

## The Global Financial and Economic Crisis and the South: What Have We Learned and Where Do We Go from Here?

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### **Introduction**

When the Council for the Development of Social Science Research in Africa (CODESRIA) convened an international conference in order to debate and analyse the impact of the global financial and economic crisis on the countries of the South, its purpose was to open some space for scholars from that region to share real experiences from their respective countries. The main objective of the conference was to discuss the nature of the crisis, its fundamental causes, its effects and impact of the different countries of the South. Critically, it was to analyse the ideological, policy and strategic implications of the crisis with respect to how these countries could and should approach their own development in the era of globalization which has accentuated their vulnerabilities to external shocks and crises. In terms of coverage, the studies looked at regional, national and sectoral perspectives. The experiences of Latin America and the Caribbean as a region and also in some specific countries were examined. A comparative study on Mexico and South Korea attempted to contrast the impact of the crisis on two countries with some similar characteristic features but coming from two different regions. Specific country experiences were presented, for example, the case of the Phillipines, Tajikistan, Afghanistan and Pakistan. From Africa, case studies were presented on specific sectors which had been worst affected by

the crisis, for example, the analysis of African stock markets, the impact of the crisis on the timber industry in Gabon, Cameroon and Congo-Brazzaville and also the case of the automotive, textile and clothing, and mining sectors in South Africa. The other studies explored alternative approaches which could assist countries of the South to reduce their vulnerabilities in the future. The detailed study on China emphasized the opportunity offered by South-South cooperation as a strategy to reduce dependence on primary commodities and on Northern markets. The chapter on Public-Private Partnerships (PPPs) in India was an attempt to demonstrate that markets alone or governments alone are not adequate to deal with the complexity of development. Rather, it called for strengthening of the role of both institutions in advancing a win-win situation because of the relative attributes of both.

Methodologically, with the exception of the empirical study of African stock markets, presented by Terfa Abraham, most of the studies were theoretical papers which were based on secondary data from the respective regions, countries or sectors.

The purpose of this chapter therefore is to summarize the key issues and debates emerging from the various studies. These include: the nature of and the root causes of the crisis and its effects on the different regions and economies of the South; the transmission channels and mechanisms by which the crisis affected them and, finally, the implications in terms of strategies and policies which the South should pursue in future in order to substantially reduce their risk and vulnerability to external shocks.

## **Conclusion**

The overwhelming evidence from all the regional and country-level studies presented in this volume shows that the global and financial crisis definitely had an effect on the economies of Latin America and the Caribbean, Africa and Asia. However, most of the authors indicated that the crisis was less severe as compared to previous crises. This is confirmed by Ocampo (2009:1) who also argues that although the crisis hit the region hard, it was less severe compared to previous episodes.

There is clear agreement that the crisis was sparked off by the collapse of the housing bond market in the United States and Europe and that, subsequently, the contagion effect then spread out to countries of the South particularly in the case of those that were more integrated in the economies of the North. The ultimate result of the crisis was a global recession marked by declining import demand from the world's leading economies where the crisis originated. In Africa, Latin America and the Caribbean, there was a slowdown in economic activity as commodity prices declined, particularly primary commodities. All this had negative effects on terms of trade for

commodity exporters, export earnings and the external current account, fiscal revenues and household incomes.

Whereas the popular view perceives the collapse of the US bond market as the root cause of the crisis which then affected the rest of the world through various channels, more critical perspectives in this volume attribute the crisis to structural factors. As argued by Bértrain and Campbell, for example, the crisis was a manifestation of the instability of the capitalist system, a reminder that in fact, this may not be last of such phenomena as long as the capitalist mode of accumulation continues to be the dominant ideological and political paradigm which dictates how economies should operate. Although there is general agreement that it was a global crisis, questions are raised about the 'wholesale' labelling of what occurred, as a 'global' crisis. Labelling the crisis as 'global' seems to make it a problem which originated globally and in which all countries are equally to blame whereas in fact, the United States was actually solely responsible. In the quest for lasting solutions, correct identification of the origins of the crisis is crucial. Other authors focus more on the effects of the crisis rather than on the debate on its globality or non-globality.

A running thread across most of the studies is a serious critique of neo-liberal policies which for decades have pushed for policies for the state to roll back its intervention in the economy. This was responsible for the deterioration in the regulation and supervision of the financial system which ultimately led to the crisis in the US bond market.

