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Research paper



Economic Prospects of Balanced Development of International Relations

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Abstract

The article deals with the systematization of economic prospects of balanced development of international relations. It is established that the prerequisites for rapid development are special conditions of certain factors, which acquire different acuteness or form as institutional determinants of development. It is proved that the balanced development of international relations is associated not only with economic issues, but also with social features, political conflicts, and history. Globalization, which has originally manifested itself as liberalization, and then as the integration of capital, goods, and labor into a single world market also complicates the problem. The article highlights the importance of specialization because it is specialization that provides an opportunity to increase efficiency at the level of individuals, organizations, regions, and countries through the effect of scale, comparative advantages, and technological changes.

Keywords: *development, international relations, specialization, integration, capital, economic order, world system.*

1. Introduction

Contemporary practice suggests several ways to overcome the unbalanced development of the world economy. Rather radical and, in the authors' opinion, unrealistic solutions are offered by adherents of the World-systems theory. According to this theory, the main reason for unbalanced development is the exploitation of developing countries by advanced countries. Therefore, the problem can be solved through a fundamental and complete transformation of the world economy and the political structure of the world, and the creation of the so-called New Economic International Order (NEIO).

Studies show that it is possible to create a new global political system in which the stability of the economic situation of the state and the protection of human rights will be guaranteed by the federal world state. This state will be constitutionally limited in the issues of cultural imposition; however, it will have the opportunity to prevent international wars through legal and military methods, as well as to collect taxes, guarantee aid to the ones in need. Such a system assumes redistributing income between rich and poor countries through a certain type of world governance. However, given the fragmentary nature of the contemporary world, the creation of a world state is quite unlikely.

A significant contribution to overcoming the global economic imbalance can be achieved by creating an appropriate environment in the country, i.e. proper banking, economic, political, and legal systems. This concerns supporting for fiscal discipline (minimum budget deficit); ensuring priority of health care, education, and infrastructure of public spending; reducing marginal tax rates; liberalizing financial markets to keep the real interest rate on loans at a low, but still positive level; providing free exchange rate of the national currency; liberalizing foreign trade by lowering import duty rates; reducing restrictions on foreign direct investment; implementing privatization; deregulating the economy; and protecting property rights.

Problems of the balanced development of international relations are studied in the works of L.O. Aslanova [1], A.A. Kuzubov [2], I.V. Minakova [3], M.V. Pyrsheva [4], Sh.Sh. Faiziev [5], D. Sharifi [6], and others. Most scientists focus on the causes of unbalanced economic development, without investigating the phenomenon of balanced development of the world economy, in particular, the effect of international relations on the system of world order.

2. Methods

The research methodology is based on the systematic approach, methods of scientific abstraction, analysis and synthesis, the dialectical method of knowledge of economic phenomena, as well as provisions of strategic and crisis management. The article uses the following methods to solve particular problems: theoretical generalization, logical approach, scientific abstraction, associations and analogies – to study and generalize the methodological foundations of the balanced development of international relations; methods of system analysis, generalization, and comparison – to study methodological approaches and methods of diagnostics of foreign economic relations management. The information base of the research included the legislative and normative legal acts, statistical materials of state and local authorities, as well as scientific publications of Russian and foreign scientists on the problems of balanced development of international relations.

In the course of the study, it is planned to justify the economic prospects of balanced development of international relations, as well as the management strategy of world economic processes. In addition, the task was set to develop techniques for assessing the factors that affect world economic processes, as well as to

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identify and formulate the world economy development mainstreams in different socio-economic conditions.

3. Page Style

The transition to a more decentralized economy, as it seemed, should have helped to accelerate economic growth; however, this did not happen, because in many cases social policy and property rights remained in the background. The conducted study highlighted the following shortcomings of the decentralized world economy: its universal nature, although the countries that used it were very different; lack of guidance concerning the relationship among the institutions established at the time of the reforms and the state macroeconomic policy; lack of recommendations on the implementation of some market processes (privatization, deregulation, etc.); nonprognostication and high cost of the post-reform period; lack of recommendations on the speed and timing of
reforms; and unclearly defined role of the state in the course of reforms.

This allows developing certain recommendations for the governance at the world level, which include changing the governance principles of the World Bank and the International Monetary Fund (IMF), namely the voting and representation system; changing the nature of the World Trade Organization's (WTO) activities that assumes for greater openness, a more coordinated decision-making process, and the creation of an independent body of alternative proposals; strengthening the United Nations Economic and Social Council as a supervisory body over other institutions in order to prevent the promotion of their own interests; financing global public goods from revenues received from global natural resource management, and from issue of special drawing rights; taxation of negative global actions (pollution, arms sales, etc.); management of global natural resources and the environment; production and protection of global knowledge; and global legal infrastructure.

