



Chief Editor

Dr. A. Singaraj, M.A., M.Phil., Ph.D.

Editor

Mrs.M.Josephin Immaculate Ruba

Editorial Advisors

1. Dr.Yi-Lin Yu, Ph. D
Associate Professor,
Department of Advertising & Public Relations,
Fu Jen Catholic University,
Taipei, Taiwan.
2. Dr.G. Badri Narayanan, PhD,
Research Economist,
Center for Global Trade Analysis,
Purdue University,
West Lafayette,
Indiana, USA.
3. Dr. Gajendra Naidu.J., M.Com, LL.M., M.B.A., PhD. MHRM
Professor & Head,
Faculty of Finance, Botho University,
Gaborone Campus, Botho Education Park,
Kgale, Gaborone, Botswana.
4. Dr. Ahmed Sebihi
Associate Professor
Islamic Culture and Social Sciences (ICSS),
Department of General Education (DGE),
Gulf Medical University (GMU), UAE.
5. Dr. Pradeep Kumar Choudhury,
Assistant Professor,
Institute for Studies in Industrial Development,
An ICSSR Research Institute,
New Delhi- 110070.India.
6. Dr. Sumita Bharat Goyal
Assistant Professor,
Department of Commerce,
Central University of Rajasthan,
Bandar Sindri, Dist-Ajmer,
Rajasthan, India
7. Dr. C. Muniyandi, M.Sc., M. Phil., Ph. D,
Assistant Professor,
Department of Econometrics,
School of Economics,
Madurai Kamaraj University,
Madurai-625021, Tamil Nadu, India.
8. Dr. B. Ravi Kumar,
Assistant Professor
Department of GBEH,
Sree Vidyanikethan Engineering College,
A.Rangampet, Tirupati,
Andhra Pradesh, India
9. Dr. Gyanendra Awasthi, M.Sc., Ph.D., NET
Associate Professor & HOD
Department of Biochemistry,
Dolphin (PG) Institute of Biomedical & Natural Sciences,
Dehradun, Uttarakhand, India.
10. Dr. D.K. Awasthi, M.SC., Ph.D.
Associate Professor
Department of Chemistry, Sri J.N.P.G. College,
Charbagh, Lucknow,
Uttar Pradesh. India

ISSN (Online) : 2455 - 3662
SJIF Impact Factor :3.395 (Morocco)

EPRA International Journal of
**Multidisciplinary
Research**

Volume: 2 Issue: 11 November 2016



Published By :
EPRA Journals

CC License





A COMPARITIVE STUDY OF THE IMPACT OF GLOBAL FINANCIAL CRISIS ON ECONOMIES OF INDIA AND JAPAN

Sachchidanand Mishra¹

¹Research Scholar,
Department of Economics,
University of Lucknow,
Lucknow, Uttar Pradesh, India

Sanjay Kumar Upadhyay²

²Research Scholar,
Department of Economics,
University of Lucknow,
Lucknow, Uttar Pradesh, India

ABSTRACT

A Financial crisis can lead to bank runs, widespread bankruptcy, and considerable default on debt obligations, shortage of liquidity, and redundancies in the financial sector. Global financial crisis began in 2007-2008 in USA. This paper describes the transmission of the global financial crisis to India and Japan and compares the both economies. Indian economy and banks mostly remained unaffected from global financial crises because Indian economy is mostly domestic led growth country, RBI regulations are very strong, and no capital account convertibility, and financial sector is not closely integrated with the global financial sector. But Japan's economy is an open type economy and export led growth country. Japan's exports consisted of capital goods, consumer durables and highly income elastic industrial supplies. Japan mostly exports in advanced markets of the US and Western Europe. Europe and USA both had been fighting global financial crisis which affected Japan's exports business very badly. So this is the reason Japan was more affected with global financial crises compared to India.

The paper has been divided in to three sections- first section, measures the impact of global financial crisis on Indian and Japanese economies. In second section, the role of Indian and Japanese financial and real sectors is analyzed. Finally, last section offers some concluding observations and remarks.

KEYWORDS: *global financial crisis, capital account convertibility, RBI regulations, advanced markets, Globalization.*

INTRODUCTION

The Financial crisis is responsible for structural changes in economic activities such as slowdown in real GDP, real income, employment, and industrial production. However, economic crisis has been divided into four types, namely currency crisis, banking crisis, systemic financial crisis, and foreign debt crisis. Economic crisis of all types have often had common origins- the buildup of unsustainable economic imbalances and misalignments in asset prices or exchange rates, often in a context of financial sector distortions and

structural rigidities. A crisis may be triggered by a sudden loss of confidence in the currency or banking system, prompted by such developments as a sudden correction in asset prices, or by disruption to credit or external financing flows that expose underlying economic and financial weaknesses. Economic crisis may involve sharp declines in assets, and failures of financial institutions and non-financial corporations. Economic crises and their spread are increasing with the increase in globalization.

