

**International Economics**

Yuriy GUMENYUK

**THE MAINSTREAM  
OF INTERNATIONAL MOVEMENT  
OF MANUFACTURING FACTORS  
IN CONDITIONS OF THE WORLD ECONOMY  
TECTONIC SHIFTS**

**Abstract**

The role of ensuring the economy of the country as factors of production for its competitiveness in the world markets of goods and services is substantiated. It is proved that the artificial reduction of the share in the production function of one of the factors leads to an increase in its price (share) in the national product. This gave a chance to scientifically and methodologically substantiate the position according to which emerging market countries must form an effective aggregate demand through the formation of the middle class and any slowing down in this direction leads to curtailment of economic development. Instead, the uneven distribution of the global economy is spreading and the death penalty is formed, which consumption costs are motivated by scientific and technological progress.

**Key words:**

International labour migration, factors of production, middle class, foreign direct investment, downsizing, jobs, distribution, labour productivity.

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Gumenyuk Yuriy, Doctor of Econ. Sciences, Ternopil National Economic University, Ukraine.

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Donald Trump's realization of his electoral programme is likely to lead to serious changes in the global economy. In particular, the President of the United States has paid a considerable attention to the issue of the international movement of production factors. Therefore, he intends to apply a number of foreign trade instruments to return jobs in the US economy. In addition, against the backdrop of the Trans-Pacific Partnership (TTP), it is planned to significantly impede the employment of foreigners in the United States. Thus, the postulate that the limitation of the international movement of production factors stimulates the growth of international trade in the US economic policy, loses its foundation. At the same time, big business does not intend to yield to the ideas that create problems for it.

The task of a democratic politician is, using all the available economic, social, political, legal, cultural and mental instruments, to improve the voter's standard of living. Instead, the business is predominantly concerned about the living standard of population, as well as its solvency, and, it is not so important for where this solvency is being formed. Leading world experts believe that the typical feature of the world economy at the beginning of the XXI century is an increase in the power of the emerging market countries, which they interpret as the tectonic shifts in the world economy. At the same time, it is worth pointing out that the development of the emerging countries became a consequence of the unprecedented inflow of FDI from developed economies to their economy. Thus, R. Mutzenich believes that we are likely to witness the emergence of a new global power structure, where all the old foundations collapse, and the liberal world order that existed during the last 70 years, gives clear cracks and, even, suggests its end.

### **Analysis of the recent research and publications**

Issues of the international movement of production factors were constantly in the sphere of researchers and practitioners' investigation, who theoretically and methodologically substantiated, promoted in the socio-economic sphere and incorporated the idea of the necessity of liberalization of cross-border capital flow

in the political and legal field. In particular, such scholars as K. Akamatsu, P. Bakkli, R. Vernon, J. Danning, K. Errow, G. Manky, M. Porter, E. Raynert and others are distinguished.

### **Selection of unexplored parts of the general problem**

However, these studies were considered as development models and mainly concerned balance of payments, which was balanced by foreign investment.

### **Setting objectives**

The purpose of writing the article is theoretical and methodological substantiation of the mutual influences of international movements of factors of production, as a factor and conditions of the course of tectonic shifts in the world economy, in the structure of which there are now significant socio-economic transformations.

### **Presentation of the main research material**

Now the mainstream of the international movement of factors of production lies in the international movement of capital, as the needs of its owner to get somewhere a higher rate of return. However, if the portfolio of foreign investment is going to be reformatted easily, then it is more difficult to deal with the foreign direct investment. Therefore, Victor Kozyuk, investigating the macrostructural imperfections of the capital inflows, has noticed that in the run-up to crisis, the inflow of portfolio and other investments overtakes or outstrips FDI, but during crises, their level falls to such an extent that, in fact, FDI provides physical volumes of inflow (Kozyuk, 2010, p.26).

The transfer of TNCs jobs is not in the literal movement abroad of a particular production, but in its closure (abandonment of production sites) at home and in the construction of Greenfields in other countries. From an entrepreneurial point of view, refusing to use functioning jobs is equivalent to a capital loss. However, the wealth of the richest US capitalists grows by 11% annually, while the country's economy grows by no more than 3% and 15.1% of the population

lives below the poverty line. In particular, the report of the US Census Bureau states that the average household income in 2010 was \$ 1,000 less than in 2009, and the poverty level was at the maximum mark for the entire observation time (Online resource).