Another way to ensure a balanced development of international relations consists in providing official development assistance in the form of grants, loans, and remittances, which are provided to developing countries by international institutions and advanced countries. However, such assistance can slow down the development and force countries to borrow and, accordingly, depend on the lender.

At the same time, a supportive institutional environment is a condition for aid effectiveness. And yet, the formation of world policy providing balanced and even development largely depends on the effectiveness of institutions in each individual state.

It is political and economic institutions that can lead society to decline, prosperity, or stagnation. The world practice shows that countries dominated by extractive institutions suffer from the excessive and irresponsible appropriation of national resources by the ruling coalitions. Therefore, any reforms should be started by political and economic institutions since they form the motivation and incentives of people's behavior (Table 1).

Table 1: Types of the balanced development institutions of international relations

Inclusive economic institutions	Nondiscriminatory control over resource access and allocation; fair competition; preservation of private property.
Inclusive political institutions	The society freely elects and controls the power; everyone who has his/her own viewpoint or ideas, activity and civic stance, has a practical opportunity to be elected to the legislative bodies, and to change in public institutions anything that does not suit voters; pluralism.
Extractive economic institutions	Lack of law and order; unprotected private property rights; barriers and regulations that impede market functioning.
Extractive political institutions	Lack of the rule of law; concentration of power in the hands of few.

The practice has shown that the effectiveness of the state can be provided by factors such as a favorable climate for investment in innovation, as well as the creation of a mechanism encouraging people to reveal their talents as much as possible with economic benefit. Inclusive institutions are an instrument for creating such conditions. The ruling elites mostly create institutions to enrich the few at the expense of the whole nations. Some researchers [7–9] believe that the poverty of nations is a deliberate plan, rather than a mistake of the ruling elites. The transformation of extractive institutions is possible only under the pressure of society because otherwise, it is unprofitable for the ruling class. Studies show that Inclusive institutions are created when opportunities for change arise.

The results show that formal and informal rules, i.e. institutions, influence individuals, households, and the economy in general. The government of the state, in turn, serves as a tool for their implementation. In developing countries, the IMF, the World Bank, and other international organizations can be instruments for implementing reforms. These organizations are able to identify reforms, finance or monitor their implementation.

For example, the World Bank database shows that about 5,000 institutional reforms are currently underway around the world. All these reforms can be focused on reforming the market through privatization, deregulation, and trade liberalization in order to create a competitive environment, while governments can implement personnel changes, and budget control through modernization and reform of the government process.

Governments of the states should create a favorable environment for business and development of private sector because of the following circumstances:

– Firstly, the private sector should develop in a favorable macroeconomic environment, because internal and external macroeconomic stability minimizes risks to the business. This applies to inflation, devaluation of the national currency, trade barriers, etc.;

– Secondly, the private sector needs a favorable legislative environment. This applies to a fair judicial system, the protection of private property rights, the fight against corruption and rational administrative restrictions. The absence of these mechanisms is manifested in inefficiency, corruption, and tax evasion. Therefore, the government should promote the business environment through deregulation of the economy in order to simplify the market entering procedure (reducing quotas, licenses, and bureaucratic procedures); for example, taking into account the direct relationship between the average business startup time and the level of income (Fig. 1);

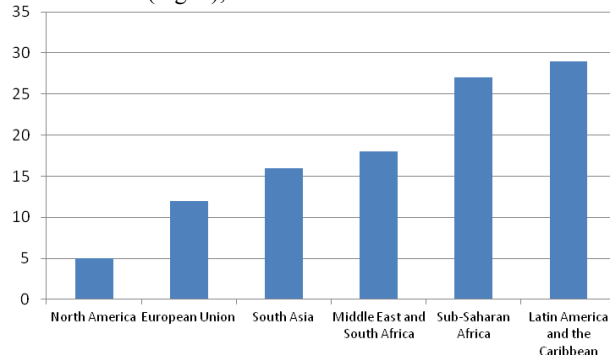


Fig. 1: Average time needed to start a business in various world regions, days

– Thirdly, the prosperity of the private sector is fundamentally dependent on infrastructure and human capital, because business profitability is directly related to the quality of infrastructure: quality infrastructure is the key to competitive business. This also applies to investment in human capital, namely in education and health;

