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Global economic trends: what you need to know

In the past seven weeks, I have circled the globe so many times, my body has lost track of time zones. My recent travels have taken me to Japan, South Africa, the Middle East, Singapore, Hong Kong, China, and Australia. Extensive meetings with business executives, investors, policy makers, and senior government officials in all of these countries cast the global debate in a very different light. Several economic trends I noted on these travels strike me as most important.

Global investment trends: Middle East development

My recent trips to the Middle East have completely changed my perceptions of this region's global role. In less than 35 years, the oil-producing states in the Gulf have gone from being exporters to users of capital. As a consequence, the ramifications of the current oil shock are very different from those of the past. Massive internal development programs - highlighted by spectacular new urban centers in Dubai, Doha, and Bahrain - are examples of how capital is now being put to work at home investing in tangible assets rather than recycled back into dollar-based financial assets. IMF estimates put current account surpluses of the Middle East at around \$300 billion per year in 2006- 07 - more than double the average \$140 billion external balances of 2004- 05. The region's newfound penchant for internal absorption suggests this surge in surplus saving could well have profound consequences for the global economy and world financial markets.

Global investment trends: South African anti-China sentiment

My first trip to South Africa was a real eye-opener. Johannesburg and Cape Town had prosperity written all over them, but, sadly, the rest of this country did not. With the national unemployment rate still in excess of 25%, matters of job and income security entered into most of the discussions I had on this leg of my travels. What surprised me the most was the anti-China sentiment I encountered in South Africa. China, of course, has been nurturing a rapidly expanding relationship with Africa in recent years - resulting in a ten-fold increase in cross-border trade over the past decade. China has become an important source of capital and infrastructure for the region, while Africa offers much in the way of natural resources that China so desperately needs.

Yet the backlash was focused on the job front - with many South Africans quick to blame low-cost Chinese competition for the decimation of its once thriving textile industry. In this key respect, the anti- China backlash I encountered in Africa was no different from that which is evident elsewhere in the world these days. What surprised me was that I had thought the resource-for-capital compact between Africa and China might temper that friction. A similar conclusion could be drawn from all the fanfare over the China-Africa summit held last month in Beijing - an unprecedented gathering that included leaders from over 40 African countries. Beneath the surface, however, there can be no mistaking the undercurrent of anti-China sentiment evident in job-short South Africa.

Global economic trends: Australia's climate change worries

In Australia, environmental issues came up at literally every meeting. Most concede that their unique drought-affected circumstances - the culmination of 5-6 of the driest years on record - have undoubtedly played a key role in bringing this issue to a head. But maybe that's precisely the point for the rest of us - with concerns over a fragile environment mounting, it doesn't take much for national sentiment to swing. One of the more savvy Australians I met with forcefully argued, "A year ago, post- Katrina America was just one storm away from a similar tipping point."

Meanwhile, former US Vice President Al Gore was well received in Australia this past September, and his movie on global warming, "An Inconvenient Truth," apparently struck a very receptive chord. At the same time, there was much debate over the UK's recent contribution to this debate - the "Stern Review," which dangled the tantalizing, yet highly- contentious possibility that if the world moved now, it could avoid a looming environmental catastrophe by investing a "mere" 1% of global GDP annually in measures aimed at reducing greenhouse gas emissions (see the pre- publication version of the "Stern Review on the Economics of Climate Change," which can be found at <http://www.hm/-treasury.gov.uk>).

As I look back on my discussions with global leaders over the past seven weeks, Australia was hardly alone in voicing concerns over climate change. Similar worries were evident in China, elsewhere in Asia, and in Africa. Because of extreme circumstances, the Aussie voices may have been louder, but they are very much in line with a rising tide of global concern over the perils of climate change. Sadly, America remains on the outside looking in - at least for now.

Global economic trends: Asian consumption and exports

I have written elsewhere of the lessons I gleaned from my latest spins through Asia. It is always risky to paint such a diverse region with one brush, but there are some common threads that emerge from extensive visits to Japan, China, Singapore, and Hong Kong.

First, Asia doesn't buy the myth perpetrated in the West that a new generation of consumers is taking the region by storm (see, for example, the cover story and leader in the October 19, 2006 issue of *The Economist*, "America drops, Asia shops"). Developing Asia knows full well that its export share has risen from around 20% to nearly 40% of pan-regional GDP over the past 20 years while its private consumption share has fallen from 70% to less than 50% over the past 30 years. The need for a pro-consumption rebalancing does not just find support in developing Asia but is also recognized to be of great importance in Japan, where the consumer has largely been missing in action from an otherwise impressive recovery.

Second, Asia is in denial over the possibility of a growth accident in the United States. That would obviously deal a serious blow to the Chinese export machine - as well as to the Japans, Koreas, and Taiwans that drive Asia's increasingly China-centric supply chain, which provides many of the components that go into goods that eventually get shipped to America. Finally, Asia ex Japan is blinded by a very powerful liquidity cycle - the surging flows of low-cost capital that have priced most of the risk out of its stock and bond markets. I remember well the haunting words I heard from a seasoned investor in Hong Kong a few weeks ago, "It hasn't felt this good since 1997."

Global economic trends: the globalisation mega-trend

Notwithstanding the jet-lag and sleep deprivation, there's nothing like the sheer exhilaration of peering into the inner sanctum of globalisation. The more I travel the world, the less convinced I am that our "win-win" theories do this mega-trend justice. Nor do I believe that we should measure progress on the road to globalisation by fixating on the quantitative metrics of surging cross-border flows of trade, capital, and information. In the end, globalisation is more about the assimilation of shared values of a still very diverse world. A successful globalisation requires a global coping mechanism - a world that learns how to resolve the tensions that invariably arise between nations. A failed globalisation - as Niall Ferguson reminds us all too

well of what happened in the early 20th century - is all about a world that succumbs to geopolitical tensions, trade protectionism, and economic and financial instability.

In my multiple spins around the world this fall, I was struck by both the successes and failures of the current strain of globalisation. But I was also struck by the persistence of "localization" - nations that remain more caught up in self- interest rather than in the collective benefits of an integrated global economy and world financial markets. It's easy to talk the talk of globalisation. It's much harder to walk the walk. That's the lesson that hit me the hardest.

Stephen Roach (Money Week Feb.2, 2007)