

The global economy's three games



By Jean Pisani-Ferry/Paris

Chess masters are able to play simultaneously on several boards with several partners. And the more time passes, the more US President Donald Trump's international economic strategy looks like such a match.

There are three major players: the United States, China, and a loose coalition formed by the other members of the G7. And there are three games, each of which involves all three players. Unlike chess, however, these games are interdependent. And no one – perhaps not even Trump – knows which game will take precedence.

On Trump's first board is the break the rules of trade game. Many in his administration regard the World Trade Organisation's principles and procedures as an obstacle to bilateral negotiations. They would prefer to clinch deals with partners one by one, without being bound by the obligation to apply liberalisation measures across the board and without being forced to abide by the rulings of the WTO's dispute

settlement mechanism. Their aim is to restructure the trade relationships along a hub-and-spoke model, with the US at the centre.

The underlying reasoning is fairly simple: multilateral rules always protect the weakest players. Why should the US refrain from using its overwhelming bargaining power? The recent United States-Mexico-Canada agreement (USMCA) shows the way, by imposing US-determined national content obligations on the other two countries and restraining their own trade policy options. More such deals should follow.

Europe, Japan, and China have all criticised the US stance and portray themselves as champions of multilateralism. This is only half true: Europe has built its own web of trade agreements, and China, itself a fairly transactional power, regards global rules as an embodiment of yesterday's Western dominance. But on this issue (as on climate change), there is currently more commonality among non-US partners than there is between them and the US.

On the second board is the discipline China game. For a decade or so, many in the US have claimed that China's categorisation as a developing country, and the resulting favourable treatment it enjoys at the WTO, do not reflect the true strength of an economy whose goods exports amount to \$2tn, or 11% of world trade. As Susan Schwab, President George W Bush's Trade Representative, put it back in 2011, in trade discussions elephants were hiding behind mice. The Trump administration now wants to trap the Chinese elephant.

The internal heterogeneity of China's economy is indeed exceptionally high for a developing country. Parts of China are poor, and parts wealthy. Some industries are unsophisticated, while others are at the cutting edge of innovation. The latter shouldn't hide behind the former.

America's grievances regarding China's behaviour, from its treatment of intellectual property to its implicit and explicit subsidies and policy-motivated takeovers of foreign industrial jewels, are essentially shared by its G7 partners. Many Chinese experts also agree that ending the wholesale

subsidisation of industrial behemoths and letting market signals play a stronger role in investment choices is in their country's best interest.

More generally, China's partners argue that trade rules conceived for market economies are not adequate when dealing with a centrally-directed economy. This claim is more contentious, because leaders in Beijing regard state ownership of enterprises as a matter of sovereign choice, and do not want to renounce big industrial policy endeavours. But there is room for discussion. All in all, the discipline China game is one in which the US, Europe, Japan, and Canada are largely aligned. All look forward to a robust negotiation with the Chinese.

This makes the discipline China game very different from the third contest, the roll back China game. This game is not about the enforcement of trade rules, or their design, but about the sheer geopolitical rivalry between the incumbent superpower and a rising challenger. As Kevin Rudd, the former Australian prime minister, noted in a remarkable speech a few weeks ago, the US security establishment has become convinced that strategic engagement with China has not paid off and should give way to strategic competition – a stance that would encompass all dimensions of the bilateral relationship. In early October, a particularly harsh speech by US Vice President Mike Pence illustrated Rudd's point.

Europe, Japan, and Canada are not part of this rivalry – they simply do not matter in the same way that the US and China do. But they are inevitably part of its diplomatic, economic, and, for Japan at least, security components. If the tension between the two powers dominates global politics in the decades to come, they won't be able to avoid taking a stance. And, for all their reluctance, they may well end up aligned with the US, for two reasons: a hardening of the rivalry with the US would drive the Chinese leadership further from Western values, and they ultimately depend on the US for their own security.

The problem, however, is that it is still not clear in which

game President Trump intends to score a victory. Does he intend to play a long game? And, if so, what are his aims? Nobody really knows.

For the non-US G7 countries, this uncertainty creates a dilemma. Should they engage with China on WTO reform and the strengthening of the associated disciplines? This is a topic on which they could help pave the way for an eventual global compromise. The risk, however, is that if China fears that the US really aims at winning the rollback game, and expects the rest of the West to fall in line eventually, it will refuse to make meaningful concessions.

Alternatively, the rest of the G7 could align with the US, at the risk of antagonising China and eventually being strategically demoted if Trump ultimately settles on a bilateral deal with Chinese President Xi Jinping. If that game prevails, the non-US G7 will end up being the losers.

Absent a no-risk strategy, Europe, Japan, and Canada might well choose to wait and see. This would be the surest way to be sidelined in all possible circumstances and provide a demonstration that only the US-Chinese “G2” matters. What these countries are facing is a test of leadership, which they may pass or fail. There is no third possibility. – Project Syndicate

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