



## New global economic order

Exclusive report for ACATIS Investment: Prof. Dr. Dr. h.c. Lars P. Feld, University Freiburg and Walter Eucken Institute

The world is changing - what might sound like a platitude is nevertheless the truth. The Russian attack on Ukraine has only revealed what everyone already knew: the old world order, characterized by multilateral relations, globalization and economic interests, has come to an end. It is being replaced by nationalism, protectionism and moralization. The exact nature of this new world order is not clear at this time. At the same time, it is dominated by the politics of power, as was the case for centuries until the end of WWII. From a purely economic perspective, it will become more difficult to do business at the global level.

Also, it is not just the developed world that is facing significant challenges. Moreover, there is also the need to manage climate change by reducing global CO2 emissions and adapting to the consequences of climate change. There is also the steady and unstoppable progress of technology (with digitization and artificial intelligence at the forefront) and the demographic transition in aging Western societies, which will require a significant amount of immigration. All of these developments can be solved more easily with international cooperation and coordination.

These structural changes are making it difficult for companies and private households to make investment and consumer decisions. The global political response to this environment has been varied, but one commonality is protectionism and growing government debt. The media has tended to focus on Donald Trump, his tariff policies and the enormous increase in US government debt. But an honest observer would have to admit that China and the member states of the European Union (EU) are almost as protectionist and similarly ready to take on new debt.

This combination is dangerous. It is a striking reminder of earlier historical events, in which high tariffs and massive government debt were used as political measures during times of crisis. The global economic crisis is one such example. Put in blunt economic terms, it was followed by a period of enormous volatility; a more sympathetic interpretation would point out that it was a time of severe hardship for many people around the world.

These comparisons fall short, however. There is much to be said for the idea that while history does not repeat itself, it does rhyme. In that context, the warning signals of today should not be hysterically exaggerated, although they should be recognized and taken into account. In any case, it explains the current sense of uncertainty, and it should not be a surprise that the sentiment is so persistent.

For now, the geopolitical environment remains dominated by Russia's continued attacks in Ukraine, Israel's multi-front war in the Middle East and the aggressive expansion of Chinese influence in Asia. They lead to a US policy that wants to maintain its global hegemony while also trying to bring US allies into line through security and foreign trade leverage. All of the protagonists face elements of insufficient resilience, e.g. because of political polarization in society, excessive government or private debt, weak demographic trends or insufficient economic momentum.

Against this background, initial signs of an economic recovery in Germany and in the EU seem almost inconsequential. A few months of improved sentiment, slightly higher orders received or increased industry production (which is not adjusted enough for special effects) can hardly be interpreted as a trend reversal. Let's not delude ourselves: In the geo-strategic conflict with the Chinese-Russian axis, the West is still not unified enough; protectionism as an economic component of foreign policy is the wrong way to go, particularly if this strategy is pursued without the respect of friend and foe. Planned economy targets are sending the wrong signals when it comes to climate and industrial policies, and this course has still not been corrected. The reaction of Western welfare states to the demographic challenges has been inadequate. The consequences of digitization and artificial intelligence are not recognized enough.

Turning points like these are opportunities for those who are courageous and willing. The excessive focus on economic uncertainty is not helpful for successfully navigating the existing unknowns. At the same time, economic policies cannot simply rely on improving the overall sentiment; they must create a resilient environment that facilitates investment and innovation. That is what they must be measured against.

Prof. Dr. Dr. h.c. Lars P. Feld