The current global economic crisis has originated in the subprime mortgage crisis in 2007 in

USA and advanced economies followed by financial meltdown. As this crisis is unfolding, credit markets appear to be drying up in the developed world and soon the crisis also spread to other markets and countries through various channels. Indian economy mostly remained unaffected from global financial crises because Indian economy is mostly domestic led growth country, RBI regulations are very strong, and capital account convertibility and financial sector is not closely integrated with the global financial sector. But Japan's economy is an open type economy and export led growth country. Japan's exports consisted of capital goods, consumer durables and highly income elastic industrial supplies. Japan mostly exports in advanced markets of the US and Western Europe. Europe and USA both had been fighting global financial crisis which affected Japan's exports business very badly. Japan was more affected with global financial crises compared to India. In the global history many times, the global economy has faced the financial crisis. The most famous crisis was happened in the time of great depression of early 1930s. After four decades in the 1970s, OPEC oil crisis and banking crisis were happened in Great Britain. Due to this crisis, many saving and loans institutions were effected in the US in the 1980. After that in 1990 and in 1997 Japanese economy as well as Southeast Asian economy faced crisis respectively.

GENESIS OF MELTDOWN

The global economic crisis is rooted in the subprime crisis which surfaced in With the decrease in growth the trade volumes were also affected by the crisis. In 2007 United States of America and European countries followed by financial meltdown. As the crisis already mentioned not merely financial crisis of banking, insurance and stock market but of the real economy had impacted the industrial output and unemployment ratio in the advanced developed capitalist countries. A Sub-prime loan is a type of mortgage loan made to borrowers who have at least one of the following characteristics : (1) low credit scores; (2) the inability to post the traditional 20 percent down-payment for a home; and/or (3) the inability to fully document their income. As a result, these borrowers do not qualify for conventional mortgages and the best market interest rates. Financial innovations were used to lend to those borrowers who were otherwise ineligible under the conventional banking system. In the late nineties the legislation which separated Commercial Banking from investment banking was repealed facilitating such innovations based liberalization and subprime lending. The mortgage market crisis that originated in the US was a complex matter involving a whole range of instruments of the financial market that transcended the boundaries of sub-prime mortgage.

An interesting aspect of the crisis emanated from the fact that the banks/ lenders or the mortgage originators that sold sub-prime housing loans did not hold onto them. They sold them to other banks and investors through a process called securitization. Securitization, as a financial process, has gained wide currency in the US in the last couple of decades. Indeed, as recently as 1980 only 10 per cent of US mortgages were securitized compared to 56 per cent in 2006.

Effect of Financial Crisis of Global Economy on 21st Century:-

In 2008, subprime crisis which has started from USA affected all the economy which had been related to each other. In the Second World War, there had been a large financial crisis. To get rid off this situation developed economy of that time had suggested the policy of liberalization and globalization. This has started globalization policy. As the result of this USA, UK, Japan and Germany etc economies gained incredible growth. And it left good impact on European economies. India, China and other developing countries have adopted globalization policy. For example China has adopted in 80s and India has adopted 90s simultaneously. In this context, WTO lead this work to all other countries and approximately all the economies have connected each other. And USA became the leader of the global economy. The main reason of recent financial crisis is mortgage loan provided by American bank to American people. It means the banks have given loan to those people who were not eligible for taking loan from banks, this is the main reason that US economy collapsed and caused worldwide depression as approximately all the economies are related to US one way or another. The crisis which erupted in most of the developed nations in 2008 affected all the economies all over the world and resulted in job losses, enterprise bankruptcies and down warded the income of millions of the people. Followed by Lehman Brother Crisis in September 2008, the global economy and all the global interbank financial markets froze in view of large losses suffered by the financial institutes and uncertainty created by the counterparty balance sheets and led to a reconsideration of earlier policy approaches of self regulated markets. All the disorder in various segments of the financial markets resulted in slower economic growth in developed nations.

Given table-1 describes GDP growth rate of USA was 3.8% in 2004. In 2007, it was 1.2% and in 2008, it fallen down by -3.0%. In 2009 it became -2.8%. GDP growth rate of UK in 2007 was 3.4 and in 2008-2009 due to depression the GDP growth rate became -0.8, -5.2 simultanely. GDP growth rate of Japan in 2007 was 2.2%, in 2008 and 2009 GDP

growth rate of Japan almost collapsed and became -1.0 and -5.5. Other developed economy like Germany, France, and Russia etc leaves same impact as US and Japan. Where GDP growth rate of India and China shows that it's had not been affected so much as both economies had GDP growth rate 3.9 and 9.6. As we can see in the table-1 GDP growth rate of India and china in 2007 was 9.8 and 14.2.

