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DEVELOPING COUNTRIES AND THE GLOBAL FINANCIAL CRISIS

Анотація. *Світова економічна та фінансова система мають бути реформовані відповідно до сучасних реалій. Світова фінансова криза ще раз довела існування глобальних проблем. Початок XXI століття є саме тим періодом, коли у світовій економічній та політичній системі мають відбутися неминучі зміни. Країни, що розвиваються, мають можливість інтенсифікувати міжнародні відносини та переглянути своє становище на міжнародній арені. Ефективність змін для країн, що розвиваються, буде залежати від якості та креативності ідей, що будуть покладені в основу їх зовнішньої та внутрішньої політики.*

Annotation. *The world economic and financial system should be rebuild based on new conception. World financial crisis once again proved the global problems existing. Beginning of XXI century is a right time for made the imminent changes in world economic and political system. Developing countries have a chance to intensify international relations and revise their stand in international scene. Effectiveness of changes for developing countries will depend on the quality and creativeness on the ideas, which will put on their foreign and domestic policy.*

Key Words: economic and financial crisis, developing countries, transformations, openness of economy

Introduction. The world financial crisis of 2008 is the result of shortcomings as well as the global problems, which exist in the international financial system. At any level from local to global crisis should be seen as a precondition for the progressive movement, and for the update from ineffective management principles and mobilization of internal reserves. The financial crisis is a sign of the need for changes in the global economy. Experts note that the international financial system recovers from the crisis. However, the need in reform of world financial system still exists. Developing countries have the opportunity to reduce dependence on the rich countries, including the United States and international financial institutions, which are belonged to U.S. At the beginning of the XXI century world financial system is changing. The influence of the developed countries, first of all G7, upon the world economy is changing. G7 countries are still dominant ones in global space. Nevertheless, the main role in this context is passing from G7 into G20. It was glaring shown by world financial crisis of 2008. G20 include new industrial counties, which is going to have serious influence not only in their region but also into world economy in a whole. Traditionally world leaders are the United States and Western European countries, which are facing with domestic problems of national spiritual bankruptcy on the present stage. And vice versa, developing countries have kept natural national identity and domestic untapped potential of growing.

International relations are developing in the new world coordinates after the well-known events of the end of XX century. In general, the XX century is described as a century of the

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largest military conflicts and international disputes in the history, and characterized by the rise and escalation of global problems. After the collapse of Soviet Union the United States became the sole superpower country. No other power, or combinations of powers, could challenge its supremacy [11]. One country as well as one person couldn't know what exactly need others. The extent of the rebound is expected by experts. Eventually the uni-polar world and one country's supremacy is a main reason, which creates and intensifies global problems, conflicts between states. The extent of the rebound will not be just in case of creating multi-polar world and a new multilateral system. Modeling the prospects of the world economy as well as the opportunities for the young democracies in the XXI century in the geopolitical context is not possible without answer to the question – how the new world system should be organized? This moment in history is comparable to the end of the Second World War [11]. The margin of safety of world economic and political stability is running out of. Other question is about the role of developing countries in world economy. How to create the world mechanism with the developing countries interests take into account? Such kinds of questions have not only theoretical meaning on current stage, but also an important practical meaning, inasmuch as answers will determine the prospects of world economy development.

This article's author doesn't pretend for the fundamental analysis in this article. The main idea is to present the author's point of view about these problems. **The aims of the research** are determining and analyzing the topic problems of developing countries in context of world financial crisis and assessment of governments' actions during the crisis, as well as identifying of needed reforms in economic and social spheres in these countries. Also, this research's aim is to find out what can become the key to economic stability and security of developing countries in period of turmoil in the world economy.

