What we learned from the 2009 financial Crises in emerging countries

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I. INTRODUCTION

- *Major crises tells us more than periods of stable growth*
- *Emerging economies display many of them since the 80s*
- *They allow:*

1. *An assessment of financial globalization and innovation*
2. *A spectral analysis of the world economy*
3. *A prognosis about the co-evolution of Latin America and Asia*
4. *Some emerging principles for economic policies*

2. *Lesson 1: It is especially dangerous to build a growth strategy upon a cumulative indebtedness in foreign currencies*

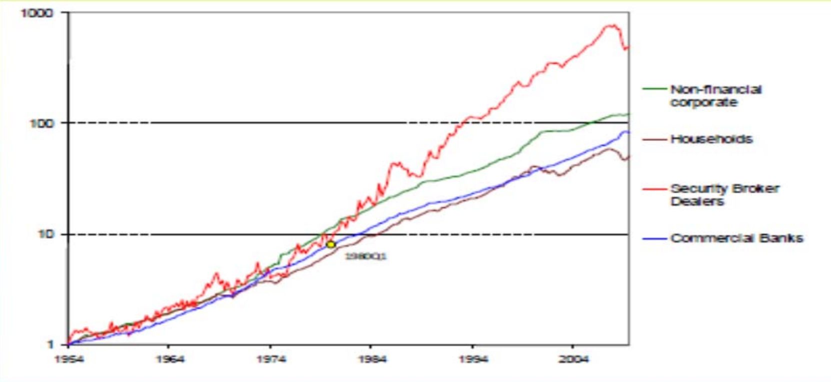
Pays émergents : prêts en devises
(en % de l'encours total)

Bulgarie	66,9	Inde	1,4
Croatie	62,0	Indonésie	19,8
Rep. Tchèque	13,6	Corée	8,5
Estonie	85,3	Vietnam	21,2
Hongrie	65,7	Argentine	15,8
Lettonie	89,3	Brésil	2,0
Lituanie	64,0	Colombie	6,3
Pologne	32,6	Mexique	11,6
Roumanie	55,5	Pérou	57,5
Russie	15,3	Venezuela	<0,5
Turquie	28,9		
Ukraine	59,5		

Sources : FMI, NATIXIS

Lesson 2: Most governments have learnt from the succession of their own financial crises but this lesson has not been taken into account elsewhere

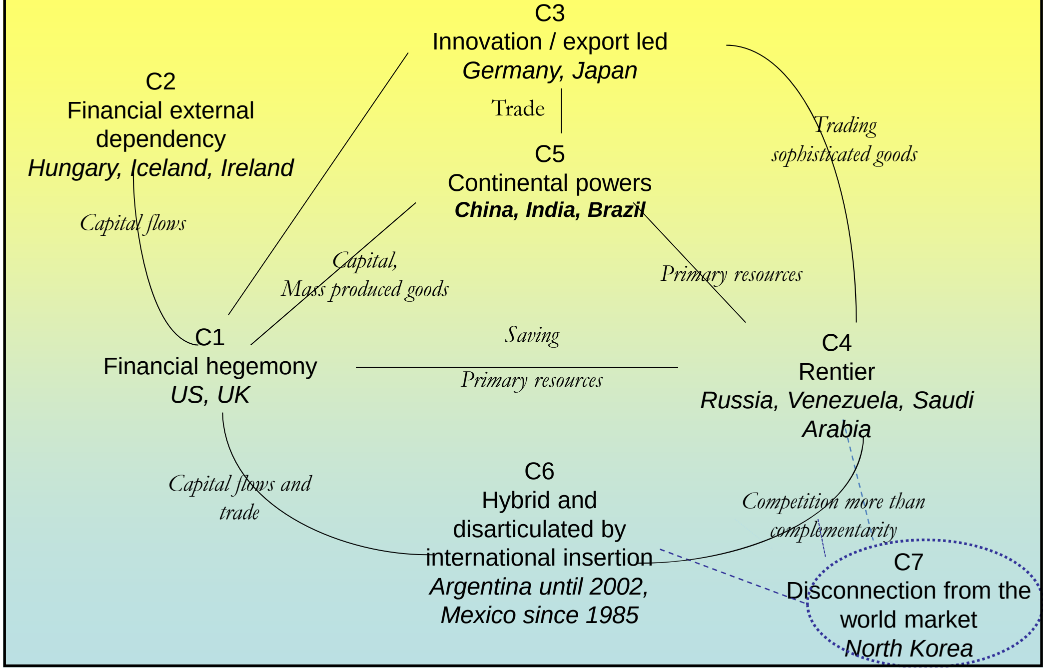
Lesson 3: ***Be careful in adopting the latest and highly complex financial innovations: a chance for the majority of lagging emerging countries***



