BALANCING ECONOMIC DEVELOPMENT AND RESILIENCE: A POLICY PARADOX

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The aim of this paper is to explore the intricate relationship between sustainable economic development and economic resilience. It highlights how measures to stimulate economic growth, such as investments in physical and human capital, innovation, entrepreneurship, and sound fiscal policies, can also bolster resilience, while recognizing the potential conflicts between short-term growth and long-term resilience goals, especially in the context of increasing debt. The paper also proposes several mitigation strategies offering a roadmap for governments to strike a balance between fostering economic expansion and ensuring readiness to face unforeseen challenges, with the flexibility to adapt to unique economic contexts.

Key words: *resilience, economic, growth, mitigation, strategies, holistic approach*

1. INTRODUCTION

In the ever-evolving landscape of governance and policymaking, few challenges rival the delicate equilibrium required to balance the pursuit of robust economic development with the imperative to fortify a country's resilience. This conundrum is an issue faced in contemporary governance, as nation's worldwide grapple with the need to foster prosperity while safeguarding against the capricious tempests of an increasingly unpredictable world. This essay endeavors to delve into the intricacies of this policy paradox, probing the fundamental question: can economic development and resilience coexist harmoniously, or do they perennially find themselves at odds?

At the heart of this paradox is a fundamental tension between immediate, and often narrow, interests of economic growth and the broader, long-term objectives of resilience—safeguarding communities and institutions against myriad risks, from economic crises and environmental challenges to migration and conflicts. Economic development beckons with the promise of higher living standards, new job opportunities, and the realization of societal aspirations, yet this pursuit can inadvertently engender vulnerabilities and dependencies that undermine the very progress it seeks to deliver. Conversely, resilience, while vital for enduring adversities and sustaining social structures, can sometimes stifle economic dynamism with its emphasis on prudence, risk mitigation, and the allocation of resources to contingencies rather than investments. The policy choices required to enhance resilience, often involving regulatory strictures and financial investments in infrastructure and preparedness, can appear to impede growth, provoking a persistent policy tension.

Throughout this article, we will explore the inherent dilemmas and trade-offs in balancing economic development and resilience. Drawing upon case studies and theoretical perspectives, we will illuminate the moments where these two policy objectives find themselves in conflict and uncover strategies for reconciling their differences, with the aim of providing valuable insights for policymakers and scholars navigating this complex terrain.

2. THE CONCEPTS OF ECONOMIC RESILIENCE AND ECONOMIC DEVELOPMENT – LITERATURE ANALYSIS

The concept of resilience is multifaceted and makes the object of studies in several domains, consequently the concept is approached in the literature from various perspectives, each offering a nuanced understanding of this complex concept. Resilience viewed from a broad, strategic level point of view refers to a nation's capacity to endure, recover from, and adapt to economic shocks, disruptions, and crises, holds a paramount role in safeguarding a country's national security and stability. NATO defines resilience as the ability to prepare for, withstand, respond to, and recover from shocks and disruptions, thereby ensuring continuity in the Alliance's activities (https://www.nato.int/cps/en/natohq/topics_132722.htm). The concept of resilience is not a new issue for the EU, as it was addressed from 2006 within the European Program for the Protection of Critical Infrastructure, but the concept of resilience was approached in a rather ambiguous manner, summarizing rather than adopting a holistic approach, focused initially on the social environment (Pernica, Tomášková

2016). Currently, the European Union delineates resilience as not only the capacity to withstand and manage challenges but also to undergo transitions in a sustainable, fair, and democratic manner, encompassing social and economic, geopolitical, green, and digital dimensions (Manca, Benczur, Gionannini, 2017).

Economic resilience is an important component of resilience at nation level and is usually analyzed from the perspective of an economy's ability to withstand economic shocks, recover and adapt to the various unforeseen disruptive events that can originate within or outside a nation's economy Dhawan and Jeske, p. 21–32). Other authors (Pendall *et al.,* 2009, p.71-84) consider economic resilience as the complex concept of adaptation and change in in an economic system to conditions generated by external shocks and factors.

