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A Fractured World: Nationalism vs. the Global Liberal Order

Nationalist movements have lost some recent battles, but it's way too soon to think they are receding.

By Greg Ip

The liberal order is holding up better than many feared a year ago.

In Europe, right-wing populists lost elections to the establishment in the Netherlands, Austria and France. U.S. President Donald Trump has prioritized traditional conservative causes like tax cuts over protectionism.

But globalists should not breathe easy. The nationalist insurgency is both growing and metamorphosing. It is not just eating away at relations between countries on issues such as free trade; it is also eroding the institutions and norms that prevail within countries.

This is not a problem for the global economy yet, as a synchronized upswing drives growth and stock prices higher. But it's a shadow over the future. Populists sustained by legitimate grievances at the cultural and economic upheaval caused by globalization often govern by authoritarian or divisive means, undermining the stable, rules-based environment that businesses crave.

Two statistics illustrate the trend. The first is economic. Protectionism usually retreats as economies improve, but last year it rose despite a broad-based global expansion. Global Trade Alert, a Switzerland-based

trade-monitoring group, counted 642 government actions that hurt other countries last year, from American tariffs on air mattresses to Chinese financial support for its cloud-computing industry. Though below the record set in 2015, that's still up 95% from 2010.

The second is political: Freedom retreated in 71 countries last year and advanced in only 35, according to Freedom House, a nonprofit group that rates countries across a range of political and civil liberties. Liberal democracy has been in retreat since 2006, the group has found, and in recent years the retreat has accelerated.

More troubling, the U.S., long the world's bedrock of economic and political liberalism, was a key contributor to both trends. It initiated 143 harmful trade actions last year, up 59% from 2016. And while it remains a free country, the level of freedom has been slipping for seven years and especially so last year because of evidence of foreign interference in its elections, reduced transparency and slipping ethical standards, according to Freedom House.

Nationalism and populism are not intrinsically at odds with liberal democracy or free markets; they often nourish resistance to tyranny. At the same time, actual and aspiring authoritarians routinely turn to nationalism to gain and keep power. They portray opponents such as judges, journalists and opposition politicians as the tools of an outside enemy or use nationalism to rally supporters along ethnic and religious lines.

This trend is perhaps starkest in Eastern Europe. Nationalism helped free the Soviet Union's satellites from communism nearly three decades ago. But in recent years governments of both Hungary and Poland have invoked nationalism to justify an inexorable erosion of democratic institutions.

Both face the threat of European Union sanctions—Poland for curbing the independence of the judiciary, Hungary for threatening to close an independent university, and both for their treatment of refugees. Both have responded with defiance and appeals to religious and ethnic solidarity.

In Poland, the ruling Law and Justice party [claims](#) the EU's criticism is a pretext for forcing multiculturalism and more Muslim immigrants on it. Hungary's leader, Viktor Orbán, has called Muslim refugees "poison" and a threat to Europe's Christian identity.

As fear of Islam rallies nationalists in some countries, fealty to the faith has done the same in Muslim countries. Pakistan and Indonesia are nominally democratic, but Muslim activists in both are undermining the rights of non-Muslims. Last November, they forced the resignation of Pakistan's law minister for supposedly watering down the oath parliamentarians take affirming that Muhammad was the final prophet. In Indonesia, they triggered a criminal investigation of Jakarta's Christian governor for allegedly insulting Islam, and then engineered his ouster in elections last April.

Thus far, no established Western democracy has seen any comparable erosion of institutions or minority rights, even those in the grips of nationalism. Britons' vote to leave the European Union was both nationalist and unquestionably democratic. In its wake British political parties, including the separatist Scottish National Party, continue to reject xenophobia, with the exception of the UK Independence Party, which has receded into irrelevance since the Brexit referendum.

Yet the pressure elsewhere is unmistakable. Marine Le Pen, who advocated leaving the euro and dramatically reducing immigration, lost to the globalist Emmanuel Macron in France's presidential election but still led the National Front to a record 34% share of the vote. In Austria,

the far-right Freedom Party, which staunchly opposes immigration and warns of “Islamification,” won enough votes to be invited into the governing coalition, and in Germany, the anti-Muslim, anti-immigration, anti-euro Alternative for Germany won enough of the vote to deny Chancellor Angela Merkel a conservative governing coalition. This has had an unmistakable effect on those countries’ policies, especially on immigration.

