

## PREDICTIONS OF THE SOCIAL AND ECONOMIC IMPACT OF GLOBAL TRENDS

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**Abstract:** *The geopolitical situation is characterized by the multiplication and overlapping of major crises that also impact on the economic and social level. The effects of the military conflict provoked by the Russian Federation in Ukraine and its impact on the economy of EU Member States, including Romania, are explained in detail in this paper. At the same time, the paper aims to explain how this "storm of crises" may affect European societies in social terms, namely the risk of triggering protest demonstrations, including violent ones, amid the population's dissatisfaction with rising inflation and falling purchasing power. The paper also aims to explain how the current poles of power are influencing the world economy and what possible structural changes may occur, with an impact on the European economy, including to Romania. A relevant development can be observed at the social level, where there is a risk of the rise to power of far-right ideological formations that will exploit the discontent in Western societies. In this context, pro-active measures are needed to avoid a potential deep economic crisis, while raising the standard of living of the population in European countries.*

**Keywords:** *economy, major crises, protests, resource scarcity, energy resources.*

**JEL classification:** *H12, H68.*

### 1. Introduction

The global geopolitical situation is characterised by the overlapping of major crises, namely the security crisis, the economic crisis and the migration crisis, which reinforce each other and have direct social effects. Today, humanity is facing the beginning of a new era that addresses both challenges and opportunities. The state of conflict accentuated by the war in Ukraine has direct economic effects. In this context, the effects of the military conflict are negative for most industrial sectors, including the European energy sector, which has had to reorientate itself towards other, more expensive energy sources. On the other hand, the global defence industry has managed during the conflict in Ukraine to increase turnover and thus sales of modern arms and ammunition both in the countries where arms companies are based and on the international arms market.

The main trends facing contemporary global society include: global fragmentation, polarisation, digitalisation, climate and environmental change, evolving economic patterns, demographic imbalances and changing politics. Against these global trends, the Russian Federation's war against Ukraine continues to be a major challenge for EU countries, but not the only one:

- *Resource scarcity:* the impact of shortages of food, energy and other essentials, combined with economic and budgetary pressure on governments and populations;
- *Societal pressures:* the increasing difficulty of existing political systems to meet people's expectations of long-term prosperity, security and stability;
- *"Weaponisation":* the hostile use by competing powers of the tools and consequences of interdependence to exert pressure in pursuit of political objectives;
- *use of instruments of coercion/instrumentation.*

The foresight documents developed at European level show that "*crisis management should not be addressed in the short term. Decisions need to take into account the wider*

*European and global context as well as Europe's key long-term objectives.*" (Council of the European Union, 2023).

## **2. Analysing the impact of the war in Ukraine from the perspective of global trends**

The invasion of the Russian Federation from Ukraine was the most important event with a global geopolitical impact in 2022 and had a major impact on all seven trends described above. The military conflict in Ukraine has heightened global tensions between Euro-Atlantic states and the Russian Federation, supported by BRICS states.

Global fragmentation and competition between different political models have been accelerated in the context of the military conflict in Ukraine. This context has favoured the shift of policies dictated by Moscow even closer to Beijing's zone of influence, a situation that has also benefited some states that have used non-alignment as a bargaining chip. For example, a direct economic effect of the military conflict in Ukraine has been the energy crisis in Europe following the imposition of restrictions on the purchase of hydrocarbons from the Russian market. This energy crisis was resolved by European countries by diversifying energy sources and identifying other suppliers, but the cost of energy resources has risen, reflected in higher prices for manufactured products and a negative impact on inflation.

The Russian Federation has also had to identify new recipients of excess energy resources, the main customers being China and India, which have a large market, and these countries are able to import hydrocarbons from Russia at very good prices. India and, in particular, China have benefited from this resource shift, keeping the prices of manufactured products at a very competitive level. Another aspect of China's policy has been to take a neutral stance on the conflict in Ukraine by not offering military equipment to the Russian Federation. This moderate policy is due to China's intention not to affect trade relations with the US and EU member states, which Beijing considers essential. Unlike China, the Islamic Republic of Iran has chosen to directly support the Russian Federation in the military conflict in Ukraine by supplying military equipment, in particular military drones, to the authorities in Moscow. This has led the international community to impose military and economic sanctions against the Islamic Republic of Iran.

