Poor countries are hard-hit by the global economic crisis

The global financial crisis, which has mutated into a full-blown global economic crisis, may have nothing to do with poor countries, and yet they are all affected by it one way or another. The World Bank has cautioned that about 40 per cent of 107 less developed countries are highly susceptible to the effects of the global credit crunch.

The genesis of the crisis can be traced back to corporate and government excesses in the United States. It has spread rapidly to Western Europe and East Asia, as the countries in these regions are highly exposed to the US financially or commercially or both. The crisis is being transmitted through financial and trade channels to countries that lend and/or export to the US.

To be sure, the crisis is not confined to North America, Western Europe and East Asia only. Australasia, Middle East and Latin America have not been spared the wrath of primary and secondary impacts emanating from the US. The secondary impacts are just as severe as the primary ones, as the affected countries infect the rest through their own import cutbacks. China has become a major source of secondary impacts for countries in South Asia and East Asia, including Australia and New Zealand.

How do the poor countries fit into the crisis matrix? The poor countries are seemingly safe, as they have very little direct exposure to the economic woes of the rest of the world. Their financial exposure is almost zero, while most of them are not so trade dependent to be highly vulnerable. One must hasten to add that such generalizations can be hazardous, as there are salient structural differences among poor countries.

It is true that poor countries account for no more than a negligible share of world trade and financial flows as suppliers or as recipients. Even so, they are not immune to the global economic crisis. Some of them are likely to bear a disproportionate share of the secondary impacts emanating from their own trade and investment partners.

As mentioned, China represents an important source of secondary impacts, now that China, in its role as the factory of the world, has become a huge importer of raw materials and intermediate inputs, some of which come from poor countries such as Myanmar, Cambodia and Laos. The China factor weighs heavily not only for poor countries in its immediate neighbourhood but also for several other poor countries as far away as Africa, as China has established extensive investment and trade links with African countries in recent years.

The economic prospects of these countries are frighteningly dismal, now that China's exports are declining at a double-digit rate. As China's exports continue to fall, its imports from these countries will also continue to shrink, causing considerable pain in these economies. Some poor countries in Sub-Saharan Africa are being affected not only by the China factor but also by other secondary impacts arising from richer African economies such as South Africa, not to mention their exposure to European Union, which has given them preferential market access.

In Asia, Bangladesh is bracing itself for tough times, as the global economic crisis begins to take its toll on its exports of clothing, which accounts for roughly two-fifths of the total. Another major source of foreign exchange earnings for Bangladesh, namely remittances from its migrant workers abroad, is also under severe stress, as the host countries lay off foreign workers in the wake of the unfolding slump.

Migrant workers everywhere are particularly vulnerable, as retrenchments tend to fall first on migrant workers before all else. The Middle East, which hosts a large proportion of migrant workers from South and Southeast Asia, is beginning to unwind, pressured by falling oil prices and melting property values. Pakistan, India, Bangladesh, Sri Lanka, Indonesia and the Philippines, which have a large working population abroad, are likely to feel the pinch badly in the near term.

Despite the United Nation's Millennium Development Goal which calls for poverty to be halved by 2015, the number of poor people has increased in recent times, with some 100 million joining the rank in the first half of last year during the food crisis. It is feared that another 100 million more will be added this year, as the crisis deepens.

In these days of doom and gloom, one only hears of bailouts of financial institutions and other corporate entities that had contributed to the crisis, but there is hardly a whisper of any increase in financial assistance to the innocent poor. All indications are that there will be less money available for the charity works of voluntary organizations in recession times.

Worse still, developed country government budgets for ODA (overseas development assistance) are likely to be scaled down. European Union countries' ODA contributions are likely to be slashed by US$15-25 billion this year. Italy has already reduced its 2009 aid allocations by half, while Ireland has trimmed its by nearly one-fifth. The dollar value of British ODA is expected to fall by as much as US$40 billion during the next five years. It is reported that the dollar value of sterling grants have dropped by 25-30 per cent from mid-2008 due to the depreciation of the pound sterling.

Poor countries generally have sizeable balance-of-payments shortfalls and low external reserves. The current crisis is likely to worsen their current account deficits, which would deplete their reserves further. Bangladesh, for instance, has reserves equivalent to just 2 months of imports, while many others have much less. This calls for some assistance from IMF (International Monetary Fund) to poor nations.

Although poor countries are unlikely to experience negative growth this time, slower growth for them would mean increased hardship. The social impact of the global economic crisis is likely to be far more severe for poor countries than their richer counterparts.

There is no doubt that the global economic turmoil will dominate the agenda of the G20 Meeting next month, but it will be a washout, should it fail to discuss the plight of the poor nations. Poor countries can weather the storm, only if rich countries do not cut ODA and do not resort to protectionist measures that would impinge on imports.

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