The World Bank's Global Economic Prospects 2010: Ground realities for Europe and Asia

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April 2010

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“The worst of the financial crisis may be over but global recovery is fragile. The fallout from the crisis will permanently change the landscape for finance and growth over the next 10 years,” predicts the World Bank’s Global Economic Prospects for 2010.

The Bank’s Economic Prospects, which is an insight into the short- and medium-term impacts of the financial crisis on developed and developing economies, pegs a fragile fiscal recovery of the richest nations of the world, yet is bullish about the overall impact of emerging economic Goliaths such as China, India and Brazil.

While productivity stagnates, unemployment rockets and public and private sectors plummet in the European Union, United States and the G-7 nations, developing nations seem to be donning a new mantle in leading the world out of the fiscal meltdown.

It is well-documented that the global meltdown provoked large-scale human suffering. Not only have populations of some of the most advanced and wealthy nations been severely hit, but people of poor countries have become poorer and subject to harsher poverty. According to World Bank projections, there will be 64 million more people living under $1.25-a-day in 2010 than in 2009.

World Bank projections

Hans Timmer, the Director of the World Bank’s Global Economic Prospects, maintains that Asian and other developing economies will provide the much-needed escape velocity from the financial turmoil.

“The muted recovery of the developed nations will take several years to undo the damage. However, the prospects for developing nations such as Asian economies are that of a relatively robust recovery, growing 5.2 percent this year and 5.8 percent in 2011, up from 1.2 percent in 2009,” said Timmer at the Lee Kuan Yew School of Public Policy in Singapore. “For the first time since the Second World War, there has been a contraction in the World GDP, which is a decline by 2.2 percent in 2009. Also, the GDP of rich countries has plummeted by 3.3 percent.”

Timmer noted that the road to recovery may realign many geopolitical and strategic alliances as well, with developed economies revamping their trade and commerce priorities and aiming for more substantial trading ties with developing economies. He also opined that while developed nations were taking ample measures to contain the damaging effects of the fiscal crisis, stimulus packages would not be enough to contain the long-term consequences, since the relief they provide is dynamic and not static.

“World trade volumes registered an unparalleled fall of 14.4 percent last year and the reason why the rebound is not strong enough for high-income nations is because government stimulus and the dynamics of inventory cycles are temporary by nature. Financial stimulus packages can arrest the freefall in trade in rich nations but it cannot proliferate or encourage a healthy domestic growth. Developing economies, on the other hand, may quickly overcome the medium term impacts of the crisis by strengthening their domestic financial markets,” added Timmer.

World Bank projections also show that, after being struck by the blow of recession, the current growth rate of the rich economies is not enough to bring them back onto the track of normality.

"Though the global economy and the GDP of rich countries is expected to grow by 2.7 and 1.8 percent respectively in 2010, it will not be enough to generate jobs and compensate for an overall *** productivity. Rich nations need an escalated growth to not only create more jobs but to recover the jobs of people who lost it during the meltdown," said Timmer. According to him, the World Bank is not too optimistic of a spurt in production as the availability of financial liquidity and capital has been severely impaired in the last couple of years. "The GDP of the Eurozone in 2011 will be less than what it was in 2007. Industrial production in rich nations has declined sharply, capital costs are rising and capital deepening will be reversed completely," he said.

Is Timmer being too pessimistic about the developed economies or are his concerns real? Are European Commission experts and analysts on the same wavelength as Timmer? The answer is an alarming "Yes".

European Commission confirms World Bank projections

European policy-makers and governmental heads have recognised the threats looming over their respective economies due to the long-term consequences of the recession. Unemployment for the young and old is a sordid reality and so is a dip in overall productivity. However, nothing has affected EU populations more adversely than joblessness and a lack of earning opportunities.

According to the European Commission's Eurostat, the Euro area unemployment rate touched 10 percent by the end of March 2010 and the figure for EU27 nations stood at 9.6 percent. These are the highest figures for the European Union since January 2000. Eurostat also pointed out that the European youth have been more negatively affected by unemployment than older people who have lost their jobs.

An influx of migrants to the EU has also made it tougher for the European population to find jobs. They now have to compete with highly skilled immigrants for jobs, while the total number of available jobs per capita has reduced significantly. Among EU member states, Spain, Austria and Germany record the highest share of foreigners in the age group 15 to 29, representing 15 percent, 14 percent and 12 percent respectively of the youth populations, thereby imposing an additional pressure on the job seeking youth of these countries.

While the EU16 and EU27 caucus of nations have been equally affected by the crisis, the impact is more pronounced in the largest economies of the EU. France, Germany, Spain, and Italy are among the few economies that have been spun out of their orbits due to the financial crunch. Inflation in the Eurozone shot up from 0.9 percent to 1.5 percent in March 2010, and, according to the Organization for Economic Cooperation and Development, the German economy is the only one from the Group of Seven industrialized nations (G7) which contracted during the first quarter of 2010.

Rising Poverty and its impact on the European Union

Until a few years ago, poverty was considered as being improbable for the rich nations of the EU. It is slowly becoming a reality. According to a survey conducted by the European Commission among its member nations in January 2010, and published in the Commission's report entitled "Combating Poverty and Social Exclusion in the European Union – 2010", recent statistics indicate that one in ten people (10 percent) in these countries lived in extreme poverty; almost one in every three (29 percent) in poverty; and a further one in three (31 percent) was at risk of falling into poverty.

This might sound shocking and alarming to many from the developed EU economies since, traditionally, poverty has hardly shown its abject dimensions in the EU. However, the prevalent financial conditions over the last few years and the potential economic situation in the next few years seem to be changing the poverty perception. The perception of poverty was twice as high among respondents from countries that joined the EU since 2004 than in the former EU15 member states (63 percent compared with 32 percent). However, the perception of poverty within the former EU15 member states rose by 12 percentage points between 2002 and 2007.

