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The Great Recession and International Economic Order: Insights from Global Economic Crises

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Abstract

The emergence of a new world order has become a topic of significant debate among international relations scholars in the wake of the Great Recession, as the U.S.-led global order established after World War II seems to be nearing its decline. However, some scholars fail to consider the impact of economic recessions on the world order, often overlooking the structural shifts within the international economic and financial system. This article seeks to clarify these shifts by analyzing four major global economic recessions between 1929 and 2020. It also explores the causal relationship between economic recessions and the evolution of the international economic order, examining how major powers act to preserve stability. The findings show that global economic recessions do not necessarily result in the emergence of a new world order; rather, the international economic order changes only when a leading economic power fails to stabilize the system. In all the case studies analyzed, the U.S. retained its role as the primary stabilizer of the global system, with a limited shift of responsibility to China during the 2008 Great Recession.

Keywords: world order, economic order, structure, stability, major power, recession, crisis management, Bretton Woods.

Introduction

In the aftermath of the Great Recession, Global Financial and Economic Crisis of 2008, the emergence of a new world order became a center of the debate in international relations. In 2017 during the national security work symposium in Beijing, Xi Jinping, the Chairman of the Chinese Communist Party (CCP) highlighted the necessity for a new world order, noting that, "particularly after the global financial crisis of 2008," he stressed, "the shortcomings of the original international order have become more and more evident." In similar fashion, international relations scholars and political scientists treated the crisis as a paradigm shift in international relations by providing various explanations for the nature of transformational changes in a global strategic environment. Namely, a liberalist scholar, John Ikenberry,[1] in his book *Liberal Leviathan*, argued that the 2008 crisis and its consequent repercussions raised doubts on the American-led liberal system. A gradual decline of American unipolarity resulted in instigating a quest for global leadership and dominance. Notably, the realist school of thinkers came to a similar conclusion. Charles Glaser[2] emphasized the return of major power competition, which resulted from the threats on the Western international order after the financial crisis. As a result, the reputation of the Western economic model and governance structure was significantly damaged, coupled by pessimism of the allies of the U.S. in Europe and Asia about the future of a world order and international system.[3]

Arguments about the role of China and the shift in geopolitical landscape added extra weight to the impact of the Great Recession, if not exaggerated its repercussions for the world order. China's

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[1] John Ikenberry, Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order (Princeton, NJ: Princeton University Press, 2011).

[2] Chad Glaser, "A Flawed Framework: Why the Liberal International Order Concept Is Misguided," *International Security* 43, no. 4 (2019): 51–87, https://doi.org/10.1162/isec_a_00343.

[3] Way, Lucan. 2022. "The Rebirth of the Liberal World Order?" *Journal of Democracy*. https://www.journalofdemocracy.org/the-rebirth-of-the-liberal-world-order/; Kortunov, Andrei. 2022. "A New Western Cohesion and World Order." *Horizons: Journal of International Relations and Sustainable Development* 21: 52–71. https://www.jstor.org/stable/48686696.

quick economic recovery, which enhanced the importance of market authoritarianism, undermined the prevalent economic reform model, the Washington Consensus, and created a strategic opportunity for China to offer its model and values as an alternative and potential rival to the West.[4] The phenomenon at that time was clearly explained with the phrase "The Decline of the West and the Rise of the East," coined by the Chinese scholars.[5] Interestingly, the report titled "*Chinese Discourse Power: Aspirations, Reality, and Ambitions in the Digital Domain*" published by the Atlantic Council in 2022 drew a similar conclusion, viewing 2008 as "a turning point for China."[6] In summary, scholars Feng and He[7] concluded that China, after 2008, started to challenge the U.S.-led international order through institutional balancing approaches.

This article examines the arguments of these scholars whether the global economic and financial crisis brought a crisis to the existing world order. I extent this task beyond the global financial and economic crisis of 2008 by assessing the impact of global economic recessions on the functioning of the world order to determine the degree of their influence. My main argument in this article is that global economic recessions lead to change in international economic order if and only if the dominant economic power is unable to provide stability to the international financial system. Global economic recession does not lead to a crisis in the world order, but rather affects specific sub-orders or elements within it, such as the economic and security aspects. Therefore, the article explains the concepts of world order, international system, and economic recession followed by scrutiny of international economic order and investigates previous global economic recessions and the role of a crisis manager to explain the casual relationship between economic recession and world order. This includes whether the conclusions of the scholars mentioned above are consistent with the evidence. It would be unnecessarily optimistic to argue that economic recessions do not extensively influence the world order, therefore, there is a less probability of the occurrence of

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[4] Smith, Stephen. 2018. "Community of Common Destiny: China's 'New Assertiveness' and the Changing Asian Order." *International Journal* 73, no. 3: 449–463. Accessed October 30, 2024. https://www.jstor.org/stable/26499706; Lindley-French, Julian, and Francesco Algieri. 2022. "China, the West, and the Future Global Order." *PRISM* 10, no. 1: 72–87. Accessed October 30, 2024. https://www.jstor.org/stable/48697208.

[5] Jian, X. 2014. "Rethinking China's Period of Strategic Opportunity." *China International Studies* 45: 51-70. Accessed October 30, 2024. https://heinonline.org/HOL/P?h=hein.journals/chintersd45&i=53; Yuzhu, W., and Fangfei, J. 2019. "Trump Administration's Economic Unilateralism and Its Implications." *China Institute of International Studies*. Accessed October 30, 2024. https://www.ciis.org.cn/gjwtyj/qkml/2019n/202007/t20200714_4641.html.

[6] Thibaut, K. 2022. "China's Understanding of Discourse Power and World Order." In *Chinese Discourse Power: Aspirations, Reality, and Ambitions in the Digital Domain*, edited by I. Robertson, 5–17. Washington D.C.: Atlantic Council. Accessed October 30, 2024. http://www.jstor.org/stable/resrep42753.5.

[7] Feng, H., and K. He. 2017. "China's Institutional Challenges to the International Order." *Strategic Studies Quarterly* 11, no. 4: 23–49. Accessed October 30, 2024. http://www.jstor.org/stable/26271633.

failure in the international system driven by economic crisis. However, this argument often fails to consider the following points. Most scholars use the terms related to economic crises interchangeably – economic depression, recession, and downturn. It leads to ignore the economic severity and scope depicted in the classification. As a result, its impact on the world order or its elements might not be visible to a greater extent.

