Global Economic Crisis and its Impact on EU/UK Economy

Introduction

Prior to the economic crisis that hit the global economy in 2008, Europe was experiencing an economic progress with fast GDP rise and growth in credits that consequently benefited from stable global expansion as well as easy liquidity situations in various countries across EU (Benu, 2012). Also economic growth in EU particularly UK was underpinned by optimistic expectations for convergence of EU and adoption of euro. Commencing September 2008, though, the global economic and financial crisis grew noticeably in depth and strength, and confidence of foreign investors on emerging markets rapidly dashed expectations of a potential decoupling of EU regions from global recession (Corrigan, 2010). Consequently, EU was hardly hit, in many angles even harder than emerging market countries like Latin America (Lorca-Susino, 2010). Developments in EU have not been homogenous. UK tended to be hit less badly than other countries in EU. Looking at the financial market segments effects, exchange rates were highly impacted, high percentage of stock markets losses and bond spreads and risk premia rose to big percentages, while getting more unpredictable. Global economic crisis also had major influence on capital flows in EU, even though the degree of influence varied again remarkably, depending on the nature of capital inflow and the country of receipt. The international and local market disruption coupled with the real transmission channels like the plunge in international trade, in addition had an impact on real economic growth of UK from late 2008 forward, eventually leading to serious recessions across UK (Benu & Salman, 2012). This essays analyses the effects of global economic crisis on the economy of EU (particularly the UK) and the implication that the crisis of the economy as well as the potential investors planning to expand their operations in the region.

Global economic crisis

Global economic crisis is a period when all the countries across the globe undergo a rapid recession in their economy caused by financial crisis (Vapa-Tankosić, 2009). The most recent global economic crisis was evidenced in 2007-2008 when the GDP of most countries fell and inflation hit many countries reducing the purchasing power of consumers. Prior to 2008 economic crisis, countries were experiencing recovery from great depression that had hit the world economy in 1920s up to the Second World War leaving many people with little disposable income and a high percentage of the labor force was left unemployed (International Labour Office, 2011). Before the great depression there was long depression, which was an international depression which commenced in 1873 leaving varying effects to various businesses across the globe. Following the international depression of 1873, some businesses collapsed while others expanded rapidly compared to the period before the depression (University of Iowa, 2010).

Impact on real economy of UK

Economic crisis in UK as well as the key members of EU was sternly distorted by the above mentioned predicaments that in result upset the financial market as well as the collapse of external demand. In latest boom UK resorted to mounting domestic along with external disparities. When UK experienced economic recess, the effects from global economic predicaments amplified the recess instead of acting as a catalyst in the recess (Benu and Aslman, 2012). The economy also suffered the effects of the various channels involved in real transmission such as the domestic demand channel up to the third quarter of 2008 (Kitowski, 2009). In the final quarter of 2008, comparing the indirect financial transmission channels, the country's foreign trade channel started jerking in on the reverse of a fall in the international demand, therefore without delay caused a slowdown of the economic development. The channel proved strong for the country, considering openness, high trade and a large share of processed goods in the UK exports.

The economic crisis completely poured over to the real market of UK in the foremost half of 2009 and the trade and industry activities fell all over UK, financial market began to recover in the second quarter of 2009 (Karasavvoglou & Polychronidou, 2013). Lastly, a high percentage of general synchronization across EU, did not appear to be different significantly from UK in looking at comparative significance of the various channels. Throughout and subsequent to the crisis, the trade channel appeared to have been the most exceptional real transmission channel of UK. This did not come as a surprise since the country had a high scale of trade assimilation with key EU members as well as the US without leaving the global economy by commodity market (Dowd, 2009).

The crush of the trade flows got a push from the fall experienced in the global economic growth final half of 2008 and the situation was made worse by the dwindling of capital stream that is relevant for trade finance. Foreign trade falls were in great volumes as indicated by UK GDP and their impacts were pegged on openness and trade specialisation in the country. In addition, a sharp temporary descending adjustment in the global goods price was experienced that resulted to additional pressure on the exports, which main goods exporters in the United Kingdom dealt with. The problem was worsened by the reduction of the demand of imports in the country. This was due to the depressing prospects of the exports due to the high import substances of the exports in the EU countries. The reduction of the imports compared to the exports meant a favorable balance of trade therefore the country's GDP growth signaled a positive recorded. The tightened credit conditions, aggravating labor force , the slowdown of payments as well as dilapidating businesses and consumer's confidence caused the drop in domestic demand in EU economies in a big part of 2009 (Calhoun, 2011).

