



Asia Pacific: Economic Review February 2010

In a new report titled the Global Economic Prospects 2010, the World Bank forecasts global gross domestic product (GDP), which fell by 2.2% in 2009, to grow 2.7% this year and 3.2% in 2011 on a purchasing power basis.

China is expected to expand 9% this year leading growth in East Asia and the Pacific, which is forecast to grow 8.9% this year. Growth in South Asia is expected to average between 6.9 and 7.4% in 2010 and 2011.

For the month ended February 15, the MSCI Asia-Pacific Index declined a marginal 0.74%.

At a Glance

- **Japan:** The recession-stricken economy surprised analysts with a 1.1% growth in gross domestic production in the third quarter of 2009, compared to the previous quarter, and 4.6% annually.
- **China:** For the second time in 30 days, China's central bank raised the reserve ratio by 50 basis points. Starting Feb. 25th, Chinese banks are required to set aside an additional 0.5% of deposits as reserves, the People's Bank of China said.
- **India:** Exceeding the Reserve Bank of India's (RBI) target of 8.5% by the end of March, wholesale prices in the country rose to a 15-month high of 8.56% in January, topping the 7.31% rise in December.
- **South Korea:** Ahead of regional elections due in May, South Korea's central bank reeled under political pressure to keep rates unchanged to help a recovering economy.
- **Australia:** The Reserve Bank of Australia has reaffirmed its bullish stance on the economy, stating in its latest forecasts that it expects GDP growth of around 3% in 2010.

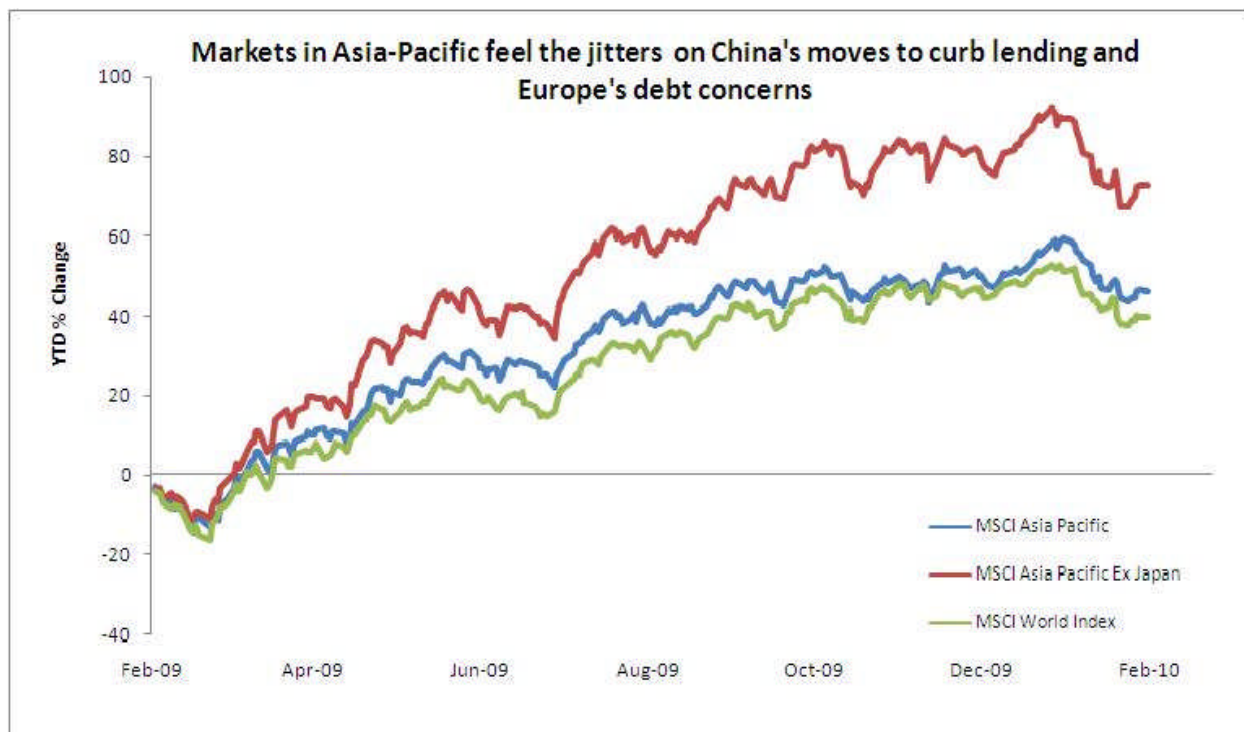
Japan: Economy registers 1.1% growth in third quarter

