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*Impact of world financial crises on geo-economic transformations*

Wpływ światowego kryzysu finansowego na przemiany geoekonomiczne

**Key words:** geo-economic transformations, financial crises, gross domestic product, GDP growth rate, geo-economic area

**Slowa kluczowe:** geoekonomiczna transformacja, kryzys finansowy, produkt krajowy brutto, wzrost PKB, geo-przestrzeń gospodarcza

## Introduction

In the late 20th – early 21st centuries there was a series of processes and upheavals having demonstrated the fundamental character of changes in global economic area. Nowadays, the world financial crises prove the inadequacy of approaches existing in economic theory and practice as to their prediction and management. Global transformations of the early 21st century have led to the necessity of reconsideration of current state ratio of economic forces in the world economy and theoretical approaches to the substantiation of the future changes and practical tools of prediction and forecasting of its development prospects.

The works of C. Jean, M. Zgurovskyi, Y. Kochetov, Y. Lutvak, P. Savona, etc., are devoted to the investigation of different geo-economic problems [3; 11; 12; 15]. A. Galchynskyi, J. Kornai, Y. Pahomov, K. Polanyi, etc., deal with the problems of economics transformations [10; 14; 20; 22]. Financial crises were thoroughly investigated by R. Aliber, C. Kindleberger, C. Reinhart, K. Rogoff, etc. [13; 18]. At the same time, “geo-economic transformations” term is not practically used in economics

literature; accordingly, there are no investigations concerning the essence of these transformations and the impact of the world financial crises on them.

In every concrete historic period geo-economics reflects the level of corresponding development of the world economics, namely: stable forms of building international economic relations concerning production, distribution, exchange and consumption, and reflecting the force ratio under certain level and character of technological and economic development. Imbalance among the system ingredients causes definite evolution and revolution changes. Generally, geo-economic transformations consist in the elimination of deep problems and disparity accumulated in the global economy; as well as power imbalance among its players. They give an opportunity to eliminate barriers for further development and growth without changing radically the basis of market system relations. It is due to adjusting the game rules, the change of institution character and the struggle of main “players” to preserve their power on the world arena or to conquer power positions by “new actors”.

The confirmation of industry transformation being the basis of reproduction processes in the global economy and the source of income may be the dynamics of gross domestic product (GDP). The changes of GDP volume and growth rate, its distribution among civilizations and leading countries, as well as changes in reproduction and branch structure have, for centuries, indicated not only the level and development rate of the world economy but global changes in it [16]. Monitoring such changes in historic dynamics gives an opportunity to make reasonable conclusions as to the content, structure and character of geo-economic transformations.

The last two centuries were characterized by record high economic growth and civilization wealth increase in the history of mankind; although the period of formation and primary stages of production development was characterized by much slower rate. Thus, GDP growth rate was only 0.15% per annum in the Middle Ages, it increased to 0.32% in the period of early industrial society (Fig. 1).

Such doubling was substantiated with the beginning of industrial revolution at the end of the 17th century – at the beginning of the 19th century, the transition from traditional to industrial society, as well as capital accumulation in the countries of West Europe. The same processes, especially the creation of industrial infrastructure, contributed to threefold increase of GDP growth rate to 0.93% in 1820–1870 and to 2.11% in 1870–1914 (Fig. 1).

Financial crises having occurred periodically could not significantly affect the general tendency of production growth. It is explained with the fact that, firstly, they were basically local (occurred in certain countries) till the first international crisis of 1825; secondly, their negative consequences could not exceed a positive impact on the development of global economy, the introduction of market principles and industrial revolution.

GDP growth rate decreased to 1.82% in the period from 1913 to 1950; in particular, from 2.11% to 1.93% in Western Europe, from 2.33% to 0.86% in Eastern Europe, from 3.94% to 2.84% in the USA. This period was characterized by sharp

inter-imperialist rivalry during the completion of the transition from industrial capitalism to its monopoly stage that was embodied in two world wars and 1929–1933 crisis. The main players of this period were the USA and Germany.

