

April 6, 2008

Economic Research:

The Best And The Rest: The 2008 Asia-Pacific Sovereign League

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Table Of Contents

Japan Is Still The Largest Economy, But...

The Haves And The Have-Nots

Growth Story: Speed Bumps Ahead

Inflation To Persist

The Prudent And The Profligate

Skeletons In The Closet

On The External Front

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The Best And The Rest: The 2008 Asia-Pacific Sovereign League

In 2008, Japan will remain the largest economy in Asia-Pacific, although China is fast catching up. Ranked by nominal GDP per capita, Japan is no longer the richest country, overtaken by Australia and Singapore. The fastest growing economies in the region in 2008 will be China and India, driven by strong domestic demand. We also expect inflationary pressures to persist across the region in the coming year. These are some of Standard & Poor's findings in the 2008 Asia-Pacific Sovereign League rankings.

In coming out with ranking lists of Asia-Pacific sovereigns, Standard & Poor's draws statistical data from a variety of national and international sources, such as the International Monetary Fund; our sovereign analysts prepare the estimates and forecasts. This article highlights the key quantitative features and trends of our statistical forecasts for 2008 for the 22 rated sovereigns in the Asia-Pacific region. A commentary on global sovereign rankings titled "Sovereign Risk Indicators: 2008 Outliers," was published on Feb. 8, 2008, on RatingsDirect. In addition, a wider selection of economic and fiscal indicators is available in a report titled "Sovereign Risk Indicators," published on Feb. 5, 2008, and containing global comparative statistics for all sovereigns rated by Standard & Poor's. The "Sovereign Risk Indicators" report is published semiannually.

Japan Is Still The Largest Economy, But...

The size of a country's economy is not a rating factor for sovereigns, although it is an indication of global and regional clout (see "Criteria: Sovereign Credit Ratings: A Primer," published on Oct. 19, 2006, on RatingsDirect). In 2008, Japan will remain the largest economy in the region, although China is fast catching up (see table 1). Globally, China is the third-largest economy after overtaking Germany and the U.K. (see "Sovereign Risk Indicators: 2008 Outliers"). China's sustained high growth, coupled with a nominally appreciating exchange rate, could see the country leapfrogging Japan to be the biggest economy in Asia-Pacific and the second-largest globally (behind the U.S.) within the next five years.

Table 1

Sovereign Risk Indicators--Nominal GDP							
Country	Rating*	Nominal GDP (Bil. US\$)					
		2008	Rank	2007	Rank	2000	Rank
Japan	AA	4,975.8	1	4,355.8	1	4,667.3	1
China	A	3,939.5	2	3,266.5	2	1,198.3	2
India	BBB-	1,408.0	3	1,124.6	3	460.1	4
Korea	A	992.0	4	954.6	4	511.7	3
Australia	AAA	948.2	5	877.5	5	403.2	5
Indonesia	BB-	465.4	6	411.4	6	158.6	8
Taiwan	AA-	401.4	7	377.3	7	321.1	6
Thailand	BBB+	268.6	8	241.6	8	122.7	9
Hong Kong	AA	207.2	9	198.8	9	168.8	7
Malaysia	A-	201.6	10	178.6	10	90.3	11

Table 1

Sovereign Risk Indicators--Nominal GDP(cont.)							
Singapore	AAA	182.4	11	158.8	11	92.9	10
Philippines	BB-	163.9	12	141.6	13	75.9	12
Pakistan	B+	163.7	13	143.8	12	73.3	13
New Zealand	AA+	114.7	14	112.4	14	52.4	14
Kazakhstan	BBB-	108.4	15	92.7	15	18.3	16
Vietnam	BB	80.9	16	71.1	16	31.2	15
Sri Lanka	B+	31.1	17	29.8	17	16.3	17
Cambodia	B+	8.4	18	7.7	18	3.7	18
Papua New Guinea	B+	6.5	19	6.1	19	3.3	19
Mongolia	BB-	5.0	20	4.2	20	1.2	21
Fiji	B	3.5	21	3.3	21	1.7	20
Cook Islands	BB	0.2	22	0.2	22	0.1	22

*Long-term foreign currency rating as of March xx, 2008.

