Slowing of World Economy Growth: Analysis of Key Reasons

Petr V. Taranov*, Alexander M. Basenko, Lydia N. Roshchina, Irina V. Kulikova, Inna V. Ukraintseva and Sergei I. Samygin

Rostov State Economic University, Rostov-on-Don, Russia

Abstract: The article is devoted to the analysis of the key reasons for the slowdown in the global economy. According to the analysis, the slowdown in the global economy is caused by the following seven key reasons: trade wars and the aggravation of trade relations in the international economic market; global instability and technological uncertainty; risks of increased financial uncertainty; the impossibility on the part of some countries to overcome the consequences of the global crisis and the sanctions policy of the West; reformatting of economic activity in a political manner; wave of debt accumulation in developing countries; slowdown in labor productivity growth. The authors conclude that the global economic slowdown trend has a long-term perspective.

Keywords: Global economy, economic slowdown, key reasons, trade wars, global uncertainty.

INTRODUCTION

The relevance of the topic, its significance for science and practice is due to the fact that in the 21st century there is a global reformatting of the world space, a change is taking place in the world economy towards a slowdown and a decrease in its growth rate.

Over the past years, and in particular, during 2019 and the first half of 2020, important events of epochal significance have been observed throughout the world economic space, connected with global uncertainty, a sharp rise in unemployment associated with a blow to small and medium-sized businesses, (Ponomarev, *et al*., 2019) and unprecedented trade conflicts between countries, which affected the rates of economic growth in developed countries. In particular, this has imposed a significant impact on the world economy: to date, the rates of economic growth in developed countries have significantly slowed down. IMF experts pointed out that the last time the world economy grew as slow as at this stage, during the past global economic crisis. Speaking about various reasons for the slowdown in global economic growth, the IMF refers to serious trade confrontations and risks of a geopolitical nature (Gafiatulina, *et al*., 2017; Shakbanova, *et al*., 2018).

Over the past two decades, economists have attributed long-term economic stagnation (by the definition of “long-term stagnation” introduced in 2014 by L. Summers) to a slowdown in productivity growth, which began in the 1970s. It is widely believed that important structural changes are taking place in the global economic space when the industrial stage of development is replaced by an innovation stage associated with a productivity crisis. As pointed out by Russian economists G.I. Idrisov, V.N. Knyaginin, A.L. Kudrin and E.S. Rozhkova, “the downward trend in productivity growth in most industrialized countries was most pronounced in the late 2000s - early 2010s; since 2011, the rate of its growth has not exceeded 1% per year” (this is practically more than two times lower compared to 1990-2000 and 2000-2007) (Idrisov, *et al*., 2018). According to the scientists, the decline in productivity growth in developed countries “coincided with a change in the basic parameters of consumer demand, with the transition to the consumption of deeply customized or individualized products. Even in the phase of recovery after the global financial and economic crisis of 2008-2010 there is a relatively weak economic dynamic: the rate of annual growth of world GDP in 2012-2016 established on average at a level that is significantly (20-25%) lower than the values of the pre-crisis decade of 1998-2007" (Idrisov, *et al*., 2018).

METHODOLOGY

The world economy is a complex globalizing system with traditional (states, transnational companies, international economic organizations, etc.) and the latest (world cities, technology parks, intellectual valleys, etc.) structures and relations between them. Note that the current stage of development of the world economy is characterized by the clarification of theoretical concepts, the growth of contradictions, the emergence of new global problems, as well as the strengthening of the interdependence of all participants in the world economic system. Many methodological concepts are being filled with new content; along with the integration, the processes of fragmentation occur; the global services market dominates the market of goods.

*Address correspondence to this author at the Rostov State Economic University, Rostov-on-Don, Russia; E-mail: taranov.pv@yahoo.com

E-ISSN: 1929-4409/20

The world economy must be defined as a complex economic system, the structural basis of which is made up of many of its subjects (states, TNCs, international financial institutions, megalopolises, and other new subjects), as well as a set of international relations between these subjects.

