

## INTERNATIONAL ECONOMIC RELATIONS

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### THE NEW ECONOMIC "AUTARCHY": ON A FEW FUNDAMENTAL GLOBAL TRENDS AND IMPORTANT EXPECTATIONS

Victor Kipiani<sup>1</sup> , PhD in Law

<sup>1</sup> Geocase, Tbilisi, Georgia

Email: vkipiani@geocase.ge

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#### Abstract

The end of the Cold War not only heralded an idyll in international relations, but also promised maximum access to the accumulated economic benefits worldwide through various alliances, pacts or initiatives. It is indicative that Francis Fukuyama's *The End of History*, which proclaimed the almost eternal, unconditional and irreversible "Good has triumphed over evil", has become a kind of quintessence of the "Golden Era" attitude of the developed and developing world.

Fukuyama's understanding of international politics was supposed to manifest itself in the global economic picture. And although globalism in the economy does not always equal the global economy, but here too the full irreversibility of cosmopolitanism, universalism or internationalism was expected.

Accordingly, the idea of economic globalisation in global geospace became a kind of mantra, and the opposite view was seen as "turning our backs on the world" and declared the object of an attack on total obstruction. The only exception in the "mainstream" was the creation of large trading blocs, which ultimately, again, contributed to the global economic texture. At first glance, this process in some places had the character of de-globalisation, but only at first glance, but in reality and in practice its final result was the global universalisation of the rules of the game in the world economy.

Thus, the very notion of "globalisation" has turned into a synonym for economic welfare, while the practical forms and mechanisms of obtaining and redistributing this welfare have become the only topic of discussion. The economic drive towards globalisation and the belief in the inevitability of this trend continued until several large-scale shocks rocked much of the world and the existing order.

**Keywords:** Economic security, Globalisation, Middle East, Cold War, EU, USA, Russia, China.

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#### Forced reversal

Over the past couple of decades, the world economy has suffered a number of blows. Each of them was unique in its individual nature and different scale.

Despite this abundance and diversity, among the major, so to speak, "systemically transformative" processes were and remain the financial crisis of 2008-2009, the COVID pandemic and post-pandemic

processes, and the ongoing war resulting from Russia's re-invasion of Ukraine. The latter posed a special challenge to Europe, which had to respond to two issues fundamental to it, such as importing cheap energy from Russia and exporting advanced technology to China. Both issues have a very expensive "price tag", so it is no coincidence that, according to a poll conducted by the European Council on Foreign Relations think tank, 62 percent of Europeans would be in favour of neutrality in the event of a conflict over Taiwan.

Military operations in the Middle East are also developing dramatically, although at the time of writing this article it is probably too early to draw definite conclusions.

In the given situation and in response to the shocks mentioned above, probably the natural reaction would be a greater diversification of economic linkages, even if this would lead to the need for additional costs or complex logistical solutions; In fact, a significant number of countries have chosen a different path, which we will discuss in more detail later, but here we will only briefly note that this choice has linked the economy even more closely to geopolitics and security. We think that this link will remain relevant, at least for the foreseeable future.

Of particular note is that along with external, so-called exogenous developments, the larger economic picture is influenced by political changes within specific national systems. We will have a relatively extensive discussion about these changes and the vision and approaches that have emerged from them.

One thing is clear: the idyll and universalisation of economic relations predicted for an indefinite period after the end of the Cold War, has not stood the test of challenges. As a result, "managing the process according to plan" has also failed, which, along with a number of other disturbing symptoms, has manifested itself as:

- (a) Increasing economic inequalities within countries; also -
- (b) Deepening inequalities between the economic capacities of different countries or regions; and –
- (c) The transformation of economic means into an instrument of pressure, which is known in the modern literature as the phenomenon of weaponisation.

As a result, harmonisation of common rules of behaviour is hampered, in some places national economic systems go into a "defensive" mode, and global actors do not hesitate to justify basic policy decisions in the economy by selfish considerations.

### **The new industrial policy: who is acting how?**

There is a growing tendency in the policies of players with significant influence on the global economy to look after themselves at the expense of the interests of others. At such times, we cannot call the practical measures or legislative initiatives anything other than a significant slowdown in the globalisation of the economic structure and, in some cases, a revision of the results achieved in this regard or a demonstration of national-economic egoism motivated by the idea of self-sufficiency.

