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WORLD ECONOMY

Study guide

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The study guide contains educational module, which embraces the content of main regulatory disciplines on specialists training by the direction 292 “International economic relations” of the educational and qualification level “Bachelor”. According to the content the disciplines completely conform to curricula approved by scientific and methodological commission on management and agreed with logical and structural scheme of educational process.

The study guide embraces almost all aspects of bachelor training. The chapters contain questions for self-control and list of recommended literature. While creating the chapters the results of fundamental and applied scientific of the world market were used, the globalization and transformation processes of the world economy were considered.

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CONTENT

INTRODUCTION

The intensification of international economic relations leads to increased attention from their participants to the global environment in which such relations establish. The globalization speeds up in the world economy and has a significant impact on the national economy. Besides, it arises the problem of a comprehensive study of the specifics of the world economy development by students of international economic relations speciality. The high dynamism of world economic relations brings to the first place the problem of constant operational updating of educational literature, which is a cornerstone of methodological support in the study of the discipline. This textbook is prepared for modernizing the educational and methodological framework of the course.

According to the curriculum, the discipline "World Economy" is taught for students of the second studying year of the "Bachelor" qualification level, speciality "International economic relations". Logically, knowledge of the planetary economy is provided to students after studying such disciplines as "Economics" and "Regional geography". At the same time, the main provisions of the discipline are the basis for further study of international economic relations, international business, diplomatic protocol, etc.

The subject of this course is international organizational and economic relations in unity with the productive forces of the planetary economy. In contrast, the discipline "International Economic Relations" to a greater extent analyses the socio-economic aspects of the world economy (international trade, migration, currency and other relations).

The key purpose of the presented textbook is to generalize and systematize the most commonly accepted provisions and conclusions available in domestic and foreign scientific and educational literature regarding the world economy, the formation of readers' understanding of the world economy as a platform for conducting international economic relations.

The authors highlight the following main tasks of the textbook "World Economy":

– to form a clear idea of the essence of the world economy in students;

– to provide a scientific understanding of the formation and development stages of the world economy;

– to present readers a real condition of the available resource potential of the world economy, its regions and countries;

– to analyse current trends in the development of the planetary economy;

– identify current global challenges and ways to solve them;

– to form students' skills to conduct a comparative analysis of the economic development of Ukraine and other countries.

As a result of studying the course, future specialists in international economic relations will know:

– the structure of the world economy and its main components;

– major trends of the current development of the world economy, its regions and global industries;

– the theoretical base of this discipline.

After working on the textbook, readers will be able to:

– analyse the position of countries basing on macroeconomic indicators;

– adequately assess the current business condition in the main groups of countries;

– correctly position the countries' economies in the world economic system.

The textbook contains the most important theoretical provisions of the discipline. It simplifies the problem to choose the necessary material in preparation for practical classes for students. The authors tried to enrich the theory of the world economy with the latest statistical and factual material obtained from authoritative databases such as the World Bank, the International Monetary Fund, the United Nations, the World Trade Organization, etc.

The compilers of the textbook are teachers and employees of the Department of International Economic Relations of the Educational and Research Institute of Business Technologies "UABS" Sumy State University: Doctor of Economics, Professor M. I. Makarenko (introduction, chapters 6–9), Candidate of Economic Sciences, Associate Professor M. D. Domashenko (chapters 1–2 and 4), and junior researcher A. S. Artemenko (chapters 3 and 5).

The author's team is open to comments and wishes of readers regarding the content and form of the presented educational material and will try to take them into account in future editions of the textbook.

TOPIC 1

WORLD ECONOMY: KEY FEATURES AND STRUCTURE

The national economy is the economy of a separate country of the world community.

World economy – a set of national economies, interconnected by the international division of labor and mobile factors of production.

International economics – a science that studies the patterns of interaction between economic entities of different countries and develops theories and concepts that enable the country to build the most rational economic relations with other countries, taking into account the specifics of their own and other countries.

The international division of labor associated with the exchange of activities and its products between national states.

Division of labor between countries is the degree of social territorial division of labor.

International specialization is a form of division of labor between countries in which the growth of the concentration of homogeneous production takes place on the basis of progressive differentiation of national production.

International production cooperation is a consequence of the specialization of national productions that interact in the system of international division of labor.

Internationalization encompasses all stages of the movement of capital (monetary, industrial, commodity), typing certain forms:

– integration of national economies into regional economic complexes

– transnationalization, that is, the output of the industrial and commercial activities of corporations (firms) in the form of branches and subsidiaries across national borders.

The internal moment of the processes of integration and transnationalization is the formation of the world economic division of labor [1, 2]:

- domestic and interregional
- the universal (transnational) division of labor.

Unlike the international division of labor, this division of labor is not "between countries", but "inside" transnational corporations, that is, internal corporate.

The forms of transnational division of labor are intra-firm specialization and intra-firm cooperation [1, 2].

The intra-firm specialization is carried out within the transnational economy, which implies the existence of the world as a single world-wide economic space. This is a form, mainly, of detal and technological division of labor.

Intra-firm cooperation is inherent: cooperation in the field of research and development, cooperation of industrial companies with "scientific parks" or technopolises, implementation of joint programs and the creation of joint ventures.

The global division of labor forms the world economy as the only supranational world economic space.

The single world economic space is a supranational environment of the enterprise (business), within which there are common economic, technological, legal and socio-cultural requirements for the subjects of production and commercial activity.

Subsystems of the world economy:

- technological;
- economic;
- legal;
- socio-cultural.

Technological subsystem – a set of requirements that make the scientific and technological revolution, ensuring competitiveness in the world market.

Technological subsystem include [3]:

– information and computer character of technology;

– science-intensive;

– resource-saving, non-waste and environmentally friendly type of technology;

– biotechnology, that is technology based on natural processes.

The economic subsystem is the only economic space for the free movement of goods and services, capital and labor, information through the borders of national states, as well as free exchange of national currencies.

Legal subsystem – is a summary of the general rules of business law and norms of economic behavior.

The socio-cultural subsystem envisages:

– achieving a higher overall standard of living and reducing the differences between 'rich' and 'poor' states;

– a unified approach to social policy;

– formation of new thinking;

– development of common standards of conduct in business, business ethics and management;

– peaceful resolution of national and international problems.

The typology of countries according to the level of socio-economic relations and the level of economic development (UN typology):

– economically developed countries (sometimes - industrially developed);

– developing countries (with the distinction of new industrialized and least developed countries);

– countries with a transitory economy;

– Socialist countries (or countries with a command-administrative economy).

The World Bank typology based on the per capita GDP [3]:

– highly developed countries (GDP per capita over 20,000 USD);

– countries above average development level (10-20 thousand dollars);

– countries below the average development level (5-10 thousand dollars);

– poor countries (less than 5 thousand dollars).

Typology based on a combination of key economic parameters: GDP; the level of technology development; sectoral structure of the economy; the dynamics of economic development:

1. High-tech countries with a stable economy (Western Europe, USA, Canada, Japan, Australia, New Zealand, Israel)

2. Countries with dynamic economic development:

– New industrialized countries (Republic of Korea, Singapore, Thailand, Malaysia, Philippines, Indonesia, Brazil, Argentina, Chile, Mexico, India);

– Countries at the final stage of technological transformation of economy (Central European countries - Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Croatia, Slovenia);

– Eastern European countries (Ukraine, Russia, Belarus, Estonia, Latvia, Lithuania, Kazakhstan);

– China;

– Oil extraction countries (Saudi Arabia, Kuwait, UAE, Qatar, Iran, Iraq, Venezuela, Libya, Azerbaijan)

3. Middle-tech countries with moderate economic growth.

This is the majority of developing countries, for example, Egypt, Algeria, Turkey, Pakistan, Peru, Uruguay, as well as Serbia, Bosnia, Macedonia, Albania, Georgia, Armenia, Turkmenistan, Moldova, Kyrgyzstan.

4. Low-tech countries of the agrarian stage of development. This group includes the poorest countries of the world, such as

Ethiopia, Somalia, Uganda and others.

List of questions for self-examination

1. Characterize the world economy as the only supranational space.
2. Provide an overview of the economies of countries in transition. What are the main directions of structural change inevitable in such countries? Submit your proposals to the National Program for the transition to a market economy and a post-industrial society
3. For the main economic features, compare three groups of countries in the world economy: with a developed economy; with a transition economy; with a non-market economy (or developing ones).
4. Describing the trends and problems of the development of the world economy, summarizing the experience of countries around the world to overcome the effects of the global financial crisis and identify the most acceptable ways to overcome the crisis phenomena for Ukraine.
5. Describe the concept of "globalization of the world economy", the ways of globalization in Ukraine

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TOPIC 2

RESOURCE POTENTIAL OF THE WORLD ECONOMY

Resources – elements of productive potential owned by a particular country or the world community and used for economic, social, scientific and technical development.

Production resources – a set of natural, social and spiritual forces that can be used in the process of creating goods, services and other values.

Economic resources are a set of resources used in economic activities for the production, exchange, distribution and consumption of material and spiritual goods, to meet the growing needs of the population.

Types of economic resources [1]:

– natural (raw) resources (land, subsoil, water, forest, biological, climatic and recreational resources);

– labor resources (people with their ability to produce goods and services);

– financial resources (or capital in the form of money and securities);

– Information resources (knowledge, scientific and technical developments necessary for economic life).

Natural resources are explored and extracted natural resources that are used in the economy and are the means for the existence of human society tabl. 2.1.

These include: the earth and its subsoil, water and vegetation resources, atmospheric resources.

On the basis of exhaustion:

1) exhaustive resources:

– non-renewable (all types of mineral resources and land resources);

– renewable (resources of flora and fauna);

– relatively renewable - resources, (productive ore soils, woods, water resources in the regional aspect);

2) inexhaustible resources:

– climatic resources (heat and moisture reserves in the area);

– water resources;

– non-traditional energy resources (solar, wind, tidal energy of sea waves, gethermal (internal energy of the Earth), biological, energy of temperature gradient of ocean waters).

Mineral raw material is an important category of international trade; it accounts for 19% of all commodity exports.

Resource security – the degree of availability of natural resources in the world, which represents a correlation between the magnitude of stocks and the extent of their use [2].

Tabl. 2.1. Countries of the world with the largest reserves of the main types of natural resources

Countries	**Types of raw materials**
Saudi Arabia, Iran, Iraq, Kuwait	Oil
Russia, Turkmenistan, Iran, Saudi Arabia, USA	Natural gas
China, USA, Australia, Germany, Poland, Ukraine	Coal
Brazil, Australia, Russia, USA, Canada, Ukraine	Iron Ores
South Africa, Australia, Gabon, Brazil, India	Manganese ores
Chile, USA, Zaire, Zambia, Australia	Copper ores

Technology is a collection of knowledge about the introduction or improvement of machines, equipment production, which provides processing, manufacturing, change of state, properties and forms of raw materials, materials or semi-finished products, and also about the sale of products.

The main centers where global technology resources are concentrated are the United States, Japan and Western European countries, in particular EU members.

The scientific and technical potential of the country is formed by [4]:

– material and technical basis of science (scientific organizations, research laboratories, experimental factories, etc.);

– scientific personnel - researchers, designers, inventors, scientific and technical staff;

– the fund of inventions and discoveries - a bank of scientific knowledge and discoveries, standards, scientific information, etc.;

– organizational and managerial structure of the scientific sphere - the system of management, financing, planning of scientific research and design and development works.

Innovation potential is determined by the ability of fundamental science to provide innovations in the process of updating products.

Intellectual potential – the nation's capital, which is created in research institutes, laboratories and higher educational institutions.

The largest population in India, China, Japan, in the west of Europe. In general, Asia has more than 60% of the world's population. China and India account for 20% and 17%, respectively. Africa is second only to 14.4%. Europe owns 10.5%, North America - 8.7%, Southern - 5.1%.

Labor resources is a part of the population with physical development, mental abilities and knowledge, which are necessary for work in the national economy.

The components of labor resources are [3]*:*

a) people of working age (men 16-59 years and women 16-54 years old, except for disabled I and II groups and unemployed persons of working age who receive a retirement age on preferential terms);

b) population whose age is bigger and smaller, respectively, for the lower and upper limits of the working age, employed in the national economy.

Financial resources of the world a collection of financial resources of all countries, international organizations and international financial centers of the world.

Under current conditions, the following factors contribute to the movement of world financial flows:

– state of the economy;
– mutual trade liberalization of the WTO member countries;
– structural restructuring of the economy;
– large-scale transfer of low-tech industries abroad;
– Interstate gap in inflation rates and interest rates;
– the growth of the imbalance of international settlements;
– prevention of the export of capital by trade in goods and services.

Credit resources – a collection of loan capital in cash or commodity form. International financial organizations, in particular, the International Monetary Fund (IMF) and the World Bank (IBRD), play a significant role in the concentration of financial and credit resources of the modern world economy.

List of questions for self-examination

1) Describe the role of technological resources in the development of modern civilization.
2) What is the essence of the global raw materials problem of mankind?
3) What is the essence and features of the demographic problem of the world?

4) What are the financial and credit resources of modern civilization?

5) What resources of the global economy are most important?

6) What are the main trends in the development of mineral resources?

7) Which countries are best supplied with mineral resources?

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TOPIC 3

GLOBAL TRANSFORMATION AND TRANSNATIONALIZATION OF THE WORLD ECONOMY

An essential feature of current world economic development is the comprehensive planetary transformations that are called "globalization". They primarily cause global economy formation, as they occurred in the economic field.

The process of a global transformation of the world economy is complex and problematic. It is often indicated as "globalization".

The globalization of the world economy is the process of strengthening the interconnection of national economies of the world, which is characterized by:

– formation of the world market of goods and services, finance and labour;

– formation of the global information space;

– transformation of knowledge into the main element of social wealth;

– business goes out of national borders due to the formation of transnational corporations (TNCs);

– implementation and dominance of fundamentally new and commonly accepted liberal-democratic values.

The factors that cause the global transformation of the world economy are the following [1]:

– internationalization, which increases the cooperation between countries and strengths their interdependence;

– scientific and technological progress causes the creation of information technologies that radically change the system of socio-economic relations;

– existing of global problems of humanity, which are important for the development of human civilization (environmental, demographic, food, energy, raw materials, etc.).

The main features of the globalization process are:

– the interdependence of national economies and their interpenetration, the formation of international production complexes outside national borders;

– financial globalization is growing financial unity and interdependence of financial and economic systems of the world;

– depreciation of the nation-states ability to form an independent economic policy;

– expanding the scale of exchange and intensification of the flows of goods, capital, labour resources;

– creation of institutions for interstate, international regulation of global problems;

– the world economy tends to meet common standards, values, principles of functioning.

