Institute of Strategic and International Studies (ISIS) Malaysia

NEWSCLIPPINGS AND ARTICLES ON CURRENT ECONOMIC SITUATION

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THE WALL STREET JOURNAL.
WEDNESDAY, JULY 1, 2009

Malaysia inches ahead

Affirmative action, meet economic reality.

Facing declining interest from foreign investors and finding itself in an increasingly liberalized neighborhood, Malaysia on Tuesday announced some big changes in stock ownership and acquisition rules.

The boldest of these chip away at the country's nearly 40-year-old affirmative-action policies—in this case, rules over corporate ownership.

Specifically, the requirement that ethnic Malays own 30% of any listed company will be watered down, effectively to 12.5%.

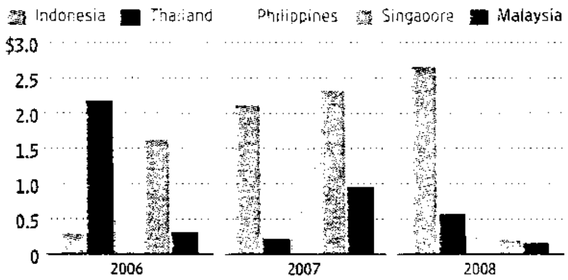
Hurdles to acquisitions by foreign buyers, too, will be lowered, as will ownership restrictions for foreigners on fund-management companies and brokerages.

Aimed at improving the lot of the country's ethnic majority Malay population, the affirmative-action rules, which govern everything from university enrollment to workforce quotas, have more recently become an anchor on the economy.

The symptoms of this are evident, Morgan Stanley says: a decline in competitiveness of non-commodity exports and foreign interest in the country. Net foreign direct investment, for example, has been trending lower since the early 1990's, contrary to the flood of inflows into much of the region.

Left behind

IPO volume by issuer nation, in billions of dollars



Source: Dealogic

Rules favoring Malays have been an anchor on the economy.

Malaysia trails Singapore, Thailand, and Indonesia when it comes to the volume of funds raised on its domestic stock market and the value of acquisitions by foreign companies in recent years, according to Dealogic. Tuesday's changes are a step toward fostering innovation and risk-taking by Malaysian business, but relaxing rules to encourage foreign investment is the easy part.

Malaysia's Byzantine politics may keep further changes, particularly to labor laws, off the table.

—Mohammed Hadi

THE WALL STREET JOURNAL.
WEDNESDAY, JULY 1, 2009

Malaysia eases race rules

Moves are latest bid to roll back program that helps one group

BY JAMES HOOKWAY

Assoclated Press

Malaysian Prime Minister Najib Razak relaxed race-based investment rules.

Malaysian Prime Minister Najib Razak's move to relax race-based investment restrictions is his latest effort to roll back a decades-old affirmative action program criticized for benefiting the country's majority ethnic Malay population at the expense of the broader economy's competitiveness.

Some political analysts say the latest measures don't spell the end for Malaysia's New Economic Policy, as the affirmative action policies are known. Instead, Mr. Najib is attempting to balance the needs of Malaysia's shrinking economy with a social policy that many Malaysian politicians say they believe has helped stabilize the country's racial mix, which includes large ethnic-Chinese and Indian minorities.

"The world is changing quickly and we must be ready to change with it or risk being left behind," Mr. Najib told an investment conference Tuesday in Kuala Lumpur.

In his address, he outlined a package of measures to spur foreign investment in the Malaysian economy, which private economists say could contract as much as 5% this year amid the global downturn. Among the new policies, companies listing on the Kuala Lumpur Stock Exchange will be required to allocate just 12.5% of their equity to ethnic Malays, compared with 30% before.

Foreign investors will be able to own as much as 70% of stock-brokerage companies—up from the current 49% cap—while foreign fund managers will be allowed to establish 100%-foreign-owned fund-management companies in Malaysia, which has one of the largest stock markets in Southeast Asia.

Citigroup economist Kit Wei Zheng said the moves were consistent with earlier measures and would likely enhance Malaysia's competitive edge in attracting foreign investment. Earlier this year, Malaysia allowed foreign companies to enter certain service sectors without allocating 30% of their equity to ethnic Malays.

The main index at the Kuala Lumpur Stock Exchange fell 0.1% to close at 1075.24 Tuesday, but the ringgit strengthened to 3.5170 ringgit against the U.S. dollar at the close of trade compared with 3.5730 ringgit on Monday.

Mr. Najib, 55 years old, emphasized that Malaysia wasn't giving up its affirmative action policies, which were introduced in 1971 following bloody race riots, to help ethnic Malays catch up economically with ethnic Chinese Malaysians. The target of putting 30% of the economy in Malay hands, Mr. Najib said, remains intact. "But this 30% figure is now a macro target, not a micro target," he told reporters.

Significantly, the 30% Malay-ownership rules remain in force for "strategic industries" such as telecommunications, ports, energy and transport. In many cases, state investment funds have large controlling interests in these businesses.

"We will help the best and the good in business. We want to be fair to all communities," Mr. Najib said. "It is a tricky balancing act, but it is doable."

Some activists in the ethnic Malay community, which comprises 60% of Malaysia's 28 million people, have warned there could be protests if Mr. Najib moves too quickly to remove affirmative action policies. Last week, Mr. Najib took other steps to placate the country's ethnic Chinese and Indian minorities by announcing plans for merit-based university scholarships for which Malay, Chinese and Indian students can compete on an equal basis.

Some economists were surprised at the number of policy changes that Mr. Najib announced. "I didn't expect that," said Tim Condon, chief Asia economist with ING Group in Singapore. "But Mr. Najib appears to be responding to what people want and as pro-market measures go, these can only be seen as positive."

—K.P. Lee contributed to this article.

THE WALL STREET JOURNAL.
THURSDAY, JULY 2, 2009

Najib's Affirmative Action - II

Malaysia's economy is so hobbled by red tape and corruption that any liberalization is good news. But Prime Minister Najib Razak's announcement this week of another round of reforms was encouraging for another reason: He is mounting sound economic arguments against pro-Malay affirmative action policies.

"The pie must expand. There is no point in having a larger share of a shrinking pie," Mr. Najib, a Malay himself, said Tuesday. The government reduced requirements for companies to allocate stock to ethnic Malays and effectively dismantled a layer of bureaucracy that enforced pro-Malay investment policies. It lifted restrictions on foreign investment in stock brokerages, fund management companies and property, industries whose growth has been stunted by affirmative-action and other investment requirements.

Foreign investors have shunned Malaysia for years because of its complex and corruption-ridden preference programs. Mr. Najib's move follows an April announcement to let foreigners invest in more than 20 sectors without mandatory allocation of shares to Malays. Mr. Najib figures, rightly, that the more investment Malaysia gets, the more everyone will benefit, including Malays.

This is a tough political tightrope to walk. Pro-Malay policies are historically popular with Mr. Najib's base in the ruling United Malays National Organization. Those same policies, however, are unpopular with the country's Indian and Chinese minorities—and increasingly Malays too. The opposition coalition, led by Anwar Ibrahim, figured this out last year and ran successfully on a platform of economic reform. Mr. Najib faces a challenge: how to reform the economy and stay in office, too.


Najib Razak

The answer seems to be that the Prime Minister is first attacking sections of the economy that affect Malays least. April's liberalization measures did not apply to retail, utilities or other sectors with heavy Malay employment. Mr. Najib is also handing out goodies to Malays as he trims elsewhere: Tuesday's measures included the announcement of a 500 million ringgit ($142 million) fund that will buy companies and hand them to ethnic Malay managers. Mr. Najib said the fund will eventually total 10 billion ringgit.

Malaysia's affirmative action policies were instituted in the 1970s and are now so firmly entrenched that it's difficult for any politician to attack them head-on. Mr. Najib's predecessor, Abdullah Badawi, tried to reduce graft and mostly failed. Mr. Najib's father, a former prime minister, created these policies to begin with. His son may be the only person who can persuade the public that it's time to rip them down.

THE WALL STREET JOURNAL.
FRIDAY - SUNDAY, JULY 3 - 5, 2009

Asia's fuel-cost puzzle

For much of 2008, Asia's central banks faced a conundrum: Simultaneous worries about struggling growth and rising prices.

By the end of 2009, it could start to feel like a recurring nightmare.

This week, the governments of India, China, Pakistan, Vietnam and Sri Lanka raised fuel prices, an acknowledgment the doubling in oil futures since February had their domestic pricing systems out of whack.

The price incrases may well be digestible in the current low-inflation environment. But as the year goes on, the rise in fuel prices will become more pronounced when seen against year-earlier levels and more difficult to bear as it begins to inflate other prices.

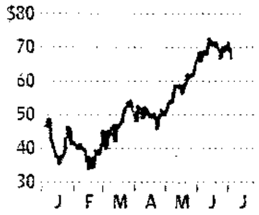
Then Asian central banks could face a tricky choice. Tighter policy would help tame inflation but could stem the region's recovery. Looser policy would have the opposite effect.

The price increases aren't bad for everyone. They are welcome for oil companies that have seen international prices rise above what they can charge domestically for diesel and gasoline.

Crude-oil futures

Daily settlement price on the continuous front-month contract

Midday Thursday: $66.82 a barrel, down $2.49 or 3.6%



Source: Thomson Reuters via WSJ Market Data Group

Filling up at a Shanghai PetroChina Co. gas station.

To compensate them, governments have had to dole out subsidies. Taming these subsidies will bring relief to stretched budgets.

Neither will the fuel-price increases raise immediate inflation concerns. Overall prices have been flat or even falling in China and India, giving governments room to bring domestic fuel prices in line with market forces.

But their will to acquiesce to the market will be tested as higher prices begin to nibble at consumers' wallets and corporate profits. Asian economies are particularly sensitive to rising commodity prices.

Either way, the pressure on central banks is sure to increase. Credit Suisse estimates a 6% inflation rate for India in the first quarter of 2010; it says two percentage points of inflation-taming rate increases could be in store in China next year.

—Mohammed Hadi and Andrew Peaple

THE WALL STREET JOURNAL.
MONDAY, JULY 6, 2009

Asia currencies to shed gains

Doubts on economy will weigh on market; rebound late in year

BY DAVID ROMAN

SINGAPORE—After some strong gains in recent months, Asian currencies are at risk of falling significantly this quarter as uncertainty over the global economic recovery grows.

But most of the region's currencies look set to recover in the last three months of the year, with some, such as the Indian rupee and the South Korean won, potentially pushing above their early highs.

With little evidence of a global pickup likely in the third quarter, Asia's stock markets may shed some of the strong gains of recent months, analysts say, with money flowing into havens such as the dollar and out of assets perceived as risky. But in the fourth quarter, as the huge U.S. economic stimulus begins to kick in and global growth revives, Asia's currencies could see renewed gains.

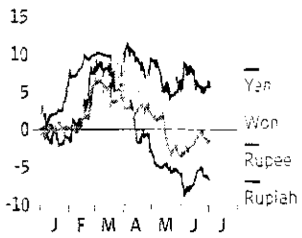
"The overall outlook is positive for Asian currencies," said Peter Redward, head of emerging-Asia research at Barclays Capital. But robust rebounds will be delayed because "most of these currencies need an environment of high risk appetite" in order to rise.

As Wall Street began rallying strongly in early March and global risk appetite revived, many Asian currencies took off, peaking in late May or early June before pulling back.

The region's best performer throughout the first half of the year was the Indonesian rupiah, rising some 9% against the U.S. dollar, helped by expectations of continued political stability and pro-market policies as President Susilo Bambang Yudhoyono's party won legislative elections. The president is ahead in opinion polls for Wednesday's presidential election.

Currency moves

Change in the strength of the U.S. dollar vs. the Japanese yen, South Korean won, Indian rupee and Indonesian rupiah



Source: Thomson Reuters via WSJ Market Data Group

Much of the good news may already be priced in. A Dow Jones Newswires survey of 10 currency strategists shows the rupiah pulling back in the third quarter before rebounding to end the year 0.1% higher than it closed in the first half.

The big winners for the second half, according to the survey, will be the won, forecast to rise 4%, and the rupee, up 3.3%. The won is expected to be helped by South Korea's economy crawling out of recession and by a rebound from last year, when the currency was one of the world's worst performers.

China is expected to let the tightly controlled yuan rise 1% in the second half, while the Philippine peso is expected to end fractionally higher.

The yen is expected be the biggest loser. The world's best-performing major currency last year is forecast to fall 3.7% in the second half after hefty losses earlier this year. Following the yen down are expected to be the Thai baht and the Singapore and Taiwan dollars. The Malaysian ringgit is expected to edge down slightly in the second half.

Expectations of a late-year currency rally assume that Asian economies perk up sooner than developed nations, driven by regional dynamos China and India.

Risks to the forecast for late-year currency gains include sustained risk aversion that would stunt flows into Asia from dollar assets, aggressive intervention by the region's central banks or a surge in oil prices that would eat into current-account surpluses around the region.

Authorities in some export-reliant Asia economies began selling their currencies recently in an effort to keep their countries' goods from becoming too expensive abroad. Traders say they have seen the central banks of Taiwan, Thailand and Singapore, among others, intervening this year.

As for relative Asian winners and losers, Standard Chartered analysts recently recommended selling the Taiwan and Singapore dollar and the Thai baht against the rupee, rupiah and won.

"In the current environment where the U.S. dollar, overall, is trying to find a trend, such cross trades may present opportunities," they said.

THE WALL STREET JOURNAL.
MONDAY, JULY 6, 2009

Asian officials reject focus on savings glut

BY ANDREW BATSON

BEIJING—Asian officials and scholars are pushing back against the notion that their countries' high savings helped cause the financial crisis by flooding the world with cash and driving down interest rates, arguing that lax U.S. financial regulation should bear most of the blame.

The comments at a weekend conference in Beijing came just before Chinese President Hu Jintao left for Italy, where he and the leaders of other major emerging economies this week hold a summit with the Group of Eight advanced nations. Mr. Hu, who arrived in Italy Sunday, is expected to argue that improving regulation in rich Western countries should be a bigger international priority than criticizing emerging economies that save and invest a lot.

"Asians financed cheap consumption in the rest of the world, this is what they say. This is something I just cannot understand," Supachai Panitchpakdi, the head of the United Nations Conference on Trade and Development, and a former Thai government official, told the Global Think Tank Summit in Beijing on Friday. "This is another theory we have to debunk. Asians have not been oversaving and underconsuming."

The idea of a "savings glut"—an excess of cash in Asian countries and oil export-

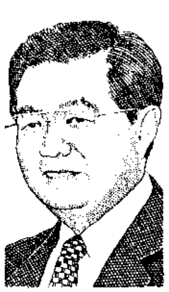
Please turn to page 19

Asian officials dispute savings-glut theory

Continued from first page

ers that pushed down global interest rates and encouraged riskier investments—was first popularized by Ben Bernanke in 2005, before he was chairman of the Federal Reserve. Economic officials in the Bush administration later endorsed the idea that it contributed to the financial crisis.

Critics of the savings-glut thesis have often argued that it simply pushes responsibility for U.S. policy mistakes onto other countries. Supporters reply that China's huge trade surpluses—a reflection of its large savings—clearly had real effects on the global economy. "It is just as silly to deny any role for Asian savings in funding the U.S. savings shortfall, as it would be to blame the imbalance entirely on an Asian savings glut. It takes two to tango," said David Cohen of Action Economics in Singapore.



Hu Jintao

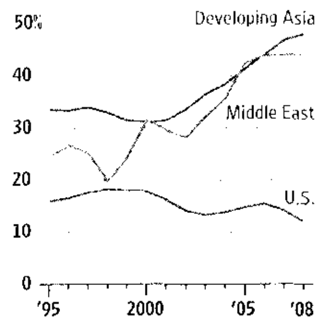
Mr. Supachai argued that the real difference between Asians and Americans is that U.S. consumers borrowed heavily to finance their spending while those in Asian nations mostly didn't. He said that consumption levels in Asia are "normal," averaging about 40% of gross domestic product. He acknowledged that household consumption in China is relatively low, around 36% of GDP. But he said that's because growth in investment and exports have been very strong, not because consumption has been weak.

Chinese central bank governor Zhou Xiaochuan, speaking to the same conference, said that China's savings ratio does need to fall and its consumption needs to increase. But he argued that focusing too much on "macro" issues like savings imbalances risks diverting needed attention from "micro" factors such as financial regulation.

"The crisis originated from Wall Street and many indisputable facts have established that micro factors had played an overwhelmingly important role in causing this crisis," he said, naming issues such as accounting rules, credit-rating agencies, securitized lending and lax standards at banks.

Too much or too little?

National savings rates as percent of GDP



Source: International Monetary Fund

"People outside China need a better insight into the high savings rate in China," Mr. Zhou said. The increase in the nation's overall savings rate in recent years hasn't actually come from households, but mostly from corporate savings in the form of retained profits, he said.

Still, household savings rates do tend to be higher in China and other Asian countries, said the head of China's statistics bureau, Ma Jiantang. "In East Asia we tend to be frugal and thrifty. This contributes to the high savings rate in the region," he told the conference Saturday.

