

# “The Power of Producing Wealth, Infinitely More Important than Wealth Itself”<sup>1</sup> – the Truth Transforming the Current International Order

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**Abstract:** *This paper discusses the causes of the imbalance that characterises the post-crisis world by looking at manufacturing capacities, public debt and trade deficit. It analyses the spectacular transformations taking place nowadays in liberal international order: rapid changes in the structure of global power and in the hierarchy of various countries and regions in international economy and trade. The article shows that while historically the hegemonic power defended the order it had instituted, in today's world the US encourages bilateralism, and not multilateralism (one of the fundamental traits of globalization). Pro-globalization voices now belong to other contenders in the global economic race (like China).*

**Keywords:** *international order, manufacturing, public debt, trade deficit*

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## Introduction

It has been ten years since the crisis of 2008-2009. We are inclined to believe that following the post crisis period economic life will resume its progress, albeit with slight alterations. Little did we realize that this is a period of massive resettlement, marked by distinct stages and evolutions. The most spectacular and profound, albeit silent, transformations are those of the current liberal international order.

In the hierarchy of the most vividly debated political themes in the last years, the crisis of liberal democracy and liberal international order undoubtedly occupies one of

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<sup>1</sup> Friedrich List, *The National System of Political Economy*, Online Library of Liberty, <http://oll.libertyfund.org/titles/list-the-national-system-of-political-economy>, p. 108.

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the top positions. Several books have been recently published on the topic of the crisis of international order, which reveal the viewpoints of important personalities<sup>3</sup>. This theme has been debated in both articles and dedicated issues of various journals alike, and it is one that in our eyes has a tendency to take unpredictable turns.

President Donald Trump's win has been the trigger for the intensification of such debates. In the introduction to the *Foreign Affairs*' issue on international order, Editor Gideon Rose highlighted that: "during his campaign [the 2016 electoral campaign] Trump did indeed offer a perspective on international politics closer to the nationalism and protectionism of the 1930s than to anything seen in the White House since 1945. If the new administration tries to put this vision into practice, it will call into question the crucial role of the United States as the defender of the liberal international order as a whole, not just the country's own national interests."<sup>4</sup>

In addition to President Trump's political vision, a similar contribution to the debate on current international order has had the difficult internal political climate in the US. Richard Haass had just finished writing "A World in Disarray" when Donald Trump won the presidential election. The author felt the need to add a concluding chapter, "A Country in Disarray": "When it comes to the domestic side, the argument is straightforward. In order to lead and compete and act effectively in the world, the US needs to put its house in order."<sup>5</sup>

As with democracy, international order needs to deliver results, performance, and perspective. Just like democracy, international order has started delivering less. This is where the roots of the crisis, its very centre, lies. Liberal international order and liberal democracy are associated with each other because the efficiency, the attractiveness, and the prestige of internal order come from the efficiency, the attractiveness, and the prestige of liberal democratic life. The importance of the US in maintaining international order (and, in this context, the impact of the vision promoted by president Trump on international life) is crucial. However, in explaining the crisis of liberal international order, several causes and factors need to be taken into consideration equally, the most important of which are the economic ones. The structure of global power has changed, as too has the hierarchy of various countries and regions in international economy and trade. International order is the cumulated result of these rapid changes and so it must be.

Bill Emmott speaks about a feeling of decline that has permeated Western heartlands (the US, Europe and Japan), since the 70s<sup>6</sup>. The problem is that this feeling is supported by facts and evolutions and is consequently hard to shake. Irrespective of their various perspectives, analysts point to the economic root of evolutions after the Cold War and to the growing social gaps within states in the post crisis period. In what follows, we will focus on these transformations and possible instruments for intervention.

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<sup>3</sup> Bill Emmott, *The Fate of the West: The Battle to Save the World's Most Successful Political Idea*, 2017; Edward Luce, *The Retreat of Western Liberalism*, 2017; Richard Haass, *A World in Disarray: American Foreign Policy and the Crisis of the Old Order*, 2017; Gideon Rachman, *Easternisation: War and Peace in the Asian Century*, 2016.

<sup>4</sup> Gideon Rose, Out of Order? *Foreign Affairs*, 96(1), 2017.

<sup>5</sup> Richard Haass, *op cit.*, p. 287.

<sup>6</sup> Bill Emmott, *op. cit.*, p. 4.

