THE GLOBAL FINANCIAL CRISIS: EMERGING MARKETS' PROSPECTS FOR ECONOMIC RECOVERY AND DEMOCRATIC TRANSFORMATIONS (THE CASE OF REPUBLIC OF MOLDOVA)

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Articolul are drept obiectiv studierea impactului crizei financiare mondiale asupra piețelor în devenire, în special ale noilor state independente, inclusiv Moldova, şi a contribuției lor în identificarea cailor de depăşire a crizei. Autorul analizează geneza, fazele şi specificul crizei în această regiune în contextul proceselor de globalizare, axându-se pe următoarele priorități:

1. Impactul crizei asupra economiei mondiale şi a dezvoltării piețelor în devenire, inclusiv a celor ex-comuniste, a perspectivelor reformelor economice şi transformărilor democratice;
2. Modalitățile prin care criza actuala globala diferă de cele precedente ce au afectat economia acestor tari;
3. Rezistența economiilor în devenire din Europa Centrala şi de Est la provocările crizei financiare mondiale în contextul efectelor negative ale evacuării capitalului străin;
4. Rolul factorului politic *versus* cel economic, în special în fostele republici sovietice, care se ciocnesc cu cea mai serioasă provocare de după obținerea independentei, agravată de alunecarea în recesiune după o creştere economică robustă;
5. Agravarea consecințelor economice şi a repercusiunilor politice ale crizei financiare globale asupra piețelor în devenire din regiune in condițiile ineficientei guvernări, simbiozei businessului şi statului, corupției şi deteriorării în continuare a stabilității şi perspectivelor relansării economice şi democratice;
6. Efectele paradoxale ale crizei din perspectiva accelerării integrării acestor țări în comunitatea internațională şi identificării soluțiilor de depăşire a crizei, de remodelare a ordinii economice mondiale şi a instituțiilor internaționale.

INTRODUCTION

In the midst of the most severe financial crisis that hit the world, in Voronin's Moldova just a few months before the elections one could hear: "What crisis? There is no financial or economic crisis in Moldova and there are no factors that might provoke it" [1]. Vice-versa, "not reduction of economic growth but rather its expansion by a healthy 3% in 2009. This is our target and real possibility for now", declared the communist prime-minister at a press-conference on April 1 2009 [2]. Was it a fool's day joke, or had the head of the government lost any sense of reality?

In spite of the rosy communist forecasts, Moldova was hit unprecedently hard by the global economic crisis. According to the recently published IMF report on the world situation, Moldova is the only country where no growth is expected in 2010 [3]. The economic and political crises have been aggravated, in the opinions of local and international experts, by poor quality of governance, significant deterioration of the business environment (the country ranks 158 out of 176 economies in the Doing Business Dealing with Construction Permit indicator), worsened and widespread corruption (Transparency International corruption index placed Moldova on 109th place, 30 positions down from 2006). The IMF estimations show that after a robust 5.5% per year annual increase in GDP since 2000, the Moldovan GDP is expected to fall by at least 9% in 2009 (in contrast with 3.5% growth projected by the government), being dragged down by more than 20% decrease in exports, over 30% reductions of remittances from Moldovan workers abroad that constituted more then 40% of GDP (second in the world after Tajikistan) [4], 25% decrease in the monetary mass and a 40% drop in foreign currency reserves [5]. The effect of the crisis will be long-lasting and can lead to monetary, bank and currency collapse, considers an EBRD representative [6].

In short, Voronin after 8 years of dictatorial governance left behind him a broken economy, facing a long struggle to reestablish its equilibrium, a society artificially divided into "patriots" and "traitors", a nation in a desperate search for a common sense of identity. In 2008, and in the first semester of 2009, the last period of communist governance, foreign direct investment to Moldova decreased nine times, number of unemployed almost doubled and the rate of absolute and extreme poverty, as well as misery index increased for the first time during the last three years. Under Voronin's undisputed rule Moldova become the poorest and most corrupted country in Europe with the most unhappy people in the world, as Eric Weiner, an American journalist found in "The Geography of Bliss" [7].

THE GREAT CRASH OF 2007-2009: CAUSES AND CONSEQUENCES

The period from late 2008 to early 2009 brought a historical event: the world economy entered a major downturn in the face of the most dangerous shock in mature financial markets since 1930, with the United States lying in the center of the intensifying global financial storm. This extraordinary financial shock that started in August 2007 with the collapse of the U.S. subprime mortgage market caused a significant slowdown of the world economy, an alarming drop in global growth by 6.3% in the last quarter of 2008 (a swing from 4% growth one year earlier) and a projected decline in 2009 by 1.3% - the first contraction since WWII, and an eventual reemerge of growth in 2010 by 1.9% that would still be well below its potential [8].

