ANALYSIS OF THE COMPETITIVENESS OF THE EUROPEAN UNION IN THE CURRENT GLOBAL GEOPOLITICAL AND GEOECONOMIC CONTEXT

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Abstract. *In the analysis of the contemporary international environment, geoeconomics and geopolitics have a key role in understanding the trends recorded at the level of the world economy in terms of the dynamics of power centers and current reconfigurations, as well as in understanding the behavior of relevant actors in the geopolitical field. In a multipolar world, the European Union represents a pole of power that, through its actions, can significantly influence the balance of power. The various scenarios of the evolution of the world economy under the influence of a number of risk factors influence, to varying degrees, the competitiveness of the European Union. Competitiveness and productivity have been at the heart of European Union policy for decades. Faced with successive recent crises, the European Union has adopted common and coordinated response measures. The launch on June 20, 2023 of the European Strategy for Economic Security represents a concrete form of response of the European Union to the current instability present in global supply chains and, at the same time, represents a strategic repositioning for the future. The paper aims to analyze the developments in terms of the competitiveness of the European Union and, at the same time, to understand how the European Union's approach to economic security will shape future relations in terms of geopolitics and geoeconomics at the international and regional level. The research methodology uses the logical analysis method, the systemic method, the comparative method, the historical method, and the situation analysis used in geopolitical theory.*

Keywords: *competitiveness, European Union, geopolitics, geoeconomy, European strategy for economic security*
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Introduction. Evolving from the classical mercantilist theory to the theory of competitive advantages and the neoclassical criticisms of the international competitiveness of countries, the concept of competitiveness is a complex notion; the theoretical origins of this concept can be traced to the economics of foreign trade and its role in national and international economic well-being. Recent theories have developed the concept of regional competitiveness, bringing classic theories closer to the applied economy of regions (Voinescu, Moisoiu, 2015). In the European Union, the objectives of the regional competitiveness policy have been adopted as the main instrument for inducing economic growth, export capacity, and performance on the global market.

Literature review. In the new global strategic environment, geo-economic studies have proliferated, having as a basic feature the approach to the general process of transitioning economic power in the international system (Braz, 2018). Dijkstra et al. (2023) address regional competitiveness and present the RCI 2.0 2022 calculation methodology at the European Union level; Voinescu, Moisoiu (2015) deal with theoretical aspects of competitiveness; and (WEF, 2018) present the general index calculation methodology of global competitiveness.

Research methodology. To analyze recent developments in the European Union's competitiveness plan and quantify the impact of the European Union's economic security strategy on future relations in terms of geopolitics and geoeconomics at the international and regional level, the research methodology uses the methods of logical analysis, the systemic method, the comparative method, and the historical and situational analysis used in geopolitical theory.

Main results. **The global economic environment – the main characteristics**

The new global geopolitical and geoeconomic context differs substantially from the developments recorded in the 19th and 20th centuries; we are witnessing in the 21st century a redefinition of power relations worldwide, a shift in the centers of power, and a marked affirmation of multipolarity. The concept of "geo-economics" was prominently articulated by Edward N. Luttwak in a 1990 essay, "From Geopolitics to Geo-Economics - The Logic of Conflict, The Grammar of Trade". Luttwak observed "that commercial methods are replacing military methods" and that "states, as spatial entities structured to delimit their own territories, will not disappear but will reorient to geo-economics to compensate for their decaying geopolitical roles" (Luttwak,1990). Economic wars are expressions of "geo-defragmentation" against the background of the intensification of geopolitical and geo-economic forces that constantly pull actors in the international arena in different directions.

The COVID-19 pandemic and the war in Ukraine have deepened the cracks in the global economic order. At the height of the pandemic, many countries imposed restrictions on the export of medical goods and food, with export bans accounting for around 90% of trade restrictions. While the number of international military conflicts around the world has steadily increased since the global financial crisis (Figure 1), the war in Ukraine has triggered a geopolitical rift.

Both the war and related sanctions imposed by Western countries on Russia led to major disruptions in energy and agricultural commodity markets, as many countries also imposed bans on the export of agricultural products and fertilizers. This deepening geopolitical confrontation has negatively impacted European energy markets, leading to extreme volatility and fears of energy shortages. Production chains and financing networks that performed relatively well in benign global conditions have proven less resilient in times of COVID-19 and heightened geopolitical tensions.

Figure 1. **Geopolitical Risks, Military Conflicts and Trade Policy Uncertainty (1995 = 100)**

Source: Aiyar, et al.(2023), Geoeconomic Fragmentation and the Future of Multilateralism, https://www.imf.org

Rising geopolitical tensions have led to increased protectionism and the increasing use of cross-border restrictions for national security reasons. While there are still few clear signs of fragmentation in trade data (beyond sanctioned countries and entities), the number of protectionist measures is increasing. Data from the Global Trade Alert database shows an increase in the number of trade restrictions imposed by countries, especially in high-tech sectors that are likely related to national security or strategic competition (Figure 2), according to Aiyar et al. (2023).

