

THE RECESSION AND THE DEVELOPING WORLD

Introduction

Focus

This *News in Review* story examines the world-wide impact of the deepening economic recession and how the major nations of the world are seeking to deal with its serious consequences, especially for the planet's poorest people.

Definition

A *recession* is a serious, temporary economic downturn that usually is associated with higher unemployment, lower production, and a lower standard of living. Recessions generally last from six to 18 months.

In early April 2009 the leaders of 20 of the world's most important countries met for an emergency session of the G20 in London. Hosted by British Prime Minister Gordon Brown, the main purpose of the gathering was to address the growing economic recession that was spreading around the world that threatened the well-being and prosperity of millions. The leaders were especially anxious to deal with the negative impact of the recession on the world's developing countries. Their economies had been growing at a modest rate until the slump hit in late 2008. However, they were now in danger of reversing that hard-won progress and facing the resulting potential of serious political instability and social upheaval.

The G20 summit marked the first appearance on the world stage of U.S. President Barack Obama. He had made headlines during the first 100 days of his administration by proposing a multi-billion-dollar stimulus package to revive his own country's stagnant economy. Obama wanted to use his considerable influence to prompt the other G20 leaders, in particular French President Nicolas Sarkozy and German Chancellor Angela Merkel, to overcome their initial skepticism about the purpose and goals of the meeting and commit their countries to an ambitious plan to deal with the crisis. Even before the summit, Sarkozy had threatened to boycott it if it failed to confront the issues of international tax havens and the regulation of financial institutions.

The G20 is an expanded version of the G8, the group of the world's eight most economically significant countries, which includes Canada. Unlike the G8, whose leaders meet annually at a global economic summit, the G20

has not held regular meetings since its creation in 1999 in the aftermath of the Asian financial crisis. However, as the seriousness of the recession began to register on the world's leaders, a meeting of the G20 was held in November 2008 in Washington, D.C. It was hosted by George W. Bush, the outgoing U.S. president. At that meeting, the leaders agreed to convene again a few months later to weigh the consequences of the recession and to determine whether collective action was required to deal with its impact.

The London meeting was an international "photo opportunity" for the leaders who attended. It also provided a magnet for a whole range of protest groups that usually surface at such global summits. This meeting was no exception. However, the number of demonstrators was much smaller than that of other recent gatherings, such as the 2001 World Trade Organization meeting held in Quebec City. The level of violence sometimes associated with these protests was also much lower than on other occasions, although one innocent person was killed when London police mistook him for a violent protestor.

At the end of the meeting the G20 issued a joint communiqué, ambitiously entitled "A Global Plan for Recovery and Reform." It called for the implementation of a series of measures whose total cost would reach the staggering figure of one trillion dollars (USD). This included \$750-billion in increases to the amount available to the International Monetary Fund to provide emergency economic assistance to the world's developing countries. In addition, another \$250-billion was earmarked to help stimulate global trade and combat protectionism, the tendency to erect high tariff barriers

Further Research

To explore the specifics of the G20 plans consider a visit to www.number10.gov.uk/Page18926.

to insulate domestic producers from foreign competition. In order to appease leaders like Sarkozy, the communiqué also contained promises to impose sanctions on countries offering tax havens for risky financial enterprises, and to impose stringent new regulations on such bodies.

In their statement, the leaders indicated that this massive global stimulus package was just the beginning of their concerted effort to counteract the recession. They pledged to provide a “global solution” to what they termed the greatest international economic crisis facing the world since the Great Depression of the 1930s. Although some critics charged that not enough was offered to the world’s poorest people in the form of immediate economic relief, the leaders themselves hailed the agreement as a

major step forward. In Obama’s words, the summit was “a turning point in our pursuit of global economic recovery because of the size and scope of the challenge that we face and because of the timeliness and the magnitude of our response” (<http://america.gov/st/peacesec-english/2009/April/>). But as Thomas Chandy of the international relief organization Save the Children noted, “A communiqué feeds no one and words alone do not save a child’s life” (<http://news.webindia123.com/news/Articles/Business/20090403/1216443.html>). It remains to be seen whether the one-trillion-dollar plan would help to mitigate the harsh effects of the gathering international recession, which some economists are now beginning to refer to as a full-blown global depression.