Economic resilience is examined from a macroeconomic perspective concerning the economy's ability to cope, recover, and reconstruct, thereby minimizing aggregate consumption losses during crises (Hallegatte, 2014). From a combined microeconomic and macroeconomic standpoint, it considers how individual economic agents and the broader economy respond to shocks. (Pinkwart et all, 2022, p. 763–786).

3. RESILIENCE AND DEVELOPMENT: SHORT-TERM GAINS VS. LONG-TERM SUSTAINABILITY

Sustainable economic development and economic resilience are often interconnected, as the ability to resist, adapt and recover from shocks is the foundation for economic growth. *Measures aimed at stimulating investments in physical capital* (e.g., infrastructure, technology, machinery) and human capital (e.g., education and workforce training) can boost productivity and economic growth, but at the same time can support economic and social resilience.

Stimulating the advancements in innovation and technology can drive economic growth by improving efficiency, reducing costs, and creating new products and services, and at the same time ensure economic resilience by reducing a country's dependence on certain industries that are more exposed to shocks such as supply chain disruptions or fluctuations in prices or demand.

Entrepreneurship is another common area between economic growth and economic resilience, as a thriving entrepreneurial ecosystem encourages the creation of new businesses, which can lead to job creation and economic growth, but it can also encourage economic resilience through competitiveness, diversification and adaptation.

Sound fiscal and monetary policies can stimulate growth, and on long term they can also contribute to resilience by promoting stability, predictability and lowering the vulnerability of the economy to external influences and shocks.

On the other hand, some measures aimed at achieving economic growth on short term can potentially come in conflict with long term measures aimed at achieving economic resilience.

An increase in the public or private debt may contribute to economic growth on short term, through stimulating demand and consumption, or through capital investments. When individuals or businesses take on debt, they may use the borrowed funds for spending on various goods and services. This increased spending can boost demand in the economy, leading to increased production and job creation. This is especially true in the case of consumer spending and business investments. Debt can be used to finance investments in productive assets, such as machinery, technology, infrastructure, or research and development. These investments can lead to increased productivity and economic growth, but an excessive debt level can also hinder economic resilience in the event of a shock or crisis. During financial crises, public debt can be used to stabilize the financial system, support troubled industries, and provide social safety nets, preventing a further economic downturn. In times of economic downturns, central banks may implement low-interest rate policies to encourage borrowing, with the result of reduced cost of servicing debt, making it more attractive for individuals and businesses to take on debt to fund investments and spending.

On the other hand, increased public and private debt, if not managed prudently, can undermine economic resilience and lead to a range of negative consequences. High levels of debt require substantial interest payments, both for individuals and governments. These interest payments can divert resources away from other important priorities, such as public investments, social programs, and emergency responses and reduce the government's ability to react to economic crises or other unforeseen events.

Excessive public debt levels limit a government's ability to respond to economic shocks. When a crisis occurs, such as a recession or a natural disaster, governments may need to engage in deficit spending to stimulate the economy or provide relief. High existing debt levels can constrain their ability to do so, as they risk pushing the debt-to-GDP ratio to unsustainable levels.

High public debt levels can lead to higher interest rates in financial markets. This, in turn, can crowd out private investment as the cost of borrowing for businesses and individuals rises. Reduced private investment can lead to slower economic growth and decreased economic resilience.

Excessive debt can lead to a downgrade in a country's credit rating, making it more expensive for the government to borrow in the future. Higher borrowing costs mean that more revenue is allocated to servicing the debt, further reducing the resources available for essential public services and crisis response.

High private debt levels can also pose a threat to financial stability. In times of economic stress, individuals and businesses may struggle to service their debts, leading to defaults and banking sector vulnerabilities, which can amplify economic shocks and hinder recovery.

