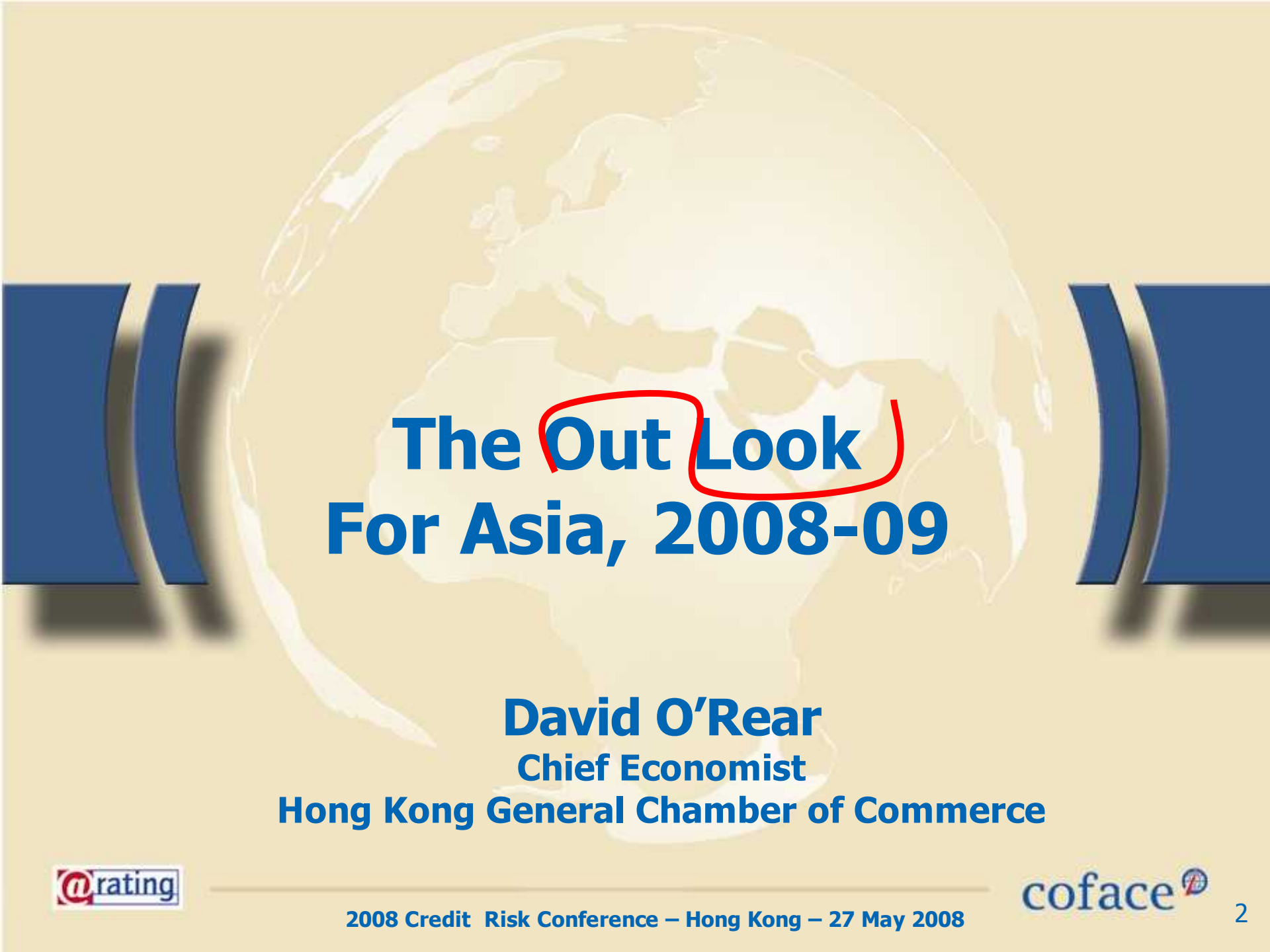




2008 Credit Risk Conference

An Overview for Hong Kong Exporters

Hong Kong, 27 May 2008



The Out Look

For Asia, 2008-09

David O'Rear
Chief Economist
Hong Kong General Chamber of Commerce

The Look-Out For Asia

When America Catches Cold, Asia Gets Pneumonia

- The US currently is running a high fever, accompanied by symptoms of the victim of a major auto accident.

Can Asia Decouple From America ? Will This Time Be Different ?

- China's Imports From ASEAN Barely Rose 6.7% in 1988-97 to 11% in 1998-07; Exports to the US rose from 14.8% to 20.6% during the same period. Less dependence on Asia, more dependence on the US.

One Can Either Believe in Decoupling, or Globalization; Not Both

- Hong Kong is the Most Globalized Economy on Earth.

American Challenges in 2008+

Every *Other* One is a Bit Tricky

US Recession (V, U or L shaped?)

