



Economic interdependence and its implications: An insight from the world economy.

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Abstract: it has been empirically proved that there is no country on the planet which fully sufficient and does not need any support from rest of the countries. In fact global economy is interconnected in nature in which both economic shocks as well as economic prosperity in any part of the world are bond to impact some other part/country. In simple words, we share economic grievances, we share economic prosperity. It is simply because economies are globally linked together.

The present paper attempts to highlight how historically, economic shocks in one part of the world have adversely affected some other part or country because of economic linkages.

Key words: interdependence, global economy, great depression, gulf crisis, covid-19

I. Introduction:

The global economy refers to the interconnected worldwide economic activities that take place between multiple countries. These economic activities can have either a positive or negative impact on the countries involved. global economy is the economy of all humans in the world, referring to the global economic system, which includes all economic activities conducted both within and between nations, including production, consumption, economic management, work in general, financial transactions and trade of goods and services. Global economy can be thought of as increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies.

II. Literature Review:

1 Allen. Scott (2005) conducted study regarding economy, society and urbanization in the interconnected world and emphasised that long-run trade, social integration and information exchange results in polycentric and polyphonic system of economy and cultural production.

2 Mathews Greenwood-Nimo viet Hoang Ngayen Yongchealshin (2020) conducted study on connectedness of global economy and found that U.S. puts a dominant influence on global economy and that Brazil, China and Europe are also globally significant. It also found that global financial crisis show that shocks to the global equity market are transmitted rapidly and forcefully to the real trade flows and real GDP.

3 Annari de Waal & Renee Van Eyden(2013) conducted a study on economic shocks in rest of the world on U.S.A. the study shows comparative effects of shocks in China and U.S. on South Africa GDP. The study found that the long term impacts of shocks in China South African GDP is much stronger in 2009 than 1995 due to substantial increase in trade with china since 1990s. At the same time importance of U.S. economy South Africa declined to a considerable extent.

4 Fasiha Haile 92017) conducted his study on global shocks and their impact on Tanzanian economy. The proposed study shows a very interesting result. It reveals the transmission of economic shocks from China to Tanzania. It shows that 1% drop in Chinese investment growth is associated with decline in Tanzanian export by 0.60 points and 1% fall in commodity prices leads to 0.65% lower export value.

5 Andrew Berg, Chris Pabageorgioc, Calherine pattillo, Nikola Spatufora & Hans Weisfeld(2011). This study is based on global shocks and their impacts low income countries. The proposed study tries to investigate the short-term effects of 2007-09 global financial crisis on growth of non-fuel exporting low income countries. It was observed that aggregate output in low income countries declined sharply because of their usual synchronisation.

6 Rebeca Jimenez- Rodriguez: it was based on oil shocks and global economy. It states that disruption in the oil supply leads to decline in global economic activities while increase in the demand has a short lived effect on economic activities.



Research Methodology

This study is based on secondary data. Information from different studies which were either partly or fully related the proposed study were analysed to check economic shocks in one part of the world and resultant economic vibrations in some other part of the world.

Objectives:

1 To analyse the web of economic interdependence in global economy.

2 study economic shocks in one particular region and its resultant effects on some other region through trade relations and economic links.

Some of the important events (among many) in which economic shocks in one part of the world have adversely affected the other are outlined as below:

1 great depression: Great Depression started in America in 1929 and lasted up to 1933. It was worst economic crisis in the U.S. history which affected the countries worldwide.

Implications for India: Indian economy which is agrarian in nature got hit by this mysterious crisis. It impacted Indian imports and exports bringing both to at least half between 1928 and 1934. Further, farmers and peasants suffered at large because of wheat prices falling by 50%. Meanwhile such falling prices brought relief to the urban middle class and those getting fixed salary. They were getting everything for cheap.

2 Gulf Crisis (1990-1991): it was an armed conflict between Iraq and Kuwait. It erupted on 02 august 1990. It triggered when Iraq invaded Kuwait with prime objective of occupying Kuwait's large oil reserves.

Implications for Indian economy: Gulf Crisis of 1990s gave rise to mysterious economic issues in India. India had been importing crude oil from Gulf countries. Because of this crisis India's import bills swelled, export slumped, credit contracted and investors took their money out. A combination of large fiscal deficit and fixed exchange rate affected trade deficit. It led to an external balance of payment (BOP) crisis for India.

3 History of bank failure in America: U.S. has a history of two hundred years as for as bank failure is concerned. But interestingly, apart from internal factors there were certain external factors contributing to bank failure.

What is bank failure?

Sometimes because of one reason or the other, the bank becomes so liquid that it cannot meet its liabilities. It can hardly fulfil its obligations to its

depositors or creditors. In such situation bank is said to be failure

The chain of bank failure in the history of U.S. is highlighted as under;

Shock of 1819: U.S. witnessed its first shock in 1819 owing to Napoleonic war. This war led to global market adjustment that put U.S. into first ever economic crisis. U.S. had also an edge during France-England war as it was supplying agricultural products to both the countries but same demand got decreased after war came to end. It also contributed to economic shocks for U.S.

Event of 1837: U.S. got another blow in 1837. It lasted until mid- 1840s. It is said that 343 out of 850 banks were fully closed, 62 banks got partially failed apart from certain state banks went to the extent from which they never recovered.

Event of 1873: U.S. faced issue of bank failure in 1873. The reason for this failure is that there was a company by the name JCC (Jay Cooke & company) which invested in railroads. The JCC became insolvent. Besides, U.S. and Germany were also demonetizing silver which resulted in high inflation and high interest rate observed by U.S.

