

Reducing inequality will boost economic growth

GUY RYDER

At first glance, it would seem this year's Davos summit will be off to an auspicious start, with news that the global economy is recovering faster than anticipated.

Yet a closer look at the global situation reveals a potentially dangerous gap between profits and people.

Corporate profits are up and global equity markets are looking forward to another year of plenty, while at the same time unemployment and household incomes stand still.

The ILO's Global Employment Trends 2014, which comes out this week, shows clearly that the modest economic recovery has not translated into an improvement in the labour market in most countries.

Businesses have been sitting on cash or buying back their own stocks, rather than investing in productive capacity and job creation. In part, this is a result of continued weakness in aggregate demand, both at national and global levels. It is compounded by uncertainty about where new sources of demand will come from and uncertainty about public policies, for example on financial sector reform.

The increased flow of profits and liquidity into asset markets rather than the real economy not only increases the risk of stock and housing price bubbles, but also damages long-term employment prospects.

In developing countries, informal employment remains widespread, and the pace of improvements in job quality is slowing down. That means fewer people are moving out of working poverty.

Add to that the fact that in most



Job seekers attend a fair at the College of Engineering at the University of the Philippines in Manila on January 16. The Philippines, one of the world's top labour-exporting nations, is suffering shortages in more than one hundred occupations and is considering proposals to hire skilled foreign workers.

countries, workers have been getting a smaller share of national income and gains in productivity, while more of the income is going into profit, and we have a

major problem.

Inequality is reflected in the depressed incomes of most households and therefore constrains consumption growth, which in turn

reduces economic growth. It also causes public frustration, raising the risk of instability – the current unrest in many countries is fuelled by perceptions of unfairness.

US President Barack Obama recognised this when he recently called inequality "the defining challenge of our time."

Boosting demand for goods and services would go a long way towards creating the incentive required for companies to expand and create jobs. And that entails moving away from the aggressive fiscal consolidation pursued in many countries. It also means addressing the declining share of economic growth going to workers, stagnant wages and high unemployment that have kept household spending down.

Increased wages lead to increased demand, so a key part of the solution is to set appropriate minimum wages and to have policies that reinforce the links between productivity and wages. Indeed, President Obama has called for raising the minimum wage and a similar proposal is hotly debated in Britain, while the new German government has agreed to create a national minimum wage for the first time.

We need to focus on the productive economy, and make a firm commitment to investing in people, skills and jobs, and reducing economic disparity.

If we fail to act, if we fail to tackle the youth jobs crisis, long-term unemployment, high dropout rates and other pressing labour market issues, we will be destroying hopes for sustainable growth – and sowing the seeds of further, and perhaps deeper social unrest.

The writer is the director-general of the International Labour Organisation.

Malaysia relaxes auto sector curbs to woo foreign carmakers

AFP, Kuala Lumpur

MALAYSIA announced Monday it would allow foreign automakers to build smaller passenger cars in the country, a liberalisation move aimed at repositioning the country as a leader in energy-efficient vehicles.

The changes, effective immediately, will for the first time allow foreign automakers to build cars with engines of 1.8 litres or less if those cars qualify as energy-efficient.

Such projects will not need domestic investment partners and will enjoy incentives such as tax breaks, Trade Minister Mustapa Mohamed told reporters.

"The policies used to be there to protect (national car brand) Proton. But we have opened up the market," he said.

"We believe these policies will enable Malaysia to regain our position as one of the most dynamic hubs for Southeast Asia."

Malaysia, the region's third-largest economy after Thailand and Indonesia, was once Southeast Asia's automotive hub.

But it has fallen behind its two rivals through decades of industry policies that coddled Proton, which was launched in 1983.

Malaysia now produces far fewer vehicles than Thailand or Indonesia.

The government had previously shielded Proton via excise and import duties of up to 150 percent on foreign vehicles, and other restrictions.

The policies have been blamed for contributing to sub-standard Proton models. The firm, which was state-owned until 2012, has recorded losses in recent years as its market share sank.

Consumers have also complained the policies made better-built foreign cars too expensive for many Malaysian buyers.

Malaysia already allows foreign carmakers to manufacture larger vehicles in the country, after lifting foreign-equity caps on such ventures in 2010.

The reforms could be attractive to some foreign manufacturers looking for a regional production base but should not worry Malaysia's neighbours much, said Affin Investment's auto sector analyst Chong Lee Len.

"It's a positive step for the market, but not quite a 'Big Bang,'" she said.

In 2012 Thailand and Indonesia produced 2.4 million and 1.1 million cars under foreign nameplates, respectively, up 67 percent and 27 percent from the year earlier, according to the International Organisation of Motor Vehicle Manufacturers.

Neither country has a national car project.

Malaysia, once Southeast Asia's automotive hub, has fallen behind its rivals through decades of industry policies that coddled Proton, which was launched in 1983

Malaysian factories produced 570,000 cars in 2012, up nearly seven percent.

About three-quarters of Malaysian production were vehicles with 1.8-litre engines or smaller.

Madani Sahari, head of the trade ministry think-tank Malaysia Automotive Institute, said in a briefing last week that Malaysia would focus on being an export hub due to slowing domestic sales.

