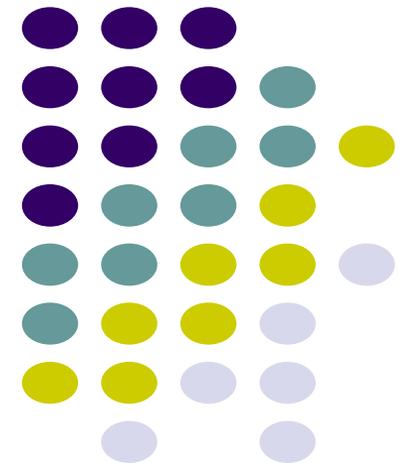
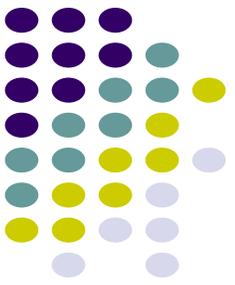


SPECIAL TOPIC: Deconstructing The International System

Making sense of the US-China Trade War –
Deconstructing The International System

By
Samirul Ariff Othman
Senior Research Officer
MIER

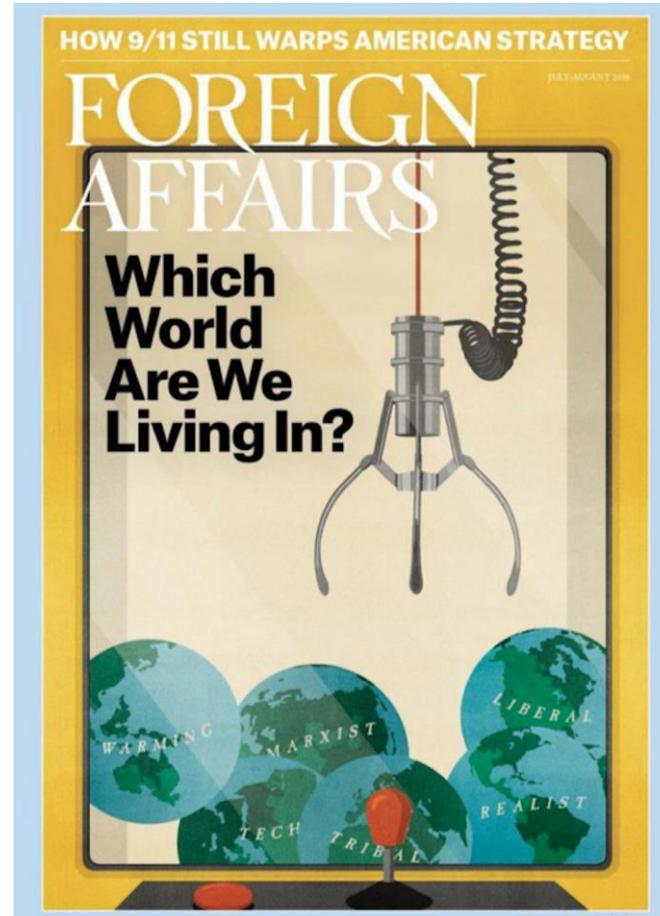
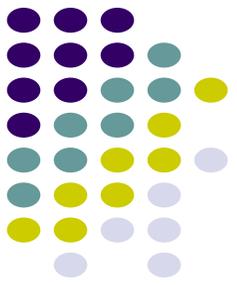


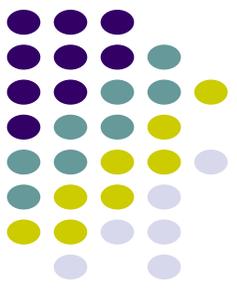


Introduction

- Globalization has become a *hackneyed term*.
- Foreign Affairs (Published by the Council on Foreign Relations) – Volume 97, Number 4 JULY/AUGUST 2018
- *Which World Are We Living In?*

Warming, Tech, Marxist, Tribal, Realist, Liberal

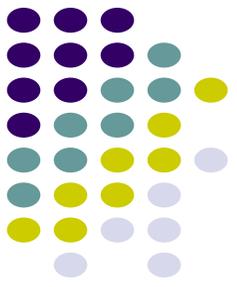




IPE & Theoretical Lens

- IPE -INTERNATIONAL POLITICAL ECONOMY
- The study of international political economy shows that it has always needed a framework to define relations between nations and between economic and political institutions.
- How we see depends on our theoretical lens. These perspectives hold different views about the international system.

