

Editorial

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More than two decades ago, in December 2001, China joined the World Trade Organization. With the benefit of hindsight, this entry did not only mark the heyday of rule-based multilateralism, but possibly also its turning point. The past era of globalization was based on the idea that conflicts of interests are solved by negotiations in an environment of mutual trust. The continuous reduction of trade obstacles was seen to be of common interest and permanent. Since then and with increasing speed since the 2010s, this multilateral order is dissolving. Turning points were the (first) Trump presidency in the United States, the Brexit and Russia's military aggression against Ukraine as well as the presidency of Xi Jinping in China.

A national perspective on international politics and economic policy making is gradually replacing the multilateral cooperation. The implications are not yet well understood. A generation of economic policy advisors has developed its policy strategies under the assumption that the leading nations will cooperate and will be followed by the emerging markets and developing countries. This no longer seems to be the case. The latest issue of *The Economists' Voice* contributes to the reflection on what follows from this upheaval for economic policy making. The policy papers deal with the new challenges from a European and Asian perspective. The policy forum on *Geopolitical Tensions and Deglobalization* addresses the key aspects of this newly emerging geopolitical setting.

The first two policy papers deal with the governance of the European Union and the euro area. Europe is still a stronghold for rule-based economic policy making, while it is struggling with the imperfections of its economic and fiscal governance framework. Ad van Riet (UNU-CRIS Bruges) provides an insight into the transformation of the institutional framework of the European Monetary Union. His article *European Public Policies and Sovereign Risk in the Eurozone: How*

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State-Contingent Governance Hampers Fiscal Discipline shows how both EU fiscal instruments and monetary policy have provided various new solidarity tools to the member states of the European Monetary Union. The stringent application of fiscal rules has been replaced by a generous acceptance of exceptional circumstances to legitimize non-compliance. The author predicts a difficult future for the euro given a trade-off between the need for fiscal discipline and the integrity of the euro area.

Jakob de Haan (University of Groningen) and Fabian Amtenbrink (Erasmus University Rotterdam) zoom in on the debate on fiscal governance reform in the European Union. In their contribution on *The Reform of the European Fiscal Rules: In Search of Mechanisms Ensuring Sustainable Debt Levels*, they support the European Commission's approach to define country-specific expenditure paths as the cornerstone for a new surveillance mechanism. They are critical about the three-percent deficit rule, while missing ideas how to improve the enforcement of the fiscal rules. In their view, a framework for sovereign debt restructuring is crucial to contain the threat of a sovereign-bank doom loop to enhance the resilience of the financial system against sovereign solvency crises.

John Ryan (ifo Institute) sheds light on the future of the United Kingdom outside the European Union from a financial market perspective. In his paper *How Brexit Damaged the United Kingdom and the City of London* he argues that the finance hubs of the European Union such as Paris, Frankfurt, Amsterdam, and Dublin are growing, because the United Kingdom has missed a post-Brexit agreement on financial markets. The mantra that the EU needed the City of London more than the City needed the EU has proven wrong. The conservative Prime Ministers Johnson, Truss and Sunak have led the United Kingdom into a self-inflicted economic and political decline accompanied by regulatory uncertainty. The City of London has to adapt to the harsh reality of growing competition from EU financial centers and from New York.

The West has reacted to the Russian aggression against Ukraine with an unprecedented arsenal of economic sanctions. Iran looks back at a long history of multilateral and bilateral sanctions since 2006. Mohammad Reza Farzanegan (University of Marburg) and Esfandiyar Batmanghelidj (Bourse & Bazaar Foundation) survey the literature on the economic effects of sanctions on Iran (*Understanding Economic Sanctions on Iran: A Survey*). With respect to the applied methodologies, the authors emphasize the merits of synthetic control group approaches that can provide credible causal evidence on the effectiveness of sanctions. Overall, while the literature finds major damage of the sanctions to the country's economy and society, they seem to have failed so far to induce policy or regime changes.

Heribert Dieter (German Institute for International and Security Affairs) argues in his paper *A Soufflé Only Rises Once: China's Grim Economic Prospects* that China is

confronted with the bursting of an immense real estate bubble, which has created large overcapacities in the Chinese housing market. This implies that after four decades of unprecedented growth the Chinese economy faces a plethora of structural problems. They are amplified by the heritage of the one-child policy, which is resulting in a sharp decline of the population. Including the current turn towards economic isolation, China is facing in the view of the author a prolonged phase of slow growth or even stagnation.

