LOUIS KUIJS

Emerging market prospects

The US Federal Reserve Board seems on course to start reducing the pace of buying bonds. It will eventually raise interest rates, too. After the financial turmoil this prospect has already caused in recent weeks in several emerging markets, notably in Asia, what does it mean for them as they move forward and what should governments do to mitigate the impact?

In recent years, very low interest rates and quantitative easing (QE) in several high-income countries led to large flows of financial capital into emerging economies, including in Asia, fueling credit growth and raising asset prices.

The tapering off of QE and normalization of US monetary policy could lead to a reversal of part of these flows as US yields rise. Indeed, talk by Fed officials about a possible timeline have since June led to higher US bond yields and in recent weeks to a selloff in the financial markets in several emerging economies, especially in Asia.

The financial turbulence notwithstanding, sudden changes in US monetary policy are not on the agenda. The Fed will first reduce the pace of bond buying. The buying would stop later, depending on sufficient growth and unemployment reduction. And the end of QE does not mean the end of easy monetary policy. At Royal Bank of Scotland, we expect the Fed to keep the interest rate at 0-0.25 percent until 2015.

The prospective normalization of the US monetary stance will take place for a good reason: sufficient economic growth and unemployment reduction in the world's largest economy. That is good for the global economy and the export-oriented Asian economies.

Moreover, long-term economic growth prospects in most emerging markets have not changed suddenly. With their current levels of productivity and income much lower than in high-income countries, emerging markets still have a lot of room to grow. Emerging Asia, in particular, has shown it is capable of tapping such long-term growth potential. Thus, emerging markets are likely to remain the key drivers of global growth in the coming decades.

Nonetheless, there are underlying reasons for the recent selloff in emerging markets. Some of the capital inflows were not financing long-term growth. Instead, they were of a short-term nature and not resistant to higher US yields. Financial vulnerabilities built up in countries such as India and Indonesia because they ran up sizeable current account deficits and relied on financial capital inflows to finance them.

Other emerging Asian economies have faced these issues in a less pronounced manner. At the same time, economies with strong current account positions that do not rely on financial capital inflows such as the Chinese mainland, Taiwan and the Republic of Korea have not seen much turbulence.

With controls on many forms of financial capital, China did not see major inflows of capital triggered by QE. As a result, there is not much of mobile foreign financial capital that wants to retreat from China. The Chinese economy saw an apparent sizeable net outflow of financial capital in 2012 and a substantial inflow in the first half of 2013. But the bulk of that was actually carried out by Chinese enterprises — making use of the arbitrage opportunities offered by the internationalization of the yuan — rather than being international money.

This does not mean that economies such as China would not feel the impact of further turmoil in emerging markets. Growth of global demand and exports could suffer if the withdrawal of foreign capital from other emerging markets weakens their growth.

Where do we go from here? We cannot rule out further turbulence in the financial market. Emerging Asian economies have stronger macro fundamentals now and are better prepared for capital outflows than they were during earlier crises. In addition to stronger current account positions, debt service indicators are substantially less intimidating. Exchange rates are also more flexible now and central banks have larger foreign currency reserves.

However, the prospect of reduction in global liquidity and higher interest rates could still lead to further corrections in portfolios, and financial markets are prone to overreact and overshoot.

What should Asian policymakers do to best manage the shift to tougher global monetary conditions and mitigate the impact? They would do better to limit the size of current account deficits and keep the macroeconomic position sustainable, basically by avoiding expansionary macro policies. Growth remains the key, but it should be stimulated by growth- and productivity-enhancing structural reforms, not by expansionary policies.

As to the entry of foreign capital, in principle, there is nothing wrong with it. However, foreign capital that flows into a country because of its growth potential poses less risk than capital that rushes in to reap short-term financial gain. This means it pays to remain open to and attract foreign direct investment by maintaining a good investment climate.

