

# The European Union, the United States and China Main Actors in the Global Economy

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## Abstract

*Due to their geographical position, the EU, the United States/US and China benefit from the fact that they have had the opportunity to structure their own economic influence areas, including from the perspective of securing raw materials and energy sources. Furthermore, there are broad relations, including trade relations between the EU, the US and China, a process determined by the increasing globalization of the world/global economy.*

*The purpose of this paper was to highlight the role that the EU, the US and China play within the global economy. The complex challenges faced by the world today call for the active involvement of the three great powers in solving the problems that have arisen. The EU, the US and China must take into account their own interests, as well as the interests of the other countries, and they must have the ability to look to the future responsibly and generously.*

**Key words:** economic pillars, economic growth, geopolitical powers, global economy, competitiveness

**J.E.L. classification:** F02, F63

## 1. Introduction

In the 1980s, the proponents of economic globalization claimed that this was a phenomenon that required greater cooperation between the countries of the world by the free movement of goods and the free movement of capital, and by increasing the free movement of workers. The economic gap was expected to narrow over time, and on this basis there would be a more pronounced increase in the standards of living for the citizens of the poorer countries.

After four decades of increasing globalization, we can say that the concrete way in which this phenomenon has materialized has been largely debatable. In fact, it was the economically advanced countries that established the rules of the game, rules determined by the interests of the main economic actors (multinational companies) over the last decades. Multinational companies with registered offices in developed countries, compared to those with registered offices in developing countries, are the most numerous and strongest from an economic point of view.

Even though, during the mentioned period, it is clear that all the parts of the world have advanced in terms of economic development, the gaps between the richer and the poorer countries in various respects have been maintained or even amplified.

During the Cold War, politically, ideologically, militarily, and economically two powers crystallized: the United States and the Union of Soviet Socialist Republics/USSR. Practically, in the battle against the socialist world, whose core was represented by the USSR, the US had the strength and the necessary means to be the exponent of the capitalist world. The fall of communism led to the reconfiguration of the balance of power internationally, including economically. Under these circumstances, in the 80's and 90's, respectively, we can note that three great economic powers asserted themselves in the world: the EU, the US and Japan.

Throughout the globalization of the world economy, the importance of Japan has decreased significantly, while China's economic performance exponentially increased. In this context, the increasing globalization has highlighted three major economic actors, namely: the EU, the US and China.

The EU has proven to be the most successful "empire" in history, its economic and social progress being the result of promoting a policy based on discipline, not on force. Moreover, it should be noted that between 1980 and 2020, the EU, with one exception, has steadily increased its membership. On average, a new country has joined the EU about every two years. This dynamic has had a direct impact on indicators such as: GDP, population size, size of the common market, etc. Depending on the year to which we made statistical references, we have considered EU9, EU12, EU15, EU 27, EU 28 and again EU 27, given the United Kingdom's exit from the EU.

The United States has been for a very long time and continues to be the country with the strongest economy in the world. With an emphasis on research and innovation activities, the United States has the best performance in terms of competitiveness. We must not forget the huge military spending that the US incurs. All this conveys the US the status of first pillar in the global economy, although today the intensity of the American voice has decreased significantly compared to 30-40 years ago.

China, without the risk of being wrong, can be said to be the champion of economic globalization. The sharp increase in GDP, the trade surpluses recorded over the years, the huge foreign exchange reserve, the strong increase in the potential of the internal market, etc., are some of the reasons in this regard. The benefits of the market economy, coupled with discipline and the establishment, respectively the achievement of long-term objectives specific to a communist-type of political leadership, seem to have been the recipe for China's economic success.

The aim of this paper has been to highlight the role that the EU, the US and China have played in the global economy over the last three to four decades, while highlighting the performance of the three economic pillars mentioned in terms of economic growth, cross-border trade, FDI flows attracted or issued and research and innovation expenditure.

