



Asia Pacific: Economic Review June 2010

The Asian Development Bank (ADB) raised its 2010 forecast for Developing Asia from 7.5% to 7.9%, stating that strong exports, rising domestic consumption and stimulus initiatives in various countries could take the region's growth trajectory higher.

For 2011, the ADB expects growth to lessen to 7.3%, citing increased uncertainties in the world economy. The bank suggested that stimulus measures be withdrawn with care, taking note of domestic economic conditions. Growth projections for India and China, however, remained unchanged, at 8.2% and 9.6% for the year.

At a Glance

- **Japan:** The Bank of Japan, as expected, kept its benchmark interest unchanged at a historic low of 0.1%, but revised upwards its forecast for Japan's troubled economy.
- **China:** The Chinese government's efforts to cool down a rampantly growing economy appeared to have paid off with growth in Asia's largest economy tapering to 10.3% in the second quarter over a year earlier.
- **India:** India joined an elite group of nations that has its own currency symbol, distinguishing the Indian rupee from other currencies in Pakistan, Bangladesh, Sri Lanka and Nepal.
- **South Korea:** The Bank of Korea raised its growth forecast for South Korea, expressing confidence that improving global conditions may cause the economy to expand at 5.9% in 2010 instead of a previously expected 5.2%.
- **Australia:** Australian citizens will go to the polls on August 21 in a key battle pitting the country's first female Prime Minister Julia Gillard against the Liberal National coalition leader, Tony Abbott.

Japan: Bank of Japan ups economic forecast

The Bank of Japan, as expected, kept its benchmark interest unchanged at a historic low of 0.1%, but revised upwards its forecast for Japan's troubled economy. For the year ending March 2011, the central bank expects gross domestic product growth of 2.6%, up from an earlier estimate of 1.8%. However, the bank predicted growth next year (year ending March 2012) would slow down marginally to 1.9% from a previous forecast of 2%. In a statement accompanying the forecast, the BoJ added, "Growth prospects will likely be higher for fiscal 2010, mainly due to acceleration of growth in emerging economies." Deflationary fears were slightly allayed when the central bank said consumer prices should tumble 0.4% for the period, compared to an earlier prediction of a 0.5% drop.

Japan's latest Prime Minister Naoto Kan faced a major setback when his Democratic Party of Japan (DPJ) lost the majority in the upper House of Parliament. Kan still enjoys a majority in the lower House of Parliament, but a divided Diet, as Japan's Parliament is known, could create further hurdles for the country's fragile economic recovery. The Japanese people have also been particularly unhappy over a plan to double the country's sales tax to 10%, a move which the International Monetary Fund has recommended. "The IMF believes Tokyo's new fiscal strategy would be boosted by a gradual increase in the consumption tax, and that adjustment should begin next year," the organization said in its annual review of Japan's economy. The IMF cautions that increased fiscal spending and the effect of one of the most debilitating recessions since World War II has raised the country's debt to serious levels.

Kan is under pressure not to raise the consumption tax, and after the upper House defeat, has promised not to consider the issue until the next general election. Thus far, despite the political uncertainty, consumer sentiment has remained buoyant, surging to its highest level since June 2007, with even large Japanese manufacturers becoming optimistic about business conditions for the first time in two years. The Tankan survey, one of Japan's most keenly watched, showed that more than 98% of the 10,000 companies covered in the survey, were confident that business conditions were taking a turn for the better.

China: Economic growth slows in second quarter

The Chinese government's efforts to cool down a rampantly growing economy appeared to have paid off with growth in Asia's largest economy tapering to 10.3% in the second quarter over a year earlier. This was slightly slower than the furious 11.9% pace of growth clocked in the first quarter. Since then, the government has started to scale down its investment

in infrastructure projects, in an effort to cool down the rapidly overheating property markets, where fears of an asset bubble grew. The slowdown was greeted with some relief by the Chinese government with the National Bureau of Statistics stating that the measure would help the economy 'avoid overheating and assist in the transformation of our economic model.'

