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ECONOMIC CHALLENGES IN A GLOBALLY TRANSITIONAL ERA: CONTEMPORARY PERSPECTIVES

ЕКОНОМСКИ ИЗАЗОВИ У ДОБА ГЛОБАЛНЕ ТРАНЗИЦИЈЕ: САВРЕМЕНЕ ПЕРСПЕКТИВЕ

Panagiotis Kontakos

UCLan Cyprus, Cyprus

pkontakos@uclan.ac.uk

ORCID: 0000-0002-2715-3133

Paper presented at the 11th International Scientific Symposium „EkonBiz: Impact of geopolitical changes on the national economy“, Bijeljina, 22 – 23th June 2023.

Abstract: This article derives its foundation from my conference keynote address. Specifically, the perspectives I have chosen align with images and realities drawn from the contemporary global economy, which I have synthesized into a comprehensive collection of the most significant contemporary economic challenges we encounter worldwide. The purpose of each of these movements is to serve as a vivid point of reference for those of us who are conscientiously striving to enhance academic clarity and reasoning. This endeavor becomes particularly vital in a world characterized by an excess of information, often riddled with contradictions, misinformation, and inaccuracies. Such circumstances frequently lead to substantial gaps in knowledge and, even more significantly, deficits in wisdom.

Key words: Energy crisis, Green transition, Global production, Macroeconomic policies, Geopolitics

Анстракт: Овај чланак се заснива на мом уводном предавању на конференцији. Конкретно, перспективе које сам одабрао усклађене су са реалним сликама савремене свјетске привреде, коју сам објединио у разумљиву збирку најзначајнијих савремених економских изазова са којима се сусрећемо широм свијета. Сврха сваког од ових приказа је да послужи као живописна референтна тачка за оне од нас који савесно настојимо да побољшамо академску јасноћу и разумјевање. Овај подухват постаје посебно важан у свету који карактерише вишак информација, често

прожет контрадикторностима, дезинформацијама и нетачностима. Такве околности често доводе до значајних празнина у знању и, што је још важније, недостатка мудрости.

Кључне ријечи: Енергетска криза, Зелена транзиција, Глобална производња, Макроекономске политике, Геополитика

JEL classification: F20, E30

1. INTRODUCTION

From a historical retrospective, the collapse of the Roman Empire might be widely attributed to a multitude of factors. These include the loss of political cohesion and military control across its Mediterranean dominions, the declining health and decreasing numbers of its Latin populace, the antiquated nature of its economic and colonial systems, a failing economy coupled with diminishing agricultural output, inept leadership among its emperors, stark social disparities and unequal wealth distribution, widespread poverty and extreme enslavement, internal power struggles, and the adverse effects of climate change that began affecting many Mediterranean regions after 150 CE.

Furthermore, a devastating earthquake and tsunami in the eastern Mediterranean in 365 CE, which is considered one of the most substantial Mediterranean earthquakes of the first millennium, hastened the demise of the Roman Empire. It marked the end of the "Imperium Romanum," a symbol of the earliest form of globalization that

had persisted for 450 years (Matthews and MacGillivray, 2022).

Indeed, the causes of the collapse were mainly political, economic and ideological, and could be argued that several direct parallelisms can be made with the world that we all experience today.

The research question which informs this paper is:

What are the paramount economic challenges currently confronting the global community, exerting a profound influence on the evolving landscape of our world?

In both my presentation and the subsequent article, I have drawn inspiration from Modest Petrovich Mussorgsky's renowned piano suite, "Pictures at an Exhibition" (1874). Mussorgsky crafted his ten movements based on drawings and watercolors by Hartmann, created during the artist's travels to various places, including Italy, France, Poland, Russia, and Ukraine. Similarly, my selection of movements corresponds to images and realities borrowed from our modern global economy, forming my own suite of pictures of a world in transition.

2. CONCEPTUAL SCHEMAS AND EMPIRICAL PERSPECTIVES

2.1. Europe's economic engine is breaking down

Germany's presidential palace in Berlin is no longer lit at night, the city of Hanover is turning off warm water in the showers of its pools and gyms, and municipalities across the country are

preparing heating havens to keep people safe from the cold Germany currently faces the prospect of a protracted and gradual decline, which could have repercussions that resonate throughout the entirety of the European Union. (Figure 1). And that's just the beginning of a crisis that will ripple across Europe (Bloomberg, 2022a).

