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**Global Financial Crisis**

**1. What is the global financial crisis and how does it affect the economies of different  
countries?**

Basically, as the GFC is embedding the comprehensive influences on almost of the countries in the world, for example, Indian economy that is on the stable growth rate was not the exception as well. As the Indian policymakers are aiming at attracting foreign investors with the strong local banking system, the investors’ total failure of investing on Indian bank and commodities triggered serious downturn of the economy. **(Baldwin, 2006)** It is largely due to the fact that Indian policymaker did not prepare fundamental solution and responses against the crisis. The impact on the Indian economy was more influential and serious. Additionally, the banking system is not adequate to deal with the problems triggered by the GFC, the banking system’s inherent shortcomings are exposed and conveying more detrimental factors on the economy. The economical policies were focusing on stabilizing the local industries and banking system so that the fundamental crisis on global economy might be more serious impacts on the overall Indian economic system. Among developed economies over the world, Australia has been considered as the least influenced by the Global Financial Crisis (GFC). In March, 2009 Gross domestic products growth was approached to 0.4 percent (after one quarter of slightly negative growth, it is deemed that Australia had already overcame the world-wide recession). Australia’s banking sector was also less unfavorably influenced than elsewhere, with no deficits and profitability is not affects and even stabilized, even though there might be shock-triggering downturn consequences with increased bad debt levels. **(Arggawal, 2007)**

However, it is generally accepted fact that the financial institutions and investors were suffering from the global financial shock with the major companies’ fallen-down. The investors were also suffering from huge losses from the investment funds and capital losses.

Although Australia was not the exception from the global financial shock, they can have competitive strategy to cope with the investors with promoting their strong resources and capital market structure. The structure of the financial market in Australia is relatively safer than other Asian countries that are embedding dependent characteristics. In this paper, the characteristics and aspects in Australian financial markets and investors’ behaviors will be touched upon to analyze why Australia can escape from GFC. Some analysts argue that Australia was having a dose of good luck against the GFC but Australian economic system and management was not reflecting that the competitiveness is not easily established and constructed.

**The GFC in Australia**

In the period of pre-GFC, the analysts suggested that the Australian economy will be significantly affected by the GFC and its related influenced as Australia is known as the second largest (other than the US) issuer of asset backed securities. The prediction is largely due to the fact that the funds management sector that is triggered by compulsory private pension contribution arrangements was the fourth largest in the world, with $1.2 trillion in the hands of funds management. The other reason includes the fact that Australia embeds the largest hedge fund sector in Asian-pacific sector with no specific regulation of hedge funds.

Additionally, even though the local corporate bond market is relatively small, large Australian companies were playing as active issuers in global bond markets. Also, the market concentration of banking sectors is relatively very intensive where the big four banking companies are dominating the Australian market share of residency of 65%. The other factors include that the higher percentage of assets funded by international wholesale funding with only 40% of local deposits funding. The commodity price is also rising to the double until 2005 which is also very negative sign that justifies that assumption that Australia will be affected by the GFC with more serious consequences. **(Australian Bureau of Statistics, 2010)**

It is a generally accepted fact that the Indian economy was on the upturn and stabilizing stage before the GFC. However, the impact of GFC was playing a very negative role on the overall economy with influencing banking system, inflation issues, account deficit, private sector depression and overall foreign reserve problems. The foreign investors were starting to sell their shares in Indian local companies as they considered the economy is embedding unstable structure not enough to deal with the huge crisis. The aspects that are directly related to the current international crisis were delivering the irrecoverable consequences on the Indian economy. The economic system was suffering from the outflow of foreign capital and its impacts were inextricably linked to the other industrial sectors and overall business environment. The most serious consequences triggered by the crisis were an outflow of foreign institutional investment from the equity market. Foreign institutional investors, who are willing to economize assets for offsetting losses in their home countries and were seeking sanctuary of their capitals from an uncertain environment; Indian capital market, were turning to sell their shares and equities in Indian capital markets. **(Bergsten, 2007)**

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