Making the World's Poor Pay: The Economic Crisis and the Global South

The IMF returns to center stage

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The current global economic crisis has all the earmarks of an epoch-defining event. Mainstream economists — not usually known for their exaggerated language — now openly employ phrases like 'systemic meltdown' and 'peering into the abyss.' On October 29, for example, Martin Wolf, one of the top financial commentators of the Financial Times, warned that the crisis portends "mass bankruptcy," "soaring unemployment" and a "catastrophe" that threatens "the legitimacy of the open market economy itself… the danger remains huge and time is short."

There is little doubt that this crisis is already having a devastating impact on heavily-indebted American households. But one of the striking characteristics of analysis to date — by both the left and the mainstream media — is the almost exclusive focus on the wealthy countries of North America, Europe and East Asia. From foreclosures in California to the bankruptcy of Iceland, the impact of financial collapse is rarely examined beyond the advanced capitalist core.

The pattern of capitalist crisis over the last fifty years should alert us to the dangers of this approach. Throughout its history, capitalism has functioned through geographical displacement of crisis — attempting to offload the worst impacts onto those outside the core. This article presents a short survey of what this crisis might mean for the Global South.

World trade drops

This crisis hits a world economy that — for the first time in history — is truly global. Of course exports and the control of raw materials have always been important to capitalism. But up until the 1970s most capitalist production was organized nationally. Throughout the 1980s and 1990s both production and consumption began to be organized at the international scale. Today, all markets are dominated by a handful of large companies operating internationally through interconnected chains of production, sub-contracting and marketing. Almost every product we consume has involved the labour of thousands of people scattered across the globe — from the production of raw material inputs, research and development (R&D), assembly, transport, marketing, and financing. At one level this interconnectedness of production expresses the fact that human beings have become one social organism. At the same time, it continually runs up against a system organized for the pursuit of individual, private profit.

This interconnectedness has taken a very particular form over the last couple of decades.

The world market has been structured around the consumption of the American (and, to a lesser extent, European) consumer. Goods produced in low-wage production zones such as China and India — using raw materials mostly sourced from other countries in the South — are exported to the U.S. where they ended up in the ever expanding homes of an overly-indebted consumer. Control of this global chain of production and consumption rests in the hands of large U.S., European and Japanese conglomerates.

This structure helped to fracture and roll-back national development projects across the globe. Coupled with the debt crisis of the 1980s, export-oriented models of development were imposed by the International Monetary Fund and other financial institutions on most countries in the South. Many of the elites of these countries bought into this development model as they gained ownership stakes in newly privatized companies and access to markets in the North.

The ever-expanding consumption of the U.S. market was predicated on a massive rise in indebtedness. U.S. consumers were encouraged to take on vast levels of debt (through credit cards, mortgages, 'zero-down' financing, etc) in order to maintain the consumption levels that underpinned global demand. The dollars that enabled this growth in debt came from financial instruments that were purchased by Asian central banks and others around the world. These institutions lent dollars back to the U.S. where they were channeled to consumers through banks and other mechanisms.

The U.S. real estate market was just one of the financial bubbles that permitted this treadmill of increasing indebtedness to continue. People could continually refinance their mortgages as real estate prices went up. But with the collapse of this bubble global world demand is suddenly drying up. Because of the interconnectedness of world trade, this will have a very severe impact on every country across the globe, particularly in the South.

One measure of this is shown by a relatively obscure economic indicator, the Baltic Dry Index (BDI). The BDI measures the cost of long-distance shipping for commodities such as coal, iron ore and steel. From June — November 2008, the BDI fell by 92%, with rental rates for large cargo ships dropping from $234,000 a day to $7,340. This massive drop reflects two factors: the reduction in world demand for raw materials and other commodities, and the inability of shippers to have their payments guaranteed by banks because of the credit crisis.

Falling commodity prices also demonstrate this drop-off in world trade. Copper prices, for example, have fallen 23 per cent in the past two months. Chinese consumption of the metal, critical to much industrial production, has fallen by more than half this year. ArcelorMittal, the world's largest steelmaker, stated on November 5 that its global output would decline by more than 30 percent. The World Bank (which has consistently underestimated the severity of the current downturn) is now predicting global trade volumes to shrink for the first time since 1982.

Social dislocation

This drop in world trade will have a particularly devastating impact on those countries that have adopted 'export-oriented' models of development. This model was heavily promoted by the World Bank, the International Monetary Fund (IMF) and most economists over the last couple of decades. As global demand shrinks, countries reliant on exports will be faced with collapse of their core industries and potential mass unemployment. This will place further pressure on wages as new labour reserves augment already large levels of unemployment.

Standard and Chartered estimate, for example, that Chinese exports could tumble to “zero or even negative growth” in 2009. JP Morgan Chase is predicting that Chinese exports will fall 5.7 percent for every one percent drop in global economic growth. This is not just a matter of getting by on smaller levels of still positive growth. China needs to create 17 million jobs a year in order to deal with the large numbers of farmers moving from the countryside to urban areas. This means that the country must maintain high rates of growth. Even if growth drops from 11-12% annually to 8% the country faces potentially huge social dislocation. Already, workers in China are protesting in the millions as their factories close and owners abscond with unpaid wages.

