



Seven  
Investment Management

## For whom Dagong tolls. It tolls for thee.

John Donne's famous words, which I have corrupted in search of a neat pun, came from the No Man is an Island prose (and the subsequent poem). They contain apposite sentiments today, in light of a recent story from China.

A credit rating agency in China – Dagong Global Credit Rating – has published its first credit ratings on global sovereign debt (it's better known in China for rating companies and their bonds).

It's interesting because it has failed to give the highest ratings (AAA) to the US, the UK, Germany and France. It has effectively accused western rating agencies like Standard & Poor's, Moody's and Fitch of an ideological bias in favour of the west, and gives greater weight to 'wealth creating' ability and foreign exchange reserves.

As a result, the few countries to attain AAA status are Norway, Denmark, Switzerland, Singapore, Australia and New Zealand. Dagong rates China and Germany at AA+ alongside Canada and the Netherlands. Then comes the US at AA, followed by the UK and France at AA-.

So who's right? Are western ratings agencies biased towards our own; especially given the parlous state of finances in some western economies? And is Dagong right to place greater emphasis on the greater growth potential in Asia? These might seem reasonable assumptions.

In defence of the status quo, however, western agencies place a value on long-established rule of law and resilient government institutions; the UK having never defaulted on its debt obligations goes in its favour, while the Asian crisis of 1998 is still etched in our memories. In addition, it is argued that Dagong's methodology rests on extrapolating past economic performance into the future. That's potentially risky as growth rates do change over time; a comparison of Japan in the 1970s/1980s and Japan in the 1990s/2000s bears this out.

Dagong's work is certainly interesting perspective on the world we live in at the moment. It reminds us of the dangers of inward thinking and ignoring the prospect of change; as Donne's words suggest, we are all interconnected and that we rise and fall together. But still, perhaps it's too soon to be saying the bell will toll for the west anytime soon.

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