

**Country Studies by Students Following the “Political Economy” Course in the
PSME Programme - 2023-2024
(May 2024)**

Table of contents

Forward.....3

China4

Estonia.....21

Germany.....26

Hong Kong.....43

India.....57

Iran.....63

Italy.....68

Pakistan.....83

Philippines.....90

South Korea.....104

Spain.....114

Türkiye.....132

Ukraine.....137

United States of America.....142

Forward

This report is based on country economic studies prepared by PSME students in 2023-2024, following the Political Economy course. Students were first asked to make presentations in class about their country's economy: its structure and political system, macroeconomic policy, microeconomic policy, and international economic relations. The class presentations were then expanded into longer reports, as the basis for students' final grade. This document brings together these individual case studies into one document.

A few overall comments can be made about these studies. Firstly, national economies remain shaped by national characteristics, be it in terms of political institutions, economic structures or national economic policies. The usefulness of studying comparative capitalisms remains in trying to explain the different paths taken by national economies.

At the same time, and perhaps not surprisingly, approaches to policies are often quite similar. Preoccupations with output, public (and private) sector debts, inflation, and trade run through all the reports – none of the countries studied here appears to be following significantly different sets of economic policies, even though their situations vary substantially: the concerns of China and the United States, for example, are obviously quite different from those of Ukraine, as a country at war.

Another point to be made is that none of the countries studied here appears to be pursuing a radically different approach to their international economic relations. For the moment, all countries generally appear to be engaged in pursuing their integration into the global economy – one way or another. There are as yet no clear signs of any country wanting to pull back substantially from its international trading relationships.

Superficially at least, the fragmentation of the global system which has occurred since the end of the Covid pandemic, and which has been accelerated notably by the war in Ukraine (beginning on 24 February 2022), and more recently the war in Gaza (beginning on 7 October 2023) has not yet upset global trade and commercial flows profoundly, although the future here looks difficult. Since it launched its Belt and Road Initiative in 2013, China has emerged progressively as a challenger to the international, liberal, economic order largely developed by the United States after World War II, and reflected in international institutions like the International Monetary Fund, the World Bank and the World Trade Organisation. Since the (first?) Trump administration (January 2017 to January 2021), the United States itself has been pulling back from this order, and its strategic global rivalry with China has deepened, as the Trump administration first embarked on low-level trade war with China, which has been intensified under the Biden administration. In the meantime, the Ukraine and Gaza wars have led to a stronger challenge to the international liberal order as Russia, Iran and China appear to have come together to oppose US/Western power, and as many countries from the "Global South" are taking a non-aligned approach in these wars. So far, the rivalry between these two camps has not yet profoundly redrawn the map of international economic relations. But we are far from the end of this process. The rivalry between the "West" (essentially the US, Canada, the European Union countries and some Asian countries) and an alternative bloc led by China in particular (although including other members of the BRICs) is set to be the key geopolitical characteristic of the decades ahead, which may well spill over significantly into international trade and business flows.

Nicholas Sowels, 13 September 2024

Report on the Political Economy of China

Chenqian Shi, Ziyu Guo and Fangzhou Wang

Introduction

The first part of this report introduces the economic structure of the Chinese mainland, which includes the population, GDP, main sectors of the economy, and ownership structure. It then briefly discusses the macroeconomic structure of the Chinese mainland by giving an explanation of the Five-Year Plan, summarizing current macroeconomic policy tools, and analysing challenges at present. The second part provides an overview of the Chinese mainland's microeconomics issues, including its anti-monopoly law and green transformation. The last part is about international trade, which discusses China's international economic integration from different points of view.

Section 1. Country's Economic Structure

After the reform and opening up in 1978, the Chinese economy has been gradually transformed from a planned economy into a "socialist market economic system", with the development of ideas related to "socialism with Chinese characteristics".

Under this reformed system, market forces play a significant role in resource allocation, while the government maintains control over strategic sectors and provides guidance and regulation to ensure social stability and sustainable development.

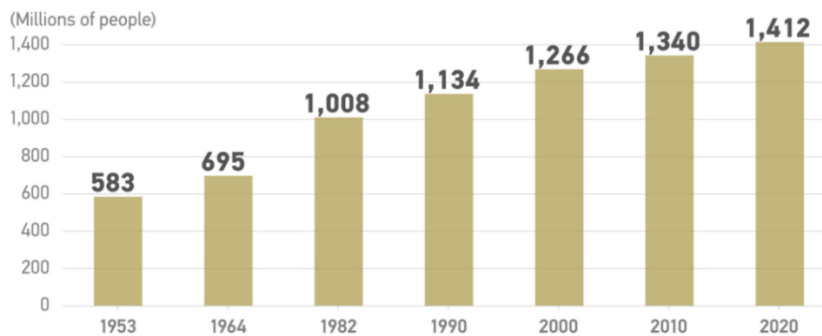
In this part, a brief introduction about the population, GDP, sectors of the economy and ownership structure will be given to set a foundation for the following report about more detailed economic issues in mainland China.

1.1 Population

According to the Chinese National Bureau of Statistics, China is a populous country with a total population of 1,409.67 million at the end of 2023.

However, the United Nations has reported that the population of China has recently reached its peak. Population growth in China has slowed significantly in the past few decades due to the implementation of the one-child policy, which was relaxed in 2015 to allow for two children per family and has had more adjustments in recent years. The population of China has been declining since 2022. The following chart shows the population by the national census of China since 1953.

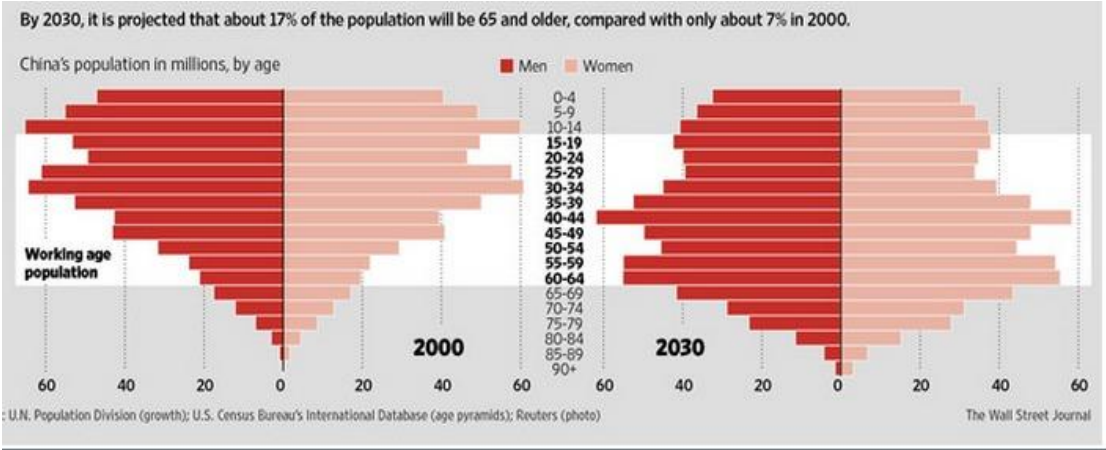
Figure 1. China's Population by National Censuses



Source: China's Population Censuses 1953-2020

China, like many other countries in the world, is faced with an ageing population due to the subsequent impact of the one-child policy and the emergence of a declining trend in fertility rates. A comparison of the age structure of the population in 2000 with the projected data for 2030 is shown in the figure below.

Figure 2. China’s Population Comparison



Source: The Wall Street Journal

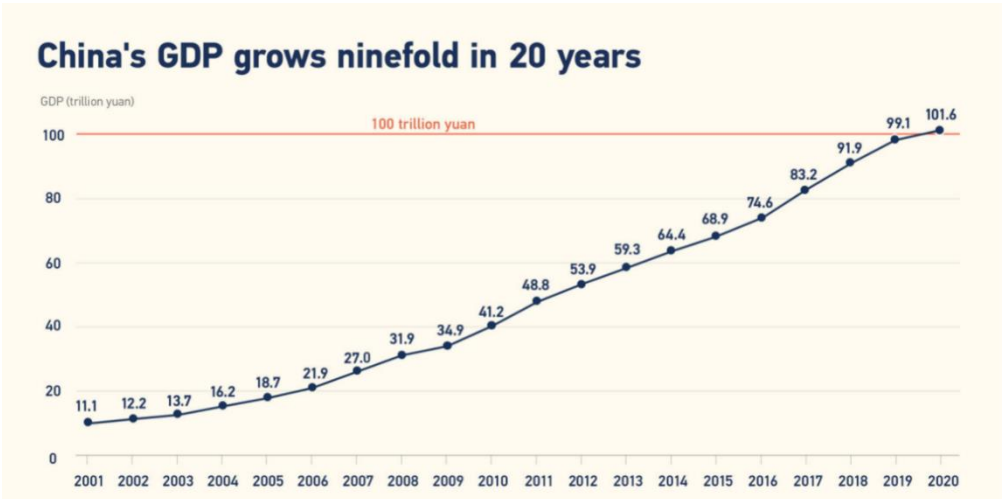
By 2030, it is projected that 17% of the population will be 65 and older, compared with 7% in 2000.

1.2 GDP

China has the world's second-largest economy by nominal GDP and the largest economy by purchasing power parity (PPP).

In recent years, China has experienced rapid economic growth. As the chart shows, from Yuan 11.1 trillion in 2001 to Yuan 101.6 trillion in 2020, China's GDP has increased ninefold over the past two decades.

Figure 3. China’s GDP Grows Ninefold in 20 Years



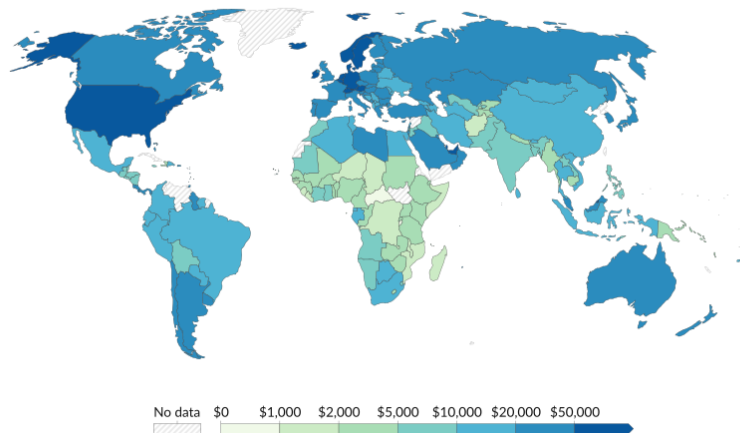
Source: National Bureau of Statistics

Despite its large GDP, China's GDP per capita is still relatively low compared to developed countries due to its large population size. According to the latest IMF data for 2023, China's GDP per capita is \$23,309, compared to \$80,412 for the United States, and China ranks 72nd in the world.

Figure 4. China’s GDP Per Capita in 2021

GDP per capita, 2021

This data is adjusted for inflation and for differences in the cost of living between countries.



Data source: World Bank (2023)

Note: This data is expressed in international-\$ at 2017 prices.

OurWorldInData.org/economic-growth | CC BY

Source: World Bank (2023)

1.3 Main Sectors of the Economy

According to statistics from the World Bank, China's service sector has become increasingly important in driving economic growth and employment, which accounts for 53.9% of GDP in 2019, compared with only 32.4% in 1960. Meanwhile, the share of manufacturing and agriculture are both decreasing. With the change of time, the service sector has gradually taken over the dominant position of manufacturing.

1.4 Ownership Structure

At the present stage, China's ownership structure is characterized by a combination of state-owned enterprises (SOEs), privately owned enterprises (POEs), and foreign-invested enterprises (FIEs). Historically, SOEs have played a dominant role in key sectors such as energy, telecommunications, finance, and heavy industry. They are owned and operated by the government or state entities and often receive preferential treatment and support from the state. Privately Owned Enterprises (POEs): Privately owned enterprises have experienced rapid growth since economic reforms, particularly in sectors such as manufacturing, technology, services, and retail. They are owned and operated by individuals or private entities and contribute significantly to China's economic vitality and innovation. Foreign-Invested Enterprises (FIEs): Foreign-invested enterprises include joint ventures and wholly foreign-owned enterprises established by foreign companies in China. They play a crucial role in facilitating technology transfer, promoting exports, and attracting foreign investment into the Chinese economy.

In recent years, China has implemented reforms to enhance the role of the private sector, encourage entrepreneurship, and improve the efficiency of SOEs. However, SOEs continue to play a prominent role in strategic industries and sectors critical to national security and economic stability.

In 2003, China established the State-owned Assets Supervision and Administration Commission of the State Council. In 2020, at the 14th meeting of the Central Committee for deepening overall reforms, China passed the "Three-Year Action Plan for Reform of state-owned enterprises 2020-2022", emphasizing the reform of the socialist market economy and the improvement of market-oriented operating mechanisms. The plan also called for state-owned enterprises to play a leading role in promoting the healthy development of private enterprises. According to data for 2023 from the State-owned Assets Supervision

and Administration Commission of the State Council, nearly 40,000 State-owned enterprises have established boards of directors, and the reform of state-owned enterprise corporate governance has been fully completed. Despite the end of the three-year action plan, state-owned enterprises still face many challenges. Specifically, their legal governance structures are not fully clarified, the effective role of boards of directors has not been fully realized, and the regulatory system needs further improvement. Additionally, as the SOEs undertake various social functions that should be borne by public institutions or social operating entities, they bear a burden far greater than private enterprises, and some state-owned enterprises still undertake social functions that are inconsistent with their main business development direction.

In October 2023, the State Council issued a report on the management of state-owned assets in 2022, which showed that the total assets of national state-owned enterprises in China in 2022 amounted to 33.95 trillion yuan, with total liabilities of 14.05 trillion yuan, resulting in an average asset-liability ratio of state-owned enterprises of 64.4%.

Section 2. Macroeconomic Policies

In this part, the report first explains the functions of different departments in Chinese economy, and then stresses the Five-Year Plans. After that, both fiscal and monetary policy tools which have been used in recent years are illustrated. In the end, the report discusses current challenges in the macroeconomy of the Chinese mainland.

2.1 Policy-making Departments

The State Council, as the Central People's Government, plans and coordinates all national affairs, is the highest administrative organ of the country. It has 26 departments covering various functions such as economy, diplomacy, healthcare, education and so on. This report emphasizes the main departments related to economic functions are the central bank, the Ministry of Finance, and the Ministry of Commerce.

The People's Bank of China (PBOC) is the central bank of China, with independence from other departments in the economy. According to the official statement of the PBOC, its functions can be concluded in three aspects: it formulates and implements monetary policy; prevents and resolves financial risks; and maintains financial stability. More reforms regarding the offices under PBOC have been taken in 2023 to emphasize the stability of finance sectors in the Chinese economy.

The Ministry of Finance mainly controls the policies in the area of public finance and taxation, and sets laws and regulations on fiscal, financial and accounting management. The fiscal revenue and expenditure of the central government are also under the control of the Ministry of Finance. Generally speaking, it responds to the fiscal policies of the Chinese economy.

The Ministry of Commerce focuses on more micro aspects and international economic affairs. It makes policies of international economic policies, and standardizes market economy order.

All of these departments have independence in their own aspects and cooperate with each other in national economic development.

2.2 Economic Development Planning

In terms of economic development planning, China maintains a frequency of adjustment every five years and named it the Five-Year Plan. Its main purpose is: to determine major national construction projects and set out goals and directions of national economic development. Since 1953, China has successfully implemented thirteen Five-Year Plans, and eliminated absolute poverty in the Chinese mainland.

Currently, China is in the fourteenth Five-Year Plan phase, which started in 2021 and will end in 2025. During this phase, the main goals for economic and social development are as follows: achieving new

results in economic development; taking new steps in reform and opening up; achieving a new level of social civilization; making new progress in ecological civilization construction; reaching a new level of people's well-being; and enhancing the effectiveness of national governance.

Under the guidance of these main development goals, various departments cooperate and adjust their development strategies according to their own development realities.

As of February 2023, according to a report from the National Development and Reform Commission, the implementation of the "14th Five-Year Plan" outline has achieved overall progress with "more than half of the time elapsed and more than half of the tasks completed." Looking at the main target indicators, 16 out of 20 major indicators have basically met or exceeded expectations. Concerning major engineering projects, out of 102 major projects, 96 have progressed as expected, and 6 have basically met expectations.

On December 23, 2023, at the request of the State Council, Zheng Zhajie, Director of the National Development and Reform Commission, delivered a report to country's top legislature on the "Mid-Term Evaluation of the Implementation of the '14th Five-Year Plan' and the Outline of the 2035 Vision". The report summarized the achievements since 2021 and once again proposed: Focus on expanding domestic demand to ensure the acceleration of economic recovery and maintain stable growth. Accelerate the promotion of high-level technological self-reliance and self-improvement. Accelerate the construction of a modern industrial system. Focus on deepening market-oriented reforms and institutional openness to effectively enhance development momentum and vitality. Focus on promoting regional coordination and urban-rural integration development to expand new space for high-quality development. This includes deepening the coordinated development of the Beijing-Tianjin-Hebei region, building the Guangdong-Hong Kong-Macao Greater Bay Area, integrating development in the Yangtze River Delta, and so on.

2.3 Policy Tools

China mainly uses fiscal policy and monetary policy tools for macroeconomic management.

In 2023, China maintains a growing trend in both public budgets and expenditures. The growth in tax revenues is mainly due to the value added tax (VAT). Consumption tax shows a declining trend. On the expenditure side, social security and employment expenditures are growing most significantly, with education expenditures in second place. The main emphasis is on targeted policies, including financing for small and medium-sized enterprises (SMEs), and coordinated urban-rural development.

Regarding monetary policy, the PBOC emphasizes the dual objectives of maintaining the stability of the value of the currency thereby promoting economic growth. To reduce its reliance on open market operations, China has begun to experiment with a number of new monetary policy tools in recent years, such as Loan Prime Rate (LPR), Standing Lending Facility (SLF), Medium-term Lending Facility (MLF), Pledged Supplementary Lending (PSL).

2.4 New Challenges

China's economic development has faced many new challenges. In terms of macroeconomics, the main challenges mainly include dealing with two issues.

Firstly, investment growth continues to decline. China's property investment is a big drag on investment growth. China's property market has a large share of existing investment but shows insufficient growth momentum. Moreover, China's economy continues to undergo a transition phase, with the main driving force shifting from the primary and secondary sectors to the tertiary sector. Tertiary investment plays an important role in sustaining or promoting economic growth, yet tertiary investment growth in 2023 will also be insufficient.

Secondly, the consumption fluctuates significantly. Looking at the overall data, the total retail sales of consumer goods exceeded Yuan 40 trillion long ago, and has exceeded Yuan 46 trillion. However, in recent years, affected by multiple factors such as the impact of the epidemic, the growth rate of consumption has shown a fluctuating downward trend. The phenomenon of differentiation has become increasingly apparent in recent years. From the heterogeneity of urban and rural groups to the heterogeneity of rich and poor groups, and then to the differentiation of consumer goods categories, there are differentiation phenomena.

Behind the fluctuation and differentiation of consumption, it reflects the intertwined impact of multiple factors such as income, employment, and population changes.

Section 3. Microeconomic Issues

3.1 China's Anti-Monopoly Law

At the microeconomic level, the relationship between state intervention and market competition in China is exemplified by the evolution and enforcement of the Anti-Monopoly Law (AML). This law is pivotal in shaping China's approach to maintaining market fairness and fostering competitive markets.

The Anti-Monopoly Law of the People's Republic of China, one of China's current economic laws, is enacted to prevent and stop monopolistic behaviours, protect market fairness and competition, encourage innovation, enhance economic operational efficiency, safeguard consumer interests and social public interests, and promote the healthy development of the socialist market economy.

It was first passed during the Tenth National People's Congress on August 30, 2007, and came into effect on August 1, 2008. On June 24, 2022, the Thirteenth National People's Congress passed a decision to amend the Anti-Monopoly Law, which then came into effect on August 1, 2022. This significant amendment came after a period where the digital economy and related businesses like major tech companies grew immensely in influence and size, leading to concerns over monopolistic practices that are not fully addressed by the original law.

Since a part of China's broader strategy is to ensure that the market plays a decisive role in the economy while the government better handles macro-regulation, the enforcement of the Anti-Monopoly Law has become particularly robust in recent years, facing the fast development of technology. Notable changes include introducing stricter penalties for non-compliance, enhancing the regulatory framework for merger control, and providing a more defined approach to dealing with anti-competitive behaviour. One of the focal points of the amendments has been the increased scrutiny of digital and tech companies, emphasizing preventing anti-competitive practices that could exploit data and technological advantages.¹ One of the most notable cases in this context was against Alibaba, one of China's largest tech giants. In April 2021, the State Administration for Market Regulation (SAMR) in China imposed a record fine of 18.2 billion yuan (about \$2.8 billion) on Alibaba for violating anti-monopoly rules. The company was found guilty of "exclusive dealing agreements" that prevented merchants from selling their products on other e-commerce platforms, a practice known as "choose one from two". This enforcement action was a clear signal that the government was prepared to use its powers to regulate dominant companies in the digital

¹ Wang, Jiawei, and Xueqin Xie. "Update on Anti-Monopoly Law in China." Rödl & Partner, 22 Feb. 2023, www.roedl.com/insights/antitrust-law/china-anti-monopoly-law-update. Accessed 18 April 2024.

economy.²

Similarly, Tencent, another major player in the Chinese tech landscape, has also come under scrutiny. Although not fined to the same extent as Alibaba, Tencent has faced investigations and regulatory pressures related to its monopolistic practices. These include issues surrounding its music licensing deals and the exclusivity clauses with its music partners, which could potentially harm competition and consumer choice in the digital music market.³

The enforcement of the AML against tech giants like Alibaba and Tencent is indicative of SAMR's strategic approach to market regulation. By targeting these high-profile companies, SAMR aims to set a precedent and send a strong message to the industry about the importance of compliance with antitrust laws. This is crucial for maintaining market order and protecting the interests of consumers and smaller enterprises. Additionally, these actions are part of a broader regulatory tightening on the tech sector in China, reflecting a global trend where governments are increasingly cautious about the power of large tech companies. This regulatory shift aims not only to prevent anti-competitive practices but also to foster a fairer market environment and encourage innovation from smaller competitors who previously might have been edged out by larger, more established companies.

Moreover, these enforcement actions are part of China's broader economic policy goals. As the Chinese government focuses on sustainable economic growth, regulating monopolistic practices in critical sectors such as technology is seen as essential for promoting innovation and economic dynamism. This approach aligns with President Xi Jinping's broader economic reforms, which emphasize the need for "fair competition" and the prevention of the "disorderly expansion of capital".

Despite all this, the implementation of the Anti-Monopoly Law faces challenges. These include the practical application of new regulations, particularly how to define the relevant market and to assess the control over market power, and how terms like "grave violations" are interpreted. The operationalization of rules concerning new market dynamics introduced by digital platforms is another challenge. There's also an ongoing challenge in managing the balance between fostering innovation and curbing monopolistic practices, especially in a fast-evolving tech landscape.⁴⁵As mentioned before, China's state-dominated economic system has traditionally featured a large presence of state-owned enterprises (SOEs) in key sectors of the economy. While SOEs play a significant role in driving economic development and implementing government policies, their dominance can impede market competition and innovation. The amendment and enforcement of the Anti-Monopoly Law has shown China's commitment to fostering a more competitive market environment. Balancing state intervention with the principles of market competition is still a challenge, which requires careful policy coordination and regulatory reform. Looking

²Annual Report on Antimonopoly Enforcement in China (2022).

https://www.samr.gov.cn/xw/zj/art/2023/art_38056964cf5449daa346237200e24da0.html. Accessed 20 April 2024.

³Annual Report on Antimonopoly Enforcement in China (2022).

https://www.samr.gov.cn/xw/zj/art/2023/art_38056964cf5449daa346237200e24da0.html. Accessed 20 April 2024.

⁴ L. Osborn, Kathy, et al. "Amendments to China's Anti-Monopoly Law: What Has Changed and WHAT TO EXPECT: Faegre Drinker Biddle & Reath LLP." Faegre Drinker Biddle & Reath LLP, 6 June 2022, www.faegredrinker.com/en/insights/publications/2022/7/amendments-to-chinas-anti-monopoly-law-what-has-changed-and-what-to-expect. Accessed 28 April 2024.

⁵ He, Qing. "Rethinking the legal regulation of internet platform monopoly in China." *Policy & Internet*, vol. 14, no. 2, 23 May 2022, pp. 284–303.

ahead, it's expected that China will continue to refine its antitrust regulations and guidelines, especially to address and integrate new economic activities such as digital services and platforms into the AML framework.

3.2 Green Transformation

The green transformation refers to the shift towards environmentally sustainable economic activities and business practices and technologies, especially within the industrial sector. The emphasis on green development has been a key element in China's policy framework, particularly since the promulgation of the 13th Five-Year Plan. This transformation aligns with global trends and China's national priorities to combat pollution, reduce carbon emissions, and promote energy efficiency.⁶

Recently, China has made significant progress in promoting green transformation, particularly among small and medium-sized enterprises (SMEs). These businesses are vital to the Chinese economy, contributing significantly to employment and GDP. Despite their crucial role, SMEs face several hurdles in their transition to green operations.

One of the most pressing challenges is the cost associated with updating or replacing existing machinery and infrastructure to meet new environmental standards. For example, in sectors like manufacturing and construction, transitioning to greener alternatives requires substantial capital investments, which can be prohibitive for smaller businesses. The high costs of adopting new technologies, coupled with a general lack of access to financing, pose significant pressure on SMEs.

Moreover, SMEs often struggle with limited technical expertise and lack of information on sustainable practices, which are crucial for navigating the green transition effectively. SMEs often find it difficult to keep up with the frequent changes in environmental laws and standards, which can vary significantly between regions and industries. The administrative burden of complying with these regulations can divert resources away from core business operations, impacting productivity and growth.

The Chinese government has undertaken numerous initiatives to support the green transformation of enterprises, including SMEs. Key initiatives include financial incentives like grants, subsidies, tax rebates, and green credits, aimed at alleviating the financial burden associated with the adoption of green technologies. For instance, local governments offer support programs that reduce the cost of energy-efficient machinery and equipment, helping SMEs overcome financial constraints. There is also technical support, and the creation of green industrial parks that provide SMEs with the infrastructure and services needed to operate sustainably. The State Council's release of the white paper on "China's Green Development in the New Era" outlines comprehensive measures to embed ecological conservation into all aspects of social and economic development.⁷ The government's work report from 2024 further highlights the progress in enhancing the eco-environment and promoting high-quality development, reflecting a strong commitment to green transformation as a fundamental aspect of China's development strategy.⁸

⁶ China's State Council Information Office, "China's Green Development in the New Era." http://www.scio.gov.cn/zfbps/zfbps_2279/202303/t20230320_707666.html. Accessed 25 April 2024.

⁷ China's State Council Information Office, "China's Green Development in the New Era." http://www.scio.gov.cn/zfbps/zfbps_2279/202303/t20230320_707666.html. Accessed 25 April 2024.

⁸ Qiang Li, "Report on the work of the Government in 2024." http://www.scio.gov.cn/gxzt/dtzt/2024zt/qglhzt2024/lianghubg/202403/t20240313_837696.html. Accessed 26 April

Despite those challenges, there is a growing trend among Chinese SMEs to adopt green practices, driven by both regulatory requirements and the growing domestic and international demand for environmentally sustainable products and services. Increasingly, SMEs are recognizing that sustainable practices can lead to cost savings and create new business opportunities.

Looking forward, the trajectory for SMEs in China involves a deeper integration of green practices into all aspects of business operations. The government's push towards a circular economy, where resource use is optimized and waste is minimized, will likely shape future policies affecting SMEs. This approach will necessitate even greater collaboration between the government, industry leaders, and the international community to ensure that Chinese SMEs are not only participants but also leaders in the global green economy.

While the path forward includes significant challenges, the comprehensive support from the government and the growing awareness and adoption of sustainable practices among SMEs suggest a positive outlook. This transition, although complex, represents a significant opportunity for China to lead by example in the global shift towards sustainability.

Section 4. International Economic Integration

4.1 Objectives and Main characteristics of China's international trade

4.1.1 Objectives of China's International Trade

As China's economy matures and global dynamics change, so do its objectives in international trade. The following are some of the general objectives currently prioritized by the Chinese Government in international trade⁹:

- **Economic Growth:** Increasing its international trade is one way that China hopes to maintain its economic growth. Trade with other nations gives China access to new markets for its products and services, which promotes economic growth.
- **Export Promotion:** China seeks to promote its exports to boost its trade surplus. This is frequently accomplished by a variety of strategies, including providing exporters with incentives, making infrastructure investments to improve trade routes, and negotiating trade agreements that support Chinese goods.
- **Technological Advancement:** China wants to import cutting-edge technologies and form relationships with foreign companies in order to acquire them through international trade. For China to continue developing economically and to remain competitive in fields like renewable energy, artificial intelligence, and telecommunications, this goal is

2024.

⁹ Xinhua News Agency, "The 14th Five-Year Plan of the People's Republic of China, https://www.gov.cn/xinwen/2021-03/13/content_5592681.htm?eqid=945f38050007c2e300000005648bfd0." Accessed 21 April 2024.

essential.

Trade Balance and Currency Management: China aims to prevent excessive trade surpluses or deficits by keeping a balance in its commercial dealings. In order to maintain stability and competitiveness in international markets, China's foreign trade strategy also heavily relies on the management of its currency, the renminbi (RMB). These objectives are often pursued through various means, including bilateral and multilateral trade agreements, participation in international organizations such as the World Trade Organization (WTO), and strategic investments in key industries and infrastructure projects. To be specific, in 2021, China introduced a number of feasible measures.

Firstly, coordinating the relationship between imports and exports, trade in goods and in services, and trade and industrial development. Fully unleash the dynamics of trade business model innovation and rapidly upgrade the level of digitalization.

Secondly, emphasizing the importance of the natural environment and raises the status of green trade. Improve the legal, logistics, payment and other support systems in the field of green trade, and improve communication with trading partners in the field of ecological trade.

Thirdly, enhancing the level of trade liberalization and facilitation, building a network of free trade zones of higher standards, and further solidifying relations with global trading partners.

Fourthly, further improving the trade security system. China will diversify import sources of food, energy resources, key technologies and components, and further improve the risk prevention and control system for trade friction response, export control and trade remedies.

4.1.2 Main Characteristics of China's International Trade

China's international trade is characterized by several key features:¹⁰

- Large trade volume: China is one of the biggest exporters and importers of products and services in the world. Its trading partners are spread out all over the world.
- Manufacturing hub: It exports a broad variety of goods, including consumer goods, textiles, machinery, and electronics.
- Foreign investment: China attracts substantial foreign direct investment (FDI) due to its large market size, cheap labor, and improving the business environment. It also invests abroad, particularly in infrastructure projects through initiatives like the Belt and Road Initiative.

4.2 China and Trade Organizations

China is an important member of several trade organizations. For example:

¹⁰ Lemoine, Françoise, and Deniz Unal. "China's Foreign Trade: A 'New normal.'" China & World Economy, vol. 25, no. 2, Mar. 2017, pp. 1–21.

- World Trade Organization (WTO): China became a member of the WTO in 2001 after nearly 15 years of negotiations. WTO membership has facilitated China's integration into the global trading system and required it to adhere to international trade rules.
- Asia-Pacific Economic Cooperation (APEC): China is a member of APEC, a forum for promoting economic cooperation and trade liberalization among countries in the Asia-Pacific region.
- Shanghai Cooperation Organization (SCO): China is a founding member of the SCO, which focuses on security and economic cooperation among its member states in Central Asia and Eurasia.
- The International Monetary Fund (IMF): China belongs to IMF. It is an international organization that promotes global monetary cooperation, exchange rate stability, and balanced economic growth through financial assistance, policy advice, and capacity building.
- The World Bank (WB): China is one of the WB members. It is an international financial institution that provides loans and grants to developing countries for development projects aimed at reducing poverty, promoting sustainable development, and improving living standards.
- The Asian Infrastructure Investment Bank (AIIB): China joined the Asian Infrastructure Investment Bank (AIIB) as a founding member in October 2014. It is a multilateral development bank that focuses on financing infrastructure projects in Asia and beyond to promote regional connectivity, economic development, and cooperation.
- The Brazil, Russia, India, China, and South Africa (BRICS countries): China and the BRICS are a group of emerging economies that share common characteristics such as large populations, rapid economic growth, and increasing influence on the global stage.

Figure 5. International organizations in which China participates

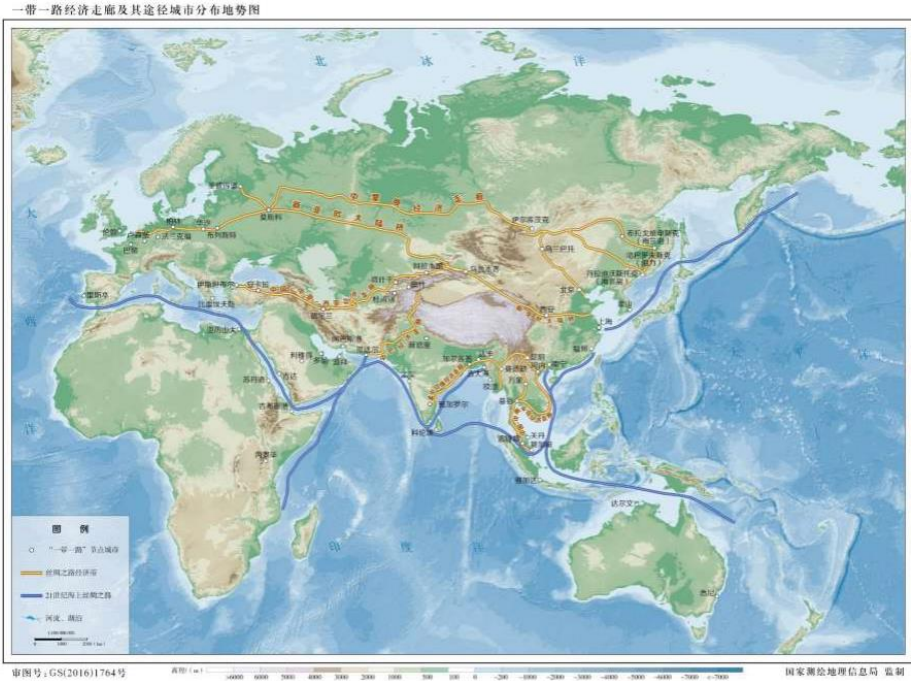


Source: Author's Own Photograph

Moreover, in March 2013, President Xi Jinping proposed the vision of a global community of a shared future; in September and October of that year, he raised the initiatives of joining with others to build a Silk

Road Economic Belt and a 21st Century Maritime Silk Road (Belt and Road Initiative, or BRI). The Belt and Road Initiative is a creative development that takes on and carries forward the spirit of the ancient silk routes – two of the great achievements in human history and civilization. It combines the traditional essence with the contemporary spirit and cultural trends of the modern day, and offers a platform for establishing a worldwide community of interconnected destinies.

Figure 6. The Map of BRI



Source: Ministry of Natural Resources, People’s Republic of China

From 2013 to 2022, the total import and export volume of China and its co-built countries will reach a cumulative total of 19.1 trillion U.S. dollars, with an average annual growth rate of 6.4 per cent; and the cumulative two-way investment with co-built countries will exceed 380 billion U.S. dollars, of which China's outward foreign direct investment will be more than 240 billion U.S. dollars. By the end of June 2023, China had signed more than 230 cooperation documents on the construction of the Belt and Road with more than 150 countries and 30 international organizations.

However, as BRI continues to evolve, more and more skeptical voices have emerged. The most significant challenges that people believe BRI is currently facing are the following: Firstly, there is uncertainty or lack of clarity in the rules pertaining to certain matters. The BRI projects primarily invest in regions where other states and international financial institutions have shown hesitation to invest, and many of these countries are not known for their adherence to the rule of law. The Belt and Road Initiative (BRI) also encompasses the development of infrastructure and explores emerging sectors such as data transmission via the Digital Silk Road. Several legal concerns related to the Belt and Road Initiative (BRI) are not covered under the regulations of the World Trade Organization (WTO), Free Trade Agreements (FTAs), and Bilateral

Investment Treaties (BITs).¹¹ These considerations necessitate the establishment of regulations inside the Belt and Road Initiative (BRI), namely international regulations.

Secondly, another possible challenge is the ability of independent arbitral institutions, individually or collectively, to manage the significantly increased caseload.¹² The number of Belt and Road-related arbitrations is growing rapidly. If the growth had been relatively slow, the adjustments needed to accommodate Belt and Road-related arbitrations might not have been too difficult. But now that the number of international arbitrations arising from the Belt and Road has increased, the ability of the various arbitral institutions to handle the cases is being called into serious question.

Thirdly, absorptive capacity is the ability of an enterprise to understand and utilize knowledge transferred and shared by partners.¹³ High absorptive capacity between China and various trading partners can lead to effective dissemination of knowledge.¹⁴ A moderate degree of diversity among partners is also conducive to successful knowledge absorption.

However, too much diversity may also challenge the ability of countries to cooperate and mobilize trade effectively. External explicit knowledge, such as data and information, can be misinterpreted and misunderstood, and tacit knowledge is more difficult to share and interpret correctly.¹⁵ The “hidden” nature of tacit knowledge makes it less likely to be absorbed. This is especially obvious in the context of the diversity of international contexts.

Fourthly, the success of the BRI will probably be greatly influenced by human capital, which is defined as the competencies, knowledge, skills, and talents of the citizens of an organization or country.¹⁶ Human capital is what represents the capacity to create economic value. But most of China's neighbors are developing nations with inadequate education and skills to support absorptive capacity.

The Chinese government has also heard these voices. For the future of the BRI, the Chinese government believes that most of the challenges to current international standards by BRI will be inadvertent ones. It shows, via an examination of important policy documents, that the normative content of the BRI is pluralist and pro-market; it does not challenge the current liberal order.¹⁷

¹¹ Wang, Heng. “The belt and road initiative agreements: Characteristics, rationale, and challenges.” *World Trade Review*, vol. 20, no. 3, 5 Jan. 2021, pp. 282–305.

¹² Norton, Patrick M. “China's Belt and Road Initiative: Challenges for Arbitration in Asia.” *U. Pa. Asian L. Rev.* 13,2018,pp. 72.

¹³ Lin, Yang, and Kimiz Dalkir. “Factors affecting km implementation in the Chinese community.” *International Journal of Knowledge Management*, vol. 6, no. 1, 1 Jan. 2010, pp. 1–22.

¹⁴ Van Beers, Cees, and Fardad Zand. “R&D, cooperation, partner diversity, and Innovation Performance: An empirical analysis.” *Journal of Product Innovation Management*, vol. 31, no. 2, 8 Oct. 2014, pp. 292–312.

¹⁵ Rechberg, Isabel, and Shuojia Guo. “The interpersonal challenges of BRI: Developing people-to-people bonds.” *China's Belt and Road Initiative in a Global Context*, 2019, pp. 177–209.

¹⁶ Garnaut, Ross, et al. “Where is the Chinese economy going? A forum on contemporary policy and performance.” *Australian Economic Review*, vol. 50, no. 4, 30 Nov. 2017, pp. 441–449.

¹⁷ Jones, Lee. “Does China's belt and road initiative challenge the liberal, rules-based order?” *Fudan Journal of the Humanities and Social Sciences*, vol. 13, no. 1, 1 Feb. 2019, pp. 113–133.

As time passes, China will strengthen its communication with its partner countries and help each other to reach a win-win situation.

The objectives of the BRI and the development thrust of its AIIB counterpart suggest that China's support for development is complementary to the existing IMF and WB. In addition to the BRI, the catalyst for China's establishment of the AIIB stemmed from frustration with the governance of established international financial institutions, mainly an inadequate "focus on infrastructure and growth."¹⁸ The Bank's stated aim, as its name implies, is to provide funding for infrastructure needs in Asia and neighbouring regions. A comparison with the IMF and WB can be made for the AIIB and BRI, whereby China is focusing more on the development path of developing countries in Asia, aiming to realize win-win cooperation within the Asian region.

As for the BRICS, on August 24, 2023, the BRICS leaders announced that Saudi Arabia, Egypt, the United Arab Emirates, Argentina, Iran and Ethiopia were invited to officially become members of the BRICS family. At the same time, more than 40 countries have expressed their desire to join the BRICS organization, and 23 of them have submitted formal requests for membership. This shows that BRICS, a multilateral cooperation organization of developing countries, is on the way to significant expansion and rapid development, and that BRICS is becoming a global organization. From our perspective, the expansion of BRICS will have a far-reaching impact on the world landscape and international order.

Firstly, the expanded BRICS organization has more capacity and capital to safeguard the interests of developing countries in international affairs and global governance.¹⁹ With the rise of developing countries represented by emerging economies, developing countries have established the BRICS organization on their own initiative to counteract the power and unfairness of some developed countries and to safeguard their legitimate rights and interests. It can be said that the formation and development of the BRICS International Organization and its becoming an organizational mechanism that affects the world is the inevitable result of the development of the times.

Secondly, in the field of international finance, the existing organizational mechanism does not reflect the changing pattern and meet the needs of the times. For example, although the International Monetary Fund (IMF) made a quota adjustment in 2016, the share and voting power of emerging economies and developing countries in the IMF are still obviously insufficient to reflect the proportion of the vast number of developing countries in the world economy and their contribution to global economic growth. Another major international financial organization, the "World Bank" (WB), also suffers from serious under-voting by developing countries. In 2022, the total economic output of the BRICS countries accounted for about 26% of the world's total, but the combined voting power of the five countries in the WB was just 14.06% and their total share in the IMF is only 14.15%. The goal of the BRICS organization, which has the attributes of a developing country and global influence, is to unite the developing countries to promote the development of the international order in a more just and rational direction.

¹⁸ Gennari, Liam. "Power Transitions and International Institutions: China's Creation of the Asian Infrastructure Investment Bank." *Power* 4, 2017, pp. 21.

¹⁹ Nandy, Debasish, and Md. Shariful Islam. "The present scenario of BRICS." *Convergence and Developmental Aspects of Credit Allocations in BRICS Nations*, 12 Apr. 2024, pp. 335–347.

4.3 Covid-19 and China's International Trade

Regarding challenges, the COVID-19 pandemic has had a significant impact on China's international economic integration, including China's trade. Some of the key impacts include:²⁰

- Disruption of global supply chains: Lockdowns, travel restrictions, and other measures to contain the spread of the virus disrupted global supply chains, affecting trade flows and causing shortages of goods in some markets.
- Decline in trade volumes: The pandemic led to a decline in global trade volumes as demand weakened and trade restrictions were imposed. China's exports and imports were affected by reduced demand from its trading partners and disruptions to production and logistics.
- Shifts in trade patterns: The pandemic accelerated existing trends in global trade, such as the shift towards e-commerce and digital trade. There was also increased demand for medical supplies and equipment, which affected trade patterns.

Overall, the COVID-19 pandemic highlighted the interconnectedness of the global economy and underscored the importance of cooperation and coordination in addressing global challenges, including those related to trade and economic integration.

However, as the world's major manufacturing country and the hub of the global supply chain, China was able to control the domestic epidemic in a short period of time, and accelerated the resumption of work and production while continuing to prevent the epidemic, so that the domestic production capacity and order of production could be restored to ensure the growth of imports and exports. China's supply capacity has taken the lead in recovering, making positive contributions to safeguarding the stability of the global industrial chain supply chain and promoting the recovery of the world economy.

In the face of the epidemic of the century and the major adjustment of the world economy, China resolutely stabilized its foreign trade and foreign investment, making an important contribution to stabilizing the growth of the national economy. In 2020, China was the only major economy in the world to achieve positive growth in trade in goods, with the scale of its foreign trade reaching 4.6 trillion US dollars, accounting for a 14.7% share in the international market, which also reflected the sustained demand for Chinese commodities around the globe. In particular, in response to the tight global shortage of anti-epidemic products in the second half of 2020, China made positive contributions to the global supply of anti-epidemic products.

Since 2021, China's imports and exports have continued to grow at a relatively fast pace. According to China Customs, in the first 11 months of 2021, China's imports and exports totaled 35.39 trillion yuan (RMB, the same as below), up 22% year-on-year. In terms of amount, the total value of imports and exports in the first 11 months has exceeded the level of 32.16 trillion yuan for the whole year of 2020. In conclusion, China's international trade has recovered relatively quickly from the COVID-19 epidemic,

²⁰ Naseer, Saira, et al. "Covid-19 outbreak: Impact on global economy." *Frontiers in Public Health*, vol. 10, 30 Jan. 2023.

and relations with various trading partners have become closer.

4.4 China and Global Governance

As it can be seen, there are currently two major difficulties in global governance: first, the conflict between the multipolarity of the world economy and the Western dominance of global economic governance; and second, the contradiction between global governance and national governance. In response, China has proactively participated in global governance, especially economic governance. The main manifestations are: first, China resolutely defends the multilateral trading system and builds a network of high-standard free trade zones; second, China relies on the United Nations, the G20, and other platforms to push for the improvement of a fairer and more reasonable system of international economic governance; third, China initiated the construction of the BRI to promote a new type of globalization that is open, inclusive and balanced; and finally, China has actively participated in global governance, especially economic governance. In a word, China insists on the independent and gradual path of opening up to the outside world and provides China's proposal for integrating opening up to the outside world and domestic governance.

However, it should be noted that China's participation in global economic governance faces a series of problems and challenges, including how to break the economic isolation and technological blockade imposed by some developed countries, how to better express the demands of developing countries in international affairs, and how to further expand and consolidate the scope of cooperation under the Belt and Road Initiative. In order to better participate in global economic governance, China is focusing on economic construction, enhancing its national comprehensive strength and global economic governance capacity, highlighting its responsibility and commitment, and promoting the construction of the BRI. China is also focusing on new issues and actively participating in the construction of international economic and trade rules, reflecting the sense of responsibility that an economic power should have and its positive attitude towards global governance. Moreover, China is also actively practicing multilateralism. Genuine multilateralism is not only conducive to promoting inter-state cooperation but also better connects national governance with global governance.²¹ Good national governance can reduce the burden and increase the efficiency of global governance, and a fair and just global governance system can provide a favorable external environment for the improvement of the national governance system. Through the active practice of pluralism, China is exploring ways of multilateralism that can lead to win-win cooperation with its trading partners and making all-round contributions to global governance.

Conclusion

In summary, this report provides a detailed overview of the Chinese mainland's political economy from both macro and micro perspectives, followed by a focused and multifaceted discussion of the Chinese mainland's international role. With its unique economic structure and large economic volume, China is a representative of developing countries that cannot be ignored today. China's politics are also strongly personalized, and the economy that emerges from such a system is inevitable with Chinese characteristics. Such an economic system has its obvious advantages, but it is also faced with many challenges in a global

²¹ Chan, Lai-Ha, et al. "Rethinking global governance: A China model in the making?" *Contemporary Politics*, vol. 14, no. 1, Mar. 2008, pp. 3–19.

economic downturn.

As for China in the global environment, it is more of a dynamic and responsible power. China has a growing voice and is playing an increasingly significant role in both global governance and international trade. Facing more and more possible governance dilemmas, China is also innovating and proposing new responses. In conclusion, China has an important position in the world economy, and its unique political economy is increasingly the focus of research.

References

- Annual Report on Antimonopoly Enforcement in China (2022). https://www.samr.gov.cn/xw/zj/art/2023/art_38056964cf5449daa346237200e24da0.html. Accessed 20 April 2024.
- Chan, Lai-Ha, et al. "Rethinking global governance: A China model in the making?" *Contemporary Politics*, vol. 14, no. 1, Mar. 2008, pp. 3–19.
- China's State Council Information Office, "China's Green Development in the New Era." http://www.scio.gov.cn/zfbps/zfbps_2279/202303/t20230320_707666.html. Accessed 25 April 2024.
- Garnaut, Ross, et al. "Where is the Chinese economy going? A forum on contemporary policy and performance." *Australian Economic Review*, vol. 50, no. 4, 30 Nov. 2017, pp. 441–449.
- Jones, Lee. "Does China's belt and road initiative challenge the liberal, rules-based order?" *Fudan Journal of the Humanities and Social Sciences*, vol. 13, no. 1, 1 Feb. 2019, pp. 113–133.
- Gennari, Liam. "Power Transitions and International Institutions: China's Creation of the Asian Infrastructure Investment Bank." *Power* 4, 2017, pp. 21.
- He, Qing. "Rethinking the legal regulation of internet platform monopoly in China." *Policy & Internet*, vol. 14, no. 2, 23 May 2022, pp. 284–303.
- Lemoine, Francoise, and Deniz Unal. "China's Foreign Trade: A 'New normal.'" *China & World Economy*, vol. 25, no. 2, Mar. 2017, pp. 1–21.
- Lin, Yang, and Kimiz Dalkir. "Factors affecting km implementation in the Chinese community." *International Journal of Knowledge Management*, vol. 6, no. 1, 1 Jan. 2010, pp. 1–22.
- Osborn, Kathy, et al. "Amendments to China's Anti-Monopoly Law: What Has Changed and WHAT TO EXPECT: Faegre Drinker Biddle & Reath LLP." Faegre Drinker Biddle & Reath LLP, 6 June 2022, www.faegredrinker.com/en/insights/publications/2022/7/amendments-to-chinas-anti-monopoly-law-what-has-changed-and-what-to-expect. Accessed 28 April 2024.
- Nandy, Debasish, and Md. Shariful Islam. "The present scenario of BRICS." *Convergence and Developmental Aspects of Credit Allocations in BRICS Nations*, 12 Apr. 2024, pp. 335–347.
- Naseer, Saira, et al. "Covid-19 outbreak: Impact on global economy." *Frontiers in Public Health*, vol. 10, 30 Jan. 2023.
- Norton, Patrick M. "China's Belt and Road Initiative: Challenges for Arbitration in Asia." *U. Pa. Asian L. Rev.* 13, 2018, pp. 72.
- Qiang Li, "Report on the work of the Government in 2024." http://www.scio.gov.cn/gxzt/dtzt/2024zt/qglhzt2024/lianghubg/202403/t20240313_837696.html. Accessed 26 April 2024.
- Rechberg, Isabel, and Shuojia Guo. "The interpersonal challenges of BRI: Developing people-to-people bonds." *China's Belt and Road Initiative in a Global Context*, 2019, pp. 177–209.
- Van Beers, Cees, and Fardad Zand. "R&D, cooperation, partner diversity, and Innovation Performance: An empirical analysis." *Journal of Product Innovation Management*, vol. 31, no. 2, 8 Oct. 2014, pp. 292–312.
- Wang, Heng. "The belt and road initiative agreements: Characteristics, rationale, and challenges." *World Trade Review*, vol. 20, no. 3, 5 Jan. 2021, pp. 282–305.
- Wang, Jiawei, and Xueqin Xie. "Update on Anti-Monopoly Law in China." *Rödl & Partner*, 22 Feb. 2023, www.roedl.com/insights/antitrust-law/china-anti-monopoly-law-update. Accessed 18 April 2024.
- Xinhua News Agency, "The 14th Five-Year Plan of the People's Republic of China," https://www.gov.cn/xinwen/2021-03/13/content_5592681.htm?eqid=945f38050007c2e300000005648fbfd0. Accessed 21 April 2024.

The Economics and Politics of Estonia

Daria Yefymenko

Introduction

In this review, the political and economic sides of Estonia will be examined, highlighting key factors which have influenced its development. Estonia, situated in Northern Europe, has undergone significant transformations since gaining independence from the Soviet Union in 1991.

The Republic of Estonia is a state on the eastern coast of the Baltic Sea in Northern Europe. It is separated by the Gulf of Finland from Finland in the north, and by the Baltic Sea with Sweden in the west, in the south it borders Latvia (343 km) and Russia (383 km) in the east.

This review will provide an analysis of Estonia's political situation, economic policies, and the country's engagement in international organizations, etc.

Population and demographics

The current population of Estonia is 1,319,618 as of Saturday, May 4, 2024, based on Worldometer. Estonia is a relatively small country, even in comparison to neighboring European countries. The 25% of the Estonian population – ethnic Russians, the given diversion in the population will be further reviewed in this document.

Economic situation (Challenges and Opportunities)

According to Ministry of Finance estimates, inflation in Estonia in 2023 was 9.6%, which is lower than in 2022 (19.4%). In 2024, the slowdown in consumer price growth will continue as predicted, and additional tax measures will lead to a sharper decline in inflation. It is expected to be 4.6%. In 2025, inflation is expected to be 2.5%, then in 2026, it is forecast to be - 1.7%, and in 2027 -1.9%. It is predicted that the average salary will rise to €1,828 this year and to €1.950 in the following year. Real average wage growth is expected to be 1.5% this year and 1.9% next year.

Wage growth has exceeded expectations, and the purchasing power of average wages will return to growth in the second half 2023,” the ministry said in a statement. The Ministry of Finance forecasts the nominal deficit of the state budget of Estonia in this. year at 3.3% of GDP and a structural deficit of 1.2%. According to the latest forecast, next year the structural budget deficit will be 1.3% of GDP, in 2025 - 3.2%, in 2026 - 3.7%, in 2027 - 4.3% of GDP.

Estonia experienced a large-scale economic downturn throughout the year. During the year, trade and real estate transactions had the greatest positive impact on property, negative??? – the information and communications industry. Moreover, the last one in the second half of the year has already had a positive impact. Over the year, investments decreased by 3.4%.

The greatest positive impact on the dynamics of the indicator was driven by investments in residential premises: their growth amounted to 14.1%. The most significant negative impact was exerted by investments in transport funds: their reduction reached 41.1%. According to Statistics Estonia, in 2023 the

gross domestic product (GDP) of Estonia decreased by 3% and amounted to €37.7 billion at current prices. In the fourth quarter, the year-on-year economic contraction slowed to 2.7% after falling 3.9% in the third quarter. Domestic demand fell by 2.9%.

Over the year, private consumption decreased by 1.5%. In the last year, consumer spending decreased most on other goods and services, clothing, shoes, and home improvement and leisure. The biggest increases in costs were for communications, housing, restaurants and hotels. Foreign trade in goods decreased over the year by about a tenth.

In general, the share of external trade in GDP decreased from 86% to 78%. According to the latest forecasts, the economic downturn will also continue in 2024, although will slow down significantly. The trends in the Estonian economy in recent quarters have been very similar to trends in the rest of the eurozone.

Government regulations

The current government is seeking to simplify tax codes and create a more business friendly, competitive environment. For companies, the reform will reduce the time spent on compliance with tax rules, and will also provide benefits to enterprises that do not pay corporate income tax on reinvested and retained earnings. The country applies a corporate income tax rate of 14% to 20% on distributed profits.

As part of the government's tax reform from January 2025 a flat tax rate of 22% will be levied on distributed profits. Tax the country's system allows companies to reinvest their profits without paying taxes, while simultaneously using capital and income to grow the business faster and with less cost burden. The current personal income tax rate is set at 20%. In January By 2025, this figure will increase to 22%.

Monetary system of Estonia

In June 1992, Estonia was the first of the former Soviet republics to introduce its own currency – Estonian kroon. As of 1 January 2011, the only legal tender in Estonia has been the Euro.

The European Economic and Monetary Union, as well as the single currency, are the basis of a united Europe, both for reasons of monetary and economic policy, and for general political reasons. Price stability in the euro area, a reliable single euro currency and a uniform market for financial services, which is largely based on the single currency, are the main guarantors of the effective functioning internal market of the European Union and free movement of production resources and are therefore one of the most important prerequisites for achieving social and economic goals of the European Union.

Monetary policy in the eurozone is carried out by the European Central Bank (ECB). It coordinates its actions with the national central banks of 19 countries (together they form Eurosystem). With the adoption of the euro, transaction costs decreased and foreign trade and exports simplified.

The euro gave Estonia the necessary impetus to overcome the economic crisis and ensured macroeconomic stability. The introduction of the euro as a global currency, gave impetus to the development of the country's economy, and gave residents confidence.

FDI & International trade

The process of total privatization and maximum opening of the national market for foreign direct investment. Privatization took place according to a scenario similar to that of East Germany after unification - through the direct sale of assets to strategic investors. Cash only, as in Poland in the early 1990s, and not for bills or vouchers, as at the same time in Ukraine.

This retrospective description is provided in order to demonstrate the correctness of the policy and economic decisions of Estonia, the wise use of available resources and geographical location, as well as the consolidation of Estonian society for the purpose of integration into the EU and the global economy.

A key result of the country's economic policy has been in terms of foreign direct investment (FDI) volumes, as Estonia already took 3rd place in Europe after Hungary and the Czech Republic by the end of the

1990s. Export and import volumes have grown rapidly. The lack of natural resources has led to situations where imports of goods exceed exports. However, the negative trade balance was balanced by trade in services and the influx of investments in scientific and experimental sphere, and then in IT. Favourable regulatory conditions for foreign investment have been created in all business areas. niches of the country: manufacturing, the agricultural sector, the service sector, show business and finance. Foreign investment supports the influx of new technologies, Yes which was one of the key prerequisites for the rapid transformation of the Estonian national market.

Products from Estonia are exported to 190 countries and imported into Estonia from 156 countries. Estonia has direct access to the sea and a number of large seaports. Over the past decades, cargo handled in Estonian ports has been predominantly Russian transit transportation. However, the situation is changing and already in 2022 Russian traffic accounted for about 44% of Estonia's maritime traffic, and Finnish traffic accounted for 26% volumes.

Technologies and innovations

Government programs promote digital innovation and invest in specialized university programs focused on IT, focusing on areas such as blockchain, big data analysis, artificial intelligence, cybersecurity, automation, robotics and open-source computing code. According to forecasts, by 2030 the number of highly qualified graduates working in the field of digital asset exchanges, digital lending, providing enterprise technology, digital payments, asset management and attracting digital capital. At the same time, Estonia has launched a new anti-Chinese line, the essence of which is accusing China of violating human rights and obstructing the work of Huawei in Estonia. The anti-Chinese trend was picked up by other Estonian government agencies. The State Information System Department has prohibited its employees from using TikTok

application on office phones.

International relations

The main subject in terms of international relations for Estonia are that relations with Russia over the past quarter century have not been either calm or friendly.

The Kremlin constantly accuses the Estonian authorities of violating the rights of Estonia's Russian-speaking population. Russia has repeatedly imposed sanctions against Estonia. Estonia actively supports Ukraine in the fight against Russia.

This position, along with international sanctions imposed by both the EU and individual countries, led to a decrease in trade turnover between Estonia and Russia. Estonia supports restrictions on Russia's access to the capital market, supply embargo weapons and dual-use goods, a ban on the export of certain technologies, conducting research and assistance in oil production. Estonia supports a ban on the transport of Russian goods by road, railway and port transport. Tallinn has refused to purchase Russian gas

Estonia is going to continue to provide assistance to Ukraine and Ukrainians, including implementing a program to support the return of Ukrainian refugees home and restoration of destroyed cities of Ukraine. Tallinn also supports the creation international tribunal over those who participated in the Russian "special military operation" on Ukrainian territory. The current aggressive policy of Russia has led to the decision of Estonia to transfer kindergartens and schools, as well as the entire educational process in the Estonian language: began in 2022 preparatory stage for the transition to Estonian-language education, and started in 2024 transition to learning Estonian in the preschool education system, as well as in the first and fourth grade schools.

On February 23, 2024, the EU adopted the 13th package of such sanctions against the Russian military and defense sector, aimed against other entities in third countries supplying military-industrial enterprises, as well as those responsible for illegal deportation and military re-education of Ukrainian children. Regarding the Hamas attack on Israel in 2023 and the military-political response Israeli reaction, these events did not have an impact on the Estonia economy, the flow of refugees from Gaza Strip to Estonia is extremely low.

Influence of war in Ukraine

Estonia was also influenced by the negative consequences of the protracted Covid-19 pandemic, and Russia's armed aggression towards Ukraine. The flow of Ukrainian refugees, albeit small in absolute terms, has also become a burden on the economy. numbers - since the beginning of the war, 122,554 people have arrived in Estonia (55,792 of them left country, but 66,762 also remained). The Estonian budget provides temporary housing for which equipped even one of the ferries, pays one-time rental compensation in the amount €1,200, as well as benefits of €200 per month. Moreover, even before the war, in the fall of 2021, due to interruptions in the supply of Russian gas, gas prices jumped and accelerated inflation, which reached 25% in 2022 (from January 1, 2023 Estonia completely abandoned

natural gas from Russia).

Estonia within international organizations (UN, NATO, EU)

Estonia was once a part of the USSR; in fact, the land was occupied by USSR's government. Estonia became independent again on 20th August 1991 right after the USSR collapse.

On September 17, 1991, Estonia was admitted to the UN.

Estonia's accession to NATO and the European Union in 2004 strengthened the national security of Estonia, which made it possible to participate in joint work to ensure international security and the most effective way to ensure the protection of Estonia. Estonia, together with NATO, has created the NATO Competence Center for Cooperative Cyber Defense (CCDCOE) in Tallinn, where experts from NATO and partner countries gather together to share and implement best practices, conduct exercises and prepare for future attacks.

Membership in the European Union has expanded opportunities for Estonians to travel, work and study, contributed to the growth of prosperity and the economy, as well as strengthened national security. Estonia's economy and average salaries have increased significantly since joining the EU.

In October 2020, the Three Seas Initiative summit was held in Tallinn, which had great importance for the dynamic development of cooperation between members of this group countries of Central and Eastern Europe in the long term.

Conclusion

In conclusion, Estonia has emerged as a vibrant democracy and a dynamic economy in the post-Soviet era. Through prudent economic management and a commitment to democratic principles, the country has achieved remarkable progress and integration into the European community. However, ongoing challenges and uncertainties both domestically and internationally underscore the need for continued vigilance and proactive policymaking to sustain Estonia's growth and prosperity.

References

1. (Estonia's economy) <https://www.focus-economics.com/countries/estonia/>
2. Ministry of finance <https://www.fin.ee/en>
3. Eurostat <https://ec.europa.eu/eurostat>
4. Emerging Europe <https://emerging-europe.com/news/economy-in-focus-estonia-2/>

Germany - A Powerhouse Under Pressure?

Exploring Germany's Economic Foundations, Policies, and Emerging Challenges
Maurice Molitor

Introduction

Germany, known worldwide for its "Made in Germany" brand²², has recently overtaken Japan to become the third-largest economy behind China and the USA²³. Its brand is associated with high-quality manufacturing that goes beyond the famous automotive industry. Led by so-called "Hidden Champions" Germany dominates over 1,500 niche markets.²⁴ These markets are often spearheaded by its "Mittelstand" - small and medium-sized enterprises, often family-owned - that produce specialized products even unfamiliar to many Germans.²⁵ An example are mirrors by Carl Zeiss that are crucial for photolithography machines made by Dutch ASML and used by Taiwanese TSMC to manufacture semiconductors. These chips, designed by American NVIDIA, are globally essential for AI training, self-driving cars or large data centers.²⁶

Despite Carl Zeiss being a classic example of global demand for German engineering, Germany's industrial legacy is threatened. Once hailed as a global export powerhouse, Germany now confronts a period of stagnation and uncertainty.^{27,28} It is raising questions about the underlying factors of its economy that was built over centuries on a skilled workforce, its geographic advantages and access to cheap energy. Notably, Germany's economic growth ranks low amongst OECD countries, highlighted recently by a technical recession with two consecutive quarters of negative growth.²⁹ This slowdown is partly affected by internal factors like a demographic shift, and infrastructure deficiencies, as well as external pressures from a slowing global economy and recent international crises. The government faces criticism for its dysfunction and public disputes over budgetary issues, differing stances on international relations and European politics. Ultimately leading to the revival of "The German Vote" to describe Germany's role in obstructing many European initiatives.³⁰

²² Haucap, Wey und Barmbold, „Location Choice As A Signal For Product Quality: The Economics Of ‚Made in Germany‘ On JSTOR“, 1997, p.511

²³ Le Monde, "Germany Overtakes Japan As Third-biggest Economy," *Lemonde.Fr*, February 15, 2024, accessed May 2, 2024, https://www.lemonde.fr/en/economy/article/2024/02/15/germany-overtakes-japan-as-third-biggest-economy_6525624_19.html.

²⁴ "Deutschland Ist Der Hidden Champion Der Hidden Champions," by Handelsblatt, *Handelsblatt Online*, November 11, 2022, accessed May 1, 2024, <https://www.handelsblatt.com/adv/firmen/hidden-champions.html>.

²⁵ Martin Orth, "Ein Deutsches Phänomen," *deutschland.de*, July 12, 2021, accessed May 1, 2024 <https://www.deutschland.de/de/topic/wirtschaft/deutsche-hidden-champions-unbekannte-top-firmen>.

²⁶ The Economist, "Why Do Nvidia's Chips Dominate the AI Market?," *The Economist*, February 27, 2024, accessed May 1, 2024, <https://www.economist.com/the-economist-explains/2024/02/27/why-do-nvidias-chips-dominate-the-ai-market>.

²⁷ Melissa Eddy, "Germany, Once a Powerhouse, Is at an Economic 'Standstill,'" *Nytimes.Com*, January 18, 2024, accessed May 1, 2024, <https://www.nytimes.com/2024/01/18/world/europe/german-economy-standstill.html>.

²⁸ Wilfried Eckl-Dorna et al., "Why Germany's Days as an Industrial Superpower Are Coming to an End," *Bloomberg.Com*, February 10, 2024, accessed May 1, 2024, <https://www.bloomberg.com/news/features/2024-02-10/why-germany-s-days-as-an-industrial-superpower-are-coming-to-an-end>.

²⁹ Federal Statistical Office. "Gross Domestic Product: Detailed Results on Economic Performance in the 4th Quarter of 2023." Accessed May 1, 2024. https://www.destatis.de/EN/Press/2024/02/PE24_066_811.html.

³⁰ Antonia Zimmermann and Louise Guillot, "The EU Compromise Machine Is Breaking — and Everyone's Blaming Germany," *POLITICO*, April 2, 2024, accessed May 1, 2024, <https://www.politico.eu/article/eu-compromise-blame-germany-legislation-election/>.

This report aims to analyze Germany's situation and role within the global economy, drawing insights from a variety of sources including statistics, institutional reports, newspaper articles, and economic theories. The first section will focus on Germany's economic and political structure, followed by an examination of its micro- and macroeconomic policies. Subsequently, Germany's role in international economic integration, emphasizing its position within the EU, trade relations, and industrial capabilities is analyzed. The conclusion will depict current challenges and aims to underscore the urgency for Germany to act. Given the scope of these topics, this report serves as an introduction for more detailed future discussions.

