ÉTUDES DE L'IFRI

GEOECONOMICS AND GEOFINANCE INITIATIVE

NOVEMBER 2023

ifri since 1979

Impossible Decoupling, Improbable Cooperation

Economic Interdependencies in the Face of Power Rivalries

Thomas GOMART
Sébastien JEAN

The French Institute of International Relations (Ifri) is a research center and a forum for debate on major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, Ifri is a non-governmental, non-profit foundation according to the decree of November 16, 2022. As an independent think tank, Ifri sets its own research agenda, publishing its findings regularly for a global audience.

Taking an interdisciplinary approach, Ifri brings together political and economic decision-makers, researchers and internationally renowned experts to animate its debate and research activities.

This study was translated by Cadenza Academic Translations.

ISBN: 979-10-373-0768-2

How to quote this publication:

Thomas Gomart and Sébastien Jean, "Impossible Decoupling, Improbable Cooperation: Economic Interdependencies in the Face of Power Rivalries", *Études de l'Ifri*, Ifri, November 2023.

Ifri

27 rue de la Procession 75740 Paris Cedex 15 – FRANCE

Tel.: +33 (0)1 40 61 60 00 – Fax: +33 (0)1 40 61 60 60

Email: accueil@ifri.org

Website: Ifri.org

Authors

Thomas Gomart, Director of Ifri.

Sébastien Jean is professor of economics at Conservatoire National des Arts et Métiers (Paris), where he holds the *chaire Jean-Baptiste Say d'économie industrielle*. He is also Associate Director with Ifri, where he is in charge of the "Geoeconomics and Geofinance" initiative.

Aknowledgments

This study is the first published as part of Ifri's "Geoeconomics and Geofinance" initiative. The authors would like to thank Patrick Allard, Maxence Brischoux, François Chimits, Marc Hecker, André Levy-Lang, Françoise Nicolas, Christian Noyer, and Julien Pincet for their comments and suggestions.

Executive summary

Export restrictions, economic and financial sanctions, politicization of monetary and financial choices, screening of inward and outward foreign direct investments, exceptional customs duties, and state interventions in sectors deemed strategic: the political vise is tightening around international economic and financial relations.

This shift is the result of economic transformations as well as political and ideological ambitions. Economic and financial interdependencies remain very close, but they are increasingly constrained by power rivalries.

“Geoeconomics” remains, to the extent that economic logic still entails both mutually beneficial exchanges and often conflicting state interests. But it is becoming more complex, moving towards a logic that can be described as “geofinance”: the simultaneous politicization of financial and information flows shows that the objectives, tools, and support points of these interactions are profoundly transformed.

The increasing weaponization of interdependencies illustrates these trends: political rivalry motivates it, the challenge of climate change redefines the stakes, the intensity of interdependencies increases the potential consequences, growing complexity creates favorable backgrounds, the dematerialization of productive capital fuels non-cooperative state strategies and often makes interdependencies inextricable.

This upheaval gives a new security dimension to international economic policies. Economic security is becoming omnipresent in international relations, but the approaches and consequences of this common concern differ widely.

Table of contents

Introduction

"Capitalism needs a hierarchy".[1] This statement by Fernand Braudel (1902–1985) might have seemed anachronistic at a time when a level playing field was widely seen as the overarching principle of globalization. That is no longer the case, if we believe Jake Sullivan, Joe Biden's National Security Advisor, who announced that one of the United States' priorities is now to maintain "as large of a lead as possible" over China when it comes to technology. More broadly, increasing numbers of coercive measures, restrictions, and sanctions are being imposed by both the American and Chinese public authorities in order to guide certain industrial policies. The United States and China openly flout the rules of the World Trade Organization (WTO) in the name of their national security, which obviously raises a question of principles for the European Union (EU). "Capitalism does not invent hierarchies [...]; it merely uses them", commented Braudel, who also pointed out that "a sort of world society exists, a much enlarged but still recognizable version of ordinary hierarchized society".[2]

Braudel has become relevant again thanks to a growing awareness on all sides of the proliferation of political constraints on international economic relations. In 1990, at a time when globalization was becoming a buzzword, Edward Luttwak highlighted the shift from geopolitics to geoeconomics when he commented, apropos of the collapse of the USSR, that "everyone, it appears, now agrees that the methods of commerce are displacing military methods"[3]: access to capital, civil innovation, and market depth mattered more than firepower, military technology, or number of bases. In 2019, when the concept of de-globalization was gaining currency, Henry Farrell and Abraham Newman emphasized how certain states instrumentalize inextricably linked financial and information networks to gain a strategic advantage over their rivals.[4] In a context of increasing tensions between the United States, China, and the EU, the dominant tactic is now the "weaponization of interdependence"—in other words, its instrumentalization for coercive purposes.

1. F. Braudel, *Afterthoughts on Material Civilization and Capitalism*, trans. Patricia M. Ranum, Baltimore: The Johns Hopkins University Press, 1977, p. 74.

2. F. Braudel, *Afterthoughts on Material Civilization and Capitalism*, *op. cit*., pp. 75 and 80.

3. E. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, Vol. 20, 1990, p. 9.

4. H. Farrell and A. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion", *International Security*, Vol. 44, No. 1, 2019, pp. 42-79.

Geoeconomics, which was fundamentally informed by the logic of trade, has become more complex over the last thirty years. It is evolving toward something we might call "geofinance", defined as the simultaneous politicization of financial and information flows. The interesting thing about this neologism, in our view, is that it emphasizes the central role, in recent developments, of the interaction between two registers of international relations: *imperium*, in other words public authority exercised by states over their territories and the populations they contain, including by force if necessary; and *dominium*, in other words private property, and particularly the more or less controlled movement of capital and economic rights. The underlying balance between security and prosperity is in the process being transformed and tilted toward "economic security", something that the United States, China, and the EU are all seeking in different ways.

This change requires new tools for analyzing economic interdependencies. Geopolitics, geoeconomics, and geofinance—terms that have long been confined to the study of international relations—have become indispensable to current understandings of international political economy, as the latter is reshaped by competition, confrontation, and even conflict between states. This article attempts, first, to shed light on recent transformations of the strategic context due to the war in Ukraine, and second, to analyze how this situation, against a backdrop of environmental degradation and the digitalization of the world, is redefining the challenges and mechanisms of state strategies. It is intended primarily for the political and economic actors who must now navigate between economic interdependence and political hostility with a sense of urgency to which they are no longer accustomed.

A rapidly changing strategic context

Very often, economic actors only become interested in geopolitics when it becomes interested in them—in other words, when public authorities impose sanctions, which reflect power relations within the *imperium* and directly impact the *dominium*. From embargoes to boycotts, historical examples of such sanctions are legion, but they are currently changing in nature and scope. A few figures and chronological markers will shed more light on recent changes, which are due largely to the rapid militarization of international affairs. Defense and security, always an integral part of the *raison d'être* of states, are once again becoming priorities and demanding an ever-increasing share of resources.

Military spending and sanctions

Power hierarchies are necessarily rooted in material capabilities, of which real income remains the most direct measure. From this perspective, it is the exceptional vigor of Chinese growth over the last four decades that has disrupted the world map. As is often the case with exponential developments, however, this phenomenon was for a long time hard to discern in the distribution of mass: starting from a real income level (GDP measured in terms of purchasing power parity)[5] of barely 8% of that of the United States when it began its reform in 1978, China reached a proportional level of 43% by 2005. Although the change was spectacular, China was still hardly even a second-rate economic power, with an income comparable to a country like France when measured at market exchange rates. This hierarchy changed in just a few years. The financial crisis of 2007–2009, which was a profound economic shock for the United States and its allies but which the Chinese economy managed to overcome without losing momentum thanks to a massive debt-funded stimulus program, accelerated the trend, resulting in the Chinese real income reaching 85% of the US level by 2013, the year that Xi Jinping became president. Having become the world's foremost exporter of goods in 2009 and its leading industrial power in 2010, China from then had material capabilities comparable and in some cases superior to those of the United States.

It would be tempting to see this as validation of the mutual benefits and pacifying effects of globalization, which offers something for everyone.

