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Article

On economic and financial imbalances in the new geopolitical framework

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Abstract:
This paper explores how global economic and financial imbalances have evolved amid rising protectionism and geopolitical tensions. While globalisation and technological change have had a positive impact on global growth and poverty reduction, they have also led to increased inequality, environmental degradation and debt. The paper discusses the structural causes and consequences of growing external and domestic imbalances, focusing on the sharp deterioration in the US net international investment position and the increase in market power among dominant technology firms. Besides creating market uncertainty and likely causing a recession, the significant unilateral reorientation of US trade and financial strategy could have major implications for international monetary and financial stability. Further weakening of global dialogue, cooperation, and commitment to institutional reform would make addressing savings-investment mismatches, managing the dominance of mega-tech firms, and navigating the transition towards a more balanced and resilient global system particularly challenging.

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1. Introduction: the world has changed

Over the past thirty-five years, since the end of the Cold War, several dramatic changes have taken place around the world. Their political, social, economic and financial consequences have been truly profound. The international exchange of goods and services has more than quadrupled, with the extraordinary expansion of global value chains and the increasing transmission of information

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and knowledge. The mobility of capital and people has been a key factor in the so-called globalisation of the world economy. The demographic transition, with steady and widespread increases in life expectancy and declines in infant mortality, has led to a world population of 8 billion, estimated to reach 10 billion by around 2050, up from just over 5 billion in 1990 and around 1.5 billion at the beginning of the nineteenth century. And the sequence of technological innovations has been unprecedented, with the exponential growth of the Web, the digitalisation of economies and societies, the birth and challenges of artificial intelligence – to name but a few.

The interdependence of these changes has brought undeniable benefits, although the negative consequences have not been sufficiently counterbalanced.[1] In terms of material well-being, the latest World Bank data, adjusted for purchasing power, show that world GDP per capita has almost doubled in real terms, while in China it is now about 14 times higher than in 1990. In the advanced economies, growth rates have been much more subdued, although the US economy has grown by more than 70 per cent (compared with around 50 per cent in the euro area and 25 per cent in Italy). Perhaps the most significant achievement has been the reduction in the number of people living in extreme poverty (now defined as living on less than $2.15 a day) from nearly two billion in 1990 to around 700 million. It is striking that over the same period the world's population has grown by 3 billion, with less than 10 per cent of this growth taking place in advanced economies.

On the negative side, while the improvements in living conditions were more noticeable for those economies fully integrated into global trade and global value chains, a significant part of the world has been excluded from the benefits of economic integration, first and foremost sub-Saharan Africa.[2] This is where most of the people affected by poverty, disease and malnutrition are concentrated today, in countries where, for the same reasons, social and political instability is often very high (and where a major part of the projected demographic expansion in the coming decades is concentrated). It has also become extremely clear that development based on the intensive exploitation of fossil resources has a devastating effect on the climate and the natural environment, with all the social and economic consequences that this entails. This has led to several initiatives, in individual countries and at the global level, with mixed results, to say the least.[3]

While globalisation and technological innovation (also a major factor in its acceleration) have created extraordinary opportunities for development, in advanced economies this has led to less stable employment and, in some countries, notably the United States, to greater income and wealth inequality, which has not been adequately addressed by public policies. In fact, we have seen an increase in the "internalization" of inequality in recent decades, with an increase in the concentration of income in smaller and smaller shares of recipients (1 percent, 0.1 percent...).[4] The result has been a growing sense of insecurity and often anxiety among large sections of the

[1] The risks of what came to be known as a "hyper-globalisation" phase were considered in Rodrick (1997). For an extended and up-to-date discussion, see Goldberg (2023). For an in-depth analysis of the evolution of the interchange of goods, capital and labour over the past three decades, the economic and geopolitical factors underlying the most recent trends, and prospective risks for the world economy, particularly for the development of lower-income countries, see Goldberg and Reed (2023).
[2] See Saidi et al. (2023) for an in-depth examination of the relationships between extreme poverty, economic growth and "governance" in sub-Saharan African countries.
[3] See also, in this respect, Bown and Clausing (2023), whose proposals appear to be largely at odds with the latest initiatives of the new Trump administration.
[4] See Lakner and Milanovic (2013) and subsequent updates by Kharas and Seidel (2018) and Saez and Zucman (2020), as well as for a discussion of the "internalisation" of inequality, Bourguignon (2015). See also the extensive discussion in Brandolini (2017).

population, which has contributed to a growing critical sentiment in public opinion against the opening up of international trade.[5]

However, with the process of trade liberalisation, i.e. the reduction of tariffs and the substantial removal of trade barriers, the opening up of the world economy had been truly extraordinary. This was particularly true in the first decade of this century, facilitated by China's accession to the World Trade Organisation (WTO) in 2001. Since then, China, already in the midst of transformation and opening up during the previous decade, has continued to maintain particularly high GDP growth rates, long in double digits. Growth has been driven mainly by exports, with moderate consumption and high savings, the latter outstripping relatively high investment rates. The export-led growth strategy of China and other countries, supported by the pegging of their currencies to the US dollar, and the accumulation of dollar exchange rate reserves may have contributed to the global financial crisis (GFC) of 2007-2009, along with major culprits such as, in the United States, the monetary policy stance, the level of household indebtedness and the lack of an adequate banking regulatory framework.[6]

Over the years, however, it became increasingly clear how difficult the real and financial integration of China – and several other emerging and developing economies – into a world "order" defined according to the values of Western-driven democratic, liberal and market economies was. China's special status in the WTO as a "non-market economy" has been increasingly challenged over the years, with criticism focusing on the massive state subsidies that the Chinese authorities have made out of it. It has been stigmatised how, while respecting the general rules of trade, they have tended to exploit them to their own advantage, for instance by making use of more favourable ones such as the exemptions granted by the WTO to emerging countries to penetrate global markets (see also Bacchus et al., 2018).

These criticisms were compounded by serious accusations of industrial espionage and intellectual property theft, mainly, though not exclusively, by the United States. Legal actions, on the occasion of acts of cyber-espionage, had therefore already been initiated under the Obama administration.[7] A real "trade war" with China was then launched by the first Trump administration, with the imposition of significant customs duties on Chinese products (followed by an extensive Chinese response). This tariff escalation was followed by an even more widespread use of protectionist policies, even against historical allies such as the EU countries.

