Current global financial crisis: Curse or blessing in disguise for developing countries?

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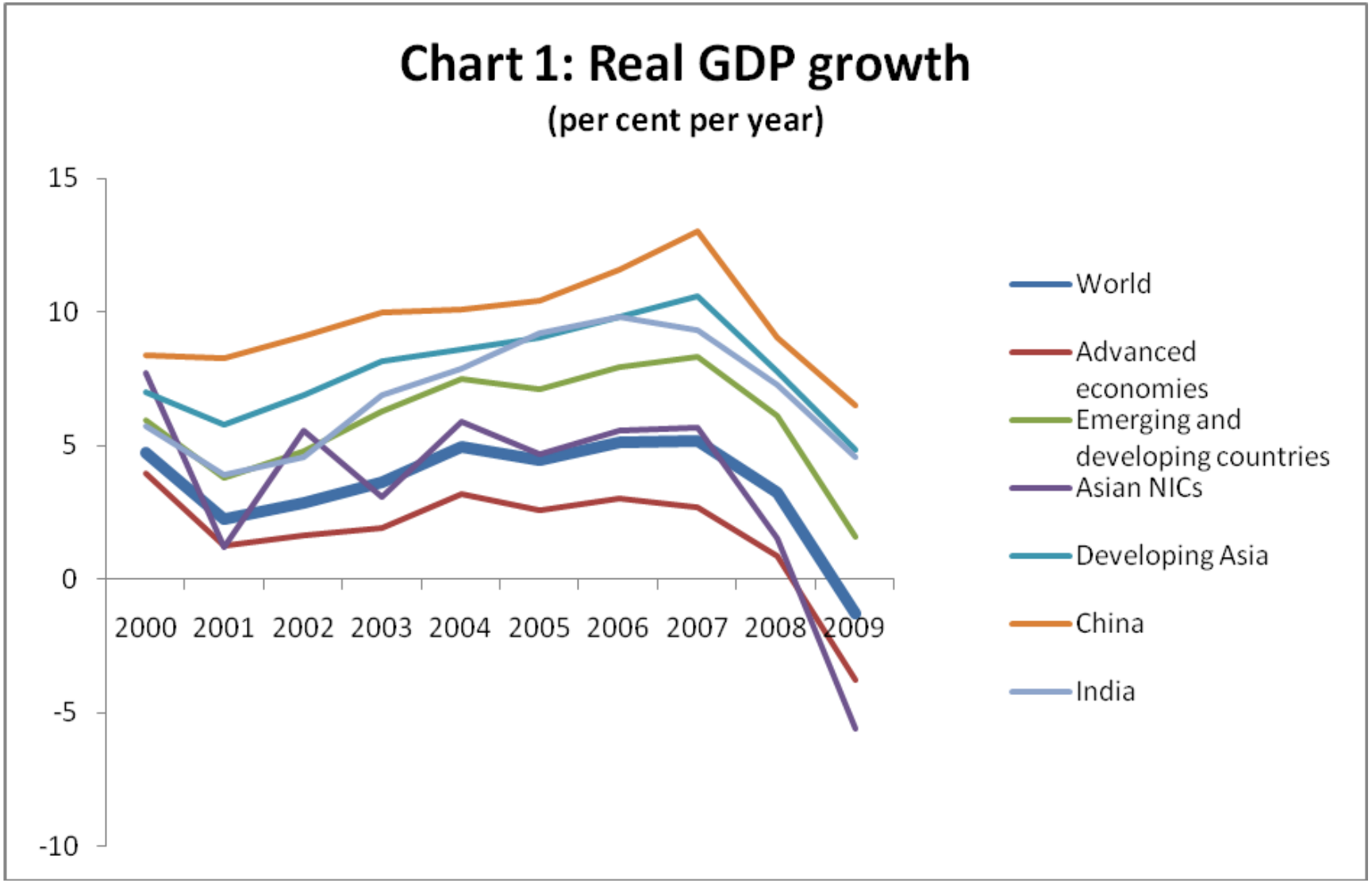
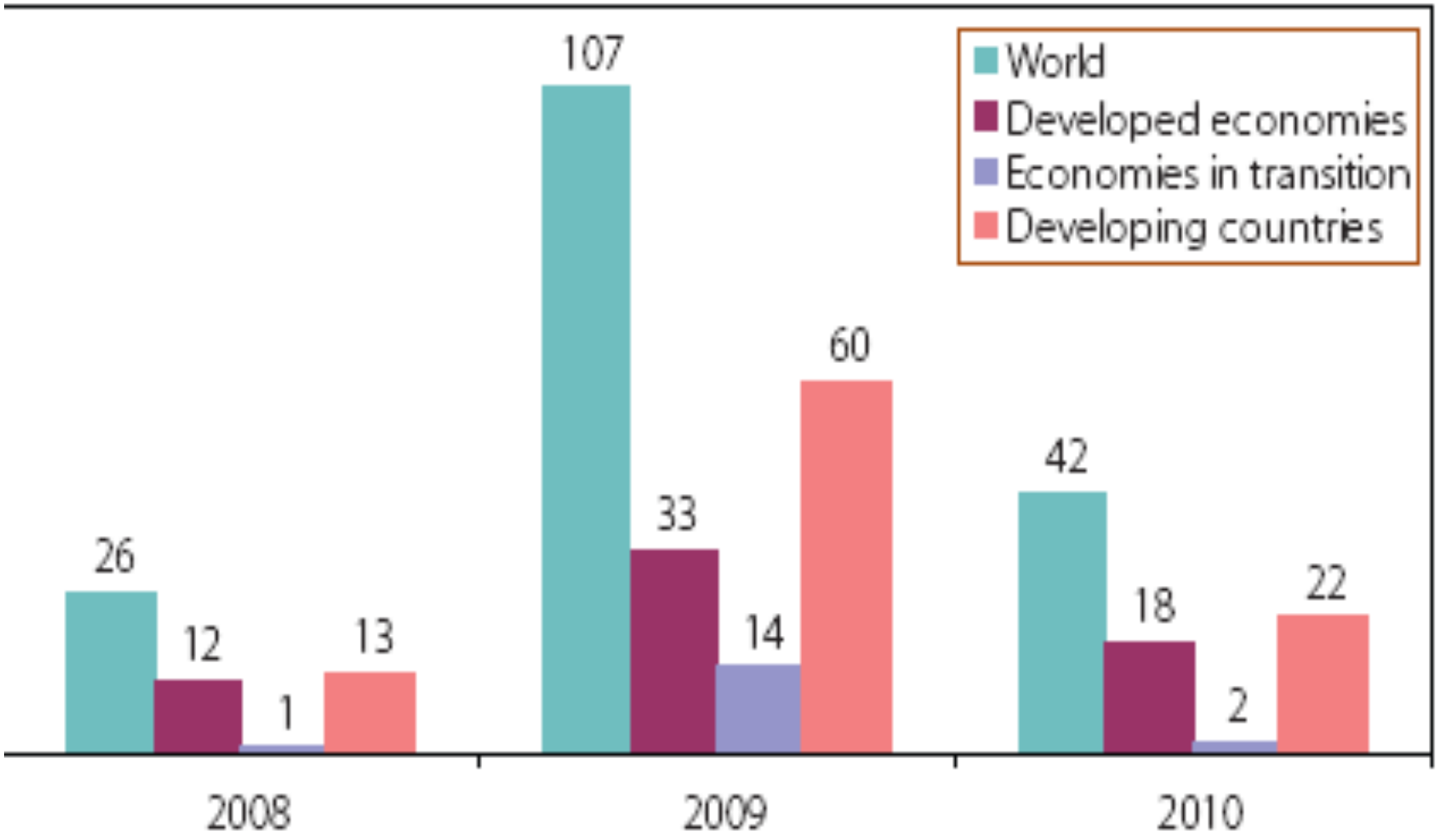
Global synchronicity in GDP changes



