or China. This will lead to less globalisation and hence less international business activity, making the

world poorer as a result. The novelty of my argument is that populism is actually a driver of this process, rather than being distinct from it, so I see the spread of populism and the polarisation of countries towards either the US or China as intertwined. This is significant from the standpoint of Fukuyama’s argument because populism is operating within the democratic process. I argue that although the current polarisation into two blocs presents an opportunity for the European Union (EU) to step into the breach, the fact that populism is spreading across Europe as well means that in all likelihood it will fail to do so. I conclude that since the polarisation of the world is caused at least in part by the rise of populism, our first order of business is to address the problems that lead democracies to become populist in the first place.

### Why a unipolar world order formed after World War II

To understand how we might evolve towards a bipolar world order now, we first need to understand why a unipolar world order formed after World War II. From there, we seek to understand why the world order might evolve away from that situation towards one that is bipolar. The cornerstone of a unipolar world is a country referred to as a hegemon. In international relations, a hegemon is an actor with overwhelming capability to shape the international system through both coercive and non-coercive means (Norrlof, 2015). Usually, this actor is understood to be a single state, such as the United Kingdom in the 19th century or the US in the 20th and 21st centuries.

The main institutions through which the US has been able to shape the international system non-coercively are the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO). We focus our discussion on these three because, as arguably the most important (non-coercive, for which read, non-security based) institutions, they have the greatest influence.<sup>1</sup> The key insight that we gain from political economy about non-coercion is that all countries must benefit from participating in any institutional arrangements voluntarily. Hence, we must understand not just how the US benefits as hegemon from shaping the international system but also what incentivises the majority of other countries to adopt the international system that the US shapes.

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<sup>1</sup> See Wood (2021) for a discussion that sets them in a broader international institutional context.

The framework that we adopt to understand this is developed by Mattoo and Staiger (2020). Their analysis focuses on how the US played the role of hegemon in establishing the General Agreement on Tariffs and Trade (GATT) in 1947, from which the WTO was formed in 1995, and how other countries had an incentive to become first GATT signatories, and subsequently WTO members. The reason it is helpful to understand the logic in terms of the WTO is because the parameters of power are particularly clearly defined in this setting. Hence, the incentives for both the US and other countries can be clearly defined and understood. However, arguably the same logic can be applied to the IMF and World Bank as well.

The GATT/WTO is a rules-based multilateral trading system. The two key principles that the rules support are reciprocity and the most-favoured-nation principle (MFN). Reciprocity refers to the notion that bargains should be balanced, so that as a result of the agreed tariff liberalisation, each country can anticipate an increase in the volume of its exports that is roughly equivalent in value to the increase in the volume of its imports. MFN means that the terms of trade agreed by any two countries must automatically be extended to all countries.

As Mattoo and Staiger (2020) argue, the purpose of these rules is to constrain the exercise of power. Indeed, according to Jackson (1989), this set of constraints is the very meaning of a rules-based system. Reciprocity serves to neutralise the exercise of power in tariff bargains, because it preserves balanced terms for the bargain. It does this by holding constant the terms of trade, which in principle are not subject to negotiation. And MFN dilutes the ability of a powerful country to undermine the benefits to other countries, because all the gains from bargaining by powerful countries are automatically extended to all weaker countries as well.

The commitment to a rules-based system clearly benefits the weak, but paradoxically it is also valuable for the hegemon precisely when it is at its most powerful. That is because the hegemon faces the greatest difficulty in committing not to exploit the weak *ex post*, once the bargaining has begun and the weak become vulnerable to exclusion from trade deals between the hegemon and other weak countries. By providing a way for the hegemon to commit to neutralising its bargaining power, the rules-based system encourages participation by weak countries, which benefits the hegemon because of the increased volume of trade gains that it realises.

How does this logic extend to the IMF and the World Bank? Both organisations were designed in 1944 as mechanisms for cooperation among countries, regard-

less of their political ideology. The idea was to provide a forum for agreeing upon common rules and pooling financial provisions that would help to buffer the effects of monetary shocks and financial crises while also providing financing for post-war reconstruction (Woods, 2021).

The purpose of the IMF is to stabilise the international monetary system. Most relevant in this regard is its role in preventing competitive devaluations. These devaluations are comparable to tariff setting because in the short run they would enhance the competitiveness of domestic goods at the expense of foreign ones. Of course, when all countries act on this incentive, then, like with tariffs, everyone loses in the long run. But the US, presiding over the dollar that is the world's vehicle currency, has significantly more power in this situation than other countries. At the same time, it benefits from the stability of the international monetary system by drawing as many countries into this system as possible.

The purpose of the World Bank is to support the long-term economic growth of developing countries, ultimately benefitting the US through their political stability and through their engagement with the world trading system. A major function of the World Bank is to lend to developing countries on concessionary terms to assist with critical infrastructure that will in turn facilitate sustainable growth. But again, the US as hegemon potentially wields power over the terms of concessionary lending through the World Bank, and this leaves borrower nations vulnerable to *ex post* renegotiation of their loan contracts in a way that could be costly to them.

