Preface

The financial crisis from the United States, as triggered by the collapse of Lehman Brothers, has rapidly spread to the real side of the economies. Many advanced nations were trapped in persistent downward spirals and felt the painful cost of seeking an exit strategy. The story, of course, was not irrelevant to the emerging economies in Asia, despite the unprecedented growth they had enjoyed over the last decade or so. In particular, China, the ‘Factory of the World’, lost its foreign customers and currently faces the urgent need to redirect its products towards the domestic market.

For many, the term ‘globalization’ still remains a key concept in describing the world economy. The rapid development of cross-national production networks has significantly deepened economic interdependency in various parts of the globe. The production process has become fragmented and exchanged between countries according to the rule of comparative advantage, to facilitate the efficient division of labour and enhance resource allocation. There is no doubt that the expansion of international production chains, assisted by sophisticated management skills and advanced logistic technology, has played an important role in boosting the contemporary world economy. But then, what do we see today?

When we consider the nature of the recent crisis, we may refer to the close analogy of the conjuncture to the day-to-day problems that we face in the age of the Internet. The development of information technology and the worldwide web have undoubtedly improved the mode of communications, and the benefit of increased efficiency for global knowledge exchange is undeniable. Simultaneously, however, over-exposure to anonymous users has invited the immediate danger of cyber attacks and contagion, revealing the structural vulnerability of the system to which we belong. What has happened to the world economy over the past few years, from the Lehman shock to the Greek debt crisis, or even to the Tohoku Earthquake Disaster in Japan, presents a strong resemblance to such an intertwined cyberspace; an economic shock that occurs in one country is quickly and widely transmitted to the rest of the world through extensive cross-border supply chains. The rapid contraction of world trade and output is nothing but the negative outcome of such a complex global production system.

There is an important difference, however. While the antidote to a
computer virus infection is simply to disconnect the terminal from the Internet and individually give anti-virus treatment, the counter-crisis measure here, in contrast, is not to isolate the economy. History is supposed to have taught us this point, yet the recent protectionist movement is a frustrating, albeit somewhat predictable reaction of misguided countries.

What is required is internationally concerted action on the basis of a firm understanding of how the system works (or not, as the case may be) in times of crisis. The ‘Economics of the crisis’, therefore, entails a detailed examination of the mechanics of shock transmission, by probing the labyrinth of complex supply networks among the countries. This book investigates the nature of the global economic crisis from the perspective of cross-national production systems based on international input–output analyses, and aims to envisage the prospect of the post-crisis Asian economy.

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