With the Biden administration, the aggressive tone towards allies has softened, but the skirmish with China has continued, even if the containment effort has become broader and more articulated. This is evidenced by the speeches of Treasury Secretary Janet Yellen, in which she emphasised the importance of economic competition, which, to be mutually beneficial, must be based on respect for the rules of the game. In fact, the repeated calls for "friend-shoring" (or "allied-shoring") – i.e. the relocation of certain stages of production within value chains from countries that are progressively less geopolitically close to "friendly", allied countries, close in particular in terms of the democratic value system of market economies – were intended above all to reaffirm the primacy of national security.[8] And in any case, despite all the measures and

[5] For an insightful analysis of the crucial role of these perceptions and the necessary, failed policy responses, see Blinder (2019).

[6] For in depth discussions of the combination of factors underlying the evolution of the GFC and its macroeconomic effects, see Obstfeld and Rogoff (2009), Visco (2010), Catte et al. (2011).

[7] For a reconstruction of the various initiatives of openness and confrontation that however took place at the time between the US President and the President of the People's Republic of China, see Pelroth (2021).

[8] See, most recently, Yellen's remarks on the occasion of the 50th anniversary of the U.S.-China Business Council (Yellen, 2023).

declarations aimed at protecting trade with China, trade has remained at around $600 billion a year over the past decade.

Returning to the GFC, its aftermath has been uncertain and incomplete, but there has been no lack of effort on the front of international cooperation and, at times, coordination. G20 initiatives have been particularly successful in the area of banking regulation and financial stability. “Unconventional” monetary policies, i.e. “quantitative easing” and the like, have helped to counteract the risks of deflation and the possible emergence of “secular stagnation”. The issue of excessive public and private debt and the resulting policy responses have also received particular attention, perhaps more so in advanced economies than in emerging markets and developing economies.

In 2020, however, the picture has changed dramatically with the outbreak of the pandemic. Overall, substantial fiscal support has been provided globally to offset the impact on aggregate demand and employment, and monetary policy has also been very supportive in most advanced countries. Supply constraints, fiscal measures, monetary accommodation and, more so in Europe than elsewhere, the exceptional rise in energy prices, especially for natural gas, much of which was imported from Russia, have been attributed in different ways to the rise in inflation in 2021-2023. While the return to price stability has largely been achieved, the debate on the timeliness of the monetary policy response is still open (see Visco, 2024). The role played by the economic policy reaction to the pandemic in containing its spread and adverse economic consequences around the world much more quickly than expected is also widely discussed. In any case, it will be for future historians to determine the extent to which such containment would have been less timely and effective without this support and cooperation.

In this respect, international cooperation has borne some fruit particularly in the areas of development assistance and health security. There has also been some success, at least initially, in addressing the tax challenges of globalisation and digitalisation through a multilateral agreement. Instead, despite broad agreement on the goal of reducing fossil emissions to net zero over the next 30 years, significant disagreements have grown on how to achieve this, even after the Biden administration corrected the very negative US approach that led to the withdrawal from the Paris Agreement in 2017.

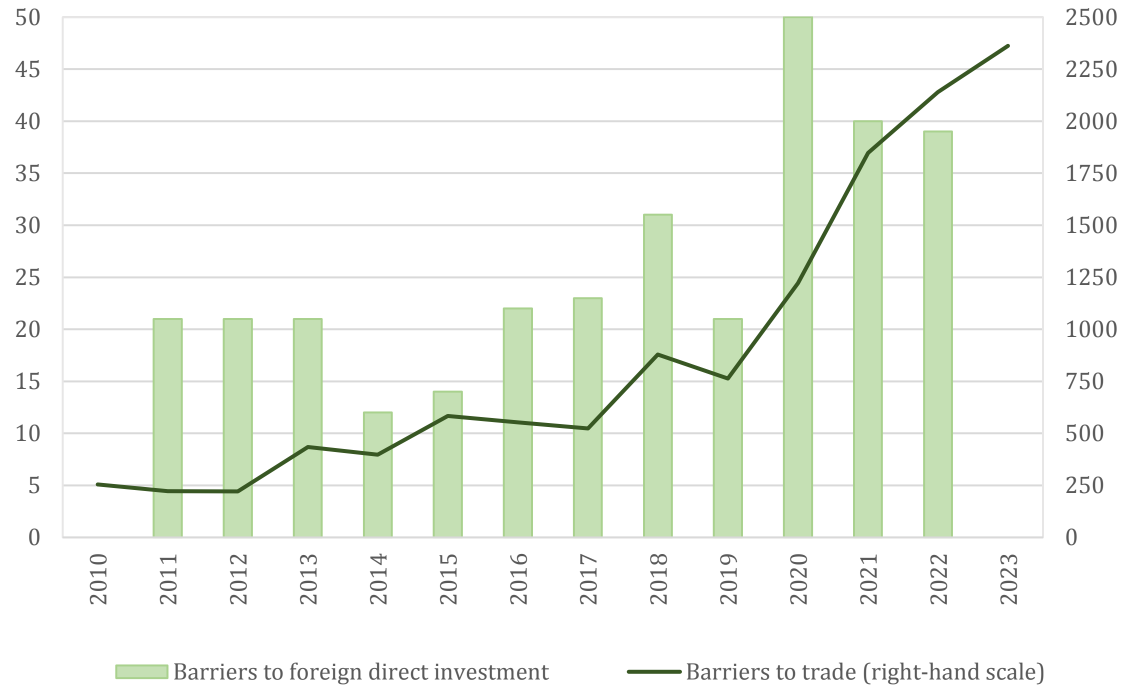
The disagreements on how to address global environmental risks are part of a wider division that has emerged between the G7 – more generally, the so-called Western world – and a grouping of countries within the G20 that has been much less willing to condemn Russia for the conflict in Ukraine. In retrospect, however, this reveals a significant lack of trust between countries and much less confidence in the benefits of cooperation. If anything, the situation now seems to be getting worse. Before attempting to discuss very uncertain prospects, I will try to summarise the main economic and financial risks of international fragmentation and imbalances, as I understood them until the beginning of 2024, also from my previous policy-making experience in the G20 and G7.

2. The implications: yesterday…

2.1. Fragmentation

While the last few years have seen an increase in the risk of dramatic conflicts being perceived as “normal” again, with unbearable costs for those directly affected and potentially very high costs at the global level, we have also seen an increase in protectionist measures. As noted above, especially with the trade war started in 2018 during the first Trump presidency, tariff hikes and other measures were introduced to sanction China for "predatory" behaviour and violations of international trade rules. The tariffs, which China reciprocated, were maintained during the Biden administration (with further increases in autumn 2024), but at the global level we do not observe a major departure from the substantially reduced tariff rates that followed the WTO agreements of a quarter of a century ago. Increasingly, however, and especially in the years following the outbreak of the pandemic, trade and FDI barriers have been introduced in the United States and Europe to limit dependence on other countries in "strategic" sectors and to diversify supply chains for certain raw materials and manufacturing inputs (fig. 1).

