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The Impact of the Global Financial Crisis on Emerging Financial Markets

Jonathan A. Batten
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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON EMERGING FINANCIAL MARKETS

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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON EMERGING FINANCIAL MARKETS: AN INTRODUCTION

Jonathan A. Batten and Peter G. Szilagyi

ABSTRACT

Emerging financial markets have largely proven resilient to the consequences of the Global Financial Crisis. While this owes much to the bitter experience and economic strategies developed and implemented following the Asian Financial Crisis of 1997–1998, providence also played a hand in that relatively few of its financial institutions were exposed to the complex structured products that underpinned the demise of many financial intermediaries in the United States and Europe. The objective of this volume is to investigate and assess the impact and response to the crisis in emerging markets from a number of perspectives. These include asset pricing, contagion, financial intermediation, market structure and regulation. Our hope is that the assembled chapters offer clear insights into the complex financial arrangements that now link emerging and developed financial markets in the current economic environment. The volume spans four dimensions: first, a series of background studies offer explanations of the causes and impacts of the crisis on emerging markets

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more generally; then, implications are considered. The third and final sections provide insights from regional and country-specific perspectives.

Keywords: Banking reform; credit crisis; financial crisis; economic crisis; financial regulatory reform; emerging economies; 1997 Asian Crisis.

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PART I: AN OVERVIEW OF THE FINANCIAL CRISIS AND ITS IMPACT ON EMERGING MARKETS

The ongoing trend of financial market deregulation, undertaken in earnest over the past 20–30 years and facilitated by technological innovation, has enabled the development of a complex, financial market architecture, comprising interconnected but increasingly disintermediated domestic financial systems, many at different stages of economic development. In this setting, global corporations and increasingly global financial intermediaries – many of these now from emerging markets – trade a host of financial products and services and reallocate capital worldwide.

As the new century unfolds, we witness further integration of both developed and emerging financial markets. One critical lesson from the recent Global Financial Crisis is how connected all of these markets have become, and as a consequence how difficult it is now to diversify the risks that arise in both the national and international context. In fact, there is now almost instantaneous price adjustment and volatility transmission across a host of asset classes and markets, irrespective of location, or degree of integration with the more dominant financial markets of the major economies.

In an environment where the world economy continues to suffer the consequences of the Global Financial Crisis, the role of emerging markets has reached unprecedented importance. While much attention has focused on the better growth prospects of these nations, the continued build-up of their foreign reserves, and the form and method chosen for their allocation – especially those from the Asia-Pacific region[1] – the situation is more complex and anomalous than it would first seem. For example, many emerging nations domiciled in some of the poorest regions of the world, including Africa, the Middle East and South America, are now capital exporters to the developed world, not only in the traditional form of