Poor investment performance

In UK liberal capitalism, most investors' assets are tied to performance of the market such as stock and shares, property and savings as well as endowments. The UK pension funds recorded a bad performance during the global economic crisis (Calhoun & Derluguian, 2011). Savers in UK saw their financial wealth decrease during the crisis, even though the government of UK had promised the average households savings protection through offering guarantees in case of banks' bankruptcy. During the crisis, as the interest rates were minimised to exceptionally low levels in post-war records, savings account performed lower than inflation (Burroni, & Meardi, 2012). This led to declination of savers relative wealth. During the economic crisis period and the period following the economic recovery of UK, property values reduced and mortgages access got tight. Also the low interest rates of the mortgages following economic crisis meant lower rates for people on flexible mortgages. These changes greatly affected most households of the United Kingdom (Corrigan & Trilateral Commission, 2010).

The global economic crisis made it complex for businesses to get credit, a condition precisely hard for small and medium-sized enterprises, resulting to laggard growth rate and bankruptcies of these businesses. Also the public sector of United Kingdom was forced to reduce its spending and was consequently less inclined to appoint new employees, whereas the financial sector in the country reduced their laborforce (Council on Foreign Relations, 2010). Besides the high unemployment threats, some employers condensed their occupational protection scope for the current workers. For instance there was introduction of less munificent redundancy package, wage freeze, bonus cuts, retention payment suspension and retrenching pension schemes (Punzo & Puchet, 2012). This is taking time to recover hence most employees in the UK are still victims of the economic crisis impacts.

Following the banking bailout in 2008 economic crisis, it was clear that taxpayers in the United Kingdom would be required to finance the liberation of the financial system. This operation would cost much money and this is expected to last in UK for many years (Basingstoke, 2009). It also became evident that profound cuts in the public spending would arise once the direct threat to the banking system was avoided. Even if it was not apparent what this would practically mean, people listening to the public debate knew that public services, benefits as well as transfers could be scaled back to the future hence affecting various people differently (Dowd, 2009). Apart from public services extra retrenchment, citizens of the United Kingdom were expected to pay high taxes during the economic crisis period and even after crisis citizens are still paying high taxes and this has reduced the disposable income of people working in the United Kingdom (Brancaccio & Fontana, 2011).

All the households in the United Kingdom are affected by the global economic crisis, but most households in UK have continued to live their lives as before (Nowotny, 2011). By some significant condition: they will have retained their jobs and abodes. This owes to the fact that regardless of serious disruption, economic crisis did not result to core societal institution dissolution. In actual fact, even in the great depression the economy of United Kingdom did not fully collapse and most employees retained their jobs (Punzo, 2012). Institutions in the UK can endure shock better than before, not least due to the fact that UK has the institutional means, political as well as financial power to support the economy and its labor market (Noord & Szekely, 2011). So generally, regardless of the pervasive effect of the economic crisis, it is expected there will be continuity and stability in the UK in the near future.

The extent and profundity of the consequential economic recession cannot be accurately forecasted. Therefore the future domestic demand in UK will highly depend on the private debt restructuring success and the readiness of the financial sector to go on lending (Polychronidou, 2013). Net exports of companies in UK will depend on future foreign demand and comparative external competitiveness of EU nations. Considering the lack of flexibility in nominal rates of exchange, the fixed exchange rate, EU countries may find intensification of their competitiveness fairly more difficult than the countries that have floating nominal rates of interest (Kitowski, 2009). The response of policy to the economic crisis in EU persisted on standard and non-standard monetary measures and fiscal actions (Corrigan & Trilateral Commission, 2010). Standard monetary policy continued to be extremely vigilant in EU until 2008 as the global economic crisis severity became apparent and UK embarked on monetary easing process. In most countries in EU though, policy rates remained high compared to major industrialised countries (Noord & Szekely, 2011). Since the start of global economic crisis in UK, UK authorities have as well taken a variety of non-standard policy actions to stabilise financial market and minimise spillovers to the real economy (Benu & Salman, 2012). The reaction to the economic crisis varied within UK and was chiefly influenced by the fiscal condition at the commencement of global economic crisis.

Implications of recession to companies trying to expand to EU/UK

Economic crisis is always accompanied by a fare share of troubles such as economic activities slowdown which results in cut of employment, strict credits, decrease in profits and also depression in general trade transactions (Calhoun, 2011). The consumers in return react towards the economy once they lose confidence in the economy by cutting their spending and tending to save. This in turn affects companies' sales negatively (Bergeijk, & Melissen, 2011).