## **2. Literature review**

Through the information presented in this paper, we have tried to highlight the global economy's structuring into three main economic pillars, a structure which has taken shape in recent decades due to the increasing globalization of the global economy. The EU, the US and China have strong bilateral relations in this context, but at the same time they take part in a fierce competition in order to secure their sources of supply with raw materials and outlets for their own goods. Moreover, the geopolitical role that the three pillars of power are currently playing must be taken into account.

About globalization, in general and about the involvement of the EU, the US and China in this process much has been written in the specialized literature, and the assessments made by a number of important authors are well-known.

The impact of globalization on different categories of states has been thoroughly analyzed by Nobel laureate for economics Joseph Stiglitz. The book "Mechanisms of Globalization" focused on the positive effects, but especially on the negative effects attributable to globalization. Presenting on the one hand the interests and benefits that have characterized the EU and the US during this period as representatives of the developed world, and on the other hand the huge progress that China has made due to the implementation of standard macro-strategies for development through expansion, Joseph Stiglitz emphasizes the need for finding a new balance.

The well-known Polish author Grzegorz W. Kolodko, in the work "Whither the World", considers globalization to be a dynamic system which must be viewed in terms of its impact on long-term economic growth. It is estimated that in the future the world will be multipolar, reviewing the main strengths and main weaknesses specific to the EU, the US and China. Kolodko emphasizes the need to impose a new kind of pragmatism in the relationship between neoliberalism and state capitalism, so that economic life could be characterized by more moderation.

Parag Khanna, in the work "The Second World: Empires and Influence in the New Global Order", presents the situation of different parts of the world and the causes that have led to the current state of affairs. From a diplomatic point of view, he highlights the American imperial way

of the coalition, the European way of consensus and the Chinese way of consultation. Khanna believes that the world is searching for balance. From this perspective, the tripolar world (EU, US and China) is compared to a three-legged chair. The statistical information provided by the United Nations Conference on Trade and Development and World Bank was very helpful for highlighting the dynamics of the various economic indicators which emphasized the role of utmost importance that the EU, the US and China play in the global economy.

### 3. Research methodology

The polarization of the global economy is taking on new dimensions in the context of the increasing interdependencies between the countries of the world. The global financial crisis and the pandemic crisis have further complicated the problems faced by the world's great powers.

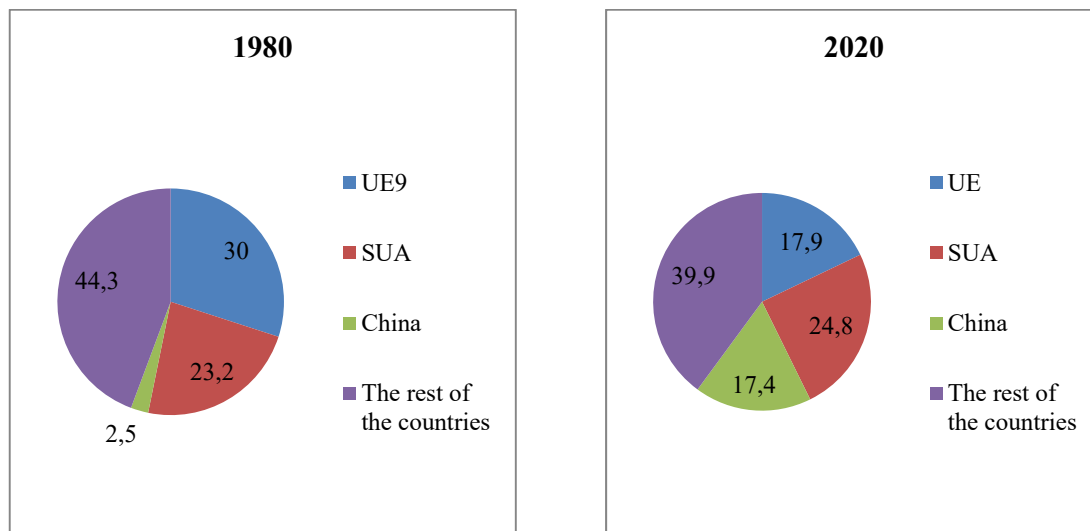
The critical examination of the phenomena was based on the theoretical documentation specific to the topic and on the available statistical data.

