THE GREAT RECESSION AND THE DEVELOPING WORLD

JOSÉ ANTONIO OCAMPO
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FIVE PHASES OF THE CRISIS

- Ag 07/Mar 08: Crisis in the market for asset-backed securities
- Mar-Sept 14 08: Growing distrust in financial agents after collapse of Bear Stearns.
- Sept 14-March 08: Global financial and economic collapse
- 2nd and 3rd quarters 09: “Green shoots”
- Since 4th quarter 09: the return of global imbalances

The developing countries largely escaped the first two phases, were severely affected by the third, and had diverse outcomes during the fourth and fifth.
INDUSTRIAL PRODUCTION (1)
WHY WAS THIS NOT A GREAT DEPRESSION?

- Adoption of the most massive Keynesian package in history, by developed and several developing countries (with great diversity).
- Massive financial bailouts (helped to avoid further recession, but have not contributed to the recovery)
- Existence of an alternative engine: a large economy (China) that the space and willingness to adopt strongly expansionary policies.

... but risks are still present!
THE TRANSMISION OF THE CRISIS

- Remittances: affected migrants to the US, Europe and Russia, not the Gulf countries, and mainly small economies.
- Financial conditions generated a sharp but short effect, that affected mainly middle-income countries.
- The trade shock (in volume and price terms) has been more severe, and affected all countries.
## COUNTRIES SEVERELY AFFECTED BY FALL IN REMITTANCES

<table>
<thead>
<tr>
<th>Country</th>
<th>Impact % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tajikistan</td>
<td>-14.2%</td>
</tr>
<tr>
<td>Moldova</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Armenia</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Honduras</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-1.7%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Georgia</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Tonga</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Morocco</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Haiti</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Guyana</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>
THE FINANCIAL SHOCK WAS STRONG BUT RELATIVELY SHORT (1)

Emerging Markets' Spreads and Yields, 1998-2010

Spreads

Yields

1-Jan-98  1-Jan-99  1-Jan-00  1-Jan-01  1-Jan-02  1-Jan-03  1-Jan-04  1-Jan-05  1-Jan-06  1-Jan-07  1-Jan-08  1-Jan-09  1-Jan-10
THE FINANCIAL SHOCK WAS STRONG BUT RELATIVELY SHORT (2)
WORLD TRADE COLLAPSED, AND HAS NOT FULLY RECOVERED (1)
WORLD TRADE COLLAPSED, AND HAS NOT FULLY RECOVERED (2)
THE TRADE SHOCK HAD DIVERSE EFFECTS ACCORDING TO SPECIALIZATION PATTERNS

-15.00
-10.00
-5.00
0.00
5.00
10.00
15.00

All Developing Countries
Energy (>40%)
Mineral (>40%)
Agricult. (>40%)
Manufact (>50%)
Diversif.

2001-07
2008
2009
2010

2001-07
2008
2009
2010

-15.00
-10.00
-5.00
0.00
5.00
10.00
15.00

COUNTER-CYCLICAL POLICIES

- Greater policy space thanks to improvements in external balance sheets of countries (except in Central and Eastern Europe)

- This was reflected in reduction in interest rates and reserve requirements, and foreign exchange interventions.

- Public sector banks played a positive role, high dependence on external funding for banks a very negative one.

- The fiscal space was also used by many, but not all countries. East Asia and the Gulf were aggressive; South Asia went ahead despite weak fiscal situation; Latin America and Africa are more mixed stories.
THE OUTCOMES

- Two types of economies were severely affected:
  - Manufacturing exporters
  - Countries with weak financial conditions
- The regions with relatively large poverty levels (South Asia and Sub-Saharan Africa) did relatively well.
- Counter-cyclical policies had stronger effects on large economies.
REGIONS WITH GOOD OR FAIR PERFORMANCE

- China
- South Asia
- Africa
- Western Asia, excl Turkey
- Turkey

2003-07
2009
REGIONS WITH POOR PERFORMANCE

- East Asia, excl. China
- Latin America
- New EU members
- Transition Economies

2003-07
2009
SOCIAL OUTCOMES

- Around 80 million additional indigents, relative to a situation of continued growth.

- This does not affect much the MDG targets.

- Unemployment effects have been very diverse, largely concentrated in transition economies and, to a lesser extent, Latin America. Loss of employment in manufacturing exports was very important worldwide.

- Informal employment/working poor, and the lack of social protection are more important issues in developing countries.
WITH FEW EXCEPTIONS, GAINS IN REDUCING THE WORKING POOR WERE REVERSED
THE MULTILATERAL RESPONSE

- Strong bias of the G-20 towards funding the IMF, and middle-income countries.
- Major reforms of IMF credit lines in March 2009.
- Multilateral development banks also responded, but more commitments than disbursements.
- Official support ($50b net) was small relative to the reduction in private flows (-$331b excluding FDI)
- Fall in ODA, from $120 in 2008 to $107 billion in 2010.
WORLD BANK: LARGE INCREASE IN COMMITMENTS, LIMITED DISBURSEMENTS

- IBRD and IDA commitments
- Gross disbursements
- Net Flows in repayments & interest

<table>
<thead>
<tr>
<th>Region</th>
<th>2004-08 Average</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America &amp; Carr.</td>
<td></td>
<td></td>
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<tr>
<td>East &amp; Central Europe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MENA</td>
<td></td>
<td></td>
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</tbody>
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2004-08 Average: 2009

-3,000  -1,000  1,000  3,000  5,000  7,000  9,000

# ODA FALLS

<table>
<thead>
<tr>
<th></th>
<th>ODA (Million dollars)</th>
<th>2008</th>
<th>2010</th>
<th>2010 vs 2008</th>
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<tbody>
<tr>
<td></td>
<td><strong>Current Projection</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total DAC countries</td>
<td>119,759</td>
<td>107,401</td>
<td></td>
<td>-12,359</td>
</tr>
<tr>
<td>Total EU</td>
<td>70,168</td>
<td>62,009</td>
<td></td>
<td>-8,159</td>
</tr>
<tr>
<td>Japan</td>
<td>9,362</td>
<td>9,546</td>
<td></td>
<td>184</td>
</tr>
<tr>
<td>United States</td>
<td>26,008</td>
<td>24,705</td>
<td></td>
<td>-1,304</td>
</tr>
<tr>
<td>Others</td>
<td>14,221</td>
<td>11,141</td>
<td></td>
<td>-3,080</td>
</tr>
</tbody>
</table>
RETHINKING THE PARADIGM

- Mainstreaming counter-cyclical policies.
- Time to look back at the domestic market, even to inward-looking strategies?
- Since this has a bias in favor of large countries, a role for regional integration.
- Placing employment generation at the center of all macro policies
- And creating or improving social protection systems
MAJOR GLOBAL ISSUES

- How to avert early withdrawal of stimulus, and stable reform of finance.
- If China is going to lead, how is it going to disseminate its growth to other economies?
- Disorderly capital flows towards developing countries: the time to go back to capital controls?
- Who is going to give confidence that countries running current account deficits would not face problems in the future?
- How are the benefits from the new world growth pattern to be shared?
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