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Will the Global Financial Crisis Change the Development Paradigm?

The global financial crisis may change the face of development as we know it. This is no ordinary crisis. Its origin, depth and severity and the speed with which it has spread around the globe are likely to lead to profound changes in the way that policymakers throughout the world think about development policy.

Exploring new development models

IDS's research about crisis narratives suggests that developing country policymakers may have less respect for, and less interest in, policy prescriptions from the West (see *In Focus Policy Briefing* 7.9). In particular, many countries are looking East for new models of development. IDS's research on China shows the need for greater understanding of China's evolving role in development (see 7.6). A greater tendency for developing countries to explore new development models and to rely on their own analysis and knowledge to fashion solutions to the problems they face, could be a positive outcome of the crisis. But the focus on national solutions should not forget the gains from openness and the benefits of global cooperation that have been achieved.

A new era for international development policy

The reductions in poverty that have happened over the last 20 years have largely been fuelled by export-led growth. Yet in a global recession, this past engine is an unlikely route for recovery. It is also clear that more open countries are increasingly vulnerable to the economic downturn (see 7.7). As a result, analysts and policymakers across the world are questioning the effectiveness of global integration as a pathway towards prosperity. The next decade could see a repeat of the de-globalisation experienced in the early twentieth century, including restrictions on the international movement of capital and greater protectionism. We may also see significant increases in both government regulation and the direct role of the state in the economy.

Whether these shifts are positive or negative depends on how policy responses tackle today's problems and learn from the lessons of the past. It is likely that developing countries will demand greater flexibility within international fora to implement policies that they feel are appropriate for their situation.

A new era for global economic governance

The crisis has demonstrated the extraordinarily high level of inter-dependence of economies around the globe. This has placed in sharp relief the inadequacy of today's international institutions to identify and respond to the crisis. The failings are manifold.

First, there is a lack of international financial regulation and institutions capable of monitoring and enforcing such regulations. The weaknesses of relying on national financial regulators to deal with global financial markets are only too apparent in the current crisis.

> "The crisis presents an opportunity to institutionalise social protection in sub-Saharan Africa"

Second, there is an urgent need to broaden representation in the institutions of global economic governance. The crisis has resulted in the high profile institutional outreach to emerging powers through the G20 forum rather than the reliance on the G7/8 forum. This grouping includes some 'systemically significant' countries – but still excludes the voices of almost all African countries and the large majority of developing nations. In the long run, the effectiveness of global economic institutions depends not only on their ability to engage major new powers such as China, India and Brazil, but also on the perceived legitimacy of those institutions by the rest of the developing world.

Third, current institutions lack the funds and the ways of operating which are needed to respond to a crisis of this kind. Efforts are underway to bolster the resources of the IMF and the World Bank, but are still a long way from the level of resources that might be needed to tackle the problems. At the same time, the flexibility and speed with which resources can currently be used is limited and the range of instruments available not always appropriate (see 7.5). Looking forward, these institutions will need to be closer to their client countries to deliver support that is better tailored to their priorities and needs.

A new opportunity to protect the poor and the planet

Moments of crisis also present windows of opportunity. Just as the depression in 1930s USA gave birth to the New Deal, there is much talk now of a Global New Deal. One way to make this a reality would be to take this opportunity to institutionalise social protection in sub-Saharan Africa. IDS Research shows that the most vulnerable people in the world's most vulnerable continent still lack effective, systematic social protection. The last ten years have seen extensive experimentation with mostly donor-funded social protection schemes. Developing country policymakers need to seize this opportunity to build political support for widening the coverage of such schemes and embedding them within national budgets. The proposed new Global Vulnerability Fund should support this process and help to create new global partnerships to share experience, evidence and ideas on how to effectively extend social protection (see 7.4).

The large coordinated fiscal stimulus also presents a major opportunity to achieve a step-change to a lower carbon growth path. The potential damage that global warming may cause is immense. The costs of significantly slowing down the process are small in comparison – and similar to the size of the fiscal stimulus being undertaken to address the crisis. There is therefore a strategic opportunity to use a part of the stimulus to promote a shift to lower carbon technologies. To be effective this will require the participation of major developing countries. This will depend on finding accountable forms of international environmental governance which strike the right balance between the responsibility of all to reduce the harm to future generations and the right of all to development.

Credits

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