



Overseas Development  
Institute

# **The global financial crisis and developing countries** *synthesis of 10 country study*

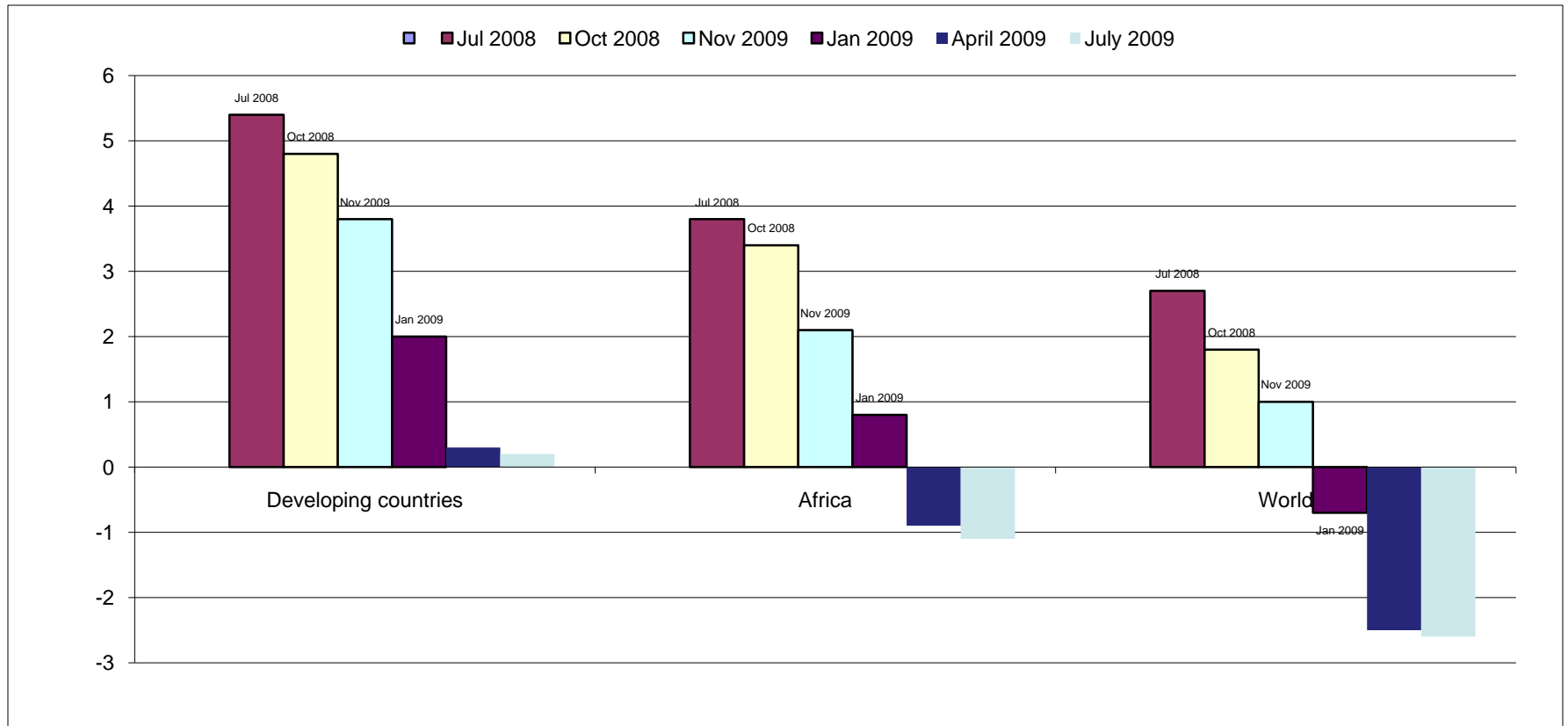
**Dr Dirk Willem te Velde**  
**Overseas Development Institute**

