

How Resilient Were Emerging Economies to the Global Crisis?

Better positioned to withstand a global shock, emerging economies were more resilient this time around

In the wake of the 2008–09 global economic crisis, the initial consensus was that the damage would be mostly contained within the group of developed countries. That was not to be. The crisis had a large impact on most countries in the world as a result of vast trade and financial channels that link financial markets, the production process, and demand across countries.

Yet emerging economies were more resilient this time around, not so much relative to developed countries but, more important, relative to their own past. In a cross-country incidence study Didier, Hevia, and Schmukler document a structural break from the past in the way emerging economies responded to this global shock. The study classifies as emerging economies those (mostly middle-income) developing economies that are eligible to borrow from the International Bank for Reconstruction and Development.

According to popular perception, emerging economies appear to have performed better than advanced economies during the global crisis. While it is true that advanced economies attained lower rates of GDP growth during the crisis, this observation might just be capturing convergence effects and not a higher incidence of the crisis. Advanced economies generally grow less on average than emerging economies independent of any crisis event. In contrast, collapses in GDP growth suggest that, on impact, the crisis was not more severe in advanced economies. Emerging economies suffered growth collapses comparable to, or even larger than, those in advanced economies, with growth in most countries rebounding during the aftermath of the crisis according to how much it had collapsed.

But emerging economies did in fact recover faster and more strongly than advanced economies, returning to high growth rates more quickly. They remained under recessionary pressures for fewer months than advanced economies. For example, by September 2009 emerging economies as a group had achieved their precrisis level of industrial production, while advanced economies were still well below their precrisis level even by the end of 2010. This pattern is nevertheless heterogeneous, with Eastern Europe and Central Asia faring worse than other emerging regions, and low-income countries seemingly more isolated from the global crash, perhaps because of their lower degree of trade and financial openness.

The authors conjecture four reasons for the differentiated postcrisis behavior of emerging economies.

First, and most obvious, the root of the problem was in the financial markets of advanced economies, and emerging economies had a low exposure to these markets relative to others. At the same time, the financial collapse hit highly leveraged consumers in some developed countries, while consumption was poised to continue growing at a high rate in emerging economies.

Second, one of the main crisis transmission channels seems to have been international trade. As the U.S. economy came to a standstill by the end of 2008, firms stopped their international orders, anticipating an accumulation of inventories. This generated an immediate collapse in production in several emerging economies focused on supplying manufactures, many of them located in Asia. As inventories started to decrease and it became more likely that global demand would stabilize, firms reignited the production process and overall economic activity in emerging markets quickly picked up.

Third, to the extent that emerging economies grow at a faster pace on

their path to becoming richer nations, a recovery of their growth trajectory would make their output converge sooner to its precrisis level.

Fourth, there has been a fundamental change in the way emerging economies have conducted their policies in the recent past, with more countercyclical policies pursued before and during the global crisis, a combination of sounder macroeconomic and financial policy frameworks, and a shift toward safer domestic and international financial stances. The global crisis found many emerging economies with more fiscal space, better domestic balance sheets, and the required credibility to conduct expansionary fiscal and monetary policies.

All these changes on the domestic and international fronts appear to have helped emerging economies avoid the amplification of the external shock on their domestic front, which had been a frequent outcome in past crises. As a result, most emerging economies came out of the crisis with strong balance sheets, which contributed to a speedy recovery. This stands in sharp contrast with the situation in advanced economies, where domestic financial crises became a common feature during the global turmoil and where fiscal stances deteriorated significantly.

The continuing integration with global trade and global financial markets poses a trade-off for emerging economies. While integration tends to be associated with higher growth and other positive spillover effects, it also makes countries susceptible to foreign shocks and contagion effects. But the risk of a synchronized collapse should start to diminish as the global economy moves to a more “multipolar world,” with several growth poles as engines of world growth. Nevertheless, after several decades of recurrent crises, emerging economies seem to finally be learning to moor the boat when the gales are unleashed.

Tatiana Didier, Constantino Hevia, and Sergio Schmukler. 2011. “How Resilient Were Emerging Economies to the Global Crisis?” Policy Research Working Paper 5637, World Bank, Washington, DC.