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South-East Asia

All serene

BANGKOK

Our correspondent is leaving South-East Asia after four years. He reports that politics and economics there have never seemed so smooth

AS LAST year's statistics trickle in, it is becoming clear that almost all South-East Asia's big economies grew by over 5%. Governments around the region are forecasting much the same for 2006. If they are correct, this will be the third straight year of steady expansion. Only Thailand, which has not yet published an official growth figure for 2005, is likely to lag behind, at a mere 4.7% or so. For a region that suffered a deep recession after the Asian financial crisis of 1997, and several years of see-sawing economic fortunes after that, the last few years have proved surprisingly stable and prosperous.

Much the same could be said of South-East Asia's politics. The crisis overturned the established political order altogether in Indonesia and Thailand, and shook it to the core in Malaysia. Even the docile citizens of Singapore began grumbling when their normally buoyant economy went into recession in 2001. Since then, however, relatively young, popular new leaders have come to power in Indonesia, Malaysia and Thailand, not amid protests and putsches, but by normal democratic means. South-East Asia, in short, is becoming hearteningly staid.

For several years after 1997, the fallout from the crisis dominated public life. Gov-

ernments suddenly found themselves taking over failed banks, and attempting to restructure them or sell their assets. In the process, they were saddled with huge debts, which they struggled to finance. Foreigners wanted to take advantage of the region's devalued currencies and foundering conglomerates to buy up local firms on the cheap. Local businessmen, naturally enough, wanted protection from such depredations. Humbler folk struggled with stubbornly high unemployment and poverty. These thorny issues displaced the previous bickering over the spoils of rapid economic growth as the focus of policy-making.

Thaksin Shinawatra, Thailand's prime minister since 2001, promoted the idea of "asset reflation"—a souped-up form of fiscal pump-priming—as a means for his country to escape the economic doldrums. Successive Indonesian governments, in more dire financial straits, battled long and publicly with the International Monetary Fund (IMF) over the conditions of its loans. Malaysia, for its part, defied the received financial wisdom and imposed currency controls, while fixing its exchange rate.

These controversies have now played themselves out, by and large. State-run corporate restructuring agencies have shut up

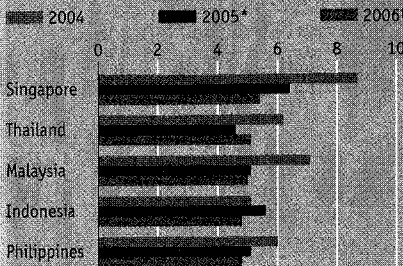
shop or adopted new mandates. Last year, Malaysia dismantled the last of the contentious measures imposed in the aftermath of the crisis, by allowing its currency to float. Thailand, where big current-account deficits in the run-up to the crisis had bred paranoia about the balance of payments, slipped quietly back into the red last year for the first time since 1996. Also in the past year, Indonesia's constant lament about a sustained fall in investment since the crash turned to celebrations, as the numbers finally began to pick up.

Nowadays, debate tends to focus on the finer points of economic management. In Malaysia, for example, the decision to float the ringgit was overshadowed by a blazing row over the allocation of permits to import cars—hardly an issue on which the fate of the economy hinges. Thais have taken to the streets recently to protest the listing of a big brewer on the stock exchange, the privatisation of an electricity firm and suspected corruption in government, but not the overall direction of the economy.

Even the heated debate over co-operation with the IMF and other meddling foreigners seems to have lost much of its resonance. A year or two ago, ritual denunciations of the Fund were a staple of public life. In 2003, Ad Carabao, one of Thailand's most famous musicians, dredged up the subject in the middle of a demonstration against America's invasion of Iraq. The same year, Mr Thaksin held a rally of his own to celebrate Thailand's early repayment of its IMF loans, or Thailand's "independence", as he grandly put it. But Mr Thaksin must believe that nationalist sensitivities have subsided ▶▶

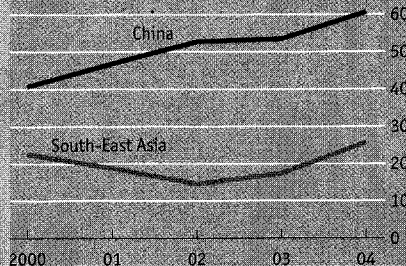
Laying the crisis to rest

Real GDP, % increase on previous year



Sources: National statistics; Thomson Datastream; The Economist poll of forecasters; UNCTAD

Foreign direct investment inflows, \$bn



*Estimate †Forecast

Japan's economy

Picking itself up

TOKYO

The recovery is spreading, by and large

IF THE latest figures are to be believed, then last year, Japan (yes, Japan) grew faster, at 2.8%, than any G7 economy except America. And as of the final quarter of the year, it was growing faster than America as well, clocking up a 4.2% growth rate, year-on-year. Japan's GDP figures are notoriously prone to revision, so some of the shine may yet come off last year's performance. What is not in doubt, though, is that Japan's recovery is solid and increasingly broad-based.