5. WDI database, World Bank.

In fact, analysis of inter-state relations remains heavily influenced by "economism", the idea that states' behavior is determined by economic considerations. This approach is informed partly by the sense of objectivity and predictability produced by econometric tools, and partly by the supposed rationality of economic reasoning.[6] It reached its peak in the 1990s, between the fall of the USSR in 1991 and China's admission to the WTO in 2001. Corresponding to a period of nuclear and conventional disarmament, it effectively diverted the strategic debate away from power rivalries and toward an expeditionary approach (Kuwait, Somalia, the former Yugoslavia, etc.).

September 11, 2001, opened a new phase for the United States and its allies: the Global War on Terror (GWOT), as manifested in military interventions in Afghanistan, Iraq, and Libya. Simultaneously, China and Russia significantly increased their military spending: between 2001 and 2022, military spending per capita in constant dollars increased almost fivefold in China and almost threefold in Russia.[7] As for global military spending, after remaining almost unchanged in constant dollars between 2009 and 2017, it has since then increased by an annual average of 3% (3.7% in 2022). The United States (far in the lead in 2022 with $877 billion out of an estimated total of $2.24 trillion), China, and Russia together make up 56% of the total. As a percentage of global GDP, global military spending (2.3% in 2022) is still far below the levels seen in the 1960s (5.9% on average) or even in the first half of the 1980s (4%). Nevertheless, the overall growth and concentration of military spending suggests that we are dealing with an accelerating arms race.

In parallel, there has been a considerable increase in sanctions regimes: from 200 in 1990 to over 400 in 2022. This is important because the imposition of sanctions was long inseparable from war, particularly during the First World War. This changed with the creation of the League of Nations, which saw sanctions in theory as an alternative to war. In 1919, the future USSR and Hungary were the first two states to be subjected to Western blockades with no official declaration of war. The League of Nations transformed sanctions from wartime measures to instruments for maintaining peace in a dual conception of political liberalism and legal order. They were developed as tools in service of a multilateral system based on the principles of public international law and liberal internationalism, with some success in the first few years.

6. P. Allard, "L'économisme en relations internationales: Une insoutenable légèreté", *Politique étrangère*, Vol. 88, No. 3, Ifri, 2023, p. 142.
7. These figures, like those that follow on military spending, are taken from the authors' calculations using Sipri (Stockholm International Peace Research Institute) data.

Nevertheless, during the 1930s, sanctions contributed to the build-up to the Second World War, in that the Axis powers constituted themselves as zones of influence precisely for avoiding Western sanctions.[8] The original intention was to create an "economic weapon" in order not to have to use it. But its use, which made it possible to avoid military force, became more frequent with the internationalization of economic exchanges, thus undermining their political foundations. Two main approaches emerged: the "Admiralty" theory, which consisted of restricting access to strategic goods and involved diplomatic coalitions; and the "Treasury" theory, which aimed to restrict the enemy's financial flows and was implemented via the banking sector.[9]

These two approaches are still visible in the sanctions regimes imposed today, serving as a reminder that the use of sanctions is intimately tied to Western hegemony, "in terms of both their ideological justification and material possibilities".[10] Sanctions also reflect the fundamentally hierarchical and concentrated nature of the global economy, an observation amply highlighted by "platform capitalism",[11] the development of which since the beginning of the 1990s has allowed the United States to renew the terms of its own centrality. More than any other country, the United States has systematized the use of sanctions: in 2020, it had 70 active sanctions programs targeting a total of 9,000 individuals and companies in almost every country in the world.[12] In the diplomatic and political sphere, sanctions should sit somewhere between declarations of principle, which are normally ineffective, and military operations, which are inherently uncertain. But is this always the case?

From 9/11 to Bidenomics: The modernization of coercion

Another much more recent turning point deserves to be highlighted: since September 11, 2001, the United States has constantly been finetuning its "Treasury" approach. As part of the fight against terrorism, the United States identified finance channels as weak points to exploit. Juan Zarate, one of the architects of that fight, has described in detail the process of trial and error by which the US government gradually discovered the potential for control and coercion offered by its central place in the international

8. N. Mulder, *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War*, New Haven: Yale University Press, 2022.

9. *Ibid.*, pp. 209-211.

10. M. Brischoux, "Les sanctions entre libéralisme et capitalisme: Sociologie historique d'une pratique diplomatique", in J.-V. Holeindre and J. Fernandez (eds.), *Annuaire français de relations internationales*, Paris: Éditions Panthéon-Assas, 2023, p. 734.

11. N. Srnicek, *Le capitalisme de plateforme: L'hégémonie de l'économie numérique*, Montreal: Lux éditeur, 2018.

12. A. Demarais, *Backfire: How Sanctions Reshape the World Against U.S. Interests*, New York: Columbia University Press, 2022, p. 3.

financial system.[13] The threat of being deprived of access to the American market compelled banks to apply and enforce the US government's sanctions across their worldwide operations themselves—we will come back to this point. Once the effectiveness of sanctions as a tool had been demonstrated in the fight against terrorism, their use was extended to North Korea, then to Libya, Iran, and so on. The number of executive orders instructing the US Treasury to apply financial sanctions rose from around 20 per year in 2000 to almost 100 in 2020, while the number of affected countries went from 4 to 21.[14]

Recently, Henry Farrell and Abraham Newman placed this development in the context of a broader trend.[15] The United States was in a dominant position when the institutional, intellectual, and material foundations were being laid for what is now commonly known as the "information society". It therefore controls critical nodes that are indispensable to the functioning of interconnected information technologies and the associated financial system, allowing it to exploit a "chokepoint effect". From submarine cables to data centers, from intellectual property over generic technologies to the central institutions for coordinating flows (the CHIPS payment system, or indirectly the SWIFT interbank messaging system), the interfaces between public authorities and relevant companies have in practice created an interconnected power structure. Farrell and Newman suggest that the United States has gradually and almost incidentally weaponized its control of chokepoints for political ends, thus turning it into a tool of domination and often coercion.

This weaponization has obviously had repercussions on transatlantic relations. Although the United States' economic weight at the global level has decreased since 1991 because of the rise of China and other emerging countries, it has grown relative to that of the EU thanks not just to technology but also to energy. A few figures to back this up: measured in terms of purchasing power parity, the GDP of the EU-27[16] was 21% larger than that of the United States in 1991 but had declined to just 95% of US GDP in 2022; in current dollars, this proportion falls to 65% (against 109% in 1991). Since 2020, the Biden administration has implemented an economic policy based on two key observations: political acknowledgment and acceptance of the failure of Reaganite philosophy; and the

13. J. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, New York: PublicAffairs, 2013.

14. See D. McDowell, *Bucking the Buck: US Financial Sanctions and the International Backlash against the Dollar*, Oxford: Oxford University Press, 2023, p. 59.

15. H. Farrell and A. Newman, *Underground Empire: How America Weaponized the World Economy*, Dublin: Allen Lane, 2023.

16. The EU in its current geographical composition is here considered over time. Calculations based on data from the World Bank's WDI database.

transformation of the international context due to inequality, the climate crisis, and China's increasing power.[17]

It is in this context that we must understand the scope of the coercive tools used by Washington, which are effective because of the central and hierarchical position of key sectors of the American economy relative to those of its allies and partners in the Organisation for Economic Cooperation and Development (OECD).[18] They act in concert with them to create a sort of panopticon effect enabling the surveillance of commercial and financial flows. In this respect, it is worth mentioning that the implementation of sanctions passes initially through the Five Eyes.[19] Put another way, the principle of the concentration of power among a small number of actors is at work here too.

Meanwhile, China's rise in power is reshuffling the deck, with its rejection of the principle of military alliances and its introduction of new exchange formats. These new formats are part of an open challenge to the liberal international order as envisaged by the West after the Second World War. At the diplomatic level, it has become de rigueur to question the supposed "Western hegemony", particularly in countries under heavy sanctions like Russia, Iran, or Venezuela.

