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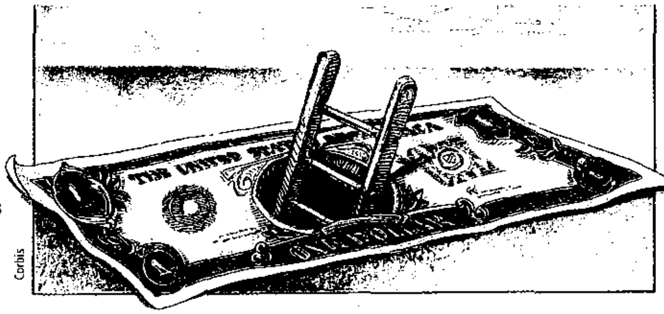
Thursday, December 17, 2009

The Case for Optimism on the Economy

BY ALAN S. BLINDER


Corbis

The U.S. economy is digging itself out of a deep hole. You have probably heard a lot of doom and gloom lately, including talk of a jobless recovery, an L-shaped recovery (which means no recovery at all), or even a W—the feared double-dip recession. The Scrooges have a point: There are serious dangers to the nascent recovery. But you've heard all that many times. Let me offer instead, in deliberately one-sided fashion, the case for optimism. It is, after all, the holiday season.

The case begins with the "slingshot effect" I wrote about on the pages of The Wall Street Journal's U.S. edition in July. When the growth rate of any component of GDP rises, it gives overall GDP growth a boost. And going from sharply negative growth to zero is a notable rise. In July, the slingshot scenario was hypothetical—though likely. In today's economy, it's a real phenomenon.

During the first half of this year, the investment component of GDP declined at a stunning 38% annual rate. Since the investment share of GDP was then about 14%, this implosion accounted for minus 5.4 percentage points of GDP growth. But since overall GDP declined "only" 3.6% in those two quarters, the rest of GDP (the 86%) actually rose. It was a small but real reason for optimism in a stormy sea.

Then came the third quarter. Like a woozy prizefighter lifting himself off the canvas, the battered investment component of GDP managed to rise (at an 11% annual rate), which added 1.3 points to GDP growth rather than subtracting 5.4 points. That 6.7 point swing was the start of the slingshot effect, which is not yet over.

Investment has three components: business investment, inventory stocking, and homebuilding. Inventory stocks were still declining at near-record rates in the third quarter; they simply must level off within a few quarters because sales are rising and firms will not want to deplete their stocks indefinitely. Business investment remains 20% below its 2008 peak; its likely course is up, not down, because plants and equipment wear out. And housing? Well, you know. Homebuilding is still in the doldrums—limping along at less than half the level of 1960. The only way to go is up.

Of course, the investment slingshot won't last forever. Sometime in 2010, consumer spending must take over. And this is where the pessimists go into full throttle. Burdened by huge losses of both wealth and jobs, American households will start saving like mad, we are told. Sounds plausible, but it hasn't really happened. True, the average personal saving rate has risen to 4.5% of disposable income so far this year from 2.7% in 2008. That's higher, but a long way from the 8%-10% saving rates the doomsayers have foreseen. A saving rate near 5% is consistent with 3%-4% GDP growth in 2010.

The second major source of optimism is the amazing performance of productivity during the recession. To be sure, that performance had a downside: While real GDP was falling 3.7%, payroll employment dropped 5%, devastating many American families. But by definition, that discrepancy means that productivity—output per hour of work—rose substantially during the recession, which is pretty unusual.

The last two quarters were even more extreme: Productivity in the nonfarm business sector grew at a shocking 8.1% annual rate. There are two possible explanations. One: The last two quarters were among the most technologically innovative and entrepreneurial in the history of the United States. Two: Fearful businesses pared payrolls to the bone. If the second is closer to the truth, payrolls are extraordinarily lean right now. Which means that firms will need to hire more workers as their sales and production grow. Which means that employment may start growing sooner than the pessimists think.

I have been pointing this out for months, but until the last employment report, it was a hypothesis supported by no evidence. Not anymore. While payrolls continued to decline in November, it was by only a scant 11,000 jobs; and the job counts for September and October were revised upward. The data now show a clear trend that suggests that net job creation may be only a month or two away. We'll see.

There is more to the case for optimism. For one thing, less than 30% of February's $787 billion fiscal stimulus has been spent to date; over 70% is still in the pipeline. Pessimists dote on the fact that the rate of increase of stimulus spending has probably peaked and will be lower in 2010. True. But the level of GDP will continue to get support from fiscal policy, and a second job-creation package ("Please don't call it a stimulus!") looks to be in the works.

Then there is the Federal Reserve's stupendously expansionary monetary policy. It is well known that interest rates work on the economy with long lags. But the Fed's last rate cut came a year ago. So isn't the monetary policy pipeline empty? The answer is no, for at least three reasons. First, history suggests that the time lag is closer to two years than to one. So even the normal policy lags are not over.

The credit markets are healing and net job creation may be only a month or two away.

But second, and more important, the lags are likely to be abnormally long this time around. As long as the economy's credit-granting arteries were blocked, they could not carry the Fed's lower-interest-rate medicine into the economy's bloodstream. Sadly, some of these arteries remain blocked today—such as for small business lending. But the Fed, Treasury, FDIC and others have created a bewildering variety of stents and bypasses to get credit flowing again. The credit markets are now healing, though slower than we would like. Hence there is still monetary stimulus in the pipeline.

And third, the Fed continues to inject more medicine. Not by cutting interest rates, of course. Zero is as low as you can go, and the Fed arrived there a year ago. But "quantitative easing" is still in play. One example is the mortgage-backed securities (MBS) purchase program, which is adding MBS to the Fed's balance sheet and providing vital support to the mortgage market. Yes, the Fed has begun to think about its exit strategy. But that is for the future, not for now.

* * *

I warned at the outset that I would present a deliberately biased case. So let me admit, once again, that serious downside risks remain. The investment slingshot and the fiscal stimulus will both peter out in 2010. Consumer finances and confidence are shaky. Banks are still failing and commercial real estate is a mess. We cannot count on exports to pull us out of this slump. All true. And all reasons not to expect the kind of exuberant boom that typically follows a deep recession—such as the 7.7% growth spurt in the six quarters following the 1981-82 slump. No one expects that.

So my optimism is guarded. The 3%-4% growth rate that I anticipate for the rest of this year and for 2010 is a lot worse than 7.7%, to be sure. But compared to what we've been through, it will feel a whole lot better.

Mr. Blinder, a professor of economics and public affairs at Princeton University and vice chairman of the Promontory Interfinancial Network, is a former vice chairman of the Federal Reserve Board.

THE WALL STREET JOURNAL.
Friday - Sunday, December 18 - 20, 2009

Breaking the Deadlock at Doha

By James Bacchus

The World Trade Organization's latest confab on the Doha Round didn't produce a deal, and public statements in the wake of the meeting suggested that any agreement may be a long way off. But behind closed doors, there is some cause for optimism—if political leaders among the 153 member countries, especially those in the United States, can summon the political will and courage to move forward.

After eight long years of negotiations, most WTO members think the current "package" of negotiated trade concessions is sufficient, and want to conclude the round where it stands. The economic climate has given many members a sense of urgency: A global trade deal would increase trade, discourage protectionism and do much to spur the job growth that is trailing overall renewed growth in the U.S. and elsewhere.

Yet the Obama administration still isn't onboard with a deal. Trade Representative Ron Kirk said at the Geneva WTO meeting earlier this month that the deal as it currently stands does not deliver "meaningful market access in the part of the world that will be growing and driving GDP growth over the next few years," referring to fast-growing developing countries such as China, India and Brazil.

It's difficult to sell Washington's approach to other WTO members. At this month's meeting, Brazilian Foreign Minister Celso Amorin said, "It is unreasonable to expect that concluding the round would involve additional unilateral concessions from developing countries." Many other WTO members—developing and developed countries alike—echoed Mr. Amorin's sentiments, and accused the Americans of delaying and possibly dooming the conclusion of the round.

Yet there's still reason to hope for a breakthrough. Many of the same trade diplomats who denounced the U.S. publicly in Geneva say privately that they fully understand the politics at work. President Obama is facing a Democratic Party-led Congress that wants more concessions for the U.S. than what former President Bush was able to negotiate.

Mr. Obama needs to summon the political courage to push through free trade.

Mr. Obama needs to produce jobs, but also steer Democrats away from protectionism.

Most trade negotiators seek more effective U.S. engagement and want to help America's new, multilaterally minded president to succeed. For these reasons, they acknowledge privately that in the end, they would be willing to give the U.S. more on trade—but not for free, and not unilaterally. These are, after all, trade negotiators who believe in reciprocity.

The sticking points are clear. The U.S. wants more market access for agriculture, manufacturing and services, particularly in emerging markets. Developing countries want the U.S. to make additional cuts in trade-distorting agricultural subsidies, accept less latitude in applying trade restrictions on imports and accept less protection of such industries as steel and textiles.

The question now is whether Mr. Obama will assert the political will to offer additional concessions in the face of determined domestic political opposition, or not. His decision in September to impose additional tariffs on imports of Chinese tires sent the wrong signal, as did other trade disputes with Canada and Mexico.

But now the president may be changing his stance. At his recent jobs summit, he called expanding exports a "short-term imperative" for an American economy still reeling from high unemployment. On his trip to Asia last month, he inked a small trade deal with Pacific Rim nations and called for a successful conclusion of the Doha Round.

Big questions remain. To achieve additional market access for American exports, would the president be willing to take on the labor unions that oppose trade and are among his strongest supporters? Would he be willing to confront the opposition of protectionist interests that wield pivotal electoral votes in "rustbelt" states? Would he be willing to employ his considerable eloquence to make the case for freer trade to the American people?

There is no lack of politicians around the world willing to tell the voters back home that—as Mr. Kirk put it pointedly in Geneva—"the pain of trade is real." There are all too few leaders in the U.S. and everywhere else in the world with enough political courage to explain to voters that the gains from trade are equally real, and can greatly exceed the pain by creating more and better jobs with a brighter future.

It's by no means just America's fault that the Doha Round has stalled. But since the U.S. is the world's largest economy, a push from Washington to conclude a global trade deal would go a long way. In his first year in office, Mr. Obama has shown uncommon political courage on issues ranging from Afghanistan to health care to climate change. It's time to add free trade to that list.

Mr. Bacchus is a former chairman of the World Trade Organization's Appellate Body, Congressman and U.S. trade negotiator. He is currently a partner at Greenberg Traurig in Washington.

THE WALL STREET JOURNAL. Monday, December 21, 2009

Consumers spend Asia out of a downturn

BY ALEX FRANGOS

HONG KONG—Asia has led the world out of the global economic downturn thanks in part to a welcome burst of consumer consumption. It appears the spending spree will continue into 2010.

Strong government stimulus programs enacted during the depths of the crisis helped spur domestic economic activity across the region. Most of Asia's economies are growing and private consumption has been key. China, India and South Korea are rebounding smartly, a step ahead of the U.S. and Europe.

THE OUTLOOK

Now some see consumer spending in Asia picking up support from more than stimulus. Businesses are showing profits. Unemployment rates are falling in most of the region, making households more confident. And unlike the West, consumers have low debt levels and banks are expanding credit rather than shrinking it.

In Hong Kong, queues of mainland Chinese tourists wait on the street to enter luxury retailers such as Louis Vuitton. The number of Asian tourists flocking to Malaysia, Vietnam and Korea has rebounded in recent months. And car sales—albeit helped along by stimulus—have grown sharply.

"Chinese consumers are buying," says Dong Tao, regional Asia economist for Credit Suisse in Hong Kong. "Job prospects are good." Add what he calls "the spice of asset appreciation" in property and stocks, and folks feel richer.

All of that is good news for the world economy, which has relied on Asia to pull the world out of recession. The International Monetary Fund forecasts inflation adjusted growth in developing Asia will be 7.3% in 2010, compared to 3.1% globally. China has accounted for more than half of the world's economic growth the past three years, according to the IMF.

Increased private spending in Asia is a hopeful sign that the export dependent economies here—especially China—are moving down the long road to rebalancing toward more domestically driven growth. That shift has been a major theme of talks among the Group of 20 nations aimed at getting U.S. consumers to save more and Asian consumers to spend more.

Domestic consumption

Please turn to page 18

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THE WALL STREET JOURNAL. Monday, December 21, 2009

Asian spending spree continues to lift economy

Continued from first page

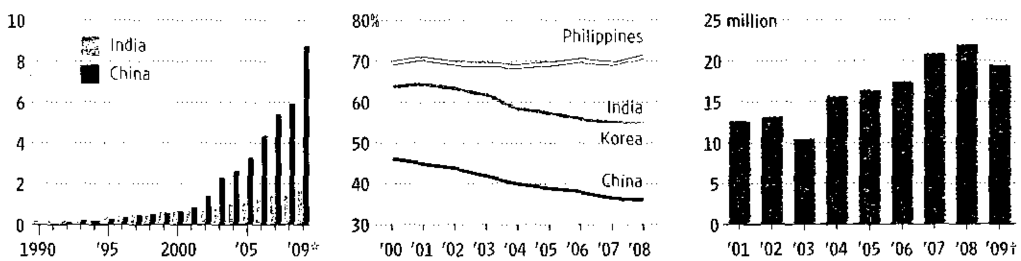
takes up just over a third of China's economy, compared to two-thirds in the U.S. and well above 50% in most advanced economies. Even with Chinese retail sales that have exceeded 15% growth on a year-to-year basis this year, it will take years for the economy to reach a level where domestic consumption is above 50%.

In other parts of Asia, the story is slightly different. As in China, consumers from India to the Philippines are spending with increasing zeal. But unlike China, private consumption already makes up more than half of GDP in other Asian economies. That means higher consumer spending will make a bigger contribution to overall growth in those countries.

"Households have now become a driver in the recovery" across the region, says Frederic Neumann, Asia economist for HSBC. He notes that consumption grew faster than overall output in most Asian economies in the third quarter, a change from earlier in the decade.

India has strong increases in automobile purchases thanks to government incentives and a burgeoning car culture. Vehicle sales rose to more than 130,000 in November, 61% more than a year ago, according to the Society of Indian Automobile Manufacturers.

Driving the recovery



* Forecast † Through October
Sources: J.D. Power Associates, Asia (car sales), Asian Development Bank (consumption), Tourism Malaysia (tourism)

Retailers are also sensing a broader return to spending. "India is going through some kind of tipping point. You never see this kind of consumption growth happening," says Kishore Biyani, managing director of Pantaloon Retail India Ltd., which sells everything from clothing to electronics and is India's largest retailer by revenues. "Three months ago I would have told you things were not so good."

Consumer spending in the Philippines rose 4% in the third quarter from the year earlier, the fastest pace since the end of 2008. Remittances from workers abroad have grown this year, surprising economists. It turns out many of those Philippines natives work in nearby Asia, which has weathered the economic storm better than the West.

Jonah Adomado, a 40-year-old travel-agency owner in Manila just bought a new Toyota Altis sedan. She specializes in arranging trips for Filipinos coming home from abroad on holiday. "Business is good, that's why I was able to buy my first car from profits from my travel agency," she said. She made the purchase without government incentives.

In the Philippines, car sales are up a modest 4% this year, much of that in the past couple of months. That has surprised auto executives who expected flat sales at the start of the year. "The overseas remittances is a big engine of consumption," says Elizabeth Lee, a distributor of Nissan vehicles in the Philippines and the president of Campi, an automotive sales trade group.

Tourism has also seen a rebound in Asia the past few months. At the start of 2009, travel-industry executives predicted a terrible year as vacationers from battered economies in the U.S. and Europe stayed home. H1N1 flu also damped travel in the middle part of the year.

But in Malaysia, 2009 will likely set a new record in terms of number of tourist visitors—more than the 22 million who came last year. For the first time, a million Chinese tourists could visit Malaysia by year's end.

"We thought there'd be some problems, but they just didn't seem to arrive," says Ivo Nekvapil, a hotel consultant and vice president of the Malaysia Association of Hotels.

All of this doesn't mean Asia can live on consumer spending alone. It still is reliant on demand for its exports. But it does show that even sluggish growth in consumer demand from U.S. and Europe—something many expect—will probably be enough to keep Asia growing at a healthy clip next year.

—Eric Bellman and Josephine Cuneta contributed to this article.

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THE WALL STREET JOURNAL.
Wednesday, December 23, 2009

Do We Really Want Global Financial Regulation?

Regarding U.K. Prime Minister Gordon Brown and French President Nicolas Sarkozy's "For Global Finance, Global Regulation" (op-ed, Dec. 11): The European Union is feeling feisty, having "led the way last year in facing down the global financial crisis," according to Messrs. Brown and Sarkozy. EU leaders perceive a unique opportunity to draw America into a global regulatory framework that governs financial institutions, taxation, carbon emissions and income transfers to help poorer nations pay for regulatory compliance.

Nicolas Sarkozy

At first blush the proposals made by Messrs. Brown and Sarkozy all seem directed at irresponsible and villainous global banks (more regulation, tighter capital requirements, less risk-taking, and lower executive pay). However, they drift into a broader "global compact" that goes after tax and regulatory havens, coordinates macroeconomic policies to reduce foreign exchange volatility and includes financial-transaction levies.

Dreams of a new world order all depend on a compliant, not an exceptional, America. President Barack Obama's speeches and policies apparently have persuaded EU leaders that he and Democrats in Congress share a dream of domestic and international communitarianism. In that cooperative framework, America is a team player, not a leader, and it is amenable to oversight by global regulatory bodies. Mr. Brown and Mr. Sarkozy volunteer Europe to "once again lead the way in forging a new global consensus." The agenda behind that generous offer of European leadership certainly encompasses far more than controlling and punishing a handful of global banks.

Al Franklin
Hyannis, Mass.

Messrs. Brown and Sarkozy neglect to consider a number of adverse consequences that may arise from their suggestions. How is such a global compact to be implemented, and who will have the authority to make the regulations? Will nations have to forfeit sovereignty to some democratically unaccountable super-body, much in the way many economic regulations have been created in the EU by the EU Commission and the European Court of Justice, both outside the reach of the popular will and armed with wide discretionary powers?

Increased global financial regulation would vastly increase systematic risk. This is "too big to fail" at the extreme. This crisis was created in part by large institutions all doing the same thing. One uniform policy of regulation, if chosen poorly, would heighten the dangers of collapse, and makes the mistake of assuming that one single policy will be optimal for all nations of this highly diverse world. A more federalized and pluralistic regulation attuned to ambient needs will allow democracy to flourish and reduce the risk of systemic failure.

Donald F. Grunewald
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THE WALL STREET JOURNAL.
Tuesday, December 29, 2009

Asean to open currency pool in late March

BY KANGA KONG

Asean and its three regional partners will launch a $120 billion currency-swap facility on March 24 that aims to ensure sufficient U.S. dollar liquidity in the event of a financial crisis.

The new pact is an upgrade of the Chiang Mai Initiative, which was launched in 2000 by the Association of Southeast Asian Nations plus Japan, China and South Korea. That came after regional countries experienced capital flight during the 1997-1998 Asian financial crisis.

As reported in May, the size of the fund will be expanded to $120 billion from $78 billion. The funds will now be available to all Asean countries plus its three partners, with Hong Kong also participating in the arrangement for the first time. Asean comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

In contrast to the Chiang Mai Initiative's bilateral format, the pact is a multilateral agreement, with countries pooling funds from their foreign-exchange reserves.

"The core objectives...are to address balance of payment and short-term liquidity difficulties in the region, and to supplement existing international financial arrangements," the countries said in a statement released by the Korean government.

Most of the participating nations completed the signing on Dec. 24, with the pact to take effect 90 days later.

Japan and China, including Hong Kong, will each contribute $38.4 billion, or 32% of the total. South Korea will provide 16%.

Japan, China and South Korea will be able to tap as much as $19.2 billion each from the pool, while some of the other countries can borrow as much as five times their contributions, the statement said.

Any participating country can borrow as much as 20% of the funds allowed for it under non-crisis conditions. The remaining 80% can be tapped only when conditions are so grave that the country asks for an International Monetary Fund bailout, said Ahn Buyng-chan, a director-general at the Bank of Korea.

—In-Soo Nam in Seoul and Li Liu in Beijing contributed to this article.

FINANCIAL TIMES FRIDAY DECEMBER 18 2009

Reforms that will help China maintain its growth

Guo Shuqing

In principle, the rise of China is no different from the rise of the UK in the first half of the 19th century, when British production increased rapidly and the price of textiles fell by 80 per cent within 50 years. But China has as many people as the combined populations of all developed countries including the US, Europe, Japan, Australia and Russia. That makes a big difference to the impact of this transformation.

This impact is most evident in consumer goods and primary commodities. In the past 10 years, nearly half of China's manufacturing output supplied other countries, lowering living costs everywhere. At the same time, China has become a most important source of demand for raw material producers. It is the largest buyer of iron ore and other nonferrous metals as well as one of the biggest buyers of cotton and soybeans. More than half the world's steel and cement are produced and consumed in China.

China has also become the world's largest net savings provider, exporting $400bn (€275bn, £245bn) in capital to the US and Europe each year. This does not mean China is richer than the US and Europe. While China has more than $2,000bn in foreign exchange reserves, the US and Europe each has about five times more fixed capital, maybe 10 times more ecology wealth and much more invaluable intellectual wealth and human capital. But no matter how strange it may seem, China is today the largest exporter of capital.

Now that China is so critical to the global economy the concern is whether it will follow the fate of other rapidly industrialised countries such as Japan and slip into stagnation after 20, 30 or even 40 years of fast growth. This possibility exists. To avoid it China needs to do the following. First, it needs to reform its artificial separation of rural and urban areas and narrow the disparity between them in purchasing power. Per capita consumption among rural Chinese is only one quarter or one fifth that of their urban cousins.

Will China eventually follow the fate of other rapidly industrialised countries and slip into stagnation? It is possible

Second, China needs to improve its financial system, which accounts for a very low proportion of total gross domestic product and of employment compared with developed countries such as the UK. Access to financial services for many small and medium enterprises is limited.

Third, development of human capital is vital for China's future, but it is far behind developed countries in education and training. Our education system is not conducive to encouraging innovation. This will hinder high-level and sustainable development.

Fourth, China needs to make its growth model greener. The energy outlook is not optimistic. If developing countries like China were all to follow the US example in energy consumption then the entire global oil supply should be sent to China – and it would still not be enough. The only way forward is to save energy and reduce waste.

Fifth, China needs to expand domestic demand. The consumption of services lags far behind commodities. One way to address this is to improve public services, which are very underdeveloped – 80 per cent of healthcare costs are in cities but that covers only 20 per cent of the population.

Finally, China needs to increase its overseas investment, especially in energy and raw materials, as this will boost world supplies and be vital for rebalancing the world economy. In recent years China has generated more than $400bn in trade surpluses, so it has the capital to invest. By the end of 2008, China's total overseas assets reached $2,920bn, of which only 6 per cent, or $169.4bn, was overseas direct investments. Almost 70 per cent, or $2,000bn, was held in foreign exchange reserves, while 9 per cent was portfolio investments and 18 per cent was other investments such as trade finance and bank loans.

China can expand its overseas direct investments to address global imbalances. But the current attitude towards China's investment is not friendly. Many western countries, including the UK, have labelled China's investment in Africa as neo-colonialism. Many Chinese companies have invested overseas but face problems such as local government objections and trade union and labour law issues. These Chinese companies need more support and less politically motivated opposition from the external world at such an initial stage. After all, unlike the UK in the 19th century, China is not interested in imperial expansion.

The writer is chairman of China Construction Bank

FINANCIAL TIMES DECEMBER 19/DECEMBER 20 2009

Upturn in Asia brings shortage of labour

Offshore gas rush boosts Australia

HK records lowest jobless rate for year

By Ian MacKinnon in Bangkok, Elizabeth Fry in Sydney and Sumathi Bala in Singapore

Companies in key sectors in Australia, Thailand and Malaysia are reporting shortages of labour, underscoring the relative strength of the economic recovery in Asia even as jobless lines continue to lengthen in the UK, US and other western countries.

Unemployment rates in most industrialised Asian economies turned downward in the second or third quarter.

Hong Kong and the Philippines this week recorded their lowest jobless rates for the year, at 5.1 per cent for Hong Kong and 7.1 per cent for Manila. Workers in Guangdong province, the biggest export centre in China, have been successfully bargaining for better wages and conditions since the summer as overseas orders began returning.

The bargaining has become hard-knuckled in Australia. The Maritime Union of Australia began the first of two 48-hour strikes yesterday to push its demand for a 30 per cent pay rise over three years and a A$500 daily supplement for its members working in construction.

Woodside Petroleum, Australia's second largest oil and gas producer, has suffered a A$1.1bn ($976m, €680m, £605m) cost overrun in setting up its Pluto liquefied natural gas project because of unexpected labour costs. More than half the 3,500 construction workers at the project walked out this month, insisting on better on-site housing.

Pluto is one of many huge offshore fuel extraction projects being launched and officials put the overall hiring need at 60,000 skilled positions. Australia has added 100,000 jobs over the past three months since unemployment peaked at 5.8 per cent in August.

In Thailand, garment factory positions, about 10 per cent of the industry's total, are unfilled. Clothing companies have blamed buoyant agricultural prices, particularly for rice, of which Thailand is the world's largest exporter.

Smaller garment factories reduced staff when global trade plunged and their seamstresses returned to help on family farms. High earnings in the fields have kept them from returning to the factories. At least five Thai factories are now considering relocating to countries such as Bangladesh or Sri Lanka, where labour is cheaper. Thailand's official unemployment rate hit 1.1 per cent in November, half its peak early in the year.

Oil palm plantations in Malaysian Borneo have had tens of thousands of their Indonesian staff return home but rising prices for their commodity is now driving plans to revive production. Timber companies on the island report similar problems. Industry officials attribute the staff attrition to a shrinking pay gap with Indonesia but suggest the personnel shortfall could cost the sector M$10bn ($2.9bn, €2bn, £1.8bn) in export earnings.

Malaysia reported unemployment at 3.6 per cent in the second quarter, down from 4 per cent in the first quarter.

FINANCIAL TIMES DECEMBER 19/DECEMBER 20 2009

Uncertainty weighs on world economy

Anaemic growth forecasts are depressing but justified

The past year in asset markets is best described as an extraordinary bungee jump. UK stock prices – to take an example from the Bank of England's latest Financial Stability Report – collapsed, then recovered, in some of the sharpest market movements in three centuries.

If real economic activity around the world were to replicate the pattern of asset prices, we should now be looking forward to a powerful rebound. But although economies all too visibly followed asset markets on the way down, no similarly sharp upward turn is yet in sight.

Mercifully, at least, the downward slide seems over. Most major economies – the UK excepted – have officially returned to growth. Unemployment has stabilised. Central banks are slowly but surely putting away the fire-fighting equipment and ending their crisis stance. Some central banks (such as those of Israel, Australia, and Norway) have started to raise record-low interest rates.

Growth, however, remains anaemic. Consensus forecasts of growth for 2010 are a sluggish 1 to 2 per cent for most advanced economies. Among G7 countries, only the US and Canada are expected to do better – but even their 2.7 and 2.6 per cent forecasts are hardly inspiring.

There are good reasons for this pessimism. Credit flows to businesses are still glacial. Although banks have had a good year, their long-term prospects are uncertain – and their balance sheets likely to be significantly curtailed by financial sector reforms. In the meantime, markets remain nervous as the last few weeks' turbulence has shown: problems in Dubai and Greece set off investors' jitters and money has flocked to the dollar.

Another reason for caution is the great sectoral readjustment underway. Businesses and households are putting prudence in the place of past profligacy; public spending must for now drive growth. This is a knife-edge transition: public deficits are worrying large, but growth can falter if the private retrenchment is not compensated for.

Over all this hangs the shadow of unusual labour hoarding. The US economy shrank by 3.8 per cent from peak to trough; unemployment doubled from about five to more than 10 per cent. That was the exception. UK output has shrunk by 5.8 per cent, but unemployment is only up by 2.7 percentage points from a similar starting point as the US. Still more output was lost in Japan, Germany and Italy, but joblessness rose even less.

Whether because of policy (such as Germany's *Kurzarbeit*) or voluntary hoarding, employers cut hours but kept workers on payroll, making the recession less painful. Recovery, however, is all the more precarious as a result. Employers cannot keep unneeded workers forever and will start shedding labour unless demand picks up. It had better do so soon, and strongly, or we may sink back into recession.

FINANCIAL TIMES MONDAY DECEMBER 21 2009

Developing economies can help cure global imbalances

Kemal Dervis

China can no longer behave like China, because the US intends to behave much more like China, according to Larry Summers, director of US president Barack Obama's National Economic Council. There is widespread consensus that global account imbalances – in particular the large current account deficit of the US and the large Chinese current account surplus – contributed to the financial crisis of 2008-09 by adding to excess liquidity in US financial markets and encouraging the development of toxic financial products. There is even greater agreement on the need to rebalance world demand to support and sustain recovery.

American households and businesses have to rebuild their balance sheets, which requires higher private savings and a lower current account deficit. This means lower net US demand for goods and services, which should be compensated for by higher demand elsewhere, requiring the rest of the world to have more imports net of exports.