Number of countries with declines in GDP per capita



- Developing countries are disproportionately hit by crisis.
- This is true even of those who did not really benefit from previous boom, and of sections of population within growing countries who did not benefit.
- Crisis responses (especially fiscal stimuli) are asymmetric, and governments many crisis-affected developing countries and emerging markets do not have the capacity to engage in effective countercyclical policies.


Chart 2: World trade in goods and services
(per cent change per year)
15
10
5
0
-5
-10
-15
6.3
4.3
4.6
3.7
9.2
9.6
7.2
10.3
4.6
5.8
12.2
0.3
3.5
5.4
10.7
7.7
9.2
7.2
3.3
-12
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009

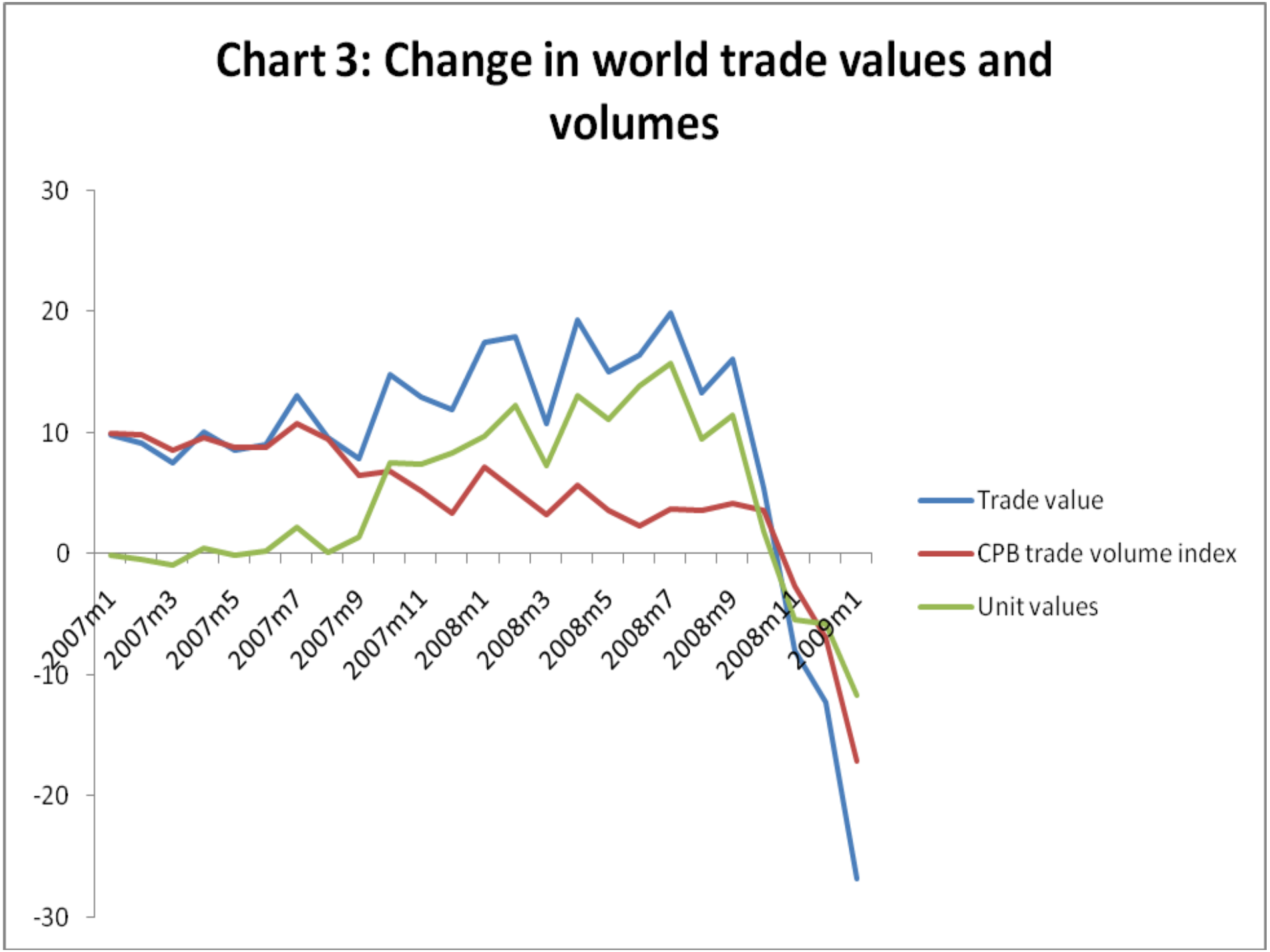


Chart 3: Change in world trade values and volumes
30
20
10
0
-10
-20
-30
2007m1
2007m3
2007m5
2007m7
2007m9
2007m11
2008m1
2008m3
2008m5
2008m7
2008m9
2008m11
2009m1
Trade value
CPB trade volume index
Unit values

One mechanism for decline in export unit values is exchange rate devaluation.

- Involuntary process reflecting the movements of highly mobile capital, the impact of finance capital flowing back to the US and Europe.
- Capital flows have shown very sharp reversals away from developing countries
- Portfolio investors began repatriating capital back to the US and other Northern markets, because of the need to cover losses that were incurred in sub-prime mortgages and to ensure liquidity for transactions.
- Financial protectionism in North: external commercial borrowing by all developing countries as a group turned negative in the last quarter of 2008.
- Quick reductions in official development assistance to poor countries, which is known to be procyclical.

