

Mach 2007

## Asia is on the Rise

Marc Faber, who has been investing in Asia since 1973, proved on the money with a bearish call on Asian assets just before the Asian crisis of 1997. He also warned investors to bail out of US stocks shortly before the 1987 crash. This record, as well as his emphasis on long-term trends – a rarity among analysts – make the famous contrarian well worth listening to. So what has Dr Doom, so nicknamed thanks to his monthly newsletter The Gloom, Boom and Doom Report, been saying recently?

For starters, he says he's not especially worried about a hard landing in China. While Europe has seen virtually no increase in income per capita over the past 20 years, the Chinese figure has doubled every decade over the past 25 years, he recently told *Wirtschaftswoche*. But warnings that China is growing too fast look wide of the mark – thanks to technological innovations such as the internet, a “backward” economy can industrialise faster these days. It may take China just 50 years to become the world's leading economic power, while it took the US a century. With per-capita incomes still relatively low, there is ample scope for further growth; China appears to be at the beginning of a long-term growth spurt. Certain industries could hit trouble, but the whole country is unlikely to be “brought to its knees”.

Note too that China's dependence on the US is dwindling, thanks to the fast rise in its trading volumes inside Asia, as well as to its new interests in South American and African markets. China's low cost base, plentiful foreign exchange reserves and huge current-account surplus also suggest it could prove far more resilient to a global recession than many fear.

As far as Asia as a whole is concerned, Faber accepts that a decline in US stocks (which he anticipates) has always tended to depress other stockmarkets and probably will this time around too. Still, over the long term, investors in Asia should be on to a winner. The region is becoming less export dependent on the US and a US recession could accelerate the drive towards outsourcing, giving Asia a fillip in the next ten to 15 years, says Faber: “Asia will become very independent from the US”.

Asia has 3.6 billion people and there is vast scope for consumption to increase, Faber also pointed out to CNBC. In China, for instance, 84% of car buyers are first-time buyers. Indian consumers are also just getting going. It puts the fuss over Americans being the consumers of last resort into

perspective. Asia is on the rise: we are at the start of a “massive transfer of wealth” from West to East.

The ascendancy of Asia also bodes well for long-term commodity prices. Agricultural commodities may be cheap now, but will be needed in huge quantities as wealth increases, says Faber, as will oil. Asia as a whole uses just 22 million barrels of oil a day, the same amount as the US alone. And China even now consumes just 1.7 barrels of oil per capita, barely more than the US before its own industrialisation; Americans now guzzle 27 barrels of oil per head. All this implies that regional demand will “certainly double”, and supply can’t catch up. Oil will reach \$100 to \$200 a barrel in future. And don’t forget gold. Chinese consumers will snap up gold jewellery to highlight their new-found wealth, while the central bank currently only has 2% of its foreign currency reserves in gold. That will change as global confidence in the US dollar continues to dwindle.

**Andrew Van Sickle**

**This article originated at the Money Week website at the url:**

<http://www.moneyweek.com/file/20036/asia-is-on-the-rise-says-dr-doom.html>