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War, Peace & Business

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Abstract

In contrast to the globalization trend which followed the Cold War, the World today is rediscovering wars and conflicts between nations. Companies and private actors have to cope with this new reality linked to the growing rivalry between the West on the one side, Russia and China on the other. The relationship between public affairs and the private sector, between geopolitics and business, becomes more and more relevant. The necessity to study and understand more accurately and in a more integrated way such interactions will be central to the new ESCP Master of Science called 'International Business & Diplomacy'.

Mots clés (keywords): Business Geopolitics Globalization International Relations

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War, Peace & Business

Trade and Business are a matter of Peace. "Sweet Trade" ("doux commerce") has even been conceptualized as a factor of peace in Montesquieu's view in the 18th Century. Today, as the World rediscovers wars and conflicts, Business has to cope with a new reality.

Why Geopolitics matters more and more to Business

After the end of the Cold War, Francis Fukuyama developed the famous thesis of 'the End of History', according to which the World would be ruled by the principles of democracy and market economy. This paved the way for the process of globalization, encompassing trade liberalization, new international organizations such as the World Trade Organization (WTO), the dazzling development of exchanges of information, goods, services, capital and people, and the multiplication of global companies treating the World as a single market. The World became flat, as the journalist Thomas Friedman wrote in a bestseller (2005).

However the post-Cold War World never lived up to the expectations of peaceful globalization. States' security strategies emphasized new threats such as the proliferation of weapons of mass destruction or terrorism. Western interventions in the Yugoslavian wars, the long lasting US interventions in Iraq and Afghanistan, and in a more limited way the French interventions in Africa, exemplified the new security situation where the competition between great powers was replaced by asymmetric conflicts in 'uncivilized' zones. But in 1998, 3 years before China joined the WTO and accelerated its economic development, India and Pakistan let several nuclear devices explode and officially became nuclear powers. In the same year, the curb on world military expenditure stopped its post-Cold War decline with a steady expansion starting, growing from 1000 to 2000 bn $ in less than 25 years, today reaching almost 3 % of the World's GDP.

In retrospect, post-Cold War globalization appeared to be a product of the 'hegemonic stability' (Kindleberger, 1973) provided by US strategic dominance. The French Foreign Minister Hubert Védrine even characterized the US as a 'hyperpower' in the 1990s. The US was approaching 50 % of the World's military expenditure under G. W. Bush's Administration, and still today represents 35 % of it (against a little more than 10 % for China). Thanks to its economic, technological, military and diplomatic superiority the US still dominates the seas, airspace, outer space and cyberspace.

Things are changing at present due to several factors:

- The economic and geopolitical competition between the US and China, characterized by Graham Allison as the Thucydides's trap (2015), is shaping new international relations. China under the rule of Xi Jinping aims at becoming the World's leading power by 2049 at the latest, for the 100th anniversary of the proclamation of the People's Republic of China. The US doesn't wish to be overtaken by a China ruled by the Chinese Communist Party, which would threaten the international liberal order it has been building since 1945. This is a bipartisan consensus in Washington and there is no difference between the Trump and the Biden Administration in that regard.

- Russia is not such a challenger for the US dominance, but is a longstanding geopolitical and ideological rival from Washington's point of view. The current conflict in Ukraine crowns growing competition which started with Vladimir Putin's accession to power in the year 2000. The European strategic theater seems to have become secondary compared to the Asian-Pacific one but both are interrrelated: by reinvigorating NATO against Russia's aggressive policy, the US (the Biden Administration) has also bound together in a much stronger way the democratic Western coalition's stand against authoritarian (non democratic) regimes which favor nationalist and conservative values in trying to revise the existing international order, that is to say, Western dominance.

For Business this has several and considerable consequences. The process of 'hyperglobalization' had already stalled after the World economic crisis of 2008. Contrary to some economists' predictions, such as Pascal Lamy, claiming that the value chains would become more and more internationalized, world trade has not grown any faster than economic growth. The Covid-19 pandemic as well as geopolitical tensions and environmental pressure (e. g. the need to replace fossil fuels by nuclear and renewable energy), have led to a relocation of production. Look at how the European Union, traditionally sticking to the principle of free trade, has launched the concept of 'open strategic autonomy' in the context of the pandemic (2020). The US for its part has started a strategy of 'deglobalizing' China and Russia, even though Western countries can no longer claim a monopoly of globalization for themselves. We can assume that this shift is preparing us for a new kind of Cold War.

How do Geopolitics and Business interact?

