SEPTEMBER 18, 2020

International Economic Cooperation After the Pandemic
(Presented to the Trilateral Commission Webinar on October 12, 2020)

BY AMBASSADOR BILAHARI KAUSIKAN

Let me begin with five general observations:

- First, problems don't always have solutions. This is the case even if the solutions seem obvious and obvious solutions don't always get implemented. The logic of domestic politics does not always automatically align with economic logic, and neither the logic of domestic politics nor economic logic neatly align with the logic of international relations.

- Second, the disruptions to international economic cooperation are not all a consequence of the pandemic, nor are they a consequence of the stresses in US-China relations. The pandemic and US-China strategic competition have certainly accentuated dysfunctionalities and tensions that were evident before the pandemic.

- Third, the open international economic system of exchange and cooperation, what we have come to call the 'liberal international order', is not the natural order of things. That order was internationally and domestically contested – sometimes violently -- for over 40 years during the Cold War. It was only uncontested for about a 20 year stretch, from 1989 when the Berlin Wall came down, to circa 2008, when the global financial crisis broke out. That was a short and exceptional period. We are now back to a more historically normal situation, insofar as the liberal international order is now domestically and international contested. The fact that those two exceptional decades were very good for most of our countries – China included – should not blind us to this hard fact.

- Fourth, this is not a 'New Cold War'. It is an intellectually lazy trope that distorts the essential nature of US-China relations. The US and China are both vital components of a single system entangled in a web of supply chains of a historically unprecedented scope, density and complexity. These supply chains distinguish the current type of interdependence from previous periods of interdependence. Neither the US nor China are particularly comfortable with the situation and are trying to 'decouple' or create an alternative system. Some fragmentation in specific domains has already occurred as they and their businesses try to mitigate their vulnerabilities and hedge against overdependence on each other. Yet the very complexity of the supply chains-- especially semi-conductor supply chains, are a major Chinese vulnerability-- makes total across-the-board decoupling of the US and its friends and allies from China is highly improbable. Just as improbable is China creating an entirely new alternative system or becoming totally self-reliant.

- Fifth, the international economic order is not self-organizing. It requires leadership. Leadership consists of two key attributes. The first is 'strategic weight', a combination of military and economic 'hard' and diplomatic soft power. The second is the will to lead, and in a particular way. Leading an open international system requires a leader that is prepared to be open. Per this definition, there is going to be a serious deficit of international leadership for the foreseeable future

- There are only three actors that potentially can meet the conditions for leaderships: the US, China and the EU. None seem eligible for the foreseeable future:

- The US will be more transactional than in the past. The United States stoically bore the risks and exertions of the Cold War for 40 years, in addition to seemingly endless 'forever wars' in the Middle East. Americans are no longer willing to lead in the same way, or to be as generous or as open as it was.

To that end, Trump is a symptom, not a cause. America's priorities are going to be domestic and hence the United States seems set to be more transactional, if not outright unilateral its own interests.

- China is set to remain essentially mercantilist. At the 18th CCP Congress in 2012, China acknowledged that its current economic model was unsustainable. Yet has yet to decide how and how much more to open up and how to balance the CCP's political control with market efficiency, which almost by definition means less control in the context of rising expectations of the Chinese people and growing demographic pressures of an aging population. These are primarily domestic concerns which China's international engagements. China's foreign policy is tailored to serve a domestic audience, giving its policies a mercantilist tinge. It should be added that China is not trusted internationally and deeply lacks soft power.

- The EU lack strategic weight or internal coherence. The EU lacks the military component of strategic weight and cannot acquire it without some fundamental revision of its social model. The EU is in any case grappling with the internal contradictions of its own ambitions and is far from adequately integrated to act on the world stage. It should also be added that the EU does not have as much soft power as some Europeans may believe.

From these five observations, I draw three conclusions:

- <u>First</u>, the current state of affairs is likely to be prolonged. Irrespective of who wins in the US November elections, there is no going back to a pre-pandemic or pre-Trumpian *status quo ante*. We should also refrain from imagining that the *status quo ante* was some prelapsarian state of grace. In short, we all had better get used to and adapt to the current situation or something very much like it.

- <u>Second</u>, while the open international order is going to remain under stress, and will fragment in some domains, it is unlikely to collapse entirely. The most extreme form of collapse – world war – is highly improbable. The open system that we used to enjoy was driven by two key factors: politics and technology. The political conditions whether in the domestic politics of key countries or in international geopolitics will remain unfavorable for some time. But the technologies that drove globalization cannot be unlearnt and will move globalization forward, albeit at an uneven pace in different domains and different countries.

- Third, the future does not lie in some imagined multilateral order – I see very little prospect for the meaningful reform of key international institutions or the creation of meaningful new institutions. To deal with a system in which there is a deficit of global leadership and in which US-China strategic competition is a structural feature, ad hoc coalitions with compatible interests will coalesce around specific issues, in specific domains. Such coalitions will continually arrange and rearrange themselves in variegated patterns in different domains as interests and circumstances change. These coalitions will exist as an overlay to existing international institutions and modify the way in which they function, span geographic regions, crossing and crisscrossing the axis of US-China strategic competition.

To successfully navigate such a future will require great agility of mind and policy, and domestic institutions capable of quick adaptation. And for smaller states, will also require no small amount of courage to resist inevitable pressures from the US and China.