Thanks to this system, which combines legal instruments and intelligence capabilities, the United States has begun an acceleration that its competitors are struggling to match. In 2022, the United States made three major decisions designed to consolidate its centrality: an asset freeze on the Central Bank of Russia (February[20]); a legislative package of massive public investment in the form of the Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act (August for the latter, probably the most unexpected); and the systematization of control rules on technological exports to China for the most sensitive products (October). The United States' strength lies in this ability to structure (or destructure) a system of rules through coordinated, simultaneous decisions, combined with the capacity for massive investment. This was followed in August 2023 by an executive order imposing restrictions on US investments in China in three technological sectors: semiconductors, quantum technology, and artificial intelligence.[21] These four decisions are further

17. L. de Catheu, "Les Bidenomics par leur concepteur, une conversation avec Brian Deese", *Le Grand Continent*, August 28, 2023.

18. H. Farrell and A. Newman, *Underground Empire: How America Weaponized the World Economy*, *op. cit.*

19. The United States, the United Kingdom, Canada, Australia, and New Zealand.

20. This decision was announced jointly with the EU, the United Kingdom, and Canada, with Japan joining shortly after. In practice, two-thirds of the frozen assets are located in the EU (see for example S. Bodoni and A. Nardelli, "EU Blocks More Than €200 Billion in Russian Central Bank Assets", *Bloomberg*, May 25, 2023).

21. M. Velliet, "Limiter les investissements technologiques vers la Chine: Initiatives et débats aux États-Unis", *Briefings de l'Ifri*, Ifri, August 31, 2023.

supplemented by measures designed to limit the transfer of knowledge through academic institutions. What emerges from all this is a desire to control the intangible exchanges without which the exercise of power in common spaces (the maritime, air, space, and cyber domains) would be impossible. Global structures of command, and so constraint, depend on control of the intangible.

China: The economy in the service of power

China is also helping to drive this increasing politicization of economic and financial relations. Over and above its accelerated pace of development, the very nature of the Chinese regime exacerbates this trend. In what he hoped was the homestretch of bilateral negotiations prior to China joining the WTO, Bill Clinton declared that "by joining the WTO, China is not simply agreeing to import more of our products; it is agreeing to import one of democracy's most cherished values: economic freedom".[22] More than twenty years later, there is no denying that his effusive claim was nothing but a false omen.

Instead, the Chinese Communist Party has increased its stranglehold over the economy since then. But it has done so in a way that, without adhering to the liberal principles that implicitly govern the functioning of the GATT and then the WTO,[23] cannot be reduced to either a Soviet-style dirigisme or to the type of subsidies codified in the WTO's Agreement on Subsidies and Countervailing Measures. The *sui generis* economic system that has gradually developed in China has been dubbed "China, Inc." by the legal scholar Mark Wu, highlighting its close coordination by the political authorities.[24] Its structures have in fact gradually been adapted, in a way that the WTO accession negotiators did not foresee, to strengthen channels for guiding the allocation of resources in line with the Party's objectives. It would be a mistake to see this as a premediated plan, however, as Barry Naughton has also shown regarding China's industrial policy.[25] More often, it is the result of opportunistic adaptation to economic conditions and political goals—in short, an ability to steer.

22. Bill Clinton, speech on March 8, 2000.

23. This liberal understanding was explicitly formulated in the 1947 Havana Charter, which was intended to establish the International Trade Organization but was never ratified. Petros Mavroidis and André Sapir outline the two central propositions of the charter: the state will not render contractual promises relating to trade liberalization meaningless by favoritism (monetary or otherwise) toward national agents, and investment will be liberalized.

24. M. Wu, "The 'China, Inc.' Challenge to Global Trade Governance", *Harvard International Law Journal*, Vol. 57, No. 2, 2016.

25. B. Naughton, *The Rise of China's Industrial Policy, 1978 to 2020*, Mexico City: U. N. A. de México, 2021.

These developments had a major impact on international relations, primarily because they meant that the greatest creation of wealth in our era was placed at the service of a Communist regime with strategic ambitions in the global hierarchy. With the launch in 2013 of the Belt and Road Initiative, it became clear that China was now aiming to project its economic power around the world with largely political objectives, as evidenced by the structure of its partnerships and the emphasis on infrastructure. The 2015 publication of the "Made in China 2025" strategy went a step further by explicitly stating China's goal of being self-sufficient in sensitive sectors: this approach was not just openly in conflict with China's WTO commitments, but it also involved an ambition to limit Chinese dependence on foreign suppliers. Well before Covid-19, the Chinese government already viewed trade links are relations of dependence.

The growing politicization of trade relations can also be seen in China's use of economic sanctions, again following a *sui generis* model. Official measures, most often visa bans, asset freezes, or sanctions against individuals or entities, are just the tip of the iceberg of practices that are often informal and opaque, although their political motivations are clear and generally well defined. Examples include: a boycott against Norway following the award of the 2010 Nobel Peace Prize to Liu Xiaobo; a block on rare earth exports to Japan in 2010 as part of the conflict around the Senkaku/Diaoyu Islands; trade reprisals against South Korea (and particularly establishments of Lotte Corporation) following the installation in 2016 of an American THAAD antimissile defense system; informal diplomatic and trade sanctions against Mongolia following the Dalai Lama's visit to the country in 2016; additional customs taxes imposed in response to those introduced by the Trump administration in 2018 (accompanied by sanctions targeting certain officials and several companies); a block on imports of several key Australian products (coal, steel, barley, wine, etc.) in response to Australia's demand for an international commission investigating the origins of the Covid-19 pandemic in May 2020; and finally, an informal embargo against Lithuania following the opening of a Taiwanese representative office in Vilnius in 2021.

Most of these economic sanctions target access to the Chinese market, probably because China's control of chokepoints still remains limited. The precedent set by its rare earths block against Japan, however, shows that the temptation exists to weaponized such control where possible (as has also been implicitly demonstrated in the political sphere on multiple occasions), as do the conditions recently imposed on gallium, germanium and graphite exports or the rumors of restrictions on the export of solar panel production technologies. This raises a fundamental question: beyond sanctions, how will the international system operate when the dominant economic power is no longer necessarily a liberal democracy, in other words, a regime based on the principles of electoral choice and, especially, the separation of powers? There is also the question of the visible and invisible means of coercion available to the People's Republic of China, ruled by the iron hand of the Chinese Communist Party, whose General Secretary reiterated at the 20th Congress in October 2022 that he would "never promise to renounce the use of force" to "oppose 'Taiwan independence' and promote reunification". Finally, it should be remembered that China's intelligence law of 2017 stipulates that the intelligence services can demand the cooperation of any Chinese citizen and any organization.

Russia: A challenge to the West

When it comes to political restrictions on economic relations, Russia is an extreme case. Although the country has long been using an increasing number of sanctions against its neighbors, particularly Georgia and Ukraine, Vladimir Putin's political trajectory cannot be understood without considering the close ties between the intelligence services and the criminal world. Russia's development would have been easier to predict based on the analysis of civil-military relations than foreign investment trends.[26] Utility-based forecasting is wrong-footed here: Putin had no economic interest in attacking Ukraine, and yet he did so.

Although the United States, the EU, and other countries had already imposed sanctions on Russia following the illegal annexation of Crimea in 2014 (not to mention the adoption by the US Congress of the Magnitsky Act in 2012), the freeze on the financial assets of the Russian Federation and the Central Bank of Russia raises "a political question, a legal question, and for many people, a moral question".[27] Over and above the sums at stake—$300 billion in financial assets[28]—the question is now that of the possible use of these frozen assets to finance the future reconstruction of Ukraine. Although far from settled, this debate marks a new phase by raising the possibility of justifying confiscation on moral grounds (according to the universal legal principle that those who cause damage are responsible for compensation) and by the political concern to set a precedent (to serve as a warning to other countries thinking about violating their neighbors' territorial sovereignty).[29]

The other unusual aspect of this decision (at least in the post-Cold War period) is the use of massive sanctions against a country that is a permanent member of the United Nations Security Council and has international responsibilities in that capacity. Since 2007, Russia has been

26. T. Gomart, *Russian Civil-Military Relations: Putin's Legacy*, Washington, DC: Carnegie Endowment for International Peace, 2008.
27. E. L. Daly, "Actifs russes gelés: Quels scénarios possibles?", *Le Grand Continent*, June 18, 2023.
28. These assets are held principally in France, Germany, and the United Kingdom (only 8.5% of funds are held in the United States).
29. E. L. Daly, "Actifs russes gelés: Quels scénarios possibles?", *op. cit.*

directly challenging Western domination at the ideological and material level and violating international law with its policy of aggression aiming at capturing territories. In economic terms, Russia has long been presented as a "poor power" because of the priority it has historically given to its armed forces over productive structures.[30] Western economists frequently emphasized this by pointing out that it had the same GDP as Spain. In reality, indicators like GDP were unable to fully account for Russia's geopolitical weight since it specialized in the export of "strategic products"—in other words, goods and services indispensable to the normal functioning of the importer.[31] Russia strengthened this specialization by developing its productive capacities at the same time as consolidating its market power via control of export routes and rapprochement with Organization of the Petroleum Exporting Countries (OPEC). With oil, gas, the civil nuclear industry, arms, and wheat or fertilizers, Russia wields an influence that goes far beyond commercial exchanges alone.[32] This has been confirmed by the consequences of the war in Ukraine on the oil, gas, and wheat markets. By reducing the amount of gas delivered through pipelines, Russia has *de facto* sanctioned the EU, raising prices and putting governments under pressure from public opinion.

