



CONFERENCE ON
**EAST ASIAN
DEVELOPMENT**
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Effect of Japan quake may last for months: Tharman

Reconstruction efforts will likely see demand for oil, commodities rise, says Finance Minister

By Fiona Chan

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THE natural and nuclear disasters in Japan are likely to have a negative impact on the global economy for months to come, said Finance Minister Tharman Shanmugaratnam yesterday.

He said it is 'too early to assess the economic costs of what has happened in Japan', in the aftermath of the March 11 earthquake and tsunami.

However, they are likely to exceed those of the Kobe earthquake in 1995, which cost about US\$250 billion, he said yesterday at the inaugural Conference on East Asian Development.

The two-day conference at the Orchard Hotel was organised by the World Bank in partnership with the Institute of Policy Studies and the Lee Kuan Yew School of Public Policy.

Besides Mr Tharman, the other speakers included Permanent Secretary for Finance Peter Ong, Asean secretary-general Surin Pitsuwan and the World Bank's managing director Sri Mulyani Indrawati.

Releasing its semi-annual East Asia and Pacific Economic Update at the event yesterday, the World Bank said Japan's crises will slow the country's economic growth until the middle of the year.

This, in turn, will have a 'modest' impact on Asia's growth, but one that will be temporary, it added.

Mr Tharman, however, warned that the effect of the earthquake and its aftermath may be longer lasting.

In his opening speech, he told the audience that Japan's tragedy 'may very well have a negative impact on the global economy, not just immediately, but in the months and quarters to come'.

He added: 'One of the reasons is that, unlike Kobe, this involves a crisis surrounding nuclear reactors. There will be ups and downs over the weeks and months' to come.

As a result, confidence has been affected and the impact on consumption and tourism is 'hard to predict at this point'.

Another consequence of the situation in Japan is that the country's reconstruction efforts may lead to higher demand for oil and gas as well as for commodities such as steel, he added.

Together with the supply problems arising from the ongoing unrest in oil-producing countries in the Middle East, this could result in volatility - and possibly an increase - in energy and commodity prices over the next year and possibly beyond, he said.

Complicating the crises is the fact that the recoveries in advanced economies are still fragile, with employment remaining weak and fiscal stimulus petering out, said Mr Tharman.

Lastly, inflation is still on the rise, which might mean a continued move towards tighter macroeconomic policies in the next year and even after that.

'It would be prudent to expect that some of these risks will materialise and that there will be interaction between these risks,' Mr Tharman said.

'It doesn't mean a catastrophe...but it may mean a significant dampening of global growth going forward, and no region will be immune to this.'

These risks make it all the more important that East Asia proceed with structural reforms including boosting intra-regional trade, creating an Asean Economic Community by 2015, and deepening Asia's financial markets, he added.

Yesterday, the World Bank said it expects East Asia to grow about 8 per cent this year and next year, and identified inflation as the key short-run challenge for policymakers in the region.

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EXPECT SLOWDOWN

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Finance Minister Tharman Shanmugaratnam, on the quake's impact

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