As for the U.S., Mr. Trump has governed much like a traditional Republican and earlier this month loudly split with his former strategist Steve Bannon, a fiery proponent of economic nationalism who once disparaged the pro-globalization political establishment as “the party of Davos.” David French of the National Review welcomed the demise of “incoherent, destructive nationalist-populist ideology” and a chance for the Republican Party to “restore itself as a party of conservative ideas.”

But this is premature. Mr. Bannon may be gone, but Mr. Trump’s hostility to immigration and free trade persists. Mr. Trump’s administration is gearing up for a more aggressive assault this year on what it considers unfair trade, especially China’s.

Meanwhile, Mr. Trump has governed much as he campaigned: as the advocate for his political base, while attacking judges, journalists and politicians who oppose him as enemies of the country. He signaled solidarity with white and evangelical Christian voters by defending Confederate war monuments and endorsing the fundamentalist Christian Roy Moore in the Alabama Senate special election despite accusations of sexual misconduct.

Thus far, the checks and balances of American democracy have survived. Yet democracy itself is changing as partisan disagreements harden into tribal hatred. Republican Congressman Mark Sanford, who

was first elected in 1994 and served eight years as governor of South Carolina, long saw religious and ethnic divides such as the Islamic world's Shiite-Sunni split as alien to the U.S. "Republicans, Democrats, Southerners, Northerners, blacks, whites, you're [part of] an American-based system of beliefs, founded on reason and ideas," he said in an interview. "What I see now is very troubling. It's my group against your group. It's more tribal than I've ever seen it."

Some of his constituent meetings have become circuses of incivility. "If I say something considered even slightly anti-Trump by pro-Trumpers, you get acid poured on your head. If I say something viewed as pro-Trump by 'Indivisible' or the anti-Trumpers, you get acid poured on your head. There's just a no-man's-land in between."

Dollars and cents

Businesses' first reaction to such stresses is to try to ignore them and focus on making money. Economic research finds little correlation between democratic rule and economic growth, and the current global upswing, with exceptions such as Venezuela, seems to prove the point.

Yet over time, political and economic freedom go hand in hand. As politics turns authoritarian or tribal, the laws and rules by which businesses operate become more capricious.

In Russia and China, corruption investigations have long been a pretext for punishing wayward business leaders. Still, even by their authoritarian standards, economic freedom has become more circumscribed. China's Communist Party has recently [pressed](#) to increase its representation within key companies while leading internet businesses [partner](#) with the government in spying on its people.

Tribal politics and policy

In democratic systems, tribal politics makes for tribal policy, which can then change when a different tribe takes over. Because Barack Obama's health-care measures passed with no Republican support, its survival has long been a question mark, leaving a cloud of uncertainty over the health-care system.

Now that Republicans are in control, they have doubled down by passing a tax overhaul on party lines and saddling much of the cost on Democratic-leaning states by limiting the deductibility of state and local taxes. New York's democratic governor, Andrew Cuomo, called it an act of "economic civil war."

Mr. Trump crafts policy interventions to the needs of his political base. He lambastes companies that move jobs out of the industrial states that were crucial in his presidential victory, and intervened to encourage the Taiwanese contract manufacturer Foxconn Technology Group to put a new flat-panel factory in Wisconsin. Some observers think the Justice Department is trying to block [AT&T Inc.](#)'s merger with CNN parent [Time Warner Inc.](#) in part because Mr. Trump wants the channel punished for its coverage. (The department denies this.)

Economic tribalism is hardly confined to the right. Democrats' support for more border security has waned as the Hispanic vote has become more important to its fortunes.

These are, for now, minor irritants in the scheme of things. History shows that populism and prosperity can coexist for a long time. Yet to maintain the support of key groups, populists are constantly tempted to make extravagant promises the country cannot afford. Mr. Trump has delivered the tax cuts traditional Republicans wanted, while standing firm against cutting back the entitlements his older, working-class supporters cherish.

Populism, says Mr. Sanford, is bad for business “because it’s unsustainable. The populism that says we’re not going to touch your Social Security or Medicare is going to go looking for revenue to keep those promises.”

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