



Asian Tigers Rebound From Recession

The resilience of Asian emerging economies has been highlighted once again with the current crisis. After the region's financial crisis of 1997- 1998 and the dot.com bust in 2001, there was an expectation of a lengthy recovery which in fact the region emerged from much sooner than anticipated. Earlier this year it was argued that export-dependent economies could not revive until customers in the rich nations did. The West still looks weak, with many economies contracting in the second quarter, in addition to which if the US begins to grow in the second half of this year, consumer spending is expected to be subdued. Thus far, Asian economies, increasingly decoupling from Western shopping habits, are growing at a healthy clip.

The four emerging Asian economies - China, Indonesia, South Korea and Singapore that reported GDP figures for the second quarter grew by an average annualized rate of more than 10%. This growth occurs at a time when the G7 could contract by 3.5%, highlighting the trend that sees economic power drifting inexorably to the East. How has Asia made such an astonishing rebound?

First, several local industries which are important to these economies such as cars and electronics are highly cyclical resulting in a fall in output during a downturn. Second, the region's decline in exports in late 2008 was exacerbated by the freezing up of global trade finance, which has now thawed again. Third, domestic spending has bounced back because the fiscal stimulus in the region was bigger and worked faster than in the West. India aside, the Asians entered this downturn with far healthier government finances than richer countries, thus allowing them to spend more freely money. Low private-sector debt made households and firms more likely to spend government handouts; Asian banks were also in better shape than their Western counterparts and able to lend more. Although Asia's prudence during the past decade did not allow it to escape the global recession, it just made the region's fiscal and monetary weapons more effective.

Emerging Asia's average growth rate of almost 8% over the past two decades, three times the rate in the rich world, has brought huge benefits to the rest of the world. Its rebound now is more useful when economic growth in the West is likely to be slow. Asia cannot replace the American consumer since emerging Asia's total consumption amounts to only two-fifths of America's but growth in spending does matter. In dollar terms, however, the increase in emerging Asia's consumer-spending this year will more than offset the drop in spending in America and the euro zone. This shift in spending from the West to the East will help rebalance the global economy.

The revival in emerging Asia's industrial production is even more impressive, jumping by an annualized rate of 36% in the second quarter. According to Barclays Capital, emerging Asia is the only region in the world where output has regained its level before the crisis began. This is largely due to not only China, where industrial production rose by 11% in the 12 months to July, but all the Asian economies that have seen a strong surge also. In contrast, up to June, the US' production continued to contract. Also, after a considerable decline, house prices are now rising rapidly in Hong Kong, Shanghai, Seoul and

elsewhere. Home sales have surged by 70% in value in China over the past year. According to one estimate, one-fifth of all new lending this year in China has gone into either the stock or property markets.

As vividly illustrated above, economies can be boosted with significant government spending but Asian policymakers now face two potentially difficult problems. The immediate dilemma is how to sustain the recovery without inflating credit and creating asset-price bubbles; local equity and property markets are starting to froth. The longer-term challenge is that once the impact of governments' fiscal stimuli fades, economic growth may be slow unless reforms are put in place to boost private spending. Part of the solution to both problems is to allow exchange rates to rise. The belief is that if Asian central banks reduced piling up reserves to prevent their currencies from appreciating, this would in turn help stem domestic liquidity to some extent. Stronger currencies would shift growth from exports to domestic demand and increase households' real spending power and help ward off protectionists in the West.

Across the region, aggressive fiscal and monetary stimuli have helped revive domestic demand. Asia has had the biggest fiscal stimulus of any region of the world. China's package grabbed the headlines, but South Korea, Singapore, Malaysia, Taiwan and Thailand have all had government stimuli this year of at least 4% of GDP. Most Asian countries, with the notable exception of India, entered this downturn with sounder budget finances than their Western counterparts and were better able to cope but the future depends on the nature of the structural changes that have to be made to their current system that will ensure the prevention of another untimely downturn.

Table 1: Regional Market Performance (as at 21 August 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	783.56	0.32	0.91	-7.04	-31.41
All Trinidad	1,091.28	0.57	0.95	-5.50	-29.01
JSE Index	80,112.79	-0.16	-0.52	-0.05	-25.70
JSE Select	1,821.43	-0.11	1.09	-8.23	-39.25
All Jamaica	66,441.68	-0.36	0.50	-10.21	-39.04
BSE Composite	845.93	0.41	0.29	-8.04	-21.03

Table 2: International Market Performance (as at 21 August 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,026.13	2.20	7.50	13.60	-19.69
Nasdaq Composite	2,020.90	1.78	5.46	28.15	-15.10
Dow Jones Industrial	9,505.96	1.98	6.62	8.31	-16.83
German Dax	5,462.74	2.89	7.24	13.57	-12.41
FTSE 100	4,850.89	2.90	8.25	9.40	-9.67
Nikkei 225	10,238.20	-3.39	6.07	17.05	-19.71
Hang Seng	20,199.02	-3.32	3.58	40.39	-0.95
DJ Eurostoxx	2,745.62	2.85	8.95	12.00	-15.49

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