## Davos 2017

So far, the crises and subsequent triggers leading to changes in the current international order have followed a pattern. The rising power would request a place at the table where strategic decisions are taken in order to have the chance to influence various evolutions in its favour. The hegemonic power would then defend the order it had instituted. The rise of Athens falls into this pattern (perceived by Sparta as a danger, which led to the Peloponnesian war), as did the rise of Germany at the end of the 19<sup>th</sup> century and then again in the 1930s. American professor Graham T. Allison labelled this pattern Thucydides’ Trap<sup>7</sup> to describe the situation of the current power at that time, that Sparta could not reach a compromise because it feared the rise of Athens. This led to a 30-year war that drained the two Greek states.

The spectacular change in this historical pattern was apparent at Davos, in 2017. The US announced that it will promote bilateralism, effectively giving up several multilateral arrangements (one of the fundamental traits of globalization), while China pleaded for globalization through its most authoritative voice. The paradox lies in the fact that the US, the promoter of globalization, took a step back from the order it had instituted, while China, the contender, occupied the pro-globalization seat left empty by the US. An analysis of the factors behind this crucial moment will facilitate an understanding of the current international order, the crisis that undermines it and future evolutions.

President Donald Trump’s position tells us openly that, from now on, the states’ interests will prevail in any geopolitical equation. This invites the reflection that up to now these interests may have been neglected. For a clear answer, we need to dive into “the peace treaty” that unofficially, but effectively, marked the end of the Cold War: globalization. This was the project that the American power, together with its close allies, offered to the world. Undoubtedly, this treaty furthered global interests, values, and evolutions. As early as 1999, Henri Kissinger remarked that “[t]he basic challenge is that what is called globalization is really another name for the dominant role of the United States.”<sup>8</sup> In these circumstances, how is “America first” to be understood?

Throughout history, superpowers cannot be accused of not wanting to promote their interests, but rather of not “reading” adequately these interests. Making sense of the internal and external contexts is a difficult task that history can neglect to take into account. Errors are inevitable. Prompt re-evaluations, followed by unyielding corrections, can compensate for the weaknesses of initial projects. When they are postponed, the world is faced with the current paradoxical situation, which what happened in Davos in 2017 illustrates.

In the 30-year period that has passed since the end of the Cold War it is not the national interest that has been neglected; rather, the institutional structure that was meant to promote it has not worked to this end for a while. The emphatic proclamation

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<sup>7</sup> Graham Allison, *Destined for War: Can America and China Escape Thucydides’s Trap?* Boston: Houghton Mifflin Harcourt, 2017.

<sup>8</sup> Lecture at Trinity College, Dublin, Oct. 12, 1999, cited by Sam Gindin in “Social Justice and Globalization: Are They Compatible?”, *Monthly Review*, 54(2), p. 11.

of national interest represents a (late) acknowledgement that the provisions of the “peace” that has followed the Cold War, despite appearing to be highly favourable to the winners, have ultimately not served this purpose. This is the moment when the US understood that globalization cannot be controlled. What remains to be seen is whether a state – irrespective of the magnitude of its power – can “free” itself from the flows of globalization.

In a recent publication, Edward Luce remarked: “In 1978, China had less than 1 percent of global trade and in 2013 it became the world’s leading trading nation with almost a quarter of its annual flows. As recently as the turn of the twenty-first century, the US accounted for almost three times as much global trade as China ... Nothing on this scale or speed has been witnessed before in history.”<sup>9</sup> Indeed, globalization has reconfigured the development strategy in its entirety. It has become apparent for some time that globalization no longer favours the states that established it. This late acknowledgement comes at a cost for the superpower of the moment.<sup>10</sup>

### **“The structure of global power changes dramatically”**

In the early days, the US and other developed countries benefitted considerably from globalization, because they delocalized important production capacities in countries with cheap workforce. Profits were generous, but were obtained with minimal effort; gains without work are a poisonous gift, because they do not stimulate the endeavours to procure wealth. Moreover, such gains were not distributed equitably in the US and other developed countries. Delocalization (that led to the loss of numerous jobs) and the fact that profits went to a small social segment generated the explosion of social inequality in many developed countries, and especially the US.

