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Impact of Economic Cycles and Crises

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Abstract

This paper offers a comprehensive analysis of economic cycles and crises, shedding light on their effects on both emerging and developed markets. It outlines the inherent patterns of economic cycles, marked by crisis, depression, recovery, and prosperity, which are fundamental to capitalist economies. These cycles are characterized by their repetitive nature, driven by various global economic crises over history.

A key focus is on the contrasting responses of emerging and developed markets to economic instability. Emerging markets, defined by metrics such as per capita Gross National Product, are shown to experience greater volatility and a heightened sensitivity to global economic shifts. Their financial systems, being less mature and heavily reliant on foreign capital, are more prone to external shocks. Developed markets, in contrast, exhibit a stronger resilience due to their more sophisticated and stable financial infrastructures. Despite this, their deep integration with the global economy does not render them immune to worldwide economic crises. These markets, however, are better positioned to leverage strong monetary and fiscal policies to mitigate economic downturns.

The resilience of certain sectors during economic recessions is also highlighted. Industries such as healthcare, food and beverage, e-commerce, and online education have demonstrated adaptability and sustained demand, even under recessionary pressures. They continue to provide essential services and adapt to new market demands, reflecting robust consumer demand.

The paper concludes with an emphasis on the need for ongoing research into economic cycles and crises. This research is vital for governments to develop effective strategies for economic stability and growth. Furthermore, understanding the resilient nature of certain sectors can provide valuable guidance for businesses and individuals, aiding in making strategic decisions amidst economic uncertainties.

Keywords: economic crisis, economic cycle, developed markets, emerging markets.

1. Introduction

Economic cycles and crises have long been a subject of study in economics. Understanding their dynamics is

crucial for predicting future trends and mitigating negative impacts.

In the cycle of the economy, where there is a rise, there naturally follows a decline; a blazing fire fueled by oil cannot last forever. As people enjoy the speed and convenience brought by the modern economic system, it is impossible to completely avoid the costs required to sustain this system, especially considering the numerous historical precedents. From the Tulip Mania, the Great Depression, the Oil Crisis, to China's Reform and Opening-up, the deepening of economic globalization, and then to "trade wars," embargoes, and technological blockades... the recurring economic crises are the main theme of the modern economic world.

Cyclical economic issues represent the dark side of the modern economic system, the price we must pay while enjoying the benefits brought by the modern economy. The impact of economic crises is not merely economic; they bring about comprehensive social instability. Looking back at history is to scrutinize the present. Studying past economic crises allows us to accumulate experience to face the challenges of today's world. Only by better understanding our history can we better control and confront current and future crises.

1.1. Research background

In today's world, the modern economy is highly globalized, with exceptionally tight economic connections between nations. An economic crisis in one country or region can rapidly affect the global economy(Huang, 2014). At the same time, the application of the internet and artificial intelligence has increasingly shifted economic activities to digital platforms, altering traditional economic structures and operational methods, thereby introducing new points of economic growth and crisis risks. Currently, modern financial markets are highly developed and complex, with rapid capital flows and a variety of financial instruments, making these markets more sensitive and quick to react to economic crises. Persistent social inequalities and political factors around the world also significantly impact economic stability.

1.2. Research purpose

Studying economic crises can lead to a better understanding of fluctuations in economic cycles, enabling the prediction of potential economic downturns or recessions. This provides critical information and warnings for policymakers, businesses, and individuals. For national policymakers, such as governments and central banks, researching economic crises is instrumental in devising effective macroeconomic policies and responses to mitigate the impact of crises and stabilize financial markets and the economy. For economic researchers, the study of economic crises is vital for the development of economic theories, challenging and enriching existing theories, and fostering the emergence of new ones.

Additionally, as economic crises are often accompanied by rising unemployment and increasing living costs, this research helps policymakers find solutions to these social issues, thereby enhancing social stability and public welfare. For individuals and businesses, understanding the characteristics and causes of economic crises can assist them in making more informed investment, consumption, and career decisions, reducing the risks associated with economic volatility.

2. Economic Cycles and Economic Crises

2.1. Economic cycles

2.1.1. Definition

Economic cycles refer to the fluctuations in economic activity over a period of time.

This overproduction is not absolute but relative, meaning it is in excess relative to the paying capacity of the working people and the needs for capital value appreciation.