Lesson 4: A reassessment of globalization: nor disconnection, neither leading role of emerging countries

institutional configurations, faraway from a convergence towards a canonical brand of capitalism

How the seven development modes interact and coexist



Lesson 6 : The volatility of international financial flows has increased with the radical uncertainty associated with the 2009 crisis and it puts at risk most national development strategies.

- **…. This triggers brusque reversals in capital flows towards emerging economies**

Source : Artus Patrick (2011), "Pourquoi les capitaux sortent-ils des pays émergents quand l'aversion pour le risque est forte?", *Flash Economie*, 755, 10 Octobre, p. 2.

3. Wide swing in nominal exchange rates ….

Source : Artus Patrick (2011), "Pourquoi les capitaux sortent-ils des pays émergents quand l'aversion pour le risque est forte?", *Flash Economie*, 755, 10 Octobre, p. 3.

…. That may anticipate recurring exchange regimes wars

The co-evolution of national regimes and the international system (1)

National Regime / World Scenario	Finance led and dominant	Financial dependant	Innovation / exportation
1. Muddling through	From one crisis to another	Phasing out	Heavily penalized
2. Collapse and balkanization	Collapse but possible restructuring at the national level	Incentives to financial protectionism	Possible integration into domestic led growth at the regional level
3. A new Bretton Woods	Transition towards another regime in response to the down grading of the dollar	Exploration of alternatives , export or consumption led regimes	The possible major beneficiary of the stabilization of international relations

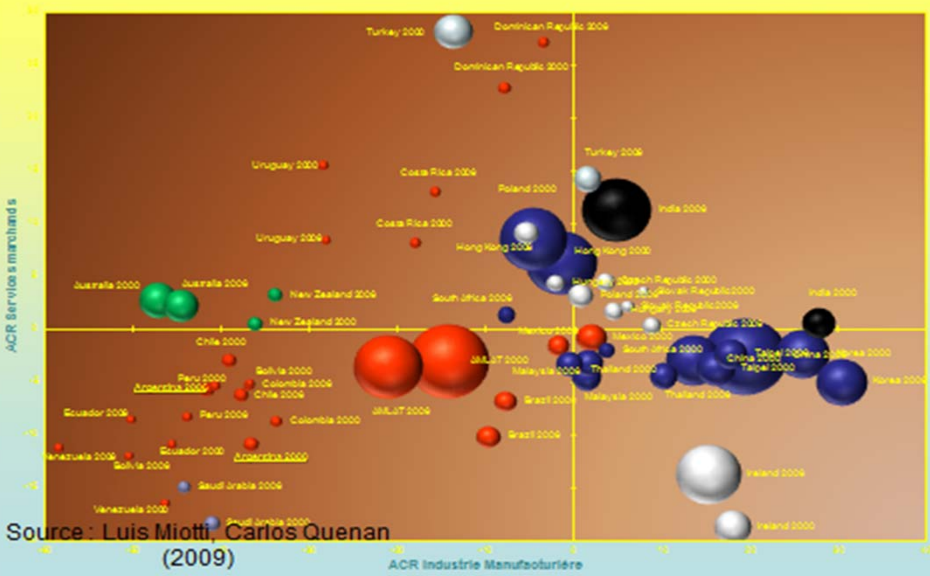
La coévolution des régimes nationaux et du système international (2)

National Regime / World Scenario	Rentier	Continental Economy	Hybrid/ Disarticulation
1. Muddling through	Suffers from higher volatility	More centripetal forces	More disintegrating forces
2. Collapse and Balkanization	A general slow down reduces income and wealth	Still more incentives to inward looking growth strategy	Possible bifurcation towards a demand led regime
3. A New Bretton Woods	Better trade off between long term growth and stability	A recognition of their role in international institutions	Favors a return to a coherence between domestic institutions and adhesion to the international regime… …but it is up to specialization and political options (Mexico vs Argentina)

