

# INTERNATIONAL ECONOMICS AND INTERNATIONAL RELATIONS

## International business and economic crises

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On the background of global political, economic and financial instability, imperfection of international markets for goods and services and a significant number of bankruptcies of enterprises, the problems of researching crisis phenomena, the nature of their occurrence, factors that cause it, mechanisms of prevention and liquidation of consequences are becoming particularly relevant.

The crisis is regarded as the integral concept of any system in the course of its development that disrupts the stability of the system, while radically renewing it. It is considered as a turning point in the development of the system, which gives space for a new round for changes. Therefore, a crisis is just as necessary for a developing system as a stable state.

Any economic system is developing in cycles that presuppose the periods between two crises (see Figure 1). Cyclicity is regarded as an objective form of development of the national economy and the global economy as a whole and considered as one of the methods of self-regulation of the market economy, which ensures its progressive development.

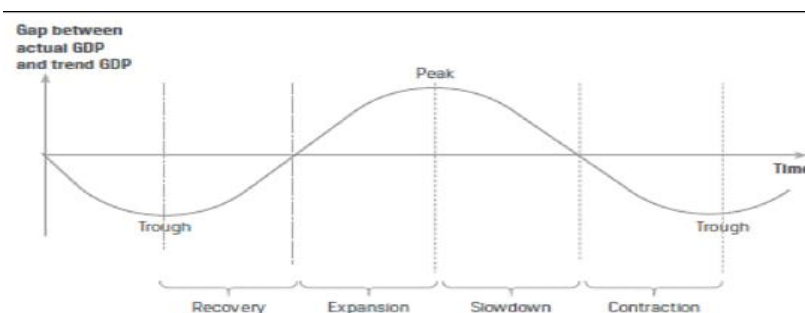


Figure 1

**Phases of economic cycles**

Source: [1]

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According to the American National Bureau of Economic Research the features of the modern economic cycles presuppose the following:

- changing the four-phase cycle model to a two-phase one;
- full cycles (the distance between the peak and the bottom) differ significantly in duration;
- starting from the second half of the 20th century, the phase of economic decline is shortening, while - the phase of production expansion has become longer;
- the recurrence of crises became more frequent, but less deep.

Economic crisis as the integral component of any economic cycle is characterized by the following: overproduction of goods compared to the solvent demand for them; a sharp drop in prices caused by an excess of supply over demand; a drop in production volumes and, as a result, a drop in the rate of return; stock growth; increase in the number of bankruptcies; rising unemployment; falling income level; upheaval of the credit system (a sharp increase in the rate of interest due to the fact that the demand for money increases, and the supply decreases due to the outflow of monetary capital from banks, a sharp reduction in commercial and bank loans, a drop in the price of stocks and bonds, etc.).

Thus economic crises exert an enormous influence upon the macroeconomic system and business structures as the respective microeconomic subjects. In this context macroeconomic crises are regarded as external (exogenous) causes that could lead to the economic crises of the companies (see Figure 2).

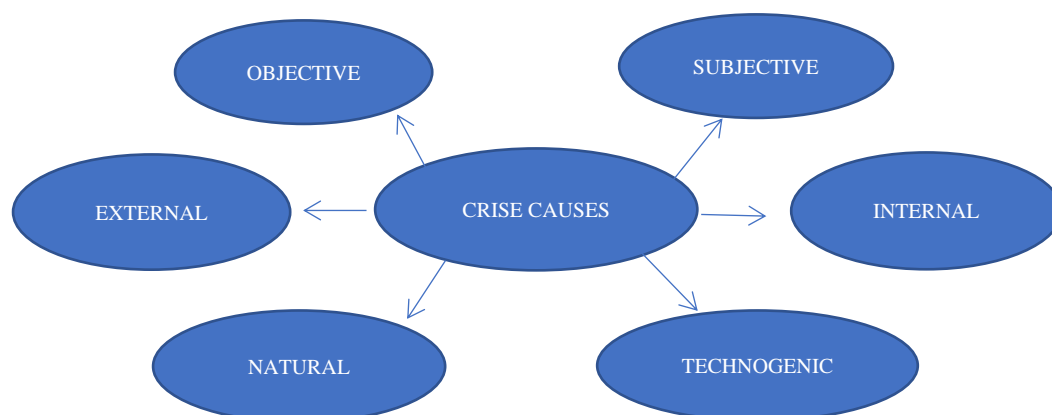


Figure 2

**Crisis causes within the international company**

*Source: composed by the author*

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In understanding the crisis, not only the causes, but also its consequences are of great importance that can be of positive and negative character. Typical negative consequences of a microeconomic crisis within the international company are the following: loss of customers and buyers of finished products; decrease in the number of orders and contracts for the sale of products; non-rhythmic production, incomplete loading of capacities; rising costs and a sharp decrease in labor productivity; an increase in the volume of illiquid working capital and the presence of overtime stocks; occurrence of intra-production conflicts and increase in personnel turnover; increasing pressure on prices; a significant decrease in the volume of sales and, as a result, a lack of income from the sale of products.

To respond effectively to the crises within the company the system of crisis management should be applied.

The essence of the crisis management is expressed within the following postulates:

- crises can be foreseen, expected and caused;
- crises can to a certain extent be accelerated, anticipated, postponed;
- it is possible and necessary to prepare for crises;
- crises can be mitigated;
- management in crisis requires special approaches, special knowledge, experience and art;
- crisis processes can be controlled to a certain extent;
- managing the processes of exiting the crisis can accelerate these processes and minimize their consequences.

Within crisis management process the following stages are differentiated in order to effectively treat the crisis processes within the company level, namely: pre-crisis stage - crisis stage - post-crisis stage (see Fig. 3) that comprises the peculiar measures application within each stage.



Figure 3

**Crisis management process**

Source: composed by the author

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Taking into account the inevitability of economic crisis the pre-crisis stage is regarded as a preparatory stage and presupposes the analysis of the potential threats within the prospective crisis and possible economic and financial outcomes for the company as well as preparation of the anti-crisis management plan.

Within the crisis stage the goal is to assess the nature and scope of economic crisis and take concrete actions to counteract the crisis and stabilize the situation using of reserves, additional resources based on previously developed anti-crisis management plan.

The post-crisis stage presupposes the evaluation of the effectiveness of the measures taken and action for the economic and financial recovery of the international company, including the restoration of its liquidity and solvency, formation of directions for increasing the competitiveness of the enterprise on the international markets.

Within the contemporary methodological approached to the crisis management the range of the crisis management models are differentiated as the conceptual framework for all aspects of preparing for, coping with, and recovering from a crisis (see Fig. 4).

	Fink	Gonzalez-Herrero and Pratt	Mitroff	Burnett	Relational Model Jacques
3-stage	4-stage	4-stage	5-stage	6-steps	4-cluster
Pre-crisis	Prodromal	Issues management	Signal detection	IDENTIFICATION goal formation	Crisis preparedness
Crisis	Acute	Planning-prevention	Probing, prevention	IDENTIFICATION environmental analysis	Crisis prevention
Post-crisis	Chronic	Crisis	Containment	CONFRONTATION strategy formulation	Crisis event management
	Resolution	Post-crisis	Recovery	CONFRONTATION strategy evaluation	Post-crisis management
			Learning	RECONFIGURATION strategy implementation	
				RECONFIGURATION strategy control	

Figure 4  
**Basic anti-crises models**  
Source: [2]

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In order to build the effective anti-crisis management system a complex of preventive measures within anti-crisis management plan should be developed, which will allow to respond to the changes of economic environment promptly and predict and mitigate the appropriate negative consequences of economic crisis for the international company.

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