

China's Rise and the International Economic Order: The China Shock at the End of History

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A Conventional Perspective and Strategy

A hostile, revisionist hegemonic power

- China's ascendancy constrains America's future prospects and freedom of actions
- America's actions contain China's legitimate rise

Coalescence and fragmentation

- While Geopolitics is fracturing world order ...
- ... Economics will hold together the international system

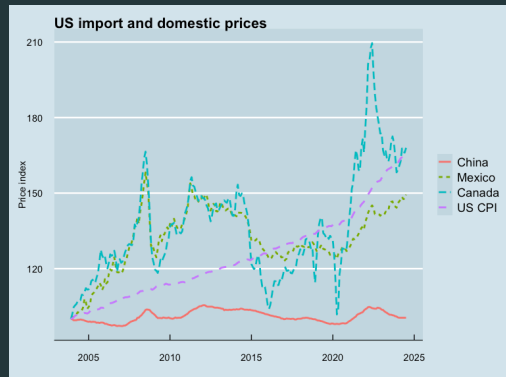
Thucydides Realism

- "Great Powers do what they will; the rest of us suffer what we must"
- "Choose a side"

Environment

Era of Coalescence and of Fragmentation

- “Geopolitical convergence. Economic efficiency. Comparative advantage”: Grand themes of the new millennium
- Economics is the glue to hold together global order. Fragmentation too costly.



Geopolitical Convergence



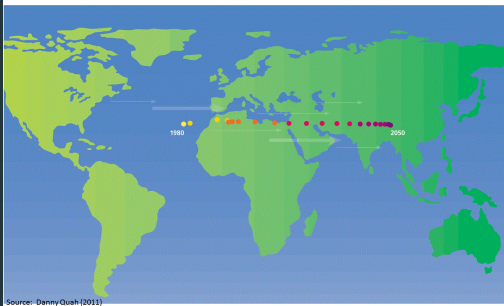
“We simply cannot afford to leave China forever outside the family of nations, there to nurture its fantasies, cherish its hates, and threaten its neighbors. There is no place on this small planet for a billion of its potentially most able people to live in angry isolation.”

(Nixon, 1967)

Geopolitical Convergence

- “a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world”
- “liberal democracy remains the only coherent political aspiration that spans different regions and cultures around the globe”
- “The question is not whether we approve or disapprove of China’s practices. The question is what’s the smartest thing to do.”
- “Now there’s no question China has been trying to crack down on the Internet. Good luck! That’s sort of like trying to nail Jell-O to the wall.”

The world's economic centre of gravity: 1980-2050



The Globalization Lift

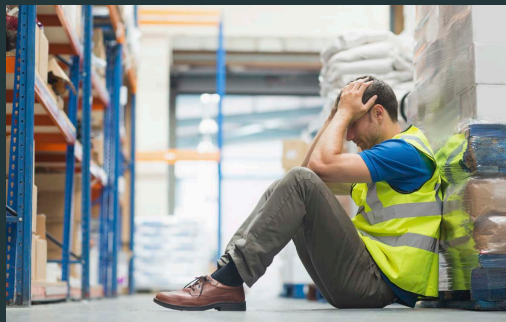
Emerging countries' combined GDP as a share of G7 GDP



Note: GDP data are measured in constant USD
Sources: the authors' own calculations, IMF World Economic Outlook (Oct 2015, updated)

Shocks

- China Shock. “Stealing our jobs, hollowing out our industry, turning into ghost towns once-thriving American middle-class communities”
- Economics no longer standing up to national security



Shocks

- Essential technologies of the future.
Critical materials.
- The Three Communiques of 1972, 1979, 1982; the Taiwan Relations Act
- FOBS/HGV
- “The most ancient cause of all”?
Cold War 2.0?



Agency: Third Nation Strategies

Third Nations: Perspectives and Strategies

80% of humanity

- Not about small states, middle powers, . . .

