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Asian economies set to decelerate in 2009

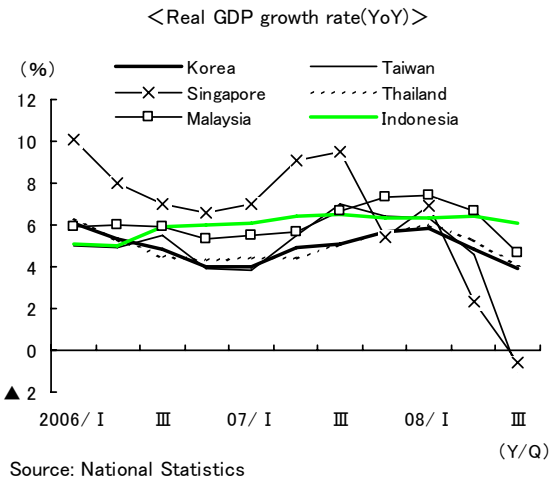
In 2009, Asia's economies are expected to grow at levels significantly below those of 2008, due to the effects of deceleration in both domestic and foreign demand. The economies of China and India will likely be bolstered by domestic demand, and are expected to grow within the 8% and 6% ranges, respectively.

1. Asia's economies in 2008

The economies of Asia continued to post comparatively high levels of growth until the period January to March, 2008, but from April to June onwards, economic growth rates across Asia began to slow down, and this trend was particularly acute among the NIEs.

■ Economic situation made worse by inflation and global economic deceleration

Even while the US economy was slowing, most Asian nations had managed to sustain comparatively high levels of economic growth until the first quarter, January to March, of 2008. The following are some of the main reasons for this.



First, the pace of deceleration in the US economy had slowed to a comparatively mild degree. In the US, the surfacing of the sub-prime issue in mid 2007 brought about turmoil in the financial markets and put financial institutions under pressure. Subsequently, the deceleration in housing investment and consumption began to impact the real economy, and the real GDP growth rate was almost zero, falling to minus 0.2% (annual rate conversion) in the period October to December, 2007, and a mere 0.9% in the first quarter of 2008.

Second, falling exports to the US were offset by the rapid increase in exports to the newly emerging economies (including oil producing nations).

Third, Asia's resource-rich nations benefited from the soaring prices of primary products. Malaysia and Vietnam are net exporters of crude oil (though Vietnam does import petroleum products from Singapore and other nations as it does not have sufficient oil refining capacity). In addition to crude oil, palm oil (Malaysia and Indonesia) and natural rubber (Thailand, Malaysia) posted noticeable growth.

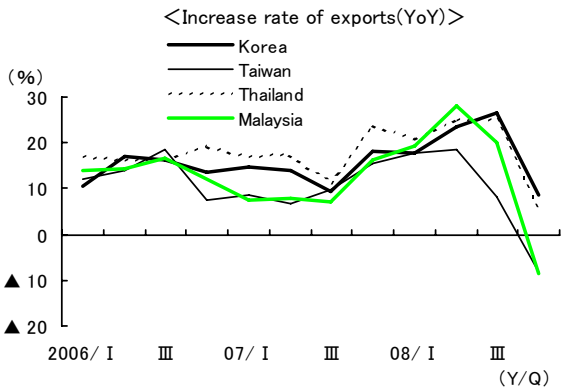
Fourth, there was stable growth in domestic consumption in China and India, countries of huge economic scale. In China and India, along with private consumption, the expansion of fixed capital formation was another driver of economic growth.

Thus, Asia's economies had been sustaining comparatively high levels of economic growth, but the slowdown began to kick in from the second quarter onwards, and the trend towards economic deceleration has become much pronounced of late. Among the reasons for this have been 1) accelerated inflation caused by spiraling crude oil prices, 2) increased interest rates, and 3) falling domestic consumption due to the effects of the turmoil in financial markets and crashing share prices, as well as signs of a loss of export momentum in the wake of the global economic slowdown. During this period (second quarter onwards), the global economy continued to slow, and US economic growth was minus 0.3% in the period July to September, while the Euro-zone and Japan had negative growth through both the second and third quarters.

This impact was most strongly felt among NIEs with a high degree of openness to foreign participation. Economic growth rates in the third quarter (compared to the same period in the previous year) were minus 0.6% for Singapore and 1.7% for Hong Kong (in both cases, consecutive negative growth from the two

preceding quarters).

Korea's economic growth rate for the third quarter dropped to 3.8%, down from 4.8% in the second quarter. This was largely due to the fact that, along with the blunting of export growth impetus, private consumption slowed to only 1.1% growth in the same period. The deceleration in private consumption has been significantly affected by worsening terms of trade, to be discussed later, and negative growth in the real gross domestic income (GDI) in the third quarter. October's exports to China fell, compared to the previous year, and the future of exports to the newly emerging economies, which had hitherto performed comparatively strongly, is now becoming less clear.



Note:The figure of 2008Ⅳ is up to Oct.
Source: National Statistics

Taiwan's economic growth rate was minus 1.0% in the period July to September, a sharp drop from 4.6% in the period April to June. Private consumption growth was minus 2.0%, while total fixed capital formation was minus 10.7%. This was caused by a rapid deceleration in exports after a noticeable drop in domestic demand. Export growth (customs cleared basis) slumped to minus 1.6% in September and minus 8.3% in October, due to the fall in exports to Taiwan's major export partners, China and Hong Kong. In addition to slowing demand for semiconductors and liquid crystal panels, the deceleration of the global economy has caused a slump in exports of production goods to China.

In terms of the ASEAN4, Indonesia sustained a comparatively high economic growth rate for the third quarter at 6.1%. Exports were up 14.3%, total capital formation 12.0%, and private consumption a steady 5.3%. Thailand's third quarter economic growth was 4.0%, down from 5.3% in the previous quarter. Though domestic demand growth was rather pedestrian, with private consumption growing only 2.7% and fixed capital formation only 0.6%, exports grew a healthy 9.0% and powered economic growth. On the supply side, agriculture posted a high 9.9% (non-agricultural 3.5%) growth.

Malaysia's third quarter economic growth was 4.7%, falling below 6.7% in the previous quarter. Exports were up 5.1% and private consumption 8.1%, driving economic growth. Increased incomes in agricultural communities, thanks to the increases in prices of primary products, contributed greatly to the growth in consumption. Additionally, the Philippine economy, which had posted a high 7.3% growth in 2007, slowed to 4.4% growth in the second quarter and 4.6% in the third quarter. Bolstered by stable commodity prices and money remitted home by workers overseas, private consumption grew 5.8% in 2007, but slowed to 4.6% in the period July to September, 2008, due to sharply rising prices of rice and other foodstuffs and fuels. Because private consumption accounts for an exceptionally high percentage (77% in 2007) of gross domestic product in the Philippines, and the population ratio of the poor is very high, the economy is more vulnerable than that of other countries to the effects of inflation.

As described above, each country has experienced economic deceleration to slightly different degrees. This is most particularly noticeable in private consumption. Whereas the deceleration trend is growing stronger in Korea, Taiwan and the Philippines, Malaysia and Indonesia have been able to sustain comparatively high levels of growth. Among the main factors behind these differences is changing terms of trade. Terms of trade are an index with which to express the quantity of commodities that can be purchased from foreign countries with a single unit of a country's own currency, and are defined as export prices/ import prices. As a country's terms of trade worsen, payments for imports increase with respect to receipts from exports, causing income to flow out of the country. As regards the changes in the terms of trade from 2006 onwards, for those Asian countries for which export/ import price data are available, 1) Malaysia's have improved significantly, 2) those of Korea and Taiwan have tended to get worse and 3) Thailand's have stayed more or less the same.

■ China and India experience economic slowdown while maintaining high growth levels

As China has continued to post growth levels of 10% and above in recent years, it has also had to

contend with widening income disparity domestically, investment overheating, worsening energy and environmental issues, inflation, and a growing trade imbalance with foreign nations. For this reason, the government has set the realization of an 'harmonious, socialist state' as its long term goal and, in a series of measures such as serious efforts to increase agricultural incomes and promote local development, as well as the progressive reform of the exchange system, is trying to break away from a growth model that relies heavily on fixed asset investment and exports to one of consumption-driven stable growth.

The priority issue in early 2008 was still the curbing of investment overheating and inflation. In 2008, the consumer price index increase ratio peaked in February and then began to fall (reaching 4.0% in October). At the same time, the economic growth rate began to decline throughout the year, going from 10.6% in Q1 to 10.1% in Q2 and 9.0% in Q3. In the Huanan region and other areas with high export ratios, the number of corporate bankruptcies has increased and business conditions for small and medium sized enterprises have become tougher. The impact of the economic slowdown has begun to show signs of spreading much more widely than had been anticipated. For this reason, at a meeting of the Political Bureau of the Central Committee of the Communist Party of China on July 25, the aim of macro-policies was changed from 'preventing economic overheating' to 'sustaining a stable and comparatively fast economic development' (the curbing of inflation remains a priority). It would appear that the government is trying to avoid economic downside risk, while keeping an eye on inflation.

At around about the same time as the Politburo meeting, the government began to try to bolster exports by raising the value added tax rebate rate on some textile exports, and moves to curb the yuan's appreciation were begun. In terms of monetary policies also, bank loan quotas that had been tightened in the autumn of 2007 were relaxed in early July, and on September 15, the People's Bank of China lowered the reference lending interest rate by 0.27% points, and then lowered the deposit reserve requirement ratio by 1% point on the 25th (except for some major banks). This marked the first time that the deposit reserve requirement ratio had been lowered since November, 1999. It is believed that the main aims behind these moves are to provide assistance to small and medium sized businesses that are facing business difficulties, and to circumvent an economic slump. Subsequently, through October, the reference rate was lowered a further two times.

India's economic growth rate also fell from 8.8% in the first quarter to 7.6% in the third quarter. Fixed capital formation expanded from 9.0% to 13.8%, while private consumption contracted from 8.0% to 5.0% growth. While India continues to enjoy high levels of economic growth, the consumption market has expanded rapidly, bolstered by 1) a rapidly growing middle class with purchasing power, 2) money remitted home by Indians working abroad, and 3) physical distribution reforms (the construction of shopping malls and supermarkets), but the impact of interest rate hikes in order to curb inflation, and falling earnings in the IT related service industry, a major export industry, etc, blunted the pace of growth. Passenger car sales growth fell from 20% in fiscal 2006 (April, 2006, to March, 2007) to 12.2% in fiscal 2007. Figures for this July fell below the previous year's figures for the first time in about three years, and in October were minus 9.0%, compared to the same period in the previous year, the biggest slump this year.

2. Asia's economies in 2009

■ Economic growth rates significantly below those of 2008

As discussed above, with the US, EU and Japan all posting negative growth rates for July to September, compared to the previous quarter, the economies of Asia are finding themselves in an ever tougher situation. The situation in the US worsened particularly rapidly after the collapse of Lehman Brothers in September. This exacerbation of the economic situation is underlined by the fact that the IMF revalued its forecasts for the global economic outlook downwards in both October and November (the global economic growth rate was revised downwards from 5.0% in 2007 to 3.7% for 2008 and 2.2% for 2009).

Asian economic growth rates for 2009 are expected to be well below those for 2008. While the NIEs that are heavily export-dependent will inevitably suffer low growth rates, even China, India and the ASEAN nations are expected to do no better than 8%, 6%, and 3% to 6%, respectively.

One of the major reasons behind these lower economic growth rates, other than the deceleration of the

global economy, is the fact that a slowing of export growth cannot be avoided. In addition to slower exports to the industrialized nations, exports to the newly emerging economies cannot be expected to show the same high growth rates that they have until now. In the newly emerging economies, due to the effects of things like 1) the withdrawal of funds from overseas, 2) the sudden drop in prices of crude oil and other primary products, and 3) the fall in real estate prices, many construction projects have been shelved and consumption has begun to decelerate. As a result, there is a very high possibility that economic growth rates in 2009 will be significantly below 2008's figures. Incidentally, in November the World Bank lowered its forecast for Russia's economic growth rate in 2009 from its June forecast of 6.5% down to 3% (6% for 2008).

The impact of the rapid fall in crude oil prices is particularly significant. In recent years the soaring price of crude oil had a range of effects on exporters and importers of crude oil. In 2009, the effects are likely to be reversed.

