OPINION

Neat company slogan, but the PM would not have been amused

STREET WISE

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A WEEK BEFORE the Supreme Court handed down its landmark judgement in the Thaksin assets trial, SC Asset – one of the companies caught up in the historic case – held a press conference.

It was not about the legal case, which directly involved Yingluck Shinawatra, the youngest sister of former prime minister Thaksin. She serves as SC Asset's chairwoman. The press conference dealt entirely with the developer's future plans.

And what would be more interesting to property companies than the end of the property tax holiday? It was estimated that for every Bt1 million transacted, homebuyers will have to pay an additional Bt30,000 once tax rates are raised to the normal level. And many, particularly lower middle-income earners, may delay their home purchases due to the extra cost.

The company's executives considered those tax breaks as a kind of privilege that prospective homebuyers should grasp while it lasts.

One was so quick to come up with a new marketing slogan: "Enjoy the privilege before the privilege ends". In English, this seems plain and not eye-catching. But in Thai, as privilege is equivalent to Abhisit – the name of the current prime minister – the slogan sounds offensive. Certainly, to Abhisit Vejjajiva's supporters, it could mean "come to use Abhisit, before Abhisit expires".

From any angle, this can't be good for the image of the company. As the property arm of the Shinawatra family, the company, if it launched the slogan, would be considered trying to indicate a negative political connotation.

At least Yingluck instantly understood the nuance.

"It might not be good. Any company can use the slogan, but not us," she said, warily.

Given the social division, if SC Asset actually launched the slogan, their projects might fill up with those donning red shirts. The environment might not be conducive for children, who surely need to listen to all views if all their nerve cells are to function properly when they grow up.

Let's imagine a similar division in Paris. Even without this sentiment, Paris is in bad shape due to the economic crisis. *Deutsche Presse-Agentur* reported recently that due to the crisis, the number of visitors to the former home of King Louis XIV fell to 5.5 million in 2009, compared to 6 million in the previous year.

Contributions by sponsors and patrons also fell by nearly half, from ?16 million (Bt723 million) in 2008 to ?8.6 million last year.

I can't imagine how many more tourists would come here and cherish our national treasures, if this division ends. In fact, though our museums are not as great as the palace, we still have much more to offer.

COUNTRY'S EXPORTS **RETURNING TO PRE-CRISIS LEVELS**

GURU SPEAK

WATSAYA LIMTHAMMAHISORN

SINCE the second quarter of last year, merchandise exports have been on the rise amid an appreciating baht, providing an important impetus to the country's economic recovery.

In January of this year, exports grew 31.4 per cent from a low base, but also from strengthened demand from our trading partners. The export revival has also been broad-based, extending across products and markets.

While exports have yet to reach their pre-crisis level, there are signs that some industries have recovered nicely in that they have come close to or have even passed their peak.

Agricultural and fishery products: The revival of exports in this group has been attributed to both price and quantity, especially for rubber and tapioca products that experienced strong demand from China. Shrimp exports showed robust growth last year, especially to the United States, despite fierce competition from Vietnam and the imposition of anti-dumping taxes.

Labour-intensive products: This sector's exports are largely determined by unwrought gold, whose price soared last year.

Exports of other major labour-intensive products, such as garments, footwear and toys, are on a downward trend as a result of greater competition from Vietnam and China.

Nevertheless, the export future of some products seems brighter than for others, and these goods include sportswear, brassieres and home and automobile textiles, as their producers have kept making adjustments and thus have remained competitive to the present.

While exports have yet to reach their pre-crisis level, there are signs some industries have recovered nicely in that they have come close to or have even passed their peak.

Exports of hi-tech products, including electronic goods and electric appliances, accounting for more than 20 per cent of total exports, took a major hit during the crisis, as final demand was largely dependent on the G3 countries.

Today, this sector appears to be on its way to recovery, as it is rapidly returning to its pre-crisis export level.

Exports of vehicles, accounting for 8-9 per cent of total exports, have not yet recovered to the pre-crisis level, though exports to major markets like Australia are coming close to their historic peak.