Global Economic Output: Current State of Affairs

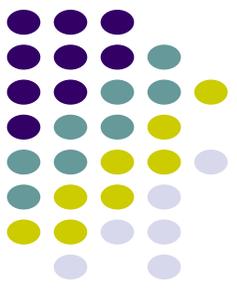


Currently, the US contributes about 25% to the global economic output, followed by China at 15%.

Combined, they produce about 40% of the global output, whereas Malaysia produces about 0.4%, or one hundredth of the combined output of both countries.

However, it ought to be remembered that the standard of living between the US and China differs significantly.

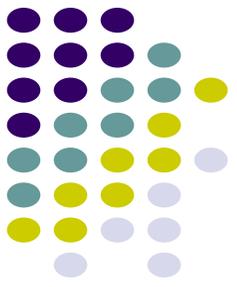
Origins of the International System



- At the Bretton Woods Conference in July 1944, World Leaders agreed to create 3 Institutions to facilitate economic coordination and development*.
- Two of these institutions, the World Bank & IMF were created shortly after the conference.
- The third, the International Trade Organization (ITO) was never created.
- But the principles behind it were later incorporated in the General Agreement on Tariffs and Trade (GATT)

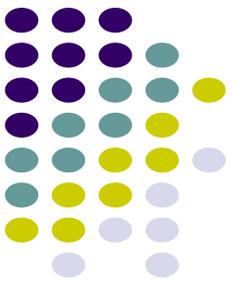
**Mingst, Arreguín-Toft, 2004. Essentials of International Relations*

World Bank



- Loans funds to states proposing economic development projects*
- To facilitate reconstruction in post WW II Europe: International Bank for Reconstruction and Development (1950s)
- To aid in meeting the needs of developing countries:
 - International Finance Corporation (IFC)
 - International Development Association (IDA)
 - Multilateral Investment Guarantee Agency (MIGA)
- In the 90s, Sustainable Development
- Washington Consensus

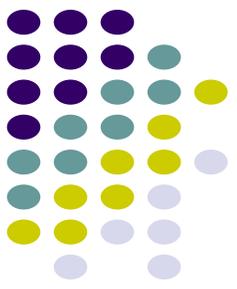
**Mingst, Arreguín-Toft, 2004. Essentials of International Relations*



International Monetary Fund (IMF)

- Original purpose was to guarantee exchange-rate stability. Purpose is to act as a lender of last resort to keep debtor countries from collapsing*.

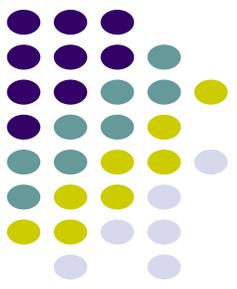
**Mingst, Arreguín-Toft, 2004. Essentials of International Relations*



International Trade Organization (ITO)

- International Trade Organization (ITO) was never formed*
- General Agreement on Tariffs and Trade (GATT) –series of multilateral trade negotiations designed to simulate trade by lowering trade barriers
- World Trade Organization (WTO) –replaced GATT as forum for negotiating new trade agreements. Includes enhanced dispute settlement procedures.
- Therefore, **technically, the WTO is not part of the Bretton Woods Institutions**

**Mingst, Arreguín-Toft, 2004. Essentials of International Relations*



Polarity in International System*

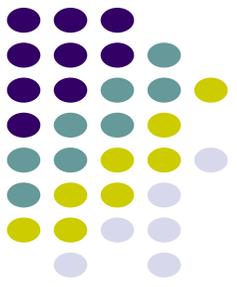
- **Unipolar System:** The post-Cold War Era



- Unipolar (Hegemony)** –more stable?

