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TUESDAY, AUGUST 4, 2009

Inflation slows in several Asian economies

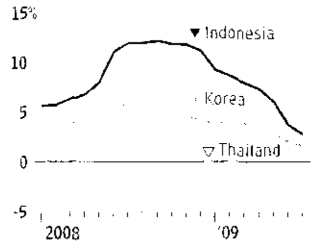
Indonesia data hit a nine-year low; banks maintain rates

Several Asian economies reported slowing annual inflation in July, largely because of a high-base comparison caused by last summer's oil-price surge.

By Farida Husna and I Made Sentana in Jakarta, Piyarat Setthasiriphaiboon in Bangkok and Kanga Kong in Seoul

In decline

Consumer prices in selected Asian contries, change from previous year



Source: Thomson Reuters

◄ Shoppers in Seoul

Indonesia's annual inflation rate eased sharply to a nine-year low in July, fanning expectations the central bank will cut its key interest rate 0.25 percentage point to 6.5% this week to boost economic growth.

The consumer-price index rose 2.71% from a year earlier, compared with 3.65% in June, the Central Statistics Agency said, steeper than the 2.66% median forecast of 10 regional economists polled recently by Dow Jones Newswires.

Month-to-month, the index rose 0.45%, accelerating from June's 0.11% increase largely due to higher basic food prices and education costs, which in July climbed 1.1% and 1.21%, respectively. The month-to-month reading was also higher than the 0.38% forecast by the nine economists polled who responded for that category.

The agency said annual core inflation, which strips out energy and food costs, slowed to 4.91% from 5.56% in June.

Inflation has been easing in recent months as the high-base effects of the Indonesian government's fuel price increases in May 2008 wear off, giving the central bank room to trim its policy rate.

Many economists warn that the current recovery in commodity and energy prices may stoke inflation in the near term, so they expect the central bank to keep its key rate unchanged after this week's meeting.

Bank Indonesia has cut its policy rate a total of 2.75 percentage points since it embarked on its easing cycle in December to spur Southeast Asia's biggest economy.

Consumer prices in Thailand fell for a seventh straight month in July, hitting their lowest level since the 1997-98 Asian economic crisis. The consumer-price index fell 4.4% from a year earlier after declining 4% in June, but was unchanged from a month earlier, a Commerce Ministry official said.

Oil prices peaked at around $160 a barrel in July 2008, compared with around $64 a barrel now.

The ministry also revised its 2009 inflation target to between a 1% contraction and zero, which would also be the lowest since the aftermath of the Asian economic crisis, when prices shrank 1.1%. The ministry last month forecast this year's inflation to be in a range of zero to 0.5%.

Core inflation fell 1.2% from a year earlier, below the central bank's target range for an increase of up to 3.5%. Core CPI was unchanged month-to-month.

HSBC economist Prakriti Sofat said that although consumer prices remain negative, with manufacturing production improving and exports showing more positive signs, "inflation will flip into the positive towards the end of the year."

Economists expect the Bank of Thailand to keep its benchmark interest rate unchanged at 1.25% at its Aug. 26 meeting, and many predict it won't start raising the rate until 2010.

The central bank slashed its policy rate by 2.5 percentage points to 1.25% over four meetings from December to April. It kept rates unchanged at its last two meetings, saying the current level is supporting Thailand's economic recovery.

South Korea's annual inflation, meanwhile, sank to a nine-year low in July, mainly due to the high base effect last year and cheaper oil prices recently, the National Statistical Office said.

South Korean consumer prices rose 1.6% in July from the year-earlier month, when a spike in oil prices caused inflation to shoot up to 5.9%. July's rate was also milder than June's 2% rate.

Economists say inflation appears to have hit bottom last month and may move upward from August, reflecting a pickup in domestic demand, the elimination of last year's high base effect, and rebounding global fuel prices.

July's annual inflation was the slowest since 1.1% in May 2000. It was the fifth straight month of softer inflation, the data showed.

Prices inched up 0.4% from a month earlier, compared with a 0.1% drop the previous month. Core inflation was 3.2% year-to-year and 0.2% month-to-month and after coming in at 3.5% and 0.1%, respectively, the preceding month.

The expected pickup of inflation, however, is unlikely to prompt the Bank of Korea to resume tightening at the end of the year, economists said.

By climbing as high as 3% by year-end, inflation will act as a "greater voice for a rate hike at an early time, but the BOK will unlikely touch its base rate before early next year," said Daishin Economic Research Institute economist Kim Yoon-gi.

THE WALL STREET JOURNAL.
MONDAY, AUGUST 10, 2009

Malaysia encourages brokerage firm mergers

BY ELFFIE CHEW

KUALA LUMPUR—Malaysian brokerage firms should consider merging to create the scale and strength to compete more effectively in the global arena, a top regulator said Sunday.

"Certainly, we encourage mergers. We want brokers that are strong, that can benefit from economies of scale, that have the capacity to extend their global reach and that are able to offer a wider range of product and services at competitive prices," Zarinah Anwar, Malaysia's Securities Commission chairman, said in an interview ahead of the World Capital Market Symposium on Monday and Tuesday.

Malaysia has 37 brokerage firms and a stock-market capitalization of more than $200 billion.

Ms. Zarinah said some Malaysian brokerage firms have done well and have expanded regionally, but there are still some that would need to step out of their comfort zone and review their business model.

Some of the Malaysian brokerage firms that have ventured overseas include **OSK Holdings Bhd.**, **K&N Kenanga** and and **AMMB Holdings** Bhd.'s unit AmSecurities.

Since the 1997-98 Asian financial crisis, Malaysia has lost to neighboring Singapore, which boasts of a market capitalization of nearly $500 billion.

Ms. Zarinah said the liberalization of rules in the Malaysian stock market in the past two years is aimed at enhancing Malaysia's competitiveness, which hopefully will spur more local and overseas companies to list on Bursa Malaysia.

"We have seen some Chinese companies [list on Bursa Malaysia]...there are also interest shown by companies from other countries," she said, declining to elaborate. Chinese shoemaker **Xingquan International Sports Holdings Ltd.** recently listed on Bursa Malaysia, while Chinese sports shoe-sole specialist **Multi Sports Holdings Ltd.** is scheduled to list on the Malaysian stock exchange next week.

"As a regulator, we can provide a facilitative, regulatory and fund-raising framework and as we are the approving authority, we will ensure that approval process is sufficient and speedy," Ms. Zarinah said.

She also stressed that the Securities Commission will ensure investors are protected and the highest corporate governance rules are being adhered to despite the easier listing rules.

Some of the amendments in recent months include changes to rules covering equity fund raising aimed at positioning the trade economy's stock market as an attractive listing platform for both local and foreign companies by easing the requirements for listings.

Last month, Malaysia's premier, Najib Razak, also announced that companies listing on the Kuala Lumpur Stock Exchange will be required to allocate just 12.5% of their equity to ethnic Malays, down from 30% before under the New Economic Policy, a decades-old affirmative-action program criticized for benefiting the country's majority ethnic Malay population at the expense of the economy's competitiveness.

He also announced that 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.

THE WALL STREET JOURNAL.
TUESDAY, AUGUST 11, 2009

Indonesia says economy expanded in 2nd quarter

BY FARIDA HUSNA
AND I MADE SENTANA

JAKARTA—Indonesia's economy grew at a faster clip in the second quarter than the first, but expanded at its slowest annual pace in seven years, government data showed.

Economists said the numbers suggest the central bank's focus will shift toward containing inflation rather than stimulating growth.

Southeast Asia's largest economy grew 2.3% quarter-to-quarter, due to election-related spending. This was stronger than the revised growth of 1.70% in the January-March quarter.

The Central Statistics Agency also said the economy grew 4.00% from a year earlier in the second quarter, slowing from 4.37% in the first three months of the year. This is the slowest annual growth rate since the second quarter of 2002.

Economists had predicted the slowdown, citing the boost to economic output last year from a spike in prices of commodities that Indonesia exports.

The figures are non-seasonally adjusted.

"Indonesia had held up somewhat better than others in the region, as domestic demand has helped the economy sustain its momentum, and should now improve as the global economy appears to be turning around," said David Cohen, an economist with Singapore-based Action Economics.

The statistics agency said that household consumption, which typically accounts for around 60% of gross domestic product, was up 0.2% from the first quarter and rose 4.8% from the same time last year.

The agency's chairman, Rusman Heriawan, said that the growth in the current quarter may accelerate as Muslim festivities in the period will likely boost household spending.

Mr. Rusman added that more state projects may start to roll out during the quarter, increasing government spending.

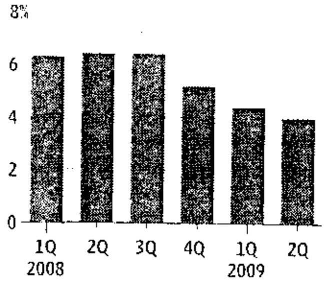
In the April-June quarter, government spending expanded 23.7% from the first quarter and 17% from last year, while investment grew 2.4% from the prior quarter and 2.7% year-to-year.

The International Monetary Fund has predicted the Indonesian economy will grow about 3.5% this year, making the country one of the few to keep expanding this year.

The improving growth outlook should give Bank Indonesia the option of putting its current easing cycle on pause after having trimmed the nationl's benchmark interest rate by a total of 3.0 percentage points since December, to the current 6.50%.

Indonesia's GDP

Change from a year earlier



Source: Statistics Indonesia via Thomson Reuters

THE WALL STREET JOURNAL.
FRIDAY - SUNDAY, AUGUST 14 - 16, 2009

Beijing Bubblenomics

By Michael Kurtz

Chinese policy makers fearful of bubbles have lately spooked markets into thinking they might soon take away the monetary punch bowl that's been fueling the local asset recovery. Don't be fooled. Beijing is likely to continue priming the monetary pump to support domestic markets. Leaders likely see few other realistic options right now, and a looming political transition in 2012 may create disincentives for the kind of structural reforms that higher-quality Chinese growth needs.

Fears of a premature Chinese monetary tightening have also been stoked by recent improvements in the American economy, where both the housing and job markets are showing faint signs of life. A China where exports are humming again would not need to rely so much on its own housing market for growth, and thus could afford to reel in liquidity faster. Seemingly in line with this assumption, monthly lending data released this week show that new lending in July dropped to $52 billion from a monthly average of $180 billion in the first half of 2009.

> Inflating asset prices is the whole point of China's monetary expansion.

Yet this "tightening" is not all it seems. Exports remain weak despite positive signs from the U.S. and Europe, and domestic consumption has a long way to go to make up the gap. Spending on infrastructure is contributing massively to 2009 growth. Due to the strength of this year's fiscal stimulus, though, such outlays will be hard pressed to carry GDP forward in 2010. New Chinese corporate investment is less dependable amid reduced external demand and dampened profits.

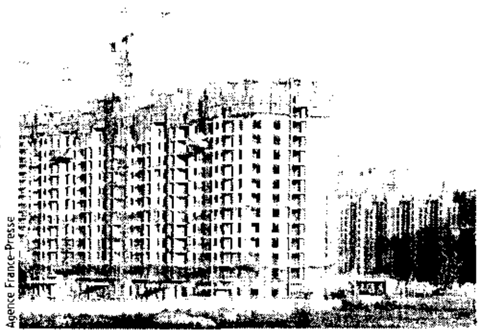
Thus residential housing construction stands as Chinese leaders' best hope for immediate results. To induce property developers to start new projects, policy makers first had to encourage a rapid drawdown of China's existing unsold housing stock by bolstering shattered sentiment with easy money. This has worked; unsold housing is now equal to roughly nine months of demand, down from more than 14 months at the start of the year. Spurring the property market to this degree is arguably China's most impressive economic feat of 2009, but Beijing needs to sustain confidence indefinitely for developers' crucial supply response to kick in.

Seen in this light, stable or rising prices on assets like property, far from being an accidental consequence of loose monetary policy, stand out as the purpose of that policy. The fact that housing construction must carry so much of the growth burden means policy makers likely prefer to err well on the side of too much inflation, rather than risk choking off growth too early by mis-timing tightening.

Meanwhile, China's political cycle may exacerbate risks of an asset bubble. President and Communist Party Chairman Hu Jintao and other senior leaders are expected to step down at the Party's five-yearly congress in October 2012. Much of the jockeying for appointments to top jobs is already underway, especially for key slots in the Politburo. Mr. Hu will want to secure seats for five of his allies on that body's nine-member standing committee, ensuring his continued influence from the sidelines and allowing him to protect his political legacy.

This requires that Mr. Hu deliver headline GDP growth at or above the 8% level that China's conventional wisdom associates with robust job creation, lest he leave himself open to criticism from ambitious rivals. The related political need to avoid ruffling too many feathers in China's establishment also may incline leaders toward lower-conflict approaches to growth rather than deep structural reforms that would help rebalance demand toward more sustainable private consumption. Easy money is less politically costly than rural land reform or state-enterprise dividend restructuring. This is especially the case given that much of the hangover of a Chinese asset bubble would fall not on the current leadership, but on the next.

Meanwhile, a "bubble coalition" may be building at the economy's ground level. China's banks were initially reluctant to jeopardize their hard-fought internal reforms in the name of inflating a monetary bubble through increased lending. But now that they have lent out massive new sums to homebuyers, developers and governments that reap revenues from land sales to developers, the banks have a bigger stake in keeping property prices firm. Homeowners are part of this coalition too, especially the not-insubstantial number who are circumventing official down-payment requirements and buying houses with 100% debt.



Agence France-Presse

Up they go: New residential construction

For all these reasons, China's leaders most likely want to stage-manage asset inflation instead of stopping it. Despite all the talk from Beijing about curtailing excessive credit expansion, policy makers have not taken truly decisive steps, such as raising reserve requirements on banks to sop up liquidity. Even July's bank lending slowdown is less than it appears, given rising offsets from household savings deposit outflows and a ballooning influx of crossborder hot money.

Rather, officials seem concerned mainly with injecting occasional reminders that markets are still two-directional, so as to avoid a one-way stampede with more dire inflationary consequences. When their negative rhetoric is too effective, they've proven just as willing to talk markets up again. In recent occasions when the Shanghai composite stock exchange has racked up big one-day losses or property sales have softened, either the central bank chairman or Premier Wen Jiabao has quickly reassured markets that strict tightening is not imminent.

All this is at least leading to some accidental reforms as policy makers try to vent monetary pressures. Domestic initial public offering issuance has been restarted, with five companies listing shares worth a total of $7.9 billion just since July 10. The main intent is to absorb errant liquidity, but such listings might also help usher in governance reform via further privatization. China also is increasingly green-lighting capital outflows, such as outbound mergers and acquisitions and portfolio investment through sovereign entities. A freer capital account is a positive and necessary step on China's long-term path toward economic modernization.

Still, a recovery strategy dependent on reinflating an asset bubble is fraught with risks. It could exacerbate politically destabilizing wealth disparities, cause misallocation of savings and physical resources, and create the threat of widespread wealth destruction if policy makers misjudge the exit strategy and have to step hard on the brakes. Inflationary missteps also could spur a return to price controls, as seen in January 2008 when China last fought back inflation. This would reverse admirable recent price liberalization designed to encourage more efficient resource use.

There's a saying that you meet your fate on the road you took to avoid it. If China continues down the road of asset inflation to drive growth, rather than embracing tough structural reforms, that fate may be more troublesome than policy makers expect.

Mr. Kurtz is Shanghai-based China strategist and head of China research for Macquarie Securities.

FINANCIAL TIMES MONDAY AUGUST 3 2009

Emerging Asia must heed the risks of bubbles

By Frederic Neumann

It became, for a while, a bit of a dirty word. But "decoupling" is in vogue again. The emerging world, and foremost Asia, has bounced back far more sharply from economic calamity than many developed economies. Fundamentals are now in better shape in these economies than ever before: fiscal balances are far healthier than in the west, while banking systems, stuffed with liquidity, appear ready to fuel another round of solid expansion.

Even the emerging shopper is beginning to pull his weight. Household spending growth in Asia is estimated at $170bn (€119bn, £102bn) this year, offsetting the plunge in spending in the US. Investment, too, is now considerably larger than in the west. As debate over "green shoots" rages in developed economies, emerging Asia is already nursing sturdy saplings.

But, for the region to remain on a path of sustained expansion, policymakers need to heed the risks of asset bubbles. Flush liquidity and low interest rates are fuelling a boom in property and capital markets that may grow to unmanageable proportions. Eventually, such bubbles are bound to burst, killing growth, and any notion of decoupling along with it.

At the heart of the problem lies an outmoded central banking strategy. While growth has proven far more resilient in emerging Asia than many had anticipated, monetary policy remains hostage to conditions elsewhere. For decades, the region's monetary officials have shadowed the Federal Reserve, adjusting interest rates roughly in line with the US central bank. This was justified: as growth depended on exports to western markets, monetary policy needed to conform to demand conditions overseas.

But the world has changed. The region's economies require a more tailored monetary policy. As interest rates in the US, and much of the developed world, are bound to remain low for some time, the region has to face up to economic reality. Interest rates will have to be set to suit local, not global, growth conditions. Otherwise, monetary policy will remain too loose, blowing bubbles that will ultimately end in another painful slump.

As the region decouples from the west, monetary policy should be tailored more to address local growth conditions

But tightening monetary policy independently of the west has major consequences. Officials would need to let go of their obsession with exchange rate competitiveness. There cannot be monetary policy independence from the Fed if currencies remain closely tied to the US dollar. It is tempting to think that capital controls provide a short-cut, allowing officials to manage the exchange rate and monetary policy separately. But, over time, these become ever more porous.

This problem is even greater where capital accounts are already open. Central banks have in recent years struggled to neutralise the impact of portfolio inflows on the local money supply, adopting a strategy known as sterilisation. This had little success in taming asset markets that fired up in late 2006, and whose run was only halted temporarily by the financial crisis in the west. The problem thus remains: a central bank committed to managing its exchange rate will face difficulties in controlling local monetary conditions.

Central banks across Asia have continued to amass foreign exchange reserves at a remarkable pace. As exports faltered, officials aimed to prevent exchange rates from rising to shield their economies from further pain. The result was monetary easing on a massive scale: not only were interest rates slashed, but the intervention in foreign exchange markets continues to expand the local money supply, adding fuel to the fire.

Another tempting option for policymakers is to tinker with bank regulation. Tightening lending criteria, for example, to slow credit expansion seemingly offers an easy way to cool red-hot asset markets. But these measures rarely succeed: investors swiftly discover alternative ways to deploy their cash. Worse, such measures reduce transparency and distort incentives, possibly raising the costs when the bubble ultimately bursts.

Asia has its fair share of experience with bubbles and busts. These cycles need to be tamed. As growth decouples from the west, monetary policy should be tailored more and more to address local growth conditions. The ongoing intervention in foreign exchange markets only impedes this process. What Asia requires, in short, is monetary policy decoupling. This can only happen if central banks allow greater exchange rate flexibility. Time to let go.

The writer is senior Asia economist at HSBC

FINANCIAL TIMES WEDNESDAY AUGUST 5 2009

The price is not always right and markets can be wrong

Richard Thaler

I recently had the pleasure of reading Justin Fox's new book *The Myth of the Rational Market*. It offers an engaging history of the research that has come to be called the "efficient market hypothesis". It is similar in style to the classic by the late Peter Bernstein, *Against the Gods*. All the quotes in this column are taken from it. The book was mostly written before the financial crisis. However, it is natural to ask if the experiences over the last year should change our view of the EMH.

It helps to start with a quick review of rational finance. Modern finance began in the 1950s when many of the great economists of the second half of the 20th century began their careers. The previous generation of economists, such as John Maynard Keynes, were less formal in their writing and less tied to rationality as their underlying tool. This is no accident. As economics began to stress mathematical models, economists found that the simplest models to solve were those that assumed everyone in the economy was rational. This is similar to doing physics without bothering with the messy bits caused by friction. Modern finance followed this trend.

From the starting point of rational investors came the idea of the efficient market hypothesis, a theory first elucidated by my colleague and golfing buddy Gene Fama. The EMH has two components that I call "The Price is Right" and "No Free Lunch". The price is right principle says asset prices will, to use Mr Fama's words "fully reflect" available information, and thus "provide accurate signals for resource allocation". The no free lunch principle is that market prices are impossible to predict and so it is hard for any investor to beat the market after taking risk into account.

For many years the EMH was "taken as a fact of life" by economists, as Michael Jensen, a Harvard professor, put it, but the evidence for the price is right component was always hard to assess. Some economists took the fact that prices were unpredictable to infer that prices were in fact "right". However, as early as 1984 Robert Shiller, the economist, correctly and boldly called this "one of the most remarkable errors in the history of economic thought". The reason this is an error is that prices can be unpredictable and still wrong; the difference between the random walk fluctuations of correct asset prices and the unpredictable wanderings of a drunk are not discernable.

