

SUMMARY

No country has proved immune to the devastating effects of the current global financial crisis. But the middle-income countries of Eastern Europe, Latin America, and East Asia, which previously had achieved significant progress—economically and socially—have shown themselves to be particularly vulnerable. The crisis has highlighted important lessons for these countries, which inhabit a twilight zone between the developed and developing worlds—and those that aspire to join their ranks—as they rebuild.

Successful economic policies pursued in the past do not guarantee these countries' immunity from the crisis. In fact, some Eastern European nations have already shown a limited capacity to learn from other countries' previous financial crises—such as Chile's in 1982, Mexico's in 1994, and East Asia's in 1998.

However, as recession hit the developed countries, those whose exports were most affected were the ones that relied excessively on external demand, as recently shown by some East Asian countries. What seems to be needed is growth that is more balanced between external and domestic demand. In some instances, exports have been too concentrated in terms of both products and markets. More diversified economies should be less vulnerable to external shocks, and exports should incorporate the fruits of a knowledge-based economy to increase their value.

The report concludes that the main challenge in a postcrisis agenda for middle-income countries will be reorienting their development strategies and how they formulate their policies to maximize the creation of high-quality jobs, given the likely persistence of very high rates of unemployment, and discusses the political and economic aspects of the reforms that will be required to fulfill this goal.