- *Lesson 7: A source of diverging national trajectories: Mexico still articulated with the United States, Brazil and Argentina more and more linked to China and Asia.*

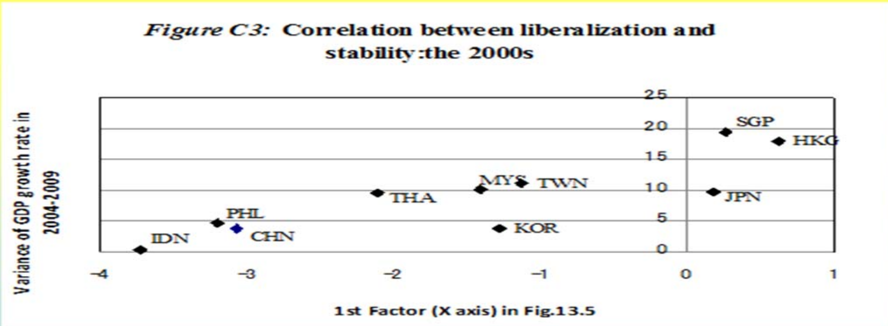
- *Lesson 8: A possible future South/South complementarity: Latin America and Asia*

A deepening of national specialization: a possible complementarity between Latin-America and China?



Source : Luis Miotti, Carlos Quenan (2009)

- *Lesson 9 :A difficult trade-off, trade and financial opening may foster growth but it increases volatility and risks of instability*

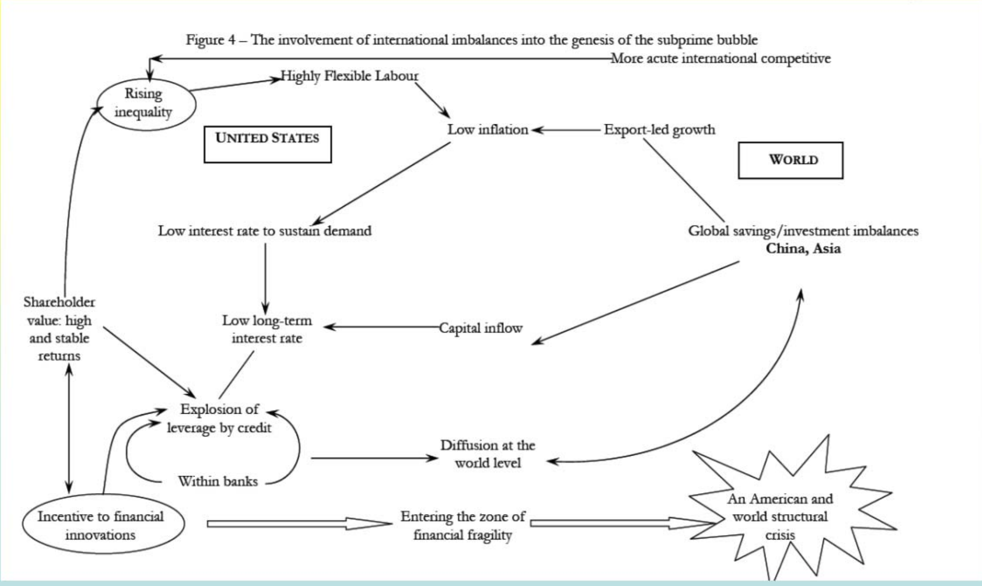


Source: Yuji Harada and Hironori Tohyama (2011)

- *Lesson 11: Some control over the exchange rate is possible and it may contribute to macroeconomic stability.*

- *Lesson 12: Since private credit is strongly pro-cyclical, a public investment bank helps in promoting long term growth*

Lesson 13: The last two decades financial innovations have failed to foster development



CONCLUSION

C1 – Crises are periods of reckoning, learning, and reassessment of past doxa.

C2 – After a phase of conservatism in the 30s, they have generated a period of high theory

C3– They should never be wasted, neither by policy makers nor theoreticians.

C4- *An urgent need for new development theories*

Thanks for your attention and patience

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