1. Economic and Political Landscapes

Moving from an overview to a more detailed analysis, this section unpacks the layers of Germany's economic and political landscape, highlighting long-standing influences and recent changes.

1.1 Economic Structure

“The German economic system [...] depended on three main factors: I. Overseas commerce as represented by her mercantile marine, her colonies, her foreign investments, her exports, and the overseas connections of her merchants; II. The exploitation of her coal and iron and the industries built upon them; III. Her transport and tariff system.”

John Maynard Keynes, *The Economic Consequences of the Peace*, 1920: 66

When John Maynard Keynes was commenting on the German economy at the Versailles Peace Conference in 1920, he could not have foreseen the lasting relevance of his analysis. Institutions like the European Union or the Bretton Woods organizations, now central to Germany's economic structure, were merely concepts in someone's drawer. Despite a transformed geopolitical and economic landscape, Keynes' observations are still relevant a century later. His identification of key principles of resource management, industrial capability, and trade networks still underpin Germany's status as a leading export nation.

Historically, Germany's geographic position within nine bordering European countries, a low frequency of natural disasters, access to trade routes via rivers and oceans as well as inexpensive energy access have built up its economy.³¹ ³² Initially sourcing its power locally until the “Strukturwandel” (eng. Structural change) in the mining industry, then primarily importing it from Russia and Norway, Germany has benefited from close political ties with energy exporting countries.³³ ³⁴ However, recent

³¹ Central Intelligence Agency, *“The World Factbook Germany,”* Ciagov, accessed March 10, 2024, <https://www.cia.gov/the-world-factbook/countries/germany/>.

³² Jon Henley, *“Why Is Germany's Economy Struggling – and Can the Government Fix It?”* The Guardian, January 8, 2024, accessed May 2, 2024, <https://www.theguardian.com/world/2024/jan/05/sick-man-of-europe-what-is-happening-to-germany-economy>.

³³ Kay Senius et al., *“Kohleausstieg Und Strukturwandel in Sachsen-Anhalt,”* ed. Robert Kreuzsch, Pellens Kommunikationsdesign GmbH, and Druckerei Brandt GmbH (Friedrich-Ebert-Stiftung, 2020), accessed May 2, 2024, <https://library.fes.de/pdf-files/bueros/sachsen-anhalt/17149.pdf>.

³⁴ Sudha David-Wilp and Jacob Kirkegaard, *“Germany's Economic Reckoning: The EU Needs Berlin to Get Its House in Order,”* Foreign Affairs, March 4, 2024, accessed May 4, 2024, <https://www.foreignaffairs.com/germany/germanys-economic-reckoning>.

shifts have exposed the vulnerabilities of relying heavily on imported energy, especially for high-energy demanding industries.^{35 36 37}

Nowadays, Germany's economy is still driven by its automotive, chemical, engineering, and pharmaceutical industries, all significantly engaged in foreign markets through Foreign Direct Investment (FDI) and exports.³⁸ These sectors combined added value marks around 18% of Germany's GDP, against 11% in the U.S. and 8% in the U.K.^{39 40} As in most advanced economies, service dominates the GDP, contributing 68.3%.^{41 42} With almost half of its companies (partly) exporting goods⁴³, Germany has maintained a trade surplus, achieving a GDP of \$4.08 trillion representing 3.06% of global GDP by purchasing power parity in 2022.^{44 45}

A cornerstone of Germany's economic stability is the earlier mentioned Mittelstand. These enterprises account for over 50% of jobs, 60% of economic output, as well as 82% of apprenticeships and are thereby crucial for regional development.⁴⁶ Due to different investment cultures and lower market capitalization, Germany relies on a bank-centered capital system. Usually, financed by Sparkasse and Volksbank loans, indicative of a Coordinated Market Economy.⁴⁷

1.2 Political Structure

While Germany navigates through a phase of technical recession, its political structure, characterized by its dual federalism, plays a crucial role in shaping its economic policies and responses.⁴⁸

³⁵ Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, "Energiekrise Beschleunigt Strukturwandel, Breite Deindustrialisierung Aber Nicht Zu Erwarten," Sachverständigenrat Für Wirtschaft, November 9, 2022, accessed May 2, 2024, <https://www.sachverstaendigenrat-wirtschaft.de/presse/details/jahresgutachten-2022-pressemitteilung-kapitel-5.html>.

³⁶ Michael Hüther et al., "Deindustrialisierung: Schreckgespenst Oder Notwendiger Schritt Im Strukturwandel Der Deutschen Wirtschaft?," 2023, <https://hdl.handle.net/10419/272099>.

³⁷ Statistisches Bundesamt, "Importe Aus Russland Im Februar 2023 Um 91,0 % Niedriger Als Im Vorjahresmonat," Press release, Statistisches Bundesamt, April 13, 2023, accessed May 3, 2024, https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/04/PD23_146_51.html.

³⁸ BDI e.V., "Investitionsförder- Und Investitionsschutzverträge Werden In Der Globalisierung Immer Wichtiger," Bdi, December 17, 2019, accessed May 9, 2024, <https://bdi.eu/artikel/news/investitionsfoerder-und-schutzvertraege-werden-in-der-globalisierung-immer-wichtiger>.

³⁹ Germany Trade & Invest (GTAI), "The Automotive Industry in Germany," gtai (Germany Trade and Invest, 2022), <https://www.gtai.de/en/invest/service/publications/the-automotive-industry-in-germany-64580>

⁴⁰ The World Bank, "Manufacturing, Value Added (% of GDP) - United States, Germany, United Kingdom," Data set, n.d., <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=US-DE-GB>.

⁴¹ Hildegunn Kyvik Nordås et al., *Services Trade Policies and the Global Economy*, OECD eBooks, 2017, p.5-7

⁴² Indermit Gill, "At Your Service? Developing Economies Bet on Service Industries for Growth," World Bank Blogs (blog), September 27, 2021, accessed May 3, 2024, <https://blogs.worldbank.org/en/voices/your-service-developing-economies-bet-service-industries-growth>.

⁴³ BMWK - Federal Ministry for Economic Affairs and Climate Action, "The German Mittelstand as a Model for Success," accessed May 4, 2024, <https://www.bmwk.de/Redaktion/EN/Dossier/sme-policy.html>.

⁴⁴The World Bank, "World Bank Open Data," worldbank.org, accessed May 1, 2024, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DE-GB-US-JP>.

⁴⁵ International Monetary Fund, "GDP Based on PPP, Share of World," Data set, 2024, <https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEO/WORLD>.

⁴⁶ BMWK - Federal Ministry for Economic Affairs and Climate Action, "The German Mittelstand as a Model for Success," accessed May 4, 2024, <https://www.bmwk.de/Redaktion/EN/Dossier/sme-policy.html>.

⁴⁷ Deeg, "The Rise of Internal Capitalist Diversity? Changing Patterns of Finance and Corporate Governance in Europe.", 2009, p.565

⁴⁸ Thomas Döring and Jan Schnellenbach, "A Tale of Two Federalisms: Germany, the United States and the Ubiquity of

Germany operates under a federal parliamentary system where power is distributed widely to prevent power concentration. The chancellor, usually the leader of a multi-party coalition, elected by the members of the Bundestag, exercises executive power within its cabinet.⁴⁹ The German president is mainly ceremonial and elected by the Federal Convention.⁵⁰ Further, power is distributed over 16 federal states and over 10,000 local governments. As such providing autonomy over internal matters like education, culture, and law enforcement.⁵¹ This dual federalism allows each state veto authority in the Bundesrat when federal legislation impact them in a special way.⁵² Overall, in contrast to presidential systems in the U.S. or France, no single figure holds consolidated power or acts as a commander-in-chief.⁵³ ⁵⁴

Germany's unique political structure becomes important in understanding how its political stance has shifted recently. The prior four governments, led by Angela Merkel (CDU), adopted a rather social democratic approach to governing despite her conservative affiliation.⁵⁵ While investment have stalled, the overall government direction remained firm under her leadership. Since end of 2021, Olaf Scholz is leading a three-party coalition of his social democrats (SPD), the Greens, and the Liberals (FDP). Initially self-titled as the "Progressive coalition"⁵⁶, it faces criticism for underdelivering. Despite passing a record number of laws, public recognition has been limited due to internal conflicts of divergent ideologies.⁵⁷ There is much debate especially over Germany's so-called "debt brake", a constitutional measure meant to limit public deficits, with the Greens and SPD advocating for a relaxation for budgetary flexibility, while the Liberals support strict rules.⁵⁸

Centralization," Constitutional Political Economy 22, no. 1 (October 6, 2010): 83–102, p.85-90

⁴⁹ Press and Information Office of the Federal Government, "Structure and Tasks," bundesregierung.de, accessed May 3, 2024, <https://www.bundesregierung.de/breg-en/federal-government/structure-and-tasks-470508>.

⁵⁰ Horst Pötzsch, "Bundespräsident," bpb.de, January 28, 2022, accessed May 2, 2024, <https://www.bpb.de/themen/politisches-system/deutsche-demokratie/39360/bundespraesident/>.

⁵¹ Bundeszentrale Für Politische Bildung, "Bund, Länder Und Kommunen," bpb.de, October 26, 2021, accessed May 2, 2024, <https://www.bpb.de/themen/politisches-system/24-deutschland/40432/bund-laender-und-kommunen/>.

⁵² Bundesrat, "Zustimmungs- Und Einspruchsgesetze," accessed May 6, 2024, <https://www.bundesrat.de/DE/aufgaben/gesetzgebung/zust-einspr/zust-einspr-node.html>.

⁵³ Artikel 115 GG and Artikel 64a Absatz 1 GG

⁵⁴ Jonathan Masters, "How Powerful Is France's President?," Council on Foreign Relations, February 1, 2017, accessed May 4, 2024, <https://www.cfr.org/backgrounder/how-powerful-frances-president>.

⁵⁵ Dirk Westphal, "Wie Angela Merkel Die Politik in Deutschland Verändert Hat," Politik & Kommunikation, October 18, 2021, accessed May 6, 2024, <https://www.politik-kommunikation.de/politik/wie-angela-merkel-die-politik-in-deutschland-veraendert-hat/>.

⁵⁶ Ralph Bollmann, "Wie Sich Die Ampel Als Fortschritts-Koalition Verkauft," FAZ.NET, November 28, 2021, accessed May 3, 2024, <https://www.faz.net/aktuell/wirtschaft/wie-sich-die-ampel-als-fortschritts-koalition-verkauft-17654321.html>.

⁵⁷ zdf heute, "Studie: Ampel-Regierung Setzt Bereits Viele Vorhaben Um," ZDFheute, September 12, 2023, accessed May 6, 2024, <https://www.zdf.de/nachrichten/politik/deutschland/ampel-koalition-versprechen-streit-studie-100.html>.

⁵⁸ Dilan Gropengiesser, "'Was Jetzt? - Die Woche': Dauerstreit Trotz Krisenstau – Rauft Sich Die Ampel Endlich Zusammen?," ZEIT ONLINE, August 31, 2023, accessed May 6, 2024, <https://www.zeit.de/politik/2023-08/ampel-koalition-albrecht-von-lucke-was-jetzt-livesendung>.

As proposals from Germany's economic advisory council, conservative institutes and the IMF intensify the debate on a reform of the debt brake,^{59 60 61 62} it leads to examine Germany's micro- and macroeconomic policies that define its approach towards policymaking and crisis management.

2. Economic Policy Frameworks

Hall's (2001) Varieties of Capitalism (VoC) theory provides a framework to analyze economies. In VoC one distinguishes between Coordinated Market Economies (CMEs), where market activities are aligned with social goals through all stakeholders, and Liberal Market Economies (LMEs), which prioritize market autonomy and competitiveness.⁶³ Germany, as a *Social Market Economy*, rooted in Ordoliberalism, is a mixture of both. It combines a competitive market and the pursuit of creativity and economic ideas with social equity and balance.⁶⁴ This approach distinctly contrasts as it integrates and allows the success of strong entrepreneurs, relying on a functioning community and social policies. It aims to be a system that gives back where no one should live under a minimum standard of living.⁶⁵

2.1 Microeconomic Policies

The "Agenda 2010" marked a shift in Germany towards more LME principles. By increasing labor flexibility - or reducing job security depending on the perspective - and decreasing unemployment benefits.⁶⁶ Yes Before, Germany was mostly associated with CME principles. It uses state intervention to balance social welfare with market competition, particularly in sectors like telecommunications or energy. For instance, the "Energiewende" (eng. energy transition) policy demonstrates Germany's commitment to shifting towards renewable energy by steering market activities to meet policy goals.⁶⁷

The labor market shows mixed flexibility due to strong labor laws and significant union influence, making hard cuts during economic downturns uncommon. Strong worker protections include a national minimum wage and collective bargaining agreements covering about 62% of the workforce.⁶⁸ Moreover, corporate governance features such as dual board structures with union representatives

⁵⁹ Reuters, "German Advisory Council Floats Debt Brake Reform After Budget Mess," Reuters, January 30, 2024, accessed May 6, 2024, <https://www.reuters.com/world/europe/german-advisory-council-floats-debt-brake-reform-after-budget-mess-2024-01-30/>.

⁶⁰ International Monetary Fund et al., "Germany's Real Challenges Are Aging, Underinvestment, and Too Much Red Tape," IMF, March 27, 2024, accessed March 18, 2024, <https://www.imf.org/en/News/Articles/2024/03/27/germanys-real-challenges-are-aging-underinvestment-and-too-much-red-tape>.

⁶¹ Julius Betschka, Albert Funk, and Valerie Höhne, "Wirtschaftsweise Fordern Reform: Schuldenbremse Soll Moderat Gelockert Werden," Tagesspiegel, January 30, 2024, accessed March 18, 2024, <https://www.tagesspiegel.de/politik/wirtschaftsweise-fordern-reform-schuldenbremse-soll-moderat-gelockert-werden-11134687.html>.

⁶² Tobias Hentze and Björn Kauder, "Reformansätze Für Die Schuldenbremse," Institut Der Deutschen Wirtschaft (IW), February 14, 2024,

⁶³ *ibid*

⁶⁴ Ralph M. Wrobel, "Das Modell „Soziale Marktwirtschaft," vol. 2020–4, April 2020, accessed May 8, 2024, p. 7

⁶⁵ Nicholas Barr, "Economic Theory and the Welfare State : A Survey and Interpretation" *Journal of Economic Literature* 30(2) (February 1992): 741–803, p. 749

⁶⁶ Georg Menz, "After Agenda 2010 Is Before the Elections': Consolidation, Dissent, and the Politics of German Labour Market Policy Under the Grand Coalition," *German Politics* 19, no. 3–4 (Dec 1, 2010): 446–59, 448–451

⁶⁷ Sven Bode and Helmuth-Michael Groscurth, "Zur Wirkung Des EEG Auf Den 'Strompreis,'" HWWA Discussion Paper No. 348, 2006,

⁶⁸ European Trade Union Institute, "Germany | Worker Participation," accessed March 18, 2024, <https://worker-participation.eu/national-industrial-relations/countries/germany>.

on the board, as well as work councils in companies with over ten employees promote worker participation. As such, reflecting the collaborative methods of CMEs.^{69 70}

This relationship is also noticeable in the training of its workforce. The system fosters a highly skilled workforce, promoting industry-wide standardization and collaboration.⁷¹ Skills training is closely tied to industry needs but standardized across sectors, reflecting the CME's emphasis on skill formation and cooperation. Further, university is free and generally open to everyone and can be combined with an apprenticeship. This system integrates classroom learning with on-the-job training in a firm.⁷² Upon completion, 76% of participants secure permanent employment at the same firm they were trained at.⁷³

In times of crisis, Germany actively coordinates market outcomes, including subsidies, bailouts, and fiscal packages. These interventions have included the 'Kurzarbeit Schema' (English: short-time work program)^{74 75} or the famous "Doppelwumms" (eng. "double boom")⁷⁶ during the financial crisis in 2008, the COVID-19 pandemic and the recent energy crisis. Just to cope with the consequences of the pandemic alone, Germany spent the equivalent of EUR 439.7 between 2020-2022.^{77 78}

Germany's tax regime, featuring a 30% corporate tax⁷⁹, aligns with typical CMEs that use higher taxes to fund social welfare. Among OECD countries, Germany's tax contributions are high, ranking just behind Belgium. Families and singles face tax rates of 40.8% and 47.8%, respectively, which are offset by substantial social benefits.^{80 81} Despite the high tax burden, these benefits – including pensions, childcare, and health insurance - help mitigate costs. However, years of underinvestment compromise the quality and stability of these services.⁸²

⁶⁹ Anke Hassel, "Adjustments in the Eurozone: Varieties of Capitalism and the Crisis in Southern Europe," journal-article, LSE 'Europe in Question' Discussion Paper Series LEQS Paper No. 76/2014 (May 2014), p. 5-7

⁷⁰ Wissenschaftliche Dienste des Deutschen Bundestags, "Managerkultur-Vergleich Zwischen Den USA Und Deutschland," Bundestag.De, April 6, 2017,. P. 6f

⁷¹ Thomas F. Remington, "Public-Private Partnerships in VET: Translating the German Model of Dual Education," Working Papers of Institute of Education, 2017, p.9

⁷² Bundeszentrale Für Politische Bildung, "Das Deutsche Duale Ausbildungssystem," bpb.de, January 10, 2022, accessed May 4, 2024, <https://www.bpb.de/themen/bildung/dossier-bildung/228391/das-deutsche-duale-ausbildungssystem/>.

⁷³ Statistisches Bundesamt, "Berufliche Bildung," accessed May 9, 2024, https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bildung-Forschung-Kultur/Berufliche-Bildung/_inhalt.html.

⁷⁴ Vereinte Dienstleistungsgewerkschaft, "Mit Kurzarbeit Und Kurzarbeitergeld Durch Jede Krise," ver.di, June 3, 2023, accessed May 7, 2024, <https://www.verdi.de/themen/arbeit/++co++9cba96a2-6ed1-11ec-a37e-001a4a160129>.

⁷⁵ Presse- und Informationsamt der Bundesregierung, "Wirtschaftshilfen Während Corona-Pandemie," Bundesregierung.de, April 4, 2023, accessed May 6, 2024, <https://www.bundesregierung.de/breg-de/suche/corona-hilfen-2183124>.

⁷⁶ RedaktionsNetzwerk Deutschland, "Gaspreisbremse: „Doppelwumms“ – 200 Milliarden Euro Entlastung," RND.de, October 18, 2022, accessed May 8, 2024, <https://www.rnd.de/politik/gaspreisbremse-doppelwumms-200-milliarden-euro-entlastung-JFF5YGYTIYZ347RTLAQG7LHMGE.html>.

⁷⁷ Bundesministerium der Finanzen (BMF), "Bundshaushalt Digital," Bundshaushalt.de, accessed April 18, 2024, <https://www.bundshaushalt.de/DE/Bundshaushalt-digital/bundshaushalt-digital.html>.

⁷⁸ Frankfurter Allgemeine Zeitung, "Corona-Pandemie Kostete Bund Mehr Als 440 Milliarden Euro," FAZ.NET, April 22, 2023, accessed May 3, 2024, <https://www.faz.net/aktuell/politik/inland/corona-pandemie-kostete-bund-mehr-als-440-milliarden-euro-18840435.html>.

⁷⁹ Reinald Koch, "The Tax Complexity Index – a Survey-Based Country Measure of Tax Code and Framework Complexity," Subcommittee on Tax Matters (FISC) of the European Parliament, vol. 32, July 30, 2021,

⁸⁰ tagesschau.de, "Löhne Und Gehälter Sind Hoch Mit Steuern Und Abgaben Belastet," tagesschau.de, July 26, 2023, accessed May 7, 2024, <https://www.tagesschau.de/wirtschaft/verbraucher/oecd-steuern-abgaben-deutschland-100.html>.

⁸¹ OECD, "Taxing Wages," 2024, <https://www.oecd.org/tax/tax-policy/taxing-wages-brochure.pdf>, p. 4

⁸² Guntram Wolff and Alexander Roth, "Understanding (the Lack of) German Public Investment," Bruegel | the Brussels-

2.2 Macroeconomic Policies

Germany's macroeconomic policies are influenced by traditional Western economic principles, emphasizing market efficiency and fiscal stability.⁸³ As part of the economic and monetary union the ECB manages its monetary policy. Over the last decade, this meant low interest rates and low inflation to support stable growth. Given the recent crises and high inflation, this has shifted and poses a risk to financial stability. According to the German Bundesbank, these shifts are revealing vulnerabilities due to prolonged low rates that emphasize a “new normal” and a need for strategic management.⁸⁴

One core objective of Germany's fiscal policy includes maintaining budgetary discipline as mandated by the EU's Stability and Growth Pact.⁸⁵ This is further enhanced by the German “Debt Brake” as discussed in section 1.2. Government spending focuses on sectors like research (4.65%), encompassing basic research at Max Planck Institutes, and Fraunhofer Society, alongside infrastructure (7%), military (10%), and social welfare (36%) which makes up the majority of spending.^{86 87}

Germany faces several macroeconomic challenges that could impact long-term economic growth. Demographically, with a population of 84.7 million (2024), Germany is the 18th most populous nation worldwide. As of 2023, a quarter of its population is retired, it has a negative birth-death balance, and one of the lowest birth rates globally of 1.46 children per woman.⁸⁸ These challenges are already straining the labor market and social security systems but are further compounded by two significant migration events: the influx of over one million refugees in 2015/2016 and 1.1 million Ukrainians fleeing the war in 2022.^{89 90} As such sparking social tensions that are instrumentalized by the far right.⁹¹

Despite that, the debate in Germany does not reflect the severity of these demographic shifts yet, as a key measure for political success is the unemployment rate in Germany. At only 3.0% in 2023 it is low compared to an average of 6.5% in the Euro Area or 4.8% among OECD countries.⁹² This masks

based Economic Think Tank, June 19, 2018, accessed May 5, 2024,

⁸³ Andreas Beyer et al., “*Opting Out Of The Great Inflation: German Monetary Policy After The Break Down Of Bretton Woods*,” journal-article, ECB Working Paper Series No 1020 (March 2009), p.14-17

⁸⁴ Claudia Buch, “Financial Stability and Monetary Policy: From Low-for-long to the New Normal,” bundesbank.de, March 24, 2023, accessed May 5, 2024,

⁸⁵ Gregorio Sorigi et al., “*EU Countries Reach Deal on National Spending Rules Reform*,” POLITICO, December 21, 2023, accessed May 7, 2024, <https://www.politico.eu/article/eu-countries-reach-deal-on-national-spending-rules/>.

⁸⁶ Bundesministerium der Finanzen (BMF), “*Bundeshaushalt Digital*,” Bundeshaushalt.de, accessed April 18, 2024, <https://www.bundeshaushalt.de/DE/Bundeshaushalt-digital/bundeshaushalt-digital.html>.

⁸⁷ Note that 72% of that amount is a direct contribution to the pension system. Payments under the “Sozialgesetzbuch II” for not being able to work account for 13% of the social welfare spending

⁸⁸ Statistisches Bundesamt, “*Bevölkerungsstand*,” destatis.de, accessed April 16, 2024, https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Bevoelkerungsstand/_inhalt.html.

⁸⁹ Deutsche Welle, “*Germany's Population Grows by 300,000, Driven by Migration*,” Dw.Com, January 26, 2024, accessed May 8, 2024, <https://www.dw.com/en/germanys-population-grows-by-300000-driven-by-migration/a-68080313>.

⁹⁰ “*2015: Höchststände Bei Zuwanderung in Deutschland*,” Statistisches Bundesamt, July 14, 2016, accessed May 6, 2024, https://www.destatis.de/DE/Presse/Pressemitteilungen/2016/07/PD16_246_12421.html.

⁹¹ Li Zhou, “*AfD Germany: The Dangerous Resurgence of the Country's Far Right, Explained*,” Vox, March 12, 2024, accessed April 17, 2024, <https://www.vox.com/world-politics/2024/3/12/24080074/germany-afd-far-right>.

⁹² The World Bank, “*Data for Germany, Euro area, OECD members*,” World Bank Open Data, accessed May 3, 2024, <https://data.worldbank.org/?locations=DE-XC-OE>.

underlying issues such as declining educational standards and an aging workforce, which could eventually strain public finances for healthcare and pensions.⁹³

Additionally, the impact of global economic uncertainties as a result of the Russian War in Ukraine, the crisis in Gaza or the action of the Houthis require – speaking coldly from an economic perspective - adaptive geoeconomic policies from a major exporting country.⁹⁴ These decisions are not made in isolation but rather embedded within Germany's broader international framework. Therefore, the next section will explore Germany's global economic integration and its critical role in decision-making.

3 International Economic Integration

Germany's export-driven economy functions on an integration into the global market, leveraging basic trade principles by Ricardo and Krugman.^{95 96} Thereby using its advanced industrial base and strategic position in the European Union. This Integration is characterized by extensive trade networks and active participation in international organizations. Its success is underpinned by Germany's comparative advantage, derived not from low labor costs but through a combination of sophisticated machinery and a highly skilled workforce.⁹⁷ Unlike the US, Germany's industry employment remained stable after China joined the WTO, thanks to its specialized Mittelstand.⁹⁸ This strategic mix allows Germany to produce complex, high-value products, maintaining the highest industrial competitiveness even when competing with advanced but low-wage countries like China.⁹⁹ This advantage is further reinforced by the "home market effect", where Germany's large domestic market for industrial goods enhances its export capabilities and FDI to exploit economies of scale.^{100 101}

Making use of its industrial strengths, Germany's trade policy is supported by its central role within the European Union (EU). The EU's single market enhances Germany's trade capabilities, allowing the free movement of goods, services, capital, and labor, with France and the Netherlands as key trading partners (see Figure I).¹⁰² On the one hand, Germany's trade dynamics reflect its commitment to

⁹³ Statistisches Bundesamt, "PISA-Studie 2022," destatis.de, accessed May 5, 2024, <https://www.destatis.de/DE/Themen/Laender-Regionen/Internationales/Thema/bevoelkerung-arbeit-soziales/bildung/PISA2022.html>.

⁹⁴ Hannah Ward-Glenton, "Recession-hit Germany Is Facing a Flurry of Global Headwinds, Goldman Sachs Says," CNBC, September 19, 2023, accessed May 5, 2024, <https://www.cnbc.com/2023/09/19/recession-hit-germany-is-facing-a-flurry-of-global-headwinds-goldman-sachs.html>.

⁹⁵ William Krist, "Chapter 3: Trade Agreements and Economic Theory," in *Globalization and America's Trade Agreements* (Johns Hopkins University Press, n.d.), <https://www.wilsoncenter.org/chapter-3-trade-agreements-and-economic-theory>.

⁹⁶ Pinelopi Goldberg, "Rediscovering Krugman," World Bank Blogs (blog), March 16, 2024, accessed May 4, 2024, <https://blogs.worldbank.org/en/developmenttalk/rediscovering-krugman>.

⁹⁷ Germany Trade & Invest (GTAI), "The Machinery & Equipment Industry in Germany," Gtai.de (Germany Trade and Invest, April 20, 2022), <https://www.gtai.de/en/invest/service/publications/the-machinery-and-equipment-industry-in-germany-64586>.

⁹⁸ Wolfgang Dauth, Sebastian Findeisen, and Jens Südekum, "Trade and Manufacturing Jobs in Germany," report, DICE Discussion Paper (Heinrich Heine University Düsseldorf, (DICE), Düsseldorf, 2017), p.10

⁹⁹ United Nations Industrial Development Organization, "Industrial Development Report 2022. The Future of Industrialization in a Post-Pandemic World," 2022, <https://www.unido.org/sites/default/files/files/2021-11/IDR%202022%20-%20EBOOK.pdf>, p.157, 201.

¹⁰⁰ Henning Klodt and Björn Christensen, "Home Market Effects of Foreign Direct Investment: The Case of Germany," by (SIAW-HSG), St.Gallen, Aussenwirtschaft, March 2007, 63–76., P.71

¹⁰¹ BDI e.V., "Investitionsförder- Und Investitionsschutzverträge Werden in Der Globalisierung Immer Wichtiger," Bdi, December 17, 2019, accessed May 9, 2024, <https://bdi.eu/artikel/news/investitionsfoerder-und-schutzvertraege-werden-in-der-globalisierung-immer-wichtiger>.

¹⁰² "Deutschland Ist Größter Profiteur Des EU-Binnenmarkts," by Frankfurter Allgemeine Zeitung, FAZ.NET, May 8, 2019,

European integration and economic cooperation. On the other hand, Germany is also trying to use its economic influence to shape policies such as the new EU fiscal rules.^{103 104 105} Lastly, even in its non-EU trade Germany profits from the European Currency market as it reduces international trade costs.¹⁰⁶

Despite these stable trade relations, recent global challenges have revealed critical vulnerabilities in supply chains. Particularly, it highlighted the risks of dependency on single countries like China or Russia. Followed by the European single market, China and the US are the largest trading and FDI partners.¹⁰⁷ For example, since 2017 over 2/3 of German cars were manufactured abroad, with more German cars built in China than in Germany itself.¹⁰⁸ While cars and car parts make up only a portion of German exports (16%), their production and turnover abroad illustrates the complexity of Germany's international interdependence.¹⁰⁹ Particularly, the close ties with China revealed vulnerabilities in critical supply chains during the COVID-19 pandemic. About 70% of essential medicines and personal protection gear were imported from China and India.^{110 111}

In response to economic pressures and the desire to lessen dependencies, Germany and the EU are trying to reduce their reliance on critical imports. But this project is further complicated by China's (likely) subsidized electric vehicles and solar exports, as well as the US's Inflation Reduction Act (IRA). To counterbalance these influences Germany and the EU are advancing policies like the European Green Deal or Critical Raw Materials Act. Partly, because the IRA draws European investments overseas due to significant subsidies and tax cuts.¹¹² While the Green Deal aims to boost local industries and reduce dependency on external technology, Europa's small venture capital market complicates

accessed May 5, 2024, <https://www.faz.net/aktuell/wirtschaft/mehr-wirtschaft/deutschland-ist-groesster-profiteur-des-eu-binnenmarkts-16176283.html>.

¹⁰³ Ronja Kempin and Nicolai Von Ondarza, "Von Der Status-quo-Macht Zum Reformmotor: Deutschlands Künftige Rolle in Der Europäischen Union," SWP-Aktuell, vol. 7, January 27, 2022, accessed May 7, 2024

¹⁰⁴ Peter Graf Kielmansegg, "Deutschland Und Europa: Aspekte Einer Schwieriger Gewordenen Beziehung" Zeitschrift Für Staats- Und Europawissenschaften (ZSE) Vol. 15, No. 2/3, 2017 (March 2017), <https://www.jstor.org/stable/26429774?seq=15>.

¹⁰⁵ Le Monde, "European Union Finds Budget Reform Deal to Loosen Rules," Le Monde.Fr, December 20, 2023, accessed May 5, 2024, https://www.lemonde.fr/en/economy/article/2023/12/20/european-union-finds-budget-reform-deal-to-loosen-rules_6362360_19.html.

¹⁰⁶ Thieß Petersen et al., "How Germany Benefits From the Euro in Economic Terms," Policy Brief, 2013, https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Presse/imported/downloads/xcms_bst_dms_37730_37731_2.pdf.

¹⁰⁷ Statistisches Bundesamt, "Ranking of Germany's Trading Partners in Foreign Trade," Destatis.De, April 18, 2024, https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/Tables/order-rank-germany-trading-partners.pdf?__blob=publicationFile.

¹⁰⁸ Yuri Kofner, "Back to the Future of the German Automotive Industry," MIWI Institute, November 4, 2021, accessed May 7, 2024, <https://miwi-institut.de/archives/1417>.

¹⁰⁹ Germany Trade & Invest (GTAI), "The Automotive Industry in Germany," gtai (Germany Trade and Invest, 2022), <https://www.gtai.de/en/invest/service/publications/the-automotive-industry-in-germany-64580>

¹¹⁰ Sven Astheimer, "Wie Corona Die Abhängigkeit Der Deutschen Von China Verstärkt Hat," FAZ.NET, October 13, 2021, accessed May 8, 2024, <https://www.faz.net/aktuell/wirtschaft/wie-corona-die-abhaengigkeit-der-deutschen-von-china-verstaerkt-hat-17580328.html>.

¹¹¹ Christiane Kühn, "So Abhängig Sind Wir: 70 Prozent Unserer Medikamente Enthalten Wirkstoffe Aus China," fr.de, November 16, 2023, accessed May 5, 2024, <https://www.fr.de/politik/china-medikamente-knapp-arzt-apotheke-medizin-versorgung-antibiotikum-zr-91966022.html>.

¹¹² Victor Jack et al., "EU Shrugs off Threat From US Inflation Reduction Act — for Now," POLITICO, August 31, 2023, accessed May 5, 2024, <https://www.politico.eu/article/eu-united-states-inflation-reduction-act-subsidies-investment-threat-data/>.

independent high-tech advancements.¹¹³ Lastly, Germany is still highly dependent on US Security promises within NATO despite current efforts to increase military capabilities.¹¹⁴

These strategic initiatives complement Germany's active participation in global organizations. Germany not only seeks to stabilize its economy but is a firm believer in global governance within the UN.¹¹⁵ As such it supports approaches like the Humanitarian-Development-Peace Nexus which synergizes humanitarian aid, development, and peacebuilding.¹¹⁶ ¹¹⁷ To mitigate risks and increase partnerships worldwide Germany has a high level of institutional engagement, including membership in the WTO, G7, IMF, OECD, and the UN. Furthermore, Germany is one of the leading UN donors and dedicates about 0.9% of its Gross National Income to development aid, significantly above the OECD average.¹¹⁸ ¹¹⁹

Overall, Germany's economic integration is characterized by strategic partnerships with the US and China and robust involvement in the EU. Germany's dependence on the Eurozone ties its economic stability partly to the health of its European neighbors. However, regional crises worldwide, such as the Russian War in Ukraine, can have direct impacts on Germany. Further, the recent challenges have shown that Germany's existing economic model is vulnerable and emphasizes a need for change.

Concluding Remarks

Germany had positioned itself in a former unipolar world by leveraging its roles within the UN System and key relationships—receiving security from the U.S., importing cheap gas from Russia, and exporting goods to China. The vulnerabilities of this model have been exposed in a multipolar world with the beginning of the Russian War in Ukraine and demand a new path forward. Its model is also facing a complex line-up of challenges that are key threats to its promise of a social market economy that guarantees a livable life from birth to the last pension check.

Internally, demographic shifts, regional disparities between the East and the West, high energy costs, burdensome regulations, high taxation, and decades of underinvestment in public infrastructure

¹¹³ Emmanuelle Duten, "Will Europe Eventually Catch up With the US and China?," Capital Finance, October 11, 2021, accessed May 5, 2024, <https://capitalfinance.lesechos.fr/analyses/dossiers/will-europe-eventually-catch-up-with-the-us-and-china-127148>.

¹¹⁴ Jeremy Shapiro, "Why America? The US Role in European Defense and the European Mind" by European council on foreign relations, March 18, 2019, accessed May 8, 2024, <https://chairestrategique.pantheonsorbonne.fr/themes/2019/why-america-us-role-european-defense-and-european-mind>.

¹¹⁵ Thomas Zahneisen, "Statement of Germany During the UN Security Council Open Debate on 'Peace Through Dialogue: The Contribution of Regional, Sub-regional and Bilateral Arrangements to the Prevention and Peaceful Resolution of Disputes'" (United States of America, October 23, 2023).

¹¹⁶ Eugenia Baroncelli, "Implementing the Humanitarian-development-peace Nexus in a Post-pandemic World: Multilateral Cooperation and the Challenge of Inter-organisational Dialogue," *Global Policy* 14, no. S2 (March 1, 2023): 22–28, <https://doi.org/10.1111/1758-5899.13186>, p.24

¹¹⁷ Michael Geisler, "Statement by Germany at the UN Security Council Open Debate on 'Maintaining International Peace and Security: Promote Sustaining Peace Through Common Development'" (United States of America, 2023)

¹¹⁸ OECD, "OECD Data," Data set, Net ODA, n.d., <https://data.oecd.org/oda/net-oda.htm>, accessed May 8, 2024

¹¹⁹ Silke Weinlich and Max-Otto Baumann, "Germany's Funding to the UNDS: Towards a Better Mix for Stronger Multilateralism," *Analysen Und Stellungnahmen* 14/2020, 2020, https://www.idos-research.de/uploads/media/BP_17.2020.pdf.

underscore the urgency for systemic reforms.¹²⁰ ¹²¹ Despite this, political discord in the ruling coalition over policy solutions is complicating the implementation of necessary reforms.

Externally, Germany's role in global economic governance must evolve. Current discussions involve concepts like “re-shoring”, “friend-shoring” and “de-risking”. These strategies aim to mitigate risks by diversifying supply chains and investing in more politically stable countries. More importantly, Germany must strengthen the EU in collaboration with France to counterbalance global power dynamics. While both are important nations, they are minor powers compared to China, the US, Russia and soon India. Both European nations cannot try to solo run issues as Germany did during the energy crisis with its huge fiscal packages or France push forward lately on the debate regarding troops on the ground in Ukraine.¹²² Projects like a common European army framework¹²³, joint borrowing for defense¹²⁴ or the fulfillment of the banking union¹²⁵ will need them to work together to form a stronger Europe.¹²⁶

Power, fundamentally, is about the ability to influence the behavior of other states and shape global politics to one's advantage.¹²⁷ It is assessed relative to other states, meaning a state's ability to pursue its interests effectively is limited by the power of others.¹²⁸ ¹²⁹ Therefore, Germany and France must unite within the EU and operationalize claims to European sovereignty.¹³⁰ It is vital to counterbalance efforts by Russia to destroy the European security order, counter the risk of a more isolated America under a possible new Trump administration, and address China's expanding influence in regions such as the Pacific, Africa, and even within Europe. Demonstrating a strong commitment to European unity in the face of global uncertainties is needed for Germany to remain a powerhouse, relive pressure resulting from geopolitical tension and keep global governance in place.

¹²⁰ Christian Bangel et al., “Ost-West-Wanderung: Die Millionen, Die Gingen,” ZEIT ONLINE, May 2, 2019, accessed April 18, 2024, <https://www.zeit.de/politik/deutschland/2019-05/ost-west-wanderung-abwanderung-ostdeutschland-umzug>.

¹²¹ Deutsche Welle, “Wirtschaftsstandort Deutschland Weniger Gefragt,” dw.com, January 16, 2023, accessed May 6, 2024, <https://www.dw.com/de/wirtschaftsstandort-deutschland-weniger-gefragt/a-64402385>.

¹²² Michel Winde, Michael Fischer, and Laura Dubois, “„Deutscher Egoismus“: Scholz Eckt in EU Mit „Doppelwumms“ An,” Süddeutsche.de, October 7, 2022, accessed May 4, 2024, <https://www.sueddeutsche.de/politik/gipfel-in-prag-deutscher-egoismus-scholz-eckt-in-eu-mit-doppelwumms-an-dpa.urn-newsml-dpa-com-20090101-221007-99-36659>.

¹²³ Jacob Ross and Deutsche Gesellschaft für Auswärtige Politik e. V., “Frankreichs „Pivot to Europe“,” POLICY BRIEF, vol. Nr. 5, March 2024, . <https://dgap.org/de/forschung/publikationen/frankreichs-pivot-europe>

¹²⁴ Jan Strupczewski, “EU should consider joint borrowing for defence, economic security,” Reuters, March 12, 2024, accessed May 6, 2024, <https://www.reuters.com/world/europe/eu-should-consider-joint-borrowing-defence-economic-security-spain-2024-03-12/>.

¹²⁵ Ronja Kempin and Nicolai Von Ondarza, “Von Der Status-quo-Macht Zum Reformmotor: Deutschlands Künftige Rolle in Der Europäischen Union,” SWP-Aktuell, vol. 7, January 27, 2022, accessed May 7, 2024

¹²⁶ Jana Puglierin, “For NATO to Thrive, Europe Needs to Wake Up,” Internationale Politik Quarterly, no. 2/2024 (April 30, 2024), <https://ip-quarterly.com/en/nato-thrive-europe-needs-wake>.

¹²⁷ Flint, C. (2017). Introduction to Geopolitics (3 New edition). Taylor & Francis Ltd.

Forster, A., & Wallace, W. (2001). What is NATO for? Survival, 43(4), 107-122., p. 45

¹²⁸ Czempiel, E.-O. (1981). Internationale Politik: Ein Konfliktmodell. Schöningh.

¹²⁹ Thomas Jäger and Rasmus Beckmann, “Die Internationalen Rahmenbedingungen Deutscher Außenpolitik,” in VS Verlag Für Sozialwissenschaften eBooks, 2011, 15–43, https://doi.org/10.1007/978-3-531-93023-7_1.

¹³⁰ Ronja Kempin and Nicolai Von Ondarza, “Von Der Status-quo-Macht Zum Reformmotor: Deutschlands Künftige Rolle in Der Europäischen Union,” SWP-Aktuell, vol. 7, January 27, 2022, accessed May 7, 2024

References

- Statistisches Bundesamt. "2015: Höchststände Bei Zuwanderung Und Wanderungsüberschuss in Deutschland," July 14, 2016. Accessed May 6, 2024. https://www.destatis.de/DE/Presse/Pressemitteilungen/2016/07/PD16_246_12421.html.
- Astheimer, Sven. "Wie Corona Die Abhängigkeit Der Deutschen Von China Verstärkt Hat." *FAZ.NET*, October 13, 2021. Accessed May 8, 2024. <https://www.faz.net/aktuell/wirtschaft/wie-corona-die-abhaengigkeit-der-deutschen-von-china-verstaerkt-hat-17580328.html>.
- Bangel, Christian, Paul Blickle, Elena Erdmann, Philip Faigle, Andreas Loos, Julian Stahnke, Julius Tröger, and Sascha Venohr. "Ost-West-Wanderung: Die Millionen, Die Gingen." *ZEIT ONLINE*, May 2, 2019. Accessed April 18, 2024. <https://www.zeit.de/politik/deutschland/2019-05/ost-west-wanderung-abwanderung-ostdeutschland-umzug>.
- Baroncelli, Eugenia. "Implementing the Humanitarian-development-peace Nexus in a Post-pandemic World: Multilateral Cooperation and the Challenge of Inter-organisational Dialogue." *Global Policy* 14, no. S2 (March 1, 2023): 22–28. <https://doi.org/10.1111/1758-5899.13186>.
- Barr, Nicholas. "Economic Theory and the Welfare State : A Survey and Interpretation - LSE Research Online." *Journal of Economic Literature* 30(2) (February 1992): 741–803. <https://eprints.lse.ac.uk/279/>.
- Betschka, Julius, Albert Funk, and Valerie Höhne. "Wirtschaftsweise Fordern Reform: Schuldenbremse Soll Moderat Gelockert Werden." *Tagesspiegel*, January 30, 2024. Accessed March 18, 2024. <https://www.tagesspiegel.de/politik/wirtschaftsweise-fordern-reform-schuldenbremse-soll-moderat-gelockert-werden-11134687.html>.
- Beyer, Andreas, Vítor Gaspar, Christina Gerberding, Otmar Issing, and European Central Bank. "OPTING OUT OF THE GREAT INFLATION: GERMAN MONETARY POLICY AFTER THE BREAK DOWN OF BRETTON WOODS." Journal-article. *ECB Working Paper Series* No 1020 (March 2009). <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1020.pdf>.
- BMWK - Federal Ministry for Economic Affairs and Climate Action. "The German Mittelstand as a Model for Success." Accessed May 4, 2024. <https://www.bmwk.de/Redaktion/EN/Dossier/sme-policy.html>.
- Bode, Sven, and Helmuth-Michael Groscurth. "Zur Wirkung Des EEG Auf Den 'Strompreis.'" *HWWA Discussion Paper No. 348*, 2006. <https://www.econstor.eu/handle/10419/19377>.
- Bollmann, Ralph. "Wie Sich Die Ampel Als Fortschritts-Koalition Verkauft." *FAZ.NET*, November 28, 2021. Accessed May 3, 2024. <https://www.faz.net/aktuell/wirtschaft/wie-sich-die-ampel-als-fortschritts-koalition-verkauft-17654321.html>.
- Buch, Claudia. "Financial Stability and Monetary Policy: From Low-for-long to the New Normal." *bundesbank.de*, March 24, 2023. Accessed May 5, 2024. <https://www.bundesbank.de/en/press/speeches/financial-stability-and-monetary-policy-from-low-for-long-to-the-new-normal-910300>.
- Bundesministerium der Finanzen (BMF). "Bundeshaushalt Digital." *Bundeshaushalt.de*. Accessed April 18, 2024. <https://www.bundeshaushalt.de/DE/Bundeshaushalt-digital/bundeshaushalt-digital.html>.
- Bundesrat. "Zustimmungs- Und Einspruchsgesetze." Accessed May 6, 2024. <https://www.bundesrat.de/DE/aufgaben/gesetzgebung/zust-einspr/zust-einspr-node.html>.
- Bundesverband der Deutschen Industrie e. V. (BDI). "Investitionsförder- Und Investitionsschutzverträge Werden in Der Globalisierung Immer Wichtiger." *Bdi*, December 17, 2019. Accessed May 9, 2024. <https://bdi.eu/artikel/news/investitionsfoerder-und-schutzvertraege-werden-in-der-globalisierung-immer-wichtiger>.
- Bundeszentrale Für Politische Bildung. "Das Deutsche Duale Ausbildungssystem." *bpb.de*, January 10, 2022. Accessed May 4, 2024. <https://www.bpb.de/themen/bildung/dossier-bildung/228391/das-deutsche-duale-ausbildungssystem/>.
- Bundeszentrale Für Politische Bildung "Bund, Länder Und Kommunen." *bpb.de*, October 26, 2021. Accessed May 2, 2024. <https://www.bpb.de/themen/politisches-system/24-deutschland/40432/bund-laender-und-kommunen/>.
- Central Intelligence Agency. "The World Factbook Germany." *Ciago*. Accessed March 10, 2024. <https://www.cia.gov/the-world-factbook/countries/germany/>.
- Czempel, E.-O. (1981). *Internationale Politik: Ein Konfliktmodell*. Schöninghaus.
- Dauth, Wolfgang, Sebastian Findeisen, and Jens Südekum. "Trade and Manufacturing Jobs in Germany." Report. *DICE Discussion Paper*. Heinrich Heine University Düsseldorf, Düsseldorf Institute for Competition Economics (DICE), Düsseldorf, 2017.

<https://www.econstor.eu/bitstream/10419/149134/1/877243093.pdf>.

David-Wilp, Sudha, and Jacob Kirkegaard. "Germany's Economic Reckoning: The EU Needs Berlin to Get Its House in Order." *Foreign Affairs*, March 4, 2024. Accessed May 4, 2024. <https://www.foreignaffairs.com/germany/germanys-economic-reckoning>.

Deeg, Richard. "The Rise of Internal Capitalist Diversity? Changing Patterns of Finance and Corporate Governance in Europe." *Economy and Society/Economy and Society* 38, no. 4 (November 1, 2009): 552–79. <https://doi.org/10.1080/03085140903190359>.

Deutsche Welle. "Germany's Population Grows by 300,000, Driven by Migration." *Dw.Com*, January 26, 2024. Accessed May 8, 2024. <https://www.dw.com/en/germanys-population-grows-by-300000-driven-by-migration/a-68080313>.

Deutsche Welle. "Wirtschaftsstandort Deutschland Weniger Gefragt." *dw.com*, January 16, 2023. Accessed May 6, 2024. <https://www.dw.com/de/wirtschaftsstandort-deutschland-weniger-gefragt/a-64402385>.

Handelsblatt Online. "Deutschland Ist Der Hidden Champion Der Hidden Champions," November 11, 2022. Accessed May 1, 2024. <https://www.handelsblatt.com/adv/firmen/hidden-champions.html>.

FAZ.NET. "Deutschland Ist Größter Profiteur Des EU-Binnenmarkts," May 8, 2019. Accessed May 5, 2024. <https://www.faz.net/aktuell/wirtschaft/mehr-wirtschaft/deutschland-ist-groesster-profiteur-des-eu-binnenmarkts-16176283.html>.

Deutschland, RedaktionsNetzwerk. "Gaspreisbremse: „Doppelwumms“ – 200 Milliarden Euro Entlastung." *RND.de*, October 18, 2022. Accessed May 8, 2024. <https://www.rnd.de/politik/gaspreisbremse-doppelwumms-200-milliarden-euro-entlastung-JFF5YGYTIYZ347RTLAQG7LHMGE.html>.

Döring, Thomas, and Jan Schnellenbach. "A Tale of Two Federalisms: Germany, the United States and the Ubiquity of Centralization." *Constitutional Political Economy* 22, no. 1 (October 6, 2010): 83–102. <https://doi.org/10.1007/s10602-010-9096-2>.

Duten, Emmanuelle. "Will Europe Eventually Catch up With the US and China ?" *Capital Finance*, October 11, 2021. Accessed May 5, 2024. <https://capitalfinance.lesechos.fr/analyses/dossiers/will-europe-eventually-catch-up-with-the-us-and-china-127148>.

Eckl-Dorna, Wilfried, Jana Randow, Carolyn Look, and Petra Sorge. "Why Germany's Days as an Industrial Superpower Are Coming to an End." *Bloomberg.Com*, February 10, 2024. Accessed May 1, 2024. <https://www.bloomberg.com/news/features/2024-02-10/why-germany-s-days-as-an-industrial-superpower-are-coming-to-an-end>.

Eddy, Melissa. "Germany, Once a Powerhouse, Is at an Economic 'Standstill.'" *Nytimes.Com*, January 18, 2024. Accessed May 1, 2024. <https://www.nytimes.com/2024/01/18/world/europe/german-economy-standstill.html>.

European Trade Union Institute. "Germany | Worker Participation." Accessed March 18, 2024. <https://worker-participation.eu/national-industrial-relations/countries/germany>.

Frankfurter Allgemeine Zeitung. "Corona-Pandemie Kostete Bund Mehr Als 440 Milliarden Euro." *FAZ.NET*, April 22, 2023. Accessed May 3, 2024. <https://www.faz.net/aktuell/politik/inland/corona-pandemie-kostete-bund-mehr-als-440-milliarden-euro-18840435.html>.

Geisler, Michael. "Statement by Germany at the UN Security Council Open Debate on 'Maintaining International Peace and Security: Promote Sustaining Peace Through Common Development.'" United States of America, November 20, 2023. <https://new-york-un.diplo.de/un-en/-/2577060>.

Germany Trade & Invest (GTAI). "The Automotive Industry in Germany." *Gtai.De*. Germany Trade and Invest Gesellschaft für Außenwirtschaft und Standortmarketing mbH, June 25, 2022. <https://www.gtai.de/en/invest/service/publications/the-automotive-industry-in-germany-64580>.

Germany Trade & Invest (GTAI).. "The Machinery & Equipment Industry in Germany." *Gtai.De*. Germany Trade and Invest, April 20, 2022. https://www.gtai.de/resource/blob/2514/dd936d01d72d8b6118e306137eb15781/Machinery_Equipment_Germany_Industry_Overview_2022.pdf.

Gill, Indermit. "At Your Service? Developing Economies Bet on Service Industries for Growth." *World Bank Blogs* (blog), September 27, 2021. Accessed May 3, 2024. <https://blogs.worldbank.org/en/voices/your-service-developing-economies-bet-service-industries-growth>.

Goldberg, Pinelopi. "Rediscovering Krugman." *World Bank Blogs* (blog), March 16, 2024. Accessed May 4, 2024. <https://blogs.worldbank.org/en/developmenttalk/rediscovering-krugman>.

Graf Kielmansegg, Peter. "Deutschland Und Europa: Aspekte Einer Schwieriger Gewordenen Beziehung on JSTOR." *Zeitschrift Für Staats- Und Europawissenschaften (ZSE)* Vol. 15, No. 2/3, 2017 (March 2017).

<https://www.jstor.org/stable/26429774?seq=15>.

Gropengiesser, Dilan. “‘Was Jetzt? - Die Woche’: Dauerstreit Trotz Krisenstau – Rauft Sich Die Ampel Endlich Zusammen?” ZEIT ONLINE, August 31, 2023. Accessed May 6, 2024. <https://www.zeit.de/politik/2023-08/ampel-koalition-albrecht-von-lucke-was-jetzt-livesendung>.

Federal Statistical Office. “Gross Domestic Product: Detailed Results on Economic Performance in the 4th Quarter of 2023.” Accessed May 1, 2024. https://www.destatis.de/EN/Press/2024/02/PE24_066_811.html.

Hancké, Bob. *Debating Varieties of Capitalism: A Reader*. OUP Oxford, 2009.

Hassel, Anke. “Adjustments in the Eurozone: Varieties of Capitalism and the Crisis in Southern Europe.” Journal-article. *LSE ‘Europe in Question’ Discussion Paper Series* LEQS Paper No. 76/2014 (May 2014). <https://www.lse.ac.uk/european-institute/Assets/Documents/LEQS-Discussion-Papers/LEQSPaper76.pdf>.

Haucap, Justus, Christian Wey, and Jens F. Barmbold. “Location Choice As A Signal For Product Quality: The Economics Of ‘Made in Germany’ On JSTOR.” *Www.Jstor.Org*, September 1997. <https://www.jstor.org/stable/40752001>.

Henley, Jon. “Why Is Germany’s Economy Struggling – and Can the Government Fix It?” *The Guardian*, January 8, 2024. Accessed May 2, 2024. <https://www.theguardian.com/world/2024/jan/05/sick-man-of-europe-what-is-happening-to-germany-economy>.

Hentze, Tobias, and Björn Kauder. “Reformansätze Für Die Schuldenbremse.” *Institut Der Deutschen Wirtschaft (IW)*, February 14, 2024. <https://www.iwkoeln.de/studien/tobias-hentze-bjoern-kauder-reformansaetze-fuer-die-schuldenbremse.html>.

Hüther, Michael, Sylwia Bialek, Claudia Schaffranka, Monika Schnitzer, Steffen Müller, Eric Heymann, Tobias Maier, et al. “Deindustrialisierung: Schreckgespenst Oder Notwendiger Schritt Im Strukturwandel Der Deutschen Wirtschaft?,” 2023. <https://hdl.handle.net/10419/272099>.

International Monetary Fund. “GDP Based on PPP, Share of World.” Data set, 2024. https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEO_WORLD.

International Monetary Fund, Kevin Flechter, Harri Kemp, and Galen Sher. “Germany’s Real Challenges Are Aging, Underinvestment, and Too Much Red Tape.” IMF, March 27, 2024. Accessed March 18, 2024. <https://www.imf.org/en/News/Articles/2024/03/27/germanys-real-challenges-are-aging-underinvestment-and-too-much-red-tape>.

Jack, Victor, Federica Di Sario, Lucia Mackenzie, and Giovanna Coi. “EU Shrugs off Threat From US Inflation Reduction Act — for Now.” *POLITICO*, August 31, 2023. Accessed May 5, 2024. <https://www.politico.eu/article/eu-united-states-inflation-reduction-act-subsidies-investment-threat-data/>.

Jäger, Thomas, and Rasmus Beckmann. “Die Internationalen Rahmenbedingungen Deutscher Außenpolitik.” In *VS Verlag Für Sozialwissenschaften eBooks*, 15–43, 2011. https://doi.org/10.1007/978-3-531-93023-7_1.

Kempin, Ronja, and Nicolai Von Ondarza. “Von Der Status-quo-Macht Zum Reformmotor: Deutschlands Künftige Rolle in Der Europäischen Union.” *SWP-Aktuell*. Vol. 7, January 27, 2022. Accessed May 7, 2024. https://www.swp-berlin.org/publications/products/aktuell/2022A07_Deutschland_in_EU.pdf.

Keynes, John Maynard. *The Economic Consequences of the Peace*. *Routledge eBooks*, 2017. <https://doi.org/10.4324/9781351304641>.

Klodt, Henning, and Björn Christensen. “Home Market Effects of Foreign Direct Investment: The Case of Germany.” *Aussenwirtschaft*, March 2007, 63–76. <https://www.econstor.eu/bitstream/10419/231119/1/aussenwirtschaft-v62-i01-p063-076.pdf>.

Koch, Reinald. “The Tax Complexity Index – a Survey-Based Country Measure of Tax Code and Framework Complexity.” *Subcommittee on Tax Matters (FISC) of the European Parliament*. Vol. 32, July 30, 2021. <https://doi.org/10.1080/09638180.2021.1951316>.

Kofner, Yuri. “Back to the Future of the German Automotive Industry.” MIWI Institute, November 4, 2021. Accessed May 7, 2024. <https://miwi-institut.de/archives/1417>.

Krist, William. “Chapter 3: Trade Agreements and Economic Theory.” In *Globalization and America’s Trade Agreements*. Johns Hopkins University Press, n.d. <https://www.wilsoncenter.org/chapter-3-trade-agreements-and-economic-theory>.

Kühl, Christiane. “So Abhängig Sind Wir: 70 Prozent Unserer Medikamente Enthalten Wirkstoffe Aus China.” *fr.de*, November 16, 2023. Accessed May 5, 2024. <https://www.fr.de/politik/china-medikamente-knapp-arzt-apotheke-medizin-versorgung-antibiotikum-zr-91966022.html>.

Le Monde. "European Union Finds Budget Reform Deal to Loosen Rules." *Le Monde.Fr*, December 20, 2023. Accessed May 5, 2024. https://www.lemonde.fr/en/economy/article/2023/12/20/european-union-finds-budget-reform-deal-to-loosen-rules_6362360_19.html.

Le Monde. "Germany Overtakes Japan As Third-biggest Economy." *Lemonde.Fr*, February 15, 2024. Accessed May 2, 2024. https://www.lemonde.fr/en/economy/article/2024/02/15/germany-overtakes-japan-as-third-biggest-economy_6525624_19.html.

Masters, Jonathan. "How Powerful Is France's President?" *Council on Foreign Relations*, February 1, 2017. Accessed May 4, 2024. <https://www.cfr.org/backgrounder/how-powerful-frances-president>.

Menz, Georg. "'After Agenda 2010 Is Before the Elections': Consolidation, Dissent, and the Politics of German Labour Market Policy Under the Grand Coalition." *German Politics* 19, no. 3–4 (December 1, 2010): 446–59. <https://doi.org/10.1080/09644008.2010.515833>.

Nordås, Hildegunn Kyvik, Dorothée Rouzet, Sebastian Benz, Janos Ferenz, Frédéric Gonzales, Massimo Geloso Grosso, Sébastien Miroudot, and Francesca Spinelli. *Services Trade Policies and the Global Economy. OECD eBooks*, 2017. <https://doi.org/10.1787/9789264275232-en>.

OECD. "OECD Data." Data set. *Net ODA*, n.d. <https://data.oecd.org/oda/net-oda.htm>.

OECD. "Taxing Wages." *OECD*, 2024. <https://www.oecd.org/tax/tax-policy/taxing-wages-brochure.pdf>.

Orth, Martin. "Ein Deutsches Phänomen." *deutschland.de*, July 12, 2021. <https://www.deutschland.de/de/topic/wirtschaft/deutsche-hidden-champions-unbekannte-top-firmen>.

Petersen, Thieß, Prognos AG, Michael Böhmer, Bertelsmann Stiftung, Henning Vom Stein, and Bertelsmann Stiftung. "How Germany Benefits From the Euro in Economic Terms." Policy Brief, 2013. https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Presse/imported/downloads/xcms_bst_dms_37730_37731_2.pdf.

Pöttsch, Horst. "Bundespräsident." *bpb.de*, January 28, 2022. Accessed May 2, 2024. <https://www.bpb.de/themen/politisches-system/deutsche-demokratie/39360/bundespraesident/>.

Press and Information Office of the Federal Government. "Structure and Tasks." *bundesregierung.de*. Accessed May 3, 2024. <https://www.bundesregierung.de/breg-en/federal-government/structure-and-tasks-470508>.

Presse- und Informationsamt der Bundesregierung. "Wirtschaftshilfen Während Corona-Pandemie." *Bundesregierung.de*, April 4, 2023. Accessed May 6, 2024. <https://www.bundesregierung.de/breg-de/suche/corona-hilfen-2183124>.

Puglierin, Jana. "For NATO to Thrive, Europe Needs to Wake Up." *Internationale Politik Quarterly*, no. 2/2024 (April 30, 2024). <https://ip-quarterly.com/en/nato-thrive-europe-needs-wake>.

Remington, Thomas F. "Public-Private Partnerships in VET: Translating the German Model of Dual Education." *Working Papers of Institute of Education*, 2017. <https://ioe.hse.ru/data/2017/12/04/1161471095/Remington%20T.F..pdf>.

reuters. "German Advisory Council Floats Debt Brake Reform After Budget Mess." *Reuters*, January 30, 2024. Accessed May 6, 2024. <https://www.reuters.com/world/europe/german-advisory-council-floats-debt-brake-reform-after-budget-mess-2024-01-30/>.

Ross, Jacob and Deutsche Gesellschaft für Auswärtige Politik e. V. "Frankreichs „Pivot to Europe“." *POLICY BRIEF*. Vol. Nr. 5, March 2024. https://dgap.org/system/files/article_pdfs/DGAP%20Policy%20brief%20Nr-5_Maerz-2024_8S.pdf.

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung. "Energiekrise Beschleunigt Strukturwandel, Breite Deindustrialisierung Aber Nicht Zu Erwarten." Sachverständigenrat Für Wirtschaft, November 9, 2022. Accessed May 2, 2024. <https://www.sachverstaendigenrat-wirtschaft.de/presse/details/jahresgutachten-2022-pressemitteilung-kapitel-5.html>.

Senius, Kay, Wolfgang Höffken, Landesbüro Sachsen-Anhalt, Friedrich-Ebert-Stiftung, and Sebastian Hartmann. "Kohleausstieg Und Strukturwandel in Sachsen-Anhalt." Edited by Robert Kreuzsch, Pellens Kommunikationsdesign GmbH, and Druckerei Brandt GmbH. Friedrich-Ebert-Stiftung, 2020. Accessed May 2, 2024. <https://library.fes.de/pdf-files/bueros/sachsen-anhalt/17149.pdf>.

Shapiro, Jeremy. "Why America? The US Role in European Defense and the European Mind | Chaire Grands Enjeux Stratégiques Contemporains," March 18, 2019. Accessed May 8, 2024. <https://chairestrategie.pantheonsorbonne.fr/themes/2019/why-america-us-role-european-defense-and-european-mind>.

Sorgi, Gregorio, Bjarke Smith-Meyer, Giorgio Leali, and Lucia Mackenzie. "EU Countries Reach Deal on National Spending Rules Reform." *POLITICO*, December 21, 2023. Accessed May 7, 2024.

<https://www.politico.eu/article/eu-countries-reach-deal-on-national-spending-rules/>.
 Statistisches Bundesamt. "Erwerbstätige in Deutschland Nach Wirtschaftsbereichen 2023." Statista, February 19, 2024. Accessed April 4, 2024.
<https://de.statista.com/statistik/daten/studie/1248/umfrage/anzahl-der-erwerbstaetigen-in-deutschland-nach-wirtschaftsbereichen/>.
 Statistisches Bundesamt. "Foreign Trade." Accessed April 10, 2024.
https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/_node.html#sprg266728.
 Statistisches Bundesamt. "Importe Aus Russland Im Februar 2023 Um 91,0 % Niedriger Als Im Vorjahresmonat." Press release. Statistisches Bundesamt, April 13, 2023. Accessed May 3, 2024.
https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/04/PD23_146_51.html.
 Statistisches Bundesamt. "PISA-Studie 2022." destatis.de. Accessed May 5, 2024.
<https://www.destatis.de/DE/Themen/Laender-Regionen/Internationales/Thema/bevoelkerung-arbeit-soziales/bildung/PISA2022.html>.
 Statistisches Bundesamt "Ranking of Germany's Trading Partners in Foreign Trade." *destatis.de*, April 18, 2024. https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/Tables/order-rank-germany-trading-partners.pdf?__blob=publicationFile.
 Statistisches Bundesamt. "Verteilung Der Bruttowertschöpfung Nach Wirtschaftszweigen 2023 | Statista." Statista, February 23, 2024. Accessed April 4, 2024.
<https://de.statista.com/statistik/daten/studie/252123/umfrage/anteil-der-wirtschaftszweige-an-der-bruttowertschoepfung-in-deutschland/>.
 Statistisches Bundesamt, "Berufliche Bildung," destatis.de accessed May 9, 2024,
https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bildung-Forschung-Kultur/Berufliche-Bildung/_inhalt.html.
 Statistisches Bundesamt, "Bevölkerungsstand," destatis.de, accessed April 16, 2024,
https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Bevoelkerungsstand/_inhalt.html.
 Strupczewski, Jan. "EU should consider joint borrowing for defence, economic security." *Reuters*, March 12, 2024. Accessed May 6, 2024. <https://www.reuters.com/world/europe/eu-should-consider-joint-borrowing-defence-economic-security-spain-2024-03-12/>.
 tagesschau.de. "Löhne Und Gehälter Sind Hoch Mit Steuern Und Abgaben Belastet." *tagesschau.de*, July 26, 2023. Accessed May 7, 2024. <https://www.tagesschau.de/wirtschaft/verbraucher/oecd-steuern-abgaben-deutschland-100.html>.
 The Economist. "Why Do Nvidia's Chips Dominate the AI Market?" *The Economist*, February 27, 2024. Accessed May 1, 2024. <https://www.economist.com/the-economist-explains/2024/02/27/why-do-nvidias-chips-dominate-the-ai-market>.
 The World Bank. "Data for Germany, Euro area, OECD members." World Bank Open Data. Accessed May 3, 2024. <https://data.worldbank.org/?locations=DE-XC-OE>.
 The World Bank. "Manufacturing, Value Added (% of GDP) - United States, Germany, United Kingdom." Data set, n.d. <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=US-DE-GB>.
 The World Bank. "World Bank Open Data." Accessed May 1, 2024. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=DE-GB-US-JP>.
 United Nations Industrial Development Organization. "Industrial Development Report 2022. The Future of Industrialization in a Post-Pandemic World," 2022. <https://www.unido.org/sites/default/files/files/2021-11/IDR%202022%20-%20EBOOK.pdf>.
 Vereinte Dienstleistungsgewerkschaft. "Mit Kurzarbeit Und Kurzarbeitergeld Durch Jede Krise." *ver.di*, June 3, 2023. Accessed May 7, 2024. <https://www.verdi.de/themen/arbeit/++co++9cba96a2-6ed1-11ec-a37e-001a4a160129>.
 Ward-Glenton, Hannah. "Recession-hit Germany Is Facing a Flurry of Global Headwinds, Goldman Sachs Says." *CNBC*, September 19, 2023. Accessed May 5, 2024. <https://www.cnbc.com/2023/09/19/recession-hit-germany-is-facing-a-flurry-of-global-headwinds-goldman-sachs.html>.
 Weber, Alexander. "German Economy to Stay Stuck Around Pre-Covid Level in 2024." *Bloomberg.Com*, March 27, 2024. <https://www.bloomberg.com/news/articles/2024-03-27/german-economy-to-remain-stuck-around-pre-covid-level-this-year>.
 Weinlich, Silke, and Max-Otto Baumann. "Germany's Funding to the UNDS: Towards a Better Mix for Stronger Multilateralism." *Analysen Und Stellungnahmen 14/2020*, 2020. <https://www.idos->

research.de/uploads/media/BP_17.2020.pdf.

