

OF PROPHECY AND ANALYSIS

IS THE WORLD returning to an equilibrium of 200 years ago, when China and India drove the global economy . . .



ANALYSIS
Alistair Nicholas*

"Prediction is very hard, especially about the future." – Niels Bohr, Danish physicist and Nobel Prize winner.

BEIJING – With many pundits forecasting a bleak year ahead for the world economy, off the back of the US sub-prime housing market collapse and consequent downturn of stock markets – from New York to London to Tokyo to Shanghai to Sydney – is there any silver lining to the economic doom and gloom?

With the news getting more dismal day-by-day so early in the New Year, it would appear not. Some, including finance wiz George Soros, have even ventured that the worst global recession in 60 years has already commenced.

Soros' view is the most interesting. Because, while he accepts that domestic consumption in key emerging markets – primarily India and China – could help stave off a worldwide recession, Soros has muted concerns that the rebalancing of the international eco-

“ The Soros prophecy could set panic into the Mumbai and Shanghai markets ”

nomie power could lead to political tensions that would “plunge the world into recession or worse”.

Soros makes his remarks in an *Op-Ed*, published by the *Financial Times* of January 23.

Soros' thesis is that a recession impacting the West, particularly the US, could see a resurgence of protectionist trade policies that could severely impact the global economy with a prolonged recession. Scary stuff. Unfortunately, Soros did not elaborate after dropping this bombshell.

The US Presidential election notwithstanding, there is little reason to presume a recession hitting the US and other Western nations would result in recidivist protectionism.

Indeed, even if the ultimate Democrat or Republican candidates for the White House become born-again protectionists, there is little reason to believe their new-found faith would carry into the Presidency. And, even if it did, that the impact on the world economy would be as big as Soros suggests.

China and India both continue to post phenomenal growth rates. More importantly, their growth rates now result from two factors that have become more important than their trade with the US or Europe.

The first of these is domestic consumption. Indeed, part of the US economy's woes have been created by record oil prices – which pushed past US\$100 a barrel precisely because India and China's huge energy demands are placing considerable pressure on supply.

Secondly, Soros, and other world economy doomsayers, have failed to take into account the growing importance of intra-regional trade for both China and India. Both countries now conduct more trade with the rest of the region than with either the US or Europe.

While a North American and Western European slowdown would certainly impact both nations, it is unlikely to drive them into full-blown recession. Figures released on January 24 show that China grew by 11.4 per cent in 2007, marking 13 straight years of double-digit growth. The Central Government in Beijing has been struggling to slow growth for several years, and a slowdown of Western economies may now assist it in bringing economic growth to manageable levels.

While India is less desirous of slower growth, it, too, is unlikely to take a major blow from the West's woes. India is experiencing growth of nine per cent, and is forecast to surpass Britain's economy in a few years.

Rather than either of these economies being massively affected by economic policies of the US or EU countries, we are probably returning to an economic equilibrium of 200 years ago, when India and China drove the world economy. Back then, European and American powers dispatched envoys and warships to pressure these two to open their doors to foreign trade.

It is presumptuous to think the US can now afford protectionist policies when hit by an economic downturn. More likely, US (and European) trade representatives will be calling on Beijing and New Delhi with their caps firmly in hand for trade concessions from the world's rising economic stars.

The only fear now is whether Soros' vain glorious prediction could itself plunge the world into “economic recession or worse”.

Sometimes, the world would be better off if seers kept their prophecies to themselves. But now that George Soros has put his moniker to such a dismal prediction, it could set panic into the Mumbai and Shanghai markets.

If that were to transpire, no-one is equipped to predict the outcome. **a**

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Milestones

From the pages of **ASIA TODAY INTERNATIONAL**

FEBRUARY 1988 – Japan ‘recycles’ US\$20 billion in aid for foreign projects; Philippines curbs soft loans for industry; Indo-China a growing market for agricultural consultants; Gold lures more miners to the Philippines.

FEBRUARY 1993 – Leighton CEO Wal King says the Australian Government is doing too little to help Australian companies seeking business in Asia; Volume of infrastructure projects poised to accelerate in Asia; China economic reforms create opportunity for foreign professional firms.

FEBRUARY 1998 – Asia's economic crisis sees a reassessment of mining and infrastructure projects and a new focus on debt and cost-cutting as bank credit goes on hold; Coherent cyber laws a key issue for Malaysia's Multimedia Corridor; Worse to come as Indonesia's rupiah collapses.

FEBRUARY 2003 – Singapore seeks to position as high-tech hub with 15-year, US\$8.2 billion project known as ‘one north’; Consumers drive Asia intra-regional growth, with Asia, ex-Japan, tipped for 6% growth in 2003; China plans tax breaks for high-tech R&D; India stumbles, IMF sees risks; Philippines window to 2008 to bring deficit under control.

FEBRUARY 2007 – Chinese manufacturers challenging Korea in virtually every industry; Capital controls spook Thai investors; US housing slump could trigger recession; Surprise economic leap for India; Infrastructure gap hits Australian manufacturers.

PEOPLE POWER, THAKSIN POWER

WILL incoming Prime Minister Samak Sundaravej really be running Thailand at all . . .



PERSPECTIVE
Robert Horn*

BANGKOK – As January drew to a close, Samak Sundaravej finally achieved his

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