Global imbalances and the new geoeconomics

The European response: the Savings and Investments Union

by Fabrizio Pagani

In brief

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A spectre is haunting the global economy: that of macroeconomic imbalances. At the G7 Summit in Évian, where France brought the Group back after a seven-year hiatus, leaders devoted an entire morning to discussing the issue, building on exchanges that finance ministers had already held on several occasions in the preceding months. Emmanuel Macron made global imbalances a defining priority of the French Presidency, commissioning a dedicated study by four leading economists - Chong-En Bai, Gita Gopinath, Hélène Rey and Axel Weber. In parallel, a broad body of independent analytical work has further enriched the debate, most notably through CEPR and Bruegel's Paris Report 4, The New Global Imbalances, edited by Hélène Rey, Beatrice Weder di Mauro and Jeromin Zettelmeyer, as well as several chapters of the Florence Report edited by Marco Buti, Giancarlo Corsetti and Anna Peychev at the European University Institute.

The French Presidency's decision was far from incidental. As Martin Wolf observed in the Financial Times, global imbalances now lie at the intersection of virtually every major issue shaping today's geoeconomic and geopolitical landscape: "national power, full employment, industrial strength, financial stability, fiscal and monetary policy, and exchange-rate management."

What global imbalances are

Global imbalances refer to large and persistent differences among the world's major economies in the way they consume, save and invest, as well as in the balance between their imports and exports.

Put simply, China produces and exports significantly more than it consumes; Europe saves more than it is able to invest; and the United States consumes and imports far more than it saves. The result is a substantial Chinese external surplus, a smaller yet structural European surplus, and a chronic US external deficit.

It is worth bearing in mind that behind these accounting aggregates lies a simple economic reality that is often overlooked in public policy debates: a country's current account balance is ultimately the mirror image of the gap between domestic saving and domestic investment. External imbalances are therefore, first and foremost, a macroeconomic phenomenon rather than a purely trade-related one. For this reason, they cannot be durably corrected through trade policy instruments alone.

The return of global imbalances and the "Second China Shock"

For several years, these imbalances had gradually narrowed. More recently, however, they have widened again at a rapid pace.

China's current account surplus increased from 1.4% of GDP in 2023 to 2.3% in 2024 and is estimated to reach around 3.3% in 2025. Over the same period, the US external deficit has widened towards 4% of GDP, while the United States' net international investment position has now deteriorated beyond 90% of GDP. This is the backdrop against which the so-called second China shock has emerged: a new wave of Chinese exports driven no longer by low-cost manufactured goods, but by technologically advanced industries. Electric vehicles provide the clearest example, placing Europe's automotive manufacturers under increasing competitive pressure. As documented in the Paris Report, the challenge has become structural. China's export basket has progressively converged with that of the euro area, signalling that competition now centres on the same medium- and high-value-added products that underpin Europe's manufacturing base.

Tariffs, reshoring and the MAGA doctrine

These same imbalances are widely regarded as one of the underlying causes of the long-term decline of US manufacturing and of the economic hardship experienced across much of Middle America, famously described by JD Vance in Hillbilly Elegy.

It is against this backdrop of economic frustration that the MAGA economic doctrine has taken shape, centred on tariffs, industrial reshoring and proposals for a coordinated realignment of exchange rates through the so-called Mar-a-Lago Accord.

While this approach captures a genuine source of public discontent, it neither fully diagnoses the underlying problem nor identifies the appropriate policy response.
The decline in manufacturing employment is a phenomenon common to all advanced economies. It reflects automation and the progressive shift of value added towards the services sector at least as much as international competition. Likewise, the US external deficit is primarily driven by domestic structural factors, foremost among them a fiscal deficit that is now the largest in the advanced world. Against this backdrop, tariffs alone are unlikely to restore balance to the United States' external accounts.

Europe's savings paradox

These global imbalances are also at the heart of Europe's own economic challenges, and it is here that the discussion becomes particularly relevant for the European Union.

The first issue is Europe's long-standing inability to channel household savings into productive investment within its own economy. The figures are both well known and striking: the European Union holds approximately €33 trillion in private savings, much of it sitting idle in cash and bank deposits. Yet, as highlighted in the Letta Report, around €300 billion flows each year from Europe into US financial markets, effectively financing Washington's external deficit. This is the paradox of an economy that saves substantially more than the United States - 26% of GDP compared with 17% - yet invests less and, at times, less efficiently, exporting capital that could instead support domestic growth. The challenge, therefore, is not a shortage of capital, but the fragmentation of the market through which that capital should be allocated.