R. Miller notes that because of downsizing, certain US companies have reduced 40 million jobs, while others have created 70 million new ones. At the same time, only 35% of those who lost their jobs were able to find jobs equivalent to paid jobs, the rest agreed to work with lower wages (Miller, 1998). That is, due to the so-called optimization, the national labour market sank down to the average level of prices, and the profit margin has increased in the capital markets instead. According to the Cobb-Douglas Production Function, the reduction of the marginal labour product and the increase of the marginal product of capital cause increasing in the number of labour. The abovementioned increase of the jobs' number in the national economy of the United States, occurred both due to the downsizing and, to some extent, due to President Barack Obama's liberal migration policy, and this work was mostly of a low and morally outdated qualification. According to the WEF, the gap between the reduced and created jobs will be 5.1 mln. in developed countries by 2020. Now, in these countries, the business is steadily integrating creative jobs in the types of expedient activity, since they are twice as strong in terms of automation.

Instead, N. Levkin believes that the destruction of the psychological contract led to a hypertrophy of the share of wages of top managers and shareholders compared to the staff of the middle and lower levels of the organization (Levkin, 2006). However, from the point of view of determinism, the growth of the remuneration of top management is the reason for the destruction of a psychological contract. The researcher notes that the management of companies that are dynamically developing through downsizing is saving financial resources to pay bonuses to top managers and shareholders. In this case, it is logical to assume that the economy itself lays the limits of its growth, since the collapse of effective aggregate demand would have to intensify crisis processes.

Nevertheless, analysts estimate the situation in the US labour market as the best in the last decade, as the unemployment rate fell to a record 4.6% (online resource). However, there is also an alternative view that real unemployment in the United States is currently at 23% (online resource). Thus, the asynchronous change in US mortgages is tracked against the backdrop of an unprecedented increase in the role of American TNCs in the global economy. This gives reason to believe that it is the movement of capital from labor-deficit countries to the lack of capital is a process that justifies the growth of remuneration of management companies.

According to the IMF, in 2015 the world GDP per capita was 10 thousand US dollars, which according to domestic standards (in Ukraine 2,109 dollars) is only a desirable level in the future. At the same time, countries producing such

income (Turkey, Kazakhstan, Suriname, Mexico, etc.) are not the engines of the development of the world economy. In the second on the face value of the world economy, this figure is generally 8,000 and \$ 280, and at the same time, in the first on this indicator, the economy of every dollar imported from the PRC 85 cents production is the profit of American retailers.

At the same time, the processes of downsizing, reengineering, and global expansion of TNCs coincided in time with an unprecedented increase in profits in the field of show business, professional sports, Law, etc. So, artists, performers, excellent athletes, their managers, agents, lawyers began to receive monetary rewards of such size that it is difficult to economically substantiate. As a result, the world's leading economies, have focused on the demand that is artificially spurred, on one hand, and, on the other – the leading emerging markets produce a supply that goes from self-replicating and development to emulation of technology. The success of the latter depends on the consequences of the tectonic shifts in the world economy, which in fact, return the order of things that existed before the 1860s, when China was the richest country in the world.

The traditional is the definition of the uneven distribution of income in a society at a decile rate, but now there are many countries in which even in the midst of 10% of the richest citizens there is a high-income differentiation. This largely makes this coefficient incorrect for a number of studies. According to the CIA Directory of the United States on the countries of the world, in Russia, the decile rate is 12.8, which is lower than in the UK (13.6), the USA (15.0), the PRC (21.8), Hong Kong (17.8) and so on. However, according to the results of the report of the consulting company «New World Wealth» Russia ranks first among the countries with the most uneven distribution of welfare. Thus, 62% of the country's wealth belongs to millionaires (127 thousand people) and 26% billionaires (100 thousand people). That is, 127 thousand 100 people, which make 0,0086% of the population own 88% of the country's wealth. Instead, in the United States, 4.18 million millionaires (1.28% of the population) control only about a third of national wealth. In Australia, where the identical Russian decile ratio (12.7), millionaires (290 thousand) make up 1.18% of the population. At the same time, there are 480 billionaires in the United States, 140 and 147 people in the United Kingdom and the PRC, respectively. At the same time, analysts of «New World Wealth» point out that if millionaires control more than 50% of the country's wealth, and then there is no room for a full-fledged middle class (online resource).

Experts note that the middle class gradually loses the position of the technological development motive; its consumer inquiries are unified and financially limited. The financial difficulty of the middle class of economically developed countries gave impetus to the development of the controversial phenomenon of consumer society, the so-called sharing economy. Therefore, the research of the magazine «TIME» showed that one in five Americans worked in the field of sharing economy, and two out of five used sharing services. Juniper Research pre-

dicts that readings services revenue will reach \$ 6.5 billion by 2020, while Airbnb's business by 2019 will be estimated at \$ 6.1 billion. Analysts of Statist portal are convinced that by 2020, 40 million Americans will use sharing services (online resource). That is, 13% of the population of the country (part of the middle and lower middle classes) will spend revenues on the use of existing goods, which will considerably slow down economic growth and limit the effective aggregate demand.