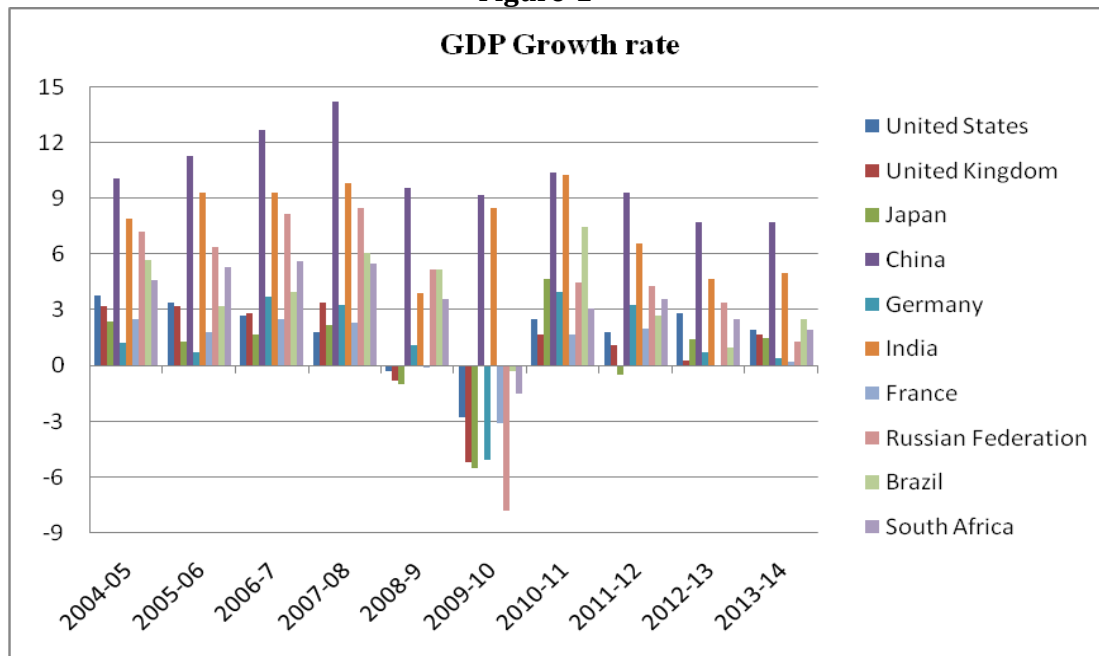
Thus, table-1 describe GDP growth rate effected those countries only where domestic demand was low and dependency on export was high. This is the reason that GDP growth rate of US, Europe and Japan had became negative. Whereas India and China were able to face financial crisis because of domestic demand, capital formation industrial and service sector. So this is the reason Japan was more affected with global financial crises compared to India.

Table 1: GDP Growth rate

Countries	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
United States	3.8	3.4	2.7	1.2	-3.0	-2.8	2.5	1.8	2.8	1.9
United Kingdom	3.2	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7
Japan	2.4	1.3	1.7	2.2	-1.0	-5.5	4.7	-0.5	1.4	1.5
China	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7
Germany	1.2	0.7	3.7	3.3	1.1	-5.1	4.0	3.3	0.7	0.4
India	7.9	9.3	9.3	9.8	3.9	8.5	10.3	6.6	4.7	5.0
France	2.5	1.8	2.5	2.3	-0.1	-3.1	1.7	2.0	0.0	0.2
Russian Federation	7.2	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4	1.3
Brazil	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	1.0	2.5
South Africa	4.6	5.3	5.6	5.5	3.6	-1.5	3.1	3.6	2.5	1.9

Sources- World Bank national accounts data, and OECD National Accounts data files.

Figure-1



Sources- World Bank national accounts data, and OECD National Accounts data files.

The real GDP in developed countries went down in 2009 and turned into negative figures from the previous years and overall global GDP growth decreased in 2009 from the robust growth of 2004-07. In the present global scenario, India has been considered as the most promising and fast growing economy in the world.

