

## **SUSTAINABLE DEVELOPMENT AS A BASIS OF SOCIOECONOMIC DEVELOPMENT**

*Анотація.* Економічна сила нерівномірно розподілена між країнами світу і продовжує перерозподілятися між країнами Заходу та Сходу, Півночі та Півдня.

*Ключові слова:* економічна сила, економічні центри світу, економіка розвинутих країн, економіка країн, що розвиваються.

*Annotation.* Economic power is unequally distributed among countries and its redistribution between countries of the West and East, North and South continues.

*Key words:* economic power, world economic centers, advanced economies, developing economies.

*Аннотация.* Экономическая сила неравномерно распределена между странами мира и продолжает перераспределяться между странами Запада и Востока, Севера и Юга.

*Ключевые слова:* экономическая сила, экономические центры мира, экономика развитых стран, экономика развивающихся стран.

Real gross domestic product (GDP) per capita in the EU has increased moderately both in the long term (since 2000) and in the short term (since 2009). The indicator's continuous upward trend was interrupted by the start of the economic crisis in late 2008. Although the EU economy has since returned to growth, a fragile recovery is expected. Deterioration of economic conditions during the crisis has also affected other indicators in the 'socioeconomic development' theme. Labour markets were hard hit, with young people among the worst affected. Household savings have

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been strongly reduced in the short run, although disposable household income has improved moderately. Investment has also contracted, particularly in the short term. More favourable developments can be seen in some areas of competitiveness and eco-efficiency. Labour productivity has increased substantially since 2000, although some gains were reversed during the economic crisis. Energy intensity has improved even more steadily, both in the long term and short term. Investment in research and development (R&D) has increased only slightly.

### **Recent changes in real GDP per capita indicate fragile recovery under way**

In the long run between 2000 and 2014 real GDP per capita in the EU grew moderately by 0.9 % per year on average. Growth was more pronounced before the economic crisis of 2008. Between 1995 and 2007 real GDP per capita increased continuously at a rate of 2.2 % per year on average. As the financial and economic crisis took hold of the EU economy, however, GDP growth stalled in 2008 and by 2009 had contracted by 4.7 %. Swift implementation of fiscal stimuli and other policy actions at national and EU levels contained the worst effects of the crisis and restored economic growth in 2010 and 2011. Although real GDP per capita contracted slightly in 2012 and 2013, it increased again in 2014 by 1.1 %. As a result, in the short term between 2009 and 2014 the EU economy grew at an average annual rate of 0.7 %.

### **The crisis continues to weigh on investment in the EU**

Between 2002 and 2014 investment (as a share of GDP) declined in the EU. This was most likely due to a loss of household and business confidence during the financial market turmoil and the economic crisis. The drop in total investment was somewhat offset by increased government spending in the first years of the crisis. However, since 2009 government investment has also declined as a result of fiscal consolidation efforts, driving total investment down further. Public spending cuts have also contributed to reducing adjusted disposable household income in the Member States hardest hit by the economic crisis. In the rest of the EU households experienced a continuous improvement in their disposable income in the period between 2003 and 2013.

The EU household saving rate was strongly subdued in 2014 compared with 2009 due to the negative effects of fiscal consolidation efforts on household disposable income. Since 2010 the household saving rate has been falling, which was also observed before the 2008 economic crisis. In the long run between 2000 and 2014 the indicator dropped moderately by 1.4 percentage points.

### **Gains in competitiveness due to higher labour productivity but subdued innovation**

Labour productivity increased almost continuously between 2000 and 2013. Some gains were reversed between 2007 and 2009 as a result of the economic downturn, but in 2010 labour productivity rebounded to its pre-crisis level and has continued to grow. Energy intensity in the EU has also improved. It declined by 15.9 % between 2002 and 2013 as a result of absolute decoupling of gross inland energy consumption from economic growth<sup>[1]</sup> Less favourable developments have been observed with regard to innovation. R&D expenditure as a share of GDP increased slightly in the EU between 2000 and 2013 but more rapid progress is needed to reach the 3 % target set out in the Europe 2020 strategy. Most of the increase in 2008 and 2009 came from the public sector, reflecting government efforts to support economic growth by boosting R&D expenditure. Since then R&D intensity has remained at about 2 % of GDP. In terms of eco-innovation activities, the majority of Member States performed lower in 2013 compared with 2010.

### **Muted labour market recovery**

Between 2002 and 2014 the EU employment rate rose moderately by 2.5 percentage points, mostly due to strong labour market performance before the economic crisis. Short-term developments in the labour market have been much less favourable. The economic crisis and prolonged labour market stagnation held back employment between 2008 and 2013. Although the indicator picked up again in 2014, the EU is off-track to meeting the Europe 2020 target to reach a 75 % employment rate by 2020.