Remittance incomes

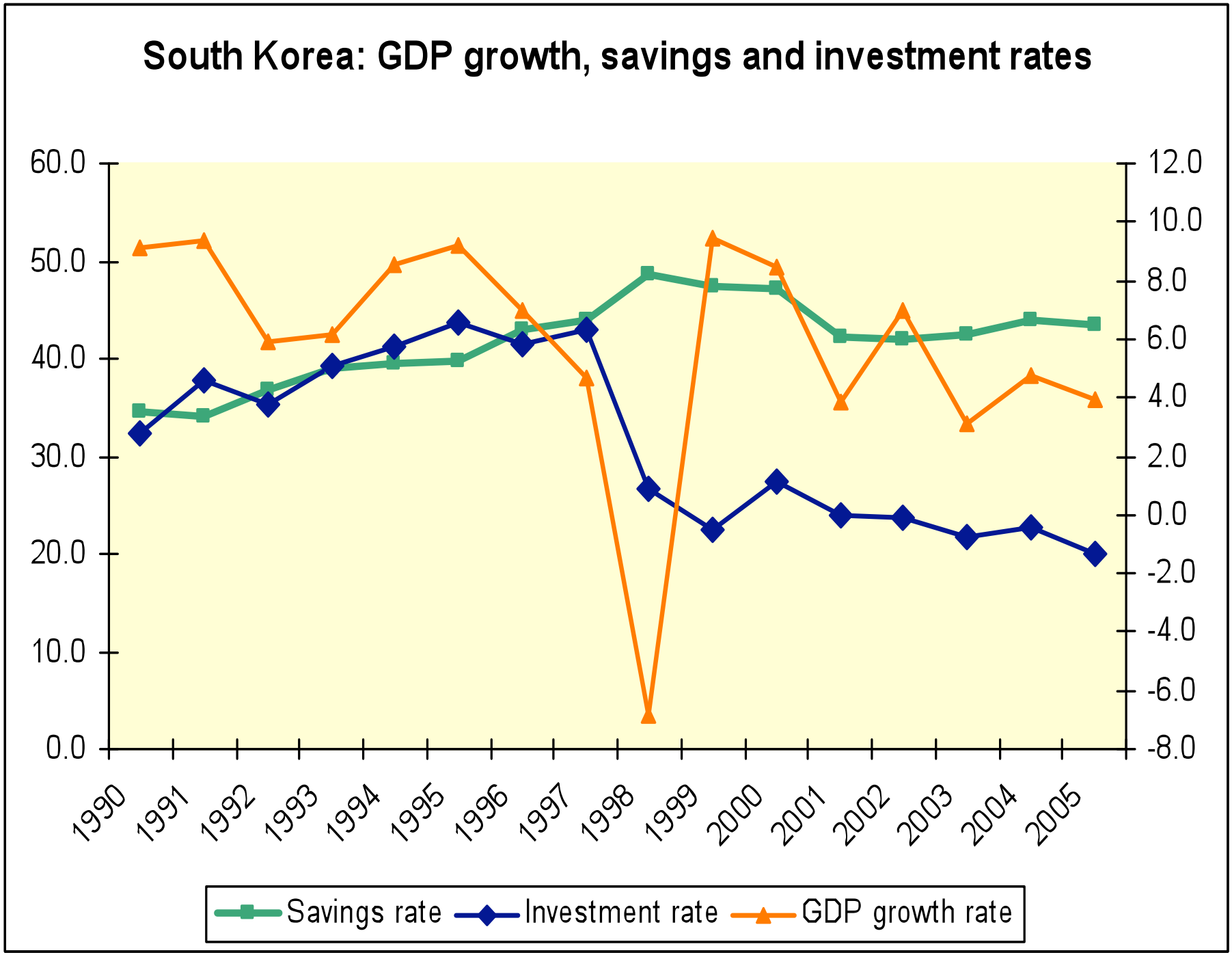
- Already evidence of declining remittances from some countries that relied strongly on them.
- But pattern is more complex and also depends upon the gender dimension of migration.
- Less incentive for migrants to return when conditions in home labour market are also deteriorating even further.
- Female migrants workers' incomes are more stable over the cycle and do not immediately rise or fall to the same extent. (Philippines, Sri Lanka).
- Lag in reduction of remittances because workers who lose their jobs abroad and return home tend to bring their accumulated savings, and this windfall effect initially more than compensates for the fall in the remittance flows resulting from lower overseas employment.

