

International Relations and the Resource Base of Economic Growth Drivers

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Abstract. This article is focused on the problem of the dynamics of economic growth in the conditions of political instability. The paper analyzes the main drivers of economic growth and the dependence of their resource base, also in the frame of the coronavirus pandemic, on the dynamics of international relations, as well as cross-country interaction. The authors conclude that the quality and adequacy of management, at the level of state or at the international level, depends on the speed of decision making in the interests of bringing the world economy and international relations to an equilibrium state.

1 Introduction

Global economic growth is one of the key factors for assessing the overall state of the world economy. At present, the world economy is going through hard times: the consequences of the global coronavirus pandemic are expected to be much more serious than from the banking crisis of 2008. The general decline in business activity in the world, caused by measures to prevent infection, almost completely stopped passenger transportation, dramatically reduced the service sector, and closed many production facilities. As a result, the demand for oil fell, stock indexes began to collapse, and unemployment rates increased significantly. For all countries, the slowdown of the global economy has become apparent. Nevertheless, the problem of restarting the world economy after a recession will be important. Consideration of the key factors that ensure its restoration is very important.

2 Results and discussion

The dynamics of global economic growth has always been highly labile and cyclical, but the amplitude has increased significantly over the past thirty years (Fig. 1.). In this regard, there is a need to determine the relationship between the political tools of international relations and the drivers of economic growth. Consideration of the drivers of economic growth of the world economy is possible from two main conceptual positions:

- 1) countries-drivers of economic growth;
- 2) macroeconomic factors that ensure economic growth.

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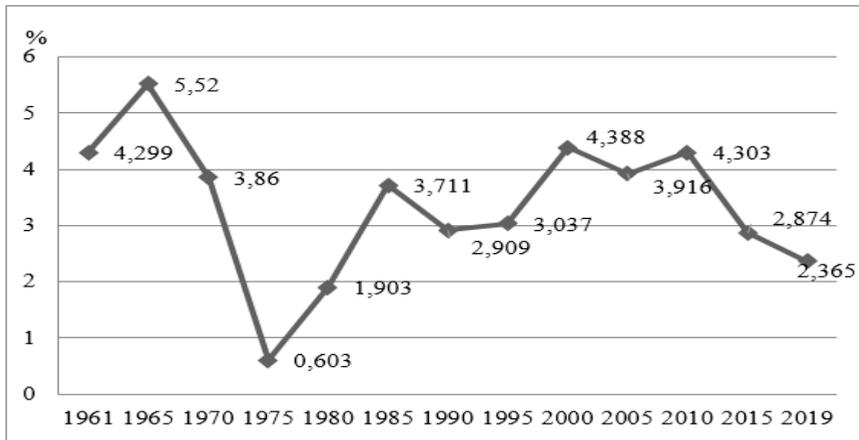


Fig. 1. Global economic growth dynamics 1961-2019 [1]

The contribution of countries is expected to change significantly by 2024. Countries like India and Indonesia, for example, will play a much more important role in global economic growth in the coming years. According to the International Monetary Fund (IMF), economic growth is likely to fall to 3% this year - the worst performance since the global crisis. All other countries are expected to contribute much less to global economic growth. In fourth place is Indonesia with 3.7%, followed by Russia with 2% and Brazil with 1.8%. UK is ranked ninth in the ranking, but is expected to move to 13th by 2024 due to Brexit and tensions with the European Union. Among the 20 countries that will manage the global economy for five years that are not included in the list are Mexico, Pakistan, Saudi Arabia, South Korea, the Philippines, France, Thailand, Malaysia and Bangladesh. According to Bloomberg, Spain, Poland, Canada and Vietnam are expected to reduce their production and will no longer be among the countries with the strongest economic growth in the world.

According to the forecast, Egypt will be in eighth place. This Middle Eastern country will contribute 1.5% to global growth. Egypt is one of the smaller countries that will drive global growth in the next five years. The main drivers for it will be the tourism sector and energy.