Westphal, Dirk. "Wie Angela Merkel Die Politik in Deutschland Verändert Hat - Politik | Politik&Kommunikation." *Politik & Kommunikation*, October 18, 2021. Accessed May 6, 2024.

<https://www.politik-kommunikation.de/politik/wie-angela-merkel-die-politik-in-deutschland-veraendert-hat/>.

Winde, Michel, Michael Fischer, and Laura Dubois. "„Deutscher Egoismus“: Scholz Eckt in EU Mit „Doppelwumms“ An." *Süddeutsche.de*, October 7, 2022. Accessed May 4, 2024.

<https://www.sueddeutsche.de/politik/gipfel-in-prag-deutscher-egoismus-scholz-eckt-in-eu-mit-doppelwumms-an-dpa.urn-newsml-dpa-com-20090101-221007-99-36659>.

Wissenschaftliche Dienste des Deutschen Bundestags. "Managerkultur-Vergleich Zwischen Den USA Und Deutschland." *Bundestag.De*, April 6, 2017.

<https://www.bundestag.de/resource/blob/505890/9d05601a6928781430adfc7a713fcd42/WD-5-028-17-pdf.pdf>.

Wolff, Guntram, and Alexander Roth. "Understanding (the Lack of) German Public Investment." Bruegel | the Brussels-based Economic Think Tank, June 19, 2018. Accessed May 5, 2024.

<https://www.bruegel.org/blog-post/understanding-lack-german-public-investment>.

Wrobel, Ralph M. "Das Modell „Soziale Marktwirtschaft“: Chancen Im Internationalen Systemwettbewerb Zwischen Freier Marktwirtschaft Und Chinesischem Staatskapitalismus." Vol. 2020–4, April 2020. Accessed May 8, 2024. <http://ordnungspolitisches-portal.com/wp-content/uploads/2020/11/2020-4-WROBEL-Modell-Soziale-Marktwirtschaft.pdf>.

Zahneisen, Thomas. "Statement of Germany During the UN Security Council Open Debate on 'Peace Through Dialogue: The Contribution of Regional, Sub-regional and Bilateral Arrangements to the Prevention and Peaceful Resolution of Disputes.'" United States of America, October 23, 2023.

<https://new-york-un.diplo.de/un-en/-/2627942>.

zdf heute. "Studie: Ampel-Regierung Setzt Bereits Viele Vorhaben Um." *ZDFheute*, September 12, 2023.

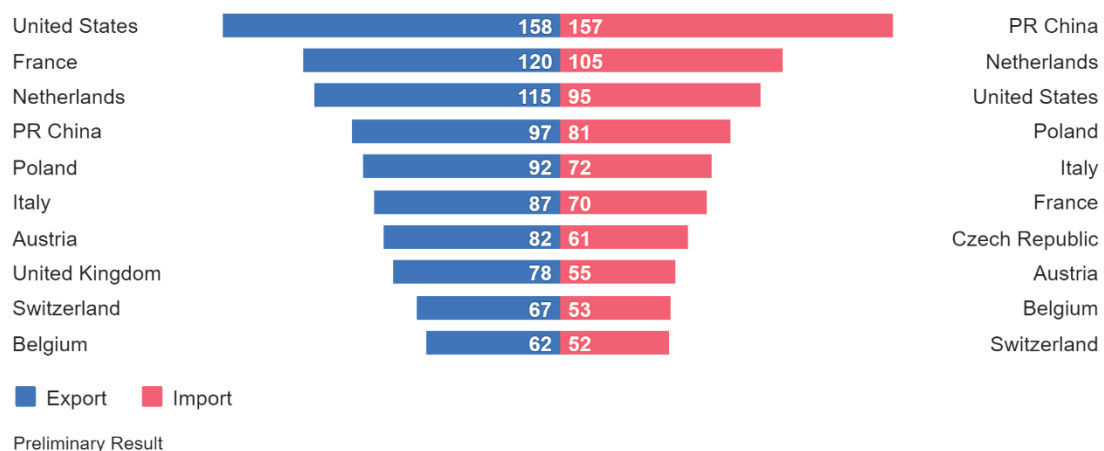
Accessed May 6, 2024. <https://www.zdf.de/nachrichten/politik/deutschland/ampel-koalition-versprechen-streit-studie-100.html>.

Zhou, Li. "AfD Germany: The Dangerous Resurgence of the Country's Far Right, Explained." *Vox*, March 12, 2024. Accessed April 17, 2024. <https://www.vox.com/world-politics/2024/3/12/24080074/germany-afd-far-right>.

Zimmermann, Antonia, and Louise Guillot. "The EU Compromise Machine Is Breaking — and Everyone's Blaming Germany." *POLITICO*, April 2, 2024. Accessed May 1, 2024. <https://www.politico.eu/article/eu-compromise-blame-germany-legislation-election>

Appendix

Figure 1 - Major German Trading Partners



© Statistisches Bundesamt (Destatis), 2024

Source: Statistisches Bundesamt, "Foreign Trade," accessed April 10, 2024, https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/_node.html#sprg266728.

Hong Kong

Chiu Yuk Cheng

I. Country Economic Structure

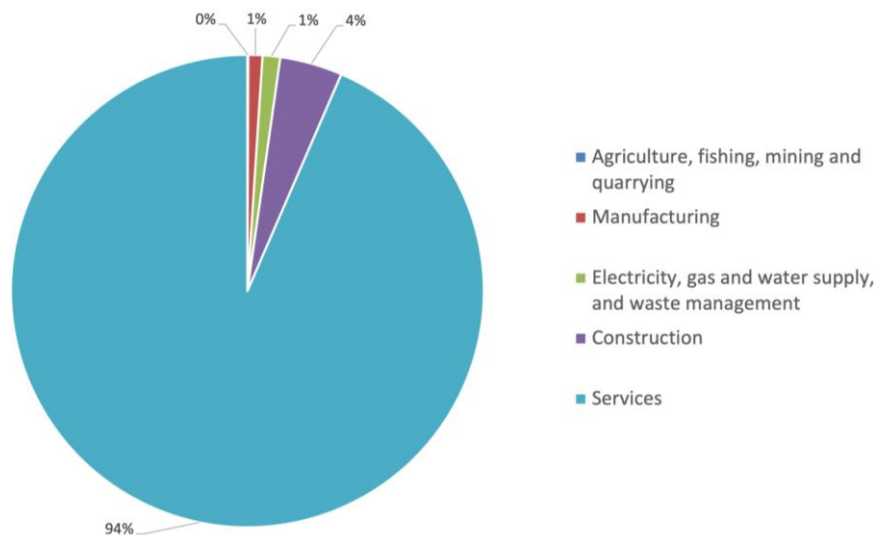
Hong Kong, officially Hong Kong Special Administrative Region, is a coastal city located on the southern coast of China. It is one of the most developed economies in the world, generating GDP(PPP) Per Capita of USD 69,072 in 2022, ranked 16th in the world.¹³¹ To understand how Hong Kong has achieved its economic success, I shall begin by presenting its distinctive economic structure and key organizational factors.

Heavy dependency on tertiary industry

Hong Kong has a land area of 1,115 km²,¹³² possessing virtually no natural resources for generating significant economic output. However, its warm and deep harbor, as well as its proximity to Mainland China, have brought significant advantages for entrepôt trade business.

Figure 1: Hong Kong GDP by Economic Activity in 2022 ¹³³

In light of the shortage in natural resources and outstanding edge of geography, virtually none of



Hong Kong's economy is contributed by primary and secondary sectors. Most of the economic activities are in the tertiary sector, with a share of 93.5% of the total GDP. The most thriving industries in the sector are the financial services industry, as well as the import and export trade industry, contributing 22.4% and 15.7% of total GDP respectively.¹³⁴

¹³¹ World Bank Group, "GDP per capita, PPP (current international \$)". https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?most_recent_value_desc=true&year_high_desc=true. Accessed 1 May 2024.

¹³² GovHK, "Hong Kong – the Facts". <https://www.gov.hk/en/about/abouthk/facts.htm>. Accessed 1 May 2024.

¹³³ Census and Statistics Department, "Table 310-34101 : Gross Domestic Product (GDP) by economic activity at current prices". https://www.censtatd.gov.hk/en/web_table.html?id=310-34101. Accessed 1 May 2024.

¹³⁴ Census and Statistics Department, "Table 310-34101 : Gross Domestic Product (GDP) by economic activity at current prices". https://www.censtatd.gov.hk/en/web_table.html?id=310-34101. Accessed 1 May 2024.

Unique system from China

Hong Kong is a city of the People's Republic of China. However, Hong Kong has a separate economic system and governance framework from that in Mainland China, granted by the Basic Law after the Handover to China in 1997. According to the law, Hong Kong can retain its political and 'capitalist' economic system that was established by British Hong Kong. This principle is known as "One Country, Two Systems".¹³⁵

As such, Hong Kong can enjoy administrative, legislative, and judicial autonomy. The most significant difference between Hong Kong and China is arguably embedded in the legal system. While China adopts largely a codified law system, Hong Kong has a common law system, following the British practice. Such difference brings in comparative institutional advantages, like allowing formal contracting, benefitting Hong Kong's business environment, and attracting foreign businesses.

Open and free economy

Since the occupation of Hong Kong in 1841, British Hong Kong has set itself as a free port. Today, Hong Kong is well known as one of the freest economies in the world. It ranks 2nd in the League of Economic Freedom of the World Index, just behind Singapore for the first time in 2023.¹³⁶

Hong Kong government has long been committed to the philosophy of "Positive non-interventionism", or most recently "Big Market, Small Government", asserting minimal intervention to the market as much as possible and putting great trust in the market mechanism.¹³⁷ In reality, there have been interventions in imperfect markets in ways of regulations and policy introduction. Hence, Hong Kong is not entirely a laissez-faire economy, as we will see in a later section.

Capitalism of Hong Kong

Having loose government intervention and a dominant free market, the capitalism of Hong Kong possesses mostly the characteristics of a Liberal Market Economy, according to the *Varieties of Capitalism* approach.¹³⁸ Such categorisation shall be further justified as we will see later in Hong Kong macroeconomic and microeconomic policy.

Apart from the Liberal Market Economy, another description of capitalism in Hong Kong is suggested as Middleman Capitalism,¹³⁹ having included the geopolitical and historical context that Hong Kong economy and institutions have been built upon, thus shaping its unique capitalism. Thanks to its effective Western institutions, proximity to China, and native Chinese culture, Hong Kong has been playing the role of a 'middleman' between the globe and China in modern history, acting as an intermediary of goods traded and transported between the two markets. Such location has shaped Hong Kong's economy to mainly serving, and being highly dependent on international trade business, contributing to its remarkable economic prosperity in the past decades.

II. Macroeconomic Policy

The principles of "Big Market, Small Government" and Middleman Capitalism model together forge Hong Kong macroeconomic policy. The policies to be discussed are trade policy, fiscal policy, and monetary policy.

¹³⁵ GovHK, "Basic Law". <https://www.basiclaw.gov.hk/en/basiclaw/chapter1.html>. Accessed 1 May 2024.

¹³⁶ Shan, Lee Ying, "Singapore is now the world's freest economy", displacing Hong Kong after 53 years". CNBC, 21 September 2021, <https://www.cnbc.com/2023/09/22/singapore-is-now-the-worlds-freest-economy-displacing-hong-kong.html>. Accessed 1 May 2024.

¹³⁷ Tsang, Donald, "Big Market, Small Government". <https://www.ceo.gov.hk/archive/2012/eng/press/oped.htm>. Accessed 1 May 2024.

¹³⁸ Hall, P.A., and Soskice, D., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press, 2001.

¹³⁹ Hui, Po-Keung, *Comprador Politics and Middleman Capitalism*, In Ngo, Tak-Wing (Ed.), *Hong Kong's History: State and Society Under Colonial Rule*, Routledge, 1999, pp 30-45.

Trade policy

As enshrined in Basic Law, Hong Kong SAR is a separate customs territory from Mainland China,¹⁴⁰ following a separate trade policy, which is fairly free and has a very low trade barrier.

No customs tariffs are charged on the goods imported into or exported from Hong Kong. Only a few licenses of goods are required. According to *Economic Freedom of the World: 2023 Annual Report* published by Fraser Institute, Hong Kong scored 10 and 9.41 in ratings on “Tariffs” and “Regulatory Trade Barriers” respectively in a 10-mark scale, recognizing the friendliness of Hong Kong trade policy.¹⁴¹ As a result, the free flow of goods can be achieved and favors international trade business.

Fiscal policy

Following the principle of “Big Market, Small Government”, Hong Kong has a relatively small size of government expenditure, which only accounts for 13.2% of the total GDP in 2023.¹⁴² In the 2024-2025 fiscal year, the revenue of government was mainly derived from taxation, investment income and land premiums. The main expenditures are social welfare, healthcare, education, and infrastructure.¹⁴³

Hong Kong's government adopts a low and simple tax regime. For example, there are only 3 direct taxes in Hong Kong, namely profit tax, salaries tax, and property tax.¹⁴⁴ In 2020, accounting firm PwC and World Bank ranked Hong Kong as the 2nd most friendly taxation system in the world, rated in terms of the ease of paying tax and the amount of tax payable.¹⁴⁵ Such a tax regime not only consolidates its advantage as a regional entrepôt, but also creates a favorable business environment in Hong Kong and attracts foreign investment from Mainland China.

Despite that, government revenue is mostly contributed by taxation, and land premium is another pillar of public finance, which is the weaknesses Hong Kong government has long been facing and pose a threat to the health of government financing. On average about 11% of government revenues are derived from land premiums in the last decade.¹⁴⁶ Other land-related revenues include stamp duties from transaction of property, general rates, property tax, and properties and investments.¹⁴⁷ These revenues are closely linked to property sector, which is cyclical, interest rate sensitive, and highly fluctuating.

Figure 3: Change in Land Premium and Change in Government Revenue over last 10 years ¹⁴⁸

¹⁴⁰ GovHK, “Basic Law”. <https://www.basiclaw.gov.hk/en/basiclaw/chapter1.html>. Accessed 1 May 2024.

¹⁴¹ Gwartney, James, and Lawson, Robert, and Murphy, Ryan et al., *Economic Freedom of the World: 2023 Annual Report*, Fraser Institute, 2023. <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2023.pdf>. Accessed 1 May 2024.

¹⁴² Census and Statistics Department, “Table 310-31006 : Ratio of major expenditure components to Gross Domestic Product (GDP) at current market prices ”. https://www.censtatd.gov.hk/en/web_table.html?id=310-31006. Accessed 1 May 2024.

¹⁴³ The 2024-25 Budget, “Public Finance”. <https://www.budget.gov.hk/2024/eng/pf.html>. Accessed 1 May 2024.

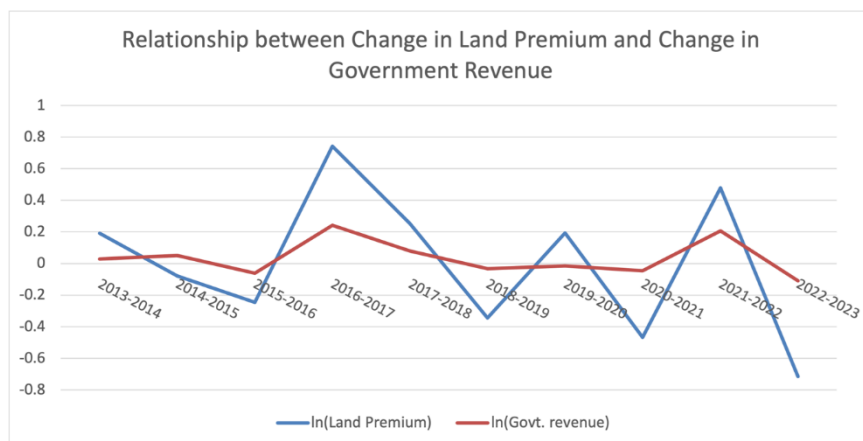
¹⁴⁴ InvestHK, “Low, Simple and Competitive Tax System”. <https://www.investhk.gov.hk/en/why-hong-kong/low-simple-and-competitive-tax-system/>. Accessed 1 May 2024.

¹⁴⁵ PwC, “Paying Taxes 2020: overall ranking and data tables”. 2020. <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/overall-ranking-and-data-tables.html>. Accessed 1 May 2024.

¹⁴⁶ Lok-Kei, Sum. “Hong Kong land sales wobble, exposing cracks in city's finances.” *The Guardian*, 22 November 2023, <https://www.theguardian.com/world/2023/nov/22/hong-kong-land-sales-wobble-exposing-cracks-in-citys-finances>. Accessed 1 May 2024.

¹⁴⁷ Census and Statistics Department, “Table 340-47011 : Government revenue (General Revenue Account and the Funds)”. https://www.censtatd.gov.hk/en/web_table.html?id=340-47011#. Accessed 1 May 2024.

¹⁴⁸ Census and Statistics Department, “Table 340-47011 : Government revenue (General Revenue Account and the Funds)”. https://www.censtatd.gov.hk/en/web_table.html?id=340-47011#. Accessed 1 May 2024.



Such high dependency on the property market not only has increased uncertainties in public finances, but also fueled the already overheating housing market in Hong Kong. It is reasonably assumed that a loosely controlled and booming property market will strengthen public finances by boosting government income. The city has been notoriously regarded as the least affordable housing market in the world, studied by *Demographia* in its report *International Housing Affordability 2023*.¹⁴⁹ This has resulted in awkward dilemmas as when the government attempted to implement housing policy and intervene the market, which will be discussed in later section.

Monetary policy

Like any other aspect, Hong Kong has an independent monetary system and policy from that in China. Hong Kong issues its own currency, Hong Kong Dollar (HKD), and adopts a linked exchange rate regime, pegging HKD to USD at a fixed rate of 1 USD to 7.8 HKD.

To manage a separate monetary system, Hong Kong has established its own central bank as well, namely Hong Kong Monetary Authority (HKMA). HKMA practices 4 main functions: promoting the safety of Hong Kong's banking system, managing Hong Kong's official reserves, maintaining and developing Hong Kong's financial infrastructure, and maintaining the stability of the Hong Kong dollar.¹⁵⁰

HKMA intervenes in the foreign exchange market when HKD to USD rate breaches the corridor of 7.75 or 7.85, through open market operation, that is by selling USD reserves to buy HKD if HKD is valued below 7.75, or vice versa if it is valued above 7.85. By impacting foreign exchange market supply and demand, HKMA can stabilize the USD-HKD peg at the desired fixed rate.¹⁵¹

The nature of the linked exchange rate system requires HKMA to consistently maintain an adequate amount of foreign reserve in case intervention is needed, adding a burden on the maintenance of Hong Kong financial stability. If HKMA lacks sufficient foreign reserves for open market operation while meeting a market demand shock, the USD-HKD peg would easily collapse, severely devastating the monetary system in Hong Kong. Such market shock could be initiated by speculative attacks like in 1997 Asian Financial Crisis. Led by George Soros and other speculators, the attack attempted to drain out HKMA foreign reserves and aimed to profit from the collapse of HKD.¹⁵² Though Hong Kong successfully defended its monetary system back then, the vulnerability in its nature remains a concern and potential threat to HKMA and Hong Kong financial stability.

¹⁴⁹ Urban Reform Institute and Frontier Centre for Public Policy, *Demographia International Housing Affordability: 2023 Edition*, 2023. <http://www.demographia.com/dhi.pdf>. Accessed 1 May 2024.

¹⁵⁰ Hong Kong Monetary Authority. "About Us". <https://www.hkma.gov.hk/eng/about-us/the-hkma/>. Accessed 1 May 2024.

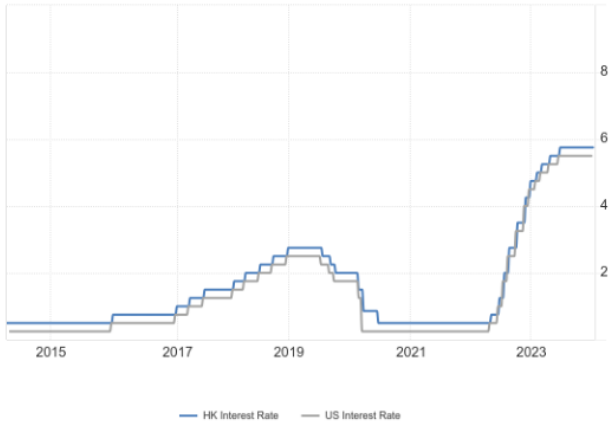
¹⁵¹ Hong Kong Monetary Authority. "How Does the LERS Work?". <https://www.hkma.gov.hk/eng/key-functions/money/linked-exchange-rate-system/how-does-the-lers-work/>. Accessed 1 May 2024.

¹⁵² Yiu, Enoch, "Exchange Fund: how US\$574 billion war chest defeated Soros, defended Hong Kong dollar peg in post-handover financial crises." *South China Morning Post*, 23 June 2022. <https://www.scmp.com/business/article/3182687/exchange-fund-how-us574-billion-war-chest-defeated-soros->. Accessed 1 May 2024.

Apart from the necessary holding of foreign reserves in great amounts and the vulnerability behind it, Hong Kong's monetary policy also lacks autonomy and flexibility in policymaking. Impossible Trilemma is a concept that explains an economy cannot achieve free flow of capital, fixed exchange rate, and independent monetary policy all at once, but needs to forgo one of the objectives.¹⁵³ Since Hong Kong has established no capital control and a fixed exchange rate regime, it cannot have the autonomy to formulate an independent monetary policy, like setting interest rate autonomously.

Figure 4: Hong Kong and US Interest Rates over the last 10 years ¹⁵⁴

Source: tradingeconomics.com



To maintain a stable currency rate of HKD/USD pair, Hong Kong must keep a constant interest rate differential with the United States. Whenever the Federal Reserve Board, the central bank governor in the United States, changes interest rates, HKMA has to follow suit and change domestic interest rates in the same direction and amplitude. Changing monetary policy without considering domestic economic conditions, like inflation and unemployment, could bring damage to local productivity and introduce unnecessary turbulence in the economy, particularly in the property market.¹⁵⁵

III. Microeconomic Policy

Though markets in Hong Kong are largely free and away from government intervention, this is not always the case for some specific fields. These visible hands are carried out as microeconomic policies to facilitate and regulate markets in public utilities, housing, labour, welfare, healthcare and others.

Public Utilities

Privatisation of public utilities was already implemented in Hong Kong since British rule. There are two main types of privatisation in Hong Kong. The first type is outsourcing public utilities to private corporations. Industries like electricity and gas were established by domestic private companies and have never been acquired by the government.

The second type of privatisation is privatising public utilities and sharing their ownership with private shareholders. In Hong Kong, railways service is provided by MTR Corporation, an entity that started as state-owned and then privatised. Hong Kong Government is the largest shareholder, possessing 74.54% of the shares.¹⁵⁶

These privatised public services are still under regulation. The government has correspondingly drafted

¹⁵³ Aizenman, Joshua, The Impossible Trinity (aka The Policy Trilemma), UCSC and the NBER, 2010. https://web.pdx.edu/~ito/Tril_Aizenman_Dic.pdf. Accessed 1 May 2024.

¹⁵⁴ Trading Economics, <https://tradingeconomics.com/hong-kong/interest-rate>. Accessed 1 May 2024.

¹⁵⁵ Ao, Yu-Lu, "Hong Kong home sales sink to 33-year low in 2023 amid high interest rates as sector sees glimmers of rebound in December." South China Morning Post, 3 January 2024, <https://www.scmp.com/business/china-business/article/3247049/hong-kong-home-sales-sink-33-year-low-2023-amid-high-interest-rates-sector-sees-glimmers-rebound>. Accessed 1 May 2024.

¹⁵⁶ MTR, "Share Information". <https://www.mtr.com.hk/en/corporate/investor/shareservices.html>. Accessed 1 May 2024.

ordinances, and stipulated authorities like the Transport Department, to specially regulate these public utilities companies for their significant stake in social stability and welfare.

Housing

Hong Kong has been notoriously known as having the least affordable housing market in the world.¹⁵⁷ Two major interventions were therefore attempted to improve equity in housing, normalising the abnormal pricing.

The first is to provide more affordable public housing as a substitute for expensive private housing. These flats are rented HKD 2500 lower than the private apartments with equivalent conditions on average.¹⁵⁸ As such, it has become the most popular housing in Hong Kong, accommodating over 30% of the population.¹⁵⁹

The second is to implement price cooling measures. For example, Buyer Stamp Duty (BSD) is charged on certain buyers with up to 15% of the property price, such as corporations and non-permanent residents. Special Stamp Duty (SSD) is also charged on sellers who resell their property within 3 years, up to 20% of the property price.¹⁶⁰

However, the property market is one of the most important constituents of the economy, acting as the main pool of wealth of domestic households, as well as the major source of government income. Hence, pricing cooling policies were never too harsh to avoid slumping house prices, thus limiting the effectiveness of those measures. A study has found that these measures only significantly impacted the quantity of trades rather than the housing price.¹⁶¹

On Feb 28, 2024, all these price cooling policies were scrapped in order to support the property market amid a weak economic environment.¹⁶² This evidenced the difficulty in restoring the pricing to an affordable level in the private housing market, due to the parasitical dependency of the whole economy to the property market solely.

Social Welfare

Social welfare schemes are provided to support the living quality of socially disadvantaged minorities. For example, Old Age Living Allowance is granted to elderly people, and Comprehensive Social Security Assistance is eligible for low-income residents. Social insurance is established to support living after retirement, namely the Mandatory Provident Fund.

Labour

Under the "Employment Ordinance", labour rights and benefits are protected such as 7 to 14 days annual leave, 14 weeks maternity leave, prohibition of unjustified dismissal etc.¹⁶³ The minimum wage is now set as HKD 40 per hour,¹⁶⁴ which is reviewed every 2 years in accordance with the current economic condition.

¹⁵⁷ Urban Reform Institute and Frontier Centre for Public Policy, Demographia International Housing Affordability: 2023 Edition, 2023. <http://www.demographia.com/dhi.pdf>. Accessed 1 May 2024.

¹⁵⁸ Vetter, David. "How Hong Kong's public housing system works: costs, waiting times and sales." South China Morning Post, 19 January 2019, <https://www.scmp.com/news/hong-kong/society/article/2182106/why-public-housing-shortfall-will-remain-thorn-hong-kongs>. Accessed 1 May 2024.

¹⁵⁹ Census and Statistics Department, "Table 130-06603 : Domestic households by type of housing". https://www.censtatd.gov.hk/en/web_table.html?id=130-06603. Accessed 1 May 2024.

¹⁶⁰ HKWJ Tax Law & Partners, "Hong Kong Stamp Duty Guide". <https://www.hkwj-taxlaw.hk/hong-kong-stamp-duty-guide/>. Accessed 1 May 2024.

¹⁶¹ Hu, Meng-Na, The impact of cooling measures : evidence from Hong Kong residential re-sale market, Lingnan University, 2017. https://commons.in.edu.hk/cgi/viewcontent.cgi?article=1031&context=econ_etd. Accessed 1 May 2024.

¹⁶² Arcibal, Cheryl, "Hong Kong home prices rise for first time in 11 months as removal of cooling measures boosts demand." South China Morning Post, 26 April 2024, <https://www.scmp.com/business/article/3260417/hong-kong-home-prices-rise-first-time-11-months-removal-cooling-measures-boosts-demand>. Accessed 1 May 2024.

¹⁶³ Labour Department, "A Concise Guide to the Employment Ordinance". <https://www.labour.gov.hk/eng/public/ConciseGuide.htm>. Accessed 1 May 2024.

¹⁶⁴ Labour Department, "Statutory Minimum Wage". <https://www.labour.gov.hk/eng/news/mwo.htm>. Accessed 1 May 2024.

There are still numerous shortcomings in the existing labour policy, weakening labour protection and welfare. For instance, labour in Hong Kong is not granted the right to collective bargaining by law, which is recognised as the fundamental labour right in many other advanced economies, like the European Union.¹⁶⁵ The unbalance in the bargaining power of labour against firms has undermined the welfare of general labour in Hong Kong. In 2022, Hong Kong is regarded as the 2nd most overworked city, and ranks 8th for having the least work-life balance in the world.¹⁶⁶

Healthcare

The public healthcare system is established to provide quality medical service with affordable pricing. For outpatient service, public hospital charges HKD 50 for eligible permanent residents, while private hospital charges a range from HKD 180 to HKD 1,300.¹⁶⁷

However, the system has been consistently facing incapability due to surging demand for medical services, staff shortages, and an underdeveloped primary healthcare system.¹⁶⁸ According to data collected on 22 April 2024, 13 of the total 18 public hospitals required over 4 hours of queuing time to provide accident and emergency services.¹⁶⁹

Such overcapacity has pushed the government to propose initiatives, such as introducing foreign-trained medical doctors¹⁷⁰ and increasing openings of local medical schools,¹⁷¹ which are currently in radical debate. Schemes like the Elderly Health Care Voucher Pilot Scheme¹⁷² and the Voluntary Health Insurance Scheme¹⁷³ are introduced, prompting citizens to visit private hospitals with government subsidies, in the hope of relieving the burden of the public medical system and shifting it to private medical service providers.

Common Challenge

Figure 5: Countries and areas with the largest shares of people aged 65 years or over, 1980, 2021 and 2050
174

¹⁶⁵ European Union Agency for Fundamental Rights, Article 28 - Right of collective bargaining and action". <https://fra.europa.eu/en/eu-charter/article/28-right-collective-bargaining-and-action>. Accessed 1 May 2024.

¹⁶⁶ Kisi, "Work-Life Balance: Best Cities Worldwide in 2022.". <https://www.getkisi.com/work-life-balance-2022>. Accessed 1 May 2024.

¹⁶⁷ Alea, "Comparison of Private Hospital Costs in Hong Kong.", 28 March 2023. <https://alea.care/resources/how-much-do-private-hospitals-charge-in-hong-kong>. Accessed 1 May 2024.

¹⁶⁸ Schoeb, Veronika, "Healthcare Service in Hong Kong and its Challenges: The Role of Health Professionals within a Social Model of Health", 2016. <https://journals.openedition.org/chinaperspectives/7118>. Accessed 1 May 2024.

¹⁶⁹ Hospital Authority, "A&E Waiting Time".

https://www.ha.org.hk/visitor/ha_visitor_index.asp?Content_ID=235504&Lang=ENG#. Accessed 22 April 2024.

¹⁷⁰ Chu, Ken, "Relaxing the rules on doctors trained overseas will ease Hong Kong's shortages, but only in the short term." South China Morning Post, 10 February 2021, <https://www.scmp.com/comment/opinion/article/3121053/relaxing-rules-doctors-trained-overseas-will-ease-hong-kongs>. Accessed 1 May 2024.

¹⁷¹ Cheung, Elizabeth, "Hong Kong's 2 medical schools say they can expand to take on 100 more students a year each to help solve healthcare staffing problems." South China Morning Post, 18 January 2024, <https://www.scmp.com/news/hong-kong/health-environment/article/3248947/hong-kongs-two-medical-schools-say-they-can-expand-take-100-more-students-year-help-solve>. Accessed 1 May 2024.

¹⁷² Health Care Voucher, "Background". <https://www.hcv.gov.hk/en/hcvs/background.html>.

<https://www.hcv.gov.hk/en/hcvs/background.html>. Accessed 1 May 2024.

¹⁷³ Voluntary Health Insurance Scheme, "About VHIS". https://www.vhis.gov.hk/en/about_us/scheme.html. Accessed 1 May 2024.

¹⁷⁴ United Nations, World Social Report 2023: Leaving No One Behind in An Ageing World, 2023.

https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesas_pd_2023_wsr-fullreport.pdf. Accessed 1 May 2024.

RANK	1980		2021		2050	
	COUNTRY OR AREA	PERCENTAGE AGED 65 YEARS OR OVER	COUNTRY OR AREA	PERCENTAGE AGED 65 YEARS OR OVER	COUNTRY OR AREA	PERCENTAGE AGED 65 YEARS OR OVER
1	Sweden	16.3	Japan	29.8	China, Hong Kong, SAR of China	40.6
2	Germany	15.7	Italy	23.7	Republic of Korea	39.4
3	Austria	15.4	Finland	22.9	Japan	37.5
4	United Kingdom	14.9	Portugal	22.6	Italy	37.1
5	Norway	14.8	Greece	22.5	Spain	36.6
6	Belgium	14.4	Bulgaria	22.4	China, Taiwan, Province of China	35.3
7	Denmark	14.4	Puerto Rico	22.4	Greece	34.8
8	France	14.0	Germany	22.2	Portugal	34.5
9	Switzerland	13.8	Martinique	22.1	Singapore	34.2
10	Luxembourg	13.6	Croatia	22.0	Kuwait	33.6

Source: United Nations (2022a).

Note: For countries and areas with a population of 90,000 or more by mid-2021.

Hong Kong is one of the economies facing the most acute aging problem in the world. By estimate, the city will have the world's oldest population by 2050, with around 40.6% of the population aged 65 or above.¹⁷⁵ Meanwhile, Hong Kong currently has the lowest fertility rate, which is 0.8 children per woman.¹⁷⁶ The aging population will boost demand for microeconomic support, such as social welfare and healthcare, meanwhile, the diminished productivity will dampen the economy. As such, the income for the government to support will inevitably decrease, making it more difficult to maintain and renovate various microeconomic policies. This will jeopardise the sustainability of these policies and a crisis of governance may emerge.

IV. International Economic Integration

As a regional entrepôt, Hong Kong's economy has been deeply integrated with the global trade network, shaping its Middleman Capitalism model. Nevertheless, the global economic shocks and geopolitical crises that emerged recently have posed threats to its ongoing strategy and position in the integration process. Trade relationships

Hong Kong is in extensive and deep trade relationship with the globe. It is a member of 4 major trade organisations, WTO, APEC, OECD, and PECC.¹⁷⁷ It also signed Free Trade Agreement (FTA) with 20 economies in the world.¹⁷⁸

Foreign Direct Investment (FDI)

Figure 3: Ranking of FDI inflows by country (2021) ¹⁷⁹

¹⁷⁵ Richter, Felix, "Countries and territories with the highest share of people aged 65 and older." Statista, 20 February 2024. <https://www.statista.com/chart/29345/countries-and-territories-with-the-highest-share-of-people-aged-65-and-older/>. Accessed 1 May 2024.

¹⁷⁶ World Bank Group, "Fertility rate, total (births per woman) - Hong Kong SAR, China". https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?most_recent_value_desc=false&locations=HK. Accessed 1 May 2024.

¹⁷⁷ CEDB, "Participation in International Organisations". <https://www.cedb.gov.hk/en/trade-and-investment/participation-in-international-organisations.html>. Accessed 1 May 2024.

¹⁷⁸ CEDB, "Hong Kong in Global Trade". <https://www.cedb.gov.hk/en/trade-and-investment/hong-kong-in-global-trade.html>. Accessed 1 May 2024.

¹⁷⁹ Yeung, Cheung, "Economic and Trade Information on Hong Kong", HKTDC, 30 April 2024. <https://research.hktdc.com/en/article/MzlwNjkzNTY5>. Accessed 1 May 2024.

All Countries and Economies			
Country	Most Recent Year	Most Recent Value (Millions)	
United States	2021	493,085.00	
China	2021	344,074.98	
Singapore	2021	138,544.18	
Hong Kong SAR, China	2021	137,191.25	
Germany	2021	95,903.99	

Hong Kong is the 4th largest FDI recipient in the world.¹⁸⁰ As of 2021, Hong Kong had assets under management worth USD 4,558 billion, the largest size in Asia.¹⁸¹

Moreover, around 65% of China's FDI inwards and outwards originated or intermediated via Hong Kong.¹⁸² This highlights the importance of Hong Kong's positioning as the middleman between China and global markets, contributing to the economic boom of China in recent decades.

Recent shocks

COVID-19: Too Strict Quarantine Rules

In 2019, the spread of the COVID-19 pandemic has resulted in an unprecedented crisis in global public health. Following China's "zero-COVID" policy, Hong Kong is one of the countries that had the toughest rules during the pandemic, including strict border control and a long quarantine period.¹⁸³

The harsh policy greatly damaged the condition of business operations, igniting criticisms from firms operating in Hong Kong. For instance, Jamie Dimon, the CEO of JP Morgan Chase & Co., criticised the tough quarantine rules for impeding international business communications, thus threatening the position of Hong Kong as a global and regional financial hub, and lifting up the difficulty in retaining talents.¹⁸⁴

Post-2019 Social Movement: Tighter Regulation and Controversial Laws

Hong Kong underwent a social rest in 2019, referred to as the Anti-extradition Bill Movement, which urged the government to stop proposing the law that allows extradition to countries or territories, including Taiwan and Mainland China in certain circumstances.¹⁸⁵ Fears have arisen that Mainland Chinese authorities may weaponize the law as a tool to extradite dissidents in Hong Kong, harming its freedom of speech and judiciary independence.¹⁸⁶

¹⁸⁰ Yeung, Cheung, "Economic and Trade Information on Hong Kong", HKTDC, 30 April 2024. <https://research.hktdc.com/en/article/MzlwNjkzNTY5>. Accessed 1 May 2024.

¹⁸¹ FSTB, "Asset and Wealth Management". https://www.fstb.gov.hk/en/financial_ser/asset-and-wealth-management.htm. Accessed 1 May 2024.

¹⁸² Hong Kong Monetary Authority. "Dominant Gateway to China". <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/dominant-gateway-to-china/>. Accessed 1 May 2024.

¹⁸³ Tsoi, Grace, and Hoskins, Peter, "Covid: Hong Kong to end controversial hotel quarantine policy", BBC News, 23 September 2022. <https://www.bbc.com/news/world-asia-63004249>. Accessed 1 May 2024.

¹⁸⁴ Bloomberg TV, "Dimon Says Hong Kong's Strict Quarantine Hurts Retention", 16 November 2021. <https://www.bloomberg.com/news/videos/2021-11-16/dimon-says-hong-kong-s-strict-quarantine-hurts-retention>. Accessed 1 May 2024.

¹⁸⁵ Legislative Council of Hong Kong, "Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill 2019". <https://www.legco.gov.hk/yr18-19/english/bills/b201903291.pdf>. Accessed 1 May 2024.

¹⁸⁶ BBC News, "The Hong Kong protests explained in 100 and 500 words", BBC, 28 November 2019.

The movement soon became an unprecedentedly huge and radical protest. On 30 June 2020, a law was passed by the Standing Committee of the National People's Congress, referred as Hong Kong National Security Law, as a means of resolving the protests in 2019 and restoring stability. The law criminalised separatism, subversion, terrorism, and foreign interference.¹⁸⁷

Many criticisms were commented the law as a violation on judiciary autonomy and civil rights, for possessing an ambiguous arbitrary nature. Beijing has power over how the law should be interpreted, but not by any Hong Kong judicial or political body. The law takes priority if it conflicts with any Hong Kong law. Besides, some trials will be heard behind closed doors. UK Foreign Secretary David Cameron commented that "It [National Security Law] has damaged Hong Kong, with rights and freedoms significantly eroded. Arrests under the law have silenced opposition voices."¹⁸⁸

Considering the legislation, foreign businesses had made reaction to manage the new compliance risk. For example, Deloitte and KPMG have asked some executives based in the US to use burner phones and avoid using their usual work phones during visits to Hong Kong due to security concerns.¹⁸⁹ Some foreign firms, worried about data security, are now treating Hong Kong in the same way as mainland China and shielding information about the rest of the company from teams there.¹⁹⁰ Google and OpenAI have also restricted access to their artificial intelligence chatbots in Hong Kong, concerning the exposure to risk of noncompliance of the law.¹⁹¹

Apart from businesses, foreign governments also changed their policies on Hong Kong in response to the establishment of the new law, catalysed by the recent tensions in the geopolitical climate. The most remarkable change in foreign policy was made by the United States, whose president at the time, Donald Trump, suspended the application of section 201(a) of the United States-Hong Kong Policy Act of 1992, which granted special treatment to Hong Kong. The decision was made claiming that Hong Kong "is no longer sufficiently autonomous to justify differential treatment in relation to the People's Republic of China under the particular United States laws and provisions thereof set out in this order" after the National Security Law was imposed by Beijing.¹⁹² The suspension includes special treatment of export control from on Mainland China. For example, some Nvidia display cards have been banned from exporting to HK which contain advanced technology.¹⁹³

Russian-Ukraine War: "White Gloves"

The outbreak of the full-scale Russia-Ukraine war in 2022 has changed the landscape of global trade and supply chain. A larger scale of sanctions has been imposed on Russian businesses and officials. Amid the crisis, Hong Kong played the role of "white glove" in serving Russian businesses and the military, assisting to help them evade Western sanctions imposed after the war. Russian companies are turning to

<https://www.bbc.com/news/world-asia-china-49317695>. Accessed 1 May 2024.

¹⁸⁷ Lam, Carrie, "Promulgation of National Law 2020", 30 June 2020. Accessed 1 May 2024.

<https://www.gld.gov.hk/egazette/pdf/20202444e/es220202444136.pdf>

¹⁸⁸ BBC News, "Hong Kong national security law: What is it and is it worrying?" BBC, 19 March 2024.

<https://www.bbc.com/news/world-asia-china-52765838>. Accessed 1 May 2024.

¹⁸⁹ Financial Times, "Deloitte and KPMG ask staff to use burner phones for Hong Kong trips", 27 November 2023.

<https://www.ft.com/content/eace699c-ce75-485b-ac14-e6c10375fdcc>. Accessed 1 May 2024.

¹⁹⁰ Pomfret, James, and Torode, Greg, "Wary of new security law, foreign firms in Hong Kong bolster contingency plans." Reuters, 21 March 2024, <https://www.reuters.com/markets/asia/wary-new-security-law-foreign-firms-hong-kong-bolster-contingency-plans-2024-03-21/>. Accessed 1 May 2024.

¹⁹¹ Feiner, Lauren, "Google, OpenAI limit chatbots in Hong Kong amid China tensions: report." CNBC, 12 June 2023, <https://www.cnbc.com/2023/06/12/google-openai-limit-chatbots-in-hong-kong-amid-china-tensions-report.html>. Accessed 1 May 2024.

¹⁹² Trump, D. J., "The President's Executive Order on Hong Kong Normalization", The White House, 14 July 2020. <https://trumpwhitehouse.archives.gov/presidential-actions/presidents-executive-order-hong-kong-normalization/>. Accessed 1 May 2024.

¹⁹³ Shalal, Andrea, and Freifeld, Karen, "U.S. starts process to restrict some investment in key tech from China." Reuters, August 2023, <https://www.reuters.com/technology/us-starts-process-restrict-some-investment-key-tech-china-2023-08-09/>. Accessed 1 May 2024.

Hong Kong, which is a common law jurisdiction, for dispute arbitration services since sanctions restricted their access to Western courts.¹⁹⁴ Research has found the city as a prominent node in Russia's illicit procurement network, transiting Western-made microelectronic components to companies affiliated with the Russian military.¹⁹⁵

V. Conclusion

Hong Kong is a small open economy that is extremely service-oriented. It is not an independent sovereignty but has its own policies and follows a very different system from China. That is the heritage left from its colonial era and became the very foundation of the city. These features established a unique capitalist model and coined the economic achievement of Hong Kong in the late 20th century. The economic success of Hong Kong as an international business hub has hitherto been built upon its effective Middleman Capitalism model. As policies changed, worries from foreign businesses and governments have arisen about issues such as erosion of judiciary autonomy and undermined the credibility of its promise to exercise "One Country, Two Systems" principle. Hong Kong may not be ever considered a city having an effective practice of Western systems, thus reducing its attractiveness as a global trading and business centre. Middleman Capitalism may no longer stand and become ineffective. However, new opportunities may rise afloat as the existing legal and financial infrastructure in Hong Kong may still seem an outstanding edge, attracting non-Western or pro-China businesses to invest and operate in Hong Kong. The city may establish its presence in the trend of US-China decoupling and global fragmentation, as a special economic and financial agency of China and its allies. There are two questions to be asked when considering about the future of the city. Is Middleman Capitalism still feasible and able to contribute to the prosperity of Hong Kong as achieved in the last decades? If Middleman Capitalism failed, what would be the alternative model and strategy for Hong Kong, so as to reposition itself amid the dynamic geopolitical climate and ever-changing economic landscape? Answering these questions would help envision the future route for Hong Kong.

References

- World Bank Group, "GDP per capita, PPP (current international \$)".
https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?most_recent_value_desc=true&year_high_desc=true. Accessed 1 May 2024.
- GovHK, "Hong Kong – the Facts". <https://www.gov.hk/en/about/abouthk/facts.htm>. Accessed 1 May 2024.
- Census and Statistics Department, "Table 310-34101: Gross Domestic Product (GDP) by economic activity at current prices". https://www.censtatd.gov.hk/en/web_table.html?id=310-34101. Accessed 1 May 2024.
- GovHK, "Basic Law". <https://www.basiclaw.gov.hk/en/basiclaw/chapter1.html>. Accessed 1 May 2024.
- Shan, Lee Ying, "Singapore is now the world's freest economy", displacing Hong Kong after 53 years". CNBC, 21 September 2021, <https://www.cnbc.com/2023/09/22/singapore-is-now-the-worlds-freest-economy-displacing-hong-kong.html>. Accessed 1 May 2024.
- Tsang, Donald, "Big Market, Small Government".
<https://www.ceo.gov.hk/archive/2012/eng/press/oped.htm>. Accessed 1 May 2024.
- Hall, P.A., and Soskice, D., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press, 2001.
- Hui, Po-Keung, *Comprador Politics and Middleman Capitalism*, In Ngo, Tak-Wing (Ed.), *Hong Kong's History: State and Society Under Colonial Rule*, Routledge, 1999, pp 30-45.
- GovHK, "Basic Law". <https://www.basiclaw.gov.hk/en/basiclaw/chapter1.html>. Accessed 1 May 2024.

¹⁹⁴ Yiu, Pak, and Wong, Echo, "Russian companies move legal battles to Hong Kong courts", *Nikkei Asia*, 3 August 2023. <https://asia.nikkei.com/Politics/International-relations/Russian-companies-move-legal-battles-to-Hong-Kong-courts>. Accessed 1 May 2024.

¹⁹⁵ Kot, Chun-Hey, "Hong Kong's Technology Lifeline to Russia", *Carnegie Endowment for International Peace*, 17 May 2023. <https://carnegieendowment.org/2023/05/17/hong-kong-s-technology-lifeline-to-russia-pub-89775>. Accessed 1 May 2024.

Gwartney, James, and Lawson, Robert, and Murphy, Ryan et al., *Economic Freedom of the World: 2023 Annual Report*, Fraser Institute, 2023. <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2023.pdf>. Accessed 1 May 2024.

Census and Statistics Department, "Table 310-31006 : Ratio of major expenditure components to Gross Domestic Product (GDP) at current market prices ". https://www.censtatd.gov.hk/en/web_table.html?id=310-31006. Accessed 1 May 2024.

The 2024-25 Budget, "Public Finance". <https://www.budget.gov.hk/2024/eng/pf.html>. Accessed 1 May 2024.

InvestHK, "Low, Simple and Competitive Tax System". <https://www.investhk.gov.hk/en/why-hong-kong/low-simple-and-competitive-tax-system/>. Accessed 1 May 2024.

PwC, "Paying Taxes 2020: overall ranking and data tables". 2020. <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/overall-ranking-and-data-tables.html>. Accessed 1 May 2024.

Census and Statistics Department, "Table 340-47011 : Government revenue (General Revenue Account and the Funds)". https://www.censtatd.gov.hk/en/web_table.html?id=340-47011#. Accessed 1 May 2024.

Lok-Kei, Sum. "Hong Kong land sales wobble, exposing cracks in city's finances." *The Guardian*, 22 November 2023, <https://www.theguardian.com/world/2023/nov/22/hong-kong-land-sales-wobble-exposing-cracks-in-citys-finances>. Accessed 1 May 2024.

Urban Reform Institute and Frontier Centre for Public Policy, *Demographia International Housing Affordability: 2023 Edition*, 2023. <http://www.demographia.com/dhi.pdf>. Accessed 1 May 2024.

Hong Kong Monetary Authority. "About Us". <https://www.hkma.gov.hk/eng/about-us/the-hkma/>. Accessed 1 May 2024.

Hong Kong Monetary Authority. "How Does the LERS Work?". <https://www.hkma.gov.hk/eng/key-functions/money/linked-exchange-rate-system/how-does-the-lers-work/>. Accessed 1 May 2024.

Yiu, Enoch, "Exchange Fund: how US\$574 billion war chest defeated Soros, defended Hong Kong dollar peg in post-handover financial crises." *South China Morning Post*, 23 June 2022. <https://www.scmp.com/business/article/3182687/exchange-fund-how-us574-billion-war-chest-defeated-soros->. Accessed 1 May 2024.

Aizenman, Joshua, *The Impossible Trinity (aka The Policy Trilemma)*, UCSC and the NBER, 2010. https://web.pdx.edu/~ito/Tril_Aizenman_Dic.pdf. Accessed 1 May 2024.

Trading Economics, <https://tradingeconomics.com/hong-kong/interest-rate>. Accessed 1 May 2024.

Ao, Yu-Lu. "Hong Kong home sales sink to 33-year low in 2023 amid high interest rates as sector sees glimmers of rebound in December." *South China Morning Post*, 3 January 2024, <https://www.scmp.com/business/china-business/article/3247049/hong-kong-home-sales-sink-33-year-low-2023-amid-high-interest-rates-sector-sees-glimmers-rebound>. Accessed 1 May 2024.

MTR, "Share Information". <https://www.mtr.com.hk/en/corporate/investor/shareservices.html>. Accessed 1 May 2024.

Urban Reform Institute and Frontier Centre for Public Policy, *Demographia International Housing Affordability: 2023 Edition*, 2023. <http://www.demographia.com/dhi.pdf>. Accessed 1 May 2024.

Vetter, David. "How Hong Kong's public housing system works: costs, waiting times and sales." *South China Morning Post*, 19 January 2019, <https://www.scmp.com/news/hong-kong/society/article/2182106/why-public-housing-shortfall-will-remain-thorn-hong-kongs>. Accessed 1 May 2024.

Census and Statistics Department, "Table 130-06603 : Domestic households by type of housing". https://www.censtatd.gov.hk/en/web_table.html?id=130-06603. Accessed 1 May 2024.

HKWJ Tax Law & Partners, "Hong Kong Stamp Duty Guide". <https://www.hkwj-taxlaw.hk/hong-kong-stamp-duty-guide/>. Accessed 1 May 2024.

Hu, Meng-Na, *The impact of cooling measures : evidence from Hong Kong residential re-sale market*, Lingnan University, 2017. https://commons.ln.edu.hk/cgi/viewcontent.cgi?article=1031&context=econ_etd. Accessed 1 May 2024.

Arcibal, Cheryl. "Hong Kong home prices rise for first time in 11 months as removal of cooling measures boosts demand." *South China Morning Post*, 26 April 2024, <https://www.scmp.com/business/article/3260417/hong-kong-home-prices-rise-first-time-11-months-removal-cooling-measures-boosts-demand>. Accessed 1 May 2024.

Labour Department, "A Concise Guide to the Employment Ordinance".

<https://www.labour.gov.hk/eng/public/ConciseGuide.htm>. Accessed 1 May 2024.

Labour Department, "Statutory Minimum Wage". <https://www.labour.gov.hk/eng/news/mwo.htm>. Accessed 1 May 2024.

European Union Agency for Fundamental Rights, Article 28 - Right of collective bargaining and action". <https://fra.europa.eu/en/eu-charter/article/28-right-collective-bargaining-and-action>. Accessed 1 May 2024.

Kisi. "Work-Life Balance: Best Cities Worldwide in 2022.". <https://www.getkisi.com/work-life-balance-2022>. Accessed 1 May 2024.

Alea. "Comparison of Private Hospital Costs in Hong Kong.", 28 March 2023. <https://alea.care/resources/how-much-do-private-hospitals-charge-in-hong-kong>. Accessed 1 May 2024.

Schoeb, Veronika, "Healthcare Service in Hong Kong and its Challenges: The Role of Health Professionals within a Social Model of Health", 2016. <https://journals.openedition.org/chinaperspectives/7118>. Accessed 1 May 2024.

Hospital Authority, "A&E Waiting Time". https://www.ha.org.hk/visitor/ha_visitor_index.asp?Content_ID=235504&Lang=ENG#. Accessed 22 April 2024.

Chu, Ken. "Relaxing the rules on doctors trained overseas will ease Hong Kong's shortages, but only in the short term." South China Morning Post, 10 February 2021, <https://www.scmp.com/comment/opinion/article/3121053/relaxing-rules-doctors-trained-overseas-will-ease-hong-kongs>. Accessed 1 May 2024.

Cheung, Elizabeth. "Hong Kong's 2 medical schools say they can expand to take on 100 more students a year each to help solve healthcare staffing problems." South China Morning Post, 18 January 2024, <https://www.scmp.com/news/hong-kong/health-environment/article/3248947/hong-kongs-two-medical-schools-say-they-can-expand-take-100-more-students-year-help-solve>. Accessed 1 May 2024.

Health Care Voucher, "Background". <https://www.hcv.gov.hk/en/hcvs/background.html>. Accessed 1 May 2024.

Voluntary Health Insurance Scheme, "About VHIS". https://www.vhis.gov.hk/en/about_us/scheme.html. Accessed 1 May 2024.

United Nations, World Social Report 2023: Leaving No One Behind in An Ageing World, 2023. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/undesa_pd_2023_wsr-fullreport.pdf. Accessed 1 May 2024.

Richter, Felix, "Countries and territories with the highest share of people aged 65 and older." Statista, 20 February 2024. <https://www.statista.com/chart/29345/countries-and-territories-with-the-highest-share-of-people-aged-65-and-older/>. Accessed 1 May 2024.

World Bank Group, "Fertility rate, total (births per woman) - Hong Kong SAR, China ". https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?most_recent_value_desc=false&locations=HK. Accessed 1 May 2024.

CEDB, "Participation in International Organisations". <https://www.cedb.gov.hk/en/trade-and-investment/participation-in-international-organisations.html>. Accessed 1 May 2024.

CEDB, "Hong Kong in Global Trade". <https://www.cedb.gov.hk/en/trade-and-investment/hong-kong-in-global-trade.html>. Accessed 1 May 2024.

Yeung, Cheung, "Economic and Trade Information on Hong Kong", HKTDC, 30 April 2024. <https://research.hktdc.com/en/article/MzlwNjkzNTY5>. Accessed 1 May 2024.

FSTB, "Asset and Wealth Management". https://www.fstb.gov.hk/en/financial_ser/asset-and-wealth-management.htm. Accessed 1 May 2024.

Hong Kong Monetary Authority. "Dominant Gateway to China". <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/dominant-gateway-to-china/>. Accessed 1 May 2024.

Tsoi, Grace, and Hoskins, Peter, "Covid: Hong Kong to end controversial hotel quarantine policy", BBC News, 23 September 2022. <https://www.bbc.com/news/world-asia-63004249>. Accessed 1 May 2024.

Bloomberg TV, "Dimon Says Hong Kong's Strict Quarantine Hurts Retention", 16 November 2021. <https://www.bloomberg.com/news/videos/2021-11-16/dimon-says-hong-kong-s-strict-quarantine-hurts-retention>. Accessed 1 May 2024.

Legislative Council of Hong Kong, "Fugitive Offenders and Mutual Legal Assistance in Criminal Matters

Legislation (Amendment) Bill 2019". <https://www.legco.gov.hk/yr18-19/english/bills/b201903291.pdf>. Accessed 1 May 2024.

BBC News, "The Hong Kong protests explained in 100 and 500 words", BBC, 28 November 2019. <https://www.bbc.com/news/world-asia-china-49317695>. Accessed 1 May 2024.

Lam, Carrie, "Promulgation of National Law 2020", 30 June 2020. Accessed 1 May 2024. <https://www.gld.gov.hk/egazette/pdf/20202444e/es220202444136.pdf>

BBC News, "Hong Kong national security law: What is it and is it worrying?" BBC, 19 March 2024, <https://www.bbc.com/news/world-asia-china-52765838>. Accessed 1 May 2024.

Financial Times, "Deloitte and KPMG ask staff to use burner phones for Hong Kong trips", 27 November 2023. <https://www.ft.com/content/eace699c-ce75-485b-ac14-e6c10375fdcc>. Accessed 1 May 2024.

Pomfret, James, and Torode, Greg, "Wary of new security law, foreign firms in Hong Kong bolster contingency plans." Reuters, 21 March 2024, <https://www.reuters.com/markets/asia/wary-new-security-law-foreign-firms-hong-kong-bolster-contingency-plans-2024-03-21/>. Accessed 1 May 2024.

Feiner, Lauren, "Google, OpenAI limit chatbots in Hong Kong amid China tensions: report." CNBC, 12 June 2023, <https://www.cnbc.com/2023/06/12/google-openai-limit-chatbots-in-hong-kong-amid-china-tensions-report.html>. Accessed 1 May 2024.

Trump, D. J., "The President's Executive Order on Hong Kong Normalization", The White House, 14 July 2020. <https://trumpwhitehouse.archives.gov/presidential-actions/presidents-executive-order-hong-kong-normalization/>. Accessed 1 May 2024.

Shalal, Andrea, and Freifeld, Karen, "U.S. starts process to restrict some investment in key tech from China." Reuters, August 2023, <https://www.reuters.com/technology/us-starts-process-restrict-some-investment-key-tech-china-2023-08-09/>. Accessed 1 May 2024.

Yiu, Pak, and Wong, Echo, "Russian companies move legal battles to Hong Kong courts", Nikkei Asia, 3 August 2023. <https://asia.nikkei.com/Politics/International-relations/Russian-companies-move-legal-battles-to-Hong-Kong-courts>. Accessed 1 May 2024.

Kot, Chun-Hey, "Hong Kong's Technology Lifeline to Russia", Carnegie Endowment for International Peace, 17 May 2023. <https://carnegieendowment.org/2023/05/17/hong-kong-s-technology-lifeline-to-russia-pub-89775>. Accessed 1 May 2024.

India's Economy

Vaishnavi Varrier

India's economic landscape is a blend of growth opportunities and formidable challenges. This report provides a concise overview of India's economic structure, policy instruments, trade dynamics, and its hurdles.

Economic Structure

India's GDP of 3.417 trillion USD places it as the world's third-largest economy at the moment. The reason for India's low GDP per capita of 2,410.89 USD is the country's 1.4 billion-strong population, the highest in the world. It is projected that India will have 1.7 billion people living there in 2064. The projected median age in 2023 is 28, almost ten years lower than China's, with over 40% of the population under 25. Over forty percent of Indians are under the age of twenty-five. India has a greater fertility rate (2.13%) than both China and the United States, although in recent decades, it has significantly decreased. The agricultural sector employs over 51% of the labour force and accounts for 17.4% of total economic output. It is the most inefficient sector of the economy, and reform efforts have been sluggish. The industry sector employs nearly 14% of the workforce and contributes approximately 28% of the country's GDP. The service sector employs roughly 23% of the workforce and accounts for nearly 59% of the country's GDP.

Economic Policy

India implemented liberalization policies after the Balance of Payments Crisis in 1991, which resulted in a severe shortage of foreign exchange and made it difficult for India to pay for its imports and service its foreign debt. The crisis was caused by a number of factors, including a high fiscal deficit, a growing current account deficit, declining foreign reserves, and the Gulf war. The Government requested a rescue package from the International Monetary Fund (IMF). In order to handle the crisis, a number of actions were taken, such as depreciating the rupee, tightening fiscal and monetary policy, lowering import duties, and abolishing License Raj. The Indian economy was consequently revived and has since expanded quickly as a result of the reforms, which also brought in more international investment.

India's economic strategies include practices such as inflation targeting, fiscal discipline, and monetary policy management. Interest rates are one tool used by the Reserve Bank of India (RBI) to control inflation and promote economic growth. India has updated its regulatory structures to conform to international norms, which include the protection of investor rights, accountability, and openness. The government also wants to increase the number of people who lack or have limited access to financial services by using digital banking, microfinance, and programs like the Jan Dhan Yojana. It also wants to boost the manufacturing sector by promoting "Made in India."

Policy Instruments

Monetary policy: The Reserve Bank of India (RBI) maintained its 5.4% inflation projection for 2023–2024, with CPI inflation predicted to be 4.5% for the upcoming fiscal year 2024–2025. The inflation rate currently stands on 5.1%. **Taxation:** India's taxation system includes direct taxes to generate revenue (such as income tax and corporate tax) and indirect taxes (such as Goods and Services Tax - GST, customs duties). The government uses taxes to allocate funds for various sectors such as education, healthcare, infrastructure, defence, agriculture, and social welfare programs.

Budgetary Deficit: India's fiscal deficit refers to the excess of government expenditure over revenue.

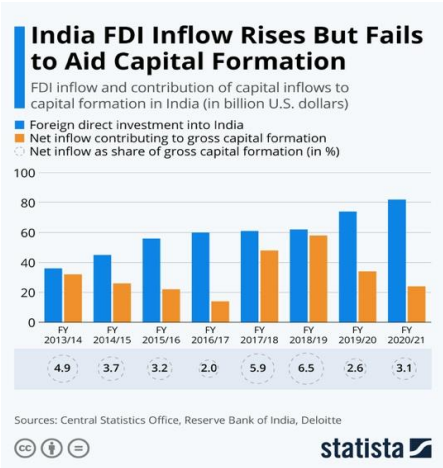
Public debt management is carried out through measures such as issuing government bonds, treasury bills, and other securities.

Social welfare programs like the National Rural Employment Guarantee Act were a way to ensure up to 100 days of paid work per year for poor adults have also been introduced. However, this saw many hurdles mainly driven by corruption by middlemen where the workers were never paid their full wages.

Key challenges

Excluding corruption; income inequality, lesser focus on education, unemployment, and absence of basic facilities are many such challenges that India faces. For instance, The social welfare program PMJDY was implemented, however, the results were not entirely favourable. Ensuring that every Indian has access to fundamental financial services including a savings account, debit card, and insurance was the primary goal of PMJDY. However, rural areas' inadequate infrastructure and poor internet connections prevented users from accessing their accounts and restricted the adoption of digital banking methods. A large number of

people remain ignorant of the advantages of formal banking, even in spite of initiatives to increase financial literacy. This has resulted in low usage of PMJDY accounts.¹⁹⁶Deloitte estimated that the net capital inflow that is actually contributing to capital formation in India was only at \$24 billion in India last fiscal year, despite foreign direct investment reaching a new high of almost \$82 billion. In FY 2020/21, the capital inflow was only responsible for 3 percent of gross capital formation in the country, leaving the rest to domestic investment.¹⁹⁷



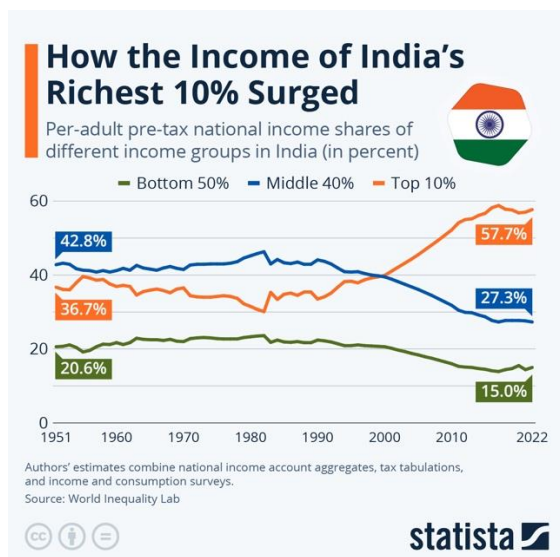
Source: Statista

The increasing unemployment rate amongst young graduates is 42.3%. This is another key challenge that faces the country.

When it comes to the Budget for 2023-24, the allocation for the education and the higher education sector was just about 2.9 per cent of the country's GDP. This is very low for a developing country, with a literacy rate of 76%. A country like England, with a literacy rate of 99% spent 4.4% on education. India struggles with escalating income inequality, boasting 200 billionaires against nearly 34 million individuals residing in extreme poverty as of 2024. Though this figure marks a reduction from 46 million in 2022, India still has a long way to go before reaching parity or anything even close to it. In 2022, the middle 20 percent accounted for 27.3 percent of the national income, whereas the top 10 percent claimed a staggering 57.7 percent—a stark testament India’s economic divide.

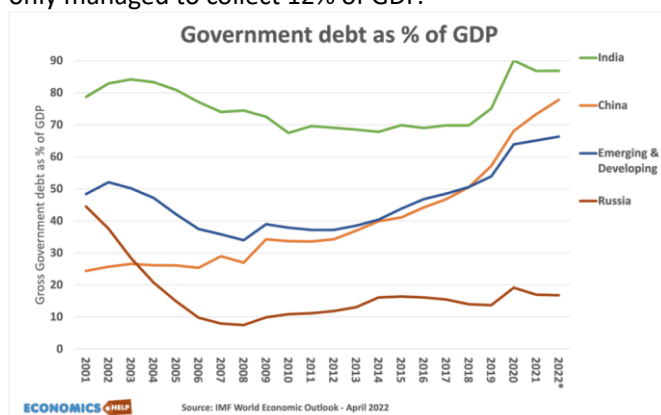
¹⁹⁶ CA Rohit J. Gyanchandani, “Pradhan Mantri Jan Dhan Yojana: From benefits to impact; all you need to know”, *Mint*, 20 Oct 2023, <https://www.livemint.com/money/personal-finance/pradhan-mantri-jan-dhan-yojana-from-benefits-to-impact-all-you-need-to-know-11697440909622.html>

¹⁹⁷ ² Katharina Buchholz, “Indian FDI Inflow Rises But Fails to Aid Capital Formation”, *Statista*, Sept 14 2021, <https://www.statista.com/chart/25759/india-fdi-capital-formation/>



Source: Statista

Among emerging nations, India has one of the biggest budget deficits, around 8% of GDP. Despite a slight decline over the previous year, there is still not much room for boosting funding for public services like healthcare and education. India is also among the lowest in the world in terms of tax collection, having only managed to collect 12% of GDP.



