**Rescue under way, but danger still lurks**

Central bank rate cuts may not be enough to fire up growth engines

R

ARELY has the world been in such a synchronised slowdown, or tried such desperate measures to pull the global economy out of the widening hole in the ground. The United States’ economy is contracting and so are parts of Europe’s. Unhappily, too, are significant sections of Asia, which was helped out of its last major meltdown a decade ago thanks to a strong US economy.

Manufacturing is shrinking in most parts of the world. So too are services. From chips made by Singapore’s semiconductor factories to cars from Europe’s Volvo and the US’ General Motors, inventories are piling up as consumer confidence wanes, credit dries up and banks get scared to lend to even each other. Airlines are cutting routes and software companies are easing up on new recruits.

“We’re facing a storm that comes once in every 100 years,” Japanese Prime Minister Taro Asso said in a televised speech in Tokyo last night, as he announced a massive pump-priming package for the world’s No. 2 economy.


Over the past two days, key central banks have moved aggressively, making multi-pronged attacks against the bear economy, and from different directions. The US Federal Reserve cut its benchmark rate on Wednesday night, its sixth rate-reduction of the year. So did China earlier in the day, its third rate cut in just over a month.

On the stock markets, the US Dow Jones Industrial Average and the S&P 500 on Wednesday gained by 5%, the first such gain in a week.

Yesterday, Taiwan and Hong Kong central banks followed.

The betting is that today Japan, which declined to join in the last round of concerted US and European rate cuts, will be forced to take the same path. If Tokyo does not move, it risks currency appreciation that could ruin the balance sheets of Japanese companies when repatriated profits are switched into local money.

Economists predict that the European Central Bank, Australia and Bank of England will soon follow with their own rate cuts. Some think the Fed rate may touch zero soon, a long downward journey for its benchmark rate, which was 5.25% just 13 months ago.

Over the past month governments have pledged about US$4 trillion ($55.9 trillion) in an effort to support banks and get credit lines unlogged for trade finance.

On Wednesday, the US Fed also said it would provide US$50 billion each to Singapore, South Korea, Brazil and Mexico via swap facilities to ease shortages of US dollars.

Stock markets have cheered the coordinated actions of the world’s central banks.

When Asian markets opened yesterday, Hong Kong’s Hang Seng led the regional rally with a 13% per cent gain. Singapore’s Straits Times index had risen 8% per cent at the close. Korean and Singapore currencies have soared.

Yet it may be too early to celebrate. Central bankers tend to be cautious people. There is nothing that financiers and markets prize more than the stability of predictable exchange and interest rates.

Therefore, when the Fed pushed the accelerator almost to the floor, it also signalled how dire its assessment of the situation was.

“It is a tough balancing act,” said economist Song Seng Wun, “When you want to do the Boy Scout thing and show you are prepared, you also have to show your hand. At that point the man on the street becomes a bit more worried as well.”

Yesterday, the US government confirmed that the world’s biggest economy had suffered its sharpest contraction in seven years in the third quarter.

Economist Nouriel Roubini, the New York University professor who had given warnings of the current crisis as early as 2006, says the situation ahead is going to be “much more painful”. In his assessment, a deep recession in the world’s biggest economy is only starting.

The best that can be said of the situation – regardless of the sharp spikes in Asian stocks yesterday – is that the credit markets have been jump-started enough to ensure that a massive, prolonged global recession will hopefully not materialise.

Indeed, there is much ground to cover before confidence – the elusive string that holds up the global economy’s pyramids – strengthens enough to fire growth engines and set stocks on a more stabilised upward plane.

The European Commission’s most recent survey shows, for instance, that businesses and consumer confidence in the nations that share the euro was at a 15-year low this month.

“There was need for massive lender-of-last-resort activities to make sure that large-scale liquidity was made available,” said economics professor Mukul Asher of the Lee Kuan Yew School of Public Policy.

But, he noted, there is no way it can be said that the world is out of the woods. No one yet knows the full extent of banks’ problems, some Asian lenders included. If further shocks follow, confidence will drop again.

Besides, there are huge macro-economical imbalances in the global economy. The US’ trade deficit and China’s surpluses are almost mirror-images of each other.

What if US consumer demand flags significantly and takes China down with it?

“While injecting liquidity in the short term, we cannot also forget that injection of excess liquidity over a prolonged period was one of the key factors in the current crisis,” he noted.

For now, the bear has been dealt a bloody nose. But don’t count on it being driven out of the forest.