In seventh place are Germany, Turkey and Japan. In the last few months, the German economy has been experiencing serious difficulties. Each of these three countries will have a share of 1.6%. In particular, Germany's GDP is expected to grow by only 0.5% this year and 1.2% next, making it the country with the second-largest economic growth in 2020.

In sixth place in frame of the impact on global economic growth will be Brazil, which will overtake Germany and Japan. Its economy is now the ninth largest in the world and is mainly dependent on commodity exports.

However, the COVID-19 pandemic has changed the situation in the global economy. Most countries were forced to impose strict quarantine and containment measures, which inevitably led to a sharp slowdown in economic activity due to the closure of jobs. For example, in China, industrial production, retail sales, and fixed asset investment declined strongly in January and February 2020 [2, p. 2].

Also, the pessimistic outlook for the global economy and the failure of the OPEC + agreement affected the decline in prices for exchange-traded products, primarily for oil [2, p. 3]. So, on March 9, 2020, the price of Brent North Sea oil fell by more than 27%, falling below \$32 per barrel, the price of WTI fell below \$30 per barrel. In the course of trading, the price of Brent fell by a maximum of 31%, to \$31.27 per barrel [3]. The further drop in the price was due to the spread of the Covid-19 coronavirus epidemic in the world, which was officially recognized by the World Health Organization at a meeting on March 11, 2020. As a result, the International Energy Agency announced a forecast of a drop in oil demand in the

world for the 1st quarter by at least 20-30%. According to the IMF's forecast, global economic growth in 2020 will be -3.0%, which is much lower than during the global financial crisis in 2009. Also in the same year, the economy is projected to reduce in most advanced economies: the United States (-5.9%), Japan (-5.2%), the United Kingdom (-6.5%), Germany (-7.0%), France (-7.2%), Italy (-9.1%) and Spain (-8.0%) [2, p. 6].

As for the economy of the group of developing countries, it is projected to shrink by 1.0% in 2020 (excluding China, the growth rate in this group is expected to be -2.2%): Latin America (-5.2%), Europe (-5.2%), including the projected contraction of the Russian economy by 5.5%, the Middle East and Central Asia (-2.8%), sub-Saharan Africa (-1.6%), where Nigeria and South Africa are expected to grow at -3.4% and -5.8%; a few countries in the region are projected to have low growth rates: India (1.9%) and Indonesia (0.5%), while others are projected to experience significant declines, such as Thailand (-6.7%) [2, p. 6].

Global economic growth is projected to reach 5.8% in 2021. The group of advanced economies is projected to grow at 4.5%, while the group of emerging and developing economies is projected to grow at 6.6%. For comparison, global economic growth recovered to 5.4% in 2010 from -0.1% in 2009. Changes in economic indicators will depend on the trend of the pandemic and its economic and financial consequences.

The restoration of the COVID-2019 pandemic will depend on the available capabilities of each country. Thus, the growth potential of the Russian economy is determined by such factors as the implementation of major energy projects (Nord Stream-2, South Stream, the Power of Siberia, etc.), the rapid development of the agro-industrial complex, the production of weapons and their maintenance. In the conditions of crisis phenomena in the world economy and sanctions pressure, a breakthrough in the aircraft industry is possible with the launch of a series of MS-21, IL-96-400 and other aircraft. Especially important is the fact that mass production of the modern PD-14 turbofan engine and its family of engines for civil aircraft is beginning in our country. This technological groundwork is extremely important, since at the moment only two countries are able to produce competitive aircraft engines for civil aviation: These are the US and the UK (Rolls Royce, General Electric and Pratt & Whitney).

Between the 1970s and the 1990s, it was common to call the United States as the engine of the world economy. US fiscal and monetary policy has usually played a crucial role in the development of the global economic cycle through trade and financial links with smaller economies. The dominant role of the United States in the global economy was expressed in numerous variations of the phrase "when the United States sneezes, the world catches a cold". The United States still plays an important role, and the US Federal Reserve remains at the center of global markets, but the US economy is no longer large enough or growing fast enough to act as the sole locomotive for the global economic train. China is developing on its own, and the other major emerging markets combined are now more important drivers of the global economy than the US. The traditional aphorism should probably be recast as "when China sneezes" or "when emerging markets sneeze" "the world catches a cold. China and other major emerging markets themselves are becoming increasingly interdependent, as China is both a major importer of raw materials and a supplier of industrial products and investment.