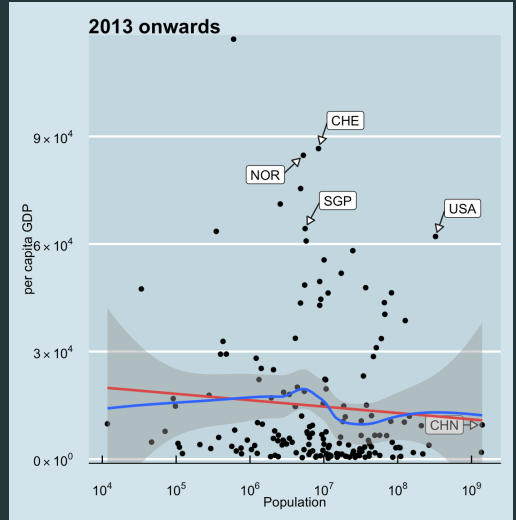
Exogenous and not

- What shifts the general equilibrium

Exercising agency

- Beyond “poisoned shrimp” and other neo-Thucydides Realism

1. Inadvertent cooperation
2. Nudge out of Great Power gridlock
3. Pathfinder multilateralism



1. Inadvertent cooperation

East Asia

China EV makers to pivot to emerging markets as US, EU hike tariffs

The shift also comes amid Chinese President Xi Jinping and his government's increasing desire to boost cooperation with the Global South, which China considers itself a part of.



Electric cars are pictured inside BYD's first electric vehicle (EV) factory in Southeast Asia, a fast-growing regional EV market where it has become the dominant player, in Rayong, Thailand, July 4, 2024. (Photo: REUTERS/Chalinee Thirasupa)

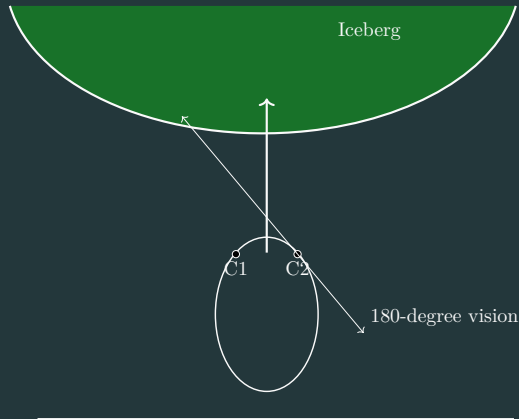
Cooperation does not have to be contractual

1. “butcher, brewer, and baker”
2. Renewables, sanctions, and subsidies
“make my nation feel awkward”

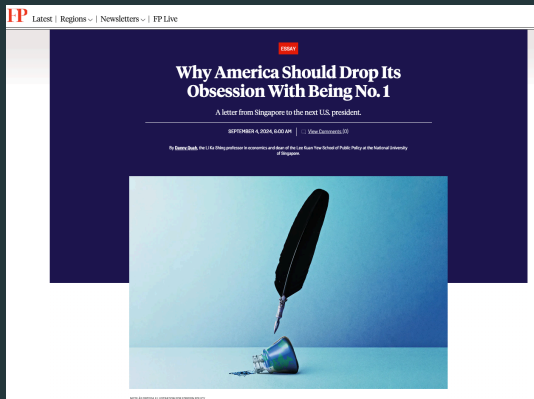
2. Nudge out Great Power Gridlock

Playing games

1. Prisoners' Dilemma and Epic Fail equilibria
2. The Titanic tragedy



3. Pathfinder multilateralism



When multilateralism is unavailable

1. Plurilateralism, minilateralism, regionalism, ...
2. Open and inclusive by design, but robust to non-unanimity

Conclusion

China's Rise and the International System:

The China Shock at the End of World History

1. The switching global environment:
 - 1.1 Coalescence
 - 1.2 Fragmentation
2. Agency, not just passive Thucydides response
3. Strategies
 - 3.1 Inadvertent cooperation
 - 3.2 Nudge out of gridlock
 - 3.3 Pathfinder multilateralism

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