

Dear Readers,

The World Trade Organisation is sounding the alarm bells over it, as is the International Monetary Fund. The World Economic Forum is even asking whether it will spell the end for economic development among some sections of the global population. They are talking about geoeconomic fragmentation, in other words, the realignment of international trade flows along political blocs, thus the end of globalisation – at least as we have known it over recent decades, where economic efficiency was the key criterion for the alignment of goods and financial flows.

International economic and financial organisations are responsible for drawing attention to developments that could impair the economic welfare of the world's population. Accordingly, these institutions calculate how large growth losses could be due to politically induced shifts in economic relations under this or that scenario. Of course we should take these risks seriously. At the same time, it is the task of policymakers to keep an eye on the big picture. And there are many other aspects to consider in addition to purely economic considerations, first and foremost preserving the security and independence of one's country and the people who live in it.

This is all the more true in a world where key players such as Russia and China do not hesitate to use the economic dependencies of other countries as a political weapon. So, whether we like it or not, decision-makers in Germany and Europe have to find a new balance between economic and geopolitical concerns. This issue of International Reports seeks to contribute to the discussion about which principles should guide them.

Security before profit maximisation. In the vast majority of cases, these two objectives are not contradictory. Indeed, the opposite is true: if we have a strong economic base, this also strengthens our political position on the international stage. However, in the event that decisions made by private companies could, in the medium or long term, result in dependency on other countries that are likely to become our adversaries on this international stage, then politicians can and should intervene. Germany's centrist parties now largely agree that it was a mistake to not only do nothing to avoid the country's gas dependency on Russia, but to drive it forward politically. It is important not to repeat this mistake with regard to China, which, according to experts, has far more scope to cause us harm in the event of a conflict compared to Russia, since the German and Chinese economies are linked in a completely different way.

As much intervention as necessary, as much freedom as possible. As important as it is for the state to intervene in economic relations that have security implications, it is equally important that it stays out of engagements that do not raise security concerns – and that is clearly the majority. With this in mind, Gunter Rieck Moncayo argues in his article for a targeted approach to the necessary geostrategic readjustment of our foreign trade policy. The liberal global economic order established after the Second World War brought prosperity, first to West Germany and later to Germany as a whole. Today, it is important to make the necessary adjustments within this order – to stand up for its rules without acting naively. However, those who, in the slipstream of current developments, want to pursue industrial policy and protectionism on a large scale and for their own sake, thereby taking an axe to that order, will neither increase our prosperity nor our security.

Free trade talks should not be overloaded with other issues. Politicians in large swathes of Germany and Europe generally agree that we should reduce dependencies, particularly on revisionist autocracies. Particularly with regard to China, there is much talk of “diversification” and “de-risking”. There is a desperate search for new business partners. Yet there is also a gap between words and actions. It is true that Germany is cancelling federal guarantees for business in China and granting them for projects in other countries. That is the right thing to do. However, policymakers should focus much more on removing existing trade barriers – and these are now increasingly non-tariff barriers in addition to traditional tariffs – for our companies, making it easier for them to work with countries in Southeast Asia, South America or Africa and thus diversify German and European supply chains, or enabling them to do so in the first place. In concrete terms, this means signing free trade agreements with the countries and regions concerned as quickly as possible. This is also important because other players – China, of course, but also countries like Turkey and the United Arab Emirates – are now overtaking us in some regions of the world, as Lukas Kupfernagel points out in his article on Africa.

However, the European Union has proved to be virtually paralysed in this area for years. We have become used to the fact that there is still no free trade agreement even between the EU and the US, but this does not make the situation any less worrying – especially in the current global situation. But when we cast our gaze beyond the established industrial nations, here, too, things are not looking good. The most drastic example is the 25-year-long negotiations with the South American MERCOSUR bloc, yet the situation is similar when it comes to trade talks with an emerging country such as Indonesia, as Denis Suarsana explains in his article.

Alongside the specific economic interests of certain groups in Europe and the respective negotiating partner, further complications arise due to the Europeans' increasing tendency to complicate the talks by attempting to use free trade agreements to push through non-trade demands such as far-reaching social, environmental and human rights standards. These are often perceived as patronising and overbearing by the partner on the other side of the negotiating table. Of course, these are important issues, but the EU and its member states should look for other ways of addressing them when talking to their partners. Today, these countries have other economic options besides Europe and, if in doubt, will simply allow the trade talks to fail. The result: no environmental standards, no free trade. If we Europeans then make it even more difficult for companies to enter the markets of many potential diversification candidates by imposing excessive requirements – such as the German Supply Chain Act and the corresponding EU directive – the de-risking rhetoric begins to ring hollow.

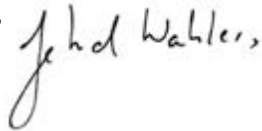
Geoeconomic competitiveness demands economic competitiveness. Just as we should try to remove external obstacles from our economy and avoid throwing additional stones in its path, we should generally devote more energy to making it structurally more competitive. In terms of geopolitics, including vis-à-vis potential opponents, our position varies depending on whether we are economically strong or lagging behind. And the latter threatens to materialise if we do not take countermeasures. Of course, we should not indulge in worst-case scenarios, as the economic challenges elsewhere are also immense, and great ambitions do not always keep pace with reality, as Philipp Dienstbier and Nicolas Reeves illustrate with reference to the Gulf region in this issue of International Reports. And yet growth forecasts for the near future speak for themselves. Not only is Germany at the bottom of the table of industrialised nations. Europe could also lose touch with the United States and the North American economic area as a whole, which is increasingly being influenced by strong growth in Mexico, as Hans-Hartwig Blomeier and Maximilian Strobel explain in their article.

Here at home in Germany and Europe, too, we need to return to the strengths of our liberal societies and economic systems. One could also say we need to return to the basic principles of the social market economy: promoting employment and personal responsibility, not dependence on the state; using resources efficiently and in a decentralised manner, with state allocation in exceptional cases only; and viewing new technology not primarily as a threat but as an opportunity, for example in the regulation of artificial intelligence.

It has almost become a truism but the world has indeed become a tougher place for Germany, Europe and the political West as a whole over the past two decades. And just as these conditions are forcing us to rethink our approach to armaments and defence, this is also the case with regard to our economy. The realisation has dawned very late in both these cases, especially in Germany, where a change of direction is particularly challenging both materially and often intellectually. But in both cases, it is also true that if we refuse to face reality and simply do business as usual, we will soon find ourselves in dire straits.

I hope you find this report a stimulating read.

Yours,

A handwritten signature in black ink that reads "Gerhard Wahlers". The signature is written in a cursive style with a large, stylized initial 'G'.

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