Source: economicshelp.org

State Intervention and Market Competition

India has introduced regulatory frameworks like the Competition Commission of India (CCI) and the Securities and Exchange Board of India (SEBI). It is the duty of the CCI Commission to eliminate practices having adverse effects on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The basic functions of SEBI are to protect the interests of investors in securities and to promote and regulate the securities market.

Price Controls and subsidies like MSP for farmers' crops, fuel subsidies, food subsidies through public distribution systems and interest rate subsidies for SMEs.

Labour reforms for minimum wage, maintaining adequate health and safety measures, benefits for workers in the informal sector and mechanisms for dispute resolution, collective bargaining, and conditions under which layoffs, retrenchment, and closures can be legally executed. These are yet to be completely implemented so the success of these reforms hinges on effective implementation.

The government's primary area of emphasis has been in fostering a start-up culture in India. The 2016 launch of Start-up India was a flagship program with the goal of creating an effective environment for fostering innovation and start-ups. It offers several incentives, including money, tax breaks, incubators, and more relaxed public procurement regulations. Thus far, this initiative has acknowledged almost 19,400 start-ups. Between 2012 and 2015, the start-up ecosystem experienced exponential development, with the number of start-ups rising from approximately 800 to over 5,000. By 2020, there will be over 50,000

active start-ups, up from 7,000–8,000 in 2016. Resilient start-ups emerged from the pandemic. In 2021, 44 unicorns were born in India. After the United States and China, India has the third-largest start-up environment and is anticipated to have 100 unicorns by 2025.¹⁹⁸

Country	Number of Unicorns
United States	562
China	173
India	65
United Kingdom	43
Germany	26
France	24
Israel	20
Canada	19
Brazil	16
Singapore	12
South Korea	12
Others	102

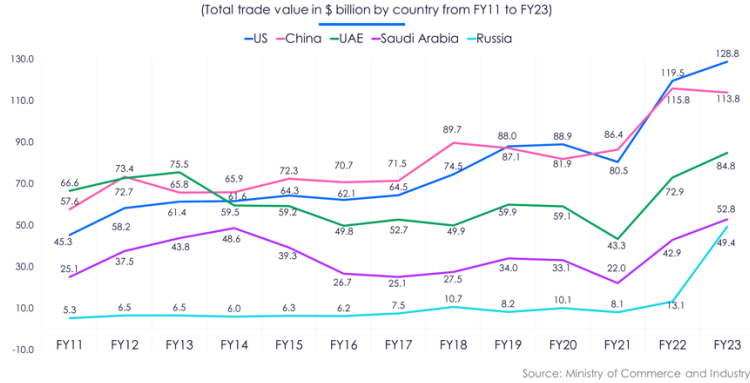
Source: CB Insights Global Unicorn List

India has also made progress in the digital public infrastructure with Aadhar and UPI. UPI allows instant online transactions possibly processing more than 12 billion transactions a month.

India’s Trade

India’s largest trade partners include US, China, UAE, Saudi Arabia, Russia, and The European Union. India is a part of ASEAN which was its top trading partner in 2022-23. India has also been a founding member of WTO since 1995.

US: India’s top trading partner for four out of the past five years



Source: trendlyne

China has been India's long standing principal trading partner. However, once Donald Trump was elected president in 2016, there was a shift. The Chinese were subject to trade sanctions in 2018 by the Trump administration, which included tariffs on \$60 billion worth of goods and limitations on investment. The Americans began searching for trade elsewhere in Asia. Thus, in FY19 and FY20, the US surpassed China to become India's top trading partner for the first time. India has a trade surplus with the US. Although the United States is India's biggest commercial partner, the US still has bigger trading links with China and the European Union. India sells various items to the US and raw materials to China.¹⁹⁹

¹⁹⁸ Alka Jain, "From 2014 to 2023: How the startup ecosystem is thriving in India despite all odds? Explained", *mint*, 18 Jan 2024, <https://www.livemint.com/companies/start-ups/from-2014-to-2023-how-the-startup-ecosystem-is-thriving-in-india-explained-11705547737333.html>

¹⁹⁹ Tejas MD, "US becomes India’s largest trading partner | Stocks set to outperform in the June quarter", *Trendlyne*, 28 Jun 2023 <https://trendlyne.com/posts/4150606/us-becomes-indias-largest-trading-partner-stocks-set-to-outperform-in-the->

India has an unbalanced trade relationship with China, mainly exporting basic raw materials, and imports finished goods. In FY23, 50% of India's imports from China were electrical machinery, nuclear reactors, and mechanical appliances, while 40% of India's exports were raw materials.

India has a trade surplus of \$28 billion with the US. India's exports to the US are also more diverse, with a focus on finished goods such as pharmaceuticals, electrical machinery and parts. India already imports high-value aircraft and spacecraft from the US. With its import value way more than its exports.

Since late 2022, India's service sector output levels have exceeded those of the US, Europe, and China, indicating a good trend in terms of trade. Additionally, it has assisted in reducing India's current account deficit, which was expanding as a result of a steady increase in item imports, particularly from China and Russia.

The Indian macro-growth trajectory is anticipated to benefit from a drive toward "service-based export" growth, which is also projected to assist the government in increasing employment in certain labor-intensive service industries and lowering its capital account deficit. ²⁰⁰

The Indian government introduced its Production Linked Incentive Scheme or (PLI) in November 2020 to encourage the domestic production of various electronic parts that it otherwise imports. But the scheme has had very limited success in achieving what it had set out to do. There was an effort to reduce India's imports from China due to the burgeoning trade deficit. Numerous efforts to de-link India's supply chain from China have resulted in India trying to import the same goods at a higher price from countries like the US, Japan and Vietnam, which has made domestic production even more costly and difficult.

India's geopolitical position in light of the wars in Gaza and Ukraine

India has long maintained diplomatic ties with both Russia and Western countries by pursuing a non-alignment policy. India has refrained from adopting a stance in the Ukraine conflict, prioritizing diplomatic resolutions. India's position is influenced by its historical connections to Russia, its energy needs, and its wish to keep things amicable with both the West and Russia.

Traditionally, since its leadership of the Non-Aligned Movement, India's position on the Israel-Palestine conflict has always aligned with the Global South, fully supporting for the Palestinian cause. But after the October 7 attack, there was a principled shift in India's stance when India decided to abstain from voting for a resolution that called for a ceasefire.

India's approach has drawn criticism from the West, especially in light of its position on international standards in the midst of a crisis in which Russia's activities are universally denounced. India, however, continues to support diplomatic solutions and peaceful conflict resolutions, and its foreign policy decisions are typically informed by its individual national interests.

References

Alka Jain, "From 2014 to 2023: How the startup ecosystem is thriving in India despite all odds? Explained", *mint*, 18 Jan 2024, <https://www.livemint.com/companies/start-ups/from-2014-to-2023-how-the-startup-ecosystem-is-thriving-in-india-explained-11705547737333.html>

Anna Fleck, "How the Income of India's Richest 10% Surged", *Statista*, Mar 27 2024
<https://www.statista.com/chart/31991/per-adult-pre-tax-national-income-shares-india/>

"Balance payment crisis, 1991- History, Causes, Effects, Government Measures & Role of Manmohan Singh"
<https://testbook.com/ias-preparation/balance-payment-crisis-1991#:~:text=What%20led%20to%20the%20balance,compounded%20by%20the%20Gulf%20War.>

[june-quarter](#)

²⁰⁰ Deepanshu Mohan, "Why India's Net Exports Have Fallen While It Fails to Overcome Import Dependence", *The Wire*, 20 May 2023 <https://thewire.in/trade/why-indias-net-exports-have-fallen-while-it-fails-to-overcome-import-dependence>

CA Rohit J. Gyanchandani, "Pradhan Mantri Jan Dhan Yojana: From benefits to impact; all you need to know", *Mint*, 20 Oct 2023, <https://www.livemint.com/money/personal-finance/pradhan-mantri-jan-dhan-yojana-from-benefits-to-impact-all-you-need-to-know-11697440909622.html>

Deepanshu Mohan, "Why India's Net Exports Have Fallen While It Fails to Overcome Import Dependence", *The Wire*, 20 May 2023 <https://thewire.in/trade/why-indias-net-exports-have-fallen-while-it-fails-to-overcome-import-dependence>

Katharina Buchholz, "Indian FDI Inflow Rises But Fails to Aid Capital Formation", *Statista*, Sept 14 2021, <https://www.statista.com/chart/25759/india-fdi-capital-formation/>

Shishir Sina, "Less than 3% of India's population now living under extreme poverty: World Poverty Clock", *The Hindu Business Line*, 2 Mar 2024, <https://www.thehindubusinessline.com/economy/less-than-3-of-indias-population-now-living-under-extreme-poverty-world-poverty-clock/article67907056.ece#:~:text=Nearly%203.44%20crore%20people%20are,against%204.69%20crore%20in%202022&text=India%20has%20managed%20to%20bring,the%20World%20Poverty%20Clock%20showed.>

Shubhasheesh Bhattacharya, "Budget 2024: The educational angle", *India Today*, 31 Jan 2024, <https://bestcolleges.indiatoday.in/news-detail/budget-2024-the-educational-angle#:~:text=The%20government%20in%20the%20build,cent%20of%20the%20country's%20GDP.>

Tejas MD, "US becomes India's largest trading partner | Stocks set to outperform in the June quarter", *Trendlyne*, 28 Jun 2023 <https://trendlyne.com/posts/4150606/us-becomes-indias-largest-trading-partner-stocks-set-to-outperform-in-the-june-quarter>

Tejvan Pettinger, "Problems Facing Indian Economy", *Economics help*, 25 April 2022, <https://www.economicshelp.org/india-2/problems-indian-economy/>

Zia Haq, "Implementation of 4 labour codes stalled", *The Hindustan Times*, 08 May 2023, <https://www.hindustantimes.com/india-news/indias-sweeping-labour-code-implementation-stalled-until-2024-elections-101683485041321.html>

The Economic Structure of the Islamic Republic of Iran

Fatemeh Razavi

Introduction

Iran's complex and diverse economy has struggled a lot due to the disturbances since the Islamic revolution in 1979 and contemporary political events. Despite the natural resources Iran has been endowed with (ranked 2nd for natural gas reserves and 4th for proven crude oil reserves in the world²⁰¹), the Iranian economy can be characterized as underused and untapped mostly due to economic sanctions, internal structural problems, and mismanagement.²⁰²

The sanctions targeted critical sectors of Iran's economy, including the oil and gas industry, which is a major revenue source for the country. Restrictions on financial institutions significantly limited Iran's ability to conduct international trade and access global financial markets. These measures had a profound impact on Iran's economy, leading to currency devaluation, increased inflation, and a noticeable decline in the quality of life for its citizens.²⁰³

In 2015, a landmark agreement known as the Joint Comprehensive Plan of Action (JCPOA) was reached between Iran and the P5+1 countries (the US, UK, France, Russia, China, and Germany). Under the JCPOA, Iran agreed to dismantle much of its nuclear program and submit to international inspections in exchange for relief from many of the sanctions but the situation took a dramatic turn in 2018 after President Donald Trump's administration withdrew from the JCPOA and reinstated harsh sanctions against Iran. The replacement of the Obama-era Iran foreign policy with Donald Trump's "maximum-pressure" campaign exacerbated tensions in the region and posed significant challenges for Iran's economy and its relations with the international community ever since.

Overview of economic indicators

Although more than 55% of the contribution to Iran's gross domestic product (GDP) comes from the service sector, the oil and gas production of the country, or in the general petroleum sector is the backbone of the economy. Mostly because it is the most important contributor to foreign currency reserves for the government and other sectors and industries in Iran are hugely dependent on the heavily subsidized and inexpensive energy price in Iran.²⁰⁴

From the World Bank's perspective, the decline in Iran's oil and gas production will reduce the country's economic growth in the following years. Iran's inflation is also still high despite the declining trend.²⁰⁵

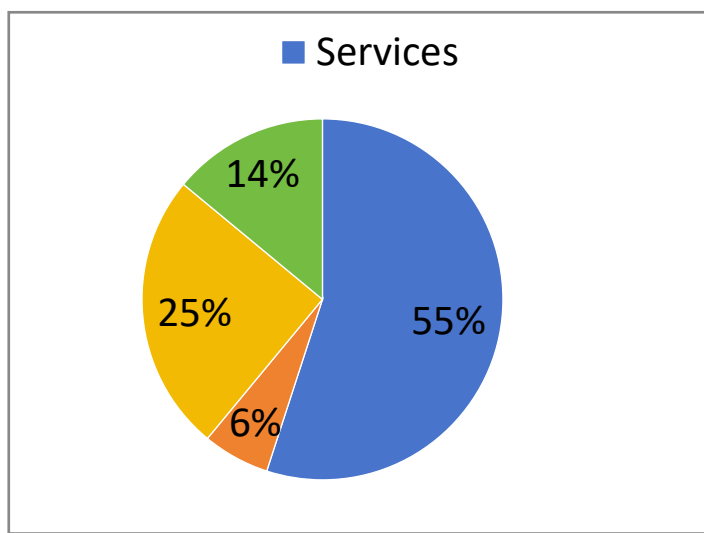
²⁰¹ World Bank, Islamic Republic of Iran Overview; <https://www.worldbank.org/en/country/iran/overview> Accessed 20 October 2022

²⁰² Khajehpour, Bijan, "Anatomy of the Iranian Economy", *The Swedish Institute of International Affairs*, 2020

²⁰³ Farooq, Umar, Khaasteh, Reza, "How four years of US sanctions have devastated Iran's economy", 31 May 2022, <https://www.middleeasteye.net/news/us-sanctions-devastate-iran-economy>

²⁰⁴ Central Bank of Iran, National accounts, <https://www.cbi.ir/simplelist/4454.aspx>

²⁰⁵ World Bank, Global Economic Prospect, January 2024, <https://openknowledge.worldbank.org/server/api/core/bitstreams/7fe97e0a-52c5-4655-9207-c176eb9fb66a/content>



Contribution of different sectors to GDP. Source: Central Bank of Iran

Iran's economy has been resilient over the past four years. While the country's economy has benefited from the growth of the oil sector, the non-oil sector of Iran's economy, especially services and industrial production, has also been among the drivers of growth. Production has shifted towards supplying domestic consumption, which has partially reduced the impact of financial and commercial sanctions and limited access to foreign exchange sources.

Employment has also recently approached the pre-pandemic levels. Fiscal policy, especially the social protection system, has been able to partially reduce the effect of external shocks on highly vulnerable households and help growth through consumption. However, continued sanctions have limited technology transfer and investment. The energy subsidies and other government pricing strategies have helped supply and demand mismatches, indiscriminate consumption, and allocative inefficiencies but it is a considerable financial burden for the government. ²⁰⁶

Indicators	2021-22	2022-23	2023-24	2024-25
Real GDP Growth	4.7	3.8	5	3.2
Private Consumption	3.9	8.7	3.2	2.4
Public Consumption	8.3	-3.6	1.6	1.9
Fixed Capital Net Investment	0	6.7	5.8	4.5
Export	5.2	8.2	15.4	7.1
Import	24.1	7.5	1.6	1.8
Inflation	46.2	46.5	40.8	35.3

Annual Percentage change of Iran's Economic indicators, Source: World Bank

²⁰⁶ World Bank, Iran Economic Monitor, Spring/Summer 2023, <https://openknowledge.worldbank.org/entities/publication/74c96e38-4cfd-4f78-a89e-b60a3c497a7c>

The decrease in oil prices due to the global decline in demand will have a negative impact on Iran's economic outlook, and the growth of economic ties with China makes the economy susceptible to fluctuations in the Chinese economy.

Furthermore, Iran has one of the lowest participation rates of women in the labor market in the world, which can be due to several reasons.²⁰⁷ Among the various channels, the cultural norms of the division of labor in society play the most important role. This role has affected the labor market through three channels. One is the direct effect of cultural norms on the decisions of women and their families regarding the type of employment they pursue. Despite families' support for women's education and work, the range of acceptable jobs remains relatively limited and the competition among job applicants has intensified. The second channel is the influence of culture on women's economic activity through government policies. In general, after the revolution, the main policies of the government were to move towards the traditional division of labor. However, some policies have increased the quality of women's employment and have contributed to cultural changes along with wider education. Also, The labor market used women's employment as leverage to keep the overall employment of the economy low which intensified women's employment instability and affected their professional growth and job market.

Economic structure

Despite efforts to privatize and reform, the economy still suffers from State and semi-state entity dominance. Iran's economic structure is categorized into three sectors according to Article 44 of the Iranian Constitution: state, cooperative, and private. The state sector includes almost all the major industries and services like foreign trade, power generation, radio, television, roads, and railroads. The central bank of Iran is completely controlled by the government and lacks independence.²⁰⁸ That's why the government can be considered an important player in the economy. The growth and dominance of semi-state entities like Revolutionary and Religious Foundations (Bonyads) and entities and corporations owned by the Islamic Revolutionary Guard Corps (IRGC) has led to a complex economic landscape where private sector growth is often hampered. These entities maintain their influence through networks of patronage, affecting market dynamics and limiting genuine private-sector competition.²⁰⁹ The semi-state entities have benefitted from privatization policies, often acquiring government assets, which has further cemented their economic power. This process has sometimes been described as pseudo-privatization, where control remains within a state-linked framework rather than transitioning to true private ownership.

The continued significance of semi-state entities is expected, especially as the government might need to offload more companies due to financial pressures from sanctions. This could lead to these entities

²⁰⁷ Hadi Salehi Esfahan, EcoIran, 4 May 2024, <https://ecoiran.com/بخش-اخبار-اقتصاد-کلان-79/62800-ایران>

²⁰⁸ Ali Sheikholeslami, Bloomberg, 2 July 2010, <https://www.bloomberg.com/news/articles/2010-07-02/iran-s-central-bank-lacks-independence-parliament-s-research-center-says?embedded-checkout=true>

²⁰⁹ Khajepour, Bijan, "Anatomy of the Iranian Economy", *The Swedish Institute of International Affairs*, 2020

becoming even more prominent economic players, potentially creating more challenges for the development of a robust private sector.²¹⁰

International Aspect

The war in Ukraine has led to an increased reliance on Iranian military technology by Russia, notably the use of Iranian drones. This partnership has grown due to Russia's need for alternative military supplies amid Western sanctions and constraints on its own production capabilities.²¹¹

Iran and Russia have strengthened economic ties to circumvent Western sanctions. This includes barter systems, oil swaps, and other financial mechanisms that help them sustain their economies and support their strategic objectives. This alliance can pose a complex challenge to Europe and the West. The collaboration is not just a tactical response to immediate pressures but also a strategic alignment that could reshape power dynamics in the Middle East and potentially destabilizing regions where both countries have vested interests, such as Syria and Iraq.

Furthermore, The war in Gaza has highlighted Iran's reliance on asymmetric warfare and its proxy network. This strategy aims to avoid direct confrontation while still exerting pressure on Israel and its allies. The use of advanced military technology, including drones and missiles, has been a focal point of Iran's military strategy.²¹² This conflict might exacerbate economic pressures on Iran due to increased geopolitical instability in the region. As Iran supports Hamas and other groups within its "axis of resistance," it faces heightened scrutiny and potential sanctions from Western countries, which can further strain its economy already weakened by existing sanctions and internal challenges.²¹³

Conclusion

Despite the significant challenges posed by political instability and short-term economic policies, Iran's economy has displayed notable adaptability, particularly in response to the COVID-19 crisis. The persistent uncertainties in Iran's political and economic landscape have often hindered long-term planning and infrastructure investment. However, this environment has inadvertently nurtured a form of economic resilience, enabling the country to navigate rapid changes and crises.²¹⁴

Apart from short-term economic policies that hold the development of the economy back, Iran faces significant environmental and medium-term challenges too, particularly related to water management and climate change.

Mismanagement of water resources, including extensive dam construction and groundwater over-extraction, has exacerbated drought conditions and led to severe groundwater depletion and land

²¹⁰ Khajehpour, Bijan, "Anatomy of the Iranian Economy", *The Swedish Institute of International Affairs*, 2020

²¹¹ Geranmayeh, Ellie, Grajewski, Nicole, "Alone together: How the war in Ukraine shapes the Russian-Iranian relationship", 6 September 2023, <https://ecfr.eu/publication/alone-together-how-the-war-in-ukraine-shapes-the-russian-iranian-relationship/>

²¹² Al Jazeera Staff, "How Iran-Israel tensions have escalated since the war on Gaza: A timeline", 19 April 2024, <https://www.aljazeera.com/news/2024/4/19/how-iran-israel-tensions-have-escalated-since-the-war-on-gaza-a-timeline>

²¹³ Youssef, Hesham, "How the Israel-Hamas War Impacts Regional Relations", 23 October 2023, <https://www.usip.org/publications/2023/10/how-israel-hamas-war-impacts-regional-relations>

²¹⁴ Khajehpour, Bijan, "Anatomy of the Iranian Economy", *The Swedish Institute of International Affairs*, 2020

subsidence. This has resulted in a decline in agricultural productivity and forced many farmers to migrate to urban areas, increasing ecological stress in cities.^{215 216}

All in all, The future trajectory of Iran's economy depends on several critical factors: the potential easing of international sanctions, comprehensive internal economic reforms, and a shift towards a more diversified and competitive economic model. Addressing these challenges will be crucial for Iran to unlock its full economic potential and achieve sustainable growth.

References

- Al Jazeera Staff, "How Iran-Israel tensions have escalated since the war on Gaza: A timeline", 19 April 2024, <https://www.aljazeera.com/news/2024/4/19/how-iran-israel-tensions-have-escalated-since-the-war-on-gaza-a-timeline>
- Central Bank of Iran, National accounts, <https://www.cbi.ir/simplelist/4454.aspx>
- Farooq, Umar, Khaasteh, Reza, "How four years of US sanctions have devastated Iran's economy", 31 May 2022, <https://www.middleeasteye.net/news/us-sanctions-devastate-iran-economy>
- Geranmayeh, Ellie, Grajewski, Nicole, "Alone together: How the war in Ukraine shapes the Russian-Iranian relationship", 6 September 2023, <https://ecfr.eu/publication/alone-together-how-the-war-in-ukraine-shapes-the-russian-iranian-relationship/>
- Khajehpour, Bijan, "Anatomy of the Iranian Economy", *The Swedish Institute of International Affairs*, 2020
- Kowsar, Nik, "A thirsty reality: Iran's dire water situation", 22 January 2024, <https://www.atlanticcouncil.org/blogs/iransource/iran-water-environment-us-policy/>
- Salehi Esfahan, Hadi, Ecolran, 4 May 2024, <https://ecoiran.com/-/کار-بازار-در-زمان-مشارکت-ماندن-یابین-جراحی-کلان-اقتصاد-اخبار-بخش-79/62800>
- Sheikholeslami, Ali, Bloomberg, 2 July 2010, <https://www.bloomberg.com/news/articles/2010-07-02/iran-s-central-bank-lacks-independence-parliament-s-research-center-says?embedded-checkout=true>
- "Shirin Hakim: Iran's Environmental Challenge", 11 July 2023, <https://www.csis.org/analysis/shirin-hakim-irans-environmental-challenge>
- World Bank, Islamic Republic of Iran Overview; <https://www.worldbank.org/en/country/iran/overview> Accessed 20 October 2022
- World Bank, Global Economic Prospect, January 2024, <https://openknowledge.worldbank.org/server/api/core/bitstreams/7fe97e0a-52c5-4655-9207-c176eb9fb66a/content>
- World Bank, Iran Economic Monitor, Spring/Summer 2023, <https://openknowledge.worldbank.org/entities/publication/74c96e38-4cfd-4f78-a89e-b60a3c497a7c>
- Youssef, Hesham, "How the Israel-Hamas War Impacts Regional Relations", 23 October 2023, <https://www.usip.org/publications/2023/10/how-israel-hamas-war-impacts-regional-relations>

²¹⁵ Kowsar, Nik, "A thirsty reality: Iran's dire water situation", 22 January 2024, <https://www.atlanticcouncil.org/blogs/iransource/iran-water-environment-us-policy/>

²¹⁶ "Shirin Hakim: Iran's Environmental Challenge", 11 July 2023, <https://www.csis.org/analysis/shirin-hakim-irans-environmental-challenge>

Analysing the Italian Economy: Structure, Policies, and Global Integration

Veronica Manusardi and Michele Salatino

Abstract

This report offers a preliminary analysis of the political-economic situation in Italy, aiming to provide a comprehensive overview, giving insights into the current state of Italy's economic structure, macroeconomic policies, microeconomic policies, and international economic integration.

Recognizing the multifaceted nature of Italy's political-economic dynamics, this report presents a collaborative effort. Michele Salatino delves into Italy's economic structure and macroeconomic policies, elucidating key trends and policy frameworks shaping the nation's broader economic landscape. Veronica Manusardi's contribution focuses on microeconomic policies and international economic integration, highlighting the nuanced strategies and challenges facing Italy in these domains.

It is imperative to note that while this report offers valuable insights, its analysis is inherently preliminary. Given the complexity of Italy's political-economic environment, further in-depth research and ongoing monitoring are essential for a comprehensive understanding of the nation's trajectory.

Italy's Economic Structure

Brief Context

To fully understand the current economic, political and demographic structure that characterizes Italy, it is fundamental to briefly present the most relevant historical facts that have shaped Italy as a country. Italy became a unified Nation in 1861, much later than many other countries in Europe: Spain became a unified Nation in 1714, France in 1453, Great Britain in 1707 (Act of Union with Scotland). The process of unification was carried out by Garibaldi and the "Thousand" (the volunteers who took part in the expedition were estimated to include roughly 1150 people), ending with the proclamation of Vittorio Emanuele II as King of Italy.

In 1922, after the march on Rome by the Fascists, the Italian King Vittorio Emanuele III asked Benito Mussolini to form a new Government: this marked the beginning of twenty years of Fascist Government that ended in 1943 - two years later Mussolini was murdered.

After World War II, in 1946, another remarkable event changed the Institutional framework in Italy: with a Constitutional Referendum, the majority of Italian voters decided to abolish the monarchy and establish a Republic. Despite the win by the advocates of the Republican structure, the population was still strongly torn, as can be seen from the outcome of the vote: 54.27% of the voters favored the Republic, 45.73% wanted to preserve the Monarchy.²¹⁷

In 1992, Italy's Political and Economic system went through a real earthquake: Tangentopoli. A series of investigations by public prosecutors shed a light on a vast system of corruption that involved politicians and businessmen: 2.565 people were investigated, 1.408 were condemned.²¹⁸

After Tangentopoli Italy went through a renovation in its political system, with many years of Berlusconi's Government and subsequently many years of continuous changes in the majority guiding the country.

²¹⁷ <https://www.quirinale.it/page/2giugno1946-2016>

²¹⁸ Luigi Ferrarella, *Corriere della Sera*, https://milano.corriere.it/notizie/cronaca/22_febbraio_14/mani-pulite-bilancio-30-anni-dopo-2565-indagati-condannati-furono-1408-b28f4366-8dcf-11ec-a91e-e98defcaa657.shtml

Today the government is led by Prime Minister Giorgia Meloni and her party, Fratelli d'Italia.

Demographic Structure

Italy has a population of roughly 58 million people, and it is the third most populous country in the European Union, after Germany and France. The median age in Italy is 47.7 years and the country has one of the highest levels of life expectancy in Europe: life expectancy at birth for men is 82.1 years, for women it is 86.1 years.²¹⁹ In terms of life expectancy, in Europe, Italy ranks third together with Luxembourg, after Spain and Sweden²²⁰. Like almost all countries in the World, Italy is facing the challenge of a constantly aging population: the Italian Population's growth has been constantly negative since 2014, registering the highest negative growth rate in 2021 (-0.44%).

Political Situation

As regards the current political framework, the current Italian Government, defined as the most right-wing government in Italian history after WW2 by most of the commentators,²²¹ is currently guided by Fratelli d'Italia, together with Lega, Forza Italia (Berlusconi's historical party) and other minor parties. These parties are quite heterogeneous but are holding together (despite frictions and disagreements, they are managing to find compromises and keep the government stable), while the main parties in opposition, the PD (the historical left-wing party) and Movimento 5 Stelle (born in 2009 from the desire to fight the establishment) are struggling to find points of convergence over which to carry out a real opposition.

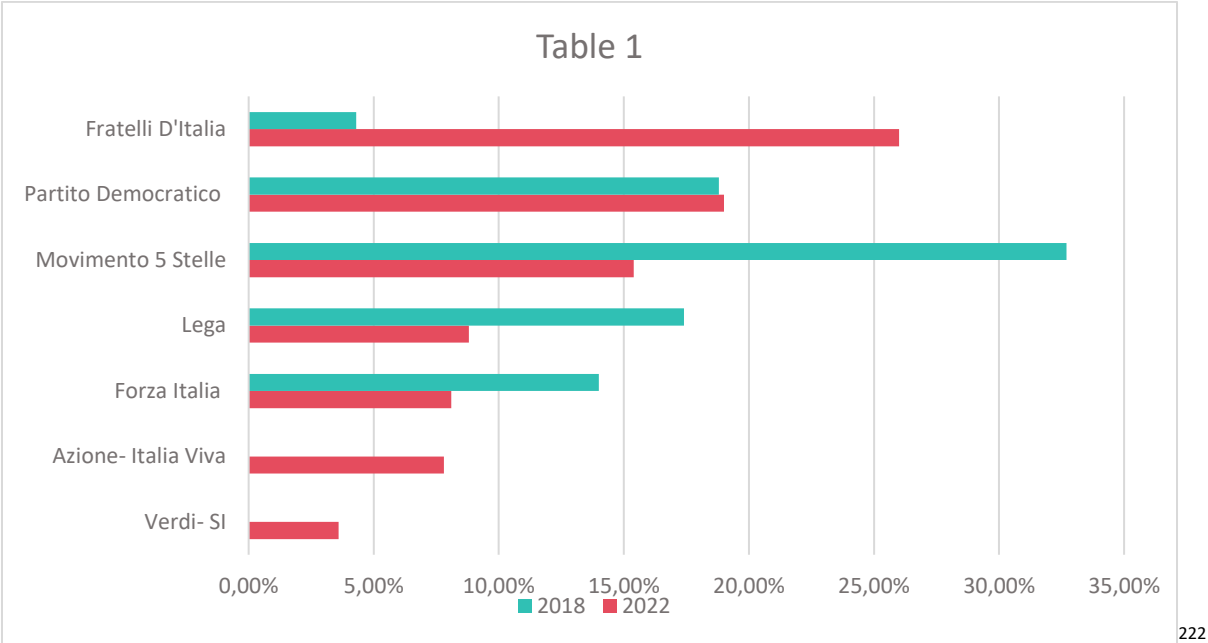


Table 1: Votes obtained (%). Source: Conflavoro.

From the above picture, it can also be seen how mutable and rapidly changing the preferences of Italian

²¹⁹ <https://www.worldometers.info/world-population/italy-population/>

²²⁰ <https://www.euronews.com/health/2023/07/22/life-expectancy-where-in-europe-do-people-live-the-shortest-and-the-longest>

²²¹ <https://www.bbc.com/news/world-europe-63029909>

²²² Source of Table 1: <https://www.conflavoro.it/elezioni-politiche-2022-dati-finali/>

voters are, with great variations in the percentage of votes obtained by different parties between 2018 and 2022. Fratelli d'Italia, the party that obtained 26% of the votes in 2022 and that is guiding the coalition governing the country, had only 4.4% of the votes in 2018.

A huge problem of Italy's political system is indeed its instability: since WW2 Italy has had 69 different governments, on average one every 1.11 years.

Economic Situation

The following picture represents the evolution of Italy's GDP compared to those of Germany, France, and Spain from 1960 until 2022 (values are in billions of dollars):

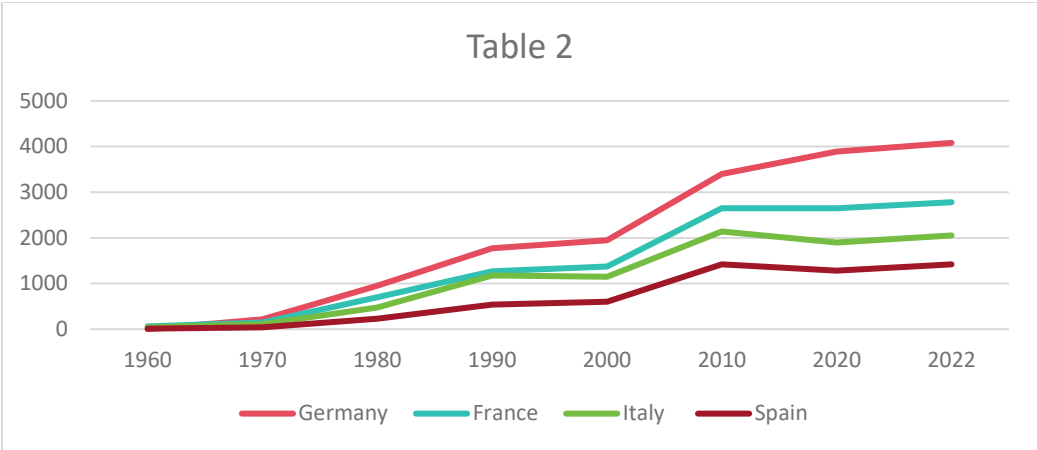


Table 2: National GDP (USD billions) Source: World Bank.

Italy has the third-largest GDP in the EU. It was estimated at USD 2,049 billion in 2022, slightly lower than the French one²²⁴.

Here, instead, is the evolution of GDP Per Capita in the four different countries (values in dollars):

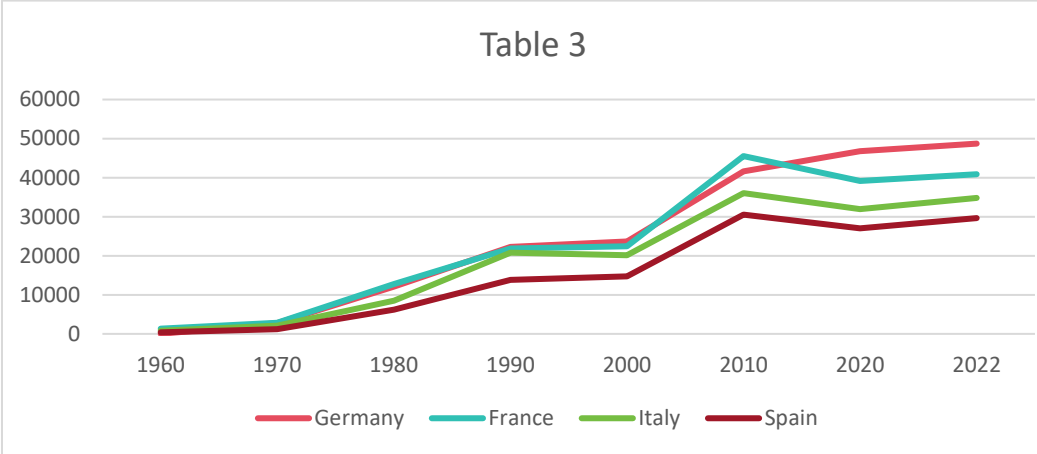


Table 3: GDP per capita. Source: World Bank.

Among the four countries, Italy has the third largest GDP Per Capita, estimated at USD 34,776.4. In the

²²³ Source of Table 2: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IT&name_desc=true
²²⁴ https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IT&name_desc=true
²²⁵ Source of Table 3: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IT&name_desc=true

whole of Europe, Italy has the 11th largest per capita income.²²⁶

In general, Italy is the third-largest national economy in the EU, the second-largest manufacturing industry in Europe, the 8th-largest economy in the world by nominal GDP, and the 12th-largest by GDP (PPP).

Main Sectors

Italy has a strong manufacturing industry concentrated especially in the Northern part of the country. The northwest region of Italy is, indeed, traditionally known to host the so-called "Industrial Triangle" (Milan-Turin-Genova) which has historically been the setting for modern industries focused on shipbuilding, machinery, aerospace, as well as automobile production.

In particular, the Italian automotive sector boasts brands such as Fiat, Lamborghini, and Ferrari which are well-known all over the World. The first brand came from the desire of a group of aristocrats, landowners, and entrepreneurs to give birth to an automotive firm in Turin. Lamborghini and Ferrari were family-owned brands that turned into symbols of the ability of Italian engineers and designers to create unique products in the luxury supercars sector.

Another key sector within the manufacturing industry regards fashion and luxury goods, with brands such as Prada, Gucci, and Versace. Milan is traditionally known to be the capital of fashion, or one of the capitals, and Italy is well known for its production of fashion and jewellery products.

Italy also has a well-developed services industry, for its tourism which is quite uniformly developed in the whole country as well as in the two main islands, Sicily, and Sardinia. This sector accounts for 11.8% of the GDP and 12.8% of the total jobs in the Italian economy. Italy boasts 51 UNESCO World Heritage sites, more than any other country in the world. Lastly, another industry that is still key for the Italian Economy is Agriculture. This sector was boosted by the Land Reforms Act, in 1950, which aimed at a redistribution of the land and at a more efficient exploitation of it. Italy is now the world's largest producer of wine and one of the leading producers of fruit.²²⁷

Regional disparities and Mafia

Italy is still characterized by huge regional disparities, and, more precisely, disparities between the Southern and Northern part of the country.

In 2018, Italy had the greatest regional disparities among OECD countries in terms of unemployment rate and the second largest disparities in terms of safety, measured in terms of homicide rates. In particular, while Valle d'Aosta was in the safest 1% of OECD regions, Sicily was included in the bottom 10%.²²⁸

Poverty rates in Italy range between 5% (Valle d'Aosta) and 40% (Campania) across regions. This huge variation makes Italy one of the five countries with the largest regional disparities among OECD members with available data.²²⁹

²²⁶ https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IT&name_desc=true

²²⁷ <https://www.worldatlas.com/articles/which-are-the-biggest-industries-in-italy.html>

²²⁸ <https://www.oecd.org/regional/ITALY-Regions-and-Cities-2018.pdf>

²²⁹ <https://www.oecd.org/regional/ITA-RCG2022.pdf>

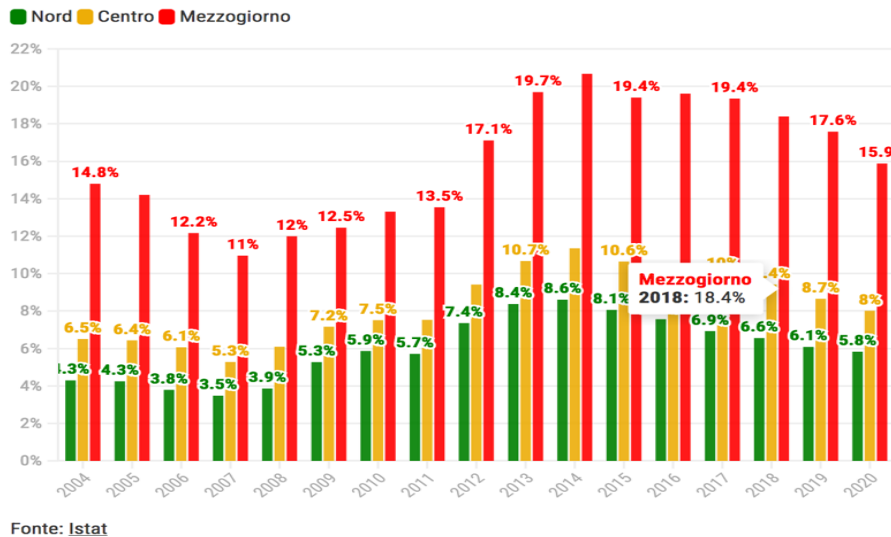


Table 4: Unemployment rate. Source: Istat.

These regional differences, moreover, might have been exacerbated by the federal fiscal system introduced in 2001 and based on controversial and questionable criteria used to allocate resources across municipalities in the country. The system, indeed, allocates funds based on the levels of expenditures and resources that characterize each municipality, and not based on the essential levels of services that must be delivered to the citizens by each of them.

This topic is extensively discussed by the journalist and essayist Marco Esposito in his book, *“Zero al Sud, la storia incredibile (e vera) dell’attuazione perversa del federalismo fiscale”*, in which he highlights some of the paradoxes that followed from this fiscal system scheme. “[For instance], is it credible that in Casoria – 80.000 inhabitants’ town at Napoli’s border – the basic need for nursery schools, with 2,200 children under the age of three, is zero? Obviously not. One issue is the number of existing services, which unfortunately might be zero, and another issue is the need for a service, that is, mothers and fathers that would gladly bring their child to the school if only one existed”, argues the author, presenting the distortions created by a perverse federal system.

The country and, again, especially its Southern part (despite a huge spread that has manifested in the last years) is also affected by a deep-rooted illegal activity carried out by mob clans (Cosa Nostra, Camorra and ‘Ndrangheta the historical Mafias). Their yearly, combined revenues are estimated at roughly €40 billion, equal to 2% of Italian GDP.²³⁰

Macroeconomic Policies

Recovery and Resilience Plan

The main policies which are now being implemented in Italy lie within Italy’s Recovery and Resilience plan. In particular, Italy is the Country that has received the largest amount of funds from the European Union in order to overcome the challenges following the Covid pandemic.

Indeed, EUR 194 billion have been assigned to Italy for this purpose. A part of this amount is made up of grants, EUR 71 billion, and another part by loans, EUR 122 billion. The plan involves 150 investment streams and 66 reform programmes, of which 39% will support the contrast to climate change (mainly by improving the development of renewable energies and sustainable mobility) and 25.6% will foster the

²³⁰ <https://www.agi.it/economia/news/2023-01-23/mafia-fattura-40-miliardi-anno-2-pil-19739774/>

digital transition (digitalisation of the public administration and improvements in production technologies).²³¹

Another important field of reforms regards Italy's Economic and Social Resilience: in order to boost it, a series of reforms are going to be implemented to improve the justice system (by improving its efficiency and reducing the length of proceedings), the public administration (by fostering its efficacy and efficiency) and the business environment (by removing barriers to competition and improving services to firms). Some commentators²³² have argued that the amount of money that Italy is receiving might become a threat due to its public finances, since a big part of this financing is in the form of loans, it will increase the amount of debt that Italy already has. If these funds are not well invested, they will become a burden for future generations. Usually, money is asked when one has a project that wants to implement and there are no resources to fund it. In the PNRR case, the exact opposite has happened: we asked for the highest possible amount of funds and then we have tried to find ways to spend them. Yes, this is not necessarily economically efficient. But, at the time, "nobody asked themselves if we were prepared to spend them well and effectively", argues Tito Boeri, former president of INPS (National Institute for Social Providence) and professor at Bocconi University, and Roberto Perotti, professor at Bocconi University as well, in their book "PNRR: La grande abbuffata".

In addition, there are rising concerns about the fact that Italy might not be able to meet the deadlines for the realization of the reforms. On the 31st December 2023 the government published a report on the expenditures it had made up to that point: Public administrations have spent EUR 43 billion, with 78% of the funds (EUR 151.4 billion) that still has to be spent.²³³ Measures planned are to be completed by 2026 and Italy has so far received 52.7% of the resources, with the arrival of the remaining allocated tranches subject to the realization of further progress in the implementation.²³⁴

This is a good point: it is not easy to spend well sudden surges in money.

Monetary Policy

Monetary Policy in Italy, as well as in all countries adopting the Euro, is entrusted to the European Central Bank. The main aim of the ECB is to keep the level of prices stable in the Euro Area. It does so by ensuring that inflation remains low (the target is 2%), stable and predictable. Of the three elements composing Mundell's Trilemma (stable exchange rates, free movements of capital and effective monetary policy oriented towards domestic goals), the ECB pursues the first and the latter.²³⁵

Fiscal Policy

As regards fiscal policy, Italy has a progressive system with income taxes ranging from 23 to 43% of the earned income. The highest tax rate is well above the average European Union one (38%). The country, however, has one of the lowest inheritance tax rates (3% under 1 million euros and 4% for the part exceeding that threshold) and, in the last decade, it has seen a reduction in the corporate tax rate (taxes on profits), which now stands at 24%. Taxes on value-added are at 22%, with lower rates for specific goods and services²³⁶.

Some parties building the governing coalition have proposed a flat tax on incomes, a tax rate equal for all households at all income levels. This represents a non-progressive tax system that was theorized for the first time by Milton Friedman in 1956. As of today, this proposal has not become effective yet in Italy and it is not present in most advanced capitalistic economies which still show a predominance of progressive

²³¹ https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/italys-recovery-and-resilience-plan_en

²³² <https://pagellapolitica.it/articoli/rinuncia-soldi-pnrr>

²³³ <https://www.openpolis.it/a-che-punto-e-la-spesa-dei-fondi-del-pnrr/>

²³⁴ [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2021\)698847](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2021)698847)

²³⁵ https://www.ecb.europa.eu/press/key/date/2006/html/sp060224_1.en.html

²³⁶ <https://www.expatica.com/it/finance/taxes/taxes-in-italy-79671/>

taxation schemes.

A big trouble affecting the tax system is the huge amount of tax evasion. In 2019 the tax gap, the difference between the theoretical and the actual amount of taxes collected, was EUR 99.2 billion. It seems huge, and it is, but it was for the first time under a hundred billion euros after many years. 47% of the citizens do not declare any income and 14% of the citizens pay 2/3 of the total taxes.

The current government does not seem to be fighting this problem aggressively: from the moment of its settlement, it has approved 17 different tax amnesties,²³⁷ which might raise a concern of moral hazard given the favourable treatment accorded to tax evaders.

Public Debt

Public debt is another big concern, with Italy having the second highest debt-to-GDP ratio in Europe after Greece, at 140%. In 2020, during the Covid pandemic, it stood at 154.9% and was about to slightly decline and then increase again until the present value²³⁸.

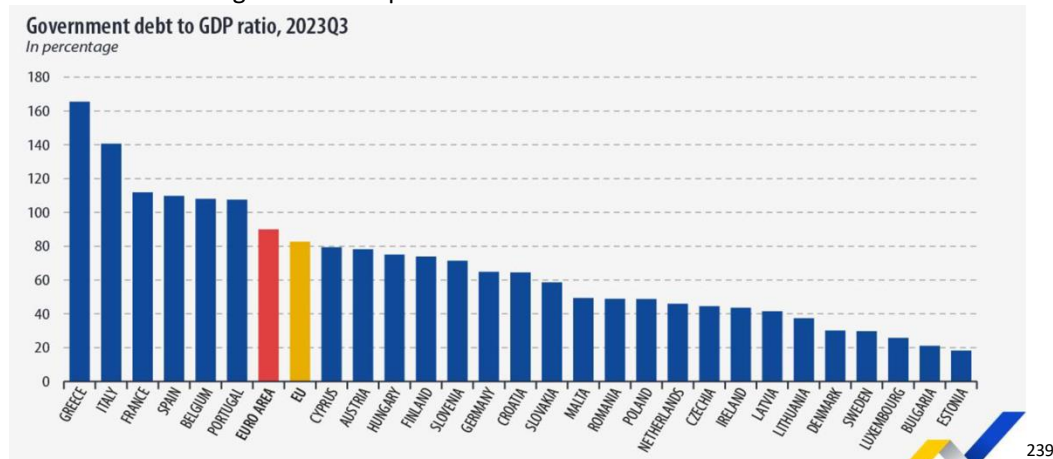


Table 5: Government debt to GDP ratio. Source: Eurostat.

Piano Mattei

Another big, structural policy announced by the government in January is the Piano Mattei, a plan that aims at the development and cooperation between Italy and African Countries. It is named after Enrico Mattei, former president of Eni (Ente Nazionale Idrocarburi), who was an example of the ability to democratically cooperate with, and not simply exploit, the African Continent.

In particular, Italy has shown commitment to invest EUR 5.5 billion in the next four years in order to promote education, agriculture, health, the sustainable exploitation of natural resources, climate, and the prevention of irregular migration.

The main objective is to create a relationship of cooperation and mutual development that distances itself from the predatory approach that has historically characterized the rapport between Europe and Africa. Besides this, with this plan, Italy aims at becoming the natural energy supply hub for the whole of Europe, especially after the reduction in gas imported from Russia due to the war, and at reducing flows of irregular migrants. This is done by directly helping African countries in order to avoid big flows of people coming from those areas.

Microeconomic Policies

Market competition

Italian capitalism has transitioned from a late industrial take-off, led by prominent families, to a state

²³⁷ <https://www.open.online/2023/11/17/governo-meloni-17-condoni-evasione-fiscale/>

²³⁸ https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/ITA?zoom=ITA&highlight=ITA

²³⁹ Source of Table 5 : <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-23102023-BP>

capitalism and finally to a third form of capitalism led by companies on the national market and helped through privatization of many sectors. These three economic structures shaped the Italian market as we know it today.

Italy has always been a country highly dependent on others for raw materials and due to its internal political structure, it faced many development difficulties. Like many other latecomer economies, Italy focused on the development of heavy industry and saw the birth of private and family-owned companies such as *Edison*, founded in 1884 in Milan, which turned almost into an electrical monopoly on the market, *Fiat*, an automobile company founded in 1899 by Giovanni Agnelli and a group of entrepreneurs, and *ILVA*, a steel company founded by the will of southern entrepreneurs in 1905.

In the 20th century, the state started to exert a significant influence on the economy. After the great depression, the *Institute for Industrial Reconstruction* (IRI) was founded in 1933 as a public holding company to address the major banking and industrial crisis and became the driver of economic development and modernization of the country after World War II. Apart from the finance sector, the government took over other critical sectors: energy, with companies such as *ENEL* and *ENI*, national distributors of electricity and gas and oil respectively; railway transportation with *Ferrovie dello Stato*; communication, with the implementation of the radio broadcasting company RAI as a public administration, and the unification of five then present telecommunication companies under one main national company, *SIP*.

However, there has been a gradual shift towards liberalization and the promotion of competition across various industries at the end of the 20th century, facilitated by deregulation, privatization efforts and the implementation of policies designed to boost market competition and efficiency. A great example can be seen in the communication sector, which was privatized by the unification of all the other communication companies on the market under *Telecom Italia* in 1994. The main government-owned company, IRI, faced a privatization too, in 1992, which ended with its liquidation a decade later. The rise of competitiveness on the Italian market required the presence of an antitrust authority: the law in 1990 established the Italian Competition Authority (*Autorità Garante della Concorrenza e del Mercato*, AGCM), tasked with enforcing laws that promote fair competition and prevent anti-competitive practices.

Nowadays, over half of the enterprises operate in the Northern regions (with 28.7% located in the Northwest and 22.7% in the Northeast), while the central regions of Italy host 21.3% of the businesses and the rest (27.3%) are located in the area of Mezzogiorno (the south and the islands).

A relevant component that cannot be overlooked in the Italian market is the role of micro-enterprises and small and medium-sized enterprises (SMEs). As defined by Italian civil law, micro-enterprises and SMEs must respect specific criteria in terms of sizes and economic turnovers²⁴⁰ which influence their organizational structure, as they are often directly managed by the owner and are family-based, and their management policies, due to the limited availability of capital.

Micro-enterprises and SMEs represent the backbone of the Italian economy: out of 4.4 million enterprises²⁴¹ in Italy, micro-enterprises represent 95.13% of the total and SMEs account for 4.78%, compared to the remaining 0.09% for large enterprises. These enterprises contribute considerably to the national GDP (SMEs solely constitute 38% of the national GDP and 41% of the total turnover generated in Italy) and employ 33% of the workforce in the private sector.

However, these organizations present constrained size and resources (economic, time availability and skills) and highly rely on the support from the diverse stakeholders within their ecosystem. Recognizing

²⁴⁰ Medium-sized enterprises must have less than 250 employees and have an annual turnover not exceeding EUR 50 million, or an annual balance sheet total not exceeding EUR 43 million euros. Small enterprises must have less than 50 employees and an annual turnover or annual balance sheet total not exceeding 10 million euros. Microenterprises must have less than 10 employees and an annual turnover or annual balance sheet total not exceeding 2 million euros.

²⁴¹<https://blog.osservatori.net/pmi-significato-numeri-innovazione#:~:text=Le%20PMI%20italiane%20sono%20invece,del%20valore%20aggiunto%20del%20Paese>

their importance, the government protects and boosts them through the implementation of different funds and financial aids that might stimulate innovation and development. Within the others:

- *Nuova Sabatini*: a policy introduced in 2023 aimed to facilitate SMEs’ access to credit to purchase or lease new machinery and equipment;
- *Fondo di Garanzia PMI*²⁴²: established in 2000 for those companies which face difficulties accessing bank credit due to the lack of sufficient warranties;
- *Fondo Impresa Donna*: a financial aid established in 2020 to incentive the birth and the consolidation of new female business realities;
- *Iper-ammortamento*: an economic facility aimed at incentivizing investments in instrumental technological assets through a higher tax-deductible percentage.

Labour market

The first article in the Italian constitution states that “*Italy is a democratic Republic founded on labour*” carrying a dual significance. Firstly, it mandates the state has to ensure equal access to the labour market for all individuals. Interesting point. Secondly, it emphasises that every citizen should possess the necessary means, both material and spiritual, to actively participate in shaping the nation's political, economic, and social landscape. Operating within this constitutional framework, Italy maintains a comprehensive set of laws and regulations aimed at safeguarding workers' rights and regulating the relationship between employers and employees. These regulations cover various aspects such as working conditions, wages, working hours, and collective bargaining agreements.

As of the end of 2023, Italy's employment rate for individuals aged 20-64 stood at 61.9%,²⁴³ with a notable gender disparity—71% for men and 52.8% for women—highlighting a persistent issue in the country. Italy holds the unfortunate distinction of having one of the lowest employment rates among European nations, surpassed only by Greece (which recorded an employment rate of 61.7% in 2023). However, there are positive signs in the labour market, with the unemployment rate reaching its lowest point since 2008 at 7.2%, and youth unemployment (for young adults aged 15-24) declining to 22.7% by the end of 2023 (as shown by Table 1).²⁴⁴

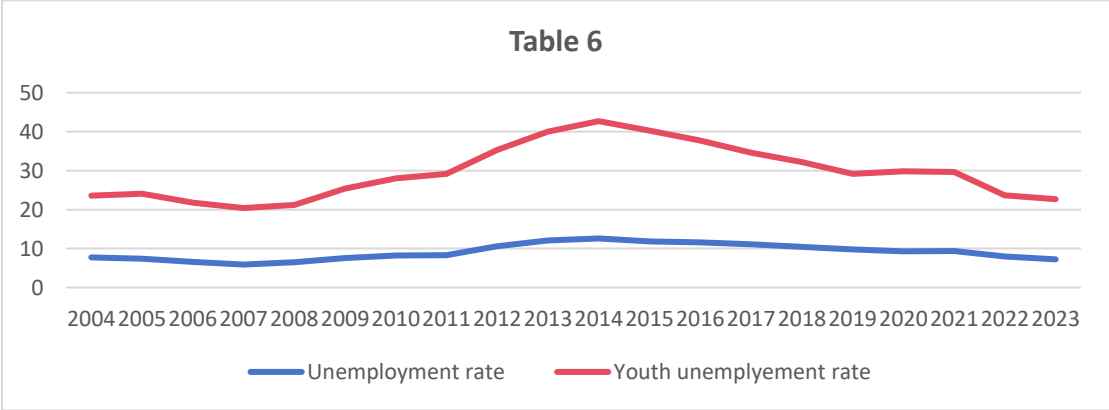


Table 6: Unemployment Rates. Source: Istat.

²⁴² <https://www.fondidigaranzia.it/conosci-il-fondo/>

²⁴³ Employment and activity by sex and age - annual data [lfsi emp a], source Eurostat; <https://www.istat.it/en/archivio/293470>, source ISTAT.

²⁴⁴ Source for Table 6: http://dati.istat.it/Index.aspx?DataSetCode=DCCV_TAXDISOCCU1#

Despite these improvements, the percentage of NEETs (Not in Education, Employment, or Training) aged 15-29 remains alarmingly high, hovering around 20%, far above the European average of 12% as of January 2022 as shown in Table 2. Important economic, social and political points.

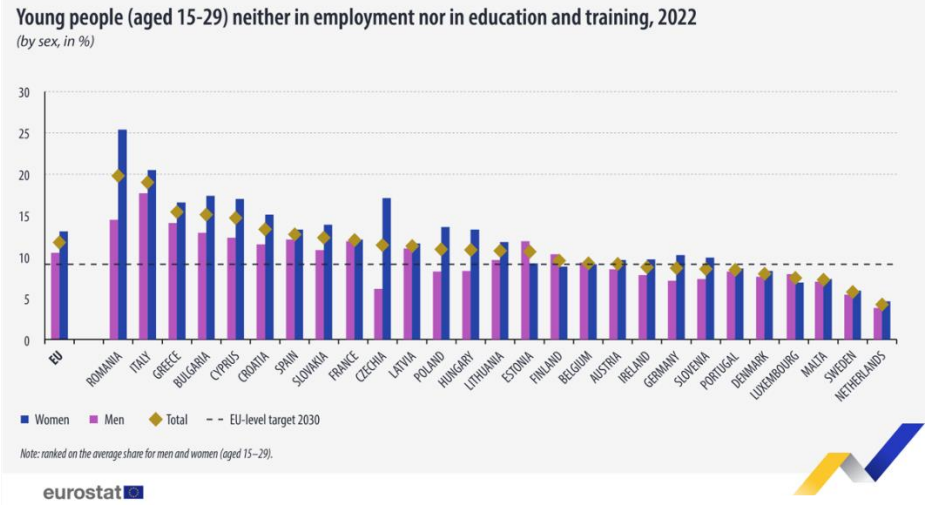


Table 7: NEET Rates. Source: Eurostat.

Italy's informal labour market is substantial and driven by various factors. For informal labour market we refer to all parts of the economy that are not regulated by legal or contractual norms. Workers in the informal market are often not typical wage employees, as they are formally independent (due to the lack of a proper employment contract) but effectively under somebody's thumb, which can be even more exploitative than typical wage employment. Typically, these workers include legal services (such as cleaning, domestic helpers, transportation, etc..) who are in fact undeclared for fiscal purposes but could also include illicit and illegal activities (such as prostitution, production and trafficking of narcotics, etc..) who see at least one penal code violation. In the specific case of Italy, we include also other numerous activities related to undeclared rentals and "Caporalato", a form of illegal recruitment and organization of labour in wage employment. This phenomenon is widespread across the entire Italian territory, particularly in the construction industry of the Northern regions and in the agricultural sector in the south, and it is often associated with mafia and criminal organizations. It targets especially the most vulnerable segments of the population, especially illegal immigrants who cannot work under a regular contract and who are therefore exploited to work in poor conditions for extremely low wages. Despite government efforts to tackle this issue, the number of illegal workers continues to rise. Informal employment, which lacks protections and benefits of formal arrangements, affects nearly a quarter of the employed population (2.990 million in 2021, as estimated by Istat).²⁴⁶

Notably, Italy lacks a minimum wage policy in the labour market. The minimum wage can be established by law, through national collective bargaining, or through a combination of the two. Currently, the legal minimum wage exists in only 21 EU member countries,²⁴⁷ whilst for the remaining 6 (among Italy, Denmark, Cyprus, Austria, Finland, and Sweden) it is exclusively provided through collective agreements.

²⁴⁵ Source for Table 7: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_training#The_NEET_rate_within_the_EU_and_its_Member_States_in_2022

²⁴⁶Source : <https://www.istat.it/it/files/2023/10/Report-ECONOMIA-NON-OSSERVATA-2021.pdf>

²⁴⁷ <https://temi.camera.it/leg19/temi/salario-minimo.html>

However, Article 36 of the Italian Constitution recognizes the right of workers to a remuneration commensurate to the quantity and quality of their work and in any case such as to ensure them and their families a free and dignified existence. Introducing a legal minimum wage could help rebalance the power dynamic between employers and workers, particularly in sectors and regions where employer bargaining power remains disproportionately strong, but the political debate still revolves around other issues, such as the eventual level of the minimum wage and the criteria to recognize it.

A remarkable measure is the “*Reddito di Cittadinanza*” (Citizenship Income), a fundamental active labour market tool to combat poverty, inequality, and social exclusion, established in 2019. It consists of economic support to the incomes of families facing an unemployment situation, and it is associated with reintegration into the workforce and social inclusion. To be eligible for it, certain requirements must be jointly met: being an Italian citizen, or a foreign citizen residing in Italy for at least 10 years and having an income slightly below EUR 10,000 per year. On the side of the employers, incentives are provided (including exemption from payment of social security contributions) for those who hire or train beneficiaries of the “*Reddito di Cittadinanza*”, as well as in favour of those beneficiaries who start an individual business activity. Interesting

International Economic Integration
Italy’s trade characteristics

Italy's trade policy is deeply intertwined with its membership in various trade organisations. Italy is one of the founding members of the European Union since 1951, when the European Coal and Steel Community was founded, followed then by the Treaties of Rome in 1957 which founded the European Economic Community, and finally, the Treaties of Maastricht in 1993 when the European Union was formally established. As a member of the European Union, Italy benefits from advantageous free trade agreements with different countries which engage a fair competition on the global market through zero or reduced tariffs, generating job opportunities and national growth.

Additionally, Italy has been a member of the World Trade Organization (WTO) since its establishment in 1995, which aims to lower customs tariffs and other trade barriers to set liberalization through continuous and dynamic monitoring. Italy also participates in regional trade pacts such as the European Free Trade Association (EFTA), which promotes free trade and economic integration.

The national trade landscape is nowadays characterized by a surplus in its trade balance. ²⁴⁸

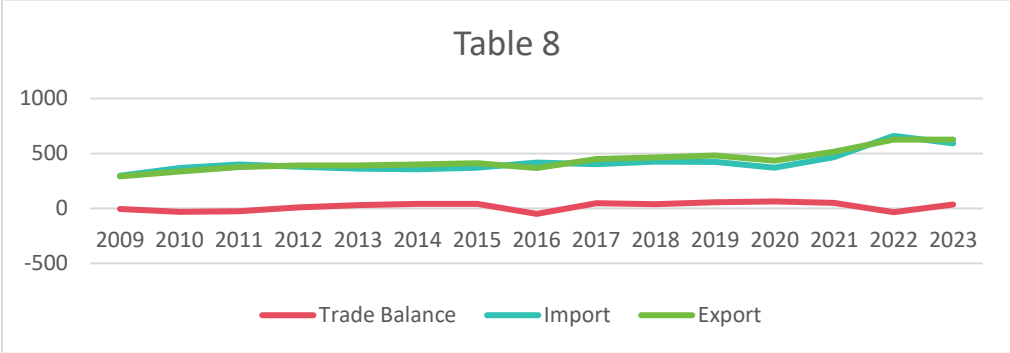


Table 8: Trade Balance (mIn Euro). Source: Infomercatiesteri.

By observing Table 3, it is possible to notice that the trade balance has been increasing since the 2008 recession, with the only exception of the 2020 Covid-19 pandemic and 2022, due to the Ukrainian war. The 2020 economic crisis had a quick but devastating impact on Italian exports, one of the worst since the Second World War. Disruptions in global supply chains and trade flows led to a notable decline in international trade volumes, affecting Italy's exports due to reduced demand and logistical challenges

²⁴⁸ Source for Table 8: https://www.infomercatiesteri.it/public/osservatorio/interscambio-commerciale-mondo/Preleva%20tutto%20l'aggiornamento_1713289233.pdf

during lockdowns. This has affected especially those sectors that are most relevant to Italian international trade, machinery, automotive, vehicles and the textile-clothing sector. The complete closure of activities for several months has worsened this scenario, leading to the bankruptcy of several companies throughout the territory.

However, today (2023-2024) Italy is renowned globally and stands out as the 6th top exporting country in the world, being one of the largest exporters of machinery and equipment excelling particularly in sectors such as automotive and industrial machinery. Additionally, fashion and luxury goods, food and beverages significantly contribute to its export prowess. Still, it is possible to notice a high regional disparity through the territory, as the region with the highest exports is the north, where Lombardia stands out among the others covering around 26% of total exports. Intra-EU trade plays a pivotal role, accounting for 65.7% of Italy's exports²⁴⁹ in 2023, with major destinations including Germany (11.9%) and France (10.1%). Outside the EU, the United States (10.7%) and Switzerland (4.9%) are significant trade partners.

Focusing on the import side, Italy is in the 11th position among the top importing countries in the world in 2023, importing especially chemical products and fossil fuels, such as oil, coal, and gas. The northern regions are once again the ones with the highest need of import, due to the high presence of industries and companies. The main countries of origin of Italian imports intra-EU are Germany (which accounts for 15.2%) and France (7.9%), and outside the EU China, which accounts for 8.3%).

Italy is one of the countries in Europe with the highest energy dependence on foreign sources, a significant 79% of the national energy demand is met through imports, especially for fossil fuels, oil, coal, and gas. Before the Ukrainian conflict, Italy imported most of them from Russia, which covered more than 25% of Italy's demand.²⁵⁰ Russia represented the country Italy significantly relies on for all fossil fuels, and from which it imported almost 40% of gas imports, 12% of oil imports and 52% of coal imports.

Effects of conflicts on the Italian economy

Both the Ukrainian and Palestine conflicts have resulted in devastating effects on the Italian economy. Due to the high dependency on imports for fossil fuels and energy coming especially from the East, the conflicts impacted both production and consumption prices for energy and oil costs, driving their prices to record highs. In Italy, import prices in the euro area for energy consumption, including electricity and gas, rose from 135 in January 2022 (pre-war) to 172 in January 2023, while those for industrial production increased from 194 to 241, causing a negative impact on both inflation²⁵¹ and national growth. The most affected factors by far are metallurgy, production of non-metallic minerals, and wood-paper production, as they represent the sectors that require these goods the most.

