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## Asia told it cannot expect immunity from US slump

*Ashling O'Connor in Bombay*

Asia would not be immune from any US recession because the idea that emerging economies were “decoupled” from the world’s largest consuming nation was a myth, one of Wall Street’s most respected pundits has warned investors.

Stephen Roach, chairman of Morgan Stanley Asia and dubbed the “perennial bear”, told a Bombay audience of bankers and stockbrokers they would feel the impact of a slowdown in consumption by indebted Americans.

“It will be a miracle if we avoid a recession. The sub-prime crisis is an early warning sign,” he said during his first visit to India since moving to Hong Kong in September. “And if the US sneezes, Asia will catch a cold. Asia will not be an oasis of prosperity. I do not believe in global decoupling.”

**However, Jon Thorn, a director of Indian Capital Management in Hong Kong, disagreed. Pointing to the relatively robust performances of India and China during the last US recession in 2001, he said: “If there is a serious recession in the US, nowhere is protected. But a slowdown in Asia would be more to do with the falling dollar than declining American consumption. If the real price of oil and other commodities rises, then profitability will decline and GDP will slow.”**

Mr Roach conceded that India was less at risk than China, whose export share of GDP is 37 per cent, compared with India’s 15 per cent, although he described the Indian stock market as “vulnerable” to a significant correction.

Japan, which sends nearly a quarter of its exports to America, could be heading for zero economic growth if the US enters recession, according to his forecasts. “That is a significant cyclical risk factor in Asia,” he said.

Other economists are starting to question the decoupling theory because the US remains Asia’s main source of foreign capital and portfolio inflows. Last month, Jim O’Neill, the usually bullish chief economist of Goldman Sachs, said the chances of a recession in Japan had risen to “nearly two in three” on the back of the US mortgage market situation.