The volume also emphasizes the structural problems faced by some developing countries in Africa, arguing that the dominance of commodities in their exports and the continued dependence on Northern markets exacerbated their risks and vulnerability to external shocks.

The evidence presented also examines the transmission processes by which the crisis affected economies across the world. The channels were both financial as well as real. Financial channels included effects on banking and financial systems, stock markets, foreign direct investment flows, interest rates and exchange rates. It also includes changes in commodity prices, fiscal revenues and household incomes. Real channels included impact on production of goods and services, export and imports or trade, decline in commodity prices, terms of trade deterioration, job losses or retrenchments. Emerging markets with well-developed financial systems were initially mostly affected by cross-border financial linkages through capital flows, stock market investors, and exchange rates. In financially less-developed countries the growth and trade effects dominated, with lags. Transmission through real channels was clearly demonstrated in the studies on the timber industry in Cameroon, Gabon and Congo-Brazzaville and also the automotive, textile and clothing, and mining industries of South Africa. In all these countries, production, exports, and

export earnings were negatively affected due to the collapse of demand in the North. Job losses were also recorded in these countries. In some Latin American countries, Africa and the Philippines, the crisis adversely affected financial and capital markets. Equity prices fell in many parts of Latin America as hedge funds and other institutional investors cashed out of investments in emerging markets. In parts of Africa, stock markets became volatile, although impact varied among countries. In Tajikistan, Afghanistan and Pakistan, the crisis further destabilized a region which was already stressed with conflict. In South Africa, the impact was more pronounced in the real than financial sector. This is shown in the study of the automobile, textile and clothing, and mining sectors in South Africa. Production volumes, sales, exports volumes and earnings, government revenues and employment levels were in all cases negatively affected. In the study on Central Africa, it was shown how the impact was greater in the real sector, specifically, the timber industry in Congo-Brazzaville, Cameroon and Gabon, all of which are major timber producers and exporters. As a result of falling commodity prices in the face of falling consumer demand in Europe and the US (their main export destination), there was a decline in exports, tax revenues and rising job losses. Some sectors, however, proved to be resilient. The study on the mobile telecommunications sector in Zimbabwe showed that the sector was not significantly affected. On the contrary, it actually played an important role in assisting other sectors to weather the effects of the crisis. That study demonstrated how the use of telecommunication technology to deploy value-adding solutions contributed to improved performance in other sectors and thus enabled them to cope with the shocks.

Evidence presented in this volume suggests that the magnitude or extent of impact varied from country to country and from region to region. A number of factors explain those variations: the degree or extent of integration of a country's economy with the economies of the US and Europe. Countries with a relatively larger share of exports to the Northern countries, where the crisis started, were more adversely affected than those with a smaller share or those whose export markets were predominantly in East Asia. Those countries which had more diversified destinations (such as Republic of Korea (ROK), for example, whose export base largely consisted of economies in East Asia and China, regions which were less directly affected by the crisis), were less adversely affected than, for example, Mexico and other Latin American and Caribbean economies whose export markets were predominantly the United States of America. The decline in the production and export performance of the automobile and mining sectors in South Africa was also due to the fall in consumer demand in the Northern countries since South Africa is more integrated into European markets than the rest of Africa.

The composition of exports was another key factor. Those economies which had a relatively larger share of manufactured exports as compared to commodities were also less affected. This explains why the ROK was less affected than Mexico. It also explains variations in impact among the economies of Latin America and the Caribbean. It was also shown in the case of South Africa's textile clothing and mining sectors, where commodity sectors were more adversely affected as demand in Europe and the US declined. Major oil exporters like Venezuela and Mexico were buffered as prices rose through the early part of 2008. The oil price slump during the second half of the year had the reverse effect. Brazil, Argentina, and Ecuador were beset, to a lesser degree, by similar problems.

As demonstrated by the empirical study on the crisis and African stock exchanges, exposure to the international financial system was a key determining factor of vulnerability. Thus, those exchanges which were more integrated into the US and UK financial systems were more adversely affected than the less integrated.

