

THE REGIONALIZATION OF INTERDEPENDENCIES IN THE WORLD ECONOMY

BORIS CHISTRUGA

Hab. Doctor., Univ. Prof.

International Business Department

Academy of Economic Studies of Moldova

Chisinau, Republic of Moldova

Email: bchistruga@ase.md

ORCID ID: 0000-0001-7312-9946

Abstract: The global economy operates within a intricate web of interconnectedness among its participants, necessitating continual adaptation—a crucial imperative in the modern era. Numerous factors contribute to or impede the harmonization of international economic relations, particularly concerning the development of production factors. Hyperglobalization stands out as a positive force, fostering unprecedented prosperity from 1990 to 2008. Conversely, global crises represent a starkly negative aspect, precipitating the economic downturn we currently face and stalling the expansion of global interdependencies in recent times. The dual challenges of the pandemic crisis and Russia's invasion of Ukraine loom large, threatening to setback global economic progress by several decades. Within this context, this article endeavors to identify strategies for addressing the complexities of interdependency within the global economic system, specifically by focusing on enhancing regional economic potential while still acknowledging the importance of the global dimension. This approach does not advocate for forsaking global interconnectedness; rather, it suggests fostering a more organized alignment of interdependencies and production forces at the regional level, promoting global values through integration and peaceful adaptation to change. Simultaneously, it advocates for the development of robust global systems, institutions, and norms. This paradigm shift would introduce a new regional dimension to economic development strategies worldwide. The article critically examines the transition from a global to a regional focus—a predominant trend in the current global economic landscape—and assesses its impact on aligning interdependencies and production forces. A pertinent question arises: Can the expansion of BRICS with six new members serve as an exemplar of this adjustment, or might it exacerbate global instability by heightening tensions between established entities like the OECD and the BRICS, or between the G7 and the E7?

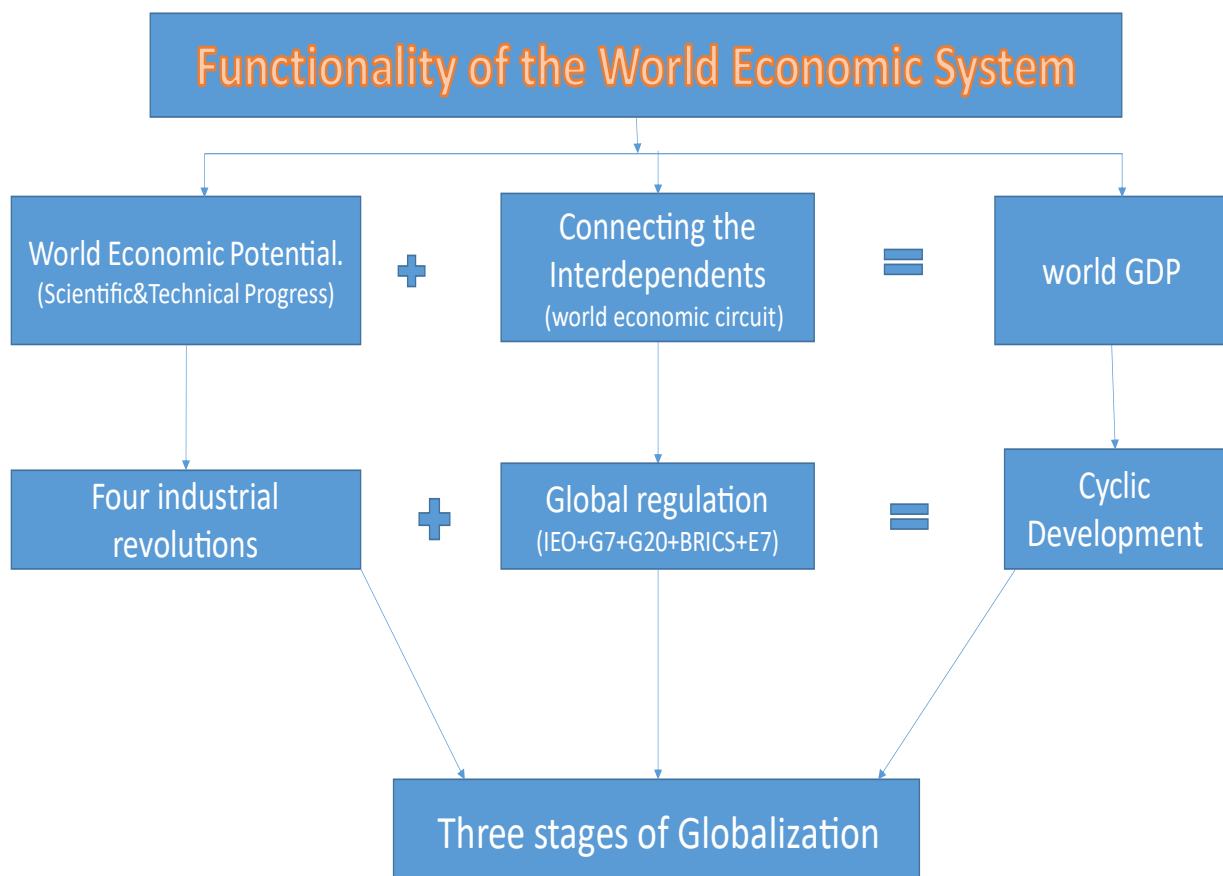
Keywords: global economic progress, harmonization of international economic relations, global interdependencies, BRICS, OECD

