

FORUM

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A global recovery is underway but how much will it benefit Asia?

Newspaper headlines continue to highlight how the Covid-19 pandemic is still raging and the mayhem it is causing. Concerns about the pandemic have led many institutions such as the Asian Development Bank to issue decidedly downbeat forecasts for the world economy, thus adding to the gloom.

But this pessimism may be overdone. After all, several lead indicators (LIs) are pointing to a decent recovery in the major economies that essentially determine where the global economy is heading. Moreover, we find that the forces that are shaping this recovery are durable.

Even with this recovery though, Asia faces some headwinds. In particular, the recovering demand in large economies may not translate into stronger Asian exports because the appetite for foreign goods in those countries seems to be diminishing. And that means the governments in Asia still need to maintain policy support to ensure that the recovery is sustained.

LIs speak of a global recovery that underlying forces can sustain

The Organisation for Economic Co-operation and Development's (OECD) LIs have a credible track record in predicting the course of the economic cycle. So, it is encouraging to see the latest batch

of LIs foretelling an uptick in the world economy. The overall composite LI rose in July, with almost every developed country and major emerging economy recording higher LIs.

Moreover, surveys of purchasing managers show order books swelling again among the world's manufacturers, meaning that higher production is on the way. The various member banks of the US Federal Reserve are predicting an annualised expansion of third-quarter US economic output to be between 15% and 30%, after the 32% slump in the second quarter. These agencies see the rebound continuing at a slower but still healthy pace in the final quarter of the year.

Digging deeper, we find that the main determinants of global economic activity are looking healthier.

First, the damage caused by the pandemic on economic activity is lessening, despite all the scary headlines. One reason is that governments are wary of responding to spikes in infections by imposing stringent lockdowns that crush activity. So, while renewed infections in parts of the US and Europe have stoked fears that the recovery will stall, we find that the govern-



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ments' restrictions on activity are much more targeted and of limited duration.

Another factor is that Covid-19 is becoming less scary to consumers because better drug treatments and improved clinical management have reduced fatalities and the damage the disease causes to victims. Thus, while still wary, consumers have tempered their caution and continue to keep the recovery in spending going. Governments, public health experts, businesses and ordinary folks are coming to terms with the pandemic and are learning to adjust to it. There is simply no appetite for long-lasting and severe restrictions on activity.

Second, government policy has continued to be highly supportive of economic activity. Central banks' monetary operations are proving to be more effective in developed economies than during the global financial crisis a decade ago. Indeed, the Fed has signalled it will be aggressively supporting the economy.

Also, unlike during the financial crisis, the expansion in central bank balance sheets is translating into growth in broad money, which is what will support future

economic activity, that is, monetary policy is much more effective than before. In China, the credit impulse is strong as well — not as powerful as in 2008 — but clearly enough to bolster the economy.

Fiscal policy measures are now being toned down in some economies as they recover. But in most cases, governments are still finding ways to undergird demand. Unconventional measures to protect the economy during the pandemic continue, such as government guarantee schemes to encourage banks to continue lending to small businesses and various measures to protect employment. For example, the German government will extend its wage support programme until end-2021 while in France, the new prime minister has proposed a massive spending plan to keep the recovery going.

The main risk is in the US, where political gridlock has scuppered the chances of another set of fiscal support measures. However, even here, we expect an eventual compromise since it is not in the interests of either the ruling party or the opposition to risk a sharp loss of economic momentum just before the US presidential and congressional elections.

Third, although still below pre-pandemic levels, business investment is begging to gain traction again. In the US, core capital goods orders jumped 4.3% in June and rose