In the European Union, we are the largest global importer of energy - we import 58% of the energy we consume, with Russia, until recently, being the leading supplier for almost half of our energy imported commodities (Eurostat, 2022).

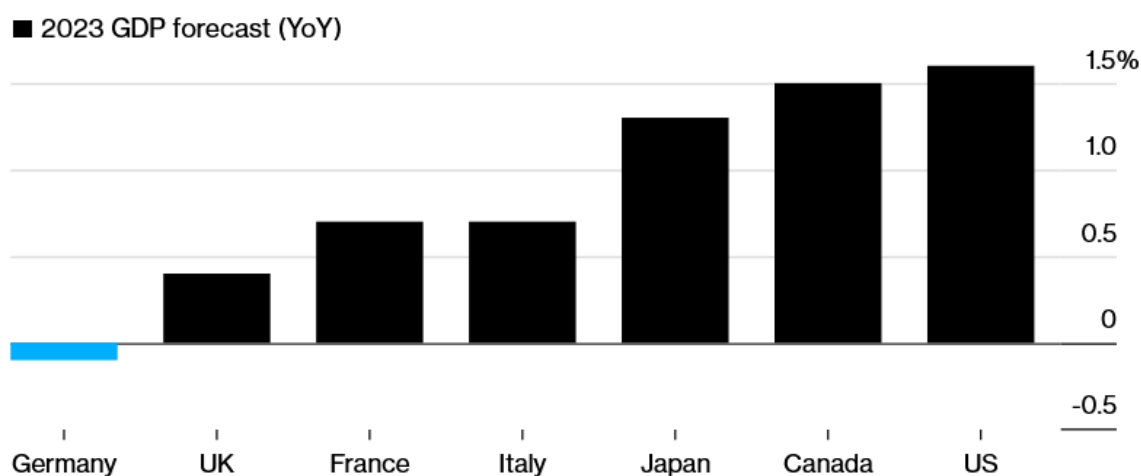
Much of Europe is feeling the strain from Russia's squeeze on natural gas deliveries, yet, no other country is as exposed, as the region's biggest economy: gas is the single largest source of energy on which Germany's mighty industrial base relies and nearly half the homes.

As Robert Habeck, Germany's vice chancellor and economy minister, said "The challenges we're facing are enormous and they affect significant areas of the economy and society." (Bloomberg, 2022a).

Fears of energy rationing and a looming recession in Germany have been mounting in the last six months, and authorities have voiced concern about social unrest if the energy shortage spins out of control.

"Germany developed a business model that was largely based on dependence on cheap Russian gas," Habeck had told reporters in Berlin, slamming the business model as meaning dependence on an "enemy" of international law, "liberal democracy and its values."

Figure 1: Germany has the worst outlook in the G-7



Source: IMF DataMapper (2023)

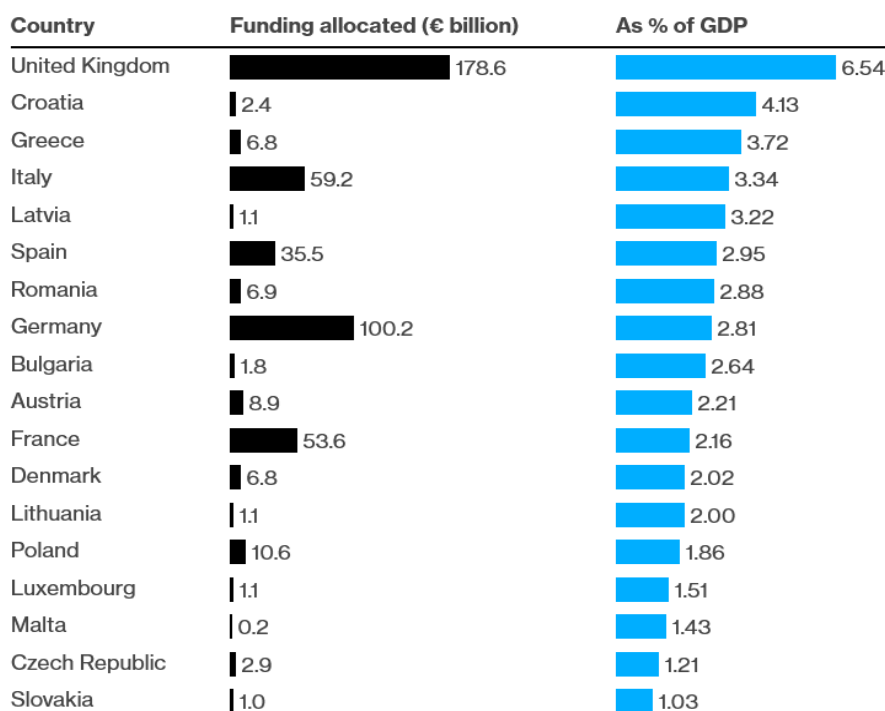
“This model has failed and it is not coming back,” he said (Al Mayadeen, 2022).