A collapse in world trade is not the only potentially devastating threat this crisis presents to the global periphery. Like the 1997 Asian Crisis, the rapid withdrawal of foreign funds from stock markets and other investments in the South could cause the meltdown of currencies and the collapse of industries already reeling from slowdowns in trade. A quick survey of a few countries demonstrates the deadly mix of capital outflows, high inflation and drops in export earnings:

In Pakistan, foreign-currency reserves have dropped more than 74 percent in the past year to about $4.3-billion (U.S.). The country is teetering on the edge of total collapse and urgently requires $6-billion in order to pay for imports and service its existing debt. The dire situation of foreign outflows led the German foreign minister to state on 28 October that the “world has just six days to save Pakistan” (at the time of writing it looks like Pakistan will get this money in the form of loans from the IMF and/or countries of the Gulf Cooperation Council).

Sri Lanka has lost nearly 25% of its foreign reserves since the beginning of August as foreign investors repatriate their dollar holdings from the country. Nearly 50 percent of Sri Lanka’s textile and garments exports (accounting for some 43 percent of total foreign exchange earnings) went to the U.S. in 2007, while another 45 percent went to the EU. These exports will likely be decimated by a generalized collapse in demand. The weakening of the Sri Lankan rupee over the last few years has contributed to a 20% increase in inflation, with high food prices hitting the poorest most heavily.

India has seen its foreign exchange reserves drop by 17% since March 2008. Over $51-billion (U.S.) left India during the third week of October, the largest fall in eight years. The Indian textile industry, which makes up the second largest component of the country’s labour force after agriculture, exports 70% of its product to U.S. and European markets. It is expected that textile and garment orders will decline by at least 25% over winter and mass lay-offs have already begun. On October 29, the Association of Chambers of Commerce and Industries predicted that companies in seven key industries (steel, cement, finance, construction, real estate, aviation, and information technology) would need to cut 25% of their workforce. This at a time when the country struggles with an immense gap between rich and poor. The wealth of the richest 53 people in India is equivalent to 31 percent of the country’s GDP, yet according to the World Bank 42 percent of the population lives below the official poverty line of $1.25 a day.

These patterns are repeated across the globe. Countries including Mexico, Turkey, Indonesia, Brazil, Argentina, South Korea as well as the poorer countries of Eastern and

Southern Europe are faced with collapsing growth rates, capital flight, and declines in the value of their currency. In many cases, these problems have been exacerbated due to a proliferation of low-interest loans taken by individuals and companies that were denominated in foreign currency (such as Swiss Francs, Euros, and Dollars). These loans initially offered a better rate of interest than the domestic currency, but, as local currencies have dropped in value, the amount of money required to be repaid has increased dramatically. Business Week estimates that borrowers in so-called 'emerging markets' owe some $4.7-trillion (U.S.) in foreign-denominated debt, up 38% over the past two years. This is the reassertion of a debt crisis from the 1980s that never really went away, but only partially subsided.

The IMF returns

This unfolding social crisis has returned the IMF to center stage. Typically, the IMF lends to those countries facing potential collapse and, in return, demands the fulfillment of stringent economic conditions. The scale of borrowing is already immense: Iceland ($2.4-billion), Ukraine ($16.5-billion), and Hungary ($15.7-billion) have been extended loans with Pakistan, Serbia, Belarus, and Turkey likely candidates in the near future.

The conditions that come with this latest round of IMF lending have been particularly opaque. The policies that Ukraine is expected to pass, for example, are not yet known despite the fact the country has essentially agreed to take a $16.5-billion loan from the IMF. Hungary has agreed to cuts in welfare spending, a freeze in salaries and canceling bonuses for public sector workers yet the final details have not been made public. Iceland was required to raise interest rates to 18% with the economy predicted to contract by 10% and inflation reaching 20%.

We can certainly expect that the conditions attached to loans in the poorer countries in the Global South will be much more stringent than those imposed on these European countries. There is little doubt that these countries will face massive job losses, intense pressure to privatize public resources, and slashing of state spending on welfare, education and health in the name of 'balanced budgets.' Whether these attacks on the social fabric are successful, however, will ultimately depend on the level of resistance they face.

Authoritarian state

On 11 October, a meeting of progressive economists in Caracas, Venezuela, issued a statement warning that the dynamic of this crisis "encourages new rounds of capital concentration and, if the people do not firmly oppose this, it is becoming perilously likely that restructuring will occur simply to save privileged sectors." This is an important point to understand. Capitalist crisis doesn't automatically lead to the end of capitalism. Without effective resistance and struggle, the crisis will eventually be resolved at the expense of working people — particularly those in the South.

This could be one of the most serious crises that capitalism has faced in living memory. But we should not be fooled into thinking that the system will somehow be reformed or its contradictions solved through peaceful and orderly means. The most likely immediate outcome is a hardened, more authoritarian state that seeks to restore profitability through ratcheting up repression and forcing people to accept the loss of jobs, housing and any kind of social support. In the South, this will inevitably mean more war and military repression.

If this is not prevented then the system will utilize this crisis to restructure and continue business as usual. This is why resistance — both at home and abroad — will be the single most important determinant to how this eventually plays out. In Latin America, for example, attempts to restrict capital flight, place key economic sectors under popular control, and establish alternative currency and trade arrangements are important initiatives that point to the necessity of solutions beyond capitalism. In the Middle East, popular resistance to the political and economic control of the region has undoubtedly checked the extension of U.S. power.

Any displacement of crisis onto the South means playing different groups of people against one another. For this reason, the ideological corollary of war and military repression abroad is likely an increasingly virulent racism in the North — directed at immigrants, people of color and indigenous populations. This means that for activists in North America the question of global solidarity and resistance to racism must be placed as a central priority of any effective fightback. Any attempt to turn inwards, or dismiss international solidarity as less important in this phase will be disastrous for all working people — across the globe. •

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