The globalization appears at all three levels of the economic system:

1. Industry markets. At this level, globalization is determined by the creation of large, globally competitive companies that dominate in a certain industry. They are called global companies (e.g. "Coca-Cola" is the global soft drinks market, "McDonald's Corporation" is the fast-food market, and "Toyota" is the world car market).

2. Country-level. It is characterized by the interconnection level of its economy with the world economy. The trade-to-GDP ratio, foreign investment inflows and outflows, the royalty payments related to technology transfer, and the cross-border money transfers of employees are the indicators of the country’s globalization.

3. Global level. It is determined by the economic relations between countries, which are growing and are reflected in the counter-flows of goods, services, capital and know-how, which

are constantly increasing. Thus, during 1980-2018, the world GDP increased from 11.2 trillion dollars up to 85.9 trillion dollars (in 7.6 times), and the exports of goods and services for the same period in 10.9 times.

Globalization is closely related to regionalization. It is another process in the world economy. It stands for the formation of regional countries associations as part of international economic integration. For example, the EU, CIS, NAFTA are integration groups of countries.

The global transformation of the world economy is an objective process with a global scale. However, it has both progressive and negative consequences. *The positives are the following:*

– the growing interdependence of economies of different countries (as a result of international specialization);

– increasing integrity and unity of the world economy (see paragraph 3 of the first lecture);

– strengthening the national markets' openness, lowering tariff and non-tariff barriers (e.g. the weighted average tariff rate for all foreign trade transactions decreased from 1988 to 2017 from 4.8 to 2.6 %);

– the growth of external consumption is faster than domestic (for 1980-2018, the world import-GDP ratio increased from 19.9 to 29.3 %);

– intensification of the international division of labour and cooperation (e.g. companies from many countries are involved in the producing of complex products);

– reduction of transaction costs for carrying out international agreements due to international communications development (e.g. the development of Internet technologies has significantly reduced such costs);

– formation of modern civilization with common preferences, values, social consciousness.

At the same time, the negative consequences of globalization are the next:

– the economic and political domination of developed countries is strengthening in the world (despite the reduction of their share in the gross world product, they firmly control the world financial and security system);

– some nations and states lose their independence and transfer their functions of entities of international relations to supranational authorities (during the formation of integration groups);

– high mobility of financial capital can cause financial crises (e.g., the Asian crisis of 1998);

– the development of international communications often gets out of control (hacking on the Internet);

– the threat of international terrorism and the global nuclear catastrophe is rising (e.g. events of September 11, 2001, in the USA);

– possible greenhouse effect due to uncontrolled growth of carbon dioxide emissions into the atmosphere (in 1980 owing to human economic activity, 4.4 metric tons per capita of carbon dioxide were emitted, and in 2014 already 5 tons);

– enhancement of human interference in nature (genetic engineering, human cloning, the spread of new viruses and bacteria);

– imposing western values on peoples (westernization of civilization).

On the point of globalization, a holistic world economy is formed, which is often called global. However, it is needed for a deeper consolidation of the economies of different countries. There is now an economic system in which the economic and social development of most of humanity is dependent on the progress of the post-industrial world and its ability to influence events in other regions of the planet.

At the beginning of the 21st century, there were significant changes in the main forms of international economic activity provided by the world financial market. This leads to the creation of a new form of economic globalization. It is financial globalization.

Financial globalization is when national financial processes are making up a global character with the involvement in the global financial system.

The Global Financial Centres Index is a measure of the level of financial globalization. It is calculated by the international consulting company Z/Yen Group Ltd. According to this index, in 2018 the ten largest financial centres in the world are:

- London;
- New York;
- Hong Kong;
- Singapore;
- Tokyo;
- Shanghai;
- Toronto;
- San Francisco;
- Sydney;
- Boston.

A notable feature of the current development of the world economy is its transnationalization [3].

Transnationalization is taking a significant share of world production and sales by multinational companies. Transnational corporations (TNCs) have become the main entities of economic activity in the modern world economic space. Noting this trend, many researchers talk about the "coming of the era of the transnational economy", or a new "civilization of transnational business".

Transnationalization has two theoretical aspects:

– this is a relatively new stage of the internationalization of economic activity characterized by a sharp increase of the role of external factors in the development of all states and the creation of transnational capital;

– transnationalization is the most important form of the general internationalization of economic activity.

A transnational corporation (TNC) is an international enterprise based on a joint-stock (corporate) form of ownership that carries out international economic activities in several countries, via the foreign branches network. Thus, a TNC is one of the types of an international corporation.

An international corporation is a form of a large corporation that realizes foreign direct investment in various countries around the world. International corporations are of two main types:

– *a transnational corporation* is a corporation with the parent company owned by one country's capital, and branches located in many countries.

– *a multinational corporation* is with parent company owned by the two or more countries' capital, and branches also located in different countries.

This division is somewhat relative. Because currently, the number of the country's capital owning the corporation's parent company is not vitally important. Hence the global nature of its activities, investments and profits has a matter.

TNCs are characterized by the following features:

– international nature of the capital movements;

– huge material and financial potential;

– the ability to provide significant R&D expenditures;

– multi-item firms with highly diversified activities;

– high independence of the equity movement in comparison with the processes taking place within national borders.

The criteria that indicate the international status of the company are:

– share of sales made outside the parent country;
– the size of foreign assets and their share in total assets;
– a number of company's foreign branches.

In table 3.1 it is given the list of the companies and banks with the largest foreign assets according to Forbes classification in 2018.

Table 3.1. The world's largest transnational companies in 2018 (according to Forbes ranking)

Rank	Company	Country	Market Value, billion, $
1	The Industrial and Commercial Bank of China	China	305,1
2	JPMorgan Chase	United States	368,5
3	China Construction Bank	China	225
4	Agricultural Bank of China	China	197
5	Bank of America	United States	287,3
6	Apple	United States	961,3
7	Ping An Insurance Group	China	222
8	Bank of China	China	143
9	Royal Dutch Shell	Netherlands	264,9
10	Wells Fargo	United States	214,7
11	ExxonMobil	United States	343,4
12	AT&T	United States	233,3
13	Samsung Electronics	South Korea	272,4
14	Citigroup	United States	161,1
15	Toyota Motor	Japan	161,1

* Source: http://www.forbes.com/global2000/#/page:1

Transnationalization index is an indicator that allows comparing the size of TNCs economic activity within national borders and out of them. It helps to assess the level of connection of the parent company with internal and external activities.

The United Nations Conference on Trade and Development (UNCTAD) calculates this index as the arithmetic mean of three indicators:

1) the share of foreign assets in the total assets of the company;
2) the share of foreign sales;
3) the share of personnel employed at foreign enterprises in the total number of company personnel.

The calculation of the transnationalization index (TNI) is carried out according to the formula 3.1:

$$TN_i = \frac{1}{3}\left(\frac{A_f}{A} + \frac{R_f}{R} + \frac{S_f}{S} \right) \bullet 100\% \qquad (3.1)$$

where TN_i – transnationalization index, %;

A_f – foreign company's assets;

A – total assets;

R_f – sales of goods and services by foreign branches;

R – total sales of goods and services;

S_f – personnel employed at foreign enterprises;

S – total number of company personnel.

The expansion of TNCs activity allows gaining several benefits:

– access to additional sources of production means;
– avoid customs barriers;
– overcome the limitations of the domestic market in the parent country by increasing the size of enterprises and the output to the most profitable level;

- use the economic differences of countries due to: making of rapid economic manoeuvres with a concentration on production in countries with cheap raw materials and low wages; getting higher profits in countries with low taxation; optimization of production and sales programs to the specific conditions of national markets; manipulation of the foreign branches' balance sheets with the subordination of their income and expenditure policy to the interests of the headquarters.

Positive consequences of TNCs:

– capital inflow into the country (indicates a favourable investment climate in the host country);

– involvement of new technologies (to ensure the TNCs competitive advantages);

– use of advanced management (to ensure the company competitiveness);

– production development (for increasing profits);

– employing in the host country (involving the national workforce).

Negative consequences of TNCs:

– one-sided specialization of national production (e.g., specialization in extractive industries, environmentally harmful production);

– capital and profits outflow from the host country (profits repatriation);

– use of transfer pricing (profits withdrawal from the taxation from the host country to the parent company and its country);

– the tendency to monopolization of production (domination in the markets of host countries).

Current trends in the development of TNCs:

– decrease of the dominance of American TNCs and strengthening the position of Chinese, Japanese and European TNCs;

– increasing the interdependence, economic relations and interests of developed countries;

– newly industrialized countries (NICs), their new TNCs are gaining strength, and accordingly, the world competition of transnational business is intensifying;

– instead of energy companies, financial become leaders;

– innovative TNCs are growing rapidly.

List of questions for self-examination

1. Why the global transformation of the world economy is a distinctive feature of modern development? How is it revealed?
2. What is economic globalization according to modern scientific approach? In which spheres, apart from the economy, globalization processes are also revealed?
3. How appears the globalization at each level of the economic system: micro, macro and mega levels?
4. What are the positive effects of globalization? Give examples from our daily lives.
5. What are the negative consequences of globalization? In which ways do anti-globalists criticize it?
6. How the concepts of "globalization" and "global economy" are related? Which of them is a process and which is the result of the development of the world economy?
7. How do modern changes in the world economy reveal in the process of transnationalization? Which institutions are at their core?
8. What is the essence of TNCs? How do TNCs differ from other international companies?
9. What are the criteria for classifying a company as transnational? Arrange these criteria in order of relevance.
10. Describe the factors that have made TNCs the most common form of international business. What are the organizational and economic advantages of TNCs?

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TOPIC 4

INTERNATIONAL SETTLEMENTS

The current stage of development of the world economy is characterized by further deepening and strengthening of relations between national economies, which provide for the implementation of international settlements.

International settlements are monetary settlements between institutions, enterprises, banks and individuals related to the movement of inventory and services in international circulation.

The basis for international settlements is foreign trade, as it primarily reveals a relatively separate form of movement of values in international turnover due to differences in the time of production, sale and payment of goods, as well as due to territorial disparities in markets.

Factors influencing the state of international settlements [4]:

– political and economic relations between countries;
– the country's position in commodity and money markets;
– the degree of use and effectiveness of state measures for foreign economic regulation;
– currency legislation;
– international trade rules and customs;
– regulation of interstate trade flows;
– regulation of the movement of services and capital;
– the difference in inflation rates in individual countries;
– balance of payments;
– banking practice;
– terms of foreign trade contracts and credit agreements;
– currency convertibility.

Taking into account these factors, international settlements must be allocated to an independent system, inextricably linked with the movement of inventory.

The main subjects of international settlements are exporters and importers, as well as the banks that serve them.

International settlements cover trade in goods and services, as well as non-profit transactions, loans and capital movements between countries, including relations related to the construction of facilities abroad and the provision of economic assistance to countries [1, 3].

The currency of the price is the currency in which the price of the goods is expressed in the foreign trade contract (FTC). The Ukrainian hryvnia is not a freely convertible currency (SDR), and therefore Ukraine's foreign trade transactions with other countries are carried out in the SDRs of countries with developed market economies, most often in USD, EUR, GBP, JPY, CAD.

Theoretically, the currency of the price of goods can be any freely convertible currency. But the interests of exporters and importers in the formation of currency conditions are always opposite: exporters seek to fix the prices of goods in hard currency, the rate of which is stable or tends to increase, as this will provide the largest amount of payment currency; importers, on the other hand, tend to fix the prices of the goods they buy in hard currency, which tends to depreciate, because in this case the importer will be able to pay less depreciated money.

The currency of payment for the goods is the currency in which the goods are paid for under the foreign trade contract.

The payment currency is usually the same as the price currency and is called the contract currency or settlement currency.

Determining the exchange rate of the price currency into the currency of payment if they do not match.

The contract to determine the exchange rate of the price currency into the currency of payment should specify [3]:

1) course conversion time. Calculations are always made at the current exchange rate - most often the current market rate is taken the day before payment;

2) the market, the quotations of which are taken as the basis of conversion;

3) the seller's rate or the buyer's rate (usually the average rate between them is taken);

4) the rate of the means of payment used.

Protective currency warnings against the risk of currency losses in the event of a change in exchange rates.

Related currency losses, and for the counterparty - benefits may arise in the following cases:

1) when changing the exchange rate of the price relative to the currency of payment in the period between the signing of the FTC and payment;

2) when the exchange rate of the contract changes relative to the national currency of the counterparties in case of coincidence of the price currency and the payment currency;

3) when the purchasing power of currencies falls.

To minimize currency risks, the payment amount is reviewed in the same proportion in which the exchange rate of the payment currency will change relative to the reserve currency.

The following two main types of payment or payment methods are most often used in international trade [1, 3]*:*

– cash payments or immediate payment;
– settlements with payment on payment or on credit.
– *and two additional ones:*
– combined;
– loan with immediate payment option.

Payment in cash (immediate payment) – payment for goods not in cash, payment in the period from the readiness of the goods for shipment to the buyer's address until the transfer of ownership.

The importer and his bank are given 3-5 grace days to make the payment. The maximum term for checking documents in the bank is 7 days.

In practice, another month is added to this period, which is caused by the following reasons: the territorial remoteness of counterparties and their banks or the need to make payments through third banks. After that, it is considered that the payment is made on credit.

Immediate payment, depending on the agreement of the contractors, as well as the specifics of the goods may be made by the importer under one of the following conditions:

a) after receiving notification of the completion of loading of goods at the port of departure;

b) upon delivery to the importer of a set of commodity documents with the provision for payment of several grace days or hours;

c) upon acceptance of the goods by the importer at the port of destination.

Settlement on credit with deferred payment term – commercial (brand) credit, ie credit of the exporter to the importer or issuance of advances by the importer to the exporter.

When granting and receiving a loan in FTC are set:

– type of loan, its term and cost;
– currency of loan receipt and repayment;
– method of repayment of the principal debt;
– terms of accrual and payment of interest;
– guarantees, etc.

The type of loan is determined by the duration of the payment. There are short-term (up to one year), medium-term (up to 5 years) and long-term (5-8 years) loans.

The loan is not provided for the entire value of the exported goods, but covers only 75-85% of the value of FTK. The remaining part is paid in cash within the terms stipulated in the contract (used in the sale of machinery and equipment).

Provides for the importer to defer payment for the purchased goods, but with the right to immediate payment.

If the importer exercises the right to immediate payment, he will receive a discount on the price of the goods, the amount of which is specifically stipulated in the payment terms of FTC, and if the importer chooses a loan, he is deprived of this discount.

Forms of payment are formed in the international commercial and banking practice and regulated by the legislation of the country-participant of settlements ways of registration, transfer and payment of commodity and payment documents executed through bank.