A lack of financial liquidity has made a major part of the European population worried about its future, and there are questions about how the recovery from the economic crisis will pan out for future generations. Therefore, it is not surprising that almost half (49 percent) of those interviewed by Eurostat thought that life would be worse in the future, with less than two in five citizens (38 percent) anticipating a better life in 20 years. More than 82 percent believed that the gap between the rich and the poor will increase significantly over the next 20 years, while 80 percent believed that working hours for the employed would be considerably extended in order for people to be able address their financial pressures. According to Eurostat, in 2007 almost 17 percent of the population of EU27 member nations was considered to be at risk of poverty. That number would have increased after the global financial meltdown.

Growth Prospects for the European Union

For obvious reasons, politicians from all ruling and opposition parties in the EU are feeling under pressure. Citizens want assurances that they will see a quick and sustained recovery and are demanding concerted government efforts to rev up economic productivity and employment generation. Understandably, this is not the best time for politicians and policy makers.

When I contacted Peer Steinbrueck, the former German Finance Minister who, in the German parliament, the Bundestag, blamed the United States for the global crisis, to comment on the current state of the German economy, the largest in EU, he refused to be interviewed about any economic policy issues. In September 2008, Steinbrueck had commented that America would lose its status as a financial superpower and the world’s financial system would never be the same again. That remark resonates with projections by Hans Timmer and the World Bank. The current German Finance Minister, Dr Wolfgang Schauble, also declined to comment or to be interviewed on Germany’s battle with fiscal recovery and unemployment.

But not everything is dark and gloomy for the rich and developed nations. Financial markets are turning around after the granting of numerous stimulus packages. Productivity is slowly on the rise and EU nations seem to be committed to boosting trade and commerce. Banking and financial institutions have received enough capital support by EU heads of governments to be able to keep alive the lifeline of day-to-day activity. That stimulus packages have long-term consequences on the tax-payers of these nations is a separate issue. A timely capital injection into the European markets at the moment will definitely keep the bourses ringing and help the regeneration of wealth.

Will Asia provide much-needed relief?

Where does the world turn to if developed economies are still reeling under the fiscal crisis? Hans Timmer and his team at the World Bank project Asia as the newest emerging hub of global trade and commerce.

"Trends indicate that the rebound in global trade will be led by East Asia, South Asia and Asia Pacific. Economies such as China and India will lead from the front and they will lead all the way," said Timmer. "This was not just a normal recession. The financial crisis has created a new world order. We are witnessing the increasing role of the Asian markets and the diminishing dependence on the US economy and Wall Street.

"Spreads appear to have stabilized at about 150 basis points higher than the boom period. However, the world will never go back to a situation of incredible liquidity. That, by itself, changes global dynamics dramatically," added Timmer. According to him, the World Bank attributes the relative inertness of developing nations in Asia on the resilience of their economies during the crisis. Developing nations grew at more than eight percent annually in 2007 when the United States had just begun to collapse. "The growth rate of developing countries has also been three times that of high income countries in the last decade," said Timmer.

China's first quarter GDP growth figures in April 2010 show a staggering 11.9 percent upward movement on a year-on-year basis. This increase is 5.7 percentage points higher than last year. In March this year, Indian Finance Minister Pranab Mukherjee announced a 7.9 percent growth projection for the second quarter of 2010. The Indian GDP is worth over 1,200 billion dollars and accounts for almost two percent of the total world economy.

In South East Asia, the first quarter of the year witnessed the fastest growth rate in 35 years for Singapore at an annualized 32.1 percent, the highest jump since the mid-1970s. The economy grew at an incredible 13.1percent as compared to last year, and its industrial production jumped by a whopping 139 percent from the previous quarter. Even the services sector witnessed a growth of 11 percent. The ultra-modern economy of Singapore is undoubtedly the most advanced and reliable Asian economy in terms of efficiency and market transparency.

However, despite rocketing growth numbers for China and India, the fact is that the two gargantuan economies are also plagued by intrinsic debilitating factors such as widespread poverty, lack of administrative insight, inefficient governance systems, deep-rooted corruption, maladministration of state resources and a severe lack of policy implementation.

The two large economies have a serious need to set their own houses in order before they can claim any global or regional dominion. There are millions living in extreme poverty, both in India and China, and countless others who do not have any access to basic amenities such as clean water, sanitation and healthcare.

At the World Summit on Social Development in Copenhagen in 1995, absolute or extreme poverty was defined as "a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information – therefore, mainly depending on access to a range of services."

There are millions of such people in the two largest economic powers of Asia. The need of the hour for India and China is to ensure that their global economic growth translates into intrinsic growth and development of their human resources, something that both nuclear nations are capable of, if the political will exists.

Asia-Europe Symbiosis

As for the rich, developed European economies, they have quickly to innovate mechanisms to boost their domestic markets such that capital flow enables and empowers their populations at the earliest opportunity. A synergy with Asia in terms of economic cooperation, bilateral trade, and transfer of technology know-how and services into the growing markets of Asia would definitely allow both regions of the world to benefit from each other's regionalised expertise.

Asia seems to be filling its pockets, but it has miles to go before it establishes itself as a text-book example of proper governance and administration, a feat that European economies such as Germany have achieved flawlessly. European economies, on the other hand, now need to innovate more beneficial methods in the services and technology transfer industry and not depend heavily on export markets. If Asian and European economies can achieve this symbiosis, then a financial disparity or inequality of economic regions will be a thing of the past.

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