While regional economic crises may not always have global repercussions, what would be the impact if a recession were to occur in a state with the world's largest economy, such as the U.S. or China? Secondly, international politics is usually characterized in two realms – security and political economy.[8] Most international relations scholars in their analyses of international system and world order prioritize the former because all previous orders were constructed after major power wars (For instance, the Westphalian System after the Thirty Years War, the Congress of Vienna after the Napoleonic Wars, Treaty of Versailles and Settlements of Tehran, Yalta, and Potsdam after the First and Second World War. Thirdly, an international economy functions properly if there is a political leadership carried out by the dominant economic power.[9] In the absence of such a state, the scope, severity, and duration of any crisis would prolong. This begs a rational question. What if the dominant economic power is unable to play a role of a crisis manager? Does it lead to a power change in the international economic order?

World Order, International System, and Recession

In international relations, the term world order is an abstract concept used to describe the conditions of world affairs. It describes a group of mechanisms that govern international relations operated through the distribution of power and just arrangements that could be applied to the entire world.[10] Just arrangements refer to "a set of commonly accepted rules that define the limits of permissible action." The balance of power denotes a distribution of the power among the major states in the international system.[11] Under this circumstance, the power of one state is

[8] Mearsheimer, J. 1994. "The False Promise of International Institutions." International Security 19, no. 3: 5–49. https://doi.org/10.2307/2539078

[9] Gilpin, R. 2001. *The Global Political Economy: Understanding the International Economic Order*. New Jersey: Princeton University Press.

[10] Blackwill, D., and T. Wright. 2020. *The End of World Order and American Foreign Policy*. New York: Council on Foreign Relations. http://www.jstor.org/stable/resrep25044: Barnett, M. 2021. "International Progress, International Order, and the Liberal International Order." *The Chinese Journal of International Politics* 14, no. 1: 1–22. https://doi.org/10.1093/cjip/poaa019.

[11] Evaghorou, E., and N. Mertzanidis. 2012. "Balance of Power versus Complex Interdependence." *Central European Journal of International and Security Studies* 6, no. 3: 104–21. https://cejiss.org/balance-of-power-versus-complex-interdependence.

counterbalanced by the powers of others.[12] Namely, other states attempt to balance their power with respect to this state by either forming alliances or strengthening their military or economic might. In short, the existence of an order necessitates the agreed rules and arrangements between states based on which states behave internationally.[13]

A concept of the order in world politics has been conceptualized a series of perceptible actions to achieve a particular goal.[14] The fundamental principle of the world order is two-fold. It requires a stable distribution of power among the major states.[15] And, political cooperation among them minimalizes the differences on their perceptions of risks and danger.[16]

International System and Order

International system encompasses various forms of interactions among units.[17] Those units can be classified into three broad categories: states, non-state actors, and supranational (international) organizations. They engage in various interactions, ranging from political to economic to cultural, among many others. The research conducted by Jain et al.[18] treated the international system in the same way as the order. Their analysis was built on three assumptions:

a) Concepts of “system” and “order” are interchangeable;
b) “Order” is a more expansive concept than “system;”
c) “Rule-based system” can describe post-Cold War international relations in bigger picture.

[12] Schweller, R. 2016. "The Balance of Power in World Politics." In *Oxford Research Encyclopedia of Politics*. Oxford: Oxford University Press. https://doi.org/10.1093/acrefore/9780190228637.013.119.
[13] Sørensen, G. 2006. "Liberalism of Restraint and Liberalism of Imposition: Liberal Values and World Order in the New Millennium." *International Relations* 20, no. 3: 251–272. https://doi.org/10.1177/0047117806066702: Ikenberry, J. 2011. "The Future of the Liberal World Order: Internationalism After America." Foreign Affairs 90, no. 3: 56–68. http://www.jstor.org/stable/23039408.
[14] Bull, H. 1977. "The Concept of Order in World Politics." In *The Anarchical Society*, edited by H. Bull, 1–34. London: Palgrave. https://doi.org/10.1007/978-1-349-24028-9_1.
[15] Asisian, N. 2022. "World Order, Strategic Rivalries, and Global Changes." In *Iran, China, and the Future World Order: Unipolarity or Multipolarity?*, edited by J. Howard, 5–8. Alabama: Air University Press. http://www.jstor.org/stable/resrep40257.11.
[16] Schwenninger, R. 1999. "World Order Lost: American Foreign Policy in the Post-Cold War World." *World Policy Journal* 16, no. 2: 42–71. http://www.jstor.org/stable/40209627.
[17] Mazarr, M., et al. 2016. *Understanding the Current International Order*. Santa Monica, CA: RAND Corporation. https://www.rand.org/pubs/research_reports/RR1598.html.: Stolberg, A. 2012. "The International System in the 21st Century." In *U.S. Army War College Guide to National Security Issues*, edited by J. Bartholomees, 137–150. Carlisle: Strategic Studies Institute, US Army War College. http://www.jstor.org/stable/resrep12027.12.
[18] Jain, A., et al. 2019. "The Current Rules-Based International System and Its Benefits." In *Present at the Re-Creation: A Global Strategy for Revitalizing, Adapting, and Defending a Rules-Based International System*, 10–15. Washington D.C.: Atlantic Council. http://www.jstor.org/stable/resrep20951.5.

Overall, their analysis fails to consider the scope and influence of the world order. In other words, although the Soviet Union actively participated in the international system through various mechanisms, such as strategic arms control and nuclear nonproliferation, it was not a part of the (liberal) international order championed by the U.S. Besides, the concepts of system and order were conflated yet they are profoundly distinct.

The existence of order prerequisites rules, principles, and norms among states that guide their actions, whereas it is not necessary in the system that any state would determine how to act and behave driven by its interests. An order necessitates structured and patterned relations. In that aspect, international system could exist in the absence of an order, but the converse might not be true. Without certain rules, states still might establish certain relations, but it could become unstable in the absence of agreed rules and norms.

Depression, Recession, and Downturn

Economy of any state, in general, operates fluctuating. Most economists describe such fluctuations by examining output and unemployment. Therefore, an economy experiences recession when it enters into a period of decreasing or increasing output levels.[19] Here, two important features of a recession should be mentioned to distinguish it from a downturn and depression:

(a) Real Gross Domestic Product (GDP) of a state experience at least two consecutive quarters of decline (However, it is not universally accepted definition);
(b) The degree of economic severity determines whether it is a depression or recession, which means that the former tends to be more severe.