Methodology. The research is based on theoretical analysis of the fundamental theories and concepts about the modern international financial system and economic policy, for example, "The Modern World-System" (Immanuel Wallerstein), "A Study of History" (Arnold Toynbee), and George Soros's theory of reflexivity and its application to financial markets. The issue has been explored by using the methods of theoretical generalizations, analyses practice by using statistical methods to investigate the structural proportions within the economic and social sphere in developing countries. For the country classification was used the UN methodology, which is based on the classification of country in compliance with market economy's principles.

Results. The developing countries were considered according to UN standards: "States are unable to meet their economic growth and relatively high living standards. In addition, national economies are heavily dependent on external factors and natural disasters. These countries have received economic assistance for their integration into the global economy". However, the programs, which taken to this end at the first (1981) and second (1990) United Nations conferences on the problems of developing countries, have not brought almost no results. Today there are three main economic centers: U.S., Europe and Asia. Russia is going to be a world leader also, at least as a significant owner of energy resources. First of all, the main present-day changes in United States economy should be defined. Strengthening of global influence of the Allies and United States have existed after the First World War. United States became a world economic and political leader as well as main financial center after the Second World War. As a result of Cold War, world communist system was collapsed and the new geopolitical systems were established (for example, European Union in Europe and Asia-Pacific Economic Cooperation (APEC) in the South-Eastern Asia and the Pacific region). These new geopolitical formations have become a real counterbalance to United States on the world economic and political arena. In was one of the main reasons, which made for system-defined global financial and economic crises (for example, the international banking crisis of 1982, of 1997, and financial crisis of 2008). Economy of United States cannot be a world economic engine more than two decades with the same effectiveness. As a consequence of this, US economy was converted from the donor of goods into acceptor of goods from all over the world. Finally, United States has become the largest exporter of services, including financial services. In spite of this, United States has a prodigious balance of payments deficit in foreign trade. U.S. national debt was doubled in last two decades and was amounted almost 11 trillion of US dollars or 75% of GDP. On the whole, United States National Debt increased from almost 50 billion of U.S. dollars in 1942 to almost 11 trillion of U.S. dollars in 2009 [13]. Obviously, Federal Reserve System jointly with IMF and World Bank cannot play the role of the International Central Bank strongly and in workmanlike manner as well as U.S. dollar play the role of main international currency of payment and reserve currency.

Different countries have different interests which drive them towards different solutions [11]. This can be seen in Europe. During the crisis of 2008, Europe could not reach a Europe-wide agreement on guaranteeing its financial system. Each country had to guarantee its own. Leading Western European countries are not homogeneous. The reason for this is the United Kingdom is not in the euro area, as well as heterogeneity in the euro area. Common currency failed to trigger the process of structural convergence. As things stand now, the Euro is an incomplete currency. Some European countries used the American way of developing. In countries where the American model is dominant, there are a high level of household debt and a significant part of the banking sector in lending to real estate. It reasons that cause vulnerability to mortgage crises similar to the American crisis. Long time, Germany was the leading economy in Europe. Today's Germany is very different. It is at odds with the rest of the world in fearing inflation rather than recession and, above all, it does not want to serve as the deep pocket for the rest of Europe [11]. Without a driving force, European integration has ground to a halt. There is no doubt, that the euro zone is experiencing significant economic disruption in the coming years, even if the recession here is not as prolonged as in the U.S.

Against a background of substantial problems of U.S economy and also European countries, the newly industrialized countries (NIC) have achieved much success in their economic development. Newly industrialized economies are a group of developing countries, in which socio-economic indicators have appreciably rose in recent decades. In this context, the newly industrialized country's experience in world economic and financial crisis' consequences overcoming is interested. NICs usually share some other common features, including:

- Increased social freedoms and civil rights.
- Strong political leaders.
- A switch from agricultural to industrial economies, especially in the manufacturing sector.
- An increasingly open-market economy, allowing free trade with other nations in the world.
- Large national corporations operating in several continents.
- Strong capital investment from foreign countries.
- Political leadership in their area of influence.
- Lowered poverty rates.

