

## **For Asia, data shows a slow climb out of recession**

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*Has Asia's economic recovery reached a turning point?*

Recent economic data, some unexpectedly good results from companies around the region, early signs of some new hiring, and a stock market rally that has defied most analysts' expectations would seem to indicate that it perhaps has.

On Tuesday, economic reports from Singapore, the Philippines, Australia and China provided the latest fuel for hopes that Asia is on track for a recovery that will outpace that of Europe and the United States, and give the region more economic and political clout.

Even in Japan, which is mired in its deepest recession in decades, the central bank's governor, Masaaki Shirakawa, struck an upbeat note after a rate-setting meeting on Tuesday. "Asian economies seem to be growing at a faster pace," he said, according to Reuters. "Since the spring, the financial system has also been improving. The overall direction is heading toward improvement."

Any recovery, to be sure, is extremely fragile. Asia has depended heavily on government stimulus projects, both at home and abroad. Exports remain weak, and a renewed downturn in the West — the primary market for Asian goods — or a turnaround in the dizzying rise in Asian stocks are primary risks.

But these days, economists are feeling pretty good. "Things certainly look better than they did three months ago," said Simon Wong, regional economist at Standard Chartered in Hong Kong.

All through the crisis that engulfed the world financial system and tipped much of the world into recession last year, Asia has had a major advantage: Its banks steered clear of the complex financial systems that caused some Western banks to collapse. Asian governments and companies were in relatively sound financial health, having repaired their finances only recently, after the Asian financial crisis of 1997-98.

Asia's export-dependent economies suffered badly when U.S. and European consumers and companies sharply slowed purchases, leading to a collapse in Asian exports late last year. But over all, Asia has recovered more rapidly than most analysts had dared to hope, as governments spent heavily to lift their economies.

In recent weeks, companies like Sony, Panasonic and Samsung have reported better — or at least less bad — results for the quarter from April through June. Hyundai Motor even reported a record quarterly profit.

Although many companies are continuing to cut jobs, headhunters in Asia say they see evidence that some companies are staffing up again. "It's been a very tough 10 months, but over the past 6 or 7 weeks, we've seen a modest upturn in jobs activity in banking — albeit from a very, very low position," said Nigel Heap, managing director for the recruitment firm Hays in Sydney. "We're cautiously optimistic that the worst is over in Hong Kong and Singapore."

China in particular has stood out in Asia. After years of double-digit growth, the Chinese economy, stumbled this year. A giant spending package, deep interest rate cuts and much greater lending by state-controlled banks have pulled the economy back to a healthy level of growth in recent months.

Data for July, released by the statistics office on Tuesday, illustrated the point: Industrial output, a key measure of broader growth, rose 10.8 percent from a year earlier, while retail sales gained 15.2 percent.

Although the rise in output was less than widely expected, and exports took a further hit, economists at Goldman Sachs say they believe that China could even return to double-digit growth as soon as next year. This week, the team raised its forecast for full-year growth to 9.4 percent. This is up from the 8.3 percent previously projected, and higher than the government's 8 percent target. For 2010, the economist say they expect China to expand 11.9 percent.

Not all economists agree that the picture is quite as rosy. For one thing, China's policy makers now face a delicate balancing act. A spike in property and equities markets — the Shanghai stock index is up about 80 percent this year, after adding 0.5 percent on Tuesday — has led many to worry that another bubble is in the making. Analysts say the authorities now have to scale back bank lending to deflate price spikes while avoiding choking off growth.

Data on Tuesday showed that bank lending dropped off sharply in July, but so far most economists remain relaxed.

"We believe that investment in the coming months will continue to be well supported by lending that has already taken place," Tao Wang, a economist at UBS in Shanghai, said in a note.

Exports, which account for about one-third of China's economy, remain depressed, sinking 23 percent in July from a year earlier. The decline was smaller than economists had expected, and indicated that external demand is steadily recovering, Qing Wang, China economist at Morgan Stanley, said in a note. But it nevertheless showed that overseas demand for Asian-made goods remained well below where it was a year ago.

At the same time, the pace of recovery is uneven across Asia.

In Australia, business confidence is at the highest level in almost two years, and the central bank has indicated that it could raise interest rates.

By contrast, Japan remains in a deep recession. "The global economy has suffered a great shock," said Mr. Shirakawa, the central bank governor. "We can't expect to see an impressive recovery."

The key question now is what happens "beyond the near-term," said Mr. Wong, the Standard Chartered economist.

"We've seen a short-term rebound," he said. "The question is what happens longer term — how will countries like China and Indonesia switch from export-dependent to something else? There are still lots of uncertainties about that."

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