McConnell, Brue, and Flynn, in *Economics: Principles, Problems, and Policies*, followed the same pattern, but they did not stress a period of declining in real GDP. Additionally, they interchangeably used the terms recession and downturn throughout the book, and stressed economic severity of depression, which is associated with high rates of unemployment. A complete and satisfied explanation is provided by Paul Samuelson and William Nordhaus.[20] They focus on the scope and duration of a general declining of economy activity of a state by investigating three aggregates – total output, income, and employment. Thus, if such declining

[19] Mankiw, G. 2015. *Macroeconomics*. 9th ed. New York: Worth Publishers.
[20] Samuelson, P., and W. Nordhaus. 2009. *Economics*. New York: McGraw-Hill/Irvin

lasts six to twelve months, it is called recession. A depression is continuation of recession in a prolonged period with greater in scale in terms of economic severity.

Elements of World Order

A variety of classifications have been pointed out by IR scholars with respect to elements of the world order. Some scholars studied five elements of it, other provides broad two or three classifications. Namely, Kliman and Fontaine[21] concluded that there were five important elements of the world order: trade order, financial order, maritime order, nonproliferation order, and human rights order. The classification derives from the rules and norms that coordinate the behavior of states in the international system. In that sense, the authors emphasized the role of international institutions, such as the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (the General Agreement on Tariffs and Trade –GATT– previously). Trade order and financial order could be treated as economic order, but it was examined separately in their analysis. Namely, trade order facilitates the smooth operation of international trade under the rules and mechanisms of the WTO, while financial order deals with the maintenance of financial stability and monetary cooperation at the international level through the IMF, the G20, and World Bank. Such a global cooperation in finance and economy is important for two reasons:

(i) It would form a concerted approach when cyclical economic crises arise;

(ii) It would make the global financial and economic architecture more flexible to key challenges in the system, such as supply chain disruption and inflation.

Kundnani followed the similar reasoning,[22] but he classified three elements of the world order based on policy areas: security order, (liberal) economic order, and human rights order. He explained economic order from the perspectives of liberalism, and stressed economic openness and liberalization of trade. Additionally, a truly global economic order, according to him, attained with the joining of China and Russia to the WTO. China and Russia joined the WTO in 2001 and 2012, respectively. So, economic order covers the entire globe after 2012. At first, this argument seems partially misleading. However, when comparing the economy size of two countries in terms of Gross Domestic Product (GDP), China was one of the ten largest economies globally in 2001,

[21] Kliman, D., and R. Fontaine. 2012. *Global Swing States: Brazil, India, Indonesia, Turkey and The Future of International Order*. Washington D.C.: Center for a New American Security. http://www.jstor.org/stable/resrep06364.

[22] Kundnani, H. 2017. "What is Liberal International Order?" *The German Marshall Fund*. https://www.gmfus.org/news/what-liberal-international-order.

the same could be applied to Russia in 2012. Hence, it is difficult to imagine global economic order without inclusion of the largest economies.

Dobriansky and Kagan[23] emphasized "four baskets of policies" in their analysis of the world order, and investigated two broad elements of it: a liberal or free-trade economic order and security order. Each element necessitates an effective functioning of one another. Specifically, the latter maintains international stability by curbing on military competition, thereby, such environment enables the former to operate by encouraging economic competition. Important aspects of liberal economic order are free and open rule-based trading system and the existing financial institutions. The scope of this analysis also extends to the creation of new financial structures like New Development Bank established by BRICS; the Asian Infrastructure Investment Bank (AIIB) created by China; the European Investment Bank founded by the EU, etc. by rising and regional economic powers. Although the establishment of new institutions is expected, they would present issues to the existing institutions and eventually to liberal economic order. Because alternative institutions to the IMF or World Bank might preclude a concerted and patterned approach to the crises whenever they arise.

The combination of economic, political, and security order constitutes the concept of world order. Any transformation in the world order starts with one of these sub-international orders. The full-scale transformation of the order takes place progressively. If one of these sub-international orders undergoes transformation, the others will remain the same. At this point, this argument is a bit debatable. In the aftermath of the Second World War, the victors of the war, mainly the U.S. and its allies, created the post-war order focusing on both economy and security fields. For instance, international institution-building covered both economic, political and security issues, such as the UN, Bretton Woods Institutions, the GAAT, the Marshall Plan, NATO, among many others.

In conclusion, the international economic order governs economic relations among countries. It encompasses the rules, norms, agreements, and institutions that shape international trade, capital flows, investment, and economic cooperation. Key elements essential for these functions include trade regimes, investment frameworks, financial systems, and global economic governance. The following section will examine how the international economic order operates to illustrate its structure and evolution.

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[23] Dobriansky, P., and R. Kagan. 2016. *Strengthening the Liberal World Order*. Cambridge: Belfer Center for Science and International Affairs. https://www.belfercenter.org/publication/strengthening-liberal-world-order.

International Economic Order: Structure and Change

The functioning of the international economic order can be analyzed using a systems approach, which tracks system trajectories and explores the reciprocal relationship between system structure and its interacting units. Structural changes in the system depend on the actions of its interacting units, with global recessions impacting the international economic order and world order. Understanding how actions influence structural shifts is key, as highlighted by Kenneth Waltz: "Causation runs from structures to states and from states to structure." [24]

To illustrate the systems approach, the monopoly market serves as an example. In a monopoly, a single seller controls market conditions, but the entry of a competitor can shift the structure to monopolistic or oligopolistic competition. The monopolist counters competition by lowering prices, offering product differentiation, investing in R&D, or lobbying for favorable regulations. This forces new firms to either exit the market, face bankruptcy, or merge with the monopolist. In some cases, the market may transition to oligopoly through collusion between the monopolist and competitors.

International economic system follows the same logic. An order is established by the major powers. So does an international economic order. The dominant economic power construct international economic order to facilitate free trade and stabilize global capital flows. In any economic recessions, it is an utmost interest of the dominant economic power to mitigate the negative effects of them before spreading across the globe. In any time, other rising economic powers are not satisfied with the existing framework of the functioning of international and financial system, they attempt to reform or even initiate to build a new one. On this purpose, they are restrained by two factors: resource constraints and dominant power resistance. The former means that rising powers are not able to mobilize the resources around the globe that lacks financial capacity and resources. In the latter case, the dominant power, due to its economy size, still plays a decisive role in the maintenance of international and financial system. In other words, the dominant economic power might be still at better position to influence the dynamics of international economic system. The dominant economic power protects international economic and financial system by improving it when necessary but strongly opposes any other economic power to completely undermine or reform it. A considerable change takes place when another

[24] Waltz, K. 1979. *Theory of International Politics*. New York: McGraw-Hill.

