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Economic Troubles in Europe and U.S. Start to Affect Asia

By BETTINA WASSENER

HONG KONG — An interest rate cut in Australia and lowered economic growth estimates by the Asian Development Bank on Tuesday highlighted the extent to which the economic woes of Europe and the United States are spilling into the Asia-Pacific region.

Economic growth in much of Asia remains robust, the Asian Development Bank said. But trade and financial activity have already started to be eroded by the turmoil in Europe, and they risk being undermined further if the European debt crisis evolves into a full-blown financial and economic crisis like the one spurred by the collapse of Lehman Brothers in September 2008.

“Things are changing very rapidly — not just weekly and daily, but hourly,” Iwan J. Azis, head of the development bank’s office of regional economic integration, said at a news conference in Hong Kong, as he presented the bank’s latest update on emerging East Asian nations.

The bank lowered its 2012 growth forecast for the emerging East Asia region — which includes China and much of Southeast Asia, but not India and Japan — to 7.2 percent, from a previous estimate of 7.5 percent.

It also cautioned that growth could be as low as 5.4 percent if the West’s troubles escalated and tipped the United States and Europe back into recession.

Hopes of at least a modest upturn in the United States have risen after some better-than-expected manufacturing and job data in recent weeks, though unemployment remains stubbornly high.

The outlook for Europe, however, is grim, as austerity budgets and tighter lending by beleaguered banks constrain growth. Analysts at Nomura, for instance, said they expected the euro zone to contract 1 percent next year.

Top European policy makers are to assemble in Brussels on Thursday and Friday to fashion a solution to the region’s sovereign debt woes. Over the last weeks, the crisis has spilled beyond small peripheral euro zone nations and begun to undermine investors’ confidence in larger economies like Italy and even France.

The rapid deterioration has prompted a succession of support measures from international financial institutions in recent weeks. The European Central Bank lowered interest rates last month and is widely expected to do so again on Thursday.

In another bid to restore confidence, the two main leaders of the euro zone — Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France — said on Monday that they would work together to remake the European Union into a more integrated political and economic federation, with tight legal restraints on how much debt national parliaments could issue.

The changes would effectively subordinate economic sovereignty to collective discipline enforced by European technocrats in Brussels.

The Asia-Pacific region is for the most part not burdened with the high government and household debt levels that are weighing on Europe and the United States. Asian banks also have little exposure to European debt, meaning that any defaults would not cause huge write-downs.

Still, much of the region depends on the West as a market for its products, and slowing demand in the United States and Europe has caused export growth from Asia to ease in recent months.

Economic growth in China has also slowed as Beijing's efforts to cool down excessively rapid growth earlier this year have borne fruit.

The Australian central bank highlighted those concerns with its decision to lower interest rates on Tuesday. The cut, the second in two months, took the main cash rate to 4.25 percent, from 4.5 percent.

Trade in Asia is now "seeing some effects of a significant slowing in economic activity in Europe," Glenn Stevens, the governor of the Reserve Bank of Australia, said in a statement. "The sovereign credit and banking problems in Europe, to which European governments are still seeking to craft a full response, are likely to weigh on economic activity there over the period ahead."

Analysts have also recently grown increasingly worried that beleaguered European banks could sharply scale back their lending in Asia.

Although there is little evidence at this stage of a full-scale withdrawal by such lenders, "there is a lot of scope for that to happen if the European situation worsens," Rob Subbaraman, chief Asia economist at Nomura, said in a conference call Tuesday.

Asian stock and bond markets have also experienced portfolio outflows as nervous United States and European investors put their funds closer to home.

The good news, however, is that policy makers in Asia have more flexibility than their Western counterparts to prop up flagging growth through interest rate cuts or tax incentives.

Moreover, Mr. Azis of the development bank said, banks in Asia have ample liquidity and could help fill financing shortfalls caused by a withdrawal of loans from European banks in the region.

Despite the turmoil in the West, “Asia is in for a soft landing — not a hard landing,” he said.

Stephen Erlanger contributed reporting from Paris.