JEL Classification: F02, F15, F53, O19

Introduction

The world we live in is a world of interdependencies, of increasingly close mutual ties between countries. No country, however rich it may be, can evade this legality, isolating itself from the rest of the world. Autarchic development is unthinkable in the contemporary world. Economic growth and development are the basis of all human progress, which, in turn, through four fundamental economic processes, Internationalization, Globalization, Transnationalization and Integration, ensures the functionality of the world economic system. There is a loop of development: factors of production - convergence of economic development models - economic growth. The history of mankind reflects, in general, the history of economic development and the improvement of production forces (capital) worldwide. And technical-scientific progress is the basis not only of the improvement of capital, but also the creation and development of the world's economic potential. Today we are in the fourth

industrial revolution, which has unimaginably changed the forces of production, starting from the use of water and steam power to today's artificial intelligence. But each stage of technical-scientific progress necessarily requires the connection of interdependencies, which express the essence of the world economic system, at the level of development of the world economic potential (see figure 1). And that adjustment can only be made by the people through the respective institutions. By the regulations provided by the statute of international economic organizations within the United Nations Organization, OECD, G7, G20, BRICS, E7, etc. It is not a continuous growing process. It is a cyclical one, also characteristic of the globalization process.



Source: developed by the author

Applied research methods

To achieve the purpose of the research, the historical method was used, to examine the processes in their chronological sequence and development, and thus we identified the long-term and short-term trends, the comparative method analyzing the statistical data collected from various national and international sources. We applied the systemic approach, analysis and synthesis. Various threats of deglobalization to the world economic order are analyzed, which ensures the continuation of debates regarding the development of this field in the future. Official documents of the UN, the European Union, national and international statistical data, publications from specialized editions were used as informational support.

Results and discussion

The process of globalization refers to the interconnection of economies around the world, facilitated by advances in technology, transportation, and communications. This interconnection led, in turn, to the international economic circuit and the fundamental economic processes underlying the functioning of the world economic system. The phenomenon of globalization, being a higher stage of internationalization, has been taking place for centuries, but only in the last century has it taken a truly global scale. We know three waves of globalization, which have had a significant impact on world economic growth, especially in developed countries, but also developing countries, especially in emerging economies. Each wave brought fundamental changes to the global economy, with varying effects on different types of countries. (see table 1). The transition from one stage of development to another is ensured by a level of productivity clearly higher than the previous stage, being the determining factor of economic growth, the creation of new jobs, ensuring prosperity in the world economy. Overall, the three waves of globalization have had a significant impact on world economic growth, and developed countries have been able to benefit from each wave.

The first wave of globalization created a strong foundation by proposing economic instruments to ensure economic growth around the globe. We refer, first of all, to the process of internationalization...