The state's capacity to use appropriate policy tools to cushion itself against external shocks also explained variations in impact among regions and countries. The comparative study of Mexico and the Republic of Korea demonstrated that while in Mexico, the pace of the response was slow with more limited resources allocated for that purpose, the state in the ROK was swifter in response, using both fiscal and monetary measures and also it allocated more financial resources into that effort. Consequently, the ROK was less negatively affected than Mexico. Other experiences from Latin America and the Caribbean were also used to show the importance of state capacity to respond. A related factor was the strength of institutions and regulatory framework whereby those countries with more regulated and prudentially managed economies were less vulnerable than those where controls were less.

The state of the economy prior to the onset of the crisis also played a role in determining the extent of vulnerability. It was shown that in Latin America, some of the countries were able to reduce the effects because of improvements in their external balance sheets in the period preceding the event. Their absorption of large capital inflows when they experienced booms contributed to a healthier foreign reserve situation. This enhanced their capacity to manoeuvre. However, in other instances, the magnitude of trade shocks outweighed those advantages. In the case of Africa, according to the African Development Bank (2010:1), due to prudent macroeconomic policies and reforms, Africa entered the global crisis on a stronger footing than during past recessions. Some countries were therefore able to implement stimulus packages. However, many low-income and especially fragile and post-conflict countries were not in a position to adopt counter-cyclical measures when the crisis hit.

The nature of the policy responses that were implemented by states were critical in reducing the damage caused by the shocks. Evidence showed that in the case of Latin America, states such as Brazil, Argentina and Venezuela which had more interventionist approaches, were able to move more swiftly to implement countercyclical policies to offset the effects of the crisis. This was also the case with South Africa. On the contrary, Mexico's policy response in the form of pro-cyclical fiscal policies tended to worsen rather than ameliorate the effects. The ROK implemented countercyclical fiscal and monetary policies more rapidly and managed to offset some of the damage.

With respect to actual responses to the crisis, these also differed from country to country depending on their capacity, their resource base and economic policy orientation. Typical responses to counter the crisis included, but were not limited to: (i) fiscal stimulus packages; (ii) expansionary monetary policies; (iii) targeted sectoral assistance; (iv) new regulations in the banking sector; and in some instances social measures such as wage increases, to stimulate aggregate demand. Other measures aimed at improving the business environment and alleviating supply-side bottlenecks.

An important message emerging from the entire book is that, in the era of globalization, integration into the world economy still has many risks for economies of the South. That is more so for those which continue to depend heavily on commodity exports and also those whose export destinations are concentrated in the economies of the North. There are inherent dangers in globalization and, as has been emphasized in various other fora, it is urgent that states in the South develop and implement more comprehensive strategies which seek to reduce the vulnerability of their economies to external shocks or crises.

## **Recommendations**

In making our recommendations, we recognize that the debate around causes and effects of the global financial and economic crisis is actually not a new one. For years now, serious questions have been raised about the fallacy of the notion of 'self-regulating markets'. Scholars such as Amin (2009) have repeatedly questioned the model of capitalist accumulation and emphasized how countries of the South are at risk when they integrate themselves to the global trading and financial system despite the asymmetrical power relations between them and countries of the North.

In response to the issues raised in the volume, therefore, we make a number of recommendations, more to emphasize the urgency for countries of the South to implement the many proposed strategies which have been made, and some of which they have already committed themselves to over the years. We make the following key recommendations:

Recognizing that many economies in Latin America, the Caribbean, Africa and Asia are still vulnerable to external shocks, it will be critical for them to intensify their efforts to challenge an asymmetrical global trading and financial system in which they have little voice in decision-making and control. They need to pursue the agenda for a more equitable and fairer international trading and financial architecture. Some of the policy frameworks which they have adopted over the years, policies have been dictated by dominant institutions such as the Bretton Woods institutions which have been instrumental in promoting the fallacy of 'self-regulating markets' and called for a reduction of state intervention in the form of regulation of economies. It is significant to quote Jean Feyder, president of the board of the United Nations Commission on Trade and Development (UNCTAD) who raised some of the contradictions between the North and South and then recommended as follows:

In the North, the state has played a major role in overcoming the financial crisis.

In the South, it should be a key player in the financing of productive capacities, starting with industrialisation and the protection of infant industries (Agazzi 2010).

