GARI — EUROPEAN META-STRATEGIC UNCERTAINTY: WHERE IS THE SILVER LINING?

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GLOBAL ARENA RESEARCH INSTITUTE

ČESKÁ CZECH BANKOVNÍ BANKING ASOCIACE ASSOCIATION

DETAILS

DATE & TIME: JUNE 13TH 2023 - 15:00 - 17:00

VENUE: CZECH BANKING ASSOCIATION

ITALSKÁ 69, 120 00 - CHURCHILL II BUILDING

AGENDA

- Welcome by Monika Zahálková, Executive Director & Jakub Seidler, Economic Analyst, Czech Banking Association
- **GARI research results by Founder Michal Kořan**
- First comments by Monika Ladmanová, Head of the European Commission's Representation in Prague
- Open discussion
- Glass of Prosecco

(de)globalisation | digital & green energy transition | “just” transition and regional disparities

Framing questions:

- What are EU and members’ countries perceptions of the future of globalization?
- Is there a shared perception of “just digital & green energy transition”?
- What are the perceptions of Chinese push for more independence?
- What are the perceptions of friend-shoring?
- How can Europe proceed with the “twin transition” at a relevant pace, depth, and social justice if the key flows are disrupted?
- Given the members’ countries often fundamentally different socio-economic priorities and positions, what are the realistic expectations in terms of policies?
- How to address the dilemma between support of openness and “strategic autonomy” in terms of real policies?
- Is it possible to address the regional disparities, under recent difficult conditions, in policy terms?
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By Michal Kořan and the research team[1] of Global Arena Research Institute (www.globari.org)

INTRODUCTION

Looking at the latest data on transnational commercial flows, one could breathe a sigh of sour relief: it is only the world of politics that is shattered, commercial globalization seems to be unmoved. In the longer term, though, relief is rather misplaced. Unless the manifold pushes against free global market are reversed, they will seep into the global economy. The shape of what such a comprehensive fragmentation might look like is still much blurred. Yet what emerges from the fog is an image of a divided world with parallel or competing geo-economic structures where movements of goods, capital, technologies, and people are regionalized, and disrupted.

This article demonstrates how much Europe should be worried about this scenario and why the EU is inherently uncertain and divided about its policies regarding the future of (commercial) globalization. Second, the article argues that by zooming in on the level of EU regions, the picture gets even bleaker. A less globalized world, together with interrelated challenges stemming from the digital and green transitions ("tripple challenge"), augment risks of serious socioeconomic and political problems linked to an uneven regional development in Europe. Europe should talk - and think strategically - about a scenario where the triple challenge has not been managed successfully.

GLOBAL CONTEXT

In March 2023, the Chinese National People's Congress sketched out an ambitious plan of transformation, with the aim to boost domestic consumption and global technological competitiveness at its heart. After decades of outgoing policies, China starts to look homeward when designing its economic ambitions. This process will take at least a decade to have a consequential impact on the Chinese economy. China tries to strip itself of its dependency on economic and technological relations with the West also by strategic efforts to bring more global South economies (including most recently the Middle East), closer to its orbit. The recent Sino-Russian marriage of convenience points in a similar direction.

In a surprisingly open manner, the IMF has recently voiced concerns about global fragmentation. The fears – and dismissals – of global decoupling are nothing new, but they do feel more real this time. Despite the pains of such a process, major US tech companies, like Apple, Microsoft Corp., or Foxconn are already making and executing plans to reduce their dependency on China. Europe has reacted with irritation to the Inflation Reduction Act from August 2022 and takes steps to protect its own industries and support its tech independence. The EU's newest carbon emission trading scheme, as well as the implementation of closer scrutiny of the US tech giants, are indicative of the policy answers to come. In general, though, the EU has been treading cautiously around China and the US - with good reasons.

