Coping with Crisis: Lessons from Asia and Latin America

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1. Introduction

- Both Asia and Latin America experienced serious financial crises.
- Both regions recorded high rate of growth with sound macro-economic conditions after financial crisis and reforms
- Common and different lessons Asia and Latin America learned from their crises and reforms could give us useful insight for African development
2. Latin America: Repeated Crises and Recovery

- 1982: Debt Crisis in most of Latin American countries
- Reforms in 80s and 90s
- 1994: Financial crisis in Mexico
- 1998: Financial crisis in Brazil
- 2001: Financial crisis in Argentine
- 2003-07: Recovery (6% growth per year, the highest rate since 70s) with lower inflation rate
- LAC 7 (Argentine, Brazil, Chile, Colombia, Mexico, Peru and Venezuela) account for 91% of LAC’s GDP
b. Inflation
(LAC-7 median, CPI Annual Variation)

IDB, All That Glitters May Not Be Gold: Assessing Latin America’s Recent Macroeconomic Performance, 2008
Latin America: Lessons learned from crises

- Improvement in fundamentals made Latin America less vulnerable to adverse external shocks and financial crisis.
- Improvement in fundamentals allowed Latin America to sustain high levels of growth in last five years 2003-07. (Together with favorable external factors: strong world growth, high commodity prices and benign financial conditions)
LAC: Sound Economic and Financial Policies

- Fiscal position: regions’ overall surplus of 1.5% of GDP in 2007
- At the peak of the previous expansionary period LAC 7 exhibited a fiscal deficit of 0.9% of GDP
- Brazil: a sizable primary surplus (overall deficit due to a high debt burden)
- Other LAC 7: in balance or a surplus

**c. Fiscal Balance**

(LAC-7, % of GDP)
LAC: Lower debt levels and less risky debt

- Significant reduction in public debt levels: from 51% of GDP in 2003 to 35% in 2007
- Debt riskiness has been reduced (Risky debt includes foreign-currency debt, short-term debt and variable interest rate debt)
- Major improvement in debt composition: Foreign-currency debt in total public debt fell from 65% in 1998 to 38% in 2007
- Maturity has been lengthened: Public debt maturing in the next twelve months has declined from 6.9% of GDP to 4.8% of GDP
All That Glitters May Not Be Gold: Assessing Latin America’s Recent Macroeconomic Performance, 2008

**d. Public Debt**

(LAC-7, % of GDP)

- 1991: 45%
- 1993: 40%
- 1995: 42%
- 1997: 30%
- 1999: 35%
- 2001: 50%
- 2003: 55%
- 2005: 40%
- 2007: 35%
All That Glitters May Not Be Gold: Assessing Latin America’s Recent Macroeconomic Performance, 2008

a. Debt Riskiness*
(LAC-7 excluding Peru, Risky Debt, % of Total Domestic Debt)
LAC: Reduced Exposure to External Shock

- Improvement in the current account: LAC 7 from a deficit of 3.0% of GDP in 1997 to a surplus of 2.2% of GDP in 2007
- Strong build-up of international reserves
- Pre-crisis: Previous expansions were associated with large current account deficit and thus, heavily dependent on a steady flow of external financing
- Post-crisis: Exposure to sudden stops in capital flows has been mitigated
f. Current Account
(LAC-7, Billions of US Dollars and % of GDP)

FIGURE 10  Capital Flows to Latin America (LAC-7, Billions of US Dollars)

LAC-7 is the sum of the seven major Latin American countries, namely Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. These countries represent 91 percent of Latin America’s GDP.

Data Source: Based on IFS.

IDB, All That Glitters May Not Be Gold: Assessing Latin America’s Recent Macroeconomic Performance, 2008
g. International Reserves**
(LAC-7, Billions of US Dollars)

IDB, All That Glitters May Not Be Gold: Assessing Latin America’s Recent Macroeconomic Performance, 2008
Impact of the current financial turmoil to Latin America

- As mentioned, improvement in fundamentals made Latin America less vulnerable to adverse external shocks and financial crisis.

