

Asian nations on subsidy spree as inflation hits

AFP, Kuala Lumpur

As prices of food and fuel reach historic highs, Asian nations with a wary eye on Middle East uprisings are doling out subsidies that experts warn are storing up trouble for the future.

Robust Asian economies largely escaped the global downturn, and are now in danger of overheating, stoked by low interest rates, demand from increasingly affluent citizens, and a flood of capital from depressed Western economies.

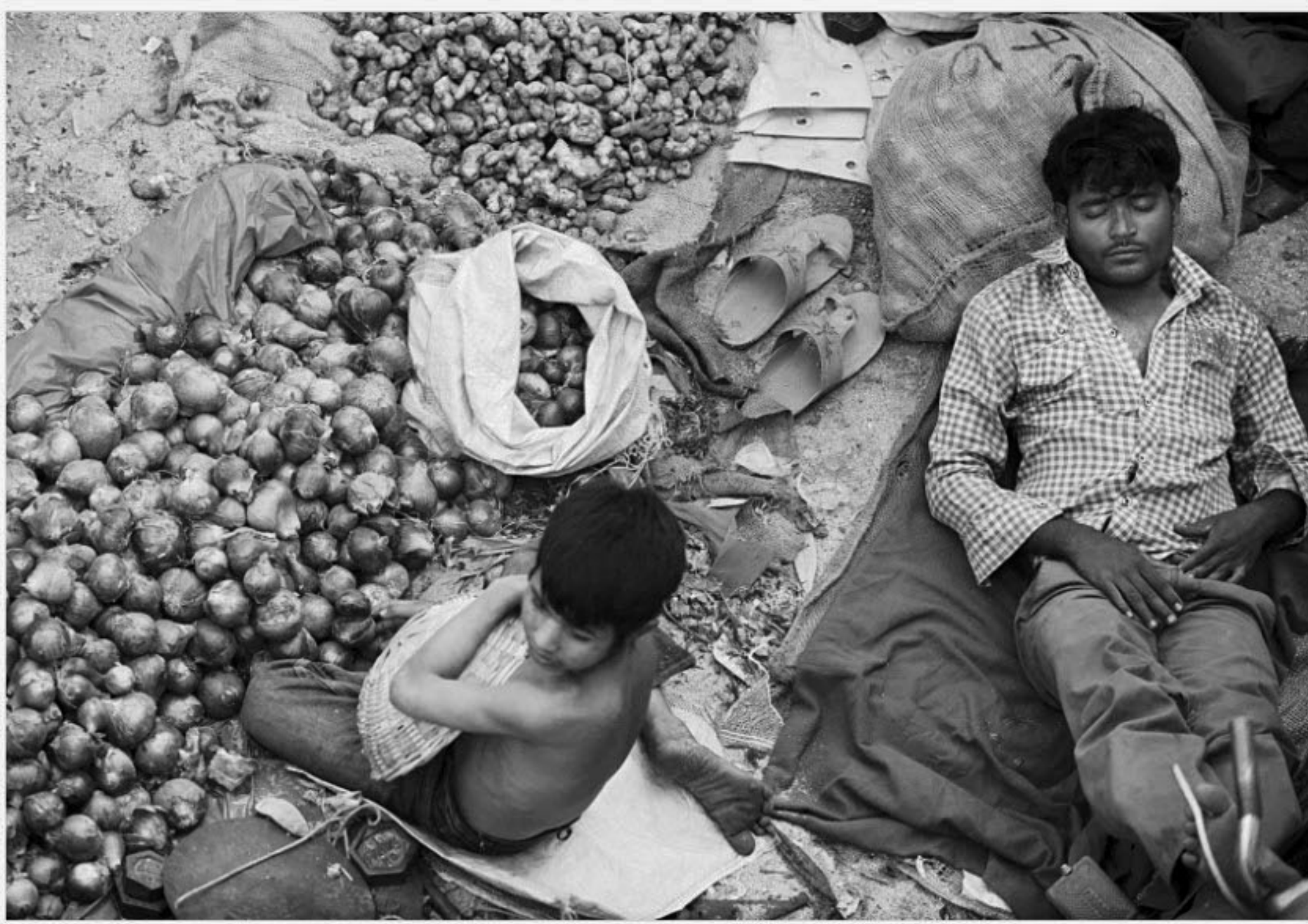
Supply shocks caused by severe weather are also fuelling inflation that has seen the price of basic commodities spiral -- an irritation for Asia's growing middle class but a matter of life and death for its countless poor.

The UN's food agency said last week that world food prices have now hit record levels, and that oil price spikes triggered by the revolutions in the Middle East and North Africa could push them even higher.

From regional giants China and India to emerging tigers Indonesia and Vietnam, governments are trying to soften the blow with a raft of populist measures including subsidies, cash handouts and price controls.