During the period 1870-1913, the global economy experienced significant growth, known as the "Belle Époque". This period was characterized by rapid growth in international trade, foreign investment and industrialization. The value of world exports increased tenfold from 1870 to 1913, at an average annual rate of 3.4 percent, substantially above the 2.1 annual increase in world GDP ([Maddison 2001, 262, table B –19 and 362, table F–4).

The causes were multiple and complex. Among the most important are the industrial revolution, which allowed for more efficient production and increased productivity, as well as the development of transportation and communications, which facilitated the process of internationalization. However, economic growth from 1870 to 1914 was not uniform in all regions of the world. For example, developed countries in Western Europe and North America experienced significantly higher economic growth than other regions of the world. This has led to an intensification of economic and social inequalities between rich and poor countries. Thus the main problem we are still talking about today, the growing gap and instability in the global economy, has its roots back in the period of the first wave of globalization.

Towards the end of the first wave of globalization there followed a period of recession due to increasing competition and falling export prices. Protection policies are back and rates have gone up. This trend was intensified by World War I and continued until after World War II. The rise of nationalism up to World War II manifested itself in mercantilism, bilateralism, and competitive exchange rate devaluations. There are several examples. In 1930, the Smooth-Hawley Act in the United States raised American tariffs to historic levels. The scope of the tariffs has also been expanded. Foreign countries have retaliated with additional protectionism. Global trade declined considerably, by about two-thirds by the mid-1930s.

The following period, the years 1950-1990, is known as one of the most prosperous in contemporary economic history, and the growth of the Gross Domestic Product (GDP) played a crucial role in this evolution, experiencing significant growth, at a rate alert and constant. First of all, it should be noted that this period was marked by a series of major changes, many countries began to rebuild and develop economically, which led to an increase in the demand for goods and services. In addition, globalization and trade liberalization have contributed to the growth of international trade

and the development of emerging economies. During the period 1951-1995, the volume of world trade increased, as a whole, at an average annual rate of 10%, compared with only 1% in the interwar period and 5%-6% in the period since the end of the 19th century.

During this period, the United States of America played an important role in stimulating global economic growth. The Marshall Plan, launched in 1948, provided financial and technical assistance for the reconstruction of Europe, and this support helped develop European economies and stimulate international trade. In addition, the US has invested heavily in research and development, which has led to innovation and increased productivity in a number of economic sectors.

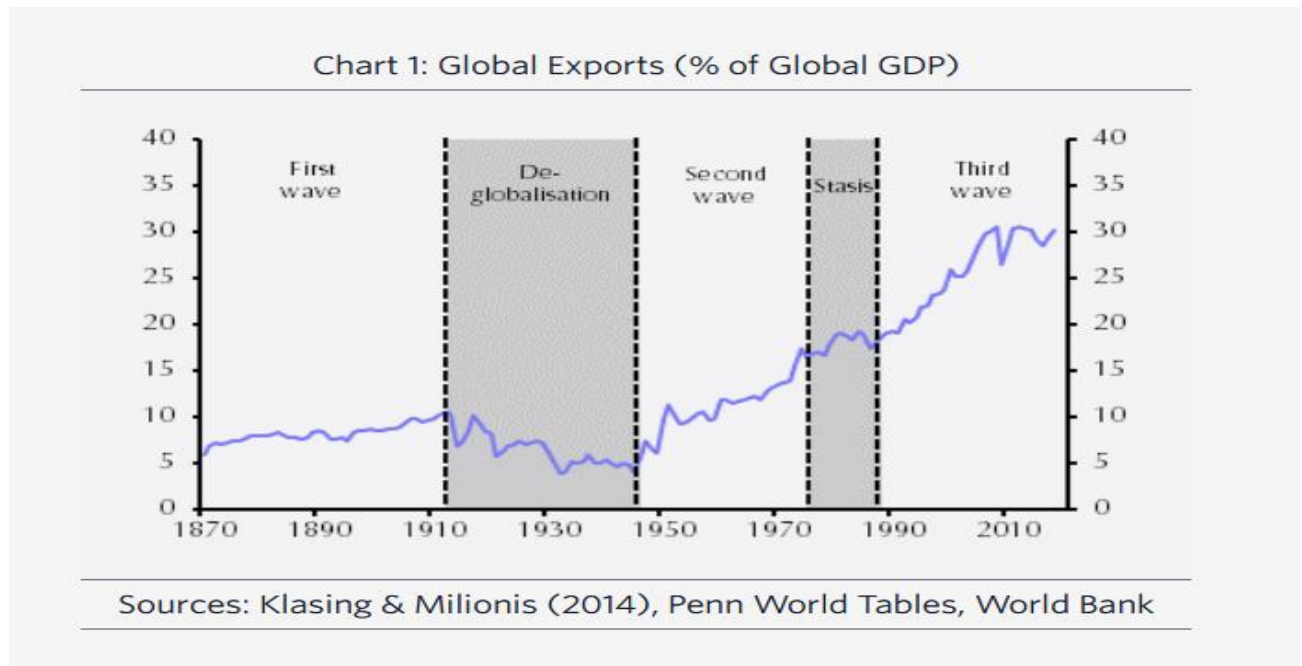
At the same time, Japan and other Asian countries began to develop rapidly, thanks to foreign investment and government policy favorable to economic development. The Japanese economy grew in the 1960s so rapidly that it had become the second largest economy in the world, and other Asian countries such as South Korea and Taiwan, but also West Germany followed suit. These countries are based on an export-oriented industrialization process, which helped them to increase the volume of production and exports, ensuring a significant economic growth. Other developing countries have struggled to keep up with the pace of change but have often fallen behind.