The example given by Edward Luce is important because it illustrates how *dramatically* the structure of global power (the power relationships and the international significance of countries) can change. “As a group, emerging and developing economies now account for almost 60 percent of global GDP, up from just under half only a decade ago. They contributed more than 80 percent of global growth since the 2008 financial crisis.”<sup>11</sup> In discussions regarding the liberal international order, we tend to disregard the significance of this phenomenon, which is the explanation behind changes at international level. In this respect, Graham Allison remarked (in contradiction to analysts that mainly associate the real problems of international liberal order with Donald Trump being elected president): “Yet, the rise of China, the resurgence of Russia, and the decline of the United States’ share of global power each present much larger challenges than Trump.”<sup>12</sup>

Apart from the strictly quantitative, statistical data, the economic competition at the top has a very important qualitative component, associated with what we call the new

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<sup>9</sup> Edward Luce, *The Retreat of Western Liberalism*, Little, Brown, 2017, p. 21.

<sup>10</sup> It is hard to understand why the US and other powers took so many years to understand that, while globalization was instituted for a certain purpose, it has come to serve other interests. See the book by Paul Dobrescu, published in 2010 by the European Institute Publishing House, Iași, *Globalization’s Cunningness. The Assault on American Power*, for a detailed analysis.

<sup>11</sup> Christine Lagarde, *The Role of Emerging Markets in a New Global Partnership for Growth*, University of Maryland, February 4, 2016, <http://www.imf.org/en/News/Articles/2015/09/28/04/53/sp020416>.

<sup>12</sup> Graham Allison, *The Myth of the Liberal Order*, *Foreign Affairs*, 97(4), 124–133.

technologies. One of the issues of *The Economist*<sup>13</sup> is dedicated to “The Battle for Digital Supremacy”, which at this moment is embodied by the US and China (that aims to become a global leader in the field by 2030). There is a lot of talk about artificial intelligence and the opportunities it opens in most fields. Vladimir Putin asserted: “Artificial intelligence is the future, not only for Russia, but for all humankind ... Whoever becomes the leader in this sphere will become the ruler of the world.”<sup>14</sup> Since the Russian leader has been so clear about the importance of artificial intelligence, Moscow must be betting on certain advantages in this field. Current powers are striving to capture the truly revolutionary potential of new technologies – with the exception of the European Union.

The example given by Edward Luce is illustrative because it highlights a reality that we could call “the classical trap of development”. In crucial moments throughout history, states have to choose between *wealth* or *the capacity to produce wealth*. Following the Cold War, in the years of globalization, most developed states fell into this trap. It seems that the warning of Friedrich List, a great theoretician of development, formulated in the first half of the 19<sup>th</sup> century, when Germany was striving to bridge the gap with Europe’s developed states, has been forgotten: “*The power of producing wealth* is ... infinitely more important than *wealth itself*.”<sup>15</sup>

Delocalization has led to enormous profit; however, the price paid in terms of development is unacceptable. The countries that deliberately offered conditions for foreign companies to reach high profits became the destination of modern production capacities, of advanced technologies and modern management. In short, they became the beneficiaries of a windfall *capacity to produce wealth*.

At the beginning of the industrial revolution, China and India held about three fourths of the world’s manufacturing capacities. The European countries fought back. The Indian textile production, holding the world’s top position, was replaced by the Lancashire cotton industry; Chinese porcelain was replaced by European porcelain. In other words, European countries took advantage of the technological advances that enabled them to increase production and sell those products at a competitive price. The battle was clearly fought over manufacturing (or, in the terms discussed above, over the means to produce wealth). This was the moment at which the West understood the decisive importance of manufacturing. The result is well-known.

Developed countries behaved differently in the years of globalization. They yielded manufacturing means, sharing the belief that wealth belonged to them. Nowadays, it is the ‘weaker’ states that have “imposed” the solution, by providing cheap products to the rich and offering them the perspective of gains. This is how China invited the delocalization of an important part of the American and other developed states’ manufacturing. However this has been a short-term gain for the rich; it is the emerging states that have won. This is *the strategic exam that neoliberal capitalism has not passed*. Developed countries have focused on wealth, the emerging countries have focused on producing wealth. Through a historical

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<sup>13</sup> *The Economist*, March 17-23, 2018.

<sup>14</sup> James Vincent, Putin Says the Nation that Leads in AI ‘Will Be Ruler of the World’, *The Verge*, September 4, 2017, <https://www.theverge.com/2017/9/4/16251226/russia-ai-putin-rule-the-world>.

<sup>15</sup> Friedrich List, *op cit.*, p. 108.

perspective, this race can have only one winner. Any confrontation between existing and rising powers reveals paradoxes, mistakes, and blunders, but the confrontation nowadays is quite unique in that consequences have not yet been completely understood.