The current global financial bust is rapidly spreading throughout the world, having several symptoms besides dodgy lending: a tide of cheap money from emerging markets, outdated regulations, government distortions and poor supervision. As *The Economist* stressed, "First there was disbelief and denial. Then fear. Now comes anger" [9]. But to find solutions it is important to focus on causes rather than on symptoms of the crisis that poisoned the faith in the free market, created an unprecedented situation and requires unprecedented, more systemic and more global than before measures. It is necessary to look at the roots of problems of current financial system that have been cumulatively accumulated during last decades. Martin Wolf, the Financial Times columnist, in recently published Fixing Global Finance - one of the most detailed and profound analysis of the global financial system weaknesses – mentioned that "the failure of the past led to the so-called imbalances of the present" that are at the core of the current financial crisis. He described it as the outcome of a series of "obvious failures" to understand and appreciate:

- the inherent risks of liberalized financial markets and market-oriented institutions' decisions;
- the greater risks when finance crosses frontiers, especially for fragile emerging markets economies;
- the inherent risks of borrowing in foreign currencies by debtor countries and the importance of greater fiscal and monetary discipline;
- exchange rate risks undertaken by both creditors and debtors in a world of liberalized capital movements;
- what it means to leave with the exchange rate instability in today's multicurrency world;
- the importance of modernization of global institutions in time [10].

The crisis of 2007-2009 is the deepest and most synchronized global recession. Nouriel Roubini, professor at New-York University's Stern Business School, characterized it as the "largest leveraged asset bubble and credit bubble in the history of humanity, housing bubble, a mortgage bubble, an equity bubble, a private equity bubble, a hedge funds bubble, a bond bubble" that are "all now bursting at once in the biggest real sector and financial sector deleveraging since the Great Depression" [11]. This crisis has been provoked by a few major inter-related causes, summarized Goldman's Sachs chief economist Jim O'Neill in his advices for the G-20 summit in London (April 2009):

a) excessive house price appreciation elsewhere with the collapsing of the housing market in the U.S. first of all;
b) an excessively low U.S. savings rate, even negative a few years ago, with a recent upward tendency (5-10% of total income);
c) very high savings rates in 'excessive exporter' countries with a subsequent excessive export dependency on an unsustainable U.S. consumer;
d) an unsustainable current-account imbalances (U.S., UK and other advanced economies) and unsustainable current account surpluses (China, Germany and Japan) [12].

As a result, according to IMF estimation, the aggregate value of losses of banks' and other financial institutions' holdings will outreach this year alone $4.05 trillion while $1.1 trillion is projected to help fix the problem. If this pace were to continue, about $1 trillion would be wiped out from the United States economic output only in 2009 ($14.2 trillion in 2008) [13]. Cumulatively, during the last three years Americans have lost 33% of their largest and most valuable asset – equity in their homes (valued at $13 trillion at their peak in 2006 to $8.8 trillion in 2008), 22% of the total retirement asset, - the second largest household asset (from

$10.3 trillion to $8 trillion), $1.2 trillion in savings and investments and $1.3 trillion in pension assets. These losses together reached a staggering $8.3 trillion [14].

Obviously 2009 will be recorded as the year that will challenge (and eventually reshape) the existing global financial system with its most critical issues: deep and prolonged asset market collapses; profound declines in output and employment, and the big jump in the real value of government debt, on average, by 86% [15].

EMERGING MARKETS: CHALLENGES OF THE GLOBAL CRISIS

What is the role and contribution of the emerging markets in addressing the global financial system problems? Will this crisis halt the rise of emerging economies? Will these economies follow the U.S. and other advanced countries into recession? Can these countries "decouple" and protect themselves from this global tendency? Or maybe the crisis is an opportunity for emerging economies, especially for those of BRIC (Brazil, Russia, India and China) to make their decisive contribution to the stabilization and salvation of the world economy from recession? When Deng Xiaoping, the former Chinese leader, started the economic reforms three decades ago (March 1978) western economists argued that "Only capitalism can save China", now they claim that "only China can save capitalism" [16].

The emerging markets are hardly a homogenous group, but they are facing similar challenges to find themselves caught in the worldwide economic panic. First of all, it is necessary to underline what represents the emerging markets that are now the largest economic bloc [17].

The term was introduced in 1981 by Antoine van Agtmael, the author of "The Emerging Markets Century", who was trying to launch a "Third World Equity Fund", considering that "emerging markets" sounds more positive and invigorating than "third world" associated with poverty and stagnation. Later on, a group of fast-growing economies of South-East Asia (Singapore, South Korea, Taiwan and Indonesia) were tagged the "Asian Tigers" until they ceased to roar being heated by the financial crisis of 1997-98. In 2001, Jim O'Neill introduced the term BRIC for the economically most perspective big league of largest emerging markets: Brazil, Russia, India and China, decoupling from this group such countries as South Korea, Mexico as "fully emerged" already [18]. To this league I would add some other performers, such as Nigeria that enjoyed in recent years one of the strongest performances of any emerging market, and some of the Gulf economies, including Saudi Arabia's market, the world's largest by market capitalization [19].