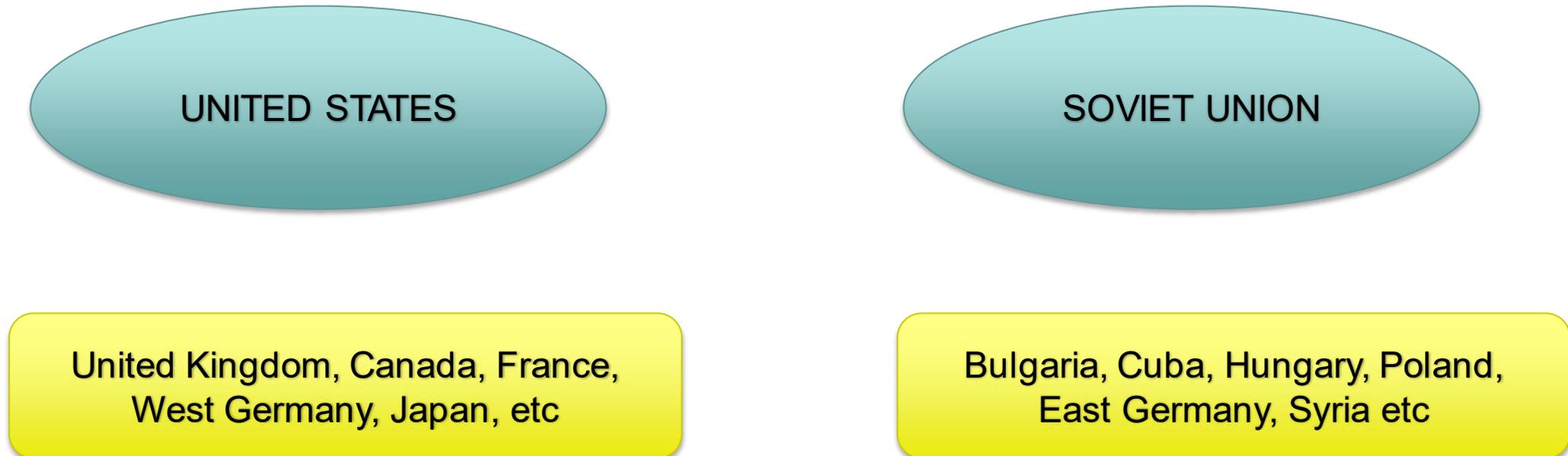
*Mingst, Arreguín-Toft, 2004. *Essentials of International Relations*

** Pevehouse, Joshua S Goldstein; Jon C. *International Relations 10th Edition, 2013-2014 Update*



Polarity in International System* —Stable?

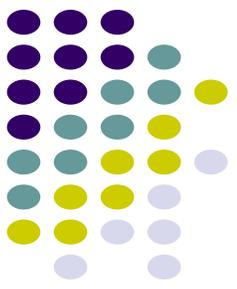
- **Bipolar System: The Cold War Era**



- **Bipolar** –stable?**

*Mingst, Arreguín-Toft, 2004. *Essentials of International Relations*

** Pevehouse, Joshua S Goldstein; Jon C. *International Relations 10th Edition, 2013-2014 Update*



Polarity in International System*

- **Multipolar System:** Nineteenth-century Balance of Power

In July 1914, the great powers of Europe were divided into two coalitions:

- Triple *Entente* of France, Russia and Britain
- Triple Alliance of Germany, Austria-Hungary and Italy

