

# The PanamaMundo Newsletter

## Responses to Feedback and Questions about Panama and the Global Economy

"I enjoyed reading your article about Panama and it does, indeed, sound inviting. What is your opinion about what is likely to happen to Panama when the dollar crashes, as every one is predicting? What effect has the declining dollar had on Panama so far?"

Interesting question ....

Many experts have been predicting that the dollar will crash "in the near future", for most of my life.

This is a good way to sell books. Prudence is one matter and fear mongering another.

The reasons for such a "predictable and certain" crash always keep changing.

- Will the Asians stop buying American bonds? Will credit card debt bankrupt the average American?
- Will the personal negative savings

rate sink the ship of state?

- Will the national deficit and debt set off an inflationary spiral?
- Will the derivatives market finally unravel?
- Will the housing bubble pop?
- Will the medical and SS crises in America lead to national bankruptcy and chaos?

In the last 100 years the American stock markets have "crashed" several times (1929, 1987, 2000 etc.) and then recovered.

I cannot recall a time when the "dollar crashed" in say the same manner as the Mexican Peso in 1994 (50%) or the Thai Baht in 1997 or the German currency in the early 1920s through hyper inflation.

Even the recent exchange rate

change of the dollar against the Euro from year 2000 to the present time is fairly dramatic ranging from 80 to 133 and currently at about 120.

This is a fairly wide swing for a 5 year period but there was not a single moment in time when I would have said "ah ... the dollar has finally crashed".

Exchange rates are "self-adjusting" in certain ways such that goods and services priced in Euros become too expensive.

In February 2005, my wife and I had a very ordinary breakfast in a Paris bistro for USD\$38.

For us that was very pricey.

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### Special points of interest:

- *Panama and the Global Economy*
- *The strength of the dollar and implications for Panama.*

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Today most "experts" (the OECD the World Bank Group etc) are predicting a strong global economy for the foreseeable future in spite of a "spike" in gold.

Employment numbers remain strong in the USA at 4.7% and still weak in most major European countries (10%+) except the UK.

The economies of China and India (2 billion + people) remain very robust with continuing high growth rates (10%) that depend to a great extent on American consumers.

This dependency will not encourage monetary moves by these governments to destabilize the dollar or the American economy.

Even China is finally revaluing (albeit slowly). As you may recall, South Korea made a statement a year or so ago that it would limit its dollar reserves ... and then quickly reversed its position 3-4 days later.

Since virtually all major global commodities are still priced in dollars, a "crash" would tend to lessen the cost of these commodities.

I always try to focus of "PPP" or "purchasing power parity" because in monetary matters, everything is relative.

It really boils down to how much of a particular good (or service) you can purchase with one hour of labor (after taxes).

The USA still leads the field by a wide margin internationally.

The interesting thing is that the per capita income, on a PPP basis, in say China is not as far be-

hind that of the USA as most people might imagine because of very low costs in China.

For example, I lived in Thailand for almost a year. The per capita income in Thailand is only about \$5000 (with minimal taxes) but an American couple could live quite well on \$10,000.

In the USA, the average per capita income is about \$43,000. A couple with \$86,000 after taxes, in say NJ (my state), is doing OK but definitely not living "high on the hog".

The difference between the Thai \$5000 and the NJ \$43,000 may look dramatic but it is not. Even in terms of quality of life, medical services available it is not.

All this to say that because of global trade interdependencies, a dollar crash would be a totally "global event" and in a relative sense, an American "consumer" might still be in the same position. Even in Panama.

Certainly the USA would be in a reasonably strong position to "manage" their crash and they would probably obtain more "cooperation" from other countries than one might imagine because of the "self-interest" of these countries.

The Europeans do not like a weak American dollar because it hurts their exports.

Panama also has the Panama Canal which is a highly monopolistic enterprise. There are not two of them and the alternative (sailing

around the tip of South America) is not economic or attractive.

With a dollar crash and subsequent dollar inflation or whatever, Panama could adjust rates for canal transit and the global shipping companies would pay.

The other main businesses of Panama (assembly, banking and insurance) are totally global in scope and they could hedge against a weak American dollar.

Panama is self-sufficient in renewable hydroelectric power. It has "Colon" as the second largest "free port" in the world servicing the global community for assembly purposes and redistribution.

A dollar crash could be easily off-loaded and priced in alternate currencies if needed. Not to say that Panama has had such a record of brilliantly managing its finances. But things are looking better.

A passive income from the USA (Social Security) may decline in purchasing power for an expat, but living in Panama is only 25% of the cost of the USA. There is a very significant "cushion" which is not available if one stayed in the USA when the dollar crashes.



**"From Pillar to Post"**

*"I agree that it is in China's best interest to keep the dollar afloat. I suppose a great deal depends on whether the U. S. is able to sustain the dollar as the currency that oil is traded in. Iran is a threat that apparently is going to be addressed as soon as next month.*

*I disagree however, that most "experts" think that the global economy is fine. Everybody I read is very pessimistic. From what I read, it may not matter where one lives. I hope you are right and "they" are wrong!"*

Good points ....

It is always difficult to know or agree on who the "experts" really are and then what is the real meaning of strong or weak. Sometimes just looking at the global score card is instructive.

I mentioned the OECD in my first response to you. This group represents a reasonable body of global expertise and opinion.

I noticed that Ben Bernanke, our new Fed Chairman gave the message that the American economy is "strong and steady".

The "World Bank Group" and the Bank for International Settlements (BIS) also have a relatively positive spin on things.

There remain many "geopolitical" risks including Iran, North Korea, Palestine etc and I see little chance that these "issues" will dissipate anytime soon but I think of them as relatively "minor" in the global scheme of things.

Other issues will take their place if they are resolved. Issues like

"avian flu" are potentially more serious, in my opinion, for the global economy.

There are some positive glimmers through the global gloom painted by many.

India and China are truly energizing the entire Asian economy with ongoing 10% growth rates into very sophisticated areas of activity including software, pharmaceuticals, high end services, design and development, and sophisticated manufacture.

It was interesting to read that China may soon be purchasing an extremely sophisticated "world class" auto engine plant built in Brazil in 1998 by BMW. This plant will be dismantled piece by piece and shipped to China. Engine production has long been a major source of auto production weakness for the Chinese to date. With this facility, they expect to be exporting "high end" vehicles to the USA by 2008 under \$10,000.

Of course there has been just as much "outsourcing" to the USA by such countries as to the "low cost developing countries" by the developed countries. This is a "two way street" in spite of Lou Dobbs.

The Russian economy has also been booming along at 8-10% growth rates with huge long-term potential because of rich natural resources and a well educated population.

Then there are the many very successful new nation state economies that have joined Europe in recent years including Poland, the Baltics, Hungary, the Checks, Greece etc. Even countries like Turkey are in a high state of growth.

Japan has finally pulled out of its 15 year deflationary cycle. It remains the second richest country in the world with enormous savings and human capital. It will benefit greatly from the Asian rebirth.

Most of the original Asian "tigers" have also kept pace.

In South Africa, a company called Sasol, with \$11 billion in revenues, is generating gasoline from coal without the use of any "oil". This production covers almost 30% of the energy needs for this country AND it produces high profits.

Things could be a lot worse on the global front.



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*PanamaMundo provides a wide variety of information on living and retiring in Panama.*

*More information is available through this monthly newsletter as well as the author's ebooks, hard copy books, and videos.*

*If you have any additional questions do not hesitate to give me a call ...preferably in the evening at 908 298-7784 until our permanent move to Panama in mid 2006.*

**More information at  
[www. PanamaMundo.com](http://www.PanamaMundo.com)**