→ Current-Account Deficit 5% of GDP

Record High Household Debt:Service Ratio

→ Equities Rapidly Falling Out of Favor

Housing Market in Once-in-a-Generation Slump

→ Budget Deficit Doubled National Debt in Just 8 Years

Protectionists Leading Candidates for Next Presidency

→ US\$ Has Fallen Dramatically; More to Come ?

Oil at \$100/bbl Would Look Pretty Good About Now

→ Strong Dollar Needed to Revive Doha WTO Negotiations

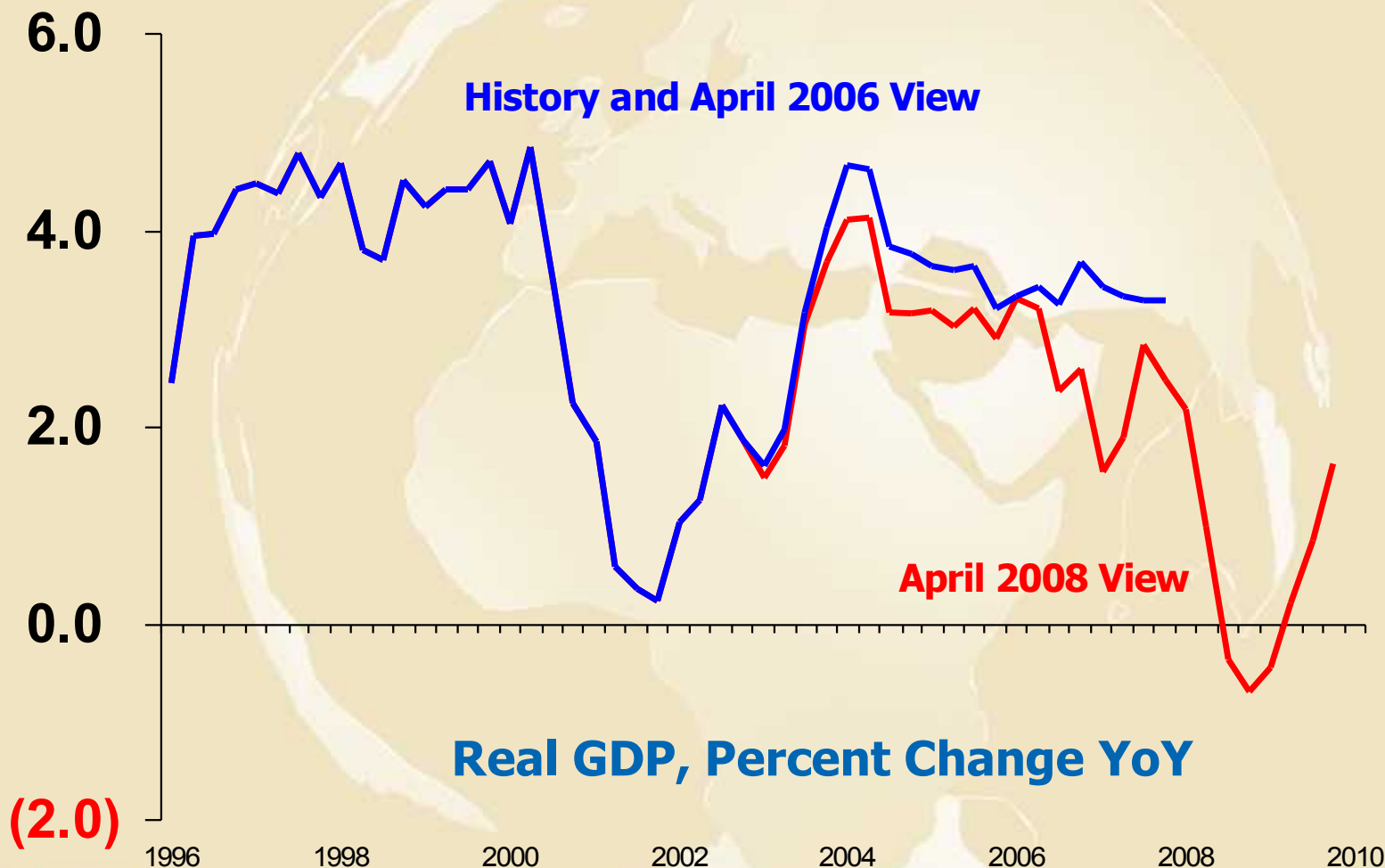
Loss of Faith in Credit Rating Agencies

→ Toxic Subprime Mortgage-backed Securities

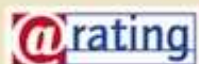
(and, don't talk about the war.)

The IMF's View of the US Economy

Remember: the IMF *never* predicts a US recession.