Figure 1 – *New barriers to trade and to foreign direct investment (number of new barriers)*



Sources: Global Trade Alert (https://globaltradealert.org/) and UNCTAD (2023, fig. II.1, p. 58).

Thus, the risk of the return to strong limitations on the movement of goods, services and capital, as well as people, ideas and information is looming. We may then ask whether this is the "end of globalisation", at least how it has been developing since the end of the cold war. If we look at trends in global trade in goods and services, the answer so far is a qualified "no", although there have been tendencies for companies in our economies to retreat or move closer to areas of higher geopolitical risk ("near shoring").[9] Before the pandemic, a correction was expected as wage

[9] See, among others, Attinasi et al. (2023), Conteduca et al. (2024).

differentials narrowed and further economies of scale diminished, even as transport and communication costs continued to fall in the global organisation of production. The pandemic crisis was then seen first as a temporary event, with the costs outweighing the benefits of relocation (due to the sunk costs associated with reshoring), and then as an "indicator" of possible fragility in the supply of key inputs and raw materials (semiconductors, metals, rare earths...). As such, a somewhat greater inclination towards "near shoring" and, politically motivated, "friend shoring" started being observed.

At the geopolitical level, and partly as a result of the very serious conflicts we have witnessed in recent years, there has been a growing distance between advanced countries and emerging economies: rather than the end of globalisation, the prospect of fragmentation and a return to blocks of countries, separated also by tariffs and trade barriers, had become more apparent. However, while we wondered about the possible medium-term consequences for the world economy of a bipolar or even more fragmented world, in terms of economic interdependence, a drastic redistribution of production locations seemed difficult and, in any case, very costly. In fact, in the short term, the response to sanctions and tariffs seemed to be the emergence of triangulations, albeit countered by other measures, with a reduction in direct Chinese exports to the United States, an increase in its exports to Mexico, Malaysia, Vietnam and other countries, and from these new exports to the United States.

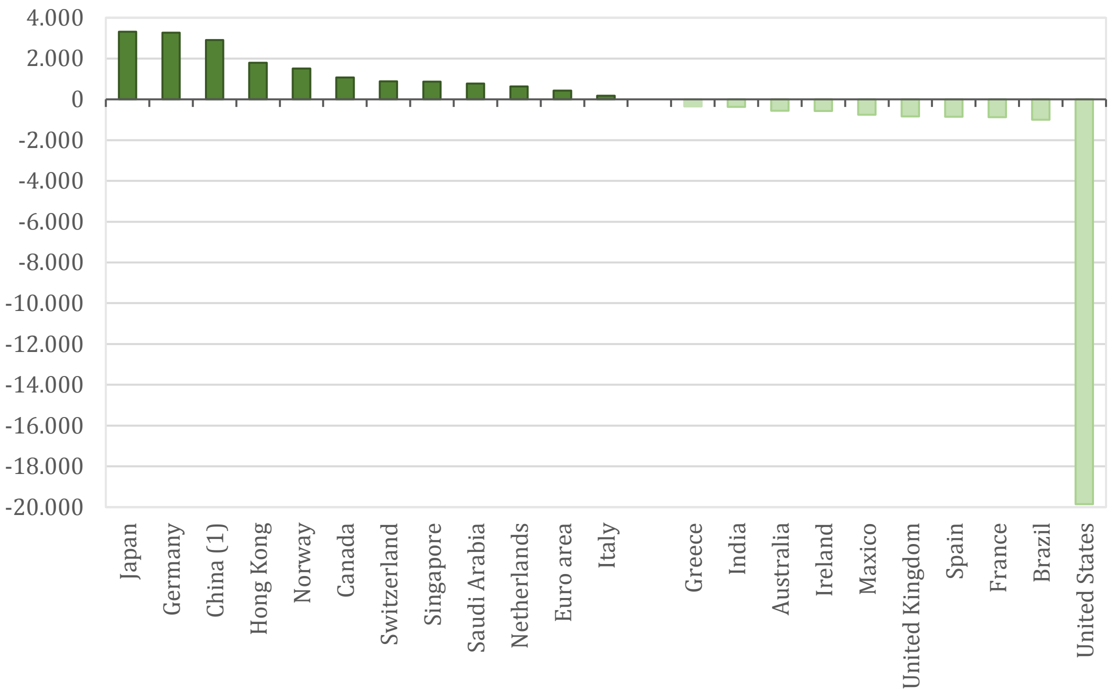
In the longer term, at least as I understood what was happening, a return to a fragmented world would necessarily have had negative consequences for economic growth and world trade that would have been difficult to counter in the short term. On the one hand, geopolitical fragmentation could have led to a breakdown into blocs such as the United States and its "friends" or "allies", China and countries under its influence (though not necessarily all of today's BRICS+), other non-aligned countries (especially developing countries). On the other hand, the more open countries today (not necessarily because of reshoring, but certainly because of falling global demand), those most in need of growth to reduce extreme poverty levels, and those with higher demographic development, which often coincide with the latter, would certainly suffer from rising production costs of goods and services and obstacles to the supply of essential raw materials.

Moreover, over the next thirty years, the world's population is expected to grow by around 2 billion people (neither in the advanced countries nor in China), due to a combination of increased longevity and fertility rates that are still above neutral for the developing world as a whole. In an increasingly geopolitically fragmented world, disorderly and unrestrained migratory pressures could thus be the answer to diminishing growth opportunities. The impact on economic inequality, already exacerbated by technological developments, would then be even more pronounced, also due to the reduction in public fiscal space, given the overall very high level of public debt. And we cannot ignore the build-up of very large global imbalances, an issue that was much discussed before the financial crisis.

2.2. Imbalances

Indeed, since the beginning of the century, the imbalances associated with the opening up of world markets for goods, services and capital have had an unprecedented impact on the balance of payments of a number of countries. In particular, it has been observed that there are now "many creditors, one big debtor" in the world, namely the United States. In other words, the net international investment position (NIIP) – the difference between a country's residents' financial assets abroad and its financial liabilities to non-residents – is largely negative, compared with the positive, albeit individually much smaller, net financial assets of several creditor countries, the largest being those of Japan, Germany and China (fig. 2).[10] At the end of 2024, excluding gold, the net financial liabilities of the United States exceeded USD 26 trillion, with their ratio to US GDP being about 90 per cent, while the net financial assets of the latter three countries, at around USD 3 trillion each, were about 80, 60 and less than 20 per cent of their respective GDPs.

Figure 2 – *Net international investment positions (2023, billions of US dollars)*



Notes: (1) China (excl. Hong Kong).
Source: Milesi-Ferretti (2025a).

