GLOBAL ASYMMETRIES STRIKE BACK

Jean Pisani-Ferry

Asymmetries in the global economy arising from economic concentration, global value chains, financial centres, digital networks and the enduring supremacy of the dominant currency are becoming harder to ignore. This essay provides a cross-cutting economic perspective on the analysis of global asymmetries at a time of growing emphasis on polarisation and power relations.

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Bruegel
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1210 Brussels, Belgium
www.bruegel.org

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FOREWORD

When your trading partner grows its output, there are more opportunities for you to grow and export goods. This is the basic logic of economists, in which the prosperity and economic strength of countries, and also companies, contribute to your country's prosperity and economic strength. Economic relations is a positive-sum game. In international relations, however, the strength of another country can be seen as a weakness of your country. Economic strength can be turned into an advantage in the political or even the military field. In short, the world is a zero-sum game in which the strength of one country is the weakness of another.

Our former director and senior fellow Jean Pisani-Ferry argues convincingly that times have changed and economists need to learn when asymmetries matter and positive-sum logic is disturbed or dominated by zero-sum games. For example, networks such as digital networks or even monetary relations are often not symmetrical without hierarchies, but are highly centralised. Whoever sits at the centre can leverage this privileged position to extract economic and power advantages.

Economists tended to ignore these asymmetries in a world underpinned by one great power, which self-committed to respect the international rules it helped create. While there were obviously instances when the United States abused the centrality of its position, those instances were typically constrained in scope. But in a world of two major rival powers, asymmetries will be harder to ignore. Financial and data

networks will become increasingly centred around one of the two poles. If China and the US do not agree, the consequences for other economies, including the European Union, will be profound.

It is time for Europe to strengthen its capacity to react to asymmetries. By building and strengthening its own centrality, it can contribute to overcoming the negative-sum logic that risks dominating world affairs. I am grateful to Jean for his stimulating essay.

Guntram Wolff, Director of Bruegel
Brussels, August 2021

"Symmetry is not the way of the world in all times and places"

Charles Kindelberger, 1973

1 INTRODUCTION

This essay addresses an old question that international relations scholars view as fundamental, but which economists regard as secondary: that of asymmetries in international economic relations.

Most political scientists consider international relations from the perspective of power. Because they see asymmetrical relationships as vehicles for domination, international relations scholars are interested in the balance of power between centres and peripheries, creditors and debtors, investors and investment recipients, or issuers and users of an international currency. Their implicit model is generally a zero-sum game. Sometimes it is even a winner-takes-all zero-sum game.

Economists tend to take a different view. They are more interested in analysing the gains that cross-border transactions yield to all parties, in designing coordination mechanisms to ensure that independent policies are conducive to mutual benefit, and in proposing templates for managing

global public goods. Even when documenting why these benefits are unevenly distributed, even when devising winner-takes-all games, their benchmark concept of international economic relations remains a positive-sum game in which independent agents voluntarily enter into mutually beneficial transactions and contractual arrangements.

International relations scholars often regard economists as naive – not without reason. Economists reply – rightly – that growth, development and the overall rise in prosperity can hardly be accounted for by the sheer arithmetic of power. Each camp therefore tends to scrutinise reality through its particular lens, and largely ignores the other camp's perspective.

This long-established duality of views is however less and less tenable, for two reasons. First, economic asymmetries are harder to ignore nowadays than they were at the turn of the century, when globalisation reached its apex. Economic concentration, global value chains, financial centres, digital networks and the enduring supremacy of the dominant currency are not all new features but are at least features whose significance has grown or has become more evident. They all contribute to a growing polarisation, which economists can no longer deem secondary.

The second reason is the increased interweaving of economics and geopolitics. Great-power rivalry leads more and more to a need to consider international economic relations from a new perspective, in which the aggregate magnitude of the gains from any given transaction matters less, and their distribution among the partners in the transaction matters more, and in which different positions along a value chain or within a network can be exploited in a power game.

Economists cannot overlook this new reality. And those tempted to ignore it are told vocally that the time when economic relations were sheltered from geopolitical tensions has ended. As Jennifer Harris and Jake Sullivan, now the US National Security Adviser, wrote in 2020, "*over the past 30 years, foreign-policy professionals have largely deferred questions of economics to a small community of experts who run international economic affairs*", before adding that "*foreign-policy experts need not, indeed they should not, stay on the side-lines in emerging economic policy debates*" (Harris and Sullivan, 2020).

In this essay I offer a cross-cutting economic perspective on the issue of global asymmetries, with the intention of finding out how and why they have evolved since the 1970s, how they have been taken into account by economic analysis, and how perceptions of them have structured discussions on the international economic system.

After offering a broad-brush discussion of the concept, I start by analysing the pre-globalisation view of the world economy that was dominant among development experts half a century ago. At that time, asymmetry was regarded as fundamental: the iron law of international economics seemed to be that the growing divergence between developed and developing countries had a systemic character.

I next discuss why the prediction of the dependency model proved wrong and how it gave way to a radically different representation of the global economy. Globalisation, a word coined in the early 1990s, meant not only that all countries had become part of the same world, but also that this world had a different structure. If not flat, to borrow from Tom Friedman's metaphor, it was certainly much flatter.

I then turn to discussing why the asymmetry question has

re-emerged since the turn of the millennium, and why the benign view of the world economy that prevailed some twenty years ago has given way to a fairly different representation that puts much more emphasis on polarisation and power. I list the economic, systemic, institutional and geopolitical factors that explain this change of perspective, and point out that it can be ascribed both to a reassessment of globalisation and to the growing importance of geopolitical factors.

Finally, I offer a few policy conclusions, largely from a European perspective.

2 ASYMMETRY AND POLARISATION IN THE GLOBAL ECONOMY

Asymmetry is an elusive concept when applied to a global economy in which countries differ depending on their size, development level, characteristics and location. Perhaps the best way to appreciate it is to start from two standard models of international trade: the Heckscher-Ohlin model and the gravity model. The bare-bones versions of these two models both take into account differences between countries (in terms of endowments for Heckscher-Ohlin, and of GDP and location for the gravity model) but treat all countries equally. The models deliver asymmetric outcomes as far as the composition and volume of trade flows are concerned, but beyond these objective characteristics they have no built-in asymmetries[1]. All countries participate in trade on an equal basis. For example, the gravity model predicts that a country will import and export twice as much as a country with half of its GDP.

1 I am abstracting here from the common language, common legal system or diaspora variables added to refined versions of the gravity model. These variables admittedly reflect the legacy of history.

Such models can be taken as yardsticks against which asymmetries can be identified and assessed. What can such asymmetries result from? Four factors can be thought of:

- *Economic structures*. A larger country or a country that enjoys monopoly over certain resources can make use of its market power to extract better terms of trade from its partners. This is the logic behind the optimal tariff argument, which has the implication that a large country can derive from trade protection advantages that are not accessible to a small country. Increasing returns and the resulting agglomeration effects are other motives for the emergence of asymmetries. And a hub-and-spoke network structure may also confer disproportionate weight to countries that are home to hubs, and put peripheral countries at a disadvantage;
- *The policy system*. Because leadership matters and because some roles, such as that of issuer of an international currency, cannot be distributed in proportion to each country's economic weight, the global policy system confers disproportionate power on a few players. There can be competition for key roles – there can be, for example, more than one international currency, or there can be two or three regulators who compete to define global standards – but the vast majority of countries are not players in that game;
- *Global institution*s. Global rules and treaty-based international organisations are levellers in that they tend to guarantee an equality of rights among all countries. The World Trade Organisation's dispute settlements mechanism, for example, helps reduce the natural asymmetry between

Tunisia and the United States, even though it obviously does not eliminate the market power imbalance between them. But power can be distributed in various ways within international organisations. The disproportionate influence of the incumbent powers in the governance of institutions is as way for them to delay the lessening of their clout;

- *Geopolitics*. Salient positions in the global system – be it because of structures, policy roles, or influence over institutions – acquire a different significance when put at the service of geopolitical aims. Instead of primarily delivering economic benefits, they become instruments in a power struggle. Geopolitical rivalry can also lead to the formation of alternative webs of economic and financial ties that undermine multilateralism and ultimately lead to its fragmentation.

