

World economy

Stronger China

Thanks to China, an American recession need not cause the whole world to crash



ECONOMISTS have long warned that the world economy could not fly for ever on the single engine of American demand. A one-engined plane is more likely to crash. With its housing market blighted and its consumers growing fearful, America now faces a mounting risk of recession. The good news, however, is that the world has found some powerful new engines in China and other emerging economies. Even as credit markets seize up, a world economy that is less dependent on the United States is more likely to stay aloft.

The power of this new motor is startling. For several years, emerging Asian economies have accounted for more of global GDP growth than America has. This year China alone will for the first time accomplish the same feat all on its own (at market exchange rates), even if American growth holds up. American consumer spending is roughly four times the size of China's and India's combined, but what matters for global growth is the extra dollars of spending generated each year. In the first half of 2007 the increase in consumer spending (in actual dollar terms) in China and India together contributed more to global GDP growth than the increase in America did.

Of course, this silver lining has its cloud. A sharp slowdown in China now would have much nastier global consequences than in the past, and the Chinese economy has weaknesses. But it does not look like getting into trouble over the next couple of years (see page 75)—the period in which America looks as though it may be feeble. If China can keep flying high, it will help keep the world economy safe.

Of course, if America suffers a recession, then Asia's exports will weaken. But this should not hurt GDP growth too much because other factors should help offset the weakening.

It helps that China and most other Asian emerging economies are now exporting more to the European Union than to America. China's exports to other emerging economies are growing even faster. It helps, too, that domestic spending has strengthened and is likely to stay strong: China, along with most of the rest of Asia, is one of few parts of the world without a housing bubble.

If emerging Asian economies start to look weak, their governments have some scope to strengthen them. Most, with the exception of India, have small budget deficits; some even have surpluses. So if exports collapse, governments also have ample scope to boost domestic demand.

Commodity prices, too, will continue to feel the effect of the emerging economies' increased importance. It is commonly assumed that an American recession would cause a sharp fall in the prices of oil and other commodities. But emerging Asia accounted for two-thirds of the increase in world energy demand over the past five years. So if Asia remains strong, commodity prices should too, and commodity-producing emerging economies such as Brazil, Russia and the Middle East will also continue to thrive.

Steady on

Emerging Asia cannot pick up all the slack if America goes into recession. Average world growth will slow—and, arguably, it needs to. But Asia can help to keep the world chugging along. Indeed, a modest slowing in the American economy could even help Asia in the long run if it forces governments to switch the mix of growth from exports to consumption and so make their future growth more sustainable.

Not so long ago, the rich world used to regard emerging economies as risky and unstable. That view needs to change: emerging economies now look like a force for stabilising the world economy. ■