

Global Financial Crises and Possible Solutions to Confront Them

Lolav Ahmed Khalil

College of Administration and Economics, Department of Financial and Banking Sciences,
University of Duhok-Kurdistan region Iraq
lolav.bamerny@uod.ac

Abstract

The global financial crises are one of the most important and leading news topics in the modern era, due to the financial globalization that led to the globalization of financial and economic activity and markets. This led to the interconnection of the economies of the world's countries to each other. Financial crises are the occurrence of a serious and relatively sudden defect in the usual method of the financial system and leads to dangers to countries, organizations, individuals and all stakeholders. This imbalance requires quick and effective interventions from all relevant parties and these dangers lead to a collapse in the global financial and early warning indicators provide a permanent and continuous tool for guidance and warning decision makers and policy makers of the possibility that the economy will be affected by the financial crisis.

Keywords: global financial crises, financial stability, early warning systems.

DOI: 10.7176/JESD/13-14-03

Publication date: July 31st 2022

1. Introduction

Some countries were exposed to financial crises, and these crises occurred individually or together in some countries. These crises had a significant impact on the economies of countries, as they often caused a sharp deterioration in financial markets due to the failure of banking systems to perform their main tasks, which lowered the value of the currency and stock prices and thus negatively affected production and employment, and this resulted in the redistribution of income and wealth among the markets. international finance as a whole. The financial crisis is the occurrence of a serious and relatively sudden imbalance that strikes the usual behavior of the financial system and includes direct and great dangers and threats to the state, organizations, individuals and all stakeholders. total and losses in financial resources, material resources and human resources, And lead to severe disturbances in the economic balances may be followed by sharp collapses of financial institutions and other institutions. The countries that were hit incurred losses from high inflation rates, lower volumes of exports and production reserves and financial costs to address them, increased bad debts and lack of financing. Therefore, it was necessary to pay attention to these crises and try to find indicators that have the ability to predict them before they occur. Therefore, the regulatory authorities have developed new systems for the continuous monitoring process represented in the development of early warning systems in order to predict the future of financial crises to achieve financial stability.

2. Previous Arabic Studies

Study of Dr. Qanqalji: Islamic Economic Controls in Addressing Global Financial Crises 2; He analyzed the causes of financial crises from the point of view of Islamic economics by criticizing the capitalist system based on usury and the expansion of spending. Full study, Global Financial Crisis Challenges and Opportunities 3; He analyzed the causes of the financial crisis, its effects and repercussions, and the role of legitimate violations and moving away from the pillars of the Islamic economy in deepening financial crises, as well as referring to the features of the collapse of the capitalist system, the current challenges and the need to exploit the available opportunities.

- study d. Mr. Ali, The future and stability of the capitalist system in light of global financial crises 1 and financial globalization; The study discusses the nature of financial crises, their causes and effects, and the role of globalization in crises under modern liberalism. He attributed the causes of crises to defects in theories 1 - d. Mr. Ali, Abdel Moneim, The Future and Stability of the Capitalist System in the Light of Global Financial Crises and Financial Globalization, Arab Society for Economic Research, Tenth Scientific Conference: "Arab Economies and Developments after the Global Economic Crisis", Beirut, Lebanon, 12/2009. The causes of global financial crises and their repercussions 416 on which the capitalist system was based, which ended with the collapse of modern liberalism and the collapse of the old capitalist system.

- Study of Dr. Qanqalji: Islamic Economic Controls in Addressing Global Financial Crises 2; He analyzed the causes of financial crises from the point of view of Islamic economics by criticizing the capitalist system based on usury and the expansion of spending.

- Full study, Global Financial Crisis Challenges and Opportunities 3; He analyzed the causes of the financial crisis, its effects and repercussions, and the role of legitimate violations and moving away from the pillars of the

Islamic economy in deepening financial crises, as well as referring to the features of the collapse of the capitalist system, the current challenges and the need to exploit the available opportunities.

3. Research problem: The research problem revolves around some questions about the nature of the global financial crises facing capitalist economies, the actual causes of these crises and the economic and financial mechanisms to overcome them. Financial crises have many questions in the field of the global economy.

