"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 6, No. 2, pp. 68–73
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

CURRENT DEVELOPMENTS IN THE GLOBAL ECONOMY

Constanța Aurelia CHIȚIBA[1], Anca COSTEA-DUNĂRINȚU[2]

[1]*"Dimitrie Cantemir" Christian University, Economy and Foreign Affairs Department, Bucharest, Romania, [1]E-mail: cchitiba@gmail.com*
[2]*"Dimitrie Cantemir" Christian University, Economy and Foreign Affairs Department, Bucharest, Romania, [2]E-mail: anca.dunarintu@gmail.com*

Abstract *Global economic situation crosses period in which forecasted indicators regarding economic growth have not been touched. This trend is increasingly observed in the other economies or groups around the world. The perspective from which we can now focus on the important aspects of global economy compels us, because of the economic, financial, political, social and ecological climate worldwide to synthesize relevant issues through the main economic actors. It's about how their economies help restore growth model capable of sustaining a general acceptable level situation that followed the economic and financial crisis which they faced. This phenomenon is called economic recovery and is a normal process in terms of theory, but does not always follow the same pattern, so that the effects generated are different. It's easy to understand that the economic crisis has not had the same effect for everyone, hence the differences between each economic approach whether to shelter or adapt to new changes.*

Key words:
Economy, development, recovery, developed countries, developing countries

JEL Codes:
F2, F590

1. Introduction

Global economy is going through a moment of strong transformation during which is trying to cope with the global economic climate, having to deal with the consequences of economic and financial crisis, following an extensive and difficult recovery process. The current model of development is the result of decisions and actions taken in order to accommodate the adverse economic impact that the world economy has crossed, revolving around the pattern of development imposed by the main actors grouped into two major categories namely developed economies and those in development. The main node of interest in this issue is the rapid economic transformation and ability to adapt to the new climate created. This factor is deeply connected throughout the recovery process.

Last but not least we discuss the concept of green growth, an ever-present aspect in the process of generating economic growth and development. Based on the principles of sustainable development, it combines three important dimensions to be considered in the development of any type of business – in the economic, social and environmental area. The healthy growth that each economy at global level should take is the main way in which we can ensure a proper meet of the needs of future generations to come. Reconciling the aspects mentioned above it is difficult and also incurs high costs, but we have to realize that, after all, it is an alternative absolutely necessary for our survival.

2. World Economic Situation

The world economy reached only subdued growth of 2.1 per cent in 2013.

Most developed economies continued to grapple with the challenge of taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis.

Some of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds.

In spite this situation, some signs of improvement have emerged more recently:

Some large emerging economies, including China, seem to have at least stopped a further slowdown or will see accelerating growth.

Some surprising phenomena have appeared for scientists that had not predicted the accelerated pace of economic growth for Central and South European economies (so called transition economies). It seems that in this case we can talk about the positive influence of relocation of activities, not only for big companies but also labor, resources and other facilities providers. So in this category of Developing Economies, China is the main contributor to global growth, the economy expansion resulting from the numerous efforts made in the last 30 years. Most developed economies continued to grapple with the challenge of taking appropriate fiscal and monetary policy actions in the aftermath of the financial crisis.

Some of emerging economies, which had already experienced a notable slowdown in the past two years, encountered new domestic and international headwinds. In spite this situation, some signs of improvement have emerged more recently:

The Euro area has finally come out of a protracted recession, with GDP for the region as a whole starting to grow again.

The economy of the United States of America continues to recover.

Some large emerging economies, including China, seem to have at least stopped a further slowdown or will see accelerating growth.

The economic recovery phenomenon emerged from the global recession felt in the global economy. Initially difficult to recognize, macroeconomic indicators have recorded the changes in terms of GDP growth, decline of unemployment and inflation but with pretty low and unsatisfactory rates in most economies, that deal with a high degree of uncertainty.

Inflation remains tame worldwide, partly reflecting excess capacity, high unemployment, fiscal austerity and a continued financial deleveraging in major developed economies.

The global employment situation remains dire, as long-lasting effects from the financial crisis continue to weigh on labour markets in many countries and regions.

Sluggish demand in many developed countries and faltering growth in developing countries led to a decline in world trade volume growth. The prospects are expected to improve, driven by a modest increase in demand in Europe, further recovery in the United States and a return to more dynamic trade in East Asia. Growth of world exports is projected to be 4.6 per cent in 2014 and 5.1 per cent in 2015.

Trade in services, which appear to be recovering faster than merchandise trade, are expected to continue growing.