Is the worst over for Japan? The recession-stricken economy surprised analysts with a 1.1% growth in gross domestic production in the third quarter of 2009, compared to the previous quarter, and 4.6% annually. This small rise in GDP was enough to help Japan retain its position as the world's second largest economy with a net worth of \$5.08 trillion, barely edging out China. And for the first time in 15 months, overseas shipments climbed 12.1% to \$60 billion on a year ago basis. Importantly, exports to Asia rose sharply by 31%, underlining the existing belief that this region would most likely drive the global economy forward.

Deflation has haunted the Japanese economy since the 1990s. That ugly specter is raising its head again, with the GDP Deflator falling a record 3%. The Bank of Japan (BoJ) is well aware of the problem, stressing that fighting deflationary spirals will remain its top priority, and emphasizing that it will 'not allow price declines.' The central bank, for the first time, set an inflation target, saying that it expects domestic prices to increase by about 1% annually. Boosted by cash handouts and other stimulus measures, Japanese consumers are slowly starting to spend again. Consumer spending was up 0.7% as vehicle sales picked up, and consumers bought consumer durables like flat screen televisions.

The Bank of Japan, as expected, kept its key interest rate unchanged at 0.1%, and it is anticipated that the central bank may maintain that rate for the rest of this year with the country's economic recovery continuing to be fragile. The bank evaded pressure from the government, which stated that 1% inflation is the minimum required to maintain price stability. The BoJ does not agree with this stance, stating that deflation is not yet in the danger zone. Core consumer prices dropped 1.3% year-on-year in December, adding to the deflation worries.

For the month ended February 15, the MSCI Japan Index declined 1.33% after a 9.33% rise the previous month.



China: Central bank tightens monetary policy again

For the second time in 30 days, China's central bank raised the reserve ratio by 50 basis points. Commencing Feb. 25th, Chinese banks are required to set aside an additional 0.5% of deposits as reserves, the People's Bank of China said. Concerns are rising about rising inflationary pressures and asset price bubbles, prompting the central bank to be more sensitive to price changes.

China's consumer price inflation eased to 1.5% year-on-year in January, which analysts expect to be just a temporary blip as demand surges in the world's fastest growing economy. That compares to an inflation rate of 1.5% recorded in December, which prompted a nervous central bank to unveil the first of its monetary policy tightening measures.

The government also said separately that housing prices rose 9.5% in January from a year earlier in 70 large and medium-size Chinese cities. There has already been much speculation about a possible asset bubble in China's real estate market. China is poised to take over Japan as the world's second largest economy, especially after economic growth jumped to 10.7% year-on-year in the last quarter of 2009. Exports have continued their strong rebound, rising 21% in January to \$109 billion, from the same period a year ago. This followed a 17.7% year-on-year increase in December. Imports also surged 85.5% in January.

The MSCI China Index gained 1.17% for the month ended February 15 after having dropped 0.19% for the month ending January 15.

India: Inflation worries ahead of budget

Policy makers in India are a worried lot. With the annual budget due on February 26, anxious eyes are being cast at an accelerating inflation trend in India. Exceeding the Reserve Bank of India's (RBI) target of 8.5% by the end of March, **wholesale prices in the country climbed to a 15-month high of 8.56% in January, topping the 7.31% rise in December.** The Wholesale Price Index for December stood at 7.31%. The central bank has already indicated that it plans to tighten its monetary policy, having just last month raised the cash reserve requirement for commercial banks by 0.75% in a bid to drain excess liquidity in the system. However, it must be noted that much of the price hike has been triggered by rising food prices, with year-on-year food price inflation touching 17.97% for the week ended February 6. This follows a weak monsoon, and later, unseasonal flooding that damaged crops. The RBI is widely expected to lower interest rates in its next policy review in April even though it cannot, realistically, control food prices.