Criticism is now aimed at President Trump. However, if he ceased to be president, none of the economic problems of the US would change. Exploring the impact of the 2008-2009 crisis on the US economy will provide a clearer understanding of the tensions that can arise. Niall Ferguson asserted: “Plausible estimates for the losses that the financial crisis inflicted on the United States alone range from \$5.7 trillion to \$13 trillion, whereas the largest estimate for the cost of the war on terrorism stands at \$4 trillion.”<sup>16</sup> At the same time, the volume of national debt has evolved at disquieting rates. “It stood at approximately \$4trillion when the Cold War ended, has risen to \$20 trillion today, and is projected to exceed \$25 trillion by the end of this decade. The United States has become a country that does not finish what it starts and then borrows exorbitantly to conceal its failures.”<sup>17</sup>

### **The Chinese-German “Half-Victory”**

Crisis is the expression of an imbalance. The more important the field where the imbalance has become apparent, the more chronic the situation, and the more serious the crisis. The crisis does not end when its end is proclaimed, but rather when the imbalance that has generated it has been removed. We share the opinion of Mervyn King, former governor of the Bank of England, who, when asked about the actions taken by central banks to stop the crisis, answered: what was done in 2008 and 2009 “prevented a repetition of the Great Depression”. In other words, the crisis was stopped when it was still a recession, in order to avert a repeat of the nightmare of the 1929-1933 depression. The price to pay was to increase money printing and the transferring of this financial effort towards the public debt, more precisely towards the citizen.

In the meantime, other imbalances have come into being or deteriorated, and have been added to the ones that were never completely solved during the crisis. In a recent book<sup>18</sup>, Mervyn King discusses the contradiction between countries with high deficit and those with high surplus. An answer to the question “who are the winners of this turbulent time?” can be found from a political, military or economic perspective. At an economic level, two countries have clearly won: Germany and China. Germany’s trade surplus for 2016 was 300 billion dollars; China’s, over 200 billion. These numbers show something significant for international order. Massive trade surplus expresses a major imbalance. It has a precise correspondent in the deficit of the other trade partners. The existence of a surplus of such magnitude forces countries with trade deficits to borrow money or appeal to severe austerity policies. This institutes a gap in international order, and is a source

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<sup>16</sup> Niall Ferguson, *The False Prophecy of Hyperconnection: How to Survive the Networked Age*. *Foreign Affairs*, 96(5), 68-79.

<sup>17</sup> Andrew J. Bacevich, *Saving America First: What Responsible Nationalism Looks Like*. *Foreign Affairs*, 96(5), 57-67.

<sup>18</sup> Mervyn King, *The End of Alchemy: Money, Banking, and the Future of the Global Economy*. Little, Brown, 2016. The book has been translated and published in Romanian by Comunicare.ro Publishing House, București (Bucharest), 2017.

of tension and potential conflict. President Trump’s comment on the “bad, very bad” German trade surplus demonstrates the magnitude of this reality for the US.

The volume of public debt, and a stagnating or modestly growing global demand are the two illnesses directly affecting global growth and, implicitly, the state of international order. They strongly highlight the strategic advantage gained by states with a high trade surplus. Moreover, they show that the main dispute in the years to come will be between countries with debts and trade deficit and countries with financial power and trade surplus. The coming period will see an upsurge in protectionism and various forms of mercantilism and will resemble *economic war*.

No country with a high trade surplus yields advantages. There are few options available to a state with trade deficit. It can carry out austerity measures, to decrease social expenses, but the most realistic option is to increase exports, which requires internal restructuring and an increase in competitiveness. Take the example of Greece. This country cannot improve its economic state by appealing to excessive austerity, which has ceased to yield results. It is clear that another solution needs to be found, or else the trade balance of Greece or countries in similar positions will become worse and the international order will be undermined and will implode.

The winners of the post-Cold War period (countries with high surplus) are better equipped to use the advantages of globalization. It is for this reason that they support this process and are the main actors of global competition. In order to face this competition, the other developed countries need to borrow for the future. They will have to further “the paradox of policies”, in the words of Mervyn King: “Understandably concerned with the paradox of thrift, they adopted policies that led to the paradox of policy – where policy measures that are desirable in the short term are diametrically opposite to those needed in the long term.”<sup>19</sup>

