Warnings of recession send global share markets plunging

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World share markets plunged again on Friday, as further signs emerged that the global economy is heading for a deep and protracted recession. The largest falls were in Asia, where major exporters are being hit by shrinking markets in the US and Europe.

Japan's Nikkei 225 sank by 9.6 percent, India's Sensex fell 11 percent and South Korea's Kospi plunged 10.6 percent. Across the region, the picture was similar: Hong Kong's Hang Seng was down 8.3 percent, Singapore's Strait Times Index fell 8.3 percent and Taiwan share prices fell 3.2 percent to hit a new five-year low.

Losses for the week across the region's eight top markets totalled nearly $820 billion, according to FactSet Research data. The Kospi was down more than 20 percent, the Nikkei down 12 percent and the Sensex down nearly 13 percent.

Panicked investors reacted to announcements by Samsung of a 44 percent drop in its third quarter profits and by Sony of a cut in its full-year profit forecast by half. Sony cited falling sales, financial stress and a strong yen as the reasons. The shares of major Japanese exporters all suffered huge losses yesterday: Sony fell by 14 percent, Sharp by 13.7 percent, Panasonic by 12 percent, Nikon by 12.4 percent and Toyota by 11.5 percent.

Amid collapsing share prices, European and Asian leaders gathered in Beijing at the Asia-Europe Meeting (ASEM) to discuss the financial crisis sweeping the world. European Union President José-Manuel Barroso urged unprecedented cooperation to deal with unprecedented times. "We sink or swim together," he warned. "We need Asia to be on board and more particularly countries like China and India. The eye of the storm was in the US, but it is a global storm and there will be ripple effects all over the world."

It is already evident that Asia will be hit by more than ripples. The region's heavy reliance on exports makes it particularly vulnerable to any global downturn. Exports accounted for 46.7 percent of gross domestic product in Asia, excluding Japan, in 2007. According to Morgan Stanley Asia Chairman Steven Roach, this is an 11 percent rise since the 1997-98 Asian financial crisis. Asia may not be exposed to the international credit crunch, Roach noted, "but it's certainly levered to the global economy."

In other words, just as banks in Europe and the US are deleveraging by writing down assets, so Asia will have to "deleverage" by slashing its massive buildup in manufacturing capacity. In comments to the *Wall Street Journal*, IHS Global Insight Director William Hess made a similar warning: "The crisis represents an unwinding of global imbalances... The markets are saying that, outside of this financial crisis, there may be lean years ahead as rationalisation takes place" in the Asian manufacturing sector.

Across the region, there are pronounced signs of a rapid economic slowdown. According to some commentators, Japan, which posted a second quarter economic contraction of 3 percent, is already in recession.

Growth rates in China are still high, but have declined sharply from nearly 12 percent last year to 9 percent for the third quarter of this year. Sketchy reports are already emerging from the country's major manufacturing zones of a wave of factory closures and job losses.

South Korea yesterday announced the lowest growth figure in four years for the third quarter—an annualised 3.9 percent. The international ratings agency Moody's recently forecast a growth rate of 2.2 percent for South Korea next year.

For all the grand promises of cooperation in Beijing yesterday, the ASEM summit was fraught with tensions as Asian and European leaders pressed their own economic interests. French President Nicolas Sarkozy declared that Europe would present "a united front" at next month's G-20 summit in Washington and appealed for Asia's support in refashioning the global financial framework.

EU President Barroso called on China to "show a sense of responsibility" in addressing trade imbalances and using its huge foreign currency reserves to help shore up the international financial system. While pledging cooperation, Chinese Premier Wen Jiabao was more concerned with overcoming the "severe shock to global economic growth" that is hitting Chinese exports to the US and Europe.

Recession in Europe and the US

The tensions underlying the ASEM summit will only intensify as the global recession deepens and each country scrambles to shore up its own economic interests at the expense of its rivals. A pessimistic editorial in yesterday's *Financial Times* entitled "Low Expectations Could Get Lower" commented: "When there was just a financial crisis, the problem was runs on banks. Now there is a real economy crisis, and the problem is runs on everything. The global economy is stalling and even low expectations are being dashed."

The editorial continued: "Economic activity across the world, everywhere from the US to China, has fallen back. In the UK, data released this week showed that gross domestic product fell by 0.5 percent in the third quarter. This fall is much bigger than anticipated—but worse may follow. By any sensible definition, the UK is already in a recession."

On Tuesday, the same newspaper produced a map of Europe akin to a weather map covered with economic clouds, storms and uncertainties. The entire continent showed slowing economies and steeply rising unemployment—the only exception showing "some sunny prospects" was the tiny island of Cyprus.

An International Monetary Fund (IMF) report released this week warned that average growth for the Eurozone plus the UK, Sweden and Denmark would be only 1.3 percent this year and 0.2 percent next year. "Confronted with a crisis in the financial system that is of unprecedented scale, scope and complexity, on top of a commodity price shock, it's hardly surprising that Europe's economy is entering a major slowdown," the IMF's acting European director Alessandro Leipold stated. The report advised all countries to make contingency plans for "a hard landing".

The social consequences of the economic crisis for the working class will be immense. The International Labour Organisation has forecast that 20 million jobs will be destroyed worldwide before the end of the year.

In Europe, as a Reuters report explained: "The inevitable question from workers to governments is: You found billions of euros for the banks, what are you doing now to protect jobs?" The article cited a Reuters survey of economists which predicted that unemployment would jump in France from 7.2 to 8.5 percent by the end of next year. In Spain, where the jobless rate is already 11.3 percent, analysts predicted it could hit 19 percent.

Fears of a global recession were reflected in further plunges on European stock markets yesterday: Britain's FTSE 100 fell by 5 percent, France's CAC 40 dropped by 3.5 percent and the German DAX lost almost 5 percent. Russia shut its stock exchange until Tuesday after the market lost more than one tenth of its value on Friday. The rout continued across the Atlantic in Wall Street, where the Dow Jones Industrial Average finished down 3.6 percent after wild fluctuations throughout the day.

Plunging sales figures around the world are hitting the auto industry hard. US automaker Chrysler, which is in merger negotiations with General Motors, told employees yesterday that the company will slash its white collar workforce by 25 percent, some 5,000 jobs, next month. This comes on top of the elimination of 1,000 jobs at the end of last month. French carmaker PSA Peugeot Citroen is planning "massive" production cuts in the fourth quarter.

Another clear indicator of global downturn is the continuing fall in prices for commodities—the basic inputs for production. OPEC met in emergency session yesterday and imposed a cut in production of 1.5 million barrels a day, or 1.7 percent of world production, in an attempt to prop up prices that have fallen 40 percent since September 10. The announcement failed to halt the slide, with crude oil futures falling another 6 percent.

The Reuters/Jeffries CRB Index of 19 raw materials hit a four-year low this week—the gauge has plummeted 41 percent since hitting a record high in July. Prices for copper, zinc, sugar and coffee were all battered again yesterday. The sharp falls are already having a dramatic economic impact on commodity exporting countries such as Australia and Argentina, but the most savage effects will be on the poorest countries around the world.

Amid this tempest tearing through world capitalism, the leaders of the G-20 are preparing to meet in Washington on November 15 to discuss measures to shore up the global financial system. If they manage to agree on anything, it will be that the brunt of the economic crisis must be imposed on working people in the form of job losses and severe cuts to social spending in order to defend the wealthy elites—as has already been the case with all of the rescue packages so far announced.