

## ARTICLES

# The World Order Challenges and the Main Risks of European Integration

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*Abstract: This paper is dedicated to the World Economic Order and to its evolution since the end of the Second World War, while showing its influence on the European Union's position as one of the key global actors. The author highlights also the new phase of the Global Order and the main forces that drive a new system of international relations under the strength of regionalization. At the same time, the position of the EU under the pressure of the main challenging forces has been analysed by the author, after more than 15 years since the eruption and spreading of the deepest financial international crises of the last century. The 2008 international financial crash and the post-crisis period embodied a seismic shock to the world economy in the form of a deep economic recession. It is important in the rapidly changing world that the EU Member States take the necessary measures to increase their competitiveness position in the world.*

*Key-Words: New World Economic Order, Trade, Integration, Liberalization, Technological Innovations*

*JEL Classification: F10, F15, F60, F62, O10*

## 1. Introduction<sup>1</sup>

The various overlapping crises registered in different corners of the world have proved the necessity of the adapting of the World Order to multipolar forces. The 2008 global financial crash and the post-crash period embodied a seismic shock to the world economy. Over 15 years after the crash, an alternative global order that is necessary to adapt to the transformations has not yet emerged. Instead, a new era of global disorder has been released, characterized by a long period of low economic growth, even a relative stagnation of the global economy, and political instability. European integration continues in this changing environment and it must adapt rapidly according to convergence objectives at the level of the Single Market and Eurozone economy. If we return to the first steps of the functioning of the European Single Market we notice that the objectives of European integration have been decisively shaped by the global order based on post-war liberalism. Previous phases of European vertical and horizontal integration were profoundly shaped by the successive post-war embedded liberal and neoliberal US-led global orders.

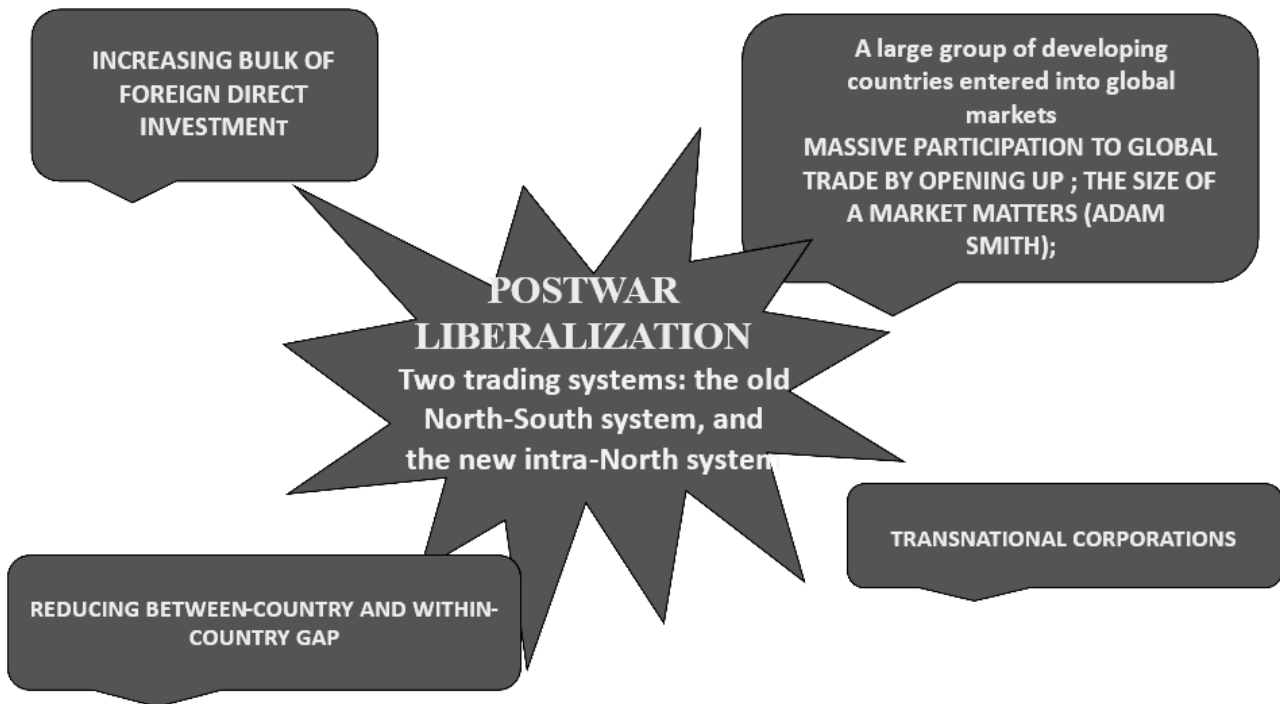
## 2. What are the world's major changes?

