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The IMF provides a good consensus forecast for global growth this year. As of January, the IMF expected global growth to come in around zero. Since January, most forecasters have grown still gloomier, but the IMF forecast nonetheless provides a basis for some observations about foreign policy.

From the perspective of foreign policy, it is interesting that rich economies will fare worse than developing economies, sustaining the power shift away from the G7 and toward the BRICs and other emerging nations. On the IMF January forecasts, advanced economies will shrink by 2% in 2009 while emerging and developing economies in 2009 will grow by 3.3%.

From the perspective of foreign policy, again, it is interesting that, however bad the US economy feels, the IMF forecast projects US growth, at negative 1.6% in 2009, as the *healthiest* among the biggest eight economies, with the exception of Canada. So within the rich world, the United States is maintaining its pre-eminence even as it experiences the worst recession since the 1930s.

The hardest hit economies in the world are those that fall into one of three categories:

- Those with a big exposure to the financial sector, for instance Britain.
- Those that relied on high energy prices but did not save much of their windfall when prices were high (Iran, Venezuela).
- Those that were especially reliant on foreign demand for their exports (Japan, China, Germany).

Particularly of note is Russia. Russia was exposed both to the financial turmoil, because it had a lot of foreign debt, and to high energy prices. As a result, the collapse in the outlook for the Russian economy is catastrophic.

The IMF commendably publishes a table showing how its growth forecasts from last November have proved much too optimistic and so have been revised down in January. You can see the downward revision for each country. The sharpest downward revision, a stunning 4.2 percentage points, is for Russia. That is, Russia was expected to grow by 3.5%, which itself would have been a radical slowdown from the growth of 2007-8, which averaged just over 7%. But now Russia is expected to grow by negative 0.7%.

When a country's growth expectations collapse that quickly, there is likely to be a political consequence. In the United States, we have gone from growth of 2 percent in 2007 to growth of around 1% in 2008, with negative 1.6% projected for this year. This swing of 3.5 percentage points feels terrible. Russia, a country with more poverty and fewer social safety nets, is experiencing a swing more than twice that size. The shock to Russia is enormous. Russia experts are talking for the first time in recent years of a potential end to "Putinism." We should all remember that the Asian crisis of 1997 led to a regime change in Indonesia after three decades of rule by Suharto.

Three big picture points.

First, a lesson of this crisis is that financial firms failed to plan for low-probability, high-impact events. In the parlance of Wall Street, their risk management systems failed them. The foreign policy community, and especially the scenario planners in the military community, have traditionally been better at contingency planning. But now would be a good time to redouble efforts to think beyond the horizon, to imagine what could go wrong and how we should respond. The very fact that the IMF can revise a country's growth forecast by a stunning 4 percentage points over the space of

two months shows how rapidly the world is changing. Low-probability, high impact events actually now have a larger probability than they do normally.

Second big picture point concerns the impact of the financial crisis on developing countries. Growth in sub-Saharan Africa is projected to halve from just under 7% in 2007 to 3.5% in 2009. The truly poor developing countries are not especially exposed to trade and not integrated into global finance, and so the effect on them is real but less dramatic than the effect on the more globalized emerging economies. That said, a halving of the growth rate is a serious matter when you are already on the poverty line; from a humanitarian perspective, there is a case for sustaining and even increasing aid flows to the poorest countries despite the pressure on the budgets of rich countries. Moreover, there is what you might call a Keynesian argument for increasing development assistance. Economic stimulus works best if you help people who are going to spend the money rather than save it. Giving money to poor countries in the form of aid is likely to be helpful in supporting demand in the world economy.

My last big picture point concerns China. I would suggest that one of the biggest challenge in international relations over the coming two years is to persuade China to change its growth model. China has relied on export-led growth, and until the recent crisis its exports were growing twice as fast as the national economy. There was no room in the world economy to absorb that expansion of Chinese exports out into the future; the present crisis, in which China's growth has collapsed to less than 7%, demonstrates the danger of this exposure to exports. China needs to switch its growth model to domestic demand, but this is not an easy switch to make. Engaging the Chinese leadership on this challenge is an important priority for US foreign policy.

Ends.