

The Global Economy at a Crossroads

Interview With Dr. Andreas Nölke, Professor of Political Science at Goethe University of Frankfurt

Review of Economic Theory and Policy (RETP) requested an interview with Professor Dr. Andreas Nölke on the following topics: the current global change of the world economy, the future of the global financial order, China-EU relations, prospects of the German economy and the changes in the dependent market economies of the Visegrad 4. Andreas Nölke is a Professor of Political Science specialising in International Relations and International Political Economy at Goethe University Frankfurt since 2007. He is also a Research Fellow at the Leibniz Institute for Financial Research SAFE. Professor Nölke holds a Master's degree in Public Administration (1988) and a PhD in Political Science (1993, with distinction) from the University of Konstanz. He has held teaching positions at the Universities of Konstanz, Leipzig, Amsterdam (Vrije Universiteit), and Utrecht. Professor Nölke's research focuses on comparative and international political economy, particularly the political economy of emerging markets, financialisation, European economic integration, and populism. He is well-known for his influential work on dependent market economies and state-permeated capitalism, and his publications appear in leading journals such as the Review of International Political Economy, World Politics, and Socio-Economic Review. Beyond academia, Professor Nölke has held consultancy roles for prominent organisations, including the German Agency for Technical Cooperation (GIZ), the European Commission, and the World Bank. Professor Nölke's academic contributions extend to serving as an associate editor for prominent outlets such as Routledge Studies in Globalisation and the Journal of Economic Policy Reform.

RETP: In recent years, the COVID pandemic and the Russian-Ukrainian war have made it increasingly clear that we are witnessing the outlines of a new era in the global economy. In your previous work, you have addressed this issue in several books and publications (Nölke, 2022; Nölke, 2012; Nölke & May, 2019). What do you think this new phase of the global economy looks like? Why do you refer to it in some of your

publications as a new organised phase of capitalism? What are the key trends shaping our political and economic systems in the post-Corona world?

Andreas Nölke: Indeed my prediction is that we are currently living in an era of a crisis of a liberal phase of capitalism. This phase of capitalism started during the 1980s and has been suffering from a series of crises, starting with the global financial crisis of 2007. Given that I see the recent history of capitalism as a repeated shift from liberal to organized capitalism and back, I assume that the next phase of capitalism will also be an organized one. We can recognize an organized phase of capitalism in a very general way by the fact that there are limits for individual entrepreneurs to pursue their interest of profit maximisation. These limits usually refer to some national target, such as industrialization, preparation for war or broad-based social reform. Each phase of organized capitalism looks different and can take on different appearances in different countries. For example, the organised phase of capitalism starting during the 1930s was implemented as the New Deal in the US, but as fascism in countries such as Germany and Italy. For the organized phase of capitalism which is developing currently, I expect a very prominent role of the state which can be put under the heading of state capitalism. We see this prominent role of the state very clearly in large emerging economies such as China and India, but increasingly so in the Western economies, for example in Hungary, but also in the US under Trump. The Corona crisis has intensified these tendencies because the state has become very central during the pandemic for the stabilization of the economy. Many of the policies that were triggered by the pandemic such as the state-led diversification of global production networks have continued after the pandemic and will be with us for the foreseeable future.

RETP: In one of your books, you and your co-author (Petry & Nölke, 2024) examined whether the global financial order could be weakened by the rise of an alternative state-capitalist financial order created by the emerging BRICS countries. What are the main features of the dominant global financial order and what challenges does it face from the BRICS? Is there a chance that it will be weakened? Based on this, how might the global financial order change in the coming years?

Andreas Nölke: The dominant global financial order is still a liberal order. The core ideas of this order are free financial flows across borders and the maximisation of individual self-determination, for example in the form of shareholder value. Finance is supported institutionally by multilateral institutions such as the International Monetary Fund and the World Bank, and these institutions focus on checks and balances against state inter-

ventions in the financial sector. However, for some time, we have been witnessing the emergence of an alternative statist international financial order which is built on very different ideas and institutions. The core idea is to protect national policy space from foreign dominance. The latter can be circumscribed quite severely by speculative financial flows. However, national policy space can also be restricted by international institutions that interfere in national economic policy-making and enforce liberal principles, as we have seen in recent years with the International Monetary Fund and the World Bank. The alternative statist order is based on the existence of alternative global institutions which decrease the ability of the World Bank and the IMF to enforce their liberal principles. This alternative order is being put forward by the BRICS group of countries. Their achievements on the intergovernmental level are still quite limited and mainly consist of the establishment of two alternative multilateral development banks and the Contingent Reserve Arrangement which provides an alternative to the International Monetary Fund in case of a macroeconomic crisis but without IMF conditionality. However, if we understand international order not only consisting of intergovernmental institutions and norms but also comprised of national economic models and their transnational spread we can see that an alternative statist global financial order has been established, particularly concerning the economies of China, India and Russia. The financial sectors in these countries operate under a high degree of state direction and they spread a form of state capitalist financialisation across borders based on state-owned companies. I assume that the challenge of this alternative global financial order will become more significant in the coming years.

RETP: You and your co-authors have analysed the Chinese model of state-permeated capitalism in great detail (Nölke et al., 2019). There have been many news reports in recent years about the problems of the Chinese economic model. In your opinion, how can the Chinese economic model be expected to change in the coming years? How can the Chinese model be changed by the tariff war between the US and China?