Forms of payment [3]:

– advance payment;
– bank Transfer;
– letter of credit;
– collection;
– open account.

Advance payment. An advance payment involves the transfer by the buyer to the seller of a sum of money or property before the shipment of goods for the performance of obligations under the contract. The advance can be provided in the amount of the full cost of FTC, as well as in the form of a share, a certain percentage of it (10-30%).

Advantages of advance payment for the exporter:

1) protection against risk if the importer does not pay for the goods that have already been shipped;
2) obtaining free funds;
3) the exporter is released from the need to use a bank loan with interest and other costs for its use.

The disadvantage of the advance form of payment is the complex risk of the importer.

A bank transfer is a simple order from a commercial importer's bank to its exporter's bank to pay a certain amount of money on behalf of it.

Payment for the goods is made:

- before sending the goods, in the form of an advance;
- after receipt of the goods as payment of the debt;
- a combination of both methods.

Calculations are characterized by simplicity of registration, insignificant cost, high speed of receipt of payment.

A letter of credit is a formal agreement in which the bank undertakes to pay the specified amount to a third party.

Types of letters of credit:

1) Recall.
2) Irrevocable (confirmed; unconfirmed).
3) Covered.
4) Uncovered.

A revocable letter of credit stipulates that the issuing bank may change the instruction or cancel the letter of credit in advance.

An irrevocable letter of credit is a firm obligation of the issuing bank to the exporter. It may not be amended or revoked until the expiration date specified therein.

A covered letter of credit stipulates that upon its opening, the issuing bank simultaneously transfers to the executing bank the relevant foreign currency in the form of a letter of credit.

Collection - revenue, receiving money from the debtor by presenting him with payment documents through the bank.

two types of collection:

- documentary collection - when collection operations are carried out with financial documents accompanied by commercial or only with commercial documents.

– net collection - is the collection of financial documents that are not accompanied by commercial documents (bills, promissory notes, checks) to receive payment from the importer.

Open account. Open account payments are widely used in EU countries: up to 60% of all payments between EU counterparties are made in this form. When paying by open account, the exporter delivers the goods and documents to the address of the importer without guarantees of payments on his part. Used by intermediary firms. The goods are sent to the warehouse of the intermediary of the country of sale, and payment is made after its sale.

List of questions for self-examination

1) Factors influencing the state of international accounts.
2) Describe the main types of payments.
3) Describe the main forms of payment.
4) What are the means of calculation?
5) Main types of letter of credit.
6) What forms of payment are beneficial for the exporter and importer?

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TOPIC 5

ECONOMIC GROWTH IN THE WORLD

The world economy is not constant. It develops continuously. Economic development is an on-going process that includes deep modernization and improvement of the entire economic and social system. It provides:

– growth of income and production;

– implementation of progressive changes in the institutional, social and administrative structures of society [1].

Economic growth is an increase in the real GDP of a country, region, world in one period compared to another. It shows a rise in the production capacity of the entity by expanding the quantity and quality of its economic resources. That is, economic growth is a narrower term than economic development.

Traditional economics identifies the following main factors of growth, which are both productive resources of the national and world economy:

– land (natural resources),

– labour (labour resources),

– capital (investment resources).

Factors such as management, technology, political and economic institutions, religious and cultural-mental features of different nations and peoples are often added to them.

The factors of world growth can be represented in the next formalised form:

$$Y = f\left(L, K, T, I\right) \tag{5.1}$$

where Y – GDP; f – function; L – population (labour); K – capital resources; T – technology; I – public institutions.

(Recall from the Economics course features of the quantitative and qualitative definition of each factor).

Basing on the data and calculations presented in the table. 7.1 it is possible to build the simplest production function for the world economy:

$$Y = K^{0,982} \bullet L^{0,018} \tag{5.2}$$

where Y, K, L – growth rates according to world GDP, capital and labour force for the period 1970-2018.

Table 5.1. Growth of GDP, capital and labour of the world economy in 1970-2018 [4]

Indicator	1970	2018	Growth over the period, times	Average annual growth rate, %
GDP (at constant prices) in 2010, trillion dollars	19,2	82.7	4.3	3.1
Number of labour force, million people	1770	3427	1.9	1.4
Gross fixed capital formation in 2010, billion dollars	4961	21738	4.4	3.1

This production function shows that 98.2 % of current growth in the world is caused by a capital increase and only 1.8 % by a rise in labour. That is why investments are so important for both the world and individual national economies to provide further growth.

In modern science there are several main models of economic development, which are closely related to economic growth:

1) the linear stages of growth model;

2) the theory of structural transformations;
3) the dependency theory;
4) neoclassical economics;
5) endogenous growth theory;
6) model of sustainable development.

When these models and theories were presented, most of them described countries that had freed themselves from colonial dependence. These are developing countries. In particular, in the 1980s the neoclassical concept was the most popular during the crisis in the world economy. It focused on the constructive role of free markets, the need for economic liberalization, openness, privatization, institutional reformation, etc. It should be emphasized that this concept is generally significant and can be applied in almost all subsystems of the world economy. R. Reagan and M. Thatcher (Reaganomics and Thatcherism), Poland, the Czech Republic, Slovenia and other post-socialist countries, Argentina, Brazil, Mexico, etc., used its provisions effectively.

Another model of economic development was developed in 1992 in Rio de Janeiro at the United Nations Conference on Environment and Development. It emerged in terms of the challenge of global economic transformation. It is the model of sustainable development. The idea of sustainable development is to ensure such economic growth, which allows harmonizing the relationship between human and nature and preserve the environment for present and future generations. As we can see, this concept is truly comprehensive and planetary. Although in a nutshell it is too general and only outlines the economic development with a significant emphasis on the environment.

Thus, economic growth is an increase in real output and improvement of product quality over time. Growth has two main characteristics:

– growth dynamics;
– growth structure.

The dynamics of economic growth is the growth rate of GDP or another indicator of the real economy (GNI, net income, national income). It is different for various countries groups. The most dynamically develop newly industrialized countries and transitional countries. Developed countries have a fairly high level of production per person and further development is slower.

The inconsistency of growth in three countries groups such as developed, transition and developing are shown in table 5.2.

Table 5.2. Average annual growth rates of real GDP by countries groups in 1981-2018, % (IMF, 2020)

Countries group	1981-1990	1991-2000	2001-2007	2008-2018
World	3.3	3.2	4.4	2.4
Developed countries	3.3	2.9	2.4	1.1
G7	3.2	2.6	2.0	0.9
Transitional countries and developing	3.4	3.8	6.7	5.1
Transitional countries and developing, Asian countries	6.7	7.3	8.6	7.4
Transitional countries and developing, European countries	2.2	2.3	4.9	3.3
Latin America and the Caribbean	1.5	3.3	3.6	2.1
Middle East and North Africa	1.9	3.8	5.7	3.7
Countries of the Sub-Saharan region	-	2.2	6.2	4.6

On the point of increase of the national and world production, there are changes in the structure of factors that provide it:

– the number of labour, natural and capital resources that are used is changing;

– the productivity of resources is mainly increasing (labour productivity, return on capital);

– the structure of the produced GDP is improved, following the dynamics of the demand of production and population.

An important characteristic of economic dynamics is its inconsistency:

– inconsistency in time (periods of increased growth are replaced by low dynamics, often cyclical);

– inconsistency in space or different territorial formations (countries, regions show different rates. As a result, there is a faster growth of some countries and regions and the lag of others).

The main result of growth is an increase in the population welfare of countries and their groups.

Temporal inconsistency of economic dynamics is explained by the cyclicity. The economic cycle covers the economic period from one low point to another. The cyclicity of social reproduction has periodic volatilities of business activity, the rise and fall of production, the decrease or increase in employment and prices.

There are several types of economic cycles in terms of duration, but the main one is the medium-term business cycle or the Juglar-cycle (9-11 years). It has 4 phases:

– recession is the reduction of production;
– depression is stagnation of the economy at the bottom;
– recovery is overcoming the crisis;
– rise is overrunning the pre-crisis level of development.

Along with systematic macroeconomic fluctuations, there are sporadic (random) booms of instability in domestic and international markets. They are called shocks. There are three main types of turbulence that affect economic development.

1. Supply shocks aimed primarily at the production and technical sphere of the economic system. These include technological innovations, climate change, pandemics, natural phenomena, access to new sources of raw materials, world prices fluctuations for major natural resources.

2. Political shocks associated with the governments' action, the development and implementation of macroeconomic policies that affect mainly demand by regulating the money supply, exchange rate, fiscal policy.

3. Demand shocks at the level of firms, enterprises and households can be caused by investment changes, fluctuations in consumer demand, inflation expectations, etc.

All three types of shocks can have both internal and external origin and sources.

The most problematic phase of the business cycle is the crisis. The economic crisis is a phase of the business cycle, during which there is a sharp decline in production, underutilization of production capacity, rising unemployment rate and others. This phenomenon is periodically repeated and occurred in the overproduction of capital and goods.

Crises are characterized by:

– significant difficulties in products marketing;
– growth of unsold products stocks;
– reduction of equipment and construction ordering;
– mass bankruptcy of commercial and industrial firms;
– weaken of the financial and credit system;
– growing demand for loan capital;
– raising the loan interest rate.

In the second half of the 19^{th} and all 20^{th} centuries, crises periodically affected the world economy and the countries' economies. At the beginning of the current century, the most serious were:

– 2008-2009 is a great recession with a decrease in world GDP growth to 0);

– 2020-2021 is large lockdown or quarantine caused by a pandemic of coronavirus infection with a decline to -3 % of GDP.

The integration of national economies with different levels of development into a one-world economic mechanism and the emergence of global markets of goods, services and production factors have created the conditions for the rapid rise of crises in the world economy. In the past crises were mostly local, but in recent decades they have become truly global. The same situation is with all types of economic fluctuations. The reasons for the global nature of crises are as follows:

– joint shocks, such as unpredictable changes in oil prices or adjustment of asset prices in major financial centres of the world;

– local shocks originating from one of the world's largest economies, e.g. the United States;

– interrelated fluctuations that occur for different reasons (e.g., the introduction of the same approaches in economic policy).

The growth of the world economy is maintaining differently in various countries and regions. Where it is insufficient the incomes per capita are low with the problem of providing the population with the most necessities such as food. Eventually, there is a global food problem.

The main reasons for the problem of hunger and malnutrition in the world are:

– insufficient development of agriculture;

– monoculture is the specialization of poor countries in the production of tropical and industrial crops, which reduces food security, its autonomy. This makes food security dependent on export earnings;

– unfair trade policy of developed countries, maintaining import quotas for developing countries;

– political instability, military conflicts based on national and ethnic confrontation.

The largest share of the malnourished population lives in poor countries of Africa, Asia and Latin America. Regrettably, the share of starving people may not decrease in future (table 5.3).

Table 5.3. Top 20 countries with the highest share of malnourished population (% of total population) [4]

Country	2000	2017
Botswana	35.7	26.4
Namibia	26.2	27.3
Mozambique	41.1	27.9
Guinea-Bissau	25.7	28.0
Iraq	28.3	29.0
Kenya	31.3	29.4
Afghanistan	46.1	29.8
Tanzania	36.5	37.0
Rwanda	55.5	36.8
Liberia	38.4	37.2
Chad	40.1	37.5
Yemen	29.9	38.9
Congo	36.8	40.3
Uganda	27.7	41.0
Madagascar	34.4	44.4
Zambia	47.4	46.7
DPRK	37.5	47.8
Haiti	54.9	49.3
Zimbabwe	40.2	51.3
CAR	42.5	59.6
World	14.8	10.8

- Source: Worldbank

As the food problem has become global, its solution is associated with the prospects for the rational distribution of productive resources around the world. Humanity has created sufficiently powerful productive forces of agriculture. In the second half of 20th – the beginning of the 21st century there have been made some qualitative changes in world agriculture:

– transition to the use of the machine system in agriculture;

– use of high-yielding, hybrid seeds ("green revolution");

– oversee the development of agro-industrial integration and formation of agro-industrial complex;

– biotechnological revolution.

Using all these achievements of civilization helps to provide the population of developing countries with the food for a normal life. On top of that, it would solve this global problem.

The steady growth of the world economy without the proper preservation of the environment threatens the existence of human civilization. The global environmental crisis is gradually coming.

Table 5.4. Indicators of artificial and built load on the world environment in 1960-2018 [4]

Indicator	1960	1980	2000	2018
Population density (persons per km2)	24,1	38,4	48,0	59,6
Urban population (% of total population)	33,6	39,4	46,7	55,3
Population living in the slums (% of urban population)	-	-	39,7	29,8
CO2 emissions (million tons)	9397	19324	24699	36138
Other greenhouse gas emissions (million metric tons in CO2 equivalent)	-	5039	5799	7747
Fossil fuel energy consumption (% of total volume)	94,1	82,7	79,8	79,7
Renewable surface water resources (billion m3)	37825	37825	43387	42809

Signs of an ecological crisis are:

– growth of environmental pollution in all areas (airspace, water resources, soils);

– increase of spending on environmental restoration, elimination of pollution sources in the form of wastewater treatment, land reclamation, disposal of harmful emissions into the air;

– depletion of planet natural resources.

The reasons for the deterioration of the environmental situation are:

1) strengthening of artificial load on the environment:

- rapid population growth, especially in developing countries;
- increase in urban population.

2) built load on the natural environment:

- expansion of people's economic activity;
- neglecting of socio-environmental factors during economic growth;
- depletion of natural resources;
- industrial emissions;
- rapid development of the agricultural sector;
- chemicalization of agriculture.

3) insufficiently active cooperation between governments and international organizations in overcoming the problems of environmental pollution (ignoring the Paris Climate Agreement).

The global nature of environmental problems is due to:

– transboundary pollution spreading by wind, groundwater and surface water;

– relocation of environmentally dangerous industries to developing countries;

– environmental problems such as ozone holes, the greenhouse effect, global warming have no borders.

Today it is obvious that it is impossible to build balanced ecological and economic relations and achieve harmony with nature within "one country". This follows from the general ecological postulate of B. Commoner: "Everything is interconnected with everything." The construction of local ecological oases is the same utopia as the proposals of some dreamers to relocate humanity to other planets in case of impossibility of life on Earth due to its pollution.

Most environmental problems cannot be solved at the country or regions level. These are the problems of pollution of the world's oceans, the world's air basin, the formation of ozone holes, and so on. To tackle them requires a joint coordinated effort of the world community.

List of questions for self-examination

1) What is the difference between the concept of "economic growth" and "development of the world economy" in the theoretical aspect?

2) How can be explained the quantitative and qualitative aspects of economic growth? What indicators characterize them?

