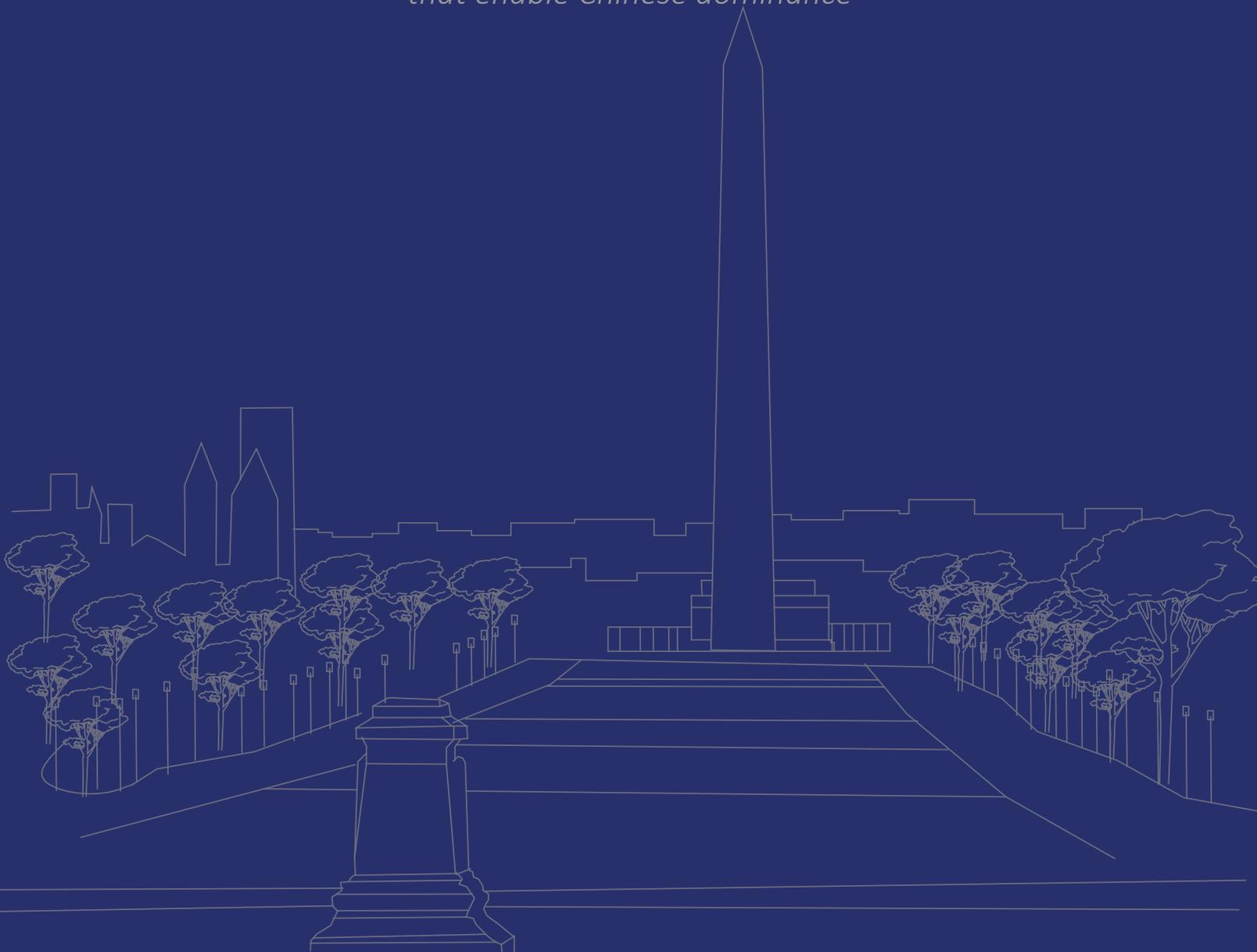


DETHRONED BY A VIRUS

How COVID-19 exposed a staggering lack of purpose and direction in Western neoliberal democracies that enable Chinese dominance



About ReSeT

Research on Security and Transnational Governance (ReSeT) is a not-for-profit think tank registered in Spain since 2011. We work as consultants for governments and other international actors to strengthen their position within a globalised world. We also develop in-house independent and non-ideological research and analysis on foreign policy, international cooperation, global institutions and security challenges.

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www.resetweb.org

For further inquiries, please contact:

Ishwari Rajesh Sawant (Project lead) : ishwari.sawant@gmail.com

Jana-Katharina Schueller (Principal author) : jk.schueller@web.de

About the team

Authors

Jana-Katharina Schueller, the principal author of this report, is a 4th year student pursuing a Dual Degree in Bachelors of Business Administration and Bachelors of International Relations at IE University in Madrid, Spain. Jana is a German national, who was born in the UK. Her interest in International Relations is fuelled by her family, who live(d) in Pakistan, Japan, the UK and Denmark. Jana

Ishwari Rajesh Sawant, the project lead for this report, is a 5th year student pursuing a Dual Degree in Bachelors of Business Administration and Bachelors of International Relations at IE University in Madrid, Spain. Ishwari is the Editor-in-Chief of RAlA Group, a student-led think tank in Madrid. She's driven by her passion for environmental policy making, specifically pertaining to the role of international actors and their dynamics, to push towards climate action.

Researchers

Gonzalo Rosillo Odriozola is a 5th year student pursuing a Dual Degree in Bachelors of Business Administration and Bachelors of International Relations at IE University in Madrid, Spain. Gonzalo is an enthusiast of history and politics, especially that of the USA. For this report, Gonzalo specialised in research pertaining to neoliberal countries with an emphasis on the values associated with democracy and an open society.

Filipa Kostadinova Zlatkova, is a 2nd year student pursuing a Dual Degree in Bachelors of International Relations. Filipa is a Bulgarian national and became curious about the field of international relations due to her interest in the European Union. For the report, Filipa specialised in research pertaining to neoliberal countries and understanding the dynamics within countries in international organisations.

Ecab Amor Vazquez focused on the area of Chinese dominance for this report, is a 4th year student pursuing a Dual Degree in Bachelors of Law and Bachelors of International Relations at IE University in Madrid, Spain. Ecab is the former Editor-in-Chief of the Stork, IE University's newspaper. Ecab holds human rights and hence, international humanitarian law of significant importance. For the report, Ecab's research focused on the statistical rise of China and identifying its international agenda.

Ahaan Rai is a 2nd year student pursuing a Dual Degree in Bachelors of International Relations at IE University in Madrid, Spain. His interests lie in foreign policy and geopolitics, which would explain his choice of degree. Ahaan's research focused on the statistical rise of China and identifying its international agenda.

Sophie Verbeek, is a 4th year student pursuing a Dual Degree in Bachelors of Law and Bachelors of International Relations at IE University in Madrid, Spain. Given her Dutch heritage and Belgian upbringing, she's always found true fascination in behavioural economics, psychology and its role within contemporary society. Her hope is that through the report, this will be brought back to centre stage and play a role in creating social cohesion, not division. Sophie's research assisted in combining the two distinct research areas through the case studies.

Balder Hageraats: ReSeT Coordinator.

List of Abbreviations

1. **AIIB:** Asian Infrastructure Investment Bank
2. **BRI:** Belt and Road Initiative
3. **CCP/CPC:** Chinese Communist Party
4. **COVID-19:** coronavirus disease
5. **ECB:** European Central Bank
6. **EU:** European Union
7. **FDI:** Foreign Direct Investment
8. **G20:** Group of 20
9. **G7:** Group of 7
10. **GDP:** Gross Domestic Product
11. **IGO:** International governmental organisations
12. **IMF:** International Monetary Fund
13. **INSTEX:** Instrument in Support of Trade Exchanges
14. **NAFTA:** North American Free Trade Agreement
15. **NATO:** North Atlantic Treaty Organisation
16. **NGO:** Non-governmental organisations
17. **OECD:** Organisation for Economic Co-operation and Development
18. **TTP:** Trans-Pacific Partnership
19. **UK:** United Kingdom
20. **UN:** United Nations
21. **USA/US:** United States of America
22. **USD:** US Dollar
23. **USSR:** Union of Soviet Socialist Republics
24. **WHO:** World Health Organisation
25. **WTO:** World Trade Organisation
26. **WWII:** World War Two

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Executive Summary

The first nine months of the pandemic established COVID-19 to be the ultimate accelerator of long-term dynamics that have been driving the Western pro-liberal world apart for some years - both within their respective societies and globally.

One of the two most important dynamics is the apparent failure of its adopted economic framework. All those belonging to this world subscribe to capitalism and adopted neoliberal policies - albeit to varying degrees. These policies arguably led to a consistent widening of the inequality gap while being unsuccessful in correcting market failures, resulting not least in the global financial crisis of 2008. As it took its toll, hardship did reach well into the middle classes, that saw their hopes diminished with their savings. This, in turn, made a growing proportion of people vulnerable to divisive politics of 'us and them' and to the fear of losing out, which has been aptly exploited by populists, who simplify complex issues and promise a return to a simple, golden age that never existed. The second pivotal dynamic threatening the cohesion within and between the Western pro-liberal world is therefore the weakening of their joint political framework, democracy, amidst anomic disintegration and the marginalization of increasingly large parts of society. The failure of the neoliberal ideology thus fuelled a sense of being governed by a remote elite rather than genuine representatives and guardians of people's essential interests - both in their own countries and via supranational organisations. Assumptions that democracy would inevitably become the dominant form of government across the globe proved themselves to be both unfounded and lacking in specific inspiration; the post-ideological, post-truth era of the 21st century shows itself to be sorely lacking a joined-up vision for Western societies to strive for.

All of this has been exasperated by significant spillover effects of the failure of neoliberalism, such as the increasing isolationism of the US and the related collapse of the transatlantic alliance. This arose from a growing sense within the US that it was shouldering too much of the

responsibility for too little return and a desire to assuage the fraction of its society that bore the brunt of globalization and the human cost of the wars following the devastating events of 9/11 in 2001.

Those previously closely aligned with the US seemed stumped by its increasingly unilateral decisions, yet too caught up in what this unfamiliar stance by the self-declared leader of the free world meant for their respective countries to be able to find a coordinated answer. They had settled into the relative comfort of merely managing their own countries' relative good fortunes and mature economies, content to make the inevitable happen quicker rather than doing the hard work of actual leadership: agreeing and focusing on the essential things, providing direction, creating alignment around bold and convincing ideas and fostering commitment. Western democracies also made little effort to address the negative side effects of neoliberal policies, thereby unintentionally chipping away at the previously cherished idea of an open society in which politically mature individuals share responsibility within a democratic set-up. Therefore, when the US opted out of its leadership role, a significant geopolitical void emerged, representing both a power and an ideological vacuum. We consider the latter as an opportunity to fill it with a renewed purpose across the world's pro-liberal democracies. This is all the more important, as COVID-19 exposed that in the grip of existential fear, societies invariably followed a visceral impulse: to retreat into the presumed safety of their national corrals - with little regard for even their closest allies, first delaying and then struggling to agree on a coordinated approach.

Conversely, the pandemic hit China at a very different point on its development curve as a nation. Its impressive rise over the last four decades has its roots in Deng Xiaoping's reforms and policies, while its stance has become more pronounced since Xi Jinping's rise to power. In 2017, China formulated a singularly clear purpose and underpinned it with no less than a 33 year plan: to transform itself into a middle-income country by 2035 and into a global powerhouse by 2050. To achieve this, there is an unwavering focus on modernisation - both as a means and an end. In its pursuit, China developed a unique market economy that incorporates

free-market policies with centralized controls. This domestic agenda is matched by a broader and multi-pronged global one. China aims to advance its geopolitical influence through increased participation in international organizations and via strategic initiatives, flanked by a carefully considered mix of plenty of soft and scarce, carefully deployed hard power. Overall, China's single-party system, with little change at the helm and limited discourse, allows a focused, long-term, centralized approach that Western neoliberal democracies cannot match without eroding the very basic tenets of their policy model. Yet it is largely because of this clear ideological stance and its focused leadership, that China so far emerged from the COVID-19 pandemic as one of the countries quickest to recover economically - even more ready to glide into the geopolitical void described previously.

In essence, the events of 2020 are likely to lead to the Western pro-liberal world inadvertently enabling Chinese dominance, unless it finds a way to fundamentally regroup, renew its ideological base and thus reclaim a future of its own making - in unison with like-minded democracies spanning across the globe. What is needed is a clear, joint purpose for the Western pro-liberal societies, built upon a strong foundation of democratic ideals. A new, co-created global vision, infused with hope and underpinned by policies that eradicate the fear of being left behind and rekindle what lies at the very heart of liberal democracies: shared responsibility.

This report is not and does not intend to be neutral, nor are its conclusions universally valid. It is its expressed aim to provide guidance to Western governments that value an open-society rooted in a solid foundation of democracy, specifically those contemplating how best to navigate the important inflection point they currently find themselves at. COVID-19 has fully exposed a previously partly concealed and largely ignored home truth: currently, there is no discernible common purpose that binds Western societies together. Without it, their chosen form of government, democracy, might continue its erosion.

Given this purpose, two fundamental assumptions overtly determined the perspective of this report and its analysis and shaped the conclusion: firstly, that democracy is still a viable and

ultimately preferable form of organising societies. Secondly, that it is the very combination of China's fundamentally *different* way of approaching the universal challenges societies face going forward *and* the fact that it is shaping up to be the superpower on a par with the US that makes it such a relevant comparison. This means that the report seeks to provide solutions within the democratic framework without implying a value statement by reverse conclusion.

Introduction

In the grip of the COVID-19 pandemic, the world appeared driven by the most basic of human emotions: fear and the associated need to safeguard one's own survival. As governments and supra-national institutions scramble to save lives and livelihoods, Western societies in particular are slowly emerging from their initial, visceral reactions to contemplate what those reveal: a staggering acceleration of long-term dynamics that were at play long before COVID-19 came along. These dynamics are slowly hollowing out not just the foundations of liberal democracy, but any sense of the Western world being united by a common purpose. Furthermore, they confirm that "the end of history"¹ is anything but inevitable.

In fact, the COVID-19 crisis exposed the full extent to which neoliberalism failed, both globally and nationally, creating inequality of a previously unknown magnitude, leaving the field wide open for political players with a divisive agenda to step in. The neoliberal ideology, hailed as the answer to all the market problems during the 1980s, has been an inherent part of democratic, open-society ever since. While it has fostered economic growth and globalisation over the past four decades, it has also highlighted certain inconsistencies with the current democratic framework. So instead of complementing the latter, neoliberal policies occasionally had diverging and even incompatible end goals. This created a strain on the system, leading to an imbalance that created spillover effects in democratic societies which could not have been foreseen decades ago.

The conscious withdrawal of the US from its role as a leading nation in the free West to pursue an isolationist agenda and pave the way for new global axes of power led to the implosion of the transatlantic alliance. Meanwhile, the desire of those who fear losing out sweeps authoritarian leaders and regimes into power and populists into democratic parliaments; they promise a return to a simpler age of certainties and predictability that never existed in the first

¹ Fukuyama, "The End Of History?."

place, thereby weakening democratic structures. Paired with other, wide-ranging fears, such as the consequences of climate change, which is conveniently denied by populists, as well as automation and digitisation, this leads to a dispiriting sense that “the future has gone away,”² justifying egoistic, short-term actions and abdication of responsibility to similarly ideal-less politicians.

It is a desolate picture, which is even more poignant when contrasted with how the world looks from the perspective of the country COVID-19 arguably originated from: China. Having long emerged from the label of the world’s workbench, the world’s second biggest economy is pursuing a clear international agenda under its president for life, Xi Jinping, united by an ideological stance which drives every aspect of Chinese politics. As the US consciously retreated from the international stage, China increasingly and often discretely filled the void, indicating a low level “ideological competition,”³ which also manifests itself in the responses to COVID-19.

During a crisis, the focus and reliance on the state are always more pronounced and “this power shift transforms the implicit, long-held expectations of the roles that individuals and institutions play in society.”⁴ While liberal democracies are faced with their citizens protesting the right to make individual choices, even at the expense of their societies as a whole, China launched a campaign to inform its citizens that the strong one-party rule not only helped to contain the epidemic,⁵ but also engaged in face-mask diplomacy,⁶ exporting much needed protective gear to democratic nations. On the whole, this positions China as the safe, efficient, caring alternative to a West in panic mode, slowed down by democratic checks and balances while revealing its selfish core.

Moreover, as Western leaders are back to the long negotiations characterizing democratic decision-making processes, China makes use of the less stringent domestic regulation and

² Snyder, *55 Voices For Democracy: Timothy Snyder*.

³ "Are The US And China In An Ideological Competition?."

⁴ Tonby and Woetzel, "Could The Next Normal Emerge From Asia?."

⁵ "Is China Winning?."

⁶ Stojanovic, "China's 'Mask Diplomacy' Wins Support In Eastern Europe."

concerns around data protection to speed up the digitization of all areas of life, giving itself even more of an economic edge. In fueling pride in the agility, dynamism and resilience of its economy, China stands to create a very successful narrative that fuels hope for the future.

In essence, while China is free to act decisively and is doing so with a well-considered international agenda in mind, the West needs to convince and cajole, seemingly making it up as they go, assuaging fearful citizens, so that they do not completely give in to doom and gloom - all of which enables a future Chinese dominance.

If a scenario is to be avoided, where the West and certainly Europe will find themselves losing out, Western pro-liberal politicians need to re-emerge from managing their countries and start leading them instead. They can reclaim the future, if they successfully address certain drawbacks of neoliberal policies including growing inequality, show convincing signs of addressing climate change, wean their citizens off their internet enabled echo-chambers and provide policy frameworks that reinforce a sense of individual and collective responsibility.⁷

Overall, the following argument emerges: the unanimously short-term and inward-looking responses taken by governments during the COVID-19 pandemic have not only highlighted, but also significantly accelerated the persistent trend of the failure of neoliberal political systems at an international as well as domestic level. Spillover effects are an isolationist approach by the United States and the associated collapse of the transatlantic alliance in conjunction with a weakening of democratic structures. In parallel, there has been a pronounced shift in geopolitical power in favour of China, helping its leaders pursue an international agenda that facilitates Chinese opportunism.

Evidently, these factors have exposed the 'crisis of purpose' faced by most pro-liberal, democratic societies, whose leaders merely manage and fail to espouse a clear ideology that would drive policymaking and replace fear with hope. On the other hand, a focused Chinese

⁷ Snyder, *55 Voices For Democracy: Timothy Snyder*.

leadership, with a defined ideological stance is able to guide policies that benefit China's international agenda. The combination of these two corresponding events has led to an imbalance in the multipolar world where China now expands its geopolitical power, filling the gap willingly left by the democratic societies scrambling to rediscover a purpose that could restore their relevance in the international system.

This means that a clear and widely accepted, hope inducing global vision is necessary to move towards a multipolar order in which political leaders acknowledge their countries' contextual nuances while implementing national laws yet upholding international harmony. Although a potential Chinese dominance does not call for the revival of liberal hegemonic power, it does urge leaders of democratic countries to reflect upon the issues faced by the different factions of society. To gain the necessary traction, we believe such a move requires changes at the grassroots level by promoting internal conversation amongst the citizens themselves to identify a clear post-liberal purpose and help them recognise their own role in bringing this about, led in a concerted effort by their elected representatives.

In order to examine the validity of the claim, that a lack of purpose and direction in Western societies facilitates a Chinese expansion of power, this report will initially look at the failure of neoliberalism – both in the international and domestic sphere, highlighting the income inequality gap exacerbated by the ideology along with paving the way for financial crises in the 20th and 21st century. The report will then go on to explore the links to isolationist behaviour by the US, a collapse of the transatlantic alliance and a general weakening of democratic structures owing to the prevalent cleavages in society along with changes in leadership in neoliberal countries. Moreover, the report will also discuss the context of the COVID-19 pandemic to expose the acceleration of these problems due to the outbreak.

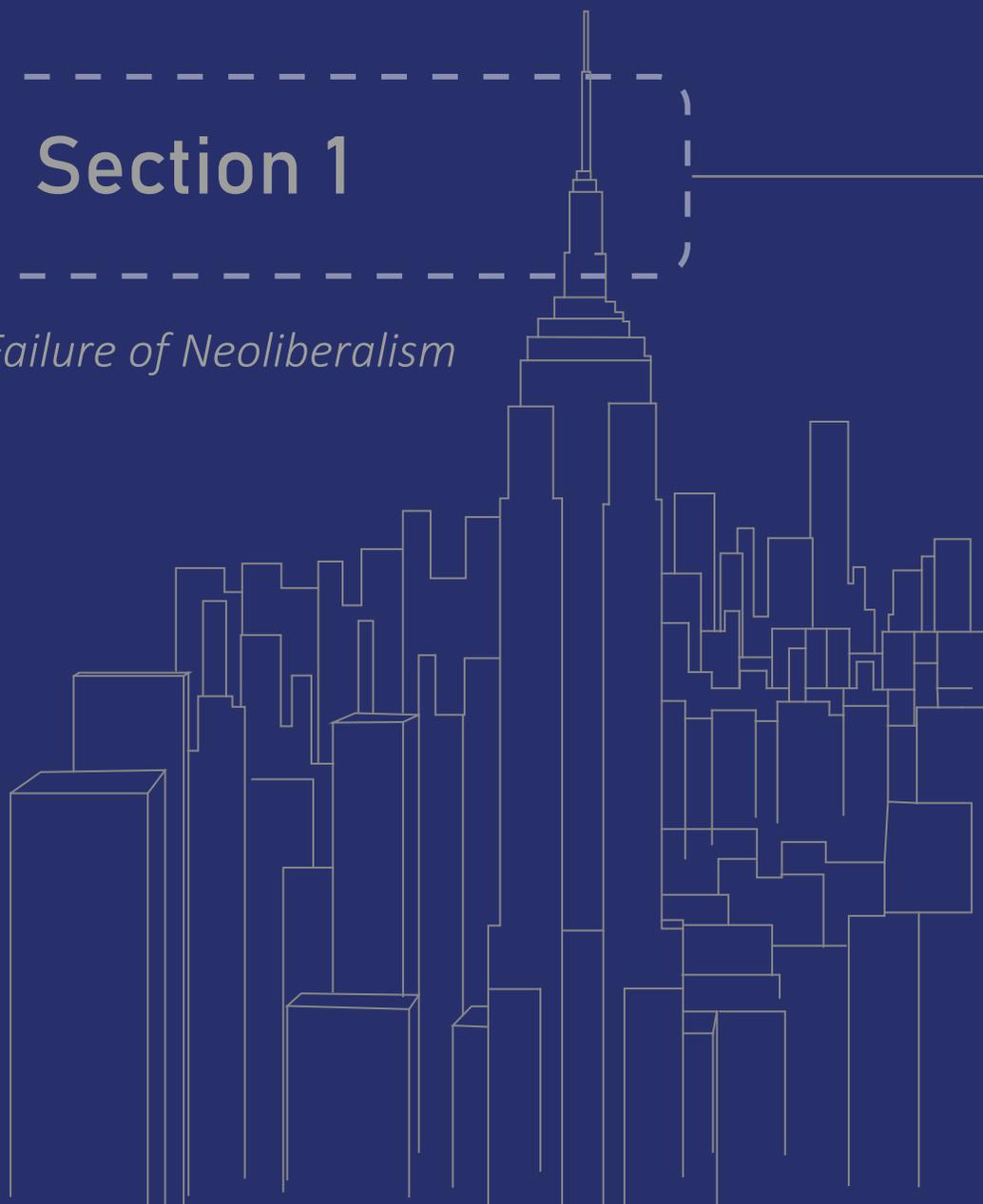
After understanding the reasons and consequences of the failure of neoliberalism, the report will contrast this occurrence to the statistical rise of China, the emergence of its international agenda and potential displays of Chinese ideological opportunism. By acknowledging China's

domestic and international role during the COVID-19 pandemic, the report will illustrate how the country has already commenced its role as the key geopolitical player. Furthermore, the report will subsequently explore the apparent lack of purpose and direction in Western open-societies and its impact on the level of trust and confidence in the political leadership and juxtapose this with the determined and focused leadership in China, before recommending ways for democratic states to reclaim their future in a multipolar order.

While guiding pro-liberal Western governments, the report makes two critical assumptions. The first one is that democracy and the concept of an open-society is still highly valued and cherished; to preserve this essence, the limitations of neoliberalism will have to be addressed so as to promote a greater compatibility between both the ideologies. The second assumption made in this report is that while China's approach to creating a more robust, politically and economically stable society has succeeded in the country and certain nations, it is inconsistent with the Western model; it would be unwise to assume this as an ideal framework to resolve issues unique to Western societies, even during a pandemic. Adding to that, China's role in tilting the global geopolitical power makes it a relevant comparison to the US which is losing its global leadership position. Thus, the report seeks to provide solutions within the democratic framework without implying a value statement by reverse conclusion.

Section 1

Failure of Neoliberalism



1. The failure of neoliberalism on the international front

1.1 Understanding neoliberalism at a global level

In the 21st century, neoliberal policy making is not just limited to developed economies. In fact, many countries, regardless of their political system, have incorporated neoliberal ideologies, albeit to varying extents. Due to the problems that have emerged as a consequence of neoliberal policies not just *within* each country but also *amongst* countries, neoliberalism has shown considerable weakness at the international level.

Neoliberalism was essentially “a theory for implementing an ideal market society, defined by the view that economic efficiency rather than social goals ought to be the goal of state policy.”⁸ In practical terms this meant the politics of transferring control of economic factors to the private sector, favouring free-market capitalism over government spending, regulation and public ownership,⁹ or, even more concretely, privatization, low taxation, a focus on free trade and balanced budgets. The implementation of such policies further alienated the purpose of neoliberalism from that of democracy given that social goals were of little priority in the former, which had significant drawbacks.

Especially in the US, the financial crisis of 2008 wiped out savings, turned homeowners to people sleeping in their cars and saw Americans who perceived themselves as middle-class tumble to the very bottom of the wealth pyramid; this occurred within the framework of neoliberalism, most likely making the Trump presidency its biggest legacy.¹⁰ Consequently, “one of the central tenets of the neoliberal ideology – the idea that markets function best when left alone and that an unregulated market is the best way to increase economic growth – has (...) been pretty much disproved,”¹¹ turning the debate to “how we get governments to function in

⁸ Flew, "Michel Foucault's The Birth Of Biopolitics And Contemporary Neo-Liberalism Debates."

⁹ Kenton, "Neoliberalism."

¹⁰ Green, "How Anger Over The Financial Bailout Gave Us A Trump Presidency."

¹¹ Martin, "Nobel Prize-Winning Economist Stiglitz Tells Us Why 'Neoliberalism Is Dead'."

ways that can alleviate [market failure]”¹² and concluding decidedly that “neoliberalism is dead in both developing and developed countries.”¹³

Governments have recognised the need to shift the focus towards policymaking that corrects market failure through government intervention. To do so effectively, the reasons that contributed to the demise of neoliberalism at the international level must be taken into account.

1.2 The factors contributing to the failure of neoliberalism

1.2.1 Exacerbated global income inequality

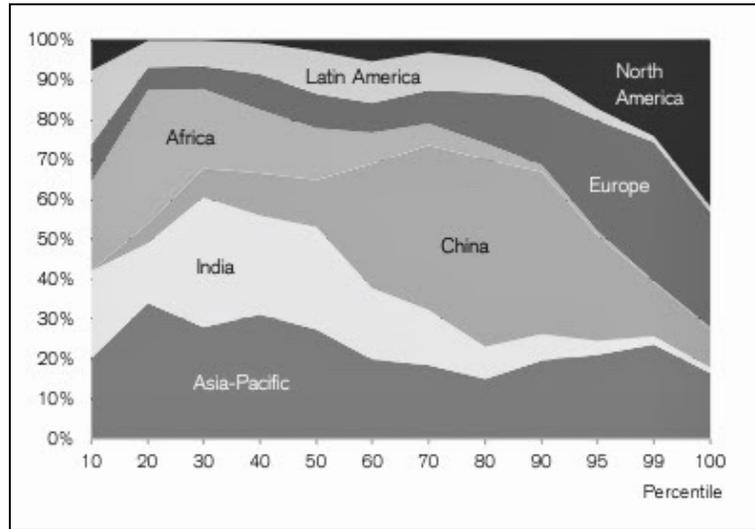
In the past four decades, neoliberal policies have propelled economic growth. Yet, it is this uneven growth within society that has reduced confidence in this ideology. According to the Credit Suisse Global Wealth report, “there is no doubt that the level of wealth inequality is high, both within countries and for the world as a whole (...). The bottom half of adults account for less than 1% of total global wealth in mid-2019, while the richest decile (top 10% of adults) possesses 82% of global wealth and the top percentile alone owns nearly half (45%) of all household assets.”¹⁴ This is more evident when global wealth distribution is observed across the regions of the world.

¹² Ibid.

¹³ Ibid.

¹⁴ *Global Wealth Report 2019*.

Figure 1.1: Regional composition of global wealth distribution in 2019



Source: Global Wealth Report 2019.

Figure 1.1 is an illustration of the global wealth distribution that shows the “substantial over-representation of North America and Europe in the top percentile.”¹⁵ Consequently, the income gap between emerging market economies and developed economies has sustained, despite the neoliberal approach adopted by many developing countries for economic growth, indicating the uneven distribution of benefits of this ideology across countries. Tellingly, “the aggregate wealth of high net worth adults has grown nearly four-fold”¹⁶ in the period between 2000 and 2019. Over the last decades, we have seen a constant decrease in the ‘compensation/profit ratio’ and the unweighted Gini coefficient since the 1980s as illustrated by the Appendix 1. Such a situation is an unfortunate consequence of market deregulation endorsed by neoliberalism.

Regarding the US, the “explosion of inequality after 1980,”¹⁷ with the “upper decile’s share [increasing] from 30 – 35 percent of national income in the 1970s to 45 – 50 percent in the 2000s”¹⁸ can be attributed to “an unprecedented increase in wage inequality and in particular

¹⁵ Ibid, 10.

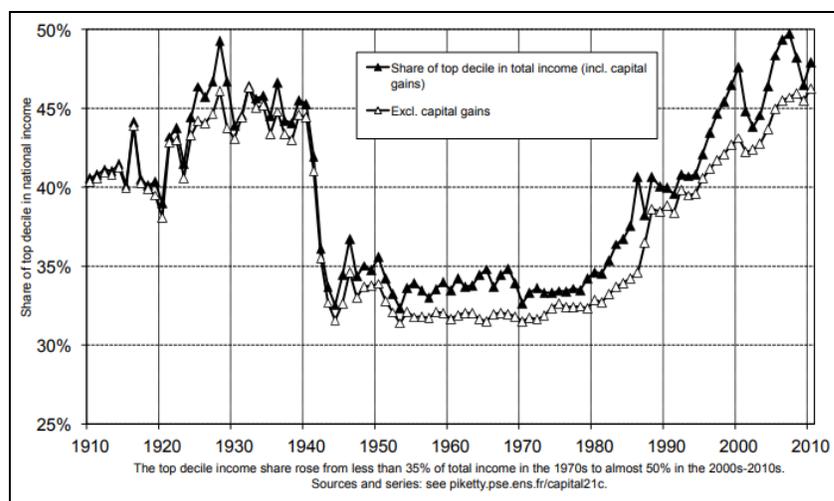
¹⁶ Ibid.

¹⁷ Piketty, *Capital In The Twenty-First Century*, 294.

¹⁸ Ibid.

the emergence of extremely high remunerations at the summit of the wage hierarchy.”¹⁹ This is evident in Figure 1.2. In fact, CEO compensation in America’s largest public firms grew by a staggering 940.3 percent since 1978, while the wages for their typical workers grew by only 11.9 percent in the same period.²⁰ Such a trend has partly been due to the neoliberal approach towards taxation as well as investment in human capital.²¹ Evidently, the divergence is exacerbated during economic recessions when growth is stagnant but wealth, which does not encompass wages, continues to grow at a faster rate, thus benefiting the higher income groups.

Figure 1.2: Income Inequality in the United States, 1910-2010



Source: Piketty, *Capital In The Twenty-First Century*.

All of the above paints a picture of an elite cementing its own privilege while failing to address extremely limited social mobility and taking disproportionate pride in their own achievements. The fact that these neoliberal policies favoured the upper income groups emphasises the ideology’s neglect towards social goals. This was a stark departure from the post WW2 system, often referred to as ‘embedded liberalism,’²² which is aligned with democracy and was characterised by Keynesian economics, focusing on building up the welfare state to minimise

¹⁹ Ibid, 298.

²⁰ Mishel and Wolfe, "CEO Compensation Has Grown 940% Since 1978," 1.

²¹ Piketty, *Capital In The Twenty-First Century*.

²² Gerard Ruggie, *International Regimes, Transactions, And Change: Embedded Liberalism In The Postwar Economic Order*.

poverty and unemployment and the Bretton-Woods-System, both aimed at preventing the mistakes made in the 1920s and 1930s.

Neoliberalism emerged in force after the oil crises of the 1970s which became a “crash course for Americans on the limits of their government’s power”²³ and subsequently “helped shift American politics to the right”²⁴ during that decade. This paved the way for Ronald Reagan and his British counterpart, Margaret Thatcher, who personify neoliberalism to this day, yet also for Donald Trump and the Brexit Party. The stampede for the survival of the fittest in a market economy that no longer knew any bounds started right here. At its core, neoliberalism is the conviction that it is vital to minimise the role of the state and to remove all barriers for free market forces to prevail. While there is certainly merit in this, it negates the underlying structural issues of inequality that are unlikely to be addressed by the markets as they are today.

1.2.2 Uneven benefits across regions

During the 16th century, “nations and regions related to each other as representatives of three categories – core, periphery and semiperiphery.”²⁵ In those days, “Western Europe represented the core, (...) Eastern Europe and the Western Hemisphere the periphery, and parts of Southern Europe the semiperiphery.”²⁶ What makes it relevant to this report is that classification into the three categories depends on the “mode of labour organization,”²⁷ mirroring modern global supply chain systems. As long as neoliberalism is the prevailing economic approach, inequalities will be exploited to serve the core at the expense of the periphery, regardless of which specific countries are at the core. So, while being a multilateral approach, it evidently fails to be an equitable one.

²³ Ryssdal, "How An Oil Shortage In The 1970S Shaped Today's Economic Policy - Marketplace."

²⁴ Ibid.

²⁵ Leiss, "The Modern World-System: Capitalist Agriculture And The Origins Of The European World-Economy In The Sixteenth Century," 202.

²⁶ Ibid.

²⁷ Ibid.

In recent years, we have seen a transition to 'post-liberal governance'. Amid the complexity of hyper-globalisation, the fear of losing control grips individuals and countries alike and makes them yearn for the return to the nation state - another sign that neoliberalism with its focus on internationalisation is on its way out. It now seems contradictory rather than forward-thinking to "simultaneously pursue democracy, social inclusion, national self-determination and economic globalization."²⁸ The predominant current belief is that "at some point, there will be conflicts with the international demands of globalization, and that is when national priorities should take precedence."²⁹ While this sounds self-evident, it calls into question any possibility of genuine global collaboration beyond the pursuit of joint economic success and certainly furthers the erosion of transnational organisations of the liberal international order, set up after WW2 such as the World Trade Organisation, the World Bank or the International Monetary Fund.

1.2.3 China's role in weakening the neoliberal model

China's economic rise using certain neoliberal tools has highlighted the failure of neoliberalism in democratic nations; while China and democratic countries both used certain neoliberal policies, the former relatively succeeded in making such policies compatible with its model of 'socialism with Chinese characteristics'. In China's case, the government did not disregard its social goals. In fact, it combined economic and social goals, thereby accentuating the failure of Western governments to integrate neoliberalism into the democratic framework.

It thus challenges the largely West-dominated neoliberal international order by playing the game but playing it very much by its own rules. In 2019, "China overtook the United States (...) to become the country with most people in the top 10% of global wealth distribution,"³⁰ adding their own versions of ultra-high net worth entrepreneurs to the global list of fame. Despite taking a very active part in the economic globalization, China rejected the political and cultural globalization promoted by the West, as this would have meant diluting the power of the state

²⁸ Rodrik and Milanović, The fuel of discontent: hyper globalization causing a growing income inequality.

