Introduction

The world witnessed one of the worst crises in its history in 2008–9. In the advanced world the crisis was transmitted from country to country via several channels. Although many developing countries weathered the crisis well enough, the effects in the developing world were transmitted in an uneven manner. In the aftermath of the crisis when this book was conceived, there was an outpouring of papers and studies as to its effects on the advanced capitalist countries. We set out to study the crisis in the rest of the world. In this book, we focus on a selected group of countries, and investigate the implications of the recent crisis for the developing world. The book brings these individual case studies together and focuses on the general implications of the crisis in developing countries. We believe that the general findings of this book are relevant not only for a few countries but also to the global south in general. The book is entitled *The Global South after the Crisis*. The global south refers to the developing world in its entirety and includes those countries in Central and Eastern Europe formerly in the Soviet Union’s sphere of influence. Geographically they lie in the North Atlantic, but their dependency on the world system has more in common with Latin America, Asia and Africa than any of the OECD countries. The book consists of two main parts. Part I is thematic and is made up of four chapters; Chapter 1 concentrates on the impact of the crisis on the worst affected countries. Chapter 2 details the changes in income inequality trends across a heterogeneous group of developing countries. Chapter 3 is on monetary transmission in Africa with a specific focus on the aftermath of the crisis and Chapter 4 details the policy responses and policy shifts in key areas of central banking in the developing world. Part II, Chapters 5 to 8, consists of four country case studies: Bolivia, Brazil, Malaysia and Turkey.

The general and somewhat surprising story is that in the global south, the crisis was not a crisis. Although output was lost during the period, most of the developing world continued growing (albeit at slower rates), and continued increasing its share in world output. In addition, as Bahçe and Köse show, the worsening income distribution that characterized the advanced world is largely absent in the global south context.
However, as many of the chapters in this book demonstrate, the heterogeneity among developing countries in their ability to cope with the crisis is often disregarded. Indeed, some countries were severely affected, more so than many advanced countries. The overall evidence shows that where the crisis did take effect, the trade channel was the most important mechanism in the transmission of the crisis from advanced economies to the rest of the world. The first chapter investigating the cases of the worst affected countries supports this observation for the 15 worst affected countries. According to this chapter, the limited trade partners and the specificity of these countries’ exports were the main reasons behind the intensity of the crisis in these countries. In other words, the dependency on the limited number of trade partners and the dependency on the foreign demand for a specific group of undiversified products account for the intensity of the crisis in the worst affected countries. These countries faced a very sharp contraction in their export growths since they either produced and exported manufactured goods or commodities with high income elasticity to the US or the European markets which were the epicenters of the crisis. The chapters on Turkey, Malaysia, Bolivia and African countries verify this claim. Although the crises of the 1980s and 1990s highlighted the fragilities of the global south with respect to financial flows, the limitations of export-led growth and reliance on commodity exports become apparent in the recent case. Malaysia is a perfect example of the countries which based their growth strategy on high exports. Nambiar argues that the export growth strategy might have reached its limit in Malaysia. For the Bolivian case Justo and Santarcângelo maintain that the movements of commodity prices hang over the head of Bolivia like a Damoclean sword. Bolivia’s growth is very much bound up with the state of the commodity super cycle. According to the authors, the quick rebound in commodity prices meant that the Bolivian economy recovered very quickly. The crisis was short-lived but because of its dependency on commodity prices Bolivia remains susceptible to any crisis that drives down commodity prices.