The emerging markets comprise also former communist block countries of Central and Eastern Europe, including the three "Baltic Tigers" (Estonia, Latvia and Lithuania) that are experiencing now perhaps the worst policy dilemmas with hefty current account deficits and fleeing capital, slipping into recession after a decade of robust economic growth [20].

While facing the worst crisis since the collapse of the centrally planned economic system, the differences between ex-communist countries are often greater than those that distinguish them from the western European economies. Correspondingly, the risk of exposure to the current crisis is different. Our operational assumption is that the gap between the country's stock of exchange reserves and the external-financing needs constitutes the absolute risk. This refers to the sum of current-account balance and the stock of short-term debt. Therefore, the absolute risk of a crisis is greater for only 16 of 45 emerging market's countries [21]. All of them are in Central and Eastern Europe: starting with Latvia, a new European Union member and not long ago a performer (just two years ago it posted the highest growth rate in Europe), Hungary, characterized by the largest in the EU debt-to-GDP ratio, continuing with Ukraine, desperately struggling for its economic survival with 50% devaluation of its currency – *hryvna*, 30% decline in industrial output, and finishing with the poorest ex-communist economies of Tajikistan, Moldova, Turkmenistan, highly dependent on remittances sent home by their workers abroad (10-40% of GDP).

These countries are not yet very much affected by current financial meltdown because there is not much to melt. Their biggest threat and danger is the so called contagion, or domino effect: failure in one country could spark a disaster in another with much more grave repercussions and in far less manageable forms [22]. Examples of contagion could be collapsing currencies, depositors' lost confidence in safety of their savings and attempts to convert them into hard currency, and finally – disenchantment of the population in democratic values, in "the magic" of free markets, and as a result - the revival of nostalgic tendencies for strong authoritarian rule and "good czars". The cumulative effect of such a contagion is much stronger than it could appear at first glance. “There’s a domino effect,” mentioned Kenneth S.Rogoff, a professor at Harvard. ”International credit markets are linked, and so a snowballing credit crisis in Eastern Europe and the Baltic countries could cause New York municipal bonds to fall” [23].

What do emerging markets have in common with advanced economies when it comes to banking and financial crises? In a series of brilliant historical comparative studies, Professor Carmen M.Reinhart (University of Maryland) and professor Kenneth S.Rogoff go back to 1800 and stressed that while each financial crisis is undoubtedly distinct, “they also share striking similarities, in the run-up of asset prices, in debt accumulation, in growth patterns, and in current account deficits…” Furthermore, the frequency or incidence, duration and amplitude of crises across the two groups of countries do not differ much historically, even if comparisons are limited to the post-World War II period. This result, as professors Reinhart and Rogoff concluded, is surprising given that almost all macroeconomic and financial time series (income, consumption, government spending, interest rates, etc.) exhibit higher volatility in emerging markets” [24].

The financial infernos that shocked emerging economies during the last two decades represented spontaneous phenomena mostly of local combustion: Latin America’s “lost decade” in the 1980s; the Mexican “tequila crisis” of 1994-95; the Russian “transformational recession” of 1989-98 that ended with a spectacular currency crisis of August 1998 (the Russian ruble lost 75% of its value); the Asian financial crisis of 1997-98; the Argentina’s debt default of 2001 etc. One of the most comprehensive analyses of these crises was done by Paul Krugman, professor of economics and international affairs at Princeton University and Nobel Prize-winning economist, in his new and updated edition of *The Return of Depression Economics*. Describing the “wrong lessons” learned from Latin American crises, particularly Mexico’s “tequila crisis”, he mentioned: “we gave far too much credit to Washington, to the IMF and Treasury. The rescue wasn’t really a well-considered plan that addressed the essence of the crisis: it was an emergency injection of cash to a beleaguered government…And so nobody was prepared either for the emergence of a new tequila-style crisis in Asia a few years later… We were even less prepared for the global crisis that erupted in 2007” [25].

Of course, the emerging markets are not immune to the current global financial shock and many of them were overly-heated. For example, by the beginning of October 2008 the U.S. Dow had dropped 25% in three month while China’s Shanghai exchange was down 30%, Brazil’s BOVESPA – down 41% and Russia RTSI – down 61% [26]. Emerging economies are being hit hard by weakening export and collapse of private capital flows. Private capital flows into developing countries are projected to decline from $1 trillion in 2007 to about $530 billion in 2009, from about 7% of their GDP in 2007, to less than 2% this year [27]. This effect is amplified by what Erik Berglof, EBRD Chief Economist, called “flight to quality” as investors are withdrawing capital from risky emerging markets. The situation is aggravated by the rising threat of corporate defaults, particularly in those emerging economies heavily dependent on external financing. According to the IMF, banks, firms and governments of the emerging markets, especially those of Central and Eastern Europe, have to roll-over $1.8 trillion-worth of borrowing in 2009, which, in the case of defaults, could seriously undermine investors’ confidence [28].

