



Discussing the negative effects of geopolitical tensions on the global economy

Committee: G20

Student Officer: Anna Kawauchi

Forum: Group of Twenty (G20)

Issue: Discussing the negative effects of geopolitical tensions on the global economy

Name: Anna Kawauchi

Position: Deputy President

Introduction

Geopolitical tensions have been present globally since the beginning of the human race and can be defined as the political unrest between two (or more) countries which can lead to other global short-term and long-term effects. In this research report we will be focusing on the negative effects that geopolitical tensions have on the global economic scale and some examples which can be seen in the world today.

Geopolitics is the framework which helps us understand the world around us and it requires acting and thinking in a geographical manner. It illustrates how, through the control of various geographic features of the world, geographical entities attempt to attain specific political goals. Some geopolitical examples can include: trade and climate agreements, war treaties, border or territorial acknowledgments and more.

Definition of Key Terms

Economy

The state of a region depending on their production, consumption of goods, distribution and trade, and services. It does not necessarily have to be in direct correlation to money, however the economy is about weighing different choices which can often involve money.

FDI (Foreign Direct Investment)

FDI is the category of international investment that refers to the purchase of a particular organisation's interest by another foreign organisation. They are most commonly categorised as horizontal, vertical or conglomerate.

GDP (Gross Domestic Product)

The GDP is an economic indicator which measures/reflects the monetary value of all final goods(food products, machinery, textiles, vehicles, etc) and services(healthcare, education, insurance companies, etc) produced, which are bought by the final user, in a country in a certain period of time, this period of time usually being one-quarter of a year or one year.

Geographical entities

These are the regions, places, territories, networks and scales which make up the world.

Geopolitics

A framework which helps us understand the world around us. The struggle over geographical entities with an international and global dimension, and the use of such geographical entities for political advantages. Some geopolitical examples can include: trade and climate agreements, war treaties, border or territorial acknowledgments and more.

Market capitalisation

Market capitalisation, which is also known as market cap for short, is the measurement of a company's size. It includes the total value of the company's shares of stocks. These shares of stocks include both publicly traded shares as well as restricted shares which are held by officers and insiders of the company.

Real GDP

Different to the GDP as it inflation adjusted per country. Real GDP is the macroeconomic statistic and is important as it gives us the needed information about the size and performance of an economy. The general health of an economy can be measured, interpreted and indicated through the growth rate of real GDP.

Trade deficit

Situation where more goods are imported than exported in one country.

General Overview

The global economy is constantly rocky and can easily and quickly become unsteady resulting in an economic recession. Economic recession, within itself can be caused through many different factors, these can include: loss of consumer confidence (consumers feel pessimistic about the overall state of a country's economy and their own financials resulting in them spending less money), high interest rates, asset bubbles bursting (this is always destined to happen and when it does it can cause major or more minor damages, in extreme cases it could even cause a stock market crash which would then result in an economic recession) and stock market crash (a surprising and unforeseen drop in stock prices). The past couple of years have been particularly unpredictable when it comes to the state of the global economy due to the amount of geopolitical tension and issues which have been present and ongoing, this ranges from the COVID pandemic, a concern which still haunts our global economy today, 3 years after it first appeared, to the Russo-Ukrainian war which has recently experienced a huge escalation with the invasion of Ukraine.

In the past year inflation rates have risen to greater levels than what was expected, especially in the US and major economic regions within Europe, this has caused a tightening of global financial conditions.

Russia-Ukrainian war

Since the huge escalation of the Russo-Ukrainian war when Russia launched a military invasion on Ukraine on the 24th of February 2022, the war has continuously impacted the economy worldwide by becoming the cause of major negative long-term effects to the global economy. As a reaction to, and hope of halting, Russia's aggression, Western nations, along with the European Union and the

U.S. imposed unprecedented sanctions on Russia. These sanctions included blocking off the financial, energy and

transport sector, suspension of visa facilitation and sanctions against Russian oligarchs. Over time, as these nations realised these sanctions were not harsh enough, sanctions increased and included the ban overflight of EU airspace and ban of landing on EU airports by Russian companies. Information broadcasts by Russia Today and Sputnik were urgently suspended due to a worry of disinformation and information manipulation.