– Fourthly, the government should support technology and innovation;

– Fifthly, the government should assist foreign direct investment by targeting selected potential economy sectors, introducing tax holidays, etc.;
– Sixthly, the development of the private sector also requires a well-functioning financial market (banking sector and financial institutions), as well as a labor market.
At the same time, institutional change is a process, which arises from the specific impetus and undergoes several stages, namely: deinstitutionalization (awareness of problems and needs to change); preinstitutionalization (stage of innovation); theorizing (proposed institutional changes are presented for a broad overview); diffusion (implementation of new institutions), and reinstitutionalization (when institutional changes are generally accepted).
To confirm the importance of institutions, the authors will give some examples. Between 1970 and 1996, countries that were relatively poor, such as China, Hong Kong, Indonesia, Malaysia, Singapore, Taiwan, and Thailand were developing very rapidly, and their GDP was growing by an average of 8% each year, while in industrialized countries it was just 2–3%. The practice has shown that the development of these countries mainly depended on the government policy. Amount of savings and investments in these countries had been maintained at a high level, high-quality labor power and high productivity have been created by attracting imported capital and technologies.
The priority task for the governments of these countries was ensuring higher education aimed at improving human capital and infrastructure to enhance the efficiency of conveyance of ideas and communications. The governments' export-oriented policies have lowered trade barriers in order to increase competition and reduce prices. Government fiscal policy was focused on curbing inflation and stabilizing the exchange rate as tools for investment promotion. Open government policies and price stabilization resulted in an increase in household savings.

4. Discussion

The reliability of the presented approaches to the balanced development of international relations is confirmed by the fact that technological changes in the countries are endogenous [10–12]. Therefore, government policies should be focused on training and education programs to invest in human capital and protect private property rights that will further increase the efficiency of labor and capital innovation. Therefore, methods of dealing with inequalities such as international financial assistance or debt relief can be effective only in the short term.
Singapore is a striking example of economic success. Its peculiarity lies in the special model of governance, i.e. soft authoritarianism, in which the law is the same for all, and there is no corruption. According to this model, the conditions for the state prosperity include confidence in the judicial system, protection of the private property right, respect for public rule, because political scandals could cause the invasion on the part of neighboring states, rule of law, i.e. the same law for everyone in order to comply with the rule of law and order, high salaries of public servants to prevent corruption, ideological freedom, which consists in nonimposition of religion, etc. The peculiarity of this model is that the state power first carried out economic reforms, and only after that asserted political freedom, and not vice versa.
Another approach consisted of the following provisions. The creation of favorable conditions for small and medium-sized businesses, the opening of the national market to foreign capital (elimination of restrictions on the proportion of share capital to foreigners, tax benefits for foreign investors, and the cancellation of licenses for import and export quotas), and a reduction in income tax.
This model assumes the availability of macroeconomic stability, which involves low inflation and use of hard convertible currency. This requires institutional support in the form of the central bank, free market and competition, which are based on a wide range of economic freedoms, elastic market of labor power, and the focus on labor relations development, rather low proportion of taxes and budget expenditure in the national income, as well as political stability, which is necessary to create and retain sustainable development.

5. Conclusion

Summing up the aforesaid, the authors can note that the prerequisites for the rapid development of the state represent special conditions of certain factors, which acquire various acuteness and form and can be interpreted as institutional determinants of development. The pace of development depends on the form they take in a particular country. At the same time, overcoming the problem of nonuniformity is possible through the accumulation of physical and human capital and the implementation of advanced technologies in developing countries that depend on the institutional environment of the country.
Experience has shown that balanced development of international relations is associated not only with economic issues, but also with social features, political conflicts, and history. Globalization, which originally manifested itself as liberalization, and then as the integration of capital, goods and labor into a single world market also complicates the problem. On the one hand, globalization contributes to broadening opportunities for alignment of the world's development, while on the other hand, it initiates emergence of new factors of uneven development among countries, deepening of this inequality, although, on average living standards are also increasing.
At the same time, emphasis can be placed on the importance of specialization, since it provides an opportunity to improve efficiency at the level of individuals, organizations, regions, and countries through economies of scale, as well as comparative advantages and technological change. Specialization necessitates exchange, but neither specialization nor exchange will be rational without appropriate institutional support. Therefore, economic power and control over the economy are especially important in the current context, since they are carried out through institutions, namely both formal laws (constitution, property rights, and legislation) and informal laws (customs, traditions, and code of conduct).

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