Lawrence Lau, an economist and vice-chancellor of the Chinese University of Hong Kong, argued that China's trade surplus couldn't have contributed to the U.S. housing bubble. He said China didn't have a large trade surplus until 2005, when, after hovering around 2% of GDP for several years, it jumped to about 5% of GDP.

But U.S. housing prices peaked in 2006 and declined after that, even as China's trade surplus continued to expand dramatically. The rise and subsequent collapse of American house prices, he said, "has nothing to do with the difference in savings rates between the U.S. and China."

THE WALL STREET JOURNAL.
MONDAY, JULY 6, 2009

Developing Countries Need Trade

By Pascal Lamy

GENEVA—We are experiencing the worst economic crisis in 70 years. No economy has been spared its brutal effect and the full human and social impact of what has been wrought is still to come.

Crises such as these often cause governments to reassess their commitments and their priorities. Too often, this has led them to shy away from continuing their efforts to combat poverty and suffering in the developing world through sound aid and trade policies. Trade is a major casualty of this crisis. The steep reduction in trade volumes over the last eight months has subjected many open economies to economic volatility and has led some to question the role of international trade as an engine of economic growth and development.

History tells us that no poor country has ever become wealthy without trade. Moreover, many developing country success stories—Singapore, South Korea, Chile, China and Malaysia, to name only a few—have, in recent decades, seen their national incomes grow by a percentage point or more per year as a result of open trade policies than would have been the case had they remained closed. The extra funds generated during this period have enabled them to respond to the crisis with stimulus packages that have prevented the crisis from turning into a protracted recession with its inevitable human costs.

But it is true that trade is not a panacea for everyone, everywhere, every time. For trade to work, governments must have the physical and governmental infrastructure, production capacity and technical skills to take advantage of the market opening opportunities which arise from trade opening. Market opening must go hand in hand with policies that lift people out of poverty and distribute the benefits of trade expansion equitably across and within developing countries. That's why four years ago at a World Trade Organization Ministerial Conference in Hong Kong we launched an initiative we call Aid for Trade. Aid for Trade is all about enhancing growth prospects by helping countries overcome their supply-side constraints and increase their competitiveness and their effective participation in world trade.

> The developed world can help them overcome supply-side constraints.

Aid for Trade is about helping to integrate developing countries into the global economy and ensuring that they can take advantage of trade opening and greater access to markets for their exports of goods and services. One key component of this is the creation of adequate physical infrastructure—roads, ports, telecommunications, electricity supply, storage facilities—to ensure the consistent and reliable flow of goods, services and information that underpin global trade. Another is to ensure that producers are trained in meeting global product quality and safety standards demanded by the world's consumers. Improving physical and human capacity will further assist countries in diversifying their production and reaching new markets.

It's a heady goal to be sure, and the WTO certainly cannot do this on its own. We see ourselves as coordinators, relying greatly on our partnership with international financial institutions, the global and regional development banks and bilateral donors. They take the lead in financing Aid for Trade projects.

The North-South corridor better linking Southern African countries is a good example. This infrastructure project would provide a substantial boost to development and poverty alleviation in the region by addressing the transportation, communications and energy challenges facing Sub-Saharan African today. Funds for this project have been pledged from the African Development Bank, the World Bank and various donor countries including the United States, the European Union and Japan. The Mesoamerican plan, which links Central American countries more efficiently through better roads and easier border formalities, is another example, as is the Greater Mekong Sub-region project, which offers Southeast Asian countries a blueprint for better development opportunities in much the same manner.

To improve on our work in this field and to assess the achievements and the needs for the future I have invited the major international financial institutions and regional development banks as well as donors and recipients to Geneva this week for a collective Global Review on Aid for Trade. Our objective is to monitor Aid for Trade flows more effectively; to improve the assessment of the trade development needs of developing countries; to move the focus of our work from pledges of support to getting these projects up and running; to strengthen the regional dimension of Aid for Trade by encouraging more trade between neighboring countries; and to devote additional efforts toward a broader participation of the private sector, private foundations and civil society in this initiative.

Governments have increased their commitments to Aid for Trade by 10% annually since 2005 and funding pledges today stand at more than $25 billion annually. Non-concessional loans add an additional $27 billion to help developing countries overcome production constraints. Importantly, this increase in Aid for Trade has been achieved without reducing resources to other development priorities such as health, education or environment. The global economic crisis threatens such support. And yet making such resources available will be essential to help poor countries be better prepared to exit the crisis.

As G-8 leaders prepare to meet in l'Aquila, Italy, they must remember that Aid for Trade is part of our collective response to the present situation. We have to make sure it is more and more effective in helping developing countries overcome their economic difficulties. It's what people expect from us today.

Mr. Lamy is Director-General of the World Trade Organization.

THE WALL STREET JOURNAL.
TUESDAY, JULY 7, 2009

G-8 nations make trade talks a priority

Economic crisis, elections in U.S. and India renew hopes for global negotiations but Washington remains a hurdle

BY JOHN W. MILLER

The economic downturn, along with new leadership in the U.S. and India, is spurring G-8 nations to repair trade talks at their coming summit but Washington remains an obstacle, trade experts say.

The rest of the world "is waiting for the U.S." to detail its position on trade, Pascal Lamy, director of the World Trade Organization said in an interview at WTO headquarters in Geneva, days before the Group of Eight leading nations gather in L'Aquila, Italy.

Pascal Lamy

Mr. Lamy has been invited to speak at the two-day annual G-8 meeting—a sign that the world's biggest economies are interested in returning to the negotiating table before the WTO's 153 member nations gather in November.

The so-called Doha Round of global trade talks—named for the Qatari capital where they began in 2001—is still in limbo after eight years of negotiation.

"I would like to move forward during the G-8 so Doha can be on the agenda in November," Mr. Lamy said.

The U.S., weighed down by its auto and financial sectors, unemployment and health-care costs, could stand in the way. In April, U.S. trade officials said President Barack Obama would make a major trade speech, but there is no indication when that might happen.

Mr. Lamy said the U.S. was "starting to engage," but noted that efforts to define a trade policy were proving difficult because of the slow confirmation process for senior U.S. trade negotiators and "a full legislative agenda with climate change and health-care reform bills before the Congress."

Trading partners are "getting impatient," he said.

Although big increases in import tariffs so far have been limited to specific countries, such as Russia, or products, such as steel, trade officials say they fear more tariffs as joblessness spreads.

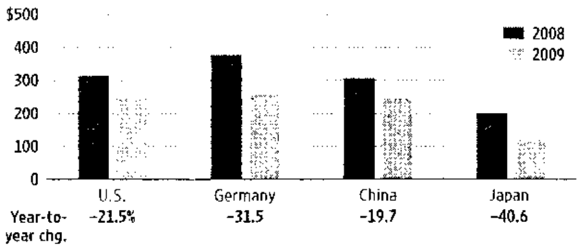
A global trade deal could pre-empt protectionism by capping import tariffs at their current, relatively low rates, as well as dismantling barriers to trade in agriculture and industrial goods. Negotiations also "keep trade ministries in touch with each other, which makes everybody more careful about protectionism," says Simon Evenett, a professor of economics at the University of Michigan who specializes in trade issues.

The key challenge to resuming the Doha talks, Mr. Lamy said, is persuading the U.S. and India to repair a rift that emerged at the global trade summit a year ago.

The talks broke up after Washington and Delhi clashed over whether developing countries should have the right to raise tariffs on products like cotton and sugar if imports surge. The dispute was fueled by a personality clash between Indian trade minister Kamal Nath and U.S. counterpart Susan Schwab, say trade officials from the EU, U.S. and WTO.

Losing markets

The world's four biggest exporters are all hurting. Exports, in billions of dollars, during the first three months of each year:



Doha Round

- **November 2001** The first meeting is launched in Doha, Qatar, with aim of rich countries dismantling barriers to food trade in exchange for developing nations importing more industrial goods.
- **September 2003** Developing nations reject EU and U.S. proposals at a tense meeting in Cancun, Mexico.
- **December 2005** Talks break down again in Hong Kong as nations again fight over farm subsidies and tariffs.
- **July 2008** After a gruelling 11-day summit, talks in Geneva collapse as India and the U.S. stalemate over farm tariffs.
- **July 2009** Trade officials, worried about creeping protectionism in the EU, U.S., China, Russia and others, hope to revive the Doha round at the G8 summit in L'Aquila, Italy.

Sources: Global Trade Information Services (exports); WSJ research (timeline)

Mr. Nath used the summit as a campaign stop ahead of India's general elections in May, delivering speeches about "protecting 700 million farmers" and traveling back to India to cast a vote in parliament. Ms. Schwab was hindered by the Bush administration's falling poll ratings and the Democrats' control of Congress, analysts say.

Both countries' successors have softer styles, although it is unclear whether that will result in compromise on difficult issues.

Mr. Nath's Congress party won the recent Indian elections, but he was succeeded by Anand Sharma, who has a reputation at the WTO as being easier to deal with at the negotiating table.

Speaking to reporters in Washington recently, Mr. Sharma said he had a mandate from Indian Prime Minister Manmohan Singh to sign a global trade deal. Mr. Singh feels that, in the current economic crisis, "there should be a positive message for global trade barriers to be broken down further," Mr. Sharma said.

After the elections, India "is much more free to do a deal now," says Brendan McGivern, a trade lawyer with White & Case LLP.

The U.S., however, "barely registers right now on trade," says Scott Anderson, a trade lawyer with Sidley Austin. "The domestic politics are just too difficult." Congress, he says, currently has few champions of free trade.

New U.S. trade representative Ron Kirk, a 55-year-old former mayor of Dallas, came to prominence by defending the North American Free Trade Agreement, an accord with Mexico and Canada that benefits border states.

In a speech this year, Mr. Kirk sketched the outlines of the administration's trade policy. The world's poorest countries, he said, "have a special place in the Obama trade agenda." At the same time, he promised to protect U.S. workers who lose their jobs to foreign exporters. U.S. unemployment is near 10%.

An Obama administration official said there is "no update" on when the president will give his trade speech.

Mr. Kirk, at the president's request, is "taking decisive steps to engage meaningfully with trading partner countries and also to cement stronger enforcement of global trade rules as a key element of U.S. policy," says USTR spokeswoman Carol Guthrie.

THE WALL STREET JOURNAL.
THURSDAY, JULY 9, 2009

Affirmative action is viewed as barrier to growth in Malaysia

AirAsia's plans for a new hub run into opposition from ethnic Malays

By James Hookway in Kuala Lumpur, Malaysia

TONY FERNANDES, the chief executive of Malaysia's upstart AirAsia airline, seldom shies away from a fight.

A former executive at Time Warner Inc.'s music division, Mr. Fernandes bought the debt-laden carrier in 2001 for 27 cents and turned it into Asia's biggest budget airline with $754 million in annual revenue. It hasn't been easy. To expand AirAsia Bhd., he has battled reluctant governments for landing rights and routes and has endured price wars with regional competitors.

Now, as Mr. Fernandes pushes to build a new low-cost global hub and expand into Europe, Australia and the U.S., he is running into a tenet of modern Malaysia: affirmative action. Malaysia's political leaders prefer to see big business such as airports in the hands of the ethnic-Malay majority, and often that means government control.

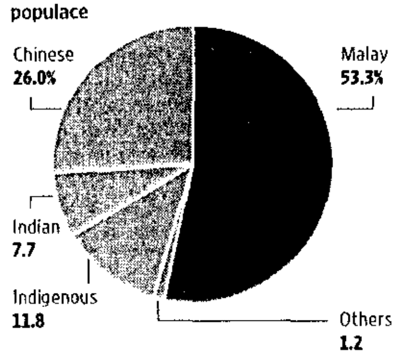
"A lot of Malaysians are proud of what AirAsia has achieved," says Mr. Fernandes, a 45-year-old Malaysian of Indian descent. But successes such as his are often outweighed by the extent of state control of the economy. "It's a very Jekyll-and-Hyde situation here."

This fertile, tropical nation in the heart of Southeast Asia prides itself on showing that Islam and business are compatible. The country is a significant supplier of palm oil and computer components to the world economy, and it harbors substantial oil and gas reserves. The iconic twin towers that dominate downtown Kuala Lumpur were once the world's tallest buildings and today are the headquarters of state-owned oil company Petroliam Nasional Bhd.

The gleam and glitter are partly built on a race-based system of quotas and government

Divided nation

Ethnic composition of Malaysia's 27.5 million populace



Source: U.S. State Department

ownership of key businesses, however, which many economists say now risks retarding the country's growth. In 1969, race riots between Malays and ethnic-Chinese Malaysians prompted the country's predominantly Malay leaders to introduce affirmative-action-style policies to give a leg up to the Malay population.

The original goal was to help Malays catch up economically with ethnic-Chinese Malaysians, who comprise around a fourth of the country's 27 million people but who control a disproportionately large share of businesses and trade. To do so, the government created a series of state investment vehicles to buy into key parts of the Malaysian economy. Officials hoped that private Malay entrepreneurs would eventually emerge to take control.

Forty years on, the policy continues to have an impact in that much of the Malaysian economy remains under government direc-

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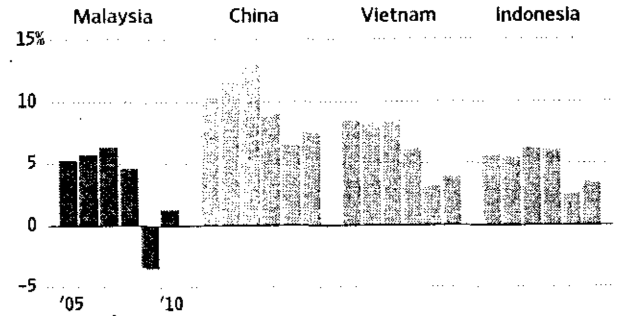
Last year, Tony Fernandes challenged the power of Malaysia's government-linked companies. Instead of paying landing fees, passenger-service charges and other dues set by Malaysia's state-owned airport company, he proposed that AirAsia build its own airport facilities and set lower rates.

Struggling to compete

Annual change in inflation-adjusted GDP



Note: Estimates start after 2008

Source: International Monetary Fund

tion. The state investment funds still own controlling stakes in large corporations such as Telekom Malaysia Bhd. and power generator Tenaga Nasional Bhd., as well as aviation companies Malaysia Airports Holdings Bhd. and Malaysian Airline System Bhd. Some of the state-backed companies have proved successful, others less so. Malaysian Airline System is unprofitable while national car producer Proton Holdings Bhd. is largely kept going by special tax rules, equity analysts say. The two companies didn't return requests seeking comment.

Thus far, however, relatively few Malay entrepreneurs have capitalized on the race-based initiatives. In the meantime, some economists here say those same programs now threaten to undermine Malaysia's fortunes by making it tough for some entrepreneurs—like Mr. Fernandes—to go up against competitors in countries such as China, Vietnam and Singapore.

The predicament of AirAsia, and whether it should be allowed to develop its own low-cost terminal, is a case in point. Obstacles to the carrier's growth could jeopardize Malaysia's status as an international travel hub—and damage the country's best-known global brand in the process.

All this is distressing to many Malaysians who believe their country, like many other developing nations, needs to do far more to encourage home-grown entrepreneurs.

Since taking office in April, Prime Minister Najib Razak, a Malay, has rolled back some aspects of the race-based program—known here as the New Economic Policy—to lure more foreign investors. He recently issued new rules allowing foreign investors to enter selected service, financial and legal businesses without having to give up equity to local ethnic-Malay partners. Companies listing on the local stock market, meanwhile, will be required to allocate 12.5% of their shares to Malay investors, compared with 30% before. Mr. Najib also urged a level playing field between state-owned business and privately-owned competitors.

"The world is changing quickly and we must be ready to change with it or risk being left behind," Mr. Najib told an investment conference June 30. But he stressed in an interview that "we mustn't lose sight of the overall objective of a more equitable and just society."

Some Malay hard-liners warn that the government has gone too far. Ma'amor Osman, leader of a local activist group of Muslim Malays, describes Mr. Najib as "a dangerous liberal" who could destabilize Malaysia's fragile ethnic balance, while some protesters have recently marched in support of Malay rights. The country's Malays comprise just over half its population, and many can't remember a time when they weren't entitled to any special privileges.

Affirmative action programs provoke controversy wherever they appear. In the U.S., President Barack Obama's election victory has injected some fresh life into a debate over whether race-based preferences for university places or government jobs are still needed or desirable. India's efforts to improve the lot of people born on the lower rungs of that country's caste system were a major factor in elections there this year.

Proponents of the NEP say the measures helped create a stable country attractive to foreign investors who built electronics factories, chip plants and other businesses here. This foreign investment, along with the discovery of oil in Malaysian waters, helped drive the country's economic growth from the 1970s to the 1990s.

"The idea was to grow the pie so everybody could have a larger share," says Razaleigh Hamzah, an aristocrat picked by the government in the 1960s and 1970s to set up banks and run other state-controlled businesses.

Nonetheless, some non-Malay businesses had to hand over 30% of their equity to ethnic-Malay partners. The government also introduced quotas reserving 55% of the places at Malaysia's state universities to Malay students, forcing others to educate their children at expensive private colleges or overseas.