The different responses to the war and the COVID pandemic have together increased the already growing conflict between the gap between democracies and the autocracies of undemocratic powers, and the effect of pressures on energy and food has widened the gap between the world's richest and poorest countries. In fact, the grain crisis triggered by the Russian Federation's initial stance of not allowing Ukraine to export large stocks of grain has increased its price on the international market. Once this process was unblocked, the price of grain on the international market stabilised and grain exports are now taking place under normal conditions. However, against the background of the European Commission's decision to exempt Ukraine from paying duties on cereals, Ukrainian traders have taken the opportunity to put large quantities of cereals on the European market at prices that have disadvantaged local producers. This has led to protests from cereal producers in the EU Member States affected by these decisions, prompting the European Commission to take action to resolve the situation.

At the same time, digitisation and the technology race tends to play an increasingly important role in the competition between global powers. In this context, US restrictive measures on the export of semiconductor technology to China are seen by the Beijing authorities as a declaration of economic war and tend to widen the global technology gap. This global situation also affects the EU's objectives in the digitisation process. Thus, we are

already witnessing a disruption in the supply chain of high-tech products and increasing pressure on access to essential raw materials. Against this background, this crisis is also affecting other industries. For example, the lack of certain semiconductors on the international market has created difficulties in the automotive market which is directly dependent on these electronic components.

In conclusion, we can say that this conflict in Ukraine, as well as the tense situation in the vicinity of Taiwan, has a direct economic impact and its effects are felt globally. One direct effect is an unprecedented rise in the inflation rate, with effects in terms of rising consumer prices, including food prices, and a fall in the purchasing power of the population. Thus, the impoverishment of the population can lead to social effects through increased tensions and violent protests. There are also difficulties in the sustainability of social systems which can no longer cope with the pressure on their budgets. A very good example is France, which has taken steps to change the retirement age from 62 to 64, which has created discontent in French society and led to violent street clashes between the discontented population and the police.

At the same time, the military conflict in Ukraine has led to an intensification of competition between different economies and economic models, leaving the EU with no choice but to move away from a strategy based on the continuation of cheap energy from Russia. The war has dealt a major blow to global growth, but the EU tends to be among the biggest losers, with a further drop in global GDP. This trend in the EU may become chronic, leading to justified discontent among the population in EU Member States, with direct social effects and the rise of Eurosceptic currents and the rise of far-right parties.

Inflation, driven largely by rising energy and food prices, has reached levels not seen for decades and is eroding people's purchasing power, which can directly affect rising societal tensions and potentially violent public demonstrations.

Economic disparities in turn tend to lead to increased polarisation in society, which in turn leads to increased societal discontent. After a decline in this trend in 2020 and 2021, populism and populist movements are gaining ground again across Europe, leading to conditions for a further division of society.

The economic repercussions of the war have added to those generated by the COVID-19 pandemic, including in terms of demographic imbalances and an ageing population. The ageing of the population in the EU area will lead to an increase in the migration phenomenon, which will lead to the gradual replacement of the labour force by nationals of the source countries of migration.

These challenges are compounded by the challenges of addressing climate change at European level. The intensity and frequency of extreme weather events have had a serious impact on agriculture, food and energy supplies, which were already under pressure from the war in Ukraine.

### **3. Analysis of the risks generated by the interconnection of challenges at European level from the perspective of the impact on member states, including Romania**

#### **3.1. Resource Shortages**

A combination of factors exacerbated by the conflict in Ukraine, supply chain disruptions caused by pandemics and an increase in extreme weather events point to the end of an era of relative abundance for Europe. In this context, European countries will need to identify new alternative sources of energy, as well as normalising production chains through strong partnerships with the US and other countries with advanced technologies.

This era has been based on cheap energy resources from Russia, cheap imports

from China, easy availability of natural resources and low or no direct costs of climate change impacts. As new global political relationships are forged, there is a need for stable economic relationships characterised by a high degree of diversification of energy sources and other products on which EU Member States depend. A constant in political and economic relations for European states is the US, which can support them by increasing trade and normalising markets. In this context, strengthening the transatlantic economic relationship is a prerequisite for the sustainable development of EU Member States.

Romania has one of the lowest energy dependency rates among EU Member States, which is a major competitive advantage. However, the price of electricity and natural gas has risen, requiring government intervention to subsidise their prices to make the costs bearable for the population. From an energy point of view, Romania needs to take the necessary measures to complete certain strategic projects (e.g. completion of Units 3 and 4 of the Cernavodă Nuclear Power Plant), as well as to start work on the exploitation of natural gas from the Black Sea continental shelf. In this context, Romania can become fully energy independent or even an energy exporter, but this is only possible if the above-mentioned projects are completed.

