World Bank predicts first decline in global output since WWII

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In a report issued Sunday, the World Bank said the global economy would shrink this year for the first time since World War II. The international institution said global gross domestic product was in line to fall five percentage points below what it considered the natural growth rate of the world economy, with industrial production falling by as much as 15 percent lower than levels in 2008.

The report painted a far more dire picture than the International Monetary Fund (IMF) did just ten weeks ago, when it estimated the world economy would see a small overall increase of half a percent in 2009. The bank did not give a specific target for global GDP contraction.

The World Bank said growth prospects for so-called emerging market and developing countries had been revised sharply downward along with the advanced countries, where declines in GDP this year are expected to range from around 6 percent in the US and Europe to nearly 13 percent in Japan.

The crisis in the poorer countries is largely due to a virtual collapse in world trade, driven by weakened demand for exports from the industrialized nations and the drying up of credit to finance trade. They have also been hit by falling commodity prices (non-energy commodities fell 38 percent in the second half of last year) and a staggering decline in foreign direct investment.

In a separate report released Monday, the Asian Development Bank (ADB) said that the value of global financial assets, including stocks, bonds and currencies, fell by more than $50 trillion in 2008, equivalent to a year of world GDP. Asia, excluding Japan lost about $9.6 trillion, while the Latin American region saw the value of financial assets drop by about $2.1 trillion.

"This crisis is the first truly universal one in the history of humanity," former IMF Managing Director Michel Camdessus said at an ADB forum in Manila Monday. "No country escapes from it. It has not yet bottomed out."

The World Bank said global trade would experience its largest decline in 80 years and the first contraction since 1982. Of the 51 economies reporting fourth quarter data for 2008, 36 showed double-digit declines in nominal exports relative to a year ago. Many European countries, including the United Kingdom and Spain, as well as developing countries such as Indonesia, Philippines and Turkey, registered a drop in exports of 20 percent or more.

The report highlighted the devastating impact of the crisis on Asia, Latin America and Africa, as well as Central and Eastern Europe. Of the 116 developing countries, the World Bank said, 94 had experienced a slowdown in economic growth. The most affected were export-driven countries, heavily dependent on foreign investment, where millions of construction, mining and manufacturing jobs have been wiped out.

The number of people in poverty in these countries was expected to grow by 46 million people in 2009, chiefly because of mass unemployment. The report cited an International Labour Organization forecast that global job losses could hit 51 million, and up to 30 million workers could become unemployed.

In China, some 20 million have already lost their jobs. Cambodia has lost 30,000 jobs in the garment industry, its only significant export industry. More than half a million jobs were lost in the last three months of 2008 in India, including in gems and jewelry, autos and textiles.

In addition, remittance flows—the income immigrant workers send home to their families—were expected to drop sharply in 2009, as migrants lost their jobs and many returned to their countries of origin. This was expected to deprive developing countries of a crucial source of income, estimated to be worth $305 billion in 2008.

Foreign direct investment was also grinding to a halt in economies where growth is dependent on providing a high return to investors with low taxes, little regulation and low cost labor. In addition, lending to Africa all but dried up in 2008, with no international bond issues by African countries, compared with $6.5 billion in 2007.

Because of this, the institution said, developing nations would face a shortfall of between $270 billion and $700 billion to pay for imports and debt servicing, while only one-quarter had internal resources to try to blunt the impact of the crisis, through job-creation or safety net programs.

In a press release, World Bank Group President Robert B. Zoellick appealed to officials attending this weekend's Group of 20 meeting of finance ministers, saying urgent measures were needed to prevent the danger of "social and political unrest." "This global crisis needs a global solution," Zoellick said.

The World Bank is asking the G20 countries to put 0.7 percent of the money from their stimulus packages to set up a global Vulnerability Fund. The proposal, however, is little more than a band-aid, aimed at increasing funding for micro-credit programs to encourage entrepreneurship among impoverished townspeople and villagers and funding minimal infrastructure projects.

The key to stabilizing the situation, however, the World Bank said, would be to renew growth in world trade. However, rather than an internationally coordinated response, the World Bank complained, governments were promoting the interests of nationally based corporations at the expense of their economic competitors.

"[O]ne of the greatest threats to increased trade flows," the report said, was "protectionism and beggar-thy-neighbor policies, which need to be resolutely resisted." It went on to criticize trade restrictions implemented by G20 countries over the last year, the spike in "anti-dumping" actions, the tightening of licensing and product standards against imports and the measures in the various stimulus packages aimed at strengthening domestic industries and banks.

The US has come under increasing international criticism for opposing the imposition of international regulations on its banks and hedge funds. At the same time the US is absorbing the bulk of the world's available credit to pay for the trillions the government has handed to the Wall Street banks and the cost of the stimulus package.

The *New York Times* noted Monday, "As the world is seized with anxiety in the face of a spreading financial crisis, the one place having a considerably easier time attracting money is, perversely enough, the same place that started much of the trouble: the United States."

US investors are pulling out of foreign markets and buying government bonds. At the same time, foreign holdings of Treasury Bills rose by $456 billion in 2008, according to Federal Reserve data. Meanwhile, private investment in the emerging countries plunged from $928 billion in 2007 to $466 billion last year and is likely to fall to $165 billion this year, according to the Institute of International Finance.

This outcome is not simply a product of the neutral operations of the market but a deliberate policy being pursued by the Obama administration aimed at financing its bank rescue plans through the sale of government debt, capitalizing on the privileged position of the US dollar on world currency markets. By doing this the US hopes to shift the crisis onto the backs of its economic rivals and the poorest countries, which are being hammered by declining currencies and plunging commodity prices.

While focusing on the impact of the crisis on the so-called developing world, the World Bank described a simultaneous breakdown of the world capitalist system virtually without historical parallel. Suggested, but left unsaid, was that the social and political consequences of the present crisis would be no less explosive than the period of economic turmoil, revolutions and imperialist conflicts that produced the Second World War, the last time the world economy as a whole contracted.