The age of industrialization for Europe’s largest economy and industry started in 1871. Today, the world’s fourth-biggest economy and its third-biggest exporter of goods, faces a looming threat of de-industrialization. It is a crunch time for a business model built on Russian gas and Chinese demand (The Economist, 2022).

2.2. THE BILL OF “FAILED” GREEN TRANSITION

The bill for Europe’s energy crisis is nearing 500 billion euros (Figure 2) as governments have rushed to cushion the impact of the energy crunch on consumers and businesses, e.g., via subsidies for heating and measures to keep some energy companies afloat, according to the Bruegel think-tank (Bloomberg, 2022b).

Figure 2: European governments have allocated about EUR 500 billion to cushion households and firms.



Source: Bloomberg (2022b), Bruegel

Initially designed as a temporary response to what was supposed to be a temporary problem, these measures have ballooned and become structural. These numbers increased as energy prices remain elevated. Indicatively, Germany recently announced it will borrow an extra 200 billion euros to cover the cost of capping natural-gas prices.

The magnitude of the burden enters into perspective when compared with the European Green Deal Investment Plan, i.e. the investment pillar of the Green Deal and the planned €1 trillion in sustainable investments over 2020-30 (European Commission, 2022).

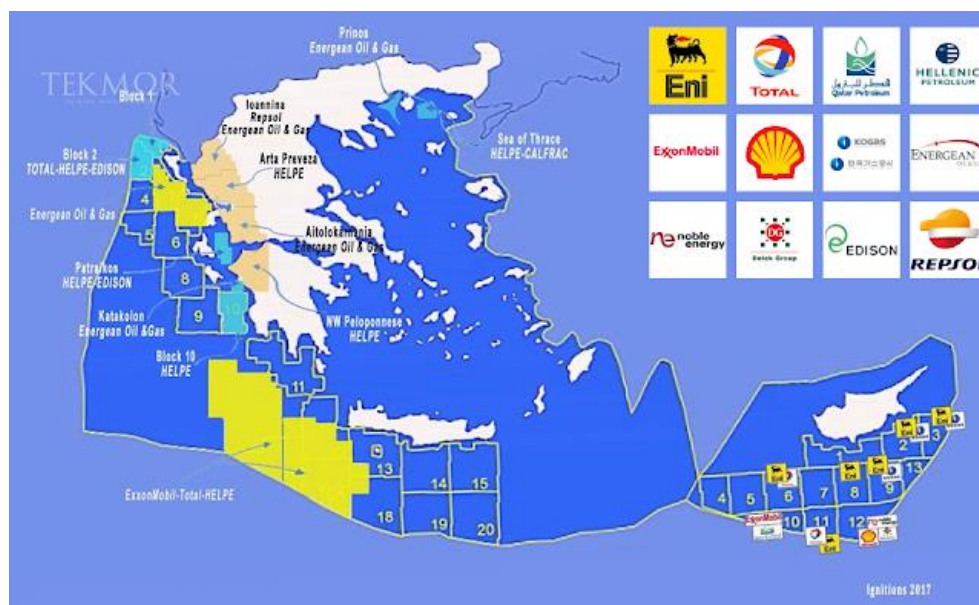
In other words, we have already consumed in subsidies within half the year 2022 colossal monetary resources that were aimed to cover the 10-year plan of the largest ever European’s economy transformation. Undoubtedly, this is

clearly not only unsustainable from a public finance perspective, but also endangers to derail and set as obsolete the overall European Green Deal at its infant stages.

