



Indonesia: A market where smiles are hard to find

Financial and Economic Crisis

Support for Developing Countries in the Global Financial Crisis

In 2008, the global financial crisis that began with the subprime loan crisis in the United States led to a severe deterioration in cross-border financing conditions. This was largely caused by systemic weaknesses in the global financial system, and rapidly led to a decline in export activity on the back of falling global demand. This had an immediate and devastating global impact on the real economy. Since October 2008, the IMF has revised its outlook for the world economy downward on numerous occasions. The global economic recession has become so grave that it is now referred to as a "once-in-a-century crisis."

Severe Blow to Socially Vulnerable People in Developing Countries

In addition to sluggish private-sector economic activity caused by falling demand and fluctuating primary commodity prices, declining government revenues and eroding foreign currency reserves primarily in the developing countries of Asia and Africa, together with budget deficits in all countries—caused by pressures against rising expenditures such as economic stimulus packages—are expanding. As a direct result, sluggish financial markets have created adverse conditions for the procurement of funds. On this basis, and without global support for early and effective measures to stimulate the economies of vulnerable people in each country, there are concerns that the impact on people living in poverty, women, children and the disabled could assume serious proportions. This in turn would further slow private-sector economic activity and reduce aid for food, education and medical care, areas that directly affect human lives.

At the 2nd Summit on Financial Markets and the World Economy held in London in 2008, there was a clear view expressed regarding the importance of avoiding the repetition of such crises. The Summit issued a strong statement about (1) growth and employment recovery, (2) strengthening financial oversight and regulation, (3) creating stronger international institutions, (4) opposing protectionism, and (5) pursuing development. In response, the international community was urged to stand united and take action.

The Japanese Government's Commitment:

To Support the Strengthening of Asia's Growth Potential, Expand Domestic Demand and Create a Stronger Social Safety Network (SSN)

The Japanese government affirmed the importance of the role of Asia—which has nearly 40% of the world's population, a nearly 4% average recent growth rate and the world's greatest potential—as an "open growth engine" of the global economy in restoring global economic growth. To strengthen Asia's growth potential and boost growth in Asia's domestic demand, the Japanese government made a commitment to provide ODA of up to ¥2 trillion, which includes ODA Loan for emergency financial support of up to ¥300 billion.

To overcome this crisis, we must (1) ensure international liquidity for countries that are dependent on the conversion of government debt into external loans, (2) restore their financial capability by improving the balance sheets of financial institutions, including recapitalization in countries that are facing financial crisis, and (3) secure trade financing through public support for countries that are experiencing an excessive contraction of trade and economic activity brought about by the global credit crunch.

Furthermore, coordinated economic stimulus policies that include developing countries are effective in restoring the global economy. In developing countries that have large numbers of people living in poverty, particularly in Asia and Africa, we need to ensure a constant level of government spending and, along with economic recovery, continue to reinforce the social safety

net in order to sustain appropriate economic and social development.

JICA's Initiatives

In light of experience gained during the Asian currency crisis of 1997, JICA has helped developing countries to bolster and restore their economies, strengthen their social safety nets and maintain and promote private-sector economic activity with the aim of stimulating economies and sustaining appropriate economic and social development. In parallel, it continues to assist in the implementation of development programs and economic and social reform.

In its efforts to help bolster and restore business conditions, strengthen the social safety net and maintain and promote private-sector economic activity, JICA supports the strengthening of Asia's growth potential and expansion of domestic demand based on the Japanese government's policies. At the same time, JICA provides assistance that encompasses policy and institution building, human resource development and poverty reduction efforts. In addition, it emphasizes the provision of immediate support, promotes and follows

through on past projects, and focuses on providing cooperation for financial support-type program loans¹ created by international organizations and developing countries. JICA is using institutional finance (two-step loans²) as a means to maintain and support private-sector economic activities that contribute to supporting business by expanding domestic demand.

To convert these measures into tangible results, it is essential to develop the human resources of developing countries. Leveraging its accumulated experience in providing intellectual support through Technical Cooperation, JICA has created effective packages (JICA Cooperation program) in the form of Technical Cooperation or loan and Grant Aid, which include financial cooperation that takes into consideration the sustainability of the developing country's finances and debt, and appropriate capacity development based on policy planning and performance capacity.

During the 1997 Asian currency crisis, the comparatively sound developed economies were the engines for recovery. Although most countries returned to a stable growth track in a

relatively short period of time, because of the absence of an engine to drive recovery from the global recession during the current global financial and economic crisis, the return to a stable growth track is expected to be more prolonged.

JICA will continue to swiftly provide the above-mentioned support via financial and Technical Cooperation and to undertake medium- to long-term efforts to protect, above all, the lives of the socially vulnerable.

¹ JICA provides loans to partner country governments for the implementation of economic reform and other policy programs.

² JICA provides ODA loan funds to the development finance organization of the borrowing country and the development finance organization then allocates those funds to small and medium-sized businesses.



The global financial crisis increased stress in the lives of ordinary people (Cambodia).