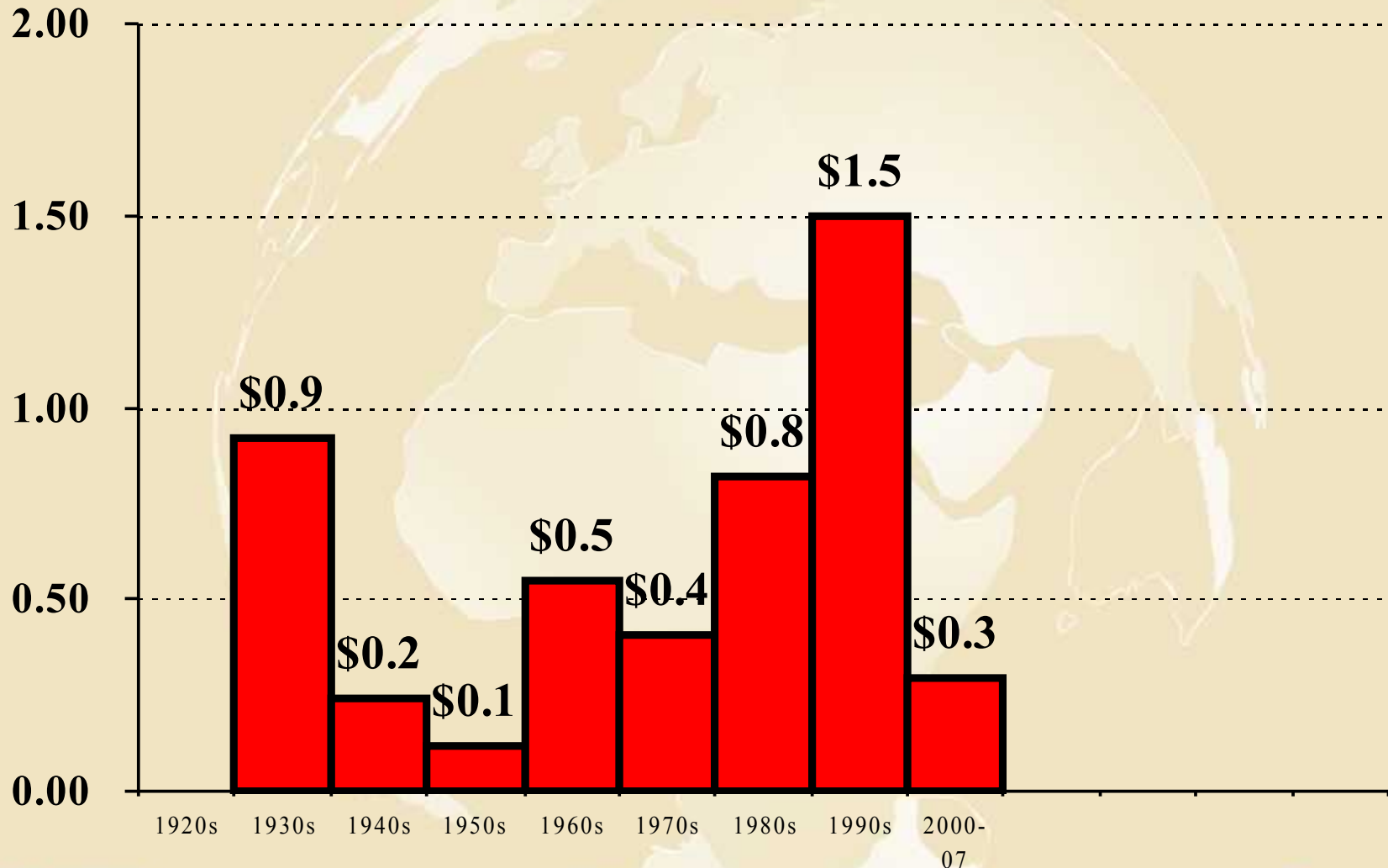


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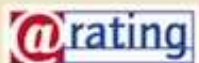
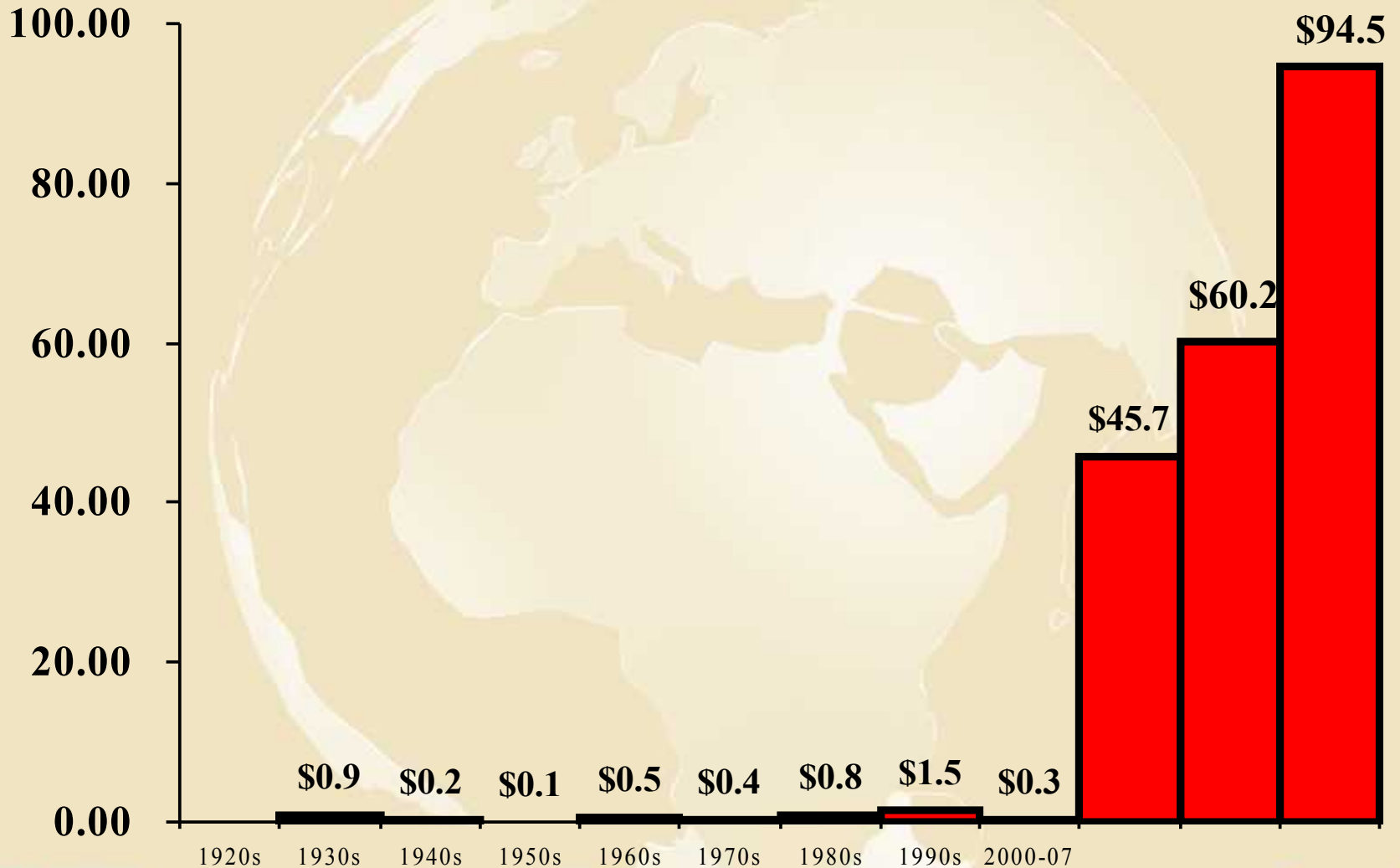
US Depository Institutions

Average monthly borrowings from the Fed (US\$ Billion)



