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Some Asian Economies Edge Out of Recession, Caution Remains

By Heda Bayron
Hong Kong
31 August 2009

After months of massive government spending, some economies in Asia have emerged from recession. But officials and business experts say it is not yet time for euphoria.

Japan - the world's second largest economy - grew about one percent in the three months ending in June, compared with the preceding quarter. That was a relief to Japanese economic officials who had feared a prolonged slump.

Still, recent data leave cause for concern. Japan's exports continue to plunge and unemployment is at record highs. Hideaki Hirata, an economist at Hosei University in Tokyo, says the bigger picture still looks daunting.

"Quarterly comparison may not be appropriate in this kind of situation," Hirata said. "The level of GDP [gross domestic product] is extremely lower than the level in the last year. Yeah, it hit the bottom but it is a very deep bottom. So maybe the recovery needs at least two or three years."

Fearing a deep recession, Japan's government last year gave billions of dollars in subsidies and cash to Japanese consumers, encouraging them to shop to compensate for the collapse of exports to the West.

Hirata says the subsidies appear to have worked as consumption rose, and so did China's purchases of Japanese goods. China surpassed the United States as the top destination of Japanese goods in the first six months of the year.

"Japan was helped by [the] strong demand of China," Hirata said. "But if we look at exports data in detail, exports to U.S. and European countries are still weak."

Some economists say China could drive the recovery in Asia. Beijing's \$600 billion stimulus package helped the economy expand more than seven percent in the most recent quarter. The decline in Chinese exports has been slowing, and factory activity, as measured by electricity consumption, has started to pick up from the lows at the end of last year.

Jing Ulrich is chairwoman of China equities and commodities at the investment bank JP Morgan in Hong Kong.

"If you look around from Japan to Korea to Southeast Asian countries, China is their single largest trading partner," Ulrich said. "As China imports more commodities from resource-rich countries such as Indonesia, and China also imports capital goods from the likes of Japan and South Korea, intermediate components from Taiwan, from Thailand - I think China will absolutely play a critical role in a regional economic recovery."

The heavy government spending in some Asian economies that started last year is producing results. South Korea's economy expanded two-point-three percent in the last quarter and consumer confidence rebounded to a seven-year high in August. The government has budgeted more than \$23 billion since November to pump up the economy.

Lee Junkyu, senior advisor in international affairs at the Ministry of Strategy and Finance in Seoul, says government spending has helped, but there could be some risks ahead.

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"Government cannot continue its major role, it's not forever.... We need to see the private sector's vitality again," Lee said. "And also I may point [out], there are other risks to the outlook, another bout of global risk aversion and rising oil prices or commodity prices."

The global economic downturn has severely hurt Asia's export economies, because consumers from large markets like the U.S and Europe cut back on spending.

Export-reliant Singapore and Thailand saw their economies expand slightly in the second quarter from the first quarter. But output for both economies is well below levels from last year.

The Chinese territory of Hong Kong slipped out of recession in the second quarter. Hong Kong handles a significant amount of exports being shipped out of China. But government economist Helen Chan remains cautious. She spoke through a translator.

"This is the initial stage of an economic rebound. We are not yet going to have a sound basis for an overall improvement, investment remains slack and swine flu has dealt a blow to tourism. Unemployment will remain serious and is a deteriorating situation in the coming months. We should remain vigilant to [about] our economic situation in the coming months."

Patrick Low, the chief economist of the World Trade Organization, says the recovery seen in Asia is still "tentative".

"We're not quite through the woods yet," Low said. "Unemployment is still rising pretty much everywhere. And looks like it will continue to rise through next year."

He says the massive government stimulus spending could bring inflation. Rising prices could discourage consumers from buying, and that, he says, could again undermine economic growth.

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