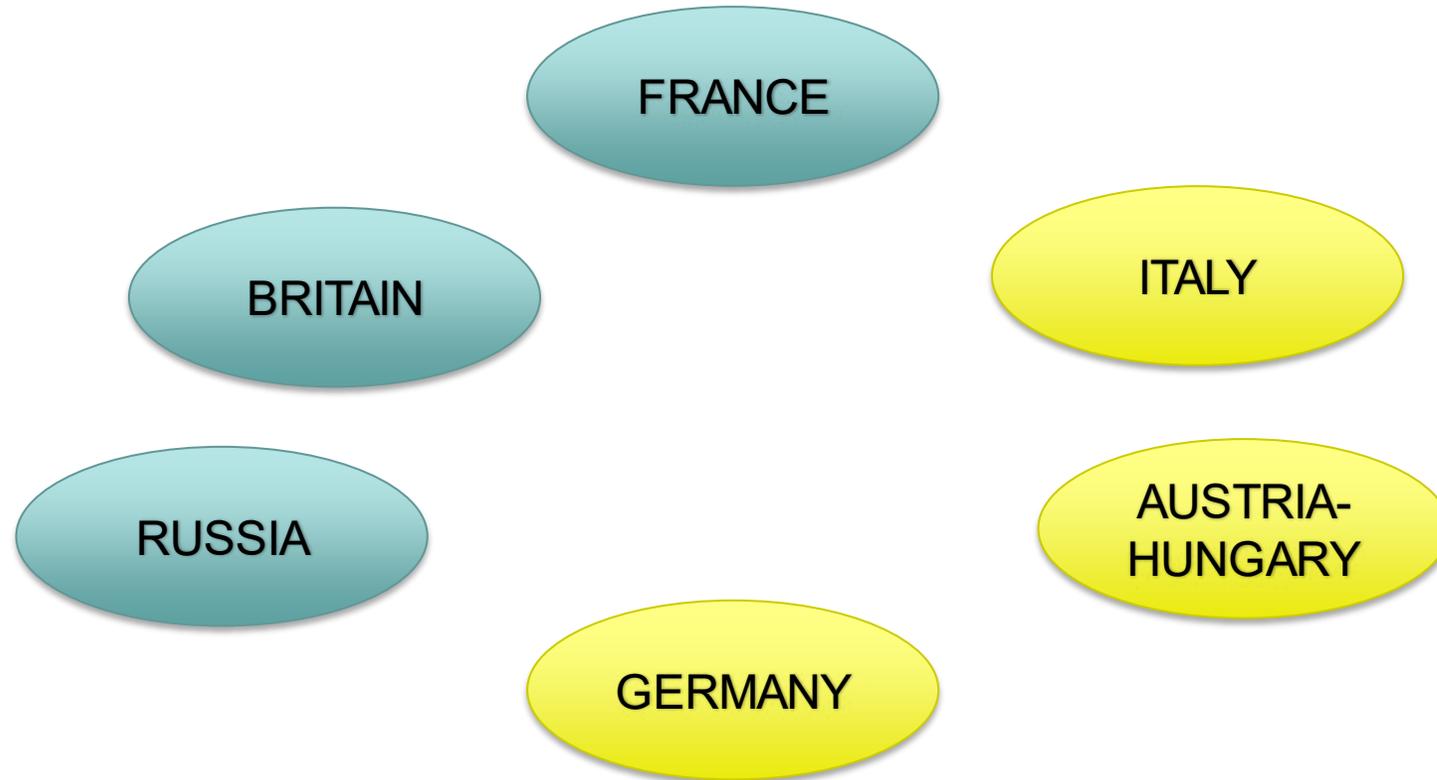
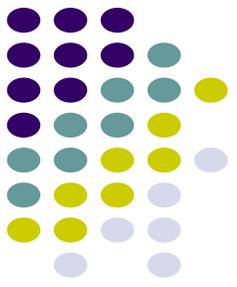
- Multipolar** – less stabile?

*Mingst, Arreguín-Toft, 2004. *Essentials of International Relations*

** Pevehouse, Joshua S Goldstein; Jon C. *International Relations 10th Edition, 2013-2014 Update*

Polarity in International System*

– Multipolar System



*Mingst, Arreguín-Toft, 2004. *Essentials of International Relations*

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Has the West Lost It? A Provocation, by Kishore Mahbubani

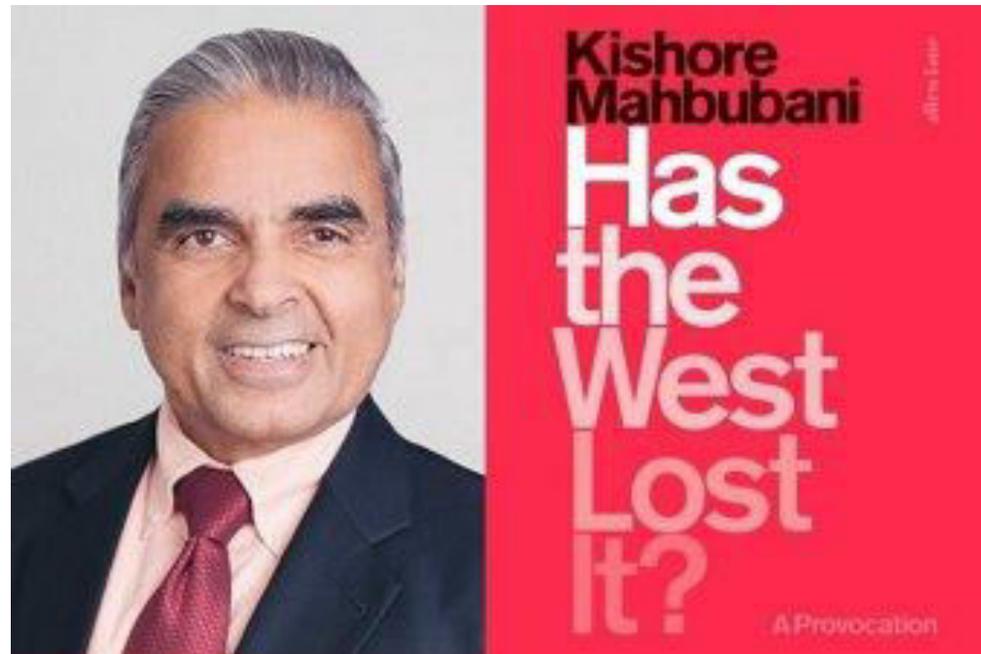
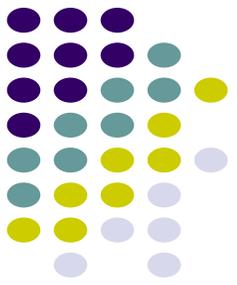
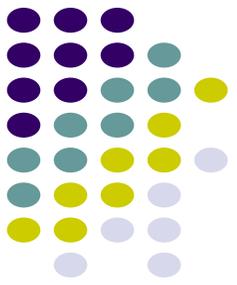
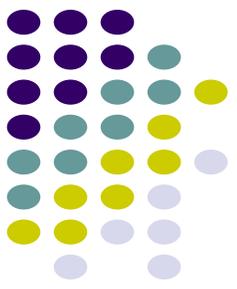


