

WORLD ECONOMY POST-CRISIS DEVELOPMENT

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Once the acute phases of the financial and euro crises were over, it was clear that it would take time for advanced economies to recover. The history of past financial crises gave a clear warning that recovery would typically be long and painful. The aim is to investigate the state of the world economy to make some conclusions for the less advanced countries, like Moldova. Research methodology involves analytical, comparative, foresight, induction and deduction methods. New development and planning institutions presume the rejection of forms of bureaucratic centralism and base on network forms of organization of the subject and the process of production, trade and services.

Key words: economic growth, crisis, post-crisis, benefits, efficiency, time required.

Odată cu trecerea fazelor acute ale crizelor euro și financiare, a devenit clar că țările cu economia dezvoltată vor avea nevoie de timp pentru recuperare. Istoria crizelor financiare anterioare a dat un avertisment clar că recuperarea, de regulă, poate fi lungă și dureroasă. Scopul articolului este de a cerceta starea economiei mondiale și a obține unele concluzii pentru țările mai puțin avansate, precum este și Republica Moldova. Metodologia cercetării presupune următoarele metode: analiză, comparația, foresight, inducția și deducția. Noile instituții de dezvoltare și planificare presupun respingerea formelor centralismului birocratic și se bazează pe formele de organizare a subiectului și procesului de producție, a comerțului și serviciilor în rețea.

Cuvinte-cheie: creștere economică, criză, post-criză, avantaje, eficiență, timp necesar.

После того, как острые фазы финансового и евро кризисов закончились, стало ясно, что странам с развитой экономикой потребуется некоторое время для восстановления. История прошлых финансовых кризисов дала ясное предупреждение, что восстановление, как правило, может быть долгим и болезненным. Цель статьи состоит в исследовании состояния мировой экономики и получения некоторых выводов для менее развитых стран, как Молдова. Методология исследования включает следующие методы: анализ, сравнение, форсайт, индукция и дедукция. Новые институты развития и планирования предполагают отказ от форм бюрократического централизма и основываются на сетевых форм организации субъекта и процесса производства, торговли и услуг.

Ключевые слова: экономический рост, кризис, пост-кризис, преимущества, эффективность, необходимое время.

JEL Classification: F63, F01, G01, H12.

Introduction. For the world economy, 2016 promises to be better as the year before. A number of Asian countries restore their economies, but risk still dominates the crisis on economies. The global financial crisis as well as sustainability demands require economic adjustments on environmental protection and natural conservation and will continue to change business models, will alter or create new markets, which increase the need for a new strategic approach. Strategic response cannot be determined at random but only through a process that requires consistent strategic consulting, analysis, concentration, responsibility and determination to continue changing the way trade and exports are directed. The path to

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a new culture of export-import, economic prosperity being opened by earlier strategies, but the road to quality, innovation and creativity is long and requires a permanent resumption of strategic cycles.

The research purpose is to study the state of the world economy, global strategic trends, the vector of economic development of economically developed countries, new industrialized countries, emerging countries, etc. **Research methodology** involves analytical, comparative, foresight, induction and deduction methods.

British consulting company Economist Intelligence Unit expects that in 2016 the global GDP will grow by 2.8% in market prices, compared to 2014, and taking into account the purchasing power parity – by 3.7% (Figure 1). However, this growth is not as impressive as expected by experts back in the mid-2014. Sustainable Development Goals have replaced the Millennium Development Goals, which operated from 2000 to 2015. Previous goals were aimed primarily at solving social problems in developing countries, while the new goals of sustainable development are targeting worldwide. They presume an interconnection of the basic elements of sustainable development – the economic growth, social inclusion and environmental protection.

Sustainable Development Goals are the result of the negotiation process, involving the participation of 193 UN member states, which involved as well a wide range of civil society and other stakeholders. In particular, the work process involved representatives of national networks of the Global Compact, including Russia.