Exports of chemical products, accounting for 2-3 per cent of total exports, have already outdone their pre-crisis level, thanks to the revival in demand mainly due to the economic recoveries of China and India.

Resource-based products: Non-canned, prepared foodstuffs and rubber products are mainly exported to the G3 countries, and these exports have approached their pre-crisis levels. Sugar exports received a boost from India, as this major producer has experienced a drought.

However, the furniture and furnishing items industry has recovered slowly and may see lower exports going forward due to greater competition from Vietnam.

Nevertheless, here too, there are some outperformers that can adapt to the increasingly competitive environment.

Overall, exports have been increasing due to the economic recovery of our trading partners since the second quarter of 2009.

This upward trend seems to reaffirm that exports will continue to be an important engine of growth for the economy this year.

This is indeed a welcome development, as Thailand can reap the benefits of the overall global recovery that is expected to firm up this year.

The views expressed in this column are the author's own.

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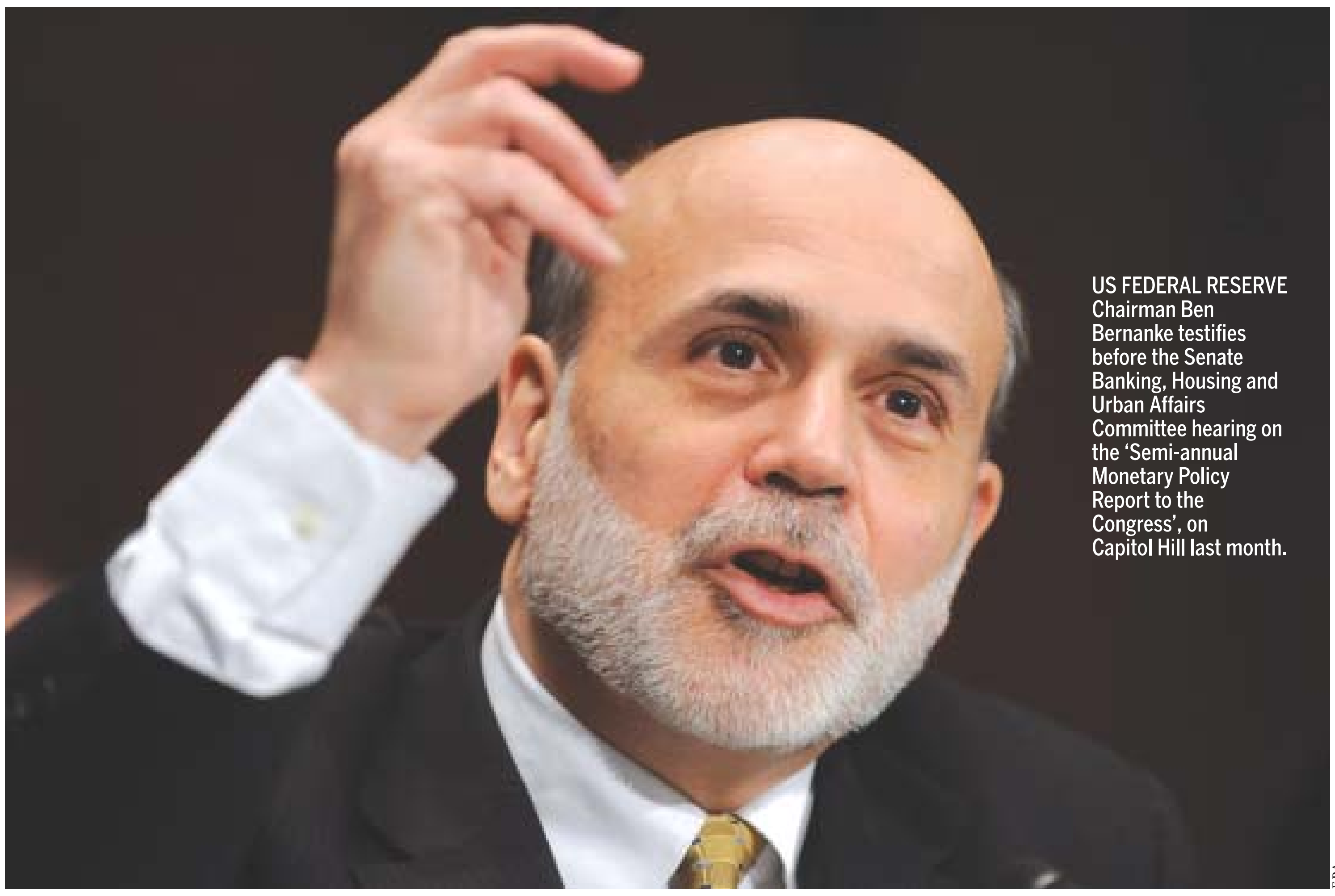