economic power succeeds in offering alternative economic system. It is possible when the gap between the economy size of powers is not so wide. In this regard, it means that the structure of the system transforms into "monopolistic competition" or two economic blocks with alternative institutions that offer homogenous goods. And, in such structure, states pay attention to differentiation of the financial systems. A logical question may arise that why it is essential for the dominant power to intervene in economic crises that have global impact or to defend the existing frameworks of international economic and financial activities either by supporting existing institutions or improving the current system. A monopolist exerts its market power to influence policymakers. Through lobbying activities, it aims to ensure that regulations and policies are designed in a way that favors the interests of the monopolist. Another option could be close cooperation with regulatory bodies that the monopolist provides expert advice that can shape regulations. The end goal is to protect the market position. At the same token, the dominant economic power actively engages in providing financial assistance and technical support for developing countries to liberalize their markets and strengthen their monetary system. The Washington Consensus is a concrete example of such behavior of the dominant economic power. Developed by the IMF, World Bank, the United States Department of the Treasury, it served global economic reform package for developing countries to implement market-oriented reforms, liberalization, institution-building, and privatization.

The Great Depression

The Great Depression played a pivotal role in global power change and is considered one of the reasons for the outbreak of World War II,[25] namely, the severe consequences of the Great Depression, along with the burdens of high reparations imposed on Germany after WWI, had a significant impact on the economy of the country, eventually leading to the rise of Adolf Hitler and his Nazi party to power.[26]

Before the Great Depression, Great Britain led the global economy, stabilizing the gold standard system established in the 1870s. The gold standard fixed currency values to gold, reducing exchange rate volatility and boosting international trade by up to 100% before WWI. Britain

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[25] Fleisig, H. 1976. "War-Related Debts and the Great Depression." *The American Economic Review* 66, no. 2: 52–58. http://www.jstor.org/stable/1817198.

[26] Pelz, W. 2016. "Economic Collapse and the Rise of Fascism, 1920–33." In *A People's History of Modern Europe*, edited by W. Pelz, 127–141. London: Pluto Press. http://www.jstor.org/stable/j.ctt1c2crfj.14.: Snell, J. 1968. "Hitler's Success as a Case Study in Interpreting History." *The History Teacher* 1, no. 2: 22–28. https://doi.org/10.2307/3054399.

maintained stable exchange rates, opened its markets, injected capital during crises, and ensured the free flow of gold, supported by the Bank of England. These actions established Britain as a credible economic leader, fostering global economic stability and expanding its influence.

World War I weakened Great Britain, leaving it unable to fulfill its global economic role due to depleted gold reserves, reduced capital exports, and internal issues like high unemployment. This decline, coupled with the diminished economic power of European nations, shifted global dominance to the U.S. After maintaining the gold standard during the war, the U.S. amassed 38% of global gold reserves by 1929, tying the value of gold to the dollar and solidifying the Federal Reserve's influence.[27] The U.S. further cemented its position through post-war recovery efforts like the Dawes and Young Plans, providing $10.3 billion in aid,[28] and achieving full employment during World War II, which ended the Great Depression.

The U.S., after surpassing Great Britain as the dominant economic power, reformed international economic and financial system. Following the Second World War, a truly global power, the U.S. proclaimed its intentions to construct a "new economic order." During the international conference in Bretton Woods, New Hampshire organized by the U.S. Treasury, a new monetary order, known as the Bretton Woods system, was established. According to the system, American dollar was convertible into gold at a fixed exchange rate of $35 per ounce; each member country of the system fixed the value of their currency to the U.S. dollar. Furthermore, it was when International Monetary Fund and World Bank were born. More importantly, American dollar replaced the British pound sterling as a new world reserve currency. This provided economic advantage to the U.S., which allowed it to print dollars to finance its budget deficits. After WWII, the major European economies, including France and Great Britain, had to accept this term because of their need for the post-war financial assistance.[29] The U.S. was the only economically strong nation in the post-war period with the GDP accounted for nearly half of the global GDP.

In the light of the evidence presented, the structure of the international economic system changed that the U.S. built a new economic order in which it dominated international financial institutions.

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[27] Hsieh, C., and C. Romer. 2006. "Was the Federal Reserve Constrained by the Gold Standard during the Great Depression? Evidence from the 1932 Open Market Purchase Program." *The Journal of Economic History* 66, no. 1: 140–176. http://www.jstor.org/stable/3875109.

[28] Rothermund, D. 2014. "War-Depression-War: The Fatal Sequence in a Global Perspective." *Diplomatic History* 38, no. 4: 840–851. https://www.jstor.org/stable/26376608.

[29] Middelkoop, W. 2016. "The History of the Dollar." In *The Big Reset: War on Gold and the Financial Endgame*, edited by W. Middelkoop, 63–104. Amsterdam: Amsterdam University Press. https://doi.org/10.2307/j.ctt195sdt8.7.

The previous dominant power had no choice but to follow the U.S.-led international economic order. Since the U.S. possessed the largest gold reserves and economy, Great Britain was unable to protect its position. The structure of the system remained the same – having a single dominant economic power – in other words, it was not transformed into "monopolistic competition," a new power dominated the system.

Great Stagflation of the 1970s: Oils shocks of 1973 and 1979

During the 1970s, there were two oil shocks in the global energy market, leading to high inflation in the U.S that lasted until the 1980s. The first oil shock resulted in the war between Israel and Egypt (Syria) in 1973; in response, the Arab countries that were members of the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo against those, including the U.S., who supported Israel. For instance, emergency aid in the amount of $2.2 billion was requested by the Nixon Administration to support Israel during the conflict.[30] It was followed by production cuts. Moreover, the dollar price of oil underwent a dramatic increase just in 1974, from $4.31 to $10.11. Such considerable changes caused high price inflation in the U.S., while the second started with political upheaval in Iran at the end of 1978. Another important economic event in the period was the demise of the Bretton Woods System in 1971 – the abandonment of the international gold standard by the Nixon Administration. Consequently, foreign exchange markets became less stable. As I mentioned in the previous part, the value of other currencies was fixed to the U.S. dollar, and thereby to gold, considering the gold standard system. Such relationship made the real prices of goods, including oil, easily calculated in terms of gold or the U.S. dollar. The fixed exchange rate system was no longer applicable as the U.S. stopped to peg dollar to gold. It means that trading agreements were based on the flexible exchange-rate system, and the value of gold floated freely under the market mechanisms. Hence, price of gold went up considerably, reaching $455 per ounce at the end of the 1970s.[31] In that sense, oil price hikes by OPEC countries were directed at maintaining purchasing power before 1973.[32] The goods imported from the West to the Middle East became costly due to depreciation after the collapse of the gold standard.