Image: (New Asian Post)

Has the West Lost It? A Provocation, by Kishore Mahbubani



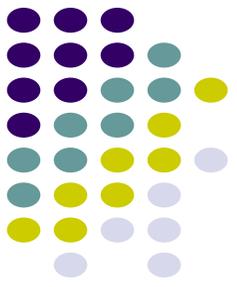
- For most of the last 2,000 years, China and India were the world's largest economies.
- Until the Industrial Revolution, output was directly proportional to population size.
- China and India were the world's 2 largest economies, but after the Industrial Revolution they were displaced by Europe and US for 200 years.
- One of the great power shifts of the century –the return of Asia?
- Is the Western share of the global economy actually shrinking?
- Failed interventions in the MENA region?
- Distrust of western elites?



Soft Power & Smart Power

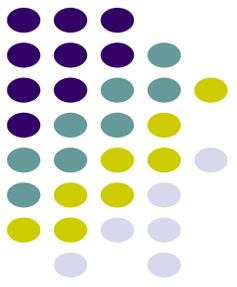
- **Soft Power** –a persuasive approach to international relations, typically involving the use of economic or cultural influence.
- Joseph Nye of Harvard University
- **Smart Power** –a term developed in 2003 to counter the misperception that soft power alone can produce effective foreign policy.
- the term smart power refers to the combination of hard power and soft power strategies.

The *Thucydides* Trap***



- As the rising dragon China challenges the American eagle, which does not want to be knocked off her perch, misunderstandings about each other's actions and intentions could lead them to a deadly trap. This trap was first identified by the ancient Greek historian Thucydides. It was Graham Allison at the Harvard Kennedy School who reminded us of the immediate danger of a *Thucydides* Trap — he postulated that war between a rising power and an established power is inevitable. Paraphrasing *Thucydides* from *The History of the Peloponnesian War*, it was the rise of Athens and the fear inspired in Sparta that made war inevitable.
- In more recent times, we have to thank Japan for being the strategic counterbalance between China and the US.

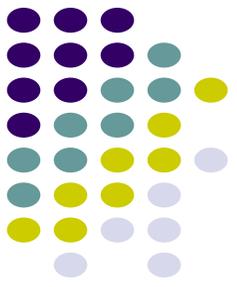
Trading nation***



- As for international trade as a share of gross domestic product, Malaysia's trade has been consistently more than 100% since 1988 and is currently above 130% (as at 2017). In comparison, the world average was less than 60%. And so, international trade is of great importance to the Malaysian economy, generating income through imports and exports.
- One observation that deserves attention is that our exports have a very high import content and this is clearly reflected in Bank Negara Malaysia's latest annual report, which was released recently. What this means is we do not add much value to our exports despite our very active participation in globalisation, particularly through global value chains (GVCs).
- It seems that we are predominantly engaged in low value-added activities such as assembly work rather than high-end manufacturing activities.

****The Edge Malaysia, April 8, 2019 page 51 – Forum, My Say: US-China trade war and its impact on Malaysia*

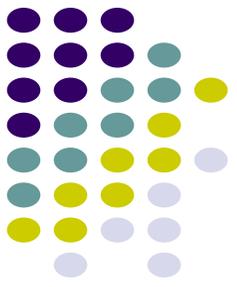
Kancil diplomacy***



- Against this backdrop, change is inevitable, unrelenting and overarching. In this context, the proverbial Malay *sang kancil* or mouse deer is known for its agility and wit.
- Strategy and timing is of essence as we dance along with the Hegemons. We must be careful not get trampled by them. We ought to play according to the accepted rules and reap maximum benefits.
- Rather than being exploited we ought to benefit.

