The industrialised nations' crisis response – how does it affect developing nations?

After the onset of international financial crisis there was the hope that the crisis could be used as an opportunity to radically reform the international economic system. But the internationally coordinated response to the crisis has not met expectations.

One year after the onset of the global financial and economic crisis, marked by the failure of the Lehman Brothers investment bank on 15 September 2008, it seems that the worst is over. The IMF expects that the global economy will grow by 2.5 percent again in 2010. Economic growth of 4.7 percent is forecast for developing countries; for Africa, 4.1 percent. This is lower than in the years leading up to the crisis and it can be expected that the global drop in demand (primarily in the industrialised nations), weak international trade (which nosedived by 12 % in 2009) and worsening financing conditions will slow growth in developing countries for several more years.

The industrialised nations are focused primarily on their own needs. Looking back at the months of acute crisis management, there was a lack of willingness to act in the collective interest, primarily in the EU, but also in the G 8 and in the suddenly relevant G 20. Despite the wholehearted rhetoric in the final declarations at the various crisis summits, so far relatively little has been realised jointly. What has actually been done? The IMF and multilateral development banks have received more capital, primarily for middle income developing countries to compensate for a reduction in private capital inflows. And lastly, the large emerging countries have been given, due to the G 20 rising in prominence and their involvement in the Financial Stability Board, more opportunities to be involved.

In contrast, the bailout of banking systems was tackled on a national level due to competition among industrialised nations. For this same reason uniform regulatory standards for capital markets and the elimination of tax havens are not to be expected for the time being. The economic stimulus plans were not coordinated and the solution to long-term structural problems in the global economy – macroeconomic imbalances and the dysfunctional monetary system – is not yet in sight. The main players – the United States, Europe, China – are too busy with national problems to leverage the necessary political capital for a greater degree of global cooperation. For the reforms that have been planned for the Bretton Woods institutions, the United States and Europe appear to have agreed upon a blocking strategy: Neither the American veto nor European overrepresentation will be brought into question for now.

Peter Wolff
German Development Institute (DIE)
Bonn, Germany
Peter.Wolff@die-gdi.de

What does this mean for developing nations? It has become apparent that large developing nations – China, India, Brazil – have weathered the crisis relatively well and as a result can continue to expand their positions on the global economic stage. This is relevant for the poorer developing countries because this will provide them with new partners for trade, investments and development. The appeals, for example from World Bank president Zoellick, to use a small portion of the economic stimulus money in developing countries was applauded but there is only a little willingness to pay. The poorer countries cannot rely on the fulfilment of pledges made by the G 8 either to increase aid for Africa to 50 billion US dollars by 2010. So far in 2009 it appears only half of the necessary increase has been achieved. However, aid for Africa from industrialised nations has grown and the pledge made by the G 8 in L'Aquila in July 2009 to invest USD 20 billion over the next three years in rural development in poor nations is at least an important signal which emerging nations and international organisations are apparently also going along with.

But, as always, the basic principle that funds can only be effectively deployed when the general conditions, incentives and strategies in the poor countries are appropriately structured also applies here. A cursory glance at the very slow reforms in rural development in Africa inspires some scepticism. Even when the poor countries correctly point out that the industrialised nations are to blame for the crisis and the poor countries deserve some degree of compensation, it would be misguided to believe the crisis would attract more outside aid. Instead of criticising the donors for not meeting their obligations, the African governments are called on to submit at least somewhat coherent programs for rural development. In several years it will be clear that the countries that took advantage of the opportunity for internal reforms are better off.