It should then be noted that at the beginning of the century these net financial positions were rather small: negative and positive 15 per cent respectively for the United States and Japan, negligible levels for Germany and China. And if we look at the euro area, it was slightly negative in 2000 and is as small today, with several member countries almost fully offsetting the large net creditor position of Germany.

As trade and, more generally, balance of payments current account imbalances are the subject of much discussion, with proposals to reduce them through tariffs and exchange rate interventions, it is important to understand their role in determining financial asset imbalances. Indeed, the dominant part of a current account surplus or deficit is the difference between exports and imports of goods and services (to which net income flows are added). A positive (negative)

[10] See the reflections and elaborations of Gian Maria Milesi-Ferretti (2021, 2023) on the basis of the invaluable database on the External Wealth of Nations, originally compiled with Philip Lane, updated and commented in Milesi-Ferretti (2024, 2025a).

difference implies that domestic saving is higher than domestic investment, and such a surplus (deficit) corresponds to the difference between the flows of financial assets and liabilities (i.e. net credit, for a surplus, and net borrowing, for a deficit). The NIIP is then obtained by accumulating these flows and adding to them the changes in the value of financial assets resulting from the evolution of their prices, which is the result of the combination of relative movements in interest rates, exchange rates and equity prices.

Looking at current account surpluses and deficits (figs. 3a-3b), I would like to make two main observations. First, in the period preceding the GFC, the imbalances of China and the United States increased substantially, with the former reaching a surplus of around 10 per cent of GDP and the latter a deficit of 6 per cent of GDP in 2006-2007, while the euro area had a broadly balanced current account throughout 2012 and fluctuated around 2 per cent of GDP thereafter. The Chinese and US imbalances were substantially reduced after the GFC and until the outbreak of the Covid-19 pandemic, with surpluses and deficits of around 2 per cent respectively. Since then, however, the US deficit has started to widen again, most likely as a result of a policy-induced pull-on domestic demand.

Secondly, if we look at exports and imports by country, we can see that there has been a significant change, with networks of value chains becoming extremely important, i.e. different stages of production now taking place on a very broad basis in different parts of the world. And with the opening up of markets, China has become a major player at global level. It should be noted, however, that the persistent surplus in its current account reflects a policy geared to a model of economic growth based mainly on external rather than domestic demand, with a much lower ratio of consumption to income than in the advanced economies.

Figure 3a – *Current account balance (billions of US dollars)*

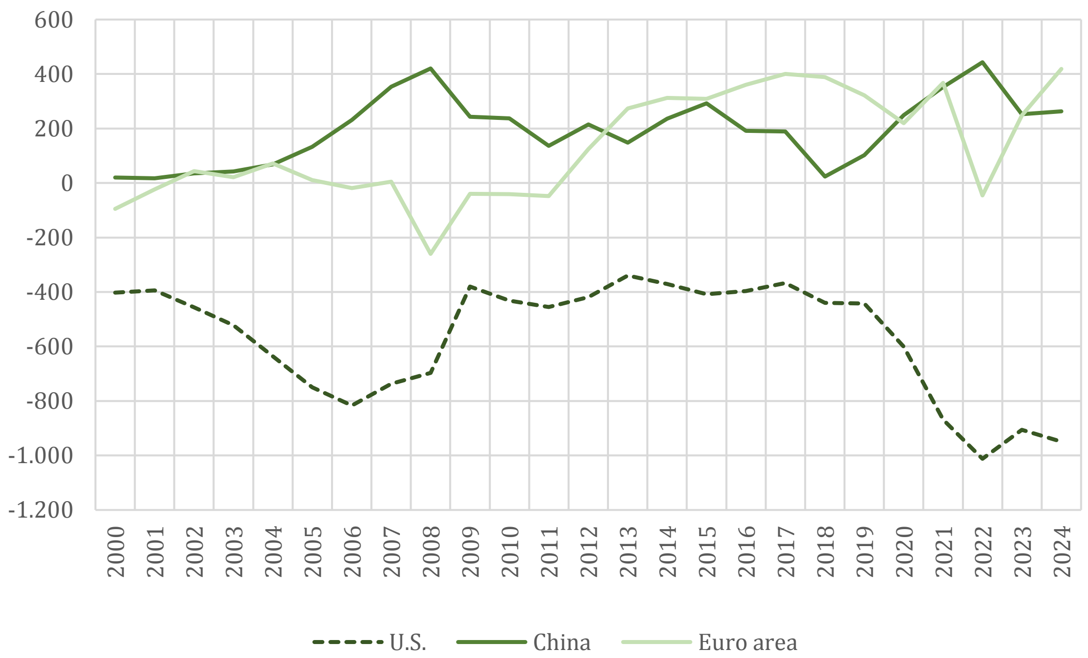
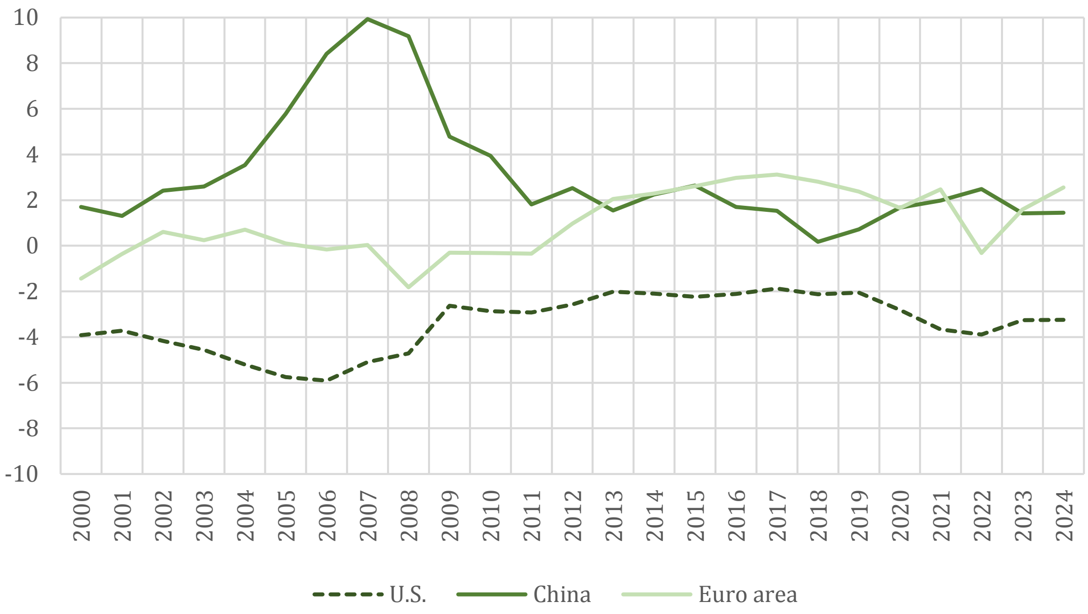


Figure 3b – *Current account balance (percent of GDP)*



Source: IMF (2024).

