

The Economic Challenges for Europe in the Context of the Global Tensions

Andrei RĂDULESCU, Ph.D.

**Senior Researcher, Institute for World Economy, Romanian Academy
Member of the Bretton Woods Committee**

SOFIA

November 2024

MOTTO

RISK in MANDARIN

危機

DANGER

OPPORTUNITY

CONTENT

I. INTRODUCTION

II. WORLD ECONOMIC CLIMATE

III. EU ECONOMY CHALLENGES

IV. A VISION FOR THE TRANSFORMATION OF EUROPE

V. TECHNOLOGY RACE – EU vs. USA

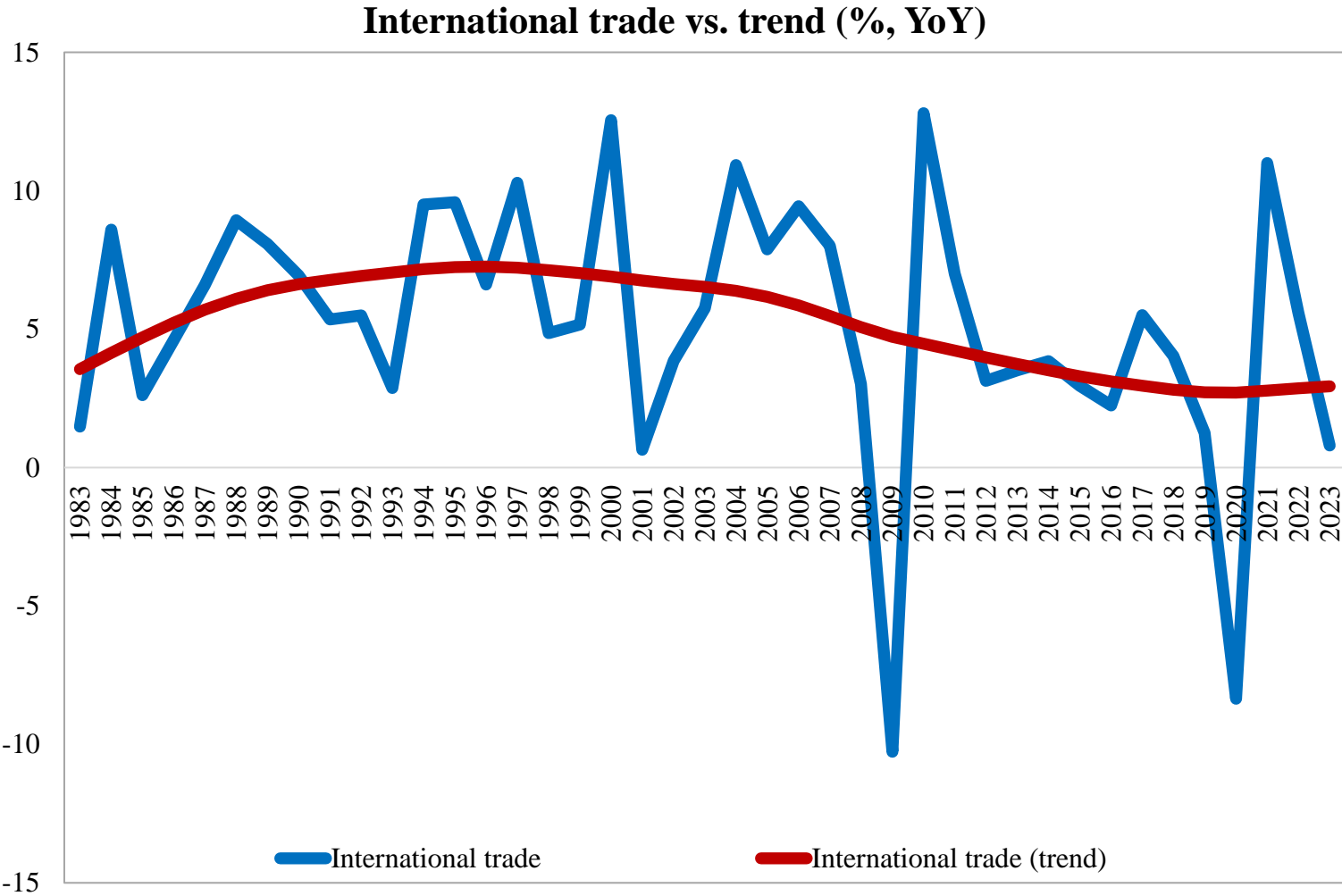
VI. CONCLUSIONS

INTRODUCTION

THE PERIOD OF GREAT TRANSFORMATIONS

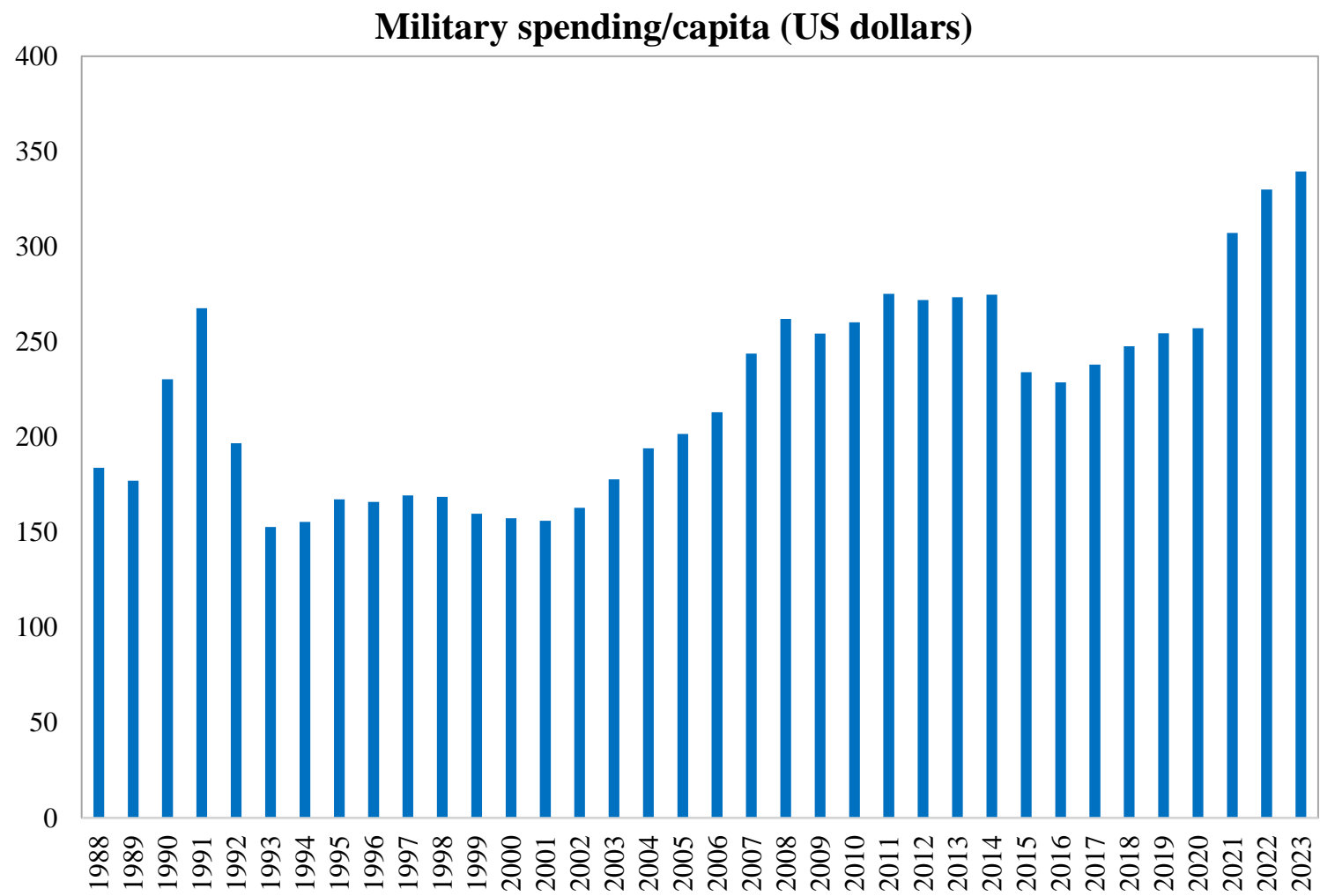
- The world economy in the period of **Great Transformations**
 - Transition towards a new world order
 - Identifying new models of growth and development
 - Implementing the Digital Revolution and the Artificial Intelligence Revolution
- Upside risks for outbreak of new shocks at the world level in the short-run
- USA – China confrontation to continue in the mid-run
- The voice of the emerging countries on the upward trend
- **GREAT TRANSFORMATIONS** era, same EU challenges-**COMPETITIVENESS & CONVERGENCE**
- **EUROPE** can be changed through **SMART POLICIES** in a **SCHUMPETERIAN** approach
 - Closing the **GAP** between the **RHETORIC** and **DEEDS**
 - **REPLICATE** the **POSITIVE** examples across Europe (15 countries of **TOP 30** IMD Competitiveness Index 2024 are from Europe, out of which 11 from EU)

