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# Asia's Recovery Highlights China's Ascendancy

By [NELSON D. SCHWARTZ](#)

PARIS — In past global slowdowns, the United States invariably led the way out, followed by Europe and the rest of the world. But for the first time, the catalyst is coming from [China](#) and the rest of Asia, where resurgent economies are helping the still-shaky West recover from the deepest [recession](#) since World War II.

Economists have long predicted that an increasingly powerful China would come to rival and eventually surpass the United States in economic influence. While the American economy is still more than three times the size of China's, the nascent global recovery suggests that this long-anticipated change could arrive sooner than had been expected.

Such a shift would have significant ramifications for the United States and the rest of the West, even after the global economic recovery takes hold.

"The economic center of gravity has been shifting for some time, but this recession marks a turning point," said Neal Soss, chief economist for [Credit Suisse](#) in New York. "It's Asia that's lifting the world, rather than the U.S., and that's never happened before."

China's government-dominated, top-down economy is surging after Chinese banks doled out more than \$1 trillion in loans in the first half of the year, in addition to a nearly \$600 billion government stimulus program.

Though the benefits are manifest, some economists wonder whether China is laying the groundwork for sustainable growth or just increasing its export capacity despite more frugal spending habits on the part of Western consumers.

"The big question is what happens next," said Kenneth S. Rogoff, a professor of economics at Harvard. "If the consumer in the United States and Europe doesn't come back, I'm not sure Asia has a Plan B."

But robust demand among Chinese consumers and businesses is one reason oil prices have doubled to more than \$70 a barrel since bottoming out early this year, and China is likely to keep buying American debt as Washington borrows heavily to finance its myriad stimulus and bailout plans.

The United States is also being shoved aside as the make-or-break customer for export-driven nations like Germany and Japan. China overtook the United States as Japan's leading trading partner in the first half of 2009, while in Europe manufacturers are looking east instead of west.

“What we're losing in the trans-Atlantic trade with the U.S., we are gaining in China,” said Jens Nagel, head of the international department of the German Exporters Association.

In the near term, however, the United States should benefit from a resurgent Asia, as the American economy finally begins growing again, as expected in the second half of 2009.

“Vigorous rebounds overseas, particularly in East Asia, suggest that U.S. imports and exports will soon improve,” Mr. Soss said.

Last week, [Hewlett-Packard](#) pointed to double-digit revenue growth in China as a rare bright spot in an otherwise lackluster earnings report. Meanwhile, overall American exports to China have already been picking up, rising to \$5.5 billion in June from \$4.1 billion in January.

“The numbers are volatile, but the trend is clear,” said Robert Brusca of FAO Economics in New York. “It's a big contrast with Japan, where U.S. exports are still dropping, but China is different.”

Of course, other factors have played a significant role in helping the global economy begin to stabilize, including trillions of dollars in support from central banks for frozen credit markets, as well as bailouts and rescues of major financial institutions, insurers and automobile companies.

But as the engine for future demand growth shifts from the government back to the private sector, and Americans remain wary of returning to their free-spending ways, Asian consumption is expected to pick up at least some of the slack. And if China does slow, as some experts fear it could in the second half of 2009, the United States' effort to climb out of recession could be that much harder.

After the recession of 2001-2 and the slowdown in the early 1990s, the American economy served as the global locomotive, said Michael Saunders, head of European economics research for [Citigroup](#).

Back then, he said, China and other Asian countries lacked huge cash reserves that could buttress them in the event of recession. But in the last decade, China has enjoyed huge trade surpluses with the West, and it holds \$2.13 trillion in foreign reserves, solidifying its position as a rapidly emerging economic power.

Citigroup recently increased its estimate for annual Chinese economic growth to 8.7 percent in 2009 from 8.2 percent, and to 9.8 percent next year from 8.8 percent.

While economists like Mr. Soss expect that growth to spill over to the United States shortly, the effect is already visible in Europe.

Indeed, after the French and German economies shocked most economists this month by turning in positive performances for the second quarter, the normally conservative [Deutsche Bank](#) released a report titled, "Eurozone Q2 [GDP](#): Made in China?"

For now, the answer seems to be yes. "It's quite amazing, because usually Asia doesn't play such a big role in European exports or output," said Gilles Moec, senior European economist with Deutsche Bank in London.

French exports to China and other East Asian economies rose 18.7 percent in the second quarter, according to customs data, a sharp turnaround from the 16.2 percent drop recorded in the previous quarter. Overall exports to the region from the 16 countries that use [the euro](#) currency increased 6.3 percent in the second quarter, reversing a 6.2 percent drop in the first quarter, Mr. Moec said.

While Western European countries have been more timid about embarking on big spending programs because of their already mounting deficits, and European banks took huge hits on their holdings of subprime American debt, Beijing does not face either obstacle.

In the first half of 2009, Chinese banks lent a record \$1.1 trillion in new loans, setting off fears that the lending binge might create a bubble over the long term.

China's moves have also helped its neighbors increase industrial production sharply from recession lows. Since hitting a trough in late 2008 and early 2009, industrial production has jumped 28 percent in Korea and 26 percent in Taiwan. In July, American industrial production rose for the first time since December 2007, but it remains just half a percentage point above the bottom in June.

"Asia is still relatively small in the world, but it reflects how the world is changing, and economic power does translate, of course, into political power," said Simon Johnson, a former chief economist for the [International Monetary Fund](#) and now a senior fellow at the Peterson Institute for International Economics. "You can use it to win friends and influence people, as the Chinese are already doing in Africa and Latin America."

Nadim Audi contributed reporting from Paris.

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