In 2014, the share of young people neither in employment nor in education or training (NEET rate) was equivalent to its 2009 level of 12.4 % and slightly lower than

its 2002 level of 13 %. Although the NEET rate had been falling gradually before the crisis, it was driven up again with the start of the economic crisis largely due to the rise in youth unemployment. The overall unemployment rate in the EU followed a similar trend of falling gradually before the crisis and increasing sharply afterwards. In 2013 EU unemployment reached a record high of 10.9 % but fell slightly in 2014, indicating a possible labour market recovery.

### Main statistical findings

#### Headline indicator

**Real GDP per capita followed an upward long-term trend, increasing by 0.9 % per year on average between 2000 and 2014. The EU economy shrank by 4.7 % between 2008 and 2009 as a result of the crisis but rebounded in the years after. Between 2009 and 2014 the real GDP per capita grew by 0.7 % per year on average, indicating a fragile recovery is under way.**

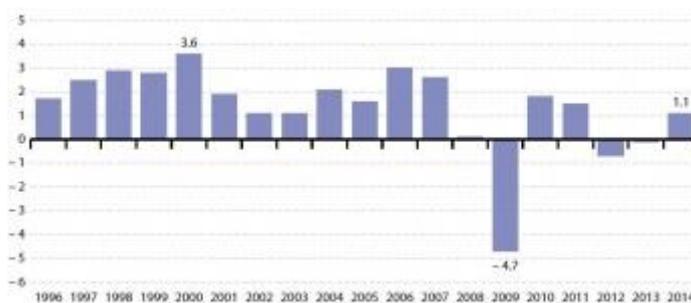


Figure 1: Change in real GDP per capita, EU-28, 1996–2014 (% change on previous year) - Source: Eurostat (online data code: (tsdec100))

Real gross domestic product (GDP) per capita in the EU increased continuously at an average growth rate of 2.2 % per year between 1995 and 2007. This trend reversed with the start of the economic crisis in late 2008, and in 2009 a decline of 4.7 % was recorded. This was the strongest one-year drop of the past two decades. More recent developments have been tentative. Between 2009 and 2011, real GDP per capita picked up again, recording a moderate increase of 1.6 % per year on average. From 2011 to 2013, economic activity contracted by 0.8 % over the two years period before returning to positive growth in 2014. Between 2000 and 2014 real GDP per capita grew by 0.9 % per year on average, following an upward long-term trend. In the

short term, since 2009, the average annual growth rate has been slightly lower at 0.7 % due to the protracted effects of the economic crisis. It should be noted that real GDP per capita has developed differently across EU Member States. Some economies, particularly the ones that had accumulated large macroeconomic imbalances before 2008, have been more exposed to the effects of the crisis and experienced larger dips in 2008 and 2009 as well as in 2012 and 2013, while others have been less affected.

Decisive policy actions at national and European level in response to the crisis alleviated some of the gravest short-term risks to the economy. These measures, including rescue packages for the most troubled economies, counter-cyclical fiscal stimulus and banking sector support, brought about moderate economic growth in 2010 and 2011 and helped improve confidence and financial conditions for sovereigns and banks (IMF, 2013, p.1). The moderate increase in economic activity in 2014 points towards a recovery. However, this is likely to be slower and more fragile than typical cyclical adjustments due to the severity of the recent economic slump. Certain negative factors stemming from the crisis, such as high debt, uncertainty and tight financing conditions have been slow to recede and remain a drag on investment and domestic consumption (OECD, 2014, p.18). As a result, real GDP per capita slipped 0.7 % in 2011–12 and remained subdued in 2013.

The EU is expected to gradually return to growth over the next few years, according to European Commission forecasts, reinforced by substantial improvements in the public finances, stronger domestic demand, lower oil prices and quantitative easing in the euro area (European Commission, 2015, p.10). The benefits of the necessarily tighter fiscal stance have started to show effect with debt-to-GDP levels falling in 2014 (European Commission, 2015, p.5). Overall improvement in public finances since 2011, especially in the countries which had some of the largest imbalances, has allowed the pace of fiscal consolidation to slow, reducing pressure on public and household spending. As the recovery gains ground and confidence returns to the market, investment conditions are expected to improve, especially in the private sector which declined sharply between 2008 and 2011. Business investment is a key driver of domestic demand and is important for restoring economic growth in periods

of recovery. Although still low, business and household spending are set to rise gradually and support growth as the effects of the crisis recede. As a result, annual GDP growth is expected to accelerate to 1.8 % in 2015 and 2.1 % in 2016 (European Commission, 2015, p.1).