The current global crisis is very different than previous crises of the emerging economies and, consequently, different “medicine” should be applied to treat the “illness”. It is very important to learn the “right” lessons from those crises.

COULD THE BRIC LIFT THE WORLD ECONOMY OUT OF RECESSION?

The emerging markets, especially those of BRIC, are in a much better position now than they were during previous financial crises. Most of them have significantly outperformed advanced economies. Their annual economic growth over the five years to 2007 averaged more than 7%, remained at almost 8% in 2007, above 6% in 2008 and is forecasted to slip to about 4% in 2009, which is still robust in comparison with expected 3.8% decline of GDP in advanced economies [29]. For the last ten years China, India, Brazil, Russia and other emerging economies have been critical drivers of global economic growth. They will remain the locomotive of the economic growth, delivering more than 60% of all global growth in 2008 with the funding of this growth not dependent on foreign sources of capital. “Whatever happens, mentioned Michael Klein, the vice president at the World Bank Group, it is likely that 2009 will be the first year when 100% of any global growth comes from emerging markets” [30]. The 2009 forecasts for GDP show that growth of these countries, although it is expected to slow down, is still vigorous. According to Goldman Sachs economists’ analysis "What could be the Major Surprises in 2009?" the expected rate of growth is: 6% for China, 5.8% for India, 1.5% for Brazil and 0.5% for Russia, although IMF revised recently forecast and projected a contraction of Russia's GDP by 6% [31]. At the same time the U.S. economy is expected to contract by 3.2%, its worst showing in more than two decades (-3.6% in Euroland and -6.1% in Japan) [32].

The IMF is explaining the resilience of the emerging and developing economies to the current global financial crisis by pointing to two main sources of support for these economies: "strong growth momentum from the productivity gains from their continuing integration into the global economy and stabilization gains from improved macroeconomic policy framework" [33].

In the context of rapid financial globalization this integration has been accelerated by the appearance of large saving surpluses in many emerging economies, especially in China, and by their decision to link their currency to the US dollar in a system often called the Breton Woods II regime (under the Breton Woods I global monetary system – from 1944 to earlier 1970s - countries fixed their currencies to the U.S. dollar, which in turn was tied to gold). This large saving surplus, the "wall of money"– over $5 trillion held in reserves by the central banks of emerging economies (in China it was caused primarily by the undervalued exchange rate, in Saudi Arabia, Russia and other oil exporters – by the rapid increase in price of oil, natural gas and other energy recourses), transformed emerging economies into significant exporters of savings and caused a huge flood of capital from these countries to the U.S. and other advanced economies [34].

This surprising reverse of capital flows – export of capital from emerging and developing economies to the rich world, is the explanation. Painful lessons from the Asian and Latin American crises encouraged these countries to guard themselves from other flights of capital and to stock "excess" foreign-currency reserves as insurance for their banking systems. In rich countries the foreign-currency reserves usually represent about 4% of their GDP, but in emerging economies over the past decade this ratio increased five fold – to over 20% of GDP. Furthermore, because of immature domestic financial markets and lack of opportunities for profitable investment of these reserves at home, emerging economies have no reasonable alternative rather than to invest these surpluses in advanced economies, being interested in establishing a safer and more flexible global financial system.

The emerging markets are rapidly becoming sources of capital funding for the developed world. The key large emerging markets have all moved from being net external debtors to net external creditors over the last few years. The majority of them have eliminated their current account deficits, strengthened their foreign exchange reserves and boosted their fiscal positions [35]. Furthermore, strong internal growth and a rising share in the global economy, particularly in global trade, along with substantially improved macroeconomic policy reduced the dependence of emerging markets on the advanced economies' business cycle, and subsequently, on current global financial recession, although spillovers have not been eliminated.

In contrast to the last decade, when the most exciting thing about emerging markets was their cheap labor, today the most remarkable is the rapid growth in the number of consumers in their own markets, and in the number of entrepreneurs to serve them. Although consumers in the BRIC countries are still much poorer than average American or European, their growing appetite for durables (refrigerators, cars, flat screen TV sets etc) during the past eight years has accounted for nearly as much growth in global demand as the U.S., according to Goldman Sachs analysts. To be mentioned that consumption component is just 45% of their GDP, compared with 71% in the U.S. that reflects huge potential increase in demand from those countries [36]. This will be the only source of domestic demand growth globally in 2009 and for the next three consecutive years we will see BRIC leading global demand expansion, representing about 20% of global GDP – an equivalent of the U.S. contribution, and overtaking collectively the G7 by 2035 [37]. Are these countries high savers, capable to stimulate their own economies, or big borrowers – this is finally the critical factor in dealing with the global crisis [38].