Commodity prices have displayed divergent trends in the midst of an overall moderation. Food prices have gradually declined, owing to better than expected harvests of major crops. Soft demand, ample supply and high stock levels all contributed to declines in base metals prices. Oil prices have seen significant fluctuations over the course of the year as a result of various geopolitical issues.

Commodity prices are expected to remain relatively flat on average across the forecast horizon.

Great uncertainties and risks for global economic growth and the financial stability of the world in the coming years are associated with the unconventional monetary policies, adopted in major developed countries. Uncertainty and risk come into play particularly when the central banks of these countries start to change their stances on these policies.

This situation could lead to a series of disruptive events, such as: a surge in long-term interest rates, not only in developed economies but also in developing countries; a sell-off in global equity markets; a sharp decline of capital inflows to emerging economies and a spike in the risk premia for external financing in emerging economies

Due to a recent survey among 700 leaders and decisions makers the first 10th global risks for the global community are:

1. Fiscal crisis in the key economies (ie: high level of indebtedness expressed by public debt related to GDP in the U.S., Japan, Eurozone countries). (Ec.)
2. High unemployment (especially among youth) and chronic underemployment in the labor market, both in developed and emerging economies. (Ec.)
3. Crisis of water resources. (En.)
4. Severe disparities of income. (So.)
5. Failure to mitigate climate changes. (En.)
6. Increasing frequency and intensity of extreme weather events. (En.)
7. Global governance failures. (Gp.)
8. Food crisis. (So.)
9. Failure of some major financial mechanisms and institutions. (Ec.)
10. Profound political and social instability. (So.)

3. Economic Recovery

The economic recovery phenomenon emerged from the global recession is very slow in the global economy. Initially difficult to recognize, macroeconomic indicators have recorded the changes in terms of GDP growth, decline of unemployment and inflation but with pretty low and unsatisfactory rates in most economies, that deal with a high degree of uncertainty.

The developed countries led by US are still in first place in terms of per capita income, but their economies do not take the same position among economies with dynamic or accelerated pace of growth.

Despite the efforts to plan economic, monetary and financial measures the economic growth has not reached the expected level.

European Union

The EU economic recovery is a fact, but we cannot talk in terms of a pattern, yet keeping an uneven character. The external debt is the main obstacle to this progress. Unemployment also plays a role, its high levels in countries like Greece, Spain, Italy, Belgium being a concern factor.

From the second quarter of 2013, the economic recovery in Europe has started to happen and especially to spread throught the Member States. The European Commission's „European Economic Forecast" released in 2014 targets the causes that are

largely due to domestic demand and investment. Also, because the actual pace to continue there is recommended a series of measures:
- bold structural reforms in both vulnerable and core countries to tackle slow growth and facilitate rebalancing via demand rotation;
- full and effective implementation of the Banking Union to overcome financial fragmentation, sever sovereign-bank links and unlock credit in support of the recovery;
- improvement in the quality of public finances to boost investment and favour job creation.

Two important aspects regarding the economic recovery in Europe are represented by inflation and unemployment. So amid positive trend in terms of growth these two issues are beginning to improve, so the outlook for 2014 in terms of inflation predict a decrease to 1.2%, and also 10.7% in the case of unemployment which still remains high.

United States

U.S. remains the largest economy globally, but the economic recovery is still ongoing. However, from a financial standpoint, the US is going through a delicate period being in the moment of insolvency for the public sector.

In terms of global growth, the table below highlights the pace in wich the economies tend to react after the economic crisis.

Table 1. United States-demand and output

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices $ billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	**16 244.6**	**1.7**	**2.9**	**3.4**	**2.1**	**3.2**	**3.5**
Private consumption	11 149.6	1.9	2.3	2.9	1.9	2.6	3.0
Government consumption	2 548.1	-1.7	-0.5	-0.6	-1.4	-0.2	-0.7
Gross fixed investment	3 028.1	3.0	7.7	9.3	3.2	9.0	9.3
Public	619.0	-3.0	0.1	-0.3	-1.1	-0.6	-0.4
Residential	439.2	14.2	14.3	15.0	13.3	15.0	15.0
Non-residential	1 970.0	2.4	8.2	10.3	2.2	10.2	10.3
Final domestic demand	16 725.8	1.5	2.9	3.6	1.6	3.4	3.7
Stockbuilding[1]	66.0	0.1	0.1	0.0			
Total domestic demand	16 791.8	1.6	3.0	3.6	2.2	3.4	3.7
Exports of goods and services	2 195.9	2.4	4.7	5.0	3.7	4.7	5.2
Imports of goods and services	2 743.1	1.6	5.3	6.3	3.7	5.9	6.5
Net exports[1]	- 547.2	0.1	-0.3	-0.4			

Source: OECD Economic Outlook, 2013

U.S. economic growth was reduced in 2013, but it looks like 2014 and 2015 foresee better results. Since an increase in domestic consumption increases in 2014 and reaching 2.6% and reaching in 2015 up to 3.0%.

