

World financial industry after the crisis

~ Ph. D. Professor **Veronica Adriana Popescu** (Academy of Economic Studies)

~ Ph. D. Professor **Gheorghe Popescu** (Academy of Economic Studies)

~ Ph. D. Assistant **Cristina Raluca Popescu** (University of Bucharest)

Abstract: *The world financial system, which needs to be a driver for economies worldwide, has suffered a profound shock following the worldwide economic crisis. This paper shall examine the most probable course in the development of the world financial system during the next five to ten years, with a particular focus on the changed role of the banks worldwide, the evolution of the US dollar and the moments when the world economy hangs into balance.*

Introduction

An old saying is that “The more things change, the more they stay the same”! This profoundly perceptive observation has long proven its validity in all areas of human activity, including in the case of the financial system. Nonetheless, following the current credit crisis long term investors ought to expect fundamental changes in the finance industry and in the wider industrial framework.

While the world economy is gradually settling down after the crisis on the credit

market, many profound changes are becoming increasingly visible. The financial flows are no longer dominated by the economies which are being transferred from Asia to the USA in order to finance the interest of the consumer loans and financial deficit. On the other hand, the American consumers have made significant savings, the budget deficit has decreased, and emerging markets seem to become leaders of global economic growth and the dominant magnet for the investment flows.

It is from this new perspective that we have focused in this material on the aspects

that are nowadays provided by a permanently changing world, that is the key elements of the past economic crisis (the chosen models are the United States crisis, the Mexico crisis, the China economic crisis), on the role and importance of banks, as well as on the new challenges on which they will need to focus (we refer to the banks in the United States, Switzerland, Mexico), on some successful models implemented by the world great powers (we refer to the success of Switzerland in the banking and tourism areas), on comparisons between powerful economies (such as the United States, Switzerland or China), on aspects regarding the surprising evolution of some emerging economies (such as Mexico, for instance), while in the end of the material we have focused on the winners and losers perspectives following the world economic crisis.

1. A Changing World: Difficult Moments in the World Economy

Whereas the economy of the United States has undergone 28 crises during the past 150 years, the contraction of the economic cycle has been inevitable, although the shock which generated the downturn definitely was less typical than the one we had been used to. Indeed, the banking crisis and the general fear in 2008 are much more different than the collapses at the end of the 19th century and the beginning of the 20th century.

In the same time, the economic cycle of the past 15 years has been unusual in respect of its size and growth rate – it has been a time of large prosperity, not only in the developed world, but also in the emerging economies.

The 2001 recession was nothing but a short pause in a remarkable economic growth

period. That period, named the “Great Moderation”, was characterized by a strong and balanced economic growth against the low inflation and the boost of globalization. For a while, this situation, almost ideal for business, referred to the script of the golden age.

We are widely aware of the secrets behind the “Great Moderation”, which caused its own great excesses and unbalances and to a great extent its success led to a dangerous compensation from the large bankers, political decision makers and politicians and to a drastic decrease in the expectations on risk elimination.

The continuous nature of the expansion has determined many financial market practitioners and economists to incorporate their highly optimistic opinions on turning to subsequent behavior models and on risk.

In this respect, the markets and many economists were unprepared for the shock when it hit.

It is a more complex and interesting matter, referring to the way how people create and allow themselves to be open to activating price bubbles.

To such end, we refer to the book of Charles McKay *Extraordinary Popular Delusions and the Madness of Crowds*, which provides an analysis of the price bubble by returning to the crusades. When he wrote the book back in 1841, McKay correctly imagined that his book would alert people on the danger of bubbles and that such would no longer reappear. But from the bubbles in 1947 up to the bubbles in 2000 on the dot.com, they have constantly appeared on the financial markets.

What is interesting about these bubbles is the fact that we often see them appearing again and again. Usually, a change in the

expectations or a new technology can cause an increase of the prices. Such explosion then becomes a bubble where cheap money and easy loans become a reality. Then the investors get rid of the fundamental analysis forms to replace them with less reasonable ones, this general fervor and the will of taking chances is a little too much for the aptitudes of regular people.

