

# **INSTEAD OF PREFACE**

## **BETWEEN UNITY AND DISCORD: THE DILEMMAS FACING THE EUROPEAN UNION IN AN INCREASINGLY UNPREDICTABLE WORLD**

*The world is changing, it becomes increasingly brutal and unpredictable. The balances of economic and political influence are changing. In the changed environment with fierce competition, the transformation of the economic interdependencies into a weapon, along with the use of this weapon without any rules, it is obvious that we are in a new historical phase. The time of „happy globalization“ is over. Global challenges require global solutions.*

*The new institutional cycle in the European Union begins in this complex environment. What are the main tasks, how to meet the challenges, what are the dilemmas that need to be resolved? The answers to this question are not unequivocal. However, it is obvious that there is a growing need for greater coherence and coordination in solving complex problems. The analysis of the dilemmas that the European Union has to resolve lead to several key themes: first, how to achieve and guarantee economic security without succumbing to the temptation of protectionism, second, how to achieve a balance between the ambitious goals of the green transition and the need to increase the competitiveness of the European economy, thirdly, how to combine the geopolitical imperative to support the candidate countries and their EU membership with the requirements for strict implementation of the criteria, as well and with the real preparation of the European Union to accept new members, last but not least how to combine the need for huge investments for the green and digital transition and at the same time to observe financial discipline.*

### **1. The European Union between Scylla and Charybdis – achieving economic security**

*The initial disputes among the EU Member States on the nature and the definition of strategic autonomy evolved and an agreement was reached on the urgent need for its implementation. The internal division between the EU Member States was based on fears of increasing protectionism and decreasing the attractiveness of the single European market expressed by the North on the one hand; and, on the other, on the insistence of the southern Member States to protect the European economy under the difficult conditions in which it was functioning. Some important international factors were and are still having an impact on the achievement and the consolidation of the agreement among the EU Member States on the urgent need to achieve strategic autonomy / economic security – the war in Ukraine, China's assertive behaviour, the US policy in the field of subsidies, etc.*

*The development of the European Economic Security Strategy has been an important step in more than one direction: in addition to achieving a close interconnection of the economy with foreign policy and security, this strategy has been designed to identify the risks – both the current and the future risks; to promote the competitiveness of the European industry; to protect the EU against any external threats; and to stir up the creation of important partnerships with countries outside the EU. In this document, these are all summarized as priorities: „the three P's – promoting, protecting, partnering“. The strategy also defines how to mitigate the identified risks with the help of these priorities, namely:*

- *Promoting the EU competitiveness, strengthening the Single Market, supporting a strong and sustainable economy, investing in skills; and supporting the EU research, technology and industrial base;*
- *Protecting the EU economic security by some already existing and some new policies and instruments designed to deal with the omissions in this sphere;*
- *Partnering with the widest possible range of countries in order to strengthen economic security, including through trade agreements, by strengthening the already existing partnership relations, by stabilization of the economic order and the multilateral institutions based on clear rules. In this context, the World Trade Organization is a good example.*

*Achieving open strategic autonomy/economic security is one of the important goals of the EU. The EU is addressing the challenges related to the crises we are going through, but at the same time the EU is facing actions by partners and competitors around the world, such as the IRA – the US Inflation Reduction Act. China is increasingly a competitor and rival rather than a partner. The European Union is between Scylla and Charybdis and must translate the development of the economy in the most skillful way.*

## ***2. Making a fair green and digital transition and increasing competitiveness – can the European Union have both?***

*In recent years, the European Union has placed the fight against climate change high on the political agenda. The Green Deal became an irrevocable part of the strategic actions of the European Union. A commitment to a just green transition must lead to the transformation of European society and economy in a sustainable and fair way. But can European companies that implement the requirements related to the green transition be competitive on global markets and compete with third-country companies that are not obliged to fulfil similar requirements and make investments to protect the environment and fight with climate change? The answer to this question is not clear cut. It requires complex actions, combining the provision of the necessary financial resources, a review of the regulation of state aid, as well as persistent and purposeful work at the international level to implement measures to combat climate change and protect the environment on a global scale. If the European Union fails to achieve this, it risks becoming the „lonely long-distance runner“.*