Putin and his inner circle seem to be gambling on maximizing the use of natural resources for strategic ends, bolstered by their belief that Russia will benefit from the effects of climate change, which could significantly increase its cultivable land and make it "the world's largest granary".[33] In 2016, Russia once again became the world's biggest wheat exporter, dethroning the United States, which had held first place since the 1930s.[34] It is important to understand that agriculture is seen as a strategic vector in Putin's Russia, which has been able to reconstruct the agricultural sector and is now in a position to challenge the United States and the EU. The war also serves to boost Russian agricultural power to the detriment of Ukraine, while also exercising market power vis-à-vis the countries of the Global South. By blaming Western sanctions—despite their exemptions for agricultural products—for price pressures caused by his prevention of Ukrainian exports, Putin hopes to reap a twofold economic and political dividend.

Beyond territorial issues and diplomatic implications, the sanctions against Russia are an example of an attempt to disconnect a leading power, a permanent member of the United Nations Security Council, from the

30. G. Sokoloff, *La Puissance pauvre*, Paris: Fayard, 1993.

31. R. Connolly, "Looking to the Global Economy: Russia's Role as a Supplier of Strategically Important Goods", in A. Monaghan (ed.), *Russian Grand Strategy in the Era of Global Power Competition*, Manchester: Manchester University Press, 2022.

32. T. Gomart, *Les Ambitions inavouées: Ce que préparent les grandes puissances*, Paris: Tallandier, 2023, pp. 42-43.

33. P. Blanc, *Géopolitique et climat*, Paris: Presses de Sciences Po, 2023, p. 161.

34. S. Abis, *Géopolitique du blé*, Paris: Armand Colin, 2023, p. 106.

Western side of globalization. Like Iran and North Korea, Russia is adapting its arrangements to circumvent Western sanctions, which nevertheless penalize it. The Kremlin's rhetoric denounces sanctions by emphasizing their Western origin. This example should be carefully analyzed by the OECD and BRICS+ nations, not just in terms of its internal mechanisms but also of how sanctions are circumvented.

Rules are crumbling, strategic frameworks are reset

To highlight the extent of the current shift, it is worth remembering that during the Cold War, the United States' principal trade partners were its allies, led by Europe and Japan. Today, its principal economic partner is its strategic rival, making the "decoupling" championed by the Trump administration impossible in practice. The United States' "grand strategy" was a strategy of means that consisted of always having greater military capabilities than its competitors. Over the last hundred years, it has never been in competition with a competitor with a GDP of more than 40% of its own. That era is over thanks to China, which also has important partnerships with Russia, Iran, and North Korea, although no formal military alliances.

Nevertheless, the United States continues to exercise its power at the points of intersection between *imperium* and *dominium*: its unchallenged military superiority enables it to structure the former while imposing the system of rules that allows the latter to function.[35] At the same time, the United States is more and more overtly shedding its commitments within the multilateral framework that it itself built; as if that framework, the cornerstone of its postwar grand strategy, no longer suited it in the current context. Xi Jinping's defense of trade multilateralism at Davos in January 2017, just as Donald Trump's inauguration heralded a new phase of protectionism, sounded like the end of an era. In fact, the practices of the world's two largest economies are now the principal obstacle to the functioning of the multilateral system of trade, but also of finance and development. Multilateralism has been destabilized and outflanked: a corpus of rules cannot effectively counter the will of the most powerful actors.[36]

In parallel, all kinds of formats are proliferating in the form of ad hoc coalitions. The Europeans are still seeking to promote an "effective multilateralism", even as they come to terms with the reduction of their relative importance. The political visibility of the BRICS nations, soon to be joined by six more (Saudi Arabia, the United Arab Emirates, Iran, Egypt,

35. T. Gomart, *Les Ambitions inavouées*, *op. cit.*, pp. 126-127.
36. S. Jean, "Débordement: La mondialisation en désordre", *Le Grand Continent*, May 18, 2023.

Ethiopia, and Argentina), comes principally at Europe's expense because of its overrepresentation in international forums in relation to its demographic weight.

This multipolar, interconnected, antagonistic, and disorganized global economy opens up a wide range of transactional logics for middle powers to make the most of the concessions or opportunities they can offer China or the United States, particularly when they have economic assets like resources, investment capacity, or a favorable geographical position. In a world still overwhelmingly powered by fossil fuels, this applies especially to the Gulf states, first among them Saudi Arabia, which are gaining more strategic autonomy.

The question of security ties remains fundamental, with the situations of the middle powers diverging widely in terms of both their vulnerabilities and the intensity of their defense efforts. At a time of high strategic tension due to economic transformations and political or even ideological ambitions, only a few countries have the capacity to produce their own security. Even massive investment such as that seen in Saudi Arabia does not guarantee the ability to cope with a military shock, which would rapidly reveal strategic dependencies and the limits they impose on multi-alignment. Multipolar globalization offers more degrees of freedom, but it also exposes countries to greater uncertainty: for middle powers, it involves delicate trade-offs.

In short, recent changes reflect a rupture caused by economic transformations as well as political and ideological ambitions. Economic and financial interdependencies remain tight but are increasingly constrained by power rivalries. This new strategic context, in which economic and security issues are intertwined, must be analyzed.

The return of highly interdependent State strategies

The use of economic relations for political ends is not new. Albert Hirschman's classic analysis[37] years ago pointed out that "the classical concept, gain from trade, and the power concept, dependence on trade […] are seen to be merely two aspects of the same phenomenon",[38] within which he distinguished the "supply effect", which concerns the increase in wealth produced by trade, and the resulting "influence effect", whose intensity depends on each partner's ability to do without the trade relationship or to substitute it with another one. The trends discussed above nevertheless call for reflection on the causes and consequences of the recent intensification of this instrumentalization of economic relations. To better analyze its mechanisms, we will first describe the current context in more detail.

Stakes redefined by the climate emergency

The expression of power rivalries naturally depends on context. The current context is marked by the climate emergency in that the challenge of decarbonizing economies is having a profoundly transformative effect, redefining economic and political stakes. As a driver of radical technological change, it constitutes a veritable industrial and commercial revolution that is challenging established positions. Recent developments in the automotive sector confirm this in spectacular fashion. Chinese sales of electric vehicles to the EU, still limited to €100 million per month at the beginning of 2021, exceeded €900 million per month on average between December 2022 and February 2023, bringing the EU-China bilateral automotive trade balance close to equilibrium or even reversing it, whereas it was virtually one-way trade just two years ago.[39] In just a few years, the decarbonization imperative has turned the flagship sector of European industrial power upside down.

37. A. Hirschman, *National Power and the Structure of Foreign Trade*, Berkeley: University of California Press, 1945.

38. *Ibid.*, p. 38.

39. S. Jean, "Débordement: La mondialisation en désordre", *op. cit.*

The upheaval is far from confined to this sector. Having long made "green" technologies an industrial priority, China has now acquired a dominant position in almost all of them, in terms of both productive capacities[40] and, especially, the refining of the raw materials they require.[41] Strategic resources and generic technologies are suddenly being redefined, potentially reallocating control of the world economy's chokepoints on a permanent basis.

