

A Global Retreat As Economies Dry Up

As World Trade Plummet, Bustling Ports Stand Idle
And Foreign Workers Track Back Home

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SINGAPORE This shimmering city-state was the house globalization built. When world trade boomed, Singapore's seaport at the crossroads of East and West became the Chicago O'Hare of freighters and supertankers. Singapore Airlines took off despite serving a country with no domestic air routes. Nearly everything manufactured here is made for export. One out of every three workers is a foreigner.

But as the world enters a period of deglobalization, Singapore is a window into the reversal of the forces that brought unprecedented global mobility to goods, services, investment and labor. With world trade plummeting for the first time since 1982, the long-bustling port has become a maritime parking lot in recent weeks, with rows of idled freighters from Asia, Europe, the United States, South America, Africa and the Middle East stretching for miles along the coast. "We're running out of space to park them," said Ron Widdows, chief executive of Singapore-based NOL, one of the world's largest container lines.

Thousands of foreign workers, including London School of Economics graduates with six-digit salaries and desperately poor Bangladeshi factory workers, are streaming home as the economy here suffers the worst of the recessions in Southeast Asia. Singapore is an epicenter of what analysts call a new flow of reverse migration away from hard-hit, globalized economies, including Dubai and Britain, that were once beacons for foreign labor. Economists from Credit Suisse predict an exodus of 200,000 foreigners -- or one in every 15 workers here -- by the end of 2010.

Singapore's exports collapsed by a stunning 35 percent in January, mirroring much of the rest of Asia. The export boom here was tied to credit-fueled buying sprees in the United States that stopped abruptly and may take years to return, if ever. Manufacturers are grasping for a Plan B. But none of the options -- mining domestic markets, or trying to tap consumers in still-growing China and India -- offers a truly viable solution. Adding to fears of a years-long depression for exports is a rising tide of trade protectionism in countries including neighboring Indonesia.

The scene in this port city -- along with a glimpse inside two of its reeling neighbors in export-dependent Southeast Asia -- illustrates the ebbing of a golden age of trade, innovation, wealth accumulation and poverty reduction through globalization.

"The collapse of globalization . . . is absolutely possible," said Jeffrey Sachs, a noted American economist. "It happened in the 20th century in the wake of World War I and

the Great Depression, and could happen again. Nationalism is rising and our political systems are inward looking, the more so in times of crisis."

A Transformation Stalls

The world remains as interconnected as ever through telecommunications, the arts, culture and the Internet. The Oscars this year saw foreigners capture most of the major awards. But experts say the once-steady advance of economic globalization that changed the lives of millions is facing an at least temporary pullback through financial retrenchment and resurgent economic nationalism. It threatens to set the clock back by years.

World trade has quadrupled since 1982. But some see that exponential growth as just another part of the biggest credit bubble in world history. That bubble is now bursting. In four months, port traffic has fallen by double digits not only in Norfolk, Long Beach, and Savannah, but in Pusan, Hong Kong and Bremerhaven. Air hubs from London to Singapore that saw traffic soar as the world became more linked through business, investment and trade are seeing a sharp reversal of fortune. In January, global airline passenger traffic fell 5.6 percent; air cargo nose-dived 23.2 percent.

As exports crash worldwide, factories from China to Eastern Europe are shuttering. The World Bank estimates the crisis will trap at least 53 million more people in poverty in the developing world this year. Last week alone, \$1 billion fled emerging markets -- the largest weekly loss since October, according to Merrill Lynch. Some of the hardest hit are migrants and foreign contract workers. Malaysia is expelling 100,000 Indonesians as part of a new policy to put Malaysian workers first as the recession sparks job losses. In Britain, strikes broke out nationwide to protest the hiring of foreigners at one the country's largest refineries even as thousands of Eastern European immigrants headed home anyway because they could not find work.

Remittances -- the financial lifelines sent home by foreign workers -- are falling from Latin America to Central Asia. The drop has been so sharp in Kyrgyzstan, which relies on remittances for 27 percent of its gross domestic product, that the U.N. World Food Program was asked to rush in emergency food aid in November for the first time since 1992. "This is a new income hit to people who can afford it the least," said Josette Sheeran, the program's executive director.