To Consider

1. Why did the leaders of the G20 nations meet in London in April 2009?

2. What were the main points of the joint communiqué that the leaders issued at the end of the summit?

3. What was the reaction of the leaders themselves and global aid workers to the terms of the communiqué?

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Video Review

Circle the correct answers for the following questions. Answers can be found on page 18 of this module.

1. Between October 2008 and April 2009, how many Canadians lost their jobs?
a) 100 000 b) 250 0000 c) 350 000
2. How many British are expected to be unemployed by the end of 2009?
a) one million b) 30 million c) three million
3. Britain's overseas intelligence service is called:
a) MI5 b) MI6 c) CIA
4. How many countries are facing destabilization due to the current economic collapse?
a) 27 b) 32 c) none
5. How much income does the Overseas Development Institute estimate that the developing countries will lose in 2009?
a) \$30-million b) \$750-billion c) \$75-billion
6. Before the recent "Great Recession" many of the developing nations were:
a) doing better b) in dire straits c) quite wealthy
7. Before the recent economic crisis, many poor nations had just endured a:
a) food supply crisis b) water crisis c) civil war
8. How many children are dying every day from hunger-related causes?
a) 2000 b) 24 000 c) 240 000
9. What event in April 2009 threatened to make the plight of the world's poor even worse?
a) inflation b) high prices c) H1N1 flu
10. In April 2009, how many people did the International Monetary Fund indicate were forced into extreme poverty by the recession?
a) 35 million b) 20 million c) 3.5 million

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The G20: A Backgrounder

Further Research

To learn more about the G20, consider a visit to the official Web site at www.g20.org.

The G20 was originally formed as an offshoot of the G8 group of the world's largest economies in the aftermath of the Asian and Latin American financial crises of the late 1990s. It was originally the brainchild of former Canadian finance minister and prime minister Paul Martin and was designed to provide a forum for the finance ministers and central bankers of the member countries to meet and keep informed of global economic and financial trends. Its members include the G8 states—the United States, the United Kingdom, France, Germany, Italy, Japan, Canada, and Russia. Added to this group are 12 other countries, some of which are from the developing world. They are Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union.

Until the onset of the global economic crisis of late 2008, the G20's meetings did not involve the leaders of the member nations. But after the first G20 summit held in Washington, D.C., in November 2008, and following the group's second summit in London in April 2009, it appeared likely that the G20 was destined to emerge as an important global economic body. If the recession continued to deepen and worsen, it could be up to this organization to fundamentally redefine the rules governing the operation of the global economic and financial system and to impose a new set of regulations on how it functions. This would represent a major shift in the way the leaders of the world dealt with globalization and its consequences and would represent an event of historic importance.

The origins of the G20 can also be traced to the Doha round of international

trade negotiations, initiated under the auspices of the World Trade Organization (WTO – www.wto.org) in the city of Doha, Qatar, in 2002. Those talks, designed to reduce the barriers to global trade for the benefit of the world's developing countries, have not produced many concrete results during the intervening period. The poorer countries, whose economies remain largely dominated by agriculture, are reluctant to open their markets to food imports from the developed nations of the world. It was hoped that by including a number of the largest developing economies in the G20, the perception that the global economic system is dominated by the powerful, rich countries would be lessened, and the emerging economies could find their voice at the table.

