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INDIAN OCEAN TSUNAMI ANALYSIS

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Counting the cost of the tsunami

The human cost of the Indian Ocean tsunami of 26 December is colossal. The death toll has exceeded 150,000 and continues to rise, while millions of the region's poorest inhabitants have had their homes and livelihoods destroyed. It has been the worst disaster to strike Asia since the Tangshan earthquake in China in 1976, which caused 250,000 deaths according to official statistics (and perhaps three times that many according to independent estimates). The geographical scope of the tsunami is unprecedented, which is making relief efforts all the more difficult.

The global response to the disaster has been swift and exceptional. The biggest aid operation since the end of World War II is currently underway. Total aid pledged by governments alone - not counting the large sums donated by the private sector - currently totals over US\$3bn, and this is expected to rise. But with rebuilding costs estimated at around US\$14bn (according to reinsurer Munich Re), much more aid is needed.

Assessing the economic cost of the disaster is difficult. Although the damage does not compare with the devastation wrought on, for example, Kobe in 1995 (which cost some US\$132bn to rebuild), the cost of the tsunami is being borne by those who can afford it least. With little in the way of insurance, hundreds of thousands of families have had their entire incomes washed away in a matter of minutes.

Small-scale fishing, which afforded subsistence living for many families in the worst hit regions in Sumatra and Sri Lanka, has been devastated. Revenue from tourism will also be severely reduced in the near term.

However, there are some slight causes for optimism about the long-term economic impact of the disaster. One general point is that reconstruction assistance will help underpin demand in the worst-hit areas (assuming the funds are distributed where they are needed). It is not just a question of subtracting lost revenue from total GDP. Rebuilding in the worst-hit regions, particularly Aceh and eastern Sri Lanka, could even act as an impetus to bring them the investment they have long lacked - not to mention boosting the chances of peace in each case (see the articles on pages 14 and 19).

While tourism is expected to be hit severely in the first quarter of 2005, its recovery is likely to be relatively rapid. In 2003, following the outbreak of Severe Acute Respiratory Syndrome, some 256.3m people visited the Asia-Pacific region (excluding Hawaii). Up to 18 December 2004 the figure was 301.2m, a year-on-year rise of some 17.5%. Tourist authorities in Thailand are confident that this recovery will continue despite the tsunami: some 13.4m people are expected to visit Thailand in 2005 after 12m went there last year. Nor has consumer confidence been too badly dented: in the latest MasterCard index of consumer confidence, which covers 15 Asian countries, the region as a whole had a reading of 63.2 - down from 65.8 in the last survey in Q4 2004, but still above the crucial 50 mark.

A brief survey of each country affected by the disaster also reveals that the long-term macroeconomic effects might not be too severe.

In **Thailand** tourism accounts for 6% of GDP or some US\$8bn in annual revenue, but officials are confident this will not be too badly affected after the first quarter. The Finance Ministry expects GDP growth to be cut by 0.3 percentage points this year in total but forecasts no greater impact, especially as the six southern provinces hit by the tsunami account for just 2.7% of overall GDP. Independent estimates are more pessimistic: JP Morgan on 3 January revised down its 2005 real GDP growth forecast for Thailand from 5% to 4.6%, while the World Bank sees 1.2 percentage points being cut from its original 2005 forecast of 5.8% growth.

Malaysia experienced mostly small-scale, short-term damage to two tourist resorts, with losses estimated at around US\$26.3m. Penang port is operating almost normally, and although there is a certain amount of industry in the region the damage was limited mainly to hotels, which can be quickly rebuilt.

Indonesia has suffered by far the most devastation and the largest cost in terms of human lives. However, economic growth is not expected to be hit significantly, as the disaster did not affect any major industrial centres. The official GDP growth forecast for 2005 of 5.4% (up from an estimated 4.8% in 2004) has yet to be downgraded. However, in local terms the impact is huge: rebuilding in Aceh is expected to cost at least US\$1.3bn over the next five years.

India too has suffered a profound but localized impact, also on some of its poorest communities. Few major industrial centres were affected, however (only the port of Madras suffered minor damage) so economic growth is not expected to be affected. The New Delhi Office of the World Bank said on 3 January that its

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For each country affected the burden of caring for the victims and rebuilding the devastated coastal areas will be hard to bear in the short term.

forecast for 6.5% growth this year was still achievable. The **Maldives** fared less well: with tourism accounting for over 70% of GDP and fishing and agriculture most of the rest, it will feel the economic effects for some time.

The effect on **Sri Lanka** could be the biggest relative to the size of its population and economy. The central bank warned on 31 December that the tsunami could knock 0.5 percentage points from economic growth in 2005. Prior to the disaster the finance ministry had forecast growth of 6.0%-8.0% this year (the central bank had not issued a 2005 forecast), but local economists are predicting that at least a percentage point will be cut from this. The bank also said on Wednesday that reconstruction would cost at least US\$1.3bn in 2005, of which it is requesting US\$320m from the IMF for immediate relief.

On the plus side, Sri Lanka's major ports and manufacturing industries are on its west coast, which accounts for 70% of GDP. Tourism and fishing account for just 3% of the economy - although they employ a far greater proportion of the population. Also, if the disaster does prevent a resumption of hostilities between the government and the separatist Tamil Tigers, it could set the stage for a sustained period of economic growth.

Despite this, for each country affected the burden of caring for the victims and rebuilding the devastated coastal areas will be hard to bear in the short term. And the disparity between the cost of rebuilding and the amount of aid granted remains large. One possible solution is a rescheduling of debt obligations of the affected countries, and it is increasingly gaining support from rich creditor nations.

The effect of a freeze of repayments could be dramatic: Indonesia owes the Paris Club of 19 creditor nations some US\$47.8bn and was due to pay back US\$3.15bn in principal and US\$1.36bn in interest in 2005. The other nations (including Somalia) have a combined US\$272bn in outstanding external debt. A precedent was set last November when the Paris Club forgave 80% of Iraq's US\$39bn foreign debt, and while writing off more debt is not a popular option a moratorium on repayments could be beneficial.

The Paris Club's next meeting, on 12 January, could be crucial - as is the ongoing emergency summit in Jakarta to decide an appropriate strategy for distributing and coordinating the outstanding aid. Although the long-term economic impact might be slighter than had been feared, the long-term human cost cannot be forgotten. A disaster of this scale focuses the world's attention in the way chronic problems cannot. The main concern now is that this attention does not stray until the rebuilding job is done. *AsiaInt.*

NORTH ASIA

Indian Ocean Tsunami

REGION | Diplomacy as well as altruism behind aid

Although the motives for the ongoing "bidding war" between wealthy countries to raise their pledges for grant aid for the tsunami relief effort are ostensibly altruistic, each is aware of the political and diplomatic benefits to be gained from the process. The US, most obviously, is seeking to improve its international image: Secretary of State Colin Powell even said on Tuesday that the US relief

effort was giving the opportunity for “the Muslim world, the rest of the world...to see American generosity, American values in action”. Asia’s major powers too see the benefits in being at the forefront of the relief effort to improve their image regionally and internationally.

In North Asia, China and Japan are competing to demonstrate their munificence. China has made much of its US\$62.6m in aid granted so far - from a country that Premier Wen Jiabao was quick to point out was still technically a developing economy. The initial pledge of US\$2.6m, a foreign ministry spokesman in Beijing noted on 30 December, was equivalent to the income of 20,000 farmers. The People’s Liberation Army has also been mobilized to airlift 500 tonnes of food, water, blankets, tents, clothing, medicine, generators, and telecommunication equipment to the worst-hit regions in south Asia, doing much to dispel the image of brutal repression which was associated with China’s armed forces following the 1989 Tiananmen Square massacre (as is China’s recent participation in UN peacekeeping missions).

The aid and the military assistance are by far the largest contribution China has ever made to a disaster, contrasting with the paltry US\$160,000 in cash it offered Taiwan in 1999 when an earthquake on the island killed 2,400 people.

The aid and the military assistance are by far the largest contribution China has ever made to a disaster, contrasting with the paltry US\$160,000 in cash it offered Taiwan in 1999 when an earthquake on the island killed 2,400 people. It also stands as a symbolic act at a time when aid to China itself is being phased out: in December the UN’s World Food Programme said it would halt donations to China by the end of 2005, while Japan is also phasing out soft loans and direct aid it has supplied under its Overseas Development Assistance budget since the two established diplomatic relations in 1972.