In the recovery's early stages, rapid export growth played a crucial part in boosting industrial production and so company profits. After a soft patch early last year, export growth has accelerated again, with demand from China particularly strong. But what is striking now is the recovery in domestic demand. Companies with growing order books are spending on capital goods: fixed-capital investment grew at an annualised 7.2% in the last quarter of the year, while the outlook for machinery orders looks buoyant. Companies need to hire more workers. So the availability of jobs continues to grow. For the first time in over a decade, for instance, Japan has as many jobs on offer as there are applicants. Demand for workers is pushing up wages, and that is now clearly being felt in the shops. In the last quarter of 2005, personal consumption jumped sharply, growing at an annualised 3.2%. Department stores in and around Tokyo report brisk winter sales, and the first retail growth in nine years looks set to continue.

Confidence is returning to the housing market, too. New housing starts are holding up in the face of heavy winter snows, as well as a confidence-sapping scandal involving faked earthquake-resistance data

▶ somewhat since then, or he would not have allowed his family to sell most of their business interests to the government of Singapore.

Indonesia, admittedly, is still toying with the notion of paying off its IMF debts early. But the finance minister floating the idea used to work for the Fund herself, and her decision seems to rest more on financial than populist grounds. There are still gripes about the many free-trade deals under negotiation, and about foreigners buying strategic assets, but the "Washington consensus" of fiscal conservatism, floating currencies and open markets is fast becoming a South-East Asian consensus as well.

The region has mellowed politically, too. In Malaysia, for instance, the fate of Anwar Ibrahim, a former finance minister who was jailed after breaking ranks with the government, dominated the political debate for years. Yet Mr Anwar's release in 2004 created barely a ripple. The policies he had championed from his prison cell, including reform of the ruling party and an end to extravagant and corruption-prone building projects, had already been adopted by Abdullah Badawi, Malaysia's prime minister since 2003.

Singaporean officials have become less stern with their own citizens. Singaporeans can now chew gum, read *Cosmopolitan* and dance on bar tops. Soon, they will be able to gamble too, thanks to the authorities' decision to license two casinos. Instead of simply scolding voters, the government has taken to pandering to them: it will run a budget deficit in the run-up to the next election, to pay for a series of one-off hand-outs.

The most remarkable political transformation of all has taken place in Indonesia, which churned through three presidents in quick succession following the ouster of long-serving strongman Suharto in 1998. Pundits had worried that the country might disintegrate or implode, thanks largely to its incompetent and self-serving politicians. Megawati Sukarnoputri, the previous president, dispelled these fears to some extent, by restoring macro-economic stability. But her efforts to rationalise government spending, by cutting fuel subsidi-

es, and to negotiate an end to the secessionist rebellion in Aceh province both came to naught.

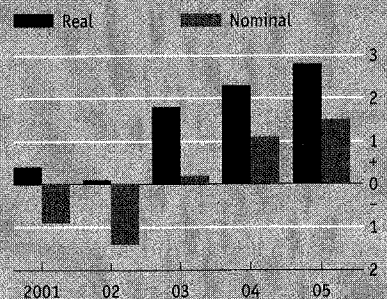
Yet in just over a year, Susilo Bambang Yudhoyono, Indonesia's current president, has managed to bring peace to Aceh and raise fuel prices with relatively little fuss. Moreover, Mr Yudhoyono's rise to the presidency was just one element of a broader political evolution. In the run-up to the election of 2004, many wondered whether Indonesians would be able to organise a fair and peaceful vote, let alone elect anyone competent. But Indonesia now holds direct elections not just for the national and regional parliaments, but also for president, governors, mayors and district chiefs. Although incumbents still have an advantage, voters have not hesitated to throw out the most obvious rascals, just as they threw out Miss Megawati when she ran for re-election in 2004, judging her not up to the job. The odds of Indonesia defusing its various sectarian, regional and class tensions peacefully have greatly increased as a result.

Politics still looks somewhat precarious in Thailand and the Philippines: Mr Thaksin is facing growing calls for his resignation, despite his party's landslide re-election last year, while foes of Gloria Arroyo, the president of the Philippines, have sought to impeach her on charges of rigging her election in 2004. But even in these cases, events are taking a more sedate turn than they might have a few years ago. "People power" protesters have not managed to unseat Mrs Arroyo, as they did her predecessor, Joseph Estrada. Mr Thaksin's survival, meanwhile, is testimony to the stability ushered in by Thailand's constitution of 1997. The sort of self-serving MPs who used to topple past governments on a whim cannot defect from Mr Thaksin's without losing their jobs.

There is one critical way in which the region still seems to be struggling, however. Before the crisis, South-East Asia used to attract more foreign investment than China. Now China rakes in more than twice as much. Perhaps, if the region remains on such a steady keel, that too might eventually change. ■

Getting going

Japan's GDP, % change on previous year



Sources: National statistics; Thomson Datastream