

THE STUDY OF THE ECONOMIC INTERDEPENDENCIES BETWEEN COUNTRIES IN THE POST PANDEMIC ECONOMY - THE CHALLENGES OF MAINTAINING REGIONAL COMPETITIVENESS

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Abstract

The spread of the pandemic across international borders, along the main arteries of the world economy, benefited from both the underlying interconnectedness and fragility of globalisation, catapulting a global health crisis into a global economic shock that hit the entire world order. Thus, COVID-19 poses an enormous challenge to adaptation to adverse circumstances and development aspirations, and it is a powerful reminder of shared vulnerability that highlights the acute need for real change on a collective basis. The current pandemic-induced crisis has further accelerated the impact of the fourth industrial revolution on trade, digitalisation, competition and employment, and highlighted a significant disconnect between global economic systems and societal resilience at both national and international level. Long-term strategic options for economic recovery and for maintaining regional competitiveness are therefore needed. The paper provides the systemic support, consisting of verified data and up-to-date information, needed for realistic considerations of the behavioural impact of the pandemic from the perspective of the European Union. The future evolution of the economic outlook depends largely on both the evolution of the pandemic and the effectiveness of governments' recovery strategies. The strategic objectives, the measures required to achieve them, the necessary resources and sources and, last but not least, the preparation for unexpected situations are all components of such a strategy. To underpin the need for synergistic action, it is therefore proposed to explore how EU countries can broaden their focus to future improvements while maintaining their regional competitiveness. Consequently, analysis of possible post-pandemic scenarios at EU level is considered to maintain regional competitiveness. This involves assessing countries' readiness for future transformation, while carefully considering the priorities of economies that could help anchor a transformation that would foster better outcomes for productivity and shared prosperity. The devastating situation caused by the pandemic requires successful policies that allow labour and innovation to turn to new purposes in order to build a stronger and more consolidated social and economic

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environment. Reconstruction efforts must include various practises that advance long-term security goals by accelerating peace efforts and capital investments, as well as practices that promote good governance, strong institutions and social cohesion.

Keywords

Global economy, regional competitiveness, European Union, digital transition, post-pandemic challenges

JEL Classification

A1, F2, G3, H6, I1, P5

Introduction

A careful comparison of the last four years confirms the inevitability of the impact. In the first half of 2020, global foreign direct investment fell by 49% compared to 2019. Developed economies saw the largest decline, with a 75% drop. The number of cross-border mergers and acquisitions fell by 15% year-on-year in the first three quarters of 2020. In the first quarter of 2020, global output fell by almost 6% compared to the same quarter of the previous year. Rising unemployment, short-time work, temporary layoffs and job search discouragement led to a decline in total hours worked, with small and medium-sized enterprises (SMEs) being the hardest hit (World Bank, 2021). The formalisation of Brexit, the rise of Euroscepticism and the damage caused by subsequent waves of COVID-19 have weakened support among EU member states and reduced the chances of a coordinated recovery. Increasing tensions between China and Japan and the extremely stressful and traumatic situation between Russia and Ukraine could further worsen all circumstances worldwide.

The risks are thus manifold: the struggle between states resulting from the application of less efficient management, weakened multilateralism, the spread of disinformation, the collapse of an established democracy, the overburdening of corporate and public finances through the accumulation of debt leading to mass bankruptcies, insolvency and liquidity crises - all these risks have a decisive impact on the economic development of the EU through economic and financial policies. Other risks include reduced capacity to actively or reactively control inflation or deflation, the spread of illicit economic activities, illegal activities undermining economic progress and growth, severe commodity shocks, the collapse or absence of social protection systems, the fracturing of social networks, the loss of trust in existing political and social structures, unequal digital inequality or the failure of technological governance (World Economic Forum, 2021).

The main objective of the study is therefore to identify the impact of the pandemic at EU level, taking into account current trends, challenges and efforts of governments in the socio-economic field. The secondary objectives are numerous: to shed light on the short-, medium- and long-term causes and effects of the pandemic; to identify priorities for maintaining regional competitiveness and ways to address this complex crisis; to

anticipate the evolution of trends; and to build structures that will allow flexible response to future shocks. Key questions we address include: How does the crisis COVID-19 affect EU countries and what are the territorial differences? How have regions dealt with the impact of the pandemic and what solutions have they introduced? What measures have been proposed and implemented?