In the face of growing challenges in the world, a number of major countries have openly declared economic restructuring dictated by national security considerations. Such restructuring has three main objectives, which are equally prioritised, and thus a new industrial policy can only be measured by the implementation of all three together, namely:

- (1) sufficient resource potential of the economy during crises and the resilience of the production base in stand-alone or isolated mode for a significant period of time;
- (2) at the very least, to significantly reduce, if not paralyse, the potential for competing economies in times of global upheaval using the tools of modern economic warfare;
  - and as a result of the realisation of both of the above objectives:
- (3) in the medium or long term, gaining such an advantage on the geo-economic plane that will create a solid precondition for the realisation of the desired geopolitical interests.

The fact is that the so-called new industrial policy is determined by economic actors of such calibre, which, more than others, have the task of consistently and responsibly participating in the world economy, maintaining the necessary balance between developed and developing countries creating fair and equal conditions necessary for development based on the imperative of global order and stability, but in stark contrast, in recent years we have witnessed the deepening of trends that seek to artificially stimulate the domestic market through overt protectionism, to reduce the coordination necessary to manage existing global threats, to destroy the reasonable standards of interconnectedness and interdependence necessary to tame the main ally of extremism and radicalism – poverty.

Even the summation of just a few such steps in this brief format indicates the occurrence of the essential features of the new industrial policy and, consequently, the coming (irreversibly?) of the era of the emergence of "autarchic protectionism" in the economy, with all its consequences.

For example, the stated purpose of the United States Inflation Reduction Act legislative initiative is to encourage green technology through subsidies and tax credits, whereas the purpose of the CHIPS and Science legislation is to encourage semiconductor manufacturing in the United States. The real motive behind this and many other initiatives and programmes is to reduce the United States' dependence on Asian markets, especially China, to gain a better position in the new geopolitical redistribution. Several large-scale projects launched by Beijing, be it the China 2025 Strategy or the Dual Circulation Policy, have the same spirit, the overall effect of which is to promote domestic consumption growth and increase concentration on the Chinese market itself. India has also followed this pattern by launching the Make in India project, the main essence of which is again to protect local production through official protectionist measures. Although on other grounds, but under the slogan – "Everything for the front" – Russia has not fallen behind the trend of self-locking its own economy, and at this stage almost a third of the country's budget expenditure will be used for "national defence". For greater clarity: six per cent of Gross National Product will be spent on the needs of the war, that is, more than twice as much as was spent before the renewed aggression in Ukraine. In addition to direct military spending, more than nine per cent goes to 'national security'. This increase in spending, along with social and infrastructure issues, is very much in line with economic isolationism and protectionism.

These are just a few illustrative examples, and the list can easily be extended with examples of the economies of the mentioned and other countries. Each of them is characterised by concern for its own needs at the level of public policy, and this without taking into account the relevance of proper reciprocity and common interests in international economic relations. Obviously, along with the risks of predictable development of the economic structure, this does not bode well for the overall security structure in a global sense.

And in general, even if we leave aside security and foreign policy, even in the "narrow" economic sense, the direct tangible negative consequences of such neo-isolationism, the same economic autarchy, are:

- (1) maximum withdrawal from international economic linkages has a high probability of reducing the competitiveness of local advanced companies, the so-called national champions, together with the national economy;
- (2) politics is breaking into the allocation of resources and the creation of supply chains, with the result that political and security needs subordinate sound economic laws;
- (3) a timely and technocratic response to challenges in the economy can fall prey to insinuations among politicians;
- (4) there is an increased likelihood of contentious cases, whether between countries or between trading blocs or regional alliances. A prime example of this is the high-profile dispute between Airbus

and Boeing, which has had an unfavourable impact on trade relations between the United States and the European Union.

The private sector has not lagged behind the open protectionism officially declared by various countries. For example, the well-established terms "frandshoring" or "re-shoring" actually refer to the relocation of production from vulnerable geographic regions and unfriendly countries to relatively safe or low-risk jurisdictions. This process, of course, results in a shrinking global supply network with the ultimate goal of preventing and quickly recovering from unwanted, long-term or unpredictable supply and delivery disruptions.

### **The impact of the process on developing systems...**

... is particularly important and noteworthy for us, as it is associated with many topical lessons for the Georgian economy. The trend mentioned in this article most notably negatively affects developing (i.e. emerging) economies, fuelled by geopolitical instability in addition to economic factors.

A number of developing countries have benefited specifically from the "era of globalisation" that has been left behind (temporarily). First of all, this benefit has manifested itself in the redirection of trade and finance to these countries, which has been underpinned by:

- (a) cheap local labour in the respective economies, and
- (b) relatively easy and low-cost supply and delivery.

As a result of these very practical economic circumstances, the flow of direct investment into the developing world has been further enhanced by the "offshorisation" of Western corporations or the transfer of business operations to developing countries.

