



## Asian Economic Growth to Slow in 2007

**Feb.2007** Growth in Asia is expected to slow this year. This isn't bad news. In fact, Credit Suisse has upgraded Asia's Gross Domestic Product (GDP) growth. Dong Tao, Head Investment Banking Research Hong Kong, explains the impacts the global economic slowdown might have on Asian countries in 2007.

### **Marcus Balogh: What are your expectations for 2007?**

**Dong Tao:** We expect to see a moderation led by the US consumption with US GDP bottoming at about 1.8 percent in the first quarter of next year. Furthermore, we think that the Japanese economy is currently experiencing a relatively unsettled period but I expect the Japanese economy to reaccelerate and to catch up with the growth momentum in Asia. In Europe, I expect economies to continue with their rebound led by Germany. Overall, the weakest spot based on our projection will be in the first half of next year and I expect 2007 to end with a growth of global GDP of 4.8 percent.

### **How will Asia fare according to your projections?**

Broadly speaking, 2007 will be slower than 2006, but we think the magnitude of the slowdown will be less than forecast some months ago. In fact, in December we upgraded Asia's GDP growth from 7.4 percent to 7.9 percent. In the first place, because it is clear that global demand will slow down, but it won't be drastic; secondly, because we feel comfortable about the domestic demand of many Asian countries; and, finally, this region remains in an excessive liquidity situation.

### **You mentioned the slowdown of US consumption. Could this become a major concern for Asia's exports?**

No, I don't think so, as the correlation between US consumption and Asia's exports is

no longer as high as in past decades. While the US remains its largest single export market, Japan, Europe and other emerging markets are buying more. Let's take personal computer (PC) sales in emerging markets as an example. Five years ago, emerging markets accounted for 28 percent of total PC sales; today they account for 42 percent. Handsets and mobile phones are similar examples. Again, five years ago, the emerging markets accounted for about 32 percent of global sales; today it's 60 percent. With the United States slowing down, Asia's exports in the next few months will moderate, but they will do so gradually. The current pace of growth in the equitable sector is roughly 20 percent. By June of next year, Asia's aggregated export growth is likely to moderate toward 10 percent to 12 percent, but this is probably the bottom for this cycle.

**A country such as China might still be influenced by the expected slowdown – is this why you expect India to have stronger GDP growth than China? Or, is this a sign that the tables are turning in the Asian landscape?**

It is true that India is much less exposed to external factors, which means that when global demand softens it will affect India much less than China. But one can hardly say that the tables are turning. We expect China's GDP to grow by 9.9 percent, and India's to grow by 10 percent. In other words: both will do fairly well and the difference of 0.1 percent could be a result of a rounding error. China could easily be faster – or it could be slower – than our projection. I don't think China and India are competing against each other, but they both are the beneficiaries of globalization. The story of India surpassing China to me has more press value than economics value.

**The fact remains that India is gaining ground, isn't it?**

China is slowing down because the government is holding back the economy, especially in loan growth and investment growth. At this moment, it is true that we feel less policy risks in India, compared with China.

**Can you elaborate on that?**

We think that infrastructure investments in India are on the right path. Finally, the government seems to realize the significance of building railways, freeways, and power stations. And with a significant improvement on the infrastructure side and with private consumption picking up, fuelled by the wage growth, we think that India's domestic demand story is one of news to come. India will have its problems, but if the government can deliver anywhere between 50 percent and 70 percent on what it promises, it will have done a great job and will have made India one of the most

interesting Asian countries to watch in 2007.

**You mentioned that the Chinese government is slowing down its economy – isn't it very difficult to control this process?**

Yes, it is. The Chinese government has had surprising success in cooling off the economy. Third quarter GDP was 10.4 percent, industrial production for October and November was 14.8 percent, fixed asset investment was 21 percent, and the money supply was 16.8 percent. All of these measures are getting closer to the government's policy target. The success is built on administrative measures. In the first half of 2006, we saw an explosion in new loans. The monthly average for new loans was 343 billion renminbi. But in the second half of last year this averaged 190 billion renminbi. The administration has successfully tightened the lending policy and with that we saw a fall in the industrial production, in the fixed asset investment, and in money supply.

**Where will this lead?**

We think that the year-end data for 2006 will show that China has successfully achieved a soft landing.

**How will other Asian countries fare in 2007?**

The growth rates of most Asian countries may not seem as impressive as India's and China's growth of GDP – maybe with the exception of Vietnam's 9.2 percent - but many of them will still beat the 4.8 percent we expect of the global economy. We think Singapore will reach an impressive GDP growth of 7 percent, Indonesia will stay positive with 6.5 percent, and Malaysia's and the Philippine's growth will hold up with 5.6 percent respectively with 5.1 percent. In fact, the only countries in Asia that we expect to grow slightly slower than the global economy are South Korea and Thailand with 4.6 percent each and Taiwan with 4.2 percent. But even in Taiwan, which may have bit of a bumpy start, we are far from desperation.

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