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# Competition, cooperation, economic war, and leadership race

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Résumé : The concept of economic war remains very vague; it covers a multiplicity of economic policies. The political values and the need of national security are essential determinants of the international economic relations. Then, policy of power is the heart of the international relations and laissez-faire was and is only an exception. However, in the international order, the liberalization of the exchanges and the policies of deregulation tended to limit the possibilities of protectionism and public interventionism. At the same time, on the geo-economics area, national firms reinforce the economic and technological leadership of a country on the main industries and services of the future. The hegemony of a dominant power is often necessary for the creation and the maintenance of free trade. The exacerbation of international competition opens new possibilities of States actions, on the level of the market regulation, notably in helping the aid of national companies in their conquest of the international markets.

Summary : Le concept de guerre économique reste très vague ; il couvre une multiplicité de politiques économiques. Les valeurs politiques et le besoin de sécurité nationale sont des déterminants essentiels des relations économiques internationales. Ensuite, la politique de puissance est au cœur des relations internationales et le laisser-faire était et n'est qu'une exception. Cependant, dans l'ordre international, la libéralisation des échanges et les politiques de déréglementation ont eu tendance à limiter les possibilités de protectionnisme et d'interventionnisme public. En même temps, sur le plan géoéconomique, les entreprises nationales renforcent le leadership économique et technologique d'un pays sur les principales industries et services du futur. L'hégémonie d'une puissance dominante est souvent nécessaire à la création et au maintien du libre-échange. L'exacerbation de la concurrence internationale ouvre de nouvelles possibilités d'actions des Etats, au niveau de la régulation des marchés, notamment en aidant les entreprises nationales dans leur conquête des marchés internationaux.

Keynotes : competition, cooperation, economic war, leadership race

Mots clés : Compétition, coopération, guerre économique, course au leadership

After the end of the cold war, several analysts considered that the rise of the economic and financial interdependences and the increased mobility of the capital and technologies were going to involve a pacification of the international relations. This idea was largely developed after 1991, with the controversial expression of “end of the history” developed by F. Fukuyama (12). Thus, Robert Gilpin (13) announced since 1987 a reorganization of the world economy in protectionist and antagonistic commercial blocks. Lester Thurow (23) spoke in 1992 about the battle to come between the United States, Europe and Japan. At the same period, Christian Harbulot (14) described the globalization system as “an economic machine of war”. These samples are enough to recall that new fields of study emerged since the years 1990, such as geo-economy and the economic intelligence.

The problem is that the concept of economic war remains very vague and that it covers a multiplicity of policies. Is the economic war a definitely admitted phenomenon in the contemporary world economy or is it only the manifestation of the last increasingly impotent sudden starts of States, whose capacity is diluted in economic universalization? New economic interventionism reinforces the political power of States and the countries are unequal in the economic war. In fact, it seems that, today, the American economic offensive inevitably meets much resistance on behalf of the other countries, mainly with China and progressively Europe.

### **Economic cooperation, competition or war**

The economic expression of war indicates heterogeneous situations. It applies indeed as well to the international economic sanctions, as with the relations between enterprises or with the public strategies to improve the relative performances of the national economy in the world economy, such as “tax havens”. This last case raises many theoretical questions however, because of subjectivity of the concept of war economic. The main economists have ambiguous analyses about the role of State, war and peace (6). Adam Smith himself defended the Navigation Acts, the policies in favour of “strategic industries” and the commercial retaliation, a clear case of an unfair competition. David Ricardo was very careful on the question of the power, but he admitted the idea that free trade can be more advantageous for certain countries than for others. He denounced the excessive costs of the wars and the usefulness of economic interdependence for peace. In the same way, Friedrich List considered that international free trade must crown the process of

industrialization of all the countries. F. List thus criticized the fact that Adam Smith applies to the nation the same reasoning as with an individual, by renting the saving. A nation which would prefer to give up its defence with the profit of the saving would run the risk to lose its assets with the profit from abroad. Power is more important than opulence, but he evoked the future installation of an international federation between Nations having reached the same level of economic development (3). For marxism, capitalism, with the classes struggle, is a cause of war (5).