Tests of this component of EMH are made difficult by what Mr Fama calls the "joint hypothesis problem". Simply put, it is hard to reject the claim that prices are right unless you have a theory of how prices are supposed to behave. However, the joint hypothesis problem can be avoided in a few special cases. For example, stock market observers – as early as Benjamin Graham in the 1930s – noted the odd fact that the prices of closed-end mutual funds (whose funds are traded on stock exchanges rather than redeemed for cash) are often different from the value of the shares they own. This violates the basic building block of finance – the law of one price and does not depend on any pricing model. During the technology bubble other violations of this law were observed. When 3Com, the technology company, spun off its Palm unit, only 5 per cent of the Palm shares were sold; the rest went to 3Com shareholders. Each shareholder got 1.5 shares of Palm. It does not take an economist to see that in a rational world the price of 3Com would have to be greater than 1.5 times the share of Palm, but for months this simple bit of arithmetic was violated. The stock market put a negative value on the shares of 3Com, less its interest in Palm. Really.

Compared to the price is right component, the no free lunch aspect of the EMH has fared better. Mr Jensen's doctoral thesis published in 1968 set the right tone when he found that, as a group, mutual fund managers could not outperform the market. There have been dozens of studies since then, but the basic conclusion is the same. Although there are some anomalies, the market seems hard to beat. That does not prevent people from trying. For years people predicted fees paid to money managers would fall as investors switched to index funds or cheaper passive strategies, but instead assets were directed to hedge funds that charge very high fees.

Now, a year into the crisis, where has it left the advocates of the EMH? First, some good news. If anything, our respect for the no free lunch component should have risen. The reason is related to the joint hypothesis problem. Many investment strategies that seemed to be beating the market were not doing so once the true measure of risk was considered. Even Alan Greenspan, the former Federal Reserve chairman, has admitted that investors were fooled about the risks of mortgage-backed securities.

On the free lunch component there are two lessons. The first is that many investments have risks that are more correlated than they appear. The second is that high returns that are based on high leverage may be a mirage. One would think rational investors would have learnt this from the fall of Long Term Capital Management, when both problems were evident, but the lure of seemingly high returns is hard to resist.

The bad news for EMH lovers is that the price is right component is in more trouble than ever. Fischer Black (of Black-Scholes fame) once defined a market as efficient if its prices were "within a factor of 2 of value" and he opined that by this (rather loose) definition "almost all markets are efficient almost all the time". Sadly Black died in 1996 but if had lived to see the technology bubble and the bubbles in housing and mortgages he might have amended his standard to a factor of three. Of course, no one can prove that any of these markets were bubbles. But the price of real estate in places such as Phoenix and Las Vegas seemed like bubbles at the time. This does not mean it was possible to make money from this insight. Lunches are still not free. Shorting internet stocks or Las Vegas real estate two years before the peak was a good recipe for bankruptcy, and no one has yet found a way to predict the end of a bubble.

So where does this leave us? Counting the earlier bubble in Japanese real estate, we have now had three enormous price distortions in recent memory. They led to misallocations of resources measured in the trillions and in the latest bubble, a global credit meltdown. If asset prices could be relied upon to always be "right", then these bubbles would not occur. But they have, so what are we to do?

While imperfect, financial markets are still the best way to allocate capital. Even so, knowing that prices can be wrong suggests that governments could usefully adopt automatic stabilising activity, such as linking the down-payment for mortgages to a measure of real estate frothiness or ensuring that bank reserve requirements are set dynamically according to market conditions. After all, the market price is not always right.

The writer is a professor of economics and behavioural science at the University of Chicago Booth School of Business and the co-author of Nudge

FINANCIAL TIMES TUESDAY AUGUST 11 2009

Indonesia shows region the way with 4% growth

Quarterly figures beat expectations

Optimism for rest of the year

By Katherine Demopoulos in Jakarta

Indonesia's economy expanded 4 per cent year-on-year in the second quarter, giving the country the fastest growth rate in south-east Asia and raising hopes for the economy in the coming year.

The increase compares with 4.4 per cent growth in the first quarter and is the slowest since the third period of 2003, but was better than many economists had expected.

Growth in the region's largest economy also remains above government expectations, with Sri Mulyani Indrawati, finance minister, having forecast the second quarter increase at 3.7 per cent.

Quarter-on-quarter growth was 2.3 per cent compared with 1.6 per cent in the first period, with first-half growth at 4.2 per cent against 6.3 per cent in last year's period.

Anton Gunawan, an economist at Bank Danamon, said domestic consumption remained relatively robust and net exports were better than he had forecast.

Nikhilesh Bhattacharyya, an associate economist with Moody's Economy.com, said the figures were "pretty good" and indicated an expansion in domestic demand.

He had forecast second quarter year-on-year growth of 4 per cent.

Private consumption grew 4.8 per cent year-on-year in the second quarter and government consumption increased 17 per cent.

The data also raised hopes on the outlook for the rest of the year.

Fauzi Ichsan, an economist at Standard Chartered, said: "It's a surprise on the upside. We were expecting 3.8 per cent ... it means that the second half is likely to be better, especially the fourth quarter, because of the fiscal stimulus."

Indonesia is typically slow to spend money allocated for infrastructure and projects, and most expenditure comes towards the end of the year.

According to the finance ministry, just 10 per cent of spending planned for 2009 has so far been disbursed. "In the first half the only fiscal stimulus the country enjoyed was the non-project fiscal stimulus," said Mr Fauzi, referring to tax cuts and civil service pay increases.

But investment data were weaker. Second-quarter investment growth slowed, with a year-on-year rise of 2.7 per cent compared with 3.4 per cent in the first quarter.

Indonesia's economy grew 6.1 per cent in 2008 and it is one of just a handful of Asian nations expected to post positive growth this year. Bank Indonesia, the country's central bank, has forecast growth at the upper end of a range of 3.5-4 per cent, while the finance ministry predicts 4.3 per cent and the IMF 3-4 per cent.

Although the country's exports have shrunk on the back of weak demand and the slump in commodity prices, Indonesia has proved more resilient than many of its neighbours because it relies less on trade.

Domestic consumption has remained relatively steady, bolstered by spending associated with this year's legislative and presidential elections.

Susilo Bambang Yudhoyono, the president, is set for a second five-year term subject to a challenge in the constitutional court from the two losing candidates, after securing 60.8 per cent of the vote in July elections.

Additional reporting by Taufan Hidayat

'It's a surprise on the upside. It means the second half is likely to be better'

GDP growth in Q2 2009
Annual % change

Source: Bloomberg

FINANCIAL TIMES TUESDAY AUGUST 11 2009

Rising exchange rates pose threat to Asian exporters

By FT reporters

Unexpectedly upbeat economic data in recent weeks have boosted Asia-Pacific currencies against the dollar, causing governments to worry that rising exchange rates may hurt exporters.

Surging investment in stock markets in South Korea, Taiwan and Thailand has also strengthened currencies.

Anxieties are particularly high as the renminbi, which does not trade freely, has stayed stable against the dollar, giving Chinese exporters an advantage over Asian rivals. The won this month hit its strongest level since October, recovering to Won1,216, supported by statistics suggesting the South Korean economy was regaining its footing.

In March, the South Korean won hit an 11-year low of 1,574 to the dollar, capping months of decline even as Seoul put billions of dollars into the won's defence, with foreign reserves dropping $27.4bn or 11 per cent in October.

However, much of this recovery in Asia's fourth biggest economy is founded on large conglomerates and government pump-priming. Smaller enterprises, which account for 90 per cent of jobs, are still vulnerable to the won's strength.

Kwon Goo-hoon, economist at Goldman Sachs, said the central bank could intervene by rebuilding foreign reserves, which dropped 11 per cent last October, and loosening regulations on Korean Investment Corp, National Pension Service and others seeking to invest abroad.

Overseas money has poured into shares in Taiwan on hopes of better relations with China, putting upward pressure on the Taiwan dollar. "The fact that Taiwan's foreign exchange reserves hit another record high in July suggests that the central bank has been intervening in the foreign exchange market quite aggressively," said one economist.

The rise in the New Zealand currency is more worrying given the small nation derives close to a quarter of its gross domestic product from exports.

The competitiveness of New Zealand's dairy, lamb and wool exports has been undermined by a 28 per cent rise in the Kiwi against the US dollar in the last six months.

The New Zealand Manufacturers' and Exporters' Association this month warned the strength of the currency would cost jobs and called on the central bank to lower rates further to help weaken the currency. The central bank governor said further rate cuts could be on the cards if the NZ dollar kept rising.

The Bank of Thailand responded to the baht's rise by last week saying it would allow Thai corporations with assets of at least Bt5bn ($149m, €105m, £89m) to invest overseas to a limit of $50m (€35m, £30m) without approval, and more with specific clearance.

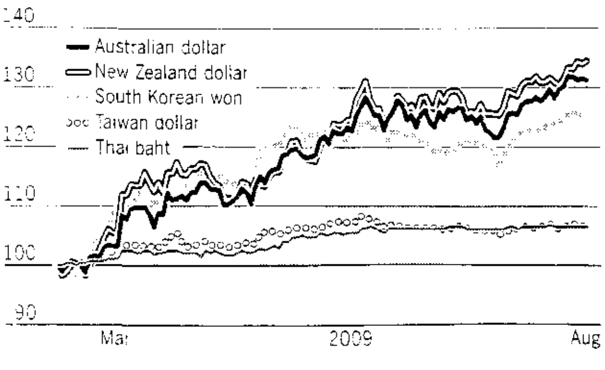
Commenting on the currency's rise, Thanyalak Vacharachaisurapol of the Kasikorn Research Centre in Bangkok said: "It is a combination of fundamental factors, particularly the current account surplus, and the funds flow into the stock market as hot money that was pulled out of the stock market earlier in the year starts to flow back in."

● Goldman Sachs yesterday raised its forecast for Asian economic growth this year and next based on a stronger outlook for the US and China.

Reporting by Christian Oliver in Seoul, Peter Smith in Sydney, Robin Kwong in Taipei and Tim Johnston in Bangkok

Asia - Pacific currencies

Against the US dollar ($ per currency, rebased)



Source: Thomson Reuters Datastream

FINANCIAL TIMES THURSDAY AUGUST 13 2009

If recession did not get you, the recovery might

Jonathan Guthrie

Difficult and dangerous times lie ahead. They will test businesses to the limit. I am referring not to the recession – old news from the viewpoint of equity markets and the media – but to the recovery. For while the downturn has had upsides for many companies, an upturn also has downsides.

This column is a little previous. Most businesses see no signs of a bounce back. "We are bumping along the bottom," says veteran UK entrepreneur John Timpson, touring his 620 home service stores. But hacks are always in a hurry to be first with the news, or an angle on it. We are like party guests who arrive while the hostess is still doing her hair, eat all the nibbles and duck out just as the dancing starts.

The UK stock market has similar tendencies, having risen about 6 per cent since the start of the year. Economists are calling a tentative recovery. David Kern of the British Chambers of Commerce, for example, expects the UK economy to grow by just over 0.2 per cent in both the third and fourth quarter following a 0.8 per cent decline in the second quarter. Most pundits are forecasting growth of about 1 per cent in 2010, rising to 2 per cent in 2011.

The problems that businesses face in a recovery are generally the opposite of those encountered in recession: coping with plentiful work, finance and optimism rather than the reverse. But in both cases the trick is to adjust the size of the company to prevailing conditions.

According to business myth, as a recovery gains pace, a high roller will park his Bentley in your office or works car park. He will hop out, order a knee-jellying quantity of goods or services, then roar off again. He will leave just a whiff of Mephistophelean sulphur hanging in the air.

The danger is that the big order will impose a strain on the resources of the company that will kill it. Even so, Margaret Heffernan, the entrepreneur and writer, says: "If you have a good customer who offers you business you cannot handle I would be inclined to say yes. Figure out a solution afterwards." No one would go into business on their own account, after all, without a penchant for rash decisions. If the solution involves hiring more staff, make sure they have the right values as well as the right skills. Workplace terrorists, with their sore opinions on strategy and the boss's taste in ties or shoes, easily abseil into a business during pell-mell expansions.

Pricing is another issue. As demand grows, there is a land grab for market share in which margins can be trampled underfoot. A customer who doubles his order at half the price per unit is not doing his supplier any conspicuous favour.

The darkest hour comes before the dawn. Business collapses are likely to rise even as healthy growth resumes

Loading up with debt will compound the difficulties of contemporary Fausts. Admittedly, that problem is academic for most small borrowers. Banks are still avoiding them as adeptly as a philanderer dodging aggrieved ex-girlfriends at a wedding. Credit is available once again for larger companies, as illustrated by Tata's success in securing commercial bank loans and guarantees for Jaguar Land Rover. In time, loans will once again be a commodity that banks pushily market rather than grumpily withhold. That will cue increased activity in takeovers, transactions whose benefits to bankers are manifest in their bonus cheques, but whose advantages to business are more debatable.

Mr Timpson, who last year added 187 photo processing stores to his business through acquisition, believes missed opportunities are the main danger in an upturn. Getting the timing right is the hard part. The recession will cease at different times in different sectors, with harbingers such as property picking up first and laggards such as support services following. Some businesses, for example low-priced brands, may paradoxically slip from boom into bust because broad economic conditions are improving.

The darkest hour comes before the dawn. Business collapses are likely to rise even as healthy growth resumes. "As many companies get into financial difficulties coming out of a recession as going into one," says Peter Sargent of R3, a body representing recovery specialists. "Businesses do not have so much wool on their backs. They are down to skin and bone."

Another reason, cited by Mel Egglentor of KPMG, is that banks prefer to close damaged companies when the economy has recovered sufficiently to make asset sales worthwhile. Either that, or it becomes clear that even an upturn cannot revive a tired formula. An example is Athena, the store whose posters of bum-scratching tennis girls adorned the bedsits of male students in the 1980s. Owner Pentos regretfully rung its neck in 1994 when the mid-1990s recovery was well under way.

The UK business stock then took five years to recover from a recession far milder than the one that may have just ended. Business collapses traumatise some owners for life, according to Mr Sargent. It takes time for a new crop of hopefuls to take their place. Fans and critics of business rarely acknowledge this. But new enterprises are battlefield blooms, growing through the bones of the fallen.

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INTERNATIONAL HERALD TRIBUNE TUESDAY, AUGUST 4, 2009

Rewarding bad actors

Paul Krugman

Americans are angry at Wall Street, and rightly so. First the financial industry plunged us into economic crisis, then it was bailed out at taxpayer expense. And now, with the economy still deeply depressed, the industry is paying itself gigantic bonuses. If you aren't outraged, you haven't been paying attention.

But crashing the economy and fleecing the taxpayer aren't Wall Street's only sins. Even before the crisis and the bailouts, many financial-industry high-fliers made fortunes through activities that were worthless if not destructive from a social point of view.

And they're still at it. Consider two recent news stories.

One involves the rise of high-speed trading: Some institutions, including Goldman Sachs, have been using superfast computers to get the jump on other investors, buying or selling stocks a tiny fraction of a second before anyone else can react. Profits from high-frequency trading are one reason Goldman is earning record profits and likely to pay record bonuses.

On a seemingly different front, the New York Times reported on the case of Andrew J. Hall, who leads an arm of Citigroup that speculates on oil and other commodities. His operation has made a lot of money recently, and according to his contract Mr. Hall is owed $100 million.

What do these stories have in common?

The politically salient answer, for now at least, is that in both cases we're looking at huge payouts by firms that were major recipients of federal aid. Citi has received around $45 billion from taxpayers; Goldman has repaid the $10 billion it received in direct aid, but it has benefited enormously both from federal guarantees and from bailouts of other financial institutions. What are taxpayers supposed to think when these welfare cases cut nine-figure paychecks?

But suppose we grant that both Goldman and Mr. Hall are very good at what they do, and might have earned huge profits even without all that aid. Even so, what they do is bad for America.

Just to be clear: Financial speculation can serve a useful purpose. It's good, for example, that futures markets provide an incentive to stockpile heating oil before the weather gets cold and stockpile gasoline ahead of the summer driving season.

What are taxpayers supposed to think when welfare cases cut nine-figure paychecks?

But speculation based on information not available to the public at large is a very different matter. As the U.C.L.A. economist Jack Hirshleifer showed back in 1971, such speculation often combines "private profitability" with "social uselessness."

It's hard to imagine a better illustration than high-frequency trading. The stock market is supposed to allocate capital to its most productive uses, for example by helping companies with good ideas raise money. But it's hard to see how traders who place their orders one-thirtieth of a second faster than anyone else do anything to improve that social function.

What about Mr. Hall? The New York Times report suggests that he makes money mainly by outsmarting other investors, rather than by directing resources to where they're needed. Again, it's hard to see the social value of what he does.

And there's a good case that such activities are actually harmful. For example, high-frequency trading probably degrades the stock market's function, because it's a kind of tax on investors who lack access to those superfast computers — which means that the money Goldman spends on those computers has a negative effect on national wealth. As the great Stanford economist Kenneth Arrow put it in 1973, speculation based on private information imposes a "double social loss": It uses up resources and undermines markets.

Now, you might be tempted to dismiss destructive speculation as a minor issue — and 30 years ago you would have been right. Since then, however, high finance — securities and commodity trading, as opposed to run-of-the-mill banking — has become a vastly more important part of the economy, increasing its share of G.D.P. by a factor of six. And soaring incomes in the financial industry have played a large role in sharply rising income inequality.

What should be done? Last week the House passed a bill setting rules for pay packages at a wide range of financial institutions. That would be a step in the right direction. But it really should be accompanied by much broader regulation of financial practices — and, I would argue, by higher tax rates on supersized incomes.

Unfortunately, the House measure is opposed by the Obama administration, which still seems to operate on the principle that what's good for Wall Street is good for America.

Neither the administration, nor the U.S. political system in general, is ready to face up to the fact that we've become a society in which the big bucks go to bad actors, a society that lavishly rewards those who make us poorer.

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, AUGUST 5, 2009

Central Asia's northern exposure

Russian cooperation on Afghanistan makes the Uzbeks wary of Moscow's growing regional influence.

Andrew C. Kuchins
Thomas Sanderson

TASHKENT, UZBEKISTAN Russian agreement to allow U.S. military over-flight rights to ferry lethal goods to Afghanistan was one of the signal achievements of the recent meetings in Moscow between Presidents Barack Obama and Dimtri Medvedev.

Last month in Moscow, Russian officials told us that Afghanistan was the area where American and Russian interests are most closely aligned, and cooperation on stabilizing Afghanistan may be the most promising area to "reset" our bilateral relationship.

Less publicized has been Moscow's agreement earlier this year to allow for overland transit of nonlethal goods through Russian territory and on to Kazakhstan and Uzbekistan (with Kazakh and Uzbek agreement, of course) where they cross into northern Afghanistan at Heraton. These goods are shipped on trains that originate in the Latvian capital of Riga, and since the transit corridor was established, at least 20 rail convoys have made the trip. The supply trains have been given preferential right-of-way to speed the trip to about nine days.

Perhaps even less well-known is that Russian commercial cargo carriers have been shipping non-lethal goods out of the Middle East aboard massive Antonov 124 "Ruslan" cargo planes to Afghanistan for more than a year. To the great relief of the Pentagon, whose own cargo fleet is under tremendous stress, this heavy lift service was one of the few areas of U.S.-Russian cooperation that did not fall victim to the breakdown in the relationship last year over the Georgia war.

It seems a little odd that aspects of this cooperation on Afghanistan — one of Washington's highest foreign and security policy challenges — are not better known. Perhaps that is because there remain questions about just how much Russia wants to see the United States succeed in Afghanistan. This issue was certainly raised earlier this year when the government of Kyrgyzstan announced that it would close the U.S. base in Manas, a decision that was reversed shortly before the Obama-Medvedev meeting last month, presumably with Russian support.

In our recent discussions in Tashkent with very high-level Uzbek government officials, this question came up repeatedly, and the answers we got were not reassuring. Uzbekistan is the key country in the establishment of the northern supply route, what the U.S. military calls the Northern Distribution Network. The United States needs the NDN both because of its over-reliance on a single line of transit through volatile regions of Pakistan and because its growing military force in Afghanistan will require a threefold increase in supplies.

Uzbek officials are deeply skeptical of Moscow. They believe the Russians see their interests best served by continued instability in Afghanistan. Instability will increase both the terrorist threat to Central Asia as well as the flow of drugs, and serve to justify a heightened Russian military presence in the region.

Afghan instability also prevents opening or expanding southern transit corridors for Central Asian exports that could quickly reach global markets from ports in either Pakistan or Iran. Instead, the bulk of goods from Uzbekistan and its neighbors must be shipped northward, leaving them dependent on routes controlled by Moscow.