If this is what happens in developed countries, we can understand the magnitude of the significance of the trade gap for developing countries. In the end, there will be several countries like Germany, and a lot more like Greece. The imbalance evident in the existence of countries with high trade balance and countries with high trade deficit that borrow from the future, synthesized in “the paradox of policies”, can lead to serious tensions, and probably trigger a new crisis. “Whether the next crisis will be another collapse of our economic and financial system, or whether it will take the form of political or even military conflict, is impossible to say. Neither is inevitable. But only a new world order could prevent such an outcome.”<sup>20</sup>

Other developed countries will be winners at political and military level. It has become extremely pressing to have peace, a peace that will confirm a new international arrangement, meant to bridge the gap in trade performance. The more the moment is postponed, the higher the risk for a new crisis, that will strengthen the advantages of countries with trade surplus. Sooner than later, a new Bretton Woods will be required, which should find its roots in this economic “half victory” of countries with trade surplus, and should prevent the risk of widening this gap.

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<sup>19</sup> Idem, p.326.

<sup>20</sup> Idem, p. 352.

## 2016, the crucial year of the post crisis period

2016 represented a decisive year for the understanding of the post crisis period and the particularities of current international order. It was the year that saw crucial events: Brexit, the election of president Trump, as well as a visible rise of populism. Sociological analysis shows that at national level, globalization has brought about important negative phenomena. In the case of the US and Great Britain, it has favoured the increase in social inequality, has increased polarization and has facilitated the appearance of social faults, that the general population has been quick to perceive and act on. This in part explains why Brexit was not supported by the majority of citizens from urban areas (London, Oxford, Cambridge), but was voted by dissatisfied citizens elsewhere.

In the US, inequalities are more visible than in other states or regions. These inequalities have been compensated by the conviction that “the American dream” perseveres, that the existence of opportunities diminishes these inequalities that merit and talent are rewarded and lead to higher social status. Events such as Brexit or the election of Donald Trump represent an accumulation of the discontent generated by several factors: an increase in the number of migrants, poor security for the average citizen, etc. Among these factors a crucial one is an increase in inequality and its consequences.

Jeff D. Colgan and Robert O. Keohane study this problem in one of issues of *Foreign Affairs*. They discuss the effects that the drastic decrease in the numbers of the middle class has not only on internal stability, but on international stability, as well. “Since the early 1980s, the effects of a neoliberal economic agenda have eroded the social contract that had previously ensured crucial political support for the order. Many middle – and working class voters in the United Kingdom, the United States, and elsewhere have come to believe – with a good deal of justification – that the system is rigged ... Ordinary people were left out. The time has come to acknowledge this reality and push for policies that can save the liberal order before it is too late.”<sup>21</sup>

Three years after the monumental *Capital in the Twenty-First Century*<sup>22</sup> saw the light of day, the book *After Piketty* was published. It is significant because it illustrates the dynamics of interpretations on social inequality. The editors of this recent book note that when Piketty’s book was published, many analysts doubted how accurate it was: “maybe, but also maybe not.” Then came President Trump’s victory, largely down to the audience in classically democrat areas (goes the editors’ argument). These areas “faced extreme economic dislocation in the recent past”<sup>23</sup> and were untouched by Hillary Clinton’s messages. “And so, Piketty’s analytical political-economic case looks to us to have been greatly strengthened by Trump’s presidential election victory.”<sup>24</sup> The conclusion is a warning for analysts: “If Piketty’s book was distastefully radical before, now it looks vitally necessary.”<sup>25</sup>

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<sup>21</sup> Jeff D. Colgan and Robert O. Keohane, The Liberal Order is Rigged. Fix It Now or Watch It Wither, *Foreign Affairs*, 96(5), 36-44, <https://www.foreignaffairs.com/articles/world/2017-04-17/liberal-order-rigged>.

<sup>22</sup> Thomas Piketty, *Capital in the Twenty-First Century*, Cambridge, Massachusetts, London, England: The Belknap Press of Harvard University Press, 2014.

<sup>23</sup> Heather Boushey, J. Bradford DeLong and Marshall Steinbaum (eds.), *After Piketty: The Agenda for Economics and Inequality*, Cambridge, MA: Harvard University Press, 2017, p. 2.

<sup>24</sup> Ibid.

<sup>25</sup> Idem, p. 4.

The current period is characterized by the fact that *international instability expresses states' internal discontent, developed politically*. Preoccupations with the resettlement of international order will become more acute, especially because these changes affect the most powerful country in the world.