THE GEO-POLITICAL FRAGMENTATION



Source: International Monetary Fund, 2024

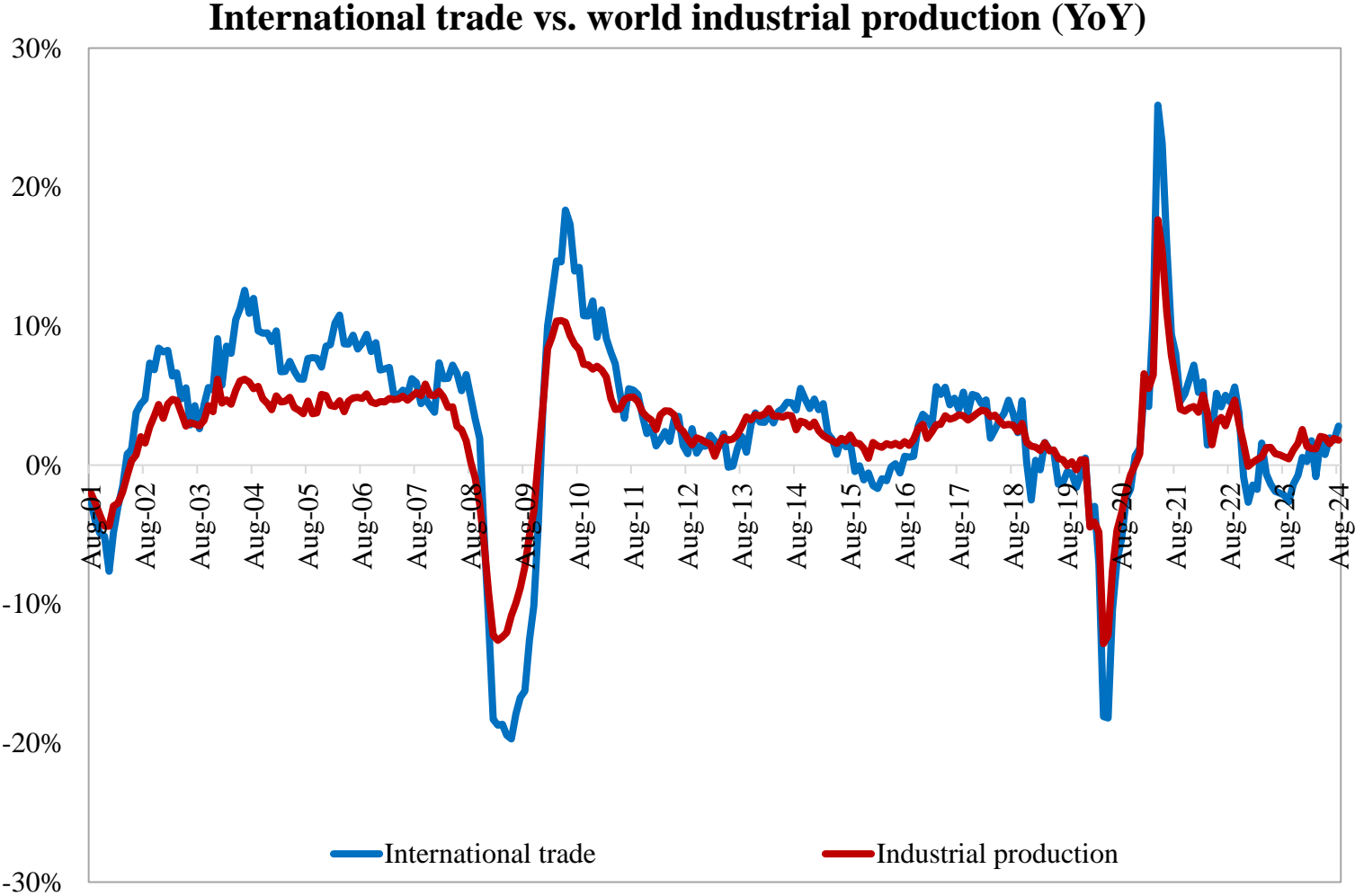
ARMS RACE



Source: SIPRI, 2024

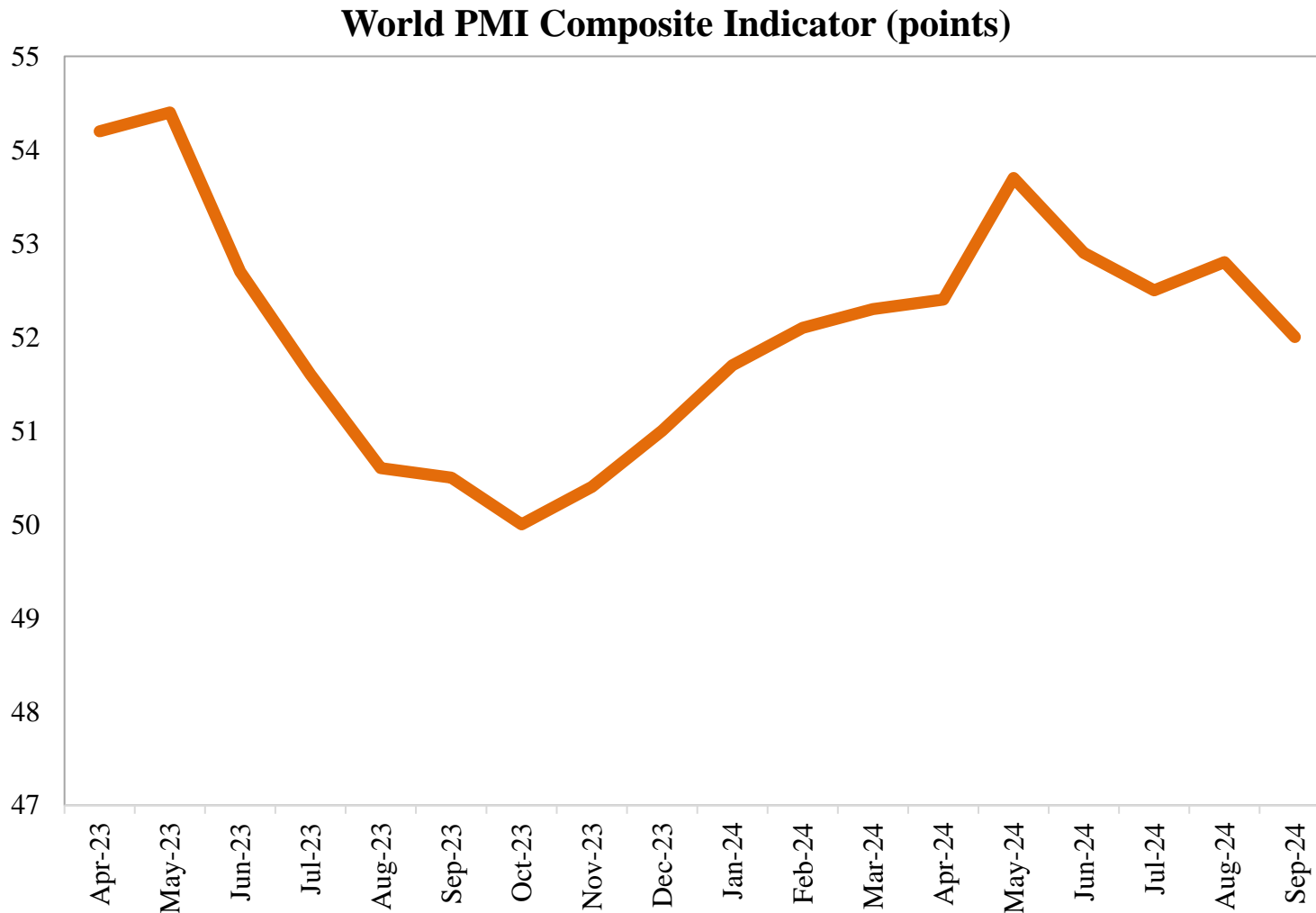
WORLD ECONOMIC CLIMATE

SIGNALS OF STABILISATION AFTER ADJUSTMENT



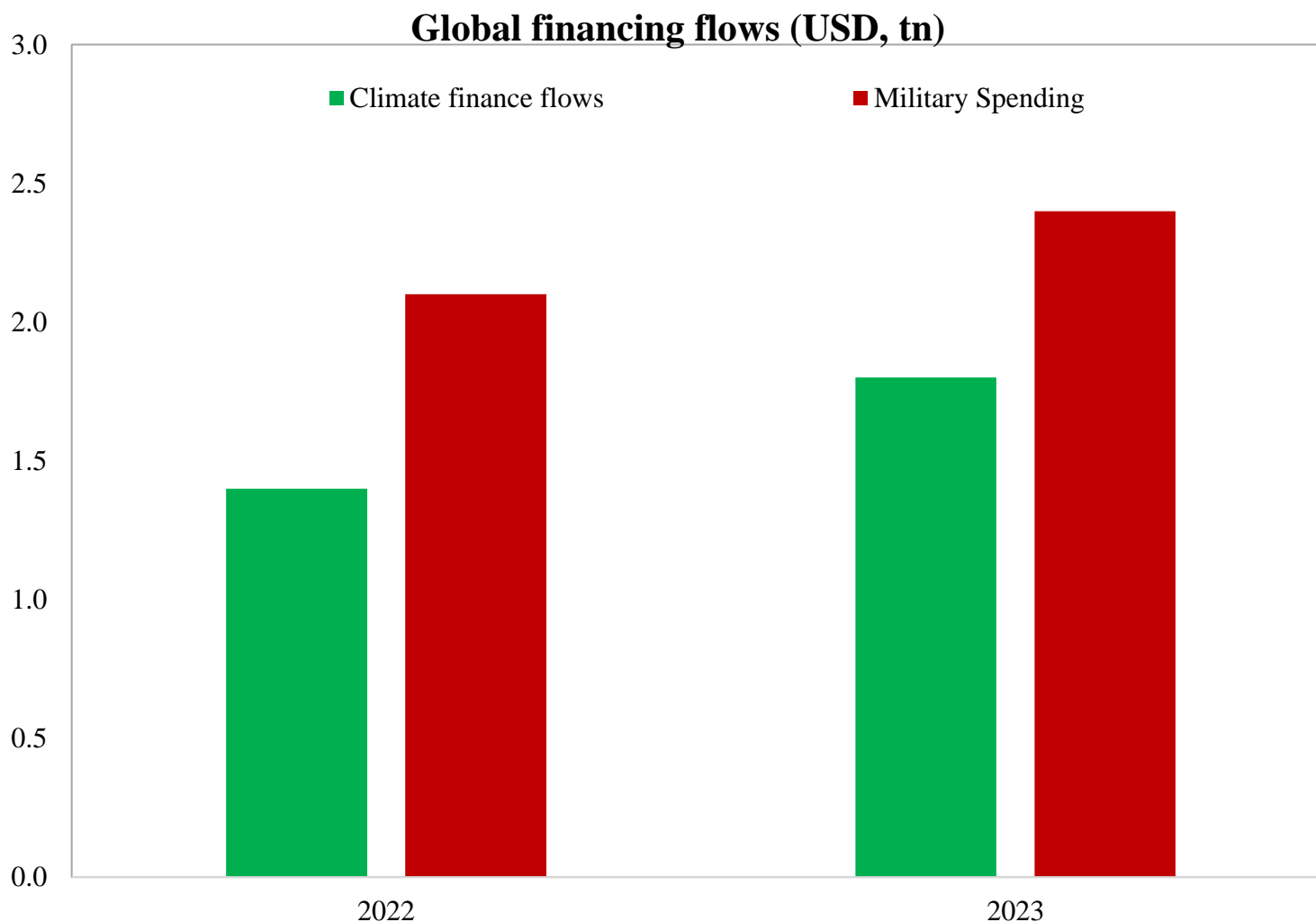
Source: CPB, 2024

WORLD ECONOMY SLOWING DOWN IN SEPTEMBER

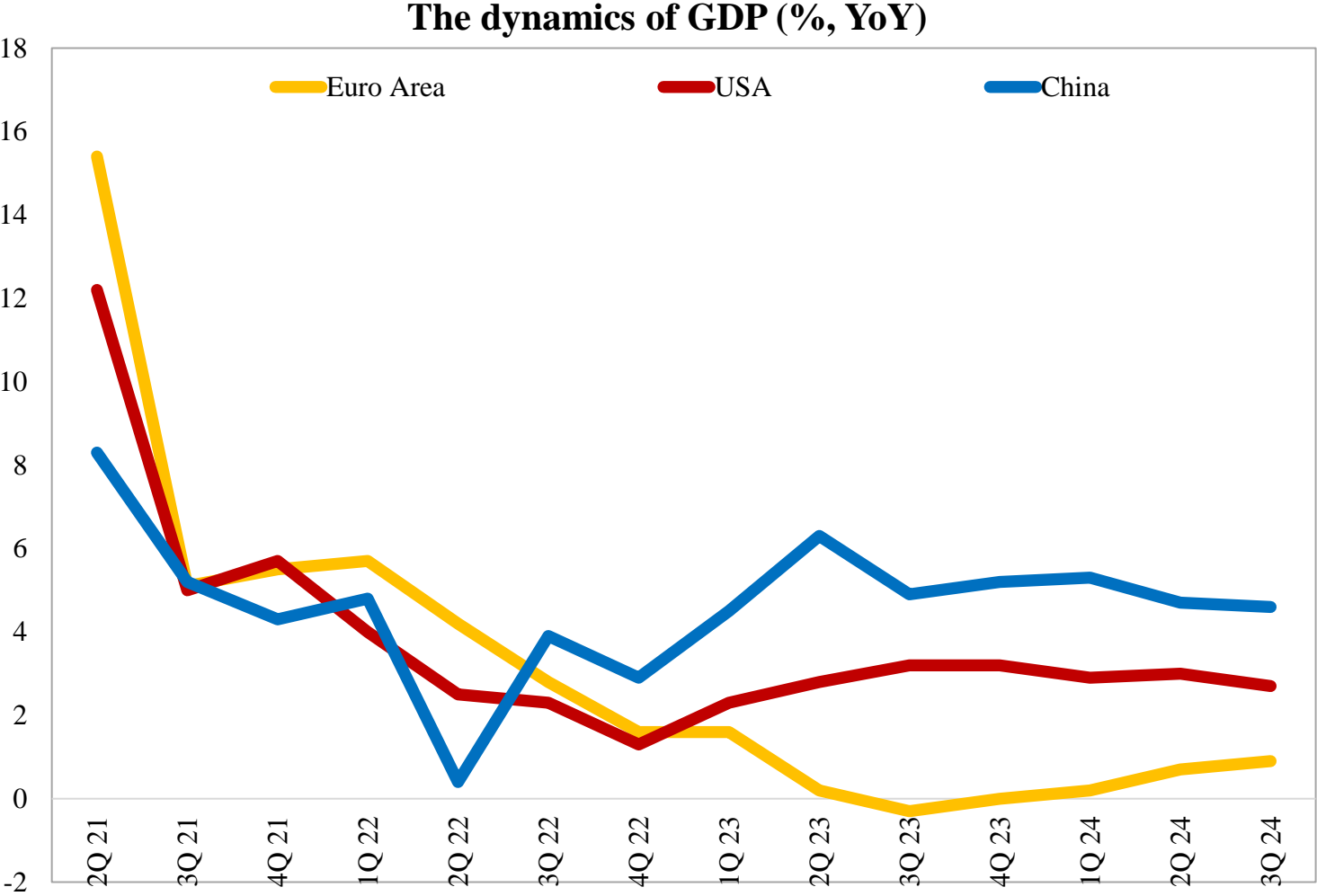


Source: Markit Economics, 2024

LOW FINANCING TO COUNTER CLIMATE CHANGE