Meanwhile, exports continued their impressive rise, climbing 11.5% in January to \$14.3 billion over a year earlier. This marked the third consecutive increase after a disappointing run of 13 successive months when overseas shipments had plunged. The government is hoping that exports will continue their upward trend, and eventually meet the \$200 billion target for 2010-2011.

For the month ending February 15, the MSCI India Index dropped 1.45% after having increased 3.22% for the month ended January 15.

South Korea: Bank of Korea keeps interest rate unchanged

Ahead of regional elections due in May, South Korea's central bank reeled under political pressure to keep rates unchanged to help a recovering economy. Governor Lee Seong Tae, who held the benchmark interest rate steady at 2% in February, is due to step down in March as his term ends. In an obvious reference to the ongoing turmoil in Greece, the bank observed that "the Korean economy will likely sustain its growth trend, but there is a considerable degree of uncertainty over the growth path because of the possibility that fiscal deficit problems in the euro-zone could bring about financial market turbulence."

Adding to the uncertainty, **exports for January fell below expectations, increasing 47.1% year-on-year to \$31.1 billion, after a revised 32.8% rise in December.** Most analysts covered by *Bloomberg News* and *Reuters* had been forecasting a gain of 55%. Imports also climbed 26.7% to \$31.6 billion, resulting in a trade deficit of \$470 million.

The MSCI South Korea Index rose 0.39% for the month ended February 15 after a surge of 4.38% for the month ended January 15.

Australia and New Zealand: RBA remains bullish on economy; New Zealand jobless rate unexpectedly rises

Australia sets apart from the rest of the developed world, which is struggling with uncertainty over the path their economies are charting. The country was already one of the first to raise interest rates, and the Reserve Bank of Australia (RBA) has reaffirmed its bullish stance on the economy, stating in its latest forecasts that it expects GDP growth of around 3% in 2010. The RBA has already raised interest rates three times since its first such hike late last year. **The benchmark interest rate stands at 3.75%, and the bank kept this rate on hold during its February policy meeting.**

Glenn Stevens, the RBA governor, has consistently maintained that Australia has been virtually unscathed during the global recession, pointing to unemployment figures for January which dropped to 5.5%, a figure that he said was good even during boom times, let alone a recessionary period like the one the world is currently facing. Far from managing a recession, the bank said that it is now focusing its attention to what it termed as the “challenges of managing an economic expansion.”

Australia’s relative success stands in stark contrast to New Zealand’s struggles. The country’s jobless rate dramatically rose to a 10-year high of 7.3% in the fourth quarter. The central bank has thus far resisted raising interest rates, holding the benchmark cash rate at 2.5% in its last policy meeting.

The MSCI Australia Index fell 0.35% for the month ended February 15 after having climbed 3.49% for the month ended January 15. The MSCI New Zealand Index also declined 5.41% for the same period after having risen 2.29% the previous month.

Indonesia and Philippines: Indonesia inflation stays stable at nine-year low; Philippines central bank keeps interest rate steady

Although concerns are mounting over high inflation, Indonesia’s central bank stated that spurring economic growth remains its primary goal and maintained its benchmark interest rate at 6.5%. Consumer prices rose to 3.72% in January this year, abetted by rising rice and commodity prices. The central bank is forecasting inflation will fall within the range of 4% to 6% this year,

from comfortable levels of 2.78% that were seen in 2009. With the global economy recovering, Indonesia's Trade Ministry voiced confidence that exports would grow by 7% to 9%. Unexpectedly, Indonesia enjoyed better results from its export sector, with non oil-and-gas exports declining by a smaller-than-expected 9.7% to touch \$97.5 billion in 2009, compared to the year before. Most forecasts had pegged exports to decline at least 10% to 15% last year.

Meanwhile, the **Bangko Sentral ng Pilipinas decided to keep the BSP's key policy interest rates steady at 4% for the overnight borrowing or reverse repurchase (RRP) facility and 6% for the overnight lending or repurchase (RP) facility.** Commenting on its January 28 monetary policy, the central bank emphasized that 'the current monetary policy stance remains appropriate,' considering that the Philippine economy is expected to expand at a relatively modest rate of 2.6% to 3.6%. Inflation eased for the first time in five months, dropping to 4.3% in January over a year earlier. This punctuated the bank's confidence that inflationary pressures would not be a problem for the rest of this year.