One other major cause has been the slowing of domestic demand. Inflation curbs and lower interest rates will likely boost consumption but, in addition to the fact that consumption sentiment in many countries is already fairly cool, a worsening employment and income situation as the economic recession deepens will probably cause consumption growth to fall further. In countries like Malaysia, Thailand and Indonesia, sharply rising prices for primary products in 2008 brought about an increase in income growth, particularly in agricultural communities, and this did contribute to greater consumption, but this effect will be cancelled out in 2009. Also, as the global economy slows (particularly in the Middle East), countries like India and the Philippines, which have many workers living overseas, are expected to see a reduction in the amount of money remitted home by these workers.

Further, the loss of momentum in export and consumption growth will very probably cause facilities investment growth to be slower than that in 2008.

While there are expectations of slowed growth in many demand items, as discussed above, there is also some positive news in that 1) the easing of inflationary pressure leaves room for interest rates to be lowered, 2) governments have begun to implement economic stimulus measures, and 3) China's government has switched its focus to the sustaining of economic growth.

Korea, Taiwan, China and others have lowered their interest rates several times since September, and India lowered its policy interest rate by 0.5% on October 20 and then again on November 3, as well as lowering its deposit reserve requirement rate by 1%.

Also, many countries have introduced economic stimulus measures. The Korean government had been due to cut taxes and ease restrictions, in order to vitalize investments, and has now decided to bring forward the planned tax cuts by two years and to increase public works investments. At a Cabinet meeting in Taiwan on September 11, an economic stimulus package was agreed upon that includes subsidy payments for the poor, consumption stimulus measures, the promotion of new employment, enhanced public works construction, the promotion of private sector investment, the stabilization of the financial and stock markets, and improved financing for small and medium sized enterprises. As part of consumption stimulus measures, there are plans to issue consumption coupons. Thailand and Malaysia have announced economic stimulus measures founded upon agricultural measures and infrastructure construction.

As a result of increased tax revenues in the wake of stable economic growth in recent years, with the exception of Vietnam, many countries have experienced improved fiscal balances, enabling fiscal activity.

The Chinese government has shifted its policy priorities to the sustaining of stable economic growth, and this will likely be of benefit to other Asian countries. A series of measures aimed at sustaining economic growth have been announced, one after the other, since October. Consumption related measures include the temporary suspension of taxation on deposit interest, the expansion of areas eligible for the 'home appliances in rural areas' project and an increased number of items eligible for subsidy. In terms of investment, at a meeting of the State Council in October, it was decided effectively to overturn the investment curbing measures that had been in place thus far, and in November an economic stimulus package on the order of RMB4 trillion was announced. The package incorporates measures to promote the construction of infrastructure in the interior and in agricultural areas, and of waste and sewage disposal facilities in the cities, and these will be priority issues till the end of 2010.

■ Future notes

As factors behind economic recession, the slow recovery of the US economy and the loss of impetus in the newly emerging economies may be cited. However, in terms of the prospects for the Asian economy going forward, the following points need to be noted. The first is the expanding fiscal deficit. While it may be expected that there will be fiscal activity in an attempt to minimize economic deceleration, it needs to be borne in mind that increased fiscal deficit will likely hinder mid to long term economic development. Governments will need to be careful to maintain budget discipline. Second, falling exchange rates will have their impact. As a result of overseas investors withdrawing funds, the won and the majority of other currencies in Asia have depreciated rapidly. If this continues, the pace of the easing of inflationary pressure will very likely slacken. Third, there is the risk of political instability. Thailand saw continued anti-government protests as soon as the Somchai administration was inaugurated, and in Taiwan, with the arrest of former President Chen Suibian and expanded ties with China, divisions between Kuomintang supporters and DPP supporters have deepened. As the economic situation worsens, a careful watch will need to be kept on political developments.

(Hidehiko Mukoyama)

Economic Prospects for 2009

1.Economic Growth (%)

	2005	2006	2007	2008 (Forecast)	2009 (Forecast)
Korea	4.2	5.1	5.0	4.3	2.0
Taiwan	4.2	4.8	5.7	2.0	1.8
Honking	7.1	7.0	6.4	3.2	1.8
Thailand	4.6	5.2	4.9	4.6	3.5
Malaysia	5.3	5.8	6.3	5.9	3.3
Indonesia	5.7	5.5	6.3	6.2	5.1
Philippines	5.0	5.4	7.2	4.3	3.2
Vietnam	8.4	8.2	8.5	6.2	5.8
India	9.4	9.6	9.0	7.2	6.6
China	10.4	11.6	11.9	9.6	8.9

2.Consumer Price (%)

	2005	2006	2007	2008 (Forecast)	2009 (Forecast)
Korea	2.7	2.2	2.5	4.6	3.5
Taiwan	2.3	0.6	1.8	3.7	2.5
Honking	1.0	2.0	2.0	4.4	3.0
Thailand	4.5	4.6	2.3	6.5	3.5
Malaysia	3.0	3.6	2.0	5.5	3.0
Indonesia	17.2	6.6	6.6	12.0	7.5
Philippines	7.7	6.3	2.8	9.7	6.5
Vietnam	8.4	6.6	12.6	22.8	10.0
India	4.5	6.8	6.4	7.9	7.4
China	1.8	1.5	4.8	6.2	3.5

3.Export (%)

	2005	2006	2007	2008 (Forecast)	2009 (Forecast)
Korea	12.0	14.4	14.1	18.2	5.2
Taiwan	8.8	12.9	10.1	8.5	1.5
Honking	11.6	9.4	8.8	7.1	2.7
Thailand	14.9	16.9	17.2	21.4	8.5
Malaysia	11.3	14.0	10.0	19.7	6.7
Indonesia	16.4	19.1	13.2	14.3	7.5
Philippines	4.0	14.9	6.4	2.8	0.0
Vietnam	22.5	22.7	21.9	36.0	10.0
India	29.9	21.8	25.6	17.0	10.0
China	28.4	27.2	25.7	21.1	15.4

4.Import (%)

	2005	2006	2007	2008 (Forecast)	2009 (Forecast)
Korea	16.4	18.4	15.3	26.5	7.6
Taiwan	8.2	11.0	8.2	13.7	▲ 0.8
Honking	10.5	11.7	10.0	7.3	1.1
Thailand	25.7	9.0	8.7	31.5	5.7
Malaysia	9.0	14.4	12.4	14.2	8.8
Indonesia	16.7	8.3	22.0	15.0	8.5
Philippines	7.7	9.2	7.2	12.0	1.0
Vietnam	15.0	22.1	39.6	41.0	5.0
India	39.9	20.1	33.0	25.0	8.0
China	17.6	19.9	20.8	25.5	18.6

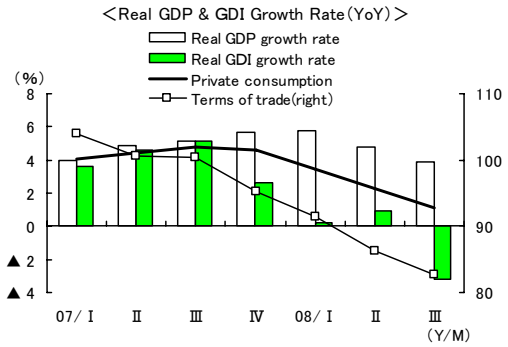
Note: fiscal year in India
Souce: JRI Prospects

Korea 2009 economic growth forecast lower than 2008 at 2.0%

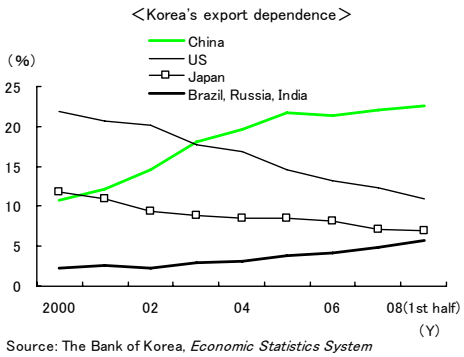
■ Economy declining rapidly

With rapid economic deceleration and the won in freefall, Korea's economy is in serious trouble.

The real GDP growth rate for Q3, July to September was 3.8% (0.5% compared to the previous period), compared to the same period in the previous year, down from 4.8% in Q2, April to June. This was caused by blunted export growth (down to 9.4% from 12.5% in April to June) as a result of global economic deceleration, as well as a slowdown in private consumption over the same period, down to 1.1% (0.1% compared to previous period). Since the start of 2008, the pronounced decline in private consumption has, of course, been affected by inflation and worsening consumption sentiment, but the principal causes have been worsening terms of trade, causing income to continue to flow out from the country, and the failure of Korea's gross domestic income to grow (negative growth in July to September, compared to the previous quarter).



Source: The Bank of Korea、*Economic Statistics System*



Source: The Bank of Korea, *Economic Statistics System*

In recent weeks, consumption stagnation and export deceleration have gotten steadily worse. October's exports to China fell compared to the previous year, and the future of exports to the newly emerging economies, which had hitherto been performing comparatively strongly, now seems somewhat unclear. The slowdown in domestic and foreign demand has caused manufacturers' inventory ratios (deliveries in/ shipments out) to rise for three consecutive months since July, and domestic machinery orders have dropped dramatically.

Alongside the worsening economic situation, the consumer price index increase rate fell from 5.8% in July to 4.6% in October. Citing reduced inflationary pressure, increased economic downside risk and financial institutions' lending reluctance, the Bank of Korea reduced its policy interest rate by 0.25% points on October 9, then by 0.75% points on 27 and then again by 0.25% points on November 7.

The won - dollar exchange rate plummeted to the 1,400 won range on October 10. Among the major causes for the won's depreciation through 2008 have been the worsening current account balance, political instability, and fund withdrawals by foreign investors against the backdrop of a global credit crunch. The won's headlong plunge has been accelerated in recent weeks by 1) a reduced dollar supply (exporters are tending to pool export payments in order to ensure dollars on hand in order to pay for imports of raw materials) and 2) a sense of insecurity in the market.

In response to the won's rapid fall, on October 19 the government announced a range of financial stabilization measures, based upon steps to resolve the dollar fund shortage (government guarantee of a total of $100 billion of domestic banks' foreign currency borrowing transactions and a $30 billion expansion of dollar supply to the market) and financing support for small and medium sized enterprises. After this announcement, the won - dollar rate recovered to the 1,200 won range, but soon slipped back down to the 1,400 won range. On October 30 the Bank of Korea and the US Federal Reserve reached a currency swap agreement (worth some $30 billion), and this appeared to have had the effect of easing market unease to some extent, but subsequently the won's depreciation continued ($1 = 1,399 won, as of November 14). In the weeks ahead, given that there are plans to expand the currency swap amounts agreed with China and Japan, and that the balance of current account is expected to return to the black from October onwards, the won looks set to stage a gradual recovery.

Thus, although domestic and foreign demand have slowed recently, Korea's economy had achieved

comparatively high levels of growth up until the first half of 2008, and the growth rate for the whole year is expected to be 4.3%.

■ Deceleration in domestic and foreign demand set to worsen in 2009

Though the slowdown in domestic and foreign demand is expected to cause economic growth in 2009 to come in below 2008's figures, tax reductions and public works investments, will likely have an economic boosting effect and it is expected that economic growth will surely be in the 2% range.

In terms of domestic demand, the largest demand item is private consumption, and its performance is of paramount importance. In addition to continued cooling of consumption sentiment in the wake of economic deceleration, production adjustments and restructuring are causing the employment situation to worsen so that consumption is expected to stagnate till mid-year. However, it is expected that, encouraged by 1) improved terms of trade as a result of falling crude oil prices, 2) stable commodity prices, and 3) tax cuts and the effect of lower interest rates, consumption growth will manage close to 2% for the whole year. In particular, the improved terms of trade are expected to be significantly effective in curbing income outflow.

As regards fixed capital formation, plant and equipment investments will likely be more or less the same as 2008 levels. The reasons are that, from mid 2008 onwards, manufacturers have seen inventories grow, so there will be a period of production adjustment, and the value of domestic machinery orders received, an indicator of future plant and equipment investment, is trending downwards.

Depending on how demand trends develop, the production adjustment phase may well turn out to be prolonged one, and year on year plant and equipment investment growth may be negative.