As a result, the group of experts identified 17 sustainable development goals with 169 targets (Millennium Development Goals aimed at achieving 21 targets). The current agenda represents an action plan for the humanity, the planet and for prosperity. Today we embark together on a path that leads to sustainable development, dedicating ourselves to ensure global development and mutually beneficial cooperation, which can bring great benefit to all countries and regions of the world. UN Secretary-General called the event historic and stressed that the new agenda of sustainable development requires global solidarity. Earlier events, carried under the UN auspices, have repeatedly stressed that the most important role in achieving the goals of sustainable development belongs to the business, acting in partnership with initiatives such as the UN Global Compact and other international programs and projects aimed at promoting the idea of corporate social responsibility and sustainable development.

The biggest risks persist in Europe. Japan lost as well its substantial growth impulses, although the stimulating measures of the Bank of Japan restored to some extent the luster faded "abonomics" [1]. In 2014, China has avoided the crisis, but in 2015 the country's GDP will grow "only" by 7% – an impressive figure, but lower than expected by the business community.

Ironically, the prospects for stronger economic growth in the US created a new risk – the increase of interest rate by the Federal Reserve, although this is unlikely before mid-year. The effects may cause some turmoil on global financial markets and impact investments in emerging markets. If it continues, the fall in oil prices could give further impetus to the growth of global GDP in 2015.

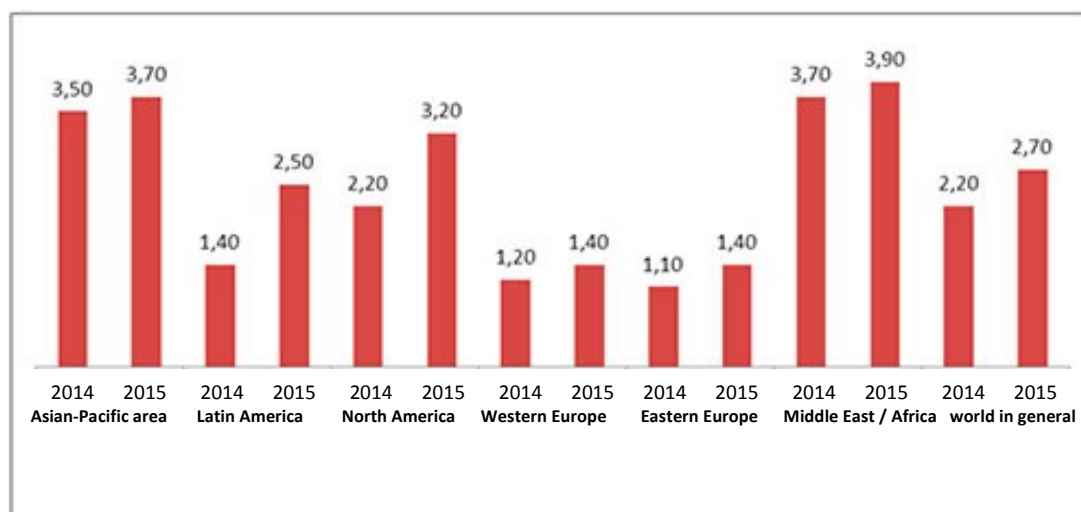


Fig.1. The rate of GDP growth, %

Source: Economist Intelligence Unit. Automotive industry.

Economic recovery in Europe will loosen the pressure on the global automotive industry; but investment in the future growth will require difficult decisions. In 2016, the competition is maintained between the Volkswagen and the Toyota Company, the world's largest car manufacturers. The German giant has already narrowed the gap between it and General Motors, and the end of 2014 narrowly approached its Japanese rival. The success of the Volkswagen Company was largely due to its leading positions on the fast-growing Chinese market; however, it was recently marked by several problems linked to harmful emissions scandal. At a time when the China's pace of development is slowing, it faces the challenge of finding new areas of growth.

Emerging markets are not predictable. Of the four largest – Brazil, Russia, India and China – only China displays some growth. In Brazil, along with Argentina, Chile and Venezuela, in 2014 production fell, although in 2015 there has been a slight growth of the industry. In Eastern Europe countries, where the expectations are that the annual sales will exceed the German ones, was registered a sharp reduction in its sales. The State recycling program has softened the fall; however, it is a heavy burden for public finances, burdened by a decrease in oil prices.

