



Coming Back?

Is Asia, with its pre-crisis policies still intact, in for another round of beating? ■ By Bishen Bedi

If 2006 was a year of domestic and international fissures, where the fault-lines had widened the spectre of crisis almost everywhere, don't expect 2007 to be any less so.

We've seen the carnage wrought in the Middle East by American policy. It's not likely to change in 2007. In fact, this year will likely be a defining one for a number of countries. Forget the fetish over the Chinese and Indian economies. Despite

their highly uneven growth rates, at around 9%, both will probably continue to underwrite capacity in the world economy. Australia, for example, is banking on this. It expects its resources export-dependent economy to maintain the 3%-3.5% growth rate for at least another year.

But many other national economies may not fare as well. Former industrial juggernauts like Japan and South Korea, once Asia's 'dragon economies', will never

regain their old glory. Their growth rates will be sustained at around 3%, and 'sustained' is a good word in a world increasingly being faced with problems of scarcity. Three percent gross domestic product (GDP) isn't so bad in Japan, where its rapidly ageing population no longer has the aspirations of the younger generations. Japanese corporations will continue to export their production offshore, as they've been doing since the mid-1980s, especially

after the Plaza Accord was signed in New York that realigned the yen to the greenback.

It's a different story, though, in South Korea, and indeed throughout Southeast Asia. An average 3% GDP seems reasonable in long-run terms. It means regional governments, whose policies were built on the idea of growth-at-all-costs, are now no longer in the position of doing that again. In a world increasingly scarce of finite resources, and whose prices continue to soar, it provides these governments to grow brains and recalibrate policies towards sustainable futures. Otherwise, the political and social costs will become items that no government can bring under control. This can spell serious political and social problems for many regional governments.

To the millions of young people, especially the educated, whose upward social mobility may be imperilled, low growth rates, in real terms, may see them not reap benefits of the kinds of wages or salaries growth that previous generations have enjoyed. The boom years of the 1950s and 60s collapsed in the 1970s and 80s, but it applied more to the West than Asia. Asia was by then in the throes of playing catch-up economics. Some policies were deliberate; others were by accident, carried along by the swathe of modern capitalism that cut through the region.

Asia's high growth rates, sustained over almost three decades, saw the emergence of domestic conglomerate capitalism. Much of this was family-owned. And there was also highly dependent export-oriented capitalism, which was dominated by foreign-owned multinational corporations who built their empires on very huggy state-backed tax incentives via free trade zones.

There was a job boom across the Asian region. Millions upon millions of people found work. And because there were millions and millions of them, national governments allowed local and foreign capitalists to exploit their own citizens left, right and centre. Wages were perennially low. That hasn't changed. People then played their own catch-up economics with rising costs of living. They still do today. And for the most part, national governments haven't learnt the lessons

from the collapse of the Asian dragon and tiger economies in the late 1990s. While national economies have risen from those ashes, they're nowhere near recapturing their old glory.

One of the problems for Asia has been the changing nature of global capitalism. Unlike the old days, foreign investors today are finding it harder to find solid returns on their investments. Twenty percent returns are harder to reap. Stock markets are still volatile, despite some showing huge gains. But these gains are built on massive speculation – like the speculation of the 1990s that brought an end to the Asian miracle economies. They weren't miracles; they were debt-laden

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economies built on hype. And signs of old remain today. Which makes global capital nervous and flighty. An irony, really, since, by its very nature, it is its own flighty nature that adds to the speculative nature of money.

You think I'm kidding? Take a look at Thailand, then. For months now, the government in Bangkok has been quietly nervous about the growing trend of speculative capital that has been hitting the Thai stock exchange. Not only that, managers of US pension and other institutional funds have been turning more cautious. Twenty-five percent of fund managers say Thailand is headed for a recession this year. A low number, maybe, but 60% say the Thai economy has weakened.

Historically, low interest rates are no longer sustainable. The housing boom is as speculative now in Bangkok as it was in

Kuala Lumpur in the mid 1990s. There's a discernible downward trend in earnings growth. For technical reasons, US pension funds are buying bonds. US firms have made such huge profits in Thailand that they don't need to borrow more, and borrowing less means the Bank of Thailand will keep interest rates low. But the baht has been surging against the US dollar, rising to a 9½-year high last Dec 18 when it touched 35.06 baht to the dollar. That can't be good for local spending power and consumer confidence, and it can't be good for export-dependent economies. Even Malaysia's ringgit soared 5.5% against the greenback.

The Thai government's new capital controls have seriously jeopardised stocks on the share market. Thai stocks plunged most heavily, the worst in 16 years, wiping out US\$ 23 billion of market value, after the central bank said international investors must pay a 10% penalty unless they keep funds in the country for a year. Share trading stopped for a while on Dec 19 before Bangkok rolled out exemptions for share traders following a late-night emergency meeting between the Bank of Thailand, the Stock Exchange of Thailand, the Securities and Exchange Commission and the Finance Ministry. Investment in equities is now exempt from the new rules, but short-term currency investment is still being targeted after a run-up in the baht last year of more than 10% against the US dollar. The central bank is demanding that 30% of all new currency investments be held by Thai authorities for a year – earning no interest.

Thailand is a story worth watching, because the flow-on effects were made very clear throughout the region. Just as Washington has botched its policy in the Middle East, Afghanistan and elsewhere, Bangkok could botch its economic policies like it did in the 1990s. Thailand, like the rest of Asia, is old wine dressed in new bottle. The pre-crisis policies are still there. They're not hard to pick. And speculative capital will be just that – speculative. Not a single government anywhere will be able to tame it. It never has; it never will. And attempts to do so have dire domestic implications, as Thailand is again finding out. **mb**