Additionally, since year on year construction investment growth for 2008 looks set to be negative (minus 1.2% in January to September, compared to the same period in the previous year), the figures for 2009 are highly likely to show positive growth as the impact of the relaxation of restrictions and expanded public works investments is expected to take effect. Since the earliest days of President Lee's administration, the policy has been to vitalize investments by cutting taxes and relaxing controls, but from the perspective of economic stimulus, the government is advancing further deregulation (fewer restrictions on the floor area ratios of redeveloped apartments and the partial lifting of controls in some overheating investment sectors) in an effort to stimulate the real estate market. Upward movement in construction investment will likely result in marginal growth in fixed capital formation overall.

One other factor that exerts considerable influence over the direction of the economy is exports. There is no doubt that, with negative growth in the US and EU, and economic deceleration in the newly emerging economies, the situation is extremely severe for exports. In Korea, until recently, the rapid increase in exports to the newly emerging economies helped to offset the slump in exports to the industrialized nations to such an extent that there are real worries about the impact of economic deceleration among the newly emerging economies. In recent weeks, the rapid decline in demand for semiconductors and liquid crystal panels and in shipbuilding orders has meant that a certain blunting of export growth in 2009 will be inevitable but, 1) though the newly emerging economies are experiencing economic deceleration, a certain level of growth is expected, 2) the won's depreciation has resulted in better price competitiveness (the increase in costs of imports of raw materials operates negatively), and 3) enterprises' aggressive development of new export markets and the implementation of the government's export stimulus measures lead many to expect that year on year positive growth can be maintained. Due to the deceleration in domestic production and consumption, there is a very high possibility that import growth will fall below that of the previous year, so the contribution of imports to the growth of foreign demand is likely to be greater than that of exports.

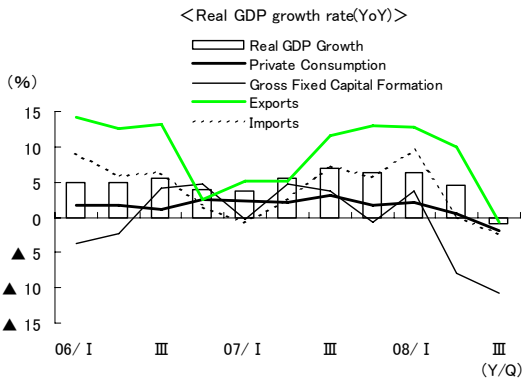
As discussed, economic growth in 2009 is expected to be on the order of 2.0%, below the level of 2008. One element of downside risk may be that the newly emerging economies will decelerate beyond the expected extent. Another is that the domestic political situation may destabilize again. In order to vitalize the Korean economy, the government is planning to promote the reform of public enterprises. While such moves may certainly be necessary over the mid to long term, they will inevitably cause a temporary exacerbation of the employment situation and will need to be implemented with great caution.

(Hidehiko Mukoyama)

Taiwan 1.8% economic growth in 2009

■ Economy deteriorating rapidly

Taiwan's real GDP growth rate in the third quarter, July to September (compared to the same period in the previous year), of 2008 fell to minus 1.0%, down from 6.3% in January to March and 4.6% in April to June. The figure reflects the fact that the growth rate for the third quarter in 2007 was a record high 7.0%, but is also affected by the facts that domestic demand has cooled further, with private consumption at minus 2.0% and total fixed capital formation at minus 10.7%, and that exports have slowed significantly, posting minus 0.7% growth.



Source: Directorate General of Budget, Accounting and Statistics

In recent years, private consumption had been growing at a much lower rate than the GDP growth rate, due to the fact that financial institutions have been very cautious about making loans to individuals, against the backdrop of a deepening card loan issue. However, this recent deceleration has been spurred on by 1) the failure of nominal wages to grow, 2) inflation, 3) rising interest rates, 4) poorer consumption sentiment and 5) plummeting share prices. Average monthly wages for January to June (including overtime payments) were up 1.3%, compared to the same period in the previous year, but the CPI increase rate in the same period was 3.9%, meaning that real wages experienced negative growth. Poorer terms of trade played a big part in this.

Recent weeks have seen the economic situation worsen, with a stronger pace of deceleration in consumption and rapidly declining exports.

Retail sales, which had fallen below the previous year's levels since June, were minus 4.9% in September, compared to the same month in the previous year, the biggest slump so far. In particular, automobile sales figures (registered basis) were affected by high gasoline prices and had continued double digit deceleration since February, and in October were minus 32.0%.

What needs to be stressed here is that export growth, which has powered economic growth in recent years, is decelerating rapidly. Exports (customs cleared basis) had been performing fairly solidly until the middle of the year, but posted minus 1.6% growth in September and minus 8.3% growth in October. This was due to double digit deceleration in exports to Taiwan's major export destinations, China and Hong Kong. In terms of actual export items, chemical products, machinery, precision equipment (including liquid crystal panels) were conspicuous by their slumps. Demand for semiconductors and liquid crystal panels, two of Taiwan's main export products, is receding and the liquid crystal panel industry is planning to cut back production in the fourth quarter, October to December, by an even bigger margin than in July to September.

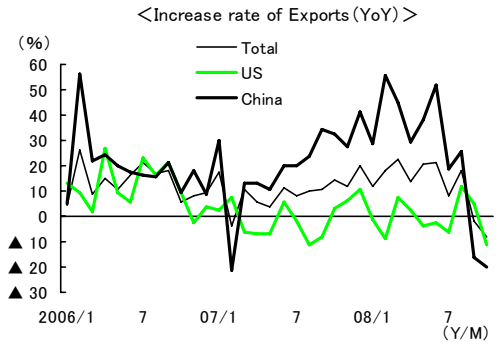
Low production levels in manufacturing following the slowdown in consumption and exports have been accompanied by a rising unemployment rate, up from 4.1% in July to 4.4% in October (4.0% in the same month last year). With more and more restructuring taking place there is a very high possibility that the employment situation will get worse, and that the slowdown in consumption will also get steadily worse.

Meanwhile, the falling price of crude oil helped the CPI increase rate to fall to 2.4% in October. Taiwan's Central Bank lowered its policy rate by 0.125% points for the first time in five years, citing lessened inflationary pressure and a growing downside risk. Central Bank followed this by further lowering the rate by 0.25% points on October 9 and 30 and November 9. Also, at a Cabinet meeting on September 11, the government agreed on an economic stimulus package that includes subsidy payments for the poor, consumption stimulus measures, the promotion of new employment, enhanced public works construction, the promotion of private sector investment, the stabilization of the financial and stock markets, and improved financing for small and medium sized enterprises. As part of consumption stimulus measures, there are plans to issue consumption coupons.

As described above, Taiwan's economy began to deteriorate rapidly from the latter half of 2008 onwards, and growth is expected to be on the order of 2%.

■ Export situation adding pressure

In 2009, in addition to a slow recovery in private consumption due to a tougher employment environment, the global economic slowdown will likely cause failure to grow in exports and in facilities investment, and economic growth is expected to be in the 1% range.



Source: Department of Statistics, Ministry of Economic Affairs

In the first place, exports, which began to decline suddenly from September, are expected to continue to do poorly for the time being and any year on year positive growth will probably not happen until after the middle of the year (reflecting the fact that export growth was robust until mid 2008). One of the reasons is that machinery (general machinery, electrical machinery, precision equipment) accounts for over 50% of exports (55.3% in 2007) and of that, electronic products and IT related products, such as semiconductors and liquid crystal panels account for a large portion (34.1% accounted for by SITC75 and 77 in 2007). The declining demand for these products had a great impact on export performance. Another reason was that the demand for materials such as textiles, chemicals, metals, and iron and steel, which account for roughly 20% of exports, cannot help but decline along with that for general machinery as overseas production stagnates. In terms of Taiwan's current export destinations, China and Hong Kong are far and away the largest (39.7% in 2007), followed by ASEAN (14.7%), US (13.0%) and EU (10.9%). Exports to China and ASEAN include final products, but many of them are production goods (materials, parts, machinery) destined for export production facilities (Taiwanese business abroad as well as local businesses), and the global economic deceleration has made itself felt in the form of a decline in exports to these regions. Also, the increasing number of corporate bankruptcies in China's coastal regions, fuelled by the global economic slowdown, rising costs of raw materials and labor and compounded by the yuan's appreciation, has not been good for Taiwanese exports.

However, while exports struggle to grow, imports are expected to post negative year on year growth, due to flagging production and stagnating domestic consumption, and this will likely contribute positively to the growth of external demand.

As regards private consumption, the factors behind the decline in consumption, worsening terms of trade, inflation and rising interest rates, will likely improve as time goes on, but the rising unemployment rate and the continued failure of wages to grow are expected to hold consumption growth to within 1%.

The private sector portion of fixed capital formation, discouraged by poor export performance, will probably grow at the same level as in 2008, or even slightly lower. In the semiconductor and liquid crystal panel industries, next generation factories are due to be built, but already some of these are being put back. In the public sector, the implementation of mid to long term projects and economic stimulus measures means that growth is expected to be higher than that of 2008. The Ma administration is pushing forward economic exchange with China in an attempt to win increased Chinese investments, and, under the ' i-Taiwan 12 Projects', the expansion of public works construction is being planned. The projects will include island-wide transit and information networks, reinforced logistics functionality at Kaohsiung International Airport and other airports and sea ports, as well as construction to link existing science parks and to build new industrial areas. While this kind of public fixed capital formation may be expected to grow, fixed capital formation overall will likely be marginal.

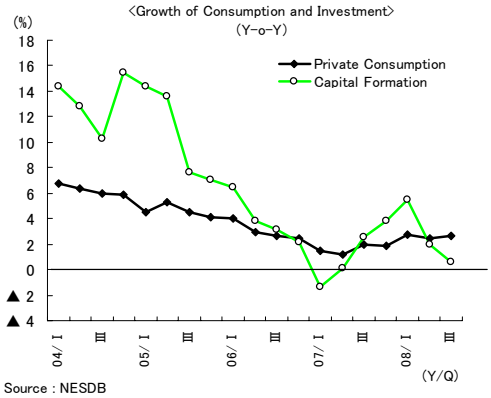
Thus, economic growth in 2009 is expected to go no further than 1.8%. The longer the delay in the global economic recovery, the greater is the risk of a serious slump in exports. Also, as the economy declines rapidly, the arrest of former President Chen Shuibian and expanded ties with China have caused the rift between Kuomintang supporters and DPP supporters to deepen. Therefore, a careful watch should be kept on the potential risk of destabilization in the political situation.

(Hidehiko Mukoyama)

Thailand 2009 economic growth rate at 3.5%

■ 2008 remains at 4.6%, due to poor domestic demand

Though rising commodity prices were a major factor in blunting domestic demand, exports continued to perform reasonably well, and Thailand's real GDP growth rates for 2008 were 6.0% in Q1, compared to the same period in the previous year, 5.3% in Q2 and 4.0% in Q3. In late August, the People's Alliance for Democracy (PAD) began full scale anti-government activities, causing political instability to deepen, and this strengthened the deceleration trend in domestic demand, so that the economic growth rate for the whole year is expected to be 4.6%.



Private consumption has been sluggish, largely due to rising commodity prices, and posted 2.7% growth in Q1, 2.5% in Q2 and 2.6% in Q3. Growth in sales of automobiles in the period January to September was wafer thin at 1.9%, some 460,000 vehicles. This situation continued throughout the latter half of the year and private consumption growth for the whole year is expected to come in at just 2.6%, year on year.

Meanwhile, fixed capital formation appeared to be on the road to recovery in Q1, posting 5.4% growth, compared to the same period in the previous year, but this dwindled to 1.9% in Q2 and 0.6% in Q3. In the latter half of the year, Bank of Thailand raised the interest rate in July and August, as commodity price countermeasures, and this, when compounded with the political instability and the global economic deceleration, appears to have caused many domestic and foreign firms to postpone to new investments, and fixed capital formation is expected to grow no more than 3.0%, year on year.