The recourse to the economic sanctions is a constant in the international economic relations since 1945. The vulnerability of the national economies to these measurements can be evaluated by the degree of concentration of trade of goods and services but also by the importance of the transfers of capital, in particular the transfers of incomes and the external assistances. In opposition with liberalism, A.O. Hirschman (15) considers that the policy of power is the heart of the international relations and that *laissez-faire* is only an exception. The main debate was centred on the vulnerability of the national economies to the international economic sanctions. The size of the national market and the degree of diversification of the foreign trade as regards goods and services exchanged but also of outlets, is the key of the importance of the vulnerability of an economy to economic sanctions imposed by outside. Several failures testify however to the inefficiency, relative to the objectives, of the majority of the economic sanction campaigns carried out since the end of the second world war, such as those against Iran or Syria, or previously of Iraq. But the “positive sanctions”, according to the expression of D. Baldwin (1), i.e. the granting of financial assistances, the promise of investment or other forms of assistances, can also be interpreted like concerning an economic strategy of war. It is then possible to denounce the use of “the food weapon” by the industrialized countries during the cold war, to influence fragile political regimes (9). Today the problem of the world hunger remains crucial and the catch of load by humane associations of the food aid does not prevent the use of the famine by the political sphere, in order to eliminate from the groups of opponents or to attract the international assistance.

The economic expression of war is generally used in order to describe the strategies of companies. In fact, competition was exacerbated on a world level with the opening of the economic borders and the rise of communication and information technologies. The unfair operations of industrial espionage or misinformation multiply. The relations between firms could not be summarized with a simple logic of confrontation. The co-operation process is important today, and the

competition tends to be reduced in many sectors. The fast rise of transnational fusion-acquisitions during years 1990 deeply transformed the world industrial landscape, supporting the emergence of oligopolistic structures in many sectors and increasing their barriers at the entry, introducing risk of anti-competitive behaviours. In the same way, the multiplication of transnational strategic alliances can in some cases lead to a reduction in competition on the markets.

Since 1915, the Austrian theorist K. Kautsky (16) had evoked the possibility of “ultra-imperialism”, marked by an agreement between the imperialist powers on the level of the export of the capital, forming a kind of large world trust. The maintenance of a competing environment is today with the load of the authorities of competition, which must prevent the abusive dominant position and the cartels. The ultra-liberal position do not hesitate to regard the monopolies as beneficial and to be opposed to the policy competition which tends to dismantle them, under pretext which it is not right to sanction the companies which succeeded best and which the monopolies are tolerable as long as the markets remain contestable. The Schumpeter’s analysis of innovation came to the rescue from the opponents to dismantling the monopolies: the constant renewal of industrial fabric via the innovations would involve perpetual competition for the acquired positions, no monopoly being eternal (22).

Mercantilists consider that the economy is at the service of the power (10). For the neo-mercantilists, describing the international economic relations like a play with null sum, where “one gains only what the other loses”, the bet being to increase the relative power of the State on the international scene, in a static design of the markets and world richness’s (4). The normal competition around the oil resources, but also the fight for the control of the main technologies, can illustrate this point of view. Today, the economic conflicts replaced the military conflicts during the time cold post-war. There is an obvious filiation between the realistic analysis and some economic analyses opposed to liberalism.

For Robert Gilpin (13), the neorealism is an alternative to the three “traditional” theories of the international relations, liberal, Marxist and nationalist. His realistic approach underlines the contradictory game of the various national ambitions to the level of the international negotiations, in an international economic context marked by the inequalities of development. Even if the economic and technical substructures determine partially and interact with the political superstructure, the political values and the interests of safety are essential determinants of the international economic relations.