When governments resort to excessive borrowing and central banks monetize debt by printing money, it can lead to inflation and currency depreciation. These economic consequences erode the purchasing power of citizens and undermine economic stability.

High levels of private debt can leave individuals financially vulnerable. Economic downturns or unexpected expenses can lead to financial distress, reducing consumer confidence and spending, which can be detrimental to economic resilience.

A history of high and rising debt levels can erode the government's credibility and its ability to manage fiscal policy effectively, reducing the confidence in the government's ability to handle economic crises, potentially leading to capital flight and economic instability.

Finally, high levels of debt can lead to social and political tensions, as citizens may question the allocation of resources and the fairness of austerity measures that are often implemented to address high debt levels. These tensions can undermine political stability and hinder the government's ability to respond to crises effectively.

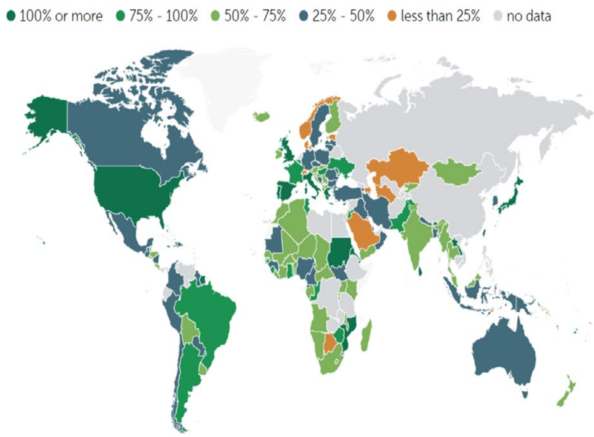

Fig. 1 Central Government Debt as Percent of GDP
Source:
https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/USA

Overreliance on a single economic sector is another factor that can undermine economic resilience, as economies overly dependent on one sector, such as oil or grain production, can be vulnerable to price fluctuations and global economic changes.

Overreliance on a single economic sector can initially contribute to short-term economic growth in that specific sector. This concentration of resources, labor, and investment can lead to increased production, exports, and profitability within that sector. As a result, it may create short-term economic growth, generate jobs, and boost government revenues. However, this growth is often unsustainable and can lead to economic instability in the long run. Over time, it can make the economy vulnerable to shocks specific to that sector, and if that sector experiences a downturn or faces external pressures, it can lead to a rapid contraction of economic activity, causing short-term economic crises and setbacks. According to UNCTAD, "more than 60% of the world's small island developing states – on the front lines of the climate crisis – are commodity dependent and commodity-dependent developing countries make up a staggering 95% of the 20 countries most vulnerable to climate change, which amplifies their economic and social challenges"(https://unctad.org/news/commodity-dependence-5-things-you-need-know). Diversifying the economy is crucial to ensure sustained and balanced growth that is less susceptible to these short-term fluctuations and shocks.

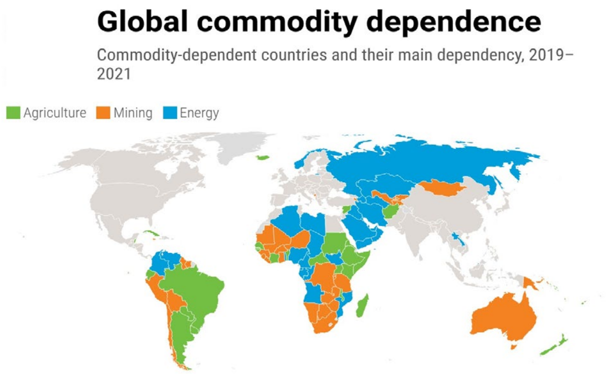

Fig. 2 Global commodity dependence
Source: UNCTAD calculations, https://unctad.org/news/commodity-dependence-5-things-you-need-know

Stimulating consumption can contribute to short term economic growth, but at the same time *insufficient savings* at the individual and government levels can hinder resilience during economic downturns or emergencies. Robust financial safety nets, like unemployment benefits and social assistance programs, are vital.