IMPACT OF GLOBAL ECONOMIC CRISIS ON INDIAN ECONOMY

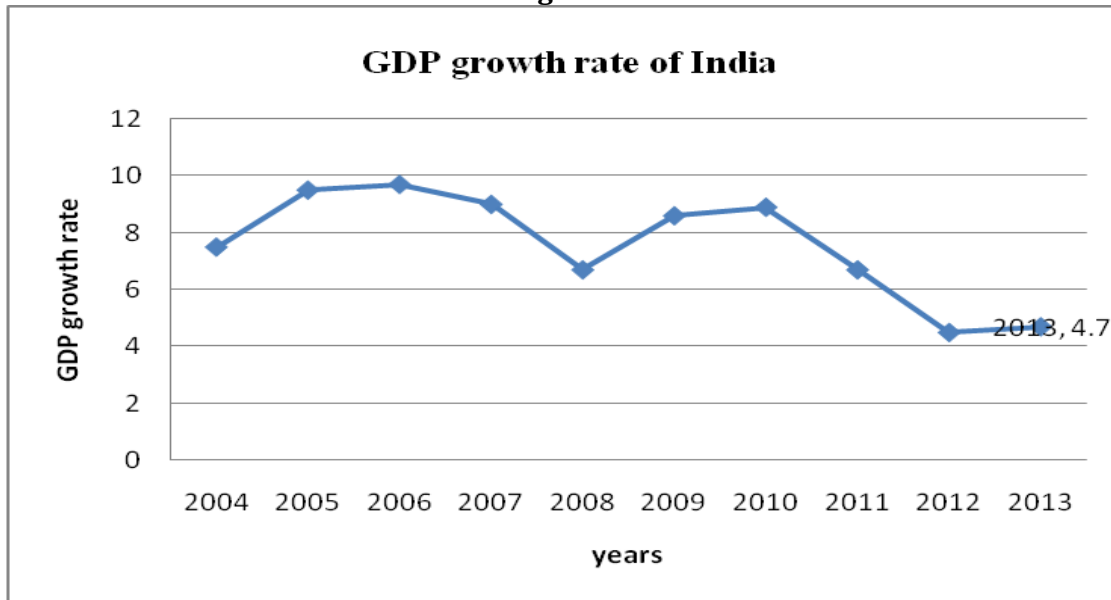
The Indian economy had performed well during the last decade, resulting in high growth rate of Gross Domestic Product (GDP), besides increase in domestic savings and increase in investment and productivity. The global financial meltdown and

consequent economic recession in developed economies have clearly been major factor in India's economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression; every developing country has suffered to a varying degree. No country, including India, remained immune to the global economic shock.

Figure-2 shows that, The Gross Domestic Product (GDP) in 2006-07 was 9.6% which became 9.3% in 2007-08 due to global recession and crisis. This was the second highest growth rate next only to

China in the whole world. And this is in contrast to the shrinking of the real economies of many western economies. However, the Indian economy could not withstand the impact of global meltdown beyond 2007-08. That drastically came down to 6.8% in 2008-09. This decline was due to slower industrial activity, mainly production, infrastructure and in service sector. But the Indian economy started recovering from the slowdown towards the end of the fiscal year 2009-10. This is evident from the 7.2 per cent growth rate of GDP.

Figure-2



Sources- Economic Survey of India (2013-14), New Delhi.

The overall effect of the global economic crisis on country's external sector can be well analyzed through the export -import position of the economy. Table-2 depicts that during the period of 2002-03 after new trade policy (2002-2007) when there was increase in exports from 251375 rupee crore, an increase in import from 297206 rupee crore, GDP also increased from 2175260 to 2343864 but the percentage increase in exports and imports were much more than the percentage increase in GDP. However, due to financial turmoil's in year 2008-09;

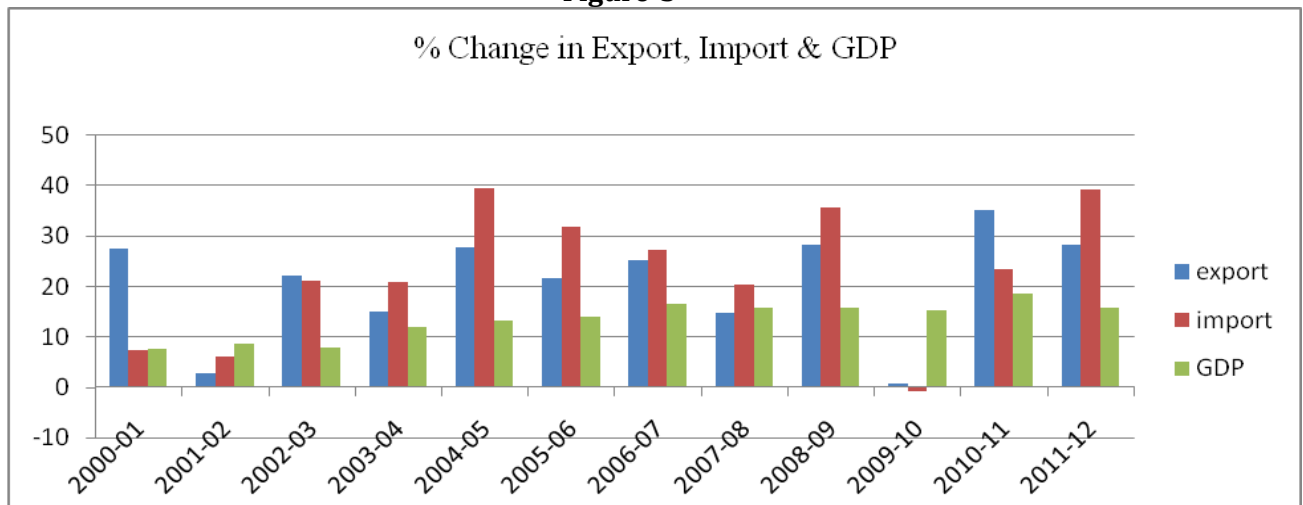
exports declined from 28.3% to 0.60% and imports declined from 35.8% to -0.80% however, GDP declined to 15.20% from 15.70%. This shows that during the phase of global financial crisis, exports and imports declined to a large extent. The table-2 shows that growth rate of exports and imports more declined in 2008-09.