I understand asymmetry as encompassing all four factors. This is admittedly a particular understanding of the word. One could alternatively speak of the relative importance of centrality and peripherality or, to cut it short, of polarisation, which evokes a centre-periphery relationship. Implicitly at least, however, polarisation also suggests a trend in the direction of a multipolar system. Asymmetry is a more neutral concept that does not point towards any future evolution.

3 THE ASYMMETRIC WORLD OF THE 1970S

The iron law of divergence

Five decades ago, the conventional wisdom was that despite the demise of colonialism, a handful of rich countries would continue to dominate the world. It was widely assumed that they would keep on competing fiercely with each other and get richer along the way, as they had since the Second World War. Gradually they would probably be joined by rare rising stars (after Japan, South Korea and Taiwan were already on their way to emergence). But for the rest, underdevelopment seemed to be a state of nature.

In his 1971 Nobel Prize lecture, Simon Kuznets offered a telling picture of the world of the time: 1.7 billion people lived in countries where GDP *per capita* was less than $120; 0.9 billion lived in countries with a *per-capita* product of at least $1900; and barely 700 million, or less than 20 percent of the global population, inhabited the middle ground between these two extremes (Kuznets, 1971).

The iron law seemed to be that the already-advanced countries would concentrate power and amass riches, while the vast majority of the rest would struggle and stumble. Development economists such as Samir Amin in Egypt,

Andre Gunder Frank in the United States, Gunnar Myrdal in Sweden, François Perroux in France and Raúl Prebisch in Argentina warned of economic dependency, the development of underdevelopment, and rising inequality between what Prebisch named "*the centre*" and "*the periphery*" of the international economic system[2]. In the intellectual climate of the times, they, and many more, regarded the web of international trade, investment, finance and money as the conduit for this divergence. They saw the structure of international trade as conducive to a perpetuation of domination by a few established powers. Short of radical policy action, and perhaps of a major overhaul of the international system, it was expected that poor countries would get poorer, at least in relative terms.

History seemed to support this dire outlook. Having studied the development of capitalism through the centuries, the historian Fernand Braudel spoke of successive dominance by "*world economies*" and of repeated core-periphery patterns (Braudel, 1977 and 1985). Evidence to support such views was found in the successive ascent of powerful city states, from Venice to New York, since the fourteenth century; in the "*Great Divergence*" in income and wealth between, on the one hand, Europe and its offspring, and, on the other hand, the ancient Chinese and Indian powers (Pomeranz 2000); in the relative decline of commodity prices and the income of commodity producers; in the intrinsically asymmetric character of the international monetary system; and in the

2 Raúl Prebisch, who as director of the United Nations' Economic Commission for Latin America (ECLA) exercised considerable influence on the developing countries' view of international economic relations, first formulated his centre-periphery view in the mid-1940s. See Love (1980).

perpetuation of neo-colonial relationships.

Few observers in 1976 recalled Adam Smith's 1776 warning that if "*superiority of force*" enabled the Europeans to "*commit with impunity every sort of injustice*", the natives of developing countries "*may grow stronger, or those of Europe may grow weaker*" so that "*the inhabitants of all the different quarters of the world may arrive at an equality of courage and force*". Even fewer anticipated that this equality of force would result from a "*mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it*"[3]. Those, like Paul Samuelson and Jacob Viner, who endorsed this view and formalised it in trade models, looked caught by the abstraction of pure theory and remote from the reality of underdevelopment.

The intellectual core of the dependency model

Two beliefs structured the grim perspective of the 1970s. The first was that strong asymmetry between the centre and the periphery would persist in international economic relations. The second was that such asymmetry would prevent the development of the periphery. "*The blunt truth*", Myrdal said in his 1975 Nobel Prize lecture, "*is that without rather radical changes in the consumption patterns in the rich countries, any pious talk about a new world economic order is humbug*" (Myrdal, 1975). Even Kuznets contended that the advancement of the poor countries would require both the changing of a

3 The quotes are from Chapter 7 ('Of Colonies') of Part 4 of *The Wealth of Nations*. They feature as an epigraph in Branco Milanovic's *Capitalism, Alone* (2019).

stock of globally available technologies that was unsuitable to the needs of developing economies and introduction of "*innovations in the political and social structures*" of a similar type to the introduction of central planning in the Soviet Union (Kuznets, 1971).

The intellectual core of the dependency model was the causal link it established between the asymmetry of the international system and the persistence of underdevelopment. In the 1949 ECLA Manifesto (from United Nations Economic Commission for Latin America), a text regarded as the matrix of dependency theory, Prebisch pointed out that classical theory assumes that commodity-producing countries obtain their share of the benefits of technical progress through international exchange, and therefore have no need to industrialise. "*If they were to do so*," he wrote, "*their lesser efficiency would result in their losing the conventional advantages of such exchange*". The flaw in this theory, he found, was that while it is "*indeed true that the benefits of technical progress are gradually distributed among all social groups and classes*" of the industrialised countries, the premise does not hold if the concept of the community is extended to include the periphery of the world economy. "*The enormous benefits that derive from increased productivity*," he concluded, "*have not reached the periphery in a measure comparable to that obtained by the peoples of the great industrial countries*"[4].

Prebisch's view was that underdevelopment resulted neither from inadequate policies in developing countries (which, he said, had essentially played by the book) nor from

4 The quotes are from the English translation of the ECLA Manifesto, a report prepared by Prebisch for the UN Economic Commission for Latin America (ECLA, 1950). See https://repositorio.cepal.org/handle/11362/29973.

the intrinsically predatory character of capitalism (since the masses in the North benefitted from technical progress). Rather it came from the very structure of the international economic system and the relative position of industrialised countries and commodity producers in it.

The hypothesis that there was a causal link between peripherality and underdevelopment or, in other words, between global asymmetry and unequal development, had profound policy implications. It implied that the way forward for developing countries was, individually, to map their own way to industrialisation through industrial policy and trade protection, and, collectively, to join forces to push for an overhaul of the rules of the international game. Over the years many versions of the dependency model would blossom, which put the emphasis on international money, finance or investment. But the core intuition remained the same.

4 A FLATTER WORLD AT THE TURN OF THE CENTURY

The end of divergence

The economic history of the last fifty years has proved wrong the belief that asymmetry prevented development. In 1970, high-income countries accounted for more than 90 percent of world manufacturing output, 75 percent of world GDP and 75 percent of world exports[5]. By 2020 these proportions were down to 51 percent, 63 percent and 66 percent respectively – although the high-income group had enlarged. Changes are even more dramatic if output is measured at purchasing power parity and if trade data exclude intra-EU trade.

After having been on a declining trend from the early nineteenth century to the 1980s, relative income *per capita* in major developing economies bottomed out and has continuously increased for about five decades (Figure 1)[6]. The

5 Sources: UNIDO, IMF and UNCTAD. GDP in current dollars at current exchange rates. Trade flows include intra-EU flows.

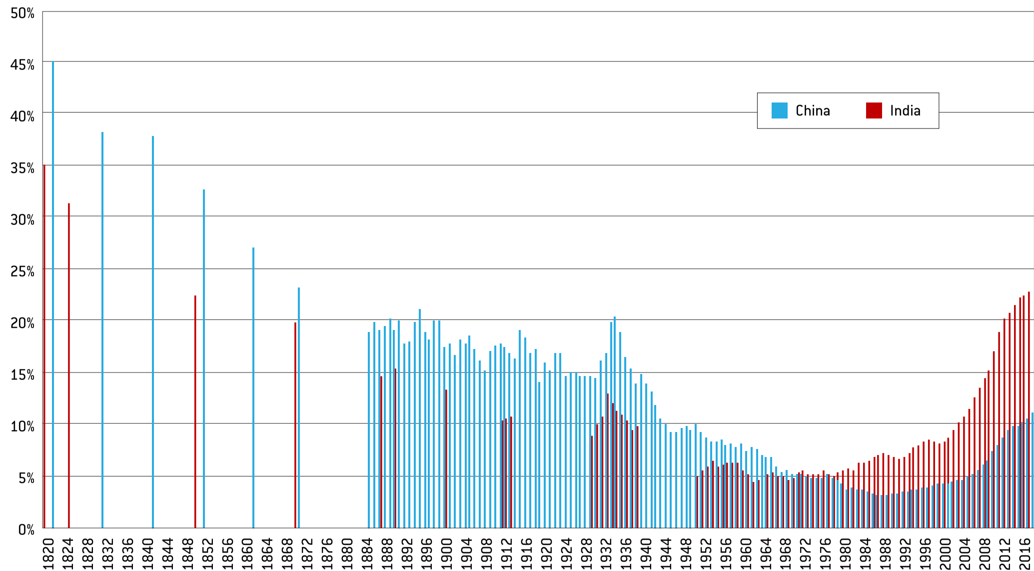
6 Branko Milanovic (2019, Figure 5.1) observed that the incomes *per capita* in China, Indonesia and India relative to those of their former colonial masters all followed the same V-shaped evolution.

single most important economic development of the last half century has been the catching-up in output, income and economic sophistication of a significant group of formerly poor countries.