The post-war order has been based on two main trading systems: the old North-South system, and the new intra-North system. Liberal trade policies have been reflected by several key factors of structural changes. They have encouraged trade openness and rapid economic growth worldwide. The main transforming factors in the world are determined by the massive volume of foreign direct investment (FDI), the substantial participation of the developing countries in the global markets, and the increasing role of the transnational corporations (TNC) that determined a gradual but visible reduction of the GDP gap worldwide.

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<sup>1</sup> The paper was presented at the trilateral Roundtable *Adjustment of the CEE Economies to Long-Term Challenges and Overlapping Crises*, organized online by the Institute for World Economy, Romanian Academy, November 9, 2023.

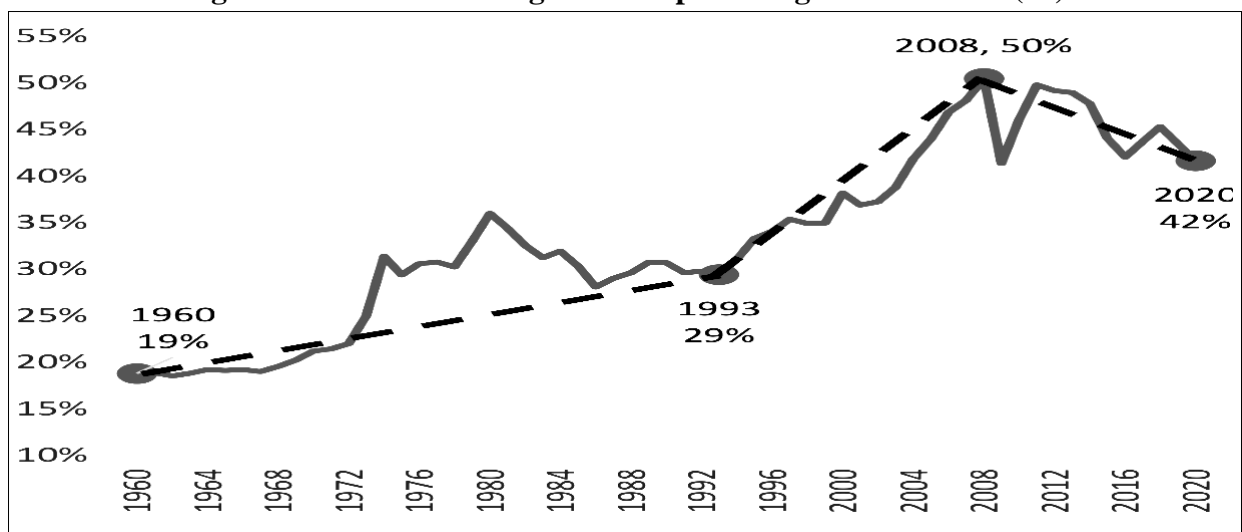
**Figure 1: World major changes and actors**



Source: Figure elaborated by the author.

Integration with the world economy has been an important part of economic strategies and political development for small and poor economies from the developing group, while for large economies like India and China the opening-up and integration necessity took shape later (Sachs and Warner 1995; Collier and Gunning 1999). As underscored by the following Figure, trade has been one of the main channels of integration into the world economy and, simultaneously, a significant driver of economic growth. The liberal order stimulates an exponential increase in world trade. In Figure 2, we notice the rapid and consistent increase of world trade in goods as a share of world GDP from only 19 percent in 1960 to 42 percent in 2020, with a peak of 50 percent in 2008 when the international financial crash erupted. In absolute terms, we can see a very dynamic increase in world exports.

**Figure 2: World trade in goods as a percentage of total GDP (%)**



Source: <https://www.macrotrends.net/countries/TCD/chad/trade-gdp-ratio>. Chad Trade to GDP Ratio 1960-2023, [www.macrotrends.net](http://www.macrotrends.net). Retrieved 2023-10-11.

