Europe and the New Imperialism

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For decades, Europe has served as a steward of the post-war liberal order, ensuring that economic rules are enforced and that national ambitions are subordinated to shared goals within multilateral bodies. But with the United States and China increasingly mixing economics with nationalist foreign-policy agendas, Europe will have to adapt.

PARIS – Imperialism, Lenin wrote a century ago, is defined by five key features: the concentration of production; the merging of financial and industrial capital; exports of capital; transnational cartels; and the territorial division of the world among capitalist powers. Until recently, only dyed-in-the-wool Bolsheviks still found that definition relevant. Not anymore: Lenin's characterization seems increasingly accurate.

A few years ago, globalization was assumed to dilute market power and stimulate competition. And it was hoped that greater economic interdependence would prevent international conflict. If there were early-twentieth-century authors to refer to, they were Joseph Schumpeter, the economist who identified "creative destruction" as a driving force of progress, and the British statesman Norman Angell, who argued that economic interdependence had made militarism obsolete. Yet we have entered a world of economic monopolies and geopolitical rivalry.

The first problem is epitomized by the US tech giants, but it is in fact widespread. According to the OECD, market concentration has increased across a range of sectors, in the US as well as in Europe; and China is creating ever-larger state-backed national champions. As for geopolitics, the US seems to have abandoned the hope that China's integration into the global economy would lead to its political convergence with the established liberal Western order. As US Vice President Mike Pence crudely put it in an October 2018 speech, America now regards China as a strategic rival in a new age of "great-power competition."

Economic concentration and geopolitical rivalry are in fact inseparable. Whereas the Internet was once seen as an open, universal, and competitive domain, it is being broken up into an archipelago of separate sub-systems, some of which are administered by governments. There are growing fears that the Chinese tech giant Huawei's dominance in 5G hardware could be used for geopolitical gain. And the German industry association BDI is now warning that China has entered into "systemic competition with liberal market economies," and is "pooling capacities for political and economic goals with high efficiency."

But the US, too, is repositioning, particularly in the realm of trade and investment. Recently enacted legislation has authorized the Department of the Treasury to target "strategically motivated" (read: Chinese) foreign investment that could "pose a threat to US technological superiority and national security," suggesting that the Trump administration intends to use investment screening to protect America's technological edge.

China is widely accused of mixing economics with politics. Yet this is equally true of the US. Consider the Trump administration's use of the dollar – which many used to consider a global public good – and its central role in global finance to impose secondary sanctions on foreign companies doing business with Iran. As a result, SWIFT, the EU-based financial messaging service, was forced to deny access to Iranian banks or risk losing its own access to the US financial system. Likewise, under pressure from the US, the Bundesbank last year blocked a large cash transfer to Tehran of an Iranian deposit at an Iranian-owned bank in Hamburg. Clearly, the US no longer feels any need for self-restraint in its use of monetary and financial might.

For Europe, these developments amount to a major shock. Economically, the European Union is a bellwether of the post-war liberal order: as a champion of competitive markets, it has repeatedly forced powerful foreign companies to abide by its laws. But geopolitically, the EU has always tried to keep economics and international relations separate – and thus felt at home in a multilateral, rules-based system, where the sheer exercise of state power is necessarily restrained. Nationalism and imperialism are its worst nightmares.

Europe's challenge now is to position itself in a new landscape where power matters more than rules and consumer welfare. The EU faces three big questions: whether to reorient its competition policy; how to combine economic and security objectives; and how to avoid becoming an economic hostage of US foreign-policy priorities. Answering these will require a redefinition of economic sovereignty.

Competition policy is a matter of fierce debate. Some want to amend EU antitrust rules to enable the emergence of European "champions." But such proposals are questionable. True, Europe needs more industrial-policy initiatives in fields like artificial intelligence and electric batteries, where it is at risk of falling behind other global powers. True, regulators issuing judgments on mergers and state aid should consider the increasingly global scope of competition. And true, static assessments of market power should be supplemented with more dynamic approaches that value innovation. But none of this changes the fact that in a world of corporate giants, we will need even stronger competition policies to protect consumers.

Economic logic and security concerns are easily conflated. A decision to reject a merger or authorize an investment that benefits a politically motivated foreign competitor might make economic sense, while raising eyebrows in foreign-policy circles. The solution is not to meddle with competition rules, but to give those in charge of security some say in the decision-making process. To that end, in a forthcoming paper that I co-authored with foreign-policy experts and other economists, we propose that the EU High Representative for Foreign Affairs and Security be given the right to object on security grounds to the European Commission's proposed mergers or investment decisions. EU member states already have such procedures in place, and so should the EU.

Finally, the EU must do more to develop its financial toolkit and promote international use of the euro. There should be no illusion that the euro will displace the dollar. But with the US signaling that it will use Wall Street and the greenback as foreign-policy instruments, Europe can no longer be a passive, neutral bystander. Through swap lines with partner central banks and other mechanisms, it can make the euro more attractive to foreigners while bolstering its own economic sovereignty.