After the Russian invasion of Ukraine in February 2022, the EU implemented its sanctions against Russia, both political and economic. Economic sanctions aim to effectively hinder Russia's ability to continue its aggression through restrictions on international trade activity. Among the main products that can be no longer imported from Russia, are oil, coal, and other fossil fuels, in order to prevent Russia from getting paid more than 60 USD for a barrel of crude oil. Clearly, for a country like Italy which relied on Russia for a big part of imports of these goods, the conflict has been a major challenge. For Italy, like many other EU countries, the invasion has made the diversification of energy supply mandatory: the percentage of Russian imports for gas and energy in the EU has decreased from over 40% in 2021 to 8% in 2023, as shown in Table 4. This happened thanks to the implementation of liquified natural gas (LNG) terminals in the continent (with 3 operational terminals in Italy), which brought a significant increase in imports from the US, and a switch to different origin countries like Norway, north Africa, Qatar, and, again, the US. In this context, Italy appears as one of the main importers of LNG in the EU. Compared to 2021, nowadays Italy relies on Algeria as a top supplier, followed by Azerbaijan and its reliance on Russia has been decreasing considerably.

²⁴⁹North and South America accounts for 14.9%, Asia for 13.5%, while the rest of the world accounts for the remaining 5.9%

²⁵⁰ <https://italyforclimate.org/wp-content/uploads/Da-dove-viene-la-nostra-energia-Italy-for-Climate.pdf>

²⁵¹ The level of prices at the end of 2022 was around +12% compared to 2021.

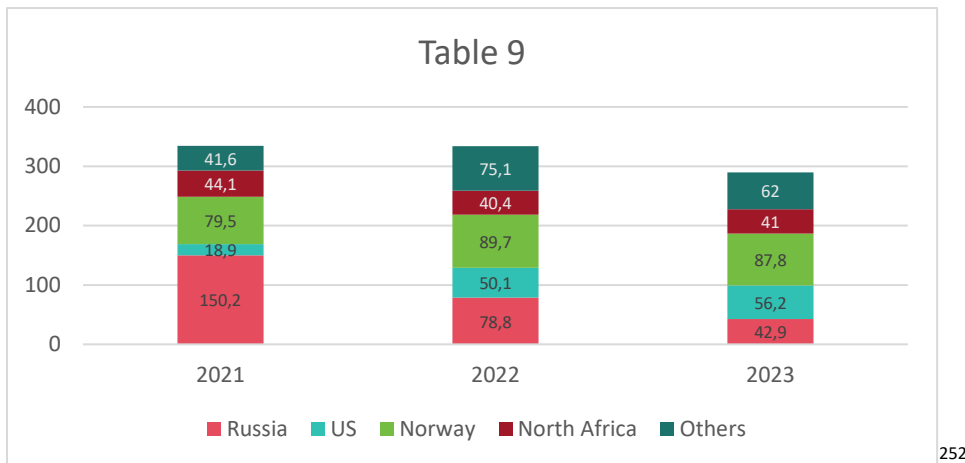


Table 9: Gas Supply from major partners (mln of m3) to the EU. Source: European Commission.

This choice might have mitigated the fragile economic situation that Italy is facing, at least until the Palestine conflict. The attack in Palestine produced an increase in prices for gas and energy and for Italy, which nowadays has turned to Arab countries like Algeria, as well as to Azerbaijan, this situation may not be particularly reliable geopolitically in the context of the conflict. The increase in prices for these goods could worsen the level of prices and inflation and slow down national growth.

Many believe that a solution to this dependence could involve transitioning to renewable energy sources, including nuclear power, and diversifying supply sources to reduce dependence on Arab countries. Even if Italy's commitment to carbon neutrality by 2050 is commendable, it is still off track to meet its energy transition target of 70% electricity from renewables by 2030. It is surely not alone. However, the key to further energy security and independence lies in reducing the overall demand for natural gas. However, according to the IEA,²⁵³ this rollout is hindered by long and complex permitting procedures.

Global Governance

Lastly, on 1st January 2024, Italy assumed, for the seventh time, the Presidency of the G7, at a particularly complex time. As Prime Minister Giorgia Meloni declared in the presentation of goals and intentions, *"Russia's war of aggression against Ukraine has challenged the international system based on the rule of law and the violation of those principles holding the international community together is triggering hotbeds of conflict in various parts of the world"*. The Prime Minister highlighted the intention of the Italian government towards addressing the conflict in Ukraine and the Middle East, among the relations with developing countries and emerging economies. The main summit will be held in Puglia in June, where the main themes will be addressed and the results achieved in recent months will be observed, with the exceptional participation of Pope Francis, who for the first time in history will take part in G7.

In the recent period of increasing tensions and challenges, ranging from climate to wars, human rights, and threats to democracy, it appears necessary and desirable, perhaps as never before, the need for stronger synergy and cooperation among countries in the European Union. Many commentators in Italy are arguing that the only way for Europe to play the crucial role that it must have in issues such as diplomacy, human rights and climate safeguard, is through the creation of a stronger European Identity that goes beyond the identities of the single member countries. This would allow Europe to play a crucial role in the above-mentioned issues, for which the Old Continent must be a decisive paladin in the global framework.

Besides this, it is undeniable that several current challenges can only be faced through a strong global

²⁵² Source of Table 9: European Commission, <https://www.consilium.europa.eu/it/infographics/eu-gas-supply/#0>

²⁵³ <https://www.iea.org/countries/italy>

cooperation, as European countries, and even the European Union as a whole, can do little against them. For instance, the European Union is responsible for only 6% of Global polluting emissions – without the aid of the other countries, it can do little to boost climate safeguard²⁵⁴. This need for a European and a Global Governance, however, appears to be still a distant concept, with national interests prevailing on the global, relevant ones.

References

- Bello, Camille, *Euronews*, <https://www.euronews.com/health/2023/07/22/life-expectancy-where-in-europe-do-people-live-the-shortest-and-the-longest>, accessed 20th March 2024.
- Boeri, Tito – Perotti, Roberto, “*PNRR: La grande abbuffata*”, Milan, Feltrinelli Editore, published on October 31st 2023
- Calenda, Carlo, "Piano Nazionale Industria 4.0." Ministero Dello Sviluppo Economico”, Roma, Italy (2017).
- Casonato, Carlo, and Jens Woelk, "The Constitution of the Italian Republic" Faculty of Law, Department of Legal Sciences, University of Trento (2008).
- Castronovo, Valerio, “Storia dell'IRI. 1. Dalle origini al dopoguerra: 1933-1948” Gius. Laterza & Figli Spa, 2012.
- Cristaldi, Flavia, "I nuovi schiavi: gli immigrati del Gran Ghetto di San Severo" *Rivista geografica italiana* 122.1 (2015): 119-142, Italy.
- Esposito, Marco, “Zero al sud: la storia incredibile (e vera) dell’attuazione perversa del federalismo fiscale”, Rubettino Editore, published on November 8th 2018
- Ferrarella, Luigi, *Corriere della Sera*, <https://milano.corriere.it/notizie/cronaca/22-febbraio-14/mani-pulite-bilancio-30-anni-dopo-2565-indagati-condannati-furono-1408-b28f4366-8dcf-11ec-a91e-e98defcaa657.shtml>
- Gazzetta Ufficiale on “small and medium sized companies”, https://www.gazzettaufficiale.it/atto/serie_generale/caricaArticolo?art.progressivo=0&art.idArticolo=2&art.versione=1&art.codiceRedazionale=06A12054&art.dataPubblicazioneGazzetta=2007-01-05&art.idGruppo=0&art.idSottoArticolo1=10&art.idSottoArticolo=1&art.flagTipoArticolo=0#:~:text=Art.,a%2043%20milioni%20di%20euro .
- IEA on Energy system of Italy, <https://www.iea.org/countries/italy> , accessed 23rd April 2024.
- Kirby Paul, *BBC News*, <https://www.bbc.com/news/world-europe-63029909> , accessed 20th March 2024.
- Osservatorio Innovazione Digitale nelle PMI on “SME, small and medium enterprises: what are they and how do they evolve”, <https://blog.osservatori.net/pmi-significato-numeri-innovazione#:~:text=Le%20PMI%20italiane%20sono%20invece,del%20valore%20aggiunto%20del%20Paese> .
- Trento, Sandro, “Il capitalismo italiano” Vol. 623. Il Mulino, 2012.
- Content on Fondo di Garanzia, <https://www.fondidigaranzia.it/conosci-il-fondo/> , accessed 20th March 2024.
- Content on Industries, <https://www.worldatlas.com/articles/which-are-the-biggest-industries-in-italy.html>, accessed 24th March 2024.
- Content on energy supplies, <https://www.consilium.europa.eu/it/infographics/eu-gas-supply/#0>, accessed 17th April 2024.
- Content on energy sources, <https://italyforclimate.org/wp-content/uploads/Da-dove-viene-la-nostra-energia-Italy-for-Climate.pdf>, accessed 17th April 2024.
- Content on minimum wage, <https://temi.camera.it/leg19/temi/salario-minimo.html> , accessed 20th March 2024.
- Data about Demographics, <https://www.worldometers.info/world-population/italy-population/>, accessed 24th March 2024.
- Data about global emissions, <https://it.euronews.com/green/2023/05/16/ue-calano-le-emissioni-di-gas-serra-e-crescono-le-economie>, accessed 30th April 2024.
- Data about Politic results, <https://www.confavoro.it/elezioni-politiche-2022-dati-finali/>, accessed 24th March 2024.
- Data on Italian Regional disparities, <https://www.oecd.org/regional/ITALY-Regions-and-Cities-2018.pdf> , accessed 24th March

²⁵⁴ <https://it.euronews.com/green/2023/05/16/ue-calano-le-emissioni-di-gas-serra-e-crescono-le-economie>

2024, and <https://www.oecd.org/regional/ITA-RCG2022.pdf>, accessed 30th April 2024.

Data on revenues by Mafia, <https://www.agi.it/economia/news/2023-01-23/mafia-fattura-40-miliardi-anno-2-pil-19739774/>, accessed 25th March 2024.

Data on Italy's Recovery and Resilience plan, https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/italys-recovery-and-resilience-plan_en, accessed 27th March 2024.

Data on current expenditure of European funds, <https://www.openpolis.it/a-che-punto-e-la-spesa-dei-fondi-del-pnrr/>, accessed 27th March 2024.

Data on the deadlines for Italy's Recovery and Resilience plan,

[https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2021\)698847](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2021)698847), accessed on 20th April 2024.

Data on income tax rates in Italy, https://www.ecb.europa.eu/press/key/date/2006/html/sp060224_1.en.html, accessed 28th March 2024.

Data on tax on value added: <https://www.expatica.com/it/finance/taxes/taxes-in-italy-79671/>, accessed 28th March 2024.

Data on tax amnesties, <https://www.open.online/2023/11/17/governo-meloni-17-condoni-evasione-fiscale/>, accessed 28th March 2024.

Data on current Debt/GDP Ratio,

https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/ITA?zoom=ITA&highlight=ITA accessed, 28th March 2024.

Historical context, <https://www.quirinale.it/page/2giugno1946-2016>, accessed 20th March 2024.

Opinions on the need to give up to some European funds, <https://pagellapolitica.it/articoli/rinuncia-soldi-pnrr>, accessed on 27th March 2024.

Statistics related to Italy's import/export of goods, https://www.infomercatiesteri.it/public/osservatorio/interscambio-commerciale-mondo/Preleva%20tutto%20l'aggiornamento_1713289233.pdf, accessed 27th March 2024.

From Eurostat: Employment,

https://ec.europa.eu/eurostat/databrowser/view/lfsi_emp_a/bookmark/bar?lang=en&bookmarkId=38fbb3f7-0203-4728-989f-b0608ed16987, accessed 20th March 2024.

Government dept, <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-23102023-BP>, accessed 23rd March 2024.

NEETs, [https://ec.europa.eu/eurostat/statistics-](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_trainin)

[g#The NEET rate within the EU and its Member States in 2022](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_trainin), accessed 20th March 2024.

From Istat:

Employment and unemployment, <https://www.istat.it/en/archivio/293470>, accessed 20th March 2024.

Informal employment: <https://www.istat.it/it/files/2023/10/Report-ECONOMIA-NON-OSSERVATA-2021.pdf>, accessed 10th April 2024.

NEETs, [https://ec.europa.eu/eurostat/statistics-](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_trainin)

[g#The NEET rate within the EU and its Member States in 2022](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_trainin), accessed 20th March 2024.

From WorldBank:

GDP, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IT&name_desc=true, accessed 23rd March 2024.

GDP per capita, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IT&name_desc=true, accessed 23rd March 2024.

Pakistan's Economic Outlook

Bilal Mustafa

1. Introduction

The founder of Pakistan Muhammad Ali Jinnah once said, "The country without a strong economy would always remain at the mercy of international financial institutions". For Pakistan, this was the case in 1947 when it gained its independence and now in 2024, this is still the biggest economic challenge for Pakistan. According to the International Monetary Fund, "Out of Pakistan's national budget of 14.46 trillion rupees for 2023-24, total revenue amounts to 6.9 trillion rupees. A substantial 7.3 trillion is earmarked solely for interest payments, equivalent to 5.7% of GDP" (Fund, 2023). A wide-scale structural transformation of the economy is imminent for sustainable economic growth of Pakistan's GDP especially in current political and environmental circumstances. Many have argued that the armed conflicts in Ukraine and Palestine will have devastating effects on global trade and economic growth in the future and therefore, like all other developing countries Pakistan must prepare itself for these challenges more than anything else. Secondly, global climate change due to environmental degradation means increased and more devastating floods in Pakistan in coming years are not unexpected and therefore the country needs a sound political and economic system to mitigate these risks and ensure sustained economic growth for future generations of the country. This report provides a comprehensive outlook of Pakistan's economic structure, political and economic challenges faced by the country right now, its macroeconomic and microeconomic policies, and integration with the global community. The report starts with a brief introduction of Pakistan's history and geography followed by a look into its key economic and development indicators. In the second part, we have discussed Pakistan's economic policies and challenges. In the end, there is a brief discussion on Pakistan's international trade and integration with the global community.

2. History

Pakistan came into existence on 14th August 1947 when the British colonial empire granted independence to India and divided the country into two separate sovereign nations namely, India and Pakistan. The two major political parties in India at that time namely, the All India Muslim League and Indian National Congress led the Indian independence movement where the former demanded a separate dominion of states in the areas where Muslims were in the majority. Pakistan Resolution of 1940 states that "no constitutional plan would be workable or acceptable to the Muslims unless geographical contiguous units are demarcated into regions which should be so constituted with such territorial readjustments as may be necessary" (Qureshi, 1967). Consequently, the British government through the Indian Independence Act 1947 which was "an act to make provision for the setting up in India of two independent Dominions, to substitute other provisions for certain provisions of the Government of India Act, 1947" (Parliament, 2024) paved the way for establishment of Pakistan as a sovereign state within the sub-continent.

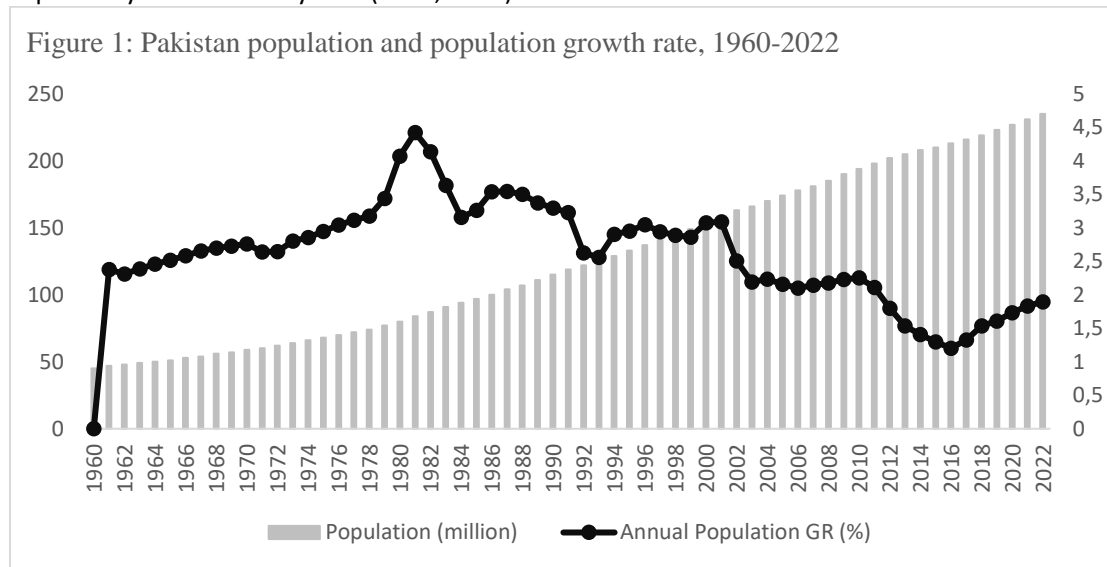
3. Geography

Pakistan is located in South Asia and shares its longest border with India (3,323 km.) on its Eastern front and borders with Afghanistan (2,640 km.) and Iran (904 km.) in the West. Pakistan's border with Afghanistan is an ancient trade route that connects landlocked Central Asian countries with South Asia and provides these countries access to the global shipping network through the Indian Ocean and the Arabian Sea. Pakistan's coastline along the Arabian Sea is around 1,046 km. on which the country has established two seaports namely, Port of Karachi and Bin Qasim Port, both located in the south-eastern city of Karachi. In the north, Pakistan shares its border with China (596 km.) and both countries are connected through the Karakoram highway.

4. Current Economic Outlook

4.1 Demographics

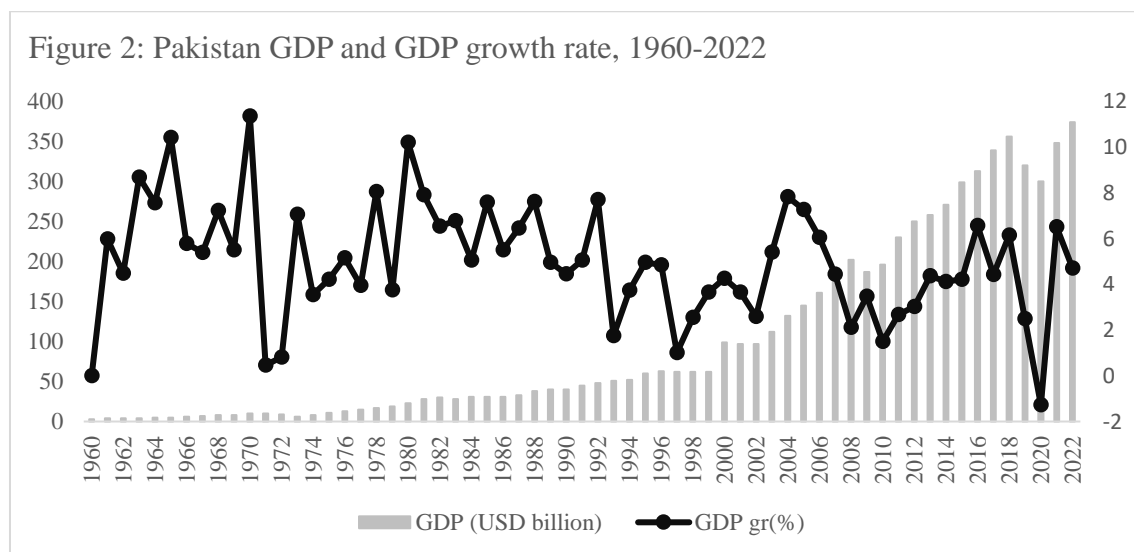
Pakistan is currently the 5th most populous country in the world with a population of around 240 million people growing at the rate of around 2% each year. The median age is around 21 years with a life expectancy of around 66 years. (Bank, 2024).



Source: The World Bank databank.

1.3 4.2 Macroeconomic and Development Indicators

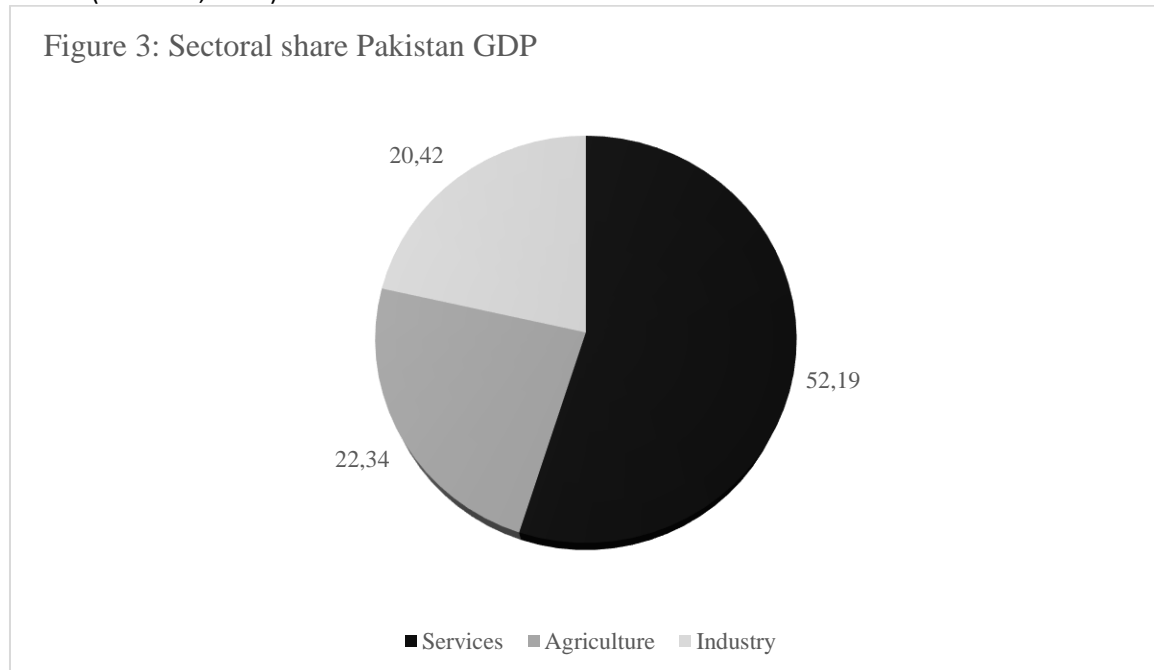
Pakistan's current Gross Domestic Population (GDP) is around USD 377 billion while GDP per capita is around USD 1600. The current GDP growth rate is around 4.7% while the current inflation rate is around 24.8%. Pakistan's debt-to-GDP ratio is around 77% and the Gini coefficient is 0.29. The Human Development Index (HDI) is at 0.54, which ranks 161st worst among 191 countries. (Bank, 2024)



Source: The World Bank databank.

1.4 4.3 Sectoral Share in GDP

Pakistan's GDP is divided into three key sectors of production namely, services (52.19%), agriculture (22.35%), and industry (20.42%). The services sector is composed of areas like telecommunication, transportation, information technology, housing, financial services, and tourism. Pakistan's main agricultural products include wheat, rice, cotton, sugarcane, and maize. The industrial sector of Pakistan is highly dominated by the textile industry while other industries include cement, fertilizer, and defense industries. Pakistan is also a resource-rich country with a significant share of GDP coming from the mining sector. (Statistics, 2020)



Source: The World Bank databank.

5. Key Economic Challenges

5.1 Political Instability

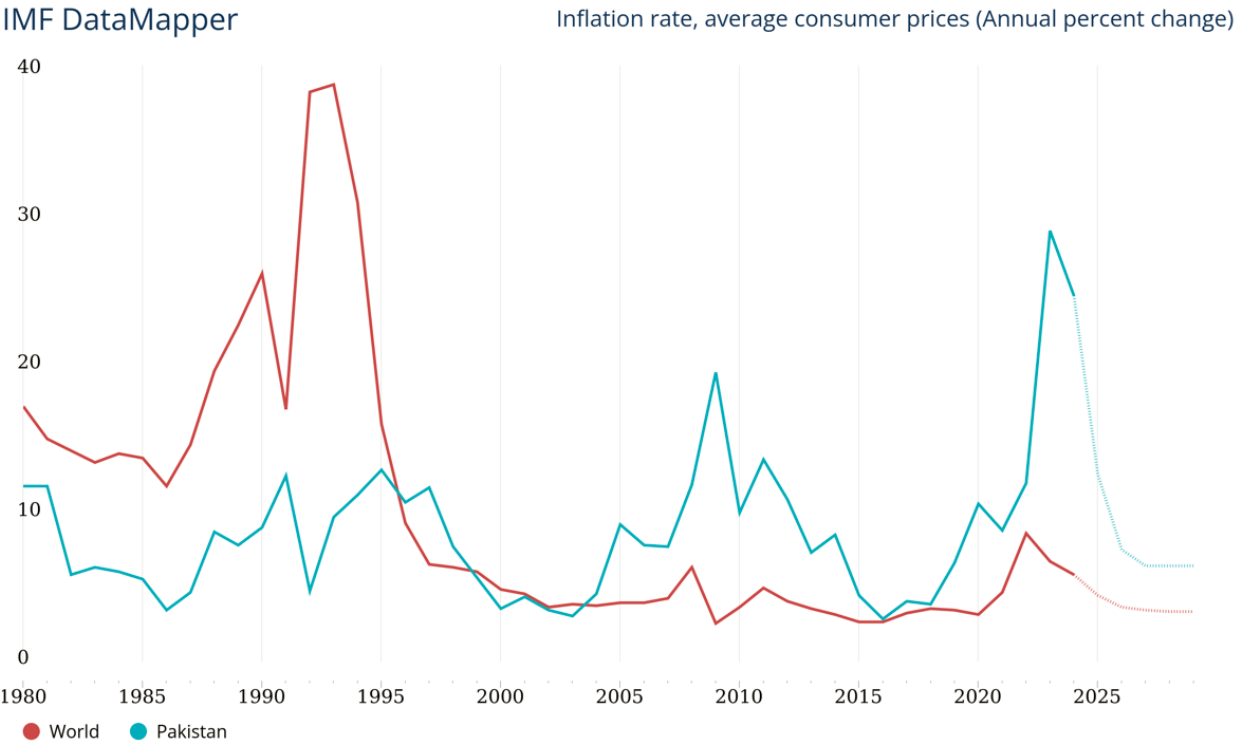
Pakistan has been ruled by the military establishment through martial law administration for more than 30 years. Consequently, the civil and democratic institutions in the country especially the parliament, civil bureaucracy, and judiciary have not been reformed for efficiency over time and hence they cannot govern the country effectively. For example, (Hayat, Fatima, Mukhtar, & Bano, 2016) compared the economic performance of Pakistan during military and democratic regimes between the years 1958 and 2014 and concluded that "military governments performed better in terms of Gross Domestic Product and controlling inflation". Even during periods of democratic rule in the country, there always exist tensions between civil and military leaderships which later uses its proxies in the public sector to influence the civil government's decision-making in its favor. Consequently, this creates uncertain market conditions for sustained investments hence affecting Pakistan's economic growth negatively. This along with security issues like terrorism in the region, the Pakistan-India conflict over Kashmir water distribution issues, and recurring cross-border conflicts between Pakistan's border security forces and the newly formed Taliban government in Afghanistan are the most important political economy challenges that Pakistan faces right now.

1.5 5.2 Economic policies

Since 2022, Pakistan's economy has seen an unprecedented rise in inflation. By December 2023, the inflation rate skyrocketed to an all-time high of 29.7%. Pakistani Rupee also lost 20% of its value against

the US dollar between the years 2022-24 (Bloomberg, 2024). Since the 2000s, high inflation has remained a key feature of Pakistan’s economy and in Figure 4, we can see that the inflation rate trends in Pakistan are not like the world trends and the reason is simple. Pakistan’s fiscal policy could not historically support its budget deficits domestically and therefore the country has remained highly dependent on international borrowing with high interest rates. Each year, a significantly large portion of GDP is spent on debt financing and therefore government investments in human and physical capital development remain low resulting in lower productivity in the economy. As argued by the former finance minister of Pakistan Anas Miftah, “In the last few years, as our budget deficit has ballooned, to pay for the deficit we have printed more and more money and as more rupees are chasing the same amount of goods, we have experienced persistently high inflation and rapid devaluation.” (Ismail, 2024)

Figure 4: Historical inflation rate trend: Pakistan and world inflation rate comparison



©IMF, 2024, Source: World Economic Outlook (April 2024)

5.3 Climate change

Pakistan is one of the countries that has been most adversely affected by climate change and global warming. The floods during monsoon season each year have become prevalent and devastating over the years and affect the lives and livelihoods of millions of people across the country. Just last year (2022), 33 million people were affected by the massive floods in the country. (Cross, 2024) According to the UN Trade & Development Organization, “In 2022, the impact of climate change was starkly evident when devastating floods submerged a third of the country’s territory, causing damages exceeding \$30 billion, about 8% of its GDP.” (organization, 2023)

6. Macroeconomic policy

1.6 6.1 Monetary Policy

Pakistan’s monetary policy is administrated by its central bank called the State Bank of Pakistan (SBP). The Monetary Policy Committee (MPC) of the SBP is responsible and fully empowered to decide the monetary policy including the inflation and interest rates, under the provision of the State Bank of

Pakistan Act, 1956 of the constitution of Pakistan which states that “it is necessary to provide for the constitution of State Bank to achieve domestic price stability by way of regulating the monetary and credit system of Pakistan and, without prejudice to said primary objective, contribute to the stability of the financial system of Pakistan and supporting the general economic policies of the Federal Government to foster development and fuller utilization of the country’s productive resources”. SBP is led by its Governor which is appointed by the President of Pakistan on recommendation of the cabinet committee led by the Prime Minister of the country. (SBP, 2024)

1.7 6.2 Fiscal Policy

The finance divisions of federal and provincial governments are responsible for revenue collection and budgetary allocations and expenditures in their respective domains. The Federal Board of Revenue (FBR) is the main revenue generation authority operating under the Finance Division of the Federal government of Pakistan. (Division, 2023)

1.8 6.3 Exchange rate policy

Since 1999, Pakistan has adopted the market-based exchange rate system. SBP, under the provision Foreign Exchange Act, of 1947 is responsible for managing Foreign Exchange reserves for the country. (SBP, 2024)

7. Microeconomic policy

Pakistan adopted liberal and free market policies since its independence in 1947 and benefited greatly from the green revolution in the late 1950s and early 1960s. It was also a period when massive industrialization took place in the country however, in the 1970s, the country practically turned into a command economy as most of these industries were nationalized along with the introduction of land reforms under the socialist government of Pakistan People’s Party (PPP). At the end of cold-war era, Pakistan again turned towards adaptation of liberal and free market economic principles, and most of the previously nationalized industries were privatized, and this process is still ongoing.

1.9 7.1 Two Key Microeconomic Policy Challenges

1.10

1. The state-owned companies in Pakistan especially Pakistan International Airlines, Pakistan Railways, and Pakistan Steel Mills are mostly operating at a loss and put an additional fiscal burden on the already crumbling GDP growth rate of the country.
2. According to an article published in Dawn News, around 50 entities listed in the Pakistan Stock Exchange (PSE) are under the direct or indirect control of army-funded foundations like the Fauji and Shaheen foundations. These companies often receive benefits and subsidies from the government which creates imperfect market conditions for private firms competing in the same market. (Dawn, 2016)

8. International Economic Integration

Pakistan has signed 35 free trade agreements with countries like China and many of the EU and ASEAN countries. Pakistan is also a member of trade promotion and cooperation organizations like WTO, SAARC, ECO, OIC, and G-8 countries. (TDAP, 2024). Pakistan’s key exports are predominantly in the textile sector which includes textile products like garments, cotton, and knitwear while its major imports are fuels, machinery, and pharmaceuticals. Pakistan's key export partners include USA, China, and EU

countries while imports are mainly from China, UAE, and Indonesia. (Edge, 2024).

The geo-strategic location of Pakistan in South Asia has historically helped the country maintain positive political relationships with all countries. As the world today is becoming more and more multipolar, Pakistan has the advantage of having strong trade ties with countries like China and Russia as well as the United States and European Union which will help the country's economic growth in the future. Pakistan is currently working extensively to develop its global trade relationships further. Pakistan and China are working on a joint economic development project called "China-Pakistan Economic Corridor (CPEC)" which will not only improve the country's global trade integration but also help in economic development in the country through job creation and infrastructural development. Pakistan and Russia signed the International Road Transport Agreement in 2022 to improve land trade between these countries. Similarly, Pakistan has had EU's GSP+ status since 2014 which has increased Pakistan's exports to EU countries by 165 percent since 2014. The Developing Countries Trading Scheme (DCTS) launched by the UK government in 2022 would provide tariff preference to an additional 156 Pakistani products exported to the UK. Pakistan is also in the process of finalizing its Free Trade Agreement deal with Gulf Cooperation Countries (GCC) which is expected to further increase Pakistan's exports to Middle East countries. Pakistan is also working to improve its trade relationship with African countries. For this purpose, the 3rd Pakistan-Africa Trade Development Conference was held in South Africa with participation from around 120 Pakistani companies. (Pakistan, 2023)

9. Conclusion

Although Pakistan's economy is facing serious political and economic challenges right now its potential, especially in terms of human capital is a sign that with adaptation and implementation of the right policy measures, Pakistan can become a key economic actor in the global market in the future. The country therefore needs to imminently adopt structural transformation policies that can restructure its economy to increase productivity and reduce expenditures. These profits can then be invested in human and social capital development so that it puts the economy on a track to sustainable economic growth.

References

- Bank, W. (2024, 04 21). *World Bank*. Retrieved from World Bank: <https://data.worldbank.org/>
- Bloomberg. (2024, 04 21). *Bloomberg*. Retrieved from Bloomberg: <https://www.bloomberg.com/news/articles/2023-05-02/pakistan-s-inflation-hits-record-with-no-sign-yet-of-imf-funds>
- Cross, R. (2024, 04 21). *Red Cross*. Retrieved from Red Cross: <https://www.redcross.org.uk/stories/disasters-and-emergencies/world/climate-change-and-pakistan-flooding-affecting-millions>
- Dawn. (2016, 07 21). *Dawn News*. Retrieved from Dawn News: <https://www.dawn.com/news/1272211>
- Division, F. (2023). *Fiscal Policy of Pakistan*. Islamabad: Fiancne Division.
- Edge, G. (2024, 04 21). *Global Edge*. Retrieved from Global Edge: <https://globaledge.msu.edu/countries/pakistan/tradestats>
- Fund, I. M. (2023, 10 23). *International Monetary Fund*. Retrieved from International Monetary Fund: <https://blog-pfm.imf.org/en/pfmblog/2023/10/23/pakistan-financing-conundrum>
- Hayat, M. N., Fatima, K., Mukhtar, U., & Bano, S. (2016). Economic Performance of Pakistan Under Democracy and Military Regimed. *Journal of Economics, Business and Management*, 690-694.

Ismail, M. (2024, 01 11). Inflation and Devaluation. *Dawn*.

organization, U. t. (2023, 12 19). *UN trade and development organization*. Retrieved from UN trade and development organization: <https://unctad.org/news/pakistan-accelerating-green-industrialization-amid-climate-and-economic-shocks#:~:text=In%202022%2C%20the%20impact%20of,about%208%25%20of%20its%20GDP>.

Pakistan, G. o. (2023). *Pakistan Economic Survey 2022-23*. Islamabad: Finance Division.

Parliament, U. (2024, 04 21). *UK Parliament*. Retrieved from UK Parliament: <https://www.parliament.uk/about/living-heritage/evolutionofparliament/legislativecrutiny/parliament-and-empire/collections1/collections2/1947-indian-independence-act/#:~:text=The%20Indian%20Independence%20Act%20was,between%20the%20two%20new%20countries>.

Qureshi, I. H. (1967). *A short history of Pakistan*. Karachi: University of Karachi Press.

SBP. (2024, 04 21). *State Bank of Pakistan*. Retrieved from State Bank of Pakistan: https://www.sbp.org.pk/m_policy/index.asp

Statistics, P. B. (2020). *Pakistan Demographic Survey*. Islamabad: Pakistan Bureau of Statistics.

TDAP. (2024, 04 21). *TDAP*. Retrieved from TDAP: <https://tdap.gov.pk/>

Fighting for a Sea of Opportunities: Grasping the Impact of South China Sea Disputes to the Industrial Transition of the Philippines

Dianni Adrei Estrada

I. The Philippines' Journey Towards Industrialization and Economic Development

A. An Economic Overview of the Philippines

The Philippines is a newly industrialized economy and a part of a group of emerging Southeast Asian economies known as the Tiger Cubs alongside Malaysia, Vietnam, Thailand, and Indonesia. The Tiger Cubs emulate the export-driven economic development model of four high-tech and industrialized nations of the Four Asian Tigers namely, South Korea, Singapore, Taiwan, and the prosperous financial hub of Hong Kong.²⁵⁵ The Philippines' economy, now increasingly dependent on international trade development and capital flows, has pursued a growth and development strategy focused on the process of export promotion policies, following the approach taken by its neighboring countries²⁵⁶.

More specifically, the country has focused on exporting manufactured goods while importing raw materials, marking a departure from past practices, which is a notable shift in the country's trade policy in recent years²⁵⁷. It has made strides in liberalizing its economy by removing tariff and non-tariff barriers, particularly in infrastructure, and through deregulation and liberalization in sectors such as telecommunications, power, water, shipping, and airlines. Regulations on foreign investment have also been relaxed across various sectors, signifying a more open regime conducive to investment.

The Philippines throughout its economic development process transitioned from an agricultural-based economy to an economy based on manufacturing and services²⁵⁸. This phenomenon is a crucial observation in the country's process of economic development as it indicates that the current trajectory of the Philippines' journey to industrial transition follows the development trajectory consistent with that of countries whose economic development was considered a success. Hence, even today, President Marcos, like previous presidents, is adamant about turning the country into one of the major manufacturing and logistics hubs in Asia²⁵⁹.

²⁵⁵ Chen, James. 3 October 2022. Tiger Cub Economies: What They Mean, How They Work. Investopedia. <https://www.investopedia.com/terms/t/tiger-cub-economies.asp#:~:text=Tiger%20Cub%20economies%20is%20the,%20South%20Korea%20and%20Taiwan>. Accessed May 10, 2024.

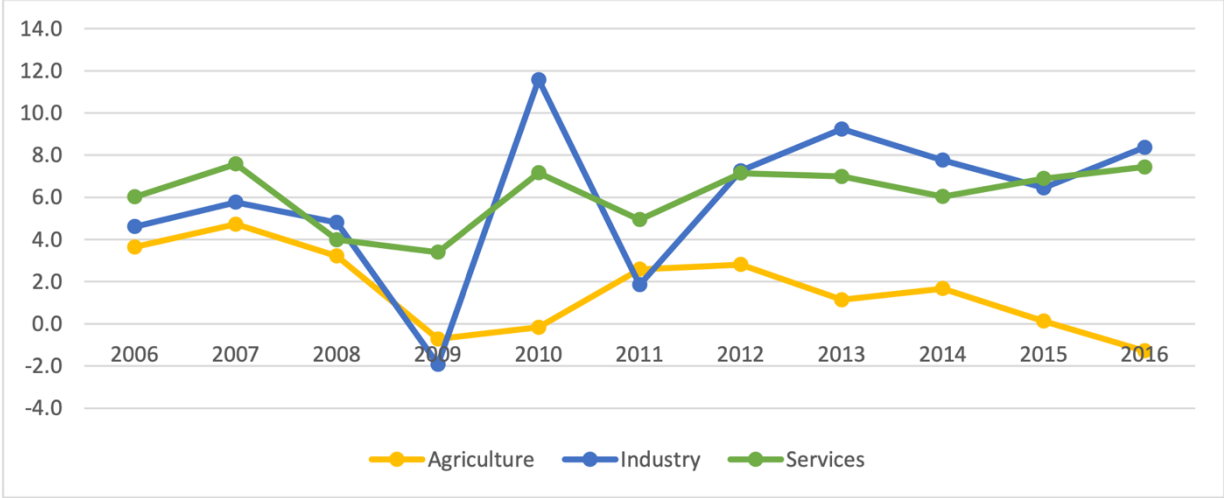
²⁵⁶ Albuero, Florian A. 2018. Export promotion policy and economic growth in the Philippines: A comparative context. UPSE Discussion Paper No. 2018-05. University of the Philippines School of Economics (UPSE), Quezon City.

²⁵⁷ Rosellon, Maureen Ane & Medalla, Erlinda. 2017. Macroeconomic Overview of the Philippines and the New Industrial Policy. Discussion Paper Series No. 2017-48. *Philippine Institute for Development Studies*. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1748.pdf>.

²⁵⁸ CEIC. Philippines' economy and the effects of industrial and urbanization. <https://info.ceicdata.com/philippines-economy-and-the-effects-of-industrial-and-urbanisation>. Accessed May 10, 2024.

²⁵⁹ Robles, Raissa. 13 April 2024. Marcos Jr treads fine line with China as Philippines deepens US, Japan ties. Aljazeera. <https://www.aljazeera.com/economy/2024/4/13/marcos-jr-treads-fine-line-with-china-as-philippines-deepens-us-japan-ties>. Accessed May 10, 2024.

Figure 1. Gross-Value-Added Growth Rate by Sectoral Origin



Over the past decades, the Philippines started transitioning to an economy with a larger industry and service base from agriculture (Source: Rosellon & Medalla, 2017)

B. Recent Challenges and Developments in the Philippines’ Industrial Transition

Since the 1980s, the Philippines has introduced reforms aimed at opening markets, including trade liberalization, deregulation, and privatization, with the goal of fostering competition in the economy. However, the broader effects of these reforms on growth, investment, and employment have been modest. Throughout the 1980s and 1990s, the average growth rates were approximately 1.7% and 2.8%, respectively. Despite these efforts, the country has struggled to achieve significant growth, leading to persistently high unemployment rates and sluggish progress in poverty reduction.

Among the numerous factors that influenced the lag in the economic growth of the Philippines, one important factor that has commonly been understated is the lack of market competition in the economy²⁶⁰. Competition plays an important role in the process of economic development as it allows the allocation of limited resources more effectively in the economy. Hence, to foster a conducive external environment for the effective operation of firms, Carlin and Seabright²⁶¹ emphasize building what they call a "competitive infrastructure" which refers to the larger economic environment within which businesses operate including communications, financial, and fiscal systems and regulatory constraints. This underscores the importance of ongoing efforts to enhance the country's economic infrastructure and overall competitiveness.

²⁶⁰ Aldaba, Rafaelita. 2005. The Impact of Market Reforms on Competition, Structure and Performance of the Philippine Economy. PIDS Discussion Paper 2005-24. *Philippine Institute for Development Studies*. https://econpapers.repec.org/paper/phddpaper/dp_5f2005-24.htm.

²⁶¹ Carlin, Wendy & Seabright, Paul. (2000). The Importance of Competition in Developing Countries for Productivity and Innovation. *Toulouse School of Economics*. <https://www.tse-fr.eu/publications/importance-competition-developing-countries-productivity-and-innovation..>

Market imperfections such as the exploitation of dominant positions and other anti-competitive practices, combined with trade barriers and government regulations, restrict market access, resulting in inefficiencies and hindering long-term growth. These factors undermine competition and hinder structural adjustments, causing resources to remain allocated to low-productivity sectors. The lack of competitive pressure discourages firms from adopting new technologies or innovating, leading to sluggish productivity growth and a decline in competitiveness²⁶².

To adapt to the challenges of integrating into a dynamic global market, the Philippines started to shift to a more internationally oriented economic policies focusing not merely on liberalizing its domestic markets but, also and more importantly, ensuring that the liberalized market is competitive enough to meet global standards. To maintain a competitive environment, liberalization must be accompanied by effective competition and regulation²⁶³. Merely liberalizing markets does not guarantee competition; hence, efforts to reduce regulatory, behavioral, and structural constraints are necessary. The enactment of the Philippine Competition Act (Republic Act 10667)²⁶⁴ in 2015 marked a significant milestone in this regard, providing a legal framework to address anti-competitive behavior and promote reforms in critical sectors.

Fairly recently, the Philippine government launched its New Industrial Policy aimed at enhancing global competitiveness, resilience, and innovation within its industries²⁶⁵. This new microeconomic policy improved previous initiatives such as the Manufacturing Resurgence Program and the Comprehensive National Industrial Policy (CNIP) which seeks to integrate industry, agriculture, and services sectors through competition, innovation, and productivity enhancement, as well as the Inclusive Innovative Industrial Strategy (I3s) which recognizes the role of innovation in promoting inclusion in industrialization, aligning with broader development objectives.

C. The Philippines' Vulnerabilities to Global Financial Shocks

Development economists and think tanks postulate that the industrial transition in the age of globalization and digitalization is far more challenging as emerging economies like the Philippines now need to overcome an additional layer of complex challenges²⁶⁶. It follows then that the Philippines has to implement policies beyond traditional development policies to adapt to the challenges related to digitalization and climate change and dance through the intricacies of modern geopolitics and shifts in the world-order. Recent international financial shocks, for instance, have highlighted the vulnerabilities of the Philippine economy to external pressures, impacting its pursuit of industrialization and subsequent economic

²⁶² Aldaba, Rafaelita. 2008. Assessing Competition in Philippine Markets. PIDS Discussion Paper Series No. 2008-23. *Philippine Institute for Development Studies*. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps0823.pdf>.

²⁶³ Ibid.

²⁶⁴ Philippine Competition Commission. Philippine Competition Law (R.A. 10667). [https://www.phcc.gov.ph/philippine-competition-law-r-10667/#:~:text=The%20Philippine%20Competition%20Act%20\(PCA,of%20consumers%20in%20the%20process](https://www.phcc.gov.ph/philippine-competition-law-r-10667/#:~:text=The%20Philippine%20Competition%20Act%20(PCA,of%20consumers%20in%20the%20process). Accessed May 10, 2024.

²⁶⁵ Rosellon, Maureen Ane & Medalla, Erlinda. 2017. Macroeconomic Overview of the Philippines and the New Industrial Policy. Discussion Paper Series No. 2017-48. *Philippine Institute for Development Studies*. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1748.pdf>.

²⁶⁶ OECD. Regions in Industrial Transition: Policies for People and Places. OECD Regional Development Studies. <https://doi.org/10.1787/c76ec2a1-en>. Accessed May 10, 2024.

development.

During the Asian Financial Crisis, the Philippines experienced immediate and discernible economic and financial impacts, with a transmission process that was easily identifiable²⁶⁷. The crisis swiftly affected the country, evident in the sharp depreciation of the peso from a stable rate of P 26.4 to a U.S. dollar in June 1997, plummeting to a rate of P 42.7 by January 1998. Inflation rates surged in 1998 after reaching a cyclical low in 1996. Despite managing a respectable growth rate of 5.8 percent in 1996, the economy declined to 5.2 percent in 1997 and further crashed to a negative 0.5 percent by 1998.

The Global Financial Crisis had far-reaching repercussions on the country's economy, leading to a slowdown in growth²⁶⁸. In 2008, economic growth in the Philippines significantly decelerated to 4.6 percent, contrasting sharply with its 7.3 percent expansion in 2007. The economy faced strong fallbacks primarily due to surges in energy and commodity prices, coupled with increased risk aversion in global financial markets. Headline inflation surged to 9.3 percent throughout much of 2008. Furthermore, the outflow of soft capital resulted in a 14.7 percent depreciation of the domestic currency.

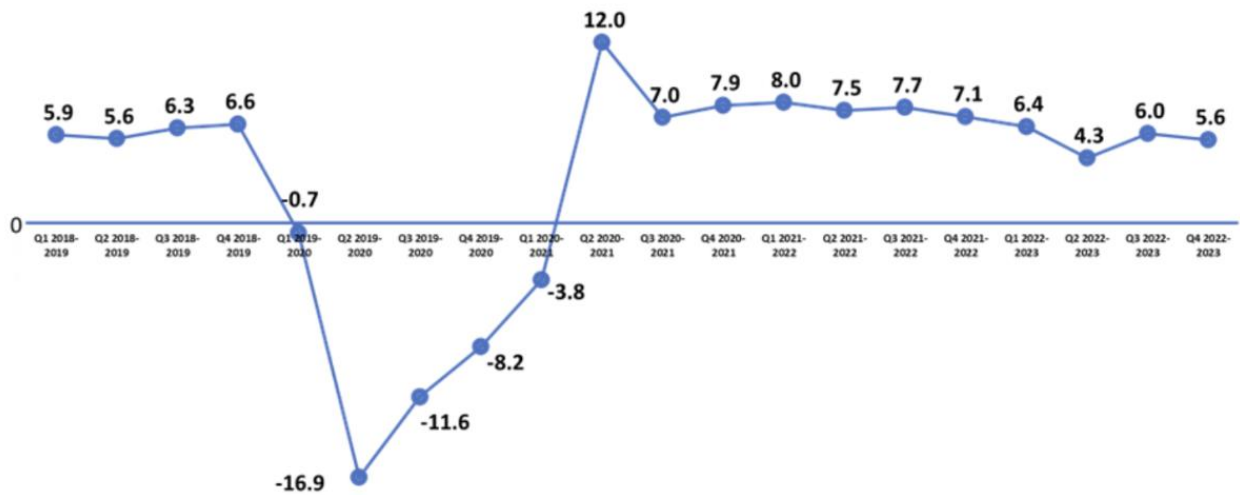
Despite the growth trajectories, the Philippines faces challenges, notably in its health sector, which was apparent during the COVID-19 pandemic in 2020. The COVID-19 pandemic laid bare the vulnerabilities of the country's healthcare system, and its impact was profound. Unlike some of its Asian counterparts, the Philippines struggled to contain the virus and experienced a delayed recovery, highlighting the imperative for bolstering healthcare infrastructure and response capabilities. The government's response to the crisis faced criticism, highlighting existing vulnerabilities in the country's healthcare system and governance. The total estimated loss reached 2.9 trillion PhP in 2020 and escalated to 3.2 trillion PhP in 2021²⁶⁹. The commercial sector bore the brunt of these losses, accounting for over two-thirds, influenced by policy changes and the surge in COVID-19 cases. Conversely, the industrial sector's main challenges stemmed from the implementation of lockdown measures.

Figure 2. The Year-on-Year Growth Rates of the Philippines' Gross Domestic Product

²⁶⁷ Albuero, Florian. December 1999. The Asian Financial Crisis and Philippine Responses: Long-run Considerations. *The Developing Economies* 32(4): 439-59. https://www.ide.go.jp/library/English/Publish/Periodicals/De/pdf/99_04_04.pdf.

²⁶⁸ Senate of the Philippines. February 2009. Riding through the Crisis in 2008, Bumpier Road Ahead in 2009. Economic Report ER 09-01. Senate Economic Planning Office. Accessed May 10, 2024.

²⁶⁹ Del Castillo, Ma. Flordeliza P, Fujimi, Toshio, & Tatano, Hirokazu. (2024). Estimating sectoral COVID-19 economic losses in the Philippines using nighttime light and electricity consumption data. *Front Public Health* 12: 1308301. doi: 10.3389/fpubh.2024.1308301.



During the coronavirus pandemic, the Philippines experienced a 16.9 percent drop in GDP in the second quarter of 2020. The country’s economy gradually recovered recording a 12 percent growth rate by the second quarter of 2021. (Source: Philippine Statistics Authority)

II. South China Sea Disputes: An Enduring Challenge to Industrial Transition

A. The Philippines’ Claim to the West Philippine Sea

In 2016, the arbitral tribunal handling the Philippines' dispute with China in the South China Sea issued a decisive ruling favoring the Philippines. It declared that key aspects of China's claims, such as its nine-dash line, recent land reclamation efforts, and activities within Philippine waters, were illegal²⁷⁰. The region enclosed by the nine-dash line constitutes nearly 90% of the entire South China Sea area, encroaching marine territories in Vietnam, Malaysia, Brunei, and Indonesia (See Figure below). This is despite the established international law, which delineates an EEZ to extend up to 200 nautical miles (370km) beyond a nation's territorial sea, granting jurisdictional rights over all natural resources within that zone.

China dismissed the ruling as "null and void" and blocked all attempts by Manila to exploit the reserves²⁷¹. China's claim in the South China Sea encompasses 80% of the Philippines' exclusive economic zone (EEZ) of the West Philippines, which includes fishing areas and potentially extensive reserves of oil and gas like Recto Bank and a section of the Malampaya gas field. The West Philippine Sea (WPS) – the marine territory claimed by the Philippines – constitutes the western region of Philippine territory and is situated within the South China Sea. Within the WPS, areas such as Panatag (Scarborough) Shoal, the Kalayaan Island Group, and segments of the Spratly Islands are encompassed. These areas fall within the

²⁷⁰ US-China Economic and Security Review. South China Sea Arbitration Ruling: What Happened and What’s Next?. <https://www.uscc.gov/research/south-china-sea-arbitration-ruling-what-happened-and-whats-next#:~:text=On%20July%2012%2C%202016%2C%20the,other%20activities%20in%20Philippine%20waters—>. Accessed May 10, 2024.

²⁷¹ US Naval Institute. 23 January 2024. Report to Congress on China-Philippines Tensions in the South China Sea. Congressional Research Service. <https://news.usni.org/2024/01/25/report-to-congress-on-china-philippines-tensions-in-the-south-china-sea>. Accessed May 10, 2024.

Philippines' Exclusive Economic Zone (EEZ)²⁷².

Figure 2. Territorial Claims of Countries in South China Sea



Ninety percent of the entire South China Sea area is claimed by China through the 9-dash line which encroaches marine territories of the Philippines, Vietnam, Malaysia, Brunei, and Indonesia. (Source: Center for Strategic and International Studies, Permanent Court of Arbitration)

China's disruption of trade transits in the WPS hampers the potential benefits for the economic development of the Philippines, especially since international trade is one of the critical mechanisms in its industrial transition. The disputed marine territory serves as a crucial waterway for international trade, being geographically located in ASEAN supply chain²⁷³. Being among the Tiger Cub economies, characterized by traits conducive to optimizing external investments, the Philippines stands as an appealing choice for ongoing foreign direct investment (FDI). This appeal stems from factors such as sizable and expanding domestic markets, enhancements in infrastructure, improving investment climates, prudent economic governance, and an abundant supply of low-cost labor²⁷⁴.

The Kalayaan Islands and the western region of Palawan make up roughly 10% of the Philippines' Exclusive Economic Zone (EEZ), yielding about 20% of the nation's annual marine fish catch, estimated at 5 million tons. This substantial output sustains the daily lives and livelihoods of numerous Filipino fishermen²⁷⁵.

²⁷² Aviso Valuation & Advisory. 23 April 2021. The West Philippine Sea: Diving into the Abundance of its Natural Resources and Marine Biodiversity. <https://askaviso.com/aviso-library/west-philippine-sea-diving-abundance-natural-resources-marine-biodiversity/>. Accessed May 10, 2024.

²⁷³ McPherson, Poppy; Lema, Karen; & Ghoshal Devjyot. 29 November 2023. A Reuters Special Report: How the U.S. courted the Philippines to thwart China. Reuters. <https://www.reuters.com/investigates/special-report/us-china-philippines-marcos/>. Accessed May 10, 2024.

²⁷⁴ Chen, James. 3 October 2022. Tiger Cub Economies: What They Mean, How They Work. Investopedia. <https://www.investopedia.com/terms/t/tiger-cub-economies.asp#:~:text=Tiger%20Cub%20economies%20is%20the,%2C%20South%20Korea%2C%20and%20Taiwan.> Accessed May 10, 2024.

²⁷⁵ Aviso Valuation & Advisory. 23 April 2021. The West Philippine Sea: Diving into the Abundance of its Natural Resources

Geopolitical analyst Robert D. Kaplan mentioned in his 2014 book "Asia's Cauldron" that fish resources in the WPS might constitute as much as one-tenth of the global landed catch²⁷⁶.

Numerous news reports detailing the harassment and blockade of the Chinese Coast Guard on Philippine fishermen in the West Philippine Sea, particularly near the Bajo de Masinloc (internationally known as the Scarborough Shoal), where traditional fishing activities for many countries take place²⁷⁷, therefore, raise a concern in the economic security of the Philippines. Livelihoods and enterprises that are affected in the supply and value chain of fisheries and aquatic resources sector in the WPS may have ramifications, not only to the Philippine economy in aggregate, but also to vulnerable communities that rely on the blue economy.

The United States Geological Survey (USGS) estimates that the region potentially holds substantial reserves of undiscovered hydrocarbons ranging from 0.8 to 5.4 billion barrels of oil and from 7.6 to 55.1 trillion cubic feet (tcf) of natural gas in undiscovered resources²⁷⁸. In his book, former Supreme Court Justice Antonio Carpio argues that the WPS holds promising reserves of methane hydrates, considered a future energy source with the potential to sustain an economy as large as China's for up to 130 years.²⁷⁹ The conflict in the West Philippine Sea hampers the Philippines' ability to tap into potential energy reserves crucial for its industrial advancement. Reliable sources of energy, I argue, plays a vital role in the economic autonomy of the Philippines as it can buffer the country from global energy crises, which often lead to increased gas prices and subsequently impact commodity prices nationwide.

B. Is the Philippine Economy's too Reliant on China?

The Philippines' economic ties with the People's Republic of China which were fostered during the previous administration of then President Rodrigo Duterte can raise concerns about the former's economic dependence on the latter. In 2016, then-President Duterte, after a meeting with President Xi Jinping in Beijing, came back to Manila with pledges totaling \$24 billion under the Belt and Road Initiative (BRI), a worldwide investment project. Duterte, however, ended his term with most of the projects under the investment project unfinished²⁸⁰.

The Philippines withdrew from China's Belt and Road Initiative (BRI) in 2023 after Beijing's failure to respond to funding requests for railway projects amidst tensions in the WPS. Initially, China had committed nearly \$5 billion (€4.7 billion) to construct three rail lines — two in Luzon and one in Mindanao — as part of the initiative, which represents a cornerstone of Beijing's foreign policy aimed at providing Chinese-backed loans for significant infrastructure endeavors, primarily in developing economies globally.²⁸¹ Moreover, China's foreign investments surged to nearly \$20 billion in 2023, marking a 37

and Marine Biodiversity. <https://askaviso.com/aviso-library/west-philippine-sea-diving-abundance-natural-resources-marine-biodiversity/>. Accessed May 10, 2024.

²⁷⁶ Kaplan, Robert. 2014. *Asia's Cauldron: The South China Sea and the End of a Stable Pacific*.

²⁷⁷ Mangosing, Frances. 22 January 2024. Harassment of PH fishers continues – PCG. Inquirer. <https://globalnation.inquirer.net/225586/harassment-of-ph-fishers-continues-pcg>. Accessed May 10, 2024.

²⁷⁸ Rappler. 10 February 2013. Reed Bank 'hold huge oil, gas reserves'. <https://www.rappler.com/business/21460-reed-bank-holds-untapped-riches-us-agency/>. Accessed May 10, 2024.

²⁷⁹ Carpio, Antonio. 2017. *The South China Sea Dispute: Philippine Sovereign Rights and Jurisdiction in the West Philippine Sea*. Ebook.

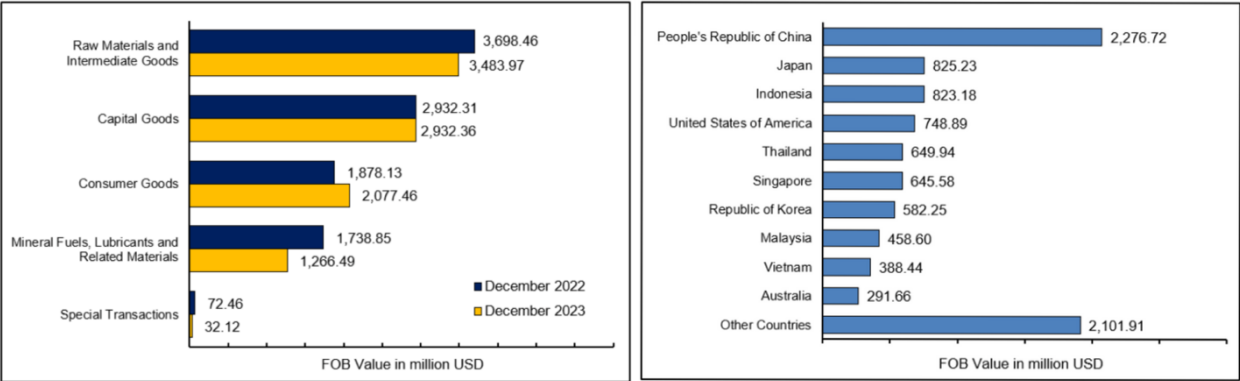
²⁸⁰ McPherson, Poppy; Lema, Karen; & Ghoshal Devjyot. 29 November 2023. A Reuters Special Report: How the U.S. courted the Philippines to thwart China. Reuters. <https://www.reuters.com/investigates/special-report/us-china-philippines-marcos/>. Accessed May 10, 2024.

²⁸¹ Walker, Tommy. 8 November 2023. Philippines drops China's Belt and Road as tensions flare.

percent increase in Asia, with half of this amount directed towards Southeast Asia – the Philippines did not witness any new investment or construction projects from China during this period.

Raw materials and intermediate goods make up a considerable share of the Philippines' imports, with the People's Republic of China emerging as the leading import partner. China holds a significant position as the Philippines' primary trading partner and serves as a major destination for exports such as bananas and nickel ore²⁸². In terms of exports, manufactured goods remain the dominant category, with Hong Kong standing out as the primary export partner. In 2022, China ranked as the Philippines' third-largest export market, accounting for \$10.97 billion or 13% of its total shipments, following the United States and Japan. Moreover, China stands as the Philippines' largest source of imports, particularly in electronics and machinery²⁸³.

Figure 3. Value of Philippine Imports according to Type of Goods and Partner Country, respectively



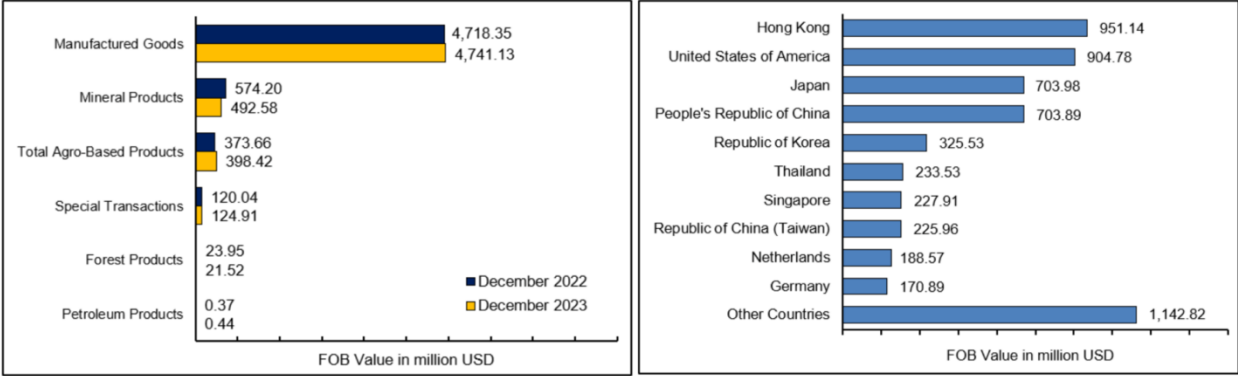
Imports of raw materials and intermediate goods accounted for the most significant portion among major types of goods. The People’s Republic of China stood out with the highest import value, followed by Japan, Indonesia, and the United States of America. (Source: Philippine Statistics Authority)

<https://www.dw.com/en/philippines-drops-chinas-belt-and-road-as-tensions-flare/a-67344929>. Accessed May 10, 2024.

²⁸² Calonzo, Andreo. 28 February 2024. US, Philippines to Bolster Economic Ties to Fend Off China Risk. Bloomberg News. <https://www.bnnbloomberg.ca/us-philippines-to-bolster-economic-ties-to-fend-off-china-risk-1.2040234>. Accessed May 10, 2024.

²⁸³ Reuters. 21 December 2023. Explainer: How far could China-Philippines relations worsen? Reuters. <https://www.reuters.com/world/asia-pacific/how-far-could-china-philippines-relations-worsen-2023-12-21/>. Accessed May 10, 2024.

Figure 4. Value of Philippine Exports according to Type of Goods and Partner Country, respectively



Manufactured goods continued to represent the largest share of total exports across major categories. Hong Kong emerged as the top contributor to the total export value, with the United States and Japan following closely behind. (Source: Philippine Statistics Authority)

C. Potential Outcomes and Safety Nets in Philippines-China Tensions

International think tanks as well as local and international economists, however, argue that the economic influence of China on the Philippines is negligible. For example, senior Asia economist at Capital Economics, Gareth Leather²⁸⁴ argues that any economic repercussions resulting from escalating tensions between the Philippines and China would be relatively minor, given Manila's advantageous position to capitalize on the significant shift in global supply chains triggered by the increasing rivalry between Beijing and Washington.

He highlights that while a potential economic strain could negatively impact trade and tourism in the Philippines, the extent of the damage is expected to be limited. The contribution of exports to China to the Philippines' GDP is minimal, standing at just 2.7 percent, which is one of the lowest ratios in the region. Moreover, the Philippines' capacity to increase exports to China is constrained by the limited range of products that China typically purchases. Although tourism may also experience a downturn, it represents a relatively small portion of the economy. Even before the onset of the pandemic, expenditure by Chinese tourists accounted for a mere 0.4 percent of the Philippines' GDP.

The economic leaders of current Philippine government are recently searching for potential alternative markets for investment and trade. Recently this year, the tripartite summit between the Philippines, Japan, and the United States of America in Washington led to the establishment of the Partnership for Global Infrastructure and Investment corridor in the Asia Pacific region, known as the Luzon Economic Corridor²⁸⁵. This corridor aims to link Manila with three expansive regions on Luzon, the Philippines'

²⁸⁴ Leather, Gareth. 11 December 2023. The implications of rising Philippines-China tensions. Capital Economics. <https://www.capitaleconomics.com/publications/emerging-asia-economics-update/implications-rising-philippines-china-tensions>. Accessed May 10, 2024.

²⁸⁵ The White House. 11 April 2024. Joint Vision Statement from the Leaders of Japan, the Philippines, and the United States. <https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/11/joint-vision-statement-from-the-leaders-of-japan-the-philippines-and-the-united-states/#:~:text=Japan%2C%20the%20Philippines%2C%20and%20the%20United%20States%20are%20working%20together,a>

largest island, suitable for hosting manufacturers and other significant business ventures. These areas include the former Subic naval base, the former Clark airbase, and Batangas Province. Additionally, US Commerce Secretary Gina Raimondo announced to inject over \$1 billion of investment into the Philippines' technology sector which aims to facilitate the doubling of semiconductor factories in the country, thereby contributing to lessening the Philippine economy's dependency on China.

