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**GREAT POWER CONFLICTS  
AND THE GLOBAL  
ECONOMY**

by Muamer BECIROVIC  
University of Vienna

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# TABLE OF CONTENTS

- I. INTRODUCTION.....3
- II. THE (ECONOMIC) WORLD ORDER AFTER 1989 AND COVID-19.....4
- III. NATIONAL INTERESTS ARE ALWAYS AHEAD OF ECONOMIC INTERESTS .....9
- IV. GREAT POWERS INTERVENE MORE STRONGLY IN THE GLOBAL ECONOMY AGAIN..... 10

## ABOUT THE AUTHOR

Muamer Bećirović is political scientist and historian. He studied at the University of Vienna. Today he works as Forbes editor, author and writes about foreign policy, economic, financial and diplomatic history.

## I. INTRODUCTION

The economic impact of COVID-19-pandemic is serious. Nearly every major power has suffered a massive drop in gross domestic product. Overnight, all economic vulnerabilities of the most powerful states in the world were exposed. The election of Donald Trump marked the beginning of the trend aimed at reassessing the economic vulnerability of one's own state in the context of advancing globalisation. Although this new group of bilateral protectionists also recognised that the process of globalisation was irreversible, they sought to contain the latter. COVID-19 does not fundamentally change this. It has merely accelerated this process of withdrawal, which has resulted from the resurgence of conflicts among the major powers and has made the national-security people realize that supply chains are also an object of national security.

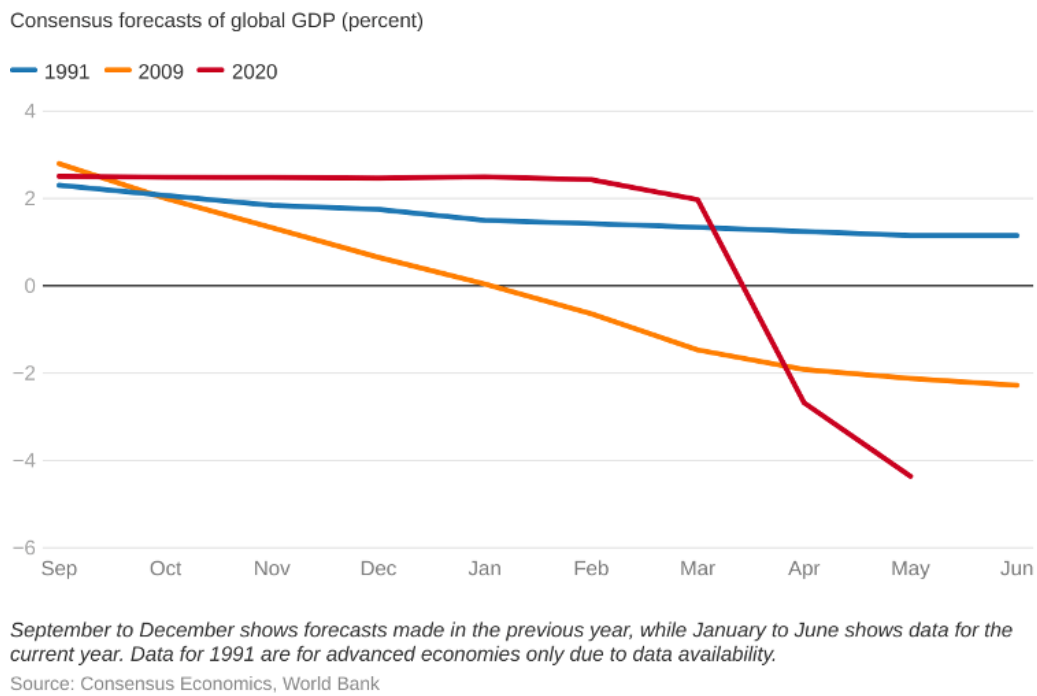
## II. THE (ECONOMIC) WORLD ORDER AFTER 1989 AND COVID-19

An order is based on the legitimacy of its members. The participating powers must feel neither too secure nor too threatened, so that the given order, where interests are balanced, is not weakened. This is no longer the case. Neither Trump nor Xi Jinping, have found a mode to balance their interests. The results of these earthquakes - for the time being, trade policy - are felt as aftershocks first on the economic and financial level. From now on, power is increasingly bending the economy.

