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Financial Crisis in Developing Countries

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Description

The financial and economic crisis impacted developing countries hard, however the effects were delayed. Every country had its own set of difficulties to overcome. The more closely developing countries are linked to the global economy, the more obnoxious the consequences become. And, for the time being, the visible signs of recovery are limited to only a few countries and regions. The crisis was mostly spread through trade and financial flows, trapping millions of people in poverty. Many developing countries lacked and continue to lack the resources necessary to stimulate their economies and safeguard their socially disadvantaged populations to the same extent as industrialized nations. Many governments, on the other hand, have taken significant steps to minimize the effects of climate change. For the most part, industrialized countries are preoccupied with their own concerns. Their ability to provide more comprehensive assistance is limited. International institutions are pressuring them to relinquish their historical supremacy in favor of the more powerful developing economies. A power and influence shift that was already visible prior to the financial crisis is intensifying. Developing countries have also increased their collaboration with one another and are pressing for a larger voice in international economic matters.

The global crisis has two probable consequences for emerging countries. It has the potential to affect emerging market stock markets. Some developing nations are in greater danger than others. Those selling directly to crisis-affected countries are the most vulnerable. Exporting countries that are seeing global prices fall are likewise at danger. Countries with large government deficits, such as India, are likewise in a precarious position. Finally, aid-dependent nations confront uncertain times, and all they can hope for is that rich countries continue to appreciate the value of aid. The consequences for emerging countries will be diverse. It will be determined by industrialized countries' responses to the financial crisis and downturn, as well as emerging countries' economic features and policy responses. The reversal of the three positive shocks that emerging countries received during the recent boom might be understood as driving the crisis. Private capital flows, on the other hand, are a crucial avenue for the transmission of the crisis from industrialized to emerging countries. The impacts are manifested in both volume and cost of flows. The vulnerability of developing nations to sudden deterioration in capital flows has been reduced by the fact that many of these countries now have significantly larger levels of foreign exchange reserves and lower levels of external debt than in the past as a result of their successful policies [1-3].

New sources of vulnerability, on the other hand, have emerged, such as the volatility of portfolio investments into developing countries' growing domestic capital markets, as well as the carry trade and its rapid unwinding (which was primarily done using instruments from the rapidly growing derivative markets). Furthermore, increasing foreign ownership of developing country banks has not proven to be a source of strength, and in some cases may have been a source of fragility, as these banks have withheld lending to their subsidiaries in developing and transition countries in order to shore up their very weak positions in developed countries. The amount and price of financial flows has been a primary mechanism for transmitting stock market movements from developed to developing countries. Stock markets in developing markets have witnessed a sharper drop in dollar terms than stock markets in industrial countries since their high in late October/early November 2007. Emerging markets have been hit harder by the global financial crisis than low-income countries, which are less linked into international private capital markets. Indeed, cash transfers to Africa's low-income countries have been limited. It's particularly sad that certain Sub-Saharan African countries' bond issuance has come to a halt.

The transition economies of Central and Eastern Europe were the hardest hit, with quick withdrawals of private capital flows due to a combination of negative expectations caused by substantial current account deficits, high susceptibility of the local banking system, or both. Despite the fact that trade possibilities are not always realistic, trade policy can help the recovery in at least three ways. First, a combination of currency rate depreciation and sectoral incentives can be used to stimulate non-traditional exports, particularly in commodity-dependent economies. Second, the idea of bolstering domestic links of existing manufacturing export activity could be beneficial. Third, by increasing commerce through existing integration mechanisms, more active South-South collaboration can play a role. Finally, and perhaps most importantly, the crisis allows policymakers to reconsider the role of domestic markets, which were largely ignored during the reform period. Indeed, one of the most important implications of expansionary macroeconomic policies is that by focusing on domestic demand, all countries may contribute to global economic recovery. Protection regulations would certainly be ineffective, resulting in beggar-thy-neighbor effects. However, policies focusing on the mass market for consumer products and strengthening small and medium-sized businesses, which rely significantly on local markets, might contribute to policy packages that put domestic demand back in the spotlight [4,5].

Conflict of Interest

None.

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