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## Editorial: the instability in the air

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**Biographical notes:** Gorazd Justinek is the Dean of Faculty for Governmental and European Studies, New University and a former diplomat. His research interests include international business, particularly the internationalisation of small businesses, economic and commercial diplomacy and the competitiveness of economies and attracting foreign direct investment. He is the Founder and Editor of the *International Journal of Diplomacy and Economy*.

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### 1 Introduction

The first issue of 2024 brings along some new papers from Asia and one from Europe addressing the ongoing Ukraine war. As for the global environment there is nothing new or at least, there is no new stability on the horizon. In last year's autumn editorial, we focused on the war in Ukraine, Palestine–Israeli conflict, inflation, high energy prices and the specific China–USA relationship. We even asked ourselves if the year 2023 was a lost year? (Justinek, 2023). For sure the year 2023 did not provide any new stability, it rather brought around a lot of new instability. Approaching the year of 2024 we can thus notice that we have more or less the same instability as in the years before (Justinek, 2021; Justinek, 2021a; Justinek, 2022), yet there are many new challenges on the horizon.

In Russia, Vladimir Putin is about to win another presidential election. There is no doubt that someone else could interfere – meaning that the situation in Ukraine will stay in stalemate. Also in the USA, current president Biden will probably face former president Trump in the campaign. At present it is hard to predict who could gain a few percentages more and thus gain the second term in the White House. Prime Minister Modi will lead India as one of the largest powers for his third five-year term. China witnessed relatively bad economic results; however, Mr. Xi (71 years old) remains the uncontested leader in his country. Mr. Netanyahu, having been Israel's prime minister for more than 16 years in all, is out of office and on trial for corruption. That could to some point affect the situation in Palestine and the recent conflict in the Middle East (Roberts, 2023). We must however not forget that in Europe there will be European elections, thus a new EU parliament will be elected and a new European Commission will be set. It depends heavily also on the economic situation and inflation in main European economies, if Mr. Von der Leyen will keep up the job.

In the economic sector, Artificial Intelligence (AI) is taking the lead. Or at least that was the idea. Many economists believe that generative AI is about to transform the global economy. A paper published last year by Ege Erdil and Tamay Besiroglu of Epoch, a research firm, argues that ‘explosive growth’, with GDP zooming upwards, is ‘plausible with AI capable of broadly substituting for human labour’. Erik Brynjolfsson of Stanford University has said that he expects AI ‘to power a productivity boom in the coming years’. Yet, for such an economic transformation to take place, companies need to spend big on new software, communications, factories and equipment, enabling AI to slot into their production processes. An investment boom was necessary to allow previous technological breakthroughs, such as the tractor or the personal computer, to spread across the economy. From 1992 to 1999 American non-residential investment jumped by 3% of GDP, for instance, driven in large part by extra spending on computer technologies. Yet so far there is little sign of an AI splurge. Across the world, capital expenditure by businesses (or ‘capex’) is remarkably weak. These trends suggest one of two things. The first is that generative AI is a busted flush. Big tech firms love the technology, but are going to struggle to find customers for the products and services that they have spent tens of billions of dollars creating. It would not be the first time in recent history that technologists have overestimated demand for new innovations. Think of cryptocurrencies and the metaverse. The second interpretation is less gloomy, and more likely. The adoption of new general-purpose technologies tends to take time. Return to the example of the personal computer. Although Microsoft released a ground-breaking operating system in 1995, American firms only ramped up spending on software in the late 1990s. Analysis by Goldman Sachs suggests that while only 5% of chief executives expect AI to have a ‘significant impact’ on their business within one to two years, 65% think it will have an impact in the next three to five. AI is still likely to change the economy, but with a whimper not a bang (The Economist, 2024).

## 2 The papers

The first issue of 2024 is bringing us five very interesting papers. The first paper examines the impact of Economic Policy Uncertainty (EPU) in the top 15 economies on the stock market of 9 Middle East countries using a monthly dataset from January 2004 to May 2021. The results based on the quantile regression approach show that EPU in China and Spain have a substantial impact on Turkey and India on UAE, Spain, and UK on Bahrain and Cyprus across all the quantiles. The other set of results indicate a mixed impact on Middle East countries. The impact of EPU is heterogeneous across stock markets in the Middle East. The results derived from the study would be of substantial utility for multiple stakeholders namely investors, portfolio managers, and policy makers for the adoption of efficient decisions and to make better asset allocation.

The second paper analyses sponsorship of the Indian Premier League 2022–2023, which has been given to Tata Group (an Indian Corporate Giant). The main aim of this study is to investigate the impact of the event on each of the listed entities within the Tata Group and identify which among them is the most reactive to this event. The closing price of 17 stocks and the market index were collected from the Prowess database. The event study methodology was used to study the objective. The study employed the 21 days’ event window and 224 days’ estimation window to estimate the returns. The results indicate that Tata Communication Ltd. and Indian Hotels Co. Ltd. have a

significant positive abnormal return on the event day. Overall, the average abnormal return of all stocks was found to be significantly positive on the next day of the event. The findings indicate that the market was optimistic regarding the communication and hospitality segment of the Tata Group during the IPL tournament.

The third paper describes India's momentous IPO (Initial Public Offering) year, which has been the 2021. This case talks about the star of the show, Paytm IPO. One of the largest fintech IPOs in the Asia-Pacific region failed horribly on the stock market. Even though the company successfully raised the desired amount, investor enthusiasm for Paytm's offer was relatively low compared to other tech firms. The present study discusses the reasons for the debacle of the Paytm IPO, including excessively inflated pricing, FOMO (Fear of Missing Out), etc. The case discusses in depth the emergence of fintech and Paytm. The learnings from the case study follow this. It also highlights the modifications that the SEBI (Securities and Exchange Board of India) brought to tighten the IPO process. The regulator wants new-age IT businesses to tell precisely how they valued their stocks for IPOs, compare it to the pre-IPO share sales, and upload all pre-IPO investor briefings to enable investors to make educated decisions.

The fourth paper deals with the topic of Crypto. Academic research on Crypto has exploded over the past decade; however, the impact of cryptocurrency on inflation in emerging markets is an underexplored research area. This study addresses this by investigating the impact of two major cryptocurrencies – Bitcoin and Ethereum, on inflation in four major emerging countries – Brazil, India, China, and South Africa (BICS). Monthly data on cryptocurrencies and inflation (WPI and CPI) is taken from Oct 2017 to Nov 2022. The Vector Autoregression (VAR) findings indicate that in BICS countries, there is no significant impact of cryptocurrencies – Bitcoin and Ethereum on the inflation of BICS. The results of this study can be useful for policymakers regarding inflation management and the risks and challenges associated with cryptocurrency adoption.

The last paper, prepared by senior ambassador and a legal expert from Slovenia, talks about the situation in Ukraine. The paper addresses the ongoing war in Ukraine. It argues that Russia's use of force against Ukraine, both in 2014 with the annexation of the Crimean Peninsula, and today as we witness the aggression launched by the Russian Federation in February 2022, signifies a breach of international law, and provides no sound or justifiable reasons for its legitimacy. Even though the United Nations Security Council is paralysed and thus cannot adopt a 'hard' resolution exercising its primary responsibility for international peace and security, the vast support of the international community for Ukraine's efforts and a broad condemnation of Russian aggression are evident in the General Assembly's 'soft' resolutions. The paper concludes with a discussion of some of the political considerations triggered by Russia's aggression against Ukraine, and some thoughts on the need for a lasting, just, and indeed a sustainable peace.

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