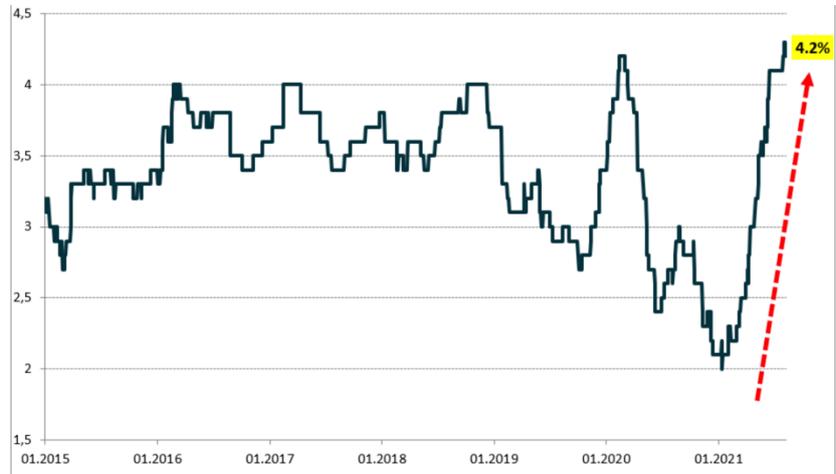


Fig 1. Average inflation rate over the past few years

How exactly would these sanctions impact and drive Russia to bring an end to their invasion? These sanctions were designed to have a huge negative impact on Russia's economy without having a major impact on the European economy. This however was not a bulletproof plan and global oil, gas and coal prices, which were already rising since the beginning of 2021 due to other factors, escalated significantly after February 2022. This became the cause of inflation which not only affected the governments and various companies, but also the wellbeing of citizens and their families. High energy prices made everyday products expensive and became unaffordable for many households. The soaring prices of gas hugely affected consumer confidence and households' purchasing power dropped. Not only did the matter of the Russo-Ukrainian leave horrible consequences on the global economy in itself, but the fact that this crisis came right after the COVID-19 pandemic, from which the economy had still not recuperated, made the situation a lot worse.

The negative economic impact was felt the most by countries which hugely rely on natural gas imports for heating, the industry

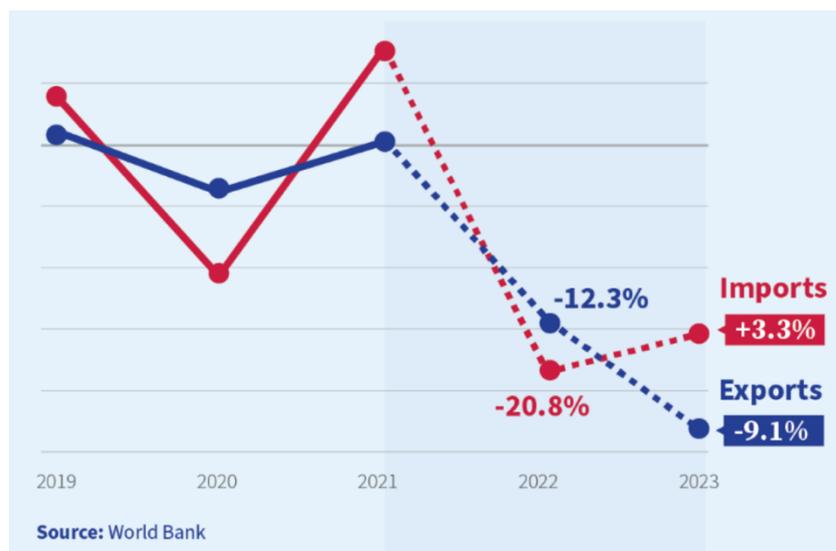


Fig 2. Russia's declining world trade after the invasion of Ukraine

and/or production of electricity. In some countries social protection programmes had to be created to partially subsidise high costs of energy which was mostly present on high bills for residential heating. Additionally, the war has triggered a refugee crisis which has broken data records and become the biggest refugee crisis in Europe since world war II, this has caused overflow to neighbouring European countries/cities. At the same time, Ukraine needs immense financial support to start recovery after the end of military actions.

Relation between the US and China

Economic reforms in China in the late 1970s made China's economy develop fast. During the time period between 1979 - 2000, China's GDP (gross domestic product) increased by 6 times to its original value and its international trade increased by 5 times. This is an incredibly fast rate of change and increase of world trade ever. The US and China are both countries which are extremely economically dependent in which the biggest export market for China is the US and China is the biggest import market for the US. In the year of 2018, President Trump introduced tariffs from 30-50% on importing of products such as : solar panels and washing machines, in order to decrease the US trade deficit. The US also introduced, so called, 'special tariffs' for goods imported from China which resulted in a 'trade war' between the two nations. This resulted in declined import to the US which also further declined at the beginning of the pandemic in January of 2020.