Shocks of 1907: U.S. witnessed another shock in 1907. The primary causes of the run included a retraction of market liquidity by a number of New York City banks and a loss of confidence among depositors, exacerbated by unregulated side bets at bucket shops.

Other events: Great depression of 1929, Loan crisis of 1980 and global recession of 2008 are among other economic shocks witnessed by U.S.

2023 bank failure: In 2023 Silicon Valley bank has been failed in March 2023. The reason for this collapse is that SVB was forced to sell its treasuries at loss owing a fall in the value of treasury bonds.

4 Russia-Ukraine war: Recently, Russia waged a war against Ukraine. It led to a considerable loss not just for these two economies engaged in the war but also beyond. Euro area was major sufferer of this war. Because, Euro area was heavily dependent on Russia for energy imports. Russia and Ukraine also played a major role in Euro area imports of food and fertilizer before starting this war. Energy and the food market were the main centres of distortion. Supply of both got squeezed leading to an unprecedented rise in the prices.

5 U.S.-China Trade war: U.S. and china are the two major economies of the world. Trade war between these two nations started in 2018 with U.S. imposing tariff on Chinese goods. This led to the trade conflict between these two economies. Trade conflict rooted when U.S. accused China of unfair



trade practices and intellectual property theft. The trade war still continues even under Biden regime despite number of negotiations.

Impact on Indian economy: India has witnessed both, challenges as well as opportunities. India found growing market for its export especially in agriculture, textile, chemicals and engineering in U.S. and China. This war resulted in declining value of Indian rupee. This decline in the value on the account of trade war contributed to export growth on one hand on volatility of capital market on the other hand.

6 Arab-Israel war and U.S.A: The Israel-Arab war dates back to 1948 when Israel declared itself as an independent nation. However, during 1970s U.S. decided to extend its support to Israel which resulted in OPEC countries cutting oil supply and imposing an embargo on oil exports to United State. This embargo not only led to hike in oil prices in U.S.A. but also put global economy into recession. American automotive industry witnessed a downturn.

7 Israel- Hamas conflict: the decade long conflict between Israel and Hamas has wide range economic repercussion for global economy in term of food as well as energy crisis. Middle East countries are centres of oil production. If this tension further escalates to the Middle East countries, it will block oil supply in the oil importing countries further rising oil prices and thereby adversely affecting the global economy.

Impact on India: Israel- Hamas has affected Indian economy to the great extent via rise in import expenses which resulted in current account deficit.

8 Covid-19 Pandemic and Global Economy: Covid-19(corona virus) is a new infection virus which was reported in Wuhan China. This virus was transmitting from one person to another through physical contact. Therefore, there was dire need to impose strict lock down to maintain social distance. It resulted in stoppage of all economic activities not only in china, but across the globe. It adversely affected global supply chain leading to an unprecedented inflation.

9 Asian financial crises: Asian financial crisis originated in late1990s in Thailand. It did not remain limited to the originating country but spread to almost all the nearby nations such as Philippine, Malaysia, South Korea and Indonesia.

Economic Situation in Malaysia

As the ringgit declined against the US dollar, the government deferred spending on several high profile infrastructure projects including its

prestigious Bakun dam project. This was followed in December 1997 by the release of plans to cut rate spending by 18%. The government also stated that it would not bail out any corporations that become insolvent as a result of excessive borrowing.

Economic Situation in Indonesia

Indonesia has many weak points; two of the major problems are its weak and unstable economic infrastructure due to the overspending of the government of skyscraper projects, beach and holiday resorts instead of improving its basic infrastructure of the country. The other major problem is the rampant corruption and cronyism, which involves the president's family and top government officials.

Economic Situation in Singapore

Singapore has not been hard-hit by the crisis and economic growth has only slowed down slightly. One of the reasons is that the Singapore government does not have much foreign debt. The government has sufficient foreign reserves to deal with crisis such as this one. Corruption is all but non-existent due to the strict enforcement of the laws. It also had a solid foundation formed through years of sound economic management and policies.

Economic Situation in Korea

The presence of corrupt dictators, the last three presidents, is one of the reasons for the poor economic situation. The close relationship between the government and the chaebol is the other reason. The chaebol spent money recklessly by donating generously to politicians who then arranged for unsecured bank loans.

10 Global Recession of 2008: global recession lasted between mid 2007 and early 2009. Although U.S. was its focal point but it spread to rest of the world through linkages in the global financial system. This economic downturn is considered as deepest recession since great depression of 1929. According to Reserve Bank of Australia, many banks around the world experienced a huge loss and depended on government support to avoid bankruptcy. Millions of the people lost their jobs especially in advanced economies.

III. Conclusion:

To sum up, we can say that there is hardly any country in the world which is fully economically sufficient and able to meet all its demands domestically. Directly or indirectly, every



country in the world has to depend on other country for one need or the other. This interdependence among these economies ties them together and provides them with an opportunity to work under one umbrella which generally comes to be known as globalization. Because of this interconnected nature of the economy economic shocks in one part of the world are bond to adversely affect some other part of the world. We found that an economic crisis in a nation does not have consequences for the given nation but beyond its political boundaries. in the same way, a war between two countries will not create economic disturbance for these two nations but create havoc among other nations linked to them through trade. Therefore, a balanced approach is required for smooth functioning of global economy for benefit of people at large. Rich countries must come in support of poor countries when they are facing economic challenges. Global stakeholders must come forward to settle any dispute between two countries to avoid any future war which may create imbalance in the global economy. Not rivalry but cooperation and not enmity but friendship can be only a way forward for bright future of all the people regardless of the country they are living in.

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