Although great efforts have already been made to improve the global situation, recovery in the near future can only be expected if the world succeeds in taking the necessary economic measures. Faced with an unprecedented situation in recent history, the creativity of the response must match the unique nature of the crisis. No country will be able to extricate itself from this situation alone. Therefore, this moment requires coordinated, determined and innovative economic, political and social action by the main economies of the European Union, as well as increased financial and technical support for the most vulnerable countries, which are and unfortunately will continue to be the most affected. In an environment of scarce budgetary resources, institutional reforms and economic diversification efforts can facilitate the redistribution of resources. The future will depend on whether it will still be possible to create a more inclusive, resilient and sustainable future, and whether it will be possible to coordinate at both international and national level.

1. Research methodology and review of the scientific literature

Restoring confidence and strengthening cooperation within the European Union are crucial to foster innovative and bold solutions needed to stop the pandemic and promote a robust recovery. Favourable economic conditions such as lower public debt, unemployment and dependence on international trade could help countries overcome the disruption caused by COVID-19.

Therefore, a thorough analysis of possible post-pandemic scenarios will be conducted to ensure sustainable development by assessing countries' readiness for future transformation, carefully examining the priorities of economies that could help anchor a transformation that would foster better outcomes for productivity and shared prosperity.

In terms of methodology, specific research methods are used for a holistic understanding of the topic, which addresses a new, exploratory question, and the research is based on a mixed methodology - both quantitative and qualitative. The first part of the research is based on a comprehensive analysis of the known pandemic context using current data provided by "Global Economic Prospects 2021", data that outline and complete the current fragile situation. Using a previously produced research tool that served as a comparative compass, the paper "The Global Competitiveness Report - Special edition 2020: How Countries are Performing on the Road to Recovery" is a thesis that highlights the discrepancies between the pre-pandemic and post-pandemic periods, but also emphasises the importance of coordinated and creative action to improve the current situation. At the same time, other specialised reports and papers from recent years have highlighted the challenges in trade, digitalisation, social

resilience and the not so favourable situation of small and medium enterprises and manufacturing, reinforcing the need to apply new effective strategies to mitigate all imbalances. The current theme therefore is based on the findings of previous surveys, academic reports and literature. The research will thus focus on a close analysis of various reports from the last four years and make comprehensive comparisons to shed light on the current situation both in comparison to the pre-crisis one and the future one.

2. Results and discussion

2.1. The impact of the pandemic at EU level

Within the European Union, most activities were suspended. During COVID-19, countries and regions were affected at different times and with varying intensity, and the capacity of national and regional health systems to cope with the pandemic was by no means sustainable. Many local and regional authorities faced enormous challenges in maintaining adequate health capacities needed to respond effectively to the crisis caused by COVID-19. Regions based on economically vulnerable sectors such as tourism and cultural industries, or those with economic structures based on SMEs, were and are the most affected, the impact of the pandemic being particularly severe for these vulnerable groups (Polido et al., 2019). Therefore, there are some regional characteristics that are particularly useful to assess the vulnerability of an area to pandemic measures, such as: the dependence on tourism or international trade, the percentage of people at risk of poverty and social exclusion, the youth unemployment rate, the percentage of employment in micro-enterprises, the percentage of self-employment, cross-border employment, regional GDP per capita (an indicator of a region's prosperity and its ability to withstand economic shocks) or public debt (European Committee of the Regions, 2020).

Drastic austerity measures such as the closure of restaurants, hotels, offices and shops, the extreme curtailment of public transport, the closure of schools, universities and jobs, and the collapse of the construction sector have led to the "worst economic crisis in a century" according to the OECD (OECD, 2020). The biggest shock came in the second quarter of 2020, when most member states introduced lockdown measures from February to May. During this period, EU's GDP fell by 11.7% and the employment rate fell by 2.6% compared to the previous quarter. These changes varied by geographical area - for example, GDP fell by 22.1% in Spain and by 19% in France in the second quarter of 2020 compared to the same quarter of the previous year. Countries such as Finland or Lithuania recorded smaller declines in GDP, 5.2% and 3.7% respectively, due to the varying intensity of the pandemic from country to country (Eurostat, 2020). As we already know, the pandemic started in Italy, spread to France and later reached other countries. Therefore, Italy and France were the most affected and took comparatively the strictest isolation measures. On the other hand, industrial and economic structures also differ from one country to another. The French economy relies heavily on tourism and aviation, which were two of the sectors most affected by the pandemic. The crucial question, however, is whether this is the beginning of a long-term crisis, and if so, what structural reforms should be considered.

