GLOBAL ASYMMETRIES STRIKE BACK

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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

is 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. eir implicit model is generally a zero-sum game. Sometimes it is even a winner-takes-all zero-sum game.

Economists tend to take a di erent view. ey 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 bene t, 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.

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

Such models can be taken as yardsticks against which

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 ercely 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 o ered 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).

e 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,

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 di erent 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 " 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).

e 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 bene ts of technical progress through international exchange, and therefore have no need to industrialise. "*If they were to do so*," he wrote, "*their lesser e ciency would result in their losing the conventional advantages of such exchange*". e aw in this theory, he found, was that while it is "*indeed true that the bene ts of technical progress are gradually distributed among all social groups and classes*" of the industrialised countries, the p()]TJETEMCsc2 (alh)7 (a)7(as)

4 A FLATTER WORLD AT THE TURN OF THE CENTURY

The end of divergence

e economic history of the last fty 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 ve decades (Figure 1)[6]. e

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

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

between purchasers and suppliers have resulted in major 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.

e 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 intensi ed or

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 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

Eichengreen, 2011).

(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.

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. e 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.

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).

The policy system

Evidence of asymmetry arose not only from new developments, but also from the reassessment of interdependence. In elds including trade, nance and monetary relations, research has re-examined the functioning of international

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

the equilibrium interest rate more dependent on foreign developments, and that the Federal Reserve must consider the spillback e ects 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 internalisibr 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

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 “

Demand for global governance was anyway limited. Although Europe was (and remains) culturally supportive of 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

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*”.

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 ve decades

	1970 C e- e i he	2000 Gl bali a i	2020 P la i a i
Ec ic c e	Asymmetric core-periphery pattern	Second unbundling: atter world	Return of asymmetries (GVCs, nance, data)
P lic e	Dollar-centred xed exchange-rate system	Greater national autonomy through oating (but dominant currency paradigm)	Drift towards monetary and nancial multipolarity
Gl bal i i i	Multilateralism of the rich	Increasingly inclusive institutions	Further inclusiveness, but weakening of multilateralism
Ge li ic	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 nance and the enduring dominance of the US dollar, despite the transition to oating exchange rates, all point to their resurgence. e remarkable decay of economic multilateralism in the very elds – trade and development nance – where global rules and institutions were rst tried and reigned supreme for

the spotlight on a series of economic, nancial or monetary asymmetries and has begun to uncover their determinants and e ects. 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 ot0nlticipahip1 (as b)ttic eeen1 (om e)-3 (co9 (ies1 (.)]TJET 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).

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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