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EDITORIAL

Collateral Damage

Developing countries have sparked their share of international financial crises over the years. But this time it is not their fault.

As the world's richest nations spend trillions to rescue their own financial systems from the maelstrom caused by years of excess, they must also be prepared to provide billions to poorer countries that did not cause this crisis but are nevertheless its victims.

The developing world has been caught up big time in the global credit squeeze, as beleaguered foreign banks have cut their credit lines and panicked foreign investors have pulled their money out. Private capital flows to emerging markets are expected to plummet 30 percent this year.

Exports are suffering as rich economies slow and commodity prices retreat. Remittances from migrant workers — a core source of earnings for many developing countries — are falling fast.

Eastern and Central Europe, where much of the banking system is controlled by Western banks, is in particularly dire straights. Ukraine asked the International Monetary Fund for \$14 billion to prop up its financial system as money flees. Hungary got 5 billion euros from the European Central Bank.

Pakistan — America's hoped-for ally in the fight against Al Qaeda that also has nuclear weapons — is said to need \$3 billion to \$4 billion to finance a gaping trade deficit.

Even robust economies with strong budgets and ample reserves have been walloped by the capital crunch. Two weeks ago, the Mexican peso suffered its steepest drop since the peso crisis of December 1994. The Brazilian real and the Korean won have plunged by a quarter against the dollar.

Given the depth of the crisis here, it might be tempting to ignore the plight of developing economies. But it is in the clear economic interest of wealthy nations to help. The I.M.F. expects these countries to be the only engine of global growth in the next year or so.

Fortunately, some people are thinking ahead. The International Finance Corporation, an arm of the World Bank, is mulling a \$3 billion fund to help recapitalize shaky banking systems in the world's poorest countries. The Inter-American Development Bank said it would increase its

lending and announced a \$6 billion facility to help companies in smaller Latin American countries that lose access to funding.

The I.M.F. said it is flush with cash — \$200 billion plus an additional \$50 billion in standing credit arrangements with donor countries — to mobilize if needed. For that it will need the go-ahead from the United States and other big contributors. The I.M.F. must also be ready to relax — within reason — the battery of preconditions it usually attaches to its help.

The world's richest countries have exhibited enormous myopia throughout this crisis — originally scurrying for ad hoc individual “solutions” that worsened the collective mess. Less than two weeks ago, Washington and Brussels allowed Iceland to go bust.

As the world's financial powers struggle to contain the disaster, they should not lose sight of its effect on other countries. Every economy for itself makes no sense — and could prove highly dangerous — in today's interconnected world.

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