It should also be noted that this period was marked by a series of major technological innovations, which led to increased productivity and the development of new economic sectors. For example, the development of computers and information technology has led to a revolution in communication and information. In addition, the aerospace industry experienced rapid development during this period due to government investment in research and development.

In conclusion, world GDP growth during the 1950s to 1990s was the result of a complex set of factors, which included government investment in research and development, globalization and liberalization of international trade, major technological innovations, and the development of emerging economies.

The main characteristic of the second wave of globalization is the transition to the next stage of internationalization – transnationalization, which presents a complex process of homogenization (standards, principles, unique values...) of economic life, but also diversification of investments in other countries. CTN is characterized by the need to face the pressures of the host country and the global competitive demand at the same time, managing the business from a single center, supporting the research-development and marketing skills for each foreign market.

After the 1990s, the third wave of globalization begins, which highlighted (brought, identified) integration and emergence as beneficial processes for ensuring the growth of well-being worldwide (see table 1). The beneficiaries of this stage, along with the developed countries, are the emerging economy countries, while the other developing countries faced more challenges. The years 1990 – 2008 should be highlighted here. This period was one of the most prosperous in contemporary economic history and had a significant impact on long-term global economic development. At the same time, the crisis of 2008-2009 was a harbinger of the accumulated but unresolved problems in the world economy.



Source: <https://cursdegovernare.ro/analiza-istoria-nu-se-va-repeta-valuri-globalizare-deglobalizare.html>

The imbalances and instability in the world economy, being something inappropriate for sustainable development on the globe, is the biggest problem facing humanity at the contemporary stage. The latter, being a result of an unprecedented political attack on the economic, demand a new approach in terms of globalization as a process, but also in terms of ensuring the World Economic Order. In general, today we are at the stage of reconfiguring the set of interdependencies that constitute the essence of the world economic system. We are at the stage of the cardinal change of the set of values that are the basis of the development of society, because "Nothing has changed, but everything is different". This could serve as a starting point for a new global economic cycle, which is now taking new shape.

