

Interview with Dr. Dennis Snower, President of Global Solutions Initiative, Germany

# Restoring Global Governance to Prevent Divided Blocs

By Japan SPOTLIGHT

The geopolitical crises of today have threatened to trigger a global recession. Reshoring and “Friend-shoring” of production to avert intensifying security risks could cause a serious divide between democratic nations and autocratic nations, and the global economy could be divided into blocs. We would need to restore globalization for the health of the economy, but how to achieve this is a big issue for global governance.

Japan SPOTLIGHT interviewed Dr. Dennis Snower, a distinguished economist and founder and president of Global Solutions Initiative, which offers policy advice, in particular to international institutions such as the G7 and the G20.

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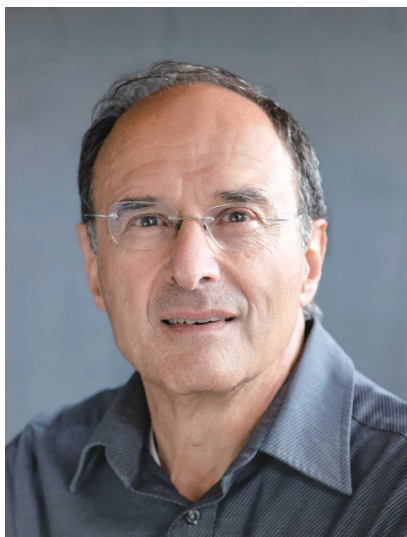
## Mid-Term Prospects for the Global Economy

**JS: How do you assess the possibility of a global recession occurring next year? Would it likely be confined to a year or would it continue for a while?**

**Snower:** I think it will continue in the medium run. I believe this is going to be a long recession. From everything that we know, we are entering a new era and in this new era there will be higher interest rates – because of the need to dampen inflationary pressures around the world – and there will be a decoupling of global value chains across what is commonly called the autocratic-democratic divide. There will be a need for countries to achieve greater resilience in their value chains by making themselves less dependent on countries who do not share their geopolitical views.

**JS: Would you say that this geopolitical crisis will be a key factor in a long-running recession?**

**Snower:** I would say that the geopolitical crisis will lead to a decoupling of some value chains. This means countries that do not wish to be dependent on other countries across their geopolitical divides with regards to important products and important resources will require a re-networking of global value chains, which will be more costly and mean that the potential for global growth is less than it was before – because countries will not be able to benefit



Dr. Dennis Snower

from one another to the same extent.

That is sort of a long-term trend. With regard to the short-run recession, I think the fact that it is synchronous in developing and developed countries will ensure that this recession will take a longer time to come out of. Although it's not useful to compare this recession with the financial crisis (or the recession that followed the financial crisis,) it is worth noting that the advanced countries of the world never really did return to their growth path after that crisis.

So it had a very long-term effect for more than a decade. Covid plus the geopolitical tensions are easily as strong an impulse in terms of recession as the financial crisis was, but this time we have less ammunition to recreate normality because interest rates are

currently low and the indebtedness in many countries is high; there is thus little latitude for fiscal monetary policy.

**JS: Would this mean that the shape of globalization has completely changed?**

**Snower:** It will change both in services and goods. With goods there will be much greater emphasis on keeping production close to where the consumers are and therefore greater emphasis on automation and reshoring with regards to countries that are on the opposite side of the political divide. With regard to services, the same holds; there's very strong technological competition between China and the United States which is out in the open and these countries will want to reduce their dependence on one another.

In addition, of course, all the countries of the world have seen what the consequences are economically of a geopolitical strategy that is averse to the West – Russia has been severely punished and the fact that the sanctions that were applied after the invasion of Crimea were not sufficient to change Russia’s stance with regard to Ukraine means that sanctions now are much larger and other countries that engage in geopolitical adventures over similar sorts can expect something similar. Therefore other countries will want to become less dependent on the West just as the West wants to become less dependent on other countries.

**JS: So this reshoring will be further encouraged?**

**Snower:** Yes, but within these blocs. Within countries that have the same geopolitical status I would imagine that there will be as strong if not stronger relations than there were before. But there will inevitably be a decoupling across the geopolitical lines and that will take some time to work itself out and it is a longer-term trend.

## **Economic Security & Resilience**

**JS: Would that mean we will need to sacrifice economic efficiency for economic security?**

**Snower:** Well, I think that is a very interesting way of putting it, but I would put the matter somewhat differently. I believe we are entering into an uncertain age, an age of considerable technological disruption with AI and bio/nanotechnologies changing the shape of the world. We are entering into an age that we have not been able to foresee in any way.

In addition, we have these geopolitical disruptions and also we have the possibility of continued climate threats and health threats as well as financial threats. All this I think amounts to uncertainty. We don’t know what the situations are that we will face and therefore if you do not know the situation that you’re in, then efficiency has less meaning. What countries should focus on more is adaptability and resilience. Adaptability and resilience are very different concepts from efficiency. Resilience means that you can bounce back to where you were before but much more important is adaptability, which is changing in response to novel events.

I believe if we adjust our labor markets, our product markets and our financial markets with a view to enhancing our adaptability, countries that do that will find themselves at a considerable

competitive advantage.