The Haves And The Have-Nots

In terms of GDP per capita, we expect Australia, Singapore, and Japan to continue leading the pack, with Hong Kong again out of the top three (see table 2). Hong Kong's ranking has suffered of late due to the Hong Kong dollar's peg to a weakened U.S. dollar. Japan's per capita wealth, which during the early 1990s was among the highest in the world, is now close to the average among members of the Organization for Economic Cooperation and Development. And, although the Japanese economy has emerged from its protracted recession, Australia and Singapore have since overtaken Japan in terms of per capita GDP in the Asia-Pacific sovereign league.

No countries from the Asia-Pacific region feature among the global top 10 in terms of per capita GDP. However, at the other end of the spectrum, three Asian countries rank among the poorest 10--Cambodia, Vietnam, and Pakistan--with the rest from the African continent.

Table 2

Sovereign Risk Indicators--GDP Per Capita							
Country	Rating*	GDP per capita (US\$)					
		2008	Rank	2007	Rank	2000	Rank
Australia	AAA	45,025	1	42,166	1	21,057	4
Singapore	AAA	38,976	2	34,663	2	23,060	3
Japan	AA	38,953	3	34,091	3	36,802	1
Hong Kong	AA	29,596	4	28,610	4	25,153	2
New Zealand	AA+	27,182	5	26,893	5	13,567	6
Korea	A	20,391	6	19,685	6	10,884	7
Taiwan	AA-	17,465	7	16,460	8	14,413	5
Cook Islands	BB	17,005	8	16,579	7	5,179	8
Malaysia	A-	7,026	9	6,374	9	3,927	9
Kazakhstan	BBB-	6,986	10	6,032	10	1,229	12
Thailand	BBB+	4,219	11	3,821	11	1,984	11

Table 2

Sovereign Risk Indicators--GDP Per Capita(cont.)							
Fiji	B	3,976	12	3,790	12	2,071	10
China	A	2,963	13	2,471	13	945	14
Indonesia	BB-	2,000	14	1,793	14	758	16
Mongolia	BB-	1,899	15	1,588	16	466	19
Philippines	BB-	1,812	16	1,596	15	987	13
Sri Lanka	B+	1,528	17	1,482	17	884	15
India	BBB-	1,213	18	985	19	452	20
Papua New Guinea	B+	1,031	19	996	18	624	17
Pakistan	B+	1,002	20	899	20	524	18
Vietnam	BB	939	21	835	21	402	21
Cambodia	B+	562	22	523	22	288	22

*Long-term foreign currency rating as of March xx, 2008.

Growth Story: Speed Bumps Ahead

In 2008, China will again be the fastest-growing economy in Asia Pacific (see table 3). After five straight years of scorching double-digit growth, the expansion of the Chinese economy could finally ease to a single-digit rate (see "For China's Economy In 2008, Half-Steam Ahead Is Still Plenty Quick," published on RatingsDirect on Feb. 27, 2008). We also expect the Indian growth story to continue, with the country at number two in the regional league. In the global growth ranking, dominated by resource-rich nations benefiting from high commodity prices, China and India are still among the top 10 fastest-growing economies. Strong domestic demand is likely to support their economic performances even if demand from the U.S. and Europe weakens.

We expect regional growth dynamics to be less robust in 2008, with an unweighted average growth rate among rated sovereigns of about 5.0%, compared with 5.8% in 2007 and a record 6.6% in 2004. A slowdown in the U.S. economy and tight global credit conditions will hit the Asia-Pacific region in several ways (see "Asia-Pacific Sovereigns Brace Themselves for Headwinds from U.S.," RatingsDirect, Jan. 28, 2008):

- The region, more than any other, relies on exports for growth, with a large portion going to the U.S. A U.S. recession, coupled with a weakened U.S. dollar, will lower demand for exports from Asia.
- Inbound foreign direct investment (FDI) flows are an important source of external liquidity, especially for lower- to medium-income economies such as Pakistan and Cambodia. FDI inflows help finance current account deficits for many countries in the region, and a U.S. slowdown is likely to affect FDI flows to Asia.
- A global credit crunch could have a negative impact on fund flows to regional debt and equity markets. Such inflows are instrumental in covering current account deficits and a drying up of portfolio inflows would add more to the deficits.