Philippine Ambassador to the US, Jose Manuel Romualdez, expressed the Philippine government's consideration of exploring alternative markets due to concerns that the country's agricultural exports to China may face risks of reduction²⁸⁶. This apprehension arises from the persisting tensions between the two nations in the South China Sea. In the past few years, the country has entered into Free Trade Agreements (FTAs) with several partners, including ASEAN, Australia, New Zealand, India, Japan, and Korea. Despite not having a bilateral trade agreement with the USA, it remains a significant player in the Philippines' trade landscape.

Moreover, the Philippines' Secretary of Finance Benjamin Diokno²⁸⁷ suggests that, in the advent of China's economic slowdown, the Philippines will minimally be impacted, noting that any adverse effects on the country's exports would be mitigated to some extent by domestic demand. He cited that the Philippines' merchandise exports to China amounted to \$10.97 billion in 2022, accounting for 13.9 percent of the country's total export sales. The United States, on the other hand, was the top destination of locally made goods in 2022 with a 15.8 percent share.

D. Dancing along the Geopolitical Maneuvers of China and the US

According to Koh Collin²⁸⁸, a geopolitical analyst at the National University of Singapore, the use of trade and investment as tools of statecraft is not a new strategy for Beijing. Given China's significant role as a trade partner for the Philippines, it's reasonable to speculate that Beijing might consider tightening economic pressures on Manila in response. This is particularly relevant since foreign trade and investments are vital components for the Philippines' economic recovery and developmental path.

He observes, however, that there have been no signs of coercive economic retaliation from China since the Philippines began publicly addressing China's assertive actions in the South China Sea in 2023. This could be attributed to China's reluctance to portray itself as an unreliable and unappealing trade and investment partner globally, especially given its own economic challenges. Furthermore, if China aims to maintain its image as a supporter of common development in the Global South and advocate for economic integration, resorting to trade and investment coercion against the Philippines may be imprudent.

nd%20fair%20market%20competition%20with. Accessed May 10, 2024.

²⁸⁶ Calonzo, Andreo. 28 February 2024. US, Philippines to Bolster Economic Ties to Fend Off China Risk. Bloomberg News. <https://www.bnnbloomberg.ca/us-philippines-to-bolster-economic-ties-to-fend-off-china-risk-1.2040234>. Accessed May 10, 2024.

²⁸⁷ Cigaral, Ian Nicolas. 13 October 2023. Diokno: Philippine exports 'less affected' by China slowdown. Inquirer. <https://business.inquirer.net/426166/diokno-philippine-exports-less-affected-by-china-slowdown>. Accessed May 10, 2024.

²⁸⁸ Koh, Collin. 6 December 2023. No China Backlash, So Far: The Philippines' New Assertive Transparency Policy in the South China Sea. Fulcrum: Analysis on Southeast Asia. <https://fulcrum.sg/no-china-backlash-so-far-the-philippines-new-assertive-transparency-policy-in-the-south-china-sea/>. Accessed May 10, 2024.

While the United States positioned itself as a primary protector of the Philippines against potential Chinese aggression in the South China sea with its military power, Philippine political economist Sonny Africa argues that the Philippines plays a significant part in the military and economic agenda pursued by the US²⁸⁹. This is the rationale as to why there seems to be swift progress in military-arrangement efforts such as the approval of four new Enhanced Defense Cooperation Arrangement (EDCA) sites in 2023, supplementing the already existing five sites. The agreement allows US military personnel and assets to visit the Philippines for extended stays and allows the US to build and operate in military facilities in the Philippines. This, Africa argues, aligns closely with the Philippines' role in the US's heightened military force posture in the Indo-Pacific, now a top priority on the US's global agenda.

Moreover, the National Security Strategy (NSS) underscores the Indo-Pacific as the central arena of 21st-century geopolitics, with a particular emphasis on the South China Sea as an indispensable region for nearly two-thirds of global maritime trade and a quarter of all global trade²⁹⁰. Correspondingly, the US Indo-Pacific Command (INDOPACOM) identifies the Philippines as one of its four key "force posture" priorities, alongside Guam, Japan, and Australia. These priorities encompass clusters of operational locations aimed at dispersing US military forces across the Indo-Pacific to uphold its dominant position in the region. In fulfilling this role, the Philippines will utilize its nine EDCA sites, complemented by planned military construction worth US\$100 million, along with military contractor Cerberus' agreement with the Philippine Navy to host US ships in Subic Bay.

While the US involvement in security-related initiatives against China is somewhat evident, the US-Philippines alliance also explores the Philippines' potential role as a location for portions of semiconductor production and as a source of nickel, crucial for numerous renewable energy technologies²⁹¹. The Philippines plays an important role in the formation of the non-Chinese supply chain for battery materials in US and Japan especially since it emerges as the primary solution to obtain nickel that does not come from China²⁹². This aligns with the US's aim to achieve domestic energy security as outlined in the US Inflation Reduction Act (IRA). As a leading nickel producer in Southeast Asia, alongside Indonesia, the Philippines holds significant importance in this endeavor.

III. What Lies Ahead of the Philippine Economy

The Philippines stands at a crucial juncture in its economic development journey, navigating a complex landscape of global governance, regional tensions, and economic dependencies. The country's transition from an agricultural-based economy to a manufacturing and services-oriented one mirrors the trajectories of successful economies like the Four Asian Tigers. However, challenges persist in achieving sustained growth, particularly in the face of global economic shocks and regional disputes.

The Philippines' vulnerability to external pressures, exemplified by its tensions with China in the South China Sea, underscores the importance of diversifying economic partnerships and reducing dependence on any single market. Initiatives like the Luzon Economic Corridor and investments in the technology

²⁸⁹ Africa, Sonny. May 9, 2023. BBM's US trip: It's all about US. IBON Foundation. <https://www.ibon.org/bbms-us-trip-its-all-about-us/>. Accessed May 10, 2024.

²⁹⁰ Ibid.

²⁹¹ Robles, Raissa. 13 April 2024. Marcos Jr treads fine line with China as Philippines deepens US, Japan ties. Aljazeera. <https://www.aljazeera.com/economy/2024/4/13/marcos-jr-treads-fine-line-with-china-as-philippines-deepens-us-japan-ties>. Accessed May 10, 2024.

²⁹² Argus. US, Japan, Philippines ponder nickel supply chain. Argus News. <https://www.argusmedia.com/en/news-and-insights/latest-market-news/2555703-us-japan-philippines-ponder-nickel-supply-chain>. Accessed May 10, 2024.

sector aim to strengthen the country's economic resilience and reduce reliance on China. Additionally, the Philippines' strategic alliance with the United States plays a significant role in its security and economic agenda, offering opportunities for collaboration in semiconductor production and battery materials supply chains. China's continued compliance with the ruling over time, coupled with the level of support and efforts from the international community to enforce it, will greatly influence the effectiveness of international law in promoting peaceful, stable, and lawful maritime usage in the future²⁹³.

As the Philippines continues to navigate the complexities of global governance and regional dynamics, it must prioritize policies that promote economic diversification, enhance market competition, and strengthen resilience to external shocks. By fostering a competitive and diversified economy, the Philippines can position itself for sustainable growth and development in an increasingly interconnected world.

IV. References

- Africa, Sonny. May 9, 2023. BBM's US trip: It's all about US. IBON Foundation. <https://www.ibon.org/bbms-us-trip-its-all-about-us/>. Accessed May 10, 2024.
- Albuero, Florian. December 1999. The Asian Financial Crisis and Philippine Responses: Long-run Considerations. *The Developing Economies* 32(4): 439-59. https://www.ide.go.jp/library/English/Publish/Periodicals/De/pdf/99_04_04.pdf.
- Aldaba, Rafaelita. 2005. The Impact of Market Reforms on Competition, Structure and Performance of the Philippine Economy. PIDS Discussion Paper 2005-24. *Philippine Institute for Development Studies*. https://econpapers.repec.org/paper/phddpaper/dp_5f2005-24.htm.
- Aldaba, Rafaelita. 2008. Assessing Competition in Philippine Markets. PIDS Discussion Paper Series No. 2008-23. *Philippine Institute for Development Studies*. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps0823.pdf>.
- Aviso Valuation & Advisory. 23 April 2021. The West Philippine Sea: Diving into the Abundance of its Natural Resources and Marine Biodiversity. <https://askaviso.com/aviso-library/west-philippine-sea-diving-abundance-natural-resources-marine-biodiversity/>. Accessed May 10, 2024.
- Argus. US, Japan, Philippines ponder nickel supply chain. Argus News. <https://www.argusmedia.com/en/news-and-insights/latest-market-news/2555703-us-japan-philippines-ponder-nickel-supply-chain>. Accessed May 10, 2024.
- Calonzo, Andreo. 28 February 2024. US, Philippines to Bolster Economic Ties to Fend Off China Risk. Bloomberg News. <https://www.bnnbloomberg.ca/us-philippines-to-bolster-economic-ties-to-fend-off-china-risk-1.2040234>. Accessed May 10, 2024.
- Carlin, Wendy & Seabright, Paul. (2000). The Importance of Competition in Developing Countries for Productivity and Innovation. Toulouse School of Economics. <https://www.tse-fr.eu/publications/importance-competition-developing-countries-productivity-and-innovation>.
- Carpio, Antonio. 2017. The South China Sea Dispute: Philippine Sovereign Rights and Jurisdiction in the West Philippine Sea. Ebook.

²⁹³ US-China Economic and Security Review. South China Sea Arbitration Ruling: What Happened and What's Next?. <https://www.uscc.gov/research/south-china-sea-arbitration-ruling-what-happened-and-whats-next#:~:text=On%20July%2012%2C%202016%2C%20the,other%20activities%20in%20Philippine%20waters> —. Accessed May 10, 2024.

Chen, James. 3 October 2022. Tiger Cub Economies: What They Mean, How They Work. Investopedia. <https://www.investopedia.com/terms/t/tiger-cub-economies.asp#:~:text=Tiger%20Cub%20economies%20is%20the,%2C%20South%20Korea%2C%20and%20Taiwan>. Accessed May 10, 2024.

Cigal, Ian Nicolas. 13 October 2023. Diokno: Philippine exports 'less affected' by China slowdown. Inquirer. <https://business.inquirer.net/426166/diokno-philippine-exports-less-affected-by-china-slowdown>. Accessed May 10, 2024.

Del Castillo, Ma. Flordeliza P, Fujimi, Toshio, & Tatano, Hirokazu. (2024). Estimating sectoral COVID-19 economic losses in the Philippines using nighttime light and electricity consumption data. *Front Public Health* 12: 1308301. doi: 10.3389/fpubh.2024.1308301.

Kaplan, Robert. 2014. Asia's Cauldron: The South China Sea and the End of a Stable Pacific.

Koh, Collin. 6 December 2023. No China Backlash, So Far: The Philippines' New Assertive Transparency Policy in the South China Sea. Fulcrum: Analysis on Southeast Asia. <https://fulcrum.sg/no-china-backlash-so-far-the-philippines-new-assertive-transparency-policy-in-the-south-china-sea/>. Accessed May 10, 2024.

Leather, Gareth. 11 December 2023. The implications of rising Philippines-China tensions. Capital Economics. <https://www.capitaleconomics.com/publications/emerging-asia-economics-update/implications-rising-philippines-china-tensions>. Accessed May 10, 2024.

Mangahas, Angelica. 17 May 2023. Dangerous manoeuvres: the Philippines and US-China competition. OMFIF. <https://www.omfif.org/2023/05/dangerous-manoevres-the-philippines-and-us-china-competition/>. Accessed May 10, 2024.

Mangosing, Frances. 22 January 2024. Harassment of PH fishers continues – PCG. Inquirer. <https://globalnation.inquirer.net/225586/harassment-of-ph-fishers-continues-pcg>. Accessed May 10, 2024.

McPherson, Poppy; Lema, Karen; & Ghoshal Devjyot. 29 November 2023. A Reuters Special Report: How the U.S. courted the Philippines to thwart China. Reuters. <https://www.reuters.com/investigates/special-report/us-china-philippines-marcos/>. Accessed May 10, 2024.

OECD. Regions in Industrial Transition: Policies for People and Places. OECD Regional Development Studies. <https://doi.org/10.1787/c76ec2a1-en>. Accessed May 10, 2024.

Philippine Competition Commission. Philippine Competition Law (R.A. 10667). [https://www.phcc.gov.ph/philippine-competition-law-r-10667/#:~:text=The%20Philippine%20Competition%20Act%20\(PCA,of%20consumers%20in%20the%20process](https://www.phcc.gov.ph/philippine-competition-law-r-10667/#:~:text=The%20Philippine%20Competition%20Act%20(PCA,of%20consumers%20in%20the%20process). Accessed May 10, 2024.

Rappler. 10 February 2013. Reed Bank 'hold huge oil, gas reserves'. <https://www.rappler.com/business/21460-reed-bank-holds-untapped-riches-us-agency/>. Accessed May 10, 2024.

Reuters. 21 December 2023. Explainer: How far could China-Philippines relations worsen? Reuters. <https://www.reuters.com/world/asia-pacific/how-far-could-china-philippines-relations-worsen-2023-12-21/>. Accessed May 10, 2024.

Robles, Raissa. 13 April 2024. Marcos Jr treads fine line with China as Philippines deepens US, Japan ties. Aljazeera. <https://www.aljazeera.com/economy/2024/4/13/marcos-jr-treads-fine-line-with-china-as-philippines-deepens-us-japan-ties>. Accessed May 10, 2024.

Rosellon, Maureen Ane & Medalla, Erlinda. 2017. Macroeconomic Overview of the Philippines and the New Industrial Policy. Discussion Paper Series No. 2017-48. *Philippine Institute for Development Studies*. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1748.pdf>.

Senate of the Philippines. February 2009. Riding through the Crisis in 2008, Bumpier Road Ahead in 2009. Economic Report ER 09-01. Senate Economic Planning Office. Accessed May 10, 2024.

The White House. 11 April 2024. Joint Vision Statement from the Leaders of Japan, the Philippines, and the United States.

<https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/11/joint-vision-statement-from-the-leaders-of-japan-the-philippines-and-the-united-states/#:~:text=Japan%2C%20the%20Philippines%2C%20and%20the%20United%20States%20are%20working%20together,a%20fair%20market%20competition%20with>. Accessed May 10, 2024.

US-China Economic and Security Review. South China Sea Arbitration Ruling: What Happened and What's Next?. <https://www.uscc.gov/research/south-china-sea-arbitration-ruling-what-happened-and-whats-next#:~:text=On%20July%2012%2C%202016%2C%20the,other%20activities%20in%20Philippine%20waters>—. Accessed May 10, 2024.

US Naval Institute. 23 January 2024. Report to Congress on China-Philippines Tensions in the South China Sea. Congressional Research Service. <https://news.usni.org/2024/01/25/report-to-congress-on-china-philippines-tensions-in-the-south-china-sea>. Accessed May 10, 2024.

Walker, Tommy. 8 November 2023. Philippines drops China's Belt and Road as tensions flare. <https://www.dw.com/en/philippines-drops-chinas-belt-and-road-as-tensions-flare/a-67344929>. Accessed May 10, 2024.

Political and Economic Overview of the Republic of Korea

Aruem CHO

1. Economic Structure of Republic of Korea

1.1 Statistic facts of Republic of Korea

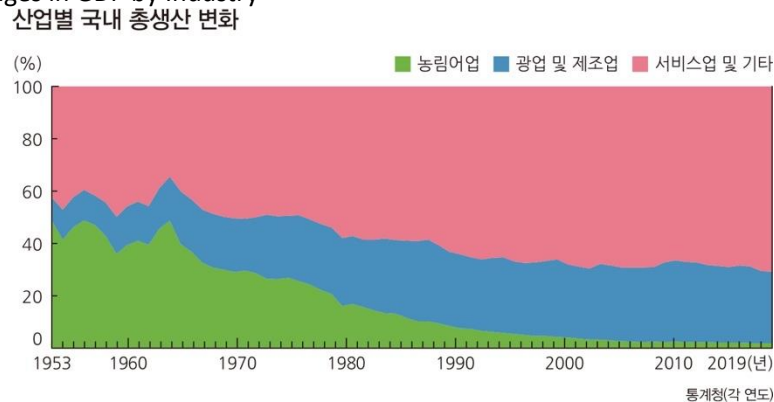
As of 2022, the Republic of Korea boasted the 13th largest economy in the world, with a GDP of USD 1,673.3 billion and a GDP per capita of USD 32,410. Following a period of rapid development in the late 20th century, the country has managed to sustain a steady growth rate, currently standing at 2.6%.

On the other hand, the population of the Republic of Korea stood at 51,628,117, as of 2022. The country is facing a very serious fertility crisis, as concerns over a dwindling fertility rate persist with only 0.72 children born per woman in 2023. Due to this issue, it is expected that by 2070, the population will decline significantly to 37,656,000, which is two-thirds of the current population. Moreover, societal challenges such as a high suicide rate of 25.2 per 100,000 inhabitants in 2022 and a significant gender wage gap of 31.2 (ranking first among OECD countries, while the OECD average is 12.1) underscore the need for ongoing social and economic reforms. These issues related to human capital can be considered the most pressing challenges facing the Republic of Korea.

1.2 Industrial Structure

Its industry structure can be divided into three main sectors: agriculture and farming, service and others and manufacturing. From the graph, the green portion represents agriculture and farming, showing a clear decreasing trend, mirroring patterns seen in other developed countries. The services and other sectors, depicted in red, are expanding, while the blue segment, manufacturing, accounts for a significant portion of the total GDP. The manufacturing sector holds considerable importance and is on an upward trajectory, indicating the country's status as a manufacturing-centered economy. Thus, this industrial structure not only reflects macroeconomic characteristics but also has close connections with various social issues such as labor supply and foreign labor concerns.

Graph 1. The Changes in GDP by Industry²⁹⁴



1.3 Key Organizational Factors

A defining feature of the Korean economy is its domination by Chaebols. They have played a vital role in

²⁹⁴ The National Atlas of Korea, The National Atlas of Korea 2021, Industrial Activities, Industrial Structure, http://nationalatlas.ngii.go.kr/pages/page_3206.php

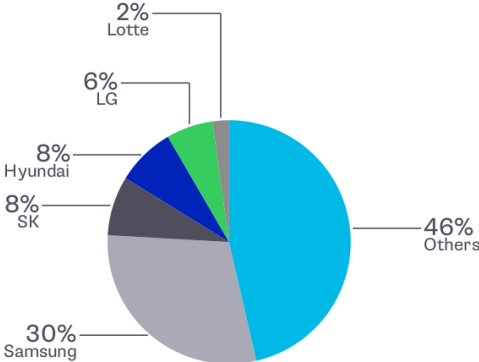
shaping the economic landscape of the country, focusing on industries such as chemicals. These corporates continue to wield significant influence today. But what exactly are Chaebols? Essentially, they are basically family-run enterprises that encompass well-known Korean companies such as Samsung, LG, and Hyundai. This familial hierarchy lies at the heart of these corporate giants, where lineage dictates leadership within the company.

The rise of Chaebols began in the early 1960s under the 5.16 military regime's aim to establish an export-driven economy. During this period, the government focused on investing in a select group of entrepreneurs with prior business experience, empowering them to expand their influence in the economy by leveraging governmental support and the availability of cheap labour. Throughout the 1970s and 1980s, Chaebols strengthened their control of the Korean economy. Especially during global downturns and economic crises, they underwent restructuring characterized by capital concentration. Additionally, as they enhanced their influence, they expanded their presence in the financial sector, including acquiring shares in banks. Through these processes, global corporations mentioned earlier began to emerge.

Since their emergence and up to the present day, an important factor to note is the government's comprehensive support of Chaebols through policies such as financial incentives and tax breaks. The five largest Chaebol groups currently hold over 50% of the Korean stock market, exerting significant influence not only domestically but also internationally. Consequently, the Korean government cooperates closely with Chaebols rather than regulating them.

Graph 2. Korean Stock Index²⁹⁵

Five Biggest Chaebol = Half of Korean Stock Index



Note: Weightings in the benchmark Kospi Index of listed companies belonging to five biggest conglomerates as of April 2018.

BloombergQuickTake

2. Macroeconomic Policies

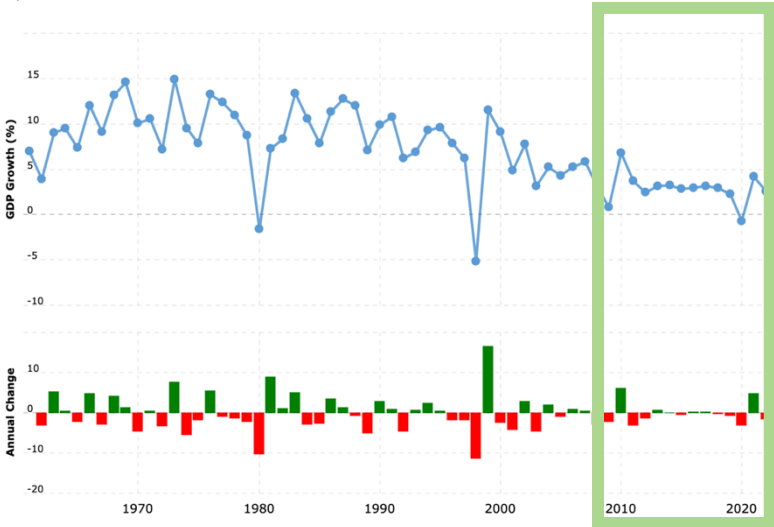
2.1 Economic Growth

Looking at the graph over the past decade, the GDP trend has shown a rather moderate trajectory. The Republic of Korea sustained a relatively high economic growth level of 7% until the foreign exchange crisis in

²⁹⁵ Peter Pae, "South Korea's Chaebol", Bloomberg, 14 January, 2015, <https://www.bloomberg.com/opinion/quicktake/republic-samsung>

1997, after which it declined to around 4% during the 2000s. Following the global financial crisis of 2008 and the European fiscal crisis, growth once again dropped to 3%, and it currently hovers around 2.2%. While this rate remains high compared to other developed countries, it falls short of the growth seen in developing countries like China. This pattern of declining growth levels is a natural phenomenon as economies mature. In the case of the Republic of Korea, the moderate trend can be attributed to its manufacturing-based industry structure and high trade dependency along with low household consumption. Efforts to strengthen growth have been ongoing. For instance, former President Moon implemented the Korean New Deal policy, focusing on innovation in the digital industry and investment in new energy. Additionally, initiatives to stimulate household consumption, such as cultural support programs covering accommodation and transportation expenses, are being implemented.

Graph 3. Korean Economic Growth Trend²⁹⁶

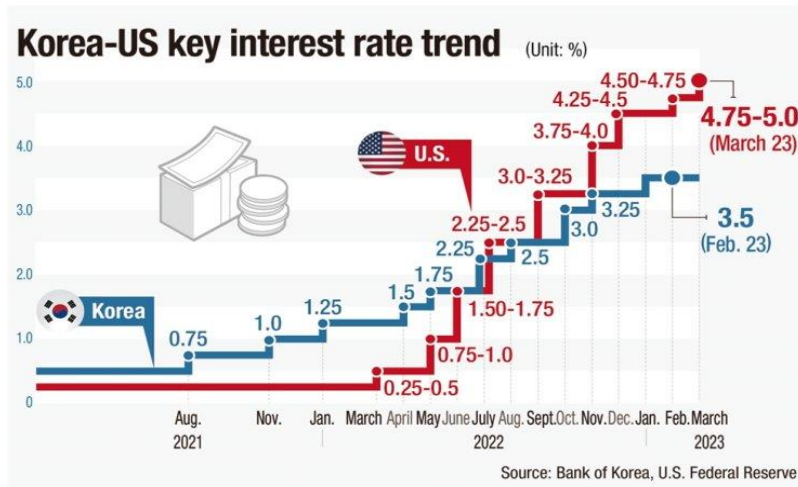


2.2 Monetary Policy

The primary objective of the Bank of Korea's monetary policy is to maintain price stability and support sustainable economic growth. In line with this objective, on April 12, 2024, the bank announced the direction of its monetary policy. According to the latest announcement, it will maintain the interest rate at 3.50%. The interest rate has remained unchanged since January 2023. A noteworthy aspect is the high dependence of Korea's interest rate on US Federal Reserve policy, following the trend of US Federal interest rate decisions. However, Korea's interest rate remains significantly lower compared to the US Federal decision.

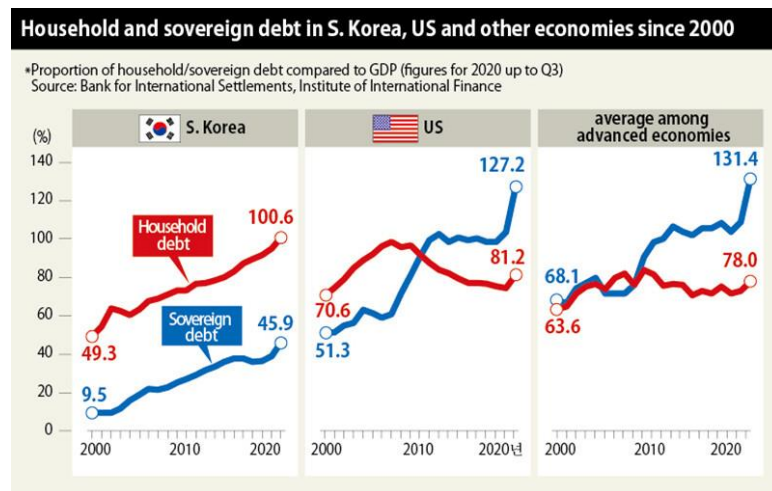
²⁹⁶ Korea, OECD Economic Outlook, Volume 2023 Issue 1, OECD, <https://www.oecd-ilibrary.org/sites/09cf5e33-en/index.html?itemId=/content/component/09cf5e33en#:~:text=GDP%20growth%20is%20projected%20to,pick%20up%20gradually%20in%202024.>

Graph 4. Korea-US Key Interest Rate Trend²⁹⁷



The main reason why the Bank of Korea cannot align closely with the US Federal Reserve's interest rate could be attributed to household debt. The household debt in the republic of Korea surpassed 100% of GDP, with individual debt currently standing at a staggering 1,870 trillion won (.39 trillion US dollars), the highest level globally.

Graph 5. Household and Sovereign Debt in Korea²⁹⁸



2.3 Fiscal Policy

Under President Yoon, the Republic of Korea is adopting a more conservative fiscal approach, as evidenced by the modest 2.8% increase in the government expenditure budget for 2024. It targets at restoring fiscal health and balance, especially after the overspending due to the pandemic. This increase marks the smallest since

²⁹⁷ Kyung-min, Lee, "BOK rate cut possible after June following dovish US Fed stance", The Korean Times, 21 March, 2024, https://www.koreatimes.co.kr/www/biz/2024/04/602_371139.html

²⁹⁸ Hyun, Park, "S. Korea's household debt soars while sovereign debt is in relatively good shape", Hankyoreh, 13 January, 2021, https://english.hani.co.kr/arti/english_edition/e_business/978637

2006 and reflects the conservative administration's intervention style. However, despite the conservative nature of the administration, most of the current government budget is directed towards social welfare. This significant portion of the budget encompasses initiatives such as promoting fertility through extended parental leave, providing financial support for childbirth, and offering low-interest real estate loans to new parents.

One of the main points in current tax policy is the property tax policy. Seoul's real estate price is among the highest in the world. To control this abnormal investment, former President Moon implemented a policy requiring multiple homeowners to pay an additional tax when selling real estate, in addition to the basic capital gains tax rate. Specifically, since May 10, 2022, owners of multiple homes in regulated areas have been subject to additional taxation of 20 percent points for two homes and 30 percent points for three or more homes when transferring ownership. However, as President Yoon took office, a temporary exemption of capital gains tax on multi-home transfers was implemented. This short-term relaxation of regulations is set to expire on May 9th, 2024.

On the other hand, income tax rates are significantly lower than the OECD average. While Korea's effective tax rate stands at 6.6% for average income, the OECD average is 15.0%. This is due to extensive tax deductions and a high proportion of tax-exempt individuals, reaching about 33.6% (9.6 million people) in 2022.

Historically, Korea has relied more on corporate and value-added taxes than income taxes. Given the current societal challenges such as low fertility rates, aging population, and climate crisis, experts emphasize the need to expand tax revenue to increase fiscal spending to address these issues.

3. Microeconomic Policies

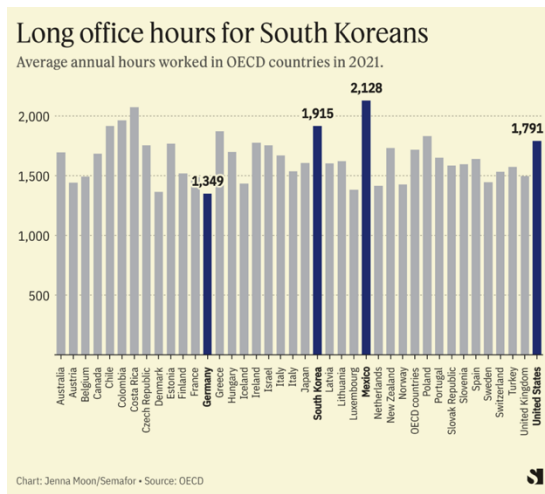
3.1 Labour market

The ongoing debate in the Korean labor market revolves around labor-management issues and working hours. Historically, Korea has faced deep conflicts related to non-regular workers, exemplified by large-scale layoffs such as the 2004 SsangYong incident, where nearly 3,000 employees were abruptly dismissed after the company's hasty sale to Shanghai Car, leading to subsequent restructuring demands from the acquiring company. Another pressing concern is wage negotiation, particularly regarding the welfare of janitors and security guards, where wage negotiations have essentially been frozen for years, exacerbating discrimination and job insecurity issues.

To address labor-management tensions, the government proposed legislation for fixed-term workers. While intended to protect workers' rights by requiring companies to hire contract workers as regular employees after two years, it inadvertently fosters job insecurity as companies often terminate workers within a two-year period to avoid such obligations.

Furthermore, long working hours persist as a challenge in the Korean labor market, with legal limits set at 52 hours per week, the second highest in the world after Mexico. However, overtime work, especially prevalent in small and medium-sized enterprises, particularly in the manufacturing sector, is often uncompensated due to the comprehensive wage system.

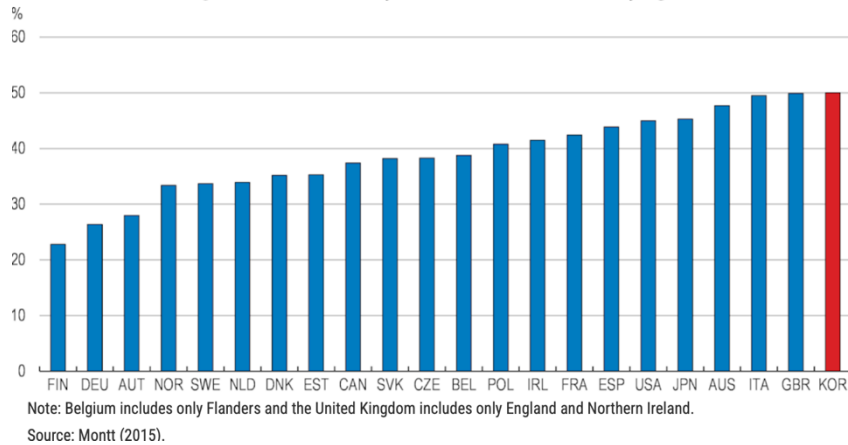
Graph 6. Average Office Hours in OECD Countries²⁹⁹



Another critical issue in the labor market is the skill mismatch problem. Despite a high percentage of young people holding college degrees, Korea's core information processing skills, as per the OECD's PIAAC, are lower compared to countries with similar education levels. This mismatch in skills demands has led to a shortage of labor, particularly in the manufacturing sector.

Graph 7. Mismatch in Korea³⁰⁰

Figure 3.14. Field-of-study mismatch in Korea is relatively high



3.2 Government intervention and market competition

Due to the strong dominance of Chaebols and the suppressed domestic economy, supporting small businesses has been a government priority. To lessen their burden, the government provides benefits to small

²⁹⁹ Jenna, Moon, "South Korea eyes 69-hour working week, as other countries mull four-day week", Semafor, 15 March, 2023, <https://www.semafor.com/article/03/15/2023/south-korea-69-hour-working-week-four-day-week>

³⁰⁰ OECD Economic Surveys: Korea 2022, Chapter3. Policies to increase youth employment in Korea, 19 Sept 2022

businesses by reducing energy bills and other taxes. Additionally, on April 26th, the government announced its intention to actively expand R&D and overseas expansion support for small businesses. According to the Ministry of SMEs and Startups³⁰¹, "Cooperative R&D with research institutions will be improved to support small businesses and market-desired technology development, and the method of R&D support will be diversified through loans and investments, in addition to existing contributions, to enhance the efficiency of financial input." Given Korea's heavy reliance on exports, the government is putting considerable effort into its corporate support policies.

However, there has been ongoing discussion about industrial reform, with some viewing the government's policies as encouraging the dominance of large corporations and further strengthening their position. Recent actions by the Yoon administration, such as reducing corporate taxes and simplifying tax brackets, have been seen as granting tax benefits to large corporations. On the other hand, some argue that due to the substantial contribution of large corporations to the Korean economy and their influence in the labor market, cooperation between the government and these corporations is inevitable.

Furthermore, policies such as tax deferrals for self-employed individuals operating in construction, manufacturing, restaurants, retail, and accommodation are being implemented. However, beyond short-term policies, long-term measures to refresh the local economy are currently lacking.

4. International Economic Integration

4.1 Current Account

The Republic of Korea is a highly export-driven country. As of 2022, it ranked 8th in terms of trade volume, 6th in export market share, and 8th in import market share. With the manufacturing industry playing a significant role in the economy, major export items include semiconductors, cars, petroleum products, automotive parts, and displays and sensors.

From an economic point of view, the Bank of Korea currently maintains a very low interest rate, leading to currency depreciation. While this may contract investments, it stimulates exports. Consequently, the Republic of Korea's current account shows a surplus, driven by the increasing volume of semiconductor and automobile exports. However, the services account remains negative due to a significant decrease in Chinese tourists, previously the largest tourist group in Korea. Despite this, the current account is forecasted to remain positive.

Regarding trade policy, the government traditionally promotes an open economy and free trade policy due to the small domestic market size and limited resource endowment. As a result, efforts have been made to strengthen international cooperation and trade partnerships.

4.2 Foreign Economic Relations

China and the US are the Republic of Korea's two largest trading partners, accounting for 23% and 13% respectively as of 2022. However, their positions have shifted as monthly exports to the US exceeded those to China, totalling \$11.3 billion and \$10.9 billion, respectively. The surge in exports to the US has significantly expanded the trade surplus, increasing by 83.9% compared to the previous year. Yet, with the upcoming US elections, former President Trump mentioned implementing universal tariffs to raise US tariffs and the Center for Strategic and International Studies (CSIS) expert Victor Cha suggested that the US might be considering imposing tariffs on Korea due to its high trade surplus with the US. With efforts by the US to reduce its trade deficit, pressure on trade with the US is expected, and measures such as increasing imports from the US should be considered.

³⁰¹Ministry of SMEs and Startups, (240426_Press Release) R&D Future Strategy Roundtable Performance, Share Forum (4.26) held, 26 April, 2024, <https://mss.go.kr/site/chungbuk/ex/bbs/View.do?cbIdx=180&bcIdx=1049894>

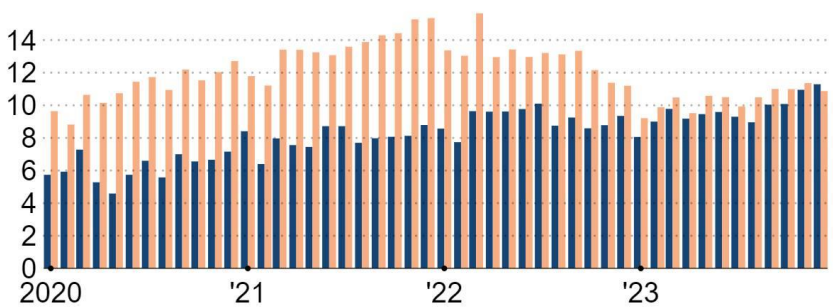
On the other hand, trade with China has significantly decreased. Especially with changes in China's import structure and growing disparities between Korea's main export items, the trade deficit with China is expected to persist. While China has increased trade with emerging economies such as those in Latin America and Russia, its trade with advanced economies like the US, EU, and Korea has decreased. In 2023, the trade surplus with China turned into a deficit, although it has now returned to surplus. However, this surplus turnaround, achieved by reducing imports, raises concerns about the trade situation. Particularly, Korea's import dependence on China was 22.2% in 2023, while China's import dependence on Korea was 6.3%, indicating a significant gap in the import dependence between the two countries.

Graph 9. Monthly Exports to the US and China³⁰²

South Korea's monthly exports by destination

(In billions of dollars)

■ U.S. ■ China



Source: Ministry of Trade, Industry and Energy

Korea's position in the US-China trade war is complex. There are positive aspects, such as the significant sanctions the US imposed on Chinese companies like Huawei, which provided an opportunity for Samsung to strengthen its competitiveness in telecommunications equipment. However, as mentioned earlier, Korea's trade dependency on China is substantial. Particularly, Korea exports a high proportion of raw materials and intermediate goods to China, so the decrease in China's exports to the US directly affects Korea's exports to China. However, this US-China dispute is not simply a trade dispute but the beginning of a long-term power struggle. Therefore, Korea needs to approach the US-China rivalry diplomatically and avoid a zero-sum logic while forming an autonomous position. Some argue that in the event of an escalation of this dispute, it is important to prioritize the establishment of an external strategy that prioritizes the US-Korea alliance. However, Korea is by no means a weak country. It should prioritize national interests. Efforts to reduce trade dependence on the US and China while expanding diplomatic space and trade partners as a middle power will be necessary.

The relationship with Japan has been very unstable. This is due to a complex historical background a lack of communication and failure to compromise between the two nations. Back in 2019, the Supreme Court of the Republic of Korea ordered Japan's Nippon Steel to compensate for the forced labor they utilized during the Japanese colonial era, after which Japan initiated trade sanctions on the Republic of Korea by controlling their

³⁰² Kotaro Hosokawa, "South Korea records its first trade deficit with China in 31 years", 1 January, 2024, <https://asia.nikkei.com/Economy/Trade/South-Korea-records-its-first-trade-deficit-with-China-in-31-years>

exports of key materials for producing semiconductors and displays. However, the Japanese government officially announced that the action was due to a restructuring of their existing export structure. However, later, after the death of former Japanese Prime Minister Shinzo Abe, it is said that the semiconductor export restrictions were indeed in retaliation for the ruling of the Supreme Court of Korea. The trade war lasted for several years until recently, when Korea withdrew its complaint against Japan at the WTO, and Japan reinstated the Republic of Korea on their white list.

This trade war had immense impacts on both economies, especially in Korea, where there was an anti-Japanese movement involving boycotting Japanese products, including consumer goods, food, and culture overall. As anti-Japanese sentiments expanded, the overall relationship between Japan and Korea worsened, although there seems to be a slight improvement nowadays.

4.3 Recent international Situations

Before the war, South Korea had active trade with Russia, ranking among the top 10 countries in terms of trade volume. However, since the conflict in 2022, South Korea's trade with Russia has seen a significant decline, dropping by 22.6%. Particularly, exports to Russia have decreased by 36.6%. On the other hand, South Korea imports traditional energy sources from Russia such as oil, natural gas, and metals. As South Korea is an energy-deficient country, it heavily relies on Russia for energy. While exports to Russia have decreased, imports have increased.

Despite the limited direct impact of the Israel-Palestine conflict on Korea's overall trade volume, there are specific concerns related to Korea's dependency on Israeli imports for certain critical products. Examples include bromine and directional wireless detectors, which are integral to various industries within Korea. The challenge arises from the difficulty in finding suitable substitutes for these specialized imports. Moreover, the conflict has contributed to fluctuations in oil prices, impacting the global economy, including Korea. To respond to the situation, the Korean government has taken measures such as reducing fuel taxes to stabilize domestic prices and support businesses affected.

5. Conclusion

The political and economic situation in South Korea, is it truly stable? If there is one serious issue to contemplate through this report, it is how the Republic of Korea will address the political and economic challenges it currently faces and what measures it is considering. The figures indicate that South Korea is struggling with serious societal problems internally. Its birth rate ranks among the lowest in the world, while aging is occurring rapidly. Political polarization among citizens is also at a concerning level, and the suicide rate is among the highest globally. These societal issues are clearly closely connected with the economic situation. Unstable employment conditions and excessively long working hours, along with consistently rising real estate and living costs, cause dissatisfaction among many youths towards the nation and its policies. Furthermore, as the labor supply continues to decline, immigration issues are also on the rise. Yet, there is still no clear agreement on immigrant integration in Korean society.

Significant policy changes are needed. Policies to increase the birth rate should be the foremost priority for Korea. Additionally, reforms related to the labor market must be undertaken. Based on a gradual approach to labor relations, social agreement should be reached regarding increasing labor efficiency and improving salary and vacation systems. Especially, as of 2023, the utilization rate of childcare leave in Korea is a mere 30% of all eligible individuals. Moreover, the utilization rate of paternity leave among men is only 6.8%. This indicates not only that the utilization rate is not freely practiced in many companies despite the existence of the childcare leave system but also that culturally, the responsibility for childcare is still predominantly placed on mothers, while there persists an expectation of traditional male roles in society.

Externally, Korea demonstrates high competitiveness as an export giant with an economy ranking around the top 14 in size. However, its heavy dependence on trade with China and the United States and there exists strained relations with neighboring countries geographically. However, the Republic of Korea holds a comparative advantage in the semiconductor and automotive sectors, with its export volume increasing. While its exports in manufacturing sectors are strong, it is in a situation where raw materials and energy for

production must be continuously imported, which is why it is important to have a good understanding of international sentiment to maintain smooth diplomatic relations.

Lastly, for international peace and security, Korea also actively participates as a member of many international organizations such as the WTO. Recognizing that being part of a group of nations leading the creation of a new international order and guiding the rules of global governance is crucial, Korea must actively respond to international issues such as climate change, war, and economic inequality. Particularly, Korea has transformed from one of the world's largest aid recipients to an economic power in just a few decades. To enhance the country's competitiveness and national interests, it must become a leading nation in global governance. Above all, the most pressing issue currently is the peace on the Korean Peninsula. Cooperating with neighboring countries to bring about a change in the regime in North Korea and restore the human rights of oppressed North Korean citizens is imperative.

Reference

Bank of Korea, Objectives of Monetary Policy,

<https://www.bok.or.kr/eng/main/contents.do?menuNo=400012>

Encyclopaedia of Korean Culture, Chaebol, <https://encykorea.aks.ac.kr/Article/E0068404>

Hwang, S, 한 GDP 대비 가계부채 비율 4년째 세계 1위 [Korean GDP Household Debt Ratio Ranked 1st Worldwide for 4th Consecutive Year]. Donga Ilbo, 20 November, 2023,

<https://www.donga.com/news/Economy/article/all/20231119/122254670/1>

Hyun, Park, "S. Korea's household debt soars while sovereign debt is in relatively good shape", Hankyoreh, 13 January, 2021, https://english.hani.co.kr/arti/english_edition/e_business/978637

Jenna, Moon, "South Korea eyes 69-hour working week, as other countries mull four-day week", Semafor, 15 March, 2023, <https://www.semafor.com/article/03/15/2023/south-korea-69-hour-working-week-four-day-week>

Kang, J., 경상수지 8개월째 흑자...작년 350억달러 넘었다 [Trade Surplus for 8 Consecutive Months... Surpassed 35 Billion Dollars Last Year], The Korea Economic Daily,],, 7 february 2024,

<https://www.hankyung.com/article/2024020719271>

Korea Institute for Economic Policy, 2023년 중국 대외무역의 특징과 한·중 무역에 대한 시사점

[Characteristics of China's Foreign Trade in 2023 and Implications for Sino-Korean Trade], 14 March 2024

Korea, OECD Economic Outlook, Volume 2023 Issue 1, OECD, <https://www.oecd-ilibrary.org/sites/09cf5e33-en/index.html?itemId=/content/component/09cf5e33en#:~:text=GDP%20growth%20is%20projected%20to,pick%20up%20gradually%20in%202024.>

<https://www.oecd-ilibrary.org/sites/09cf5e33-en/index.html?itemId=/content/component/09cf5e33en#:~:text=GDP%20growth%20is%20projected%20to,pick%20up%20gradually%20in%202024.>

Kotaro Hosokawa, "South Korea records its first trade deficit with China in 31 years", 1 January, 2024,

<https://asia.nikkei.com/Economy/Trade/South-Korea-records-its-first-trade-deficit-with-China-in-31-years>

Kyung-min, Lee, "BOK rate cut possible after June following dovish US Fed stance", The Korean Times, 21 march, 2024,

https://www.koreatimes.co.kr/www/biz/2024/04/602_371139.html

Ministry of SMEs and Startups, (240426_Press Release) R&D Future Strategy Roundtable Performance, Share Forum (4.26) held, 26 April, 2024,

<https://mss.go.kr/site/chungbuk/ex/bbs/View.do?cbIdx=180&bclIdx=1049894>

OECD Economic Outlook, Volume 2023 Issue 1, Korea, 7 June, 2023, <https://www.oecd-ilibrary.org/sites/09cf5e33-en/index.html?itemId=/content/component/09cf5e33-en#:~:text=GDP%20growth%20is%20projected%20to,pick%20up%20gradually%20in%202024.>

<https://www.oecd-ilibrary.org/sites/09cf5e33-en/index.html?itemId=/content/component/09cf5e33-en#:~:text=GDP%20growth%20is%20projected%20to,pick%20up%20gradually%20in%202024.>

OECD Economic Surveys: Korea 2022, Chapter3. Policies to increase youth employment in Korea, 19 Sept 2022

Park, B., US-China Hegemony Competition and South Korea's Policy Directions (No. 67). February 2020

Park, S., 늘어난 대미 흑자에도...웃지 못하는 까닭 [Despite Increased Surplus with the US... The Reason for Not Smiling], The Kyunghyang Shinmun, 1 April 2024, <https://m.khan.co.kr/economy/economy-general/article/202404012136035#c2b>

Peter Pae, "South Korea's Chaebol", Bloomberg, 14 January 2015,

<https://www.bloomberg.com/opinion/quicktake/republic-samsung>

The National Atlas of Korea, The National Atlas of Korea 2021, Industrial Activities, Industrial Structure,

http://nationalatlas.ngii.go.kr/pages/page_3206.php

Spain's Country Report

Almudena Soria Gurría and Pilar Sánchez Follana

1. Economic Structure

I. Basic Data about Spain

As of January 1, 2024, Spain's population reached 48,592,909 inhabitants³⁰³. Historically, Spain has seen a consistent increase in population since the earliest data recorded by the National Institute of Statistics (INE)³⁰⁴. However, since the economic crisis of 2008, this growth rate has slowed considerably, reflecting broader economic challenges and demographic shifts in the country³⁰⁵. Interestingly, the primary driver behind Spain's population growth stems from individuals born abroad. This demographic surpasses that of foreign nationality, and is largely attributed to processes facilitating the acquisition of Spanish nationality³⁰⁶.

Compared to the global demographic landscape, Spain's population represents approximately 0.59% of the total world population³⁰⁷. However, Spain exhibits unique demographic characteristics, with a median age of 44.8 years in 2023, notably higher than the estimated global median age of around 30 years³⁰⁸.

Despite a slight decrease in population density, which currently stands at 93.83 people per square kilometre in 2024³⁰⁹, Spain continues to experience an upward trajectory in life expectancy. The current life expectancy for Spain in 2024 has risen to 84.12 years³¹⁰. This trend underscores advancements in healthcare and quality of life within the country.

Conversely, Spain has witnessed a decline in its birth rate, with 7.816 births per 1000 people recorded in 2024³¹¹. This decline has persisted since 2008, coinciding with the onset of the economic crisis. Economic factors, among others, likely contribute to this trend, influencing individual's decisions regarding family planning and fertility rates. Also, Spain had a fertility rate of 1.16 children per woman in 2023, considerably lower than France's 1.79³¹², reflecting changes in socio-economic dynamics.

In 2023, Spain's Gross Domestic Product (GDP) reached €1,46 trillion.³¹³ The GDP per capita for Spain in 2023 amounted to €30,320³¹⁴. This upward trend in GDP per capita becomes more evident when

³⁰³ <https://www.ine.es/dyngs/Prensa/en/ECP4T23.htm>. Accessed 11 March 2024.

³⁰⁴ <https://www.ine.es/consul/serie.do?s=ECP320&c=2&nult=0>. Accessed 11 March 2024.

³⁰⁵ Royo S. *Why Banks Fail*, Palgrave Macmillan, June 2020, Chapter 4, pp 119-140.

³⁰⁶ <https://www.ine.es/dyngs/Prensa/en/ECP4T23.htm>. Accessed 11 March 2024.

³⁰⁷ https://www.worldometers.info/world-population/spain-population/?mod=article_inline#google_vignette. Accessed 11 March 2024.

³⁰⁸ https://www.worldometers.info/world-population/spain-population/?mod=article_inline#google_vignette. Accessed 11 March 2024.

³⁰⁹ https://www.worldometers.info/world-population/spain-population/?mod=article_inline#google_vignette. Accessed 11 March 2024.

³¹⁰ <https://www.macrotrends.net/global-metrics/countries/ESP/spain/life-expectancy>. Accessed 11 March 2024.

³¹¹ <https://www.macrotrends.net/global-metrics/countries/ESP/spain/birth-rate#:~:text=The%20current%20birth%20rate%20for,a%201.55%25%20decline%20from%202021.> Accessed 11 March 2024.

³¹² https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Fertility_statistics. Accessed 11 March 2024.

³¹³ https://www.ine.es/en/prensa/cna_pa_2022_en.pdf Accessed 11 March 2024.

³¹⁴ https://www.ine.es/en/prensa/cna_pa_2022_en.pdf Accessed 11 March 2024.

compared to figures from a decade ago; in 2013, Spain's GDP per capita was €24,369³¹⁵ showcasing significant economic progress over the years.

As the fifth largest economy in the European Union³¹⁶, Spain's economic landscape is integral to the region's overall stability. However, economic growth is accompanied by challenges, notably in managing inflation. The Consumer Price Index (CPI) in January recorded an annual variation rate of 2.8%³¹⁷, indicating a steady rise in inflation, a trend observed since the early 2000s.

Despite economic fluctuations, the labour force participation rate in 2023 was 58.63%³¹⁸, compared to a rate of 43.97%³¹⁹ in 2013, indicating a consistent increase over the decade. Concurrently, the unemployment rate in 2023 was 12.29%³²⁰, which has been consistently decreasing since 2013, when it was around 27%³²¹. Examining the structure of Spain's economy, reflects the typical characteristics of a developed country. The services sector is the dominant force, contributing 74.53% to the GDP, followed by the industrial sector at 17.6%. The construction and agricultural sectors, meanwhile, make up about 8% of the GDP³²², showing a decline as the economy continues to develop and transitions towards more technologically advanced sectors.

II. Spain's Decentralised System

Spain's political and economic structure is deeply influenced by its decentralised system of governance, characterised by the presence of 17 autonomous communities and two autonomous cities. These regions enjoy varying degrees of self-government, granted to them through the Spanish Constitution of 1978³²³. This devolution of power allows the autonomous communities to manage their own affairs in areas such as education, healthcare, culture, and even taxation, to a certain extent. As Article 137 of the Spanish constitution remarks, "The State is territorially organised into municipalities, provinces, and Autonomous Communities that are established. All these entities enjoy autonomy for the management of their respective interests."³²⁴

Moreover, each autonomous community has its own government and legislative assembly, responsible for making decisions on policies that affect its population. These regional governments are headed by presidents, who are either elected by the regional parliament or appointed by the central government, depending on the specific region's statutes. The legislative assemblies are composed of representatives elected by the citizens of each autonomous community, and they enact laws and regulations tailored to the needs and preferences of their respective regions. "The Constitution guarantees the autonomy of the municipalities. These will have full legal personality. Their government and administration correspond to their respective Town Councils, composed of Mayors and Councilors. Councilors will be elected by the residents of the municipality through universal, equal, free, direct, and secret suffrage, in the manner established by law. Mayors will be elected by the Councilors or by the residents. The law will regulate the

³¹⁵ <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD?end=2022&locations=ES&start=2010>. Accessed 15 March 2024.

³¹⁶ <https://www.statista.com/statistics/685925/gdp-of-european-countries/>. Accessed 15 March 2024.

³¹⁷ <https://www.ine.es/dyngs/Prensa/en/IPC0324.htm>. Accessed 15 March 2024.

³¹⁸ <https://www.ine.es/en/index.htm>. Accessed 20 March 2024.

³¹⁹ <https://tradingeconomics.com/spain/employment-rate> Accessed 20 March 2024.

³²⁰ <https://www.ine.es/en/index.htm>. Accessed 20 March 2024.

³²¹ <https://tradingeconomics.com/spain/unemployment-rate> Accessed 21 March 2024.

³²² <https://www.statista.com/statistics/271079/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-spain/> Accessed 21 March 2024.

³²³ Spanish Constitution. BOE number.311, 29th December 1978.

<https://www.boe.es/legislacion/documentos/ConstitucionINGLES.pdf>

³²⁴ Spanish Constitution. BOE number.311, 29th December 1978.

<https://www.boe.es/legislacion/documentos/ConstitucionINGLES.pdf>

conditions in which the open council regime is appropriate." (Article 140, Spanish Constitution)³²⁵
The degree of autonomy granted to each autonomous community varies depending on historical, cultural, and political factors. For example, regions like Catalonia, the Basque Country, and Galicia have extensive powers of self-government, including their own police forces and control over education, while other regions have more limited autonomy³²⁶. The autonomous communities play a crucial role in Spain's political landscape, fostering a sense of regional identity and providing a platform for the expression of local interests and concerns. However, they also operate within the framework of the Spanish state, which retains complete authority over certain matters such as defence, foreign affairs, and trade agreements.

III. Key Organisational Factors: Varieties of Capitalism

The "Varieties of Capitalism" (VoC) framework, initially outlined in detail by Peter A. Hall and David Soskice in their work "Varieties of Capitalism: The Institutional Foundations of Comparative Advantage"³²⁷ provides a comprehensive method for analysing different capitalist economies. It categorises capitalist systems into two main types: liberal market economies (LMEs) and coordinated market economies (CMEs).

If we refer to Spain's main organisational economic factors, it is a country that, along with this theory, will be an ambiguous case along with some other Mediterranean countries such as Portugal and Greece. Spain is often categorised as a Mixed Market Economy (MME), exhibiting characteristics of both Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs). Regarding labour relations, Spain enforces strong labour protections that align more closely with CMEs but lacks the extensive labour-business coordination typical of such economies. In terms of corporate governance, Spanish firms frequently feature concentrated ownership with notable roles for family ownership and the state, distinguishing them from the dispersed shareholder model seen in LMEs and the stakeholder-oriented governance of CMEs. Additionally, Spain's vocational training and education system does not mirror the tightly integrated systems characteristic of CMEs; it is more general and less tailored to specific industry needs. Historically, the state plays a significant role in regulating the economy and providing social welfare, similar to CMEs, yet with a distinct Southern European value where state intervention can be inconsistent³²⁸. Although this analysis is highly valued in the political sphere, it can be considered outdated due to significant economic changes over the last 20 years that the original framework does not account for. In a more recent paper titled "New Directions in Comparative Capitalisms Research: Critical and Global Perspectives,"³²⁹ edited by Matthias Ebenau, Ian Bruff, and Christian May, newer critiques of the former theory are developed. "In saying that the original VoC time is over – that we are now necessarily *post*-VoC – I mean no insult or criticism, just the reverse in fact. Everyone reading this now (and those of us writing now) are unavoidably aware that the Great Moderation came crashing down in the financial crisis of 2008. But in order to give the original VoC authors their due, it is vital to remember that, as late as 1 January 2008, virtually nobody of any intellectual persuasion – left/right/centre – saw that crash coming...So, just like the fall of the Berlin Wall transformed the status and relevance of everything written earlier on the

³²⁵ Spanish Constitution. BOE number.311, 29th December 1978.

<https://www.boe.es/legislacion/documentos/ConstitucionINGLES.pdf>

³²⁶ Spanish Constitution. BOE number.311, 29th December 1978.

<https://www.boe.es/legislacion/documentos/ConstitucionINGLES.pdf>

³²⁷ Hall, & Soskice, D. W, Varieties of capitalism : the institutional foundations of comparative advantage, Oxford University Press, 2001.

³²⁸ Hall, & Soskice, D. W, Varieties of capitalism : the institutional foundations of comparative advantage, Oxford University Press, 2001.

³²⁹ Ebenau, Bruff, I., & May, C, New Directions in Comparative Capitalisms Research Critical and Global Perspectives, Palgrave Macmillan, 1st ed, 2015.

Cold War, the end of the Great Moderation transformed the status and relevance of everything written earlier on VoC and their patterns of institutional change³³⁰ (Ebenau, Bruff and May, 2015, pp 22). Despite the insights provided by the former framework, it has faced significant critiques for its static nature, which may fail to account for the dynamism of economic change and the complexities introduced by globalisation and the rise of emerging markets like Brazil and China. Some scholars have advanced newer approaches within comparative capitalism research, often referred to as "post-VoC." These approaches seek to incorporate new understandings of how VoCs can be studied. In the case of Spain, Ebenau and Bruff highlight the country's response to economic crises, particularly the 2008 financial crisis and the subsequent Eurozone debt crisis³³¹. They mention how Spain has seen a shift toward more flexible labour markets rather than the rigidity mentioned above, which has significantly reshaped its social contract and labour relations.

Furthermore, Spain's integration into the European Union has profoundly affected its economic policies and institutional arrangements. Compliance with EU directives has reshaped its labour market, industrial policy, and financial regulations, introducing a layer of complexity that traditional VoC analysis may not fully capture³³². Spain also exhibits significant regional disparities, as mentioned in Section 1.2, with autonomous communities like Catalonia and the Basque Country displaying markedly different economic profiles compared to other regions. Such disparities necessitate an analysis that considers intra-national variations as each region may experience economic shocks differently.

2. Macroeconomic Policies

Spain's approach to economic policy is aligned with Western economic doctrine: characterised by a mix of market-oriented principles and government intervention, with a focus on promoting growth, stability, and social welfare. However, it's important to note that while Western economic principles play a significant role in Spanish policy-making, the country also has its own unique economic challenges, cultural factors, and historical context that influence its approach to economic policy. This can sometimes result in deviations from pure Western economic orthodoxy, as policymakers tailor their decisions to address Spain's specific circumstances and priorities.

I. Key Policy Instruments

Spanish monetary policy is largely conducted within the framework established by the European Central Bank (ECB), given that Spain is a member of the Eurozone and uses the euro as its currency. As such, the primary responsibility for setting monetary policy lies with the ECB rather than Spain's national central bank, the Bank of Spain. The ECB's primary objective is to maintain price stability within the Eurozone, which it defines as an inflation rate of close to, but below, 2% over the medium term³³³. To achieve this objective, the ECB utilises various monetary policy tools, including interest rates, open market operations, asset purchases, and forward guidance³³⁴.

³³⁰ Ebenau, Bruff, I., & May, C, *New Directions in Comparative Capitalisms Research Critical and Global Perspectives*, Palgrave Macmillan, 1st ed, 2015. pp 1-23.

³³¹ Ebenau, Bruff, I., & May, C, *New Directions in Comparative Capitalisms Research Critical and Global Perspectives*, Palgrave Macmillan, 1st ed, 2015, pp 1-23.

³³² Ebenau, Bruff, I., & May, C, *New Directions in Comparative Capitalisms Research Critical and Global Perspectives*, Palgrave Macmillan, 1st ed, 2015, pp 101-117.

³³³ "Monetary policy & markets. Introduction", European Central Bank. Accessed 27 April. <https://www.ecb.europa.eu/mopo/intro/html/index.en.html>

³³⁴ "Monetary policy & markets. Instruments", European Central Bank. Accessed 27 April. <https://www.ecb.europa.eu/mopo/implement/html/index.en.html>

The Bank of Spain is a public-law entity that carries out the function of the national central bank in Spain. It is also responsible for the supervision of the Spanish banking system and other financial intermediaries operating in Spain. These functions are carried out within the European institutional framework, of which the Bank of Spain is part as a member of the European System of Central Banks (ESCB) and the Eurosystem, as well as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM)³³⁵. The mission of the Bank of Spain is to achieve price stability and financial stability, thereby fostering stable economic growth. Additionally, it contributes to the formulation of other economic policies through its analysis.³³⁶

Regarding fiscal policy, Spain is subject to the Stability and Growth Pact (SGP)³³⁷, which sets fiscal rules aimed at promoting sound public finances and stability within the Eurozone. These rules include budgetary targets: Government deficits should remain below 3% of Gross Domestic Product (GDP), and government debt should be kept below 60% of GDP³³⁸.

Within this framework, the Spanish government utilises fiscal policy to manage public finances, stimulate demand, and support economic growth. The elaboration of the General State Budgets in Spain involves a complex and multi-stage process that requires coordination between government institutions, parliamentary bodies, and stakeholders³³⁹. The goal is to ensure that the budget reflects the government's policy priorities, promotes fiscal responsibility, and meets the needs of the country's citizens.

One of the main struggles the current government is facing is the failure to approve the General State Budgets of 2024³⁴⁰. At this moment, we don't have a clear framework for allocation of funds: this not only creates economic uncertainty for citizens and policies but also undermines its international credibility.

Spanish macroeconomic policies often include structural reforms aimed at improving the efficiency and flexibility of labour markets, enhancing competitiveness, and promoting productivity growth. These reforms may target areas such as labour market regulation, education and training, the business environment, and innovation. One of the latest reforms consisted of an increase in the Minimum Interprofessional Wage (SMI) to 15,876 euros per year distributed in 14 payments of 1,134 euros, resulting in a cumulative increase of 54% since 2018. According to the government, around two and a half million workers will benefit from this measure.³⁴¹

³³⁵ Banco de España. Accessed 27 April. <https://www.bde.es/wbe/es/sobre-banco/#:~:text=La%20misi%C3%B3n%20del%20Banco%20de,formulaci%C3%B3n%20de%20otras%20pol%C3%ADticas%20econ%C3%B3micas>.

³³⁶ Banco de España. Accessed 27 April. <https://www.bde.es/wbe/es/sobre-banco/#:~:text=La%20misi%C3%B3n%20del%20Banco%20de,formulaci%C3%B3n%20de%20otras%20pol%C3%ADticas%20econ%C3%B3micas>.

³³⁷ "Stability and Growth Pact", European Commission. Accessed 27 April. https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en

³³⁸ "Stability and Growth Pact", European Commission. Accessed 27 April. https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en

³³⁹ "Orden HFP/1254/2023, de 22 de noviembre, por la que se dictan las normas para la elaboración de los Presupuestos Generales del Estado para 2024", Boletín Oficial del Estado (BOE), Ministerio de Hacienda y Función Pública. Accessed 5 May. https://www.boe.es/diario_boe/txt.php?id=BOE-A-2023-23733

³⁴⁰ "Prórroga del Presupuesto para 2024", Ministerio de Hacienda. Accessed 27 April.

<https://www.sepg.pap.hacienda.gob.es/sitios/sepg/es-ES/Presupuestos/PGE/PGE2023Prorroga/Paginas/PGE2023Prorroga.aspx>

³⁴¹ "Salario Mínimo Interprofesional (SMI): ¿qué es, cuánto sube y a quién beneficia?", La Moncloa, 6

Additionally, social welfare policies are part of its macroeconomic framework to ensure inclusive growth and address social inequalities. This includes measures to support vulnerable groups, such as unemployment benefits, social assistance programs, healthcare provision, and education subsidies³⁴².

II. Key challenges

As Spain navigates the aftermath of the COVID-19 pandemic, it faces a multitude of complex challenges that are integral to shaping its economic and social landscape. From fostering a resilient and inclusive economic recovery to addressing longstanding issues such as unemployment, labour market segmentation, and regional disparities, Spain stands at a pivotal juncture in its journey toward sustainable growth and social cohesion. Moreover, demographic shifts, migration dynamics, and the imperative of environmental sustainability and digital transformation further underscore the need for strategic policymaking and coordinated action. In this context, understanding and effectively addressing these key challenges are paramount to shaping Spain's future trajectory and ensuring the well-being of its citizens.

Firstly, like many countries, Spain is grappling with the economic fallout from the COVID-19 pandemic, which has resulted in a contraction in economic activity, increased unemployment, and strained public finances. Ensuring a robust and inclusive economic recovery remains a significant challenge.

Therefore, Spain's Recovery and Resilience Plan³⁴³, driven by EU funds, aims to stimulate economic growth, fortify resilience, and promote sustainability³⁴⁴. Key objectives include economic recovery through job creation and business support, bolstering resilience against future crises, accelerating green and digital transitions, and fostering social inclusion³⁴⁵. The plan prioritises investments in renewable energy, digital infrastructure, and social welfare to ensure a sustainable, inclusive, and resilient future for Spain.³⁴⁶

Persistent high unemployment rates, particularly among youth and certain regions, remain a significant challenge for the Spanish economy. Spain has been leading youth unemployment in the European Union for years. According to Eurostat, as of last January, Spain already had a youth unemployment rate of

February 2024. Accessed 27 April.

[https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/trabajo14/Paginas/2023/140223-salario-minimo-interprofesional.aspx#:~:text=El%20Salario%20M%C3%ADnimo%20Interprofesional%20\(SMI,54%25%20desde%20el%20a%C3%B1o%202018.](https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/trabajo14/Paginas/2023/140223-salario-minimo-interprofesional.aspx#:~:text=El%20Salario%20M%C3%ADnimo%20Interprofesional%20(SMI,54%25%20desde%20el%20a%C3%B1o%202018.)