An economic crisis typically manifests as a large accumulation of unsold goods, sharp reductions in production,

widespread factory closures, massive unemployment among workers, severe disruption of credit relationships, and extreme chaos and paralysis in the entire socio-economic system (Huang, 2014).

Although the possibility of a crisis has existed since the advent of money, it only becomes a reality under the capitalist mode of production. This is determined by the fundamental contradiction of capitalism: the contradiction between the social nature of production and the private ownership under capitalism (Borio, 2012).

2.1.2. Types

Some scholars divide economic crises into two types: "passive" and "active."

Passive crisis: This refers to a situation where a country's macroeconomic management authorities face a severe economic downturn or significant currency devaluation without prior preparation, leading to a financial crisis that evolves into an economic crisis. In such passive crises, it is difficult to expect the currency to rebound after the crisis, as the process is essentially about re-evaluating and re-establishing the value of the nation's currency.

Active crisis: An active crisis is the result of policy actions taken by macroeconomic management authorities to achieve a specific goal. The emergence of the crisis is entirely anticipated by the authorities, and the crisis or economic recession is considered an opportunity cost of reform.

According to the theory of a bipolar world, economic crises during periods of internal transformation in the capitalist world system are mainly resolved by expanding domestic effective demand, while crises during periods of external expansion are resolved by expanding international effective demand (He, 1990).

Theoretical Research: Karl Marx wrote in "Capital" that the market economy cannot eliminate the root causes of economic crises, which therefore erupt periodically. This cyclical nature of economic crises also manifests in the cyclical nature of capitalist reproduction, encompassing four phases: crisis, depression, recovery, and boom.

Crises often erupt at the height of capitalist economic prosperity, when the various contradictions of capitalism are most acute. They first appear in a particular link of commodity circulation and then rapidly spread to all sectors, eventually leading to severe chaos in the entire sociolect-economic activity. The crisis phase is decisive in the economic cycle, marking the end of one economic cycle and the beginning of the next. The crisis is followed by a depression phase.

During the depression phase, the phenomenon of supply exceeding the paying demand eases, production no longer continues to decline, and unemployment does not increase further. However, surplus goods have not been completely sold off, purchasing power remains very low, and the sociolect-economy is in a state of stagnation. After the depression phase, the market situation improves, production gradually recovers, and the economy slowly moves out of stagnation, transitioning into the recovery phase.

In the recovery phase, the expansion of the market leads to rising prices and gradually recovering profits, stimulating capitalists to increase investment and expand production. As production continuously expands, the capitalist economy accelerates, surpassing the pre-crisis peak, and enters the boom phase of the economic cycle. In this phase, the entire capitalist economy appears prosperous. However, the prosperity of the capitalist economy is temporary and contains the precursors of a new crisis. As social production continues to expand and the various contradictions of the capitalist economy sharpen, a crisis will inevitably erupt again, leading the capitalist economy into the next cycle.

In the development of the capitalist economy, economic crises are cyclical, with intervals between crises showing certain regularities. Since the first general overproduction crisis in 1825 in England, subsequent crises occurred in 1836, 1847, 1857, 1866, 1873, 1882, 1890, and 1900. In the phase of capitalist free competition and the transition to monopolistic capitalism, such economic crises occurred roughly every decade. In the 20th century, following the 1900 crisis and before World War II, crises occurred in 1907, 1914, 1921, 1929-1933, and 1937-1938, with a crisis about every seven to eight years.

3. Global Economic Crises (1788-2020)

This section provides an overview of major global economic crises that have occurred from 1788 to 2020, highlighting their characteristics, causes, and impacts. The period spans over two centuries of economic history, encompassing various types of crises, including financial crashes, depression, and systemic economic meltdowns.