When the bubble is in a total debt, it generates a lot of hidden effects – such as the revisal of the economics logic, as well as many false wealth effects. One of the greatest bubbles was created in France in 1720 by the Scottish John Law. While the Mississippi bubble scheme is “owned” by England, the successful initial plan of Law of changing the governmental debts for corporate equity has led to a flourishing derivatives market, an overestimated money offer, inflation and in the end, severe economic downturn. Although it can be considered that Law developed an economic category of theory and innovation, he was essentially an “alchemist”.

His tradition was proudly continued by bankers, mortgage loan brokers, financiers and a few political decision makers over the past ten years, and reached its peak at the same time as the loans crunch. The so called innovation destroyed the transparency of many financial products and significantly increased the complexity of the interdependence of financial markets, while at the same time it failed in respect with liquidities and risk. Poor regulations and distorted simulation structures lead to the idea that bankers and mortgagers are interested in building mountains of low quality debts, implicitly disfavoring their own debt.

In the Anglo-Saxon countries such as Great Britain, the United States and Australia,

as well as in Ireland and Spain, these directions have been accentuated. In Ireland and Spain the problems were further enhanced by the accession to the Euro zone. As a consequence, the interest rate was inappropriately low, thus reducing the importance of loans in those economies. The level of the house loans and the price of dwellings in those countries reached extreme limits in these years.

Until the present moment, reactions regarding the regulation following the credit crunch are not as severe as some financiers might have thought, nor as bold as others hoped.

2. Banks – between the Economic Crisis and the New Regulations

Banks in the United States and Europe, and not those in Asia and Latin America faced unprecedented losses during the downturn. In order to fill their deficit, those banks received capital from governments and private investors. Furthermore, important losses still exist in the flows of the said banks, which will take over an important part of the profit for the next ten years. Besides this, the great structural issue is that of knowing whether American or European banks are launching in a new major round of mobilization and risk taking in order to recover economic growth in their own economies and abroad, or if they will take a seat in the back of the room, similar to the local banks on an emergent market, while direct investments inflows on the capital markets would take over the control.

2.1. Banks in the United States and Europe, Asia and Latin America – new confrontations

Throughout the past decays, many of the American and European banks have

generally recovered quite rapidly after a sudden decrease of loans and reinitiated the loan expansion. Will things be different this time?

At the present moment, the political debate in America and Europe is focused on measures for impeding risk taking. Governments can implement such policy by three main modalities.

- The first one, reasonable, by explicit instructions to the banks in which they have invested – nonetheless, most governments are reluctant in going too far with this method and anyway they are aiming at selling their stake sooner or later.
- The second way refers to requesting banks to divide themselves into smaller and potentially specialized units, however this is a controversial modality and it might be damaging to the affected banks unless implemented by all countries.
- The third way can be fulfilled by means of the legal provisions. For instance, banks could be forced to create additional capital stocks in the years when they obtain a profit (“the good years”) in order to use such in the year with less profit (“the bad years”) (thus using the “ant-cyclical reserves”).

It would also be convenient/ feasible for certain limits to be imposed in respect with liquidity or for a certain rapport to be inflicted between capital and loans. This means a slight amendment of the current rules, imposing the existence of smaller capital prerequisites for less risky loans. Legal amendments such as this one are probably the main method in which governments will try to influence banks, although it is unlikely that they would be uniformly adopted

worldwide. As a consequence, the regulation framework will differ significantly from one country to another.

The impact of all these methods is highly probable to differ from one bank to another and from one country to another. Some of the largest American and European banks which have previously expanded their banking investments operations seem to mainly focus on clients on the internal market; others remain focused on the international market, however adopting a significantly more conservative attitude towards risk; while others in the context of somehow stricter regulations seem to impose limits to risk. On a short run, this means reduced competition for those who remain active on the banking investments market.

However, new competitors are coming into view. Some of the Asian banks, also powerful and focused players on the internal markets, are willing to play an important role in liaising the worldwide capital flows. Thus, if we take a look five years ago, the total number of the large banks operating worldwide is similar to the one before the crisis, however these banks are rather distributed in the whole world, than rather dominating the United States and Europe any more. Moreover, they are accompanied by a number of banks in the emerging countries in the world, in liaising the flows on their rapidly growing origin markets.

