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"Crises in Economies and Possible Remedies by Way of Comparison with Successful Economies"

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ABSTRACT: *The following paper examines and analyses the reasons behind economic crises among select 4 Economies. The paper focuses on Venezuela, which holds the world's largest oil reserves, yet has the highest inflation rate in the 21st century and Pakistan which has alarmingly been a reason for caution as an unstable nuclear state whose economic failures might see control of nuclear assets pass over to radical hardliners. To provide a contrast, the China and Weimar Republic (Germany) have been examined, as these economies were devastated in early to mid-20th century. However, today they are the world's second and fourth largest economies respectively. What led to this dramatic revival? Is it possible to duplicate those factors to revive Venezuela and Pakistan? The main parameters used include inflation for Venezuela and Weimar Republic, and external debt for Pakistan, which is much interwoven with China's success story. The paper assumes a condition of ceteris paribus.*
KEYWORDS: *Hyperinflation, External debt, GDP (absolute and annual growth rate), BRI.*

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I. INTRODUCTION

Economic crises have existed since man learnt to sell crops for cash. According to the Business dictionary, an economic crisis is: "A situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis. An economy facing an economic crisis will most likely experience a falling GDP, a drying up of liquidity and rising/falling prices due to inflation/deflation. An economic crisis can take the form of a recession or a depression". However, in a practical sense, there are more parameters to an economic crisis. Some of them are:

- Recession (GDP contraction)
- Inflation
- Public debt

These may be caused due to various factors such as war, natural calamities, economic sanctions, change in political environment, Government policies, etc.

According to the Oxford dictionary, the definition of recession is "A period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters". Examples of economies that have fallen victim to such recessions are the United States (2008) and Saudi Arabia (2015).

According to the Oxford dictionary, the definition of inflation is: "A general increase in prices and fall in the purchasing value of money". Examples of economies that have fallen victim to such recessions are Venezuela and Zimbabwe.

According to the Economic Times, the definition of public debt is: "Public debt receipts and public debt disbursals are borrowings and repayments during the year, respectively, by the government". Examples of economies that have fallen victim to such recessions are Pakistan and Greece.

The above 3 factors are more often than not interlinked. For instance, an economy with skyrocketing inflation rates is likely to borrow substantial amounts of funds from both internal and external sources in order to bridge the current account deficit. This leads to higher debt and consequently a higher debt servicing cost to the exchequer, thus spiralling deeper into crisis. The increased borrowings lead to a higher allocation of the budgetary resources towards debt servicing. Less capital is available with the banks to lend, leading to a freeze in investments. Lower amounts of goods and services produced due to lower investments stall the GDP growth of an economy.

II. REVIEW OF LITERATURE

1. **TILLY, R. (2001). German economic history and cliometric: A selective survey of recent tendencies. European Review of Economic History, 5(2), 151-187. Retrieved from**
https://search.proquest.com/docview/207333535?accountid=38885

This article evaluates recent cliometric contributions made by international economic historians in the area of German economic history. The area has been studied using 4 main parameters prevalent in post war Germany. The conclusion is that a German cliometric revolution has not occurred yet.

2. **Phil's stock world: Venezuelan reveals the truth of venezuela crisis: We're A time bomb (2017). . Chatham: Newstex. Retrieved from**
https://search.proquest.com/docview/1926964333?accountid=38885

This study describes a Venezuelan's experience as the country heads towards civil and social unrest. According to him, the recent civil war has worsened the inflationary spiral. He describes how people were forced to vote in a fraudulent election at gunpoint. All this led to further US sanctions, which worsened the inflationary crisis.

3. **Nolan, P., & Ash, R. (1995). China's Economy on the Eve of Reform. The China Quarterly, (144), 980-998. Retrieved from http://www.jstor.org/stable/655288**

This article examines the reforms brought about by Mao Zedong and Deng Xiaoping. Mao Zedong made China a self-sufficient country in terms of agricultural produce, and led China in its fledgling years. Deng Xiaoping on the other hand led the industrial revolution, transforming China into the world's largest exporter. There were several internal conflicts and widespread corruption, both of which had to be overcome to achieve this revival.