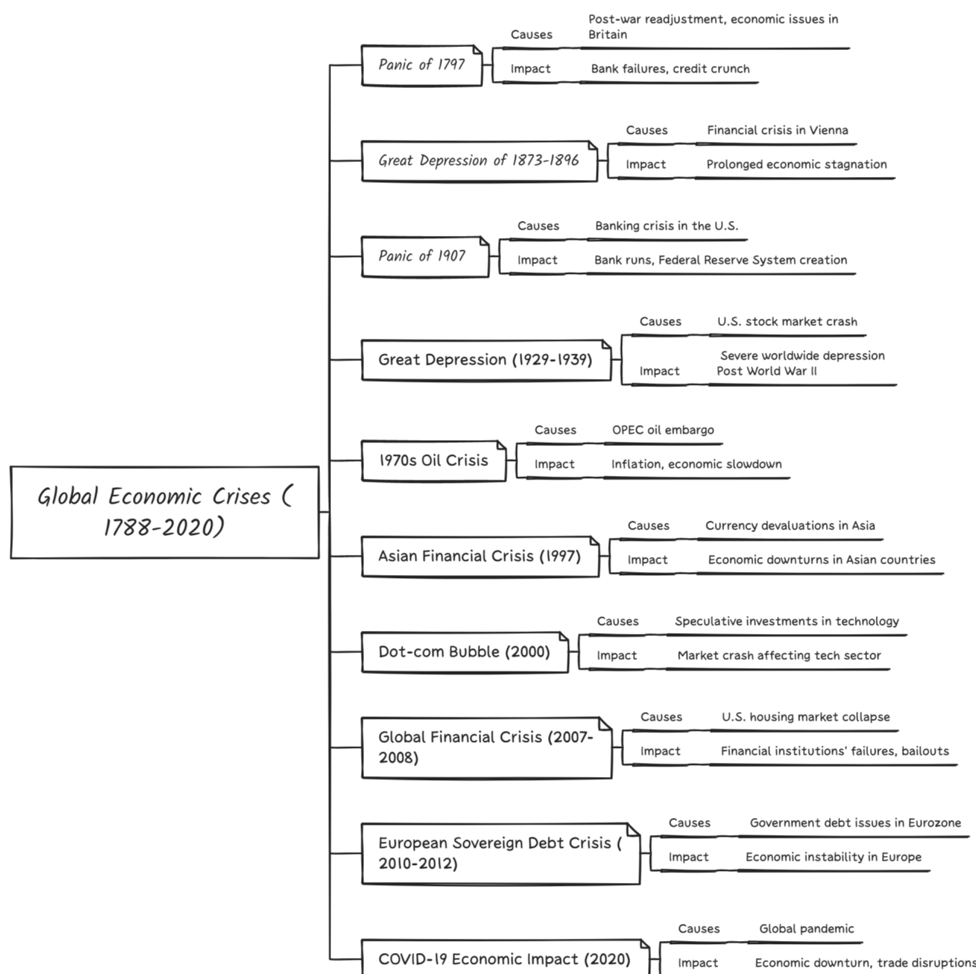

Figure1.Global Economic Crises (1788-2020)

3.1. 18th and 19th centuries

The Panic of 1797: Triggered by post-war readjustment after the American Revolutionary War and economic problems in Britain, it led to a series of bank failures and a credit crunch.

The Great Depression of 1873-1896: Started with a financial crisis in Vienna and spread to the rest of Europe and the United States, this was a prolonged period of economic stagnation.

3.2. Early 20th century

The Panic of 1907: A banking crisis in the United States, it led to bank runs and the creation of the Federal Reserve System.

The Great Depression (1929-1939): Originating from the U.S. stock market crash in 1929, it was a severe worldwide economic depression that had profound effects globally.

3.3. Post World War II crises

1970s Oil Crisis: Caused by the OPEC oil embargo, it led to high inflation and a global economic slowdown.

3.4. Late 20th and early 21st century

Asian Financial Crisis (1997): Began in Thailand and spread across East Asia, it caused currency devaluations and economic downturns in several Asian countries.

The Dot-com Bubble (2000): A stock market bubble burst, primarily affecting technology companies and investors.

3.5. 21st century

Global Financial Crisis (2007-2008): Originating in the United States with the collapse of the housing market, this crisis quickly spread globally, leading to significant financial institutions' failures and government bailouts.

European Sovereign Debt Crisis (2010-2012): Characterized by the struggle of several Eurozone countries to repay or refinance their government debt.

3.6. Recent crises

COVID-19 Economic Impact (2020): The pandemic caused a significant global economic downturn, with widespread lockdowns and disruptions to trade and supply chains.

Each of these crises has unique causes, from systemic issues in financial systems to geopolitical events or technological changes. They have led to reforms in financial regulation, shifts in economic policy, and have shaped the modern economic landscape. Studying these crises provides insight into the cyclical nature of economies and the inter-connectivity of global financial systems.