The Russians already have a major military presence in Tajikistan, as well as an air base in Kyrgyzstan at Kant, near the Manas airport outside the capital of Bishkek. Moscow hopes to finalize an agreement soon to establish a new base in Kyrgyzstan near the southern city of Osh in the volatile Fergana Valley that would house a newly established Rapid Reaction Force — mostly manned by Russian troops — of the Collective Security Treaty Organization.

Tashkent views the growing Russian military presence in the region as a security threat. The manner in which Russian "peacekeeping" forces were mobilized in the Georgia war last summer made a deep impact on Uzbek policymakers, heightening their sense of vulnerability. Uzbek skepticism about Russian goals is so deep that several key figures intimated that when it comes to Afghanistan, Iran would be a more reliable partner for Washington than Moscow.

The Uzbeks we spoke with were unanimous in the view that eventual success in stabilizing Afghanistan requires as much attention to social-economic development as it does to military goals. Any security gains will certainly be short-lived if Afghanistan remains impoverished and economically isolated. Building a transportation infrastructure linking Afghanistan to regional and global markets will be essential for this success and should be a key element of President Obama's regional strategy for Afghanistan.

Just how much Russia wants to see a U.S. success in Afghanistan is open to question.

For strategic and economic reasons, Uzbekistan wants to be a key partner for the United States and its allies in these efforts. Unfortunately, high levels of corruption and a highly complicated investment environment do not make it easy for American companies or U.S. institutions like the Export-Import Bank and the Overseas Private Investment Corporation to operate. Resolving these differences to enable greater U.S. economic engagement will be a critical and difficult step in strengthening U.S.-Uzbek relations.

Washington's potential for success in Afghanistan will also depend to some extent on how well the new NDN supply line operates. There are still political and logistical kinks in the route. U.S. policymakers have to contend with eliciting cooperation from Moscow without compromising the sovereignty and independence of other Central Asian partners. Uzbekistan is key to the success of the supply route as well as broader Afghan stabilization, but the Uzbeks remain very concerned about Moscow's announced doctrine of "privileged relations with its neighbors."

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INTERNATIONAL HERALD TRIBUNE
SATURDAY-SUNDAY, AUGUST 8-9, 2009

Land of the rising yen

Exports and a weak currency can no longer be Japan's path to growth.

Akio Mikuni

TOKYO In the 17th century, after a long series of conflicts that ended in a unified Japan, peace finally came to this country. Commerce flourished. Wealthy women spent money on exquisite kimonos and modeled their original designs at fashion shows. Imports surged of Chinese "white" silk yarn, which Japan paid for in precious metals.

A prominent scholar of the time, Miyazaki Yasusada, justified such trade by arguing that you cannot eat or wear gold or silver.

Japanese consumers can be lavish spenders — when they are given an opportunity. I see one coming.

Many would find this hard to believe. For much of the 20th century Japan's growth was driven by exports, and consumption relative to gross domestic product has been around 55 percent since 1980. This goes back to the 19th century, when Japan set out to catch up with the West by modernizing production and exporting products to advanced nations. It's become a kind of national obsession to have a weak yen, which helps keep exports cheap and competitive.

But this fixation comes at a high domestic price: We lose much-needed capital — and purchasing power abroad.

Japan is finally ripe for change. Exports have plunged since the financial collapse last autumn. American consumers could not borrow so easily anymore, and were less inclined to spend. While Japanese exports finally seem to be bottoming out, we can't just wait around for American consumers to become as spendthrift as before. The United States is still burdened with excessive debt, and that seems likely to depress American imports of manufactured goods for years to come.

This is all part of a larger shift in Asia's role in the world economy. Japan exports some of its goods to the United States indirectly through Asian supply chains. Finished products are assembled in China before they are shipped to the final destination. While we profited from this state of affairs, our long-term priority should be to supply goods to the Japanese market, not to the rest of the world.

So what's the problem with relying on exports? Let me give a simple example. We manufacture automobiles. When we sell them domestically, this is a boon to Japanese car dealers, insurance salesmen and repairmen. But when we ship them abroad, they are not making a meaningful contribution to the domestic economy. Income earned by the export sector is offset by the amount of capital that we invest in the United States to encourage a dollar strong enough to allow American consumers to buy our products. Sure, we get foreign reserves — like United States government bonds — in return for that capital. But as our 17th-century scholar would remind us, we cannot eat or wear American dollars.

We need to replace external demands with domestic ones. We could do this by exchanging our dollar investments for yen. This would cause the yen to appreciate, reducing the costs of imports and enhancing real purchasing power.

Already, some Japanese retailers are slashing prices because the strengthening yen is lowering the cost of their imports. They could do it again if the yen appreciated further.

In the short term, moving away from our long-cherished export model will be painful. We should brace ourselves for factory closings, bankruptcies and mergers. The remaining manufacturing companies will have to shift their orientation. While many have been intent on selling competitively priced goods abroad, now they will need to come up with unique products that can command premium prices.

Japanese companies can rise to the challenge. I have rated corporate bonds for the past quarter-century. In 1983, we had only two AAA-rated companies, excluding financial companies. Today, we have nine. Those companies earned their ratings in part by demonstrating strong price-setting power.

We Japanese must scrap some of our long-held traditions and start from scratch.

A few decades ago, some Japanese companies would make a point of pricing their own goods 20 percent less than competing products in the United States. Now, many products are being priced independently by Japanese manufacturers. These companies will find plenty of pent-up demand, as Japanese consumers have shown a preference for good quality over low prices.

Japan has been hit hard by the global financial crisis, and this time exports are not going to save us. Instead, we must scrap some of our long-held traditions and start from scratch.

Many in government will be reluctant to make this change, but they may soon find that they have no other option. Japanese policy makers cannot keep the yen weakened forever because doing so is costly to the domestic economy, and thus to voters. It's time for us to learn from the free-spending ladies of the 17th century and enjoy a strong yen.

AKIO MIKUNI *is the president of a credit rating agency.*

INTERNATIONAL HERALD TRIBUNE
TUESDAY, AUGUST 11, 2009

Misreading the economy

Gross domestic product is a deeply foolish indicator of how the economy is doing.

Eric Zencey

MONTPELIER, VERMONT If there's a silver lining to our current economic downturn, it's this: With it comes what the economist Joseph Schumpeter called "creative destruction," the failure of outmoded economic structures and their replacement by new, more suitable structures. Downturns have often given a last nudge to dying industries and technologies. Very few buggy manufacturers made it through the Great Depression.

Creative destruction can apply to economic concepts as well. And this downturn offers an excellent opportunity to get rid of one that has long outlived its usefulness: gross domestic product. G.D.P. is one measure of national income, and it's a deeply foolish indicator of how the economy is doing. It ought to join VCRs on the dust-heap of history.

The first official attempt to determine U.S. national income was made in 1934; the goal was to measure all economic production involving Americans whether they were at home or abroad. In 1991, the Bureau of Economic Analysis switched from gross national product to gross domestic product to reflect a changed economic reality — as trade increased, and as foreign companies built factories here, it became apparent that we ought to measure what gets made in the United States, no matter who makes it or where it goes after it's made.

Since then it has become probably our most commonly cited economic indicator, the basic number that we take as a measure of how well we're doing economically from year to year and quarter to quarter. But it is a miserable failure at representing our economic reality.

To begin with, gross domestic product excludes a great deal of production that has economic value. Neither volunteer work nor unpaid domestic services (housework, child rearing, do-it-yourself home improvement) make it into the accounts, and our standard of living, our general level of economic well-being, benefits mightily from both. Nor does it include the huge economic benefit that we get directly, outside of any market, from nature. A mundane example: If you let the sun dry your clothes, the service is free and doesn't show up in our domestic product; if you throw your laundry in the dryer, you burn fossil fuel, increase your carbon footprint — and give G.D.P. a bit of a bump.

In general, the replacement of natural-capital services (like sun-drying clothes or the propagation of fish) with built-capital services (like those from a clothes dryer or an industrial fish farm) is a bad trade — built capital is costly, doesn't maintain itself, and in many cases provides an inferior, less-certain service. But in gross domestic product, every instance of replacement of a natural-capital service with a built-capital service shows up as a good thing, an increase in national economic activity. Is it any wonder that we now face a global crisis in the form of a pressing scarcity of natural-capital services of all kinds?

This points to the deeper flaw in using a measurement of national income as an indicator of economic well-being. In summing all economic activity in the economy, gross domestic product makes no distinction between items that are costs and items that are benefits. If you get into a fender-bender and have your car fixed, G.D.P. goes up.

A similarly counterintuitive result comes from other kinds of defensive and remedial spending, like health care, pollution abatement and costs associated with population growth — including crime prevention, highway construction and school expansion. Expenditures on all of these increase gross domestic product, although mostly what we aim to buy isn't an improved standard of living but the restoration or protection of the quality of life we already had.

The amounts involved are not nickel-and-dime stuff. Hurricane Katrina produced something like $82 billion in damages in New Orleans, and as the destruction there is remedied, G.D.P. goes up. Some of the remedial spending on the Gulf Coast does represent a positive change to economic well-being, as old appliances and cars are replaced by new ones. But much of the expense leaves the community no better off (indeed, sometimes worse off) than before.

Consider the 50 miles of sponge-like wetlands between New Orleans and the Gulf Coast that once protected the city from storm surges. When those bayous were lost to development — sliced to death by channels to move oil rigs, mostly — gross domestic product went up, even as these "improvements" destroyed the city's natural defenses and wiped out crucial spawning ground for the Gulf Coast shrimp fishery. The bayous were a form of natural capital, and their loss was a cost that never entered into any account — not G.D.P. or anything else.

If we don't count ecosystem services as a benefit in our basic measure of well-being, their loss can't be counted as a cost — and then economic decision-making can't help but lead us to perversely un-economic outcomes.

The basic problem is that gross domestic product measures activity, not benefit. Because we use such a flawed measure of economic well-being, it's foolish to pursue policies whose primary purpose is to raise it. Doing so is an instance of the fallacy of misplaced concreteness — mistaking the map for the terrain, or treating an instrument reading as though it were the reality rather than a representation.

The basic problem is that G.D.P. measures activity, not benefit.

Several alternatives to gross domestic product have been proposed, and each tackles the central problem of placing a value on goods and services that never had a dollar price. The alternatives are controversial, because that kind of valuation creates room for subjectivity — for the expression of personal values, of ideology and political belief.

How, after all, do we judge what exactly was the value of the services provided by those bayous in Louisiana? Was it $82 billion? But what about the value of the shrimp fishery that was already lost before the hurricane? What about the security and sense of continuity of life enjoyed by the thousands of people who lived and made their livelihoods in relation to those bayous before they disappeared? It's admittedly difficult to set a dollar price on such things — but this is no reason to set that price at zero, as gross domestic product currently does.

Common sense tells us that if we want an accurate accounting of change in our level of economic well-being we need to subtract costs from benefits and count all costs, including those of ecosystem services when they are lost to development. These include storm and flood protection, water purification, maintenance of soil fertility, and regulation of our climate on a global and local scale. (One recent estimate puts the minimum market value of all such natural-capital services at $33 trillion per year.)

Nature has aesthetic and moral value as well; some of us experience awe and wonder in our encounters with it. But we don't have to go so far as to include such subjective intangibles in order to fix the national income accounts. As stressed ecosystems worldwide disappear, it will get easier to assign a nonsubjective valuation to them; no civilization can survive their loss.

Given the problems with G.D.P. as a leading economic indicator, we should drop it altogether. We could keep the actual number, but rename it to make clearer what it represents; let's call it gross domestic transactions. Few people would mistake a measurement of gross transactions for a measurement of general welfare. And the renaming would create room for acceptance of a new, more accurate measurement.

Our use of total productivity as our main economic indicator isn't mandated by law, which is why it would be fairly easy for President Obama to convene a panel of experts to join the Bureau of Economic Analysis in creating a more accurate measure. Call it net economic welfare. On the benefit side would go such nonmarket goods as unpaid domestic work and ecosystem services; on the debit side would go defensive and remedial expenditures that don't improve our standard of living, along with the loss of ecosystem services, and the money we spend to try to replace them.

In 1934, the economist Simon Kuznets, in his very first report of national income to Congress, warned that "the welfare of a nation can ... scarcely be inferred from a measure of national income." Just as this crisis gives us the opportunity to end the nature-be-damned, more-is-always-better economy that flourished when oil was cheap and plentiful, we can finally act on Kuznets's wise warning. We're in an economic hole, and as we climb out, what we need is not simply a measurement of how much money passes through our hands each quarter, but an indicator that will tell us if we are really and truly gaining ground in the perennial struggle to improve the material conditions of our lives.

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INTERNATIONAL HERALD TRIBUNE
TUESDAY, AUGUST 11, 2009

Averting the worst

Paul Krugman

So it seems that we aren't going to have a second Great Depression after all. What saved us? The answer, basically, is Big Government.

Just to be clear: America's economic situation remains terrible, indeed worse than almost anyone thought possible not long ago. The nation has lost 6.7 million jobs since the recession began. Once you take into account the need to find employment for a growing working-age population, we Americans are probably around nine million jobs short of where we should be.

And the U.S. job market still hasn't turned around — that slight dip in the measured unemployment rate last month was probably a statistical fluke. We haven't yet reached the point at which things are actually improving; for now, all we have to celebrate are indications that things are getting worse more slowly.

For all that, however, the latest flurry of economic reports suggests that the economy has backed up several paces from the edge of the abyss.

A few months ago the possibility of falling into the abyss seemed all too real. The financial panic of late 2008 was as severe, in some ways, as the banking panic of the early 1930s, and for a while key economic indicators — world trade, world industrial production, even stock prices — were falling as fast as or faster than they did in 1929-30.

But in the 1930s the trend lines just kept heading down. This time, the plunge appears to be ending after just one terrible year.

So what saved us from a full replay of the Great Depression? The answer, almost surely, lies in the very different role played by government.

Probably the most important aspect of the government's role in this crisis isn't what it has done, but what it hasn't done: Unlike the private sector, the federal government hasn't slashed spending as its income has fallen. (State and local governments are a different story.) Tax receipts are way down, but Social Security checks are still going out; Medicare is still covering hospital bills; federal employees, from judges to park rangers to soldiers, are still being paid.

All of this has helped support the economy in its time of need, in a way that didn't happen back in 1930, when federal spending was a much smaller percentage of G.D.P. And yes, this means that budget deficits — which are a bad thing in normal times — are actually a good thing right now.

In addition to having this "automatic" stabilizing effect, the government has stepped in to rescue the financial sector. You can argue (and I would) that the bailouts of financial firms could and should have been handled better, that taxpayers have paid too much and received too little. Yet it's possible to be dissatisfied, even angry, about the way the financial bailouts have worked while acknowledging that without these bailouts things would have been much worse.

The point is that this time, unlike in the 1930s, the government didn't take a hands-off attitude while much of the banking system collapsed. And that's another reason we're not living through Great Depression II.

Last and probably least, but by no means trivial, have been the deliberate efforts of the government to pump up the economy. From the beginning, I argued that the American Recovery and Reinvestment Act, a.k.a the Obama stimulus plan, was too small. Nonetheless, reasonable estimates suggest that around a million more Americans are working now than would have been employed without that plan — a number that will grow over time — and that the stimulus has played a significant role in pulling the economy out of its free fall.

All in all, then, the government has played a crucial stabilizing role in this economic crisis. Ronald Reagan was wrong: Sometimes the private sector is the problem, and government is the solution.

And aren't you glad that right now the government is being run by people who don't hate government?

We don't know what the economic policies of a McCain-Palin administration would have been. We do know, however, what Republicans in opposition have been saying — and it boils down to demanding that the government stop standing in the way of a possible depression.

I'm not just talking about opposition to the stimulus. Leading Republicans want to do away with automatic stabilizers, too. Back in March, John Boehner, the House minority leader, declared that since families were suffering, "it's time for government to tighten their belts and show the American people that we 'get' it." Fortunately, his advice was ignored.

I'm still very worried about the economy. There's still, I fear, a substantial chance that unemployment will remain high for a very long time. But we appear to have averted the worst: Utter catastrophe no longer seems likely.

And Big Government, run by people who understand its virtues, is the reason why.

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, AUGUST 12, 2009

Asian data show hints of big shift to growth

HONG KONG

Reports indicate region could outpace recovery in the U.S. and Europe

BY BETTINA WASSENER

Has economic recovery in Asia reached a turning point?

Recent economic data, some unexpectedly good results from companies around the region, early signs of some new hiring, and a stock market rally

NEWS ANALYSIS

that has defied most analysts' expectations would seem to indicate that it perhaps has.

On Tuesday, economic reports from Singapore, the Philippines, Australia and China provided the latest fuel for hopes that Asia was on track for a recovery that would outpace that of Europe and the United States, and give the region more economic and political clout.

Even in Japan, which is mired in its deepest recession in decades, the central bank's governor, Masaaki Shirakawa, struck an upbeat note after a rate-setting meeting on Tuesday. "Asian economies seem to be growing at a faster pace," he said, according to Reuters. "Since the spring, the financial system has also been improving. The overall direction is heading toward improvement."

Any recovery, to be sure, is extremely fragile. Asia has depended heavily on government stimulus projects, both at home and abroad. Exports remain weak, and a renewed downturn in the West — the primary market for Asian goods — or a turnaround in the dizzying rise in Asian stocks are primary risks.

But these days, economists are feeling pretty good. "Things certainly look better than they did three months ago," said Simon Wong, regional economist at Standard Chartered in Hong Kong.

All through the crisis that engulfed the world financial system and tipped much of the world into recession last year, Asia has had a major advantage: Its banks steered clear of the complex financial systems that caused some Western banks to collapse. Asian governments and companies were also in relatively sound financial health, having repaired their finances only recently, after the Asian financial crisis of 1997-98.

Asia's export-dependent economies suffered badly when U.S. and European consumers and companies sharply slowed purchases, leading to a collapse in Asian exports late last year. But over all, Asia has recovered more rapidly than most analysts had dared to hope,

ASIA, PAGE 16

Asian data show hints of big shift to growth

ASIA, FROM PAGE 1

as governments spent heavily to lift their economies.

In recent weeks, companies like Sony, Panasonic and Samsung have reported better — or at least less bad — results for the quarter from April through June. Hyundai Motor even reported a record quarterly profit.

Although many companies are continuing to cut jobs, headhunters in Asia say they see evidence that some companies are staffing up again. "It's been a very tough 10 months, but over the past 6 or 7 weeks, we've seen a modest upturn in jobs activity in banking — albeit from a very, very low position," said Nigel Heap, managing director for the recruitment firm Hays in Sydney. "We're cautiously optimistic that the worst is over in Hong Kong and Singapore."

China in particular has stood out in Asia. After years of double-digit growth, the Chinese economy, stumbled this year. A giant spending package, deep interest rate cuts and much greater lending by state-controlled banks have pulled the economy back to a healthy level of growth in recent months.

Data for July, released by the statistics office on Tuesday, illustrated the point: Industrial output, a key measure of broader growth, rose 10.8 percent from a year earlier, while retail sales gained 15.2 percent.

Although the rise in output was less than widely expected, and exports took a further hit, economists at Goldman Sachs say they believe that China could even return to double-digit growth as soon as next year. This week, the team raised its forecast for full-year growth to 9.4 percent. This is up from the 8.3 percent previously projected, and higher than the government's 8 percent target. For 2010, the economist say they expect China to expand 11.9 percent.

Not all economists agree that the picture is quite so rosy. For one thing, China's policy makers now face a delicate balancing act. A spike in property and equities markets — the Shanghai stock index is up about 80 percent this year, after adding 0.5 percent on Tuesday — has led many to worry that another bubble is in the making. Analysts say the authorities now have to scale back bank lending to deflate price spikes while avoiding choking off growth.

Data on Tuesday showed that bank lending dropped off sharply in July, but so far most economists remain relaxed.

"We believe that investment in the coming months will continue to be well supported by lending that has already taken place," Tao Wang, a economist at UBS in Shanghai, said in a note.

Exports, which account for about one-third of China's economy, remain depressed, sinking 23 percent in July from a year earlier. The decline was smaller than economists had expected, and indicated that external demand is steadily recovering, Qing Wang, China economist at Morgan Stanley, said in a note. But it nevertheless showed that overseas demand for Asian-made goods remained well below where it was a year ago.

At the same time, the pace of recovery is uneven across Asia.

In Australia, business confidence is at the highest level in almost two years, and the central bank has indicated that it could raise interest rates.

By contrast, Japan remains in a deep recession. "The global economy has suffered a great shock," said Mr. Shirakawa, the central bank governor. "We can't expect to see an impressive recovery."

The key question now is what happens "beyond the near-term," said Mr. Wong, the Standard Chartered economist.