For sure, the world has not become equal. If anything, the income gap between countries at the top and at the bottom has continued to widen. Too many of the world's poor live in countries where GDP *per capita* has remained stagnant for decades. But the characteristically bimodal global distribution of income among world citizens that still prevailed in the 1970s has vanished. Overall, income inequality within countries has increased, while inequality between countries has diminished. As a consequence, the global distribution of income has become less unequal. As Branko Milanovic put it, if this trend continues, "*we might return to the situation that existed in the early nineteenth century, when most of global inequality was due to income differences between rich and poor Britons, rich and poor Russians, or rich and poor Chinese*" (Milanovic, 2016).

Two main factors account for the extraordinary change in fortunes witnessed since the 1970s: technology and policies. As Richard Baldwin explained in his illuminating book The Great Convergence, a major reason why Adam Smith's prediction finally materialised and a group of developing countries caught up with the advanced nations was the dramatic fall in the cost of moving ideas – what he calls the "*second unbundling*" of technology and production (Baldwin, 2016). Instead of perpetuating the divide between technology-rich and technology-poor countries, flows of knowledge and know-how embedded in foreign direct investment or involved in contractual relationships

Figure 1: Real GDP per capita of China and India relative to the US, 1820-2016



Source: Bruegel based on Maddison project database.

between purchasers and suppliers have resulted in major productivity gains in formerly peripheral economies. This barely happened within the framework of the old trading relationship. Yet the breakthrough brought by the telecommunication revolution has allowed it to take place on a massive scale.

Good journalism has been famously defined as simplification followed by exaggeration, and this certainly applies to Tom Friedman's characterisation of the resulting world. The playing field, the New York Times columnist claimed in 2005, has been levelled: *The World is Flat* (Friedman, 2005). Wherever production takes place, he said, it benefits from the same access to knowledge, technology and markets. This was obviously hyperbole: the economic world was never, and will never be, flat. In recent decades, poorly governed, remote, landlocked countries have struggled to gain access to technology and overcome obstacles to development. Many nations are still failing to do so (Acemoglu and Robinson, 2012). But for all his exaggerations, Friedman captured the essence of the economic transformation triggered by technology.

Policies implemented at national level were the second trigger. In the late 1970s, China under Deng Xiaoping changed course, broke away from isolationism, opened up to foreign investment and started building its own variety of capitalism. China's return to the market clearly marked a bifurcation in the economic history of the world. But, as observed by Ronald Findlay and Kevin O'Rourke, the late 1970s represented a turning point for many more countries: whereas the advanced world started reducing trade protection already in the 1950s, in the rest of the world tariffs continued to rise during the early

post-war period (Findlay and O' Rourke, 2007). It was only in the 1980s that developing countries changed course en masse to implement reform and liberalisation packages.

The story, therefore, is complex. First, the prediction of an inexorable divergence between central and peripheral countries has proved wrong, but convergence is by no means a generalised phenomenon. Second, neither technology alone, nor liberalisation alone, can account for the successful catching-up of a series of countries initially ranked as middle- or low-income. Rather, development has been brought about by their interaction in the context of export-oriented development strategies.

A less-asymmetric world: structures

On the whole, there is no doubt that the global economy has become less unbalanced. Whether or not the belief that asymmetry would persist has also been proved wrong is a distinct question. Of course, the proponents of the dependency theory regarded asymmetry and the persistence of underdevelopment as two sides of the same coin. But they are not.

Determining if there has been a levelling of asymmetries is challenging because relative power is harder to measure than relative prosperity. It could be argued that asymmetry has diminished for the simple, materialistic reason that in peacetime at least, economic weight is a major determinant of relative power. But as previously argued, the question is not simply if the law of gravity applies; going back to the factors listed in section 2, it is whether economic structures, the policy system, institutions and geopolitical factors have intensified or dampened the influence of economic weight.

The answer is clear as far as economic structures are concerned. The meaning of Baldwin's "*second unbundling*" is precisely that by the turn of the century, the built-in asymmetry of technology and trade that led to the dire warnings of Kuznets and Prebisch had been corrected.

Intra-industry trade was in the early 1970s the privilege of rich countries (and exclusion from it was an unmistakable testimony on the peripheral role of developing countries). The Grubel-Lloyd index for trade between high-income countries (a widely used measure of the share of intra-industry trade in total foreign trade) was approaching 30 percent, against less than 5 percent for North-South or South-South trade (Brülhart, 2009). As more and more manufacturing commerce was taking place within the North, and as rich countries reaped the benefits of intra-industry specialisation, poor exporters of commodities were relegated to the margins of the global economy, vindicating Prebisch's predictions. Foreign direct investment flows were even more asymmetric: they essentially emanated from advanced economies; investment by US multinationals accounted for the bulk of them. Europe was actually a major recipient of US investment[7].

By the early 2000s, however, international trade patterns indicated that the world economy had shifted. Within a quarter of a century, the share of intra-industry flows in total trade between middle-income and high-income countries had risen from less than one-twentieth to about one-third; it stood at about one-fifth for trade between middle-income and low-income countries (Brülhart, 2009). Peripherality still existed and

7 As illustrated by the French best-seller *Le Défi Américain* by Jean-Jacques Servan-Schreiber, a prominent journalist and news editor (Servan-Schreiber, 1967).

a number of middle or poor-income countries continued to suffer from it. But as far as broad categories were concerned, it could not be detected in the data anymore.

Changes in the policy system

A different, but equally positive observation applies to the global policy system. Fifty years ago, monetary relations were asymmetric by design. The still-prevailing Bretton Woods system gave the US currency a unique role and involved a deeply unequal distribution of rights and obligations between participating countries[8]. *De facto* even more than *de jure*, the US dollar enjoyed an anchor status and US monetary policy was meant to provide stability to the rest of the world. Consequently, countries participating in the fixed exchange rate system had to accumulate dollar liquidity in the form of reserves, thereby ensuring a near-automatic financing of the US current account deficit and net private capital outflows. This built-in asymmetry – Giscard d'Estaing's (in)famous "*exorbitant privilege*" – was a core feature of the system, and resulted in Robert Triffin's dilemma between preserving the global pre-eminence of the US dollar and ensuring the smooth functioning of the global system (Triffin, 1960;

8 McKinnon (1993) argued that the "*rules of the game*" of the Bretton Woods treaty were formally symmetric, including as regards the numeraire (for which the choice between gold and the US dollar was left to individual member countries). Unilateral adjustment of par values was also possible, provided it was done in response to "*fundamental*" disequilibria. Very quickly, however, the monetary system evolved into a fixed-rate dollar standard. Par value adjustments were very few and of modest magnitude. The (implicit) rules of the game of the monetary regime in place from the late 1940s to the early 1970s therefore solved the (N – 1) problem by assigning to US monetary policy the role of an anchor, and to other countries the responsibility of maintaining a fixed exchange rate with the US dollar.

Eichengreen, 2011).

Moreover a strong view, associated with Charles Kindelberger's account of the Great Depression, regarded asymmetry as a *necessary* feature of a stable global system. Writing in 1973, Kindelberger explained that the international economic and monetary system not only needed principles and rules for normal times, but, crucially, also a lender and a consumer of last resort that could act in a discretionary way to preserve overall stability in times of crisis. In what became known as the hegemonic stability theory, global monetary and financial stability could only be the result of an incomplete contract under which leadership would be provided by "*a country which is prepared, consciously or unconsciously* [...] *to set standards of conducts for other countries*" (Kindelberger, 1973). There was only one country able and ready to fulfil this role, and it was the United States. Money, trade and the overall policy assignment (there was barely international finance to speak of at the time) all pointed in the same direction: that of a highly asymmetric international economic system.