2.3. CYPRUS AND GREECE: THE EUROPE’S LOST OPPORTUNITY

In a scientific conference that I participated in Al Ain, UAE, I had mentioned that the countries of the Eastern Mediterranean had the potential to become the seven UAE Emirates of the region (Kontakos, 2015). Since 2011, significant offshore reserves of natural gas have been officially discovered in Cyprus’ Exclusive Economic Zone (EEZ) and even higher quantities in Greece’s EEZ. Various licensing rounds have been performed since then, with the participation of large International Oil Companies, or Super Majors, and other specialized IOCs and National oil & gas companies, as depicted in Figure 3.

Figure 3: Offshore Exploration Licenses in Cyprus and Greece.



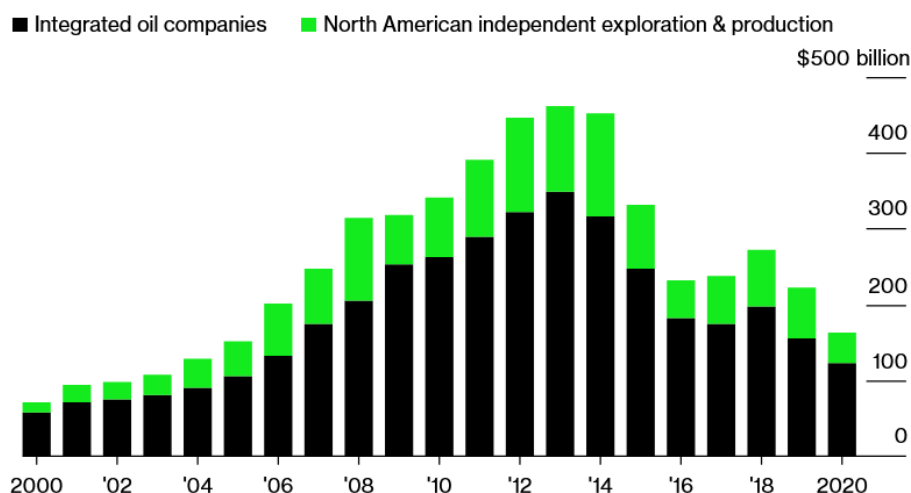
Source: Ignitions (2017)

Based on evidence from available seismic data and test exploration drillings, Greece, Cyprus and partly Israel, have the capacity to cover 50 percent of the European needs in natural gas for the next 30 years (Kontakos, 2015). The Cypriot and Greek governments had been expected to complete since 2018 various required infrastructures, as part of the European Energy Strategy 2020 Infrastructure package. Instead, prolonged delays have occurred in the implementation of all relevant projects (Kontakos and Zhelyazkova, 2015). Two are the main causes for this inertia:

First, the collapse in capital spending by O&G companies, due to the investment uncertainty

caused by the political priorities for the Green transition (Figure 4). The energy crisis in Europe did not begin with the start of Russia's conflict with Ukraine, in Donbass, but much earlier, a year ago, if not even earlier. It began, while it may sound strange, with the 'green' agenda. While introducing green, renewable energy is important for tackling climate change, multiple European countries opted to abandon fossil-fuel energy at once to reach short-term political goals. The Green transition, in my view, has now failed, as mentioned earlier. Second, the geopolitical uncertainty, between Turkey, Greece and Cyprus, within the exclusive economic zones of the two sovereign countries.

Figure 4: Global Oil & Gas capital expenditures. From Very High to Extremely Low.



Source: Bloomberg Intelligence (2020)

2.4. KING DOLLAR IS CRUSHING ITS LEGS

The Euro currency, the “left” leg of dollar, has recently sunk to edge of dollar parity at a 20-year low (Figure 5). Europe suffers most from the Ukrainian-Russia military confrontation, which has sparked an energy crisis and could lead to potentially a long and deep recession. (Bloomberg, 2022c).