**JS: In order to strengthen resilience, I think that industrial policy is very important, in particular for developed countries. We also need a rules-based approach as this would enable us to reduce the uncertainty to some extent. Would you concur with these points?**

**Snower:** Industrial policy and a rules-based approach are two very important points. Let me start with the rules-based approach. I believe that we do need a rules-based approach but at a time of severe geopolitical conflict this is difficult to achieve. I believe the best opportunity we have for achieving a rules-based multilateral system is for the countries of the world to agree on one central principle: which is that even if we disagree geopolitically we need to cooperate in areas where global cooperation is the only way forward, like with regard to climate change. So countries that are on opposite sides of the barricades with regards to the Ukraine war should nevertheless agree to cooperate on climate change for the reason that future generations will never forgive us for ignoring the state of the climate because of the war in the Ukraine. Therefore, focusing on global problems and eliciting rules-based global cooperation to address these problems in spite of geopolitical tensions is a position that we must achieve in the multilateral domain. That will require enormous diplomacy on all sides.

With regard to industrial policy, I think it’s a very interesting question because there are two sides of this coin. One is that industrial policy must not become protectionist; that is, it cannot simply be there to enhance the interests of producers in the home country. It must be there to enhance the public interests and the public interests are not the same as the interest of the producers. If industrial policy becomes protectionist, then global value chains become very inefficient. People have to pay much more for their products than is absolutely necessary and there is a big loss in terms of standards of living and growth. But industrial policy is important in order to shape the direction in which technological progress is going so that we can achieve strategic security. Furthermore, countries that have the same geopolitical interests should cooperate in their industrial policies. I think that across geopolitical blocs this will be impossible to achieve but I would warn against industrial policy simply becoming an excuse for a new outbreak of protectionism.

## Need to Restore Global Governance

**JS:** To achieve this, a well-balanced approach among different interests such as climate change, economic efficiency, economic security and perhaps human rights as well will be required. We also need to improve our global governance system such as the WTO/OECD/G7 and so on. We are currently at the state of G-Zero and need to restore global governance.

**Snower:** Yes, we need to restore global governance and I believe we should look in two areas. One issue is that the current forms of global governance do not give countries with very different social, economic and political structures enough latitude to pursue common goals in distinct ways. I think the German proposal of a “Climate Club” provides a really useful example. With the Climate Club, countries can pursue a common goal – achieving decarbonization by 2050, for example – yet there is flexibility in how each country can meet the goal, as well as milestones, monitoring and the possibility of sanctions if countries do not make progress towards achieving their goal. In addition, there is the possibility of negotiating support so that rich countries can support poor countries in achieving those same levels of ambition.

So I think that is a useful approach to multilateralism because it extends the flexibility of the multilateral system. This flexibility is really important, given that political, social and economic systems differ very much – not only across the developed and developing divide – but also within those countries. The second point I’d like to make is that it really will be important to reform the governance of our main multilateral bodies, the UN Security Council and the WTO, IMF, World Bank, which are not constituted in a democratic way if one takes the current economic and geopolitical strengths of countries into account. Therefore, I think there is room for the grand bargain where Western countries agree to a fundamental reform of these big international institutions – which would mean weakening their voice within these institutions – in return for a commitment by emerging countries to cooperate on common issues like climate change and health crises in a way that is monitorable, verifiable and sanctionable. I believe such a grand bargain can be achieved obviously in times of geopolitical crisis. It’s difficult, but I think that is where the hard work needs to be done.

## What to Expect from G7 in Hiroshima in 2023

**JS:** On the question of global governance, the G7 is still a very important venue but what do you expect from the G7 meeting in Hiroshima next year? It might be the first year of a global recession.

**Snower:** I think the next G7 meeting in Hiroshima is going to be of extreme importance. This is the forum where the richest countries of the world assemble, and they will have the most clout to deal with a global recession. Secondly, it is the G7 that can be a catalyst for movement on the G20 front. So the G7 can offer support to emerging and developing countries with regard to climate ambition and health goals and thereby catalyze a global process.

I believe that Germany has done some important groundwork in this regard because much of the German G7 agenda is “G7 in the service of the global public good”. So the G7 is in the service of the G20 and beyond, providing useful new ideas and initiatives for it.

Japan now has a far more difficult job with a global recession coming along, geopolitical tensions hardening, and so on. Therefore, Japan’s job is to ensure that countries cooperate where they need to cooperate – even when they are opposed to one another politically – and this will be terribly important diplomatically speaking. How Japan deals with the coordination that is required to overcome the current recession will hopefully make some progress with regard to structural policy, since the latitude for monetary fiscal policy is limited. You mentioned industrial policy and the guidance of technological advances in the field. There is a great deal that can be done to make countries more adaptable and to provide an infrastructure, particularly a digital infrastructure, that will promote growth.

This is my last point but with regard to digital infrastructure the Japanese G20 effort on free flow of data with trust is terribly important in this regard, and I believe that the key to ensuring that these objectives can be met is to find a digital governance system that gives much more control over personal data to the people whom this data is about. So in that sense we need to control our data in the same way we control our labor services, and if we achieve that, then I think that will be an enormous impetus for growth. **JS**

Written with the cooperation of Joel Challender who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.