Reluctantly perhaps, by the 1990s the built-in monetary asymmetry of the Bretton Woods system had been curtailed. True, 'fear of floating' was still widespread in the emerging and developing world, to such an extent that scholars would dub the monetary relationship between East Asia and the US a "*revived Bretton Woods system*" (Dooley *et al*, 2003). But advanced countries (or blocs, for the euro area) had all converted to floating.

Proponents of floating exchange rates, including Milton Friedman and Harry Johnson, had long regarded them as a flattener that would give countries "*autonomy with respect to their use of monetary, fiscal, and other policy instruments*"

(Johnson, 1969). Clearly, not every currency would float. According to Johnson, advantages would mostly accrue to the "*currencies of the major countries*", which derive their usefulness "*from the great diversity of goods, services and assets available in the national economy*". True, the US dollar would remain the main international currency. But a floating-rate system would at least diminish its exorbitant privilege. After financial account transactions began to be lifted in the 1980s, Triffin's dilemma gave way in the policymakers' intellectual toolbox to the trilemma between exchange rate stability, monetary policy autonomy and free capital movements – a choice all countries were expected to be confronted with.

By 2000 the prevailing view was that Harry Johnson had got it right and the monetary system had become more symmetric. Writing in 2002, Maurice Obstfeld and Kenneth Rogoff offered a remarkably benign view of the functioning of the floating exchange-rate regime: they found that "*as domestic monetary rules improve, and as international asset markets become more complete, there are plausible circumstances in which the outcome of a Nash monetary rule-setting game begins to approximate the outcome of a cooperative system*" (Obstfeld and Rogoff, 2002). The US dollar remained the only truly global currency, but in normal times this was not a major concern. And it was hoped, in Europe at least, that the dollar's international role would gradually diminish, making way for the euro and perhaps other international currencies.

Institutions

International institutions also served as equalisers. For sure, the ideal of multilateralism – a world of equal rights and obligations shared among participating countries, regardless of their size or power – remained a distant goal. But at least the creation within the WTO of a multilateral dispute settlement mechanism had established an equality of rights. As economic integration developed and multilateral institutions strengthened, a certain rebalancing occurred. Gradually, the voice of the less-powerful players became louder in international trade negotiations, until it eventually became loud enough for the lack of agreement between developed and developing countries to lead to the collapse in 2008 of the Doha round.

The European Union, obviously, was a major part of the push for a more symmetric international system. Gradual integration within the EU could not be separated from the broader transformation of the international regime. The EU's (occasionally frustrated but ultimately successful) attempt to build a legally-grounded, symmetric European policy system developed in parallel with the far more challenging, but fundamentally related, attempt to build a global rules-based international economic system. In turn, the EU has since its infancy been a relentless advocate of multilateralism and global institutions[9].

All in all, by 2001 – the year China joined the WTO – it seemed likely that the global economy would continue to evolve towards less and less asymmetry. Systemically, the US had triumphed. There were no capitalist and socialist blocs

9 Whether the EU itself is a symmetric or a *de-facto* asymmetric policy system is an issue beyond the scope of this essay.

anymore, only a global economy, the principles and rules of which were largely US-designed. But this very success was transformative. Once narrow, the club of developed countries was getting larger. Developing countries were catching up. The reach of global rules and institutions was nearly universal. Global governance was widely regarded the way forward. Symmetry was still a distant goal, but it was no longer inconceivable.

5 WHEN ASYMMETRIES STRIKE BACK

The perspective, however, has changed again. In recent times, various factors have contributed to putting the emphasis back on global economic asymmetries. In part, this has been because both the global financial crisis and the pandemic crisis have highlighted the importance of centrality. Major crises of this sort are 'Kindelberger moments' when rules matter less than the ability to take decisions and provide leadership to others. But the resurgence of asymmetries is also rooted in structural factors, both economic and non-economic.

Economic structures

Symmetry and asymmetry in international economic relations depend on technology, channels of interdependence and the organisation of the policy system. There is nothing permanent about these factors. In the same way that the seemingly unmovable hierarchies of the 1970s started crumbling in the 1990s, the benign perspective of the early 2000s is in question two decades later. One of the reasons for this reassessment is the emergence of new patterns of interdependence.

Several factors enter into play: strengthened industrial concentration and market power; a technology-driven new prominence of network-type structures; and the dominant role of the US financial system in a liberalised context. Symmetry is the victim of each of these transformations.

The first factor is *industrial concentration*. In a more economically balanced world, market power could have been expected to be diluted, at least at global level. But this is not what is suggested by data on market capitalisation and corporate profits. As of 2021, 60 of the world's largest 100 companies by market capitalisation are still headquartered in the US[10]. Meanwhile, 10 percent of the world's largest 6000 firms account for 80 percent of economic profit, a larger proportion than 20 years ago. The top 1 percent (58 "*superstar firms*") account for 36 percent of profits (Manyika *et al*, 2018). Despite the rise of emerging corporate giants, US corporations alone still represent 60 percent of the global profits of these superstar firms – exactly the same proportion as 20 years ago and 2.5 times the share of the US in global current-dollars GDP.

Concentration is magnified in an increasingly digitalised economy, in which a growing proportion of services are provided at zero marginal cost, value creation and value appropriation are increasingly clustered in a few centres of innovation, and revenues go to immaterial investments made at the centre rather than to production sites. Data for the US and to a lesser degree Europe, points to an increase in the share of sales and, especially, profits accruing to the top

10 See 'Europe is now a corporate also-ran. Can it recover its footing?', *The Economist*, 5 June 2021

firms[11]. Productivity data suggest that a greater share of macroeconomic growth is attributable to 'frontier firms' (another name for the superstars), whose performance and profitability are far above average (Andrews *et al*, 2015). This rise is particularly apparent in technology-driven sectors where high fixed costs and low marginal costs favour massive concentration, but it is by no means limited to the tech industry. Despite globalisation and the rise of the rest, top US firms are therefore at least as powerful economically as they were half a century ago – and competition discipline was, until recently, less systematically enforced (Philippon, 2019).

The second, related factor is the emergence of *network structures*, which are ubiquitous from data-driven industries to manufacturing and to finance. By itself, a network structure does not necessarily entail hierarchy or asymmetry. Point-to-point networks are fundamentally symmetric. Because they diminish the impact of remoteness, digital networks were once regarded as major potential flatteners. But a network structure involves asymmetry if organised according to a hub-and-spoke model in which control is concentrated at the nodes. And the fact is that wherever the fixed cost of building links between two nodes is meaningful, but the marginal cost of using them is low, hub-and-spoke patterns have emerged as economically efficient structures from the natural search for cost minimisation.

Such patterns can be found in many fields. Global value chains (GVCs), whose share in world trade rose from some 35-40 percent in 1970 to more than 50 percent in the 2010s (Antràs, 2020), typically exhibit hub-and-spoke structures,

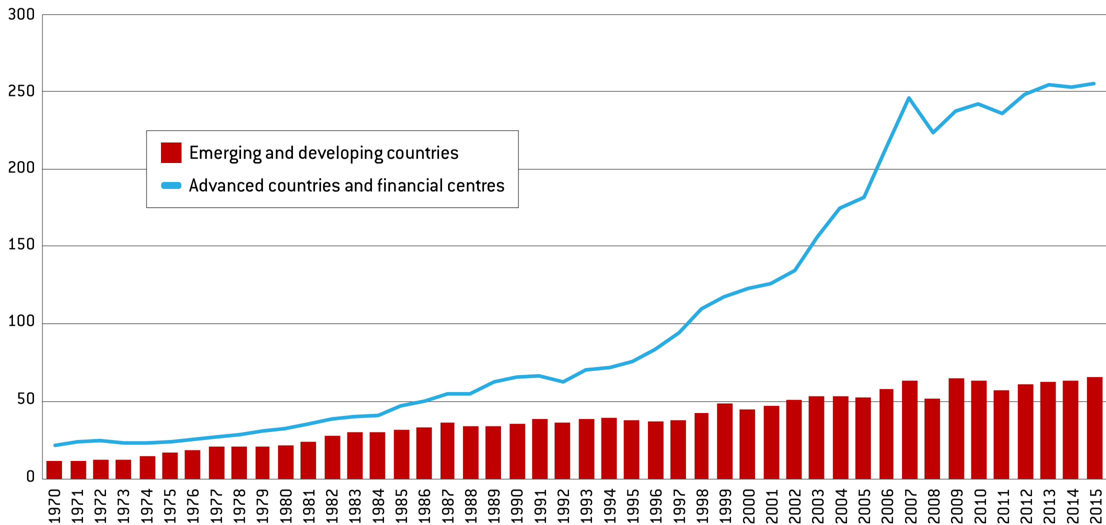
11 See Furman (2018) and Autor *et al* (2020). For a discussion of industrial concentration in the US, see Philippon (2019).