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[30] Corbett, M. 2013. "Oil Shock of 1973-74." *Federal Reserve*. https://www.federalreservehistory.org/essays/oil-shock-of-1973-74.
[31] Ibid.
[32] Hammes, D., and D. Wills. 2005. "Black Gold: The End of Bretton Woods and the Oil-Price Shocks of the 1970s." *The Independent Review* 9, no. 4: 501–511. http://www.jstor.org/stable/24562081.

The Arab countries' reaction to the 1973 Arab-Israeli War was a cutback of oil supply and rising prices, which quickly affected industrial economies, such as the U.S., Japan, and major European countries for the following reason. There was a high connection between the energy and industry sectors in these economies; at the same time, their oil consumption rose dramatically. The U.S. quickly reacted to the crisis with a structured and concerted response, which lacked in the approaches of Europe and Japan. The European Community (EC) acted disconcertedly as each member state pursued various political and economic interests. Namely, France preferred to alleviate the effects of the crisis alone, whereas West Germany and other members of the EC favored a joint European stance. Japan searched for other alternative markets in South East Asia, North America, and the Middle East to diversify its sources of energy supply.[33] Although postwar American leadership was called into question, it was the only U.S. that initiated a common bargaining position with the West.[34] At the outset, the U.S. utilized its oil reserve to stabilize the global energy market by supplying oil to its European allies.[35] Afterward, the U.S. united Western energy-consuming economies at the Washington Energy Conference, which established the Energy Coordination Group under the U.S. supervision to form a coordinated approach to the oil crisis. Later in 1974, this group was transformed into a new international organization, the International Energy Agency (IEA), that operated under the umbrella of the Organization for Economic Cooperation and Development (OECD). In this way, the U.S. built cooperation to preclude future oil shocks through a concerted response.

The ceasefire agreement was reached between the conflicting parties under the mediation of the U.S., which is known as "shuttle diplomacy" by U.S. Secretary of State, Henry Kissinger. As Saudi Arabia used oil as a political weapon, there was a notable shift in U.S. diplomacy towards an even-handed approach during the Arab-Israeli conflict. Namely, the U.S. warned the Israelis about the temporarily deferral of military support in case of their rejection of a cease-fire agreement. The Israeli government was also forced to withdraw its forces from the occupied territories. Therefore, further negotiations between the U.S. and Saudi Arabia caused a lift of the oil embargo as the U.S.

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[33] Sinha, R. 1974. "Japan and the Oil Crisis." *The World Today* 30, no. 8: 335–344. http://www.jstor.org/stable/40395212.

[34] Ikenberry, J. 1988. "The Oil Shocks and State Responses." In *Reasons of State: Oil Politics and the Capacities of American Government*, 1–20. New York: Cornell University Press. http://www.jstor.org/stable/10.7591/j.ctt207g7cv.4.

[35] Türk, H. 2014. "The Oil Crisis of 1973 as a Challenge to Multilateral Energy Cooperation among Western Industrialized Countries." *Historical Social Research / Historische Sozialforschung* 39, no. 4 (150): 209–230. http://www.jstor.org/stable/24145534.

agreed to provide economic and military support to the Saudi regime.[36] Indeed, the abandonment of the Bretton Woods system questioned the credibility of the U.S. dollar as a world reserve currency. However, the outcome of negotiations changed the trajectory of this phenomenon. Saudi Arabia agreed the U.S. proposal of selling oil in dollars.

Later, other OPEC countries followed the same path. Surplus oil revue was invested into the U.S. treasury bonds. In turn, a modern infrastructure building was supported by the U.S. in these countries.[37] By this way, the U.S. managed to maintain its economic hegemony after the Great Stagflation.

Moreover, another development after the crisis is the diversification of energy consumption and shift in capital spending by international oil companies because of the U.S. efforts to decrease dependence on the Middle East oil. Namely, the share of OPEC oil production accounted for 30 percent in 1985, an almost 20 percent decrease by comparing in 1975; oil exploration and capital spending were further shifted to the non-OPEC areas, such as the U.S. and the North Sea.[38]

The second oil price shock took place at the end of that decade. Although it was believed that the Iranian revolution and its impact on oil production caused such price upsurge, the research conducted by Baumeister and Kilian[39] concluded that cumulative oil price increase was mainly driven by strong world demand for oil. Furthermore, the impact of the second oil price shock was mitigated by the attempts of the Reagan Administration with the similar strategy. Due to the strong support of the U.S towards the Saudi government, they agreed to maintain high production levels to complement the oil production reduction during that time.

The Great Stagflation of 1970s begs three questions. First, why did other countries not strongly react to the decision of the U.S. regarding the abandonment of the Bretton Woods system? The structure of the international economic system is helpful to answer to this question. The U.S. was the dominant economic power, having extensive influence on the dynamics of international economic system. Due to a huge imbalance between U.S. liabilities and the amount of gold supported it, the U.S just opted for ceasing the gold standard. Many countries had shared economic

[36] Painter, D. 2014. "Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War." *Historical Social Research / Historische Sozialforschung* 39, no. 4 (150): 186–208. http://www.jstor.org/stable/24145533.
[37] Middelkoop, *The Big Reset*, 63–104.
[38] Arts, P., and M. Renner. 1991. "Oil and the Gulf War." *Middle East Report* 171: 25–47. https://doi.org/10.2307/3013071.
[39] Baumeister, Ch., and L. Kilian. 2013. "Forty Years of Oil Price Fluctuations: Why the Price of Oil May Still Surprise Us?" *Journal of Economic Perspectives* 30, no. 1: 139–60. https://doi.org/10.1257/jep.30.1.139.

interests with the U.S., such as investment ties or trade partnerships. Owing to close economic proximity, countries were cautious to challenge the U.S. decision, which might potentially disrupt their economic relationships. Additionally, there was no other country that could provide alternative reserve currency to American dollar as the U.S. had the economic strength to manage its currency effectively.

Second, why did major oil-exporting countries agree to price their oil exclusively in American dollar? Again, for the same reasons; the U.S. dollar was a stable and truly global currency. It enabled major-oil exporting countries to minimize currency risks associated with capricious exchange rates, providing stability for their oil-revenue.