India is close to outpace Germany in terms of car sales, but this can be achieved not earlier than 2016. Following a two-year downturn in the automotive industry of the country, a planned growth was registered, due to government support. Long-term trends, in particular demographic, are also a positively influencing this process.

As for the smaller Asian markets (production and sales) – some of them (such as Indonesia and the Philippines) continue to display a steady growth. However, government measures aimed at reducing fuel subsidies and combating urban congestion indicate that the former high rates are hardly achievable once again. Thus, Asia growth rates are decreasing, Latin America has high risks, and Eastern Europe reduced sales. Against this background, the developed markets are noticeably revived. The US displays rather strong growth indicators, and Western Europe has finally overcome the sales crisis (Figure 2).

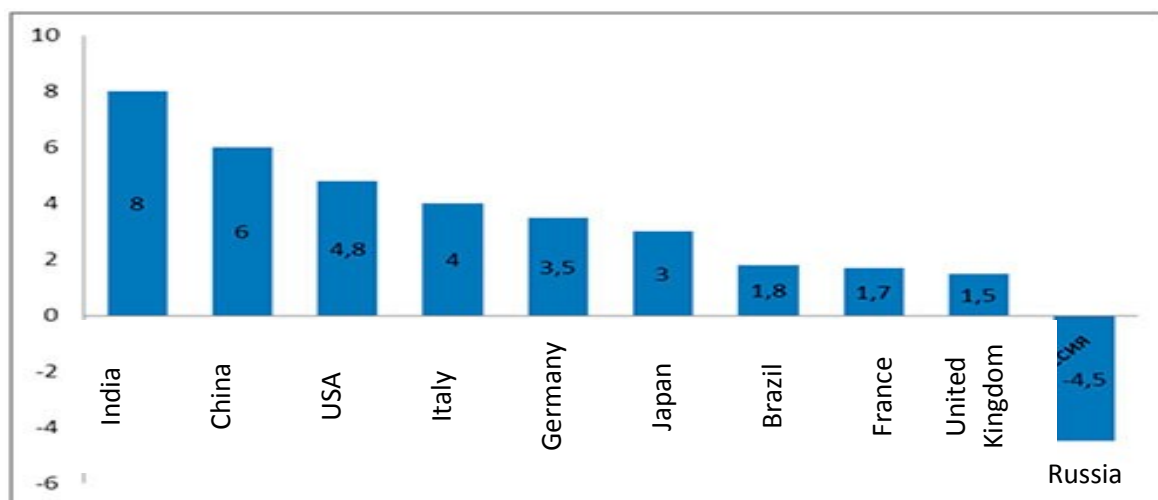


Fig. 2. Increase in new car registrations in 2015 compared to 2014, %

Source: The Economist Intelligence Unit.

Changes in the structure of global demand affected the investment decisions of the leading car manufacturers, who continue to plan investment in developing countries, but are forced to reduce their volumes. For example, in the next five years Volkswagen plans to spend 30 billion USD for its joint venture with China. General Motors, the biggest rival of the German group in China, plans to open five new plants in the country within five years.

Investments in Brazil and India seem to be more uncertain. The focus is being transferred to the ASEAN countries, especially on Thailand and Indonesia. It is expected that the Economic Union and the ASEAN Free Trade Area will start operating by the end of 2015. Mexico is another popular area of investment, where automakers orient towards the domestic as well as towards the North American market.

Most interesting is the fact that Volkswagen plans to implement 50% of its investments in Germany. Europe is still burdened by excess capacity, but due to the suspension in 2014 of the wage growth the necessity for job cuts has declined. Economic recovery in Europe may prevent the closure of plants in 2015. The slowdown in developing countries shows that they also face the problem of excess

capacity. For example, China's production capacity in the automotive industry can reach 30 million vehicles per year, while annual sales do not reach 20 million units. In Vietnam, automobile factories also operate far from full production capacities, as well. As for Russia, in 2014 the decline in sales has led to downtime of production lines, and in the same year AvtoVAZ has cut off 15 thousand jobs. Despite the short-term increase in sales, layoffs are likely to continue until 2020.

