

Study of the forms and conditions of economic crises in the regional economies of developing countries

Estudio de formas y condiciones de crisis económicas en economías regionales de países en desarrollo

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ABSTRACT:

The crises have occurred in the economies of many countries, accompanied by growing decline in production, accumulation of unrealized goods on the market, fall in prices, collapse of the system of mutual settlements and banking systems, bankruptcy of industrial and trade firms, sharp unemployment jump. The economic crisis means sharp deterioration in the economic condition of the country manifested in a significant decline in production, disruption of existing production link, a decline in the standard of living, etc.

Keywords: economic crisis, regional economy, developing states.

RESUMEN:

Las crisis han ocurrido en las economías de muchos países, acompañadas de una disminución creciente de la producción, acumulación de bienes no realizados en el mercado, caída de los precios, colapso del sistema de asentamientos mutuos y sistemas bancarios, bancarrota de las empresas industriales y comerciales, fuerte desempleo saltar. La crisis económica significa un fuerte deterioro en la condición económica del país que se manifiesta en una disminución significativa de la producción, la interrupción del vínculo de producción existente, una disminución en el nivel de vida, etc.

Palabras clave: Crisis económica, economía regional, estados en desarrollo

1. Introduction

The financial-and-debt crisis which began in all countries of the world, now acts as a socio-economic and systemic one. The way out of the crisis does not require private, but strategic management decisions related to the transition from industrial and rental-debt to social-innovative capitalism, which for its development uses primarily public, not just private productive forces (Shahe & Stiglitz, 2008).

A systemic crisis, social in nature, manifests itself in the growth of chronic unemployment (Keynes anticipated this problem to become the main one in the twenty-first century), social inequality and dependency, environmental threats, crisis of spiritual values of mutual trust and culture due to boundless individualism, chase for profit and manipulation of public consciousness (Goldin & Reinert, 2017).

The new industrialization means modernization and creation of new jobs in clusters and supply chains that show a steady demand for innovation. The criterion of its effectiveness is to increase the productivity not only of living, but also materialized in energy, material and capital resources, with the obligatory and priority provision of social development, rational employment of the population and environmental sustainability.

2. Literature review

Over the past few years, the world's leading universities have published about one hundred monographs on the causes, nature and consequences of the global crisis.

Much attention to the study of the nature of the instability of the economic situation in countries with developing and transforming economies is given in the works of T. Beig, A. Berg, M. Wicks, I. Goldfeyn, J.A. Calvo, A. Kanayi, V.M. Kollontay, L.A. Kormishkina, E.G. Mendoza, P. Moziás, C.M. Reinhard, Ya.V. Sergienko, M.R. Stone, N. Chowiri, V. Jianin.

Of particular interest in the development of the problem of financial crises are the works of A.V. Anikin, K. Wicksell, C.P. Kindleberger, A.V. Mulleneux, I.A. Trakhtenberg, F.T. Heiner. Most of them are devoted to the financial crisis, which for the first time has shaken not peripheral countries (Argentina, Mexico, Malaysia, Russia, etc.), but the whole world.

P. Krugman and R. Layard in the article "Economic Manifesto of Common Sense" (Krugman, 2014) consider the immediate cause of the crisis to be excessive borrowing in the private sector and risky lending to banks with a high level of arrears. This led to a reduction in private sector spending, consumer demand, and, in the end, to depression and public debt growth.

When investigating the prospects for the slowing down of the crisis in 2009 in 2014, in the works of V.T. Ryazanov (Ryazanov, 2009), as well as K.K. Richter and N.V. Pakhomova (Richter & Pakhomova, 2009), it was noted that the crisis was caused not by cyclical overproduction of goods, but by a mismatch of the management system of the new economy. Debt problems and the recession in the eurozone are just the tip of the iceberg of the structural problems of multi-vector world development.

Methodological problems of creating a regulated economy and overcoming the systemic crisis in developing countries were investigated by L. Abalkin, A. Auzan, S. Glazyev, R. Greenberg, E. Gurvich, S. Guriev, A. Dynkin, K. Richter, V. Mau, V. Palterovich, N. Pakhomova, V. Ryazanov, Y. Yakovets, V. Yakunin, E. Yasin and other economists.