China’s astounding economic growth, its growing geopolitical influence, and its improving diplomatic relations mean it is often portrayed as the most significant challenger to Japan’s pre-eminence in the region. This perception is likely to be boosted by its actions following the tsunami disaster, and it is one Beijing’s leaders are keen to cultivate. “China is willing to provide assistance within our power...to countries suffering from the flames of war, conflict, starvation, and poverty,” President Hu Jintao said in his New Year speech on 31 December.

However, Japan will feel that it has an opportunity to remind Asia of its own economic power and importance in the region. In terms of available funds for aid and military capacity for disaster relief, Japan’s capabilities exceed those of China by a considerable margin. It has pledged US\$500m so far in aid (and was briefly the world’s largest donor), and it is one of the main proponents of a debt-freeze plan being considered by the Paris Club of creditor nations (see the First Alert on page 1).

Japan is also preparing to mobilize 800 Self Defence Force (SDF) troops to help with the relief effort. The timing of the dispatch, which would be the largest by Japan’s military for any disaster relief operation, has yet to be decided, but an advance fact-finding team of 20 SDF personnel left for a tour of the affected nations on Tuesday. On Saturday Prime Minister Junichiro Koizumi said Japan would provide the “maximum possible assistance in terms of three points: funds, expertise, and personnel contribution”. In the second of these Japan has a chance to make a long-term impact on the region’s safety, by helping construct an early-warning system for tsunami in the Indian ocean similar to the one it has long deployed in the Pacific.

KOREA | North sends aid but receives more

In proof that it is not just Asia's rich nations which are aware of the importance of contributing aid to the tsunami relief effort, North Korea has pledged US\$150,000 for the disaster aid fund. "The government and people of the DPRK express condolences and sympathy to the governments and peoples of the afflicted countries and hope the aftermath of the quake and tsunami will be eradicated," the North's official KCNA news agency said on Wednesday (5 January). It did not say how or in what fashion the aid would be distributed.

The North itself, which was estimated by the South's central bank to have annual per-capita income of US\$818 in 2003, is dependent on external aid. In fact on 24 December the chief of the North Korean Red Cross, Jang Jae-on, reportedly sent a message to his South Korean counterpart Han Wang-sang requesting that aid from the South be continued through 2005. Since the 2000 inter-Korean summit, South Korea has been sending 400,000 tons of rice and 300,000 tons of fertilizer to the North annually. The UN also reported on Monday (3 January) that it raised US\$127m in 2004 to help the North cope with its food shortages - or 61% of its target figure for foreign aid.

Indian Ocean Tsunami

Foreign Minister Mark Chen Tang-shan said "disaster relief work is borderless and shouldn't be subject to political meddling".

TAIWAN | Taipei sees diplomatic benefits of generosity

Taiwan's generosity in donating US\$50m to the relief effort for countries devastated by the tsunami in the Indian Ocean cannot be questioned. However, comments by various officials this week suggest that the government is eager not to let the opportunity for raising Taiwan's diplomatic profile that the tsunami relief effort has provided slip by.

For example, on Tuesday (3 January) a spokesman for the Ministry of Foreign Affairs, Michel Lu, urged international organizations not to exclude Taiwan from emergency conferences to coordinate the tsunami relief efforts. Lu noted that Taiwan had provided considerable aid and should not be excluded from international relief meetings on political grounds. Vice-Foreign Minister Michael Ying-mao Kau also noted that the Executive Yuan's decision on Monday to raise its aid grant from US\$5m to US\$50m put it among the top ten donors in the world, which would considerably enhance the island's international profile.

Taipei was keen to attend in some capacity the meeting in Jakarta sponsored by the Association of South-East Asian Nations (Asean) which convened on Thursday. As well as the Asean leaders the conference brought together UN Secretary General Kofi Annan, the prime ministers of Japan and Australia, and US Secretary of State Colin Powell. Foreign Minister Mark Chen Tang-shan had said that Taiwan would be happy to attend the conference as an observer, but he also said "disaster relief work is borderless and shouldn't be subject to political meddling".

However, the presence of high-level officials from Beijing, including Premier Wen Jiabao, meant Taiwan was always unlikely to be able to send any representatives, and officials in Jakarta made it clear that the meeting was open only to members either of the UN or Asean. Taiwan has slightly more chance of

being invited in some capacity to attend a special UN-sponsored meeting in Geneva on 11 January of countries which have provided relief to the tsunami disaster areas - but even this would draw stern complaints from China about the breach of diplomatic protocol.

As well as the official aid, Taiwan has sent several medical teams to the worst-hit disaster areas, including Aceh, Sri Lanka, and the Thai resort of Phuket. On Tuesday a team of 17 disease-control experts left for Phuket taking 1.5 tons of medical supplies to help curb possible disease outbreaks. The director of the Centre for Disease Control in Taipei, Kuo Hsu-sung, said the Department of Health would send more people over the next three months to assist the WHO with its relief efforts.

CHINA | Anti-secession law to promote status quo

New legislation prohibiting formal secession from the People's Republic of China is likely to be passed at the next session of the National People's Congress (NPC) in March. This has obviously worried Taiwan, which has said such a law could be used as justification for invasion by the mainland. However, rather than make reunification by military force more likely, the focus of the law suggests it is a defensive measure aimed primarily at preserving the status quo across the Taiwan Strait, while revealing the paucity of policy options open to Beijing regarding the Taiwan issue.

The legislation was discussed during the 13th meeting of the NPC Standing Committee from 25-29 December. As had been expected it was approved unanimously and has been sent to be enacted at the third annual session of the 10th NPC, which will begin on 5 March. Little in the way of dissent is expected from the 2,979-member parliament, which effectively acts as a rubber-stamp for policies formulated at the highest levels of the Chinese Communist Party (CCP).

Justifying the proposed law, the chairman of the Standing Committee, Wu Bangguo, explained: "It must be made clear that to maintain national sovereignty and territorial integrity is the core interest of our nation and the common obligation of all Chinese people, including the Taiwan compatriots...No sovereign state will allow actions of secession, and every sovereign state has the right to take necessary means to safeguard national sovereignty and territorial integrity."

It is not exactly clear what the new legislation will entail, but it is likely to set out the circumstances in Taiwan which would require a military response - ie if it were to declare itself independent or unilaterally change its status or name. According to Xu Chongde, a constitutional scholar quoted by the Hong Kong-based news organization Zhongguo Tongxun She, the law is expected to apply only to Taiwan rather than to the whole of China - including the provinces of Tibet and Xinjiang. (The NPC Standing Committee's Legislative Affairs Commission has already ruled out any application to Hong Kong or Macau as their Basic Law constitutions specify that these Special Administrative Regions have to legislate for themselves in this regard.)

The law will finally codify central policy previously set out only in White Papers on the Taiwan issue, which have said that the mainland would not rule out the

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The law illustrates the difficulty hardline elements in the CCP leadership have in realizing their goal of achieving reunification by military force before it is "too late".

use of force to settle the dispute under certain circumstances. The most recent defence-policy paper was issued on 27 December 2004 (two days before the anti-secession draft law was approved by the NPC Standing Committee), characterizing relations with Taiwan as "grim" and vowing to crush major moves towards independence by Taiwan. "Should the Taiwan authorities go so far as to make a reckless attempt that constitutes a major incident of 'Taiwan independence', the Chinese people and armed forces will resolutely and thoroughly crush it at any cost," the paper said.

None of this is new per se, but a legal obligation is different from a policy statement. When the anti-secession law is passed in March the central government will be obliged to stick to it - and take the specified action if necessary. Taiwan's President Chen Shui-bian said that by approving such a law the NPC Standing Committee had concocted a "so-called 'legal basis' for its military invasion of Taiwan", adding that in doing so Beijing had unilaterally changed the status quo.

However, the legislation will not necessarily lead to a deterioration in cross-Strait relations, nor does it mean that conflict over the issue is inevitable. One positive point, as we noted in the *Weekly Alert* of 24 December, is that China's leaders have been forced to change the emphasis of the law from "reunification" to "anti-secession". The latter is passive legislation which requires only that Taiwan refrain from declaring itself independent - rather than mandating China's government to reunify the renegade province by force.

This is a defensive rather than offensive measure, aimed primarily at keeping the status quo. It illustrates the difficulty hardline elements in the CCP leadership have in realizing their goal of achieving reunification by military force before it is "too late". The moderate majority would be highly unlikely to approve such action - especially while the US remains obliged to help Taiwan repel a Chinese invasion (and while China's improving international diplomatic profile is bringing its own rewards). From their point of view, the best that can be hoped for is that by setting out in legal terms the worst-case scenario, they can persuade Taiwan's president to tone down his pro-independence rhetoric.