The cyclical changes in China's economic growth in 2014-2015 and 2018-2019 were the main factors contributing to the global economic slowdown in those years, and China will remain the centerpiece of the global cycle for the next five years. China's economic development is particularly important because its rapidly growing middle class generates domestic demand, which in turn is based on demand for oil, automobiles, air travel, tourism, and other industries that are booming. China's economy is currently in the middle part of the S-curve, where rising incomes are driving rapid growth in the consumption of private motor vehicles and long-distance air travel. China's economic cycle played a big role in the sharp

drop in oil prices in 2014-2015 and again in 2018-2019, dampening the growth in oil consumption in those years. Now, the country, along with India, is playing a similar role in the global auto manufacturing downturn that has hurt automakers and hit the entire global industrial chain. In turn, the decline in oil prices has negatively affected revenue, government spending and business investment in much of the Middle East and other regions dependent on oil exports. The cyclical decline in oil prices is hitting even income, investment and employment in oil-producing regions of the US, such as West Texas.

Since the beginning of 2018, the United States has pursued a deliberate policy of trying to damage the Chinese economy under the guise of "concerns" about the shifting balance of economic forces and "unfair competition". Tariff and non-tariff barriers, including tighter restrictions on market access, investment, business ownership, security blacklists, sanctions, and criminal prosecution, have been used as part of the U.S. government's efforts. The agreement currently being negotiated between China and the United States is likely to cover only a limited number of issues, including tariffs, intellectual property, and trade in agricultural and energy products. The most serious differences are likely to remain unresolved, including market access, technology transfer, cybersecurity, industrial subsidies, supply chains, and the relative balance of military and economic power.

There is considerable uncertainty about whether the truce will be stable and whether it will continue after the end of the US election cycle in 2020, especially if there are periodic exacerbations due to unresolved issues. At least for some U.S. policymakers, any truce is designed to buy more time to complete the partial separation of the U.S. and Chinese economies and reorient global value chains away from China. For some politicians in both governments, the resumption of economic conflict is only a matter of time, as both countries enter a long war of attrition. However, given China's dominant role in global growth, it is difficult to see how the United States can return to global economic leadership without triggering a new global slowdown (Fig. 2.).

