



Abstract

GLOBAL AND DEVELOPING COUNTRY

BUSINESS CYCLES

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The purpose of the study is to identify and explain the phenomena of so-called business cycles in developing countries. The justification for doing so is, on the one hand, the observation that developing countries appear to be displaying cyclical patterns in their economic activity which are increasingly corresponding to such patterns in the advanced countries, and, on the other hand, the relative dearth of studies of cycles in these countries – the developing countries. It is this lacuna that the present study attempts to contribute to filling.

To do so, the study takes as its point of departure a conception of generic cycles which is fundamentally different from that of mainstream conceptions, and uses this as a basis for a) conceptualizing global and developing country cycles, b) identifying them, and c) discerning their most important drivers. Specifically, and in contrast to mainstream conceptions, cycles are conceived of as recurrent, non-periodic, and non-symmetric, fluctuations in economic activity in relation to trends in these, which are inherent to the functioning of the capitalist system. They are seen as distinct from random fluctuations in economic activity that are the result of exogenous shocks to the system – the mainstream conception of cycles. Global cycles are conceived as the synchronised cyclical movement of a majority of countries comprising the global economic system. Cycles in developing countries are conceived of with reference to the global cycles. Particular importance in their conceptualization is attached to the distinction between cycles and fluctuations since these economies are seen as being subject to a large number of shocks leading to many fluctuations over the course of their cyclical movements.

Mainstream methods of identifying cycles are critically assessed with a view to developing an alternative methodology for cycle identification at the generic, global and developing country levels. Mainstream methods which identify cycles by means of the use of filters, mathematical models, *maxima* and *minima*, and the like, are rejected in favour of the identification of cycles on the basis of an *ex post* identification of cycle bottoms (not cycle *minima*). Cycles in economic activity are depicted by cycles in real GDP growth rates notwithstanding the known problems with this variable because of the need to construct composites of country cycles and make comparisons between clusters and individual countries. As in most cycle identification methods, importance is accorded to the derivation of trends. However, non-linear trend derivations are preferred to linear trend derivations. These alternative cycle identification methods are then used to identify global cycles and cycles in developing countries. Cycles are shown to exist at the global and individual developing country levels. At the global level it is shown that, for the period under consideration, most countries do indeed tend to have cycle bottoms at the same time, and that the movement of a composite of non-weighted real GDP growth rates of all countries comprising the global economic system is very similar to the movement of the weighted composite of the same. It is further shown that similar synchronised cyclical movements can be observed for clusters of developing countries based on income level and structure of production with reference to the cyclical movement of the global economy, although, as one might expect, there are differences between the degree of synchronization of the cycles of different developing country clusters and the global cycles.

The global cycles is shown to be driven by global manufacturing, and developing country cycles by the global cycles through both visual inspection of the data and econometric analyses (by way of confirmation

of the observations). With regard to the former, it is argued that with China now assuming the mantle of the leading global manufacturer one can discern certain signs of its growing importance in driving the global cycles, albeit together with the large advanced country manufacturers. One implication of this is that the U.S. economy can no longer be seen as impervious to what is happening in the rest of the world, particularly in China and Europe. The driver of developing country cycles is shown to be the global cycles, although, as with the identification of these cycles, there are shown to be important differences between clusters of developing countries. Specifically, cycles in economic activity in low-income, commodity-producing developing countries that are prone to experience random fluctuations in economic activity as a result of their greater propensity to be impacted by all manner of shocks tend to be less driven by global cycles than middle-income, manufacturing-based developing countries that experience less non-cycle-related economic fluctuations.

A fundamental policy implication of the study is that policy makers in all countries, including those in the advanced countries, would do well to consider the state of the global cycles when deciding on appropriate macroeconomic policies for their economies. This is particularly important for policy makers in developing countries since these countries are more the recipients of impulses from the global economy than sources of these impulses. The exception among the developing countries is China, given its increasing role as a generator of global impulses than a recipient of these. Indeed, the policy implication for China, as with the large advanced countries, is to adopt more countercyclical policies, as indeed it has been aggressively doing in the last few years.