Currently, requests that stimulate the activities of innovative companies mainly generate higher middle and upper classes of postindustrial society. So the Italian company «Ferrari», thanks to the work of 3 thousand 17 workers in 2008, produced 6,662 cars, earning 341 million euros of operating profit. The French company «Peugeot» in 2005 received EUR 1 billion in revenue, providing jobs to 207 thousand workers. That is, the productivity of Italian specialists was 20 times higher, although GDP per capita in France is higher by almost a quarter. Significantly, the buyers of «Ferrari» are the representatives of the abovementioned strata of the post-industrial society and are equated with their income, and «Peugeot» is a traditional middle class. Precisely because of the request for space commercial flights, D. Bezos founded the «Blue Origin Company», R. Branson's «Virgin Galactic», which costs \$ 250,000 in space tour, and ticket to «Space Adventure's» space ship costs \$ 40 million dollars for comparison, the sending of one person to the ISS costs the state budget at 76 million dollars (online resource). In this way, innovative technologies of strategic importance are able to penetrate into the sphere of private enterprise. In essence, the global economy, artificially creating an effective demand for high-tech (extremely expensive) goods and services, has modernized the theory of the life cycle of the commodity, R. Vernon. It also led to another dimension of the «Veblen effect» where the so-called snobbery acquired the features of technological development motility.

In conditions where the old models do not properly manage the economy, from the methodological aspect of awareness, looking for ways of development. If the growth of the stakes of investment bankers, the primary brokers of hedge funds and other major financiers associated with the circulation of securities causes social rejection, then the high level of well-being of their idols citizens are perceived as an acceptable state of affairs. Thus, one of the characteristic features of the sphere of entertainment is the need for the formation of highly paid elite, whose popularization not only uses personal achievements but also their way of life, hobbies, preferences, profits, and the like. For example, in professional top-athletes, payouts under sponsorship contracts account for 30% of revenue and often prevail.

Today, the global economy is characterized by the cooperation of communist China and the US stronghold of democracy, and the case at a time when ideological contradictions will pass over economic expediency. Donald Trump on his Twitter site did not comply with official rhetoric and appreciated this cooperation. «Our foolish past leaders have allowed them to make hundreds of bil-

lions...» The economic problem of the PRC is the discrepancy between the prices monetized by the OECD countries of GDP to monetize at the domestic prices of aggregate demand. In other words, in the absence of a full-fledged middle class, which, apart from a certain level of income, characterizes economic and ideological freedom, a sharp rejection of social injustice, the financing of independent media, and so on. According to the World Book of CIA facts, the nominal GDP of the PRC in 2014 was 10 trillion. 360 billion dollars and GDP for PKP 17 trillion 630 billion, a similar situation in India is 2 trillion. 48 billion dollars nominal GDP and 7 trillion. 277 billion dollars GDP for PPP. While in the USA this difference is practically invisible – 17 trillion. 420 billion dollars and 17 trillion. 460 billion dollars in accordance.

Today, the PRC's football clubs provide the leading players in the past with employment offers for rewards comparable to the salaries of current top players. In particular, FC Shanghai Shenhua rated the game of 33-year-old Argentinean C. Teaves in a record world salary of 40 million euros a year. Another 32-year-old Argentinean E. Lovassi earned € 24.4 million in FC Chebei Chinatown Fortune in 2016, having spent only 10 matches in which he did not score at all. This indicates a desire to create not only a highly paid national football league, but also its output to the world level, as a motor for advertising of Chinese manufacturers not related to the leading TNCs. Thus, the wave concept of E. Toffler becomes real, which is a phenomenon in the domain of socio-economic forecasts in the long run period.

A well-known postulate that wage growth should be preceded by growth of labor productivity by analysts and experts is perceived literally. Since the increase in labor productivity means an increase in the volume of goods produced without increasing labor costs, it is difficult to understand why the facilitation of working conditions should lead to an increase in its remuneration. There is also a widespread belief that increasing labor productivity means that the share of labor costs in products is decreasing, while the share of costs of labor is increasing. In this case, the total amount of labor contained in each unit of product, decreases (Zavinovska, 2003). In the economy, this should lead, if not to a rise in price, at least to stabilize the price of raw materials and to increase the share of capital gains in the country's GDP. In fact, labor productivity is growing at more capital intensive jobs, and the aggregate economy becomes more saturated capital, which in the market conditions leads to loss of its deficit and lower equilibrium prices. Instead, work goes into the category of a deficit factor and its price increases. So in the *Cobb-Douglas Production Function*