There are two main models of NIC, namely Asian and Latin American model. The development of national economy is mainly oriented for foreign markets in Asian model. Orientation toward the import substitution is used to Latin American model. The newly industrialized countries were being created during four waves. The NIC of "first wave" are Taiwan, South Korea, Singapore, and Hong Kong. These countries have also called the Asian tigers. The NIC of "second wave" are Argentina, Brazil, Mexico, Chile, and Uruguay. The NIC of "third wave" are Malaysia, Thailand, India, Cyprus, Tunisia, Turkey, and Indonesia. The NIC of "forth wave" are the Philippines and China.

Anti-crisis polity of NIC (Malaysia, Taiwan, South Korea, and Singapore, Brunei) was based on their national recourses – natural, financial, labour, and intellectual ones. Main branches for these countries were industrial ones in crisis period. Industrial branches were supported by government, especially export oriented productions. It should be noticed, that before world crisis of 2008 these countries exported mainly raw materials – agricultural and dry goods. The small-scale and middle-scale business received the powerful backing from the governments of newly industrial countries. This strategy could be called a key factor of effectiveness economic policy of these countries. The main support was offered for reprocessors of national and import raw materials as well as for industrial and textile branches, for construction and non-manufacturing business. Indeed, the small-scale business and middle-scale business drew out the present-day Asian tigers' productive economy from the deep crisis in the late 1940's to the middle 1950's. At the same time, in the newly industrial countries was created the system of productive and financial partnership, including concessive partnership, with the local and foreign business in the main branches (for example, energy, engineering industry, metallurgy, transportation, refining, petrochemicals), and the banking sector. Also, every possible preference for the development of small- and medium-scale business, service industries (including transit services) and for the growth of industrial exports (including food and textiles) were introduced into practice.

Consequently, these measures became the organizational and economic basis for the second phase of industrial development in the 1970's to 1980's. In that period, government pursued a policy of state incentive in the field of high technologies (namely, production of computers, household appliances, automobiles, synthetic fibers, energy and resource saving technologies, shipbuilding). In that way, these countries have become "newly industrialized countries" or Asian tigers. Simultaneously, the special (free) economic zones have begun to develop. It means that for foreign and local capital were set up the most favorable conditions. The first such zone was established in 1965 near the Taiwanese port of Kaohsiung. There are over 80 such zones in the world now, but Taiwan was the first. Then the FEZ was founded in South Korea and Singapore. China was the first country, which in a large-scale borrowed experience in FEZ establish in 1970's to 1980's. As is well known, China succeeded in doing this. In the same years a similar line of general economic policy consistently was pursued in Singapore, South Korea, Malaysia, and Brunei. It should be noticed that, concurrently, state control of banks and adjacent to them structures was a very strict. However, economic policy was based also on the large natural resources, for example, oil and gas (Brunei, Malaysia), tin (Malaysia), and tungsten (South Korea). In these countries, they have relied on the deep processing of raw materials, as opposed to growth its exports. By the end of 1970's these countries were presented on the world market also as producers-exporters of various products of processing their own raw materials – especially liquefied natural gas, products of metallurgy, oil refining, and products oil-gas-chemistry. As a result of this policy, their export earnings are safer and depend on fluctuations in world commodity prices much fewer.

Consequently, the skilful combination of private industrial initiatives with the development of the industrial economy, which is regulated by the state, has allowed these countries to relatively rapidly meet the crisis. The similar policy was adopted in China in the 1970's to 1980's. In this regard, these countries continue to occupy the world's leading places according to the development of industrial sectors, industrial exports, the growth of international reserves as well as the stability of their currency, and, consequently, the growth of living standards. Indeed, the share of finished industrial products, including science intensive and technology intensive products, in the export value of Taiwan, Malaysia, South Korea, Singapore and Brunei exceeds 70 % now, in China this index is a minimum of 55 %. Therefore, the economies of Asian tigers are well-diversified and self-sustaining, including the presence of their own specialists and technologies. In contrast to Russia or Ukraine, it allows these countries in a lesser extent depend on the rise and fall in world prices for oil and gas. Another important point is that these countries, including China, have used and now use the experience of the USSR 1930-1960-s state support for the industrial, more precisely – an integrated economic development. Democratization on post-soviet space caused the need in an additional analysis of geopolitical processes. The reduction in the production of consumer goods will perpetuate the dependence of the Ukrainian market from foreign imports. Structure of Ukrainian economy remains imperfect (tabl. 1).