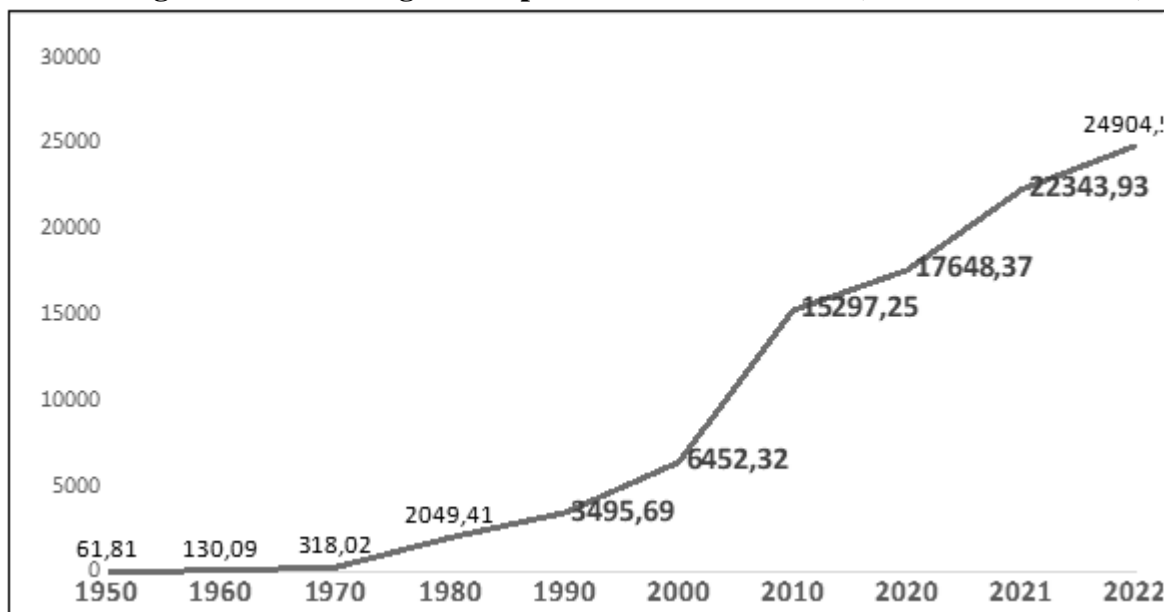
All these features have influenced and stimulated the European integration process. Starting with the '70s the EU was enlarged in 7 different stages: the first in 1973 when 3 developed Western countries obtained full

membership, in the '80s other two enlargements in the South of Europe, and in the '90s we saw an enlargement that incorporated three countries that visibly increased the total EU GDP, in 2004 the 10 “big bang enlargement”, in 2007 the full membership of Romania and Bulgaria and the latest the receiving of Croatia. Meantime the EU lost the UK and this is not a small loss.

The decade before the crisis was marked by the rise of the so-called emerging countries, especially China with two-double digit economic growth rates. This “emergence” is driven by a new organization of production, with different segments spread over several countries, from the design stage to production, delivery, and supply to the end consumer. The “global value chains” are established under the guidance of multinational firms that spread their dominance on the global economy. A smartphone is now designed, produced, and marketed by workers at the four corners of the earth.

Figure 3 shows an increase of over 400% of the world's goods exports since 1960. The most dynamic increase of 237% was registered only in the 2000-2010 decade. This rapid and unprecedented growth was fuelled mainly by China's double-digit economic growth and the other emerging countries by boosting demand for commodities and raw materials internationally.

**Figure 3: Trends in global exports from 1950 to 2022 (in billion US dollars)**



Source: <https://www.macrotrends.net/countries/TCD/chad/trade-gdp-ratio>. Chad Trade to GDP Ratio 1960-2023, [www.macrotrends.net](http://www.macrotrends.net). Retrieved 2023-10-11.

### 3. The new world order - leading factors

The world economic history shows that evolution from one stage to another is not a static process, it happens in several years and even decades. In my opinion, we are now in a transitory period since the 2008 financial crash. But the main facts that determined the actual period were marked by some events. Before 2001 (the year China joined the WTO), around 80 percent of countries had a larger volume of merchandise trade with the USA than with China. But by 2018, only 30 percent of world countries had traded more with the USA than they did with China. Nowadays China the leading trade partner to more than 120 countries (Green, 2023).