Table-2
Exports, Imports and GDP Interlink (Rs. Crore, %)

Year	Total Exports	Rate of change (%)	Total Imports	Rate of change (%)	GDP at current prices	Rate of change (%)
2000-01	203571	27.58	230873	7.26	2000743	7.7
2001-02	209018	2.7	245200	6.2	2175260	8.7
2002-03	251375	22.1	297206	21.2	2343864	7.8
2003-04	293367	15.0	359108	20.8	2625819	12.0
2004-05	375340	27.9	501065	39.5	2971464	13.16
2005-06	456418	21.6	660409	31.8	3390503	14.1
2006-07	571779	25.3	840506	27.3	3953276	16.6
2007-08	655864	14.7	1012312	20.4	4582086	15.9
2008-09	840755	28.3	1374436	35.8	5303567	15.7
2009-10	845534	0.6	1363736	-0.8	6108903	15.2
2010-11	112922	35.2	1683467	23.4	7248860	18.7
2011-12	1465959	28.2	2345463	39.3	8391691	15.8

Sources- Economic Survey of India (2012-13), New Delhi.

Figure-3



Sources- Economic Survey of India (2012-13), New Delhi

Figure -3 depicts that highs and lows of percentage change in exports and GDP are in the same direction in many cases. This Figure suggests several important points. First, India’s international trade both exports and imports declined more sharply than GDP in 2009-2010. This is consistent with other countries experience and global trade statistics in this period. Second, in the India’s case, import decline was much more pronounced than export decline. Hence, it is in fact the sharp decline of import that caused the slowdown of the Indian economy in 2008-09 and 2009-10. Third, both India’s export and import increased over the years since 2002-03.

THE RECENT FINANCIAL CRISIS IN JAPAN

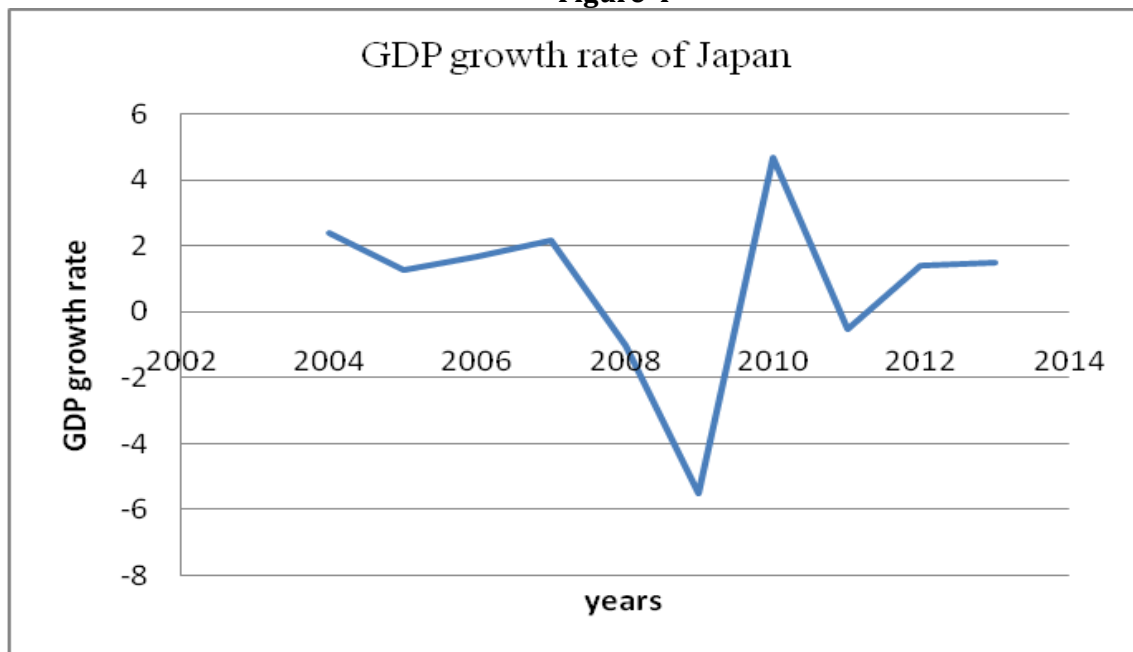
Japan has been one of the most successful economies of the post second world war period. Japan’s economy is an open type economy and export led growth country. Japan’s exports consisted of capital goods, consumer durables and highly income elastic industrial supplies. It experienced ‘miracle’ growth rates of real GDP in the 1950s and 1960s averaging nearly 10 percent. This rapid growth moderated somewhat in the 1970s, but in the ten year period 1979-88 Japan still had the highest average growth rate of all the major advanced countries at 3.8 percent, compared with an average for the seven major advanced countries (G-7) of 2.9

percent. In the next ten years, 1988-98, however, Japanese economic growth at 2.4 percent had fallen very close to the G-7 average of 2.2 percent. Then in 2003-2011 Japan had the lowest rate of economic growth of all the advanced economies. Japan mostly exports in advanced markets of the US and Western Europe.