Third, why was a "New International Economic Order" initiated by the group of developing countries unsuccessful? In the aftermath of the 1970s oil shock, Non-Aligned Movement requested the UN to adopt the Programme of Action on the Establishment of a New International Economic Order." It aimed to improve the existing international economic system and enhance the situation of the developing countries with accepting a number of principles. Nevertheless, it failed to implement its ideals for the following reasons:

(i) The U.S. considered that the poverty and underdevelopment of the developing countries were associated with their internal problems and political system, the so-called, Fabian socialism;

(ii) International financial and economic system was under control of the developed countries. International financial institutions, such as the IMF and World Bank, were mainly controlled by the U.S. due to its size of economy and voting rights. This means that the developing countries, even in their cooperation as a whole, were not at the same position with the U.S to negotiate and bargain the terms of international trade and finance.[40]

The 1997-98 Asian Financial Crisis

At the end of 1997, most Asian economies went into an economic downturn that produced social and economic problems. Within the collapse of the baht, the national currency of Thailand, the crisis followed a domino effect – other regional currencies crashed one by one. Thereby, countries, such as Thailand, Indonesia, and Korea, called on the IMF in need of financial

[40] Olaniyan, O. 1987. "The New International Economic Order (NIEO): A Review." Johannesburg: The Africa Portal. https://www.africaportal.org/publications/the-new-international-economic-order-nieo-a-review/.

assistance. The IMF’s conventional policy prescriptions had not brought the expected outcomes yet further worsened the situation. States were required to implement contractionary monetary policy (partially austerity measures) to keep investors from withdrawing their funds. Unfortunately, increased interest rates made capital considerably expensive which created unfavorable conditions for the investors. The IMF's response led to dissatisfaction and criticism from Japan, as the Washington Consensus played a key role in precipitating the crisis.[41] According to the prescribed policy sets by Washington-based institutions (the IMF, World Bank, and the U.S. Treasury Department), the inflows of Foreign Direct Investment (FDI), interest rates, and exchange rates should be liberalized and determined by market forces.

Based on the analysis of the existing literature, it is sufficient to state that the crisis was caused by a combination of factors, including structural deficiencies in the economy (improper domestic economic practices and policies), inadequate promotion of financial cooperation, and inability to react proportionally to the withdrawal of foreign capital.[42]

Three actors played a pivotal role during the crisis: The U.S., Japan, and the IMF. Notably, the three phases of crisis management can be distinguished. In the first phase, Japan showed its intentions to be a regional crisis manager by providing rescue funds to the Thai crisis and other Asian economies affected, such as Korea and Indonesia. The U.S. was not actively engaged in crisis management until it spread to other regional economies. Later, as a regional economic power, Japan recommended establishing an alternative monetary organization of the IMF in the region (Asia) – the Asian Monetary Fund (ASM), mainly funded by Japan in the amount of $100 billion,[43] which the U.S. and the IMF vehemently opposed. Notably, considering the regional balance of power, China and South Korea supported the opposition, too. Particularly, the former had the ambition to be a regional economic leader. Consequently, in the second phase of the crisis, the U.S. Treasury Department and the IMF were the major actors in stabilizing financial markets in the forms of financial assistance and policy advice, while Japan, pressured by the Clinton Administration, became a supporter of these economic policy prescriptions, and continued to be a major financial contributor. More importantly, the U.S., with the invitation of Japan, addressed the

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[41] Katada, S. 2001. *Banking on Stability: Japan and the Cross-Pacific Dynamics of International Financial Crisis Management*. Michigan: The University of Michigan Press.
[42] Yamazawa, I. 1998. "The Asian Economic Crisis and Japan." *The Developing Economies* 36, no. 3: 225–355. https://doi.org/10.1111/j.1746-1049.1998.tb00222.x.
[43] Narine, S. 2003. "The Idea of an 'Asian Monetary Fund': The Problems of Financial Institutionalism in The Asia-Pacific." *Asian Perspective* 27, no. 2: 65–103. http://www.jstor.org/stable/42704410.

weakness of yen, the Japanese currency, by interfering with foreign exchange markets.[44] In the third phase, as the crisis went further to Brazil and Russia, the U.S and the IMF calibrated their focus to these economies.

Given the size of the U.S. economy, its open markets, and its role in the international financial and economic system, it is reasonable to state that the U.S. was the only actor capable of leading coordinated crisis management during the Asian Financial Crisis. Even the concerted cooperation of the IMF, Japan, and other Asian economies could not have overcome this crisis without the support of the U.S.[45] because the activities of the IMF were mainly dependent on its largest stakeholder – the U.S.

Prior to the Asian Financial Crisis, the U.S. dealt with another international financial crisis in Mexico. The Mexican government implemented economic liberalization policies to facilitate the country's integration into the global economy. As a result, there was a substantial increase in foreign capital inflows into the Mexican economy, which coincided with a significant accumulation of government debt. However, political instability aroused fear among foreign investors, resulting in sudden capital flight. In response, the Central Bank of Mexico raised interest rates and devalued the peso. Unfortunately, these economic measures were insufficient in preventing Mexico from defaulting and experiencing the Mexican peso crisis. The U.S. and the IMF together arranged financial assistance to Mexico, with the total value of the rescue package amounting to roughly $50 billion; of this amount, the U.S. contributed $20 billion.[46] After the Mexican peso crisis of 1994-95, the U.S. proposed the creation of a special program to prevent future financial crises – the New Arrangements to Borrow (NAB) came into existence; namely, about twenty percent or $3.5 billion of the NAB program came from the U.S. contribution.[47]

Despite its passive engagement in the first phase, the American approach to the crisis was two-fold: both by the public (government) and private sectors. The U.S. Congress enacted legislation related to the IMF, like quotas or capital subscription increases and Special Drawing Rights (SDR)

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[44] Katada, S. 2001. *Banking on Stability: Japan and the Cross-Pacific Dynamics of International Financial Crisis Management*. Michigan: The University of Michigan Press

[45] Cronin, R. 1998. *Asian Financial Crisis: An Analysis of U.S. Foreign Policy Interests and Options*. Washington D.C.: Congressional Research Service.

[46] Lustig, N. 1997. "Mexico in Crisis, the U.S. to the Rescue. The Financial Assistance Packages of 1982 and 1995." *Brookings*. https://www.brookings.edu/articles/mexico-in-crisis-the-u-s-to-the-rescue-the-financial-assistance-packages-of-1982-and-1995/.