New Year flights on?

Beijing has responded positively to a suggestion from Taiwan that direct flights across the Taiwan Strait be allowed for the Lunar New Year holiday, which begins on 9 February. According to the Xinhua news agency, the mainland's Taiwan Affairs Office on Sunday (2 January) issued a report saying: "The mainland hopes the charter flights can be operated by airlines on both sides of the Strait in direct routes so as to really meet the need of Taiwan businessmen doing business in the mainland."

Taiwan's Mainland Affairs Council (MAC), which coordinates all policy concerning Beijing, said in a statement on Monday that the mainland had "finally...responded to our call". In fact it is Taiwan which has banned direct flights across the Strait since 1949 and has been reluctant to reinstate them, fearing that the island's economic dependence on the mainland would become even greater. Beijing has welcomed the concept of direct flights but insists these must be classified as "internal" rather than "international", for obvious reasons. It has also insisted that talks on the issue be conducted at civilian rather than government level.

Taiwan seems to be ready to accede to this request: the MAC is preparing to authorize a private group to conduct negotiations with Chinese authorities.

In 2003 charter flights by Taiwanese airlines across the Taiwan Strait were allowed at the New Year period and were permitted to make only a token stopover in Hong Kong or Macau (rather than the usual four-hour layover). Progress since then has been non-existent, and the current poor state of cross-Strait relations does not bode well for a breakthrough on one of the “three direct links” (the other two being trade and communications). China will continue to insist that Taiwan recognise the one-China principle before it agrees to permanent direct transport links, while Taipei will insist any negotiations on the matter have to be conducted by its sovereign government.

The four-day trip was due to due to have begun next Sunday, but a spokesman from Beijing’s foreign ministry told reporters on Thursday that China needed more time to prepare for the visit.

JAPAN | Lee’s visit worsens relations with China

China has made clear its displeasure with the new-year visit to Japan by the former president of Taiwan, Lee Teng-hui, by calling for a trip to Beijing by a group of Japanese legislators to be postponed. According to officials from the Liberal Democratic Party and New Komeito, who were due to send a delegation of 12 MPs to hold talks with Chinese Communist Party officials, no explanation was given for the request.

The four-day trip was due to have begun next Sunday (9 January), but a spokesman from Beijing’s foreign ministry, Kong Quan, told reporters on Thursday that China needed more time to prepare for the visit. Kong denied that the postponement was down to any diplomatic dispute, but Beijing’s anger over the week-long visit to Japan by Lee, which ended on Sunday (2 January), is almost certainly behind the request.

Chinese officials had warned that by granting Lee a visa Japan was jeopardizing bilateral relations, which are already at a fairly low ebb (as we have documented in previous *Weekly Alerts*). During Lee’s trip, dozens of protesters demonstrated outside the Japanese embassy in Beijing, and a spokesman from China’s foreign ministry warned that the government was “keeping a close watch towards Lee’s activity and schedule during his visit”.

SOUTH KOREA | Parties in crisis as deadlock ends

South Korea’s ruling Uri Party has lost another leader only five months after his appointment. Lee Bu-young resigned on Monday (3 January) over the party’s failure to scrap the National Security Law, which contains sweeping criminal provisions prohibiting contact with North Koreans and the promotion of the North’s “juche” communist ideology. Uri had proposed replacing the law, which President Roh Moo-hyun had termed “barbaric”, with special provisions in South Korea’s criminal code to deal with extreme anti-state activities.

Uri had been trying for months to force parliament to repeal the legislation, which is seen by centrist and left wing politicians in the country as an outdated

relic of past dictatorial governments. The conservative Grand National Party (GNP) opposition, however, has argued that the law needs to be maintained as the North remains a key threat. The bitter divide over the legislation meant parliamentary business was suspended for several weeks towards the end of 2004 owing to a boycott by opposition politicians.

The deadlock was broken just in time for the National Assembly to pass two key pieces of legislation before the deadline of midnight on 31 December: the national budget for 2005 and a one-year extension of the mission of 3,600 South Korean troops in Iraq (which was approved by 161 votes to 63, with 54 abstentions). Another hotly contested bill, to impose tighter regulations on leading newspapers, was passed following an eleventh-hour compromise brokered by the parliamentary speaker. But the other three of Uri's four landmark "reform" bills (including the repeal of the National Security Law, an investigation into Koreans who collaborated with the Japanese colonial rulers, and further restrictions over private-school owners) were delayed until February, rendering Lee's position untenable.

Despite the defeat for Uri, the legislative programme for 2005 is not likely to be any more harmonious. Uri has come under fire from various civic groups and party supporters who are angry that the group bowed to the GNP's request to discuss the bills at an extra session of the assembly rather than force them through in the 2004 session using the party's majority in the 299-seat unicameral parliament. Also, GNP supporters were incensed that the party's floor leader, Representative Kim Deog-ryong, was soft on issues they claim are fundamental to the country's democratic identity. The GNP's general secretary, spokesman, and chief of staff to the party's Chairwoman Park Geun-hye all tendered their resignations last weekend.

Despite the defeat for Uri, the legislative programme for 2005 is not likely to be any more harmonious.

Defence budget raised

South Korea has allocated 20.8tr won (US\$19.8bn) for the 2005 defence budget, up 9.9% from last year, the Defence Ministry reported on Wednesday (5 January). The defence budget was finalized on 31 December when the National Assembly passed the 2005 national budget, which totalled 134.3tr won. South Korea's military had earlier requested 21.4tr won for this year's budget.

In the expanded budget, 7tr won will be spent to procure a number of sophisticated weapons systems, such as airborne early-warning systems, F-15K fighter jets, Aegis-equipped destroyers, K1A1 armoured vehicles, and C4I (joint command, control, communication, computer and intelligence) systems, the ministry said. The increased defence spending comes as the US plans to scale back its troop strength in South Korea to 25,000 by September 2008, from around 32,500 currently.

TAIWAN | Court rejects election lawsuit

On 30 December Taiwan's High Court rejected the second lawsuit brought by the opposition Nationalist Party (Kuomintang or KMT) to nullify the result of the March 2004 presidential election. The lawsuit said the Central Election Commission (CEC) should have abandoned the election after President Chen Shui-bian and Vice-President Annette Lu were shot the day before the poll.

The KMT claims the attempted assassination was staged to win Chen a sympathy vote. The KMT also cited electoral irregularities such as misplaced ballots and said the CEC should not have permitted a referendum initiated by Chen to be conducted simultaneously with the presidential vote. However, the court said the CEC did not break any laws and the result of the vote - which Chen won by a margin of just 0.2% of the popular vote after a full recount - should stand.

The KMT's first lawsuit against the result, which was filed in November after seven months of investigation, had already been dismissed. The Nationalist Party has said it will appeal both rulings. "We are angry as the verdict is unfair. The ruling shows the democratic system is on the verge of bankruptcy and collapse," the Nationalist legislative whip, Tseng Yung-chuan, said. "Taiwan justice is dead."

LATEST DATA AND FORECASTS

CHINA

► **ICBC BAILOUT DELAYED.** China's official *Economic Daily* reported on 5 January that a planned injection of capital into the Industrial and Commercial Bank of China (ICBC), one of the weakest of the "big four" state-owned banks, is likely to be postponed at least until after the Lunar New Year break which begins on 9 February. "The plan to reform ICBC did not materialise as market talk has suggested and it's said that it has been postponed until after the Spring Festival," the newspaper said without elaborating. The China Banking Regulatory Commission has made no comment on the issue.

It is thought a plan to inject around US\$45bn into ICBC, China's biggest bank in terms of assets, is being considered to allow the bank to recapitalize and write off billions of dollars worth of bad loans prior to a stock market listing in 2006, and foreign competition in the banking sector as a whole in 2007. But the delay is down to mixed results from a similar-sized capital injection in late 2003 to two other "big four" banks, the Bank of China (BOC) and the China Construction Bank (CCB).

According to the *Economic Daily*, more time is needed to judge the results of this operation (which was funded direct from China's massive foreign-exchange reserves) before risking a similar move with the ICBC. "There is no doubt that the reforms of Bank of China and Construction Bank achieved major progress...but the achievements are initial and the basis is fragile," the paper said.

