

SÉBASTIEN JEAN

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Let us now turn to Sébastien.

Sébastien Jean, Senior Associate of Ifri, Professor of Economics at CNAM University

Thank you, Jean-Claude, and good morning ladies and gentlemen. I would like to share my thoughts on the interaction between the world economy and world politics. My starting point will be with the observation that what makes the present situation quite unique is the intensification of positive power competition in the context of close economic and financial interdependence. This has translated recently into a situation in which we can observe that multilateral frameworks are destabilized and overwhelmed, as witnessed by the spread of economic restrictions on trade and investment flows, of exceptional duties, the spread of economic sanctions, and the spread of uncoordinated industrial policies and increased state interventionism.

This is a situation marked by increasing geopolitical tensions, but I think it is fair to say that, at least until now, the result has not to a large extent been either de-coupling or fragmentation. We see a plateauing, as indicated by Gabriel, in terms of the intensity of world trade, but there is no established trend toward decline in economic and financial relations at world level. There are some specific cases where there is indeed a decline, such as in the case of the terms of the bilateral trade relationship between the US and China, for well understood reasons. It is remarkable that even in that case, study after study has shown that when the intensity of direct trade between the US and China is declining, indirect trade is actually increasing. This means that when the US is sourcing less import from China, it is sourcing more from various other countries such as Vietnam and Mexico, who themselves source more from China. Rather than decoupling, what we are observing is actually diversion, with the ensuing costs and opacity. Therefore, the question concerns whether this is reducing in any meaningful way.

We must therefore live within a framework of economic and financial inter-dependence. Of course, the tense geopolitical situation, as well as economic interdependence, creates a strong temptation to leverage inter-dependencies for political proposals: in other words, to weaponize them. This is a defining feature of the present situation.

This is a difficult objective. Economic and financial exchanges are defined by a principle of mutual benefit, taking place because they are beneficial for both parties. This means that it is very difficult for one to leverage these in a weaponized manner. This is possible only in cases



where the relationship is pronouncedly asymmetric. I think that this is why, in recent examples of weaponization of economic dependencies, we observe the overwhelming importance of finance, information and knowledge. These are interdependent activities that rely upon concentrated networks. Note the monetary system and the role of the dollar, international banking transactions and the role of the SWIFT system, information with social networks, or high-tech semi-conductors with intellectual properties. In each of these cases, you have complex networks with several shock-points taking a central importance, many of which have been recently leveraged.

A recent paper defined this situation as one of geo-finance, to reflect the fact that it is marked by the increasing politicization of information and financial flows. This differs somehow from what we used to think of as geo-economic competition in the 1990's or 2000's which mainly took place within the framework of multilateral institutions. Here, in many cases, this competition and weaponization is in breach of international commitments.

It is therefore no surprise that, given this situation, economic security is becoming an overarching concern for governments, with two objectives. The first is to reduce vulnerability and build leverage with respect to these shock-points and critical nodes in the world economy, and the second is to control foundational technologies. Here, the interaction with climate-change is very strong, as this revolution is already ongoing with respect to industry, trade, raw materials and energy, re-defining key technologies and market operations.

The challenge today for many governments is how to improve economic security in a context where, for reasons I described, they do not consider international world-markets as sufficiently secure. In this context, I also think it is worth emphasizing that isolation is not a solution, for two main reasons. The first of these is efficiency. International division of labor is synchronous with efficiency today, especially with sophisticated technologies. The second of these concerns power-relations: the need of allies and partners to support you. In current contexts of tension, this becomes increasingly important. Relational power requires openness and significant economic and financial relationships.

I think it is also important to emphasize that the increasing response of governments is to use more ambitious and widespread industrial policies. It is also worth noting that in the 80's, economists commented a great deal on how policies were used as a method of appropriating rents as rent-shifting policies, exemplified by the competition between Airbus and Boeing as the efforts of government to appropriate the oligopolistic rent in this sector. Today, it is more about control and power than rent. The same kind of logic, however, is underlying, whereby everyone is trying to appropriate and everyone needs to somehow respond to what others are doing.

I will conclude by emphasizing the threats involved within these trends. These threats are the additional and useless cost from an economic point of view, linked to additional upcycles and constraints, and also to the additional rigidities ensuing from these constraints, which I think mean a great deal with respect to the adjustment capacity of the world economy in the foreseeable future. Additionally, there is a significant risk of escalation. In terms of de-risking, I think the benefit of this is very limited so far.



Finally, the last and probably most interesting threat is that all of these constraints jeopardize the capacity of coordination at world level. I therefore believe this is a significant challenge in terms of economic governance globally, and I think that part of the response should concern the ring-fencing of security concerns in the world economy and world finance, and as a precondition, updating coordination and rules in other sectors. Thank you.

Jean-Claude Trichet

Thank you very much indeed, Sébastien, for your exploration of the impact on global economy and trade, and also the overall industrial diversification associated with tensions and the will to de-risk and to have a world in which we could incorporate these major changes in global tensions. This topic is of utmost importance. I take it that with global trade being under the impact of this, it has a cost, an impact on global growth, and an impact on inflation. All of this is highly intertwined in a striking manner. Thank you again, Sébastien.