As domestic demand stagnated, it was exports that drove the economy. In the period January to September, Thailand's major export items, automobile related products and computer related products, both maintained robust performance, posting 24.3% and 18.3% growth, respectively, compared to the same period in the previous year. In addition, exports of agricultural produce were up 58.8% in the same period, due mainly to price increases, pushing up the overall export worth by 23.9%, $135.9 billion. However, the spiraling price of crude oil meant that imports grew 35.8%, $138.7 billion, in the same period, leaving a trade deficit of $2.7 billion. The balance of trade for the whole year is expected to be in the red for the first time in three years.

■ 2009 economic growth set to be held to 3.5% due to political instability and global economic deceleration

In 2009, it is anticipated that, in addition to political instability, the global economic deceleration and the fall in agricultural produce prices will conspire to restrain economic growth to within 3.5%.

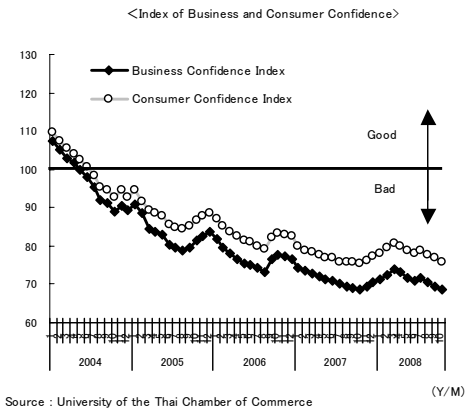
Anti-government activities have continued since the inauguration of the Somchai administration. In particular, there has been strong popular disapproval of the police use of tear gas on demonstrators and the fact that over 400 people have been injured. Further, there is a possibility that the Constitutional Court will order the dissolution of the ruling 'People's Power Party' for election violations, increasing the uncertainty of the political situation.

Against this backdrop of political instability, the number of foreign tourists is dwindling. The tourist industry accounts for approximately 5% of Thailand's GDP, its workers make up about 15% of the working population, and annual tourism revenues are over $15 billion, making it a major industry. If political instability continues through 2009, there is a very real risk of unemployment in the industry, as well as a deteriorating external balance. Additionally, the political instability is affecting domestic demand. The business confidence index and consumer confidence index produced by the University of the Thai Chamber of Commerce both began to trend downwards after April, 2008, plummeting sharply once the anti-government demonstrations got fully underway in August, and had fallen to record lows of 68.6 points and 75.8 points, respectively, in October. Until the political instability is resolved, any

improvement in investment and consumption sentiment will be difficult.

In addition, there are concerns over the impact of the global economic deceleration on exports. While Thailand's export dependency on the US had decreased to 12.6% as of 2007, the 31% accounted for by exports to China and ASEAN include many raw materials and intermediate goods that are finally bound for the US, so the impact on these exports cannot be avoided. As a result, export growth in 2009 is expected to be on the order of 8.5%, year on year. However, the falling price of crude oil and the slowdown in domestic demand will probably hold imports to no more than 5.7% growth year on year, so the balance of trade is expected to return to the black. In addition, there are fears of the potential impact of the international financial crisis. The Thai stock market average share price (SET Index) had fallen below the 400 point in November for the first time in five years. As of early November, there was no indication of any direct impact on the financial market, but the government is increasingly cautious. At a Cabinet session on October 28, the government decided to extend the 100% bank deposit guarantee from the end of 2008 till August 10, 2011, in order to prevent public financial unease from spreading.

In 2009, the falling price of crude oil is expected to curb inflationary pressure, so it would seem likely that Bank of Thailand will reduce interest rates, from the perspective of economic stimulus. However, the capacity utilization rate as of September was a low 69.6%, so it is not as if the effects of lowering the interest rate would be seen immediately. In addition, foreign direct investment is tending to decrease more and more. The incoming value of foreign direct investment on an international balance of payments basis in the period January to August, 2008, was minus 5.7% at $6.9 billion, and the value of BOI (Board of Investment) approved investments in the period January to September, a guide to future investment performance, contracted to minus 19.9%, compared to the same period in the previous year, at Bt341.9 billion. The government will continue to work to attract foreign investment throughout 2009 as ' Thailand Investment Year', but it is expected that conditions will continue to be tough, mainly due to the global economic deceleration.



Ever since its inauguration, the new Somchai administration has been emphasizing its policy of supporting the economy through fiscal activity. One aspect of this policy has been to get fully underway with the Mega-projects, which will involve the injection of Bt1.6 trillion over three years. In addition to starting the construction of three underground mass transit railway routes in 2008 (total investment: Bt280 billion), the government has also decided to make an early start on projects concerning education and public health and energy related infrastructure. Further, at a Cabinet session on November 4, the government agreed on an economic stimulus package worth Bt100 billion that will be centered around measures to energize local economies, such as the Village Fund and the expansion of loans for small and medium sized enterprises. These measures have increased the forecast fiscal deficit for fiscal 2009 as a percentage of GDP from the original 2.4% to 3.4%. However the National Economic and Social Development Board (NESDB) has stated that, in order to bolster the economy over the next three years, increasing the fiscal deficit is unavoidable. In addition, in order to lessen the impact of falling prices of agricultural produce on farming communities, the government will purchase Bt100 billion worth of grain.

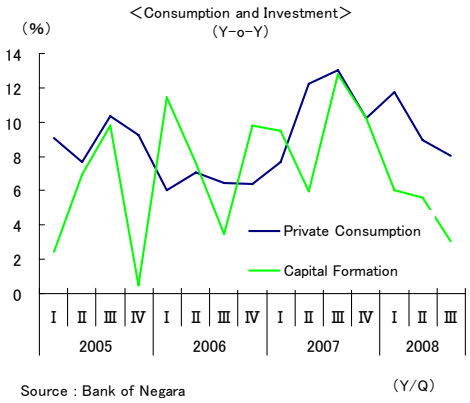
As discussed, Thailand's political instability is at risk of being exacerbated by the deceleration of the global economy. Should the political situation destabilize further, there is a real risk that the economic growth rate could fall to 2%. However, if political stability can be maintained and public works investments are implemented according to plan, then the latter half of 2009 may very well see an upturn in economic performance.

(Keiichiro Oizumi)

Malaysia 2009 economic growth at 3.3%

■ 5.9% economic growth in 2008

Malaysia's real GDP growth rate for 2008 was comparatively good in the first half of the year, posting 7.1% growth in Q1, compared to the same period in the previous year, and 6.3% in Q2, due to continued healthy domestic and external demand. However, in the second half of the year, the effects of the global economic recession have been felt, and growth for the whole year is likely to come in at 5.9%.



Source : Bank of Negara

Private consumption managed to sustain high levels of growth in Q1 (11.7%) and Q2 (9.0%), thanks to a favorable employment environment, salary increases for government officers, and increased disposable income in farming households due to increased prices of agricultural produce. However, from the second half of the year, falling share prices reduced the wealth effect and led to increased unease over the future, so that private consumption growth for the whole year is likely to be 7.8%, year on year, down from 10.6% in 2007. The consumer confidence index produced by the Malaysian Institute for Economic Research (MIER) plummeted from 115.5 points in Q1 to 70.5 points in Q2. While it did rise again to 88.8 points in Q3, July to September, the fact that consumer consumption has cooled rapidly must not be viewed too lightly.

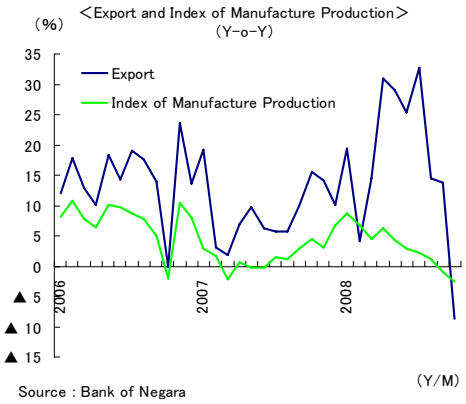
Meanwhile, fixed capital formation grew 6.0% in Q1 and 5.6% in Q2, similarly, due to the increase in private sector investment, principally in the service sector. With foreign direct investment playing a driving role, international balance of payments receipts grew 151.1% in the period January to June, compared to the same period in the previous year, worth $12.5 billion. Further, the number of applications approved by the Malaysian Industrial Development Agency in the period January to August was 34.0% up on the previous year, worth $14.4 billion. Among the reasons for this are the fact that Malaysia is being seen as a new base of production for iron and steel and energy related businesses, and that as investors seek to avoid investment overheating in China and political instability in neighboring Thailand, they are once more looking to Malaysia as a target for investment. It is anticipated that fixed capital investment will come in at 5.0% year on year growth, falling below 9.6% in 2007.

External demand posted 22.6% growth in the period January to August, compared to the same period in the previous year, worth $138.7 billion. Broken down by sector, electrical and electronic products, which account for 40% of exports, grew only 7.4% in the same period, worth $57.8 billion, whereas crude oil and natural gas, and petroleum related products, boosted by rising prices of these commodities, grew 38.5%, similarly, worth $32.4 billion. As regards imports, while consumer goods increased due to growing domestic demand, imports of intermediate goods for electrical and electronic products decreased, so that import growth over the same period was 16.0%, worth $109.6 billion, leaving a trade surplus of $29.1 billion.

■ Global economic recession will restrict economic growth to 3.3% in 2009

In 2009, the effects of the global economic recession will force an adjustment in domestic and external demand, so Malaysia's year on year economic growth is expected to slow to 3.3%. Malaysia's export dependency is high, at 94.3% of GDP, of which exports to Japan and the US account for 40%. Exports to the US account for 15.6% making it Malaysia's top export destination. As a result, the Malaysian economy is particularly vulnerable to the US economic slowdown. In September, growth in exports to the US fell to 15.3%, compared to the same month in the previous year, and employment adjustments have already begun in the state of Penang, where many US electronics manufacturers are situated. In addition, the fall in the prices of crude oil and agricultural produce are a further cause of falling exports. Crude oil and natural gas, which led exports in 2007, have suffered from the price drop, and the drop in prices of agricultural produce will cut the value of exports of palm oil and natural rubber, two of

Malaysia's principal exports. As a result, it is expected that exports for 2009 will fall to 6.7% year on year growth. However, slower domestic demand and blunted exports will also affect imports, holding them to around 8.8% growth, similarly, so the balance of trade surplus will be maintained.



In terms of private consumption, falling commodity prices as a result of lower crude oil prices is likely to be a plus factor, but falling share prices will reduce the wealth effect and the drop in external demand will constrict growth in disposable income, so private consumption growth is expected to continue to be poor, with year on year growth of 5.3% expected for the whole year. In particular, there are fears over the possible impact on the consumption of durable consumer goods, and the prevailing opinion is that sales of automobiles will fall below 2008 levels. In response to the slowdown in consumption, the government has attempted to increase disposable income by lowering the obligatory social security savings, and hopes to promote spending by extending the business hours of large scale retailers (from the present 10 pm to 11 pm on weekdays, and 1 am on weekends).

Fixed capital formation also, which maintained growth in the 5% range in 2008, looks likely to slow down, with growth of only 3.0% forecast, due to the fact that 1) manufacturers' capacity utilization rates are falling below 80%, 2) economic slowdown among Malaysia's major investors Japan, US and EU will mean that there will be little hope of new investments, and 3) the large scale economic stimulus measures described below will do no more than minimize the fiscal deficit and large scale infrastructure projects will be frozen.

In addition to global economic deceleration, political instability is another potential source of downside risk. At the Lower House elections held in March, 2008, the ruling party gained control of fewer than three quarters of the available seats for the first time in 23 years. While rising commodity prices have had a severe impact on the people's standard of living, the Abdullah administration's approval rating has fallen dramatically. In August, Anwar bin Ibrahim, leader of the People's Justice Party, made his political comeback by winning a Lower House by-election in August and has led the opposition in calling for the Abdullah administration to be replaced. Even within the ruling party, United Malays National Organisation (UMNO), criticism of Prime Minister Abdullah has grown. In order to avoid such political instability, Prime Minister Abdullah announced in October that he would be handing over control to his deputy, Najib Razak. Initially, the handover was to have been in 2010, but as the global economic recession worsens, it was felt that political stability was of paramount importance, and the new Najib administration is due to be inaugurated in March, 2009. While this move is expected to bring about a temporary restoration of political stability, if the economic situation gets any worse, the government will not be able to avoid renewed criticism from the opposition.