This shift is having major consequences on the energy and raw materials markets, rendering existing frameworks more uncertain and fragile. It is also profoundly altering the goals of industrial policies, which must facilitate an ambitious and rapid, if not brutal, technological shift: in view of the scale of the investment required, the inherent uncertainty of the transition, the markets and infrastructures that must be created, and the supplies that must be secured, massive state intervention seems necessary. In short, how to deal with the climate transition is becoming a key element in the great powers' state strategies, not just from an economic perspective but also, given the scale of the challenge, from a political one too.

The need to garner sufficiently broad support for ambitious and extremely expensive policies exacerbates international problems of coordination by encouraging national actors to keep the benefits to themselves, whether by law or in practice, sometimes even at the cost of disregarding multilateral commitments. China has been doing this systematically for a long time, both formally (public procurement, customs duties, conditional subsidies, etc.) and informally (as Western companies regularly experience). It is also the direction in which the United States is headed with the Inflation Reduction Act, which makes consumption tax credits and certain production tax credits subject to local content clauses that are manifestly in breach of its international commitments.

Complexification and dematerialization: Two aggravating factors

Independently of these motivations, the changing nature of economic activities facilitates their weaponization, for two main reasons. The first has to do with the growing complexity of economic relations. In the real sphere, this is connected to the development of global value chains and to technological sophistication, and the accompanying intensification of the

40. In 2021, China was the world leader in terms of production capacity in all the renewable energy technology niches identified by the International Energy Agency (IEA), with 75-95% of the global total capacity for solar components, 55-85% for offshore wind components, and 70-90% for batteries and their components ("Energy Technology Perspectives 2023", IEA, 2023, p. 96).

41. See for example "The Role of Critical Minerals in Clean Energy Transitions", *World Energy Outlook Special Report*, IEA, 2022.

division of labor.[42] In the financial sector, liberalization increases the number of transactions and the volumes exchanged, but also the number of instruments and actors.[43] While any economic asymmetry can be exploited as a way of exerting pressure, certain sectors lend themselves to it more than others because of their unique features and control structures.

The second reason behind the new importance of the weaponization of economic relations is the growing dematerialization of productive capital. In the United States, the only country for which long-term historical data is available, the proportion of intangible investment in value added tripled between 1948 and 2008, from less than 5% to almost 14%; the upward trend is also clear in other advanced economies, at least since the 1990s.[44] This development, which is to an extent inherent in the tertiarization of economies, has been accelerated by technological sophistication, advances in means of communication, and the digitalization of economies. An economy dominated by intangible capital has specific features that Haskel and Westlake call "the four S's": sunk costs, synergies, scalability, and spillovers.

These factors heighten the need for public investment because private investment is confronted simultaneously by the difficulty of appropriating profits and by a high level of uncertainty (typical of innovative activities). Moreover, sunk costs create barriers to entry, while scalability plays into the hands of market leaders (some of which also benefit from powerful network effects), exacerbating concentration among a few producers ("winner takes most" mechanisms[45]). Economic activity also becomes more clustered in specific regions (agglomeration effect) because of the importance of synergies and spillovers. In these conditions, the success of an economic actor or sector is highly dependent on its positioning relative to the competition, which determines whether these concentration and agglomeration effects will work in its favor or not.

By simultaneously increasing the role of public investment and the concentration of activity, the dematerialization of productive capital is encouraging state interventionism and so fueling rivalries: the same mechanisms are at work now as those described almost forty years ago to explain strategic trade policies, whereby states implement non-cooperative

42. It is normal for large companies to have several thousand or even tens of thousands of suppliers. See for example J. Webb, "How Many Suppliers Do Businesses Have? How Many Should They Have?", *Forbes*, February 28, 2018.

43. The official report on the origins of the 2007-2009 financial crisis in the United States emphasizes the role played by the increasing complexity of financial markets and instruments in triggering and spreading the crisis (United States Financial Crisis Inquiry Commission, 2011).

44. J. Haskel and S. Westlake, *Capitalism Without Capital: The Rise of the Intangible Economy*, Princeton: Princeton University Press, 2017.

45. See for example D. Autor, D. Dorn, L. F. Katz, C. Patterson and J. Van Reenen, "The Fall of the Labor Share and the Rise of Superstar Firms", *The Quarterly Journal of Economics*, Vol. 135, No. 2, 2020, pp. 645-709.

policies to capture oligopolistic rents.[46] In contrast to that model, however, geopolitical rivalry pushes the objectives pursued onto a more strategic rather than economic level. Instead of the "rent-shifting policies" described by Brander and Spencer, it would be more appropriate in the current case to talk of "power-shifting policies".

The final consequence of this growth in intangible capital is that sunk costs lead to significant irreversibility. This makes it difficult for companies to move their value chains to a different location, as shown by the example of Apple[47]: if an alternative is difficult, slow, and expensive to put in place, that is because the company's industrial structure in China is the result of major intangible investment over a long period to select, shape, coordinate, and control an ecosystem of suppliers. Companies are reluctant to share details about these often strategic questions, but the astronomical sums Apple spends on flying managers to China to train suppliers and check compliance give an idea of the scale of its investment: according to leaked data, the company bought on average 50 tickets per day on flights between San Francisco and Shanghai in 2018, spending $150 million that year just with United Airlines.[48]

In contrast to physical capital, this kind of intangible investment cannot be easily resold because it is only valuable in the context of the company that made it; this makes the investment irreversible, further increasing the cost of breaking the economic connection, which is a key determinant of the capacity to exert influence through trade, as Hirschman pointed out. The cost is increased still more by the fact that this kind of investment is only profitable in the long term and with the active cooperation of the host country. In fact, although the additional customs duties imposed by the United States on Chinese imports reduced the relative intensity of direct trade relations between the two countries, third countries that increased their sales to the American market also bought more from China[49]; despite aiming at decoupling, the policy has so far only managed to achieve a diversion.

This observation can be extended to the global scale: although economic and financial interdependencies are being well and truly reconfigured, they are not systematically decreasing. Trade flows as a proportion of world income have certainly fallen since their peak in 2008,

46. J. A. Brander and B. J. Spencer, "Export Subsidies and International Market Share Rivalry", *Journal of International Economics*, Vol. 18, No. 1, 1985, pp. 83-100.

47. See for example P. McGee, "What It Would Take for Apple to Disentangle Itself from China", *Financial Times*, January 18, 2023.

48. See K. Leswing, "Apple Buys 50 Business-Class Seats Every Day on Flights to Shanghai, According to a Confidential United Sign", *Business Insider*, January 14, 2019.

49. C. Freund, A. Mattoo, A. Mulabdic, and M. Ruta, "Is US Trade Policy Reshaping Global Supply Chains?", paper presented at the IMF conference *Geoeconomic Fragmentation*, May 2023. See also L. Alfaro and D. Chor, "Global Supply Chains: The Looming 'Great Reallocation'", *Jackson Hole Symposium*, August 24–26, 2023.

but they have plateaued rather than begun an established downward trend, with several elements of globalization remaining relatively dynamic (trade in services, trade in goods in more than half the world's countries), although others have declined (particularly "greenfield" foreign direct investment).[50]

In sum, several powerful factors are contributing to the increasing weaponization of economic interdependencies: political rivalry motivates it, the challenge of change is redefining the issues at stake, the intensity of interdependencies raises the potential stakes, increasing complexity creates suitable conditions, and the dematerialization of productive capital fuels non-cooperative state strategies while making it impossible to disentangle interdependencies.

Conditions for success and secondary effects of the weaponization of interdependencies

As powerful as these motivations and potential levers are, weaponization remains a double-edged sword: economic interdependencies are generally driven by mutual benefit, so that blocking them or subjecting them to non-economic objectives is potentially damaging for all parties. From a purely economic perspective, such strategies are rarely profitable, except in specific circumstances when a country can appropriate rents at the expense of one or several partners (this is the aim of the "rent-shifting policies" discussed above, but they are an exceptional case).

