Global Policy
Volume 2, Issue 1, January 2011, pp. 20-32

THE FINANCIAL CRISIS, THE GREAT RECESSION AND THE DEVELOPING WORLD

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Abstract

This paper analyses the implications of the global economic crisis for developing countries, situated in the wider context of the world economy, to suggest that the crisis also provides an opportunity for rethinking policies at the national level and contemplating collective action at the international level, so that outcomes are more conducive to development. The world economy witnessed a collapse in international trade and a sharp contraction in output and employment. But the developing world coped better than industrialized countries and transition economies as the impact was less adverse and the recovery was somewhat quicker. China, India and Brazil stand out as exceptions. Initial conditions, policy responses and domestic demand shaped their resilience and recovery. These emerging economies, or some parts of the developing world, cannot drive recovery or turn into engines of growth for the world, but their experience suggests important policy lessons. The prospects of recovery in the world economy remain uncertain. The supposed trade-off between financial stability and economic growth is a false dilemma. Recovery is sustainable only if it is based on a rebalancing of the world economy that extends beyond current account deficits and surpluses to income-expenditure gaps and income distribution within countries. An increase in the share of wages in GDP would be conducive to growth everywhere. This is possible if wages keep pace with productivity growth and full employment is the primary objective. In the global context, international collective action is an imperative for crisis management and crisis prevention.