Now that China and India are included in the G20, one out of every three people on the planet is represented in the organization. As well as being important emerging economies, these two countries are also the world's largest in terms of population growth. However, India's population is increasing at twice the rate of China's, while the effects of its recent economic boom have not yet begun to trickle down to the enormous mass of very poor people living in that country. Conversely, China's remarkable economic expansion in the past decade has resulted in concrete benefits. Its people have seen their standard of living increase dramatically since their communist government instituted capitalist market reforms and opened China's borders to trade and commerce under the leadership of Deng Xiaoping in the late 1990s.

The economies of the G20 nations combined constitute 90 per cent of the world's GDP (gross domestic product,

Quote

"The world is coming together, and the results of this week will show that global problems . . . require global solutions. I believe the world will rise to the challenge and defeat those who say doing nothing is an option and defeat those who say protectionism is an option." — British Prime Minister Gordon Brown (http://news.bbc.co.uk/2/hi/uk_news/politics/7972397.stm)

the total annual value of all the goods and services a country produces). A number of the "emerging" economies in the group, such as those of Russia, India, and Brazil, have recently passed the USD\$1-trillion mark in terms of global output. They can now be regarded as major economies on the world stage. Economists measure the size of a nation's economy using two main factors: its population and its productivity. Some countries, such as Canada and South Korea, have relatively small populations but highly productive economies. Other countries, like Brazil and India, make up for their lack of productivity by the sheer size of their populations. Still others, like China, are both large in population and becoming increasingly more productive. This means that their GDP per capita is rising rapidly, in some cases at a faster rate than that of the more developed Western countries such as Canada and the United States.

In economic terms, GDP per capita is the measure used to determine the relative prosperity of the people of a given country. This figure is tabulated by dividing a country's total GDP by its population. In 2008, the last year that figures from the International Monetary Fund are available, France topped the list of GDP per capita, followed by Canada, the United States, and the United Kingdom. In each case, the average GDP per capita for these countries was in excess of USD\$45 000 per year. By contrast, China's GDP per capita was just over \$3 000, while India's was at the bottom of the scale, at around \$1 000. However, the growth rates of these developing countries are far higher than those of the richer, developed countries. This factor is likely to impact on future meetings of the G20 and the

decisions the group may make about dealing with the impact of the recession. For example, China's projected rate of economic growth for 2009 is over nine per cent, and India's almost seven. Canada's is slated at barely one per cent, and the United States at less than one-half of one per cent. But as the recession deepens, economists and governments both worry that these projections may have to be revised downward.

According to John Kirton, an economist at the University of Toronto who heads a study group on the G20, the organization may be poised to assume a leadership role in the direction of the global economy in the 21st century. He believes that the era of unfettered, free-market capitalism, which some experts believe resulted in the current economic crisis, is now over, to be replaced by strict regulation of trade and finance. Given the fact that the original G8 has expanded to include a number of the world's most important emerging economies, he thinks that the voices of the planet's poorest people may now be heard more loudly at international gatherings such as the April 2009 London G20 summit. Now that these countries are players at the table, he believes the G20 will "ride to the rescue" of the global economy. "And once they've gotten into the game," he notes, "it is very hard to imagine they will hand it back to the G8 and say 'China, India, you are no longer equals, you are invited only for as long as we decide you can come to our meetings.'"

Source: "Big table, lots of voices: G20 by the numbers," www.cbc.ca/money/story/2008/11/13/f-g20-figures.html, and "Is this the group to save the international economy?" www.cbc.ca/world/story/2008/11/13/f-economic-summit.html

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Experts Respond to the Global Recession

The growing international recession is not just an economic problem, but may also represent a major challenge to the stability and peace of the world. Demonstrations have already taken place in many countries, as angry protestors take to the streets to demand jobs and government action to deal with poverty and distress. The recession is taking an especially harsh toll on developing countries that already lagged far behind the prosperous developed nations of the West. Economists project that between 50 and 100 million jobs worldwide could vanish if the recession continues. To make matters worse, the developing countries are already coping with a serious rise in food prices due to a supply shortage.