#### ***Effects with social impact***

The shortage of food and raw materials facing Europe will most likely generate new approaches to how people live and work, but this will be reflected in the economic downturn of the European area. These changes will implicitly generate new challenges to society, to the European industrial model, imposing increased political and financial pressure on the EU and Member States.

While renewables are expected to free Europe from its dependence on Russian gas, building the necessary infrastructure will take time and risks bringing new dependencies, especially on China. In this context, a balanced policy between the US and China is needed, as European countries are currently dependent on the world's two largest economies.

Energy and food prices are expected to continue to rise throughout 2023, which will require active measures to protect the population, especially the economically and socially vulnerable. At EU level, action must also be taken to increase food production by Member States, which requires more dedicated support from European bodies through increased subsidies to farmers and pragmatic solutions to diversify markets. In terms of energy prices, the EU needs to balance the energy mix, while diversifying energy resources and taking measures to switch to green energy.

International food commodity prices are projected to be 24% above baseline in the first quarter of 2023 and 33% higher in 2024. In the absence of social measures, the population will directly feel these effects with social implications, including violent protests.

Inflation and high interest rates will reduce access to finance and investment, leading to lower growth and difficulties in some industries.

The materialisation of such a scenario is likely to lead to increased difficulties for the population in accessing basic services, e.g. affordable services, affordable housing (reduced borrowing capacity), education (lack of teachers) and health (lack of medicines, lack of accessibility of certain medicines, lack of medical staff).

Another risk in terms of public order is the lack of specialised staff in the national public order and security system, which is caused by the lack of career predictability and the low attractiveness of the system. This is also reflected in the decreasing competition for admission to the Ministry of Internal Affairs' schools, which

demonstrates the lack of attractiveness of the Public Order and Security System.

### **3.2. Societal pressures**

The pressures on the cost of living of European citizens caused by the war in Ukraine add to those caused by the disruptive effects of the two-year COVID-19 pandemic. The dynamics of these changes challenge the ability of states to adapt to the political changes already in place in terms of people's expectations of long-term prosperity, security and stability. In this context, it is necessary for European states, including Romania, to take measures to increase their economic resilience and especially their energy resilience. Active measures are also needed to strengthen the European defence industry through better cooperation between major defence companies, including the involvement in certain projects of companies from countries on NATO's eastern flank.

#### ***Effects with social impact***

In 2023 we are likely to see increased pressure on political leaders to come up with rapid responses on how to mitigate the domestic effects of the war in Ukraine. Populist political forces could exploit these pressures and public discontent, which could lead to an exacerbation of the increased migration flows with an impact on European security. Prior to the outbreak of the military conflict in Ukraine in 2021, Belarus took hybrid measures to increase migration pressure on the Baltic States and Poland, which required extreme measures to prevent the effects of this phenomenon, i.e. the construction of border fences with Belarus.

At EU level, societies that have barely managed a partial recovery from the impact of COVID-19 are now facing additional pressures from rising food and energy prices. These will continue throughout 2023. But the impact is uneven, with some parts of society more vulnerable than others. In this context, measures are needed to ensure the protection of the most vulnerable sections of society, i.e. the economically more vulnerable EU Member States. Increasing economic resilience is also a very important issue, while taking measures to avoid economic recession in EU Member States.

The increased cost of borrowing will lead to reduced access to mortgage finance, which in turn will mean that young people will end up postponing important home-buying decisions. In the long run, this could lead to a downturn in construction and thus lower economic growth. This trend may also be seen in Romania, where banks, in addition to increasing the cost of credit, have taken measures to increase the deposit payable by people intending to buy homes with a mortgage loan. The downturn in the construction sector leads to a corresponding fall in GDP, i.e. in the horizontal building materials industry.

Also, the decrease in purchasing power of the population, amid rising inflation, may lead to an increase in poverty in society and the negative social effects will increase. In this context, the increasing polarisation of society can be expected, with growing societal discontent with the potential for violent protests. Together with the simmering discontent over what the population sees as an insufficient response to the approach to climate change, youth discontent could turn into more protest movements.

The impact of the economic crisis unfolding at European level will vary depending on the specific situation faced by each Member State, with Central and Eastern European countries most likely to be more affected, given their greater economic vulnerabilities.

Companies in Europe, already affected by the COVID-19 pandemic, will face increased energy costs, which will lead to a risk of staff redundancies with direct social effects.