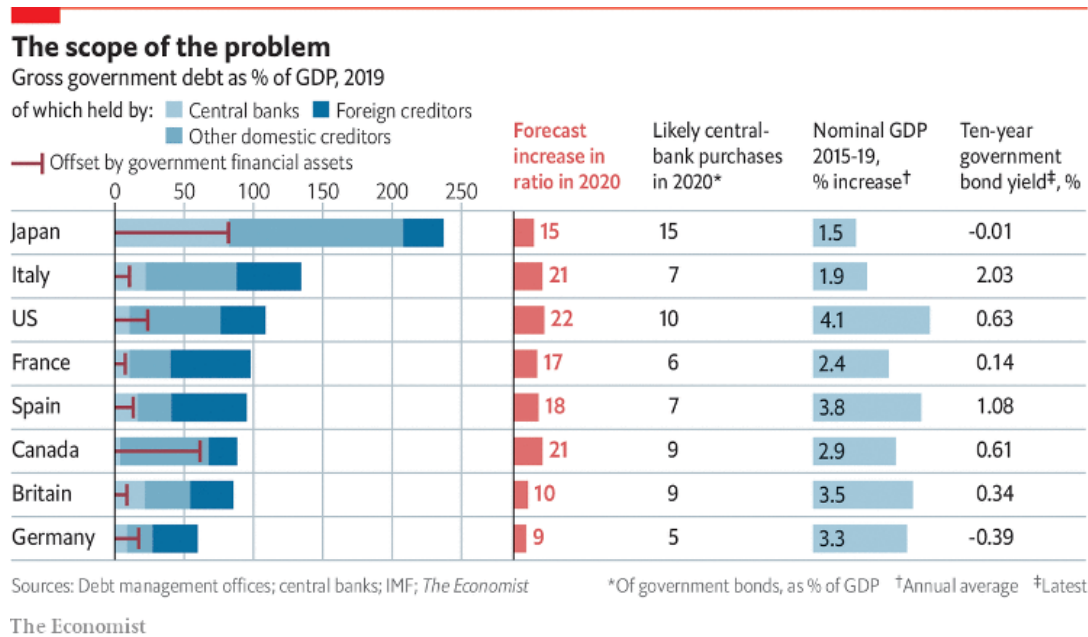
The movement of goods among the free peoples of the world was guaranteed immediately after WWII under the American military umbrella. In 1989, with the fall of the Iron Curtain, the collapse of the Soviet Union and the opening up of China to the world market driven by Deng Xiaoping, 1/3 of the world's isolated population integrated itself into the free world market. The result of this was an advancing technical, intellectual and economic globalization. In Adam Smith's "Wealth of Nations", one of the most important points is the division of labour. By reintegrating 1/3 of the world's population into the world market, Western capital was given the opportunity to seek the most promising investment opportunities all over the world. This has led to the fact that the companies of this world have created a global division of labour. This in turn has led to increased efficiency and growth. This entire global development with this breathtaking speed from 1989 until today could only happen in relatively geopolitically calm times, in which the USA was the undisputed world power in all hard power areas. There was simply no power in the world that could challenge the pre-set order of the Americans.

The resulting social, technical and economic dependencies between the great powers have increased radically compared to a Cold War world where this was non-existent. The result of this order led economically to an outstanding global specialization of companies, which resembles a fine spider's web of companies and suppliers spun across the globe. Today's networks in the form of supply chains are the veins of the global real economy of every nation. If these are shaken, the entire economic body does not move. With the outbreak of COVID-19, global supply chains suddenly came to a standstill. From one day to the next the real economy was shut down. Caused by the virus, an economic shock wave went through the world, where most of the countries of the world experienced a collapse of the gross domestic product.

### The COVID-19 recession has seen the fastest, steepest downgrades in consensus growth projections among all global recessions since 1990



This shock was cushioned by government financial injections for companies. Governments around the world did nothing more than maintain cash flow by guaranteeing loans or providing liquidity to companies themselves.



These measures also had an impact on the debt development of the states themselves. Despite the governmental financial injections, not every economic damage caused by COVID-19 could be compensated, which is why forecasts assume that unemployment will rise sharply in the West in the course of 2020. Because only the strong companies were able to accumulate capital reserves, which the crisis has almost completely used up. If, in addition, sales fall sharply, there is a threat of a wave of bankruptcies and thus unemployment in the individual states. The consequences of this could be too much financial, economic and social pressure, which could cause domestic political upheaval.

The pandemic has not stopped the conflicts among the powers but has played a real-life simulation to the major powers of what it will be like when their economic veins stop flowing. Clashes between the major powers or shock waves from a pandemic are throwing sand into the fine clockwork of global supply chains. COVID-19 suddenly revealed how

vulnerable not only the companies that have relied on globalization until now are, but also countries that have only one source of resources or manufacture highly specialized products whose revenues co-finance hard power resources and domestic political stability. The diversification of supply chains suddenly became a geopolitical security issue through Corona. Why? Because the geopolitical constellation is changing.

