Hard lessons for China from Japan's rise and fall

REUTERS, *Beijing*

Something strange is going on in China: economic scholars are looking to Japan for inspiration.

Poring over the lessons China can learn from the country it overtook in 2010 to become the world's second-biggest economy has long been a thriving cottage industry.

In Chinese circles, the main conclusion is that Beijing must on no account fall into the currency trap that Washington laid for Tokyo and needs to resist U.S. pressure for a sharp rise in the yuan.

According to received wisdom, it was a spike in the yen at America's behest that pumped up Japanese asset prices in the late 1980s. When the bubble burst in 1990, it ushered in two decades of stagnation from which Japan has still not really recovered.

Some Chinese researchers, however, have been going further back in history.

They want to emulate the Income Doubling Plan launched in 1960 by Prime Minister Hayato Ikeda, which underpinned a decade of golden growth in Japan. The China Development Research Foundation in Beijing invited a professor from the University of Tokyo just before Christmas to give a lecture on the subject.

Invoking the plan is appealing because China today is at roughly the same stage of development as Japan was then. Ikeda stoked consumption by cutting taxes, bolstering welfare, raising farm prices and reducing income inequality. China needs to do the same.

The problem, according to economist Ting Lu with Bank of America Merrill Lynch, is that some advocates have distorted Ikeda's plan.

Somewhere along the way, his aim of doubling Japan's national income - which was easily achieved -- has mutated into a leftist goal of doubling Chinese labour income over the span of the ruling Communist Party's five-year plan for 2011-2016.

REUTERS

Pedestrians walk in front of the Finance Ministry in Tokyo on December 24, 2010.

"The most dangerous thing for the Chinese government to do would be to regulate too many prices, including wages," Lu said.

In the five-year plan that just ended, China wanted wages to lag just behind GDP growth. By contrast, as part of the next blueprint, to be unveiled in March, labour and household income would rise in line with or faster than overall growth, Lu said.

But he said Beijing would make a rod for its back if it mandated a 20 percent increase in the minimum wage every year. What if there was another financial crisis and costs had to be cut?

"Just let the market do the job to determine people's wages," Lu said. "Migrant workers wages have been growing 20 percent, not because of government regulation but because of supply and demand for labour."

Yifan Hu, chief economist at CITIC Securities in Hong Kong, said the five-year plan would embody the spirit of Ikeda's scheme.

"The Japanese plan wasn't a single idea to increase salaries or household income, but a comprehensive plan," she said.

Above all, Beijing would prioritise tax reform to put more money in people's pockets and spread national wealth more fairly.

"The most important thing is to increase income, because across Asia you can see the propensity to consume is quite low no matter whether you have a good social security network or not," Hu said.

As for the role of the exchange rate, a recent International Monetary Fund working paper finds no evidence that the yen's rise was to blame for Japan's stagnation.

In fact, thanks to supportive macroeconomic policies, Japanese GDP growth had rebounded to 7 percent by 1987, according to Papa N'Diaye of the IMF's China desk.

Prices soar as ECB stares into eurozone divide

AFP, *Frankfurt*

Inflation is on the rise as the European Central Bank tries to deal with diverging eurozone economic trends and China positions itself as a potential friend for indebted governments.

The ECB has been battling solvency crises in peripheral eurozone countries and supplying commercial banks with cash to ensure lending to the 17-nation economy but must now consider again its primary mandate: price stability.

Eurozone inflation was expected to hit 2.2 percent in December, the first time in two years it will have breached the central bank's target of just below 2.0 percent.

Climbing energy and food prices indicate inflation can no longer be considered a back-burner issue, complicating the ECB's task as it works to help banks strengthen their reserves and capitals to solidify their finances.

If confirmed, the latest reading would oblige ECB president Jean-Claude Trichet to take another look at what he says is the only needle on his compass.

"The ECB faces the tough task of balancing a raft of bad news from the eurozone's periphery with the more positive developments elsewhere and the fact that inflation has risen above target," said Ben May at Capital Economics.

He and other economists nonetheless expected the inflation increase to be short-lived because it stemmed in large part from a spike in energy and food prices.

And there was good news for central bank policymakers as well since eurozone economic sentiment and business activity are picking up, the economies of heavyweights France and Germany are growing, and China says it is here to help.

Vice Premier Li Keqiang visited Spain and Germany last week, and Spanish daily El Pais quoted government sources as saying that Beijing is willing to buy about 6.0 billion euros ($7.8 million) worth of Spanish public debt.

Li, widely tipped to become the next premier, said in an El Pais op-ed piece that China was sure Spain would recover from the economic crisis and that Beijing would buy more Spanish

Philippine tycoon focuses more on Asian customers

AFP, *Manila*

Armed with a fast-growing fleet of planes and enough junk food snacks to feed entire armies, Philippine tycoon Lance Gokongwei is striding out confidently in the world's most populous region.

Best known as the boss of budget carrier Cebu Pacific, the 43-year-old also leads a vast conglomerate that is involved in an array of ventures, with one claiming the title of the biggest consumer food business in South-east Asia.

Thrust by his rags-to-riches father to lead the family-owned businesses in 2002, the US-educated Gokongwei said the group had worked feverishly to diversify and become a big player across a range of markets throughout Asia.