It's the first time the euro has sunk to that psychological level since 2002, in the early years of the currency's existence – but the negative trend has started much earlier, since 2008. Deutsche Bank strategists have calculated that a slide further below to \$0.95-\$0.97 per Euro would match the all-time extremes seen in exchange rates since the 1971 end of the so-called Bretton Woods system, which linked the value of many currencies to the US dollar (Bloomberg, 2022c). European Union's cohesion, solidarity and unity is at risk for the first time.

On the other side, British pound, the “right” leg of American dollar, with the recent death of the Queen Elizabeth II and its fall in the foreign exchange markets do seem jointly to signify decisively the end of an era (Figure 6). These two events could be considered markers in a long historical procession in the British economy and the pound sterling, becoming far less important than they once were.

The pound's demise to its lowest level is sort of indicative of this broader decline in multiple dimensions. It echoes declines in “British Power, Past and Present”. The most recent pound's journey, indicates a decline in economic and political influence that accelerated when Britain voted to leave the European Union in 2016. In many respects, Britain already has the worst performing economy, among the 38-member OECD countries. It is just a question of time before it falls out of the top 10 economies in the world (Cohen, 2022).

Figure 5: Euro Plunge. The euro broke below key levels to hit a 20-yr low.



Source: Bloomberg Markets, Bloomberg (2022c)

Figure 6: A Century of Decline for the British Pound.

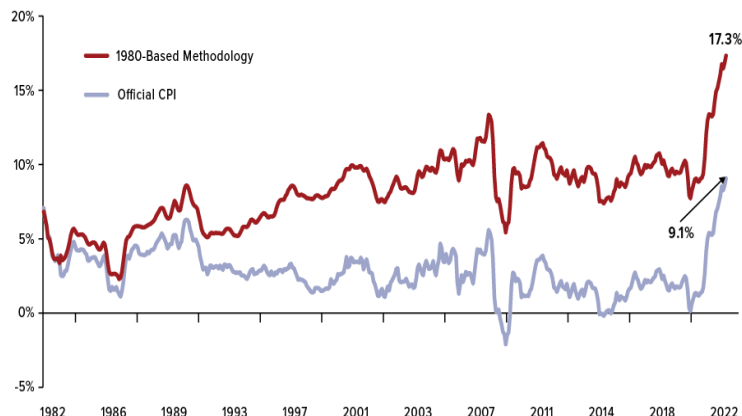


Source: Bank of England, Bloomberg Markets, Bloomberg (2022d)

Within all these negative developments in the Western hemisphere, the American dollar (i.e. “the King”) appears to act as a safe haven and currency of last resort, attracting the foreign exchange

liquidity of global investors who run to diversify away their holdings from Europe and the UK (Figure 7).

Figure 7: US Inflation Quickens to 40-Year High.



Source: Bureau of Labor Statistics, U.S. Global Investors, Bloomberg (2022e)

In reality, the Dollar-Pound and Dollar-Euro parities are compounded by a steady decrease of dollar’s purchasing power, and US inflation reaching 40-year records. In other words, we are in a race to the bottom.

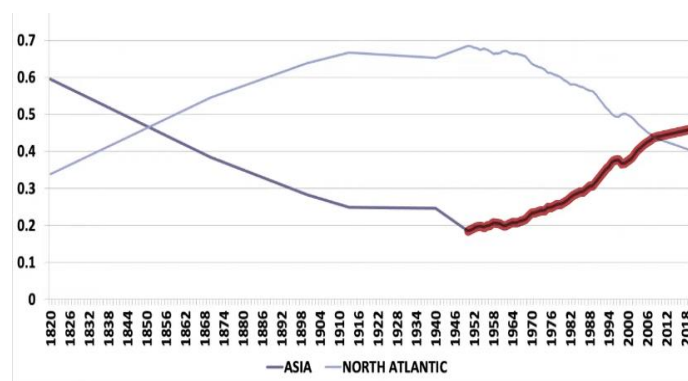
2.5. A TIMELINE OF GLOBAL PRODUCTION

The global production and supply chains have seen enormous changes over the last 100 years. Focusing just on the last 30 years, abandoned infrastructures cannot only be seen spreading around in many Former Soviet Republics, such as the Former German Democratic Republic, in Hungary or Armenia, but also in Detroit, the Renaissance City, the city which prospered as the automobile industry and the Ford-branded cars became a symbol of the American dream; until in the late 1950s, when smaller and more fuel-efficient cars from Japanese and European

manufacturers appeared. On 13 July 2013, the city of Detroit filed for bankruptcy, due to a rapidly declining population, unable even to pay its municipality taxes. The city is now heading to become a ghost town. It was like a dream that failed (The Guardian, 2013). Global production and wealth creation have now moved to the city of the future, Singapore; to Dubai, the city that became from desert the most luxurious city in the world and to Foxconn Factory City - Shenzhen China.