Table 1 GDP of some countries in sectoral composition, 2009 [7, 8]

		Agriculture	*Industry*	*Services*
1.	World	6	30,6	63,4
2.	USA	1,2	21,9	76,9
3.	Japan	1,6	23,1	75,4
4.	European Union	2,1	25,9	71,9
5.	Byelorussia	9,3	39,7	51
6.	Russian Federation	5,2	37	57,9
7.	Ukraine	10	31,2	58,8
8.	Poland	4,6	28,1	67,3
9.	The Czech Republic	2,8	35	62,3
10.	Slovakia	7,8	79,6	12,6
11.	Hungary	3,4	34,2	62,4
12.	Latvia	3,6	24	72,4
13.	Lithuania	5,3	33,2	61,5
14.	Estonia	3	24,4	72,6
15.	Chine	10,9	48,6	40,5
16.	Malaysia	10,1	42,3	47,6
17.	Singapore	0	26,8	73,2
18.	South Korea	3	39,4	57,6
19.	Taiwan	1,6	29,2	69,2

Country cannot be an independent, democratic, social, and legal country without a strong economy. The measures of the Washington consensus were implemented in Ukraine at the beginning of 90's. In general, Washington consensus means privatization, reduction of restrictions on direct foreign investment, liberalization of financial markets, free exchange rates, and lower limit tax rates. It should be noticed, that although the rules laid down by the Washington Consensus were supposed to apply to all countries equally, the United States – as the issuer of the main international currency – was more equal than others [11]. Effectively the international financial system had a two-tier structure: Countries that could borrow in their own currency constituted the center, and those, whose borrowings were denominated in one of the hard currencies, constituted the periphery. If individual countries got into difficulties they received assistance but only on strict conditions. That held true whether they were from the center or from the periphery. According to this situation, the implementation was not successful almost at all countries. As well as Ukrainian society was not ready to perception the laws of market and market principles of life. As a consequence of these reasons, the implementation of the economic and social measures of the Washington consensus was not contributed to effectiveness and needed rate of socio-economic transformations in the 90's last century.

Between 1991 and 1998 Ukraine's economy was in a state of stagnation. The field of non-consumer sector has dominated in the structure of the economy, which consolidated the increased demand for investment resources, raw materials and energy resources. The redistribution of resources had done in favor of heavy industry to the prejudice of development of light and food industries, and the service sector. The heavy industry was not able to provide by modern equipment and latest technological equipment the industry, which produces consumer products. The vast majority of its products were set aside for military-industrial complex. In the early 90's of the last century, this branch produced about 1/4 volume of industrial production in Ukraine.

Existing dependence of the Ukrainian economy on imported consumer goods was not overcome by national production growth during 1999-2008 [9, 12]. In particular, in the structure of imports to Ukraine dominated the energy materials (39.64%), mechanical equipment (15.07%), chemical industry (7.14%), base metals and articles thereof (5.20%), transport (4.73%), polymeric materials (4.42%), textiles (4.10%) in 2001. In fact, in the 2008-2009 to the Ukrainian market was imported similar list of goods, which was in trade structure 2001. Increasing the share of imported animal products from 1.16% to 2.0% (due to growth of meat and food by-products), footwear from 0.26% to 0.6%, chemical products (due to growth of pharmaceuticals), and transport means from 4.73% to 14.1% (due to growth of vehicles, except rail). In such circumstances, an important task for economic policy should be the concentration of resources in areas that satisfy consumer needs and cover the domestic market demand. Thus, national producers do not use the advantages of market capacity of Ukraine, which are about 46 million people. During 1999-2008 in Ukraine were set up the possibilities of economic recovery and business activity, which were accompanied by increased lending real economy. Mainly foreign investors and importers used these possibilities for their own benefit. This conclusion is confirmed by the dynamics of import quota for the corresponding period (table 2).