"The weaknesses are the continuation of the strengths", a proverb says. It is important to explore and to use the potential of emerging markets in reversing the world economic crisis. But, at the same time, it is equally important not to overestimate this potential and nourish illusions that the world economy could be "saved" from this recession by the "Rise of the Rest", using Fareed Zakaria phrase from his famous book [39]. Chinese Premier Wen Jibao, speaking for the World Economic Forum in Davos (Switzerland) lowered the expectations that China can "extract the world from the economic crisis". Like other emerging economies, it still remains too poor and too export-dependent to provide a real buffer for the global economy, at least in the next few years. For example, U.S. consumers have powered more than a tenth of global growth in the last decades and spent about $9.5 trillion (2007), or six times as much as Chinese and Indian consumers. Even China's massive stimulus program won't change the situation very much. As Stephen Roach, Asia chairman for Morgan Stanley emphasized, "you don't create a consumer culture overnight" [40].

Paradoxically, the relatively mild impact of the current financial crisis on the emerging markets is also the result of their still underdeveloped institutions and structure and relatively primitive and isolated banking systems. For example, the Chinese stock market is down by about 60%, but this had not seriously undermined its banking system, which is funded through deposits rather than capital markets. India, for instance, has highly sophisticated equity markets, but an underdeveloped banking system distorted by government edicts.

CRISIS IN EX-COMMUNIST EUROPEAN EMERGING MARKETS: POLITICS VS ECONOMICS

The global financial crisis has had a very negative impact on emerging markets of the former communist countries of Central and Eastern Europe/Southeast Europe (CEESE) that represent the "Achilles' heel" of a united Europe, or putting it in a more familiar form - a "Europe's version of the subprime market". The abrupt change of fortune occurred after a surprisingly rapid growth of these countries since the fall of the Berlin Wall. As a result of the economic boom of the last decade and due to rapidly increasing prices for oil and other energy resources Russia, for example, became the eighth-largest world economy in terms of nominal GDP, that rose from $82 billion in 1992 to a whopping $1,778 billion by 2008, according to IMF estimations, although it ranks only No. 74 when it comes to per capita income [41]. But the surprise winner in this race was the CEESE region whose GDP rise from $535 billion in 1992 to $4,687 billion by 2008, twice as fast as Russia's [42].

The emerging economies vary enormously in their domestic financial development, but for all of them politics matters as much as economics to market outcomes, as observed Ian Bremer of Eurasia Group. The financial crisis has political ramifications everywhere, but they are particularly pronounced in former Soviet republics that formed the Commonwealth of Independent States (CIS) after the collapse of the USSR in 1991. Real GDP in this region, which expanded by 8.5% in 2007 is projected to contract by over 5% in 2009, the lowest rate among all regions of the global economy and an expected rebound of growth to no more than 1% in 2010. The IMF attributed this largest reversal of economic fortune to three major shocks: a) financial turbulence, which greatly limited access to external funding; b) slumping demand from advanced economies, and c) related abrupt fall in commodity prices, specifically for energy resources [43]. The economic, social and political crises are closely bind in this region amplifying each other, particularly in such large countries as Russia, Ukraine, Kazakhstan where big business and the state are closely intertwined, or tiny Moldova, where recent parliamentarian elections, considered by opposition being falsified by authorities, erupted into massive anti-communist protests, so called "twitter revolution" of young people desperately struggling for "some changes in our country…any kind of changes" [44].

The initial reaction to the crisis in most of ex-Soviet countries, known as Commonwealth of Independent States (CIS) was: "it is not our crisis; it is Washington's problem". "We did not have a crisis of liquidity; we did not have a mortgage crisis. We escaped it. Russia is a safe haven", stated Russian Prime-Minister Vladimir Putin [45]. At that time – fall 2008 - the Russian political and economic elites were engaged in discussions on prospects for Russia to advance to nr.5 or nr.6 world economy by 2020, as observed professor V.Mau, President of Russian Academy of Economy [46]. Similar was reaction of Moldovan officials, when they declared last October that "there is no financial or economic crisis in Moldova and there are no factors that might provoke it" [47]. In spite of such overoptimistic statements the financial storm did not bypass these countries, as well as other former Soviet republics and Central and Eastern European ex-communist countries.