³⁴² "Historia de la Seguridad Social", Ministerio de Inclusión, Seguridad Social y Migraciones. Accessed 5 May. <https://www.seg-social.es/wps/portal/wss/internet/Conocenos/HistoriaSeguridadSocial>

³⁴³ "Spain's recovery and resilience plan", European Commission. Accessed 27 April. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/spains-recovery-and-resilience-plan_en#whats-in-the-plan

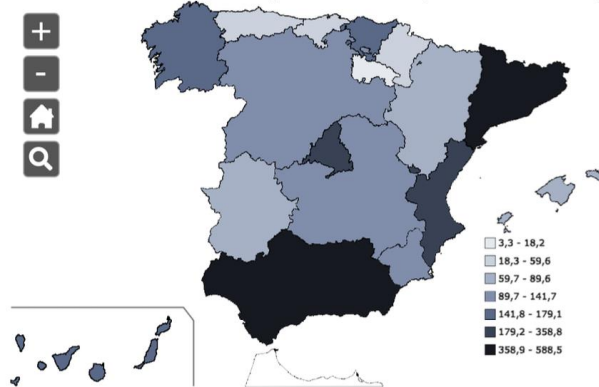
³⁴⁴ "Spain's recovery and resilience plan", European Commission. Accessed 27 April. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/spains-recovery-and-resilience-plan_en#whats-in-the-plan

³⁴⁵ "Spain's recovery and resilience plan", European Commission. Accessed 27 April. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/spains-recovery-and-resilience-plan_en#whats-in-the-plan

³⁴⁶ "Spain's recovery and resilience plan", European Commission. Accessed 27 April. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/spains-recovery-and-resilience-plan_en#whats-in-the-plan

28.6%.³⁴⁷

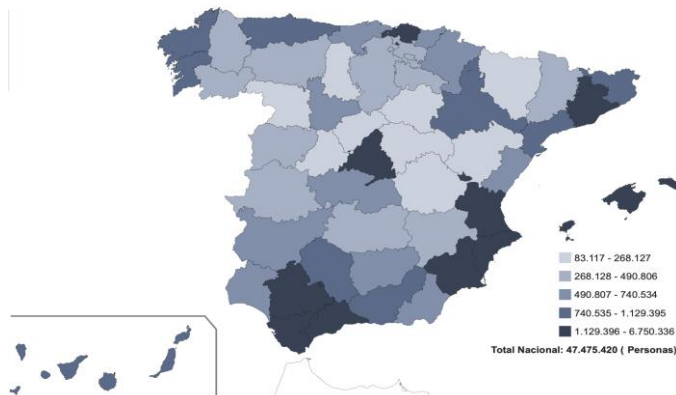
Number of temporary contracts per community³⁴⁸



Note: Data until January 1st 2024

Spain faces demographic challenges associated with an ageing population, low birth rates, and population decline in certain regions, which can impact economic growth, labour supply, and social welfare systems³⁴⁹. It is interesting to highlight the regional disparities, as urban areas such as Madrid and Barcelona experience dynamic population growth due to economic opportunities and services, while rural regions face depopulation and ageing. This contrast has led to the term "la España vacía", or empty Spain, to describe areas with low population density and lack of development. Addressing this disparity is crucial for social cohesion and balanced development.

Population density per province³⁵⁰



³⁴⁷ "Unemployment by sex and age – monthly data", Eurostat. Accessed 27 April.

https://ec.europa.eu/eurostat/databrowser/view/une_rt_m_custom_10375053/default/table?lang=en

³⁴⁸ "Asalariados por tipo de contrato o relación laboral, sexo y comunidad autónoma.", Instituto Nacional de Estadística (INE). Accessed 27 April. <https://www.ine.es/jaxiT3/Tabla.htm?t=4241&L=0>

³⁴⁹ "Desequilibrios demográficos", Instituto Geográfico Nacional. Accessed 5 May.

https://www.ign.es/espmap/desdem_bach.htm

³⁵⁰ "Población residente por fecha, sexo y edad (desde 1971)", INE. Accessed 27 April.

<https://www.ine.es/jaxiT3/Tabla.htm?t=56934>

Therefore, we can also find regional disparities in terms of economic development and access to services, with significant gaps between urban and rural areas and between different regions.³⁵¹ Promoting balanced regional development and reducing territorial inequalities are key challenges for fostering inclusive growth and cohesion.

Additionally, Spain's migration policies face challenges related to the integration of immigrants into society and the labour market, as well as managing irregular migration flows³⁵². Given its geographical location, Spain serves as a major entry point for migrants from Africa and other regions, leading to complexities in migration management. Promoting social cohesion, combating discrimination, and ensuring equal opportunities for all residents, regardless of their origin, are critical aspects of effective migration policy.

Percentage of foreign population per community³⁵³



Note: Data until January 1st 2024

Statistics³⁵⁴

Population	48.592.909 inhabitants
Immigrants	6.491.502
Most repeated Nationalities	Colombia, Venezuela and Morocco
National rate of Immigration	11.62%
Employment	58.99%

Source: Spanish Statistical Office

Lastly, Spain faces significant environmental challenges, including climate change, pollution, and biodiversity loss. One notable example is the case of Doñana³⁵⁵, a UNESCO World Heritage Site and one of Europe's most important wetlands, which is threatened by overexploitation of water resources, agricultural intensification, and habitat degradation³⁵⁶. These environmental issues highlight the importance of implementing ambitious policies for sustainability to protect valuable ecosystems and

³⁵¹ "Desequilibrios demográficos", Instituto Geográfico Nacional. Accessed 5 May. https://www.ign.es/espmap/desdem_bach.htm

³⁵² "Desequilibrios demográficos", Instituto Geográfico Nacional. Accessed 5 May. https://www.ign.es/espmap/desdem_bach.htm

³⁵³ "Población extranjera por Nacionalidad, comunidades, Sexo y Año.", INE. Accessed 27 April. <https://www.ine.es/jaxi/Tabla.htm?path=/t20/e245/p08/10/&file=02005.px&L=0>

³⁵⁴ "Estadística Continua de Población (ECP)", INE. Accessed 27 April. <https://www.ine.es/dyngs/Prensa/ECP4T23.htm#:~:text=Principales%20resultados,la%20venezolana%20y%20la%20marroqu%C3%AD>

³⁵⁵ "Doñana National Park", UNESCO. Accessed 27 April. <https://whc.unesco.org/es/list/685>

³⁵⁶ "Doñana National Park", UNESCO. Accessed 27 April. <https://whc.unesco.org/es/list/685>

mitigate the impacts of human activities.

Furthermore, embracing digitalization is crucial in the modern era, as it drives innovation, productivity, and economic growth. However, ensuring widespread access to digital infrastructure and promoting digital skills development are essential to harnessing the full potential of digital technologies.

3. Microeconomic Policies

I. State Intervention and Market Competition

The Spanish government generally supports a market economy with some degree of state intervention to ensure fair competition and protect public interest. However, the extent of state intervention varies depending on the sector and specific policy objectives. Overall, Spain promotes competition in markets while implementing regulations to prevent monopolies, safeguard consumer rights, and promote economic stability and growth.

Generally, market competition is supported as a means to promote economic efficiency, innovation, and consumer choice. The country has implemented competition laws and regulations to prevent anti-competitive practices such as cartels, abuse of dominance, and unfair trade practices. The National Commission for Markets and Competition (CNMC) is the regulatory authority responsible for enforcing competition rules and ensuring a level playing field in the market³⁵⁷.

The CNMC is the body that promotes and preserves the proper functioning of all markets in the interest of consumers and businesses³⁵⁸. It is a public entity with its own legal personality, independent of the government and subject to parliamentary oversight³⁵⁹.

"The main objective of the CNMC is to guarantee, preserve, and promote the proper functioning, transparency, and existence of effective competition in all markets and productive sectors, for the benefit of consumers and users. It also ensures efficient regulation."³⁶⁰

Among its functions are the application of Spanish and EU competition law, promotion of competition through studies, research work, and sectoral reports, resolution of disputes between economic operators, as well as supervision and control of all economic sectors: gas and electricity, electronic communications and audiovisual, rail and air transport, and the postal market³⁶¹.

On the other hand, while Spain upholds market principles, the government also intervenes in the economy to achieve various policy objectives, particularly in sectors deemed strategic or essential for public welfare. This intervention may take the form of regulations, subsidies, public investments, or direct

³⁵⁷ "Qué es la CNMC", Comisión Nacional de los Mercados y la Competencia (CNMC). Accessed 27 April. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>

³⁵⁸ "Qué es la CNMC", Comisión Nacional de los Mercados y la Competencia (CNMC). Accessed 27 April. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>

³⁵⁹ "Qué es la CNMC", Comisión Nacional de los Mercados y la Competencia (CNMC). Accessed 27 April. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>

³⁶⁰ "Qué es la CNMC", Comisión Nacional de los Mercados y la Competencia (CNMC). Accessed 27 April. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>

³⁶¹ "Qué es la CNMC", Comisión Nacional de los Mercados y la Competencia (CNMC). Accessed 27 April. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>

participation in certain industries. For example, the government may intervene in sectors such as energy, telecommunications, transportation, and healthcare to ensure universal access, quality standards, and environmental sustainability.

The State Industrial Holdings Company (SEPI)³⁶² is a strategic instrument in the implementation of the government's policy for the public sector. Its mission is to optimise business holdings and guide all actions in accordance with the public interest. Thus, SEPI's management must reconcile economic profitability with social profitability. Its scope of action includes 14 companies in which it holds direct majority stakes, comprising the SEPI Group, with a workforce of nearly 80,000 people. It also holds shares in the RTVE Corporation, oversees a public foundation, and holds minority direct stakes in 9 companies and indirect stakes in over 100 other entities³⁶³.

One of the latest actions of this entity has been the acquisition of shares in Telefónica, S.A., a Spanish multinational telecommunications company headquartered in Madrid³⁶⁴. It ranks as the fourth-largest telecommunications company in Europe and the thirteenth-largest globally. In December 2023, the Council of Ministers announced that "SEPI will become a reference shareholder in the company with a stake in the capital of up to a maximum of 10%. Telefónica is strategically important for Spain across various sectors, notably in telecommunications, security, and defence. Therefore, the presence of a public reference shareholder in the company's capital will reinforce its shareholder stability."³⁶⁵

Regarding public services, the Spanish government plays a significant role in providing healthcare, education, transportation, and social security. These sectors often involve a mix of public and private participation, with the government setting regulations, standards, and funding mechanisms to ensure accessibility, affordability, and quality of services.

Finally, as a member of the European Union (EU), Spain is also subject to EU regulations and directives concerning competition policy and state aid. The Spanish government collaborates with EU institutions and other member states to ensure compliance with EU competition rules and promote a harmonised approach to market regulation and competition enforcement across the EU.

In conclusion, Spanish government policy concerning state intervention and market competition reflects a balance between promoting market efficiency and ensuring public welfare, with interventions targeted at addressing market failures, promoting social objectives, and fostering economic development.

II. Labour Market and Workers Rights

The labour market and workers' rights are protected to a significant extent from total competition and market forces through a combination of legal regulations, collective bargaining, and social policies.

³⁶² Sociedad Estatal de Participaciones Industriales (SEPI). Accessed 27 April.

<https://www.sepi.es/es/conozca-sepi/quienes-somos>

³⁶³ Sociedad Estatal de Participaciones Industriales (SEPI). Accessed 27 April.

<https://www.sepi.es/es/conozca-sepi/quienes-somos>

³⁶⁴ "Nota de prensa", Ministerio de Hacienda y Función Pública, 19 December 2023. Accessed 27 April.

<https://www.hacienda.gob.es/Documentacion/Publico/GabineteMinistro/Notas%20Prensa/2023/CONSEJO-DE-MINISTROS/19-12-23-NP-CM-SEPI-Telefonica.pdf>

³⁶⁵ "Nota de prensa", Ministerio de Hacienda y Función Pública, 19 December 2023. Accessed 27 April.

<https://www.hacienda.gob.es/Documentacion/Publico/GabineteMinistro/Notas%20Prensa/2023/CONSEJO-DE-MINISTROS/19-12-23-NP-CM-SEPI-Telefonica.pdf>

Spain has comprehensive labour laws that establish minimum standards for employment contracts, working conditions, wages, and social benefits³⁶⁶. These laws, such as the Workers' Statute (Estatuto de los Trabajadores³⁶⁷), provide protections for workers against unfair dismissal, discrimination, and exploitation. They also regulate working hours, overtime pay, paid leave, and health and safety standards in the workplace.

Collective bargaining between employers and trade unions plays a crucial role in shaping labour relations and protecting workers' rights. Collective agreements negotiated between employers' associations and trade unions often establish additional rights and benefits for workers beyond the legal minimums set by labour laws. These agreements cover aspects such as wages, working hours, job security, training, and social benefits.

In Spain, the right to freedom of association is protected by the Spanish Constitution and labour legislation. Article 28 of the Constitution³⁶⁸ establishes the right of workers and employers to freely join unions for the defence of their interests. Additionally, Spain is a signatory to various International Labour Organization (ILO) conventions that protect and promote freedom of association and the right to collective bargaining.

The right to unionism entails workers' freedom to form and join unions, as well as to participate in union activities without facing retaliation from employers. Unions, in turn, have the right to represent and defend the labour interests of their members, negotiate working conditions, and participate in the labour and social life of the country.

The main Spanish labour unions are the Trade Union Confederation of Workers' Commissions (CC.OO.), the General Union of Workers (UGT), the Galician Intersindical Confederation (CIG), and the Solidarity Union of Basque Workers (ELA-STV).³⁶⁹

A similar entity exists for the advocacy of business interests. A business confederation is an organisation that brings together various business associations and represents the collective interests of the companies that are part of them. These organisations often have a sectoral or territorial focus and serve as intermediaries between the business sector and the government, advocating for policies that benefit businesses and the economy as a whole. Business confederations can perform functions such as defending business interests, engaging in collective bargaining, promoting economic development, and collaborating in the formulation of public policies related to the business sphere. Examples of business confederations include the CEOE (Spanish Confederation of Business Organizations) in Spain and the Spanish Confederation of Small and Medium Enterprises (CEPYME)³⁷⁰.

³⁶⁶ "Estatuto de los Trabajadores", Boletín Oficial del Estado (BOE), 12 January 2024. Accessed 27 April. https://www.boe.es/biblioteca_juridica/abrir_pdf.php?id=PUB-DT-2024-139

³⁶⁷ "Estatuto de los Trabajadores", Boletín Oficial del Estado (BOE), 12 January 2024. Accessed 27 April. https://www.boe.es/biblioteca_juridica/abrir_pdf.php?id=PUB-DT-2024-139

³⁶⁸ "Constitución Española", BOE, 29 December 1978. Accessed 27 April. <https://www.boe.es/buscar/act.php?id=BOE-A-1978-31229>

³⁶⁹ "Organizaciones Empresariales y Sindicales representadas en la CCNCC", Ministerio de Trabajo y Economía Social. Accessed 27 April. https://www.mites.gob.es/es/sec_trabajo/ccncc/H_Enlaces/orga-empresariales-ccncc/index.htm

³⁷⁰ "Organizaciones Empresariales y Sindicales representadas en la CCNCC", Ministerio de Trabajo y Economía Social. Accessed 27 April. https://www.mites.gob.es/es/sec_trabajo/ccncc/H_Enlaces/orga-empresariales-ccncc/index.htm

Regarding the protection of the worker's rights, the Spanish government conducts labour inspections to ensure compliance with labour laws and regulations. Labour inspectors monitor workplaces for compliance with employment standards, occupational health and safety requirements, and collective agreements. They investigate complaints of labour law violations and take enforcement actions against employers found to be in breach of regulations.

Lastly, Spain provides social protection measures to support workers during periods of unemployment, illness, disability, or old age. The social security system covers various benefits, including unemployment benefits, healthcare, pensions, maternity/paternity leave, and disability benefits. These social protection programs aim to safeguard workers' income and well-being, promoting social inclusion and reducing poverty.

The right to social security is enshrined in the Spanish Constitution, which establishes in Article 41³⁷¹ the duty of public authorities to maintain a public social security system for all citizens, guaranteeing adequate assistance and benefits in times of need. This right is complemented by labour and social security legislation that regulates affiliation, contributions, and access to the various services and benefits of the social security system.

In conclusion, while Spain has robust mechanisms in place to protect the labour market and workers' rights, challenges remain, such as addressing informal employment, reducing labour market segmentation, enhancing youth employment opportunities, and adapting to technological advancements. The balance between protecting workers' rights and promoting labour market flexibility is an ongoing policy debate in Spain, especially in the context of economic globalisation and structural reforms.

4. International Economic Structure

I. Characteristics of Spain's Trade

Spain's economy in 2023 showed significant growth in both exports and imports compared to 2013. The exports of goods reached €391.540 billion, representing 26.78% of the country's GDP³⁷², while imports amounted to €435.040.6 billion, equivalent to 29.76% of the GDP³⁷³. This marked an increase from 2013 when imports constituted 25.13% of the GDP and exports around 23%³⁷⁴. The main export sectors in January 2024 were food, beverages, and tobacco (19.5% of the total), capital goods (18.8%), chemicals (15.7%), and the automotive sector (14.5%)³⁷⁵. Correspondingly, the main import sectors were energy products, chemicals, and tobacco³⁷⁶.

According to the Foreign Trade Balance 2023 offered by the Secretariat of State for Trade, the main destinations for Spanish exports were France, Germany, Italy, Portugal, and the United Kingdom³⁷⁷. Meanwhile, imports mainly originated from Germany (11.2%), China (10.2%), France (10%), Italy (6.6%),

empresariales-ccncc/index.htm

³⁷¹ "Constitución Española", BOE, 29 December 1978. Accessed 27 April.

<https://www.boe.es/buscar/act.php?id=BOE-A-1978-31229>

³⁷² <https://tradingeconomics.com/spain/exports>. Accessed 15 April 2024.

³⁷³ <https://tradingeconomics.com/spain/exports> Accessed 15 April 2024.

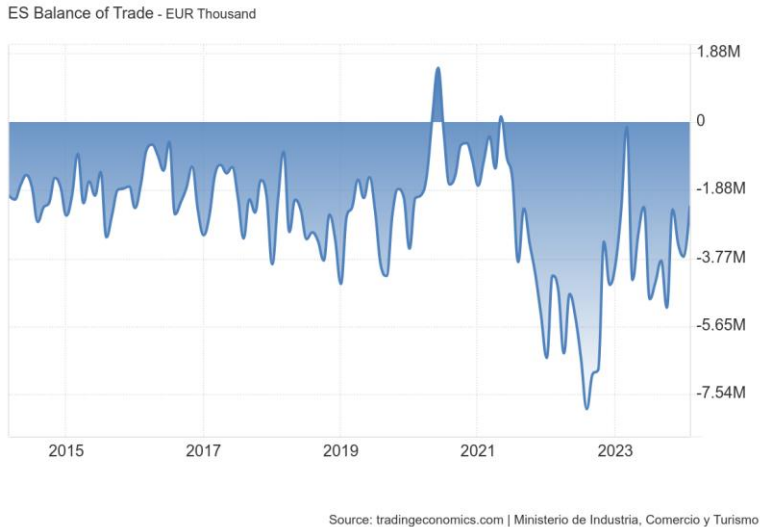
³⁷⁴ <https://tradingeconomics.com/spain/imports> Accessed 15 April 2024.

³⁷⁵ <https://tradingeconomics.com/spain/exports-by-category> Accessed 15 April 2024.

³⁷⁶ <https://tradingeconomics.com/spain/imports-by-category> Accessed 15 April 2024.

³⁷⁷ https://comercio.gob.es/ImportacionExportacion/Informes_Estadisticas/Documents/informe-mensual/Informe-Mensual-de-Comercio-Exterior-ultimo-periodo.pdf Accessed 18 April 2024.

and the United States (5%)³⁷⁸. The European Union-27 represented a significant portion of both Spanish exports (64.4% of the total) and imports, underscoring their importance in the country's foreign trade³⁷⁹. The evolution of Spain's trade balance up to 2023 indicates a positive trend in economic management. By 2015, there was a notable decrease in the trade deficit to 24,250 million euros, a reflection of initial improvements in export performance and economic adjustments. This trend continued, with the deficit further narrowing to approximately 5,000 million euros by 2021³⁸⁰. Spain's Trade Balance Since 2013³⁸¹



Spain also maintains a notable trade surplus in services, largely attributed to its robust tourism and transportation sectors. Spain's tourism industry, one of the world's top destinations, attracts millions of visitors annually with its diverse cultural attractions. As the ICEX, the Spanish Institute for Foreign Trade, explains, "Since 2017 it has broken the record in number of visitors: thanks to the more than 83 million tourists arriving in Spain, every year it is recognized as the second most visited country in the world, after France"³⁸². Moreover, since 2015 it has placed first on the World Economic Forum (WEF) podium, which awards the most competitive countries in the tourism industry from among 140 economies (Travel and Tourism Competitiveness Index, 2019)³⁸³. Spain is globally recognized for its exceptional network of air, land, rail, and maritime infrastructures, along with the quality of its services, which significantly contribute to the development and growth of logistics and transport within its economy. With an annual turnover reaching 101,000 million euros and generating nearly one million jobs, the sector is highly concentrated with around 218,000 companies linked to it³⁸⁴. Spain's strategic location in Southern Europe at the crossroads of major goods traffic routes, further

³⁷⁸ [https://comercio.gob.es/ImportacionExportacion/Informes Estadisticas/Documents/informe-mensual/Informe-Mensual-de-Comercio-Exterior-ultimo-periodo.pdf](https://comercio.gob.es/ImportacionExportacion/Informes_Estadisticas/Documents/informe-mensual/Informe-Mensual-de-Comercio-Exterior-ultimo-periodo.pdf) Accessed 18 April 2024.

³⁷⁹ [https://comercio.gob.es/ImportacionExportacion/Informes Estadisticas/Documents/informe-mensual/Informe-Mensual-de-Comercio-Exterior-ultimo-periodo.pdf](https://comercio.gob.es/ImportacionExportacion/Informes_Estadisticas/Documents/informe-mensual/Informe-Mensual-de-Comercio-Exterior-ultimo-periodo.pdf) Accessed 18 April 2024.

³⁸⁰ <https://tradingeconomics.com/spain/balance-of-trade> Accessed 25 April 2024.

³⁸¹ <https://tradingeconomics.com/spain/balance-of-trade> Accessed 25 April 2024.

³⁸² <https://www.investinspain.org/en/industries/tourism-leisure> Accessed 25 April 2024.

³⁸³ <https://www.investinspain.org/en/industries/tourism-leisure> Accessed 25 April 2024.

³⁸⁴ <https://www.investinspain.org/en/industries/logistics-transport> Accessed 25 April 2024.

enhanced by the eastward enlargement of the European Union, positions it advantageously for trade flows and as a redistribution centre for foreign trade within the EU and globally. “This connectivity is bolstered by Spain's inclusion in the Trans-European Transport Network (TEN-T), which features two of the nine multimodal European corridors deemed priorities by the EU: the Atlantic and Mediterranean Corridors. These main arteries concentrate key flows of goods and people, reinforcing Spain's role as a critical hub between Europe, Africa, and the Americas” (Spanish Institute for Foreign Trade, 2023)³⁸⁵.

II. Trade Organizations that Spain belongs to

Spain is actively engaged in several major international organisations, reflecting its commitment to global economic integration and cooperation. Since joining the European Union in 1986, Spain has benefited from the Single Market, which facilitates the free movement of goods, services, capital, and people, and enjoys passport-free travel within the Schengen Area³⁸⁶. As a member of the World Trade Organization, Spain participates in setting global trade rules and resolving trade disputes³⁸⁷. Its membership in the Organization for Economic Co-operation and Development (OECD) enables Spain to collaborate on policies aimed at enhancing global economic growth³⁸⁸. Additionally, as part of the International Monetary Fund (IMF), Spain contributes to international monetary cooperation and efforts to maintain economic stability³⁸⁹. Spain also supports economic development in less developed regions through its participation in the United Nations Conference on Trade and Development (UNCTAD)³⁹⁰.

Spain's trade relationships with Latin America and Africa are significantly shaped by the European Union's overarching trade policies. Actively participating in frameworks that enhance economic cooperation, Spain facilitates market access and promotes sustainable development within these regions. This commitment supports Spain's strategic interests and integrates its economic activities with broader EU objectives, strengthening economic ties without specifically relying on individual treaties³⁹¹. For instance, as detailed in the latest update by the Secretary of State for Trade on bilateral relations between Spain and Latin America, Spain participates in the Economic Association Agreement with Mexico (TLCUEM)³⁹², which facilitates trade and investment, addressing issues such as competition and intellectual property. Another example is the Reciprocal Investment Promotion and Protection Agreements with countries like Argentina, Chile, and Colombia, which protect investments and promote security for investors³⁹³. “Latin America and the Caribbean (LAC) hold strategic interest for Spain due to the existing historical, cultural, and economic ties with both regions. In addition to a shared cultural and linguistic identity, in recent years there has been a significant increase in bidirectional migratory flows, which has also contributed to establishing new social and economic connections.” (Secretary of State for Trade, 2021)³⁹⁴

³⁸⁵ <https://www.investinspain.org/en/industries/logistics-transport> Accessed 25 April 2024.

³⁸⁶ https://european-union.europa.eu/easy-read_en Accessed 27 April 2024.

³⁸⁷ https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm Accessed 27 April 2024.

³⁸⁸ <https://www.oecd.org/about/document/ratification-oecd-convention.htm> Accessed 27 April 2024.

³⁸⁹ <https://www.imf.org/external/np/sec/memdir/memdate.htm> Accessed 27 April 2024.

³⁹⁰ <https://unctad.org/about/membership> Accessed 27 April 2024.

³⁹¹ <https://www.exteriores.gob.es/en/PoliticaExterior/Paginas/EspanaUE.aspx> Accessed 27 April 2024.

³⁹²

[https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20Bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20\(Accesible\).pdf](https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20Bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20(Accesible).pdf) Accessed 27 April 2024.

³⁹³

[https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20Bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20\(Accesible\).pdf](https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20Bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20(Accesible).pdf) Accessed 27 April 2024.

³⁹⁴

However, in the case of Africa, many trade agreements, such as the Africa-EU Partnership, are approved through the EU and some are bilaterally approved by Spain itself. Spain has launched a strategic initiative known as "Focus Africa 2023" to deepen its economic and diplomatic engagements across Africa. "Africa and Spain are close neighbours and strategic partners. Together, we can better face the challenges that affect us both, from economic development and employment to decarbonization, the fight against poverty, women's empowerment, migration management, and peace and stability" (Ministry of Foreign Affairs, European Union and Cooperation, 2023)³⁹⁵. This plan marks a significant shift in Spain's foreign policy toward a broader engagement beyond its traditional focus on North Africa. "Focus Africa 2023" targets various African regions, with specific attention to the Sahel, the West African coast, and the Gulf of Guinea for security efforts, and countries like Morocco, Algeria, Rwanda, Tanzania, and Ghana for economic collaborations³⁹⁶.

III. How has Spain's International Economic Integration been impacted by Covid?

The COVID-19 pandemic has significantly disrupted international economic integration, highlighting vulnerabilities in global supply chains and shifting trade patterns towards regionalization. The acceleration of digitalization has reshaped business operations, while the service sector, particularly tourism and aviation, has faced severe downturns. Governments have responded with a mix of supportive and protectionist measures, impacting labour markets and financial stability all around the globe³⁹⁷. In the case of Spain, the pandemic had a profound impact, significantly disrupting sectors that depend heavily on international and domestic mobility, particularly tourism and hospitality. In 2020, the sharp reduction in global travel resulted in only 19 million visitors to Spain, a dramatic decrease from the record-breaking 83.5 million in 2019³⁹⁸. This decline had catastrophic financial consequences, with overall spending by tourists plummeting by 78.5%. The most popular regions with international tourists, such as Catalonia, Andalusia, and the Balearic and Canary Islands, faced severe economic hardships. The Balearic Islands, for instance, saw an 87.5% drop in both tourist arrivals and spending, indicating the scale of the tourism sector's struggles³⁹⁹. The closure of borders and the implementation of strict mobility restrictions led to a massive decline in air passenger traffic, with Spain's major airports recording significant decreases in activity. This absence of tourists was a heavy blow to the hospitality sector, which is integral to Spain's economy. Many hotels were forced to shut down, only reopening to offer minimal services or accommodate migrants. Revenue losses were stark, with the restaurant and accommodation sectors seeing declines of 43.4% and 67% respectively compared to 2019⁴⁰⁰.

[https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20\(Accesible\).pdf](https://comercio.gob.es/InformeRegional/Latinoam%C3%A9rica%20y%20Caribe/200701%20-%20Relaciones%20bilaterales%20Espa%C3%B1a-Latinoam%C3%A9rica%20y%20Caribe%20a%C3%B1o%202021%20(Accesible).pdf)

Accessed 27 April 2024.

³⁹⁵

<https://www.exteriores.gob.es/es/Comunicacion/Noticias/Documents/DOCUMENTOS%20FOCO%20AFRICA/ENG%20DOCUMENTO%20FOCO%20AFRICA%202023.pdf>

Accessed 28 April 2024.

³⁹⁶

<https://www.exteriores.gob.es/es/Comunicacion/Noticias/Documents/DOCUMENTOS%20FOCO%20AFRICA/ENG%20DOCUMENTO%20FOCO%20AFRICA%202023.pdf>

Accessed 28 April 2024.

³⁹⁷ Ahmad, Wasim; Chahal, Rishman Jot Kaur and Rais, Shirin, "Understanding the impact of the coronavirus outbreak on economic integration", *Asia and the Global Economy*, vol.2, no 2, July 2022.

<https://www.sciencedirect.com/science/article/pii/S2667111522000172>

³⁹⁸ <https://apnews.com/article/spain-tourism-record-visitors-pandemic-4df133fc8646d272582bf71298cea98d>

Accessed 28 April 2024.

³⁹⁹ <https://apnews.com/article/spain-tourism-record-visitors-pandemic-4df133fc8646d272582bf71298cea98d>

Accessed 28 April 2024.

⁴⁰⁰ <https://apnews.com/article/spain-tourism-record-visitors-pandemic-4df133fc8646d272582bf71298cea98d>

Accessed 28 April 2024.

Moreover, the overall economic framework was severely affected. Spanish businesses, particularly in commerce and tourism, faced an estimated €287 billion in revenue losses, equivalent to about a quarter of the country's GDP⁴⁰¹. The Spanish Confederation of Business Organizations (CEOE) highlighted that the services sector, which includes tourism, hospitality, commerce, and entertainment, experienced a 22.2% decline in revenue⁴⁰². Despite these challenges, sectors like agriculture, livestock farming, and information technology showed resilience and even growth, adapting through increased digitalization and innovation. The employment landscape also reflected these harsh realities, with a significant proportion of job losses concentrated in the commerce and hospitality sectors, accounting for 71% of the total jobs lost during the pandemic⁴⁰³.

IV. How has International Economic Integration been impacted by the wars in Ukraine and Gaza?

The wars in Ukraine and Gaza have profoundly affected international economic integration, disrupting global supply chains and shifting geopolitical alliances, with significant economic consequences⁴⁰⁴. Ukraine, a major exporter of cereals to Europe, has faced significant disruptions in its ports due to the conflict, raising concerns about potential shortages in Europe. Spain relies on Ukraine for 22% of its maize imports and 60% of its sunflower oil imports⁴⁰⁵. In response to the conflict-induced shortages, Spain has sought alternative sources like Argentina and the United States. Additionally, the conflict has exacerbated energy concerns, with disruptions potentially impacting Russian energy exports to Europe, which have led to increased energy prices. To mitigate this, the Spanish government lowered VAT on electricity from 10% to 5%. Despite the turmoil, Spain's exposure to Russian energy is relatively low, with less than 11% of oil imports and only 6% of gas purchases coming from Russia⁴⁰⁶. Furthermore, Spain implemented the 'National Plan to Respond to Russia's War in Ukraine,' introducing measures like fuel subsidies and rent controls to alleviate the conflict's impact on its economy and citizens⁴⁰⁷. The conflict also triggered a significant refugee crisis, with Spain hosting approximately 168,000 Ukrainian refugees⁴⁰⁸, placing additional demands on the country's social services. On the other hand, the Gaza conflict has prompted Spain to coordinate humanitarian efforts, including the evacuation of Spanish citizens from conflict zones⁴⁰⁹. Economically, the conflict has stirred concerns about oil price volatility, although neither Palestine nor Israel are major oil producers. Conflicts in the Middle East, including those involving Western intervention, have historically been followed by terrorist activities in Europe and America. While Spain has maintained its anti-terrorism alert at level 4 since 2015, it has

⁴⁰¹ <https://www.statista.com/statistics/1110954/estimated-revenue-loss-in-the-spanish-tourism-sector-due-to-coronavirus/> Accessed 28 April 2024.

⁴⁰² <https://www.statista.com/statistics/1110954/estimated-revenue-loss-in-the-spanish-tourism-sector-due-to-coronavirus/> Accessed 28 April 2024.

⁴⁰³ <https://www.statista.com/statistics/1110954/estimated-revenue-loss-in-the-spanish-tourism-sector-due-to-coronavirus/> Accessed 28 April 2024.

⁴⁰⁴ Liu Z, Shu M, "The Russia–Ukraine conflict and the changing geopolitical landscape", National Library of Medicine, June 2023, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10239536/>

⁴⁰⁵ <https://www.agroberichtenbuitenland.nl/actueel/nieuws/2022/03/15/ukraine-is-a-key-supplier-of-some-commodities-to-spain> Accessed 28 April 2024.

⁴⁰⁶ <https://www.euractiv.com/section/energy-environment/news/spain-to-reduce-electricity-vat-to-mitigate-crisis-impact/> Accessed 28 April 2024.

⁴⁰⁷ <https://www.euractiv.com/section/energy-environment/news/spain-to-reduce-electricity-vat-to-mitigate-crisis-impact/> Accessed 28 April 2024.

⁴⁰⁸ https://www.ecb.europa.eu/press/economic-bulletin/focus/2022/html/ecb.ebbox202204_03~c9ddc08308.en.html Accessed 28 April 2024.

⁴⁰⁹ <https://www.lamoncloa.gob.es/lang/en/gobierno/news/Paginas/2024/20240327-gaza-humanitarian-aid.aspx> Accessed 28 April 2024.

reinforced security measures around Jewish community centres and other sensitive sites in response to the ongoing conflict⁴¹⁰.

5. References

- AP News. (n.d.). Spain tourism hits record high despite pandemic. Retrieved March 11, 2024, from <https://apnews.com/article/spain-tourism-record-visitors-pandemic-4df133fc8646d272582bf71298cea98d>
- Banco de España. (n.d.). <https://www.bde.es/wbe/es/sobre-banco/#:~:text=La%20misi%C3%B3n%20del%20Banco%20de,formulaci%C3%B3n%20de%20otras%20pol%C3%ADticas%20econ%C3%B3micas>.
- Boletín Oficial del Estado (BOE). (1978, December 29). Constitución Española. <https://www.boe.es/buscar/act.php?id=BOE-A-1978-31229>
- Boletín Oficial del Estado (BOE). (2024, January 12). Estatuto de los Trabajadores. https://www.boe.es/biblioteca_juridica/abrir_pdf.php?id=PUB-DT-2024-139
- Comisión Nacional de los Mercados y la Competencia (CNMC). (n.d.). Qué es la CNMC. <https://www.cnmc.es/sobre-la-cnmc/que-es-la-cnmc#objetivo>
- Dutch Agricultural Portal. (2022). Ukraine as a key supplier of some commodities to Spain. <https://www.agroberichtenbuitenland.nl/actueel/nieuws/2022/03/15/ukraine-is-a-key-supplier-of-some-commodities-to-spain>
- Ebenau, Bruff, I., & May, C, *New Directions in Comparative Capitalisms Research Critical and Global Perspectives*, Palgrave Macmillan, 1st ed, 2015.
- Euractiv. (n.d.). Spain to reduce electricity VAT to mitigate crisis impact. <https://www.euractiv.com/section/energy-environment/news/spain-to-reduce-electricity-vat-to-mitigate-crisis-impact/>
- European Central Bank. (2022). Economic Bulletin: Focus on economic indicators. <https://www.ecb.europa.eu/press/economic-bulletin/focus/2022/html/ecb.e>
- European Central Bank. (n.d.). Monetary policy & markets. Instruments. <https://www.ecb.europa.eu/mopo/implement/html/index.en.html>
- European Central Bank. (n.d.). Monetary policy & markets. Introduction. <https://www.ecb.europa.eu/mopo/intro/html/index.en.html>
- European Commission. (n.d.). Spain's recovery and resilience plan. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/spains-recovery-and-resilience-plan_en#whats-in-the-plan
- European Commission. (n.d.). Stability and Growth Pact. https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en
- Eurostat. (n.d.). Fertility statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Fertility_statistics
- Eurostat. (n.d.). Unemployment by sex and age – monthly data. https://ec.europa.eu/eurostat/databrowser/view/une_rt_m__custom_10375053/default/table?lang=en
- Hall, & Soskice, D. W, *Varieties of capitalism : the institutional foundations of comparative advantage*, Oxford University Press, 2001.
- Instituto Nacional de Estadística (INE). (2023). Economic accounts for agriculture - Year 2022. https://www.ine.es/en/prensa/cna_pa_2022_en.pdf
- Instituto Nacional de Estadística (INE). (2023). Press release. <https://www.ine.es/dyngs/Prensa/en/ECP4T23.htm>
- Instituto Nacional de Estadística (INE). (n.d.). Asalariados por tipo de contrato o relación laboral, sexo y comunidad autónoma. <https://www.ine.es/jaxiT3/Tabla.htm?t=4241&L=0>

⁴¹⁰ <https://www.politico.eu/article/european-countries-ramp-up-security-for-jewish-community-in-wake-of-amas-attacks-on-israel/> Accessed 28 April 2024.

Instituto Nacional de Estadística (INE). (n.d.). Home page. <https://www.ine.es/en/index.htm>

Instituto Nacional de Estadística (INE). (n.d.). Población extranjera por Nacionalidad, comunidades, Sexo y Año. <https://www.ine.es/jaxi/Tabla.htm?path=/t20/e245/p08/l0/&file=02005.px&L=0>

Instituto Nacional de Estadística (INE). (n.d.). Población residente por fecha, sexo y edad (desde 1971). <https://www.ine.es/jaxiT3/Tabla.htm?t=56934>

Instituto Nacional de Estadística (INE). (n.d.). Series estadísticas. <https://www.ine.es/consul/serie.do?s=ECP320&c=2&nult=0>

International Monetary Fund. (n.d.). Member countries. <https://www.imf.org/external/np/sec/memdir/memdate.htm>

Invest in Spain. (n.d.). Logistics and transport industry. <https://www.investinspain.org/en/industries/logistics-transport>

Invest in Spain. (n.d.). Tourism and leisure industry. <https://www.investinspain.org/en/industries/tourism-leisure>

La Moncloa. (2024, February 6). Salario Mínimo Interprofesional (SMI): ¿qué es, cuánto sube y a quién beneficia? [https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/trabajo14/Paginas/2023/140223-salario-minimo-interprofesional.aspx#:~:text=El%20Salario%20M%C3%ADnimo%20Interprofesional%20\(SMI,54%25%20desde%20el%20a%C3%B1o%202018.](https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/trabajo14/Paginas/2023/140223-salario-minimo-interprofesional.aspx#:~:text=El%20Salario%20M%C3%ADnimo%20Interprofesional%20(SMI,54%25%20desde%20el%20a%C3%B1o%202018.)

Liu Z, Shu M, “The Russia–Ukraine conflict and the changing geopolitical landscape”, National Library of Medicine, June 2023, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10239536/>

Macrotrends. (n.d.). Spain birth rate 1950-2023. <https://www.macrotrends.net/global-metrics/countries/ESP/spain/birth-rate#:~:text=The%20current%20birth%20rate%20for,a%201.55%25%20decline%20from%202021>

Ministerio de Hacienda y Función Pública. (2023, December 19). Nota de prensa. <https://www.hacienda.gob.es/Documentacion/Publico/GabineteMinistro/Notas%20Prensa/2023/CONSEJO-DE-MINISTROS/19-12-23-NP-CM-SEPI-Telefonica.pdf>

Ministerio de Trabajo y Economía Social. (n.d.). Organizaciones Empresariales y Sindicales representadas en la CCNCC. https://www.mites.gob.es/es/sec_trabajo/ccncc/H_Enlaces/orga-empresariales-ccncc/index.htm

OECD. (n.d.). Ratification of the OECD convention. <https://www.oecd.org/about/document/ratification-oecd-convention.htm>

Secretaría de Estado de Comercio. (2021). Relaciones bilaterales España-Latinoamérica y Caribe. [https://comercio.gob.es/InformeRegional/Latinoamerica%20y%20Caribe/200701%20-%20Relaciones%20bilaterales%20España-Latinoamerica%20y%20Caribe%20año%202021%20\(Accesible\).pdf](https://comercio.gob.es/InformeRegional/Latinoamerica%20y%20Caribe/200701%20-%20Relaciones%20bilaterales%20España-Latinoamerica%20y%20Caribe%20año%202021%20(Accesible).pdf)

Sociedad Estatal de Participaciones Industriales (SEPI). (n.d.). <https://www.sepi.es/es/conozca-sepi/quienes-somos>

Statista. (n.d.). Estimated revenue loss in Spanish tourism sector due to coronavirus. <https://www.statista.com/statistics/1110954/estimated-revenue-loss-in-the-spanish-tourism-sector-due-to-coronavirus/>

Statista. (n.d.). Spain: Distribution of gross domestic product (GDP) across economic sectors from 1970 to 2017. <https://www.statista.com/statistics/271079/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-spain/>

Trading Economics. (n.d.). Spain balance of trade. <https://tradingeconomics.com/spain/balance-of-trade>

Trading Economics. (n.d.). Spain employment rate. <https://tradingeconomics.com/spain/employment-rate>

Trading Economics. (n.d.). Spain exports. <https://tradingeconomics.com/spain/exports>

Trading Economics. (n.d.). Spain exports by category. <https://tradingeconomics.com/spain/exports-by-category>

Trading Economics. (n.d.). Spain imports. <https://tradingeconomics.com/spain/imports>

Trading Economics. (n.d.). Spain unemployment rate. <https://tradingeconomics.com/spain/unemployment-rate>

UNESCO. (n.d.). Doñana National Park. <https://whc.unesco.org/es/list/685>

Worldometers. (n.d.). Spain population. https://www.worldometers.info/world-population/spain-population/?mod=article_inline#google_vignette

Türkiye Country Report

Yilmaz Merve

Country's economic structure

According to the IMF, Türkiye, officially the Republic of Türkiye, is an upper-middle income, mixed market, and emerging economy⁴¹¹. The national currency is the Turkish lira (TRY, ₺). The GDP is \$1.340 trillion (Nominal, 2024) and \$3.805 trillion (PPP, 2024), which makes it the 17th and 11th biggest economy in the world⁴¹², respectively. While its GDP per capita is only \$15,368 (Nominal; 2024), the GDP per capita (PPP) increase between 2003-2023 was measured as 257%, confirming⁴¹³. Since Türkiye recorded high growth rates in the past decades, averaging 5.8% yearly GDP growth between 2002 and 2021⁴¹⁴, it is considered to be a member of E7, with a growth rate of 4.0% in 2024⁴¹⁵.

When one looks at the GDP per sector, the biggest sector is manufacturing at 22.1%, followed by wholesale and retail trade at 13.5%. Whereas transport and storage stand as the third biggest sector with 10.0%, agriculture, forestry, and fishing make up only 6.5%. Lastly, the construction sector accounts for 4.9%, according to the national data in 2022⁴¹⁶. When we look at the labour force by occupation, more than half of the labour force is employed in services at 58.0%, while industry workers make up 20.8%, and thirdly, agriculture, forestry, and fishing account for 14.8%⁴¹⁷.

By unpacking each sector, it can be seen that agriculture is still a profound sector in Türkiye where cultivators strive to protect the heirloom seeds and continue the production of fruits and vegetables with these seeds, since they carry not only monetary value but also cultural and social ones (Landis, 2024). Overall, Türkiye is a self-sufficient country in agriculture, considering it has 4 seasons and lands that are suitable for agriculture. 26.3 million hectares constitute agricultural lands in 77.9 million land assets (AK, 2019.) Thanks to the suitability of seasons and the soil, it is the biggest hazelnut, apricots, fig, and cherry producer in the world⁴¹⁸. On the other hand, it is a big wheat importer, mainly from Russia and Ukraine⁴¹⁹.

Demography

Although the total population is 85,372,377 by 2023, the population growth rate has a declining trend over time. It is one of the countries with the fastest decreasing total fertility rates in Europe, while the birth rate decreased from 2.17 to 1.63 between 2014 and 2022 (Eurostat), despite AKP policy on women's traditional role. In fact, President Erdoğan had a "three children" campaign around 2010 to promote population growth. Basically, he used to encourage women to get married early and have at least three children (Turkish president says childless women are 'deficient, incomplete' 2016), for Turks living abroad having at least five children (Three children not enough, have five: Erdoğan to Turks in EU - Türkiye News 2017). Despite the efforts of the President, the median age of the population is 34 years as of 2023⁴²⁰, up from 28.3 in 2007. In addition to the decreasing birth rate, the emigration numbers have seen a record high, especially among the qualified workforce, due to the economic and political crisis as well as human rights violations that the country has witnessed in the past decade. According to TÜİK, the national

⁴¹¹ ["World Economic and Financial Surveys World Economic Outlook Database—WEO Groups and Aggregates Information April 2020"](#). IMF.org. International Monetary Fund. Retrieved 7 May 2024.

⁴¹² ["Türkiye, Republic of"](#). IMF.org. International Monetary Fund. October 2023.

⁴¹³ ["GDP per capita in PPS"](#). Eurostat. Retrieved 4 May 2024

⁴¹⁴ ["Turkey, 2002-2024"](#). IMF World Economic Outlook Database, October 2023.

⁴¹⁵ ["IMF WEO Database of April 2022 – Emerging and Developing – Europe"](#). International Monetary Fund. Retrieved 6 May 2022.

⁴¹⁶ ["Annual Gross Domestic Product, 2022"](#). Turkstat. 31 August 2023

⁴¹⁷ ["Labour Force Statistics, Quarter III: July-September, 2023"](#). Turkstat. 17 November 2023.

⁴¹⁸ ["Hazelnuts: Turkey remains top producer"](#). Mundus Agri. 23 March 2022. Retrieved 7 August 2023.

⁴¹⁹ Gostev, Aleksandr; Liklikadze, Koba (30 April 2022). ["Analysis: Erdogan Hoping Russian Invasion Of Ukraine Can Bolster Turkish Regional Power"](#). Radio Free Europe.

⁴²⁰ ["TÜİK Kurumsal"](#).

statistical service, the number of people who migrated abroad from Türkiye increased by 62.3% in 2022 compared to the previous year, reaching 466 thousand 914⁴²¹, among which the majority age group is 25-29. These changes require serious reassessment and reorganisation of the labour market.

Macroeconomic policies

The main policy instruments in Türkiye can be divided into three parts, namely monetary policy, fiscal policy, and a floating exchange rate regime. The monetary policy is conducted by the Central Bank of Türkiye, which is, in theory, independent. In contrast, real-life experience proves the reverse. As the regime gets more and more authoritarian in Türkiye, both foreign and economic policies have been under the huge influence of President Erdoğan. It should be noted that the transition to the presidential system, brought by a referendum in 2017, has given more power to the president. Due to his obsession with low interest rates, he intervened in economic policy-making by pressuring the Central Bank so that it could keep the interest rates low⁴²². If not so, he has regularly assigned new Central Bank governors. In the past 8 years, the governor of the Central Bank in Türkiye has been changed 6 times. Thus, these unorthodox policies overheated the economy and led to soaring inflation, with a rate of 69,80 by April 2024⁴²³. After the presidential election results in May 2023, the unorthodox policies were almost abandoned⁴²⁴. First of all, in order to solve the market trust problem, new appointments were made. A former Wall Street Banker, Hafize Gaye Erkan, who has a PhD in financial engineering from Princeton University, was assigned as the governor of the Central Bank. Although she had restored market trust by increasing the interest rates to 15% from 8.5%, inflation has not quickly responded. Moreover, another high profile Mehmet Şimşek was assigned as the Minister of Finance, who put an ambitious plan⁴²⁵ in force to combat inflation and decrease the trade deficit. The plan includes many objectives by proposing structural reforms, some of which are related to digital translation, climate change, and renewable energy. However, due to the time lag in policy-making and the spiral effect, the inflation rate is expected to diminish after the second half of 2024, according to the ministry. It can be concluded that the major challenges of the economy are the government's (one-man) intervention in economic policy making, demolition of the rule of law, and institutional backslide, which led to currency devaluation and sky-high inflation.

Microeconomic policies

The Republic of Türkiye was founded on the ideology of Kemalism with many radical reforms and one of the six arrows of Kemalism was statism. The main objective of Kemalist statism was the economic development of modern Türkiye under one-party rule until 1945 (Hale, 1980). Thus, the key organizational factors of the economy can be described as state capitalism and national industrialization between 1930 and 1945 (Berberoglu, 1980). When it comes to the 80s, the president of the time, Turgut Özal opened the economy to foreign investment with the objective of integrating the country into the global system⁴²⁶. Although the rise of neoliberal policies led to the first privatizations during the 80s, privatization reached its golden age during the AKP rule. While the worth of privatization was only 8.2 billion dollars between 1985 and 2003, 36.4 billion dollars' worth of state-owned enterprises were transferred to the private sector between 2004 and 2009 (Güran, 2010). These transfers were highly criticized by the public, as the state-owned enterprises were seen as a national product constructed with the collectivist efforts of the previous generations in aftermath of the World War 1. The fact that some of them were sold to foreign

⁴²¹ "International Migration Statistics, 2022," TÜİK Kurumsal, 2023, <https://data.tuik.gov.tr/Bulten/Index?p=Uluslararası-Göç-İstatistikleri-2022-49457#:~:text=T%C3%BCrkiye'den%20yurt%20d%C4%B1%C5%9F%C4%B1na%20466,artarak%20466%20bin%20914%20oldu>.

⁴²² "Erdoganomics is spreading across the world". *The Economist*. 6 July 2023.

⁴²³ "Report for Selected Countries and Subjects"

⁴²⁴ Sinan Tavşan (5 June 2023). "Turkey's new cabinet hints at less unorthodox Erdoganomics". *asia.nikkei.com*.

⁴²⁵ 1. GABRIEL GAVIN, "Turkey's New Finance Chief Announces Return to 'Rational' Economics," 2023.

⁴²⁶ "Istanbul Stock Exchange: History of the Istanbul Stock Exchange". imkb.gov.tr. Archived from the original on 25 February 2012. Retrieved 29 August 2011.

firms fuelled the discussions even more.

State-owned enterprises still play an important role in several sectors though. Turkish Aerospace Industries, Turkish Airlines, and Turkish State Railways are a few examples of the very prominent ones in the national defence and transportation sectors. In the financial sector, the presence of the state is also evident, as there are still 6 state banks among the 62 banks operating in the country⁴²⁷. Overall, as the IMF suggests, today Türkiye has a mixed market economy, merging elements of both state intervention and market competition.

International economic integration

The trade can be characterised by several factors in Türkiye, primarily its strategic geopolitical location, diversified export base, membership in trade organizations, trade agreements⁴²⁸, and lastly customs union with the European Union (EU). It is a member of G-20, OECD, EU Customs Union, WTO, MIKTA, BSEC, ECO, OTS and others.

To unpack each factor respectively, one can start looking at the location of Türkiye. It is a cross-continental country that expands to Europe and Asia, which makes it a Eurasian country. The overall territory expands to several regions from the Balkans to Caucasians, from the Black Sea to the Mediterranean. It also controls access to the Black Sea in the north of the country with the Bosphorus and Dardanelles Straits in İstanbul and Çanakkale, respectively. Historically, both the Silk Road and the Spicy Road passed through the Anatolian peninsula. Thanks to its historical heritage and strategic position, it is an important trade partner for many countries.

The second factor affecting the trade in Türkiye is the changes in the national currency. Turkish Lira has depreciated by 200% between 2012 and 2022⁴²⁹, which made the export sector massively competitive. At least, this was the popular discourse used by the politicians during the times when the Turkish lira was in free fall. However, Thorbecke & Sengonul (2023) prove that the increase in trade, thanks (due) to a depreciation in the currency might benefit the economy only in the short run. In an economy where inputs, mainly energy, are imported, like Türkiye, the fixed cost of production is expected to skyrocket and harm the trade balance in the long term. It can be said that what is described in this article is more or less a real-life experience in the economy. Considering that Türkiye is not rich in terms of natural resources and is an energy importer⁴³⁰, the increase in the cost is inevitable⁴³¹.

Furthermore, Türkiye regulates its customs and conducts Free Trade Agreements in line with the General Agreement on Tariffs and Trade (GATT) requirements since 1951 and under the framework of the World Trade Organization (WTO) since WTO absorbed GATT in 1995. yes

EU-Türkiye Relations

The love-hate relationship between Türkiye and the EU, what was then the European Economic Community, dates back to 1987. Türkiye applied for the membership of the predecessor of the EU in 1987. The request was found eligible but the candidate status was negative. Instead, Türkiye became a candidate country to the EU in 1999. While the accession of 10 candidate countries, all of which have applied later than Türkiye, were accepted in 2004, namely the “2004 Enlargement”, the accession negotiations with Türkiye were half-heartedly opened in 2005. The progress was really slow. Among the 35 chapters a candidate needs to negotiate with the bloc, only 16 of them were opened. None were closed. Eventually, the accession process came to a standstill when some chapters were blocked, due to the Cyprus issue. Moreover, Türkiye signed a Customs Union agreement with the EU in 1995, which allows the stakeholders to engage in trade without tariffs on industrial goods. However, the Customs Union needs to be

⁴²⁷ ["CIA World Factbook: Turkey"](#). Cia.gov. Archived from [the original](#) on 10 January 2021. Retrieved 29 August 2011.

⁴²⁸ ["T.C. Ticaret Bakanlığı"](#). [ticaret.gov.tr](#) (in Turkish). Retrieved 8 May 2024.

⁴²⁹ Willem Thorbecke and Ahmet Sengonul, “The Impact of Exchange Rates on Turkish Imports and Exports,” *International Economics* 174 (August 2023): 231–49, <https://doi.org/10.1016/j.inteco.2023.04.003>.

⁴³⁰ Siccardi, Francesco. ["Understanding the Energy Drivers of Turkey's Foreign Policy"](#).

⁴³¹ ["Turkey's trade deficit jumps 137 per cent in 2022"](#). [Duvar](#). 31 January 2023. Retrieved 7 May 2024.

modernized regarding the new rules and regulations in the framework of the Green Deal and the AI Act⁴³². On the other hand, according to the last European Council conclusions on Ukraine, the Middle East, and Türkiye, the Council does not offer any development on EU-Türkiye relations. Thus, the council conclusions⁴³³, published on the 17th of April, 2024, created a deep disappointment even among long-time supporters of EU-Türkiye engagement and integration.

The Shift in Turkish Foreign Policy

The failing accession to the EU and ignorance about the national security and interests of Türkiye have created a less aligned country with the West over the past decade⁴³⁴. Although Türkiye had supported the demands of the West in the Middle East, Ankara could receive no support from Brussels but 4 million refugees against the Russian aggression in Syria. Furthermore, the support of the West for the YPG, recognised as the Syrian branch of PKK by the Turkish government, disappointed Ankara and pushed Türkiye to pursue a more independent and assertive foreign policy. Therefore, it can be said that now Türkiye prioritizes its own benefits instead of those who give nothing in return. As the attitude of the Turkish government in the case of wars in Ukraine and Gaza suggests, Ankara opted for a balancing act by being a mediator. After the war broke out in Ukraine, the Black Sea Grain Initiative was signed by Ukraine, Russia, Türkiye, and the UN so that the grains could pass by safely through the straits. Yes In addition, Türkiye has exported armed drones to Ukraine. Gaza war, on the other hand, has more complex ties with Turkish economic and foreign policy, as Turkish government officials had criticised Israel and continued to be an important trade partner⁴³⁵. The export of military items, such as helicopters and planes has depreciated the trust of the government, which contributed to the defeat of Erdoğan in local elections. The big victory of the opposition has refreshed the hopes of those of us who have been waiting for a chance. Nevertheless, time will show us whether these results were a turning point or an end to the rule of Erdoğan.

References

Agence France-Presse. "Turkish President Says Childless Women Are 'Deficient, Incomplete.'" *Guardian*, 2016. <https://www.theguardian.com/world/2016/jun/06/turkish-president-erdogan-childless-women-deficient-incomplete>.

AK, Muhammet Fatih. "Türk Tarımında Çok Kriterli Karar Verme Analizi Ile Risk Değerlendirme Modeli." *European Journal of Science and Technology*, December 31, 2019, 500–508. <https://doi.org/10.31590/ejosat.613199>.

Berberoglu, Berch. "State capitalism and national industrialization in Turkey." *Development and Change* 11, no. 1 (1980): 97-121.

⁴³² Valero, Jorge (2 August 2023). "[EU and Turkey Discuss Easing Trade Relations Amid Warmer Ties](#)". *Bloomberg News*. Retrieved 11 August 2023.

⁴³³ 1. "European Council Conclusions on Ukraine, the Middle East and Türkiye, 17 April 2024," *European Council*, April 2024, European Council, <https://www.consilium.europa.eu/en/press/press-releases/2024/04/18/european-council-conclusions-on-ukraine-and-turkiye/>.

⁴³⁴ 1. Prince Michael of Liechtenstein, "Turkey Has the Right to Protect Its National Interests," *GIS Reports*, May 17, 2022, <https://www.gisreportsonline.com/r/turkey-regional-power/>.

⁴³⁵ 1. "Israel (ISR) and Turkey (TUR) Trade," *The Observatory of Economic Complexity*, accessed May 8, 2024, <https://oec.world/en/profile/bilateral-country/isr/partner/tur>.

“European Council Conclusions on Ukraine, the Middle East and Türkiye, 17 April 2024.” European Council, April 2024. European Council.
<https://www.consilium.europa.eu/en/press/press-releases/2024/04/18/european-council-conclusions-on-ukraine-and-turkiye/>.

GAVIN, GABRIEL. “Turkey’s New Finance Chief Announces Return to ‘Rational’ Economics,” 2023.

Güran, Mehmet Cahit. "The political economy of privatization in Turkey: An evaluation." In *The political economy of regulation in Turkey*, pp. 23-50. New York, NY: Springer New York, 2010.

Hale, William. "Ideology and economic development in Turkey 1930–1945." *British Journal of Middle Eastern Studies* 7, no. 2 (1980): 100-117.

“International Migration Statistics, 2022.” TÜİK Kurumsal, 2023.
<https://data.tuik.gov.tr/Bulten/Index?p=Uluslararası-Göç-İstatistikleri-2022-49457#:~:text=T%C3%BCrkiye'den%20yurt%20d%C4%B1%C5%9F%C4%B1na%20466,artarak%20466%20bin%20914%20oldu.>

İNAT, KEMAL, and FİLİZ CİCİOĞLU. "A Century of Türkiye-Europe." *Insight Turkey/Summer 2023: The Century of Türkiye* (2023): 145.

“Israel (ISR) and Turkey (TUR) Trade.” The Observatory of Economic Complexity. Accessed May 8, 2024. <https://oec.world/en/profile/bilateral-country/isr/partner/tur>.

"Labour Force Statistics, Quarter III: July-September, 2023". Turkstat. 17 November 2023.

Landis, Shannon. “Caterina Scaramelli’s Research Explores Family Seed Keeping in the Mediterranean.” Center for Innovation in Social Science Caterina Scaramellis Research Explores Family Seed Keeping in the Mediterranean Comments, February 5, 2024.
<https://www.bu.edu/ciss/2024/02/05/germinating-family-seeds-in-the-mediterranean/#:~:text=%E2%80%9CThe%20cultural%20value%20of%20heirloom,and%20a%20sense%20of%20belonging.%E2%80%9D.>

“Mid-Year Trends 2023.” UNHCR. Accessed April 29, 2024. <https://www.unhcr.org/mid-year-trends-report-2023>.

Prince Michael of Liechtenstein. “Turkey Has the Right to Protect Its National Interests.” GIS Reports, May 17, 2022. <https://www.gisreportsonline.com/r/turkey-regional-power/>.

Thorbecke, Willem, and Ahmet Sengonul. “The Impact of Exchange Rates on Turkish Imports and Exports.” *International Economics* 174 (August 2023): 231–49.
<https://doi.org/10.1016/j.inteco.2023.04.003>.

“Three Children Not Enough, Have Five: Erdoğan to Turks in EU - Türkiye News.” Hürriyet Daily News, 2017. <https://www.hurriyetsdailynews.com/three-children-not-enough-have-five-erdogan-to-turks-in-eu-110942>.

Political Economy Report on Ukraine

Oleksandra Povstiana

In the realm of Eastern European economics, Ukraine holds a significant position, boasting a population between 30 and 40 million and a GDP ranking among Europe's largest. This report aims to unravel the complexities of Ukraine's economic landscape, providing insight into its fundamental aspects.

We'll begin with a detailed overview of Ukraine's economy and population, then we will go on with examining macroeconomics, which deals with the big picture – how the country manages its money and resources. In the next part, we'll zoom in on microeconomics, where we'll explore how everyday factors like prices and regulations impact businesses and individuals. Additionally, we'll delve into Ukraine's international relationships, exploring its alliances, trade agreements, and geopolitical dynamics. The goal is to offer a clear and accessible understanding of Ukraine's economy, from the decisions made by its leaders to its interactions on the global stage.

1. An Overview of Ukraine's Economy

The size of the population of Ukraine is extremely hard to estimate at this time, since a lot of Ukrainians have died as soldiers or victims because of the Russian invasion. According to United Nations data (Fig.1), after the Holodomor and Red Terror conducted by the Soviet Union and the tragic Second World War, the Ukrainian population increased constantly from 38 million to more than 50 million during the period between 1950 and 1991. However, it subsequently decreased to its 1950 level.

The annexation of Crimea and parts of the Donetsk and Luhansk regions of Ukraine by Russia in 2014 caused a loss of 2 million citizens and one more million people fled the country between next two years. The following eight years of war saw 10,000 civilian deaths, but these figures pale in comparison to those resulting from the recent Russian invasion. Outside of war casualties, which at the very least number in the tens of thousands, Ukraine has been hit by the worst population exodus in its history.

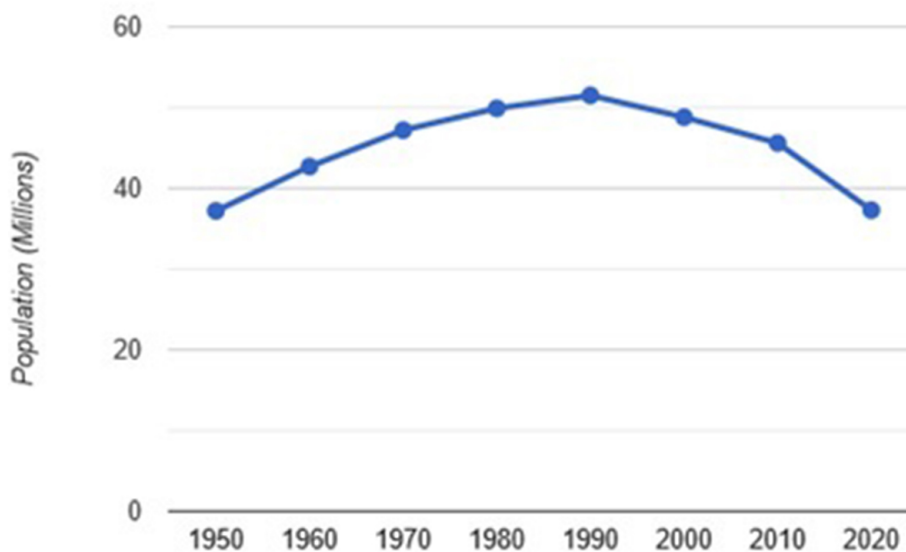


Fig. 1. Population of Ukraine, 1950–2020.⁴³⁶

The impact of the recent Russian invasion of Ukraine is complex, since the population loss caused by that includes Ukrainian fallen soldiers, killed civilians, those who fled the country (an estimated 6.3 million) and

⁴³⁶ Eban Raymond, University of Leeds, "War on two fronts: Ukraine's demographic crisis", The Loop - ECPR's Political Science Blog, 3 January 2024. <https://theloop.ecpr.eu/war-on-two-fronts-ukraines-demographic-crisis/>. Accessed 1 May 2024.

abducted children (around 700,000). Moreover, according to Oleksandr Gladun (Deputy Director of the Institute of Demography and Quality of Life Problems), the number of deaths from cardiovascular diseases due to the abnormal stress caused by the war is also significantly affecting the whole population.⁴³⁷ The loss of people of all these categories creates a ground for deep concern about the demographics of Ukraine in the next decades. According to the 2023 data of the World Bank, the population of Ukraine today must be around 39.4 million and the life expectancy is estimated as 69.6 years. Despite this tremendous demographic crisis, Ukraine is managing to improve its economic state after the global financial crisis in 2008, the Revolution and annexation of territories in 2014, COVID-19 pandemic in 2019 and even after the full-scale invasion of 2022, the frontline of which was almost the same as it was for Ukraine during the World War II. Figure 2 demonstrates that, after the decline during the first decade of the independence, Ukrainian GDP per capita showed a tendency to grow and despite experiencing declines due to a variety of external shocks, has always eventually managed to exceed the pre-shock level.

