Black swans and swallows in a turbulent world
by Simon Tay
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Visiting Bangkok and then Sendai in Japan in the first months of this year, I witnessed recovery efforts made after these areas were hit, respectively, by flood and tsunami.

Production in the Thai Navanakorn industrial estate restarted just weeks after the waters receded and have begun to climb back to normal levels. In Japan’s tsunami-hit area, too, businesses have resumed even if many families remain without a permanent home.

These events are more than natural and localised calamities. They have been black swans, to use the term popularised by Nassim Nicholas Taleb. Black swan events are hard to predict, yet seem almost inevitable in hindsight. In our interconnected world, they ripple outwards, impacting many profoundly.

Thailand and the Tohoku region just north of Tokyo are important nodes for global manufacturing and their closures disrupted production across the world. For instance Renassas - a specialised micro-controller manufacturer - supplied vital components to some 80 per cent of automotive makers, as well as to smartphone makers. When the tsunami abruptly stopped its production, disruptions were felt by many others, not only in Japan but across the globe.

HERALDS OF SPRING?
There are, however, three emerging signs. In contrast to the black swans, they seem like swallows to bring hope that winter might turn into spring.

The first positive is the American economy, where more jobs are being added than at any time since the crisis began. Take the motorcar industry. Bailied out from bankruptcy, American automakers have returned with new models and much improved sales in the last six months.

The second hope is for rebounds in Thailand and Japan. The Thai economy has done well throughout the years of political divide. New Premier Yingluck Shinawatra knows she must continue to deliver and will increase post-election and post-flood expenditures.

For Japan, post-tsunami rebuilding should bring a short-term fillip and Japanese companies are also diversifying risk by spreading production and investments abroad.

A third hope comes from the nearby and large markets of Indonesia and Myanmar. More now recognise Indonesia not only as a supplier of resources but also as an economy with its own dynamic, benefiting from macro-economic stability. With plans to develop infrastructure and attract more industry, the country may add further to its good growth numbers.

Myanmar’s opening is at a much earlier stage and is subject to many basic concerns like infrastructure, currency and investment protection laws. But with the basics of natural resources and a large population, there is room to see growth from a low base.

Three swallows, as the saying goes, do not make a summer. These emerging prospects remain to be tested. But in a turbulent world, they bring some hope that things can be better and deserve to be counted alongside potential black swans.

COUNTING THE BLACK SWANS
Black swan possibilities must concern Asians, even as the region continues to do relatively well. Seemingly faraway incidents can have direct impact and uncertainties have indeed increased.

The euro zone rightly draws considerable concern as European leaders struggle with politics on top of financial issues. Asia will not avoid the negative consequences and Chinese exports are already feeling the negative effects. There is an outside but real danger, too, that the banking and financial system might freeze, as it did in the wake of the Lehman bankruptcy.

A second black swan is the potential confrontation over Iran’s nuclear ambitions. The prospect of the Americans or Israel taking action cannot be ruled out. Actions by Iran - terminating oil supplies before a boycott is declared, threatening to close the Straits of Hormuz and allegedly supporting terrorist attacks on Israeli targets - are further provocations.

A third risk is China, where the economic engine is still running but warning lights are blinking. Declining export and manufacturing numbers, and the property sector and credit are key economic concerns. Politically, a leadership transition is underway as diverse protests arise - from wage levels to land grabs and air pollution.

Chances are the Chinese can manage well enough to keep growth going. But, given the importance of its economy today, if Beijing goes badly, the impact would be outsized.

Even if nothing goes badly wrong, analysts are struggling to identify positive signs. Asia alone cannot offset the negatives from the developed markets. After a heavy rebound in 2010 and early last year, most see turbulence and little real improvement.

Simon Tay is chairman of the Singapore Institute of International Affairs and teaches at the National University of Singapore’s law faculty. The SIIA convenes its Annual Members Circle today to discuss ‘Singapore in a Turbulent World’.