



Asia Pacific: Economic Review January 2010

In a new study commissioned by the Asian Development Bank (ADB), the ADB pointed out that although Southeast Asian economies are shown to be recovering faster from the global recession, policy makers should continue to be vigilant in monitoring the recovery. Asia, excluding Japan, will grow 6.6% this year from 4.5% in 2009, the organization added.

Signs of a recovery continued through the month in the Asia Pacific with exports in India and China surging, and Thailand showing improved resilience on the political and economic front.

For the month ended January 15, the MSCI Asia-Pacific Index

At a Glance

- **Japan:** Japan's struggling economy received another jolt when Finance Minister Hirohisa Fujii resigned citing ill-health despite a public plea by Prime Minister Hatoyama to stay through the parliament's upcoming budget session.
- **China:** Unexpectedly, China's central bank raised the yuan deposit reserve ratio for banks by 50 basis points in a bid to prevent overheating of the country's rapidly growing economy.
- **India:** India's Ministry of Commerce and Industry announced fresh incentives for the country's struggling exports sector.
- **South Korea:** The Bank of Korea kept its benchmark interest rate unchanged at 2%, stating that it "will maintain the accommodative policy stance for the time being."
- **Australia:** Retail sales in Australia climbed 1.4% in November, the most in eight months, raising expectations of a further rate hike by the Reserve Bank of Australia.

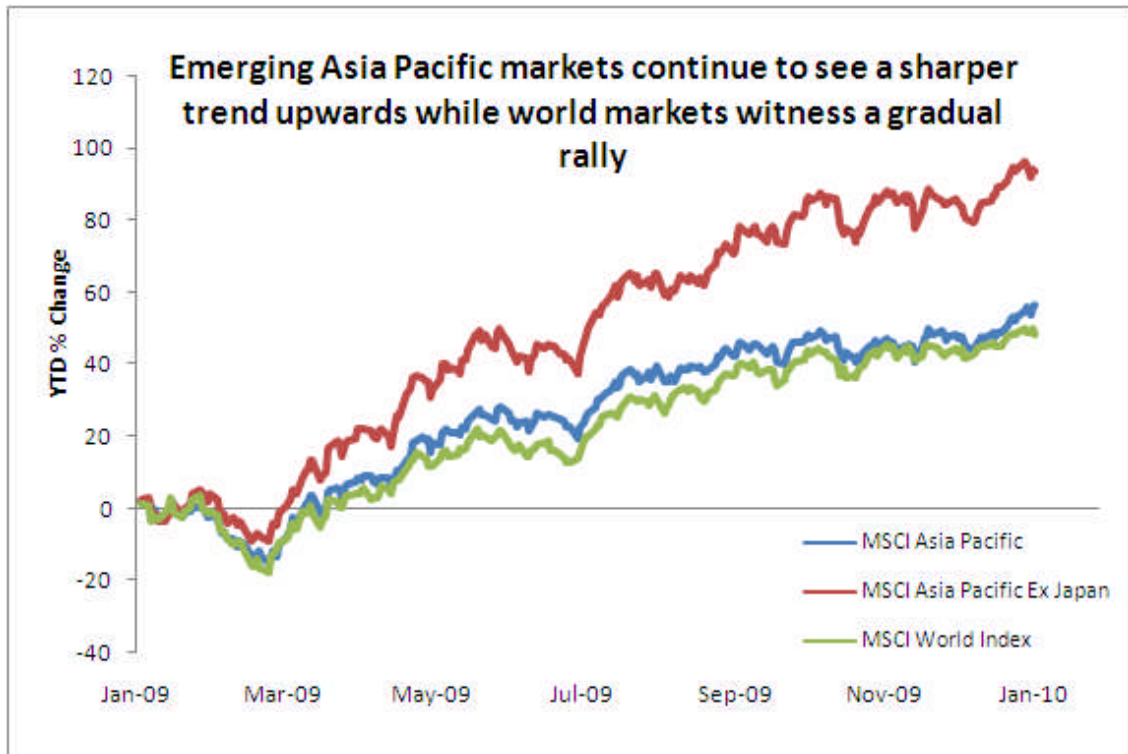
rose 5.25%.