In our country, the most complete theory of the study of economic crises in developing countries was presented in the manuals of A.G. Voitov and A.S. Bulatov, it is necessary to note the investigated history of economic crises by J. Soros (world economic crisis 2008-2010 (Soros, 2010) and I.M. Abramov (Great Depression).

The development of the problems of modern manifestations of economic crises at the macroeconomic and world level has a short history. Therefore, these problems are understudied.

3. Materials and methods

The object of the study is the modern economic cycle in conjunction with global processes in the economies of developing countries.

Methodologically, the work is based on the laws and principles of scientific dialectics, which made it possible to identify the most important features of the studied processes and the forms of their manifestations, to uncover contradictions between them, to determine the trends of their development.

In the process of doing the research, the method of scientific abstraction was used, logical

laws were applied, the principle of historicism was observed.

The theoretical basis of the work was made by classical and modern works of domestic and foreign scientists: monographs, scientific publications in specialized journals, analytical reports of state economic institutions and international economic organizations. 7 legal documents were summarized.

The empirical basis of the study was compiled by the International Monetary Fund (IMF), the World Bank for Reconstruction and Development (IBRD), the Department of Official Publications of the European Communities, the State Statistics Committee of the Russian Federation, the projected estimates of the Economics Division of the Russian Academy of Sciences, CEMI RAS, the Russian Development Center, the periodical press, the Internet, and expert assessments of researchers and practitioners.

The methodological difficulties faced by the authors of the presented study were related to the lack of a single algorithm for studying crises in the economic literature. Therefore, the authors attempted to generalize various approaches to the study of crises, guided by the principles of a scientific worldview, to give their own view of the problem under study.

The novelty of the work is determined by the underdeveloped nature of the problems of economic crises in the context of globalization in developing countries, as well as by the need to study the crisis processes in the world.

4. Discussion

4.1. Serious problems of economic development in developing countries

Among the developing countries, the most serious problems of economic development were experienced by the African countries south of the Sahara (except South Africa). The reasons for the worsening of their social and economic situation after the stable growth in the 1960s and 1970s were unfavorable external conditions, in particular, the oil shocks of the 1970s, as well as inefficient economic policies and deterioration of the natural environment.

A sharp decline in the rates of savings and investment, per capita income was largely due to a combination of a fall in economic growth and a rapid population growth. To solve the problems of poverty, the governments of these countries have gone on to limit the role of state intervention, the concentration of public spending in priority sectors of the economy, and the adjustment of the overvalued exchange rate. Reforms in agriculture that include the removal of price controls (Mali, Niger, Somalia, Uganda), the decentralization of agricultural sales, improved economic conditions, helped revive the economies of many developing countries in the African continent (Kaminsky, Lizondo & Reinhart, 1997).

However, the growth rate of the population was faster than the rate of economic growth. For example, in Kenya, Senegal and other countries, high growth rates in the 1980s were accompanied by a low or negative increase in GNP per capita. On the whole, such anticipation has led to deterioration in the socio-economic conditions of life of the population, aggravation of food and environmental problems.

4.2. Financial sector reform as one of the major problems of developing countries

One of the most important problems of developing countries in the 1980s was the reform of the financial sector. In the 50-60s, the official financial systems of these countries could not independently promote the course of reforms of industrialization and modernization of agriculture. The national informal sector consisted of usurers, traders, pawnshop owners who provided loans to firms and small businesses. All these sources of financing were characterized by a high level of interest rates. To ensure low-cost loans, new financial institutions were established in priority areas of the economy in developing countries, and their activities were regulated by the state. Budget deficits and the public sector were

financed by the governments of countries through external and internal loans.