4. Analysis of Major Economic Crises

This section will overview the major global economic crises within the specified period, highlighting their global influence.

4.1. 2020 U.S liquidity crisis

4.1.1. Origins

The 2020 U.S. liquidity crisis originated from a combination of economic disruptions caused by the COVID-19 pandemic and pre-existing vulnerabilities in the financial system.

4.1.2. Trigger: global pandemic

The outbreak of the COVID-19 pandemic acted as a trigger, causing widespread economic shutdowns, uncertainty, and panic, which in turn strained the liquidity of financial markets.

4.1.3. Impacts: stocks and bonds plummet, gold price decline, liquidity crisis

The immediate impacts included a sharp drop in stock and bond markets, decline in gold prices, and a severe liquidity crunch as investors rushed to sell assets for cash.

4.1.4. Responses

The Federal Reserve and other central banks responded with aggressive monetary policies, including cutting

interest rates to near zero and injecting trillions of dollars into the financial system through various means.

4.2. 2007 U.S subprime crisis and 2008 international financial crisis

4.2.1. Origins

The crisis originated from the collapse of the housing bubble in the United States, which was largely driven by the widespread issuance of high-risk subprime mortgages.

4.2.2. Trigger

The trigger was the increasing default rates on subprime mortgages, leading to massive losses for financial institutions.

4.2.3. Impacts

The impacts included the collapse of major financial institutions, a sharp downturn in global stock markets, and a severe credit crunch.

4.2.4. Responses

Responses involved significant government interventions, including bailouts of banks and other financial institutions, and large-scale stimulus packages to revive the economy.

4.3. 1997 Asian financial crisis

4.3.1. Origins

This crisis had its roots in excessive real estate and stock market investments fueled by easy credit and hot money inflows in Asian economies.

Economic Structure of Asian Countries;

Influence of American Economic Interests and Policies.

Economic structure of Asian countries: Countries like Singapore, Malaysia, Thailand, Japan, and South Korea are export-oriented economies with a significant dependence on the global market. As a result, any turbulence in the Asian economy is likely to have a domino effect. Taking Thailand as an example, the trading of the Thai baht in the international market is not controlled by the government. Thailand, lacking sufficient foreign exchange reserves, is extremely vulnerable to speculation by financiers. Consequently, as the economy dictates politics, this also leads to instability in Thailand's political situation.

4.3.2. Trigger

The trigger was the devaluation of the Thai baht after the government was forced to float it due to lack of foreign currency to support its fixed exchange rate.

4.3.3. Impacts

The crisis led to severe currency devaluations, stock market crashes, and economic recessions in several Asian countries.

4.3.4. Responses

Responses included IMF-led bailout packages, structural reforms in the affected economies, and tighter financial regulations to restore confidence and stability.

5. Analysis of Major Economic Crises

5.1. Economic recession indicators

Economic recessions are periods of economic decline and can be identified by various indicators. Understanding these indicators is crucial for economists, policymakers, and investors to anticipate and mitigate the impacts of a recession. Here are some key indicators of an economic recession:

Gross Domestic Product (GDP) Decline: The most significant indicator of a recession is a decline in GDP for two consecutive quarters. GDP measures the total value of goods and services produced in a country and is a primary indicator of economic health.

Rising Unemployment Rates: During a recession, companies often reduce their workforce to cut costs, leading to higher unemployment rates. An increase in unemployment is a strong indicator of economic slowdown.

Decrease in Consumer Spending: Consumer spending drives economic growth. A decrease in consumer spending, often due to reduced consumer confidence or increased savings, indicates that an economy might be heading towards a recession.

Reduction in Housing Market Activity: A slowdown in housing construction and sales can indicate a recession, as the housing market is closely tied to broader economic conditions.

5.2. Sectors resistant to economic downturns

Economic recessions or financial crises and other negative economic shocks can have lasting effects on household and public spending, and negatively impact industries such as real estate, banking, manufacturing, and transportation (Fuster et al., 2023; Sabljic et al., 2023; Ali, 2022).However, there are still some industries that remain unaffected. Over the years, these sectors have proven to be the most robust in the face of any such level of global economic crisis.