²⁹ Ibid.

³⁰ *Global Wealth Report 2019*, 2.

which is contrary to Xi Jinping's political theorem of achieving national material and social goals through an efficient state apparatus that serves the CCP's agenda.³¹

In fact, China is one of three countries (among India and Vietnam) that "succeeds in raising wealth as a multiple of Gross Domestic Product (GDP) by addressing institutional and financial-sector deficiencies, [resulting in] a virtuous cycle, in which higher wealth stimulates GDP growth, which in turn raises aggregate wealth."³² Through this, China offers a genuinely alternative model to boost economic growth. While democratic countries have often opposed this model, they are now losing their credibility to do so, due to the failure of addressing the inconsistencies of central tenets of their own ideology with neoliberalism.

Furthermore, China indirectly puts a stop to the spread of liberal hegemony to the emerging economies of Africa by lending them money as part of its Belt and Road Initiative - framing it as help to address the underdeveloped infrastructure that became the bottleneck for Africa's development.³³ Such support has giving rise to concerns of debt-trap diplomacy,³⁴ expected to result in political dividends. It has been observed that "China's lending to Africa has expanded dramatically"³⁵ since 1995. "Between 2000 and 2018 (...) lenders have signed USD 148 billion worth of loan commitments."³⁶ By offering a model which aligns with the goals of the governments of these nations, China is able to counter Western influence in this region.

Thus, the emergence of China does not highlight the failure of neoliberalism in itself. Instead, it draws light upon the discrepancies between democracy and neoliberal policies in the Western countries that value an open-society. By combining certain neoliberal policies, especially with regards to trade, China showed that certain drawbacks of this ideology can be countered by complementing these with social reforms.

³¹ Grünberg and Drinhausen, "The Party Leads On Everything."

³² *Global Wealth Report 2019*, 2.

³³ Nyabiage, "Are Chinese Loans Putting Africa On The Debt-Trap Express?."

³⁴ Ibid.

³⁵ Acker, Brautigam and Huang, *Debt Relief With Chinese Characteristics*, 1.

³⁶ Ibid.

1.3 COVID-19 impact: weakening the frail neoliberal foundations

In the introduction to this report, it was claimed that COVID-19 accelerated long-term dynamics, such as the failure of international neoliberalism. The disconnection of neoliberal policies from social reforms during the last 40 years led to the weakening of the democratic foundations of nations subscribing to this way of organising society, all of which further disintegrated during the pandemic. Unfortunately, this is self-evident when looking at the predictions whereby developing countries and the poor will be hardest hit by the economic downturn in the wake of the pandemic.³⁷ Worldwide, unemployment is rising. In contrast, the Nordic countries, which partially subscribed to neoliberalism but kept investing in elements of the welfare state such as healthcare and education, traditionally have a significantly lower Gini coefficient.³⁸ They have all pledged considerable sums of money to stimulate economic activity³⁹ and safeguard the livelihoods of those worst affected by the pandemic.

The merits of globalisation, encouraged by neoliberalism, came under fire because COVID-19 also affected international trade; it is likely to lead to significant restructurings of global supply chains⁴⁰ in response to the vulnerability caused by the JIT model.⁴¹ In fact, for the US, COVID-19 “has accelerated a government wide initiative with the aim of shifting US production and supply chain dependency away from China,”⁴² including “tax incentives and potential re-shoring subsidies.”⁴³ Furthermore, there is a “push by the US for the creation of an alliance of ‘trusted partners’, referred to as the ‘Economic Prosperity Network’ which would encompass “companies and civil society groups operating under the same set of standards on everything from digital business, energy and infrastructure to research, trade, education and commerce,”⁴⁴ ,clearly aimed at shutting China out. Yet, the weakening of the transatlantic alliance and the US

³⁷ "Coronavirus vs. inequality."

³⁸ "Gini Index (World Bank Estimate) | Data."

³⁹ Kärrylä, "Nordic Public Debt: The Dangers Of Restricting Public Spending Due To The Covid-19 Crisis."

⁴⁰ Tonby and Woetzel, "Could The Next Normal Emerge From Asia?."

⁴¹ "Managing Supply Chain Risk And Disruption: COVID-19."

⁴² Shalal and Pamuk, "Trump Administration Pushing To Rip Global Supply Chains From China: Officials."

⁴³ Ibid.

⁴⁴ Ibid.

isolationism calls into question the effectiveness of this network to counter China's growing global presence, especially during the pandemic.

While production and sourcing are likely to move away from China and closer to the end-users, it is predicted that the mid-term impact on China will be less pronounced than these changes would suggest. The reason for this is that its growing middle class already creates its own demand for production and intraregional trade in Asia is continuously gaining importance.⁴⁵ Thus, the neoliberal model in democratic countries, standing in direct comparison to the Chinese one, seems evidently weaker amidst the COVID-19 outbreak.

1.4 Summary

To summarise, neoliberalism has driven a shift to the political right as a result of growing inequalities, less focus on the welfare state and social goals and on addressing structural unemployment. This has culminated in a lessening of faith in the state and politics as a whole to safeguard livelihoods. Consequently, a growing proportion of the electorate equate neoliberalism with a self-serving elite that requires global inequality to fulfil its own economic needs. Hyper-globalisation and the associated fear to lose control at an individual and country level, fuels a renewed focus on the nation state, thereby weakening supranational organizations. Bearing this in mind, China seems to represent a parallel and distinctive approach of benefiting from globalization. It does not allow economic concerns to override the state's responsibility to its own citizens while also providing loans to African countries - although most likely expecting political dividends. COVID-19 already did and continues to significantly accelerate these dynamics.

⁴⁵ Tonby and Woetzel, "Could The Next Normal Emerge From Asia?."

2. The Failure of neoliberalism at the domestic level

2.1 The evolution of the neoliberal ideology during the 20th century

The cost of World War II had been staggering, both in terms of lives sacrificed as well as the financial burden it left on nation states thereafter. However, an unprecedented impact of this had been a drop in the level of income inequality. This can be predominantly attributed to the decline in the concentration of income share of the top deciles of population, inner consumption and progress thanks to the 'embedded liberalism' under the Bretton Woods system. Therefore, the 'apocalypse' envisioned by Marx's theory of historical inevitability was substituted by an optimism in this context of bonanza. Capitalism was viewed in such a favourable light that in the 1950s, it was predicted that income inequality would automatically decrease in the advanced phases of capitalist development regardless of policy choices until it stabilized at an acceptable level (as was mentioned in the so-called 'Kuznets curve').⁴⁶

However, this prediction was largely due to a relatively stable economy during the decades following the uncertain years of War. The first blow to the capitalist visionaries post World War II came in 1973 with the Oil Shocks which resulted in a global recession along with stagflation in the US. Yet, instead of departing from this ideology, the US and European countries warmly welcomed neoliberalism as an alternative to the Keynesian and New Deal policies that had been implemented after the Great Depression and World War II specifically with the view to prevent any similar turn of events in the future. These new policies relied on Reagan and Thatcher as their main promoters and were based on Fama's 'Efficient Market Hypothesis' as well as the Chicago School theories that supported the 'rational-choice view' of the so-called *homo economicus*. The liberalisation of trade and finance and the reduction of the state to a minimum were based on a vision which Reagan summarized in his famous quote: 'government is not the solution to our problem; government is the problem.'

⁴⁶ Kuznets, "Economic Growth And Income Inequality."

Reagan's method of choice were drastic tax cuts for individuals and corporations in the hope to benefit from the combined effects of trickle-down and super-slide economics,⁴⁷ both of which disproportionately favoured the rich and big corporations while disregarding social reforms to complement these policies. It worked, because taxes were high at the time. Yet, it started the drastic widening of the wealth gap described above, paving the way for populists, like the Republican Party's 'tea party movement' and for the election of Donald Trump. Populist "hostilities to elites (...) became a direct attack on economic internationalism during the presidential election campaign of 2016 [with] Donald Trump [being] explicit in his antagonism to foreign trade, investment and immigration."⁴⁸

Thatcher, too, "created a vigorous enterprise economy."⁴⁹ Yet, this arguably also led to "widening inequality, the destruction of civic solidarity [and] the failure of long-term investment,"⁵⁰ through unregulated markets. This is why Thatcher's "most far-reaching legacy may be Brexit,"⁵¹ since her behaviour planted the seeds of her parties' Euroscepticism. Looking at both the Trump presidency and Brexit in conjunction, it can be concluded that both are linked to the rise of anti-globalization movements and a desire in both the US and the UK to move back to a sense of sovereignty and belonging.

However, during the 1980s, there was negligible foresight with regards to the far-reaching repercussions of globalisation. Back then, with the adoption of neoliberal policies domestically, globalisation boomed, expanding the capitalist model throughout the world. However, a steady rise in wealth differentials was observed post 1970s in a worrying trend - especially in Anglo-Saxon societies. Moreover, globalisation weakened the national identity of nation states, highlighting issues associated with the neoliberal ideology domestically. Particularly, domestic labour bore the brunt of the consequences of globalisation. For society to persistently be in its 'normal state' and secure solidarity amongst the different factions of society and labour, a

⁴⁷ Amadeo, "Does Trickle-Down Economics Work?."

⁴⁸ Frieden, *The Backlash Against Globalization And The Future Of The International Economic Order*.

⁴⁹ Cannadine, *Margaret Thatcher: A Life And Legacy*, 122.

⁵⁰ "The Iron Legacy: How Margaret Thatcher Paved The Way For Brexit."

⁵¹ Ibid.

stronger contact between the organs of society is crucial.⁵² In other words, regulation by the state is needed to ensure the fair treatment of everybody involved in its economic life and avoid excessive disparities. Since this type of regulation did deliberately not happen, the result was an *anomic*⁵³ disintegration at the national and global level that led to a marginalisation of the lower levels of society.

The hyper-globalised state of the world has created spillover effects at the national level. This system is based on a set of assumptions that treat markets and states as substitutes rather than complements. However, with neoliberalism on its imminent decline and states moving away from hyper-globalisation, the level of government intervention in the market has been questioned again. Even though the neoliberal regime was patched after the 2008 financial crisis through austerity measures, which further aggravated wealth disparities. Despite the attempts to impose certain controls to avoid destabilising speculation and risk-taking, the recent COVID-19 crisis indicated that 'the era of peak globalization is over.'⁵⁴

2.2 How neoliberal politics exacerbated inequality within countries

Having looked at the evolution of the neoliberal ideology since World War II right through to globalization and having thus focused primarily on the global income inequality *amongst* countries which were largely left unchallenged, it is also important to analyse just how the income disparity *within* countries has been exacerbated by neoliberal policies. Notably, policies on taxation, market regulation and public social spending have played a major role in deepening the uneven distribution of wealth amongst the population.

2.2.1 The impact of neoliberal policies on taxation

A glance at the Gini coefficient of the OECD countries offers an insight into how policies influence income. In 2017, the US had a Gini coefficient of 0.39 while Chile, one of the primary

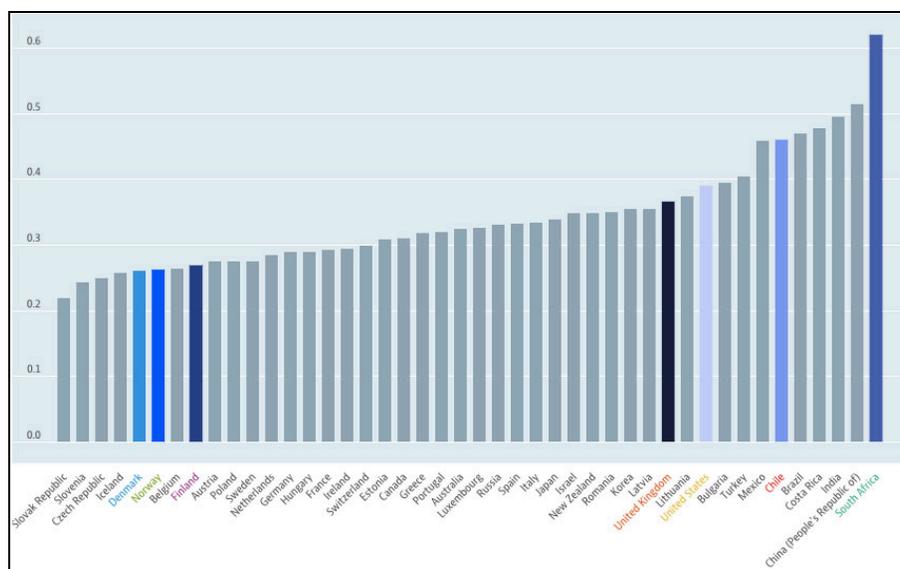
⁵² Durkheim, *The Division Of Labor In Society*.

⁵³ Ibid.

⁵⁴ Gray, "Why This Crisis Is A Turning Point In History."

forerunners of neoliberalism, had one of the highest ratios of 0.46⁵⁵ (Figure 2.1) In fact, since 1980, when neoliberalism became deeply integrated into many nations' political system, the top 1% earners in the US (according to data from 2015) have succeeded in capturing 20% of the pre-tax national income from what used to be just 10%, thereby doubling their share. Meanwhile, the bottom 50% earners now only hold 12.5% of the income as compared to 20% in 1980.⁵⁶ In contrast, countries such as Norway that also have traces of the neoliberal ideology in the policymaking, had a coefficient of 0.26 in 2016⁵⁷ (Figure 2.1).

Figure 2.1: Gini coefficient of OECD Countries (2019 or latest available)



Source: "Inequality - Income Inequality - OECD Data."⁵⁸

While respecting the economic boost neoliberal policies can offer to countries, few countries - including Norway - have also acknowledged the downsides of capitalism if left completely unchecked. By focusing on higher taxation and public spending, these governments were able to build an efficient social and public sector. For these countries, neoliberal policies do not just entail the independence of the market from the government. Rather, they signify an efficient allocation of resources in the private as well as public sector, thereby offsetting the negative consequences of capitalism.

⁵⁵ "Inequality - Income Inequality - OECD Data."

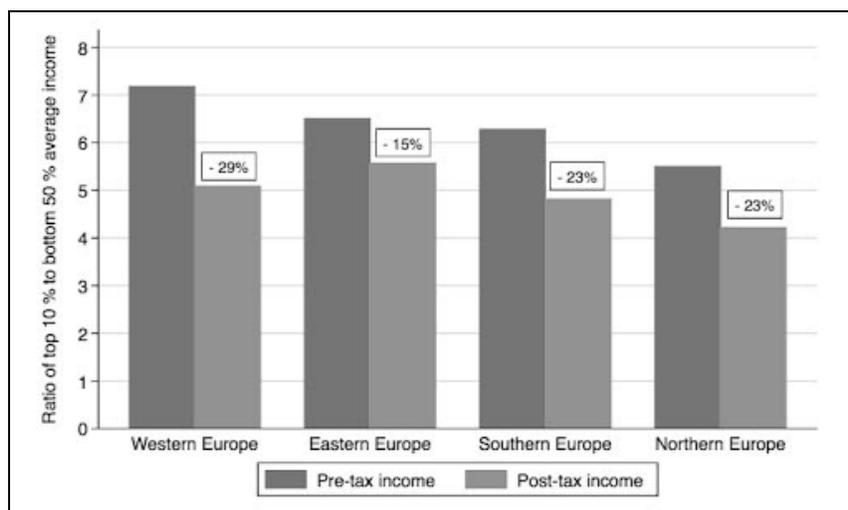
⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

While income inequality can largely be attributed to pre-tax income and ‘pre-distribution policies’, taxation and redistribution policies can play a crucial role in reducing the income disparity. For instance, Eastern European countries had succeeded in reducing the gap by 15% on average while Western European countries had done so by 29%,⁵⁹ so nearly twice as much (Figure 2.2).

Figure 2.2: Pre-tax versus post-tax income inequality in Europe, 2017



Source: *Redistribution in Europe. OECD Data*⁶⁰

Taxation also plays a key role in financing public investments towards improving human capital through better education and healthcare. Both are key levers, which – amongst other policies – aid the reduction of income disparity in the long term. Yet, progressive taxation is often seen as a trade-off between economic growth and equity.⁶¹ In the 1980s, governments, especially in the OECD countries, adopted a ‘broad base-low rate’ approach, as part of which they lowered the statutory rates of corporate and personal income taxes in order to increase government revenue through taxation by applying these tax rates to a wider population.⁶² This key economic policy associated with the 1980s is still prevalent in the 21st century as tax rates have

⁵⁹ Blanchet, Chancel and Gethin, *How Unequal Is Europe?: Evidence From Distributional National Accounts, 1980–2017*, 37.

⁶⁰ Ibid.

⁶¹ Carter, "How Tax Can Reduce Inequality."

⁶² Ibid.

been lowered drastically: from an OECD average of 66.8% in 1981 to an average of 41.7% in 2010⁶³ - in turn widening the income gap, since lower taxes favour those on higher incomes.

2.2.2 The impact of market deregulation

Another policy favoured by neoliberal policymakers is market deregulation. However, the Global Financial Crisis of 2008 was largely due to the deregulation of the market which commenced in the 1980s. The crisis also highlighted the somewhat limited vision most policymakers tend to hold with regards to adjusting societal disparities. To tackle income inequality in the 1980s, the US government focused on providing cheap credit, such as housing loans, to the population, particularly the lower-income groups, rather than focusing on social welfare policies such as education and healthcare since the latter were more long-term policies.⁶⁴

Similarly, many other countries in Europe adopted deregulation policies in the 2000s, which is one of the reasons the 2008 financial crisis had such a far-reaching, global effect. The crisis also triggered the further deepening of the inequality gap in many countries, especially in the short-term. While growth resumed in all EU countries except Greece by 2014, the bottom 40% of the EU population suffered drastically as the inequality gap widened.⁶⁵ In Greece particularly, the growth in the mean income per capita declined to -10% for the population between 2009 and 2014, affecting the bottom 40% even worse, where the decline was -12%.⁶⁶ Although market deregulation is a useful tool during an economic boom, an economic recession exposes its shortcomings. In the political sphere, income inequality and market deregulation policies caused societal discontent towards the government as it was perceived to favour corporations over its population - further widening the cleavages within the countries affected.

⁶³ Ibid.

⁶⁴ Rajan, "Let Them Eat Credit."

⁶⁵ Inchauste et al., *Living And Leaving: Housing, Mobility And Welfare In The European Union*, 2.

⁶⁶ Inchauste et al., *Living And Leaving: Housing, Mobility And Welfare In The European Union*.

2.2.3 The impact of reduced public social spending and myopic policymaking

Another factor to take into account is the level of public spending by the government, specifically 'social spending' that comprises "cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes," often targeting the "lower-income households, the elderly, disabled, sick, unemployed or young persons."⁶⁷ Social benefits, however, can come both from the government or private entities. The level of public social spending varies across countries. For instance, the US government spent 18.7% of its GDP on social benefits in 2018 while Norway spent 25% and France, 31.2%.⁶⁸ In fact, the US had the largest increase in healthcare expenditure from 16.3% in 2013 to 17.1% in 2017.⁶⁹ While the benefits of social spending often go unnoticed in a healthy economy, economic recessions, disasters and health crises such as the COVID-19 outbreak do highlight the benefits that can be reaped from continuous and substantial public spending.

In such situations, the proportion of private and public spending towards the segments does matter. Comparing the level of public spending towards the healthcare system prior to the COVID-19 outbreak sheds light on how the healthcare system in many neoliberal countries had been gradually hollowed out. As can be seen in the Appendix 2 (stating 2017 figures), while 80% of the current healthcare expenditure in Norway was funded through public revenues, it was only 50% in the USA.⁷⁰ Importantly, while the US government did increase its healthcare spending in 2017, it was still proportionately lower than the private investments towards the healthcare system. Although a country such as Norway has not significantly increased its spending, it does contribute proportionately more towards the healthcare system than private entities, giving it more leeway to influence strategic decisions and making it less dependent on partners, who do after all invest to make a profit - even though a lot of innovation and advancements in the healthcare industry are undoubtedly owing to private investments.

⁶⁷ "Social Spending."

⁶⁸ "Social Spending."

⁶⁹ "How Does UK Healthcare Spending Compare With Other Countries?."

⁷⁰ Ibid.

2.2.4. Case Study 1: The collapse of the healthcare system in the USA

The failure of a neoliberal approach towards social welfare has been evident in the US during the COVID-19 outbreak. It has been estimated that 30-40% of the hospitals are at “near-term risk of insolvency” due to the depleting revenues and the high cost of treating COVID-19 patients.⁷¹ In fact, the first-quarter US GDP statistics show that a decline in healthcare spending accounts for “40% of the overall decline in consumption.”⁷² This creates the almost surreal situation that amidst a health crisis, 1.4 million nurses lost their job by May 2020.⁷³ Indeed, the healthcare industry faces a ‘triple whammy’ in 2020: a surge in costs to treat COVID-19 patients, compounded by reduced revenues due to temporarily terminating scheduled procedures (ordered by the government), along with an increasing number of uninsured US citizens (28 million in May 2020) due to the economic recession exacerbated during the outbreak.⁷⁴ In previous economic recessions, healthcare employment was largely unaffected, often growing at a steady rate. The parallel health crisis, however, has led to this situation.

Given that the US government had the largest increase in healthcare spending as a percentage of its GDP from 16.3% in 2013 to 17.1% in 2017, the financial struggle of the healthcare system, especially the hospitals, highlights deep-rooted problems.⁷⁵ The financial failure of hospitals is partly due to the fact that the government does not fund the hospital system, making it vulnerable during a health crisis. Instead, the funds go towards Medicare, the public insurance for the elderly, and Medicaid for the low-income groups.⁷⁶ While the government announced a \$175 billion bailout as well as the CARES Act for hospitals during the crisis, hospitals will still face economic pressure. Incidentally, only \$50 billion of the funds had been used until May 2020. Moreover, a surge in the number of uninsured citizens increases the economic burden on the US government to protect its citizens as well as the hospitals.

⁷¹ "How Coronavirus Broke America's Healthcare System."

⁷² Ibid.

⁷³ Sanger-Katz, "Why 1.4 Million Health Jobs Have Been Lost During A Huge Health Crisis."

⁷⁴ Chang, "U.S. Hospitals Hit By Financial 'Triple Whammy' During Coronavirus Pandemic."

⁷⁵ "How Does UK Healthcare Spending Compare With Other Countries?."

⁷⁶ "How Coronavirus Broke America's Healthcare System."

The inherent problem is the division of the funds received by the healthcare system between the public and private investments. With 50% of the investments coming from private investments, the healthcare system is vulnerable during times of economic crisis when cash is drying up and the government cannot act as a safeguard. One of the key pillars of neoliberalism is reduced government support and increased privatisation of the economy. In fact, when Medicare was being implemented in the 1960s, Ronald Reagan, the former President of the USA, had dubbed the reform as a “socialised medicine” that would infringe upon the freedoms of the citizens.⁷⁷ Yet, during the pandemic, the US government struggled to rectify the shortcomings of decades-long reduction in government support towards the healthcare system by using a \$175 billion bailout as a one-time solution. On the other hand, countries that have benefitted from long-term policies and government support towards the healthcare system have been better protected during the COVID-19 outbreak.

⁷⁷ "How Coronavirus Broke America's Healthcare System."

2.3 China – a case of neoliberalism?

It has often been speculated that the Chinese economic model is not too far from that of the neoliberal countries. China's economic rise since the 1980s has been incredibly quick, which the ensuing growth is so often linked with the purportedly neoliberal reforms under Deng Xiaoping. Indeed, during the 1980s, China's position did seem to embrace neoliberal ideas: it moved away from the Soviet style planned economy, introduced markets for goods, services, labour and housing, encouraged enterprise at a local level, privatized many state-owned companies and signed a number of free trade agreements. China joining the WTO in 2001 was frequently regarded as a key indicator for its embrace of neoliberalism. Overall, it seems certain that neoliberal-esque reforms did aid China's growth and to this day markets and the private sector remain instrumental for China's continued economic development.

Having said that, China's political economy cannot entirely be classified as neoliberal. China's reforms, and indeed the economic model emerging from them, were most profoundly influenced by 'socialism with Chinese characteristics.' Today, the Chinese Communist Party (CCP) owns (by holding a majority of shares in) large enterprises, especially in key sectors, not to mention the fact that state owned banks still dominate and control a lot of enterprise finance. Thus, while China has embraced certain neoliberal policies, especially internationally through trade, the government has ensured its relevance and authority by not entirely replacing socialism with neoliberalism.

Under Xi Jinping especially, the CCP has strengthened its control over both private and public companies, with the party regulating trade as well as inward and outwards investment. Throughout China's developmental history, the Party-State has held a significant role in the development of its market economy. China's particular kind of market economy thereby incorporates free-market policies - albeit with centralized control.

One of the starkest differences compared to typical neoliberal policy making in democratic countries is that Chinese macroeconomic policy is expressly also about translating economic

prosperity into social wealth by carefully orchestrated state intervention. One key indicator for this is that through its state-owned development banks, China carefully generates the appropriate credit space for economic growth. These banks fund the linkages between foreign investment and local production by mandating rules to foreign investment. In the same vein, regulation of its capital account underpins all its economic success. It can therefore be concluded that while Chinese economic policy is often conflated with the neoliberal model, in practice, it differs from the pro-liberal countries in that it has succeeded in incorporating neoliberalism with its form of socialism to a large extent, providing China not only with a unique economic framework but also an economic advantage.

2.4 COVID-19 impact: Widening societal factions

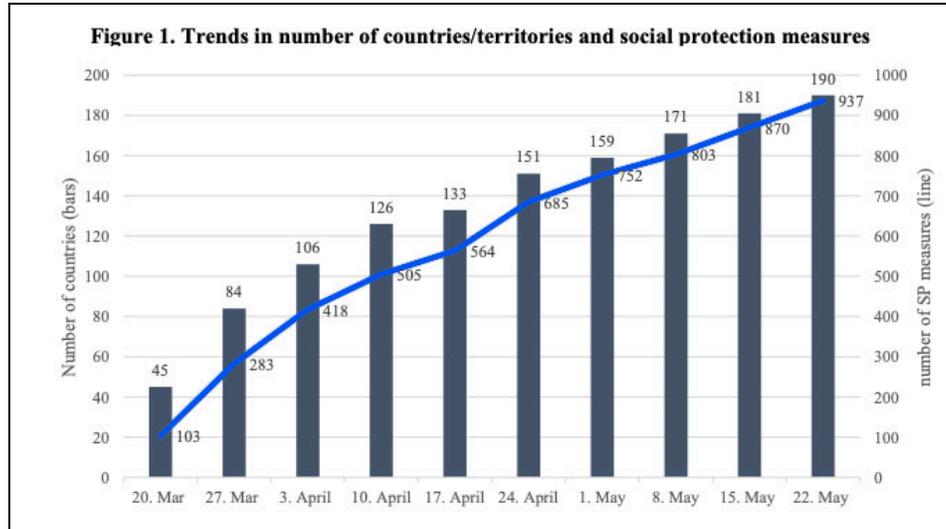
So, if neoliberalism is also failing domestically, causing not only a widening inequality gap but underfunding key areas such as healthcare - what was the impact of COVID-19 on this existing dynamic? Probably the most startling feature of the early days of the pandemic was the immediate and visceral reaction of all states to close their borders, demonstrating that in a crisis, national governments prefer to rely on themselves and their chosen advisors rather than comparatively remote international institutions like the World Health Organization (WHO) to help them navigate through the crisis. Travel restrictions and 'hard' borders were established throughout the world to control population movements and the spread of the virus, including between the Schengen countries (Appendix 3).

Furthermore, countries practiced what can be referred to as 'medical nationalism' during the pandemic, restricting the export of medical equipment to trading partners and even long-standing political allies in the first moment of panic thereby undermining the previously glorified international cooperation amongst democratic nations. Until 24th of April 2020, 80 countries were hoarding medical supplies, of which 72 were WTO member states.⁷⁸ Even more interesting were the responses of the separate nation states to help manage the economic

⁷⁸ Shalal, "80 Countries Are Hoarding Medical Supplies – Here'S Why It Damages The Global Response To COVID-19."

impact of the expected recession, implementing social protection measures that are far removed from the neoliberal orthodoxy (Figure 2.3).

Figure 2.3: Trend in number of countries/territories and social protection measures



Source: World Bank, 'Social Protection and Jobs Responses to COVID-19'⁷⁹

In fact, even the US Congress, among many other measures, allocated billions of dollars in funding through multiple legislative packages for small business loans, forgivable loans, and grants and approved one-time cash payments of \$1,200 to most Americans making less than \$75,000 a year.⁸⁰ The UK established a £1.25 billion fund to support innovative businesses affected by COVID-19, provided one-off grants of £10,000 to small businesses and established wage subsidy for workers on leave due to COVID-19, again, among many other measures. The pandemic has shown that the dissociation of the government from the market and consequently its citizens has its limitations, especially in times of a crisis.

In fact, government intervention will be much needed, as the impact on lower skilled workers is likely to be dramatic. In the US, where "up to one-third of US jobs may be vulnerable [meaning a reduction in hours, temporary furloughs, or permanent layoffs in the wake of COVID-19] - more

⁷⁹ Gentilini et al., *Social Protection And Jobs Responses To COVID-19: A Real-Time Review Of Country Measures*, 2.

⁸⁰ "United States: Tracking Governments' Responses To The Pandemic."

than 80 percent [of those are] held by low-income workers, including a disproportionately high number of non-white Americans.”⁸¹ There are similar concerns for the UK, where “a toxic cocktail of mass redundancies (...) will hit the low-wage jobs the UK has excelled in creating.”⁸² The effect will be amplified by the fact that COVID-19 accelerated automation and digitisation, meaning that “the UK, with its high levels of employment in lower-skilled work, has further to fall compared to others [meaning that the] divide between the digital ‘haves’ and ‘have nots’ will widen”⁸³ as only certain jobs can be done from a home office (Appendix 4).

If this is the effect on the two major economies shaped by neoliberalism, where governments can choose to cushion the fall, the outlook is bleak for emerging economies, where the policies employed to tackle the economic crisis are naturally restricted. China acted quickly and decisively too to safeguard its economy and the livelihoods of its citizens. It required its banks to relax mortgage and credit card repayment rules, streamlined credit card approval for small businesses, introduced temporary tax relief for businesses and increased the local government debt limit to allow local governments to do a better job issuing and using special bonds to stimulate the economy.⁸⁴ In addition, as outlined in the previous section, China’s loans to African countries already dwarf the \$214 million debt relief granted by the IMF to the 25 of the world’s poorest countries in April 2020.⁸⁵ In an atypical move China also backed the G20 debt relief plan for debt ‘standstill’ for 2020⁸⁶ on 15th April. Thus, COVID-19 has not only deepened the power vacuum left by the failing neoliberal democratic countries, but it has also given China the opportunity to showcase its currently resilient economic and political model to the world.

⁸¹ Lund et al.

⁸² Jack, "The Struggle To Contain Covid-19's Economic Hit."

⁸³ Jack, "The Struggle To Contain Covid-19's Economic Hit."

⁸⁴ "Tracking Governments' Responses To The Pandemic."

⁸⁵ Politi, "G7 Countries Back Debt Relief For Poorest Nations."

⁸⁶ "A "Debt Standstill" For The Poorest Countries: How Much Is At Stake?," 21.

2.5 Summary

Neoliberalism was born out of the need for revamping the economy after the disastrous Oil Shocks in 1973. Instead of correcting the shortcomings of capitalism and globalisation, many leaders chose to step further away from any attempt of regulation. While globalisation has aided in building international cooperation to a large extent, it has inadvertently created deeper economic factions which have trickled down to the national level. Moreover, by neglecting social reforms through their policies on taxation, market regulation and public spending, the nations embracing the neoliberal ideology have not succeeded in offsetting the damage done by its policies.

Although the Chinese economic model is often associated with a neoliberal one, its government still follows 'socialism with Chinese characteristics'. The public sector is largely influential in the private one and continues to regulate the market and trade. Significantly, it has however managed to do one thing that democratic nations could not - it made neoliberalism compatible with its very specific form of socialism.

The responses to the COVID-19 pandemic demonstrated the deep-rooted instinct of nation states to prioritize the safety and survival of their own citizens, resulting in medical nationalism as well as a willingness to defy neoliberal orthodoxy equally instinctively, if the means allow it. This bodes poorly for any successful attempts to even out global inequalities and leaves the door wide open for China to broaden its sphere of influence.

Section 2

The Spillover Effects of The Failure of Neoliberalism



3. US isolationism due to the failure of neoliberalism

The failure of neoliberalism in democratic nations, which manifests itself both on an international and national level, has created deep economic and societal factions, fuelling disillusionment and fear to be left behind. It has significant spillover effects such as the conscious withdrawal of the US from the world stage, coupled with isolationist behaviours, the collapse of the transatlantic alliance and a general weakening of democratic structures across the West which, when accumulated, further increase the likelihood of China filling the emerging void. This section of the report seeks to unravel how these spillover effects are interlinked beyond the common root cause in order to identify a potential remedy.

3.1 US actions in line with election pledges to core Trump voters

When Donald Trump was voted into power, few expected that his campaign pledge to ‘Make America Great Again’ by putting it first meant that he would consequently and stoically refuse to look at anything but the clientele who voted him into power: working-class Americans, mainly from suburban and rural backgrounds. In other words: those who lost out as a result of neoliberal economics and globalisation. They deliberately voted for a man who embodies the entrepreneurialism celebrated by neoliberalists to get them a better deal with the rest of the world and to keep them out of geopolitics which keeps claiming American lives for no obvious short-term benefit. The stark difference between the voters of Donald Trump and Hilary Clinton is evident in Appendix 5.

Trump had pledged to transfer power from the political establishment “back to (...) the American People (...) the struggling families across our land”⁸⁷ claiming that while “politicians prospered (...) the jobs left and the factories closed.”⁸⁸ This is why one of Trump’s first, highly symbolic acts in office on January 20th, 2017 was to withdraw from the Trans-Pacific Partnership

⁸⁷ Trump, "The Inaugural Address."

⁸⁸ Ibid.

(TTP) – a project closely associated with both Hillary Clinton and Barack Obama, which had become a bone of contention during the 2016 presidential campaign. Incidentally, while Trump's foreign policy, especially with regards to trade relations, conflicts with neoliberal ideologies which are all about globalisation, he is still predominantly identified as a neoliberal policymaker, especially on the domestic front. It is partly this association of neoliberalism with the Trump agenda that has weakened the neoliberals' cause from the perspective of those who do not commend the president; Trump's presidency has therefore arguably not only diminished the soft power of the US but its neoliberal agenda at large.

3.2 Case study 2: Withdrawal from the Trans-Pacific Partnership (TPP)

The Trans-Pacific Partnership (TPP) was signed in early 2016 (by the signatories on the map in Figure 3.1) with the view to foster US trade and investment in the Asia-Pacific region as well as to stimulate economic growth.⁸⁹ Following the withdrawal of the US, it became known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), retaining most of the initial agreements, only with 11 instead of 12 partners.⁹⁰

The TPP had been negotiated by the Obama administration with significant involvement from Hillary Clinton, who had “framed the TPP as the centrepiece of the United States strategic pivot to the Asia-Pacific region.”⁹¹ The agreement, hailed as a landmark, intended to “bolster U.S. leadership in Asia and strengthen its alliances in the region.”⁹² Yet, it had significant flaws, amongst them, the potential of making it cheaper and easier to offshore US (manufacturing) jobs.⁹³ The Trump government has often brought up NAFTA, which allegedly led to the loss of five million US manufacturing jobs.⁹⁴ Another concern included a “pay cut for all but the richest 10 percent of Americans”⁹⁵ and a “0.00% increase in US growth if all tariffs on all products were eliminated.”⁹⁶

None of this fit with the official version of this being an “ambitious megaregional deal (...) spanning several continents and covering some 40 percent of world trade.”⁹⁸ Instead, it was decidedly at odds with government agencies’ and think tanks’ projections that TPP would add “\$130 billion to the US GDP by 2030.”⁹⁹

⁸⁹ McBride and Chatzky, "What Is The Trans-Pacific Partnership (TPP)?."

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

⁹³ *Trans-Pacific Partnership (TPP) Facts And Figures For SOTU Prep*, 2.

⁹⁴ Ibid, 1.