Mitigating these concerns, we expect stronger domestic demand and intraregional trade to substantially counter the ill effects of a weaker U.S. import demand. In addition, the combination of a declining U.S. dollar with prevailing high domestic yields in the region makes for an attractive carry trade that may limit the extent of portfolio withdrawals and thus the negative fallout for external liquidity.

Generally, Asia Pacific is now better prepared to withstand less favorable global conditions; on that note, we don't

expect any rated sovereign--in the region or globally--to see an economic contraction in real terms in 2008 (see "Why The Global Economy Should Be Able To Endure The U.S. Slowdown," published on Feb. 28, 2008, on RatingsDirect).

Table 3

Sovereign Risk Indicators--Real GDP							
Country	Rating*	Real GDP (% change)					
		2008	Rank	2007	Rank	2006	Rank
China	A	9.3	1	11.4	1	7.6	7
India	BBB-	8.1	2	8.5	4	4.4	15
Cambodia	B+	7.8	3	8.5	6	N.A.	-
Vietnam	BB	7.8	4	8.5	5	7.1	8
Mongolia	BB-	7.5	5	9.0	2	1.1	21
Pakistan	B+	6.2	6	7.1	9	3.9	17
Sri Lanka	B+	6.0	7	6.7	10	6.0	9
Indonesia	BB-	6.0	7	6.3	11	4.9	13
Philippines	BB-	6.0	9	7.3	8	5.9	10
Malaysia	A-	5.7	10	6.0	13	8.9	4
Singapore	AAA	5.5	11	7.5	7	10.0	1
Kazakhstan	BBB-	5.0	12	8.7	3	9.6	3
Korea	A	4.8	13	4.5	16	8.5	5
Hong Kong	AA	4.2	14	6.3	11	10.0	2
Thailand	BBB+	4.1	15	4.4	17	4.8	14
Papua New Guinea	B+	4.0	16	5.2	14	3.2	19
Taiwan	AA-	4.0	17	4.6	15	5.8	11
Australia	AAA	3.2	18	3.9	18	4.0	16
Cook Islands	BB	3.0	19	1.7	20	8.4	6
New Zealand	AA+	2.0	20	3.0	19	5.3	12
Fiji	B	1.9	21	(4.0)	22	3.5	18
Japan	AA	1.6	22	1.5	21	2.9	20

*Long-term foreign currency rating as of March xx, 2008. N.A.--Not available.

Inflation To Persist

Inflation across the Asia-Pacific region is likely to remain high by recent standards (see "Inflation Poses Challenges And Opportunities For Central Banks In Developing Asia," published on RatingsDirect, on Feb. 14, 2008). Driven by a demand-side oil shock, escalating food prices, and China's unwavering appetite for commodities, even countries like Singapore--with historical inflation rates of about 1%--are expected to tip the 5% mark for the first time (see table 4).

Topping the league is once again Sri Lanka, which has the dubious honor of harboring the highest inflation among Asia-Pacific sovereigns for three years running. The country has experienced double-digit inflation since 2005, in part due to exogenous global factors but also brought about by a loose monetary policy stance that resulted in negative real interest rates fueling high credit growth. Excessive currency printing to monetize the fiscal deficit also

added to inflationary pressures. Incidentally, in 2007 the Sri Lankan government registered the worst fiscal deficit in the region, and we expect it to do so again in 2008 (see table 5).

