

Global economic prospects in 2010

I START my new column with the very big picture. What is the state of the world economy at the beginning of this new decade? And what is the outlook this year?

For contrast, think back two-and-a-half years. The quarter-century up to the crisis saw the fastest increase in economic growth, globalisation and prosperity in history. International trade increased sevenfold and Foreign Direct Investment (FDI) almost 30-fold between 1980 and 2008.

Both outpaced the increase in world GDP in the same period. Rapid globalisation had two driving forces: technology and policy liberalisation. Developing countries liberalised massively and integrated into the global economy in the 1980s and '90s.

A sharp contraction in global growth followed the financial crisis that exploded in September 2008. The world also suffered its worst 'de-globalisation' since World War II. International capital flows shrunk by 82 per cent in 2008. International trade contracted by 12 per cent and FDI by one-third last year.

By the end

of 2009 recovery was underway. It remained anaemic in the West, but Asia rebounded quickly, led by China. According to the IMF, world GDP declined by 1.1 per cent in 2009, with a decline of 3.4 per cent in developed economies.

But the ADB estimates that growth in developing Asia was four per cent last year, and will go up to an almost Tigerish 6.4 per cent this year.

China is expected to post

growth of eight per cent or higher, and India five to six per cent, for last year. Thus the crisis seems to have accelerated the shift of economic gravity to the east.

Now turn to the economic-policy outlook. The crisis has triggered a big shift against free markets. 'Crisis interventions' are bunched in two key areas: huge financial bailouts; and fiscal stimulus packages, usually

combined with loose and unorthodox monetary policies.

Financial bailouts in high-income countries cost 28 per cent of GDP in 2008 – akin to public financing of a large-scale war. In China, new state-directed bank lending (about US\$ 2 trillion last year!) plus direct fiscal stimulus totals about 13 per cent of GDP.

Bank bailouts were probably unavoidable in the extreme conditions of late 2008.

So were extra loose monetary policies to inject a super dose of liquidity. But it is highly debatable whether massive fiscal pump-priming – Keynesianism on steroids – was necessary.

Sceptics doubt the effectiveness of the Keynesian fiscal multiplier, especially in complex open economies (in which some of the extra demand leaks abroad through imports).

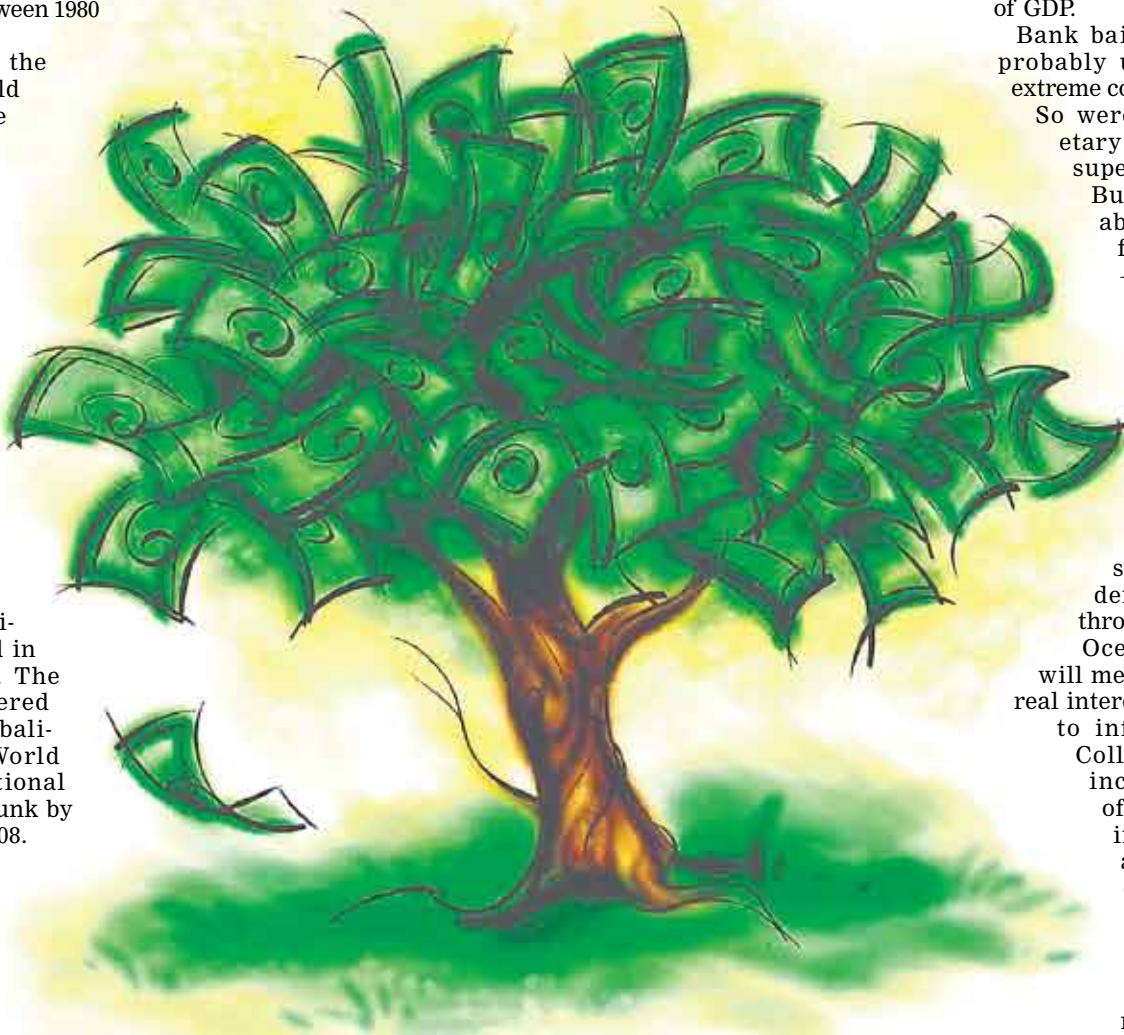
Oceans of public debt will mean higher taxes and real interest rates, in addition to inflationary threats. Collateral damage will include crowding out of capital for emerging markets, as well as making it more expensive.

