



REPORT ON THE ECONOMIC SITUATION

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The significance of the turning point

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In his government statement of 27 February 2022, Federal Chancellor Scholz noted that the Russian attack on Ukraine was a turning point for the European continent. Indeed, it was a decisive break that raises questions about the very things we previously thought to be certain. At the same time, this turning point leads to great uncertainty - both economically and politically. And economic uncertainty has a negative effect on economic performance; it creates a wait-and-see attitude among investors and a more cautious attitude on the part of consumers. Still, this development pales compared to the significance of this turning point for the new global economic order.

Before the fall of the Iron Curtain in the fall of 1989, the world was divided into two camps. During the Cold War, the world was dominated by two blocks - NATO and the US as the dominant hegemon on one side, and the Warsaw Pact with the USSR as the hegemon on the other side. Countries in the global South could join one or the other alliance. Starting in 1989, this rivalry seemed to have resolved in favour of the liberal West with its market economy systems. The United States became the dominant hegemon worldwide, and by far the greatest military power. This situation changed as time went on, mainly due to China's emergence as a new economic and military superpower, leading to talk of a new multipolar world.

The turning point marks the break that reveals how the world is once again divided into two blocks. It can be seen most clearly by examining the flows of weapon shipments. They reveal the existence of two blocks - China and Russia on one side, and the US and Europe on the other side.

This does not describe the new world order or even a new economic order. It is not clear how quickly China and Russia will be able to catch up to the western alliance. In terms of its economy and technology, China is not at the level of the West, and militarily it is still no match for the US. Economically and technologically, Russia is relatively insignificant, and militarily it is also not at the level of the West. An added factor is the West's response to this situation. For some time, China has been grappling with sanctions that were started by the US and that have some support in Europe. One example is the agreement between the US and the Netherlands and Japan, according to which machines (e.g. ASML) for producing high-performance microchips will no longer be supplied to China. The support for Ukraine in its war against Russia is directly targeted at containing Russia's military power.

This constellation also tells us nothing about the future relationships between the blocks as time goes on. Particularly with regard to China, companies do not know what to prepare for. Most recently, some companies showed a willingness to increase their engagement in China and make significant investments in China. Other companies are gradually withdrawing from China. Interested observers are scratching their heads over the recent tentativeness regarding the support for Ukraine. Do the politicians in Germany and the US not realise that indecisiveness only encourages the Russian dictator to continue his aggression?

One scenario that is gradually emerging is considered the most likely outcome from a German point of view. It is the scenario of a strengthened transatlantic relationship. The disagreements between Germany and France in the EU are not least due to the fact that Germany is once again more committed to its partnership with the US. Both militarily and in terms of security policy. Even if Europeans were to focus more on deterrence vis-a-vis the Chinese-Russian block, they will need several years to reach the level that will be required for this course of action. Outside of France, American weapon systems are once again used in greater numbers. Also, the US and Europe will be forced to work together more closely for security-related reasons.

All of this appears unreal given the possible victory of Donald Trump in the presidential elections in November of this year. German politicians must be able to handle a second term of Trump's presidency. However, Germany should not be under the illusion that a Biden victory would lead to better conditions.

Economically, the scenario outlined above offers both opportunities and risks. Many companies are already aware and continue to expand their investments in the US. Companies are relaxed when it comes to a second term of President Trump. The US continues to be highly attractive for investors.

Sincerely yours

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