3) If we do not take into account the structural changes in the factors of world growth, the increase of which production resource following the production function has provided a steady increase in GDP over the past half-century?

4) What theories describe the problems of world economic growth and its components? What are the features of each of them?

5) Why is the dynamics of economic growth in recent decades higher in the newly industrialized and transition countries? What holds the growth rate of industrialized countries?

6) What are the causes of fluctuations in national and world economies during the business cycle? What do you know about the transmission mechanism of macroeconomic instability from one country to another?

7) What happens in the country's economy and the world during the crisis? What are the biggest current crises you can describe?

8) Why at the current stage of development of the world economy there is still a global food problem? What are its actual nature and ways to overcome it?

9) What are other global problems that exist due to the inconsistency of the economic development of countries, regions, markets? Outline their essence and ways to overcome.

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TOPIC 6

THE ECONOMY OF DEVELOPED COUNTRIES

According to the structure of the world economy provided by the UN, the planetary economy includes three groups of countries – developed, transition and developing.

Developed countries are considered to be the ones with the strongest economy and a solid social structure. These include the countries of Western Europe, North America, Japan, Australia and New Zealand, Israel. This is the so-called "Golden Billion" population. That is, 14 % of the world's population produces 60 % of world GDP (table. 6.1). They export 68 % of goods and 74 % of services in the world.

Table 6.1. The main indicators of the level of development of developed countries in 2017

Indicator	Developed countries	World
GDP, billion, in current dollars	48318	80051
Share in actual GDP,%	60.4	100
GDP (PPP), billion dollars	52706	127489
Share in GDP (PPP),%	41.3	100
GDP per capita (PPP), dollars	49499	-
Investments, billion dollars	21616	25779
Share in world investments,%	83.8	100
Gross national savings, billion dollars	22758	26512
Share in world savings,%	85.8	100

Source: World Economic Outlook Database, 2018.

Various international organizations and scientific schools of international economic relations (IER) refer to the category of "developed" different countries according to certain factors. We identify economically developed countries by their belonging to the next 4 groups.

1) Western European countries: Austria, Belgium, Great Britain, Greece, Denmark, Ireland, Iceland, Spain, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Germany, Norway, Portugal, Finland, France, Sweden, Switzerland (20 countries).

2) North American countries: the USA, Canada.

3) Other countries of the developed world: Japan, Australia, New Zealand, Israel.

4) Small countries of Western Europe: Andorra, Vatican, Liechtenstein, Monaco, San Marino.

Sometimes all developed countries refer to the Organization for Economic Co-operation and Development (OECD), which at the beginning was conceived as the "Club of Rich Countries".

The OECD was established in 1961 based on the Organisation for European Economic Cooperation. It operates under the OECD Convention, signed in Paris on December 14, 1960. The Headquarter is in Paris. The OECD includes 36 countries in Europe, North America, East and Southeast Asia with high incomes per capita. Instead, it is wrong to consider all its members economically developed. After joining the organization of countries with transition economies (Poland, the Czech Republic, and Hungary) and some NICs, it ceased to be just a "Club of the Rich".

The developed world is heterogeneous and consists of three centres of geopolitical influence.

1) North America (USA, Canada);
2) Western Europe (the first EU and EFTA countries);
3) The Far East (Japan, as well as Australia and New Zealand).

The rest of the developed countries that are not mentioned here tend to one of these three centres. There is a competition between the centres for global influence, which has intensified since the Trump administration came to power in the United States.

The formation of the economically developed world took several centuries. The following processes became historical preconditions of its economic advancement [1]:

–In the Middle Ages the so-called Levantine trading system appeared in the Italian cities such as Venice, Genoa, and Florence (in the Mediterranean).

–In northern Europe, there was the Hanseatic trading system (Hamburg, Bremen, Lubeck).

–The third trade route ran along the Rhine (Cologne, Bruges). The Western European states became the discoverers of the new overseas lands.

–Gradually, England became world leadership and the main discover of America instead of Spain and Portugal. Later in the 20 century, the United States got ahead.

–The countries have undergone an industrial revolution, scientific and technological progress, the current stage of integration processes.

These events forced the development of national and international trade, the initial accumulation of capital, the concentration of productive factors of production in certain countries, which later became known as developed.

The main socio-economic characteristics of industrialized countries are the key features of their high level of development [3].

Group of Seven (G7) is economically powerful and politically significant for the world. So it stands in front of all. The G7 includes the United States, Canada, Germany, France, Great Britain, Italy, and Japan. The economic potential of G7 is evidenced by the data in the table. 6.2.

Table 6.2. Indicators of the level of development of the G7 countries in 2018

Indicator	the USA	Japan	Germany	Great Britain	France	Italy	Canada
Land, thousand sq. km	9147	366	349	242	548	294	9985
Share in land of the world,%	7.1	0.3	0.3	0.2	0.4	0.2	7.7
Population, million people	327	127	83	66	67	60	38
Share in world population, %	4.3	1.7	1.1	0.9	0.9	0.8	0.5
GDP, billion dollars	20544	4971	3948	2855	2778	2084	1713
Share in world GDP,%	23.9	5.8	4.6	3.3	3.2	2.4	2.0
GDP per capita, thousand dollars	62.8	39.3	47.6	42.9	41.544	34.5	36.2

Source: World Development Indicators, 2020

I. Most developed countries are powerful economies that produce a significant share of world GDP, although, this feature is not mandatory for each of them. 12 of the 20 largest economies in the world belong to the group of economically developed (table 6.3).

Table 6.3. GDP of the largest countries in the world in 2018

Country	GDP at the current dollar exchange rate		GDP at purchasing power parity	
	volume, billion dollars	share,%	volume, billion dollars	share,%
World	85910	100.0	136031	100.0
USA	20544	23.9	20544	15.1
China	13608	15.8	25399	18.7
Japan	4971	5.8	5415	4.0
Germany	3948	4.6	4401	3.2
United Kingdom	2855	3.3	3057	2.2
India	2719	3.2	10500	7.7
France	2778	3.2	3037	2.2
Italy	2084	2.4	2528	1.9
Brazil	1869	2.2	3372	2.5
Canada	1713	2.0	1784	1.3
Russia	1658	1.9	4051	3.0
Republic of Korea	1619	1.9	2071	1.5
Australia	1434	1.7	1291	0.9
Spain	1419	1.7	1856	1.4
Mexico	1221	1.4	2504	1.8
Indonesia	1042	1.2	3501	2.6
Netherlands	914	1.1	971	0.9
Turkey	771	0.9	2311	1.7
Switzerland	705	0.8	579	0.4

- Countries marked by italics are not economically developed.

II. The high income per capita is a more important indicator of developed countries than their scale. As small but prosperous countries such as Andorra, Luxembourg, Liechtenstein, etc. are in this category. According to the World Bank criteria, gross national income (GNI) per capita should exceed $12,475 per year. Moreover, developed countries should have it twice as high than the average world level (about 11 thousand dollars). Thus, in 2018, in Greece and Portugal, it ranged from 20 thousand dollars, in Norway and Switzerland up to 80 thousand dollars. However, not all countries with high incomes per capita are considered developed. Rich oil-producing countries do not have the appropriate institutional basis for this.

III. Mature market relations are another feature of developed countries. The material basis of the high development of the economy is goods production and the market form of economic organization.

–They have a mixed economy with a mature market system and developed state institutions.

–Oligopolies, TNCs and banks are formed here. Public-private partnership is functioning successfully.

–Developed countries control global financial markets. Their residents own 93 % of shares and 94 % of the debt.

–The volume of stock exchange trade in securities in the USA is 42 trillion USD, Japan – 5.2, and Great Britain – 2.3 trillion USD, which often exceeds the volume of GDP.

IV. Developed countries have an innovative economy. They widely use and export the latest technologies, in particular, information. Thus, if in the world the share of information, computer and other services in the total exports of services is 46 %, then in France it is 56 %, Germany – 55 %, Japan – 56 %, Switzerland – 51 %, Sweden – 60 %.

V. A distinctive feature of developed countries is the high level of social protection and consumption of social services. During 1970-2016, the average income per capita in these countries quadrupled. During the same period, the decile coefficient decreased from 14.0 to 10.0. For example, in the United States, it is declined from 26.7 to 19.0, in Japan from 10.0 to 7.1, in Switzerland from 7.8 to 5.4. These countries provide significant costs for pensions, education, and health care.

The so-called Human Development Index (HDI) can serve as a generalizing indicator of the level of social security of the country's population. It is calculated as a weighted set of indicators such as income per capita, wages, purchasing power ("consumer basket"), level of education, health care and more. The highest value of HDI is 1.0. According to this indicator, developed countries are leading.

However, the socio-economic structure of developed countries is different. It depends on the role of government, trade unions, and employers. As a result, we can distinguish the following models of economic development:

1) liberal;
2) corporatist;
3) social-market.

Each of them has its varieties in different countries [2].

The liberal model of development is typical for the United States, Canada, and, to a certain extent, Great Britain and Ireland:

– it is characterized by minimal government interference in the mechanism of interaction between entrepreneurs and employees;

– the role of trade unions is very weak compared to other countries. An entrepreneur draws up a contract with an employee based on the specific situation on the labour market and often does not coordinate his actions with the union. He may also lay off a worker without the consent of the trade union. This gives him the flexibility to behave in situations when the economic situation requires rapid staff reductions. The relationship between the entrepreneur and the worker is based primarily on the professional qualities of the worker such as qualifications, education, hard-working;

– trade unions are closely associated with government institutions and business associations. The government regulates socio-economic processes mainly at the macro level, legislatively influences the prices level in the country, employment, etc.;

–compared to other models, there is significant differentiation in income (especially the United States, Israel).

In general, the liberal model has proved its effectiveness. Incomes and wages are higher than in most other countries. However, American workers are forced to put up with some restrictions on their employment rights with employers.

The corporatist model assumes an active role of state in the regulation of socio-economic relations. This model is most used in Sweden, as well as in other Scandinavian countries and Austria (here it was called democratic corporatism):

–the model is based on the idea of social partnership between employers and employees. Strong unions have a major impact on labour law and labour relations. Due to them, a high level of the minimum wage has been set, which entrepreneurs must strictly adhere to;

–hiring and firing an employee is carried out only in agreement with the union;

–the state spends a lot of money on pensions, education and training of employees, health care. Social costs in the countries of this group are quite high;

–in the Scandinavian countries, the poverty rate is the lowest in the group of developed countries;

–the positive side of democratic corporatism is the high level of protection of workers, low-income and economically inactive share of the population (pensioners, the disabled, children, students).

The disadvantage of the model is that significant funds for social needs are a burden for entrepreneurs because of high tax rates. Besides, the model provides strong social stability in the country but somewhat slows down economic growth.

A type of corporatist model is hierarchical corporatism. It is typical for Japan and South Korea, so it is also called the Japanese model:

– there is active government intervention in economic regulation with a small share of state ownership in the economy;

– the state creates economic development programs, regulates investment activities in the country, financial markets, implements active social policy, stimulates business activity, in particular, by tax policy methods;

– system of lifelong employment. If an employee works hard, the company keeps him at work until retirement;

– labour relations are paternalistic. It means that the employee is loyal to his company and especially to its owner (manager). The manager, at the same time, cares about his worker;

– constant care for continuous training of the employee. There are certain institutions for this, "self-education clubs". Significant funds of the state and companies are spent on this;

Socio-market model is typical for Germany and the Netherlands:

– the main idea is the support of the poor and those who need social support. These are small farmers and firms, young people, the elderly, the temporarily and permanently unemployed, and immigrants;

– the state plays the most active role, budgeting social spending;

– at the same time, the government gets the support of entrepreneurs and the wealthy population.

Economically developed countries are making the transition to the post-industrial stage of social development. Recent trends confirm the idea of new qualitative features of their economic progress. The following trends in the socio-economic progress of these countries in recent times should be noted [3]:

I. A decrease in the share of world GDP. As a result of fierce international competition and the law of marginal productivity, more production in the world moves to the Newly Industrialized Countries. So the share of developed countries in world GDP is gradually declining. More and more GDP is produced by BRICS countries, powerful transition economies;

II. Cyclical economic growth. As before, the cyclical nature of economic development is present. Stabilization of economic growth for a long time is not happening, as evidenced by the recent global crisis of 2008-2009 and 2020;

III. The predominance of innovation and investment type of development. Its characteristic features are:

–a high share of capital accumulation. However, the savings rate is low, and in the United States in 1999 it was negative. That is, a significant part of the investment is made at the base of borrowed funds, rather than own savings.

–investment in human capital (education, training, health care, maintaining stability in society).

–investing in the development of the Quaternary sector (science, higher education, information technology);

–broad funding of science (2-3 % of GDP) from the budget and involving business funding;

–integration of science and production, the formation of research and production complexes, the result of which are innovations (patents, licenses, know-how).

IV. Advanced development of services. Rapid payback and higher return provide capital accumulation in this sector of the economy, also by the run from material production. In the overall growth of the entire service sector in recent years, the leading are marketing, advertising, credit, financial, insurance, leasing operations, services of research firms, security and maintenance of premises, engineering, construction, architectural, accounting, auditing and copying operations, telecommunications, etc.

The rapidly growing services are also various types of leisure services for the population, its cultural and social needs like tourism, recreation, film production, video and audio business.

V. Relative price stability. An important factor of economic stabilization in developed countries was the sharp inflation slowdown. Low inflation in the 90s of 20th century was the result of strict monetary policy, reduction of budget deficits, growth of labour productivity, the formation of stable dynamics of leading currencies with a significant strengthening of the US dollar and falling prices for basic raw materials and energy.

By all means, such factors of inflation as the dominance of monopolies and oligopolies in the production of goods and services, the growth of effective demand of the population are keeping going.

VI. Reducing the unemployment rate. Compared with the 70s and 80s, the unemployment rate decreased. Particularly, the share of structural unemployment has increased. Cyclical unemployment in the United States, Great Britain, and the Netherlands is almost zero. New job positions are created mainly in the service sector. Favourable for the labour market were non-inflationary growth, market regulation, and reduction of tax pressure on business, reform of the unemployment insurance system, the development of non-traditional forms of employment, strict conditions for the payment of unemployment benefits.

When the 2008-2009 recession was overcome, unemployment rates in the leading countries began to decline. The high unemployment rates in Germany in the 1990s were due to the unification of East and West Germany. However, a powerful stroke to employment was dealt with the crisis of 2020.

VII. Raising military and economic potential. Developed countries have a strong military and economic potential that allows them dominating in world politics. For example, the North Atlantic Treaty Organization (NATO). Despite it includes 29 developed, transition and developing countries, the leading role belongs to developed countries (USA, France, Great Britain, Belgium). With the escalation of the military conflict in eastern Ukraine with Russia's participation, NATO acts in various forms.