The globalization, the Western capital forced by the West, has helped China to rise to the status of great power: „Economists generally attribute much of China’s rapid economic growth to two main factors: large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth. These two factors appear to have gone together hand in hand. Economic reforms led to higher efficiency in the economy, which boosted output and increased resources for additional investment in the economy.“<sup>1</sup> With a trading volume of over a trillion dollars between the USA, EU and China, the West is by far China's largest trading partner and investor. It is an irony of history that China has been made economically strong by this liberal world order, and at the same time wants to change this world order according to its symbol.

As a result of this development, the global political center is shifting after 500 years of western dominance, to the east in regards to innovation, gold reserves and growth, as it has been for the longest time in history. Whereas it took the West centuries to achieve dominance, the East is catching up breathtakingly fast within two generations: In 1978 the average American was at least 22 times richer than the average Chinese. Today he is only five times richer. The Chinese middle class is now the largest in the world, which almost did not exist 30 years ago.

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<sup>1</sup> Morrison, W. M. (2013) China's economic rise: history, trends, challenges, and implications for the United States, page 7, Congressional research service Washington, DC.



With the TPP agreement, Obama had tried to manoeuvre China out of the economy by tying up large parts of Asia. Trump cancelled the agreement and started a trade war and wants to turn back the history where the USA moved into economic dependence on China. But it is much too late for that. For the most powerful countries in the world, the pandemic was a kind of real-life simulation of what it would mean for them if their supply chains and economies came to a standstill. The pandemic, therefore, raised the following question in the world's national security teams: What happens if in the future our global supply chains are not affected by a pandemic but by individual geopolitical competitors?

### III. NATIONAL INTERESTS ARE ALWAYS AHEAD OF ECONOMIC INTERESTS

Economic strength has never been the ultimate goal of the endeavours of great powers. It was always merely a means to an end, a means of securing and expanding influence. When economists write that the economy is the driving force in states, there is sufficient historical material to refute the thesis. For example, before the First World War, Germany and Britain were closely intertwined economically. Yet this did not stop them from waging war with each other.

The rise of a power is almost always associated with a rise in economic and financial power, which creates further resources for the purpose of nations. If one looks at the bare figures of how a dominating great power behaved towards an ascending one, they are sobering: In 12 out of 16 cases in the last 500 years, there has been war between an ascending and an status-quo great power.<sup>2</sup> Since the invention of the atomic bomb, the conflicts among them have shifted to other areas. Rather, it is the case that great powers are no longer directly opposed to each other militarily, but rather harm each other through technology and economics. It is no longer a matter of beating the enemy in the open field, but of shaking his social inner structure. Not destruction, but the domestic inner change in one's own sense has become the preferred purpose. One's own supply chains can free up resources or, through conflict, can also be a risk to one's own stability.

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<sup>2</sup> <https://www.theatlantic.com/international/archive/2015/09/united-states-china-war-thucydides-trap/406756/>

## IV. GREAT POWERS INTERVENE MORE STRONGLY IN THE GLOBAL ECONOMY AGAIN

As a result, even large corporations are increasingly calling for the value of global supply chains to be questioned. Global supply chains increase profit margins, but they also have conditions to function: The individual fine gears from supply, production to sales are like a fine clockwork that must function smoothly. Until now, this could happen because the American world order allowed it and no major power had the power to question it. The geopolitical calm among them, which is of great importance for international supply chains, no longer exists. The pandemic has made the great powers of this world aware of the following: The political importance of supply chains. States will therefore rethink their own complex supply chains. Or companies themselves may conclude that the sudden shocks and the increase in conflicts among the major powers have become too risky, so they are shifting them to other countries. Or governments, as in the case of the US, may try to force companies to diversify their supply chains internationally or use incentives to bring production home. This has already begun under Trump. Apple is supposed to transfer parts of its production to India.<sup>3</sup>

The example of the USA shows how measures are taken to reduce its vulnerability. After almost thirty years of largely free trade, this means that the world is becoming less economically free. Not because the pandemic caused it, but because there are now equal players in the global arena, besides America, who want to break up the previous world order. The greater the conflicts among major powers become the greater the economic, legal and financial uncertainty for companies. The economic and financial fluctuations are merely a

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<sup>3</sup> <https://www.bloomberg.com/news/articles/2020-08-12/hon-hai-beats-profit-estimates-after-pandemic-spurs-apple-demand>

by-product of these confrontations, as has often been the case in history. It is not the pandemic that primarily changes the global economy, but the power of individual countries. Today, we are once again in a time where changes are once again becoming more tangible for the individual. The rivalry between China and the USA, between an emerging and a status quo power, is not a historical uniqueness. That economic collateral damage is part of this conflict is also nothing new. The question is mere to what extent these powers are prepared, in an economically very finely woven world, to go to the trouble of destroying these networks in their own interest in order to harm the rival, but at the same time to protect themselves from damage.