"I think any family business has to adapt because things are so much more competitive now," the reserved, soft-spoken father-of-two told AFP in a recent interview at his office in a Manila high-rise tower owned by the family.

"Our job, really, is to push our international business."

The airline and its trans-Southeast Asian branded food manufacturing business, Universal Robina Corp., are the two biggest money-makers of the listed family conglomerate JG Summit Inc., capitalised at about $3 billion.

But it also has interests in real estate and hotels, retailing, telecommunications, petrochemicals and banking in the Philippines.

On the food side, the company each year sells $1.15 billion worth of wafers, potato chips, tea, cereals and chocolates in Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam and China.

The food business, which calls itself the Philippines' first multinational, has struggled in China but succeeded elsewhere and has little debt, said April Tan, research chief with stock brokers Citisecurities Inc.

With nearly half of its profits coming from outside of the Philippines, the company's efforts to broaden its base are paying handsome dividends, according to Tan.

AFP

Philippine tycoon Lance Gokongwei poses next to a scale model plane during an interview at his office in Manila on January 5.

"If you're catering to a bigger market, the earnings potential is much higher," Tan told AFP.

Cebu Pacific, the no-frills carrier with dancing flight attendants, has similarly started to spread its wings across Asia after success at home.

When Cebu Pacific began flying in 1996 with the motto, "It's time everyone flies," few Filipinos could afford to traverse the archipelago by air and hundreds were dying every year in alarmingly frequent ferry disasters.

It has since become the country's biggest airline in terms of the number of domestic passengers -- eclipsing national carrier Philippine Airlines.

"With Cebu Pacific, it's quite clear that they're capturing the bulk of the market and obviously, they are the fastest-growing carrier in the country," Tan said.

The airline boasts a young fleet of 32 planes and serves 50 domestic and 23 regional routes. Profits are surging and it is set to bulk up with 24 new planes due for delivery over the next 14 months.

Gokongwei said the entry of other low-cost carriers in the Philippines since the Cebu Pacific success showed the huge potential pent-up demand in a country of 95 million people, 10 percent of whom work on short-term jobs abroad.

Gokongwei company shares surged last year ahead of the airline's listing, turning the family into the country's third richest and putting it on Forbes magazine's billionaires' list, its worth estimated at $1.5 billion.

A fitness nut who ran the New York Marathon last year, Gokongwei said that at times he and his father, John, a Chinese immigrant who remains the group's largest shareholder, disagree on which countries or businesses to invest in.

In the end though, the old man, who made his name as a risk-taker, gets his way.

"I'm a working man. I'm working for him," said the son, who went to business school at the University of Pennsylvania.

China targets deeper German ties

AFP, *Berlin*

China and Germany, the world's top two exporters, should deepen their economic cooperation, a top Beijing official has said, ahead of a meeting on Friday with Chancellor Angela Merkel.

Vice Premier Li Keqiang, widely tipped to be China's next premier, made the remarks at a closed dinner on Thursday for businesspeople in Berlin, according to official Chinese news agency Xinhua.

According to Xinhua, Li said the two economic powerhouses should expand ties both in traditional areas such as machinery and cars but also explore new cooperation in low-carbon technologies and energy efficient industry.

He noted that bilateral trade between the two is thought to have topped $140 billion last year, around 30 times more than in 1990.

For his part, German Economy Minister Rainer Bruederle, who met Li late on Thursday, pressed Beijing on the issue of market access in China for German firms, technology transfer and raw material supplies.

"Technology transfer offers both sides great opportunities when it takes place willingly and under fair terms," Bruederle said in a ministry statement released after the meeting.

"I am convinced that everyone will benefit if China ensures open, free and orderly access to its raw materials," he said.

Manmohan says economy may grow 9-10pc

REUTERS, *New Delhi*

The Indian economy is likely to grow between 9 and 10 percent from the next fiscal year that starts from April 1, after growing 8.5 percent in the current fiscal year, Prime Minister Manmohan Singh said on Saturday.

India's domestically-powered economy grew 8.9 percent in the September quarter -- matching the revised figure for the previous quarter -- defying weakness elsewhere. Singh's forecast was above the previous official forecast of 9 percent.

"Despite the uncertain global economic scenario, I am happy that our economic recovery is progressing very well," Singh told the annual meeting of non-resident Indians in New Delhi.

"We expect that from the next year onwards, we will be able to grow at a rate between 9 and 10 percent."

India, Asia's third largest economy, grew at an average of 9.5 percent for three years to the year ending March 2008, before being hit by a global downturn that slowed the pace of annual economic expansion to 6.7 percent in 2008/09.

Even as the economic recovery seems to be on track, Singh's government is under pressure to rein in inflation, particularly soaring food prices.

India's annual food inflation accelerated to 18.3 percent in the week to Dec 25, its highest level in more than a year, from 14.4 percent in the previous week.

Although unseasonal rains are officially blamed for pushing up prices of vegetables such as onions and tomatoes, some commentators point instead to poor agricultural productivity and transport after years of few reforms and weak government investment.

An Indian vendor (L) receives money from a customer at a wholesale vegetable market in Hyderabad on January 8. In a bid to bring down the prices of food items, Finance Minister Pranab Mukherjee has written to all the state chief ministers seeking their help to controlling inflation and cracking down on hoarders for removing hurdles in food supply. This comes a day after food inflation touched a high of 18.32 percent for the week ending on December 25.

AFP