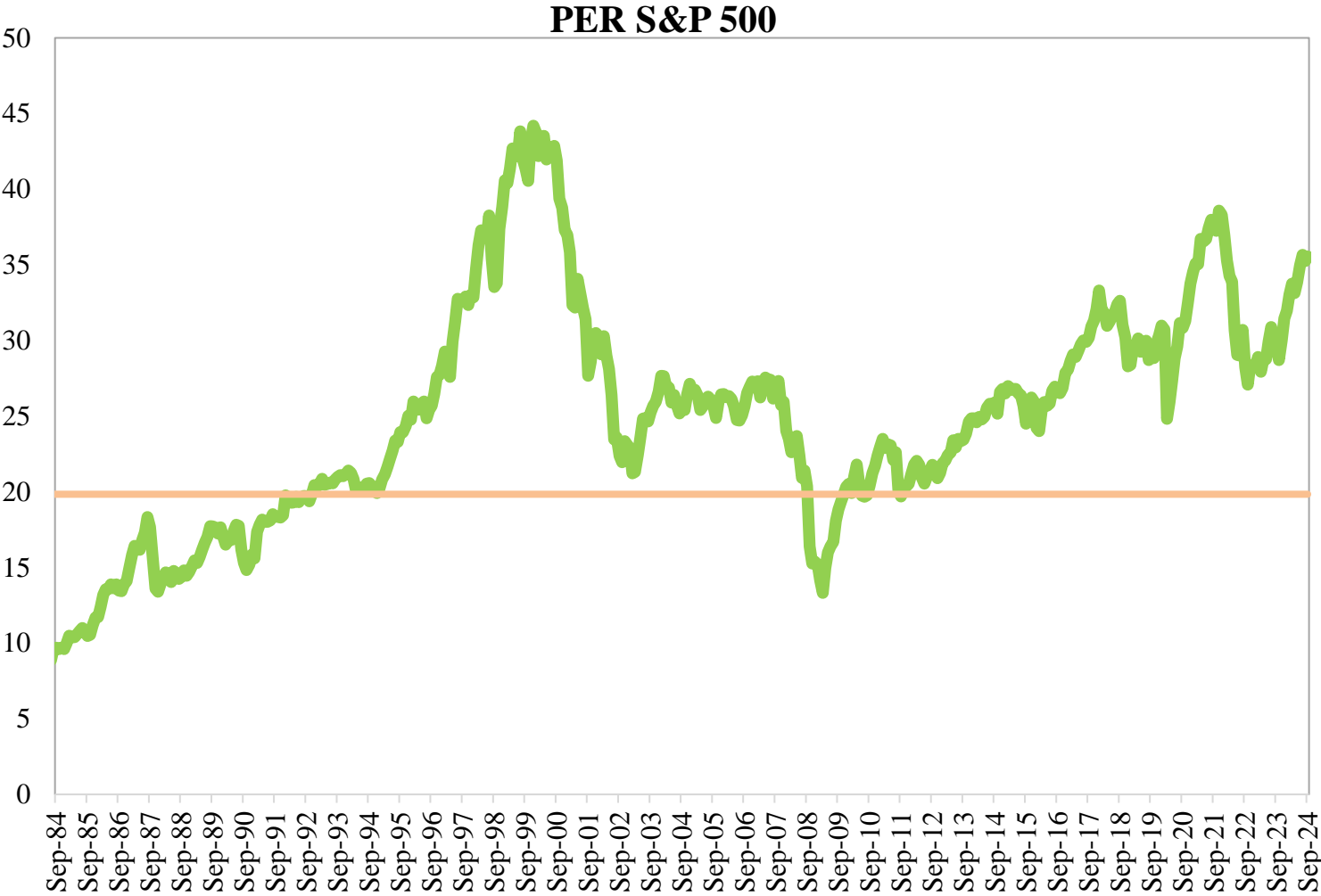


STRONG US ECONOMY, CHALLENGES IN EUROPE



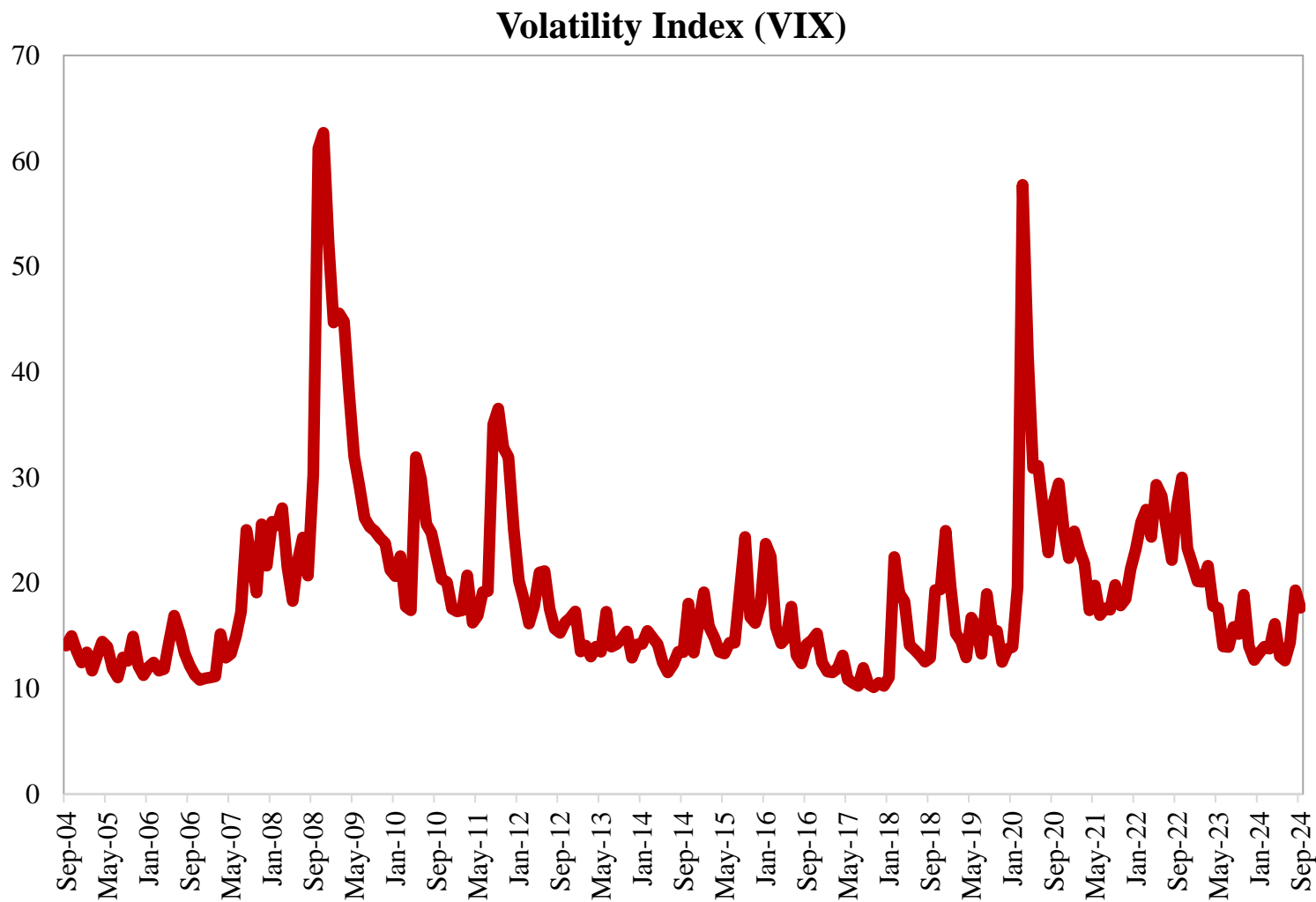
Source: Bloomberg, 2024

OVERVALUED STOCK MARKETS



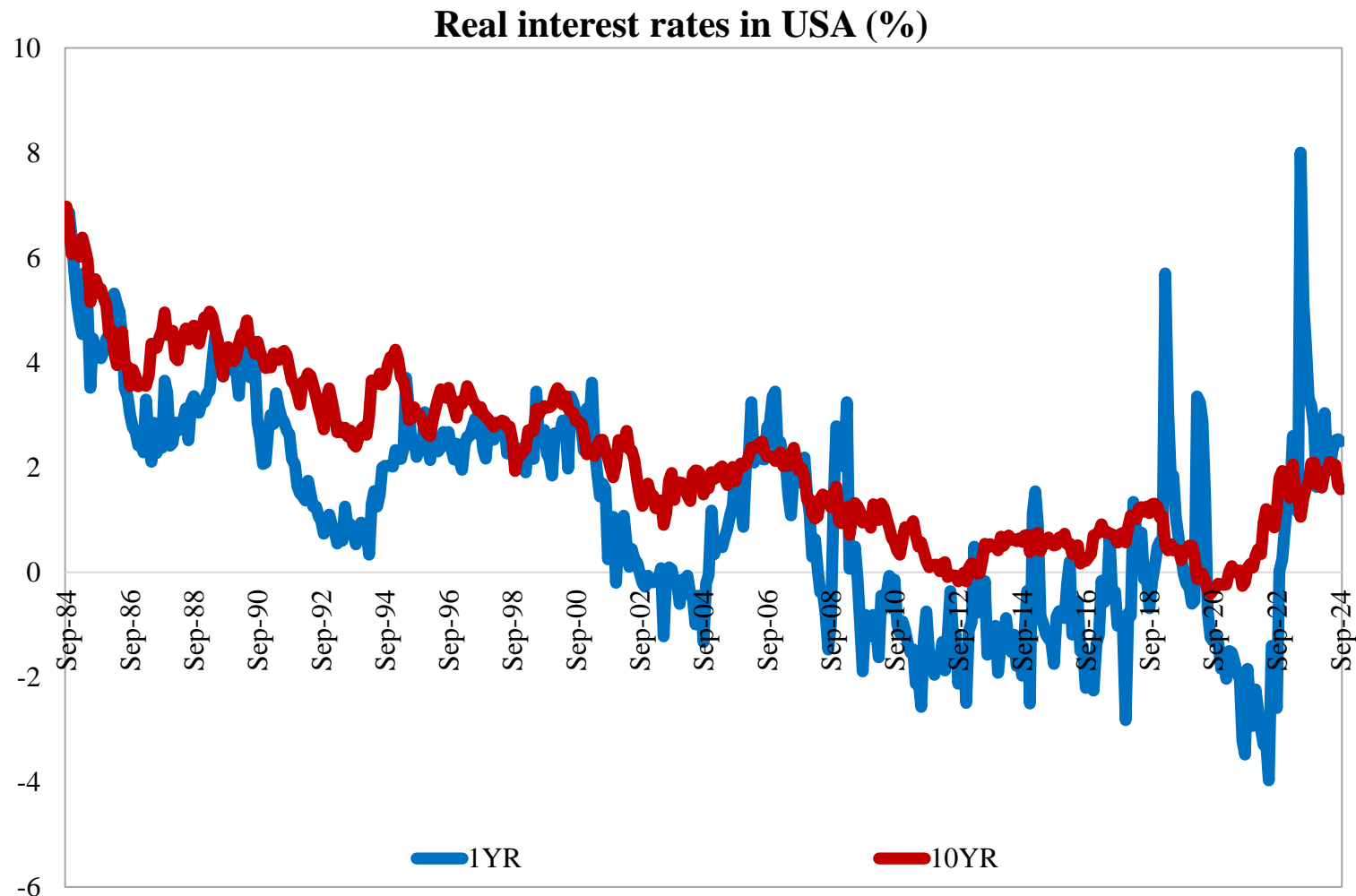
Source: Shiller, 2024

SIGNIFICANT INCREASE OF THE VOLATILITY



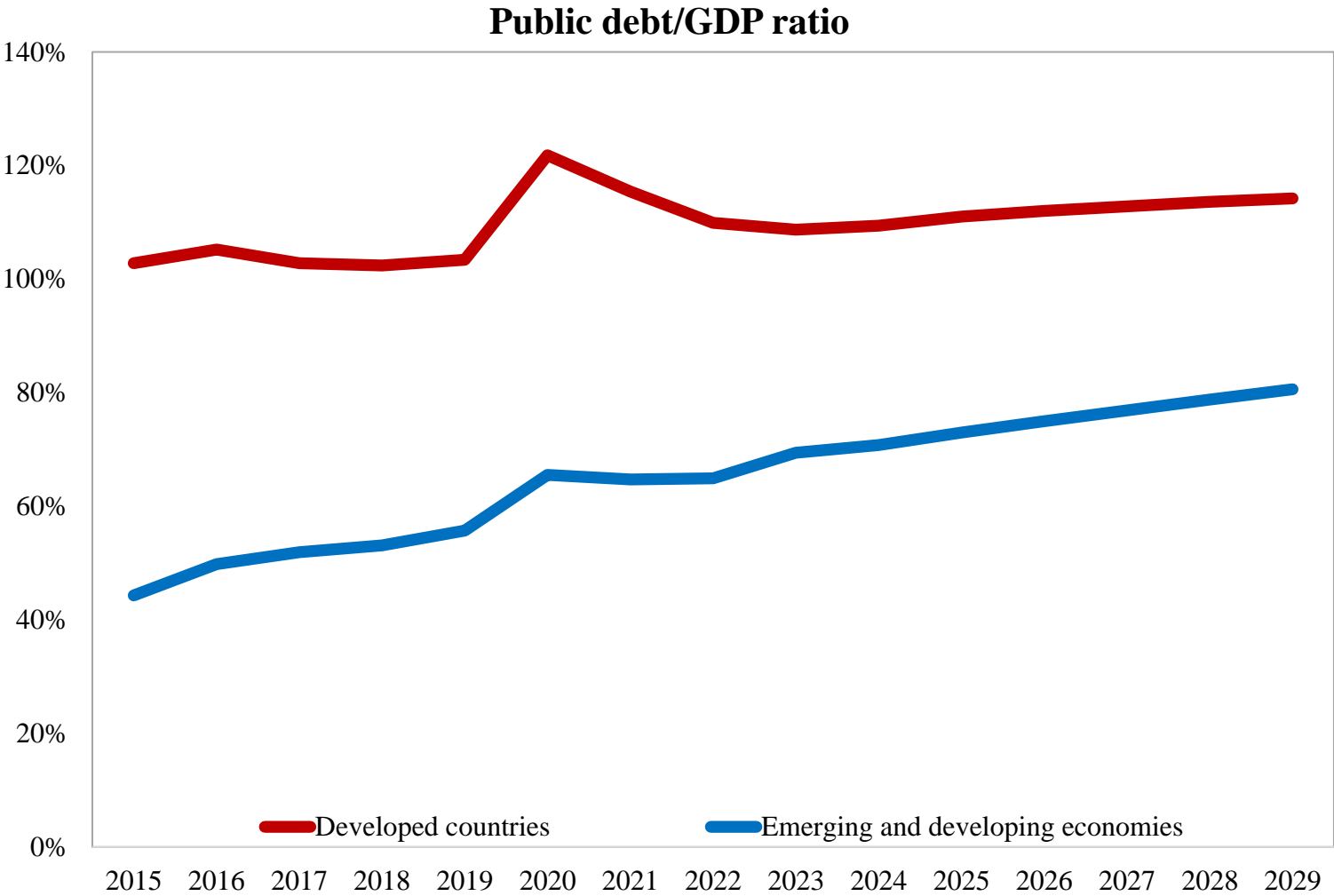
Source: Federal Reserve St. Louis, 2024

HIGH LEVEL OF THE REAL FINANCING COSTS



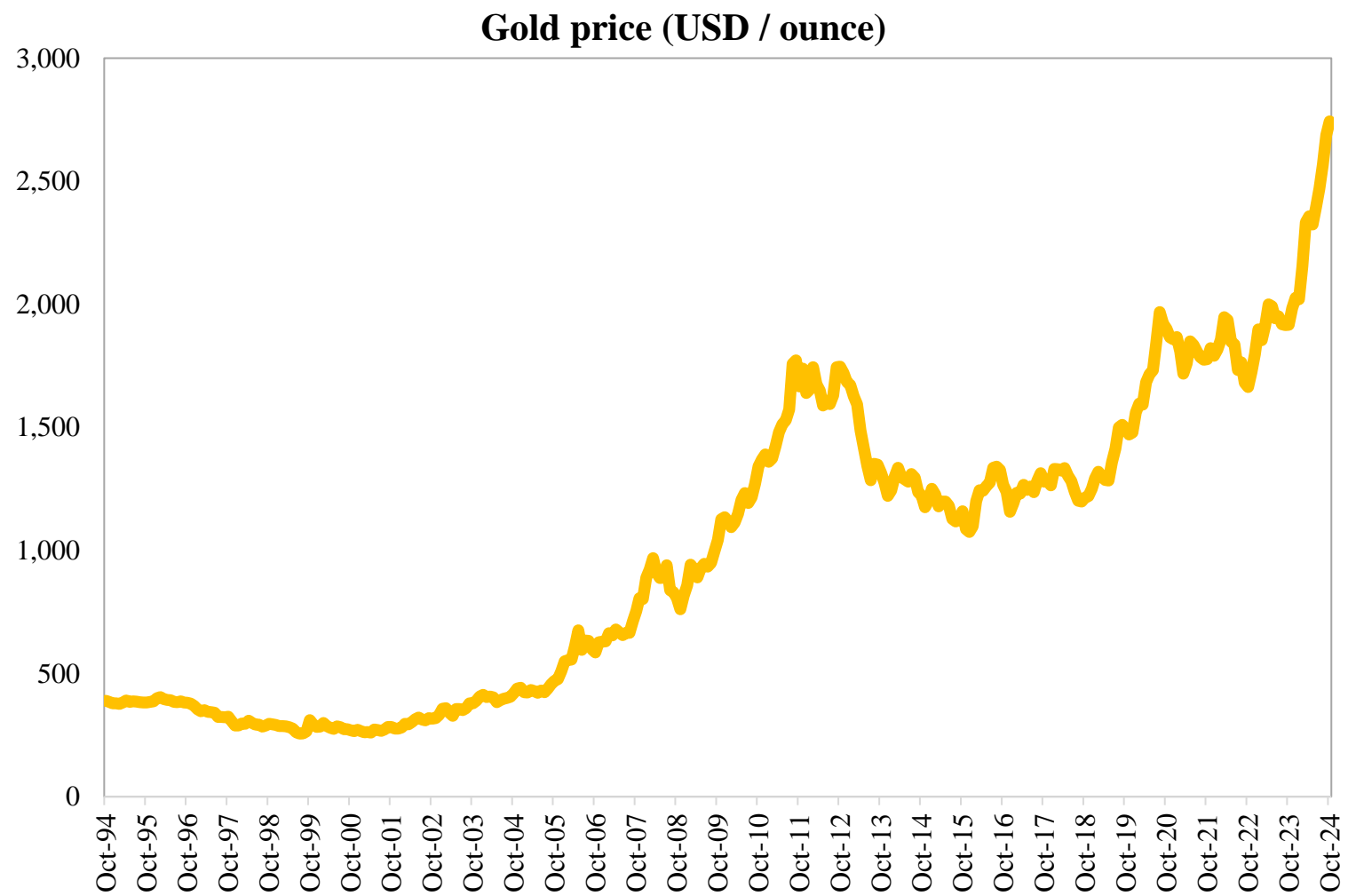
Source: Federal Reserve, St. Louis, 2024