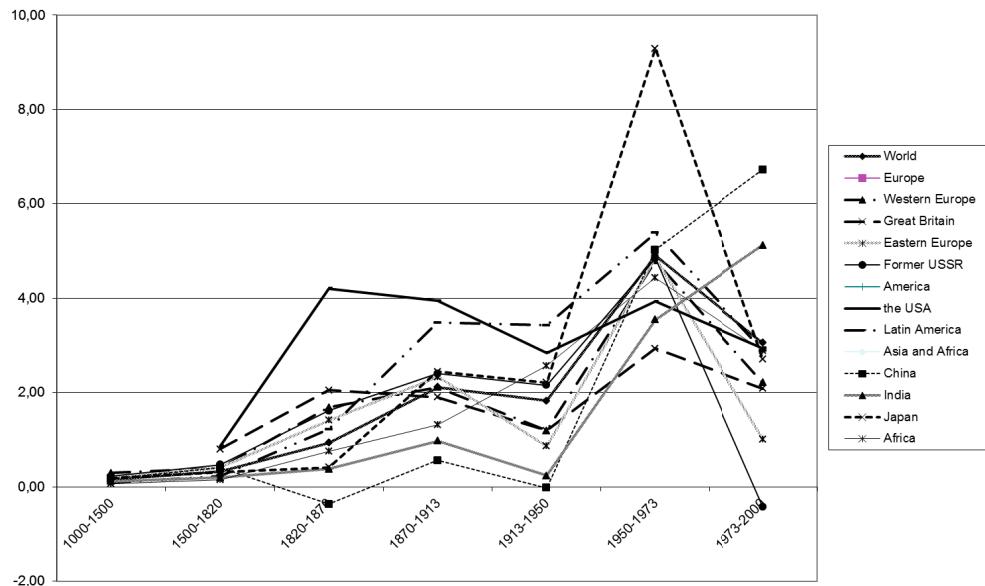


Fig. 1. GDP growth rate concerning civilizations and leading countries (% in constant prices of 1990)

Source: Compiled by the author according to [4, p. 260]

There were three crises in this period in 1914, 1920–1922 and 1929–1933. The first one occurred as a result of mass sale of foreign issuers' securities by the governments of the USA, Great Britain, France and Germany with the aim of financing war operations. It started almost simultaneously in some countries after the countries participating in World War I had begun to get rid of foreign assets [2; 19]. The crisis of 1920–1922 occurred in Denmark, Italy, Finland, Holland, Norway, Great Britain and the USA under post-war deflation and recession characterized by production decline and connected with bank and currency crises in these countries [5, p. 76]. The most powerful global crisis was in 1929–1933. Securities value decreased by 60–70% at New York Stock Exchange; business activity declined sharply; the gold standard for the main world currencies was abolished. As a result, industry production decreased by 46% in the USA, 24% in Great Britain, 41% in Germany and 32% in France. Stock prices of industrial companies fell by 87%, 48%, 64% and 60% accordingly [7].

Financial crises and wars that took place during this period contributed to the formation of two global systems: capitalism and socialism. There appeared new players and leaders, USSR and socialist countries, on the world stage. Now the struggle

for economic power in the world was between the capitalist and socialist economic system, providing an economic war of destruction.

Later Japan and new industrial countries joined new players. In the third quarter of the 20th century the overall record of GDP growth rate was set: 4.90% in the world, 9.29% in Japan, 5.38% in Latin America, 4.86% in Eastern Europe and 4.84% in the Soviet Union (Fig.1). The transfer of material production from industrialized countries to developing ones took place in this period. It contributed to the change of their position in the world economy, the character of cooperative ties among world agents and the structure of international trade. A new cohort of economic power, oil-producing countries, was formed; the character of relations in resource sphere among countries of Centre and Periphery was changed.

The crisis wave of 1950s–60s swept the countries of Western Europe and Northern America. These financial-economic crises were the first postwar global crises arising in the conditions of free exchange without the coordination of macroeconomic. It was speculations with foreign currency that preceded the crisis. As a result, industrial production decreased by 4% and the number of unemployed achieved 10 million people in these countries [19].

The crisis of 1973–1975 started in the USA and involved the whole Europe. It was close to the crisis of 1929–1933 according to some indexes. Speculation with stocks, mortgage securities, office buildings, tankers, planes and glut the market with euro-dollars in 1970–1971 led to the collapse of the Bretton-Woods system. The decrease of oil production by OPEC countries provoked the increase of the world price to \$ 12 per barrel in 1974 that caused the first global energy crisis. The impact of these processes on industrial sphere manifested through the decrease of GDP growth rate to 2.9% in the USA, 2.7% in Western Europe, 2.3% in Eastern Europe and USSR, and 4.6% in Japan (Table 1).