Using comparative analysis, induction and deduction, we have emphasized the role played by the EU, the US and China in the global economy, while trying to highlight the similarities and differences which characterize them.

### 4. EU, US and China's contribution to the global GDP and to attracting, respectively issuing FDI

In the early 1980s, the EU9, the US and China provided 55.7% of the global GDP. Under these circumstances, the rest of the countries had a contribution of only 44.3%. If we consider that at that time Japan was the world's second largest economy, the discrepancies between the three major economic poles of that time (the EU, the US and Japan) and the rest of the countries was even more pronounced.

Figure no. 1 The structure of the global GDP



Source: [www.unctad.org](http://www.unctad.org)

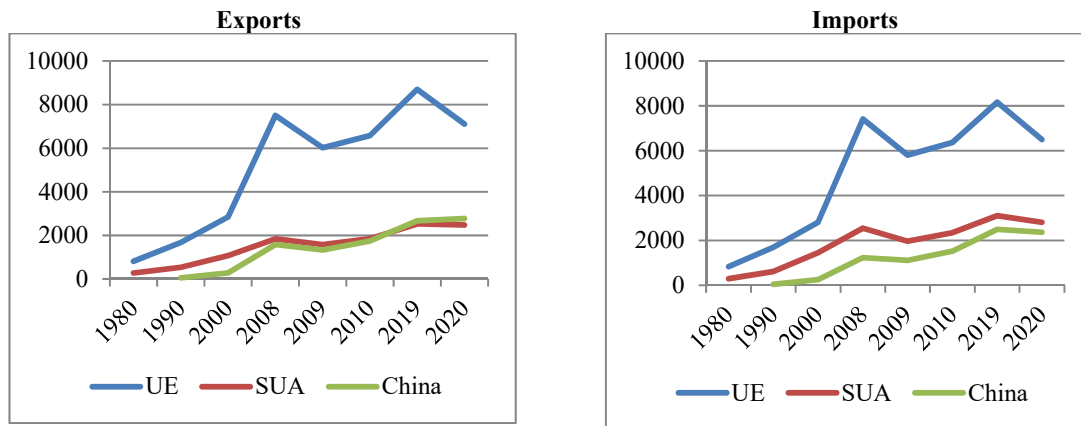
After 40 years, EU, US and China's contribution to global GDP has reached 40.1%. It is worth noting the substantial increase of the role that China plays in the world economy, China's GDP, expressed in nominal values, being in the year 2020 48.1 times higher than the level recorded in the year 1980. By comparison, in the same interval, the global GDP has multiplied only 6.8 times. As share in global GDP, the US has recorded a slight increase, whereas the EU has registered a

substantial decline. In the case of the EU, the situation was largely determined by Britain's exit from this union.

It is clear that the globalization of the world economy has not generated a somewhat harmonious economic growth on the planet. The income was distributed among the members of the society in a similar way, emphasizing the inequality between the different social categories. Compared to the global situation, the three studied countries recorded faster increases in the average wealth of the richest citizens. Thus, in the period 1987-2017, the average wealth of the richest 1% of adult citizens grew at an average annual rate of 3.5% in the US, Europe and China and 2.6% worldwide. (Piketti, 2020, tab 13)

Under these circumstances, in the United States the income obtained by the middle class has decreased in comparison to that of the wealthy Americans. Despite the sharp rise in the number of Chinese billionaires, China has managed to distribute more equitably the results of economic growth over the past decades. Under these circumstances, hundreds of millions of Chinese have moved from the category of poor to the middle class, with positive effects on increasing the purchasing power of the population. The EU, compared to China and the US, took the middle position in this regard.

Figure no. 2 Evolution of cross-border trade in goods and services (billion dollars)



Source: www.unctad.org

Given the recorded economic growth, the three major pillars of the world economy have amplified their role in the cross-border trade. Between 1980 and 2020, the share of exports and imports achieved by the EU, the US and China in the total world exports and imports increased from 46.4%, respectively 47.7% to 56.1%, respectively 53.9%. It is clear that both the EU and the US and China have substantially increased their foreign trade, while the greatest progress has been achieved by China. In fact, since 2009, China has become the world's largest exporter, surpassing Germany.