A related result of the same process was that developing economic systems now obtained financial resources through direct investment (and not only loan capital) to invest in Western funds or securities. Moreover, such systems have gained additional benefits:

- (a) instruments to hedge (i.e. manage) export and import risks;
- (b) emergence of their own "national champions" – flagship companies;
- (c) expansion of the market for national products;
- (d) creation, in some cases, of a sufficiently resilient local stock market;
- (e) access to advanced technologies, and
- (e) even the creation of its own middle class, which is so important for the political and socio-economic sustainability of a country.

It is clear that the intensified "two-way street" between the developed and developing world (needless to say, Georgia has been left out of this process) has significantly increased the degree of interconnectedness and interdependence for globalisation.

Thus, it is clear that the significant weakening of the globalisation-internationalisation-interconnectedness of economic systems at the end of the last century and the beginning of this one has proved to be quite harmful for the developing economic world as well. This damage will increase with the deepening process of de-globalisation and the rise of economic nationalism. Therefore, this situation requires a timely and adequate systemic reorganisation from an emerging economy.

### **Economic security or security in the economy?**

The post-Cold War period is reflected in the pace of globalisation not only by the fragmentation of trade and financial ties, but also by a significant reduction in the stability and sustainability of the existing geopolitical order. Basically, these two sides of the coin are now so intertwined that fluctuations in politics directly affect the economy, and vice versa. We have also said that the relationship and interdependence of such fluctuations (with the lifting of specific means mentioned in this article) is most clearly seen in low- and middle-income countries. The established reality is that security policy or politics in security has almost

become the unquestioned determinant of economic progress. It is from such "subordination" that modern economic nationalism or the new economic autarchy – a separate and largely closed economic policy of a particular country – is born.

Judging by the current trends and public speeches of high-ranking officials, we are dealing with such a phenomenon as a new type of economically secure state. The April 2023 speech of White House National Security Advisor Jack Sullivan is very telling in this regard. In his speech, he spoke at length about the contradictory relationship between the free market and economic security and made some very notable points. In particular, according to Sullivan, the complete and uncontrolled delegation of economic processes to the open market and its players:

(a) has weakened the national security of the United States of America; and that -

(b) total dependence in global economic ties is abused by others to achieve their economic or geopolitical objectives; as well as -

(c) economic liberalisation by previous United States administrations has not only failed to achieve peace and stability, but has also led to the rise of China and critical vulnerabilities in the global supply and delivery chain.

In practice, with this emphasis, we have had a significant expansion of the traditional understanding of "security" (which implied the prevention of war, terrorism, etc.), with the result that security now includes food supply, energy self-sufficiency, inflation management, climate change, etc.

Moreover, statements made at a number of economic alliance forums and gatherings suggest that the so-called Washington Consensus, in place for some time after the end of World War II and the Cold War, has been replaced by a New Washington Consensus. According to opinions circulated in different sources, the updated version of the mentioned "consensus" implies both a rejection of the prioritisation of market over security and maintaining a balance between the two. This theoretical paradigm is actually difficult to imagine. It is all the more difficult to put it into practice because this approach, called "de-risking", is, in fact, as new as the well-forgotten old one – proper management of the economic process by minimising its vulnerability as much as possible. It should be assumed that this result is reflected, *inter alia*, in reasonable state control and management of market processes, examples of which we clearly see in some countries of the European Union and Asia, e.g. in Japan.

To summarise this view, let us say that the security of the economic system is based on a single and indivisible, so-called holistic approach and includes mutual harmonisation and synergy of measures in different areas. Given the complexity of modern challenges, this is even more critical. Let us add that market players, despite their ability to adapt to global shocks and their flexibility, do not have the basic ability to manage geopolitical risks, which in modern conditions has, almost without alternative, a dominant subject of international relations – a state or a union of states.

### **Excessive sanctions "appetite": a risk for globalisation?**

However strange the proposed wording may sound, one very specific problem has arisen in recent years in relation to the application of sanctions. Let us try to briefly explain what its essence is.

The fact is that sanctions, as a universal means of overcoming wrong, are used today with little thought. Moreover, the relentless pursuit of sanctions has created a "sanctions industrial base", as if the excessive number of sanctions and their use without strategic thinking could help alter the policies and behaviour of the target actor. As a result, the "overdose" of sanctions has prompted many countries (including those that violate international law) to consider establishing financial systems that would allow them to bypass US dollar-dominated payment channels. Such efforts are, of course, again leading to a weakening of globalisation.

