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***US - China Competition
in
Global Disorder***

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A decorative teal silhouette of a mountain range is located in the bottom right corner of the slide.

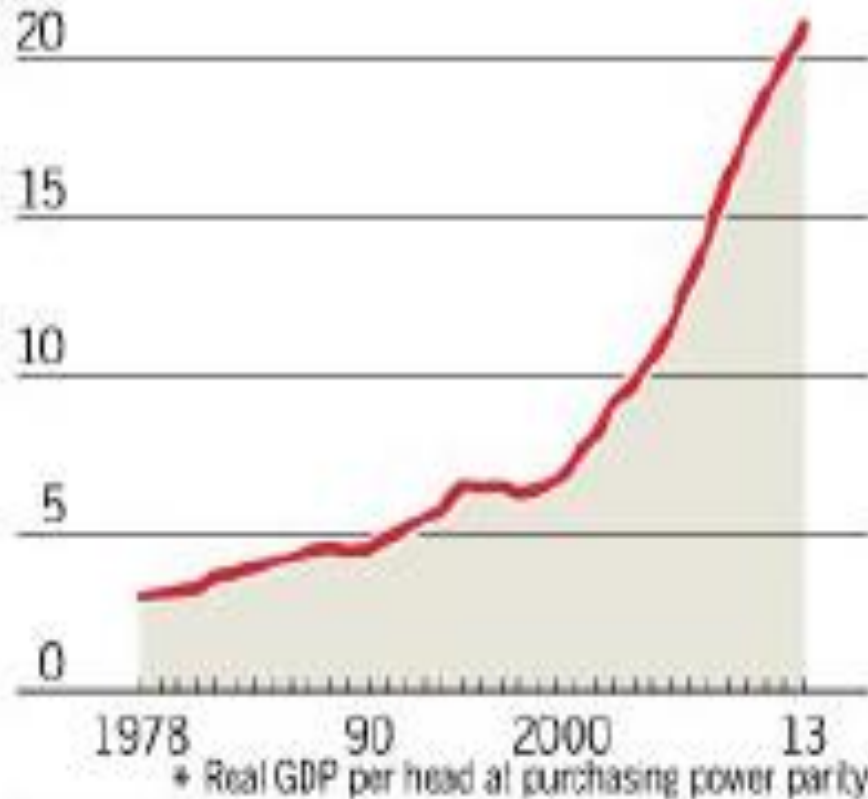
Content

- ✓ The spectacular growth of China and the redistribution of power at world level
- ✓ International integration: China's own way
- ✓ The new challenges of China: high tech and international role
- ✓ The rise of multipolar economy: a mismatch between increasing interdependence and old governance integration
- ✓ US strategic competition with China
- ✓ The G-0 world context: an 'unstable' scenario
- ✓ An alternative more stable scenario: the role of Europe