Table 4

Sovereign Risk Indicators--Inflation							
Country	Rating*	Inflation (% change)					
		2008	Rank	2007	Rank	2000	Rank
Sri Lanka	B+	15.5	1	20.0	1	6.6	3
Kazakhstan	BBB-	9.8	2	10.7	2	13.2	1
Indonesia	BB-	9.0	3	6.4	6	3.7	6
Vietnam	BB	8.0	4	8.3	3	(1.7)	17
Pakistan	B+	8.0	5	7.8	4	3.6	7
Mongolia	BB-	7.0	6	7.5	5	6.3	4
Singapore	AAA	5.0	7	2.1	17	1.3	15
India	BBB-	4.5	8	5.0	8	3.7	5
Papua New Guinea	B+	4.5	9	4.8	10	N.A.	-
Fiji	B	4.5	10	5.5	7	N.A.	-
China	A	4.4	11	4.8	9	N.A.	-
Malaysia	A-	4.0	12	2.0	20	1.5	13
Philippines	BB-	3.5	13	3.0	12	7.1	2
Hong Kong	AA	3.4	14	2.0	19	(3.7)	18
Cambodia	B+	3.3	15	3.4	11	N.A.	-
Korea	A	3.2	16	2.9	13	2.2	10
Australia	AAA	3.1	17	2.3	15	2.4	9
New Zealand	AA+	2.8	18	2.3	14	2.0	11
Thailand	BBB+	2.5	19	2.3	16	1.7	12
Cook Islands	BB	2.0	20	2.1	18	3.1	8
Taiwan	AA-	1.5	21	1.5	21	1.3	14
Japan	AA	0.1	22	0.2	22	(0.8)	16

*Long-term foreign currency rating as of March xx, 2008. N.A.--Not available.

The Prudent And The Profligate

On the fiscal front, Singapore tops the regional ranking with a fiscal surplus of 7.5% of GDP expected in 2008 (see table 5). The island republic's fiscal prudence is further accentuated by being the only non-oil or commodity-producing nation in the top 10 global ranking, a league dominated by oil-rich Middle-Eastern states. Oil and gas exporter Kazakhstan is another notable performer in Asia-Pacific. Unsurprisingly, both countries are among the top three largest net creditors in the region, along with Hong Kong (see table 6).

Table 5

Sovereign Risk Indicators--Fiscal Balance/GDP (%)							
Country	Rating*	Fiscal balance/GDP (%)					
		2008	Rank	2007	Rank	2000	Rank
Singapore	AAA	7.5	1	9.0	1	9.7	1

Table 5

Sovereign Risk Indicators--Fiscal Balance/GDP (%)(cont.)							
Kazakhstan	BBB-	7.1	2	7.3	2	(0.3)	5
Papua New Guinea	B+	2.3	3	1.3	6	(2.6)	11
Korea	A	2.1	4	1.7	4	0.5	4
Thailand	BBB+	0.8	5	0.5	8	(2.2)	9
Australia	AAA	0.6	6	0.7	7	2.1	3
Cook Islands	BB	0.4	7	2.5	3	3.2	2
Hong Kong	AA	0.2	8	1.5	5	(0.6)	6
China	A	(0.4)	9	(0.4)	11	(4.2)	15
Taiwan	AA-	(0.7)	10	(1.1)	13	(3.9)	13
Philippines	BB-	(0.7)	11	(1.4)	15	(3.9)	14
Mongolia	BB-	(0.9)	12	(0.7)	12	(6.4)	19
Cambodia	B+	(1.4)	13	(2.0)	16	(2.3)	10
New Zealand	AA+	(1.6)	14	(0.1)	10	(1.3)	8
Indonesia	BB-	(1.9)	15	(1.2)	14	(1.1)	7
Fiji	B	(2.0)	16	0.4	9	(3.7)	12
Malaysia	A-	(3.3)	17	(3.5)	17	(4.5)	16
Japan	AA	(3.9)	18	(4.1)	19	(6.8)	20
Pakistan	B+	(4.1)	19	(3.9)	18	(4.6)	17
Vietnam	BB	(4.6)	20	(4.4)	20	(5.2)	18
India	BBB-	(5.9)	21	(6.1)	21	(9.6)	22
Sri Lanka	B+	(6.4)	22	(6.8)	22	(9.5)	21

*Long-term foreign currency rating as of March xx, 2008.