TRILEMMA OF THE FISCAL POLICY



Source: IMF, 2024

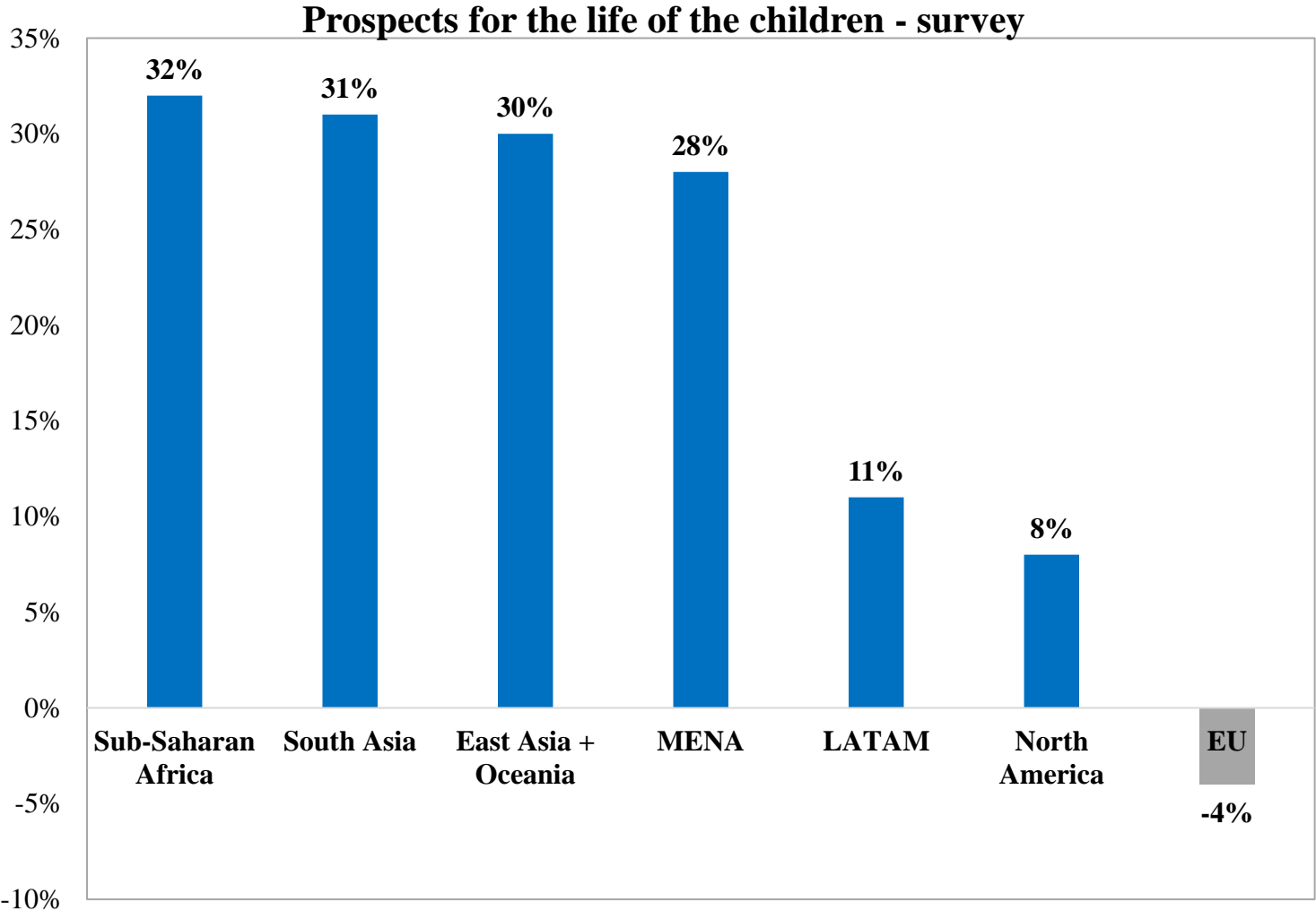
UPWARD TREND OF GOLD PRICE SIGNALS NEW SHOCKS



Source: Indexmundi, World Gold Council, 2024

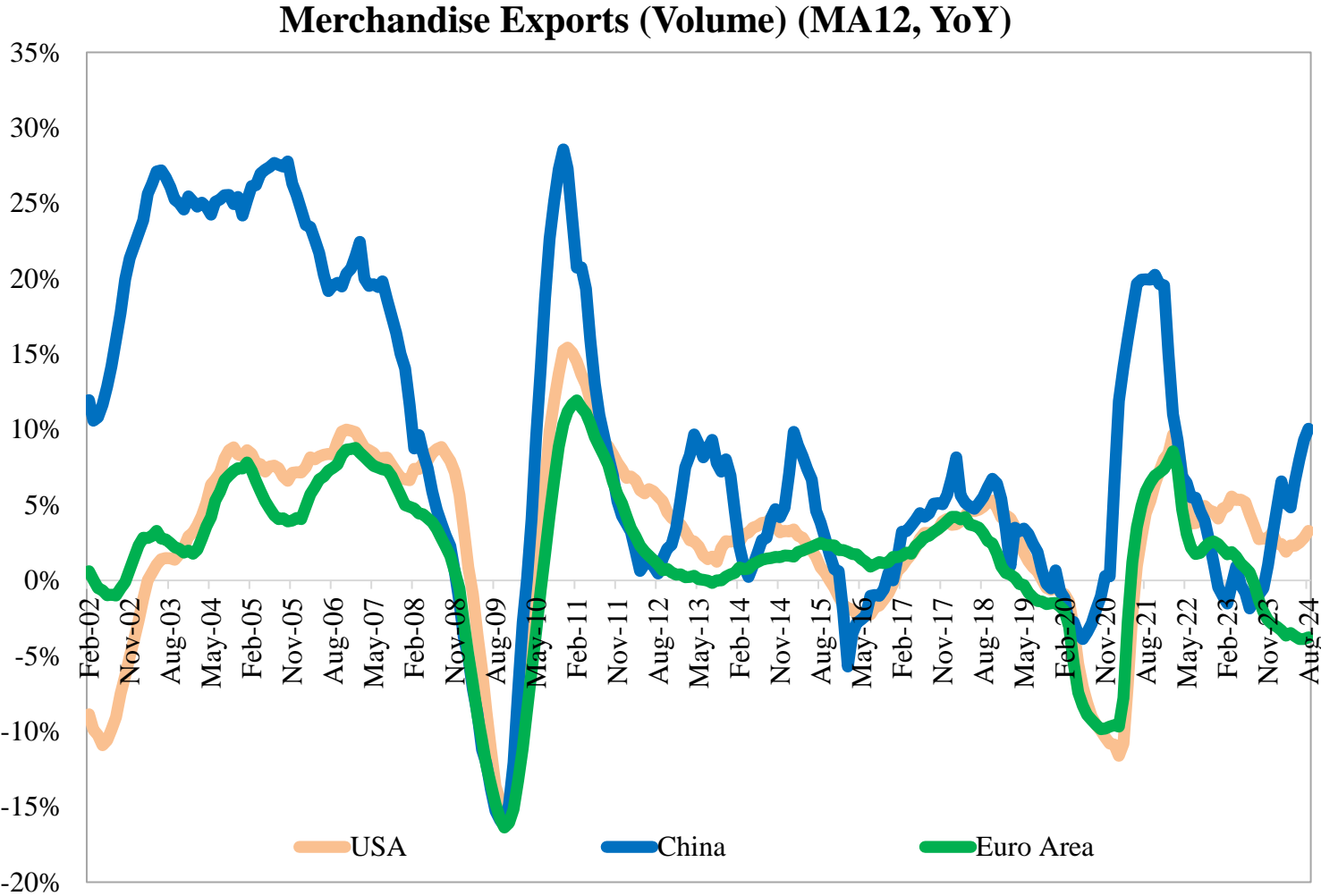
EU ECONOMY CHALLENGES

EUROPE IS WHAT WE BORROW FROM THE FUTURE



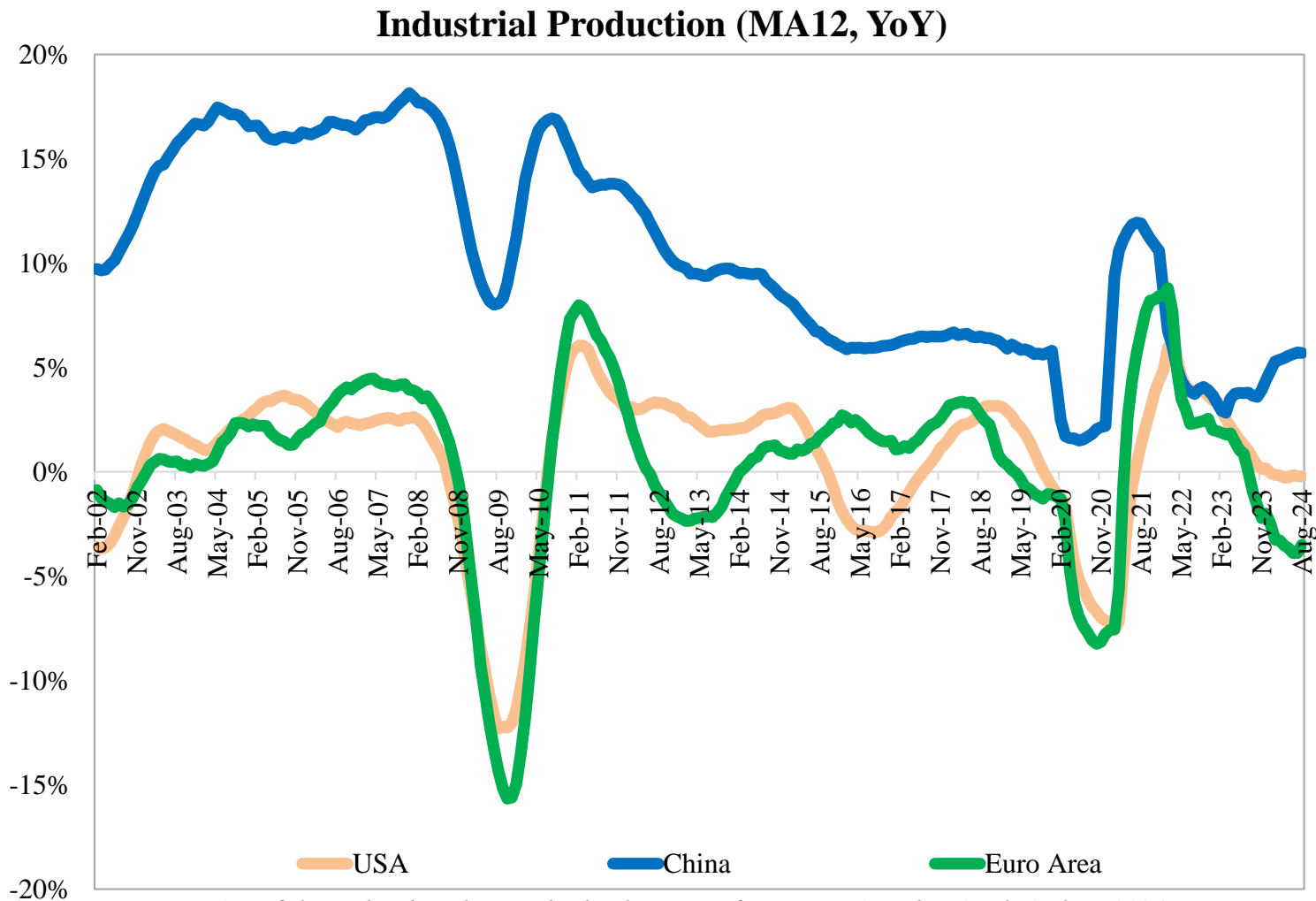
Source: representation of the author based on Gallup International, Eumatrix data, 2024