Overall, if we look at the bilateral export-import relationship between China and the United States, we see that China has become its most important economic partner over the years, with a cumulative surplus in net exports of goods of around USD 7 trillion between 2000 and 2024. In accounting terms, this is certainly a large component of the overall net financial position of the United States. However, it should be noted that this does not mean that China is now a large US "creditor"; on the contrary, the evidence shows a negligible correlation between bilateral merchandise trade and the bilateral financial exposure of the United States and its major trading partners. Evidently, China, in diversifying its financial activities abroad, has progressively distanced itself from the US by investing mainly in loans and direct investments in emerging developing economies. In real terms, China's large bilateral trade surplus is thus only matched by a modest component of US net financial liabilities.[11]

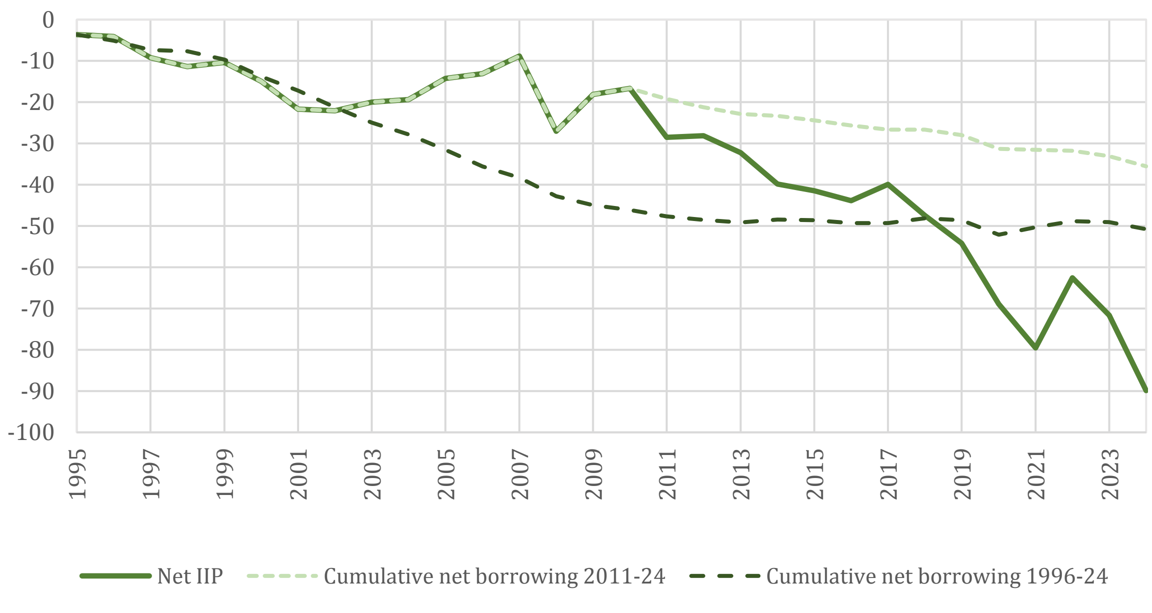
However, as we have seen, the latter now exceed 26 trillion. With such a large net debtor position a special focus on its evolution will reveal many of the sources of overall global financial imbalances (fig. 4). While US-China trade has been in deficit since the turn of the century, the US negative NIIP rose from 16 per cent of GDP to 90 per cent between 2000 and 2024. However, it was still at 17 per cent in 2010, when the cumulative US current account deficit (net borrowing) reached almost 50 per cent (from 15 per cent), and has remained around that level ever since, as

[11] I refer in this regard to the very recent contribution by Milesi-Ferretti (2025b). It should also be noted that Chinese investment in US government debt is now less than USD 800 billion, less than 3 per cent of the total US public debt held by the public.

the annual current account deficit, which exceeded 6 per cent before the GFC, has remained stable between 2 and 3 per cent since 2010, albeit with a slight tendency to worsen in recent years.

Differences between the NIIP and cumulative net borrowing ratios to GDP are explained by adjustments in the value of stocks of assets and liabilities. Until the GFC, they reflected the sharp depreciation of the US dollar, which greatly increased the value of US residents' foreign assets, more than offsetting the accumulation of current account deficits (a well-known "exorbitant privilege" of the dollar).[12] Since 2011, the increase in the NIIP ratio has been partly due (about one-sixth) to the appreciation of the dollar, but mainly to the extraordinary increase in the value of US corporate capital held by non-residents (especially, with the widening and deepening of financial markets, through their investment in equities, but also through FDI). Indeed, from end-2010 to end-2024, US stock prices rose by about 370 per cent, compared with less than 25 per cent for the average increase (in dollars, less than 50 per cent in local currencies) in stock prices in the rest of the world (fig. 5). The increase in the value of the stock of non-resident investment in US corporations (by some estimates now about 30 per cent of the total) – a liability for the United States – has thus been more than fifteen times greater than the increase in the value of equity and fixed investment invested abroad by US residents.

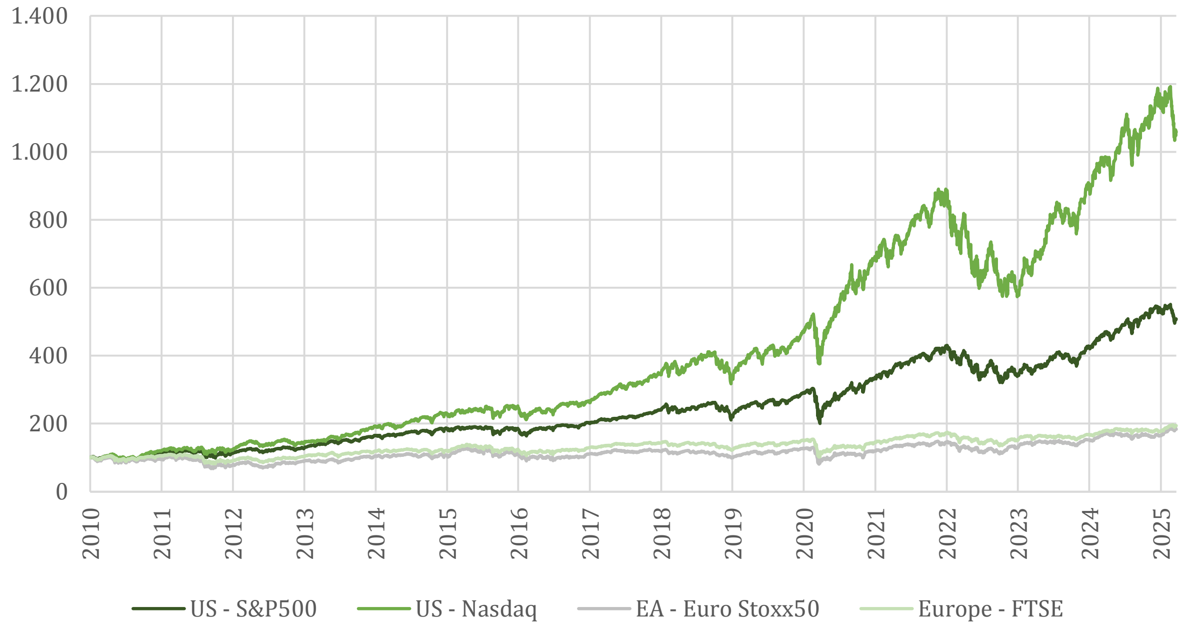
Figure 4 – *International investment position of the United States (percentage of GDP)*