Great power rivalry can lead political leaders to pursue different goals dictated by their position relative to the competition. From this perspective, trade becomes a zero-sum game, contrary to the teachings of economic analysis. This reality was crudely confirmed by Jake Sullivan when he presented the new export restrictions against China in the computing sector: emphasizing that export controls could constitute "a new strategic asset in the U.S. and allied toolkit to impose costs on adversaries", he advocated revisiting "the longstanding premise of maintaining 'relative' advantages over competitors in certain key technologies" in order to obtain "as large of a lead as possible".[51]

From an economic perspective, this objective does not even entail a zero-sum game, but actually creates a "lose-lose" situation: resources are mobilized to impose costs on one's rivals. Even assessed in this light, however, success is very uncertain because it assumes that the costs inflicted on the rival are substantially higher than one's own. This is the

50. S. Jean, "Débordement: La mondialisation en désordre", *op. cit.*
51. "Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit", White House, September 16, 2022.

logic underlying the mobilization of critical nodes: their unique role gives cause for hope that weaponizing them will impose highly asymmetrical costs. But for this to actually happen, they still need to be sufficiently difficult to circumvent and, especially, to replace. This is rarely a given in the short term, and even less so in the long term.

The example of the dollar is perhaps the most illustrative here because its role as an international currency has long been solidly rooted in the United States' political and financial power. In the context of complex financial networks, which have a natural tendency to rely on the institutions that compete to issue the reference currency, this makes it an incomparably powerful means of coercion. Nevertheless, the United States must use it in a targeted way for two main reasons. First, cutting a partner's access to the American financial system considerably limits its commercial transactions. This is not very important for small partners like North Korea, Cuba, or even Iran (although in the latter case the potential impact on the oil market is a serious concern). But it matters much more for larger countries, as shown by the exceptions applied to the sanctions against Russia in order to protect Europe's supply of gas or limit the destabilization of food supplies. Hypothetical sanctions against China would pose immeasurable problems, and it is difficult to work out who would suffer most: despite its power, the weapon is blunted in situations without sufficient asymmetry.

Second, any such weaponization of the dollar raises awareness of the potential risks run by its users: it creates a "political risk", in McDowell's words.[52] This makes the dollar less attractive for third countries, raising fears that excessive use of sanctions could end up undermining its status as an international currency, in its role as a payment medium, a unit of account, and even as a store of value. This is especially true because potentially affected states then respond to these sanctions with proactive policies. McDowell describes the "de-dollarization strategy" launched by Russia in 2014 in response to sanctions imposed following its annexation of Crimea, which was then considerably accelerated after the sanctions were tightened in 2018: the Central Bank of Russia divested itself of most of its dollar reserves in favor of the euro, gold, or the yuan. Turkey, despite being an ally of the United States, followed a similar strategy in response to the threat of US sanctions in 2017, which were put into practice the following year: it converted its dollar reserves into gold, moving the corresponding stocks onto its own soil.

52. D. McDowell, *Bucking the Buck: US Financial Sanctions and the International Backlash against the Dollar*, *op. cit.*

Although it has been undergoing a slow erosion for several years according to some measures,[53] particularly its share of foreign exchange reserves, the dollar remains far and away the dominant currency, with no serious challengers yet on the scene. The risk has thus not materialized as yet, but it is real and the efforts of potential sanctions targets to limit their exposure (to "de-dollarize") are significant. These secondary effects, undesirable from the United States' point of view, represent a structural limit to how much it can use sanctions that block access to the dollar.

The restrictions imposed by the US government on the export of semiconductors to China also exemplify this difficulty. The complexity of value chains in this sector and the large number of participants, none of whom has control over the entire chain, reduce the possibility of weaponization. Nevertheless, in this industry, which the US itself created, it owns most of the intellectual property and remains dominant in many of the most specialized parts of the design and manufacturing process. Under these conditions, being deprived of access to the most cutting-edge American technologies is indeed a major handicap for Chinese producers. But there are also real costs for American manufacturers, which lose some of their outlets, potentially reducing the resources they can devote to innovation. At the same time, these restrictions risk handing the Chinese market to the United States' local competitors—or to third countries if the United States fails to convince its allies to impose similar restrictions—further increasing their financial R&D capacity.

In parallel, the Chinese state is redoubling its efforts to sustain the sector and mitigate this vulnerability. Although the sector already benefits from the lion's share of the public investment fund (the "Big Fund", which has paid out over 300 billion renminbi since 2014)[54], the government has decided to push forward even faster in reducing its dependence on the United States for the Chinese economy's supply chains. The risk, again, is of the long-term erosion of the very lever on which coercive measures rely. It is to avoid this pitfall that the United States has carefully targeted its strategy at just a few technologies deemed to be foundational. In his speech presenting the additional export restrictions imposed on October 7, 2022, Jake Sullivan spoke about a "small yard, high fence" approach limited to increased protection for "force multipliers": computing-related technologies, biotechnologies, and clean energy technologies.

It is unlikely that China will fail to respond to these measures, as illustrated by the sanctions announced in May 2023 against Micron, one of the most highly valued American companies in the semiconductor sector.

53. S. Arslanalp, B. Eichengreen and C. Simpson-Bell, "The Stealth Erosion of Dollar Dominance and the Rise of Nontraditional Reserve Currencies", *Journal of International Economics*, Vol. 138, 2022, p. 103656.

54. Estimate cited by Caixin in August 2022, available at: www.caixinglobal.com.

With a noteworthy paradox: these countersanctions took the form of a ban on sales of American products in China, in other words exactly the same type of measure as the sanctions themselves! The only difference lies in the choice of market segment targeted (in this case memory chips, a segment in which competition is lively and Micron's products are easily replaceable) and in the scope of application, with the measure not extended to Micron's direct competitors. The fact that such minor adjustments are sufficient to reverse the expected impact of these sanctions says much about the extreme sensitivity of sanctions as an economic weapon, and also of the risks associated with their use.

Relational power's new clothes

Even in situations where there is pronounced and deeply entrenched asymmetry, it is rare that it can be effectively weaponized through a state's direct actions alone. In the vast majority of cases, the success of this kind of strategy depends on a country's ability to expand the field of application of the planned measures while limiting possibilities for circumvention by third countries, including friendly or even formally allied states. To do so, it must persuade a sufficient number of actors to follow suit and impose sanctions. In other words, it must have sufficient "relational power", to use Susan Strange's term.[55] The trade sanctions against Russia demonstrate the importance of the issues at stake: only the simultaneous and consistent application of sanctions by a large number of countries has any chance of effectively impacting Russia's access to high-tech products rather than simply diverting flows via third countries. In this case, despite the relatively large number of countries that have applied sanctions, the diversions are considerable.

There are two ways to build this relational power: the carrot, in other words the construction of shared interests; and the stick, in other words more or less explicit threats.

Shared interests can be built using coordinated economic policy approaches. This was the path chosen by the Obama administration when launching the parallel negotiations for the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). The aim was both to tighten economic ties with trade partners and to coordinate regulatory approaches around various aspects related to regulations, the right to work, or respect for the environment. The whole initiative strongly resembled an attempt to contain China economically, with the expected benefit lying above all in the closer, better coordinated relationships that would have resulted. The failure of both these attempts by no means indicates that the United States has renounced partnership agreements

55. S. Strange, *States and Markets: 2nd Edition*, London: A&C Black, 1994.

allowing it to strengthen economic ties with its allies or "friends". Beyond the new use of the term "friend-sharing", the multiplication of potential alliances, partnerships, or cooperation forums proposed by the Biden administration in the economic domain makes this clear: Chip 4 Alliance, Trade and Technology Council, Indo-Pacific Economic Framework for Prosperity, Americas Partnership for Economic Prosperity, etc. It is also striking that many of these agreements remain rather vague in terms of content: the desire for coordination—it is tempting to write "coalition"—clearly takes precedence over any other specific objective.