The factors fuelling the "Jasmine Revolution" that has felled the leaders of Egypt and Tunisia, and threatens a civil war in Libya, are not mirrored across Asia, with its emerging democracies and rapid recent economic growth.

But regional governments are



A vendor takes a nap as his child sells vegetables by a roadside market in Siliguri yesterday. Indian government unveiled a budget focused on helping the poor and rural masses with pledges to hike social spending by 17 percent and fight food inflation.

twitchy over the mayhem in the streets of Tripoli and Cairo, and anxious to head off dissent which could see them dumped at the ballot box even if not unseated in a revolution.

"Political unrest, social unrest and high food prices have gone hand in hand across the region," said Glenn Maguire, chief Asia economist at Societe Generale.

"Governments in India have lost power due to the price of onions... So I think a politically savvy leadership would defi-

nately be attuned to what's happening with the cost of the most basic foods."

In Malaysia, the coalition government paid a heavy price for winding back heavy fuel subsidies, a decision that tore the lid off brewing discontent and helped the opposition make unprecedented gains in 2008 elections.

With new polls tipped for this year, citizens who have tasted the power of the ballot box are making it clear that inflation and

the continuing undoing of price controls will again be a key issue.

"The removal of subsidies has really affected our family. It's okay for the rich people but we live off our daily wages," said Che Hamsuri Che Jaafar, a 48-year-old taxi driver, as he waited for a fare outside a Kuala Lumpur hotel.

"I wake up at 5am and go to sleep at 11pm and work the whole day, but I barely make enough to feed my family of five. The government must under-

stand the hearts of the people. They must ease our suffering or face the same kind of response they got in 2008."

In India, where the cost of onions -- a staple in most traditional dishes -- doubled in just a few days last year, there have already been large rallies over inflation, heaping pressure on the government to act.

In its recent budget, food and fuel subsidies were largely maintained, and social spending was raised by 17 percent as part of a range of measures to reduce imbalances and retain the support of its core poor supporters.

"With its back to the wall, the government is doing what is absolutely necessary for its survival," said Surjit Bhalla, chairman of the Oxus Investments fund management firm, writing in the Indian Express newspaper.

China's inflation has remained stubbornly high for months. The UN food agency said that prices for rice and wheat flour are 23 percent and 16 percent above their levels a year ago despite government moves to cool the increases.

In November subsidies were ordered for low-income households and last week plans were announced for cash subsidies to be made routine at times of high inflation, at a level "not lower than" the extra living costs.

"Price rises can easily spark people's discontent and even lead to grave social problems if they are linked to corruption or graft," Premier Wen Jiabao said in a recent online interview.

Pressure rises as euro debt deadline looms

AFP, Brussels

Europe faces mounting pressure this week to bridge a political chasm running from north to south, and right to left, over how to harmonise economic policy.

While the 27-state European Union is pre-occupied by upheaval in Libya going into an emergency summit on Friday, markets are sounding ever more pessimistic about progress within the 17-nation eurozone towards resolving its debt crisis.

They are already on edge over high oil and food prices, with the knock-on effect that has on inflation and the eurozone already has plans for its own special summit in Brussels later the same day.

One major concern will be the decision by Fitch Ratings on Friday to downgrade Spain's sovereign credit outlook at the weekend.

Fitch Ratings is one of the three top agencies assessing borrower reliability and was a prime mover in Greece and Ireland's drift to the edge of the precipice last year.

Fitch moved Spain from stable to negative, with the agency blaming a weak economy, banking woes and big-spending regional administrations.

Fitch also warned that Spain could be punished if another summit on March 24-25 failed to produce a "credible and comprehensive" response to its stated goal of deciding the size, shape and scope of a financial rescue system.

Fitch's rating decision -- and its warning on sorting out the rescue mechanism -- came after EU leaders separated across old political faultlines on the how to solve the bloc's economic problems.

Right-wing leaders gathered in Helsinki, while the left met in Athens Friday and Saturday.

The near 2,500-kilometre distance was more than just symbolic.

One EU source close to negotiations on the "comprehensive" package EU president Herman Van Rompuy is negotiating described it as a "chess game" being played out against the clock.

British budget most pro-growth for a generation: PM

AFP, Cardiff

The forthcoming British budget will be the most pro-growth for a generation, backing entrepreneurs and slashing business red tape, Prime Minister David Cameron said Sunday.

As he prepared to speak to his governing Conservative Party's spring conference in Cardiff, Cameron said the March 23 package would help Britain to hustle and earn its way in the world again.

The message comes amid criticism that the governing Conservative-Liberal Democrat coalition's plans for eliminating Britain's record deficit have focused too heavily on cutting public spending without a plan to kick-start the economy.

