

Are Geopolitics Trumping Geoeconomics?

A Conversation With Pascal Lamy

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NextGen Talks is a new series led by Brunswick's NextGen committee, connecting junior staff with Senior Advisors and Partners. To learn more, contact nextgencommittee@brunswickgroup.com.

Pascal Lamy is the President of the Paris Peace Forum and Chair of Continental Europe and a Senior Advisor at Brunswick Group.

He also coordinates the Jacques Delors Institute (Paris, Berlin, Brussels) and is the president or member of various boards with a global, European or French vocation (European Starfish Mission), Mo Ibrahim Foundation, European Climate Foundation, IFPRI, PECC, CERRE, TMEA, Antarctica 2020, Transparency International, Alpbach Forum, Beijing Forum, World Trade Forum, WEF, Global Risks, Europaeum, Collegium International, Musiciens du Louvre, Institut Mendes-France, Colbert Foundation, etc.). He is an affiliated professor at the China Europe International Business School CEIBS (Shanghai) and at HEC (Paris).

From 2005 to 2013, Lamy served two consecutive terms as Director General of the World Trade Organization. He was previously Trade Commissioner (1999-2004); Director General of Crédit Lyonnais (1994-1999); Chief of Staff of the President of the European Commission, Jacques Delors, and his G7 Sherpa (1985-1994); Deputy Chief of Staff to the French Prime Minister (1983-1985) and to the French Minister of Economy and Finance (1981-1983).

This Q&A has been edited for length and clarity.

NextGen (NG): Can you give an overview of the current geopolitical and goeconomic landscape?

Pascal Lamy (PL): It's no news that we are in the midst of many global crises which more or less intersect with each other – Russia's invasion of Ukraine, US-China tensions, climate, energy, food, COVID – it's a moment of intense agitation. But what's more, we are now in a situation where economic and trade relations – goeconomics – are being instrumentalized by political actors. As global shaping factors, unfortunately, geopolitics are stronger and goeconomics weaker.

In a globalized world, if you do something better than I do, and vice versa, then we have an objective rational interest to trade. This creates efficiencies through division of labor and specialization, leading to the growth of our economies, and a potential increase of welfare. I am not saying that this has changed, but the perception of this virtuous cycle has changed – which is why the discourse about deglobalization is on the rise.

However, the notion that the world will deglobalize is one that I reject for a simple reason: it's too costly. Globalization is efficient and painful; deglobalization is inefficient and painful.

NG: What do businesses need to consider in this context?

PL: If I tried to summarize what I am hearing from large global companies, it is that the biggest risk they now face is exposure to sanctions – applied by the Americans – or by the Chinese, or even now by Europeans – onto those who do not "behave." They are specifically wary of a scenario in which China gets its grip on Taiwan, in the form of an economic blockade, around 2027 – one year after President Xi Jinping's third mandate. While this is unlikely to happen now due to China's dependency on Taiwan for chips, China is currently on the way to decrease that dependency.

In such a scenario, no one would be immune to sanctions. Senior executives tell me, “We have to be American in the US, Chinese in China and Europeans in Europe,” in order to hedge their exposure to geopolitical risks. Being “global” is no longer enough. These considerations – which I did not hear before – are now a real factor for businesses.

NG: Will a Taiwan conflict be contained to an economic issue?

PL: We have reached such a level of interdependence that, yes, a conflict between China and Taiwan will likely remain limited to economic sanctions. In contrast to Russia’s invasion of Ukraine, the US and China understand the economic interdependence and level of exposure to sanctions. Putin understands politics but not economics.

NG: Is EU sovereignty a solution to long-term energy issues?

PL: The EU needs to avoid a cartel on raw materials – something they were incredibly unsuccessful in avoiding when an oil cartel appeared. Why, within a global capitalist system, run by markets and a liberal economy, have we accepted the oil and gas cartel so easily? This has always been a mystery to me! Especially if I consider the enormous rent such a cartel has benefited from for such a long time. Lesson: we have to avoid a repetition of this mistake with the key ingredients to greening our economies, i.e., rare and critical material; and investing a lot and rapidly in research and innovation to find alternatives while avoiding conflicts and creating global sustainability standards. Hence the Paris Peace Forum 2022 initiative on this topic.

NG: Does the EU’s policy of open strategic autonomy go beyond rhetoric?

PL: The concept is a result of a simple consideration: if you look at all the crises that hit Europe in the last 15 years, they all came from the outside. The idea here is to better protect the EU from external shocks. While strategic autonomy is still more talk than walk with effective policy instruments, they’ll eventually join up. The reason for that is that the world tomorrow will be more dangerous than the world today.

The better way to protect the EU is through more EU integration including in areas like tech, trade or defense. Though of course, on defense, building a European pillar of NATO is easier said than done. But the need for more integration is clear.

NG: How will globalization play out in the digital world?

PL: The digital ecosystem will not globalize the way that the traditional system did. Socks and t-shirts have no ideological component the way that tech does. Data – which is already bought and sold in billions every day – is ideologically tainted. There are reasons why some people want to protect data or not, and what they want to protect differs from constituency to constituency.

The size of China has been paramount to its success in developing its digital ecosystem. What is also true within the digital sector is that the business models of big tech are all the same. The market power of Alibaba in China is as much a problem as the market power of Google in the US, because they have developed in the same ecosystem. But promoting convergence and organizing coexistence in digital ecosystems necessitates a new international agenda as I have advocated in a recent big piece of research ([Lamy & Libhaber, 2022](#)).

NG: What do you think the impact will be when the US begins to encourage EU companies to develop their plants and manufacturing sites in the States?

PL: Tensions! As we see them developing after the US Inflation Reduction Act legislation on subsidization of electric car production with local content which runs against WTO disciplines. The big risk is a subsidy war turning into a trade war between the US, the EU and China. We would all lose.