Juggernauts like China still maintain huge cash reserves. But other nations are sinking. Investors are fleeing South Korea so fast that its short-term debt may surpass dwindling reserves by the end of this year. Multilateral lenders last week announced a \$31 billion rescue package for teetering Eastern Europe. But analysts say its credit-starved banks and companies may need as much as eight times that to avoid a domino effect of corporate defaults. The European Union -- once a model of how to all but erase national borders -- faces a severe test of unity over how, or whether, to bail out member states on the verge of collapse.

Western governments, through bailouts and nationalizations, are exerting profound new influence over banks and multinationals that helped sow the seeds of globalization throughout the developing world. But the message being sent by the West now is that there's no place like home for job creation and investment. In France, President Nicolas Sarkozy offered a \$5 billion lifeline to French automakers, then promptly called on them to use only French-made parts and relocate their factories in Eastern Europe back to France. In the United States, President Obama's 2010 budget would tighten taxation on U.S. companies with operations overseas, limiting incentives to do business abroad. In Britain, bailed out and nationalized banks are being told to offer loans to Britons first.

"You are seeing an undoing of a lot of the drivers of growth that we relied on for the last 20 years," said Simon Johnson, an MIT economics professor and former chief economist at the International Monetary Fund. "I do think we'll have a lost decade, an unwinding of labor mobility, of capital, of political will. It's about deglobalization."

No Job, No Way Home

Globalization took years to reach Mae Sot, a remote town surrounded by jade-colored hills and tropic streams on Thailand's border with secretive Burma. It did not stay long.

Over the past eight years, textile and shoe factories in the Thai capital of Bangkok boomed, churning out Levi's jeans and Reebok sneakers to meet record demand in the United States and Europe. When orders bested their capacity to fill them, Bangkok factories subcontracted work to new factories that sprouted up on Thailand's long and porous western border. Facing a repressive government under U.S. sanctions, thousands of Burmese risked their lives in a quest for jobs in Thailand. Lamin, a 25-year-old with traditional yellow wood dust applied to her delicate copper face, was one of them.

An orphan living with relatives who could no longer support her, Lamin, who goes by one name, spirited herself across the Mae Sot river in an inner tube in late 2006. She landed work easily in a Thai factory making linings for pants with 800 other women. Working from 8 a.m. to 10 p.m. seven days a week, she earned \$100 a month. Thirty percent went back to her employer to cover room and board. She still managed to send money home and pocket almost \$20 to \$30 a month. "Yes, it was tough" Lamin said, "but it was still better than Burma."

When the global economy went code red, Thailand's exports collapsed. In December, the factory where Lamin worked began losing contracts. In mid-February, her employer joined dozens of others shutting down in the region and adding to a swelling refugee crisis. All 800 Burmese workers at Lamin's job site were fired.

Tucking away her \$350 life savings, she tried to join many of her jobless co-workers crossing back into Burma. On the way, she was shaken down by Thai police who are conducting crackdowns in the area as public opinion shifts against foreign workers in hard times. Now penniless, she is living in a halfway house in a dusty corner of town,

sleeping on a concrete floor and hoping to persuade her old employer to fund her return home.

"I don't want to go back to Burma. It is a horror, there is only poverty, no jobs," she said, eyes downcast as she spoke through a translator. "They only wanted us in Thailand when they needed us. Now, they just want us gone."

No Economic Cure-All

What troubles economists deeply is that there is no easy answer to how countries like Thailand can get back on globalization's gravy train. One of the Asian tigers that collapsed in 1997 in a debt and currency crisis, it emerged from its ashes like its neighbors, by exporting to the United States and Europe. For now, that route is closed.

In Bangkok, the export industry is in triage. Ami Zarchi, president of Tel-Dan textiles, is an entrepreneur looking for a cure. When his main markets in United States and Europe went south last year, he did what many economists say Asian-based exporters must do to survive: tap local markets while seeking out new consumers in the developing world, particularly in China. He has managed to market more of his company's pillows and sheets to Thais in recent months. But even during boom times -- which these are decidedly not -- profit margins for domestic sales are not the same. Thais simply cannot pay as much as Americans for his wares. So he has slashed production, reducing his workforce to 250 from 600 over the past six months.

He has also tried China, but tapping the Chinese consumer, he said, is like scaling the Great Wall. The same is true for countries like Singapore, where China passed the United States as a larger trading partner in the mid-2000s. Despite that growth, only 4 percent of Singapore's exports, including circuitry, microchips and food-processing materials, are bought by China's hundreds of millions of new consumers.

