

The Impact and Enlightenment of the 2008 Economic Crisis on International Economic and Political Setup

Jiaao Huang

International College Beijing, China Agriculture University. Beijing, China

Snow727006@outlook.com

Abstract. Economic crisis was no doubt that had a great impact on international economic and political setup. This study in order to help people more easily to comprehend the impact. This study employs textual analysis and secondary data analysis to examine the impacts of the 2008 financial crisis on the global political and economic setup, as well as its implications. The study has examined the causes of the 2008 economic crisis through the angles of both fundamental and principal contradictions and analyzed its impact on the national economic setup. Furthermore, the study assessed the implications of the crisis for the global political order from the perspectives of international relations and monetary systems. Finally, the study derived crucial lessons on balancing government regulation with market freedom, optimizing industrial structure, and promoting standardized international governance. The study advised that countries are committed to promote world multipolarity together and establish a global governance system, where nations assist each other to handle economic crisis together.

Keywords: Economic crisis in 2008; Impact on international economic and political setup; World multipolarity.

1. Introduction

1.1. Background

As Adam Smith said, "By freely importing and exporting all commodities, every nation tends to promote its own interests." Following the implementation of Roosevelt's New Deal, calls emerged from within society for the government to reduce its role in the market, advocating for free economic development to boost market dynamism. Without regulation, these frenzied pursuits will ultimately become the dagger that bursts the economic bubble. This represents the underlying cause of the 2008 economic crisis. The collapse of Lehman Brothers was the watershed moment that declared the arrival of the economic crisis. Initially, people failed to realize that this ripple from Wall Street would swiftly escalate into a global economic tsunami. It not only caused massive unemployment, a breakdown in the broader financial chain, declining household incomes, and a contraction in overall societal demand in the United States, but it also transmitted shockwaves throughout the global economy via financial linkages. It's impossible to ignore the tremendous erosion of consumer confidence for the market. Acemoglu warns that a recession can be significantly worsened by an expectational trap stemming from delayed purchases of durable goods. The outcome of this, he argues, is not the beneficial creative destruction that leads to reallocation, but rather extensive business failures and harmful liquidation [1]. Simultaneously, the crisis also rebuilds the economic and political structure of the world. Thus, the 2008 economic crisis, as a major turning point, has had a profound impact on us.

1.2. Purpose

The study needs to investigate the impact of the crisis and learn something from the crisis. These insights will be a crucial instrument for confronting future challenges and capitalizing on major opportunities.

1.3. Research Method

This study employs textual analysis and secondary data analysis to examine the impacts of the 2008 financial crisis on the global political and economic setup, as well as its implications. This study begins by examining the causes of the 2008 financial crisis, then proceeds to discuss its impact on the international political and economic landscape and concludes with an analysis of its benightments for government regulation, industrial structure, and global governance.

2. Causes of 2008 Economic Crisis

2.1. Basic Contradictions

At the beginning, it's important to be clear about the economic crisis. Firstly, the study should identify the basic contradictions of the crisis. In 1995, Clinton, a president of America, he proposed a policy Homeowner strategy, aimed at increasing the homeownership rate and meeting the demand for low-income families. That's why subprime mortgage thrived during the crisis. But it's no doubt that subprime mortgages are risky because borrowers possibly can't afford the mortgage. But the bank was still glad to be lender. Because banks not only can take house back but also can sell the mortgage to government sponsored enterprises like Freddie Mac and Fannie Mae. Then these enterprises start asset securitization. They have started selling MBS in large quantities for investment banks. Then the investment bank sold CDO to buyers in different classes. Not only did the bank mix up various loans but also asked assessment agents to evaluate their products. At last, the insurance company even offered insurance for CDO. Now the study can find a magical situation where everyone is likely able to turn stone into gold like King Midas. Everyone can get profit from the chain. People continuously try investing more money to obtain substantial rewards. However, these profitable scenarios have an important prerequisite that is price of house must continuously rise. The continuous rise in housing prices at the time guaranteed profits for this financial chain. The influx of massive capital led to the excessive expansion of financial products, while subprime mortgages distorted the real estate market. Ultimately, the price approached its peak in 2007 that reveals the bubble was broken. With the declining price, the whole financial chain stopped making profit. According to f J. E. Stiglitz from those originating the mortgages, to those repackaging and securitizing them, to the rating agencies, and to the regulators Some of the mortgages required no documentation, and no down payments [2]. That still was a big trouble. These basic contradictions constituted the superficial cause of the economic crisis.