The rapid and long-term high GDP and trade growth rates have determined a visible shifting of economic power centre to the Southeast Asian countries. On the top TNC rankings Chinese companies gain important positions.

Gradually the turnover of some TNCs have exceeded the GDP value of some developing countries. The rapid changes in technology require not only energy resources and raw materials supply but also semiconductors and rare earth elements, which have changed the entire strategy of economic policies.

The two-digit economic growth in China encouraged the birth of the Made in China strategy which has been the cornerstone of its rapid economic expansion worldwide and has contributed to the accelerated change of the international economic order (Made-in-China, 2023).

The key force of the transition from a unipolar to a multipolar world consists in the innovation process. The transition began when the Liberal Order ended and we might define the transition period as a temporary global disorder as a new phase of world order where competition for technology supremacy is stronger than ever. Like England in the XIX century and the USA in the XX century as the principal engine of the liberal order created after the Second World War, now China exercises increasing global dominance by entailing control of the seas and sea lanes through several decisions like increasing dominance on the global rare earth value chains, and the growing trend in Artificial intelligence investments. Since 2020 China has become the EU's most important trading partner for goods by overtaking the U.S. trade position. The South China Sea is the place (of 3.5 million km<sup>2</sup>) where about 70% of the world's container traffic and 50% of the flows of hydrocarbons and liquefied natural gas transit.

In the US, the loss of technological progress compared to China has been driven by a lack of industrial policy. The main question for U.S. policymakers is not whether China will continue to advance relative to the United States when it comes to innovation and advanced production but whether US policymakers will include measures for U.S. economic and technology policy (Ian Clay, Robert D. Atkinson, 2023).

On the foreign policy strategy and according to the Trump administration decision a newly United States-Mexico-Canada Agreement (USMCA) was approved in 2020 to update NAFTA. The main target of U.S. was diminishing its trade deficits, protecting factories from bankruptcies, and protecting jobs (Office of the United States Trade Representative, n.d.).

NAFTA<sup>[1]</sup> renegotiation has allowed the USA the right to opt-out if its partners would sign trade agreements with non-free market economies. Supporting a 21st Century economy through new protections for U.S. intellectual property, and ensuring opportunities for trade in U.S. services. New agreement chapters covering Digital Trade, Anticorruption, and Good Regulatory Practices, as well as a chapter devoted to ensuring that Small and Medium Sized Enterprises benefit from the Agreement (Office of the United States Trade Representative, n.d.).

The U.S. reason to reformulate NAFTA agreement was also to halt China's technological rise by tightening restrictions on exports, limiting Chinese takeovers of high-tech companies, and restricting visas for Chinese students studying in high-tech areas.

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In the global context, it is important to observe the EU's position in the world under the pressures of major challenges regarding its competitiveness and its position in the global economy.

What solutions does the EU have for strengthening integration in the current global reconfiguration? In the large variety of challenges, we depict the most important factors affecting the EU's competitiveness: the EU's demand for base metals, battery materials, and rare earth elements. This is set to increase exponentially as the EU substantially diminishes fossil fuels and encourages green energy systems.

In large part the reason for this hurtful situation is given by the Chinese firms that have expanded their merger and acquisition activity in the EU countries. The rising competition with China has determined German policymakers to recommend progresses to EU merger and acquisition legislation to stimulate the growth of European firms in order to be able to compete with their US and Chinese rivals.