"We've seen a short-term rebound," he said. "The question is what happens longer term — how will countries like China and Indonesia switch from export-dependent to something else? There are still lots of uncertainties about that."

THE JAPAN TIMES WEDNESDAY, AUGUST 5, 2009

America's security surplus

WILLIAM PFAFF

Paris

Janet Napolitano, U.S. President Barack Obama's secretary of Homeland Security (a totalitarian-sounding office the United States did very nicely without until 2001) gave a talk at the Council on Foreign Relations in New York on July 29, meant to convince American civil libertarians and security specialists that the country can be kept safe, and neighborly as well.

Obama, she said, has been very forceful "about seeing the threat of terrorism in all of its complexity, and in bringing all of our resources, not just the federal government, to bear against violent extremism."

She said, though, that the danger has not diminished since 9/11. Napolitano recommended that Americans do more to make their counterterror approach "a shared endeavor, to make it more layered, networked and resilient, to make it smarter and more adaptive, and to make sure that as a country, as a nation, we are at the point where we are in a constant state of preparedness and not a state of fear."

She cited, as good examples to citizens, the alert store clerk who three years ago reported men "trying to duplicate extremist DVDs." That led the authorities to men planning "to kill American soldiers at the Fort Dix Army base."

Just last month, she said, a vigilant traveler spotted two employees exchanging an unscreened bag at the Philadelphia airport, and this "ultimately stopped a gun from getting on the plane."

She advised her listeners to make emergency plans for their families. They can go to the "www.ready.gov" site on the Web or consult their local "America Corps council." The Homeland Security Department has appointed a "task force" to review its color-coded threat system that has done so much to keep the nation safe. She has recently added "a prominent former computer hacker" to the Homeland Security Advisory Council, to help the department "understand our own weaknesses that could be exploited by our adversaries."

Eight years after the al-Qaida attacks do Americans need such reassurances? Since 2001, there has been no actual terrorist attack reported inside the U.S., much less one involving al-Qaida. Plenty of people have been killed by fellow Americans, ordinarily in old-fashioned ways, during that period — by burglars or their victims, holdup men, muggers, drug dealers, drunks on a rampage, in Saturday night shoot-ups, family troubles, or fooling around with the family guns. More recently the killings have included armed grade-school children shooting their classmates, also mainly an all-American affair.

So far as terrorism is concerned, such episodes as have been disclosed by the government have nearly always seemed farcical affairs, involving guys with a grudge hanging out, usually picked up by semi-professional provocateurs lingering around mosques or Muslim neighborhoods, asking disgruntled guys if they wouldn't like to blow up the tallest building in America. The guys say, "Sure, where is it, how do we get a bomb, and will you loan us the money to go there?" — and they end up in a Federal Pen. This is not serious.

Professional estimates are that when the casualties of war in Iraq and Afghanistan are left out, the total number of victims of international terrorism since 2001, including the Trade Tower victims, are about the same as the number being killed by lightning — or the number of Americans being killed these days by people Tweeting on their cell phones while driving.

A well-known estimate in the journal Terrorism and Political Violence in 2005 was that more are killed by severe allergic reaction to peanuts, or bathtub drownings, than by international terrorists.

Terrorism and political violence can be big, big problems today if you live in Afghanistan, Iraq, Somalia, Pakistan or Iran, or in China if you are member of a non-Han minority like the Uighurs and Tibetans.

The newspapers I read today reported that in the last two days two family barracks of the Spanish Civil Guard, the paramilitary police, have been blown up, presumably by the Basque separatist ETA — which over the years has killed 825 people in Spain. They also reported that the Iraqi government has attacked the Iranian political exile movement the Peoples' Mujahedeen, which once was under American protection but has been handed over to the Iraqis.

In Nigeria, sectarian militants have been fighting the army, and 80 have died and 4,000 have fled. The people who lived in the Swat Valley in Pakistan are afraid to go home, even though the Taliban have left. The poor people in South Africa's shantytowns are rioting because nothing has improved for them since the African National Congress took over the government.

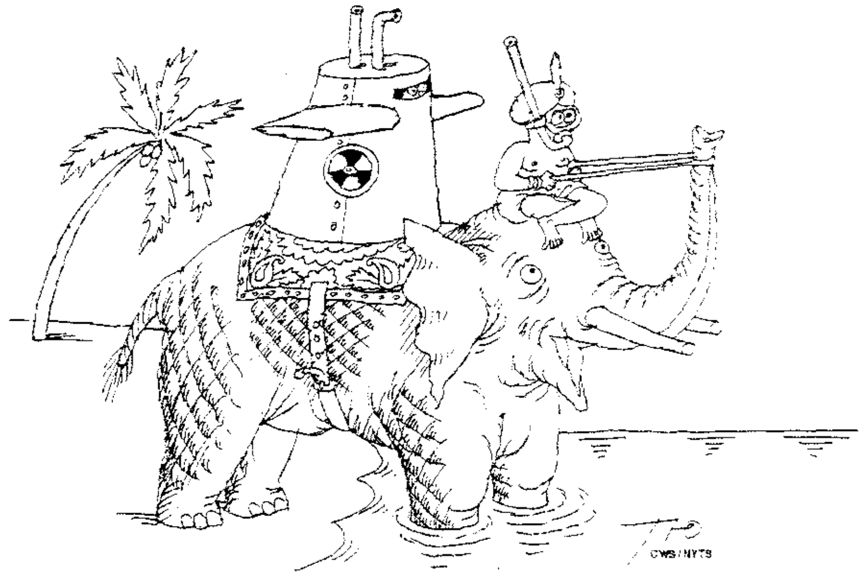
There is a lot of need around for homeland security. You'd think America has more than its share. Napolitano might relax and think of ways to distribute the surplus.

William Pfaff is a Paris-based veteran political analyst and columnist for the International Herald Tribune.

THE JAPAN TIMES FRIDAY, AUGUST 7, 2009

Who will rule the waves?

Harsh V. Pant
London
SPECIAL TO THE JAPAN TIMES



Euphoria in India surrounding the launch of the INS Arihant is not entirely unwarranted. After decades of investment, India finally has the ability to indigenously build and operate a nuclear-powered submarine, a feat accomplished by only five other countries.

Yet, this should not blind India to the fact that it has miles to go before it can catch up with its neighbor, China, which has made some significant advances in the waters surrounding India.

Just a few months back, China's growing naval capability was on full display when it paraded its nuclear-powered submarines for the first time during celebrations to mark the 60th anniversary of the People's Liberation Army Navy. Gone is China's old reticence in admitting such capabilities.

Chinese commanders now openly talk about the need for nuclear submarines to safeguard the nation's interests, and China's navy, once the weakest of the three services, is now the focus of the military's modernization program.

China's navy is now considered the third-largest in the world behind America and Russia's navies, and is superior to the Indian Navy qualitatively and quantitatively. The People's Liberation Army (PLA) Navy has traditionally been a coastal force, but with the rise in economic might since the 1980s, Chinese interests have expanded with the intent of projecting power into the Indian Ocean.

China is investing far greater resources into the modernization of its armed forces in general, and its navy in particular, than India seems either willing to undertake or capable of sustaining at present. China's increasingly sophisticated submarine fleet could eventually become one of the world's largest. Amid a rapid accretion of submarines, ballistic missiles and GPS-blocking technology, some suggest that China will increasingly have the capacity to challenge America.

Senior Chinese officials have indicated that by the end of the decade China will be ready to build an aircraft carrier, considered indispensable to protecting Chinese interests. Such an intent marks a shift away from devoting the bulk of PLA's modernization drive to capturing Taiwan.

As China's economic and political prowess rise, there has also been commensurate growth in its Indian Ocean profile. China is acquiring naval bases at crucial choke points not only to serve its economic interests but also to enhance its strategic presence in the region. China realizes that its maritime strength will give it the strategic leverage to emerge as the regional hegemon.

China's growing reliance on bases across the Indian Ocean is a response to its perceived vulnerability, given the logistic constraints that it faces due to the distance from its own area of operation. China is consolidating power over the South China Sea and the Indian Ocean with an eye on India, something that comes out clearly in a secret memorandum issued by the director of the General Logistic Department of the PLA: "We can no longer accept the Indian Ocean as only for the Indians. We are taking armed conflicts in the region into account."

China has deployed its Jin class submarines at a submarine base near Sanya on the southern tip of Hainan Island in the South China Sea, raising alarm in India. The base is merely 1,200 nautical miles from the Malacca Strait and will be its closest access point to the Indian Ocean. The base also has an underground facility that can hide the movement of submarines.

The concentration of strategic naval forces at Sanya will further propel China toward consolidating its control over the Indian Ocean region. The presence of access tunnels on the mouth of the deep water base is particularly troubling for India as it will have strategic implications, enabling China to interdict shipping at three choke points in the Indian Ocean.

As the ability of China's navy to project power in the Indian Ocean region grows, India is likely to feel even more vulnerable and restricted in its freedom to maneuver despite enjoying distinct geographical advantages. Of particular note is what has been termed China's "string of pearls" strategy of bases and diplomatic ties, which has significantly expanded China's strategic depth in India's backyard. This includes the Gwadar port in Pakistan, naval bases in Burma, electronic intelligence-gathering facilities on islands in the Bay of Bengal, construction of a canal across the Kra Isthmus in Thailand, a military agreement with Cambodia, and the buildup of forces in the South China Sea.

Given that almost 80 percent of China's oil passes through the Strait of Malacca, Beijing is reluctant to rely on U.S. naval power for unhindered access to energy and so has decided to build up its naval power along the sea routes from the Persian Gulf to the South China Sea. China is also courting other states in South Asia by building container ports at Chittagong in Bangladesh and at Hambantota, Sri Lanka, as well as by helping to build a naval base at Marao in the Maldives.

China will have great difficulty in exerting as much sway in the Indian Ocean as India does. Still, the steps that China takes to protect and enhance its interests in the region will generate apprehensions in India, thus engendering a classic security dilemma between the two Asian giants.

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THE JAPAN TIMES FRIDAY, AUGUST 7, 2009

Choosing the slow lane en route to free trade

Chung-Ho Kim and Barun Mitra
London
INTERNATIONAL POLICY NETWORK

This week India and South Korea sign an agreement that they say will reduce barriers and boost trade between our two important economies. But the reality of the Comprehensive Economic Partnership (CEPA) is in the fine print.

By signing a free trade agreement that does not actually free trade, our governments are denying us the best tools to fight the recession. They admit as much by saying it will pave the way to removing more barriers to commerce in the future, even though this agreement has been in the works for over three years.

At least it is a step in the right direction. With the World Trade Organization talks of the Doha Round in a coma, both governments are right to seek other ways to boost trade. But both governments are being far too timid by pursuing trade accords that won't boost trade much at all, such as South Korea's recent free trade agreement with the European Union and one that India is seeking with the 10-member Association of Southeast Asian Nations.

Liberating trade between Indians and Koreans makes a lot of sense. India's massive labor force and emerging globally competitive companies, particularly in information management and software, match up well with a relatively capital-intensive South Korea whose expertise is information technology, electronics and automobiles.

South Koreans have long understood the value of trade with the rest of the world. In the early 1960s, their living standards were similar to those of Ghanaians or Kenyans. Now, South Korea is at least 30 times more productive per capita than those two most successful economies in West Africa and East Africa. Some 70 percent of South Korean jobs are now directly linked to some form of international trade.

India has taken a lot longer. After a disastrous experiment with self-sufficiency that not even an economy with more than a billion people could sustain, India's liberal reforms since 1991 have made dramatic improvements.

Further liberalization has brought the average import tariff in India down from 32 percent in 2000 to 15 percent in 2007, according to the WTO. In 1991 the average import tariff in India was 115 percent. India is now the world's 16th-largest trading nation and the sixth-largest in trade of services.

In the 1990s, both South Korea and India grew a full three percentage points faster than countries that did not open up to trade, according to World Bank economists Aart Kraay and David Dollar. Trade was the key to growth before the global slump and remains the only sustainable route to recovery.

India's booming automobile sector shows how. After putting up for decades with very few choices because of the government-protected oligopoly, keen Indian consumers are buying 9 percent more cars a year, making India one of the world's fastest growing markets.

Among the many investors is South Korea's Hyundai, now India's second-largest car manufacturer. Through joint-ventures with foreign producers and newly gained expertise through trade, Indian manufacturers are becoming globally competitive too.

Nevertheless, India's remaining tariffs on auto components benefit a tiny minority who fiercely opposed the CEPA and got special protection — at the expense of Indian consumers. India has secured CEPA limitations and exceptions for other so-called sensitive sectors such as agriculture and textiles. In other words, India's negotiators are preventing Indians from getting cheaper food, better clothes or good Korean cars.

After decades of protection from trade prevented growth, liberalization made many Indian businesses globally competitive. Yet New Delhi continues to insist that coddling India's farmers is the route out of poverty, as it constrains property rights and the freedom to trade even inside India.

Opposition to free trade is also deeply rooted among South Korea's rice farmers, who fear competition will erode their 60 percent grip on the market.

Protection for a variety of vested interests means that the agreement will be implemented slowly, over 10 years. But why wait to boost two-way trade by what South Korean negotiators calculate to be worth $3.3 billion a year?

Both governments will proudly announce the CEPA this week as an historic achievement, but we should be worrying about the contents instead of admiring another photo opportunity. Let us sign a free trade agreement that does what it says on the tin: free trade.

Chung-Ho Kim, Ph.D., is executive director of the Center for Free Enterprise, South Korea. Both think tanks are members of the Freedom to Trade coalition. Barun Mitra is executive director of Liberty Institute, India.

THE JAPAN TIMES MONDAY, AUGUST 10, 2009

Hitting the recovery road with eco-friendly products

TAKAMITSU SAWA

On July 16 the State Statistics Bureau of China announced that GDP for the April-June quarter grew 7.9 percent in real terms from a year before, surpassing the 6.1 percent rate of the January-March quarter. After the Lehman Brothers shock last September, China's annual economic growth rate — which until the first half of 2008 had been more than 10 percent — slowed with the decline of exports bound for Europe.

Yet, China's economy has already shown signs of a strong recovery, thanks largely to the stimulus package of public spending measures worth about 4 trillion yuan (¥55 trillion).

The Chinese government is now promoting the construction of a harmonious society with regard to five sectors: (1) coastal and inland areas, (2) cities and rural villages, (3) industry and agriculture, (4) nature and human beings, and (5) China and the world, especially Asia. The first three involve the "elimination of economic gaps."

The large-scale public works program that the Chinese government hammered out last November was under way after the turn of the year. Railway, expressway and airport construction projects began one after another in inland areas. Naturally, demand for steel, cement and other industrial materials soared, leading to a sharp rise in capital spending by private enterprises. Thus the notion of stimulating domestic demand, Keynes' style, has worked well.

The Chinese government has also worked out stimulus measures for consumers. As interest rates were lowered, a subsidy system to provide discounts of more than 10 percent for purchases of household electrical appliances was introduced in rural areas. A sharp rise in sales of refrigerators, washing machines and television sets resulted.

Meanwhile, car sales in the first half of this year totaled 6.09 million units, a 17.7 percent rise over the previous year, outpacing U.S. sales to become No. 1 in the world. This was partly due to the cut in the vehicle sales tax for cars with an engine displacement of 1,500 cc or less.

Although the downtrend in exports continues at a level about 20 percent below that of last year, China has acted swiftly to shift its export-dependent economy toward one focused on domestic demand.

The international financial crisis, which started with American subprime loans, is blamed generally for the global recession, but probably the principal culprit is the global-scale Keynesian problem of production capacity for industrial goods exceeding effective demand.

Such a situation emerged at the time of the East Asian monetary crisis in 1997. China's devaluation of the yuan in 1995 had spurred Chinese exports, while damping export growth in Thailand, Malaysia and South Korea. Hedge funds that had detected signs of poor business performance in Thailand sold Thai stock shares, corporate bonds and government bonds, changing them into dollars, and then fled the market. Thailand's central bank devalued the Thai baht in an attempt to halt the decline of its foreign exchange reserves. But short-term capital flights continued, forcing the country to resort to emergency loans from the International Monetary Fund.

In other words, in the latter half of the 1990s, the Keynesian syndrome in which global industrial production capacity surpassed effective demand because of industrial progress in East Asia and Central and South America had already surfaced. Keynes urged using fiscal and monetary policy to stimulate effective demand at the national level. This time there are indications that the domestic demand-spurring measures taken by China, which represents about 20 percent of world population, may become the primary vehicle driving recovery from the global recession.

But there are limits to fiscal stimulus action and there are fears that drastically eased credit may trigger a sharp uptick in the money supply and that surplus funds may flow into the stock and real estate markets, forming another bubble economy. If that's the case, we cannot rely on China alone. And it is necessary to make efforts to develop an international financial mechanism aimed at spurring potential domestic demand in developing and newly emerging countries. That means reform of the current international financial system.

In the years to come, as production gains in developing and newly emerging countries accelerate, the world-scale Keynesian problem is likely to become increasingly serious. It was said until recently that "Keynes is dead," but to overcome the global recession, the world's advanced countries launched stimulus measures. The effects are not apparent yet. One reason is the extent to which durable consumer goods have diffused through the economy. In advanced countries, automobiles, for example, are near the saturation point.

So, the question is, what will be the next generation of products to spur personal consumer spending? Perhaps they will be ecologically friendly items such as solar power generation, fixed-type fuel cells, electric vehicles, plug-in hybrid cars and LED lighting. At present, the diffusion rate of these products among households remains less than 1 percent. As their diffusion rate approaches 10 and then 20 percent, the economy will grow.

If the feed-in tariff system is introduced for renewable energies — under which electric power from these energy sources are bought at fixed prices — the installation of so-called smart grids or networks for power transmission and distribution will be proposed as large-scale public works projects. They will be controlled by information technology to stabilize frequency and voltage.

Energy-saving efforts involving houses and buildings are expected to create jobs. On this score, U.S. President Barack Obama's plan to raise the national ratio of renewable energy to total energy supply as the main prop in his climate-change and economic-recovery package wins plaudits.

Takamitsu Sawa is a professor of Ritsumeikan University's Graduate School of Policy Science and an appointed professor at Kyoto University's Institute of Economic Research.

Bangkok Post 2.0 BETA The world's window to Thailand

Pacific leaders to tackle impact of global crisis

Writer: AFP
Published: 4/08/2009 at 11:59 PM

Leaders from around the Pacific region gathered here Tuesday ahead of a summit aimed at tackling the impact of the global economic crisis on some of the world's smallest and poorest nations.

Australian Foreign Minister Stephen Smith welcomes delegates to the 40th Pacific Islands Forum summit in Cairns. Leaders from around the Pacific region gathered here Tuesday ahead of a summit aimed at tackling the impact of the global economic crisis on some of the world's smallest and poorest nations.

The Fiji coup of 2006 has dominated the last three annual summits of the 16-member Pacific Islands Forum and Voreqe Bainimarama's military regime was suspended from the grouping in May for breaking promises to hold elections early this year.The two-day summit starting Wednesday is sure to return to Fiji's long running crisis but hosts Australia want to emphasise economic issues and climate change.

Australia's official aid agency AusAID released a report Monday showing poverty was worsening in the region and many nations were falling behind the UN Millennium Development poverty reduction goals."The Pacific region is seriously off track to achieve the Millennium Development Goals (MDGs) by 2015," said Bob McMullan, Australia's parliamentary secretary for international development assistance.

"The people of the Pacific expect us all, donors and Pacific island governments alike, to do much better," McMullan said.Around 400,000 children across the region were not going to primary school and around 64 out of every 1,000 Pacific children died before the age of five.

"Perhaps most worryingly, in some countries the number of mothers dying while giving birth is getting worse," he said.The report said the Forum's 14 Pacific island nations and donors needed to better coordinate their aid efforts.Murray McCully, the foreign minister of New Zealand -- the other developed nation member of the forum -- took aim at slow progress in development efforts in a speech in Brisbane Monday.

He said little had been achieved since the forum attempted to better coordinate regional development under the Pacific Plan adopted in 2004."Five long years after the Pacific Plan was produced, identifying bulk fuel purchases as a means of assisting smaller Pacific states in countering mounting fuel prices, we still have no bulk fuel purchase scheme," he said."On the big picture issues -- fishing, energy, transport services, the environment -- the regional organisations charged with advancing our collective interests have too little to show for their efforts and our dollars."

Climate change is another key issue, with low-lying atoll nations such as Kiribati, Tuvalu and the Marshall Islands among the world's most vulnerable to rising sea levels and changing weather patterns.Leaders of the forum's seven smallest nations met Tuesday and called on developed countries to slash their greenhouse gas emissions 45 percent by 2020 and 85 percent by 2050 to ensure the survival of vulnerable island states."We know there will be differences, we understand some of the difficulties the developed countries have with respect to the changes that are needed," said Toke Talagi, chairman of the forum's Small Island States grouping.