4. **Fair, C., Crane, K., Chivvis, C., Puri, S., &Spirtas, M. (2010). Pakistan's Future: Is Past Prologue? In Pakistan: Can the United States Secure an Insecure State? (pp. 7-74). RAND Corporation. Retrievedfrom**
http://www.jstor.org/stable/10.7249/mg910af.10

This study states various hindrances to Pakistan having a stable economy. It discusses the expansions of these problems and their possible outcomes. It analyses social and economic trends and predicts the possible situation Pakistan will be in the future mainly in terms of living conditions and income. It states problems relating to the country's constitutional framework and failed governance.

5. **Hart, J. A. (2016). Politics of international economic relations. Place of publication not identified: Routledge.**

This study highlights the potential in the Japanese economy post World War 2. A strengthening US Dollar in the 1960s negatively affected American exports. The Japanese with their focus on quality (kaizen) and strategic investments immediately moved in to fill the gap, as is evident with the rise of Japanese companies such as Toyota, Nissan and Mitsubishi. Furthermore, the debt crisis for USA in the 1980s disabled them from financing global activities, leaving the dais open for the Japanese.

III. RESEARCH DESIGN

Scope of Study: We have considered 4 countries in our study.

Table 1: Reason for crisis and current status among the 4 select Economies.

S.No	Country	Primary Crisis	Status Quo
1	Germany	Inflation (WW1)	Out of crisis
2	Venezuela	Inflation (Oil prices, Political instability)	Progressing deeper into crisis.
3	Pakistan	Debt (CPEC, Military posturing)	Progressing deeper into crisis.
4	China	Recession (WW2, Political instability)	Out of crisis.

The countries have NOT been chosen in a haphazard manner. China and Germany were selected as their economies were decimated following the 2 World Wars. However, they rebuilt from scratch and today are the world's second and fourth largest economies respectively, only behind the United States of America. The study evaluates the situations that led to their crises and how they managed to successfully overcome them. Venezuela is reeling from hyperinflation, similar to what Germany faced a century back. The Venezuelan Bolivar has depreciated so much, that bags are being woven out of the notes and being sold at a profit. Pakistan on the other hand, is facing a mounting debt crisis. They are at a risk of handing over control of key installations (ports, power plants, etc) to a foreign Government. The study then intends to apply the solutions used by Germany and China to Venezuela and Pakistan in order to carve a path to economic recovery.

Statement of Problem: The 2008 financial crisis and the 2014 fall in oil prices caught many countries by surprise. Major economies such as the PIGS nations (Portugal, Ireland, Greece and Spain), the USA, UK, etc suffered tremendous blows to their economies. Some countries such as the USA and China successfully recovered, while others like Greece and Venezuela accelerated their vicious cycles. Historically, wars have always led to higher inflation and debt as experienced by the fledgling Chinese and German nations post World War 2. However, they too managed to overcome their economic crises. Pakistan is suffering due to its military posturing, corruption and high levels of external debt, while Venezuela is reeling from falling oil prices and an authoritarian Government led by Nicolas Maduro. The primary issue is that these nation's economic problems have a ripple effect as seen in 2008, due to an increasingly globalised economic system. The intention is to apply practical solutions from countries which overcame their crises into Pakistan and Venezuela.

Objectives of the Study:
1. To identify reasons for economic crises in 4 select economies.
2. To examine the factors that led to economic recovery of 2 select economies.
3. To apply suitable factors to aid in economic revival of countries undergoing crises.

Sources of Data: The sources of data used for the purpose of the study are secondary. This is because it is impractical, if not impossible to collect economic data about different countries from primary sources.

Limitations of Study:
- A wider scope is possible. The PIGS countries could have been included for a truly global viewpoint.
- Different countries have different economic policies and governing bodies. Hence, comparability is affected.
- Secondary source of data might be biased towards Western countries as they are all American/pro America.
- Unforeseen circumstances in the future (eg: - war, natural disaster, innovations, trade agreements) might affect the study as accurate prediction of the future is impossible.
- The research is mostly qualitative, and thus different conclusions may be drawn by different entities.