The renowned British intelligence service, MI6, which monitors global unrest, warns that at least 27 countries could be vulnerable to serious destabilization if the current economic crisis lasts much longer. This organization, along with the CIA of the United States, is now viewing the recession, and the potentially violent fallout from it, as a greater global threat than international terrorism or regional wars. And the Overseas Development Institute (www.odi.org.uk) in Britain, a think tank that tracks global economic trends, estimates that the world's developing nations could lose USD\$750-billion in income this year alone, with Sub-Saharan Africa, the planet's poorest region, losing \$50-billion. The recession may push as many as one billion people, roughly one-sixth of the world's total population, into extreme poverty (an income of less than \$1 per day).

Ian Kearns is a British security analyst and co-chair of the Commission on National Security in the 21st Century.

He points out that the countries most vulnerable to the negative consequences of the global recession are already very poor and politically unstable. A prolonged economic slump could push them over the edge into an abyss of ungovernability, adding many new candidates to the growing list of the world's "failed states." These are countries whose governments are totally unable to manage their political and economic affairs, leaving them easy prey for international terrorist organizations or other criminal groups. This could represent a serious threat to the peace and stability of the entire world, especially in already troubled regions such as the Middle East and South Asia.

Ian Goldin is a former vice-president of the World Bank (www.worldbank.org) and an economic advisor to Nelson Mandela, the first post-apartheid president of South Africa. In his view, the recession is particularly unfair and tragic for the poor countries of the world. Prior to it many of them were making real progress in increasing their rates of growth and raising millions of their people above the poverty line. This was particularly true of Latin America and Africa. He worries that millions of people around the world are facing the very real possibility that a prolonged global recession will mean that they will die, either of starvation or lack of medical care. Infant mortality rates, which were steadily declining before the recession, are now again on the rise in many poor countries. Along with this, life expectancy rates are dropping. Even though the world price for oil has declined, food prices remain high, which makes it more difficult for the globe's poorest people to feed themselves. Even if someone is without a job, she or he

Update

As this story was being developed, the Canadian Autoworkers union (CAW – www.caw.ca) was forced to negotiate a series of contracts that saw their numbers, salaries, and benefits drastically cut back. They agreed to these humiliating terms in order to keep the auto industry in Canada alive.

still has to eat to remain alive and feed a family.

Tim Lang is an international expert on food economics and an advisor to the World Health Organization (WHO – www.who.int). He points out that the farmers of the world, who still constitute a significant share of the global population, especially in poor countries, are hard-pressed by the credit crisis. They cannot obtain loans for the money they need to invest in irrigation, drainage, new animals, or seeds for the crops they want to plant. As late as 2007, Lang was becoming more optimistic about the potential of the world's food supply being able to feed its people. He thought that global leaders were beginning to take the food crisis seriously and to implement measures to deal with it. But as the recession hit, their minds became distracted by economic problems closer to home. Lang sees this as a serious mistake, since the global food crisis is linked to the recession and must be dealt with at the same time.

Firoze Manji is a writer on global development who publishes a newsletter on world poverty and politics. She notes that the rising rates of unemployment in many developed Western countries caused by the recession are now beginning to approximate those of the poor nations of the Third World. As in the Great Depression of the 1930s, wages overall will start to fall. She predicts that people who already have jobs will do anything to keep them—even accept lower pay and reductions in benefits. This is already happening as the unions representing automobile workers in Canada and the United States reopen their contracts with the Big Three auto makers in order to keep this once-profitable industry from going bankrupt.

Another serious threat to the well-being of the poor people of the world is the reduction in remittances sent home by workers from developing countries

who have jobs in the prosperous parts of the globe but who may now lose them. These remittances in many cases are all that stands between many poor families and total destitution. In Manji's view, they are a far superior form of economic assistance than foreign aid, which sometimes results in wasteful projects or finds itself in the pockets of corrupt government officials in poor countries. The money from these remittances is used for consumption, education, investment, or new business ventures. It is a vital lifeline for many millions of people around the world, contributing significantly to their economic growth and prosperity.