"The small island states have agreed we must make a very strong stance with respects to the greenhouse gas emissions," said Talagi, the Premier of Niue, a tiny island state with a population of around 1,100 people.International aid agency Oxfam said in a report last week that by the year 2050, some 75 million people could be forced to leave their homes due to climate change in the Asia-Pacific region.Australia and New Zealand's hopes of launching talks for a closer economic relations agreement for the region took a knock when Talagi said a meeting of the island nations leaders Tuesday had decided they were not ready.

Asked by journalists after the meeting whether negotiations for the agreement known as PACER Plus would be launched in Cairns, Talagi said: "No, I don't believe so, but that's a decision the leaders will have to take at the retreat (on Thursday)."I think we agreed this afternoon that there still needs to be a bit of work to do before we can launch anything," Talagi said.

Thailand is blessed with naturally fertile land, but successive governments have been blindly following policies which have severely negated our natural advantages.

The major mistake has been, and still is, the policy of promoting land ownership by small individual farmers which has had the effect of preventing large-scale farming which can benefit from economy of scale. We still have millions of individual farmers owning or renting just a few acres of land. It makes no sense to me that while we do not encourage every worker to have his or her own factory, we are encouraging individual farmers to have their own land, the price for which is low productivity.

Another major obstacle to increasing agricultural productivity in Thailand is the low allocation of resources to agricultural development. Despite the lip service paid by every government to the importance of agriculture in the Thai economy and society, the budget allocation to the sector has continued to decline - from 20% of the national budget 20 years ago, to less than 10% now. Successive governments have continued in reality to accord low priority to agricultural development. Action speaks louder that words.

As a result of the low priority given to agriculture, irrigation in Thailand is still totally inadequate, the application of technologies far behind the West. Even the simple use of fertiliser is not that common because many farmers cannot afford it and do not have the capacity to borrow. It is also for some an unacceptable risk, because there will be no returns but only costs from using fertiliser if crops are destroyed by drought or flood.

Despite all these disadvantages, Thailand is still a major food exporter. Imagine what can the achieved with better management and policies. While increasing actual output many times over, costs can simultaneously be reduced to make Thai agricultural products more competitive. Even with the protectionist agricultural policies of some countries, the rest of the world is a big enough market for our agricultural products as long as we can produce them more efficiently than our competitors.

Another major inefficiency in the Thai economy is the low standard of education. Up to 25%of the national budget is devoted to education each year, but over the years the standard has not improved much. There are no doubt many reasons for the problem which must be identified and put right. Reforming the educational system is of course not something that can be done overnight, but will take time. But we should start now.

Among the shortcomings that the Thai educational system suffers from are the following:

1. Students are encouraged to memorise rather than analyse.

2. Government policy in the past has favoured investment in bricks and mortar rather than in books and software.

3. Insufficient specialisation in higher education.

4. The method of testing which leaves all the testing to the teachers of the students themselves with no requirement for participation of neutral outside examiners.

In the shorter term, another measure that can be taken to promote productivity in the Thai economy is to review the investment promotion policy. Currently Thailand has a Board of Investment (BoI) which offers tax privileges to selected new businesses. The issue is that while some new businesses get promotional privileges, existing ones do not and operate at a competitive disadvantage. If we turn our attention to focus on increasing productivity, what we should do is to offer incentives to existing firms to invest to increase productivity. Any project to improve productivity should be encouraged and promoted.

Apart from what can be done in agriculture, the whole Thai economy will also be able to increase its growth rate substantially by being genuinely and properly liberalised.

At the stage of economic development that Thailand is in, competition can provide a driving force for it to take off. Thailand still has many laws and regulations restricting foreign businesses from operating in Thailand thus limiting competition. The main negative law is the Foreign Business Act which was designed to protect Thai businesses even if they are inefficient.

My frequent attempts to convince policy-makers that such a law hinders growth and penalises consumers, who are all of the Thai people, have so far not been successful.

To promote maximum economic growth, this law will have to be repealed. If there are specific businesses that should be protected for whatever reasons, specific laws should be considered. The current Foreign Business Act protects all the Thai businesses except those specifically exempted.

The last glaring major obstacle to economic growth in the Thai economy is the inefficiency of the public sector in operating 70 state enterprises with total expenditure of much as 20% of Thailand's GDP.

Unfortunately the tendency of state enterprises has generally been to seek protection and special privileges which is hardly conducive to growth. Many bureaucrats mistakenly equate the benefits to state enterprises with national interests.

The solution, however, is not necessarily to sell all the state enterprises, but to allow more competition which will either force them to raise efficiency or go out of business.

Bangkok Post 2.0 BETA The world's window to Thailand

ECONOMIC GROWTH

Bank sees 3.5% Thai uptick in 2010

Writer: SOMRUEDI BANCHONGDUANG
Published: 6/08/2009 at 12:00 AM
Newspaper section: Business

Deutsche Bank believes Thailand's economic growth next year will be 3.5%, supported by a global economic recovery, according to chief economist Norbert Walter.Dr Walter, speaking at a briefing in Bangkok yesterday, said the global economy would post annual growth between 1% and 1.5% in 2010 following a contraction of 3% this year.Recent economic data have pointed to improvements, as global trade volume is expected to resume next year after it bottoms out. That volume should contract 10-15% this year due to shrinking demand in world markets.

Strong fundamentals and recovery signs in the Asian economy would be key support signals for world economic growth next year, particularly from China, India and Indonesia. China should be the first country to recover from the current crisis, partly due to an effective stimulus package.For Thailand, Dr Walter predicted an economic contraction of 4% this year, mainly affected by falling production and consumption as a result of global factors. Meanwhile, the country's foreign reserves and short-term debt position are much stronger than during the 1997 crisis.

"To build up foreign confidence is the key challenge for Thailand now. The country should make it clear to international investors that its current economic downturn is due to external factors," he said.He foresees a positive trend for exports in the long term due to the country's various array of products. Thailand is particularly competitive in consumer goods. Global demand in this sector remains steady and should increase going forward.Asian co-operation is another key factor to improve and develop the regional economy.

Bangkok Post 2.0 BETA The world's window to Thailand

Opinion

IN Print

Economic recovery hinges on political stability

The consensus is that the worst is over. Now it's up to politicians: Do they want to be the good guys or the bad guys?

Writer: KAMOL HENGKIETISAK
Published: 8/08/2009 at 12:00 AM
Newspaper section: News

Most US economists believe the global recession has bottomed out. From now on, even though global GDP growth might remain in negative territory, it will gradually ease and eventually turn positive, noted Zoom, a Thai Rath writer.However, the economists still see some constraints, including the rate of recovery in some countries including the US itself.Meanwhile, the US Federal Reserve believes the US economy has passed the lowest point and will recover either in the fourth quarter or early next year. Yet the Fed cautions that people will still suffer as unemployment will remain high for some time.

One can see two opposing points of view in Thailand.Economists who do not like this government say the Thai economy will not recover as the stimulus policy is ineffective and there is too much corruption.Economists on the government side, including Prime Minister Abhisit Vejjajiva (don't forget Mr Abhisit graduated with an economics degree and used to teach economics at Thammasat University), say the Thai economy will recover soon as the government's stimulus policy begins to bear fruit. Some stimulus projects might see leakages, but not much and the government is determined to plug the loopholes.

The views are in stark contrast, so the Thai Rath writer suggested that one must consider a neutral viewpoint such as that of Kasikorn Bank's Research Centre, which the writer (a trained economist himself) believed to be academically neutral and reliable as the bank does not play politics.Kasikorn Bank's Research Centre, in its latest report, suggests that the Thai economy has now passed the lowest point as the second quarter GDP was expected to contract by less than the 5.6% predicted earlier. The figure should be much better than the 7.1% contraction in the first quarter.

Furthermore, the centre predicts that Thai GDP in the second half of this year will contract in a range of 0.7% to 3.6%, which is even much better than in the first half even though it is still in negative territory.The main constraints are the type-A (H1N1) flu pandemic and the slow recovery of the export sector, which depends on the pace of global recovery.

Other neutral observers also believe Thailand is on the road to recovery. Siam Commercial Bank senior executive vice president Kannikar Chalit-arphorn said the economy is much better than last year and should have passed its lowest point. The question is the pace and the extent of recovery, which depends on how effective the government's stimulus policy is and the global recovery.

Chairman of Sahaphat Group Boonkiat Chokewattana said the economy was showing distinct signs of recovery and the second half would be even better. However, he was worried political instability might derail or prolong the pace of the recovery.The Thai Rath writer concluded by calling on politicians to choose whether they want to be the bad or the good guys as they can either impede or accelerate economic recovery in this country.

Can Abhisit intervene in police reshuffle?

How much politicians can intervene in the appointment and administration of career bureaucrats is in the news again after Prime Minister Abhisit Vejjajiva was seen to push hard for the temporary removal of the police chief in order to speed up the investigation into the assassination attempt on PAD leader Sondhi Limthongkul, noted a Thai Rath editorial.

The action of Mr Abhisit in forcing police chief Patcharawat Wongsuwon to take personal leave from work to expedite the investigation of the attack on Mr Sondhi did not go down well with certain people, including appointed senator Ruengkrai Leekitwattana who submitted a letter to the Election Commission chairman to ask the Constitution Court to rule whether Mr Abhisit had broken the law by interfering in the work of career bureaucrats and should be stripped of his position.

The Puea Thai Party spokesman also threatened to gather signatures from MPs seeking to impeach the prime minister.The issue came about because of the constitution's Article 266 forbidding MPs and senators, including the prime minister and ministers, from interfering in the work and appointments of career bureaucrats except when the prime minister and ministers are carrying out their duty or to implement a stated policy or to enforce the law.

The issue then is an interpretation of whether Mr Abhisit interfered with the working of the police or if he was trying to speed up the case legitimately, acting as the head of government as entrusted by the law.The Thai Rath editorial argued that the prime minister is the ex-officio chairman of the Police Commission, which is the ultimate authority in administering the police force so that it conforms with the government's stated policies in parliament. So it is reasonable to say Mr Abhisit is acting within the scope of the law in interfering with the police appointment if he thinks that, in doing so, he will make law enforcement effective.

When there is evidence that the main stumbling block in the police investigation of the Sondhi case is the police chief himself, it is within Mr Abhisit's authority as the Police Commission chairman to ask the police chief to take temporary leave.The Thai Rath editorial also argued that Mr Abhisit could freeze the police reshuffle list proposed by the police chief as there are rumours of kickbacks being paid to secure lucrative positions.

The prime minister, as head of the government, can do this as he must bear ultimate responsibility in answering to parliament and the people, concluded Thai Rath.

Education reform, again?

The present education reform has been going on for 10 years, yet according to several academics who have researched students' achievements, the result is disappointing in that present day students are scoring worse academically than those of 10 years ago, noted Boonmee Phanthai, a Ramkhaemhaeng university academic, writing for Matichon.

The National Institute of Education Testing Service also confirmed in its latest report that present day students are doing very badly in all subjects with average scores at an alarmingly low level. So it could be concluded that Thai students' academic performance is unsatisfactory.The only good thing about the present education reform is that several career bureaucrats in the Education Ministry and thousands of teachers are achieving higher positions (C level) than ever before.

Boonmee would like those who carried out the education reform to explain these seemingly contradictory results.As if this is not enough, there were news reports in several media outlets that the Education Ministry was contemplating another round of education reform, which seems no more than dissolving the present structure while building up a new one, which of course might mean there will be more top positions opening up (the present education reform has seen five career bureaucrats achieve C11 level, compared with only one previously).

Boonmee wondered what children would get from the newest education reform when the currently ongoing reform did not seem to be bringing about any concrete improvement.If career bureaucrats at the Education Ministry have so much free time to dream up new projects, Boonmee suggested that they volunteer to teach in schools to experience what real teachers are doing.

He criticised the present education reform as being cosmetic. The core does not change, especially the educational content.The present education reform has been costly to produce an organisation change which does not benefit children at all.Boonmee suggested the top brass at the Education Ministry spend more time thinking about how to raise the quality of teachers and making sure that teachers teach, not spend their time outside the classroom conducting research while ignoring teaching.

Real education reform is in the classroom, not just changing the education structure. It just does not work, concluded Matichon.

Bangkok Post 3.0 BETA The world's window to Thailand

Asean to discuss AEC

Writer: PHUSADEE ARUNMAS
Published: 11/08/2009 at 12:00 AM
Newspaper section: Business

Leaders at the 41st Asean Economic Ministers meeting will discuss opportunities to develop initiatives such as the Asean Economic Community (AEC), the Asean Customs Union and the expansion of a free trade agreement.

Commerce Minister Porntiva Nakasai, as chair of the meeting, said it is particularly important for the association to co-operate on solving problems during the economic crisis, and to work towards establishing the AEC by 2015.

Nuntawan Sakuntanaga, director-general of Trade Negotiations Department, said the meeting's main agenda will relate to what direction the economic community should take after 2015.

Developing a customs union and expanding the Asean Free Trade Agreement to cover more than the 10 member states will also be discussed. The so-called "plus 3" countries - China, Japan and South Korea - and Australia, New Zealand and India, could be included in the free trade area.

Dusit Nontanakorn, chairman of Thai Chamber of Commerce, said the private sector will push for the AEC to be set up by 2015. The private sector expects import tariffs to fall in line with the framework while non-tariff barriers should not rise.

Bangkok Post 2.0 BETA The world's window to Thailand

Economics

Oil demand weak despite Asian boost

Writer: AFP
Published: 12/08/2009 at 08:01 PM

Oil demand is lagging behind vague signs of global recovery from the economic crisis, the IEA said on Wednesday in a cool assessment of so-called "green shoots" of growth.Demand this year would be far weaker than last year, and an unexpectedly weak rally next year would fall far short of compensating for this, the International Energy Agency said.It noted that the oil price had turned more "bullish" recently, rising by 8.0-10 dollars per barrel from the July average to about 70 dollars a barrel now, but said that the market was being underpinned mainly by demand in China and also India.

The benchmark New York contract fell in London on Wednesday by 10 US cents to 69.35 dollars per barrel.The IEA reported that the US driving season, a big factor in demand for petrol at this time of year, had "fizzled out," US industrial activity was still falling and global use of diesel fuel, which is used for trucks, transportation, and in generators, remained weak.The broad headline findings of the IEA report chimed with the overall assessment of the Organization of Petroleum Exporting Countries which reported on Tuesday that world oil demand would decline slightly this year but begin to grow in 2010.

The IEA said that Chinese demand had "rebounded" and that it saw "recovery in economic growth" outside the OECD area of advanced economies "prompting a demand rebound in 2010."For 2009, the IEA revised upwards slightly its expected demand data but said that this was a mere drip compared to the overall fall from demand in 2008.It also noted record low oil output by Nigeria but unexpectedly high production by Russia.The agency said that it was "now among the bears for 2009 demand" which would fall by 2.3 million barrels per day from the 2008 average, marking contraction of 2.7 percent.

"Has the global recession ended?" the IEA asked, posing the pivotal question because demand for energy is tied to economic activity."The most that can be said is that the global economy may be stabilising -- but even if this is confirmed, it remains far from evident that growth will resume strongly before the end of the year."It said: "Only in China and India is industrial production growth positive."Elsewhere industrial production remained in a state of contraction even though the rate of decline had slowed slightly.

"More worryingly, industrial production has seemingly not reached the bottom in the US."The monthly report said that shrinkage of demand for oil in Europe had increased to 900,000 barrels per day in the second quarter of this year."And the US 2009 gasoline (petrol) season now seems to have fizzled out before getting started."Initial US demand for gasoline in July was 1.8 percent below the figure for 2008 after a fall of 1.6 percent in June."Green shoots of economic recovery there may be, but motorists have curbed driving and, at the margin, schemes to encourage vehicle fuel efficiency may begin to have an increasing impact."

The agency, the oil policy and monitoring arm of the Paris-based Organisation for Economic Cooperation and Development, said it had revised upwards expected global demand for oil this year by 190,000 barrels per day, and for next year by 70,000 barrels, because the outlook for Asian demand had risen for both years."This barely dents the sharp demand contraction to 83.94 mbd expected this year, while growth in 2010 is slightly lower than previously estimated, at plus 1.6 percent or 1.3 mbd to 85.25 mbd," the report said.

"The evidence of a bottoming out of the global recession is patchy, and global gasoil (diesel) demand -- a key indicator of economic health -- remains significantly subdued."The IEA reported that global oil supplies had risen by 570,000 barrels per day to 85.1 million barrels per day in July.Two thirds of this increase had come from producers outside OPEC.Non-OPEC supply for this year was revised upwards by 160,000 barrels per day to 51.0 mbd, mainly because of unexpectedly strong Russian supply in recent months.

But supplies of crude oil from OPEC fell by about 100,000 barrels per day in July to 28.64 million barrels owing in part to record low output by Nigeria.The IEA was at pains to list issues which fuzzed the outlook for 2010, saying that although "the global economy is expected to rebound next year" under the effects of massive stimulus action by authorities around the world, there was great uncertainty over what would happen as stimulus was withdrawn.

"It is also unclear whether a rebalancing of the world economy will occur... as there is little sign that private consumption in key exporting economies, like Japan, Germany, China, is growing enough to offset its sharp fall in countries with large current account deficits, most notably the US."

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Economics

Fed eyes modest pullback from stimulus

Writer: AFP
Published: 13/08/2009 at 11:00 AM

The Federal Reserve edged a step closer to acknowledging economic recovery as it announced a scaling back of a massive effort to pump liquidity into the financial system, analysts said.Concluding a two-day monetary policy meeting on Wednesday, the Federal Open Market Committee (FOMC) maintained its near-zero base interest rate while saying that "economic activity is leveling out" amid the deep recession.

As widely expected, the panel headed by Fed chairman Ben Bernanke said it "continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period."The central bank also said it would begin to pull away from a massive effort to pump liquidity into the financial system through the purchase of Treasury bonds and mortgage-backed securities.

The 300-billion-dollar Treasury bond program will be completed by the end of October, the Fed said, extending the effort by one month.Analysts said the move was a first step toward moving away from extraordinary support of the economy through what some call "quantitative easing" -- essentially printing money to pump into the system."The Fed is pulling back on one market support program of buying Treasuries but it is easing out of it," said Robert Brusca at FAO Economics.

"The Fed is getting less worried but is not at a point to depend on recovery yet or to bet on how strong it will become."Joel Naroff at Naroff Economic Advisors said the minor change in the Fed statement saying the economy was "leveling out," replacing a June phrase that "the pace of economic contraction is slowing," was significant.The change "indicates to me the members believe the recession is basically over," Naroff said.

The pullback on Treasury purchases -- an extraordinary effort by the central bank aimed at keeping down interest rates it cannot directly control -- was also positive, said Naroff."The Fed wants to turn the operations of the markets back over to the markets and this is one sign that they are prepared to do so, though at a very cautious pace," he said.The FOMC said it would "gradually slow the pace" of Treasury bond purchases and that it "anticipates that the full amount will be purchased by the end of October."

Craig Alexander, deputy chief economist at TD Bank Financial, said the announcement suggested only a small improvement in the troubled financial system.The slowing of Treasury purchases "is a reflection that the economic numbers are showing some improvement," Alexander said."But they are not going so far as saying the economy doesn't require" the extra support.Alexander said that under the current circumstances, the Fed may keep its near-zero rate policy for as long as another year.

"I don't think there is an urgency to tighten policy anytime soon," he said."I don't believe economic growth is going to be strong in the coming quarters. There is an awful lot of slack in the economy."Ryan Sweet at Moody's Economy.com said the Fed's decision to slow its Treasury purchases was "a somewhat surprising twist," but stopped short of a major shift."The Fed appears in no hurry to tighten monetary policy as the sustainability of the recovery is still debatable," Sweet said.

The Fed announcement came days after news that gross domestic product (GDP) -- the broad measure of the economy's activity -- fell at an annualized rate of 1.0 percent in the second quarter, after a 6.4 percent plunge in the January-March period.Unemployment dipped unexpectedly in July to 9.4 percent, one-tenth point lower than the 26-year high hit in June as job losses narrowed to 247,000.Brian Bethune, economist at IHS Global Insight, said Fed policy remains highly stimulative.

"The Fed is sticking to its guns and maintaining a relatively aggressive posture on policy in a situation where the economy is at a critical turning point and inflation is running below the Fed's desired target," he said."There is no reason whatsoever to do anything that could potentially upset the apple cart as hopes for an incipient recovery after a long and painful recession are running high."