IV. DATA ANALYSIS AND INTERPRETATION

Venezuela

Graph 1: Inflation rates in Venezuela (2014- Dec, 2018)

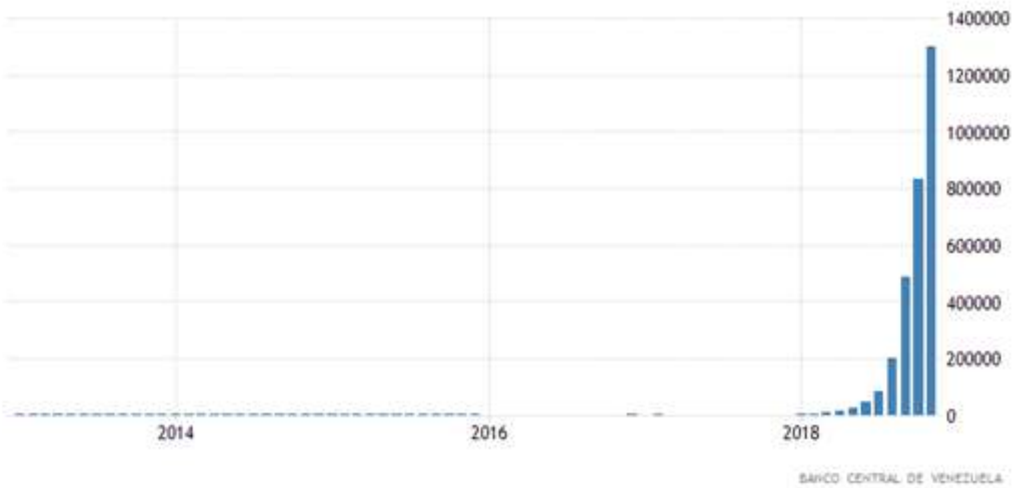


Table 2: Summary of economic statistics- Venezuela

Parameter	Last
GDP growth rate	-16.6%
Unemployment rate	7.3%
Inflation rate	1,300,000%
Balance of trade	-$782,000,000
Current account	-$5,113,000,000
Government debt to GDP	23%

The main crisis in Venezuela involves hyperinflation. As oil prices plummeted in 2014, and a strong leader in Hugo Chavez was lost; Venezuela struggled to control its inflation. Inflation rates in 2013, just before the oil prices fell were 43.53%. This is also pretty high, and was caused mainly due to American sanctions to what it perceived as a Russian ally. However, the inflation rate is now **1,300,000%**, and the IMF predicts that it will cross 10,000,000% in 2019. Venezuela has the world's largest oil reserves; however they are a socialist economy. Petróleos de Venezuela is the state owned oil company in Venezuela. Since they are a monopoly and there is no competition, corruption is rife. A corruption index rank of 169 is testimony to the widespread culture of corruption in the country. A Reuters report declared that 25,000 workers resigned the oil company between January 2017 and 2018, while control of the company was handed over to the military in order to reduce chances of a military coup. This further worsened management and corruption, and pushed Venezuela deeper into crisis.

As a socialist economy, the Government could not fund the subsidies as oil prices fell. Also, price controls were breached by the market forces of demand and supply. As people could not even afford basic necessities like medicines and food- the average Venezuelan earns 248,000 Bolivars a month, while a cup of coffee costs well over 1,000,000 Bolivars.

Germany

Table 3: Summary of economic statistics- Germany

Parameter	Last
GDP growth rate	2.2%
Unemployment rate	3.3%
Inflation rate	1.7%
Balance of trade	21,029,648,130
Current account	18,269,562,690
Government debt to GDP	64.1%

Weimar Republic began facing financial crisis due to hyperinflation which started at the end of World War One. In order to pay for the large expenses it would incur during the course of the war, Germany suspended the convertibility of currency to gold. The French introduced war taxes to fund the war whereas the Germans chose borrowings, and had planned to pay it back by using the resources of the nations it occupied/annexed. Due to the war, Germany faced inflation and that was one of the several reasons due to which the Mark devalued against the US dollar.