The problem of reducing the pace of the world economy is considered in the works of many authors, including A.D. Ternovskaya and A.A. Larina (2016); I.S. Fadeeva (2019); S.S. Polonik, E.V. Khorobrykh, A.A. Litvinchuk (2016); R.A. Amagayev (2019); N.I. Komkov, M.N. Dudin, N.V. Lyasnikov. (2015); K. Rogoff (2019); D. Rodrik (2016) and others.

The theoretical basis of the research consists of conceptual approaches to the study of the world economy. In particular, through the application of a paradigm approach, the essence of which is the scientific understanding of a single economic space; a systematic approach, according to which the world economy is viewed as a complex economic system; as well as a characteristic approach (global economy), reflecting the scale (global scale) and considering the process of increasing the scale of ties, their interdependence and interconnectedness.

When solving practical research problems, namely, analyzing the key reasons for the slowdown in the growth of the world economy, we used general scientific methods that are traditional for all socio-economic sciences: analysis and synthesis, a comparative method, as well as a risk-based approach in analyzing economic risks.

RESULTS AND DISCUSSION

The global economy will slow down even further in 2020. Moreover, this is not just a temporary phenomenon, but also a continuation of a long-term trend. As emphasized by Yu.S. Ershov, the deterioration of economic dynamics in developed countries turned out to be so significant that it also determined “a slowdown in the growth rates of the entire world economy - the average annual rates for the planet as a whole were in 1986-2000 - 103.1%, in 2001-2016 - 102.6% ”(Ershov, 2017), and in 2019 - early 2020 - the world economy was on the verge of stagnation: its real growth was only 2.3%, and this is the lowest indicator in the last 10 years, according to the UN World Economic Situation and Prospects (WESP) report. Experts explain the situation of a slowdown in the growth of the world economy, among other things, by protracted trade disputes, aggravation of tensions in trade relations and an escalation of geopolitical tensions, which by no means contribute to the process of reviving the world economy.

Growth in purchasing power parity in the long term in the 21st century was 3.8%, but in 2020, according to PwC analysts, it will reach only 3.4%.

Trade tensions will persist, and amid financial turmoil and escalating geopolitical tensions, this will pose major challenges and disincentives to global supply chains. As PwC economist Barrett Kupelyan explains, there is a global slowdown in economic growth (“slowbalization”), which is characterized by continued integration and development, but at a slower pace, much lower than average.

As the socio-economic analysis of the world economy and international economic relations shows, (Taranov, *et al*., 2019) the key reasons for the slowdown and braking of the pace of development of the world economy are the following:

- First, trade wars and the aggravation of trade relations in the international economic market, in particular, the trade war between the United States and China, the US sanctions policy towards Russia. The protracted trade conflict between these world's largest economies has spread to the tech industry and forced companies to rethink supply chains. Duties on Chinese imports to the United States have increased, prompting many Chinese companies to relocate production from China to other countries. Meanwhile, China continues to search for new export markets.

American analyst K. Rogoff, in the framework of the analysis of the global economy development risks, points to the risks of increasing tensions in trade relations and the risks of deteriorating the functioning of financial markets during international trade wars. Moreover, K. Rogoff believes that the weakening of the Chinese economy along with the tendency to tighten monetary policy in the United States deserves separate consideration in the range of reasons for the slowdown in global economic growth, at the same time, he considers the factor of a significant weakening of the Chinese economy to be the most serious (Rogoff, 2019).

- Secondly, a high level of global instability and technological uncertainty caused by unobvious and uncertain prospects for the development of the world's largest economies, including the United States, China, the Eurozone, under the situation in the global energy market, the tension of geopolitical ties and relations, a decrease in demand for production and industrial products(Amagayev, 2019).