As a result, many countries began to depend on foreign loans to pay for imported goods needed to industrialize the economy (Valentinovich Bogoviz, Grigor'evna Vukovich & Stroiteleva, 2013). In the late 70-ies in connection with the global economic crisis, interest rates increased, commercial banks stopped voluntary lending. Many enterprises became unprofitable, the practice of deferring unpaid loans and providing loans to cover unpaid interest, conducted by governments of developing countries, led to the collapse of their financial systems.

The current situation forced the governments of developing countries to change the course of reforms. In many countries, financial systems have been liberalized, involving the release of financial institutions from state control of interest rates, as well as currency controls. In Latin America (Argentina, Chile, Uruguay), liberalization ended in chaos, bankruptcy of banks. Governments were forced to re-introduce state control (Delyagin, 2003; Klyuchnikov & Molchanova, 2011).

In Asian countries, where financial liberalization was accompanied by greater macroeconomic stability, there was no need to introduce strict state control. The policy of gradual liberalization, i.e. the combination of a certain degree of control over the interest rate reflecting market conditions and the movement of capital with the promotion of increased competition-enabled these countries to avoid serious socioeconomic upheavals and strengthen their national financial systems.

Intervention by the governments of Latin American countries in the activities of financial institutions was carried out in various forms: by creating a system of cross-directorate, closing or organizing new banks or forming various combinations of these forms. Thus, in Argentina, 71 out of 470 financial institutions were liquidated. In Chile in 1981, the government liquidated eight insolvent financial institutions that controlled 35% of the total assets of the entire financial system of the country. In 1983, three more banks were liquidated, and five were rebuilt and recapitalized.

Consequences of financial reforms

The reforms had mixed consequences. Thus, in Chile, inflation decreased and real interest rates rose; in Argentina and Uruguay both inflation and interest rates remained at a high level.

The worsening of world trade conditions, the decline in exports, the growing international interest rates, and the reduction in foreign loans forced the governments of a number of Latin American countries (Chile, Argentina, Uruguay) to devalue their national currencies. As a result, many firms in the non-traditional sector of the economy were unable to service their debts, many banks were on the verge of bankruptcy (Bogoviz, Vukovich & Stroiteleva, 2013). The weakening of the protectionist policies pursued by other developing countries of Latin America had similar results: the profits of previously state-protected enterprises decreased, the volume of assets of financial institutions for which debt obligations were not fulfilled, increased.

The problem of the external debt of developing countries, which for the first time worsened in the early 1980s, was a significant obstacle in the reform of their financial structures. The peculiarity of the external debt crisis of developing countries was manifested in the fact that it affected mainly the developing countries of Latin America and Africa and practically did not touch the countries of Asia.

The process of adaptation of developing countries to the debt crisis was associated with a sharp drop in the rates of economic growth, investment, with huge social costs. In many countries, the debt-to-GDP ratio has exceeded 100%. The most negative consequences of the reduction of social programs fell on the African countries with the lowest incomes.

Initially, the problem of getting out of the debt crisis was solved by reducing domestic consumption by the amount necessary to pay a part of the debt. However, as a result of such a strategy, the economy of many debtor countries was on the verge of collapse: cessation of economic growth, hyperinflation (Stone & Weeks, 2010).

Since the mid-1980s, active negotiations began between debtor countries and creditor countries on the possibility of changing the terms of loan agreements to reduce debt to a real level. The most significant changes in the solution of the debt problem were related to the plan of the US Treasury Secretary in the Bush administration, Nicholas Brady, promulgated in 1989. According to this plan, debt reduction is guaranteed only to those countries that agree to reform their economy in the direction of reducing the scale of state property and increasing the openness of the economy.

Despite these measures, the debt of developing countries continued to increase. During the period 1980-1993 it increased three-fold: from 0.6 trillion up to 1.8 trillion dollars. At the same time, since 1987, the rate of its growth has decreased to almost 5% per year.

4.3. Growth of public debt and expenses for its servicing

In an unstable low-income economy, the growth of public debt and the cost of its servicing is a serious negative factor. Experience shows that for industrialized countries the risk of debt growth is not so great, as it is controlled by the state. Given the stable economic situation in the country, the expansion of public spending leads more to an increase in production and demand than a direct withdrawal of the same amount for the same purpose from the income of the population in the form of budget revenues. The internal debt formed as a whole only redistributes national wealth without reducing it (Kobersy et al., 2016).