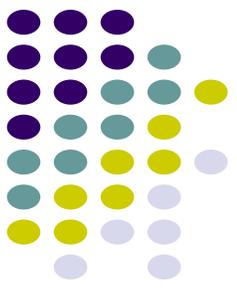
****The Edge Malaysia, April 8, 2019 page 51 – Forum, My Say: US-China trade war and its impact on Malaysia*

National Interest, Economic Sovereignty



- “We have no eternal allies, and we have no perpetual enemies. Our interests are eternal and perpetual, and those interests it is our duty to follow.” –*Lord Palmerston, 19th century Prime Minister and Foreign Secretary*
- America has no permanent friends or enemies, only interests.
–*Dr. Henry Kissinger*

Example to illustrate the difference between National Interest & Economic Sovereignty

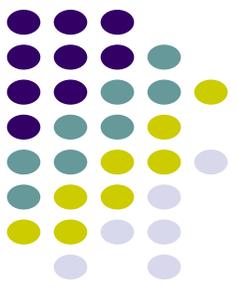


- When a country in distress takes an IMF loan it maybe in its National Interest to do so, however this action will invariably lead to a diminishment in its Economic Sovereignty.
- This is because more often than not, the IMF loan comes with many conditions attached (usually in the form of SAP - Structural Adjustment Programs).

Globalization as a counterpoint to National Sovereignty?

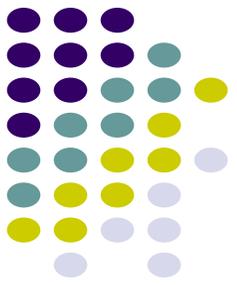
International Legal Sovereignty? Westphalian Sovereignty? Interdependence
Sovereignty? Domestic Sovereignty?

Diminished sovereignty?



- The globalization phenomenon can diminish the sovereignty of a nation state in a few ways.
- **Firstly**, through a process of transferring decisions to supranational entities, such as the European Union (EU), that are given the legislative powers in many aspects of social, economic and political life.
- **Secondly**, in relation to requirements that come from external institutions, such as the International Monetary Fund (IMF), World Bank and the World Trade Organization (WTO). These International Institutions are able to force the member states to make certain decisions.
- **Thirdly**, is when large multinational corporations (MNC), by virtue of their economic power, can influence economic and political decisions of nation states.

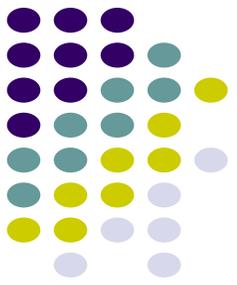
Tun Dr Mahathir bin Mohamed



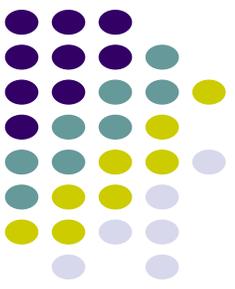
Tun Mahathir bin Mohamad hit the nail on the head when he remarked that,

“There is no doubt that globalization is an idea whose time has come....[But] the fact that [it] has come...does not mean we should sit by and watch as the predators destroy us.”

Geography is Destiny



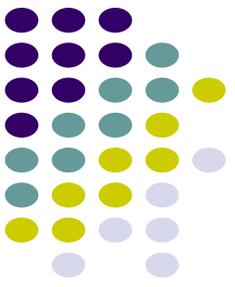
GeoPolitics and GeoEconomics



Geopolitics

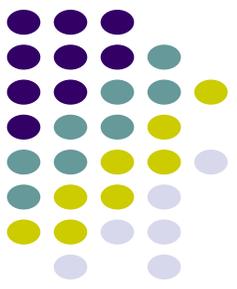
- Geopolitics implicit in spatial concepts (*frontier*) and representations (*maps*).
- Geography enter into political analysis.
- Kings want to know boundaries, what their empires controlled.
- Ratzel (1844-1904):
 - Compared state to an organism, with a head (government), body (its geography), natural process of growth (through territorial expansion).