It’s the best imaginable interpretation of Kafka’s “city in the south”: “People live there who don’t sleep! (Kafka, 1958). China accounts today for 29% of global manufacturing output (UN, 2021). That puts the country more than 12% ahead of the United States, which used to have the world’s largest manufacturing sector until China overtook it in 2010 (Figure 8).

Figure 8: The End of the North Atlantic-Led World Hegemony (Shares in world output).



Source: Thinkers Forum

In a parallel path, the ongoing development of BRICS has been a compelling narrative of the current year. The trade composition within BRICS nations open new prospects for diversifying future trade. Further, gold, with its historical role as a store of value spanning centuries, has garnered attention as a potential basis for a currency that would support trade with BRICS lock of countries. Such a currency, anchored to gold, could also theoretically serve as a safeguard against inflation, currency devaluation, and economic volatility. Advocates for a gold-backed BRICS currency contend that it could offer a more stable platform for facilitating trade and investment.

2.6. THUCYDIDES TRAP AND ITS SCO SPRUNG

In the 5th c. BC, "it was the rise of Athens and the fear that this inspired in Sparta that made war inevitable." (Thucydides). At the end of 30 years of war, both city-states had been devastated.

Can China and the US escape Thucydides' trap in the 21st c. CE? If we were betting on the basis of history, the answer to the question about Thucydides' trap appears obvious. In 12 of 16 cases since 1500 where a rising power emerged to challenge a ruling power, war occurred (Allison, 2012).

To recognise powerful structural factors is not to argue that leaders are prisoners of the iron laws of history. It is rather to help us appreciate the magnitude of the challenge. The end of the Peloponnesian war coincided with the end of the ancient Greek world and opened the way for the sweeping advent of Philip of Macedon.

If leaders in China and the US perform no better than their predecessors in classical Greece, or Europe at the beginning of the 20th c., historians of the 21st c. will cite Thucydides to add another scientific proof that history does indeed repeat itself (Figure 9).

Figure 9: SCO Summit 2022, 15-16 September, Samarkand, Uzbekistan. The Heads of States representing 3,7 bn people, or 47% of global population, gathered around a single table.



Source: AP Photo (2022)

CONCLUSION

The aim of each one of the movements is to contribute as a reference for many of us that responsibly attempt in achieving more academic clarity and rationale, in a world characterized by information overabundance - which, however, is frequently contradictory, misleading or inaccurate, resulting in most cases in largely deficient knowledge and, even larger deficits of wisdom.

Based on graphical evidence that was provided, it could supported that, indeed, the outlook for our global economy and international political affairs is extremely uncertain, deteriorating and critical in the coming months, as our entire world has, possibly, "crossed the Rubicon" and gradually entered to an époque never experienced in

analogous extents, at least in the preceding seventy years.

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SUMMARY

We all can admit that we experience today, in one way or another, a world in transit with the causes being mainly political, economic and ideological. Within this document, which serves as a condensed version of a more extensive work, I have paraphrased MODESTE MOUSSORGSKY's famous piano suite of "Pictures at an Exhibition" in 1874, who has based the musical material for his ten movements on drawings and watercolors by Hartmann, that were produced mostly during the artist's travels abroad, with locales including Italy, France, Poland, Russia, and Ukraine. It is not a coincidence that my selected movements correspond to pictures and realities that I have borrowed from our contemporary world economy to synthesize my own view of a world in transit. These perspectives can contribute as a colorful reference for many of us that responsibly attempt in achieving more academic clarity and rationale, in a world characterized by information overabundance - which, however, is frequently contradictory, misleading or inaccurate, resulting in most cases in largely deficient knowledge and, even larger deficits of wisdom.



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