In this debate the rest of the world is often taken to mean China. But neither the US deficit nor the Chinese surplus is, of course, determined bilaterally. China's current account surplus was $426bn in 2008 compared with a US deficit of $706bn. Both these current accounts – as with all others – were the sum of bilateral deficits and surpluses with all countries. Nonetheless, the Chinese surplus has been huge as a percentage of Chinese gross domestic product – close to 10 per cent – and large in absolute terms. It is reasonable to ask how it might be reduced to compensate for a decline in net demand from the US. The International Monetary Fund, however, currently expects the Chinese surplus to rise again, after a temporary decline, to $595bn in 2012.

Yet the focus on China has been excessive. While it certainly would be desirable for the Chinese surplus to decline, this cannot happen overnight without negative effects on Chinese growth. China can alter its growth model only over a number of years by gradually shifting more resources into non-tradable sectors away from exports and import substitutes, letting its real exchange rate appreciate. If China tried to do this too quickly, domestic supply-demand imbalances would lower the growth rate, with large excess capacity in tradable goods acting as a break on growth and employment because capital could not shift rapidly enough into non-tradable activities. Lower Chinese growth would not only be bad for China but also for all countries exporting to China, as it would swamp the effects of a reduction in China's current account surplus. We should not forget that Chinese growth has been good for world growth.

The large surplus projected by the IMF for China in 2012 could perhaps be lowered by a few percentage points of GDP, maybe to $400bn, but lowering it further may not be desirable from the point of view of world growth in that timeframe. Another problem is that the Gulf oil exporters are also likely to run a large surplus,

These countries could contribute to a more gentle rebalancing than an abrupt large decline in the Chinese surplus

projected at close to $250bn by the IMF, with oil prices forecast to be on the high side as the recovery gains strength. Japan, too, will continue to have a surplus, in part reflecting the need to save more, given its ageing population. So where should the increase in net demand needed to "rebalance" the world economy come from? Who should be running larger deficits?

The obvious answer is the emerging and developing economies, outside of China. Their balance of payments and economic prospects vary widely, but as a whole they have not been net importers of capital in the recent past, despite improving macroeconomic frameworks, a great need for investment and, on average, high returns on capital. Instead, many of these countries have tried to hoard foreign exchange reserves to self-insure against risks from world capital markets.

The other part of the story is that, individually, many are still considered high-risk destinations by foreign investors. Taking 2012 as a reference point, if these countries as a group were able to run a current account deficit of about $500bn, close to about 3 per cent of their GDP on average, that would constitute a significant addition to net demand for the rest of the world and contribute to allowing a more "gentle" rebalancing of the world economy than an abrupt large decline in the Chinese surplus would.

What is needed to make this happen is: more investment from China and the Gulf oil exporters in the developing world; more lending from the multilateral development banks; multilateral and bilateral insurance schemes to mitigate the risks faced by long-term private investors; precautionary IMF finance reducing the demand for reserves; significant carbon market-related resource flows to developing countries; and solid economic policies in those countries themselves. Greater focus on these challenges, alongside the valid concern about the Chinese surplus, would be good for job creation and growth worldwide.

The writer is vice-president, global economics and development, at the Brookings Institution and former Turkish Treasury secretary

Asia demand lifts Japan exports

Data ease fears on economic recovery

Pace of increase slowest since April

By Justine Lau in Hong Kong and Robin Harding in Tokyo

Japanese exports continued to increase in November because of robust demand from Asia, easing concerns about the strength of the country's economic recovery.

Real exports were up by 0.6 per cent on October, according to Bank of Japan data. This was the eighth consecutive monthly rise, although the pace of increase was the slowest since exports began to recover in April.

The strength of demand from the rest of Asia provides reassurance that a strong export performance will keep Japan out of recession next year even if domestic consumption, which has been boosted by the government's fiscal stimulus, slows.

"The sharp pick-up in Japanese exports appears to have continued in November, with a large improvement in both value and volume terms observed in today's preliminary data," said Nikhilesh Bhattacharyya, economist at Moody's Economy.com in Sydney. "Although a strong yen has hurt exporters' competitiveness, the rapid recovery taking place in Asia and discounting by Japanese firms has supported export growth."

Nominal exports to the whole of Asia, which accounted for more than half of Japan's total exports, were up by 4.7 per cent on a year earlier in November, according to a separate report from the ministry of finance. Exports to China, Japan's biggest single-country trading partner, rose by 7.8 per cent year on year.

Exports of several items used by manufacturers elsewhere in Asia, such as chemicals, semiconductors and car parts, were all up on the year. But recovery in demand from other regions remained muted. Exports to the US were down 7.9 per cent year on year, those to western Europe fell 11.8 per cent and exports to the Middle East declined 34.7 per cent.

Concerns about the sustainability of Japan's recovery from its sharpest postwar recession were fuelled this month by a sharp downward revision in the official estimate of quarter-on-quarter growth from July to September, from 1.2 per cent to 0.3 per cent.

The revision made clear that net exports were the main source of growth that quarter, with a rise in domestic consumption offset by a continued decline in investment.

The latest Tankan survey showed that sentiment among large Japanese manufacturers improved for the third quarter in a row but their overall mood remained negative and they expected capital spending to be down a record 28 per cent in the year to March.

Separately, Thai exports turned a corner in November after 12 consecutive monthly declines. Shipments were up 17.2 per cent from a year earlier last month, compared with a 3 per cent drop in October. The country's GDP is expected to be down about 3 per cent this year.

Mixed message

0.6% Month-on-month rise in Japan exports in November	7.8% Year-on-year increase in Japanese exports to China
7.9% Decrease in exports to the US year on year	0.3% Quarter-on-quarter growth estimate, down from 1.2%

FINANCIAL TIMES WEDNESDAY DECEMBER 23 2009

How to rebalance the world economy

The job ahead is to make the global recovery sustainable

The financial crisis is over; yet a durable recovery is not yet in place. Unprecedented support for the financial sector, along with massive fiscal and monetary stimulus, has allowed the world economy to emerge from the crisis. This has been true not only in the high-income countries but also in China. The question is how to withdraw that stimulus and so rely on renewed private demand.

It is neither likely nor desirable that much of the recovery in private demand will come from the US or other erstwhile deficit country. That could only happen with a renewed surge in private borrowing. But in the US, UK and similarly affected countries, the task is to deleverage the private sector, not increase indebtedness further. The private sector will need to reduce its liabilities by spending less than its income over a sustained period. The question is what might offset such frugality.

In the short to medium term, we already know the answer: public sector borrowing. On the basis of forecasts from the Organisation for Economic Co-operation, the US government will run a general fiscal deficit of about 11 per cent of gross domestic product this year, while the current account deficit will be about 3 per cent of GDP. By definition, this means that the private sector is running a financial surplus of 8 per cent of GDP. This is a massive swing from 2007, when the US private sector ran a deficit of 2.4 per cent of GDP.

Assume, moderately, that the US private sector will want to run an excess of income over spending of just 3 per cent of GDP after the crisis is over. Assume, too, as the OECD forecasts, that the current account deficit rises towards 4 per cent of GDP, by 2011. Then the general government deficit would still be 7 per cent of GDP. The big point is that if there is to be deleveraging of the private sector and a huge reduction in the fiscal deficit, then the current account deficit must pretty well disappear.

Many argue that the global "imbalances" helped cause the crisis. This remains controversial. But a durable recovery does demand global rebalancing. In its absence, there will either be a prolonged global recession, or a renewed bout of borrowing by already overindebted private sectors or gigantic and ultimately unsustainable fiscal deficits.

The question, then, is how to achieve durable rebalancing, in terms of who acts and how.

On the "who", much attention has been focused on China, the world's biggest surplus country. But, as Kemal Dervis, former minister of the UN Development Programme, argued in the FT this week, emerging and developing economies, apart from China, should be encouraged to borrow more, too. To achieve this, the world will need to promote substantial institutional reforms, including greater insurance against risk of crises, via expanded resources for the International Monetary Fund.

China is too important to continue with its present policy of pegging the renminbi to a weakening dollar

Nevertheless, China and other surplus countries must play their part. Indeed, it surely makes sense for China to shift from a target for growth of output to one for growth in domestic demand at above the potential growth of supply.

Finally, there is the question of "how" to make the needed shifts. The big debate is over the role of exchange rate changes. It would be possible to ignore exchange rates. But that would surely mean a danger of inflationary excess demand in surplus countries and deficient demand in deficit ones. The exchange rate changes are needed, to facilitate global adjustment.

China is too important to continue with its present policy of pegging the renminbi to the dollar. Its exchange rate is a legitimate subject of common concern. The needed global adjustment will be thwarted if the pegging continues. That may seem unfair to the Chinese. But it is the price of having become a huge economic power.

FINANCIAL TIMES WEDNESDAY DECEMBER 23 2009

Why market sentiment has no credibility

Robert Skidelsky

It is not surprising that Britain's largest economic downturn since the war should have seen the largest ever peacetime government budget deficit. By the end of this year Britain's output will have fallen by about 5 per cent since the crisis started; in the same period the budget deficit will have risen by between 5 per cent and 8 per cent of output. Arithmetic so simple that even a child can understand it: smaller output, smaller revenues, larger deficit. And the corollary: larger output, larger revenues, smaller deficit.

The deficit for 2009-10 is projected to be £178bn (€200bn, $287bn), about 11 per cent of gross domestic product. There is some dispute as to how much of this is "structural" and how much "cyclical". The "structural" deficit is the gap between government revenue and spending that will have to be closed by higher taxes or lower spending. The "cyclical" deficit is the gap that will automatically disappear when the economy has recovered. Those who say the downturn has added 8 per cent rather than 5 per cent to the deficit argue the recovered UK economy will be smaller than the pre-recession one, hence the recovery will leave a gap of £132bn rather than £100bn. Whatever the right number, no one doubts that there will remain a sizeable fiscal problem, even after the downturn has been reversed.

But why has the financial press been almost unanimous in condemning the modest pre-Budget measures announced by Alistair Darling, chancellor of the exchequer, to protect total spending in the face of a massive collapse of private demand? Why are the markets howling for "fiscal consolidation" now – ie cutting fiscal support to the economy immediately – when it has plainly not yet recovered?

To understand "market sentiment", one has to go back to two ideas in the minds of most financial analysts which almost unconsciously shape their arguments. The first is the belief that economies are always at full employment. The second is the belief that even if they are not (obviously contradicting the first), they very soon would be if only governments would stop bailing them out.

The first is perhaps the most pervasive. It takes the form of denying that there is an output gap. That is, at all points in time output is no more or less than what the economy is able to produce. If this is so, government attempts to close an imaginary output gap by running a deficit will either take money better spent by the private sector or be inflationary. (Output-gap deniers always see the microbe of inflation in the air.) Either way deficits are bad, which is why "fiscal consolidation" needs to happen immediately. In the early days of the crisis this deep theoretical commitment to the existence of continuous full employment was temporarily overcome by common sense. But as the fear of apocalypse receded normal intellectual service was resumed.

The more cautious version of "output gap denial" is the view that the pre-crisis level of output was the result of bank-financed debt, and that much of it went for good with the credit crunch. Public finances cannot rely on a recovery of output to produce a stream of revenue to reduce the deficit because – wait for it – there is little or no output to be recovered.

Even the normally sober Martin Wolf has fallen for this line (FT, December 16 2009). The pre-crisis UK economy, he says, was a "bubble economy". The bubble made UK output seem larger than it actually was! This is old-fashioned Puritanism: the boom was the illusion, the slump is the return of reality. However, experience of past recessions suggests that, once the corner is turned, output recovers vigorously from slump conditions (as do prices). Between 1933 and 1937 the UK economy expanded by 4 per cent a year, much higher than its "trend" rate of growth. Yet in 1931 orthodox economists were denying there was an output gap at the bottom of the greatest depression in history.

The second theoretical commitment of most financial analysts is that economies, if disturbed, revert quickly back to full employment if not further deranged by government actions. Thus contrary to the commonsense view that massive government intervention last autumn stopped the slide down to another Great Depression, the new conservative commentators (having got their breath and confidence back!) now argue that ill-conceived government measures have stopped, or are hindering, the natural recovery mechanisms.

For example, it is argued that massive government borrowing is keeping yields higher than they would otherwise be. Thus government efforts to stimulate spending have the effect only of retarding a natural fall in the rate of interest. If its borrowing is not rapidly reduced there will be a "gilt strike" – investors will demand higher and higher prices for holding government paper. Faced with the evidence that, despite increased government borrowing, gilt yields have been at a historic low, the critics say that this is only because the gilts are being bought by the Bank of England. Once the Bank stops buying government debt, interest rates will shoot up.

A parallel argument is that the expansion of the fiscal deficit is preventing a natural fall in the exchange rate sufficient to boost exports. The tortuous logic seems to be that "fiscal consolidation" will cause the rate of interest to fall and the fall in interest rates will cause the exchange rate to fall, thus increasing the demand for British exports. It is often alleged that something like this happened in 1931 when Britain left the gold standard for the last time.

Empirical evidence supporting the view that cutting the deficit causes the exchange rate to fall is very thin. A 1997 study by the International Monetary Fund showed that in only 14 out of 74 studied instances did fiscal consolidation promote a recovery via a fall in the exchange rate. In all the other cases fiscal policy either had no discernible exchange rate effect or it was the expansion of the deficit that caused the exchange rate to fall.

This only confirms what common sense and elementary Keynesian theory would lead one to expect. In a slump there is no natural tendency for the rate of interest to fall, because people's desire to hoard money is increasing. So printing enough money to "satisfy the hoarder" is the only way of getting interest rates or the exchange-rate down.

But, of course, there is always "market sentiment" to fall back on. The government must cut its spending now, because this is what "the markets" expect. These are the same markets that so wounded the banking system that it had to be rescued by the taxpayer. They are now demanding fiscal consolidation as the price of their continued support for governments whose fiscal troubles they have largely caused.

Why on earth should we take this market sentiment any more seriously than that which led to the great debauch of 2007? Markets, it is sometimes said, may not know what they are talking about, but governments have no choice but to do what they tell them. This is unacceptable. The duty of governments is to govern in the best interests of the people who elected them not of the City of London. If that means calling the bankers' bluff, so be it.

Lord Skidelsky is emeritus professor of political economy at the University of Warwick. His latest book Keynes: The Return of the Master was published in September

How disgraced economists managed to make amends

Arvind Subramanian

In 2008, as the global financial crisis unfolded, the reputation of economics as a discipline and economists as useful policy practitioners seemed to be irredeemably sunk. Queen Elizabeth captured the mood when she asked pointedly why no one (in particular economists) had seen the crisis coming. There was no doubt that, notwithstanding the few Cassandras who correctly prophesied gloom and doom, the profession had failed colossally.

The totemic symbols of this failure were, of course, the two most important policymakers, Alan Greenspan and his successor as chairman of the US Federal Reserve, Ben Bernanke. They, among many others, helped create a belief system that elevated markets beyond criticism.

But crises will always happen and, even if there is a depressing periodicity to them, their timing, form and provenance will elude prognostication. Most crises, notably the big ones, creep up on us from unsuspected quarters. As Keynes wisely observed: "The inevitable never happens. It is the unexpected always." So, if the value of economics in preventing crises will always be limited (although hopefully not non-existent), perhaps a fairer and more realistic yardstick should be its value as a guide in responding to them. Here, one year on, we can say that economics stands vindicated.

How so? Recall that the recession of the late 1920s in the US became the Great Depression, owing to a combination of three factors: overly tight monetary policy; overly cautious fiscal policy (especially under FDR in 1936, when tightening led to another sharp downturn in the US economy); and dramatic recourse to beggar-thy-neighbour policies, including competitive devaluations (as countries went off the gold standard in the 1930s) and increases in trade barriers. The impact of this global financial crisis has been significantly limited because on each of these scores, the policy mistakes of the past were strenuously and knowingly avoided.

On monetary policy, Mr Bernanke was true to the word he gave to Milton Friedman on the occasion of his 90th birthday: "Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again." The pre-eminent student of the Great Depression, Mr Bernanke found conventional and some very unconventional ways of not doing "it" again. At the peak of his interventions, the Fed came to resemble the Soviet Gosbank, as much a micro-allocator of credit as a steward of macroeconomic policy.

On the fiscal side, policymakers enacted huge stimulus packages. They took their cue from Keynes, providing public demand for goods and services where private demand had collapsed under the weight of indebtedness and non-functioning credit markets.

Most surprisingly, despite the unprecedented collapse in trade, few countries resorted to beggar-thy-neighbour policies. For sure, there were big currency swings, but these were mostly market-driven – except in the case of China, where the hand of

The Fed came to resemble the Soviet Gosbank, as much a micro-allocator of credit as a steward of macroeconomic policy

policy in manipulating competitiveness has been more evident. It is also true that several countries raised trade barriers. But these were small in magnitude, limited in geographic scope and product coverage, and mostly consistent with World Trade Organisation rules. The exception was the large-scale assistance to the financial and auto sectors, especially in the US, which at least had the extenuating argument that the assistance was aimed at averting extinction rather than providing a competitive boost. Overall, however, it was clear that the general forswearing of beggar-thy-neighbour policies stemmed in large part from the awareness of their devastating consequences.

What is striking about the influence of economics is that similar policy responses in the fiscal and monetary areas, and non-responses in relation to competitive devaluations and protectionism, were crafted across the globe. They were evident in emerging market economies and developing countries as much as in the industrial world; in red-blooded capitalist countries as well as in communist China and still-dirigiste India. If ever there was a Great Consensus, this was it.

If the Great Depression had not happened 80 years before, there may not have been a "natural experiment" to draw upon, and perhaps 2009 might have turned out differently. But the fact of the Great Depression was only a necessary condition. We were not condemned to repeat the mistakes of history because the economics profession had learnt and distilled the right lessons from that event.

For sure, we have not learnt all the lessons; we may even have learnt some wrong ones. It is also probable that we are setting the stage for future crises, not least because we are still groping for ways to tame finance. So, economics is bound to fail again. But the avoidance of the Greatest Depression that could so easily have happened in 2009 is an outcome the world owes to economics; at the least, it is the discipline's atonement for allowing the crisis of 2008 to unfold.

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FINANCIAL TIMES TUESDAY DECEMBER 29 2009

The next decade of monetary union

The eurozone needs further substantial reforms to prosper

The good news for the European monetary union is that it has survived the biggest economic crisis since the 1930s. The bad news is that it confronts huge further challenges. One of these challenges – the need for greater flexibility in the economies of member states – is widely recognised. The other – the need to rebalance demand within the eurozone – is not, so far. In its absence, huge stresses will be placed not just on the eurozone, but on the world economy.

Of the competence with which the European Central Bank has dealt with the crisis, little doubt arises. It was the first of the major central banks to recognise the magnitude of the looming shock, in August 2007. Equally, in the absence of the union, a wave of currency crises would have hit the European Union. Several EU members still outside the zone are now queuing up to join, with Poland much the most important. No less evident is the desire of the rest of the world to hold the euro. In all, the eurozone has passed its biggest test with flying colours.

Yet in the year to the third quarter of 2009 the eurozone economy shrank by 4.1 per cent, against just 2.5 per cent in the US, even though the latter was the epicentre of the crisis. Furthermore, the International Monetary Fund has estimated total needed write-downs in eurozone banks at $814bn, against $1,025bn in US banks. Thus, the eurozone remains vulnerable to shocks abroad, partly because Germany, its most important economy, is so export-dependent. Moreover, the eurozone's bank-dependent financial system is insufficiently robust. Above all, these vulnerabilities – a weak financial system and export-dependency – make recovery more difficult, now the euro has become so strong.

The macroeconomics of the zone have worked roughly as follows: to the extent that the eurozone has not depended on foreign demand, including that of central and eastern Europe, it has relied on credit-fuelled demand within the zone itself. The ECB has pursued a monetary policy aimed at stabilising inflation. This has meant keeping demand roughly in line with aggregate output. A big part of needed demand has then been generated in peripheral economies with buoyant property sectors, of which Spain was the most important.

Now that source of demand has disappeared permanently. The erstwhile bubble-fuelled peripheral economies have also ended up with a huge loss of external competitiveness, partly because of the strong euro and, more fundamentally, because of the rise in their unit labour costs, relative to the core countries, during the booms.

The collapse in domestic demand in weak peripheral countries has, meanwhile, either created – or exacerbated – huge fiscal deficits. Some members – Greece being a salient example – are in dire fiscal straights. Ireland is not far behind. These countries must both cut fiscal deficits in the midst of deep recessions and slash labour costs if they are to regain competitiveness within the eurozone. This is going to pose huge economic, political and social challenges, with real possibilities of severe fiscal crises.

The eurozone has been a beacon of stability. But it must now cope with fiscal, credit and competitiveness crises

That is not all. With the peripheral countries in such difficulties, where will the demand needed to give the eurozone a strong recovery come from? What is going to replace the demand currently generated by today's huge fiscal deficits? There can be only two answers: external demand, with the eurozone moving into large external surplus; or private demand in core countries, particularly Germany. The former would be globally destabilising. The latter seems highly unlikely.

The eurozone has been a beacon of stability. But economic stresses have not disappeared. Instead of currency crises it must now cope with fiscal, credit and competitiveness crises. The challenge of managing these will be huge. The effort has barely even begun.

Decade of disruption: the new world order

Europe

Economic decline saps union's optimism

By Tony Barber in Brussels

The more Europe pursues the goals of closer internal integration and greater external influence, the more elusive the destinations appear. A decade that began with optimistic plans to write a constitution for the European Union and turn the bloc into the world's most competitive economy is ending with the continent struggling to avoid relative political and economic decline.

European policymakers are under no illusions about their difficulties. Three weeks after he was appointed the EU's first full-time president in November, Herman Van Rompuy declared that Europe's economic growth rates were so mediocre that nothing less than the survival of the "European way of life" was at stake.

José Manuel Barroso, the European Commission president, spoke in similarly apocalyptic terms in September when he presented his policy guidelines for the incoming Commission. "For Europe, this is a moment of truth. Europe has to answer a decisive question. Do we want to lead, shaping globalisation on the basis of our values and our interests – or will we leave the initiative to others and accept an outcome shaped by them?

"The alternatives are clear. A stark choice has to be made. Either Europeans accept to face this challenge together – or else we slide towards irrelevance."

Europe continues to boast some of the world's highest living standards and a lifestyle that is a magnet for millions. Almost 20m citizens from non-EU countries live in the bloc.

With good reason the EU regards itself as a powerful force in global trade and business regulation, two areas where the bloc truly speaks with a single voice, bringing its collective weight to bear.

No country, business sector or company is too big to disregard the EU's trade policies and competition rules. Yet even here the bloc has its limits. Its trade deficit with China soared to almost €170bn ($245bn, £153bn) in 2008 and frustrated EU policymakers cannot persuade Beijing to modify its exchange rate policies or meet its standards on respect for intellectual property rights.

The European economy was in trouble even before the world descended into financial crisis in 2007. Productivity and labour market participation rates were too low, youth unemployment was too high, education systems were inadequate and ageing populations risked overburdening Europe's generous welfare state.

In 2000 the EU adopted a plan, dubbed the Lisbon strategy, whose purpose was to transform the bloc in 10 years into "the most competitive and dynamic knowledge-based economy in the world". It did not work. In 2004 Wim Kok, a former Dutch prime minister, was given the task of measuring the EU's progress. He bluntly described the Lisbon strategy as "a synonym for missed objectives and failed promises".

'Either Europeans face their challenge, or we slide towards irrelevance'

José Manuel Barosso
Commission president

But the EU is nothing if not persistent. In March EU leaders are expected to replace Lisbon with the so-called "2020 strategy". This time the European vision is one of "a new sustainable social market economy, a smarter, greener economy where our prosperity will result from innovation and from using resources better, and where knowledge will be the key input".

The EU's two most impressive achievements of the past decade were arguably the launch of European monetary union and the bloc's expansion into central and eastern Europe. With 10 former communist countries as members – and more likely to join in the next decade, Europe's traumatic post-1945 division is largely healed.

Not everything is plain sailing, however. Nationalist tensions persist in Bosnia-Herzegovina and serve as a reminder of the EU's foreign and military policy failures during the 1991-95 wars of the Yugoslav succession. Equally worrisome is the EU's schizophrenic attitude to Turkey, which is an official candidate for membership but whose entry is opposed by Nicolas Sarkozy, France's president, and Angela Merkel, Germany's chancellor.

European leaders hope the newly approved Lisbon treaty will strengthen the EU. But there is less talk today of political union than at the start of the decade. When Valéry Giscard d'Estaing, the former French president, chaired a convention on Europe's future in 2002-2003, he compared his effort to that of the Founding Fathers who wrote the US constitution in 1787. Almost a decade on, he ruefully acknowledges Europe has yet to find its George Washington.

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, DECEMBER 16, 2009

The U.S. is on board

COPENHAGEN I We have come ready to take the steps necessary to achieve a comprehensive and operational new agreement.

Hillary Rodham Clinton

WASHINGTON Our world is on an unsustainable path that threatens not only our environment, but our economies and our security. It is time to launch a broad operational accord on climate change that will set us on a new course.

A successful agreement depends upon a number of core elements, but two are shaping up to be essential: first, that all major economies set forth strong national actions and resolve to implement them; and second, that they agree to a system that enables full transparency and creates confidence that national actions are in fact being implemented.

Transparency, in particular, is what will ensure that this agreement becomes operational, not just aspirational. We all need to take our share of responsibility, stand behind our commitments, and mean what we say in order for an international agreement to be credible.

Representatives from more than 190 countries have gathered in Copenhagen in the hopes of meeting this urgent challenge to our planet. If we are serious about that goal, we will all embrace these principles.

It is no secret that the United States turned a blind eye to climate change for too long. But now, under President Obama's leadership, we are taking responsibility and taking action.

Already, the Obama administration has done more at home to promote clean energy and address climate change than ever before in our history. We are investing more than $80 billion in clean energy and working with Congress to advance comprehensive climate and energy legislation. And we have announced our intention to cut our emissions in the range of 17 percent below 2005 levels by 2020 and ultimately in line with final climate and energy legislation.

In light of the president's goals, the expected pathway in pending legislation would extend those cuts to 30 percent by 2025, 42 percent by 2030, and more than 80 percent by 2050. These are the kind of strong national actions that a successful agreement requires.

The United States has also pursued an unprecedented effort to engage partners around the world in the fight against climate change, and we have produced real results. President Obama launched the Major Economies Forum on Energy and Climate which brought together key developed and developing countries to work through issues essential to an accord. He also spearheaded an agreement, first among the G-20 and then among the Asia-Pacific Economic Cooperation nations, to phase out fossil fuel subsidies. This effort alone could reduce global greenhouse gas emissions by 10 percent or more by 2050.

So there should be no doubt about our commitment. We have come to Copenhagen ready to take the steps necessary to achieve a comprehensive and operational new agreement that will provide a foundation for long-term, sustainable economic growth.

This needs to be a common effort. All major economies, developed and developing, need to take robust and transparent action to reduce their carbon emissions. Of course, the actions required of the developed and major developing countries will not be identical, but we must all do our part.

The simple fact is that nearly all of the growth in emissions in the next 20 years will come from the developing world. Without their participation and commitment, a solution is impossible. Some are concerned that a strong agreement on climate change will undermine the efforts of developing nations to build their economies, but the opposite is true. This is an opportunity to drive investment and job creation around the world, while bringing energy services to hundreds of millions of the world's poor.

That is why United States is supporting an accord that both complements and promotes sustainable development by moving the world toward a low-carbon economy. The accord we seek will provide generous financial and technological support for developing countries, particularly the poorest and most vulnerable, to help them reduce emissions and adapt to climate change. And we are prepared to join an effort to mobilize fast-start funding that will ramp up to $10 billion in 2012 to support the adaptation and mitigation efforts of countries in need.

We can all see the way forward that has emerged from months of negotiations: decisive national action, an operational accord that internationalizes those commitments, assistance for nations that are the most vulnerable and least prepared to meet the effects of climate change, and standards of transparency that provide credibility to the entire process.

The United States is ready to embrace this path, and we hope that the rest of the world will rally around it this week.

HILLARY RODHAM CLINTON *is secretary of state of the United States.*

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, DECEMBER 16, 2009

Disaster and denial

The Republicans won't face up to what happened to the economy. So it's up to the Democrats.

Paul Krugman

When I first began writing for The New York Times, I was naïve about many things. But my biggest misconception was this: I actually believed that influential people could be moved by evidence, that they would change their views if events completely refuted their beliefs.

And to be fair, it does happen now and then. I've been highly critical of Alan Greenspan over the years (since long before it was fashionable), but give the former Fed chairman credit: he has admitted that he was wrong about the ability of financial markets to police themselves.

But he's a rare case. Just how rare was demonstrated by what happened last Friday in the House of Representatives, when — with the meltdown caused by a runaway financial system still fresh in our minds, and the mass unemployment that meltdown caused still very much in evidence — every single Republican and 27 Democrats voted against a quite modest effort to rein in Wall Street excesses.

Let's recall how we got into our current mess.