During the earlier crisis, financial reversals were rare events in the developing world. In general and as expected those countries experiencing financial reversals or sudden stops were among the most affected countries. What is common among these countries is, as Cömert and Ugurlu show, that they had also accumulated important vulnerabilities such as large current account deficits, domestic currency appreciation and high credit growth in the preceding period. However, as stated above, financial reversals were generally absent, even the severely affected countries were not faced with financial reversals during the crisis. Among the case studies, there is no country experiencing financial reversals. Making a detailed comparison of the financial shocks the Turkish economy experienced in
the last two decades Cömert and Çolak demonstrate that the recent financial shock to the economy was short in duration and low in magnitude relative to the previous crises. The increasing liquidity in international markets and very low interest rates in advanced countries that ensued after the crisis helped to reduce the magnitude and duration of financial shock and supported fast recoveries in the global south. They argue that developing countries might not have tested during the global crisis due to the fact that the epicenter of the crisis was among the advanced countries. Given the fact that the international financial architecture and domestic structure of many developing countries have not gone through a significant transformation since 2008, developing countries may not avoid significant downturns in case of bigger shocks hitting their economies in the future. It is the uneven degree of integration of the developing countries to the world system that accounts for the uneven impact of the crisis across the developing world. Generally the countries in the global south experienced temporary slowdowns in GDP that recovered quite quickly. The countries most dependent on trade with the EU and US were the ones that suffered the most. McKenzie’s review of continental Africa’s experience of the crisis (Chapter 4) illustrates the point. He finds that that Africa’s relatively loose integration into the world system shielded its economies from the worst vicissitudes of the downturn. As a result, although the financial and trade globalization may bring some benefits to the global south, this process seems to be making them much more vulnerable to global cycles.

We find that fiscal and monetary policy seem to have played important roles in weathering the crisis. On the one hand, as Cömert and Ugurlu document in Chapter 1, in the most affected countries there was an unwillingness or inability to initiate countercyclical policy that may have mitigated the more deleterious effects of the crisis. For example, the conditionalities imposed on those CIS countries seeking to join the EU more or less ruled out countercyclical policy responses to the crisis. The case study on Turkey (Chapter 8) shows that the Turkish government has been very hesitant in taking fiscal measures, which partially explains the severity of the crisis in this country. Indeed, Cömert and Çolak argue that Turkish government fiscal expansion was one of the lowest among comparable countries. On the other hand, the Brazilian, Bolivian and Malaysian authorities adopted significant fiscal policy measures in order to mitigate the crisis. These measures enabled them to stave off the worst effects of the crisis. Reis et al. in Chapter 6 maintain that the active fiscal intervention of the Brazilian government was one of the reasons behind the relatively good performance of the country during the crisis. Among these countries, Bolivia seems to have embarked on relatively more aggressive fiscal expansion (see Chapter 5).
With respect to monetary policy, central banking in the global south has evolved in response to the crisis. Theoretically and practically a new consensus that sees inflation targeting as one of many (and not the only) objectives seems to be emerging. For example, Reis et al. show that although the Brazilian central bank was relatively conservative in its response to the crisis at the beginning, it gradually moved away from inflation targeting and is now more concerned with other macroeconomic variables. In many developing countries, financial stability has become more important and many new instruments have been introduced alongside short term interest rates to give more flexibility to monetary policy management which now has multiple aims.

Chapter 4 on the monetary transmission mechanism in Africa looks back to the crisis in order to ask how the foremost political economy and macroeconomic trends have affected the mechanism. Because of the paucity of research in this area answers are sought in a review of the official literature on the subject. That literature is extensive and exhaustive as far as it goes. But the recent recalibration of GDP statistics by countries in Africa points to the need for a monetary policy that targets employment alongside the longstanding fixation on price stability. Benlialper and Cömert (Chapter 3) point out that the shift in emphasis in central banking in developing countries is not addressing these real concerns. The case of Brazil where the central bank now has multiple targets combined with the new consensus (described above) offers the hope and promise that we may yet develop an international financial architecture that protects us all from the destabilizing effects of monetary shocks and crisis.

In many developing countries concerns about the implications of financial flows are being raised. But at the time of writing there has not been a genuine attempt to address these problems. In the existence of massive financial flows, the effectiveness of monetary policy is likely to diminish as external finance substitutes for domestic funding, and financial flows directly affect the main macroeconomic variables such as credit growth and exchange rates. Although some countries such as Brazil have actively started using some capital control measures, the effectiveness of these measures has not yet been established. Furthermore, some countries like Turkey are still relying on very indirect methods to tackle destabilising financial flows. Overall, in the absence of a rethinking of the international financial architecture in advanced countries, countries of the global south are to a greater or lesser degree vulnerable to financial shocks coming from the advanced countries. The degree of vulnerability remains dependent upon the degree of integration into the world economy.