Simon Maxwell heads Britain's Overseas Development Institute and has called on the G20 nations to devote a significant amount of their fiscal stimulus package to addressing the problems of poor countries. He hopes that with the right leadership, policies, and financial resources, the recession can be contained and perhaps even brought to an end. He thinks that the greatest mistake leaders of the developed countries could make is to turn inward and become preoccupied with their own internal economic problems at the expense of the growing global crisis. He is happy that developing nations such as China, India, Brazil, and South Africa now have seats at the G20 table and will be able to pressure the richer countries such as the United States, Britain, and Canada to remain focused on the global dimensions of the crisis. Out of the recession, a new economic order for the world may be emerging, one that for the first time in human history may assume the challenge of managing and overseeing the global economy for the benefit of all the world's people, not just those fortunate enough to live in the prosperous parts of the planet.

Source: CBC journalist Brian Stewart interview, from transcript sent to author

Inquiry

1. In a few sentences, summarize the key points that each of the experts referred to on the previous pages makes about the global recession and its potential consequences. Which of the experts do you think makes the best observation? Why?

Ian Kearns	
Ian Goldin	
Tim Lang	
Firoze Manji	
Simon Maxwell	

2. Why does the global recession pose a serious threat to the peace and stability of the entire world, and not just the poor countries most affected by it?

3. What positive changes in the direction and management of the world's economic affairs may result from the current global recession? Do you think they are likely to happen? Why or why not?

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The Impact of the G20 Summit on Poor Countries

Further Research

To learn more about the recession in general and its impact on Canada consider a visit to CBC News In Depth: Economy at www.cbc.ca/news/background/economy/recession.html.

The final communiqué of the April 2009 G20 summit committed the organization to a USD\$1-trillion stimulus package. This package was designed to restore confidence in the global economy, to repair and re-regulate the damaged international financial system, to promote global trade and investment, and to build an inclusive, green, and sustainable recovery. “By acting together to fulfill these pledges” the communiqué noted, “we will bring the world economy out of recession and prevent a crisis like this from recurring in the future.” To this end, the world leaders at the summit announced a number of funding pledges, including \$750-billion to be made available to the world’s poorest countries to restart their economies and control the worst effects of the recession.

According to American Joseph Stiglitz, a Nobel Prize-winning economist, the big test of the G20 summit will be the extent to which the measures agreed to have a real impact on the poor countries of the world. Of all of these, the \$250-billion earmarked for short-term trade credits may represent the most immediate benefit to countries in Africa whose trade has been hit hard by the recession. Meles Zenawi, the Prime Minister of Ethiopia, one of the world’s poorest nations, made the case that the rich world should help nations like his to dig themselves out of the recession now, instead of waiting until later. He warned of the very real possibility that some countries could “go under, and that would mean total chaos and violence.”

Unlike previous G8 meetings, the G20 summit in London involved the participation of a number of the world’s developing countries. What goals did they bring to the meeting, how did they

view its results, and what future actions do they think will be needed to bring the recession to an end?

Brazil is the largest country in Latin America and a major developing nation on the global stage. President Luis Inacio Lula da Silva, or “Lula” as he is nicknamed, arrived in London determined to push for major reform in the world’s financial institutions, more credit for poor nations, and greater access to world trade markets. But most importantly, he argued that the only way the G20 could fulfill its mandate to respond to the recession would be to permanently include developing countries such as his, along with China, India, and South Africa, in any future meetings. Although Brazil’s economy grew by over five per cent in 2008, it shrank by 3.6 per cent in the last quarter of that year. This was its biggest fall since the financial crisis of 1996. Brazil’s economy depends on exports, which have fallen dramatically, resulting in the loss of 750 000 jobs. But Brazil’s strong internal market and substantial foreign currency reserves, along with the prudent economic policies of Lula’s government, may help it to weather the worst of the global economic storm.