in which a few firms and a few countries play central roles (Criscuolo and Timmins, 2018). According to the World Bank, expansion of GVCs has been driven by the fragmentation of production processes in major advanced countries – of which Germany, the US and Japan are the top three – and by a few large trading firms that engage in both imports and exports. Building on Antràs (2020), the 2020 *World Development Report* speaks of "*a novel, relational conceptualization of GVCs that shifts the focus away from the mere allocation of value added across countries through anonymous spot exchanges of goods and services*," and considers that within GVCs, "*relationships are more likely to exhibit persistence*" (World Bank, 2020). GVCs are the channels through which ideas and technologies move seamlessly, but they also embody a persistent asymmetry between hubs and second- or third-tier nodes. Networks therefore matter, and they have transformed the character of interdependence (Carvalho and Tahbaz-Salehi, 2019)[12].

The third factor is *financial*. This is paradoxical as a quarter of a century ago a widely held view was that the removal of capital controls would allow all countries to tap into the global capital market to finance their development or offset temporary shocks to their incomes. In 1997, the International Monetary Fund even considered being officially given a mandate to promote the liberalisation of the financial account[13].

12 Global value chains are a relatively recent conceptualisation of an existing pattern. In fact, data suggest that the global fragmentation of production peaked at the end of the 2000s. See OECD (2020). GVC prominence in trade analysis could be characterised as one of the cases in which asymmetries have been uncovered by research.
13 The mandate of IMF was (and since the decision was not adopted, still is) limited to promoting current account liberalisation.

Figure 2: Financial openness in advanced and emerging or developing countries, 1970-2015



Source: Bruegel based on Lane and Milesi-Ferretti database. Note: Ratio of external assets and liabilities / (GDP x 2).

What has in fact happened is however quite different from initial expectations. In 2008, the global financial crisis highlighted the centrality of Wall Street by exposing how defaults in a remote corner of the US credit market could contaminate the entire European banking system. But this traumatic experience came on top of a series of disillusionments. Already in the early 2000s, financial liberalisation proved disruptive for the weaker countries. Experience revealed a pattern of recurrent capital flow reversals, mostly driven by 'push' factors (such as rises in global risk aversion or US monetary policy decisions), rather than by policy failures in the recipient countries (Eichengreen and Gupta, 2018). As a consequence, financial openness stalled in emerging countries (Figure 2).

Comprehensive research by Philip Lane and Gian Maria Milesi-Ferretti (Lane and Milesi-Ferretti, 2018) helps assess the extent of global financial asymmetries. In 2015, gross external assets held by advanced economies and offshore financial centres countries – a broad measure of their weight in global finance – amounted to 87 percent of the world total. Emerging and developing economies accounted for the remaining 13 percent, a much lower proportion than their 40 percent share of global GDP. Miranda-Agrippino *et al* (2020) ventured into mapping the structure of the global portfolio investment network. Their conclusion was that the US and a few related financial centres (the UK, Ireland and the Cayman Islands) "*clearly dominate the world of investment*". Not only developing countries, but even China is barely visible on their map.

The policy system

Evidence of asymmetry arose not only from new developments, but also from the reassessment of interdependence. In fields including trade, finance and monetary relations, research has re-examined the functioning of international economic relations and uncovered the importance of centrality, which had been assumed away by simple models of international interdependence. The consequence was a renewed emphasis on asymmetries in the global economic system.

In the early 2000s, trade economists started wondering why further liberalisation was so difficult to achieve through multilateral negotiations. Was the failure of the Doha round (that ended without having delivered an agreement) accidental or systemic? In a series of papers, Kyle Bagwell and Robert Staiger explored what they call the "*latecomers' hypothesis*"[14]. Their starting point is that the purpose of multilateral trade agreements (as opposed to unilateral liberalisation) is to internalise the externalities involved in trade relations between large countries. In a nutshell, countries whose market power is significant have an incentive to exploit it through setting a tariff that improves their terms of trade, and the balance of concessions involved in multilateral agreements ensures that these incentives are to a great extent neutralised. In other words, the purpose of trade agreements is to facilitate an escape from a terms-of-trade driven prisoner's dilemma.

The most favoured nation principle is intended to ensure that all trading partners benefit from these concessions. There does not seem to be any asymmetry to complain about.

14 See especially Bagwell and Staiger (2014). I am grateful to Chad Bown for having directed me to this literature.

But while this is true in a static context, it does not apply in a dynamic setting if latecomers join the negotiation table *after* concessions have been made and enshrined in the bounded tariffs. At this stage there is little left for them to discuss with established trading powers. The structure of negotiated tariffs reflects the interests of the incumbents, which have little to offer to the new guests at the negotiating table. Bagwell and Staiger (2014) regarded this asymmetry as a fundamental reason why the Doha round failed to deliver an agreement.

Monetary asymmetry is another case in point. The global dominance of the US dollar in trade invoicing, international debt and credit, and foreign-exchange transactions, and its unique role as an anchor currency and a reserve currency, are well-documented facts (see, for example, ECB, 2021). If anything, the predominance of the dollar is stronger than it was in the early 2000s because the euro has lost ground, while the renminbi is very far from international currency status[15]. The question, however, is not whether the dollar is globally prominent. It is how consequential its prominence is. Here also, events have highlighted how important the global role of the dollar could be in a stress context, and research has revalued the importance of this unique status.

The global financial crisis revealed the international banks' addiction to the dollar and the degree to which they had become dependent on access to dollar liquidity for the financing of their global operations. Suddenly, dollar liquidity shortages made asymmetry brutally apparent. The swap lines extended by the Fed to selected partner central banks to

15 The European Central Bank's constant exchange-rate composite index of the international role of the euro has declined by close to 20 percent from its peak in the early 2000s (ECB, 2021).

help them cope with the corresponding demand for dollars vividly illustrated the hierarchical nature of the international system (Obstfeld, 2013; Tooze, 2018). US-centred swap lines with America's main financial partners have since been made permanent. Others were reactivated for the pandemic crisis, but the choice of beneficiaries remains discretionary. Actions by the European Central Bank (which does not have a mandate to provide euro liquidity to partner central banks) or the People's Bank of China (whose swap lines are essentially intended to support the use of the renminbi in trade invoicing) do not come anywhere close to matching those of the Fed.

Against this background, scholars have begun reassessing international economics in the light of the stronger-than-expected persistence of financial and monetary asymmetries. Hélène Rey (2013) debunked the prevailing view that floating exchange rates provide insulation from the consequences of the US monetary cycle. She claimed that the global financial cycle still originates in the US and that countries can protect themselves from destabilising capital inflows and outflows only by monitoring credit very closely or resorting to capital controls. Rather than facing a trilemma, Rey contends that many countries are therefore still confronted with a dilemma.

In a similar vein, Gita Gopinath has emphasised how reliant on the US dollar most countries remain as far as trade invoicing is concerned, and as a consequence how much fluctuations in its exchange rate affect international trade flows. Whereas the standard approach would make, say, the won-real rate a prime determinant of trade between South Korea and Brazil, the reality is that because exports are largely invoiced in the US currency, the dollar exchange rates of the

two countries' currencies matter more than their bilateral exchange rate. Rather than being neutral, a joint appreciation of the real and the won affects bilateral trade flows between Korea and Brazil.

Gopinath's dominant currency paradigm has implications for trade, macroeconomic policy autonomy and international spillovers. Again, her results highlight the centrality of US monetary policy for all countries, big and small, and shed light on Rey's findings. Gopinath also found evidence that monetary policy shocks in the dominant currency country have "*strong spillovers to the rest of the world, while the converse is not true*" (Gopinath *et al*, 2020).