The economic crisis that started in the USA housing market triggered an unprecedented deterioration of the global economic condition in mid 2008 and the first half of 2009. The global financial crisis exacerbates the major challenges facing Japan. Japan, along with other East Asian countries, had been relatively distant from the ground zero of the initial financial crisis triggered by the subprime loan

problem in the United States. Japanese economy was relatively unharmed until the last quarter of 2008. Given that the weakness of the US economy has significantly reduced external demand for Japanese manufactured goods, the crisis has wiped out many of those meager gains. Japanese economy had not been directly affected by the first wave of global financial crisis started in early 2008. However, after a short calm period, Japanese economy suddenly experienced a vertical fall in late 2008. Figure-4 plots yearly GDP growth from 2004 to 2013. From this figure, the sharpness of Japanese GDP growth decline in the 2008 and 2009, resulting in an average negative GDP growth of less than -1.0 and -5.5% in the annual rate for this period.

Figure-4



Sources- World Bank national accounts data, and OECD National Accounts data files.

Table-3 shows the Japanese export, import and GDP in value terms. This graph suggests several important steps. Step one, Japanese international trade both exports and imports declined more than GDP in 2008-2009. Step two, in the Japanese, export decline was much more pronounced than import decline. Hence, it is in fact the sharp decline of export that caused the slowdown of the Japanese economy in 2008/09. Step third, both Japanese export and import increased over the years since 2002. Japanese economy had become more and more

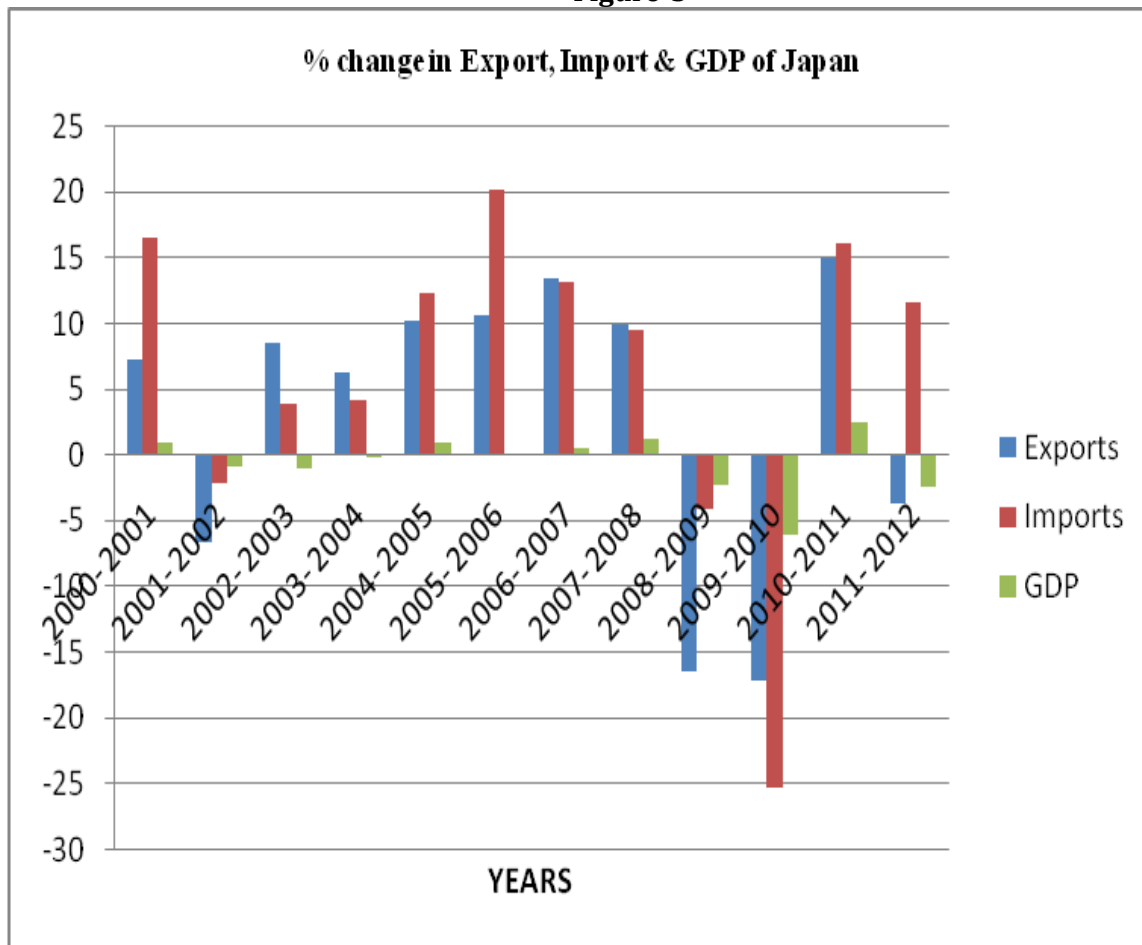
dependent to its export, increasing vulnerability to the appreciation of yen and/or negative foreign demand shock. After 2002 to 2008 when there was increase in exports 52727107 (JPY million) to 85113381(JPY millions) and in the same time when there was increase in imports 43067102 (JPY million) to 74958073 (JPY million), GDP also increased from 499947.0 (JPY billons) to 512975.2 (JPY billons) but the percentage increase in exports and imports were much more than the percentage increase in GDP.