[47] LaFalce, J. 1998. *The Role of the United States and the IMF in the Asian Financial Crisis*. Washington: Peterson Institute for International Economics.

appropriation (financing the IMF). Specifically, the U.S. quotas, SDR, grew by $14.4 billion.[48] The IMF-led policy response was supported by the Clinton Administration. Affected economies were required to open their strategic sectors for the U.S. capital. With the participation of major American companies and investment banks, the private sector further projected American economic power to stabilize financial systems through their investment and technical advice.[49] Such private actors were JP Morgan, Morgan Stanley, Lehman Brothers, etc.

Overall, the crisis raised doubt about the operation of the international financial system constructed by the U.S. in the post-war period. The U.S., like a monopolist firm, protected the international economic and financial system, not letting creation of alternative institutions. Through combination of its financial capabilities and power in the IMF, the U.S. left no choice for Japan but to follow the U.S. and IMF guidelines. I have to mention the gap between the economy size of both countries in world GDP. In 1995, Japan's economy constituted 18 percent of the world economy, which was seven percent less than the share of the U.S. However, the gap doubled in the next five years. Moreover, in the aftermath of the crisis in Asia, the Group of Twenty (G20) was founded from the largest and emerging economies to avoid future financial crises with coordinated macroeconomic policy responses.[50] In some way, the Asian financial crisis was a lesson for the Chinese government: they doubled down their control over foreign exchange and capital, and reformed the Chinese financial system, which helped in the following financial crisis.[51]

The Great Recession: 2008 Global Economic and Financial Crisis

Unlike the previous recessions, the global economic and financial crisis of 2008 unexpectedly occurred. The so-called phrase, "When the U.S. sneezes, the world catches a cold," was proven to be true during the 2008 global economic and financial crisis. It originated in the U.S. with the bankruptcy of a Wall Street investment bank, Lehman Brothers, on 15th September in 2008. Due to the globalization of the financial system, the crisis infiltrated other parts of the world in a short period of time.

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[48] Nanto, D. 1998. *The 1997-98 Asian Financial Crisis*. Washington D.C.: Congressional Research Service.
[49] Robertson, J. 2007. "Reconsidering American Interests in Emerging Market Crises: An Unanticipated Outcome to the Asian Financial Crisis." *Review of International Political Economy* 14, no. 2: 276–305. http://www.jstor.org/stable/25261911.
[50] McBride, J., et al. 2022. "What Does the G20 Do?" *Council on Foreign Relations*. https://www.cfr.org/backgrounder/what-does-g20-do.
[51] Wang, H. 1999. "The Asian Financial Crisis and Financial Reforms in China." *The Pacific Review* 12, no. 4: 537–556. https://www.tandfonline.com/doi/pdf/10.1080/09512749908719305.

An important characteristic of the Great Recession is that it brought power transformation in world politics to a certain extent. During the onset of the recession, rising powers (the BRICS) were better positioned than existing powers, the U.S., Japan, and the EU.[52] The economic challenges faced by the U.S., Japan, and the EU during the Great Recession were evident in the deteriorating economic indicators, such as rising debt-to-GDP ratios, GDP contraction, and high unemployment rates. In particular, the EU's strategic crisis management, which included increasing government expenditure to stimulate demand. Large-scale public spending worsened public finance positions, resulting in the sovereign debt crisis. In this period, the EU (precisely, the Eurozone) had a common monetary policy coordination through the monetary union without fiscal policy coordination.

The recovery of the U.S. economy was slower than anticipated, and the EU economy followed a similar path. China, unlike Japan during the previous financial crisis, asserted its intentions to structurally reform the international financial system and a reserve currency, ceasing the dominance of U.S. dollar.[53] The U.S. dollar was the dominant reserve currency in the global economy. This created a risk of financial instability during the Great Recession. Indeed, the euro could have become an alternative reserve currency. Nevertheless, the Eurozone sovereign debt crisis faded this possibility. It was the starting point of Chinese attempts to internationalize their currency – the Renminbi (RMB). In 2008, China was in a favorable position due to the following reasons:

a) The trade relations of China with developing countries increased significantly before the crisis. Plus, the foreign investments of the country were not at high levels;[54]
b) The sound banking system and capital and exchange rate control due to reforms carried out since the end of the 1997-98 Asian financial crisis;

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[52] Kurth, J. 2011. "A Tale of Four Crises: The Politics of Great Depressions and Recessions." *Orbis* 55, no. 3: 500–523. https://doi.org/10.1016/j.orbis.2011.04.017.
[53] Drezner, D., and K. McNamara. 2013. "International Political Economy, Global Financial Orders and the 2008 Financial Crisis." *Perspectives on Politics* 11, no. 1: 155–66. http://www.jstor.org/stable/43280694.
[54] Womack, B. 2017. "International Crises and China's Rise: Comparing the 2008 Global Financial Crisis and the 2017 Global Political Crisis." *The Chinese Journal of International Politics* 10, no. 4: 383–401. https://doi.org/10.1093/cjip/pox015.

c) Having a one-party political system allowed to respond in a well-aligned manner at all levels of government because of the power of the Chinese Communist Party (CCP) on regulatory tools.[55]

China was indeed the only country that recovered quickly and contributed more global economic growth and stabilization of the global economy. By comparison, the U.S. under the Franklin Delano Roosevelt Administration followed the Keynesian approach to the Great Depression and eventually reached a full employment level of economy in history. China, with its relatively large stimulus package, about 15 percent of its GDP, focused on Keynesian-style expansionist policies to overcome the crisis. Its economic growth and avoidance of possible high unemployment were mainly caused by government expenditures on infrastructure, tax reduction, VAT reform, and its investment in strategic resources.[56] The Chinese economy continued to grow at nine percent annually and contributed roughly 50 percent of global economic growth.[57] Compared to previous countries, such as Japan in the 1990s, China's assertiveness in advocating for international financial system reforms was notably different. In 2010, the total number of voting shares in the IMF was doubled; it was followed by six percent transfer of voting rights to developing countries (emerging economies). More significantly, the RMB was included in the IMF's basket of currencies for the SDR, effectively integrating China into the global financial system.

However, it would be an exaggeration to state that China replaced the U.S. as a global crisis manager during the recession. Although it was the second largest economy in 2008, its GDP contribution to the world economy was three times less than the share of the U.S. The leadership of the U.S. in the IMF and G-20 prevented the occurrence of another economic depression. At that time, it had still the largest economy and held sufficient gold reserves to support the American dollar as a credible reserve currency. At the same time, the U.S. continued to reform the international financial system. It urged countries to provide transparency in financial markets, more robust tools for financial institutions, and strict capital standards for banks.[58] In this crisis, China and the U.S. were the only countries to maintain the stability of financial markets

[55] Bottelier, P. 2010. "China, the Financial Crisis, and Sino-American Relations." *Asia Policy* 9: 121–30. http://www.jstor.org/stable/24904974.

