freshinsights

Mystery behind the global economic crisis

Letter from Pretoria/

WITH MICHAEL OGEMBO KACHIENG'A

Deciding how to re-engineer Capitalism to achieve growth and socially balanced development is a source of major confusion for most governments.

Issues such as global warming and the energy crisis have made us sensitive to our survival as a people, causing us to strive for global social justice in both markets and in sustainable development.

But history over years of development teaches us that an economic crisis slows growth, and when countries need growth, they turn to the markets ie the capitalist system.

The Capitalism system is prone to market crashes and economic fluctuations, which create dysfunctional societal systems along the way.

In the last decade, Capitalism has lubricated the global prosperity despite its shortcomings.

Trade protection will impede commerce and stall economic recovery. Every economic system has inherent faults. We tend to criticise Capitalism only when it is associated with failure. To ask for a 'Perfect Capitalism' is to ask for failure.

For nearly a century, most western countries have been trying to regulate the Capitalist systems to stabilise them, while preserving developmental energies and benefits.

FINANCIAL REGULATIONS

After the recent recession, the same governments have applied the same remedies again – tightening financial regulations while policing financial markets. The problem is that more regulations and the polishing of the financial industry will not make Capitalism function better, as long as we do not diagnose what exactly has gone wrong with Capitalism.

With deeper insight, it is becoming evident that what we are experiencing is not a crisis within Capitalism. It is a crisis within the financial industry, within the political democracy of globalisation and ultimately of societal ethics.

Fundamentally, it seems society has a vast problem with greedy capitalists rather than with the Capitalist system. The financial industry distorted the global economy — or to be more precise — the financiers and the bankers have done so.

HISTORICAL TRENDS

The financial industry has a history of making global economy dysfunctional — from the Dutch tulip bubble in 1637 to the present global recession.

The historical trends behind these financial bursts have been varied, yet follow a strikingly similar series circuit: good times lead to political stability, technological innovations and economic growth; all encourage an atmosphere of easy money and readily available cheap credit.

Cheap credit motivates greed, unwarranted consumption, miscalculation of investments and eventually — economic ruin. Put it plainly, in the good times, people consume more than they produce, and make up the difference by borrowing.

One of the common rules governing leverage is to borrow to invest. Borrowing to consume is a fatal mistake because it normally leads to bankruptcy. The economic crisis repeats itself because people have refused to listen the first time.

Industrialised countries should borrow a leaf from emerging economies — in particular

ECONOMIC DISASTERS CAN BE AVOIDED

The deeper the global economic crisis digs, especially in the developing nations – and the longer recovery is delayed, the greater the danger of an economic disaster. The best solution is to fix the global financial system with a sense of urgency.

A proactive financial industry is one that does not only talk to itself, but also to its clients in real time language, not financial jargon. Today's world economic and social problems ignore national boundaries. The world needs smart politicians who can do the same, because international politics precede international business. It is difficult to trade with enemies except at the battle front.

What we need are disciplined applications of techno-financial innovations to generate new values in the financial industry business value chain, rather than using these innovations as tools for hiding risks.

China and India — to stabilise their economies.

In 2007 boom times, China and India raised the interest rates and forced banks to hold higher capital bases.

In other words, the government actions should be 'counter-cyclical.' They should work to slow growth through stabilisation of money velocity.

In addition, the use of techno-financial innovations, especially the internet, has stabilised global money movements. Global money velocity has been fairly stable and predictable.

ECONOMIC BOOM

In the past 25 years, the global economy has doubled every 10 years, going from $31 trillion in 1999 to $62 trillion last year. In 2006 to 2007 — the peak years of the global economic boom — 124 countries around the world grew at four per cent a year or more, about four times as many as in the previous 25 years.

In reality, the global economic dilemma goes well beyond the financial industry, poor regulations of markets and pandering politicians. The global financial system has been crashing more frequently over the past 30 years than in the course of any comparable period in history.

The real problem is more complex. Since the late 1980s, the world has been moving towards a comparative degree of political stability. The end of the Cold War ushered in a period with no major military competition among the world's great powers — something virtually unprecedented in modern history.

As a result, the global transient inflation and financial market fluctuations somehow became manageable in most countries except in Somalia and Zimbabwe.

The real problem with the global economy is that it remains complex, interconnected and unbalanced. More broadly speaking, the fundamental problem is globalisation. The economies of nations have been globally networked and financially interconnected.

GLOBAL POLITICS

Technological innovations in world enterprises have created worldwide supply chains, companies and customers. But global politics remain regional at best and national at worst.

The tension at the heart of the present global economic crisis is the mismatch between interconnected global economies that are producing global problems, but with no matching political processes that should be providing solutions.

Without a co-ordinated global effort to update global politics in line with the global economy, we are bound to see more periodic global economic crises in the future.

The true aim of a global economy is to produce goods and services for the population. By means of globalisation of trade and commerce, we seem to understand the economics of globalisation better than we do with global politics.

What is missing in the world today is 'The Universal Politics of Globalisation'. The politicians cannot regulate global economy, especially the complex operations of the financial industry, which they hardly comprehend.

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Stubborn political crisis hangs over Thai economy

globalrecession

BANGKOK,

Foreign investors are wading back into Thailand despite a three-year political crisis, stoking stock and currency gains, but economists say political unrest will limit how fast and how far Thailand pulls out of recession.

The extent of damage to the broader economy depends on how long fugitive former Thai Prime Minister Thaksin Shinawatra challenges Prime Minister Abhisit Vejjajiva, and whether his campaign backed by thousands of red-shirted street protesters undermines the confidence of investors and consumers.

"It can be a source of concern ahead," said Euben Paracuelles, an economist at the Royal Bank of Scotland.

"Our clients are starting to ask again about politics."

So far this year, the market toll from political unrest is minimal. The baht has gained 2.32 per cent against the dollar, the second-best performer among Asian currencies after Indonesia's rupiah.

The benchmark stock index is up 42.3 per cent, turning around from a 47.6 per cent fall last year.

Foreign investors, net sellers of Thai stocks in January and February, turned net buyers between March and July.

And in what some see as a vote of foreign confidence, Thailand received net foreign direct investment of $25.2 billion in three years to 2008, lower only than Singapore's $35.3 billion and far more than Indonesia's $6.5 billion and the Philippines' $3.5 billion, according to data compiled by HSBC.

But political uncertainty has hurt Thailand's $260 billion economy in other ways since Thaksin was ousted in a military coup in September 2006 — from bond market investments to tourism.

Despite investing in Thai stocks, foreign investors have largely abandoned the small Thai bond market.

BOND TRADE

An army-appointed government imposed capital controls in late 2006 to try to curb a rise in the baht. Even though they were lifted in early last year, foreigners account for only one per cent of bond trade.

And while stock markets in emerging Southeast Asia, including Thailand, are once again on the boil, Thailand is the region's second-worst performer this year — extending a trend that dates to 2006.

Thailand's SET Index has lost 10.5 per cent since early 2006, during which time indices in Indonesia, the Philippines, Malaysia and Singapore rose between 11.7 per cent and 100.1 per cent.

Hardest-hit has been tourism, an industry that employs about 1.8 million people out of a population of 67 million and has also suffered from swine flu scares and the global financial crisis.

—Reuters