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## **How Obama victory can impact on Asia-Pacific?**

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America has decided. President Obama won a convincing victory, defeating Republican candidate Mitt Romney.

The period of waiting would be soon over.

Only a month ago, the International Monetary Fund (IMF) Chief Economist, Olivier Blanchard at the Tokyo annual Meeting of IMF and World Bank was worried. In a moment of exasperation, he told the Press: "God knows what would happen to the world."

He was referring to the perils of months-long inaction as a result of stand-off between the US legislature with Republicans dominated lower house and the Democrats dominated Senate, and Administration. The fears were real as the US economy would plunge into another recession by December end, following the automatic cuts in spending and discontinuance of the Bush era tax cuts: the so called fiscal cliff.

Already IMF has lowered the economic growth projections (for 2012 from 3.5 percent to 3.3 percent and for 2013 from 3.9 percent to 3.6 percent).

In his victory speech, President Obama assured the nation and the world that he would begin "the painstaking work of building consensus and making the difficult compromises needed to move forward."

Any deal, even a minor one, which would include some tax increases and small cuts in expenditure, would prevent the feared decline in aggregate spending of about US\$ 600 billion to US\$ 800 billion.

### **"Tea party is over"**

Ultra conservatism, which is represented today by a group known as Tea Party within the Republicans, got an early 20<sup>th</sup> century Republican President Teddy Roosevelt himself equally frustrated. The same ideological differences are responsible for the defeat of Republican candidate Romney.

The Republicans now stand alienated from minorities and immigrants, and a large segment of women and the youth.

Some soul searching is now on.

The first indication is encouraging: Congratulating President Obama, the Speaker of the lower House, Republican Boehner said he is ready to accept a budget deal that raises federal revenues if it is linked to an overhaul of entitlements and the tax code.

The only way to avoid the fiscal cliff is that the legislature and Administration should extend and grab the hand of the other to avoid the fall.

## **Worldwide relief**

Aside from the continuity in US foreign policies, which have carefully avoided another military intervention in the Middle East, there will be no ugly trade war as well. With the re-election of Obama, China would not be branded as a currency manipulator, or Russia as enemy number one.

Any positive developments in USA will put an end to the economic slide. The European economies would also be encouraged to put their houses in order and avoid the breakdown of the Euro zone.

Economic recovery would bring in another set of concerns to developing countries in Asia and Pacific. .

The hitherto subdued demand for oil and other mineral resources all these months in the midst of uncertainties everywhere would no longer continue to remain so. Chinese economy is picking up. Further changes in Chinese leadership and initiatives to reduce inequality towards re-distributing the gains from globalization and trade surpluses, are likely to result in more public spending.

Thus, economic recovery measures all over the world would lead to higher demand for energy and raw materials and consumer goods.

In the developing world, the consumer goods are dominated by staple: food.

With short-run supply response being slow, inflation is likely. With hoarding and other unethical practices, which was witnessed in 2008 in the wake of shooting up of grain prices, artificial shortages play havoc on the world economy.

Sensing the inflationary potential in the near future and following an improvement in China's economy, on November 6 the Reserve Bank of Australia (RBA) decided against any cut in its benchmark interest rate, which stands steady at 3.25 percent. The RBA expects "the disinflationary impetus from lower import prices evident over the past few years is expected to wane, and tradable prices are expected to begin making a modest positive contribution to inflation."

On November 8, while deciding to maintain the Bank Rate at 0.5 percent, the Bank of England (BoE) announced it would not extend the asset purchase programme or quantitative easing, for increasing money supply any more. The BoE does not see any need for further monetary stimulus.

In Fiji, the latest economic review reports increases in domestic consumption and business investment. The 2012 Budget incentives are working, as positive developments are reflected in higher value added tax collection and rise in sales of new vehicles and cement, private sector credit, and value added in economic activities.

Though Fiji's Inflation rate was 3.7 percent in September, the benign outlook may change soon, as world conditions improve in the next few weeks. Appropriate policy responses may then be called for.

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