Russia's stock markets, for instance, have plunged more dramatically than most others. For example, a government controlled giant Gazprom, which not long ago had a value of $359 billion, has fallen to slightly more than $100 billion. During just one year of the current crisis and sharp decline in the value of the ruble (by one third), Russia has mislaid 55 of the 87 billionaires, according to Forbes magazine [48]. Overall, Russia's market capitalization lost about $1 trillion since its peak in May 2008. This wealth simply vaporized. At that time the damage had been largely limited to the Russian elite, to no more than 1.5% of the population that have investments in stocks. Russia has not yet developed a broad investor class. Meanwhile, the Kremlin sent an order to all broadcasters banning the words "collapse" and "crisis". The word "fall" should be substituted with "decline". Reporters were encouraged to reflect the global financial crisis everywhere but Russia, criticize the U.S. as "the epicenter where the crisis is nested" but they were advised not to publish "provocative reports that can cause panic" at home [49]. As the crisis gained momentum, the foreign-currency reserve rapidly drained and large masses of people are being painfully affected by unemployment expected to soar to 12%, double the level of 2008, the Russian authorities have become much more realistic, launching a massive anti-crisis program that will reach a "world record" - 12% of GDP [50].

This is Russia's most serious test (or threat) in almost two decades and could end the social contract between the Kremlin and the people after an eight-year consumer boom fuelled by high oil prices. Mikhail Gorbachev, the ex-Soviet leader and my former boss for whom I worked in the troubled times of *perestroika and glasnost'* [51], warned that Russia faced "unprecedentedly difficult and dangerous circumstances" and could be "heading into a black hole" [52]. These concerns had been reiterated by Russian President Dmitry Medvedev in his veiled criticism of his predecessor and mentor Prime Minister Vladimir Putin when he stressed that only 30% of the cabinet' financial-rescue package has been implemented, which is "slower than current circumstances require" [53].

Paradoxically, in short term, the crisis may help Russia reintegrate into the international community after Russia's invasion of Georgia on August 8, 2008 and thus improve Russian-American relations. However, in the long run, the fate of its economy depends heavily on the price of oil, as Peter Rutland, Professor of Government at Wesleyan University [54] recently concluded.

The global crisis has significantly affected other CIS emerging markets - Moldova for example. Its negative impact has been multiplied by the recent political crisis provoked by inadequate reaction and brutal repressions by the government of anti-communist protests of youth (7-8 April 2009). These events made the headlines in the world press, perhaps for the first time on such a scale since Moldova became independent in 1991. The Resolution of the European Parliament condemns the massive campaign of harassment against journalists (Freedom House placed Moldova on 150 position – a country with no free media), against civil society representatives and opposition parties, grave violations of human rights and other illegal actions carried out by the Moldovan government in the aftermath of parliamentary elections [55]. Recession, as Louis O'Neill, former OSCE Ambassador and Head of Mission to Moldova, considers, seriously undermines the prospects of unfreezing the Transnistrian stalemate, already in its 18th year that "plays a large part in keeping everyone's [Moldova's and Transnistria's] economy down" [56].

The real problem for the governments of ex-communist Central and Eastern European countries (sometimes referred to as "New Europe") in facing the current crisis is weak governance, based on the unique combination of special interest lobbying, populist statements, bad economics and sheer incompetence of authorities. The crisis in this region is the worst possible mix of the East Asian crisis of 1997 and of the Latin American crisis of 2001, although there are some differences as well [57].

First of all, these countries are much more at risk than Asian economies from the global deleveraging process, their impressive growth before the crisis being fuelled mostly by borrowing from abroad. This resulted in their disproportional dependence on foreign currency loans. According to the Institute of International Finance, the volume of capital flowing into emerging European economies is expected to fall by more than eight times: from $254 billion in 2008 to just $30 billion in 2009 with the increasing prospects of widespread defaults [58].

The second distinctive feature - the liquidity boom in emerging Eastern Europe is linked almost solely to the private sector, whose foreign currency debt rose dramatically to 126% of foreign exchange reserves, while public sector's net external debt fell during the last few years. This heavy borrowing led to: a) increased debt in foreign currencies (Swiss Franks, Euros or even Yen) that represents 30%-40% of household debts in Poland and Romania, 50% in Hungary and over 70% in Baltic States, b) huge imbalances in Eastern European currents accounts, c) massive amounts of foreign debt and subsequently - to credit crunch [59].

Thirdly, the economies of these countries, particularly of the smaller and worst-performing in Eastern Europe are overweight in financial stocks and underweight in energy and technology names. As Rob Balkema, a portfolio analyst at Russell Investments observed: financials represent 67% of Romania's stock index, 39% of Poland's, and 37% of Bulgaria's, compared with 20% of Brazil's. At the same time energy and technology stocks make up 27% of Brazil's index, 21% of China's and 0% of Bulgaria's index [60].