China has not only been importing goods to the US but to the majority of the world, their strategy is said to be to transition from cheaper goods to sophisticated technological goods, however this development is being obstructed by the US. Through the Russo-Ukrainian war, western nations have learnt that states such as Russia and China can form blocks against them. Although China is at risk and worried that the US can and might impose secondary sanctions, it continues to disagree with the sanctions imposed on Russia. In the near future, the US cannot and must not limit its dependence on China as it is still stimulating growth of important US industries. Through consideration, developments have been made and the US has plans to import goods from other countries (for example Mexico) where the production costs (labour costs) are similar or cheaper in price when compared to China. The question which we have to ask now is, will these geopolitical tensions cause the world economy to split into smaller sections? With the Western countries forming alliances and agreements with nations such as Japan and South Korea on one side and China forming such alliances with other east Asian countries.

COVID pandemic

Although the possibility of a pandemic was not an unexpected event, due to the fact that the COVID-19 virus was becoming a huge threat globally, - it still caught the world by surprise. The COVID-19 virus was first recorded in December of 2019 and, within only a few months, it had spread throughout the whole planet. At that moment in time it had, and it still has, a huge geopolitical impact reflected on every aspect of human life, affecting the physical and psychological well being just as much as the economic state.

Reaction to the highly and extremely contagious COVID-19 virus varied from country to country depending on what they thought was the best and least harmful approach. Some countries (for example Sweden) opted to let the virus spread in hope to achieve immunity allowing citizens to live normal lives and would, in the end, create a smaller negative impact on the country's economy. A

few countries (such as China and New Zealand) opted to have full control over the spread of the COVID-19 virus, putting the safety of their citizens ahead of the security of their economic status. These countries closed their borders and made sure that all citizens who were in contact with the infected population were isolated to avoid the spread of the virus. They managed to live a relatively normal life in their self created 'bubble'. Other countries opted for a 'middle control' of the COVID-19 virus, which means that up until the hospitals were not at their full capacity, the restrictions only involved things such as: working from home (for jobs where that was possible), wearing masks and maintaining hygiene measures (keeping a necessary distance from other around you and washing your hands well and regularly). Once the hospitals in these countries were not able to handle the influx of extremely sick people, serious measures were introduced which would include lockdowns, closing of education institutions and shops, and closing country borders.

None of these resulted in a winning situation, whichever approach a country opted for, it heavily affected its trade and economy. The global community was witness to long periods of closed trade and transport between countries. Many industries were negatively affected due to the restrictions set in place by governments, such as the social distancing and lockdowns. The industries which were most affected were airline industries, shopping malls, restaurants, cinemas and theatres. A number of small businesses without financial buffers, which would allow them to survive many months without any income, had to close and left a huge number of workers unemployed. Travel and tourism was also very badly affected and people lost their jobs with evidence from being able to see the steep growth of the unemployment rate. Countries which are richer were able to manage to subsidise some of the losses for shorter periods of time by implementing job protection and income protection measures. The air industry only recuperated in 2022, however - due to the staff shortage and the fact that previously employed staff had found other jobs in the meantime - it became impossible to hire and train staff at such a fast rate. Big airports face unbelievably big problems, with overcrowding, and were forced to cancel flights during their busiest holiday periods.

As a result of the COVID-19 crisis, another industry which highly suffered was the automotive industry. The automotive industry is highly reliant on the manufacturing of semiconductor chips in Asia. The crisis which they suffered was that there was a lack of availability of these chips on the market. The initial problem began in the year 2020 when the demand on the market for cars dropped. This was, ofcourse, due to the fact that more people worked from home and people did not need cars as much as they were not going out as much. Producers started shifting their focus to semiconductors which were used in computers and mobile phones as these were more in demand. This resulted in the cascaded problem within the automotive industry, which grew bigger and bigger once demand for vehicles returned to its previous levels.

Although in many parts of the world in 2022 life will continue as it was before the COVID-19 economic crisis which happened in 2020m this crisis is truly far from over. With scepticism towards vaccinations in many countries and the present massive spread of the virus in others (China abolished zero-Covid policy last month and that resulted with more than 60.000 people passing away from the virus) - new variants may emerge which are resistant to vaccination and can create a new bigger crisis.

Through data collection between the years 2020 and 2021, the income loss in LEDCs, as a result of COVID-19 was between 6-7%, whereas in MEDCs this number was a lot lower, with 2-5%. Subsequently there is a rapid increase in global poverty causing the gap between these richer and poorer countries to become even greater.