Woods (2006) argues that the US recognised the power of its position as hegemon in the negotiations that established the IMF and World Bank, and agreed to institutional features that would constrain its power specifically to give other countries an incentive to engage. For example, she describes how the US Congress initially envisaged that the executive directors of each of these institutions would be answerable to their own country governments. But Woods (2006) goes on to explain how, in both institutions, the final result was a board of directors who have dual roles as international civil servants, paid by the IMF or the World Bank and working for these organisations, while also being answerable representatives of their own governments. Hence, like with the WTO, the US had an incentive to constrain its power over the IMF and the World Bank. This gives weaker countries an incentive to engage with these institutions, which benefitted both themselves and the US.

### Why evolve towards a bipolar world now?

At first blush, it might appear that the evolution towards a bipolar world, with the US and China at each pole, is

driven by an emboldened China spurred on by its increasing economic might. However, Shiffrinson (2020) argues that even as China's relative power grows, it has an incentive to cooperate with the US now and in the longer term. I argue that in fact, the reason we are evolving towards a bipolar world is because the US has lost interest in the very international institutions that, as hegemon, it played a primary role in setting up.

As with understanding the motivation behind a unipolar world, it is easiest to illustrate the evolution towards a bipolar world in the case of the WTO. Like the motivation for a unipolar world, the logic I develop for the WTO draws on Mattoo and Staiger (2020) as well. We then discuss subsequently how the same logic of evolution applies to the IMF and the World Bank. Taking the unipolar world as a starting point, I argue that the US has an incentive to abandon the rules-based multilateral trading system embodied by the WTO, and move to a power-based system. The rise of China does play an initiating role in this process. But it is the US response to this rise that is critical.

The process for the WTO works as follows. As the demand for Chinese exports to world markets grows, this leads to an improvement in the terms of trade of its goods over those of other countries, including those of the US. Eventually, as China's rise continues, the US finds that it would benefit more from clawing back some of its terms of trade with China by abandoning the rules-based trading system and resorting to a power-based system that enables it to maximise its terms of trade. When I say that the US benefits, I do not mean that everyone in the US benefits. This only has to hold for a plurality of voters.

How does moving to a power-based system benefit the US? Recall that under the principle of reciprocity, tariff bargains must be balanced so that as a result of the agreed tariff liberalisation, each country can anticipate an increase in the volume of its exports that is roughly equivalent in value to the increase in the volume of its imports. A key implication of this is that the terms of trade remain constant in any tariff bargains that are struck. Under a power-based system, by contrast, a large country like the US leverages its purchasing power on world markets by increasing tariffs, reducing its demand for other countries' goods and forcing down their terms of trade. Any subsequent bargains are done with this power-based motive at the forefront. The volume of trade declines, but the improvement in the terms of trade may be more than enough to compensate. Depending on the extent to which other countries retaliate, the US may be able to benefit from this process.

Seen in these terms, the trade war that former US president Donald Trump launched in 2018 against China and

several other trading partners can be interpreted as the US abandoning the rules-based multilateral trading system in favour of a power-based one. The main tariff escalation took place in July/August 2018, when the US imposed tariffs on US \$50 billion of Chinese imports, during which time it also imposed import tariffs on other trade partners including Canada and the EU. The trade war was fully established as China, the EU and other trade partners began to respond by levying tariffs of a similar magnitude against the US. In January 2020, a "phase one deal" was struck between the US and China, whereby China agreed to purchase an additional US \$200 billion worth of US exports, representing a bilateral power-based trade agreement outside the scope of the WTO.

Do these changes represent a permanent shift of the US away from the WTO? Arguably, yes. Since December 2019, the USA has continued to block any appointments of new judges to the appellate body of the WTO. The effect has been to render the body inoperative since 11 December 2019, as it does not have the requisite minimum of three judges to hear a case. At the time of writing, even though Joe Biden took over from Donald Trump as US president in January 2021, many of Trump's tariffs remain in effect, as do those imposed by trade partners in retaliation (Bown and Kolb, 2022). This suggests that the US shift towards a power-based system is not specific to the Trump Administration and may be here to stay.

As discussed in the previous section, a benefit of the rules-based multilateral trading system is that significantly weaker countries, for which read developing countries, are drawn into the system without fear of having their weaker position exploited. As this system breaks down and evolves towards a power-based system, weaker countries lose their motivation to engage with the hegemon and will gravitate towards other countries instead. In this instance, it appears that they are gravitating towards China. Indeed, between 2000 and 2021, the value of trade between China and Africa increased from US \$10 billion to US \$254 billion (The Economist, 2022). Of course, most of that increase predates the evolution towards a bipolar world that we are focusing on here. But what it does suggest is that as African countries lose their motivation to engage with the US through the WTO, they will gravitate ever more towards China. Although less pronounced elsewhere, this is indicative of trends followed by other developing countries as well.

