World Bank forecasts falling trade, global recession and rising poverty

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In the lead-up to tomorrow's G-20 summit in Washington, the World Bank released figures this week confirming that the global economy is rapidly heading into recession. Its global outlook predicted a growth rate of just 1 percent for the world as a whole in 2009 and a contraction of 0.1 percent for the high-income countries.

As if to confirm the forecast, Germany officially entered recession yesterday for the first time in five years, after announcing its second consecutive quarterly contraction—0.5 percent in the third quarter. EU figures to be published soon are expected to show the entire eurozone is already in recession after a 0.2 per cent drop in GDP from April to June. Japan's third quarter figures to be released next week are also likely to show a second successive contraction.

The Organisation for Economic Cooperation and Development (OECD), which covers the world's major industrialised economies, issued similar gloomy forecasts yesterday. The OECD predicted contractions in 2009 of 0.9 percent, 0.1 percent and 0.5 percent for the US, Japan and the eurozone, respectively. OECD economist Jorgen Elmeskov told the *Financial Times* that the "mess" stemmed from a financial crisis that was engulfing rich and poor countries alike.

World Bank President Robert Zoellick said on Tuesday that developing countries were increasingly seeking financial assistance. He said that his organisation expected that lending would more than double from $13.5 billion last year up to $35 billion this year. He noted that "countries that had very good, sound macro-economic programs [like] Mexico, Indonesia" were worried about getting financing and seeking World Bank assistance.

The World Bank revised its 2009 growth figures for developing countries sharply downwards from its June estimate of 6.4 percent to 4.6 percent. Excluding the world's largest cheap labour platforms India and China, the forecast for developing countries in 2009 is just 5.2 percent. The forecast for Latin America and the Caribbean was just 2.2 percent, followed by 3.5 percent for two other regions—developing countries in Europe and Central Asia, and the Middle East and North Africa.

The global financial crisis has already witnessed large withdrawals by foreign investors from developing economies—fuelled both by fears of growing risk and to shore up balance sheets at home. The World Bank expects private capital flows into developing countries to almost halve, from $1 trillion last year to around $530 billion in 2009. Even this investment will not be evenly spread, with countries like China and India absorbing the largest share.

The World Bank also highlighted the rapid decline in international trade—a key indicator of a global slump—forecasting a large contraction of 2.5 percent in world trade volumes for 2009. This is a precipitous fall from an expected growth of 5.8 percent this year and of nearly 10 percent just two years ago in 2006. Alongside plunging oil prices, the World Bank predicts that prices for non-oil commodities will fall by 23.2 percent in 2009.

World Bank president Zoellick told the press on Tuesday: "It is our estimate that trade could actually fall, not grow more slowly or have growth fall, but actually fall next year, for the first time since 1982… What we are seeing is that the falloff is not just due to slip in demand, although that will happen, but our rough estimate is that some 80 percent of the decline is due to problems of credit."

The slump in world trade is underlined by statistics released this week for major exporters. Preliminary official figures in India showed a 15 percent decline in exports last month compared to a year earlier—the first such fall in five years. The *Financial Times* estimated that Indian exports could drop by another 25 percent this month as a result of falling international demand and a weakening currency that has pushed up the cost of imported raw materials.

The picture was similar in Japan where finance ministry figures for the first 20 days of last month showed a 9.9 percent decline in exports from a year earlier. South Korean exports in the first 10 days of this month fell 26 percent compared to the same period last year. The latest US trade figures released yesterday showed a slump in exports of 6 percent in September and in imports by a record 5.6 percent, mainly due to falling oil prices.

The *Financial Times* on Wednesday highlighted another record increase in China's trade surplus month of 20 percent. However, the figure was not driven by increased growth in exports, which declined slightly, but by a large drop in imports, reflecting declining commodity prices and falling orders from companies in China in expectation of slowing export demand. Around half of China's imports of commodities and parts are re-exported as finished products. Yesterday, government figures for October showed industrial output grew by just 8.2 percent—the lowest in seven years.