- However,
  - LAC have not “decoupled” themselves from advanced nations: Some of them are still fragile and affected by the current financial turmoil (According to Sebastian Edwards, Ex-chief economist for LA, WB), and therefore
  - Price of stocks lowered in LAC stock exchanges
  - LAC’s currencies depreciated
  - In some of LAC, cost of external financing soared
Some of LAC “need to create a robust economy with a high and sustainable growth rate.” “Agility, dynamism, productivity and economic policies that promote efficiency and enterprises are required.” (Sebastian Edwards, Ex-chief economist for LA, WB)

- LAC need to strengthen regional integration and cooperation to reduce their fragility
Competitive sectors and enterprises

- In the process of reforms after crises, competitive sectors and enterprises have emerged in Latin America such as:
  - Car and electronics industries in Mexico (due to NAFTA and other FTA or EPA)
  - Car, steel, electronics, agro-industry, etc. in Brazil
  - Natural resource related sectors, non traditional export sectors in Chile
  - However, as mentioned above, economic policies that promote efficiency and enterprises are required
2. Asia: 1997 Financial Crisis and Robust Recovery

- The East Asian Miracle
- 1997 Financial Crisis
- Reforms
- Robust Recovery
Figure 2.2. Successive waves of rapid development
Growth rates of per-capita GDP of selected Asian economies

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, NIE = newly industrializing economy, PRC = People’s Republic of China.
Asian NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
ASEAN-5 economies include Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.
(accessed October 2007).

Source: ADB, Emerging Asian Integration, 2008
Figure 2.3. Timeline of the Asian financial crisis
June 1996–June 1999

Source: ADB, Emerging Asian Integration, 2008
Figure 2.4. Asia’s robust recovery
Real GDP growth rates of selected Asian economies

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, NIE = newly industrializing economy.
Asian NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
ASEAN-5 economies include Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.
Asia: Lessons Learned from the Crisis

- Reforms
- Regional Cooperation and Integration
- In this process, competitive sectors and enterprises have been expanded in Asia
Asia: Reforms

- **Sound Macroeconomic management**
- Sound fiscal policy
- Limit public debt
- Limit current account deficit
- *Other measures to prevent or reduce the risk of crises*
<table>
<thead>
<tr>
<th>National measures</th>
<th>Regional measures</th>
<th>Global measures</th>
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<tbody>
<tr>
<td><strong>Preventing or reducing the risk of crises</strong></td>
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<tr>
<td>Adopt sound macroeconomic management</td>
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<tr>
<td>1. Apply nonconventional monetary policy</td>
<td>Strengthen regional policy coordination</td>
<td>Strengthen IMF surveillance and policy advice</td>
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<td>2. Minimize fiscal policy</td>
<td>Maintain early warning system</td>
<td>Strengthen private-sector monitoring (rating agencies)</td>
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<tr>
<td>3. Limit public debt</td>
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<tr>
<td>4. Limit current account deficits</td>
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<tr>
<td>5. Maintain data transparency</td>
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<td><strong>Adopt sustainable exchange rate regime</strong></td>
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<tr>
<td>1. Adopt viable exchange rate regime</td>
<td>Strengthen regional exchange rate coordination</td>
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<tr>
<td>2. Ensure consistency between exchange rate regime and macroeconomic policy</td>
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<td><strong>Manage risk in the national balance sheet</strong></td>
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<tr>
<td>Maintain adequate foreign exchange reserves</td>
<td>Monitor short-term capital flows and remove regulatory biases that favor short-term external lending</td>
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<tr>
<td>Monitor short-term capital flows</td>
<td>Monitor short-term capital flows and remove regulatory biases that favor short-term external lending</td>
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<tr>
<td>Liberalize capital account controls</td>
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<td><strong>Manage risk in the financial and corporate sectors</strong></td>
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<td>Strengthen financial regulation and supervision</td>
<td>Help develop regional capital markets</td>
<td>Strengthen financial sector monitoring and supervision</td>
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<td>Improve disclosure and information transparency</td>
<td>Support international standards and codes in regulation and supervision</td>
<td>Implement international standards and codes</td>
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<tr>
<td>Strengthen governance in financial and corporate sectors</td>
<td>Support best practice governance</td>
<td>Support best practice governance</td>
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<tr>
<td>Develop capital markets</td>
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<td><strong>Managing crises effectively</strong></td>
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<td>Mobilize timely and adequate external liquidity</td>
<td></td>
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<tr>
<td>1. Adopt consistent policy packages</td>
<td>Establish regional liquidity support</td>
<td>Expand and accelerate IMF liquidity support</td>
</tr>
<tr>
<td>2. Minimize fiscal hazard</td>
<td></td>
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<tr>
<td>Tailor macroeconomic and structural policies to crisis specifics</td>
<td>Strengthen regional capacity to advise on adjustment</td>
<td>Streamline IMF conditionality on macroeconomic and structural policies</td>
</tr>
<tr>
<td>Tailor monetary and fiscal policies to specifics of the crisis and the economy</td>
<td></td>
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<tr>
<td>Bail-in private international investors</td>
<td>Establish international rules for private sector involvement</td>
<td>Establish international rules for private sector involvement</td>
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<tr>
<td>Impose official standstills</td>
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<tr>
<td>If necessary, impose private sector involvement</td>
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<td><strong>Resolving the systemic consequences of crises</strong></td>
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<tr>
<td>Resolve impaired bank assets and corporate liabilities</td>
<td>Help finance bank and corporate restructuring</td>
<td>Establish international procedures for the resolution of non-governmental debt</td>
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<td>Establish procedures for bank exits and recapitalization</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
<tr>
<td>Establish procedures for corporate workouts</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
<tr>
<td>Include insolvency clauses in debt issues</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
<tr>
<td>Support vulnerable groups through social sector policies</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
<tr>
<td>Strengthen safety nets and support hard-hit populations</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
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<tr>
<td>Provide support to finance social sector programs</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
<tr>
<td>Provide support to finance social sector programs</td>
<td>Help finance bank and corporate restructuring</td>
<td>Help finance bank and corporate restructuring</td>
</tr>
</tbody>
</table>