**ODI meeting:**  
**The global financial crisis and developing Asia**  
**14 July 2009, London**

# Outline

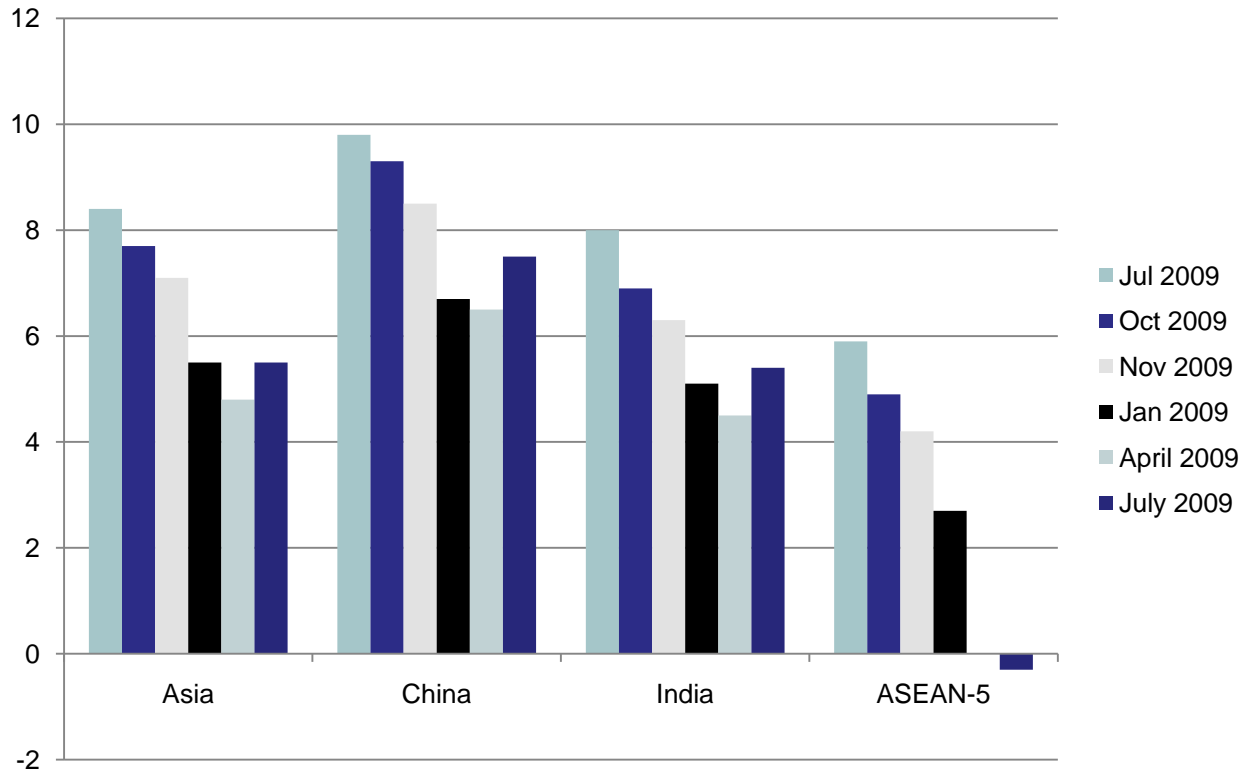
- ❑ The global financial crisis has also hit developing countries; regional effects
- ❑ Transmission belts and examples from a 10 country case study
- ❑ Effects on development and policy responses