In particular, the demand for German-made products on the world market in the first half of 2019 turned out to be lower than economists expected, and by the end of this year, this figure should be 1.2%, which is 0.5% lower than the level of July forecasts of IMF. In addition, according to economists' calculations, the suspension of liner production could reduce the growth of US GDP in 2020 by at least half a percentage point (Rodygina, *et al*., 2020).

According to D. Rodrik, the development of production and industry began to be strongly influenced by the falling returns to scale and redundancy of fixed assets. Productivity growth in manufacturing acting as a system customer and consumer of products of innovative and technological industries, declined significantly, and this, we note, is a serious factor that slows down the world economy. In essence, the point is that traditional production technologies in most sectors have approached the productivity limit, beyond which the return on investment drops sharply. The effectiveness of traditional technologies began to decline in non-industrial sectors of the world economy: energy, transport, agriculture, health care, education and the social sphere in general (Rodrik, 2016).

- Thirdly, the next key reason for the slowdown in the growth and development of the world economy is the risks of increasing financial uncertainty (risks and uncertainty of unconventional monetary policy). The risks of financial stability arising from the implementation of a negative interest rate policy include a decrease in the profitability of the financial sector as well as an increase in demand for high-risk assets. Many developed countries have found themselves in a liquidity trap that usually arises when traditional monetary measures are inoperative, zero or close to zero nominal interest rates (Taranov, *et al*., 2020). Circumstances of this kind developed against the background of the widespread deflationary crisis. Japan is a prime example of an economy with signs of a liquidity trap. R.A. Amagayev notes that in most cases in developed countries, the problem of deflation and low nominal rates leads to an increase in the real interest rate and, consequently, to an increase in the average propensity to save, which, in turn, acts as a factor inhibiting economic development (Amagayev, 2019).

According to E.E. Lutskaya, serious weakening of financial markets in 2018-2019 were caused by the following factors: a downward trend in emerging markets, the threat of bankruptcy of Italian banks, as well as the so-called government "shutdown" in the United States (which is associated with the termination of the work of some US government agencies funded directly by Congress due to the lack of an agreed budget for the next financial year) (Lutskaya, 2019).

In addition, Brexit is a destructive and destabilizing event in the British economy with consequences for the entire global economic community. Despite the fact that the UK voted to leave the EU back in 2016, and left the EU in 2020, this is a serious factor affecting the global economy. N.Yu. Rodygina, S.V. Moleva, V.I. Musikhin and Logina M.V. emphasize that Brexit is pulling the UK off the "main stage" of the financial world, creating uncertainty across the UK; some economic indicators have been hit by global economic trends, with historically high unemployment rates in the UK and surrounding Western countries. In addition, throughout 2020 British economic growth will be weaker (1.5%) than previously predicted (1.7%) (Rodygina, *et al*., 2020).

- Fourthly, the fact that the EU countries have not yet overcome the consequences of the global economic crisis affects the restriction of export opportunities, which acted as the most important driver of growth in the framework of the resource-based development model (Lyakin, 2014). The situation was aggravated by the sanctions policy on the part of the United States and the EU countries, especially against the energy, shipping and financial sectors: the sanctions led to the fact that foreign investment was stopped, and oil exports were seriously hit. As a result, in 2018, according to IMF estimates, Iran's GDP fell by 3.9%. In addition, according to the Central Bank of South Korea, North Korea's economy contracted for the second consecutive year in 2018, experiencing the steepest decline in 21 years under the influence of international sanctions. In general, world central banks have faced multiple problems in the development and application of "new" monetary policy measures that would allow them to overcome the consequences of the global economic crisis (Taranov, *et al*., 2018).

For example, the key reason for the slowdown in the economic growth of the Russian economy is associated with the exhaustion of the reserves of the traditional export-oriented development of the Russian economy, as well as with the problems of a sluggish innovation transformation. According to long-term forecasts of the Institute of National Economic Forecasting of the Russian Academy of Sciences in the future until 2030 with the existing structure of the national economy, economic growth will be limited with a slightly downward trend, like the world as a whole (Komkov, *et al*., 2015).