"In just over two weeks, our government is going to unveil the most pro-entrepreneur, pro-business budget for a generation," Cameron wrote in the News of the World newspaper.

"It's going to be a budget for the doers

and the grafters, the builders and the businesswomen -- all those entrepreneurs who create jobs and money for the rest of us.

"We're cutting the business taxes and dealing with the nightmare of red tape and hold-ups that make life impossible for entrepreneurs."

He was to tell delegates: "We are taking on the enemies of enterprise."

These included government bureaucrats mired in rules and regulations, foot-dragging local authority officials and public sector procurement managers favouring big business over smaller firms.

He said a new Enterprise Allowance scheme would help people kick-start their business.

"If you've got an idea and want to start a business -- go for it. If you've got a business and want to grow -- tell us how we can help you," he wrote.

"Get a business plan together, and if it looks good, we will give you up to £2,000 (\$3,250, 2,330 euros) to get started."

China inflation seen easing in February: official

AFP, Beijing

A top Chinese official said Sunday inflation was likely to have slowed in February, just a day after Premier Wen Jiabao said reining in prices was the government's top priority this year.

"In December and January, one can say the rate of price rises was a little lower than what was expected," Zhang Ping, head of the National Development and Reform Commission, China's top economic planning agency, told reporters.

"The figures for February have still not come out, but from what I have heard, the consumer price index (CPI) for February could be even lower."

China announced last month that January inflation remained stubbornly high at 4.9 percent despite a series of measures taken to dampen price rises, including three interest rate hikes in the past four months.

The CPI, the main inflation gauge, had hit a more than two-year high of 5.1 percent in November.

Unlike other countries struggling to spur growth, Beijing has been trying to slow its economy amid fears of overheating and to stem a flood of liquidity that is fanning inflation and driving up property prices.

Soaring prices of food, housing and other essentials have become the top public concern in China and Wen pledged new efforts to contain the problem in a speech Saturday at the opening of the annual session of parliament.

On Sunday, Zhang said he was "extremely confident of maintaining overall

Bajaj Auto faces rough ride in India car market

AFP, Mumbai

Abhijit is fiercely proud of his Kawasaki Bajaj motorbike and considers himself a company loyalist.

"Motorbikes are the best for urban travel. They're economical and easy to park," the Mumbai sales executive in his 30s told AFP.

But while Abhijit, who uses only one name, wants to upgrade to four wheels, he is not yet sure whether he will stay true to the Bajaj brand, even though the company has announced that it is looking to get into the small car market.

"You know what you're getting with bikes and scooters," he explained. "A car from Bajaj? I'm not too sure."

Bajaj is India's second-largest manufacturer of two- and three-wheelers, and its name is synonymous with auto-rickshaws in the country, the world's largest market for such vehicles.

But the attitudes of customers like Abhijit -- one of the millions of Indians that the automaker has helped make more mobile -- could be a stumbling block for the firm when it comes to cars, analysts say.

The Indian car market, where nearly two million new cars were sold last year, is increasingly crowded and cut-throat.

