UN FORECAST

THE OUTLOOK FOR 2009

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United Nations has projected that world out-put growth in 2009 will reach a meagre 1%, compared to 2.5% in 2008. The UN adds that if the present credit squeeze is prolonged and confidence in the financial sector is not restored in the coming months, the developed countries could enter into a deep recession in 2009.

This would bring economic growth in the developing countries down to 2.7%, dangerously low for their ability to sustain poverty reduction efforts and social and political stability.

This assessment is provided by the United Nations in its "World Economic Situation and Prospects 2009" report, the full version of which was released on 15 January 2009. The report is a joint product of the UN Department of Economic and Social Affairs, the UN Conference on Trade and Development (UNCTAD) and five UN regional commissions.

To stave off the risk of a deep and global recession, the report recommends the implementation of massive, internationally coordinated fiscal stimulus packages that are coherent and mutually reinforcing and aligned with sustainable development goals. These should be effected in addition to the liquidity and recapitalization measures already undertaken by countries in response to the economic crisis.

It also recommends stronger regulation of financial markets and institutions, adequate international liquidity provisioning, an overhaul of the international reserve system and a more inclusive and effective global economic governance, to prevent against any future repetition.

At a media briefing, Heiner Flassbeck, Director of UNCTAD's Division on Globalization and Development Strategies, said that "we are looking into a very gloomy year" in 2009.

Recalling last September when he had said that the outlook for 2009 might be 1-1.5% and that there was shock expressed at this lower rate, Flassbeck said, "Now, we are unfortunately in a position to say it may be even much less than 1-1.5%. It may be close to zero for the world as a whole." This outlook is attributed to the dramatic drop in incoming orders, in production and in the manufacturing sector in the last months all around the world.

"It was the dogma of the last 20 years that financial liberalization is the best thing for the world and you have to move savings around back and forth all the time and then the world will be a better place and the world economy will be more effective... we in UNCTAD were quite skeptical about that for a long time but nobody listened. Now, everybody listens. Now, we're all Keynesians."

According to the World Economic Situation report, in the baseline scenario, world gross product is expected to slow to a mere 1.0% in 2009, a sharp deceleration from the 2.5% growth estimated for 2008 and well below the more robust growth of previous years. At the projected rate of global growth, world income per capita will fall in 2009. Given the great uncertainty prevailing today, however, a more pessimistic scenario is entirely possible, the report warned.

If the global credit squeeze is prolonged and confidence in the financial sector is not restored quickly, the developed countries would enter into a deep recession in 2009, with their combined gross domestic product (GDP) falling by 1.5%; economic growth in developing countries would slow to 2.7%, dangerously low in terms of their ability to sustain poverty reduction efforts and maintain social and political stability.

According to the World Economic Situation report, September 2008 marked a sea change in the international financial landscape, including the end of independent investment banking in the US and an end to previous faith in the virtues of unfettered financial markets. Investment banks either went bankrupt, merged with other commercial banks, or converted themselves into commercial banks. Between September 2007 and October 2008, 16 banks in the US filed for bankruptcy, and more than 100 out of some 7,000 banks are on the Fed's watch list.

The intensification of the global financial crisis from late September-October 2008 onwards heightened the risk of a complete collapse of the global financial system. In response, policymakers worldwide, particularly those in major developed countries, drastically scaled up their policy measures in October.

Most importantly, said the report, they made two strategic changes in the way they deal with the crisis. First, the initial piecemeal approach was abandoned and replaced with a more comprehensive one. Second, unilateral national approaches have given way to more international cooperation and coordination. Totalling about US$4 trillion, these policy measures aimed at unfreezing credit and money markets by recapitalizing banks with public funds, guaranteeing bank lending and insuring bank deposits. Interbank lending rates retreated somewhat following the start of the large-scale bailout.

Given the stark erosion of confidence and massive destruction of financial capital over the past year, it will take months, if not years, before beleaguered banks significantly revive lending and fraught investors see confidence restored, said the report, adding that it will take even longer for these policy measures to show their effects in terms of a regaining of strength in the real economy.

According to the report, there had been complacency about the impact of the global financial crisis on developing countries and the economies in transition. In fact, the broader international economic environment for developing countries and the economies in transition has deteriorated sharply, and since October 2008 the financial stresses have shifted rapidly towards these economies.

The failure to create a truly inclusive system of global economic governance - for adequate counter-cyclical policies in the short term and appropriate regulatory reform in the medium term - has frustrated a coordinated, comprehensive and inclusive international response to the current crisis. There is no legitimate forum, other than the United Nations itself, in which the interests of all countries can be articulated, considered and reconsidered to ensure more inclusive and equitable—and thus credible and effective—global economic governance. □□□

—Third World Network Features