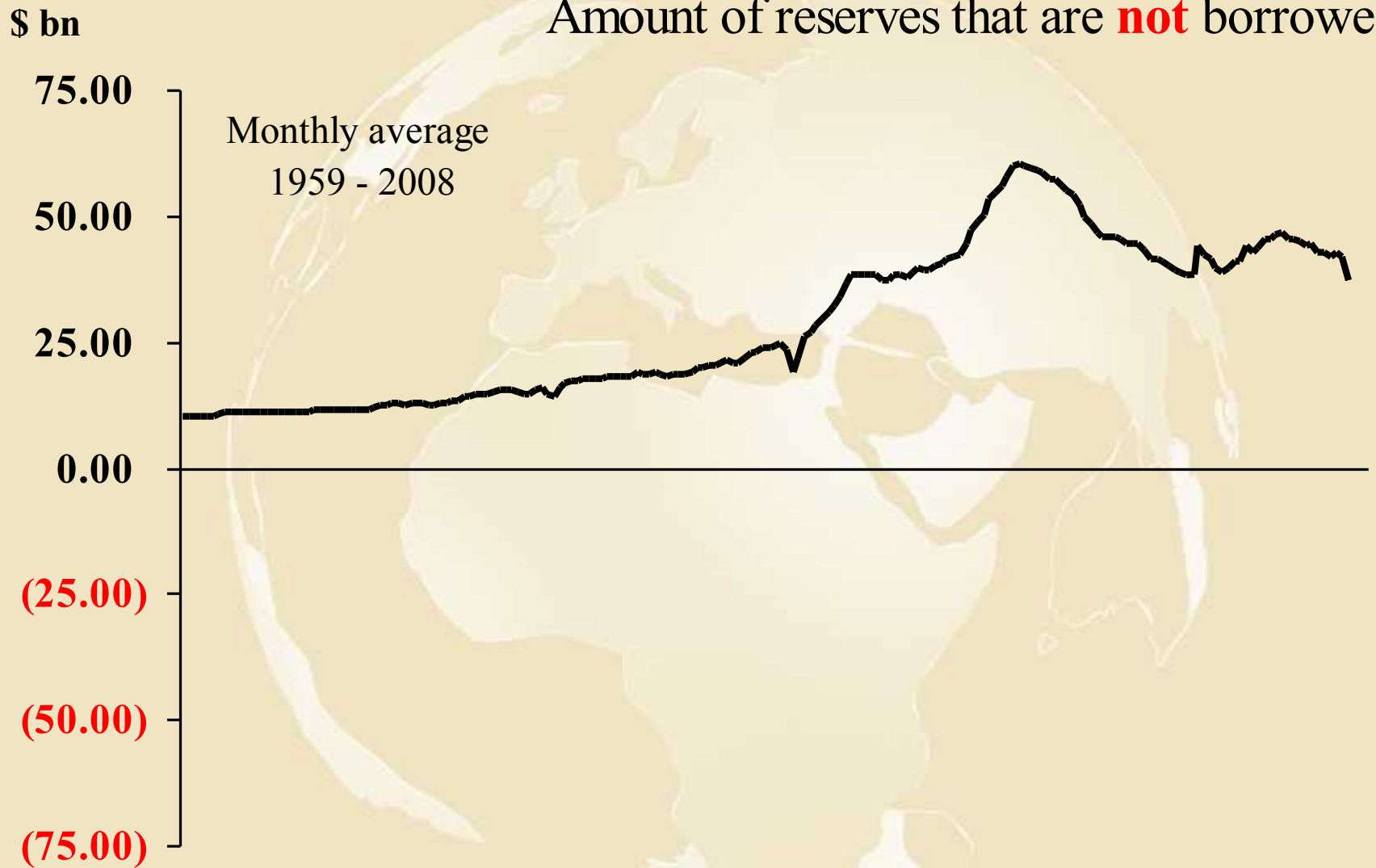
US Depository Institutions

Average monthly borrowings from the Fed (US\$ Billion)



US Depository Institutions

Amount of reserves that are **not** borrowed



US Depository Institutions

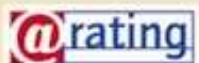
Amount of reserves that are **not** borrowed



