



Gloom and Doom Ahead

As we are in the Christmas and New Year season, I want to give everyone a really good reason to embrace oblivion for as long as the festivities last, because maybe 2004 won't be the prosperous one you hope for.

I was reading up on a bit of history from 1930. At the time, the US economy was in recession following the infamous Wall Street Crash and the Administration, led by President Herbert Hoover, in June signed in the Smoot-Hawley Tariff Act. What followed was a global trade war and the Great Depression.

China-bashing

In an extraordinary echo of history, the US Congress is dancing to the Bush Administration's re-election campaign, and waving a threatening finger at China, to the tune of introducing a 27.5% tariff on all imported goods from that country, unless it floats its currency, the yuan.

American readers forgive me, but this is

political scapegoating at its worst. The US current account deficit is close to half a trillion dollars is still growing due to insufficient domestic savings to support economic growth. Does it then make sense to shift that record deficit to more expensive producer countries, while making it more costly for US companies to source Chinese products?

I wonder if the US voter will wise up to the fact that the other monster deficit, the fiscal one, is also due to the Administration's and Congress's overspending and undersaving? As the Presidential election approaches, watch for the China-bashing to increase, and global economic tensions likewise.

Dollar savings

So where does this leave the greenback? Precisely between a rock and a hard place. If you are holding dollars, they are worth 70% of what they were two years ago, in real terms. And as the twin deficits grow, the dollar weakens, creating a vicious

Anthony Purkis



circle. Nor is this particularly good for the European Union, as the euro takes most of the dollar adjustment in the global economy. Some EU exporters are already squealing, and there's more pain coming in 2004. So buy euro and enjoy.

Asian central banks are vigorously avoiding their share of the adjustment burden by selling their domestic currencies at every opportunity to keep a competitive pricing edge with their neighbour countries. But when they buy dollars, they house them in US Treasury bonds, so providing what the US economy does not have enough of, foreign capital inflows.

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