It is important to mention that the societies of these countries are much more resilient to the challenges of the current recession, having had the experience of living through communism, dictatorship and 300 percent inflation. As Andreas Treichl, the CEO of one of Austria's top three banks pointed out: "People in this region are 10 times better equipped to cope with a crisis than spoiled investment bankers in New York" [61]. A good sign of changing attitudes toward the deepening crisis in this region is the EU bloc's 27 leaders decision at their summit in Brussels (March 19, 2009) to offer a $102.55 billion loan towards doubling IMF's funds to rescue economies, to $500 billion – a target that could be achieved with the $100 billion offered earlier by Japan and another $50 billion contribution eventually from the U.S. and China [62].

LEARNING THE RIGHT LESSONS

What are the main lessons to be learned from the current recession and how emerging markets could contribute to the identification of efficient solutions to the global economic crisis, which is threatening to throw nearly two decades of economic reforms into reverse? The main lesson isn't about market failure or the downside of open borders for capital. It's about the importance of sound economic policy [63]. In this respect the role of the government should be reconsidered in rescuing the financial system, in insuring its sustainability, integrity and transparency.

Learning the right lessons from this and past crises is important for advanced economies as well, and especially for the U.S., taking into account its unique role in the world economy and responsibility for solutions to the global financial turmoil. This credit crunch provided at least four important lessons, according to Sylvester Eijffinder, the Dutch Professor of Financial Economics at Tilburg University and Board member of the European Banking Center in Tilburg:

(1) the top management reward and remuneration has been excessive,
(2) the risk management models based on Basel II have proven to be inadequate,
(3) the financial supervisors in the U.S. and Europe have not been involved thoroughly enough and
(4) the U.S. framework of financial supervision has proven to be much fragmented and totally ineffective [64].

It is equally important to learn from past errors and not to repeat the mistakes of the past. The U.S. has a history of bad legislative acts and government programs. However noble their intent was, many of them often wind up delivering less, slower and costlier than projected, with potentially damaging unintended consequences, in Michael J.Boskin, economics professor at Stanford University, words. For example, the famous Tariff Act of 1930, better known as "Smoot-Hawley", which was designed to protect U.S. producers from foreign competition, but de-facto aggravated the situation and deepened the Great Depression already under way. More recently, the Sarbanes-Oxley Act of 2002 enacted in response to the high-profile Enron and WorldCom financial scandals to protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise, led to similar consequences regarding the inflow of foreign capital to the U.S. "Sarbanes-Oxley is one of those Congressional classics, passed amid the post-Enron panic, that has done much harm at great cost. Its biggest beneficiaries have been the same accounting firms the law sought to punish and which have nonetheless been able to charge far more money for their services", as pointed out the recent Wall Street Journal editorial [65].

Another example is the Russian plan to reform "the obsolescent unipolar world economic order" and replace it "by a system based on the interaction of several major centres", "to reduce inconsistencies between the supra-national nature of instruments and institutes of financial markets and the national character of regulators' activities", "to examine possibilities for creating a supra-national reserve currency" etc. The plan was unveiled on the eve of the G-20 meeting in London. The rearrangement of the global financial system, according to the "five principles in eight specific areas" proposed by the Kremlin, does not matter how good the intents are and how well they are formulated, in reality are designed to strike at the positions of the United States and the European Union in the global economy. This fits well in Moscow's crusade against a unipolar world order, this time in financial sphere. Even Russian experts do not think much of these initiatives, and don't expect the U.S. or the European Union to quit their roles of economic leaders or that the new financial framework and a new supra-national world currency will be created on the "ashes" of the still functioning system [66].

I would also mention a series of very serious and profound analysis and interviews on the current crisis by Russian officials and economists, including A.Kudrin, Russian Vice Premier and Minister of Finance, Dr. M.Ershov, Senior Vice-Chairman of Rosbank, Dr. V. Mau, President of the Russian Academy of Economics, initiated by the leading Russian professional economic magazine *Voprosy Ekonomiki* under the logo: "Russia and the World Financial Crisis" [67].

CONCLUSIONS

First of all, 2009 and 2010 could eventually become the decisive years for reshaping and restructuring the global financial system by addressing its most vulnerable aspects: liquidity, which is at the heart of its stability; transparency with better disclosure of banks' institutional arrangements for risk management, risk models and techniques and consolidation of infrastructure of financial markets [68].

Second, the current crisis is the most serious challenge for emerging markets stability and economic prospects, but it is also an opportunity to restructure, to redress existing imbalances and weaknesses. The worst thing for these markets now is to assume that the worst is over. The governments in these countries should become credible in the eyes of their own citizens by creating safe micro- and macroeconomic conditions for foreign capital investments, by continuing structural reforms as a necessary base for sustained high growth, by focusing on fiscal and monetary policy priorities (exchange rate, monetary and fiscal regimes, regulation of the financial sector), enforcement of the rule of law, legal institutions and protection of property rights, strengthening democracy and respect for human rights.