US Home Prices



Only up to Oct-Dec 2007



Asia, the US and Trade

The most important change in US-Asian relations since the 1980s is the relocation of production-for-export facilities from multiple locations around the region, to one: **China**.

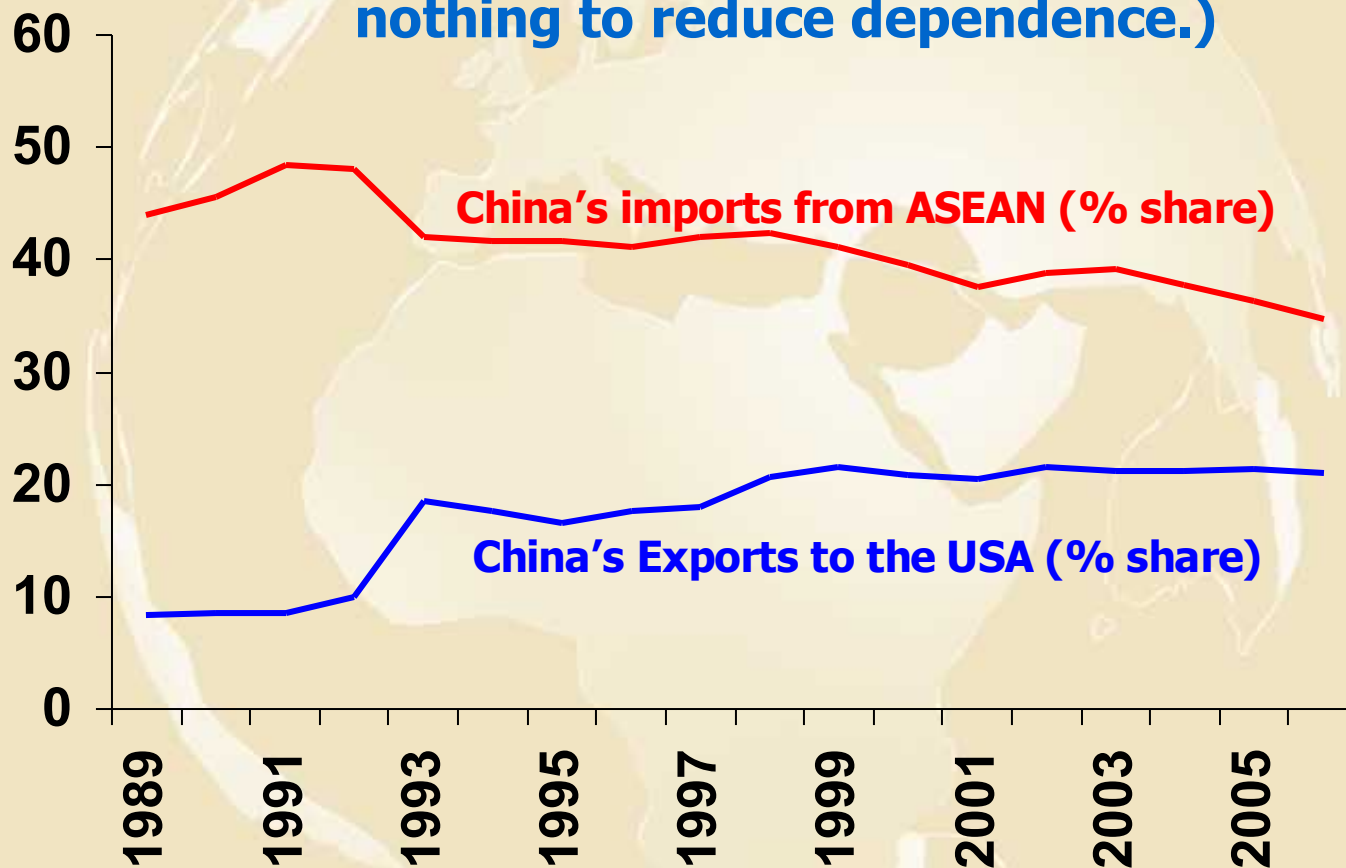
The reasons are well-known to us.