Government policies from mid October onwards, while seeking to stimulate the economy, have the wide ranging purpose of expanding and improving state welfare provision. Also, the large scale economic measures announced on November 4, worth a total of 7 billion ringgit (approx. $2 billion) earmark 1.2 billion ringgit for the construction of housing for low income families, and 600 million ringgit for pre-employment education and religious education. With the implementation of these measures, the fiscal deficit is expected to expand from the original forecast of 3.6% against GDP to 4.8%. Further, in November, Deputy Prime Minister Najib announced that the Bumiputra (ethnic Malay) equity requirement for listing on the stock exchange would be relaxed.

It may be said that these deficit-generating large scale economic stimulus measures and the relaxing of the Bumiputra requirements, which had until now been considered untouchable, are evidence of the government's desire to avoid any political instability resulting from economic slowdown. With its high dependence on exports to the US, Malaysia cannot avoid economic deceleration but government policy can affect the degree of impact significantly.

(Keiichiro Oizumi)

Philippines *Economic growth set to fall to 3.2% in 2009*

■ Estimates put real GDP growth in 2008 at 4.3%

The Philippines real GDP growth rate for January to June, 2008, was 4.6% (4.7% in Q1, January to March, and 4.6% in Q2, April to June), well down on 2007's 7.2%. Among the reasons are 1) personal consumption growth restricted by a rising consumer price index, in the wake of rising international commodity prices, 2) falling growth in government consumption and public works investments in comparison with the previous year when mid-term elections were held, and 3) poor export growth in the wake of economic slowdown among the industrialized nations.

In the period July to December, it is thought that the economy will slow even further, so the forecast for real GDP growth in 2008 is around 4.3%. Both domestic and external demand are expected to slow down.

Personal consumption in January to June could only manage 4.3% growth compared to the same period in the previous year. Part of the background to that is that the consumer price index increase rate, which had only grown 2.8% in 2007, year on year, suddenly shot up in 2008, and in August reached a record 12.5% increase, compared to the same month in the previous year, its highest level for 17 years. This caused a cooling of consumer sentiment and a large drop in spending on food and utility items which had undergone stiff price hikes. Also, reflecting the decline in personal consumption, the services sector, which had driven economic growth, grew by only 4.3% in the period April to June. In the future, the movement of the consumer price index will continue to influence personal consumption. With the fall of international commodity prices, October's consumer price index increase rate came down to 11.2%, but the core index went up from 7.5% to 7.8%. This indicates that the price rises have spread to items other than fuels and foodstuffs and, given that it will likely take some time before the consumer price index increase rate can come down again, personal consumption is likely to continue to stagnate.

Fixed capital formation in the period January to June could only grow by 4.3%. While equipment investment was comparatively strong with 6.4% growth, construction investment could only manage 3.5%. This was due to the fact that, though housing construction did maintain a high level of growth, public works construction, which had posted high levels of growth in the same period in the previous year, did not increase much. While some growth in public works construction may be expected in the future, corporate sentiment is still cool and equipment investment growth will likely fall. Therefore, the fixed capital formation growth rate will decline slightly.

Exports grew by only 4.0% in the period January to September, compared to the same period in the previous year (both export and import figures are on a customs cleared basis). Growth in electronics related exports, which account for over 60% of the total, was minus 1.8% mainly due to the slump in semiconductor growth, down to minus 5.3%. As for the No. 2 export item, clothing (weighted at around 5%), growth was minus 14.5%. In the future, as the global recession is expected to get worse, a recovery in export growth is expected to take some time. On the other hand, imports grew 13.8% in the period January to August. The Philippines depends on imports for over 90% of its petrol consumption, and mineral fuels accounted for 17.5% of imports in 2007. The falling price of crude oil means that future import growth may taper off slightly.

In response to the rising consumer price index increase rate, the policy interest rate was raised a total of 1% between June and August. Among the Asian nations, more and more countries are easing monetary policy as the economy decelerates, but in the case of the Philippines, there is still a need for caution with regard to inflation. In addition, the peso has been bearish since March. Therefore, if there are to be any interest rate cuts, the probability is high that they will be implemented a little at a time. This fact, too, will restrain domestic demand.

＜Real GDP by Expenditure Shares＞

(compared with the same quarter of last year、%)

	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2
Real GNP	7.3	9.8	9.1	6.0	5.8	5.5
Real GDP	7.0	8.3	7.1	6.4	4.7	4.6
Personal Consumption	5.9	5.6	5.7	6.2	5.2	3.4
Government Consumption	9.5	11.9	6.4	4.6	1.9	▲ 5.1
Fixed Capital Formation	10.3	20.9	8.8	6.7	2.9	5.6
Exports	10.8	4.9	3.7	3.9	▲ 6.1	7.7
Imports	▲ 1.8	▲ 10.5	▲ 5.0	0.2	▲ 5.8	▲ 1.0

Source: National Statistical Coordination Board

■ 3.2% GDP growth forecast for 2009

As the global economic recession continues, external demand is expected to fall further, while any recovery in domestic demand will lack vigor. Consequently, the forecast for real GDP growth in 2009 is around 3.2%.

<Main Economic Indicators>

(YoY、%)

	2006	2007	2008	2009
Real GDP	5.4	7.2	4.3	3.2
Agriculture	3.7	4.9	3.5	3.0
Industry	4.8	7.1	4.0	3.2
Services	6.5	8.1	4.8	3.3
Personal Consumption	5.5	5.8	3.7	3.3
Government Consumption	10.4	8.3	5.0	8.0
Fixed Capital Formation	3.8	11.8	4.5	2.8
Exports(in US Dollars)	14.9	6.4	2.8	0.0
Imports(in US Dollars)	9.2	7.2	12.0	1.0

Notice: forecasts for 2008 and 2009
Source: NSCB and others

As international commodity prices settle, the consumer price index increase rate will gradually come down. This, in turn, will make some room for lowering interest rates, and may be expected to contribute to a recovery in personal consumption. However, one major support of personal consumption is the money remitted home by overseas Philippine workers. So far, this money has been able to sustain double digit growth, but around half of it depends on the US, and there is concern that its growth rate may slow in the future. If that is the case, a negative impact on personal consumption will be inevitable.

In terms of fixed capital formation growth, the budget for fiscal 2009 includes expanded public works projects, with spending on infrastructure provision up 20% year on year, and this and expected interest rate cuts will be plus factors. Further, there is a possibility that spending for economic stimulus purposes will be added on. However, as the global economy decelerates, there is little hope of a recovery in demand for electronics related goods, so export growth is expected to fall even further, and equipment investment will likely struggle to grow.

The biggest risk facing the economy's future is the international financial crisis and the accompanying economic recession among the industrialized countries. The Philippines' export destinations are fairly segmented and the US, Japan and the EU account for around 15% each, with another 45% or so accounted for within Asia. However, there is little doubt that economic deceleration in the industrialized nations will restrict export growth. In addition, the continuing depreciation of the peso and tumbling share prices are a cause of concern as regards their potential impact on the economy. Among the causes behind the peso's depreciation are rising inflation, a contracting current account surplus due to the expanding trade deficit, the outflow of capital away from the stock market, and a loss of foreign investor confidence, stemming from the failure to implement improvements to the fiscal deficit. The weaker peso is of course a plus factor for export growth, but at the same time slows the decline of the consumer price index increase rate.

The liquidity of the short term financial market is also a cause for concern. The short term interest rate went up in October, and measures to strengthen dollar and peso liquidity supply were introduced, such as the implementation of dollar based repo transactions. In November, the reserve requirement ratio was lowered. There are no major problems with the financial health of the Philippines' financial organizations, and the current bank credit growth rate is slow. Therefore, there is felt to be little danger of capital scarcity. Also, in terms of the economy's vulnerability to external factors, the amount of money remitted home by workers overseas is very considerable, and there is little possibility that the current account will go into the red. Also, with more than enough foreign currency reserves to cover short term foreign debt, there would seem to be little to worry about.

<Balance of Payments>

(million USD)

	2005	2006	2007	2008
Current Account(①)	1,984	4,830	5,766	1,707
Trade	▲ 7,773	▲ 6,732	▲ 8,236	▲ 6,404
Services	▲ 1,340	▲ 380	492	653
Income	▲ 294	▲ 1,255	▲ 467	▲ 68
Current Transfer	11,391	13,197	13,977	7,526
Financial Account(②)	1,481	1,489	4,078	1,197
Direct Investment	1,665	2,818	▲ 514	742
Portfolio Investment	3,301	4,577	3,221	▲ 191
Other Investment	▲ 3,482	▲ 5,906	1,635	643
Errors & Omissions(③)	▲ 1,803	▲ 1,077	▲ 1,118	▲ 970
Overall Balance(①+②+③)	1,662	5,242	8,726	1,934

Notice: Jan. to Jun. for 2008.
Source: IMF、BSP

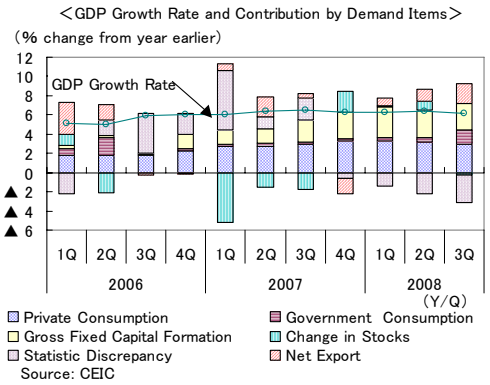
On the other hand, the movement of the fiscal balance is a major risk factor. In 2007 the fiscal deficit contracted to 12.4 billion pesos (0.2% against GDP), but in the wake of economic deceleration, the government's target of balancing the budget in 2008 has had to be put back till 2010. Subsidy payments have been increased in order to lessen the impact of rising food prices, and it is expected that fiscal expenditure will increase in the future, as part of economic stimulus measures. If the economic recession gets worse, as expenditure increases and tax revenues fall, careful consideration will need to be given as to whether sound fiscal health can be maintained. Also, as President Arroyo's term of office comes to an end in 2010, thought should also be given to the risk of fluidity in the political situation.

(Satoshi Shimizu)

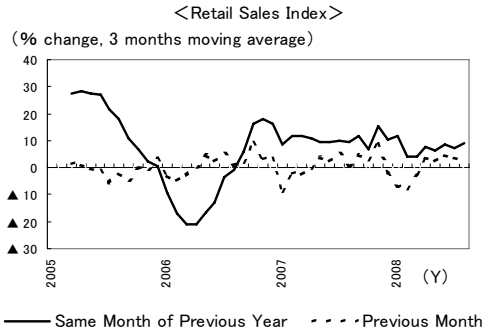
Indonesia GDP growth 5.1% in 2009

■ 2008 economic growth 6.2%

Indonesia's real GDP grew by 6.3% in the period January to September, 2008, maintaining the same growth level as the same period in the previous year. Growth rates by quarter were 6.3%, 6.4% and 6.1%. In terms of demand items, individual consumption, fixed capital formation and net exports were all solid and supported economic growth. However, exports have stalled in the October to December timeframe, and consumption and investments are both expected to fail to grow as a result of the credit crunch, and economic growth for the whole year is expected to be 6.2%.



October's consumer price index increase ratio was still high, at 11.8%, compared to the same month in the previous year. Central Bank raised its policy interest rate (BI rate) intermittently from May, 2008, but real interest rates were held at the same low levels, and real retail indices have progressed stably. Sales of automobiles and motorbikes in the January to September timeframe were up 33.7% and 24.6%, respectively, compared to the same period in the previous year, and it is anticipated that they will post their highest ever results for the whole year. Investments have also been strong. According to Central Bank, capital needs were vigorous through January to September, proving that investments performed strongly in that period.

