As the Dollar Slides, Two Continents Feel the Side Effects in Divergent Ways
Donald Greenless

Anthony del Rosario, who works on an oil tanker that travels between the Middle East and South Korea, is sending home less money to his family in the Philippines. Takeshi Okada, a shoe manufacturer in Japan, is concerned about the possibility of declining export sales.
They have a common worry: The sliding value of the dollar is putting them under increasing financial pressure.

The decline in the buying power of the dollar is, according to economic analysts, only a high-profile symptom of the economic slowdown and credit squeeze in the United States. But for many businesses and workers who once regarded themselves as lucky to be paid in dollars or dollar-linked currencies, the weakening dollar is a sure sign of tougher economic times ahead in Asia.

“The dollar is a very visible financial variable,” said Duncan Wooldridge, chief Asian economist at UBS in Hong Kong. “But the underlying problem is that the U.S. is going to be working through some of the excesses it built up in recent years, and that is just going to mean less demand for Asian exports than we have grown accustomed to.”

The dollar has fallen nearly 12 percent against the yen and 6 percent against the euro this year. On Wednesday, the dollar traded at 100 yen, a bit stronger than recent 13-year lows. One euro was at $1.5815, slightly below a record high.

The real problem for many exporters is a likely United States recession, but the “weak dollar makes those goods more difficult to sell into the U.S. market, so it amplifies the downturn,” Mr. Wooldridge said.

For Misuzu, a maker of women’s shoes based in Tokyo that employs about 175 people, the strength of the yen against the dollar threatens to eat into export sales in Taiwan and China because the shoemaker’s transactions with those countries are conducted in dollars. When those sales are converted back into yen, Misuzu has fewer yen than it would if the dollar were strong.

“I am very concerned about what effect the weaker dollar will have on our overseas sales,” said Mr. Okada, a merchandiser with Misuzu. “It could take a few months before we know, but everything depends on our customers, and we will have to wait and see.”

Deepening Misuzu’s woes is the rising price of crude oil. High oil prices are forcing up the cost of petrochemical products, which make up about 90 percent of the materials used in Misuzu’s line of shoes.

Despite steps to limit price increases to less than a third of the product line and capping them at about 10 percent, Misuzu is likely to be one of many Asian exporters to face declining sales in the coming months.

Economists expect weaker consumer demand in both the United States and Europe to reduce Asian export volumes significantly and slow the pace of regional growth. A forecast by Deutsche Bank that growth in 12 Asian economies will slip to 7.7 percent in 2008, from an average of 9.2 percent in 2007, is typical of the view among private sector economists.

But Michael Spencer, Deutsche Bank’s chief economist for Asia in Hong Kong, said the declining dollar would have little impact on the competitiveness of Asian exporters.

“The dollar is not in itself going to influence exports in Asia,” he said. “The main thing is that real income growth in the U.S. is slowing down.”

Fierce competition among Asian exporters has been forcing them to find production savings and steadily reduce the dollar prices of exports to the United States since 1994, Mr. Spencer said.

This has been particularly true in the computer and electronics sector, which makes up about 40 percent of the region's export volumes. Even with a sharply depreciating dollar, the price of computers and other electronics sold to the United States actually fell by an average of 2.25 percent over the last year, Mr. Spencer said.

Moreover, some big export economies either have their currency closely tied to the dollar, as China does, or have been bucking the trend of currency appreciation against the dollar.

In one week this month, the South Korean won fell about 4 percent, its greatest one-week slide against the dollar since 1998. The weakness in the won has been driven by several factors: foreign investors selling out of the local stock market, Korean companies paying dividends to foreign shareholders, and Korean exporters hedging their currency exposure by buying dollars.

The lower won is good news for big South Korean exporters of semiconductor chips, mobile phones, flat-screen televisions and automobiles like Samsung, LG and Hyundai.

Some economists believe there will be some relief for those hurt by a low dollar before long.

"The story is dollar weakness for another quarter, and then dollar strengthening for the second half of the year," Mr. Spencer said. That could not come too soon for the region's tens of thousands of remittance workers paid in dollars or currencies that are pegged to the dollar.

Mr. Rosario, the tanker crewman, earns $1,300 a month. Of that, Mr. Rosario, 36, sends $800 home to the Philippines to support his parents and three younger brothers and sisters.

A few months ago, he remembers sending back about 50,000 pesos a month. Now his monthly remittances are closer to 34,000 pesos.

"I am lucky because I have a good job," he said. "But our salary is in dollars and does not go up, while the costs of commodities, food, in the Philippines are getting higher. It makes it harder for my family. We save nothing."

Martin Foster contributed reporting from Tokyo and Sang-Hun Choe from Seoul, South Korea.

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