The effects of a deceleration in the economy were also reflected in a drop in industrial production, which fell 13.7% in June year-on-year compared to a 16.5% rise in May. Also, the Consumer Price Index (CPI) slid to 2.9% in June from 3.1% in May. Considering the slowdown in these areas, the surge in exports, which rose 43.9% year-on-year in June, following a 48.5% jump in May, was surprising. Imports dropped 34.1% for the same period, resulting in a trade surplus of \$20 billion in May. Despite the slowdown, fears of a meltdown in the Chinese economy appear premature. The Chinese government appears committed to a path of sustainable growth, especially given that inflationary pressures might tighten in the latter half of the year.



India: New symbol for the rupee

India joined an elite group of nations that has its own currency symbol, distinguishing the Indian rupee from other currencies in Pakistan, Bangladesh, Sri Lanka and Nepal. The move indicates confidence in the Indian economy, which is expected to register growth of almost 10% in the next five years.

Compared to fellow BRIC country China, India has been having a tougher time controlling inflation, especially after the government raised fuel prices. This has led to an angry outburst from the Opposition and discontent from the people. The CPI rose to 10.6% in June led mainly by a rise in fuel and food prices. Food inflation, especially, has been one demon the government

and indeed the central bank, has struggled to tackle, rising 14.6% in June from a year earlier while fuel prices increased to 14.3% for the same period.

After a surge in industrial output in April, the Index of Industrial Production or IIP rose just 11.5% in May, slower than expectations of at least 16% for the month. Despite concerns over slowing growth, the Reserve Bank of India indicated that its major concern was to contain inflation, and was widely expected to raise interest rates again when it was scheduled to meet on July 27. But a little more than three weeks ahead of its next rate-setting July meeting, the bank issued a surprise hike in the key policy rates by 25 basis points each, to help clamp down on surging prices in a rapidly recovering economy. However, with a number of incentives benefiting the industry, exports rose 35.1% to \$16.1 billion for the seventh consecutive month in May compared to a year earlier. Imports also climbed 38.5% in May to \$27.4 billion over a year earlier, strengthening the growth in domestic consumption. India's growth, unlike export-driven China, has also been supported by rising domestic demand as the country's middle class continues to grow.

South Korea: Central bank hikes rates and growth forecast

Following in Japan's footsteps, the Bank of Korea also raised its growth forecast for the South Korea, expressing confidence that improving global conditions may cause the economy to expand at 5.9% in 2010 instead of a previously forecast 5.2%. This followed the South Korean government's own projection for a 5.8% rise. After keeping its benchmark interest rate unchanged for months, the South Korean central bank finally raised the main interest rate by a quarter point to 2.25%, worried that inflation might drag a surging economy down. Consumer prices in South Korea rose at a faster than expected rate of 2.6% in June over a year earlier, although prices declined marginally compared to May's 2.7% increase. The central bank said that with surging growth in the industrial sector as well as rise in labor costs, consumer prices may continue to rise in the latter half of this year as well as in 2011.

Despite the crisis in the European Union, exports grew 34.4% year-on-year to \$221.5 billion during the January to June period, while imports also rose 40.2% to \$203 billion for the same period. For June, overseas shipments climbed 32.4% to \$42.65 billion showing that the country continues to be resilient to the crisis in Europe, buffeted by demand from China and other Asian countries. However, it remains to be seen if the country's sound economic performance can be sustained once the effects of the government's stimulus effect wears down. Although not an immediate concern for the government, the jobless rate rose to 3.5% from 3.2% in May, which was the lowest level since October 2008.

Australia and New Zealand: Australia to go to the polls; manufacturing activity expands in New Zealand

Australian citizens will go to the polls on August 21 in a key battle pitting the country's first female Prime Minister Julia Gillard against the Liberal National coalition leader, Tony Abbott. The country's resilient economy, which has been one of the fastest to recover from the global recession, may be a key issue in the run-up to the polls. Also, one of the crucial factors deciding the fate of the contesting parties is Australia's proposal for a new mining tax. The ruling Labor Party has proposed a 30% resource rent tax, while the opposition has said that they would not implement the tax, if elected. In addition, Labor plans to introduce carbon pricing as part of its commitment to climate change, but once again, the opposition differs, stating that it does not approve of carbon pricing. The Australian government is heavily banking on the strong economic growth of the country. In its latest forecast, Julia Gillard's think tank stated that the continuing commodity boom may ensure a budget surplus in 2012-2013. What's more, the Reserve Bank of Australia has maintained its confident outlook in the Australian economy. The central bank was one of the first to begin raising interest rates before maintaining the benchmark interest rate at 4.5% in July, stating that inflation pressure would decide its next move. It still expects the year-end CPI to moderate just over 3%.