US FEDERAL RESERVE Chairman Ben Bernanke testifies before the Senate Banking, Housing and Urban Affairs Committee hearing on the 'Semi-annual Monetary Policy Report to the Congress', on Capitol Hill last month.

EPA

THE AMERICAN INTEREST RATE **HIKE THAT NEVER WAS...**

PAUL GAMBLES & STEPHEN TIERNEY
SPECIAL TO THE NATION

THE US FEDERAL RESERVE gained significant media mileage last month by hiking a virtually unused interest rate while keeping other rates at record lows. But to understand why there is something more sinister to this fiduciary sleight of hand than a simple desire to gain column inches, and to see how it could have a very real negative impact on export-dependent economies such as Thailand, one first needs to take a closer look at how the banking system works.

The modern banking system exploits fractional-reserve banking, meaning it only keeps a fraction of deposits in liquid reserves to maximise shareholder profits and depositor rates of interest. The remainder is lent out or otherwise put to work at higher interest rates than are paid to depositors. The difference, or spread, is how banking institutions make profits.

Fractional banking has dramatically increased credit supply over the past century. A fractional system that requires 10 per cent of deposits to be held as reserves allows banks to initially lend US$90 (Bt2,937) against every $100 of deposits held. The $90, once lent, goes into recipient bank accounts from where 90 per cent can be lent out again. By the time 10 lending transactions have taken place, the original $100 has increased money in circulation to almost seven times the initial deposit.

This money multiplier has a major impact on economic growth rates, inflation, indebtedness and ultimately employment, prosperity and economic sustainability. Minimum reserve requirements set by central banks therefore have the combined effects of ensuring banks hold adequate reserves while also determining the magnitude of the money multiplier.

Banks generally hold reserves slightly above the statutory minimum requirement to cover daily cash flows and write-downs. But excessive withdrawals can result in a bank holding insufficient reserves while others consequently hold too much excess. Central banks typically oversee this by arranging 'emergency' funding, typically just overnight, while the bank implements actions to adjust its obligations and assets, such as raising additional funds by borrowing from money markets or calling in loans.

A systemic loss of confidence in 2008 caused banks to increase the rate at which they lent to each other. Following the Lehman Brothers' collapse that September, interbank lending virtually stopped overnight.

Government responses to the crisis largely consisted of increasing deposit guarantee amounts and ensuring that adequate liquidity was put in place.

In America, where the scale of problems was greatest, three main liquidity boosts were implemented:

- The Troubled Asset Relief Programme (TARP) injected a staggering $600 billion into the economy (especially the banking/finance sector) within a matter of months;
- A wide range of programmes were established to allow banks to transfer distressed assets;
- The cost of emergency funding was cut from 1.25 per cent in October 2008 to 0.5 per cent from December 2008 to this February.

In total, the need to allay the fears of banking system failure created an additional trillion dollars of money supply. This raised concerns that hyperinflation would ensue if the money made its way to Main Street. To counter this concern, the historic operation of The Federal Reserve Act 1913 was amended to allow the Fed to pay banks interest on excess reserves deposited with it, allowing banks to profit from the Fed on funds that they had actually borrowed from it – the equivalent of your bank lending you money at 0.5 per cent provided you deposited it back with them at 1.5 per cent. Effectively all American banks were in this situation in autumn 2008.

This unpublicised policy has two significant catches. Stimulus funds paid for by the US taxpayer were supposed to stimulate the economy, but instead of being circulated in the real economy where they could boost consumption and restore confidence – and you cannot have a recovery without confidence – banks were paid more interest to keep the funds in their vaults.