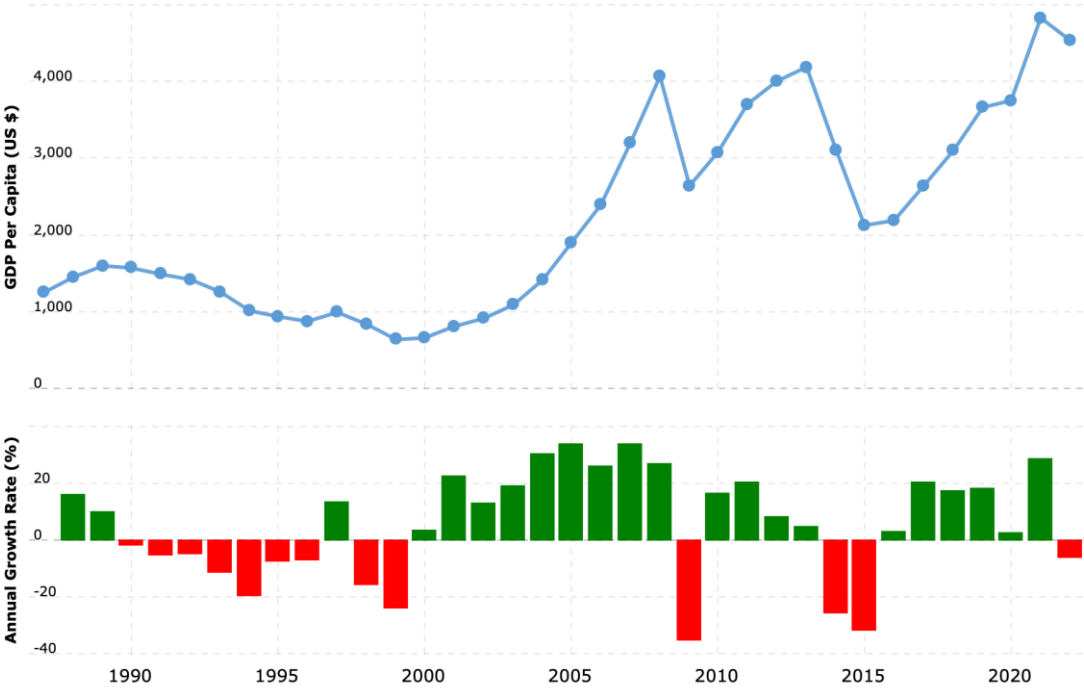


Fig. 2. The Evolution of Ukraine’s GDP per capita and its Annual Growth Rate, 1990-2023.⁴³⁸ According to the report made by a research institution of the European Parliament, in 2022, as a result of Russia’s full-scale invasion, Ukraine’s gross domestic product fell by almost 30%. In 2023, economic growth exceeded expectations, with the National Bank of Ukraine putting the latest estimate of the annual real GDP growth rate at 5.7% (at the beginning of 2023, the NBU’s forecast was 0.3%). According to the NBU and the International Monetary Fund (IMF) baseline forecasts, growth in the coming years is expected to be above 4%.⁴³⁹

⁴³⁷ Gladun, Oleksandr, Deputy Director of the Institute of Demography and Quality of Life Problems via “Slovo i Dilo”, 26 February 2024, <https://www.slovoidilo.ua/2024/02/26/novyna/suspilstvo/instituti-demografiji-oczinly-yak-skorotylyasya-chyselnist-naselennya-ukrayiny-dva-roky-vijny>. Accessed 1 April 2024.

⁴³⁸ Ministry of Economics of Ukraine (based on Ukraine’s Statistics Department Data).

⁴³⁹ Rakic, Drazen, “Two years of war: The state of the Ukrainian economy in 10 charts”, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2024.

During the first decade of Ukraine's independence, the country's GDP per capita declined from \$1600 to \$800 but since the beginning of the new millennium started growing steadily, up to \$4000 until the 2008 global financial crisis. when it declined to \$3000. It subsequently managed to return and even exceed the previous peak. However, the 2014-year Russian invasion has caused it to decline to \$2,000. Again, in the next 7 years, Ukraine managed to grow back in GDP per capita and reach almost \$5000, but the 2022 Russian invasion has caused its new decline.⁴⁴⁰

Ukraine's economy revolves around several key sectors, each contributing uniquely to its economic landscape. The financial sector stands as a cornerstone, supporting various economic activities through banking services, credit provision, and facilitating international transactions. Despite challenges such as bank failures and currency devaluation, efforts to reform and stabilize the financial sector underscore its resilience and significance in driving economic growth.

Foreign investment plays a vital role in Ukraine's economic development, particularly in sectors like energy, manufacturing, and infrastructure. However, issues such as corruption and political instability have hindered the full realization of foreign investment potential. Nonetheless, the inflow of foreign capital contributes substantially to modernization efforts and economic diversification.

Additionally, Ukraine's economy benefits from sectors like agriculture, industry, and services. Agriculture thrives on fertile land, with Ukraine being a major producer of grains, livestock, and other agricultural products. The industrial sector encompasses diverse areas such as metallurgy, mining, machinery, and aerospace, contributing significantly to the country's GDP. Services, including IT, finance, retail, and tourism, also play crucial roles in driving economic activity and employment. Overall, Ukraine's economy is multifaceted, with various sectors working together to fuel growth and development.⁴⁴¹

2. Macroeconomic Policies

It is crucial to underscore an important change that Ukraine has made in its economic policy during the last decades. This is about rejecting the Multi-Vector Policy or Multi-Vector Doctrine which was the foreign policy doctrine of Ukraine during the presidency of Leonid Kuchma from 1994 to 2005, and eventually choosing a unique Western-oriented vector of economic policy that fits the values and interests of the country.

The Multi-Vector Policy's primary concern balancing Ukrainian relations with the United States and European Union, as well as with Russia, in an effort to preserve Ukraine's neutral status between Russia and the Western world. Most modern Ukrainians blame the authors of such policy in attempting to sit on both chairs at once, not to mention the strong political and economic dependence on Russia via its oil and gas supplies that were fostered by such policy. However, there are also thoughts about whether it was possible for Ukraine, at that moment politically, economically and, importantly - militarily weak country and moreover - under pressure and attention of the leaders of the poles of the international arena, to openly and independently decide on its policy and make favorable choices. YES Nevertheless, today we do not observe any remains of support for such a policy in Ukraine, since Ukrainians made their choice during the Revolution of Dignity in 2014.

In 2022, following the full-scale invasion, Ukraine faced inflation concerns due to the EU's unmet commitments, leading to a 27 percent inflation rate by December. However, significant international aid, including \$20 billion from the European Commission, \$10.9 billion from the United States, and \$4.5 billion from the IMF, alleviated the situation, reducing inflation to five percent by October 2023. The country's budget deficit of \$40 billion was fully covered, enabling stable social spending and tax collection exceeding

[https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/747858/IPOL_BRI\(2024\)747858_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/747858/IPOL_BRI(2024)747858_EN.pdf). Accessed 1 May 2024.

⁴⁴⁰ Ukraine's Statistics Department. <https://www.ukrstat.gov.ua/>. Accessed 1 April 2024.

⁴⁴¹ Abella, Jennifer et al., "Finance of Ukraine ", Encyclopedia Britannica Webpage. <https://www.britannica.com/place/Ukraine/Finance>. Accessed 1 May 2024.

expectations. Despite wartime challenges, Ukraine avoided wage and pension arrears. Throughout 2023, Ukraine's National Bank effectively managed monetary policy amid Russia's invasion, maintaining a stable currency market and achieving a lower inflation rate than Russia's 7.5 percent. With international reserves at a record \$40 billion, the banking system expanded significantly, with assets and deposits rising by 36 percent and 51 percent respectively. Despite the crisis, Ukraine's banks remain liquid, providing ample and affordable credit to support economic stability.⁴⁴²

Ukraine's recent IMF-backed program signifies a pivotal moment in its economic journey, aimed at navigating post-war recovery and fostering enduring stability. This comprehensive initiative spans fiscal, monetary, financial, governance, and financing strategies, reflecting Ukraine's commitment to addressing pressing macroeconomic challenges. Before this program, Ukraine faced significant hurdles such as high public debt, fiscal imbalances, and governance issues like corruption. The new program emphasizes fiscal consolidation, tax base strengthening, and debt sustainability. Monetary policies target stability, while financial sector reforms aim to facilitate credit flow for reconstruction efforts. Governance reforms focus on institutional integrity, aligning with EU accession requirements for long-term prosperity. The financing strategy leverages external funding and domestic debt sales to manage debt effectively and restore fiscal health.⁴⁴³

Ukraine's approach to economic policy reflects a concerted effort to integrate Western economic principles while addressing domestic challenges and leveraging international support. The nation's main policy objectives encompass fiscal consolidation, monetary stability, financial sector resilience, governance reforms, and debt sustainability. These objectives are pursued through a combination of strategies and instruments, including fiscal measures aimed at resource allocation and tax base strengthening, monetary policies focused on inflation control and currency stability, financial sector reforms to enhance stability and credit flow, governance initiatives targeting institutional integrity and public trust, and a financing strategy that leverages external and domestic resources to manage debt obligations effectively. By aligning with EU accession requirements and partnering with international institutions like the IMF, Ukraine seeks to not only stabilize its economy but also lay the foundation for sustainable growth and integration into the global economic community.

3. Microeconomic Policies

Ukraine has a mixed economic system in which there is limited private freedom, combined with centralized economic planning and government regulation. Let us begin with Ukraine's market and competition landscape. It certainly showcases a blend of progress and challenges in recent years. Efforts to streamline business registration processes have facilitated entrepreneurship, reflecting a commitment to fostering a business-friendly environment. However, challenges remain, particularly in resolving insolvency and balancing utility tariffs, exacerbated by economic shocks like the 2022 war.

While oligarchic influence has gradually decreased since its peak in 2011-2012, the shadow economy persists, posing challenges to formal economic activity and transparency. The Anti-Monopoly Committee oversees competition policy, yet informal influence persists, especially in sectors like oil and gas, highlighting the ongoing need for vigilance in promoting fair market practices.

Trade policies signal openness, with WTO membership and various free trade agreements. However, temporary trade restrictions imposed during the war underscore the delicate balance between economic

⁴⁴² Åslund, Anders, "Ukraine's wartime economy is performing surprisingly well", Atlantic Council Webpage, 2 January 2024. <https://www.atlanticcouncil.org/blogs/ukrainealert/ukraines-wartime-economy-is-performing-surprisingly-well/>. Accessed 1 May 2024.

⁴⁴³ Ukraine team, IMF European Department, "Amid War, Ukraine Is Maintaining Macroeconomic Stability and Embarking on Reforms", International Monetary Fund, 5 April 2023. <https://www.imf.org/en/News/Articles/2023/04/05/cf-amid-war-ukraine-is-maintaining-macroeconomic-stability-and-embarking-on-reforms> Accessed 1 April 2024.

integration and geopolitical realities. In the banking sector, reforms have bolstered stability and transparency, enabling resilience amidst challenges like the COVID-19 pandemic and the war aftermath. However, non-performing loans have increased, posing risks to financial stability that require careful management.

Addressing these challenges is crucial for fostering a competitive market environment that encourages entrepreneurship, promotes fair competition, and ensures sustainable economic growth in Ukraine.⁴⁴⁴



Fig. 3. Trade, Monetary, Labor and Business Freedom in Ukraine.⁴⁴⁵

The impact of the Russian invasion on Ukraine’s labor market is severe. In addition to its demographic impacts, the war has also disrupted the labor market, leading to job losses and a soaring unemployment rate, which reached 30% in 2022. At the same time, business surveys conducted by IER indicate that companies are struggling to find employees with the necessary qualifications and skills. Extensive internal and external migration, involving over a quarter of the population, has put pressure on the labor market. Unemployment has reached 30% in 2022, surging threefold compared to the prewar period. All of these circumstances make the preservation of the labor market participants’ rights much harder for the government.

Ukraine has taken significant strides towards deregulation since 2015, notably reducing the number of licenses and permits to streamline business operations. According to the Index of Economic Freedom by the Heritage Foundation, Ukraine is moderately free in business regulation, scoring 61.1 out of 100 in 2022. While most prices are liberalized, the government responded to rising prices in 2021/2022 by reintroducing maximum retail margins for socially sensitive products like bread, gasoline, and diesel. Regulatory bodies oversee utility, energy, and telecommunication tariffs, though in the wake of the 2022 war, household utility tariffs were once again fixed to cushion the economic impact. These microeconomic policies reflect efforts to balance market liberalization with interventions aimed at addressing price volatility and safeguarding consumer interests amidst economic challenges.

4. International Economic Integration

Historically Ukraine has been a part of essential international trade connections in Europe. Rus - the state-ancestor of Ukraine with the capital in Kyiv, had extensive trade relations with the countries of the Middle

⁴⁴⁴ Bertelsmann Stiftung, BTI 2024 Country Report — Ukraine. Gütersloh: Bertelsmann Stiftung, 2024. <https://bti-project.org/en/reports/country-report/UKR#pos10>. Accessed 1 April 2024.

⁴⁴⁵ Economic Freedom Country Profile, Ukraine, Heritage Organisation, updated October 2024. <https://www.heritage.org/index/pages/country-pages/ukraine>. Accessed 1 April 2024.

East, Byzantium, Western European and Scandinavian countries, and Ukrainian lands played an important role in international trade. Ukrainian-American historian Omeljan Pritsak in his numerous works emphasized the interconnectedness of Kyiv Rus with other important players of the international arena of that time, particularly Byzantium and the Islamic world. He highlighted the importance of trade routes such as the Volga trade route, connecting Kyiv Rus to the Byzantine Empire, the Abbasid Caliphate, and the Baltic Sea trade networks.⁴⁴⁶

Today, Ukraine is also an active participant of international cooperation. Obtaining membership status of 15 main international organisations - IMF, WTO, World Bank group, Organization for Security and Co-operation in Europe etc, Ukraine also obtains the status of a founder of the United Nations. The role of observer is also taken by Ukraine in a range of mostly local (by geography or certain market) organisations.⁴⁴⁷

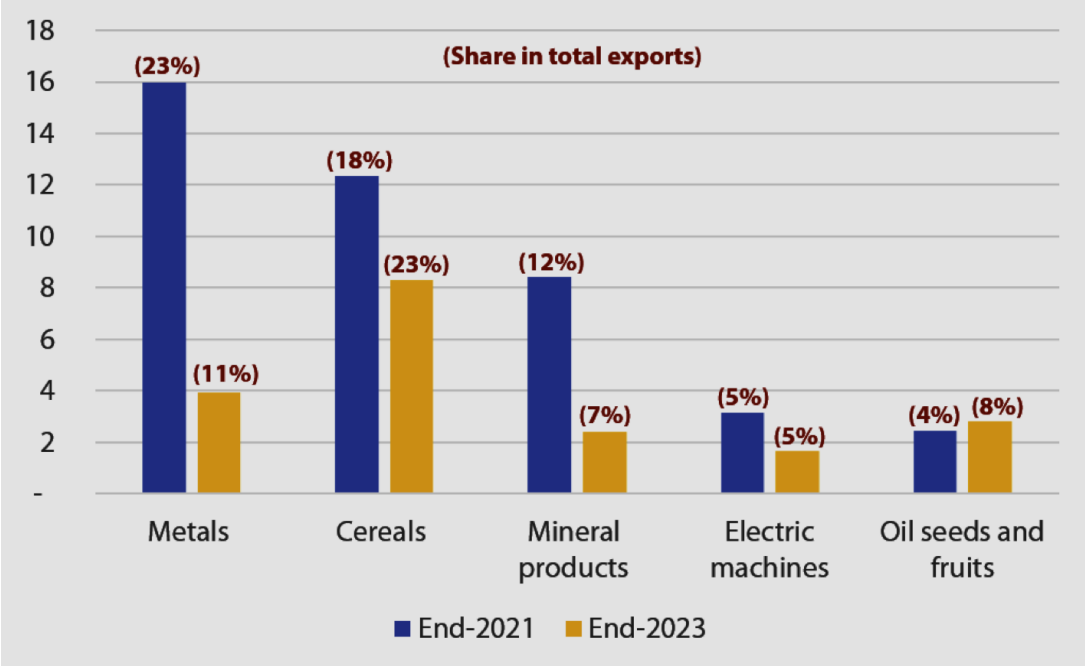


Fig. 4. Main Export Products of Ukraine.⁴⁴⁸

Since 1991, international economic integration of Ukraine has mostly improving and fostering, and the rate of it only increased after the Revolution of Dignity in 2014 and the annexation of the Crimea peninsula and parts of Donetsk and Luhansk regions, when Ukrainians have defended their choice of developing alongside Europe and USA instead of Russia, finishing the policy of “multivectorality”. Ukraine’s international cooperation efforts have undergone significant evolution, particularly in response to the challenges posed by the ongoing war and the need for extensive postwar reconstruction. International technical assistance (ITA) coordination has been revitalized, emphasizing a shift from the term “donors” to “development partners” to reflect deeper collaboration. Key platforms, such as the G7’s multi-donor coordination and specialized platforms for energy infrastructure recovery, have been established to address Ukraine’s diverse needs.

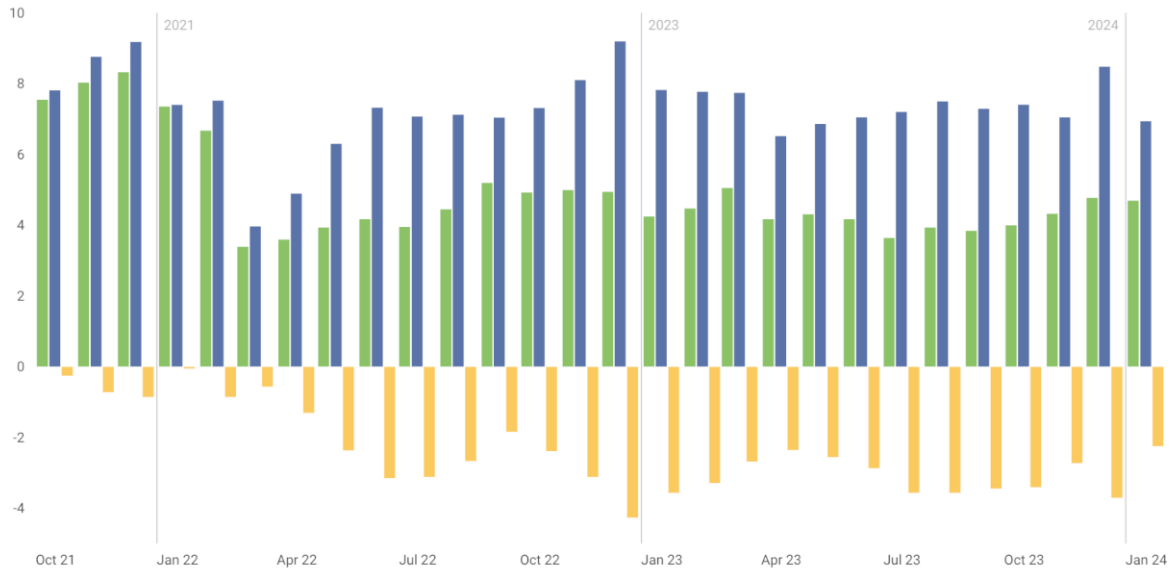
⁴⁴⁶ Pritsak, Omeljan, "Rus' and the Varangians: Old Norse Stereotypes and Reality", 1981.

⁴⁴⁷ Wikipedia: https://en.wikipedia.org/wiki/International_membership_of_Ukraine. Accessed 10 May 2024.

⁴⁴⁸ Ministry of Economics of Ukraine (based on Ukraine’s Statistics Department Data).

Imports decreased in January

Export - Import = Balance of goods and services, USD bn



Source: NBU • Balance of payments: export of goods and services, import of goods and services, balance of goods and services

Fig. 5. Ukraine's foreign trade structure.⁴⁴⁹

Postwar reconstruction, anticipated to be Ukraine's most extensive development program ever, has garnered substantial international support. Donor conferences have outlined Ukraine's vision for recovery, focusing on modernization, green transition, and EU accession. To facilitate coordination, a Deputy Prime Minister for Reconstruction and a dedicated government agency have been appointed, while civil society actively monitors reconstruction spending.

Financial and military assistance has been crucial, with Ukraine receiving \$32 billion in international support in 2022, predominantly from the United States and the European Union. The conflict has reshaped Ukraine's relations, intensifying cooperation with the EU, especially following Ukraine's grant of candidate status. Bilateral ties with strategic partners like Turkey, the United States, and the UK have deepened, while trade links with countries like North Macedonia and discussions on free trade agreements with others signal Ukraine's commitment to broader regional engagement.⁴⁵⁰

References:

Abella, Jennifer et al., "Finance of Ukraine", Encyclopedia Britannica Webpage. <https://www.britannica.com/place/Ukraine/Finance>. Accessed 1 May 2024.

Åslund, Anders, "Ukraine's wartime economy is performing surprisingly well", Atlantic Council Webpage, 2 January 2024. <https://www.atlanticcouncil.org/blogs/ukrainealert/ukraines-wartime-economy-is-performing-surprisingly-well/>. Accessed 1 May 2024.

Bertelsmann Stiftung, BTI 2024 Country Report — Ukraine. Gütersloh: Bertelsmann Stiftung, 2024. <https://bti-project.org/en/reports/country-report/UKR#pos10>. Accessed 1 April 2024.

Eban Raymond, University of Leeds, "War on two fronts: Ukraine's demographic crisis", The Loop - ECPR's

⁴⁴⁹ Samoiliuk, Maksym, "Economy During The War. Ukraine War Economy Tracker", 9 May 2024. <https://ces.org.ua/en/tracker-economy-during-the-war/> Accessed 1 April 2024.

⁴⁵⁰ Bertelsmann Stiftung, BTI 2024 Country Report — Ukraine. Gütersloh: Bertelsmann Stiftung, 2024. <https://bti-project.org/en/reports/country-report/UKR#pos10>. Accessed 1 April 2024.

Political Science Blog, 3 January 2024. <https://theloop.ecpr.eu/war-on-two-fronts-ukraines-demographic-crisis/>. Accessed 1 May 2024.

Economic Freedom Country Profile, Ukraine, Heritage Organisation, updated October 2024. <https://www.heritage.org/index/pages/country-pages/ukraine>. Accessed 1 April 2024.

Gladun, Oleksandr, Deputy Director of the Institute of Demography and Quality of Life Problems via "Slovo i Dilo", 26 February 2024, <https://www.slovoidilo.ua/2024/02/26/novyna/suspilstvo/instituti-demohrafiyi-oczinyly-yak-skorotylasya-chyselnist-naselennya-ukrayiny-dva-roky-vijny>. Accessed 1 April 2024.

Ministry of Economics of Ukraine (based on Ukraine's Statistics Department Data).

Pritsak, Omeljan, "Rus' and the Varangians: Old Norse Stereotypes and Reality", 1981.

Rakic, Drazen, "Two years of war: The state of the Ukrainian economy in 10 charts", Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2024.

[https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/747858/IPOL_BRI\(2024\)747858_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/747858/IPOL_BRI(2024)747858_EN.pdf). Accessed 1 May 2024.

Samoiliuk, Maksym, "Economy During The War. Ukraine War Economy Tracker", 9 May 2024.

<https://ces.org.ua/en/tracker-economy-during-the-war/> Accessed 1 April 2024.

Ukraine's Statistics Department. <https://www.ukrstat.gov.ua/>. Accessed 1 April 2024.

Ukraine team, IMF European Department, "Amid War, Ukraine Is Maintaining Macroeconomic Stability and Embarking on Reforms", International Monetary Fund, 5 April 2023.

<https://www.imf.org/en/News/Articles/2023/04/05/cf-amid-war-ukraine-is-maintaining-macroeconomic-stability-and-embarking-on-reforms> Accessed 1 April 2024.

Wikipedia: https://en.wikipedia.org/wiki/International_membership_of_Ukraine. Accessed 10 May 2024.

The Political Economy of United States of America: An Ever-Changing Landscape

Economic Structure of the United States of America

The United States has the third largest total population in the world behind China and India with a population of 339.7 million as of 2023.⁴⁵¹ The population growth rate was 0.4% in 2022, an increase from 0.2% in 2021.⁴⁵² While the growth rate remains positive, the United States has a rapidly increasing share of the population aged 65 and above. In 2022, 17.0% of the population was aged 65 or above, while just 20 years earlier in 2002, 12% of the population was aged 65 and older.⁴⁵³

The United States of America is the second largest economy in the world after China (only in PPP terms) with a gross domestic product (“GDP”) of \$25.4 trillion as of 2022.⁴⁵⁴ Annual GDP growth remained positive in 2022 at 1.9% but is down from 5.9% in 2021 following the recovery from the COVID-19 pandemic.⁴⁵⁵ GDP per capita has continuously increased and in 2022 was measured at \$76.3 thousand.⁴⁵⁶

Key Sectors of Activity

The United States economy is well-diversified with no sector making up a majority of the country’s GDP. In 2022, the leading sector in the United States by output was “finance, insurance, real estate, rental, and leasing” which accounted for 18.0% of GDP, and real estate activities made up just over half (59.7%) of the sector.⁴⁵⁷ The next largest sector making up 15.6% of the 2022 U.S. GDP is “manufacturing” which is evenly divided between durable and non-durable goods.⁴⁵⁸ The third largest sector is “professional and business services” which accounted for 11.7% of U.S. GDP in 2022.⁴⁵⁹ These three sectors have consistently been the three largest in the American economy for the past five years, making up 46.0% of U.S. GDP on average.⁴⁶⁰

U.S. Percentage of GDP by Industry (2018-2022)⁴⁶¹

⁴⁵¹ The World Bank, “Population growth (annual %) – United States,” 2023.

https://data.worldbank.org/indicator/SP.POP.GROW?locations=US&most_recent_value_desc=false. Accessed 1 May 2023.

⁴⁵² Ibid.

⁴⁵³ The World Bank, “Population ages 65 and above (% of total population) – United States,” 2023.

https://data.worldbank.org/indicator/SP.POP.65UP.TO.ZS?locations=US&most_recent_value_desc=false. Accessed 1 May 2023.

⁴⁵⁴ The World Bank, “GDP (current US\$) – United States,” 2023.

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US>. Accessed 1 May 2023.

⁴⁵⁵ Ibid.

⁴⁵⁶ The World Bank, “GDP per capita (current US\$) – United States,” 2023.

<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=US>. Accessed 1 May 2023.

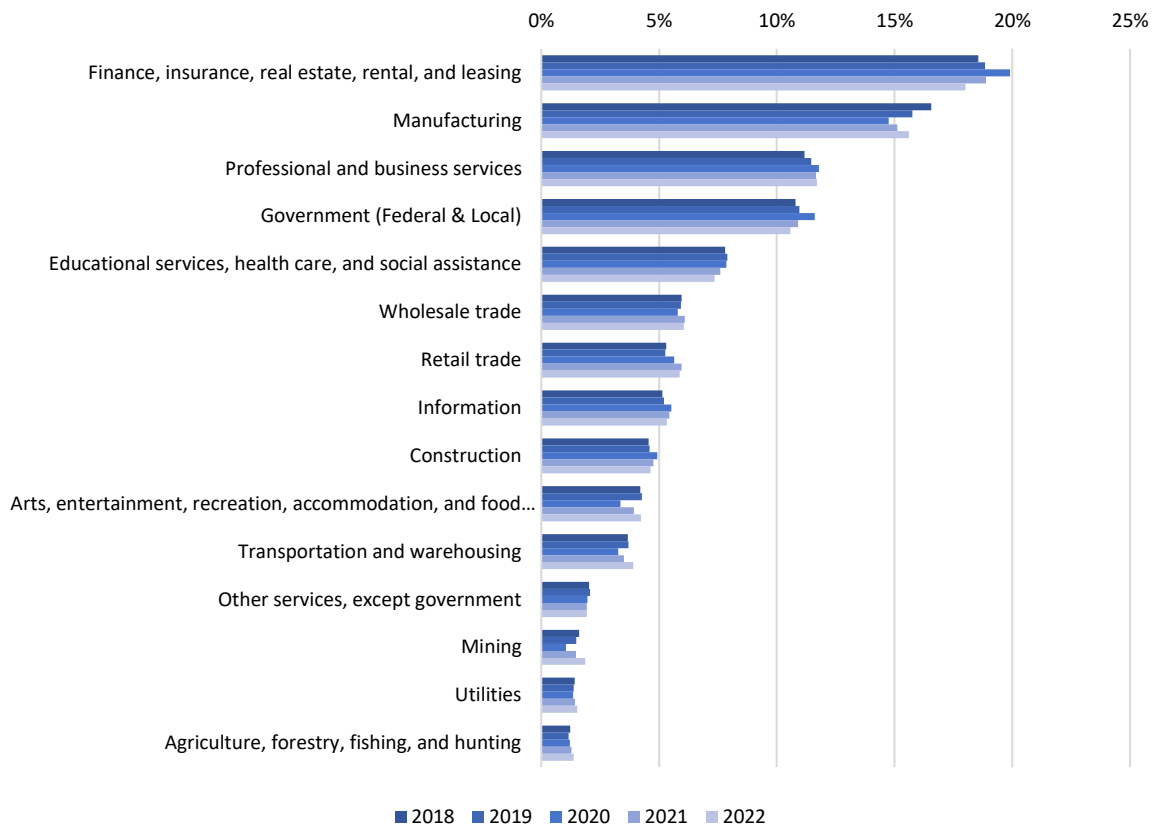
⁴⁵⁷ Bureau of Economic Analysis U.S. Department of Commerce, “Interactive Access to Industry Economic Accounts Data,” 20 November 2023. https://apps.bea.gov/itable/?reqid=150&step=3&isuri=1&table_list=211&categories=ugdpind. Accessed 2 May 2024.

⁴⁵⁸ Ibid.

⁴⁵⁹ Ibid.

⁴⁶⁰ Ibid.

⁴⁶¹ Bureau of Economic Analysis U.S. Department of Commerce, “Interactive Access to Industry Economic Accounts Data,” 20 November 2023. https://apps.bea.gov/itable/?reqid=150&step=3&isuri=1&table_list=211&categories=ugdpind. Accessed 2 May 2024.



American Economic Organization: Market Economy with Free Market Principles

The United States government is organized according to a market economy with free market principles. Adam Smith’s neo-classical approach to capitalism is employed where actors are considered rational and behaviours are utility maximizing and standardized. Decisions regarding production, investment, and distribution are primarily determined by supply and demand in the market. Additionally, means of production are predominantly owned by private individuals and businesses which drives competition, efficiency, and innovation.

Government intervention is limited in the American economy and has few use cases. The government primarily intervenes to protect citizens by enforcing regulations that ensure fair competition, protect consumers, and maintain economic stability. Government intervention is affected through anti-trust laws, fiscal and monetary policy, and social programs.

Another tenant of the organization of the American economy is the rule of law and private property rights. The rule of law is essential to ensuring property rights, contracts, and business transactions are enforced fairly and impartially. Milton Friedman’s ideals regarding private property can be seen executed in the American government and economy in many ways. The right to own, use, and transfer property is essential to increase investment, productivity, and growth, which is exemplified by the U.S. economy.

The United States of America has one of the most advanced and developed financial systems in the world. Businesses and individuals can access capital through banking systems, stock exchanges, and bond markets. One of the economy’s greatest strengths is its “extraordinary funding capacity due to the unique

role of the U.S. dollar and Treasury bond market in the global financial system.”⁴⁶² Thus, the United States is defined by its open economy and financial global integration through trade, investment, and financial flows.

Macroeconomic Policies of the United States of America

Macroeconomic policies in the United States are rooted in principles of Western economics and historical context with practical responses to current challenges. Western economic theory calls for an emphasis on free markets and individual economic freedoms which the U.S. economy exemplifies. Given these principles, there is a recognition of the need for government intervention for specific policy goals. The dynamic political environment of the country also shapes U.S. macroeconomic policy as different parties have opposing opinions on the level of government intervention in the economy and economic goals. The United States’ macroeconomic policy is flexible with the ability to adapt to changing economic conditions, technological advances, and societal needs.

The key goal of U.S. economic policy is implemented through the U.S. Federal Reserve’s dual mandate of achieving maximum employment and keeping prices stable, with a goal of 2% inflation over the long run. Additionally, the United States provides global economic leadership, playing a major role in shaping economic policy and governance by participating in international forums. In forums like the G7, G20, International Monetary Fund, and World Trade Organization (“WTO”), the United States pushes for policies that promote its interests such as open markets, free trade, and global economic stability.

American Macroeconomic Objectives and Instruments

The macroeconomic policy objectives of the United States can be divided between those of the U.S. Federal Reserve and those of the U.S. Department of the Treasury. As mentioned above, the Federal Reserve works to implement its dual mandate of maximum employment and stable prices through its monetary policy.⁴⁶³ Additionally, the Federal Reserve works to moderate long-term interest rates. The Federal Reserve maintains a variety of policy tools to implement monetary policy including executing open market operations and setting the discount rate and reserve requirements.

The U.S. Department of the Treasury has separate policy objectives which are to “maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats and protecting the integrity of the financial system, and manage the U.S. Government’s finances and resources effectively.”⁴⁶⁴ Additionally, the Department of the Treasury has the mission to combat climate change and modernize treasury operations.⁴⁶⁵ The Treasury works to implement these goals by providing counsel on fiscal policy, such as setting tax rates and government spending, to the executive and legislative branches. The Federal Reserve also implements its mission through regulatory frameworks that promote

⁴⁶² *Moody’s Investors Service*, “Credit Opinion – Government of the United States – Aaa negative,” 4 April 2024. https://www.moodys.com/research/Government-of-the-United-States-Aaa-negative-Regular-update-Credit-Opinion--PBC_1401766?cy=emea&lang=en. Accessed 1 May 2024.

⁴⁶³ Board of Governors of the Federal Reserve System, “What economic goals does the Federal Reserve seek to achieve through its monetary policy?,” 27 August 2020. <https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm#:~:text=Specifically>. Accessed 2 May 2024.

⁴⁶⁴ U.S. Department of the Treasury, “Goals and Objectives,” 2024. <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/strategic-plan/goals-and-objectives>. Accessed 2 May 2024.

⁴⁶⁵ U.S. Department of the Treasury, “Goals and Objectives,” 2024. <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/strategic-plan/goals-and-objectives>. Accessed 2 May 2024.

competition, protect consumers, and address externalities. Finally, the Federal Reserve advises committees in the legislative branch on trade policy which works to promote international trade and investment, protect domestic industries, and advance strategic interests.

American Macroeconomic Challenges

The April 2024 *Moody's Investor Service* ("Moody's") Credit Opinion on the Government of the United States of America, indicated declining federal debt affordability and banking sector risk as the largest challenges facing the country's economy.⁴⁶⁶ The United States, which is currently rated Aaa – negative by *Moody's*, has a negative outlook due to the increase in downside risks of the United States' fiscal strength which may cease to be fully compensated by the country's unique credit strength.⁴⁶⁷ Given the environment of higher interest rates, the United States must employ effective fiscal policy measures to increase revenues or decrease government spending to reduce fiscal deficits and protect debt affordability. The polarized political atmosphere in the legislative branch raises the risk that consensus will not be made on a fiscal plan to mitigate the increase in fiscal deficits. If policymakers are unable to respond to the growing fiscal challenges of the country in the medium term, the risk of deterioration of debt affordability and fiscal strength will likely undermine the economic strength of the United States and with it the role of the U.S. dollar and Treasury bond market.⁴⁶⁸

The United States banking sector faces challenges due to a weakening operating environment for regional banks and internal political risks stemming from political polarization.⁴⁶⁹ The country's banking sector is diverse including both the large four universal banks and thousands of small community banks. Given the diversity of the sector, the average financial strength might hide areas where the country is exposed to greater risk. The November 2024 elections will impact key fiscal, economic, climate, and immigration policies as it will determine the leading party of both the executive and legislative branches. This will establish the ability of the next administration to advance its policy agenda by reforming existing and passing new laws.⁴⁷⁰ The winning parties in the White House and Congress will determine the direction of fiscal policy which is critical to addressing the government's deteriorating financial position.⁴⁷¹

Microeconomic Policies of the United States of America

The United States economy is built on healthy market competition. In July 2021, President Joe Biden signed an executive order on Promoting Competition in the American Economy to "promote the interests of American workers, businesses, and consumers."⁴⁷² The executive order launched a government wide effort to combat growing market power in the American economy by seeking to ensure that markets are competitive. Protecting competition is essential to eliminating highly concentrated markets which enact harmful markups and price increases for high profits. A competitive marketplace leads to more high-quality jobs for workers and provides them with the flexibility to switch jobs and negotiate for higher

⁴⁶⁶ *Moody's Investors Service*, "Credit Opinion – Government of the United States – Aaa negative," 4 April 2024. https://www.moodys.com/research/Government-of-the-United-States-Aaa-negative-Regular-update-Credit-Opinion--PBC_1401766?cy=emea&lang=en. Accessed 1 May 2024.

⁴⁶⁷ *Ibid.*

⁴⁶⁸ *Ibid.*

⁴⁶⁹ *Ibid.*

⁴⁷⁰ *Ibid.*

⁴⁷¹ *Ibid.*

⁴⁷² The White House, "Executive Order on Promoting Competition in the American Economy," 9 July 2021. <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/>. Accessed 24 April 2024.

wages.⁴⁷³

A competitive marketplace is protected in the United States through antitrust laws that promote competition and prevent monopolistic behavior. Additionally, there are regulatory policies focused on removing barriers to entry, reducing fraud, ensuring the safety and quality of products, and protecting the environment and public health. These policies are enacted by agencies such as the Securities and Exchange Commission, Consumer Financial Protection Bureau, and the Environmental Protection Agency. Market competition is also protected through U.S. trade policies which traditionally aim to reduce barriers to trade, promote fair competition globally, and expand market access for American businesses and consumers. In the United States, government intervention is used to address market failures like natural monopolies, information asymmetry, and negative externalities that lead to concentrated markets.

American Labour Market and Workers' Rights

In the United States, labour markets and workers' rights are shaped by a combination of federal and state law along with regulations that balance competition with protections for workers. There are also federal and state unemployment insurance and social safety nets for workers experiencing joblessness. Federal labour laws include the Fair Labour Standards Act which establishes regulations around a federal minimum wage, overtime pay, recordkeeping, and youth employment standards. Workplace safety and health is ensured on a federal level by the Occupational Safety and Health Act and job-protected leave for eligible employees for certain family and medical reasons is guaranteed by the Family Medical Leave Act.

American workers have the right to organize and to collectively bargain through several laws including the National Labour Relations Act. These Acts grant workers the right to form and join unions, engage in collective bargaining, and participate in collective actions. The United States also has strong anti-discrimination laws such as the Civil Rights Act of 1964 which prohibits employment discrimination based on race, color, religion, sex, or nationality. Workers are also protected from age and disability discrimination in the workplace through additional Acts.

Each state may implement additional worker protections to increase minimum wages, enforce stricter safety regulations, and implement more extensive leave policies. Additionally, the scope of employment at will, an employer's ability to dismiss an employee for any reason and without warning, is determined at the state level, affecting job security.

In the United States labour markets are becoming less competitive, reducing the range of employment options available to workers. In 2022, 60% of local labour markets were considered highly concentrated with 20% of workers employed in labour markets with only a few employers offering jobs in the local community.⁴⁷⁴

A major challenge facing American workers is the at-will employment doctrine, which is relatively unique to the United States in the developed world. In 49 of 50 states, employers can terminate workers for almost any reason, with exceptions such as discrimination and retaliation. This leads to job insecurity for workers and can discourage them from asserting their rights or challenging unfair treatment out of fear of

⁴⁷³ The White House, "Executive Order on Promoting Competition in the American Economy," 9 July 2021. <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/>. Accessed 24 April 2024.

⁴⁷⁴ Heinrich, Martin, "Factsheet: Ensuring Competition in the Labour market is Critical for Workers and Economic Growth," Joint Economic Committee, 19 December 2022. <https://www.jec.senate.gov/public/index.cfm/democrats/2022/12/factsheet-ensuring-competition-in-the-labour-market-is-critical-for-workers-and-economic-growth>. Accessed 26 April 2024.

job loss. There is also limited paid leave and benefits in American businesses as there is no federally mandated paid sick leave or paid family leave for all workers, though some states do have laws to require certain leave to be recognized. Additionally, there is no guarantee of paid vacation or other benefits like childcare assistance or paid parental leave. Finally, one in five American workers are bound by non-compete agreements which limits job mobility, suppresses wages, and stifles entrepreneurship and innovation.⁴⁷⁵

While the United States has a framework to protect workers' rights and the labour market from total competition, these protections are not identical across the country leaving gaps in policy. The effectiveness of the protections currently in place can depend on state-specific laws, court interpretations, and broader economic trends.

International Economic Integration of the United States of America

The United States economy is largely driven by its complex and diverse international trade system, reflecting its role as one of the world's largest economies and a leading player in global trade. The United States is a major market for a variety of goods and services as the second largest exporter in the world, with \$2.06 trillion of exports in 2022.⁴⁷⁶ Additionally, U.S. trade can be characterized by its consistent trade deficit as the world's largest importer, with \$3.12 trillion of imports in 2022.⁴⁷⁷ Major American imports include consumer electronics, vehicles and parts, oil and petroleum products, industrial machinery, apparel and textiles, and chemicals. The U.S. trade deficit is partially offset by the United States' trade surplus in services, but has grown in recent years, driven by manufacturing shifts, consumer demands, and currency fluctuations. Key U.S. exports involve both services, including finance, technology, education, and entertainment, and goods, including industrial machinery and equipment, electrical machinery, aircraft and aerospace products, vehicles, agricultural products, and pharmaceuticals.

The United States has diversified trade partners and its largest trading partners are the European Union, Canada, Mexico, and China with which it completed \$1.3 trillion, \$919 billion, \$864 billion, and \$761 billion in trade in 2022, respectively.⁴⁷⁸

The goal of engaging in international trade in the United States is to advance economic growth and competitiveness by reducing international trade and investment barriers, fostering an open, transparent, and nondiscriminatory rules-based trading system, and enforcing American trade laws and partner countries' trade commitments. However, trade policy can shift based on administration priorities with focuses varying between trade liberalization, protectionism, tariffs, and trade agreements. Additionally, geopolitical factors and strategic interests influence U.S. trade and impact decisions made on trade agreements, tariffs, and relations with other countries.

The U.S.'s trade policy is complex, diverse, and subject to shifts based on economic trends, political

⁴⁷⁵ Heinrich, Martin, "Factsheet: Ensuring Competition in the Labour market is Critical for Workers and Economic Growth," Joint Economic Committee, 19 December 2022. <https://www.jec.senate.gov/public/index.cfm/democrats/2022/12/factsheet-ensuring-competition-in-the-labour-market-is-critical-for-workers-and-economic-growth>. Accessed 26 April 2024.

⁴⁷⁶ The Observatory of Economic Complexity, "World Trade (2022)," 2023. <https://oec.world/en/profile/world/wld>. Accessed 3 May 2024.

⁴⁷⁷ Ibid.

⁴⁷⁸ Congressional Research Service, "U.S. Trade Policy: Background and Current Issues," 21 February 2024. <https://crsreports.congress.gov/product/pdf/IF/IF10156>. Accessed 3 May 2024.

priorities, and global events. Throughout much of modern history, the United States foreign economic relations were based upon the belief that open markets promote democracy, which in turn fosters global peace. After World War II, the United States emerged as the global economic leader playing a key role in forming the Bretton Woods system, establishing the International Monetary Fund and the World Bank, and encouraging a fixed exchange rate system based on the U.S. dollar. During this period, trade policy was a central pillar of American foreign policy.⁴⁷⁹ Through the Marshall Plan, the United States helped to rebuild Europe which further enshrined its position as the global economic leader. The United States was also central to establishing the General Agreement on Tariffs and Trade which promoted trade liberalization and reduced global tariffs.

In the following years, the United States continued to engage in trade agreements, such as the North American Free Trade Agreement, and supported the formation of the WTO in 1995. As other regions grew economically, like Asia, the United States adjusted its trade affairs according. To strengthen trade relations with Asia, the Trans-Pacific Partnership (“TPP”) was proposed and signed by the United States in 2016, but never ratified due to domestic political opposition. Three days into the Trump Administration, the United States pulled out of the TTP, marking a new approach to U.S. global economic relations.

The Trump administration’s foreign economic strategy was based on five principles: supporting national security, strengthening the U.S. economy, negotiating better trade deals, aggressively enforcing U.S. trade laws, and reforming the multilateral trading system.⁴⁸⁰ With this strategy, U.S. foreign economic and trade policy worked to pursue national interests and comply with the national security strategy. To achieve this goal, the Trump administration took the stance that “trade agreements should not strengthen competitors and weaken the American position.”⁴⁸¹ Thus, the Trump administration began examining trade agreements and applying restrictive measures. This led to a trade war between the United States and China in which the U.S. levied tariffs on \$250 billion worth of Chinese goods and China imposed tariffs on \$110 billion worth of U.S. products in November 2018.⁴⁸² This ultimately left the United States with its worst bilateral relations with China in decades. During the Trump administration, the United States position as global economic leader in trade changed as protectionist policies were put in place and previously core institutions and principles of U.S. trade were neglected.

When President Biden took office in 2021, he worked to bring the United States back to its leading place in the global economy with the tagline: “America is back.” The Biden Administration worked to restore America’s position in the multilateral order by re-joining the Paris Climate Accords and the World Health Organization and re-establishing U.S. leadership on climate diplomacy.⁴⁸³ The administration’s trade policy has focused on rebuilding alliances, addressing supply chain issues, and promoting domestic manufacturing, giving the United States a more balanced approach to trade, but is still far from pre-Trump liberal trade policies.

The COVID-19 pandemic revealed weaknesses within the U.S. supply chains, leading the government to implement an industrial policy aimed at mitigating supply chain risks. President Biden passed the Inflation

⁴⁷⁹ Wolff, Alan, “Paradigm List? US Trade Policy as an Instrument of Foreign Policy,” World Trade Organization, 5 February 2018. https://www.wto.org/english/news_e/news18_e/ddgra_09feb18_e.htm. Accessed 3 May 2024.

⁴⁸⁰ United States, Executive Office of the President, “Economic Report of the President, 2019,” March 2019. <https://www.govinfo.gov/content/pkg/ERP-2019/pdf/ERP-2019.pdf>. Accessed 3 May 2024.

⁴⁸¹ Supyan, V B. “President Trump’s Foreign Economic Reforms: Preliminary Results,” *Herald of the Russian Academy of Sciences*, vol. 90.6, 21 January 2021: 653-660. doi:10.1134/S1019331620060088

⁴⁸² Council on Foreign Relations, “2017-2021 Trump’s Foreign Policy Moments,” 2024. <https://www.cfr.org/timeline/trumps-foreign-policy-moments>. Accessed 4 May 2024.

⁴⁸³ World Politics Review, “U.S. Foreign Policy Under Biden,” 22 February 2024. <https://www.worldpoliticsreview.com/biden-us-foreign-policy>. Accessed 5 May 2024.

Reduction Act in August 2022, a monumental piece of legislation focusing on investing in the American economy and combating climate change, to mitigate some of the risks presented by the pandemic. The Inflation Reduction Act supports and protects U.S. green energy producers through a broad range of subsidies, incentives, and domestic manufacturing requirements. For example, the clean energy investment tax credit provides up to a 30% credit for qualifying investments in green energy and storage.⁴⁸⁴ These policies are aimed at constructing global supply chains that are more resilient to natural disasters and geopolitical challenges. The Act also requires electric vehicles to be built with American-sourced battery components and critical minerals, but provides exceptions for countries with which the United States maintains a free-trade agreement.⁴⁸⁵ The goal of these requirements is to reduce American reliance on Chinese suppliers and encourage a shift in advanced manufacturing back to the United States.⁴⁸⁶ European governments have argued that the protectionist policies embedded in the Inflation Reduction Act violate trade rules and unfairly distort the market, expressing concerns that companies will be drawn to manufacture in the United States due to the combination of federal subsidies and a growing market.⁴⁸⁷ Through the Inflation Reduction Act, the Biden Administration enacted protectionist trade policies which favour the performance of the United States' economy.

The upcoming election will determine the future of U.S. foreign economic policy as both presidential candidates have stated different goals. On the campaign trail, Trump has vowed to create a "ring" around the U.S. economy by imposing a minimum tariff of 10% on all goods imported from other countries.⁴⁸⁸ He has also vocalized imposing a 60% tariff on imports from China and a 100% tariff on foreign cars.⁴⁸⁹ This proposal would impact over \$3 trillion in annual imports which could lead to a massive surge in inflation and the most significant increase in trade tensions in decades, intensifying the confrontations that characterized his first term.⁴⁹⁰ President Biden's administration is proposing a continuation of current trade policy which "stands up for workers' rights and sustainable trade practices, supports U.S. farmers, ranchers, fishers, and food manufacturers, bolsters supply chain resilience, addresses unfair policies and practices, and advances inclusive, durable trade policy through expanded engagement."⁴⁹¹ While the Biden administration's approach to global economic policy also has protectionist strategies embedded, they are less extensive than those proposed by Trump.

Currently the United States belongs to many global, regional, and bilateral trade agreements and partnerships. Some major trade agreements include the WTO, North American Free Trade Agreement, Asia-Pacific Economic Cooperation, and G7. If Trump wins the 2024 presidential election, American participation in trade agreements is likely to decrease.

⁴⁸⁴ Wessner, Charles and Srishti Khemka, "Getting Real on the Inflation Reduction Act," Center for Strategic and International Studies, 7 March 2023. <https://www.csis.org/analysis/getting-real-inflation-reduction-act>. Accessed 2 May 2024.

⁴⁸⁵ Ibid.

⁴⁸⁶ Ibid.

⁴⁸⁷ Ibid.

⁴⁸⁸ Stein, Jeff, "Trump vows massive new tariffs if elected, risking global economic war," *The Washington Post*, 22 August 2023. <https://www.washingtonpost.com/business/2023/08/22/trump-trade-tariffs/#>. Accessed 3 May 2024.

⁴⁸⁹ Martin, Eric, "Trump's Tariffs Plan Would Raise Prices for Americans, Model Shows," *Bloomberg*, 3 April 2024. <https://www.bloomberg.com/news/articles/2024-04-03/trump-60-tariff-on-china-10-elsewhere-to-raise-us-inflation-model?embedded-checkout=true>. Accessed 3 May 2024.

⁴⁹⁰ Ibid.

⁴⁹¹ Office of the United States Trade Representative, "USTR Releases President Biden's 2024 Trade Policy Agenda and 2023 Annual Report." 1 March 2024. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2024/march/ustr-releases-president-bidens-2024-trade-policy-agenda-and-2023annualreport#:~:text=The%20President%27s%202024%20Trade%20Policy,trade%20policy%20through%20expanded%20engagement>. Accessed 1 May 2024.

The United States' Use of Sanctions

Sanctions have also been used as a key component of U.S. foreign economic policy to address national security and geopolitical concerns. Some significant cases of sanctions in U.S. history include sanctions on Iran which began in 1979 after the Iranian Revolution and the U.S. embassy hostage crisis. These early sanctions included freezing Iranian assets and restricting trade. In the 1990s and 2000s, the United States imposed wider sanctions targeting Iran's terrorist activities and nuclear program. Tensions between the U.S. and Iran intensified in the 2010s due to Iran's developing nuclear program, and in 2010, the Comprehensive Iran Sanctions, Accountability, and Divestment Act was passed further tightening sanctions. The Obama Administration later eased sanctions in 2015 with the Joint Comprehensive Plan of Action ("JCPOA") in exchange for limits on Iran's nuclear program. The impressive work completed under the Obama administration was later reversed by Trump who withdrew from the JCPOA in 2018 and reimposed sanctions on Iran targeting key sectors of its economy like oil. The Biden Administration has worked to improve relations with Iran offering to lift sanctions if Iran complies with the terms of the JCPOA nuclear deal; however, the Iranian government has stated that it will not comply with the nuclear deal until the U.S. lifts all economic sanctions leaving the situation at a standstill.

Another example of the use of sanctions for diplomatic reasons includes U.S. sanctions on Russia. Sanctions on Russia initially began in the 2010s targeting Russian individuals and companies involved in human rights abuses and corruption. After Russia's annexation of Crimea in 2014, the U.S. imposed sanctions on Russia's financial, energy, and defense sectors. The United States then imposed additional sanctions following the suspected Russian interference in the 2016 U.S. presidential election and involvement in cyberattacks. After Russia's invasion of Ukraine in 2022, the U.S. expanded sanctions on Russia targeting critical sectors of the economy like banks, oligarchs, and technology exports. The sanctions are intended to isolate Russia and deter further aggression.

Other notable United States sanctions include sanctions on North Korea and Syria. Sanctions on North Korea have focused on its nuclear program and human rights abuses. In collaboration with the United Nations, the United States has worked to implement broader sanctions to restrain North Korea's missile and nuclear testing. Syria has been designated as a State Sponsor of Terrorism by the United States since 1979. Additional sanctions and restrictions were implemented in 2004 and 2011 to "deprive the regime of the resources it needs to continue violence against civilians and to pressure the Syrian regime to allow for a democratic transition as the Syrian people demand."⁴⁹²

Sanctions are a complex tool with different degrees of effectiveness and consequences. The United States has used sanctions to both achieve foreign policy goals and address broader humanitarian concerns. The future use of sanctions by the United States will be determined by the 2024 elections, as Biden and Trump have had different approaches to economic sanctions.

Current Challenge: United States-China Tensions

The United States has employed various strategies in its trade war with China to encourage allies to side with it including strategic alliances, economic incentives, coordinated trade restrictions, and multilateral organizations. The U.S. has worked to implement a policy of "soft containment" of China through strategic alliances such as the Quadrilateral Security Dialogue, a strategic security dialogue between the United States, Australia, India, and Japan. A key focus of the alliance includes strategic cooperation and aligning interests against China's influence in the Indo-Pacific region. The U.S. has also employed economic

⁴⁹² U.S. Department of State, "Syria Sanctions," 2024. <https://www.state.gov/syria-sanctions>. Accessed 5 May 2024.

incentives to sway other countries its way through trade agreements that strengthen ties with allies, like the United States-Mexico-Canada Agreement and the US-Japan Agreement, which aim to construct a stronger economic bloc against China. Additionally, the U.S. has worked to diversify supply chains through policies like the Inflation Reduction Act to reduce dependence on China and encourage allies to invest in and source goods from countries other than China. Trade restrictions and sanctions have been used by the United States and its allies to create a unified response to China's problematic policies. These include human rights sanctions on Chinese officials and entities involved in human rights violations and export controls to limit the export of sensitive technology and goods to China. Finally, through multilateral organizations such as the WTO the United States works to steer allies towards a collective approach that is less favorable to China.

Between 2018 and 2023, U.S.-China relations steadily deteriorated. Factors such as the trade war, the COVID-19 pandemic, escalating technological rivalry, increased tensions in the South China Sea and the Taiwan Strait, and differing stances on the Russia-Ukraine conflict have all contributed to a growing sense that the two countries are on a path toward economic decoupling.⁴⁹³ However, in November 2023 Presidents Joe Biden and Xi Jinping discussed a range of deliverables on economic and security issues. The two leaders agreed to commit to “accelerate efforts to expand renewable energy and reduce carbon emissions,” schedule “discussions to minimize risks related to artificial intelligence,” and “resume military-to-military dialogue through a variety of channels.”⁴⁹⁴ While the United States is working to improve its relations with China, it continues to work to build a strong alliance networks, promote shared economic interests, and mitigate the influence of China in global trade and security. The continuation of work on improving U.S.-China relations will also depend on the 2024 election given Trump and President Biden's differing opinions on policies with China. While Biden is working to improve relations, Trump has promised increased tariffs on China as outlined above, which would further increase hostilities.

Current Challenge: The War in Gaza and Ukraine

The economic impact of the wars in Ukraine and Gaza on the United States is complex and multifaceted. The direct effects of the wars on the United States economy are limited, but several indirect impacts could arise from ongoing conflict. The U.S. economy has been and will likely continue to be affected by higher energy costs due to the decrease in gas exports from Russia and fluctuations in global oil prices from the instability in the Middle East. Defense spending is also likely to continue to increase as the United States continues to provide aid to support its allies, Israel and Ukraine. Heightened security concerns could lead to additional spending on defense for homeland security and cybersecurity, affecting related industries nationally. Finally, geopolitical conflicts often lead to market volatility which could impact the United States' financial markets through changing investment decisions.

Conclusion and the United States Global Governance

The United States' approach to global governance has evolved over time, shaped by changing geopolitical landscapes and historical events. The U.S. emerged from World War II as a leader in establishing international institutions including the United Nations and the Bretton Woods system. This was followed by Cold War sentiment where the U.S. led in the formation of Western alliances, such as NATO, emphasizing a collective defense against communism. Following the Cold War, the United States advocated for globalism and international liberalism, encouraging free trade and democratic values. In

⁴⁹³ Kennedy, Scott, “U.S.-China Relations in 2024: Managing Competition without Conflict,” Center for Strategic and International Studies, 3 January 2024. <https://www.csis.org/analysis/us-china-relations-2024-managing-competition-without-conflict>. Accessed 2 May 2024.

⁴⁹⁴ Ibid.

recent years, the United States has questioned its role in global governance, facing debates regarding levels of engagement in multilateralism and the mounting importance of national interests.

The United States is at a crossroads in regards to its future role in global governance which rests on the results of the 2024 election. President Biden and former President Trump have vastly different ideas of the United States' role in the global community as one of the world's leading economies. In election years global governance is used as a tool to win votes; however, a 2023 poll found that a majority of Americans thought that less attention should be paid to overseas problems.⁴⁹⁵ Trump has indicated that he would "encourage Russia to 'do whatever the hell they want' to any NATO member country that doesn't meet spending guidelines on defense" admitting that he would "not abide by the collective-defense clause at the heart of the alliance if reelected."⁴⁹⁶ President Biden has retorted to Trump's response as "un-American" and disagrees with his sentiment regarding the collective-defense clause.⁴⁹⁷ In 2023, polls revealed that 6 in 10 Americans held a favorable opinion of the NATO alliance making it a relevant topic for discussion during the upcoming election.⁴⁹⁸ However, American aid to Ukraine and Biden's handling of the issue is becoming increasingly unpopular. Because of this, it will be difficult for Congress to continue passing aid packages regardless of the winner of the presidential election.

The conflict between Israel and Hamas could become a major 2024 campaign subject. Both Democrats and Republicans believe that Israel is too extreme in its military operation, but Democrats believe so by a much larger margin.⁴⁹⁹ Americans agree that Biden is mishandling the war, with 6 in 10 citizens disapproving of his current policy.⁵⁰⁰ The role this conflict will play in the presidential election is yet to be seen, but will be impacted by several variables including if the conflict spreads, refugee flows surge, and oil prices increase.

The final major international issue which will shape the future of United States' global governance is U.S.-China relations. A majority of Americans believe the current Biden administration trade policies with China have been bad for national security, the economy, and jobs,⁵⁰¹ This is the opinion despite Biden "maintain[ing] Trump-era tariffs and imposing new technology export controls" through the Inflation Reduction Act.⁵⁰² Trump has threatened a 60% flat tariff on all Chinese imports which would likely help him win voters, but also destabilized the global economy. The future of the United States' approach to global governance is in flux with the 2024 presidential election. The current debate about global governance in the U.S. reflects a balance between pursuing national interest and participating in international efforts to tackle shared challenges.

⁴⁹⁵ Wike, Richard, et al., "Attitudes on an Interconnected World," Pew Research Center, 6 December 2023.

<https://www.pewresearch.org/global/2023/12/06/attitudes-on-an-interconnected-world/>. Accessed 3 May 2024.

⁴⁹⁶ Sullivan, Kate, "Trump says he would encourage Russia to 'do whatever the hell they want' to any NATO country that doesn't pay enough," CNN, 11 February 2024. <https://edition.cnn.com/2024/02/10/politics/trump-russia-nato/index.html>. Accessed 4 May 2024.

⁴⁹⁷ Ibid.

⁴⁹⁸ Poushter, Jacob, et al., "Americans Hold Positive Feelings Toward NATO and Ukraine, See Russia as an Enemy," Pew Research Center, 10 May 2023. <https://www.pewresearch.org/global/2023/05/10/americans-hold-positive-feelings-toward-nato-and-ukraine-see-russia-as-an-enemy/>. Accessed 4 May 2024.

⁴⁹⁹ Stokes, Bruce, "The Role of Foreign Policy in the 2024 US Election," German Marshall Fund of the United States, 20 February 2024. <https://www.gmfus.org/news/role-foreign-policy-2024-us-election>. Accessed 3 May 2024.

⁵⁰⁰ Ibid.

⁵⁰¹ Kafura, Craig, "Americans Say US Has Not Gone Far Enough on China Trade Issues," The Chicago Council on Global Affairs, 12 November 2023. <https://globalaffairs.org/research/public-opinion-survey/americans-say-us-has-not-gone-far-enough-china-trade-issues>. Accessed 4 May 2024.

⁵⁰² Stokes, Bruce, "The Role of Foreign Policy in the 2024 US Election," German Marshall Fund of the United States, 20 February 2024. <https://www.gmfus.org/news/role-foreign-policy-2024-us-election>. Accessed 3 May 2024.

References

- Board of Governors of the Federal Reserve System, "What economic goals does the Federal Reserve seek to achieve through its monetary policy?," 27 August 2020. <https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm#:~:text=Specifically>. Accessed 2 May 2024.
- Bureau of Economic Analysis U.S. Department of Commerce, "Interactive Access to Industry Economic Accounts Data," 20 November 2023. https://apps.bea.gov/itable/?reqid=150&step=3&isuri=1&table_list=211&categories=ugdpkind. Accessed 2 May 2024.
- CIA Factbook, "United States," 7 May 2024. <https://www.cia.gov/the-world-factbook/countries/united-states>. Accessed 1 May 2024.
- Congressional Research Service, "U.S. Trade Policy: Background and Current Issues," 21 February 2024. <https://crsreports.congress.gov/product/pdf/IF/IF10156>. Accessed 3 May 2024.
- Council on Foreign Relations, "2017-2021 Trump's Foreign Policy Moments," 2024. <https://www.cfr.org/timeline/trumps-foreign-policy-moments>. Accessed 4 May 2024.
- Heinrich, Martin, "Factsheet: Ensuring Competition in the Labour market is Critical for Workers and Economic Growth," Joint Economic Committee, 19 December 2022. <https://www.jec.senate.gov/public/index.cfm/democrats/2022/12/fact-sheet-ensuring-competition-in-the-labor-market-is-critical-for-workers-and-economic-growth>. Accessed 26 April 2024.
- Kafura, Craig, "Americans Say US Has Not Gone Far Enough on China Trade Issues," The Chicago Council on Global Affairs, 12 November 2023. <https://globalaffairs.org/research/public-opinion-survey/americans-say-us-has-not-gone-far-enough-china-trade-issues>. Accessed 4 May 2024.
- Kennedy, Scott, "U.S.-China Relations in 2024: Managing Competition without Conflict," Center for Strategic and International Studies, 3 January 2024. <https://www.csis.org/analysis/us-china-relations-2024-managing-competition-without-conflict>. Accessed 2 May 2024.
- Martin, Eric, "Trump's Tariffs Plan Would Raise Prices for Americans, Model Shows," *Bloomberg*, 3 April 2024. <https://www.bloomberg.com/news/articles/2024-04-03/trump-60-tariff-on-china-10-elsewhere-to-raise-us-inflation-model?embedded-checkout=true>. Accessed 3 May 2024.
- Moody's Investors Service*, "Credit Opinion – Government of the United States – Aaa negative," 4 April 2024. https://www.moody.com/research/Government-of-the-United-States-Aaa-negative-Regular-update-Credit-Opinion--PBC_1401766?cy=emea&lang=en. Accessed 1 May 2024.
- Office of the United States Trade Representative, "USTR Releases President Biden's 2024 Trade Policy Agenda and 2023 Annual Report," 1 March 2024. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2024/march/ustr-releases-president-bidens-2024-trade-policy-agenda-and-2023annualreport#:~:text=The%20President%27s%202024%20Trade%20Policy,trade%20policy%20through%20expanded%20engagement>. Accessed 1 May 2024.
- Poushter, Jacob, et al., "Americans Hold Positive Feelings Toward NATO and Ukraine, See Russia as an Enemy," Pew Research Center, 10 May 2023. <https://www.pewresearch.org/global/2023/05/10/americans-hold-positive-feelings-toward-nato-and-ukraine-see-russia-as-an-enemy/>. Accessed 4 May 2024.
- Stein, Jeff, "Trump vows massive new tariffs if elected, risking global economic war," *The Washington Post*, 22 August 2023. <https://www.washingtonpost.com/business/2023/08/22/trump-trade-tariffs/#>. Accessed 3 May 2024.
- Stokes, Bruce, "The Role of Foreign Policy in the 2024 US Election," German Marshall Fund of the United States, 20 February 2024. <https://www.gmfus.org/news/role-foreign-policy-2024-us-election>. Accessed 3 May 2024.
- Sullivan, Kate, "Trump says he would encourage Russia to 'do whatever the hell they want' to any NATO country that doesn't pay enough," CNN, 11 February 2024. <https://edition.cnn.com/2024/02/10/politics/trump-russia-nato/index.html>. Accessed 4 May 2024.
- Supyan, V B. "President Trump's Foreign Economic Reforms: Preliminary Results." *Herald of the Russian Academy of Sciences*, vol. 90.6, 21 January 2021: 653-660. doi:10.1134/S1019331620060088
- The Observatory of Economic Complexity, "World Trade (2022)," 2023. <https://oec.world/en/profile/world/wld>. Accessed 3 May 2024.
- The White House, "Executive Order on Promoting Competition in the American Economy," 9 July 2021.

<https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/>. Accessed 24 April 2024.

The World Bank, "GDP (current US\$) – United States," 2023.
<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US>. Accessed 1 May 2023.

The World Bank, "GDP per capita (current US\$) – United States," 2023.
<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=US>. Accessed 1 May 2023.

The World Bank, "Population ages 65 and above (% of total population) – United States," 2023.
https://data.worldbank.org/indicator/SP.POP.65UP.TO.ZS?locations=US&most_recent_value_desc=false. Accessed 1 May 2023.

The World Bank, "Population growth (annual %) – United States," 2023.
https://data.worldbank.org/indicator/SP.POP.GROW?locations=US&most_recent_value_desc=false. Accessed 1 May 2023.

United States, Executive Office of the President, "Economic Report of the President, 2019," March 2019.
<https://www.govinfo.gov/content/pkg/ERP-2019/pdf/ERP-2019.pdf>. Accessed 3 May 2024.

U.S. Department of State, "Syria Sanctions," 2024. <https://www.state.gov/syria-sanctions>. Accessed 5 May 2024.

U.S. Department of the Treasury, "Goals and Objectives," 2024. <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/strategic-plan/goals-and-objectives>. Accessed 2 May 2024.

Wessner, Charles and Srishti Khemka, "Getting Real on the Inflation Reduction Act," Center for Strategic and International Studies, 7 March 2023. <https://www.csis.org/analysis/getting-real-inflation-reduction-act>. Accessed 2 May 2024.

Wike, Richard, et al., "Attitudes on an Interconnected World," Pew Research Center, 6 December 2023.
<https://www.pewresearch.org/global/2023/12/06/attitudes-on-an-interconnected-world/>. Accessed 3 May 2024.

Wolff, Alan, "Paradigm List? US Trade Policy as an Instrument of Foreign Policy," World Trade Organization, 5 February 2018. https://www.wto.org/english/news_e/news18_e/ddgra_09feb18_e.htm. Accessed 3 May 2024.

World Politics Review, "U.S. Foreign Policy Under Biden," 22 February 2024.
<https://www.worldpoliticsreview.com/biden-us-foreign-policy>. Accessed 5 May 2024.