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MODERN ECONOMIC GROWTH AND INNOVATION DIRECTIONS

Economic growth produces resources for innovations and technology development. Economic growth also generate demand for innovations with high potential for productivity, resources saving, advanced technologies and new products.

The world economic growth at any specific period is reflecting the actual co-movements of factors, driving forces, balances, risks and regulatory conditions. Some general trends are combining with sector and countries specifics. So the economic trends are emerging from diversity of conditions and risks, co-existence of the short-, medium- and long-term factors and changes. The driving forces, technology, resources, investments and risks are determining the models of world and countries economic growth, competition, innovation, socio-economic development.

The world and country economic growth is a dynamic process with constantly changing policies, resources, demand, input and output indicators. At the balanced market conditions those indicators are normally changing within predictable range and do not seriously affect economic agents. In other words, such situation could be considered as normal market fluctuation with limited marginal changes of demand, supply, prices, sales, revenues and profits. Limited fluctuations and predictability allows to manage foreseeing risks with natural hedges such as contract conditions, payments management, trade finance and others.

Events of misbalances and disruptions in the world economy are rising periodically which generate cases of economic and financial volatility, instability and crises. Such disruptions are causing by external and internal shocks and instability, which influence on economic growth – its risks, rates, models, investments, competition and outcomes.

Since 2020 the world and Europe have been affected by several global shocks, implications of which continue to influence international and countries' economies. Pandemic shock of 2020–2022 has been rapidly produced strong hit on public health, economic and social life. Shock caused business decline, high budget spending and public debt, contraction of the economies and some countries' recession.

Global shock of the russian invasion to Ukraine since 2022 have caused triple crises of energy, food and finance. Russian war has destabilize global economy and put on the brink of recession. The energy crises was most severe in Europe with jump prices, supply disruptions and energy sanction for russian oil and gas supply. In response to shock the European energy reforms, innovations and energy saving have balanced markets.

Global shocks may have short-term effect on prices volatility, demand and supply. As for growth, they may cause longer impact such as demand and supply shocks, technology shocks, inflation shock. Those may lead to the structural changes and adaptation of the economic growth model.

The world economic growth nowadays is slowing and differentiating due to the aftermath of global shocks and technology challenges. US, India, China and some emerging countries are keeping larger then world growth rates, but some developed countries of Europe are having low rates less then 1% and have been facing with recession risk, The main international differences are between US and slow moving advanced European economies and emerging Asian economies, notably China and India. Besides of economic differences, innovation and technology developments are becoming most important for international competition.

The global shocks and instability cause overall slowdown of the world and European growth in comparison to pre-pandemic period. Such situation leads to notable differentiation between industrial and emerging countries. US has better growth rates then advanced economies in Euro area. France, Germany and Italy after weak indicators in 2023 may have projected economic results in 2024 below 1% [2, p. 1]. Potentially it may widening gap between US and Euro area in most important economic areas and motivate Europe for catching-up competitiveness.

Table 1

Growth rates in the world and EU economy, % per year

	2023	**2024 IMF projections**	**2024 EU projections**
World	3,2	3,2	
Euro area	0,4	0,8	0,8
Germany	-0,3	0,2	0,3
France	0,9	0,7	0,7
Italy	0,7	0,7	0,9
Spain	2,5	1,9	2,3

Source: compiled and calculated based on the IMF and EU [3, p. 10; 2, p. 1]

Simultaneously Euro area is behind of international drivers of innovations and technology. While Europe Innovation Index will taken as benchmark at 100, then the innovation indexes of the nearest competitors will be as: South Korea – 126, Canada – 121, US – 113, Australia – 106, Japan – 98, China – 95 [1, p. 6].

The EU economy at the beginning of 2024 has entering into changing environment and moving into gradual restoration of resilient economic growth.

The major features of more stable economic growth are the following:

– inflation is moderating towards ECB targets with a hope to expect to start ECB rates gradual softening which may be positive for credit market, consumption, real estate market and services;

– demand for employees will be increased and labor marker be competitive;

– fiscal balance will be improve die to elimination of emergent energy subsidies and balanced energy market;

– investment demand will be increased in energy, manufacturing and services driven by technology advancement and digitalization.

The gradual improving of the EU economic condition create better possibilities for innovation and technological completion with the US and other international rivals.

For Europe a differences in economic and innovation development with the US and other countries, a challenge of global competitiveness and innovation is a motivation for more active and targeted innovation policies.

Instability is increasing risks for investments into conventional technologies with limited potential margins, but is a risk aversion for disruptive innovations with monopolistic position, market potential and high initial margins.

Global instability, economic differentiation, gaps and challenges are pushing efforts for growth, quality and efficiency, creating the demand for innovations.

Addressing these challenges requires more targeted innovations:

Slow rate of countries' growth requires innovation to boost productivity, digitalization, quality and resource saving to accelerate growth.

Instability of global trade requires innovations to promote new high technology products and digital trade services.

Rapid technological changes enforce a role of disruptive innovations and their international dissemination.

Climate change and EU Green Deal push for innovations for sustainability, clean energy and energy saving.

Innovation and energy transformation are crucial for achieving better quality of resilient economic growth with digital environment, better productivity, flexible employment, smart consumption and sustainable environment.

Research and innovations are focused on the energy transformation and security, it should be more coordinated within the European Energy Union and supported by digitalization.

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