# Revisions in GDP per capita forecasts for 2009 (IMF)



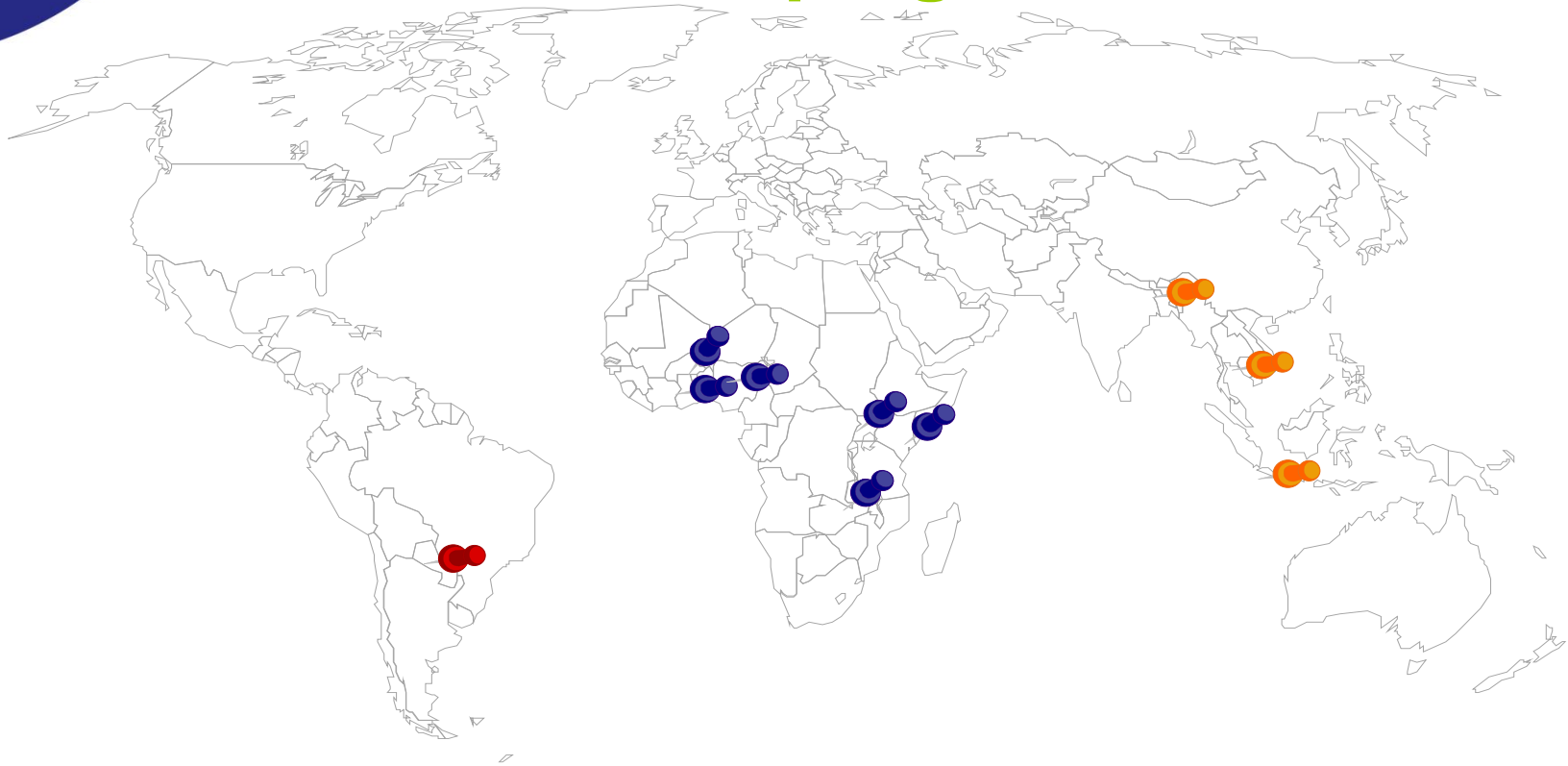
Serious effects in all regions, but different effects in different countries.

# Revisions in GDP forecasts for 2009 (IMF) in Developing Asia



Note: India/China vs other Developing Asia in the most recent forecast  
BRICs doing better than small/low income ?