In China, as a response to the decline in domestic demand in 2014, many local manufacturers have focused on exports. Thus, Geely actively markets its vehicles in the Middle East, Africa and Latin America, where safety standards and emissions are less stringent than in developed countries. At the same time (albeit slowly) negotiations regarding supplies of Chinese cars to developed markets are carried out. This may occur, most likely, not in 2015, still in the next five years.

Several automakers, such as Hyundai and KIA, move into higher price segments, while others speed up the process of releasing of new models unto the market. The Volkswagen and Renault-Nissan companies have to compete with their own cheaper brands. Consumers are becoming more demanding when it comes to security and entertainment, per say. Meeting such demands may lead to an increase in costs in conditions of more or less stable prices. The shift from gasoline-powered vehicles also increases production costs. The automotive industry is increasingly faced with tougher regulation of fuel efficiency. In 2015 Europe, for example, has set the CO₂ emissions limit at 130 g per 1 km of track, and by 2020, this requirement will toughen even more.

In 2014, sales of electric cars have grown. However, they are likely to fall short of expectations. Electric cars now face a competitor – hydrogen engines. In the spring of 2014, Hyundai Company launched a version of its hydrogen SUV Tucson, and in 2016 Toyota plans to launch the mass production of its Mirai hydrogen model. Sales of such cars are small, but the technology has already been mastered. These programs will require huge investments. However, the prospects of the global automotive industry seem to be more optimistic than a few years ago. After diving out of one crisis into another crisis, the main automakers finally found partners that provide to them markets.

Among other important trends of 2014, there should be noted the end of the era of fuel subsidies. Their reduction has been made possible as a result of falling oil prices. Indonesia and Malaysia realized it at the end of 2014; India could make further steps towards the liberalization of prices in 2015.

Also should be mentioned the important production change of using aluminum as a structural material. Emerged in 2014, the trend of replacing steel by aluminum in the manufacture of car bodies will continue, and will probably strengthen in 2015. This will lead to a weight reduction of vehicles and facilitate the achievement of the requirements of emissions and fuel efficiency. Leading American manufacturer of rolled aluminum – the Novelis Company, predicts a five times increase in its global sales by 2020, as a result of demand from the automotive industry.

Production of consumer goods and trade

This sector of the global economy is experiencing quite difficult times. Intense competition, governmental regulation, and the dictates of the consumer are reducing sales profitability. In 2015, considering the economic turbulence of recent times, even the stability of the usual indicators will seem a boon to companies in this sector. Western Europe is experiencing a resurgence of a certain optimism and growth of sales volumes. However, the decline in prices and uncertainty concerning the Russian market (due to sanctions) weighs heavily on profitability. In Asia, North America, Africa and the Middle East, the situation is somewhat better, although these markets also face various problems. Trading Companies in North America also struggle with low profit margins. The slowdown in growth in China, the weakness of the Japanese market and a reduction in foreign multi-brand investment in India are just some of the dark clouds on the Asian sky. Latin America displays a much better situation. Following a difficult 2014 year, Mexico's prospects are quite optimistic, which justifies its inclusion, along with Indonesia, Nigeria and Turkey, in the new MINT association. Despite the slowdown in the BRIC growth, in 2015 this association has one positive exception – India.

In 2014, European markets were influenced by the aggressive and destructive price wars, scandals concerning black holes in the financial statements of the Tesco Corporation, and the slow growth of wages. Publication of materials on the basis of "Panama file" in 2016 – documents on offshore company schemes of the Panama Mossack Fonseca, whose services were provided to politicians and celebrities from many countries. The scale of the leak and the names of the protagonists have already eclipsed the sensational WikiLeaks scandal. In Germany and France markets barely escaped recession. In the US, the improved economic situation is not that considerable to compensate for the substantial losses of previous

years. Even WalMart, the world's largest trading company, faces a reduction in sales due to the transition of many consumers to online trading.

