Can the primacy of economics survive great-power politics?

Introductory note for the Aix-en-Provence Economic Forum

Jean Pisani-Ferry, June 2019[1]

Europe for a while believed that a rules-based order was gradually taking hold of the world. The Cold War was over, rogue states were just a few and international law was gaining credence. In the economic sphere, trade, exchange rate and increasingly financial relations were governed by common principles. Global regulation was making progress. Competition law was being enforced regardless of the nationality of the corporate giants involved. States could be taken to courts.

Because it is itself a community of law, the EU felt at home in this emerging system. True, the institutional and regulatory architecture of globalisation was still far from complete. True, the US remained reluctant to be bound by international law. True, emerging countries felt that the rules were biased in favour of the incumbent powers' interests. But the trend seemed clear.

This belief is being shaken by the return of great-power politics, first and foremost by the China-US rivalry that is set to dominate the 21st century. The US under president Trump has become a much more transactional power. China under president Xi does regards the rules-based order as a Western construct of which it has no ownership – a perception shared by Russia and many emerging countries. At a time when global interdependence has reached unprecedented levels and when the management of global common has become an overriding priority for the future of mankind, power rivalry threatens to take the world back to the type of adversarial international relations that prevailed in the 19th century.

It is tempting to regard the current climate in international relations as a temporary aberration. But it would be illusory to rely on such a belief. First, the world has learned from the behaviour of the very guardian of the international order that once-imperative rules are here to be breached. The lesson will not be forgotten. Second, the rivalry between China and the US and the emergence of a multipolar world dominated by three of four blocs are deep trends, not momentary accidents. Third, the Trump administration's peculiar stance on international trade may go, but the China stance of the US policy community has definitely shifted towards a much more confrontational approach.

Beyond national attitudes, what has been irreversibly shaken by recent developments is also the widely held assumption that the economic sphere was governed by its own rules and could to a large extent evolve independently from the geopolitical sphere.

Globalisation was not meant to imply the end of wars and power rivalries, but it was assumed that it could remain largely immune from them. Trust in the primacy of economics was such that it was assumed that the evolution of the global economic and financial system was driven by its own logic.

Recent events have shown that this was an illusion. The unilateral enforcement by the US administration of secondary sanction on Iran irreversibly signalled that infrastructures that

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were routinely regarded as common goods – a global currency and a US-centric global financial system – could by the stroke of a pen be turned into instruments of sheer power. By the same token, the US ban on Huawei and Google's subsequent decision to stop supplying the Android system to its phone subsidiary signalled that there is no such thing as a common technology platform that is, and will remain, accessible to all participants in the global economy.

China does not separate economics from geopolitics either. It simultaneously seeks economic growth, technological development and geopolitical influence. For example, the acquisition by a Chinese firm of a European or US company may be motivated by national priorities rather than private profit-making objectives. Similarly, Chinese investment within the framework of the Belt and Road Initiative is motivated by a search for influence – including within the EU - rather than by the (often dubious) intrinsic economic value of the projects that are being financed.

Europe is slowly waking up to a new reality in which power trumps economics and where control of the nodes of economic integration – from the hubs of the monetary and financial networks to those of global data networks – can be turned into instruments of power. To use the cogent expression of political scientists Henry Farrell and Abraham Newman, it gradually realises that interdependence can be "weaponised". In this context old concepts, such as economic sovereignty, are acquiring a new relevance.

The other big question is whether the global economy will avoid fragmenting into separate blocs. For decades the world has been moving towards a single set of technical standards, economic rules and behavioural norms under the oversight of unified global institutions. It may have entered a process of fragmentation. Even before the Trump administration's initiatives, cracks were already noticeable in the fields of trade (with the weakening of the multilateral system), development finance (with the BRI and other Chinese initiatives), financial safety nets (with the substitution of bilateral swap lines to the IMF-centred financial support regime), money (with early Chinese initiatives to internationalise the renminbi) and internet regulation (with the emergence of a separate Chinese internet).

Recent events are bound to amplify what is not yet a general tendency. The question is, how far are we from the tipping point where the momentum towards integration would be lost and the global economy inexorably reshaped by geopolitics?