Thus, developed countries take a leading place in the world economy, largely set the course of its development and dominate in many areas of public life.

List of questions for self-examination

1) Due to what factors developed countries take a leading position in the world economy?
2) Which 4 groups of countries form the category of "economically developed countries"?
3) How does the Group of Seven differ from the developed world? Which countries are included in it?
4) What is the organizational criterion for determining economically developed countries? Which OECD member countries are not yet considered economically developed?
5) Outline the main stages of formation of the developed world. What significant did happen at each stage in the economic case?
6) Describe the features of the development of countries. What do you think is the most important: the scale of the economy or income per capita?
7) What models of interaction between the state, business and trade unions exist in developed countries? Which one do you like best and why?

8) What dangerous trends are present in the current progress of developed countries? Why is their share in world production declining?

9) What are the latest trends in the development of leading countries indicate the stability and viability of their economic systems?

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TOPIC 7

ECONOMY OF TRANSITION SOCIETIES

A significant number of countries form the group in the world economy that is called transition societies. Countries with transition economies include most of the former socialist states, which transit from command to market-oriented methods of regulation.

As per territorial basis and the features of socio-economic transformations, countries with a transition economy can be divided into three groups [2].

1) Central and Eastern European (CEE) countries:

– central Europe (Poland, Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Serbia, Croatia, Slovenia, Northern Macedonia, Montenegro, Bosnia and Herzegovina, Albania);

– baltic countries (Lithuania, Latvia, Estonia).

2) CIS countries (9 countries plus Ukraine, Georgia and Turkmenistan);

3) East Asian transition countries (China, Mongolia and Vietnam).

The Democratic People's Republic of Korea (DPRK) and Cuba saved socialist orientation to build communism. Venezuela also tends to this.

Countries with transition economies are a group of states reforming the political and socio-economic structure and transforming the previously existing command-and-control economy (CAC) into a market economy. The name "Countries in transition" has also been established in the operational use by international organizations.

Transitional economies go through a transition period which aimed at changing the economic system [3].

1) The role of the state:

– legislative reform (constitutional, property, banking, contract);

– reforming the legislative institutions of the state;

– regulation of monopolies;

– transition to indirect regulation of the economy (tax instruments, control of budget and institutions of indirect monetary regulation);

– changes in the social sphere (creation of an unemployment insurance system, reform of the social services system such as health care, education, pension provision).

2) Macroeconomic stabilization:

– strict fiscal and monetary policies to curb inflation;

– solving the problem of excess money supply;

– revision of expenditure indicators in order to balance the budget;

– resumption of production on a new, market basis.

3) Development of the private sector:

– privatization of property;

– simplification of procedures for closing and opening enterprises;

– the possibility of registration of private property rights;

– sectoral and industrial reform, restriction of monopoly.

4) Price and market reform:

– liberalization of prices of goods, services, labour, money, currency;

– liberalization of foreign trade;

– release of the salary structure.

The transition from CAC to a market economy can be done in two ways:

1) gradualism is a gradual long transition (China, Belarus);

2) "shock therapy" is a sharp short-term transition (most European countries).

In the CEE countries (except Belarus), economic reform was carried out according to the shock option. **"Shock therapy"**is a method of systemic transformation of CEE due to which economic transformations are made in the shortest time, with a radical break of socialist economic structures [3]. "Shock therapy" involves:

– sharp liberalization of prices, the transition from fixed to free prices;

– privatization of production;

– state refuse to finance many social programs with a view to balance the budget;

– ensuring the openness of the economy.

At the same time, these reformations are accompanied by painful socio-economic phenomena:

– production reduction;

– rapid rise in prices;

– rising unemployment;

– declining living standards;

– deterioration of vulnerable groups of the population.

However, these negative phenomena are typical for the first stage of reform. Then, a few years later, the situation levelled off and the reforms showed a positive result.

CAC system reforms have two directions:

1) the creation of a single-sector market economy (mixed economy like most countries);

2) the formation of a two-sector economic system (planned and market sectors like China, Vietnam).

A radical break of the economic basics during the reformation of transitional societies was accompanied by a deep decline in production and socio-economic crisis. Overcoming the crisis in different countries was simultaneous. Firstly, countries that had previously begun reforms had dealt with it. Ukraine was one of the last countries that resolving the decline in production. The economic development of the CIS countries was negatively affected by the currency and financial crisis in 1998, the great recession of 2008-2009, and local conflicts between countries (table 7.1).

Table 7.1. Main indicators of development of post-Soviet countries (excluding the Baltics) (in descending order by GDP)

Country	GDP (PPP), billion USD	GDP growth rate, 1991-2017	GNI per capita (Atlas method), USD	Population, million people
Russia	3749	1.25	9230	144.5
Kazakhstan	476	2.29	7890	18.0
Ukraine	368	0.67	2388	44.8
Uzbekistan	222	3.23	1980	32.4
Belarus	179	1.94	5280	9.5
Azerbaijan	172	2.58	4080	9.9
Turkmenistan	104	3.23	6650	5.8
Georgia	40	1.19	3790	3.7
Armenia	28	2.20	4000	2.9
Tajikistan	28	1.44	990	8.9
Kirghizia	23	1.50	1130	6.2
Moldova	20	1.92	2180	3.6

- Source: World developments indicators, 2020.

The 1990s was a period of intense structural changes for these countries, the breakdown of the old system, accompanied by a deep decline in production and other destructive phenomena. With the beginning of the new century the dynamics of economic development become positive:

– inflation has declined since the monetary reforms;

– there was a gradual revival of industry, although mainly due to raw materials industries;

– privatization of industrial enterprises began to give a significant increase in production;

– the service sector has developed most successfully;

– GDP dynamics became positive.

The Russian Federation is the largest among the other post-Soviet states (see table 7.1) on the basis of its area, available natural and human resources. In the 1990s, there was also a mass closure of industrial enterprises and a reduction in production. After the currency and financial crisis of 1998, Russia gradually regained its economic potential. Today it produces about 3 % of world GDP owing to:

– large privatization with the creation of public-private monopolies;

– development of small business in various sectors of the economy;

– use of large reserves of fuel resources and other strategic minerals for export, ensuring the balance of payments and the state budget;

– strong positions in the world arms market;

– maintaining positions in world markets of some aerospace products;

– strict political power that ensures relative political and economic stability, despite Western sanctions for aggressive actions against neighbouring countries.

After the deepest decline in production in 1991-1993, the republics of the Caucasus gradually levelled off their economies beginning in the second half of the 1990s. Azerbaijan has developed faster than its neighbours. In this country, the contradictory transition has not prevented large-scale oil exports. On the contrary, it gained significant foreign exchange resources for growth.

The republics of Central Asia after the collapse of the Soviet Union showed a tendency to create authoritarian states. Kazakhstan and Turkmenistan with sufficient export potential have achieved some success in macroeconomic stabilization and market transformation. Tajikistan and the Kyrgyz Republic were characterized by political instability, low living standards, and an unfavourable investment climate.

The most difficult situation was in Moldova and Ukraine. The turning point for the better here began only in 2000. However, inconsistent government policies and territorial conflicts prevented to fully realize the potential for market transformation.

After the resumption of growth in the mid-1990s, in the CEE countries became economic recovery, the rapid development of the business sector, and increasing foreign trade. Domestic demand and domestic investment were important factors for economic growth. The private sector has made a significant contribution to economic growth. Its share has grown significantly. In particular, before the reform, the private sector of Bulgaria accounted for 3 % of the economy, in the mid-1990s it reached 26 %, in Poland – 30 % and two thirds accordingly.

The countries of "Visegrád Group" (Czech Republic, Slovakia, Poland and Hungary) had already a positive GDP growth in the 1990s. These countries had overcome the difficulties of the transition period in 1989-1992. Slovenia is close to them in this case. Today these are the most successful of the post-socialist countries:

– their transition was without significant political upheavals and international conflicts (the "Velvet Revolution" in Czechoslovakia was peaceful);

– with the desire to join the EU, they carried out reforms at the request of the European Union, bringing their state and public institutions closer to its standards;

– the EU provided financial support and NATO security support for the transformation, which forced economic reforms;

– today they belong to the group of high-income countries (table 7.2), where GNI per capita exceeds $12,475 per year;

– the international community recognized the success of the market reforms of the "Visegrád Four" and Slovenia, inviting them to join the "Club of the Rich" (the Organization for Economic Co-operation and Development, OECD).

Transformation in the countries of Central and Eastern Europe began during the socialist system, which allowed a faster and less painful implementation of reform (table 7.2).

Table 7.2. Main indicators of development of transition countries in Eastern, Central Europe and the Balkans (in descending order by GDP)

Country	GDP (PPP), billion USD	GDP growth rate, 1991-2017	GNI per capita (Atlas method), USD	Population, million people
Poland	1112	2.84	12710	38.0
Romania	506	1.98	9970	19.6
Czech Republic	391	1.89	18160	10.6
Hungary	277	1.55	12870	9.8
Slovakia	175	2.32	16610	5.4
Bulgaria	144	1.77	7760	7.1
Serbia	106	1.75	5180	7.0
Croatia	104	1.59	12430	4.1
Lithuania	91	2.46	15200	2.8
Slovenia	72	1.77	22000	2.1
Latvia	54	2.36	14740	1.9
Bosnia and Herzegovina	45	7.07	4940	3.5
Estonia	42	2.38	18190	1.3
Albania	34	3.10	4320	2.9
Northern Macedonia	32	1.51	4880	2.1
Montenegro	12	1.59	7350	0.6

- Source: World developments indicators, 2020.
- Data on the growth rate for the Balkans and the Baltic States are presented for 1994-2017.

The Baltic countries at one time specialized in re-exporting Russian raw materials to the West through their seaports. Exports of oil and metals, in particular, in the early 1990s accounted for 30-46 % of total exports of Estonia and Lithuania. Latvia provided offshore services to Russian entrepreneurs. As a result about half of all bank deposits in the country belonged to Russian residents. The current economic boom in these countries is due not only to external factors but also to increased domestic demand and investment. On top of that, reforms have yielded rapid results in the Baltic States. Privatization was well planned. Today, the Baltic countries have a stable market economy, high income per capita. They are members of the EU and the OECD.

The economies of the less developed CEE countries (Bulgaria, Romania, Serbia, Montenegro, Croatia, Northern Macedonia, Albania, Bosnia and Herzegovina) are lagging. Economic transformations in these countries have progressed rather slowly, and Croatia, Serbia, Montenegro, Bosnia and Herzegovina had even the civil war. The economic recovery has already been quite successful in Croatia, as evidenced by the high economic dynamics and belonging to high-income countries (see table 7.2).

Reforms in Bulgaria and Romania have been somewhat slow, although Romania, Bulgaria and Croatia have subsequently joined the EU. At the beginning of reform, these countries were characterized by:

– lower rates of privatization;

– low living standards resulting in a decrease in domestic demand;

– reduction of production, in particular, the shutdown of unprofitable state enterprises;

– lack of financial resources for enterprises.

In the post-crisis period, the development of countries has levelled off. Over the last 2 decades, its GDP has almost doubled. Now their well-being is determined by the status of countries with above-average incomes.

China has shown extremely high economic growth over the past three decades. During 1991-2017, its production increased 11 times (see table 9.3). According to GDP based on the purchasing power parity (PPP), China has already taken first place in the world. This country is ahead of the United States, Japan and other big countries. China's share in world GDP per capita exceeds 18 %.

A unique example of the long economic reformation is China. Its path to a market economy was the transformation from a backward agrarian country into a "world factory" of many goods and services just over several decades (table 7.3).

Table 7.3. Main indicators of development of transition countries in East Asia (in descending order by GDP)

Country	GDP (PPP), billion USD	GDP growth rate, 1991-2017	GNI per capita (Atlas method), USD	Population, million people
China	23301	11.21	8690	1386
Vietnam	647	5.62	1980	95.5
Mongolia	40	3.56	3290	3.1

- Source: World developments indicators, 2020.

The success of the transition in China was ensured by:

– a long but steady course of the party leadership on market transformation (since 1978);

– active involvement of foreign investments and technologies by the creation of a favourable investment climate;

– formation of the institutional basis for the development of private entrepreneurship with maintaining the role of the state in large national projects (construction of Beijing Airport, the Olympic Village, large hydropower plants and unique roads);

– reforming the tax, budget and banking systems;

– markets liberalization with maintaining state indicative regulation;

– external production orientation on the active promotion of Chinese goods on world markets.

Vietnam and Mongolia are also trying to follow China's course to a market economy, and they are largely succeeding.

Reformation of the economy on a market basis encourages post-socialist countries in economic integration. It is a process that is becoming global. However, the vectors of integration in various countries are different.

The CEE countries strongly save the distance from the economies of the former USSR states. Instead, the post-Soviet republics are looking for ways of fruitful cooperation with the CIS and the EurAsEC. But most European countries in transition consider accession to the EU as a strategic goal (or have already joined NATO and the EU).

Today, transition countries such as Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Hungary, the Czech Republic, and Croatia have become members of the EU (Northern Macedonia, Bosnia and Herzegovina are in the process). Among them, Estonia, Latvia, Lithuania, Slovakia and Slovenia have joined the Eurozone.

The initial form of integration for the CEE countries was the Central European Free Trade Agreement (CEFTA), which preceded accession to the EU. It was signed by Poland, the Czech Republic, Slovakia and Hungary ("Visegrád Four") in 1992. Romania and Bulgaria later joined it. This organization can be considered as an "intermediate model" that facilitated the future accession of this countries group to the EU [1].

The Council of the Baltic Sea States (CBSS) was also established in 1992. It was initiated by Germany and Denmark.

It included all the Scandinavian countries, Germany, Poland, Russia, Estonia, Latvia and Lithuania. The Council contributed to the solution of regional problems in a wide range of international relations. For Lithuania, Latvia and Estonia, it has become a starting point for EU accession.

The Commonwealth of Independent States (CIS) was formed between the former Soviet Union countries in 1991. It united 12 of the 15 former Soviet republics: Azerbaijan, Belarus, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine.

The main goal of the CIS was political, economic, humanitarian, environmental and cultural cooperation for the comprehensive and balanced economic and social development of the member states. Such cooperation had to turn into an Economic Union. An agreement on its establishment was signed in 1993, but it did not reach this goal [1].

There were many objective conditions for successful integration on the basis of CIS: industrial relations between enterprises, previous experience of cooperation, the absence of language barriers, cultural and even family relations between the populations of different republics. However, over time, the contradictions between the CIS member states deepened, relations with "non-Soviet" states developed, and the desire of independent republics to break out of Russia's control intensified.