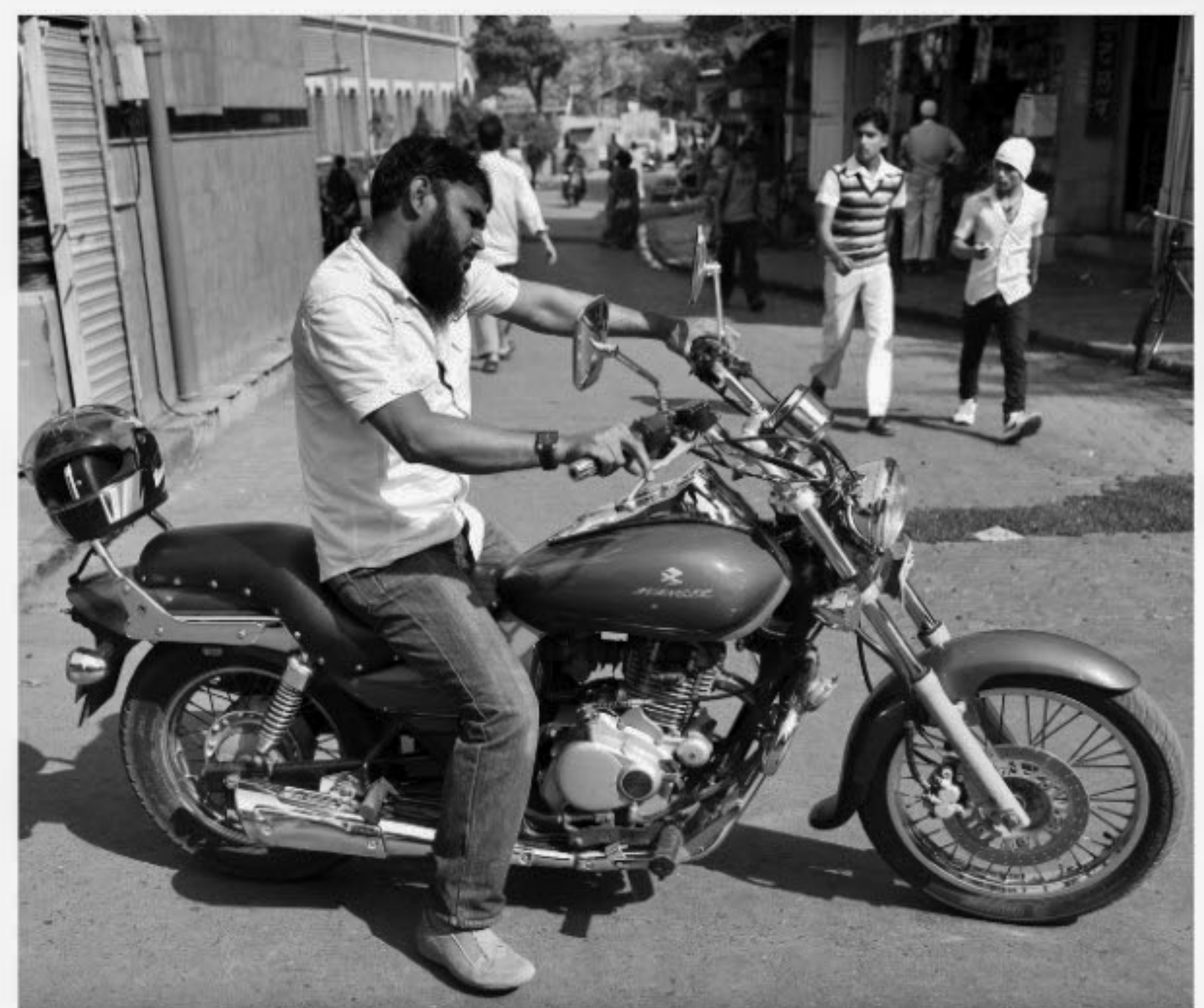
"Bajaj has the right DNA to make a car but not the experience," said Hormazd Sorabjee, editor of Autocar India magazine.

"It won't be easy. It will be a steep learning curve," he told AFP.

Bajaj Auto has tied up with French car giant Renault to produce, market and sell what it says will be a "pathbreaking", ultra low-cost, fuel-efficient minicar. The vehicle is slated to be launched next year.

The move makes strategic sense with small cars increasing their presence on India's roads ever since the launch of the Maruti 800 in 1983 -- the product of a partnership between Maruti Udyog and the Suzuki Motor Corp.

Nowadays, its successor the Maruti Suzuki Alto is the country's



A motorcyclist speaking on a cellular telephone as he sits on a Bajaj Avenger motorcycle in Mumbai.

most popular small car, with Hyundai's Santro also a firm favourite among urban drivers.

Car penetration is low, with just 13 out of every 1,000 Indians owning one. But the market is the second-fastest-growing in the world, with sales forecast to rise by at least 25 percent in the current financial year, according to the Society of Indian Automobile Manufacturers trade body.

Two-wheelers remain India's favourite form of transport because of their low cost and easy maintenance, with motorbikes now accounting for 80 percent of the market, a turnaround from just a few years ago when cheaper, smaller scooters dominated.

Almost all of Bajaj's two-wheeler sales are now motorbikes, and Mahantesh Sabarad, an auto analyst at Mumbai-based Fortune Equity Brokers, said that the firm's focus on more powerful machines has paid off.

"The company has seen a rise in profits over the past decade even as scooter sales and market share dropped," he added.

But while the business, based in Pune, 170 kilometres (110 miles) southeast of Mumbai, has 50 years of manufacturing experience, a Bajaj car may be a harder sell.

Even Tata Motors -- one of India's leading vehicle makers -- has found the going tough.

It has tried to capitalise on the aspirational value of cars to Indians -- and their traditional eye for a bargain -- with the Nano, launched in mid-2009. Selling from just 100,000 rupees (2,500 dollars), the no-frills vehicle is the world's cheapest.

Nonetheless in November last year Tata said sales had slumped to just 509 units, forcing it to offer a string of after-sales perks to tempt new buyers. Sales have rallied but still just over 83,000 have been sold overall -- well below initial expectations.

Rajiv Bajaj has said his company's aim was to deliver a car with "mileage of 30 kilometres to a litre of fuel (71 miles to the gallon)". The company has refused to divulge any more details on the new car or its business strategy.

Visitors have their picture taken against the skyline in Hong Kong. The sun is shining on the tourism trade in Asia-Pacific with double digit growth notched up in 2010, spurred largely by Chinese and Indian middle classes packing their bags for a break abroad.