- Fifth, concerning the reasons for the slowdown in the growth of the world economy, it should be noted that all economic relations in production activities should be sought in non-economic sources, since they start to depending on the internal relations of the highest authorities (which were demonstrated in their companies by Ford, Rockefeller, Chrysler, DuPont, Morgan). If relations are centered around power, therefore, the economic life of the world community is meaningfully rebuilt in a political manner, corresponding to the norms of not a simple struggle for financial profit, but, first of all, the struggle for global power.

Sixth, an important reason for the slowdown in global economic growth is the wave of debt accumulation. For example, the fastest and largest wave of debt buildup in emerging and developing economies in the last 50 years is among the important factors darkening the current prospects. The total debt in these countries increased from 115% of GDP in 2010 to almost 170% of GDP in 2018. In addition, in 2000-2010, debt in low-income countries has dropped sharply, and now it is growing again (Ershov, 2017).

The results of the three previous waves of debt accumulation were dismal: financial crises and defaults in the 1990s; the need for massive debt relief in the 2000s; the global financial crisis in 2008-2009. Although the current relatively low interest rates mitigate some of the risks, a large level of debt is fraught with serious risks. It can increase the vulnerability of countries to external shocks; it can limit the ability of governments to counter a downturn with fiscal stimulus measures; finally, it could slow down long-term economic growth by crowding out productivity-boosting private investment.

Seventh, another important reason for the slowdown in global economic growth is the slowdown in labor productivity growth, which has been observed over the past ten years. Growth in labor productivity - specific output per worker - is a prerequisite for raising living standards and achieving development goals. For example, average output per worker in emerging and developing economies is less than a fifth of output per worker in developed countries, compared to only 2% in low-income countries.

The history of productivity growth in emerging market and developing economies has seen many ups and downs, but the slowdown in productivity growth from 6.6% in 2007 to the lowest point of 3.2% in 2015 was the sharpest, longest and large-scale. This slowdown is attributed to declining investment growth and efficiency, diminishing gains from reallocating resources to more productive sectors, and slower improvement in key productivity drivers such as education and institutional quality (Amagayev, 2019).

DISCUSSION

Economists believe that the slowdown in the global economy is a trend that has a long-term perspective. It is associated with several factors. First, it can be noted, "developed economies have reached certain "natural" growth limits and become so high that their further growth will be slow pace. Moreover, the slowdown in the growth rates of the most developed economies has a long history". Developing countries have long been the main driver of economic growth. Moreover, the developed world is more likely to slow down global growth, and this slowdown has intensified in the 21st century, since during this period the growth rates of the largest Western economies slowed down. In the United States, in 2000-2017, they were already 2%, in the UK - 1.9%, in Germany - 1.4% (Lutskaya 2019).

To sum up, "developed economies are approaching the limits of growth more and more, and this is understandable - the larger the economy, the more difficult it is to achieve high growth rates. Accordingly, we are observing a long-term trend of slowing growth in developed countries, and there is no reason to believe that this trend, which began in the 60s and 70s of the last century, will reverse for some reason. Thus, developed countries will continue to slow down global economic growth".

According to S.S. Polonik, E.V. Khorobrykh, A.A. Litvinchuk, serious risks remain for a further slowdown in global economic growth, including a slowdown in the growth of Asian economies; persistence of problems with the development of production in the European Union; medium-term parameters of the US budget have not yet been determined, which does not exclude the possibility of a repeat of the budget crisis; there is a significant risk of unsuccessful completion of structural reforms in the economic zones of the Euro and in Japan, which will be negatively perceived by investors (Polonik, *et al*., 2016).