# The global financial crisis and 10 developing countries



**ODI project on the**

**THE GLOBAL FINANCIAL CRISIS AND  
DEVELOPING COUNTRIES**

**LEGEND**

-  Asia: Indonesia, Cambodia and Bangladesh
-  Latin America: Bolivia
-  Africa: Benin, Ghana, Nigeria, Uganda, Kenya, Zambia

# ODI used its network of researchers

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# ODI's monitoring methodology

## Global shock

Unprecedented in decades

## National shock

(Same transmission belts, different effects:

Private capital flows, trade, remittances, aid)

## Macro – effects

(differs: growth, development and fiscal space )

## Policy responses

(range from pro-active to “business as usual”)

Short-term (economic and social), long-run (economic)

# What affects the vulnerability of countries?

## FINANCIAL

- Countries with *sophisticated, weakly regulated banking sectors / stock markets*;
- Countries with a *high share of foreign-owned banks and foreign assets*;
- Countries *dependent on external private capital flows* (e.g. FDI, portfolio);

## REAL

- Countries with a *significant share of exports to crisis-hit advanced economies*;  
Economies with concentrated exports in a few *commodities*
- Countries *exporting commodities whose prices have dropped or products and services with high income elasticity of demand* (eg tourism);
- Countries *heavily dependent on remittances*
- Countries *dependent on aid*.

# Who is likely to be less resilient?

## “INSURANCE”

- Countries with a *high current account deficit* with pressures on exchange rates and inflation rates,
- Countries with *low reserves*;
- Countries with *high government deficits and weak fiscal balances*;
- Countries with *high external debts*;

## “COPING”

- Countries with *weak policy implementation capacity and weak institutions (e.g. state business relations)*;
- Countries *lacking social protection nets*.

# Transmission belt (1)

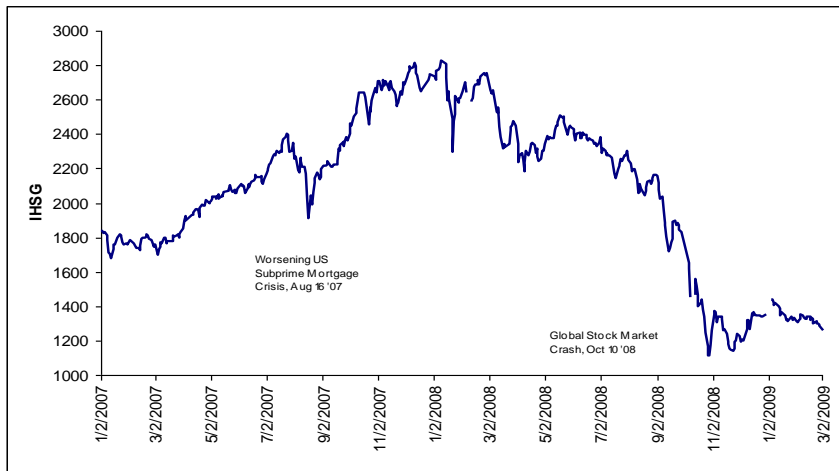
## *Private financial flows*

- ❑ Stock market declines everywhere (30-50% since start GFC)
- ❑ Portfolio investment flows badly affected in late 2008
- ❑ FDI has been more resilient; but plans put on hold
- ❑ Ghana, Benin and to some extent Zambia have experienced decreases in both FDI *and* portfolio investment inflows.
- ❑ Bond issuances put on hold in Ghana, Kenya, Uganda
- ❑ There is little evidence so far of a drop in banks' international claims, but some countries are vulnerable