America emerged from the Great Depression with a tightly regulated banking system. The regulations worked: the nation was spared major financial crises for almost four decades after World War II. But as the memory of the Depression faded, bankers began to chafe at the restrictions they faced. And politicians, increasingly under the influence of free-market ideology, showed a growing willingness to give bankers what they wanted.

The first big wave of deregulation took place under Ronald Reagan — and quickly led to disaster, in the form of the savings-and-loan crisis of the 1980s. Taxpayers ended up paying more than 2 percent of G.D.P., the equivalent of around $300 billion today, to clean up the mess.

But the proponents of deregulation were undaunted, and in the decade leading up to the current crisis politicians in both parties bought into the notion that New Deal-era restrictions on bankers were nothing but pointless red tape. In a memorable 2003 incident, top bank regulators staged a photo-op in which they used garden shears and a chainsaw to cut up stacks of paper representing regulations.

And the bankers — liberated both by legislation that removed traditional restrictions and by the hands-off attitude of regulators — responded by dramatically loosening lending standards. The result was a credit boom and a monstrous real estate bubble, followed by the worst economic slump since the Great Depression. Ironically, the effort to contain the crisis required government intervention on a much larger scale than would have been needed to prevent the crisis in the first place: government rescues of troubled institutions, large-scale lending by the Federal Reserve to the private sector, and so on.

Given this history, you might have expected the emergence of a national consensus in favor of restoring more-effective financial regulation, so as to avoid a repeat performance. But you would have been wrong.

Talk to conservatives about the financial crisis and you enter an alternative, bizarro universe in which government bureaucrats, not greedy bankers, caused the meltdown. It's a universe in which government-sponsored lending agencies triggered the crisis, even though private lenders actually made the vast majority of subprime loans. It's a universe in which regulators coerced bankers into making loans to unqualified borrowers, even though only one of the top 25 subprime lenders was subject to the regulations in question.

Oh, and conservatives simply ignore the catastrophe in commercial real estate: in their universe the only bad loans were those made to poor people and members of minority groups, because bad loans to developers of shopping malls and office towers don't fit the narrative.

In part, the prevalence of this narrative reflects the principle enunciated by Upton Sinclair: "It is difficult to get a man to understand something when his salary depends on his not understanding it." As Democrats have pointed out, three days before the House vote on banking reform Republican leaders met with more than 100 financial-industry lobbyists to coordinate strategies. But it also reflects the extent to which the modern Republican Party is committed to a bankrupt ideology, one that won't let it face up to the reality of what happened to the U.S. economy.

So it's up to the Democrats — and more specifically, since the House has passed its bill, it's up to "centrist" Democrats in the Senate. Are they willing to learn something from the disaster that has overtaken the U.S. economy, and get behind financial reform?

Let's hope so. For one thing is clear: if politicians refuse to learn from the history of the recent financial crisis, they will condemn all of us to repeat it.

THE WALL STREET JOURNAL.
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The 'Global Imbalances' Myth

By Zachary Karabell

As the economic crisis has eased in recent months, a questionable international consensus has emerged: The global economy needs to be rebalanced. "We cannot follow the same policies that led to such imbalanced growth," President Barack Obama said during his Asia trip last month. European Central Bank head Jean-Claude Trichet declared in September that "imbalances have been at the roots of the present difficulties. If we don't correct them, we'll have the recipe for the next major crisis."

These global "imbalances" supposedly include excessive American consumption, too much trade flowing from Asia to the West and not enough from the U.S. to Asia, and too much saving combined with insufficient spending by Chinese consumers. But what if the whole notion of global imbalances is a myth, and that policies to reverse them only make things worse?

The blunt fact is that at no point in the past century has there been anything resembling a global economic equilibrium.

Consider the heyday of the "American century" after World War II, when Western European nations were ravaged by war, and the Soviet Union and its new satellites slowly rebuilding. In 1945, the U.S. accounted for more than 40% of global GDP and the preponderance of global manufacturing. The country was so dominant it was able to spend the equivalent of hundreds of billions of dollars to regenerate the economies of Western Europe via the Marshall Plan, and also of Japan during a seven year military occupation. By the late 1950s, 43 of the world's 50 largest companies were American.

Chinese reserves and U.S. government debt did not trigger the financial crisis.

The 1970s were hardly balanced—not with the end of the gold standard, the oil shocks and the 1973 Arab oil embargo, inflation and stagflation, which spread from the U.S. through Latin America and into Europe.

The 1990s were equally unbalanced. The U.S. consumed and absorbed much of the available global capital in its red-hot equity market. And with the collapse of the Soviet Union and the economic doldrums of Germany and Japan, the American consumer assumed an ever-more central position in the world. The innovations of the New Economy also gave rise to a stock-market mania and overshadowed the debt crises of South America and the currency implosion of South Asia—all of which were aggravated by the concentration of capital in the U.S. and the paucity of it in the developing world. When the tech bubble burst in 2000, it had little to do with these global dynamics and everything to do with a glut of telecommunication equipment in the U.S., and stock-market exuberance gone wild.

When officials and economists today speak of correcting global imbalances, it is unclear what benchmark they have in mind. So-called excessive American consumption, East-West trade flows, Chinese savings and the like were not responsible for the recent crisis. That was instead triggered by massive misplaced bets on the U.S. housing market and trillions of dollars of derivatives built upon that flimsy foundation.

Yes, many have woven a compelling narrative of how the relationship between China and the U.S.—distorted by China's fixed and nonconvertible currency on the one hand and America's debt-fueled appetites on the other—led to massive flows of capital out of the U.S. But that money flowed right back into the U.S. in the form of Chinese purchases of Treasury bonds, mortgage-backed securities and other dollar-denominated assets, which then flowed into our banking system, which then made its way back to U.S. business and to the Treasury, some of which then circulated back into China.

What some see as imbalances can also be described as a system of capital and goods in constant motion. Chinese reserves and U.S. government debt didn't trigger the meltdown, nor did U.S. consumers cause the meltdown. It wasn't even U.S. consumer debt—after all, more than 90% of Americans have remained current on their credit cards and their mortgages. The real (and much messier) cause of the meltdown was a potent brew of financial innovation, electronic and instantaneous flow of capital, greed on the part of banks and investors worldwide, against a backdrop of an economic fusion between China and the U.S. that kept interest rates low and inflation lower.

Today's consensus sounds very much like the orthodoxy of yesteryear—let each nation be its own system in equilibrium, interacting with other systems to create one mega-balanced system. Yet such balance has only existed in theory and only ever will. Indeed, if the crisis of the past year teaches us anything it should be that forcing reality to conform to abstract theory is a sure recipe for disaster.

Now that the crisis has eased, the greatest danger is that our collective belief in how the world should work drowns out the creative nimbleness of policy that adapts to the world as it is actually working. Policies that might stem from the global imbalances consensus include American government incentives to increase domestic savings. This sounds good, but not if it leads to underinvestment in innovation, education and infrastructure.

It could also lead Chinese officials to attempt to shift away from exports and state spending. Over the long term this might be beneficial, but it could wreak havoc on domestic Chinese growth and global supply chains if it is done under the erroneous belief that urgent action is required. For its part, the European Union rightly claims that it has not been a primary cause of the perceived imbalances. But its leaders have been central to pushing that thesis and urging China and the U.S. to redress them.

Thankfully, there is less risk of the Chinese government upsetting their apple cart than there is of the American government acting precipitously.

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INTERNATIONAL HERALD TRIBUNE
TUESDAY, DECEMBER 29, 2009

The big zero

Paul Krugman

Maybe we knew, at some unconscious, instinctive level, that it would be an era best forgotten. Whatever the reason, we got through the first decade of the new millennium without ever agreeing on what to call it. The aughts? The naughties? Whatever. (Yes, I know that strictly speaking the millennium didn't begin until 2001. Do we really care?)

But from an economic point of view, I'd suggest that we call the decade past the Big Zero. It was a decade in which nothing good happened, and none of the optimistic things we were supposed to believe turned out to be true.

It was a decade with basically zero job creation. O.K., the headline employment number for December 2009 will be slightly higher than that for December 1999, but only slightly. And private-sector employment has actually declined — the first decade on record in which that happened.

It was a decade with zero economic gains for the typical American family. Actually, even at the height of the alleged "Bush boom," in 2007, median household income adjusted for inflation was lower than it had been in 1999. And you know what happened next.

It was a decade of zero gains for U.S. homeowners, even if they bought early: Right now housing prices, adjusted for inflation, are roughly back to where they were at the beginning of the decade. And for those who bought in the decade's middle years — when all the serious people ridiculed warnings that housing prices made no sense, that we were in the middle of a gigantic bubble — well, I feel your pain. Almost a quarter of all mortgages in America, and 45 percent of mortgages in Florida, are underwater, with owners owing more than their houses are worth.

Last and least for most Americans — but a big deal for retirement accounts, not to mention the talking heads on financial TV — it was a decade of zero gains for stocks, even without taking inflation into account. Remember the excitement when the Dow first topped 10,000, and best-selling books like "Dow 36,000" predicted that the good times would just keep rolling? Well, that was back in 1999. Last week the market closed at 10,520.

So there was a whole lot of nothing going on in measures of economic progress or success. Funny how that happened.

For as the decade began, there was an overwhelming sense of economic triumphalism in America's business and political establishments, a belief that we Americans — more than anyone else in the world — knew what we were doing.

Let me quote from a speech that Lawrence Summers, then deputy Treasury secretary (and now the Obama administration's top economist), gave in 1999. "If you ask why the American financial system succeeds," he said, "at least my reading of the history would be that there is no innovation more important than that of generally accepted accounting principles: It means that every investor gets to see information presented on a comparable basis; that there is discipline on company managements in the way they report and monitor their activities." And he went on to declare that there is "an ongoing process that really is what makes our capital market work and work as stably as it does."

So here's what Mr. Summers — and, to be fair, just about everyone in a policy-making position at the time — believed in 1999: America has honest corporate accounting; this lets investors make good decisions, and also forces management to behave responsibly; and the result is a stable, well-functioning financial system.

What percentage of all this turned out to be true? Zero.

What was truly impressive about the decade past, however, was our unwillingness, as a nation, to learn from our mistakes.

Even as the dot-com bubble deflated, credulous bankers and investors began inflating a new bubble in housing. Even after famous, admired companies like Enron and WorldCom were revealed to have been Potemkin corporations with facades built out of creative accounting, analysts and investors believed banks' claims about their own financial strength and bought into the hype about investments they didn't understand. Even after triggering a global economic collapse, and having to be rescued at taxpayers' expense, bankers wasted no time going right back to the culture of giant bonuses and excessive leverage.

Then there are the politicians. Even now, it's hard to get Democrats, President Obama included, to deliver a full-throated critique of the practices that got us into the mess we're in. And as for the Republicans: Now that their policies of tax cuts and deregulation have led us into an economic quagmire, their prescription for recovery is — tax cuts and deregulation.

So let's bid a not at all fond farewell to the Big Zero — the decade in which we achieved nothing and learned nothing. Will the next decade be better? Stay tuned. Oh, and happy New Year.

INTERNATIONAL HERALD TRIBUNE
WEDNESDAY, DECEMBER 30, 2009

President Obama: Push back on China

The arrest of a moderate reformer shows Beijing's international arrogance as well as its domestic cruelty.

Wei Jingsheng

WASHINGTON Last week, a moderate reformist in China, Liu Xiaobo, was sentenced to 11 years in prison by the Chinese government for the mere act of organizing and signing a petition, Charter 08, calling for political reform and the basic human rights much of the world already enjoys.

The message was clear for all those who sought restraint from a newly powerful China that now sits prominently at the tables of global governance: Since you made a fuss about releasing Mr. Liu after his arrest, we will punish him even more severely. In no uncertain terms, that will let you know that not only don't we care what you think, but we don't have to.

Though diplomats from Germany and Australia were among the two dozen people allowed to observe the "public trial," the fact that no one from the American Embassy was admitted should be read as a particularly clear and open challenge to the United States.

We Chinese are intimately acquainted with this authoritarian arrogance.

During the eras of Mao Zedong and Deng Xiaoping, when I was jailed for 15 years for the "heinous crime" of putting up a wall poster, the Chinese government regarded international public opinion with this same attitude. If the Chinese people saw how the government blithely dismissed the concerns of powerful foreigners, the Communist Party rulers reasoned, they would also see they had no alternative but to submit to the overbearing authority of the government.

During Jiang Zemin's time there were some changes. In an effort to reduce international pressure and develop the economy under favorable trade conditions from the United States, the Chinese regime yielded. Among other actions, I was released from jail and deported to the United States. That resulted in a strong backlash from the hardliners inside of the Communist Party despite the fact that, over the years, America's huge trade deficit is what largely fueled China's rapid growth.

Now that China's leaders believe their prospering nation has emerged as a player in world history just as America's prestige has been weakened by the Iraq war and the recent financial meltdown, the hard-liners have been able to wrest the upper hand once again.

No doubt there is some truth in the notion that their revived arrogance is inspired by China's role as America's largest creditor. Surely this is one reason China's leadership feels free to insult President Barack Obama, as it did during his visit to China, when they blocked broad news coverage of his public speech, and when they sent lower-level officials to negotiate with him at the Copenhagen climate talks until the last minute when Prime Minister Wen Jiabao finally granted him an audience.

Their humiliation of President Obama was not personal. It served to mark China's power on the world stage. But more importantly, as under Mao and Deng, standing up to the American superpower is meant to stem growing internal opposition and cow China's restless people into subservience under a one-party dictatorship. This is particularly critical as greater democracy in China would expose its own economic problems.

How President Obama responds to this challenge is not just a matter of his own honor and position; it is a matter of defending the democratic value system of the West against a challenge for ideological leadership in the 21st century.

The case of Liu Xiaobo presents an opportunity for President Obama to save face and stand up to the hardliners' untoward arrogance. As Mr. Liu's case is appealed to a higher court, the United States and the rest of the West should insist that his sentence be suspended. Such a strong stance will weaken the hard-liners while strengthening the voices of peaceful reform within China.

If the United States doesn't push back, the hard-liners will push on, with negative consequences across the whole spectrum of issues, from trade and currency valuations to global security and climate change.

The United States may owe a great deal of debt to China, but it owes a greater debt to its founding principles of freedom and human rights. If the West, led by the United States, does not counterbalance China's new might in the world order, who will?

WEI JINGSHENG, *a prominent Chinese dissident who spent 18 years in Chinese prisons, now lives in exile in Washington.*

GLOBAL VIEWPOINT/TRIBUNE MEDIA SERVICES

THE JAPAN TIMES TUESDAY, DECEMBER 15, 2009

Underwriting a global reforestation program

MICHAEL RICHARDSON

Singapore

Where does Southeast Asia rank in greenhouse-gas emissions, a key focal point of the international climate change negotiations?

The short answer is that the region is an important source of worldwide emissions, mainly from deforestation. And it is expected to become a bigger source in the future.

Member states of ASEAN, the Association of South East Asian Nations, are also highly vulnerable to the predicted effects of climate change, including rising sea levels and extreme weather. They cannot afford to be passive bystanders in the climate change negotiations expected to continue well into next year before any deal is finalized.

Last April, the Asian Development Bank published a report that said Southeast Asia in 2000 contributed 12 percent of the carbon dioxide, methane and other global-warming gases produced by human activity. This was almost certainly an underestimate, since the ADB survey covered only five of the 10 ASEAN countries (Indonesia, the Philippines, Singapore, Thailand and Vietnam).

The ADB found that cutting or burning of forests and conversion of the land to plantations, farms and other uses was by far the biggest source of Southeast Asia's emissions, contributing 75 percent of the region's total.

The energy sector contributed 15 percent by burning coal, oil and natural gas, while agriculture was the source of 8 percent, mainly methane from growing rice in water-saturated fields.

The ADB based its calculation on statistics that were nine years old. However, the report noted that total greenhouse-gas emissions from Southeast Asia (population over 560 million) were rising at a faster rate than the global average because the region's economic growth was higher.

Checking emissions is a far-from-exact science, particularly when information from many developing countries is scant. The profile also changes.

While Singapore and Malaysia have significantly reduced emissions of carbon dioxide, the main greenhouse gas, by switching to gas in generating electricity, other ASEAN countries have intensified their use of cheaper but more carbon-intensive coal in power generation. So their emissions will be higher.

Energy conservation and efficiency measures would reduce the rate of emissions growth if applied by businesses and individual consumers across Southeast Asia.

However, for Southeast Asia, the greatest potential for cutting emissions is in forestry. The panel of scientists and officials advising the United Nations estimates that, in 2004, deforestation was responsible for just over 17 percent of the world's greenhouse emissions.

A study published last month by scientists affiliated with the Global Carbon Project concluded that this figure fell to 12 percent last year, down from 20 percent in the 1990s, probably because wet conditions limited use of fire to burn forests and clear land in Southeast Asia, where Indonesia has been the main source of emissions.

Researchers have said that in some drought years, when forest fires raged out of control and peat swamps cleared of trees dried out and lighted up, Indonesia was the world's third-largest greenhouse-gas emitter after China and the United States.

One way to prevent the emissions level from rising again would be for climate negotiators to agree on a proposed plan to pay Indonesia and other tropical forest nations in Southeast Asia, South America and Africa not just to halt logging in remaining jungle zones, but also to re-plant degraded forests and plant new ones.

Since forests soak up huge amounts of global warming carbon dioxide, this would help the world absorb some of the excess gas being spewed into the atmosphere each year, mainly from burning fossil fuels.

The scheme being discussed, known as Reducing Emissions from Deforestation and Degradation (REDD), still faces serious problems. But while the more than 190 nations in the climate change negotiations have argued bitterly over emissions targets and funding to help poorer countries adapt to global warming, forest preservation and restoration is among the issues that appear to have achieved the most progress.

"That is because we are looking at a huge global emissions source," said Paul Winn, forest and climate campaigner for Greenpeace Australia. "There is also the recognition that it is a relatively cheap, easy form of emissions reductions."

Some rich countries, such as the U.S. and Australia, want REDD to be structured so that their energy-intensive companies can offset emissions at home by paying for forest conservation and expansion in developing countries.

While corruption, illegal logging and mismanagement in the forest sectors of major recipient countries are big obstacles to effective implementation of any agreed REDD scheme, the potential for expanding forests is huge.

Just last month, the Global Partnership on Forest Restoration announced that new satellite surveys had shown that more than a billion hectares of former forest land and degraded forest could be restored to good-quality, healthy forests. That's equivalent to around 6 percent of the planet's total land area and some of the most promising forest restoration opportunities identified by the satellite mapping are in Southeast Asia.

Forests once covered over half the world's land area. Today, that figure is below 30 percent and each year a further 7 million hectares of forest are lost.

Halting and then reversing this loss will not be easy. But if developed countries are prepared to underwrite a global reforestation program, it could help both the climate and the rural poor.

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THE JAPAN TIMES WEDNESDAY, DECEMBER 16, 2009

An alternative to the dollar

WILLIAM PFAFF

Paris

British Prime Minister Gordon Brown's 50 percent tax on bankers' bonuses has staggered the city of London, with other European governments following his lead. The alibi for the presentation by bankers of bonuses to themselves, despite the international financial crisis they brought upon the rest of us, has until now been that without bonuses all the financial talent would fly to foreign competition; but where do the European bankers migrate to now? Wall Street is over-supplied.

There is room for still more common sense in the crisis, in which the orthodoxies of an obsolescent era continue to contradict one another. The canonical IMF-style remedy for nations with the kind of difficulties that prevail from London to Madrid and on to Athens is national austerity, budget cuts and reduced social spending.

Equally orthodox is for governments at the same time to do everything possible to encourage people to spend, so as to fuel demand for industrial goods, and the widest possible consumer consumption. To spend, consumers need the same money that austerity is taking away from them, or preventing them from earning.

Economists and officials obviously are aware of this dilemma but see no orthodox way out of it other than by deepening budget deficits, which not every country can afford. The European Central Bank has just given Athens a year to master its deficit, which may not be possible.

The unorthodox way, taken in the past by the Greeks, Italians and the French before the Fifth Republic, among others, has been devaluation of the national currency. You pay a cost in inflation and reputation for that, but eventually the inflation runs its course, while leaving the country less attractive to investors.

Although Washington is the home of fiscal orthodoxy, in theory, in practice it has been playing the deficit game for a considerable time now, in what the economist Joseph Stiglitz calls a kind of bizarre reverse foreign aid, by which poor countries loan the United States trillions at zero interest rates by buying U.S. Treasury bills.

Trust in the soundness of their investment will undoubtedly have weakened a little more in December, as U.S. President Barack Obama laid down what might eventually prove an unsecured trillion-dollar bet by expanding America's futile war against the Taliban (while Pakistan already reels under the collateral damage).

Stiglitz observes (in the current issue of the Washington journal The National Interest), that the dollar is finding it very difficult to bear up as the world's reserve currency, and argues that prudent governments should begin considering another reserve currency.

This is not too hard a problem to solve. You create it. Stiglitz is calling for a new issue by the International Monetary Fund of what has been called Special Drawing Rights (or "Bancor," which is what John Maynard Keynes, who first thought of it, called the fresh creation of imaginary money). The leading nations, assembled at the IMF headquarters in Washington, in their sovereign splendor, wave a wand and declare that a new sum of money henceforth exists.

Stiglitz says that it would be rather like declaring that a massive goldmine has been discovered under the IMF building, yielding perhaps $600 billion a year. In accordance with a particular formula based on their income, the IMF would send out letters to its members telling them how much of this gold they own, and that they should begin augmenting their currency supply, to be backed by this gold, in full confidence that the new money will be honored. "All that matters is trust, the willingness of governments to exchange the paper gold." World liquidity would be vastly increased, demand multiplied, industry resume production.

It is not magic; it obviously presents problems of transition in moving to an international reserve currency from the dollar reserve.

However, the Commission of Experts of the President of the U.N. General Assembly on Reforms of the International Monetary and Financial System has concluded, writes Stiglitz (who chaired that committee), that it "is perhaps the most important medium-term reform that can be undertaken if we want to have a robust and stable recovery."

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

THE JAPAN TIMES FRIDAY, DECEMBER 18, 2009

Realities of disarmament

RAMESH THAKUR

Waterloo Canada

The international commission on nuclear nonproliferation and disarmament, chaired by former foreign ministers Gareth Evans of Australia and Yoriko Kawaguchi of Japan, faced two hurdles even before its work was completed.

First, both countries are long-standing allies that have sheltered under the U.S. nuclear umbrella. Second, between the setting up of the commission in mid-2008 and the publication of its report this week, the nuclear agenda has been dramatically transformed with President Barack Obama's commitment to the vision of a world free of nuclear weapons.

The first risk was one of credibility, the second of irrelevance as the commission's deliberations were overtaken by events in the real world. The commission's report, titled "Eliminating Nuclear Threats," responds to both. There is a good discussion of extended deterrence and the need to reassure allies that their security needs will not be compromised en route.

Evans was co-chair of the international commission that produced the "Responsibility to Protect" report. He seems to have modeled this commission on the earlier one with respect to a broad-based composition, outreach and consultations through regional meetings around the world — an effort to reconcile seemingly contradictory positions, the format of the report itself and even the idea of an global advocacy center as a focal point and clearinghouse on nuclear nonproliferation and disarmament issues.

The major strength of the report is that it tackles four critical policy choices and helps us navigate our way through them to sensible decisions between the world as it is and what it should be like. It marries realism to idealism and combines the nonproliferation and disarmament agenda by integrating minimization in the short and medium term with elimination in the long but not indefinite term.

The case for elimination is updated from the report of the Canberra Commission, which Evans had set up in the mid-1990s. As long as any country has nuclear arms, others will want them. As long as they exist, they will be used again one day, by design, accident or miscalculation.

The minimization agenda seeks to halt and reverse the nuclear weapons tide as a prelude to abolishing them through a binding, verifiable and enforceable international convention. The task is to:

- Delegitimize their possession, deployment and use.
- Reduce their numbers to about 10 percent of present numbers for a global total of 2,000 warheads (500 each for Russia and the United States and a total of 1,000 among the rest) by 2025.
- Reduce reliance on them and their inherent risks by introducing further degrees of separation between their possession, deployment and use — for example, physically separating warheads from delivery systems and lengthening the "decision-making fuse" for the launch of nuclear weapons.

This report tries to convince 'realist' skeptics and 'idealist' advocates of the merits of the incremental approach.

- Bring into force the Comprehensive Test Ban Treaty and a new fissile materials cutoff treaty.
- Strengthen the International Atomic Energy Agency's authority and capacity.
- Establish a multilateral fuel cycle.
- Toughen up supply side restrictions.

The minimization-elimination distinction allows the commission to bridge the gap between the Nonproliferation Treaty (NPT) and post-NPT worlds.

The report argues for nuclear abolition to be enshrined in a universal, comprehensive and legally binding nuclear weapons convention (NWC). It notes that model NWCs already exist, but they fall into the trap of requiring different steps and time scales from the NPT-licit and other nuclear-armed states. It tries to convince "realist" skeptics of why and how security needs can be met by the transitional approach. It tries to persuade "idealist" advocates that an incremental approach is more likely to get us to the desired destination than rhetorical demands and declarations.

It argues that serious discussions and negotiations on a NWC must begin now and not be deferred indefinitely.

This is the first major international report that departs from the unrealistic belief that the non-NPT nuclear-armed states (India, Israel, Pakistan) can be forced to sign the NPT as nonnuclear states. Instead, it argues that for all practical purposes, all the nuclear-armed states, whether licit or illicit under the NPT, belong in the same policy basket.

The report attempts to strike a balance between the desirability and inevitability of a move toward greater reliance on nuclear energy, on the one hand, and the safety, security and proliferation risks posed by increased nuclear power generation, on the other.

Those strongly opposed to nuclear power as a solution to the world's energy-cum-environmental crisis will be disappointed; the cynics may even detect an attempt to advance Japan's and Australia's commercial interests in selling uranium and nuclear technology. The open-minded should welcome a pragmatic and flexible stance and agenda. After all, the balance between the three agendas of nonproliferation, disarmament and power is integral to the NPT.

The report is comprehensive in covering the full spectrum of the nuclear power and weapons agenda on both energy and security fronts, including the threat of nuclear terrorism. Its up-to-date and state-of-the-art analytical chapters will be of immense value to lay people, students and professors, though specialists may well quibble with some technical descriptions and conclusions.

The writing is modulated, blending passion for the cause with the need not to lose either the realists or the idealists. The conclusions are sober but never discouraging. The commission's blend of military and highest-level policy officials from around the world should increase the prospects of the report being taken seriously in national capitals.

Initial tests of whether the recommendations can be implemented will come with the nuclear summit in Washington in April followed by the NPT review conference in May 2010. As the report argues, nuclear weapons cannot be uninvented, but they can and should be controlled, regulated, restricted and, in our lifetime, outlawed.

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THE JAPAN TIMES FRIDAY, DECEMBER 18, 2009

Illegal wall exacerbates disaster for Gazans

CESAR CHELALA

New York

Collusion between Egypt and the United States in building a wall separating Egypt from Gaza not only threatens Gazans' health and quality of life, already seriously deteriorating because of the de facto Israeli blockade, but also violates international law.

According to the Israeli daily Ha'aretz, Egypt is installing an underground metal wall up to 33 meters deep along the border where Palestinians have dug a mazelike array of tunnels to break the Israeli blockade of Gaza. Construction of the wall, carried out with the collaboration of the U.S. Army Corps of Engineers, has been denied by the Egyptian government.

Although Israel claims that the tunnels are used to supply militants of Hamas with explosives and arms, the main function of the tunnels is for transferring food and medicine to the severely deprived Palestinian population in Gaza. The Israeli blockade of the coastal enclave has gone as far as barring the import of flour and other basic food.

According to the Disengagement Plan of April 2004, Israeli settlements and stationed troops were unilaterally withdrawn from Gaza for the stated purpose of removing the "basis for claiming that the Gaza Strip is occupied territory." However, as Al Haq, a Palestinian human rights organization has stated, "Israel remains the occupying power in the Gaza Strip because of its stated policy and practices."

According to the Revised Disengagement Plan of June 6, 2004, "Israel will guard the perimeter of the Gaza Strip, continue to control Gaza airspace, and continue to patrol the sea off the Gaza Coast."

Because Israel still controls Gaza's borders, including sea and airspace, it controls movements of goods and people as well as the registry for the civilian population and the tax system. As a consequence, Gaza's civilian population is entitled to the status of protected people under Article 4 of the Geneva Convention.

Rule 20 of the International Committee of the Red Cross (ICRC) "Study on Customary International Humanitarian Law" states that before launching an attack, Israel is legally obliged to take feasible precautions to avoid harming civilians, such as giving advanced warning to the population before attacking populated areas. Such precautions were not fulfilled during Operation Cast Lead in Gaza, as is made clear in the United Nations report on Gaza.

In addition, Israel is obliged to respect the customary principles of military necessity, distinction and proportionality when carrying out military operations in the Gaza Strip, with the concurrent obligation to treat the occupied population humanely. The obligation to treat protected persons humanely according to a principle of customary international law applies in "all circumstances" and "at all times."

U.N. agencies still consider that between half and two-thirds of Gazans are "food insecure," meaning that they live in hunger or fear of starvation. According to estimates of the World Health Organization (WHO), one-third of children under 5 and women of child-bearing age are anemic. The WHO also says Israel's blockade of Gaza has led to a general "worsening of the health conditions of the population" and to an "accelerated degeneration" of Gaza's health system.

