

Economic Crisis: Gulf States “should be ready for tough times”

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Dubai: The global financial downturn has implications for all economies around the world, including Gulf economies, and all should be prepared for tough times ahead, said James Wolfensohn, former President of the World Bank.

Painting a grim picture of the global outlook, Wolfensohn said on Sunday that global economic recovery is going to take much longer than expected and the impact of the slowdown will be felt in every corner of the world.

Quoting statistics from the Bank of International Settlements, he said the world financial system is sitting on more than \$630 trillion worth of derivative trades, most of which are leveraged positions.

While the unwinding of these could be a long process, it will be painful for financial systems around the world, he said.

Mounting pressure

“Although the impact [of a global recession] may not be as dramatic in the Gulf countries as it has been the case in the Western economies, the recent slump in stock prices and other asset classes point to the mounting pressure on the region,” he said.

While admitting the relative economic strength of the region, Wolfensohn said if the global economies were to go through a prolonged recession that will be reflected in global oil demand and prices.

“I can only say all of us are in a tough situation and it would be difficult to say that any one region will remain unaffected,” he said.

Commenting on the survival strategies for the difficult times ahead the former World Bank President said that governments and the private sector in the region should work towards maintaining investments and employments levels.

“The region has more than 100 million youth seeking employment. Any severe economic downturn could mean rising unemployment and falling returns on investment in education. Under the current circumstances that should not be allowed to happen.”

Acknowledging the growing economic power of the region, Wolfensohn said the Gulf has emerged as a strong economic bloc and it is part of the “tectonic shift” that is happening in the global economy, where emerging economies are becoming more

powerful.

“Clearly there is a financial powershift towards the East with giant Asian economies such as China and India becoming financially more powerful than the US by 2050,” he said.

With this shift, Wolfensohn predicted that there would be change in the power equations in world financial institutions such as the International Monetary Fund and the World Bank.

“These institutions were part of the Bretton Woods order dominated by the US and European powers. That will change and that has to change with more voice for emerging economies,” he said.

Suggestion: Concerted effort

A concerted effort by governments around the world can contain the current financial turmoil and prevent a long-drawn recession or an economic depression.

“The world today is much more developed than in the 1930s and governments have larger resources to deal with the type of economic emergencies we are facing,” said Rudolf Giuliani, the former mayor of New York City.

According to Giuliani, at the core of today’s global economic woes is the overuse of leverage.

“In every economic activity around the world, there has been excessive use of leverage. The unwinding of leverage will necessarily result in downsizing of businesses,” he said.

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