The social and political life of developed countries is severely divided and the visions governing them are becoming increasingly radical. The middle class, that once ensured balance, is now decreasing. Prestigious authors, from Paul Volker to Allan Greenspan, from Henry Kissinger to Joseph Nye Jr., warn that it is not the economic situation (burdened by many difficulties) that is the most serious problem, but the lack of political consensus over strategic directions. This new phenomenon can feed not just the increase of tensions and conflicts, and the ascent of populism, but the appearance of “protofascist” positions, warn Heather Boushey, J. Bradford DeLong and Marshall Steinbaum. This situation carries the risk of suspending the very substance of democratic debate, which invites various viewpoints and approaches, against the background of shared values and options. When these options are so different that consensus cannot be reached, meaningful dialogue cannot take place and the “two sides of society” only aim at defeating the other, at the expense of social dialogue.

The enormous risk of this national imbalance spilling over to an international level cannot be ignored. To a degree, international order is the cumulated product of various internal situations; in any case, international order and internal order (especially of big states) are permanently interrelated. The corollary of this evolution can be a form of national self-centredness. Remember Jan Bremmer's book, *Every Nation for Itself*<sup>26</sup>. This leaves little room for shared problems and global challenges. International life is hardly sustainable at this moment, and is marred by many risks and tensions. The states' retreat onto themselves can aggravate this already tenuous situation. The hegemon no longer has the power to dominate world problems on its own. Emerging states are increasingly powerful, but their role at a global level does not reflect the economic and military force they possess. We are living in a multipolar world, and “a multi-polar world is inherently more unstable than the post-war stability provided by the umbrella of the Pax Americana”<sup>27</sup>. The US is still powerful, but the gap between the US and the contenders has visibly decreased. At the same time, with the launch of the formula “America first”, the US has rethought its priorities. Finding solutions to internal problems takes precedence over other objectives, including international ones.

### **“If nobody is ever willing to yield, we will all lose**

A close look at international life will show that, in fact, the European Union is the only significant power of our days “built on a multilateral basis”. It is important to reflect on this reality for several reasons. Firstly, this internal focus of nations leaves little room for shared problems. From any angle, the withdrawal of the US from the Paris Climate Agreement represents a blow to ecological preoccupations, in a moment when they

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<sup>26</sup> Ian Bremmer, *Every Nation for Itself: Winners and Losers in a G-Zero World*, Penguin UK, 2012.

<sup>27</sup> Mervyn King, *op cit.*, p. 362.

become increasingly important not only for political actors, but for citizens in general. From this perspective, Xavier Solana's warning remains significant: "Multilateralism is not a product of unsustainable solidarity, as some like to claim; it is the result of an enlightened interpretation of one's own interests. With a constructive attitude, even a large number of disparate actors can reach agreements in which everyone wins by yielding a little; without it, prospects for sustained peace and widely shared prosperity become far bleaker. If all countries put their own interests first, paying no heed to others, competition will quickly overwhelm common interests. If nobody is ever willing to yield, we will all lose."<sup>28</sup>

A second perspective was intensely discussed at the 2018 Munich Security Conference. At a time when significant powers have focused attention internally, when the assertiveness of Moscow and Beijing has become increasingly visible, and the relationship between the US and the EU has been visibly perturbed, the model based on a multilateral arrangement, symbolised by the EU, has become something singular. Moreover, the real problems the Union has faced lately (until 2015 it was the world's most important economic power, a place it has since ceded to the US and, if current tendencies are maintained, it will cede its second place position to China) can feed perceptions of vulnerability and temptations that were not visible 10 or 15 years ago. This is how to understand the serious, direct warning that Sigmar Gabriel gave at the conference: "Nobody should attempt to divide the European Union: not Russia, not China and also not the United States."<sup>29</sup>