Last year, AirAsia's Mr. Fernandes challenged the power of Malaysia's government-linked companies. Instead of paying landing fees, passenger-service charges and other dues set by Malaysia's state-owned airport company, he proposed that AirAsia build its own airport facilities, including the construction of a Disneyland-style resort, and set its own, lower rates.

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Behind the expansion plans are several other practical concerns. AirAsia's current terminal at the main Kuala Lumpur International Airport complex is little more than a glorified cargo hanger. Passengers await boarding calls huddled in groups, like at a bus or railway station, and walk across the tarmac to their planes. Other international airlines, by contrast, operate from an ultramodern terminal nearby where passengers are whisked to their departure gates on a sleek monorail train.

When the global economic crunch hit, Mr. Fernandes, an ethnic Indian, expanded through the slump, launching several new routes and increasing AirAsia's capacity by nearly a fifth in a bid to lure customers from traditional airlines. Net profit in the first quarter hit 203.2 million ringgit, or $57 million, up 26% from the same period last year. Still, AirAsia is $2 billion in debt—partly the result of its rapid expansion. To keep the business aloft and healthy, Mr. Fernandes argues that AirAsia needs cheap, but effective airport facilities.

AirAsia also plans to use its base in Kuala Lumpur as a hub for a new long-haul service called AirAsia X, which counts Sir Richard Branson's Virgin Group among its major shareholders. AirAsia X currently flies to Australia and Britain, but Mr. Fernandes hopes the airline will soon serve the U.S., too.

The Malaysian government initially agreed with AirAsia's plans and consented to the $460 million airport project. Then, in January of this year, local bureaucrats began pushing back. State investment fund Khazanah Nasional Bhd. objected to Mr. Fernandes's plans. It insisted that if a new facility was to be built, it should be erected and managed by one of its closely held assets, Malaysia Airports, at the existing airport complex.

Another of Khazanah's assets, Malaysia Airlines, also stood to lose from AirAsia's expansion. That spurred concerns in the industry that Khazanah was attempting to protect its own investments rather than help fuel the growth of AirAsia, which last year accounted for 40% of all passengers coming through Kuala Lumpur International Airport.

Khazanah officials didn't respond to requests for comment. A representative of the state investment fund said it objected to the AirAsia plan because there was an existing airport complex and building another one was an unnecessary expense.

Still, Malaysia's government quickly reversed course after Khazanah flagged its objections. Mr. Najib, deputy prime minister and finance minister at the time, instructed state-run Malaysia Airports Holdings and AirAsia to work out a possible compromise: Malaysia Airports could build and run the new terminal, but to AirAsia's specifications. It seemed like a win-win solution at the time, AirAsia officials said.

But after five months of talks, Mr. Fernandes and other AirAsia executives say they still have no idea the kind of fees they will have to pay. They have suggested passenger service charges of 10 ringgit for international flights and six ringgit for domestic flights, a discount from the 25 ringgit AirAsia and other airlines usually pay because of the limited budget services AirAsia offers. Malaysia Airports officials didn't respond to requests for comment on the new facility's fee structure but said architects and contractors for the project are now being selected.

In a May 26 letter to the chairman of Malaysia Airports, AirAsia Chairman Aziz Bakar warned that high airport charges would "delay the launch of new routes," discourage tourists and "place in jeopardy this economic boon for the nation." AirAsia may also slow down its fleet expansion, at least for its shorter-haul sector, said the letter, which was reviewed by The Wall Street Journal.

Some airline analysts say AirAsia may be able to adopt a hard-line stance in its negotiations because of the sheer quantity of passengers it channels through the Kuala Lumpur International complex. "The airport had been languishing somewhat before AirAsia came along," says Peter Harbison, director of the Centre for Asia Pacific Aviation, a Sydney, Australia, consulting firm.

Already, the carrier is bringing people through Malaysia who might not have otherwise come. One such tourist, Domingo Buenaseda, from the Philippines, recently strolled a Kuala Lumpur mall. "A friend was getting married in Bali, Indonesia, and flying on AirAsia was the cheapest way of getting there," he said. "Stopping off in Kuala Lumpur for a few days for the connection seemed like a good idea."

No one knows when, if ever, AirAsia and Malaysia Airports will be able to thrash out a deal. Singapore this year allowed AirAsia to fly from the city-state to other countries for the first time, after rebuffing Mr. Fernandes's overtures for seven years. That means AirAsia could potentially use Singapore as a hub instead of Kuala Lumpur.

A spokeswoman for the Civil Aviation Authority of Singapore says the city's airport is offering incentives to all airlines to fly from Singapore—AirAsia included.

—Shai Oster in Beijing contributed to this article.

THE WALL STREET JOURNAL.
THURSDAY, JULY 9, 2009

IMF sees recession ending in late 2009

Recovery hinges on strength in developing economies, fund says, as advanced nations still face high risks, debt

BY TOM BARKLEY

WASHINGTON—The global economy should emerge from recession by the end of the year thanks to strength in major developing countries such as China and India, the International Monetary Fund predicted Wednesday.

Advanced economies continue to lag behind, facing risks from unfinished work shoring up financial sectors, as well as new concerns from the piles of debt governments are amassing from crisis measures.

"The worst is behind us, and the recovery is coming," the IMF's chief economist, Olivier Blanchard, said at a news conference to discuss the fund's updated global forecasts.

He warned that the recovery will likely be fragile, as the overleveraged global financial system continues to cast a shadow over the economic outlook. He urged policy makers not to become complacent about market improvements, saying that if supportive monetary, fiscal and financial measures are removed too soon "there would be a great risk that the recovery falters."

When asked about the recent retrenchment in global markets, Mr. Blanchard said investors are learning that the recovery will likely be a weak one.

In the report, the IMF predicted financial institutions will face "somewhat lower" write-downs on bad debt than expected in the April report, when it estimated that global losses could top $4 trillion through next year.

Jose Viñals, director of the monetary and capital-markets department, said the fund is still revising that figure. But he said it is reasonable to assume that loan charge-offs and mark-to-market losses on securities held by U.S. and European banks would be smaller given the rebound in markets.

The IMF upgraded its outlook for 2010 and revised down this year's forecast. The world economy is expected to contract 1.4% in 2009 instead of the 1.3% decline the fund predicted in April.

The IMF now foresees a 2.5% rebound in global growth in 2010. That is up from a 1.9% growth estimate in April, as well as a 2.4% growth forecast cited by The Wall Street Journal last month from a briefing prepared for ministers of the Group of Eight leading nations.

G-8 leaders are gathering in Italy this week to discuss progress in combating the global crisis, which finally appears to be losing steam. Encouraged by recent improvements in both markets and economic activity, the leaders are expected to focus more on devising exit strategies for when a recovery takes hold.

The IMF said it is too soon for governments to start unwinding crisis measures but clear and coordinated exit strategies should be laid out to avoid a potential wave of turmoil in sovereign-debt markets.

Mr. Blanchard said governments should also prepare for the possibility of extending stimulus measures.

"It may well be that if the recovery turns out to be very weak, a bit weaker than we forecast, governments may actually have to continue the fiscal stimulus," he said. Any new stimulus should be coupled with measures to ensure a return to fiscal sustainability, he said.

The IMF said brighter prospects for the U.S. and Japan led to a better outlook for advanced economies, though activity isn't expected to pick up until the second half of 2010. The group is forecast to expand at a 0.6% pace in 2010 instead of the previous estimate for zero growth, but is still forecast to contract 3.8% this year.

The U.S. economy is projected to decline 2.6% this year, then stage a 0.8% recovery in 2010. Those forecasts, an improvement from April forecasts for a 2.8% decline in 2009 and zero growth in 2010, are close to revised figures released last month in the IMF's annual review of the U.S. economy.

Japan's economy also is showing signs of stabilization, with aggressive fiscal policies and strength in regional economies expected to provide further support to growth, the fund said. The economy is expected to contract 6% this year, instead of a previous forecast of a 6.2% decline, with the 2010 growth estimate raised to 1.7% from 0.5%.

China's outlook improved the most, with the 2009 estimate raised to 7.5% from 6.5% and the 2010 forecast lifted to 8.5% from 7.5%. Mr. Blanchard said China's biggest challenge in coming years will be shifting to an economy driven more by consumption, rather than investment.

India's forecasts were revised up by 0.9 percentage point over the April estimates, with the economy expected to grow 5.4% this year and 6.5% in 2010.

Still, Mr. Blanchard dismissed the idea that Asia may be decoupling from the world economy, saying the region can't recover on its own.

The euro area is expected to continue to lag behind other advanced economies in emerging from the recession. The region is forecast to contract 4.8% this year and 0.3% in 2010, compared with earlier expectations for declines of 4.2% in 2009 and 0.4% next year.

THE WALL STREET JOURNAL.

MONDAY, JULY 13, 2009

New Policies for an Older Japan

By Brad Glosserman

If demography is destiny, Japan is in trouble. The country is the "grayest" in the world, and its population is shrinking. These two developments will sap Japan's economic vitality. But little attention has been paid to how this changing demographic profile could affect regional security and U.S. strategic interests in Asia. Because the alliance with Japan is the cornerstone of the United States' engagement with Asia, American policy makers need to begin developing a strategy that prepares the alliance for this impending shift.

> An aging population will impact regional security.

To understand the urgency of the situation, consider that 21.5% of Japan's population is age 65 or more—a share that will expand to 39% by 2050. And while Japanese now enjoy a life expectancy of 81.25 years, the population is shrinking as fewer children are born. Today, there are 127 million Japanese, but that number is expected to drop by around 30% by 2055, when the population will reach 89 million. The main culprit is a plummeting fertility rate.

The economic implications of this demographic transition are well known. As the number of working-age citizens shrinks, economic growth will slow, tax revenues will fall and government budgets will be squeezed. The cost of doing business will rise and investment capital will seek more dynamic markets. Japan will continue to be rich, but the country will be living off its wealth, not creating it. According to an estimate by McKinsey Global Institute, household wealth will enter an absolute decline over the next two decades, and by 2024 it will have returned to 1997 levels.

The strategic implications of this shift are equally important. Japan's demographic transition will act as a guillotine, cutting off the country's policy options. Most simply, budget priorities will shift. Health care, currently underfunded, will become a considerable drain on the government purse. Defense spending—always a tough sell in Japan—will feel a tighter pinch. Recruitment for the Self Defense Forces, already difficult, will get harder. The reluctance of some Japanese to see their country assume a higher security role will be intensified as the population gets older and more risk averse. Japan will be reluctant to send its most precious asset—its youth—into combat.

Other forces will reinforce Japan's increasingly inward-orientation. Foreign aid and investment have laid the foundation for Japanese engagement with Asia (and the world). But as the domestic economy dwindles, official development assistance and the investment capital that lubricated foreign relations will shrink. This will diminish Japan's status in the region as other countries replace Japanese funds.

All won't be negative: The demographic transition will make it difficult, if not impossible, for other regional powers to demonize Japan as in the past. The bogeyman of remilitarization could be laid to rest for good. This will help eliminate one of the most important obstacles to regional cooperation and provide a real impetus for Asian solutions to Asian problems.

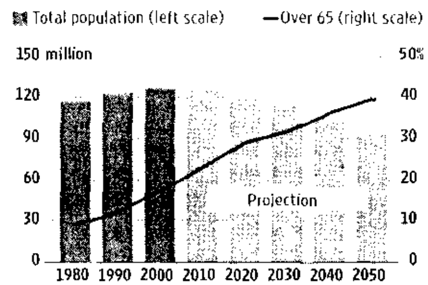
However, Japan's evolution also creates challenges for its neighbors. Will China treat its former rival with dignity and respect, forging a genuinely cooperative relationship? Or will Beijing muscle Tokyo aside and assume the leading role in Asia? A solid Tokyo-Beijing axis could provide the cornerstone of genuine Asian integration, just as the Paris-Bonn link drove Europe's community-building process.

Seoul will also be at a crossroads. It could give vent to its long suppressed anger over Japanese colonization of the Korean Peninsula and its junior status in the region. Or the South Korean government could reach out to a country with similar interests, values and concerns to forge a forward-looking partnership of like-minded nations.

No relationship will be more affected by the demographic change that that of the U.S. and Japan. The new Japanese mindset poses a direct challenge to the evolution of the U.S.-Japan security alliance over the last decade. This period has been characterized by pressure from Washington for Tokyo to "put boots on the ground" in trouble spots like Iraq and Afghanistan. Yet paradoxically, at the very same time Japan will be fending off U.S. requests to do more militarily, Tokyo is likely to try to move even closer to the U.S. in response to its straitened economic circumstances and a fear that it is being eclipsed by a dynamic, rising China.

Going Gray

Japan's total population versus percentage of population over 65, 1980-2050



Source: Statistical Handbook of Japan, 2008

The U.S. needs to be prepared for these contradictory impulses and adjust how it engages Japan accordingly. First, it must abandon the quid pro quo mindset that often characterizes alliance discussions. Japan will have considerably less to contribute to the alliance, but that should not mean the alliance is less important. Discussion should focus on how Japanese contributions serve larger public and regional interests. Japan must do its part and come up with creative ways to share burdens and responsibilities.

Second, the U.S. should shift the alliance's center of gravity away from military issues. Japanese engagement in this area will become more problematic. If Washington pushes Tokyo harder to make military contributions, it risks politicizing the alliance and undermining its support in Japan.

Third, the U.S. should create and strengthen regional institutions. Regional security mechanisms can pick up the slack as the U.S.-Japan alliance evolves. Other economic and political organizations can minimize tensions in the region. This process should begin soon, while Japan has more influence to maximize its leverage during the creation process. Washington and Tokyo should stop seeing their bilateral alliance and multilateral institutions as zero-sum alternatives. The U.S. should not see this process as a threat to its interests; instead, it should trust Tokyo to see that its interests are respected in these discussions. That would constitute a new form of burden sharing.

Finally, the U.S. has to get its own economic house in order. Washington has relied on Japanese savings—along with those of China and other Asian nations—to finance its profligacy. As Japan ages, it will no longer have those funds to lend to the U.S. This is a potentially wrenching adjustment for America—one that might produce some premature aging of its own.

Mr. Glosserman is executive director of Pacific Forum CSIS, a Honolulu-based think tank. This article is drawn from his recent study, co-authored by Tomoko Tsunoda, "The Guillotine: Japan's Demographic Transformation and Its Security Implications."

Najib looks to be radically different

Malaysia

The premier has defied expectations he would support the pro-Malay status quo, writes John Burton

When he assumed power as Malaysian prime minister in April, Najib Razak was dismissed as a defender of the status quo. He was seen as a staunch supporter of the interests of the United Malays National Organisation, which has led the country's coalition government since independence from Britain in 1957.

He was expected to continue the legacy of his father, who as prime minister in the late 1970s introduced the divisive policy of giving preferential treatment to the ethnic Malay majority in business and government jobs under what was known as the New Economic Policy.

But, in the 90 days since he took office, Mr Najib has surprised many observers by introducing economic reforms that exceed those undertaken during the five years of Abdullah Badawi, his ineffectual predecessor who was once hailed as an agent of change.

The prime minister yesterday took a big step towards dismantling the pro-Malay economic policy by ending a long-standing rule that ethnic Malays must hold a 30 per cent stake in companies in most industries. The equity quota will be reduced to 12.5 per cent and new rules for additional rights issues will dilute it further.

Many analysts believe that Mr Najib has little choice but to take bold action if he wants to stay in power and fend off a growing challenge from the opposition, led by Anwar Ibrahim, which has criticised the government for widespread corruption.

The reforms are meant to reverse a decline in the competitiveness of Malaysia, Asia's third most trade-dependent economy. The global financial crisis has exposed the weakness of important export industries, such as electronics. The government expects that the economy could contract by as much as 5 per cent this year.

"Only someone with the stature of Najib in Umno could push for the changes that are needed," said a foreign political consultant, referring to the fact that the prime minister has much stronger roots in the ruling party than Mr Abdullah did.

"He has taken the smart step of taking the more painful decisions early in his administration."

Mr Najib has tried to liberalise some service industries, such as education and healthcare, to attract foreign investment as Malaysia seeks to reduce its dependence on export manufacturing. He sought to revive economic growth this year with a M$60bn ($17bn, €12bn, £10bn) stimulus spending package, at the cost of increasing the budget deficit to nearly 8 per cent of gross domestic product.

Another contentious move has been to seek investment from Singapore for a new economic zone, the Iskandar Development Region, near the border with the city state. Relations between the two countries have been frosty since they dissolved a brief union in 1965 owing to differences over racial preferences.

Malay nationalists, including Mahathir Mohamad, the former prime minister, warn that investment from the richer, ethnic Chinese-dominated Singapore amount to a form of "neo-colonialism."

Mr Najib sought to improve ties by visiting Singapore in May. In return, Lee Kuan Yew, the influential founding father of independent Singapore, made one of his longest visits to Malaysia since the 1965 split, on a "fact-finding tour".

In diluting the New Economic Policy, Mr Najib faces a potential backlash from the vested interests of Umno members and supporters who have enjoyed privileges for nearly 40 years. This has provoked scepticism about how far Mr Najib is willing to go in his reforms.