⁹⁵ Ibid.

⁹⁶ Ibid.

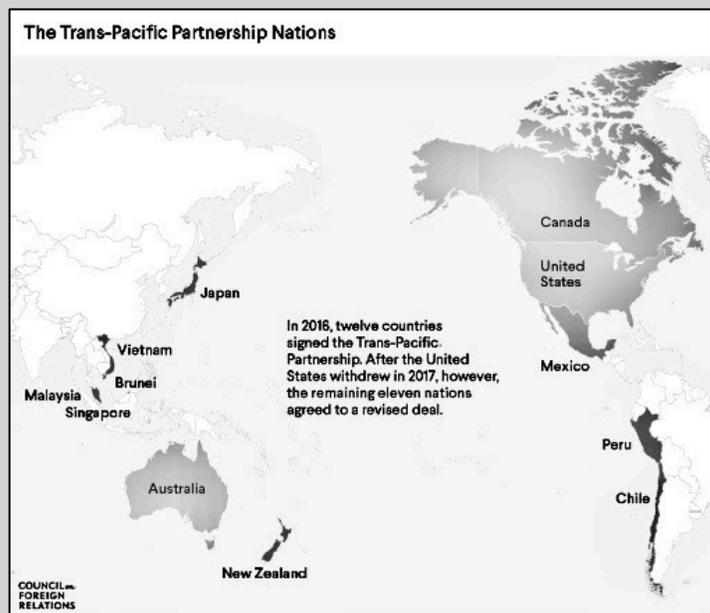
⁹⁷ McBride and Chatzky, "What Is The Trans-Pacific Partnership (TPP)?."

⁹⁸ Ibid.

⁹⁹ Ibid.

In fact, former President Obama himself lobbied for TPP, emphasizing that “the TPP would let America, not China, lead the way on global trade,”¹⁰⁰ since, amongst others, TPP included provisions for intellectual property protections and labour and environmental standards.

Figure 3.1: Map of the members of the TPP



Source: Council of Foreign Relation⁹⁷

The US withdrawal allegedly makes it more difficult to find a common ground with practices set by China. The Belt-and-Road Initiative and the Regional Comprehensive Economic Partnership (RCEP), consisting of 16 participating countries, among them, the economic heavyweights - China, Japan, India and Australia,¹⁰¹ are already increasingly setting the rules. They are set to expand their partnership into Eastern Europe and the Horn of Africa signalling that America did indeed lose a world-wide opportunity to put its stamp on trade. By withdrawing from a trade deal that would have been commended by the neoliberals, the US leads nations and citizens alike to question the neoliberal model and its merits and highlights its potential to undermine domestic benefits.

¹⁰⁰ Obama, "President Obama: The TPP Would Let America, Not China, Lead The Way On Global Trade."

¹⁰¹ "Regional Comprehensive Economic Partnership (RCEP)."

3.3 Trade negotiations as bilateral deals

While it is always difficult to accurately predict the exact short term impact of trade agreements and even less so their long-term consequences, Obama's successor was less interested in making something work in a multilateral framework. Instead, in line with the concerns of his political power base, he saw the opportunity to present himself as the protector of American jobs amidst globalisation. Thus, Trump proceeded to tackle China head-on in an ongoing trade war, focused on reducing the trade deficit that had soared since China joined the World Trade Organisation in 2001, amounting to \$419 billion in 2018.¹⁰²

Trump's deliberate focus on trade deficits has the potential to alienate partners, would-be partners and rivals on the global trade stage alike, who would claim that trade relations are far more complex than can be expressed in a single measure. Yet Trump's key audience are his domestic voters, to whom he explains his policies directly via Twitter. This issue plays into their sense of fairness, which he wants them to see their president restoring on their behalf. Consequently, the worsening bilateral trade relations weaken the neoliberal agenda on an international level when the US, one of the key advocates of this ideology, questions the benefits of trade for the domestic population. Conversely China is further deepening its trade relations with countries across the world, inferring that it is indeed steadily filling the power vacuum.

3.4 Withdrawal from international agreements and role

Trump's isolationist approach however originates from a sense that the US can no longer control the world, which led to refocusing on what it can and needs to control. With neoliberal policies failing domestically, that means first and foremost seeking changes in how globalization is lived. Trump's desire for adjustments thus goes much further than trade relations. Having pledged that "every decision on trade, on taxes, on immigration, on foreign affairs, will be made to

¹⁰² "Trade Wars, Trump Tariffs And Protectionism Explained."

benefit American workers and American families”¹⁰³ Trump signed an executive order “banning nationals of six Muslim-majority countries from travelling to the United States for 90 days”¹⁰⁴ – just as immediately and symbolically after taking office, as he withdrew from the TPP. Another early executive order “directed funds to the construction of a wall along the US-Mexico border.”¹⁰⁵ These measures reinforced his promise to his voters while further separating the US from other countries.

The lengthy list also includes Trump revisiting NAFTA, negotiating, amongst other things, “minimum wage hikes that benefit American manufacturers,”¹⁰⁶ withdrawing from the 2015 Paris climate accord, recognising Jerusalem as Israel’s capital, withdrawing from the Iran Nuclear Agreement and withdrawing from the UN Human Rights Council because of its “chronic bias against Israel.”¹⁰⁷ A beneficial aspect of international trade, in line with the neoliberal approach, was that of building international cooperation and ensuring peace by increasing economic and political interdependence amongst nations. By withdrawing behind its borders, the US destabilizes the strong foundation that it jointly built with other nations, especially the Western democratic ones, who wanted to preserve political stability through economic prosperity.

While this list of withdrawals is incomplete, one, in particular, demonstrated Trump’s determination to renounce the US role as the ‘world’s policeman’, which he announced in 2017 by stating “we will not seek to impose our way of life on anyone.”¹⁰⁸ Conveying his decision by Twitter, Trump abruptly withdrew 2,000 American troops from Syria in December 2018 - against the counsel of his own generals and apparently without concern for the Kurdish troops who supported the US in fighting ISIS.¹⁰⁹ This meant effectively leaving Syria to the influence of Russia and Iran and compromising future counterterrorism operations by destroying the trust of

¹⁰³ Trump, "The Inaugural Address."

¹⁰⁴ "Trump's Foreign Policy Moments (2017 - 2020)."

¹⁰⁵ Ibid.

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

¹⁰⁸ Trump, "The Inaugural Address."

¹⁰⁹ Landler, Cooper and Schmitt, "Trump To Withdraw U.S. Forces From Syria, Declaring 'We Have Won Against ISIS'."

local fighters.¹¹⁰ While Trump's decision to refrain from actively expanding US liberal hegemony has garnered more support than his trade policies, both on a domestic and an international level, his measures have further isolated the USA.

3.5 An isolationist vision promising the return to a golden age

Trump's re-negotiations of or unilateral withdrawal from agreements follow a clear pattern, set to demonstrate that he only feels accountable to his core voters and his own vision: putting America first, safeguarding manufacturing jobs, denying anything that could negatively impact economic growth in the short and medium term and very publicly renouncing the role of the global policeman, where it is not in the immediate interest of America. Just like his predecessor Obama, Trump is aware of the American public's weariness with Middle East conflicts¹¹¹ and seems unconcerned about who fills the vacuum, given that the US "no longer depends on oil supplies from the region."¹¹²

Aware that America can stand alone when some of its long-standing strategic allies cannot, Trump opportunistically picks partners - like the Turkish President Erdogan in a geo-political power play who are either equally single-minded about pursuing their own agenda or who, like India's Prime Minister Modi, are considered as coming in useful as future partners in an emerging new axis of power. Trump is inadvertently seeking allies amongst nations in which democratic societies have also been weakened due to the neoliberal agenda; these countries too have retracted back into their domestic bubbles, hoping that such an isolationist approach will be the answer to their societies' deep-rooted problems. The picture that emerges is that Trump acts as the guardian of American interests his voters yearned for, who set out to revive their American dream through the art of the deal. He does not have a clear ideology, yet - like Obama before him - realised that the world felt threatened by the US, which is why he went back to isolationism to protect his political base.

¹¹⁰ Ibid.

¹¹¹ Ross, "The U.S.: Between Being The World'S Policeman And Trusting Regional Partners."

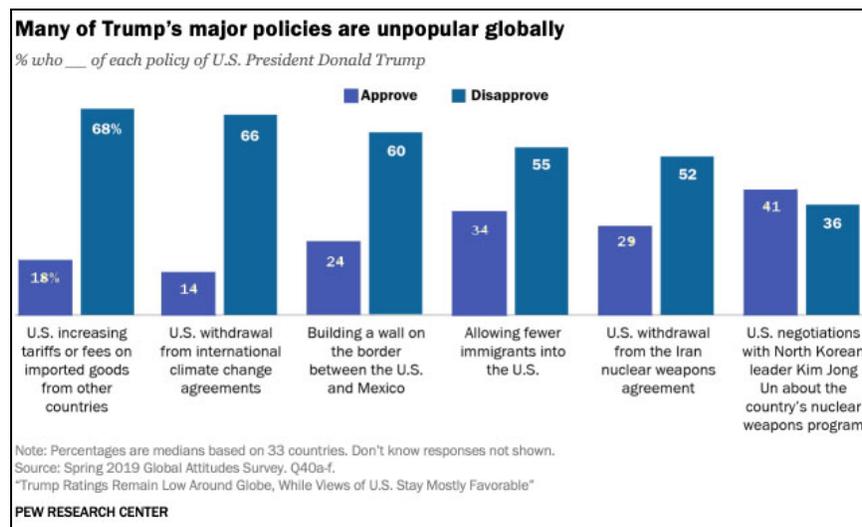
¹¹² Ibid.

3.6 A country and a world divided about Trump's isolationist policies

The Trump presidency has not garnered the expected support from the international community. A significant portion of the domestic population has questioned his policies as well. A poll conducted "in mid-June found that public approval of Trump's job performance on foreign policy has sagged to 41%, significantly lower than the 47% who approved of his handling of the nation's economy."¹¹³ Incidentally, Trump's neoliberal approach towards policymaking has not appeased public opinion, highlighting the failure of the ideology to a greater extent.

Moreover, the scepticism is evident among the international community as well; the world at large is even clearer in their distrust of the current American president when it comes to foreign affairs since "across the 32 countries surveyed (...) a median of 64% say they do not have confidence in Trump to do the right thing in world affairs, while just 29% express confidence in the American leader"¹¹⁴ (Figure 3.2).

Figure 3.2: Approval ratings on Trump's policies measures across 32 countries



Source: *Many of Trump's major policies are unpopular globally*¹¹⁵

¹¹³ "Trump's Foreign Policy Moments (2017 - 2020)."

¹¹⁴ Wike et al., "Trump Ratings Remain Low Around The World, While Views Of U.S. Stay Mostly Favorable."

¹¹⁵ Ibid.

This distrust is mainly due to survey respondents disapproving of Trump's major policies.¹¹⁶ While it is somewhat unsurprising that others don't appreciate the US increasing tariffs or fees on imported goods, all other disagreements seem to stem from a different viewpoint on isolationist actions. Since the survey was conducted in 33 countries, it is also likely that worries about how US action or inaction will impact their own country would have influenced their answers: do they have to be even more environmentally aware, integrate more refugees or worry for their individual safety? Consequently, if countries and public opinion disapprove of Trump, it is probable that the president could deter them from the neoliberal model as well. What can be observed is that citizens across democratic nations are now demanding social reforms. Trump, like the previous neoliberal policy makers, has largely disregarded this, on the domestic as well as international front. The discounting of social goals in his political agenda has not only reduced international confidence in him but also towards neoliberalism at large.

3.7 COVID-19 Impact: Inward-facing policies and a leadership void

During the 2009 G20 summit in London, following the 2008 Global Financial Crisis, a newly elected Barack Obama declared that "ultimately, the challenges of the 21st century can't be met without collective action."¹¹⁷ Yet unlike previous health crises, which saw the US taking a leadership role, such as the fight against HIV/AIDS and the Ebola crisis, "the Trump administration has been largely missing in action on the international stage."¹¹⁸ This most likely has many reasons. In the international sphere, the US had and has a hard reputational time, with many all too happy to report the difficulties of the Trump administration to manage the pandemic. At the end of July, the number of deaths related to COVID-19 in the US stands at 151,770 - compared to the official Chinese figure of 4,634 - with the US death toll still rising¹¹⁹. Faced with a similar crisis in the 1990s - prior to the deep impact of the 9/11 attacks of 2001 that traumatised many Americans and replaced their optimistic outlook with a pessimistic, fearful one - the US would most likely have had the confidence to change its approach. The US

¹¹⁶ Ibid.

¹¹⁷ Obama, "Post G20 Economic Summit Remarks And Press Conference."

¹¹⁸ A. Flournoy and O. Monaco, "Now'S Not The Time For Isolationism."

¹¹⁹ "Coronavirus Update (Live)."

of 2020 however retreats further into its shell, painfully aware that it looks bad in the eyes of the world, pretending not to care.

In contrast, China, the very country that had been blamed for the outbreak has risen to this role. It demonstrated that it could build hospitals in weeks and effectively clamp down on the risk, both to its people and its economy. Unlike the US or the European Union, China “stepped in to help (...) Italy in its distress by providing desperately needed medical supplies.”¹²⁰ This was a perfect demonstration of capability and the willingness to swiftly and effectively step into any power vacuum left by the US.

Trump formally moving to withdraw from the World Health Organization, accusing it of being under China’s control neatly fits into the picture¹²¹ of feeling upstaged by the rising superpower. Yet in doing so, the US has lost its voting rights in the organisation, eliminating any opportunity to credibly voice its concerns about the outbreak - and China - in the international conversation about the pandemic. Instead, the US government proposed a Bill termed the 'Global Health Security and Diplomacy Act of 2020' which would “authorize \$3 billion for an international initiative to contain epidemics at home and abroad, to be overseen by a presidential appointee from the US State Department.”¹²² While this is a move to keep the country relevant in the international community and staying in full control, it deepens US isolation from its counterparts and undermines the authority of supranational organisations such as the UN, and hence, the WHO, that have previously endorsed neoliberalism.

3.8 Summary

In summary, the US withdrawal from the international stage as well as its isolationism are deliberate policies, fully in line with the new vision for the US announced during Trump’s inaugural speech and aimed exclusively at his core power base. However, what the US isolationism has highlighted are the shortcomings of neoliberalism, especially for the working

¹²⁰ A. Flournoy and O. Monaco, "Now's Not The Time For Isolationism."

¹²¹ "Trump Moves To Pull US Out Of World Health Organization."

¹²² Ibid.

class which Trump promised to protect. Yet, instead of complementing the neoliberal policies and international trade with domestic social reforms, Trump has withdrawn the US back behind its borders. While a sizable number of people and governments across the world mistrust Trump and disapprove of his policies, these follow an inherent logic of refocusing the US on what it can and needs to control to safeguard its own future, which is continued in the COVID-19 pandemic. Yet this leaves a political leadership vacuum that China is ready to step into.

4. Collapse of the Transatlantic alliance

Just as the conscious withdrawal of the US from the world stage coupled with isolationist policies, the collapse of the transatlantic alliance is ultimately a consequence of the failure of neoliberalism in the countries at both sides of the ocean. Instead of being devoted to one alliance that intertwined the fortunes of Western countries based on common values and shared beliefs, the US now pursues a more opportunistic strategy in full awareness that it has the unrivalled military capability, which partners and would-be opponents lack. Another erosive factor for the transatlantic alliance is that, as far as the US is concerned, post-Brexit Europe is no longer an economic powerhouse that cannot be bypassed. Being a sought-after trade partner and attractive market, the Trump administration favours bilateral deals, negotiated to provide the most favourable terms to the US.

4.1 The erosion of a key tenant of the post-war security architecture

As early as the book, *'The America We Deserve'*, he published in 2000, Trump wrote that "pulling back from Europe would save this country millions of dollars annually. The cost of stationing NATO troops in Europe is enormous. And these are clearly funds that can be put to better use."¹²³ In his inaugural address on 20th January 2017, he lamented that "for many decades, we've (...) subsidized the armies of other countries while allowing for the very sad depletion of our military,"¹²⁴ referring to the long-standing target of 2% of GDP on defence spending by all 29 NATO members, which most notably Germany does not meet. As can be observed in Appendix 6 , the same is true for more than half of the NATO members.

The watershed for the transatlantic alliance was the second Gulf War in 2003, which the US ultimately fought alongside a 'coalition of the willing,' amidst strong criticism from members of NATO, most notably France and Germany. The weakening of the US-EU ties can partly be traced to the adoption of a neoconservative approach by the US, starting with the Bush administration

¹²³ Langlois, "Trump, Brexit And The Transatlantic Relationship: The New Paradigms Of The Trump Era."

¹²⁴ Trump, "The Inaugural Address."

in 2001, following the 9/11 attacks and the subsequent decision to launch a 'war on terror', which was in part justified by claiming to have proof for the existence of weapons of mass destruction in Iraq. Through the past two decades, the shift towards the neoconservative ideology weakened the neoliberal agenda that relies, above all, on multilateral approaches. Moreover, it is the often misunderstood notion that neoliberalism and neoconservatism are indistinguishable, especially since both were predominantly associated with the USA, that contributed to the demise of the former due to criticism from the international community. One notable example is how the relationship with Germany changed in the last 20 years.

4.2 Germany and the US drifting apart over unilateralism

Breaking from years of staunch post-war followership of the US, a fairly recently reunited Germany issued "a pre-emptive 'No' to the war in Iraq"¹²⁵ in 2003, which it argued "was not a structural break in the relationship with the US,"¹²⁶ yet it was certainly perceived as one by America. Germany had reinvented itself as a purely 'civilian power' built around three central guidelines of 'never again', 'never alone' and 'politics before force.'¹²⁷ Yet upon witnessing the genocide in Srebrenica in 1995, it had consciously broken with that doctrine, reflected by its involvement in the Kosovo war and its "military contribution to the 'war on terror' in Afghanistan."¹²⁸ Despite Chancellor Schröder being earnest when he declared his country's "unlimited solidarity"¹²⁹ with the US after the 9/11 attacks, he was not prepared to commit Germany to the second Gulf War. Given his electorate's preference for "soft power instruments, such as diplomacy,"¹³⁰ Schröder would not have won the necessary parliamentary majority in favour of deploying troops.

Germany's hard-won caution to use force is reflected in the survey results (Appendix 7): only 47% of Germans agree that military force is sometimes needed, compared with 78% of US

¹²⁵ Dettke, "The 2003 Iraq War As A Turning Point In German–American Relations: Political Leadership And Alliance Cohesion."

¹²⁶ Ibid.

¹²⁷ Colvin, *The Routledge Handbook Of German Politics & Culture*.

¹²⁸ Dettke, "The 2003 Iraq War As A Turning Point In German–American Relations: Political Leadership And Alliance Cohesion."

¹²⁹ "Why Gerhard Schröder Has Gone Out On A Limb."

¹³⁰ T. Miko and Froehlich, *Germany's Role In Fighting Terrorism: Implications For U.S. Policy*.

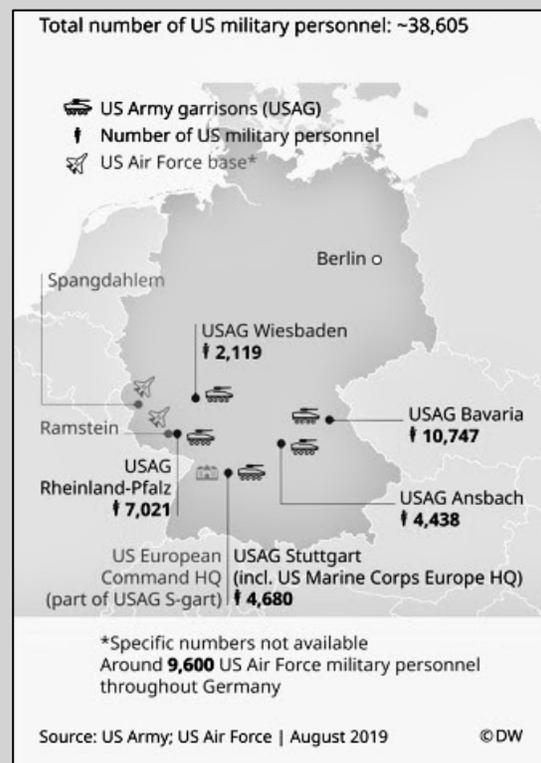
respondents. Thus, it can be inferred that a key reason for the rift between the US and the EU is the public opinion towards war and counterterrorism in each region. More than once in recent decades, this stance led to a segment of the population and policymakers in the US feeling that their service personnel carry all the risk, while Germany provides little more than logistical and financial support. President Trump's decision to withdraw 9,500 American troops from Germany in 2020 can be seen in this context. Apart from the countries' economic alliance, their military agreements also nurtured their relationship. The withdrawal of the US, leaves this alliance devoid of yet another historically evolved certainty.

4.3 Case Study 3: Withdrawal of US troops from Germany

Donald Trump framed the withdrawal of 9,500 troops from Germany in 2020 as a response to Germany “being ‘delinquent’ in its payments to NATO”¹³¹ and treating the US “very badly”¹³² on trade, referring to the €47 billion trade deficit in 2019 that is shrinking far too slowly for his liking.¹³³ Furthermore, Germany has irked the president by “supporting a Baltic Sea gas pipeline deal with Russia,”¹³⁴ which in Trump’s eyes, makes it a “captive”¹³⁵ of Russia by being dependent on its energy supply. Thus, this is a multi-layered issue, touching upon several neuralgic points for the US administration.

It came as little surprise that “the US (would) ‘probably’ move (the troops) to Poland,”¹³⁶ as freshly re-elected President Andrzej Duda certainly is a far more politically aligned partner than Germany. What is passed off as a decision based on financial contributions is a deliberate gesture to emphasize that the US has options within the EU. In fact, Trump’s decision significantly reduces the number of troops deployed to Germany from about 38.605¹³⁷ to just over 29,000. Those Americans and their families, who are embedded in communities all over Germany’s federal states, as shown in Figure 4.1,¹³⁸ personify the evolution of a former victory

Figure 4.1: US military installations in Germany



power to a close ally. The public scolding is only partly justified. It is a fact that Germany did only

¹³¹ "What does the US do for Nato?"

¹³² Sink, "Trump Says He's Cutting U.S. Troops In 'Delinquent' Germany."

¹³³ Wagner and Nienaber, "'Germany Is Not Safe' Despite Smaller Trade Surplus With U.S.: Trade Experts."

¹³⁴ Mason, "Trump Lashes Germany Over Gas Pipeline Deal, Calls It Russia's 'Captive'."

¹³⁵ Ibid.

¹³⁶ "Donald Trump: US Will 'Probably' Move Some Troops From Germany To Poland | DW | 24.06.2020."

¹³⁷ US Military In Germany: What You Need To Know."

¹³⁸ Ibid.

spend 1.3% of its GDP on defence in 2019, making it one of the 22 states failing to meet the recommended spending target of 2% in a union of 29. Yet it is also a fact that the 1.3% equated to \$49.3 billion,¹⁴⁰ meaning that Germany is among the world's top 10 states regarding its military expenditure in 2019, even ahead of the UK with \$48.7 billion. German Defence Minister, Annegret Kramp-Karrenbauer, said German defence spending "should reach 2% by 2031."¹⁴¹ This can be interpreted in two very different ways: either as being too little, too late compared to the \$732 billion spent by the US (well ahead of China's estimated \$261 billion),¹⁴² or as being a sizable contribution by a partner, who faces considerable domestic opposition to rising defence spending. Both are equally valid positions to take. Post WWII, Germany, which had been greatly supported by the US and its Western European neighbours in its return to the world stage, understood the significance of a strong international cooperation both across the Atlantic and within the EU for its own economic and political stability. If tensions have risen between the US and one of the most significant economies of the EU, chances are that the transatlantic alliance at large will take a toll.

¹³⁹ Wezeman et al., *Trends In World Military Expenditure, 2019*.

¹⁴⁰ Ibid.

¹⁴¹ "Germany's Merkel: 2% Of GDP On Defense By 2031 'Realistic'."

¹⁴² Wezeman et al., *Trends In World Military Expenditure, 2019*.

4.4 Transactional, short-term relationships instead of long-term partners

Importantly, the transatlantic alliance goes far beyond the military partnership in NATO; “the European Union and the United States have the largest bilateral trade and investment relationship and enjoy the most integrated economic relationship in the world (...) shaping the global economy as a whole.”¹⁴³ To underpin this claim, the US investment in the EU is three times higher than in all of Asia.¹⁴⁴ Equivalently, EU investment in the US amounts to eight times the combined investment in India and China,¹⁴⁵ amidst a third of cross-Atlantic trade consisting of intra-company transfers.¹⁴⁶ While this is undoubtedly true, the closely interwoven fabrics are unravelling, or rather, being consciously unravelled.

Trump has identified the car industry as Europe's Achilles heel, given the high levels of people employed in this sector and the direct competition with America. Interviewed during the World Economic Forum in Davos in January 2020, he alluded to the need to “take action” in the form of very high tariffs on cars and other European imports, if he does not get better trading terms.¹⁴⁷ The figure that was deliberately put into circulation was a tariff of 25%.¹⁴⁸ As the key reason he cited, the sizable US trade deficit of “over \$ 150 billion”¹⁴⁹ with Europe that had been steadily growing for years as can be seen in Figure 4.2.¹⁵⁰

During the same Davos press conference, Trump used deliberately colloquial language to conjure up images of the ongoing US - China trade war and his strong armed negotiating tactics vis-à-vis equally close trading partners, Canada and Mexico: “I wanted to wait [to start

¹⁴³ "United States - Trade - European Commission."

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ "Trump Threatens Big Tariffs On Car Imports From EU."

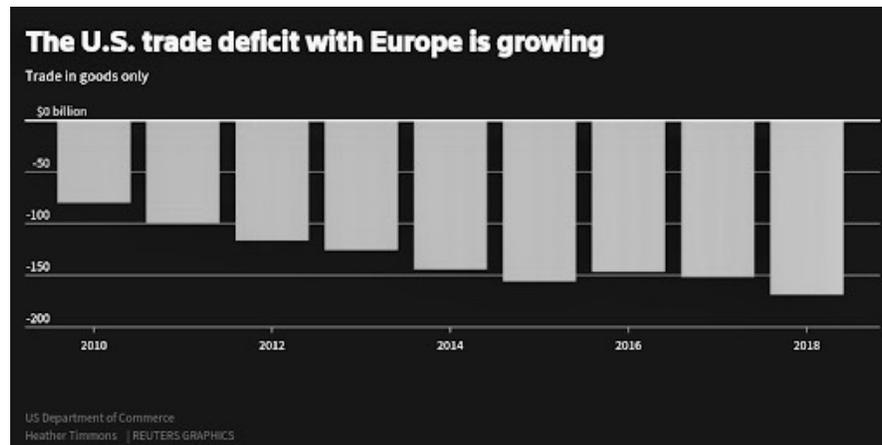
¹⁴⁸ Lawder and Shalal, "As Trump Takes Aim At EU Trade, European Officials Brace For Fight."

¹⁴⁹ Smith, "Trump Claims The EU Has 'No Choice' But To Agree A New Trade Deal."

¹⁵⁰ Lawder and Shalal, "As Trump Takes Aim At EU Trade, European Officials Brace For Fight."

negotiations on a European trade deal] until I finished China (...) I wanted to do Mexico and Canada first. But now that we're all done (...) we're going to do Europe."¹⁵¹

Figure 4.2: US trade deficit with Europe



Source: *Growing US trade deficit with Europe from 2010 to 2018*¹⁵²

In the same interview, Trump alluded to a possible bilateral trade deal with the UK once the transition period with the EU ends, claiming that “they want it, they need it.”¹⁵³ The underlying message is clear: America dictates the terms, imposes the schedule, and grants favours to political friends. Planting the thought that “sometimes our allies are our enemies, but we just don’t know it.”¹⁵⁴ Through such actions, Trump raises concerns about his ability to be an effective negotiation partner who cares about the long-term relationship. The EU has indicated that it will retaliate any tariffs. Consequently, the implementation of such tariffs would not only highlight the weakening of US-EU relations but also show the failure of neoliberalism; by stating that free or open trade has worsened trade deficits as well as the domestic economy, Trump is unintentionally criticising one of the key pillars of neoliberalism.

¹⁵¹ "CNBC TRANSCRIPT: PRESIDENT DONALD TRUMP SITS DOWN WITH CNBC'S JOE KERNEN AT THE WORLD ECONOMIC FORUM IN DAVOS, SWITZERLAND."

¹⁵² Ibid.

¹⁵³ Ibid.

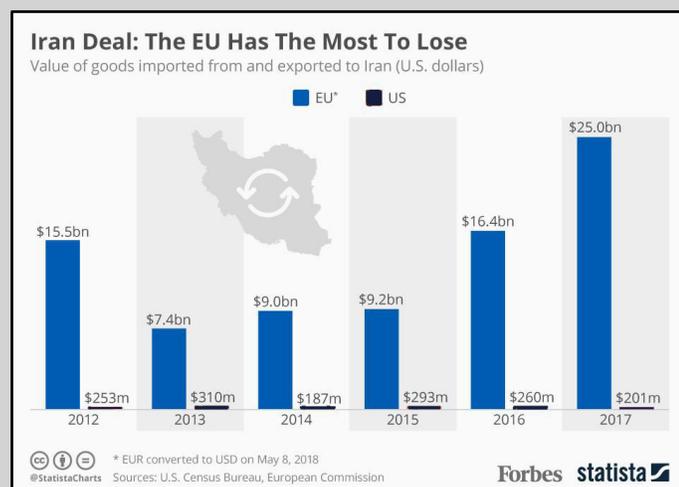
¹⁵⁴ Lawder and Shalal, "As Trump Takes Aim At EU Trade, European Officials Brace For Fight."

4.5 Case Study 4: INSTEX's relation with Iran

The EU also has a history of finding workarounds for clear policy positions of the US, such as their stance on Iran, a country that the US administration once cast as a “rogue state”¹⁵⁵ and part of an “axis of evil.”¹⁵⁶ In May 2018, the US withdrew from the Joint Comprehensive Plan of Action (Iran Nuclear Deal) as Iran, which had at first declared compliance with it, sought to relax the inherent restrictions. Trump justified his country’s withdrawal by stating that the “Iran deal is defective at its core (...) if we do nothing, we know exactly what will happen.”¹⁵⁷ Subsequently, amidst an ongoing economic crisis, the US re-imposed sanctions on Iran’s oil industry in November 2018 with the aim to isolate the Iranian government and to force a political change.

In response, Germany, France, and Britain, which according to Figure 4.3, had a lot more to lose from an implosion of the deal than the US, created INSTEX. This payment system facilitates USD and non-SWIFT interactions with Iran, in effect allowing their business and trade with Iran to continue. INSTEX will produce “a virtual

Figure 4.3: EU trade with Iran



ledger to offset balances.”¹⁵⁸ There will be no direct transactions involving the flow of euros to Iran or that of rials to Europe. Instead, payments will happen between European companies and between Iranian companies respectively. INSTEX became operational in late June 2019 and could, therefore, be used by all EU Member States. For the EU this means business as usual in Iran, which is hugely important for the Union in terms of export-based trade. As evident in Figure 4.3, the value of trade in both directions was \$9.2 billion in 2015, increasing to \$16.4 billion after the Iran Nuclear Deal was signed in 2016. The ultimate intention behind INSTEX is to keep Iran in the

¹⁵⁶ Glass, "President Bush Cites 'Axis Of Evil,' Jan. 29, 2002."

¹⁵⁷ Ibid.

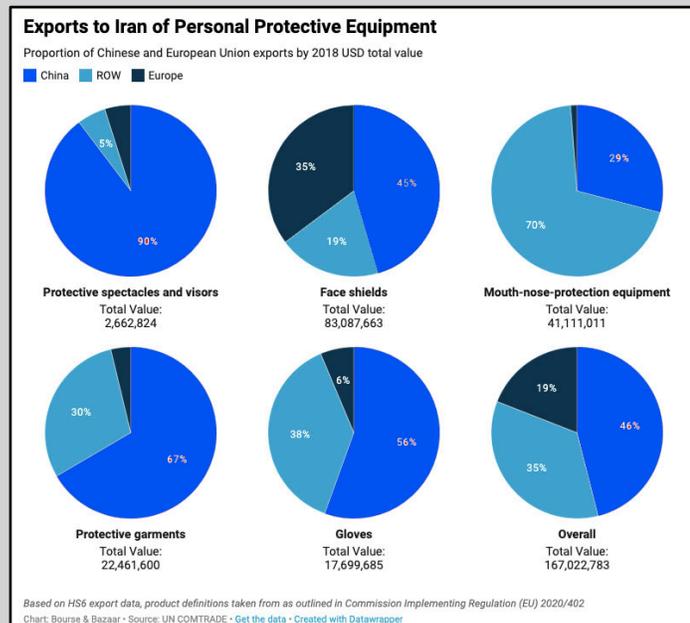
¹⁵⁷ "Read The Full Transcript Of Trump's Speech On The Iran Nuclear Deal."

¹⁵⁸ "EU Mechanism For Trade With Iran 'Now Operational' | DW | 28.06.2019."

2015 nuclear deal, despite its deviations from set guidelines. This leniency is a clear attempt by the EU to maintain a foothold in the Middle East as well as maintain a steady relationship with an important ally in the region. In line with the neoliberal ideology, the EU recognises the importance of preserving economic relations for political stability in the region.

Figure 4.4: Exports to Iran of PPE

Iran suffered particularly adversely from the recent COVID-19 crisis, with 264,561 recorded cases and 13,410 deaths by July 15th 2020.¹⁵⁹ This has given rise to the need for medical supplies, materials and other protective equipment. With the US withdrawal from the Nuclear Deal, Iran is dependent on European medicine and medical devices. Despite plunges in trade due to the crisis, “the EU is a



significant supplier of Personal Protective Equipment (PPE) items to the Iranian healthcare system,”¹⁶⁰ although it is dwarfed by China, as can be clearly seen in Figure 4.4¹⁶¹ with China supplying 46% of the exports of personal protective equipment to Iran overall compared to Europe’s 19%. According to the Middle East Monitor, INSTEX played a role in the provision of medical equipment, after Britain, Germany and France pledged 5 million euros¹⁶³ to help Iran fight COVID-19. It is worth noticing that Iran explicitly denied the help from Washington. The refusal of the EU to completely isolate Iran during the pandemic infers that the EU is willing to overlook the downside of potentially further weakening its ties with the US, which is already reclusive, if there is a real opportunity to maintain or strengthen its ties with other nations.

¹⁵⁹ "Iran Coronavirus."

¹⁶⁰ Batmanghelidj, "New European Limits On Medical Gear Exports Put Iranians At Risk — Bourse & Bazaar."

¹⁶¹ Ibid.

¹⁶² "Germany Says Medical Aid Has Been Sent To Iran Via Instex Trade Mechanism."

¹⁶³ "Europe Sends Medical Goods To Iran In Test Of Sanctions Bypass Mechanism."

4.6 Severing diplomatic relationships

With the military collaboration dwindling and trade relations under review: what holds the strained US - EU relation together? Less and less representation and in-person dialogue. For his first 1.5 years in office, Trump did not even send a US ambassador to Europe and instead of belatedly filling that position, he merely requested the US ambassador to Belgium to take on this role in addition to the one he already had. After the ill-liked Richard Grenell resigned on June 1st,¹⁶⁴ there was no US ambassador in Germany until the nomination of Douglas Macgregor in late July. Even the ritualistic meetings no longer happen, which is only partly due to the COVID-19 threat. While Trump called the G7 meetings “outdated,”¹⁶⁵ European leaders made it clear that they didn’t want to be stage props for a pre-election photo opportunity. This is not the behaviour of friends and partners. It is often said that the opposite of love is not hate, but indifference - and that seems to be the predominant emotion between the US and the EU these days.