Consumer spending, which creates two-thirds of U.S. GDP, recorded the most spectacular growth in the fourth quarter 2010 by 3.4%, contributing 2.3 percentage points to overall growth, according to the U.S. Department of Commerce. Consumption growth has been driven by improving average population welfare index, due to the positive evolution of stock markets and housing prices, along with falling household saving rate. Americans trying to overcome the effects of the income tax increase, which started to make a difference. (IEM, 2013)

The data are illustrated for 2012-2015 period, 2014 and 2015 representing estimates and projections of the IMF, including the adjustments from the previous report.

Overall growth has not yet regained pace, and emerging and developing markets, although test results show exceeding in comparison to the developed countries, the tendency is to slow down the process.

Projected slowdown in the growth of the economies of developed countries in 2013 is based, according to UN experts, on the following causes: (IEM, 2013)
- Uncertain prospects for resolving Eurozone sovereign debt crisis;
- Maintaining a high level of unemployment (8.7% in all these countries in 2013, compared to 8.6% in 2012);
- Declining domestic demand due to fiscal austerity measures;
- Reducing the level of business confidence;
- Fragility yet persistent in the financial sector;
- International trade rate still low.

4. Developed Economies Trends

Although the peak of the economic crisis seems to have passed, the pace of growth recorded by some countries does not follow what economists had expected. In fact at the moment, attention is focused around developing economies, whose growth pattern is one upward faster than in developed economies. In the case of the latter, despite efforts to plan economic, monetary and financial measures the economic growth has not reached the expected level.

Table 2. Growth for world economies (%)

	2011	2012	2013	2014
World	2,8	2,3	2,3	3,1
Developed economies	1,4	1,2	1,0	2,0
Economies in transition	4,5	3,2	3,1	3,7
Developing economies	5,8	4,6	5,0	5,4

Source: World Economic Situation and Prospects 2013, Update as of mid-2013

The developed countries are still in first place in terms of per capita income, but their economies do not take the same position among economies with dynamic or accelerated pace of growth.

China

We can see in Table 4 the difference between the two categories, the developed economies led by the U.S. and developing economies whose representative is China.

The increase in developing countries has many causes such as: (Raymond, 2011)

- investments;
- their share of global trade has increased significantly, with trade and investment between developing countries;
- export and production of superior and high added – value products and in terms of quality;
- transfer of certain production activities to the developing countries;
- the rapid progress of the industrial sector in these countries;
- investments for enhancing competitiveness in areas with high added-value;
- investment in research, development and innovation;
- substantial changes in the international trade;
- major investments in production and marketing of high-tech products.

BRICS

The BRICS group- Brazil, Russia, India, China and South Africa, recorded remarkable economic progress, their contribution to global GDP being around 17% in 2010. A possible explanation for this phenomenon could be the intensity and effects of the economic crisis on these economies, affected to a lesser extent than developed ones.

The IFM, through the „World Economic Outlook" published in January 2014 foresees that China and an increasing number of emerging and developing countries are in the stage of slowed pace in the economic cycle. Forecasts for growth in these countries are well above those of developed countries, but below the high levels recorded in recent years, both because of economic cycles and structural reasons. The UN report „World Economic Situation and Prospects 2014" illustrates how the BRICS economies can recover namely by recovering cyclical conditions like external demand from developed countries.

At the level of this group of economies, IMF predicts, for 2014-2015, that economic growth in India will exceed the average rate of the group of emerging economies and developing countries, in contrast with the Republic of South Africa, Brazil and Russia, with rates below average group.

Emerging and developing countries are facing new challenges in terms of economic policies. Appropriate policy mix and pace of adjustment varies from country to country, in terms of: (IEM, 2013)

- the differences between real GDP and potential GDP,
- inflationary pressures,
- the credibility of national banks,
- the room for maneuver for fiscal policy and the nature of vulnerabilities.

