

International Business News

Toyota says global expansion not to blame for recall

AFP, Nagoya, Japan

Toyota Motor scrambled to reassure customers Tuesday that it has not sacrificed its legendary safety to be world number one as its recalls spread to the Middle East, Africa and Latin America.

The company has actively expanded overseas over the past decade to meet brisk demand for its cars, prompting critics to question whether its quality control has weakened in the process -- a suggestion the group denies.

"I do not think that the expansion of the production overseas has affected the quality," Toyota vice president Shinichi Sasaki told a news conference, at which he issued a fresh apology by the company for the massive recall.

"We have full trust in engineering and quality," added Sasaki, the first Toyota executive to talk publicly in Japan about the recalls since they spread around the world last week.

Toyota said Tuesday that it would recall about 180,000 vehicles in the Middle East, Africa and Latin America that were imported from the United States with sticking accelerator pedals.

On Monday the company said it had started shipping parts to US dealers to repair the millions of vehicles recalled due to the problem pedal.

German retail sales post biggest drop since euro launch

AFP, Frankfurt

German retail sales fell by 1.8 percent last year, final figures released Tuesday by the national statistics service showed, the biggest decline since euro notes and coins were introduced in 2002.

While the figure was better than an earlier estimate of a 2.0 percent drop, it suggested that Europe's biggest economy "will most likely have expanded only slightly" in the last three months of 2009, Commerzbank analyst Simon Junker said.

Consumption has nonetheless resisted better than expected as Germany's economy suffered its worst post-war recession, with activity contracting by 5.0 percent overall last year.

Sales picked up by a provisional 0.8 percent in December compared with November, slightly below analyst forecasts for 0.9 percent compiled by Dow Jones Newswires.

"Apparently, German consumers did not let the financial crisis ruin their Christmas shopping," ING senior economist Carsten Brzeski said.



A Pakistani boy drinks water from a gallon container outside his makeshift tent in a slum in Islamabad yesterday. Pakistan's battered economy is showing some signs of improvement with GDP growth expected to rise, a state bank report said in mid-January 2010, but it warned that the battle against militants remained costly. Inflation, the global recession, a crippling power shortage and a wave of Islamist violence have all taken their toll on Pakistan, with economic growth last fiscal year -- which ended June 30 -- the lowest since 1997-98.

Australia leaves rates on hold at 3.75 percent

AFP, Sydney

Australia's central bank Tuesday left interest rates on hold at 3.75 percent, surprising analysts by ending a sequence of three consecutive rises, but hinted at further hikes to come.

Australia led the developed world in lifting interest rates following the global financial crisis, increasing its official cash rate 25 basis points to 3.25 percent in October and again in November and December.

"Since information about the early impact of those changes is still limited, the board judged it appropriate to hold a steady setting of monetary policy for the time being," Reserve Bank of Australia (RBA) governor Glenn Stevens said.

Economists had expected another rate rise and Stevens, who said conditions were stronger than expected in Australia, said another increase to the official cash rate was likely in the future.

G7 may discuss Chinese yuan at weekend: Tokyo

AFP, Tokyo

Finance ministers and central bankers from the Group of Seven major economies may discuss the Chinese yuan when they meet in Canada over the weekend, Japan's finance minister said Tuesday.

"There's a possibility that the yuan issue will be raised as a topic of discussions" during the two-day G7 gathering in the Canadian Arctic on Friday and Saturday, Finance Minister Naoto Kan told reporters.

The value of the Chinese currency, which has effectively been pegged to the US dollar since mid-2008, has been a bone of contention between Beijing and its Western trading partners, which say it is kept low to boost exports.

COLUMN

Time to change Asian psyche

JASPAL BINDRA

A news piece from last year about an elderly Chinese man whose life savings were eaten by mice tells us two things; firstly, that the stove, as in 80-year-old Yang Lihong's case, is not exactly a safe piggy bank. More importantly, it highlights the norm among Chinese households to stash away cash with the intention of saving for a rainy day.

Thrift is a value promulgated throughout much of Asia, especially China, and that in large part explains the country's high savings rate, estimated at around 40 percent of gross domestic product.

Consumerist culture has no doubt caught up in recent years, but for the Chinese economy as a whole, the propensity to save outweighs the willingness to spend. The '100 yuan a week' campaign made famous by 24-year-old Chinese photographer Wang Hao on his blog shows that even those from the so-called Generation Y in the 1980s can take pride in being frugal.