In 1998 China's ministry of finance issued 270bn yuan worth of special bonds (now worth US\$32.62bn) to recapitalize the big four, which also includes the Agricultural Bank of China (ABC). Then in 1999 four asset-management firms were created to take over some 1.4tr yuan of bad loans from the banks. Partly recoverable loans from the BOC and the CCB were awarded to these firms after a bidding process last year. ICBC and ABC are thought to have the highest proportion of bad loans: ICBC's NPL ratio was calculated at around 19.46% of total loans by the end of September last year, down 1.77 points from the beginning of 2004.

"There is no doubt that the reforms of Bank of China and Construction Bank achieved major progress...but the achievements are initial and the basis is fragile," the Economic Daily said.

► **RETAIL SALES UP SHARPLY IN 04.** Retail sales in China rose 13% in 2004 according to figures released by the commerce ministry on Thursday. Total retail sales in 2004 were worth 5.3tr yuan (US\$640.4bn), the Xinhua news agency reported.

HONG KONG

► **BUDGET DEFICIT SHRINKS.** Hong Kong's budget deficit shrank 96% in the first eight months of the fiscal year from a year earlier to HK\$3bn (US\$384.6m) as an economic recovery and the resumption of land sales boosted government revenues. Government expenditure totalled HK\$158.6bn for April-November, the government said on 31 December, outpacing revenue of HK\$155.6bn, which included a HK\$20bn government bond issue and a HK\$6bn securitization of toll roads and a bridge.

For November alone, the government posted a surplus of HK\$22.3bn, mainly due to profits from land sales and tax receipts. Fiscal reserves stood at HK\$272.3bn by 30 November, up from HK\$250.1bn as of 31 October.

► **EXPORTS BEAT FORECASTS.** Exports from Hong Kong grew by a faster-than-expected 16.8% in the 12 months through November, government data released on 28 December showed. This compared with a 16.1% increase in the 12 months through October. Exports last month, totalling HK\$179.7bn (US\$23bn), were aided by strong re-exports to China, along with a revival in consumer spending.

Hong Kong's Trade Development Council estimates that Hong Kong's exports will rise 7.5% by volume and 8.5% by value in 2005, slowing sharply from 2004 due to weaker growth in demand from both the US and China.

JAPAN

► **OUTPUT UP, UNEMPLOYMENT AND PRICES DOWN.** Data released by Japan's government on 28 December provided some respite from a series of bleak indicators recently, although the overall picture was mixed.

On the positive side, industrial output rose for the first time in three months in November, expanding 1.5% month-on-month, while unemployment fell to 4.5% from 4.7% the previous month, the lowest rate since January 1999. The jobs-to-applicants ratio also rose from 0.88 to 0.92 (meaning there were 92 jobs available for every 100 applicants) which suggested an improvement in the labour market. Other positive data showed retail sales rising 0.7% year-on-year against market forecasts for a 0.6% drop - although they were down 0.6% month-on-month.

In contrast, average spending by wage-earner households, a key gauge of personal consumption, fell 0.7% in November from a year earlier, down a real 0.9% from October on a seasonally adjusted basis. Consumer prices also fell as deflation continued, with the CPI dropping 0.2% in November year-on-year.

KOREA

► **GOVERNMENT TO SPUR ECONOMY; BANK TO FOLLOW SUIT.** President Roh Moo-hyun pledged on Wednesday (5 January) that the government

NORTH ASIA: Latest indicators			
Stocks	Value 06/01 15:00 GMT	Net change (intra- day)	Year- to- date % change
Hang Seng	13712.04	-52.32	-3.64
Nikkei 225	11492.26	+54.74	+0.03
Korea comp.	871.28	-13.91	-2.75
Shanghai comp.	1239.43	-12.51	-2.14
Taiwan Taiex	5982.12	-6.25	-2.57
Currencies (#/US\$1)	06/01 15:00 GMT	23/12 15:00 GMT	
Yen (Japan)	104.78	103.66	
Won (Korea)	1,058.00	1,050.00	
Dollar (Taiwan)	32.04	32.18	
<small>Sources: Stocks - Bloomberg; Currencies - Reuters</small>			

“The bank plans to operate interest rate policy in an accommodative manner to the economic cycle while achieving the goal of keeping price stability,” the BOK’s governor, Park Seung, said on 31 December.

would do all it could to support economic growth in 2005 through public investment plans, while the central bank has also reiterated its stance that promoting growth - as well as controlling inflation - will continue to be a priority this year.

“We will do the utmost to boost investment to support growth potential by 1 to 2 percentage points,” Roh said in a speech to a gathering of business executives, although he did not elaborate. The ruling Uri party has said it might draw up an extra budget in the second half of the year, while the budget ministry reported on Tuesday that it would execute two-thirds of this year’s 195.0tr won (US\$186.4bn) budget in the first half of the year to compensate for weak local demand.

The Bank of Korea (BOK) has forecast that economic growth will fall to 4.0% this year from a projected 4.7% in 2004, but the finance ministry has promised to do whatever is necessary to get growth to 5% - the minimum needed, it says, to provide jobs for new entrants to the labour force. The bank, too, seems to be focused on promoting growth, suggesting a further interest-rate cut might be on the cards. “The bank plans to operate interest rate policy in an accommodative manner to the economic cycle while achieving the goal of keeping price stability,” the BOK’s governor, Park Seung, said on 31 December.

The BOK cut rates twice, by a total of 50 basis points, in the second half of 2004 in contrast to a 125 basis point rise in US rates. South Korea’s benchmark rate is now at 3.25%, one percentage point above the US federal funds rate. Consumer price inflation rose by 3.0% in December year-on-year, a marked slowdown since a peak rise of 4.8% in August. Average inflation rose 3.6% in 2004, unchanged from 2003.

The government is also concerned about the persistently high levels of household debt which are holding down domestic demand and consumption. Data from the central bank shows that South Korean households owed 441.2tr won (US\$425bn), or about two-thirds of annual GDP, to financial institutions as of the end of September 2004. This works out at about 28m won per household. Finance Minister Lee Hun-jai said in a speech on Wednesday that the government would investigate ways to help poor households write down or roll over debt as part of an effort to boost spending and domestic demand.

Data released on Thursday by the National Statistical Office showed the service-sector business index, a key gauge of domestic demand, falling for the fifth straight month in November, by 1.6% year-on-year. A sub-index for wholesale and retail sales business fell 1.7% in the year through November, also its fifth consecutive decline following drops of a revised 2.7% in the year to October and 1.2% in the 12 months to September.

And business sentiment has dropped to its lowest level in 21 months, according to a survey by the Federation of Korean Industries (FKI) published on Monday. The FKI’s business survey index fell to 84.9 in January, the lowest figure since April 2003, following a revised 89.3 in December and 95.7 in November. A reading below 100 means more companies see business conditions deteriorating than those expecting an improvement. The worsened outlook was mainly due to the continuing strength of the won, which has gained 7% against the US dollar since late October 2004. But the central bank does not expect the won to appreciate

beyond 1,000 to the dollar this year - in part due to expected capital outflows as interest rates continue to fall compared to a rising trend in most other countries.

Meanwhile, growth in exports - pretty much the sole engine of growth in 2004 - is predicted to slow this year, though perhaps not by as much as had been feared previously. The commerce ministry forecast on Tuesday that exports would grow 12.1% in 2005, around a third of the rate seen in 2004 but above forecasts made by the central bank and other agencies.

“Export growth will be sustained due to resilient demand for South Korean goods and increasing exports to emerging countries, such as Brazil, Russia, India, and China,” Commerce Minister Lee Hee-beom said. Exports in 2005 are forecast to rise to US\$285bn from a provisional US\$254.2bn in 2004. The ministry said imports would grow 14.5% to \$257bn in 2005, slowing from a provisional 25.5% gain in 2004 due mainly to expected falls in oil prices. Exports in December rose 19.5% year-on-year to US\$23.58bn, while imports were up 19.2% to US\$21.02bn - leaving a monthly trade surplus of US\$2.56bn, up from US\$2.10bn in December 2003.

TAIWAN

► **INTEREST RATES HIKED AS PRICES RISE.** Despite relatively tame inflation through 2004, Taiwan’s central bank made the surprise decision on 30 December to raise interest rates by an eighth of a percentage point, signalling also that further hikes were likely through 2005. “In order to prevent inflationary expectation due to rising utility costs, the board has decided to raise interest rates by 0.125 percentage points to maintain healthy economic growth,” the bank said in a statement, while the bank’s governor Perng Fai-nan said “we hope our interest rates can return to a normal level”.