Table 1. Evolution of world real GDP in the years 1991 – 2024, %

	1991- 2000	2001- 2008	2011- 2021	2022 WB/IMF	2023 previziuni WB/IMF	2024 previziuni IMF
World	3,61	4,11	3,0	3,0(3,5)	2,8 (3,0)	3,0
OECD	2,78	2,44	1,66	1,7(2,4)	1,9(1,1)	1,6
USA	3,45	2,51	2,21	2,3(2,1)	2,5(1,8)	1,0
CHN	10,13	10,7	7,63	3,2(3,0)	5,6(5,2)	4,5

Source: author's calculation in the base WB and IMF data

In this context, as something abnormal (pathological) we mention the existence of wars between the countries of the world, both commercial ones (USA - China), and military interventions, which ultimately disrupt the results and efforts of mankind to ensure an increase in well-being at global level . In particular, we mention Russia's intervention in Ukraine, which had and continues to have a significant impact on the global economic system, the international economic order. One of the main ways the Russia-Ukraine war has affected the global economy is through the impact it has

had on the price of oil. Russia is one of the largest oil producers in the world, and the sanctions imposed on the country have caused oil prices to fall. This has been both a blessing and a curse for the global economy. On the one hand, low oil prices have led to increased demand for oil and other energy sources, which has helped boost economic growth in some countries. On the other hand, low oil prices also led to lower incomes for many other oil-producing countries, which had a negative impact on their economies.

So the conflict has led to volatile oil prices, shrinking trade between Russia and other countries, declining foreign direct investment, increasing uncertainty in financial markets, and increasing tensions between Russia and many Western countries. While it is difficult to predict exactly how these factors will evolve in the long term, it is clear that the conflict will continue to have a significant impact on the global economy for years to come. As such, it is important that policymakers around the world work together to find solutions that help mitigate these negative effects and promote sustainable economic growth.

Another way the Russia-Ukraine war has affected the global economy is through its impact on international trade. Sanctions imposed on Russia have made it difficult for companies from other countries to do business with Russian companies. This had a negative impact on trade between Russia and other countries, which in turn had a negative impact on the global economy. In addition, the conflict has caused many companies to rethink their investments in Russia, leading to a decline in foreign direct investment. In general, many trade routes established for many years have been compromised.

The Russia-Ukraine war also had an impact on the global financial system. The sanctions imposed on Russia have made it difficult for Russian companies to access international financial markets. This had a negative impact on the Russian economy, as many companies had to rely on domestic sources of financing. In addition, the conflict has led to increased uncertainty in financial markets, which has had a negative impact on global economic growth.

Finally, the Russia-Ukraine war along with the world crises had an impact on the political landscape of Europe and beyond. The conflict has led to increased tensions between Russia and many Western countries, making it difficult for these countries to work together on issues related to economic growth. In addition, the conflict led to the rise of nationalism in many countries, which made it difficult to achieve international cooperation on economic issues. These trends at the contemporary stage have occurred before in world history. The deglobalization process also took place in the interwar period, the stage of recession 1913-1950, which was characterized by exactly the same phenomena, the growth of nationalism, protectionism, volatility of exchange rates, etc. The specificity of the current Deglobalization is the fact that it follows a stage of Hyperglobalization, which took place in the post-war period.

Today China is using Russia to buffer the current world economic order based on the hegemony of the US and Western states. Several things confirm this thesis. The role of the G7 in the world economy is decreasing and that of the E7 emerging economy countries is increasing. (see figure 2). BRICS plans to expand its membership by six more countries. And the G20, at the last summit of which China found a plausible excuse not to be presented by the first person, expanded its composition with one more member – the African Union. Thus, the presence of the third world in this forum was considerably strengthened. All the mentioned express a clear tendency in the world economy to diminish the hegemony of the Western states. Humanity is moving towards a new global security architecture where the Global South wants a much more important role in terms of economic,

social, but also political and military decision-making. In principle, this paradigm shift would not be so bad if it were not contrasted with another change promoted by Russia. The latter, trying to justify its invasion of Ukraine and covering itself with the need to "liquidate" US hegemony in the world economy, promotes the idea of consolidating the global South in personal interests...