Beyond these theories, the analysis of the role of the institutions made also much progress on the comprehension of the international relations and the economic conflicts. The institutionalist analysis exceeds traditional liberalism – interventionism cleavage, and considers that the official action above all is determined by historical, cultural or sociological factors. Thus, T. Veblen explains at the beginning of XXe century why one of the principal differences between the modern societies (of Anglo-Saxon type) and the dynastic companies (of which Germany and Japan are the principal examples) resided in their report/ratio outside and in the implication of the State to the service of the power. The German capitalism was more prepared to the “economic war”. Contrary to the modern societies dominated by the commercial interests, the dynastic companies remain marked by mental practices inherited in the feudal era and are more inclined to resort to the military conflicts and the mercantilists policies.

Several authors of years 1980 prolonged this type of analysis. For Lester Thurow, some countries invested in the military sector after the Second World War in order to compensate heir apparent economic disadvantage and to affirm their national power. However the evolutions of the international economic hierarchy during years 1990 tended to contradict these arguments. The crisis passed through by Germany and Japan since more than one decade led these countries to give up many the characteristics of their model, which approached the Anglo-Saxon model. The process of universalization economic, characterized by increasing commercial interdependences, the development of the foreign direct investments and the financial globalisation, are not a threat for the State, but on the contrary reinforces its capacity, which appears in new forms.

### **National sovereignty, interdependence, or economic war**

There is a fundamental usefulness of States for the economic competition R. Keohane and J. Nye (17) denounced the idea that the development of communication and information technologies and the rise of the economic, social and environmental interdependences involve a progressive disappearance of States and political power. The interdependences are developed in a political space already occupied by States and those remain impossible to circumvent, in particular on the level of flows of information. Several theories developed in 1980s stressed the importance of the role of the State in the economic development. Thus, the endogenous theory of growth shows the basic character of the economic growth of the public infrastructures but also

of the public incentives with the research and development and the innovation, as well as public expenditure of education and training, thus allowing the accumulation of the human capital. The “new theory of the international economy” developed by P. Krugman (18) is based on the report of the imperfection of competition, in opposition to the neo-classic assumptions of pure and perfect competition. The existence of barriers at the entry raised in many sectors (resulting in particular from the existence of, cost economies of scale of transfer, patents, etc.) supports the emergence of oligopolistic structures, generating a strategic environment. The existence of economies of scale in many sectors involves an advantage for the “first entering” the production, owing to the fact that the unit cost of production decreases with the increase in the produced quantities; public subsidies can then make it possible a national company to already overcome its disadvantage in terms of production costs compared to the firms in place.

The rapid rise of Airbus in a sector of the civil aeronautics hitherto dominated by Boeing in fact was allowed by subsidies granted by European Community. In addition, the taking into account of the phenomenon of external economies of scale can justify that the public authorities are used for of commercial protectionism to support the rise of companies in a sector with a future or public expenditure to place at the disposal of the companies effective infrastructures (as in the case of Silicon Valley). In 1980, the Internet sector was a public good, managed by the state technocracy of the US military-industrial complex and fuelled by academic research. In the late twentieth century, US President Ronald Reagan opened the Internet to privatization and commercialization. Then, Microsoft, Google, Apple take advantage against foreign competitors and obtain a kind of monopole for very important products and services for the future, with the control of information, information treatment and data bases. This concentration of economic, technologic and production power gives a lot of power to the US government, for espionage, control and control of defence adverse states.

All these approaches tended to rehabilitate the role of the State, underlining the strategic character of the public intervention to conquer external markets, in an environment of imperfect competition and accelerated universalization. Whereas the procedures of deregulation and reduction in the barriers to the exchanges tended to reduce the manoeuvre of the State to the level of the traditional economic policy, this one remains however impossible to circumvent for the policy of education and training, the incentive with the research and development or the installation of effective

infrastructures. The question of the negotiations between States and the firms, and in particular the foreign firms, would become an important field of research for the analysts of the international relations.

