

Ways in which the global financial crisis refigured international relations resea...

[Parts of the World](#), [Europe](#)



The global financial crisis adverse effects started in mid-2007 with the credit crunch that deepened in the year 2008. These effects initiated the most severe economic crunch since the Great Depression. It affected the economies of various countries and there geographical reach (Berkman, Gelos, Renhack and Walsh, 2009). Most developed and developing countries most of which that have developing markets encountered high levels of financial strain and slow economic actions. The aim of this research paper is to identify in detail the several ways in which the global financial crisis refigured international relations. The paper explains the role played by various countries which led to the financial crisis in mid-2007 and the subsequent effects on the current global political system, country relations and economy. The research also identifies the countries which played a big role during the crisis. The countries include the United States, China, and the European Union.

The global financial crisis raised a concern on the role played by the US on the world stage, its leadership relating to other countries in terms of position and the credibility of the United States Government. The progress of the global financial crunch the world perceived the lack of regulation and oversight by the United States as a major cause of the crisis. Also, the present discontent in many nations with the condition in Iraq and the foreign US policies may make it difficult for Washington to be the steward in finding a remedy on the present financial crisis Brownwell (2008). China and its allies have been widely blaming the United States for causing the present crisis. Many argued that the credibility of the US has been undermined on issues of economy and making it difficult for Washington to persuade China

to reform its financial system McKibbin and Stoeckel (2009a).

The downfall of the US sub-prime secured loan market and the reverse of the housing flourishing in other developed economies have had a wave of repercussions around the world and refigured the global relations Berkman, Gelos, Renhack and Walsh, (2009). The effects experienced during the crunch saw the world's rich and wealthiest countries trying to rescue and bond out their financial organizations Borio and Lowe (2002). The relationship among rich and powerful nations in the world deteriorated for example China and the USA with China blaming the USA as the cause of the crisis. On the other side, many individuals believed that those who were bailed out were those accountable for the financial crisis but in the real sense the crunch had affected the livelihood of each and every individual in the largely interconnected world. The harms could have been evaded if notions in support of present economics models were less so vocal, inconsiderate and dominant of concerns and viewpoints of others.

The global financial crisis has refigured international relations basing on the argument that the power and prestige of the West was majorly weakened. The USA and major European economies such as Britain and France found themselves at the center of the crisis. The West is mostly regarded as a financial powerhouse as the leader and example for other developing nations' economies. For several years, the West had enjoyed the pride and confidence of having a stable economy Basri (2008). A liquidity crisis emerged as a result of loss of assurance of US investors in the worth of sub-prime mortgages. Markets crashed and became high unstable by the month of September, 2008 and the crisis got worse Baumol, William, Richard and

Edward (1994). The confidence among the citizens of the West hit a very low bottom as the government pride was lost and feared of what was lying ahead.

The confirmation of the prevailing anti-globalization views and a reflection in disagreement to more free up trade is as a result of the global financial and economic meltdown Best (2002). The meeting of the G-20 finance ministers and the central bank governors led to the participants agreeing in fighting any kind of protectionism while maintain open trade Bello, Herbert, Marissa and Mary (2004). The global financial crisis which started in the US spilled into other developed and developing countries causing unemployment. The decline in activities of trade and commercial development caused unemployment to increase steadily and with it, many governments politically responded to safeguard industries by combining together of several domestic backings and border protection. The result of this in international relations is the potential and a looming increase and rise of the protectionism policies in order to safeguard their economies.

The events in the US typically caused a world phenomenon. The dropping home ownership in the US caused major effects on spending, household wealth and nonpayment on loans contained by monetary organizations Benería and Savitri (2004). The anticipated movement of services from housing asset modeled a bursting of the housing bubble in the larger US, Europe and the United Kingdom but also substantial all over the world. Governments allocated a lot of budget to its citizens to own home.

The financial crisis caused the world autocrats to consolidate power. The more likely authoritarianism in nations like China and Russia led to the

increase in models of authoritarianism in developing world Berg (2003).