China's Belt and Road Initiative (BRI) derives from a similar approach. Announced in 2013 under a slightly more limited title,[56] at the beginning of 2023 the project involved almost 150 countries, with China's investments, principally in infrastructure, estimated at more than $1 trillion.[57] Although the initiative is a very broad label encompassing a disparate array of projects with varied goals, the primary objective of this considerable effort is clearly to boost China's international influence by building shared interests. China has also signed 18 free-trade agreements with 27 countries.[58] According to the most recent trade policy review on China by the WTO Secretariat, "the authorities state that China is committed to creating a global network of RTAs [regional trade agreements] to further consolidate economic and trade ties between the country and its trading partners".[59]

Because this cooperative approach is not always practicable or sufficient to influence the relevant economic actors, it is necessary in certain cases to supplement it with more coercive measures: in short, to wield the stick. The power of the financial sanctions imposed by the United States as part of its campaign against terrorism after 9/11 depended largely on the mobilization of banks, which were threatened with having their access to the American financial market blocked if they did not cooperate. As Juan Zarate pointed out, "this approach worked by focusing squarely on the behavior of financial institutions rather than on the classic sanctions framework of the past. In this new approach, the policy decisions of governments are not nearly as persuasive as the risk-based compliance calculus of financial institutions".[60] It was, therefore, not the state's direct restrictions that produced the most powerful effect, but its capacity to create incentives for private actors—including those outside its borders, in this case major banks around the world—to follow its lead: a striking

56. Xi announced the overland Silk Road Economic Belt project in September 2013 in Kazakhstan, followed a month later by the announcement of the Maritime Silk Road in Jakarta. Hence "One Belt, One Road" (OBOR), later renamed the Belt and Road Initiative.

57. L. Wei, "China Reins in Its Belt and Road Program, $1 Trillion Later", *Wall Street Journal*, September 26, 2022.

58. Source: MOFCOM, *China FTA Network*, available at: http://fta.mofcom.gov.cn.

59. "Trade Policy Review: China", World Trade Organization, 2021, p. 34.

60. J. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare, op. cit.*, p. 8.

illustration of the extent of American *dominium*. This kind of leverage is unusual: the United States managed to combine a dominant economic position (access to the American financial market is indispensable for most financial actors around the world), a powerful and adaptable legal tool, in this case section 311 of the Patriot Act (wherein the lists of targeted entities are set by the executive), and effective means for putting it into practice thanks to the specific capacities developed by the Treasury.[61]

The situation is more complex for trade sanctions due to the absence of any actors as central as the banks are to the financial sector. Nevertheless, the imposition by the United States of secondary sanctions is based on the same logic in that it raises the possibility, albeit on a case-by-case basis at the initiative of the administration, of making foreign companies' access to the American market conditional on them applying sanctions decreed by a government other than their own. The "foreign direct product rule" thus extends the scope of export restrictions on technological products to all products derived from American technologies and components. Again, even companies not directly under American jurisdiction are compelled to follow instructions out of fear of being deprived of access to the American market.

The combination of regulatory, legal, and economic instruments to exert powerful incentive effects on foreign companies is not new. Laurent Cohen-Tanugi points out that extraterritoriality is not illegitimate under international law as long as there is a sufficient connection to the state, and that it is even "naturally becoming the norm in a globalized world and driving the development of new international regulations",[62] a phenomenon of which anti-corruption laws are undoubtedly the most tangible illustration. This is the underlying logic of what Anu Bradford has called the "Brussels effect"[63] (a term itself derived from the "California effect" described previously by David Vogel),[64] which refers to the increasing normative influence of the European Union over recent decades thanks its sophisticated and ambitious regulations and its indispensable market. The Commission is embracing this influence and seeking to make the most of it,[65] confirming the important role of law and regulatory instruments in international economic relations. But where European influence is a more or less expected consequence of its technical, health,

61. *Ibid.*

62. L. Cohen-Tanugi, *Droits sans frontières*: *Géopolitique de l'extraterritorialité*, Paris: Odile Jacob, 2023, p. 13.

63. A. Bradford, *The Brussels Effect: How the EU Rules the World*, New York: Oxford University Press, 2020.

64. D. Vogel, "Trading Up and Governing Across: Transnational Governance and Environmental Protection", *Journal of European Public Policy*, Vol. 4, No. 4, 1997, pp. 556-571.

65. The trade policy strategy published by the Commission in 2021 states that "the ability to influence the development of regulations and standards of global significance is an important competitive advantage" and that the EU "needs to develop a more strategic approach to international regulatory cooperation". European Commission, "Trade Policy Review – An Open, Sustainable and Assertive Trade Policy", 2021, p. 16.

and environmental regulatory decisions, the extraterritoriality of American law in its most recent manifestations is instead the result of a deliberate, politically motivated attempt at coercion; US practices have more to do with power struggles than international regulations. With China seemingly keen to emulate the American approach in certain respects, at least judging by its first extensive export control law, which entered into force in December 2020 and includes obligations on foreign clients,[66] there is a risk that we will see a proliferation of the weaponization of law in international economic relations, motivated by political objectives rather than the extension of norms.

The reconfiguration of industrial policies

The increasing weaponization of economic relations compels states to think about their "ability to make [their] own choices and shape the world", to borrow the European Commission's definition of "open strategic autonomy".[67] Although this consideration does not conflict with the move to open up trade (as indicated by the adjective "open"), it alters how they see their own production capacities, which in sectors deemed strategic can be seen as a guarantee of control over public resources. The stakes are raised by the tendency toward concentration discussed above, and still more by the major industrial upheaval brought about by the climate transition and the digital revolution.

By changing the conditions of trade competition, a state's industrial policies impact its partners. They even risk giving rise to non-cooperative strategies whereby each country tries to subsidize certain sectors in order to gain market share at their rivals' expense. When such strategies are implemented by both parties, they are not just destined to fail from an economic perspective but are actually damaging for all actors: a classic example of the prisoner's dilemma. It is precisely to reduce the incentives for this kind of non-cooperative strategy that WTO members signed the Agreement on Subsidies and Countervailing Measures, which bans the most distorting subsidies and renders those that damage the interests of partners actionable.

Although this framework is theoretically appropriate and was relatively effective for a long time, its binding nature now seems to have been largely eroded. It has been undermined by the dissatisfaction expressed in recent years, especially by the United States, the EU, and Japan, regarding the agreement's ability to effectively restrict China's practices.[68] In fact, despite this agreement on subsidies, the multilateral framework has not prevented

66. See for example: www.fieldfisher.com.

67. "Trade Policy Review", p. 4.

68. These concerns were officially expressed by the Trilateral Commission; see for example: https://policy.trade.ec.europa.eu.

China from implementing a multifaceted and ambitious industrial policy: its relatively narrow definition of subsidies only applies to a small proportion of state interventions in an economic system where Party guidelines play a key role in determining economic activity and the distribution of resources. Making use of a multitude of channels that are difficult to quantify or even identify, this interventionism remains largely opaque, but a recent study of the years 2017–2019 estimated that Chinese industrial policies mobilized on average 1.7% to 2% of GDP. Although the authors acknowledge that this is only a partial estimate, it is much higher than the amounts mobilized by China's rivals, estimated on a comparable basis at 0.4% for the United States and Germany and 0.55% for France.[69] For a member country to stray, in letter or in spirit, from the rules that this kind of multilateral organization is supposed to enforce is not in itself a systemic problem. After all, the GATT was able to accommodate the participation of several centrally planned economies following Czechoslovakia's Communist transition and the accession of four other states within or associated with the Soviet Bloc (Poland, Yugoslavia, Romania, and Hungary), as well as Japanese interventionism. The members of the WTO also agreed to admit Vietnam in 2007, with demands aimed above all at transparency.[70] But China poses a problem of another nature because of its size, and now because of its technological level too: something that can be tolerated from a relatively minor member state is unacceptable from the world's leading industrial and trade power, which furthermore aims to "join the ranks of the world's most innovative countries, with great self-reliance", in Xi Jinping's words.[71] Competition in high-tech sectors is exacerbated by a phenomenon we could call "technological flattening", in that the superiority of so-called advanced economies over China is no longer a given. The latter's performance in many cutting-edge sectors, from quantum computing to electric vehicles or space technology, is spectacular.