Geopolitics



Mackinder (1861-1947):

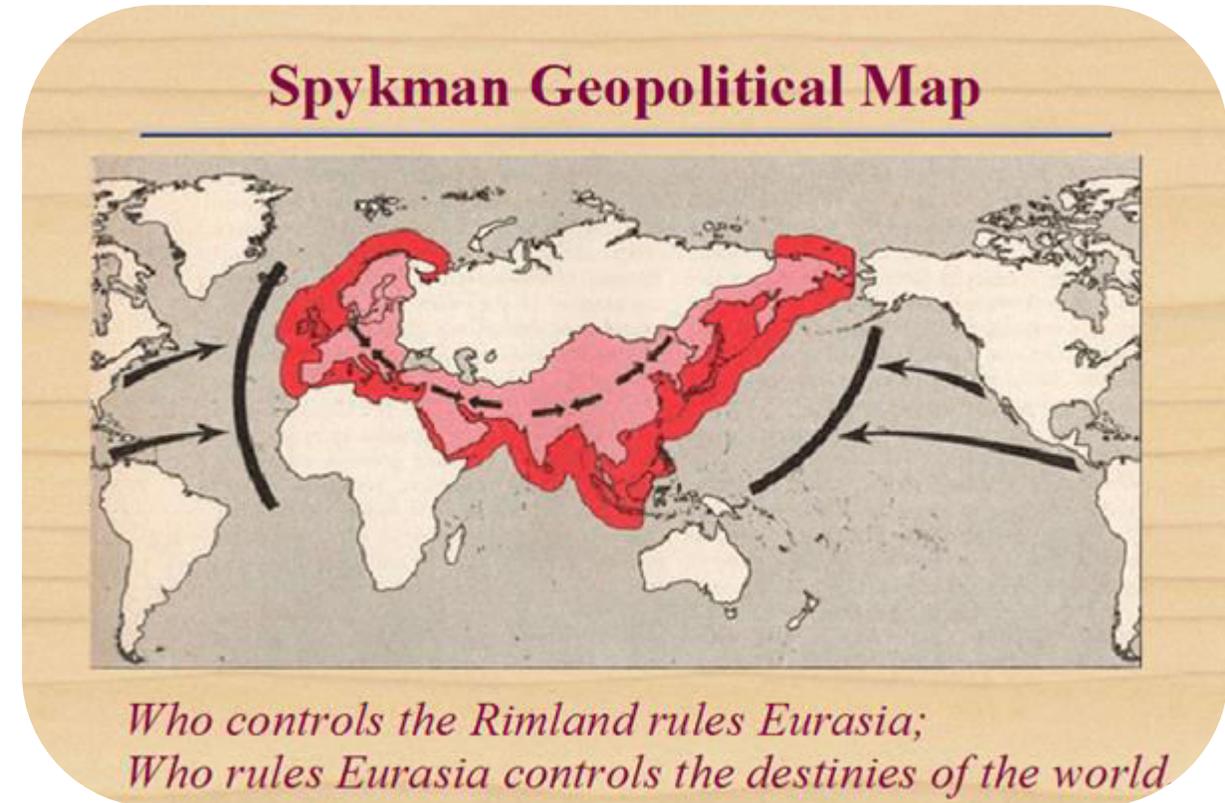
- Conflict between sea-based and land-based power.
- Land power more important.
- Whoever controlled Heartland would dominate the inner crescent and from there, the world
- Karl Haushofer (1869-1946), set out to make *Geopolitik* an instrument policy, e.g. *lebensraum*
- Opposing Views:
- Alfred Mahan (1840-1914), importance of controlling the sea
- Marcus Tullius Cicero (106 BC – 43 BC), he who controls the sea controls everything.



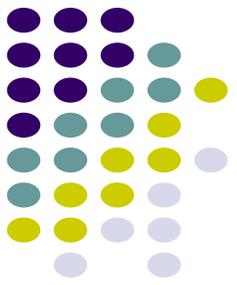
Geopolitics

Spykman (1893-1943):

- Agreed with Heartland, inner crescent and outer crescent.
- He agreed that Rimland is geopolitically most unimportant:
 - Due to dense population and productivity.
 - Historically dominant.
 - Powers of the Rimland have tried to expand and gain control over the Heartland and Outer Crescent.
 - Should not let any other power dominate the Rimland. Soviet Union, thus, a threat.