Today, economic integration in the CIS is at the stage of a preferential trade zone. Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan have established the Eurasian Economic Community since 2000, which later grew into the Eurasian Economic Union (EAEU).

On the southern periphery of the CIS in 1990-2000, a group GUUAM became more active (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova). Ukraine was interested in cooperating with these countries, in particular, through the creation of Asia-Europe energy corridor project (Uzbek gas, Azerbaijani oil). In 2001, GUUAM acquired the official status of an international organization. In 2002, Uzbekistan left GUUAM and the organization became known as GUAM.

Some CIS countries are also members of the integration association the Organization of the Black Sea Economic Cooperation (BSEC), which emerged in 1992. Its members are Azerbaijan, Albania, Bulgaria, Armenia, Greece, Georgia, Moldova, Russia, Romania, Turkey and Ukraine. All of them have direct or indirect access to the Black Sea or have economic interests in the area of its basin.

The goals of the BSEC are to improve the conditions for entrepreneurial activity, encouraging economic cooperation, optimal use of all opportunities for expansion and diversification of cooperation. The Black Sea Trade and Development Bank (BSTDB) was established in 1994 to intensify integration between the BSEC countries.

The integration of transition countries in the Far East brought about the fact that the members of the Asia-Pacific Economic Cooperation (APEC) are China and Russia. The Shanghai Cooperation Organisation (SCO) also includes these countries.

Vietnam and Mongolia are members of the Asian Productivity Organization (APO). Vietnam is also a member of the Association of Southeast Asian Nations (ASEAN).

Thus, in 3 decades of systemic transformations, countries with economies in transition have gone through a historically short, but quite painful and difficult path from the command-administrative system of economic organization to the market, carrying out numerous reforms and achieving the level of post-industrial development.

List of questions for self-examination

1) When did a group of countries with economies in transition appear on the world map? Why did they get such a name?

2) Which subgroups belong to the category of countries with economies in transition? How do they differ from each other?

3) What is the main idea of the transition period from a command-administrative economy to a market one? What are the primary transformations taking place?

4) What ways of socio-economic transformation in the transition period do you know? What are the specifics of each of them?

5) In which group of post-socialist countries of the former Soviet Union was the transformation of the economy most effective? What caused it?

6) What are the main features of the transformation transition in the republics of the Caucasus and Central Asia?

7) How carry out the reforms in the founding countries of the CIS? What are the features of the transition period in the Ukrainian economy?

8) What are the preconditions for rapid and fruitful transformation in the CEE countries? What distinguishes the "Visegrád Four" from Slovenia?

9) What course of transformation have the Balkan countries chosen? How can we see these changes today?

10) What is the uniqueness of the Chinese systemic transformation? Give the factors that contributed to the success of reforms in China.

11) What is the attractiveness of the European Union as a center of integration of post-socialist countries? Which of them became its members and which cooperate under the Eastern Partnership program?

12) Outline the present condition and prospects for the development of Russian-centric integration within the EurAsEC. At what stage of integration is this group?

13) What are the integration priorities of East Asian transition countries?

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TOPIC 8

THE ECONOMIES OF DEVELOPING COUNTRIES

The term "developing country" is applied to approximately 140 countries in Asia, Africa and Latin America. It was established in official international documents and scientific literature in the 60s of the 20th century. Previously, these countries were identified as economically underdeveloped.

Table 8.1. GDP of the largest developing countries in 2017 (in descending order by GDP) *

Country	GDP at the actual exchange rate of the dollar to the national currency, billion dollars	GDP at purchasing power parity, billion USD
India	2597	9448
Brazil	2055	3241
Republic of Korea	1531	1969
Mexico	1500	2344
Indonesia	1015	3243
Turkey	851	2254
Saudi Arabia	684	1774
Argentina	638	920
Thailand	455	1233
Iran	440	1700
UAE	383	694
Nigeria	376	1118
RSA	349	766
Hong Kong	341	454
Singapore	324	527
Malaysia	315	931
Philippines	314	875
Colombia	309	714
Pakistan	305	1089
Chile	277	434

- Source: World developments indicators, 2020

In addition to young developing countries, countries that were previously independent but had a relatively low level of development also included in this group (Latin American states that have long since become independent such as Argentina, Brazil, Chile, Mexico, and, for example, Turkey in Eurasia).

The role of these countries in the world economy is determined by the fact that they:

– occupy 60 % of the land area;
– 77 % of the population lives in these countries;
– about 90 % of the world's oil reserves, 50 % of gas, more than 50 % of manganese ore, chromite, cobalt, vanadium, gold, platinum are concentrated here [4].

Despite the great diversity of the economies of these countries, in general, they have the following features:

– the group is heterogeneity according to the level of development. It contains the poorest and the richest countries, small and large (table 8.1);
– relatively lower level of economic development (GNI per capita, low quality of labour, lagging in science and technology industry);
– imperfect socio-economic structure, diversified economy;
– low population welfare, underdeveloped social infrastructure;
– the impact of the religious sphere on socio-economic development;
– imperfect market mechanism;
– dependence on economically developed countries.

The income heterogeneity of developing countries is confirmed by their simultaneous belonging to almost all subgroups in terms of GNI per capita.

1. Low-income countries (GNI per capita is 1025 dollars per year or less):

– Afghanistan, Burundi, Benin, Burkina Faso, Central African Republic (CAR), the Democratic Republic of the Congo, Comoros, Eritrea, Ethiopia, Guinea, Gambia, Guinea-Bissau, Haiti, Liberia, Madagascar, Madagascar, Rwanda, Senegal, Sierra Leone Somalia, South Sudan, Chad, Togo, Tanzania, Uganda, Zimbabwe.

2. Countries with below-average income (1026-4035 dollars):

– Angola, Bangladesh, Bolivia, Bhutan, Ivory Coast, Cameroon, Congo, Cape Verde, Djibouti, Egypt, Micronesia, Ghana, Guatemala, Honduras, Indonesia, India, Jordan, Kenya, Cambodia, Kiribati, Laos, Shiite, Lesotho, Morocco, Myanmar, Mauritania, Nigeria, Nicaragua, Pakistan, Philippines, Papua New Guinea, West Bank and Gaza, Sudan, Solomon Islands, El Salvador, Sao Tome and Principe, Swaziland, Syria, Timor-Leste Tunisia, Vanuatu, Yemen, Zambia.

3. Countries with above-average income (4036-12475 dollars):

– American Samoa, Belize, Brazil, Botswana, Colombia, Costa Rica, Dominica, Dominican Republic, Algeria, Ecuador, Fiji, Gabon, Equatorial Guinea, Grenada, Guyana, Iran, Iraq, Jamaica, Lebanon, Libya, Saint Lucia, Mexico, Marshall Islands, Mauritius, Malaysia, Namibia, Nauru, Panama, Peru, Paraguay, Suriname, Thailand, Tonga, Turkey, Tuvalu, Saint Vincent and the Grenadines, Venezuela, Samoa, South Africa.

4. High-income countries (GNI per capita exceeds $12,476):

– Aruba, UAE, Antigua and Barbuda, Bahrain, Bahamas, Bermuda, Barbados, Brunei, Channel Islands, Chile, Curacao, Cayman Islands, Faroe Islands, Gibraltar, Greenland, Guam, Hong Kong, Rep. Korea, Isle of Man, St. Kitts and Nevis, Kuwait, Macau, St. Martin (French), Monaco, Malta, Northern Mariana Islands, New Caledonia, Oman, Palau, Puerto Rico, Franz. Polynesia, Qatar, Saudi Arabia, Singapore, St. Maarten

(Dutch), Seychelles, Turks and Caicos Islands, Trinidad and Tobago, Uruguay, British Virgin Islands, Virgin Islands.

From the analysis of income groups we can make the following conclusions:

–most developing countries have an average income per capita (above or below average);

–low-income countries are the poorest countries in Africa and Asia;

–high GNI is typical mainly for island states, which often are offshore areas for international capital. These countries get considerable benefits. In addition, it includes rich oil-producing countries (Qatar, Kuwait, UAE, Bahrain, and Saudi Arabia) and long-term constant economies (Chile, Uruguay).

Recently, both the economic and political role of developing countries has been increasing. To involve politically important countries in the global economic process, the Group of Twenty or the "Big Twenty" was created. It included the G7 and influential transition and developing countries. Among the group of countries, we study are Argentina, Brazil, India, Indonesia, Mexico, South Africa, the Republic of Korea, and Saudi Arabia.

After the unequal growth of developing countries in recent decades, this socio-economic group of countries has proved to be too vivid in terms of structural and level indicators. There are various grounds among them:

1) Newly Industrialized Countries (NICs), which have industrialized their economies and made other transformations:

– NIC of the first wave ("Asian Tigers") are Hong Kong, Taiwan, South Korea, Singapore.

– NIC of the second wave is "Asian dragons" (Thailand, Malaysia);

– NIC of the third wave (India, Indonesia, Philippines).

– Developing Latin American countries according to the model of "Creole liberalism" (Chile, Argentina, Brazil, Mexico).

2) oil-producing countries (Saudi Arabia, UAE, Oman, Kuwait, etc.);

3) underdeveloped countries (30 countries with a population of about 300 million people and extremely low GDP per capita).

Thus, in economic terms, developing countries are very diverse. They have a common long-term strategic goal. It is economic development, which gave this group a name "developing countries".

The recent improvement in the economic situation of developing countries is caused by a number of socio-economic and technological reasons [3].

1) Relocation of several industries from developed countries to developing ones:

– Many labour-intensive industries, such as garment, textiles, footwear, instrumentation and electronics based on cheap and large labour resources are in developing countries.

– Material-intensive and energy-intensive industries, such as non-ferrous metals smelting, oil refining, electricity, woodworking have become more based on raw materials.

– Environmentally harmful industries, oil refining, production of mineral fertilizers, pulp and paper industry, and chemistry of organic synthesis due to the high cost of environmental measures in developed countries.

– To attract investments, these countries created a favourable investment climate, preferential taxation both within the country and in joint venture areas.

2) Stabilization of the political situation in many developing countries:

– Nationalization of the economy after becoming independent, the elimination of dictatorial regimes, the cessation of military conflicts and civil wars have increased the attractiveness of countries for foreign investors.

– Their governments promised consistently high returns, inviolability of invested capital and acquired property.

– However, there are still countries (Tropical Africa, Afghanistan, Iraq, and Yemen) that are characterized by political instability.

3) Favourable world market conditions:

– The general favourable economic situation in the world formed in the 1990s, as well as the growth of social production in both developed countries and the NICs and oil-exporting countries.

– This has led to an increase in demand for raw materials and fuel, which in turn has boosted consumer demand within developing countries.

– The strengthening of the TNCs role in the world and the markets of developing countries has led to a foreign investment inflow, the economy reviving, the industrialization of previously traditionally agrarian countries, expanding of lending the developing countries by developed.

– The capital of hydrocarbon-exporting countries accumulated over the years and the profits from the export of finished products have also become the basis for investment.

4) Structural reforms in developing countries:

– Developing countries continue reforms in industrialization. They move from extractive industries to processing, labour-intensive, and even knowledge-intensive industries.

– Engineering and social infrastructure, services, tourism, banking, insurance, and communications developed rapidly.

– Forms of ownership changed. State property was privatized, the private sector of the economy was fully supported at the state level by investments, provided with a legislative and tax base.

– Strict financial policy was conducted to reduce inflation, corruption, and shadow capital.

5) The transition from import substitution to export orientation of production.

– Many developing countries used to be overly dependent on world exports. Because of their production of a limited number of export goods and at the same time critically dependence on imports of a large group of goods.

– At present, they have significantly expanded the range of goods for export, moving to supply diversification, which has made economies more resilient to external shocks (crises 1997-1998, 2008-2009, and 2020).

The heterogeneity of the group of developing countries is confirmed by their regional, level and socio-economic differentiation.

According to the World Bank classification, developing countries are from the following regions:

1) Europe and Central Asia:

– Turkey.

2) East Asia and the Pacific:

– Brunei, Guam, Micronesia, Fiji, Indonesia, Cambodia, Kiribati, Laos, Myanmar, New Caledonia, Republic of Korea, Taiwan, Singapore, etc.

3) South Asia:

– Afghanistan, Bangladesh, Bhutan, India, Sri Lanka, Maldives, Nepal, Pakistan.

4) The Middle East and North Africa:

– UAE, Bahrain, Algeria, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, West Bank and Gaza, Yemen.

5) Sub-Saharan Africa:

– Angola, Burundi, Benin, Burkina Faso, Botswana, CAR, Côte de Voire, Cameroon, Congo, Eritrea, Ethiopia, Gabon, Ghana, Guinea, Gambia, Guinea-Bissau, Kenya, Liberia, Lesotho, Madagascar, Mozambique, Mali, Mauritania, Namibia, Niger, Nigeria, Rwanda, Senegal, Somalia, Sudan, Sierra Leone, Swaziland, Seychelles, Chad, Togo, Tanzania, Uganda, Zambia, Zimbabwe.

6) Latin America and the Caribbean:

– Argentina, Bahamas, Belize, Bolivia, Brazil, Barbados, Chile, Colombia, Costa Rica, Dominica, Ecuador, Grenada, Guatemala, Guyana, Honduras, Haiti, Jamaica, Mexico, Nicaragua Peru, Puerto Rico, Paraguay, El Salvador, Uruguay, Venezuela

In general, a group of New Industrial Countries (NIC) is more economically powerful. This is primarily some countries and territories of Southeast Asia. These include Singapore, Taiwan, Hong Kong, South Korea. With the participation of foreign capital, which takes important positions here, the manufacturing industry is growing intensively. At present, in terms of exports, these countries have a leading position in developing countries.

Despite the fact that the capital of newly industrialized countries usually is a junior partner of TNCs of industrialized countries, in some cases, it is already becoming a serious competitor in world markets, including the markets of developed countries. At the current level of economic development, the most developed NIC (South Korea, Singapore) are close to the industrialized countries and are on a par with European countries such as Spain, Portugal, Greece.

Other countries of Southeast Asia, such as Indonesia, Malaysia, the Philippines, and Thailand, have also achieved economic success. However, most of the population of these countries is still employed in agriculture. Industrial production and exports of industrial products are growing there, as well as the position of the national capital. This group of countries of Southeast Asia is often considered the second wave of newly industrialized countries.

Differences in the development of regional groups are illustrated in table 8.2.