2.2. Fundamental Contradictions

Then, the study needs to clarify fundamental contradictions that constituted the profound factors of the economic crisis. As is widely recognized, the free development of the economy should be built upon a foundation of appropriate government regulation. Without such oversight, economic growth cannot guarantee stability. Based on the situation, Acemoglu critiques the simplistic view that capitalist economies function in an institutional vacuum, arguing that it is a mistake to equate free markets with a complete absence of regulation. He contends that institutions, including legal frameworks, are essential for monitoring opportunistic behavior [1]. While the study knows the free market must be based on a set of laws to regulate company's behavior. But the study still ignores the importance of reasonable regulation for protection. Without reasonable regulation, the pursuit of economic gains can become a source of impediments to economic development and even criminal activity. That is why the economic bubble gets bigger during the economic crisis. When it comes to economic cycle, the study has to talk about the specific law of capitalism. A famous point, the contradiction between the socialization of production and the private capitalist ownership of the means of production, that is core of Marx's theory. As the 2008 economic crisis, the relentless pursuit of high profits led to subprime lending even the widespread purchase of complex financial products. This resulted in high-risk permeating various sectors through the socialization of production. These

basic contradictions and fundamental contradictions constituted all vital factors to the economic crisis. Well, let's investigate the impact on global economics and political setup.

3. The Impact of the Economic Crisis on the National Economic Landscape

3.1. Economic Growth

The economic crisis had a significant impact on the structure of economic growth. At the beginning, the crisis triggered capital flight from emerging markets back to the US, resulting in a reduction of total foreign exchange reserves for emerging countries. But it may just slow down the speed of economic growth for these emerging countries Naudé argues that while the financial crisis reveals weaknesses in macroeconomic management and financial institutions globally, many major emerging economies were positioned for a swift recovery. This is because their banking sectors had minimal exposure to the U.S. subprime market, largely insulating them from its direct effects [3]. Initially, the capitalist developed countries experienced rapid economic growth, however, with the bursting of the economic bubble, their economies suffered severe damage, resulting in a slow recovery and decelerated economic growth. Naudé observed that the high degree of interconnectedness among developed financial markets acted as a conduit for panic, rapidly leading to a severe credit crunch and sharp reductions in consumption, investment, and trade throughout the G7 nations [3]. The crisis led to a major shift in the global economic growth pattern, with major emerging developing economies accelerating while growth in capitalist developed countries began to slow.