Source: Milesi-Ferretti (2023), updated by the author.

[12] See Gourinchas and Rey (2007, 2014) and, for an in-depth discussion and further analysis on the most recent value changes, Milesi-Ferretti (2023) and Atkeson et al. (2022), forthcoming, with an in-depth online appendix, in the *American Economic Review*.

Figure 5 – *Stock prices (end 2009=100)*



Source: author's elaboration on LSEG data (online).

2.3. Discussion

As said, besides the appreciation of the dollar, the extraordinary rise in the value of US financial liabilities is the result of an unmatched boom in stock prices. This has been especially due to the performance of the US technology industry, in particular that of the stocks of the "Magnificent 7" biggest tech companies, in the United States, where they account for about one third of the overall market capitalisation, and at the world level. It is difficult to assess the extent to which over-exuberance in the US stock market may have contributed to the extraordinary rise in equity prices, but there seems little doubt that it reflects in particular the massive innovation and capital investment that has taken place since the GFC, some of which is intangible in nature. As such, this is certainly an indicator of the strength rather than the weakness of the US economy, notwithstanding the very negative NIIP.

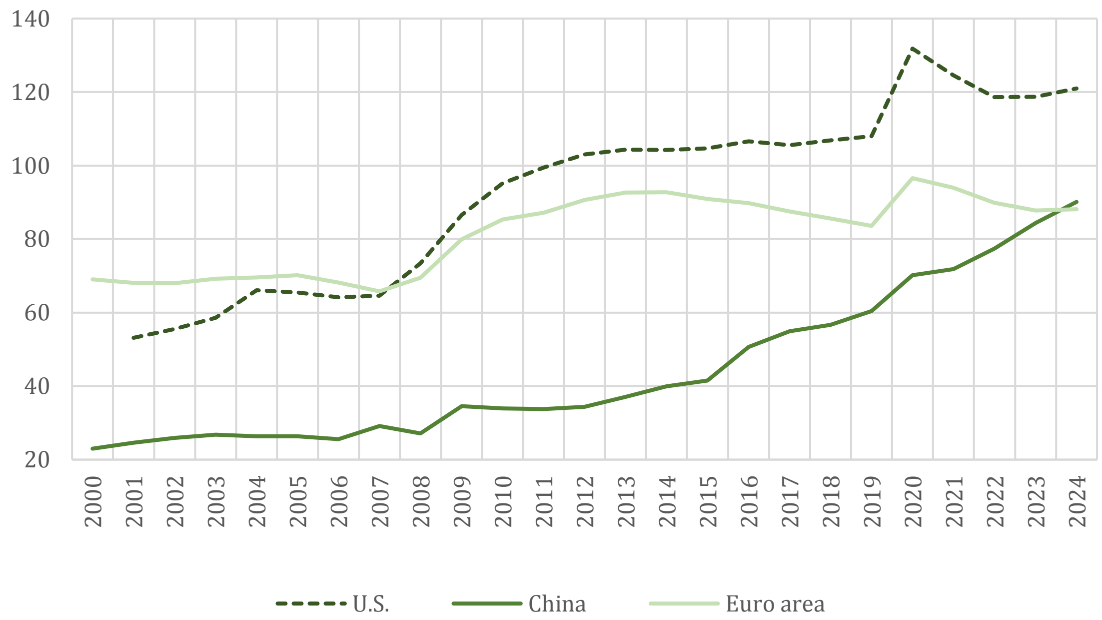
However, as it has been claimed and as I find convincing, the very high return on the shares of these companies is most likely due to the increase in their market power and the parallel increase in monopoly profits, which may entail a loss of social welfare (see also Atkeson et al., 2022). Furthermore, it could have negative consequences in the longer run, due to the weakening, in particular, of innovative investments in connection with the increase of monopoly rents.[13] Such a

[13] With reference to the "government-tech complex" that seemed to emerge with the start of the second Trump administration, see a recent visionary article by Acemoglu centred on the possible tech meltdown and published in the *Financial Times* in early February this year (Acemoglu, 2025).

strong concentration of knowledge and economic power,[14] in market economies but with similar developments in highly autocratic systems, could condition political choices and in a non-transparent and today unpredictable way, unlike perhaps in the past, our future.[15]

Besides the widening of external imbalances, also domestic imbalances are on the rise. Specifically, public and private (banking and non-banking) debt has risen sharply since the GFC, particularly in emerging markets, which now account for a third of total debt. Excluding the liabilities of financial intermediaries, the total is about USD 250 trillion, of which about USD 90 trillion is public debt, the same amount is corporate debt and USD 60 trillion is household debt (world GDP is about USD 100 trillion). In emerging markets, total debt has almost doubled over the past 10 years to around USD 100 trillion. While household and corporate debt seems to have stopped rising in advanced economies, it is still rising at high rates in China. Finally, it is worth noting that non-bank financial intermediation is now about half the size of global financial assets. And this calls for strong financial stability considerations, given the diversity of these financial instruments and, in particular, the uncertainties and weaknesses on the regulatory front.

Figure 6 – *General government gross debt (percentage of GDP)*



Source: IMF (2024).

[14] The issue of intellectual (or “knowledge”) monopoly is certainly not new and can be examined with different approaches (see, e.g., Pagano, 2014), but, especially in light of the trade and financial imbalances on the agenda today, it certainly needs to be addressed in a more transparent manner.

[15] In a 1943 paper for the European Federalist Movement, Luigi Einaudi, denying that in the first long phase of globalisation that ended with the First World War the triumph of big industry, the bank, the stock exchange had ended up subordinating politics to the economy, argued instead that it was the very idea of the subordination of the economy to politics that had given rise to “the subjugation of politics to big economic interests” (Einaudi, 2023, p. 749, my translation).