Another sharp indicator of slowing world trade is a dramatic fall in freight prices and volumes. The Baltic Dry Index (BDI)—a composite of shipping prices for various dry bulk products such as iron ore, grain, coal and bauxite/alumina—has crashed more than 11-fold from 11,793 points in May to 891 in early November. According to *Bloomberg*, the largest cargo ships, known as capesize ships, are now unable to charge much more than their daily operating costs and have been forced to cut ship speeds to economise on fuel.

International Air Transport Association figures show air freight traffic dropped by 7.7 percent in September—the steepest fall since the body began compiling data in January 2003. Piers Global Intelligence Solutions forecast this week that the number of full shipping containers entering the US this year would fall by 7.6 percent compared to last year. In the third quarter, Volvo AB, the world's second largest truck manufacturer, had just 155 European orders for new rigs as compared to 41,970 in the third quarter of 2007—an indication of an expected plunge in road transport volumes.

Falling demand, collapsing commodity prices and the international credit crunch are all impacting most heavily on the world's poorest countries and thus on hundreds of millions of people who are already poverty stricken. The World Bank estimates that every one percent decline in the growth rate of developing countries pushes an additional 20 million people into poverty. On the basis of the World Bank forecasts, that means an additional 40 million people will join the world's poor next year.

During his press conference on Tuesday, World Bank President Zoellick pleaded for G-20 leaders not to lose sight of the human crisis being created by the global economic turmoil. "As always, it is the poorest and most vulnerable who are the hardest hit," he said, adding that it would be "an error of historic proportions" if the developed countries ignored the interests of developing countries.

Brookings Institute analyst Eswar Prasad told the *Financial Times*: "Many of these lower and middle-income countries don't have much fiscal space: much of it has been used up trying to buffer the effects of the food price crisis. It's a question of whether the financial crisis is going to make life desperate or just difficult." He pointed to the Philippines, Vietnam and sub-Saharan countries as being on the brink of serious financial crisis.

A World Bank report last month concluded that 100 million people have already been added to the world's poor as a result of high fuel and food prices. While oil prices have dropped, food prices have only moderated and the food crisis continues. The study found that poverty was not only spreading but deepening. "Eighty-eight percent of the increase in urban poverty depth in the wake of rising food prices is from poor households becoming poorer and only 12 percent from households falling into poverty," it stated.

Malnourishment is expected to afflict nearly 1 billion people by the end of the year. "The FAO estimates that in 2007, 923 million people were undernourished compared with 848 million in 2004. We estimate that by the end of 2008 up to 967 million people (or an additional 44 million people) will be undernourished largely due to the rise in global food prices," the report commented. The worst affected countries such as Burundi, Madagascar, Niger, Timor Leste and Yemen are those which already have the highest indices of stunting and wasting.

The World Bank finances available to provide loans and aid are pitifully inadequate and pale into insignificance compared to the trillions of dollars being poured by the US, Europe and Japan into bailing out banks and financial institutions, and into stimulus packages to slow the plunge into recession. On top of $100 billion over three years broadly available for developing countries, the World Bank has just $42 billion to allocate in grants and low-interest loans to the poorest countries.

In appealing to the G-20 to pay attention to developing nations, World Bank President Zoellick—US President Bush's former trade representative—pointed to the institution's overriding concern which is the potential for the economic crisis to provoke social and political upheaval. Asked if social stability was at risk, he told the press conference: "Yes, I've been concerned since I identified this almost a year ago that, first with the food and fuel crisis, we pointed out that you were seeing riots and social upheavals in some 20 or 30 countries. There were some governments that were, you know, toppled."

Even this guarded warning will have little impact on the G-20 leaders as they haggle in Washington tomorrow to defend the economic interests of their own wealthy elites at the expense of their competitors. Given that all of them are intent on offloading the burden of the economic crisis onto the backs of working people, their very last concern is for the plight of nearly a billion people around the world who do not have enough to eat each day.