However, many economies have in common five priority economic policy guidelines: (IEM, 2013)

1.– policy makers should allow the exchange rate to respond to changing economic fundamentals, careful to prevent, if necessary, risk disorderly adjustments, including interventions to reduce excessive volatility;

2. - when monetary policies are not credible, attention must focus on promoting a strong nominal anchor for inflation and the stability of the exchange rate;

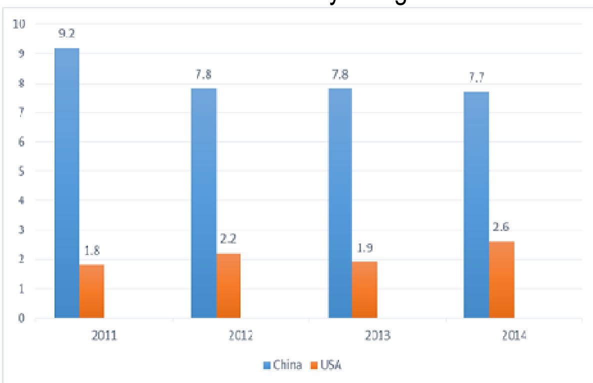
3. - prudential measures must be taken to achieve financial stability, given the risks inherited during the credit boom and new risks related to capital flows;

4. - continued fiscal consolidation, if the situation does not tend to deteriorate rapidly and financing conditions permit fiscal easing;

5. - many economies need a new round of structural reforms, including investments in public infrastructure, removing entry barriers for the goods and services and, in the case of China, vectors growth change from investment to consumption.

5. Economic Growth in China

In this case, the starting point in analyzing China's contribution to global economic growth is the time it was integrate into the World Trade Organization in 2001, representing the start position for proper reconsideration of this economy at a global level.



Source: own interpretation based on World Economic Situation and Prospects 2013, UN

Graph 1. Differences between China and USA in terms of growth (%)

At present, globally, China is the second largest economy after the United States. In fact the growth rate

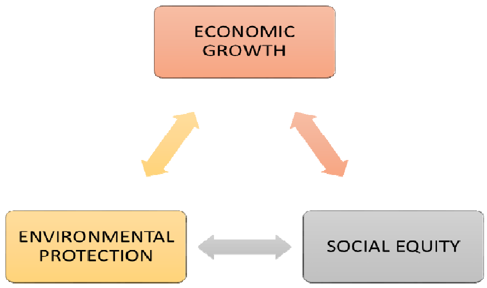
of China's economy is bigger than the U.S. as reflected in the United Nations report. The graphical representation of this phenomenon highlights the major differences.
A market research conducted by Deutsche Bank House reveals 12 indicators where China has become the world leader. Leading indicators, those who have propelled Beijing to the top of the world are represented by:
1. Iron consumption - 57%
2. Copper consumption - 46%
4. Foreign reserves (Dollars) - 30%
5. Soy consumption - 29%
6. Luxury goods - 27%
7. Automobile sales - 24%
8. Investments in fixed assets - 23%
9. CO2 emissions - 21%
10. Population - 19%
11. Mobile phone users - 17%
12. Exports - 11%
In 2012, the Chinese economy grew by 7.8 percent compared to 2011, representing a very low rate compared to 2011. According to estimates, the growth rate recorded in 2013 looks like stagnation accompanied by a decrease in 2014.
The outcomes of investment and reform in the last decades it seems that will bear fruit in the end, making it the largest economy in the world, surpassing the U.S., as reflected in the report of the
International Monetary Fund in 2012. Also in this report there are specified other ways in which China secured high percentage of growth: (Ashvin and Malhar, 2012)
- ongoing urbanization process,
- the more recent emphasis on social housing construction, and
- capacity building in high-end manufacturing and services.

However, this investment-based development model may have negative impacts in terms of their low volume.

6. Green Economy

The recent global economic crisis determined besides the environmental damage, major imbalances in the global response to the entire negative effects that overcame. The challenge in this case is to find solutions in order to improve the economies response to the environmental protection and also to bring together the global growth and sustainable development.
The unsustainable resource exploitation mode places the problem of economic growth and development under the threat of continue and at one time irreversible degradation of the environment. This phenomenon is a reality of the actual global economy that is mainly based on raw materials extracted from natural resources. A long-term development requires certain important features among which there is sustainability. This feature is directly related to environmental protection and eco-efficiency.
But above the characteristics cannot be acquired without proper management of natural resources, which is subsumes three inter-related components:
- Economic growth;
- Environmental protection;
- Social equity.