5.2.1. Healthcare industry

The healthcare industry provides high-demand essential services. Regardless of the economic situation, people fall ill, and they do not cease seeking emergency or routine healthcare. The healthcare industry has always been one of the most in-demand sectors, not severely impacted during economic downturns. In fact, certain healthcare sectors like mental health services may even thrive during financial and social turbulence.

5.2.2. Food and beverage industry

The food and beverage industry is closely linked to people's daily activities and is a necessity for life. In times of global economic recession, stores that offer trade consumer goods and daily necessities can survive economic storms, even though their costs may relatively increase during economic downturns. On the other hand, restaurants serving luxury meals or stores offering expensive foods might face losses due to customers' unwillingness to purchase or shifting towards buying what they truly need.

5.2.3. E-commerce and transportation services

E-commerce stores primarily receiving customer orders and forwarding them to other shops are not greatly affected by economic crises, as they do not need to pay for storage or maintenance costs. These platforms, acting merely as intermediaries between customers and sellers in e-commerce, are less impacted compared to direct retail stores.

5.2.4. Online education

With the onset of economic recession leading to a significant rise in unemployment rates, unemployed individuals often tend to learn new skills to secure a well-paying job in the short term. Hence, the field of online education often

sees an increase in demand during economic downturns.

6. A Comparative Analysis of Economic Cycles' Effects on Emerging Markets and Developed Countries

6.1. Overview of emerging markets and developed countries

In a 1994 research report, the U.S. Department of Commerce classified Mainland China, India, ASEAN countries, South Korea, Turkey, Mexico, Brazil, Argentina, Poland, and South Africa as emerging markets. The Morgan Stanley Capital International (MSCI) Emerging Markets Index in 2009 listed the following countries and regions as emerging markets for statistical purposes: Brazil, Chile, Mainland China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, Thailand, and Turkey. The list of emerging market countries (regions) by the UK's "The Economist" magazine is similar to this. In summary, as long as a country or region's per capita Gross National Product (GNP) does not reach the high-income country level as defined by the World Bank, then its stock market is considered an emerging market. Some countries, despite their economic development level and per capita GNP reaching the high-income countries' category, are still considered emerging markets due to their stock market's lagging development and immature market mechanisms.

6.2. Performance of emerging markets during economic cycles

During periods of global economic instability, emerging markets often face greater economic and financial volatility. Compared to developed markets, the financial systems in emerging markets may be less mature and more susceptible to external shocks. Additionally, due to a lack of effective policy tools to combat economic crises, emerging markets are more reliant on foreign capital inflows, which can further exacerbate their economic difficulties.

6.3. Performance of developed markets during economic cycles

Developed markets typically possess more mature and stable financial systems, which helps maintain a certain level of economic stability during crises.3 At the same time, developed countries have powerful policy tools and fiscal capabilities to address economic downturns, such as monetary policy adjustments and fiscal stimulus. Additionally, consumers and businesses usually have stronger savings and credit capacities, providing a buffer during economic recessions.However, due to the closer relationship of developed markets with the global market, global crises can have a more direct impact on them.

7. Conclusions

This paper provides a systematic overview of economic cycles and crises, offering insights into their impact on emerging and developed markets. The main conclusions drawn from the analysis are as follows: Economic cycles, characterized by phases of crisis, depression, recovery, and prosperity, reflect the intrinsic fluctuations in economic activities. These cycles are cyclical and inevitable in capitalist economies, as emphasized by the historical analysis of various global economic crises. Emerging markets, identified by per capita Gross National Product (GNP) and other economic indicators, exhibit greater volatility and sensitivity to global economic instability. Their less mature financial systems and reliance on foreign capital make them more susceptible to external shocks. In contrast, developed markets, with their more mature and stable financial systems, demonstrate stronger resilience to economic downturns. However, their close integration with the global economy means they are not immune to global crises. They benefit

from stronger policy responses, including monetary and fiscal measures, to stabilize their economies.

Certain sectors, such as healthcare, food and beverage, e-commerce, and online education, have shown resilience in the face of economic recessions. These sectors adapt and continue to provide essential services or meet new demands, even during economic downturns, maintaining robust consumer demand.

Looking forward, governments must continue researching economic cycles and crises to develop more effective strategies for economic stability and growth. Understanding the characteristics of resilient sectors can guide businesses and individuals in making informed decisions during periods of economic uncertainty.

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