

Macroeconomic Risks at the Close of 2011

The ongoing economic crisis has consumer confidence in a tailspin. The historic engines of growth are dwindling and policy makers need to go back to basics regarding trade. The advantages of Europe, the US, and Japan are declining as emerging countries make up the deficit in human capital and technology. Southern and eastern Asia have significantly lower marginal costs of growth and development. Investment will continue to flow to the highest return with the lowest risk. The advanced industrials no longer have low risk. Currencies in both the EU and the US are under threat. Social liabilities are, in these areas, undermining long-term fiscal solvency, as are rapidly aging populations.

Access to resources, capital, education, training, and technology has spread to many other locales. Labor is much more mobile reducing the need for site-specific construction. The cost of moving an entire office or factory is such that shopping for the most advantageous tax policy is now possible. Instead of embracing global competition, nations seek to vilify their trade partners rather than innovate their own economies. Vested interests stand to gain more in short-term pillage than in sound long-term planning.

In the US, politicians are busy blaming America's woes on China's currency manipulation. However, Beijing has allowed the RMB to appreciate in value by 25% since 2004. Yet Washington still insists the RMB is undervalued by 40% the same percentage as in 2004. Every time the US finds itself in financial trouble due to its own policy failures it blames someone else: Japan, Germany, Britain, and now China. The one thing all of these nations have in common is the ability to innovate and capitalize on their advantages. Japan had resource and labor constraints and so substituted technology and created one of the most productive manufacturing sectors in the world even though it had to import almost all of its raw materials and had very high labor costs and rents. Germany capitalized on its technical and resource advantage choosing to specialize in machine parts and other durable goods. This specialization allowed Germany to garner huge profits even though its social liabilities, rents, and labor costs are some of the highest in the world. Germany has further positioned itself to expand its market share as the rest of the world develops and invests in new technology and infrastructure. China is everyone's hope and biggest fear. Rapidly industrializing, China is now the second largest economy in the world (excluding the Eurozone as a single market). The promise of a huge domestic market leads the world's leaders to pin their own recovery plans on China buying their goods. But China has very cheap labor, absolute advantages in both human capital and knowledge. It has cornered the market on low end mass produced goods, but for China to thrive it must start expanding into other sectors and markets, and enable its own population to consume more.

The other interesting similarity between the US' economic villains is that they all run trade surpluses and have domestic savings rates significantly higher than the US. For investment opportunities in the near term, China looks by far and away the best bet. It is sitting on huge reserves of cash, which is slowly being shifted away from dollars. It is almost every major nation's largest trading partner with its market share of global trade increasing. Without clear reform in Europe, the US, and Japan, a global recovery is uncertain and political and economic power shifts to Brazil, China, and India as they emerge on the stage as the bright spot in an otherwise bleak year.

Euroasian has been doing business in the Asia-Pacific region for almost 50 years. Our business is seeing your business thrive through economic booms and busts. Please take time to review our Facilities. Enjoy the Holiday Season.