Governments should also work to reassure markets of long-term stability. On the other hand, it is best not to rely too much on financial capital inflows, which could well call for introduction of sensible forms of capital controls at times. Indeed, for China, this episode underscores the need for exercising caution when it comes to financial reform and opening up the capital account.

Finally, what could the region do in terms of mutual financial assistance? The past decade saw the rollout of many bilateral swap lines and other arrangements. During the global financial crisis of 2008-09 they were not used as often as they should have. Therefore, it would be useful to ensure the existing arrangements are used in times of need and make room for more such arrangements.

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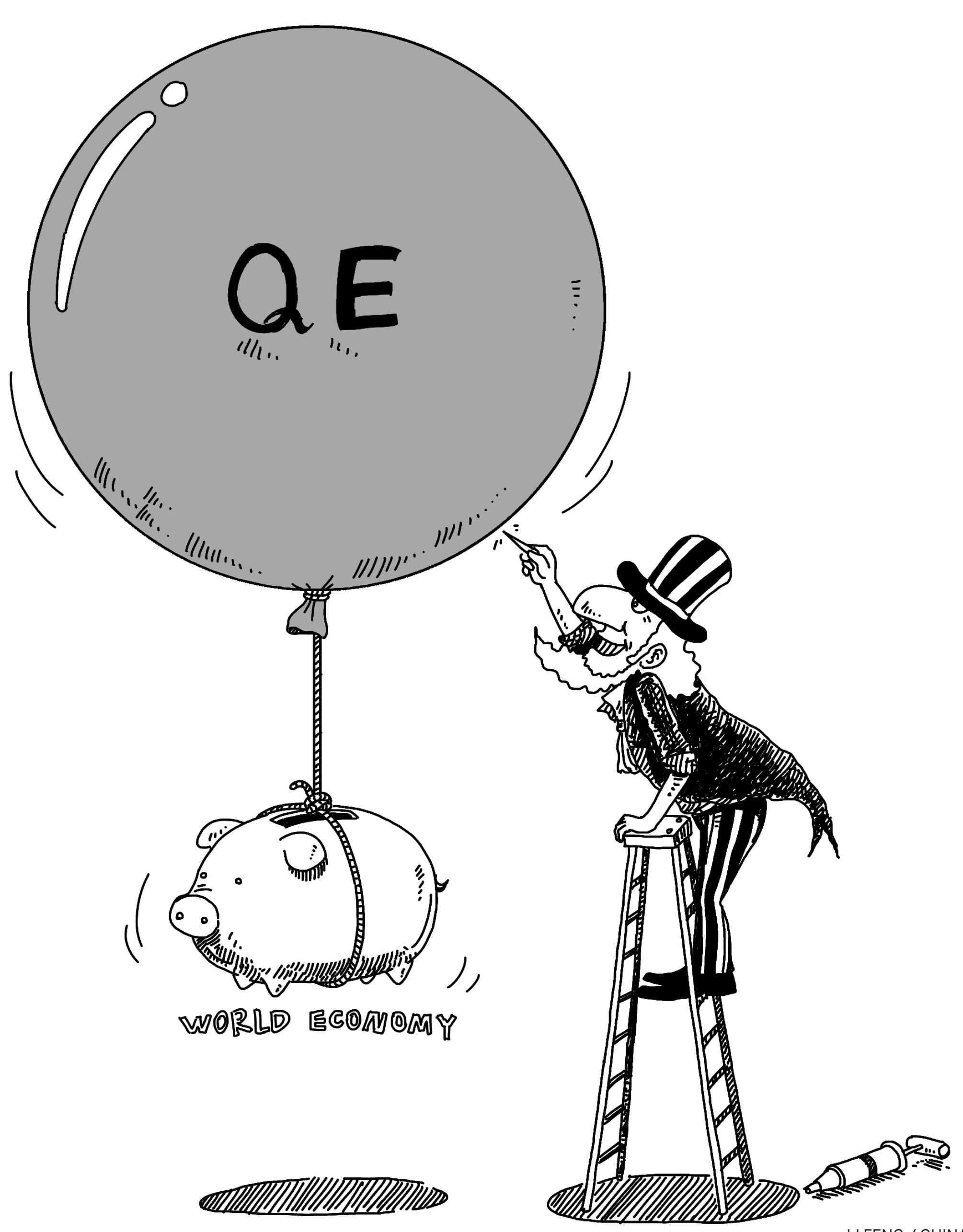

