Rich World's Bank

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The World Bank has warned that present global recession can bring hard times upon the developing countries. They will be deprived of the capital from the developed countries and their growth rates will collapse. The high commodity prices will add to the pain. Developing countries that import oil and food will be hit. The World Bank has warned in its recently issued report on Global Economic Prospects that it is necessary to maintain the flow of private capital towards the developing countries and contain increase in commodity prices. But the idea is not conducive enough.

The World Bank has said that global investors are withdrawing from the developing countries and bringing their capital back to the safety of their home economies. Further, developed countries are increasingly raising loans in the capital markets. This is making it difficult for the developing countries to raise capital. This analysis is correct to the extent that developing countries are no longer getting the private capital that they were receiving till recently. But this is only part of the story. The connection of developing countries with global finance is established from another route as well. Developing countries have been remitting huge amounts to build their foreign exchange reserves. India, for example, has sent abroad about $300 billion to foreign banks in the last decade. Against this India has received only about $80 billion through private capital flows. On the whole, India has become an exporter of capital. More money is being sent out of India for building forex reserves than is coming in through private investments.

The Global Development Finance report of the World Bank highlights this fact. It is told that the net flow of capital was positive towards the developing countries till 2002. More money was coming in as private investment than was going out for building forex reserves. The situation has changed since then. In 2003 the developing countries received private capital of $274 billion but sent out $375 billion for building forex reserves. This led to a net export of capital of $101 billion. This has continued to rise every year, reaching a staggering $452 billion dollars in 2007.

The World Bank is correctly worried that developing countries will not get private capital from the global financial markets. The present recession has created a risk-aversion among the investors. They are withdrawing from emerging markets that are considered to be risky. But this does not lead to the conclusion that developing countries will be net losers of capital. One also has to look at the remittance by developing countries for building forex reserves. It would appear that developing countries will cease making such remittances in these times of recession. India's forex reserves, for example, have remained subdued at below $300 billion for a considerable time now. Even some money has been brought back. Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, has been long arguing that India should bring back excess reserves for building infrastructure. In order to assess the impact of global recession on capital flows to the developing countries, therefore, it is necessary to look at the reduced official outflows along with reduced private capital inflows. The net picture is likely to be favourable for the developing countries. India can save more money by not building of forex reserves than it will lose by

reduced private capital inflows. Alas! The World Bank does not talk about this beneficial impact of global recession on the developing countries. It only talks about the loss to developing countries from reduced capital outflows. The purpose is to secure the interests of the developed countries. The World Bank would like developing countries to continue sending more money to the developed countries for building forex reserves hence remains silent on this matter.

The second area of contact between the developing countries and the global economy is through trade in commodities. Nearly 80 percent of the world's natural resources such as oil, minerals and timber are found in the developing countries. These commodities are exported in large quantities by them. In the result the developed countries are consuming about 70 percent of the world's natural resources. It is clear that an increase in price of these commodities will be beneficial for the developing countries since, as a group, they are net exporters.

The World Bank, on the other hand, paints such an increase in commodity prices as harmful for the developing countries. In the Global Economic Prospects report it says that high commodity prices can spell trouble for developing countries that import these goods. The Bank is focused on the harm to a handful of developing countries that import commodities and ignores the huge gain that will be made by the large number of exporting countries. For example, India imports $1000 worth of phosphates and exports $2000 worth of iron ore. Now an increase in price of both commodities is clearly beneficial for India as it will gain more from higher prices of iron ore exports and lose less from higher prices of phosphate imports. But the World Bank only speaks of the loss to India from high prices of phosphates and makes a pitch for keeping commodity prices low. In the process the World Bank is giving out a prescription for loss!

The World Bank is trying to create a split among the developing countries. It is highlighting the problems of the importing developing countries due to high prices charged by the exporting developing countries. Instead of talking about the gain to all developing countries as a group, the World Bank talks only about the loss to importing developing countries. A clever businessman creates a split between contract and permanent workers, pits them against each other and secures his own interests. Similarly the World Bank is creating a split between importing and exporting developing countries, pitting them against each other and securing the interests of the developed countries who are net importers of these commodities.

The problem of the few importing developing countries remains. How are they to handle high commodity prices? The solution is to raise the price of commodities exported by them. Bangladesh suffers because of high prices of oil. Now there are two ways to mitigate this suffering. One is to lower the price of oil. This will reduce Bangladesh's suffering and also be beneficial for the developed countries. The alternative is for Bangladesh to raise price of its commodity exports, say jute. This too will mitigate the suffering of Bangladesh. It will be able to pay high price of oil from the high price received for its jute exports. But such a policy will be doubly harmful for the developed countries. They will have to pay high prices both for oil and jute. No wonder the World Bank talks only of the need to keep commodity prices low!

The multilateral agencies like the World Bank are engaged in a last ditch effort to preserve the dominance of the developed countries. □