There are major differences between the three competitors in terms of the evolution of the trade balance. Throughout the analyzed period, the US registered significant deficits of the trade balance, noting, however, that the American economy had the potential that would allow this situation. While in the first decade the EU recorded predominantly trade deficits, in the following decades the situation improved significantly with a predominance of surpluses. The evolution of China, for which the whole period has been characterized by trade surpluses, was particularly positive, including in the years when the global financial crisis and the pandemic crisis manifested themselves.

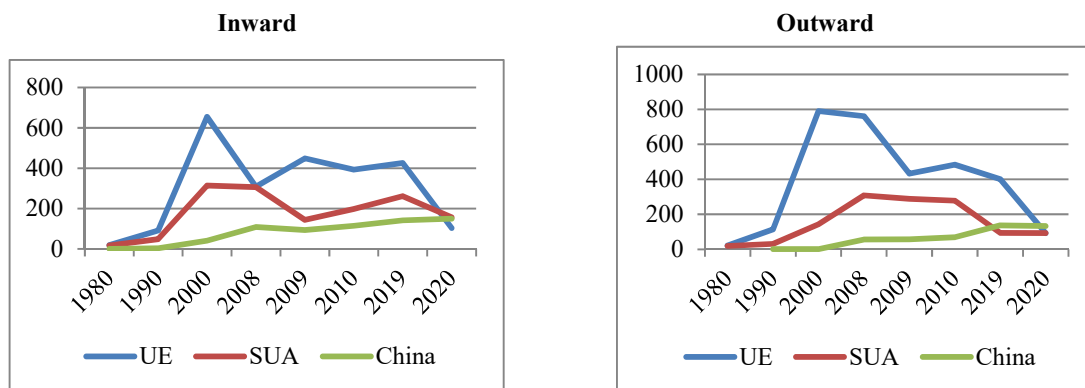
## 5. The EU, the US and China in terms of foreign direct investment and research activity

The competitiveness increase of an economy is mainly based on the implementation of the latest technologies. In order to achieve this goal, one can choose either to attract foreign direct investment or to allocate an appropriate amount so as to finance research and development activities.

Regarding the attracted foreign direct investment, it must be said that on the one hand they do not increase the states' public debt, and on the other hand they provide access to the latest technologies, to advanced knowledge in the field of management, marketing, etc. Furthermore, direct investments made abroad illustrate the performance of the economy of the country of origin and the availability of capital of the economic agents in that country.

Contrary to the growing trend of the share of the EU, the US and China held cumulatively in global GDP and global foreign trade, in the case of foreign direct investment flows attracted and issued, the cumulative share of the three economic powers decreased in the 1980-2020 interval, reaching at the end of the period 40.9% of the total in the case of attracted investments and 31.7% of the total in the case of issued investments. It should be noted that in the previous year (2019) the situation was much better, the cumulative share of the three powers in the world total exceeding 50% both in terms of inward and outward FDI flows. Obviously, the substantial decline in the year 2020 was due to the consequences of the pandemic crisis.

Figure no. 3 Foreign direct investment flows (billion dollars)



Source: [www.untcad.org](http://www.untcad.org)

After the fall of communism, the EU, given its geographical proximity and certain common cultural values, has had a robust investment activity in Central and Eastern Europe. This process was greatly enhanced by the opportunities provided by the privatizations that took place in the former socialist countries. In terms of investment, the most important EU countries have been: France, Germany and the Netherlands, but especially the United Kingdom up to the moment it left the EU. It should be noted that among the three largest powers globally, the European Union recorded the most drastic decrease in the flows of foreign direct investment attracted and issued in the year 2020, compared to the levels reached in the year 2019.