While Australia has managed to emerge virtually unscathed from the global recession, concerns remain over whether the country can sustain its recovery. **Retail sales turned in a disappointing performance in May, rising just 0.2% on a seasonally adjusted basis, after a 0.6% seasonally adjusted increase in April.** At the same time, the sales numbers indicate that consumer spending is holding, despite caution over the world economic outlook. There were other signs of economic weakness creeping in though. The Australian Performance of Manufacturing Index fell 3.4 points to 52.9 in June, but still remained well above the 50-point level that indicates an expansion in manufacturing activity. Adding to that, the Australian Bureau of Statistics released data showing that the total number of building units approved fell 6.6% in May compared to April, pointing to government stimulus effects that may finally be starting to wear down.

New Zealand's economic recovery from a severe recession may be in the nascent stage, unlike neighbor Australia, but manufacturing activity expanded for the tenth consecutive month in June. The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) rose 2.2 points to 56.2 in May, as economic conditions remained robust. As well, retail sales grew 0.4%, slightly below expectations, with the housing sector continuing to worry. However, New Zealand's economic growth is accelerating, and that was reflected in the country's GDP, which grew at the fastest pace in two years in the March quarter. The country recorded annual economic growth of 1.9%

in the March quarter over a year earlier. Quarter-on-quarter, the economy expanded 0.6%, the fourth such consecutive quarterly expansion.

Indonesia and Philippines: Indonesian government ups growth forecast; Philippine central bank keeps interest rates unchanged

Indonesia may very well be Asia's next economic tiger, if the country's phenomenal pace of growth keeps up. **The Indonesian government raised its growth forecast to 5.9% this year, boosted by strong domestic demand and continuing growth in the export sector.** The central bank has also indicated that it is likely to keep the benchmark interest rate unchanged despite a sharp surge in inflation, which rose from 4.16% in May to 5.05% in June. The monetary authority said, though, that consumer prices remained within its comfort level.

Meanwhile, the Philippines central bank kept interest rates unchanged at 4% after noticing a slowdown in inflation. Annual inflation dropped to 3.9% in June from 4.3% in May. Bangko Sentral ng Pilipinas lowered the inflation forecast for both 2010 and 2011. The CPI is expected to peak at 4% this year, down from the previous forecast of 4.7%. In 2011, the inflation forecast was further reduced from 3.6% to 3%. Unlike other emerging economies in Malaysia, India and Thailand, the Philippines faces the prospect of a fairly benign inflationary period, and that gives its policy makers the extra cushioning to concentrate on growth even though central banks in these other neighboring countries have already started tightening rates.

"Current monetary policy settings continue to be appropriate given the favorable inflation outlook," the Philippine central bank said. The Philippines economy boomed in the first quarter, accelerating 7.3% in May over a year earlier. That augurs well for the growing economy, coupled with May's encouraging export figures showing overseas shipments rising 37.3%. Overseas remittances, one of the biggest contributors to the country's GDP, skyrocketed during the same month to \$1.6 billion, the highest ever recorded.

Thailand: IMF raises growth forecast to 7.5%

With talk of elections in November looming, Thailand's volatile Red Shirts appear to have calmed down for now. Although forecasts for any kind of political stability in Thailand are premature, the International Monetary Fund (IMF) said that it expects the Thai economy to grow as much as 7.5% in 2010, up from its earlier forecast of 7%. For next year though, the IMF warned that growth could tumble to as much as 4.5%, a downward revision from a previous forecast of 4%, as worries in Europe could intensify and hamper the economic recovery. The

IMF added that political volatility may also dampen growth, and it is against this backdrop that the proposed November elections gain increased significance.