The crisis has demonstrated clearly that the state has an important role in regulating markets. It has also highlighted the relevance of Keynesian-type countercyclical macroeconomic policies and that, during recessions, governments should use them and do so adequately and timeously. It has also been demonstrated, though, that important as they are, countercyclical policy interventions at best are short-term measures which unfortunately will not resolve the root causes behind the vulnerabilities to external crisis of countries of the South. Samir Amin (2009: 8) considers such strategies as tantamount to efforts to 're-establish capitalism'. He is also critical of the reforms which have been touted by international institutions calling for 'reform of the financial sector' as 'grand words to evade the real questions.... He adds that 'the restoration of the system, which is not impossible, will solve no problems, but rather aggravate them'.

It is also out of the realization of the short-term nature of countercyclical policies that this volume also calls for countries of the South to carry out more fundamental structural reforms of their economies. Countries of the South have to increase their resilience through implementing structural reforms to diversify their economies. They should pursue with greater vigour, strategies to promote industrialization and development of their manufacturing sectors. Thus, the agenda for industrialization should be implemented in order to transform the structure of their economies from primary commodity production and exports towards manufactured exports. Transformation also calls for prioritization of creating and broadening of domestic markets so that even in the face of volatile external markets, domestic demand helps to protect

the economies from externally-induced crises. The African Development Bank (2010:6) calls on African economies, for example, to diversify risks and achieve broad-based growth, by supplementing their export orientation with strategies to promote domestic markets through public investment, promotion of SMEs catering to local markets, and regional integration.

The crisis has also demonstrated the vulnerability which arises due to the politics of inequality and exclusion of a large segment of the population from participation in the economy of the country. The experience of South Africa which is still today a highly unequal society, where millions of black people do not have access to economic resources because land reform has been very slow, unemployment is very high and the economy continues to be dominated by a minority class of local and foreign capital. While acknowledging the efforts that the government has made to address these challenges, much more has to be done in order to redistribute wealth.

Diversification of export markets will enable economies of the South to cope with any external crises. Increasing cooperation with other economies of the South such as Asia will contribute to diversification and better risk management.

The role of China in Latin America, Africa and the Caribbean has come under closer scrutiny once again. While some countries have definitely benefited from trade and other cooperation with China, serious questions have been raised with respect to the political agenda of China and in particular, with regard to the nature of the cooperation which it is promoting. This has been most clearly articulated in the studies from Latin America and the Caribbean where China's role appears to be widely perceived as 'an exploitative, dependency neo-extractive model' (Pablo Nacht) which may perpetuate or replicate the traditional North-South model which many countries of the South have strongly criticized. The controversy around the role of China in relation to countries of the South calls for more serious debates and engagement in order to define the kind of model which leads to a win-win situation for both parties. This must be on the development agenda of South-South cooperation.

The capacity of states to respond both timeously and adequately to changes in global market conditions has to be strengthened through deliberate actions. Part of that capacity includes a shift in mindset from more conservative or orthodox approaches to economic management towards more acceptance of a much wider role for the state on matters such as the regulation and supervision of financial markets, use of countercyclical monetary and fiscal policies in line with the Keynesian macroeconomic framework.



Adequate provision for social protection should be an integral part of countercyclical policies. In many countries, part of the effects of the crisis was realised through job losses as companies cut down production and export volumes and sales. Rescue packages were not always adequate to meet those needs.

Deepening regional integration can also contribute towards reducing risks and vulnerability.

Governments in Latin America, the Caribbean, Asia and Africa, should also consider pursuing more seriously, the agenda of South-South cooperation in the context of trade, foreign direct investment, technology transfers, among others. This is not a call necessarily for them to shift from trading with countries in the North but to pursue a trading strategy which diversifies their risk profiles and vulnerability. Writing about harnessing new partnerships and natural resources, the African Development Bank (2010) argues that:

As China has been increasing sophistication of its production and moving up the technology ladder, it has created space for other countries in the lower value-added manufacturing. It has been recognized that this trend has created an opportunity for Africa to develop its underperforming manufacturing sector.

Thus it encourages economies to pursue labour-intensive industrialization strategies in order to increase employment and household incomes. The ADB, however, points out that in order to attract investment in labour-intensive manufacturing, African economies need to pursue structural reforms to make their economies more attractive to investors, including those from China and other new trading partners.

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