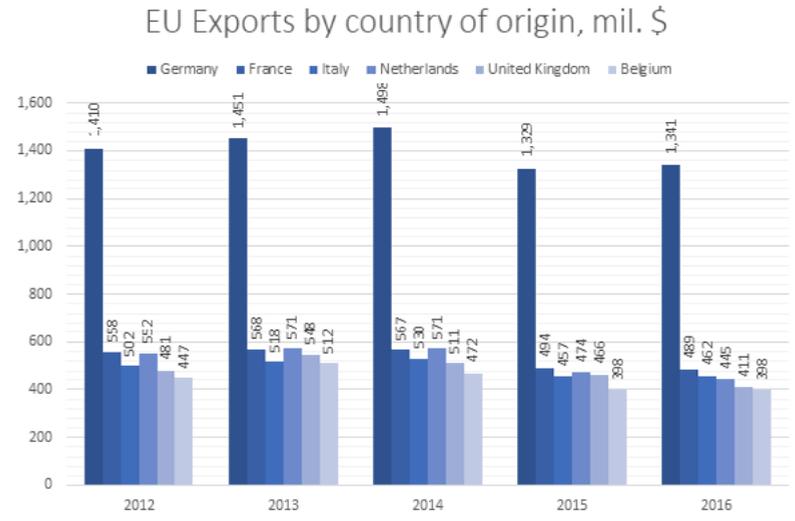
The major test will be the efficiency of the multilateral model, the solution that the Union will find to its numerous problems. Because we are living in a time when unilateralism has been embraced by the American superpower, our fear is that the values and virtues of the multilateral model will continue to be asserted at the level of the Union, while in practice the European powers will follow a sort of *ad hoc unilateralism*. This fear continues to be fed by the consolidation of Germany's position as Europe's dominant power. The following graphs discuss Germany and the rest of the continent. Statistics do not encourage intuitive approaches. However, when Germany exports almost three times more than France, who places second, and when Germany's exports are one fourth of the Union's total exports, Germany's political, economic and even decisional status is clear and the lines between its own interests and the interests of the Union become blurred. To synthesize, we fear that the virtues of the multilateral model will continue to be praised, while in fact the national values will prevail.

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<sup>28</sup> Javier Solana, European Union First, *Social Europe*, February 24, 2017, <https://www.socialeurope.eu/2017/02/european-union-first/>.

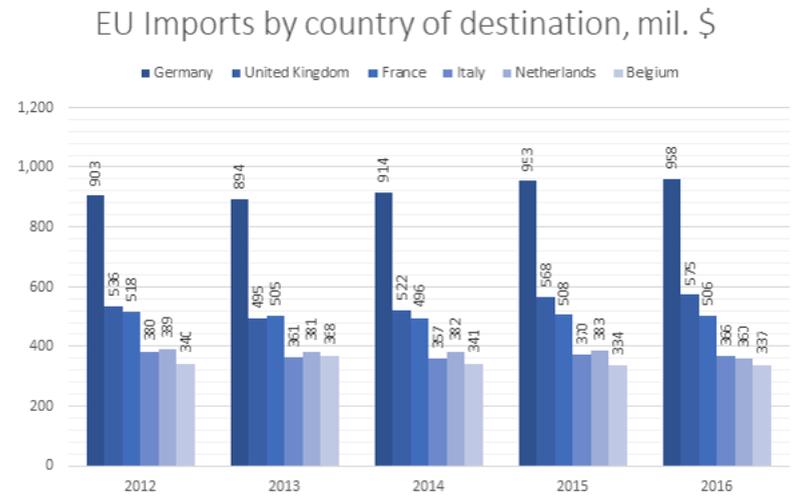
<sup>29</sup> Sigmar Gabriel, We Need a European Moment, *DW News*, February 17, 2018, <http://www.dw.com/en/germanys-gabriel-we-need-a-european-moment/a-42624573>.

Graph 1 – EU exports by country of origin



Source: Trademap.org, cited in C. Volintiru, G. Drăgan, “Nous choisissons l’Europe”: EU’s Economic Development and Current Challenges, in Dobrescu, P. (ed). *Development in Turbulent Times. The Many Faces of Inequality within Europe* (Springer, forthcoming)

Graph 2 – EU imports by country of destination



Source: Trademap.org, cited in C. Volintiru, G. Drăgan, “Nous choisissons l’Europe”: EU’s Economic Development and Current Challenges, in Dobrescu, P. (ed). *Development in Turbulent Times. The Many Faces of Inequality within Europe* (Springer, forthcoming)

### ***Romania's difficult choices***

Romania is experiencing one of the most difficult periods in its history, mainly because it has not built advantages, and the ones that it had, have been wasted (through deindustrialization, the destruction of the fleet, the deforestation, through selling, rather than processing, raw materials). Romania's development has been ignored. A projection of development would have been a starting point for a future project. The very premises of development have been affected: demography, education and health. Romania has failed to learn from its own history (Romanian economic thinking has always underlined the importance of industrialization and of agriculture modernization). The country has failed to "make peace with socialism", which the other former socialist countries did in the early 90s.