Like Brazil, China is using its newfound importance as a global economic power to push for major changes in the way the international financial system is managed. One of China’s key demands at the summit was the creation of a new international reserve currency, to replace the U.S. dollar. In the words of Zhou Xiaochuan, the governor of the People’s Bank of China, “the crisis calls for creative reform of the existing international monetary system towards an

international reserve currency. This will significantly reduce the risks of a future crisis and enhance crisis management capability.” A reserve currency is used for the purposes of international trade and is held by governments as part of their foreign exchange reserves. Since the 1944 Bretton Woods economic conference, which set the pattern of trade and commerce for the post-Second World War era, the U.S. dollar has performed this function. But in China’s view, the serious nature of the current global economic crisis requires a new international currency that is more stable and reliable than the U.S. dollar.

China also wants to have a greater say in the decisions reached at meetings of the International Monetary Fund (IMF), the global financial organization that provides loans and credit to developing countries. Currently, the 185 members of that body do not vote individually, but are assigned a quota based on the size of their respective economies. This has meant that rich countries such as the United States have tended to dominate the decision-making process at the IMF, and China wants to bring this to an end. China is using its economic leverage to press for such changes because it is confident that the developed nations depend on its huge market to purchase their goods. According to Tim Condon, an Asian financial expert, China has “a major seat at the table at the summit because investors and governments think . . . it is somehow going to rescue the world.”

India too came to the G20 summit determined to play and demand a greater role in the management of the global economy. Since its government introduced market-friendly trade and investment policies in the early 1990s, India’s economy has grown dramatically, and a new, wealthy middle class has emerged. India’s economic growth has

been driven by the explosion of the “knowledge” industry, with cities like Bangalore becoming the Silicon Valley of Asia. India has a highly educated workforce that is willing to work for wages far below the level of its North American or European counterparts. This has given it a huge competitive advantage in the globalized information economy, with its computerized call centres now managing a number of aspects of the IT industry, including medical diagnoses, legal advice, and credit card services.

But despite its remarkable rates of growth, India still faces serious economic problems, which the current recession may only serve to exacerbate. The recent prosperity it has enjoyed has not been equally shared by all, and a majority of India’s people remain mired in poverty, ignorance, and destitution in remote rural areas or sprawling squalid slums, far from the “boom town” areas of Mumbai, Bangalore, and Delhi. The only part of India that has so far escaped the worst effects of the recession is the southern state of Kerala, where a left-wing government has held power locally for decades. It has invested in education and free access to health care and, as a result, has a level of poverty far lower than the rest of the country, despite the fact that it has few industries and relatively low wages. Its enlightened religious policies have also made Kerala a haven of tolerance in a country torn by sectarian violence that has pitted the majority Hindu population against the Muslim minority, sometimes with very bloody consequences.

Source: “Striving for new world economic order,” BBC News Online, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/business/7980394>; “The global plan for recovery and reform,” final communiqué of the G20 summit, April 2, 2009; “Did it deliver for the world’s poorest,”

BBC News Online, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/business/7979909>; "Brazil pushes for bigger G20 role," BBC News Online, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/business/7963704>; "China presses G20 reform plans," BBC News Online, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/business/7961106>;

"India boom threatened by slowdown," BBC News Online, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/business/7968138>; "Capitalism beyond the crisis," by Amartya Sen, *New York Review of Books*, March 26, 2009

Analysis

1. What were the main demands of Brazil, China, and India at the London G20 summit in April 2009?

2. To what extent do you think the final communiqué of the G20 summit seriously addressed the issues and needs of the world's poorest countries?

3. Of the three emerging economies discussed above (Brazil, China, and India) which of them do you think is poised to become a global economic superpower in the 21st century? Why?

Extension Activity

Find out more about the Indian state of Kerala as an example of how the government of a poor country or province can improve its people's standard of living through investments in health care and education (see <http://en.wikipedia.org/wiki/Kerala>).