The Policy Forum starts with Gabriel Felbermayr (WIFO and Vienna University of Economics and Business) noting in *Deglobalization: Reasons and Effects* that global trade measured as a share of global income has stopped growing and may shrink in the years to come. He makes a distinction between globalization, hyperglobalization and slowbalization and argues that the welfare effects of shrinking trade will hinge on the reasons. Rising tariffs and other trade barriers have clearly a negative effect on welfare. Yet, with lower trade costs thanks to technological innovations globalization may bounce back forcefully when geopolitical tensions abate. Barry Eichengreen (University of California, Berkeley) identifies in his piece with the title *Geopolitical Tensions and Global Monetary (Dis) Order* two sorts of geopolitical tensions, which have the potential to reshape the global monetary order. First, the conflict between Russia and the G7 over the war in Ukraine has prompted other countries to re-think their dependence on the dollar. Second, tensions between the United States and China affect everything from direct foreign investment to technology transfer and trade. The global monetary and financial system may bifurcate into nonoverlapping dollar and renminbi blocs, which would have dire consequences for the global economy.

Kathrin Kamin and Rolf Langhammer (both Kiel Institute for the World Economy) explore the consequences of the formation of the BRICS+ for the global economy. In their contribution *From BRICS to BRICS+: Sheer More Members is Not a Challenge to G7* they stress that the new members of the BRICS have vast natural resources, which will amplify the global influence of the group. However, the underdeveloped financial markets and the dominance of the dollar in the global monetary system are seen as the Achilles heel of the BRICS+. The formation of the BRICS+ should serve as a wake-up call for the G7 to rejuvenate political and economic links amidst a shifting global landscape. The article *The Rise and Fall of the Eurasian Regionalism* by Alexander Libman (Free University Berlin) turns the spotlight on the Eurasian Economic Union (EAEU). Libman describes how the EAEU members Russia and Belarus have become subject to unprecedented sanctions since 2022. He points out that other EAEU members move away from Russia, which severely limits the further integration potential. At the same time, the Eurasian neighbors of Russia benefit from profitable arbitrage opportunities between the heavily sanctioned Russia and the West.

With her contribution *Caught up by Geopolitics: Sanctions and the EU's Response to Russia's War Against Ukraine*, Katharina Meissner (University of Vienna) digs deeper into the EU's relation with Russia. The analysis shows the unprecedented scope and depth of the sanctions that evolved from initially targeted sanctions to comprehensive ones affecting every-day life in Russia. For the author, this demonstrates that the EU has positioned itself as a geopolitical and geoeconomic player.

The article *China's Central Role in the Globalization and Slowbalization Trends* by Alicia Garcia Herrero (Natixis and Bruegel) describes China's way from the era of globalization towards the emphasis of self-reliance and a resilient own technological ecosystem, with the latter being intensified by US technological containment strategies. Garcia Herrero argues that the term isolation would be misleading for the current Chinese geoeconomic strategy since the country is creating its own economic neighborhood through the Belt and Road Initiative. Michael Hüther (IW Köln) provides a German perspective on China. In his article *German Chinese Economic Relations: Necessary Reassessment* he argues that the integration of China into the world economy has not been accompanied by an opening of its political system. With the current economic slowdown, which is intensified by a fast-ageing society, social tensions may emerge in China. The economic dependencies between China and Germany is seen to be two-sided. German corporations should reassess the risks of their engagement in China. Norbert Tofall (Flossbach von Storch Research Institute) ventures in his article *"Chinas's Economy as Xi's Means of Power"* a projection of China's future growth. He stresses that presidents Xi Jinping's attempt to use trade, tariffs, energy, raw materials, interest rates, loans, investments, aid programs and sanctions as political instruments to gain geopolitical advantages undermines entrepreneurial dynamism as the main driver of prosperity. This implies that China will not surpass the United States economically in the near future.

Finally, Guntram Wolff (German Council on Foreign Relations) deals with climate policy challenges that arise from the geopolitical rivalry between China and the West. His article *Systemic Rivalry of China and the West in Climate Policy* provides recommendations how the West should react to China's extremely fast rise in greenhouse gas emissions. In his view, US and EU climate policy must be sufficiently ambitious to be credible. In addition, the West should use its financial and trade-related instruments to incentivize emission reduction in developing countries that, otherwise, are at risk to follow the Chinese model of cheap fossil energy.