INTERNATIONAL COMPETITIVENESS DETERIORATING



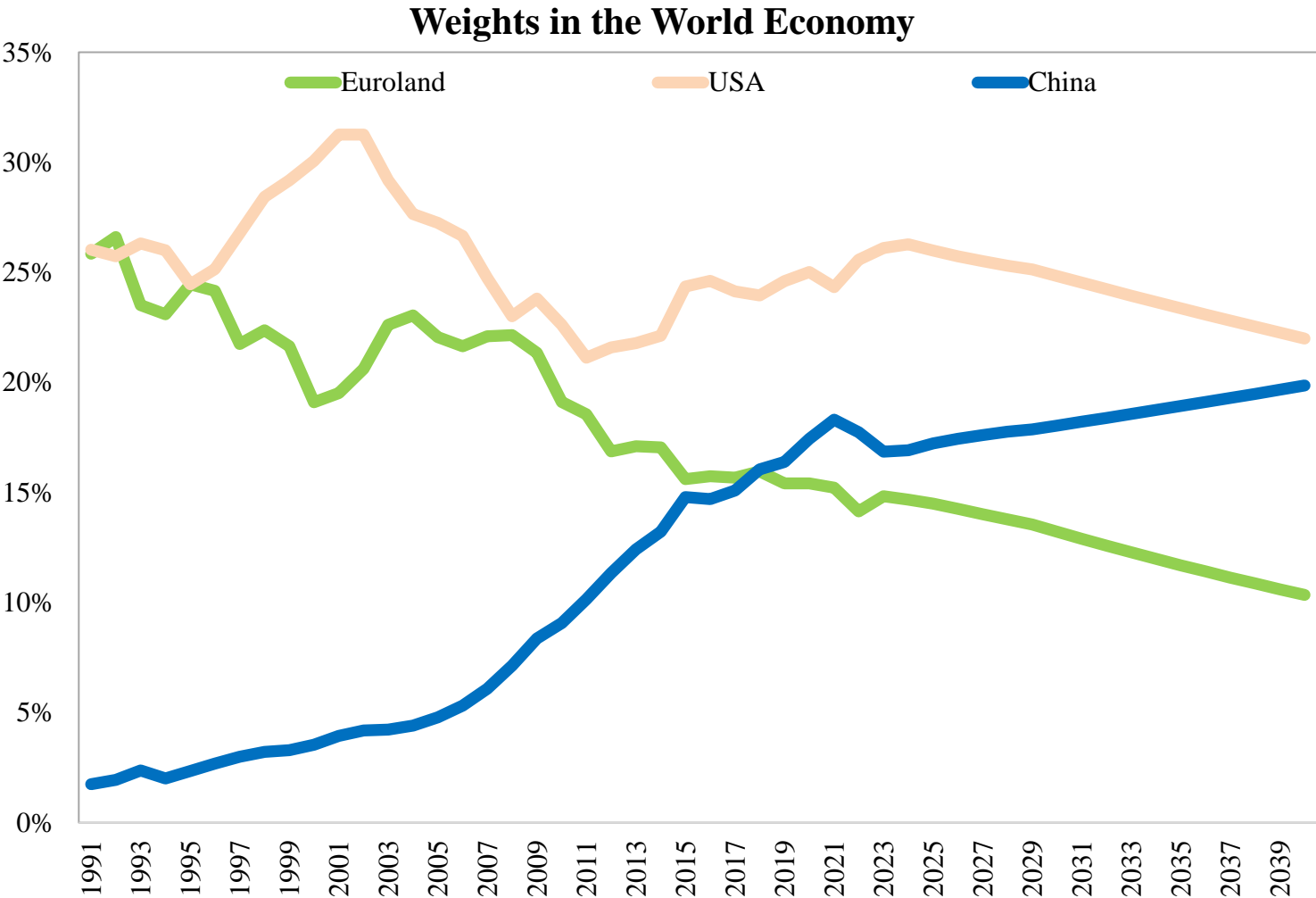
Source: representation of the author based on Netherlands Bureau for Economic Policy Analysis data, 2024

EUROPEAN INDUSTRY IN STRUCTURAL CRISIS



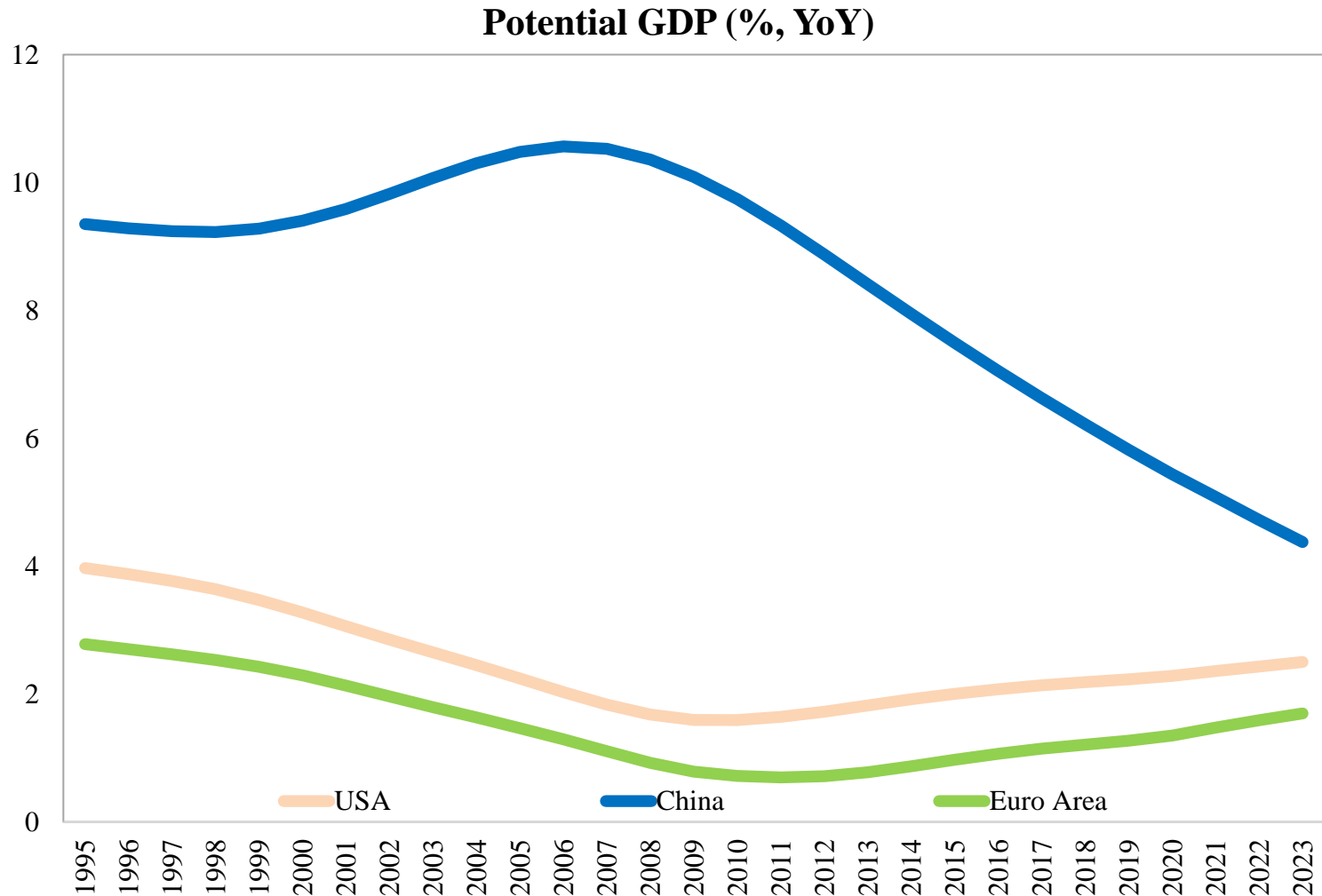
Source: representation of the author based on Netherlands Bureau for Economic Policy Analysis data, 2024

EUROPE – THE LOSER OF THE GLOBAL RACE



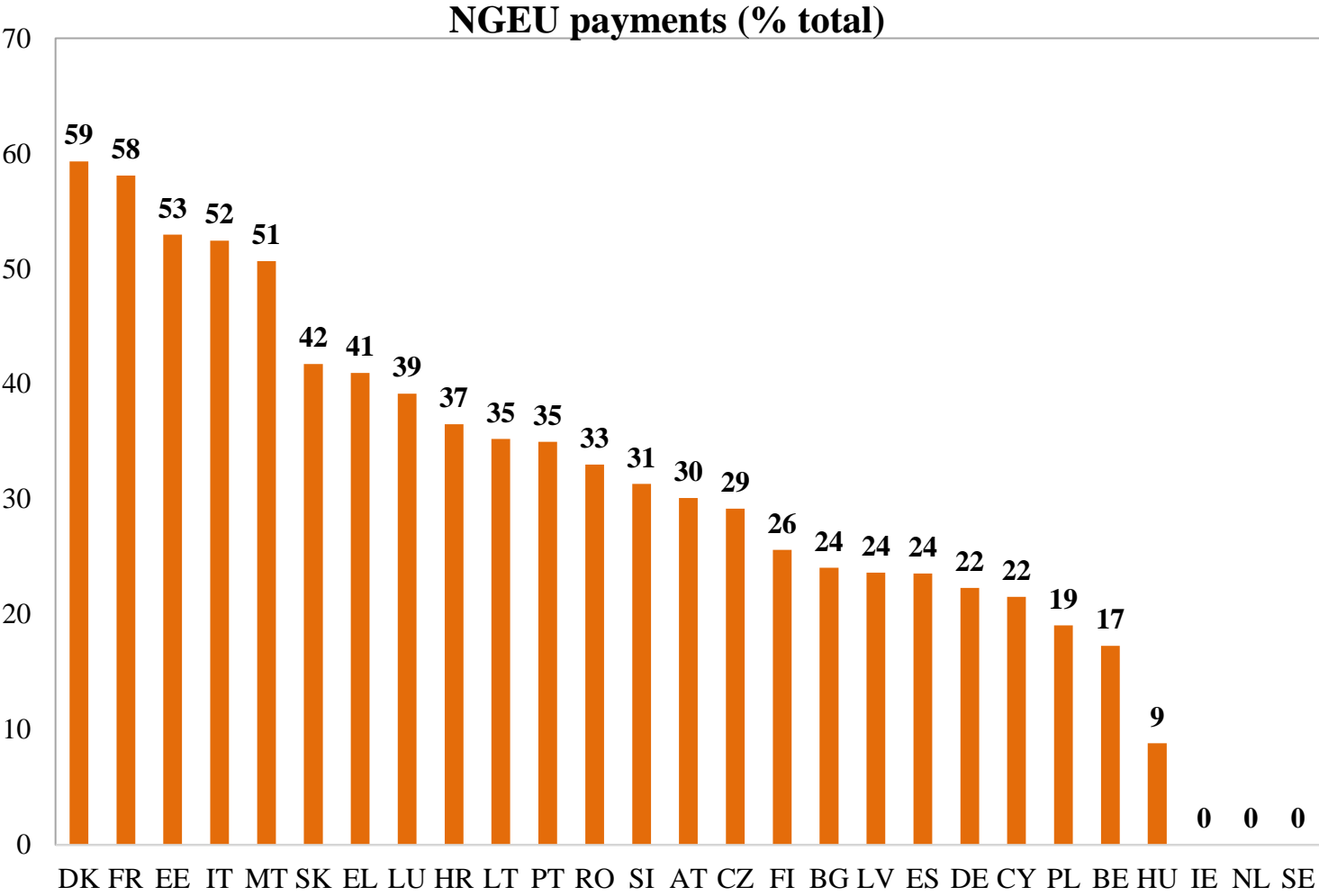
Source: representation of the author based on IMF data and own forecasts, 2024

WEAK DYNAMICS OF POTENTIAL OUTPUT



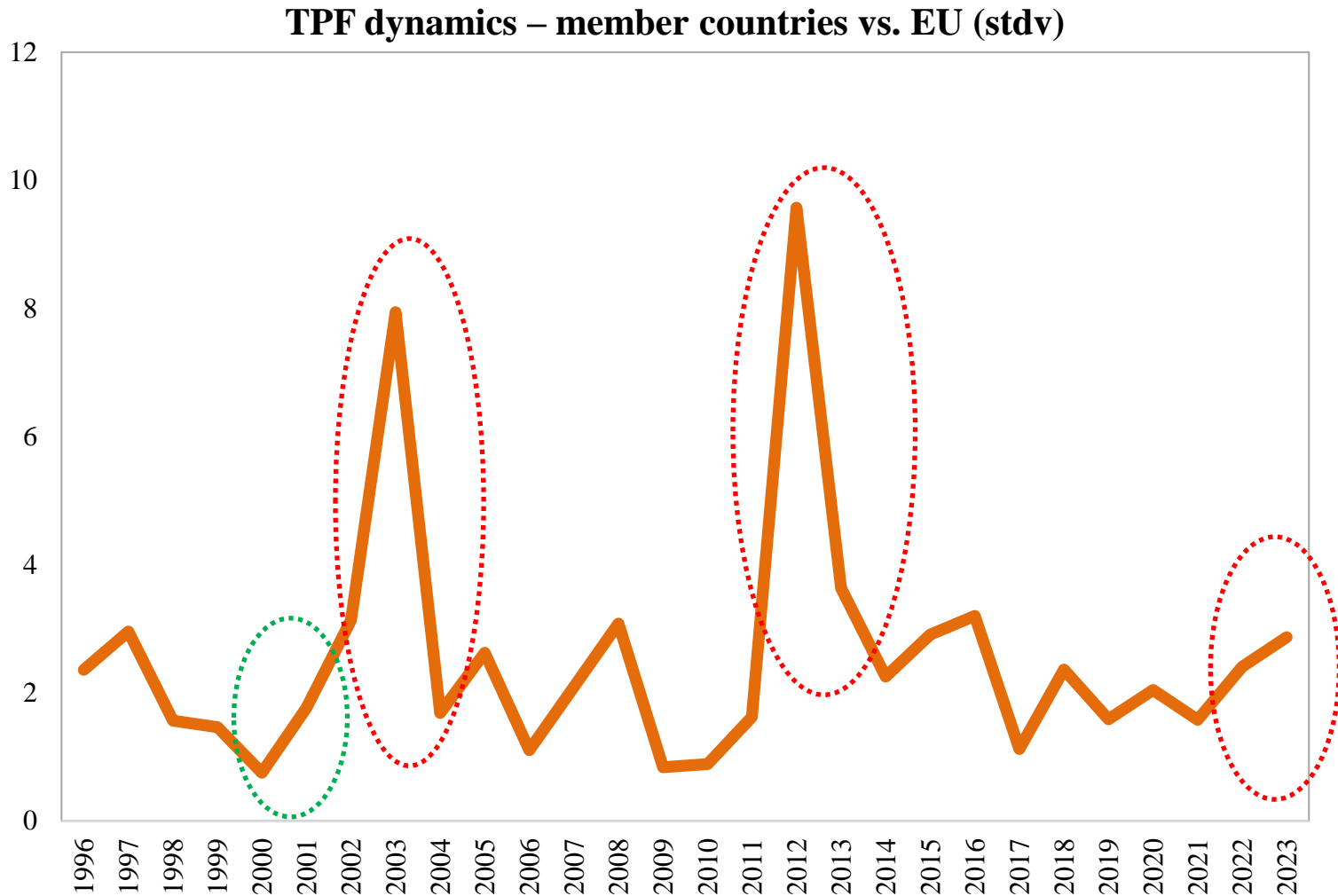
Source: representation of the author based on econometric estimates, using IMF data, 2024