LI FENG / CHINA DAILY

STEPHAN RICHTER

Why combating tax evasion matters

We live in an era when the rapid integration of the global economy is causing great stress in the lives of many people. Workers in the manufacturing sector, regardless of their location and nationality, can lose their jobs in large numbers if the facility where they are employed is no longer productive enough. And in many a country, social benefits are being trimmed constantly to make the welfare state sustainable during conditions of rapid population aging.

Under such circumstances, it is politically explosive — and in a democracy ultimately self-defeating — to let some individuals go on in their belief that they, unlike most regular tax-paying citizens, do not really have to play by the rules.

In such a world, it is pivotal that people live and operate under the same set of rules. There cannot be one set for all regular wage earners, who have their taxes and other charges automatically deducted from their monthly wages, and another set for people who enjoy great "flexibility".

True enough, there is a whole raft of prominent banking institutions, accounting companies and law firms — never mind the myriads of shady operators in this field with much lesser names and completely dubious reputations — who make a rich living indeed from setting up and operating this netherworld of tax evasion.

But their activities do not happen in a social and political vacuum. Economic globalization has brought about a significant increase in terms of income inequality in most Western societies. That is even true of countries that traditionally put much more emphasis on equality and solidarity, as is the case throughout Scandinavia.

When that happens, public policy must take appropriate measures to ensure a clear sense of tax fairness and equity in domestic society. And if the effort to ensure that requires resorting to extraordinary and, yes, in the minds of some, illegal measures, then that is what is required.

The law is never an absolute category. It is ultimately the codification of a set of moral choices between various layers of conflict situations, as they are either known or anticipated to exist.

When tax authorities can obtain information that penetrates the otherwise impenetrable world of tax evasion, then clearly any government is within its proper rights if it chooses to take action against the truly immoral choice.

That truly immoral choice is not paying one's proper tax obligations, as required under the public laws of the land, no matter how clever, conniving and reassuring one's bankers, lawyers and accountants are. In such cases, it is immoral, and ultimately illegal, to protect the tax offenders for their self-claimed right to "privacy" or, more stupefying yet, protection under the "rule of law".

Anybody seriously considering the alternative just needs to ask this question: What happens to the internal fabric and moral fiber of a society where the vast majority plays by the rules (if only because they have no other choice), but a very small minority, already privileged with its high level of economic success, does not?

Under such circumstances, how can even the most basic notions of social and economic equity and fairness be upheld? Is it desirable in any conceivable way to have such an unfortunate separation — between the law-abiding "losers" and those who are merely treading in place (that is, the many) and those who consider themselves above the law (that is, the few)?

If the answer to any of these questions is no, then one must act accordingly.

It is issues such as combating tax evasion that give the all-important but abstract sounding goal of advancing the broader cause of global governance their real-life meaning.

Proper governance in the fields of global finance and the global economy means more than just rectifying the voting right in international financial institutions such as the World Bank and the International Monetary Fund, overdue as that is. For this important endeavor to find resonance among the wider public, the reform efforts must yield effects in daily life.

Combating tax evasion is precisely such an issue and a cause. It promotes the sense of fairness and a lived practice by all citizens to operate under the same rules and be wedded to advancing the life opportunities of all citizens and not just the most fortunate ones.

The author is the publisher and editor-in-chief of The Globalist.