The United States has been a world leader in terms of attracting, respectively issuing annual foreign direct investment flows. The performance recorded by the US economy was a real magnet for foreign investors. Thus, the US has been the largest absorber of foreign direct investment in the world. The exception was the year 2002 when the September 11, 2001 terrorist attacks left a mark on the foreign direct investment flow attracted by the United States, this country being surpassed by other countries in the world ranking. Subsequently, the US regained its leading position, over the years the distance from the countries that occupied the second position becoming greater. On the other hand, availability of capital, as well as geopolitical ambitions have propelled the US to the top of the countries that have promoted foreign direct investment.

In the early 1980s, China's economy was in a precarious position. The reform measures implemented by the decision-makers of that time also aimed at attracting foreign capital. Financial incentives for investors and cheap labor attracted significant flows of foreign direct investment with a major impact on China's economic development. As economic growth started to be felt, domestic capital availability increased, which on the one hand enhanced the progress of the national economy and on the other hand allowed China to invest abroad. While in the first half of the period, the annual flows of foreign direct investment attracted by China were substantially greater than those issued, in the second half of the period and especially in the last decade the situation became balanced, the two flows registering relatively close values. It should be noted that the Chinese economy has been of interest to foreign investors including during the pandemic period, foreign direct investment flows recording a slight increase in 2020 compared to the previous year.

In terms of absolute values, the US has represented the country with the highest expenditures for research and development activities, the American economy excelling in the areas characterized by advanced technology. Moreover, from the perspective of the share in GDP of the research and development expenditure, the US occupied the first place among the three main economic powers, with 2.82% in the year 2018. For China, as well as the EU, this share was 2.06%. (DIGI 24, 2020) In 2018, compared to the previous year, research and development expenditure increased in China by 34%, in Europe by 14% and in North America by 7.8%. (Electroretail, 2018) According to some forecasts, the budget allocated for research and development by China will exceed in 2025 the budget allocated by the US for this purpose, and according to other forecasts, the event will take place in 2028. It is clear that China's process of strong economic growth has also been driven by a significant increase in the amount allocated to development and research, which has more than 32 times multiplied between 1991 and 2018. The EU has made some efforts in terms of the dynamics of research and development spending, but we can say that efforts in this area have been below EU's potential and below the needs generated by the globalization of the world economy. In 2020, EU allocated 311 billion euros (2.3% of GDP) for research and development compared to 312 billion euros (2.2% of GDP) in 2019. (Antena 3, 2021) In terms of the share in GDP of research and development spending in 2020, Belgium, Sweden, Austria and Germany outperformed the other EU countries.

## 6. Conclusions

The economic and political realities of recent years have led to some changes in the EU – US-China relations. During President Trump's term, the EU-US relationship was affected by a series of discrepancies caused by the implementation of the *America first* program. Some actions taken by China and Russia have also contributed to the escalation of the disagreements between the US and the EU, the main goal of the former two countries being to reduce America's global power. China's and Russia's preferential economic relations with certain EU countries, the dissenting attitudes towards the EU coming from within and Brexit are important factors that have damaged EU's international position.

Despite the fact that between the United States and China there is the largest bilateral trade relationship in the world, a number of disagreements have emerged that have led to a major trade dispute. Due to the large trade deficits recorded by the US in relation to China, the Trump administration increased the tariffs for several product groups. This act provoked a backlash from China. It should be noted that the trade dispute between the US and China has affected EU's trade interests, the negative effect spreading globally to some extent. It is hoped that US President Joe Biden and Chinese President Xi Jinping will take steps so as to rationally manage the bilateral competition. We can say that a first step in this direction has been taken by improving the communication between the two presidents.

Last but not least, we must keep in mind China's territorial ambitions in Taiwan, a chain of islands in the East China Sea, most of South China, and so on. Due to its massive military spending, China has become a geopolitically demanding country. In fact, in terms of military budgets, the US and China occupy, by far, the top two positions in the world. EU's ambitions are much lower in this field.

It is obvious that both in terms of their share in the global economy and in terms of geopolitical influence, the EU, the US and China are the strongest players on the planet, noting that in the recent decades "America is less and less loved and increasingly feared, Europe is more and more loved and less feared, and China is more and more loved and feared at the same time". (Khanna, 2008, p 303)

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