

# Research on the Coordination Between International Economic Situation and International Economic Policy

Yuanlong Gao

The University of Chicago, Chicago, USA

yuanlongg@uchicago.edu

**Abstract.** Under the background of the deepening development of economic globalization, the economies of various countries in the world are interdependent, and the economic coordination policies among countries are also emerging one after another. The solutions to the problems existing between countries' trade have also attracted more attention. At present, the complexity of the global economic recovery situation lies in the fact that the recovery foundation of private consumption and private investment in the United States and Europe is still very fragile; The deterioration of European sovereign debt situation has forced EU countries to adopt more severe public expenditure austerity plans. The extroversion of economic policy coordination between countries is constantly expanding. As far as a country is concerned, maintaining the balance between domestic employment and inflation and the balance of international payments is an important goal of its foreign trade. This paper mainly studies the coordination between international economic situation and international economic policy, and puts forward new ideas for overcoming the problems in the process of international economic integration by analyzing the characteristics of global macroeconomic situation and international economic policy coordination.

**Keywords:** Economic Policy, Coordination, International, Economic Situation.

## 1. Introduction

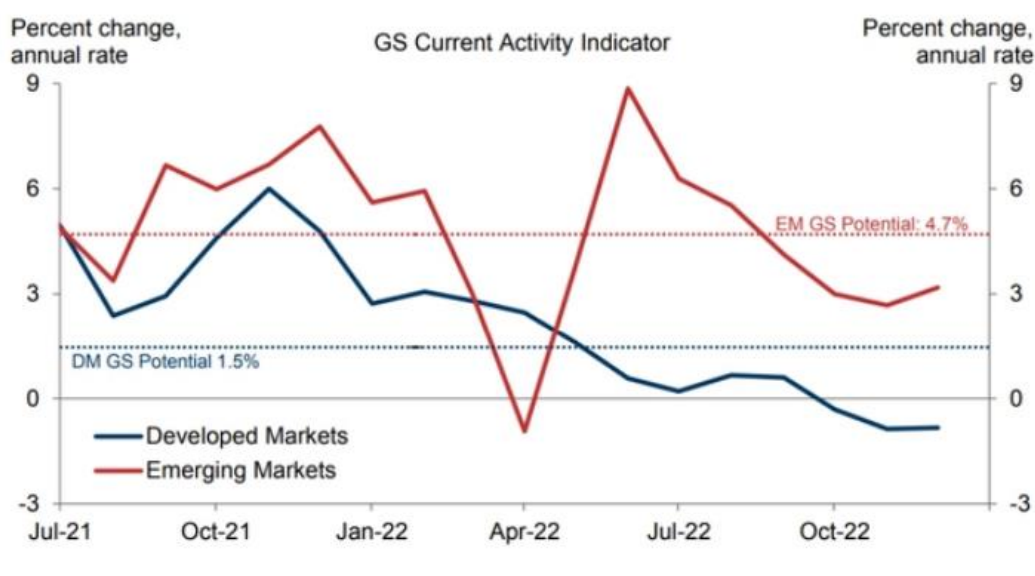
The core of international economic policy coordination theory is that when there is a close interdependence between different economies, the economic policies independently formulated by each country will have a significant "spillover effect" on other countries through the transmission mechanism, which will lead to the reaction of the other side and adversely affect the economic operation of a single country. There are differences in the meaning of economic coordination and cooperation among countries [1]. The concept of economic cooperation should be more extensive than the content involved in coordination policy, which emphasizes that the two countries can achieve a win-win situation of economic welfare through the sharing mode of technology and information without contradiction.

The changes of some domestic variables in the two countries will form spillover effects from one country to another through economic ties between countries, so it is necessary for countries to cooperate and coordinate these intermediary goals. On the premise of recognizing the interdependence of the world economy, consultations and coordination on macroeconomic policies such as exchange rate, trade, monetary and fiscal policies are carried out among relevant countries in order to alleviate the impact of various emergencies and economic crises and maintain and promote the relatively stable growth of the world economy.

## 2. Analysis of international economic situation

### 2.1. Developed economies recover steadily, while emerging economies occasionally decline

The tightest policy in the past decade has led to a global economic slowdown in varying degrees but widely, in which the economic activity index of emerging markets has dropped from near 9 to around 3, while that of developed markets has turned negative, indicating that the economy is in recession (Figure 1).