The microeconomics and politics of financial bailouts and profligate macroeconomic policies

My View

Global Economics

By Razeen Sally



HOW IS BUSINESS?

Good pickings for stationery biz

By SENASHIA EKANAYAKE

Q. How is business at Paperland?

A. Business is doing well. I am glad to say that 2009 was a better year than the previous and that we have grown roughly by about 30%. I believe that the main reason for this is due to there being a more open and competitive field of business.

More companies and shops are opening up and there is a huge demand for office supplies. This I trust is the main reason for the increase in sales and profits in 2009. Out of the two fields we conduct operations – stationery and the copy shop – we definitely have a more successful market for the stationery cum office supplies market.

Q. What do you have lined up for this year?

A. First and foremost we hope to increase sales by about 20-30%, primarily because the overhead costs are high and unless we receive a considerable amount of sales we won't be able to cover the total costs.

Q. What does Paperland have in store in the long-run?

A. Apart from the increase in sales we look forward to opening up more branches and definitely expanding our network. The overall industry



Shop: Paperland
Products: Stationers and copy shop
Interviewee: Managing Partner Umair A. Cader
Address: 114, Galle Road, Colombo 4

ties in order to improve your business?

A. Due to the location of the shop, our customers find it inconvenient in terms of parking. Apart from this, the one-way system that was implemented sometime back makes it all the more inconvenient. The latter has a considerable impact on us as it only irritates our customers.

Of course, there is the issue of taxes. Out of the

items on sale only a small quantity is being imported from China, a majority of it is bought from local manufacturers. Importing is a new venture for Paperland as it began only recently. This also was because as we had to meet customer requirements. However in bringing down this quantity, an extremely high percentage of tax is imposed on us.

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BUSINESS AS USUAL OR NOT?

Tell us about it.
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My View



Goodness & Wellness

By Deepal Sooriyaarachchi
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Different points of view

WE have heard the story of the blind men and the elephant many times. We always use that story to illustrate the effect of not knowing the full picture. But come to think of it, in life most of the time we do not have the full picture or all the facts.

Doctors live with that most of the time. There is a lot of information that is not certain not clear or simply not available when doctors approach treating a patient. Even in personal life, the situation is not different.

Business is not an exception. In most instances we do not have the luxury of all the information we like to have.

But sometimes the most important bit of information may not be in the list of items we have any way. In reality it is not only the information that is important, I think what and how we see a situation is equally – if not more – important.

How we see or look at a situation or an object is conditioned by our past. In fact it is very difficult to look at a situation without such a history of our memory. It is almost impossible to see like that. We are blind to a degree by our own knowledge.

For instance, our professional background and conditioning dominates our view of a situation. This is there even from childhood. Take a group of students to a place and ask them to draw what they see. You will be surprised as to how different they are from what they observe.

A congestion at a junction is a mathematical problem to a statistician, a design problem to a town planner, a security risk or lawlessness to a policeman, a waste of manpower energy and national wealth to an economist, a subject for a painting or a photograph for an artist, another poet will see the delay that can cause the death of a patient that is stuck in the traffic jam, and a good excuse for a person who is getting late, an opportunity to beg for the beggar on the pavement.

Who saw the actual problem? Or what is the actual problem, who is correct or who is wrong? Can we really see free from such conditionings. May be the answer is "it depends".

Language is a powerful conditioner of our thinking and the way we see. Without our knowledge, language we use can give a different perspective to a problem. In Chinese, the word for 'crisis' is weichee. This is written with two Chinese characters. The characters when taken separately give two different meanings.

The meaning of one character is danger or crisis. The second character means opportunity. Therefore when a Chinese person hears the word weichee at a moment of crisis, what will he/she think?

When we hear the word 'party', thoughts and images such as music, fun, food, entertainment and dance come to mind. Similarly to a Chinese person the word weichee can give both the options of danger as well as opportunity.

It may be very interesting if we can look at situations from different points of view either from different professional conditionings or using different languages or if possible as if a child would look at it completely fresh. We might get new ideas, new insights to old problems. Is this a skill we can develop? I think so.

(The writer is a chartered marketer, author and trainer)