Table-3
Exports, Imports and GDP Interlink (Units: JPY)

Year	Total Exports (JPY millions)	Rate of change (%)	Total Imports (JPY millions)	Rate of change (%)	GDP at current prices (JPY billions)	Rate of change (%)
2000-01	52045241	7.2	42449370	16.5	509860.00	.98
2001-02	48592792	-6.6	41509071	-2.2	505543.30	-.84
2002-03	52727107	8.5	43067102	3.8	499947.0	-1.1
2003-04	56060293	6.3	44855181	4.2	498854.7	-.21
2004-05	61719415	10.1	50385781	12.3	503725.4	.97
2005-06	68290157	10.6	60511292	20.1	503903.0	.04
2006-07	77460585	13.4	68447346	13.1	506687.0	.55
2007-08	85113381	9.9	74958073	9.5	512975.2	1.24
2008-09	71145593	-16.4	71910442	-4.1	501209.3	-2.29
2009-10	59007879	-17.1	53820852	-25.2	471138.6	-6.0
2010-11	67788838	14.9	62456704	16.0	482384.4	2.4
2011-12	65288487	-3.7	69710574	11.6	470623.2	-2.4

Sources- Trade Statistics Data, Ministry of Finance of Japan.

Figure-5



Sources- Trade Statistics Data, Ministry Of Finance (Japan).

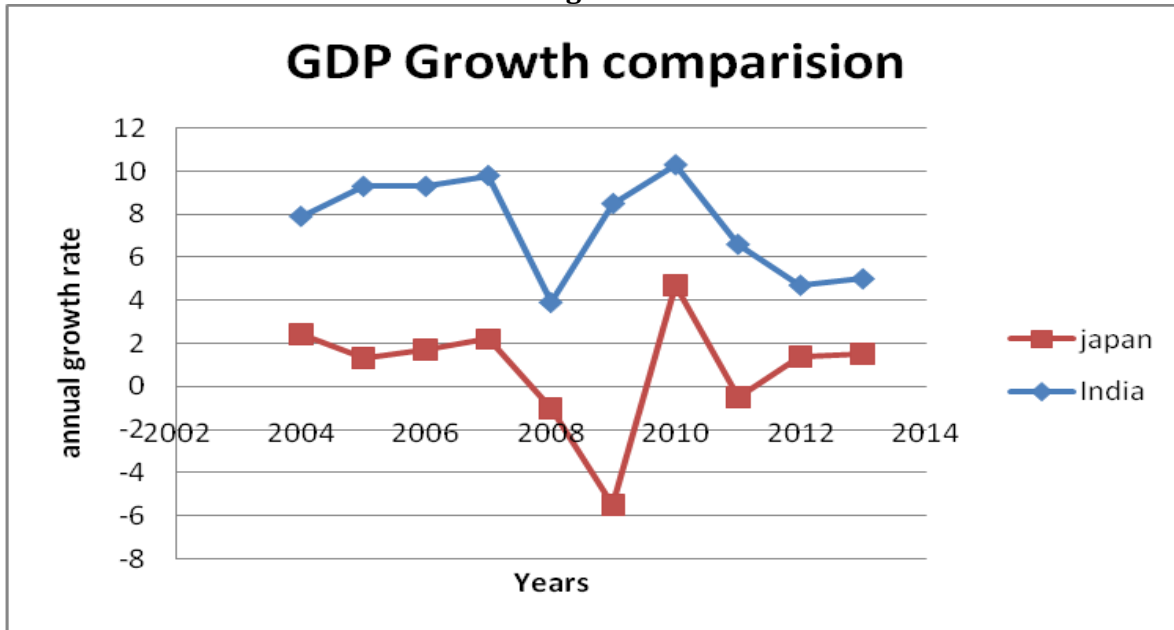
Figure-5 depicts that highs and lows of percentage change in exports, imports and GDP in the same direction in many cases.

GLOBAL FINANCIAL CRISIS AND INDIAN AND JAPANESE GDP GROWTH

Indian economy is mostly domestic led growth country. But Japanese economy is an open type economy and export led growth country. USA

and Europe both had been fighting global financial crisis which affected Japan's exports business very badly. Comparison impact of the crisis on growth rate of two economies .We find that during the crisis year Indian economy's growth rate was above 6 % while that of Japanese economies felled down to about- 6 %. Indian economy recovered very sharply while some can't be said for Japanese economies.