According to the WHO, 15 of the 27 hospitals have been damaged, some of them extensively, as well as 43 primary care centers, some totally destroyed. Twenty-nine ambulances have been damaged or destroyed and 16 health staff have been killed and several others severely injured. The steadily worsening general situation in the Strip has been characterized as a "complex, chronic disaster of catastrophic proportions."

Israel's restrictions on fuel and electricity supplies to the Gaza Strip, as well as the prolonged closures of border crossings for delivering people and goods, including humanitarian aid, constitute collective punishment, which is prohibited under Article 33 of the Fourth Geneva Convention. Unlawful and disproportionate reprisals violate international humanitarian law and cannot be considered means of self-defense.

Despite current policy, the spirit of the Gazan people can be rekindled like a fire after a storm. As Ann Wright, a retired U.S. Army Reserve colonel and former U.S. diplomat, recently stated, "Just as the steel walls of the U.S. Army Corps of Engineers at the base of the levees of New Orleans were unable to contain Hurricane Katrina, (the corps') underground steel walls that will attempt to build an underground cage of Gaza will not be able to contain the survival spirit of the people of Gaza."

Cesar Chelala, M.D., is a co-winner of the Overseas Press Club of America award for an article on human rights.

THE JAPAN TIMES SATURDAY, DECEMBER 19, 2009

An abuse of intelligence

HUGH CORTAZZI

London

The U.K. government has been under pressure for some years to hold an inquiry into British participation in the Iraq war and on the events that led up to the decision to go to war. The various previous inquiries were seen by many as inadequate or whitewash. The government eventually conceded that once British forces had been withdrawn from Iraq, a wide ranging inquiry would be held.

In due course the government appointed a five-man panel. It was not to be a judicial review, nor was it to apportion blame; it was to clarify the facts. To head this inquiry the government appointed Sir John Chilcot, a retired senior civil servant. The other members of the inquiry team are a senior retired diplomat, two historians and a peeress who sits in the House of Lords as an independent.

The inquiry has begun to take evidence from civil servants who were involved with intelligence and planning in the run up to the war. So far nothing very startling has emerged and as the inquiry has no lawyers on the panel the questioning has been polite rather than penetrating. But some points have become clear. The British intelligence community knew that Iraq President Saddam Hussein's regime did not support al-Qaida and that at least two weeks before the invasion Iraq did not have any ready weapons of mass destruction.

The infamous dossier on which then British Prime Minister Tony Blair based his justification for war was thus at the very least exaggerated. It is clear from the evidence given to the inquiry that contrary to the conclusions reached by the so-called Hutton inquiry the document had been "sexed up."

It has also been confirmed that some civil servants were not convinced that in the absence of a further United Nations resolution the invasion was legally justified. The evidence suggested that Blair signed up to the invasion after a private conversation with U.S. President George W. Bush, who was determined to go ahead in the spring when U.S. forces were ready on the ground. Bush was not prepared to wait for further resolutions or reports from U.N. arms inspectors. The date of the invasion was thus dictated by the "need" to use the forces because they could not easily be kept waiting. Evidence has also confirmed what has been apparent to almost all observers that the planning for the occupation was at best a shambles. It was sketchy and often based on wishful thinking about how Iraqis would react.

The inquiry will in due course hear from Blair and other politicians who will doubtless produce their excuses.

Blair, who has a large fund of self belief, probably still thinks that he was right and that his critics are wrong. He will argue that it was necessary for the cohesion of the Western alliance and to maintain the special relationship between Britain and the United States — which has been the cornerstone of British foreign policy — that Britain should support the Americans in Iraq. He may also argue that international law is not as clear as statutory law and that the overthrow of Hussein's evil regime justified the means used to destroy it.

The intelligence available to British ministers before the Iraq invasion was not sufficient to justify the invasion, but it left open the possibility that interpretation of the intelligence could be used to rationalize the attack without too much obvious hypocrisy and exaggeration.

The intelligence available to British ministers before the invasion was thus not sufficient to justify the invasion, but it left open the possibility that interpretation of the intelligence could be used to rationalize the attack without too much obvious hypocrisy and exaggeration. To use an infamous phrase used by a former chief secretary to the Cabinet in another inquiry, the statements put out by the government were "economical with the truth" and selective in their use of the intelligence available.

Any official who has been concerned with the presentation and interpretation of intelligence to politicians knows that politicians are reluctant to read or hear anything that does not conform to their pre-conceived notions. They also have a particular penchant for any information alleged to come from secret sources and especially anything which is marked "top secret" or "burn after reading." Officials tend to be more skeptical about secret intelligence unless the source is impeccable or based on documents that can be shown to be genuine. They recognize that agents may well provide information which they know will be particularly welcome to the recipient and possibly elicit higher rewards.

All intelligence needs to be weighed carefully and wherever possible confirmed from independent sources. Often the best intelligence may come from information in the public domain.

Wars seem inevitably to lead to politicians allowing themselves to be bamboozled by wishful thinking or by intelligence fed to them by flatterers. This was certainly the case in World War II. Japanese forces attacked Pearl Harbor without thinking through how Japan was to achieve a solution to the conflict that would inevitably ensue and without a proper assessment of the American ability and will to fight back.

It must have been obvious in late 1944 that Japan faced extinction unless an accommodation could be made with the U.S. Victory was certainly unobtainable, but the high command did not want to admit the shame of defeat. There was also a fatalistic lack of grip among those around the Emperor. No one had the courage to face up to the truth.

Politicians, like monarchs, need to have advisers who are not afraid to tell them the true facts, but they generally surround themselves with sycophants and "yes men" who tell their bosses what they would like to hear.

Hugh Cortazzi, a former British career diplomat, served as ambassador to Japan from 1980 to 1984.

THE JAPAN TIMES SATURDAY, DECEMBER 19, 2009

Toward fewer nuclear arms

The United States and Russia failed to reach a new arms control agreement as the START 1 pact expired earlier this month. The two governments remain committed to a new agreement; reportedly only a few issues kept negotiators from meeting the Dec. 5 deadline.

It is important that they succeed. Any treaty that cuts the number of nuclear weapons is a good one, as is the signal it will send to the rest of the world: The possessors of the two largest nuclear stockpiles are making good on their commitment to nuclear disarmament, which will provide momentum for broader multilateral efforts when the Nuclear Nonproliferation Treaty Review Conference (NPT RevCon) begins next year.

The Strategic Arms Reduction Treaty (known as START) was signed in 1991 by then U.S. President George H.W. Bush and his Russian counterpart Mikhail Gorbachev. The treaty seized on the opportunities created by the end of the Cold War and obliged the two governments to reduce their strategic arsenals by around 25 percent to some 6,000 warheads apiece. That moment passed, however, and nuclear arms control languished.

Much of the blame belongs on the shoulders of U.S. national security hawks, who believed that Russia, their country's strategic rival, would be forced by economic reasons to shrink its nuclear arsenal. Concerned about a rising China, they were opposed to any restraints on the ability of the U.S. to modernize its nuclear forces or accept limits that might endanger its primacy. These strategists did not see massive U.S. conventional superiority as a means of safeguarding their country, nor did they believe that international agreements could be effective against adversaries.

That mentality shaped the thinking of the George W. Bush administration, which concluded in 2002 the Treaty of Moscow with former Russian President Vladimir Putin. That agreement further cut the number of operationally deployed warheads in each country to between 1,700 and 2,200 by 2012. Significantly, that treaty does not require either country to destroy its weapons; rather it can put them on the shelf for use in the future, a hedge that made the deal a sham in the eyes of many arms control advocates.

While the world no longer lives in the shadow of mutually assured destruction, the threat of a nuclear attack, planned or by accident, using a single warhead or culminating in an exchange of weapons, remains. Since the Sept. 11, 2001 terror attacks, efforts have been made to counter the proliferation of weapons of mass destruction — primarily but not only nuclear — but comparatively little attention has been focused on the other part of the nuclear weapons issue, the nuclear arsenals of nuclear weapon states. Disarmament, required by Article 6 of the Nuclear Nonproliferation Treaty, has been largely ignored.

That is a mistake, since many nonnuclear weapon states have been reluctant to take up nonproliferation, arguing that it is not their problem or that they are not going to pursue nonproliferation unless nuclear weapon states get serious about shrinking and eliminating their own nuclear arsenals. To overcome this logic, U.S. President Barack Obama made his Prague speech, which articulated the goal of a world free of nuclear weapons. Mr. Obama believes that ambition is realizable, eventually. He also understands the linkage between disarmament and nonproliferation: There will not be buy-in on the latter without a genuine commitment to and progress on the former.

Thus, in an attempt to move closer to that nuclear-free world, Mr. Obama and Russian President Dmitry Medvedev are moving forward with their arms talks. The deal that negotiators are trying to conclude was outlined in meetings between the two men. They agreed to cut nuclear arsenals to between 1,500 and 1,675 warheads and between 500 and 1,100 delivery vehicles, a substantial reduction from the current maximums of 2,200 warheads and 1,600 launch vehicles. The failure of the two sides to finish by the Dec. 5 deadline was apparently caused by the sheer abundance of technical issues to be dealt with in a short period of time rather than disagreements over substantive issues.

Critics will complain that the cuts should be deeper, that tactical nuclear weapons are excluded, that there are no limits on defensive systems, and that there should be more intrusive monitoring and verification. But the deal will cut strategic stockpiles and provide a big boost to global nonproliferation efforts in the runup to the RevCon.

Equally important, this step by the possessors of the world's two biggest nuclear stockpiles will increase the pressure on other nuclear weapon states to begin thinking about their roles in the disarmament process. China in particular, which is expanding and modernizing its nuclear capabilities, has insisted that it is only a bystander in this effort. That argument had some appeal when China's nuclear weapons were a mere fraction of that of the superpowers; that is no longer the case. China has a formidable nuclear force. It, along with other nuclear weapon states, must now actively engage the rest of the world to help realize a world free from the threat of nuclear weapons.

THE JAPAN TIMES SUNDAY, DECEMBER 20, 2009

Iran's answer to Obama

Iran's extremist rulers don't scruple at persecuting innocent people — particularly foreigners — to advance narrow political aims. Since staging what amounted to a coup during June's presidential election, the regime has arrested and prosecuted a number of Western citizens on bogus charges to reinforce its propaganda, which claims that postelection protests were organized by Western intelligence agencies.

One, Iranian American scholar Kian Tajbakhsh, was unjustly sentenced to 15 years in prison in October and now faces new charges.

Foreigners are persecuted not only to prove conspiracy theories; they can also be crudely exploited as bargaining chips. That seems to explain the case of three young Americans who apparently wandered across the Iraqi-Iranian border in July while hiking. They were apprehended, tossed into Tehran's notorious Evin prison and recently were charged with espionage. According to Politico.com, Iranian authorities have responded to requests for their release on humanitarian grounds by linking them to Iranians in U.S. custody — some of whom have been charged with arms trafficking.

Shane Michael Bauer, 27, Joshua Felix Fattal, 27, and Sarah Emily Shourd, 31, may also be fodder for Iran's crude version of tit for tat. In 2007, U.S. forces arrested five Iranians in the city of Irbil in Iraqi Kurdistan, describing them as members of the al-Quds Force of the Revolutionary Guard Corps; they were not released until last July. Iraqi officials say that their inquiries to Iran about the American travelers, who were traveling in Kurdistan, have been answered with comparisons to the "Irbil five."

What's clear is that the three Americans are innocent of espionage, arms smuggling or of any other offense other than not being aware that they had crossed the border while hiking near a popular waterfall in Iraqi Kurdistan. Bauer is a freelance journalist; Shourd a teacher and writer; Fattal an environmentalist and inveterate traveler. They have now been held for more than 4½ months, without access to lawyer and with only limited contact wit their families. On Monday Iran's foreign minister said they would be "tried by Iran's judiciary."

For the Obama administration, the treatment of the hikers is but one more indication that the regime of Supreme Leader Ayatollah Ali Khamenei has no interest in the constructive "engagement" that Obama has offered. Such despicable persecution of innocent people only adds to the reasons the administration should focus its energies on isolating and imposing sanctions on t regime's leaders, while doing what it ca to support the opposition Green movement.

The Washington Post (Dec. 1

THE JAPAN TIMES SUNDAY, DECEMBER 20, 2009

Unbelievable 'Afpak' tack

WILLIAM PFAFF

Paris

The writer David Halberstam, author of a cruel analysis of the people who gave America the Vietnam War, "The Best and the Brightest," observed that "no matter how small the initial step, a policy has a life and a thrust of its own; it is an organic thing. More, its thrust and its drive may not be in any way akin to the desires of the president who initiated it."

Halberstam had a hard time getting his Vietnam-era interlocutors to agree, as part of being one of the military and civilian best and the brightest is that you didn't need advice from journalists.

It is another characteristic of official life that you are discouraged from applying lessons from experience and history (in the military case, before that experience has been incorporated into field manuals and regulations placed in front of you).

This rumination is motivated by the scarcely believable news that the people who are running the war in Afghanistan are contemplating an air attack on a Pakistan city in order to kill one of the most important figures in Pakistan's own foreign and security policy.

Pakistan, as most sensible people know, is in the grip of forces that could tear the country apart if that happened — which would make it the third nation, after Iraq and Afghanistan, to be devastated by the United States since that fateful day in September 2001 when the so-called war on terror began.

The idea is for the U.S. to bomb Quetta, one of Pakistan's principal cities, capital of its largest province, Balochistan, which already experiences separatist forces. Quetta is a major Pakistan military base, home of the century-old Command and Staff College inherited from the British army.

A reported American threat is not just one of sending drones over this city of 850,000 people, with missiles meant to kill Mullah Omar, leading figure in at least one branch of the Taliban; senior al-Qaida figures also supposedly in Quetta; and Siraj Haqqani, called the most important Taliban leader in the country, whose men are supposed to pose the biggest threat to NATO forces in Afghanistan.

Haqqani, as it happens, is also a major and long-standing Pakistani strategic asset and ally. He will be a vital factor in the regional reconciliation and strategic settlement that will follow America and NATO's defeat. That is the most important objection to the supposed plan.

The Pakistanis believe that the NATO expedition in Afghanistan is an ill-conceived and futile affair from which, after killing and being killed in large numbers, and accomplishing nothing useful, the Europeans and Americans will depart, just like the U.S retreated from Lebanon under Ronald Reagan, after the 1983 attack on the troops' barracks in Beirut, and Bill Clinton pulled U.S. troops out of Somalia not long after losing the Battle of Mogadishu in 1993.

After the foreigners leave, Pakistan will find itself once again in the awkward geopolitical and militarily dangerous situation in which nature and the vagaries of man have placed it. Its avowed great enemy is India, with which Pakistan shares a very long eastern border, with Iran to its west, and Afghanistan on its long northwestern frontier. A friendly Afghanistan therefore offers strategic depth in case of Indian attack, and access to Central Asia, while Iran is a corridor to the Middle East. This is the sort of thing they teach at the Quetta Command and General Staff College.

The American generals seem to be saying to Pakistan: You henceforth will ignore your own national security interests and devote yourself to our interests, whatever the cost to you. You will hand over all of the Taliban leaders and men in your country, and place your army under our strategic control. Otherwise, we will bomb your cities.

Why, according to the Los Angeles Times, "senior U.S. officials" think this is a good plan, I cannot for the life of me tell you. I think it is a way to wreak further havoc in the region and do fundamental damage to the U.S. itself.

Visit William Pfaff's Web site at www.williampfaff.com.

THE JAPAN TIMES MONDAY, DECEMBER 21, 2009

People and climate change

The U.N. Climate Change Conference in Copenhagen has failed to reach a deal on the reduction targets of industrialized and emerging nations for greenhouse-gas emissions, although it set a goal of limiting global warming to 2 degrees Celsius over the coming years and developed nations made a financial commitment to help poor nations cope with the effect of climate change.

Last month, the United Nations Population Fund (UNFPA) published "State of World Population 2009 — Facing a Changing World: Women, Population and Climate," which focuses on other aspects of the climate change issue such as how climate change affects people and what kinds of policies, apart from energy efficiency and industry-related policies, should be pursued to mitigate the effects of global warming.

It notes that climate change hits the poor hardest, especially women who make up the majority of the world's 1.5 billion people living on less than $1 a day. Since the poor tend to live in areas vulnerable to rising sea levels, severe drought and fierce downpours, climate change is expected to worsen poverty and health problems as well as trigger large-scale migrations.

The Intergovernmental Panel on Climate Change forecasts that global sea levels will rise 18 to 59 cm in the coming century. Indonesia could lose as many as 2,000 small islands by 2030 as a result. The UNFPA report says that women die in greater numbers than men when disasters strike and tend to die at younger ages, although data are insufficient due to the lack of emphasis in the past on the gender impact of natural disasters.

The report notes that women are among the most vulnerable to climate change because they make up the larger share of the agricultural work force in many countries. According to the U.N. Food and Agriculture Organization, women produce roughly half the world's food — from 60 to 80 percent of food in most developing countries. Drought, heat waves and floods impose hard laboring conditions on women in many developing countries since many of them carry water from rivers and other fresh water sources and take care of family members.

In sum, the report says that climate change's influence on people is "complex — spurring migration, destroying livelihoods, disrupting economies, undermining development and exacerbating inequalities between the sexes."

It puts world population in 2009 at 6.829 billion — an increase of 79.70 million or 1.2 percent from 2008. World population topped 6 billion in 1999. It predicts that world population will reach 9.150 billion in 2050, meaning that 2.3 billion additional people will need food and water. Average population growth from 2005 to 2010 has been 0.3 percent for more developed regions, 1.4 percent for less developed regions and 2.3 percent for least developed countries.

Average global temperature has risen 0.74 degree C since the late 1800s, but the report says the temperature could rise by as much as 6.4 C by 2100, noting that, since 2000, human-caused carbon dioxide emissions have increased four times faster than in the previous decade.

As the report notes, "the vast majority of the world's population growth today occurs in developing countries, whose contribution to global greenhouse-gas emissions is historically far less than those of the developed countries." At the same time, "emissions from some large developing countries are now growing rapidly as a result of their carbon-intensive industrialization and changing patterns of consumption, as well as their current demographic growth."

Thoraya Ahmed Obaid, executive director of UNFPA, says that "voices that invoke 'population control' as a response to climate change fail to grasp the complexity of the issue," adding that "human rights and gender equality should guide all population and development-related programs." She calls for upholding the right of women and couples to determine the number of and spacing of their children and for expanding women's opportunities to fully participate in their societies and contribute to economic development.

Along these lines, the report says universal access to reproductive health, including family planning services, combined with improved education of girls and gender equality, would boost economic development and reduce poverty while contributing to declines in fertility, which in turn would help reduce greenhouse-gas emissions in the long run.

The report stresses the importance of empowering people — especially women, who must adapt to the changes caused by climate change and to the policies developed to mitigate climate change — and the effectiveness of solutions based on communities' knowledge of their immediate environment.

Japan has been aiding developing countries in the area of public health, including the fight against infectious diseases. From now on, it should help work out not only measures to increase transfer of low-carbon technologies to developing countries but also those that take into account population dynamics, gender equality and poverty reduction.

THE JAPAN TIMES TUESDAY, DECEMBER 22, 2009

Asian leaders voice hope in climate deal

Hong Kong
AFP-JIJI

Asian nations on Sunday welcomed the provisional climate change deal struck by the major powers at the U.N. summit in Copenhagen, saying it paved the way for consensus over carbon emissions cuts.

The Copenhagen Accord, passed Saturday after two weeks of frantic negotiations, was condemned elsewhere as a backdoor deal that violated U.N. democracy, excluded the poor and doomed the world to disastrous climate change.

But governments from China to Indonesia spoke of "significant and positive results," "a direction for negotiations" and satisfaction over a conclusion that addressed their concerns.

China welcomed the outcome of the talks, despite leaders at the summit failing to set targets to cut the carbon emissions blamed for global warming.

"With the efforts of all parties, the summit yielded significant and positive results," foreign minister Yang Jiechi was quoted as saying in a statement on the ministry's Web site.

Yang said the summit had successfully maintained the principle of "common but differentiated responsibility," which recognizes differing economic circumstances between emerging and rich nations.

China, the world's biggest carbon polluter, has always said rich countries should take the lead in committing to substantial emission reduction targets and provide finance to developing countries battling climate change.

The Copenhagen Accord set a goal of "jointly mobilizing" $100 billion for developing nations by 2020.

Yang added that the summit made a step forward with regards to developed countries' mandatory emissions cuts and developing nations' voluntary mitigation actions.

"Third, it reached broad consensus on the key issues of long-term global targets, funding, technology support (to developing countries), and transparency," Yang said, according to the statement.

China has pledged to reduce carbon emissions per unit of gross domestic product by 40 to 45 percent by 2020 based on 2005 levels.

Indonesian President Susilo Bambang Yudhoyono said in a statement on his Web site: "Indonesia is pleased, as (we have) taken a wholehearted stance to save our Earth, to save the children in our country."

With the deal, "there is a direction for negotiations in the middle of 2010 in Germany," Yudhoyono said.

Germany will host a conference on climate change in six months in Bonn to follow up the work of the Copenhagen summit. The final outcome could be sealed at a conference in Mexico City at the end of 2010.

Indonesia is the world's third-largest emitter of carbon dioxide blamed for global warming, after China and the United States, if the effects of deforestation are taken into account.

While Indonesia has no obligations under the current Kyoto Protocol, Yudhoyono in September committed his nation to a 26 percent cut in emissions by 2020 compared with a "business-as-usual" approach of doing nothing.

THE JAPAN TIMES WEDNESDAY, DECEMBER 23, 2009

After economic storm, Asia faces political risks in 2010

ANALYSIS

Andrew Marshall
Singapore
REUTERS

Investors who kept faith in Asia as the world teetered on the brink of financial meltdown a year ago have been richly rewarded — the region's markets rode out the storm in spectacular style and posted stunning gains.

The economic outlook for 2010 appears far sunnier. But with frothy markets betting on a smooth return to business as usual, the danger of a sudden correction hangs over Asia, unless the region can steer its way past some treacherous political risks.

The two most important issues for the world economy in the coming year are political — the pivotal relationship between the United States and China, and the timing and coordination of exit strategies from the stimulus measures that kept disaster at bay.

Investors in Asia also need to be wary of political shocks that could suddenly overturn the region's risk profile.

Upheaval in North Korea, where there are persistent doubts about the health of leader Kim Jong Il and where the economy is going from bad to worse, could cause profound regional instability. And the risk of a confrontation between nuclear-armed India and Pakistan, perhaps sparked by another militant atrocity in India, is ticking upward again.

"A multitude of political, security and operational risks converge in Asia," said Michael Denison, research director at Control Risks consultancy. "The causes of the global recession are now well understood. The contours of the recovery, by contrast, are far from clear."

The U.S. and China are already by far the two most important countries in terms of political clout. And in 2010 China is set to overtake Japan as the second-largest economy. The "G-2" relationship is key to shaping our destiny not just in the coming year or coming decade, but through the 21st century.

Like most relationships, it is not easy. Pressure on China to allow the yuan to appreciate will become ever more intense in 2010 as economic storm clouds evaporate, and one-year nondeliverable forwards suggest modest gains by the currency by the end of 2010.

But Beijing will not want to jeopardize economic growth by letting the currency rise too quickly, and does not appreciate being told what to do by Washington or anyone else. In the United States, meanwhile, yuan weakness is regarded as a protectionist policy that threatens the U.S. recovery.

Into this volatile mix add the ever-present threat of import restrictions, like the U.S. imposition of tariffs on Chinese tires in September, sparking a tit-for-tat trade war.

Disagreements could also erupt within countries, between governments focused on safeguarding growth and central banks fearful of inflation and bubbles.

Plus the danger that Beijing's backing of regimes that Washington finds unpalatable, from Pyongyang to Yangon and Tehran to Khartoum, explodes into a political confrontation. Most analysts say Washington and Beijing are painfully aware of the risks and will step back from the brink before any dispute threatens the global economy. But the two countries have yet to find a way to communicate comfortably as partners. The risk of a misunderstanding or sudden chill in relations is real.

The second key political risk for Asia — and indeed the world — is dealing with the hangover from the stimulus measures that helped keep the global economy afloat over the past two years.

If governments withdraw the stimulus too soon, they jeopardize growth. But keep policy too loose for too long and they risk not just inflation but also catastrophic asset price bubbles. Given China's importance to the global recovery, signs of property and equity bubbles there are a particular concern.

Another risk for investors is if countries trying to prevent bubbles and curb inflows of "hot money" tighten capital controls. Analysts say this could be a key issue for India and Indonesia in 2010.

Disagreements could also erupt within countries, between governments focused on safeguarding growth and central banks fearful of inflation and bubbles. That could lead to bad decisions, and make policy hard to forecast. Policy friction is already an issue in Japan. India and South Korea could be next.

As in any year, the best-laid plans in 2010 could be derailed by unexpected shocks. We have no idea about some of the lightning bolts that will hit Asia in 2010 — the surprises that author and fund manager Nassim Nicholas Taleb calls "black swans" and former U.S. Defense Secretary Donald Rumsfeld called "unknown unknowns."

But there are plenty of known unknowns to worry about. Mass social unrest due to economic hardship was the dog that failed to bark in 2009. That could change in 2010.

"A structural rise in unemployment will represent a key macro, political and security risk in 2010, even in states like China where growth has remained relatively solid," Denison said.

And finally, two key Asian heads of state are ailing, with the question of who and what will come after them far from settled. Thailand's 82-year-old King Bhumibol Adulyadej has been hospitalized since September, another complication in the long-running political crisis that has riven the country.

Many analysts expect instability to get even worse after his reign ends — giving Thai markets another rough ride. But most say there is little risk of contagion in other markets.

By contrast, when North Korea's Kim dies, the tremors will be felt in South Korea, Japan and beyond.

THE JAPAN TIMES FRIDAY, DECEMBER 25, 2009

The challenge of Seoul's G-20 chairmanship

Barry Eichengreen
Berkeley Calif.

On Jan. 1, South Korea takes over the Group of 20 chairmanship from the United Kingdom. Korea is not the first emerging market to chair the G-20, but it is the first to do so since the global financial crisis. And it is the first to do so since the G-20 emerged as the steering committee for the world economy.

G-20 chairs can have considerable influence. They coordinate the group's work, they organize its meetings. Like most committee chairs, they have significant agenda-setting power.

During Britain's G-20 chairmanship, Gordon Brown had a clear agenda. He saw the G-20 as a vehicle for building consensus on coordinated monetary and fiscal stimulus measures and financial regulation. He also viewed it as a forum to address problems created for the poorest countries by the global financial crisis. And he used the chairmanship to elicit commitments to resist protectionism.

In retrospect, Brown's agenda-setting problem was easy. Given the nature and gravity of the crisis, it was brutally obvious what the priorities for the G-20 should be.

The priorities for President Lee Myung Bak will be less obvious. Some will say he should get the G-20 countries to coordinate an orderly exit from their expansionary monetary and fiscal policies. But growth in the advanced economies will almost certainly remain weak in 2010. With the United States, Europe and Japan still suffering postcrisis hangovers, this issue can be safely left to the country that chairs the G-20 in 2011.

Others will say that a priority should be agreement on slowing climate change. But this is best addressed at a conference — as in Copenhagen — of all world leaders, not in the cozy confines of the G-20. Small countries, such as Mauritius, are likely to be the ones most dramatically affected by global warming. Yet they are excluded from the G-20, which is designed to comprise the 20 largest economies.

Instead, President Lee should give priority to four issues, starting with financial reform — a problem that Brown targeted but did not solve. Progress here has been inadequate, despite much talk. In particular, there has been little action on issues like creating a cross-border resolution authority to deal with the failure of a large financial group, something that can only be done at the international level.

The window of opportunity for financial reform is now closing, and business as usual will only result in more crises and bailouts. South Korea must therefore do everything it can to reinvigorate the debate.

The second priority should be more progress on global rebalancing. Asian countries need to do even more to stimulate spending, and they need to move together. China is incapable of solving this problem on its own, because its economy is still only one-third the size of America's. But if Asian countries move together, China will be more willing to let its exchange rate against the dollar become unstuck. The second factor contributing to the crisis could then be addressed once and for all.

Third, the G-20 must address its own legitimacy deficit. After all, no one anointed these 20 countries as the designated representatives of the world. Who speaks for the other 173 internationally recognized countries? Why should there be so many European G-20 members — other than for the fact that they were incumbent members of earlier "G's" — and not more African members?

Here, South Korea can propose an obvious solution. Align G-20 membership according to the composition of the International Monetary Fund's Executive Board. Twenty-four countries sit there. Big ones have their own seats, while smaller ones represent groups of countries, known as "constituencies." In many cases, the constituencies rotate the chair among their members. Everyone is represented.

Finally, the G-20 needs an emerging-markets caucus. The U.S. and the Europeans are in constant contact, doing their best to agree on positions and table common proposals. Emerging markets, failing to do the same, have punched below their weight. They have allowed the advanced countries to drive the G-20 process.