# Transmission belt (1)

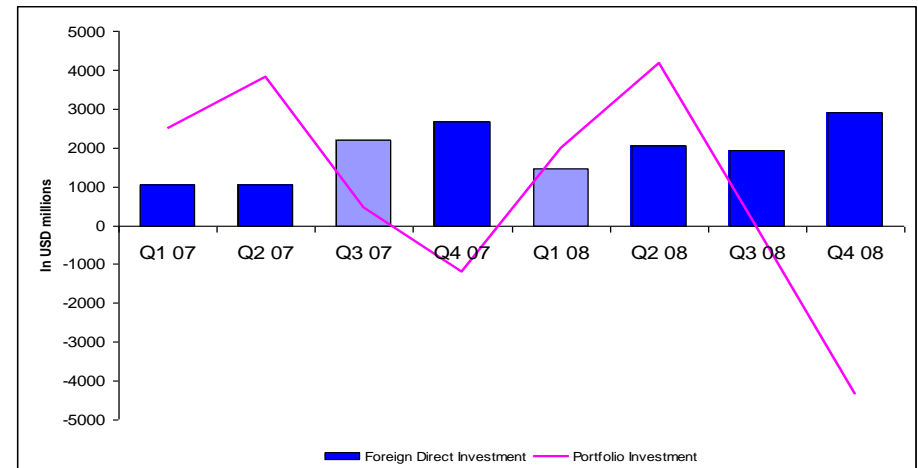
## Portfolio flows and stock markets

### Indonesia: Stock exchange index, 2007-2009



Source: Uganda Country Case Study

### Indonesia: FDI and portfolio investment, 2007 and 2008 (US\$m)



Source: Indonesia Country Case Study

Less so and later in Bangladesh (but more in Africa)

# Transmission belt (2)

## *Trade – different shocks*

- ❑ Open countries (Cambodia, Ghana, Uganda, Zambia) and more protected countries (Bangladesh, Nigeria).
- ❑ Different types of **export shocks**
  - ❑ **Commodity** price shock affecting Nigeria, Bolivia, Benin, Zambia, but also Uganda, Ghana, and Kenya
  - ❑ **Manufacturing** volume shock (e.g. garments), affecting Cambodia, and to some extent, Bangladesh
  - ❑ **Tourism** receipt shock (Kenya, Cambodia, Zambia)
  - ❑ **Multiple** shocks of declining commodity prices and lower demand for simple manufactured, affecting Indonesia.
- ❑ **Import** shocks (lower oil prices in Bangladesh, Kenya)

# Transmission belt (2)

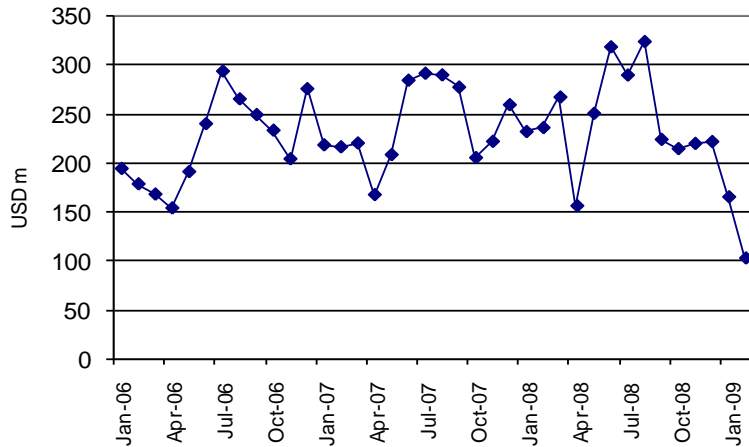
## *Trade – export concentration*

Country	Products affected	Combined share of total exports (three latest years reported)
Bangladesh	Garments	75.6%
Benin	Cotton	68.6%
Bolivia	Natural gas	48.0%
Cambodia	Garments (HS61/62)	86.0%
Ghana	Gold, cocoa	61.1%
Indonesia	Crude oil, palm oil, natural rubber, aluminium, woven female clothing, cocoa, coffee, copper	24.2%
Kenya	Flowers, vegetables, coffee	20.3%
Nigeria	Crude oil	93.0%
Uganda	Coffee, gold, flowers, cotton	39.2%
Zambia	Copper	67.6%

Source: Comtrade and ITC (for ) and country sources ( )