4. Research assumes

Based on the issues included in the research problem, we can put the following hypotheses:

- The first hypothesis: It is based on the fact that the financial crises were sudden and the majority did not predict their occurrence.
- The second hypothesis: There are possible solutions to face financial crises in light of early warning systems.

Research goal:

The research aims to describe the global financial crises and their causes and what is related to their prediction and to develop possible solutions to confront them.

Research importance

This research has its own importance in clarifying opinions related to global financial crises in order to be used as a guide to understand this subject accurately and comprehensively. The importance of the research stems from the fact that it seeks to analyze the causes, results and trends of global financial crises, and to clarify their future effects and repercussions As well as identifying the factors affecting maximizing the effects of the crisis, ways to overcome and mitigate it, and reviewing some proposals to achieve this.

5. Research Methodology:

The research will add the descriptive approach to the cases of some countries to test its hypotheses to address financial crises in an appropriate manner and according to a clear and controlled methodology to reach the desired goal of this research. It adopted the descriptive method in the study of indicators of total prudence.

The first topic: What are financial crises? And what are the reasons.

Financial crises are those disturbances that affect, in whole or in part, all financial variables such as stock and bond prices, bank deposits and exchange rates. economic sectors . They are those fluctuations that affect wholly or partly all financial variables, volume of issues, stock and bond prices, bank deposit credits, exchange rate.

Causes of financial crises: Financial crises occur for many reasons, some of which can be predicted, as follows:

- 1- International changes such as disasters, wars, economic crises and trade wars.
- 2- Local variables in the rate of inflation, exchange rates, stock prices and changes in interest rates.
- 3- Technological changes such as new products and inventions, shifting demand for products and services, and investment portfolio structures.
- 4- Radiation and polluting information that is not true.
- 5- Uncalculated speculation.

The second topic: an overview of the global financial crises:

The global financial markets have witnessed many financial crises. In this research, we will present the most powerful crises that shook the global economy, and they are as follows:

The credit crisis 1772: This crisis began in London and spread throughout Europe, where Britain carried out an excessive and rapid credit expansion by its banks and this expansion ended abruptly because one of the partners of the British Bank ran away from paying his debts, so the creditors began to withdraw cash immediately.

The Great Depression 1929-1939: This crisis is considered the worst during the twentieth century, as it began when the American stock market collapsed, and then the matter got worse due to the poor economic policies of the American administration at the time, and it led to a massive loss of income, unemployment rates and a shortage in production.

The 1973 oil price crisis: This crisis began when OPEC members (especially Arabs) decided to respond to the United States' decision to send arms shipments to Israel. Oil prices and resulting financial crisis in the United States and many countries.

The Asian crisis: This crisis started in Thailand and spread to the rest of East Asian countries and their trading partners. As speculative capital flowed from the developed countries to the economies of East Asia, this led to excessive credit and the accumulation of debts in the economies of these countries, and the impact of this crisis was negatively reflected on foreign investments.

The economic crisis 2007-2008: This crisis erupted due to the collapse of what was called the real estate bubble in the United States at the time. This crisis led to a great recession as it destroyed financial markets all over the world.

Here, we emphasize that success in managing financial crises requires several factors, including:

1. Finding and developing a specialized banking administrative system through which problems are identified,

analyzed and solutions developed with the competent competencies.

2. Strategic planning for financial crises.
3. Develop training programs for employees in the field of financial crisis management.
4. The necessity of periodic evaluation and review of financial crisis management plans.
5. Ensure the existence of an effective banking system for early warning of financial crises.

The third topic: Forecasting global financial crises: Predicting global financial crises was effective at times and ineffective at other times. Realize this because there are events that are difficult to predict, and there are those who believe the opposite. An example of this was confirmed by Joseph Stiglitz, the American professor of economics, winner of the Nobel Prize in 2001, who confirmed that the financial crisis was predictable and thus could have been avoided.