This is the most delicate issue of all for South Korea. As chair, it needs to act as an "honest broker." It can't be seen as giving emerging markets special encouragement. Given its location, South Korea would be torn between encouraging an emerging-market caucus and encouraging an Asian caucus — for Asia, too, needs to organize itself better in order to represent its interests in the G-20.

Thus, the initiative here might best come from another G-20 country — maybe Brazil, South Africa or even Russia. But South Korea could usefully drop a hint.

Barry Eichengreen is professor of economics and political science at the University of California, Berkeley.

THE JAPAN TIMES MONDAY, DECEMBER 28, 2009

Economy chasing its tail

GREGORY CLARK

The Japanese have a saying — "*sandome no shoujiki*." Roughly translated it means that "after getting it wrong twice you finally get it right the third time."

Two previous Japanese administrations — Hashimoto (1996-98) and Koizumi (2001-06) — set out to revive the economy through promises to cut government borrowing and spending. Twice the result was disaster — an economy in tatters, ballooning official debt and an urgent need to increase government spending to stave off recession. Will the new Democratic Party of Japan (DPJ) administration finally get it right this time round?

Probably not. One admires its efforts to cut government waste, but in striving to restrict government spending, badly needed to revive the economy, it seems determined to repeat mistakes of the past.

The Japanese economy is like a dog chasing its tail. First someone notes the size of the official debt — put at around ¥800 trillion. To reduce the debt they urge cuts in government spending. But these spending cuts weaken domestic demand, the economy falters, tax revenues collapse, budget deficits increase, and the government has to borrow more to balance budgets. So instead of decreasing the debt they end up increasing it — by all of ¥200 trillion in the allegedly reformist Koizumi years. Clearly something drastic has to be done to break out of this vicious circle. They include:

- 1. Realize what some of us have been saying for years — that Japan's chronic lack of domestic demand is not accidental. It is due at least in part to a cultural bias against the luxury or conspicuous spending taken for granted in most other advanced economies. One result is that accumulated personal financial assets total a staggering ¥1,400 trillion, with about half held in miserly cash or deposits (another rainy-day cultural quirk). Someone has to use those funds or else they remain dead money draining demand from the economy.

Meanwhile, the DPJ hopes to save things with a mere ¥7.1 trillion stimulus package (reluctantly increased to ¥7.2 trillion as a concession to New People's Party leader Shizuka Kamei, minister of state for financial services, who wanted to break the economy's deflationary spiral). Even Kamei's request is a mere drop in Japan's ocean of demand deficiency — which has been put at ¥35 trillion, or 7 percent of GDP, for the three months to September.

- 2. Realize also what others have been saying for years, namely that the debt problem is not as alarming as it seems. A good share of it is balanced by surplus funds in other areas of government. Much of the remainder comes from borrowing and using some of that dead money sitting in bank or post office deposits.

There is one simple proof that Japan does not have a genuine debt problem: All predictions over the years that excessive borrowing would cause inflation and force interest rates to go through the roof have failed. Instead, rates have fallen through the floor and deflation stalks the land.

- 3. Go one step further and realize that most economic thinking in Japan for close to two decades has been wrong. We now have a disastrous situation where tax revenues have fallen to less that ¥40 trillion while the government needs a budget of well over ¥90 trillion simply to keep things turning over. Yet, the pundits, mainly to be found in Keidanren and Japan's leading economic newspaper, Nihon Keizai, push the discredited U.S. (and Koizumi) supply-sider, anti-Keynesian thinking that says Japan's problems can somehow be overcome simply by more deregulation, entrepreneurship and innovation. None of these things can be done quickly. or can they be effective without strong demand from the economy.

- 4. What to do? Shock treatment should be the first move, with tens of trillions of yen pushed into the economy in a gigantic stimulus package. Once the economy starts moving again, tax revenues will grow and part of the debt problem will be solved. But if that is not enough, simply create the funds needed, as any government has the right to do if it throws off central bank shackles.

So far the world's central banks have done little more than pour money into the private banks, which then use the funds to buy government debt. They are part of yet another vicious circle: Weak demand in the economy kills their desire to lend productively which further kills demand.

- 5. Do all that is needed to increase private demand. Even such seemingly trivial things as casinos and Disneyland should be welcome. An immediate immigration policy is also needed to stop the corroding demand-reducing influence of a declining population. As well, Japan should do much more to protect industries threatened by imports from countries like China with artificially depressed exchange rates.

- 6. If private demand is inadequate, then it is up to government to step into the breach. But where possible, concentrate the spending on areas that improve productivity and have strong employment and income multiplier effects, such as needed public works. A serious revamp of the tax system is also urgently needed, with much more emphasis on eliminating rampant tax avoidance, and on indirect taxes such as specific product and services taxes rather than the unpopular, cumbrous, demand-stifling consumption tax.

Meanwhile, the DPJ is busily trying to cut both public works and some indirect taxes such as gasoline surcharges and road tolls. The gloom deepens.

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THE JAPAN TIMES MONDAY, DECEMBER 28, 2009

Five financial lessons to take away from '09

Tom Petruno
LOS ANGELES TIMES

Typically at year's end, when investors assess their portfolio winners and losers, they can look back and identify the smart decisions they made in the last 12 months — and the moves they'd love to rescind.

This year, many people may figure that the only thing they learned about investing was the value of inertia: just doing nothing and hoping for the best.

It's true that the only way you could have screwed up monumentally in 2009 was by bailing out of stock and bond markets and staying out.

Barring some unforeseen calamity between now and Dec. 31, the vast majority of stock mutual funds, and many bond funds, will record hefty double-digit returns for the year. Of course, that gain is bittersweet, at best, because it's a rebound from the devastating declines of 2008. And most people's portfolios still are a long way from recouping all of what they've lost.

Inertia — that is, buy and hold — may well have saved a lot of people from the basic instinct to flee the markets in the first two months of this year, when stock prices were spiraling down the drain.

I'm sure that the apparent wisdom of sitting tight is the lesson the mutual fund industry, for one, would like investors to take away from 2009. But I'd like to suggest we all learned a lot more this year about markets and about investing in general.

Here are my five top lessons of 2009:

When facing economic collapse, don't underestimate central banks' power to forestall Armageddon.

Or, as the time-honored Wall Street line goes, "Don't fight the Fed."

Amid the credit-market meltdown of late 2008, the Federal Reserve under Chairman Ben S. Bernanke committed all its resources to saving the banking system and halting recession's march to depression.

As we've seen, the Fed's bag of tricks is nearly bottomless: short-term interest rates at zero, an alphabet soup of lending programs, more than $1.7 trillion in mortgage and Treasury bond purchases, etc.

The Fed's intervention was all the more powerful because it was coordinated with every other major central bank on Earth. And unlike the Bank of Japan when that country's economic slide accelerated in the 1990s, the Fed opted against timidity.

Mission accomplished? We know we avoided a depression in 2009. We don't know if the fix is permanent — or whether the cost will be severe inflation down the road.

What should be clear from markets' reactions this year, though, is that you're still facing lousy odds if you bet against central banks that are in full-on rescue mode.

Keep the faith in emerging markets.

For much of this decade, Americans have been advised to invest overseas because that's where economic growth was likely to be fastest in the long run — particularly in developing economies such as China, India and Brazil.

The story line still holds up. If anything, it's more appealing now than a year ago. No surprise, then, that many emerging markets, after falling more sharply in 2008 than the U.S. market, also have come back much faster this year.

The average emerging-markets stock mutual fund is up 68 percent in 2009 after losing 55 percent last year.

Obviously, emerging markets are more volatile than developed markets, and that isn't going to change soon.

We are the debtor now; they are the creditors. Why would you not want a long-term stake in the creditors?

You can still trust basic diversification.

In other words, making sure your portfolio has a broad mix of investments remains the best strategy for achieving growth without undue risk to your nest egg.

In the fall of 2008 nearly every type of asset was collapsing, largely because hedge funds and other big investors had to sell whatever they could to raise cash as credit dried up and lenders called in loans.

But that was an extraordinary anomaly. And even then, bonds, for example, generally lost a lot less than stocks, which is how markets are supposed to work.

By early this year the lock-step movement of assets was over. Many emerging stock markets, for example, were holding up even as U.S. shares continued to plummet in January and February. The price of gold rose nearly 7 percent in those months. Municipal bonds also were rallying.

Simply put, broad-based diversification raises the likelihood that you'll always have some assets doing well, at least partly offsetting those that aren't.

When the facts change, be prepared to change your mind.

That's paraphrasing John Maynard Keynes' famous quote. I'm applying it here to the economy.

Last spring, U.S. economic data began to suggest that the recession was bottoming. Remember Bernanke's reference to "green shoots"?

Many stock market bears didn't believe that things could get better any time soon, and wanted more proof of an economic turnaround. But global markets didn't wait for confirmation. They usually don't. Stocks began to rebound in March and kept going in April and May. Then the economy resumed growth in the third quarter.

I'm not suggesting markets are always prescient. But hard-core bears in spring and summer refused to accept that plenty of economic indicators were turning for the better. And in a world awash in cheap money from central banks, all it took to entice many investors back to severely depressed markets was the belief that things had stopped getting worse.

Human nature doesn't change: Investing is a battle between greed and fear. This year, greed regained the upper hand.

Don't invest solely by looking in the rearview mirror.

After a year like 2008, it may be hard to take your mind off how much you've lost. But doing that also can obscure the opportunities in front of you.

Classic rearview-mirror investing leads to buying what recently performed best. That's the opposite of what people know they should do, which is to buy low.

THE JAPAN TIMES WEDNESDAY, DECEMBER 30, 2009

The Japan-India partnership to power a multipolar Asia

BRAHMA CHELLANEY

New Delhi

Prime Minister Yukio Hatoyama's India visit is part of Japan's growing economic and strategic engagement with that country. Given that the balance of power in Asia will be determined by events as much in the Indian Ocean rim as in East Asia, Tokyo is keen to work with New Delhi to promote peace and stability and help safeguard vital sea lanes.

Japan and India indeed are natural allies because they have no conflict of strategic interest and share common goals to build institutionalized cooperation and stability in Asia. There is neither a negative historical legacy nor any outstanding political issue between them. If anything, each country enjoys a high positive rating with the public in the other state.

Hatoyama's yearend visit, designed to fulfill a 2006 bilateral commitment to hold an annual summit meeting, shows he is keen to maintain the priority on closer engagement with India that started under his four predecessors — Junichiro Koizumi, Shinzo Abe, Yasuo Fukuda and Taro Aso of the Liberal Democratic Party. Hatoyama came to office vowing to reorient Japanese foreign policy and seek an "equal" relationship with the United States. But he and his Democratic Party of Japan had said little on India.

Today, Hatoyama's government has put Washington on notice that Japan cannot indefinitely remain a faithful servant of U.S. policies. With Tokyo seeking to rework a 2006 basing deal with the U.S., besides announcing an end to the eight-year-old Indian Ocean refueling mission in support of the U.S.-led war in Afghanistan, Japan no longer can be regarded as a constant in America's Asia policy.

This has been further highlighted by Hatoyama's re-examination of a secret agreement between the LDP and the U.S. over a subject that is highly sensitive in the only country to fall victim to nuclear attack — the storage or transshipment of U.S. nuclear weapons in Japan.

Against this background, New Delhi must be pleased that Hatoyama's visit signals continuity in Tokyo's India policy. It also shows that at a time when Asia is in transition, with the specter of power disequilibrium looming large, Tokyo wishes to invest in closer economic and strategic bonds with India.

As Asia's first modern economic success story, Japan has always inspired other Asian states. Now, with the emergence of new economic tigers and the ascent of China and India, Asia collectively is bouncing back from nearly two centuries of historical decline.

The most far-reaching but least-noticed development in Asia in the new century has been Japan's political resurgence — a trend set in motion by Koizumi and expected to be accelerated by Hatoyama's efforts to realign the relationship with the U.S. With Japanese pride and assertiveness rising, the nationalist impulse has become conspicuous at a time when China is headed to overtake Japan as the world's second largest economy by the end of 2010.

Long used to practicing passive, checkbook diplomacy, Tokyo now seems intent on influencing Asia's power balance. A series of subtle moves has signaled Japan's aim to break out of its postwar pacifist cocoon. One sign is the growing emphasis on defense modernization.

China's rise may have prompted Japan to strengthen its military alliance with the U.S. But in the long run, Japan is likely to move to a more independent security posture.

Japan and India are natural allies because they have no conflict of strategic interest and share common goals to build institutionalized cooperation and stability in Asia. There is neither a negative historical legacy nor any outstanding political issue between them.

Although the two demographic titans, China and India, loom large in popular perceptions on where Asia is headed economically, the much-smaller Japan is likely to remain a global economic powerhouse for the foreseeable future. Given the size of Japan's economy — its GDP was just under $5 trillion in 2008 — annual Japanese growth of just 2 percent translates into about $100 billion a year in additional output, or nearly the entire annual GDP of small economies like Singapore and the Philippines.

Still, given China's rapid economic strides, Japan has been readying itself for the day when it is eclipsed economically by its neighbor. Leading-edge technologies and a commitment to craftsmanship, however, are expected to power Japan's future prosperity, just as they did its past growth.

India and Japan, although dissimilar economically, have a lot in common politically. They are Asia's largest democracies, but with messy politics and endemic scandals. Hatoyama, in office for just three months, already has come under pressure following the indictment of two former secretaries over a funding scandal.

In both Japan and India, the prime minister is not the most powerful politician in his own party. Fractured politics in both countries crimps their ability to think and act long term. Yet, just as India has progressed from doctrinaire nonalignment to geopolitical pragmatism, Japan is moving toward greater realism in its economic and foreign policies.

Their growing congruence of strategic interests led to the 2008 Japan-India security agreement, a significant milestone in building Asian power stability. A constellation of Asian states linked by strategic cooperation and sharing common interests is becoming critical to ensuring equilibrium at a time when major shifts in economic and political power are accentuating Asia's security challenges.

The Indo-Japanese security agreement, signed when Indian Prime Minister Manmohan Singh visited Tokyo in October 2008, was modeled on the March 2007 Australia-Japan defense accord. Now the Indo-Japanese security agreement has spawned a similar Indo-Australian accord, signed when Australian Prime Minister Kevin Rudd traveled to New Delhi last month.

The path has been opened to adding strategic content to the Indo-Japanese relationship, underscored by the growing number of bilateral visits by top defense and military officials. As part of their "strategic and global partnership," which was unveiled in 2006, India and Japan are working on joint initiatives on maritime security, counterterrorism, counter-proliferation, disaster management and energy security. But they need to go much further.

India and Japan, for example, must co-develop defense systems. India and Japan have missile-defense cooperation with Israel and the U.S., respectively. There is no reason why they should not work together on missile defense and on other technologies for mutual defense. There is no ban on weapon exports in the Japanese Constitution, only a long-standing Cabinet decision. That ban has been loosened, with Tokyo in recent years inserting elasticity to export weapons for peacekeeping operations, counterterrorism and anti-piracy. The original Cabinet decision, in any event, relates to weapons, not technologies.

As two legitimate aspirants to new permanent seats in the U.N. Security Council, India and Japan should work together to persuade existing veto holders to allow the Council's long-pending reform. They must try to convince China in particular that Asian peace and stability would be better served if all the three major powers in Asia are in the Council as permanent members.

Never before have China, Japan and India all been strong at the same time. Today, they need to find ways to reconcile their interests in Asia so that they can coexist peacefully and prosper.

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THE JAPAN TIMES THURSDAY, DECEMBER 31, 2009

Economic growth to '20 wish list unveiled

KYODO

The government released Wednesday a basic growth wish list through 2020, aiming to achieve average annual economic growth of 3 percent in nominal terms by boosting demand in environmental science, health care and tourism, and creating 4.76 million jobs.

Under the New Growth Strategy, whose basic framework was approved at an extraordinary Cabinet meeting Wednesday morning, the government will strive to lift the nation's nominal gross domestic product to around ¥650 trillion by 2020 from the expected ¥473 trillion in fiscal 2009 through next March.

The Democratic Party of Japan-led government, which took office in September, said its growth strategy focuses on generating demand and jobs by implementing measures to improve the lives of households, and differs from the previous government's strategy of putting priority on expanding business activity to boost the economy.

"What is lacking in Japan now is confidence, hope and a sense that things will be all right if we pursue a certain path," Prime Minister Yukio Hatoyama said at a separate meeting with Cabinet members. "A growth strategy is necessary in Japan, and we want to reshape the nation into one where the government firmly and effectively supports" growth.

The nominal economic growth target would be a major reversal of the record 4.3 percent contraction forecast for fiscal 2009.

On a price-adjusted basis, the government has targeted a 2 percent annual expansion on average over the next decade.

Designating the environment, health care and tourism as key areas for growth, the government plans to generate over ¥100 trillion in demand from the three sectors by 2020.

But it has yet to paint a clear picture of its fiscal spending plan to achieve these targets, and in recent weeks its budget-cutting efforts have apparently run counter to these goals.

Details of the growth strategy are expected to be fleshed out by around June, the government said.

The government also aims to reduce the unemployment rate from the current 5 percent-plus to about 3 percent.

In addition to the environment, health and tourism, it has also pledged to prioritize development of science and technology, and employment and human resources, as well as taking advantage of rapid growth in Asia.

To help achieve the economic targets, the government plans to support technology development for advanced cars and rechargeable batteries, and encourage the spread of sustainable energy.

By doing so, it aims to generate 1.4 million jobs in environment-related businesses and to cut 1.3 billion tons of greenhouse gas emissions by 2020 from the current 28 billion tons.

To boost tourism and regional economies, the government plans to introduce a new holiday system and make it easier for Asians to obtain tourist visas. It hopes to nearly triple the number of overseas visitors to Japan from 8.35 million in fiscal 2008 to 25 million by 2020.

In the field of medical and nursing care services, the government will help companies develop overseas markets, especially in Asia. By promoting barrier-free housing, among other steps, the government aims to create 2.8 million jobs in the sector.

Bangkok Post The world's window to Thailand

Japan logs trade surplus, boosted by China growth

- Published: 21/12/2009 at 04:52 PM
- Online news: Economics

Japan's exports fell at the slowest pace in more than a year in November as the world's second-largest economy benefited from a recovery in Asian powerhouse China, data showed Monday.Japan logged a trade surplus for a 10th straight month, soothing fears that its economic recovery from the worst recession in decades is running out of steam due to a stronger yen and renewed deflation.Exports slipped 6.2 percent in November from a year earlier -- the smallest decline in 14 months -- ending a string of double-digit falls. Imports dropped 16.8 percent, the finance ministry reported.

Japan posted a bigger-than-expected 373.93 billion yen (4.1 billion dollars) surplus for the month, against a year-earlier deficit of 227.51 billion yen.Japan's economy is slowly coming out of the worst downturn since World War II on the back of recovering demand in overseas markets, although a stronger yen is eating into exporters' profits.Japan's exports roughly halved at the height of the economic crisis earlier this year as consumers, particularly in the United States and Europe, stopped buying cars and big-ticket items such as televisions.

Efforts by world governments to spend their way out of recession have helped to breathe new life into Japan's factories and ports, although the country's industrial production is still more than one-fifth lower than a year ago."Exports are steadily recovering," said Hideyuki Araki, an economist at the Resona Research Institute. "Production activity is also expected to gradually recover."The main driver of the recovery in exports is buoyant demand from the rest of Asia. Exports to the region increased 4.7 percent in November -- the first rise in 14 months -- with shipments to China up 7.8 percent.

"Japan's exports are benefiting as the expanding Chinese economy shores up demand in the Asian region," Monex Securities chief economist Naoki Murakami noted.The surplus with the United States grew 10.6 percent, the first rise in 27 months, thanks to higher exports of automobiles and heavy machinery.Japan's economy remains as dependent as ever on exports to drive its growth, with an ageing population curbing consumer spending."There is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand," the central bank said in a monthly report released Monday.

"Japan's economic conditions are likely to continue improving, although the pace of improvement is likely to remain moderate for the time being," it added.Japan's economy returned to growth in this year's second quarter after a severe year-long recession.But fears have deepened that the recovery could fizzle out, after the government reported earlier this month that Asia's biggest economy grew at a much slower rate than previously thought in the third quarter.Japan's government announced this month a fresh stimulus package and the central bank decided to pump 10 trillion yen into the financial system to tackle deflation and prevent a return to recession.

"We should be fully alert to a (possible) double-dip in the economy," said Araki at the Resona Research Institute."The yen is likely to stay strong for a while, squeezing profits at export companies," he said. "Weak profits could hurt employment and capital spending."The dollar hit a 14-year trough below 85 yen in late November, but has since recovered somewhat to around the 90-yen level.Falling consumer prices are also a major worry for Japanese policymakers.The Bank of Japan said Friday that it was "a critical challenge" for Japan's economy to break out of deflation, setting the stage for likely further action to battle falling prices.

Bangkok Post The world's window to Thailand

China targets 8% growth in 2010

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- Online news: Breakingnews

China will target eight percent economic growth next year as the government maintains pro-growth policies aimed at fighting the global turn-down, a top minister said Monday."Based on the central government's target for around eight percent economic growth, we're aiming for around 11 percent growth in industrial output," Li Yizhong, Minister of Industry and Information Technology, said in a webcast.

"The recovery base has been gradually consolidated and the micro-economic policies will still be in place to boost the economy next year."China has targeted around eight percent economic growth each year since 2005, but the economy has mostly steamed ahead at a pace much faster than the target until the financial crisis hit in late 2008.

Li further warned against "blind optimism" as the industrial recovery was mainly supported by government investment and bank loans rather than private investment, he said in the webcast on his ministry's website."The growth pace is necessary, achievable and appropriate. We will not set the target too high," he said.

China's economy could witness growth of more than 10 percent year-on-year in the last three months of 2009, with full year growth of around 8.5 percent, Yu Bin, a top economist at the cabinet's State Council Developmental Research Centre, said last month.

China could also maintain double-digit growth next year, Yu told Xinhua news agency, but the economy faced several challenges, including inflation linked to a vigorous government stimulus package and the appreciation of the yuan.

China's economy grew by 8.9 percent in the third quarter -- the fastest pace in a year -- after expanding by 7.9 percent in the second quarter and 6.1 percent in the first three months, the slowest pace in more than a decade.

Last month, the World Bank upgraded its 2009 growth forecast for China to 8.4 percent on the back of huge public spending but said stronger domestic demand was needed to ensure a sustainable recovery.

Bangkok Post The world's window to Thailand

PM happy with economic performance

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- Online news: Local News

The government has performed well in tackling the economic crisis but has not suceeded in its efforts to end corruption and the unrest in the far South, Prime Minister Abhisit Vejjajiva said on Wednesday.

Mr Abhisit made his admission in his report to the people on his government's first-year performance since taking office on Dec 15, 2008.

The prime minister said his administration was in charge when the country faced the global economic crisis, but the government's economic policy had allowed the country's economy to recover gradually.

"The economy has become less negative while the number of tourist arrivals continues to rise, causing the economy to rebound in a V shape," Mr Abhisit said.

He said unemployment went down from 700,000-800,000 at the beginning of this year to 400,000 this month. The unemployment rate nationwide was below 1.2 per cent.

"I am proud of Thailand's unemployment rate. I've frequently attended meetings abroad and world leaders told me that this government has succeeded in overcoming the economic crisis after seeing the unemployment rate moving down to a normal level," he said.

But the oil prices, the fragile global economy and the country's political impasse could impede economic growth next year, he said.

"I would not oppose a parliamentary dissolution proposal but I want to see the economy moving forward and all political parties abiding by the law," he said. "Other parties must stop all their undemocratic activities."

Mr Abhisit said he was ready toannounce a House dissolution, but under the condition that the opposition Puea Thai Pary and the red-shirts stop their aggressive activities.

The prime minister said he was not happy with the situation in the violence-plagued South.

The government would continue tackling insurgency problems in the deep South and develop special economic zones in the region.

Southern violence has claimed at least 3,860 lives since the separatist rebellion erupted in January 2004.

"I'm also not happy with how the government is tackling corruption. It must be more stringent," he said.

The government had replaced the administrators of the self-sufficiency village project to ensure its transparency.

On the Thai-Cambodian diplomatic row, he said the relations were normal until fugitive former premier Thaksin Shinawatra was appointed economic adviser to the Phnom Penh government and Prime Minister Hun Sen. Cambodia's refusal to extradite Thaksin and its criticism of Thai politics and the judicial system made the situation worse.

"The rift between the two countries was not caused by this government, but we have to stand firm and restore the pride of the country. We have to solve it through diplomatic channels," he said.

However, former supreme commander Chaisit Shinawatra said he graded the Ahbisit government at only three out of 10 for its first year in office.

Gen Chaisit, an elder cousin of ousted former prime minister Thaksin, also called on the government to call a general election. He predicted the Democrat Party would win less than 100 seats.

The retired senior general suggested the government try to bring reconciliation by seeking ways to hold peace talks with Thaksin.

"The government must be broad-minded and Thaksin justice if it is to achieve this goal," Gen Chaisit said. If the government fails to do this it should let the people who were the root cause of the political conflict hold talks.

Gen Chaisit said he was ready to act as a mediator in truce talks, but he did not think the government would trust him to perform this role.

Bangkok Post The world's window to Thailand

Asean integration and beyond seen as key to Thai recovery

(a) Economic power shifting from West

- Published: 24/12/2009 at 12:00 AM
- Newspaper section: Business

Asean integration and further economic co-operation with the region's six dialogue partners are critical for Thailand's economic recovery over the next two years,says Narongchai Akrasanee, chairman of the Export-Import Bank of Thailand.

As more economic activity and trade shifts from North America and Europe to Asia, the strengthening of the Asean+6 group will help Southeast Asian countries including Thailand to capitalise on regional growth, said Dr Narongchai, a former commerce minister.

The Association of Southeast Asian Nations aims to establish the Asean Economic Community (AEC) by 2015, and is also pursuing closer economic ties with six major regional economies: China, South Korea, Japan, Australia, New Zealand and India.

"The AEC is developing at a perfect time as Asia is increasing its importance in the world economy. However, the AEC alone is not enough. We need to expand economic integration with the plus-six partners," Dr Narongchai said at a CEO forum held yesterday by the Thai National Shippers' Council (TNSC).

He said the gross domestic product of the Asean+6 economies totalled $15.8 trillion in 2008, close to that of the European Union and the North American Free Trade Agreement area.

The International Monetary Fund (IMF) estimates Asia plus Australia and New Zealand would account for 28% of world GDP from 2009-14, compared with 27% for the EU and 24% for the United States.

"Thailand's solution is to forge closer economic ties with Asian economies led by China and India. We need to do more business with eastern economies to survive in the changing world economy," he said.

In 2010 and 2011, the Thai economy will have moderate growth with international trade playing a major role, but political uncertainties will persist, said Dr Narongchai.

As investment sentiment is dampened by the Map Ta Phut impasse and the government has been slow to expand public spending, GDP growth is projected to stay in a range of 3-5% in 2010, against an estimated 3% contraction this year. Public investment is projected to grow by 3-5% and exports by 13-16%, he said.

TNSC chairman Paiboon Ponsuwanna said full implementation of Asean Free Trade Area (Afta) beginning next year would help speed business transactions in the region with simplified government procedures.

"The integration will support Thai manufacturers sourcing more material from other Asean countries," he said.

TNSC, a group of 2,700 exporters, expects the automobile, electronics, textile, chemical, and furniture sectors will be the biggest beneficiaries from Asean integration," Mr Paiboon added.

Bangkok Post The world's window to Thailand

Japanese data dampens economic optimism

- Published: 25/12/2009 at 09:52 AM
- Online news: World

Worries mounted Friday that Japan's economic recovery is running out of steam as data showed the jobless rate rising and deflation continuing to hobble the world's number two economy.The unemployment rate climbed to 5.2 percent in November from 5.1 percent in October, worsening for the first time in four months, the government said.Core consumer prices fell 1.7 percent in November from a year earlier, the ninth straight month of drops, fanning worries that deflation could jeopardise a fragile recovery from the worst recession in decades.

Last week Japan's central bank said it was a "critical challenge" for Asia's biggest economy to overcome deflation, which hurts companies and encourages consumers to put off purchases.The economy is still gradually recovering but increasingly appears to be heading for a lull, said Hiroshi Watanabe, an economist at the Daiwa Institute of Research."Unemployment has improved rapidly for the past three months (to October) as it emerges from the worst period, but it is likely to stay slightly above five percent in the coming months," he said.The jobless rate was a record 5.7 percent in July.

Kyohei Morita, chief Japan economist at Barclays Capital, said the jobless rate could rise into the upper five percent range in the April-June quarter next year with retail and other sectors reducing job offers.Deflation may ease due to an economic expansion and a planned tobacco tax hike, but inflation will not return any time soon, he added."It will be at least three years until we see price rises. Japan's economic recovery is not strong enough to break out of deflation," he said.Japan's economy grew in April-June for the first time in five quarters on rebounding exports and government stimulus measures, but stubborn deflation is seen as a threat to the recovery.

Japan was stuck in a deflationary spiral for years after its economic bubble burst in the early 1990s, hitting corporate earnings and prompting consumers to put off purchases in the hope of getting a lower price.The current global economic downturn and a slump in commodity costs have pushed Asia's biggest economy back into deflation.Watanabe said consumers were tightening their purse strings as they expect prices to fall further.