Table 8.2. Some indicators of the level of development of developing countries groups in 2017 *

Groups of countries	GDP (current dollar exchange rate), billion USD	GNI per capita (Atlas method), USD	Population, million people	GDP per employee (labour productivity), thousand USD
East Asia and the Pacific (including China)	14742	6987	2068	25.0
Europe and Central Asia	3300	7370	416	42.5
Countries with unstable conditions and conflicts	8307	1503	511	10.4
Latin America and the Caribbean	4723	7413	568	29.5
Middle East and North Africa	1431	3843	380	42.9
South Asia	3292	1743	1671	15.5
Sub-Saharan Africa	1647	1453	106	9.3
World	80683	10366	7530	34.6

- Source: World developments indicators, 2020

India is characterized by great results in the economy industrialization. India is among the leading countries in the world according to absolute indicators of industrial production. However, most of the country's population is employed in low-productivity agriculture. As the world's second-most populous country, India is the least developed country in terms of GDP per capita.

NIC have successfully taken advantages of the international political and economic relations in the late 20th century. It was forced by reforms in China and the collapse of the Soviet Union. It helped to achieve remarkable results in their development. They are characterized by the following features [2]:

–successful use of the strategy of "catch-up development" with active attracting of foreign investment;

–applying of the dirigisme model in the initial stages of economy industrialization and later the neoliberal model;

–today there is a slight lag behind developed countries in terms of the level of development (GDP per capita) due to many years of high dynamics of economic growth (table 8.3);

–completing the formation of market institutions and the social structure of society as in developed economies;

–gradual becoming post-industrial economies with certain sectoral and regional structure;

–transition from the policy of import substitution to the policy of export orientation of the economy with an increase in the share of exports in GDP;

–updating the strategy of innovative development, as extensive export expansion is limited by the rise in labour costs.

NIC of Latin America such as Argentina, Brazil, Mexico, Chile, and Uruguay achieved indicators relative to the countries with a high and medium level of economic development (table 8.4).

Table 8.3. Indicators of the development of some Asian NICs in 2017 *

Country	GDP (current dollar exchange rate), billion dollars	GNI per capita(Atlas method), dollars	The average GDP growth rate for the last 10 years, %	Exports of goods and services, % of GDP
Hong Kong	341	46310	6.7	188
Republic of Korea	2315	38380	3.5	43
Singapore	324	54530	8.5	173
Thailand	455	5960	6.1	68

- Source: World developments indicators, 2020

Table 8.4. Indicators of the development of some Latin American countries in 2017

Country	GDP (current dollar exchange rate), billion dollars	GNI per capita(Atlas method), dollars	The average GDP growth rate for the last 10 years, %	Exports of goods and services, % of GDP
Argentina	638	13040	1.6	11.2
Brazil	2056	8580	1.5	12.6
Chile	277	13610	3.0	28.7
Mexico	1150	8610	2.0	37.9
Uruguay	56	15250	4.0	21.6

- Source: World developments indicators, 2020

One subgroup of developing countries is oil-producing countries. At the same time, they are major exporters of energy resources to the world market. Most of them are members of the Organization of the Petroleum Exporting Countries (OPEC).

OPEC is an international organization created by countries that are heavily dependent on oil exports to the world market and, consequently, market conditions. OPEC was established in 1960. The headquarters is located in Vienna (Austria). OPEC's goal is to agree about oil production and export quotas in order to keep oil prices at an acceptable level. As of 2020, OPEC members are 13 countries:

– Algeria, Angola, Venezuela, Gabon, Equatorial Guinea, Iraq, Iran, Republic of the Congo, Kuwait, Libya, Nigeria, UAE, Saudi Arabia.

Often, to control the world oil supply Russia and USA as other major oil producers join to these countries.

Recently, the hopelessly backward natural-patriarchal states like Arabia and North Africa have made significant progress over the past half-century in creating modern productive diversified economies. Many of them succeeded. The main features of their economic condition are [1]:

– available powerful raw materials and energy reserves of minerals (table 8.5);

– uneven development of countries, some of which have approached the level of developed (Bahrain, Qatar, Kuwait, UAE, Oman, Saudi Arabia), while others are still at the average level (Algeria, Egypt, Iran, Iraq, Morocco, Tunisia);

– often irrational use of natural resources in favour of the ruling elite, high inequality in income distribution;

– modern high-tech form of life can be combined with outdated social structure, tribal relations, nomadic life;

– development strategy for the non-fuel sectors of the economy by investing petrodollars in advanced production (leisure industry, militarization, business services).

Along with countries where, although in contradictory forms, there is some economic progress, a fairly large group is the least developed countries (tropical Africa, island states in the Pacific, some countries in Asia and the Caribbean).

Table 8.5. Indicators of the development of individual oil-producing countries in 2017 *

Country	GDP (current dollar exchange rate), billion dollars	GNI per capita(Atlas method), dollars	Current account balance,% of GDP	Fuel exports,% of exports of goods
Algeria	170	3960	-16	95
Bahrain	35	20240	-5	55
Egypt	235	3010	-4	21
Iran	440	5400	-	-
Iraq	198	4770	2	99
Kuwait	120	31430	1	990
Libya	51	6540	-15	-
Morocco	109	2863	-4	1
Oman	73	14440	-18	62
Qatar	168	61070	-5	82
Saudi Arabia	684	20080	-4	79
Tunisia	40	3500	-8.94	6
UAE	383	39130	-	20

- Source: World developments indicators, 2020

The least developed countries have not been able to take full advantages of the globalization and liberalization of the international economic relations in recent decades. Their economies have the following features:

1) The backward nature of the economy:

– low GDP (GNI) per capita (table 8.6);

–extremely low daily consumption of population (often less than $1.25 per capita), and in countries such as Liberia, Malawi, the RCA, the Democratic Republic of the Congo, and Guinea, one resident consumes less than $1 per day;

–production based on outdated technologies;

–archaic social structure of society (tribal relations are often functioning);

–uneven distribution of insignificant incomes (Gini index exceeds 30 %).

Table 8.6. Indicators of the development of the 15 poorest countries in the world in 2015 (in ascending order by GNI per capita)

Country	GNI per capita(Atlas method), dollars	Daily NNI per capita, USD *	Gini index	Central government debt,% of GDP
Burundi	260	1.20	56	…
RCA	320	0.68	44	156
Malawi	350	0.59	46	…
Liberia	380	0.45	42	162
Niger	390	0.64	38	33
DR Congo	410	0.94	31	…
Madagascar	420	1.37	45	…
Gambia	460	1.08	…	…
Guinea	470	0.81	44	…
Togo	540	1.11	46	…
Mozambique	580	1.03	46	96
Guinea-Bissau	590	…1.06	36	…
Ethiopia	590	1.01	33	87
Sierra Leone	630	1.57	33	…
Afghanistan	630	6.54	…	…

- Source: World developments indicators, 2020

2) The dependent nature of the economy on developed countries:

–the exports structure is dominated by raw materials, energy and agricultural goods, there is a monoculture;

–many modern products the national economy is unable to produce due to technical reasons;

–domestic consumption depends on imports from developed countries;

–in recent decades, a high external debt to the TNB and international financial organizations has formed (many of them do not even have reliable debt statistics) (table 8.6);

–political dependence on former metropolises still remains.

3) Lack of a defined strategy of economic development, the predominance of the psychology of the "global periphery".

Thus, developing countries are the largest group of countries in the world economy. Their raw material and energy potential is indispensable for world production. Meanwhile, their role in it is mostly secondary (unlike developed countries).

List of questions for self-examination

1) When did the group of developing countries appear in the current sense? Are other countries static, not developing?

2) What is the difference in developing countries in the world economy? What are their competitive advantages in world markets?

3) Work on the thesis of geographical and socio-economic heterogeneity of developing countries. What causes it?

4) What subgroups of developing countries can be distinguished in terms of dynamics and level of development?

5) Give the reasons for the outpacing economic growth of a number of developing countries in the post-war period. How has globalization affected their growth?

6) Which stages (waves) of industrialization in the development have Asian countries passed through? What other economic transformations have taken place in the NICs?

7) Describe the current situation in the world economy of Latin America and the Caribbean. Why do you think their growth is not as dynamic as in Asian NICs?

8) Compare two strategies for the use of revenues from the export of hydrocarbons by oil-producing countries: "devouring" and capitalization in non-fuel business projects. Give examples of countries with the first and second type of use of petrodollars.

9) What are the reasons for the low level of development of the countries of the Sub-Saharan region? What are the most effective ways to overcome poverty?

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TOPIC 9

UKRAINE'S ECONOMY IN THE WORLD ECONOMIC SYSTEM

The Ukrainian economy takes a prominent place in regional and global processes of international economic cooperation. It is defined as a transition economy of the late industrial period. This means that:

–the economy is a transition from a command-administrative to a market system. It is named as a transitional or an economy with an emerging market;

–the late industrial nature of the economy means that its structure and productivity has not yet met the criteria of post-industrial society, but only indicators of mature industrial development.

During the three decades of independence, Ukraine has undergone a series of not always successful reforms, industrial and sectorial restructuring, production denationalization and oligarchization of key positions in the country's economy and politics. Data in table 9.1 indicate a change in the resource provision of the economy and its effectiveness during the recovery phase of the transition period.

Even in Soviet times, Ukraine's economy was characterized by large specialized production, supplying most of the products to other republics of the USSR or for export. Traditionally, in priority were heavy industry, mechanical engineering, chemical industry, agriculture and food processing of its products.

During the independence there was a restructuring of mining and processing industries, resulting in:

–the raw material orientation of the economy has become predominant (agricultural products, ferrous metallurgy with a low share of value-added, coal and nuclear energy);

–reduction of the share of value-added in GDP created in industry and construction meant deindustrialization of the economy;

–increasing the economic role of small and medium enterprises, which replaced large monopolized production;

–growth of the share of value-added in the services sector (financial, household, transport, communication and business services).

Table 9.1. Indicators of general economic development of Ukraine in 2000-2018.

Indicators	2000	2010	2018
Population, million people	49.2	45.9	42.3
Value of fixed assets, UAH billion	829	6649	9610
GDP, billion dollars at the rate of 2010	89.4	136.1	131.4
GDP per capita, in USD at the rate of 2010	1818	2965	3110
GNI per capita (World Bank Atlas method), USD	700	2980	2660
Share of industry in GDP,%	30.8	25.9	23.3
Share of agriculture in GDP,%	14.5	7.4	10.1
Share of services in GDP,%	39.5	55.1	51.3
Share of manufacturing industries in GDP,%	16.3	13.2	11.5

Source: (population estimated as of January 1, 2020; the value of fixed assets in 2000-2018; World developments indicators, 2020).

At the same time there were the following structural changes in the industry, accompanied by deindustrialization (reduction of the role of industry and construction):

–higher prices of imported energy resources and high specific costs of energy-intensive industries led subsequently to their reduction (oil refining, chemical industry);

–loss of competitiveness of domestic engineering due to the low technological level of many enterprises (instrument making, automotive);

–large specialized enterprises of the military-industrial complex due to the improvement of the international security situation between the 1990s and the early 2000s practically lost domestic and most foreign customers (exception for individual contracts in tank and aircraft construction);

–high-tech industries (aviation and missile) lost markets owing to the closure of the post-Soviet economic space and high competition in other regional markets;

–imprudent privatization of large enterprises often ended in their destruction by potential competitors.

Today, Ukraine's economy can be described as open to foreign markets. Indicators of its openness are:

–the value of export-to-GDP ratio is 45.2 % in 2018 (in 2015 it was 52.6 %);

–the value of import-to-GDP ratio was 53.8 % in 2018 (in 2016 it was 56.2 %);

–the external debt-to-GDP ratio is 89.5 % in 2018 (while in 2015 it was 130.6 %);

–the number of labour migrants from Ukraine reached 4.8 million people in 2015;

–14,104 thousand tourists from abroad visited Ukraine in 2018;

–the annual foreign direct investment inflow (FDI) into the national economy is 1.9 % of GDP in 2018 (in 2005 it was equal to 9.1 % of GDP).

Thus, according to the main forms of international economic relations, Ukraine demonstrates a high level of openness to the world. It largely depends on the situation on world markets of finished products and resources.

Table 9.2. Ukraine's largest partners in exports and imports of goods in 2019, a million dollars.

Export		Import	
Country	Value	Country	Value
China	3594	China	9196
Poland	3297	Russia	6986
Russia	3243	Germany	5992
Turkey	2619	Poland	4102
Italy	2419	Belarus	3752
Germany	2383	USA	3284
Egypt	2254	Turkey	2354
India	2024	Italy	2075
Netherlands	1848	France	1653
Hungary	1563	Switzerland	1604

Source: Geographical structure of foreign trade in goods in 2019, 2020

According to the analysis of table 11.2, we draw the following conclusions:

1) the most important trade partner of Ukraine today is China (the world's largest exporter of goods), with which we have a large negative balance;

2) in recent years, to some extent there has been made a reorientation of Ukrainian exports from the east to the west. It is proved by the second place of Poland as an importer of our products (the Russian Federation takes the third place);

3) despite the difficult political relations with Russia, in economic terms, it remains as a supplier number 2 of goods to the Ukrainian market. Petroleum products and chemicals are dominating. The balance of bilateral trade is also not in our favour.

4) the third place of Germany in the Ukrainian import is a rather positive fact, as high-tech products of mechanical

engineering and metalworking come from there. At the same time, this indicates a lack of own products of this type.

The structure of domestic foreign trade is described in table 9.3.

Table 9.3. The largest commodity groups of Ukrainian exports and imports, %.

Export		Import	
Commodity group	Share in total exports	Commodity group	Share in total imports
Products of plant origin	25.8	Machines, equipment and mechanisms; electrical equipment	21.9
Base metals and articles thereof	20.5	Mineral products	21.4
Mineral products	9.7	Products of the chemical and allied industries	12.3
Fats and oils of animal or vegetable origin	9.5	Land vehicles, aircraft, floating vehicles	10.1
Machines, equipment and mechanisms; electrical equipment	8.9	Base metals and articles thereof	6.0

- Source: Commodity structure of foreign trade in 2019, 2020

Regarding the commodity structure of trade, we can draw the following conclusions:

1) over the last 10-15 years, the structure of Ukrainian exports has changed significantly. It has an agro-industrial nature, where crop production predominates (more than a quarter of total exports). Until recently, the share of industry

prevailed. That is, the deindustrialization of Ukraine's economy has also affected export industries.

2) the majority of agricultural and food products exported from Ukraine are sunflower oil, corn, wheat, rapeseed, soybeans, barley, poultry, sugar, chocolate, soybean oil.

3) the raw material nature of exports is confirmed by the fact that 19.2 % of total exports are unprocessed grain, 17.5 % is ferrous metals (not products thereof), 9.5 % is fats and oils of agricultural origin, 7.2 % is ores, slag and ash. That is, half of our exports are products with a low level of processing, low added value, which is typical for countries with a low level of development.