*Increasing competitiveness is also closely related to the effective functioning of the single market. The single market and its four freedoms are one of the greatest achievements of European integration. The single market is not a finished project – and perhaps never will be. More work is needed to remove remaining barriers and prevent new ones from emerging, remove unnecessary regulation and make doing business as easy as possible. Looking ahead, the single market is also our main tool for achieving a green and digital transition. The ingredients of the single market success over the last thirty years – common regulations, standard setting, mutual recognition, consumer protection, level playing field, innovation – are the ingredients for successfully carrying out this dual transition. But we must not forget that long-term competitiveness must be built on strong companies that are able to survive and thrive in open market competition. In the long term, factors such as low productivity, insufficient R&D spending pose risks to European competitiveness. European competitiveness will be decisive for our economic future. But let's face it, the European Union is lagging behind, and an economically strong and competitive EU is crucial to its role in the world. The balance between the objectives of the green transition and the competitiveness is crucial. And here I will highlight three important elements – better regulation, not over-regulation, clear and modern competition policy and achieving reciprocity in terms of trade and access to markets.*

*We must not miss another important topic related to the single market, competitiveness and just transition – tackling labour and brain drain as a top priority. The single market is one of the greatest achievements of European integration. Although not fully completed, it provides many opportunities within the framework of the four freedoms - the free movement of people, goods, services and capital. But let us look at the other side of the coin – freedom of movement of people has its „dark side“. Due to differences in economic development and the living standards as well as the availability of better opportunities offered to richer countries, there is a labour and brain drain from the less developed Member States. We can also add the brain drain to the USA, where better conditions are provided for carrying out research and innovation. It is necessary to remind that when the single market construction was launched, also a program of convergence and solidarity among EU regions (cohesion policy) was launched. In the current conditions, cohesion and solidarity continue to be key for the balanced development of the entire European Union.*

*What we learned is that solidarity is not charity, but on the contrary, a contract: each party fulfils its obligations. Solidarity in the EU has never been an easy and uncomplicated act, but solidarity of Member States was a vehicle in the common progress in the integration process. It could be labelled „concerted solidarity“. Solidarity has never been, and cannot be, a sentimental idea of utopian dreamers. It constitutes an element of a pragmatic calculation of interests and will probably continue to do so. The solidarity among the Member States constitutes an element of the „package deal“ system relating liberalization to redistribution. In fact, in EU each step towards European integration incorporates a specific solidarity treaty or „package deal“ – remember the establishment of the Cohesion Fund. Solidarity*

*to achieve cohesion among all Member States should be its key element. The huge socioeconomic differences among the Member States and the regions serve no one and safeguard the interests of neither the rich, nor the poor countries. If those differences do not diminish, EU would find it difficult to remain stable and to progress along the path of integration. We could call it solidarity of the enlightened egoism. In this „package deal“ solidarity should twin with responsibility. The solidarity-responsibility has a fundamental significance.*

*Looking at solidarity, responsibility and freedom of movement within the single market, we inevitably come back to the problem of the uneven development of regions in the European Union. According to Enrico Letta's report, 135 million EU citizens live in lagging regions. The population of these regions is forced to seek better living conditions, which further deepens their backwardness. An example in this regard is the northwestern region of Bulgaria. Some people leave the places where they live because they are forced to, not because they want to. Precisely because of this worsening problem, despite the efforts and means in the cohesion policy, the question of combining the two sides of the coin – the freedom to move and the freedom to stay – is increasingly being asked. This means, in practice, to create conditions for good education and health care, for quality jobs in all regions of the European Union. Then freedom of movement will truly be by choice, not by necessity and every citizen of the European Union will have the opportunity to truly control its own destiny.*

*Another important issue should be added here – Europe should invest in its talents and keep them. Innovation and competitiveness largely depend on this. Providing the most favourable conditions for research and the introduction of new technologies is a prerequisite for keeping European scientists in Europe. Depriving highly gifted students of appropriate educational opportunities and the talented researchers of best work conditions is to deprive society of the most valuable human resources for achieving real and effective development. The addition of a fifth freedom to the existing four freedoms in the single market – the freedom of research, innovation, education – is increasingly discussed. It means to remove barriers to knowledge sharing, to harmonise cross-border data flow mechanisms, to invest in digital infrastructure.*