EUROPEAN CONTEXT

Europe is in an unenviable position. The EU's well-being is dependent on open trade in general, and affordable and accessible imports and technologies in particular. Import and tech exposures are

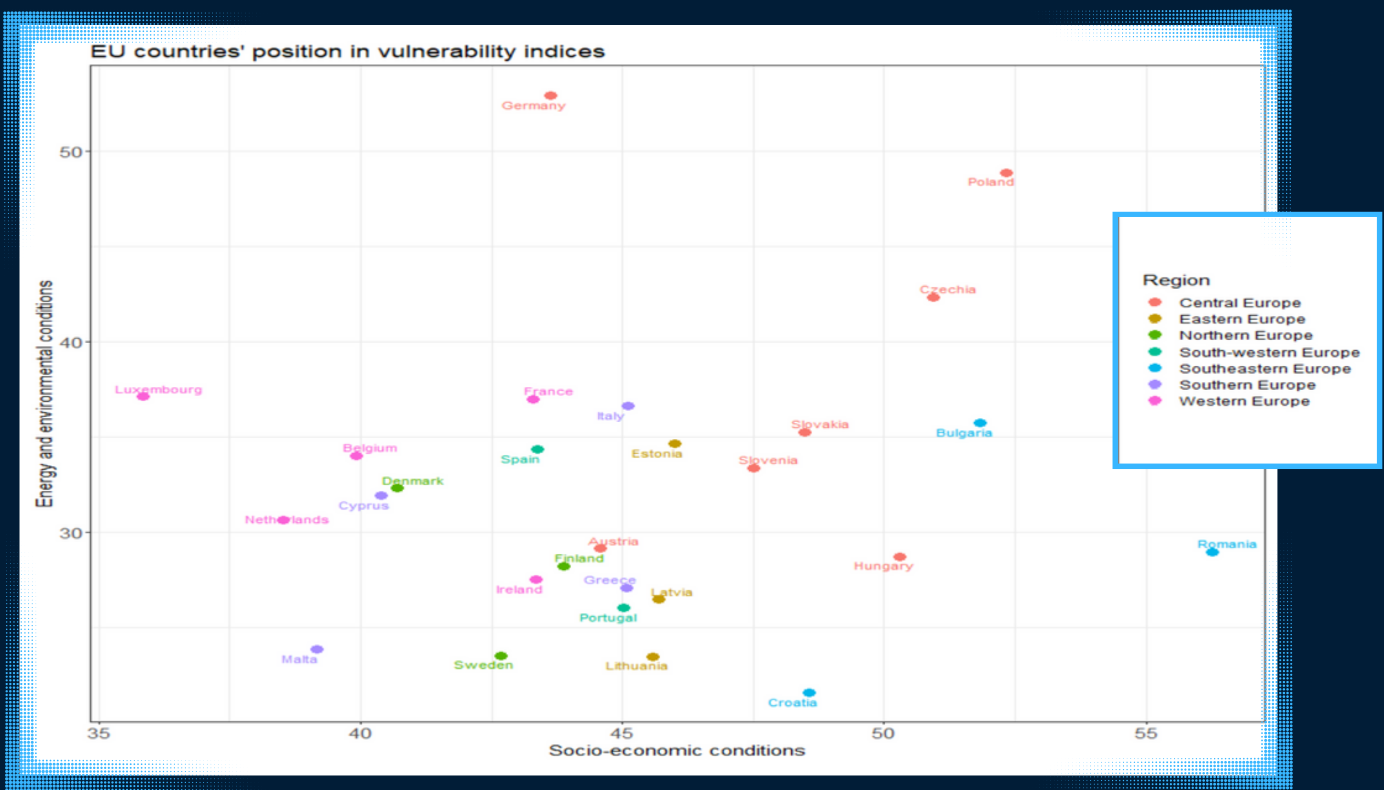
1 Adriana Iľavská, Zuzana Dendysová, Tereza Pospíšilová and the research team of GARI contributed to this article.

complex and costly to hedge against. They stretch wide across diverse sectors of the economy. Also, they are essential for the twin transition. Products with the most complex import dependencies on China are electronics and machinery. Both the digital and green transitions (twin transition) are hardly imaginable without many of these flows. Europe might be about to pay the price for the past two decades of losing technological competitiveness, especially in digital and ICT sectors where Europeans trailed behind in transforming knowledge into applied innovations and technologies at a necessary scale.