The strategy failed when Germany lost the war and this put them into deeper crisis having lost the war and a huge amount of borrowings to repay. The circumstances worsened because Germany printed currency without economic resources to back it. People would take huge amounts of cash on wheelbarrows to buy a loaf of bread, indicating the sky high prices of basic necessities.

In retaliation to the German (Prussian) invasion, the Allied forces led by the French imposed the Treaty of Versailles demanding that war reparations be paid in gold. With Germany's gold reserves depleted due to repayment of the debt, it began buying foreign currencies. Due to the increased supply of the German currency in the global economy it value began falling rapidly. The Marks were worthless and the decommissioned currency became a collectible. The Los Angeles Times estimated that there was more of the German decommissioned currency in the US than in Germany itself. Also, the heavily industrialised and coal rich Ruhr valley was occupied by the French and the Belgians. This further reduced German industrial output and worsened balance of trade.

The hyperinflation scare caused the German government to try and stabilize the currency. The government then substituted gold for rye by introducing Rentenmark ("mortgage mark"). The Rentenmark helped cut almost 12 zeros from prices. The newly elected National Socialist German Workers Party, aka the Nazi party focused on heavy industrialisation. Innovation was given top priority. Germany had a 4 year plan, which encouraged production of heavy vehicles and weaponry. Several industrial behemoths such as Volkswagen, Thyssen Krupp, Siemens and Bayer were all either founded, or revitalised under the Third Reich.

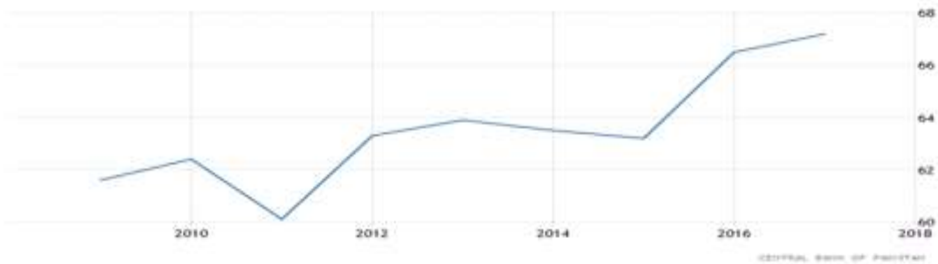
Pakistan

Table 4: Summary of economic statistics- Pakistan

Parameter	Last
GDP growth rate	5.79%
Unemployment rate	5.9%
Inflation rate	6.5%
Balance of trade	-$2,680,933,584
Current account	-$3,665,000,000
Government debt to GDP	67%

The following graph depicts Pakistan's debt as percentage of GDP. There has been a constant increase. There was an increase of 3.5% in the external debt between the first and second quarters in 2018. This is much higher than the GDP growth for the same period. According to the State Bank of Pakistan, the country has a history of recurring deficits in balance of trade. The increase in crude oil prices in 2014 and 2015 further exacerbated the issue as Pakistan imports 70% of its oil needs.

Graph 2: External debt- Pakistan (2008-2018)