To solve the problem of debt, to obtain a balanced budget, it is necessary either to increase taxes by reducing individual consumption, or to reduce government spending, by reducing social programs, thereby contributing to a reduction in employment and the growth of social tension. Such a scheme is confirmed by world practice and is based on the real action of "automatic stabilizers", recognized today by all the directions of economic theory. The stimulating impact of the budget deficit manifests itself both in the sphere of consumption and in the rates of economic growth. So, if we do not take into account the inflation rates of the period of the 1960s-1980s, the growth rates in the US preceded by deficit budgets were significantly higher than in the years when there were no deficit or low deficit budgets (Anilionis & Zotova, 2015).

Liberal policy in Latin America resumed after the nationalization of bankrupt banks, the period of the restoration of state control over the financial sector, the long-term stage of rehabilitation and re-privatization of banks.

In the African countries south of the Sahara (Ghana, Guinea, Madagascar, etc.) in the 80s, reforms were just beginning. They were aimed at the reconstruction of financial systems, improving the economic regulation of their activities, preparing the conditions for transition to functioning on a market basis (Gladunov, Gritsuk & Panina, 2008).

The experience of reforming the economy of developing countries has shown that financial liberalization should be accompanied by macroeconomic reforms (Bulatov, 2012). Getting financial institutions, the right to set interest rates is an important factor in the development of the country's financial market. At the same time, this should be implemented against the backdrop of general macroeconomic stabilization, which gives confidence to business partners that the value of the contracts concluded by them will not be depreciated, and agreements will be observed. Otherwise, the reform of the financial sector can further increase macroeconomic instability.

Exchange rate alignment, trade reform, policies on state enterprises and other structural reforms should also go hand in hand with financial stabilization. In addition, as experience of reforming the financial systems of developing countries shows, state intervention in finance should be replaced by a developed and aggressive economic system of laws and regulators. In Chile, for example, the privatization of banks without an appropriate legal and regulatory framework led to their absorption by industrial groups and use in their corporate interests.

4.4. Regional Overview

An analysis of the situation with the dynamics of international debt and data on the severity

of debt shows that the situation of different groups of countries and subsystems is not the same. The 15 heavily indebted countries (debt service standards in excess of 25%) reduced their medium-term and long-term debts to private lenders. Significant progress was made in settling the private debt of the Latin American countries with the heaviest debts - Argentina, Brazil. Thus, the revision of Argentina's debt led to a decrease in the amount of its service by 1/3. Terms of payment of other middle-level countries were revised.

However, banks were not interested in reconsidering the debts of small, poor states that could not make payments on their debts. The governments of these countries did not have the foreign exchange resources to carry out their installations, so the World Bank in 1989 established a special fund to reduce the debt of the poorest countries (Asyaeva, Kobersy, Guseva & Khakimov, 2017).

In general, the amount of debt servicing in relation to the exports of Latin American countries decreased from 47.6% in 1982 to 44.3% in 2016, and the ratio of external debt to GDP - from 67.6% in 1983 to 36, 3% in 2017.

The most difficult situation with regard to external debt continues to be in Africa. The countries of this continent have the highest level of debt in relation to GDP among all developing countries (1982 - 51%, 2016 - 62.3%). Special difficulties are caused by debt servicing. The ratio of debt servicing to exports in 2015-2017 ranges from 23 to 30%.

Countries in Tropical Africa have the highest share of debt owned by official institutions. It exceeds 80%, and more than half of it falls on international institutions. These data show the excellent institutional structure of the debt of the countries of Tropical Africa and their special situation in private loan capital markets. Countries whose official debt was large had less opportunity to reduce their debt.

Unlike other regions, the total amount of debt of Asian countries has constantly increased, which was explained by their rather strong positions in the loan capital markets. The increase in the external debt of Asian countries was counterbalanced by the high rates of their economic growth and the reduction in the debt service ratio of the countries in this region (8-10% of their exports).