Japan: New finance minister takes over

Japan's struggling economy received another jolt when Finance Minister Hirohisa Fujii resigned citing ill-health, despite a public plea by Prime Minister Yukio Hatoyama to stay through the upcoming budget session in Japan's parliament. Fujii has been suffering from fatigue and high blood pressure, and was replaced as finance minister by Deputy Prime Minister Naoto Kan. Although Kan has little experience in the economic or financial field, he is known to be a tough fighter who has previously tackled jobs like confronting government corruption and overcoming bureaucratic hurdles.

Offering some respite for the nation's beleaguered economy, **machine tool orders soared by 62.8% year-on-year in December** after having fallen for the past seven months, in data released by the Machine Tool Builders' Association. Producer prices also dropped for the 12th month in a row, slipping 3.9% in December compared to the same period a year earlier.

For the month ended January 15, the MSCI Japan Index grew 9.33% after a 1.53% rise the previous month.



China: Central bank tightens monetary policy

In a rather unexpected move, China's central bank, the People's Bank of China, increased the yuan deposit reserve ratio for banks by 50 basis points in a bid to prevent overheating of the country's rapidly growing economy. The World Economic Forum noted concern over this issue, saying that asset bubbles and inflation pressures are building, posing a "major risk" to global growth.

Meanwhile, a massive stimulus is pumping added life into the Chinese economy, which has been responding to the budding global recovery underway. **Exports, the backbone of Chinese growth, grew 17.7% in December over a year earlier while imports also leaped 55.9%** for the same period. China's demand for crude oil as well as iron ore surged as the country's manufacturing industries picked up steam. The explosive jump in imports helped narrow China's December trade surplus to \$18.43 billion from \$19.1 billion in November. Also, in data released by the General Administration of Customs, exports fell 16% to \$1.202 trillion and imports slid 11.2% to \$1.006 trillion, making it one of China's weakest export years.

Manufacturing continued its strong comeback with the Purchasing Managers' Index rising in December for the 10th consecutive time. The Index climbed from 55.2 in November to 56.6 in December, according to data released by the China Federation of Logistics.

The MSCI China Index dropped 0.19% for the month ending January 15, after inching up 0.77% for the month ended December 15.

India: Fresh incentives for export sector

India's Ministry of Commerce and Industry announced fresh incentives for the country's struggling exports sector. Under the government's plan, 112 new products were added to the Focus Product Scheme, with these products receiving the benefit of 2% of the FOB (Free on Board) value of exports for all markets. Another 2,000 products were added to the Ministry's various export schemes. The Ministry justified the additional stimulus for the export sector, stating that the global recovery was still in a tentative phase, and these incentives were necessary to help the sector grow. **India's December exports rose to \$14.6 billion in December** last year, compared to \$12.7 billion for the same period the year before.

There has been encouraging data coming in, showing that South Asia's biggest economy is well on the path to recovery. The closely-watched Index for Industrial Production (IIP) rose 11.7% in November from a year earlier after a 10.3% expansion in October. This marked the fastest pace of growth in almost two years. Manufacturing led the way, rising 12.7% year-on-year while

output from mines also grew 10%. However, inflation remains a worry for government, and the Reserve Bank of India, which is meeting next on January 29, is expected to take steps to curb runaway prices. Food prices, in particular, have shown no signs of receding with food inflation climbing to an 11-year high of 18.2% for the week ending December 26. Annual inflation also rose to 7.31% in December compared to the same period a year earlier. Despite the weakest monsoon in several decades, the Indian economy surpassed expectations by growing 7.9% in the July-September quarter over a year earlier, prompting speculation that the government may redirect its focus to the inflation battle.

For the month ending January 15, the MSCI India Index increased 3.22%, after dropping 0.32% for the month ended December 15.