2.2. Banks in Switzerland, the Country with the Most Powerful Economy in the World

One of the things that make the Switzerland economy a strong one is the fact that cantons compete against each other and make all efforts in order to improve their

position. This competition for investments, jobs and residents has become severe and was so even during the recession, including due to increased mobility and reduced administrative barriers.

Starting with 2004, Credit Suisse has calculated and published a yearly report on quality indicators, based on five factors in the fields of taxation, education and accessibility. Credit Suisse has been a member of the World Economic Forum for some decays now and is one of the strategic partners.

Economics specialists have noticed, by analyzing the economy of Switzerland that many cantons have managed to improve their taxation system due to the financial equalization reform and the task allocation between the cantons, as well as to the large excess of income saved by the cantons over the years. For this reason, the following aspects can be noticed:

- According to statistical data, cantons Zug and Zurich rank first in the top of 2010, as well as they did in 2009.
- In the traditional cantons, with low taxation levels, in central Switzerland and in the areas neighboring Zurich lake, for instance, residents pay high prices for real estates in return to low taxation levels. Properties in such regions are already over evaluated in relation with the increase of income.
- Zug takes pride in its ideal combination between the low level of taxes, highly educated population and rapid access to the other large cities in Switzerland.
- Metropolitan cantons such as Basel - Stadt and Geneva benefit of excellent local transportation networks and of

their role as hubs in the usual hourly timeline of the Swiss Railway System.

- Half way to the lowest positions in the top rank cantons such as Thurgau and St. Gallen, where the tax reduction has led to improved positions.
- The mountain Graubunden canton has continuously improved the quality of the location since 2004, despite negative topography.
- And the Basel-Stadt canton registered the highest growth rate in these five years.

The loan manual for the Swiss cantons has been reedited in a shortened version in October 2007. At that time, the document stipulated that most cantons had generally improved their financial figures following the economic boom. This is visible in the rankings, although such also consider future data. The taxation records for 2009 and especially those for 2010 reflect the crisis. Nonetheless, after a while they seem to drop, while the unemployment rate starts growing. Actually, the deficits are on cards.

Moreover, low performances on the financial markets will result in increased contributions to the pensions fund with approximately billion 25. Swiss francs seem to have reunited all cantons. Most cantons expect financial reports to drop by 100%. This means they would be able to start issuing more securities, which in their turn would be favored by the lowest demand and interest rates in the history, as the specialists at the Swiss Institute for Financial Research at Credit (Appenzell Innerrhoden and Ticino) which have gotten above others and other five have a negative image. Zurich is one of the cantons the aspect of which has changed for the better.

2.3. Outbound Services from Swiss Banks – the Secret of “Pearl Hunting”

The Outbound Services Department of the Swiss bank Credit Suisse was awarded with the approval seal in the form of direct marketing ISO certification, and thus Credit Suisse was the first bank ever to win this special accreditation which ascertains the high quality of the 50,000 yearly clients contacts. The outbound sales may represent a commitment, providing that all requested documents are provided and the test is passed. Credit Suisse received the certification without any condition being imposed to it. No areas needed improvement, and that is why Credit Suisse is the only bank in Switzerland ever to obtain this outcome from the accreditation process.

The outbound sales provide consultancy and purposefully adapted products in order to fulfill the potential of the customers. These recommendations refer first of all to payments and savings. In the case of investments and financing requests, an appointment is set up in order to get to an in depth understanding of the client's situation. Approximately 40 employees contact 50,000 clients each year for the four regions: Mittelland, French Switzerland, Ticino and Zurich/Eastern Switzerland.

Every call is individually planned in order to ensure that each customer receive the best possible services. This involves high quality training. Quality assurance measures such as service excellence, employee coaching, technical verification and periodical satisfaction surveys are therefore highly important.

The outbound sales are not considered a conventional call center by themselves.

Nonetheless, Credit Suisse intends to position the bank as a quality supplier and to differentiate from other call centers.