**Figure 1** The impact of austerity on different countries and economic sectors (Source: Wind)

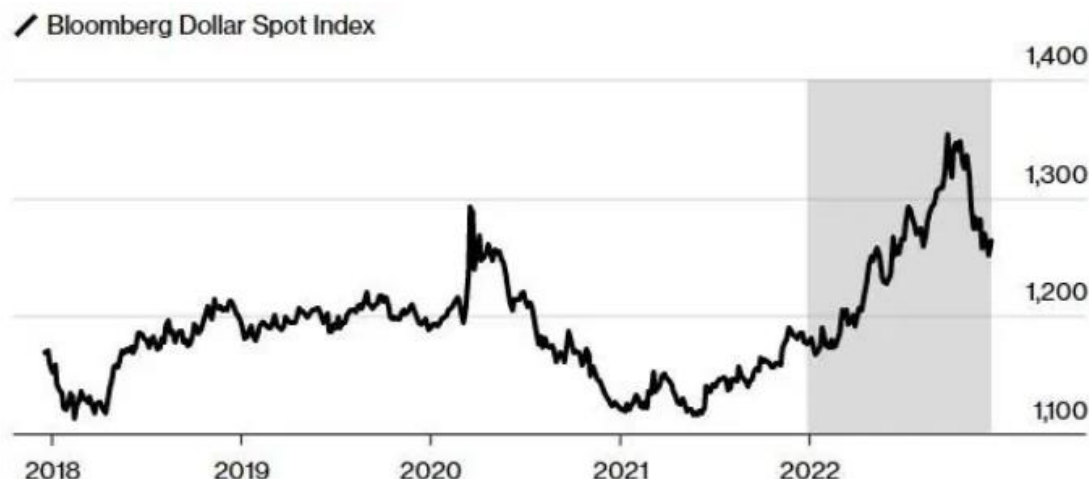
The economic recovery of countries that took the lead in vaccination, such as the United States, Japan and Europe, has accelerated again. In the first quarter of 2021, the annual rate of GDP in the United States was 6.4%, which was 2.1 percentage points higher than that in the fourth quarter of 2020. The GDP of the euro area decreased by 1.3% year-on-year and continued to narrow. Although the inflation rate in developed countries was only 8.8%, it was the highest in 40 years. In fact, if it were not for the comprehensive and severe sanctions imposed on Russia by the United States and other countries, global inflation would never be so serious; The manufacturing PMI of the United States, Japan and Europe has steadily risen above that of threshold and maintained for a long time. The manufacturing PMI of Russia, Brazil and South Africa fluctuated greatly in the first half of 2021 [2-3].

At present, the complexity of the global economic recovery situation lies in the fact that the recovery foundation of private consumption and private investment in the United States and Europe is still very fragile; The deterioration of European sovereign debt situation has forced EU countries to adopt more severe public expenditure austerity plans. Especially in the second half of the year, the inventory cycle will gradually end, some countries' economic stimulus policies will expire and begin to withdraw, China and Asia's economic growth will slow down, and the EU will intensify fiscal austerity, which may all lead to a hard landing of the world economy [4].

The pace of economic improvement in the United States has slowed down, and the Federal Reserve has maintained near-zero interest rates; The epidemic in the euro zone dragged down the economic recovery, and the Brexit trade agreement was reached. The European Central Bank believed that it was necessary to expand easing, and the Bank of England did not move; Japan's economy is slowly recovering, and the easing of monetary policy remains unchanged; The economic recovery in emerging markets is clearly divided, and the easing policy will continue [5].

## 2.2. The violent interest rate hike in the US dollar may ease

With the rapid interest rate increase by the Federal Reserve, the US dollar has seen its biggest increase for many years, which has alleviated the inflationary pressure in the United States to some extent, but it has intensified the inflationary pressure in other parts of the world (Figure 2). In 2022, the US dollar raised interest rates six times, four of which were 75 basis points, one was 50 basis points and the other was 25 basis points.



**Figure 2** The US dollar has achieved the biggest increase in many years (Source: Wind)

Federal Reserve officials predict that the median real GDP growth rate in 2020 and 2021 will be -2.4% and 4.2% (up by 1.3 and 0.2 percentage points respectively compared with the September forecast), and the unemployment rate will be 6.7% and 5.0% (down by 0.8 and 0.4 percentage points). The fixed investment in the euro zone decreased by 0.7% year-on-year, which was significantly narrower than that in the fourth quarter of 2020. The fixed investment in Germany, France and Italy increased by 0.3%, 8.6% and 13.3% year-on-year, which significantly boosted the investment demand in the euro zone. The growth rate of fixed capital formation in Japan is the same as that in the fourth quarter of 2020 [6-7].