With a constantly declining GDP, a 67% government debt to GDP is an alarming figure. Moody's Investors Service recently downgraded Pakistan's credit rating to B3 negative. Their analysts justify the downgrade as a result of high external vulnerability, weak debt affordability, and a low global competitiveness. This led to significant outflow of FDI. However, the Chinese stepped in through the CPEC to give $62 billion in loans (China Pakistan Economic Corridor), which is a BRI (Belt and Road Initiative). The CPEC involves investment in roads, bridges and allied infrastructure. However, the assistance is **not** given in the form of a grant. The interest rate on the loan in fact, increased to 5% p.a. Furthermore, the companies involved in the construction are Chinese, and Chinese labour is brought into Pakistan. Pakistan incurs a high cost in providing security in the troubled areas of Gilgit Baltistan and Baluchistan. One example of the default clause states that power plants must pay annual revenues of up to 34 % for 30 years, to Chinese banks. In contrast, Pakistan's 10-year government bond yields are 13.15% as of January, 2019. Also, the loans are given in US Dollars, which implies that Pakistan needs a high balance of trade surplus in order to repay the loans. However, as on June, 2018, the balance of trade deficit stood at $3.8 billion, indicating a potential inability to service the loan. This has increased the debt significantly, and worryingly it is external debt. If the debt is defaulted upon, China will control key infrastructure such as Gwadar port and certain power stations. This will lead to a loss of sovereignty. Also, Pakistan has approached the IMF ($12 billion), Saudi Arabia ($6 billion) and the United Arab Emirates ($3 billion) for loans to help them out of the crisis. Such loans are however never with no strings attached. This will be the 12th time the Pakistan Government has approached the IMF for a bailout package. This shows that while Pakistan is reasonably stable now, there is a virtual certainty for a recession, caused due to high levels of debt and inflation. The Pakistan Army owns over 12% of all Pakistani territory and controls businesses worth over $20 billion according to Al Jazeera. 7% of private assets and 33% of heavy manufacturing is controlled by the Pakistan Army. The Army is not answerable to any parliamentary committee, and has zero accountability. Coupled with a corruption index ranking of 117, it is easy to see how wealth is accumulated in the hands of a select few.

<u>China</u>

Graph 3: GDP annual growth rate- China (1960-2018)

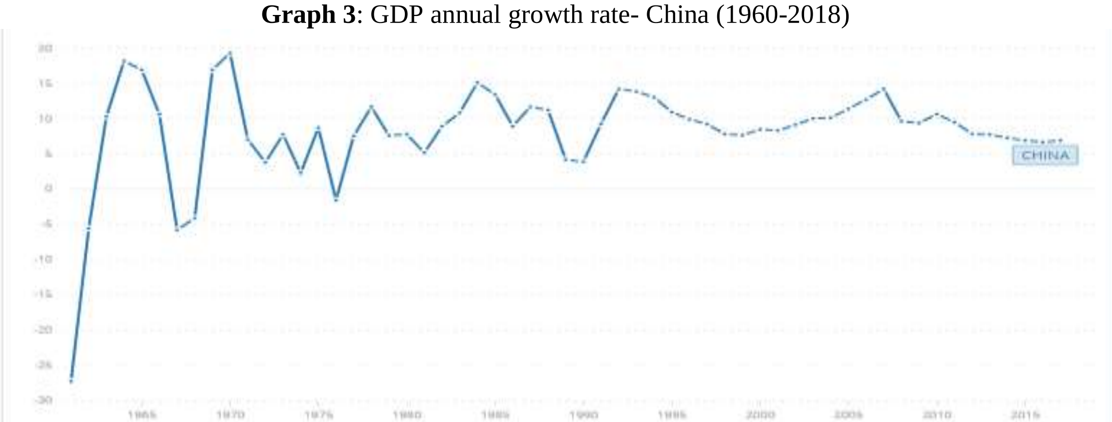


Table 5: Summary of economic statistics- China

Parameter	Last
GDP growth rate	6.5%
Unemployment rate	3.82%
Inflation rate	2.2%
Balance of trade	447,000,000,000
Current account	233,000,000,000
Government debt to GDP	47.6%

