

Commentary

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Asian Economic Outlook

The Asian Development Bank and the World Bank recently published forecasts of current economic growth rates for various countries. The results include annual rates of 7.2 percent for China, 5.1 percent for India and 3.6 percent for Indonesia. By contrast, according to the World Bank and the Organization for Economic Cooperation and Development, the United States economy is forecast to fall by 4.5 percent and that of the Euro Zone by 3.0 percent. These divergent trends indicate a significant decoupling of the Asian economies from the United States and Europe. The global economic and financial crisis has had a far more severe impact on the economies of the United States and Europe than Asian nations. Governments in Asia had implemented prudent economic policies that, compared to the United States and Europe, resulted in more resilient banking and regulatory systems, lower debt levels, and in the case of China, large foreign exchange reserves. Asia has not experienced a full-scale banking crisis, even though Japan has experienced some serious problems with its banking system. There have been no situations involving bank collapses or a need for bailouts in Asia. Asian governments have not been called upon to apply scarce resources to bolster the balance sheets of failing banks. Asian companies and individuals are inherently prudent in financial affairs; individual savings rates are high and corporate debt is low in comparison to the United States and Europe.

Asia did not experience the kind of liquidity and credit crises that were significant factors in the economic recession in the United States and Europe. However, it is clear that economic growth in Asia has slowed as a result of the global economic and financial crisis. The effects of the eco-

nomical recession are reflected throughout Asia in terms of lower exports and reductions in external investment in the region. To offset these economic setbacks, Asian governments are implementing economic stimulus plans that are essentially targeted at promoting domestic consumption and growth. China, for example, has adopted an economic stimulus package of 4 trillion renminbi (equivalent to US \$585 billion) that is directly impacting the domestic economy, whereas the economic stimulus packages adopted for the United States and Europe are more focused on bailing out the banking system and have less immediate impact on stimulating job growth and consumer spending.

Asian nations are increasingly worried about the long-term stability of the US dollar, the effects of US government deficits and the Federal Reserve's monetary policy. China is very concerned over the economic policies of the US government and its obligation to sustain the value of China's \$2 trillion invested in US Treasury securities. Increases in the amount of US Treasury debt could lead to severe losses for China as the prospect for more US debt issuance and a drop in the value of the US dollar is the likely outcome of current US economic policy. China is anticipating that the United States may not satisfactorily resolve its financial and economic challenges and put its fiscal house in order by reducing the federal deficit and the national debt. China believes that the results of United States fiscal policies have now reached the point where a decline in the value of the dollar is inevitable. China is signaling that it will pursue economic policies that will gradually decouple its economy from that of the United States. China is now embarked on implementing policies that will rely increasingly on internal

consumption growth. The Chinese government is accelerating the process of making the renminbi more readily convertible into other currencies so as to provide a potential avenue for the renminbi to be used for trade settlements and as a global reserve currency. Central banks in Argentina and Malaysia are settling payments in renminbi with China's central bank. Banks in China and Hong Kong are making transactions in renminbi directly to one another to settle payments for exports and imports. Achieving full convertibility for the renminbi is still some years away; there could possibly be a huge shift in the balance of global economic power if and when that goal is achieved. The United States will not be able to depend indefinitely on using China's financial resources as a budget-balancing mechanism to finance its huge deficits. China intends to make Shanghai the world's major financial center by 2020 to surpass London and New York. China's leaders have previously proposed using the IMF's Special Drawing Rights (SDRs) as a long term replacement for the US dollar as the world's major reserve currency. As recently as the G8 meeting in L'Aquila, China's Vice Minister of Foreign Affairs appealed for "a better system for reserve current issuance and regulation, so that we can maintain relative stability of major reserve currencies' exchange rates and promote a diversified and rational international reserve currency system."

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