Asian emerging economies like China and India, but also the smaller ones such as the NIEs or the Asean-5, have matured enough so that a US recession would not affect them as much as was the case in the past. Well, few believe that any more -- Martin Wolf of the Financial Times put it as a "wish-dream."

Recent World Bank reports detail how the developing world is vulnerable to the global financial crisis, with dwindling capital flows, huge withdrawals of capital leading to losses in equity markets, and skyrocketing interest rates. There are three reasons why the global financial crisis has evolved differently from other major crises to have hit the developing world: it is occurring in the context of increased financial globalisation; its origins are outside the developing world; and its impacts follow on from high food and oil prices.

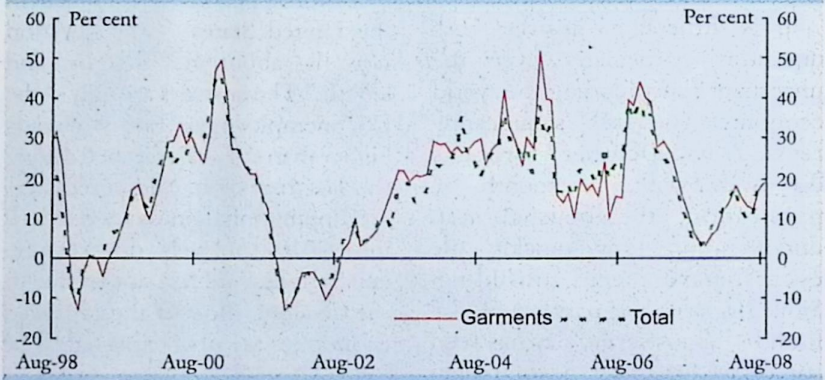
Unsurprisingly, countries with weaker fundamentals -- large current account deficit, signs of overheating, rapid credit growth -- have been more affected. However, countries that are less integrated into the global economy have been relatively unscathed. Aid-dependent countries have been vulnerable to disbursement shortfalls and changing donor priorities. Going forward, possible consequences for developing countries include falling exports, severe reductions in private capital flows and investment, increasing sovereign debt burdens, and government balance sheet deterioration.

Table 2: Real GDP growth in Bangladesh

	Actual		Forecasts	
	2006	2007	2008	2009
Bangladesh Bank*	6.6	6.4	6.2	6.2-6.5
Consensus*	6.5	6.2	5.8	5.7
IMF	6.5	6.3	7.0	5.6
ADB*	6.6	6.4	6.2	6.5

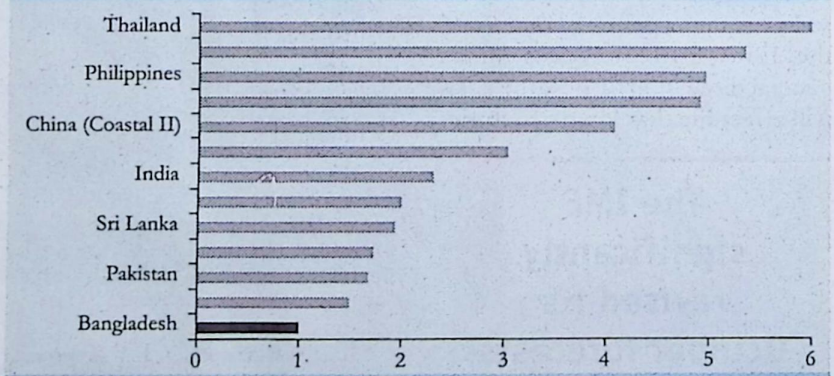
*Financial year (for example, 2008 refers to the year ending June 30, 2008). Source: Mujeri MK and Md Shahiduzzaman, *Navigating the global financial storm: challenges for Bangladesh*, Policy Paper 903, Bangladesh Bank, November 2008; Consensus Forecasts, November 2008; IMF WEO, October 2008, available at: http://www.imf.org/external/pubs/ft/weo/2008/02/; ADB Asian Development Outlook (ADO) update, September 2008, available at: http://www.adb.org/Documents/Books/ADO/2008/update/Part03-BAN.pdf.

Chart 2: Exports growth (through the year, 3-month moving average)



Source: CEIC Asia database.

Chart 3: Relative labour costs in the garments sector, March quarter 2008 (Bangladesh = 1)



Source: AT Capital Weekly Update, November 16, 2008.

Bangladesh Economic Outlook

Given the crisis, one would expect a weak outlook for Bangladesh. However, all things considered, growth forecasts for Bangladesh contain a rather sanguine view in the near term. Table 2 lists these forecasts.

The Asian Development Bank publishes a chapter on Bangladesh. The ADB's forecast for 2008-09 is 6.5 per cent -- unchanged from six months earlier, and is quite optimistic given the world recession. Their prediction is underpinned by: an expected manufacturing recovery, with growth reaching the pace recorded before production was upset by recent political upheavals on the back of strong export performance of garment and knitwear; continuing service boom, with consumption being supported by continued remittance growth; and an investment recovery boosted by improved confidence assuming political stability.

It ought to be noted that the ADB forecast was published before the most virulent phase of the global financial crisis was triggered by the collapse of Lehman Brothers in mid-September. The IMF fore-