Imagine what a real surge in US consumption could mean for economies such as Thailand, where exports account for about 65 per cent of gross domestic product and 80 per cent to 90 per cent of locally produced electronic and electrical goods are sold abroad.

It gets better.

To allow unfettered remuneration to be paid, banks repaid these borrowings as quickly as possible, with TARP debt falling from $612 billion to around $140 billion. The biggest factor in the creation of excess reserves has been the Fed's purchases of over one trillion dollars of defaulting and distressed assets including residential mortgage-backed securities, around 90 per cent of which are either defaulting mortgages or unsecured debt bought from Government-Sponsored Enterprises (GSEs) such as Freddie Mac and Fannie Mae, which are now obligated to buy defaulting mortgages from issuing banks.

Simultaneously, borrowings through the traditional discount window plunged from a peak of $44 billion in 2008 to $14 billion currently. The February 18 interest-rate hike from 0.5 per cent to 0.75 per cent applies only to borrowings through that discount window, making it virtually meaningless in real terms.

It has been suggested that the hike implies the worst economic conditions are over and that the Fed is prudently increasing rates to ward off inflation. But the impact of this move potentially goes beyond mere PR and financial spin.

Creating false hope in a global financial system that is largely based on sentiment is a dangerous game, and the policy of paying banks interest on excess reserves is so radical and untested that even Fed officers have admitted that no one can be certain of how this policy is having an impact on the US economy now or what the future effect of reversing it would be.

Strange things are afoot in the "the land of the free (money)" and things are definitely not what they seem. Has anyone seen the emperor's, sorry Ben Bernanke's new suit?

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GET GLOBAL WARMING RIGHT, **LIVES ARE AT STAKE**

THE LOS ANGELES TIMES

IN ITS 2007 REPORT on the effects of global warming, the Inter-governmental Panel on Climate Change (IPCC) stated that glaciers could vanish from the Himalayas by 2035. As has since been widely reported, with ill-disguised glee by many blogs and right-wing news outlets, this was a blunder. The prediction didn't come from a peer-reviewed scientific study but from a prominent Indian glacier expert who was quoted in a British popular science magazine – and who now claims he never gave such a date.

This wasn't the only error in the report, which has been a key justification of international efforts to fight climate change. It also claimed that 55 per cent of the Netherlands is below sea level; actually, it's only 26 per cent (the number came from the Dutch government, which has acknowledged its error). Other mistakes have been alleged, and it would be surprising if more weren't found, given that the report runs to 3,000 pages and attempts to summarise peer-reviewed studies and other complex evidence submitted by thousands of scientists around the world.

Except for the glaring glacier mistake, most of the alleged errors are minor, and some may not be errors at all. A controversial claim that up to 40 per cent of the Amazon rain forest could react drastically to even slight reductions in precipitation apparently came from a World Wildlife Fund report rather than a peer-reviewed study, but a leading Amazon researcher has since affirmed that the number is correct. Still, the fact that reports from popular science magazines and environmental advocacy groups could have found their way into a document of such magnitude suggests that the IPCC isn't living up to its own standards. So we applaud the panel's announcement that it is appointing an independent committee to investigate the matter and ensure adherence to scientific procedures.

That's not enough for global warming deniers, of course. US Senator James Inhofe asserts that the IPCC mistakes, combined with e-mails stolen from a British climate research centre suggesting that some scientists let their political views compromise their objectivity, prove his contention that the climate-change theory is a hoax.

Nonsense. Although the IPCC errors have cast some light on the problems that arise when policymakers' demands for hard numbers conflict with the uncertainties of climate forecasting, they have done nothing to shake bedrock conclusions that the world is warming and that greenhouse gases generated by humans are the cause. Inhofe and others are waging a calculated misinformation campaign, seizing on every error or gap in scientific knowledge to cast doubt on research findings and portray scientists as villains. An identical strategy succeeded in delaying government action against tobacco companies for years despite overwhelming evidence of the hazards of cigarettes; this time, more than our lungs are at stake.