The banking specialists consider that it is important for outbound sales to undergo quality control by a world recognized independent organism which is not active in the financial services area. ISO certification proves that high ethical standards are complied with and ensure client confidentiality. The direct marketing approval seal and ISO certification contribute to the establishment of call centers. A code of honor in direct marketing needs to be complied with and this is made by verifications, so that to ensure conformity with the basic principles of truth and transparency, data and privacy protection, the manner of talking by phone, the confirmation regarding agreement signing, human resources selection and training, remuneration and appraisal. Furthermore, audiences are organized in the form of interviews with the employees on all hierarchical levels, including with the managers in all four locations. And the specialists in the quality management department consider that the key to fulfilling the ISO certification prerequisites call for serious commitment from managers.

There is no doubt that finding high potential customers, usually known as pearls, contributes to the employee motivation level. Every day, the circumstances change for customers following inheritance, marriage, new labor conditions or real estate acquisitions. New opportunities arise, waiting to be discovered every day. Whereas this pearl hunting is one of the main attributes, the logo of outbound sales is represented by a pearl in a shell.

With the ISO certification and a useful team of experts, those involved in outbound

sales can be motivated to face this task in the future. Moreover, this accreditation is actually a challenge for Credit Suisse to improve the way how it answers its clients' needs.

3. Switzerland in Top Even After Crisis: a Comparative Approach

According to the World Economic Forum, Switzerland is the most attractive country in terms of tourism and it also has the most competitive economy.

The world economic crisis has strongly influenced Switzerland as well. Between January and July 2009, exports dropped by 15.6%, while imports froze at 7%.

This drop is unacceptable and calls for action. Nonetheless, in the most recent two researches made by the World Economic Forum, Switzerland gets out of the top, therefore other countries are doing worse.

The Travel and Tourism Report in March 2009 placed Switzerland once again in front of Austria and Germany and other 130 countries in respect of the 60 considered criteria. Such refer to health and security, infrastructure, price level, legal framework, environment and culture.

More important is the Global Competitiveness Report 2009-2010 released by WEF in September 2009. After Singapore, Switzerland was one of the main winners of this report. Due to the weakened financial market and reduced macro-economical stability of the United States, Switzerland overcame the United States. They both have the same power of leading the next best ranked countries. "The framework in Switzerland is highly innovative". Companies facilitate this research and development. Companies are using developed corporate practices,

the infrastructure is standing, the technology is of the highest level and above all labor markets are very flexible compared to the European neighbors of Switzerland.

The countries ranking under Switzerland and the United States are Singapore, Sweden, Denmark, Finland, Germany, Japan, Canada and Norway.

4. The American dollar – Challenges for the Future

At the present, the dollar plays the main role in the world financial system, which can be explained in more key-modes, such as follows:

- it is the main invoicing and international trading currency;
- it is by far the most owned foreign exchange currency by the majority of the sovereign states;
- it is the unit to which many countries associate their own currency in an explicit way or in practice;
- its capital market still is the most developed and liquid in the world;
- it is the currency which most of the international investors use when monitoring their own investments portfolios

However, many investors have begun to question this role, given the fact that the financial crisis was located in American financial markets, considering the United States' debtor statute. The main role of the dollar was identified shortly after the Second World War, through the economic arrangements, in accordance with the Bretton Woods agreement. In 1970 a great deal of these arrangements were ended, when the dollar's relation with gold was eliminated and many currencies changed from a fixed rate to variable

ones. For a moment the dollar's role was put under questioning but due to sufficient motives it kept its position in the end: the United States were still a credit state; the geopolitical position of the US was increasing, while in the meantime that of the Soviet Union was heading for a collapse and no other alternative currency existed.

Now, the circumstances are different. The United States is the biggest debtor and while this thing assures an abounding dollar supply, the investors are worried that it might threaten its credibility. As regards geopolitics, the United States is, by far, the biggest power but on a medium term China, India and other nations' ascension represents a clear indicator of the multi-polar world of the following decades. A monetary alternative that satisfies some of the dollar's functions is now represented by euro. The reserves destined to the foreign exchanges in euro are increasing, although they are still insignificant and modest in comparison with those in dollars. Euro is at the present the biggest monetary target for a number of countries. For now, China's currency has the potential of taking a resembling role in one or two decades, provided that its rapid economic growth continues and that the monetary reform maintains its stability. It is far from being a credible alternative to be taken in consideration at this moment whereas China's currency is not yet convertible in a free mode and the monetary internal markets are still under-developed.