Government subsidies to spur purchases of environment-friendly cars and household appliances have supported buying of such items in recent months."But consumers were trying to curb spending on clothing and other items with no prospects that their income will rise," Watanabe said.

Household spending rose 2.2 percent in November from a year earlier, beating market expectations for a rise of 0.3 percent, the government reported.The rise largely stemmed from purchases of consumer electronics, while spending on dining out and clothing fell.

Bangkok Post The world's window to Thailand

Japan to gain by helping region upgrade

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- Newspaper section: Business

Japan is offering Thailand and other Southeast Asian nations financial and technical assistance to develop logistics infrastructure, aiming to help Japanese companies operating in Asean to lower their logistics costs by half within five years.The financial aid would be provided in terms of soft loans for Asean countries to build infrastructure such as roads, bridges and tunnels to develop intra-region links, said Techa Boonyachai, who chairs a capacity-building committee for drafting the national Logistics and Supply Chain Policy.

Most of funds would be located to Cambodia, Laos and Vietnam, while Thailand would receive a smaller portion of the supports he said.The financial and technical offers are aimed in part at enhancing the speed of Japanese firms in completing business transactions. About 3,000 Japanese companies operating in Thailand would be the beneficiaries of this strategy, said Mr Techa, who is also vice-chairman of the Thai National Shippers Council (TNSC).

Under Japan's comprehensive logistics policy adopted by the cabinet in July 2009, the country has outlined measures to develop an efficient logistics system for the period of 2009 to 2013, in which green logistics is a core element.The Yukio Hatoyama governments' pledge to cut greenhouse gas emissions by 25% in the next 10 years from 1990 levels is a very challenging target, Mr Techa said.According to the Transport Ministry, exact amounts of financial aid have not yet been finalised. Details will be updated when Japanese and Thai transport officials meet again next year.

Mr Techa said the technical assistance from Japan to Thailand for green logistics would include eco-friendly driving, and models for inter-city and urban transport. Some developed countries, for example, have started using cleaner vehicles such as electric vans for short-distance transport in big cities to lower emissions.

Bangkok Post The world's window to Thailand

Govt 'survived' economic crisis

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- Online news: Breakingnews

Democrat party spokesman Buranath Samutrak said on Saturday that his party had assessed the country's problems and found that the Abhisit government has successfully brought the country out of global financial crisis.

However, Mr Buranath admitted that the economic, corruption, political conflicts and southern unrest problems remain key factors that could affect the government's stability.

The Democrats agreed that the government should quickly create national reconciliation by encouraging all parties to take part in unity creation process, he said, adding that the ruling party will give full support for the attempt.

Asked about a call for sincerity on charter amendments from the Democrats by Chart Thai Pattana Party, Mr Buranath said the government has been trying hard to move ahead with the constitutional changes.

"The problem is that the main opposition Puea Thai Party has withdrawn from the charter amendment process", he said.

He called on Puea Thai to review its stance and return to join hands in the charter changes bid as proposed by the parliamentary committee for reconciliation, political reform and constitutional amendment.

Bangkok Post The world's window to Thailand

Japan PM in India for economic, security talks

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- Online news: Asia

Japanese Prime Minister Yukio Hatoyama arrived in India Sunday on a three-day visit aimed at strengthening economic and security cooperation with the emerging giant.Hatoyama and a high-level delegation arrived in the financial capital Mumbai, where he was due to pay tribute to the victims of last year's Islamist militant attacks, which left 166 people dead.

He will head for the capital New Delhi on Monday for a private dinner with Prime Minister Manmohan Singh, and will also meet with Sonia Gandhi, chief of the ruling Congress Party.Singh and Hatoyama, who have already met twice in the last three months, will hold a joint press conference Tuesday.

External affairs spokesman Vishnu Prakash said earlier the visit "obviously reflects the continuing commitment of the two sides to strengthening and broadening our bilateral relations."Hatoyama is also scheduled to meet top Indian business leaders, including chairman of the Tata Group conglomerate Ratan Tata and Mukesh Ambani, head of India's biggest private sector company Reliance Industries Ltd.

Japan is currently the sixth largest investor in India in terms of actual investments, worth more than three billion dollars.Trade between the two nations touched 12 billion dollars during 2008-2009, and India has set a trade target of 20 billion dollars by 2010.But trade talks are at an impasse over how much to reduce tariffs and whether Japan will ease its tight regulations to allow Indian generic drugs.

Civil nuclear cooperation and defence are among the items on the agenda, with India keen to access Japanese nuclear power technology and both nations having signed a joint declaration on security cooperation last year.

The centre-left Hatoyama, who ousted a conservative government in August, will also meet the UN's top climate scientist Rajendra Pachauri, to discuss how to generate momentum on tackling global warming after the Copenhagen climate accord failed to reach binding targets.

Bangkok Post BETA The world's window to Thailand

Asia's decade reoriented the world: analysts

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- Online news: Asia

Explosive growth in economic and political power ensured that the past 10 years set the foundations for what many analysts predict will be the Asian Century as the world tilts firmly eastwards.Many dangers lie ahead, but observers say the world's two most populous countries -- China and India -- appear on course to define the decades to come after the American Century and the British Century before that."Yes, absolutely, I think this decade demonstrates the real promise of Asia," said Alan Dupont, director of the Centre for International Security Studies at the University of Sydney.

"The last two years in particular have seen a sea shift in real power and I think that's been highlighted by the travails the Americans and the Europeans have had after the global economic and financial crisis."It has really focused everybody on the fact that China has now arrived and India is not that far behind, and power really has shifted to the East and away from Europe and North America."China had been "a rock of stability", Dupont told AFP. Time magazine chose "The Chinese Worker" as a runner-up for its annual Person of the Year award in 2009.Robert Broadfoot, managing director of the Hong Kong-based Political and Economic Risk Consultancy, agreed that the past decade belonged to Asia.

"There is a shift of the assets and, with that, political power towards China in particular and Asia in general," he said.But if the tilt from West to East was sustained in the decades ahead, it would be more appropriate to call it the Chinese Century, not the Asian Century, Broadfoot said.The statistics speak for themselves -- blistering economic growth rates of more than 8.0 percent in China -- while Western countries slumped into recession. The United States now counts China as its biggest creditor nation.

But the economic figures -- India also achieved growth rates of more than 7.0 percent -- are only part of Asia's rise.The political power that goes hand-in-hand with economic power means that no global agreements can be viable without the approval of China and India, as this month's climate talks in Copenhagen showed.And beyond that lies "soft power" -- the sort of cultural influence wielded last century by the United States in particular, from Hollywood through pop culture to fast food.As an example, Dupont pointed to China's Confucius Institutes set up around the world to compete with other organisations that project national cultural influence, such as the British Council or France's Alliance Francaise.

Chinese-born actors such as Gong Li, Jet Li and Zhang Ziyi now have Hollywood star power. Writers Ha Jin and Yu Hua are acclaimed internationally.The Chinese government has reportedly set up a 6.5-billion-dollar fund to expand the global footprint of state-controlled media companies like Xinhua, China Central Television and China Radio International.Hosting the Olympics last year was an emphatic declaration of China's global arrival and some of its sportsmen -- such as basketballer Yao Ming and former world-record hurdler Liu Xiang -- have celebrity status.

Chinese scientists are becoming more prominent, with the nation's space programme leading the way. China was the world's third nation to put a man in space and has ambitions to send a man to the moon.India has also enjoyed success in space with the announcement in September that its first lunar mission, Chandrayaan-1, had found evidence of large quantities of water on the moon's surface.The path to Asian dominance is strewn with obstacles, however, with weaknesses in democratic and social institutions and widening wealth gaps seen as potentially dangerous roadblocks.

Minxin Pei of the Carnegie Endowment for International Peace says Asian leaders lack the "visionary ideas" that were a hallmark of US dominance, and that China-style autocracies are inherently unstable."Although Asia today may have the world's most dynamic economies, it does not seem to play an equally inspiring role as a thought leader," he wrote in Foreign Policy magazine.Dupont at the University of Sydney also questioned whether Asia's racing start to the century will be sustainable over the next 50 to 100 years, given the environmental havoc caused by rapid development.But if Hollywood is a guide, Asia is set to triumph.In early 20th century movies, the Chinese were represented by mustachioed evil genius Fu Manchu. In this year's big-budget disaster flick "2012", China helps to save mankind from apocalypse.

Bangkok Post The world's window to Thailand

European stocks climb after Asian gains

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- Online news: World

European stock markets sprinted ahead Monday, powered by strong gains in Asia, with Frankfurt breaking through the 6,000-point barrier and Paris closing in on 4,000 points.Trading volumes were thin in post-Christmas exchanges and the London market was closed for a holiday.The advances in Europe followed a solid performance in Asia, where Tokyo's Nikkei-225 index added 1.33 percent to close at 10,634.23, its best finish since August 26, on the back of a weaker yen and upbeat economic data.The German Dax index of leading stocks breached 6,000 points as trading began on Monday, the first time it had reached the benchmark since September 26, 2008.

The index opened at 5,977.99 points but moved to 6,001.38 points in early trade. By midday it was up 0.74 percent at 6,001.43.Shares in the biggest German energy group, E.ON, rose 2.28 percent to lead the gainers while auto maker Volkswagen added 1.40 percent.In Paris the CAC 40 had risen 0.72 percent to 3,940.95 from Thursday's close while the Eurostoxx index of leading eurozone shares was up 0.76 percent at 2,979.83.The Paris market last week recorded consecutive daily gains from Monday to Thursday, ending the period at its highest level for 15 months.Market watchers said the 4,000-point threshold could be reached later this week. But analysts cautioned that the advance would likely reflect weak trading volumes rather than increased confidence in global economic recovery prospects.

Nuclear energy group Areva fell 2.74 percent in early Paris trade after a French industrial alliance was passed over by the United Arab Emirates in bidding for the construction of four nuclear power plants.The UAE awarded the 20.4-billion-dollar contract to a South Korean-led consortium, the Korea Electric Power Corporation (KEPCO).Areva had been joined by France's top energy firms, EDF, GDF-Suez and Total, along with engineering giants Vinci and Alstom to present the bid.EDF, GDF-Suez, Total, Vinci and Alston shrugged off the loss and gained ground early Monday.In Tokyo earlier in the day better-than-expected factory output data for November cheered investors.

Nippon Oil surged 4.8 percent and Nippon Mining Holdings leapt 5.4 percent after the Nikkei reported that the two companies would slash their combined oil refinery capacity after a planned merger."Overcapacity has been a major problem for the sector, so this is definitely a positive," said Tokai Tokyo Research Center analyst Katsumi Hosoi.Exporters got a boost from the weaker yen while steel makers were lifted by the robust industrial production numbers, which raised optimism about the outlook for demand for their products.

Elsewhere in Asia there were gains of 1.51 percent in Shanghai and 0.63 percent in Singapore. In Hong Kong shares fell 0.17 percent.On Wall Street traders were reportedly set to close out 2009 on a high note, with markets expected to hold on to solid gains after staging a remarkable turnaround from a chaotic start to the year.

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Indonesia's economic Prospect

Milan Zavadjil , Jakarta | Mon, 12/21/2009 11:38 AM | Review & Outlook


JP/ID Nugroho

'Next year, 2010, will be very important for Indonesia. Peaceful general elections and successful navigation through the global financial crisis have raised expectations that Indonesia can become one of the strongest performing emerging markets. But it is not just a question of how strongly Indonesia will rebound from the crisis and how high will be its rate of growth in 2010.

If key initial measures to remove infrastructure bottlenecks, as well as to accelerate bureaucratic and investment climate reform ("soft infrastructure"), are implemented, they could provide benefits many times over and open the way for a rapid increase in income over the medium-term.

At the same time, careful macroeconomic management will be needed to maintain macroeconomic and financial stability in what promises to still be a difficult global environment.

Specifically, while the IMF's view is that the worst of the global crisis is over, the recovery is expected to be sluggish. After falling 1 percent in 2009, global GDP is projected to rise by just over 3 percent in 2010 and about 4 percent beyond that, compared with growth of about 5 percent in 2003-2007.

Moreover, with the projected rise in public debt in the major advanced economies, and the expected need to drain excess financial sector liquidity, increases in key interest rates are likely, possibly accompanied by investors moving away from "riskier" assets.

Thus, while emerging markets are currently having to deal with large capital inflows, a reversal of these flows and renewed financial market turbulence are possible.

So what should be the macroeconomic policy mix in Indonesia in view of the still difficult global conditions? What needs to be done for the government to achieve its ambitious growth targets of 5.5 percent in 2010 and 7 percent by 2014, accompanied by sharp reductions in poverty and unemployment?

With external demand expected to remain weak, the focus should still be on supporting economic growth, while maintaining macroeconomic and financial stability.

In our annual Article IV report on Indonesia which was issued in July 2009, we suggested a gradual withdrawal of the fiscal stimulus, keeping the deficit at 2 percent of GDP in 2010 (compared with an estimated 2.2-2.3 percent in 2009).

Moreover, a deficit of around 2 percent beyond 2010 would still ensure maintaining the public debt to GDP ratio in the 30-35 percent range, which is low by international standards.

Monetary policy is currently providing support to the economy. Lending rates have declined, though not quite as much as the Bank Indonesia (BI) policy and deposit rates. Rupiah credit has risen by almost 10 percent in the first nine months of the year, more than nominal GDP.

Nevertheless, an up tick in inflation from current low levels is likely as international commodity and possibly some domestic utility prices rise. In case such price hikes start spilling over to other prices, BI will need to raise interest rates and withdraw the stimulus.

Infrastructure quality rating

BI's goal of ensuring price stability is being helped by the strong rupiah. Indeed, the flexibility of the rupiah has served Indonesia well — to absorb the impact of capital outflows during the worse of the global crisis, and to cushion the inflationary impact of current capital inflows. Of course, BI has rightly intervened to limit volatility.

While the Indonesian banking system came through the global crisis remarkably well, maintaining financial stability also calls for improved bank regulation and supervision.

One of the lessons from the crisis is that it is not sufficient to only supervise individual institutions, but also to look for systemic vulnerabilities, especially excessive credit growth and the build-up of debt in particular sectors of the economy.

The challenge is that more rapid credit growth as the economy accelerates is not accompanied by a relaxation of loan origination and risk assessment standards. In addition, the approval of the Financial Safety Net law is essential to deal with possible future bank problems.

Notwithstanding the importance of macrofinancial stability, the real challenge for the government will be to put in place the hard and soft infrastructure needed to support stronger growth and reduce poverty. Indonesia has strong long term-drivers of growth — large and still rapidly growing population, abundant natural resources, low debt levels throughout the economy — but the infrastructure and business environment lag behind most countries (see the rankings by the World Economic Forum Global Competitiveness Report).

The government's 100-day program seems to address the key constraints and would represent a major down payment on the reforms that the second administration of President Yudhoyono is planning.

The availability of financing should not be a constraint to increasing public investment in infrastructure. With continued improvement in tax administration, the government should have the resources to increase capital expenditures.

Equally important is the gradual reduction of budget subsidies (especially energy) which in 2010 will total over 2.5 percent of GDP, while further sharpening targeting mechanisms.

But there are still significant external risks to this generally bright economic outlook. First, the global recovery is fragile and if growth is weaker than expected, net exports could become a significant drag on Indonesia's growth. Investment, especially in the export sectors, would also be deterred.

Second, another round of capital outflows from emerging markets is possible. This would reduce the availability of foreign capital to finance private and public investment projects and would renew caution among domestic banks in extending credit.

Finally, spikes in international food and energy prices, once they spill over to Indonesian markets and increase headline inflation, tend in Indonesia to substantially slow personal consumption — which has anchored economic growth in the recent past.

In summary, Indonesia has an excellent opportunity to record strong growth and reach government targets even in the current difficult global environment.

Achieving this will require moving quickly to "de-bottleneck" the economy by improving the infrastructure and the business climate, while maintaining overall economic stability. A challenging task, but one that can certainly be accomplished with a determined and comprehensive effort.

The writer is IMF Senior Resident Representative, Jakarta.

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Economic power shift to East Asia

Jusuf Wanandi , Jakarta | Mon, 12/21/2009 11:06 AM | Review & Outlook

It has been widely accepted that recently economic power has been gradually shifting toward East Asia.

The global economic crisis has only quickened this process. It began with the excesses at the centers of international finance, namely the US and Europe.

East Asia has been more resilient to impacts of this crisis. Therefore, this region has been able to overcome the crisis sooner.

This situation has come about (in part) because of lessons East Asia learned from the crisis of 1997-1998, which resulted in all East Asian states retaining greater financial reserves.

In addition, they also became more willing to adopt pro-active stances in counter-cyclical spending to get their economies moving again. Furthermore, they worked to establish new development paradigms that were less dependent on exports.

Today, the region is better prepared and has been more willing to carry out necessary structural reforms. This needs to be undertaken to achieve a certain levels of national resilience and to allow countries to face future crises more effectively.

This requires more domestic-oriented structural reforms, providing better safety nets; more attention to healthcare, education and green policies; and ensuring adequate funding for these.

Even as these changes and shifts are happening in East Asia, the region should understand that the processes of change have global implications, and need time to develop fully. The most important among these processes is of course the relative decline of the US.

It is a fact that the US will remain the biggest economy for two to three decades to come, and it is expected that the recovery of its economy will take place next year, although unemployment will be the limiting factor in this recovery. However, the US does recognize that it can no longer go alone in trying to solve the many global problems and challenges.

This is why President Barack Obama is reaching out to the East Asia region, in trying to get the US to look again at the most dynamic region in terms of the recovery of the world economy, including the US economy.

In this regard, China, as the center of East Asia, has a crucial role to play. President Obama understands that for solving world problems — such as the recovery of the global economy; climate change; energy security; and the proliferation of Weapon Mass Destruction (WMD) — China' s role will be crucial.

It will not be a G2 arrangement or an agreement on every global issue, and in fact the strength and weight of both are not completely equal, but China, as a huge emerging economy, has the size and the growth potential that will be decisive in solving common challenges. China remains reluctant to take up obligations and to share the duties of a great power in delivering public goods — a responsibility the US, as the superpower, has had to carry since World War II.

This may be because China still has many domestic problems that naturally must remain its first priority. Also, for China, which never has had allies before (except for the USSR during the first decade after the PRC was established) this type of obligation is something new.

In some cases, such as Iran or Darfur, China's national interest in securing energy or resources is clearly at stake, and therefore are a priority.

However, expectations are high that China will be more willing to provide public goods in the future in accordance with its growing power. While China's situation and developments are still below those of the US at all levels and in all fields of interest, in the economic field it has some advantages.

This has been demonstrated in the recent crisis, and its role is therefore important in overcoming the global crisis. And if one adopts a long-term prospective, that role will be even more important, especially if China is going to grow at around 8 percent per year for the next two decades.

In several political security issues, especially on nuclear proliferation in North Korea and Iran, China has a critical role in helping resolve those issues. On the North Korean issue, this is so because China may be the only power that the DPRK is willing to listen to, because of its dependence on food and energy from China.

In the case of Iran, China is a member of the Perm-5 of the UNSC that plays an important role, especially in employing sanctions for proliferators. One could argue whether in the long term China will be able to sustain its economic growth in view of its weaknesses in political development.

However, China should be able to overcome this because it is willing to learn about the necessity for political development. One can argue whether its strategy on political development will be adequate or quick enough to keep stability in the future.

However, the leadership does understand this need and they are trying hard to calibrate it, because above all they want to maintain stability, to be able to develop economically as fast as they need, which will strengthen the legitimacy of the leadership.

The writer is the deputy chairman of the Board of Trustees, the CSIS Foundation.

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Economic rise snags on political turbulence

Vincent Lingga , Jakarta | Mon, 12/21/2009 11:28 AM | Review & Outlook

JP/R. Berto Wedhatama

It is impossible to chart the economic outlook for 2010 without factoring the Bank Century debacle into the equation.

The nationwide controversy over the Nov. 21, 2008, bank bailout is not simply a temporary distraction, as several analysts say, insofar as the economic prospects for next year are concerned.

The manner and speed in which the parliamentary inquiry committee will complete its investigation will determine the magnitude of the political and financial market turbulence facing the nation within the next few weeks or even months.

Even more worrisome is that whatever the conclusions and recommendations from the committee, they will have an adverse impact on the economy, the government's economic team and its policymaking credibility.

What an unfortunate development it was. Instead of riding on his landslide re-election with stronger confidence, President Susilo Bambang Yudhoyono has remained a diffident and indecisive president unwilling to take firm action.

He allowed his administration to be besieged by the tussle between the police and the Corruption Eradication Commission (KPK) for nearly 50 days before he finally decided to intervene with some recommendations, however weak they seemed.

The public's attention and the national media will again be consumed by the parliamentary investigation over the next six weeks when vice president Boediono several ministers, the central bank governor and scores of other senior central bank and government officials and expert witnesses will be summoned to testify.

This political furor and the intermittent wave of street demonstrations set off by the findings of the political inquiry will continue until February, when the committee is scheduled to submit its conclusions and recommendations to the President.

This means Yudhoyono's government has virtually lost or wasted the golden chance during what was supposed to have been the political honeymoon period for his second administration to take painful reform measures that are badly needed to kick-start new investment and the construction of badly needed infrastructure.

Put another way, the government simply did not take any benefit early on from the almost 61 percent of votes garnered by Yudhoyono in his re-election last July.

The President instead came out weaker from the legal tussle between the corruption busters and the police. His position could become even more beleaguered by the bank debacle, and his coalition government much weaker.

The worst impact on the economy is the huge erosion of the government's policymaking capacity and credibility, resulting in a very slow pace of reform sorely needed to overcome obstacles to investment, without which the economy will never be able grow robustly.

Due to the impact of the two big cases, the Yudhoyono administration now has neither the mandate nor the capacity to fix quickly the problems caused by corruption, regulatory risks and weak legal framework (civil service and legal reforms).

The government is scheduled to launch several bold programs during its first 100 days, including a stronger legal framework for expediting land acquisition for infrastructure, streamlining investment licensing and comprehensive bureaucratic and legal structural reforms.

But all these top-priority programs will likely fall behind schedule because it is now extremely difficult to have the Yudhoyono Cabinet, dominated by political representatives from his coalition partners, to work strongly in a united and well-coordinated manner.

Likewise, the government coalition in parliament seems in disarray now due to different stances regarding the legal and policy issues related to the bank bailout.

True, the controversy over the Century bailout is the only cloud looming over political and macroeconomic stability next year, but this cloud could turn into a devastating storm.

Putting aside what is now often referred to as "Century gate" and its adverse impact on the economy next year, Indonesia's medium- and long-term economic outlook is bright.

The country posted a fast, strong recovery this year, and is internationally praised as the third-highest growing economy after China and India, with an estimated expansion of 4.3 percent.

The US$500 billion economy, supported by the steady improvement in the financial and banking system and the green shoots in the world economy, could accelerate to a growth of 5.5 to 6 percent next year.

The country has a sound fiscal policy, strong balance of payments and sharply declining government debt to as low as 30 percent of gross domestic product.

But again all the estimates for next year will depend on the magnitude of the political and financial turbulence caused by the political process of resolving the bank debacle, notably the fate of Finance Minister Sri Mulyani Indrawati and Vice President Boediono, both nationally and internationally respected as icons of reform.

Barring any immediate devastating fallout from the parliamentary inquiry into the bank debacle, the Jakarta stock exchange will likely end the year with growth of more than 85 percent, the rupiah gaining an appreciation of 15 percent and inflation staying below 3 percent.

The low inflation rate will enable Bank Indonesia to keep its benchmark interest rate low, currently at 6.5 percent, and this in turn will bring down borrowing costs for businesses and consumers.

But whether the central bank will be able to check inflation next year will depend on the rupiah's stability and improvements in infrastructure.

Significant improvements in infrastructure are essential because unusually high logistics costs — caused by inadequate infrastructure, regulatory barriers, bureaucratic inertia and corruption — are one of the main causes of the economic inefficiency.

Inflation will be manageable next year, within the target range of 4 to 6 percent, if the expansion on the demand side of the economy is accompanied by adequate expansion in the domestic capacity on the supply side.

Domestic consumption will continue to be the main driver of growth, as investment and exports are expected to expand only modestly at 5 percent.

Direct investment, which this year remains cautious despite the resilience of the overall economy, is expected to accelerate next year, but a slower-than-expected pace of reforms to remove major barriers to businesses may stand in the way of robust investment.

Foreign capital turned in big inflows, increasing the foreign reserve holding of the central bank to more than $65 billion or more than five months of imports.

But instead of helping bolster the economy's real sector, this short-term hot money makes the country vulnerable to sudden shocks as capital flight could happen at the slightest hint of trouble.

This vulnerability should cause great concern in view of the political turbulence likely to be set off by the finding of the parliamentary inquiry into the bank bailout.

Given the downside, at best the economy will likely muddle through the political turbulence with growth of 5 percent next year.

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Integration of economies across the globe

Jusuf Wanandi , Jakarta | Mon, 12/21/2009 11:08 AM | Review & Outlook

One important thing China's leaders have been able to show is unity, even when its economy declined during this crisis to levels considered critical to its development — at around 5 percent growth — as in the last quarter of 2008.

It is also an important development that the US, which has been able to stay competitive in global economic developments, recognizes the need for more investment in innovation and R & D in the future, especially through better education in sciences and technology.

Otherwise countries such as China will take over in the next few decades, because they are willing to invest more in R & D and in upgrading their education systems.

China has been sending up to half a million students every year to study abroad at the best tertiary institutions.

It has also been willing to hire them back to undertake research and development in China by
providing high budgets and perks.

Other countries have better tax structures than the US to provide incentives to companies to invest in more in innovations and R & D.

The big question is what China will be willing to do if it reaches the level of a great power in many fields over the next few decades. Until now, China has shown no intention of changing other nations to a Chinese civilization mode.

It is also unwilling to accept the imposition of values by others it perceives as foreign and not compatible with its own. China also has not taken any initiative to change the international order. In this sense, China can be regarded as a conservative and not a revolutionary power.

In the end, China does think the international order and value system will depend on a mix of western and non-western thoughts and values, including those of China. And that should indeed be the best solution for all, instead of having two value systems and civilizations in the future.

For this to happen, a lot more relations and contacts should be established between the West (especially the US) and China and others in East Asia, not only between leaders and the elite but also between the peoples, including through the Internet, which will be a crucial factor for the inter change.

The political systems of both sides should be open enough, so that an emerging common values system could be established during the next two to three decades. What President Obama has tried to establish in his visit to East Asia, especially during his visit to China, is an important beginning.

At the end of the 19th century it had been said that trade and economic relations were so deep that war could not be envisaged. But the politics of the balance of power were different then, and three major wars have been waged during the 20th century.

This time, hopefully, the integration of the economies has become deeper and has happened across the whole globe. In addition to the emergence of global and regional rules, many institutions have been developed and are functioning.

This includes the creation of the G20 at the summit level. And the basic strategy of President Obama and the Chinese leadership are similar, although differences and nuances exist. But both sides need each other to be able to achieve their goals.

Nonetheless, more basic things also need to be done by the US and China, namely to have a meaningful conversation.

Since Enlightenment, in the West, life, liberty and the pursuit of happiness are truths that are self-evident. The "East", including China, has made the case for harmony, security and a trans-generational community.

These two sets of aspirations, including their social realities, should be compared in the light of reason.

There are values in Confucian and Buddhist traditions that the West also could learn from. And there is a good deal of common ground between the two. It is not a dialogue among civilizations where one's values are determined by the civilizations of one's birth or religion.

And definitely this is not a trade-off between Western-versus-Asian values. Rather it should be a genuine conversation about what all human beings have in common, and how they should best organize and live their lives for the future.

Hopefully, all these efforts could bring peace, stability and development in many parts of the world, including East Asia. Regional institutions could help, but this is outside this present discussion.

The writer is the deputy chairman of the Board of Trustees, the CSIS Foundation.

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Indonesia's position in the global economy

Apriadi Gunawan | Mon, 12/21/2009 11:35 AM | Review & Outlook

JP/P.J. Leo

The financial crisis of 2008 has had an extensive impact on the global economy, including Indonesia's. What are our chances of weathering the fallout and emerging unscathed from the crisis? The following are excerpts from an interview between The Jakarta Post's **Apriadi Gunawan** *and North Sumatra University School of Economics dean* **Jhon Tafbu Ritonga**, *in Medan recently.*

Question : On the global economic map, where is Indonesia?

Answer : Indonesia's 2008 GDP indicates that we rank 19th. But our per capita income is only 107th. With the world's fourth-largest population, we are among the big 20.

We should take a look at China with its GDP of US$4.3 trillion, Brazil's $1.6 trillion and India's $1.2 trillion. Moreover, China in the last three decades, with per capita income of $3,300, has secured 96th place. Brazil earns $8,400 per capita, making it 54th, and India $1,100, ranking 131st.

With our natural resources as an agricultural country, Indonesia has 10 highly prized commodities, including coconuts, palm oil, natural rubber, rice, vanilla, cacao and coffee.