Table 6

Sovereign Risk Indicators--Net General Government Debt/GDP							
Country	Rating*	Net general government debt/GDP (%)					
		2008	Rank	2007	Rank	2000	Rank
Sri Lanka	B+	81.0	1	83.7	1	95.4	2
Japan	AA	77.6	2	77.9	2	55.6	10
India	BBB-	71.6	3	74.5	3	71.7	5
Fiji	B	50.6	4	52.6	5	37.8	11
Pakistan	B+	50.1	5	53.8	4	88.7	3
Philippines	BB-	39.3	6	43.5	6	58.9	8
Indonesia	BB-	38.2	7	41.0	7	97.2	1
Malaysia	A-	37.3	8	36.9	8	23.1	16
Vietnam	BB	34.2	9	32.7	10	28.2	14
Taiwan	AA-	33.5	10	34.0	9	24.6	15
Korea	A	32.2	11	32.3	11	22.5	17
Papua New Guinea	B+	30.6	12	32.2	12	62.8	7
Cambodia	B+	28.1	13	28.7	13	57.0	9
China	A	18.3	14	17.0	16	37.7	12
Mongolia	BB-	18.3	15	22.3	14	75.7	4

Table 6

Sovereign Risk Indicators--Net General Government Debt/GDP(cont.)							
Thailand	BBB+	17.9	16	18.6	15	32.6	13
Cook Islands	BB	9.4	17	10.0	17	64.4	6
New Zealand	AA+	6.2	18	2.6	18	7.5	20
Australia	AAA	(3.8)	19	(3.2)	19	9.0	19
Kazakhstan	BBB-	(18.7)	20	(13.2)	20	20.5	18
Hong Kong	AA	(23.1)	21	(21.4)	21	(32.0)	21
Singapore	AAA	(111.8)	22	(101.8)	22	(119.1)	22

*Long-term foreign currency rating as of March xx, 2008.

On the other end of the spectrum, Sri Lanka overtook Japan as the biggest net debtor in the region in 2007. Mostly due to high inflation accelerating the country's nominal GDP, we expect a modest improvement in Sri Lanka's debt ratio in 2008. Yet, gross nominal debt is likely to increase and Sri Lanka should retain the bottom place in 2008. Notably, Sri Lanka and Japan feature among the most indebted governments globally. Japan alone accounts for approximately 77% of the region's total gross debt stock (see "Downward Trend In Asia-Pacific Sovereign Debt Issuances To Continue In 2008," published on RatingsDirect on Jan. 29, 2008). Although Japan's net government debt has risen substantially this decade, we expect gross debt issuance to decline in 2008 on the back of fiscal consolidation and smaller refinancing needs.

Skeletons In The Closet

One indicator of a sovereign's credit risk is the potential contingent liabilities arising from its financial sector; countries with large financial sectors and high levels of problematic loans would therefore pose the greatest contingent risks to their governments. The top three ranking in Asia Pacific--China, Thailand, and Taiwan--remains unchanged from 2007 (see table 7). As a socialist economy, state-owned commercial banks, which are often inefficient and unprofitable, dominate China's financial sector. We estimate that China's contingent liabilities have declined markedly in recent years alongside the ongoing structural reforms in its financial sector. However, it should be noted that our estimation of China's contingent liabilities errs on the conservative side due to disclosure issues in the banking sector (see "S&P's Banking Industry Country Risk Assessments: Global Annual Roundup," published on Aug. 9, 2007, on RatingsDirect).

Conversely, governments with the smallest contingent fiscal risks, such as Cambodia and Papua New Guinea, usually have undeveloped banking sectors.