The sharp rise in public debt is particularly noteworthy, as this is a common feature of both China and, more recently, the United States (fig. 6). In China, the debt-to-GDP ratio has risen from low levels at the beginning of the century to 90 per cent of GDP, the level that has prevailed for the euro area as a whole since the sovereign debt crisis in the early 2010s. In the United States, it now stands at around 120 per cent of GDP and is expected to rise further: another vulnerability and a factor in the rise in domestic demand, which is the most likely driver of the external deficit.

With still rising external imbalances, too high levels of domestic indebtedness and exceptional and under many respects the excessive rise in the equity prices of a very concentrated pool of dominant tech companies, an adjustment seemed to be needed. In the end, however, much of the adjustment should have come through a combination of domestic policies and international cooperation, as was the case at the time of the GFC. Given the open and interdependent nature of markets, this crisis, which resulted from a combination of domestic and international factors, could not be confined to the US economy. At the time, the cooperative response, with the revival of the G20 – until then essentially a forum for discussion among senior officials of advanced and emerging economies – and the clearly defined responsibilities assigned to the FSB, was part of a process that prevented the emergence of new risks in the short term, even if it was also very slow to address the growing global imbalances and challenges.

More recently, trade disputes have been exacerbated by the economic consequences of the pandemic. The conflict generated by Russian aggression in Ukraine and the political divisions that have followed have obviously come at a high price. Despite efforts to the contrary, there is a lack of trust and a clear weakening of the conviction that the success and well-being of different countries and regions of the world can be achieved with the benefit of better common rules, improved domestic policies and a refusal to act as if it were a zero-sum game.

On the financial side, an adjustment in the value of the USD, which had appreciated by almost 50 per cent in real effective terms since 2011 (fig. 7) seemed necessary, but the question was whether this could be achieved without too much strain, as we had observed a significant weakening in the willingness for open and cooperative international dialogue. Indeed, in recent years, as I have said, the mood had shifted towards greater protection of economies and societies. In both the United States and Europe, legislation was introduced with the aim of promoting national security rather than, at least nominally, gaining a competitive advantage. And China's response was, if anything, more protection and support for its manufacturing and technology sectors.

The move to "friend-shoring" would then have been part of a return to a world divided into political blocs and economic fragmentation, so that, in order to promote protection and stability of supply, especially in so-called "strategic" sectors, trade would have become concentrated within areas comprising countries with similar political principles or participants in regional economic arrangements.[16] The result would have been higher costs of production and prices, although this would hardly have been able to reduce the results of trade integration to any appreciable extent.[17]

Unfortunately, what was lacking was the capacity and the strength to engage in a new major cooperative effort and to emphasise the absolute necessity of common responses to common challenges, be they demographic, environmental, health-related or aimed at reducing fundamental poverty and social injustice. And, of course, to confront and possibly develop

[16] While there is a growing consensus on a trend towards downsizing the current global chains in the production of goods, from a rapid reduction of barriers to international trade in intermediate services, which are much higher than those in goods in the face of still very low trade, some economists have seen prospects for the development of global economic integration emerge in recent years; see, most recently, Baldwin et al. (2024).

[17] See, in this regard, Conteduca et al. (2025), as well as Aiyar et al (2024) and Javorcik et al. (2024).

common policies to agree and share ways of moving forward in an orderly way to reap all the benefits and understand the risks of the impetuous pace of technological process.

Figure 7 – *Effective exchange rates of the US dollar (Index, 2020=100)*

Source: Bank for International Settlements (https://data.bis.org/topics/EER).

It was already clear, however, that after the efforts triggered by the pandemic, the effectiveness of not only the G20 in addressing these common challenges, but also of well-established institutions such as the WTO in trade, or the IMF and the World Bank in macroeconomic and financial stability and development, had diminished considerably. But without cooperation, how could an orderly adjustment be achieved to minimise imbalances and financial risks?

In my view, the only solution would have been to address individual issues. Among a few of them, there is the need of finding common ground on how to effectively contain domestic and external deficits (and, to revive an old argument, surpluses) and debts through policies clearly focused on savings-investment imbalances. Secondly, how to pursue the twin objective of returning to a less appreciated US dollar and reopening the debate on how to exit from the "non-system" that has resulted, in various forms and conditions, from the end of the Bretton Woods exchange rate agreements (including a necessary reform of the international financial institutions and a realistic revision of the weights and responsibilities between advanced and emerging economies).[18] And, thirdly, how to develop measures that, while acknowledging their extraordinary achievements, would limit the risks associated to the monopolistic power of the extra-large technology companies that now seem to dominate our economies and societies, and the possibility of an unregulated taking over of the financial system as a whole (through digital instruments, platforms and new devices).

All this may certainly have seemed to be wishful thinking even before the views and decisions that are being advanced by the new US administration, but what has been happening in the geopolitical sphere – even if the current armed conflicts are not necessarily a direct consequence of it – reflects the difficulties in the search for indispensable forms of dialogue and international cooperation. However, realistic, essential, and honest diplomatic action can only start from common, global interests. The big question is not only how to identify them, but how to foster a dialogue between different systems, while respecting the sovereignties that exist today, the only unavoidable condition being fundamental respect for the founding principles and values of peaceful coexistence between nations. An obvious and most difficult problem in this regard is the different positions (or "non-positions") on human rights: it is realistically difficult to make progress in the absence of a definitive clarification between the United States, China and Europe – however defined.

3. ... and today? Very tentative concluding remarks

Today we are facing even more challenging conditions than in recent years. The ideas, proposals and decisions being developed and affirmed in the new US administration will have extremely important implications for international cooperation and the issues discussed in the preceding pages. While it is still very difficult to make sense of the real intentions behind what is being said and done on a very wide range of issues, one cannot evade the perhaps limited, but now dominant, intention of "reshaping global trade and financial systems".[19]

I then hesitate to enter into a discussion of the view that the United States deserves to get back what it has given to other democracies, from defence to technology and for their progress and well-being, without much in return. It is certainly a view that can and will be qualified and challenged, but while there may be links with the economic and financial imbalances discussed in this paper, I think it is better to look directly at how these seem to be addressed. However, a more general reading is certainly possible in terms of the assertion of political supremacy in a geo-economic context and of confrontation, first and foremost with China, to which what is discussed here is complementary, not alternative.[20]

In short, my reading is that there are two main points in the US administration's view. On the one hand, trade and financial imbalances are related to a deliberately distorted and unfair system of relative prices (or effective real exchange rates). On the other hand, and in addition, there is a lack of compensation for the role the dollar has played and continues to play as the main reserve

[18] This is, of course, an issue that has long been on the agenda, but it is extremely complex to address. In the aftermath of the GFC, several contributions were devoted to it, notably by Michel Camdessus, Alexandre Lamfalussy and Tommaso Padoa-Schioppa, in the framework of the so-called "Palais Royal Initiative" (see Boorman and Icard, 2011). See also, more recently, Tria and Arcelli (2024).