Slower economic growth and lower inflation may prompt the Fed to stop raising interest rates. With the slow pace of interest rate hikes in the US dollar, the rapid rate hikes in the Euro and the follow-up rate hikes in other countries, most of the monetary policy will be adjusted in 2023 to hedge against the impact of violent interest rate hikes in the United States. At the same time, he warned that the inflation war is far from over, and some key questions have not been answered, including how high interest rates need to be raised in the end and how long interest rates need to be kept at a restrictive level. Although the signals released by the Federal Reserve are not consistent, the direction of slowing down the rate hike is the same [8].

### 2.3. Europe's economic recovery is slow

In 2021, the growth momentum of the euro zone economy can still be expected, but the resurgence of the epidemic, virus mutation and vaccination will still bring challenges to the economic recovery of the euro zone, and it is difficult for the economy to see a significant improvement in the short term. Before the end of 2021, the number of vaccines owned by the EU will exceed the total population of the EU. However, during the vaccination process, there are still problems of delayed delivery and people's distrust of vaccines in many European countries. Therefore, the impact of the epidemic on the euro zone economy may not end in a short time. According to the minutes of the meeting of the European Central Bank in December 2020, there are not many signs that the European Central Bank will continue to increase its monetary easing at present, except that policymakers are more suggesting that the European Central Bank is paying close attention to the appreciation of the euro exchange rate.

Different from the focus of economic policymaking in 2020, with the rising demand for economic recovery, the economic policies of developed economies such as the United States, Japan and Europe gradually shifted from preventing economic downturn to stimulating development vitality in 2021, and aid funds also shifted from the field of people's livelihood security to the production field [9]. On the one hand, developed economies have successively established intermediate production lines in their own countries, but in the short term, the production capacity is difficult to meet domestic demand, and most intermediate products still need to be imported; On the other hand, hotel, catering, air transportation and other service industries continue to be in a downturn, and major economies have

to continue to take the form of financial assistance to ensure the survival of their service enterprises, resulting in a decline in the scale of government investment in infrastructure construction, which is not conducive to the recovery of manufacturing and construction industries after the epidemic. Citibank predicts that Britain and the euro zone will fall into recession before the end of 2022, facing the supply and demand problems brought by the energy crisis and the double pressure of tightening the currency and fiscal policy, so the economic growth of these two economies will shrink by 1.5% and 0.4% respectively in 2023.

### **3. Characteristics of international economic policy coordination**

#### **3.1. The contradictions between countries are fierce**

The extroversion of economic policy coordination between countries is constantly expanding. As far as a country is concerned, maintaining the balance between domestic employment and inflation and the balance of international payments is an important goal of the country's foreign trade [10]. Therefore, when each country's economic policy objectives are in conflict, it is necessary to choose the balance point of economic interests of the two countries by coordinating monetary and fiscal policies. The result of this coordination is not the best scheme for a single country to pursue the maximization of interests, but on the whole, it is the most reasonable choice. In the process of international policy coordination, most international coordination mechanisms maintain stability at the expense of the interests of developing countries, which makes developing countries have a weak position in international policy choice. This makes the international economic policy break away from its original goal and become a struggle factor for the intensification of contradictions between developed and developing countries.

#### **3.2. The coordination mechanism is unbalanced**

In the absence of coordination, the structural transformation policies of all countries are mainly based on domestic goals. These policies will affect other countries in the world through international trade, capital flow and other channels. One country's industrial policy and trade policy often have two effects on other countries: profit transfer and external economy. External economy emphasizes the role of economies of scale. By protecting enterprises with huge "external economy", on the one hand, it enhances their international competitiveness, on the other hand, it spreads leading achievements to all levels of the national economy, thus improving the comprehensive competitiveness of the whole country.

Countries in the world are interrelated and interdependent economically, and the economic prosperity or recession of one country will affect other countries through various channels. International prices, international trade and international financial activities are important channels for the mutual transmission of economic activities among countries. Hold consultations and coordination among relevant countries in order to maintain and promote the stable economic growth of all coordinating countries and maximize the overall economic interests of participating countries. International economic transmission theory and game theory provide theoretical premise and foundation for the institutional arrangement of international economic policy coordination.