Also, exports rose in the Philippines by 23.6% in December over the year earlier to \$3.30 billion, driven by surging demand for the country's electronic products. Despite the late revival, exports for the year plunged by 21.9% to \$38.3 billion in 2009 compared to the previous year. The drop in exports was precipitated by the global financial crisis and the subsequent recession in the U.S, the Philippines' main trading partner. The U.S. still remains the biggest market for the country, after it bought around \$627 million worth of goods.

The MSCI Indonesia Index crept up by 4.94% for the month ended February 15 after it had ascended 6.59% for the month ended January 15. For the month ended February 15, the MSCI Philippines Index rose 1.18% after rising 2.49% the previous month.

Thailand: Exports rise even as economy expands

One of the region's manufacturing powerhouses, Thailand saw overseas shipments rise 30.8% year-on-year in January to \$13.72 billion, the most that exports have climbed in the past 18 months. Imports also rose by 44.8% to \$13.2 billion, resulting in a trade surplus of \$516 million.

Aided by the rebound in the export sector, and assisted by a rise in tourist arrivals, **Thailand's economy expanded by 3.6% in the fourth compared over the previous quarter,** and 5.8% compared to the year ago period. The unexpected improvement in performance pushed Thailand's economy towards an annual contraction of just 2.3%, topping the forecasts earlier, which had predicted the country's economy would shrink by as much as 4% in 2009. The government also revised upwards its growth target for 2010, expecting GDP to range between 3.5% to 4.5%. Thailand depends to great extent on its tourism, and that sector also showed signs

of gaining momentum. The fourth quarter saw 1.63 million visitors, an increase of 40.8% from a year earlier.

Despite the encouraging trend economically, Thailand continues to simmer politically. Analysts fear that Thaksin's supporters, known as the Red Shirts, may stir up protests if the deposed leader's assets are seized. The Supreme Court recently delivered a verdict on Thaksin Shinawatra's assets, determined at nearly \$2.2 billion. The former prime minister has been living abroad in order to avoid serving a two-year jail term.

Meanwhile, inflation rushed to a 16-year high of 4.1% year-on-year in January, while the Consumer Price Index rose 3.5% in December. The Bank of Thailand sidelined concerns over rising prices, stating that economic growth needs to stabilize further before contemplating the removal of any fiscal or monetary policies currently in place.

For the month ended February 15, the MSCI Thailand Index declined 2.63% after a rise of 2.9% recorded the previous month.

Hong Kong: Unemployment dips

Hong Kong's seasonally adjusted unemployment rate remained steady at 4.9% in the November to January quarter, matching the previous quarter. Total employment over the period actually increased by 8,600, the result of what the government attributed to 'vibrancy' in business activities in the run-up to the Lunar New Year holidays.' The Chinese Year of the Tiger was celebrated on February 14, and the Secretary for Labor and Welfare, Matthew Cheung Kin-chung observed improving business sentiment and consumer spending that boosted labor demand during this annual celebration.

The MSCI Hong Kong Index turned in a better performance rising 2.34% for the month ending February 15 after a decline of 0.08% for the month ended January 15.

Malaysia and Singapore: Malaysian exports unexpectedly decline; exports jump 21% in Singapore

The Malaysian Institute of Economic Research (MIER), the country's leading economic think-tank, has forecasted that the economy would grow at a rate of 3.7% this year, much less than the government's own prediction of a 5% rise in GDP. MIER said that Malaysia has emerged from a

technical recession but warned that the global economic recovery is proceeding at a slow pace, and might affect the export-oriented country's progress.

Meanwhile, **Singapore, which is in the midst of a recovery from a recession, witnessed non-oil overseas shipments climbing 21% in January over a year earlier.** But exports fell a seasonally adjusted 8.9% compared to December. Commenting on these figures, the government explained that the month-on-month decline in exports was precipitated by a slump in the country's key pharmaceutical industry. Exports to China dominated, rising a phenomenal 75.9% in January compared to the same period a year earlier. The Singapore government says that although it expects exports to be sluggish this year, it does not see the prospect of a recessionary dip in the future.