Table 2 Openness of Ukrainian economy, 2001-2009

Year / Index	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP, million hryvnia	204190	225810	267344	345113	441452	544153	712945	949864	914720
Export, million U.S. dollar	19809,1	22012,4	27314,8	37974	40363,1	45873,5	58335	78695,7	49223,7
Import, million U.S. dollar	16922,6	18168,4	24478,1	31055,4	39071,3	48758	65598,6	92003,3	50604,4
Export covering import factor	1,17	1,21	1,12	1,22	1,03	0,94	0,89	0,86	0,97
Export quote, %	52,12	51,92	54,48	58,53	46,86	42,57	41,32	43,64	41,93
Import quota, %	44,52	42,86	48,83	47,87	45,36	45,25	46,47	51,02	43,1
Quota of foreign trade turnover, %	96,64	94,78	103,31	106,39	92,21	87,82	87,79	94,66	85,03
Factor of elasticity of demand for imports	1,72	1,54	0,57	1,08	1,23	1,01	0,91	0,73	0,73

Thus, during the economic growth in Ukraine were the case backlog volume consumer products to the needs of domestic market, which led to increased imports of agricultural products, light industry and mechanical engineering. Dynamic of export covering import factor during 2001-2009 shows that the predominant effect of the distribution of economic growth in Ukraine was used by the benefit of foreign contractors and countries of their origin (table 2). Such trends are negative signs of the development of foreign economic relations of Ukraine. For the normal functioning of the economy import share of domestic consumption should be within 30% and not exceed in 50% of GDP, which is the maximum allowable value index of economic security. One reason for the negative dynamics of export covering import factor is to maintain the low diversification of national exports. In key commodity exports during the 2001-2009 remain ferrous metals and articles thereof (30.6% and 30.7% in 2001 and 2009 respectively), mineral products (9.8% in 2009), chemicals (9.09% and 6.3%) mechanical equipment (10.54% and 12.6%). Among the products of plant origin – cereal crops (2.97% and 9.0%). Share of crops, mechanical and electrical machinery, fats and oils increased in total exports of goods in 2009 compared with the previous period. Instead, the share of ferrous metals, energy materials, petroleum refining and products, products from ferrous metals, fertilizers, railway or tramway locomotives, and road equipment was reduced. Thus, the income of export currency earnings to the Ukraine actually depends on global market conditions in key export position – metals, grain, chemicals.

Also hampering the implementation and strengthening Ukraine's export potential high national energy industry, including export-oriented industries. As a result of higher energy prices during 1990-2010 he was dropping the price competitiveness of Ukrainian goods on foreign markets. Thus, the average price per barrel of oil in 1990 amounted to 22.05 U.S. dollars and in 2000 – 28.01 U.S. dollars [1, p. 45]. In January-April 2010 price of oil on the New York exchange NYMEX per barrel within the range 80-90 U.S. dollars according to the data of Reuters [10].

