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FEAR NOT, CHINA WILL RIDE OUT THE ECONOMIC STORM, GATHERING STRENGTH IN 2008

Granted: The translation value of the US dollar vis-à-vis other currencies of the world is waning.

Granted: The cost of a barrel of crude oil on international commodity exchanges has been kissing the $US100 per-barrel mark and is likely to return to that level at any time in the near future.

Granted: The US economy is weakening and, going into 2008, it is quite likely to weaken further.

But: The economies of the People's Republic of China (PRC) and those of the Hongkong Special Administrative Region (HKSAR) of the PRC as well as the Macau Special Administrative Region (MSAR) of the PRC will be shielded, to a great extent, from the above problems.

But: The economies of territories, such as Singapore and Malaysia and other territories where the ratios of exports to the **G**ross **D**omestic **P**roduct (GDP) are relatively high, will get hurt.

Here are just 3 of the reasons for **TARGET**'s prognostications:

1. Asia will ride out the coming economic storm in the US, wearing bells, due to the fact that many exporters in the most-populous part of the world have diversified their markets to such an extent that reliance on the US marketplace has diminished over the past few years;
2. While Asia has been diversifying its export markets, no longer sucking long on the US export teat, it has been increasing its exports to Europe and the Middle East, making these territories of the world much more important destinations for goods and services, produced in the Far East; and,
3. Many Asian countries, the PRC, proper, especially, is supported by a strong domestic demand. This is quite likely to buffer the effects of the expected slowdown in the US economy and elsewhere.

A Little Knowledge

In the years, leading up to 2001, the fear of recession – recession, being defined as a distinct fall-off in activity in an economy when there has been a significant decline in output and employment. Often, economists will look for 3 consecutive quarters in falls in the **G**ross **N**ational **P**roduct (GNP) – in the US, Europe and the second-largest economy of the world, Japan, was very real.

The fear of a deep recession was justified when all 3 economies did, in 2001, register what could well be defined economic recessions.

And it happened to these economies, simultaneously.

While there is an opportunity for the US to slip into another recession in 2008, the chances are, still, only about one in 3.

The domestic demand in the PRC, proper, is continuing apace, to be sure – look at the number of tourists, visiting the HKSAR, propping up that economy as they shop until they drop – but it could well start to wane.

If domestic demand does wane appreciably in the PRC, proper, it will, inevitably, weigh on the economies of other parts of Asia, to a greater or lesser extent, depending on the reliance that other economies have on exports to the US and Europe.

Singapore, of course, is heavily weighted with regard to its exports-to-GDP ratio and, as such, a falloff in domestic demand in the Middle Kingdom will impact on this territory – in spades.

Further, as the US economy declines in 2008, consumer demand in this country will, definitely, fall off because households will, first, have to be certain that ends have the ability to meet, somehow or other, before going on any shopping sprees in the High Street.

Beset by the credit crunch and a decided fall in the price of homes in The Land of The Free and The Home of The Brave, many US households are sweating it out as banks tighten the thumbscrews on defaulters and what they determine as being potential defaulters.

The macroeconomic environment, with its strong, worldwide growth and low inflation, made it possible for borrowers to raise funds, relatively easily, in 2005 and 2006.

Many US investors quickly took up the challenge to own their own homes and bought, and bought, and bought.

US banks and finance houses were only too happy to lend, and lend, and lend.

But, too many financial institutions did not do their homework very well and lent tens of billions of dollars to people who did not have the wherewithal to honour their financial commitments.

Thus was born the subprime, mortgage-lending industry crisis.

Today, those same banks and financial institutions rue the days in respect of their actions of 2005 and 2006.

The US Federal Reserve raised interest rates, during 2006, in order to put a cap on inflation.

That did the trick.

The US economy was, then, sufficiently strong to overcome the effects of multiple, interest-rate hikes, imposed by The Fed.

That was only up to the beginning of 2006, however.

The softening of the US housing markets started to put a slightly different complexion on the US economy, during the first quarter of 2006.

The penny was about to drop.

But the US economy continued to enjoy low unemployment levels, the lowest in 5 years, in fact: About 4.60 percent.

Such a phenomenon meant that an economic recession was unlikely.

Today, the US economy accounts for a much smaller share of international trade than it did in 2000 so that the expected downturn in the US economy in 2008 will be muted, at least to some extent.

As Asia takes over as the primary driving force, internationally, with its exports, so it saps the importance of the US as a major (and a large competitor) trading nation.

Inflation had been held in check in both the US and Eurozone, throughout most of 2006, falling from about 3.40 percent to 3.20 percent in the US, and staying steady in Eurozone, at about 2.20 percent.

Strong economic growth within an economy is indicative of the fact that investors perceive little risk within that economy.

Conversely, weak economic growth must mean that investors perceive the need for a risk premium within an economy.

The latter appears to be the situation in the US, today, with the economy, turning decidedly south, and with many US investors, noting a decided deterioration in the value of their holdings.

While the risk premium in the US was low, over the past few years, it is set to rise, during the next 6 months – at least.

Having said that, it is notable that The Abu Dhabi Investment Authority, a corporate entity, wholly owned by the Government of Abu Dhabi, has agreed to become the largest, single shareholder of Citigroup Incorporated, the largest bank in the US, today.

The Abu Dhabi Investment Authority acquired a 4.90-percent stake in Citigroup Incorporated at the cost of about $US7.50 billion, it was announced, last Tuesday.

That investment by the oil-rich nation of Abu Dhabi is suggestive of a sovereign fund, having faith in the future of (a) the United States of America and (b) Citigroup Incorporated.

But, for people with any moxie, it means, also, that the largest bank in the US had no choice in the matter and desperately needed a large, cash injection – and got it via petrodollars.

The PRC Government Must Tighten The Screws

The PRC Government is facing the prospects of galloping inflation.

It will not permit it to happen.

The actions of this government over the past few years is suggestive of a very responsible Administration, trying, on the one hand, to keep the wheels of progress, churning smoothly, but, on the other hand, trying to make certain that the fast, PRC *'train'* does not jump the rails.

Due to the US economy's forecast lower growth rate for 2008, it will, undoubtedly, mean that exports from the PRC to this trading partner will be less than the 2007 level.

Over the longer term, however, the lower exports from the PRC to the US will be little more than a hiccough.

Domestic consumption in the PRC is more than likely going to remain robust, thus limiting the negative impact of the fall-off of sales of goods and services to the US.

The lower economic growth of the US in 2008 will impact Europe and Japan, especially, and territories, such as Singapore and Malaysia, which have a very high exports-to-GDP ratio, will suffer.

The HKSAR will, also, be hurt, but not to the extent of territories such as Singapore and Malaysia.

The inflation rate in the PRC, proper, was about 6.50 percent per annum in October.

A chief reason for the re-acceleration of inflation in the Middle Kingdom is known to have been rapid increases in the prices of foodstuffs.

Unless action is taken by the relevant PRC Government Authority, it is likely that food prices in the country will continue to rise, thus fuelling inflationary flares.

As such, it is highly unlikely that the renminbi will be revalued in a hurry, regardless of pressures, brought to bear with the European Union.

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