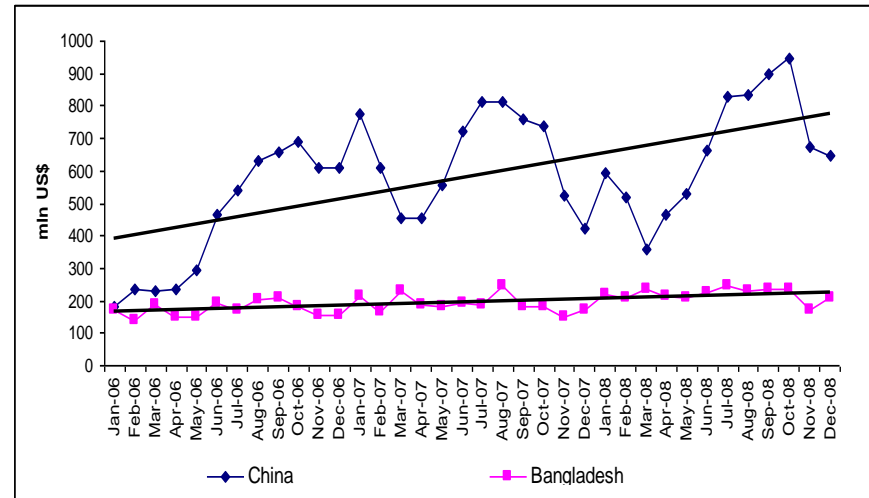
# Transmission belt (2): Trade Value Garments in Cambodia vs Bangladesh

Cambodia garments exports mn USD



Source: MOC March 6, 2009

US imports (mn USD)



**Walmart effect:** Bangladesh sells cheap products to US, Cambodia is already in a slightly higher niche and hence more vulnerable