The consumer price index (CPI) rose 1.49% in the year to November - before the bank made its move - rising to 1.62% in December (figures for which were released on 5 January). Despite the relatively tame rises, prices are forecast to expand 2% through 2005. A strong local dollar (which rose 6.5% against the US\$ last year) might help control inflation, particularly against higher imported oil and commodity prices, but the bank is expected to keep raising rates at least until negative real interest rates turn positive. Prices are expected to rise further due to expected hikes in utility and transportation fees

► **EXPORT GROWTH SET TO SLOW.** The strength of Taiwan’s currency is seen holding down export growth this year, according to Economics Minister Ho Mei-yueh. In an interview with the Reuters news agency on Tuesday (4 January) Ho warned that export growth would slow to 7.4% in 2005 from 20.9% last year as buying power in the US continued to decline relative to the price of Taiwanese exports.

Exports are a key driver of economic growth, and although the island is reliant on demand from China (which is its top export destination), many components exported from Taiwan to China are subsequently assembled for shipment to the US. Ho said she expected economic growth overall to slow to 5.0% in 2005 from 5.93% last year - which was the fastest pace of growth in seven years (according to preliminary figures).

“In order to prevent inflationary expectation due to rising utility costs, the board has decided to raise interest rates by 0.125 percentage points to maintain healthy economic growth,” the bank said.

However, Ho also said that domestic demand could prove to be a core source of economic growth in 2005. "Instead of relying on overseas markets, we should look to domestic consumption and investment for growth," Ho said. The Directorate General of Budget, Accounting, and Statistics has forecast private consumption will grow 2.6% and private investment 9.3% through this year, although Ho said these targets could be exceeded depending on demand in the electronics sector.

SOUTH ASIA

Indian Ocean Tsunami

SRI LANKA | Silver lining turns black

One shred of comfort drawn by leaders both within and outside Sri Lanka after the tsunami was the hope that the disaster would help engender cooperation between the island's Sinhala and Tamil communities. The Liberation Tigers of Tamil Eelam (LTTE) and the government made conciliatory statements following the disaster, after months of deadlock in the peace process that has threatened to restart the civil war. However, as the relief effort got underway new signs of tension emerged.

"This new tragic situation has laid the foundation for both parties to come together and work towards closing the division between the two parties," the LTTE's political leader S P Thamilselvan said on 30 December, after receiving the government's initial offer of aid. "The LTTE is very happy and encouraged by the government's offer and this would help break the rift between the parties." A day earlier the Tigers' leader, Prabhakaran, had taken the unprecedented step of extending his sympathies to Sinhalese victims.

The government also went some way to extending a hand of friendship to the Tamil rebels, with Prime Minister Mahinda Rajapaksa describing Tamil and Sinhala Sri Lankans as "brothers in misery". President Chandrika Kumaratunga said on Monday (3 January) that 2,000 tonnes of food had been sent by the government to LTTE-held areas, compared to only 180 tonnes sent to the south. International monitors noted an unexpected degree of cooperation between the sides in distributing aid, with the Tamil Rehabilitation Organisation (TRO), an LTTE-sponsored NGO, providing relief to Sinhalese victims in Trincomalee.

Both UN Secretary-General Kofi Annan and US Secretary of State Colin Powell identified such signs as the tragedy's silver lining. However, such hopes had been dented on 30 December when Kumaratunga speculated that the tsunami might have benefited her government militarily. "The threat of war is remoter than on 25 December [the day before the disaster] because the LTTE has suffered heavy casualties," she remarked, going on to claim that the rebels had lost almost all their main naval bases.

This crass observation by the president suggested that divisions between the sides would soon re-emerge, and just days later the Tigers retracted their thanks for the government's aid package. "We are deeply shocked and perturbed at the manner in which this disaster situation is handled by the government," Thamiselvan said on Monday. "Adequate relief, we would say, has not been

"The threat of war is remoter than on 25 December [the day before the disaster] because the LTTE has suffered heavy casualties," Kumaratunga remarked.

“The LTTE is pretending that no aid is reaching its areas just to motivate Sri Lankan Tamils living abroad to pour money into its coffers,” the Hindustan Times quoted a senior government official as saying on Tuesday.

received.” He said the government was engaged in “a game of deception” aimed at fooling the international community into believing it was cooperating with the Tigers.

The rebels say that almost 19,000 people died in the parts of Sri Lanka under their control, with up to 6,000 still missing - figures far higher than those the government has released for Tamil areas. The Tigers claim the official numbers have been deliberately reduced by Kumaratunga’s administration for political ends. They also claim that government forces overseeing the aid operation in Amparai, Batticaloa, and Trincomalee have redirected relief supplies from Tamils to other refugee camps, removing labels identifying the aid as coming from the TRO.

The government says that such complaints over its role in aid distribution are a ploy to persuade expatriate Tamils to donate to the TRO and thus indirectly subsidize the rebel fighters. “The LTTE is pretending that no aid is reaching its areas just to motivate Sri Lankan Tamils living abroad to pour money into its coffers,” the *Hindustan Times* quoted a senior government official as saying on Tuesday. The official went on to claim that international agencies have reported government supplies reaching Tamil areas and that the LTTE is trying to represent the aid as coming from the TRO rather than Colombo.

Both the government and the LTTE are aware of the propaganda value attached to the relief operation. Should Tamils affected by the disaster perceive their assistance as coming from Colombo then it could seriously undermine both the LTTE’s attempts to marshal support for its plans for Tamil secession and its appeal to new recruits. If, on the other hand, the rebels succeed in running a relief effort similar to that of a national government then it would boost the group’s credibility and help it enlist further international support. Given these differing sets of priorities it is unlikely that the split emerging between Colombo and the rebels over the relief operation will be overcome.

Indian Ocean Tsunami

INDIA | Aid and strategic calculations

It is not only political forces in Sri Lanka that have recognised the publicity dividend to be reaped from participating in the island’s relief operation. India is taking the opportunity to use the aid effort as a means of restoring its standing on the island, 15 years after the humiliating withdrawal of Indian “peacekeepers” after they were drawn into the war with the LTTE. However, there is speculation that New Delhi is irritated that its efforts have been overshadowed by those of the US, which is despatching 1,500 marines and an amphibious assault ship to the island.

Shyam Saran, India’s foreign secretary, responded to this suggestion on Wednesday. “There is a disaster. There is requirement for assistance. If the US believed that it could contribute to this task, it was more than welcome,” he told a news conference, but he added the following qualification: “The question is how efficient is the delivery system. We should not get into each other’s way.” He also played down India’s refusal to accept foreign aid for its own tsunami victims, saying that India would not hesitate to accept such aid if it became necessary.

India's refusal of foreign aid (despite suffering up to 15,000 tsunami-related deaths of its own) and its extensive relief programme were intended to confirm its status as a major world power.

The US troops are likely to steer clear of Tamil-held areas; the LTTE is included on Washington's list of foreign terrorist organisations and on Tuesday a senior Tamil rebel accused the detachment of US marines of being spies sent to work against their insurgency. "The attempt by the American and Indian troops to land in Sri Lanka...is totally based on their political and military interests," Nallathamby Srikantha, the leader of the Tamil Eelam Liberation Organization, told *Voice of Tigers* radio. Almost 1,000 Indian military personnel have been sent to Sri Lanka, with five navy vessels moored off Trincomalee and Galle and six helicopters. India has also pledged US\$23m-worth of aid to Colombo.

Despite its denials, it is likely that India is to an extent aggrieved by the US's belated but extensive commitment to the relief operation. Colin Powell is due to arrive on the island today (7 January) in a move further likely to associate the Sri Lankan relief effort with Washington, all the more galling to New Delhi given India's rapid response to the disaster (it despatched relief forces on 27 December). Pakistan has also sent a ship to Sri Lanka, another move likely to be eyed suspiciously by India.

India's refusal of foreign aid (despite suffering up to 15,000 tsunami-related deaths of its own) and its extensive relief programme were intended to confirm its status as a major world power. Washington's intervention has, albeit inadvertently, stolen some of this thunder and yet further slowed the US's attempts to forge a strategic partnership with New Delhi. This damage could be repaired if Indian and US troops are seen to work well together in the humanitarian effort, and attempts to coordinate such cooperation are now underway.

INDIA | Dixit death a worry for negotiations

In a further sign that India and China are putting aside their territorial disputes, on 29 December the two countries agreed to deepen defence cooperation, following the visit to Beijing of General N C Vij, the head of the Indian army. Vij concluded his week-long trip by holding talks with his Chinese counterpart Liang Guanglie and Defence Minister Cao Gangchuan.

