

United Nations slashes growth forecast

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United Nations economists have sliced one percentage point off their economic growth forecasts for this year and next, in the wake of the terrorist attacks on the United States. According to the UN, the world economy will grow by only 1.4 percent this year, compared to an earlier forecast of 2.4 percent. This represents a reduction in economic activity of around \$US700 billion. Moreover, recovery next year would be “dilatory and tepid”, lifting growth to just 2 percent, compared to an earlier forecast of 3 percent. This means that, using the 2.5 percent growth benchmark favoured by many economists, the world economy will be in recession for two years.

The UN is not the only body reassessing its previous growth estimates. Speaking at a news conference in Helsinki on Wednesday, International Monetary Fund (IMF) managing director Horst Koehler warned that the IMF would soon revise down its pre-September 11 forecast of 2.6 percent growth for the world economy this year. “There will be a revision in the forecast in the next weeks depending on information and indicators which are really solid and taking into account the reaction of consumers and investors after the attack,” he said.

Koehler predicted there would be a recession in the Japanese economy of between 0.5 percent and 1 percent this year—an assessment echoed in the Japanese government’s October economic report, which declared that the “economy continues to deteriorate.”

Outlining the UN forecast, Ian Kinniburgh, who led the team that prepared the report, said that even without the terrorist attacks, a downward revision would have been necessary because the world economy was slowing more rapidly than anticipated. But the slowdown had been “aggravated and exacerbated” by the “shock waves” after September 11.

In line with its admittedly “gloomy outlook” for the world economy, the UN said international trade was

expected to register “virtually no growth” in 2001 and then recover to growth of between 4 percent and 5 percent in 2002.

Other forecasters have also pointed to the decline in world trade. Morgan Stanley chief economist Stephen Roach told Reuters he was projecting that world trade would grow by only 1 percent this year, compared to 13 percent in 2000. “This is the sharpest deceleration between two consecutive years in all the years the world trade statistics have been tabulated,” he said. “We have gone from boom to bust in a very short period of time.”

The United States economy has been hit particularly hard. Last year exports of goods and services reached a high of 11.4 percent of gross domestic product. This year they have dropped by nearly a percentage point, representing a decline of \$100 billion in just nine months.

But according to the UN, the economies in East Asia are likely to be the most seriously affected by the global slowdown. Growth projections there for 2001 have been cut from 4.1 percent to 1.7 percent, while in Africa they have been reduced from 4.3 percent to 3 percent and in Latin America from 3.1 percent to 0.8 percent.

The impact of the gathering global recession on East Asia is most clearly visible in Singapore. This week the Singaporean government reported that, according to its initial estimates, the economy had contracted 5.6 percent in the third quarter compared to a year ago, indicating that the island economy was moving into its worst recession since gaining independence in 1965. It warned that when the actual figures were released in the middle of next month, they could be even lower.

At the same time, the government predicted that gross domestic production for 2001 could contract by as much as 3 percent—compared to earlier forecasts of a rise of between 0.5 percent and 1.5 percent—and that it

did not expect a recovery until the second half of next year. “The attacks and the resulting uncertainty have made the situation much worse, removing all hopes of an early recovery,” said trade minister George Yeo.

The Singapore economy has been hammered by the steep decline in the hi-tech communications and information technology industries. But that may not be the only problem facing the region. According to Anand Aithal, regional strategist for Goldman Sachs in Singapore: “The downturn is now spreading beyond information technology to other industries and commodity producers.”

An indication of how far and how fast the hi-tech slide has proceeded was provided by this week’s announcement by Motorola that it was slashing another 7000 jobs from its workforce and that it had lost \$1.4 billion in the September quarter. The latest cuts take Motorola’s total job losses so far this year to 39,000—a 26 percent reduction in its workforce. And the company’s president and chief operating officer, Robert Grouney, indicated there could be more. “Motorola will continue to take appropriate cost-reduction actions,” he said.

With their economies hit by the hi-tech slump and increased uncertainty throughout the world economy, East Asian governments are embarking upon various stimulus packages. The Singapore government has announced it will introduce a “major” package of measures to cut business costs and reduce job losses, while Hong Kong has announced a multi-billion dollar program that includes increased jobs in the public sector, rebates for homeowners and aid to small and medium-sized businesses. Hong Kong’s chief executive Tung Chee-hwa said the territory faced “accelerated economic slowdown, a rise in unemployment, an increase in the fiscal deficit and a delayed recovery.”

In South Korea, President Kim Dae Jung has called for urgent measures to bolster domestic demand and lift exports. The government is reported to be considering a supplementary budget of between \$1.5 billion and \$3.8 billion to try to arrest the slide. The Taiwanese and Malaysian governments have also announced proposals to stimulate their economies.

But even before they have been implemented, economists are casting doubts on the efficacy of such measures. According to Citibank/Salomon Smith

Barney economist, Donald Hanna, domestic stimulus packages could not fully offset the after-effects of the external shock. A report in the October 12 edition of the *Australian Financial Review* described the East Asian economies as “floundering, all but submerged by three tidal waves: the United States and Japan downturns, the September 11 attack and the US response that ensures the word ‘risk’ remains riveted to the forefront of investors’ minds.”

The UN economists’ report also pointed to the changed economic outlook. It warned that the September 11 attacks “inflicted a sizable adverse shock on the world economy and may cause significant changes in a number of key determinants of the global economic outlook.” Business and consumer confidence had been so undermined that the impact of monetary and fiscal policies now underway may be limited, it concluded.



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