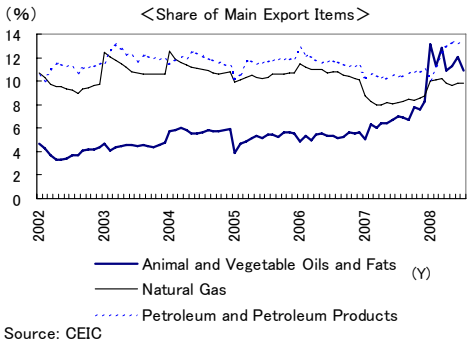


Source: Bank Indonesia, Retail Sales Survey August 2008

According to various surveys on the economic outlook during July to September, both consumption and investments were trending upwards, and the prevailing view was that the global economic recession would have only a very limited impact. However, the economic recession in the US and Europe turned out to be much more serious than had been anticipated, and since November, rather more pessimistic views have been increasing. Central Bank estimates that economic growth for October to December will be 5.9% at best. In actual fact, since June, exports have fallen below the previous month's levels for four consecutive months, and look set to fall even further due to the drop in crude oil and palm oil prices. Further, due to the effects of the EU/ US-triggered financial crisis, the banks are expected to become ever more cautious about lending money, and it is quite likely that investments and consumption will be forced into stagnation.

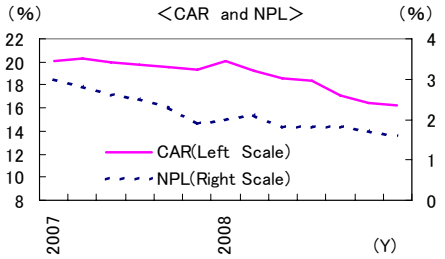
■ 5.1% economic growth in 2009

The budget for fiscal 2009, approved by Parliament in late October, takes as its premises that real GDP will grow by 6.0%, that commodity prices will rise by 6.2%, that crude oil will cost $80 a barrel, that the BI rate will be 7.5% and that the rupiah's rate against the dollar will be 9,400. However, in November, Central Bank announced the rather negative projection that economic growth in 2009 would be between 5.3 and 5.4%, and that it would be lucky not to dip below 5%. In actual fact, exports, consumption and investments are all thought likely to decelerate beyond the government's expectations, and growth may well be below the level of the previous year, at 5.1%.



Exports will probably be forced into stagnation by the falling prices of crude oil and natural gas. However, as Indonesia is a net importer of natural resources, a drop in the price of natural resource

commodity prices does not mean that the external demand contribution will also fall, in fact it may rise, albeit by a marginal amount. The main cause for concern is the fall in the price of palm oil, whose share had grown rapidly in recent years. Exports of animal and vegetable oil, of which palm oil was the major component, reached similar levels to those of crude oil and natural gas in 2008. However, the international prices for these commodities fell to about half their July levels in October, and are expected to fall further. Similar trends can be seen for rubber, coffee and cacao, and will likely hinder export growth. Also, the apparel and footwear industries, which are highly dependent on exports to Europe and the US, have already suffered decreases in orders received, and some firms are now being forced to carry out employment adjustment. According to the Indonesia Textile Producers Association, apparel exports (volume basis) in 2009 are expected to grow by just 2.6%, well below the previous year's 7.5%.



Source: *Monthly Policy Review, September 2008*

The stagnation of export growth may very well push the balance of current account into the red. In that case, the deficit itself will be small when compared against the economy overall, but it may very well be a cause of rupiah depreciation, given the expectation that the foreign currency reserve will contract due to dollar selling in order to protect the rupiah, and that the fiscal deficit may be expected to expand in order to bolster the economy. Bank Indonesia has begun to take steps to strengthen capital controls, instructing state-run firms in late October that dollar funds should be returned to Indonesia, and demanding in November that foreign currency remittances above a certain amount should be backed up by documentation proving the need for such remittance, in the name of curbing exchange speculation.

There is a mixture of factors that might suppress or boost consumption and investments. The suppressor factors are, first, the decline in farmer incomes, due to the fall in the prices of palm oil and other agricultural produce. Also, the impact of the EU/ US-triggered financial crisis is causing banks to be hesitant about lending money, which is another negative factor. The bank capital adequacy ratio (CAR) was a high 16.2% as of July, 2008, and the non-performing loan (NPL) ratio (net basis) was a very low 1.6%, but there is a concern that the worsening economic situation will lead to an increase in the non-performing loan ratio and as such, loan growth in 2009 is expected to be 22%, well down on 33% in 2008. Additionally, there are signs of gloom over the real estate market, which has performed solidly until now, and fears of an aggravated excess supply. From November, real estate prices have clearly been coming down, and some in the market hold the view that growth will stagnate for the next two years.

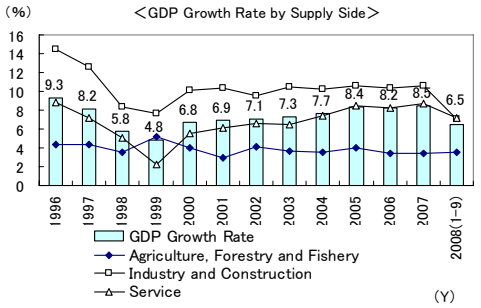
On the other hand, the government has stated openly that it will not hesitate to use fiscal policy to leverage the economy, and it is believed that there is very little danger that consumption and investment will plumb new depths. In November, in the wake of falling crude oil prices, the government decided to lower gasoline prices by 8.3% from December, and to extend the payment of subsidies, which had hitherto applied only to apparel and sugar manufacture, to include footwear. Further, it is expected that the presidential elections and the lowering of the interest rate will have the effect of boosting private consumption. October's commodity prices were 0.5% down on the previous month, and inflationary concerns are receding. In response, November's BI rate was left unchanged at 9.5%. Bank Indonesia expects the commodity price increase rate to be between 11.5% and 12.5% in 2008, and between 6.5% and 7.5% in 2009, and is likely to keep a close eye on the movements of both commodity prices and the exchange rate as it steers towards monetary expansion.

Presidential elections will be held in 2009. According to an opinion poll conducted in September, 2008, the incumbent President Yudhono's approval rating has recovered to 32%, opening up a lead in front of No. 2 placed former President Megawati (24%). Though there is currently a high possibility that President Yudhono will be re-elected, with real GDP growth set to come in below 6% and the unemployment rate worsening, there is every possibility that the situation could change in accordance with developments in the economy. The Indonesian Chamber of Commerce (KADIN) opined that the existing 12.5 trillion rupiah ($1.18 billion) of tax cuts would not be enough to stop the deterioration of the real economy, and called for 10 trillion rupiah ($950 million) worth of subsidies to support small and medium sized manufacturers. As the economy deteriorates, the pressure on fiscal expenditure continues to increase. The government will be faced with tough policy challenges, such as how to balance growth with fiscal balance. **(Yuji Miura)**

Vietnam *Real GDP growth rate 5.8% in 2009*

■ Growth rate 6.2% in 2008

Vietnam's real GDP growth rate in the period January to September, 2008, was 6.5%. Quarter by quarter, the rate went from 7.4% in Q1, down to 5.9% in Q2 and rallied slightly to 6.5% in Q3. However, in October consumption and exports slowed dramatically and the government reduced their forecast for economic growth in 2008 down from 7% to 6.7%. In actual fact, the increase in imports will likely have a negative impact on external demand, and the 2008 growth rate is expected to be on the order of 6.2%.

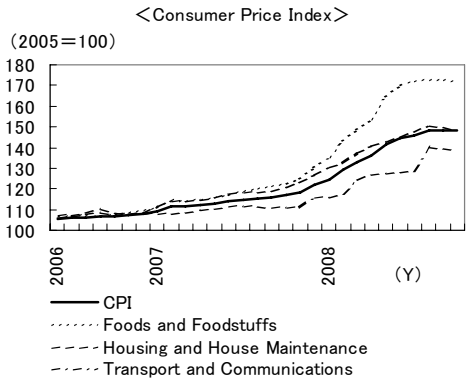


Note: 1994 constant price
Source: GSO

Viewing GDP in the period January to September in terms of supply items, agriculture was solid enough at 3.6% in that period, but manufacturing and construction and services, which had hitherto supported economic growth, posted comparatively poor figures, 7.1% and 7.2%, respectively. Industrial production statistics, sector by sector, for the period January to October, show that the private sector and foreign sector were able to maintain very healthy growth at 21% and 17.8%, respectively, over the same timeframe, but that the state-operated sector was a lame 5.5%. The state sector covers the production of cement and iron and steel, so profit growth was impacted by the spiraling prices of raw materials and price controls.

Individual consumption is languishing. Nominal retail turnover in the period January to October was a high 30.7% up on the same period in the previous year, but on an actual basis was no more than 6.1%. This marks the first time since the currency crisis that the real retail growth rate has fallen below 10%. Further, while automobile sales in the January to October timeframe were 83% up, compared to the same period in the previous year, due to the effect of things like higher registration taxes, etc., sales for September fell suddenly, down 36% compared to the same month in the previous year.

The steadily expanding deficit is hindering economic growth. Exports for the period January to October were healthy, up 36.7%, compared to the same period in the previous year, worth $53.8 billion, but imports were even stronger, up 42.6%, similarly, worth $70.1 billion, leaving a deficit of $16.3 billion. It is anticipated that the size of the deficit for the whole year will be on the order of $20 billion, the highest ever. Nevertheless, on a month by month basis, the pace of growth of the trade deficit has been slowing since it started to lose momentum in June, and foreign currency reserves swelled from $20.7 billion at the end of June to $21.9 billion at the end of September.



Source: CEIC

Investments bolstered economic growth, particularly foreign direct investments. Having come to be seen as a potential candidate site for companies looking to decentralize their production facilities out of China, investments began to recover in 2005, and in the period January to October, 2008, the value of foreign direct investments (approved basis) grew 497.7% to $56.8 billion. Foreign businesses drive investments and exports, and their profile in the Vietnam economy has become much higher very rapidly.

■ 5.8% economic growth in 2009

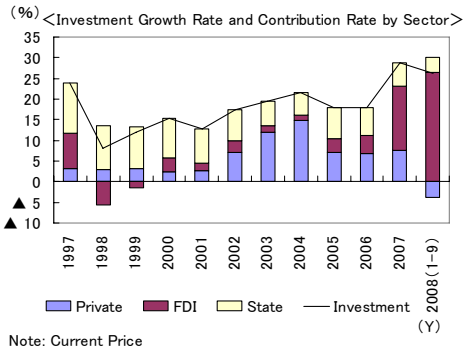
In November, the government announced a forecast of between 6.0 and 6.5% economic growth in 2009. This was a major downward revision from the 7.0% to 7.5% forecast announced in June, and indicates that the government believes that economic stagnation in October to December will continue for the time being. In fact, private sector investment, consumption and exports have all been forced into stagnation, and the expectation is that real GDP will grow by 5.8% in 2009.

The rising commodity prices that were a hindrance to economic growth began to settle down from the

latter half of 2008 onwards. October's consumer price index increase rate was high, at 26.7%, compared to the same month in the previous year, but was 1.8% down on the previous month. The fall in global prices of grain and raw materials, and the effects of the tight monetary policy, caused prices of foodstuffs, housing, transport and communications to peak in August and to begin falling thereafter. Commodity prices are thought likely to continue to settle from now on. In response, Central Bank decided to reduce the policy interest rate in October.

The way the government sees it is that the combination of falling commodity prices and lower interest rates will stimulate investment and consumption, allowing the economy to grow by 6%. However, the government bases this assumption on a consumer price index increase rate of 15% in 2009, falling at last to single digits by 2010. Excess liquidity had a lot to do with commodity prices being pushed up, and falling grain prices and raw materials prices do not always directly translate into falling commodity prices. Lowering interest rates also carries the risk of re-igniting inflation and, as such, needs to be carried out with great caution.

Given the situation described above, it seems logical to assume that companies will still face difficulties in obtaining funding, and that private sector investment will inevitably continue to flag. Gross fixed capital investment was up 26.2% compared to the same period in the previous year, on a nominal basis, with the state sector up 8.0%, the private sector 9.6% and the foreign sector 165%. As a result of the decline in housing investment caused by the tight monetary policy, private sector investment dipped into negative growth but, despite that, foreign direct investment has been able to fill the gap. Due to the time lag between approval and execution of foreign direct investments, it would appear that the same trend can be expected to continue in 2009.



Note: Current Price
Source: GSO

Relaxing the monetary policy will likely prove something of a tailwind for private consumption. However, consumer sentiment is negative because of the global economic slowdown and, given that there is little prospect of recovery in the stock and real estate markets, consumption is not expected to have the strength to boost economic growth. Automobile manufacturers are expecting sales to fall in 2009, due in part to the value added tax hike, and are looking at falling capacity utilization ratios and at having to make production adjustments.