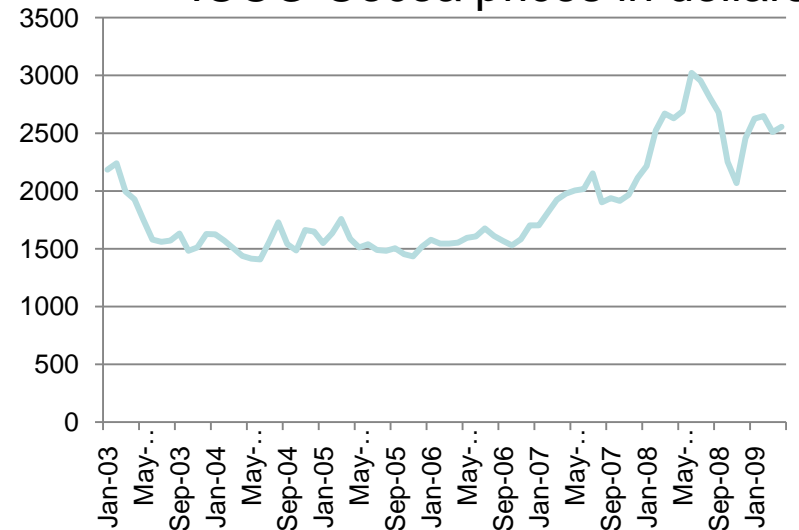
# Trade prices

## Copper vs cocoa/gold prices

Copper prices LME in dollars



ICCO Cocoa prices in dollars



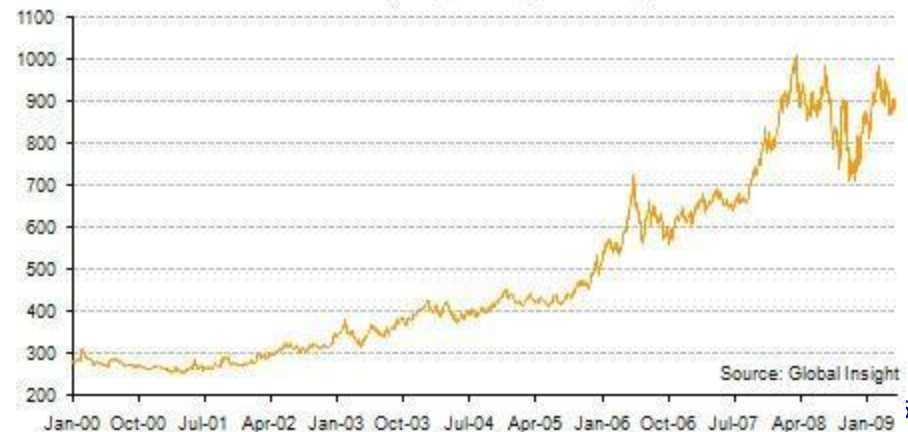
### Zambia/DRC vs Ghana

- Export concentration matters
- Price changes matter
- Volume changes matter

### It is different in Asia:

- manufacturing shutdown in MICs

Gold price, dollar per ounce, London PM fix



Source: Global Insight

# Transmission belt (2)

## *Trade prices matter*

### US imports – by country

	2009 Q1/2008
	Q1
Total, all countries (A-15)	-30.5%
Europe	-27.2%
Canada/6/	-38.2%
Latin America and Other Western Hemisphere	-29.8%
<b>Asia and Pacific</b>	<b>-21.6%</b>
<b>Australia</b>	<b>-9.3%</b>
<b>China</b>	<b>-10.9%</b>
<b>Hong Kong</b>	<b>-47.9%</b>
<b>India</b>	<b>-21.8%</b>
<b>Indonesia</b>	<b>-11.1%</b>
<b>Japan</b>	<b>-41.5%</b>
<b>Korea, Republic of</b>	<b>-17.6%</b>
<b>Malaysia</b>	<b>-37.0%</b>
<b>Philippines</b>	<b>-26.2%</b>
<b>Singapore</b>	<b>-25.4%</b>
<b>Taiwan</b>	<b>-26.0%</b>
<b>Thailand</b>	<b>-23.9%</b>
<b>Other</b>	<b>-7.2%</b>
Middle East	-53.0%
Africa	-56.7%
Members of OPEC	-61.8%

Source: BEA

### US imports – by product

	2009m1-m4/ 2008m1-m4 %
Platinum	-77.5%
Crude oil	-55.1%
Nickel	-54.9%
Copper	-53.0%
Gem diamonds	-52.2%
Natural gas	-50.6%
Vehicles	-50.5%
Liquefied propane and butane	-49.9%
Petroleum preparations	-49.6%
Aluminum	-34.7%
Metalworking machines	-34.2%
Electrical machinery (4)	-26.7%
Iron and steel mill products	-20.7%
Textile yarn, fabric	-20.2%
Clothing	-10.8%
Toys, games, and sporting goods	-9.9%
Footwear	-8.3%
Gold, nonmonetary	-4.3%
Rice	6.9%
Sugar	20.3%
Cigarettes	37.3%

# Transmission belt (3&4)

## *Remittances and aid*

- ❑ Remittances likely to decline due to lower emigration flows or stocks (Bangladesh, Cambodia). In Bangladesh, emigration fell by 38.8% between February 2008 and February 2009.
- ❑ Reduction of remittances in some countries. In Kenya, remittances were down 27% in January 2009, compared to January 2008, after a year of volatility.
- ❑ Some countries are more aid dependent (e.g. Bangladesh) than others (e.g. Kenya). Little evidence of a pull out by 09Q1