According to IMF forecasts, the global GDP growth rate in 2018 was 3.7%, and in 2019, it was already 3.5%. These figures reflect a long-term trend towards a decline and deceleration of the growth rates of the economies of developed countries: in 2018. - 2.3%, 2019 - 2.0%, and in 2020 - 1.7%, as well as a short-term decline in the growth rate of emerging economies (Turkey, Argentina, and China). As for the United States, in 2019 there was a decrease in economic growth rates to 2.5%, and in 2020 growth is expected to fall to 1.8%. E.E. Lutskaya explains this fact by “the exhaustion of fiscal incentives and a gradual increase in the interest rate on federal obligations” (Lutskaya, 2019).

It should be noted that during the period of global instability characterized by a slowdown in the growth of the world economy and the risk of social and economic crises, such a direction as economic risk management is actively developing within the framework of international economic management.

Thus, AA Laponogova and E.Ts. Bogodzhiyan state that the most specific among the economic risks of transnational corporations are currency and country risks (Laponogova, Bogodzhiyan, 2018).

The first, currency risks, are divided into the following types of risks:

1) Translation risk - appears in the preparation of consolidated financial and economic statements by an international company with a developed network of branches in various countries;

2) Operational risk - affects the fluctuation of exchange rates in the period after the conclusion of the transaction and before the receipt of payment, as well as in the period between the presentation of the loan and its repayment;

3) Economic risk - consists in the influence exerted by fluctuations in the exchange rate on the indicators of the financial and economic stability of an international company and its market value. The negative manifestations of these risks can affect the volume of assets and liabilities of international corporations (Laponogova, & Bogodzhiyan, 2018).

Concerning country risk, it is understood as an aggregate, generalized risk that arises as a result of doing business in a particular country due to the specifics of its natural, climatic, ecological, as well as political, social and economic characteristics. To conduct a quantitative assessment of country risk, according to A.I. Kovalenko, the most used is the scoring method of assessment, as well as estimates obtained by conducting surveys in the managing branches (Kovalenko, 2016; Chikaeva, *et al*., 2018).

CONCLUSION

The slowdown in global economic growth is a long-term trend. In general, it is advisable to consider all the key reasons for the slowdown in global economic growth in interconnection. Ending trade wars, reducing technological and financial uncertainties in developed countries, as well as reducing the risks and uncertainties of unconventional monetary policy will improve the growth prospects of the economies of developed countries of the world community. These factors, in turn, will contribute to the creation of favorable external conditions for the development of European countries, and reduce the threat not only of global uncertainty, but also of technological, socio-political and economic uncertainty in the world community. To restore the development of the world economy, it is necessary to develop an international innovative model of economic growth, within the framework of which it is necessary to expand international cooperation of many developing countries: Russia, Germany, France, China, the USA, etc.

World governments need to take action to minimize the risks associated with accumulating debt. Effective debt management and debt transparency can help keep the cost of debt under control, maintain debt sustainability and reduce fiscal risks. Effective regulatory and supervisory regimes, proper corporate governance and adherence to common international standards can help limit risk, ensure efficient use of borrowed funds, and proactively identify vulnerabilities.

REFERENCES

Amagayev R.A. 2019. Risks and uncertainty of non-traditional monetary policy in changing economic realities / Russia in the global economy: new challenges and threats: Materials of a scientific conference. M. Pp. 10-18.

Chikaeva K.S., Scherbakova L.I., Karapetyan E.A., Latysheva A.T., Kosinov S.S., Samygin S.I. 2018. Social health of Russian youth: the specificity of social and managerial technologies of formation. Revista San Gregorio. No 27. Pp. 300-309.

Ershov Yu.S. 2017. Why the growth rates of the world economy are falling. Point of view // All-Russian economic journal ECO. No. 12. Pp. 18-32.

Fadeeva I.S. 2019. Development of the world economy: dynamics, forecasts, risks and ways to overcome them // Socio-economic and humanitarian journal of Krasnoyarsk State Agrarian University. No. 2. Pp. 3-15.