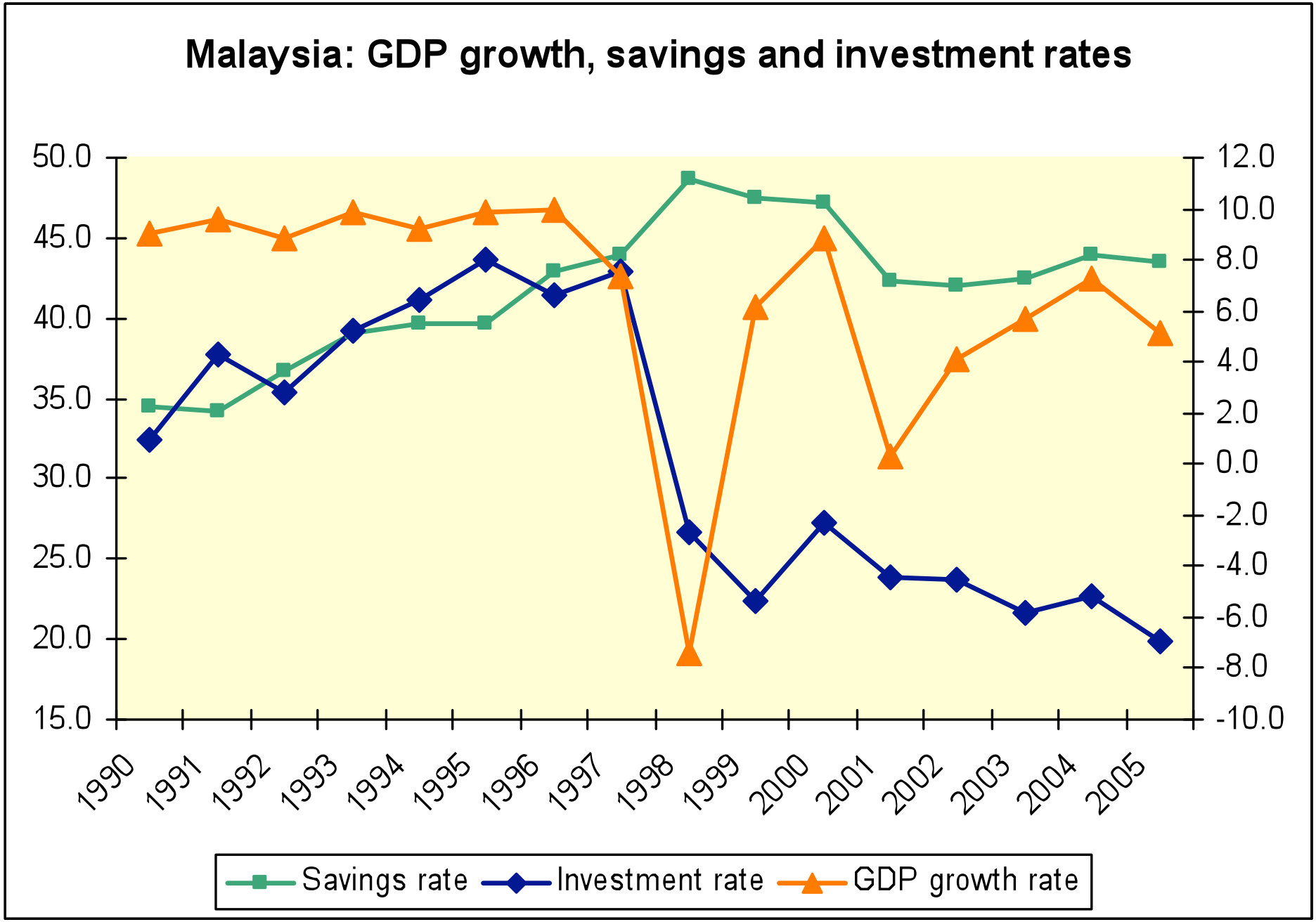
Impact of crisis

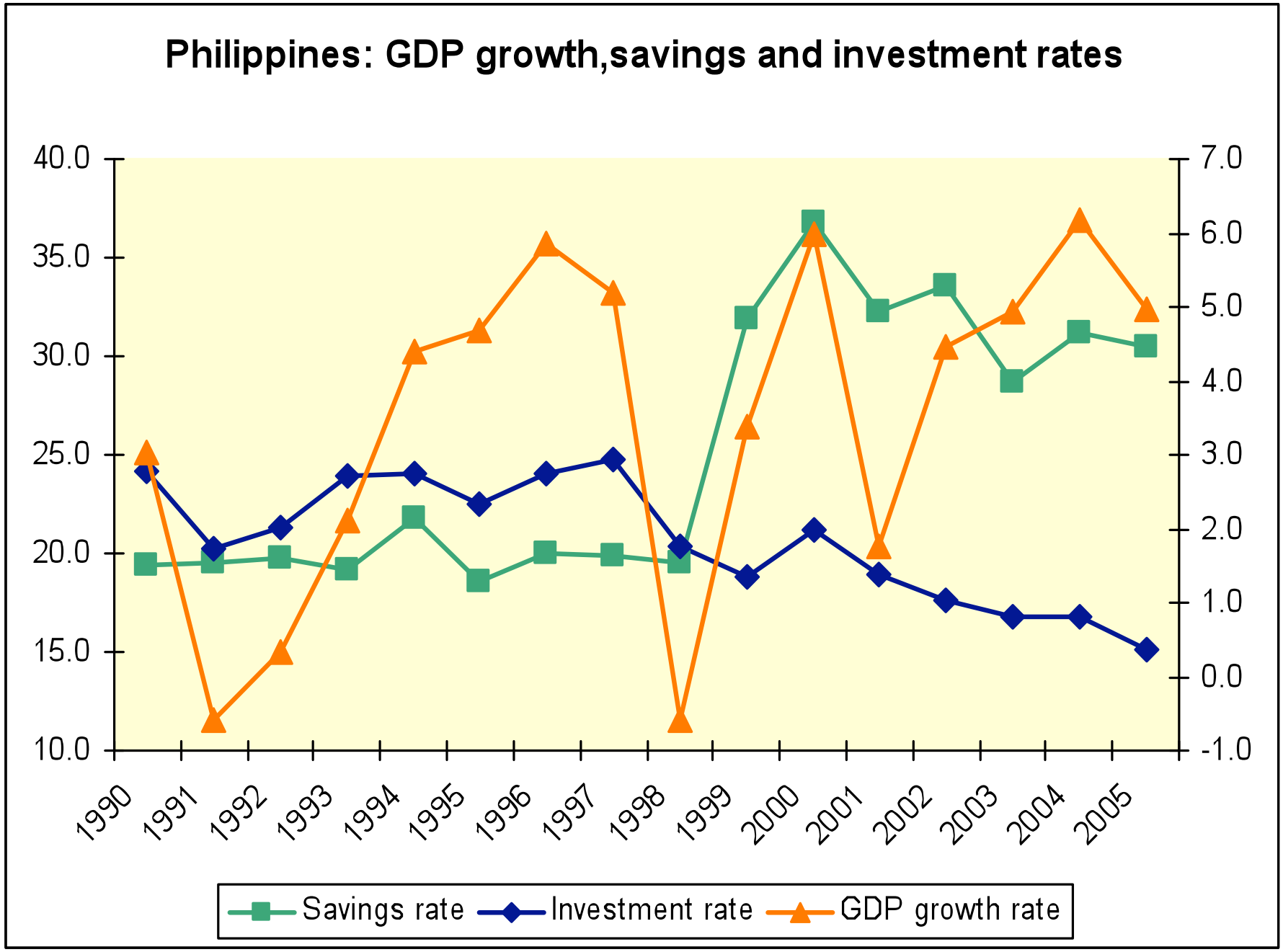
- Retrogression in production systems and employment patterns
- Employment (newly unemployed, reduced work prospects of informal workers, youth unemployment, external and internal migrants)
- Wage rates
- Agrarian crisis
- Food security
- Health
- Education of children