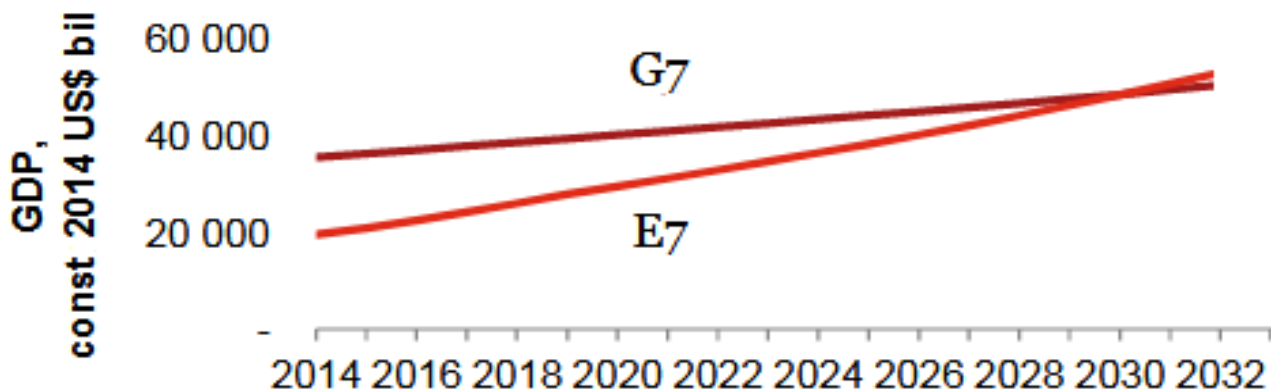


Figure 2. Global GDP evolution (forecasts)

Here, however, total manipulation takes place when, based on an idea that could be viable, he joins the forces of world autocracy against democracy. Russia is trying to convince autocratic, even totalitarian countries to form a common front against democracy. Examples would be Russia's unprecedented rapprochement with North Korea, China with Venezuela, Iran's involvement in the Russia-Ukraine conflict, etc. The formation of a common bloc of the mentioned countries with other totalitarian regimes in Africa and Asia is already a reality.

In this context, the global security architecture changes radically, focusing on the liberal-illiberal axis, democracy-autocracy. All these are a major obstacle to the process of globalization and international economic integration. Thus the political turns into a serious brake in the way of the economic. The fragmentation of the world economy, the deglobalization we are witnessing, can set world economic growth back several decades.

Important characteristics of the current stage of globalization are the fact that about 15 years have passed since the start of the biggest economic crisis in post-war history (the crisis of 2008-2009) from which, unfortunately, we did not manage to get out, but we entered - an increasingly unsafe and violent digital world, a world that is going through unprecedented political, social, economic and moral transformations in the post-war period. command of major actors with major and extremely active interests, directed against the landmarks of democratic vision. Finally, we are at the stage of fragmentation of the world economic circuit, regionalization of trade flows and most importantly we are at the stage of creating a new global security architecture.

Conclusion

The present trend of deglobalization signifies a gradual reduction in interdependence and global integration. It entails the fragmentation of longstanding relations that have been meticulously crafted over decades, weathering numerous crises, conflicts, and shifts in development paradigms. This phenomenon underscores the emergence of regionalization within the global economic framework, reminiscent of the political blocs and confrontations of the Cold War era. It underscores

a critical mass of imbalances, instabilities, and volatilities within society, signaling the inadequacy of the existing Economic Order and prevailing value systems.

We stand at the threshold of a new cycle of modernity, marked by a profound shift in values and the overarching supercycle. The current phase of deglobalization serves as evidence of this transition. However, it is important to view deglobalization as a transient phase, a pathway leading to a state of REGLOBALIZATION. This assertion finds validation in the historical trajectory of human development.

The ongoing crisis represents a significant departure from the fundamental principle of aligning relations between the entities of the global economic system—reflecting the intricate web of interdependencies—with the advancements in production forces driven by technological and scientific progress. Despite the current state of deglobalization, there is a steadfast belief that it is a temporary phase, paving the way for a resurgence of global integration, albeit under a new paradigm.

REFERENCES:

1. Rennie, M.W. (1993) Global Competitiveness: Born Global. McKinsey Quarterly, 4, 45-52.
2. <https://unctad.org/>
3. <https://www.gfmag.com/global-data/economic-data/largest-companies>
4. http://publications.europa.eu/resource/cellar/dd69f968-fea2-4034-90d5-7a648574618f.0002.01/DOC_1
5. <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023#Overview>
6. IMF. Annual Report 2022, Crisis upon crisis, Message from the Kristalina Georgieva <https://www.imf.org/external/pubs/ft/ar/2022>.