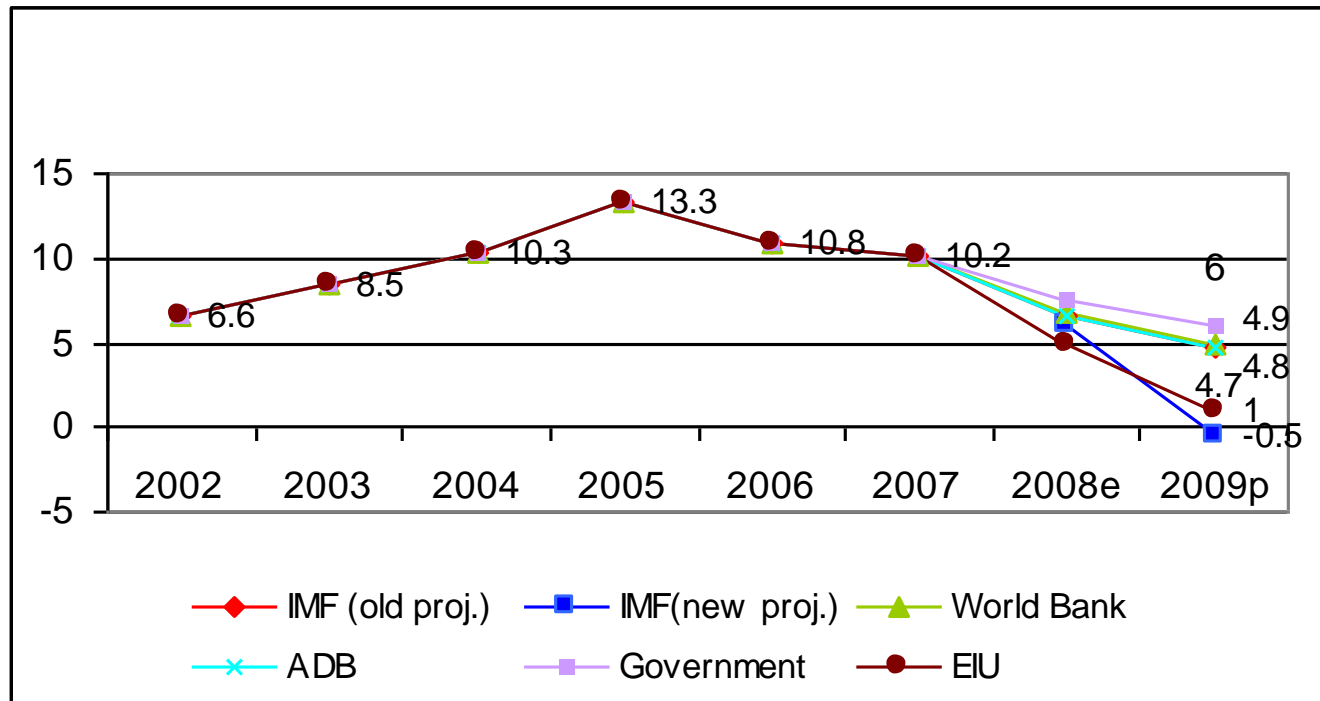
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# Growth effects

- Effects differ (e.g. vulnerability, openness, sectoral distribution, growth constraints). Cambodia from 10% to 0%



Source: Cambodia case study

# Development and poverty

- ❑ Significant job losses. Cambodia lost 51,000 garments jobs (around 15% of garment workers). 15,000 lost in construction. Zambia lost 8,100 (25%) of 30,000 mining jobs 2008.
- ❑ Remittances play a key role, but declining in countries
- ❑ Rural-urban shocks and gender challenges
- ❑ Possible Increase in number of poor due to GFC
  - 300,000 in Bangladesh (0.2% of the population);
  - 110,000 in Cambodia (0.8% of the population);
  - 233,000 in Uganda (0.8% of the population);
  - 230,000 in Ghana (1% of the population); and
  - 650,000 in Indonesia (0.3% of the population).
- ❑ Protests

# Economic/social policy responses differed

- ❑ Economic policy responses vary widely, from ‘business as usual’ to more pro-active approaches:
  - ❑ Implementing / accelerating long term growth policies (e.g. Cambodia); Implementing a fiscal stimulus (Indonesia, and now Kenya); Small monetary policy steps, not much else (e.g. Uganda).
- ❑ The institutional context (“resilience” differs). Some countries (e.g. Kenya, Ghana, Bangladesh, Nigeria) have established a global financial crisis task force.
- ❑ Social policy responses range from
  - ❑ Reducing social sector allocations (Nigeria) to upgrading social protection from low base (Cambodia), to expanding existing systems to need (Indonesia)

# Conclusions

- ❑ Developing countries hit. The same transmission belts (trade, private finance, aid, remittances) affected countries differently. Stresses visible.
- ❑ Real channels affected more than financial channels. But don't downplay financial flow issues either. And feedback loops!
- ❑ Development prospect already affected significantly, but need to better understand and monitor GFC effects and policy responses.
- ❑ Policy responses differ
  - ❑ Developing countries (e.g. set up task forces to assess and scrutinise responses; need for crisis-resilient growth strategies)
  - ❑ Developed countries (e.g. engage in rainbow fiscal stimulus abroad & stay open)
  - ❑ Multilateral organisations (e.g. Counter cyclical role, reform).

**Thank you**  
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Monitoring the global financial crisis and policy implications in  
developing and developed countries



A Development Charter for the G-20

March 2009