In Japan, financial incentives led to a sharp increase in investment, however, the sales tax, introduced in April 2014, reduced the volume of turnover in this sector of the economy. In China, the bubbles in real estate, as well as prohibitions on excessive consumption mean that the pace of retail growth in the 2015-2016 biennium will continue to decline. A notable increase was registered only in the booming online trade sector. This is good news for Alibaba – the largest online actor [2], which recently carried out an successful IPO, but not for traditional shopping centers.

Companies that produce consumer goods face similar problems on global markets. The smartphone and tablet markets, which turned Samsung and Apple companies into global giants, become very crowded when the Chinese Huawei and Xiaomi launched low cost alternative gadgets. New market players have cut sales of leaders in other segments of household appliances and electronics (which now is being dominated by the Chinese Haier [Haier Ranked ...]) to clothing (where the Anglo-Irish Primark is quickly conquering the North American market).

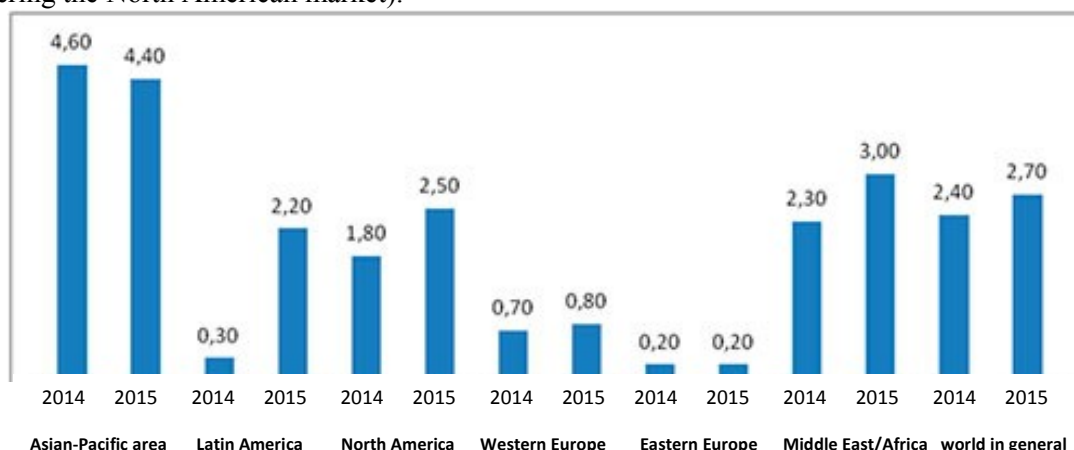


Fig. 3. The growth of retail sales by region in 2014 and 2015 (forecast) compared to the previous year, %

Source: Economist Intelligence Unit; Planet Retail.

All these factors will continue its effect in 2015-2016, causing a lower total rate of return. Companies that have invested in the "right" regions or "right" product innovation currently are positioned more favorably. Consumers alone will benefit from increasing competition and improving technology.

The next wave of innovation will include "wearable" [3] technologies, intelligent home appliances-and 3D-printers, although these technologies will not become mainstream in 2015. "Fast fashion" is gaining momentum as well [4], especially within commercial brands such as H&M, Inditex and Uniqlo, which in 2015 will lead this consumption trend in the developing countries.