"It's a brave move," said Stephen Hagger at Credit Suisse in Kuala Lumpur, about the proposal to cut the ethnic Malay equity stake requirement. "But the devil, of course, will be in the detail as to how that actually happens. There is a lot more work to be done."

Mr Najib is hoping that the reforms will win back the support of disaffected ethnic Chinese and Indians, who protest that the pro-Malay quotas discriminate against them. The minorities largely supported the opposition in the March 2008 elections, which delivered the biggest electoral setback to the government since independence.

The recent changes may be having an impact. One opinion poll suggests that the government is at least regaining the support of ethnic Indians.

FINANCIAL TIMES THURSDAY JULY 2 2009

Bold Malaysia

The government is right to cut back on ethnic quotas

Bad economic times can often lead to rising ethnic tensions and bigger government. But a bold reform in Malaysia shows that neither development is inevitable. The Malaysian government has just radically reformed its long-established policy of ethnically-based economic quotas.

This policy shift shows that it is still possible to react to a deep recession by liberalising the economy rather than by increasing government controls. Elsewhere in Asia, India's government is also promising to renew liberal reforms in the teeth of a global downturn.

Malaysia's reforms are also a reminder that policies of "positive discrimination" should never be set in stone.

In 1971 Abdul Razak, the prime minister of Malaysia, introduced a New Economic Policy for his country, based on discrimination in favour of ethnic Malays. Almost 40 years later it has fallen to his son, Najib Razak, who became prime minister in April, radically to reform one of the most important discriminatory policies. The rule that Malays must own 30 per cent of most local companies was long regarded as the key to ensuring that they joined the property-owning boss class. But the equity quota for Malays has just been cut back to 12.5 per cent.

Efforts to improve the lot of ethnic Malays – the majority group in Malaysia - were inevitable in the early 1970s, given the social and ethnic tensions of the time. But the country is now a very different and much richer place. Malays are well represented in the professions and vastly over-represented in the country's public sector. The policy of quotas for Malay shareholders long ago degenerated into a system of privileges for well-connected insiders, rather than a genuine assault on poverty. Meanwhile, ethnic Indians and ethnic Chinese were discriminated against.

It is bold of the Malaysian government to cut back on ethnic quotas during a deep recession – when people are inclined to fight to hang on to their privileges. It is also the right move. When the whole of east Asia was booming, foreign investors were happy to overlook the peculiarities of the Malaysian market. But now that the competition for capital is hotting up, countries would be foolish to put unnecessary obstacles in the way of increasingly picky investors.

On one level, Malaysia's decision to reform its policy of ethnic preferences shows that the country is having to respond to tough times. But, more importantly, it also illustrates just how much progress the country has made since 1971.

FINANCIAL TIMES WEDNESDAY JULY 8 2009

How India must change if it is to be an advanced economy

Martin Wolf

What will the world economy – indeed, the world – look like after the financial crisis is over? Will this prove to be a mere blip or something more fundamental? Much of the answer will be provided by the performance of the two Asian giants, China and India. Rightly or wrongly, it is widely accepted that China will continue to grow very rapidly. But what is the likely future for India?

I attended debates on this question in Mumbai and Delhi two weeks ago. The occasion was the launch of a report prepared by the Centennial Group for this year's Emerging Markets Forum.* It addresses a provocative question: what would need to change if India were to become an affluent country in one generation? The answer is: a great deal. But one thing is clear: after the performance of the past three decades, the goal is not absurd.

Since 1980 the average living standards of Chinese and Indians have, for the first time in the histories of these two ancient civilisations, experienced a sustained and rapid rise. In one generation, India's gross domestic product per head rose by 230 per cent – a trend rate of 4 per cent a year. This would seem a fine accomplishment if China's had not increased by 1,090 per cent – a trend rate of 8.7 per cent. Yet even if India has lagged behind, the change has been large enough for aspiration to replace resignation as the ethos of a large and rising proportion of Indians.

The recent past offers at least four further reasons for optimism. First, the rate of growth has been accelerating: over the five years up to and including 2008, the average annual rate of economic growth was 8.7 per cent, up from 6.5 per cent at the previous peak in 1999. Second, vastly higher savings and investment underpin this acceleration, with gross domestic savings up to 38 per cent of GDP in the financial year 2007-08. Third, India's economy has globalised, with the ratio of trade in goods and services up to 51 per cent of GDP in the last quarter of 2008, up from 24 per cent a decade before. This is not far behind China's 59 per cent of GDP (see chart).

Finally, the democratic political system, for all its frailties, works. Indian democracy is a wonder of the political world. What happened in the past election seems a big development – the re-election of a Congress-led government, with a big increase in the party's seats. It is widely believed that this reflects a choice of competence over caste and secularism over sect. Not least, the electorate registered approval of the competence and integrity of Manmohan Singh, the prime minister. I have been lucky to have known Dr Singh for three and a half decades. I admire nobody more. I only hope he is prepared to use his possibly final period in office boldly.

So what needs to happen if Indians are to enjoy an affluent lifestyle? The answer, suggests the report, is that India must sustain growth at close to 10 per cent a year over a generation. This is not inconceivable: China has managed that, from a lower base, over three decades. But it is a massive task, particularly for so huge, diverse and complex a country. Extraordinary change would have to occur, inside India and in India's relationships with the world.

For this to be conceivable, at least four things would have to happen: the world must remain peaceful; the world economy must remain open; India must avoid the stagnation into which many middle-income countries have fallen; and, finally, the resource and environmental implications of its rise to affluence must be managed.

Moreover, India itself must overcome three big challenges: maintaining, indeed strengthening, social cohesion at a time of economic and social upheaval; creating a competitive and innovative economy; and playing a role in its region and the world commensurate with the country's size and rising importance. In fundamental respects, India must turn itself into a different country.

Not least, as the report makes clear, India would have to be governed quite differently. In India a vigorous, albeit too often corrupt, democratic process has been superimposed on the "mindsets, institutional structures and practices inherited from the British Raj". India has prospered despite government, not because of it. It is a miracle that the giant has fared as well as it has. But if this country is to prosper it must create infrastructure, provide services, promote competition, protect property and offer justice. The country must move from what the report calls "crony capitalism and petty corruption" to something different. The quality of government, now believed to be deteriorating, must, instead, radically improve.

Just how far the transformation would have to go is shown by the "seven inter-generational issues" on which this report focuses: first, tackling disparities, not least among social groupings, but without further entrenching group-based entitlements and group-based politics; second, improving the environment, including the global environment; third, eliminating India's pervasive infrastructure bottlenecks; fourth, transforming the delivery of public services, particularly in India's ill-served cities; fifth, renewing education, technological development and innovation; sixth, revolutionising energy production and consumption; and, finally, fostering a prosperous south Asia and becoming a responsible global power.

I take two big things from the analysis in this report, one for India and another for the world.

For India, I conclude that even sustaining recent performance is going to be really hard. The era when the country could prosper just by stopping government from getting in the way is ending. India now requires efficient, service-providing government by competent technocrats and honest politicians. Of course, many foolish interventions still need to be removed. The government also needs to refocus its limited energy and resources on its essential tasks. But it must also be able to perform these tasks far more effectively than it can today.

What I take for the world is that India, for all the huge challenges it confronts, is likely to continue its rise, if more slowly than the report assumes. The job of adjusting the familiar western ways of thinking about the world to the new realities has hardly begun. Within a decade a world in which the UK is on the United Nations Security Council and India is not will seem beyond laughable. The old order passes. The sooner the world adjusts, the better.

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Visit our online forum, where some of the world's leading economists debate topics raised in Martin Wolf's regular Wednesday column: **www.ft.com/econforum**

* *'India 2039: An Affluent Society in One Generation', Asian Development Bank 2009*

martin.wolf@ft.com

Rich nations must act on free trade

William Rhodes

We are now at a dangerous juncture in securing global economic recovery. The choice is between making a determined effort fully to implement the pledges made in the last two summits of the Group of 20, or to pursue the beggar-thy-neighbour path so disastrously taken in the 1930s. Unemployment is rising and, despite stimulus packages from Washington to Beijing, it will stay at very high levels for some time. In response, many politicians will push for trade and investment protectionism – indeed, they are already doing so.

I have been a banker for more than 50 years, mostly in international finance, and for the most part it has been an incredible journey, as constantly expanding trade and investment lifted nations from the wreckage of wars and recessions, contributed to extraordinary rises in incomes and strengthened discourse among peoples. But never in this period have we seen an economic and financial crisis as formidable as the current one. We need to recall that it was the Smoot-Hawley provisions of the 1930s that amplified and extended the Great Depression and that it was protectionist retaliation by key powers that contributed to the disastrous security tensions that emerged in that period.

Action is needed now to avoid such an outcome, and the place is the Group of Eight summit starting today in Italy. President Barack Obama and his partners must transform the unfulfilled rhetoric of the G20 into a confidence-building plan. The G20 leaders in April committed to "promote global trade and investment and reject protectionism, to underpin prosperity".

The G8 should provide the answer to a question that Pascal Lamy, director-general of the World Trade Organisation, has been asking with a mounting sense of frustration: "When will participants be ready to come back to the table at the political level?"

The seats for top officials at the Doha trade round table remain empty. And not only are the G20 commitments to pursuing the Doha round being seen as hollow, but a series of free trade agreements that the last US administration negotiated with Colombia, South Korea and Panama continue to languish in Washington.

Meanwhile, protectionism continues its rise in insidious ways. Very recently, the House of Representatives included trade protectionist provisions in the climate change and energy conservation bill, while earlier this year such provisions were added to the economic stimulus package. Fortunately, Mr Obama has been swift to speak out against these measures, but the congressional actions reflect rising political pressures today. Other countries are implementing similar protectionist regulations or requirements, including calls to "buy domestically" or to limit the issuance of work visas.

It is precisely the danger of one country retaliating against another's trade restrictions, leading to an ever more threatening spiral of restrictions and tensions, that is now the gravest risk. There are indications of this, for example, in the financial area. In response to the financial crisis, governments, one by one, are moving to stabilise their domestic situations by imposing inward-oriented measures on financial services firms, such as requiring them to curb foreign lending and boost domestic credit. Such provisions penalise developing countries in particular, while, more generally, undermining the flow of capital across countries. This raises the costs of trade finance and it undermines foreign direct investment. These measures exacerbate the more than 10 per cent plunge in global trade that is likely this year.

The danger of countries retaliating against trade restrictions, leading to a spiral of tensions, is now the gravest risk

The proliferation of domestic-oriented finance measures not only fragments the international financial system, but risks its disintegration. This will compound the damage done by rising nationalistic trade actions. Combine the finance and trade protectionist measures, and the potential for a slowing of economic recovery moves from a risk to a certainty. It could prolong the pain of the economic downturn on the millions of people and businesses who are suffering from the current crisis, while threatening the fabric of international understanding and co-operation between governments.

In recent days, both Mr Lamy and Robert Zoellick, World Bank president, have publicly expressed the need for urgent action to combat protectionism. Yet, on the eve of this G8 summit there is still no indication that the meeting will show that the full dangers of current trends are adequately understood at the highest levels of the governments of leading industrial nations. For example, it is likely that the G8 will announce new development assistance measures to support a major expansion of farming in the world's poorest countries, rightly seeing this as a better way to spend aid than consistently providing emergency food supplies. But this new initiative will fail unless the leading industrial countries open their own markets to a considerably greater degree to food imports from the developing world; right now there is scant indication that the G8 powers are willing to do this.

The time has come for the G8 to move from rhetoric to action to guard our global trading and investment system. In the US we also need to send the right signals to our friends abroad by ratifying the bilateral trade agreements that have already been negotiated and by actively pursuing a free trade agenda.

The writer is senior vice chairman of Citigroup

FINANCIAL TIMES THURSDAY JULY 9 2009

Unity on economy proves elusive

Leaders can only paper over cracks

Germany and UK split on strategy

By George Parker
In L'Aquila

The leaders of the richest countries yesterday failed to agree a concerted strategy to boost the global economy, in the face of diverging views on the state of the recovery and what to do next.

Angela Merkel, German chancellor, wanted the Group of Eight talks to focus on an "exit strategy" to plot an unwinding of huge fiscal and monetary stimulus packages, a sign of her concerns about rising borrowing and inflation.

Other leaders, such as Gordon Brown, Britain's prime minister, argued such talk was premature when the world still faced economic dangers, while others called for rich countries to implement existing stimulus plans.

Amid often conflicting economic forecasts – the International Monetary Fund upgraded its 2010 growth forecast yesterday but warned of a sluggish recovery – the best the summiteers could do was to paper over the cracks.

"Exit strategies will vary from country to country depending on domestic economic conditions and public finances," leaders of the US, Japan, Germany, Britain, France, Italy, Canada and Russia, said in a draft statement.

Barack Obama, US president, has left the door open for further stimulus measures, although he said spending more borrowed money was "potentially counterproductive".

Meanwhile, Mr Brown warned that the G8 summit should be a "second wake-up call" about the continued threat to the world economy, following April's Group of 20 summit in London. The UK prime minister believes that rising oil prices, protectionism and high unemployment could undermine a fragile economy.

Stephen Harper, Canadian prime minister, occupied the middle ground, saying the first priority was to spend wisely what had already been committed.

"We note some signs of stabilisation in our economies," the G8 draft said. "However, the economic situation remains uncertain and significant risks remain to economic and financial stability."

World leaders are expected to use a September G20 summit in Pittsburgh – covering both the world's richest countries and its emerging economies – as a chance to regroup.

However, the leaders did agree yesterday that $70-$80 was a fair price to pay for a barrel of oil, according to a spokeswoman for Dmitry Medvedev, the Russian president.

Persuading oil producers to agree to such a price range – and finding a mechanism to enforce it – remain much tougher questions.

Nicolas Sarkozy, French president, and Mr Brown have argued for a price range to be set, facilitated by more transparency over supply and demand for oil and by making markets more open.

Meanwhile, G8 leaders did not discuss the role of the US dollar as the key global currency during the talks on the economy, a Japanese government official said.

China had asked for a discussion of the dollar's role as world reserve currency, though it said the dollar would continue to be the leading reserve currency for years to come. The idea of questioning the role of the dollar in the midst of an economic crisis did not appeal to other G8 leaders.

Editorial Comment, Page 8

Plans and action

Yesterday's highlights and today's agenda

- In the climate change draft communiqué, G8 leaders agreed to limit increases in average global temperatures to 2°C
- The communiqué on the economy said: "The situation is still uncertain and risks do remain in the economic and financial sectors"
- Working sessions today will be open to the G5 countries (Brazil, India, China, Mexico and South Africa) and to Egypt, plus the United Nations and the World Bank

FINANCIAL TIMES THURSDAY JULY 9 2009

IMF sees end of global recession

Fund marks up growth forecasts

Recovery is on its way, says chief economist

By Krishna Guha and Sarah O'Connor in Washington and Michael Mackenzie in New York

The world economy is starting to pull out of recession, the International Monetary Fund said yesterday, marking up its growth forecasts for next year and hinting that it may reduce its estimates for bank losses.

"The recovery is coming," said Olivier Blanchard, IMF chief economist. But he cautioned "it is likely to be a weak recovery" and said policymakers needed to guard against economic and financial risks.

Investors signalled their doubts about the strength of the economic recovery by selling off commodities, notably oil and gold, and stocks.

The yen, a barometer of rising risk aversion, also rallied 3 per cent against the euro and the dollar.

The IMF report came amid clashes in the US Congress over the possible need for additional fiscal stimulus to fight rising unemployment.

Republicans attacked the current stimulus as a failure, while Democratic leaders in the House and Senate sent conflicting signals as to whether further stimulus might be needed.

The IMF now forecasts global growth of 2.5 per cent next year, up from 1.9 per cent in April, led by strong growth in China and India, a rebound in Japan and positive but sub-trend growth in the US. It upgraded its forecasts for Europe too, but still expects the eurozone to contract by 0.3 per cent next year, with export-led and bank-financed Germany declining 0.6 per cent.

The Fund inched down its forecast for global growth this year to minus 1.4 per cent.

The IMF did not update its closely watched estimates for losses facing banks and other financial institutions, which are under review.

However, Jose Vinals, IMF financial counsellor, said it would be reasonable to guess that the loss estimates would end up being lowered.

Mr Vinals said markdowns on securities "would be likely to be somewhat better now" following the improvements in financial markets.

Meanwhile estimates for loan charge-offs may be "somewhat smaller" because of the upgrade in the forecast for growth.

However, the IMF warned against complacency, saying it was too soon to implement "exit strategies" and highlighting several risks to recovery.

It urged further efforts to clean up the banking system, noting in a report for the Group of 20, issued alongside its updates, that "bank capitalisation remains a concern, notably in Europe."

The Fund also signalled concern that governments on both sides of the Atlantic had only "limited" success in dealing with problem assets.

FINANCIAL TIMES JULY 11/JULY 12 2009

Chinese lead way with good signals from Asia

By FT reporters

Chinese exports rose 7.5 per cent last month from May as Asia's second-largest economy generated its highest monthly shipments this year.