Table 7

Sovereign Risk Indicators--Financial Sector Contingent Liabilities/GDP							
Country	Rating*	Financial sector contingent liabilities/GDP (%)					
		2008	Rank	2007	Rank	2000	Rank
China	A	55.9	1	56.5	1	78.6	1
Thailand	BBB+	43.5	2	44.5	2	61.6	3
Taiwan	AA-	40.6	3	42.3	3	41.1	6
Japan	AA	40.2	4	40.3	4	70.9	2
Malaysia	A-	35.3	5	35.8	5	59.7	4
Vietnam	BB	34.6	6	34.4	6	24.7	8

Table 7

Sovereign Risk Indicators--Financial Sector Contingent Liabilities/GDP(cont.)							
New Zealand	AA+	34.3	7	31.8	8	22.0	11
Kazakhstan	BBB-	31.2	8	33.0	7	3.4	21
Korea	A	30.6	9	29.8	9	52.7	5
Mongolia	BB-	26.6	10	24.7	10	5.1	20
Australia	AAA	22.8	11	22.8	11	17.7	12
Hong Kong	AA	22.3	12	22.3	12	30.6	7
India	BBB-	21.0	13	20.5	13	22.9	10
Singapore	AAA	19.1	14	19.2	14	24.2	9
Fiji	B	18.9	15	19.1	15	14.3	16
Sri Lanka	B+	18.5	16	18.0	16	17.5	13
Cook Islands	BB	15.6	17	15.6	17	8.1	19
Pakistan	B+	13.9	18	14.1	18	15.8	14
Philippines	BB-	13.6	19	13.6	19	14.0	17
Indonesia	BB-	12.7	20	12.7	20	14.5	15
Papua New Guinea	B+	10.3	21	9.0	21	9.7	18
Cambodia	B+	4.2	22	4.0	22	2.6	22

*Long-term foreign currency rating as of March xx, 2008.

On The External Front

More than half of the countries in Asia Pacific run current account surpluses, reflecting the export-oriented nature of most economies in the region (see table 8). The remainder, in particular New Zealand and Australia, persistently run high current account deficits that expose them to the risk of a sudden downturn in investor confidence or rapid declines in their currencies. Fiji's huge current account deficit--the largest in the region and the third-largest globally--continues to put pressure on its currency and foreign exchange reserves.

Table 8

Sovereign Risk Indicators--Current Account Balance/GDP							
Country	Rating*	Current account balance/GDP (%)					
		2008	Rank	2007	Rank	2000	Rank
Singapore	AAA	28.3	1	25.1	1	11.53	1
Cook Islands	BB-	14.3	2	13.8	3	11.23	2
Malaysia	A-	13.2	3	18.0	2	9.40	4
Hong Kong	AA	9.5	4	11.9	4	4.14	7
China	A	9.4	5	10.2	5	1.71	13
Papua New Guinea	B	8.6	6	8.1	6	10.38	3
Taiwan	AA-	7.9	7	7.4	7	2.77	9
Japan	AA-	5.3	8	4.7	8	2.53	10
Thailand	BBB+	3.9	9	3.4	10	7.60	5
Philippines	BB-	3.9	10	4.2	9	(2.93)	16
Indonesia	BB-	1.6	11	2.6	11	(0.39)	14
Mongolia	B	0.1	12	1.9	12	(4.73)	18

Table 8

Sovereign Risk Indicators--Current Account Balance/GDP(cont.)							
Korea	A	(0.6)	13	0.1	13	2.40	11
India	BB+	(2.1)	14	(2.2)	14	5.05	6
Sri Lanka	B+	(2.9)	15	(3.4)	15	(6.39)	22
Vietnam	BB	(4.1)	16	(4.6)	16	3.08	8
Pakistan	B+	(5.0)	17	(5.1)	17	(2.53)	15
Australia	AAA	(5.0)	18	(5.9)	19	(5.06)	19
Cambodia	B+	(5.6)	19	(5.3)	18	(3.75)	17
Kazakhstan	BBB	(5.7)	20	(6.4)	20	2.00	12
New Zealand	AA+	(7.8)	21	(8.7)	21	(5.12)	20
Fiji	B+	(21.2)	22	(22.8)	22	(5.69)	21

*Long-term foreign currency rating as of March xx, 2008.