How does the logic of this evolution play out for the IMF and the World Bank? Until the end of the Cold War, the US dominated these organisations. But over the past two decades, the US dominance has started to wane. President Trump's administration, by withdrawing engage-

ment and support from international organisations, accelerated the diminishing of US influence. In response, China has taken steps to increase its influence, both within these organisations and by creating alternatives. It has stepped up efforts to gain representation through senior leadership positions within both organisations; efforts that have been resisted by the US (Woods, 2021). At the same time, China has set up development banks intended to challenge the dominance of the World Bank and the IMF, such as the China Development Bank and the Asian Infrastructure Investment Bank. These banks are providing funding to countries that have been passed over by the IMF and World Bank, contributing to the degree of polarisation between the US and China (The Economist, 2015).

### **The rise of China drives populism, which drives international polarisation**

I have described a process above whereby the rise of China prompted the US to move away from a rules-based approach to multilateral institutions towards a power-based approach. The result has been a loss of motivation for developing countries to engage with the multilateral institutions and to gravitate instead towards China. The key remaining detail in my argument about how this process has worked is to explain precisely why the rise of China prompted the US to lose interest in the rules-based approach. In this section, I discuss how the rise of China contributed in a substantial way to a populist backlash in developed countries, including in the US with the election of President Donald Trump, and how it was the resulting policy choices that drove international polarisation between the US and China.

Populism means many different things in popular discourse. However, Mudde's (2004) definition of populism has gained widespread traction throughout the social sciences. This is that populism considers society as separated into two homogeneous and antagonistic groups: "the pure people" versus "the corrupt elite". This Manichean dichotomy can be applied to all sorts of ideologies, such as socialism, nationalism, anti-imperialism or racism, in order to explain the world and justify specific agendas. Hence populism may be left-wing or right-wing. Its defining feature is that politics should help express the general will of the people. On this definition, populism challenges the pluralist political approach of establishing a consensus based on the legitimacy of different groups. So there is a direct parallel with the idea of the tyranny of the majority, where the majority of an electorate pursues its own objectives at the expense of those of minorities, leading to the oppression of minorities (Mill, 1859, 6, 7, 13; Miller and Zissimos, 2022).

Despite the wide range of possible motivations for populism, Guriev and Papaioannou (2022) have been able to identify a dominant set of patterns characterising the rise of populism in their comprehensive review of the literature on this topic. They find that in the past two decades, populist party vote shares have increased by about 10 to 15 percentage points (i.e. they have roughly doubled), and populist parties have taken power in more countries than ever before. The main beneficiaries of this increase have been mostly right-wing, nativist, xenophobic parties. The main casualties were centrist and left-wing pro-redistribution parties and policies. Even where populists have not taken power, they have influenced the policy platforms of centrist parties. In terms of policy impact, the rise of populism has resulted in an increase in the implementation of right-wing conservative policy agendas of protectionism and anti-immigration.

Regarding the specific relationship between the US and China, Guriev and Papaioannou (2022) point to evidence uncovered by Autor et al. (2020), that in the US the "China shock" has driven an increase in support for right-wing conservative Republicans at the expense of Democrats and moderate Republicans. From their analysis of the data, Autor et al. (2020) find that import competition from China is associated with a significant increase in the vote share of Donald Trump, generally regarded as a populist politician, when he became US President in 2016. As discussed above, Trump went on to implement policies that distanced the US from the IMF, World Bank and WTO, as part of his overall nationalist and protectionist policy platform. So it does seem reasonable to argue that there is a causal link between the rise of China and an increase in populism in the US, which in turn drove an increase in polarisation between the US and China.

### **Conclusions**

In this article, I have argued that the world is becoming increasingly polarised between the US and China because the US has lost interest in the rules-based multilateral system of international institutions that it was instrumental in setting up after the Second World War. Moreover, I argued that this happened because the China shock prompted a rise of populism in the US that led voters to support Donald Trump and his right-wing conservative policies of nationalism and protectionism. This outcome in the democratic process in the US is noteworthy because it flies in the face of Fukuyama's (1989) prediction of an "End of History", whereby a convergence towards liberal democracy internationally would in turn support global commerce and multilateralism. It should be said that Fukuyama has revised his own position, recognising that we may be coming towards the end of the "the end history" (Gibson, 2022). The contri-



bution of the current article lies in explaining the process through which this is happening.

One might have hoped that the EU could step into the breach created by this polarisation. However, the spread of populism has been as widespread across EU countries as elsewhere, and the shift in policy stance towards nationalism and protectionism just as marked (Guriev and Papaioannou, 2022). Although the Sino-European relationship is less antagonistic than that of the US and China, the fact that European voters seem to be turning inwards does not bode well for the prospect of an EU that leads the way back towards multilateralism.

Regarding the prospects for the future, the main take-away from this article is that to solve the problem of world polarisation, we need to find a way to solve the problems that have driven the rise of populism. Guriev and Papaioannou (2022) provide a comprehensive range of suggestions. From the standpoint of the focus of this article, we need to find a better way to compensate the losers from globalisation so that voters re-engage through the democratic process with openness and benefit from the potential for increased prosperity that this holds.

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