Similar signals emerged yesterday in month-on-month figures from South Korea, Japan, India and the Philippines, although, on a year-on-year basis, the data were uniformly negative.

Wen Jiabao, China's premier, was quoted in a government statement as saying: "An improvement in the economy does not mean the difficult period is over."

At $95.4bn (€68.5bn, £59bn), Chinese exports were down 21.4 per cent on a year-on-year basis though they were the highest monthly tally since December. Continued sluggishness in exports, a substantial net contributor to economic growth until the middle of last year, will add to pressure on Beijing to push on with the fiscal stimulus measures launched last December.

Imports rose 15.6 per cent from May, while declining 13.2 per cent year on year.

South Korea's economy appeared to have recorded its fastest quarterly growth for 5½ years in the April-June quarter, according to estimates released by the Bank of Korea as it published gross domestic product forecasts for 2009 and 2010.

While Japan reported a record 6.6 per cent year-on-year drop in producer prices for June, the decline from May was 0.3 per cent. India reported its fastest increase in industrial output in eight months, rising 2.7 per cent in May from a year before, more than double April's gain. The Philippines said its exports in May rose 10 per cent from April but were 27 per cent lower year on year.

Boosted by stimulus packages and low interest rates, South Korea's economy grew about 2.3 per cent in April-June over the previous quarter, following a 0.1 per cent rise in the first quarter. If confirmed when Seoul reports GDP data for the second quarter, that would mark the fastest quarterly growth since the fourth quarter of 2003.

The figures in the BoK's report would mean the economy contracted 2.5 per cent year on year. The BoK raised its forecast for the full year, saying the economy would contract 1.6 per cent against its April forecast of a 2.4 per cent contraction. It forecast growth of 3.6 per cent next year.

Reporting by Richard McGregor in Beijing, Song Jung-a in Seoul, James Lamont in New Delhi, Robin Harding in Tokyo and Zach Coleman in Hong Kong

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, JULY 1, 2009

To lift economy, Malaysia breaks its own ethnic taboo

BANGKOK

Barriers to investment are scaled back for minorities and foreigners

BY THOMAS FULLER

Najib Razak, the prime minister of Malaysia, announced Tuesday a major rollback in the system of ethnic preferences that has defined the country's political system for almost four decades.

The new policies, announced in a speech in Kuala Lumpur, would remove for most companies a requirement that they reserve 30 percent of their shares for ethnic Malays, the country's dominant ethnic group.

The 30-percent rule was once considered politically untouchable, and Mr. Najib described the change in policy as a "tricky balancing act."

Resentment over the ethnic preferences by Chinese and Indians, the country's main minority groups, was perhaps the main factor in large gains by the opposition in elections last year that nearly dismantled the governing coalition led by Mr. Najib's party, the United Malays National Organization.

"We want to be fair to all communities," Mr. Najib said after announcing the measures, most of which come into effect immediately. "No one must feel marginalized."

Mr. Najib, who came to power in April, also announced major steps toward lowering barriers for foreign investors. The government would immediately eliminate a special vetting process for foreign companies wanting to invest in, merge or take over a Malaysian company, he said.

"The global economic crisis is amplifying the need to be a preferred investment destination," Mr. Najib said.

Foreigners will be allowed to own 70 percent of mutual fund and stockbrokerage companies, up from the current level of 49 percent. Foreigners will also be able to buy property without any prior clearance from the country's Foreign Investment Committee, provided that it is selling for more than 500,000 ringgit, or about $140,000.

Malaysia's trade-dependent economy, whipsawed by the global economic crisis, is forecast to contract by 5 percent this year, and the measures are part of Mr. Najib's broader plan to transform Malaysia into developed nation, he said.

Mr. Najib's announcement leaves some ethnic preferences intact and

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INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, JULY 1, 2009

Ethnic Malays lose quotas favoring them in business

MALAYSIA, FROM PAGE 1

comes with caveats. But it dilutes one of the most important components of what is known as the New Economic Policy, first introduced in 1971: the requirement that companies listing on the stock exchange sell 30 percent of their shares to ethnic Malays.

That requirement was scrapped for companies already listed on the stock exchange and reduced to 12.5 percent for initial public offerings.

The 30 percent ownership requirement will remain in place for "strategic industries" like telecommunications, water, ports and energy.

The unique political system in Malaysia, where Malays and other ethnic groups considered sons of the soil, or bumiputra, are given privileges, both official and unwritten, has come under strain in recent years as resentment has built up not only among minority groups but also among poorer Malays.

The government offers bumiputras discounts on houses, scholarships and other perks. But some benefits, like government contracts and stock-market allocations, have been beyond the reach of working-class Malays.

"The benefits do not trickle down all the way," said Mohamed Ariff, executive director of the Malaysian Institute of Economic Research. He referred to a trend toward "alarming" levels of income inequality, especially within the Malay ethnic group itself.

Mr. Najib's success in rolling back the ethnic preference will depend in large part on his ability to hold together his coalition and fend off a resurgent opposition led by Anwar Ibrahim, a former finance minister.

Mr. Najib's coalition relies heavily on political patronage, especially the awarding of contracts and concessions, for its cohesion. Analysts say that Mr. Najib will have a hard time convincing party members that dismantling ethnic preferences is the right way to go.

Hishamuddin Rais, a columnist on political affairs, said Mr. Najib could anger the "warlords" among the ethnic Malay elite.

"This is a major shift," Mr. Hishamuddin said. "He will face a lot of resistance from his own party."

Mr. Najib's popularity has risen since he came to power, according to a recent opinion poll, but only a minority of those polled, 41 percent, said they thought the country was headed in the right direction.

"On the plus side he's seen as competent on economic issues," said Ibrahim Suffian, director of the Merdeka Center, a polling agency. "On the negative side his government is seen as arrogant, his party is seen as corrupt and the civil service is not seen as efficient."

The watering down of ethnic preferences, including a separate relaxation of ownership quotas for certain industries in April, is seen by analysts as stealing the thunder from the opposition.

Mr. Najib "will face a lot of resistance from his own party."

Mr. Anwar, who leads a diverse group of opposition parties, has used the issue of ethnic resentment to push Mr. Najib's party to a breaking point after five decades in power.

The opposition's gains in elections last year came after Mr. Anwar and his allies promised to undo the system of ethnic preferences.

By positioning himself as a reformer Mr. Najib appears to be calculating that he can stave off opposition advances and be seen as an agent of change.

"The world is changing quickly, and we must be ready to change with it or risk being left behind," Mr. Najib said.

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INTERNATIONAL HERALD TRIBUNE FRIDAY, JULY 3, 2009

Come together, right away

The G-8 is meeting at a time when international solidarity is critical.

Ban Ki-moon

The world is in the midst of multiple crises. Food. Fuel. Flu. Financial. We are struggling to overcome the worst global financial and economic crisis since the founding of the United Nations, while the effects of climate change and extreme poverty become ever starker.

The real impact of the crisis could stretch for years. Millions more families are being pushed into poverty. An estimated 50 million jobs could be lost this year alone.

This is the backdrop to next week's meeting of the Group of 8 in Italy. Rarely have the leaders of the world's wealthiest nations come together at a moment of such consequence as this.

We need international solidarity. That's why I have consistently spoken out for the needs of the vulnerable — those least responsible for the crisis and those least able to respond.

There has been progress. Prior to the G-20 meeting in London this spring, I called for a truly global stimulus package. The G-20 agreed on a substantial package of financial support totaling $1.1 trillion, the bulk of it to be made available through the International Monetary Fund, World Bank and other multilateral development agencies.

This is only a beginning. In the months ahead, we have a number of opportunities to strengthen global growth, mitigate climate change and combat extreme poverty.

I have just sent a letter to G-8 leaders urging concrete commitments and specific action to renew our resolve. I stressed the need to commit resources to help the poorest and most vulnerable adapt to climate change and to seal a deal in Copenhagen in December. I underscored the importance of delivering on pledges of aid to achieve the Millennium Development Goals.

I set forth three specific areas for action:

• First, we must mobilize our full strength for better real-time data on the impact of the economic crisis on the poorest nations.

We know the big picture: countries with low financial reserves; countries that face shrinking foreign investment, remittances and aid; countries where demand for exports has fallen. But we need a sharper lens with finer resolution.

I am marshalling the resources of the United Nations to monitor the impact of the crisis in real-time. We will launch the Global Impact and Vulnerability Alert System in the coming months. I am also mobilizing the entire United Nations system to support countries on food security, trade, a greener economy, stronger safety nets and a global jobs pact. The creation of decent jobs is not just a hoped-for outcome of economic recovery. It is an essential ingredient for economic recovery.

• Second, we must keep global commitments to help women and men move from vulnerability to opportunity.

In past economic crises, aid has been cut at the very time it is most needed. The current crisis cannot be an excuse to abandon pledges. Here's one example. By some estimates, annual aid to Africa is at least $20 billion below the promises made in Gleneagles in 2005. Surely, if the world can mobilize more than $18 trillion to keep the financial sector afloat, it can find more than $18 billion to keep commitments to Africa.

Evidence shows us precisely where more resources can transform lives, increase possibilities and expand human potential. It can be done by helping subsistence farmers increase productivity, access markets and improve food security; funding universal access to primary education; investing in global health and maternal health; and helping developing countries promote cleaner energy and green jobs.

• Third, we must work to reform international institutions for the 21st century. The multilateral structures created generations ago must be made more accountable, more representative and more effective.

The global economic crisis shows why we need a renewed multilateralism. We know that without adequate regulation, a breakdown in one part of the system has profound repercussions elsewhere. Challenges are linked. Our solutions must be, too.

BAN KI-MOON *is secretary general of the United Nations.*

INTERNATIONAL HERALD TRIBUNE WEDNESDAY, JULY 8, 2009

China is taking steps to free its currency

HONG KONG

Changes in renminbi use could lead to huge shift in global economic power

BY KEITH BRADSHER

The Chinese government is in the process of making its own currency, the renminbi, more readily convertible into other currencies, which would give it the potential over the long term to be used widely for trade and as a reserve currency — and, eventually, as an international alternative to the U.S. dollar.

China has tempered its recent calls for a major reserve currency other than the dollar before going into a meeting of the world's major industrialized countries and biggest emerging economies in Italy on Thursday. But Beijing also took another step this week toward establishing the renminbi as a global currency: On Monday, banks in China and Hong Kong began wiring renminbi-denominated sums to one another to settle payments for imports and exports.

The transactions between mainland China and semiautonomous Hong Kong, which are part of a pilot program to be quickly expanded to Macao and Southeast Asia, are the first step in what is likely to be a move toward the increasingly global use of the renminbi in settling trade transactions. But few expect China to move quickly.

"The pilot scheme can be seen as an experiment, and it would be logical to expect that the mainland authorities would see how the pilot scheme operates before considering expanding the scheme further," John Tsang, Hong Kong financial secretary, in a written response to questions Tuesday.

The day that the renminbi is fully convertible — more than a few years away, but perhaps less than a few decades — will most likely signal a huge shift in global economic power and a day of reckoning of sorts, not just for China but also for the United States, which will no longer be able to run up huge debts without economic consequences.

He Yafei, vice foreign minister for China, said Sunday that the dollar would remain the world's dominant currency for "many years to come."

Despite the slow, cautious pace at which China is moving, few experts on Chinese monetary policy doubt that the long-term direction of policy is toward strengthening the renminbi as an alternative to the currencies of industrialized nations.

"To many minds here in China, the U.S. dollar's time is almost up," wrote Stephen Green, an economist in the Shanghai offices of Standard Chartered, in a research note last Thursday. "The euro zone suffers from political paralysis and a too-conservative central bank, while two decades of economic stagnation and a shrinking population do the yen no favors."

For decades, China has shielded the renminbi behind high barriers. The authorities in Beijing prevented sizable amounts of the currency from building up beyond China's borders to allow them to control the exchange rate and tightly regulate the financial system.

By keeping the exchange rate low, China keeps its exports competitive.

But, as a result, almost all payments for Chinese imports and exports, as well

ALY SONG/REUTERS

as international investments in China and Chinese investments abroad, are made in dollars. Smaller sums cross China's borders as euros and yen, but seldom renminbi. China is now starting to tear down these walls and free the renminbi — a decision driven partly by recognition of the nation's rising role in the world economy and partly by disenchantment with the currencies and financial systems of the industrialized world during the current downturn.

"China definitely wants to reduce its dependence on the U.S. dollar," said Xu Xiaonian, an economist at the China Europe International Business School. "Given the quantitative easing of the Fed and the risk of worldwide inflation, it is understandable why China would want to accelerate the convertibility of the renminbi."

Chinese leaders tend to plan far ahead, however, and full convertibility for the renminbi is likely to take years, said three people who have discussed the issue with policy makers at China's central bank.

All three said that China's recently announced goal of turning Shanghai into an international financial center by 2020 meant that China probably wanted a renminbi that was fully convertible into other currencies by then.

Full convertibility is necessary for other countries' central banks to hold renminbi in their foreign exchange reserves instead of the dollar, but not sufficient by itself. China also needs to show long-term economic and financial stability — something it has demonstrated over the past year in greater abundance than most countries.

Currency specialists and economists estimate that China still holds nearly three-quarters of its $2 trillion in foreign reserves in the form of dollar-denominated assets. But these holdings have nearly stopped growing since the global financial crisis began last September, as the Chinese authorities have also shifted away from the longer-maturity bonds and the securities of government-sponsored enterprises like Fannie Mae, and toward shorter-dated securities, especially Treasury bills.

Zhou Xiaochuan, the governor of the People's Bank of China, called this spring for a greater role in the global financial system for special drawing rights, a unit of account used in dealings with the International Monetary Fund. But Mr. He, the vice foreign minister, said Sunday that such discussions were an academic exercise.

Eswar S. Prasad, the former head of the I.M.F.'s China division, said that senior Chinese central bankers had told him that Mr. Zhou's suggestions about using special drawing rights as a kind of global currency were intended to stimulate debate and that China's main goal was to enhance the role of its own currency.

"The Chinese authorities see full convertibility as a long-term objective. Recognizing this is essential for the renminbi to become an international reserve currency," Mr. Prasad said.

Full convertibility of the renminbi would not be an unalloyed benefit for China, because it would be harder, although not impossible, for China's central bank to continue controlling the currency's value in terms of the dollar. A sharp rise in the renminbi could drive thousands of export factories out of business and cause large-scale layoffs, which the Communist Party fears as potentially destabilizing. A more volatile currency would also require Chinese businesses to develop more sophistication in managing risk and most likely involve losses along the way among those that fail to do so.

In the past several months, the Beijing authorities have begun moving to let central banks from Argentina to Malaysia settle payments in renminbi with China's central bank. On Monday, the government moved gingerly toward allowing the private sector to handle more renminbi beyond mainland China's borders.

The new program is restricted to companies in Shanghai and in the biggest cities of Guangdong Province, a center of exports next door to Hong Kong. Companies in these cities are now eligible to send or receive payments in renminbi with customers or suppliers in

CURRENCY, PAGE 16

INTERNATIONAL HERALD TRIBUNE MONDAY, JULY 13, 2009

TANGLED TRADE TALKS

A global commitment to complete a stalled trade agreement is essential for economic recovery.

There are few things that could do more damage to the already battered global economy than an old-fashioned trade war. So we have been increasingly worried by the protectionist rhetoric and policies being espoused by politicians in the United States and across the globe.

Against this bleak backdrop, it is especially good news that the world's leading developed and developing nations have committed to complete a stalled global trade agreement (the so-called Doha Round) by next year. For that to happen, leaders — especially in the U.S., Europe, India, China and Brazil — are going to have to muster real political courage.

The World Trade Organization forecasts that exports from developed countries will fall 14 percent this year, while exports from developing nations will contract 7 percent. The collapse is particularly damaging for poor countries that are heavily dependent on exports. But it is also intensifying the downturn in many rich countries. Reviving trade is essential for economic recovery.

The talks, begun in Doha, Qatar, in 2001, had long been in limbo. They broke down last year after big developing countries — China and India, in particular — rejected demands from the wealthy nations that they lower tariffs on imports of agricultural and manufactured goods and open service sectors to more competition.

But there are signs that the collapse in trade and the rising protectionist rhetoric have awoken many leaders to the advantages of strong international rules to keep trade channels open. This is particularly true of China, which has suddenly found its exports on the receiving end of tariff increases and antidumping suits.

There is no guarantee that a deal can be pulled off. President Obama will have to provide lots of leadership to convince developing countries to make serious offers on market access, and to convince reluctant legislators that they will have to make concessions, too.

Big developing countries have been reluctant to reduce tariff ceilings, allowing themselves the option to increase their tariffs at any moment. They have been unwilling to open service sectors to foreign competition. They insist on being able to increase their barriers to protect farmers against sharp increases in food imports from cheaper producers abroad. They must be willing to make concessions on these points.

The rich West will also have to give more. The U.S. and Europe must slash agricultural subsidies more aggressively and refrain from adding more. The U.S. will have to reduce its own agricultural barriers — such as the one against Brazilian ethanol. It might have to offer more visas to professionals from countries like India.