Third, the increased international cooperation and the new global alliances, legal and infrastructure frameworks through gradual transformation of existing financial system and institutions could reduce the volatility and disproportional dependence of emerging markets on foreign-currency loans, particularly in Eastern Europe. At the same time it is important not to slip into a de-globalization, to a new "Berlin Wall" of protectionism that will separate advanced economies from their emerging counterparts.

Fourth, the April 2, 2009 meeting of the Group 20 leaders in London made an important contribution by elaborating a comprehensive strategy how to recover the world economy from the crisis, how to strengthen IMF's role to better police financial issues, how to revamp financial regulation and to restore market confidence, how to lower the limit "buy local" provisions in nations' stimulus plans etc. The G20 leaders agreed to quadruple the financial capacity of the IMF with a $1 trillion commitment, $500 billion of which represents increased direct financing. The previous meeting of the G-20 in Washington (November 2008) started the movement in the right direction with the inclusion of emerging market economies in the Financial Stability Forum, agreement in principle to provide more seats for emerging countries at the IMF and World Bank, increasing their role in decision making process. What has long been missing – the political will, commitment of the world leaders for changes, and here the G-20 meeting in Pittsburg (September 2009) seems to make progress by promising to subject members' economic policies to "peer review" [69].

Fifth, in searching for solutions to the global financial crisis it is important not to overreact to current challenges, to balance market and regulation, not to over-regulate, taking into consideration that increased regulation, as Vaclav Klaus, president of the Czech Republic emphasized, is likely to be "the biggest, biggest cost of the recession", the cost of regulatory changes would likely be "more important than two years' loss in GDP" [70].

Sixth, the economic power of the emerging markets and developing economies is growing to some extent independently of the developed world and despite the current economic crisis and financial hardships. What should the West do? Should it continue to worry about the rise of emerging markets and bemoan their system of governance, or embrace their involvement and bring these countries, first of all *BRIC*, to the same table of policymaking?

I think the answer is obvious and there is no doubt about the decisive role of a new global alliance of advanced economies and emerging markets in confronting the 2007-2009 financial crisis. It is the right time to propose a "new paradigm for financial markets", in George Soros' words [71].

Seven, the new Moldovan Government approved recently a very comprehensive Program of stabilization and economic recovery of Moldova for 2009-2011 [72], based on three priorities:

1. Stabilization and optimization of public finances;
2. Re-launch of the economic activities and
3. Assurance of an efficient and just social protection.

What is important – the Program is based on a profound analysis of the situation characterized as "economic stagnation", and on the realistic assessment of the sources of its implementation. The economic disaster inherited by the new democratic government of Moldova was the political irresponsibility of its predecessor - communist government. As Valeriu Lazar, First Deputy Premier, Minister of Economy stated at the conference "The Year's Main Lessons and Perspectives for the Future" organized by the Expert Grup analytical center by the end of 2009: "it was a great blunder or a purposeful misinformation to call Moldova "an island of stability" amid the roaring ocean of a global economic crisis… And we all can see the consequences… the year 2009 figure of economic fall may well reach 8-9%" [73].

But there are also some encouraging signs. Pierre Lellouche, Secretary of State for European Affairs at the Foreign Ministry of France, who recently visited Moldova, stressed that despite the economic and financial crisis the international community found about $1.5 billion overall funds for Moldova and will continue to support the country's efforts to join the EU and in the Transnistria conflict settlement [74].

POST-SCRIPTUM

On the eve of the collapse of the Soviet Union Charles Gati, Professor of Political Science at the Union College observed that the communist past haunts. "It haunts when one political party attacks another as "neo-Bolshevik", when neighbors denounce neighbors for having previously "sympathized" with the authorities of the old order, and when democracy, endowed with unrealistic popular expectations, replaces communism as utopia" [75].

The most difficult obstacle in this new transition is the mentality. Moldova saw finally a light at the end of the tunnel, the hope that the new young, ambitious and competent government will bring changes; restore the credibility in democratic institutions, will bring stability and prosperity. It is not an easy task and there are a lot of stones on this way that could overturn the "cart". Such a "stone" could be the failure of the Parliament to elect a new President. The legislature should be dissolved according to the Constitution and another election should be declared for 2010. This could throw Moldova into a new round of political battle. It is the first time since Moldova became independent in 1991, when the tradition of peaceful transfer of power through relatively free and fair parliamentarian elections is disrupted due to irresponsible behavior of the opposition communist faction in Parliament. This seriously undermines the country's prospects for recovery and its European integration aspirations of Moldova for whom the question "Quo Vadis" is still the most pressing and important.

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Morocco, South Africa, and Tunisia. To these economies should be added at least a dozen of other countries, such as Azerbaijan, Armenia, Georgia, Kazakhstan, Moldova, Ukraine and other former Soviet Union states, as well as Albania, Croatia, Serbia, Slovenia, Vietnam and some other ex-communist countries.
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