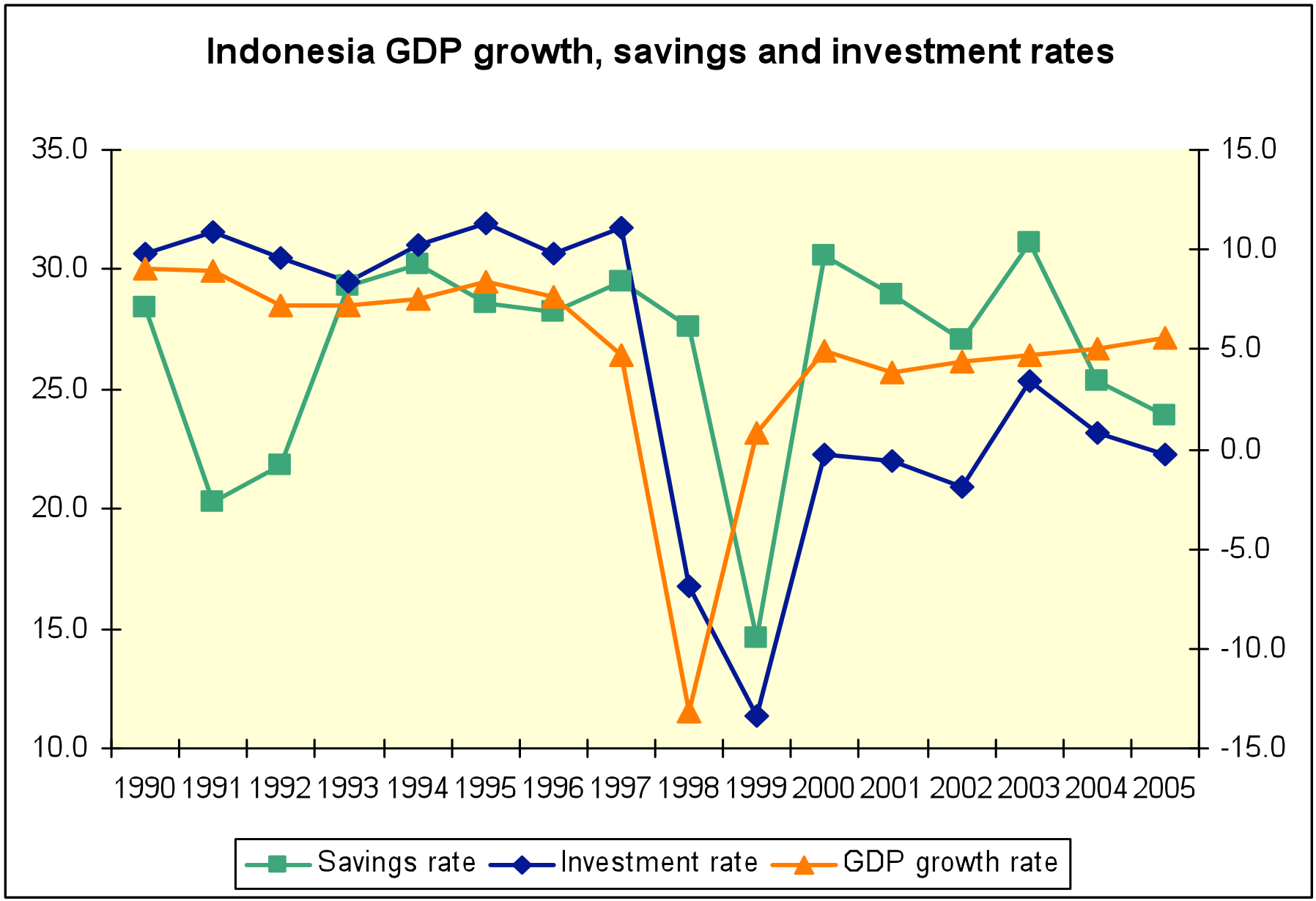
What have we learnt from past crises?