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Economics

IMF provides $250bn cushion against global crisis

Writer: AFP
Published: 14/08/2009 at 01:00 AM

The International Monetary Fund said Thursday it would soon inject 250 billion dollars into member nations' coffers to cushion the blows of the global economic crisis.Employing a rarely used tool, the IMF said its board of governors approved the allocation to its 186 members "to provide liquidity to the global economic system by supplementing fund's member countries' foreign exchange reserves."

The action is part of a 1.1 trillion dollar plan agreed by Group of 20 leaders in early April to tackle the global financial and economic crisis. The G20 also planned to triple IMF resources to 750 billion dollars."The general SDR allocation is a key example of a cooperative multilateral response to the global crisis, offering significant support to the fund's members in this challenging period," the IMF said.

The board of governors, representing all members, approved the plan to allocate Special Drawing Rights (SDRs) equivalent to 250 billion dollars, by far the largest general SDR allocation in the institution's six-decade history.The disbursement takes effect on August 28.An SDR is an interest-bearing IMF asset based on a basket of international currencies -- the dollar, yen, euro and pound -- that is calculated daily and which members can convert into other currencies.

The IMF has explained that some members may choose to sell part or all of their allocations to other members in exchange for hard currency -- for example, to meet balance of payments needs -- while other members may choose to buy more SDRs as a means of reallocating their forex reserves.The global economy is beginning to pull out of the worst recession since World War II, the IMF says, but it expects recovery will be sluggish and financial systems remain fragile.

The board of governors approved the special SDR allocation on August 7, following its July 17 endorsement by the executive board.The operation will increase each member country's allocation of SDRs by roughly 74 percent of its quota in the fund, which is broadly based on the member's relative size in the global economy.

The distribution dwarfs the total 21.4 billion SDRs (33 billion dollars) allocated in yearly installments through two previous general allocations: 9.3 billion SDRs in 1970-1972 and 12.1 billion in 1979-1981.The IMF also announced a special SDR allocation of 33 billion dollars would be made on September 9.The special allocation was authorized by an amendment to the IMF Articles of Agreement proposed in September 2007. On August 5 the United States joined 133 other members in supporting the amendment, meeting the majority threshold.

"The special allocation will make the allocation of SDRs more equitable and correct for the fact that countries that joined the fund after 1981 -- more than one fifth of the current IMF membership -- had never received an SDR allocation," it said.Thirty-nine countries have joined the IMF after 1981, including Russia, the former Soviet bloc countries and Switzerland.

The largest of the new SDR allocations will go to the most advanced economies because of their relatively heavier quotas. The United States, the biggest stakeholder, will get a combined SDR allocation of 30.4 million SDRs, or roughly 47.3 billion dollars.

The IMF underscored that "nearly 100 billion dollars of the general allocation will go to emerging markets and developing countries, of which low-income countries will receive over 18 billion dollars."The general and special allocations will bring the members' total to 204 billion SDRs, about 316 billion dollars.

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AWAKENED DRAGON: CHINA'S ECONOMIC RECOVERY

Writer: CHARN SIRIMONTAPORN
Published: 15/08/2009 at 12:00 AM
Newspaper section: Business

It has already been half a year since the Chinese economy showed clear signs of recovery from the global crisis, giving hopes not only to China but also to all its trading partners including Thailand and other Asean countries. Everyone seems to expect China, along with Japan, to spearhead the rebooting of the Asian economic mechanism.

China's 7.1% economic growth figure for the first half of the year is certainly making its leaders very happy. The impressive performance is also renewing Asean's hopes and reassuring it to move forward rather than stepping backward with desperate measures such as cutting production or workforces.

But there is an even more pleasant surprise from the Middle Kingdom to the world. Chinese Premier Wen Jiabao has forecasted that China's 2009 GDP growth will reach 8%, which, if true, will benefit Thai export goods such as cassava, rubber, chemical products, computer and electronics parts, and rice. The increased volumes of such exports to China will, in turn, give a boost to Thailand's farm and industrial sectors.

The Chinese economy, now ranked third in the world in terms of size, experienced 6.3% GDP growth in the first quarter of this year, the lowest since 1999 for such a fast-growing economy. The figure, however, is expected to improve in the second quarter. This means the end of 2008 and early 2009 will be remembered as the lowest point for the Chinese economy since it fully opened itself.

The National Bureau of Statistics of China identifies three factors that contributed to the 7.1% GDP figure for the first half of the year. The first factor, investment, if isolated from the others, would allow GDP growth of 6.2% for the first half of the year. Similarly, domestic spending alone would yield growth of 3.8%, but exports would take away 2.9%.

China has always believed that it could empty its pocket to rescue the economy. In fact, its purse is deep enough to do so. Its government and bureaucracy have taken bold measures to inject money into the system quickly and efficiently at a speed other economic powerhouses could only dream of.

Impact of state measures

Two among the stimulus measures are most notable. One is the hastening of government investment in infrastructure and construction projects, which immediately triggers price hikes of various materials in the global markets including iron, which went up by 30%, and iron sheets, which rose by 45%.

The other measure is the issuing of all types of credits to entrepreneurs and ordinary people.

The government timely started implementing the measures in the fourth quarter of last year, and they have quickly yielded results, perhaps due to the top-down government structure that wasted no time to hear responses from regional administrations.

China also chose to bypass the wait-and-see approach and situation evaluation, as it believes such methods could not be used with a country of its size. In fact, with continuously plummeting purchase power and production, the longer it waited, the more suffering businesses and workers would have to endure.

Therefore, China has hastened the release of credits into the system since earlier this year, willing to take the risk of rising non-performance loans (NPLs). In the first half of this year, the government issued about US$1 trillion, higher than the whole 2009 target of US$732 billion.

The injected money has drastically spurred the flow in the financial and capital sectors that were earlier stagnant. Enjoying a unique status in Asia as a large country with low NPL rate and strong financial institutions, China was able to generate the much needed liquidity boost.

At the same time, it also encouraged domestic consumption to substitute export orders to allow the money to continue flowing via production and purchase cycles. The government pushed hard to lower any obstacles to purchase decisions, such as purging taxes, fees and other charges, encouraging consumers to buy household appliances and vehicles at very low prices. In addition, it also operated a rebate programme for those buyers, who may trade the receipts for more credits. The measure worked well. Chinese people were buying more, and factories switched to producing for the domestic market.

As a result of the government measures, the Shanghai stock exchange index rose by more than 60%, while the Shenzhen market similarly increased by more than 80% from the lowest points last year, reflecting investors' vote of confidence. The real estate market, too, responded favourably, with condominium prices in Beijing returning to an average price of US$4,392, which is about the same as the pre-crisis levels. The various indices have all pointed to new hopes created by the success of Beijing's measures and the expected recovery of the US economy.

Undesirable effects The drastic improvement of various indices point to a possible surge of inflation while moves to make banks release more credit have increased the NPL risk, reminiscent of the situation 7-10 years ago, forcing China to spend years curbing its high NPL rate.

With the injected money flowing mostly into stock markets and real estate, China's exports continue to shrink, now off 22%, while investment from abroad is falling by 18% year-to-year. The credits generated by the measure are simply used to speculate in the stock exchanges rather than to actually invest in employment or machinery.

The production for domestic consumption, although available as an option for many entrepreneurs, is nothing but a cutthroat competition as so many Chinese producers are offering the same products. Once spreading out in the vast global markets, Chinese producers are now scrambling for shares of the limited market at home.

The Chinese-style solution to the economic crisis may be able to help various sectors, particularly the investment in the capital markets and the real estate industry, as well as increasing the confidence of the ordinary consumers, but it also comes with undesirable effects that may develop into more serious problems in the future.

Charn Sirimontaporn is the Director and Manager of the Thailand-China Business Council.

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Economics

INDIA BANKS ON FTA'S LONG-TERM BENEFITS

Delhi government rebuts domestic critics' fears that liberalised trade could widen deficits with Asean countries.

Writer: By Umesh Pandey
Published: 15/08/2009 at 12:00 AM
Newspaper section: Business

As India celebrates its 62nd Independence Day today, it is giving Asean something much of the world might envy, extensive access to its 1.1 billion people and its robust economic growth, even though some fear the country could lose from the deal.India, which has one of the few national economies still in growth, signed the long-awaited free trade agreement with Asean on Thursday.

The agreement is key to creating an open market across a region that in 2008 had 1.7 billion people and a US$2.75-trillion gross domestic product. The deal will gradually open trade and investment and is expected to multiply investment between Asean and India, which was only $5 billion in 2008.

Mutual trade is expected to rise to $50 billion in 2009, up from about $40 billion in 2008, said Indian Commerce Minister Anand Sharma."After more than six years of negotiations we have concluded a deal that will open the gates for new opportunities for both sides and grant access to markets while enhancing trade and investments," said Mr Sharma.

Trade between Asean and India has risen by more than 27% annually since 2000. The outlook remains bright, although India may risk a trade imbalance.In fact, Prime Minister Manmohan Singh's government may trigger a backlash by signing the FTA agreement. Many Indian organisations oppose the deal because of their country's trade deficit with most Asean countries.

For instance, India's exports to Thailand - which implemented an early harvest programme with India in September 2004 - have grown from $901.4 million in 2004-05 to $1.8 billion in 2007-08. Meanwhile, Thailand's exports to India climbed from $865 million to $2.3 billion in the same period - tripling in value while India's exports only doubled.

The early harvest programme only covered about 82 items such as fresh mangoes, apple, grapes, crabs, semi-precious stones, jewellery, chromium ores, refrigerators, certain machinery items and TV tubes.

Major exports to Thailand include gemstones, metal ores, chemicals, steel and products, vegetables and pharmaceutical products. The major imports from Thailand include electric and electrical goods, crude oil and products, television receivers, air-conditioning machinery and parts, and plastic products.

The FTA will liberalise tariffs on about 4,000 items accounting for nearly 80% of trade between India and Asean. Electronic goods, chemicals, certain capital goods and some categories of textiles are among the items covered.

The agreement will be effective from Jan 1, 2010. Tariffs on the products covered will sink to zero between 2013 and 2016. A bilateral safeguard mechanism will address any sudden surge in imports with "safeguard tariffs" to protect domestic industries for a period of four years.

Mr Sharma stressed that India has strengths, such as information technology, that stand to benefit from the FTA."India too has its strengths and once the FTA is implemented they will be visible," he said. "Even if the Asean members have benefits, what we are looking at is the long-term partnership with this region."Commenting on bilateral agreements, he said a deal would be signed with Thailand "as soon as possible".

India is looking to boost its export sector, which accounts for only 26% of its economy, compared with nearly 70% for Thailand, and an official announcement would come by the end of this month, he said."Exports have been down not because of domestic factors but because of the global slowdown. But we realise this and therefore have to help the sector, especially the exports of labour-intensive industries," he said.

"India's domestic economy continues to remain strong and GDP growth will likely rise by around 6.7% even this year after having grown at the same pace last year, and this is due to the domestic economy's strength."India's continuing economic strength partly reflects its high savings rate and high investment rate, he said.India's exports have been declining since the global financial crisis deepened in mid-September 2008. Their value in June was 27.7% down on $17.73 billion in the same month last year.

The upcoming new export policies will take account of the current downturn and be directed at helping the country in the long-term, said Mr Sharma.

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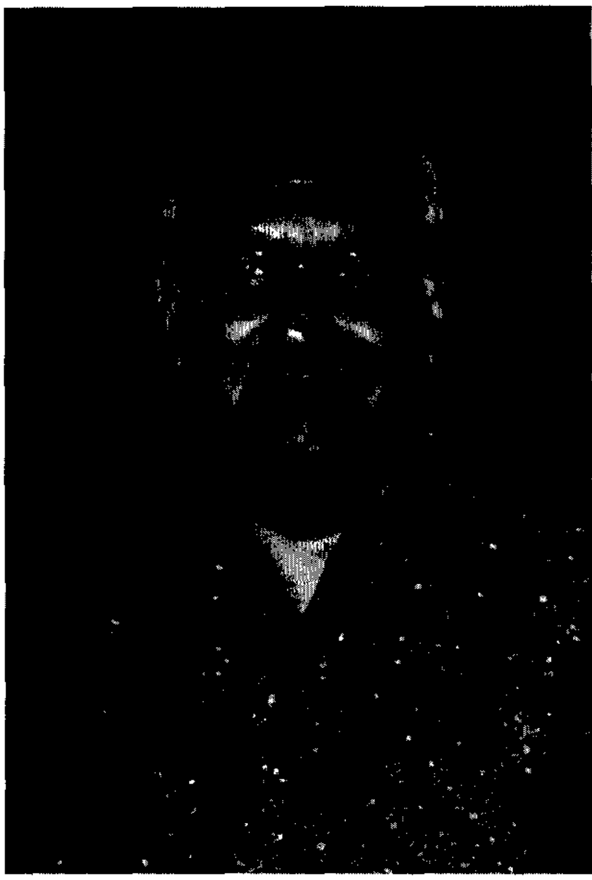
India’s economic relations with RI booming: Envoy

Ary Hermawan , The Jakarta Post , Jakarta | Tue, 08/04/2009 12:26 PM | World


Biren Nanda: JP/Nurhayati

The rise of India, along with China, has shifted the economic pendulum from the developed West to the developing East. While the world struggles to tame the worst economic crisis in decades, Asia is fast becoming more dynamic, creating fresh opportunities in an environment where most crisis-hit economies continue to struggle.

India and Indonesia, Asia’s first- and second-largest democracies, have been expanding economic relations since the 1980s but recently have become remarkably vibrant and ever more promising to both countries.

“Our trade has been expanding very fast,” the Indian Ambassador to Indonesia, Biren Nanda, told The Jakarta Post at his office last week.

Last year, bilateral trade exceeded US$10 billion, surpassing the five-year target set by New Delhi and Jakarta in 2005 more than two years ahead of schedule. At the time, Ambassador Nanda said, trade levels stood at around $4 billion.

Indonesia mainly exports palm oil, coal, copper ore and concentrate, refined petroleum products, fruits and nuts and natural rubber to India, while importing refined petroleum products, animal feed, hydrocarbons, alloy steel and cotton from the largest country in South Asia.

With the leaders of both countries being peacefully re-elected in recent polls, and stable political situations prevailing in each nation, the time is rife for India and Indonesia to bolster their trade relations.

That said, there are other essential factors which make India so eager to have its business interests become more ubiquitous in Southeast Asia's largest economy.

"We are encouraged by a number of factors. First, both the economies of Indonesian and Indian are growing and become an exception to the global downturn. Second, we will be signing the ASEAN-India FTA [Free Trade Agreement] in August which will open up further trade between the two countries," Nanda said.

India, a maritime neighbor of Indonesia, launched economic reforms under the "Look East" policy in 1991 after which, Nanda said, Indian companies became globally competitive and began paying attention to investing overseas. A decade later, India is one of the largest economies in Asia, whose transformation, though less dramatic, is comparable to China.

One of the most important moves taken by the Indian Embassy in Jakarta to boost trade is the planned four-day trade exhibition called "Made in India" at the Balai Kartini Hall in South Jakarta, which will run from Aug. 7-10.

The exhibition will showcase the finest Indian products from various sectors such as manufacturing, agricultural, mining, banking, service and handicraft.

The Indian Trade and Industry Minister, Jyotiraditya M. Scindia, is scheduled to attend the exhibit's inaugural ceremony. A high-level delegation of 15 CEOs from renowned Indian companies will also come to Jakarta to endorse the exhibit and rub shoulders with the decision makers at the Indonesian ministries and chamber of commerce and industry (KADIN).

"One of our ideas is to boost networking between the business leaders in India and Indonesia," Nanda said.

The delegation will be led by Rajive Jaul, chairman of the Confederation of Indian Industry's Trade Affairs Council.

JP/Irma

Among the blue chip companies participating at the exhibition include the Bharat Heavy Electricals Ltd., a state-owned power generation equipment company with a market share worth US$25 billion, and PT Indorama Synthetics, the second largest manufacturer of polyester fiber in the world.

In the oil and gas industry, Hindustan Petroleum Ltd., GAIL India Ltd., Indian Oil Corporation, ONGC Videsh Ltd. and Bharat Petroleum Corporation Ltd. will display their products, while Tata Motors and TVS will display their newest automotive products.

The recent bombings at two luxury hotels in the Mega Kuningan business area last month did not deter Indian investors to expand their businesses in Indonesia with more companies expressing their interest in establishing plants and buying shares in a number of Indonesian companies.

"Two Indian banks have bought two banks in Indonesia," he said, adding that another Indian bank has also expressed interest in following suit.

Pharmacy is a new sector in which Indian companies are now looking for opportunities, Nanda said. Currently most of Indian exports to Indonesia are engineering products.

However, more needs to be done to improve people-to-people relations between Indonesia and India, which, despite their recent cultural interactions, have not been strong enough to entice Indians to Indonesia and vice versa. "Indonesia is more than just Bali, like India is more than just the Taj Mahal."

Source URL: http://www.thejakartapost.com/news/2009/08/04/india%E2%80%99s-economic-relations-with-ri-booming-envoy.html

The Jakarta Post

Malaysian ambassador asks for more positive coverage

The Jakarta Post , Jakarta | Thu, 08/06/2009 7:23 PM | World

Malaysian ambassador to Indonesia Dato Zainal Abidin criticized Indonesian news media Thursday for their negative coverage of the abuse of Indonesian workers in Malaysia."Violence doesn't only happen in Malaysia, but also in Indonesia, Saudi Arabia and other countries," he said, when giving assistance to four Indonesian workers who had suffered abuse in Malaysia.

Zainal said the Malaysian government did not want anyone, including Indonesian workers, to undergo abuse kompas.com reported.Protection would be given to everyone and those who committed abuse in Malaysia would be punished, he added.

"Please don't portray us as bad people. Fifty percent of prisoners in Malaysia are Indonesians, why do we never hear about this in the news," he said.Indonesia has temporarily stopped sending workers to Malaysia because of several abuse cases involving Indonesian workers there recently.

The Indonesian and Malaysian governments have conducted talks to resolve the problem but no new deal has been reached.

The Jakarta Post
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ASEAN's imagined community at 42

Meidyatama Suryodiningrat , The Jakarta Post , Jakarta | Sat, 08/08/2009 1:28 PM | Headlines

Imagine this community: Half a billion people spread across 4.4 million square kilometers, so diverse that it encompasses every major ethnicity, sect, cult and disposition possible. Sundry political systems - from a full-blown republic to a military junta, absolute monarchy to parliamentary democracy - and economic distinctions from a per capita GDP of more than US$48,000 to less than $500.

Belying skeptics, immersed in celebratory gimmicks, the Association of Southeast Asian Nations (ASEAN) and its 10 member state - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam - marches toward its fifth decade today.

Proudly retaining hope despite the inured hisses of ASEAN's agnostics and disgruntled scholars noshed on ASEAN's embellished alphabet soup - AEC, AFTA, AMM, ARF, ASEAN+3, CLMV, GMS, PMC, SEANWFZ, TAC and ZOPFAN, to name a few.

When the founders conjured the ASEAN dream in 1967, they did so to dispel the nightmare of conflict. A realization on the linkages between security and economics.

Inter-state conflicts hence avoided, tensions abated, albeit not resolved.

Stability and harmony in the name of economic prosperity. Crusted proof to the ASEAN pudding.

No wonder Indonesia ingrained the now 10-member grouping as a cornerstone of Indonesian foreign policy.

It was the milieu that allowed this nation to achieve its most advanced rate of economic development.

The great scholar Benedict Anderson once defined "imagined communities" as those where "members of even the smallest nation will never know most of their fellow members, meet them, or even hear of them, yet in the minds of each lives the image of their communion".

The region is inching its way toward such feats. An ASEAN populace gelled by borderless interests and the marvels of modern transport that allows breakfast in Jakarta, lunch in Kuala Lumpur and an evening snack in Bangkok without too much bureaucratic hassle.

Nevertheless, after no less than five official declarations, two concords, a treaty, a charter, dozens of protocols and countless statements, why does ASEAN still fail to be a creature of constituency appeal to the citizenry that matters most?

Perhaps the answer is not simply in the lack of effort. The numerous meetings are testimony to that - in July alone there were more scheduled ASEAN meetings than there were days in the month.

Somewhere in its evolution, ASEAN arguably oversold itself.

It became more than what it was, but fell short of what it could now be.

When it was first born, there were few if any lofty expectations. Four decades later, the expectations are too lofty for its own good.

ASEAN forgot that communities are not forged by proximity, legality or economic convergence.

Neighbors may share a complex, but without inherent values they will remain strangers physically attached but morally detached.

This divergence of values has led to a growing dissension, where some member states of the grouping no longer see ASEAN as the brightest star in each other's constellation.

One can argue that Indonesia's push for a more politically liberal and forward-looking ASEAN serves its own political enlightened self-interest.

Which is true, but contours of common interests can form when there are shared values.

