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Global economic growth could be dampened by twin crises: Tharman



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SINGAPORE - Finance Minister Tharman Shanmugaratnam has said the earthquake, tsunami and threat of radiation leak in Japan, coupled with the ongoing political tension in the Middle East, are likely to put upward pressure on commodity prices.

Added to what the minister called a "fragile" recovery in the United States and Europe, he said global economic growth could be dampened going forward.

"We've entered a fresh bout of uncertainty in the global economy arising from the twin crises that we now see unfolding before us," Mr Tharman said at the World Bank Conference on East Asian Development in Singapore yesterday.

"The twin crises of first what's happened in Japan, the earthquake and tsunami and the crisis surrounding the nuclear reactors in Fukushima and, secondly, the ongoing uprisings in the Middle East which pose very significant uncertainties," he said.

The minister also noted concerns about higher commodity prices, which are already proving a thorn in the side of central banks around the region.

"We are likely to see increased demand for oil and gas, particularly as Japan rebuilds, reconstructs and rises again, also increased demand for metals. We are likely to see a continued move towards tighter macroeconomic policies in the next year and beyond," Mr Tharman said.

The minister added that although a catastrophe similar to the economic meltdown that followed the collapse of Lehman Brothers is unlikely, the combined risks may mean a significant dampening of global growth going forward.

Meanwhile, the World Bank said that the devastation in Japan is likely to have a negative impact on the country's growth. But the lender added that the slowdown would be temporary as the reconstruction later this year would likely boost growth.

It had similar forecast for East Asian economies, which are also expected to see a "short-lived" impact on growth, mainly on trade and finance, but the region would also likely be lifted by the rebuilding in Japan.

The bank said it was sticking to its 8.2 per cent real GDP growth forecast for East Asia this year, despite the disaster having a negative near-term impact.

The lender upgraded its forecast from 7.8 per cent six months ago but pointed out that this was lower than the 9.6 per cent growth seen last year.

"We're going to stick to those projections, we're anticipating a slowdown in East Asia compared to last year but that's not because of problems in East Asia, but because you expect from a very quick recovery after the global economic crisis, growth will eventually come down to sustainable levels and that's what we're likely to see this year and next year," said Mr Vikram Nehru, World Bank chief economist for East Asia and the Pacific region.

The bank noted that there are other challenges ahead for Asia. About one-fourth of East Asia's long-term debt is denominated in Japanese yen, ranging from about 8 per cent in China to 60 per cent in Thailand. This means debt servicing of East Asian economies could be increased if the yen is allowed to appreciate.

Source:

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