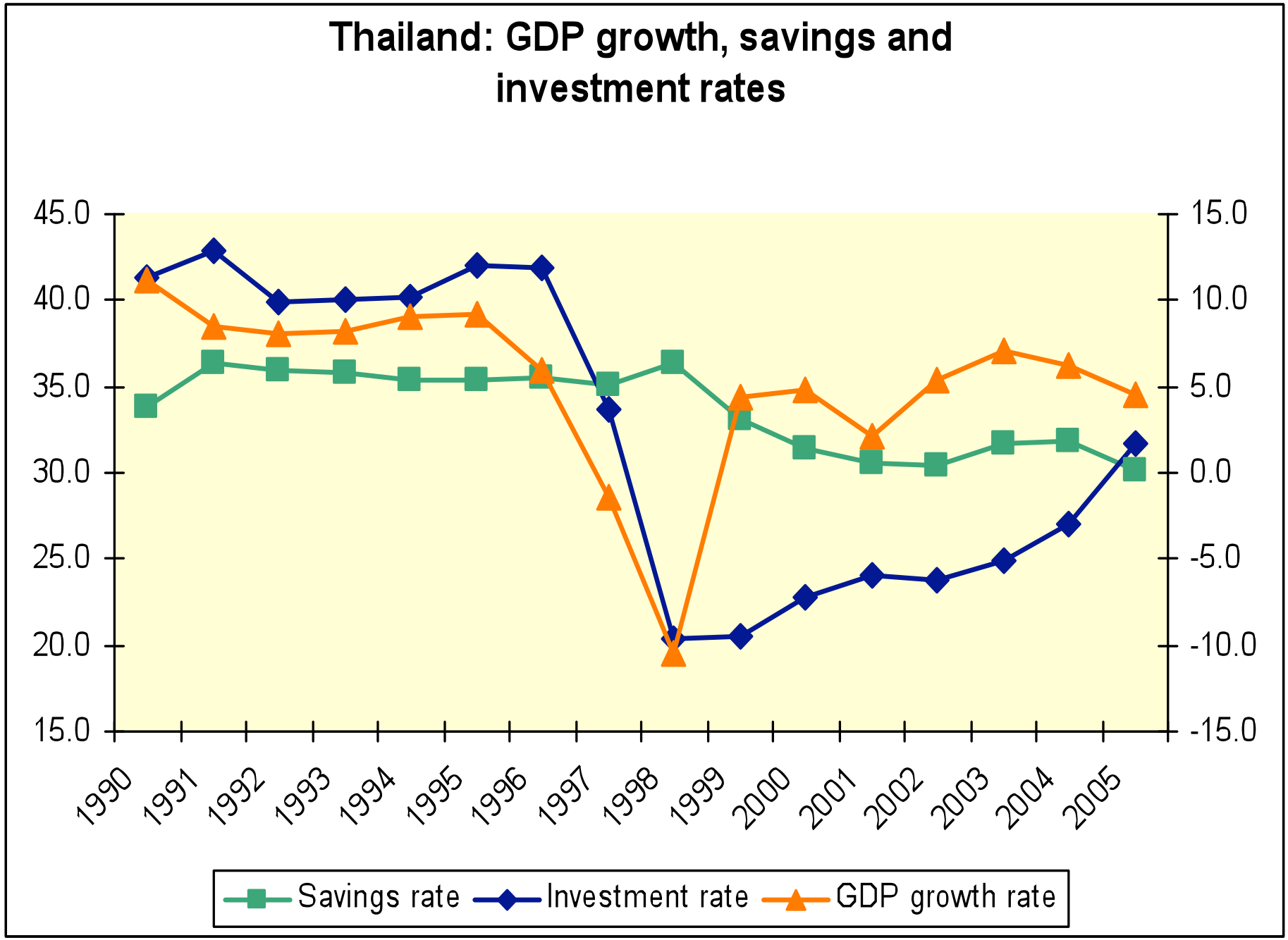
- Crises can cause changes in growth strategy and trajectory, which need not be positive.
- After the Asian crisis of 1997-98, investment rates collapsed and savings rates rose (related to income distribution changes and fiscal stance).
- This accentuated the direct effects of crisis by reducing crucial public expenditure.