Dynamics coefficient of elasticity of demand for imports decrease reflects the openness of Ukrainian economy in force competitive in foreign markets. The scale relations of the national economy from the world market as a result of the 2008-2009 financial turmoil reduced. Analysis of coefficient of elasticity of demand for imports shows a high correlation between growth of imported products and Ukraine's GDP. How strong the global economic processes influence on the national economy depends on mutual points of convergence as well as from interaction force in the world economic coordinates (tabl. 3)

Table 3 Openness of some economies in 2009

№	Index	Openness factor, %			Share in a world value, %		
	Country	Export quota	Import quota	FDI in GDP	Export	Import	FDI
1.	USA	6,97	11,24	16,05	7,98	12,68	13,33
2.	Canada	22,63	23,14	41,9	2,4	2,41	3,52
3.	Great Britain	15,98	21,84	53,26	2,82	3,8	8,46
4.	France	17,34	25,07	43,25	3,67	4,36	7,41
5.	Germany	34,65	28,78	25,31	8,99	7,36	5,55
6.	Italy	17,66	19,6	16,35	2,96	3,24	2,25
7.	Japan	10,23	10,91	2,85	4,14	4,36	0,84
8.	Russian Federation	23,55	24,06	30,55	2,37	2,39	2,95
9.	Ukraine	35,86	71,32	24,44	0,33	0,65	0,26
10.	Byelorussia	36,79	74,71	-	0,14	0,29	-
11.	Poland	31,84	50,58	37,21	1,08	1,69	1,18
12.	The Czech Republic	56,09	74,54	49,7	0,85	1,12	0,65
13.	Slovakia	51,02	90,33	50,21	0,36	0,63	0,29
14.	Hungary	67,1	86,55	101,49	0,67	0,85	0,92
15.	Latvia	27,77	58,64	33,18	0,05	0,11	0,07
16.	Lithuania	40,82	84,15	34,71	0,12	0,24	0,1
17.	Estonia	51,15	89,92	82,03	0,07	0,13	0,11

Before the world financial crisis in 2008, in world economy was a long period of sustained economic growth with a low inflation and low interest rates internationally. Leading financial and credit institutions extended loans and competed among themselves in an effort to obtain enormous profits. From the beginning in crisis governments and central banks of leading countries used the specific measures separately from each other and then more coordinated, to overcome the crisis through large infusions of capital. In developing countries export still have continuing negative trends. In general, export is extremely ineffective due to its low diversification, and predominance of commodity and low-tech goods. According to the Édouard Balladur's theory of "concentric circles", the decisions are made in a center and countries at periphery should be the satellites of rich countries [8]. Otherwise countries at periphery will be broken. Further integration of Ukraine into world economic space reduces the level of national economic security. The same inference is relevant for other developing countries. Increasing of "openness of the economy" is cause the new macroeconomic risk, because further integrating to the world economy means that the national economy are getting more and easily vulnerable to various external difficulties.

Conclusions. Consequently, world financial system should be rebuilt. Current world financial crisis is a mainly western economic and financial recession. Impact of crisis on the economies of East Asia is quite a soft. World growth will occur due to China and India. Basically it is a crisis of economic model that was inculcated by means of "conservative revolutions" from 1980. This crisis of world economic set-up called globalization, which is a fundamental project of U.S. and Great Britain. In current situation the important place is belong to G20 and developing countries. Using the national identity and national potential will be ones of the main guarantees of economic stability. The depth of the crisis in the Eastern Europe depends not on economic or financial reasons in the first place. They are derived from the social transformations taking place in these countries. The main task is to consolidate the society and resolve conceptual problems in the state. National identity and identification is a key to overcoming the crisis, the formation of stable economic pillars of society as well as to the successfully overcome the challenges facing developing countries in the context of current global imperatives. Preconditions to establish and development an internal market in developing countries have created by the world crisis of 2008. A basis of economic stability of the developing countries in a whole should become the capacity of domestic market in a period of economic or financial "failure" of world market. Post-crisis economic policy should be focused on the intensification of domestic sources of financing economic restructuring. The formation of stable economic pillars of society should precede the further integration of developing countries into the world economy. Certainly, U.S. dollar existed, exists and will exist. But gold and foreign currency reserves of developing countries should be diversified. Inasmuch as the U.S. economy and Euro zone are in deep imbalances. From the position of whole world interests it could be overcome based on rebuild of current world financial system.

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