"China would like to step up its cooperation with India in the defence and security sector and advance the bilateral military ties to a higher level," China's state-run Xinhua news agency reported Cao as saying. "We should expand the ongoing frequent personnel exchanges to officers at all levels, including junior ones," Vij said. The neighbours held their first ever joint exercises in March, an event made possible by progress towards recognising a common border and reduced enmity between India and Pakistan, a longstanding Chinese ally.

However, the reconciliation between the regional powers was dealt a blow on Monday (3 January) with the death of India's National Security Advisor, J N Dixit. Dixit, a wily hardliner credited with forging India's post-Cold War foreign policy, was handling negotiations with both Pakistan and China, and his replacement, former intelligence chief M K Narayanan, faces a tough task maintaining momentum in both dialogues. The discussions with Pakistan in particular are in need of a boost, as no progress has yet been made on the countries' major bilateral disagreements.

Nepal's Maoist rebels called off their second blockade of the country's capital and several district headquarters on 29 December, after a week in which most traffic was scared off the roads into Kathmandu by the threat of Maoist retribution. However, the rebels said that unless their demands for international mediation and the establishment of a constituent assembly were met then they would intensify their programme of blockades.

"If the old regime still refuses to change itself and doesn't give back people's rights, then protest programmes along with blockades will be intensified," Krishna Bahadur Mahara, one of the Maoists' three top leaders, told the rebel-affiliated Janadesh weekly. "This could spread to all 75 district headquarters and there will be a countrywide rebellion." However, if the government were to accept the rebels' terms then peace talks could begin immediately, he said.

The latest blockade prompted mass demonstrations in Kathmandu calling for peace talks between the government and Maoists and for an end to the ban on traffic into and out of the city. The government, however, seems in no mood to heed the rebels' demands. On Saturday (1 January) Prime Minister Sher Bahadur Deuba restated that national elections, to which the Maoists are implacably opposed, will begin by mid April, and as a result violence is likely to increase over the next four months.

PAKISTAN | Opposition claims unity against president

The leaders of parties within the Association for the Restoration of Democracy (ARD) last Thursday (30 December) announced joint "agitation" against the government of President Pervez Musharraf following the president's address the same day explaining his decision not to relinquish his position as head of the army.

Musharraf justified his about-turn on the so-called "uniform issue" by saying that it would guarantee political and economic stability. "It is the voice of the majority and the minority should not impose its will on the majority," he said, claiming that the deal he had struck with the Muttahida Majlis-e-Amal (MMA) in January, whereby the hardline Islamists supported a bill that formalised Musharraf's presidency in exchange for him shedding his uniform by the end of 2004, had lapsed due to the MMA not fulfilling its side of the bargain.

The statement received almost universally poor reviews from the Pakistani press, most of which questioned how the country's democracy could be sustained while so inextricably linked to military leadership. The opposition, which Musharraf had accused of "threatening democracy", were even more scathing. "The tone and delivery of his speech reflected the general's guilty conscience for defying the entire nation," read a statement issued jointly by opposition leaders including MMA president Qazi Hussain Ahmad, its parliamentary leader Maulana Fazlur Rehman, and the acting president of the PML-N, Chaudhry Nisar Ali Khan.

Musharraf justified his about-turn on the so-called "uniform issue" by saying that it would guarantee political and economic stability.

However, Musharraf’s government has moved to scotch the nascent protest movement even before it begins. Following the maxim of “divide and rule”, the government has been courting both the PML-N, the section of the Pakistan Muslim League still loyal to deposed former prime minister Nawaz Sharif, and Benazir Bhutto’s Pakistan People’s Party. In its latest attempt at reconciliation, on 28 December the government allowed Bhutto’s husband, Asif Ali Zardari, to travel abroad to visit his family.

Zardari was bailed from prison in November as part of the government’s new approach, and he now plans to travel to Dubai to see his wife for the first time in five years. The government simultaneously issued a passport to Hamza Sharif, Nawaz’s nephew, in what was described by Information Minister Sheikh Rashid Ahmed as “a step towards creating an atmosphere of understanding”. Further concessions to senior members of the PPP and PML-N are likely.

LATEST DATA AND FORECASTS

BANGLADESH

► **EXPORTS UP.** Bangladesh’s exports reached US\$556m in October, up 11% year-on-year. Between July and October imports rose almost 24% to US\$4.6bn, compared to US\$3.71bn a year earlier, mainly due to increased exports of petroleum products, chemicals, edible oils, and machinery. “Export performance during July-October of the current financial year was good,” according to Farid Hossain, director of the state-run Export Promotion Bureau.

Bangladesh is also becoming more upbeat over the end to international textile-quotas at the end of last year. “Big buyers like Wall Mart, JC Penny, Sears, or Tesco are expanding their official capacity in Bangladesh and we consider it as a green signal for us,” said Annisul Huq, president of Bangladesh Garment Manufacturers’ and Exporters’ Association. “Small countries like Nepal and the Maldives may lose their textile markets and we are hopeful to get those.”

INDIA

► **GDP UP, BUT OIL HITS BOP.** India’s economy grew a better-than-expected 6.6% in the second quarter (July-September), the impact of the poor monsoon being offset by the strong performance in the manufacturing and service sectors. However, farm output performed very poorly, coming in at less than 1%, and this could have a greater impact in the third and fourth quarters.

Furthermore, India’s balance of payments slipped into deficit over the July-September period for the first time in four years, a result of high international oil prices. The BOP over the quarter registered a US\$634m shortfall against a surplus of US\$7.52bn in Q1. The current account also showed a deficit, US\$6.42bn against a surplus of US\$3.16 billion for April-June. It was the first current account deficit in more than a year. “Imports of crude petroleum and products were the key drivers of the surge in import payments,” the RBI said.

► **DEBT TO TAKE A HIT.** On Thursday (6 January) Y V Reddy, the governor the Reserve Bank of India (RBI), warned that while the impact of the devastating

SOUTH ASIA: Latest indicators			
Stocks	Value 06/01 15:00 GMT	Net change (intra- day)	Year- to- date % change
Pakistan 100	6353.27	67.59	+2.77
Mumbai Sensex 30	6367.39	-91.45	-3.56
SL Stock All Share	1548.71	+23.96	+2.77
Currencies (#/US\$1)	06/01 15:00 GMT	23/12 15:00 GMT	
Taka (B'desh)	59.91	59.63	
Rupee (India)	43.77	43.66	
Rupee (Pakistan)	59.55	59.49	
Rupee (SL)	98.90	104.55	
Sources: Stocks - Bloomberg; Currencies - Reuters			

Reddy played down the economic impact of the tsunami as “highly localised” and assured his audience that any borrowing to meet reconstruction costs would be met without hurting the markets.

Indian Ocean tsunami on GDP growth would be negligible the impact on India’s fiscal deficit might be more noticeable. “On the fiscal deficit, there will be some impact. On expenditure there will be some impact. On the revenue side, there is not expected to be any impact,” Reddy said in a speech in Pune.

India is already struggling to keep its budget deficit within the 4.4% of GDP mandated by the last budget, with high global oil prices in particular taking their toll on government expenditure, and the cost of reconstruction of the country’s eastern coast, principally Tamil Nadu, Andhra Pradesh, Kerala, and Pondicherry, is likely to add to this pressure, particularly as the government has refused all offers of international assistance. It has also ruled out raising taxes to pay for the relief effort.

The government estimates financial losses in the areas hit by the tsunami at about 53bn rupees (US\$1.2bn), a sum that India should be able to absorb without difficulty. Reddy concurred with this view, playing down the economic impact as “highly localised”, and assured his audience that any borrowing to meet reconstruction costs would be met without hurting the markets. India’s fiscal deficit at the end of November was 707.17bn rupees (US\$16.2bn), representing 51.5% of the government’s estimate for a deficit of 1,374.07bn rupees for the 2004/05 fiscal year.

► **CONSUMER INFLATION DOWN.** Consumer price inflation in November fell to 4.17% from the 4.57% recorded in October, according to figures released last Friday (31 December). It remained far below the wholesale price index, which dipped to 6.5% in the week to 18 December, the lowest in nearly six months, from 6.73 percent the previous week.

SOUTH-EAST ASIA

Indian Ocean Tsunami

INDONESIA | Disaster offers Aceh chance for peace

The Indonesian province of Aceh, on the north-western tip of Sumatra, bore the brunt of the 26 December tsunami. To date, some 94,000 Indonesians are believed to have died, but this figure is expected to exceed 100,000. Not only do relief workers expect to find thousands more victims from the tsunami, but survivors are already suffering for disease and deprivation as aid struggles to reach those that need it most.

