

The move to a new equilibrium

Economic perspective

24th May 2011

Time away from the office, in a different part of the world, gives a fresh perspective, particularly when it is related to something as momentous as a wedding and honeymoon. I would like to share this perspective over the next week or so. I will aim to write a series of pieces on my thoughts about the global economic environment and identify those issues worth watching over the next 12 to 18 months.

I think it's important to put the events surrounding the collapse of Lehman Brothers into a broader context. For some, there's a belief that the worst crisis of most people's lifetime is never to be repeated and that no matter how slow the recovery, at least we'll never go back. I am not so sure. We may not have as significant a financial crisis but I think it is likely that substantial upheaval in other spheres is likely as the world shifts towards a new global equilibrium. The world defined by western powers and industrialised might has ended and a new global framework is required to reflect geo-political, technological and economic change. This new framework must accommodate the rise of China and, as discussed in *Lilies in the field*, a more disaggregated domestic and global economy. The framework must be financial, economic and, also, political.

Economic crises seem unavoidable. I don't think the global economy is fixed. The post-crisis solution has acted as a band-aid. It has provided short-term adrenalin but little in the way of long-term fix. Indeed, it is potentially making the transition to a new equilibrium more difficult and painful by re-tracing steps, particularly in the area of manufacturing. But at the heart of the current disequilibrium is politics. The traditional political framework as defined by the left and the right is incapable of solving the world's economic and financial problems, largely because contemporary politics itself is mired in the post-World War 2 framework.

The first post will address the political change that I believe is currently occurring. In particular, I think it is important to think more deeply about movements like the Tea Party, True Finns in Finland, and the current street protests in Spain, even indeed, more seriously at movements such as the National Front in France. Discounting these movements on the basis of certain personalities and policies misses the broader reasons for the existence of these movements.

Further posts will then discuss the economic and financial market outlook by region, specifically the Euro-zone Crisis, the costs of manufacturing growth in the US and a comparison between Japan in 1989 and China today.

P.S. This perspective says nothing for my personal demeanour, which is overwhelmingly joyous. I could not be happier.

For further information

| | | | |
|-------------------|---|-----------------|--------------------------------------|
| Stephen Halmarick | Head of Investment Markets Research | +61 2 9303 3030 | shalmarick@colonialfirststate.com.au |
| Belinda Allen | Senior Analyst, Investment Markets Research | +61 2 9303 3110 | ballen@colonialfirststate.com.au |
| James White | Senior Analyst, Investment Markets Research | +61 2 9303 2645 | jwhite@colonialfirststate.com.au |

For further information

Regional Managing Director, Australia and New Zealand

Joanna Davison +61 2 9303 7007

Institutional Business Development and Consultant Relationships

Matt Russell +61 2 9303 7024

Ali Karmali +61 2 9303 6070

Tracey McNaughton +61 2 9303 2695

Trent Koch + 61 2 9303 7653

Institutional Relationship Management

Liz Krajewski +61 2 9303 2927

Dan Bristow +61 2 9303 6311

Helen Squadrito +61 2 9303 6142

Hugh O'Neill +61 2 9303 6116

Simon Good +61 3 8628 5681

Harry Moore +613 8618 5532

Nadene Moore +61 3 8628 5615

Disclaimer

Product Disclosure Statements (PDS) and Information Memoranda (IM) for the funds issued by Colonial First State Investments Limited ABN 98 002 348 352, Commonwealth Managed Investments Limited ABN 33 084 098 180, and CFS Managed Property Limited ABN 13 006 464 428 (collectively CFS) are available from Colonial First State Global Asset Management. Investors should consider the relevant PDS or IM before making an investment decision. Past performance should not be taken as an indication of future performance.

No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of Colonial First State Asset Management (Australia) Limited ABN 89 114 194 311 (CFSAMAL). This material contains or is based upon information that we believe to be accurate and reliable. While every effort has been made to ensure its accuracy, none of CFS or CFSAMAL offers any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.

This material has been prepared for the general information of clients and professional associates of CFS and CFSAMAL. You should not rely on the contents. To the fullest extent allowed by law, CFS and CFSAMAL exclude all liability (whether arising in contract, from negligence or otherwise) in respect of all and each part of the material, including without limitation, any errors or omissions.

This material is intended only to provide a summary of the subject matter covered. It does not purport to be comprehensive or to render specific advice. It is not an offer document, and does not constitute a recommendation of any securities offered by any of CFS or CFSAMAL. No person should act on the basis of any matter contained in this material without obtaining specific professional advice. Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124.

Copyright © Colonial First State Group Limited 2011

All rights reserved.