High levels of income inequality can lead to social unrest and political instability, undermining economic resilience. Despite the fact that it is possible to achieve economic growth in conditions of high income inequality, the extent to which this growth benefits the broader population and the sustainability of such growth are important considerations to be analyzed. Inequality can stimulate economic growth only when it provides incentives for innovation, entrepreneurship, and investment.

Table 1 presents a comparison between the level of economic growth as compared to the previous year and the GINI coefficient, illustrating inequality levels, for the first 20 countries with the highest inequality.

Table 1 Economic growth and inequality

	GINI coefficient	Economic growth
South Africa	0.63	2.04
Namibia	0.59	4.56
Zambia	0.57	4.74
Colombia	0.54	7.5
Mozambique	0.54	4.15
Belize	0.53	12.13
Botswana	0.53	5.78
Angola	0.51	3.05
Saint Lucia	0.51	15.4
Panama	0.5	10.81
Zimbabwe	0.5	3.4
Brazil	0.49	2.9
Costa Rica	0.49	4.31
Guatemala	0.48	4.12
Honduras	0.48	4
Cameroon	0.47	3.54
Ecuador	0.47	2.95
Nicaragua	0.46	3.75
Chile	0.45	2.44

Source: https://www.theglobaleconomy.com for economic growth 2021 and World Bank for the GINI coefficient

Excessively high income inequality can hinder long-term growth by limiting access to education, healthcare, and economic opportunities for a significant portion of the population. It may lead to social unrest and political instability, which can disrupt economic activities. Furthermore, extremely skewed income distribution can reduce overall demand for goods and services, potentially hindering growth in the long run. Therefore, while growth is possible in unequal conditions, achieving sustainable and inclusive growth often requires policies and measures that address income inequality and ensure that the benefits of growth are more widely shared.

Expanding international trade can significantly contribute to economic growth in several ways. Firstly, it broadens market access for domestic producers, enabling them to sell their goods and services to a larger customer base, increasing sales and revenue. This, in turn, can lead to the expansion of businesses and the creation of new jobs, reducing unemployment and boosting incomes. Secondly, increased trade often leads to enhanced specialization and efficiency, as countries can focus on producing goods and services in which they have a comparative advantage. This specialization improves productivity and lowers production costs. Additionally, international trade fosters competition, forcing firms to become more innovative and competitive, ultimately driving economic growth. Moreover, it allows for the inflow of foreign investment and technology, which can catalyze economic development. Finally, trade can also stimulate infrastructure development and investment in transportation and logistics, further supporting economic growth by facilitating the movement of goods and services across borders.

Despite its benefits, international trade can also undermine economic resilience in several ways. Firstly, heavy dependence on foreign markets for imports and exports can make an economy vulnerable to global economic fluctuations, such as recessions or trade disputes, leading to instability. Overreliance on international supply chains can disrupt essential goods and services during global crises, as was evident during the COVID-19 pandemic. Additionally, intense international competition can lead to job losses and wage stagnation, eroding the social safety net and increasing income inequality, which can weaken a country's social and economic stability. Furthermore, a focus on export-oriented industries might divert resources away from the development of diverse and self-sustaining domestic industries, leaving the economy susceptible to external shocks. Lastly, international trade can sometimes result in environmental degradation as industries prioritize cost-cutting over sustainable practices, which can ultimately undermine a nation's ecological resilience.

4. MITIGATION STRATEGIES

In order to de-conflict economic growth and economic resilience objectives and measures, it is of prime importance for governments to achieve a balance between fostering economic expansion and ensuring that economies can withstand shocks and disruptions, between short term and long term considerations. Some of the mitigation strategies recommended in this respect are outline below:

- Diversification of economic activities through encouraging diversification of economic sectors to reduce dependence on a single industry, promoting innovation and technological advancements to enable new sectors to emerge and supporting entrepreneurship and small and medium-sized enterprises (SMEs) to increase economic flexibility.