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HOT WORDS

Anti-rumor campaign

打击谣言 *(da ji yao yan)*

The rapid development of social media over the past few years has opened up space for public discourse and helped channel people's appeal, but it can also helped spread rumors and false information, which mislead the public and could disrupt social order. In some cases, social media try to defame people and invade their privacy.

Anti-rumor campaign is now gaining speed in China, with various efforts urged to clean up the cyberspace. Public security authorities have already detained some people on allegations of "fabricating and spreading rumors online".

Beijing police recently closed a company and placed two of the company's executives in criminal detention for illegally profiting by fabricating and spreading false information.

On an Internet forum held on Aug 10, the State Internet Information Office urged celebrities with huge followings on social media to set good examples of appropriate Internet behaviors, given that they can exert unexpectedly negative influence if they forward unverified information online.

It is reported that a bottom line for online speech was agreed on among the opinion leaders and is described as strict adherence to the law, the socialist system, morality and authenticity of information, as well as the protection of national interest, the public's legal rights and interests, and social order.

FROM THE CHINESE PRESS

Brutal attack on innocent boy

A woman is suspected of gouging out the eyes of a 6-year-old boy in Shanxi province last week. While police announced an aunt of the boy's as the suspect, many people came forward to donate money and offer psychological help to the victim. Why do innocent children fall prey to such incidents? says an article in Southern Metropolis Daily. Excerpts:

The case is still under investigation. But nothing can explain the brutal nature of the attack.

There is an equally disturbing side to the attack. Investigations show a universal but sad truth, the loosening of the bond that once tied homes and communities together, and all of us are to blame for that.

Rural residents migrate to cities in search of better livelihood but feel like strangers in an urban milieu. The tenement yards where most of them are forced to live are like a mirror of social reality, where emotional bonds are thin or non-existent. Since people from small towns and big cities with their different identities, social status and backgrounds enjoy different "rights" and form "isolated islands" of existence, there are no interactions or interpersonal relations among them. This is precisely why no one paid attention to the boy who was taken away from his home in broad daylight.

Government institutions and organizations of all countries agree with the United Nations Children's Fund that safety of children depends on communities. UNICEF's pilot projects based on this social reality have yielded remarkable results in 21 Chinese cities since 2006. Hopefully, the UNICEF projects will help spread awareness and make communities fulfill their age-old responsibility of taking care of children, especially those who live in tenement yards.

Stop 'Eagle Dad' before it's too late

Legal authorities should stop He Liesheng, or "Eagle Dad", from forcing his son into more adventures before one of them turns deadly, says an article in the online edition of Guangming. Excerpts:

The pushy father wanted to make his 5-year-old son the youngest person to fly a plane unassisted on Aug 31. He Yide, nicknamed Duoduo, will fly a plane over Beijing Wildlife Park on Sunday, He Liesheng had declared.

He Liesheng gained fame — and, at the same time, drew public flak — by forcing his son to stand in just his underpants and sneakers in New York City in sub-zero temperature last year. The video clip of the incident shows the "Eagle Dad" telling his son to do pushups when he couldn't bear the cold and started crying. He Liesheng reportedly even forced his son to learn sailing last year to become the youngest person to sail solo in a sea.

Flying a plane is not only impossible but also dangerous for a 5-year-old, not least because his father has trained him for just half a month. The authorities will certainly not allow a pushy father to jeopardize his son's life. Besides, a person needs a license to fly a plane, and a flying license is issued only to people above 17 years.

The boy is too young to fly a plane, and it's obvious that the father's intention is only to draw media attention. He capitalized on the public reaction to his New York video last year to release his book on parenting. Perhaps he has a similar plan up his sleeve this time. No responsible father would deprive his children of the joys of childhood and endanger their life to make money.

In 2009, when a 13-year-old girl in the Netherlands decided to sail alone across the world, a court ruled that being a minor she could not do so. The court even deprived her parents of her guardianship for two months as penalty for not taking proper care of their daughter. Similarly, legal authorities in China should intervene and stop the "Eagle Dad" from playing with the life of his son.