THE CONSEQUENCES OF THE INTERNATIONAL FINANCIAL CRISIS IN VARIOUS REGIONS

Sven Aretz

Unlike the USA and Europe, where the global financial crisis left behind recession, bankrupt enterprises, and unemployment, the damage suffered by the emerging countries is limited. What is more, countries such as China, India, and Brazil even benefit from the fact that they did not liberalize their financial markets too hastily. To them, the crisis offers a chance of improving their position in the international fabric of power.

The US real-estate crisis has by now developed into the most severe financial crisis ever since the nineteen-twenties. The causes for this include not only mistakes of individual bank managers but also grave misdirected developments in the global financial system as well as defects in the supervision and regulation of the markets. As early as the spring of 2006, the Committee on Economic and Monetary Affairs of the European Parliament criticized the Union for having no controls that might cushion a major crisis, if it came. But even two years later there was no crisis management concept, so that it was difficult for the member states to find a common course.

The four European G8 states were the first to announce their intention to improve financial supervision and convene a conference – an initiative that was joined by the EU ministers of finance as well as the heads of state and government shortly afterwards. In October, all 27 member countries agreed on saving those banks that were 'relevant to the system' by state intervention: the legal minimum deposit insurance was to be increased, and the accountancy rules were to be changed. To recapitalize financial institutes in need, common guidelines were to be laid down, the interests of taxpayers and competitors were to be safeguarded, and the governments were to be granted a say in reorganizing the management of the banks affected.

Will the international financial crisis even give a boost to Europeanization? With the abolition of borders in capital transfer, the supervision of international financial institutes will have to be harmonized throughout the EU. Furthermore, there are other fields in which the Union must change from crisis manager to strategic player.

Although the crisis did leave traces in countries such as China, India, Brazil, and South Africa, the worst did not happen, which greatly increased the influence of these countries on the international stage. Brazil, for instance, succeeded in establishing itself as a responsible player and reliable partner on the regional and global plane.

Even though China's stock exchanges are volatile, oscillations are minor and, unlike Europe, the position of the banks and the national economy seems secure. To be sure, China also has its nonperforming bank loans, but their share in the overall credit volume is small – the result of a policy that regulates 90 percent of the country's banks and dictates the interest rate. China's national budget will probably not have to face drastic expenditures to secure the survival of domestic banks, and the risk of recession seems low.

Yet the crisis will leave some traces in China, at least in the short or the medium term. Accordingly, growth forecasts for the next few years are modest. As a precaution, taxes on interest revenues were suspended. As domestic demand and domestic investment are currently the main forces driving China's growth, the government is thinking about lowering the prime rate to stimulate domestic demand. On the other hand, it is split over whether massive investments in currently cheap financial stocks make sense. The Asian financial crisis of 1997/98 has taught China's credit institutes not to try to make large profits from speculative money.

Regarded as a closed and centrally administered economy until two or three decades ago, India has been following a successful course of economic reform since the early nineties, as a result of which its economy has become more open. While this has brought about high growth rates, it also caused politicians and managers of the central bank to adopt a more cautious attitude towards the financial market, and to be sceptical towards stepping up deregulation too much. When the country opened up to foreign direct investment, it also opened itself to capital inflows that were intended to give an impetus to the growth of Indian enterprises. External commercial borrowing, so-called debt flow, was handled with care. Capital outflows were deregulated, but deregulating and liberalizing the domestic financial market remains out of the question.

In view of all this, the country almost escaped the global financial crisis unscathed. Regulatory restrictions by the central bank ensured that India's finances remained stable by keeping the finance industry from taking on excessive risks. Most people in India think that integrating the country's own finance in the global financial system has proved the right approach. Therefore, any attempt to deregulate the Indian market swiftly is rejected more than ever.

Brazil and its financial system have so far also been spared the disastrous impact of the crisis, and the structure of consumer behaviour was not challenged. The country does not share the liberal zeal of some of its neighbours: President Lula da Silva rather strives for a third path for Brazil, a path between capitalism and socialism. The economic reform of the nineties was accompanied by the establishment of the state's right to intervene in economic issues. Brazil’s financial system and payment transaction regulations are rated among the most modern worldwide. Yet there are two fields in which the crisis can be felt even in Brazil – the stock exchange and the credit market.

All in all, however, the scope of action of Brazil’s government is big enough, as shown by the current state interventions to deal with the situation which, undertaken together with the central bank, facilitate borrowing on the local financial market. They support agriculture and the building industry. The central bank reduced the amount of collateral to be deposited by banks and created a more effective protection from exchange-rate risks for commercial banks. To stabilize the currency, it has by now put 22.9 billion US Dollars on the market, and to promote the export trade, the National Development Bank (BNDES) received enough funds so that its liquidity is now sufficient to compensate international credit bottlenecks for the time being.

In South Africa, the global financial crisis is overshadowed by domestic problems. After the resignation of the former president, Thabo Mbeki, late in September 2008, a total of eleven ministers stepped down out of solidarity. Only after Mr Mbeki’s successor, Kgalema Mothlante, had been nominated and sworn in and Trevor Manuel was again appointed minister of finance did the population see a sign of stabilization.

It is beyond question that the consequences of the financial crisis have been disastrous for South Africa. However, the country is far from collapsing, not least thanks to the robust and heavily regulated bank sector. What is more, the National Credit Regulation Act has been restricting consumer spending by credit card ever since the beginning of 2007. And finally, South African banks invest only small amounts of money at the international level, as the national interest rate is generally higher and yields considerable returns.

However, there are grave negative factors as well: the stock market slumped by 30 percent. The national currency (Rand) fell to a seven-year low. Borrowing costs on international markets increased, and imports became more expensive. Because of the weak Rand and the decreasing commodity prices, the dream of a swift decline in the inflation rate evaporated. Economic growth has slowed down and is no longer sufficient to create new jobs.

In South Africa, the social question is particularly affected by the financial crisis, which increases unemployment and even widens the gap between the rich and the poor. The crime rate, which is alarmingly high already, might even rise further. The ANC is less and less in a position to make good on its promises, so that the ideological gap within the governing party might deepen and lead to radicalization. Should the left of the ANC be strengthened, it could put its stamp on a new South African economic policy after the election in spring 2009. This would be a realistic scenario if, because of the crisis, the country failed to meet the millennium development goals and poverty increased further.

IN: Auslandsinformationen 12/2008, *ISSN 0177-7521, Konrad-Adenauer-Stiftung e.V., Berlin, p.91-94*