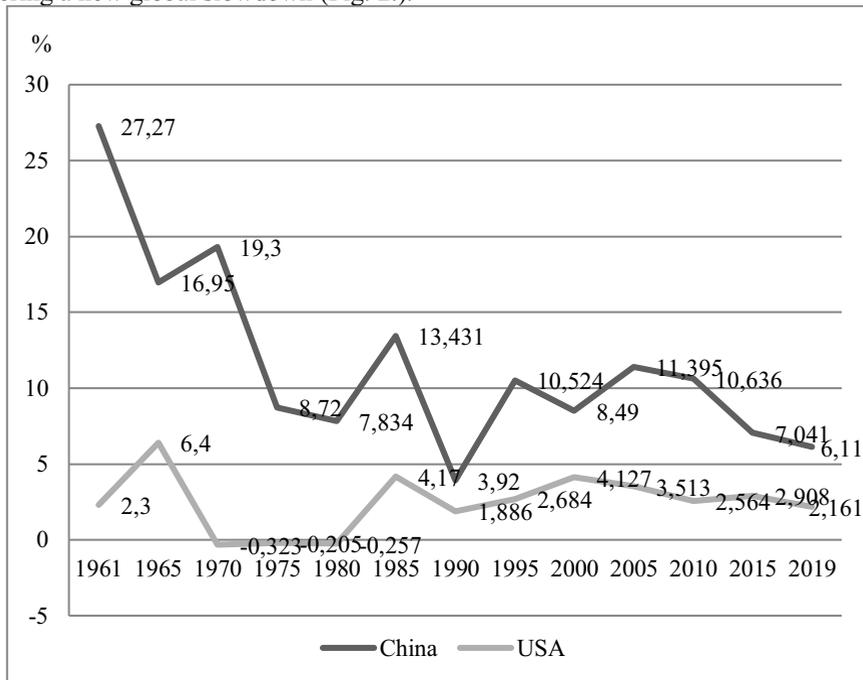


Fig. 2. Economic growth dynamics of China and the United States 1961-2019 [4]

More broadly, there is no plausible scenario in which the rest of the global economy will experience healthy growth over the next five years unless China grows strongly and U.S.-China relations improve significantly. These two countries should co-exist constructively. If they fail to do so, the result is a prolonged period of weak global growth, if not recession. Thus, it is reasonable to conclude that at the moment the main drivers of the world economy are countries such as China and the United States, however, in the context of the growing trade war, the vast majority of other countries' economies are in the zone of instability and vulnerability. In this regard, the assessment of risks and the definition of methods for managing the factors of economic growth becomes particularly relevant.

Classically, the improvement of business "mood" and "confidence" indicators (these indicators characterize the level of political stability and certainty, as well as indirectly reflect the priority of the development of certain markets or technological directions, business models), acceptable financial and investment conditions and reasonable commodity prices are the main factors behind global economic growth. Historically, the link between these factors and global growth has been very strong. In particular, since 2015, financial and investment conditions have contributed slightly more than sentiment indicators. This contrasts with the situation in the period from 1998 to 2007, when the bulk of global growth was attributed to the "sentiment" derivative, and financial and investment conditions played a secondary role. Understanding changes in commodity price movements is very important for policy-making, both in developed and developing countries.

The commodity price debate has a long history and Prebisch and Singer contributions in it being particularly significant [5]. In contrast to the generally accepted view at the time, these authors argued that the international division of labor through demand creates a tendency for manufacturing prices to rise relative to commodity prices (thereby widening the gap between developed and developing countries). Conventional wisdom: the perspective of the proposal is based on three elements:

- 1) rapid technological progress in the manufacturing industry;
- 2) reducing the return on production of primary goods;
- 3) increase in the number of the population.

These three elements are expected to lead to a long-term decline in manufacturing prices relative to commodities [6]. The Prebisch-Singer hypothesis, which radically contradicts these generally accepted conclusions, became an important topic in the economic debate from the 1950s to the 1970s. A significant amount of literature was published on this topic, defining the main properties and main determinants of commodity prices [7, 8]. One part of the researches has been devoted to identifying long-term trends in commodity prices and, in particular, attempts to find support for the Prebisch-Singer hypothesis, although the evidence for this hypothesis remains ambiguous [9, 10]. More recent studies have focused on identifying commodity price cycles [8]. The reasons for this approach are related to efforts to reduce the macroeconomic impact of commodity price shocks, which requires a clear understanding of the duration and amplitude of commodity price cycles.

At the same time, if we consider global economic growth as a component following the locomotive, and the United States considers itself to be such a locomotive, and with good reason, then we can distinguish a new concept of the "first driver", in which the United States is trying to make political tools the foundation of economic growth of its economy. A striking example is the evolution and development of the World Trade Organization. Created as a successor to the GATT during the rapid growth of international trade, due to the collapse of the socialist world system and the liberalization of emerging markets, it has become a tool of political influence (recall nearly twenty-year process of Russia's accession to this organization) and, in the end, they were unable to stop the trade war US and China. However, much earlier, before the onset of these events and the coming to power of Trump, it became obvious to the United States that it was not possible to achieve priority development of its

economy within the framework of the WTO. In this regard, a politically motivated process of creating regional economic pacts was launched. Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP), initiated by the United States in 2013 and 2008, respectively.

