



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

QUEST FOR ECONOMIC LEADERSHIP

INTERIM REPORT



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INTRODUCTION

In April 2022, the Commission held its second evidentiary session focusing on the leadership of the global economic system. The panel—comprising speakers **Dr Fred Bergsten**, founding director of the Peterson Institute for International Economics, **Dr Keyu Jin**, Associate Professor of Economics at the London School of Economics and Political Science, and chaired by **Mr Lutfey Siddiqi**, Visiting Professor in Practice at LSE IDEAS—reflected on the need for economic leadership as the world navigates the economic terrain wrought by overlapping global crises. In particular, the economic recession resulting from the COVID-19 pandemic has been exacerbated by rising energy prices resulting from Russia’s invasion of Ukraine. Set against the context of ‘three grand shifts’—the rising focus on climate change and sustainability, the technology revolution and the shift to competitive great power relations—questions are being asked of the extent to which the United States or China is willing and able to provide economic leadership, what the future of economic leadership will look like, and whether global leadership is needed to steer the world out of its current economic malaise.

STRUCTURE OF THE CONTEMPORARY ECONOMIC SYSTEM

Dr Siddiqi argued that the shift in great power relations since the 2008 global financial crisis has eroded the relative stability of international politics and made the world a riskier place. Expanding on this, Dr Bergsten described how contemporary challenges to the existing world order are taking place across two fronts: Russia is challenging the international security order by invading Ukraine while China’s economic rise has enabled it to challenge the international economic order. As China’s economy has risen to match and potentially surpass that of the US, the concurrent presence of two global economic powers is unprecedented within the last 75 years. Prior to the First World War, the world’s economic system was built upon the leadership of a single great power: the United Kingdom, gradually surpassed by the US throughout the inter-war period to domination of the post-1945 order. There is no clear leader that can claim to lead the global system today.

A WORLD IN NEED OF LEADERSHIP

Although no clear leader can be identified in the contemporary international system, Dr Bergsten argued that leadership of the global economy may still be necessary. The Trump administration’s decision to abdicate the US from its role as global leader led to greater conflict, not only with rivals but also with allies. In a historical vein, the absence of leadership in the 1930s—as a result of the UK’s inability to sustain its

economic leadership and the US's isolationist policies—contributed to the Great Depression and Second World War. Although it remains an open question whether the world can function without economic leadership, it is a risky and potentially costly option to pursue.

Dr Bergsten further argued that the existing leadership of the economic system needs to be reformed such that both powers share an equal stake in leading the global economic system. The Chinese and American economies are large relative to the rest of the world, and roughly equal in size. Each therefore has an incentive to cooperate on economic issues since one will need the tacit support of the other to pursue their economic objectives. Thus, integrating China into the global system as an economic partner is key.

To do so, the US must decouple its approach to economic issues from wider aspects of US-China competition. Specifically, the US should maintain a functioning economic relationship with China, one that is both competitive and cooperative. Of particular importance are issues relating to reforming the global economic system, which should be addressed collaboratively between both great powers, for several reasons. First, containment strategies towards China of the kind pursued by the Trump administration in its trade war had minimal effect on China's growth and failed to garner support from the wider international community. Second, US allies, who have played an important role in the maintenance of the current economic order even in the absence of US leadership, also play a crucial part in welcoming China into the role of economic leadership. Finally, the US needs to build up its domestic economy to allow it to regain respectability as a constructive leader of the global economy.

For such a dual-leadership system to emerge, there needs to be a concurrent change in Chinese mindsets alongside structural changes to the global economic system. It is insufficient for China to conceive of its role narrowly as being merely a 'responsible stakeholder'. Rather, it needs to adopt the mindset of becoming an 'equal partner' to the US in leading the economic system. China also needs to adjust its own economic policies—particularly those related to trade, investment and technological protectionism—that have detrimental effects on the global economic system from which it benefits. Dr Bergsten was optimistic that China will desire to cooperate as an equal partner to lead and maintain the global economic order, given that it has a large stake in ensuring its continued success.

Both the US and China have strong incentives and can gain significant benefits from ensuring the success of the global economy through collaborative leadership. Practically, this would entail both great powers mutually joining and supporting multilateral initiatives that are currently spearheaded by only one of them. For instance, the US could join the Asian Infrastructure Investment Bank (AIIB) while China could join both the International Energy Agency (IEA) and the Paris Club.

