

Asia may suggest when, how Alaska's economy will cool

GREGG ERICKSON
COMMENT

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Forecasters of Alaska's economy, like forecasters of the weather, need to look west, to Asia, for portents of the future. By the time you read this I will be on a ship somewhere beyond the Aleutians, sailing west. I'm on my way to Asia to view the dynamic growth in that region that has become the engine powering the world economy. It is far from clear, however, that the engine can keep providing the power.

Alaska officials have always loved to tout international trade statistics, and upbeat data haven't been hard to find: "Our exports grew more than 12 percent last year, and, for the first time, our annual exports topped \$4 billion in 2006," crowed Gov. Sarah Palin in July.

True enough, but the growth in absolute terms disguises another, less upbeat truth: The weight of exports in Alaska's economy has been stagnant for over a decade, hovering between 9 and 11 percent of the state's gross product. The limited Alaska resource base and competition from other suppliers around the world has kept it stuck in that range. Geo-economics suggests that North America is the natural market for Alaska's resources, and is likely to remain so.

World markets for timber, energy commodities and minerals are temporarily booming, but the relative weight of those products in the world economy continues a long-term trend of decline. Only in tourism, the export of recreational services to people who live elsewhere, does Alaska appear to have a long-term comparative advantage. When the world economy cools, as at some point it must, Alaska should prepare for its world trade to contract faster than the rest of its economy. In Asia I'll be looking for clues on the when and how of that slowdown.

My first stop is Japan. "Growth has collapsed, deflation has taken hold, and the financial system is in shambles," write Takeo Hoshi and Anil Kashyap in a recent issue of the *Journal of Economic Perspectives*. The Japanese government has been running huge and chronic deficits, but extraordinary high rates of household savings have allowed the deficits to be financed from domestic savings, with more than enough left over for Japan to accumulate \$612 billion in U.S. treasury securities. If the Japanese decide to cash in even a piece of that hoard, the result would be a cascade of economic repercussions, beginning with a disastrous fall in the value of the dollar.

Second stop is Vladivostok, in the Russian Far East. Russia, like Alaska, has benefited from the boom in prices of oil and other mineral commodities; like Alaska, Russia faces many potential dislocations if the boom takes even a small stumble. Oil export earnings have allowed Russia to increase its foreign reserves from virtually zero in 1999 to well over \$300 billion now, the third largest reserves in the world. But unlike the other countries on my itinerary, Russia has put almost none of its reserves into dollar-denominated investments.

Following Russia, it's off to South Korea. Forty years ago, per capita income in Korea was comparable with levels in the poorest countries of Africa and Asia. Today Korea is richer than several countries in Europe. The Koreans have been great savers, and \$50 billion of those savings are in U.S. treasury

bonds.

After another stop in Japan I move to China, where household savings are in excess of 20 percent of income. U.S. households, by comparison, now have a negative savings rate.

"Negative saving would seem to point to growing indebtedness and, ultimately, a decline in living standards, as Americans tighten their belts to pay off debts," was the dry way the Federal Reserve Bank of New York put it recently.

Over \$900 billion of those Chinese savings have ended up invested in American government and federal agency bonds. Their investments are our debts. Those investments (and our borrowing) have allowed Americans to continue consuming goods and services far in excess of what we produce and can pay for from our current income. Eventually, a day of reckoning must come when Alaskans and all Americans will be in for some serious belt tightening. During my trip to Asia I'll be looking for clues as to when and how that will happen.

Juneau economic consultant Gregg Erickson is editor-at-large of the Alaska Budget Report, a newsletter covering the state budget and economy. He can be contacted at gerickso@alaska.com.

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