*The rise of China and the redistribution of
power at world level*

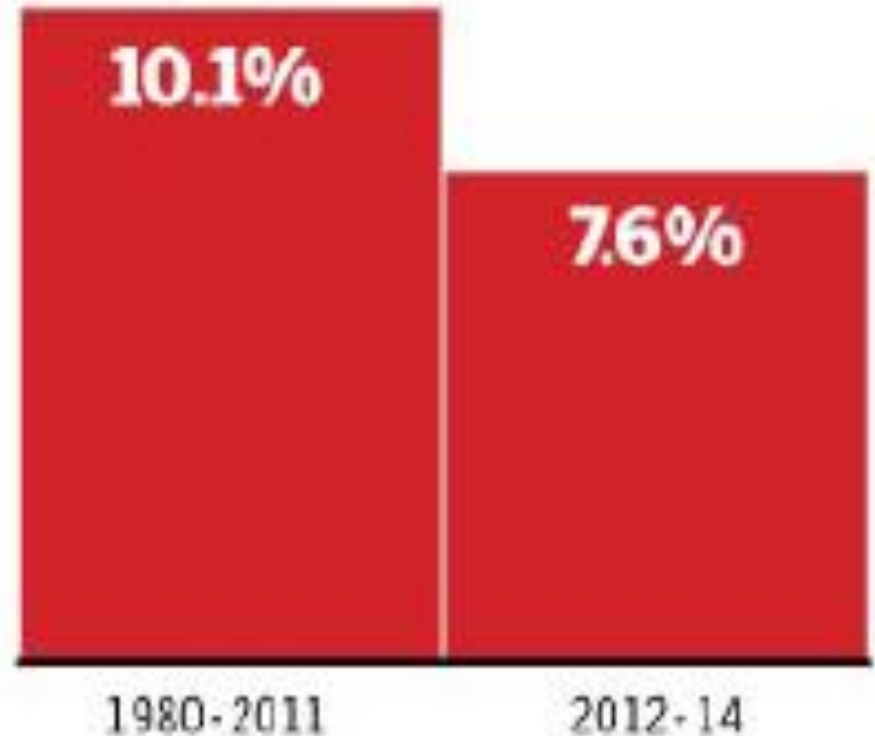
Relative GDP per head

Chinese GDP per head* as a % of US level



Chinese GDP growth

Annual averages



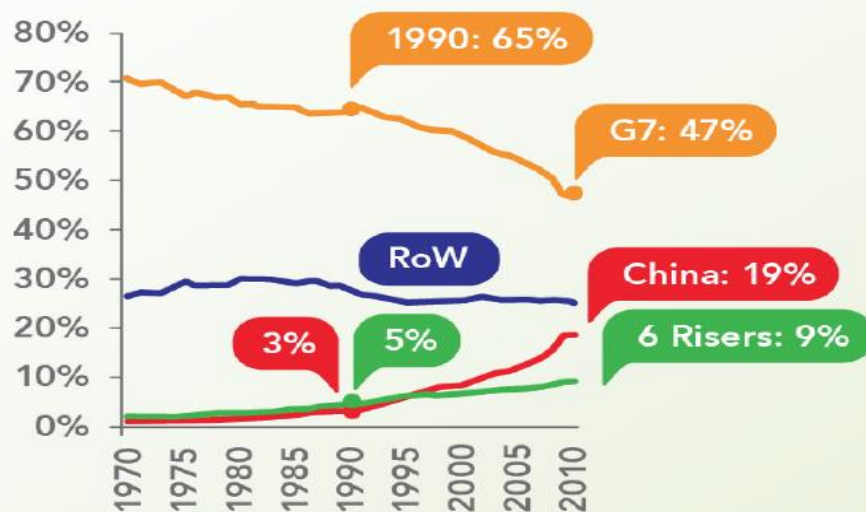
Sources: The Conference Board; NBS, Stephen Roach (Yale Univ); Haver Analytics

China has undergone a radical economic change while maintaining the same political organization of the country

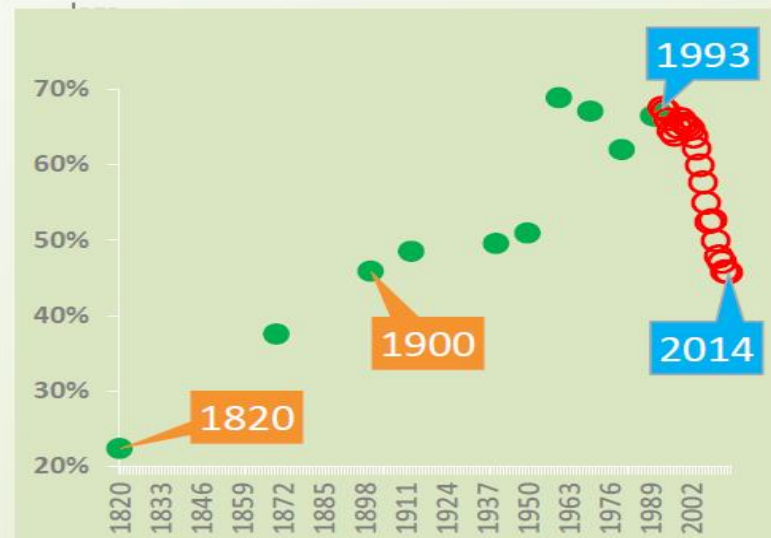
The diminishing relative economic importance of advanced countries

Manufacturing & GDP shares shifted from G7 to a few developing countries

World manufacturing shares



G7's share of world GDP



Source: unstats.un.org; 6 rapid industrialisers = Korea, India, Indonesia, Thailand, Turkey, Poland

Source: R. Baldwin (2016)

China: a “responsible stakeholder” in the international system?