4.7 COVID-19 impact: exposing additional fissures

During the pandemic, the long-term dynamics of the erosion of the transatlantic alliance were significantly accelerated to the point of near or actual collapse, despite a façade of continuous phone conversations between the US and the EU – as a whole and with individual leaders. Ordinary European citizens seemed to merely shrug their shoulders upon Trump’s announcement of a travel ban into the US in March, which happened, customarily, without consultation.¹⁶⁶ Senior European officials were less stoic: in a joint statement by Ursula von der Leyen and Charles Michel, the president of the European Commission and the European Council respectively, expressed strong criticism. Even during the pandemic, the long list of withdrawals from international treaties was continued by the US stepping back from the Open Skies Treaty, claiming that Russia did not observe it, without indicating that it was prepared to enter into a

¹⁶⁴ "US Ambassador To Germany Richard Grenell Resigns."

¹⁶⁵ "Trump Delays 'Outdated' G7 Leaders' Summit."

¹⁶⁶ M. Herszenhorn, "Trump’s Europe Strategy: Nothing."

multilateral dialogue to revive this agreement. Amongst all of the above, it sounded all too believable that Trump's administration tried to buy the German biomedical firm, CureVac, set to develop a COVID-19 vaccine, for exclusively American use. Although refuted, this seemed to be in character and attracted more media comments than other, real acts of medical nationalism across Europe itself.

4.8 Summary

In summary, the fraying ties of the transatlantic alliance both regarding military collaboration and trade have shown that a neoliberal approach in itself is unlikely to sustain bilateral or multilateral relations, even among countries that subscribe to the same ideology. Ultimately there needs to be a more meaningful framework, such as one provided by a shared purpose and thus a mutually agreed direction to move towards, which has been lost between the transatlantic partners. As it is, the collapse of the transatlantic alliance seems all but complete, with the final threads having been worn extremely thin by a lack of mutual help and collaboration during the COVID-19 crisis.

5. The weakening of Democratic structures

5.1 Increasing inequality in absolute terms despite relative decrease

A third and equally corrosive spillover effect from neoliberalism's failure is the weakening of democratic structures. How did neoliberalism contribute to that? In recent years, income and wealth inequalities have increasingly become prominent in public debates, attracting attention amongst policymakers. While relative global inequality decreased on the back of China's and India's booming economies,¹⁶⁷ incomes did not increase in step with this. In fact, inequality in absolute terms has increased substantially.¹⁶⁸ Measured by the Gini coefficient, the US has the highest level of income inequality of all G7 countries.¹⁶⁹ In the past 25 years, the wealth gap between America's richest and poorer families more than doubled.¹⁷⁰ Looking specifically at Europe, "over the last decade, those in the lowest income deciles are the ones that have lost the largest share of total equivalised disposable income."¹⁷¹ The inequality has been growing in Europe since 1975 in terms of both socioeconomic indicators and access to education and health.¹⁷²

5.2 Impact of the global financial crisis on the rise in inequality

This rise in inequality was further exacerbated by the 2008 global financial crisis which happened within the neoliberal framework. In the US, it saw the lower-middle classes lose wealth while those in the top quintile still gained it (Figure 5.1). Notably the main force of divergence between income groups is when the annual rate of return on capital, 'r' (excluding wages) grows at a disproportionately faster rate than the country's economy, 'g'.¹⁷³ Thus, the

¹⁶⁷ "Press Release - Global Income Inequality Has Declined In Relative Terms, But Gone Up Substantially In Absolute Amounts."

¹⁶⁸ Ibid.

¹⁶⁹ Schaeffer, "6 Facts About Economic Inequality In The U.S.."

¹⁷⁰ Ibid.

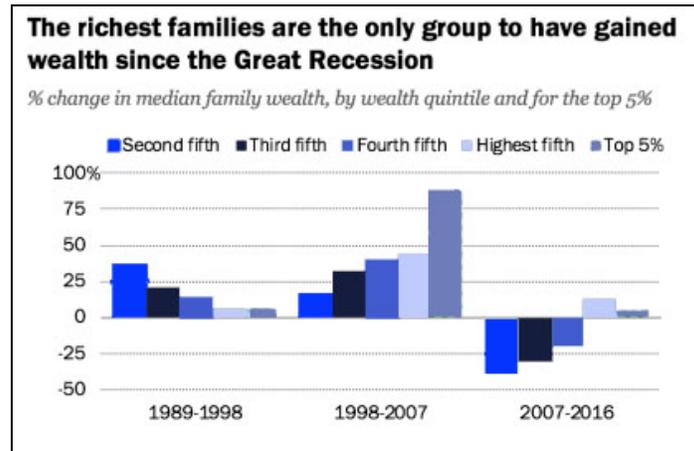
¹⁷¹ Ibid.

¹⁷² I. Lindberg, *Are Increasing Inequalities Threatening Democracy In Europe?*.

¹⁷³ Piketty, *Capital In The Twenty-First Century*.

lower income groups were more adversely impacted by the recession than the higher income groups.

Figure 5.1 Distribution of wealth since the 2008 Financial Crisis



Source: Pew Research Center, 2020¹⁷⁴

The financial crisis took an equally high toll on economic and household growth in the EU. As a conglomerate of States with varying histories and economic approaches, it was caught up in rapid changes since 1989 with disproportionately higher impact in some countries. According to Appendix 8, the recovery from the financial crisis did not bring inequality down across the board to the degree it did in Ireland, Austria, Slovakia or Iceland.¹⁷⁵ It rose particularly sharply in Cyprus, and the new entrants to the EU - Estonia (2003), Hungary (2003), Bulgaria (2007) and Romania (2007). Similar to the US, the surge in inequality was down to top incomes rising fast, while the less affluent and educated bottom 40% were increasingly left behind.

It is also particularly worth-while to look at how much labour income inequality accounts for the total income inequality, shown in Appendix 9, as it also indicates the relative importance of capital and pensions, as well as the availability of social assistance. This illustrates a key

¹⁷⁴ Schaeffer, "6 Facts About Economic Inequality In The U.S.."

¹⁷⁵ Procee, *Integrated Safeguards Data Sheet (Appraisal Stage) - Guangxi Laibin Water Environment Project - P126817*.

difference when comparing countries like Portugal, Italy and Spain to most central and eastern European (CEE) countries, where neither income from capital, nor a sizable income from pensions buffers a decreasing household income.

5.3 Rising income inequality leads to a shrinking democratic space

High income inequality is not simply regarded as one of the key contributing factors in fueling economic stagnation and stalling social mobility. Notably, it also accelerates the erosion of trust and social cohesion and thereby contributes to the discernible shrinking of the democratic space in the last 10 years. Furthermore, “the decline of liberal democracy in 2019 is much more pronounced”¹⁷⁶ than in the previous year. More importantly, this time, all regions of the world were affected, with the declining averages of the Liberal Democracy Index (LDI) indicating that “the West has regressed to a situation with regard to electoral and liberal rights not recorded since 1980.”¹⁷⁷ Significantly, neoliberal policies have played a key role in weakening these hard-won democratic structures, which emphasise the significance of individual freedom, political equality and respect for the rights of the minority groups in an open society, by disregarding the need for social reforms alongside encouraging free markets and thus keeping the system in balance.

Countries above the diagonal line in Appendix 10 have undergone a positive development regarding democratization since 2009; those below the line are becoming increasingly autocratic.¹⁷⁸ In Europe, Hungary and Poland are clear outliers, yet the US, traditionally a beacon of and yardstick for democracy, currently also finds itself considerably below the line. Given the size of the US population, its economic and military power and its political influence, this is all important, as other countries still take their cue from the US behaviour. It is therefore not just part of the dynamic, but influences its direction and speed and thus, the degree to which the global democratic space is shrinking even outside its own borders.

¹⁷⁶ Lührmann et al., *Autocratization Surges—Resistance Grows*, 12.

¹⁷⁷ Ibid.

¹⁷⁸ Ibid.

5.4 Alienation from traditional politics and growing populist movements

Ultimately, inequality is at the heart of a shrinking democratic space.¹⁷⁹ Those who perceive themselves as being left behind in their country and a changing world order and whose fear of losing what they once thought of as their safe place in it, increasingly take to the streets and/or find other ways to protest. Even more importantly, they become alienated from traditional politics and show increasing support for populist movements, such as the ones that have sprung up in Austria, France, Lithuania, Slovenia and Sweden¹⁸⁰ - Western countries that are still comparatively well off. These days, populism is considered as one of the largest threats to democracy. The Timbro Authoritarian Populism Index shows that the average voter support for populist parties across Europe currently stands at 22.2 percent (2018 figure) -1.5 percent more than in 2017.¹⁸¹ This is the “second biggest increase on record between two consecutive years”¹⁸² and translates to 71 million voters in national elections.¹⁸³ In fact, during 2018, there have been elections to parliament in six European countries and populist parties made gains in every single one.¹⁸⁴

Nationalist parties and policies have been on the rise in Europe for the past two decades, most strongly evidenced in Hungary through Viktor Orbán’s ascent as well as Brexit and Boris Johnson’s election. These examples can be seen as culminating factors of a long-term shift in the political spectrum in general. In other words, what is observed is nothing less than the “normalization of right-wing policies”¹⁸⁵ in mainstream democratic parties. They act this way to sustain the democratic order without letting actual populist parties get elected.¹⁸⁶ This is a

¹⁷⁹ I. Lindberg, *Are Increasing Inequalities Threatening Democracy In Europe?*, 4.

¹⁸⁰ *Ibid.*

¹⁸¹ *Timbro Authoritarian Populism Index.*

¹⁸² *Ibid.*

¹⁸³ *Ibid.*

¹⁸⁴ *Ibid.*

¹⁸⁵ Abromeit, "A Critical Review Of Recent Literature On Populism", 178.

¹⁸⁶ *Ibid.*

dangerous trend with the potential to backfire, as it allows for people to gradually get used to populist policies that threaten core democratic values. This is illustrated by the 1999 Austrian elections which allowed right-wing Austrian Freedom Party led by Jörg Haider to win enough votes to enter into a coalition with the centre-right Christian-Democratic Austrian People's Party, breaking a political taboo.¹⁸⁷ It must be noted that long before Haider, it was populist politicians such as France's Jean-Marie Le Pen and Italy's Silvio Berlusconi that paved the way.

Right now, right-wing populist parties seem to be on the rise, signaling the worrying change of public mood from optimism about the future to fear and apprehension. On the back of this, they "increased their voter support with 33 percent in [the last] four years."¹⁸⁸ Left-wing populist parties, on the other hand, seem to have stagnated. It is only in southern Europe that they still have any notable influence. In view of the above, the emergence of populism across neoliberal countries does raise doubts about whether the cleavages in society, which were deepened within the neoliberalism framework, not only facilitate populism but also sustain and even deepen those very cleavages as the concerns that drive the respective voting decisions are very different.

5.5 Populist parties as cultivators of fear

Populist parties exploit the concerns raised by members of society that have borne the brunt of neoliberalism's shortcomings. They present themselves as a reactionary force to the political orthodoxy associated with privileged elites, stirring up sentiments around a glorious past when a better order prevailed. They often self-style as defending the truth - supposedly unlike the democratic politicians they set out to disparage. Notably, "populists claim legitimacy on the grounds that they speak for *the people*: that is to say (...) the democratic sovereign, not a sectional interest such as an economic class"¹⁸⁹ largely associated with the neoliberal agenda. Another characteristic is that populist parties portray themselves as lacking interest and even

¹⁸⁷ Ibid.

¹⁸⁸ *Timbro Authoritarian Populism Index*.

¹⁸⁹ Canovan, "Trust The People! Populism And The Two Faces Of Democracy."

patience for the constitutional rule of law, considering it as a mere speedbump for the direct rule of the people.

Most importantly, “populism’s fundamental structural characteristic, popular mobilization against (...) elites, implies not only a direct, simple, style but also a characteristic mood.”¹⁹⁰ This play on emotions can take the form of whipping up enthusiasm or invoking a threat that the real people need to stand against, united. In essence, the politics employed by populist parties can be explained as the conscious cultivation and manipulation of fear¹⁹¹ with the intention to cultivate distrust in the current government, in turn leading to populist support. Once more, fear shows itself as the driving emotion behind current developments.

5.6 COVID-19 Impact: accelerating democratic abrasion

The COVID-19 pandemic constitutes just the kind of crisis that fuels fear (initially centered on health, then on economic well being in the short and long-term, alongside conspiracy theories about being lied to). This current crisis might stimulate the election of populist parties for two diametrically opposed reasons: on the one hand, as an expression of a desire to see a strong, centralized government implement rather far-ranging measures in response to the virus. On the other hand, as an expression of a desire to keep being self-determined and not be dictated by a remote elite. Incidentally, the first is exactly what happened in China in the early months of 2020.

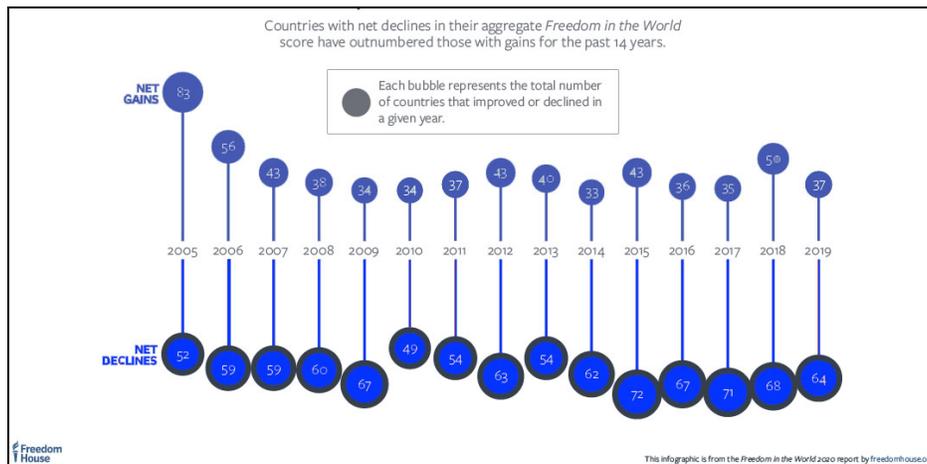
The crisis has exposed the potential for parts of the public to go both ways, although the majority of the electorate in countries across the West channelled their fear into higher ratings for their current governments, choosing to trust those they voted into power for the time being. This is a transient situation that is likely to change as people adjust to living with the fear of the infection and its consequences.

¹⁹⁰ Ibid.

¹⁹¹ Moffitt, *Global Rise Of Populism*.

What is certain and has been made clear throughout this report, is that the COVID-19 pandemic has come at a time when democracies are already in distress. As discussed earlier in this section, advanced postindustrial democracies have been plagued by divisions exacerbated by the global financial crisis and the inroads made by Russia and especially China in their subtle and less subtle expansion of power and influence globally respectively. It is quickly becoming evident that COVID-19 further accelerates the phenomenon of democratic abrasion - both in the US and across Europe. This is made tangible by the illustration in Figure 5.2, which shows that for more than a decade, freedom and democracy have been on the decline, as more countries lose rather than gain political and civil liberties.

Figure 5.2: 14 years of democratic decline



Source: *Freedomhouse Report, 2020*¹⁹²

The increasingly lax approach to rule of law over the past decade may have set the foundation to mainstream, or at least somewhat normalize, what would previously have been regarded as antidemocratic policies. It is alarming that “bipartisan support for rights-restricting COVID-19 responses could smooth the path for constitutional erosion.”¹⁹³ Indeed, the emulation of the Chinese model in countries such as the UK, Italy and Spain raises concern over the preservation of the rule of law and human rights associated with democracy.

¹⁹² Repucci, "A Leaderless Struggle For Democracy."

¹⁹³ Versteeg and Chilton, "Red And Blue America Agree That Now Is The Time To Violate The Constitution."

A very visible part of the democratic abrasion are specific democratic oversteps that were masked by the pandemic. These include the neutralisation of checks and balances, deliberately sidelining scrutiny by legislature and judiciary, the infringement of citizens' fundamental rights, expanded state surveillance, crack-down on anti-government protests, threat to electoral processes world-wide and unbalanced relations between civilians and the military. The latter are explained in full in Appendix 11. All these exemplify the weakening of the democratic structures and the crumbling essence of open societies much valued by the citizens who had started to become numb to the mistakes and broken promises of their governments decades ago when they did not prioritise social reforms in step with neoliberal policies. In many ways, the 'un-democratic' measures used during the pandemic did not come as a total surprise to society because it had gradually become accustomed to being a less open society.

5.7 Case Study 5: Authoritarianism and Hungary

Hungary is a poignant illustration of how the rise of authoritarianism contributes to the weakening of democratic structures and how this dynamic is being further accelerated by COVID-19. Hungary's political system has been described as "one of the most polarized bipolar party systems of all the former socialist countries."¹⁹⁵ Within this system, Hungary's current prime minister, Viktor Orbán, first came into power in 2010, winning a landslide victory just after the Financial Crisis (rise of the right). Orbán won two-thirds of the parliamentary seats, signalling the increasing distrust in the previous, socialist government that had "made an IMF-World Bank-EU troika deal that opened a €20 billion credit line and demanded serious austerity measures just before the election."¹⁹⁶

In 2011, Orbán's government agreed to amend its media law, creating a media control body with members selected by the ruling party in parliament, with fines up to € 700,000 on media outlets for "imbalanced news coverage."¹⁹⁷ In April of that same year, the parliament approved a new constitution – with the government gaining ownership over national central banks and judges, prosecutors and public notaries being forced into retiring at age of 62.¹⁹⁸ The EU Commission took its first steps in 2011 to demand change. In 2015, the European Parliament raised concerns over the increasingly compromised rule of law within Hungary.¹⁹⁹ National elections in 2014 saw Orbán's Fidesz party emerge as the clear winner again. They secured another landslide victory, capturing 44.87% of the vote,²⁰⁰ while far-right Jobbik won 20.22%, an increase of 3.85% on their 2010 results.²⁰¹ In light of strengthening competition from the right, two new enemies were found: Brussels and the bureaucratic system surrounding it.

¹⁹⁵ Feledy, "CIDOB - Hungary: Populism Or Politics?."

¹⁹⁶ Ibid.

¹⁹⁷ "Hungary: Media Law Endangers Press Freedom."

¹⁹⁸ "European Commission Closes Infringement Procedure On Forced Retirement Of Hungarian Judges."

¹⁹⁹ "European Parliament Resolution Of 10 June 2015 On The Situation In Hungary."

²⁰⁰ Győr, *Hungarian Politics In 2014*.

²⁰¹ Ibid.

The 2015 refugee crisis provided the opportunity to further implement antagonistic narratives within the country, attacking the European Commission and Angela Merkel, criticizing the latter for “inviting” more migration by opening German borders.²⁰² Hungary’s immigration law enacted in 2015 only allows 2 refugees per day,²⁰³ with refugees having to await their approval at the Soviet border. In September 2018, the European Parliament invoked Article 7 of the Treaty of the European Union - an article that can be appealed to if there is a clear breach on Article 2 on the Treaty of the European Union (rule of law, democracy, pluralism, non-discrimination), leading to the suspension of key rights of EU member states in order to safeguard the Union’s common values.

Mr. Orbán identified the draconian measures implemented in much of Europe as a response to the COVID-19 crisis as the perfect opportunity to exert even greater control. As a consequence of the pandemic, Hungary has seen unprecedented constitutional amendments and further consolidation of Orbán’s authoritarian rule. In late March 2020, the Hungarian Parliament (which is largely controlled by Orbán’s Fidesz party) voted by a 2/3rds majority to endorse Orbán’s government to rule by decree without a set limit and to punish spreaders of ‘false information’ for an indefinite period.²⁰⁴ This gives significant leeway to the Orbán government, such as the ability to suspend enforcement of laws.

The declared ‘state of emergency’ gives the Orbán government extensive leverage on how to tackle the COVID-19 crisis, with a high chance that opposing views to the government’s approach to the crisis will be censored, or face an even more severe punishment. For example, opposition-led municipalities were stripped of decision-making power and financial resources in April of 2020.²⁰⁵ 13 EU Member states expressed their deep concern about the rule of decree²⁰⁶ and the European Parliament stated that Hungary’s measures were “incompatible with European

²⁰² Feledy, "CIDOB - Hungary: Populism Or Politics?."

²⁰³ Barry, "In Orbán’s Hungary, Refugees Are Unwelcome — So Are Those Who Try To Help."

²⁰⁴ Bayer, "Hungary’S Viktor Orbán Wins Vote To Rule By Decree."

²⁰⁵ Walker, "Hungarian Government To End Orbán's Rule-By-Decree Legislation."

²⁰⁶ Bayer, "13 Countries ‘Deeply Concerned’ Over Rule Of Law."

²⁰⁷ "Hungary’s Emergency Measures: Meps Ask EU To Impose Sanctions And Stop Payments."

values."²⁰⁷ Article 7 procedure is still under way, but the EU is unable to investigate and punish Hungary for the guidelines set out in Article 2 due to the pandemic. While this draws light upon the weakening of the democratic framework in Hungary, it also shows that the EU, a body perceived to be influential enough to maintain the essence of an open-society, has been unable to succeed at its own homefront.

5.9 Summary

All that has been outlined in this report so far paints a dire picture: neoliberalism, the ideology and policy model that was originally conceived as a way to develop a nimbler, more adaptive society, became synonymous with dispassionate market capitalism, rising inequality across the globe and within countries along with the emergence of a mistrusted elite. This led to three interrelated spillover effects: firstly, the deliberate withdrawal of the US from the world stage as both the leading light of democracy and individual freedom and as the world's policeman, pursuing an isolationist approach of 'America first' under President Trump. Secondly, the erosion and subsequent collapse of the transatlantic alliance which had shaped the postwar order both regarding its security and trade. The third spillover effect is a weakening of democratic structures, which paved the way for the shrinking of the democratic sphere and the resurgence of populism and authoritarianism.

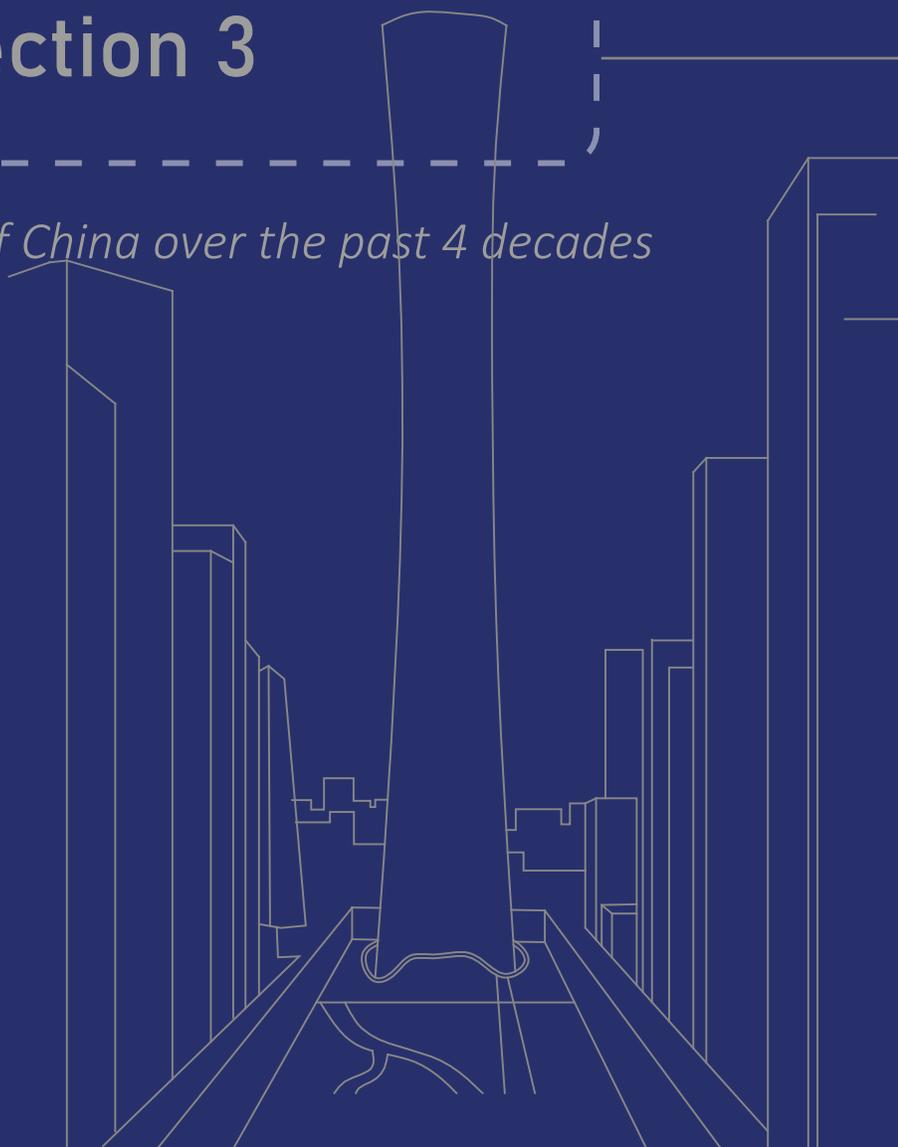
All of these dynamics have been at play for a considerable amount of time, yet have been significantly accelerated by the COVID-19 pandemic, which saw unanimously short-term and inward-looking responses by governments.

Having had a closer look at what exactly all three spillover effects consist of and how they are interlinked by growing disillusionment with policies and political partners alike, there can be no doubt that the neoliberal ideology is the root cause. Yet, there is also a common denominator that points as a solution: regarding COVID-19, as well as any other global challenge in the past 30 years, the fractured electorate of all Western democracies, with the fault lines being defined by age, education, income, degree of experience with liberal democracy and most importantly, by different levels of optimism about their individual wellbeing in the future, seem primarily motivated by *fear* rather than hope. This stands in sharp contrast to the Western world view of the 1990s, when there was a shared belief of being involved in a humanistic project towards a better future.

This shared idea of the future must be clear and compelling enough to replace fear with hope, culminating in a purpose and direction. It seems to be that this is what is most needed to pull Western countries out of their current, collective disillusionment with democracy due to its entanglement with neoliberalism. While the interlinking of neoliberalism with democracy is not entirely wrong, it is their incompatibility in its current form that creates problems in an open society. This is all the more poignant as China is rising in parallel, both embodying and promising *security* in contrast to the systemic failures COVID-19 exposed in the West. Non-action to define a unifying purpose for Western pro-liberal countries thereby equates to inadvertently facilitating Chinese dominance. If they merely continue, they allow themselves to be whirled along in the slipstream of a rapidly rising power with an international agenda that has been fast-forwarded by COVID-19. This vast and ancient civilization knows where it is headed - a certainty the West has yet to reclaim.

Section 3

The parallel growth of China over the past 4 decades



6. The rise of China from the 1980s

In sharp contrast to the fragmentation and corrosive disillusionment experienced by the West over the last 30 years, China, a country of just under 1.44 bn people,²⁰⁶ rose disproportionately to the rest of the world over the past four decades. This is all the more significant from a geopolitical perspective as China demonstrates a genuinely *different* way of approaching the fundamental challenges we are all faced with and has a pronounced international agenda. An agenda, which has been accelerated by COVID-19, notably facilitating Chinese opportunism and making future Chinese dominance very likely - especially, if the West keeps enabling it by inaction. In order to derive more pointers for advising Western, pro-liberal governments how to shape an approach befitting their own beliefs and strengths, the following sections will describe and analyse in detail, how China transformed itself into the major economic powerhouse it now constitutes, what distinctive pillars its international agenda consists of and how it makes the most of the developments in the West, described in the previous sections. They will also outline how specifically China utilizes the pandemic to further its own interests - as would any other nation if presented with such an opportunity.

6.1 China's transformation to a major economic powerhouse

China has converted itself from a poor developing economy to a major exporting powerhouse in the last 40 years,²⁰⁷ with its real national income growing on average by 7.2% per year and an extraordinary input growth with investment averaging 27% of national income.²⁰⁸ Right now, "China accounts for 13 percent of world exports and 18% of the world market capitalisation, and is the dominant economic force in Asia."²⁰⁹ Market-oriented reforms and increased integration into the global economy are the most likely explanations for the rapid productivity growth observed in recent years. According to the World Bank, China has even "experienced the

²⁰⁶ "China Population (2020) - Worldometer."

²⁰⁷ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*.

²⁰⁸ Khan and Hu, *Why Is China Growing So Fast?*.

²⁰⁹ "China v America."

fastest sustained expansion by a major economy in history – and has lifted more than 800 million people out of poverty.”²¹⁰ This growth has led to a substantial rise in bilateral commercial ties with the United States.

This is reflected by US trade data, indicating that total trade between the two countries increased from \$5 billion in 1980 to \$660 billion in 2018.²¹¹ China is currently the United States’ largest merchandise trading partner, its third-largest export market, and its largest source of imports.²¹² Yet the two biggest economies of the world are even more closely intertwined: China’s large-scale purchases of the US Treasury securities (which totalled \$1.1 trillion as of April 2019)²¹³ have allowed the federal government to fund its budget deficits, enabling it to maintain US interest rates at a relatively low level. In order to fully understand the rise of China, it is important to examine the historical trajectory of its growth.

6.2 The historical trajectory of China’s growth

6.2.1 China’s centrally planned economy under Mao

Before 1979, under the leadership of Mao, China maintained a centrally planned economy; this entailed state ownership of a large proportion of the country’s economic output and inevitably created distortions, as there were no market mechanisms to enforce an effective allocation of resources.²¹⁴ Moreover, in order to make China as self-sufficient as possible, foreign trade was generally limited to acquiring goods that could not be made or obtained in China.²¹⁵ During Mao’s leadership, the country suffered two significant economic downturns, namely during the Great Leap Forward (1958-1962), which allegedly caused 45 million people to die of famine²¹⁶ as a result of an over-ambitious plan to modernise the Chinese economy, and later during the Cultural Revolution (1966-1976) as evidenced in Appendix 12, depicting the Chinese Per Capita

²¹⁰ "China Overview."

²¹¹ M. Morrison, *China’s Economic Rise: History, Trends, Challenges, And Implications For The United States*, 1.

²¹² Ibid.

²¹³ Ibid.

²¹⁴ M. Morrison, *China’s Economic Rise: History, Trends, Challenges, And Implications For The United States*, 2.

²¹⁵ Ibid.

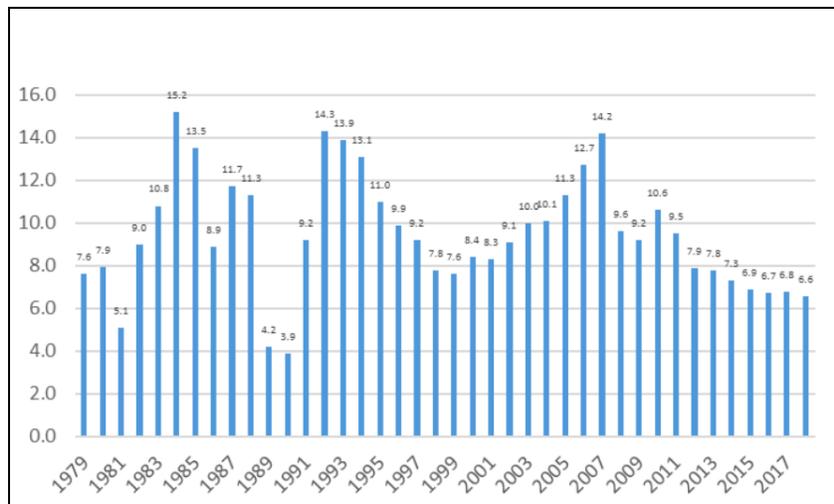
²¹⁶ Branigan, "China's Great Famine: The True Story."

GDP on a purchasing power parity (PPP) basis²¹⁷ and showing two pronounced troughs. Despite these dips, one of the key legacies from the central planning era was the government's large-scale investment in physical and human capital in the 1960s and 1970s,²¹⁸ which turned out to be the bedrock for China's subsequent rapid productivity growth.

6.2.2 Deng Xiaoping's economic reforms and opening-up policy

In 1978, shortly after the death of Mao (1976), the Chinese government decided to break with its Soviet Style economic policies by gradually reforming the economy according to free-market principles, with traces of the neoliberal ideology, in the hope that this would significantly increase economic growth and living standards. And it worked: from 1979, which was the year Deng Xiaoping's economic reforms came into effect, up to 2018, China's annual real GDP growth averaged a staggering 9.5%²¹⁹ (Figure 6.1). This means no less than that, on average, China has been able to double the size of its economy in real terms every eight years.²²⁰

Figure 6.1: Chinese Annual GDP Growth: 1979-2018 (percentage change)



Source: IMF and Chinese National Bureau of Statistics²²¹

²¹⁷ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 2-3.

²¹⁸ *Ibid.*, 2.

²¹⁹ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*.

²²⁰ *Ibid.*

²²¹ *Ibid.*, 6.

Deng Xiaoping's reforms brought private business and market incentives to China. This is reflected by the fact that "prior to 1978, the private sector was virtually non-existent; today, private firms contribute to approximately 70 percent of China's GDP."²²² This required a complete overhaul of the economic system, yet the reform and opening-up was implemented gradually and step by step, a concept now known as "crossing the river by feeling the stones."²²³ The two things that made all the difference were a substantial investment (funded from domestic savings and foreign investors)²²⁴ and rapid productivity growth. As can be seen in Appendix 13, China's high savings rate has not only helped it sustain the high levels of domestic investment, but played a key role in safeguarding the country during the 2008 Financial Crisis. Moreover, the creation of Special Economic Zones (SEZs), compounded with the vast inflow of FDIs, aided China in achieving the economic efficiency and technological advancements it is now renowned for. Thus, over the last four decades, China's economic sectors have experienced a drastic transformation, directing China towards the manufacturing sector which enables higher exports.

6.2.3 China's new "go global" strategy

Deng's open-door policy was all about getting foreign firms to settle in China. In 2000, China's leaders triggered a reverse initiative. This new "go global" strategy was all about incentivising Chinese firms (primarily state owned enterprises) to invest overseas,²²⁵ not least as a way of dealing with the ever rising amount of foreign exchange reserves (as China purposely keeps its currency undervalued, requiring China's central bank to purchase US dollars entering China's economy).²²⁶ Those had previously been invested conservatively, for example in US treasury securities. To achieve higher returns, China's government launched the China Investment Corporation (CIC) in 2007. Initially funded with \$200 billion, this immediately became one of the world's largest sovereign wealth funds,²²⁷ which enables strategic investments abroad and helps

²²² "China's Reforms And Opening-Up: Future Prospects."

²²³ Chunsheng, "Opinion: "Cross The River By Feeling The Stone": A Valuable Lesson After 40 Years."

²²⁴ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 6.

²²⁵ *Ibid*, 17.

²²⁶ Salidjanova, "China's Foreign Exchange Reserves And Holdings Of U.S. Securities," 1.

²²⁷ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 17.

in becoming the most important trading partner to countries. In 2016 for example, China, the world's second biggest economy after the US, overtook America as the single biggest trading partner of Germany, the world's fourth biggest economy.²²⁸

6.2.4 The impact of the global financial crisis on the Chinese economy

Despite its huge economic strides, the global economic slowdown, which began in 2008, had a significant impact on the Chinese economy,²²⁹ proving that China was not "as insulated as many had assumed."²³⁰ Although China's high growth rate during the crisis was envied by other countries, it was nevertheless significantly lowered, indicating that the "decoupling of China's growth from advanced countries may not be as great as many popular analyses have suggested."²³¹ According to Chinese media reports at the beginning of 2019, 20 million migrant workers had to return home after job losses as a result of the financial crisis while the real GDP growth in the fourth quarter of 2018 had declined "to 6.8% year-on-year."²³² China's net FDI was reduced to "\$121.68 and \$70.32 billion in 2008 and 2009, dropping 15% and 42% (...) respectively."²³³ In response, the Chinese government swiftly released a four trillion yuan (\$ 586 billion) economic stimulus package²³⁴ to re-stabilise its economy.

6.2.5 The Rise of Xi Jinping

With Xi Jinping, the son of one of the founders of China's Communist party, being named as China's new president in 2013, the so-called Belt and Road Initiative was launched: a \$1 trillion development strategy aimed at building connectivity and cooperation across six main corridors, thereby facilitating an increase in Chinese soft power across the developing world.²³⁵ Unlike the Western countries before it, China has strategically opted for a non-interventionist approach to

²²⁸ "Angela Merkel's Soft China Stance Is Challenged At Home."

²²⁹ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 5.

