

Commentary

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ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Emerging Economic Power Shifts

As globalization spreads in economic and cultural terms, new economic and geopolitical powers are emerging. The beginning of the twenty-first century is witnessing a major power shift as emerging economies develop and effectively redistribute the balance of the global power structure. These trends impact nations and relations between states, markets, corporations and consumers. The rise of China, India and other Asian economies is now acknowledged to be of historical significance comparable in effect to the Renaissance and the Industrial Revolution. Along with economic power, as emerging economies account for increasing shares of global GDP, we are experiencing the accompanying emergence of political power, as the rising influence of China and India on geopolitical affairs becomes apparent. The United States is the largest economic entity in the world, but its relative power is lessening. Historically great powers have been net creditors, whereas the US is currently the largest global net debtor; approximately 75% of global imbalances are attributable to the US current account deficits. The role of the US dollar as the main reserve currency is being challenged by the euro; euros in circulation now exceed the value of US dollars in circulation. Recent years witnessed a steady slide in the value of the US dollar against the euro and the UK pound that accelerated since late 2005 as countries with large dollar holdings shifted into other currencies. Switzerland, Russia, Venezuela, Iran and China are all reducing their dollar holdings in favor of other currencies. In 2006 alone, the euro appreciated by 11% and the pound appreciated by 14% against the US dollar.

To put the emergence of the economies of China and India into perspective, it is noteworthy that for a great part of the last one thousand years, India and China were

the richest nations in the world. In fact, in 1500 AD, their combined GDP represented about 25% of the world's GDP, only to be surpassed by the subsequent emergence of the economies of Europe, the British Empire and America. In recent years, China has fared better than India in its ability to attract foreign investment suitable for an export-led, low-cost manufacturing economy, while India has largely been a domestic consumption growth story with notable successes in the knowledge and services industries. Bilateral trade between India and China has increased 30-fold in the last decade; last year bilateral trade between the Chinese and Indian economies reached new highs and is projected to triple by 2010. China is currently the second largest trading partner of India and, based on current trends, will surpass the US to become its largest trading partner within the next few years. India and China are exploring the feasibility of a bilateral Free Trade Agreement as well as a Comprehensive Economic Cooperation Agreement. Resulting synergies will accelerate the economic growth and development of both countries. China, as the manufacturing hub of the world, and India, as the predicted service center of the world economy, are positioned to become dominant economic powers, as Chinese entrepreneurial skills and Indian managerial skills play an increasing role in the world economy.

The official Indian Business Confidence Index reached a record high level in January, based on perceptions of future economic conditions, financial outlook, investment climate and capacity utilization, as the country's GDP soared due to buoyant growth performance in industry. Confidence in the Government of India is also reaching new highs as measured by the Political Confidence Index based on perceptions of how the government is performing in managing economic

growth, finance, inflation, unemployment, exchange rates, economic reforms and international trade negotiations. But clearly, India needs capital for investment in infrastructure and economic development. A recent research survey reported a high degree of confidence in Foreign Direct Investment, particularly in IT Services, Financial Services and Manufacturing. However, the flow of capital is no longer a one-way street; the old boundaries between developed and emerging markets, and between global and local markets, are becoming less and less relevant. Recently companies from India, China, Brazil and elsewhere have vastly expanded their international activities; they have launched a string of takeover bids for western companies; they are investing heavily outside their domestic markets, and they have become major users of international equity and debt markets. The market for investing and raising capital is increasingly shifting to London and Hong Kong and away from New York; this trend will continue as Mumbai and Shanghai attain larger roles in international finance. Goldman Sachs is predicting that India will overtake the US economy by 2050 and take second place behind China in the rankings of the world's largest economies. According to their just published global research paper, India's GDP per capita will likely quadruple from 2007 to 2020, with economic growth resulting as more than 100 million people enter the workforce.

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