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## **Political and Social Unrest and the Asia Economy**

### Synopsis

The attacks in Mumbai and political unrest in Thailand have added to the concerns over an Asian economic slowdown. Group Managing Director of Spire Research and Consulting, Mr Leon Perera, comments on the economic implications of these recent events.

### **India**

#### FDI sentiment

"India is pulling in about USD30 billion of FDI this year. And India has been staking a lot on becoming a manufacturing hub to develop export-oriented manufacturing in the special economic zones to compete with China, to stimulate job creation. So I think this terror attack actually is going to be a setback to those plans... These kinds of high-profile terrorist attacks tend to have a disproportionate impact on foreign investor sentiment. We've seen that in other cases where these attacks occur. So when we look at next year's FDI numbers, these will be impacted at least for the first one or two quarters. Having said that, the Indian economy as a whole is still very domestically-oriented. The FDI sector is significant but still not going to swing the entire economy into the downturn in and of itself.

#### Terrorism scale

As far as the domestic economy is concerned, life will probably go on. Domestic production will continue for domestic consumption. People in India are, to a large extent, used to terrorist attacks, to a greater extent than is the case in other countries in the world. There was a terrorist attack on the Parliament building a few years ago, there was a terrorist incident in Gujarat state that led to the loss of thousands of lives in rioting – the economy actually continued to grow at a healthy clip throughout all of these.

## Impact on markets

There will certainly be a short-term hit. The Sensex, of course, has taken a huge hit over the last six to 12 months or so – due to an overdue downward correction. I think we'll see a lot more short-termed downward push.

## **Thailand**

### Political unrest on economy

The latest incidents whereby protests happened at the country's two airports mark a new stage in Thailand's on-going political paralysis. Prior to this, over the last two years, with the paralysis in the Thai political system between supporters and opponents of former Prime Minister Thaksin Shinawatra, economic growth still continued. There was four to five percent economic growth, business confidence was affected but there was still underlying growth. But I think now what we see is that the protestors have the ability to actually capture key public infrastructure which is very important to the smooth functioning of the economy. In particular, the airports are very important for Thailand because they have a huge air logistics sector and a huge tourism sector pulling in well over ten million visitors a year... So it marks a new stage in that paralysis and there is potential that it will impact the Thai economy much more significantly now.

### Comparision to the Philippines in the 1960s

I would not go as far as to say that Thailand is in danger of becoming what the Philippines was in the 1960s. Thailand does have good fundamentals in the form of an educated workforce, some good public institutions, a decent bureaucracy, some pretty decent infrastructure built over the last ten years or so, including the new airport. I don't think we'll be seeing Thailand go into a structural, systemic decline but there is definitely going to be a short-termed impact. Markets and investors will be looking to see... how the political and judicial system will response to this threat. If there's a reasonable, firm response, then Thailand will be able to ride this out and come back to a normal rate of economic growth next year.

## **China**

### Slash of interest rates

This is a very serious slowdown for the Chinese economy. The main concern of the government is social stability – they believe they need a minimum of eight percent economic growth to maintain job creation, to absorb the flow of workers moving from rural areas. We've seen strikes and riots in Guangdong from laid off workers as well as other parts of China, strikes of taxi drivers, and so on. It is fairly serious and perhaps more serious than the nine percent growth rate for the third quarter implies. But having said that, the fundamentals of the Chinese

economy are still strong... Firstly, consumer spending is healthy: retail sales continue double-digit growth. And secondly, the government has shown time and time again that it is both able and willing to spend huge sums of money to carry out fiscal stimulus in the economy – we saw that in '98 and we're seeing it again now. And that's a big plus factor for China.

There's a 50-50 chance, it's hard to say though, for another rate cut in December. But I think almost certainly we can expect to see more rate cuts in China in the first quarter of next year. Let's not forget that China actually raised the interest rates more than ten times during the period of about two to three years of very strong economic growth leading up to the early part of this year, to cool excessively fast growth. I think they'll be just as aggressive in cutting interest rates now that growth is a big concern for the government."

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