²³⁰ Li, D. Willett and Zhang, "The Effects Of The Global Financial Crisis On China's Financial Market And Macroeconomy," 1.

²³¹ Ibid.

²³² M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 5.

²³³ Li, D. Willett and Zhang, "The Effects Of The Global Financial Crisis On China's Financial Market And Macroeconomy," 2.

²³⁴ "China Seeks Stimulation."

²³⁵ Buckley, "Xi Jinping Thought Explained: A New Ideology For A New Era (Published 2018)."

developmental policy. This means that China asks for minimal (if any) internal political adjustments as long as the beneficiaries subscribe to the 'One China Policy'.

Yet its indirect influence is growing: China is now the single largest financier for infrastructure in Africa – funding one in five infrastructure projects and constructing every third one.²³⁶ Given the continent's vast infrastructure requirements, which the African Development Bank assesses to range between \$130 billion to \$170 billion yearly,²³⁷ "governments are only too willing to take out Chinese loans to plug the funding gap."²³⁸ This means two things: firstly, they potentially fall into a debt trap and secondly, the Chinese grip on power is tightening under the man who learned in 2018 that he will be 'president for life'.

Another strategic development initiated by Xi Jinping in 2013 was the establishment of the Asian Infrastructure Investment Bank (AIIB), which serves as an alternative to the World Bank. Through the AIIB, Xi Jinping can undermine Western influences in Asia and Africa, thus effectively assuming economic control over the regions. Calculations show that the China Development Bank and Export-Import Bank (both of which finance big projects in Asia and Africa) have more assets than the combined capital of the World Bank and the Asian Development Bank, revealing the extent of Chinese prevalence in the global economy. Notably, the AIIB is faster than the World Bank, requires less conditions on its loans and portrays itself as an organisation that "does not have country strategies for its members [but will] review any project that is aligned with the Bank's thematic priorities and will bring clear benefits to Asia"²³⁹ In other words, it enjoys giving the impression that in comparison to the World Bank, it is more understanding and accommodating and less controlling.

Xi Jinping has laid out some ambitious targets for the next 30 years and beyond. He aims for the first objectives to be achieved between 2020 and 2035, seeking China to be a top-ranked

²³⁶ Herbling and Li, "China's Built A Railroad To Nowhere In Kenya."

²³⁷ African Development Bank Group, *African Economic Outlook*.

²³⁸ Herbling and Li, "China's Built A Railroad To Nowhere In Kenya."

²³⁹ "Frequently Asked Questions - AIIB."

innovative nation in 2035 with a large middle-income population and narrower wealth gap.²⁴⁰ Over the past 10 years, however, Xi Jinping has deviated from the more reserved and open approaches enshrined in the 1982 constitution by Deng and has shifted to a more aggressive approach to governance.

This is evident in Xi's 2018 constitutional amendment which denotes a significant shift in the internal dynamics of China. In many ways, the amendment turns the clock back to the pre-reform 1978 era, in essence opening the door for an excessive concentration of power. Furthermore, the reform fortifies one-party totalitarianism, enshrining the CCP as an essential part of the integrity of the state. Finally, the reform seems to be laying the groundwork for a Mao-esque cult of personality for Xi and legitimizes his autocratic tendencies. The wording of the articles gives a very high margin of interpretation enabling the state to back up Xi's actions²⁴¹ - basically "blessing Xi's indefinite rule."²⁴²

6.3 COVID-19 impact: advanced rise of China

The COVID-19 crisis poignantly highlighted that the West is still China's biggest customer. It relies on China for vital purchases such as test kits and medical equipment. Chinese customs statistics showed that between 1st of April and 12th of April 2020 alone, China exported \$2 billion "in preventative and diagnostic medical equipment."²⁴³ Moreover, it was predicted that there would be an 8% growth in the Chinese second-quarter GDP from the previous three-month period.²⁴⁴ According to projections from the IMF, the Chinese economy is set to grow by 1% in 2020 while the US economy is forecasted to contract by 6%.²⁴⁵ This means that the swift economic recovery has put China in the position to provide assistance to affected countries and to function as a crucial, early provider of medical equipment to Spain, Serbia and Italy at the height of the crisis.

²⁴⁰ Jun, "China's Vision For The Next 30 Years."

²⁴¹ "Amendment To The Constitution Of The People's Republic Of China (2018)."

²⁴² Buckley and Lee Meyers, "China'S Legislature Blesses Xi'S Indefinite Rule. It Was 2,958 To 2. (Published 2018)."

²⁴³ Mulakala and Hongbo, "Covid-19 And China'S Soft-Power Ambitions."

²⁴⁴ "From Cover-Up To Global Donor: China'S Soft Power Play."

²⁴⁵ "Real GDP Growth."

Furthermore, it was reported that each of the 54 African nations will receive 20,000 testing kits, 100,000 masks and 1,000 protective suits for medical use from the Jack Ma Foundation.²⁴⁶ China's resounding answer to Europe's and much of the world's calls for medical equipment early on in the crisis has significantly improved its global and European standing. The latter had taken a battering over its handling of the emerging COVID-19 pandemic, personified by the death of the very doctor who tried to warn his country and the world of what lay ahead. China strategically seized the geopolitical opportunity by wielding soft power. Beleaguered Italian Prime Minister Conte was all too happy to accept China's contributions to a "Health Silk Road"²⁴⁷ - Xi's ingenious reframing of his unpopular Belt and Road Initiative.

Moreover, given China's quick recovery from the pandemic, already seeing upticks in areas such as real estate, power plant coal consumption and traffic congestion, its economy presents itself as a "safe haven"²⁴⁸ for investors aiming to avoid wide-spread volatility in the Western markets - especially at the onset of the pandemic spreading there. At the end of February 2020, "offshore investors poured \$13 billion into the Chinese government's bond and policy bank security market."²⁴⁹ The same is true for other Asian countries, such as Hong Kong and South Korea. Money and investments continue to flow east-ward, exacerbated by the COVID-19 pandemic.

6.4 Summary

In summary, over the last 40 years, China has made an extraordinary economic recovery and put a solid structure in place to achieve its goal to become a middle-income country by 2035, taking pride in its approach that resulted in creating *more equality* both for individuals and between China's regions, while elsewhere the inequality gap keeps widening. While China too opened its economy in the 1980s using certain neoliberal tools, what it did well, which certain

²⁴⁶ "Jack Ma Foundation Donates Masks, Testing Kits To Africa For COVID-19 Control - Xinhua | English.News.Cn."

²⁴⁷ Lee and Rasser, "China's Health Silk Road Is A Dead-End Street."

²⁴⁸ "From Cover-Up To Global Donor: China's Soft Power Play."

²⁴⁹ Ibid.

democratic countries failed to do, was the clever incorporation of these elements with its existing 'socialism with Chinese characteristics'. In the case of China, the introduction of specific neoliberal aspects did not lead to the deepening of cleavages in society; instead, it aided China's economic and political growth supplemented by the influence and significance the government has over the country's market and citizens. In the COVID-19 crisis, China quickly went from being the perpetrator to supporter - by winning hearts and minds of beleaguered countries receiving its medical equipment - and then, from supporter to indirect beneficiary by ensuring that its own economy was revived on the back of it.

7. China's clear international agenda - five pillars

Having just detailed the rise of Xi Jinping and the “new era” he stands for alongside some of his key policies to ensure China’s mounting global influence (which are reflected in its ongoing COVID-19 image campaign), the question arises: what specifically drives China’s actions in the foreign policy space? In fact, there seem to be five distinctive pillars to its clear international agenda: offering the international community a distinct ideological model as a possible alternative, increasing its participation as well as dominance in international governmental organizations (IGOs), improving trade with and increasing the dependence of growing economies on China, enhancing China’s international weight through soft power and strengthening its hard power to pursue its interests by different means, if needed. In their entirety, these pillars suggest that Xi’s China is no longer content to merely participate in and contribute to the international system, but intent on shaping it.

7.1 Offering a distinct ideological model as a possible alternative

Xi Jinping has sought to strengthen “the CCP’s legitimacy by tightening ideological control and reviving Maoist and Marxist principles within China.”²⁵⁰ Since 2017, Xi’s “Thought”²⁵¹ has also been enshrined in the party’s constitution. While the personal power dimension is important, a close reading of official documents published in the lead-up to and emanating from the 19th party congress reveals broader ideological messages, underlining that Xi’s guiding ideology is no longer focused on issues of governance, but the creation of said “new era” – focused on supporting the people in their pursuit of a better life.²⁵² Furthermore, Xi’s far-reaching 33 year plan also made mention of a desire to build a “community with a shared destiny for mankind,”²⁵³ hinting at a desire to win over other countries and see them align with the Chinese perspective.

²⁵⁰ Stanzel et al., *CHINA’S “NEW ERA” WITH XI JINPING CHARACTERISTICS*, 2.

²⁵¹ *Ibid.*

²⁵² “The Formative Journey Of General Secretary Xi Jinping (近平总书记的成长之路).”

²⁵³ Stanzel et al., *CHINA’S “NEW ERA” WITH XI JINPING CHARACTERISTICS*, 3.

China in itself is a vast and diverse country with pronounced regional inequities which it seeks to even out going forward. The new emphasis on people and human development is consciously aimed at two audiences: the Chinese people themselves and the international community, which to date, has shown itself to be cautious in their embrace of China. From a pro-liberal, democratic, Western perspective, China's human rights record, rising nationalism, media censorship and wide use of surveillance to implement a social credit system with the stated aim to "provide the trustworthy with benefits and discipline the untrustworthy"²⁵⁴ give rise for concern.

Yet some of those very liberal democracies faced with protestors on the street will have secretly looked on in envy at how effective the crack-down on COVID-19 proved and proves to be in China, thanks to draconian measures unfathomable in their own systems. A rising desire for a strong steer in times of overwhelming uncertainty and almost existential fear, indicated in other parts of this report, may facilitate a shift towards a greater willingness to waive some individual liberties, consequently challenging and changing perceptions of the attractiveness of the Chinese ideological model. A major concern for the Western democracies is not the Chinese model in itself; instead, it is the attractiveness of this model to certain democratic governments that are unable to discern the conflicting nature of the two models. Essentially, these governments would be moving from one ideology that is in parts irreconcilable with democracy, neoliberalism, to another, which is the Chinese model.

7.2. Increasing participation in /dominance of IGOs

China's effective entry into the international community happened on the 26th of October 1971 – Resolution 1758 by the UN General Assembly, which opted to transfer the seat of China in the UN from Taiwan to the People's Republic of China.²⁵⁵ By 2000, China had become a member of over 50 governmental organizations and 1275 non-governmental organizations – starkly

²⁵⁴ Brehm and Loubere, "China's Dystopian Social Credit System Is A Harbinger Of The Global Age Of The Algorithm."

²⁵⁵ Zhang and Austin, "Power And Responsibility In Chinese Foreign Policy," 132.

contrasting the situation in 1966, when it was a member of only one IGO and 58 NGOs.²⁵⁶ Especially during its reform period, membership in IGOs represented not only power and status, but also testified to its ability to modernize, thereby contributing to China's international prestige. Participation in IGOs also helps resolve issues of China's disputed sovereignty over Tibet and the autonomous region of Xinjiang with its "indigenous ethnic Uighur population,"²⁵⁷ not to mention that China's presence in NGOs legitimizes its position vis-à-vis Taiwan.²⁵⁸

Recent years have seen heightened efforts by China to expand its influence in IGOs, especially the United Nations and its sub-bodies. Chinese diplomats have increasingly held influential positions, such as under-secretary-general for the United Nations Department of Economic and Social Affairs (DESA), and sought to promote its Belt-and-Road Initiative in conjunction with the UN's Sustainable Development Goals. Furthermore, China significantly increased its funding of the World Health Organization (WHO), which allegedly led the current Director-General, who China had backed during the election process of 2017, to openly praise China's handling of the COVID-19 pandemic. This provided Donald Trump with a reason to accuse the WHO of being "China-centric" and to subsequently suspend American funding.²⁵⁹ Significantly, China's role in the WHO has allegedly led to Taiwan being "effectively locked out of membership."²⁶⁰ Looking at all of the above in conjunction, there is an apparent desire by China to at least exert strong influence from within international organizations.

7.3 Increasing the dependence of growing economies by increased trade

China's most obvious foreign policy, the Belt-and-Road Initiative, has already been referenced a number of times in this report. It is a highly visible part of China's clear international agenda and significantly extends China's reach into developing countries, many of which have grown tired of

²⁵⁶ Ibid, 133.

²⁵⁷ "Why Is There Tension Between China And The Uighurs?."

²⁵⁸ Zhang and Austin, "Power And Responsibility In Chinese Foreign Policy, " 141.

²⁵⁹ Kelland and Nebehay, "Caught In Trump-China Feud, WHO Leader Under Siege."

²⁶⁰ "Why Taiwan Has Become A Problem For WHO."

the futility of the western development model. From a trade perspective, this has allowed China to tap into new market places, in which Chinese goods can be both produced and sold. An example of Chinese investments in Kenya has been elaborated in Appendix 14.

One of the key reasons China invests so heavily in the Belt-and-Road initiative is to avoid what is known as the middle-income trap – meaning that it cannot continue to grow fast enough for living standards of people on average incomes to rise to the levels experienced in rich countries.²⁶¹ Overall, the Belt-and-Road Initiative can be seen as a two-pronged project: on the one hand, it fuels Chinese economic security; on the other, it constantly showcases China’s success story and stated ‘no-strings-attached’ policy which contrasts favourably with how Western countries operate in the developing world. While appearing to be a very indirect measure, this is part of a very deliberate, more assertive approach to foreign policy and a huge departure from the “hide brightness, cherishing obscurity”²⁶² mantra of the Deng era.

7.4 Enhancing China’s international weight through soft power

Soft power is “the means by which a country gets other countries to ‘want what it wants,’”²⁶³ which aligns perfectly with Xi Jinping’s stated intention to “give a good Chinese narrative, and better communicate China’s message to the world.”²⁶⁴ Alongside the previously cited Belt-and-Road Initiative, which aids regional connectivity, China also uses more traditional ways of promoting its story: it does so via the Confucius institutes, providing classes in Mandarin, cooking and calligraphy, via educational exchanges and via seizing the proverbial radio station by boosting its foreign language news outlets, aiming to establish no less than 200 foreign bureaus of its news agency Xinhua by 2020.²⁶⁵ The 2008 Beijing Olympic Games were a prolonged display of China’s message to the world, as were the stellar performances of Chinese

²⁶¹ Anderson, "China Can Avoid The Middle-Income Trap Of Developing Economies."

²⁶² Economy, "The Game Changer."

²⁶³ Albert, "China'S Big Bet On Soft Power."

²⁶⁴ Ibid.

²⁶⁵ Ibid.

athletes during the last summer Olympics in Rio de Janeiro. Chinese influence extends even to investing in Hollywood in order to shape China's external image.²⁶⁶

All of the above is circumstantial evidence that China is going all out to win hearts and minds in its attempt to fill the void left by an isolationist America and to help become the pioneering global influence Xi aims for it to be in 2050. In many ways, this move is more strategically beneficial to China than outright dominance in international organizations and the global order. The excretion of soft power often goes unnoticed by the international community; it is also more welcomed than blatant or aggressive foreign policy moves. Such a tactic, supplemented by its presence in international organisations, has aided China to close up on the gap between it and the Western nations, specifically the USA.

7.5 Strengthening of China's hard power

Soft power, however, is not all that China relies on. Since Xi Jinping came to power, China has considerably expanded its military force. This is to secure its domestic position, in particular towards India, as well as to send strong messages to its neighbour, North Korea, to the US and to the rest of the world, particularly regarding its ability to defend its interests in the South China Sea – an area it depends on for its energy imports.²⁶⁷ One particular neuralgic point seemingly requiring a credible display of hard power is illustrated in the Case Study 6.

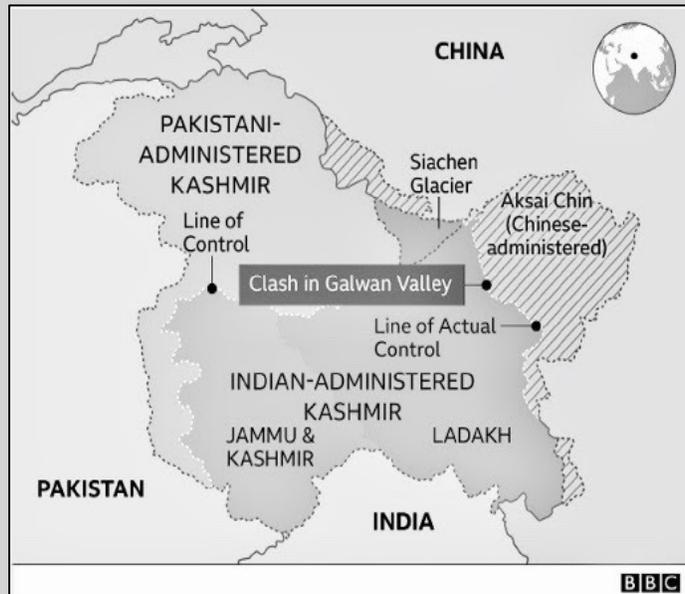
²⁶⁶ Ibid.

²⁶⁷ "Territorial Disputes In The South China Sea."

7.6 Case study 6: The Indo-China border dispute

The relationships between China and India have been strained over the past 45 years, since the last bloodshed at Tulong La in Arunachal Pradesh in 1975.²⁷⁰ The two Asian giants are both eager to play an increasingly important role in the international sphere, but pursue diametrically opposed strategies, with India seeking a closer relationship with the US while China aims to “deepen its influence in other South Asian nations, expands its military presence in the Indian

Figure 7.1: Border dispute (Kashmir)



Ocean (and) backs its ally and India’s nemesis, Pakistan.”²⁷¹ Both countries have been “locked in a border dispute for decades.”²⁷² A recent incident on 15th June 2020, leaving 20 Indian soldiers dead alongside an unconfirmed number of Chinese casualties²⁷³ further highlighted the desire for Chinese expansionism within the international arena and demonstrating Xi Jinping’s determination to assert China as the hegemon in the Asia-Pacific region (Figure 7.1). Prior to the events in June, tensions had been mounting in the region, since Indian premier Modi stripped “the Indian state of Jammu and Kashmir of its special autonomy and turned the portion of Ladakh

²⁷⁰ Krishnan, "Forgotten In Fog Of War, The Last Firing On The India-China Border."

²⁷¹ Gupta, "June'S Border Clash Marked A New And Tense Phase In China-India Relations."

²⁷² "India-China Clash: 20 Indian Troops Killed In Ladakh Fighting."

²⁷³ Ibid.

²⁷⁴ Gupta, "June'S Border Clash Marked A New And Tense Phase In China-India Relations."

²⁷⁵ Ibid.

²⁷⁶ *International Land Border.*

²⁷⁷ Ayres, "The China-India Border Dispute: What To Know."

²⁷⁸ "Fantasy Frontiers."

²⁷⁹ Singh, "Explained: What Does The Increase In Chinese Transgressions Mean?."

²⁸⁰ Gupta, "June'S Border Clash Marked A New And Tense Phase In China-India Relations."

²⁸¹ "Five Things To Know About The India-China Border Standoff."

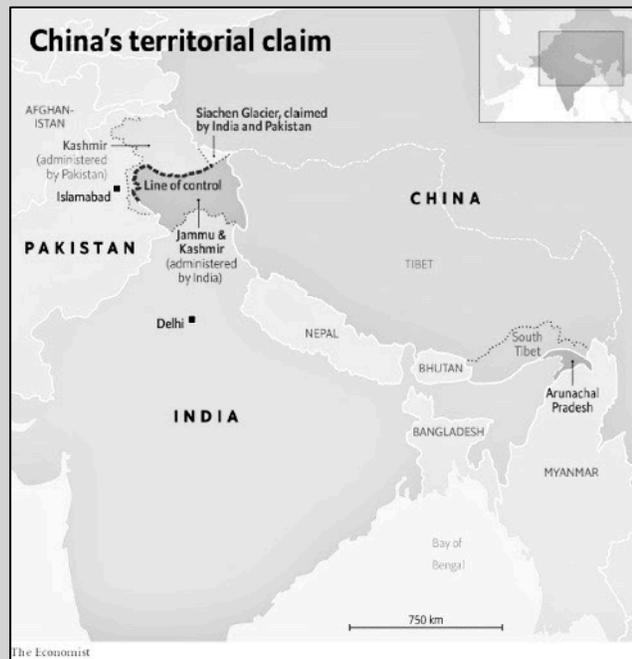
²⁸² Ibid.

²⁸³ Ayres, "The China-India Border Dispute: What To Know."

that it administers, part of which China claims, into a Union Territory directly governed by New Delhi."²⁷⁴

It has been suggested that China recognised its own band of powerplay in India's new Kashmir policy, namely to create facts on the ground to strengthen its claims in the future.²⁷⁵ China and India share 15,106.7 km of land border, with at least 3500 km of it concerning disputed territory with their counterparts.²⁷⁶ This includes the Line of Actual Control (LAC), demarcated after the Indo-China War 1962 to alleviate tensions,²⁷⁷ which is now at the centre of the dispute given that both countries have a different territorial claim over the region (Figure 7.2).²⁷⁸

Figure 7.2: China's territorial claim



The number of Chinese transgressions within the Ladakh region, near the LAC, have increased from 20 in 2015 to 170 in the year 2020²⁷⁹ and as a result of recent events, China now controls "nearly 23 square miles of territory in Ladakh, that it had not controlled prior to 2020"²⁸⁰ – a clear indication of China's desire to increase its geopolitical weight in this strategically important region. As "China's economic corridor to Pakistan and Central Asia passes through Karakoram (...) close to Galwan Valley,"²⁸¹ the entire Ladakh region is of crucial strategic importance to China. Satellite pictures indicate that "China is constructing roads in the valley"²⁸² and the conflict was

²⁷⁴ Gupta, "June's Border Clash Marked A New And Tense Phase In China-India Relations."

²⁷⁵ Ibid.

²⁷⁶ *International Land Border*.

²⁷⁷ Ayres, "The China-India Border Dispute: What To Know."

²⁷⁸ "Fantasy Frontiers."

²⁷⁹ Singh, "Explained: What Does The Increase In Chinese Transgressions Mean?."

²⁸⁰ Gupta, "June's Border Clash Marked A New And Tense Phase In China-India Relations."

²⁸¹ "Five Things To Know About The India-China Border Standoff."

allegedly sparked by India also building a road in an attempt to improve the infrastructure, which was most likely seen as a direct challenge to China's interests.

Given the growing hard power differential between China and India, the incident was most likely a deliberate show of strength by Xi Jinping, who seems to be the first Chinese leader in a long time to have the 'political will' to deploy China's military.²⁸³ Undeniably, the ongoing pandemic is an all-important background to this scuffle. This might mean that the event might have been a deliberate display of power and strength on both sides as well as an attempt by the respective leaders to deflect from their own tactical mistakes in handling the crisis. The incident is also in line with China's international agenda at large. Xi Jinping not only cleverly alternates between soft and hard power, he does so out of a deep understanding of who, specifically, China is dealing with. Carefully considering the global position of each nation, and its subsequent power, China uses different approaches to pursue its international agenda. Thus, on the African continent China is deliberately using soft power by increasing its economic reliance on China, towards India, it uses hard power; while doing so, China also recognises its own needs and level of dependency on each country or region and decides its strategy accordingly.

²⁸² Ibid.

²⁸³ Ayres, "The China-India Border Dispute: What To Know."

The incident mentioned in Case Study 6 is far from the only occasion in which China flexed its muscles, with the aim of being best positioned in a geostrategic power play. This refers to Taiwan, the increasingly aggressive stance taken in the South China Sea and the recent events in Hong Kong, where a strongly contested new security law has been passed that effectively ends the idea of 'one country, two systems'.

7.7 COVID-19 impact: fast-forwarding China's international agenda

If anything, the developments along the border with India and in Hong Kong show that COVID-19 does not lead to Beijing taking its eye off pursuing its international agenda. Expectations are that tensions will only intensify as other global players such as the US and strategic players within Western Europe focus on their domestic recovery. In the meantime China's economic recovery amidst a global crisis will give it an edge in progressing its agenda both openly and surreptitiously as the global order still suffers from the aftermath of COVID-19, making it appear as if a new global order is ready to be shaped.

7.8 Summary

In summary, if the Western countries might enable Chinese dominance, what is happening from the Chinese side that would indicate that this emerging superpower is indeed gearing up to lead, albeit on its own terms? Five pillars of a clear international agenda were identified, including a distinct ideological model to replace the prevailing one, maximising its influence of international governmental organizations (IGOs), strengthening the ties with growing economies through a mix of investment and trade, a deliberate focus on soft power and strengthening its hard power. All of the above has been evident for some years, yet was seemingly stepped up by Beijing during the COVID-19 crisis.

8. Chinese ideological opportunism

At the outset of this report the hypothesis was stated that the lack of a clear purpose and direction in Western societies in itself facilitated by the failure of neoliberalism and its spillover effects, enables Chinese dominance by default. Recent years have brought an evident shift in geopolitical power in favour of China - which is currently considerably accelerated by the COVID-19 pandemic. In the light of its clear international agenda outlined in the previous section, this enables Chinese ideological opportunism – defined as “behaviour in which you use every situation to try to get power or an advantage.”²⁸² How so will be outlined below, starting with the pre-COVID-19 attempts.

8.1. Stepping into the void left by the US

In step with the conscious retreat of the US from its leadership role, China strategically “positioned itself as a champion of globalization and economic integration,”²⁸³ evident in its open door policy, subsequent strategic investments all over the world, active participation in IGOs and deliberate use of soft power. Where the US as the potentially outgoing global hegemon, at least in its current administration rebuffs and demands, doing little to lessen fears of various origins, China as the potential heir apparent is keen to be seen to invite and offer. Where the US can appear selfish and occasionally be deliberately ignorant of facts, China is determined to come across as accommodating and outwardly aligned with necessities, as evidenced by it joining the Paris Climate Accords to improve its environmental standing.

Yet, prior to the COVID-19 pandemic, the concerted Chinese charm offensive was not really working. A 2016 survey, measuring the soft power of 30 countries, still ranked China in 28th place, with only the Czech Republic and Argentina being ranked lower, while the three top spots were taken by the US, the UK and Germany.²⁸⁴ This was before Donald Trump’s election and

²⁸² "OPPORTUNISM."

²⁸³ Albert, "China'S Big Bet On Soft Power."

²⁸⁴ McClory et al., *The Soft Power 30*.

Brexit. Back then, it seemed as though the primary challenge for China was to be embraced by the liberal West without being a liberal country itself. Moreover, China's favourability had not seen any significant improvement since the recognition of soft power by the CCP in 2007 (Appendix 15).

8.2 The declarations versus actions gap on values - sharp power

China's soft power used to be limited by the disparity between the image that China projected and the country's actions. Rising nationalism, territorial disputes, crackdowns on NGOs and censorship of the media restricted China's appeal to Western pro-liberal democracies, since these espoused values are diametrically opposed to their core values of freedom and liberty. Furthermore, experts warned of a tangible rise of authoritarian influence, or 'sharp power,' which is "principally not about attraction or even persuasion; instead, it centers on distraction and manipulation."²⁸⁵ This is epitomized by reports of Chinese influence on Australian politics, as well as attempts to enter German and American political circles. Consequently, Western pro-liberal democracies have been wary of China,²⁸⁶ however much they admired its achievements.

8.3. The declarations versus actions gap - liberal economics

Economically, China finds it difficult to portray itself as the champion of liberal practices it would like to be seen as, given the prevalence of protectionist measures at home. China's violations of other countries' intellectual property and its subsidization of domestic industries to undermine foreign competition were noted, as was the fact that China routinely blocks foreigners from investing directly in certain Chinese industries. Hence, similar to the contradictions of its declared and espoused values, at least from a pro-liberal, democratic perspective, its advocacy for trade liberalization lacks credibility, especially since freedom of trade is also inextricably tied with freedom of navigation, which was and continues to be severely restricted though China's actions in the South China Sea.

²⁸⁵ Albert, "China's Big Bet On Soft Power."

²⁸⁶ Ibid.

8.4 COVID-19 impact: ideological opportunism in action

All of the above means that before March 2020, it seemed likely that as long as China backs what Western democracies consider to be an authoritarian system and contradicts the image it projects in important aspects – both domestically and regionally – it will fail to reap the full rewards of its clear international agenda. It were specifically the soft power elements that did not live up to expectations. There are, however, strong indicators that the COVID-19 pandemic has changed that because it exposed the flaws of the democratic system in a crisis. Amidst extreme ambiguity, it saw the West disintegrate due to insufficiently managed fears and thus, settle to look after the immediate concerns of its nation states before and above everything else - individualistic to the core.

8.4.1 Increased Chinese dominance in international organizations

Whether or not the COVID-19 pandemic notably furthers Chinese presence in international organizations is yet to be determined. However the pandemic has certainly brought to the fore, and even improved, Chinese influence in them. A strong indicator was the fact that the UN mandated the Chinese tech giant, Tencent, to enable video conferencing and digital dialogues for the 75th anniversary of the UN.²⁸⁷ This could be due to China's strong presence in the bureaucratic levels of power of the UN system. In 2017, Chinese nationals held 1,115 positions within the UN system²⁸⁸ leading to decisions that invite scrutiny from the outside, such as the fact that China was appointed to the Consultative Group of the UN Human Rights Council in April 2020:²⁸⁹ a panel that picks experts to investigate and monitor freedom of speech, detentions and the right to health.

8.4.2 China's mask diplomacy as a game changer

Furthermore, COVID-19 accelerated the need for technological capacity: in the face of a dire lack of protective gear and vital equipment such as ventilators and respirators the world over,

²⁸⁷ "Tencent And United Nations Announce Global Partnership To Hold Thousands Of Conversations Online Through Platforms Including Voov Meeting For The UN's 75Th Anniversary."

²⁸⁸ Sirohi, "China'S Footprint Is Growing Within The United Nations."

²⁸⁹ Albert, "China Appointed To Influential UN Human Rights Council Panel."

China stepped into the breach and quickly both retooled factories and significantly increased its production in specialist plants. In addition, it also seems to be at the forefront of vaccine development – an equal contender to the US in the ensuing race. The US started its human clinical trials in March 2020²⁹⁰ - as did China, which already approved the trial vaccine for use by military personnel by June 2020.²⁹¹

What has been termed as “Mask diplomacy” – the shipment of vast amounts of masks and ventilators around the world and the provision of indirect help such as loans – allowed China to make major inroads in international relations since the outbreak of the pandemic, going a long way to rehabilitate China’s historically checkered image in certain areas. To learn more about how China helped specific regions during the pandemic, refer to Appendix 16.

The swift, organized, large-scale production of medical equipment that allowed such acts of benevolence also showcased the benefits of central governmental planning (through China’s authoritarian system), which could in turn increase the credibility and presence of pro-China factions within Europe – all boosting Chinese soft power. Thus, despite faults in their medical equipment and their ‘mask diplomacy,’ China will be remembered for rising to the occasion while leading western nations, such as the US and Europe, failed to understand the outbreak.

The Coronavirus pandemic also created a stark reminder that to safeguard its own people, countries need to house industries that are capable of creating and producing vaccines in great quantities. The US certainly recognized this, yet its isolationist actions in pursuit of German bio-pharmaceutical company “CureVac, left the door wide open for China to cast itself as the savior to the villain who had allegedly pursued exclusive access to a COVID19 vaccine.”²⁹² China’s contrasting policy of gearing up for widespread distribution of technology amidst a transnational threat certainly looks good.

²⁹⁰ Felter, "What Is The World Doing To Create A COVID-19 Vaccine?."

²⁹¹ Ibid.

²⁹² Bennhold and E. Sanger, "U.S. Offered ‘Large Sum’ To German Company For Access To Coronavirus Vaccine Research, German Officials Say."

8.5 Summary

Given that China had found it difficult to reap the full benefit of its carefully applied soft power prior to COVID-19, it certainly managed to use the pandemic to its advantage by casting itself in the role of the country that would generously share all at its disposal where others might hoard or try to ensure that they are first in line once a vaccine becomes available. As knowledge is power and a friend in need is a friend indeed, there is only one conclusion to be drawn: Ideological opportunism – delivered.

Section 4

Pro-liberal world and China - The role of society and leadership



9. Lack of a clear purpose in Western societies

So far, this report outlined and analyzed the failure of the neoliberal ideology and its spillover effects, which all ultimately all tie back to a gnawing sense of *fear to be left behind* across growing sections of Western democracies - leading to increasing disillusionment with their elected representatives. This was compared and contrasted with the very different approach pursued by China, where the attainment of *collective security and prosperity* seems to be the central focus of an altogether more optimistic vision.

The fear created by the failure of neoliberalism already contributed to the fragmentation of Western societies, unravelled the ties between them and shrunk the democratic space within them. This means it is far-reaching, as well as deep-rooted and therefore cannot be eradicated by superficial means. If it persists, it will focus energies on avoiding, rather than creating something, implying that at this pivotal inflection point nothing but a complete regrouping of pro-liberal Western democratic societies will do. The likely alternative futures make a stark enough contrast to really lean in to this collective endeavour: they can either pull together and soar, driven by a unifying purpose, or they can continue to look inwards and become even more egotistical and isolated. There are precedents of using crises as turning points, which can and should be used to inform the approach of Western pro-liberal democracies going forward.

9.1 The clear, unifying purpose of the post WWII era

After the Second World War, Western societies, under the leadership of the US, consciously chose to build something new and different from the rubble – and they included other nations to unite behind the idea “to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind.”²⁹³

²⁹³ "Preamble."

As outlined in previous sections of this report, post-war political leaders and policymakers looked at the trajectory of events that led to the two World Wars and set to work: using an approach known as ‘embedded liberalism’, they jointly created economic systems, constitutions, specific laws and policies that aimed for a society which was more equitable, more predictable and more open - and it was this evident compatibility between the democratic framework and economic policies that allowed the societies to thrive. Across borders, they were united by the belief that international multilateralism and dialogue were the bedrock – not just for prosperity, but for peace and social progress. It was this clear purpose in traditional ‘Western’ societies, embodied by the political system of liberal democracy, that gave individuals a tangible stake in their future that ended the Cold War and the ideological battle of the post-war era. It did not, however, end history, as forecast by Fukuyama.²⁹⁴

9.2 The need for a unifying purpose and direction now

Compare and contrast that with the state of Western democratic societies in 2020, pre COVID-19: the neoliberal ideology has failed, leading to isolationism, the collapse of the transatlantic alliance and a hollowing out of democratic structures, giving rise to populism as the ultimate politics of fear. Europe, the key post-war project, battles to stay united despite widening fault lines, the US has not only abandoned its role as a leader of the free world but is at least as deeply divided about the best way forward as their transatlantic allies. Hyper-globalisation and rising inequalities led an increasing number of people in all Western societies to feel adrift and powerless in a world without certainties, least of all simple cause-and-effect ones, such as ‘if I work hard I will be able to get a stable job and protect and support my family in all necessary ways.’ Climate change, automation and digitization threaten the established livelihoods of many, without a clear indication how to prepare for the impending change, leading citizens of these relatively affluent societies to focus on themselves and their present and immediate future only, as that is what they can control.

²⁹⁴ Fukuyama, "The End Of History?."

Yet how can a deep-rooted fear be replaced with hope? What will it take to regain a grasp on a fragmented society, when national politics in a globalized world can feel irrelevant and the desire for 'strong' leaders of any kind re-emerges? The trouble with strong leaders of the past was that their vision was all too often narcissistic and driven by a desire to dominate rather than to unite. What we believe is needed in the aftermath of the failure of the neoliberal ideology are fresh, bold, different ideas and credible, action oriented ambassadors for and facilitators of them. Leadership is defined as making the essential things happen that would otherwise not happen, as opposed to making the inevitable things happen quicker or smoother, which is associated with management. In our eyes, this means that those who currently manage the traditional Western societies need to step up their game and start leading now, as – unlike in the early 90s – the triumph of liberal democracy currently seems anything but inevitable.