For the other great powers, starting with the United States, this state of affairs is especially intolerable because these industrial policies by definition target sectors deemed strategic, in other words those that determine the stakes of power games at the international level. Unable to limit China's interventions, its rivals have thus taken the same route: while an industrial subsidies' war to gain market share at a partner's expense is fruitless and even counterproductive, it does not warrant failing to respond to a rival's subsidies when coordination fails, especially when strategic

69. According to estimates by G. DiPippo, I. Mazzocco, S. Kennedy and M. P. Goodman, "Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective", *CSIS Report*, 2022. See also F. Chimits, "What Do We Know About Chinese Industrial Subsidies?", *CEPII Policy Brief*, 2023.

70. P. Mavroidis and A. Sapir, *China and the WTO: Why Multilateralism Still Matters*, Princeton: Princeton University Press, 2021.

71. Speech to the 20th National Congress of the Communist Party of China, October 16, 2022, available at: www.fmprc.gov.cn.

issues are at stake—in other words, the *de facto* erasure of rules paves the way for the "power-shifting policies" discussed above. This is the reason behind the renewed ambition of industrial policies in the United States (particularly the CHIPS Act and the Inflation Reduction Act) and Europe (particularly the European Chips Act and the Net-Zero Industry Act), but also the one-upmanship with subsidies seen in the last year in the highly strategic semiconductor sector, including in South Korea, Japan, Taiwan, and EU member states.

In short, industrial policies are now part of a strategic competition aimed at dominating—or at least controlling—sensitive technologies. Decisions regarding industrial policies are no longer based on strictly economic calculations, but on strategies for gaining power in a context of intense competition.

Conclusion: The era of economic security

Whether the weaponization of international economic relations is real or just a threat, it distorts economic calculations. It redefines the very nature of risk itself, often by pushing it toward a non-probabilistic uncertainty. It adds a further layer of geopolitical risk on top of existing exogenous (natural disasters, accidents, public health emergencies, etc.) and endogenous risks (cyclical fluctuations, technological ruptures, changing rivals, clients, or markets). Geopolitical risk has always existed, of course, but until recently it has normally remained of secondary importance in international economic decisions. That is no longer the case, which means that vulnerabilities must now be understood not just in terms of exogenous probabilities or economic criteria, but also in light of potential hostile strategies: the analysis of risk exposure is being thoroughly transformed.

This upheaval gives international economic policies a new security dimension, as can be clearly seen in many countries in recent years—Japan even created the post of minister of economic security in October 2021—including in the three largest powers. In China, this is an entirely natural development given the clear trend under Xi Jinping of making security a watchword, if not a mode of governance. Xi has been officially promoting the concept of "comprehensive national security" since the 2014 inaugural meeting of the National Security Commission (CNSC), a Party organ created for that purpose.[72] Economic security is, naturally, one of the concept's fields of application (11 initially, expanded to 16 in 2021), both in its own right and particularly in how it relates to technology, resources, or overseas interests. Security concerns are now a decisive factor in China's economic decision-making. They are behind both the self-sufficiency targets of the "Made in China 2025" plan, published in 2015, and the "dual circulation" strategy, which aims to limit vulnerability to foreign pressure, particularly by making sure that value chains in critical technologies are "autonomous and controllable".[73]

72. See for example K. Drinhausen and H. Legarda, "Confident Paranoia: Xi's 'Comprehensive National Security' Framework Shapes China's Behavior at Home and Abroad", *Merics*, 2022; or J. Wuthnow, "Securitisation and Governance in the Xi Jinping Era", in F. N. Pieke and B. Hofman (eds.), *CPC Futures: The New Era of Socialism with Chinese Characteristics*, Singapore: NUS Press, 2022.

73. M. Huotari and S. Jean, "Renforcer la stratégie économique de l'Europe vis-à-vis de la Chine", *Les notes du Conseil d'analyse économique*, Vol. 72, 2022.

In the United States, the security dimension of economic relations has been particularly important in well-defined sectors like energy, foreign investment in sensitive technologies (overseen since 1950 by the Committee on Foreign Investment in the Unites States, CFIUS), and of course products for military or dual use. The publication in 2012 of the National Strategy for Global Supply Chain Security was an early sign of increasing awareness of the risks posed by the intensification of economic interdependency in a tense international context, but the Trump administration's China policy marked a turning point by imposing customs duties sometimes explicitly justified on national security grounds (safeguard measures on steel and aluminum), and especially by tightening export controls and investment screening rules in 2018. By preserving and sometimes even strengthening these measures, the Biden administration has acknowledged the centrality of security to the United States' international economic policy, with China its almost exclusive concern.

Of the three largest powers, the EU is the only one to which this concept of economic security was initially alien, both in its values and its practices. For historical and institutional reasons, its economic policy has traditionally been largely disconnected from security concerns, although it has of course participated in international export control regimes. The publication by the European Commission of the European Economic Security Strategy in June 2023 is therefore all the more worthy of note.[74] As the first step toward the construction of a joint action framework, this communication confirms a shift that has been taking place for several years, with the foreign direct investment screening regulation in March 2019, the toolbox for 5G security in March 2021, the reform of dual-use export controls in May 2021, and the political agreement on the anti-coercion instrument in March 2023. Its formulation of a joint strategy was also an opportunity to clarify the details of the European approach to economic security: based on an acknowledgment of "the inherent tensions that exist between bolstering our economic security, and ensuring that the European Union continues to benefit from an open economy",[75] it combines an insurance-based approach to risk identification and reduction with support for competition and the development of partnerships designed to diversify and secure supplies. While recognizing the legitimacy of security objectives, it aims to treat them with "proportionality" and "precision" so as to minimize their impact on the European economy and on multilateral cooperation. In that sense, the European approach is similar to those of Japan, South Korea, or Australia, for example.

74. "European Economic Security Strategy", Joint communication of the European Commission and the High Representative, JOIN(2023) 20 final.
75. European Commission, "European Economic Security Strategy", p. 2.

In short, economic security is becoming omnipresent in international relations, but the approaches to and consequences of this common concern differ widely from country to country. In China, security is an ever-present priority elevated to a model of management whose international economic dimension is basically just the logical continuation of internal approaches. In the United States, economic security means maintaining technological preeminence and involves a twofold temptation: partial economic decoupling from China on the one hand, and on the other the increasing weaponization of the United States' dominant position in finance and certain technologies. In the EU, it is a rationalized strategy for de-risking economic dependencies in a context of international tension while preserving openness.

In all these cases, however, economic security policies rely on an extensive and weighty legal arsenal. The Europeans have had bitter experience of this due to American financial sanctions and the compliance obligations they impose on banks, while export controls also impose extremely tight restrictions on third-country producers when accompanied by secondary sanctions. But China has its own arsenal of laws that can be used to constrain foreign economic actors, particularly its export control law (2020), but also other security laws like those on cybersecurity (2016), national intelligence (2017), or data security (2021). As for the EU, its institutional structure and its desire to remain in line with the multilateral framework mean it relies on a complex, sophisticated legislative and regulatory framework, as in many other areas. The result of these concomitant tendencies is the increasing judicialization of international economic relations, and even the use of law as an economic weapon.

The implications of all this for international economic and financial relations are profound. The consequences for the intensity of interdependencies are uncertain because the temptation to limit vulnerabilities by reducing or eliminating dependencies deemed to be problematic is counterbalanced by the need to avoid the potential costs of a downturn in trade and by the objective of gaining relational power, which requires openness. In fact, there is no sign of deglobalization in the statistics or in institutions. The management of international relations by a corpus of rules has reached its limits, but these are now manifesting themselves in a reconfiguration of complex and contradictory political factors superimposed onto traditional economic drivers. The underlying logics are complex and intertwined: weaponization leads to circumvention, adaptation, and anticipatory action, making it a double-edged sword that can influence economic and financial activities in ways that are sometimes difficult to predict.

The political noose is tightening around international economic relations. More and more often, the logic of mutually beneficial trade is being held hostage by states seeking to gain strategic or security advantages by controlling or weakening a rival, even at a cost to themselves. Many trade and financial relations are becoming a zero-sum game, if not a lose-lose situation. In a context of inextricable but increasingly unmanageable interdependencies, many political leaders see this as the price that must be paid for security. It is not inevitable that this trend will become irreversible, but we must understand its causes if there is to be any hope of making cooperation possible.

french
institute of
international
relations

since
1979

27 rue de la Procession 75740 Paris cedex 15 – France

Ifri.org