After the Japanese invasion in 1937, China's economy was in tatters. A civil war between the communist forces and democratic forces further worsened the situation. Reforms by 3 Chinese leaders completely changed the economic face of China. Soon after independence, China's GDP was just $30 billion in 1952. Led by Mao Zedong, there were extensive agricultural land reforms, social reforms, public health and education reforms. As the country was united and consolidated under his rule, it left the situation ripe for an industrial revolution. Led by Deng Xiaoping from 1978 to 1989, China became the world's sweatshop and manufacturing hub. He liberalised the Chinese economy and opened it up to the world, aiding globalisation. Between 1980 and 2017, China's GDP increased **42** times, from $305 billion to $12.7 trillion. The average growth in GDP over the same period was 10.2%. After becoming agricultural and industrial behemoths, China under Xi Jinping commenced increasing their global influence. The BRI (Belt and Roads Initiative) was started, which is an ambitious project that seeks to revive the old Silk Road through massive investments in infrastructure such as roads, bridges, airports, ports, power stations, etc. The BRI investments are worth at least $1 trillion, according to the most conservative estimates. This dwarfs the $100 billion given out by USA post World War 2 as part of the Marshall Plan. China's balance of trade of $447 billion stands testimony to the fact that their exports have increased dramatically. Consequently, China holds the highest foreign exchange reserves in the world. Also, the BRI and the String of pearls policy followed by the Chinese are shrewd. Huge amounts of debt are owed by other countries to China, making China the world's largest creditor. Several key installations in host countries, such as the Hambantota Port in Sri Lanka have been appropriated by the Chinese. This dramatic turnaround from one of the world's poorest nations to the second richest nation in the world in around 50 years is a case study in economic revivals.

V. RESEARCH FINDINGS AND SUGGESTIONS

Taking cues from the Chinese and German economies, certain measures could potentially be implemented in Venezuela and Pakistan.

Venezuela:

- Adopt a new currency, such as the US Dollar or Chinese Yuan (German model). Zimbabwe which was reeling under hyperinflation managed to control their inflation by switching to the US Dollar. However, America and Venezuela do not share cordial relations and America may be reluctant to allow Venezuela to use the US Dollar. The Chinese Yuan could be used as China is a Venezuelan ally by virtue of sharing communist ideologies.
- Reassure foreign investors, especially oil companies such as British Petroleum, Shell and Exxon Mobil to reinvest in Venezuela. Guarantee their security.
- Open up the market by introducing capitalism. The forces of demand and supply tend to correct inflationary situations. This will encourage globalisation and help to remove US sanctions, thereby giving access to global credit lines.
- Diversify industries. Venezuela is heavily dependent on oil. The Norwegian model can be used to invest oil earnings in other sustainable sectors, such as cocoa farming.
- Implement austerity measures as implemented by Greece. Public expenditure must be reduced by reducing pensions, scholarships and Government wages. (EU model)

Pakistan:

- Gradually reduce dependence on Chinese debt.
- Amend the constitution to give more authority to the civilian Government (Indian model).
- Reduce military expenditure on arms and weapons acquisition.
- Slow down radicalisation of youth, thereby reducing terrorist cadres. This will reassure foreign investors and tourists.
- Make anti-corruption laws very stringent. Introduce public accountability, thereby tightening the political structure.

- Introduce structural reforms in line with the IMF, to enable widening the tax base and correct inappropriate monetary policies.

VI. CONCLUSION

It is safe to say that Venezuela is trying to work on its economy. They recently introduced a new crypto currency called Petro, which is pegged to oil prices. This aims at stabilising the economy. However, as a communist and socialist nation, they cannot introduce capitalism without eroding their political base. Currently, the inflation is leading to a huge amount of unrest and citizens are fleeing to Colombia as refugees. The need of the hour is to control inflation.

On the other hand, Pakistan is in a state of denial. They are increasing their dependence on Chinese borrowings. China funded roads and power stations make up the backbone of the country, and in case they default on the loan (which is likely), key infrastructure will come under Chinese control, thereby leading to loss in sovereignty. Also, with growing military influence, significant portions of the budget are allocated to the Armed Forces. This is better spent on trying to service external debt. By increasing accountability, the average Pakistani citizen can reap the benefits of an annual GDP growth of up to 5.7%, increasing standards of living.

Using the German and Chinese models of recovery, certain solutions can be applied by Venezuela and Pakistan. The geopolitical scenario today is indeed different from the scenario a few decades back, however the laws of economics are constant. If a leader who is committed to change is brought to power, it will not be surprising to see Venezuela and Pakistan at the crest of world economies in the distant future, bearing in mind their enormous natural and human resources.

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