IMPLEMENTATION OF NGEU SHOULD BE ACCELERATED



Source: representation of the author based on the European Commission data, 2024

ON THE DIVERGENCE MOOD AGAIN



Source: representation of the author, based on AMECO data, 2024

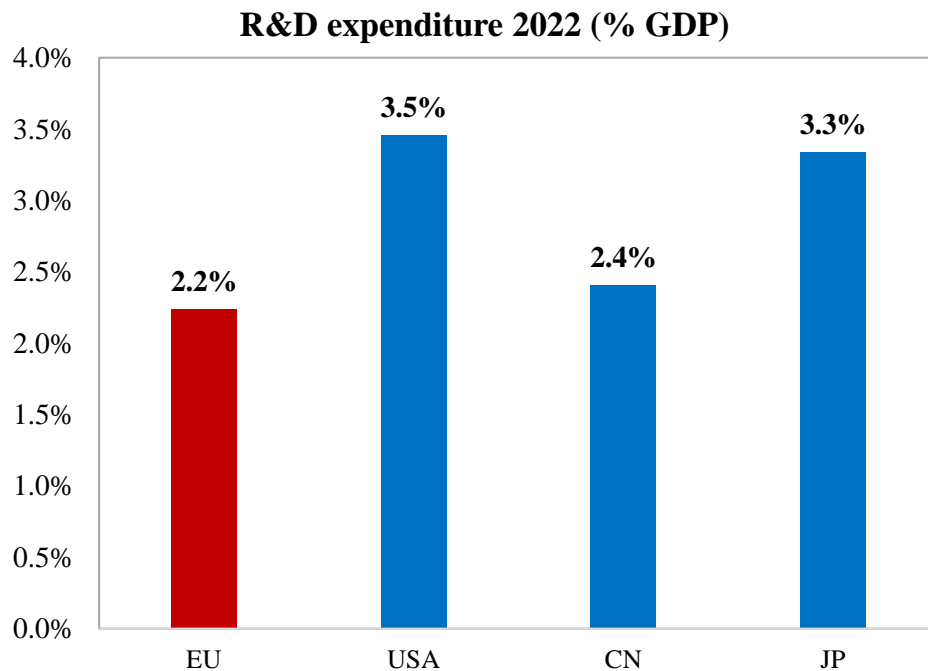
A VISION FOR THE TRANSFORMATION OF EUROPE

1–10 MATRIX YEARLY TO OPTIMISE ALLOCATION

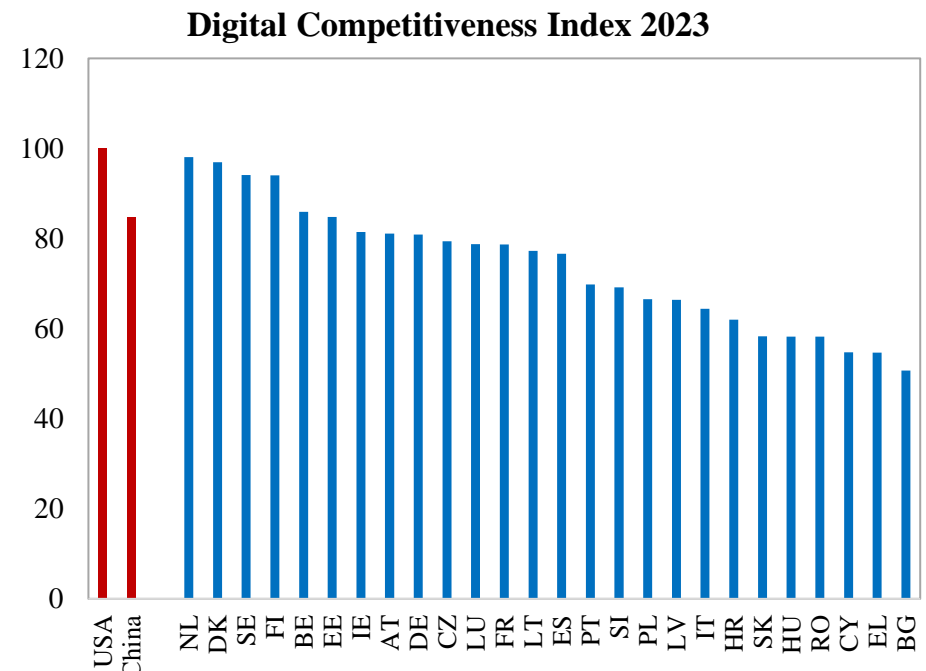
1. Increase the **LABOUR PRODUCTIVITY** by **1%**
2. Rise the share of **DIGITAL ECONOMY** in **GDP** by **2pps**
3. Increase the **R&D&I** expenditure by **3%** (in real terms)
4. Rise by at least **4% NEW LISTED COMPANIES** and **NEW INVESTORS** on the **EU CAPITAL MARKETS**
5. Cut the **CO2 EMISSIONS** by **5%**
6. Diminish the **REGULATORY BURDEN** by **6%**
7. Intensify the efforts in terms of **CIRCULAR ECONOMY** by **7%**
8. Promote the **EU/EU COUNTRIES** abroad - efforts up by **8%**
9. Close the **PERFORMANCE GAP** compared to top EU countries in terms of market competition and regulation, taxation, skills and education, participation rate, R&D by **9%**
10. Improve the **COMMUNICATION** with the stakeholders, involving more **EU CITIZENS** by **10%**

THE FUTURE BEGINS EVERY DAY ...

- Invest more in **R&D&I** – generate & encourage **TALENT** to work in **EUROPE**
- Generate a strong & dynamic **RESEARCH & INNOVATION HUB**, to intensify knowledge diffusion
- Improve the **HUMAN CAPITAL**, increase the **FLEXIBILITY** on the labour market
- Accelerate the implementation of **DIGITAL/AI REVOLUTIONS, TECHNOLOGICAL PROGRESS**



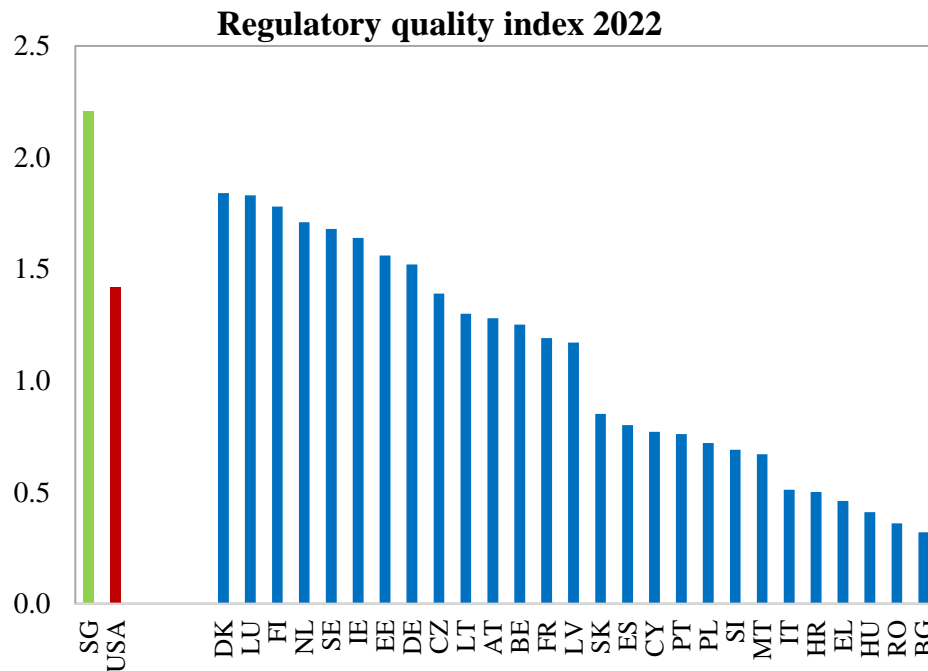
Source: representation of the author based on Eurostat data, 2024



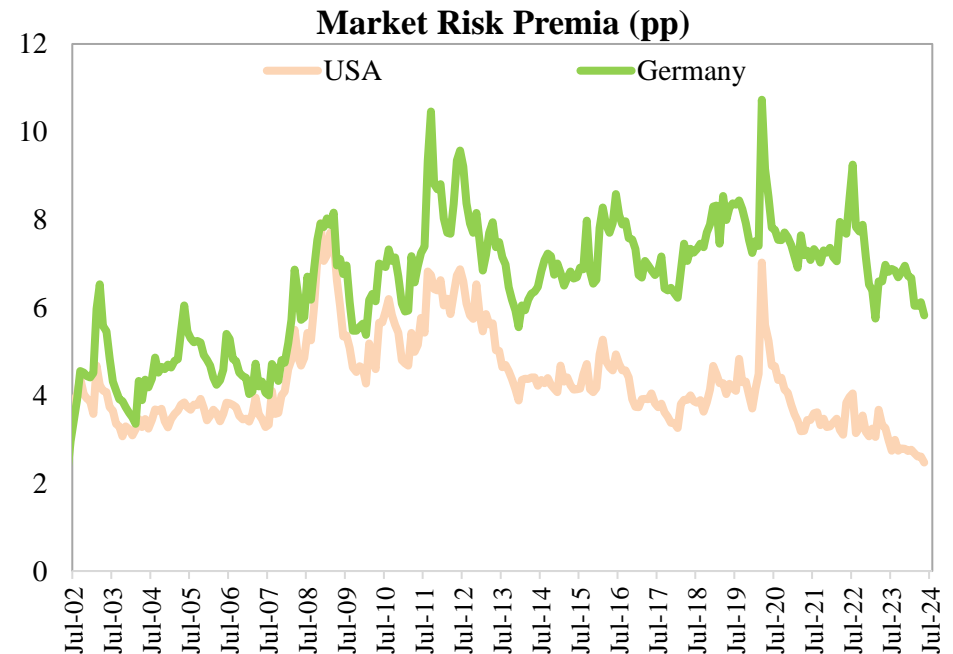
Source: representation of the author based on IMD Report, 2024

WE ARE WHAT WE CONSISTENTLY DO

- From US innovates, China fakes, and **EU regulates** to US & China innovate, **EU regulates**
- Cut **REGULATION BURDEN**, simplify procedures, implement the **EU CODE OF BUSINESS LAW**
- Cut **FINANCING COSTS**, **PUT SAVINGS** to **WORK** (e.g. of reforms in **SE, Allemansspar** (1984))
- More **LISTED** companies, more **INVESTORS**, and higher **INTEGRATION** of financial markets