The promotion of economic coercive policies, the popularisation and indiscriminate use of sanctions as an immediate response has, in fact, significantly undermined the foundations of meaningful economic

policy. For their part, excessive and ill-considered punitive practices and global harmonisation of the rules of economic behaviour favour "me" over "we" and reduce economic resilience in the face of growing global challenges.

### **In order for us to realise...**

...we have presented a small overview of economic trends, including selected opinions and assessments. Yes, the Georgian economy is very small, and this smallness is probably one of the obstacles to its rapid growth. However, it is also a fact that in the modern world "smallness" does not mean exclusion and isolation. Moreover, it is precisely the interconnectedness of global economic channels (like the law of "communicating vessels" in physics) and the effect of a wide spillover of global shocks that made the division into "big" and "small" more conditional, at least in economics.

Therefore, when determining Georgia's economic policy, it is necessary to constantly monitor the processes taking place around us in order to critically assess them and determine the actions that we should implement, guided by sound rationality.

Taking this into account, we would like to summarise some (already well known) considerations. This thinking is only at the "amateur" level and, clearly, when discussing such a topic, the qualified assessment of representatives of professional circles has a very different importance and weight. In any case, to promote the stability and self-sufficiency of our country's economic system, its competitiveness and real growth, we should think and care about:

- Wider integration with developed economies. This will be of practical importance for qualitative improvements in our trade and financial flows, as well as for the transfer to us and adoption of advanced technologies and knowledge.

- Expansion and diversification of the export market. It is well known that holding on to a particular market is economically vulnerable and risky from the point of view of national security; Accordingly, the more sources of "expenditure" and "income" there are, the more space and freedom for nation-state development. All this is connected, inter alia, with free trade agreements and trade associations.

With the rise of economic nationalism in the world, we should also think and care:

- Not only about the quantitative, but also about the qualitative side of investment. Given the current global and regional threats, we believe it is unacceptable to consider any investment as desirable for our country. It is time to learn how to differentiate and choose them. For this purpose, we consider it advisable to review investments and introduce a mechanism for their so-called "screening" at the legislative level. We would also like to note that many developed economic systems use this method today.

- Timely channelling of necessary resources into the country's intellect. Without ensuring "intellectual self-sufficiency" in this way, we are doomed to witness the outflow of so many valuable human resources from Georgia and thus exhaust our competitiveness and growth potential in the near future.

- In addition to the above, we would consider the following as practical measures:

- A large and separate place should be given to the issue of economic security in the national security doctrine of Georgia. This special attention, again, is dictated by the modern and multifaceted understanding of the concept of "security" mentioned in this article. We must agree that national security is unthinkable without a unified set of economic measures, because no one in this world will consider and speak as honourable partners with the weak, the poor and those reaching out for help.

- The direction of economic security in the format of the National Security Council should be strengthened. As one of the possible developments, we do not rule out the separate creation of an Economic Security Council or its institutionalisation within the system of the National Security Council.

- When talking about the structural approach, we would also mention as a possible subject of discussion the introduction of the position of the Minister of Economic Security in the Government of Georgia with the corresponding supervisory scope and functions.

- Whether under the auspices of the Economic Security Council or the Minister of Economic Security, one of the main tasks should be to continuously monitor and analyse the risks and threats to Georgia's economic security. This process should be objectively reflected in a periodic document on economic threats (similar to the current practice in the European Union). Among other necessary issues, the document will assess short-, medium- and long-term risks to the country's economic security, as well as recommended measures to minimise and manage them.

- In addition to the doctrinal approach, the appropriateness of legislation ensuring economic security (e.g. Georgia's Act on Economic Security) should be discussed. In working on such legislation, special attention should be paid to, inter alia: (a) coordination of government agencies in times of crisis; (b) rapidly realigning global or regional delivery and supply from one system to another, and to reduce overdependence on one system; (c) promoting modern innovation in critical sectors.

We realise that there is much to talk about in this regard and many more key aspects could be mentioned. However, it is a fact that all of them can only be realised in conditions of normalisation of relations within the country. We would like to reiterate what has already been said many times: the country has neither the "luxury" nor the resources to continue functioning within the framework of "political business-making", a process that has transcended institutions, centred only on the static harmful imperative of preserving and gaining power.

The Georgian political and social elite, those who understand that elitism is first and foremost equated with responsibility, openness and self-criticism, are required to saturate the internal and external lines with meritocracy, knowledge and informed decisions. Today, the country faces a practically non-alternative task: to invest in its own functional competitiveness, efficient security and inclusive development in order to regain its place in the existing "disorderly order".