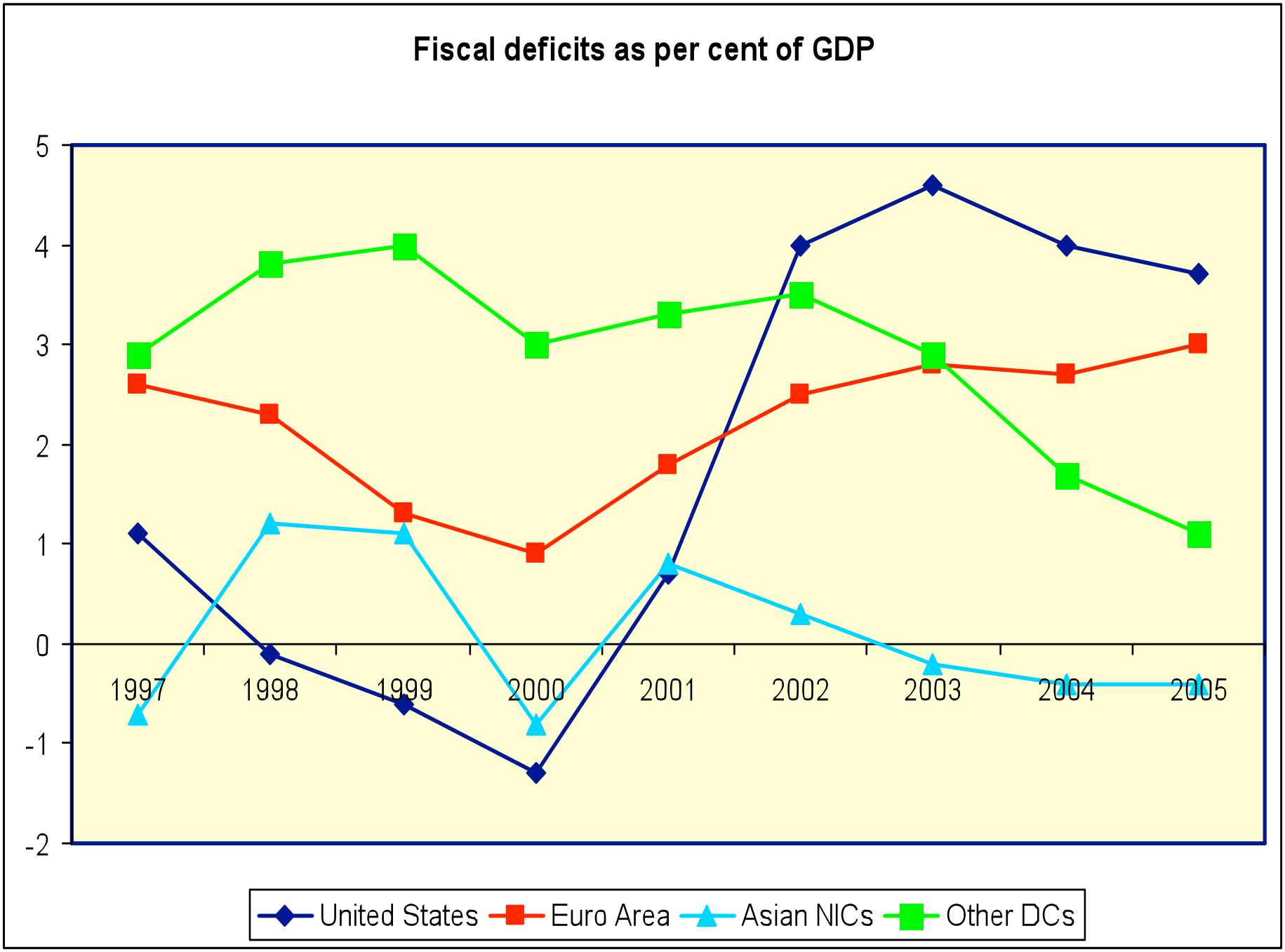

South Korea: GDP growth, savings and investment rates
60.0
50.0
40.0
30.0
20.0
10.0
0.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Savings rate
Investment rate
GDP growth rate


Malaysia: GDP growth, savings and investment rates
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Savings rate
Investment rate
GDP growth rate


Philippines: GDP growth,savings and investment rates
40.0
35.0
30.0
25.0
20.0
15.0
10.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
-1.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Savings rate
Investment rate
GDP growth rate


Indonesia GDP growth, savings and investment rates
35.0
30.0
25.0
20.0
15.0
10.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Savings rate
Investment rate
GDP growth rate


Thailand: GDP growth, savings and investment rates
45.0
40.0
35.0
30.0
25.0
20.0
15.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Savings rate
Investment rate
GDP growth rate


Fiscal deficits as per cent of GDP
5
4
3
2
1
0
-1
-2
1997
1998
1999
2000
2001
2002
2003
2004
2005
United States
Euro Area
Asian NICs
Other DCs

So how can this crisis be a blessing in disguise?

- Previous boom was fundamentally based on inequality within and between countries, including gender inequality.
- Internationally, South subsidised North through cheap exports, net capital flows (to US), cheap labour (migration driven by economic distress at home).
- Nationally, workers subsidised capital in a variety of ways, as debt replaced wages in the US and UK, and wages/peasant incomes stagnated or fell in "booming" developing countries like India and China.
- Exploitation of female labour (paid and unpaid) was critical element of this.
- In addition to unsustainable global imbalances, the boom was also associated with rapacious and unsustainable patterns of production and consumption, even by the elite in developing countries.

Opportunity for changed economic strategies

- Crisis of neo-liberalism and "efficient markets" hypothesis.
- Acceptance of need for Keynesian fiscal stimuli (despite dual standards of IMF).
- Opportunity for changed patterns of international trade and capital flows
- Opportunity for wage-led growth.
- Emphasis on certain kinds of public spending – food distribution, health, education.

Male breadwinner bias inherent in many "progressive" policy responses

- Allowing male heads of households to determine the nature and content of assistance received
- Promoting male employment through nature of employment schemes
- Not recognizing the crucial productive role of women in agriculture and the informal sector
- Expanding basic public services through use of underpaid women.
- Not recognising the growing burden of unpaid work performed by women in the context of crisis.