

From the Atlantic to the Pacific

As one looks at the global economy at the start of the second decade of the 21st century (to be sure, strictly speaking, the second decade would begin a year from now), there are enough pointers that the centre of global economic gravity is moving from the West to the East, from the Atlantic to the Pacific, from finance-capital dominated *laissez faire* economics to more dirigisme economic governance. This is quite a change from the last three decades when, for too many people, as I argued in an article in this paper on September 26th, “*U.S. practices were considered to be the ideal, their accounting systems fool-proof and transparent, and the regulators effective and efficient.... Reform came to be synonymous with adoption of U.S. practices*”. But, as Dr. Y. V. Reddy argued in his S. Ranganathan Memorial Lecture (November 30, 2009), “*China has shown that high growth in real sector for a prolonged period was possible, consistent with stability, without any significant development of a modern free market-based financial sector.*”

Western analysts also agree about the shift in economic power – consider two recent articles by Fareed Zakaria in Newsweek titled “Enter the Dragon” and “Terror out, China in”. Andy Serwer, Managing Editor of Fortune, wrote in a cover story in Time (December 7, 2009) that “the first 10 years of this century will very likely go down as the most dispiriting and disillusioning decade Americans have lived through in the post-World War II era). In the same vein, columnist Gerald Seth wrote in the Asian Wall Street Journal, December 19, 2009, that the last decade has taken “a heavy toll of national psyche” and has damaged “the traditional spirit of optimism”. And no wonder: consider some numbers:

⇒ Even as median family income in the U.S. has fallen over the last decade, China’s per capita income has jumped 140%;

- ⇒ Income inequality has grown, with the top 0.1% of U.S. tax payers commanding 8.2% of total personal income, up from 6.6% a decade back, and the highest level since 1917;
- ⇒ Unemployment remains above 10% and 1 in 9 Americans is now dependent on food stamps to avoid starvation;
- ⇒ 10 years back, seven of the ten highest market capitalisation companies were American; now only four are American and three from China;
- ⇒ The IPOs in the U.S. in 2009 were about half of the IPOs in Hong Kong and China;
- ⇒ The U.S. invests 2.4% of GDP on infrastructure as against 9% in China; and
- ⇒ Public debt in U.S. will soon equal GDP, even ignoring the huge pension and social security liabilities.

Nor is Europe doing much better. Economies of many members of the European Union are in a mess. The credit default swap premia on sovereign debt of countries from Greece, Ireland, and Italy to many countries in Eastern and Central Europe, have gone up sharply, with unsustainable fiscal and, in the case of some, current account deficits. Europe's waning power was also manifested in the Copenhagen Summit on Climate Change where it played a minor role. And, an honorary member of the West, namely Japan, is facing the prospects of a prolonged deflation. To be sure, the numbers have been affected by the financial crisis of 2007-08 from which the West suffered much more than the East, but the trend is unmistakable.

The picture is not very different at the micro level as well. To quote only a few examples, the once mighty General Motors had the ignominy of going to bankruptcy court, and its work force in the U.S. has come down from 600,000 at its peak a couple of decades back, to just 75,000 now. Another industrial icon, Ford Motors, is a little better after selling its Jaguar Land Rover Division to Tata Motors and, more recently, Volvo Division to a Chinese company. (Incidentally, China bought more cars than the U.S. in 2009.) These are but two examples of the continuing de-industrialisation of the U.S. It is a telling commentary on the way economic power is shifting that HSBC's CEO has relocated back to Hong Kong; GM's Head of Global Operations is located in Shanghai; a reverse brain drain has commenced with many highly qualified immigrants

to U.S. coming back to India and China; and more and more executives in multinational companies are now considering assignments in Asia as indispensable to their career paths, no longer hardship postings.

I can do no better than end by quoting Mr Zakaria in Newsweek (November 16, 2009):

“The real trend of the decade has been the rise of China from a Third World nation to the second-most-important country on the planet...China grew over the decade around 10 per cent a year... (and) has grown its GDP to \$4.8 trillion, which will make it the second-largest economy by next year. The scale of China’s achievement, which can now be viewed over three decades, is extraordinary by any standard. It has industrialised at roughly three times the pace that the West did. What took 100 years in Europe has taken one generation in China.”

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