- ✓ After the collapse of the Soviet Union, US and Europe welcomed CHINA the big communist country into the global economic order.
- ✓ Western leaders believed that giving China the chance to grow and a stake in institutions such as the WTO would bind it into the rules-based system set up after the second world
- ✓ They hoped that economic integration would encourage China to evolve into a market economy and a democratic system
- ✓ So a “Business first” approach and national interest prevailed. US and each of European countries treated on their own bilaterally with China

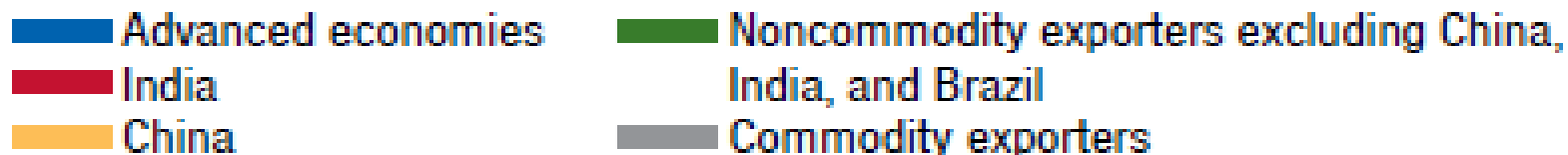
China's own way

- ✓ The benefits of China's integration were real. Cheaper goods for Western consumers; many western companies have done well out of China. Hundreds of millions of Chinese and other Asian pacific people were raised from poverty.
- ✓ China embraces some Western rules, but also seems to be drafting a parallel system of its own.
- ✓ As to the politics there is a reassert of the dominance of the Communist Party and of President Xi position within it.
- ✓ As to economics China is not a market economy and, on its present course, is very difficult it will be. Instead, state increasingly controls business. It sees a vast range of industries as strategic.

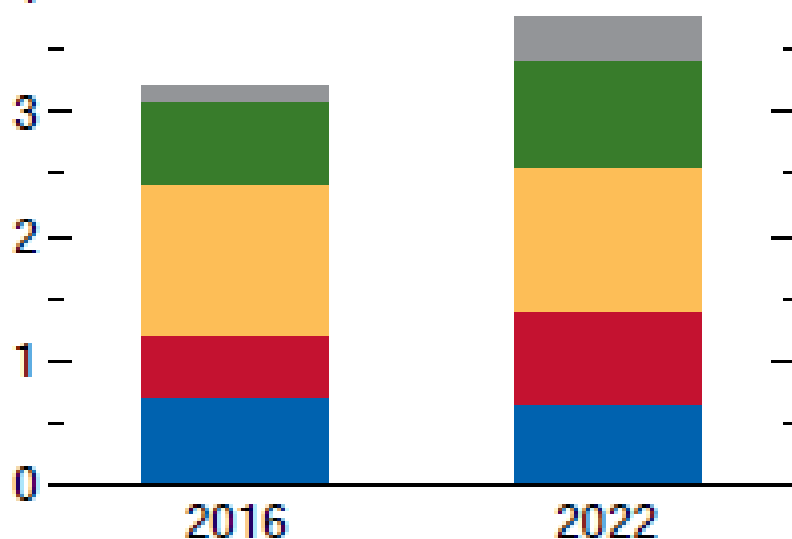
The new challenges of China: high-tech and internationalization

- In recent years, after the cost-based competition growth, China entered into the phase of technological strengthening
- Through “2025 Project” the target is to achieve ‘excellence’ in a series of fundamental advanced high-tech areas
- Equally important is the international dimension of the China’s challenge and her increasing role on the international scene.
- The sharp increase in investments abroad. Since 2015 China’s outflow FDI exceed inflow FDI, which were decisive in the phase of industrial development
- The increasing role of China in GVCs.
- One Belt, One Road Initiative (the New Silk Road)

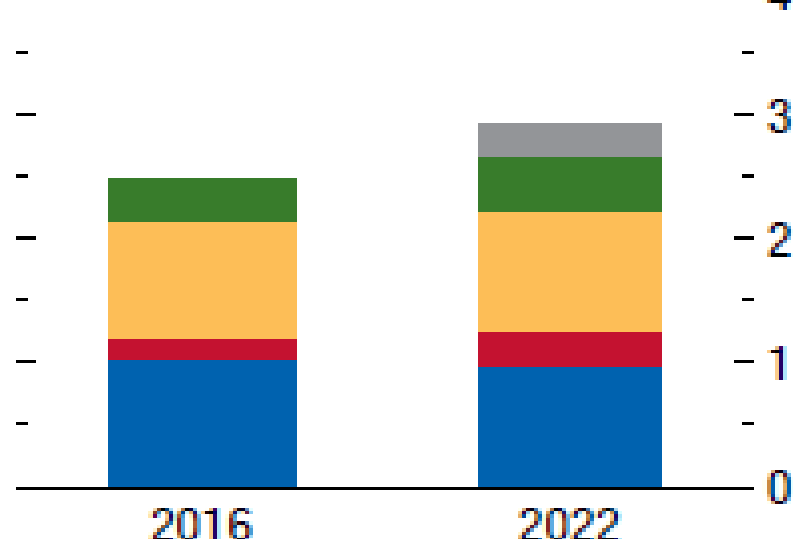
***From the bipolar to tripolar world economy:
a mismatch between increasing interdependence
and old governance integration***



