

A message to economists: geopolitics matters too

Western policymakers ignore changing global power relations at their peril

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World Bank chief Ajay Banga, economy ministers and others pose for a photo at the bank and IMF's spring meetings in Washington. Such organisations risk losing relevance in a discordant world © Samuel Corum/Bloomberg

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One big thing was largely missing in recent discussions among economists and the economic policy community on the fringes of the IMF and World Bank spring meetings in Washington DC. The new geopolitics rarely surfaced at all.

For example, “friendshoring”, the shifting of production to politically friendly countries, was discussed in terms of welfare costs, but not whether it might help the world’s liberal democracies survive superpower conflict. Economic models take peace and order for granted.

The need for domestic redistribution was rightly discussed, but mainly without recognising the extra fiscal constraints presented by greater defence expenditure. The dollar's gyrations were inevitably a fixation, but without much of a nod to how far sustaining its global status, and hence Washington's role in keeping the sea lanes open, depends on the Federal Reserve engineering a return to domestic price stability.

The divergent approaches to climate change of the US (broadly, subsidies) and Europe (taxes) were contemplated without dwelling on what they might say about strategic positioning towards Beijing. The IMF and World Trade Organization were discussed as though they still stand at the pinnacle of an unchallenged international system, whereas in fact they risk being orphans of a discordant world order.

While there is an element of exaggeration in all this, I do think it would help if economists, business people and financial market participants made more of an effort to recognise the profound shift in the geopolitical backdrop. The contest between Beijing and the rich liberal democracies, which is about ideology as well as power, is set to last for many decades, irrespective of whether China's economy stumbles over the near term.

The west's bedrock objective should be to hold on to the distinctive way of life that characterises constitutional democracy. Apart from living by our fundamental norms and so healing our domestic politics, that entails ensuring the resilience of the core systems upon which we rely; avoiding costly unforced policy errors; and maintaining alliances and friendships around the world.

While those prescriptions sound obvious, they are anything but. Unforced policy errors continue as though we were back in the mid-1990s, safe to experiment with regimes and organisations because, with Washington the only true power, the stakes are low.

It should be obvious that the west cannot afford another financial crisis, which benefited no one more than Beijing after 2008. Yet egregious policy blunders led to messy and dangerous banking failures on both sides of the Atlantic last year. While the US Congress has achieved bipartisan consensus on some external threats, it is yet to grasp that a highly resilient financial system is critical to national security. The same myopia runs through many other fields.

The bottom line is that each state can prudently co-operate more ambitiously with states with which they have more in common and fear least. This points to a world of concentric co-operation circles. The outermost circle is where the thinnest international conventions seek to preserve peaceful coexistence, accommodating harmless trade that leaves neither side dangerously exposed to the other. For each state, as it moves inwards to circles shared with progressively like-minded nations and peoples, co-operation becomes thicker and deeper.

The stakes for a transatlantic relationship in which the parties at times seem unsure about what they have in common are currently enormous. On the one hand, Washington rightly wants European capitals to contribute more to defending themselves. But push too far, and Europe will eventually re-emerge as a hard power, a recipe for fracturing the west and for making America smaller again — something to remember as we approach November's US presidential election.

On the other hand, Europe not infrequently resents Washington's extraterritorial exercise of dollar dominance. But if it ever helped weaken the dollar's pre-eminence, it would risk undermining the security umbrella under which Europeans have flourished for so long.

Navigating all that calls for extraordinary leadership, just when domestic politics seems forlorn. But everything will be even harder if western governments, legislatures and technocrats fail to leave the intellectual and policy silos that were harmless as long as their global leadership seemed to be written into the "end of history". Judging from last week's meetings, this remains work in progress.

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