CHINA'S VISION OF THE GLOBAL ECONOMIC SYSTEM

Dr Jin provided insight on the Chinese vision regarding the global economic system, which comprises four aspects. First, China strives to become the largest economic power within the next ten years. Second, it seeks to ensure the stability of its domestic political economy. Third, it firmly believes that it has the right to achieve prosperity for the Chinese people. This is to be secured through domestic economic performance but also via engagement in international trade, finance, and technological development. Consequently, anyone seen to be obstructing this prosperity is viewed as a potential aggressor or adversary. Fourth, it wishes to create a new global leadership role for itself to garner respect. This is in line with President Xi's

stated ambition of achieving 'national rejuvenation'. Crucially, the economic system it envisions differs from that of the US, as it emphasises economic pragmatism over values-driven approaches as the basis for collaboration.

Importantly, although China envisions itself as a leader in the global economic system, it does not currently have ambitions to project its own model on other states. Even historically, at the height of its power under the Song Dynasty, China did not seek to expand even though it had the requisite ability and power, instead adopting the tributary system.

This does not mean that China has no geopolitical agenda. Rather, its main takeaway from its own developmental journey largely centres around the importance of infrastructural and development finance. Thus, it has developed a model of economic cooperation in the form of the Belt and Road Initiative (BRI) to provide such funding to other developing states. While there have been concerns voiced about the BRI, the overall picture remains mixed. China remains a significant provider of much needed financial resources to developing countries to build a variety of infrastructure projects. BRI projects have met global standards and are also steadily improving over time. More empirical research is required to develop a more comprehensive understanding of the BRI today.

China's mentality has shifted in accordance with its economic development. When it entered the WTO, China started as a careful observer of the global economy, focused on learning from the world rather than expressing itself. As it has grown, China has also become more confident and assertive, looking to shape global norms rather than being a passive follower. In particular, it views itself as a voice of developing countries and aims to challenge certain rules crafted in a period when the developing world accounted for a marginal share of global GDP and thus had limited influence. With the contemporary growth of emerging markets, China feels that these rules continue to privilege advanced economies over developing ones. Crucially, the desire to reshape international rules is not unique to China or developing countries. Advanced economies too have sought to change existing rules.

Finally, Dr Jin also emphasised that China should also seek out allies by reducing its reliance on the hard power of economics and deploying a softer approach of moral leadership.

DECONSTRUCTING COMPETITION

Dr Jin also argued that competition is not an inherently bad dynamic. Some level of competition, if properly managed, is healthy. For instance, the US responded positively to the economic competition that accompanied the rise of Japan, France, and Germany, allowing it to benefit from the fruits of technological innovation. We need to therefore broaden narrow conceptions of 'competition' as a dynamic purely concerned with security issues, to account for the positive potential of great power competition. ■

PARTICIPANTS


Fred Bergsten	Founding Director (emeritus), Peterson Institute for International Economics
Keyu Jin	Associate Professor, London School of Economics and Political Science
Lutfey Siddiqi	Visiting Professor in Practice, LSE IDEAS


LSE Global Economic Governance Commission

The LSE Global Economic Governance Commission is a forum for debating and redesigning global economic governance.

COVID-19 has presented the world with a new Bretton Woods moment. It has exposed the fragilities of the global monetary order and the dislocations in the global trading system. With economic damages rising and tax revenues falling, it has presented a new crisis for global development and demonstrated the overdue need for global tax coordination. As states have struggled to band together to overcome their shared challenges, it has made clear the difficult road ahead for the global climate agenda.

To steer the much-needed transformation of the rules, practices, and institutions of the global economy, The London School of Economics and Political Science and LSE IDEAS have convened the LSE Global Economic Governance Commission. The Commission brings together leading academics and policymakers around five core domains of global economic governance: monetary policy, trade policy, development policy, tax policy, and climate policy. The Commission hosts public and closed-door panels, lectures, and workshops on all matters relating to global economic governance. Event details are announced online by LSE and LSE IDEAS.

 +44(0)2078494918

 ideas@lse.ac.uk

 lse.ac.uk/ideas

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