Rey's and Gopinath's findings do not render the trilemma framework irrelevant. But they raise questions about the assumption that choosing a floating exchange rate regime provides insulation from the financial and monetary influence of the US.

Enduring monetary asymmetry should not be understood as resulting in some sort of unconditional privilege. As developed by Pierre-Olivier Gourinchas and Hélène Rey, the exorbitant privilege enjoyed by the US is matched by the corresponding exorbitant duties that fall onto the issuer of the international currency (Gourinchas *et al*, 2017). The provision of swap lines to partner central banks magnifies the influence of the US, but it involves risks for the Federal Reserve – the very risks the ECB is reluctant to take on. Furthermore, in the same way the formally asymmetric Bretton Woods regime put severe constraints on US monetary policy, the current system has implications for the conduct of policy by the Federal Reserve and the US Treasury. Maurice Obstfeld pointed out that the dollar centrality makes US inflation and

the equilibrium interest rate more dependent on foreign developments, and that the Federal Reserve must consider the spillback effects of its decisions through the policy response of economic partners (Obstfeld, 2019)[16].

Institutions

Structural economic change is only one aspect of the asymmetry issue. Institutions and behaviour also matter considerably. Indeed, by economic standards the post-Second World War world was as asymmetric as it could be (Figure 3). But the system of multilateral rules and institutions put in place and, to some extent, the actual behaviour of the US government, contributed to mitigating imbalances of economic power. Multilateralism was meant to give to other countries – at least the main ones – a stake in the governance of the global system.

For sure, rules had been set at US initiative, but amending them had become an increasingly participative process. And although the US political system had not internalised the constraints arising from multilateral commitments – as illustrated by the refusal of Congress to ratify the Havana Charter on the International Trade Organisation, or by the unilateral suspension of the dollar's convertibility into gold – successive

16 Strong asymmetry also prevails in the denomination for international debt. The divide between the countries that are able to borrow in their own currencies and those – emerging and developing – that are forced to borrow in a foreign currency (what Barry Eichengreen, Ricardo Hausmann and Ugo Panizza (2005) called their "*original sin*") is receding only slowly. Furthermore, the US remains unique among advanced countries: whereas bonds denominated in other currencies can also serve as safe assets for the rest of the world, US Treasury bonds offer unrivalled depth and liquidity, and only the US dollar regularly appreciates in times of global financial stress (Caballero *et al*, 2008).

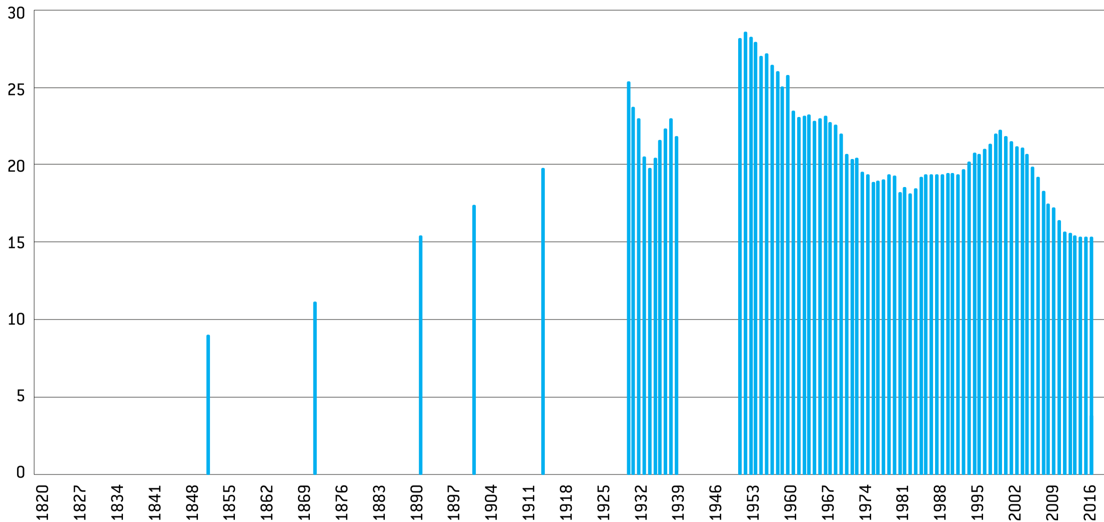
administrations were conscious of the need for US policy to remain broadly consistent with the principles enshrined in international economic treaties.

The liberal international order, to use the appellation coined by John Ikenberry (2018), was therefore both hegemonic (in that it had been built by and around the US) and multilateral (in that all participants were subject to the same rules). Its core *quid pro quo* was that the hegemon would both benefit from its central position and accept being significantly (though not entirely) constrained by multilateral rules, for example international trade rules. To borrow from Adam Posen, the US was a sort of chair for life of a global club whose rules it had largely conceived but still had to consider when taking its own decisions (Posen, 2018). It could collect dues but was also bound by duties, and had to forge consensus on amendments to the rules.

Consistent with this logic, the 'unipolar moment' that followed the demise of the Soviet Union was widely regarded as an opportunity to strengthen the multilateral system. With the rivalry that had structured international relations for five decades gone, it was hoped that nascent globalisation could be given stronger legal and institutional underpinnings and a governance regime that would better reflect the growing diversity of the countries taking part in international interdependence. Europe at least hoped that the globalisation of private transactions would be matched by the ascent of global governance.

These hopes were quickly dashed. By the early 2000s, expectations that globalisation would be governed by a web of rules-based specialised institutions had been disappointed: multilateral trade talks were unable to deliver

Figure 3: US share of global GDP, 1820-2016 (purchasing power party GDP)



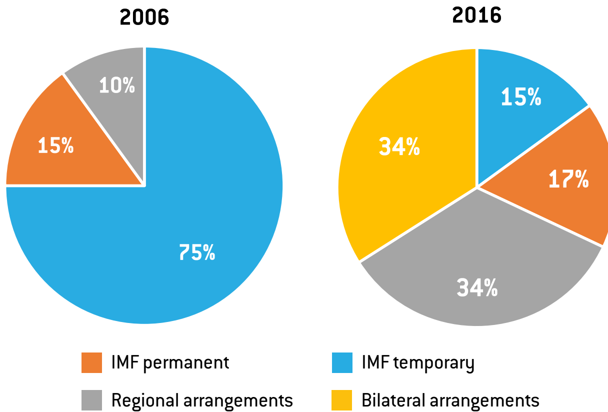
Source: Bruegel based on Maddison project database (2018 update).

agreement on a new round of liberalisation, and hopes that the international community would agree to establish new multilateral frameworks for investment, competition, climate or the internet had faded away. The weakening of global governance was already visible at the turn of the millennium. It would weaken further in the 2010s, after the short revival in international cooperation in the immediate aftermath of the global financial crisis that gave rise to the creation of the Group of Twenty and its official elevation to the status of "*premier forum for international economic cooperation*"[17]. Global governance became weaker still in the wake of the populist wave of the mid-2010s.

The picture nowadays is far from what global architects imagined a couple of decades ago. Rules are still in force and institutions are still alive, but the momentum has been lost and fragmentation trends are unmistakeable[18]. The crumbling of the multilateral order is especially visible in the very fields that were at the core of the post-Second World War order: trade and international finance. Even excluding intra-EU trade, preferential trade agreements currently cover more than half of global trade[19]. And the IMF's permanent resources amount to only 15 percent of the global financial safety net, compared to 75 percent a decade earlier (Figure 4). The once-dominant global trade and financial safety regimes have largely made way to regional arrangements.

17 Official communiqué of the G20 Pittsburgh summit (2009).
18 I developed these points and discussed the causes of the decline of global governance in my Wincott lecture (Pisani-Ferry, 2019a). See also Pisani-Ferry (2019b) and Papaconstantinou and Pisani-Ferry (2021).
19 See UNCTAD, *Key statistics and trends in trade policy 2020*, available at https://unctad.org/system/files/official-document/ditctab2020d3_en.pdf.

Figure 4: Structure of the global financial safety net, 2006 and 2016



Source: Report of the G20 eminent persons group on global financial governance (Tharman report), 2018.