Unfortunately, this is not what the world requires. What is most needed today is a more even balance of the consumer psyche between Asia and the west. There is pressing need for the west to save more and Asia to spend more. The world economy is on the mend and improving economic data across Asia -- the rebound in South Korea with three successive quarters of growth merits attention -- suggests the region is set to enjoy steady growth in 2010.

But one will be wise to tread on the side of caution when it comes to the global outlook. No doubt the quick-fix remedy -- combining massive liquidity injections, fiscal spending and low interest rates -- have worked to stave off a prolonged global depression. That now leaves us with the questions: How sustainable is global economic growth? If it is sustained, how strong will growth be? And, how soon can policy be tightened?

The US economic picture has improved -- Standard Chartered Bank's global research forecasts US real GDP growth at 2.3 percent in 2010 from a contraction of 2.4 percent last year -- but it is still too early to celebrate the recovery. For certain, any recovery will be very slow and gradual, particularly in the developed economies. We may even see a dip on the road to economic recovery.

US household and business confidence have been shaken so hard that a private sector recovery is likely to be sluggish and consumer spending weak in 2010. That is where the trouble for export-dependent Asia lies, because the region's exporters have to live with smaller orders if their biggest customers are grappling with rising debt, layoffs and wage cuts.

The financial crisis has also shown that a "decoupled Asia" was a myth, even though prompt economic stimulus and sound fiscal positions provided the buffer that enabled Asian economies to ride out the storm in fairly good shape. Although year-on-year export figures should start to improve for many Asian countries, export levels will remain below pre-crisis levels for as long as the US economy is struggling to get back to top form.



A woman walks past a god of fortune figurine displayed for the coming Lunar New Year celebrations in Beijing on Monday. Consumerist culture has no doubt caught up in recent years, but for the Chinese economy as a whole, the propensity to save outweighs the willingness to spend.

Economic forecasts for Asia continue to be revised higher. The International Monetary Fund (IMF) in October 2009 raised its 2010 GDP growth forecast for the region to 5.75 percent from the 4.3 percent that was estimated in May.

According to IMF, the Chinese economy is estimated to have grown 8.5 percent in 2009 and is projected to grow 9 percent in 2010. The fact that the Chinese economy will stay in expansion mode is beyond anyone's doubt. But one should bear in mind that the world is a \$61 trillion economy and China is only \$4.4 trillion of that.

The US, EU and Japan together account for more than half of global economy, while the BRIC countries (Brazil, Russia, India and China) together make up less than 15 percent of global GDP. Therefore, the job of getting the global economy back in shape is not something that Asia alone can do.

In economies like Hong Kong, Taiwan, Korea and Singapore, painful memories of the crisis seem all but forgotten by consumers who have loosened their purse-strings following the rebound of equity and property markets. With expansionary fiscal policy and initiatives, such as Singapore's Jobs Credit Scheme, helping to limit unemployment in many Asian countries, banks were able to step up lending to households even when lending to businesses fell.

Asset price inflation did have the benefit of a positive wealth effect that was instrumental in keeping household spending afloat while the economy was fragile. But with excess liquidity flowing into equities

and property and asset bubbles starting to form, the pressure is on for policymakers to tighten monetary policy.

While a number of countries, including Israel, Norway and Australia, have hiked rates, the dilemma for many countries is that tightening early may be tantamount to opening the floodgates to hot-money inflows, while holding back may fuel asset price inflation.

In China, when prices move up in 2010 -- we expect consumer price index inflation to reach 3 percent year-on-year in the second quarter -- the response is likely to be both credit guidance and rate hikes.

Overall, however, we expect policy to remain supportive and do not think the policy adjustment in the coming quarters will disrupt recovery or result in significant credit squeeze.

A related issue is that of stability of the Chinese yuan against the US dollar, a situation that is compelling many Asian countries to keep their currencies stable in order to maintain export competitiveness, thus leaving floating currencies, particularly the euro, to take the strain vis-à-vis a weaker dollar. While there is pressing need for Asian countries to allow their currencies to appreciate, most will be unlikely to do so until they are confident that a recovery is truly underway.

It is, in short, a difficult balance that policymakers have to strike -- continue to provide support to their economies until they are assured of a recovery, but not maintaining it for so long that it triggers inflationary pressures or undermines the region's

new-found reputation as prudent fiscal managers.