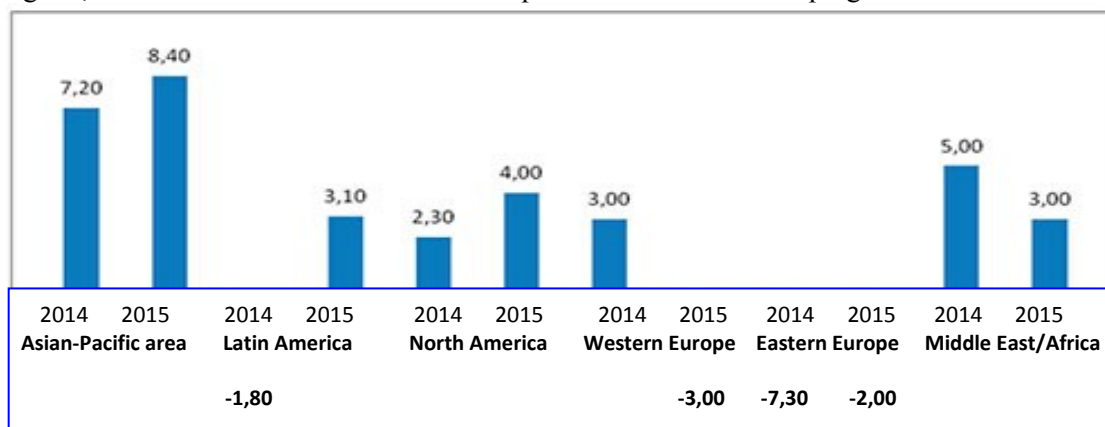


Fig. 4. The growth of investments in the production of clothing and footwear in 2014 and 2015 compared to the previous year, %

Source: Economist Intelligence Unit; United Nations; Eurostat.

Retailers are trying to develop new tools to engage consumers in the purchase process. Gadgets that combine smartphones with mobile wallets expand customer opportunities. They will be able to gain remote access to information on new offers and make purchases simply by passing by favorite outlets.

Energy: cheaper and "greener"

Energy Company in 2015 will deal with the problem of low oil prices. This will force Western oil majors to reduce capital investments following several years of investment boom. The environmental protection legislation will toughen; the central international problem will become the search of replacement options for the Kyoto Protocol. There is more optimism about this now than a few years ago, although progress in this direction creates additional risks for fossil fuel producers.

Oil prices, which fell heavily in late 2014, will remain relatively low, and in 2016 (as expected, on average, will cost 40-50 USD per barrel of Brent – against US \$ 100 in 2014). The price decline was caused in part by a reduction in demand, especially in Western Europe. If demand is projected to increase by 1.3 million barrels, than the oil supply – by 2.2 million barrels (4/20/2016 prices reached 42.5-45 dollars per barrel). One can observe the reluctance of OPEC countries (at least its most influential members – Saudi Arabia, Iran) to support prices by reducing production. Despite the grumbling of oil "hawks" such as Venezuela and Algeria, low prices could undermine the US shale "revolution".

The explanation of passivity of oil cartel lies in the actions of non-OPEC countries. Iraq is not currently bound by "OPEC" quotas; its autonomous Kurdistan regional government plans to increase the export of oil in 2015 to 500 thousand barrels per day. If OPEC cuts quotas, this will not help supporting prices, but will only allow the independent oil producers to fill in additional market niches.

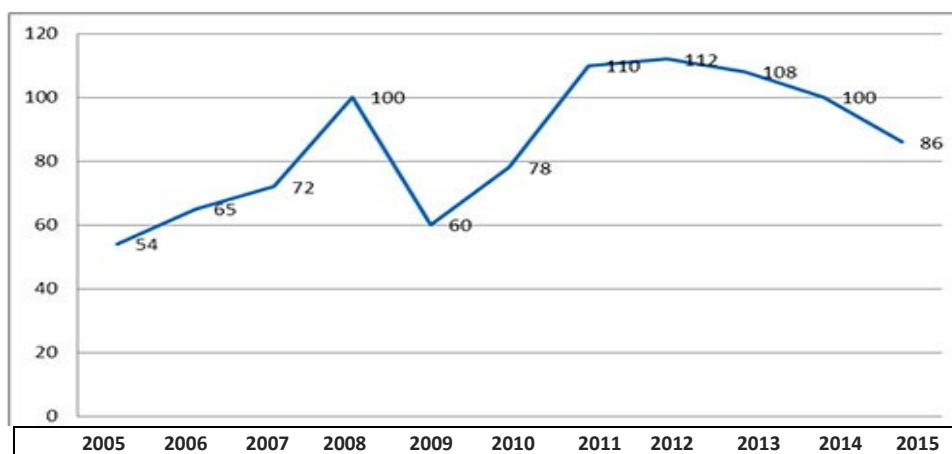


Fig. 5. Dynamics of average annual oil price of Brent crude, USD. / Bbl.