American politicians, on the other hand, seem to think that China's massive trade surplus with America is unrelated to the very rapid decline in the US trade deficit with the rest of East Asia.

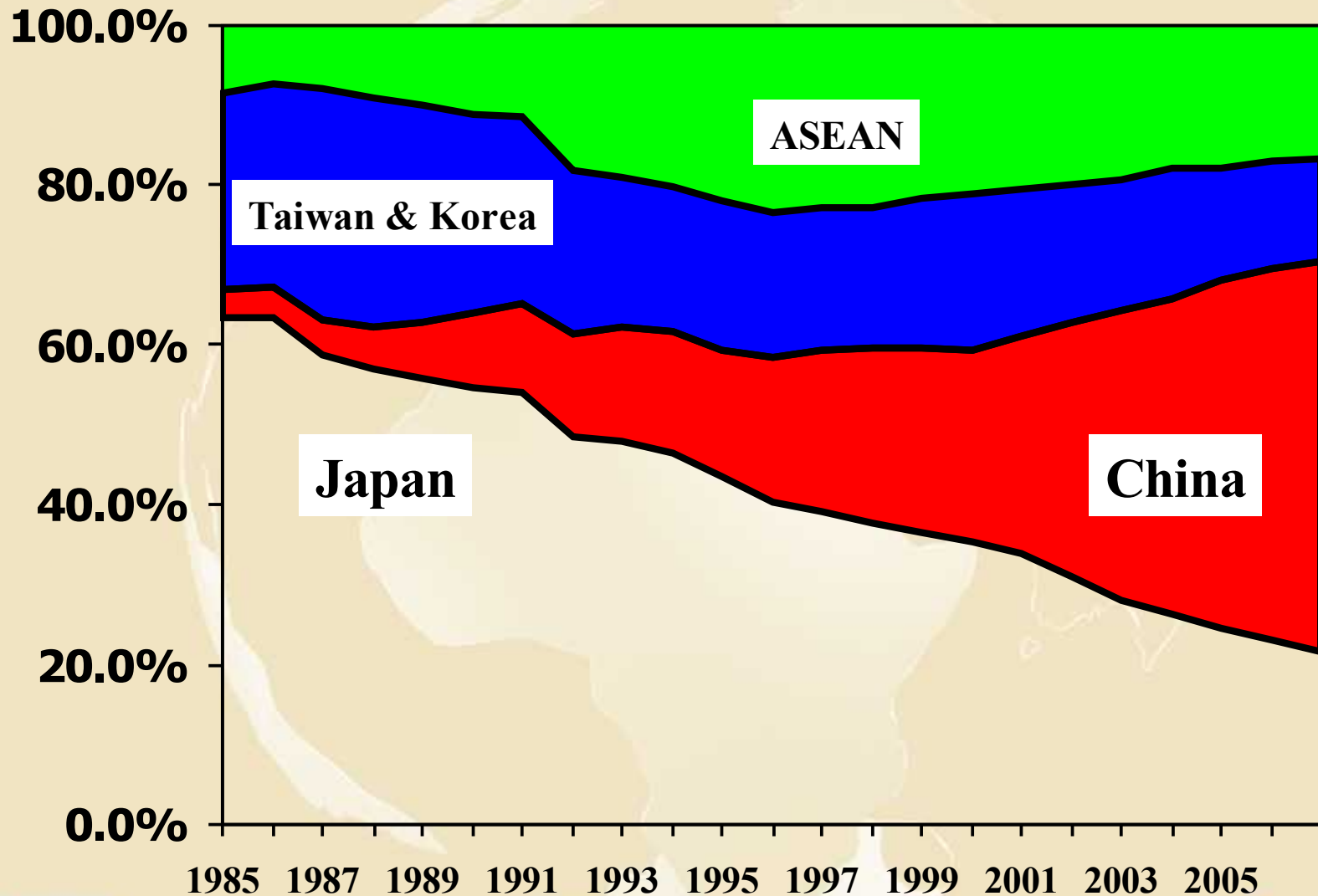
It might be funny, if this wasn't the most wide-open election in 50+ years.