Source: representation of the author based on Globaleconomy, 2024

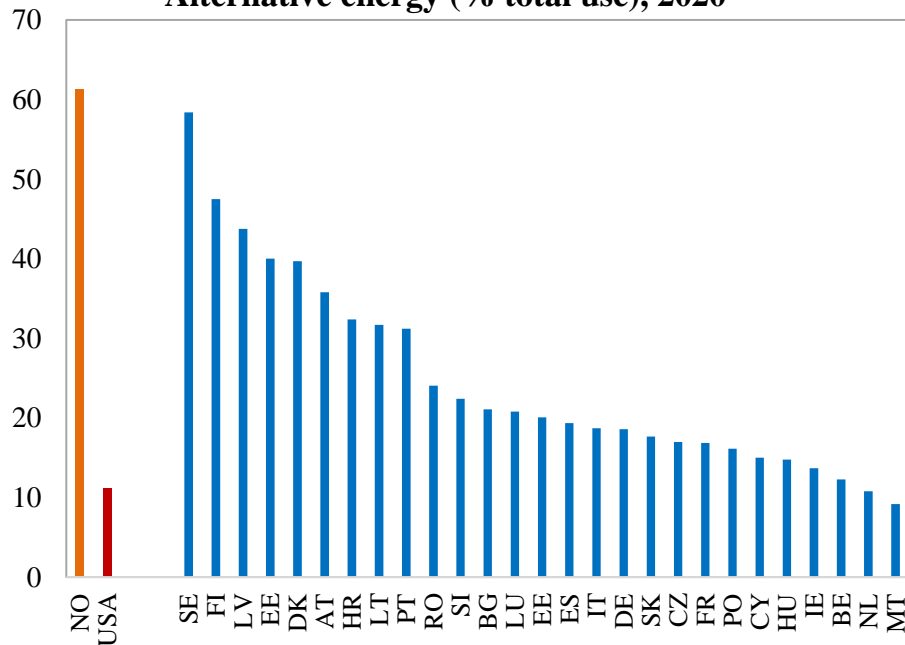


Source: representation of the author based on Market Risk Premia data, 2024

ALWAYS REMEMBER THAT THE WORK IS NOT FINISHED

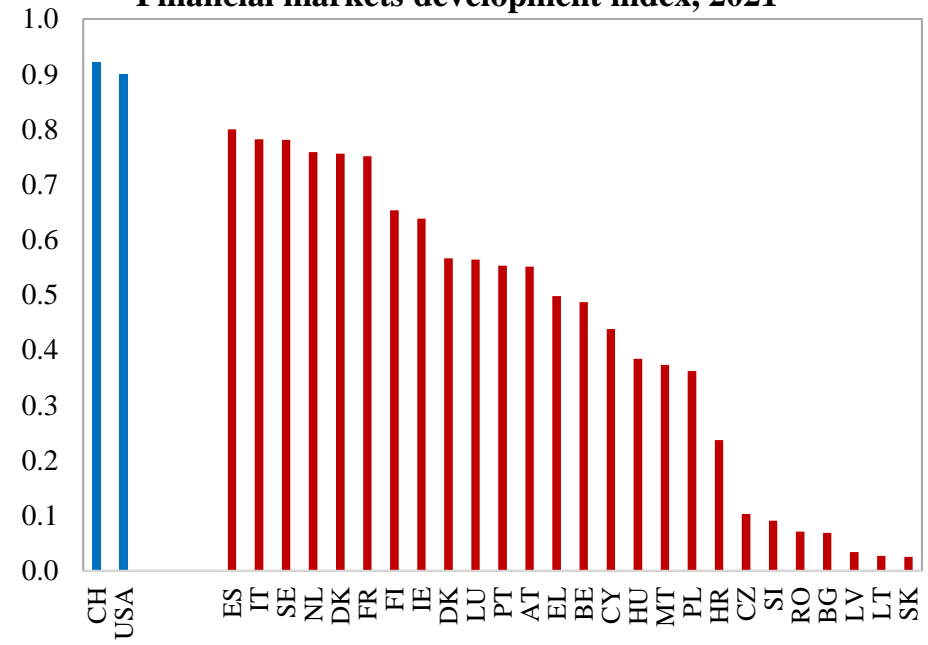
- Accelerate the **GREEN TRANSITION** and the **CIRCULAR ECONOMY** in **EUROPE**
- Introduce **CARBON TAX** on finished goods, extend **ETS**, **TAX EXEMPTIONS** for **INVESTMENTS**
- Integrate **ENERGY, FINANCIAL, DIGITAL, EDUCATION, HEALTH, DEFENCE***
- Strengthen the efficiency of the **PUBLIC PROCUREMENT**

Alternative energy (% total use), 2020



Source: representation of the author based on Globaleconomy, 2024

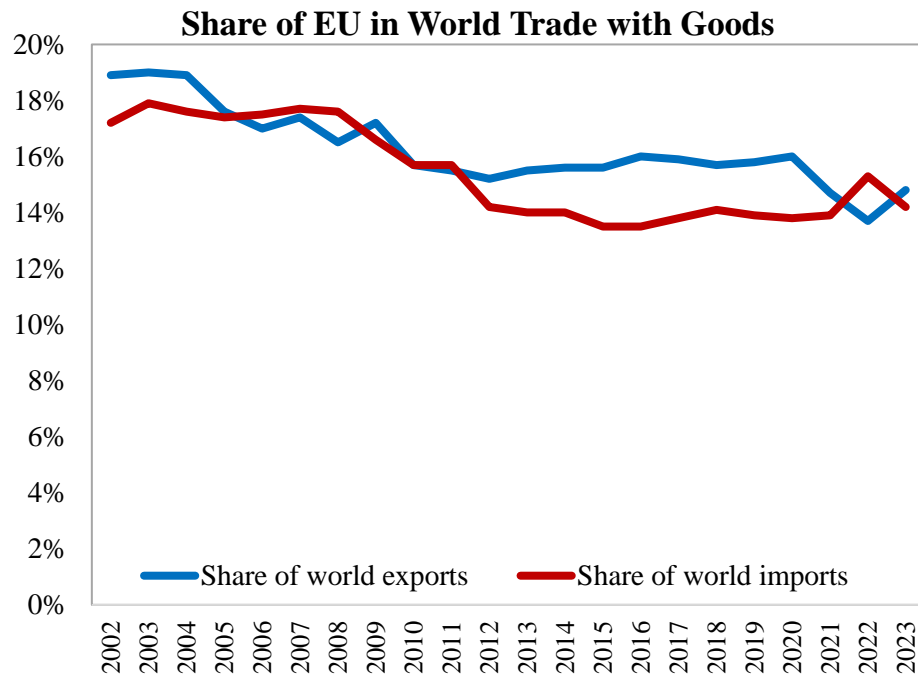
Financial markets development index, 2021



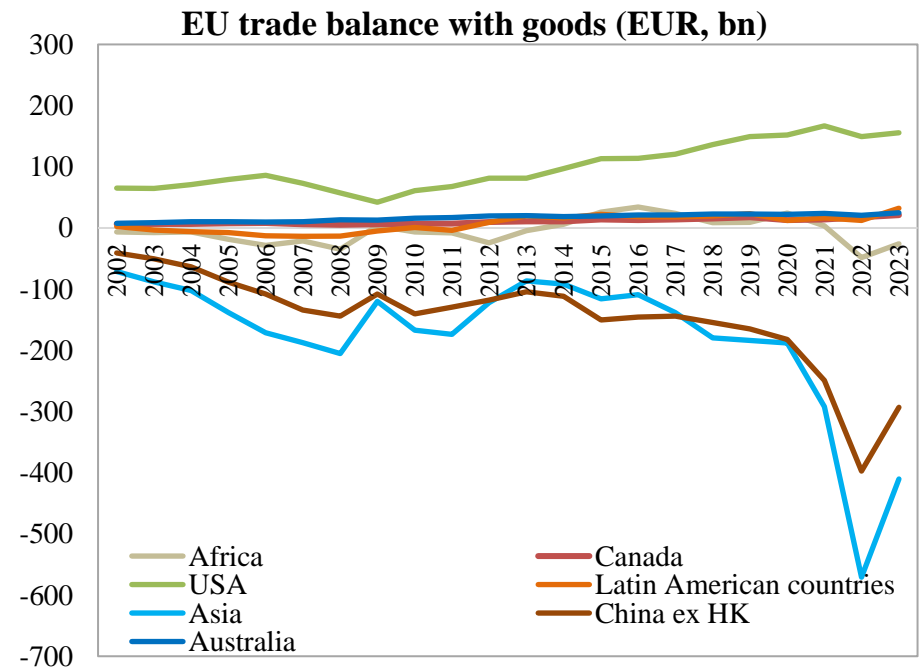
Source: representation of the author based on Globaleconomy, 2024

OPPORTUNITIES ARISE EVERY DAY ...

- Improve the **ECONOMIC DIPLOMACY** and **CYBER DIPLOMACY**
- Increase **BUSINESS** with **ASIA, AFRICA, LATIN AMERICA** (also use **Eastern Europe Gate**)
- Reform the **COHESION POLICY** to prepare the **ENLARGEMENT**
- Launch the **EU AGENDA** for the **HORIZON 2040**



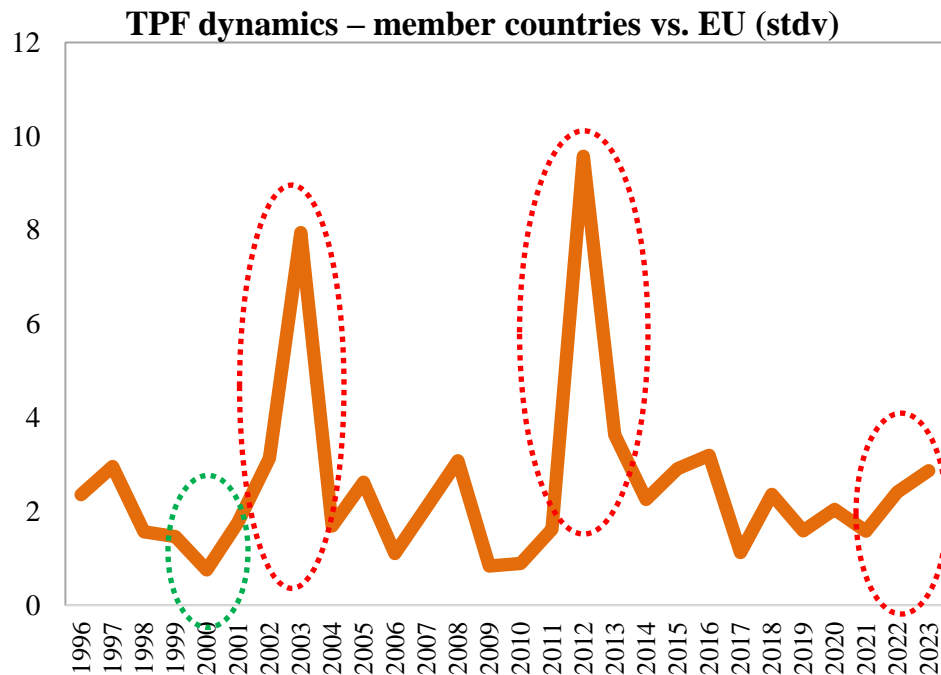
Source: representation of the author based on Statista data, 2024



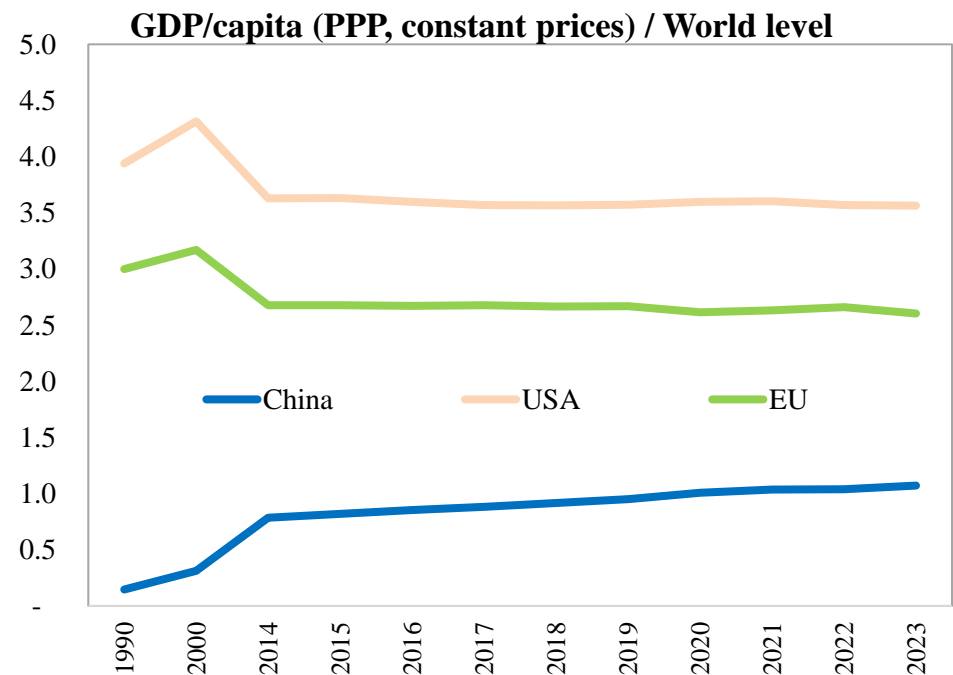
Source: representation of the author based on Eurostat data, 2024

NOTHING ENDURES, BUT CHANGE

- Counter discrimination, attract the brains, reinforce and promote the **SPIRIT** of **EU CONVERGENCE**
- Promote greater **PARTICIPATION** of **SMEs** in the Single Market & greater **CITIZEN INVOLVEMENT**
- Move to the **POLITICAL UNION** - better communication of the structural transformations in the world
- Use **DEFENCE INDUSTRY** and the **POTENTIAL** of the **ARTIC** as driving forces



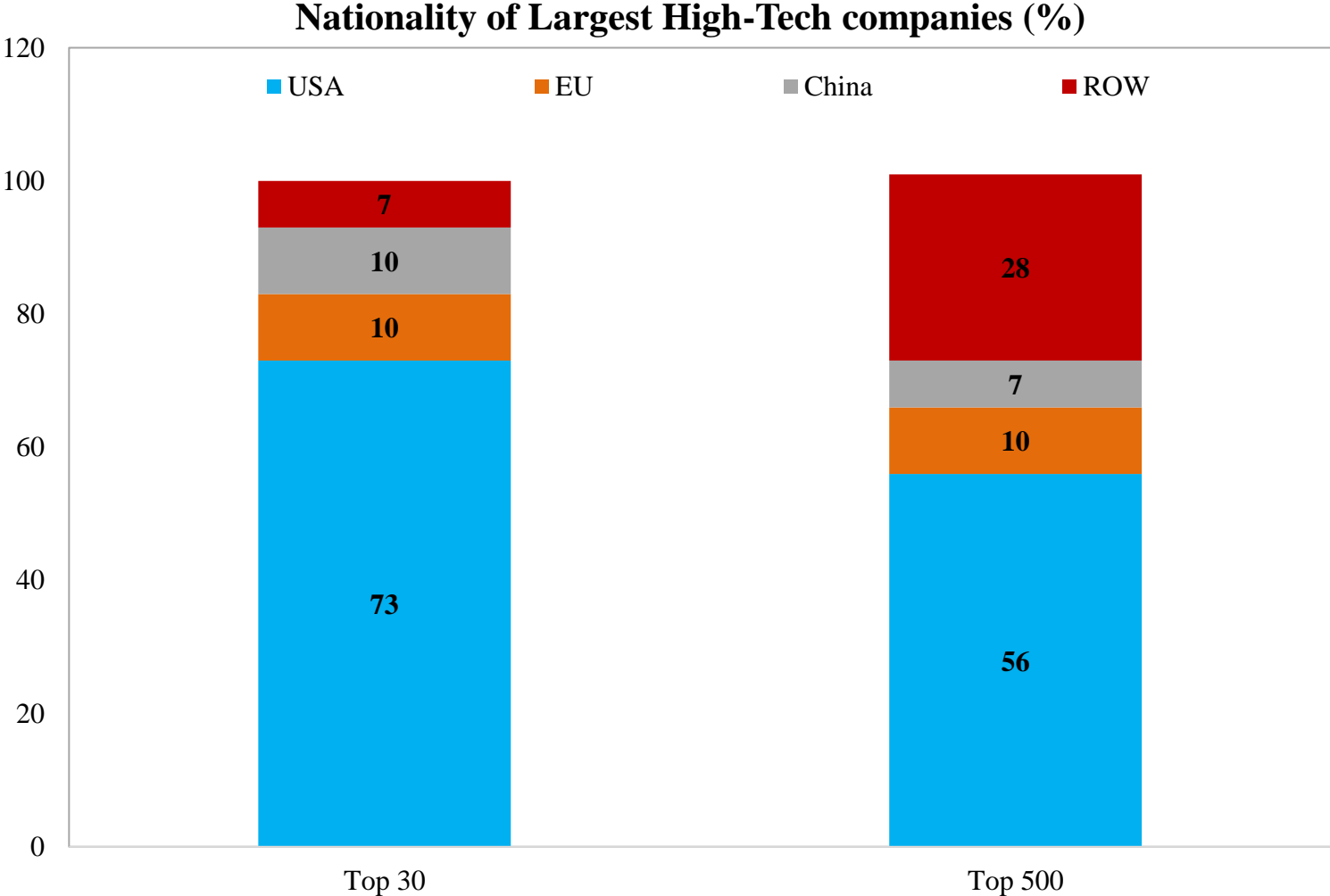
Source: representation of the author, based on AMECO data, 2024