Timeline of Key Events

| Date | Event |
|--------------------|--|
| December 2007 | The great recession began, a sharp decline in economic activity. |
| 6th July 2018 | President Trump (current at that time) introduces tariffs from 30-50% on Chinese importing of products (begin of trade war). |
| 31st January 2020 | The U.K. left the EU (Brexit) economic growth dropped extremely in the 1st quarter. |
| December 2020 | 1st reported COVID-19 case in China, a huge geopolitical impact on the global economic state. |
| 24th February 2022 | Russia launches a full scale invasion on Ukraine, beginning major negative long-term effects on the global economy. |

Major Parties Involved

China

Before COVID-19 struck, China had a growing economy from the years of 1979-2009 with a 16% export growth per year. Since the beginning of COVID-19 pandemic back in the beginning of 2020, due to the extreme health precautions/measures (lockdowns, electronic surveillance, mandatory quarantine) which the government had to take because of huge outbreaks of the COVID-19 virus, China has had a very much expected economic recession. This recession however, has been proven to be a lot worse than what was globally anticipated. At this time it is ranked as the second-largest global economy in the world, contributing 9.3% to the global GDP. Although China benefits hugely from globalisation, it is also a huge contributor to global economic growth. China was said to have contributed around 30% to the global economic growth on an average annual basis between the years of 2012-2016. What makes China so important to the global economy? China is one of the world's fastest economically growing countries and is its tenth largest exporter.

United States of America

As briefly mentioned previously in this research report, the US has the world's single largest economy. It accounts for nearly one quarter of the world's GDP (at market exchange rates), one fifth of the global FDI and over one-third of stock market capitalisation. The US is also the most important export destination for one-fifth of the countries making up the world. During the past two decades and for almost one-quarter of the expansion between 1992-2000, the US accounted for around 20% of the expansion in real GDP. When analysing the data of economic growth of the world in comparison to the US, both economic growths have moved closer together in the past decades with a correlation coefficient of above 80%. How exactly has the US become the most powerful economy in the world? The US has an economy which is sustained through rich natural resources, a progressive infrastructure and high productivity rates. The total estimated value of natural resources

is priced at around 44.98 US dollars (depending on source) as of 2019, coming at the second-highest globally.

Possible Solutions

In what ways can we help halt and reduce the negative effects of geopolitical tensions on the global economy? There are many solutions worth exploring for this issue and here we will be looking at a brief overview of multiple various unique perspectives which could help tackle the problem.

Taking the US as an example, there are ways in which the government can manipulate and influence economic activity. The US uses fiscal and monetary policies each providing their own strengths. The fiscal policy allows for power to tax and to spend, through the monetary policy the government uses its level of power to regulate money supply and level of interest rates.

There are also ways in which we can make sure that the economy stays stable and is able to challenge any negative effects with limited impact. These factors include affordable housing for citizens, employment which pays a living wage in order for citizens to be well secured, as well as elements which support employment (these elements are: paid sick/holiday leave, worker protections, child care, etc). Accessibility to affordable and reliable transportation around regions of the country is also extremely important.

Bibliography

“Chart of the Week - Average Global Inflation Rate Has Been Rising Massively.” *Conseq*, www.conseq.pl/aktualny/news/chart-of-the-week-average-global-inflation-rate-has-been-rising-massively-1.

“Covid-19 Leaves a Legacy of Rising Poverty and Widening Inequality.” *World Bank Blogs*, blogs.worldbank.org/developmenttalk/covid-19-leaves-legacy-rising-poverty-and-widening-inequality.

“Economic Impact Of Geopolitical Tensions: Rising Costs .” *YouTube*, 27 May 2022, youtu.be/j9XjavSFjy4.

“EU Imposes Sanctions on State-Owned Outlets RT/Russia Today and Sputnik's Broadcasting in the EU.” *Consilium*, 2 Mar. 2022, www.consilium.europa.eu/en/press/press-releases/2022/03/02/eu-imposes-sanctions-on-state-owned-outlets-rt-russia-today-and-sputnik-s-broadcasting-in-the-eu/.

Juan Carlos Editor, et al. “Major Economic Events Timeline, in One Visual.” *HowMuch*, howmuch.net/articles/timeline-economic-history.

Stocker, Marc, et al. “Understanding the Global Role of the US Economy.” *CEPR*, 27 Feb. 2017, cepr.org/voxeu/columns/understanding-global-role-us-economy.

“Think Tank Reports on the Invasion of Ukraine.” *Consilium*, 18 Jan. 2023, www.consilium.europa.eu/en/documents-publications/library/library-blog/posts/think-tank-reports-on-the-invasion-of-ukraine/.

University, Utah State. “Geopolitics Defined: Aggies Go.” *USU*, chass.usu.edu/international-studies/aggies-go/geopolitics-defined.

York, Erica. “Tracking the Economic Impact of Tariffs.” *Tax Foundation*, 28 Sept. 2022, taxfoundation.org/tariffs-trump-trade-war/.