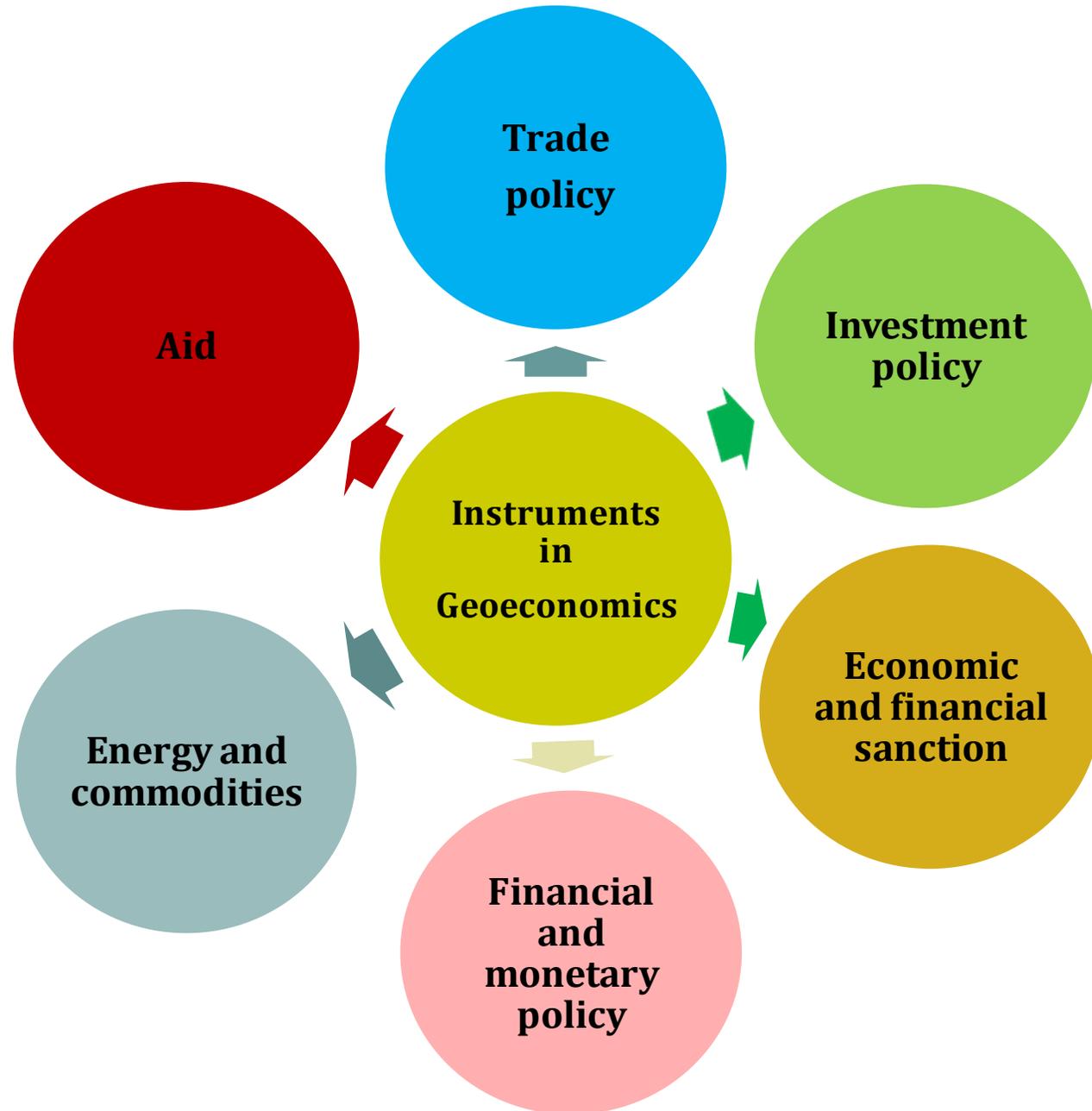


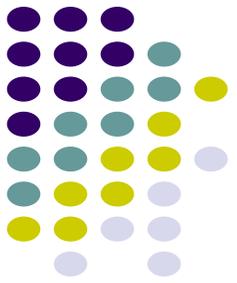
Geoeconomics



Definition

- No clear definition
- Use of economic tools to advance geopolitical objectives
- How flexing geopolitical muscle is used for economic results
- Interplay of international economics, geopolitical and strategy.
- Introduction of **terms**:
- In 1990, Edward Luttwak assigned that the importance of military power was giving way to geoeconomics power.





THANK YOU