#### 4. What solutions does the EU have for strengthening integration in the current global reconfiguration?

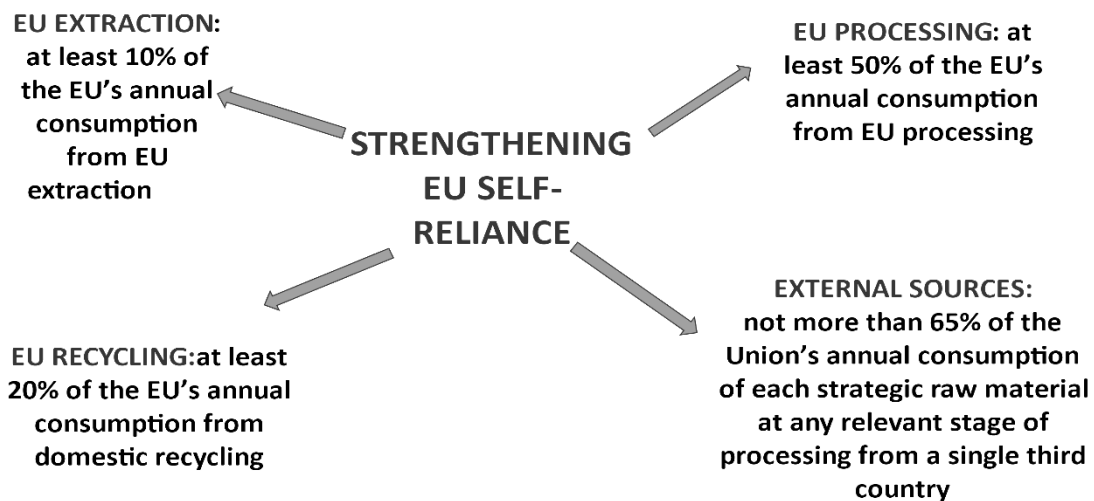
The Single Market has advantages in the field of research and development, regarding the supply of advanced materials in the segment of the manufacturing of the necessary equipment for chips production (European Commission, 2023a). The EU Single Market can give a new impetus to the development of the community space. In the EU countries there are over 50 production capacities for microprocessors, but almost all have been under the U.S. technology (European Commission, 2023a). For certain critical raw materials, the EU is merely reliant on one certain country, i.e. China delivers the main proportion of the EU’s supply of heavy rare earth elements (Gallium 71%, Germanium 45%, magnesium 97%, bismuth 65%), Turkey provides 98% of the EU’s supply of boron, and South Africa provides 71% of the EU’s needs for platinum.

The EU's high dependency on China triggered an increasing risk of supply disruption in the form of affordable substitutes and a concentration of sources determined the European Commission to take a first step by adopting the European Critical Raw Materials (CRM) Act in June 2023. This first step opened the door for the new EU economic security strategy by increasing and diversifying the EU’s critical raw materials supply, strengthening circularity, including recycling, and financing EU research and innovation based on resource efficiency and the development of different substitutes. According to the proposal, the European Union should extract 10%, recycle 15%, and process 40% of its annual needs by 2030 for 16 "strategic raw materials" (European Council for an Energy Efficient Economy, 2023).

The Nederland already has curbed the export of advanced chip equipment but soon we saw Beijing's imposition of controls on the supply of germanium and gallium. All these latest punitive measures aren’t good signs for the process of world trade liberalization.

Some official points of view support a further improvement of EU legislation to secure the supply of critical raw materials own extraction, processing, and recycling capacities as well as more reliable trade with other countries (Ragonnaud, 2023).

**Figure 4: The main directions for strengthening EU self-reliance**



Source: Figure elaborated by the author based on the EU’s official data, European Commission (2023b).

#### 5. Conclusion

The EU is in a process of adopting and implementing bold economic policies and strategies, starting from its new industrial strategy (European Commission, 2020). Demand for rare earths is expected to increase exponentially in the coming years. China has acquired ownership of key innovative technologies that potentially could weaken European security in terms of CRM supply. The EU is at the core of the U.S. – China trade tensions

and has been advised by the U.S. to reduce its dependence on Beijing, particularly in the area of technology infrastructure (Thomas J. Christensen, 2011)

In early 2020 the U.S. prevented European countries from awarding contracts for the new 5G network to the Chinese company Huawei (Robin Emmott, 2020). The Russian war against Ukraine has reinforced the cooperation between the EU and the United States (Desmots, 2023).

A dedicated policy and financial support in the EU for gaining an autonomous position of an innovative leader - The European Critical Raw Materials Act (European Commission, 2023c, European Parliament, 2023) signifies an important step in the direction of de-risking from China.

In the present context of diminishing financial contributions to the EU budget, a good solution for ensuring a gradually growing supply independence of semiconductors, different raw materials, and rare earth is to find extra money by issuing European bonds. This extra money could be used to implement a strategic plan to find new extraction of ores and build semiconductor plants in the European Member States.

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