South Korea: Bank of Korea keeps interest rate unchanged

South Korea remains wary of any early withdrawal of stimulus measures, with the Bank of Korea bowing to the Finance Ministry's wish that the bank's accommodative monetary policy be maintained for some more time still. Accordingly, the Bank of Korea kept its benchmark interest rate unchanged at 2%, stating that it "will maintain the accommodative policy stance for the time being in such a way as to help sustain the trend of recovery in economic activity." In its statement, the bank added that domestic economic activity is on a recovering trend even as exports and domestic demand have both significantly expanded. It justified the need for keeping the benchmark rate at historic lows, saying that there is "uncertainty as to the economic growth path due to the risk of delay in full-fledged recovery of the major advanced economies."

Meanwhile, there was a sign of a continued uptick in economic activity when December exports surged for the first time in 14 months. **Overseas shipments expanded 33.7% to \$36.2 billion in December** from a year earlier, while imports also rose 24% to \$32.9 billion resulting in a trade surplus of \$3.3 billion. The country's trade surplus hit a record \$41 billion for the whole year as exports dropped 13.8% and imports rose 24%.

Demand in the export sector was led mainly by semiconductors and display panels, as sales to the key markets in the U.S. and Europe picked up. Yet, weak data emerged in November when industrial output rose to a seasonally adjusted 1.4% in November from a month earlier. Despite this, the Business Sentiment Index in January climbed to 93 from 86 in December, indicating that manufacturers continue to be upbeat about the country's recovery from an economic slump. President Lee Myung-bak himself remains optimistic, stating that the economy will grow more than 5% this year after barely skirting a recession last year.

The MSCI South Korea Index surged 4.38% for the month ended January 15 after rising 7.43% the previous month.

Australia and New Zealand: Retail sales rise in Australia along with inflation; New Zealand trade deficit slips to 7-year low

Retail sales in Australia rose 1.4% in November, the most in eight months, raising expectations of a further rate hike by the Reserve Bank of Australia. The spike could be attributed to an increase in shopping due to the traditional Christmas and New Year holiday season. Retailers had discounted items heavily and much of the gain was led by clothing, which grew 2.5% compared to the previous month.

An improving export outlook helped slash the trade deficit aided by a decline in imports and China's continued voracious appetite for the country's mineral resources. **The November trade deficit slumped to \$1.57 billion following October's revised deficit of \$2.08 billion.** Meanwhile, a private measure of inflation rose at its fastest pace in nine months, providing justification for the central bank's recent rate hikes. The TD Securities-Melbourne Institute inflation gauge rose by 0.3% in December, similar to the 0.3% increase in November.

The Australian economy continues to be in relatively good health as evidenced by the fact that employers added 135,700 jobs between September and December, and unemployment stands at an eight-month low. For the month of December, unemployment dropped to a seasonally adjusted 5.5% from 5.6% the previous month, providing insight into Australia's remarkable recovery from the global recession compared to other developed nations such as the U.K., or the U.S, which have struggled to mount a full-fledged and consistent economic rally.

Meanwhile in New Zealand, imports slumped 3.5% in November, pushing the trade deficit to a seven-year low even as exports grew 3.5% in November from the previous month. New Zealand has struggled to recover from a debilitating recession, with GDP only rising by 0.2% in the second and third quarter of 2009.

The MSCI Australia Index climbed 3.49% for the month ended January 15 after a drop of 1.38% for the month ended December. The MSCI New Zealand Index also rose 2.29% after a fall of 1.55% for the previous month.

Indonesia and Philippines: Indonesia inflation remains stable at nine-year low; Philippines inflation unexpectedly rises

The Consumer Price Index or CPI in Indonesia rose just 2.78% in December compared to the same period a year before. November inflation stood at 2.41%. Stable prices raised expectations that Bank Indonesia will delay an interest rate hike and instead focus on spurring the economy ahead. Bank Indonesia kept interest rates steady at 6.5% in its last policy meeting on January 6, stating that the Indonesian economy has demonstrated ‘considerable resilience’ during the global economic crisis. The nation is already poised to be one of Asia’s brightest prospects over the next decade and President Susilo Bambang Yudhoyono has set lofty targets for Indonesia, expecting the country’s economy to grow an average 6.6% annually over the next five years.