Why did that happen? Clearly, successive US administrations did not see the need for an overhaul of the global system. Or if they saw it, they did not give it a high priority. As Graham Allison said, the whole world had become the *de-facto* US sphere of influence (Allison, 2018). Appetite for sharing power with a defeated Russia, a (then) inward-looking China or a series of second-rank emerging countries was limited. US reluctance to enter into binding international agreements was strong, as indicated by its 1998 refusal to agree on the creation of the International Criminal Court. And nationalism was already on the rise: writing in 2000, John Bolton (who would a few years later be appointed ambassador to the United Nations, before serving as National Security Adviser to President Trump) described the battle between "*Americanists*" and "*Globalists*" as "*the decisive issue facing the US internationally*" (Bolton, 2000).

Demand for global governance was anyway limited. Although Europe was (and remains) culturally supportive of a rules-based order, neither China nor India have expressed significant interest in sharing global responsibility with the US and Europe. Both were suspicious of a Western-dominated system and both lacked the expertise and personal needed to exert significant influence within it. The Asian financial crisis of the late 1990s (and the Russian crisis that followed) was a watershed as it highlighted the risk of being forced to rely on international financial assistance and the associated harsh policy conditionality. The result was East Asia's distrust of the IMF-centred global financial safety net.

Geopolitics

The weakening of multilateral institutions is now compounded by another factor. Growing geopolitical rivalry between the US and China is fast restructuring international relations as well as the relationship between major powers and international organisations.

For all its vagaries and aggressive posturing, the Trump administration introduced a fundamental and probably lasting paradigm shift in the US stance. Trump was peculiar in his attempt to leverage the unique trade and financial standing of his country in order to extract pecuniary rents from partners, to force them to abide by US unilateral sanctions, and to undermine global governance. But he was less peculiar in his change of perspective. In the words of Nadia Shadlow (2020), a former senior National Security Council official, his trademark was to recognise that "*rivalry is an unalterable feature of the international system*" and it would

be a "*grave mistake to return to the premises of a bygone era*". Statements by the Biden administration indicate that while it strongly departs from Trump's aggressive nationalist stance and wants to revive multilateralism, it also regards the rivalry with China as a now fundamental factor that is bound to structure the international strategy of the United States.

China contributes to the questioning of economic multilateralism. While paying lip service to it, Beijing does not in fact endorse the concept of a rules-based order, especially as that order's rules were written by others. Rather, China is actively building a network of essentially bilateral relations with countries that depend on its financial, technical or security support. In trade, it can be argued that China is far from unique. The launch of the Regional Comprehensive Economic Partnership (RCEP), a Beijing-centred trade arrangement in Asia, is part of a wider trend towards regionalism. This and the transformation of the US-led Trans-Pacific Partnership, a trade agreement launched under the Obama administration to strengthen US influence and exclude China, into the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which no longer includes the US but has opened accession negotiations with the United Kingdom, are reminiscent of older times when the bulk of trade was conducted within spheres of geopolitical influence.

But China's behaviour in development finance contradicts a decades-long effort to put an end to trade-tied aid and strengthen multilateral procedures. With the Belt and Road initiative, President Xi Jinping has endeavoured to build a Beijing-centric web of bilateral agreements that cover trade, investment and credit. In addition to the already

mentioned swap arrangements, China has extended massive bilateral loans to developing countries. In the course of a few years, these loans have often superseded the total financing provided by advanced countries and multilateral lending institutions (Horn *et al*, 2019). Moreover, as documented by Gelpern *et al* (2021), most Chinese loan contracts to developing countries include a "*no Paris Club*" clause intended to rule out a possible restructuring within the framework of the standard multilateral procedure. A web of financial, economic and geopolitical relations organised around China has emerged. Its structure is inherently asymmetric and the principles upon which it is built are alien to those underpinning what remains of the global multilateral system.

Instead of a single Western-dominated multilateral system, the world is therefore witnessing the gradual emergence of competing networks of trade, investment, credit and – increasingly – currency arrangements. And instead of strengthening multilateralism, we are already *en route* to a multipolar system[20].

In the end, economic, institutional and geopolitical factors converge to restructure the system of international economic relations. Powerful forces buttress networks built around increasingly strong nodes. Yet as political scientists Henry Farrell and Abraham Newman (2019) have pointed out, such a structure provides considerable leverage to whoever controls its nodes. Networks are economically efficient, but network-based interdependence can be "*weaponised*" and turned into an instrument of power to the benefit of

20 Changes in attitude vis-à-vis multilateralism are not limited to the US and China. A broader trend towards economic nationalism is noticeable throughout the world (De Bolle and Zettelmeyer, 2019).

whoever controls the key hubs. Whereas the intensification of multilateral trade is an incentive for cooperation, the rise of network-based economic relations, in which hubs concentrate power and rents, leads to battles for the control of their key nodes.

The notion of "*weaponised interdependence*" put forward by Farrell and Newman is reminiscent of old reflections on the ambiguous relationship between mutually beneficial exchange and the power dimensions of international trade. Writing in the immediate aftermath of the Second World War, Albert Hirschman noted that "*power elements and disequilibria are potentially inherent in 'harmless' trade relations* [...] *which could be fully in accord with the principles taught by the theory of international trade*" (Hirschman, 1945). In the same spirit, the notion of weaponised interdependence captures the seemingly irresistible mutation of efficient economic structures into power-concentrating ones. It marks a return to the grim international realism of the Braudelian school.

6 CONCLUSIONS

After a decades-long eclipse, asymmetry, a concept that once underpinned analyses of international economic relations, is returning to centre stage. This raises the question of what economists, scholars of international relations and, especially, policymakers should conclude from this observation?

A new landscape

Asymmetry is admittedly a complex and somewhat elusive concept. It is naturally involved in trade, along with comparative advantages or inter-temporal exchange, through the export of excess savings. In a way, most international transactions (except pure intra-industry trade or asset purchases motivated by portfolio diversification) entail a degree of asymmetry, which in itself should not be regarded as a symptom of dysfunctionality. What we are witnessing is not, however, the mere expression of the fact that international transactions involve countries that differ from each other. It is rather a revival of systemic asymmetries that confer power and inflict vulnerability.

History provides many examples of prosperity without power, or power without prosperity. Fifty years ago, the

perception that the international system was unfair fuelled deep grievances against it. Ultimately, however, asymmetries between the ‘centre’ and the ‘periphery’ did not prevent the transfer of knowledge from North to South, and in historical perspective they were used to a limited extent only as a vehicle for amassing riches at the expense of the weakest participants in international exchange. For all the legitimate grievances against the exploitation of workers in poor countries, trade has served as a vehicle for development. Neither did asymmetries prevent newcomers to the global game from gradually gaining influence, grabbing power on the margins and ultimately gaining seats at the G20 high table.

The novelty of the situation is that three implicit assumptions, that were common until recently in the analysis of international economic relations, have been called into question. The first was that, for all the existing asymmetries and the desire by established powers to retain their privileges, time would even out the ridges so that the system would gradually become more symmetric; as long as this assumption held, the direction of travel seemed clear. The system was not fair, but there were reasons to hope that it would become fairer.

The second assumption was that asymmetries would not serve as vehicles for undue rent extraction; the rules of the game were that the exorbitant privilege of the hegemon (and by extension of the other dominant countries) would remain matched by proportionate duties. For sure, the implicit contract was not exactly balanced, but again, there was some degree of fairness to it.

The third assumption was that the increasingly global character of the economic challenges – from financial stability to development and the preservation of climate – would

be matched by the strengthening of global governance. As emphasised by the G20 on the occasion of the London summit of April 2009, a common conviction was that "*A global crisis requires a global solution*".

Recent experience has shed a harsh light on the simplistic character of these assumptions. Asymmetries within the global system are not only more entrenched than was believed until recently, they are also resurgent. They serve as vehicles for seizing economic advantage. The momentum is not towards a multilateral order within which all countries big and small will play by the same rules. Rather, a combination of technological, systemic, institutional and geopolitical factors is driving a transformation towards concentration and multipolarity.

The evolution observed since the 1970s can be summarised on the basis of the factors singled out in section 2 (Table 1). The 1970s were characterised by strong structural and policy asymmetries, which were hardly mitigated by institutions. Even the Group of Seven, which was a recognition that the US was not alone at the centre anymore, was only created in 1975. Geopolitics played a secondary direct role as far as economics were concerned, because the US and the Soviet spheres were almost completely separated (indirectly, however, system competition gave the US a strong incentive to promote prosperity in the West).