None of these arguments seem to be sufficient for under-estimating the dollar's financial role on the global market in the following period of time. But if we consider it after a period of ten years or more, it is possible for the dollar to lose its present emphasizing, the world becoming increasingly multi-polar in

the economic as well as in the political domain. A possibility is that the dollar, euro and China currency can form some sort of a tripartite system, each with its own sphere of countries in regard to the commerce dividing and the payments, each of them having a major role in the foreign exchange reserves. A variant of these versions could consist of the currencies' main role updated as to also include China's currency within the emerging markets.

5. Mexico and the United States – Key Economical Elements

The Mexican dictator Porfirio Diaz (1830-1915) once said: "Poor Mexico, so far from God, so close to the United States". Its geographical proximity to the US not only did shape Mexico's history but has also played an important role in defining the future economical development of the country.

5.1. The Economical Partnership between Mexico and the United States

The tight interrelations with the US are probably the key element of the Mexican economy. From the moment Mexico integrated in the "North American Free Trade Agreement" in 1994, Mexico's exports to the United States have risen four times at more than US\$ 200 billion a year.

Here are some of the elements that have brought Mexico and the US closer, from an economical point of view:

► Many American firms, such as multinational companies like: Ford, General Motors, the ex-Daimler Chrysler, Siemens, Philips and Toshiba, have extended parts of the production to the Mexican border cities such as: Ciudad Juarez, Tijuana and Mexicali. Exactly near the border with the United

States these known firms and under the name of “maquiladoras” - assemble individual or semi-fabricated components in order to obtain three quarters-finished goods or finite products which are exclusively destined to export in the US. Today, approximately 80% of Mexico’s exports are destined to the US market, representing 20% of Mexico’s gross domestic product. Besides the oil exports, electronics and automobile components are the most important categories.

► There are also other relations between these two states, as for example, 50% of the foreign direct investments in Mexico come from the United States. These capital flows are in a close relation with the American companies’ increased profits.

For a long period of time, Mexico has constantly benefited from the US companies’ growth in consumer spending and incomes.

Therefore it is not surprising the fact that the biggest recession in the last decades in the United States has greatly affected the Mexican economy. The automobile industry crisis and the consumer environment in the US have led to a decrease in Mexico’s exports. Considering the American firm’s reduced earnings and the development programs’ decline, the direct foreign investments seem to have been reduced to half in 2009 in comparison with the previous year.

5.2. Mexico and the Impact of the World Economic Crisis

The money transfers made by the Mexicans living in the United States to help their families back home have also been affected by the recession. Estimated at US\$ 25 billion, these payments have represented the most important source of currency income after the oil exports. Between October 2008

and January 2009, the monthly payments have decreased by 40%. Because of all these reasons, the severe recession in Mexico was inevitable. In the first year trimester, the gross domestic product has declined with 8%. For the Mexicans, the fact that this time they hadn’t caused this crisis was just a minor consolation.

The Mexican tourism industry, though, was the most seriously affected. Tourism incomes constituted the third biggest source of currency incomes in 2008, at more than US\$ 1.8 billion (approximately 1.5% of the GDP). As a result to the swine flu and the concerned tourists, a great many tourism firms eliminated Mexico from their itineraries – in some cases, until the end of the year 2009. The great cruise ships avoided Mexican harbors such as: Acapulco, Cancun and Puerto Vallarta. According to the conference of the Chambers of Commerce, Services and Tourism in Mexico, the rate of hotels occupancy dropped to approximately 10% in middle May and the beginning of June 2009. The Cancun airport registered a decrease of 63% in the number of passengers in May 2009. Even fewer were those who visited the Mexican city on the Mayan coast in June (less than 25%).