4) given the fact that mechanical engineering today is a diversified complex and producing a wide range of products in one country is almost impossible. Yet there is a high dependence of Ukraine on imports of it. In particular, it is the import of industrial equipment (20.9 %) and vehicles (10.1 %).

5) a significant share of imports are oil and petroleum products (20 %), pharmaceuticals (3.5 %), chemical fertilizers (2 %).

Thus, the structure of imports indicates Ukraine's energy dependence on its eastern partners and technological dependence on its western ones.

The place of the national economy in the world economic system largely depends on the competitive advantages in comparison with other economies.

Competitive advantage is a feature of the economy that allows supplying cheaper products with higher quality to international markets compared to competitors.

The generalized indicator of competitiveness shows the efficiency of not only the economic system but also legal, political, social and other fields. Thus, the efficiency of the entire economic system of the country (Golikov, 2015). The National Competitiveness Project, implemented within the framework of the World Economic Forum (WEF), examines about 100 indicators. They determine the competitiveness of countries. In 2018, the WEF calculated the Global Competitiveness Index (GCI) for 140 countries. The competitiveness of each country was determined by its place in the rating (from 1 to 140) and the number of points (from 0 to 100). The country with more points takes the higher place in the ranking. Ukraine takes place in the middle of the countries list (table 9.4).

Table 9.4. Ukraine in the rating according to the index of global competitiveness in 2018

Index	Subindex	Indicator	Place of Ukraine	Scores
GCI			83	57.0
	Enabling environment	Total	91	55.8
		Institutions	110	46.3
		Infrastructure	57	70.1
		ICT adoption	77	51.0
		Macroeconomic stability	131	55.9
	Human capital	Total	77	68.5
		Health	94	72.0
		Skills	46	68.9
	Markets	Total	67	56.5
		Product market	73	55.3
		Labour market	66	59.5
		Financial system	117	48.7
		Market size	47	62.7
	Innovation ecosystem	Total	73	55.3
		Business dynamism	86	55.3
		Innovation capability	58	39.0

- Source: Global Competitiveness Reports 2018-2019, 2019

As you can see in table 9.4 Ukraine has taken 83rd place with 57 points in the ranking of global competitiveness in

2018. Moreover, the country achieved positive results by some sub-indexes and indicators that had higher points, but lower value than the overall GCI. In particular, our GCI was "pushed" up by:

– skills (46th place), which indicates a fairly high quality of the Ukrainian workforce;

– market size (47), due to the population of 40 million in Ukraine;

– infrastructure (57) is quite extensive, although not always of proper quality;

– innovative capability (58) provided by the development of the academic, university and corporate scientific research;

– labour market (66);

– product market (73);

– ICT adoption (77).

Instead, the problematic indicators for Ukraine are those that should be a basis for increasing international competitiveness:

–low macroeconomic stability (131st place) associated with increased inflation in the country, currency volatility and instability of the economy to external shocks;

–weakness of the financial system (117), where banking crises alternate with crises of other financial institutions;

–underdeveloped institutions (110), the main of which is the state represented by the legislature and the executive;

–the health of the nation is at the poor level (94);

–the dynamism and flexibility of business in changing conditions must be higher, ensuring adaptation to new challenges (86).

Ukraine's integration into the world economy is possible in different, but in parallel interconnected ways:

–through active and liberal foreign economic policy;

–creating favourable environment to foreign entrepreneurship, investment and transnationalization of large enterprises;

–joining international economic organizations (IMF, WTO, World Bank);

–concluding agreements on a free trade area on a bilateral basis (FTA "Ukraine-Canada", "Ukraine-Turkey", "Ukraine Israel";

–accession to international integration groups (European Union, Commonwealth of the Independent States, Black Sea Economic Cooperation, GUAM).

The processes of Ukraine's inclusion in the modern system of world economic relations are influenced by specific domestic and foreign economic factors. They are formed in the form of preconditions, features and ways of integration. They primarily depend on the internal readiness of the economic system to interact with other countries. The key factors of ensuring the integration development of Ukraine of internal origin are as follows:

1) Ukraine's transition to a developed market economy, which requires the development and implementation of an appropriate long-term program;

2) elimination of structural imbalances in the economy;

3) structural restructuring of the national economy focused on modern technical, technological, economic, environmental and social standards.

The effect of foreign economic factors of integration is due to, on the one hand, the development of forms of foreign economic activity, and on the other hand, the development of the macroeconomic environment.

The foreign economic factors of Ukraine's integration are considered as:

1) balanced foreign trade. Ukraine's foreign trade activity has recently negative long-term structural trends in exports/imports of goods and services (as shown above):

2) improving the investment climate. Without a favourable environment for involving foreign capital to Ukraine, it is unlikely to get the appropriate amount of foreign direct investment (FDI), vitally important for the economy with a deficit of domestic financing:

3) controlled labour migration. It is significant not to lose qualified personnel due to migration. Instead, in 2019, 555 thousand people left Ukraine:

4) stability of the national currency. The formation of such currency relations with countries-trading partners that ensures the proportionality of foreign trade and price stability in the country.

The two-vector policy of Ukraine led gradually to integration to the CIS and the European Union. However, the desire to cooperate with the EU has increased since independence.

Ukraine's cooperation with the European Union has moved through several stages of development. At each of them there have been adopted important documents for institutional rapprochement:

1) a fundamental agreement has been concluded between the cooperation partners. It is the Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine as of 16.06.1994;

2) approved by the Decree of the President of Ukraine "Strategy of Integration of Ukraine into the European Union" as of June 11, 1998;

3) EU-Ukraine Action Plan for 2005-2007 (extended to 2009) signed on February 21, 2005. It has a list of specific commitments of Ukraine in the field of strengthening democratic institutions, combating corruption, structural

economic reforms and development of cooperation with the EU (cooperation in the field of disarmament and regional security, trade relations, adaptation of Ukrainian legislation to EU norms and standards, visa facilitation with the EU, improving the investment climate in Ukraine, tax reform and public financial management);

4) the Eastern Partnership project was launched on May 26, 2008. It is a part of the European Neighbourhood Policy carried out to intensify cooperation with Ukraine, Moldova, Georgia, Azerbaijan and Armenia;

5) the Free Trade Agreement of Ukraine was signed on June 24, 2010, with the EFTA (Iceland, Liechtenstein, Norway and Switzerland are not members of the EU, but strategically belong to the European region);

6) in 2014, the European Union and Ukraine signed an Association Agreement. It is a new stage in the development of European-Ukrainian contractual relations, aiming at political association and economic integration.

– Thus, the Association Agreement (AA) has two aspects:

–political association is cooperation in the political and legal spheres on respect for human rights, fundamental freedoms and the rule of law, political dialogue and reforms, justice, freedom and security;

–economic integration is the development of trade and economic cooperation by the introduction of the Deep and Comprehensive Free Trade Area (FTA).

The FTA between Ukraine and the EU means closer economic integration by strengthening relations between businesses of Ukraine and the EU. The FTA provides Ukraine with conditions for modernization of its trade relations and economic development through opening the market and gradual elimination of customs tariffs, quotas, norms and rules in various fields related to trading. This helps key sectors of Ukraine's economy reach the EU standards.

The FTA came into full force on 01.01.2016. Due to this, trade between Ukraine and the EU countries significantly expanded in 2013-2018:

1) Ukrainian exports of goods to the EU increased by 20.8 % and imports decreased by 11.2 %. Although the negative trade balance is still present;

2) there were structural changes in the geography of product trade. The share of the EU in Ukrainian exports over the same period increased from 27 % to 43.5 %, and in imports from 37.1 % to 44.4 %;

3) up to half of our exports are ferrous metals, cereals, electric machines, ores, slag and ash, seeds and fruits of oilseeds, wood and wood products;

4) the import of goods from the EU is mainly engineering products, automotive, oil and petroleum products, pharmaceuticals, plastics and polymeric materials;

5) the EU is also an important partner for Ukraine in the trade of services. In 2019, Ukraine exported 28.1 % of its services to the EU and imported 54.6 %. Our balance of trade in services is positive (+ $724 million).

The Association Agreement also important in case of introducing a visa-free regime for citizens of Ukraine:

– On April 20, 2016, the European Commission established a visa-free regime for citizens of Ukraine from the summer of the same year (for short-term travel, with a biometric passport and after the European Parliament approval).

– In June 2017, the visa-free regime between Ukraine and the EU came into full force.

The Eastern vector of Ukraine’s integration has long been associated with cooperation with the Commonwealth of Independent States (CIS).

The CIS was created during the collapse of the Soviet Union in 1990. It initially included the Russian Federation, Ukraine, Belarus, as well as Moldova, Azerbaijan, Armenia, Georgia, Kazakhstan, Turkmenistan, Tajikistan, the Kyrgyz Republic, and Uzbekistan.

Ukraine considered the CIS as a mechanism of multilateral consultations and negotiations, which complemented the formation of bilateral relations between the member states of the Commonwealth. Because of such conditions the CIS had prospects for the functioning and taking national interests of all member states.

Almost 30 years' experience of the CIS work has shown that bilateral cooperation between member countries in various fields is developing much more effectively than multilateral. Eventually, the country tries to intensify its role in the CIS by establishing bilateral beneficial cooperation.

Since the CIS countries did not support Ukraine in its confrontation with Russia during the annexation of Crimea and hostilities in the Donbas, Ukraine has held down its participation since 2017. Most CIS countries have declined the trading with Ukraine (the exceptions are Moldova and Belarus).

Ukraine's international cooperation in the Black Sea region encouraged in two forms:

– international (Ukraine participates as a state in the integration association of 12 countries. It is the Organization of the Black Sea Economic Cooperation (BSEC), with the agreed strategy and tactics of foreign economic policy);

– interregional (Ukraine regions are involved in the cross-border regional association "Black Sea Euroregion").

– The BSEC includes Azerbaijan, Albania, Armenia, Bulgaria, Greece, Georgia, Moldova, Russia, Romania, Serbia, Turkey and Ukraine.

– Ukraine's participation in the BSEC should be focused on achieving the following goals:

– differentiated development of bilateral economic relations with BSEC member states. Apart from the CIS countries and members of this group, relations with Turkey is particularly important. This country opens the door for penetration into the Middle East markets. Turkey is transit territory for alternative oil supplies to Ukraine, a source of relatively cheap and high-quality consumer goods and raw materials for light industry in Ukraine. Economic relations with Greece are a priority for Ukraine's entry into EU markets and the development of cooperation in the Mediterranean basin;

– participation in the development and implementation of joint BSEC projects is vital in such areas as ecology, science, technology, transport, information and communication infrastructure, tourism, health care, investing, small and medium business development;

– improving the effectiveness of cooperation related to overcoming the territorial claims of some countries to others, and the lack of opportunities for their political settlement (Russia's and Turkey's confrontation over Syria, Russia's annexation of Crimea, the military conflict in Donbas, tense relations between Russia and Georgia, the contradictions between Turkey and Greece, Azerbaijan and Armenia, etc.).

Ukraine is one of the founders of the Organization for Democracy and Economic Development or GUAM. GUAM is an international regional organization, which includes the Republic of Azerbaijan, Georgia, the Republic of Moldova and Ukraine.

According to the Charter, the main goals of GUAM are:

– preserving of democratic values, guaranteeing the rule of law and respect for human rights;

– ensuring sustainable development;

– strengthening international and regional security and stability;

– deepening European integration to create a common security space, as well as expanding economic and humanitarian cooperation;

– development of socio-economic, transport, energy, scientific, technical and humanitarian potential;

– intensification of political interaction and practical cooperation that take into consideration mutual interest.

GUAM actively cooperates with other states. Several joint projects have been implemented under the GUAM-US Framework Program of Trade and Transport Facilitation, Ensuring Border and Customs Control, Combating Terrorism, Organized Crime and Drug Trafficking. It was made with the assistance of the United States, the SECI Center, experts from Bulgaria, Romania and Hungary. In particular, the GUAM Virtual Center for combating terrorism, organized crime, drug trafficking and other serious kinds of crimes have been established. Today, the Trade and Transport Facilitation Project is carried out.

List of questions for self-examination

1) What place Ukraine's economy takes in European and world processes of international economic cooperation? What general economic features it is characterized?

2) Why during the transition period it was not possible to adapt large specialized industrial production to the conditions of a market economy? How did the deindustrialization of the economy affect the structure of Ukrainian exports and imports?

3) Provide quantitative and qualitative evidence of raw materials origin of Ukrainian exports. Is it harmful to the economy?

4) What caused the geographical reorientation of Ukraine's foreign trade, which began in 2014? What are its results today?

5) Explain the following thesis: Ukraine's economy is significantly open to world markets of goods, services and capital. Give indicators of foreign economic openness.

6) What is the reason for the integration of the Ukrainian economy into the world? What are the prerequisites for this?

7) What internal and external factors should be used to fully integrate Ukraine into the world economic system?

8) What are the advantages of integrating Ukraine's economy into the European Union? Assess the significance of the Association Agreement between Ukraine and the EU.

9) Why trade and economic relations with the CIS, BSEC, GUAM is an important factor in the international economic development of Ukraine?

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Glossary

A transnational corporation (TNC) is an international enterprise based on a joint-stock (corporate) form of ownership that carries out international economic activities in several countries, via the foreign branches network.

An international corporation is a form of a large corporation that realizes foreign direct investment in various countries around the world.

Economic resources are a set of resources used in economic activities for the production, exchange, distribution and consumption of material and spiritual goods, to meet the growing needs of the population.

Economic growth is an increase in the real GDP of a country, region, world in one period compared to another.

Financial globalization is when national financial processes are making up a global character with the involvement in the global financial system.

International economics – a science that studies the patterns of interaction between economic entities of different countries and develops theories and concepts that enable the country to build the most rational economic relations with other countries, taking into account the specifics of their own and other countries.

Innovation potential is determined by the ability of fundamental science to provide innovations in the process of updating products.

Intellectual potential – the nation's capital, which is created in research institutes, laboratories and higher educational institutions.

International settlements are monetary settlements between institutions, enterprises, banks and individuals related to the movement of inventory and services in international circulation.

Natural resources are explored and extracted natural resources that are used in the economy and are the means for the existence of human society.

Production resources – a set of natural, social and spiritual forces that can be used in the process of creating goods, services and other values.

Resources – elements of productive potential owned by a particular country or the world community and used for economic, social, scientific and technical development.

The national economy is the economy of a separate country of the world community.

The international division of labor associated with the exchange of activities and its products between national states.

Technological subsystem – a set of requirements that make the scientific and technological revolution, ensuring competitiveness in the world market.

The globalization of the world economy is the process of strengthening the interconnection of national economies of the world.

Transnationalization is taking a significant share of world production and sales by multinational companies.

World economy – a set of national economies, interconnected by the international division of labor and mobile factors of production.

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