Longtime regional watcher Donald K. Emmerson of Stanford University recently wrote that "if regionalism is ever to play a democratizing role in the region, it will have to operate in some fashion through security".

"The kind of security best suited to inducing a linkage of regionalism to democracy is human security - not the realpolitik business of protecting the state, but the moralpolitik challenge to protect society, ultimately including the protection of society from the state itself."

Democrats and dictators together seek economic growth and stability, but that does not mean they share common values.

ASEAN may be out of its element when it talks about the concept of "community".

A "community" - whether of 50 people or 500 million - is rallied together simply out of sheer tangible objectives alone.

It is a sense of shared values, not economic interests, which drives a community together.

Because of varying political circumstances, there is no identifiable rallying point to morally unite this supposed community.

Without such morality, the politics of ASEAN will forge not a community, but the stalemate of a fraternity.

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What's in it for the commoners?

Venilla Rajaguru-Pushpanathan , Jakarta | Sun, 08/09/2009 11:35 AM | Current Issues

The eclectic history of ASEAN is profoundly political. Surprisingly there is yet to be a popular documentary show on and about ASEAN history, though there are different documentaries on several of the individual leaders of the Southeast Asian countries. Undoubtedly, Lee Kuan Yew, Mahathir & Suharto have had tremendous influence, at different periods of history, in putting their own countries in forefront of the geopolitical map of international relations.

Today's leaders are more than ever pragmatic, and strike a chord of Unity in Diversity. ASEAN has withstood the late 90s financial crisis, rebound with increased vigor in the millennium, and now more than ever is poised as a Power Bloc supported by the ASEAN Secretariat, which in a truly momentous turn of history is empowered by the ASEAN Charter. Retracting economies of the G8 have only marginally scathed the developing economies of ASEAN. ASEAN Economic Community is a solid and stable work in progress, and as far as it can strike free trade agreements with its traditional and new dialogue partners, the developmental economics of the region is on a winning sustainable track of peaceful cooperatives, agricultural subsidies, and high return of investments in manufacturing sectors.

And yet, there are persistent social scenarios of poverty, clogged rivers, flooded roads, burnt slums haunting the resident, the traveler, the passerby. An unknown mother collapsing on the dusty pavement of a busy main road while waiting long for the public bus, while her toddler son tries to shake her back to life, a baby screaming his life out under the scorching sun in the arms of a syndicate enforced beggar-woman are common sights in several Southeast Asian cities. It is not uncommon even in popular shopper-affluent cities in the region to see elderly senior citizens in ill maintained housing board flats, struggling to fight hunger and disease, and living on the leftovers of a nearby Hawker center where their only means of survival is to clean up the residues of a stall for few underpaid cents.

New paths of hope and promise for people's welfare are yet to be paved. Much has been done arguably. But much more remains to be done by way of progress and changes in environment and technology. It is also possible to rule out hunger and poverty in the region by conviction, and through various rehabilitation programs.

Healthcare is another woe, with fluctuating standards of luxurious treatment or no treatment at all, and over dependence on medical insurance sales. A state centralized system of regular medical checkups and apt treatment procedures for all citizens, at uniform costs and subsidies, is still a remote dream not just in ASEAN but also in other parts of the world as well.

What the ASEAN political analysts and the affluent chairmen of the ASEAN Business Councils cannot ignore is the unresolved co-existence of rags and riches, overbuilt up landscapes of stylish honeycomb apartments, cool malls by the side of impoverished make shift huts. Developmental economy does not imply a growing divide between the rich and the poor, and neither does democracy mean the rising wealth of some at the expense of the other malnourished, poorly paid and poorly educated lot. And yet, the reality is that most Southeast Asian countries are homes to some of the poorest and illiterate communities in the world. The crux of the matter on social responsibility and basic standards of life, lies not in the age old debate of the haves & the have-nots of the post world war era of the 60s to the 80s, where increased production had to meet the demands of a growing population, and ODA funds had to be channeled to war ravaged, colonial robbed or disaster struck territories.

Today's world is a world of abundance in one part, wastage of the overproduced and over extracted resources in the other part of the community, and depleted resources in yet another part of the landscape. Added to this, is the technological divide, formed by communication networks and network management of the knowledge economy and the impoverished community of the malnourished and ill educated, with their daily concerns of daily wages. Charity to communities focused on daily subsistence encourages only a Dependency Culture on every day needs, and nothing more developmental or progressive, unless the Charity is knowledge based and delivered in the form of Training: Vocational Training programs, Skills Development programs, Literacy programs and Educational Scholarships linked to stable job placements.

People have to know what's made in ASEAN & what products and goods can be made in ASEAN. The common man, woman and child will have to know what he and she can contribute to her family's well being and to that of the community. Gender and racial subordination will have to be tackled on a humanitarian level and as well as on a performance oriented meritocratic basis in workplaces. More National and Regional schemes need to focus on Talent Nurture and Human Resources Development, while Leaders shy away from ethnic favoritism, nepotism and cronyism.

Overall development of people in the region and a vibrant peoples' culture encompassing language barriers depends on knowledge based economy, training and development. English language is just a mere tool in conveying expressions of thought. What is required is more demonstrative humanity and humane care, expressed as humanitarian work in all parts of the region wherever people are afflicted by disease, disasters and acts of violence. A Humanitarian Task Force is a plausible dream today. It is as possible and pragmatic to have a humanitarian task force as recruiting and maintaining a peace keeping force in the region.

The ASEAN logo has lent itself to many interpretations including humanitarian efforts and peace: 10 rice stalks bound at the center to represent the solidarity of 10 member countries, all unified by Rice as Staple food, Rice as Agricultural priority and Rice as an Emergency relief supply to hunger afflicted communities. The lotus like ASEAN logo also stands as a symbol of harmony & peace, and as an emblem of growth and prosperity. 42 years of solidarity and still encompassed by the same human values and an onward vision of caring and sharing societies.

For the common man awaiting his pay to bring back rice to his family, the politics of the region holds little interest. But a movie star, a singer or even a writer in translation will spark his attention. It's time for a long awaited ASEAN Film Festival, Literary Summit, music albums on ASEAN travel destinations - on "home away from home" kind of theme songs. Indeed, an ASEAN University collaboratively established by the ASEAN University Network (AUN) coupled with educational scholarships and twinning programs with the world's best Ivy League and Oxbridge could be a vital link to the region's "nerve center" the ASEAN Secretariat, in promoting the Arts, Science, Technology, Research & Development, and of course People's Welfare, ultimately leading to the raise in living standards of the common man. It is then truly a Renaissance of this Millennium!

Venilla Rajaguru-Puspanathan is the President of the ASEAN Secretariat Women's Wing.

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The Jakarta Post

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Singapore's ties with RI are built on close cooperation: Envoy

The Jakarta Post | Mon, 08/10/2009 11:19 AM | World

As close neighbors Singapore and Indonesia are not strangers. Millions of Indonesians and Singaporeans visit one another every year. According to their statistics, Singapore is currently Indonesia's largest trading partner, with US$52.29 billion in two-way trade. In commemoration of the 44th National Day of Singapore, which fell on Aug. 9, 2009, Singaporean Ambassador to Indonesia **Ashok Mirpuri** *gave a written interview to* The Jakarta Post's **Lilian Budianto**. *The following are excerpts.*

Question: *How does Indonesia figure in your country's foreign policy?*

Answer: Singapore and Indonesia are close neighbors and we have cooperated well in many areas. We share many similar views and common positions, particularly on strategic issues of mutual interest. As ASEAN countries, Singapore and Indonesia work closely to move the organization forward, to strengthen existing regional mechanisms and, where necessary, to build new ones. This year, Singapore will be hosting the APEC Economic Leaders' Meeting and we look forward to welcoming President Susilo Bambang Yudhoyono to Singapore for this important meeting.

What is the present state of bilateral relations between the two countries?

As close neighbors, Singapore and Indonesia enjoy warm and friendly ties. Our relationship has strong foundations that are built on close cooperation and underpinned by mutual respect. Our leaders know each other very well and work well together. When Prime Minister Lee Hsien Loong called President Susilo Bambang Yudhoyono to congratulate him for his impressive electoral performance last month, both leaders acknowledged that bilateral relations are currently very good. Our Foreign Ministers signed the treaty delineating the maritime boundary between Singapore and Indonesia in the western part of the Strait of Singapore in March this year. The conclusion of this agreement shows that both sides are committed to seeking peaceful and mutually-beneficial resolutions on core bilateral issues in accordance with international law. We hope that the Indonesian government can work toward the smooth and timely ratification of the treaty. The Consulate in Batam we opened earlier this year will help to further strengthen relations.

Our cooperation extends across many spheres, including from economic, health and cultural areas to environmental to educational issues. There is good operational collaboration between our agencies at a number of levels. Defense relations, which are one component of these multi-faceted ties, are long-standing and substantial. High-level exchanges and regular training exercises have helped to build trust and understanding between the TNI (Indonesian Military) and the Singapore

Armed Forces.

What about economic relations between Indonesia and Singapore? How much has the current economic crisis affected these relations?

Singapore and Indonesia are major economic partners. In 2008, bilateral trade amounted to S$75.13 billion (US$52.29 billion), a 13.2% increase from 2007. Singapore is also consistently among the top five investors in Indonesia. There is wide-ranging and mutually beneficial economic cooperation between our two countries in diverse areas such as the Batam, Bintan and Karimun Special Economic Zones (SEZ). The SEZs are a demonstration of the potential that exists by leveraging on each other's strengths. We are confident that there will be many more opportunities for strengthening trade and investment cooperation between our two countries.

Indonesia has done better than many countries in weathering the global economic downturn. But we are all linked economically, and the financial crisis is a reminder that none of us can decide our economic success on our own. It is more important than ever for us to meet the on-going economic challenges together with fortitude and cooperation as close neighbors. We are more likely, through such efforts, to emerge stronger and more resilient from the current crisis. This not only entails working together bilaterally but also through bolstering cooperation in multilateral forums such as ASEAN, APEC and the WTO.

What are your major programs in Indonesia?

There are many areas in which we have worked together and many more areas for us to explore to strengthen relations. We are working together to fight against the spread of Avian Influenza in Tangerang. We are also cooperating with the Jambi government to curb land and forest fires. Last month, our Minister for the Environment and Water Resources, Dr Yaacob Ibrahim, visited Jambi to inaugurate air and weather monitoring stations as part of this initiative. Joint tourism promotion is another area where we have and will continue to collaborate.

Since 1992, Singapore has helped train some 4,000 Indonesian officials under the Singapore Cooperation Program (SCP) to enhance their skills and knowledge in areas such as English language proficiency, port management and banking and finance. We look forward to further participation from our Indonesian partners.

Strong people-to-peoples ties are a cornerstone of relations between our two countries. These ties have in part been fostered by groups like the Singapore International Foundation (SIF). Through the SIF, volunteer teams from Singapore have been actively working across Indonesia to collaborate on a wide range of community projects. Others like the Temasek Foundation have also worked with the government and non-government groups to raise education standards.

What about educational links between the two countries?

We welcome foreign students to pursue their studies in Singapore. These students add to the diversity of cultures in our schools and institutes of higher education, while at the same time, Singaporean students benefit from the exchange of ideas and experiences with fellow students from different backgrounds. Singapore offers a number of scholarship programs at different levels of study in Singapore. These include the ASEAN pre-university scholarships to outstanding students from ASEAN countries. The ASEAN undergraduate scholarships as well as the Singapore Scholarship for ASEAN students are also offered to those pursuing their tertiary education in Singapore. These scholarships are open for all ASEAN students, including those from Indonesia. It is hoped that scholars under these programs will return to contribute meaningfully in the service of their communities and countries. The terms of the scholarships vary.

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Tax revenues up on economic recovery

Aditya Suharmoko , The Jakarta Post , Jakarta | Mon, 08/10/2009 9:35 AM | Business

The government is expecting its tax revenues to significantly increase next year as the economic recovery and ongoing tax reform fatten the taxable revenues of businesses and the ranks of citizens enrolled as taxpayers.

As stated in the 2010 state budget bill, the government aims to achieve tax revenues of Rp 729.2 trillion (US$80.09 billion), a 10.6 percent increase from the Rp 652.1 trillion set in the revised 2009 state budget, as a result of higher economic growth.

The economy is expected to expand 5 percent in 2010, compared to this year's estimated 4.3 percent growth.

Tax revenues will also increase as a result of ongoing tax reform and increasing people's awareness about paying tax.

While the projected tax revenue is deemed "achievable", the Indonesian Chamber of Commerce and Industry (Kadin) expects the government to provide more support to the real sector, partly to help achieve its tax revenue target.

Hariyadi Sukamdani, Kadin's vice chairman on fiscal policy, taxation and customs, said over the weekend that businesses have to deal with higher inflation next year, which would prompt the central bank to raise its benchmark interest rate and lead to an increase in the cost of borrowing.

Higher inflation was also likely to hurt people's purchasing power and as a result the country's economy, as domestic consumption accounts for about 60 percent of Indonesia's GDP.

Inflation is estimated to rise to 5 percent next year from the predicted 4.5 percent this year, according to the 2010 budget bill.

President Susilo Bambang Yudhoyono has said one of the government's main priorities next year will be to "stimulate industry revitalization and help businesses recover" as part of the 2010 budget themed "National Economic Recovery and People's Welfare Maintenance".

Finance Minister Sri Mulyani Indrawati said the government would focus on revitalizing the sugar, cement, fertilizer and other strategic industries.

The manufacturing industry is expected to largely contribute to next year's tax revenue, amounting to Rp 158.6 trillion in form of income tax and value-added tax, or to 21.7 percent of the total Rp 729.2 trillion targeted tax revenue.

TAX REVENUE BASED ON ECONOMIC SECTORS (IN TRILLION RUPIAH)

Sectors	Non-oil-and-gas income tax		Domestic value-added tax		Import value-added tax	
	2009	2010	2009	2010	2009	2010
1. Agriculture, cattle-breeding, forestry, fisheries	10.3	12.5	1.9	2.0	0.1	0.1
2. Oil and gas mining	14.9	15.2	22.5	37.6	8.5	24.4
3. Non-oil-and-gas mining	22.9	27.8	1.0	1.0	0.6	0.6
4. Excavations	0.4	0.4	0.1	0.2	0.0	0.2
5. Manufacturing industry	64.0	70.1	37.4	44.6	25.1	43.9
6. Electricity, gas and clean water	6.2	6.6	0.9	1.1	0.3	0.2
7. Constructions	6.7	7.3	11.3	14.4	1.3	1.8
8. Trade, hotel and restaurant	32.6	38.5	21.9	26.2	17.2	29.4
9. Transportation and communications	18.3	18.9	8.2	8.9	1.3	2.7
10. Financial, real estate and business services	94.8	73.5	9.7	10.3	0.7	0.6
11. Other services	14.0	15.0	2.4	2.7	0.1	0.2
12. Undefined activities	2.0	3.6	6.6	9.5	0.0	0.2

Source: Finance Ministry

Source: Finance Ministry

Of the Rp 77.1 trillion increase in tax revenue, Rp 63.9 trillion is likely to come from value-added and luxury tax.

“Increasing value-added tax and luxury tax are supported by a stronger private consumption,” said Hariyadi.

Non-oil-and-gas income tax is likely to rise 0.8 percent from Rp 287 trillion in 2009 to Rp 289.4 trillion next year. The financial, real estate and business services sector is expected to be the largest contributor to state tax revenues, with Rp 73.5 trillion worth of taxes, or 2.4 percent of the total target.

Value-added tax in the domestic sector in 2010 is predicted to reach Rp 158.5 trillion, up 27.9 percent from the Rp 123.9 trillion projected this year, while value-added tax from imports is expected to increase to Rp 104.3 trillion, an 88.6 percent increase from the Rp 55.3 trillion estimated this year.

The manufacturing industry is the biggest contributor to value-added tax.

Tax office chief M. Tjiptardjo said his office would continue mapping, profiling and benchmarking all business sectors to determine the reasonable amount of tax they should pay.

The mapping, profiling and benchmarking methods will soon be fully integrated with the office’s information technology system to minimize tax evasion.

Source URL: http://www.thejakartapost.com/news/2009/08/10/tax-revenues-economic-recovery.html

The Nation

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Opinion

WATCHDOG
Single Asian currency?

Published on August 1, 2009

Six years ago, Dr Olarn Chaipravat, then a senior Finance Ministry advisor, predicted that the Chiang Mai Initiative signed by 13 Asian countries, including Thailand, in May 2000 could lead to a single Asian currency in the next 15-20 years.

A critical part of such an ambitious vision is set for further discussion this weekend in Beijing -- the venue for more than 40 leaders of Asian and European countries attending the Asia-Europe Meeting (Asem)'s Summit.

Olarn, now a deputy premier in the Somchai government in charge of economic affairs, has proposed the set-up of a US$350-billion Asian fund to protect the region's currencies and intervene in regional stock and bond markets.

His proposal came hot on the heels of the global financial crisis and credit crunch.

The Thai deputy premier also proposed that China ease its currency conversion rules to facilitate the pooling of foreign exchange reserves currently held separately by individual Asian countries.

Thanks to its huge and successful export machinery, China currently has the world's largest foreign exchange reserve of US$1.8 trillion, followed by Japan's $900 billion.

Earlier, China, Japan, and Korea proposed that an initial US$80 billion Asian fund is created in partnership with the 10-country Asean.

China, Japan, and Korea will provide a combined 80 per cent of the proposed fund, while Asean will provider the remainder.

This proposal is expected to be further discussed by Asian leaders on the sideline of Asem Summit in Beijing.

In a recent interview with Bloomberg, Olarn also urged China to consider open up its banking system and allow the yuan, which he said is now the strongest currency, to be the currency of the world.

Back in 2002, Olarn told me that currency union (as envisaged by Asian countries) generates economic benefits among participants in terms of increased trade and investment flows.

Olarn, a former president of Siam Commercial Bank, also noted that Thailand's signing of bilateral currency swap agreements worth US$7 billion (Bt290 billion) with other Asian countries back in the early 2000's was a milestone in regional co-operation efforts.

At the time, a total of 13 countries were involved in those currency swap agreements under the framework of Asean-Plus-Three (China, Japan, and Korea.

Based on that initial agreement, Asia could have a currency union scheme worth an estimated $65 billion that could serve as a solid defence of each member country's national currency during critical times, according to Olarn.

He also believed that the scheme could serve as a foundation for monetary union in the future in a fashion similar to the European Monetary Union, the precursor of the euro.

In Asia, economic rather political factors were the trigger for closer ties as exemplified by the 1997 Asian financial crisis during which the baht was sharply devalued after a failed defence by the Bank of Thailand.

According to Olarn, the signing of swap agreements should be followed by easing of currency restrictions in China, Malaysia, and Hong Kong, which previously pegged their units to the dollar.

Then, an Asian currency fund could be set up along with a regional surveillance and coordination body under the auspices of the Asean Secretariat or the Asian Development Bank.

August 17, 2009 04:11 pm (Thai local time)
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The Nation

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Business

Asian currency series

Published on August 5, 2009

Caijing 57: The Trouble with Asian MoneyA Thai friend asked me to say something about the possible rise of the Chinese yuan as an international reserve currency.

The role of Asian currencies as a global reserve currency is a problem that I have thought about almost throughout my career. When I was in the Hong Kong Monetary Authority, I thought a lot about whether the Hong Kong dollar could become an international reserve currency.

Then I asked myself, why didn't the yen, issued by the second strongest economy in the world, become a major reserve currency? Why did the euro succeed and yen fail?

So, this is a long story and not easily told in a short column. So I will tell the story in several parts.

First we have to go to the basics. We have to understand what money is and why it is so important. Economists will tell you that money is a means of payment, a standard unit of measurement and a store of value. Priests will tell you that money is the root of all evil.

Everyone knows that money represents power, but money can also be a liability. You do not know the value of money until you try to borrow some, and then you realise who your friends really are.

Actually, money is a derivative of the real economy - it is only the representation of the real goods and services that you can buy with money. It is essentially a tool with which you can exchange for other things.

Like all tools, whether it is for good or evil depends on how you use it. If you have money, this is an asset to you, but it is also a liability of someone else. For example, the currency note you have in your wallet is a liability of the central bank.

Hence, money is both an asset and a liability. This dual property means that money offers power, but also responsibility. Within a nation, the central bank is the only legal institution allowed to print money.

But money can be created if the state borrows money or credit is created by commercial banks. If there is too much money created relative to the growth of real goods, you get inflation - too much money chasing too few goods.

This is why history has taught nations that the supply of money must be controlled. That is the function of the central bank.

Almost no one looks at the balance sheet of the central bank. On the liability side, the central bank has the currency issued and also deposits placed by commercial banks or the government.

On the asset side, the central bank has foreign exchange (liability of foreigners), government bonds (liability of the government), and central bank loans to banks and the private sector (liability of the private sector).