$$Y = AK^\alpha L^{(1-\alpha)} \quad (1)$$

an increase in the amount of capital increases the marginal product of labour

$$MPL = (1 - \alpha) Y/L \quad (2)$$

and reduces the marginal product of capital,

$$MPK = \alpha Y / K \quad (3)$$

and scientific and technological progress  $A$  proportionally increases the marginal product of both factors of production. Consequently, the ratio of income to capital income is constant and the shares of factors of production in income depend only on the parameter

$$\alpha = \frac{MPK \times K}{Y} \quad (4)$$

and do not depend on the amount of labor and capital, nor on the state of technology, which is measured by parameter  $A$  (Mankiw, 2011). Thus, in the country, the reduction of income entails an increase in the parameter  $\alpha$ , and at the national economy level, there are at least two other ways to increase the proportion that capital invests in the allocation of GDP. The first is to reduce its capital intensity (downsizing, the transfer of the production of TNCs abroad), and the second – to increase the number of economically active population (labor immigration, raising the retirement age).

For countries where the share of capital in national income is significantly more than 50%, it is important for its owners not to allow changes in favor of increasing the share of labor. For Ukraine, this is due to the constant declaration by the authorities of the importance of foreign investment, which translates into low positions in the rating of investment attractiveness. M. Naim in (Naim, 2013) describing the barriers surrounding the authorities noted: the less in the country of fixed assets, the more difficult obstacles that prevent new players from consolidating in the chosen field. At the same time, he notes that the less the players change and their characteristics, the more stable the distribution of power. The power of the market gives the exclusive right, and therefore, anticompetitive. Price collusion and crowding out of competitors are widespread among companies operating in countries where free competition is suppressed.

Therefore, the Hamburg Institute of World Economy (HWWI), together with the German auditing company BDO AG, released the country's ranking on the investment attractiveness of the BDO International Business Compass (IBC) for 2016. It ranked Ukraine 130th (in 2015 – 89th place) from 174 countries (online resource). R. Solow's model of economic growth suggests that high income per capita is associated with high investment. According to this model, if a nation saves and invests only a small portion of its income, its steady capital and revenue will be low. Savings and investing are generally low in countries with weak political institutions and where corruption and bribery flourish (Mankiw, 2011). Significantly, complicated situation was the reform of the banking system in 2014-2016, which resulted in more than three times the devaluation of the national currency when it was «cleaned up». At the same time, during the same period, the inflation rate in 2014 was only 24.9, in 2015 – 43.3 and in 2016 – 14.2 per cent. However, when in the US in the 1970s doubled the rate of infla-

tion, President George Ford proclaimed her «the enemy of number one society,» and in the 1980s President R. Reagan called «the worst tax». The real interest rate  $r$  in the country is the same as increasing the purchasing power of persons saving on bank accounts and according to the Fisher equation, it can be calculated as the difference between the  $i$  – nominal interest rate paid by the bank and the  $\pi$  – rate of inflation [12].

$$r = i - \pi \quad (5)$$

In 2015, the average nominal interest rate in Ukraine, minus 21.5% of the tax, was 18.8%,  $\pi$  was 43.3%, and so placing a national currency in a bank a person lost 24.5% of the value of the «deposit body». A similar situation occurred in the banking system of the Kingdom of Denmark, where the interest rate on deposits for the population in 2016 was set at -0.5%. However, if in one of the richest EU countries, it was the result of an objective saturation of the financial capital of its economy; it was the result of the construction of the aforementioned artificial barriers around power in the poorest country in Europe.

### **Conclusions and perspectives of further research in this direction**

Bloomberg analysts report that accelerated world GDP growth comes at the expense of Japan and the Eurozone countries. In particular, the euro area economy showed an increase of 2.2% in a year, compared with 1.6% in the corresponding period of 2016. The leaders of GDP growth in the Eurozone were Spain, Italy and France. At the same time, Japan's GDP grew by 4% annually, which allowed the country to come first in terms of economic growth among the G7 countries (Bloomberg, online resource). All this gives grounds to state the electricity of world development trends and the complexity of its forecasting. However, now using the «blockchain» method, you can create much more correct prediction markets. Blocks of comprehensive information on the state of affairs in the international movement of factors of production will help to generate reliable knowledge about the causes of uneven world development and remove them to the extent appropriate. At the same time, we must admit that social divergence has, in its time, led to the formation of states and their institutions and the differences between levels of economic development of the countries will continue to generate scientific and technological progress. In such a model of world development, the political and legal structure of the state is dominant, and at present, its transformation leads to changes in the size of the group of developed markets and emerging markets.

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