In the last quarter of the 20th century there was a tendency of delay of GDP growth rate – from 4.90% to 3.05 % in the world, from 4.79% to 2.3% in Western Europe, from 4.86% to 1.01% in Eastern Europe, from 9.29 to 2.71% in Japan; Eurasian civilization was in deep crisis – GDP decline rate was 0.42%. Only GDP of China (6.72%) and India (5.12%) grew significantly (Fig. 1).

The intensity of financial crises in this period increased; the fact is demonstrated by five crises that shook the world. There was a crisis in the USA and the whole world in 1979–1982; syndicated loans to the countries of the “third world”, regular rise in oil prices, speculations with real estate, agricultural land and the dollar in the south-west states of the USA. The crisis of 1982–1987 in the USA was caused by the collapse of stock market through decreasing the capitalization of some big companies in the USA, speculations with elite housing and the construction of office buildings, the fall of the U.S. stock index Dow Jones Industrial by 22.6%. The same collapse was at the markets of Australia, Canada and Hong Kong.

Table 1. Average annual GDP growth rate, % (in prices of 2000)

Civilizations	1900 –1913	1914 –1929	1930 –1937	1938 –1950	1951 –1960	1961 –1970	1971 –1980	1981 –1990	1991 –2000	2001 –2011
World	2.70	2.00	1.30	2.30	5.00	4.60	3.50	2.90	2.60	2.55
Europe										
Western	2.10	1.40	1.90	0.40	4.50	4.90	2.70	2.40	1.90	1.81
Eastern	0.90	1.30	0.80	5.30	6.90	3.60	2.30	0.50	1.10	3.43
Former USSR	3.70	0.80	2.90	4.30	7.80	3.60	2.30	0.50	-6.00	6.69
America and Oceania										
USA	4.60	3.10	0.70	3.90	3.30	3.80	2.90	2.60	2.80	1.58
Latin America	3.20	3.00	3.80	3.70	5.40	4.70	6.60	1.40	2.60	3.43
Australia	3.80	1.50	1.90	3.60	3.70	5.50	3.30	3.30	2.90	2.95
Asia and Africa										
China	1.00	1.20	0.40	-0.50	5.30	0.60	3.10	11.10	9.80	10.40
India	1.10	0.90	0.30	0.40	3.50	3.80	4.10	5.30	7.90	7.41
Japan	2.40	3.90	3.60	-1.10	8.10	10.70	4.60	4.00	0.70	0.64
Pakistan	1.70	0.70	1.50	1.70	4.30	5.20	5.40	6.00	2.30	4.42
North Africa, Middle East	3.70	3.10	4.90	4.40	9.10	7.60	6.00	2.00	3.20	4.38
Africa to the South of the Sahara	2.80	2.60	3.20	4.40	4.40	2.80	2.30	1.70	1.30	4.73

Source: Compiled and calculated by the author according to [6; 17]

The next three crises came from the East and North America. In 1990 there was a crisis in Japan. The expansion of money and credit amount was due to the reduction of the interest rate in 1986 that caused the speculations at stock market and real estate market in future. The policy of Finance Ministry and Bank of Japan was very slow and late concerning the solution of these issues that caused the decline of GDP growth from 4.6% to 4% (Table 1).

The period of 1994–1995 was called “Mexican crisis” in economic literature. It resulted from significant capital inflows, bank loans, opening new national banks and the nationalization of banks privatized in 1991. The cancellation of state control over capital inflow and outflow caused a domestic boom. 10 billion USD were taken out from the country that resulted in the crisis of bank system. Instead, Mexico was granted a loan by the government and banks of the USA, other countries and organizations. The amount of support was 52 billion USD at the end of the year, particularly,

the loan from IMF equaled to seven quotes of Mexico in the Fund; it was three times higher than the permissible amount of loan [9, p. 7].

The crisis of 1997–1998 involving Thailand, Indonesia, Malaysia, Korea, Russia and Brasilia became more powerful. Bank loans, “building” boom, “crony” capitalism, the abolition of state control over capital inflows and outflows, loans abroad caused shocks at currency market, great selloff at stock markets of Asian countries. The liberalization of capital movement and the increase of global area globalization contributed to it. Asian crisis reduced global GDP by 2 trillion USD.