The importance of State action is often over-estimated. Paul Krugman (18) admitted that in practice the liberalization of the exchanges and the policies of deregulation tended to limit the possibilities of protectionism and public interventionism. The risk of commercial reprisals on behalf of the countries partners to the exchanges limits the possibility of protectionism. The industrial policy must sometimes be ineffective, because of difficulty in targeting industries with a future, and of the risk of wasting of public funds. However, the case of the United States illustrates the reality of the strategic marketing policy. There is a cleavage between the discourse of the American authorities of defence of free trade and *laissez-faire* and the reality of public interventionism to the profit of the national companies, mainly in R&D, military investments and indirect subsidies. At the same time, on the geo-economics area (Luttwak, 20), these firms reinforce the economic and technological leadership of USA on the main industries and services of the future. These public policies have then for objective to acquire technological and commercial supremacy sensitive products or services in order to limit the loss of national sovereignty. The implication of States in the productive war of enterprises is used as fact the interests of the State itself, in particular by assigning new role with the public administration.

The development of the international economic organizations and the supranational structures, like the regional agreements, also takes part in the reinforcement and the extension of the capacity of the State. The international organizations are not so powerful (7); they were created by States members and remain their creatures. Union European itself is more controlled by the intergovernmental co-operation that by the supranational bureaucrats. The supranational structures are used for the States-Nations to reinforce and extend their capacity in new forms. But by doing this, control escapes more and more the citizens, whose support is however essential. In fact, the current crisis of World Trade Organisation, which sorrow to find an exit with the cycle of negotiation of Doha, in particular because of thorn-bush agricultural file, testifies to the difficulties of the international economic institutions born from the post-war period, which suffers not only from the renewal of unilateralism on behalf of the United States but also of the rejection by part of the world public opinion of the liberal model of deregulation and reduction of protections, that they are social or commercial. The World Bank and



the IMF wiped during years 1990 of criticisms and the failures that started their credibility with the eyes of many citizens, the point to oblige these institutions to operate a radical change in their speech during years 1980, and to rehabilitate partially the role of the State in the growth and the fight against poverty (8). Democratic adhesion at the supranational institutions is thus more than ever determining. One often recalls that the first universalization of the end of XIXe century was brutally stopped by the First World War, to reappear only in the years 1980 (21).

### **III. The leadership race**

A lot of geopolitical analysts invoke the idea of the “American decline”. However, an economic nationalism is in resurgence in the world economy, under the American impulse with its “software power”. There is a reorientation of the American policy in favour of geo-economics goals; it since reflects a will of the government to take again the economic matter offensive. It led to a development of the marketing policy, which can be interpreted like a renewal of protectionism.

Thus, section 301 of Trade Act of 1974, which introduces taxable rules of honesty to the whole of the trade partners, knew not less than three prolongations since 1988, widening the possibilities of protectionism in many crucial fields, like telecommunications or the rights of ownership intellectual. Other laws, like that voted after September 11, 2001 on the control of the containers by American customs officers in the foreign ports, contribute to an increased control of the American authorities on trade. In addition, the American policy of subsidies to the companies is more than ever to topicality, the business testifies some to Foreign Sales Corporations. It is about a device of indirect assistance to the export for the great American groups, which remains in spite of a judgment by OMC in 2003. The subsidies with the military research and development are also today an essential aspect of the American industrial policy. By this skew, the public authorities finance the development of dual technologies, thus serving civil industry, in particular in the field of telecommunications. There is an important reinforcement during years 1990 of the American device as regards economic intelligence, i.e. of use of the services of information to the profit of the national companies. It is not only about the system of listening of the NSA, the Echelon system, but also of Advocacy centre and a whole of governmental and private institutions that contribute to the direct and indirect strategies of economic influence in favour of the American interests in the

world. The question is to know if these current characteristics of interventionism “to American” are sufficiently determining and validate the idea of a world economic war.