Figure 1. Natural resource management requirements



Source: author's interpretation

The characteristics above reunite in the form of sustainability triangle presented in the figure above. The economic growth is evaluated upon its impact on the environment, and the social component which should ensure a healthy development framework both in terms of wealth but also in reference to a healthy environment.
The economic dimension concerns the link between economic growth and environmental degradation. In recent decades economic activity has exploded in capital flows and business activities have grown exponentially. The main economic activity is focused mainly on increasing productivity, attracting resources, improving the supply of goods and services to match the existing requirements on an increasingly globalized market. But amid the distribution of resources, economic activity, in addition to quantitative aspects must therefore circumscribe its objectives and environmental concerns, linking production and consumption characteristic of sustainability. Changes in economic activity namely pollution or limited resources caused changing of growth perceptions.
The discussion in this case is conducted around two issues: resources and pollution. In the case of natural resources, the focus is on consumption that must take place taking into account the limited resources. The second aspect, namely production refers to the development of a type of activity that generates a minimum of pollution. This time it brings into question the pollutant character of certain economic activities, hence the correlation between economic development and environmental degradation. Moreover, Lester

Brown, one of the researchers who contributed to the definition of sustainable development, states that "sustainability is an ecological concept with economic consequences".
A new concept is taking place in the new trends in the global economy, namely GREEN GROWTH. In this case, environmental concerns are integrated into the decision-making processes for the economic, social and political sectors.
In fact the concept of GREEN GROWTH is concrete especially in the context of sustainable development that addresses the phenomena of growth, especially including it in a long-term perspective, where the needs of future generations are taken into account.
It is a very important concept especially for countries with transition economies and developing countries in terms of their dependence in most on the natural capital owned and which are also subject to threats related to poverty, unemployment or over-exploitation.
Developing countries in particular need to reconsider its position regarding development and growth, especially in light of the manifested pressure upon the natural capital. The risks are most prominently manifested through the:
- Unsustainable use of resources;
- Pollution;
- Changes caused by climate change;
- Poverty;
- Unemployment;
- Rapid population growth;
- Poor living conditions.

Terms like performance, equity and poverty are creating a more direct and deeper connection in developing countries than in developed countries.
But the acute problem in this regard is represented by the ability of developing countries to achieve green growth. As shown in the OECD report, these countries need strategies related to:
- Equitable and efficient tax systems;
- Phase-out of environmentally harmful subsidies;
- Including environmental products and services in the free and open trade;
- Green technologies and practices included in the policies framework;
- Innovation promotion;
- Risk assessment and management;
- Equitably shared adjustment costs and labour markets and skills policies that maximize the benefits for workers;
- Policies especially designated to poverty reduction and social equity aspects.

7. Conclusions

Interconnecting global economies through the process of globalization has led to economic processes that generate inter-chain effects upon them. Changing economic climate over time has also reshaped economies and the relations between them in the areas of production and trade. As mentioned above, the role of states with economies in transition has become increasingly important in the global economy, in terms of their contribution to global GDP.
The effects of such a global economic environment are different and have different implications depending on the coordinates of each economy separately. For now, in addition to long-term strategies configured, all measures and decisions taken currently are meant to restore a balance, on the basis of which they may build a new economic model that will take into account maximizing benefits in particular and minimizing negative effects.
In the long term, scientists keep a similar approach in terms of the main economic actors, the U.S., Europe and China maintaining their positions they have now, with the addition that they see an optimistic outlook for emerging economies.

References

1. Ashvin Ahuja and Malhar Nabar,(2012), "Investment-Led Growth in China: Global Spillovers", pag.3, November 2012
2. IEM (2014), "Economia mondială în „pierdere" de ritm în 2013 faţă de 2012, relansare moderată în 2014", (http://www.iem.ro/ro/publicatii/piaa-internaional/economia-rilor-lumii/588-economia-mondial-in-pierdere-de-ritm-in-2013-fa-de-2012-relansare-moderat-in-2014
3. IEM (2014), "ONU – ritm de creştere a economiei mondiale în reducere în 2013, previziuni optimiste pentru 2014-2015" (http://www.iem.ro/ro/articole-euroinfo/624-onu-ritm-de-cretere-a-economiei-mondiale-in-reducere-in-2013-previziuni-optimiste-pentru-2014-20)
4. IMF (2010), World Economic Outlook, October 2010
5. IMF (2014), World Economic Outlook, January 2014
6. International Monetary Fund, (2012), "Is China Rebalancing? Implications for Asia," Asia and Pacific Regional Economic Outlook, (April).
7. Journal of Business Economics and Statistics, XX:II pp 147–62.
8. OECD, Economic outlook, analysis and forecasts
9. OECD (2013), "Putting Green Growth at the Heart of Development", OECD Green Growth Studies, OECD Publishing, http://dx.doi.org/10.1787/9789264181144-en
10. Raymond J. Ahearn (2011), Rising Economic Powers and the Global Economy: Trends and Issues for Congress, Congressional Research Service