### ***3. The geopolitical imperative to accept new members and the fulfilment of membership criteria – is the European Union prepared?***

*The Enlargement of the European Union is the appropriate response to the new geopolitical reality. The enlargement fatigue is over. It is obvious from the statements of many EU leaders – the French president Emmanuel Macron, who in 2019 blocked the opening of accession talks with Albania and North Macedonia, stated that „the question is not whether we should enlarge... but rather how we should do it“, the German chancellor Olaf Scholz declared that „we opted for a larger Europe“, even Member states like Denmark, Sweden, the Netherlands changed their opinion on the enlargement.*

*The huge challenge, however, is how and when to implement the enlargement. The scope of the challenge is comparable with the big bang enlargement of 2004-2007. The consensus among member states that enlargement is a necessity is not sufficient for its concrete implementation. Disagreements and dilemmas exist over the manner and speed of admission of new members. The European Union has always emphasized that the accession process is based on the merits of each applicant country in fulfilling the membership criteria, but the current tense geopolitical circumstances now demand real action and quick results to integrate the applicant countries. It is true that preparations for membership need time, but it is also true that delaying membership for too long leads to reduced interest, Euroscepticism and the growth of the influence of other countries. The dilemma is how to balance the geopolitical imperative of supporting the candidate countries with the conditionality and the tough merit-driven demands. And here the question arises – well prepared countries and the fastest possible integration – can the EU have both?*

*Another important question is how the European Union itself should prepare for the admission of new countries. The topics of the EU budget, the implementation of the common agricultural policy, the cohesion policy, as well as institutional issues such as unanimity decision-making, the number of commissioners and their portfolios, the decision-making process also require quick and adequate answers. Will it be possible for a European Commission with 35 commissioners to work efficiently, will it be possible to take decisions with unanimity, especially in the field of common foreign policy and security, and not least how the policies in the fields of agriculture and cohesion will be reformed and implemented – the preparation of the European Union for enlargement with new members depends on adequate answers and the right decisions on these issues.*

*And one more very important topic – how to win public support for a new enlargement of the EU in the difficult economic situation in which some of the member states find themselves, and which have not yet fully recovered from the Covid 19 crisis. Here it is useful to recall the reaction of farmers in the EU in relation to the import of agricultural products from Ukraine.*

#### **4. Money, Money, Money – „the impossible triangle“**

*The EU's big plans for a fair green and digital transition, for higher competitiveness, for European defence, require a lot of money. On the other hand, member states must follow the rule for no more than 3 percent budget deficit. It was stressed by Simone Tagliapietra – a senior fellow at the Bruegel think tank „Europe is about to face a sort of impossible triangle. On the one hand, we want to accelerate the green transition and be competitive while doing that, on the other hand, we want to ramp up defence spending. And on the other hand, we want to be fiscally conservative.“*

*It is obvious that at this moment there is a little appetite for more common debt (like NextGenerationEU Fund). There are a few proposals for mobilizing*

*private investment, for more efficient use of savings in banks, that is, for the Capital Markets Union. There are several proposals for mobilizing private investments, for more efficient use of savings in banks, that is, for the Capital Markets Union, adding new own resources to the budget of the European Union. When discussing money issues, consensus is slow and hard to achieve but establishing a solid link between the fair, green and digital transition and financial integration within the single markets is crucial for implementing the EU plans for the future.*

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*The current geopolitical situation has become a serious test for European unity. In the new cycle, the European Union needs even greater determination, solidarity and pragmatic compromises. The vision of Jacques Delors is well known, according to which integration policies should be carried out around three important elements: „competition that stimulates, cooperation that strengthens and solidarity that unites.“ I dare to add - values that hold us together. Protecting our values should be everyday task. The EU is and must remain a club of democracies and the rule of law. Our countries are different and sometimes we have different points of view. But together we can overcome the crises and build a better Europe.*

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