



Background Memo

*The Breakdown of the Global Economic Consensus*

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Globalization cannot be done away with: deglobalization is neither desirable nor sustainable. While globalization has come with many problems, and has been extended too far, critics need to recognize that it has also brought great benefits in some areas and not extended far enough in others. Globalization can be resisted, reshaped, better organized, more rigorously managed, and democratized to serve society. The starting point for a new consensus is redoing globalization better—re-globalization. A new consensus should be grounded in notions of openness and freedom, inclusive to correct imbalances and assuage distributional costs within and between countries, and resilient to supply-chain disruptions and strategic vulnerabilities caused by asymmetric interdependence.

Resilience is most pressing. In the context of the economic-security nexus, there is a legitimate call for increased protection and self-sufficiency in critical technologies (e.g., dual-use technologies), supply-chain protection, and a diversified supply of essential minerals. But the competitive pursuit of economic security between major powers—who have overemphasized national security in their economic management—has contributed to the downward spiral of deglobalization. In politically and strategically sensitive sectors, the world has witnessed the abuse of weaponized interdependence and a sustained backlash from populist, illiberal forces.

A point at issue: the United States uses managed competition as a vital concept to underscore U.S.-China relations. U.S. President Joe Biden stated, “the world expects the United States and China to manage competition responsibly to prevent it from veering into conflict, confrontation, or a new Cold War.” In contrast, Beijing rejects competition as a viable description of bilateral relations and criticizes Washington’s calls to decouple from China by securitizing and weaponizing economic interdependence, thereby denying China’s legitimate “right to development.”

Within the gap between managed competition and securing the right to development, much could be said to clarify what U.S. National Security Advisor Jake Sullivan calls a “small yard, high fence.” Washington could use this framework to continue trade and technology restrictions while maintaining overall connectivity with China. But Beijing claims that U.S. policies continue to expand to cover too wide a range of technologies and industries. China complains to the United States that the distinction between de-risking and decoupling is impossible to maintain.

A new consensus on globalization could strike the right balance between economic interdependence and

national security. Many are concerned that Washington seems to ever increase the list of critical technologies under its export and investment controls. This requires firms and countries to comply with restricting investment in China. Continued Chinese progress, if it happens, will likely compel the United States to expand those lists and countermeasures. Economies heavily entangled with both the United States and China are under great pressure.

One option is to find ways to dismiss the illusion of economic sovereignty and suggest a new normative framework to craft a compromise that would safeguard national security without triggering mutually destructive consequences that occurred in the 1930s. In particular, like-minded countries that need to de-risk from deepening interdependence with China that also benefit from market access should play a proactive role in establishing an ad hoc, functional, and multilateral mechanism that works for a narrowly defined concept of national security and clear criteria for technology de-risking. The mechanism should be based on a multistakeholder model that includes vital players in global supply chains, multinational corporations, national enterprises, experts and governments, and that could be based on principles that allow significant national and regional foundations. If enough dialogue, consultation and inputs are provided by multiple actors involved in derisking, the eventual decisions will gain more legitimacy and can be more efficiently implemented.