IMF = International Monetary Fund.
Source: Based on Kawai 2007b.
Asia: Macro-economic Soundness
Attained by post-crisis reforms

- Low inflation rate
- Lower fiscal deficit
- Low public debt
- Current account surplus
- Increase of foreign exchange reserves
- Lower non performing loans
  (Improvement of bank efficiency)
Figure 5.7. Variations in Asia’s fiscal indicators

a. Central government fiscal balance 4-year averages, 2000-2007

b. Gross public sector debt, 2007

Source: ADB, Emerging Asian Integration, 2008
Figure 5.11. Rising current account surpluses

GDP = gross domestic product.
Notes: The five most crisis-affected countries are Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand.

Source: ADB, Emerging Asian Integration, 2008
Figure 5.12. Rising foreign exchange reserves
Integrating Asia, 1998–2007 (excluding gold)

PRC = People’s Republic of China.
Notes: Data include the most recent month available. For Brunei Darussalam, the most recent data are for December 2006.

Source: ADB, Emerging Asian Integration, 2008
Asia: Regional Cooperation and Integration as Another Measure to Reduce Vulnerability to External Shock and Enhance Competitiveness

- Trade policy coordination
- Macroeconomic links
- Intraregional trade
- Intraregional foreign direct investment
- Equity market
- Tourism
- In this process
- FTA and regional integration
- Regional cooperation (such as Chang Mai Initiative)
- Physical integration by regional or sub-regional infrastructure
Figure 2.7. Advancing integration: regional indicators, pre- and post-crisis

Trade policy cooperation

0.43
0.63

0.61
0.65

0.35
0.52

Foreign direct investment

0.52
0.72

Equity markets

0.27
0.53

Intra-regional trade

0.35
0.52

Macroeconomic links

0.07
0.54

Notes:
- Data are calculated for the 16 integrating Asian economies, except as noted below.
- Trade policy cooperation: Density of free trade agreements among integrating Asian economies (share of pairwise trade relations that are under a free trade agreement, with a weighting of 1.0 for concluded agreements, 0.5 for agreements under negotiations, 0.25 for agreements under study)—pre-crisis until 1997; post-crisis: 1998-2007.

Sources of data:
- Equity markets: Asian Development Bank staff elaborations from Bloomberg data.

Source: ADB, Emerging Asian Integration, 2008
Figure 2.5. Increasing intraregional trade shares
Long-term trend: 1955–2005

Notes:
European Union includes all 25 members as of 2005.
Integrating Asia includes Brunei Darussalam; Cambodia; People’s Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People’s Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.
The intraregional trade share is defined as: \( \frac{X_i^r + M_i^r}{X_i + M_i} \) where \( X_i^r \) is exports of region \( r \) to region \( i \); \( M_i^r \) is imports of region \( r \) from region \( i \); \( X_i \) is total exports of region \( i \); and \( M_i \) is total imports of region \( i \).

Source: ADB, Emerging Asian Integration, 2008
**Figure 3.4. Increasing trade links**

Trade of Integrating Asia as a share of GDP by destination

<table>
<thead>
<tr>
<th>Year</th>
<th>Integrating Asia</th>
<th>European Union</th>
<th>United States</th>
<th>Rest of the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>1996</td>
<td>20</td>
<td>10</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>2006</td>
<td>30</td>
<td>20</td>
<td>30</td>
<td>50</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.