Sadly, all their prices are determined by world traders or buyers, making our position weak on the global economic map despite other countries' demand for the commodities.

Although we lag behind China, Brazil and India, Indonesia has an unchallenged future advantage, i.e. comparative advantage. And we have the potential to excel in competitive advantage if economic management is properly conducted.

Is Indonesia's economic development already on the right track?

In view of such a position and the domestic economic structure, we are optimistic the country will survive.

But in order to win competition, it takes time. Our nation is getting weaker in competition. Inefficiency remains high. Competitiveness has declined in rank from 37th in 1999 to 54th in 2009. We have lost.

Our economic development was once on the right track. The period of 1969-1994 should be seen as successful, leading to Indonesia's status as an economic miracle in Asia.

We were praised like China has been lauded over this past decade. But we neglected institutional and democratic development. Human resources promotion was also slow.

Our momentum of reform and democratization was actually by accident, triggered by the monetary crisis of 1997/1998. There was no grand strategy for our reform. It was trial and error. The outcome is what we witness today, a crawl filled with hesitation.

What are the basic issues facing the Indonesian economy?

There are so many issues in nearly all aspects, but they boil down to inefficient, unproductive economic management. So far their solution hasn't been focused either.

We are behind in infrastructure as far as rural areas go. Village roads built by the standards of the 1970s can no longer bear local economic conditions of the 2000s. All of them are damaged, resulting in high transportation costs.

Vehicles are blamed, while it's a consequence of construction during the New Order period. Formerly no six-wheel trucks entered villages, only two-wheel and four-wheel motor vehicles. Now it's impossible to carry oil palms with these vehicles, so six-wheel trucks are used, but the roads belong to the 1970 criteria, making the load too big to bear.

At present, maintenance is left to all regions in the name of autonomy. In fact, in terms of revenues (import duties and excise), such as Rp 100 million per truck for the central government and Rp 3 million in motor vehicle tax for a region a year, in 10 years it becomes Rp 30 million, which is all for the region to widen, lengthen and maintain its roads. It's surely insufficient, making infrastructure damaged. No new roads are built.

What will Indonesia's economic strength in the future be?

It lies in natural resources and workers of a productive age. Psychologically our nation is optimistic. When I travel by air, I notice the green expanses of the country.

We are a producer of oxygen. But we are scared by the warning against global warming, which daunts us, while with our 138 million hectares of forests, our oil palm plantations only cover 8 million hectares, or 5 percent. Our NGOs also lambaste oil palm planting as a source of people's livelihood.

When I visit regions, I look at the vegetation along the roads, comprising crops that yield food and renewable energy. There's cacao, mangoes, guava, langsat, oil palms and rubber trees. It's great to see them.

That's our future. They key word is management. It means knowledge and needs management. It's got to be solved with economics and technological innovations.

Has Indonesia realized strategic steps to achieve the target of national economic development?

Since the 1998 reform, not much has been properly and seriously carried out yet. Even the objective of national economic development is no longer clear and focused like it was in the first 25 years, with its target to reach a takeoff as formulated by W.W. Rostow, specifying clear economic criteria.

Negative elements like discrepancies were corrected with the eight paths of equity.

To promote growth and equity, for instance, there was the transmigration program under the pattern of nucleus and smallholder estates, or PIR. For local communities there were export crop rehabilitation schemes besides the PIR. Presidential-aid elementary schools and public health clinics were set up in villages.

Now Indonesia has become a major producer of palm oil and rubber. Children go to school in remote areas and people get treatments in local clinics. The problem is that there's no further quality enhancement.

Has economic reform progressed far in the Indonesian context?

Economic reform is moving like a snail, very slowly. The Constitution has been amended but there are minimum follow-ups and no proper responses to global dynamics. In business competition, there is the Business Competition Supervisory Commission (KPPU), which works well. But national economic efficiency is not yet apparent, corruption eradication has had no effect on efficiency, and our competitiveness has dropped from 37th worldwide to 54th. While one embezzler is jailed, a thousand commit corruption, and a million others are contriving new modes.

Natural wealth like mines and plantations are given up to the private sector. Concession holders have turned into virtual kings of crude palm oil. Rice paddies are falling into the hands of industrial, real estate and property conglomerates. Fairly good reform has taken place in the banking sector.

What economic priorities should Indonesia develop, especially in 2010?

We earlier discussed strategic medium-term priorities. For 2010, the focus should be on farmers, in this case seedling and fertilizer procurement. This should no longer be an annual program in 2011.

For non-agricultural sectors like micro and small businesses, fuel prices have to be controlled so as not to raise production costs. The government can introduce pilot projects to transform micro units into small ones, and small businesses into medium ones. For medium and large businesses, lending rates and the business climate should be favorable.

What are the considerations for these priority sectors?

Farmers, micro and small units constitute an issue that can directly affect production. It involves half of job opportunities. Consumption is at the same time affected. The domestic economy covers around 75 percent of the tradable economy. To medium-scale businessmen, bank rates are sensitive.

Our large-scale entrepreneurs have long complained about the unfavorable business climate. They should be encouraged to foster new ventures and set up new business units. In this way, our economy will be shifting to the formal sector. It will grow stronger.

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The recovery: Toward strong or mediocre growth?

Helmi Arman , Jakarta | Mon, 12/21/2009 11:44 AM | Review & Outlook

For Indonesia, the key risk in store next year is not of an economic meltdown or financial crisis, but a recovery toward mediocre growth.

A year on after the Lehman debacle of 2008, the resilience of Indonesia's economy has surprised many.

While countries around the world suffer considerable contractions, Indonesia's economy has managed to grow by more than 4 percent year-on-year in the first nine months of 2009 — helped by strong domestic demand and to some extent recovering export demand amid China's stockpiling of raw commodities.

Indonesia's ability to weather the global downturn has helped pushed up financial asset prices closer toward their pre-Lehman levels. Suddenly almost everybody is now talking about Indonesia, how it could become the next China.

Looking forward to next year, 2010 may be quite different from 2008 and 2009, whereby the key issues watched by the markets were related to macroeconomic and financial sector stability risks.

Today there appears to be a much clearer sky ahead on those fronts.

Of course inflation has the potential to rise as the government possibly adjusts the prices of electricity, LPG and fuels; however, any increase would likely be gradual and would probably be orchestrated to avoid a malignant effect on the economy.

Any accompanying interest rate increases would also be on a manageable scale, perhaps only involving a change in the monetary stance from "loose" to "neutral" as opposed to "tight". After all, the central bank's policy rate is still at a historic low of 6.5 percent.

Meanwhile, on the external front, Indonesia's shrinking trade balance and reliance on short-term capital flows may expose the exchange rate to its fair share of volatility. Nonetheless, few disagree that the currency will be more stable next year compared to the rollercoaster rides of 2008-2009, i.e. during the height of the global financial crisis.

So given the rosier picture on the macro front, the key test for next year is probably how well the country delivers on promised reforms — changes needed to take Indonesia to the next level in terms of economic growth.

With Indonesia now in the spotlight of the global investment community, the momentum for catapulting the country out of the doldrums is stronger than ever. There couldn't be a better time to draw in foreign direct investment for manufacturing industries that have been experiencing sub-par growth for almost a decade.

Unfortunately while we've seen a resurgence of portfolio investment inflows (often coined short-term or "hot money"), significant effort is still needed to draw in a sustainable flow of FDI.

In the first nine months of 2009, for instance, FDI in Indonesia was still down by half compared to the same period in 2008.

Many problems such as poor infrastructure, power shortages, labor market rigidities and legal uncertainties remain as barriers to real sector investment that need to be removed by the government.

In this regard, expectations are high that President Susilo Bambang Yudhoyono will be more assertive in pushing ahead with reforms, having emerged from the elections with a stronger mandate.
Yet unfortunately hopes are all we can go by, especially if the past month and a half is any indication of what's to come over the next five years.

So far the administration has not passed its first test in regard to the most crucial of all issues: quickly restoring confidence in the rule of law. The row between the police and the antigraft body, the KPK, has lacked clear resolution.

This only serves to tarnish all the progress made so far in terms of combating corruption, if not signal a U-turn for the worse going forward.

Indecisiveness also remains visible even in simple tasks such as appointing public officials. Pole position at the central bank – a very strategic office – has been left vacant for no apparent reason.

And while economic reforms greatly need the full attention of economic policymakers, Vice President Boediono and Finance Minister Sri Mulyani Indrawati have apparently become targets in a forthcoming parliamentary inquiry concerning the 2008 bailout of Bank Century, which could be a significant diversion.

The list can go on, but these examples should be enough for a reality check in terms of foreseeing the challenges that might emerge going forward.

The obvious thing now is that 2010 will be a moment of truth. What happens next year is likely to reflect what is to come over the subsequent four years: it could be rapid progress, or more episodes of indecisiveness.

The writer is an economist at Bank Danamon Indonesia; the views expressed are his own.

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Editorial: Opportunity missed?

The Jakarta Post | Tue, 12/22/2009 11:02 AM | Opinion

In a game, there are winners and losers. The climate change conference which ended last week was definitely not a game, with the future of mankind at stake; yet the two-week talks made little progress, leaving too many losers.

There were high expectations from the conference amid the world's worsening global warming. It had at least two years to prepare a legally binding treaty requiring deeper emissions cuts by developed nations, the deadline set at the similar United Nations talks in Bali two years ago.

The deadline was crucial to give enough time for the new treaty to become operational and succeed the Kyoto Protocol, the first commitment phase of which expires in 2012, and which only requires modest emissions cuts from 37 rich countries.

It was this goal which made the Copenhagen talks the biggest in history. It was this goal which made more than 45,000 people flock to the Bella Center, the conference venue. It was also this goal which made 119 heads of states and governments brave the snow. All wanted to be a part of history.

But marathon negotiations, which lasted until early morning on the last days, and even an extension for another day, still failed to break the ice. Instead of coming out with a deal which allowed them to act together as one in the face of common threats of climate change, they split apart.

The result of the Copenhagen negotiations does not even come close to the minimum expectations.

The three-page accord is not one that is legally binding or pins down industrialized countries to targets. The accord sets no deadline for reaching a formal international treaty. The conference only approved a decision "to take note" of the accord, not formally approve it.

The accord set a target to keep temperatures from rising more than 2 degrees Celsius but did not provide details on how to achieve this. It seemed as if the accord was reduced to saving face, to spare world leaders hoping for a legally binding agreement from returning home empty-handed.

It did agree, however, on the need for large-scale finance, such as the provision of fast-start financing worth US$30 billion in 2010-2012 to support adaptation and mitigation action in developing countries, to protect forests and put their economies on a low-carbon pathway. It also set a "goal" of mobilizing $100 billion a year by 2020 for the same purposes.

But money is not the only way out. Acting together is better, and produces greater impact, than acting alone.

Now that the Copenhagen talks are over, the loss of a legally binding deal made the conference a huge missed opportunity.

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ASEAN Charter: One year and going strong

S. Pushpanathan , Jakarta | Tue, 12/22/2009 9:05 AM | Opinion

The Association of Southeast Asian Nations (ASEAN) leaders signed the ASEAN in November 2007 in Singapore and came into effect on Dec. 15, 2008 with high expectations that it will see the transformation of ASEAN from a loosely formed association to a rules-based and integrated Community by 2015.

ASEAN has indeed been on track in implementing its commitments under the ASEAN Charter and the Roadmap towards the ASEAN Community 2015 comprising the Blueprints of the ASEAN Political and Security Community, ASEAN Economic Community, ASEAN Socio-Cultural Community and the Second Work Plan of the Initiative for ASEAN Integration.

Since the coming into force of the Charter, ASEAN has implemented several provisions of the important document in terms of institutional arrangements. These include the convening of the ASEAN Summits twice a year with one meeting of the leaders focusing solely on ASEAN community building and the other dedicated to relations with ASEAN's Dialogue Partners of China, Japan, South Korea, and India as well as ASEAN Plus Three Summit and East Asia Summit.

The ASEAN Committee of Permanent Representatives (CPR) has been established and is actively coordinating the core business of ASEAN, including the implementation of the Charter and the three Blueprints. The CPR works with the ASEAN Secretariat in undertaking these roles as well as supporting the Secretariat by ensuring adequate budget and resource allocation, effective human resource and administration procedures and practices, and efficient finance and budget systems are in place in the ASEAN Secretariat.

In line with ASEAN's goal and objective of building an open, transparent and inclusive Community, the ASEAN Charter also provides for the accreditation of Ambassadors to ASEAN from friendly countries that desire to strengthen ties with the region. So far 26 countries and the European Union had accredited their Ambassadors to ASEAN who serve as interlocutors between ASEAN and their respective countries.

All ASEAN's dialogue partners have accredited their Ambassadors and some are even planning to open their missions in Jakarta to work closely with the ASEAN Secretariat and the CPRs. The US is expected to open its mission in Jakarta by the middle of next year.

Another key development is the establishment of the ASEAN Inter-Governmental Commission on Human Rights last October which will support the promotion and protection of human rights in the region. The Commission has started work and is looking at drawing a five-year work plan for priority actions. The work of the Commission is expected to be dynamic and will commence with promotion and gradually cover protection aspects of human rights. The Commission will be a vehicle for progressive social development and justice, the full realization of human dignity and attainment of a higher quality of life for the peoples of ASEAN.

If what ASEAN has achieved in the last one year is considered as form rather than substance, we must understand that the rules-based ASEAN regime has just been established and therefore substantive outcomes will be achieved as the institutions and mechanisms created mature. However, this does not mean that ASEAN is not making any ripples after the Charter.

ASEAN is also playing a key role as a driver of and hub for the evolving regional architecture, which is becoming more dynamic with the growing importance of the Asia Pacific for global economic recovery and growth in the next decade. Through its dialogue partnership, ASEAN Plus Three process and East Asia Summit dialogue, ASEAN is ensuring the spirit of cooperation and unity in the development of a wider community of the future.

ASEAN is well aware that for it to stay as the fulcrum and drive the broader regional integration it must accelerate its own integration. ASEAN also recognizes that in building such a community, it must ensure inclusiveness and transparency so that its other partners too will benefit from ASEAN and East Asia integration.

ASEAN has been more successful on the economic front and this is obvious as economic integration had been a catalyst for ASEAN cooperation through the ASEAN Free Trade Area (AFTA) and now ASEAN integration through the building of the Single Market and Production Base by 2015 under the ASEAN Economic Community. By January 2010, tariffs under AFTA for the six older countries of ASEAN will be almost zero. The ASEAN Trade in Goods Agreement that was signed this year will further buttress AFTA by also supporting trade facilitation measures, in terms of harmonizing, simplifying and improving custom procedures, standards and conformity assessment, and phytosanitary measures.

There is concerted effort now to tackle non-tariff barriers to trade through the implementation of a comprehensive work program. Besides, ASEAN's free trade agreements with China, South Korea, India and Australia and New Zealand will become operational next year, which is expected to further enhance trade, investment and economic relations and regional connectivity and integration with the Asia-Pacific.

The services sector continues to be liberalized. ASEAN is close to implementing the 7th package of services liberalization and is working on its 8th package to be concluded in 2010 under the ASEAN Framework Agreement on Services. ASEAN is also building an integrated investment area in the region through its ASEAN Comprehensive Investment Agreement signed this year. The agreement will promote, facilitate, liberalize and protect investments in the region and will not only be accorded to ASEAN investors but also ASEAN based foreign investors.

The Socio-Cultural Community is focusing its efforts on human development, social welfare and protection, social justice and rights, ensuring environmental sustainability, building the ASEAN identity and narrowing the development gap. In particular, the ASEAN Commission on the Promotion and Protection of Rights of the Women and

Children will be established soon. ASEAN is also working on an instrument on the rights of migrant workers.

With so much happening for ASEAN in the last one year with the Charter and the priority actions planned for 2010, ASEAN has been and will be a busy and interesting place to watch. The bee hive of ASEAN is bustling with energy and dynamism.

The writer is the first professio-nally recruited deputy secretary-general of ASEAN for the ASEAN Economic Community. His views are personal.

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RI may lose economic oomph over Century

Aditya Suharmoko , The Jakarta Post , Jakarta | Tue, 12/22/2009 8:27 AM | Headlines

The political debate over the Bank Century bailout may harm Indonesia's economy as the country loses momentum to bolster growth, while other nations gear up to attract investors, economists say.

"We need to be cautious in the first quarter of 2010 if political conditions continue to heat up.

Investors may see that growth in other countries is higher, while this country is still busy focusing on politics when the elections finished six months ago," Bank Mandiri economist Mirza Adityaswara said on Monday.

He was speaking on the sidelines of an economic outlook seminar held by the Indonesian Economic Graduates Institution (ISEI).

Mirza said Indonesia had lost its momentum to attract investment in the fourth quarter of this year.

Investors were taking a wait-and-see approach in the first nine months of this year due to the general and presidential elections, but they should have started investing in the last quarter of 2009, he said.

The political tension has made investors reluctant to spend money, he said. "It may trigger capital outflow if political conditions continue to intensify.

"There are always bad banks amid a crisis. The question is whether the government should have saved the bank," he said, citing the fact that Indonesia's financial market between the fourth quarter of 2008 and the first quarter of 2009 was under pressure, indicated by the falling rupiah against the US dollar and high bond yields demanded by investors.

The government decided to save Century, renamed Bank Mutiara, in November last year to protect the financial sector from a systemic threat, Finance Minister Sri Mulyani Indrawati said.

The Deposit Insurance Corporation (LPS) spent Rp 6.76 trillion (US$716 million) in bailout funds to save the bank.

Now the House of Representatives has formed an inquiry committee to investigate the Century bailout, suspecting ulterior motives behind the move to save the bank.

Mulyani was the chairman of the Financial System Stability Committee (KSSK) and Vice President Boediono was the central bank governor when the decision to rescue the bank was made.

The final decision was made by Mulyani in her capacity as the KSSK chairman.

Boediono will be summoned by the House's inquiry committee on Tuesday. Mulyani is set to be summoned by the committee on Jan. 4 .

Economist Sri Adiningsih from Gadjah Mada University, said negative perceptions resulting from the political tension could cause capital outflow.

"The market is already too bullish. The potential for capital outflow exists. Don't let the economy be ruined because of Indonesia's non-economic problems," she said.

Mirza said investors had reaped 75 percent gains in stocks and 15 percent in currencies this year. Investors may leave if they doubt economic prospects, he said.

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The Jakarta Post
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Recovery not as strong as previously thought

The Associated Press , Washington | Tue, 12/22/2009 9:37 PM | World

The U.S. economy grew at a 2.2 percent pace in the third quarter, as the recovery got off to a weaer start than previously thought. However, all signs suggest the economy will end the year on stronger footing.

The Commerce Department's new reading on gross domestic product for the July-to-September quarter was slower than the 2.8 percent growth rate estimated just a month ago. Economists were predicting that figure wouldn't be revised in the government's final estimate on third-quarter GDP.

The main factors behind the downgrade: consumers didn't spend as much, commercial construction was weaker, business investment in equipment and software was a bit softer and companies cut back more on inventories, according to Tuesday's report.

Despite the lower reading, the economy managed to finally return to growth during the quarter, after a record four straight quarters of decline. That signaled the deepest and longest recession since the 1930s had ended, and the economy had entered into a new fragile phase of recovery.

Many analysts believe the economy is on track for a better finish in the current quarter.

The economy is probably growing at nearly 4 percent in the October-to-December quarter, analysts say. If they're right, that would mark the strongest showing since 5.4 percent growth in the first quarter of 2006 - well before the recession began. The government will release its first estimate of fourth-quarter economic activity on Jan. 29.

Yet even such growth wouldn't be enough to quickly drive down the unemployment rate, now at 10 percent. High unemployment and tight credit for both consumers and businesses are expected to continue to weigh on the economic recovery. Many economists predict the economy's growth will slow to a pace of around 2 or 3 percent in the first three months of 2010.

Growth in the final quarter is expected to be driven by companies restocking depleted inventories. Stocks of goods were slashed at a record pace during the recession. So even the smallest pickup in customer demand will force factories to step up production and boost overall economic activity in the final quarter.

Stronger sales of exports to foreign customers, as well as spending by U.S. consumers and businesses, also will help underpin fourth-quarter growth.

It's been a wild ride for the economy this year. In the first three months, it shrank at a pace of 6.4 percent - its worst downhill slide in 27 years.

The recession eased in the second quarter, with the economy dipping at a pace of just 0.7 percent. The economy returned to growth in the third quarter.

But much of the third quarter's growth was supported by government stimulus spending. The "Cash for Clunkers" car buying rebates and an $8,000 tax credit for first-time home buyers buoyed sales of cars and homes. The clunkers program ended in August, though the tax credit has been extended and expanded beyond first-time buyers.

The government makes three estimates of GDP, which measures the value of all goods and services produced in the United States, for a given quarter. Each estimate is based on more complete data. The government's initial estimate for the third quarter was more energetic, showing the economy's growth at a 3.5 percent pace. Subsequent estimates, however, showed the recovery was actually slower.

Tuesday's report showed consumer spending grew at a 2.8 percent pace, slightly weaker than the 2.9 percent pace previously estimated and one of the factors behind the lower overall reading.

Retail sales, however, showed decent momentum in October and November, raising hopes that holiday sales would fare better than last year, which was the worst in nearly four decades.

Still, unlike previous economic recoveries, consumers, whose spending accounts for 70 percent of overall economic activity, aren't expected to solely power this one. Businesses and the government are having to pitch in more.

A trouble spot for the economy - the commercial real-estate market - was clearly visible in Tuesday's report.

Builders slashed spending on commercial building projects at an annualized pace of 18.4 percent in the third quarter. That was sharper than the 15.1 percent pace previously estimated and contributed to the GDP downgrade.

Business spending on equipment and software, meanwhile, grew at a 1.5 percent pace, less than the 2.3 percent growth rate estimated a month ago.

Furthermore, businesses cut inventories more deeply, by $139.2 billion in the third quarter. However, with inventories at rock-bottom levels, businesses are starting to replenish them, which should support the economy.

It's unclear how the recovery will fare once the government withdraws stimulus programs put in place to combat the financial crisis and the recession. If consumers pull back on spending, the economy could tip back into recession.

Economists at Capital Economics predict the recovery will slow, with the economy's growth fading to just 1.5 percent in 2011.

Against that backdrop, the Federal Reserve pledged last week to keep interest rates at a record low to help the recovery gain traction.

Faced with the prospects of high unemployment well into the 2012 presidential election year, President Barack Obama wants the government to take further steps to put Americans back to work. The House last week passed some provisions that Obama has pushed to aid job growth. But it didn't include new tax breaks for small businesses that hire.

The administration credits its $787 billion package of tax cuts and increased government spending with improving employment, though Republicans argue it did not help much.

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US could pressure Myanmar with bank sanctions

The Associated Press , Washington | Tue, 12/22/2009 7:46 AM | World

The Obama administration has ready a powerful economic weapon if talks with Myanmar fail to achieve democratic reforms: pressuring banks to avoid doing business with the country's ruling generals.

A similar approach has been used to push North Korea to give up its nuclear weapons. In Myanmar's case, targeting international banks could effectively tie up the large amounts of money the generals get from selling natural gas.

The U.S. Congress has already provided the power to go after the banks; some rights groups want President Barack Obama to use it soon, or at least if direct talks fail.

So far, however, the administration has been hesitant. It has just started face-to-face negotiations and wants to give them more time to show results. Imposing the banking sanctions would be expensive and time-consuming, and Myanmar isn't a top priority on a crowded foreign policy agenda that includes Afghanistan and Iran.

Still, the administration has warned of tougher action if engagement breaks down with Myanmar, also known as Burma. And the mere threat could add force to the U.S. negotiating position.

"We will reserve the option of tightening sanctions on the regime and its supporters to respond to events in Burma," Obama's top diplomat for East Asia, Kurt Campbell, told lawmakers in September.

Myanmar has one of the most repressive governments in the world and has been controlled by the military since 1962. For years, the United States has used punishing sanctions to try to force change on the country, with little success. Former President George W. Bush's administration favored shunning Myanmar, and Bush's wife, Laura, and many in Congress were strong advocates of the nascent democracy movement there.

Now, the Obama administration has reversed the isolation policy in favor of engagement, which it hopes will persuade the generals to grant greater freedoms to opposition parties and minorities and to free political prisoners.

Myanmar has since made a few symbolic gestures of good will, letting detained democracy leader Aung San Suu Kyi meet with Campbell, for instance, and releasing some political prisoners. At the same time, it has continued to persecute ethnic minorities, journalists and student activists.

Obama himself spoke of a possibly stronger position on Myanmar in his Nobel Peace Prize acceptance speech. There will be engagement and diplomacy with Myanmar, he said, "but there must be consequences when those things fail."

Activists say those consequences should include the application of a law that allows the United States to use financial measures to hinder Myanmar's ability to access the international banking system.

"What the Burmese government values is not its commerce with the outside world but the financial proceeds of that commerce," Tom Malinowski of Human Rights Watch said. "Once the Burmese government deposits the checks in its bank accounts, there's a lot the United States government can do to prevent that money from being used in the international banking system."

The United States already imposes many sanctions on Myanmar. Treasury officials have targeted 40 people and 44 entities since the junta killed and arrested protesters during demonstrations in 2007. Being added to the sanctions list prevents people from making transactions in the banking system of the United States, the world's largest economy.

A 2008 law, however, allows another level of sanctions that grants Treasury the authority to impose conditions on banking relationships. U.S. officials will not comment on future policy decisions, but Treasury says it is looking at all potential sanctions, including the banking provision, "to apply the tools best calibrated to address the threat presented."

The United States cannot easily block the lucrative natural gas deals Myanmar does with its neighbors and with European and U.S. companies. But the bank measure would let foreign banks know that the United States has worries about their association with Myanmar money and will be wary of their contact with U.S. financial institutions until those worries are cleared up, according to Jennifer Quigley, advocacy director for the U.S. Campaign for Burma.

Supporters of the banking sanctions often raise North Korea, saying that the United States effectively froze the North out of the international banking system, hurting leader Kim Jong Il.

For the moment, the Obama administration is urging patience as it pursues talks.

Next year's elections in Myanmar will provide a good look at the junta's intentions. A big question will be whether high-level U.S.-Myanmar talks lead to the junta's allowing true participation by minorities and opposition groups or merely let the generals consolidate power.

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ASEAN-China free trade deal: Let's face the music

Andry Asmoro , Analyst | Wed, 12/23/2009 9:34 AM | Business

In the last few months, domestic business players, industry associations, policy makers and analysts are "suddenly" discussing the potential threat from the zero percent tariff implementation on China's products under the ASEAN-China Free Trade Agreement (ACFTA) scheme, effective starting Jan. 1, 2010.

Most people would concur the implementation of ACFTA would adversely impact Indonesia's manufacturing and trade performance.

That 14 industries are asking for a delayed implementation of ACFTA proves this. These include textiles, steel, tires, furniture, cocoa processing, medical equipment, cosmetics, aluminium, electronics, downstream petrochemicals, flat glass, shoes, machine-tools and automotive goods.

Most Indonesians would agree the country needs more time to compete with China's products and that delaying implementation of free trade would be a good thing.

But, we believe that no matter when the free trade deal is implemented, the result would be the same: Indonesia's industries would not be ready. It is high time Indonesian companies face the music for being poorly prepared, instead of keeping up the past practice of hiding behind government protection.

China-ASEAN relations started up in 1990 when Qia Qichen, China's Foreign Minister, attended the opening session of the 24th ASEAN Ministerial Meeting in Kuala Lumpur and expressed China's interest in cooperating with ASEAN.

In November 2000, China proposed a free trade area with the 10 ASEAN states. In 2002, ASEAN members and China announced the Framework Agreement for ASEAN-China economic cooperation.

The schedule for the tariff cuts for ASEAN 6 countries (i.e. Indonesia, Malaysia, Singapore, Thailand, the Philippines and Brunei) began in 2003 with 60 percent out of 8,626 tariff posts falling to 0 percent. In 2007, 80 percent of total tariff posts fell to 0 percent while in 2010, 100 percent of the total 8,626 tariff posts must be cut to 0 percent.

Indonesia had 7-10 years to prepare its industries to implement ACFTA and is not the only country with a trade deficit with China. SoThailand has one too. Of the ASEAN 4 countries (Indonesia, Malaysia, Singapore, and Thailand), only Singapore and Malaysia have managed trade surpluses with China this year.

The three biggest commodity exports to China have been Mineral Fuels, Oils & Products, Animal or Vegetable Fats and Oils and Machinery or Electrical Equipment (ME).

Mineral fuels and vegetable oils contributed 51.2 percent of China's total imports from Indonesia. The country is not competitive when it comes to textile products and footwear which only contributed 1.6 percent of its exports to China.

On the flip side, China's exports to Indonesia have been dominated by Machinery, Electrical Equipment, Base Metals and Articles and Textiles and Textile Articles. These contributed more than 60 percent of China's exports to Indonesia.

China's exports to Indonesia are mostly manufacturing products while China's imports from Indonesia are minerals or natural resources.

From this, we conclude that Indonesia's domestic industry would suffer from the implementation of ACFTA. But would a delay help?

We believe not. Even with a delay, various Indonesian industries would face the same problems, particularly given that some products from China are state-subsidized.