Political authorities employ activities with the aim of countering the effects of the crisis, but mostly with the aim of maintaining and strengthening their rule and keeping their own positions. In particular, the current authoritarian governments are taking more severe activities in dealing with economic and financial problems. For instance, Venezuelan leader Hugo Chavez in 2009 won a referendum ending double term maximum on presidential polls.

Whoever, the outcome of the democratic course is not completely attributed to the international economic crisis, but was just a matter of strengthening Chavez in Power.

The international relations also were also affected in terms of rise of state capitalism among the nations. The developing nations perceived the US and the strong European powers to be misleading and blamed them as the cause of the economic crisis, Best (2002). The Pro-US and the Pro-Western relations and sentiments weakened. This in turn caused the political relations among the countries to worsen especially China and the US Bianco (2008). The basic fundamental philosophies of the Western economic replicas of market-based capitalism were affected due to the increase of doubt in state capitalism, and business and trade protectionism. At the time of the financial crisis, most countries viewed the crunch to have been caused by the financial leaders of New York and London (Anon., 2008). The act of blaming the West and specifically the US, for the economic miseries, enabled government gain backing for themselves and encouraging the fires of nationalism.

The spreading of the global financial crisis to developing countries has caused these nations to face enormous monetary difficulties that they are

not able to solve. They are now seeking assistance from outside sources from such nations such as the China, Russia, European Union and the International Monetary Fund International Monetary Fund (Anon., 2009a). The political and strategic associations with the countries in question are affected depending on the extension of such assistance. For instance, particularly in Eastern Europe, a tug of war appears to develop concerning the Russia and the European Union for the long-period commitments of Eastern European nations. The prevailing condition in Ukraine better exemplifies the issue Bi (2008). The Ukraine Prime Minister stated that she had requested for financial aid from European Union, Japan, Russia and the United States.

Eastern Europe and Russia engaged in a tug-of-war for power in the political and economic crisis in that region. In April the year 2009, a Russian oil company, OAO Surgutneftegaz which is closely associated with Kremlin, acquired a 21% share in Hungary's national energy firm Bisignano, Joseph and George (2000). After the announcement, Moscow was criticized that it was taking the advantage of the financial crunch by to propagate its energy wealth into larger economic power in Eastern Europe. Also, the financial crisis was seen as swaying a nation from Russia to the West. For instance, on January 2009, Belarus was awarded stand-by planning of \$2. 46 for 15-month period. Belarus also had vainly requested Russia for a swap of a \$3 billion currency then requested a bank loan of \$2 billion guaranteed by the Russian administration Bitner (2008). The argumen by some experts was that Belarus had established a “ bidding war” concerning the West and East for power and influence there.

The financial crisis has also provided cash-rich China with an opportunity to acquire and secure dire supplies of raw materials and minerals. The quest of Chinese companies for fuel, food and ores has been enormous Lane and Milesi-Ferretti (2010). The Chinese firms are among the few in the present recessionary economic environment to do deals because of the much cash they have in hand. For instance, in February 2009, China agreed a long period deal to loan \$25 billion in return of increased supply of Russian oil to two energy companies belonging to Russia Blackman (2006). The global economic crunch seemingly has enabled firms challenged by the drop in demand keen to secure capital and more agreeable to proposals by the Chinese Companies.

Opposition parties rose in many countries which were opposing the policies of the developed and dominant nations. For example, there were experienced changes in the leadership role of the United States and global relations among nations and concerning the United States and other countries Blue and Jeremy (2009). Challenges arose from the financial and economic breakdown crisis, challenging the dominance of the United States and the function of the dollar as prime currency Rose and Spiegel (2009). Furthermore, there were also challenges for developing countries caused by reduced inflows of capital and transfer of funds and decreased exports and costs for supplies. The security effects of the financial crisis have also been observed by some think-tank of such nations such as the Netherlands Blustein (2001). The Dutch specifically has been concerned in a likely power move from the West to the East on the reason of China's increasingly financial strengt Almunia, Bénétrix, Eichengreeg, O'Rourke and Giselah

(2009).