Whole towns were devastated by the tsunami. Approximately half of the Achenese capital, Banda Aceh, was destroyed, while 70% of the 100,000 or so Indonesians who lived in and around the town of Meulaboh (located just 50km from the epicentre of the initial earthquake) are thought to have perished. Aid agencies were only able to access certain areas a week after the tsunami struck and are struggling to deal with the backlog of people in desperate need of medical assistance. There are some 400,000 refugees.

Amid the destruction, there has been optimism that one legacy of the tsunami might be the end of a separatist struggle in Aceh that has claimed some 12,000 lives over three decades. On 27 December, the prime minister of the Free Aceh Movement (GAM), Malik Mahmud, announced a unilateral ceasefire. Indonesia’s vice-president, Jusuf Kalla, had already expressed his hope that “the tragedy will end the conflict”.

The news, confirmed by both sides, that the government and GAM had been in secret talks even before the disaster also offered encouragement. However, the government does not enjoy as much control over the military - the TNI - as it or the international community would like, while the influence of the GAM's leadership has waned the longer it has remained in exile in Sweden. The reality of the situation in Aceh itself has been very different.

Although the TNI has been heavily involved in the relief effort, there is no question of it ceasing operations against the GAM, which have continued even though martial law in the province was lifted in May 2004. "The principle is that all our forces in Aceh are basically continuing their duty under the security operation," confirmed Lieutenant Colonel Nachowri on 31 December.

The government has accused the separatists of blocking aid supplies, but there are also reports of the TNI hoarding vital assistance and selling food and other rations.

As a result, since the tsunami a number of suspected GAM militants have been either killed or arrested by the military. The government has accused the separatists of blocking aid supplies, but there are also reports of the TNI hoarding vital assistance and selling food and other rations. Whatever the truth of the matter, talk of a ceasefire does not count for very much on the ground.

It has become apparent that the rebel force, which numbers 5,000 or so, has not been hit too hard by the disaster. Although Aceh's coastal areas were devastated, the majority of the separatists were hiding in the province's mountainous interior and were therefore unaffected.

But while it is not possible to say whether the tsunami has brought an end to the conflict, the picture is not entirely bleak. A major factor behind Aceh's turmoil is the extent to which it feels isolated from the rest of Indonesia; it is a major source of chagrin to the province that the central government reaps the rewards of its gas reserves while leaving most of Aceh in poverty. However, there has been a major groundswell of sympathy for the Acehnese in the rest of Indonesia which should ensure that the province no longer feels so disconnected from the rest of the country. There is no reason why this should not lead to greater integration, even if Aceh's brand of Islam is more fundamental than that preached elsewhere on the archipelago.

It is not just Indonesia's relationship with Aceh that stands to benefit from the tragedy. With the US heading the relief effort in Aceh and elsewhere in Indonesia, so the two countries have necessarily been brought together. It has not been a straightforward process; the USS Abraham Lincoln carrier group which has been leading the US involvement has had problems persuading the TNI that the Indonesians remain in charge of the rescue operation.

However, the level of cooperation is improving, and the visit of US Secretary of State Colin Powell to Banda Aceh on 5 January is an important development in bilateral ties which have been strained of late by Indonesia's opposition to the US-led war on Iraq and Washington's refusal to restore military ties. From Banda Aceh, Powell will then go to Jakarta to attend an emergency summit of regional leaders organized by the Association of South-East Asian Nations (Asean) and aimed at coordinating the relief effort. Indonesia has already benefited from assistance by Australian and Singaporean relief teams, and the 6 January meeting is likely to ensure the region increases its involvement still further.

The efficacy of Thailand's response to the tragedy has been called into question, with relief operations stymied by poor organization.

The ongoing meeting of heads of state in Jakarta is set to assess the needs of the areas hit by tsunami, not least Indonesia's neighbours in Thailand, where the death toll has already reached 5,200. A further 4,500 people are missing. Unlike in Indonesia, foreign tourists have been as affected by the tsunami as locals, with holiday makers from abroad making up as many as half the victims in resorts such as Phuket on the southwest coast of Thailand.

The efficacy of Thailand's response to the tragedy has been called into question, with relief operations stymied by poor organization. Thai Prime Minister Thaksin Shinawatra has concentrated on discovering why there was no warning before the tsunami struck, even though there is widespread suspicion that local officials would have been reluctant to disrupt tourist resorts at such a busy time of year even if meteorologists had been able to warn of the event.

With a general election a month away, Thaskin will be glad to know that his approach to the crisis has generally been well received by Thais. According to a survey by Abac Poll, 54% of those asked said their satisfaction with Thaksin had risen as a result of his actions since 26 December. His support seems to have been buoyed by his visits to affected provinces, while Thailand's refusal to ask for any debt relief has also worked well for the government.

Malaysia, meanwhile, suffered 68 deaths in the tsunami, most of whom died on the island of Penang. Again, the government has come under fire for not distributing aid to victims quickly enough, especially to fishing and other coastal communities whose livelihoods have been destroyed. The government says that it needs to undertake a full study of which areas have been worst hit, with the result that it might take two to three weeks before much of the aid is disbursed.

The last country in South-East Asia to be hit by the tsunami was Myanmar. The military government has not followed the lead of other countries in the region by allowing large numbers of foreign aid workers to help with the relief effort, so it is very difficult to gain an idea of the situation in Myanmar.

The official death toll stands at 59, but aid agencies in Thailand, which shares its western coastline with Myanmar, believe southern coastal areas were worse hit than these figures would suggest. That said, US Secretary of State Colin Powell said on 4 January that satellite photos suggested Myanmar "was not hit as hard as other nations in the region". The final death toll could still be in the hundreds, but it is unlikely to breach the 1,000 mark.

CAMBODIA | JI suspects jailed for life

Three Muslims were jailed for life by a court in Phnom Penh on 29 December for plotting to blow up the US and British embassies in the city. An Egyptian man facing the same charges was freed by the court.

Chiming Abdul Azi and Muhammadyalludin Mading from Thailand and Sman Esma El from Cambodia were arrested in May 2002 ahead of a visit to Cambodia

by US Secretary of State Colin Powell. The court ruled that the three belonged to the Jemaah Islamiah (JI) terrorist group and were cooperating with JI's then-operations chief, Hambali, in planning the attacks on the embassies.

Hambali spent time in Cambodia between the October 2002 bomb attack on Bali (which he is believed to have masterminded) and his arrest in Thailand in August 2003. He remains under US custody.

The court found no evidence against the Egyptian charged over the same offences, Esam Mohamid Khidr Ali, either to Hambali or to JI. Ali was the director of an Islamic school in Cambodia; the three men eventually convicted also worked in similar establishments.

MYANMAR | Dissidents among latest prisoner releases

The opposition National League for Democracy has revealed that 25 political prisoners were among the 5,588 convicts released by the government on 4 January to commemorate Myanmar's independence day. Two former NLD members of parliament - Ohno Kyaing and Kyaw Khin - were among those released.

The junta has now released some 19,906 prisoners since 18 November. However, unlike in the previous three sets of mass releases, the government said that it freed the prisoners on 4 January "on humanitarian grounds" instead of saying that the prisoners had been held unlawfully on the orders of former prime minister Khin Nyunt.

Following the release, which brought the total number of dissidents freed since November to 75, the NLD called on the government to free all political prisoners, putting the figure of such detainees at around 400, of whom it reckons 135 belong to the NLD. This figure is well below the estimates of foreign agencies, which place the number of political prisoners over the 1,000 mark. The NLD also demanded that the government begin talks with "the political parties representing the people" - a reference to the NLD's exclusion from the national convention on a new constitution which opened in May 2004 and is set to resume in mid 2005.

Meanwhile, the NLD condemned the bombing of a restaurant in Yangon on 21 December in which one employee was killed. The opposition described the attack as a "terrorist act", while the government blamed it on "destructive elements" - a catch-all term for the junta's many enemies in Myanmar.

PHILIPPINES | North Korea accused of arming MILF

The Yomiuri Shimbun, a leading Japanese daily newspaper, revealed on 3 January that North Korea sold arms to the Philippines' largest separatist group, the Moro Islamic Liberation Front (MILF).