For the month ended February 15, the MSCI Malaysia Index fell 0.72% after a rise of 4.73% the previous month. The MSCI Singapore Index climbed 0.13% for the same period after a 0.65% rise the previous month.

Pakistan: CPI rises 13.68% in January

After a brief lull, inflation raised its ugly head again in Pakistan with the Consumer Price Index moving up by 13.68% year-on-year in January. The rise was attributed to a 12% increase in electricity prices as well as a 10% jump in gasoline prices. With global oil prices continuing to rise on the back of a strengthening world economy, inflationary risks will remain a concern for the terrorism-ravaged country. **In its latest meeting on January 30, the central bank did all it could, keeping its key policy rate unchanged at 12.5% for the months of February and March.** The bank, however, is expected to cut interest rates in order to revive slumping consumer demand.

Pakistan is embittered by a persistent battle with militant forces in the country's northwest tribal areas bordering Afghanistan, with the costs of battling extremists mounting. With this, the government has set a relatively modest growth target of 3.4% this year, warning that it may struggle without donor aid. The International Monetary Fund (IMF) has already provided Pakistan a loan of \$6.54 billion since November 2008. The organization did express optimism that the economy was on the upswing, stating that there 'early signs of recovery' in some sectors. The IMF stressed that Pakistan needs to go ahead with electricity reforms, as the country continues to be plagued by blackouts that are draining its resources.

The MSCI Pakistan Index dropped 0.24% for the month ended February 15 after a rise of 7.32% for the month ended January 15.

Taiwan: Manufacturing continues to climb; exports surge

Taiwan continues to recover from the recession that has gripped the country for much of last year. The HSBC Purchasing Managers Index rose to 61.7 in January from 58.7 in December. In a statement accompanying the data, HSBC commented that Taiwan's economy "continues to be on the path of robust recovery." However, price pressures are also starting to increase, and HSBC expects the central bank of Taiwan will raise rates sometime this year to combat inflation.

Closer economic ties to China are also helping Taiwan's recovery. As the Asian giant continues on its economic growth trajectory, Taiwan stands to benefit. **Taiwan registered its biggest monthly increase in exports in 33 years as overseas shipments rose 75.8% in January to \$21.75 billion from \$12.37 over a year earlier.** Imports also surged to \$19.25 billion year-on-year from \$8.97 billion, resulting in a trade surplus of \$2.49 billion. Expectedly, exports to China and Hong Kong dominated the surge in exports, a massive 157.5% jump.

Much of the rise could be attributed to a spurt in demand ahead of the Chinese New Year celebrations. That said, Taiwan also is fearful of any measures the Chinese would implement to stop the world's fastest growing economy from overheating.

Taiwan's GDP fell 1.29% year-on-year in the September quarter, following a 6.85% contraction in the previous quarter. For the year, the economy shrank 1.9% despite a late surge in the December quarter, in which GDP zoomed by 9.2% year-on-year. Taiwan has certainly set ambitious targets despite the uncertainty of the global economic revival, with the Ministry of Economic Affairs setting an export target of 22% in 10 markets this year.

The MSCI Taiwan Index dropped 2.95% for the month ended February 15 after it recorded a rise of 2.68% for the month ended January. 🌐

Thomas White International, Ltd.

One Financial Place,
440 South LaSalle Street,
Suite 3900,
Chicago, Illinois 60605.
Email: feedback@thomaswhite.com

Thomas White India Pvt., Ltd.

Suite 300, 3rd Floor
Phoenix Towers
16/1 Museum Road
Bangalore 560001
Tel.: 91-80-40187777

www.thomaswhite.com

The information contained in this publication does not, in any way, constitute investment advice and should not be considered a recommendation to buy or sell any security discussed herein. It should not be assumed that any investment will be profitable or will equal the performance of any security mentioned herein. Thomas White International, Ltd. may, from time to time, have a position or interest in, or may buy, sell or otherwise transact in, or with respect to, a particular security, issuer or market on our own behalf or on behalf of a client account.