The global financial meltdown also has been rocking the sense of unity in the Eurozone countries. Speculation has been rising on a possible disintegration of the Eurozone, a change which might have adverse effects on the European security Kaminsky and Reinhart (2000). The economic meltdown and associated financial crisis have maltreated the currencies of a number of non-Eurozone nations mostly in Central and Eastern Europe Arvai, Driessen and Ötker (2009). The result is many of these states being more interested in the apparent well-being of the Eurozone and have compelled the members of the Eurozone to ease the entry rules to the euro area Borio (2008). The relations with the bigger, more economically stable and wealthy economic nations of the Eurozone have been strained. The more economically powerful nations of the Eurozone hold a cynical observation of any Eurozone membership expansion.

The global financial crisis also caused political instability. For example, on January 26, 2009, Iceland Prime Minister Geir Haarde together with his cabinet intertwined in financially deprived nation resigned almost before the nation's currency, several major banks, and stock market collapsed Krozner, Klingebiel and Laeven (2007). What followed later was a large upsurge of civil protest. Also, during the same period in Latvia, the government was a victim of the nation's increasing economic and political chaos. In the Japan, much of situations which had been experienced in most of the European countries also happened. The approval rating for Taro Aso's, the Prime Minister had dropped to near 10% majorly on the reason that the public was dissatisfied with his struggles to recover the economy. Other European

countries such as Greece, France, Ireland and United Kingdom have faced public dissatisfaction over the handling of adverse effects of global financial crunch.

Many developing countries were hit by the problem of starvation and poor health. The rising levels of poverty and unemployment led to many citizens of developing countries to starve. A number of governments were faced with rising unemployment as many organizations had laid off many employees to keep and maintain the existence of such companies by controlling and minimizing the level of expenditure Balakrishnan, Danninger, Elekdag and Tytell (2009). The African zone which heavily depends on aid from developed countries was most affected by the crisis.

The global financial crisis caused the return of migrant laborers from the developed nations such as United States where they used to work and support their families at home. The discontent from citizens of other countries arose from them losing jobs, losing accumulated wealth they worked for, glancing at businesses going bankrupt and experiencing decreased costs for their products Honohan and Laeven (2005). For example, the US, was the worst hit by the global financial meltdown. As a result, many foreign immigrants living in the country were left jobless and had nothing to survive on Borio and Lowe (2002). The substantial decline in employment and a reduced income prompted many of the individuals to get back to their home countries or causing large deportations of immigrant employees who no longer are unemployed.

In developing countries, the global financial crisis resulted in easier enrollment of radicals. This is an issue of concern when it comes to security.

Security issues range from increasing levels of poverty and environment that might give set recruits for religious and political extremism in specific nations in Africa and Asia Reinhart and Rogoff (2009). Also, huge budgetary constraints heaped the pressure on the poor nations as more expenditure was needed to curb the rising insecurities. The poverty rise and likely government instability in developing countries made a safe haven for recruits for political extremism Jiménez, Ongena, Peydró-Alcalde and Saurina (2007).

Citizens are looking to their own government to rescue them from the worsening conditions of the economic crisis. Desperation in developing countries is a result of the financial crunch Borensztein (1999). For example in China, traditionally the rate of crimes has been low but the reported increase on the rate of kidnappings for ransom has been attributed as the impact of the economic slowdown and general increase in safety matters for large national companies, in specific from laid-off employees. The result of this desperation over unemployment apparently is the main cause of the rise in these threats Bookstaber (2008). For instance in Latin America, unemployment is increasing.. This is seen as an issue to the US status and policies considering that the Argentines in many times blame the US as the cause of their economic woes.

The aftermath of the economic crisis

The international agreement supporting globalization became significantly difficult to safeguard. The global financial crisis led to rise in anti-establishment and anti-globalization sentiments which further worsened the situation. The impact was felt in all countries therefore affecting the global

economy as fast financial spillovers caused the collapse of international trade. The world has never been the same again in regard to with the political, economical and social relations among countries.

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