The past few months seem to suggest that Europe's potential to safeguard the rule-based, free-trade global environment is running thin. This dynamism – and associated dilemmas – can be demonstrated by citing few most recent examples. During his April 2023 trip to China, the French President Emmanuel Macron said that Europe must "resist pressure to become 'America's followers'" and must be careful not to get "caught up in crises that are not ours". Tellingly, during the visit, Airbus signed a substantial deal on continuity of its activities in China. That same week that the French President visited China, the Dutch intelligence agency AIVD issued a report with a very different message: together with Russia, Beijing poses the greatest threat to Dutch national security. Italy is considering pulling out of the China Belt and Road Initiative by the end of 2023. On May, 9th at a Europe Day speech to the EU lawmakers German Chancellor Olaf Scholz urged the European Union to reduce its reliance on China noting the increasing rivalry with China. And on May 8th, the EU Commission has proposed widening trade restrictions on Chinese companies in an attempt to hinder the Chinese assistance to Russian war efforts. China promptly responded with warning of consequences.

The following chart is a telling illustration of the vast array of interests, and sensitivities informing national and EU policies. The vertical axis represents the magnitude of challenges related to the twin transition and the horizontal axis represents the socio-economic vulnerabilities of the EU countries.

Chart 3: Vulnerabilities of EU countries to energy and digital transition relative to socio-economic conditions.



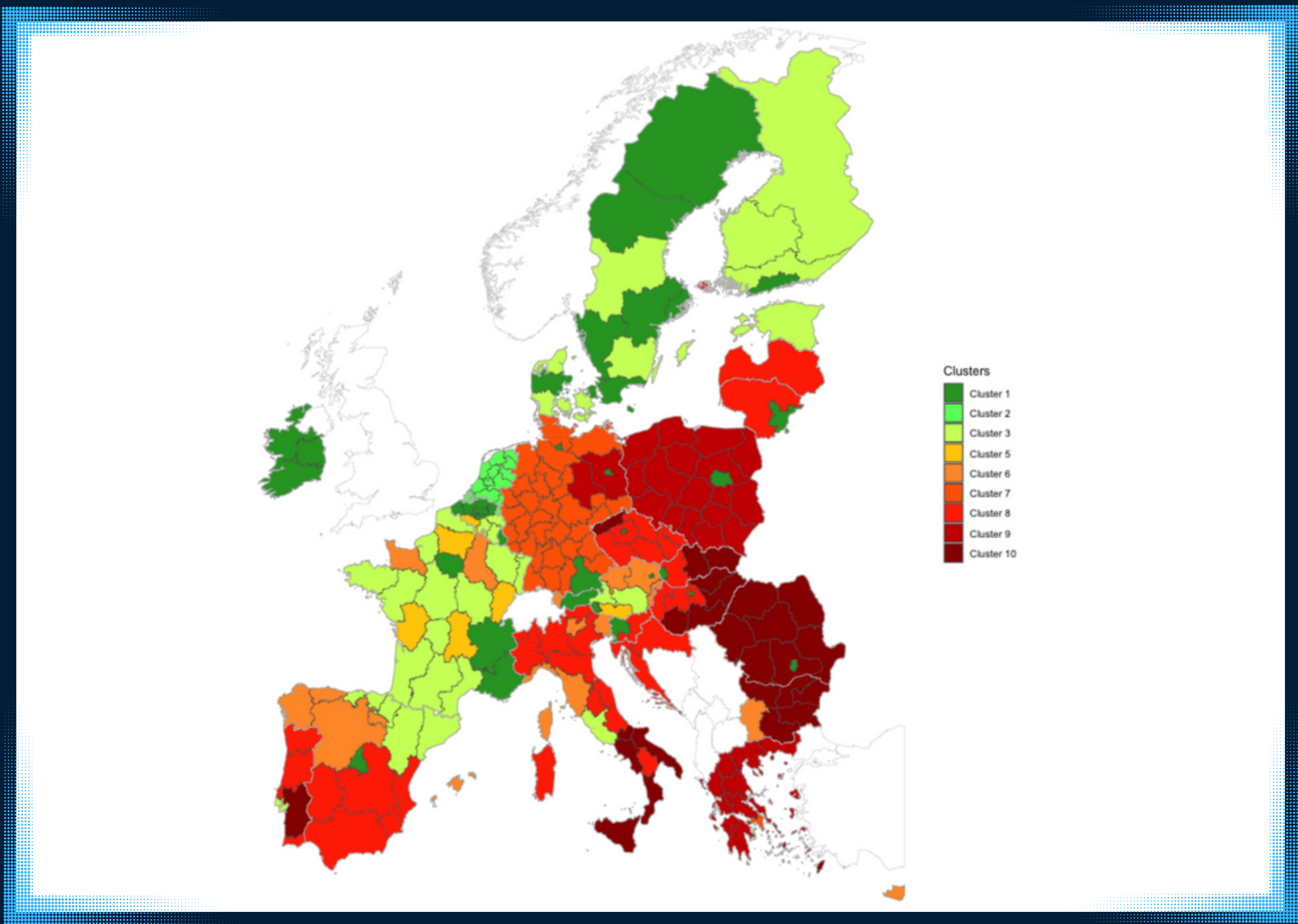
Source: Data: Eurostat, OECD, World Bank. Calculations, and visualization by GARI..