Decoupling, or Greater Dependence ?

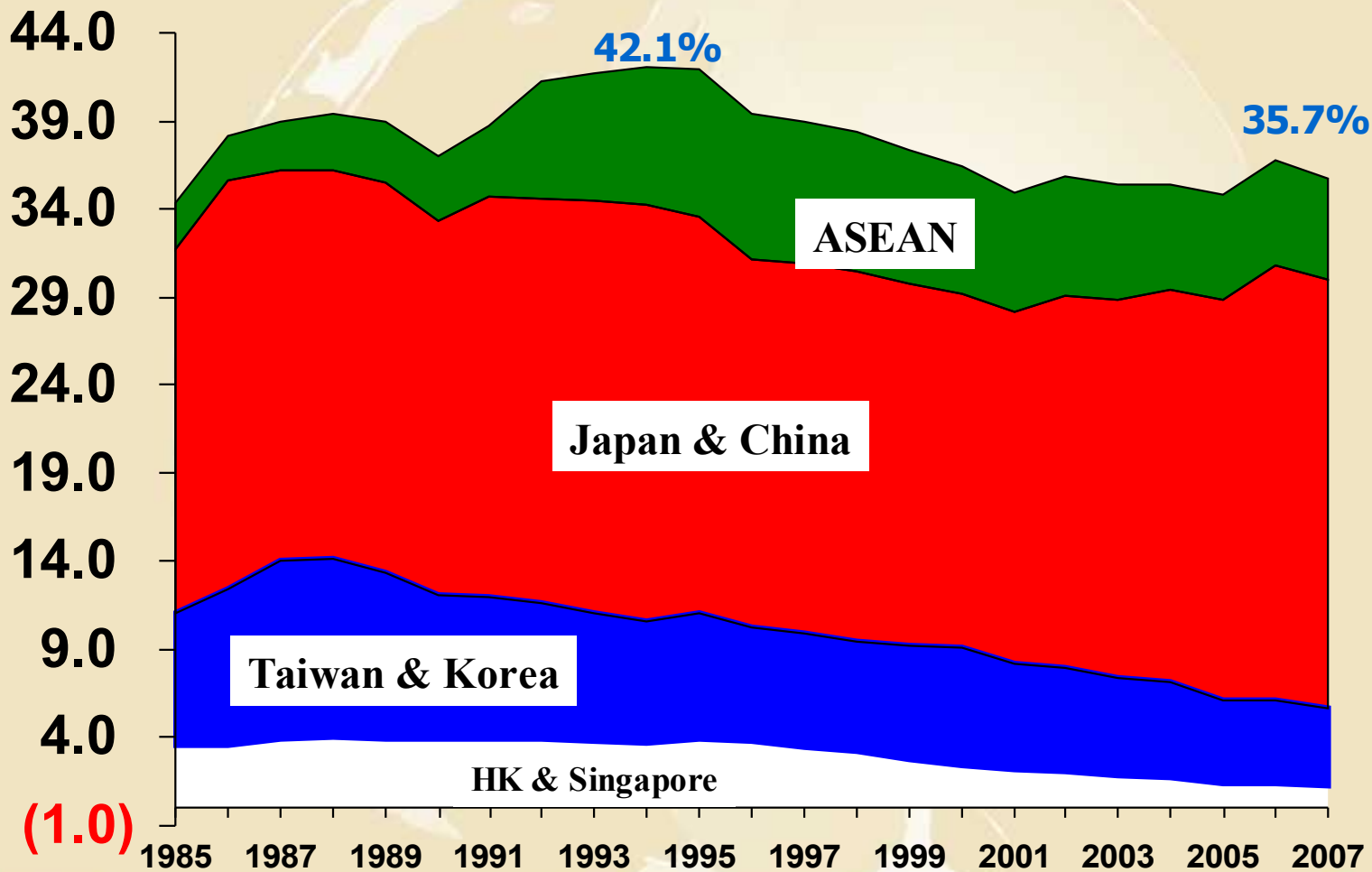
(Hint: Moving Production from one place to another does nothing to reduce dependence.)