Source: representation of the author based on World Bank data, 2024

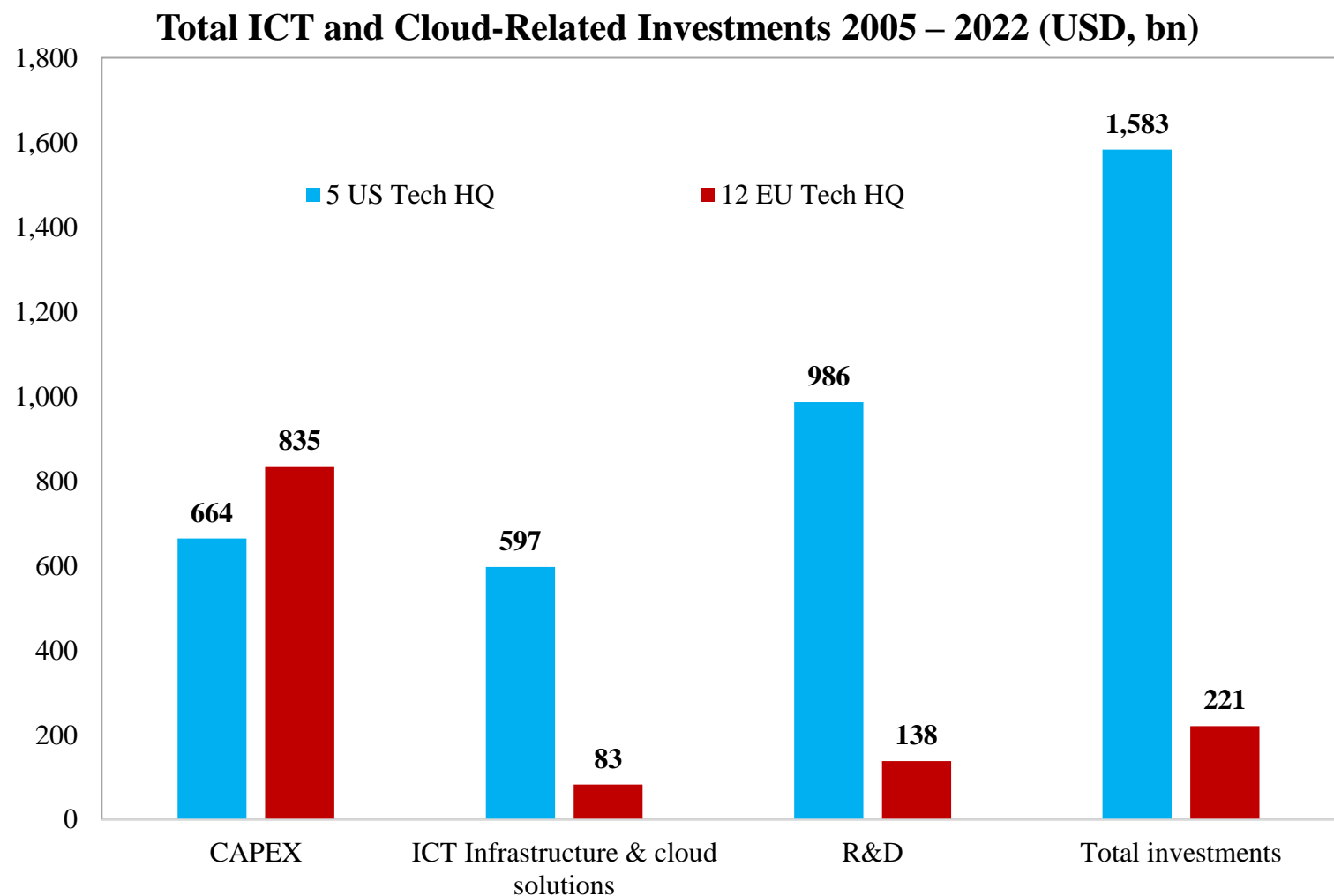
TECHNOLOGY RACE – EU vs. USA

EU – A LAGGARD IN TERMS OF HIGH-TECH



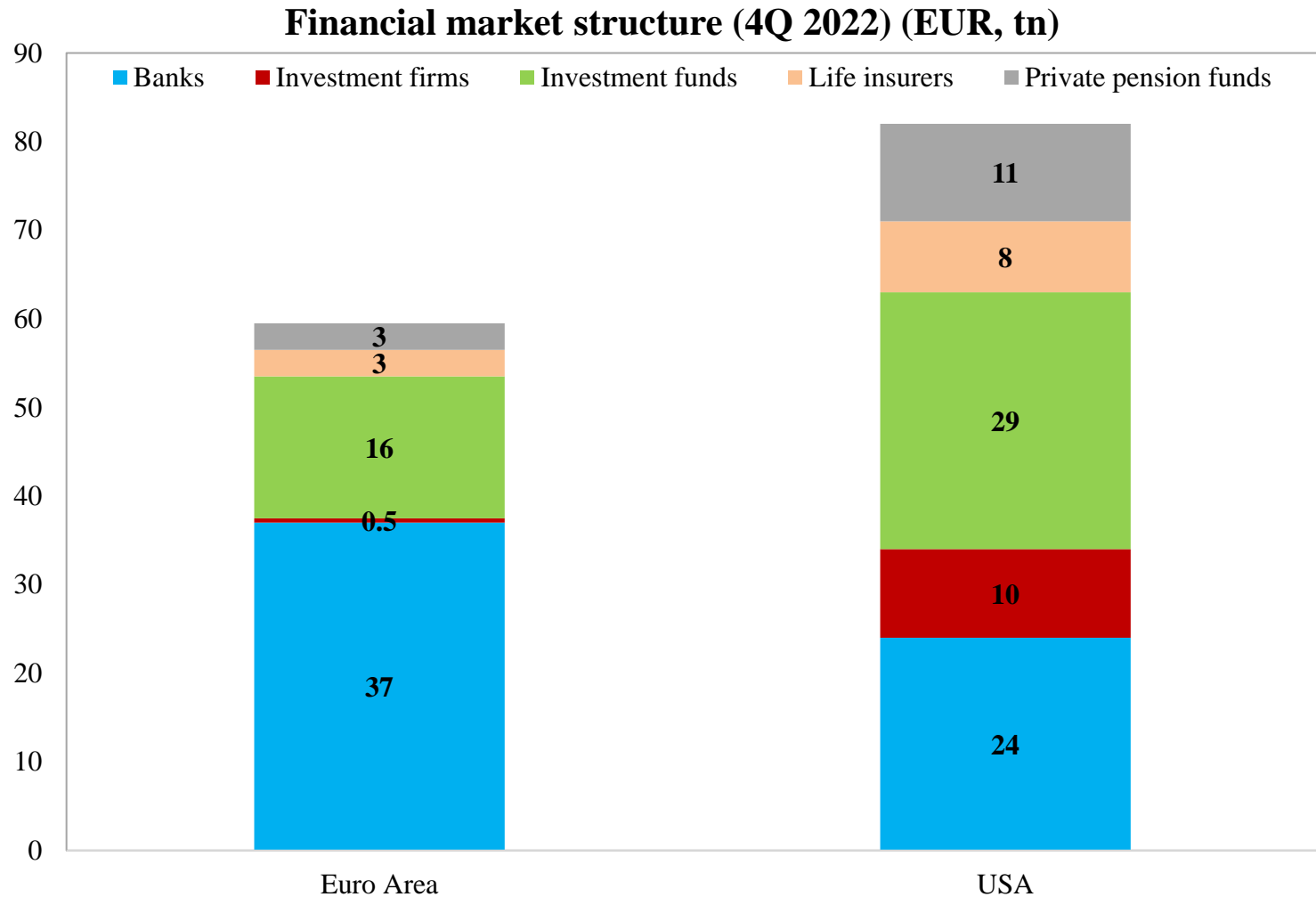
Source: IMF, 2024

AS EU COMPANIES INVEST LESS



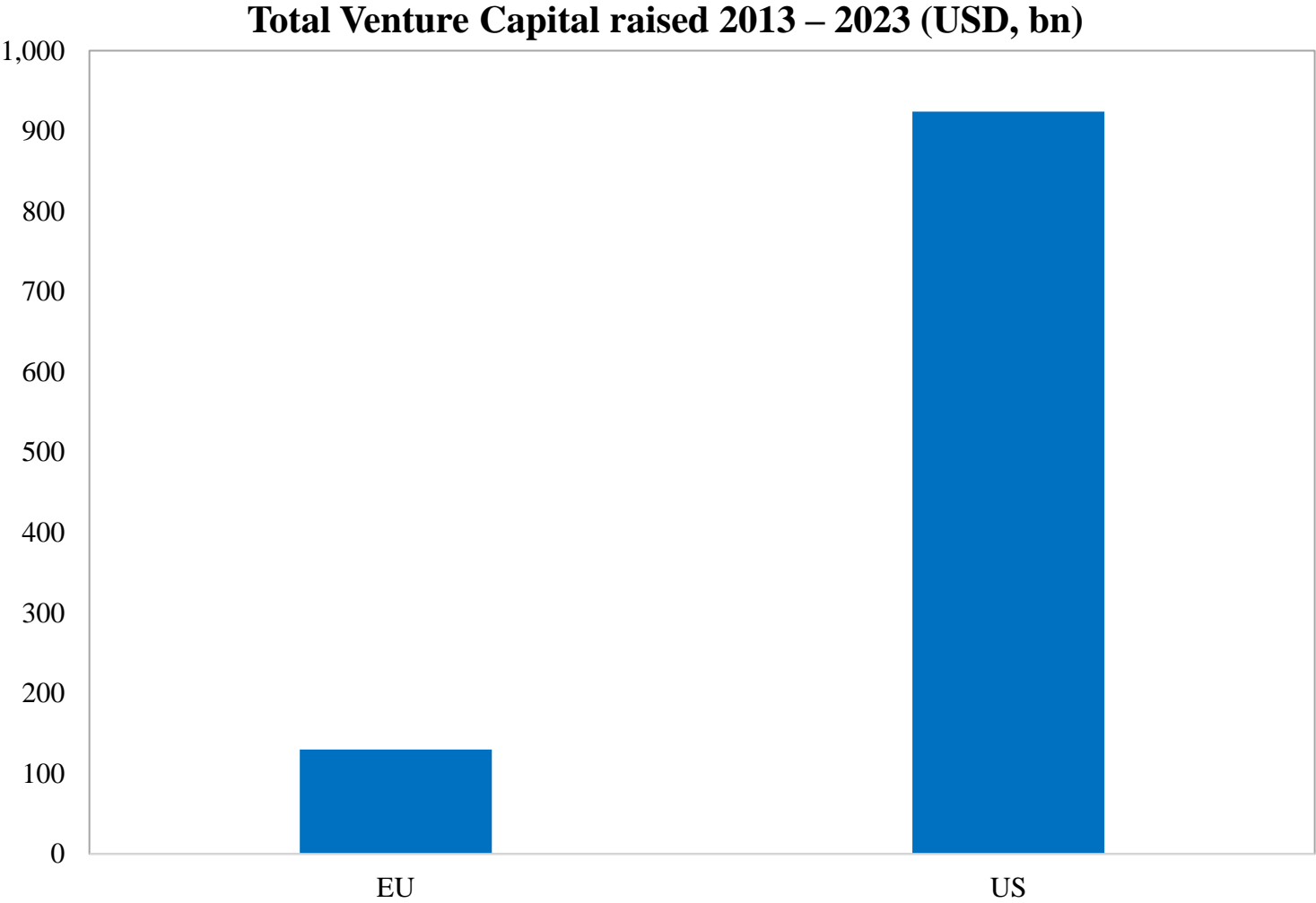
Source: Celis Institute, 2024

DUE TO THE FINANCIAL MARKET STRUCTURE



Source: IMF, 2024

GIVEN THE FRAGMENTATION AND THE RISK-AVERSION



Source: IMF, 2024

CONCLUSIONS

WORLD IS CHANGING, EUROPE SHOULD CHANGE

- In the transition towards a **NEW WORLD ORDER** other shocks may outbreak in the future
- A **NEW BRETTON WOODS MOMENTUM** is needed more than ever
- **EUROPE** can be changed through **SMART POLICIES** in a **SCHUMPETERIAN** approach
- Closing the **GAP** between the **RHETORIC** and **DEEDS**
- **REPLICATE** the **POSITIVE** examples across Europe (15 countries of **TOP 30** IMD Competitiveness Index 2024 are from Europe, out of which 11 from EU)
- Better use of **INTELLECTUAL UNEXPLOITED BRAIN** – the **CHANCE** for the **FUTURE** of **EUROPE**
- **DISCOVER** the potential of less developed regions, starting with building new **INFRASTRUCTURE**
- **ECONOMIC DIPLOMACY** and **PEACE PROMOTION** - the way to improve business with **ROW**