Europe faces a serious dilemma. On the one hand, the EU plans to weaken its strategic dependencies, knowing this path further pokes global protectionist instincts which it knows will be harmful. At the same time, Europe struggles to salvage openness, trying to manage the risk of being exposed and not resilient enough. On top of that, the destiny of globalization remains unclear. European leaders have to devise and execute policies for globalization that is deepening and transforming in some areas and at the same time regionalizing and retreating in others (without really knowing which will be which). Add the factor of the quickening pace and the proportion of the puzzle becomes evident.

REGIONAL CONTEXT

The picture gets still more complicated when looking at the divergent regional development. Our recent research revealed that the vulnerabilities to the "triple challenge"[2] have been distributed very unevenly.

Chart 2: EU regions' socio-economic status by clusters



Source: Data: Eurostat, calculations, and visualizations by Global Arena Research Institute

There are few clear winners - urban regions such as Paris, Berlin, Munich, Brussels, Luxembourg, Utrecht, Vienna, and Prague. Regions that are – broadly speaking – in proximity to these urban centres sustained stagnation or a slower pace of development in some areas, still the differences have not been that pronounced. Yet, almost half of the European regions are driven into further

2 This research was based on analyzing over 1200 indicators across 12 socio-economic domains (such as R&D, social conditions, macro-economic indicators, education, digitalization, and employment), between 2014 - 2021.

and deeper deterioration in key areas such as research and development, education, employment characteristics, economic structures, or social conditions.

By adding an extra layer of trade-related vulnerabilities, a cluster of exceptionally vulnerable regions emerges. They are centred around the industrialized regions of Central Europe (Eastern Germany, Northern Czechia, Southern Poland, Slovakia, and partly Hungary). Like in a perfect storm, these economies are characterised by their lower levels of added economic value, high export/import dependency, lower shares of services, weaker digital and innovation conditions, and a high share of energy-heavy industries.

The regional problem is a European problem. The scale and scope of investments needed for a balanced transformation surpass the limits of what the national government and/or the EU can come up with. Their scale also likely surpasses what the vulnerable regions [2] can digest in the limited time given. All this happens when growing parts of the European public are particularly receptive to anti-globalist arguments. Inevitably, policy choices grow more exposed to politicization.

WHILE SEARCHING FOR THE SILVER LINING, SHOULD EUROPE THINK ABOUT A PLAN B?

Some global actors profess they have the will to risk — and can afford to face — the fallouts of a fragmenting world of commerce. Policymakers in post-Covid Europe are worried: they have seen the world with disrupted flows and know they can neither afford it nor are they willing to . But they might as well have to do both because Europe has relatively weak leverage over the many processes that define the fate of globalization. Moreover, the EU is genetically unsure and divided about possible strategies to utilize the limited leverage it has. It is imperative that the EU and its member states do everything in their power to make sure that Europe will be on the winning side of the "triple challenge". Still, Europe needs to openly talk about what happens should these efforts fail. The EU should at least consider a scenario where its economies and societies did not manage the transformations successfully, or in time, that these transformations have had a damagingly diverse impact on regions. This scenario brings questions about social transfers, solidarity, deteriorating social standards, political radicalisation, deepening dependency on technology transfer and many more. Hopefully not the likeliest of scenarios, but the gravity of its potential impact gives a pause to think.

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