[19] A useful, albeit alarming for the theses expressed therein (sometimes difficult to follow analytically), starting point can be the paper written in November 2024 by the current Chairman of the Council of Economic Advisors to the President of the United States, Stephen Miran, from which this quotation is taken (Miran, 2024, p. 3).

[20] See, in this regard, Clayton et al. (2023) and their reference to Hirschman (1945), to which Marcello De Cecco's classic work on "Money and Empire" (De Cecco, 1974) could also be added.

currency in an international monetary system with essentially no other anchors, at a high cost to the US economy as a whole.

The "distortions" are seen to have a global dimension, with complaints directed equally (but perhaps not with equal weight) at China, the other North American partners and the old (and I would add ageing) Western European allies. References to Japan (and, for that matter, to the developing world) seem to be absent or less conspicuous. The proposals, which have been floating around in a somewhat haphazard order, seem to fall into two main categories: The need for a substantial protection of the US manufacturing sector, with significant increases in tariffs and new trade barriers, and the demand that a devaluation of the US dollar be accompanied by a new multilateral agreement (even called by some the "Mar-a-Lago Accord," along the lines of the "Plaza Accord" of forty years ago), which would perhaps force the rest of the world to finance the US public debt for an extremely long period of time (100 years, or even with perpetual bonds) and at zero coupon (with financial risks adequately covered by specific hedging instruments).

The latter would basically amount to a massive debt restructuring. It seems to me that there would be inevitable and very serious, though difficult to quantify, consequences for interest rates and equity markets, with rather obvious recessionary effects on the economy and employment. An adjustment in both the dollar and equity values is certainly necessary and, as I have argued, would be in the direction of reducing the very negative US external financial position. But this should be as orderly as possible, whereas what is being proposed and the measures that have already been taken and announced risk making such an adjustment extremely uncertain and costly. The same reserve status of the dollar would be undermined, as a substantial exit from the greenback would most likely be the most realistic outcome.

To all this should be added a number of other considerations. They relate, on the one hand, to the growing view that the pendulum is swinging back towards a less regulated financial system, with new liquidity and volatility risks, also in the face of the continuing expansion of the non-bank financial industry. On the other hand, the push towards a digital payment system dominated by US dollar-linked, but not publicly controlled, stablecoins, without much consideration of the possible consequences, could lead, domestically, to serious security and liquidity risks. At the same time, on the international front there could be outcomes to varying degrees that need to be explored in depth, but which, if not also countered at the regulatory level, could erode the very monetary sovereignty of countries where they were used as payment instruments.

Finally, in the current analyses of the new US administration, there is not the slightest mention of the extraordinary market power of the technological mega-corporations, while the complaints about the restrictions they are currently "forced" to face in their foreign operations seem to be very strong. Indeed, the objective of reducing trade imbalances through the imposition of "reciprocal tariffs", however defined, is discussed without ever mentioning the surplus of services (especially financial and technological) in the US balance of payments and the knowledge monopoly that largely underlies it. The issue of the confrontation between "open" science and the defence of intellectual property is certainly complex, but its consequences in terms of market power cannot be ignored.

When it comes to tariffs and US manufacturing, the immediate question is the cost to the end consumer. It is true that millions of jobs have been lost over the past quarter century as production has moved elsewhere and technological change has taken hold. But it is very doubtful whether and, more importantly, at what cost limiting the former will be able to offset the effects of the latter. Indeed, it seems very difficult to imagine a reversal of the historical trend towards the creation of more and more jobs in services and fewer and fewer in manufacturing, especially in an increasingly technologically advanced economy like the United States. In any case, as far as trade imbalances are concerned, this seems to completely ignore the well-known fact that they depend first and foremost on domestic policies, and in the United States first and foremost on domestic demand, which today is related to the fiscal stance, as it was to the monetary stance in the pre-GFC period.[21]

Increasing tariffs on imported goods may be seen as a way of raising revenue in the face of rising public debt. However, if this were to be the ultimate effect, it would essentially mean, as was the case with the tariff increases that took place at the time of the first Trump administration, rather minor results in terms of the trade deficit. And it is clear that using these revenues to further reduce income taxes would not be in the direction of reducing the burden (and expansionary stance) of government debt. In any case, there would be no shortage of unintended negative consequences for US end-consumers, given the immediate impact of higher tariffs on the price of imported goods and the potential negative impact on the exchange rate of the dollar, which, according to standard analysis, could appreciate further if rising prices are followed by expectations of rising interest rates.

That is to say, in general. When one then considers the extraordinary combination of incredible creativity and astonishing aggressiveness underlying the levels and distribution of tariffs announced, introduced and modified by the United States, one can only conclude by recalling that an economy now essentially at full employment such as the US risks: (1) not only of not having its trade problems solved, but also suffering a decline in exports if such high tariffs are accompanied by a substitution of final imports by new and far more expensive domestic production; (2) of suffering a particularly severe decline in the purchasing power of lower-income households; (3) of experiencing, precisely for this reason, a contraction in demand, and thus in employment itself, with a recessionary effect, potentially severe for the United States and probably not negligible for its trading partners, affected by the new tariff policy; (4) a negative reaction, induced as much by the outlook for demand (amplified by the effects of uncertainty on investment) as by precautionary, and speculative, movements in both stock and currency markets (which would then lead to a sharp fall in prices and a depreciation of the dollar, rather than its appreciation as normally expected as a result of an increase in tariffs); (5) a value adjustment that, while in the direction of reducing the net debtor position of the United States in the short term, could in the longer term erode its "privilege" as the issuer of the dominant reserve and payment currency in international trade.

All in all, however, the situation is so fluid that we can only conclude with a phrase that recalls the "stone guest" of this whole drama. Mao Zedong used to say that "there is great disorder under heaven; the situation is excellent". Well, that is certainly not a good description of our current and prospective economic and financial situation. Global challenges, including the return to an orderly international monetary system, cannot be set aside simply by giving up cooperation and the search for sensible and sufficiently broad solutions. As for the distributional aspects resulting from both international openness and technological development, which have so far been largely neglected, they must certainly be addressed without giving in to populist and nationalist readings and conduct, which are not well thought out and, not only in the long run, harmful.

[21] See, most recently, Obstfeld (2025), as well as the estimates published by the International Monetary Fund (Gourinchas et al., 2024).

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