The fourth topic: Possible solutions to confront global financial crises: The nature of global financial crises requires the adoption and implementation of a set of strategies, policies, procedures and programs at the local and global levels due to the nature of the formation of these crises. And that there are attempts to solve it by the directly affected countries, and even the countries that were not deeply affected by the financial crisis took preventive measures. The most important plans adopted by countries to confront financial crises are:

The United States plan: It aims to secure better protection for savings and real estate belonging to taxpayers, protect property, encourage economic growth, and maximize investment returns.

The plan of the seven industrialized countries (the United States, Britain, France, Germany, Italy, Japan, Canada): where a plan of action was developed to confront the global financial crises and its members pledged to prevent the bankruptcy of major banks and continue to work to stabilize financial markets and restore the flow of loans to support the growth of the global economy. ...etc.

The Eurozone plan: The leaders of the Eurogroup adopted a financial rescue plan that partially nationalizes the affected financial institutions by injecting public funds into the affected banks, guaranteeing deposits and guaranteeing loans between banks with the possibility of refinancing them.

Russia's plan: to save the country's banking sector by providing a sum of money from the Russian cash reserve and with funding from the Development Bank, whereby the troubled banks will get loans from these amounts, and the government will start buying bonds from Russian companies.

The Gulf countries plan: The Central Bank of the Emirates decided to provide banks with short-term loans through the value facility, and the bank allocated facilities for banks to use as exceptional bank loans.

The opinions of the International Monetary Fund: We take the initiative to evaluate the effectiveness of the implementation of Basel II and recommend the proper application of the criteria of the agreement. - Part of the causes of crises result from reasons related to the capitalist system based on market laws, which leads - permanently - to differences between supply and demand, being affected by expectations and conditions that affect demand, such as income, government spending, and attracting money; conditions that affect supply such as climatic factors, political conditions, efficiency of management, etc.; The previous results prove the validity of the first hypothesis which says: The current global capitalist system structure contains contradictions and imbalances that help create financial crises. - Lead the development of economic and legal systems, transparency, and the development of infrastructure, , to reduce the severity of crises and reduce the possibility of their occurrence, while the presence of weaknesses leads to an increase in that possibility; This proves the validity of the second hypothesis, which states that the process of economic and legal reform helps mitigate the possibility of severe financial crises. Many capital investment tools need scrutiny in terms of their strategic feasibility and deep risks. Especially with regard to the securitization of assets, short selling, the lack of discipline of financial derivatives of financial instruments, and other modern tools and methods that have emerged in recent years as a result of the tremendous technological development that has produced quick means of profit, but at the same time it is hypothetical, , that is, they do not contain real goods or tangible assets, and are very risky; This proves the validity of the third hypothesis, which states that modern financial products, such as financial derivatives, securitization and debt sale, play a major role in maximizing the impact of financial crises.

Results:

- Part of the causes of crises are caused by reasons related to the capitalist system based on market laws, which leads - permanently - to differences between supply and demand, and is affected by expectations and conditions that affect demand, such as income, government spending and attracting money; conditions that affect supply such as climatic factors, political conditions, efficiency of management, etc.;

The development of economic and legal systems, transparency, and the development of infrastructure, reduce the severity of crises and reduce the possibility of their occurrence, while the presence of places of weakness increases that possibility.

Many capital investment tools need to be scrutinized in terms of their strategic feasibility and their deep risks, especially with regard to asset securitization, short selling, lack of discipline of financial derivatives of financial instruments, and other modern tools and methods that have emerged in recent years as a result of the tremendous

technological development that has resulted in rapid means For profit, but at the same time it is virtual, that is, it does not contain real goods or tangible assets, and it has very high risks.

Recommendations:

The necessity of adhering to the controls and requirements of financial, administrative and economic disclosure processes, with setting standards to ensure the validity of this information, and enacting laws for legal prosecution. *Damascus University Journal for Economic and Legal Sciences*

- Accountability for the bodies preparing these reports (financial management and executive management), and auditing them (audit companies and chartered accountants), as well as the owners of companies (boards of directors and authorized signatory partners). - The importance of laying foundations for sound management, to ensure that the possibility of corruption and mismanagement is reduced to the least possible degree. These sound management practices are called corporate governance.