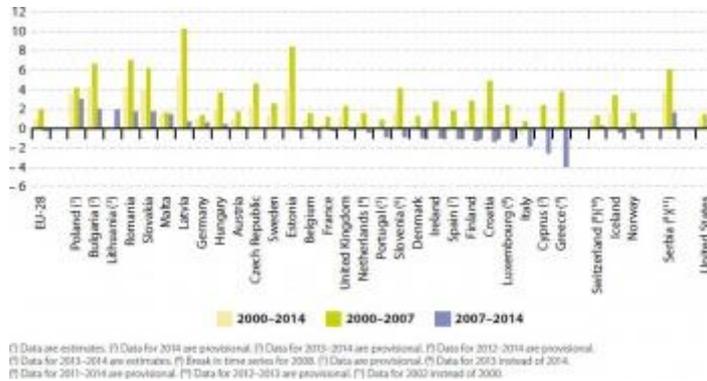


Figure 2: Change in real GDP per capita, by country, 2000–14, 2000–07 and 2007–14 (average annual change in %) - Source: Eurostat (online data code: (tsdec100))

Economic growth was positive in all EU Member States between 2000 and 2007, before the economic and financial crises aggravated market conditions. The strongest average annual growth rates were observed in some central and eastern EU Member States, namely Latvia (10.3 %), Estonia (8.4 %), Romania (7.4 %), Bulgaria (6.6 %) and Slovakia (6.2 %). In contrast, real GDP per capita in some Member States grew by less than 2 % per year on average. The lowest growth rates were observed in Italy (0.7 %), Portugal (0.9 %) and France (1.1 %). By 2014 growth stabilised in most Member States, but the drag on economic activity has lingered longer in some southern EU economies. The strongest decline in real GDP per capita between 2007 and 2014 was observed in Greece, Cyprus and Italy. These countries either had unsustainable pre-crisis balance sheets or were strongly affected by a real estate property bubble. Even in countries that did not accumulate external imbalances, such as Germany, economic growth deteriorated as a result of shrinking EU export demand and business uncertainty (European Commission, 2012, p.8). Economies of central and eastern Member States, which had more stable balance sheets before the crisis, grew more strongly between 2007 and 2014, despite the spill-over effects of more troubled

economies. Poland performed exceptionally well and was the only EU economy to maintain economic growth during the crisis and thereafter. Between 2007 and 2014, Poland and Bulgaria had the fastest average growth rates per year (3.1 % and 2.0 % respectively), followed by Lithuania (1.9 %), Romania (1.8 %) and Slovakia (1.7 %).

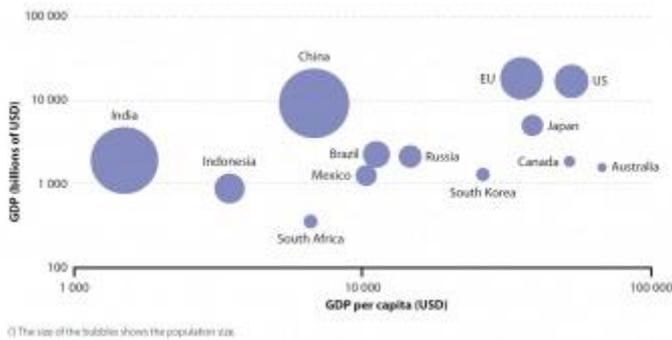


Figure 3: The EU compared with other economies in the world, 2013 - Source: World Bank

Moderate growth has returned to the EU and other major economies as the effects of the global crisis have slowly started to recede (OECD, 2014, p.18). However, economic performance has diverged across regions and recovery is expected to remain uneven. Among the advanced economies, growth in the United States has gained ground and is expected to remain strong due to improved domestic demand and lower energy prices (European Commission, 2015, p.138). Japan has experienced a weaker recovery from the economic recession due to reduced domestic demand and private investment (European Commission, 2015, p.140). However, the economy is expected to start growing again in 2015 and 2016. Regarding emerging market economies, growth rates have been significant in China, India and Indonesia. In contrast, GDP has contracted in Russia due to falling oil revenues and political tensions, and remained weak in Brazil and South Africa. Economic recovery has been slower in the EU than in other advanced economies. It is expected to remain weak largely due to the protracted effects of the euro area crisis, unfavourable investment climate and slow implementation of reforms. Nonetheless, the EU remains the world's largest economy in terms of GDP (billion US dollars). In 2013, the 28 EU Member States together produced a GDP of 17.96 trillion US dollars, followed by the United

States, China and Japan. EU living standards, as measured by GDP per capita, remain among the highest in the world, surpassed by Australia, the United States, Canada and Japan.

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