




## Capitalism Freezes in Worldwide Winter of Discontent (Update1)

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By James G. Neuger

Jan. 12 (Bloomberg) -- As capitalism staggers through its first globalized economic crisis, the costs won't be limited. From newly rich Russia to eternally impoverished sub-Saharan Africa, social strains are threatening the established order. In the past month, Nigerian rebels threatened renewed warfare against foreign oil producers, Russia sent rich nations to mark the 20th anniversary of the Tiananmen Square massacre looms.

The disillusionment and spillover effects of the global recession "are not only likely to spark existing conflicts but also to hinder development aid commissioner in Brussels.

Somewhere in the wreckage may lurk an unexpected test for U.S. President-elect **Barack Obama**, 47, one who defined the era of **George W. Bush** only eight months into his term.

Among the possible outcomes: instability in Pakistan, a more aggressive if economically stricken Iran, a collision with warlike North Korea.

### Cascading Into a Crisis

The U.S. housing slump that began in 2007 has cascaded into a worldwide crisis that forced central bankers to announce writedowns, and sent titans like **General Motors Corp.** and **American International Group Inc.** begging for help. The **World Bank reckons** trade will shrink for the first time in more than 25 years, deepening the economic downturn and pushed as many as 155 million people into poverty.

Nuclear-armed Pakistan, once touted by Bush as the key U.S. ally in the war on terror, sits at the nexus between "Blood and tears" may be Pakistan's fate, says **Thaksin Shinawatra**, 59, who as prime minister of Thailand has also spoken about political stability, and the terrorist activities are there," he said in an interview.

### IMF Bailout

On Nov. 25, Pakistan clinched a \$7.6 billion **International Monetary Fund** bailout to avert a debt default. A day later, an Islamic terrorist group went on a rampage in Mumbai, India's financial hub, killing 164 people, including militants, much as the Taliban uses ungoverned Pakistani tribal regions as a launch pad for attacks on Afghanistan. Neighboring Iran is among the energy-exporting states afflicted by the 73 percent drop in oil prices from last year's bills, adding to the pain of October's 30 percent **inflation rate**.

### Axis of Evil

Elections in June may determine whether Iran, part of **Bush's "axis of evil,"** M1LRLCGFMZAI&peplid=1517432&pepllastname=Sarkozy&peplfirstname=Nicolas&peplcompanyname=01-12\_08\_46\_36&interviewreporterpepl=0&intervieweditorpepl=1712842&intervieweditoremail=jhertling"b conference last week in Paris. With globalization, he said, "we expected competition and abundance, and in

### Extremism and Violence

Historians say it's too early to declare the end of the intertwining of the global economy, under way at least \$29 trillion wiped off the value of **global equity markets** last year, the **Dow Jones Industrial Average** is

As a result, disturbances in the West -- from Greece's worst riots since the 1970s, to a 31 percent increase foundations of those societies.

#### Failed and Failing

It's the failed or failing states that stand to lose the most. "The punch line: Poverty does cause violence," says of California have even quantified it: a 5 percent drop in national income in African countries increases the r

The frailest nations are those concentrated south of the Sahara desert, plagued by a legacy of despotism, cr ranking of "failed" states compiled by the **Fund for Peace**, a Washington- based research group.

With commodity prices sinking, cutting the **UBS Bloomberg Constant Maturity Commodity Index** by alr slashing jobs, adding to Africa's economic woes.

Nigeria, holder of Africa's biggest fossil-fuel reserves, is staring into a \$5 billion budget hole due to the oil-p attracted the likes of **Royal Dutch Shell Plc** and **Chevron Corp.**

#### 'Not Optimistic'

"The outlook is not optimistic," says **Pauline Baker**, president of the Fund for Peace, which ranks Nigeria 11 vulnerable."

As incomes shrivel in the **poor world**, the economically troubled rich world isn't able to fill the gap. Even w/ aid to poor countries by \$50 billion by 2010. Now, official donations are set to fall by as much as 30 percent

The IMF may need another \$150 billion to help reverse the damage to emerging markets, Managing Directo convinced the IMF could scrounge up the extra funds.

#### Putin's Role

Perched between advanced economies and the raw-materials exporters in the southern hemisphere is Russi along with the Soviet empire.

Under President-turned-Prime Minister **Vladimir Putin**, that newfound clout became manifest in last year's from the onset of the first recession since Russia's debt default in 1998. The ruble dropped 19 percent again

Belligerency fueled by sudden wealth is likely to be inflamed by sudden scarcity, says **Harold James**, a hist "Economic difficulties are always a spur to foreign political adventurism," James says. "In Russia, there's alr come from."

#### China's Course

As Russia clashes with its neighbors, China may be headed toward domestic repression. While **growth of 7** year after the army put down the Tiananmen pro-democracy uprising.

China's recipe for raising the standard of living has relied on **creating jobs** in coastal boomtowns like Shang migrant workers lost their jobs in the first 11 months of 2008, an unidentified Labor Ministry official told Cai

Using Communist Party code for riots and civil disorder, the state-controlled Outlook Magazine last week wa

#### Dissent Insurance

At stake is the endurance of the Chinese hybrid of an open economy and closed political system. During its i economy and engine of global growth, a buoyant economy provided insurance against political dissent.

In a worst-case scenario, U.S. intelligence agencies warn, the communist leadership would roll back China's

"Although a protracted slump could pose a serious political threat, the regime would be tempted to deflect p nationalism," the U.S. **National Intelligence Council** concluded in November.

China has known outbursts of chauvinism in the past and remained intact, thanks to a social hierarchy datin

The crisis "could undermine the development momentum," Liberian President **Ellen Johnson Sirleaf** said ir

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