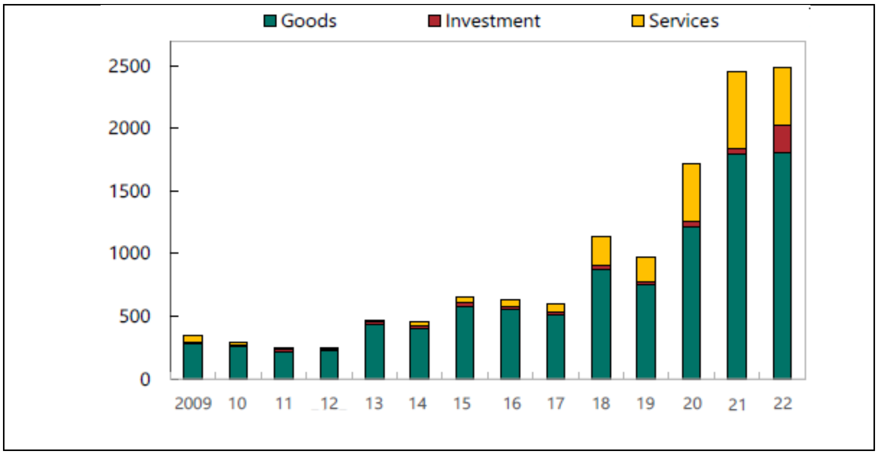

Figure 2. **Trade restrictions imposed (number)**
Source: Aiyar, et al.(2023), Geoeconomic Fragmentation and the Future of Multilateralism, https://www.imf.org

The economic consequences of geo-economic fragmentation can be transmitted through several distinct but interconnected channels. These channels interact within and across national borders, as well as between geographic blocs. They may act more forcefully in times of uncertainty, both in terms of the uncertain transition to a more fragmented world and because of the lack of clarity about the final form that a more fragmented world will take. As with economic integration, the impact of geo-economic fragmentation can be felt in changing patterns of trade, technology, labor, capital, and the provision of global public goods.

According to the World Economic Forum (2023), the main risks for 2023 with the greatest potential impact on a global scale are: "energy supply crisis", "cost of living crisis", "rising inflation", "food supply crisis," and "cyber attacks on critical infrastructure." Our global "new normal" is a return to the basics-food, energy, and security-issues that were thought to be on a trajectory to be solved. Longer-term structural changes in geopolitical dynamics-with the diffusion of power across countries with different political and economic systems-coincide with a more rapidly changing economic landscape, leading to an era of low economic growth, low investment and cooperation, and a potential decline in human development after decades of progress (WEF, 2023).

Over the next two years, in the context of the growing impact and constraints imposed by the many crises felt today, the most serious global risks are: the cost of living crisis, economic recession, geoeconomic war, disruption of climate action, and societal polarization (WEF, 2023).

The shocks of recent years, especially the war in Ukraine and the COVID-19 pandemic, have accelerated the change in the global order.

In 2022, the global repercussions of Russia's invasion of Ukraine have shifted global concerns from coronavirus-related health issues to political, security, and macroeconomic risks. According to the EIU (2022), the ripple effects of the war in Ukraine, global monetary tightening, and the slowdown of the Chinese economy are expected to affect the world economy in 2023, with global growth only standing at 1.6%.

Analysis of regional competitiveness at the level of the European Union

Regional competitiveness is defined as the ability of a region to provide an attractive and sustainable environment for firms and residents to live and work, integrating both the perspectives of businesses and residents (Dijkstra et al., 2023). In this definition, the concept of sustainability refers to the ability of the region to provide an attractive environment in both the short and long term. The regional competitiveness index (RCI) includes numerous indicators of human capital and the quality of institutions.

According to the European Commission (COM(2023)168 final), the European Union is one of the three major economic regions of the world, and trade in goods and services with the rest of the world represents 16.2% of world trade. The share of the EU-27 in GDP worldwide is almost 15%. However, a closer look shows that since the mid-1990s, average productivity growth in the EU has been weaker than in other major economies, widening the gap in productivity levels. The double transition anchored in the European Green Deal and the digital decade stimulates the growth and modernization of the EU economy, opening new business opportunities and contributing to obtaining a competitive advantage on world markets (EC, 2023).

In the report on the industrial competitiveness of Europe (EIU, 2022), the main threats to the industrial competitiveness of Europe for the year 2023 are identified:

- Energy market dynamics for Europe in 2023 will be as challenging as in 2022. Natural gas storage in Europe is likely to be completely depleted by spring 2023, while new import capacity will still be available .
- High energy costs and falling demand are forcing Europe's industry to slow down. Input costs will remain high for several years, making some European industrial sectors uncompetitive and leading to a loss of global market share.
- Chemicals and metallurgy will be the most affected sectors due to heavy reliance on natural gas as an input, but downstream industries such as the automotive sector will also suffer.
- Globally, China will be the main beneficiary of these developments. Regionally, we expect a shift to southern European manufacturing from central Europe, with services holding up better than goods manufacturing.