The necessity of adjusting and correcting the economies of countries that are characterized by weak base structures and technological backwardness; Countries in which the administrative reality is characterized by corruption, bureaucracy, nepotism and bribery, the absence of transparency in the financial, customs and administrative sectors in all, and the large number and complexity of procedures; This is done by restructuring their legal and institutional systems that run their economies, in order to provide the appropriate climate and conditions to attract direct investments.

The necessity of establishing controls and limiting the use of modern capital tools, such as financial derivatives, tawarruq and debt trading, because of the role of these tools in maximizing and multiplying the impact of crises.

5. Conclusion

Through the research, we reach the possibility of getting out of the global financial crises, which were surprising at times, and which resulted in negative effects and in other times were predictable. The owners of this trend call for the necessity of developing plans that ensure effective and gradual adoption of the economic system, starting with the financial and banking sectors and gradually moving to other economic sectors through a comprehensive change strategy capable of complete restructuring and re-engineering of the global economy. The proponents of this trend stress the need for the state to intervene effectively, deliberately and responsibly in the structure of the economy, and not leave the matter entirely to the private sector. The state is responsible for setting controls that ensure the economy's efficiency, effectiveness and ability to withstand potential crises. The proponents of this trend point to the need to focus on the integrated aspects offered and provided by the economic system and its interest in considerations of social responsibility and the system of morals and higher human values, and its focus on achieving human well-being in the material and moral fields. The solutions proposed by all parties are considered the treatment to alleviate, first, the impact of the financial crisis, and secondly, it will be the solution to reduce future financial crises.

References

- Rajan, Ramkishan, (2007), "Financial Crisis, Capital Outflows, and Policy Responses: Examples from East Asia", *Journal of Economic Education*, Vol. 38, No. 1; pp. 92–109.
- Ping, Lee, Tham Yean, (2007), "Malaysia Ten Years After the Asian Financial Crisis", *Asian Survey*,: Nov/Dec. Vol. 47, No. 6; pp. 915–930.
- Hwang, Sun, Vicky Seiler, and Michael Seiler, (2005), "Multinational companies' real asset ownership and its impact on diversification", *Journal of Corporate Real Estate*, Vol. 7, No. 4; pp. 326–339.
- Childs, Paul, Steven Ott, and Timothy Riddiough, (2002), "Optimal Valuation of Real Assets", *Real Estate Economics*, Vol. 30, No. 3; pp. 385–415.
- Williams, Joseph, (1997), "Redevelopment of real assets", *Real Estate Economics*, Vol. 25, No. 3; pp. 387–404.
- King, Alfred, (2005), "Do You Know Where Your Financial Assets Are?", *Strategic Finance*, Vol. 86, No. 8; pp. 24–30.
- Mansini, Renata, (2004) "Securitization of Financial Assets: Approximation in Theory and Practice," *Computational Optimization and Applications*, Vol. 29, No. 2; pp. 147–156.
- Han, Ki, Suk Lee, David Suk, (2004), "Political Assassination and its Impact on Emerging Markets' Financial Assets," *Multinational Business Review*, Vol. 12, No. 2; pp. 317.
- Jay, Lawrence, (2009), "Reorganizations, Exemption of Financial Assets," *American Bankruptcy Institute Journal*, Vol. 27, No. 10; pp. 10–15.
- Dwyer, Gerald, and Cesare Robotti, (2004), "The News in Financial Asset Returns", *Economic Review*, Vol. 89, No. 1; p. 1–24.
- Hellmann, Donald, (2007), "A Decade After the Asian Financial Crisis: Regionalism and International Architecture in a Globalized World", *Asian Survey*, Vol. 47, No. 6; pp. 834–850.