Singapore remains one of the most attractive business destinations in Asia Pacific for foreign investors due to its stable policy environment and world-class infrastructure (see table 9). Conversely, Japanese businesses, in an already highly industrialized economy, will continue to seek expansionary opportunities by making large direct investments abroad in 2008. Taiwan, sharing the bottom of the table with Japan, is a different story. Uneasy cross-straits relationship and economic isolation from China contribute to a weak investment climate.

Table 9

Sovereign Risk Indicators--Net Foreign Direct Investment/GDP							
Country	Rating*	Net foreign direct investment/GDP (%)					
		2008¶	Rank	2007¶	Rank	2000¶	Rank
Singapore	AAA	10.0	1	12.5	1	11.4	1
Cambodia	B+	5.6	2	5.6	2	3.9	6
Vietnam	BB	4.3	3	4.9	3	4.2	5
Kazakhstan	BBB-	4.1	4	4.8	5	7.0	2
Mongolia	BB-	4.0	5	4.8	4	4.7	4
Pakistan	B+	3.0	6	3.5	7	0.7	17
Fiji	B	2.6	7	2.8	10	(0.9)	21
China	A	2.3	8	2.9	9	3.1	7
Thailand	BBB+	2.1	9	3.1	8	2.8	10
India	BBB-	2.0	10	2.2	11	1.3	14
Philippines	BB-	1.6	11	1.7	12	2.8	9
Papua New Guinea	B+	1.5	12	1.6	13	2.9	8
New Zealand	AA+	1.5	13	4.2	6	6.1	3
Sri Lanka	B+	1.0	14	1.0	14	1.1	15
Malaysia	A-	0.6	15	0.7	16	2.0	11
Hong Kong	AA	0.3	16	(0.3)	19	1.5	12
Indonesia	BB-	0.3	17	1.0	15	(1.9)	22
Cook Islands	BB	0.0	18	0.0	18	0.0	18
Korea	A	(0.1)	19	(0.6)	20	0.8	16
Australia	AAA	(0.7)	20	(0.7)	21	1.5	12
Taiwan	AA-	(0.8)	21	0.3	17	(0.6)	20

Table 9

Sovereign Risk Indicators--Net Foreign Direct Investment/GDP(cont.)							
Japan	AA	(1.0)	22	(0.9)	22	(0.5)	19

*Long-term foreign currency rating as of March xx, 2008. ¶Negative number indicates net outflow of foreign direct investment.

About half of the Asia-Pacific sovereigns have public and private sector external liquid assets greater than their total external debt including nonresident deposits (see table 10). Among the best-ranked countries, China and Taiwan have seen their external position relative to current account receipts improve substantially since 2000. On the other hand, the largest external debtors in the region, Australia and New Zealand, are industrialized countries with deep capital markets that continue to offer attractive investment opportunities to foreigners.