The reality check for Asia will come when government stimulus eases, and the key challenge will be to ensure balanced and steady growth in the face of weaker export demand from the US and Europe. There will also be a need to deal with rising protectionist pressures globally, as the APEC summit in Singapore last year highlighted.

It is crucial that Asia develops a stronger culture of domestic consumption as a growth driver. The process is underway; Standard Chartered Bank's Asian retail sales index, which includes data from eight Asian economies, grew by 9 percent year-on-year in August, or 2.2 percent year-on-year excluding China.

This is a positive start since the general perception is that Asian consumption cannot improve before exports rebound. The reluctance of Chinese households to spend has been attributed to factors such as their financial and social insecurity. Efforts to unlock savings will hinge on reforms in the areas of health care, education, housing and consumer finance, but these will take time, as will the structural reforms that are needed to ensure a smooth reallocation of resources as the export-oriented economy is transformed into one that emphasises private domestic demand.

The world economy certainly has a long way to go, but we remain hopeful of the Asian miracle.

The writer is the chief executive (Asia) for Standard Chartered Bank.

AIRSHOW

US firms eye Asia's aviation market

AFP, Singapore

US firms remained bullish on the Asian market as an international aerospace trade show opened Tuesday under the shadow of a US-China spat over Washington's arms sales to Taiwan.

More than 100 firms led by Boeing and Lockheed Martin -- which are at the heart of the weapons controversy and expected to be hit if Beijing imposes sanctions -- are part of the largest contingent at the Singapore Airshow.

"We see growth in Asia-Pacific as being the kind of stimulus really for the world economy and for American producers," Marion Blakey, chief executive of the Aerospace Industries Association (AIA), told journalists.

"The pent-up market here is enormous and the fact that most of the countries in this region have turned to the United States for technology... I think there is going to be a very strong market for a good long time to come," she said.

Blakey, whose group represents US firms in the civil and military sectors, expressed hope that Washington and Beijing would be able to sort things out.

"Those discussions are really left best to government to government, and we will certainly see that they undoubtedly will discuss the ramifications, but there is nothing really unusual about this," Blakey said.

Boeing also maintained that the 6.4 billion-dollar Taiwan arms deal announced



Visitors look at a Boeing aircraft display at the Singapore Airshow 2010 in Singapore yesterday. The US aerospace industry is out in full force at the Singapore Airshow which opened in a bid to win more business in Asia, seen as the fastest-growing aviation market.

last week by the Pentagon was a matter for officials of both countries, not the private sector, to address.

"I believe it's too early to speculate on what the impact might be to the industry and to us," Boeing's vice president for marketing Randy Tinseth said.

US Deputy Undersecretary of the Air Force Bruce Lemkin, who was also attending the aerospace show, said Beijing's reaction to the Taiwan arms deal was "unfortu-

nate" and described Washington's decision as based on "principle" and its commitments to help protect Taiwan.

Lemkin was speaking hours after China warned the United States that their cooperation on international and regional issues could suffer.

"We strongly urge relevant US companies to stop pushing forward and taking part in the arms sales to Taiwan," foreign ministry spokesman Ma Zhaoxu said in Beijing.

China earlier said it would suspend military and security contacts with Washington and threatened to impose sanctions on US firms involved in the deal.

Boeing is one of the companies involved, through its McDonnell Douglas unit.

Lockheed Martin is providing Patriot anti-missile batteries, and United Technologies unit Sikorsky Aircraft is supplying Black Hawk helicopters.

The US aerospace association's Blakey said Asia's stellar economic growth and its efforts to upgrade domestic aerospace-linked infrastructure were key factors behind the strong US presence at the show, held every two years.

"With all that, it will be a strong, strong aerospace market," she said.

Asia's budget carriers can give more established airlines a run for their money and hold lots of potential for US firms, Blakey said.

The International Air Transport Association said Monday that Asia overtook North America as the world's biggest air travel market with 647 million passengers in 2009 -- more than a quarter of the 2.2 billion people who flew commercially worldwide.

Singapore Airlines, a major Boeing customer and bellwether company whose earnings are closely monitored by the travel, financial and aerospace sectors, on Tuesday announced its return to profit in the three months to December after a rare losing streak in the two previous quarters.