The stagnation in export growth will likely get worse. Exports to Europe and the US account for around 40% of the total, and the impact is serious. Exports to Europe and the US in the period January to October grew strongly, looking like they might steal some of the share from exports to China and other developing countries. From October, however, the situation suddenly deteriorated, with orders falling and some businesses being forced to suspend operations. Nevertheless, the slowing economy also caused import growth to slow, which will likely help reduce the trade deficit and improve the balance of the current account.

The financial crisis that started in Europe and the US is very unlikely to spread to Vietnam. Central Bank points out that the non-performing loan ratio in September was only 2.9% and that the banks are in sound financial health. Even though this ratio may be an underestimate, given that both the stock and real estate markets are in a slump, the financial organizations can only procure limited funds from abroad, so it is felt that there is little possibility that the effects of the economic crisis will be felt in Vietnam.

The scenario described by the government has the economy recovering in 2010. However, Vietnam's economy is now heavily dependent on foreign direct investment for its motive power, and it is by no means certain that the scenario will play out exactly as planned. Rising labor costs have caused investments in labor intensive manufacturing industries to decrease and, in the short term, the contribution of foreign direct investment to manufacturing production and exports is thought likely to decline. Instead of pursuing greater investment volume, it is now time for Vietnam to switch to a growth pattern that is based on improving efficiency, and the government will need to be aggressive in reforming sectors that are conspicuously lagging behind, such as state-run enterprises and finance.

(Yuji Miura)

India 6.6% economic growth in fiscal 2009

■ Real GDP growth rate for fiscal 2008 estimated at 7.2%

India's real GDP growth rate for fiscal 2007 (April, 2007, to March, 2008) was 9.0%, marking the third consecutive year of 9% range growth. However, growth in the period April to June, 2008, was 7.9%, compared to the same period in the previous year, marking the first time in about three and a half years that the quarterly growth rate had slowed. In terms of industrial origin, agriculture posted 3.0% growth, industry 6.9% and services 10%. While services maintained a fairly high growth level, in industry, manufacturing slowed, posting 5.6% growth against a backdrop of rising domestic interest rates.

The main cause of this deceleration has been the global economic slowdown and inflation, mainly caused by rising international commodity prices. The wholesale price index increase rate began to rise from November of last year and in August was 12.9% up, compared to the same month in the previous year. The rupee's continuing depreciation, a money supply growth of over 20% compared to the same period in the previous year and an expanding fiscal deficit are all factors that have encouraged inflation.

Real GDP growth in fiscal 2008 is expected to be around 7.2%. When the economic growth rate in Q1, April to June, is considered against specific demand items, though private consumption maintained solid performance, gross fixed capital formation growth is struggling. These facts show that corporate production and investment activities are decelerating. The industrial production index, which grew 8.5%, year on year, in fiscal 2007, could only manage 4.9% in the April to September timeframe, compared to the same period in the previous year. Even within those figures, capital goods, which grew 18% in the previous fiscal year, grew 10.8% in April to September. This reflects the fact that businesses are cutting back on equipment investment. Among the elements contributing to this are poor business confidence affected by the global economic slowdown, rising costs of raw materials due to inflation, and rising lending rates caused by prolonged tight monetary policy.

The wholesale price index increase rate has begun to come down, principally due to falling fuel prices. However, as domestic petrol prices are controlled, not all international price movements are reflected in the domestic prices. Given this fact, it would seem that any future decrease in the wholesale price index growth rate will not be such a drastic one. Also, since foodstuffs, which account for nearly half of the weight of the consumer price index, have scarcely come down at all, the fall in the consumer price index increase rate will likely be even more gentle.

As the international financial crisis deepens, the Reserve Bank has changed its tight monetary stance, and between October and early November reduced the currency reserve ratio by a total of 3.5% and the repo rate by a total of 1.5%. However, for the time being it looks as if consumer sentiment will continue to worsen and that real incomes will continue to fall, so that a slowdown in private consumption is something that cannot be avoided. Also, as corporate sentiment continues to worsen, investment growth will probably continue in gentle decline. Meanwhile, as far as external demand is concerned, in the period April to September, exports grew 27.2% compared to the same period in the previous year, while imports grew 41.1%, similarly, and the trade deficit continues to grow. Petrol related imports, which account for about one third of the total, grew 59.2%, and others 29.3%. In the future, as the impact of the global economic slowdown spreads, export growth is expected to decline significantly. Already, September's export worth decelerated to 10.4% growth, compared to the same month in the previous year. The import growth rate also is expected to decline, reflecting the fall in crude oil prices and the slowdown of the domestic economy.

＜Real GDP by Expenditure Shares＞

（compared with the same quarter of last year、%）

	F2006					F2007					F2008
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1
Real GDP	9.7	8.0	11.0	9.7	9.7	9.0	9.2	9.2	8.9	8.8	7.9
Private Consumption	7.1	5.5	9.6	6.6	4.2	8.3	7.6	7.6	9.4	8.3	8.0
Government Consumption	6.2	43.7	▲ 12.1	▲ 2.3	▲ 1.9	7.0	▲ 2.2	10.3	2.2	16.7	7.7
Gross Fixed Capital Formation	15.1	17.1	13.6	15.7	25.1	13.8	13.3	16.7	14.3	11.2	9.0
Exports	18.9	45.7	25.5	17.9	27.1	7.5	6.0	▲ 2.8	15.8	10.1	19.5
Imports	24.5	60.9	89.4	75.1	56.9	7.7	6.0	0.4	14.2	9.6	21.5

Source: Center for Monitoring Indian Economy

■ Fiscal 2009 real GDP growth rate forecast 6.6%

Reflecting the worsening global economic slowdown, domestic demand will continue to decelerate gently, while external demand will struggle to grow, and the real GDP growth rate for fiscal 2009 is forecast to be around 6.6%.

Although private consumption overall has performed quite solidly, domestic sales of passenger cars have been declining since July, compared to the same months in the previous year. Also, a sharp drop in the number of people using domestic air transportation has caused restructuring within the airline industry, and the growth rate of new subscribers for mobile telephones has fallen sharply. These and others are all signs that consumers are holding back on non-essential spending. In the future, as the economic deceleration deepens, the slowdown in consumption is thought likely to continue until fiscal 2009. Nevertheless, disposable incomes have increased along with economic development, the middle class has expanded, and consumption continues to become more sophisticated. Also, the standard of living in the agricultural communities has started to improve. Due to all these facts, deceleration in consumption is not likely to be so great.

In the future, while inflation and interest rates may be expected to come down gradually, business confidence is improving only very slowly, so investment growth is expected to flag. The failure of corporate profits to grow and the increasing difficulty in procuring funds from abroad through external commercial borrowing (ECB), among other things, will have an adverse effect on investments. Further, there has been stiff resistance from farmers' groups to the expropriation of land for the establishment of special economic zones (SEZ) and the construction of factories, and this will likely hinder the expansion of direct investment and equipment investment.

In order for there to be any recovery in private consumption and investments, it is essential that the global economy recover and that domestic consumer and corporate sentiment improve. These are not likely to happen until the latter half of fiscal 2009. However, the Eleventh Five Year Plan (fiscal 2007 to 2011) calls for the implementation of infrastructure development worth 20.1 trillion rupees, and this is expected to support economic growth.

According to the trade data for the period April to June, 2008, exports of primary products (agricultural and mining), which account for approximately 15% of the total, and petroleum products, which account for approximately 19%, performed strongly. In the future, as international commodity prices come down, the growth rates for these sectors will surely decline. In addition, due to the global economic slowdown, other export items are also likely to decline, and it is anticipated that poor export growth will continue at least until the middle of fiscal 2009. As regards imports, petroleum related products, capital goods and intermediate goods account for roughly two thirds of the total. Since the falling price of crude oil and the slowing in domestic production and investment activities are expected to continue, the import growth rate for fiscal 2009 will very likely come in well below the level of the previous fiscal year, which will result in a drop in the rate of increase of the trade deficit.

In terms of future risk factors, first of all there is the depreciation of the rupee and falling share prices as a result of funds hemorrhaging overseas. In the wake of exchange intervention in order to prevent the rupee from depreciating, the foreign currency reserve was reduced 18.4% between the end of March and the end of October. In October, in particular, the reserve was reduced by $33.3 billion in one month. The foreign currency reserve is about 5.5 times the size of the short term foreign debt, so it is not as if there are worries about running out of foreign currency. However, there is a current account deficit, and there is a need for on-going caution.

Secondly, the movement of the fiscal deficit needs to be taken into account. In recent years, the size of the deficit has contracted. However, general elections are scheduled for May, 2009, and there is a very high possibility that the deficit may expand as a result of economic stimulus and other types of government spending. There are a host of factors that could contribute to an expansion of the fiscal deficit, including lower import duties and increased subsidies in the wake of rising international commodity prices, debt relief for farmers, salary increases for government employees, and reduced tax revenues as a result of the economic slowdown. As such, the deficit may well exceed the budget estimate of 4.6% (including local governments) against GDP. This situation will restrict the freedom of monetary policy that is confronted with the dilemma of controlling inflation while promoting economic growth.

(Satoshi Shimizu)

China Forecast is for upper 8% growth in 2009

■ Economic growth in 2008 slips to single digits for the first time since 2002

In China, at the start of 2008, controlling inflation was the priority issue, so a range of measures were implemented, such as expanding support for increased production of food and accepting a certain degree of renminbi appreciation. Added to the effects of a series of measures designed to contain rising prices, the international price of crude oil began to come down, and the consumer price index increase rate, which reached a 12 year high of 8.7% in February, compared to the same period in the previous year, came down to 4.0%, similarly, in October, and steeply rising prices began to settle.

In contrast, the economy has continued to shrink. In terms of performance by quarter, the real GDP growth rate was 10.6% in January to March, and 10.1% in April to June, maintaining double digit growth in the first half of the year. However, the growth rate fell to 9.0%, compared to the same period in the previous year, in July to September. In the face of a growing number of uncertain elements, such as turmoil in the global financial markets and the effect on the real economy, the Chinese government has switched its policy direction from one of preventing economic overheating to the pursuit of sustainable economic growth, as well as devising a range of economic stimulus measures, such as reducing the base interest rate and lightening tax burdens. Nevertheless, given the fact that it will take time for the effects of these measures to show, and that there is yet only faint hope of a recovery in external demand, the forecast is that the trend for October to December will not change and that economic growth for 2008 will come in at 9.6%, in single digits for the first time since 2002.

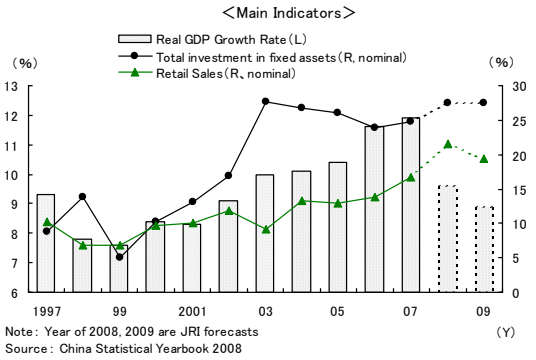
There are two main factors that have brought about this economic slowdown. The first is that exports have lost much of their increasing trend. From the latter half of 2007 onward, export growth has been weak (from around 30% year on year to around 20%). In addition to rising labor costs and the slowing of external demand caused by the deterioration of the US economy, export growth has also been affected by 1) the lowering of the value-added tax export rebate rate, 2) the government's tolerance of an accelerated pace of appreciation of the renminbi against the dollar, and 3) export curbing measures such as tougher restrictions on the processing trade. The government has promoted export restriction policies from the perspectives of correcting the trade imbalance and upgrading industry, but where the impact has become too serious for certain labor intensive industries like textiles and toys, the government has relaxed the restrictions, such as by raising the value-added tax export rebate rate. Export growth for 2008 is expected to be 21.1%, year on year, below 2007 (trade surplus $13 billion up, year on year).

The second factor is that investment growth in real terms appears to have weakened compared to the same period in the previous year. Total investment in fixed assets in the January to September period grew 27.0%, compared to the same period in the previous year, but when growth in the quarterly price indices of investment in fixed assets is expressed in real terms, growth in the period January to September was lower than the same period in 2007. Towards the end of the year, as projects such as the Sichuan earthquake reconstruction project, got under way, in nominal terms growth of around 27.5%, year on year, may be expected, but in real terms growth will fall below 2007's level, which is one factor that will depress the growth rate.