Another important aspect is that, contrary to expectations, the potential impact of COVID-19 does not correspond to the usual divisions (urban/rural or centre/periphery) or to the European Union's regional policy. Southern and Eastern European regions are more vulnerable due to the high number of micro-enterprises and self-employed. The Mediterranean and Alpine regions are particularly vulnerable because of their dependence on tourism. Some Central and Eastern European economies are based on international trade and supply chains, while other Central and Northern European and Southern European economies are also exposed to the negative impacts of COVID-19 due to a high employment rate in sectors where jobs are most at risk. This proves once again that the territorial impact of COVID-19 is extremely complex and multi-layered. Countries such as Portugal, Croatia, Greece and Austria and cities such as Paris or Milan rely on regional and international tourism and therefore feel the impact of the crisis more than regions that rely on domestic tourism, such as Germany or Finland (European Commission, 2021).

To this end, on 19 March 2020, the Commission adopted the Temporary Community Framework for State aid in support of the economy in the context of COVID-19, recognising that the entire EU economy is facing severe disruption. The framework allows Member States to use full flexibility to support their economies. State aid flexibility allows Member States, among other things, to provide temporary liquidity to their businesses. The lack of liquidity, combined with the loss of demand, can lead to mass bankruptcies which, together with a high unemployment rate, create a spiral effect that drives economies deeper into recession. Following these measures, two months later, on 27 May 2020, the Commission proposed the European Economic Recovery Plan to repair the economic and social damage and support the reconstruction of the EU, while promoting investments for a green digital transformation. In addition, the EU budget package for the period 2021-2027 is now almost under wraps, meaning that EU member states will reach an agreement on the next multi-annual financial framework for EU budget spending. Thus, the EU budget package 2021-2027 is an important step forward in countering the economic impact of the pandemic COVID-19 and driving growth potential and cohesion as well as climate-related and digital structural change. Accordingly, these difficult times could be turned into an opportunity to strengthen local democracy and reflect together on the EU's founding values. The pandemic is also a reminder of Europe's interdependence with the rest of the world: the EU should continue to support democracy, the rule of law and human rights in partner countries and ensure that its post-pandemic policies and instruments leave no one behind (European Commission, 2020).

2.2. Measures to maintain the regional competitiveness

Political, social and organisational changes have led to a reorientation of competitiveness. The competitiveness of a region is linked to the competitiveness of its enterprises, while the competitiveness of enterprises depends both on their performance and on the direct business environment in which they operate. Regional competitiveness

thus depends on a region's ability to create a satisfactory level of exports (interregional or international) and to maintain a growing level of income that guarantees full employment for its citizens. Competitiveness is thus the key element for policy makers to improve living standards and achieve socio-economic and territorial cohesion (Mihailidis et al., 2006).

While the EU response has mainly focused on the national level, EU regions have also taken decisive action to mitigate the situation created by the global pandemic. There are many examples and best practises of regions that have taken drastic and effective measures. In Italy, the Province of Trento has taken measures to bring back into employment workers excluded from the labour market who are involved in the distribution of essential goods. The Flemish government (Belgium) offered grants between €1,500 and €4,000 to companies affected by closure measures, reduced the premium for guarantee schemes, allowed the possibility of a secured bridging loan for non-bank debts for up to 12 months and deferred repayments on loans and credits. The French regions also adopted extensive stimulus packages. Many of the measures were taken in cooperation with the national government, the public bank and other national and regional actors. In the Czech Republic, the Central Bohemia Region has launched a programme to support self-employed people with interest-free loans that can be repaid over four years with a deferral. Vienna (Austria), with the help of local institutions, has also set up a programme offering SMEs additional guarantees of up to 80% for bridging loans, together with substantial emergency aid in the form of grants for the self-employed and micro-enterprises severely affected by the pandemic. In this context, the Walloon government (Belgium) has announced that it will provide its cities and municipalities with financial compensation equal to the exemptions granted during the isolation. The regional assembly of Sicily (Italy) decided to set up a compensation fund and also suspended other regional taxes. Some regions also included measures to support rents in their broader programmes, such as the city of Lublin (Poland), which allowed entrepreneurs to suspend their rents for 3 months, defer them or pay them in instalments. Tallinn (Estonia) also exempted its contractors from paying rent and reduced the rent by 20% when city-owned premises were used as office space. Another widespread initiative was the creation of online platforms to promote cooperation. These platforms are a good example of the accelerated digitalisation process. For example, the municipality of Braga (Portugal), in collaboration with InvestBraga, the city's economic development agency, has set up a new consultancy office that provides local businesses with free information and assistance in adapting to the new reality, whether in legal, tax or labour matters. But a number of online platforms have also been set up to support local businesses and citizens in times of isolation in a variety of areas. South Holland (Netherlands), in cooperation with other private and public institutions, has launched a platform called "Resilient Society" where innovative companies can offer solutions to various current challenges. The district of Zell am See (Austria) has also created a user-friendly platform that includes an interactive map showing various retailers offering home delivery services. Or the Centre-Val de Loire region (France), which has set up a platform that now has hundreds of participants, with the aim of

