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# Recovery points to deep changes in global economy

DANNY QUAH

head of department and professor of economics,  
London School of Economics and Political Science

**AS** 2009 began, things were grim: The global economy looked set to suffer worse than in the Great Depression. By January 2009, nine months of near-constant decline had pummeled world stock markets to a 45% fall, more than three times the proportional decrease over the same timespan in 1929. World industrial output, in the 12 months following its April 2008 peak, fell proportionally further and faster than in the year after June 1929.

And world trade volume fell — not just for the first time since 1982, but against an underlying two-decade trend of increase at twice the rate of world gross domestic product (GDP) growth. By January 2009, the volume of world trade was nearly 20% off its April 2008 value, a proportional rate of decline three times that in 1929.

Yes, things were grim.

Worse, scenarios predicted were more ominous for

some parts of the world than others. Having benefited from export-driven growth, trade-surplus countries going into 2009 — notably China, Malaysia, Singapore and elsewhere in East Asia — would also be the most likely to suffer the worst ravages of the global economic downturn. Their export markets would vanish, even if they held no significant US sub-prime mortgage debt in their national portfolios. The US economy — that consumer of first, middle and last resort — would no longer service these countries' insatiable appetite for excess production. Or so the reasoning went.

Rough justice. Then again, since the surplus countries had been behind the global savings glut that, in the first instance, had fuelled financial excesses in the trade-deficit economies — the US, in particular — perhaps it was only right that they suffer the worst of what they had indirectly wrought.

But the world did not end in 2009. Indeed, at the beginning of the year, parts of the global economy — China and East Asia — currently enjoying a healthy

glow of growth, have been quietly on the upturn for a while now.

Given massive quantitative easing on the monetary side and hefty fiscal stimulus on the real side in economies nearly everywhere, perhaps this incipient recovery should have come simply as expected. But in pace and pattern, this recovery contains both surprise and salutary lessons for the future.

First, the upturn in Asia occurred without the benefit of recovery in the US economy. By mid-2009, emerging Asia's industrial production had grown over 50% above its January 2006 level and 30% above its January 2009 trough. Meanwhile, US industrial output was still 13% below January 2006 and September 2008 levels — and looked set to fall further.

Second, the global economy turned out to be no stranger to exactly this configuration of rise and fall across different parts of the planet. Until last year, the two times the US economy most significantly underwent recession occurred in 1991 and 2001. In the first of those downturns, US GDP shrank. But in 1991, China contributed to world economic growth at market exchange rates three times what US decline took away; China and India together, 3.2 times; East and Southeast Asia, nearly 20 times. In 2001, again at market exchange rates, China and India added to world GDP nearly double what the US did. Today, the citizens of China, India, and the rest of emerging Asia have, on average, incomes only 1/15 that of the US. But even at such low-income levels, the absolute growth being generated bears momentum that

has carried along the global economy.

Third, this is part of a longer-term, broader-based underlying trend, a shift in the distribution of global economic activity. Looking across the leading 700 economic places on the planet that are measurable on Google Earth, one can calculate the world's economic centre of gravity. In 1976, the world's leading economies of the US and Western Europe located that centre of gravity west of London, somewhere in the mid-Atlantic. In the last three decades, however, that economic centre of gravity has sped 2,000km — nearly one-third of the planet's radius — eastwards and into the Earth's interior.

This emergent cluster of global economic activity in Asia is not just one in incomes but also in trade. Take Asia's largest economies. As a fraction of Japan's total trade, the amount it undertakes with China has more than tripled in the last 15 years. Japan's trade with the US reached a peak of 35% in the mid-1980s, and since then the ratio has fallen to 15%. Japan's trade with China exceeded that with the US for the first time ever in 2006. As Japanese trade has varied, similarly too, South Korea's.

As a fraction of its total trade that South Korea undertakes with China, that has quadrupled in the last 15 years. South Korea's trade with the US topped out at over a third in the mid-1980s, and since then it has fallen to only 10%. South Korea's trade with China exceeded that with the US even earlier than Japan's.

Will these recoveries elsewhere in the global economy sustain themselves without a US consumer returned

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to full strength? Are these upturns simply bubbles, driven by easy credit and loose money? No one knows yet for sure, but we must remember that all economies are a little bubbly most of the time anyway (if by bubble we mean not 100% cleaved perfectly to fundamentals), and especially so coming out of any period of stagnation. It is only by measuring reality afterwards that we retrospectively determine whether fast growth — in economies or asset prices — were a bubble.

Anticipation of the 2009 collapse of the global economy, thankfully, turned out to be greatly exaggerated. But to the extent that recovery has occurred, what has kept the global economy from falling off the edge cannot have been only the timely intervention by fiscal and monetary authorities, critical though those must have been at points.

The strength of recovery has obviously varied across the planet. That pattern of return to economic health points to deep changes in the global economy, and it might perhaps be those underlying changes that contain the critical lessons for economies that still need to co-develop and trade with others. ■



KENNETH WATTHE EDGE