

## Global Views



### Goodman on Bucking the Trend

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#### **Who Wants to Be a Star?**

Aaaand we're back—just in time to watch the world end it seems. But rather than focus on the problems at home we here at Global Views are determine to take a glass half full approach (well, maybe quarter full at best, but still) and look at the rare national success stories. So, Estonia, Poland, Singapore get ready for your day in the sun, as we try to understand why you're awesome, and if you have anything to tell us about our own sorry state.

#### **Show us our Money**

Singapore is not particularly replicable. It is in fact so unique it has a whole system, the Singapore System, named after it. The economy is government run, with roughly 60% of GDP, but friendly to outside investment and business. When the crisis hit in 2008 Singapore reacted swiftly and effectively. In January 2009 they announced a 15 billion dollar stimulus package, which was equivalent to roughly 6 percent of GDP (compare that with the US who's stimulus was only roughly 2 percent). Of course, the fact that Singapore runs a surplus pretty much every year so could spend 6% of GDP without worrying about deficits helped. After getting through 2009, 2010 saw record rebounds as the world economy rebounded

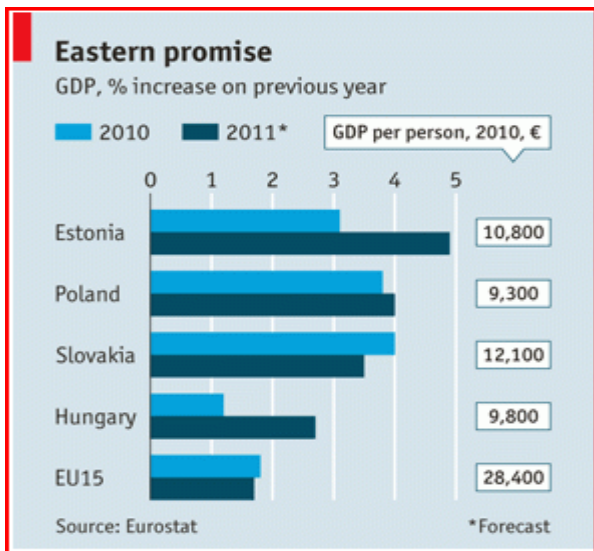
and the export driven economy was back on track by 1<sup>st</sup> quarter 2011, with annualized growth a robust 8.3%

#### **Scrooge McEasternbloc**

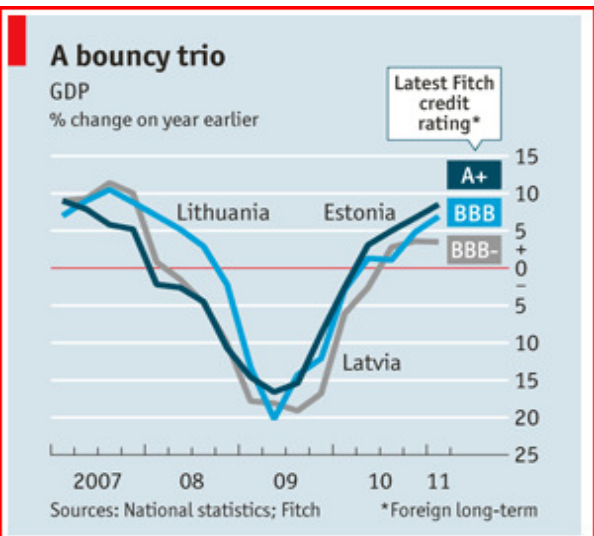
As you can see on the next page, Estonia and Poland rock (although please note because the data source that the Economist used in August to make the chart is Eurostat the degree to which they rock is demarcated in pounds). Poland's economy kept growing right through 2008 and 2009 never dropping below 1.3% growth. Their financial system was well capitalized (a prerequisite of joining the EU, although apparently not of remaining in it as all of Western Europe can attest to), which allowed them to weather the credit crisis and continue lending to a growing business sector. Additionally they were allowed by the EU to run a roughly 6% deficit. And also, because they are not on the Euro, their domestic currency the Zloty, depreciated sharply helping to offset the foreign shock (although they were forced to postpone plans to join the Euro from 2012 to 2015, if the currency somehow still exists by then).

Estonia on the other hand, as the pretty picture from the Economist in July shows below (along with the other Baltics. Latvia and Lithuania) shows was crushed

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in 2009. Their banks were not insulated from what ailed the rest of the world like Poland's. But, unlike the western world they were able to engineer that mythical unicorn like V shaped recovery. How? Well, they embraced austerity whole heartedly. In 2009 the Estonian government cut spending by a whopping 10% of GDP. They had to in order to keep deficits below 3 percent and stay on track to adopt the Euro in 2010. That caused the economy to contract by 14%, and shot unemployment up to almost 20%. But, as quickly as it started the pain turned around. They joined the Euro in 2010 and exports pulled the economy back up, with 2010 unemployment dropping back to 13 percent. With exports up over 50% year over year, and the lowest debt level in the EU (at just over 6%) Estonia is the poster child for austerity.



#### Whatever You Do, Just Do It Already

Singapore, Poland and Estonia all have two crucial things in common. The first is that they had the political ability to implement extreme plans. Singapore ran a deficit for the first time in its history, Poland chose to delay plans to adopt the Euro and sharply devalued the Zloty. And Estonia showed incredible political will power by instituting heart breaking austerity, but came out the other side smelling like a rose. It's worth pondering whether the western world has political actors that can adopt and enforce such extreme policies (on either the spending or savings side). And the second commonality is that all three countries are export driven, which means that the health of their industry is largely predicated on the recovery of demand in American and Western Europe. It wouldn't be Global Views if we didn't tell you that the light at the end of the tunnel might be a train, so here goes. If demand crumbles, and it looks like it is then these success stories may not last. After all, even though these countries and several others like them have done a remarkable job to preserve their ability to create goods, it will all be for naught if there isn't anybody buying.

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