Instead, the vast majority of items Singapore, Thailand and other Asian nations sell to China are part of a now-broken global supply chain. China bought up parts and materials from the region largely for use in its own assembly lines churning out televisions, DVD players and other goods destined for the United States and Europe.

"Look, you can't sell consumer products to the Chinese because they make everything cheaper there already," Zarchi said. "Unless you have a fruit they cannot grow, a fish they cannot catch or medical equipment they cannot make -- yet -- then it's nearly impossible. I don't see how China can be our future. And yet, I don't know what else will be either. The Americans? The Europeans? Not for a while."

Protecting National Interests

In Jakarta, the teeming Indonesian metropolis of 23 million, deglobalization is hitting store shelves. In December, Indonesia joined a host of countries moving to stem sharp job losses at home by protecting domestic industries. Indonesia slapped new restrictions on

foreign-made electronics, food, textiles and other products. Stores selling Western-made products are struggling to find domestic substitutions. At Ranch Market, an upscale grocery in the southern part of the city, Italian pasta and Australian milk have vanished, replaced by locally produced versions. Harder to replace items, like mozzarella cheese from Italy, are still here, but carry price tags 35 percent higher than two months ago.

"Maybe you create a job in Indonesia by substituting a product, but it is not necessarily good for consumers or the stores that serve them," said Nandang Prihortono, a store manager at Ranch Market. "They may not get the quality they want, or the price may be higher. And it's affecting sales, which are already down."

Indonesia is not alone. A host of nations are adopting protectionist measures, including many that signed a Nov. 15 agreement at a summit in Washington where they promised to avoid such steps for at least a year. Argentina and Brazil have raised tariffs on wine, leather and wooden furniture. After years of trying to coax its farmers off generous handouts, Europe has reintroduced subsidies on dairy products including butter and milk.

World leaders have spoken out against rising protectionism, blamed for sparking global trade wars in the 1930s that deepened and prolonged the Great Depression. But worldwide, domestic pressure is intense to protect jobs, and each time one country takes action, it makes it a little easier for the next. A case in point: After "Buy American" provisions won support in the United States as part of the \$787 billion stimulus package, Indonesian authorities fired their own salvo. They ordered all civil servants in Southeast Asia's largest economy to consume food, clothing, shoes and other products made only in Indonesia.

"How can you expect countries like Indonesia not to respond when our products are being turned away abroad," Prihortono said. "That's the problem. People think they are only doing what is fair."

Wealth's Flight From Emerging Markets

In recent years of global prosperity, legions of new Indian, Russian and Chinese millionaires came to roost in the gleaming new high-rise condominiums that made Singapore look more like Miami than the stodgy nation that banned chewing gum and caned an 18-year-old American for vandalism in 1994. But if once you could see the global shift in wealth to Asia manifested in the burgeoning skyline, you now can see the effects of its flight from emerging markets.

Although some major projects, including two new casino resorts, are still going ahead here, construction is stalling a host of others. Home prices have fallen by as much as 30 percent in some areas as the nouveau riche Russian and South Asian buyers cope with staggering losses at home; office rents plunged 14 percent in the last three months of 2008 in the steepest fall in Asia.

Unlike Dubai, where the zeal to build bigger and higher overtook its ability to cover the costs when the global economy went bust, Singapore's more conservative approach toward spending and construction has left it flush with cash. Much of that cash is managed by Temasek, Singapore's sovereign wealth fund and a major player in global investment in recent years. It emerged as a white knight for cash-starved companies in the West and East, buying into everything from Merrill Lynch to Thai cellphone companies. But Temasek, like most sovereign wealth funds in China and the Middle East, is now sitting on the sidelines as the global economy burns.

It is easy to see why. Spiraling global losses cost Temasek 31 percent of its book value -- \$39 billion -- from March through November of last year. Losses have mounted further since then, analysts say. "They have invested so much in Citibank, in Merrill Lynch, and they've been burned," said Peter Gontha, a Jakarta industrialist. "They are going to be more cautious, more reluctant from now on."

Meanwhile, the government is tapping reserves to prop up the domestic economy, offering companies cash payouts amounting to 12 percent of workers' salaries to stem a tide of layoffs. Singapore's finance minister, Tharman Shanmugaratnam, however, said that while globalization may be going through a bad patch, it remains the only long-term option for nations as globalized as his.

"This is clearly not going to be a short period of adjustment . . . but globalization is not a bad strategy," he said. "It just takes patience during times like these."