2. Contributions to World GDP Growth (PPP weights)



3. Contributions to World GDP Growth (Market weights)



US strategic competition with China

US strategic competition with China

- ✓ The rise to global economic superpower status of China poses undoubtedly a challenge to the international economic order
- ✓ The deal reached when China joined the WTO in 2001 was no longer acceptable. There is need of “reciprocity”
- ✓ A profound turning point in the relations between the United States and China over the past two years: from “strategic engagement” to “strategic competition”
- ✓ The US relationship with China transformed into a bilateral power struggle by commercial, technological and strategic dimension
- ✓ President Trump promise to “Make America Great Again” means a retreat into unilateralism that did undermine transatlantic alliance and harm other US traditional allies

The current world context

- A multipolar world without any effective national leadership. US unwilling, China not yet able or willing. The rise of nationalisms
- "Thucydides Trap": a China that seems too strong and threatens the incumbent hegemon of the system.
- and/or "Kindleberger trap" of the 1930s: a China that seems too weak (free rider) rather than too strong with no provider of international public good
- World economy: economic and security increasingly combines
- A 'trade-economic war' between US and China could undermine the very norms Western countries should be protecting

The G-0 world context: an “unstable” scenario

- The US relationship with China is transformed into a bilateral power struggle. Transactional relations among countries
- Increasing tensions and conflicts between rising and incumbent powers dominates global politics
- A systemic vacuum with no provider of public goods that would prevent another, perhaps even worse, global trade and/or financial crisis
- Fragile transatlantic relations: the Eu reluctantly aligns with the US at the increasing risk of antagonizing China. The Wto's Airbus Boeing ruling increase the chances of a transatlantic trade war
- The very principles of multilateralism, a key pillar of global governance, seem to have become a relic from the past.
- An oligopolistic interdependence dominated by transactional relations and balance of power. The downside risk : destabilization of the entire global system

*A more stable G-0 scenario and
an opportunity to revitalize
US – EU - China relationship*

Different types of capitalism and the future of the global economy

The **global economy** is increasingly dominated by large poles with fundamentally different economic systems

As participants in global interaction have become economically, systemically and culturally more diverse, **it has become harder to agree on rules and governance mechanisms.**

The **US economy** has many strengths and qualities, but it has become deeply divided into unequal groups of winners and losers.

China's “communist capitalism” remains a ‘state economy’, with a growing middle class still small compared to the vast numbers of poor

Europe's welfare capitalism is a third model clearly characterized by several social dimensions, but also affected by a number of major challenges

In the years ahead, we are going to have to figure out how to create a “**fair global economic regime**” among these different giant poles

The European approach

- ✓ The EU's traditional ways of engaging China in the world economy have failed and in the new geopolitical contest Europe could find itself squeezed between the US and China
- ✓ The EU shares some of the US recriminations towards China but the Trump transactional approach creates fundamental problems for Europe.
- ✓ A relationship of competition-cooperation between China and Europe today
- ✓ China's state-backed and state-subsidized firms in many advanced sectors represent a big threat to Europe. The need of reciprocity and the end of asymmetrical openness to China
- ✓ Yet Europe should also seek opportunities to develop cooperation ties with China, as in ensuring the WTO reforms and the Paris climate change agreement.
- ✓ Certainly the EU has its divisions on the China issue. The EU must be reformed to increase its external credibility

A policy agenda for a Global Governance 2.0 scenario

- Salvaging those aspects of the old multilateral order that remain useful, but creating new arrangements that are fairer and more appropriate for today's world (PTA, PA, CMA, Clubs.....)
- Moreover, existing trade and economic arrangements should be modernized as needed, so that they better reflect current and future realities: services, digital trade, trade and other policies (labour standards, environment....)
- For international institutions to be effective, it is essential to preserve their legitimacy and improve their functioning
- Strengthening domestic social safety nets
- The key to an effective global governance today is a willingness to adapt, explore, learn and adjust endlessly, by involving public and private actors, at multilateral, plurilateral and bilateral level (variable geometry)tr

The future of global governance **and the lesson of history**

- ❑ The first great Globalization collapsed because of lack of integration and inability of international system to manage tensions domestically deriving from the expansion of international trade and finance
- ❑ We have to address similar problems today and even more in the future years
- ❑ The threats of catastrophic climate change and biodiversity collapse; risks to financial stability, threats to internet security, tax avoidance by multinational firms and mass migration.....and others
- ❑ There is a greater need for international cooperation than ever before.

THANKS FOR YOUR ATTENTION