When it comes to consumption, however, the expansion trend is continuing. Retail turnover for the period January to October grew 22%, compared to the same period in the previous year, with a growth rate of 5.9% points above that for the same period in 2007. Though there is evidence of slight deceleration recently, growth for the whole year is expected to be 21.5%, year on year, the highest rate of growth since the late '90s. Even excluding price increases, consumption is continuing to grow at high levels. With the raising of the minimum wage and significant increases in average earnings for city employed persons in urban areas (up 18.3% in January to September, compared to the same period in the previous year), it is believed that rising income levels have brought about a sustainable expansion in consumption.

■ Bolstered by domestic demand, 2009 will likely avoid a serious slump

It is anticipated that economic growth in 2009 will be bolstered by domestic demand and will be in the



upper 8% range. As economic stimulus measures can be expected to boost economic growth, there is a high possibility that growth can avoid falling below the 8% mark, which is the minimum level required for employment creation.

First of all, as regards investments, at the executive meeting of the State Council in October, 2008, the Hu Jintao administration effectively overturned the investment curbs which they had promoted. A package of economic stimulus measures which a total worth of RMB4 trillion (November, 2008) will incorporate measures to promote the construction of infrastructure in the interior and in rural areas, and of waste and sewage disposal facilities in the cities, and these will be priority issues till the end of 2010. The economic stimulus measures also mention the abolition of restrictions on loan volume, which will surely be a plus for investment expansion.

On the other hand, deteriorating profits mean that businesses are less anxious to use their own funds for investment. The stock market is in decline and this may be described as another factor that will inhibit the procurement of funds for plant and equipment investment. As regards the deepening fall in the real estate markets in several major cities, given 1) the enhancement of load reducing measures (taxation, loan down payments) related to housing purchases, and 2) expectations of 'real demand' (excluding speculative investment) in real estate development, the impact may be thought to be limited.

To summarize the foregoing, the nominal growth of total investment in fixed assets in 2009 is expected to be at similar levels to that in 2008. As the price indices of investment in fixed assets looks set to keep falling, in real terms the growth rate will probably be slightly above that of the previous year and will support economic growth.

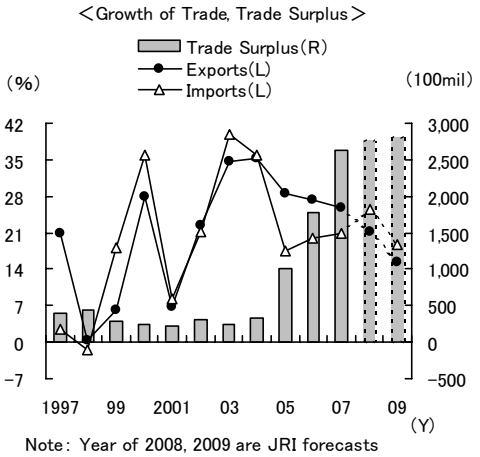
As regards consumption, also, there is a high possibility that a steady expansion will continue. This conjecture is supported by the fact of the continuing efforts to increase incomes. For example, the guaranteed minimum living standard and foodstuff production subsidies have been reinforced repeatedly and are moving towards implementation. There have also been temporary measures aimed at boosting disposable income, such as the temporary suspension (in October, 2008) of taxation on deposit interest.

Further, the 'home electronics appliances in rural areas' project will likely help contribute to consumption growth. The aim of the project when first established (December, 2007) was to promote the use of electrical household appliances in rural areas in the provinces of Shandong, Henan and Sichuan, and from October, 2008, the scope of the project was expanded to encompass nine provinces and autonomous regions, with refrigerators added to the list of items eligible for subsidy payment (13% of the price, with upper limits applicable), increasing the total number of items in the program to four. Given that the 'home electronics appliances in rural areas' project is a time limited one (in principle, till the end of November, 2012), and that 55% of the population live in rural areas (as of 2007), it may be reasonably expected to have some effect in boosting consumption in 2009.

Nevertheless, from the consumer confidence index released by the National Bureau of Statistics, against the backdrop of the turmoil in the global financial markets and deceleration in the domestic economy, it may be inferred that consumption sentiment is withering. Though it is anticipated that purchasing intent will trend upwards as a result of the implementation of large scale economic stimulus measures, it is believed that consumers will remain strongly concerned about future developments throughout the first half of the year. It also needs to be kept in mind that falling corporate profits are restricting the room by which salaries can be increased. Taking these kinds of restrictive factors into consideration, growth in total retail sales for 2009 is expected to be slightly lower than that of 2008, with 19.4% year on year growth. Expressed in real terms, growth will be nearly at the same level as the previous year.

Further, external demand can be expected to contribute almost nothing to economic growth. Due to the exacerbation of the economic situation in China's major export destinations (EU, US), export growth in the first half of the year will likely stall at around 10%, year on year. From mid-year onwards, if there is a recovery trend in the global economy, China's export growth will probably start to pick up again.

The raising of the value-added tax export rebate rate (targeting the products of labor intensive industries) and export tariff reductions, implemented in the latter half of 2008, will contribute to export growth, but the effect will be mild and export growth for the whole year is expected to be 15.4%, year on year, posting the lowest growth rate since 2001 (6.8%). Further, expectations are that the renminbi exchange rate will continue a moderate appreciation against the dollar (growing by around 1.4% through 2009). Although some attempt to encourage the renminbi to depreciate might be expected with the aim of encouraging exports, from the perspective of demands for renminbi revaluation in order to help redress the trade imbalance, the authorities are more likely to choose to allow gradual renminbi appreciation as their exchange policy for the time being.



Note: Year of 2008, 2009 are JRI forecasts
Source: Customs Statistics

Imports will also struggle to grow, as prices for primary products fall in international markets, and export growth is blunted. However, as public works projects increase, there will surely be a revival in imports of construction machines and so on. Also, as policies aimed at promoting energy conservation and the reduction of pollutant emissions progress, an increase in plant and equipment adjustments can be expected, so expansion will likely continue, with import growth for the whole year reaching 18.6%, year on year. The trade surplus for the year is expected to be $280 billion, a wafer thin 1% growth on the previous year.

Looking forward to China's economy in 2009, the following two points give cause for concern as possible downside risk. First, there is the slow economic recovery in the developed countries. In this scenario, as each country implements its own economic stimulus programs and coordination policies, the economies of the developed countries will begin to stage a gradual recovery from the middle of the year onward. That will mean that exports to these countries can be expected to pick up a bit in the latter half of the year. In addition to this, China is pushing ahead with its efforts to develop the newly emerging markets and, in addition to solid expansion in exports to ASEAN (28.4% growth in January to September, 2008, compared to the same period in the previous year, and very likely to outpace Japan to become the fourth ranking export destination), exports to India (43.1%, similarly), the middle East (Iran, Saudi Arabia and UAE, similarly 32.8%) and Africa (40.0%, similarly) have already been seen to expand rapidly. Bolstered by exports to the newly emerging economies, the situation is not likely to become as bad as that in 1998 (when exports grew by only 0.5%, year on year). Nevertheless, if economic recovery in the developed countries is late, economic growth in the newly emerging economies will be blunted and China's exports will be restricted even further. In that case, there may well be an increase in companies that will find it difficult to continue to do business, especially companies that have been involved in assembling products destined for the developed countries and companies that have relied upon low pricing to expand sales channels overseas.

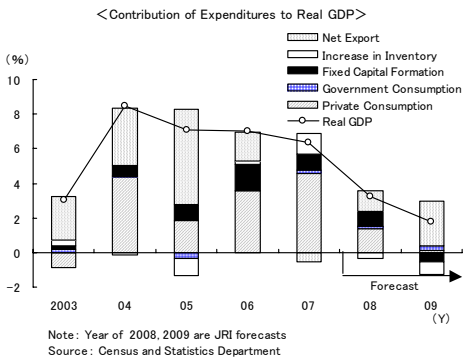
Second, there is the reduction of capital inflow from overseas, compounded by a massive capital outflow. Inward direct investments in China during the January to October, 2008 period, grew 35.1%, year on year, worth $81.1 billion. This would seem at first glance to be a solid performance, but growth levels have continued to fall of late, and it has been pointed out that much speculative capital is incoming in the guise of direct investment. If the economic (business) conditions at the investment source worsen, causing direct investment in China to dwindle, and speculative capital is withdrawn at the same time, then it would be very difficult to protect asset prices from downspin and inquietude in the real economy. Given China's massive foreign currency reserves, in excess of $1.9 trillion (as of the end of September, 2008), and the implementation (in 2008) of measures to reinforce restrictions on the movement of speculative capital, it is unlikely that such a situation could come about, but it must not be discounted as a possible worst-case scenario, under the present financial crisis.

It is most likely that ensuring an economic growth rate of the 8% level will be the priority economic management issue of 2009. The Hu Jintao administration will need to employ highly agile economic stimulus policies and to minimize the impact of downside risk. **(Junya Sano)**

Hong Kong 2009 growth expected to fall to 1% level

■ Real GDP growth rate falls to 3.2% in 2008

Hong Kong's real GDP growth rate for July to September, 2008, was 1.7%, well down on 4.2% in April to June. With minus 0.5% growth on the previous period and two consecutive quarters of negative growth (for the first time since the SARS outbreak in early 2003), Hong Kong's economy is facing tough going.



The main cause for the rapid deceleration of the economy has been poor export growth. Exports of goods in July to September grew only 1.4%, compared to the same period in the previous year, the lowest rate of growth since April to June, 2002. This was due to the fact that, added to the decrease in exports to the US (Hong Kong's second largest export destination), exports to China (the biggest export destination), which have driven the recent expansion in exports, have suffered a drastic decline. Meanwhile, though import growth has also slowed, its pace of deceleration has been gentle compared to that of exports.

In private consumption also, the trend towards prolonged growth is growing stronger, with only 0.2% growth in July to September, compared to the same period in the previous year. Hong Kong's government believes that the global financial crisis has caused a sudden cooling of consumer appetite, which in turn has triggered the slowdown in consumption. This is borne out by the fall in September's retail sales growth (over 10%, year on year, till August, then 6.1% in September, similarly). Meanwhile, machinery and equipment investment is progressing solidly and total fixed capital formation has been able to maintain its increasing trend.

Until the end of the year, it is expected that the global economy will slow further, and that consumption and investment growth will also decline. Therefore, Hong Kong's real GDP for the whole of 2008 is expected to be 3.2%.

■ Economic growth in 2009 expected to stall at 1.8%

In 2009, it is forecast that both domestic and external demand will lack vigor, and economic growth for the whole year will only manage 1.8%, the lowest level since 2002.

Private consumption is expected to falter through out the year. With the exception of the fact that prices will likely trend downwards, there does not seem to be anything on the horizon that would signal an expansion in consumption. Given the immediate signs of a worsening unemployment rate, continued shop closing and layoffs there can be no hope of a boost resulting from an improved employment situation, rather it may be expected that the opposite is likely. If fears over the global economy can be gradually swept away, consumption sentiment would likely pick up again in the latter half of the year. However, the pace of recovery is expected to be weak, and private consumption for the whole year will likely grow at 0.2%, year on year, practically unchanged.

Investments are thought likely to decline for the first time in seven years (decreased 2.4%, compared to the previous year). While a generous reduction in the discount window base rate will surely have positive effects. The business tendency survey is negative and it will probably be the second half of the year before it can recover, and it is thought that machinery and equipment investment will fall below the previous year's levels. Construction investment is expected to stage something of a comeback as public works projects get underway, but this is not likely to be on a scale that will be able to offset the overall slump in construction investment. The contribution of external demand to the economic growth rate will be higher than the previous year. This is because the decline in imports of goods and services as a result of the slump in consumption will be greater than the decline in exports. It is believed that the drop in exports to the developed countries and to China will continue throughout the first half of the year. There are concerns that, if the economic recession in neighboring Guangdong province is a prolonged one, then not only exports but Hong Kong's logistic and finance sectors may suffer as a result.

2009 will probably see the administration of Donald Tsang attempting to revive the economy by getting with public works projects underway. **(Junya Sano)**