Notes:
- Trade is import + export.
- European Union includes the 25 countries that were members as of 2006.
- Integrating Asia includes Brunei Darussalam; Cambodia; People’s Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People’s Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

Figure 7.1. Economic architecture: regional and transregional forums

APEC = Asia-Pacific Economic Cooperation; ASEAN+3 = ASEAN plus three countries, as shown; ASEAN = Association of Southeast Asian Nations; ASEM = Asia-Europe Meeting; EAS = East Asia Summit; CAREC = Central Asia Regional Economic Cooperation; FSM = Federated States of Micronesia; Lao PDR = Lao People’s Democratic Republic; PIF = Pacific Islands Forum; PRC = People’s Republic of China; SAARC = South Asian Association for Regional Cooperation.

Notes:
ASEM includes also the European Commission as a member.
For CAREC, the PRC’s membership is focused on the Xinjiang Uyghur Autonomous Region.

Source: ADB, Emerging Asian Integration, 2008
Table 5.5. Swap arrangements under the Chiang Mai Initiative
$ billions as of January 2008

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
<th>PRC</th>
<th>Japan</th>
<th>Rep. of Korea</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC</td>
<td>Japan</td>
<td>3.0</td>
<td>13.0</td>
<td>2.0</td>
<td>1.5</td>
<td>2.0</td>
<td>6.0</td>
<td>1.0</td>
<td>2.0</td>
<td>38.0</td>
</tr>
<tr>
<td>PRC</td>
<td>Korea, Rep. of</td>
<td>4.0</td>
<td>8.0</td>
<td>2.0</td>
<td>1.5</td>
<td>2.0</td>
<td>6.0</td>
<td>1.0</td>
<td>1.0</td>
<td>18.0</td>
</tr>
<tr>
<td>PRC</td>
<td>Indonesia</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>18.5</td>
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<tr>
<td>PRC</td>
<td>Malaysia</td>
<td>1.5</td>
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<td></td>
<td></td>
<td>1.5</td>
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<tr>
<td>PRC</td>
<td>Philippines</td>
<td>0.5</td>
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<td></td>
<td></td>
<td>2.0</td>
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<tr>
<td>PRC</td>
<td>Singapore</td>
<td>1.0</td>
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<td>1.0</td>
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<tr>
<td>PRC</td>
<td>Thailand</td>
<td>3.0</td>
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<td>4.0</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>7.0</td>
<td><strong>15.5</strong></td>
<td><strong>23.0</strong></td>
<td><strong>12.0</strong></td>
<td><strong>4.0</strong></td>
<td><strong>10.0</strong></td>
<td><strong>3.0</strong></td>
<td><strong>9.0</strong></td>
<td><strong>84.0</strong></td>
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<tr>
<td>ASEAN Swap</td>
<td></td>
<td>2.0</td>
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<td></td>
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<tr>
<td>Arrangements</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>7.0</td>
<td><strong>15.5</strong></td>
<td><strong>23.0</strong></td>
<td><strong>12.0</strong></td>
<td><strong>4.0</strong></td>
<td><strong>10.0</strong></td>
<td><strong>3.0</strong></td>
<td><strong>9.0</strong></td>
<td><strong>86.0</strong></td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations, PRC = People’s Republic of China.
Expansion of competitive sectors and enterprises after crisis both in Asia and Latin America

- Economic Reforms made private enterprises more competitive in both regions
- In Asia, in addition, market-led regional and/or sub-regional integration made private enterprises more competitive. (Strengthened “Flying Geese”)

(Strengthened “Flying Geese”)

(Strengthened “Flying Geese”)
Figure 3.1. Networking: sourcing of parts and components for a hard disk drive

Note: The production of hard disk drives requires several parts and components. The example shows the actual sourcing of parts and components of a hard disk drive assembly firm in Thailand. The largest majority of parts and components are sourced from other integrating Asian economies. Hard disk drives are used in several electronic products. The hard disk drive assembler in Thailand exports a large share of its production to electronic firms mostly in other integrating Asian economies.

Source: Adapted from Hiratsuka 2006.
Figure 2.3: Interdependence of auto manufacturing within ASEAN

Source: Nomura Research Institute, Ltd. (2004).
markets are developing where people are concentrated. Urbanization is large and rapid in most countries, perhaps adding 25 million city dwellers every year for the next two decades. Most of these people will move to small and medium-size cities of less than 1 million people, not to major metropolitan areas. Managing these small cities efficiently and integrating them into the national economies will be a crucial task for reducing distance and sustaining growth.