Table 10

Sovereign Risk Indicators--Narrow Net External Debt*/Current Account Receipts							
Country	Rating¶	Narrow net external debt*/Current account receipts (%)					
		2008§	Rank	2007§	Rank	2000§	Rank
New Zealand	AA+	329.0	1	330.3	1	219.9	2
Australia	AAA	264.8	2	271.6	2	195.7	3
Sri Lanka	B+	69.1	3	79.9	3	92.9	7
Pakistan	B+	58.2	4	60.5	4	266.4	1
Indonesia	BB-	43.8	5	51.6	5	168.1	4
Fiji	B	38.0	6	36.2	6	9.3	15
Cook Islands	BB	27.3	7	29.7	7	72.9	9
Korea	A	14.9	8	5.7	10	1.7	17
Philippines	BB-	11.7	9	22.8	8	65.0	10
Cambodia	B+	5.7	10	8.1	9	61.6	11
Kazakhstan	BBB-	1.0	11	4.9	11	136.3	6
Vietnam	BB	(2.8)	12	(2.6)	12	12.9	14
Mongolia	BB-	(4.8)	13	(3.0)	13	77.0	8
Papua New Guinea	B+	(9.1)	14	(3.6)	14	158.9	5
India	BBB-	(16.0)	15	(19.6)	15	49.5	12
Malaysia	A-	(36.5)	16	(32.2)	17	3.0	16
Thailand	BBB+	(37.5)	17	(31.5)	16	33.6	13
Hong Kong	AA	(55.5)	18	(58.9)	18	(65.6)	20
Japan	AA	(55.9)	19	(74.0)	19	(34.3)	18
Singapore	AAA	(79.1)	20	(74.4)	20	(92.4)	22
Taiwan	AA-	(80.1)	21	(84.0)	21	(66.4)	21
China	A	(100.1)	22	(95.4)	22	(44.3)	19

*External debt net of liquid assets. ¶Long-term foreign currency rating as of March xx, 2008. §Negative number indicates external creditor position.

There is a declining trend in external public sector debt across the region (see table 11). This is not unlike the global trend whereby governments are relying less on external funding and increasing funding from domestic debt markets. In Asia-Pacific, much of the public external debt (such as in Pakistan, Sri Lanka, and Mongolia) is made up of concessional multi-bilateral loans with low servicing costs. In addition, recent U.S. and Russian debt forgiveness has reduced the external public debts of Pakistan and Mongolia, respectively.

Table 11

Sovereign Risk Indicators--Gross Public Sector External Debt/Current Account Receipts							
Gross public sector external debt/Current account receipts (%)							
Country	Rating*	2008	Rank	2007	Rank	2000	Rank
Pakistan	B+	108.7	1	113.3	1	256.7	1
Sri Lanka	B+	94.1	2	105.0	2	106.2	4
Indonesia	BB-	57.0	3	61.2	3	135.4	2
Mongolia	BB-	45.1	4	49.9	4	107.8	3
Philippines	BB-	45.1	4	49.5	5	68.3	7
Cambodia	B+	39.5	6	41.2	8	93.0	5
Japan	AA	39.3	7	45.6	6	38.5	15
New Zealand	AA+	35.2	8	43.0	7	39.9	13
Australia	AAA	31.2	9	37.2	9	42.0	11
Cook Islands	BB	27.3	10	29.7	11	72.9	6
Vietnam	BB	25.1	11	29.7	10	48.7	10
Papua New Guinea	B+	22.0	12	24.0	12	57.6	8
India	BBB-	17.9	13	20.2	13	57.2	9
Fiji	B	17.8	14	15.7	14	8.1	20
Kazakhstan	BBB-	9.6	15	10.7	15	40.4	12
Malaysia	A-	8.4	16	9.3	16	17.9	17
Korea	A	7.1	17	7.2	17	14.6	19
Thailand	BBB+	6.5	18	7.0	18	39.2	14
China	A	2.1	19	2.4	19	16.4	18
Taiwan	AA-	1.5	20	1.1	20	0.0	22
Hong Kong	AA	0.3	21	0.3	21	0.9	21
Singapore	AAA	0.0	22	0.0	22	0.0	23

*Long-term foreign currency rating as of March xx, 2008.

The above indicators are among the quantitative measures that we examine in determining sovereign ratings. However, the rating process is both qualitative and quantitative, making ratings and statistics appear to diverge in some cases. This reflects the fact that the sovereign ratings process focuses partly on the degree to which economic policies are appropriate to the country's politics, institutions, and stage of development. It is important to note that our sovereign ratings are forward-looking and rest heavily upon potential political and policy developments (see "Politics And Policy Environment: Credit Constraint For Many, Support For A Select Few In Asia-Pacific," published on RatingsDirect on Feb. 17, 2008).

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