At the same time, other challenges related to food security and climate change are

expected in some source countries of migration, which could lead to an increase in migration flows to the EU. In this context, the social systems of EU Member States may not be able to cope with a massive influx of migrants and the costs involved. In addition, there is also the problem of Ukrainian refugees who have moved to EU Member States and receive substantial funds to support themselves, and as the conflict in Ukraine drags on, these costs will multiply, with direct economic and social effects. Another phenomenon that may occur in the societies of the EU Member States is the refusal to bear the costs of Ukrainian refugees, which will be reinforced by the vehement reaction of far-right or sovereigntist ideological formations.

The continuing high cost of energy will affect the replenishment of gas storage facilities in Europe before next winter. This could lead to new economic pressures towards the end of 2023, with direct effects on energy prices, which will be felt directly by the population. At the same time, higher energy prices will implicitly lead to higher prices for products and services supplied to the population, which will lead to lower purchasing power. In this context, there is a risk that these effects will generate public discontent and even protests, which will jeopardise the stability of the political and social system as a whole.

### **3.3. The use of instruments of coercion/ instrumentalisation / ("weaponisation")**

While by no means a new phenomenon, there are several reasons to believe that weaponisation is and will become even more prominent in the immediate future. First, the year 2023 is expected to continue to be characterised by heightened geopolitical tensions, particularly along two main axes: Russia vs. the West and the US vs. China. Secondly, societal pressures resulting from increased polarisation, the phenomenon of illegal migration, economic recession, etc. create leverage that can be exploited and weaponised by hostile actors.

At the same time, it can be seen that the pursuit of greater autonomy and resilience by each of the major powers generates pressures on states, which can be perceived as a protectionist or even hostile approach, and can even lead to increased societal disruption.

Increasing economic pressures from embargoes, restrictive measures and oil price caps, coupled with the prospect of presidential elections in early 2024, could prompt the Kremlin authorities to take further hostile action against the West.

These are likely to target energy supplies (possibly through the use of intermittent outages in a way to try to divide EU member states and protect revenues), along with further disinformation and propaganda campaigns to maximise discontent and polarisation among European citizens, particularly in the context of elections in several EU member states to be held in 2023.

Turkey, where general elections are scheduled for 18 June 2023, could also continue to take advantage of its role as a mediator between Russia and Ukraine to protect itself from Western criticism of its authoritarian policies by using migration as a tool of coercion and pressure.

#### ***Effects with social impact***

Russia could take advantage of rising tensions within the EU over migration to threaten measures that could worsen the situation by deliberately disrupting global food supplies.

At the same time, other regional actors could resort to measures to weaponise migration, as Belarus, Libya and Turkey have done in the past.

#### 4. Conclusions

The global economic situation is influenced by the geopolitical and security situation, and these influences are particularly important. In this context, the military conflict in Ukraine is indirectly affecting the economic situation in Europe, through a sharp rise in inflation and, consequently, a fall in purchasing power among the population, especially the vulnerable.

The fall in living standards leads to potentially violent protests and the rise of extremist-nationalist currents. In this context, the authorities need to explain to the population the effects of the military conflict in Ukraine and what measures are being taken by governments and the European Commission to mitigate the negative impact of the economic crisis. In fact, the looming economic crisis is due not necessarily to the military conflict in Ukraine but also to the economic imbalances caused previously by the pandemic crisis generated by COVID-19. It can be seen that there has been a 'cascade' of crises, i.e. the pandemic crisis followed immediately by the security crisis generated by the Russian Federation's military intervention in Ukraine.

At European level, there was also an energy crisis caused by the sanctions imposed on the Russian Federation by EU bodies, which was reflected in the sharp rise in hydrocarbon prices. This has led to difficulties for European companies, which have had to increase the prices of products and services offered to the public proportionately.

Romania's main economic partners to which it exports products are EU Member States, and the decline in the economies of these countries will lead to negative effects on national industry, while the profitability of these economic entities will decrease, at the same time as taxes to the state will fall. In this context, in order to avoid entering a deep economic crisis, it is necessary to examine the opportunities for the domestic industry to diversify export markets, while at the same time reducing government spending accordingly. It should be noted that extreme austerity measures at government level alone will not lead to the desired effects, but to a reduction in people's purchasing power and negative economic effects. What government authorities need to do is to optimise public spending by cutting back on certain operations that do not bring benefits to society, while at the same time speeding up the process of digitising public authorities and the public services provided to citizens.

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