Companies primarily see their international activities in terms of business opportunities. They also need to address the competition with other firms in a global context. For example, German car companies became global leaders because they played out the development of their business in the fast-growing markets of China. Volkswagen, the global leader in car production before the pandemic, has almost 40 % of its cars sold in China. The shift in the geopolitical context is particularly challenging for a country like Germany, which invested a lot in the development of economic relations with China and Russia.

During globalization in calmer weather, as it developed during the 1990s and 2000s, governments had to encourage and support their companies willing to conquer world markets. They promoted exports and tried to achieve major contracts through economic diplomacy. They wanted to attract foreign investment. They developed 'economic intelligence'. They cooperated with other governments in order to improve the regulation of globalization. Geoeconomics was a concept coined by Edward Luttwak (1990) to characterize the new forms of economic competition between States and nations at the time of peaceful globalization.

But the role of the State has been transformed in the aftermath of several international crises. States were the main actors responding to sanitary and economic crises triggered by the COVID pandemic. The growing importance of environment and climate change forces Business to adapt to such ecological and energy transitions, to comply with new regulations, to look after their ecological reputation ('environmental and social responsibility'). Companies have also to adapt to the new geopolitical context. This was always the case in sectors such as the defence industry, which is very much dependent on public purchasing at home and arms sales abroad, and the expansion of military expenditure has boosted the production and export of weapons overall. A country like France, which was the 3rd largest arms-supplier in the World from 2016 to 2020, has always been a strong actor in this market. But also in other sectors such as space, health, energy, digital economy, electronics, raw materials, food products - which are all sectors covered by the EU's concept of 'open strategic autonomy' - there is a growing combination between the public and the private actors. Look at how Europe and the US are presently boosting the production of chips or batteries to reduce such a dangerous dependency in those fields.

There are other public policy tools which create constraints for companies in this context. Export control is one of them. Most notably it always existed for arms exports. For example France restricted its arms sales to Turkey after the political crisis with this country in 2019. Foreign investment is another area. The EU has adopted legislation to establish common control on foreign investments (2019), although many member states already had such control at the national level. Sanctions are a third example. They were already being used against countries such as Iraq, Iran, North Korea, or countries and movements supporting terrorism. China is subject to an arms embargo by the US and the EU since its repression of Tiananmen in 1989. Russia has also been sanctioned by the West since its aggression on Ukraine in 2014 and these sanctions have been strengthened after her direct attack in 2022. Companies have to comply with these sanctions and some of them have even decided to totally leave the Russian market.

With the war in Ukraine we are experiencing a kind of 'War economy'. Russia has been hit hard by Western sanctions which are close to a total embargo (except for the supply of Russian gas which still accounts for 20 % of the European gas consumption). It will have to rely on its domestic forces and to diversify its economic relationship towards China and the rest of the World (which generally doesn't apply Western sanctions). For their part, the West and the rest of the World are also suffering the consequences of the war in Ukraine through inflation, shortages, and possibly an economic recession.

But Business does not only undergo the law of politics, it can also be an influencer if it is able to organize itself and to formulate its own requests, in particular by practicing an adequate corporate diplomacy. I will give two concrete examples, one from the past and a more recent one. During the 1970s, as the East-West 'Détente' was becoming crucial, economic relations in agriculture, industry or energy expanded rapidly between Western and communist countries and multinational enterprises became major stakeholders of them. Economic cooperation was indeed one of the three 'baskets' of the Conference on the Security and Cooperation in Europe (CSCE). More recently, the designation of China as a 'systemic rival' was proposed by the German BDI (*Bund der Deutschen Industrie*) before being taken up by the European Commission in its communication about China in March 2019, and by NATO in 2021 which designated her as a 'systemic challenge'.

Conclusion

The relationship between Geopolitics and Business is likely to take on more and more significance in the future. That is why ESCP has decided to reinforce its courses on Public Affairs and International Relations. In particular, it has decided to launch a new Master of Science dedicated to International Business & Diplomacy starting in the Academic Year 2022-2023. This is quite unique within the higher education market. While many Schools and Universities offer either Master Degrees in Diplomacy or International Relations or International Business, they do not offer a combination of all these fields. The MSc 'International Business & Diplomacy' will offer courses on international Business (international finance, international strategy, international consulting, corporate globalization, corporate diplomacy, intercultural management, negotiation, lobbying, the importance of law) while also offering Geopolitics, Diplomacy and economic Diplomacy, economic intelligence, international organizations, Globalization, ecological transition, international taxation, public and development policies, the role of civil society and NGOs. Indeed, the necessity to study and understand these fields in an integrated way is more relevant than ever.

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