Source: The Economist Intelligence Unit.

Foreign currency exchange rate against the ruble is highly dependent on oil prices. Currently oil costs **45.58** dollars per barrel (Brent on 04/20/16 **20:15** GMT). Below there is a selection of the latest news concerning Russian black gold. Keep track of the cost of oil, and you will understand what is happening with the dollar and the euro.

Against the background of lower oil prices and the increase of interest rates in US losses of shale oil extracting companies look highly probable, due to their high debt load. Some of them will reduce investment, and the production rate in the US will decline [5]. United States is once again the focus of the natural gas market – thanks to shale deposits. Investment and production in the country will rise on expectations of increased demand for liquefied natural gas, with shipments expected to start in 2016. The global supply of liquefied gas will be replenished by Australian facilities as well, as the Chevron Corporation's Gordon American megaproject will be launched in early 2016. In addition, two new fields in Australia's Queensland province will be developed. In general, it is predicted that the export of liquefied natural gas from Australia in 2015 will reach 40 million tons, which is double compared to 2011.

Besides the US, shale gas begins to be actively extracted by China. Thus in 2015-16, it is planned to produce 6.5 billion cubic meters of gas, and by 2020 – 30 billion cubic meters (annually). Rapidly growing domestic demand, as well as a new pricing system (upward) will stimulate the own Chinese "shale revolution".

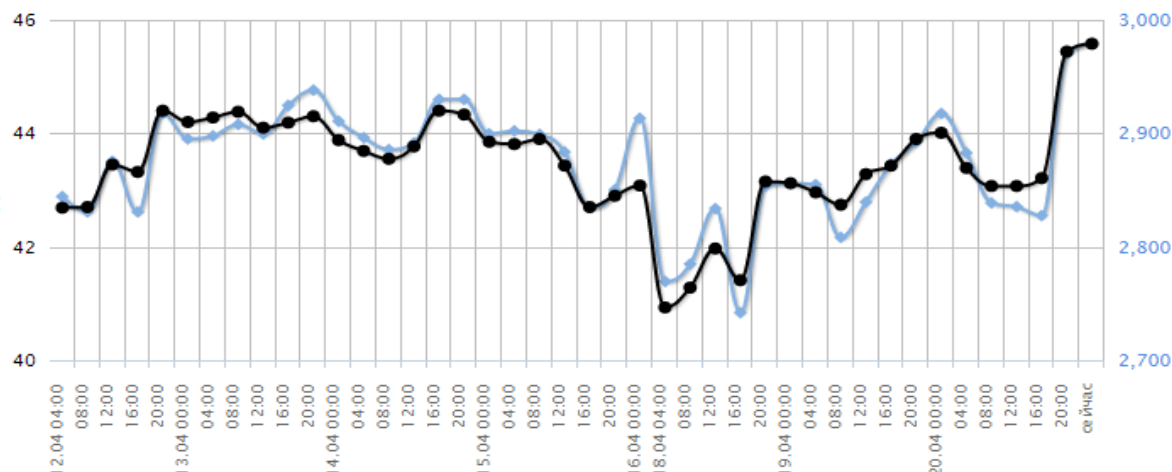


Fig. 6. Weekly oil price, rub. Barel, Brent, 12-20.04.2016

Source: <http://www.sberometer.ru/brent-oil.php>

Conclusions. Based on a critical analysis of development experiences and crises in the economy in the XX-XXI centuries in a number of countries in Europe and Asia, as well as on lessons of "real" economy development, the author proves the conclusion regarding the expediency of the "reset" of the world economy, since the fields did not experience any revolution or impetus based on nanotechnology, as presumed by the author. The risk of the crisis persists. As a result, it should be adequate to form new economic planning mechanisms integrating forecasting, foresights, direct and indirect selective regulation in the integrity of the program of economic development and defining vectors of development for certain limited areas of the economy, that remains overall a market economy. New development and planning institutions presume the rejection of forms of bureaucratic centralism and base on network forms of organization of the subject and the process of production, trade and services.

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