The situation has somewhat improved since then, but a normal recovery is far from becoming reality. The Mexican Secretariat for Tourism is expecting a decrease in tourism incomes at more than 40% for the year 2009. As a result to the losses caused by the United States’ recession, the economic situation aggravated in the second trimester. The gross domestic product dropped with 10.3% per year. The Central Bank of Mexico announced that on 29th of July 2009 it was expected for the GDP to contract with 6.5%-7.5% in 2009. In April a decrease of 4.8% was

expected. Thus, this adjustment seems more severe than during the 1995 recession when the GDP dropped with only 6.2% compared to the previous year.

5.3. „Tequila crisis“ versus the Present Economic Crisis in Mexico

The so called “tequila crisis” started in December 1994 when the Mexican government was no longer able to maintain an unchanged exchange rate between the peso and the American dollar. This thing led to a trust crisis and finally to a massive withdrawal of foreign capital, which in just a few days led to currency devaluation by 50 percent. The capital withdrawal, the sudden rise of the loan expenses, as well as the inflation growth by more than 50%, the global crisis has turned into a general economical crisis. Mexican banks have accumulated high debts on the free markets in the United States. The peso’s devaluation has caused a dramatic profit increase. Accepting the case of bankruptcy many Mexican banks were eventually taken over by foreign banks in the majority of cases. Because of the crisis, Mexican firms were forced to receive loans from foreign creditors, while the government’s finances were greatly affected by bonds, now in foreign property.

After the “tequila crisis”, the macro economical situation of Mexico significantly improved. The net debt, as a percent of the GDP, was reduced from almost 50% in 1995 to only 8% in 2008. Firstly, the governmental debt was reduced. Secondly, the loans in American dollars were replaced with peso loans. Thus, in the last five years, the quantity of governmental loans in dollars dropped from 95% to 63% at the end of 2008. During the last few years, Mexico has built monetary reserves of

over US\$ 70 billion. Moreover, 30 billion represent the money for trade agreements with the Federal Reserves of the United States and the 47 billion dollars representing the flexible credit line with the Currency International Fond, have assured a greater stability of the currency and reduced the risk of a bigger depreciation on pesos. The credit line granted by IMF (Fondul Monetar International – International Monetary Fund) sends a positive signal to the investors about the countries’ economical situation. John Lipsky, the first executive deputy director of the IMF, declared in April 2009 that the Mexican authorities had paid very much in the past on the account of political implications and that it was an excellent candidate for being granted a new flexible line of credit. The Mexican firms have also reduced their debts in dollars, replacing them with local loans. This meant that Mexico was a lot less dependent on external capital flows. Consequently, the peso’s temporary depreciation has not generated negative consequences and the inflation has remained under control. Indeed, the inflation continues to be moderate. It has dropped from 6.5% in December, to 5.4% in July 2009 and it seems that it will continue to drop in the following months. The moderate inflation makes the actual crisis to be a lot easier and endurable, especially compared to the year 1995 and the previous currency crisis.

The recently gained economical stability and the hope for the world’s economy recovery – and thus Mexico’s exports- suggest the fact that Mexico can get out of the crisis relatively without problems. For the year 2010 we are again expecting an increase in the GDP by 4%. In spite of all these, the recovery seems to be built on tottering ground.

The amendment of the public financial situation was mostly achieved on the account of the oil exports growth. Mexico's financial resources will largely continue to remain dependent of the oil exports in the future. Mexico is the sixth greater oil producer in the world. Oil exports contribute with only 5% in the GDP – at first sight a moderate number compared with other oil exporting countries. Nonetheless, the high taxes introduced to the oil state company Pemex, amount for collections from oil of almost 50% from the governmental total incomes.

The great problem is that the number of discovered oil reserves is decreasing. Cantarell, one of the largest domains of oil ever discovered in the world, will probably be exhausted in a few years. Mexico's oil production is dropping at the present with 10% each year, and in 2008 it reached the lowest level. During last years, the oil state company Pemex has not had financial resources to invest strong enough in new exploration projects. Foreign oil companies continue to be banned from access to Mexico's oil reserves. Mexico does not own considerable potential reserves. The Chicantepec domain and the deep reserves in the Mexico Bay have the largest potential. Nevertheless, the exploration is problematic/raises some problems from a financial and technical point of view. The long awaited energetic reform started at the beginning of the year 2008 offers the possibility of a more flexible mode of attributing contracts and a greater flexibility in the case of the incomes surplus investment at Pernex. The risk associated with exploiting and developing new domains, as well as associated cost will still be supported by Pemex, although the private sector continues to be banned from the possibility of investing

in the oil sector. The scale of private investments remains limited and it is not known if Mexico can stop the extension of the oil production in the following few years.