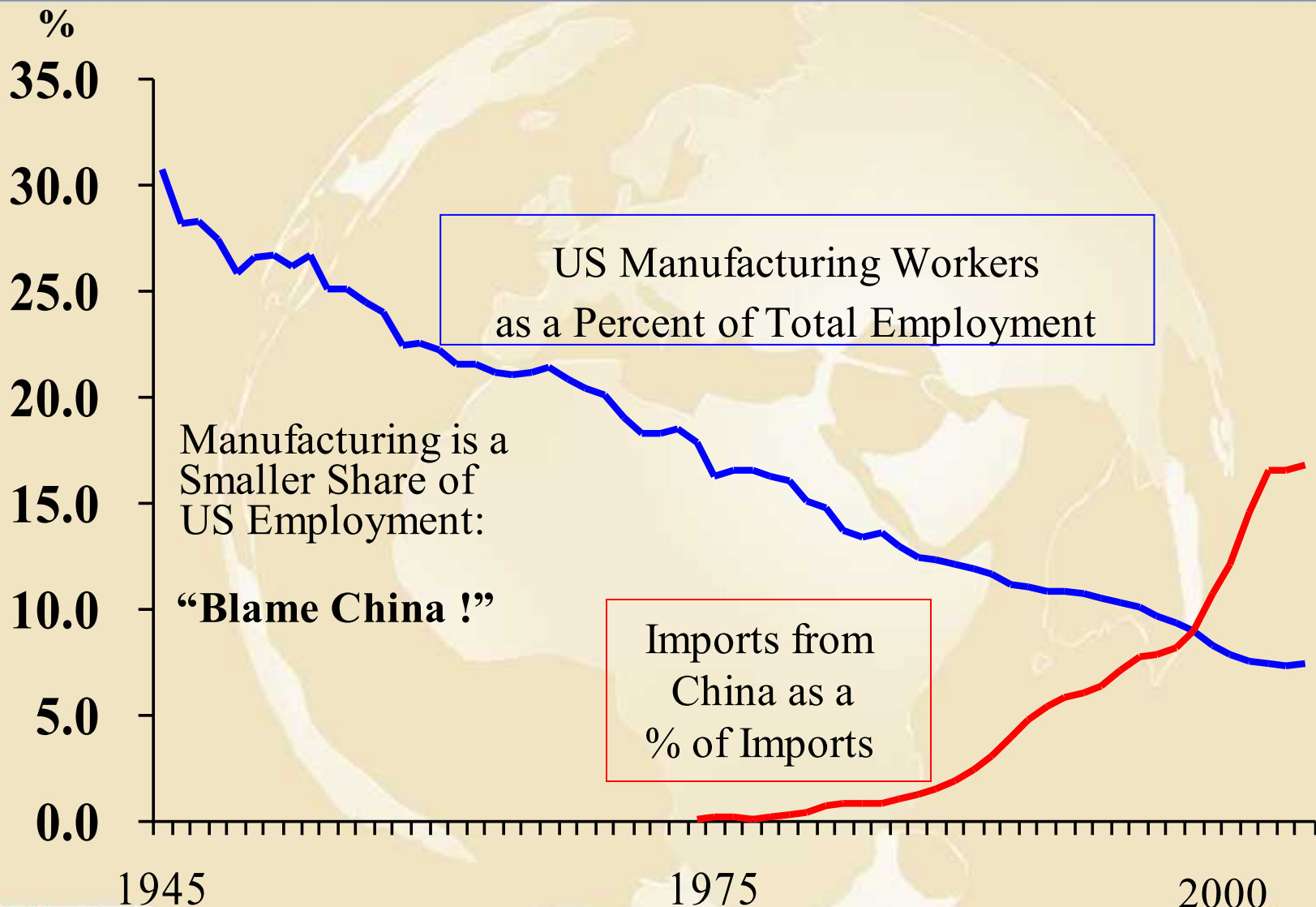
US Imports From East Asia (I)



US Imports From East Asia (II)



The "Logic" of Protectionism



What About China ?

We have no idea how China reacts to a US consumer recession

- 2001 recession was due to investment shock, not demand
 - ↪ In 1991, China's exports were tiny.
 - ↪ And, **60%** are today made by foreign-invested firms.

There will be mistakes, of that we can be very sure.

And, Hong Kong ?

Hong Kong is best able to capitalize on swings, up or down.

- We cope by getting rid of what doesn't work here.

We outsource manufacturing, haircuts, dinner, foreign affairs, defense, golf, gambling, dry cleaning and shopping.

Thank You for Your Attention

And, Good Luck !