Meanwhile, East Asia still faces strategic questions about how to bring down divisions between countries in the region. ASEAN’s two-speed process shows how hard it is for countries with different incomes and economic structures to integrate deeply. No formal process of economic integration brings together all the economies of the region. A first attempt to start a regional dialogue was at the East Asia Summit in Kuala Lumpur, Malaysia, in December 2005. The summit called for financial stability, energy security, poverty eradication, and narrowing gaps between countries. It underscored the challenges that still divide the region: cross-border migration, environmental spillovers, diversity of governance standards, and cultural understanding. Other interesting experiments to foster regional integration are under way, such as within ASEAN+3, but the institutional leadership to forge a common future is fragmented. Even so, leading scholars have noted that “the emergence of an integrated East Asia is inevitable and necessary.” The challenge is figuring out how to make this happen quickly.

Contributed by Homi Kharas.

significant as an economic force in the region? One answer perhaps lies in the development of world-class cities. The major metropolises of Southeast Asia need to develop themselves into “sticky places,” attracting and retaining global talent. Meanwhile, the integration of Australia and India into the region might alter the dynamics of place, offsetting to some degree the northward drift of Asia’s economic center of gravity.

The problems encountered by countries distant from the major markets of the region are echoed in lagging areas within countries. Significant poverty remains in East Asia, with high poverty rates in areas like western China, southern and eastern Philippines, Thailand’s northeast, and Vietnam’s central highlands. The gap between per capita incomes in the richest and poorest provinces of China—negligible under the imperial dynasties of the past—has swelled to 13.1:1 (compared with 2.1:1 in the United States). Although many have moved closer to prosperous areas, overcoming the geographic distances that isolate these populations is still seen as a major challenge.

Within East Asian countries, people are moving to the markets, and
4. Implications for Africa

- *Africa compared with Asia and Latin America*

- Recent growth rate: Africa’s growth rate is higher than Latin America’s growth and lower than Asia’s growth during 2003-07
Causes of African Growth

- The good news: many of the factors that have contributed to growth collapses in Africa have improved (Page, John, “Hunting for Leopards: Perspectives on Africa’s Recent Growth” 2008)

- Better economic management (lower inflation, etc.; however economic fundamentals remain weak)
- More competitive exchange rate
- Better institutions
- Better governance
- Fewer conflicts
Africa still remains vulnerable

- In spite of high growth rate in last five years: The region remains **vulnerable to outside shocks and changes in commodity prices** (Page, John, “Hunting for Leopards: Perspectives on Africa’s Recent Growth” 2008)
Then, How to Reduce Vulnerability to External Shocks

In order to reduce vulnerability to external shocks: Lessons from Asia and Latin America suggest the importance of:

- Sound macro-economic management (Common factors of growth in Asia and Latin America in post crises period; certain progress in Africa)
- Regional integration and cooperation (Specially relevant in Asia; some progress in Latin America)
- Promotion of competitive sectors and enterprises (Specially relevant in Asian experience; some progress in Latin America)
Asia has been successful in regional integration and cooperation: Implications for Africa

- World Development Report 2009 mentions regarding Africa: “……transport links can help domestic markets grow. And regional and global integration can promote trade. Regional integration, labor mobility, investments in trade, communication and transport infrastructure, peace and stability should remain high on the agenda. They can create good neighborhoods, and better neighborhoods will facilitate investment, trade, and factor mobility in a cycle of prosperity” (p.285)
The Yokohama Action Plan (TICAD IV Process) is important not only to attain self-sustainable economic growth but also to cope with crisis.

- TICAD IV process will promote a “Vibrant Africa” and its accelerated economic growth and diversification through support of infrastructure development, trade, investment and tourism, and agriculture. (Yokohama Action Plan, p.1)
Infrastructure in Yokohama A.P.

- Regional transport infrastructure
- Regional power infrastructure
- Water-related infrastructure
- Enhanced involvement of regional institutions
- Promotion of public private partnership in infrastructure
Trade, investment and tourism in Yokohama A.P.

- Promote and expand trade
- Encourage foreign investment
- Assist private sector development
- Promote tourism
Agriculture and rural development in Yokohama A.P.

- Enhance capacity to increase food production and agricultural productivity
- Improve access to markets and agricultural competitiveness
- Support sustainable management of water resources and land use
Thank you very much
References


(continued)
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- Page, John, “Hunting for Leopards: Perspectives on Africa’s Recent Growth” 2008
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- Fernandez-Arias, Eduardo, Rodolfo Manueli and Juan S. Blyde (ed.), *Sources of Growth in Latin America: What is Missing?*, IDB 2005