SÉBASTIEN JEAN

Professor of Economics at CNAM University, Associate Director of Ifri's Geoeconomics and Geofinance initiative

Bertrand Badré, Managing Partner and Founder of Blue like an Orange Sustainable Capital, former Managing Director and Chief Financial Officer of the World Bank Group

To discuss all these issues, we have an amazing panel. I will not introduce them because you have their biographies in your little book. I will start with Sébastien and to remind everyone, you have six or seven minutes and based on our conversation, I am sure you will stick to it.

Sébastien Jean, Professor of Economics at CNAM University, Associate Director of Ifri's Geoeconomics and Geofinance initiative

Thanks a lot, Bertrand. You have described a lot of complex issues, and I thought it would be useful to start with the big picture and a narrative. We are facing a background of increasing geopolitical tensions and the question is how they are reshaping trade patterns. I think that the current narrative is dominated by two stories, the first of which is about geoeconomic fragmentation, a term coined by the IMF, in a context marked by trade wars and war, and the second is the build-up of competing industrial policies. I am going to be very old-fashioned and somehow try to fact-check these two stories using trade data so I will be focusing on trade.

Let me start with geoeconomic fragmentation. The IMF has defined blocs, so I am using their fragmentation with a Western bloc organized around the US, and an Eastern bloc around China based on correlation of votes of the United Nations. What we are seeing is that since the beginning of the trade war in early 2018, trade between blocs has been lagging behind the rest of world trade by 10% to 20% but this is an average. I will not go into detail, but I have an Ifri paper coming out next week that I am basing this on, so if we look beyond the average, we can see that war is very disruptive but by one order of magnitude rather than 10% or 20%, that is a kind of hard decoupling. Trade war is also significantly disruptive but again, not by 10% to 20%, more in the order of 30% to 45% compared to similar flows, a kind of soft decoupling. The question then is that if the average is so different from these geopolitical hot spots, what is left if you exclude the hot spots in terms of what we are told is a reorganization of world trade by blocs. The answer is that nothing is left, trade between blocs is not lagging behind the rest of world trade, in fact it is actually growing a bit faster. Of course, it does not mean that geopolitics are not important to world trade, for me it just means that this story of world blocs for trade is oversimplistic and does not reflect the much more complex reality. It is a story of geopolitical tensions but also a kind of economic coalescence of our economic attraction forces.

The second part of the story is the build-up industrial policies, and I will not go into the detail of this which is well documented with the US Inflation Reduction Act (IRA), China's industrial policies, etc. We all know about that, and we also know, and it has been documented, that many of these industrial policies are trade distortive and, according to a recent study, that applies to more than 70% of them. If that was shaping world trade patterns, we would expect a scattered pattern of some programs being successful or more ambitious, and others being less ambitious, etc., something diversified at the world level. The trade data tell a very different story, which is that China is now becoming the world's sole manufacturing superpower. Specific data for manufactured goods is important because this is where industrial policies mainly apply and because they are very important in many respects including politically, technologically, economically, socially and in terms of security. The Chinese surplus in manufactured goods measured as a proportion of the total worldwide trade in manufactured goods shows that it has now reached 11% of world trade, which is a huge amount and it increased big time after the Covid pandemic. When it comes to the story behind that we can think of a productivity improvement, and we all know the spectacular achievements of the Chinese sector.

What is disturbing about this potential explanation or narrative is the fact that if you look at the various branches within the manufacturing sector based on coverage ratios, you can see that the Chinese situation has improved in every single branch. Second disturbing fact is how China's real effective exchange rate depreciated over that period. Normally when you have a productivity improvement you also face an appreciation of the exchange rate and that was not the case for China, in fact it has reversed by 9% since 2019.

My conclusion in the paper is that this is mainly policy-driven, and it is actually a very explicit political choice. For me, the conclusion is simple. First, geoeconomic fragmentation is not generalized, at least not so far and not with regard to trade patterns and economic coalescence forces are also at stake. Second, if we want to improve the international economic system we need to improve coordination in at least two respects. One is macroeconomic because part of the imbalance is the result of macroeconomic imbalances, the famous rebalancing we have been expecting for decades. The second is about industrial policies and here, I think it is indispensable to recognize that we need policy space because of the need to invest in climate transition and economic security.

Bertrand Badré

Thank you very much, Sébastien. I was a little nervous when you told me that you wanted to do some fact-checking because in today's world fact checks seem to be a bit out of fashion but thank you for being a bit reassuring about the reality behind the buzz.