Gafiatulina N.K., Tarasenko L.V., Samygin S.I., Eliseeva S.Yu. 2017. Social health and perception of risks by students living in southern Russian regions (based on sociological questioning data obtained in Rostov-On-Don) // Health risk analysis. 2017. № 4. P. 66-75. https://doi.org/10.21668/health.risk/2017.4.07

Idrisov G.I., Knyaginin V.N., Kudrin A.L., Rozhkova E.S. 2018. New technological revolution: challenges and opportunities for Russia // Issues of Economics. No. 4. P. 5-25. https://doi.org/10.32609/0042-8736-2018-4-5-25

Kovalenko A.I. 2016. Features of financial risk management of international corporations // Economics of sustainable development. No. 4 (28). Pp. 36-44.

Komkov N.I., Dudin M.N., Lyasnikov N.V. 2015. Problems of economic development: factors and determinants // MIR (Modernization. Innovations. Development). No. 2 (22). Pp. 116-128. https://doi.org/10.18184/2079-4665.2015.6.2.116.128

Laponogova A.A., Bogodzhiyan E.T. 2018. Development of International Financial Management in the Period of Global Instability / Modernization of the Russian Economy: Sectorial and Regional Aspects. Rostov n / D, pp 260-263.

Lutskaya E.E. 2019. The main risks of the global economy in the short and medium term: forecasts of Western analysts // Social and Human Sciences. Ser. 2, Economics. Pp. 38-44.

Lyakin A.N. 2014. Reasons for the stagnation of the Russian economy // Problems of the modern economy. Pp. 110-112.

Polonik S.S., Khorobrykh E.V., Litvinchuk A.A. 2016. Trends in the world economy and development prospects // Economic Bulletin of the University. No. 29/1. Pp. 249-259.

Ponomarev I.E., Gafiatulina N.K., Zritineva E.I., Kasyanov V.V., Bahutashyili T.V., Ponomarev P.A. 2019. The influence of social justice crisis on social health and spiritual security of young students (a case study of the south of Russia). International Journal of Applied Exercise Physiology. Vol. 8. No 2.1.

Rodygina N.Yu., Moleva S.V., Musikhin V.I., Logina M.V. 2020. Brexit: the course of negotiations, prospects, economic assessment // Russian Foreign Economic Bulletin. No. 2. Pp. 72-86

Rodrik D. 2016. Premature deindustrialization. Journal of Economic Growth, Vol. 21, No. 1. Pp. 1-33. https://doi.org/10.1007/s10887-015-9122-3

Rogoff K. 2019. Risks to the Global Economy in 2019 // Project syndicate/. Mode of access: https://www.project-syndicate.org/commentary/global-economy-main-risks-in-2019-by-kenneth-rogoff-2019-01?barrier=accesspaylog.

Shakbanova M.M., Gafiatulina N.Kh., Samygin S.I., Chapurko T.M., Levaya N.A., Bineeva N.K. 2018. Youth of the South of Russia: Specifics of manifestation of ethnic identity (on the example of the Dagestan republic). Purusharta. Vol. 10. No 2. Pp. 111-119.

Taranov P.V., Popova L.Kh., Kulikova I.V. 2019. The world economy and features of its globalization // State and municipal management. Scientists notes. No1. Pp. 146-150. https://doi.org/10.22394/2079-1690-2019-1-1-146-150

Taranov P.V., Didenko N.P., Samygin S.I. 2020. The determinants of inhibition in the development of the global economy (according to the results of 2019) // Humanitarian, socio-economic and social sciences. No. 1.

Taranov P.V., Popova L.Kh., Samygin S.I. 2018. The global economic crisis and its impact on the Russian economy // Humanitarian, socio-economic and social sciences. No. 7.

Ternovskaya A.D., Larina A.A. 2016. Decrease in the rate of development of the world economy // Young Scientist. pp 559-561.

Received on 06-11-2020 Accepted on 10-12-2020 Published on 30-12-2020

DOI: https://doi.org/10.6000/1929-4409.2020.09.310