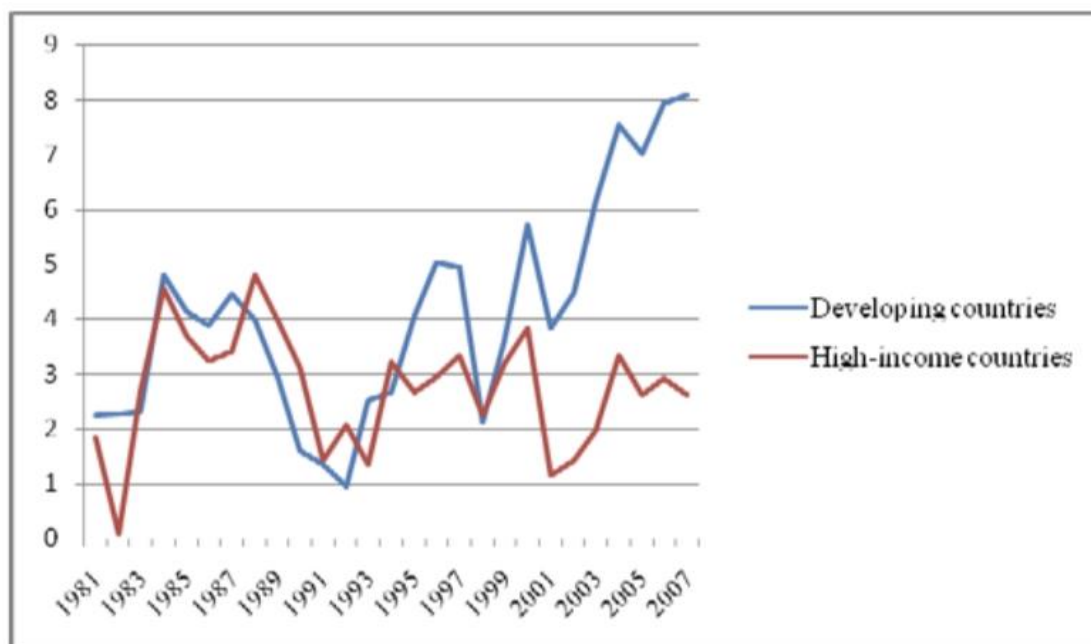


Fig. 1 GDP growth in developing and high-income countries, 1981-2007 (Source: Author's calculations based on World Bank Development Indicators Online)

3.2. Industry Structure

As the economy changes, so does the industry too. On one hand, the economic crisis imposed severe challenges on mid- and downstream industries, forcing numerous enterprises into bankruptcy and compelling industrial upgrading toward technology-intensive development. On the other hand, the crisis triggered policy shifts that altered industrial development trajectories. Together, these factors contributed to the reshaping of the industrial structure. During an economic downturn, decreased demand reduces capital liquidity, making it difficult for the economy to recover. In response, governments often implement policies to stimulate production and shift industrial focus

toward infrastructure development. Barack Obama, as US President, proposed a plan stimulus package in order to create 2.5 million jobs through public infrastructure investment. China government was still proactive to tackle these issues and pay tremendous efforts. The Four Trillion Yuan Plan served as the core response strategy implemented by the Chinese government to address the economic crisis. The economic center is shifting toward secondary sector. That is why the secondary sector began to develop rapidly after the 2008 economic crisis. Then economic crisis also requires more advanced industry than before. For example, Dongguan HEJUN enterprise, a big toy factory, went bankrupt during the economic crisis due to Mattel company cancelling 120million Christmas order. According to Daron Acemoglu, economic progress driven by innovation is characterized by creative destruction, a process in which established production processes and firms are displaced by new technologies and entrants [1]. At last, economic crisis also resulted in many mid- and downstream enterprises, after being phased out locally, relocated to developing countries for development, driving continuous optimization and upgrading of the industrial structure. All these factors collectively contributed to the reshaping of the industrial structure landscape. In summary, the crisis has a great impact on economy in many ways.

4. The Impact of the Economic Crisis on the National Political Landscape

4.1. Political Structure

The economic crisis also had a significant impact on the political structure. Because economic status is one of the criteria for measuring a country's strength. During the financial crisis, the United States was absolutely impacted. Furthermore, as Europe employed higher financial leverage than the U.S., its economy suffered even deeper damage. While both the U.S. and Europe experienced a sustained decline in economic strength, most emerging countries still have a promotion of economy despite facing certain challenges. Thus, the economic crisis accelerated the process of global multipolarization. Capitalist countries led by the United States and Europe experienced a decline in their unilateral dominance over global affairs. Meanwhile, emerging market countries gained increased political influence. The BRICS countries, like China at the forefront, began playing a significant role in shaping global and regional orders, thereby promoting the democratization of international relations.