The Savings and Investments Union: Europe's policy response

At this point, the policy response is both evident and compelling. Among the instruments available to the European Union, completing the Savings and Investments Union (SIU) is arguably the most powerful lever Europe can deploy independently to address global imbalances.

Overcoming the fragmentation of Europe's capital markets would enable the Union to retain a far greater share of its own savings and channel them towards its substantial investment needs, which the Draghi Report estimates at no less than €750–800 billion annually if Europe is to remain competitive through to 2030. It is therefore no coincidence that the SIU has returned to the centre of the European agenda following the package presented by the Commission in 2025. Nor is it surprising that the EMU Lab's Florence Report at the European University Institute identifies it as one of the three pillars of its vision for a Europe capable of assuming greater responsibility in an increasingly fragmented global economy. This is the defining point: the SIU is not merely an instrument for improving financial efficiency. Rather, it provides the practical means through which Europe can transform its abundant savings into strategic autonomy, while simultaneously reducing both its dependence on external financial markets and its contribution to financing the US external deficit. It demonstrates that, while the adjustment efforts of other major economies remain uncertain and ultimately depend on the policy choices of Washington and Beijing, Europe already possesses a response that lies largely within its own control.

Moreover, a stronger SIU would enhance the Union's resilience to external shocks, including the potential spillovers from a renewed financial crisis originating in the United States.

Towards a shared adjustment process

The discussions held in Évian, and more broadly within the G7 process, outline a balanced and, at least in principle, widely shared path towards reducing global imbalances.

Countries running persistent external deficits - foremost among them the United States - should increase national savings through credible fiscal consolidation. Economies with large external surpluses, meanwhile, are expected to strengthen domestic demand. China, in particular, is being called upon to reinforce its social safety net, stimulate private consumption, and phase out distortionary industrial policies and subsidies whose effects are effectively exported to the rest of the world. Indeed, according to the International Monetary Fund, a significant share of China's projected external surplus - 2.3 percentage points out of an estimated 3.3% of GDP in 2025 - cannot be explained by economic fundamentals. The IMF also estimates that the renminbi remains undervalued by between 12% and 21%.
Brad Setser and Shahin Vallée recently advanced a similar argument in Foreign Affairs, noting that global trade imbalances cannot be attributed solely to Chinese industrial subsidies or tariff policies. They also reflect the persistent undervaluation of the renminbi, which continues to provide an artificial boost to the international competitiveness of Chinese exports.

A fundamental limitation nevertheless remains. China is not represented at the G7. Any discussion of global imbalances that excludes Beijing inevitably leaves out the very country whose external surplus weighs most heavily on the global economy. For its part, China rejects the premise that such imbalances constitute a problem, portraying them instead as the natural outcome of market forces and the competitiveness of its industries. This was not always the case. In the aftermath of the 2008 global financial crisis, the newly established G20 succeeded in reaching a common understanding on the need to address global imbalances through a structured process involving all major economies - including both the United States and China - with technical support from the International Monetary Fund and the OECD.

More recently, a dedicated working group on global imbalances has been re-established under the US Presidency, with South Korea and Australia serving as co-chairs. Whether the G20 Summit in Miami later this year will translate this renewed dialogue into concrete outcomes remains to be seen.

Conclusions

Whether genuine cooperation among the world's major economic powers can be restored remains uncertain. At present, such an outcome appears unlikely.

What is clear, however, is that according to the International Monetary Fund, a simultaneous rebalancing of the world's major economies would deliver substantial gains in global output while significantly reducing the risk of another systemic financial crisis. Pending a renewed phase of effective international cooperation, Europe would be well advised to focus on what lies within its own control. For the European Union, the most robust response to global imbalances will not be forged at negotiating tables in Washington or Beijing. Rather, it will depend on Europe's ability to complete its capital markets architecture and finally put European savings to work for the benefit of the European economy.

More than any external negotiation, it is this challenge that will determine the Union's capacity to achieve genuine strategic autonomy.

Please note that this is an unofficial courtesy translation of the Italian version. In the event of any discrepancy, the Italian original, available **here**, shall prevail.

About the Author

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