The global economy was clearly very different at the start of the twenty-first century, when globalisation reached its apex. Transformation in access to technology and the structure of trade had made the world flatter. Systemic asymmetry was also less pronounced, or at least this is how it was perceived. Institutions were increasingly inclusive (though far from ensuring balance between incumbents and newcomers). And geopoli-

tics seemed to have disappeared from the map, as there was no alternative to the liberal order on the horizon.

Table 1: Asymmetries and symmetries over five decades

	1970s Core-periphery	2000 Globalisation	2020s Polarisation
Economic structures	Asymmetric core-periphery pattern	Second unbundling: flatter world	Return of asymmetries (GVCs, finance, data)
Policy system	Dollar-centred fixed exchange-rate system	Greater national autonomy through floating (but dominant currency paradigm)	Drift towards monetary and financial multipolarity
Global institutions	Multilateralism of the rich	Increasingly inclusive institutions	Further inclusiveness, but weakening of multilateralism
Geopolitics	Rival, weakly interconnected economic spheres	Unipolar moment	Growing rivalry, trend towards weaponisation of economic power

Source: Bruegel.

Fast forward another two decades and changes are evident. Asymmetries are back. Rising market power, the sudden ubiquity of global digital networks, hierarchical hub-and-spoke structures in international trade and finance and the enduring dominance of the US dollar, despite the transition to floating exchange rates, all point to their resurgence. The remarkable decay of economic multilateralism in the very fields – trade and development finance – where global rules and institutions were first tried and reigned supreme for

decades, is paving the way to a redefinition of international relations on a bilateral or regional basis, with powerful countries setting their own rules of the game. This transformation is compounded by the strengthening of geopolitical rivalry between the US, China and a handful of second-tier powers.

Donald Trump's attempt to leverage US centrality in the global economy to extract rents from economic partners was short-lived. But US policy has certainly changed permanently. For all its friendly intentions, the Biden administration leaves no doubt about its overriding priorities: a foreign policy for the (domestic) middle class – to quote the title of a recent report (Ahmed *et al*, 2020) – and the preservation of the US edge over China. China, for its part, has set itself the goal of becoming by 2049 a "*fully developed, rich and powerful*" nation and does not show any intention to play by multilateral rules that were conceived by others. In this context, the rapid escalation of great power competition between Washington and Beijing is driving both rivals towards the building of competing systems of bilateral or regional arrangements.

Living with asymmetries

What is emerging is not only an asymmetric hub-and-spoke landscape. It is a world in which hubs are controlled by major geopolitical powers – in other words, a multipolar, fragmented world. Nothing indicates that these asymmetries will fade away any time soon. On the contrary, economic, systemic and geopolitical factors all suggest they may prove persistent. We will have to learn to live with them.

There are several consequences. First, this new context calls for an analytical reassessment. Recent research has put

the spotlight on a series of economic, financial or monetary asymmetries and has begun to uncover their determinants and effects. Analytical and empirical tools are available that make it possible to gather systematic evidence and to document the impact of asymmetries on the distribution of the gains from economic interdependence. We are on our way to learning more about the welfare and the policy implications of participating in an increasingly asymmetric global system.

Second, the relationship between economics and geopolitics must now be looked at in a more systematic way. For many years – even before the demise of the Soviet Union – international economic relations were considered in isolation, at least by economists. They were looked at as if they were (mostly) immune from geopolitical tensions. This stance is no longer tenable, at a time when great-power rivalry is reasserting itself as a key determinant of policy decisions. Whatever their wishes, economists have no choice but to respond to this new reality. They should document the potential for coercion by powers in control of crucial nodes or infrastructures and the risks involved in participating in the global economy from a vulnerable position.

Third, supporters of multilateralism need to wake up to the new context. They have too often championed a world made up of peaceful and balanced relations that bears limited resemblance to reality. Because power and asymmetry can only be forgotten at one's own risk, neglecting them inevitably fuels mistrust of principles, rules and institutions that are perceived as biased. Multilateralism remains essential, but institutions are not immune to the risk of capture.

Asymmetry, however, does not imply a change of paradigm. Even if it affects the distribution of gains from trade, it

does not abolish them. And in a world in which global public goods (and bads) have moved to the forefront of the policy agenda, there is no alternative to cooperation and institutionalised collective action. The prevention of climate-related disasters, maintenance of public health and preservation of biodiversity will remain vital tasks whatever the state of international relations. What asymmetries call for is an adaptation of policy template. The multilateral project should not be ditched, but it must be rooted in reality[21].

The lessons for Europe

Reassessment is especially needed in Europe. Because it has been assigned specific competences in a series of specific fields, the EU has traditionally approached international economic relations as a "*fragmented power*", addressing sectoral policy challenges one by one and often failing to join the dots (Sapir, 2007). For a long time, the Union has had a regulatory, trade, competition and monetary policy, but no foreign economic relations policy. And because it is itself a community of law, it has time and again approached sectoral challenges with an idealistic outlook. It must now adapt to a new geopolitical reality and rediscover the very notion of economic sovereignty it strove for so long to expel from its *Weltanschauung* (Leonard *et al*, 2019).

This is particularly important in a context in which external action tends to replace internal integration as the EU's main purpose. From the customs union to the single market and from the creation of the euro to banking union, the EU

21 Related policy issues are addressed in Papaconstantinou and Pisani-Ferry (2021) and Pisani-Ferry (2021b).

was largely defined by its internal agenda. It was mainly about tearing down walls within Europe and designing policy rules for integration. But from the early 2000s onward, it started responding to globalisation by pivoting more and more towards external action. Privacy protection, global public health and climate action epitomise a redefinition of the EU and its rising external ambitions.

This reorientation has practical implications in a series of fields, from technology to competition policy and the international role of the euro[22]. But, first and foremost perhaps, it has implications for Europe's strategic outlook and for its governance. In the aftermath of the Second World War, the EU was created in a search for symmetry between former enemies on a continent that had repeatedly suffered from power rivalry. It was designed as one component within a wider global rules-based order. In this context, a rules-based, sectorally-fragmented governance system ensured balance, protected the prerogatives of member states, and provided a shield against the temptation to abuse discretionary power. Moreover, this decision-making system was particularly effective in a world in which policy discussions were themselves fragmented along sectoral lines.

Such governance is increasingly in question. For all the might which the size of the EU's market and the policy tools at its command may give it, a fragmented Europe that does not connect the dots across policy fields, that lacks a strategic perspective and that does not tell its truth to the other powers would not serve much purpose in the world that is emerging.

22 I have addressed these in detail in a joint paper with Mark Leonard, Elina Ribakova, Jeremy Shapiro and Guntram Wolff (Leonard *et al*, 2019). On the international role of the euro, see Claeys and Wolff (2021).

The world the EU is part of is not the world of globalisation anymore. It consists of powers – some private, some sovereign – that cannot be ignored.

Transformations at work in the global economy vindicate the EU's growing emphasis on external action. Not only are global commons and the preservation of essential infrastructures of increasing relevance, but growing asymmetries in fields like trade, competition, finance and money call for precisely defined responses. Europe has no choice but to fight for the global public goods it cherishes, for the rules-based order it believes in and for its own economic sovereignty. It must adapt its own governance to the new prominence of these tasks.

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Jean Pisani-Ferry is a Senior Fellow at Bruegel and Tommaso Padoa Schioppa Chair of the European University Institute in Florence. He is also a professor of economics with Sciences Po (Paris) and Non-Resident fellow with the Peterson Institute (Washington DC). Previously he was Director of Programme and Ideas for Emmanuel Macron's 2017 presidential campaign, and Commissioner-General of France Stratégie, the ideas lab of the French government. From 2005 to 2013, he was the Founding Director of Bruegel. Before creating Bruegel, he was Executive President of the French PM's Council of Economic Analysis (2001-2002), Senior Economic Adviser to the French Minister of Finance (1997-2000), Director of CEPII, the French institute for international economics (1992-1997), and an economic advisor to the European Commission (1989-92).

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Bruegel, Rue de la Charité 33,
B-1210 Brussels
(+32) 2 227 4210
info@bruegel.org
www.bruegel.org