supporting farmers who produce fresh local products by bringing together local producers, traders and consumers (Eurofound, 2021).

The impact of COVID-19 will continue for months or even years, but local and regional authorities, as well as EU institutions and member states, have developed and are still developing recovery plans to strengthen the economic resilience of their areas. The pandemic and all the closures in Europe have clearly shown that digital infrastructures are needed more than ever. In the crisis, the use of digital technologies has become a must to ensure the continuity of professional and private life. Public administrations and businesses in Europe have seen digital technology become a crucial key in mitigating the effects of the crisis and fighting the pandemic. The use of new digital technological tools offers the possibility to create a new environment full of high quality information. Thus, it becomes a powerful tool to increase transparency in the decision-making process and build strong dialogue and trust, essential elements of good governance (Grigorescu et al., 2021).

However, the European Commission will make full use of all the instruments at its disposal. It will work closely with the European Parliament, the Council, the European Investment Bank to implement measures and stands ready to take additional initiatives. The Commission also supports an international response to address the global socio-economic consequences of the pandemic through the multilateral framework, paying particular attention to partner countries with vulnerable social systems (European Commission, 2021). In 2022, €1 billion has been made available from the EU budget as a guarantee for the European Investment Fund to support working capital and help European SMEs. The Commission calls on these institutions to take immediate action to prioritise the sectors, products and instruments that will provide the most effective and impactful support.

Conclusions

The post-pandemic scenario will depend, to a large extent, on what the new world order will look like, and it definitely cannot be ignored that we live in a highly unequal world. The countries with strong economies will be better able to meet the challenges of the future because they not only have more resources and opportunities, but they are also better able to meet the socio-economic needs of their populations. Unfortunately, these are not the only differences to consider. Another important issue related to the pursuit of sustainable development is the degree of dependence of some countries on certain economic practises. The question that remains latent is whether the post-pandemic scenario will prove to be a real and almost unique opportunity (at least for this generation) to reduce social division while increasing community resilience, achieving better outcomes for productivity and shared prosperity, and defining commitment to a set of common principles that can serve as a compass for the desired goal despite the turbulent environment, or conversely, whether it will represent a new global crisis.

Faced with an unprecedented situation in recent history, the creativity of the response must match the unique nature of the crisis. No country will be able to stand alone in this

context. Therefore, coordinated, determined and innovative economic, political and social action by the main economies of the European Union is needed at this moment, as well as increased financial and technical support for the most vulnerable countries, which are and unfortunately will continue to be the most affected (Schwab et al., 2020). In an environment of scarce budgetary resources, institutional reforms and economic diversification efforts can facilitate the redistribution of resources. The future will depend on what policies are put in place while it is still possible to build a more inclusive, resilient and sustainable future.

Reaching consensus is therefore the first step towards ambitious collective action. These principles, such as strengthening cooperation, promoting peace and security, fair re-globalisation, promoting gender equality, deepening public-private partnerships, increasing global resilience and minimising inequalities within and between societies, are intended to help leaders on the path to better global cooperation. No single country, regardless of its approach, will be perfectly equipped to tackle alone the social, economic and environmental risks facing the international scene. Renewed EU cooperation is needed to advance the universal priorities of peace, prosperity, health and sustainability. The path to recovery should also be adapted to country-specific circumstances, especially fragile conditions and conflict situations that have spillover effects throughout the region. Sound business policies and a good investment climate are necessary to compete in the global market and attract quality foreign direct investment, which is crucial for private sector development and contributes to economic and social prosperity.

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