If we consider the data in terms of GDP growth in the 20th century – at the beginning of 21st century, we can make a conclusion that industrial civilization gains a tendency of exhausting its own economic potential. GDP growth rate in developed countries with the complete domination of industrial economic system decreased from 4.1% in the 1950s and 5.0% in 1960s to 2.7% in 1980s and 2.2% in 1990s of the 20th century (Table 1). Global economy entered a phase of crisis again from the end of 2007 after the world crisis of 2001–2002, short revival period and the beginning of rise. The crisis of 2007–2009 involving the whole world became exceptional concerning its consequences and distribution sphere; at the same time it had a lot in common with previous ones. It was preceded by long-term increase in lending, asset price increase, low premium for risk and the emergence of “bubbles” in the real estate sector. According to IMF data, global GDP increased approximately by 42% from 1990 to 2002 and almost by 34% from 2002 to 2007. The global amounts of financial assets of investment institutions exceeded global GDP in ten times in 2007 [1, p. 38].

Negative consequences of the crisis affected primarily highly developed North America, Western Europe and Japan civilizations. The decline of GNI growth rate in these countries was 6.6% in the crisis period. At the same time, China and India civilizations continued to develop rapidly. Poor countries having no opportunity to affect income distribution in the world lost nothing while remaining below the poverty line. The countries with the middle GNI level *per capita* felt its decline in the amount of 5.7% from 2007 to 2009; however, they renewed their upward movement to 7.8% per annum in 2010 [20].

However, such powerful financial crises and shifts in GDP dynamics did not change economic power in geo-economic area. The main leaders have been still economically developed countries; although the part of China and India civilization has gradually increased. The distribution of economic wealth for civilizations may serve as the characteristics of geo-economic transformations that is primarily connected with the volume of GDP production. Current situation shows that economic growth in many developing countries like China, India, Brazil, Russia affects the necessity of forming the new paradigm of global wealth distribution.

Such significant impact of financial crises on geo-economic development is explained by the fact that financial area has the features of global one. Nowadays financial sphere generates the strongest impulses of economic dynamics and instability since the functions of the main development engine move from industrial capital

to financial one. It is financial capital that sets the pace of economic growth, direct structural changes; cause the accumulation of disproportions and asymmetry of geo-economic development at the beginning of the 21st century. The accent moves from real markets to financial ones that become more globalized due to the development of their own infrastructure and the participation of the most globalized subjects in their activity: commercial and investment banks, pension and hedge funds, insurance companies, etc. The virtualization of financial instruments leads to the separation of money supply, prices and exchange rate from real economic basis causing instability [21, p. 23]. The data of Figure 3 shows the scales of virtual capital.

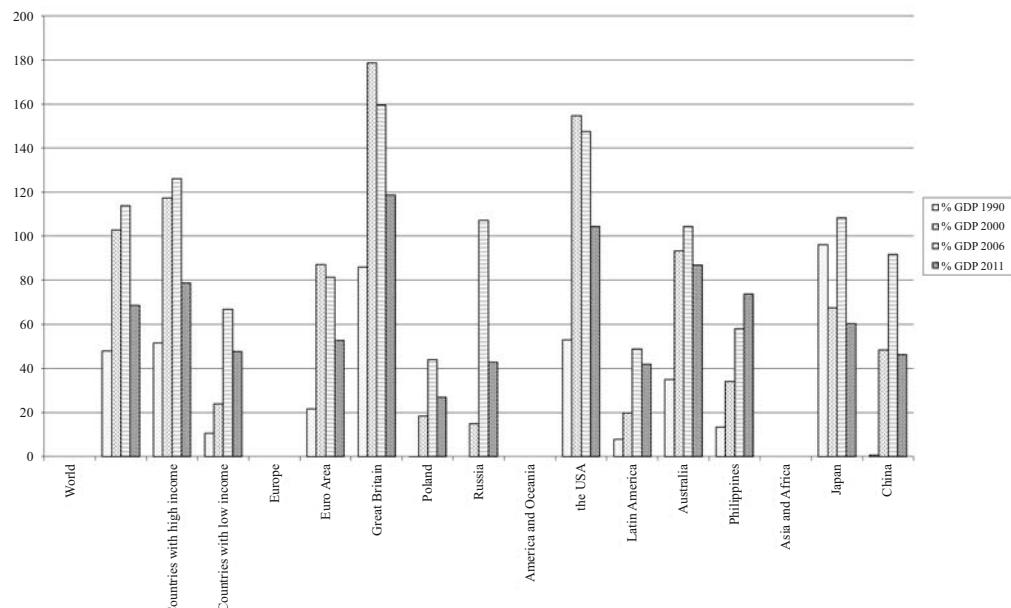


Fig. 3. Market capitalization dynamics (% to GDP)