The progress made by some countries in reducing international debt has developed in parallel with the increase in overdue interest payments by countries in Africa and Latin America, Eastern Europe. Thus, overdue payments have increased in Argentina and Brazil, despite the positive balance of their balance of payments.

5. Conclusions

It should be noted that in the context of the formation of a multi-level strategy for the territorial development of the country, reflecting both the objective differences in the regions and the federal structure of the state, the development of the region's economic policy ensuring the implementation of its strategic goals in accordance with the goals and priorities of the national economic policy acquires particular urgency.

Consistent implementation of the principle of systemic character allows us to identify the main characteristics that determine the contours of modern national policy: goals and objectives, object and subjects, priorities, mechanisms and tools. The starting point for aligning the configuration of a systemic economic policy of an innovative type is the priorities for the goals and means of its implementation.

As an instrument for structuring the problems of economic development, an information matrix can be used that reflects the correspondence of a set of goals and tasks of economic policy to a variety of methods for achieving them, as well as a heuristic mechanism for its correction based on monitoring and diagnosing the state of the scientific and industrial complex.

In studies of the problems of the effectiveness of economic policy, political motivations are often predominant and the possibilities of theoretical modeling are underestimated. At the same time, the traditional exogenous approach (allocation of growth poles, setting political goals and tasks, tools for turning peripheral territories into prosperous ones) corresponds to

the interests of the federal level of power and does not take into account the strategic interests of Russian regions.

The endogenous approach to the economic development of the regions, focused on the study and implementation of strategic regional capacity, has been gaining momentum in recent years.

This approach is more in line with the new global risks and opportunities. At the same time, it is obvious that both approaches must be used. The fact is that regional factors have their own specifics, since they express concrete forms of coordination of conditions and sectoral and territorial development.

A study of regional development trends has shown that existing problems and difficulties cannot be overcome relying upon single factors; a complex multi-factor approach is needed. The selection and analysis of factors of socio-economic and ecological development of the regions play a leading role in improving the structure of the economic complex and modernizing economic development on an innovative basis.

The process of transition of the region to post-crisis economic growth is carried out under the influence of factors of different levels and nature:

1. external factors,
2. regional (domestic),
3. integrated (mixed) factors.

The factors of the external order largely and in many respects depend on the decisions of the federal center, the factors of the integrated order depend on the actions (and decisions) of both regional authorities and federal ones, the internal ones represent the conditions objectively existing and subjectively created in the region.

That is, the criterion for identifying the factors of the region's transition to post-crisis economic growth is one or another level of their impact on the socio-economic development of the region. At the same time, it is regional factors that make it possible to identify opportunities and internal reserves that determine the management of economic growth.

The factors at different levels of the region's transition to quality economic growth and its maintenance at a certain stable level are closely interrelated with the reasons holding back this process. Therefore, any factor can be considered as the cause of any negative phenomenon or process or as a driving force aimed at overcoming it.

Moreover, this transformation is carried out on the basis of a mechanism for managing the qualitative economic growth of the region through the necessary legislative, organizational, managerial, economic and financial measures. Defining conditions for ensuring high-quality economic growth are resource-innovative factors, including resources that objectively realize the possibility of qualitative changes in the parameters of the regional system.

Thus, it can be said that, compared to the 1980s, due to the actions of international organizations and the efforts of developing countries, the problem of their external debt was not so acute.

Moreover, noticing the general tendency to increase international debt on loans (as is known, the US has the largest amount of external debt), one could find that the problem of the external debt of developing countries is not so relevant at the moment.

In our opinion, this problem needs to be looked deeper, considering the reasons for the economic dependence between the "North" and "South". The existing world system will not allow backward countries to overcome this dependence and pay off their debts.

For developing countries, this threatens to increase social, economic and, as a result, political problems. The way out, in our opinion, could be the alignment of global financial flows towards developing countries. The problems of billions of people should be resolved by all states, and first of all by the most developed countries.

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