Figure-6



Sources- World Bank national accounts data, and OECD National Accounts data files. Economic Survey (2013-14) Government of India, New Delhi.

CONCLUSION

We have made comparative impact of the crisis on Japanese and Indian economies. We find that impact was more harmful for Japan than to India. This was mainly due to more dependence of Japan on foreign trade, where as Indian economies is driven largely by domestic forces. It is also noticed that unregulated financial markets to cause massive explosion. This is what happened in subprime crises of USA where a sector problem transformed in global crisis.

REFERENCES

1. Acharya V. V. (2009), "A Bird-Eye View. The Financial Crisis of 2007-2009: Causes and Remedies", Acharya, V. V.; Richardson, M. (eds.), *Restoring Financial Stability. How to Repair a Failed System*, Hoboken N.J., P-1-56.
2. Allen F., Carletti E., and Gale D. (2009), "Interbank Market Liquidity and Central Bank Intervention", *Journal of Monetary Economics*, 56(5), P-639-652.

3. Bank for International Settlements (BIS) 2009, "An Assessment of Financial Sector Rescue Programmes", *BIS Papers 48* Geneva, Switzerland: BIS.
4. Bank of Japan (2009a), *Financial Markets Report*, Tokyo, August.
5. Bhatt R. K. (2011), "Recent Global Recession and Indian Economy: An Analysis", *International Journal of Trade, Economics and Finance*, Vol. 2, No. 3, June 2011.
6. Bhatt, R. (2011), "Recent Global Meltdown and its Impact on Indian Economy", *IPEDR* (7), P. 93-97.
7. Bhunia, A. (2010), "Global Financial Crisis and Its Impact on India", *Southern Economist*, Vol.49, No.1, May 01, 2010, P-12-14.
8. Bosworth, B. and A. Flaaen 2009, "America's Financial Crisis: The End of An Era", A paper presented at the ADBI conference "Global Financial and Economic Crisis: Impacts, Lessons, and Growth Rebalancing," Tokyo, 22-23 April.

9. CDS (2008), "Global Financial Crisis and Kerala Economy: Impact and Mitigation Measures", (working paper), Centre for Development Studies, Trivandrum.
10. Debroy, B. (2009), "Global Downturn and Its Impact", in *Global Financial Crisis: It's Impact on India's Poor*, UNDP, India
11. *Economic Survey (2009-10) & (2010-11)*, Government of India, New Delhi.
12. *Hand Book of Statistics on Indian Economy 2010-11*, Reserve Bank of India.
13. *International Monetary Fund (2009 & 2010)*, World Economic Outlook Database.
14. *International Monetary Fund (2009 & 2010)*, World Economic Outlook Update.
15. *International Monetary Fund (IMF) (2009)*, World Economic Outlook. Washington, DC: IMF.
16. J. Black, N. Hashimzade & G. Myles (2013), "Dictionary of Economics" Oxford University Press.
17. Kumar A. & Kumar G. (2012), "Global Financial Crisis and Impact on Indian Economy", *Thavan Ijreb*, 1(2), P-1-11.
18. Lipsey & Chrystal (2004), "Economics" Oxford University press Indian edition, P-649-57.
19. Mishra R. C. & Mishra K. C. (2010), "Genesis of Global Financial Crisis", *Southern Economist*, Vol.49, No.1, May 01, 2010, P- 9-11.
20. Mohan R. (2008), "Global Financial Crisis and Key Risks: Impact on Asia & India", Meeting in Washington D.C.
21. Mohan, R (2009), "Global Financial Crisis: Causes, Impact, Policy Responses and Lessons", Working Paper 407, Stanford University, Stanford, CA, USA.
22. Robert J. Shiller (2008), "The Subprime Solution", Princeton University Press, 2008, P-5
23. Rubeena Bajwa (2012), "Global Financial Crisis and India: Impact & Response", *Gian Jyoti E-Journal*, Volume 1, Issue 3 (Apr – Jun 2012).
24. Shah S. & Aanand S. (2013), "Global Economic Crisis: Impacts, Challenges and Opportunities for India", *Pacific Business Review International*, Vol. 6, Issue 5.
25. Thimmaiah, G. (2010), "Global Financial Crisis and Indian Economy", *The Indian Economy Review*, vol. vii, The IIPM Think Tank, New Delhi.
26. Tokuo Iwaisako, "Challenges for Japanese Macroeconomic Policy Management", tokuo.iwaisako@mof.go.jp
27. Venkitaramanan, S. (2008), "Global Financial Crisis: Reflections on its Impact on India", *the Hindu*, October10, 2008, P. 11.
28. Viswanathan, K. G. (2010), "The Global Financial Crisis and its Impact on India", *The Journal of International Business and Law*, Vol.9, P-41-42
29. World Bank (2009), "The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens", *the World Bank Policy Note*, Newsletter no. 5, February 2009.