It is therefore advisable for any company with intentions to venture into the EU market to consider the implications brought about by recession. Multi-National Corporations may opt to aid while combating economic crisis problems but their operational sale process is more complex in comparison to national companies even though they have more capital. Therefore, the steps that the MNCs in UK took might not be valid to other companies (Corrigan & Trilateral Commission, 2010). Companies with intentions to have undertakings in UK market ought to pay-restraint with the fall in budgets. The companies ought to know that they could possibly experience recruitment-up and employment losses (Corrigan, 2010). Hence, the capability to attract and also maintain employees in the country is key for the continued existence of the business. For that reason, management ought to focus on rewarding exceptional achievements. In times of economic crisis many features; both human resource policies and practices, can assist companies in extenuating the impacts of economic crisis hence the company may become strong once it is through with the crisis.

Analysis of the repercussions of global crisis can be done by use of the business cycle model by most companies. The model has three stages, revise, reconfigure and re-launch (Benu & Salman, 2012). Revise entails the management of a company re-examining its actions in order to determine whether there is necessity to amend actions bearing in mind the economic recession that stroked the world. Reconfiguration is concerned with the rearrangement or design of processes that support the declining trade imperatives (Burroni & Meardi, 2012). Re-launch involves establishing new process to a company.

Revise

Companies seeking to increase their dealings in the UK ought to reconsider their operations and look through their assumptions and perceptions to the environment of business before still hold. For instance throughout the pre 2008 economic crisis ZARA fashion stores' nearly all critical activities in the value chain of the company revolved around its outbound logistics, making products available promptly to the market. However, while undergoing economic crisis, clients greatly reduced their purchases (Calhoun & Derluguian, 2011). A company whose intention is to get raw materials at pocket friendly costs and cut the operations cost to obtain more margins and focused on advertising and sales to entertain clients to expend; it might use outbound logistic as the vital activities. Consequently, companies with the aim of expanding in EU after the economic crisis of 2008 should to revise their personnel identity through identifying the expertise and staff desired by the company. Companies must not pressure on cut. According to DeBardeleben (2013) heavily-cost cutting companies in economic crisis time had the least possibility of pulling ahead of competition after the economic crisis.

Reconfigure

The economic crisis prompted the protectionism of EU to obtain additional jobs for the citizens of EU economies, reduced demand of a number of precise markets, or increase cost in worldwide networks to pay off for client loss (Corrigan, 2010). Reconfigure phase of the framework is HR course reconfiguration that businesses furnish to move their capital via the state border and restructure the business to roughly survive the economic crisis. Consequently, companies hoping to make investments in EU market ought to reconfigure, as well as move their capital to connect with the business tactics and the fresh market. In addition, the HR of the company intending to enter in EU market after economic crisis of 2008 must make certain that the workers have attained the right training to obtain the skills for their employment even amid the limitation of the price of economic crisis (Council on Foreign Relations, 2010).

For instance, IBM reconfigured and set up new training policies to have its own administrative consultants train junior members instead of outsourcing (Council on Foreign Relations, 2010). This was expensive considering the 2008 economic crisis. In addition, economic crisis shown that companies must reconsider the job description, criterion of performance assessment and the foundation of reimbursement to embrace the training as one of the tasks of the superior members (Karasavvoglou A & Polychronidou, 2013). This is an example contribution of HR in serving a company while reconfiguring its process in order to handle with global economic crisis.

Re-launch

A business should re-launch itself in the context of receding customers' demand. Companies are supposed to manage and ensure that any new processes are embedded and workers adapt with strange business territories particularly in the case of transferee to new reconfiguring assignments (Kitowski, 2009). After the global economic crisis companies need to know that the dynamics in competitive environment make it difficult for most companies to sustain their businesses particularly in new markets. Therefore, managers of businesses planning to venture in EU should come up with new strategies to be used in EU (International Labour Office, 2011). Apart from looking at its HR policies, a company which plans to venture in EU after global economic crisis ought to know that the purchasing power of people of EU was affected after the economic crisis and most countries in EU are in the process of recovery hence it should monitor its production. Also the stock prices of most companies in EU came down after 2008 and therefore most investors avoid investing in companies which might suffer losses in future. Hence small companies should be careful when venturing in EU since they may end up closing down due to the competition from big companies that survived the global economic crisis (Dowd, 2009).

Conclusion

Prior to the economic crisis that hit most economies in 2008, EU was experiencing economic expansion with rapid GDP and growth of credits basically driven by capital inflows, particularly in UK. The boom was driven by general and UK-specific drivers. Tough global growth and easy international liquidity situation were among the general drivers whereas the specific factors were inter alia affirmative prospect for convergence of EU and future adoption of euro in EU member countries. The global economic crisis hit EU resulting to reduction in purchasing power in most of UK households as well as job losses. It also led to loss in consumer confidence in the economy of the country which is gradually recovering.

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