-Strengthening infrastructure by investing in resilient infrastructure, including transportation, energy, and communication networks, to ensure rapid recovery from disasters, upgrading and maintaining critical infrastructure to minimize vulnerabilities and ensure long-term growth.

-Fiscal responsibility by implementing responsible fiscal policies that balance short-term spending for stimulus with long-term fiscal sustainability, maintaining fiscal buffers for times of economic downturns, ensuring the ability to invest in recovery.

-Financial system stability through regulating the financial sector to prevent excessive risk-taking and speculative activities, strengthening banking and financial institutions to withstand economic shocks.

-Social safety nets are an important part of societal resilience that underlines also economic resilience, so establishing comprehensive social safety nets to protect vulnerable populations during economic downturns should be one of the priority measures.

-Investing in education and skills development to enhance workforce adaptability.

-Risk assessment and management through conducting regular risk assessments to identify potential threats to economic growth and resilience, developing risk management strategies, including contingency plans and insurance mechanisms.

-Environmental sustainability by promoting sustainable practices to mitigate environmental risks, including climate change, investing in clean energy and resource-efficient technologies to enhance long-term economic resilience.

-Collaborating with international partners to address global economic challenges and participate in international trade agreements and organizations to foster economic growth is important, as national resilience should not be viewed in isolation in today's interconnected and globalized world.

-Government capacity building by strengthening government institutions to enhance their capacity to respond to economic crises effectively and ensuring transparency and accountability in public financial management.

-Public-private partnerships through fostering collaboration between government and the private sector to drive economic growth while managing risks jointly, encourage corporate responsibility and ethical business practices.

-Investing in research and development to drive innovation and improve economic productivity and promote the adoption of digital technologies to enhance economic competitiveness.

-Data and analytics though implementation of data-driven decision-making to monitor economic trends and identify potential vulnerabilities and the development early warning systems to detect emerging risks.

-Resilience planning through development comprehensive economic resilience plans that encompass various sectors and address potential disruptions, and establish dedicated agencies or teams responsible for resilience planning and implementation.

-Public engagement and education by engaging the public in understanding the importance of economic resilience and the need for responsible economic growth, emphasize economic, financial and digital education at the level of the whole population, promote a culture of preparedness and adaptation to changing economic conditions.

-Appropriate regulations aimed at achieving the optimum balance between implementing flexible regulatory frameworks that can adapt to changing economic dynamics, while ensuring necessary oversight and control and the stability and predictability of the regulatory framework.

-Scenario analysis is a useful tool for ensuring resilience, by conducting scenario analysis to assess the impact of various shocks on the economy, allowing for more effective planning and mitigation.

-Long-term planning in order to encourage long-term thinking in policy formulation and investment decisions, rather than focusing solely on short-term gains.

These mitigation strategies can help strike a balance between economic growth and economic resilience, ensuring that countries can prosper while being prepared to withstand unexpected challenges and disruptions. The specific strategies implemented will of course vary based on a country's unique economic context and challenges.

5. CONCLUSIONS

Sustainable economic development and economic resilience are closely intertwined, with the ability to withstand and recover from shocks forming the foundation for lasting economic growth. While measures promoting investments in physical and human capital, innovation, entrepreneurship, and sound fiscal policies can stimulate economic growth, they also support economic and social resilience. However, an excessive reliance on short-term strategies, such as increasing public or private debt, can potentially conflict with long-term resilience goals, as high debt levels can hinder a country's ability to respond to economic shocks. Additionally, overdependence on a single economic sector and high income inequality can undermine economic resilience and stability. Mitigation strategies to strike a balance between growth and resilience should be tailored to each country's unique circumstances, allowing nations to thrive while being prepared for unexpected challenges and disruptions.

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