Meanwhile, in the Philippines, **annual inflation rose sharply to an eight-month high of 4.4% in December over a year earlier.** This was mainly attributed to higher fuel and food prices, exacerbated by a series of deadly storms that struck the Philippines in the last few months of 2009. For the whole of 2009, however, annual inflation slumped to a comfortable 3.2% as food prices tumbled down to more manageable levels. This was well within the government's target of between 2.5% and 4.5%. The government is targeting inflation for this year to fall in the range of 3.5% to 5.5%.

Such comfortable inflation levels have prompted the central bank of the Philippines to keep the overnight borrowing rate steady at 4%, and the overnight lending rate at 6% for the fourth time in a row in December. The bank meets next on January 28 where it is expected to maintain the same interest rate with no changes expected until the third quarter of this year. In another sign of increasing global economic stability, remittances by overseas Filipinos surged 11.3% in November from a year earlier. For the first 11 months of 2009, remittances moved up to \$15.8 billion, with figures in the latter half of the year boosted by extra funds sent by families to those affected by the typhoons that hit the country. The central bank is expecting total remittances for last year to rise 4% to 17.1 billion. The Philippines has nearly 10 million overseas workers whose remittances form a major part of the country’s GDP.

There was further encouraging news for the Philippines when exports reversed a 10-month slide, increasing 5.1% year-on-year in November to \$3.69 billion. Electronic shipments, a crucial component of the Philippines export sector, rose 6.9% to \$2.15 billion. Total exports in the first 11 months of 2009 touched \$35 billion, dipping by 24.6 percent from the \$46.2 billion in the same period in 2008. The export-dependent nation experienced a contraction of as much as 40% in overseas shipments in the first few months of last year, and although the government continues to be hopeful that exports will return to positive territory for the year as a whole, the

risks remain inherent, especially considering that the Philippines depends on the U.S. for much of its exports.

The MSCI Indonesia Index ascended 6.59% for the month ended January 15 after climbing 4.11% for the month ended December 15. For the month ended January 15, the MSCI Philippines Index climbed 2.49% after rising 2.10% the previous month.

Thailand: Central bank keeps interest rates unchanged

In an expected move, Thailand's central bank kept the benchmark interest rate unchanged at 1.25% in its latest policy meeting in January. The central bank said that fostering economic growth remains its priority and inflation is not a concern as yet. Although the annual inflation rate rose sharply to a 14-month high of 3.5% in December from 1.9% in November last year, the central bank commented that inflationary pressures were mostly led by higher oil prices and that it remains comfortable with the current prices. It is forecasting Thailand's annual inflation for 2010 to fall in the range of 3.5% to 5.5% this year. In a bid to rejuvenate the economy, the central bank cut borrowing costs by 2.5% percentage points from December 2008 to April 2009.

Encouragingly, the Consumer Confidence Index rose to a 16-month high of 70.4 in December from 69.1 in the previous month. The Index has been edging up in the past few months as Thailand continues to recover from the twin negative effects of political uncertainty and the economic recession. The country's \$260 billion economy increased a seasonally adjusted 1.3% in the third quarter from the second, climbing out of its first recession in 11 years. Most of the respondents in the survey still found the political situation in Thailand to be fragile, and counted that as the single most important factor that might impede the tourism-dependent nation's economic progress.

For the month ended January 15, the MSCI Thailand Index rose 2.9% after climbing 3.15% the previous month.

Hong Kong: Retail sales rise in November

Retail sales in Hong Kong rose 11.7% in November year-on-year to \$2.95 billion led by increased sales of big-ticket items such as motor vehicles and consumer durable goods. For the first 11 months of 2009 combined, total retail sales decreased by 1.0% in value or 2.0% in volume when compared with the same period a year earlier.

Also in November 2009, **the value of total exports of goods increased by 1.3% over a year earlier to HK\$234.1 billion**, after a year-on-year decrease of 13.1% in October 2009. Imports in November also rose 6.5% from a year earlier to HK\$254.8 billion. The government commented in a statement, “The on-going recovery of the global economy... should continue to be conducive to world trade and hence Hong Kong's trade performance in the coming months.”

