

Asian Market Outlook

One year after the deepest recession in recent history, Asia is leading the global recovery. The pace of the recovery in advanced economies has been held back by high unemployment rates, weak household balance sheets, and anaemic bank credit, and it remains heavily dependent on macroeconomic policy support. By contrast, activity in many emerging and developing markets has continued to rebound swiftly over the course of 2009 and in the first quarter of 2010, particularly in Asia. The pattern of economic recovery has varied within Asia, with the more domestically oriented economies (China, India, and Indonesia) and Australia escaping a recession, and the more export oriented economies experiencing a sharply V-shaped business cycle.

In this series of articles, I will explore and share some of the exciting opportunities, technical evaluations and myths of this market. Our recovery will depend, not on what we do at home, but what we do abroad, and more significantly and specifically, what we do in India, China and Brazil, places where recession almost does not exist and where market growth, if for no other reason than sheer size and changing demographics, is the only direction. If you want to survive and grow, head East. You must include an export element to your strategy.

By the end of 2009, output in most of Asia had returned to pre-crisis levels, even in those economies hit hardest by the crisis. Asia's faster recovery relative to the rest of the world seems to mark a break from the past. Although Asia's GDP trend growth has exceeded that of advanced economies over the last three decades, this is the first time that Asia's contribution to a global recovery has outstripped that of other regions.

While in past recessions Asia's recovery generally was driven by exports, this time it has also been reinforced by resilient domestic demand, particularly household consumption. Finally, while in past recoveries capital was slow to return to Asia, this time net capital inflows to the region have surged, a reflection of extremely high levels of global liquidity but also a testament to Asia's improved resilience and economic framework.

The pace of the recovery will, nonetheless, remain uneven across Asia. In China, growth is expected to return to double digits in 2010, with private domestic demand boosted by measures to increase consumption and private investment. This is having positive spillovers for the rest of the region, as Chinese demand boosts imports, particularly of commodities and capital goods. Given this strength in

demand, the authorities have begun to stem the very rapid growth of credit in order to safeguard the quality of bank balance sheets. In Japan, private sector demand continues to face severe headwinds despite the recovery in the export sector, and inflation has fallen back into negative territory, requiring the authorities to reiterate their commitment to prolonged policy accommodation.

Asia's relatively strong cyclical position may pose near-term risks to this outlook, particularly if bright growth prospects and widening interest rate differentials with advanced economies lead to further capital inflows to the region. These inflows could lead to overheating in some economies and increase their vulnerability to a strong upswing in the credit and asset price cycles, with the propensity for a subsequent abrupt reversal.

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