Yet leadership is a social process which requires direction, alignment and commitment – in other words, taking responsibility for reaching joint goals in a coordinated way.²⁹⁵ We might well “live in a post-ideological age, in which grand narratives have been discredited and broken up.”²⁹⁶ That does not mean that there cannot and should not be fact-driven, passionate ideological clashes about a multitude of fresh and bold ideas how to shape the future of globalisation, how best to deal with climate change and how to create economic growth in a sustainable, equitable way amidst automation and digitization that does not leave the majority of people behind. These issues are too big and too intertwined to be successfully tackled by individual societies in isolation from those sharing the same convictions and they are too multifaceted, not to require a unifying, joint purpose in the form of a vision for a future pro-liberal, Western societies can move towards. Right now, there is none of the above: no ideas, no purpose, no direction, no alignment, no commitment - both in individual, pro-liberal democracies and in a union of the same, such as the EU.

²⁹⁵ "Leadership Happens Through Direction, Alignment & Commitment (DAC)."

²⁹⁶ Sandbrook, "The Death Of Ideas."

9.4 COVID-19 impact: Exposed lack of purpose and thus orientation

This became all the more apparent in the COVID-19 crisis. Instead of being a rallying point, it saw the Western pro-liberal world turn to medical nationalism and had them close their borders in an instinctive move to self-protect. Faced with yet another cause for debilitating uncertainty, its individual societies wanted to exert control where they could: over their public health, over any measures to avoid being dragged into a prolonged recession, over the best way to ensure economic recovery and over the use of any additional funds made available at the cost of future generations. The crisis has shaken Western, pro-liberal governments out of inertia, but the hurry to amass bundles of measures to fend off the immediate threat has since given way to more, equally short-sighted crisis management: trying to coax citizens to comply with protective measures, fighting a rising indifference to the threat to individuals' health and thereby the collective health system while avoiding wide-ranging shut-downs which could reverse the economic recovery. Throughout, the most pressing concerns not only took precedence over long-term considerations, but seemed to replace them, ignoring the equally, if not more dangerous, underlying fears of their citizens for focusing on the immediate ones.

Unsurprisingly, this behavioural pattern extended to the collaboration between Western societies on the European stage. Reaching a mutually beneficial agreement within the EU seems virtually impossible, as member states focus on their own needs for the recovery of their economies. While any decision in a group of 27 will require some compromise, the question is always: within which framework are such decisions taken? Is it an all-encompassing one, such as the clear agenda pursued by China, or is it one that merely exposes the political leaders least to criticism? In other words: is there any discernible power of individual or shared beliefs?

In this regard, the Special European Council meeting in Brussels in July 2020, mentioned in Case Study 7, paints a dire picture.

9.5 Case Study 7: The Special European Council on 17 – 21 July 2020

The latest Special European Council on 17-21 July 2020 in Brussels focused on discussions of a recovery plan in response to COVID-19 and a new long-term EU budget. The outcome was a “comprehensive package of €1,824.3 billion.”²⁹⁹ ¹³

Prior to the summit, many discussions had focused on the claim of the most affected member states that it is necessary to mutualise debt, although all member states are being financed at negative interest rate and are already benefiting from the Pandemic Emergency Purchase Program (PEPP),³⁰⁰ approved on the 18th of March 2020 by the governing council of the ECB. Such mutualisation of debt had been rejected on several occasions, most vocally by the ‘frugal five’: The Netherlands, Sweden, Denmark, Finland and Austria – already exposing a North vs. South fault line in an aligned response to the crisis. As early as on the 24th of March, the Eurogroup also approved that member states could benefit from a credit line worth 2% of their GDP from the ESM bailout fund (ECCL).³⁰¹

These early measures did not have the desired impact on public perception and opinion: a survey conducted in the second half of June 2020 showed that 53% of the respondents were dissatisfied with the solidarity EU member states showed each other during the pandemic, while 56% want the EU to have more financial means to overcome the impact of the pandemic.³⁰²

Now that these means have been agreed, pending approval by the European parliament, the question asked by the President of the European Council, Charles Michel, whether “the 27 EU Leaders [are] capable of building European unity and trust, or, because of a deep rift, will we present ourselves as a weak Europe, undermined by distrust,”³⁰³ is still waiting for a resounding answer. The deep rift Michel was referring to goes straight to the heart of what shared values,

²⁹⁹ "Pandemic Emergency Purchase Programme."

³⁰⁰ "Pandemic Emergency Purchase Programme."

³⁰¹ "Remarks By Mário Centeno Following The Eurogroup Videoconference Of 24 March 2020."

³⁰² "Public Opinion In The EU In Time Of Coronavirus Crisis 2."

³⁰³ "Amid Summit Stalemate, EU Leader Pleads For Unity To Pass Massive Coronavirus Recovery Fund."

beliefs and economic practices unite the EU, as Eastern European leaders opposed attaching rule of law conditions and southern member states, who tend to favour expansionary policies (both fiscal and monetary), opposed demands for further economic reforms.

Still, the agreement means that there will be €390 billion in direct cash transfers and €360 billion in loans. This goes to the heart of the monetary union, as the Union will, for the first time, borrow money to give as grants.³⁰⁴ As they gave their consent to the package, northern member states made it clear that without what they consider to be a responsible fiscal policy in the rest of the member states, further integration, coveted by southern members, is off the table.

³⁰⁴ Gill and Chadwick, "EU Leaders Reach Landmark €1.82 Trillion COVID-19 Recovery Package."

9.6 Summary

Case study 7, detailing the events of the special European Council in July 2020, suggests that the supposed leaders of Europe are still operating in managerial mode and the new 'inevitable' that they hope to bring about is the survival of the EU, even if its member states currently seem mainly connected out of economic necessity and lack of alternative choices. National interests prevail and further fiscal and political integration, such as a joint stance on foreign policy, is only a remote and distant possibility.

Disconcertingly, the summit described was a display of haggling, not of striving for and aligning around new, bold ideas. "A Union that strives for more"³⁰³ was nowhere to be seen, nor were leaders setting compelling direction, creating alignment and fostering commitment. The lack of purpose in Western society could not be more painfully apparent, if even a crisis like the COVID-19 pandemic, that has the potential to send Europe's economies into an abyss, first brought out demands and rebuttals rather than an instinctive desire to huddle together and find the best, joint way forward. If the overwhelming majority of European leaders does not rectify this going forward, their collective leadership will continue to be unfocused and weak - expanding the void left by the West in the geopolitical sphere.

³⁰³ von der Leyen, *A Union That Strives For More. My Agenda For Europe*.

10. Leadership adrift in Western society

10.1 Neoliberalism as an ideology tainted by its implementation

Earlier in this report, leadership was defined as a social process which requires direction, alignment and commitment.³⁰⁴ In democracies, the people are the ultimate sovereign, meaning that the provision of direction is never simply the beginning of focused implementation - as it seems to be in present-day China. Instead, it is preceded by the complex processes needed to arrive at a position that receives significant backing that make leadership in democracies so much slower and challenging. Neoliberalism, with its emphasis on non-interference ostensibly further complicates the process of defining a specific goal and the way to get there.

In the past, neoliberal governments often evoked the alleged primacy of non-interference when defending their lack of active policymaking regarding the key, overarching societal issues such as healthcare, or the environment. Throughout the report, we have highlighted this clear inconsistency between neoliberal policy making and the foundational blocks of democracy which existed in these countries long before the 1980s. Neoliberal governments firmly believed that a free market would pave the way for a prosperous society, which is why they lost sight of the need to address imbalances threatening the achievement of social goals alongside economic ones. Yet even the 'pure neoliberals' in the 1980s noted that "on matters of health and safety, (...) there must be vigorous regulation, because the same capitalism that can give us economic vitality can also (...) maim employees, and pollute our skies and streams."³⁰⁵ This means that, contrary to popular belief, even neoliberalism is compatible with providing direction, the distinguishing characteristics of democracy and the principles of an open society.

It is therefore not the ideology and policy model of neoliberalism itself, but the fact that its current representatives omitted and omit to implement policies that resoundingly address the

³⁰⁴ "Leadership Happens Through Direction, Alignment & Commitment (DAC)."

³⁰⁵ Peters, "A Neo-Liberal's Manifesto."

increasing inequalities that lie at the heart of its failure. In their desire to safeguard their advanced economies, said representatives have often been accused of merely ‘uplifting’ those that are already wealthy, as policies disproportionately rewarded them. Feeding popular distortion and thus a less than fortunate narrative, neoliberal governments in Western countries seemed to have been most active in the context of bailing out banks and using quantitative easing in the aftermath of the financial crisis of 2008. This was quickly labelled as ‘socialism for the rich’, given the lack of focus on redistributive social policies that could have prevented the widening of the inequality gap,³⁰⁶ which in turn fuelled the subsequent societal problems that continue to weaken democratic structures. Neoliberalism is therefore tainted as an ideology and has lost its allure to a degree where it no longer provides any direction or even orientation, adding to a sense of the leaders of Western democracies being adrift.

10.2 The post-truth, post-trust era

The resulting sense of living in a post-ideological society is compounded by a growing perception of also living in a post-truth era, meaning that not only have the big ideas been discredited and abandoned, but the instinctive urge to hold one’s own democratically elected government accountable if it fails to tell the (full) truth has numbed. The concept of the ‘post-truth era’ was first spoken of in 1992, when journalist Steve Tesich commented on the Watergate Scandal and the Iraq War, criticising the American citizens for choosing to live with false information; in a post-truth era, citizens no longer hold value in truth and disregard government accountability.³⁰⁷ Unsurprisingly, this concept gained renewed attention in 2016 after Trump’s presidential election and Brexit. While “political promises have long been mismatched with outcomes,”³⁰⁸ citizens in Western countries now take a passive stance towards their governments because they simply assume that politicians inherently lie. This notion has now been extended towards the media – with parts of the electorate buying into the claim of

³⁰⁶ Peters, "A Neo-Liberal's Manifesto."

³⁰⁷ Brahm, "Philosophy Of Post-Truth."

³⁰⁸ Carroll and Gonzalez-Vicente, "From New Deal To The Art Of The Deal: How The Neoliberal Project Led To Trump."

being told 'fake news' by broadsheets and reputable media outlets, preferring instead to trust supposedly direct communication via social media.

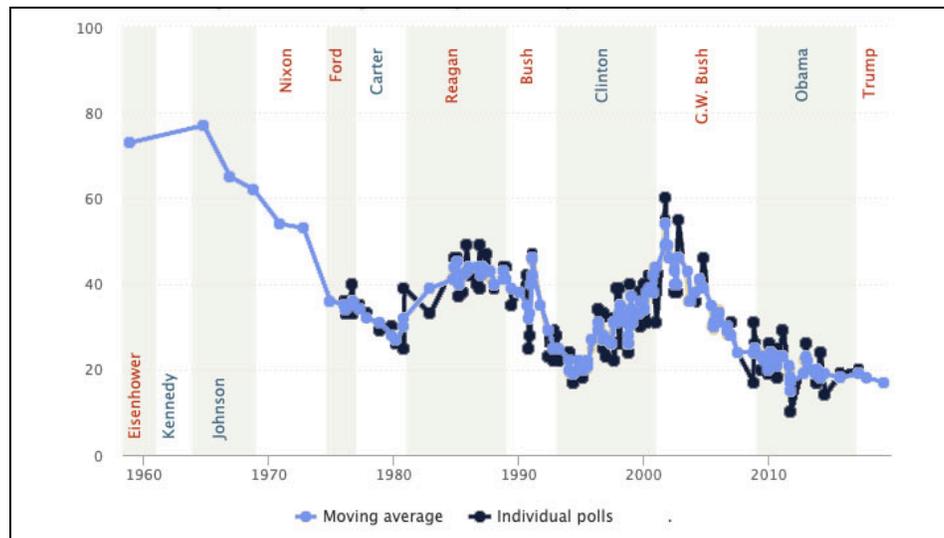
All of the above adds up to a triple conundrum, keeping Western leadership adrift post-ideology, post-truth, post-trust. Where there are no big, directional ideas, where there is a lack of candid, facts-based exchange open to rigorous scrutiny and where there is no trust that the elected representatives use a map with coordinates that are beyond reproach, the very foundation of liberal democracies, a sense of *shared responsibility*, is constantly being chipped away at. The latter however is indispensable for any attempt to tackle the *essential* things in a concerted effort - guided and facilitated by democratic governments and their individual leaders.

Although China's citizens also live in this post-truth era, given that their government has repeatedly been accused of not being fully transparent, there is still a stark difference between the Chinese and democratic governments: while inequality kept rising for those governed by the latter, the various Chinese governments of the last four decades focused on evolving China into a middle-income economy. This vision provided the direction, alignment and commitment that characterises focused leadership, despite the lack of accountability to its citizens; it fuels trust that the government will look after everybody.

This is reflected in a comparison in Appendix 17, depicting that Chinese people have the highest level of trust that their government will implement policies that address the essential issues, while 14% of respondents reported to trust the US government less than the year before - from an already comparatively low basis. That said, citizens in neoliberal countries do have more liberty to speak out against the government compared to those in China and thus, the comparison graph of Appendix 17 is a mere indication of trends. However, the Figure 10.1 below provides a startlingly clear insight into the decline of trust in successive American governments. Over the past 57 years, it fell drastically, though recovering some ground during

the Reagan and Clinton presidencies and key events, like the Gulf wars and the 9/11 terrorist attacks.

Figure 10.1: Public trust in government, United States, 1958 to 2015 (in percentage)



Source: Pew Research³⁰⁹

10.3 Observation: collapse of global cooperation

Governments that struggle to win the trust of their own citizens, as explained in the previous section, are naturally wary of third-party scrutiny. They are likely to be especially concerned about sharing power with supranational organisations that were originally put in place to create oversight, define and uphold standards and ensure their adherence in fairness. In reality those organisations, too, have become enmeshed in political power play which undermines both their credibility and actual power.

10.3.1 The Erosion of the WHO accelerated by COVID-19

The World Health Organisation (WHO) is a prime example of the collapse of global cooperation. While its successful dealing with the SARS (Severe Acute Respiratory Syndrome) crisis resulted in an increase in the amount of power granted to it, there is still little it can do in case states refuse to comply. Furthermore, it saw its budget slashed and its operating range minimised

³⁰⁹ "Public Trust In Government: 1958-2019."

followed by a considerable backlash for its response to the Ebola outbreak, which was widely judged as having been too slow and uncoordinated.

The COVID-19 pandemic has greatly accelerated the erosion of the WHO, as amidst accusations of favouritism towards China, the US started proceedings to formally withdraw its support. This means that the WHO has to fight the largest pandemic in its history while being under attack from the nations it used to rely on most.³¹⁰

This exposes two things: a distinctive lack of functioning global cooperation and an equally distinctive lack of interest in changing that. In the face of the threat posed by the pandemic, each country initially relied upon itself to successfully tackle it and once the worst was over, there was no genuine interest in contributing to keep the global numbers down. So while “the WHO is a global force, (...), people aren’t thinking globally.”³¹¹

10.3.2 The gradual decline of the WTO accentuated by COVID-19

Similarly to the WHO, the World Trade Organisation (WTO) has also been losing traction in the past years. Tariffs and unilateral decisions rather than multilateral ones are direct consequences of the global rise of nationalism. Although the WTO is responsible for managing such issues, this has been getting harder - as evidenced by the US trade war with China, where the WTO was unable to prevent unilateral responses from both its members, demonstrating the waning power of yet another previously major supra-national organisation that is increasingly instrumentalized for particular interests of its member states.

In the past decade, complaints sent to the WTO have been increasing as countries seem to be shifting their preferences towards regional or bilateral trade relations in order to maximise interests.³¹² The US alone has filed 124 complaints since the WTO was established – including 20 cases that it won against China alone.³¹³ This only pushes China, who receives the most

³¹⁰ Buranyi, "The WHO V Coronavirus: Why It Can't Handle The Pandemic."

³¹¹ Ibid.

³¹² McBride and Chatzky, "What Is The Trans-Pacific Partnership (TPP)?."

³¹³ "US Seeks 'Reset' Of WTO: Official."

complaints, to act unilaterally. Donald Trump himself has been further undermining the power of the WTO by effectively stopping it from reviewing and appealing any new cases by blocking the appointment of new judges and leaving the Appellate Body with only one active judge (out of 7).³¹⁴ Looking at the big picture, the undermining of the WTO is concerning, because it indicates an economic shift away from globalization, undermining the neoliberal approach, and a political shift towards nationalism. Each country seems to be going back to only prioritizing themselves rather than aiming to be an active contributor in a globalized world with soft borders between states.

Yet, never has the WTO been more important, as amid the COVID-19 pandemic and against the backdrop of a looming global recession of an unknown magnitude; one of the main areas affected by the strengthened borders is trade. The WTO predicts world trade to fall by approximately 13%-32% in 2020.³¹⁵

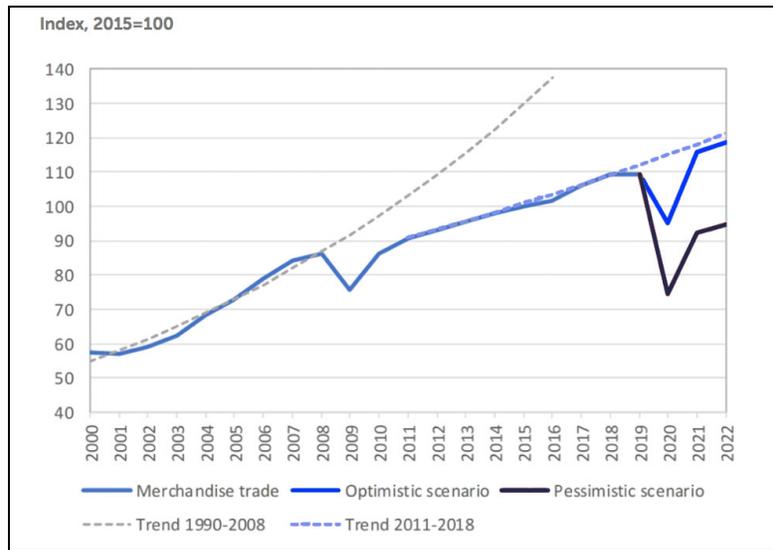
Since economists cannot predict exactly what will happen (as that depends on the length of the pandemic, and the countries' responses), Figure 10.2 shown below displays two scenarios (pessimistic and optimistic) both of which indicate a large decline in trade volumes.³¹⁶

³¹⁴ McBride and Chatzky, "What Is The Trans-Pacific Partnership (TPP)?."

³¹⁵ "Trade Set To Plunge As COVID-19 Pandemic Opens Global Economy."

³¹⁶ Ibid.

Figure 10.2: World Merchandise trade volume, 2000 - 2022



Source: WTO Secretariat³¹⁷

The pessimistic scenario represents a global reaction of isolationism, nationalism, and protectionist measures which was already evident in the crisis. Countries do not work together, but rather limit food exports and cling to medical equipment, all out of fear. This reaction exposes that globalism seems like a risk, or - at best - an afterthought in times of crisis, giving the WTO precious little to oversee and facilitate.

10.3.3 The weakening of the EU through selfishness exposed through COVID-19

Similarly to the WHO and the WTO, the European Union has also witnessed a gradual erosion of its power. In the past decade, multiple problems have been tearing European countries apart. Firstly, Poland and Hungary are reaping significant economic benefits from the EU while undermining its regulatory and judicial standards through their political choices. Secondly, Italy and Greece are still recovering from the dramatic recession of their economies in the wake of the financial crisis of 2008, making them non-productive members in the eyes of Northern member states. Thirdly, Germany, the key driving force of the EU alongside its close partner, France, used to refuse to loosen the budgetary constraints inhibiting economic growth in the

³¹⁷ "Trade Set To Plunge As COVID-19 Pandemic Upends Global Economy."

rest of Europe and saw itself cast in the undesirable role of trying to reconcile unreconcilable demands and interests. Lastly, despite Turkey's important geopolitical location between Europe and Asia, its efforts to join the EU are continuously delayed for a variety of valid reasons while Turkey's relationship with Russia is getting closer.

Disappointingly, in response to the COVID-19 pandemic the EU has been more neutral and passive than ever before. The meetings between the European Council, Commission or European Parliament all seemed to be "performative of busyness."³¹⁸ Meanwhile, each country has focused almost exclusively on domestic issues and closed its borders as needed – either entirely without consulting other member states or with little to no warning (Appendix 3). This can be seen as symptomatic of the previously rising nationalism throughout the EU member states mentioned in an earlier section – and has only been more glaringly exposed by COVID-19.

What was unexpected was the degree to which solidarity and support between member states was lacking. In fact, Rome received the most help in terms of medical equipment from China and Russia, which the government might not forget.³¹⁹ According to a study conducted in March by Techné and published by the Financial Times on the 6th of April, 67% of Italians believed being part of the EU was a disadvantage, compared to just 47% in November 2018.³²⁰ Yet other European countries do not want to be held to ransom over Italian demands for financial support without any conditions attached in a costly bargain to fend off Italy's populists. The fault lines between Southern and Northern Europe that were already hugely prevalent following the financial crisis have opened up again - as also shown in Caste Study 7.

The results of a 'Public Opinion Monitoring' report published by the European Parliament on May 27th, indicate a clear drop in the confidence on EU institutions and European solidarity,

³¹⁸ Hartwich, "The European Non-Union."

³¹⁹ *The Impact Of Coronavirus On Schengen Borders.*

³²⁰ "Coronavirus: Is Europe Losing Italy?."

while support for national governments was on the rise in most member States.³²¹ In fact, 57% were unhappy with the current state of solidarity in the Union, including 22% who declared themselves ‘not at all’ satisfied.³²² Respondents from Italy, Spain and Greece are among the most dissatisfied, followed by citizens from Austria, Belgium and Sweden. Only a third of respondents (34%)³²³ are satisfied, with the highest returns originating from Ireland, Denmark, the Netherlands and Portugal.

One key take away for the European Union is that it will be impossible to fulfil its ambitious plans for the future if it prioritises winning public approval. Instead, like the entire Western leadership, it needs to re-define its purpose in a world of shifting power dynamics where one thing is certain: the EU is not a natural partner in any of the new axes of power.

10.4 COVID-19 Impact: different trends in approval ratings

Beyond the impact on global collaboration, the handling of the pandemic by governments the world over was closely observed by their citizens. This makes the ongoing approval ratings the clearest indicator of just how much the leaders of the various countries surveyed were able to make them feel safe and well cared for. While the approval ratings of many leaders initially rose at the beginning of the pandemic in March 2020 (albeit from very different base levels), a high proportion fell considerably as the crisis went on, mostly leveling out by July 2020. This was largely due to discontent regarding lockdown measures (too harsh, not harsh enough), scarcity of medical equipment, rising unemployment rates and the collapse of the healthcare system in most countries fuelling fears for lives and livelihoods that needed resounding answers, but were sometimes only met with what looked like chaos (Appendix 18).

The comparative difference in public opinion is even more striking when just looking at a static comparison as shown in Appendix 18, representing a snapshot on 8th June, when the worst was over for parts of Asia and Europe, but still to come for India. Approval ratings in Vietnam,

³²¹ *Public Opinion Monitoring At A Glance In The Time Of COVID-19.*

³²² *Ibid.*

³²³ *Ibid.*

Malaysia and Taiwan were above 90%, closely followed by Australia, Denmark and Norway - all scoring above 80% and Finland, Singapore, Canada and India, in the high 70% range. The UK, the USA and Mexico with only 41% and 40% approval ratings were at the bottom of the list, which comprised 22 countries in total. Key variables were the adopted approaches regarding lockdowns and the level of preparedness of the healthcare system. The approval rating in Vietnam, for example, will have benefited from the fact that due to the country's mix of containment measures there were no confirmed casualties. Importantly, many democratic countries with strong healthcare systems and social protection due to support from the public sector over the decades, enjoyed a more favourable public opinion. The countries which saw a great burden on the healthcare system, especially the UK and the US – both decidedly neoliberal in their ideology and policy model - faced more criticism from the public.

10.5 Summary

What is most lacking in the pro-liberal world of the 21st century is *focused leadership* that is seen to resoundingly address the *essential* things in societies, rooted in a defined *purpose* that is built upon a strong foundation of democratic ideals, thus giving said societies an obvious *direction*. This requires a social process from which said direction emerges, enabling alignment and commitment of all involved. An ideology can provide orientation in all of this, which is why Western leadership currently appears adrift in a post-ideological, post-truth, post-trust era.

The need for focused leadership was evident before the COVID-19 pandemic and is even more pronounced now, in its wake. The absence of such a clear, joint purpose and direction has led to the failure of neoliberalism and created a vacuum in the geopolitical sphere for China to fill - a country that already meets these criteria, albeit in its very distinctive way, which is almost diametrically opposed to that of Western democracies.

11. A focused and purposeful Chinese leadership

11.1 Deng Xioping as the architect of China's evolution

The China of the 21st century matches the above requirements of focused leadership that is seen to address the essential things, while being rooted in a defined purpose that provides an obvious direction.

China has been rising ever since Deng Xiaoping implemented his economic reforms in 1978, whereby his legacy “profoundly shaped China’s view of the world and conduct of diplomacy.”³²⁴ This is evident in China’s clear international agenda and its opportunistic moves in the past two decades, all of which have been previously discussed in this report. Yet there is more to understand to fully grasp the dynamics at play in China’s evolution. In fact, Deng’s biographer noted that “all the favourable conditions(...) would have been insufficient (...) without a strong and able leader who could hold the country together while providing strategic direction.”³²⁵ What is noteworthy is that this type of leadership is not limited to Deng, but was carried forward, almost like a raleigh race, as the drastic turn in Chinese domestic and international policy persisted over the past 40 years, facilitating China’s evolution to its current state.

11.2 Determination to stay rooted in its central mission and focused on making it happen

A key contributing factor to this consistent, focused leadership, almost regardless of who was at the helm was China’s extremely clear purpose, defined by its founding mission to create “socialism with Chinese characteristics.”³²⁶ This term was coined by Deng, but carried forward by every Chinese leader thereafter, up until Xi Jinping, who alluded to it in his speech during the

³²⁴ Cable et al., *From Deng To Xi: Economic Reform, The Silk Road, And The Return Of The Middle Kingdom*, 1.

³²⁵ Ibid, 2.

³²⁶ Ibid, 3.

19th CPC National Congress meeting in 2017. Xi emphasized that the party has “never forgotten its founding mission, nor wavered in its pursuit.”³²⁷ That said, this single-minded focus on the core mission has also been enabled by China’s single-party system which gives no room for debating alternative ways forward.

A key similarity between Deng Xiaoping and Xi Jinping is how both of them defined China against the backdrop of the international system. Both recognized the contextual differences between China and the rest of the world, especially the democratic countries, and focused on policymaking that would emphasize the ‘Chinese characteristics’. Deng had never been keen on adopting Western ideas of governance and was “committed to one party Communist rule”³²⁸ despite accusations that his economic policies contained aspects of neoliberalism. Xi, too, has remarked that “no one political system should be regarded as the only choice; and we should not just mechanically copy the political systems of other countries.”³²⁹ This dissociation of China from the rest of the world enabled its leadership to implement policies that were unique and thus, befitting to China.

Contextual differences between countries have been largely and sometimes deliberately overlooked by neoliberal countries. Notably, the European Union, through its ‘Copenhagen Criteria’, sets clear accession criteria for countries who want to become part of the union that stretch from political to economic prerequisites, as well as a certain administrative and institutional capacity.³³⁰ While this can be seen to compromise the sovereignty of each state, it does however provide an important, shared minimum basis for acting in close cooperation and fosters a sense of unity. That said, the EU experiences that any ‘one size fits all’ approach becomes increasingly difficult to adhere to, the more individual countries join, each insisting on

³²⁷ Jinping, "Secure A Decisive Victory In Building A Moderately Prosperous Society In All Respects And Strive For The Great Success Of Socialism With Chinese Characteristics For A New Era."

³²⁸ Cable et al., *From Deng To Xi: Economic Reform, The Silk Road, And The Return Of The Middle Kingdom*.

³²⁹ Jinping, "Secure A Decisive Victory In Building A Moderately Prosperous Society In All Respects And Strive For The Great Success Of Socialism With Chinese Characteristics For A New Era."

³³⁰ "Accession Criteria - European Neighbourhood Policy And Enlargement Negotiations - European Commission."

their specific contexts to be taken into considerations as was shown in the case study 7 on the Special European Council in July 2020.

11.3 Unhindered focus on modernisation - both as a means and a destiny

More importantly, a fundamental difference between China and the democratic countries is that the leaders of the latter are constantly on borrowed time before another election, or the constitutional end of their term. Combined with the need to continuously appease public opinion, policymakers in Western societies often reduce themselves to a limited, myopic vision. They focus on implementing short term policies, which are achievable through a neoliberal approach, disregarding the real systemic issues in society and thereby deepening them over time.

To this, Deng had wondered “how elected representatives of different regions and places could reflect the strategic overview essential for long term development.”³³¹ Chinese leaders have traditionally held a long-term view with regards to policy making, notably by adopting the practice of the ‘five year plan’ from the USSR. In fact, Deng was known to plan a full decade ahead due to his strong belief in ‘long-termism’ - unhindered by democratic elections and the need to take a diverse and even fragmented electorate with him all the way. Consequently, these long term policies meant that the Chinese leaders had given themselves the time and the mandate to tackle social issues.

The long-term approach has been carried to a new extreme with Xi Jinping, who can rely on leading the country for as long as he lives, claiming in 2017 to have a 33-year plan - right up to the year 2050. The first stage up to 2035, would make sure that “socialist modernization is basically realized.”³³² The second stage, up to 2050 would focus on building upon the foundation of a society that has achieved modernisation. In his three hour long speech during the 19th CPC

³³¹ Cable et al., *From Deng To Xi: Economic Reform, The Silk Road, And The Return Of The Middle Kingdom*, 6.

³³² Jinping, "Secure A Decisive Victory In Building A Moderately Prosperous Society In All Respects And Strive For The Great Success Of Socialism With Chinese Characteristics For A New Era."

National Congress, Xi covered all the key aspects, giving a comprehensive overview of everything that has been achieved thus far and the plans for the next three decades. By encompassing “culture, morals, environment, economics, and ideology”³³³ as well as the Belt-and-Road Initiative, Hong Kong and Taiwan, Xi made sure that there was little room for confusion over his plans, both domestically and internationally. In fact, the clear international agenda and how this drives China’s opportunism beyond its borders, alluded to in earlier parts of this report, could be inferred from those.

Such a speech could simply not happen in democratic countries, although that’s not to say that a Western, democratic leader favouring liberal policies could not have a long-term vision. Right now, it feels like a faulty, foregone conclusion that the main characteristics of democratic countries, namely elections and constant government accountability, necessitate a myopic vision and piece-meal policy making. China single-mindedly prioritised ‘modernisation’, making it both the focus and destination for its leaders. While this facilitated unparalleled growth, it did so by what would be considered as undemocratic means.

11.4 How China’s power in international affairs changes policymaking

Possibly the main difference between Deng’s and Xi’s leadership approach is the stance taken on international affairs. While Deng focused on helping China rise by keeping a “low profile in the international affairs”³³⁴ because China wasn’t yet a geopolitical power to be reckoned with, Xi seems to take a more bullish stance on the back of China having risen far beyond Deng’s imagination and having secured its place as a global leader, especially after the global financial crisis of 2008.

11.5 Domestic public opinion towards the Chinese government

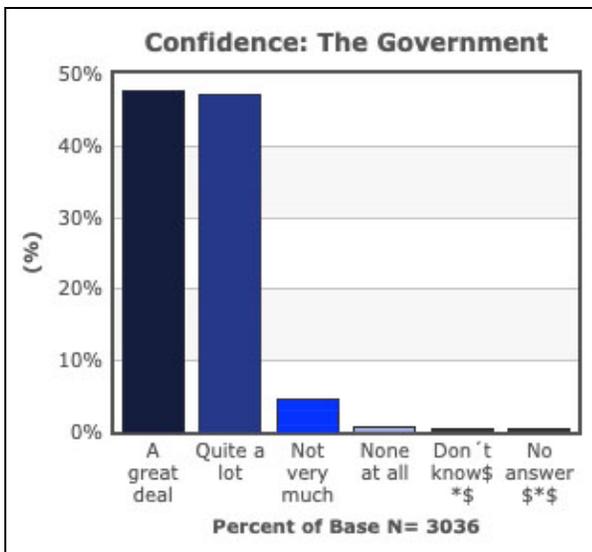
In taking a stronger stance, Xi knows that he can count on his citizens. Historical data suggests that China’s citizens are overwhelmingly supportive of his government. When asked about the

³³³ Brown, "Reading Between The Lines: Xi'S Epic Speech At The 19Th Party Congress."

³³⁴ Cable et al., *From Deng To Xi: Economic Reform, The Silk Road, And The Return Of The Middle Kingdom*, 26.

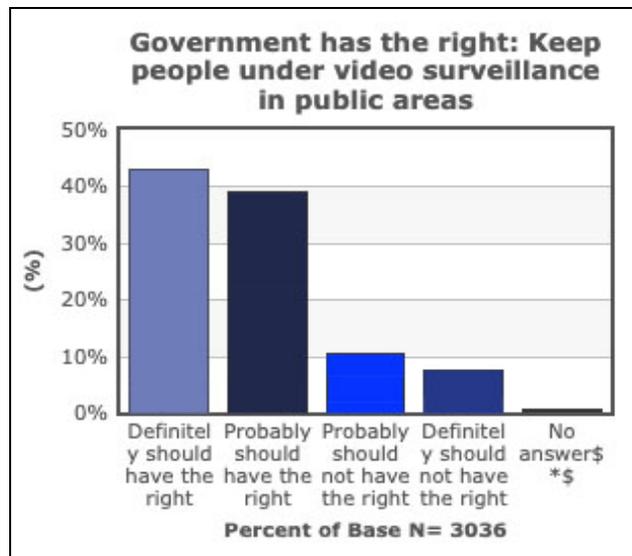
level of confidence in the government in 2018, approximately 90% of respondents stated that they had a great deal or quite a lot of confidence in it; this can be seen in Figure 11.1. Even where citizens may not agree with the government on certain issues, they trust the government in facilitating China's rise. Incidentally, one of the key issues that China is criticized for is its wide-spread surveillance, coupled with social credit. Yet, when asked, 82% respondents stated that the government has the right to, or probably should have the right to monitor the people in public areas; this can be seen in Figure 11.2.

Figure 11.1: Confidence in Chinese government



Source: World Value Survey³³⁵

Figure 11.2: Public opinion on government surveillance



Source: World Value Survey³³⁶

One of the main differentiators between China and Western liberal democracies engaging in neoliberal policies is the pronounced lack of individual freedoms and rights. Yet, when a part of the population does not seem to place a high value on these rights and/or sees them as secondary to income and economic growth, which the government is achieving, said liberal democracies have little to go on, making the typical 'human rights' discussions during state visits more of a ritual to appease their own electorate rather than fruitful, open minded exchange of views.

³³⁵ "Confidence: The Government (2018)."

³³⁶ "Government Has The Right: Keep People Under Video Surveillance In Public Areas (2018)."

11.6 International opinion of China

While the official public opinion openly favours China's leadership, marginalized minorities and those of differing convictions tend to refrain from answering politically sensitive questions. Yet international opinions favouring China have notably increased regardless over the years. Appendix 19 shows the approval ratings of different global regions for China. Incidentally, Africa has the highest level of approval for China, which might reflect a positive view towards the regional connectivity enabled by the Belt-and-Roads Initiative and any connected supposedly 'no strings attached' loans, as opposed to the attempt of Western countries to spread 'liberal hegemony' in the continent. While the Americas and Europe approve to a lesser extent, they don't differ that considerably from Asia. A more concerning scenario for the US is the decline of its global approval in relation to China depicted in Appendix 20. Considering Trump's low involvement and aid towards the international community during the COVID-19 pandemic outlined in the previous section of this report, this gap is likely to widen in favour of China.

11.7 COVID-19 Impact: catalyst for public opinion

While China was initially blamed for the COVID-19 outbreak, public opinion towards the Chinese government, within as well as outside the country has picked up. A survey revealed that "75% of Chinese citizens were satisfied with the government's dissemination of information and 67% were satisfied with the government's daily delivery of necessities."³³⁷ Moreover, Chinese citizens are also disproportionately satisfied with their government compared to how other countries viewed their leadership's actions. Chinese nationals gave 85 points to its government compared to the 56 points its citizens rewarded the government of New Zealand.³³⁸ Those most critical of the government were China's highly educated and middle-aged people as depicted in Appendix 21.³³⁹

³³⁷ Wu, "How Chinese Citizens View Their Government's Coronavirus Response."