[56] Yongding, Y. 2009. "China's Reaction to the Global Economic Crisis." Tokyo: Research Institute of Economy, Trade and Industry. https://www.rieti.go.jp/en/rieti_report/112.html.

[57] Jingjing, M. 2019. "China Pulled US out of 2008 Financial Crisis: Expert." *Global Times*. https://www.globaltimes.cn/content/1170724.shtml.

[58] Lew, J. 2016. "America and the Global Economy: The Case for U.S. Leadership." *Foreign Affairs* 95, no. 3: 56–68. http://www.jstor.org/stable/43946858.

considering their economic and financial capabilities. Relying on the analysis of Norrlof and Reich,[59] assessed American and Chinese leadership during the financial crisis and noted that the U.S. shared its role as a 'lender of last resort' in terms of liquidity with China after 2009. Overall, the U.S., the research concluded, remained the largest capital exporter and the sole leader in macroeconomic policy coordination.

Why the Great Recession Matters?

Two questions have to be answered in the aftermath of the Great Recession. Did a rising power surpass the dominant economic power, as it was during the Great Depression, and built a new economic order? Evidently, not. Secondly, has the structure of the international economic and financial system changed as a result of the Great Recession? The answer is evidently "yes" but not immediately. Therefore, how can we see patterns of this change? As discussed in the above part, the structure can evolve from "monopoly" to "monopolistic competition." China was actively engaged in institution building after the recession.

In 2013, under the initiative of Xi, China launched the Belt and Road Initiative (BRI). The BRI is incorporated into the national economic development strategy of China. Beijing aims to be a regional leader by strengthening economic integration and creating a regional production chain, positing China as its center.[60] Some analysts argued the geopolitical and economic ambitions of China with the BRI.[61] From an economic perspective, China seeks to redraw global trade maps, replacing the position of the U.S. or Europe as the epicenter, and to circumvent middle-income trap by reshaping its economy. Geopolitically, China aims to exert influence on BRI countries by integrating their economies with Beijing. The development trajectory of the BRI supports these arguments – it is transformed into the global-scale project. So far, about 148 countries have joined the BRI across Africa, Europe, Latin America, Central Asia, and Oceania. Notably, the majority of participant countries are developing countries; in that sense, they favor loan terms and conditions of the BRI. Its lending practices differ from international lending practices, relying on commercial terms, while World Bank has a common set of norms based on concessionally. It

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[59] Norrlof, C., and S. Reich. 2015. "American and Chinese Leadership During the Global Financial Crisis: Testing Kindleberger's Stabilization Functions." *International Area Studies Review* 18, no. 3: 227–250. https://doi.org/10.1177/2233865915573638.
[60] Cai, P. 2017. *Understanding China's Belt and Road Initiative*. Sydney: Lowy Institute for International Policy. https://www.lowyinstitute.org/publications/understanding-china-s-belt-road-initiative.
[61] McBride, J., et al. 2023. "China's Massive Belt and Road Initiative." *Council on Foreign Relations*. https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative.

prioritizes certain political elements, such as human rights, and good governance, whereas loans of the BRI exclude them. In this regard, the BRI is a direct rival of the World Bank in lending to developing countries. In 2019, China surpassed World Bank as the largest lender of development finance in the world.[62]

Similarly, in 2016, China established the Asia Infrastructure Investment Bank (AIIB). The underlying reason for establishing the AIIB is the dominance of the U.S. in the IMF and World Bank, especially U.S. voting rights in the former. Being the largest economy and shareholder of the IMF, any changes in the quota system and voting rights necessitate the approval of the U.S. Congress. It means that the change in the IMF quota system requires adjustments to the U.S. quota, which is subject to approval by Congress. For these reasons, China's attempts to have a greater voice in the IMF were several times rejected. Afterward, the AIIB came into existence as a multilateral financial system. Why is it a strategic rival to the U.S.-dominated Bretton Woods institutions? Through these institutions, the U.S. can exert its economic power by shaping free trade agreements, mainly serving its interests.[63] Besides, as mentioned earlier, the Bretton Woods institutions attach certain conditions to their loans (environmental protection, sustainability, and human rights). For China, these are internal problems of any country, and their sovereignty must be respected. The establishment of the AIIB challenged this advantage of the U.S. Consequently, the U.S. attempted to keep the status of the AIIB as a regional development bank by calling on its allies not to join. Despite opposition, France, Germany, Italy, and Great Britain joined the AIIB.

Through these two initiatives, China seeks to strengthen its position in the international economic and financial system, aiming for institutional balancing with the U.S.-led financial institutions. In doing so, the goal would be to reshape global economic and financial architecture that accommodates Chinese core interests.

Conclusion

The impact of global economic recessions on international economic order can be viewed through structural changes in the system. In the selected cases, a new economic order was established by the dominant economic power, the U.S., that surpassed Great Britain as the largest

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[62] Dossani, R. 2020. "Demystifying the Belt and Road Initiative." *The Rand Corporation*. https://www.rand.org/blog/2020/07/demystifying-the-belt-and-road-initiative.html.

[63] Chow, D. 2016. "Why China Established the Asia Infrastructure Investment Bank?" *Vanderbilt Journal of Transnational Law* 49, no. 5: 1255–98. https://scholarship.law.vanderbilt.edu/vjtl/vol49/iss5/2.

economy after the Great Depression. In the following recessions, the Great Stagflation and Asian Financial Crisis, the structure of the international economic system remained the same. Although the rising economic power, in this case, Japan in 1997 and the group of developing countries attempted to reform the existing economic and financial system, the U.S. exerted its economic influence to protect the structure of the system, leading to failure of these attempts. In the last recession in our case, it is pertinent to state that it is no longer single economic dominant power after 2008. China became a peer competitor of the U.S., making the structure of the system "monopolistic competition." However, China did not establish a new economic order for which it still lacked financial capability.

Two conclusions should be noted there with respect to the debate around the Great Recession. Firstly, it indeed led to a change in the structure of the international economic and financial system, creating two rival economic powers. Secondly, although it influenced the international economic order, it did not bring crisis to the world order. In that sense, why did the Great Depression not lead to "oligopolistic" market structure but to monopolistic competition? The answer of the question is closely connected with the cooperation of the dominant economic powers. Did the U.S. and China cooperate in reforming the existing economic system? No. Each supported its own model of economic development.