4.2. Currency Hegemony

Despite the severe damage inflicted on the U.S. economy by the financial crisis, the dominant status of the dollar has consistently facilitated its recovery and continued expansion. Firstly, the study should figure out why dollars are dominant and how help US recover? Because the mechanism established by the Bretton Woods system guaranteed the relationship between gold and dollars. Then with the system bankruptcy, dollars immediately link up with oil. Thus, this has led to the situation where over 60% of global trade and foreign exchange reserves are denominated in dollars. Transactions of commodities (such as oil and food) between countries predominantly use the dollar. Moreover, through its monetary policy, the United States can influence global capital flows, enabling it to both extract economic benefits from other nations and restrict target countries' international economic activities through dollar sanctions. According to Alexiou, the crisis led to critical liquidity and solvency issues for banks, precipitating a sharp decline in their capital and causing severe disruptions in the interbank lending market. This environment of fear culminated in a marked decrease in cross-border dollar claims, as financial institutions became increasingly risk-averse [4]. So, US 'economy is in big trouble. But following the 2008 financial crisis, the U.S. government adopted a series of measures to expand its currency power. The Federal Reserve implemented quantitative easing policies, injecting massive amounts of cheap funds into financial institutions by effectively printing dollars, thereby consolidating its position as the world's largest economy. Through the circulation of the dollar, it diverted the risks of the economic crisis to global markets, triggering worldwide inflation, economic downturns, and other problems. Du to dollar hegemony, the

United States continues to hold its position as the world's leading power. According to Richard, as European countries generally have huge debts, Japan was facing an aging society problem, and China's financial policy was relatively conservative, Richard believes that no other major currency can replace the role of the US dollar in the international role in the short term [5]. This has undoubtedly slowed the process of global multipolarization, dampened the development aspirations of emerging nations, constrained the development space for other countries, and simultaneously made it difficult to effectively restrict the United States to take unilateral and hegemonic behaviors.

5. Lessons

There is no doubt that this economic crisis has provided us with significant lessons, which will contribute to better risk management and more stable economic development in the future. On the one hand, the study has identified that a major contributing factor to the financial crisis was the proliferation of financial products due to a lack of government oversight. However, the study must also guard against excessive regulation, as evidenced by the stagflation crisis of the 1970s which resulted from undue government intervention in the market. Therefore, it is imperative to strike a balance between necessary regulatory oversight and the free development of market forces. On the other hand, the study must also prioritize the optimization of the industrial structure to avoid over-reliance on any single sector, thereby providing a solid foundation for future economic development. Furthermore, the study should promote innovation-driven industrial upgrading to enhance the vitality and dynamism of industrial growth. Finally, the study must actively advance the process of global multipolarization, jointly establish a more comprehensive and standardized international governance system, promote international cooperation for mutual benefit, and safeguard the national sovereignty of all countries.

6. Conclusion

In this study, we have examined the causes of the 2008 economic crisis from the perspectives of both fundamental and principal contradictions, analyzed its impact on the national economic landscape, and explored its implications for the global political order through the lenses of international relations and monetary systems. These analyses have yielded valuable lessons that can inform us of our approach to addressing future challenges. However, it is important to note that this study provided limited discussion on the specific processes of real estate economic collapse and the mechanisms of dollar hegemony. Moreover, relying solely on economic and political perspectives may fall short of deriving general principles for resolving similar crises. Nonetheless, this research aims to offer insights and guidance for addressing analogous economic development issues in the future and to contribute to the advancement of global multipolarization.

Reference

- [1] Acemoglu D. The crisis of 2008: Lessons for and from economics. *Critical Review*, 2009, 21(2-3): 185-194.
- [2] Stiglitz J E. The financial crisis of 2007/2008 and its macro-economic consequences.
- [3] Naudé W. The financial crisis of 2008 and the developing countries. *WIDER Discussion Paper*, 2009, No. 2009/01.
- [4] Collignon S. *Economies*, 2024, 12(3): 69. <https://doi.org/10.3390/economies12030069>
- [5] Cooper R. The future of the dollar. Number pb09-21.