³³⁸ Jingwei, "China Gets Top Mark As Citizens Rank Their Governments' Response To The COVID-19 Pandemic: Blackbox Research."

³³⁹ Wu, "How Chinese Citizens View Their Government's Coronavirus Response."

Yet, there has also been some notable domestic dissent of the Chinese's government handling of the crisis. In one case, 14,000 members of the Telegram channel shared information about the censorship of articles and posts on social media, questioning the government's restriction on freedom of speech. Moreover, a larger percentage of the population criticises the lack of compensation for unemployment. While this is likely to have short-term implications for the government in the light of the economic recession the country is currently facing, criticism towards the government will reside once consumer demand and job opportunities pick up. There is still faith that the current leadership can and will ensure the political stability required to deliver against the vision of further modernization. Furthermore, the media support towards the government has also helped convince the public opinion that the Chinese government has been efficient throughout the pandemic.

As outlined on various occasions in this report, international attitude towards Chinese leadership is also likely to change post the COVID-19 pandemic. China has successfully seized the opportunity to act and present itself as a leader in the global sphere during the crisis. This is especially true regarding its cooperation with the WHO, although the US withdrawal and a general low level of support from other Western countries towards the organization have made it easier for Xi Jinping to assume that role. In a speech at the World Health Assembly in May 2020, Xi promised to cooperate with the WHO and called for the strengthening of "global governance in the area of public health."³⁴⁰ Focusing on solidarity and cooperation, Xi made a call for increasing the support towards Africa and also promised to provide \$2 million over the next two years to deal with the aftermath of the COVID-19 crisis. Other strategic moves such as Xi's 'facemask diplomacy', which has been referenced throughout this report, underpin China's willingness to cooperate with international organisations such as the UN, as part of a larger push to increase its relevance in the geopolitical sphere. Here too, there is a clearly focused Chinese leadership which is noticeable by every leader and citizen who keeps a tab on international affairs. The degree of leadership appears even stronger as it contrasts sharply with the lack of the same from the West, especially the US, elevating China's comparative position.

³⁴⁰ Jinping, "Fighting COVID-19 Through Solidarity And Cooperation. Building A Global Community Of Health For All."

11.8 Summary

It has been 30 years since the Cold War and the associated battle for supremacy of the ideological systems between the traditional Western societies and the USSR/Russia ended. Today, the possibility of China's dominance in the global sphere being inadvertently facilitated by the West appears to be very real for all the reasons already outlined in this report: the neoliberal approach failing both domestically and internationally in pro-liberal nations, this leading to the known spillover effects of US isolationism, the collapse of the transatlantic alliance and the subsequent weakening of democratic structures. So, while the pull of one approach is fading quickly, China has used decades of relative obscurity on the international stage to develop a notably different way of doing things in almost every regard, thus not only convincingly changing its own fortunes, but developing and implementing a multi-pronged, clear international agenda and strategically seizing opportunities on the way.

Key to all of this is, however, that traditional Western societies have allowed themselves and their political leaders to become complacent and to simply manage their good fortunes amidst widening inequality, unnecessarily settling for myopic visions and dispirited policies because democracies put a shelf-life on leaders and their ideas. In other words, their approach, which needs to cater to many different needs, seemed unfocused and detached from a compelling, overarching ideology following the failure of neoliberalism. Even more so, when compared to the single-minded focus on modernization for the purpose of creating a more equitable society as part of a long-term plan that will be implemented by one party and one lifelong leader. On the broader world-stage, a void left by the previous leader of the 'free' world, the US, is up for the taking, tilting the geostrategic balance for the long term, not least because there is an apparent collapse of global cooperation. All of the above has been exacerbated by the COVID-19 pandemic, as the crisis allowed China, benefiting from the focus of a one party system, to differentiate itself every step of the way from Western neoliberal democracies which appeared to be scrambling and looked uncoordinated and even chaotic at times.

Section 5

Conclusion



Neoliberalism has been dwindling, domestically and internationally

Instances of the failure of neoliberalism have been apparent ever since its conception and subsequent implementation by the US and UK governments in the 1980s, with other countries following suit. While the 'quick-fixes' executed by the Reagan and Thatcher administrations did lead to a surge in economic growth and decreased unemployment, they also set a dynamic in motion that created few winners and many who consider themselves as the losers of this ideology and policy model. For the past four decades, the resulting cracks in democratic societies have been deepening because neoliberal policymakers have failed to address the negative implications of capitalism and its incompatibility with certain foundational blocks of democracy - which is acknowledged even by those who conceptualized neoliberalism. Importantly, this led to a change in the prevailing mood in Western societies: from being optimistic about future prospects, to concern or even apathy in the light of a fading sense of control over one's own destiny.

Notably, neoliberal policies aggravated income inequality. Market deregulation and free trade led to the widening of the inequality gap, domestically and globally, predominantly because they were not complemented by policies on taxation and social matters that would safeguard the weaker segments of society. The uneven benefits of neoliberalism across regions were evident as 'core' or advanced economies profited from globalization at the expense of the 'peripheral' or emerging market economies, thus heightening the income disparity amongst these countries. Neoliberal policies did not succeed in correcting market failures. In fact, the weak market legislation resulted in the Financial Crisis of 2008, highlighting the inability of neoliberalism to protect both the market and society at large. The COVID-19 pandemic has further accelerated these dynamics through the temporary collapse of the healthcare system as well as the current and expected rising unemployment in most neoliberal countries, heightening a sense of individual powerlessness.

This weakening has significant spillover effects

The failure of neoliberalism had rippling effects in the political system of countries as well as bilateral and multilateral relations amongst countries. The worsening of cleavages in society weakened democratic structures and created a window of opportunity for populist and authoritarian leaders to appease those that felt unheard by what they considered to be a remote governing elite. Left unchecked for a decade, these opportunistic leaders were able to root themselves firmly in society as their political agenda thrived because of people's fears. The lack of consensus among democratic leaders regarding the best way to uplift their population in its entirety had wide-ranging consequences.

Facilitated by the USA's isolationist policies since 2016, the transatlantic alliance, which used to be rooted in shared values as well as interests, was hollowed out to the point of collapse. Consequently, the lack of cooperation amongst the defenders of neoliberalism has exposed its inability to improve global cooperation through trade and supra-national institutions that guard fairness, transparency and the evolution of and adherence to joint standards. Incidentally, the COVID-19 pandemic has emphasized the nationalistic approach of governments in neoliberal countries, further undermining the global governance they advocated for. Looking at all of this in conjunction, it can be concluded that the failure of neoliberalism has left a power vacuum in the geopolitical sphere, open to any country reputable enough to fill it, especially if they exude a sense of security and orientation.

Meanwhile, China's rise means it is getting ready to fill the void

Conversely, China has been rising economically and globally ever since the 1980s after Deng Xiaoping introduced his economic reforms. Single-mindedly focused on modernisation as both a means and an end, aligned by a clear purpose within the long-term framework provided by a single-party authoritarian system, China's goal of transforming itself into a middle-income country seems entirely attainable. With a clear, multi-pronged international agenda devised and

spearheaded by Xi Jinping, China's opportunism has been evident through its increased participation in international organizations as well as the creation of the Belt-and-Road Initiative – steadily advancing in international affairs by a deliberate mix of a lot of soft and a little, pointed hard power.

Throughout, the COVID-19 pandemic has appeared to be the ultimate accelerator of the long-term dynamics that are driving neoliberal Western societies apart – both internally and globally. China has already commenced filling the emerging global power vacuum through increased bilateral support as well as cooperation with the WHO during the crisis. The permanence of this new geopolitical order now depends on the response of pro-liberal leaders and their societies.

Weak leadership in neoliberal countries requires bottom-up boost

Our conclusion is that it is imperative to address the lack of purpose, direction and - subsequently - hope in democratic societies. Simply implementing a few, superficial measures, such as allowing some more Swiss-style direct democracy, where citizens directly decide on selected key issues will not be enough at this inflection point, as they would have to be integrated into too many specific legal and constitutional frameworks and be watered down in the process. The post-ideological, post-truth era of the 21st century seems devoid of big ideas and impassioned, informed and factual debates on how to win back the future. Currently, neoliberalism seems incompatible with democracy. Neoliberalism as an ideology need not be entirely abandoned by the democratic nations. Instead, what is needed is a harmonious incorporation of these two ideologies in order to benefit society. The first order of business needs to be to narrow the inequality gap, which will inevitably widen as a result of COVID-19, if no decisive and coordinated actions are taken that put Western pro-liberal democracies back on the front foot and en course to more cohesion.

Society and policymakers will have to collectively create a compelling, clear and widely accepted new vision – both for their countries and the globe. This will have to start with openly

acknowledging the worrying fragility of democratic structures and global collaboration, the COVID-19 pandemic exposed as well as of the weak political and economic framework that enabled this. This means both a coordinated, public statement of the leaders of Western pro-liberal countries as well as putting a process in place to match the clarity, boldness and focus of the Chinese 33 year plan. It was the absence of such focused leadership throughout the past three decades that has caused the humiliation of neoliberal countries during the pandemic. Yet to ensure that such a plan strengthens both the faith in democracy as a way to organize society and the democratic structures and processes themselves the definition of the purpose needs to follow democratic principles. In our opinion it needs to be *jointly* created by people representing all citizens that are expected to buy-into it, *jointly* taken forward into policy making and *jointly* evaluated, holding those temporarily in charge of its implementation accountable. An approach that matches those criteria will create what is most vital to sustain democracy: a sense of individual responsibility for the collective future of all. This is why we recommend that the strategies of grassroots initiatives should be employed in the definition of the new vision. What this could look like in our imagination - if adopted as a feasible part of a much bigger approach - is described below.

Large-scale citizen engagement as a potential part of a solution

The starting proposition for this solution is that of Timothy Snyder, stating that Western neoliberal democracies have gone from “one idea of the future to 0 ideas of the future”³⁴¹ and that a sense of the future can only be restored through the politics of responsibility,³⁴² meaning that the process described below has one intention above all else: to co-create lots of viable, informed ideas of the future. Templates are the way in which the 2015 Paris agreement to combat climate change was facilitated (using the so-called indaba process), the alliance between the Fridays for Future youth movement and Scientists for Future, as well as any successful citizen participation in policy making precedents, in particular the Irish Citizens’ Assembly. This means that it should not be just the elected representatives and associated

³⁴¹ "55 Voices: Fukuyama, Snyder."

³⁴² Ibid

policy makers getting together in whatever shape or form, if broadly shared ownership and responsibility is the goal.

The net needs to be cast wider to maximise representation, meaning three types of cross-sections: firstly, an international cross-section of citizens from different pro-liberal democracies, including from emerging market economies. Secondly a cross-section of transnational subject matter experts, such as leading international economists, historians, and political theorists and thirdly, a cross-sections of trusted politicians – either acting or retired. The latter need to be specifically voted into these assemblies which should be held in parallel in different parts of the world, constituting about 2000 participants in total, divided into four subsets of 500 people each, who meet either virtually (which would help to create genuinely diverse, international assemblies), or in person. As in Paris, there could be up to 100 seats at the actual debating table, chaired by a suitable champion, advised to focus on possible solutions for the key issues identified by experts and reflected in their day-to-day reality. Each person with a seat at the table will be assigned a knowledgeable advisor, while about 300 observers are learning about the debate in real time. The results of each of those parallel assemblies are aggregated, widely published to ensure both full transparency and accountability of the representatives and taken to the next level before, after a minimum of six months and as many meetings, there is one final assembly with elected representatives of the four different assemblies.

In parallel, a global alliance of news outlets shares fact packages, specifically created for this purpose with the intention to make complex information digestible, runs special features, stages discussions and screens documentaries which are also picked up at schools and universities, and most importantly in podcasts and via youtube and other, widely available formats.

Wide yet specific global vision, acknowledging contextual nuances

The intended outcome of the final assembly is to have the beginnings of a clear and widely accepted global vision and a rudimentary framework of success indicators and associated policies that will then be turned over to the actual specialists to factor in their countries' contextual nuances, identify interdependencies, calculate the associated costs and come up with innovative ways of financing them. A vision that consecutive, democratic governments the world over will feel invested in and will be held accountable for. The most important side-effect will be a deeply democratic one: to promote internal conversation among the citizens themselves to identify a clear post-liberal ideology.

Similarly important as the process of generating ideas and solutions is putting them into practice in pilot schemes with associated evaluation frameworks. Most likely, these will include ways of rejuvenating the welfare state and considerations how to interpret the 'embedded liberalism' under the Bretton Woods system vis-a-vis today's challenges, while finding new and unusual ways to address climate change - all of which being key levers to address inequality.

A world-spanning alliance based on jointly held democratic ideals

For this emerging vision to have any credibility as being truly global, rather than a continuation of traditional Western countries and their representatives seeing themselves and being seen in the lead, in our opinion, a key aspect of this Assembly needs to be its genuine diversity in representation through the active participation of citizens from emerging market economies. This is not an afterthought, but put last because we consider it as absolutely essential to the process described above.

The difference in geopolitical positions between advanced pro-liberal countries and developing ones needs to be reflected, especially since the emerging market economies significantly bear the brunt of the negative impact of neoliberal policies. On the one hand, this has soured the

favourable sentiments towards neoliberalism, on the other hand, unless considered and addressed, it could create a further rift between these two ends of the global democratic spectrum. With the expansion of Chinese opportunism, especially to the Global South, a pro-liberal ideology risks losing its strong foothold in the region, including in India, the most populous democracy in the world and another rising power.

While we believe that giving an equal voice to these countries and understanding their contextual differences as part of a process to define a new global vision will most likely make it considerably more difficult to reach a consensus that is broadly suitable to all, we are certain that it will enable countries to link forces upon a firmer, more fundamental footing than neoliberalism. In our eyes, any focused leadership guiding an alliance of countries that will proudly stand next to, and not just against, China on the global stage for decades to come needs to be rooted in a shared purpose that is built upon a strong foundation of *democratic* ideals.

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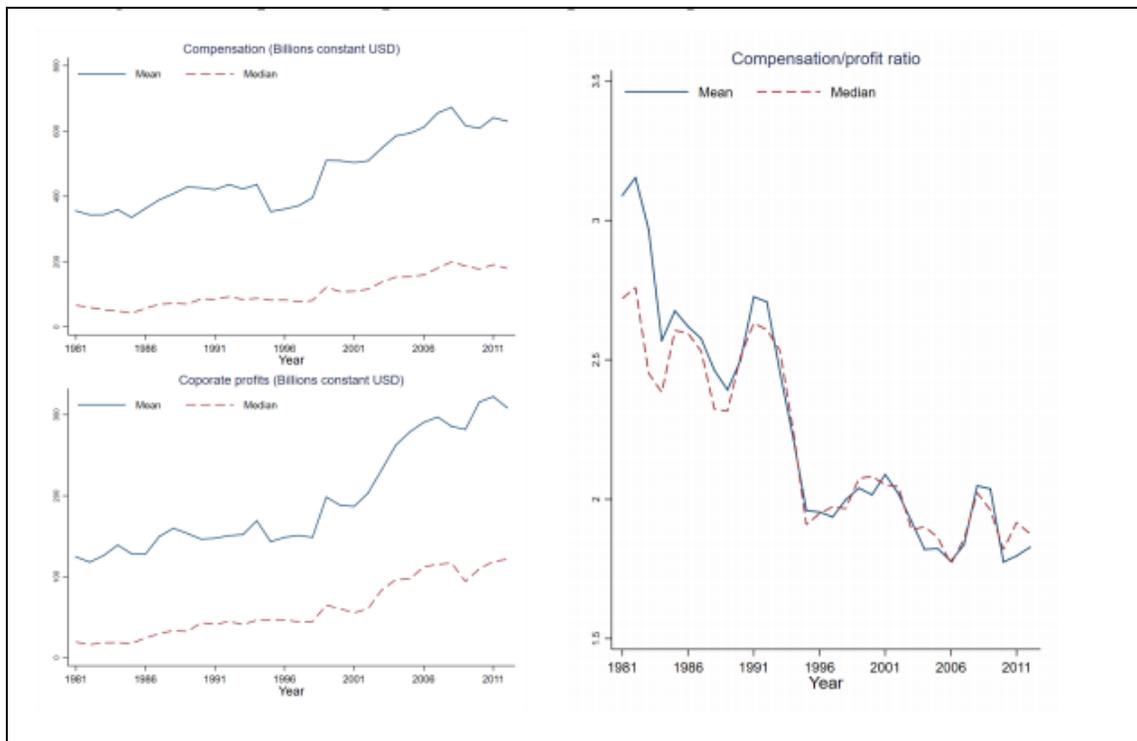
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Appendix

Appendix 1

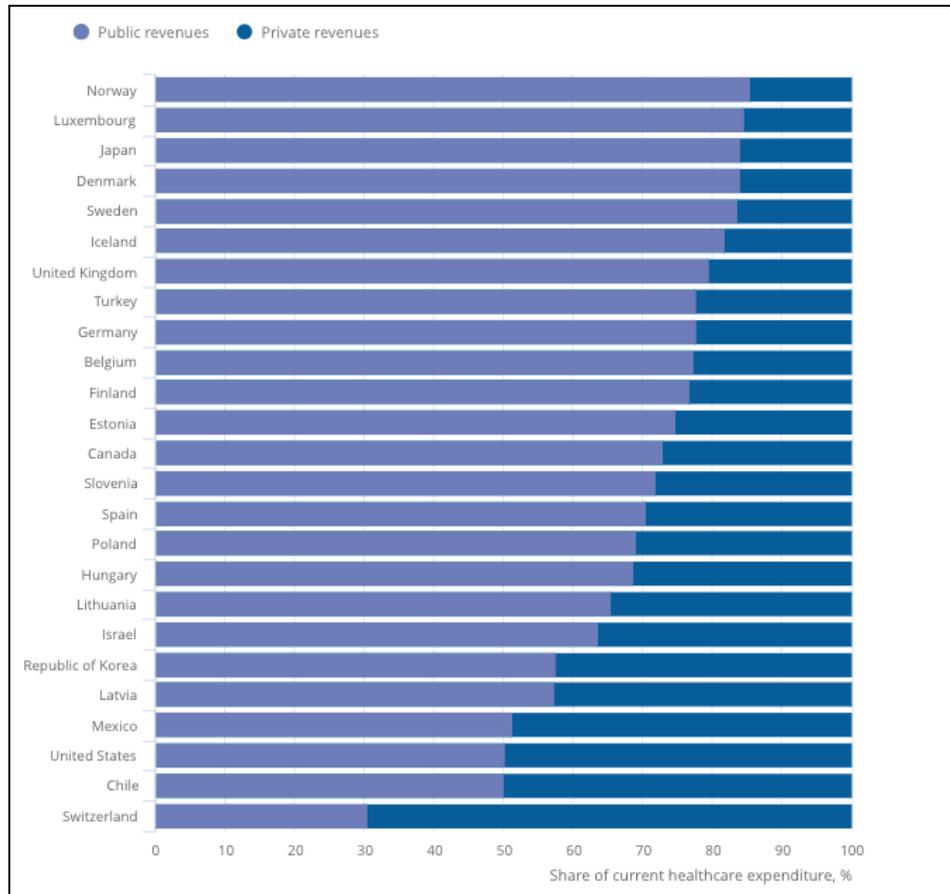
Figure 1: Compensation/Profit Ratio in the USA³⁴³



³⁴³ Sung, Owen and Li, "How Do Capital And Labor Split Economic Gains In An Age Of Globalization?."

Appendix 2

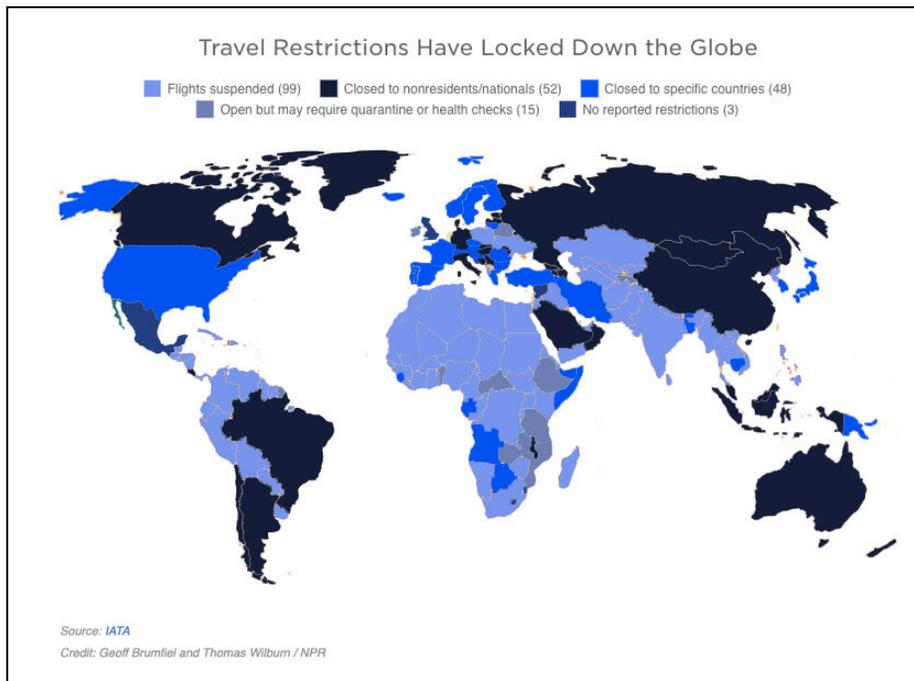
Figure 2: Public and private revenues of healthcare financing schemes for OECD countries with comparable data, 2017³⁴⁴



³⁴⁴ "How Does UK Healthcare Spending Compare With Other Countries?."

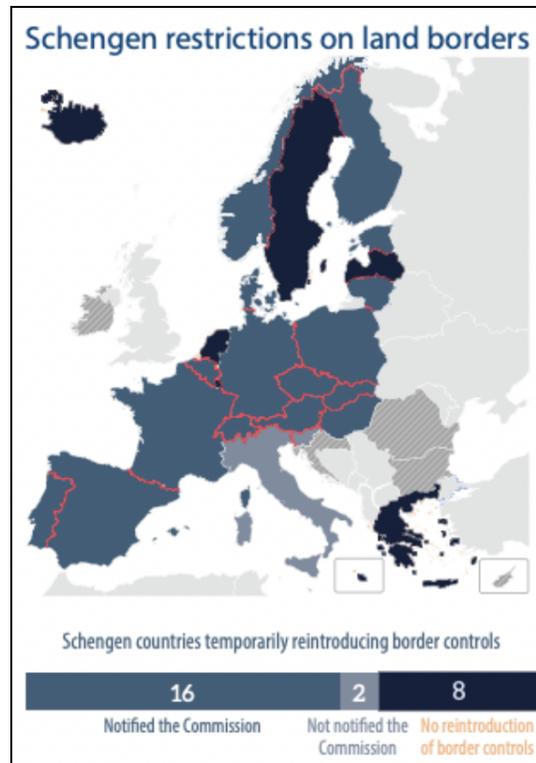
Appendix 3

Figure 3.1: Travel Restrictions have locked down the globe³⁴⁵



³⁴⁵ Brumfiel and Wilburn, "Countries Slammed Their Borders Shut To Stop Coronavirus. But Is It Doing Any Good?."

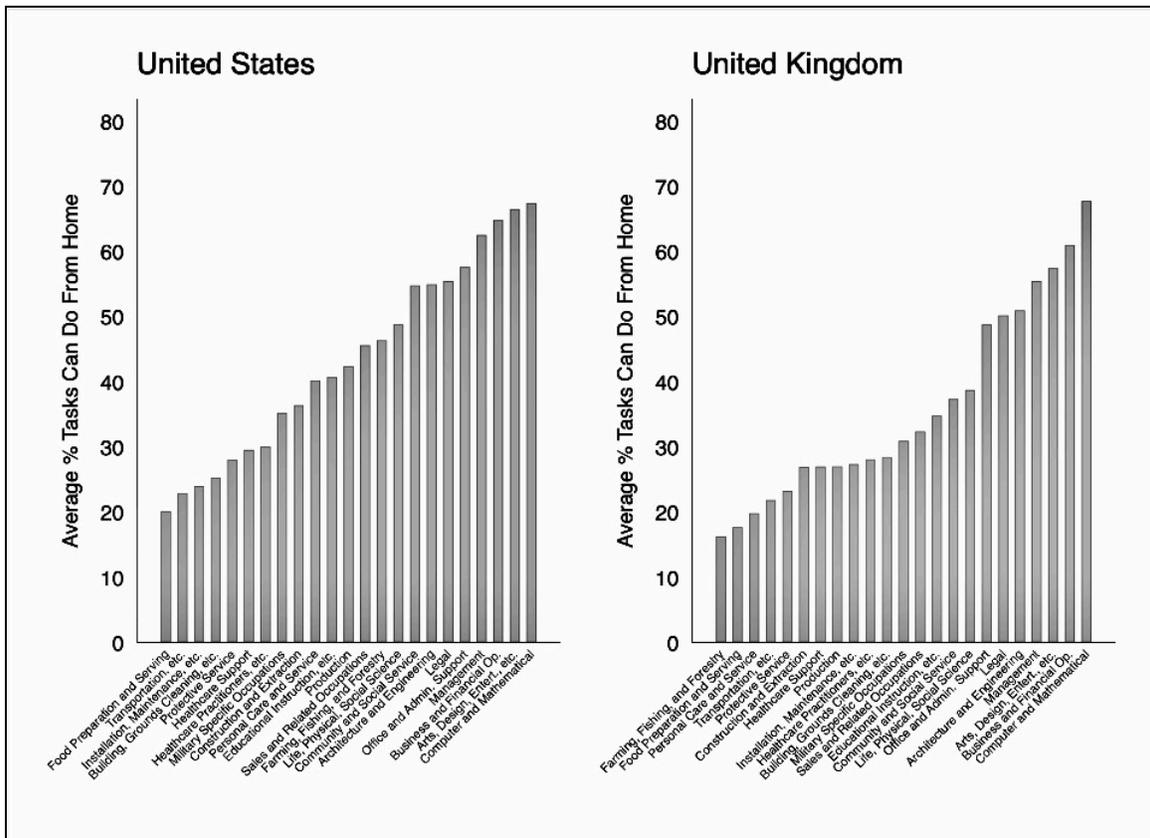
Figure 3.2: Schengen restrictions on land borders³⁴⁶



³⁴⁶ *The Impact Of Coronavirus On Schengen Borders.*

Appendix 4

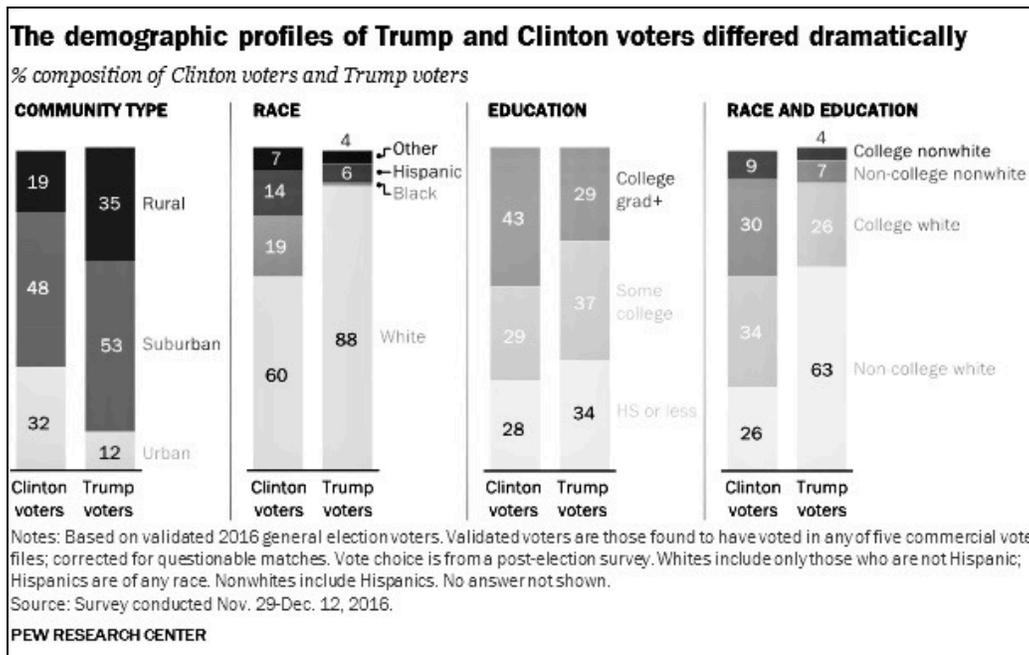
Figure 4³⁴⁷ : Share of tasks that can be done from home by occupation



³⁴⁷ Adams-Prassl et al., "The Large And Unequal Impact Of COVID-19 On Workers."

Appendix 5

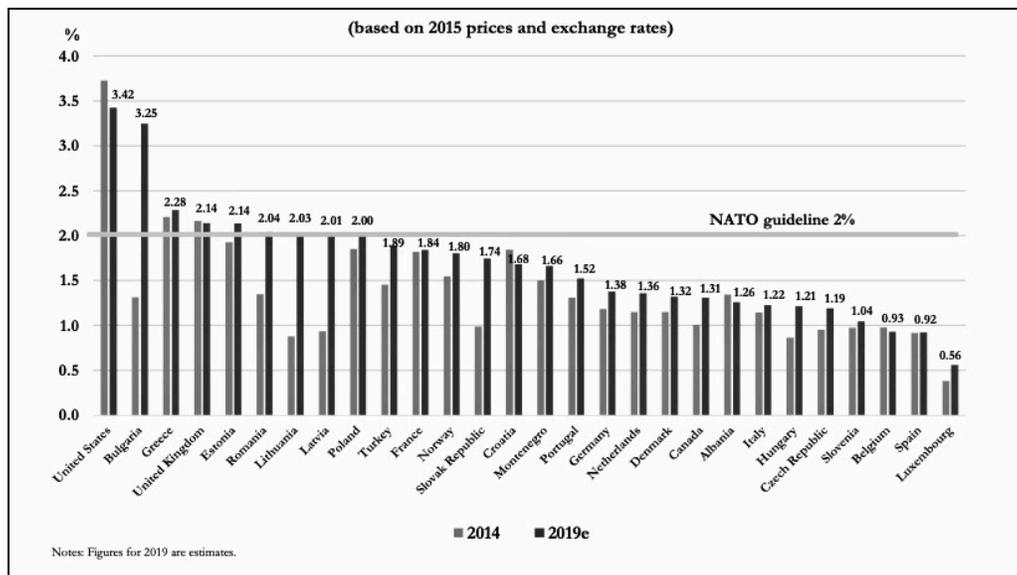
Figure 5³⁴⁸: The demographic profiles of Trump and Clinton voters differed dramatically



³⁴⁸ "An Examination Of The 2016 Electorate, Based On Validated Voters."

Appendix 6

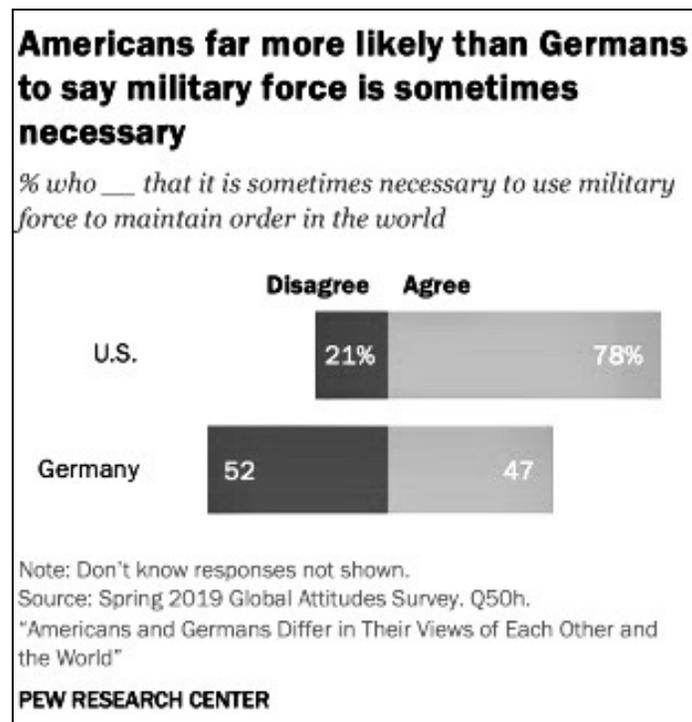
Figure 6: Defence expenditure as a share of GDP (per cent) (based on 2015 prices and exchange rates)³⁴⁹



³⁴⁹ Defence Expenditure Of NATO Countries (2013-2019).

Appendix 7

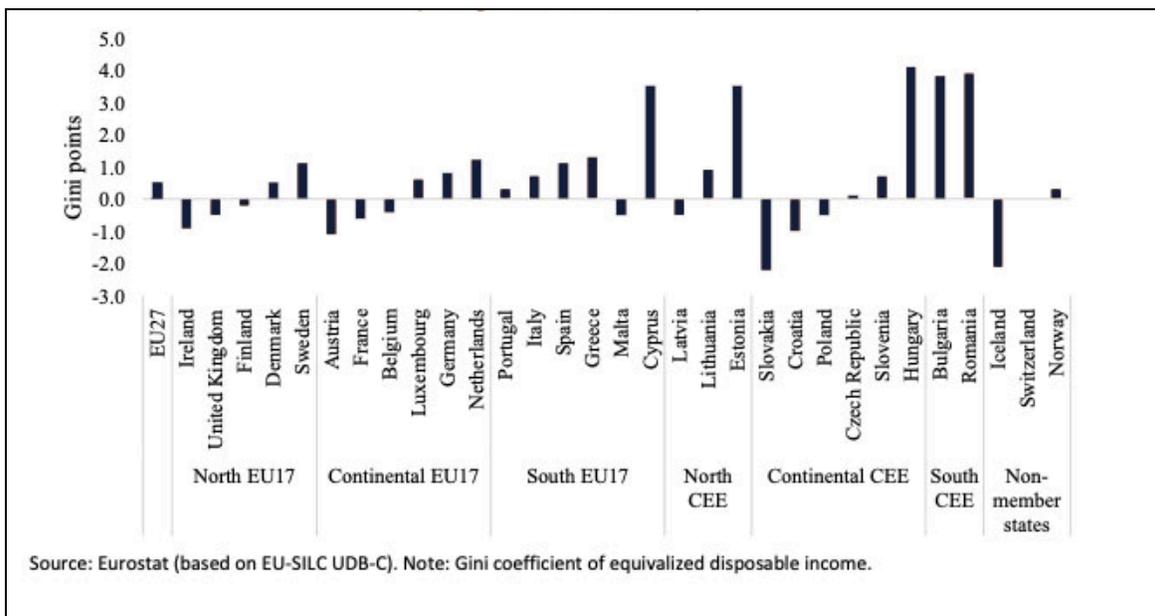
Figure 7: US and German public opinion on military force³⁵⁰



³⁵⁰ Poushter and Mordecai, "Americans And Germans Differ In Their Views Of Each Other And The World."