The Doha Round was originally conceived in the wake of the 9/11 attacks as a way to encourage development in the poorest countries by providing them access to export markets in the rich world. This is still its goal.

The Group of 8 industrialized nations took an important step on Thursday by pledging to invest $20 billion over three years to boost agricultural production in some of the world's poorest countries. We were made nervous by reports on Friday that suggested some contributors might already be rethinking their generosity.

So far, Mr. Obama has been reluctant to spend any political capital at home on trade. But it is important for the president to follow through. The talks opened in Doha were supposed to help the world's poorest countries. They have now acquired an even broader purpose: reviving global cooperation and the global economy.

INTERNATIONAL HERALD TRIBUNE
SATURDAY-SUNDAY, JULY 11-12, 2009

The stimulus trap

Paul Krugman

As soon as the Obama administration-in-waiting announced its stimulus plan — this was before Inauguration Day — some of us worried that the plan would prove inadequate. And we also worried that it might be hard, as a political matter, to come back for another round.

Unfortunately, those worries have proved justified. The bad employment report for June made it clear that the stimulus was, indeed, too small. But it also damaged the credibility of the administration's economic stewardship. There's now a real risk that President Obama will find himself caught in a political-economic trap.

I'll talk about that trap, and how he can escape it, in a moment. First, however, let me step back and ask how concerned citizens should be reacting to the disappointing economic news. Should we be patient and give the Obama plan time to work? Should we call for bigger, bolder actions? Or should we declare the plan a failure and demand that the administration call the whole thing off?

Before you answer, consider what happens in normal times.

When there's an ordinary, garden-variety recession, the job of fighting that recession is assigned to the Federal Reserve. The Fed responds by cutting interest rates in an incremental fashion. Reducing rates a bit at a time, it keeps cutting until the economy turns around. At times it pauses to assess the effects of its work; if the economy is still weak, the cutting resumes.

During the last recession, the Fed repeatedly cut rates as the slump deepened — 11 times over the course of 2001. Then, amid early signs of recovery, it paused, giving the rate cuts time to work. When it became clear that the economy still wasn't growing fast enough to create jobs, more rate cuts followed.

Normally, then, we expect policy makers to respond to bad job numbers with a combination of patience and resolve. They should give existing policies time to work, but they should also consider making those policies stronger.

And that's what the Obama administration should be doing right now with its fiscal stimulus. (It's important to remember that the stimulus was necessary because the Fed, having cut rates all the way to zero, has run out of ammunition to fight this slump.) That is, policy makers should stay calm in the face of disappointing early results, recognizing that the plan will take time to deliver its full benefit. But they should also be prepared to add to the stimulus now that it's clear that the first round wasn't big enough.

The very weakness of the economy undermines the Obama administration's ability to respond effectively.

Unfortunately, the politics of fiscal policy are very different from the politics of monetary policy. For the past 30 years, we've been told that government spending is bad, and conservative opposition to fiscal stimulus (which might make people think better of government) has been bitter and unrelenting even in the face of the worst slump since the Great Depression. Predictably, then, Republicans — and some Democrats — have treated any bad news as evidence of failure, rather than as a reason to make the policy stronger.

Hence the danger that the Obama administration will find itself caught in a political-economic trap, in which the very weakness of the economy undermines the administration's ability to respond effectively.

As I said, I was afraid this would happen. But that's water under the bridge. The question is what the president and his economic team should do now.

It's perfectly O.K. for the administration to defend what it's done so far. It's fine to have Vice President Joseph Biden touring the country, highlighting the many good things the stimulus money is doing.

It's also reasonable for administration economists to call for patience, and point out, correctly, that the stimulus was never expected to have its full impact this summer, or even this year.

But there's a difference between defending what you've done so far and being defensive. It was disturbing when President Obama walked back Mr. Biden's admission that the administration "misread" the economy, declaring that "there's nothing we would have done differently." There was a whiff of the Bush infallibility complex in that remark, a hint that the current administration might share some of its predecessor's inability to admit mistakes. And that's an attitude neither Mr. Obama nor the country can afford.

What Mr. Obama needs to do is level with the American people. He needs to admit that he may not have done enough on the first try. He needs to remind the country that he's trying to steer the country through a severe economic storm, and that some course adjustments — including, quite possibly, another round of stimulus — may be necessary.

What he needs, in short, is to do for economic policy what he's already done for race relations and foreign policy — talk to Americans like adults.

THE JAPAN TIMES TUESDAY, JULY 7, 2009

Malaysia demands bank charge proof

North Korea, Myanmar deal was facilitated locally: reports

Kuala Lumpur
AP, AFP-JIJI

Malaysia called on the United States on Monday to produce evidence on media allegations that a Malaysian bank is involved in weapons payments to North Korea.

Kuala Lumpur also pledged to work with Washington to block Pyongyang from using the Southeast Asian nation's banks to fund any arms deals.

Reports from South Korea have said that North Korea sought payment through an unnamed Malaysian bank for a suspected shipment of weapons bound for Myanmar, which was being tracked by the U.S. Navy.

As a U.S. envoy on sanctions against North Korea flew into Kuala Lumpur, Malaysian Foreign Minister Anifah Aman said the government "does not condone" money laundering and was willing to cooperate to prevent illegal payments.

"If America has any information that is available to them, then I think they should give it to us so we can act upon it," he told a news conference when asked about the allegations on North Korean payments.

"We are not going to act on every accusation that is being leveled at us because that is virtually impossible. If they have evidence we will be most willing to work together to solve the problem."

Anifah's comments came as Philip Goldberg, the U.S. State Department's envoy on coordinating implementation of sanctions against North Korea over its May nuclear test, held talks with Malaysian banking and government officials.

"We are sharing information," Goldberg told a news conference when asked whether he could confirm or reject the allegations involving Malaysia in the South Korean media.

"We want to make sure the whole international banking system is safe and secure," he said.

"There is a very strong willingness from Malaysia and other countries to do their part."

South Korea's Yonhap news agency reported over the weekend that Goldberg's visit would focus on ways to block payment for the suspected weapons cargo on board North Korean freighters.

Quoting unidentified sources, it said that North Korea had received an initial payment for the shipment but that the majority owed was still with the Malaysian bank.

Meanwhile, the Kang Nam 1 freighter, which left North Korea on June 17, was expected to return home later Monday after aborting its voyage, South Korea's Defense Ministry said.

It was the first North Korean ship to be tracked under new United Nations sanctions imposed on the hardline communist country on June 12 following a nuclear test in May.

Malaysian Prime Minister Najib Razak reportedly denied any involvement by Malaysian banks in the North Korean weapons trade.

"No, we don't indulge in illicit arms trading," he said, according to the Star daily's Web site.

Lee insulted 10 times a day

Seoul AFP-JIJI

North Korea's official media has insulted South Korean President Lee Myung Bak some 1,700 times — about 10 times a day on average — so far this year, a Seoul official said in an article seen Monday.

The figure, as of June 22, compares with an average of eight daily attacks last year, said Lee Chan Ho, a chief analyst with the Unification Ministry.

Relations have worsened sharply since Lee took office in February 2008 and rolled back the "sunshine" aid and engagement policy of his liberal predecessors.

As of midmorning Monday, the North's official Korean Central News Agency had already referred to the South Korean president as a fascist, the leader of a "group of traitors" and a dictator.

THE JAPAN TIMES WEDNESDAY, JULY 8, 2009

U.S.-proposed 'green tariffs' raise Asia's ire

MICHAEL RICHARDSON

Singapore

When U.S. lawmakers recently approved legislation to limit U.S. emissions of carbon dioxide and other greenhouse gases, it was widely hailed as an important new step in confronting climate change. Under the Bush administration, the United States refused to join other industrialized nations in capping emissions, arguing that to do so would add unfair costs to business and blunt its competitive edge.

But the applause for the Obama administration and the Democratic Party in pushing for a cap-and-trade law in Congress has since diminished as critics scrutinize the details. One provision that has caused concern was slipped in shortly before the House of Representatives passed the bill on June 26.

It requires the president, from 2020 onward, to impose special import taxes on goods from countries that have not enacted and enforced similar cap-and-trade controls on their global warming emissions. Only Congress can authorize the president to waive the imposition of tariffs. With economies around the world still weak, credit tight and international trade shrinking, the prospect of protectionism spreading in many different forms alarms trade-dependent Asian nations. China has condemned the U.S. for resorting to "trade protectionism in the disguise of environmental protection" while India says it is "pernicious" to use climate change as a nontariff barrier.

When heads of government of the Group of 20 leading developed and developing economies met in Washington for the first time in November, they pledged not to introduce any new protectionist measures for at least 12 months and restart stalled negotiations to liberalize world trade. They have failed dismally on both counts.

Since then, the World Bank and the World Trade Organization have recorded dozens of breaches by G-20 countries — including the U.S., Europe, China, India and many others — of their promises not to subsidize exports or shield domestic industry from foreign competition to preserve jobs.

Are we heading for yet another version of protectionism, one with "green" tariffs? The U.S. measure is not yet law. The cap-and-trade legislation, which enables companies to buy and sell pollution permits while they comply with progressively tighter limits on emissions, has yet to pass the Senate, where it is expected to face tough opposition.

U.S. President Barack Obama has indicated he is concerned about the green tariff proposal, but has not said whether he would veto the provision.

Supporters say a tariff is needed to shield U.S. industries that use or produce lots of energy, and whose goods are traded globally. Otherwise such industries, which include steel, aluminum, cement, chemicals, coal, oil and natural gas, could be placed at a disadvantage compared with their counterparts in other countries without strict regulations to control emissions.

Similar arguments about the need for border adjustment taxes first emerged last year in the European Union, the world's second largest market after the U.S., during debate over the EU's emissions trading scheme.

To ensure that energy-intensive industries did not shift production to Asia or other regions with less stringent rules to protect the environment, the European Commission proposed that importers pay the same emission charges for non-European goods as domestic producers, in effect imposing hefty green tariffs on "dirty" imports. "We want industry to remain in Europe," said EC president Jose Manuel Barroso. "We don't want to export our jobs to other parts of the world."

The U.S. is now moving toward a similar system to price, cap and trade emissions with an inbuilt protectionist measure. As in Europe, it may be part of the negotiating tactics by industrialized powers to put pressure on developing countries to comply with any new international deal to limit global warming gases and prevent potentially catastrophic climate change. The deal is supposed to be finalized by December.

Under the Kyoto Protocol, the existing treaty that expires in 2012, only industrialized economies are obliged reduce emissions, even though developing countries are expected to become the dominant global warming gas producers in future as their growth continues to outstrip the West.

However, China, India and other big emerging Asian economies are refusing to put mandatory restrictions on their industries, fearing it will drive up costs and undermine growth. They point out that most emissions from burning fossil fuels since the industrial revolution started in Europe over 200 years ago have come from the West, that per person emission levels are far higher in the West than the developing world, and that many of the goods manufactured in developing countries are produced by Western investors for export to Western markets.

Developing countries are likely to retaliate against environmental protection measures imposed by the West and challenge them in the WTO, adding to the trade tensions and protectionist poison infecting international relations.

In the negotiations leading to the climate summit in Copenhagen in December, developing countries are being asked to draw up national action plans setting out how they will try to curb emissions and promote clean energy.

Probably the toughest challenge facing the negotiators is to craft a compromise deal that will synchronize the obligations of both developed and developing nations in a way that is seen to be fair and effective.

Michael Richardson is a visiting senior research fellow at the Institute of South East Asian Studies in Singapore.

THE JAPAN TIMES FRIDAY, JULY 10, 2009

Wisdom of an Asia rising

BRAD GLOSSERMAN

Seoul

According to conventional wisdom, the global economic crisis is accelerating the transfer of power and influence from the West to Asia. The United States has been particularly hard hit by the downturn and America's loss is China's gain.

The Group of Eight industrialized nations, the traditional locus of power, has been fatally wounded. In the future, goes the argument, the most important forum will be the Group of 20.

If this analysis is correct, it suggests that another fundamental shift in global economic activity is due. Western demand will no longer serve as the primary engine of growth. Instead, Asian nations will abandon export-oriented economic models and embrace domestic consumption to generate growth. That will put in train another set of "knock-on effects," the most important being the development of social safety nets that no longer oblige their citizens to save so much of their income and instead encourage them to consume.

As usual, the conventional wisdom blurs hope and reality. The ultimate impact of the economic crisis is far from certain and the future contours of the global economy remain unclear. Trends have emerged, but their trajectories can change.

Start with the assumption that the West has been harder hit by the crisis than the rest of the world. That is true: The West has lost more wealth, but it had more wealth to lose. And the gap between Asia and the West had been narrowing for over a decade as a result of Asia's growth. The most important question is which economic model will facilitate a faster, more resilient and more durable recovery. Will the American-British model — hopefully modified to trim its excesses — beat the state-centered approach that prevails in Asia?

There is a hint of smugness these days among Asians when conversation turns to the impact of the downturn on the U.S. Since the U.S is the final market for many Asian products and many Asian governments hold considerable amounts of dollar-denominated assets, schadenfreude is a mistake. The much-talked about "decoupling" of the trans-Pacific economies hasn't happened. As long as the U.S. economy stumbles, Asia is unlikely to experience sustained growth.

All recognize that this relationship has to change. The massive imbalances — the U.S. with its trade and current account deficits, Asia with its surpluses — are unsustainable. But recalibration will take time and will require Asian governments to reverse long-standing attitudes.

First, those governments have to stimulate domestic demand. One option is infrastructure development. Asia's needs are conservatively estimated at hundreds of billions of dollars. But while those projects are needed to spur regional development, they do nothing to absorb the billions of dollars of products produced in Asia. Ultimately, a consumer market is needed to replace U.S. demand.

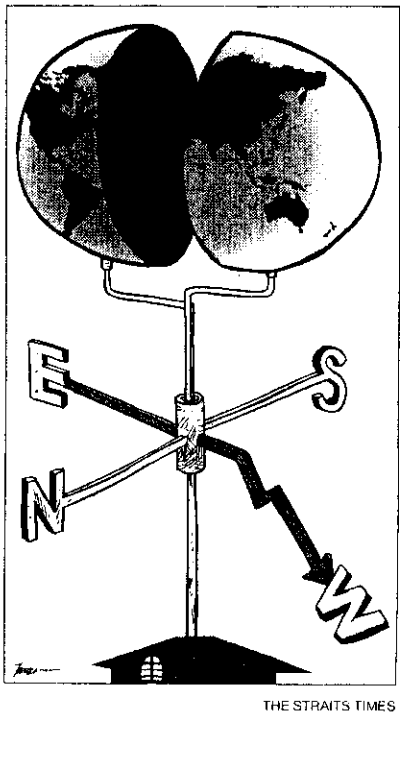
To do that, governments must develop welfare systems so that their citizens don't feel compelled to save so much. Savings rates throughout the region are high because citizens worry about having enough money when they retire.

Equally important, Asian governments must create new relationships with their citizens. Historically those governments have kept a tight grip on capital to direct funds to targets deemed worthy, whether for favored enterprises or "strategic" sectors of the economy. Consumption-led economies require greater consumer autonomy, a fundamentally alien mind-set for most Asian governments and their powerful bureaucracies.

Asian governments are deeply engaged in social engineering, whether for nation-building and economic development or as a result of just plain authoritarianism. Control of the purse strings is the easiest way to create and shape desired outcomes. Loosening this grip is critical to the creation of domestic demand-driven economies, and is a step that goes against the instincts of virtually every Asian government.

This mind-set will influence the utility of the G-20, the other "beneficiary" of the current crisis. There is little doubt that the G-8, "the rich man's club" of nations, is past its prime. The annual summits have become little more than photo ops that produce largely empty declarations.

The G-20, which represents some 80 percent of the world's wealth, is a far more representative group: Its members come from all over the world, and they represent a wider range of political, economic and social models. That diversity has its drawbacks, though: Reaching consensus is difficult and agreements are largely rhetorical.



THE STRAITS TIMES

It should come as no surprise, for example, that despite the group's pledge in November 2008 to avoid protectionism, a World Bank study found that 17 members had adopted new trade-restricting measures by the following April.

The leadership needed from groups like the G-20 requires governments to put global interests before narrow parochial ones. This entails the assumption of responsibilities and costs that may go against a narrowly defined national interest. Asian governments have shown little inclination to take up those burdens. They demand a seat at the table — which they have earned — but are reluctant to assume the costs of real leadership.

Instead, leadership has looked a lot like mediation: providing a forum for discussion and looking for lowest common denominator solutions. That is acceptable in many cases, but it is unlikely to work when dealing with tough international issues. The desire to engage in social engineering is problematic for economic leadership. In this arena, rules are made to maximize the group's welfare, not just that of an individual nation.

Yet, a government's pursuit of particular social outcomes means that economic rationality isn't necessarily guiding its decision-making; politics usually is. And that narrow conception of national interest means that it is less likely to press for solutions that fit other countries' needs.

The most important factor shaping the global economy will be the spread of a "Green mentality." While human dignity and equality demand that hundreds of millions more individuals should enjoy future prosperity, transplanting the Western model of consumption to Asia would be a disaster. "A chicken in every pot" and "a car in every garage" would exact an extraordinary toll on the planet.