The central bank, for the first time since the onset of the global recession, raised its benchmark interest rate by 25 basis points to 1.50%. The bank said that the Thai economy continues to improve, and inflationary pressures are currently benign. “Overall, the growth of the Thai economy is therefore projected to be higher than previously anticipated,” the bank concluded in its statement. Consumer prices in Thailand cooled in June, but the central bank has stated that it intends to keep a keen eye on price movements.

Hong Kong: Jobless rate remains steady

Hong Kong’s economy is on the recovery path after receiving a mauling during the recent recessionary period. The country’s seasonally adjusted jobless rate remained steady at 4.6% in the second quarter ending June. In fact, total employment increased by around 8,800 in the second quarter compared to the previous one, and the labor force rose by around 8,300.

Also, retail sales in the city continue to expand, with May retail sales rising 19.7% over a year earlier. Taking the first five months of 2010 together, total retail sales increased by 18.3% in value or 15.2% in volume, over the same period a year earlier.

Malaysia and Singapore: Export growth slows in Malaysia; scorching GDP expansion for Singapore

There have been concerns raised in Malaysia that the economy might perform less impressively in the second quarter, and some of that unease may be justified after exports grew at the slowest pace in three months in May. **Exports grew 21.9% year-on-year in May to \$16.19 billion, with exports to the U.S., China and Europe dipping while imports climbed 34.2% for the same period.** Exports had grown 26.6% year-on-year in April. Looking ahead, it seems likely that a strengthening ringgit might hit the export sector harder in the next few months. So far this year, the Malaysian ringgit has appreciated 6.2% against the dollar and as much as 22% against the euro.

Singapore may be one of the tiniest economies in terms of size in Asia, but the city-state clocked an astonishing growth of 19.3% in the period from April through June, even as news emerged that China’s powerhouse economy slowed down in the second quarter. "Growth was driven by a surge in the output of biomedical manufacturing, as well as a strong

expansion in electronics underpinned by healthy worldwide demand," the Trade and Industry Ministry said in a statement. That scorching pace forced the government to revise upwards its growth forecast for the year to 15% from a previous projection of 7% to 9%. However, retail sales fell by 3.4% in May from a year ago, mainly due to a sharp plunge in car sales, which dropped 36.9%. The country is one of the most export-reliant in Asia, and a thriving export sector has led the country's astonishing pace of growth. Exports accelerated in June, shooting up 29% year-on-year, after a 24% annual rise in May. Worries about a slowdown in Europe may have been allayed when exports to the European Union surged 75%, making the region Singapore's top export market for the month.


Pakistan: Economy registers surprisingly strong growth

Pakistan's economy has been ravaged by insurgency over the past few years, and the country's embattled government appealed to the world for aid in helping rebuild an economy that was once considered one of the brightest in Asia.

Inflation has dogged the Pakistani economy over the past two years, but the central bank has been working hard to tame the beast. The CPI rose 12.69% in June over a year earlier. There have been signs that the battered economy might revive, especially with strong fiscal management. The country's trade deficit narrowed 10.6% in the fiscal year 2009-2010, led by an expansion in the export sector. Overseas shipments grew 3.8% in June over a year earlier, with the country exporting goods valued at \$1.82 billion when measured in dollar terms.

Taiwan: Exports continue to expand

Aided by strong demand from China, Taiwanese exports rose 22.48% in June over a year earlier, easing slightly from the 34% increase recorded in the previous month. Although the figures seem impressive, it also marks the slowest pace of growth for the export sector since October 2009.

Still, the Taiwanese economy is on the move, and the central bank unexpectedly raised interest rates on 10-day loans from 1.25% to 1.37%, citing improved economic factors. Growing demand from Asia, especially China, has buffeted Taiwan through the storm of the global recession, helping its economy expand strongly by 13.27% in the first quarter of this year. Domestic consumption is also on the rise, with the annual CPI averaging 1.19% for the first five months of the year. 

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