Chong, however, said most manufacturers "want to build where they can sell".

Indonesia, with its fast-growing economy of 240 million people and low vehicle ownership rates compared to more affluent Malaysia, is considered by analysts to have greater upside for automakers.

Mustapa said the changes would reduce car prices in Malaysia by up to 20-30 percent over the next four years.

China's economic growth dodges 14-year low

REUTERS, Beijing

CHINA'S economy narrowly missed expectations for growth to hit 14-year lows in 2013, though some economists say a cooldown will be inevitable this year as officials and investors hunker down for difficult reforms.

The chance that the world's second-largest economy may decelerate in coming months was underscored on Monday by data that showed growth in investment and factory output flagged in the final months of last year.

Waning momentum capped China's annual economic growth at a six-month low of 7.7 percent in the October-December quarter, a slowdown some analysts say may deepen this year as China endures the short-term pain of revamping its growth model for the long-term good.

Full-year growth in 2013 was 7.7 percent, steady from 2012 and just slightly above market expectations for a 7.6 percent expansion, which would have been the slowest since 1999.

"It's like a Chinese medicine," said Lu Zhengwei, chief economist at Industrial Bank in Shanghai.

"If you don't take it, you may have problems in future. But if you take it now, you cannot expect to regain your youth tomorrow."

After 30 years of sizzling double-digit economic growth that lifted many millions of Chinese out of poverty but also devastated the environment, China wants to change tack by embracing sustainable and higher-quality development instead.

That means reducing government intervention to allow financial markets to have a bigger say in allocating resources, and promoting domestic consumption at the expense of investment and exports.

Monday's data from the National Bureau of Statistics showed China's 5.6 trillion yuan (\$9.4 trillion) economy is still very much dependent on investment for growth.

Capital formation accounted for 54 percent of China's economic growth last year, exceeding the 50 percent share taken up by consumption. Net exports, on the other hand, detracted 4.4 percent from overall growth.

"I don't see any evidence of a rebalancing last year," said Tim Condon, an economist at ING in Singapore.

Yet there are signs Beijing wants to rein in investment.

For the whole of 2013, China's fixed-asset investment climbed 19.6 percent, the smallest increase in at least 10 years and a tick below forecasts for a 19.8 percent rise.

The bank will post a profit for 2013 overall, they added.

Deutsche Bank had originally planned to release its results on 29 January.



Construction workers ride along a street in central Shanghai. China's economy likely grew in 2013 at its weakest rate in 14 years due to a deceleration in the fourth quarter as a result of flagging investment and demand, heralding more sober times ahead.

Ambitious investment by local Chinese governments that have racked up some \$3 trillion worth of debt has been at the forefront of China's investment drive in recent years, a trend that must be checked, said Ma Jiantang, head of China's statistics bureau.

"In 2014, I believe reforms will continue to be a key driving force for economic growth," Ma said on Monday.

To be sure, the gentle fall-off in growth is welcomed by most experts as a must-have in China as it transits to better-quality development.

If growth continues to ease in a controlled manner, China's government can impose some difficult changes without worrying about a spike in job losses that will stir social discord.

It will also give Beijing the latitude to keep monetary policy stable this year, as most economists expect it will likely do, even as regulators continue to crack down on riskier lending, the fallout from which is unnerving some stock market investors.

"On the whole, the Chinese economy is performing well through its adjustment phase," said Brian Jackson, chief China

economist at IHS Global Insight.

Concerns that China may sacrifice too much growth in its bid to enact change are also unfounded, Jackson said.

Though an average of the 2014 growth targets already issued by 22 of China's 31 local governments shows growth has been revised downwards by nearly a percentage point, large provinces that are China's commercial centres have mostly kept their growth targets stable, he said.

Still, there is little doubt China's economy is losing steam.

Factory output growth fell to a five-month low of 9.7 percent in December from a year earlier as factories struggled with lukewarm demand at home and abroad.

Indeed, a Reuters visit to southern China this month showed many factories in China's manufacturing heartlands have closed earlier than usual this year for the nation's biggest holiday, discouraged by weak orders and rising costs.

Other indicators also pointed to muted activity.

China's steel output dropped for the third consecutive month in December,

while oil consumption rose at its slowest rate in five years in 2013. China is the world's second-largest oil user.

That said, a minority of analysts are predicting China's economy may speed up this year, confounding a prevalent belief that growth will slacken to make room for reforms.

Deutsche Bank expects China's growth to accelerate to 8.6 percent this year while RBS thinks it may climb to 8.2 percent.

"We expect China to benefit from improved global growth this year," said Louis Kuijs, an economist at RBS in Hong Kong.

China has yet to announce its economic growth target for 2014 but most analysts agree that the fruits of reforms, if reforms are to succeed, are unlikely to juice the Chinese growth engine any time soon.

Sources with top think-tanks have told Reuters that the government will likely stick with its 7.5 percent economic growth target again in 2014.

"Reforms won't produce results overnight," said Xu Hongcui, a senior economist at China Centre for International Economic Exchanges, a think-tank.