The strong increase in energy costs for the European industrial sector in 2023 and beyond will have a significant impact on the competitiveness of European industry. In addition, the coming recession will reduce domestic demand for industrial products; with global transport costs falling as the supply chain disruption caused by the pandemic heals, import substitution is becoming increasingly attractive. European industry already had a higher cost base than other advanced economies. Further growth will make manufacturing in Europe an unprofitable business strategy for many large energy-consuming firms.

The authors of the report argue that given the increase in geopolitical uncertainty and the size and expense of moving capital-intensive processes in Asia, we do not expect a relocation trend. Instead, we expect firms to shut down some European production (possibly permanently) and replace it over time by increasing production elsewhere. However, this dynamic will be felt differently from one industry to another (EIU, 2022).

European strategy for economic security. In a very dynamic and unpredictable global geopolitical and geoeconomic context, the European Union launched on June 20, 2023, the European Strategy for Economic Security, a strategy that emphasizes bilateral and plurilateral cooperation in different formats and degrees of institutionalization, from the G-7 to high-level economic talks, investment partnerships, and commodity clubs.

The European Union currently needs a comprehensive strategic approach to economic security in order to reduce risks and promote its technological advantage in critical sectors. The aim is to provide a framework for sound assessment and management of risks to economic security at the EU, national, and enterprise levels while maintaining and enhancing economic dynamism. This is all the more important to implement at a time when these risks are rapidly evolving and combining with national security concerns. An eloquent example of this is the speed with which critical new technologies are emerging, blurring the lines between the civilian and military sectors. The starting point of this strategy is to clearly analyze the risks and recognize the inherent tensions that exist between strengthening economic security and ensuring that the European Union continues to benefit from an open economy.

The strategy also identifies the priorities of an economic security strategy of the European Union:

- Promoting the competitiveness of the European Union by increasing the resilience of the economy and supply chains, as well as by strengthening innovation and industrial capacity, while maintaining the social market economy This can be achieved by deepening the single market, investing in the economy of the future through sound macroeconomic and cohesion policies, NextGenerationEU, investing in human capital, including upskilling the European workforce. This will require diversifying supply sources and export markets or promoting the industrial and research base in strategic areas such as advanced semiconductors, quantum computing, biotechnology, net zero emissions industries, clean energy, or critical raw materials.
-Protecting the European Union against jointly identified economic security risks by making better use of the tools already available to the European Union, such as trade defense, foreign subsidies, 5G/6G security, foreign direct investment screening, and control exports, as well as the new tool to combat economic constraints. In parallel, the effectiveness of the EU toolkit needs to be assessed and expanded where necessary to address some of the new risks, for example, those related to exports or outward investment in a narrow set of essential generic technologies with military applications (e.g., quantum, advanced semiconductors, artificial intelligence).
- Creating partnerships with countries that share the European Union's concerns about economic security, as well as those that have common interests and are willing to cooperate with the European Union to make the transition to a more resilient and secure economy. In practice, this means working with the widest possible range of partners to strengthen economic security, promote resilient and sustainable value chains, and strengthen the rules-based international economic order and multilateral institutions. It also means creating partnerships with countries on similar risk reduction paths, deepening and finalizing free trade agreements, investing in sustainable development, and securing connections around the world through the Global Gateway.

The fundamental principles for any economic security measures arising from this strategy are: proportionality to ensure that the European Union's instruments are in line with the level of risk and to limit any unwanted negative side-effects on the European and world economies; precision of the definition of the main goods, sectors, or industries targeted; and ensuring that the measures respond to the risks themselves.

The strategy identifies the main types of risks facing European economies:

Risks to the resilience of supply chains, including energy security: risks of price increases, unavailability, or shortages of critical products or production factors in the EU, including but not limited to those related to the green transition and those necessary for a stable and diversified supply of energy and pharmaceuticals.

Risks to the physical and cyber security of critical infrastructure: risk of disruption or sabotage of critical infrastructure such as pipelines, submarine cables, power generation, transportation, and electronic communications networks that undermines the safe and reliable provision of goods and services or data security in the EU.

Technological security and technology leakage risks The risk to the European Union's technological advances, technological competitiveness, and access to cutting-edge technologies includes malicious practices in the digital sphere such as espionage or illicit knowledge leakage. In some cases, technology leaks risk strengthening the military and intelligence-gathering capabilities of those who might use them to undermine peace and security, particularly for dual-use technologies such as quantum technologies, advanced semiconductors, or artificial intelligence, and therefore require specific risk mitigation measures.