The income taxes, outside the oil sector, amount to only 9% in Mexico's gross domestic product. This is the smallest value compared to all member countries of the OCDE and also significantly lower than the 15% average value in Latin-American countries. The efforts of President Felipe Calderon of carrying out a consistent fiscal reform have failed in front of the political resistance. It is not known if the political desire for reformation will improve in the near future. Calderon's ruling party – National Action Party (PAN) – was one of the greatest losers in the parliamentary elections at the beginning of July. The greatest opposing party, the Institutional Revolutionary Party, was the winner of the elections. Thinking of the next presidential elections, which are programmed for the year 2012, it is less likely they will adopt unpopular measures which would be necessary for a broad tax reform. Ironically, the rise of the oil price might distract attention from the problem in order to delay the reforms in the oil and energy domain, which are so necessary.

6. Industry's "Winners" and "Losers"

The emergence of winners and losers at the level of countries is susceptible to cause tension which could install protectionism and could change the process of globalization. For a long time, from the investors' point of view, the credit crunch will affect not only the financial industry but the entire industrial framework. A few companies will be weakened but a small number of important companies will probably be much stronger from a structural point of view.

In the banks' situation, we have already seen some dramatic changes. A much larger part of the banking sector's settlements are an immediate consequence of the credit crunch. This could lead to the increase in liquidity demand, seeing the introduction of limits, the potential separation of the bank's subdivisions and of some industrial branches such as financial structures, might be drastically reduced. One after another new business models are expected to appear in the developed countries, as well as in the emerging ones. The credit crunch has led to many accidents in the last 12 to 24 months. We consider this will have a long-term impact on industrial structures, on the long run, as soon as problems are solved. For example, many weaker players will be weakened by the impossibility of reaching resources in order to self-blame for their position on the market – that is if it still exists. Others will be capable to obtain advantages from the weakened competitors in order to consolidate the leader market position and for a possible price improvement. The costs structure also has to be superior due to their abilities to invest and purchase.

Here are some of the industry sectors which are worthy of ample analyses:

► The auto sector stands out as one the capacity of which is still in excess and as one in which the returns of investments have not covered the cost of capital. It is possible for a future consolidation to be observed.

► The IT sector can also be further consolidated, by the fact that the IT sector is generally well positioned on the market even during the credit crunch period, given the life-time period of the assets and the capacity of generating profit in a deflationary environment.

► We consider that the retail industry might be facing significant pressures in order to consolidate, because the consumer tendencies are changing in countries starting with Japan and ending with Great Britain.

Mexico is about to survive the worst recession from the last decades without being too affected, because of the economical stability it has gained. The great challenge now is that of reducing the measure in which the public finances depend on oil and elaborating more methods for stimulating investments in the oil sector. If the so much necessary structural reforms are successfully implemented, the country's potential could be improved and especially the internal market would be consolidated. This aspect could also reduce the high level of Mexico's dependence towards the United States economy.

Conclusions

The effects of the crisis on the credit market have led to the existence of a multipolar world, and this is clearly reflected over many aspects of the financial system.

The dominant role of the United States dollar is directed in such a manner as to make room for a world where the United States are still important, however in which other countries, their currencies, their capital markets and their banks play an increasing role. As in the case of all large changes, this structural modification will provide the investors with both threats and opportunities.

It will take a while until the numerous unbalances caused by the crisis are settled. Then we will be able to think about returning to the normal economic cycles. Important changes are necessary in the way how politics is made, in order to ensure that such financial cycles are not abnormal. They are the

creation of the new institutions in order to adjust national fiscal policy and regulations arising from the regional, multinational monetary policy, aspects much more explicit regarding the price of assets and the potential

price bubble of the central banks, much more intelligent and in depth of the financial regulations of important institutions, and represent a final point in the widely used and non-discriminatory separation of risk taking and facing.

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