The TPP was created with the aim of eliminating customs duties on all goods by 2015 and liberalizing non-tariff restrictions between 12 countries in the Asia-Pacific region [11]. However, on January 23, 2017, the United States withdrew from the Trans-Pacific Partnership [12]. The agreement documents contain three main areas: market access, regulatory specifics, and broader rules, principles, and modes of interaction.

As for the planned TTIP agreement, it was about eliminating regulatory differences between the United States and European countries [13].

However, the unprocessed points of the TTIP did not allow consensus to be reached on some issues, such as the lack of a mechanism to protect participants from unfair manipulation of the exchange rate in order to increase the competitiveness of their goods, which eventually led the Council of the European Union to recognize the adopted TTIP directives as “outdated and no longer relevant” [14].

Another driver of economic growth, that allowed even Germany to recover between the First and Second World Wars, is the militarization of the economy. And here the factor of international relations is used very actively. If initially NATO was created as a screen for the preservation of the US military presence in Europe after World War II, then very soon NATO became a tool and a driver for the growth of the American military-industrial complex. And this is not accidental: within the framework of this military organization, the purchase of military equipment and equipment, as well as the standards of equipment, communications and other things, are mainly based on the American military-industrial complex. It is no coincidence that in 2020, the United States is proposing a \$734.4 million increase in spending on the "European Deterrence Initiative" - a multi-year program designed to "counter Russia's aggression in the region" by "restoring the advanced American military presence" in Europe and building up the military potential of partners [15].

According to the ranking of the Top 5 countries in the world in terms of military spending in 2019, the main leader continues to be the United States - \$732 billion. United States spend 2.8 times higher than China, which is next on the list, with total military spending of \$261 billion. In third place, India – \$71.1 billion, in fourth-Russia - \$65.1 billion, in fifth – Saudi Arabia - \$61.9 billion. These five countries account for 62% of global military spending [16].

In strategic terms, the United States has long been present in Europe, but has not been a "part" of it. This is confirmed by the formation of a NATO bloc based on European countries. The mass entry of European countries into the military-political bloc of the North Atlantic Alliance falls on the fourth, fifth, sixth and seventh expansion, respectively, 1999 (Hungary, Poland, Czech Republic), 2004 (Bulgaria, Latvia, Lithuania, Romania, Slovakia, Slovenia, Estonia), 2009 (Albania, Croatia), 2017 (Montenegro). Naturally, it is assumed that the vast majority of military supplies will be carried out from the United States. Credit lines for the supply of weapons are opened for new members. It turns out that the United States itself pays for its own growth in the production of military equipment, which is supplied to the "allies", and those, falling into debt bondage, become more compliant and in repayment of loans granted to American companies, give priority rights to economic activity.

The basis of the US defense industry is a group of large corporations such as Lockheed Martin, Boeing, Northrop Grumman, Raytheon Company, General Dynamics, which occupy the top positions in the ranking of military-industrial companies in the world.

The expansion of production and sales of products by the largest military-industrial corporations of the United States just falls on the periods of 1999-2004, 2004-2009, 2009-2017, which indicates the military support of the alliance countries (Fig. 3).

The desire to increase spending on the military needs of the United States and European countries is based on rapid rise of China, which brings new opportunities and threats to the United States. China is currently characterized by a policy of investing in new military technologies, while occupying the second largest military budget in the world after the United States. Therefore, the United States is trying to strengthen its position at the expense of the countries of the NATO alliance.

3 Conclusion

Finally, it is possible to say that in international relations, the instruments of political pressure in the interests of ensuring economic growth tend to grow and rising in relation to, as previously thought, the priority purely economic drivers of growth of the world economy and countries. Accordingly, the quality and adequacy of management, both at the level of a state and at the international level, depends on the speed of making managerial decisions in the interests of bringing the world economy and international relations to an equilibrium state. The methodology and principles that can be used for these purposes require detailed development. One of the possible and most appropriate tools is the currently developed concentrated-distributed approach, which allows to harmonize the internal environment of a socio-economic object with the challenges come from a rapidly changing external environment.

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