The main challenge for a country of Romania's dimension and problems is to grasp the truth that a new economic reality has been born, which is characterised by several important traits. For instance, Asia now contributes close to two-thirds of global growth, which speaks volumes about power distribution at global level. A fault line divides countries with trade surplus and countries with trade deficit. In the context of low world demand, this fault line generates tensions that we cannot ignore. The growth of public debt impacts economic growth, as well. "Global debt – both public and private - has reached an all-time high of \$164 trillion. Compared to its 2007 level, this debt is now 40% higher"<sup>30</sup>, said Christine Lagarde, one of the most authoritative voices in the field. It is true that global economic evolutions for 2018 and 2019 are encouraging – "economies are moving up, not down". However, tensions and imbalances are structural and have lasted for years, which turns the IMF Managing Director's call to "fix the roof while the sun is still shining" into a precautionary measure in the face of a recession that might become a reality once more.

In our view, Romania has several priorities. Firstly, it needs to re-examine and profoundly amend its vision of the state that it has built over the last decades. The state is irreplaceable when it comes to economic growth. At any moment in history, development crucially depends on factors that fall into the state's responsibility. "Economic development requires basic physical and human infrastructure: transportation, energy, education, science. Private sector capitalists rarely provide roads, airports, mass transits, mass education or basic research because there is no way to make these activities economically profitable. If the economy is to have vital prerequisites for growth, those prerequisites must be provided by some institution motivated by something other than short term profit. The state – with its concern over long-term national prosperity – has been critical to the provision of physical and human infrastructure. Governments build roads, build airports, build schools and pay for science. This is a gigantic contribution to economic development"<sup>31</sup>. The warning is clearly stated: "getting the state out of people's

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<sup>30</sup> Christine Lagarde, *Fix the roof while the sun is still shining*, 2018 International Monetary Fund/World Bank Spring Meetings, April 16, 2018, <https://www.weforum.org/agenda/2018/04/fix-the-roof-now-three-priorities-for-the-global-economy/>

<sup>31</sup> Rae Lesser Blumberg and Samuel Cohn (eds.), *Development in Crisis. Threats to Human Well-Being in the Global South and Global North*, London, Routledge, 2016, pp. 6-7.

lives” comes at “the cost of eliminating public provision of education and infrastructure”, which, from the perspective of development, “could be catastrophic”<sup>32</sup>. This might be a good moment to ask whether there is a connection between the state of physical and human infrastructure in our country and the uncritical enthusiasm behind the adoption of the minimal state theories.

In turbulent times, the winners are the ones with a vision, which can channel their efforts. The goal shouldn't be to have positive growth for one or two years and then have negative growth (which evolution characterised Romania after the crisis). Development rhythms should be constant for as long as possible, but this cannot happen in the absence of medium and long-term vision. Mervyn King was speaking about “the paradox of policy”, where a country's leadership focuses on the problems of the moment and neglects long-term objectives, which can provide solutions to difficult moments, such as post crisis at global level. Avoiding “the paradox of policy” is all the more valid in the case of Romania, which has focused on short-term problems for too long.

Most developed countries are facing an imbalance between the economic and social problems of development, which is expressed in increased social inequality. In the case of Romania, there are added difficulties. As Florin Georgescu, First Deputy Governor of the National Bank of Romania, mentioned, Romania has a rate of poverty and social exclusion risk of 39,5%, EU's second highest (the mean being 24,4%)<sup>33</sup>. The problem of social polarization affects stability, a crucial condition for sustainable economic evolution.

Romania is now faced with some extremely difficult choices. The US promotes bilateralism, and the EU is the symbol of multilateralism. We are NATO members and favour the partnership with the US, but the EU plans to build its own defence force. The Munich Security Conference has clearly shown the state of German-American relations in the field. EU needs to avoid being a “vegetarian in a world of carnivores”<sup>34</sup>, asserted Sigmar Gabriel. No stronger warning is needed.

Any country that wants to rebuild itself needs at least two premises: a powerful, entrepreneurial state, and elites. At least for the moment, Romania is a vegetarian both ways, while the carnivores' weapons (especially the economic ones) have become increasingly threatening.

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<sup>32</sup> Idem, p. 9.

<sup>33</sup> Florin Georgescu, *Creșterea economică, dezvoltarea României și reducerea sărăciei* [Economic growth, Romania's development and poverty reduction], [www.bnr.ro/DocumentInformation.aspx?idInfoClass=6885...1](http://www.bnr.ro/DocumentInformation.aspx?idInfoClass=6885...1).

<sup>34</sup> Sigmar Gabriel, *op.cit.*

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