Source: Compiled by the author from the source [6]

Thus, the world ratio of market capitalization to GDP increased in this way, from 49% in 1990 to 102.7% in 2000 and 113.9% in 2006; moreover, 85% are concentrated in the countries with high income, where 15.8% of the world population lives there; countries with low level (36.8% of the world population) have only 1.8% of virtual capital; although its ratio to GDP increased rapidly reaching 67% in 2006 [16, p. 46–47]. Even in Muslim and post-socialist countries the capitalization level increased at the end of the 20th – at the beginning of the 21st centuries; particularly, in 2006 it reached 93.65% of GDP in Saudi Arabia, 107.1% – in Russia, 40.3% – in Ukraine, 53.9% – in Kazakhstan [8]. However, these indexes were significantly reduced owing to the last crisis (Fig. 3).

The rapid growth of virtual capital plays an ambiguous role in the global economics. On the one hand, over the past three decades the cross-border flows of capital have dramatically increased; new complex financial instruments have appeared at the markets; the speed and easy form of financial transactions have significantly increased that generally contribute to the improvement and acceleration of production processes, trade and satisfaction of consumers' needs. On the other hand, the redistribution of wealth occurs primarily in favour of a small group of developed countries and therefore contributes to the deepening of property polarization in the global economics. Another drawback of speculation in the stock markets is increasing instability and chaotic character of economic dynamics, as well as the generation of financial crises, particularly, in 1998 and 2007–2008.

## Conclusions

Thus, the analysis of correlation between geoeconomic transformations and global financial crises shows that the most significant changes took place as a result of three financial crises, particularly, in 1929–1933 there was the change of free regulation system of market economics on state intervention; in 1974–1975 there was the collapse of Bretton-Woods system and transition to Japanese one; in 2008–2009 there was the necessity of general paradigm change of market regulation. Excessive swelling of fictitious capital, its detachment from the dynamics of real one is an index of industrial economic system parasitism, the accumulation of negative elements in market economy and the acceleration of geoeconomic transformations. Thus, the analysis of financial crisis impact on geoeconomic transformations is of paramount importance for not only determining modern tendencies of the global economy development but for predicting further changes in geoeconomic area.

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### **Impact of world financial crises on geoeconomic transformations**

The impact of the world financial crises on geoeconomic transformations starting with the first international crisis of 1825 till the last crisis of 2007–2009 is considered in the article. The main indicator reflecting major qualitative and quantitative changes in the ratio of economic power among the states and civilizations is considered to be gross domestic product, its scale and growth rate. The most essential transformations of geoeconomic area proved to occur owing to financial crises of 1929–1933, 1974–1975 and 2008–2009. The necessity of forming new paradigm of global wealth distribution due to the change of certain countries' role (China, India) in the creation of global product and the impact of the world financial crises on these processes is proved.

### **Wpływ światowego kryzysu finansowego na przemiany geoekonomiczne**

W artykule rozważany jest wpływ światowego kryzysu na transformację geoekonomiczną, w czasie od pierwszego kryzysu światowego w 1825 roku do ostatniego kryzysu z lat 2007–2009. Za główny wskaźnik odzwierciedlający poważne zmiany jakościowe i ilościowe w stosunku siły gospodarczej

między państwami i cywilizacjami uważa się produkt krajowy brutto, jego skalę i tempo wzrostu. Najistotniejsze przemiany w obszarze geoekonomicznym wystąpiły jako skutek kryzysów finansowych 1929–1933, 1974–1975 i 2008–2009. Praca dowodzi konieczności stworzenia nowego paradymatu globalnej dystrybucji bogactwa ze względu na zmianę roli niektórych krajów (Chiny, Indie) w tworzeniu produktu globalnego i wpływu światowego kryzysu finansowego na te procesy.