Andreas Nölke: The Chinese economic model which I have analysed under the heading of state-permeated capitalism currently faces two challenges, namely the tariff war between the US and China and an internally somewhat unbalanced economic model in relation to macroeconomic demand components. After the global financial crisis, the Chinese elites recognized that their strongly export-led economic model was very vulnerable to developments in the field of the global economy. This contradicts their need for stability for the establishment of an alternative and successful economic model. After the global financial crisis, they reorganised this model, moving somewhat away from exports and towards domes-

tic investment, particularly in the areas of housing and infrastructure. This has been successful for several years but has also led to an oversupply of investment and high levels of debt. More recently, the Chinese elites again have sought to rebalance their economic model by increasing domestic consumption based on rising wages as a core driver of economic growth. However, this rebalancing has proven to be far more challenging than expected, given that the most important instrument for wage rises, namely strong and independent labour unions, seems too dangerous from a political perspective. Correspondingly, the Chinese government has tried to utilize Chinese overcapacity by stimulating exports (again), but this may now run into trouble by opposition from the US, but also the European Union and other emerging economies. In the long run, however, China will have no alternative but to establish an economic model with a stronger role for domestic consumption based on higher wages.

RETP: The relationship between China and the European Union has become a major issue in recent years. There has been a policy in the EU to de-link or de-risk our economies from China for security reasons. What is your view on whether de-risking and de-linking can succeed in EU-China relations? What kind of relationship would be desirable between China and the EU?

Andreas Nölke: De-risking and de-linking from China is very difficult for the European Union, especially because the European Union's largest economy, Germany, has a strong export-led economic model. China is one of the most important export destinations for this model. Correspondingly, a reduction of reliance on China will be very difficult for the European Union although some other economies can see this challenge in a more relaxed way. However, I do not believe that a security-based decoupling between the European Union and China is desirable from a European Union's perspective, as we should continue to cooperate globally on crucial issues such as climate change mitigation. Moreover, the decoupling agenda is very much driven by the United States' intention to prevent the political rise of China. This is not necessarily the European Union's agenda and we should avoid getting involved in this global power struggle. This has become even more obvious during the last weeks, as President Trump has cast US security guarantees for Europe into doubt. Correspondingly, we cannot rely on the close cooperation between the US and (Western) Europe which was a crucial pillar for world order during the last eight decades.

RETP: The state of the German economy has a considerable impact on the Hungarian economy. In recent months, both the Hungarian and international press have focused on the challenges facing the German

economy. You recently published a book on the German economic model, in which you emphasised the significant role of exports (Nölke, 2021). What are the causes of the current problems in the German economy? How can the German economic model of the past 30 years change in the coming years? Do you think a shift in German export orientation is possible?

Andreas Nölke: Germany has a very specific economic model that is not shared by any other major economy. In relation to the size of its economy, it is more dependent on exports than any other major economy. This is a very established fact and has been the subject of controversial debates for several decades by now. Other national economic models are more dependent on, e.g. domestic consumption, or foreign direct investment, or balance different types of demand categories. The German export model has some long-term disadvantages but has also been quite successful, particularly in terms of low unemployment in recent decades. It is based on the compression of domestic demand via comparatively low wages – compared to other countries at the same level – and low public investment. Based on these features, German companies can outcompete other companies not only on the quality of projects but also on costs. This model has now come in very heavy weather for several reasons. One of the most straightforward reasons is rising energy costs due to the war between Russia and Ukraine. Germany always benefited from relatively low energy prices. Even more important, however, are tendencies towards renationalisation in the global economy. This is something that we are observing for the Trump government right now, but it has also been a trend for a number of years, particularly since the COVID crisis. A third major problem is the growing competition from China. China has managed to develop strengths in the economic sectors in which Germany has traditionally been very strong, namely cars and machinery. While the quality of Chinese products used to be inadequate, China has been able to increase quality based on a strategy of incremental innovation that is very similar to the German strategy of recent decades. Maintaining Germany's strong export orientation seems to be a very dangerous strategy in this situation. From my perspective, it would be a much better choice to balance the German economy towards other categories of demand, particularly public investment and domestic consumption. For this purpose, Germany needs to loosen – or outright abolish – the debt brake. Moreover, it needs to raise domestic wages, based on higher minimum wages but also more comprehensive unionisation. This would create additional cost challenges for export companies (and some would become insolvent) but over time reduced export demand would be replaced by domestic demand. At the same time, a rebalancing of the German economy would decrease tensions with the US, since this would lead

to additional demand for US products. However, this does not mean that Germany should not seek exports anymore – the focus rather has to be on high-tech products on top of the international competition, much less on cost competition on lower levels of innovation.

RETP: In your 2009 co-authored journal article (Nölke & Vliegenthart, 2009), you analysed the economic model of the Visegrád 4 countries, interpreting the region's model of capitalism as dependent market economies. Since then, this article has become a seminal paper, strongly influencing both Hungarian and international debates. More than 15 years after the publication of the article, in what direction do you think the region has developed? Do you still consider the countries of the region to be dependent on market economies, or do you see any new trends that have changed this model? Considering the changes in the German economy, how do you think the economic model of the V4 countries will change in the coming years?

Andreas Nölke: It is a very interesting question and I have started to collect some data on whether the model of dependent market economies still fits the Visegrád region, together with Dorottya Sallai. Certainly, at least some of the governments of the region have tried to overcome this dependent status, most prominently articulated by the former Polish prime minister Morawiecki. A way out for the region would be to cultivate its own multinational companies in order to be better able to stay at the top of global value chains based on high investments in research and technology. Otherwise, there is the well-known danger of the middle-income trap, where wages in relation to the level of worker qualification are becoming too high for foreign multinational companies, motivating the latter to move further eastwards. However, as far as I know, investment in education, research and technology has stayed limited and has left the region largely with the status of dependent market economies. As this dependency is strongly linked to German companies, this can become a very dangerous situation if these German companies do not manage to stay at the top of the international competition in terms of technology anymore. However, I am reluctant to articulate more comprehensive predictions about the region, as the people here are far more competent on these matters than I am.

Thank you for the interview!

Tamás Tibor Csontos

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