Based on a World Economic Forum (WEF) report, Indonesia's Global Competitiveness Index was ranked 55 in 2008-2009, the lowest among its ASEAN peers (i.e. Singapore, Malaysia and Thailand).

To counter this, Indonesia needs to make structural changes impacting upon the country's manufacturing sectors. These include dealing with mark-ups and inefficiencies, which result in lack of competitiveness for Indonesian products.

From the government side, we also need to see support for the manufacturing sector in the form of infrastructure development such as roads and electricity in order to promote efficiency.

According to the Ministry of Public Works, Indonesia's total funding requirement for infrastructure development in 2010-14 would amount to Rp 400 trillion, of which 50 percent will be allocated for road development.

Nevertheless, project implementation remains challenging due to lack of government supporting regulations and weak horizontal inter-departmental and vertical coordination.

With such deep-rooted problems facing Indonesian industries, there will be no short-term panacea (read: a delay would not help).

The sooner we face the music and compete against other ASEAN countries and China, the faster competitiveness for Indonesian companies will emerge. It's time to play catch-up with Malaysia and Singapore. Only through short-term hardships will we pave the way for Indonesia's improved trade performance in the longer run.

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Post-global economic crisis: Whither economic policy?

Kahlil Rowter , Jakarta | Wed, 12/23/2009 8:47 AM | Opinion

Amid the byzantine twists and turns of the recent legal cum political cases, one must not forget that money continues to circulate and people still turn up for work.

In short, the economy continues. And we are at a cusp of economic policy after the global economic crisis.

In this country, following the election, we are now ready to work. For this we need three things: the policy, the initiative and the team.

Urgent economic policies need to be made now, if we are to take advantage of the global economic recovery. Standing still in a changed global financial landscape risks Indonesia becoming a backwater quite soon.

The policy itself must be coherent, comprehensive and credible. Initiative is equally important to take advantage of the momentum.

Once lost, regaining momentum can be very difficult or even impossible. And most important is a credible, strong and clear-headed team to formulate and implement the strategy in a timely fashion.

The team may be more important than any given policy as the landscape keeps on changing. Alas, we are now in danger of losing all three.

Do not forget that a semblance of order in economic policy making only started about seven years ago under the leadership of Boediono in the Megawati administration. His elevation to the vice presidency underscores the impression that economic policy takes priority.

This is the natural reaction given that in the first Yudhoyono administration economic policy started to become more rational.

Especially after the reshuffle in 2005 when Boediono became the economic policy czar and Sri Mulyani took the finance portfolio.

Sri Mulyani not only brought credibility, clear direction and strong leadership, but also transparency and accountability into the fiscal sphere.

More than that she also started the important and wide-sweeping organizational changes which often times were challenged by entrenched interests.

These reforms were in such important areas as debt management, the capital market, tax and customs. Her bureaucratic reform measures are now a model other ministries should follow.

In four short years economic policy has now been steered to a much better and sustainable platform.
But a lot more needs to be done.

An economic system which was shattered in the crisis of the late 1990s cannot be completely overhauled in just four short years.

And unfortunately in Indonesia, like in many developing countries, a modern, predictable, transparent economic policy regime was never there and is not yet in place.

Who the leader is, in many cases, matters more than what the regulations are.

This is either because a better policy framework is still being developed or simply that the existing one still affords the policy maker too much discretion.

In this regard we are lucky that currently the economic managers are credible and well-known to be so.

Hence the market, both domestic and foreign, looks favorably toward Indonesia.

The capability of the present economic managers was proved last year when Indonesia escaped the global crisis unscathed.

It is true that a confluence of factors were responsible for this, including that we did not rely too much on exports and foreign borrowing. Neither were we exposed to the international structured product market.

But we could have done much worse during the period when the stock market and the currency were under pressure and the banking system was under pressure.

Things turned out to be much less severe than once thought. But remember that in the financial world, perception is everything.

In 1997, the structure that was thought to be strong melted mainly on account of perception. It was only the credibility of the economic managers along with short-term confidence-building measures which helped us avoid the brunt of the crisis and enabled a quick turnaround.

Foreign investors are closely watching the outcome of the battle taking place.

And the stakes are large. A few large foreign investors recently told me that the major risk in Indonesia – appearing out of nowhere – is now political.

With the smooth elections, and the strong mandate the President garnered, political risk was furthest from our mind.

Investors were really looking forward to a better economic policy framework and implementation going forward.

The challenges are well-known: infrastructure, clean government, quick investment procedures, faster fiscal spending, and a more rational labor market policy.

But if we now throw in political risk, the mix immediately becomes volatile. The problem with political risk, especially the kind that we are entangled in, is that there is no easy way to predict the outcome.

Do not forget that economic policy credibility was one keystone in the President's campaign platform. It is also an important part of Indonesia's voice abroad.

A nation's international strength emanates from how strong is the government domestically.

If such an important component of the government's credibility can be called into question and then discarded so easily, one can question if the government itself is as strong or coherent as it claims.

The investors I talk to warn that losing this economic team would result in a sharp decline in confidence. This will result in a sudden investment pullback both in the stock and the government bond markets.

It is arguable that once this economic team is replaced with equally credible personnel, investors, being greedy as always, will return if their risk-return calculation warrants.

But do not forget that this calculation itself will be compromised by the dismissal of the present team.

The next question is: How long will the next team last?

Remember that investors, once burned, will take a long time to forget. In this regard, I hasten to remind of the examples of Thailand and the Philippines.

Easily abandoning a credible team entails another risk. It has to do with the kind of signal the national leadership sends.

It says that your job is not secure. A strong political wind can easily sweep you aside no matter how well you do your job. In the end this will disincentivize good people to take up policy-making work.

And for those left in the policy-making apparatus, the signal is clear: Do not stir the waters too much.
At the same time it will invite risk-takers who think they can benefit unduly while in office, and have the political wherewithal to withstand the wind at the top.

And at what cost to the government's overall economic policy-making credibility?

From a cost and benefit perspective, both in the short and the long term, one must be very careful in risking credibility.

This government, which claims to have the benefit of the people as its highest priority must think carefully about letting its credible economic team be sacrificed on the altar of politics.

It not only sends the wrong signal to investors. More importantly, it gives the worse kind of signal to those who want to improve policy making.

Discarding a credible economic team risks a severe economic fallout. And reversing it will take significant effort and time. If at all possible.

The writer is a lecturer at the Faculty of Economics, University of Indonesia. This is a personal opinion.

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FTA China-ASEAN and RI's paradox policy

Kiki Verico , Tokyo | Mon, 12/28/2009 9:30 AM | Opinion

The fourth principle of economics says "Rational people think of the margin". The margin is the difference between benefit and cost. Every person, in essence, will make decisions where he is convinced that the benefit of his decision is greater than its cost.

This also applies to the logic of government policies. Each should have benefits that override its costs.

Many economic policies cannot be assessed in a short-run context; instead they need to be evaluated under a longer-term framework. Economic policies may often seem unpopular when only seen in the short run, yet in the long run it is actually good for the people.

Government policies are dynamic, therefore it is unwise to assess policies in a static short-run context.

On the other hand, in the short run some policies may seem to have more benefit over their costs, making them seem popular yet, in the long run, they may actually be harmful for the people.

Take, for example, an excessive regional minimum wage (UMR) and the high cost of layoffs. These policies are good for workers who are already employed, yet in the long run they creates difficulties for job seekers to obtain jobs as employers are already paying high wages for their workers and facing complexities in downsizing.

Another example is the government policy of maximum price setting. In the beginning, this policy is aimed to ensure that all consumers can afford to buy goods but eventually price levels rise to extremes because the goods become scarce. The lack of incentives for producers to produce and merchants to sell goods, as the prices are set so low, is the reason why these goods become scarce.

Instead of creating cheaper prices, ceiling price policies in effect increase the price level.

Another example is the fuel subsidy policy, which is popular in the short run but in the long run may burden the budget and encourage the smuggling of cheaper fuels abroad.

Unlike the series of bailout policies in some countries during the recent global financial crisis in 2007, and those in Southeast Asia during the regional financial crisis in 1997.

At first, they were unpopular policies, seeming to only be protecting capital owners, yet had these policies not been decided, there would have been immediate and massive capital flight overseas, the country would have lost its foreign reserve, faced huge exchange rate depreciations and finally fallen into an even greater economic crisis.

One highlighted paradox policy in 2009 is the FTA (Free Trade Agreement) China-ASEAN that will be completed in 2010. Originally, this policy started from the AFTA+3, an enlargement of the ASEAN FTA to Japan, China and South Korea. This policy was initiated in 1997. The AFTA+3 policies may not seem popular because they force domestic producers to compete with foreign producers.

The author believes that "trade makes everybody better-off". The value of Indonesia's export to China is the third-largest among non-ASEAN members after Japan and the United States. The trend of PRC's trade share to the total world's trade is increasing.

Based on the Asian Development Outlook, the share of PRC's exports to the total world's exports increased from 2.5 percent in the 1990s, then doubled to around 5 percent in the 2000s. If Indonesia pulls out from the FTA China-ASEAN policy it will indeed seem nationalist and popular, but Indonesia will lose out when other member states continue to commit. These other members will enjoy the facilities of the China-AFTA, while Indonesia will not.

One of the illustrations that can be used to explain this situation is the "prisoner's dilemma". This illustration explains the rationality of two amateur criminals who have been questioned separately and choose to confess, even though had they each chosen to lie, their punishment would be lessened.
Each criminal knows that he will be punished for his mistakes and that he must choose to lie. But when investigators say that if his friend confesses and he is found lying, his punishment will be longer and his friend will be released.

Criminals will then think twice before lying. He will tend to be honest because he will be released if his friend lies.

In the end, these two actors will choose honesty as their dominant strategy. Amateur criminals will never lie because its "cost" is too high. This illustration holds true assuming that both criminals are amateurs because they do not trust each other.

The "prisoners' dilemma" also happens in ASEAN economic cooperation, the AFTA. It experienced the "spaghetti bowl" phenomenon when it encourages free trade areas between members yet some member states create bilateral free trade agreements with non-members (BFTA).

In nature, the AFTA is a discriminatory trade policy for the members but becomes weakened when several members open its discriminatory policy to non-members through bilateral agreements.

Member states that do not have bilateral cooperation should also follow suit in order not to lose out if only relying on the AFTA. This situation is a similar illustration to the dominant strategy of the "prisoners' dilemma" in which all the players choose to be honest when others are not.

However, a BFTA is not an easy option as there is the possibility of hub (dominant) and spokes (not dominant) problems. The economies of non-members in such bilateral partnerships are usually more advanced than those of the member states; therefore in any open negotiation, non-member states will gain more.

Econometrics simulation that the author designed for ASEAN shows that only Singapore and Malaysia are qualified to have bilateral free trade negotiations with non-members. The majority of ASEAN members, including Indonesia, are deemed unfit to have BFTA negotiations yet they will be at a loss if only relying on the AFTA while some have BFTAs. The author also found that a BFTA, though not so significant, tends to weaken the AFTA.

Indonesia and other ASEAN member countries which are unsuitable for BFTAs should not only depend on the AFTA. One of the most appropriate escape policies should be to support the expansion of the AFTA to non-member countries. This means that negotiations have to be conducted through the "umbrella" of ASEAN economic cooperation.

The form of this kind of cooperation is the AFTA Plus. If there are members who do not agree with the AFTA Plus, China for instance, then the objection should be made through an ASEAN forum prior to the decision.

When a policy has been decided then each member state must be ready to execute it, including explaining it to their people, especially to those who do not agree.

The dominant strategy is that all member states support the AFTA Plus. It can be seen as the "internalization policy" that overcomes the negative externalities of a BFTA. Pulling out from this common policy may be a popular move, yet if other ASEAN member states still commit, then that particular country will lose out.

Therefore, risking being unpopular in the short term, supporting an AFTA Plus agreement is probably the best strategy for Indonesia.

The writer is a PhD Student on the GSAPS Program at Waseda University, Tokyo and a researcher at LPEM-FEUI.

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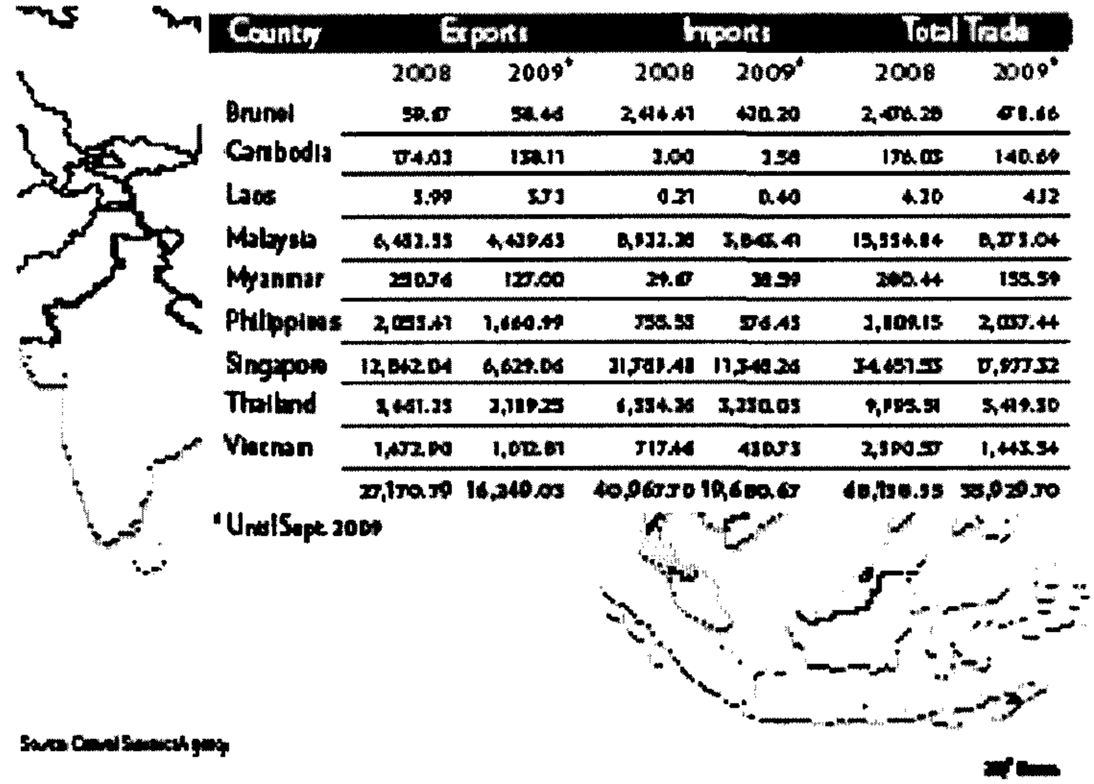
RI at a crossroads: Which way to go in the Asian century

Veeramalla Anjaiah , The Jakarta Post , Jakarta | Thu, 12/31/2009 9:28 AM | World



RI's trade with ASEAN countries 2008-2009* (IN MILLIONS OF USD)

Country	Exports		Imports		Total Trade	
	2008	2009*	2008	2009*	2008	2009*
Brunei	59.67	58.46	2,416.61	420.20	2,476.28	478.66
Cambodia	174.03	138.11	2.00	2.58	176.03	140.69
Laos	3.99	3.73	0.31	0.40	4.30	4.32
Malaysia	6,482.55	4,439.63	8,932.28	3,845.41	15,554.84	8,273.04
Myanmar	250.74	127.00	29.67	28.59	280.44	155.59
Philippines	2,053.41	1,660.99	355.53	376.45	2,409.15	2,037.44
Singapore	12,862.04	6,629.06	21,789.48	11,348.26	34,651.55	17,977.32
Thailand	3,661.35	2,189.25	6,334.26	3,230.05	9,995.61	5,419.30
Vietnam	1,672.90	1,012.81	717.46	430.73	2,390.37	1,443.54
	27,170.79	16,240.03	40,967.30	19,680.67	68,138.35	35,920.70

* Until Sept. 2009

Source: Central Statistics Agency

After passing through an extraordinary year, 2009, as well as the first decade of the 21st century, Indonesia finds itself at a crossroads just ahead of both the new year and the century's second decade.

Throughout 2009, there has been an interesting debate over whether Indonesia should continue its foreign policy with ASEAN as its cornerstone. Or is it the time for Jakarta to look beyond ASEAN, especially after its elevation from an impoverished nation to one of the top 20 economies of the world? Moreover, it has a new and energetic young foreign minister. So which way will Foreign Minister Marty Natalegawa take Indonesia: regional or global. Is there any middle path?

During the last 10 years, Indonesia, a huge, diverse and resource-rich archipelago, has achieved numerous success in its almost half-way journey from rags to riches.

It was a remarkable transformation, changing from a chaotic state to a stable country with a burgeoning democracy and dynamic emerging economy. Just 11 years ago, Indonesia was on the verge of becoming a failed state, especially after a devastating financial crisis in 1997 and violent riots the following year.

But today, Indonesia is a member of the world's most influential group, G20. Despite the global recession, its economy grows at a reasonable rate. With the recent successful and peaceful elections, the world's most populous Muslim nation has once again shown the world that Islam, the fastest growing religion in the world, is perfectly compatible with democracy.

According to the renowned American think-tank Freedom House, Indonesia, which had a democratic deficit for more than three decades under the Soeharto regime, is the only completely free country in a region that has monarchic, undemocratic, semi-democratic states.

In the past Indonesia tilted toward both the left (under the first revolutionary president Sukarno) and the right (under authoritarian Soeharto). Though the world's fourth populous nation has been pursuing the so-called "free and active" foreign policy for a long time, and trying to maintain its strategic autonomy in foreign policy and decision-making, its role in international affairs has been limited. This was mainly due to preoccupation with domestic challenges and lack of economic and political clout in the international arena.

Most of the time in its 64-year journey as an independent nation, Indonesia has been busy fighting penury, unemployment, separatist movements, religious conflicts and Islamic insurgencies. Now the situation, to a large extent, has changed.

"But we overcame these challenges," President Susilo Bambang Yudhoyono said in September 2009 at the Harvard University. "We adapted. And instead of failing, we have thrived. Today we are not a hotbed of communal violence: we are by and large an archipelago of peace. Today we are not at the brink of Balkanization.

"Today we are not paralyzed by financial crisis, but forging ahead with sweeping reforms of our financial and industrial structure. And Indonesia is a dynamic emerging economy, enjoying one of the highest growth rates in Asia after China and India".

Indonesia's entry into the G20 club has endowed Jakarta's foreign policy with boldness and assertiveness on one side and a promising global threshold on the other. Since then, some local foreign policy experts began questioning Indonesia's policy toward ASEAN, given the complex nature of the regional organization, which some people describe as a "paper tiger".

RI's trade with East Asian COUNTRIES 2008-2009* (IN BILLIONS OF USD)

Country	Exports		Imports		Total	
	2008	2009*	2008	2009*	2008	2009*
Japan	27.75	12.79	15.12	6.86	42.87	19.65
China	11.63	7.97	15.25	9.73	26.88	17.70
South Korea	9.11	5.24	6.92	3.42	16.03	8.66
Total	48.49	26.00	37.29	20.01	85.78	46.01

Until Sept 2009

"Indonesia should not let itself be held hostage to ASEAN," Rizal Sukma, executive director of the Centre for Strategic and International Studies, said.

From an economic point of view, the planned ASEAN economic integration by 2015 will benefit more countries such as Singapore, Malaysia, Thailand and Vietnam rather than Indonesia. Being the Southeast Asia's largest economy with 240 million people, Indonesia offers a perfect market for some small but rich ASEAN countries. At the same time, most of the countries in ASEAN produce similar goods and compete fiercely for markets.

For example, the balance of trade in 2008 was heavily in favor of ASEAN countries, mainly Singapore, Malaysia and Thailand (see graphic). Indonesia exported US$27.17 billion worth of goods to nine ASEAN countries and imported $40.96 billion goods from there. There was a similar trend in 2009.
In the tourism sector, more Indonesian tourists regularly visit these nine ASEAN countries than it receives visitors from these countries. The only consolation is that ASEAN countries provide employment to around 2 million Indonesians, but mostly in the informal sector.

As the most dynamic democratic country in the region, Indonesia, mostly, has to compromise on its ideals such as democracy and human rights for the sake of ASEAN unity as most ASEAN countries are either undemocratic or semi-democratic in nature.

So, Rizal argues that Indonesia needs to formulate a post-ASEAN foreign policy.

"A new world order requires a new foreign policy. It is time to recognize that we need a post-ASEAN foreign policy for a post G8 world order," Rizal said.

But Marty, who played a key role in designing the ASEAN community concept when he was working as the director general for the ASEAN cooperation in the early part of this decade, strongly defended the central role of ASEAN in Indonesia's foreign policy, while emphasizing that Jakarta can play an "influential role" outside ASEAN.

"We can't leave ASEAN because it has become a house for Indonesia. However, it doesn't mean we can't progress or work outside ASEAN," Marty said.

It may be difficult for Indonesia to focus mainly on global affairs and ignore its neighborhood ASEAN.

After all, Indonesia was one of the main founding members of ASEAN. On the global stage, Indonesia has not reached a point where it can compete with the US, China, the EU, India, Brazil and Russia to project its soft power. But in the future, Indonesia can catch up with these big powers.

If one of the main missions of Indonesia's foreign policy is to "develop economic, trade, investment cooperation, transfer of technology and [find] development assistance to improve the welfare of Indonesian people]", it should be realistic and engage with potential partners. But who are these partners?

Since 1999, Indonesian trade has been growing at a tremendous pace, thanks to macroeconomic management and continuous economic reform under presidents Megawati Soekarnoputri and Yudhoyono.

The total trade of Indonesia in 2008 reached $266.21 billion, a huge increase from $72.66 billion in 1999. Actually, the two-way trade was more than doubled during the first term of Yudhoyono, increasing from $118.10 billion in 2004 to $266.21 billion in 2008, a good effort by Trade Minister Mari Elka Pangestu and her team.

In terms of trade, foreign direct investments and tourism, Indonesia is heavily dependent on East Asian countries: Japan, China and South Korea. In 2008, Indonesia had combined trade of $85.78 billion, based on Indonesia statistics, with these three countries. With the inclusion of Taiwan and Hong Kong trade figures, the trade can easily surpass the $100 billion mark. The trio also had realized foreign direct investments worth $1.80 billion in Indonesia in 2008.

Then we have the rising star India, whose trade with Indonesia reached an amount of $10 billion
in 2008.

At present Indonesia's policy on ASEAN is the right policy heading in the right direction, but it has to intensify its interaction with the Asia-7, Japan, China, South Korea, Singapore, Malaysia, Thailand and India, because these countries together with Indonesia constitute around 3 billion people, a huge market.

In international relations, it is not always about trade and investment. There are so many other things such as education, culture, and environment and so on. Marty is fully committed to implement the "diplomacy in all directions" strategy in order to achieve Indonesia's foreign policy objectives and turn the country into an influential global player.

At the same time, Indonesia can't ignore the lonely superpower the US and the global player European Union. The friendship and cooperation with these two are a must for Indonesia in its path to prosperity.

In fact, the 19th century was a British century and the 20th century was an American century. The 21st century is going to be an Asian century and it is going to be in the words of Yudhoyono, a "century of soft power". Indonesia must be a leading player in this Asian renaissance.

The Nation

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Opinion

EDITORIAL
Signs of recovery, but obstacles are still in our path

Published on December 24, 2009

Consumer confidence appears to be growing, but this could be reduced if we cannot resolve our political differences

Asian spenders are now crowding the region's department stores to buy gifts before the holiday break. Pictures of shoppers in China, India and South Korea illustrate a rise in consumer confidence, driven by the economic data coming out of those countries. Economists and pundits are predicting the rise of household spending in Asia will drive the region through the economic crisis, with strong consumer sentiment set to continue into the Year of the Tiger.

Thai consumers have been out in shopping districts, carrying full shopping bags a week ahead of the Christmas and New Year festivities. But the mood in Thailand is somewhat dampened by the ongoing political situation and the uncertainty surrounding the Map Ta Phut ruling. Thai consumers are cautiously using their money during this holiday season, even though many retailers are offering big discounts to promote sales during the season.

Improved consumer sentiment is an essential element in pushing the economic recovery into gear. But the political situation and the Map Ta Phut case have affected big investment projects in spite of initial expectations that renewed investment confidence will drive the economy next year. Commercial banks are closely monitoring loan approvals and big investors are likely to wait and see how the overall situation develops. At present, potential investors are those in small- and medium-sized businesses.

This is the challenge that the government's economic team will have to tackle in the New Year. It remains to be seen to what extent the government's stimulus package will have a carry-on effect to boost consumer confidence even further.

However, the upside for Thailand is that the economy is ever more closely linked with the rising Asian economies like China and India, which are enjoying rapid growth rates.

After their orders dried up earlier this year, many Chinese factories and industrial plants are now resuming production, with a series of new orders, especially from the US. Indian car companies have also seen a rise in orders, thanks to the government's economic stimulus package, pushing up car sales in India in the fourth quarter of this year.

Thai economic growth, however, badly contracted in the first quarter, by 7.1 per cent. Nonetheless, the recent economic indicators have shown a gradual recovery. The economy contracted by 4.9 per cent in the second quarter and 2.8 per cent in the third quarter, according to figures from the National Economic and Social Development Board. The economic growth figure is set to rise for the first time in the fourth quarter - if consumer confidence continues to rise.

Economists and commentators now hope that the next instalment of the stimulus package will boost the enthusiasm of consumers in the coming months. Meanwhile, the Map Ta Phut ruling should send a benchmark warning to the authorities to oversee industrial companies by laying acceptable ground rules to avoid conflict between industrialists and local communities in the future.

Most importantly, we are all hoping that the political situation will be resolved sooner rather than later, so that the country can move on in the Year of the Tiger.

All of these factors are dependent on Thais. The challenging question is whether Thais can demonstrate an ability to resolve their differences constructively - for the sake of the country.

Until that happens, Thai consumers are unlikely to loosen their purse strings too much.

January 7, 2010 03:19 pm (Thai local time)
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The Nation

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Business

Economy to grow next year

Published on December 29, 2009

Thailand's economy is expected to grow between 2.5 per cent to 3.5 per cent next year, according to Kasikorn Research Centre.

Meanwhile, the Fiscal Policy Office yesterday revised the economic contraction figure for 2009 from 3 per cent to 2.8 per cent, and revised up the economic growth forecast for next year from 3.3 per cent to 3.5 per cent.

Satit Rangkasiri, director-general of the office, said all economic indicators showed improvement since November - exports, domestic spending, unemployment, and tourism.

If the government could make faster budget disbursements under the second stimulus package, known as Thai Khemkhaeng, the GDP could grow 4 per cent, he said. A solution to the Map Ta Phut crisis would also help.

The office expected the Bank of Thailand to raise the policy rate in the second half of next year, between 1.5 to 1.75 percentage points to counter rising inflation. Higher oil price next year would drive up the headline inflation rate to 3.4 per cent next year from a 0.8-per-cent drop. Other risk factors include strengthening of the baht relative to the US dollar and political uncertainty

KResearch managing director Charl Kengchon said the projected minimum growth of 2.5 per cent reflects concerns about the slow disbursement of the Thai Khemkhaeng economic stimulus package. The disbursement as of this month is at Bt23.047 billion, representing 11.5 per cent of total budget. The concern also includes the Map Ta Phut fiasco, which has affected the confidence of foreign investors.

However, he added that the GDP of many countries, including Thailand, have bottomed out, given that Thailand recorded a 2.2-per-cent GDP growth in the second quarter this year and 1.3 per cent in the third quarter. Japan recorded GDP growth in the second quarter of 2.7 per cent and 1.3 per cent in the third quarter. Singapore showed GDP growth of 22 per cent in the second quarter and 14.2 per cent in the third quarter.

The World Bank forecast Thailand's GDP growth at 3.5 per cent, while the International Monetary Fund (IMF) forecast 3.7 per cent, Asian Development Bank (ADB) 3.5 per cent, the National Economic and Social Development Board (NESDB) 3 to 4 per cent, the Finance Ministry between 2.5 to 4.1 per cent, and Bank of Thailand between 3.3 to 5.3 per cent.

The positive factors for the global GDP next year include continued high-cash liquidity and governments' stimulus packages. The negative factors include the possible rise in commodities prices, while the inflation rate is projected to be higher than this year.

Most analysts also predicted that the economies of the US, EU, and Japan would expand next year in a V-Shape after shrinking this year.

He said the baht next year would be highly volatile and is forecast to surge to Bt31.50 against dollar from the expected Bt32.75 at the end of this year. Thai exporters will have to adjust themselves to deal with the situation.

The Thai interest rate is expected to be raised in the second half of next year. The interest rate is expected to surge to 0.75 per cent for the whole year, in line with the interest rate move of US Federal Reserve Bank, which is expected to raise the interest rate in the third quarter. The interest rate in Asia is expected to go up early next year to prevent the possible economic bubble, following the sharp rise of real estate prices in some regional countries.

Loans of commercial banks in Thailand next year is expected to grow 4.2 per cent to Bt260 billion from a 0.6-per-cent decline to Bt36 billion this year.

January 7, 2010 03:11 pm (Thai local time)
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