Asia's growing middle class should not be deprived of the hard-won fruits of their success, but those societies should not emulate the West, especially if that means repeating its mistakes. They need to develop notions of "the good life" and "success" that better coexist with an increasingly burdened planet.

A key component of this mind-set, and one that will have a powerful impact on future growth and economic potential, is green production. Manufacturers need to develop production models that use resources more efficiently: This will include leaner production methods, generation of less waste, use of recyclable materials, and consumption of less energy. Countries that recognize this model and shift to green production will be tomorrow's "winners."

Critical to this process are consumers who demand greener products. This may well determine Asia's future. If the ordinary citizen's consciousness is "green," then industry will follow suit. If this occurs, then one of the most powerful emerging forces in the global economy will be driving real and substantive change. Then the conventional wisdom may prove accurate after all.

Brad Glosserman is executive director of the Pacific Forum CSIS and a Japan Times contributing editor.

THE JAPAN TIMES TUESDAY, JULY 14, 2009

Why is Japan introverted?

KAZUO OGOURA

The number of students from China, South Korea and other Asian countries studying at American or European universities have, in general, been increasing over the years. Although there was a time when such a tendency was checked due to the increasing complexity of entry procedures into the United States, or to the depreciation of Asian currencies, the desire of Chinese, Korean and Southeast Asians to study in the U.S. or in Europe has not waned.

Businessmen, technicians and artists — from Mumbai to Seoul — seek a place of activity in the U.S. and in Europe.

Although it can be said that the number of Japanese students who wish to study in China and South Korea have increased, their general interest in studying abroad is not very positive. This phenomenon is not limited to students alone. Government officials as well as businessmen increasingly prefer to work within Japan rather than go abroad.

In comparison with the situation 10 to 20 years ago, a glance at Japanese people living or working abroad today shows a decreasing tendency for them to earnestly learn the language, or to study in depth the culture or history, of the country where they are posted. This tendency is not confined to the young alone. It appears that the Japanese people as a whole have become "domestic-oriented" or "introverted."

Why should it be so?

Is it because the mounting number of elderly people and the decline in the birthrate are causing a loss of vitality in Japanese society as a whole and making it move in the direction of security rather than dynamism?

Or is it because Japanese society, as compared to some other countries, is a stable and affluent one that enjoys a good environment, public security and order, and does not lack for tasty food, nice clothing and comfortable shelter?

Or could it be due to the drop in Japanese activities in the international arena in the wake of financial deficits and prolonged economic stagnation?

None of these reasons can be ignored; however, the real truth lies elsewhere. It lies in the relations between Japan and the international community.

Ever since the 1970s, Japan, through its economic and technological power, has established factories and business bases around the world. It has also played an active part in international affairs, particularly in the area of economic development. Such Japanese power, buttressed by bureaucrats and businessmen, was symbolized by the large amount of Official Development Assistance, trade volume and investment, which are now rapidly diminishing in quantity.

Today the point of contact between Japan and international society is no longer Japan's "quantitative" power. Rather, as is symbolized by the popularity of the "soft power" concept, the point of contact between Japan and the international community is rapidly shifting to the qualitative: sentiments of the modern man as exemplified in the literary works of Haruki Murakami, manga, animation, costume play or the postmodern sensibility innate in *otaku* culture. In other words, Japan's international contribution is shifting from the quantitative to the qualitative.

Environmental measures such as the "*mottainai* spirit" (even debris is precious), the use of the *furoshiki* (wrapping cloth) and the practical application of robots in welfare work are all manifestations of the Japanese spirit replacing the traditional idea of modern civilization. This can be called the "qualitative contribution" to the international community.

In order to carry out such qualitative, spiritual, cultural, ideological contributions, however, we must begin by redefining and reconstructing the meaning of Japanese tradition, culture and spirit.

It is now up to the Japanese people to, once again, take a good look at themselves and redefine and reconstruct the Japanese spirit. On no account has Japan become introverted because of a negative and shrinking spirit. Rather, the country at present is in the transitional process of redefining "Japan" so that she can make a new appeal to international society.

Kazuo Ogoura, a political science professor at Aoyama Gakuin University, is president of The Japan Foundation.

Bangkok Post 2.0 BETA The world's window to Thailand

June CPI drops 4%

By: BangkokPost.com
Published: 1/07/2009 at 10:13 AM

The consumer confidence index (CPI) for June stood at 104.7, a decline of 4 per cent from the same month last year, but it was 0.4 per cent higher than that of May, the Ministry of Commerce announced on Wednesday.

The average core CPI, excluding foods and energy, was 102.5, a drop of 1 per cent from the same month last year, but an increase of 0.2 per cent from a previous month.

The consumer price index for food and beverage dropped 0.4 per cent from May to stand at 116.4, while the index for non-food and beverage stood at 97.2, an increase of 1 per cent from May but a decline of 9.4 per cent when compared to the same month last year.

Bangkok Post The world's window to Thailand

Greying Asia faces pensions time bomb: ADB study

Writer: AFP
Published: 11/07/2009 at 04:59 PM

Asia is facing an ageing crisis with weak and inadequate pension systems and family-based support dwindling, a leading development bank said Saturday."A young continent reaping the demographic dividend of a large youthful workforce is giving way to a greying continent where the ratio of retirees to workers is on the rise," senior Asian Development Bank economist Park Donghyun said in a study released by the Manila-based lender.Improved female education and better medical care is inducing Asians to have fewer children, allowing them to live longer and causing a "seismic" demographic shift, Park said.

The median age of China, Indonesia, South Korea, Malaysia, Singapore, Thailand and Vietnam "will exceed the world average by 2050" which spells trouble for their pension systems along with that of the Philippines, the study said.The greying phenomenon is more pronounced in East and Southeast Asia than in South Asia, it added."In contrast to industrialised countries, most Asian countries do not yet have mature, well-functioning pension systems," Park said."As a result, they are ill-prepared to provide economic security for the large number of retirees who loom on the horizon."

The bank found "key systemic failures" including low coverage, inadequate benefits, lack of financial sustainability and insufficient support for the elderly poor".Meanwhile "the weakening of informal family-based old age support mechanisms suggests a greater role for formal pension systems throughout the region".Asians have traditionally looked to their children to take care of their material needs in old age, in effect relying on a substitute pension system in a region where it was not uncommon for three generations to live under one roof.However, rapid urbanisation and the reduced role of agriculture in the economy "are creating a vacuum in Asia?s old age support, a vacuum that must be filled by formal pension systems".

The study warned that globalisation had also weakened job security, pushing large numbers of people into the informal sector, where they enjoy no pension or labour protection coverage.Park said the pension systems of the eight countries covered a mere 13.2-58 percent of the labour force, with the coverage rates for working-age populations at just 10.8-40 percent.These compare poorly with around 90 percent of the labour force of developed countries and between 60 and 75 percent of the working-age population, the economist added.

The Jakarta Post
Published on The Jakarta Post (http://www.thejakartapost.com)

Asian markets gain on positive Chinese data

The Associated Press , Bangkok | Wed, 07/01/2009 1:33 PM | Business

Most Asian stock markets clawed higher Wednesday after data showed the region's two biggest economies are inching toward economic recovery.

Investors seemed to brush off an overnight drop on Wall Street, where stocks were dragged down by an unexpected drop in U.S. consumer confidence. Many were counting on Thursday's release of U.S. jobs data for signals on whether recovery hopes are justified after a three-month rally in global markets.

"We'll tread water for awhile. It depends on the numbers coming out of the largest economy in the world," said Lucinda Chan, a director at Macquarie Private Wealth in Sydney.

Japan's Nikkei 225 index was up 97.04 points, or 1 percent, to 10,055.48 and South Korea's Kospi gained 1.8 percent to 1,414.56. Hong Kong's market was closed for a public holiday.

Elsewhere, Australia's main index fell 1.8 percent, while Taiwan's index jumped 2.2 percent a day after the island's government announced it had opened key parts of the manufacturing and services sectors to Chinese investment.

In mainland China, the Shanghai Composite index added to its huge rally, climbing 1 percent to 2,989.54. For the first half of the year that ended Tuesday, the index surged 62.5 percent.

Chinese manufacturing expanded in June, two surveys showed, adding to signs the world's third-largest economy is rebounding from the collapse in global trade, even though few new jobs were created.

Brokerage CLSA Asia-Pacific Markets said its purchasing managers index ose to 51.8 from May's 51.2 on a 100-point scale where numbers above 50 show activity expanding. The state-sanctioned China Federation of Logistics and Purchasing said its own PMI edged up slightly to 53.2 from May's 53.1.

In Tokyo, the central bank's "tankan" survey reflected a slight uptick in gloomy crporate sentiment, suggesting the world's second-largest economy is crawling rather than sprinting out of recession.

The most-watched index of the quarterly survey, which measures confidence at major manufacturers, rose to minus 48 from minus 58 in March, its worst reading ever. The figure represents the prcentage of companies saying business conditions are good minus those saying conditions are unfavorable. The lower the number, the greater the pessimism.

The results were a bit worse than expectations, but still fell within tolerable levels and pointed toward a gradual economic recovery. Industrial produion in Japan has bounced back in recent months after tumbling earlier this year.

In the second quarter, the Nikkei index soared 23 percent in its best three-month performance since 1995. Further gains are likely in store this quarter, said Takuro Hayashi, an equity analyst, at Cosmo Securities in Tokyo.

"Stocks may cool off at one point, but the overall outlook looks strong," Hayashi said.

U.S. stock index futures were up modestly, suggesting Wall Street would rebound from Tuesday's drop. Dow Jones industrial futures were up 26 points, or 0.3 percent, to 8,420, while S&P 500 futures were up 2.6 point, or 0.3 percent, to 918.10.

U.S. markets fell Tuesday amid disappointment in a decline in consumer confidence following big jumps in April and May, as measured by a private group called the Conference Board. Consumer spending from consumers accounts for more than two-thirds of U.S. economic activity.

The Dow fell 82.38, or 1 percent, to 8,447.00, while the S&P 500 index fell 7.91, or 0.9 percent, to 919.32, while the Nasdaq composite index fell 9.02, or 0.5 percent, to 1,835.04.

After Thursday's U.S. jobs number, investors will be paying close attention in coming weeks will be second-quarter earnings reports from U.S. companies and their forecasts for the rest of the year.

Oil above $70 a barrel in Asia as a drop in U.S. crude inventories suggested demand may be picking up. Benchmark crude for August delivery rose 59 cents to $70.48 a barrel in electronic trading on the New York Mercantile Exchange.

In currencies, the dollar rose to 96.80 yen from 96.34, while the euro was little changed at $1.4034.

Source URL: http://www.thejakartapost.com/news/2009/07/01/asian-markets-gain-positive-chinese-data.html

The Jakarta Post
Published on The Jakarta Post (http://www.thejakartapost.com)

Washington takes new look at Jakarta under Obama: Envoy

Ary Hermawan , The Jakarta Post , Jakarta | Thu, 07/02/2009 12:04 PM | World

The historic election of US President Barack Obama has marked a new era in Indonesia-United States relations, however one cannot overlook the fact that relations had improved — although not dramatically — before the first US black president walked into the White House.

"I think, to be fair with president Bush, you had this moderate improvement on a steady pace while president Bush was in office," US Ambassador to Indonesia Cameron R. Hume told The Jakarta Post at his office on Tuesday.

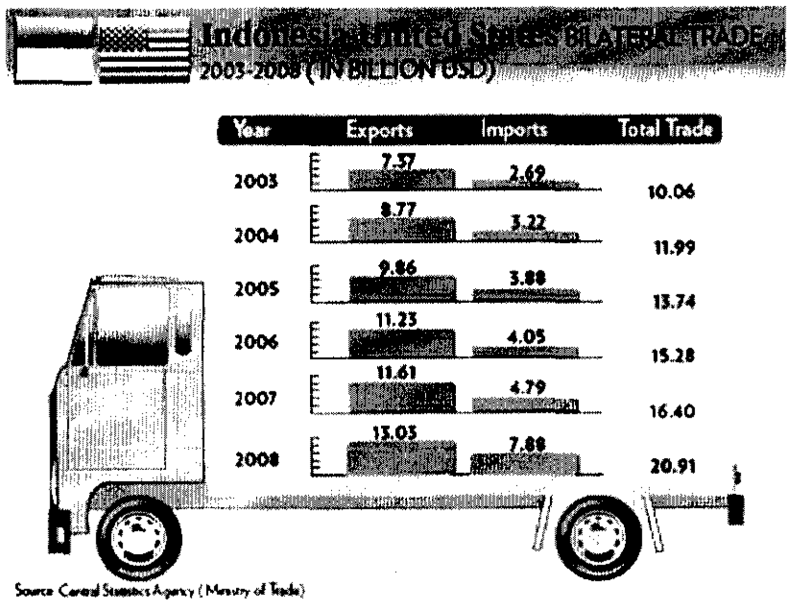
According to Hume, the US expanded cooperation in the security sector by making more opportunities available for military training programs for Indonesia's security personnel. "The amount of money we put into that about doubled in the last two years," Hume said.

The US Pacific Command (PACOM) also recently sponsored joint training for UN peacekeeping forces, hosted by the Indonesian military, in Bandung. The militarily-advanced US, which lifted its embargo on Indonesia in 2005, has also helped the country with the installation of radars in the Malacca Strait.

"It's a gradual improvement, but I wouldn't say there's anything dramatic," he said. But has there been a shift since Obama took office?

The first change in US foreign policy toward Indonesia under the Obama administration was a "new look" at what had already been achieved, Hume said. "They say: 'Oh, so much has changed. What can we do now?'"

"So, that's why you have a new agenda with an added emphasis on education, the environment, health and I think work in these key areas will build on what we're already achieved."



JP/Irma

Indonesian Foreign Minister Hassan Wirajuda met with US Secretary of State Hillary Clinton in Washington last month to discuss a comprehensive partnership agreement that was called for during the latter's visit to Jakarta in February.

The Indonesian Foreign Ministry's director general for America and Europe, Retno L.P. Marsudi, said the two parties had agreed that the partnership must focus on three main issues: political-security, trade and social welfare. The agreement, she added, would also mandate the creation of a bilateral consultation forum.

Retno said the partnership would strengthen ongoing negotiations on a number of issues such as education and security, adding that it would also reflect a convergence of views of both countries at a high political level. However, the current strong relations are not without challenges.

US-based rights groups such as the East Timor Action Network and Human Rights Watch have persistently criticized Indonesia for its failure to bring alleged rights abuses in Papua to an end. Congressman Eni Faleomavaega was quoted by the media as saying the US House of Representatives will not forget the Papua issue, although he had driven the move to scrap the Papua provision from the US foreign relations bill.

"I am aware of some of these [allegations]," Hume said. "The embassy makes great efforts to keep in touch with Indonesian human rights activists and with the Indonesian government, and to follow events. And I think to some extent we don't share the views with some of these reports."

He further explained that the embassy felt obliged "to look at the whole reality... not simply one event one day or one place...this is a huge country with many events in many places in any day. "Some of the specific allegations they have made we are not able to confirm," Hume said.

Another issue is the US' new anti-smoking legislation, banning imports of kretek (clove containing cigarettes) from Indonesia. The Trade Ministry protested against the bill before it was passed into law last month, saying it violated WTO rules. "We are aware of Indonesia's concerns, and remain committed to sound public health policies consistent with our international obligations," the embassy said.

When asked about the growing pro-protectionism sentiment during Indonesia's elections, Hume said the United States hopes Indonesia will keep its economy open to the global economy and avoid risking losing great opportunities which were responsible for its current position as one of strongest economies in facing the global economic downturn.

Trade between the US and Indonesia has grown remarkably over the past five years. Last year, for the first time, US-Indonesia trade surpassed the US$20 billion mark, an increase of 28 percent from $16.40 billion in 2007 (see graphic). Currently, the US is Indonesia's fourth biggest trading partner after Japan, Singapore and China.

As concerted efforts needed to tackle climate change and pandemic threats, Indonesia and the US could also cooperate to find ways to get out the global economic downturn, Hume said.

Indonesia was rebuilding itself with democracy, he said. "I really do think, personally, it is remarkable the extent to which your country [has developed]. In ten years you not only have opened up a vibrant media and an open political process, but have been able to do that and it has helped your stability."

"You've not only gone in democratic direction; you make it work for you and that's good — and that's a victory for every individual in Indonesia."

Source URL: http://www.thejakartapost.com/news/2009/07/02/washington-takes-new-look-jakarta-under-obama-envoy.html-0

The Jakarta Post
Published on The Jakarta Post (http://www.thejakartapost.com)

RI, Japan ink fresh 1.5t yen swap deal

Andi Haswidi and Aditya Suharmoko , The Jakarta Post , Tokyo/Jakarta | Tue, 07/07/2009 10:16 AM | Headlines

Japan and Indonesia signed a new currency swap agreement Monday on which the latter will have access to an additional 1.5 trillion yen (US$15.7 billion) of reserves as a precautionary measure in the event of a financial crisis.

