FT FINANCIAL TIMES

Whoever runs the World Bank needs a plan for emerging markets

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5 February 2019

Developing nations are an important source of strength in the global economy

Governments are now selecting a new president of the World Bank. In doing so, it should be considering the strategic economic context in which the bank will operate. The retrospectives 10 years after the global financial crisis dramatised events in the US and Europe, but rarely cast an eye on developing economies. The next World Bank president needs a better grasp of that history and must know what his or her institution and others should be doing now to prepare for the next downturn.

If policymakers overlook the experience of developing countries during the crisis, they are less likely to consider emerging market dynamics, understand developing economies' sources of resilience and appreciate vulnerabilities. Given the attention accorded to developing economies in earlier crises, it would be ironic to ignore their roles during the "great recession". The consequences of skewed history could be dire.

Multiple poles of growth are a source of strength for the global economy. Breakdowns in developing markets, in contrast, harm the most desperate. Migrations to Europe and North America reveal the human cost for all societies of failures in poor countries.

The firefighters of 2008 recognised that the world had changed: they shifted from the G7 to the G20. In the immediate aftermath of the financial shocks, developing economies accounted for about half of the world's growth. Emerging markets led the recovery in world trade, with demand for imports rising twice as fast as in wealthier countries. Developing economies were even net exporters of capital to high income states. South-south linkages assumed greater importance, representing one-third of global trade and foreign direct investment.

The developing economy story suggests five lessons. First, emerging markets were not spared the costs of crisis. Their average growth rate of about 7 per cent in the five years preceding the crisis fell to 1.6 per cent in 2009, knocking an estimated 64m people into extreme poverty. Excluding China and India, average growth rates fell from about 6 per cent to almost minus 2 per cent.

Second, China's huge stimulus offered a critical boost to a tumbling world economy and especially to commodity exporters. Beijing's high level of debt today reflects the cost of that course of action. Policymakers who claim that Beijing harms global markets, and who want to "decouple" China from the world economy, should take note. India and Indonesia also demonstrated resilience when most needed.

Third, trade disruptions were more likely to harm poor countries than were financial shocks. Global trade plummeted promptly, with trade in the first quarter of 2009 down about 30 per cent from the prior year. Resistance against protectionism proved vital. The World Trade Organization and World Bank had to press G20 central bankers not to strangle trade finance. The current tariff wars — plus a creeping movement in recent years towards "temporary" trade barriers for intermediate as well as retail goods — will undermine resilience in the next downturn.

Fourth, developing countries' structural reforms before the storm created room for timely fiscal expansion. Many governments could rely on well-designed programmes for healthcare, education, social safety nets and infrastructure, even though they had to slow spending growth. They tried to protect their primary productive "asset": human capital and skills.

In the face of a harsh repricing of risk and the pullback of international banks, some countries could mobilise domestic financial resources, including private investment, because they had developed local currency securities markets and inclusive finance for smaller enterprises. Developed economies can help themselves in the future if they assist developing economies to prepare today.

Finally, the multilateral development banks complemented the IMF's countercyclical support with $158bn of commitments between July 2008 and December 2009, $88bn of which came from the World Bank. The policies the development banks catalysed were as important as the money. They supplied critical farm inputs and resisted export bans during the food price surge in 2008. Meanwhile, development funds enabled countries to maintain safety nets and to offer innovative finance for groups at risk. The European Bank for Reconstruction and Development and the World Bank persuaded western European commercial banks to keep capital in eastern European subsidiaries, avoiding a countercyclical contraction.

The lessons from the financial crisis of 2008 extend far beyond central bank interventions, bank bailouts and supervision. When the next downturn or financial crisis hits, emerging markets are likely to prove even more important than they were a decade ago. The new World Bank president should help developing countries to prepare now.

The writer is a former president of the World Bank, US trade representative and deputy secretary of state