The paper claims that documents seized from the MILF in November 2004 showed that the group signed a contract with Pyongyang in 1999 for the purchase of 10,000 automatic rifles and other weapons worth around US\$2.2m. The Yomiuri also said that the MILF had placed substantial downpayments on the purchase of

The NLD demanded that the government begin talks with "the political parties representing the people" - a reference to the NLD's exclusion from the national convention on a new constitution.

a mini-submarine from North Korea, but that Pyongyang pulled out when authorities caught wind of the deal.

North Korea's involvement in the global arms trade is no secret, but the discovery that the MILF was able to make such extensive purchases could have implications for its peace process with the government. The *Yomiuri* alleges that the separatists received funds from al-Qaida and its South-East Asian offshoot Jemaah Islamiah (JI) on top of money the MILF had earned through the illegal narcotics business to fund the deal with North Korea. The MILF has long denied it has links either to al-Qaida or JI.

THAILAND | Tak Bai investigation finds army negligent

An inquiry into the deaths of 78 Thai Muslims under military custody in October 2004 found that the armed forces had acted negligently rather than maliciously in the incident. The victims died while being transported to military bases from the village of Tak Bai after they were arrested during a protest which turned violent.

The so-called Tak Bai massacre inflamed tensions in the south of the country yet further. The inquiry's finding will offer no satisfaction to those who viewed the incident as just another episode in a long saga of brutality by authorities who struggled to control unrest in the region which claimed some 500 lives in 2004.

The verdict is not a complete whitewash, however. The three army generals at the centre of the scandal still face criminal charges for leaving inexperienced officers to deal with the 1,300 Muslims arrested in Tak Bai. Lieutenant General Pisan Wattanawongkeeree, who until the incident was in charge of the southern army, is the most high-profile officer to be implicated.

Meanwhile, the army expects the violence in the south to continue in 2005. General Kitti Rattanachaya warned on 23 December that "a peaceful solution is not in sight" and he said the army needed to be prepared for attacks by as many as 3,000 militants in the region. "Their plans call for bigger direct confrontations with the government in 2005, including possible engagements similar to the 28 April clashes" - a reference to a series of coordinated dawn raids on police stations and military posts by young militants which failed as a result of government forces being tipped off.

The government claims it now knows who is orchestrating the violence, but Kitti does not believe that Bangkok is in control of the situation. "We don't recognize the problems, which is the first essential requirement for us to help us focus on and deal with the situation more effectively."

VIETNAM | Another two deaths from bird 'flu

The fresh outbreak of the H5N1 avian 'flu virus in Vietnam has claimed two lives. Two children died either side of the New Year, taking the number of deaths caused by the virus to 22 in the last year or so.

The outbreak has now spread to 11 provinces, predominantly in the Mekong Delta region in the south of the country. The government has responded by

The army expects the violence in the south to continue in 2005. General Kitti Rattanachaya warned on 23 December that "a peaceful solution is not in sight".

culling 28,700 birds since December, tightening the inspection of poultry shipments to Ho Chi Minh City, and banning the transport of live poultry on passenger buses.

However, the government and the World Health Organization are both concerned that the situation will deteriorate before it improves. Celebrations of the lunar new year in February are likely to prompt a major increase in the transport of poultry and other live animals, which could lead to a rapid spread of the virus. Hanoi is also aware that measures to stop poultry being sold into the country illegally from China have proven ineffective.

LATEST DATA AND FORECASTS

INDONESIA

► **INFLATION WITHIN GOVERNMENT TARGET.** Indonesia's rate of inflation stood at 6.4% in 2004. This was below the government's target of 7.0% but above market forecasts for 6.15% and the central bank's prediction of 6.2%.

► **TRADE SURPLUS SHRINKS.** Indonesia's trade surplus fell to US\$1.46bn in November 2004 from US\$2.95bn the previous month and US\$2.16bn in November 2003. Exports rose 4.9% on a year-on-year basis to US\$5.17bn while imports were up 32.5% to US\$3.71bn.

PHILIPPINES

► **INFLATION AT SIX-YEAR HIGH.** The Philippines' rate of inflation stood at 7.9% year-on-year in December, its highest level since April 1999. This gave average 5.5% inflation for 2004 as a whole, above the government's target of 4.0% and 5.0% and comfortably higher than the 3.0% inflation registered in 2003.

The government has tried to blame the rise in inflation entirely on the high global cost of oil, but this no longer appears convincing. Core inflation, which excludes fuel and food prices, rose to 7.6% year-on-year in December from 7.3% in November.

With the markets expecting inflation to surpass the 8% mark soon, the central bank is finally talking about raising interest rates. The central bank governor, Rafael Buenaventura, has been highly reluctant to raise rates for fear that it will depress the economy, but he admitted on 5 January that if the inflationary pressure is on the demand side "we may have to act". Rising prices, especially for food and transport, have been blamed in part for the sharp decline in the popularity of President Gloria Macapagal Arroyo.

► **PRODUCTION STRONG IN OCTOBER.** The indices measuring production by manufacturers in the Philippines showed output posting healthy rises both in value and volume terms. The volume of production index rose 9.0% year-on-year in October after a revised 6.8% increase in September, while in value terms output was up 14.0% year-on-year in October from a revised 13.6% in the previous month.

SOUTH-EAST ASIA Latest indicators			
Stocks	Value 06/01 15:00 GMT	Net change (intra- day)	Year- to- date % change
Kuala Lumpur comp.	910.42	+2.46	+0.33
Philippines comp.	1859.80	-15.57	+2.03
Singapore STI	2089.82	+18.78	+1.15
Thai Stock Exchange	693.62	+10.12	+3.82
Currencies (#/US\$1)	06/01 15:00 GMT	23/12 15:00 GMT	
Rupiah (Indonesia)	9,312.0	9,280.0	
Peso (Philippines)	56.15	56.16	
Dollar (Singapore)	1.64	1.63	
Baht (Thailand)	39.24	39.02	
<i>Sources: Stocks - Bloomberg; Currencies - Reuters</i>			

SINGAPORE

► **Q4 FLASH ESTIMATE DISAPPOINTS.** On 3 January Singapore unveiled a flash growth estimate for the fourth quarter of 2004 showing GDP growing a provisional 2.4% on an annualized rate. If accurate, this would mean the economy grew 8.1% during the year as a whole, a figure mooted by Prime Minister Lee Hsien Loong on 31 December.

The 2.4% expansion is less of a recovery than the markets were hoping for. Economists surveyed by the Reuters news agency were forecasting annualized growth of 3.9%. On a year-on-year basis, the government reckons the economy grew 5.4% in the fourth quarter against market forecasts of 5.8%.

The fate of Singapore's economy in 2005 now seems to lie in the strength of the electronics sector. Demand for electronic goods is declining but it is not yet clear how long the slowdown will last or how sharp it will be.

There was already some encouragement for the government in manufacturing data for December published on 4 January. The Purchasing Managers' Index (PMI) rose 1.5 points to 51.8, above the 50-mark that indicates the sector is growing. The flash estimate for Q4 was based purely on data for October and November, and the rise in the PMI should translate into better manufacturing growth than the disappointing 9.5% year-on-year expansion upon which the estimate was based.

The rise in the December PMI compensated for a 3.8% seasonally adjusted fall in factory output between November 2004 and the previous month. The markets had been expecting a 3.0% decline.

THAILAND

► **TRADE, SENTIMENT STRENGTHEN IN NOVEMBER.** Thailand's exports rose 22.0% year-on-year in November to US\$8.71bn while imports rose 29.6% over the same period to a record US\$8.53bn. This was the 11th consecutive month that exports posted year-on-year growth of over 20%.

It was not just trade that fared well in November. Consumer confidence and business confidence both increased during the month, with private spending up 3.4% year-on-year against a 2.1% increase in October. Industrial production, meanwhile, rose 9.5% year-on-year in November, up from 5.3% in October.

► **INFLATION STEADY.** Thailand's consumer price index (CPI) rose 2.9% year-on-year in December, a slight decline from November's 3.0% increase in the CPI. Headline inflation averaged 2.7% in 2004 as a whole.

VIETNAM

► **GROWTH ON TARGET IN '04.** The government announced on 28 December that the Vietnamese economy grew 7.7% in 2004, in line with a target range of 7.5%-8.0% expansion. GDP rose 8.5% year-on-year in the fourth quarter.

In other end of year data, industrial production rose 15.6%, inflation stood at 9.5%, and actual foreign direct investment was up 7.5% to US\$2.85bn. The trade account ended up showing a deficit of US\$5.52bn after a 28.9% rise in exports to US\$26bn failed to overhaul a 25% rise in imports to US\$31.52bn.

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