The risk of weaponization of economic dependencies or economic coercion: the risk that third countries target the European Union, its Member States, and European Union businesses with measures affecting trade or investment in order to force a policy change that falls within the legitimate space of policy making.

To mitigate these risks, the Economic Security Strategy of the European Union is based on:

1) Promoting EU competitiveness and growth, strengthening the single market, supporting a strong and resilient economy, and promoting the EU's research, technological, and industrial bases

2) Protecting economic security through a range of policies and instruments, including new specific instruments where necessary.

3) Creating partnerships and further strengthening cooperation with countries around the world.

The competitiveness of the European Union: projections for the year 2030. In order to promote the competitiveness of the European Union in the future, the European Commission proposes an approach based on nine mutually supportive determinants. In addition to these nine drivers, as a second line of action, the Commission will improve the regulatory framework to stimulate economic growth (European Commission, 2023).

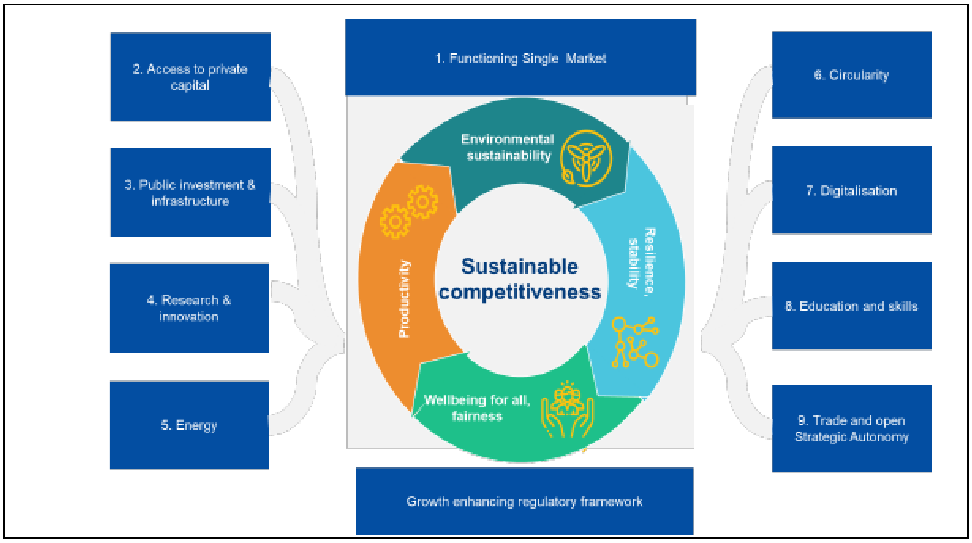

Figure 3. **Determinants of the competitiveness of the European Union at the horizon of 2030**

Source: E.C. (2023), European economic security strategy, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52023JC0020

Figure 3 highlights the main determinants of long-term competitiveness.

The drivers are interconnected, and there is no single answer to the challenges we face today. In a constantly changing environment, these determinants will be measured against the key performance indicators, targets, and monitoring frameworks that have already been developed in the sectoral policies, the Single Market Scoreboard, the policy program on the digital decade, and in the European semester.

The EU should continue to play a leading role in international cooperation to the mutual benefit of all parties. The EU will also continue to work even more closely with the US as a partner with strong shared values. The EU and the US are working to implement a new transatlantic sustainable trade initiative to advance the common goals of green and sustainable trade and support the transition to a resilient and low-carbon economy in a way where both sides support each other.

Discussion and conclusions. There is currently a broad consensus on the European model of inclusive economic growth, based on sustainable competitiveness, economic security, trade, open strategic autonomy, and fair competition, as a source of prosperity. Sustainable competitiveness is based on increased productivity, environmental sustainability, macroeconomic stability, and equity. Economic security is the ability of the EU economy to withstand shocks and protect its own interests, thanks to resilient and diversified supply chains and its performing businesses. Pursuing open strategic autonomy, the EU is committed to open trade while taking responsibility for shaping a more sustainable and fairer world, strengthening its capacities to increase its resilience, affirming its point of view, and condemning coercive and unfair practices. In recent decades, the EU has capitalized on its status as a trading power to project its economic and political strength, reaping the benefits of open trade not only in goods but also in services and intellectual property protection. Two-thirds of EU imports are intermediate inputs, such as raw materials, parts, and components that contribute to the production process. Long-term data from EU countries show that a 1% increase in the degree of openness of the economy is associated with a 0.6% increase in labor productivity. Reciprocal market access and the removal of barriers to trade (for both goods and services) will provide more opportunities for trade, investment, innovation, and increased productivity. The increased focus on long-term competitiveness means that the European Union takes a proactive attitude towards promoting its economic attractiveness and its position in the world economy.

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