Generally speaking, international trade transmission is carried out through the influence of product price changes on output, employment and overall economic changes. At the same time, through the front-back chain and group chain, the development of industries related to the export sector will fluctuate. Strengthening economic policy cooperation among economies and promoting comprehensive coordination of international economic policies are the only way to resolve the negative spillover effects of economic policies and avoid international conflicts and are also effective ways to achieve the expected effects of economic policies and promote the sustained and healthy development of the world economy.

## **4. Problems existing in international economic coordination**

### **4.1. Inefficiency of international economic policy coordination**

International economic coordination is to coordinate the economic policies of countries in order to seek the maximization of the overall interests of all participating countries when the interests of countries conflict or the economic interests of relevant countries cannot be maximized at the same time. Economists in different countries use different econometric models when making economic forecasts for the government, and countries will have different estimates of the costs and benefits of participating in international economic coordination. In order to ensure the smooth progress of coordination, it is usually necessary to adopt some kind of punishment mechanism to prevent participating countries from violating their commitments. In fact, it is impossible to have a strong way of supervision and punishment to punish those member States that fail to fulfill their coordination responsibilities, which leads to lose discipline among member States within the coordination organization and makes it difficult to achieve the expected coordination goals.

### **4.2. Abuse of market dominance**

Market dominance is the primary element of abuse of market advantage. In judicial practice, whether an enterprise violates the law must first examine whether the enterprise has a dominant market position. Therefore, multinational companies often use denial of market dominance as a defense. This kind of enterprise has a certain market power and will not be threatened by its competitors. Therefore, the use of unilateral behavior or some harsh conditions to influence the form of competition in the whole market, because they are not dominated, they can dominate the form of market competition by themselves, and the abuse of this market power also affects the effective implementation of the international coordination mechanism.

## **5. Thoughts on the coordination between international economic situation and international economic policy**

### **5.1. Strengthen institutional coordination**

Because the interdependence among countries' economies is objective, policy disharmony will inevitably reduce the welfare level of countries, while policy coordination and cooperation will inevitably enhance the potential economic welfare. Therefore, the macroeconomic policy effect of one country will not affect the economic situation of other countries, so there is no need for coordination of macroeconomic policies. However, the pure free floating exchange rate system does not exist, and all countries are using macroeconomic policies to ensure internal equilibrium first, which will have an impact on their international payments and currency exchange rate levels. Strict organization and management and clear purpose ensure the coordinated development of western countries in the framework of multilateral agreements, so that member countries can make full use of various resources in a wider scope to solve the temporary or non-fundamental imbalance in international payments.

### **5.2. Reduce the uncertainty of regional coordination**

Benefiting from the loose monetary policy and the continuation of the economic stimulus plan, the economies of emerging economies will continue to recover, with a low base in the same period in 2020, and rapid growth will generally occur in the first quarter. In terms of monetary policy, it is expected that the monetary policy of emerging economies will maintain a wait-and-see attitude, and the loose attitude will continue, but the pace of interest rate cuts will continue to be suspended.

On the one hand, the epidemic in COVID-19 is still spreading, and the prospects for recovery are still fragile, which requires policies to remain loose; On the other hand, prices will continue to rise as commodity prices rise, and the space for monetary policy will be limited. The coordination of

economic policies among countries in different regions has become a new trend. On the premise of not violating WTO principles, interregional coordination is a supplement to multilateral cooperation, which can avoid the coordination of economic policies among countries in the region and become a new trend. On the premise of not violating WTO principles, interregional coordination is a supplement to multilateral cooperation and can be avoided.

## 6. Conclusions

The changes of some domestic variables in the two countries will form spillover effects from one country to another through economic ties between countries, so it is necessary for countries to cooperate and coordinate these intermediary goals. The concept of economic cooperation should be more extensive than the content involved in coordination policy, which emphasizes that the two countries can achieve a win-win situation of economic welfare through the sharing mode of technology and information without contradiction. If these countries are aware of the importance of their links, are willing to evaluate the policy operation from an overall perspective and promise to revise their economic policies in a mutually beneficial way, it will also effectively promote the sustainable development of the global economy to a certain extent.

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