The MSCI Hong Kong Index declined 0.08% for the month ending January 15, after rising by a marginal 1.91% for the month ended December 15.

Malaysia and Singapore: Malaysian exports unexpectedly decline; Singapore economy contracts

Malaysian exports declined 7.7% in November over a year earlier after rising the previous month. Malaysia has been struggling through the recession, as sales of crude oil slumped and demand for electronic products dropped. Just as with the exports, industrial production also declined in November, sliding 1.3% from a year earlier. However, in other data released recently, the country's manufacturing output rose 0.9% in November, following a revised 1.6% gain the previous month.

For the first time in three quarters, **Singapore's economy surprisingly contracted in the fourth quarter**. GDP dropped 6.8% in the fourth quarter of 2009 compared to the third on a seasonally adjusted, annualized basis. That compares to a 14.9% climb in the third quarter. The economy, as a whole, is expected to have shrunk 2.1% for 2009. The government attributed the decline “to a contraction in the output of the biomedical manufacturing and transport engineering clusters.” Yet, the unexpected contraction didn't stop Prime Minister Lee Hsien Loong from reiterating that the island's economy would grow as much as 3% to 5% this year.

Meanwhile, retail sales continued to tumble in Singapore but the pace of decline was slower as the recession slowly lifted and consumers loosened their purse strings. November retail sales dipped 1.4% compared to a year earlier, according to data released from Statistics Singapore. This followed a 4.6% drop in October. There was further good news for the city state when visitor arrivals jumped 8.4% to 830,000 in November over a year earlier. Singapore's services industry, according to government estimates, grew 3.7% in the fourth quarter from a year earlier, after falling 2.2% in the previous three months.

For the month ended January 15, the MSCI Malaysia Index grew 4.73%, building on the 0.89% rise in the month ended December 15. The MSCI Singapore Index climbed 0.65% for the same period after a 2.16% jump the previous month.

Pakistan: Inflation surges in December


The Consumer Price Index (CPI) rose for the second consecutive month in December to 10.52% year-on-year. The accelerating inflation dashes expectations that Pakistan's central bank may reduce interest rates, especially as the government has already increased power tariffs and raised gas prices. Pakistan has suffered through anemic growth in the past year or so as it has struggled with repeated terrorist attacks and a weak government. The International Monetary Fund, which has already granted a \$7.6 billion loan to Pakistan, has forecast inflation to remain in the range of 9% to 11% for the current fiscal year. **Despite inflationary concerns, the central bank of Pakistan expects the country to grow at a rate of 3.3% in the 2009-2010 fiscal year.** The State Bank of Pakistan said that it expects most of this growth to come from the services sector, and expressed optimism that Pakistan might obtain some degree of macroeconomic stability with several key indicators expected to turn positive in the next few months.

The MSCI Pakistan Index surged 7.32% for the month ended January 15 after declining 0.11% the previous month.

Taiwan: Exports rise in December

Exports in Taiwan surged at the fastest pace in almost 20 years as a recovering global economy increased demand for the nation's main electronic products. Taiwan is one of the world's leading producers of microchips and other electronic components. **Overseas shipments in December totaled \$20.03 billion, an increase of 46.9% from a year earlier** while imports also rose 56.2% to \$18.34 billion from US\$11.78 billion a year earlier. While there is no doubt that exports are on a recovery path, the base of comparison (December 2008) was very low, and it remains to be seen if the island can sustain this furious pace of growth.

Taiwan is continuing to pursue a path of greater understanding with its neighbor and rival, China. After a thaw in bilateral relations, the Taiwanese government announced that it would allow Chinese institutional investors to invest up to \$500 million in the nation's stock market. However, each investor is allowed to invest a maximum of \$80 million. This follows other agreements between the two countries, which allow the establishment of banking, insurance and securities firms in each other's countries.

The MSCI Taiwan Index climbed 2.68% for the month ended January, after a 2.12% rise for the month ended December 15. 

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