

A long, long tunnel but a little light at the end

Tuesday 17 March 2009, by [Chang Noi](#) (Date first published: 2 March 2009).

The numbers are bringing the truth home. The shrinkage of Thailand's GDP by 4.3 per cent in the last quarter of last year was modest compared to minus 12.7 per cent in Japan and comparable figures elsewhere. In January, exports dropped by 26.5 per cent in Thailand, by almost half in Japan, and by big percentages everywhere. World trade has lurched downwards. People are talking of deglobalization and a crisis of global capitalism. The question is no longer how bad but how long.

Kazuo Mizuno has become Japan's most talked-about economist over the last year. He is the chief economist for a major financial house, but also writes popular books and a flood of press articles. He argues this is not just another turn of the cycle of boom or bust but a crisis of historical proportions.

He thinks the world's mature economies ran out of real growth in the 1970s and have staggered on by ramping up bubbles elsewhere. Latin America. Asia. Japan. And now right in their own backyard. He shows that the US sub-prime bubble has exactly the same shape and logic as the real estate bubble which sunk Japan into its lost decade. The difference is that Japan leveraged credit on the basis of its own savings alone, while the US leveraged from the trade surpluses of the rest of the world, so the scale is frightening.

How long does Mizuno think it will take the US to recover? He thinks five years would be enough as long as households in the US and Europe begin to save on a significant scale. But he regrets that history tells us this is unlikely to take place. Probably the eight to ten years that Japan took to emerge from its burst bubble are a better estimate. But then Japan got a lift from the strong growth in the west and China. The US and Europe together account for half of the world economy. There is nowhere big enough to lift them out of the hole.

Maybe Kazuo Mizuno's analogy between Japan and the US needs adjustment. The US economy is more flexible, and may be able to adjust faster than Japan. But still, the number of people who really expect a short recession are diminishing by the day. Every six months or so, Chang Noi chats with an analyst from one of the big US ratings agencies. Each time Chang Noi asks how long it will take the US to recover. A year ago he predicted one year. Six months ago he said three years. At the last meeting a few weeks ago, he said, "I don't know."

Long downturns on a global scale are times of intense change. The last occasion was the Great Depression of the 1930s. Over that decade, the world changed in major ways. The British Empire was crippled. The US rose to dominance. Countries adopted socialist and welfarist approaches to economic management. Communist and fascist movements spread across the world. Nationalist movements involved millions of people in mass politics for the first time. The League of Nations, the first institutional expression of internationalism, was created in a vain attempt to stem growing conflict between nations and ideologies.

New ideas. Big shifts in power and wealth. Political mobilization. Rising conflicts and internationalist attempts to stem them. In short, a remaking of the world.

For Thailand and many neighbours, the immediate issue is the rapid collapse of exports which have been the driving force of their economies for the past two or three decades. Unemployment is rising rapidly. Although most local banks avoided infection by the sub-prime virus, their profits will dive because they rely so much on financing international trade, and their asset position is shaky because they rely heavily on access to international finance markets which are collapsing. The point about a crisis that stems from the world's leading economy is that it is global in nature and extent. Nobody escapes.

What does Mizuno think a country like Thailand should do? Stimulate consumption and boost public investment. Don't be worried about rising public debt. Work on coordinating efforts within Asia for mutual benefit.

The Abhisit government has rushed out a classic Keynesian stimulus package in an attempt to raise domestic consumption to compensate for the export fall. Almost every country has been doing the same thing. But the recent figures on trade shrinkage have already made these stimulus packages look puny. Besides, this budget-based stimulus technique only works for a short time. To be self-sustaining, the increased consumption must induce some investment, and in the current reign of gloom, that seems unlikely. The next strategy must be to accelerate public investment. This will have the twin benefits of providing employment and building the basis for future growth. But under normal circumstances, such public investment programmes take a long time to implement. In current crisis circumstances, government has to cut corners to reduce the lead time. This is risky because it increases the chance of corruption and wastage. But the risks of delay may be even greater.

Every crisis is an opportunity. To increase consumption beyond the very short term needs a real shift of wealth and earning power. The export-oriented strategy adopted by Thailand and many other countries has been enormously successful over the past few decades. But it has also bred structures and mentalities that are now a liability. Governments want to keep their own workers cheap so they can sell them on the world market. Countries earn a trade surplus which is stuffed in dollar reserves where it helps swell the consumer bubble in the USA so that there is a market for our exports. The task now is to shift some of the surplus that Asia's export-oriented countries have been donating to the US consumer into the pockets of the local population. That will not be easy but it would result in a fairer, better society.

P.S.

From <http://www.geocities.com/changnoi2/depression.htm>