If we add up the balance sheet of the central bank and commercial banks, you would realise that the liability side is basically what we call broad money - the sum of currency notes issued and bank deposits. So money supply is increased if the state borrows money, the country gets more foreign exchange (net liability of foreigners) or commercial banks lend more credit to the private sector.

This basic lesson in money supply tells you that the more credit there is in the system, the greater the money supply. The greater the credit, the more that people or the government are willing to borrow to spend, which means that there are more jobs and more income. But we can spend too much, which is why credit must be controlled.

Once we understand that money is a derivative of the real economy, we can appreciate why derivatives can be dangerous. The reason is that the first derivative is tied to an underlying real asset, such as currency being backed by gold.

But we can create a derivative on a derivative, which is a simple loan. A loan is a secondorder derivative of the net assets of the borrower. An assetbacked security is a thirdorder derivative and a CDO is a fourth and CDO2 is a fifth and so on.

By the time you reach a swaption - a swap on an option - you do not even know what underlying asset you are buying or selling. Derivation is through higher leverage and therefore complex and risky.

We all know that if the underlying asset gets into trouble, the associated derivatives must get into trouble. So if the real economy is fragile, the financial system must be fragile. However, because each level of derivative is in essence a higher level of credit (someone must trust someone else to create that credit), the collapse of credit can also damage the real sector.

This is the case of the tail wagging the dog.

Why is this insight about money as a derivative important? A currency is only as strong as the real economy issuing the currency. Issuing money creates power over resources. A reserve currency can only function if foreigners widely accept the use of your currency. But if your economy is weak or fragile, having a reserve currency is not a blessing, it can be a curse.

I shall explain this in the next article.

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The Nation

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Business

FREE TRADE
Asean inks FTA with India

Published on August 13, 2009

Asean and India have finally signed the long-awaited Free Trade Agreement (FTA) on trade in goods during the 41 st Asean Economic Ministers (AEM) meeting in Bangkok.

As a result, the bilateral trade between Asean and India is expected to reach US$60 billion in 2016, from $47 billion last year. The trade pact was signed on Thursday.

"Trade should grow significantly after the pact's implementation next year. It is another step of Asean's accomplishment in order to bolster trade growth to our partners," said Commerce Minister Porntiva Nakasai, who chaired the 41st Asean Economic Ministers (AEM) meeting.

The FTA will be implemented on January 1 next year.

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The Nation

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Opinion

Economic solutions need to be open and inclusive

Published on August 14, 2009

WHILE discussions about economic "green shoots" continue unabated in the US, in many countries, and especially in the developing world, matters are getting worse. The downturn in the US began with a failure in the financial system, which quickly was translated into a slowdown in the real economy.

But, in the developing world, it is the opposite: a decline in exports, reduced remittances, lower foreign direct investment, and precipitous falls in capital flows have led to economic weakening. As a result, even countries with good regulatory systems are now confronting problems in their financial sectors.

On June 23, a UN conference focusing on the economic crisis and its impact on developing countries reached a consensus both about the causes of the downturn and why it was affecting developing countries so badly. It outlined measures that should be considered, and established a working group to explore the way forward, possibly under the guidance of a newly established expert group.

The agreement was remarkable: In providing what in many ways was a clearer articulation of the crisis and what needs to be done than that offered by the G-20, the UN showed that decision-making needn't be restricted to a self-selected club, lacking political legitimacy, and dominated by those who had considerable responsibility for the crisis in the first place. Indeed, the agreement showed the value of an inclusive approach - for example, by asking key questions that might be too politically sensitive for some of the larger countries to raise, or by pointing out concerns that resonate with the poorest, even if they are less important for the richest.

One might have thought that the US would have taken a leadership role, since the crisis was made there. Indeed, the US Treasury (including some officials currently members of President Obama's economic team) pushed capital- and financial-market liberalisation, which resulted in the rapid contagion of America's problems around the world.

While there was less American leadership than one would have hoped, indeed expected under the circumstances, many participants were relieved that America did not put up obstacles to reaching a consensus, as would have been the case if George W Bush were still president.

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But many developing countries have just emerged from being overburdened with debt; they do not want to go through that again. The implication is that they need grants, not loans. The G-20, which turned to the IMF to provide most of the money that developing countries need to cope with the crisis, did not take sufficient note of this; the UN conference did.

The most sensitive issue touched upon by the UN conference - too sensitive to be discussed at the G-20 - was reform of the global reserve system. The build-up of reserves contributes to global imbalances and insufficient global aggregate demand, as countries put aside hundreds of billions of dollars as a precaution against global volatility. Not surprisingly, America, which benefits by getting trillions of dollars of loans from developing countries - now at almost no interest - was not enthusiastic about the discussion.

But, whether the US likes it or not, the dollar reserve system is fraying; the question is only whether we move from the current system to an alternative in a haphazard way, or in a structured way. Those with large amounts of reserves know that holding dollars is a bad deal: No or low return and a high risk of inflation or depreciation, either of which would diminish their holdings' real value.

On the last day of the conference, as America was expressing reservations about even discussing at the UN this issue which affects all countries', China was once again reiterating that the time had come to begin working on a global reserve currency. Since a country's currency can be a reserve currency only if others are willing to accept it as such, time may be running out for the dollar.

Emblematic of the difference between the UN and the G-20 conferences was the discussion of bank secrecy: whereas the G-20 focused on tax evasion, the UN conference addressed corruption, too, which some experts contend gives rise to outflows from some of the poorest countries that are greater than the foreign assistance they receive.

The US and other advanced industrial countries pushed globalisation. But this crisis has shown that they have not managed globalisation as well as they should have. If globalisation is to work for everyone, decisions about how to manage it must be made in a democratic, inclusive manner - with the participation of both perpetrators and victims of the mistakes.

The UN, notwithstanding its flaws, is the one inclusive international institution. This UN conference demonstrated the key role that the UN must play in any global discussion about reforming the global financial and economic system.

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Business

BILATERAL GOODS AGREEMENT
FTA gives big boost to Asean-Indian trade

Published on August 14, 2009

Trade between Asean and India is expected to reach US$60 billion (Bt2 trillion) in 2016, following the inking of a free-trade agreement covering goods yesterday. Bilateral trade came in at $47 billion last year.

"Trade should grow significantly after the pact's implementation next year. This marks another step in bolstering trade growth with our partners," said Commerce Minister Porntiva Nakasai, who chaired the 41st Asean Economic Ministers Meeting.

This is the fifth FTA signed by Asean, following agreements with China, Japan, South Korea and Australia/New Zealand.

A joint statement by Asean and Indian ministers said the FTA had come at an appropriate time as part of the region's response to global economic downturn.

The ministers also expect progress to be made in negotiations over services and investment in October, in order to turn it into a comprehensive pact.

Import tariffs for 71 per cent of Asean-Indian trade in goods will be gradually cut to zero by 2013, while those for another 9 per cent of trade will be lowered to zero by 2016.

The tariffs on 500-600 items on sensitive lists will be reduced to 5 per cent by 2016, while import duties on five "highly sensitive" items - palm oil, refined palm oil, coffee, tea and pepper - will be brought down from 70 per cent to 45 per cent by 2019.

The tariffs for 489 items will remain unchanged.

Amit Mitra, secretary-general to the Federation of Indian Chambers of Commerce and Industry, said private enterprises were delighted with the planned liberalisation, as it would create win-win benefits for both sides.

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Opinion

Economic solutions need to be open and inclusive

Published on August 14, 2009

WHILE discussions about economic "green shoots" continue unabated in the US, in many countries, and especially in the developing world, matters are getting worse. The downturn in the US began with a failure in the financial system, which quickly was translated into a slowdown in the real economy.

But, in the developing world, it is the opposite: a decline in exports, reduced remittances, lower foreign direct investment, and precipitous falls in capital flows have led to economic weakening. As a result, even countries with good regulatory systems are now confronting problems in their financial sectors.

On June 23, a UN conference focusing on the economic crisis and its impact on developing countries reached a consensus both about the causes of the downturn and why it was affecting developing countries so badly. It outlined measures that should be considered, and established a working group to explore the way forward, possibly under the guidance of a newly established expert group.

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Breakingnews

China signs investment agreement with ASEAN

Published on August 15, 2009

China and the Association of South-East Asian Nations(ASEAN) on Saturday signed an investment pact that provides guarantees against nationalization, riots and disputes and was expected to boost investment.

"The ASEAN-China Investment Agreement is expected to boost bilateral investments by 40 to 60 per cent over the next two years," Thai Commerce Minister Porntiva Nakasai said after inking the pact with Chinese Commerce Minister Chen De-ming.

China is currently ranked the eighth-largest investor in South-East Asia with 5.6 billion dollars in cumulative investments in the region as of 2008.

Investments in China from the 10 members of ASEAN amounted to 6.1 billion as of last year.

The investment agreement provides Chinese and ASEAN investors guarantees not necessarily proffered to other countries.

"For instance, the agreement will guarantee compensation for investors in the case of nationalization or riots," said Krisda Piampongsant, spokesman for the Commerce Ministry of Thailand, which now holds the rotating chairmanship of ASEAN.//DPA

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Business

RICE EXPORTS
5 Asean countries get their act together

Published on August 16, 2009

Thailand, Vietnam, Laos, Cambodia, Burma seek system

Major Asean rice-producers Thailand, Vietnam, Laos, Cambodia and Burma plan to form an association to create a sustainable system for trading and production.

The plan was unveiled yesterday following Cambodian leader Hun Sen's initiative at the Asean Summit in Cha-am in late February. It focuses on price stabilisation, food security in the region and rice development. It aims for price stability next year.

It comprises the five countries of the Ayeyawady-Chao Praya-Mekong Economic Cooperation Strategy (Acmecs) and will set up an Acmecs Rice Traders Association.

Thailand, Laos and Cambodia have agreed in principle and plan talks with Cambodia and Burma during the Asean Economic Ministers Meeting, which ends today.

For some years Thailand and Vietnam have cooperated to curb price-cutting in the export market through data exchange.

A Thai source close to the negotiations said they solved Thailand's major problem on circumvention by neighbouring countries, diluted price-cutting in the region and stabilised prices.

"It will create a supply chain in the region which will strengthen bargaining power in the world market," the source said.

Chaiya Yimvilai, adviser to the commerce minister, said yesterday that Laos proposed Thailand and Vietnam draw up the plan.

Thailand and Vietnam are white-rice producers while Laos focuses on sticky rice.

Laos has approached Thailand as a partner in a joint venture with Kuwait to grow rice in Laos.

The Lao government has allocated 200,000 hectares.

Laos has 2 million hectares set aside for rice, but only 900,000 are actually under the crop.

Meanwhile, the Asean-Australia and New Zealand Free Trade Agreement comes into force on January 1.

Australia and New Zealand are important trade partners of Asean, with bilateral trade in 2008 valued at US$67.2 billion (Bt2.3 trillion). They were the seventh largest export market of Asean.

Asean exports to Australia and New Zealand reached nearly $44 billion last year. Major goods were fuel, machinery, automobiles, gold and electrical appliances.

Chaiya added that Thailand and Australia would increase trade in services under the Thailand-Australia Free Trade Agreement. Australia wants to see more business-to-business trade.

Australian Trade Minister Simon Crean said the Asean-Australia and New Zealand Closer Economic Relations (CER) pact would benefit trade and investment growth during the global economic downturn.

"The pact will not only open market access between the two regions but also capacity-building and integration among us," he said, and though technical details remained to be worked out, it should be implemented on schedule early next year.

Crean also strongly supported Asean's bilateral pacts with six trading partners forming the Asean+6 group.

Asean and its partners must create a framework for East Asian integration, he said.

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Business

Asean+6 to create world's biggest economic bloc

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Asean and its six major trading partners yesterday reaffirmed their resolve to create the world's largest economic bloc through the "East Asia Free Trade Agreement" and "Comprehen-sive Economic Partnership in East Asia" within 15 years.

The consensus to move forward with economic integration was a successful climax to the four-day Asean Economic Ministers (AEM) meeting under Asean+3 (China, Japan and South Korea) and Asean+6 (Asean+3 and India, Australia and New Zealand).

The 16 member countries will lead the region to pass the US and European Union in becoming independent economic zones. The achievement in the future will not only strengthen their regional trade relations but also wean them from imports from outside the region.

A senior trade negotiator said Asean's integration with East Asian countries will force the European Union to rush to clinch bilateral pacts with individual Asean members for fear of losing benefits after the world's largest free trade agreement in East Asia was established.

During the AEM meeting, three other milestones were achieved - the Asean-India Free Trade Agreement, Asean-China Investment Agreement, and the completion of the Asean-South Korea Free Trade Agreement after both sides reached an understanding on rules of origin for trade in goods.

As chairwoman of the AEM meeting, Commerce Minister Porntiva Nakasai said it was a significant step for Asean to move forward with "economic integration in the East Asia region".

The outcome of this meeting will be forwarded to the October summit of Asean leaders in Prachuap Khiri Khan's beach resort town of Cha-Am, she said.

The CEPEA will form the largest economic region with 3 billion people, accounting for 49.6 per cent of the world's population, and sharing 26 per cent of the world's GDP.

According to a study by the Economic Research Institute for Asean and East Asia, liberalising trade in the 16 countries will increase their GDP by 1.3 percentage points. For Asean alone, GDP will soar by 3.83 percentage points, while Thailand will welcome a boost of 4.78 percentage points.

For EAFTA, the GDP of members would increase by 1.2 percentage points. Asean would benefit more than Asean+3 with even higher GDP growth of 3.6 percentage points while China, South Korea and Japan will rise by 0.9 percentage point on the average. Thailand's GDP would get a lift of 4.5 percentage points.

Commerce Ministry spokesman Krisda Piampon-gsant said Asean has been taking a step-by-step approach to opening trade with those major partners. So far, it has completed the priority task of free trade agreements, called Asean+1, namely Asean-Japan, Asean-China, Asean-South Korea, Asean-Australia-New Zealand, and Asean-India.

The second priority is to aggressively move toward Asean's goal of stitching together an Asean Economic Community by 2015. Then it will cement economic cooperation with China, South Korea and Japan before moving toward becoming the largest world's free trade area through CEPEA.

"What we are doing, the economic integration and free trade agreement with those major trading partners will boost the economy of the members and we expect their economies will recover by next year," he said.

New Zealand Trade Minister Tim Groser told the joint press conference on Saturday that this AEM meeting had provided for a very constructive dialogue.

"All members should work toward the goal. We're now moving forward in the right direction," Groser said.

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Opinion

More mortar is needed to make BRICS stick together

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THE CURRENT ECONOMIC CRISIS has provided fresh fuel to the debate over the feared decline of the West and rise of the East. The so-called BRICs - Brazil, Russia, India, and China - are often touted as the putative economic winners. A look behind the numbers, though, suggests proclaiming these countries victors may be premature.

The numbers aren't encouraging. The World Bank's gloomy forecasts see global GDP falling a record 2.9 per cent in 2009, along with deteriorating current-account balances, increased debt, soaring unemployment, gyrating stock markets and tumbling business confidence.

Yes, there may be a few "green shoots" of recovery. China's stimulus efforts - a rapid expansion of fixed investment and credit to the state sector fuelled by massive foreign reserves - seem to have had a predictable positive, if likely short-term, effect. Perhaps broader, but still modest, recoveries in 2010 and 2011 are in the cards.

But the way to full recovery is unclear. The global economy is at some kind of tipping or inflection point, a moment of paradigm shift. If the Anglo-American model of finance capital is yet another god that failed, so too the alternatives: Japanese networked capitalism, Euro-dirigisme, or various flavours of state capitalism (perhaps combined, as in China, with authoritarian politics) have not been widely embraced.

At this point, enter the BRICs. Before the severity of the looming economic storm was clear, the BRICs were the darlings of the investment class. They were first lumped together in an influential Goldman Sachs research report in 2001. Goldman forecast that their continuing GDP growth could outpace the rest of the world, with the GDPs of China and India surpassing those of the major Western economic powers before mid-century.

To be sure, these "emerging markets" were not seen as risk free, but with their scale - continental powers with large populations and records of substantial economic growth - they looked attractive. Especially to punters playing the markets. If Goldman liked them, how could you go wrong? The economic press loved it.

But there's more to economic prowess than GDP statistics and stock market indices. This is not to gainsay the BRICs' - especially China and India's - economic momentum and remarkable development. Visitors to China cannot be but wowed by what metropolitan colossi Beijing and Shanghai have become. India's IT prowess dominates. But sustainable growth and economic leadership will ultimately have to be based on business environment fundamentals. International metrics that go beyond GDP suggest the BRICs have a long way to go.

Take, for starters, corruption, the capricious acid that eats away at business confidence, rule of law and fair dealing. None of the BRICs rank very high in the 180-country survey published by Transparency International. Brazil and India come in at 80th and 85th place, roughly comparable to Burkina Faso, Saudi Arabia and Panama. Russia is almost at the bottom, ranking 147th - Kenya and Syria are neighbours.

China does best, at 72nd place - right down there with Mexico. And if the current murky scandal involving China's steel industry which has ensnared executives from Australia's Rio Tinto shows anything, it's that corruption and the opacity of China's legal system can rust business confidence away.

If there's corruption, then it's not so easy to do business there. The World Bank studies "the ease of doing business" in 181 countries. Brazil, Russia and India stand between 120 to125 in those league tables. China comes in somewhat better, in 83rd place - a little higher than Belarus, a little lower than Kenya. The most difficult issues? Dealing with the local authorities in Russia and China (maybe a little additional "help" is required?); enforcing contracts in India's clogged legal system, and, interestingly enough, taxes in Brazil.

None of the BRICs lead the World Economic Forum's most recent "Global Competitiveness Report" (GCR). This sophisticated survey pulls together a large range of business environment variables, including social and political stability, economic concerns, technological sophistication and management quality.

Of the 134 countries ranked, China comes in at 30th place (comparable to Spain); India and Russia land at 50th and 51st places respectively (about the same as Italy); and Brazil checks in at 64th place, close to Turkey and Kazakhstan. The GCR points out that all of these environments are plagued by bureaucracy, corruption, changeable business policies and problems with finance. (Not that the G-8 countries are 100 per cent clean here either!).

And if social stability is a metric, then the fires that have fuelled tragic communal violence in India and, more recently, China (which also suffers from tens of thousands "mass incidents" of citizens protesting corruption) have to be a concern. You don't push too hard against entrenched interests in Russia, where arbitrary arrest and even murder can be the outcome.

Should we really be surprised? From these perspectives, the BRICs don't look that strong. These countries are all, in one way or another, still developing. Brazil, India and China have large problems of income distribution (more unequal than even the US), issues exacerbated by large but low productivity agricultural sectors and urban squalor.

Brazil and Russia rank at midpoint in the 179-country United Nations' Human Development

Index. China is just slightly below and India, alas, is almost at the bottom. And Russia and China face demographic challenges. China is ageing. Russia has even more severe population problems - it's disappearing.

But could they be considered a bloc? Their economic, social and political systems differ considerably: Brazil's economy is based on agriculture; India's on services; Russia's on price-sensitive energy resources, and China on manufactures for export.

China and Russia have had problematic political relations; the disputed borders between China and India are still hot (and let's not forget New Delhi's concerns about the cosy relationship between Beijing and Islamabad). What do they share? Growth potential. And a desire to take the Yankee dollar down a peg. Is that sufficient to suggest that the answer to the world's woes be found with the BRICs?

BRIC officials seem to think so. In the run up to the April 2009 G-20 meeting in London they pushed their own agenda, calling for new international finance rules, reform of the IMF and the World Bank, and resurrection of the Doha round. Overall, they are pushing for a multi-polar economic order, one less dominated by the US.

The Russians called for a new international currency backed by IMF SDRs (special drawing rights) - an idea also picked up by Brazil and China. Indian Prime Minister Manmohan Singh said that the eyes of the world were on India in the "hope that India would be an engine of growth for the world economy".

Chinese officials touted their own "stimulus package" and quick action, noting the superiority of China's command system "when it comes to making vital policy decisions".

But at a "BRIC Summit" held in Yekaterinburg in July, there was less fire - a BRIC agenda did not surface. Still, the idea of a new international reserve currency hasn't gone away.

We raise these matters not to criticise the BRICs individually but rather to put a little realism into the crucial discussion of world economic recovery. First, they can hardly be considered a cohesive group. Second, sustainable leadership requires a sound business environment. On that score, the BRICs have a way to go.

To be sure, their equity markets seem to be doing well enough (though China's appears to be a bubble). But there's more to an economy than GDP projections and speculative bets about the future of a few leading companies. It's time to retire what after all is a snappy acronym invented by an investment bank.

JOHN FRANKENSTEIN teaches courses on Asia and international business at Brooklyn College, City University of New York

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