The problem is to understand the States reactions of China, Japan and European Union. In alarmist terms, using images directly borrowed from the military sphere, C. Harbulot (14) explained thus in 2002 the need for the European governments for reacting to the American economic offensive: “The configuration of the international relations since 1945 has cold gradually the political thought on Action with the profit of a fixed vision of the world peace guaranteed by the free world, in fact the United States of America. This refusal to act as terms of indirect strategy nourished failure of the colonial wars and disappearance of a reflection on the power, if it is not in the military field. Les tensions between allies, revealed by the Iraqi conflict, reveal little by little the nature of the underground confrontations inside the Western world. As of the moment when the United States does not want Europe independent, it becomes obvious that the progression towards this Europe/power will not be done without a strategy of the geo-economics action. The first urgency consists in containing the attempts at American surrounding in the vital sectors (industry of Defence, information system security, telecommunications terrestrial and space, financial circuits, energy resources, operating mode of the institutions...). The second urgency relates to the reinforcement of Europe/power inside and outside its borders. In both cases, all is to be built.”

This approach is based on a parallel between the military conflicts and the economic conflicts. The question is however much more complex, and could not be reduced to a simple debate between nationalists and Europeanists or nationalism and cosmopolitanism. The economists are numerous, apart from any political position, to point the insufficiency of the European policy research innovation and to plead in favour of a reform of the public policy, in particular via an industrial policy in favour of the economy of knowledge. The repurchase by foreign groups, and in particular American, of much of company-keys in Europe, caused many criticisms on the wait-and-see policy of the European governments. The generalization of economic espionage and the participation of European companies in American programs, with the detriment of the European programs, in particular in the armament (business of Joint Strike Fighter), are dangerous for the development of European Union.

The hegemony of a dominant power is often necessary for the creation and the maintenance of free trade. In fact, the future of the American model will undoubtedly be determining for that of the international

economic relations. The question is to know if there is truly an economic war or a generalisation of the US model to the rest of the world. In fact, the Anglo-Saxon criteria, as regards economic policy and social but also on the level of the countable and different standards, seem to be diffused largely today, via the political sphere but also of the companies, banks, information agencies, NGO or think tanks. It is the “software power”. USA are able to decrease the resources reserved for the economic and military power if it manages to make its capacity legitimate to the eyes of the other countries and to establish international institutions which encourage the other countries to defend of the interests compatible with his. American structural capacity is not based solely on their domination on the level of the structures of safety, production or financial but also on the conviction shared by the other countries that the United States did not keep only in mind their own interest but also that of the other countries, i.e. a will to create a better international system. According to Jean-Jacques Roche, the economic conflicts between the United States (“new empire” resulting from the end of the cold war) and their allies are a counterpart to make accept the American domination. However the equality between the Sates is only formal: the United States in fact profits from economic supremacy. WTO is especially used to channel the disagreements, “to reduce the influence of the reports/ratios of force and thus to make more acceptable the principle of this competition for the third nations. ”. The alleged economic war would be in fact only a very limited competition between the super power and its allies, agreeing in fact the American domination. China becomes a substitution leader, but the country suffers of its underdevelopment purchasing power and of the comparative quality of welfare and individual liberty of its inhabitant.

The exacerbation of international competition opens new possibilities of States actions, on the level of the market regulation, combined with the aid of national companies in their conquest of the international markets. The idea of an economic war can be integrated because the political power is in the middle of the international economic relations. It seems in fact that the economic competition tends to give a new legitimacy to States, whose capacity is reinforced rather than weakened by universalization for the leaders (11). The international institutions themselves can survive only as spaces of intergovernmental co-operation. But American hegemony and the diffusion of its “software power” partly determine the characteristics and the limits of the economic competition.

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