The Insight Bureau

From the Desk of...

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Post 9-11, the mass media were full of doom-and-gloom economic scenarios. Quite wrong! The world has demonstrated remarkable resilience in the face of terrorism.

November 2006: It has now been five years since the 9/11 terrorist attacks on New York City and the Pentagon. From an economic perspective, the attacks could not have come at a worse time. The technology stocks had just tanked, the economy was in recession, and business and consumer confidence was at an all time low. In the immediate aftermath of the attacks, the mass media were full of doom and gloom economic scenarios; and the well known investment advisor Dr. Marc Faber stated publicly in an international conference held just a month after the 9/11 attacks, “American consumers will fall off the cliff in six months”. Wrong! Indeed, the five years since the 9/11 attacks have seen the fastest global growth in per capita real GDP ever!

This is so in spite of the spiking of the world price of oil and a massive upswing in commodities prices. It is also increasingly clear that the new economic dynamism in the global economy is largely due to the rise of Asia, particularly China and India. Globalisation today is driven by emerging markets where millions of individual entrepreneurs are charging forward with energy and optimism. They may be small individually, however collectively they are make up a colossal force, a force that will allow the global economy to become more robust and more resilient in the future.

Let’s look at the numbers

Since 2000, global per capita GDP has been growing at 3.2% per year. This outperforms the last few periods of long and steady economic growth. During the 1950s to early 1970s per capita GDP in the world grew by about 2.9% per year and during the second half of the 19th century per capita GDP growth was estimated at around 1.3% per year.

Two key factors behind this extraordinary development is the rising role of emerging markets and the free marketplace. Emerging markets play a much bigger role in driving growth and their stronger presence in the global economy contribute much to this resilience. New middle-class consumers in emerging markets will drive global demand in ways never seen before, with about one billion consumers in emerging markets joining the ranks of the middle-class in the next two decades and fueling global demand for goods and services with keen aspirations and swelling wallets. These are not consumers likely to be cowed by terrorist attacks.

China’s rise as an emerging global economic giant is of particular importance, both in terms of speed and scope. By most estimates, China will be the world’s largest economy in about two decades’ time. China’s share of global GDP growth, calculated in terms of purchasing power parity, increased from 10% in 1990 to 23% in 1995. By 2003, it increased further to an astonishing 33%. The number of manufacturing workers in China working directly for the global market is also set to increase to 60 million by the end of the decade, representing a tremendous positive supply shock to the global economy.

Free markets and resilience are also closely related. Under free market conditions, individual entrepreneurial efforts are encouraged and rewarded, leading to entrepreneurs’ vigilant and tireless search of hitherto undetected business opportunities and risk-taking to seize such opportunities. Tens of millions of individual entrepreneurs in emerging markets are all making their contribution and together strengthen the resilience and dynamism of the global economy. Such entrepreneurs will better withstand new terrorist attacks, if and when they happen. Their entrepreneurial energy will continue to focus on generating economic growth and spreading prosperity.

So while I believe the threat of terrorism has clearly made the world a more uncertain place, the rise of entrepreneurial capitalism and market competition has also made the global economy a lot more dynamic and resilient. The increasing weight of the emerging markets in driving global economic growth will continue to lift tens of millions of people out of poverty in the coming years, thus helping to close the income disparity between the rich and the poor of the world.

Resilience of the US Economy

While the short term impact of 9/11 was significant, the 9/11 attacks have not derailed economic growth in the US in the long term. Real GDP growth in the US did not slip into negative territory at all, and while there was a significant slowdown in growth in 2001, a large part of the slowdown was a consequence not of the terrorist attacks, but the meltdown of technology stocks the year before.

While the Federal Reserve did cut interest rates aggressively after 9/11 there was no liquidity trap. Investment bottomed-out around Q1 2002 and then resumed a healthy pace of growth. The 9/11 attacks intimidated neither consumers nor businesses. Turning to the stock market, the index had already been started to decline since mid-2000, well before 9/11. Instead of accelerating the decline, 9/11 actually halted it for about half a year to mid-2002, before it dropped further until it hit the bottom by end of that year. There is no question that major stocks in tourism, airlines and airplane manufacturing were badly hit, but you cannot say the overall market was sunk by 9/11.

Resilience of the UK Economy

Resilience was similarly witnessed in London, after the attacks by suicide bombers on The Underground and on a bus in mid-2005. As shocking and tragic as the attacks were for the victims and their families, from the perspective of real GDP growth, the UK economy hardly noticed it and growth continued pretty much uninterrupted. London business returned to its normal bustling pace within a matter of days and there was no precipitous drop in London's property market. Businesses did not abandon their prime downtown locations. Commuters continued to travel to central London each day to work and maintained their routines; life normalised after only the briefest interruption.

Resilience of the Indonesian Economy

Indonesia was both politically and economically in a very weak position when the first Bali bombing occurred in mid-2003, killing over 200 people and wounding many more. It was still struggling with the devastating financial crisis of 1997 and had already seen its third president installed since the 1997 crisis brought down President Suharto. This was made worse by the fact that the terrorists struck not once, but twice, the second Bali bombing coming in the second half of 2005. However, both Bali bombings had no discernable impact on Indonesia's economy and real GDP continued to increase after these attacks.

I think all these examples indicate that the terrorist attacks have not achieve their intended economic impact, either in the US or elsewhere. Doom and gloom scenarios notwithstanding, the resilience of the global economy has been sufficiently robust to weather these attacks, and global economic growth is stronger than ever before.

"*Global Economic Resilience: Five Years after 9/11*"
Insights Report Q4 2006 - full report available at
http://insightbureau.com/Reports/MC_Insights/InsightsQ4b06.Resilience.pdf

About Dr. Yuwa Hedrick-Wong

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The full reports are available for complimentary download at **www.insightbureau.com/HedrickWong.html**

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