"This currency swap scheme will serve as our second line of defense," said Finance Ministry's head of fiscal policy agency, Anggito Abimanyu, in Tokyo, representing the Indonesian government.

Anggito was speaking to reporters following a meeting with Naoyuki Shinohara, Japan's vice finance minister for international affairs, earlier in the day.

Anggito said although the yen was relatively lower than the US dollar in terms of value, the large currency reserve would help Indonesia with significant leverage in warding off currency speculators.
In Jakarta, Finance Minister Sri Mulyani Indrawati confirmed the agreement.

"The swap is in case Indonesia and Japan need direct transactions, and to support the balance of payments," Finance Minister Sri Mulyani Indrawati said in a press conference at her office.

"Of course we should be careful that in 2010 [the economy] may [still] not yet be normal.

"It is to support the country's balance of payments from being hit [by negative impacts of the global economic downturn]," she added.

Japan believes these resources will help stabilize the economic situation in Indonesia, increase market confidence, and underpin the continuing reform agenda as well as financial instruments, she said.

Monday's agreement will come on top of two similar deals already secured by the Indonesian government, all aimed at providing emergency balance of payments support whenever a crisis might strike the country, potentially resulting in extreme devaluation and capital flight, as happened in the Asian banking and financial crisis in the late 1990s.

In the two previous agreements however, the swaps would be carried out in US dollars.

The two agreements were a $12 billion dollar-denominated currency swap deal — also with Japan which was struck during a recent ASEAN+3 meeting in Thailand, and another $11.9 billion swap agreement under the so-called Chiang Mai Initiative Multilateralization (CMIM) scheme.

The Chiang Mai Initiative, originated by ASEAN members, aims to create a network of bilateral swap arrangements between ASEAN+3 countries to address short-term liquidity difficulties in the region and to supplement existing international financial arrangements.

ASEAN+3 includes the 10 members of the Association of Southeast Asian Nations — the Philippines, Indonesia, Thailand, Malaysia, Singapore, Brunei, Vietnam, Myanmar, Cambodia and Laos — as well as three East Asian nations; Japan, China, and South Korea.

Back in Tokyo, Hartadi A. Sarwono, a deputy governor of Bank Indonesia, said that the central banks from both countries will work on the details of the arrangements, including how and when the facilities will officially become operational.

In May, Hartadi also said that Japan was planning to provide up to 6 trillion yen-denominated swap facilities for members of ASEAN to help strengthen their reserves.

It is to support the country's balance of payments from being hit (by the impacts of the global economic downturn).

Source URL: http://www.thejakartapost.com/news/2009/07/07/ri-japan-ink-fresh-15t-yen-swap-deal.html

The Jakarta Post
Published on The Jakarta Post (http://www.thejakartapost.com)

Indonesia: An 'in-danger' state?

Alexandra Retno Wulan , Jakarta | Thu, 07/09/2009 8:40 AM | Opinion

Foreign Policy magazine just released its 2009 Failed States Index (FSI) in its July/August edition. Unsurprisingly, Indonesia is still listed in the second "worst" category — titled the "in-danger" list.

It might be true that this period of time has been a very fragile period for states throughout the globe. The virulent global financial crisis, natural disasters and government collapses, the most ubiquitous features.

However, it remains important to examine more deeply what went wrong and who is to blame for the "in-danger" status, especially as Indonesians have the chance to change this reputation in the presidential election.

Foreign Policy examined 12 indicators of state vulnerability that cover social, economic and political issues. The 12 indicators include demographic pressures, refugees/IDPs, group grievances, human flight, uneven development, economic decline, state legitimacy, public services, human rights, security apparatuses, factionalized elites and external intervention.

Each indicator is ranked on a scale of 0 to 10, with 10 representing the most vulnerable; hence the total score is on a scale of 0 to 120, with 0 being the most stable.

For the last five years, Indonesia's total score has ranged from 83.3 to 89.2, thus, Indonesia has repeatedly been listed as "in-danger". Indonesia scored 84.1 in the 2009 Failed States Index (FSI), but scored 83.3 last year and 87 in 2005.

In the social indicators, Indonesia's population growth rate increased the demographic pressures rating from 7 to 7.3, additionally, a lack of substantial improvements in state policy regarding minority groups, such as the banning of Ahmadiyah, the anti-pornography law and the relations between the state and the indigenous people of West Papua, led to a higher ranking in the group grievances indicator, 6.5 this year from 5.9 in 2008.

In the economic indicators, Indonesia undoubtedly suffered from the global financial crisis. Thus, the rating for economic decline rose from 6.3 to 6.9. Additionally, the government seemed to fail to deal with uneven development. Despite the fact that the government has expanded its decentralization policies, Indonesia still has vast disparities between urban and rural development, as well as unequal development in Java and Bali in comparison to other islands.

This combination of factors certainly increased Indonesia's rating for uneven development from 8 in the FSI 2008 to 8.1 in the FSI 2009.

In the political indicators, the most striking increases were in the factionalized elites and security apparatus categories. These indicators signify the potential failure of the government to ensure civilian supremacy due to lack of civilian capacity to manage security spheres, and the failure to develop a mature democracy in Indonesia.

Military reform in Indonesia has successfully taken place and the military has retracted from day-to-day politics. It is about time to start the military transformation period to ensure that the score for the security apparatus category eventually declines. Additionally, the commitment to increase the welfare of soldiers and assurances for a better weapons system for the armed forces (TNI) would contribute greatly to insulating the possible emergence of praetorian guards that serve the interest of regime.

Moving from the rank of 60 to 62 is indeed a positive step for Indonesia. However, the fact that Indonesia is still considered an "in-danger" state, at least since 2005, cannot be considered an achievement.

Much work is needed to successfully manage a volatile economy, sectarian strife, disparities in development, effective government and professional armed forces. It is important for Indonesians to cast their votes for a future leader that will be able to switch the status of Indonesia from an "in-danger" state to one of stability.

The writer is a researcher at the politics and international relations department, CSIS Jakarta.

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World has avoided economic disaster, Obama says

Associated Press , L'Aquila, Italy | Fri, 07/10/2009 10:13 PM | World

Lasting worldwide recovery "is still a ways off," President Barack Obama declared Friday, but he also said at the conclusion of a global summit that a disastrous economic collapse apparently has been averted.

Obama said world leaders had taken significant measures to address economic, environmental and global security issues.

"Reckless actions by a few have fueled a recession that spans the globe," Obama said of the meltdown that began in the United States with a tumble in housing prices and drastic slowing of business lending. The downturn now threatens superpowers and emerging nations alike.

Obama urged national leaders to unite behind a global recovery plan that includes stricter financial regulation and sustained stimulus spending.

"The only way forward is through shared and persistent effort to combat threats to our peace, our peace, our prosperity and our common humanity wherever they may exist. None of this will be easy," Obama told a news conference at the end of the Group of Eight summit of major economic powers.

The president rejected suggestions that the summit fell short of expectations by failing to call for tough new sanctions on Iran for its crackdown on democracy advocates after its disputed presidential election.

"What we wanted is exactly what we got - a statement of unity and strong condemnation," Obama said. He said the leaders' declaration was even more significant because it included Russia, "which doesn't make statements like that lightly."

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The Jakarta Post
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Singapore's economy emerges from recession in Q2

Alex Kennedy , The Associated Press , Singapore | Tue, 07/14/2009 1:54 PM | Business

Singapore's economy grew for the first time in a year, soaring 20 percent in the second quarter, a sign Asia is emerging from the global slump.

Gross domestic product jumped an annualized, seasonally adjusted 20.4 percent in the three months through June from the previous quarter, the Trade and Industry Ministry said Tuesday in a statement. It said GDP fell 3.7 percent from year earlier after a 9.6 percent drop in the first quarter.

The ministry now expects the Southeast Asian city-state's economy to shrink between 4 percent and 6 percent this year, better than its previous forecast of a contraction between 6 percent and 9 percent.

"The Singapore economy is back and back with a vengeance," said Robert Prior-Wandesforde, senior Asia economist for HSBC in Singapore. "We very much doubt that today's Singapore GDP release will be the last in Asia to provide a sizable upside surprise."

The island's economy - which relies on exports, finance and tourism - had contracted the previous four quarters as it reeled from a collapse in global trade triggered by the financial crisis. An annualized 16.4 percent drop in the October-December period was the nadir of its deepest recession since splitting from Malaysia in 1965.

Singapore is the first major Asia economy to report second quarter GDP results. The second quarter GDP estimate was calculated using data largely from April and May and is subject to revision.

The ministry revised its first quarter economic figures to an annualized contraction of 12.7 percent from its initial estimate in April of a 19.7 percent contraction.

A surge in pharmaceutical production helped boost growth in the second quarter. Manufacturing fell 1.5 percent from a year ago compared to a 24 percent contraction in the first quarter. Construction rose 18 percent in the second quarter while services dropped 5.1 percent.

The ministry warned that the rebound in manufacturing could wane over the rest of the year.

"A sizable part of Singapore's manufacturing uptick came from a spike in biomedical manufacturing output and electronics inventory restocking, both of which may not be sustained," the ministry said.

Demand for exports from the U.S., Europe and Japan remains weak, but Singapore's sales to Indonesia, Malaysia and China have picked up, said Irvin Seah, an economist with DBS bank in Singapore.

"The main driver for this recovery has been our exports to the region," Seah said. "We're seeing strong demand from Asia, especially China."

"Asia is showing signs that it is able to drive its own demand, which is a good sign for the region's growth."

Source URL: http://www.thejakartapost.com/news/2009/07/14/singapore039s-economy-emerges-recession-q2.html

The Nation

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Business

TRADE & INVESTMENT
Thai-Lao push to remove all barriers

Published on July 3, 2009

Thailand will work closely with Laos to clear all commerce and investment obstacles in an attempt to boost trade not only between the two countries but also with China and Vietnam.

The Thailand International Freight Forwarders Association and the Laos Freight Forwarders Association on Wednesday agreed to study the establishment of an inland container depot in Vientiane to make trade logistics more efficient.

Both sides are focusing not only on bilateral trade but also trilateral trade, particularly with China and Vietnam.

Commerce Minister Porntiva Nakasai and her Lao counterpart Nam Viyaketh jointly presided over the opening ceremony of the Laos-Thai Trade Exhibition.

The fair is held annually to promote products, particularly from small and medium-sized enterprises. This year it is being held in Vientiane until Sunday.

At Wednesday's meeting, the ministers also acknowledged plans to strengthen trade and management cooperation of the two countries as part of Asean's effort to transform itself into an Asean Economic Community by 2015.

Trade between Thailand and Laos averages Bt80 billion (US$2.28 billion) a year, but jumped 34.01 per cent to $2.38 billion last year, with exports accounting for $1.77 billion and imports $612.7 million.

According to a plan put in place in 2006, the two neighbours agreed to triple exports from Laos to Thailand by 2010. Porntiva said the two cooperation plans were focused on expanding border trade.

They include trade facilitation by reducing all barriers and production costs and the meeting of top-level officials for trade and industry from the two countries.

Under the trade facilitation plan, Thailand will help Laos set up a single-stop inspection window to smooth imports by reducing complicated procedures.

Nam said Thailand had mainly invested in energy, agriculture and mining in Laos. However, both sides still have to consider revising customs procedures to facilitate trade and investment.

"Laos' parliament is amending investment regulation and privileges for investors, which will also benefit all," Nam said.

Laos, Vietnam and Thailand are studying the transportation route for the East-West Corridor under Asean cooperation. These three countries should focus on benefit sharing through cross-border trade, he said.

Laos will definitely follow the Asean Free Trade Agreement timetable to bring down trade tariffs to 0-5 per cent, while Thailand, Brunei, Singapore, Malaysia, Indonesia and the Philippines will cut tariffs to zero next year, he said.

"Tariffs are not a barrier to strengthening trade in the region. We should instead focus on trade facilitation, particularly transportation from country to country. A good transport network will not only encourage trade but also foreign investment," he added.

Thanit Sorat, vice chairman of the Federation of Thai Industries, said logistics cooperation between the two countries would consider connections of both rail and roads.

The inland container depot will be located at Tha Na Rang, opposite Nong Khai in Thailand. Other routes linking Thailand and Laos are Mukdahan-Savannakhet, Nakhon Panom-Kham Mouan and Chiang Khong-Bor Kaew.

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Business

COMPETITIVENESS CONFERENCE
Thailand 'could lead world' in food and alternative fuel

Published on July 3, 2009

Thailand has a bright future for developing its domestic market and preparing itself to be the world's leading food and alternative-fuel supplier once the economy recovers, Prof Stephane Geralli told the Thailand Competitiveness Conference 2009 yesterday.

Geralli, director of the World Competitiveness Centre at Switzerland's International Institute for Management Development (IMD), was taking part in a discussion called "Thailand's Vision: Ascending the Value Chain".

The two-day conference is being held at Bangkok's Four Seasons Hotel and co-hosted by the Board of Trade, the Thailand Management Association, the Thai Institute of Directors, the Stock Exchange of Thailand and the National Economic and Social Development Board.

The Nation is the media partner.

Geralli said the impact of urbanisation had shifted the future of the global economy towards greater reliance on the middle-income group.

"This group of people has forced the country to move from a workforce-intensive to a 'brain-intensive' society, and Asia has the fastest-growing middle class," he said.

He said one obstacle was volatility in commodity prices, which could scupper any chance for an economic recovery. However, there will be opportunities for Thailand when other countries seek to secure their food and fuel supply.

"The price of food and fuel will go up, due mainly from demand in China and India. Hence, Thailand should take the opportunity to strengthen its competitiveness so that it can step forward and be one of the main global food and fuel suppliers," he said.

The World Competitiveness Yearbook 2009, compiled by the IMD, ranked Thailand 26th out of 57 countries this year, up from 27th out of 55 countries and territories last year.

While Thailand's ranking is higher than that of India, Indonesia, the Philippines and South

Korea, it is below that of Singapore and Malaysia.

Of the 57 countries and territories ranked by the IMD, the US continues to be No 1, followed by Hong Kong, Singapore and Switzerland. The Scandinavian countries also dominate the rankings, with Denmark moving to fifth place and Sweden to sixth.

The IMD considers four factors in its rankings: economic performance, government efficiency, business efficiency and infrastructure. But it says competitiveness is not only about growth or economic performance, but rather should take into consideration "soft factors" in competitiveness, such as the environment, quality of life, technology and education. This helps explain why some economies, such as the US, Japan, the UK, and Scandinavia, along with small, open economies like Hong Kong, Singapore and Switzerland, are able to maintain their rankings in the top league despite short-term disruptions.

The challenge for Thailand in boosting its competitiveness in the short term is to create political stability, which is also significant for improving the Kingdom's economic performance.

In the long run, the Kingdom should take serious action to develop human resources in terms of education and technological skills and pay more attention to improving the quality of healthcare services and boosting environmental awareness.

The conference, which ends today, is aimed at mobilising opinions from the public and the private sectors and using them to shape a development road map.

Today, there will be a panel discussion on Thailand's potential to become the world leader in food, alternative energy, logistics, tourism and creative industries.

Prime Minister Abhisit Vejjajiva said in yesterday's opening speech that the government had a strong determination to strengthen the country's fundamentals and competitiveness, which expects to result in improving Thailand's ranking in the future.

Consequently, the government's second stimulus package is focused on infrastructure development, water management and investment in the transport and agricultural sectors.

He said full support would be provided to foreign investments resulting in sustaining the country's long-term competitiveness.

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Business

Korn to review e-auction rules to speed up stimulus projects

Published on July 5, 2009

Finance Minister Korn Chatikavanij will review electronic-auction rules so as to speed up public investment projects under the second economic-stimulus package. The World Bank has expressed its support.

"Government procurement by electronic means, e-auction, has been a major cause of slow budget disbursement," Korn told a press conference yesterday.

Korn and senior officials met with specialists from the World Bank on Samui, where they discussed several topics of collaboration.

The minister said on the closing day of the two-day workshop that the government wanted to ensure faster budget disbursement of the stimulus package, worth Bt1.43 trillion. He said public investment under the first stimulus package, worth Bt116 billion, which the government implemented in March, had scarcely moved, due to complex rules about government procurement.

This is delaying economic recovery, he said.

He said Thailand used e-auction for all kinds of public procurements from buying goods to concession bidding. He said the government would change e-auction rules by the end of the month in order to accommodate faster spending on public investment.

Korn also said e-auctions had not prevented leakage of public funds or corruption.

Annette Dixon, World Bank country director, said Thailand was unique among countries using e-auctions in applying the practice to every government procurement of goods and services, instead of only standardised goods such as stationery.

She said e-auctioning was useless in complex investment projects such as those involving infrastructure. The World Bank will send specialists to help improve government procurement, she added.

The two sides also discussed establishment of an infrastructure fund to finance public-investment projects. Experts from the World Bank suggested inviting the private sector to participate in public investment, Korn said.

The World Bank also proposed a clean-technology fund with loans at lower than market interest for environmental-improvement projects. The bank will collaborate with the National Economic and Social Development Board on this.

Korn said the government might join with other countries such as China to launch an infrastructure fund to finance rail routes from southern China to Thailand, Malaysia and Singapore.

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