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## Asia Hopes to Spend Its Way Out of Economic Crisis

By Heda Bayron  
 Bangkok  
 12 January 2009

With the global economic slowdown increasingly felt in Asia, the region's governments have taken steps to shield their economies from the worst. But will these measures work?

Asian governments are spending like never before. Japan's government says it will provide some \$700 billion in tax cuts, liquidity injections into cash-strapped financial institutions and cash handouts to citizens. China says it will use most of its \$600 billion stimulus package to build roads and bridges and improve social services. Here in Thailand, the government promised aid to farmers and continued programs to aid the poor such as free electricity, water and bus rides.

All these measures are aimed at one thing: reviving economic activity to counter rapidly falling export revenues.

Jeffrey Sachs is an economist at Columbia University in New York, specializing in development issues. He spoke at the Asian Development Bank in Manila earlier this month.

"It seems to me that the most likely way out of this, including for Asia to overcome the crisis, has to rely heavily on public spending. Government purchases of both consumption goods and provision of government services in health and education, in housing and public investment mainly infrastructure investment," he said. "The happy thing about Asia is that Asia needs all of that desperately."

Some recent measures are meant to illicit a rapid turnaround. For example, tax cuts and cash handouts like those proposed in Japan and South Korea are meant to boost incomes and encourage consumer spending. Other measures like infrastructure spending proposed by China and Indonesia could take many years to show results.

In Japan, while economists agree with short-term moves like pumping liquidity into the banking system to restart lending, some criticize Prime Minister Taro Aso's plan to give cash to consumers as a waste of public funds. They say Japan's long recession in the 1990's showed such handouts to be ineffective in stimulating demand.

"In reality, the effect of this policy is really, really minimal," said **Hideaki Hirata**, an economics professor at Hosei University in Tokyo. "The amount is just 120 bucks [US dollars]. This amount would not be sufficient to stimulate the economy."

**Hirata** says the economy would be better off if the government invests in education, especially for poorer Japanese.

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Joseph Zvglich is the assistant chief economist at the Asian Development Bank, which lends to governments in the region.

"The question is, are you getting it into the hands of the people that are going to spend it?" asked Zvglich. "Because if it goes into savings, it won't have an impact. If you are getting it into the hands of somebody who is credit constrained, they are going to likely to spend it. By targeting the poorer segments of the population in particular, it would have a bigger impact."

But a short-term boost to the economy could be the goal for some governments, especially those faced with immediate political challenges.

**Hirata**, at Hosei University, says Japanese politicians are positioning for elections that could come as early as April.

"They [Japanese politicians] are really thinking about very short-term issues," said Hirata. "That is the election. Long term does not yield any short-term fruit so they do not have much interest in those long-term economic policy [policies]."

In Thailand, Prime Minister Abhisit Vejjajiva, who took office last month after a court ruled the previous government had violated election laws, has stuck to populist measures to shore up his legitimacy in the politically divided nation.

Zvglich says governments have to carefully balance short-term stimulus and long-term gains.

"Having funds to those who will spend it will have a rapid effect. But that's not going to have any pay back later on," he said. "After the crisis is gone, paying back the debt that is generated will be an issue. Having infrastructure projects which will provide for future growth is important. But we do have to keep in mind any infrastructure investment is going to only happen with a lag. Unless there are plans that can be scaled up very quickly, infrastructure spending is not going to give an immediate boost."

One question about these plans is how will Asian countries pay for all this spending? China and Japan have enormous foreign currency reserves, but poorer nations in the region will have to borrow. The Philippines last week borrowed one and a half billion dollars from international investors to cover its stimulus spending.

Sachs argues for greater regional cooperation. He called on Japan - with its strong currency - to provide long-term assistance to other Asian nations. He says this would help both Japan and the rest of the region.

"Since Japan is very reluctant to expand its own government investments, maybe understandably, it could expand other countries' government investment by providing long term yen-backed financing ...to increase the levels of government spending on these critical long term sustainable development," Sachs said.

But whether individual stimulus packages work at home, economists say a lot still depends on what happens overseas - particularly in the United States. Many people in Asia are keenly watching President-elect Barack Obama's economic stimulus plan, hoping it succeeds, and ripples across the Pacific.