- Peter Rousseau, Jong Kim, (1997),"Credit Markets and the Propagation of Korea's Financial Crisis", Southern Economic Journal, 2007. Vol. 74, No. 2; pp. 524-546.
- Peter, Rosenblum, (2005), "The World's Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations", Ethics & International Affairs, Vol. 19, No. 2; pp. 126-133.
- Dittmer, Lowell, (2007), "The Asian Financial Crisis and the Asian Developmental State: Ten Years After", Asian Survey, Vol. 47, No. 6; pp. 829-836.
- Liu, Rui, and Joseph Rizzi, (2008), "Present Financial Crisis and Human Greed: Some Musings", Business Renaissance Quarterly, Vol. 3, No. 3; pp.145-152. 18
- Markowitz, Harry (2009), "Proposals Concerning the Current Financial Crisis", Financial Analysts Journal, Vol. 65, No.1, pp.25-37.
- Mun, Kyung-Chun, (2008),"Effects of Exchange Rate Fluctuations on Equity Market Volatility and Correlations: Evidence from the Asian Financial Crisis", Quarterly Journal of Finance and Accounting, Vol. 47, No. 3; pp.77-103.
- Nan-Kuang Chen, and Hung-Jen Wang, (2008),"Identifying the Demand and Supply Effects of Financial Crises on Bank Credit-Evidence from Taiwan", Southern Economic Journal, Vol. 75, No. 1; pp.26- 50.
- Partnoy, Frank, and Ivar Kreuger, (2009), "Historical Perspectives on the Financial Crisis: the Credit-Rating Agencies, and Two Theories about the Function, and Dysfunction, of Markets", Yale Journal on Regulation, Vol. 26, No. 2; pp.431-444.
- Shore, Barry, Sharm Manwani, (2009),"The Financial Crisis on Wall Street: Complexity, Stability, and Information Technology", Journal of Global Information Technology Management, Vol. 12, No. 1; pp. 4-9.
- Drew, Christopher, (2009) "Obama's helicopter conundrum: How to save cash and salvage program", International Herald Tribune, Paris: Apr 29, pp. 19-20.
- Simms, Chris, and Mike Rowson, (2009), "Effect of the financial crisis and rescue plan on ordinary Americans", The Lancet, London: Jan 10-Jan 16, Vol. 373, No. 9658; pp. 123-125.
- Weissman, Lilach, (2008), "Treasury Rescue Plan: The Finance Ministry's plan does not address the financial crisis", Tribune Business News, Washington
- Seidenberg, Steven, (2009), "Salvage Plan", ABA Journal, Chicago: May Vol. 95, No. 5; pp. 57-63.
- Jesse Drucker, "News in Depth (2008), The Financial Crisis: Series of obscure tax breaks increase cost of U.S. rescue plan", The Wall Street Journal Asia, Hong Kong: Oct 20, p.17
- Munoz, Sara, and Dana Cimilluca,(2008), "Financial Crisis & Repair: Banks haggle over U.K.'s rescue plan; Pricey guarantees and dividend policy spark complaints", Wall Street Journal (Europe). Brussels: Oct 16, p.4-5.
- Lahart, Justin, (2008), "The Financial Crisis: Rescue Plan Comes Around To Views of the Academics", Wall Street Journal (Eastern edition). New York, N.Y.: Oct 11, p.4.
- Hitt, Gret, and Deborah Solomon, (2008), "News in Depth: The Financial Crisis: Treasury should act fast to buy distressed assets; Details of financial-rescue plan still need to be hammered out", The Wall Street Journal Asia, Hong Kong: Oct 6, pp. 16-17. 19
- Richard, Cooper, (2009), "The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do About It", Foreign Affairs, Vol. 88, No. 2; pp.143-149.
- Trussel, John, and Laura Rose, (2009), "Fair Value Accounting and the Current Financial Crisis", The CPA Journal, Vol. 79, No. 6; pp.26-31.
- Xiong, Qiyue, and Rui Liu, (2009), "The Potential Risk and Investment Analysis of China's Automobile Industry in the Context of Financial Crisis", Management Science and Engineering, Vol. 3, No. 1; pp.51-60.

Biographies: Lolav Ahmed Khalil was born in 1985 in Duhok city in Iraq, I get the bachelorise degree in banking and financial Science in 2006-2007, then i study master degree in banking management in Yuzuncu YIL University in Van Turkey in 2016, and now I am a lecturer full time in University of Duhok.