Appendix 8

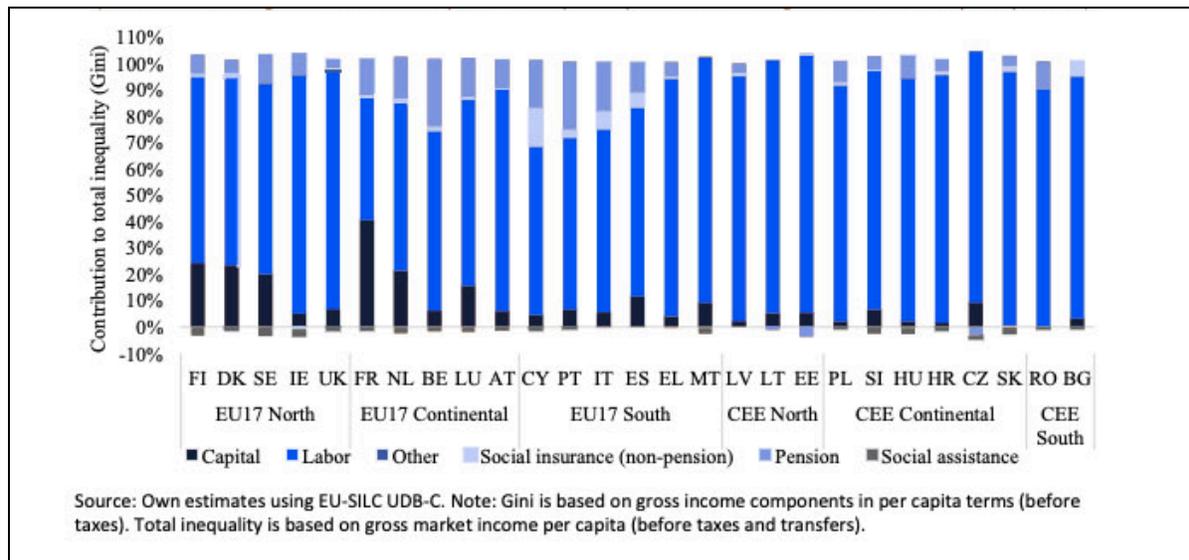
Figure 8:: Recovery has not brought inequality down (Change in Gini, 2010 -2015)³⁵¹



³⁵¹ World Bank Group, *Understanding Changes In Inequality In The EU*

Appendix 9

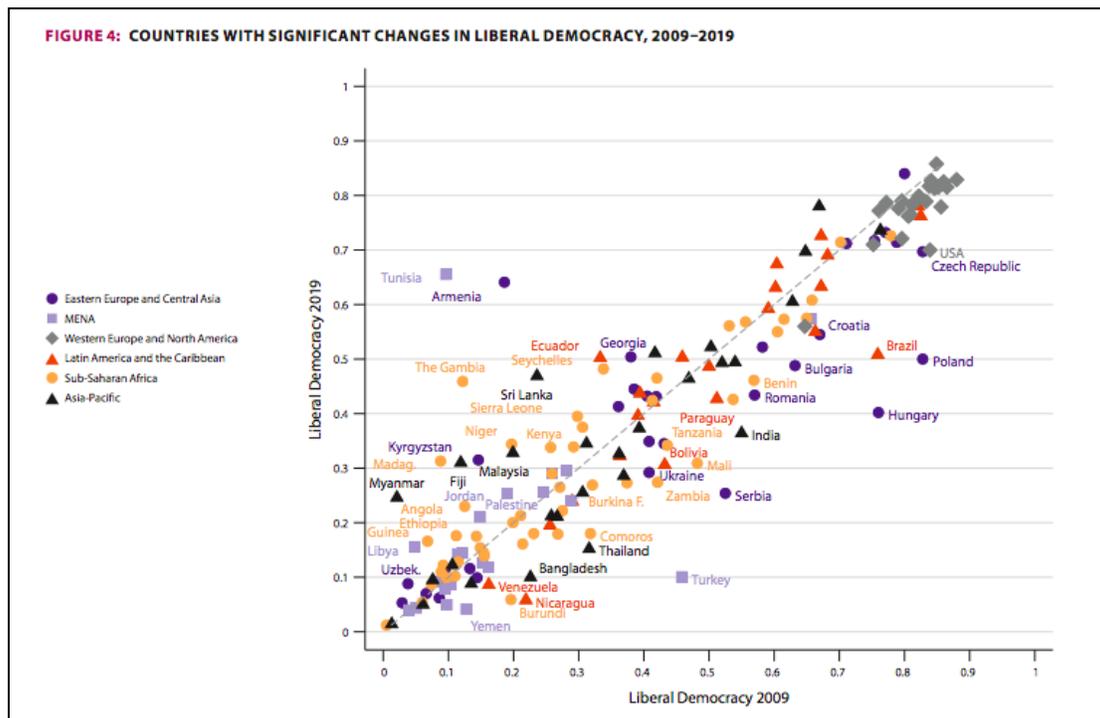
Figure 9: Labor income inequality accounts for most of total income inequality
 (Contribution of gross income components to per capita household gross income inequality, 2014)³⁵²



³⁵² World Bank Group, *Understanding Changes In Inequality In The EU*, 9.

Appendix 10

Figure 10: Countries with significant changes in liberal democracy, 2009-2019³⁵³



³⁵³ Lüthmann et al., *Autocratization Surges—Resistance Grows*, 12.

Appendix 11

Specific Democratic Oversteps as a result of COVID-19

11.1 Neutralization of checks and balances, deliberately sidelining scrutiny

According to COVID-19 State of Emergency data by the UN's Centre for Civil and Political Rights, 79 countries have declared a state of emergency since the pandemic began, only 14 of which were reported to the UN.³⁵⁴ While the declaration of a state of emergency is not problematic in itself, the neutralization of the checks and balances of democracies which includes the scrutiny by the legislature and the judiciary is a grave threat to democracy. A declaration of a state of emergency has often been followed by the shutting down of the judiciary, with states like Hungary and Israel silencing courts in their respective states.³⁵⁵ Prime Minister Benjamin Netanyahu of Israel, who was faced with a seemingly inescapable stalemate that would see the end of his tenure in office, found a lifeline through the pandemic. By ordering the closure of the majority of courts,³⁵⁶ he strategically prolonged the timeline for his corruption trial, but also created an emergency "unity" government³⁵⁷ with his political opponent, Benny Grantz, "with a single, overriding mission: tackling COVID-19."³⁵⁸

11.2 Infringement of citizens' fundamental rights

Many states have utilized COVID-19 as an opportunity to infringe upon citizens' fundamental rights, particularly freedom of expression and the media. "Misinformation" is proving to be the perfect guise to silence journalists and others with anti-government sentiment. Notably, the Chinese government censored information about how it responded to the outbreak³⁵⁹ while the

³⁵⁴ "COVID-19 STATE OF EMERGENCY DATA."

³⁵⁵ Y Quraishi, "Across The World, The Coronavirus Pandemic Has Become An Invitation To Autocracy."

³⁵⁶ M. Halbfinger and Kershner, "Netanyahu's Bold Moves: Fighting A Virus Or Risking Democracy?."

³⁵⁷ "Israeli Coalition Deal Keeps Netanyahu In Power."

³⁵⁸ "Bloated And Sidetracked, Netanyahu-Gantz Gov'T Is Failing Israel In COVID Fight."

³⁵⁹ Carothers and Z. Brown, "How Will The Coronavirus Reshape Democracy And Governance Globally?."

Egyptian Government forced a reporter to leave the country after she questioned the legitimacy of Egypt's official count of Coronavirus infections.³⁶⁰ Similarly, in Jordan, the Prime Minister now has the authority to suspend its citizens' freedom of expression.³⁶¹

11.3 Expanded state surveillance

The crisis has also accelerated governments' ability to surveil its citizens. In Israel and South Korea, governments use smartphone location data in order to track citizens exposed to the virus. In Hong Kong, new arrivals are obligated to wear electronic wristbands, which constantly monitor location.³⁶² Moreover in India, the government has urged the local media to maintain positive coverage even in light of troubling policies such as requiring quarantined individuals to periodically upload selfies while using location tracking to ensure the photo is taken at the individual's home.³⁶³ While enhanced location tracking is not inherently anti-democratic, there are significant risks that the data gained in the process is used for political profit, particularly if these measures are implemented without adequate transparency and oversight.

11.4 Crackdown on anti-government protests

The pandemic allows governments to use the current situation to crackdown on anti-government protests that have been greatly prevalent and the backbone of sound democratic function. In Algeria, for instance, where major protests had urged for government reform in the previous year, authorities have implemented a ban on all demonstrations and protests.³⁶⁴ The key issue for democracies is the lack of a timeline, meaning that such bans could remain in place indefinitely. Moreover, they could also be enforced in discriminatory ways, providing the ability to ban opposition protests.

11.5 Threat to electoral processes worldwide

³⁶⁰ Safi, "Egypt Forces Guardian Journalist To Leave After Coronavirus Story."

³⁶¹ Carothers and Z. Brown, "How Will The Coronavirus Reshape Democracy And Governance Globally?."

³⁶² Carothers and Z. Brown, "How Will The Coronavirus Reshape Democracy And Governance Globally?."

³⁶³ Antelava, "The Infodemic—April 1 - Coda Story."

³⁶⁴ Carothers and Z. Brown, "How Will The Coronavirus Reshape Democracy And Governance Globally?."

The crisis is also likely to hold more long-term ramifications that have received less attention in light of the more observable threats to democracy, such as the threat to electoral processes. There are currently 70 national elections scheduled for 2020 worldwide³⁶⁵ but an estimated 67 countries have postponed upcoming national and sub-national elections due to COVID-19.³⁶⁶ This deprives citizens of their right to choose apt leaders, especially at a time when stable and competent leadership is vital. While in the short-term a postponement of elections is certainly wise, it could provide incumbents with an opportunity to delay them until it is politically convenient, which further erodes the basis of democracy. Moreover, even when elections do proceed, the impact of the threat of infection on turnout could be considerable, especially among the elderly and vulnerable populations.

11.6 Unbalanced relations between civilians and the military

The COVID-19 pandemic may also accelerate a shift in the balance of power between civilians and the military. In many countries, such as Iran, Israel and Peru, the military is involved in enforcing lockdowns.³⁶⁷ While warranted in the immediate aftermath of the outbreak, it may also enable “increased military involvement in the economy and domestic affairs”³⁶⁸. This is already becoming evident in Pakistan. Conflicts over an adequate response to the pandemic saw “leading security leadership sideline the civilian prime minister and work directly with the provincial-level administration.”³⁶⁹ Indeed, the emergence of players such as the military has shifted the balance of power between the government and the population, increasing concerns over the possible permanence of a newly shaped political system.

³⁶⁵ Bicu and Wolf, "Elections During COVID-19: Considerations On How To Proceed With Caution | International IDEA."

³⁶⁶ Ibid.

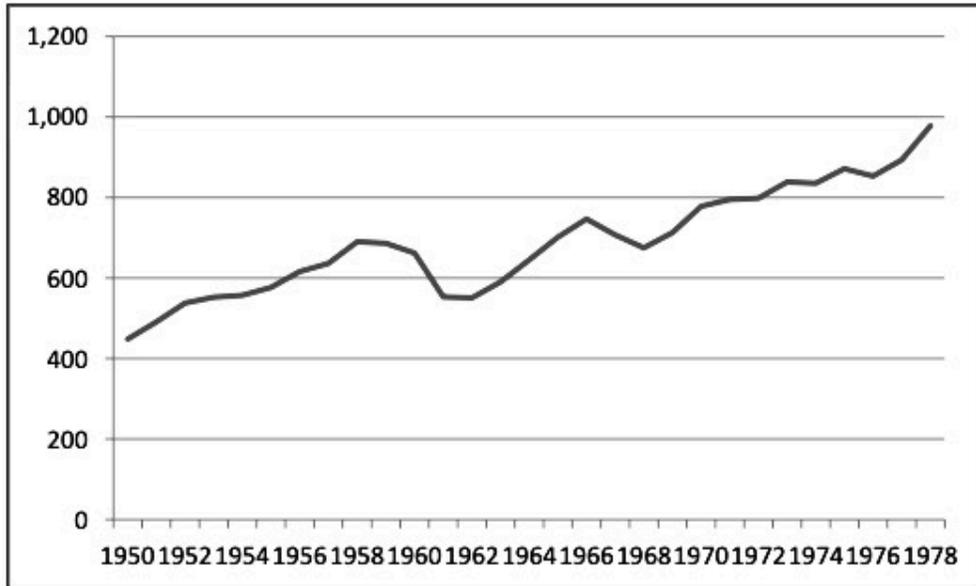
³⁶⁷ Carothers and Z. Brown, "How Will The Coronavirus Reshape Democracy And Governance Globally?."

³⁶⁸ Ibid.

³⁶⁹ Ibid.

Appendix 12

Figure 12: Chinese Per Capita GDP: 1950-1978 (\$ billions, PPP basis)³⁷⁰



³⁷⁰ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 6.

Appendix 13

Economic measures implemented in China (1979 onwards)

13.1 Domestic savings as a substantial source of investment

Throughout the overhaul, China could also rely on its own people. In 1979, when the reforms were implemented, domestic savings as a percentage of GDP already stood at 32%.³⁷¹ Significantly, this domestic investment was funded through the profits of SOEs.³⁷² Subsequent economic reforms, including the decentralization of economic production, led to an additional, considerable rise in both household, as well as corporate, savings.³⁷³ As a result, China's gross savings as a percentage of GDP are nowadays the largest among major economies enabling it to sustain its high level of investment from within.³⁷⁴

13.2 Foreign direct investment (FDI) and exports – the open door policy

The introduction of four Special Economic Zones (SEZ's) in Shenzhen, Zhuhai, Shanton, Xiamen and Hainan can be seen as a manifestation of the gradual and experiential approach taken to the reforms, as they were the initial pilot groups. The SEZs were specifically designed to attract foreign investment and to significantly raise the level of exports. They resoundingly delivered on the expectations attached to them: in 2006, "the five initial SEZs accounted for 5 percent of China's total real GDP, 22 percent of total merchandise exports, and 9 percent of total FDI inflows."³⁷⁵

Another key contributing factor in attracting more FDI and stimulating greater competition was trade liberalization. The inflowing FDI facilitated the emergence of new technology and processes and therefore greatly boosted Chinese efficiency. In 2012, "445,244 foreign-invested enterprises (FIEs) were registered in China in 2010, employing 55.2 million workers, or 15.9 % of the urban workforce."³⁷⁶ These accounted for a disproportionately high share of China's

³⁷¹ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 7.

³⁷² Ibid.

³⁷³ Ibid.

³⁷⁴ Ibid.

³⁷⁵ Zhihua Zeng, *China's Special Economic Zones And Industrial Clusters: Success And Challenges*, 10.

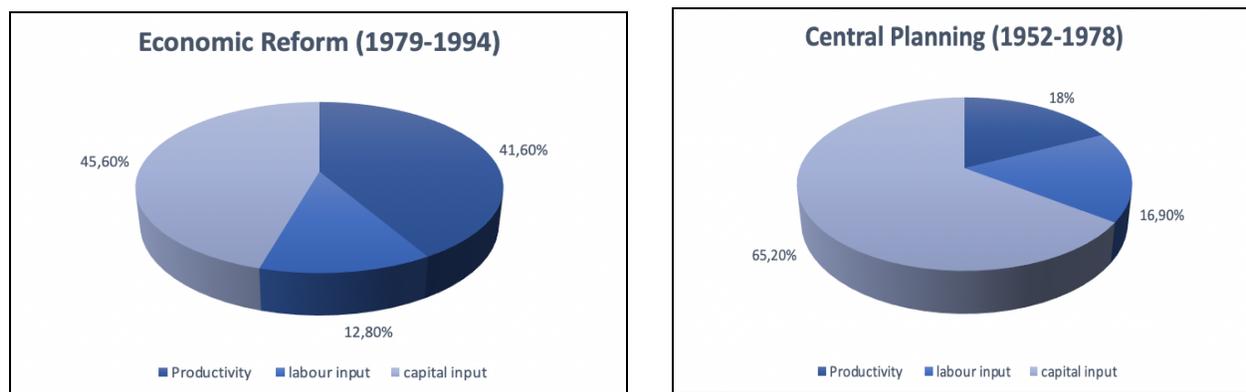
³⁷⁶ M. Morrison, *China's Economic Rise: History, Trends, Challenges, And Implications For The United States*, 14.

industrial output, amounting to 41.7% of Chinese exports and 43.7% of imports respectively in 2018.³⁷⁷ All in all, the implementation of the open-door policy in 1978 saw China’s GDP increase its global share “from 1 percent in 1980 to 6.5 percent in 2008 and its per capita GDP from US \$193 to US\$ 3,263”³⁷⁸ – nearly 17 times as much.

13.3 Productivity Growth through reallocation of resources and incentives

Underneath all this was, boosting productivity, was the all-important reallocation of resources to more productive uses, especially in sectors that were formerly heavily controlled by the central government, such as agriculture, trade and service in Figure 13.1. The rapid growth in rural TVEs (Town and/or local government run businesses) stemming from Deng’s reforms played a key role in drawing “tens of millions of workers from traditional agriculture into higher value-added manufacturing.”³⁷⁹

Figure 13: Sources of Economic Growth, 1952-94³⁸⁰



³⁷⁷ Ibid.

³⁷⁸ Zhihua Zeng, *China’s Special Economic Zones And Industrial Clusters: Success And Challenges*, 1.

³⁷⁹ Khan and Hu, *Why Is China Growing So Fast?*.

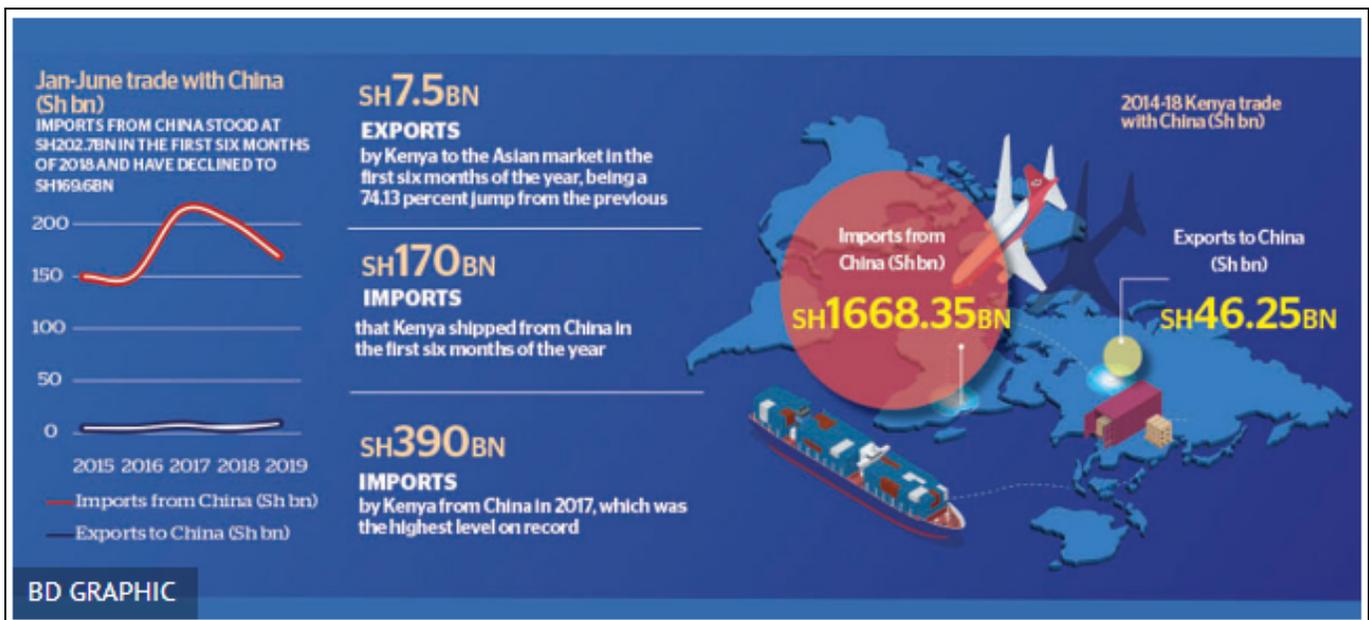
³⁸⁰ Khan and Hu, *Why Is China Growing So Fast?*, 105.

Appendix 14

Example of Kenya in the BRI context

Kenya, one of the key points on the continent for the maritime belt, has already experienced a surge in Chinese goods since 2015,³⁸¹ giving rise to fears that “Chinese imports (...) displace locally manufactured commodities [yet those] imports may compete or replace imports from other countries thus lowering the overall cost and altering the balance of trade in Kenya’s favour.”³⁸² It is a delicate balance and certainly increases the dependence of states like Kenya on China

Figure 14: Focus shifts to Kenya, China trade terms as imbalance persists³⁸³



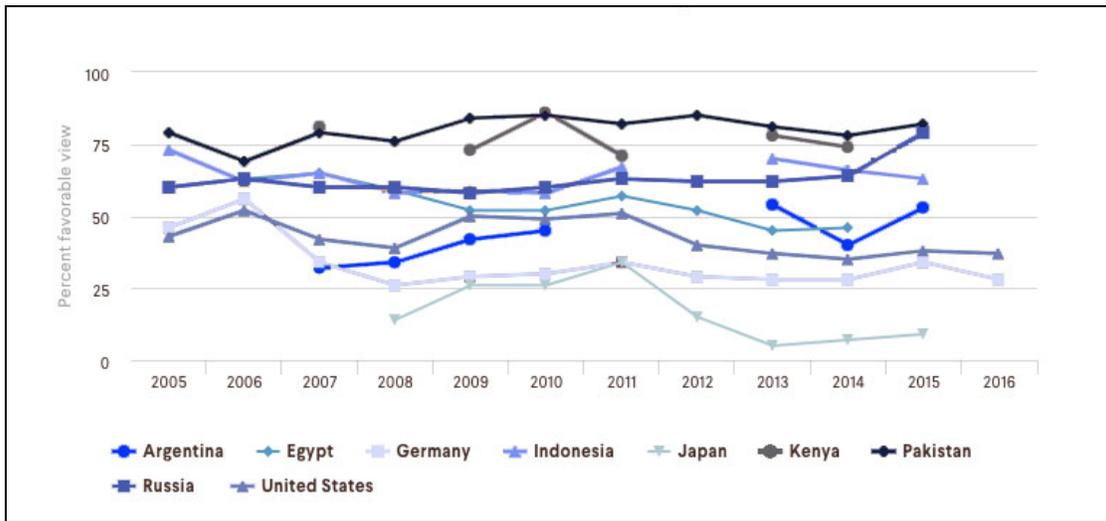
³⁸¹ Guguyu, "Focus Shifts To Kenya, China Trade Terms As Imbalance Persists."

³⁸² Ibid.

³⁸³ Ibid.

Appendix 15

Figure 15: China's international favourability³⁸⁴



³⁸⁴ Albert, "China Appointed To Influential UN Human Rights Council Panel."

Appendix 16

China's Face Mask Diplomacy towards specific regions

Italy

In Italy for instance, there were rising tensions about China's Belt and Road initiative. Yet China was the one country to step in when Italy's case numbers soared in March 2020, while Italy's closest allies were still frozen in fear and looking mostly inward, banning the export of what little protective gear they had.³⁸⁵ China publicly committed to sending 1,000 ventilators, 2 million masks, 100,000 respirators and 50,000 testing kits before the 20th of March.³⁸⁶

Gulf States

China has also garnered support from many Gulf countries threatening American influence over the region. Throughout the pandemic there has been the back and forth transfer of aid. In the early stages of the outbreak in Wuhan, Kuwait, for instance, delivered \$3 million worth of medical supplies.³⁸⁷ As China quickly controlled the outbreak, support began to flow in the other direction. The Gulf States have been particularly accepting of such aid given the risk-potential due to the demographic imbalance; namely, that much of the private sector is composed of expatriate workers. Large scale repatriation could devastate the Gulf economies, especially in light of the collapse of oil prices. China provided medical aid to GCC countries such as Oman, Qatar and Kuwait. They also provided consultations to public health officials to share knowledge of isolation, containment and big data.

³⁸⁵ "Germany Bans Export Of Medical Protection Gear Due To Coronavirus."

³⁸⁶ Sheridan, "China Offers To Send Italy 1000 Lung Ventilators, 2 Million Face Masks, 20,000 Protective Suits And 50,000 Test Kits."

³⁸⁷ Albert, "China's Big Bet On Soft Power."

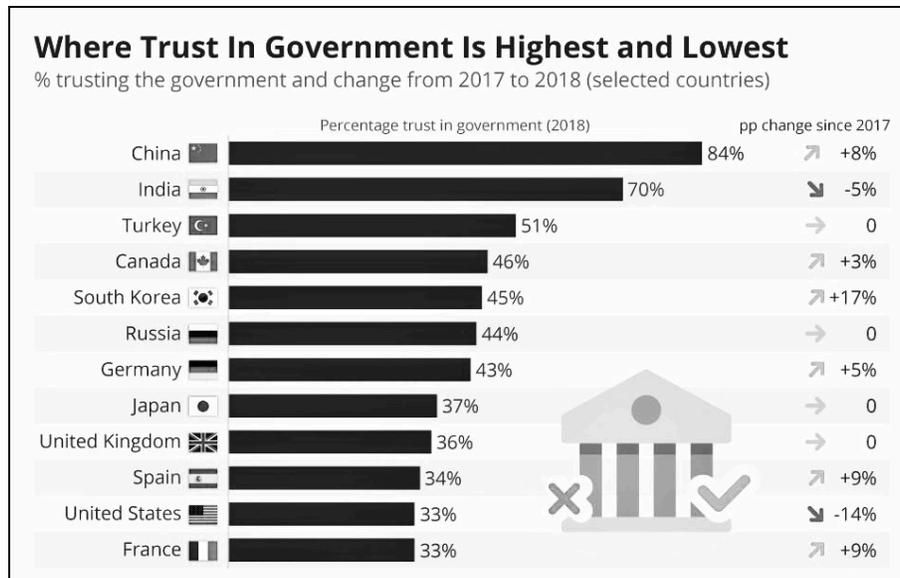
Cumulative aid

By the 31st of March, the Chinese government provided 120 countries and 4 international organisations with surgical masks, PPEs and other assistance including loans.³⁸⁸ Furthermore, it used video conferencing tools to share best practices in partnership with the ASEAN Secretariat, the Arab League and countries including India, Malaysia and Russia.

³⁸⁸ "U.S. Sent Millions Of Face Masks To China Early This Year, Ignoring Pandemic Warning Signs."

Appendix 17

Figure 17: Where Trust in Government is Highest and Lowest across countries³⁸⁹
 (% trusting the government and change from 2017 to 2018)

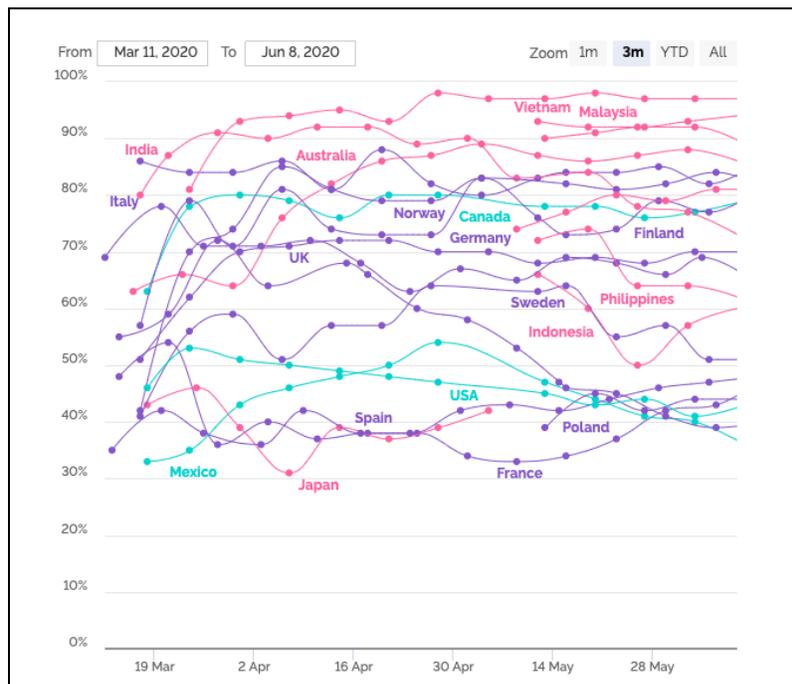


³⁸⁹ McCarthy, "The Countries That Trust Their Government Most And Least."

Appendix 18

Figure 18³⁹⁰ shows, that while 45% of Spanish citizens claim on 25th June 2020 that their government handled the crisis “very” or “somewhat” well,³⁹¹ only 38% of the US citizens say the same about their government on 13th July.³⁹² The UK too saw a 26% drop from 68% on April 14th to 42% on 2nd July,³⁹³ due to insufficient testing capacity and lack of protective equipment for medical staff.

Figure 18: Tracking public opinion towards the government during the pandemic



³⁹⁰ "International COVID-19 Tracker Update: 8 June."

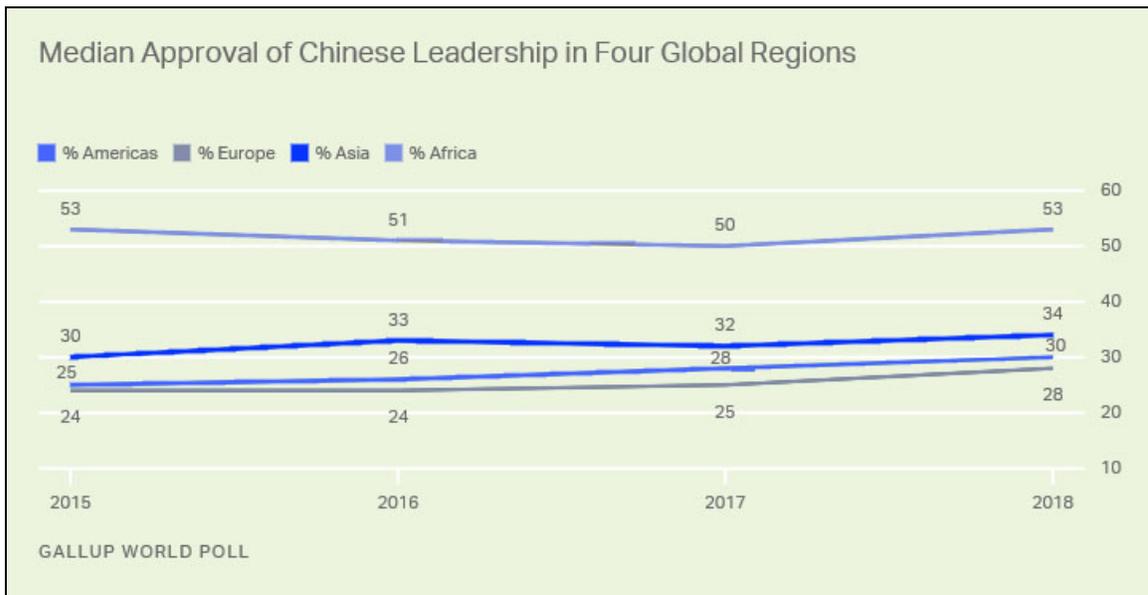
³⁹¹ Ibid.

³⁹² Ibid.

³⁹³ Ibid.

Appendix 19

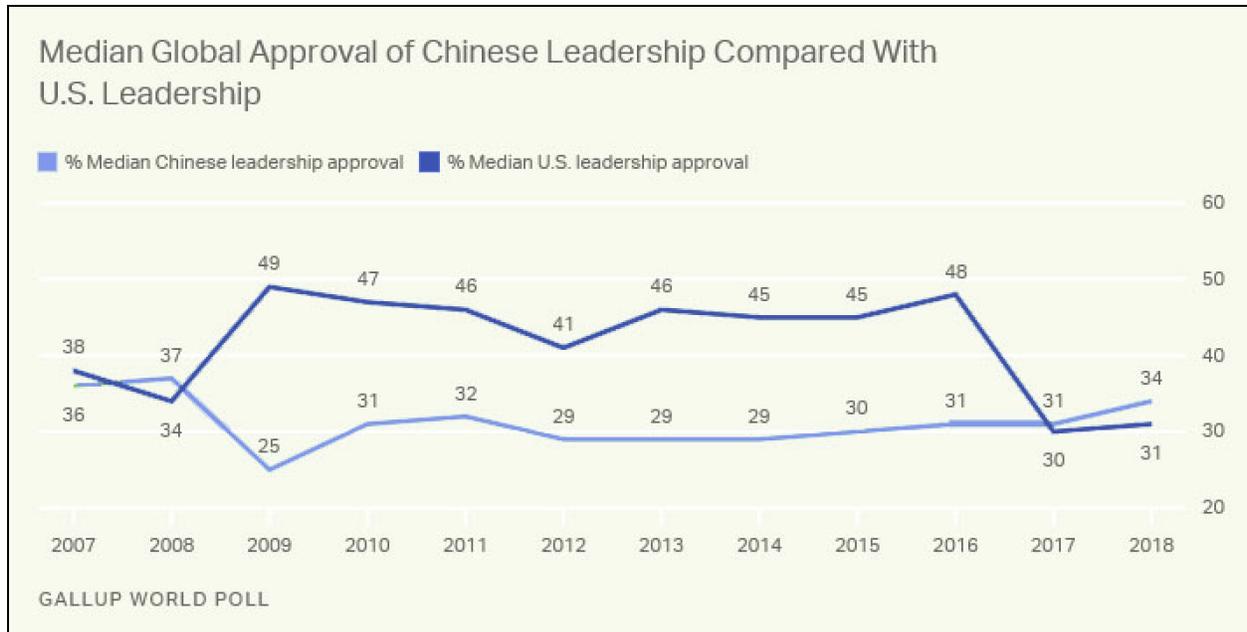
Figure 19: Median approval of Chinese leadership in Four Global regions³⁹⁴



³⁹⁴ Reinhart and Ritter, "China's Leadership Gains Global Admirers."

Appendix 20

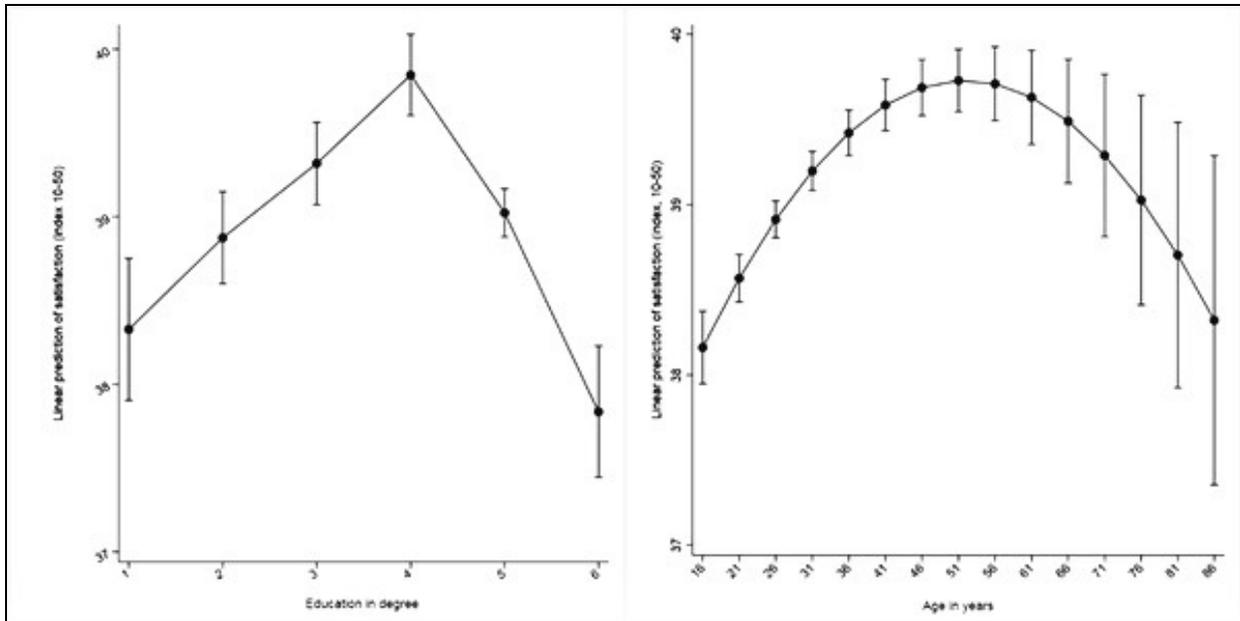
Figure 20: Median Global Approval of Chinese Leadership Compared With US Leadership³⁹⁵



³⁹⁵ Reinhart and Ritter, "China's Leadership Gains Global Admirers."

Appendix 21

Figure 21: Public opinion of the Chinese population towards the government during the COVID-19 outbreak
(based on education level (1) and age(2))³⁹⁶



³⁹⁶ Wu, "How Chinese Citizens View Their Government's Coronavirus Response."