

EDITORIALS

U.S. market downturn Japan should brace itself for shock waves.

Dark clouds are hovering over the U.S. economy, which has been a leading engine of global economic growth for years. On Tuesday, the U.S. Federal Reserve Board slashed a key interest rate by three-quarters of a percentage point in an emergency meeting held in response to a global stock market sell-off.

The Fed's action, however, failed to contain the stock market disturbance. The \$145-billion (about 16-trillion-yen) economic stimulus package announced last week by U.S. President George W. Bush mainly features tax cut for individuals and businesses. The package has been dismissed as insufficient by market players, who are already clamoring for additional measures.

The tumult in the U.S. economy that started with foreclosures on subprime mortgages last summer triggered the collapse of the housing bubble and left major banking institutions seriously undercapitalized.

Leading U.S. banks have sought cash infusions from the government-operated investment funds of some oil-producing countries and other nations. Until recently, such funds were eyed suspiciously in the Western financial community because of the "opaqueness" of their operations.

But this is apparently no time for the troubled financial institutions to be choosy about their rescuers.

If the decline of house prices in the United States stops now, the economic downturn will be short. If the housing market suffers a further steep slide, however, the current turmoil could develop into a full-fledged financial crisis, causing a serious impact on the world economy.

There is a strong possibility of that happening. The centerpiece of Bush's tax relief plan is a one-time tax rebate for individuals. Its effects will be limited.

Averting a full-scale crisis may require some drastic measures by the U.S. government, like injecting taxpayer money into the banking system, in addition to further rate cuts. That would be a replay of Japan's bitter struggle with economic and banking woes in the 1990s.

In retrospect, it seems that the United

States drew wrong lessons from Japan's policy responses to the collapse of the asset-inflation economic bubble and its painful experience in dealing with the deflationary downturn and applied these lessons to its own economic policy.

In the United States, the dotcom bubble in the stock market peaked in 2000 and then burst. The U.S. administration responded to this with a raft of fiscal and monetary measures to keep the economy on a growth track, lowering interest rates to extremely low levels.

Convinced that a persistent decline in consumer prices prolonged Japan's economic malaise, the Fed kept interest rates unusually low for an extended period of time in a bid to avoid deflation at home. The Fed's policy helped to inflate the housing bubble.

Rising house prices fueled consumer spending, a major driver of economic growth in the country. The U.S. economy appeared to be back on a path of continued vigorous expansion. But that was an illusion.

What is happening now shows the mistake of trying to correct a "distortion" in the economy with another "distortion." The United States at that time relied heavily on the economic stewardship of Alan Greenspan, then the charismatic chairman of the Federal Reserve Board, in another sign of dangerous economic frenzy.

For Japan, the U.S. downturn is by no means a fire on the other side of the ocean. The U.S. bubble translated into strong growth in exports to the United States from all over the world, providing a big lift to global economic growth in recent years. Japan, as one of the beneficiaries, should be aware that repercussions from the economic troubles in the United States would spread worldwide.

How is it possible to fix economic distortions to engineer a soft-landing of the world economy without triggering a financial crisis? That is the tough challenge confronting monetary authorities all over the world.

After the U.S. mistake in the Iraq war and the financial upheavals that started in the United States, the world should prepare itself for more shock waves from the only superpower.

—The Asahi Shimbun, Jan. 24

Global warming

Rich countries have a duty to help poorer nations.

There is a certainty about global warming: Sea levels will rise and there will be more frequent droughts and floods. Measures must be taken to minimize damage to people, the economy and nature. While this may be possible for industrialized countries, poor developing countries surely do not have the means to implement such drastic steps.

This is the new reality of climate change. In a report published by the United Nations Development Program (UNDP), Nobel Peace Prize laureate Desmond Tutu of South Africa referred to poor countries' inability to cope with global warming and said, "We are drifting into a world of 'adaptation apartheid'."

"Adaptation" means having a strategy for survival when global warming causes climate change. While it is important to make an effort to reduce emissions of greenhouse gases, we must also tackle the problem of adaptation. According to U.N. estimates, global warming could deprive 2.6 billion people who live on less than \$2 a day of the chance to escape from poverty. Measures to help developing countries adapt to climate change must be implemented without delay.

The damage that developing countries may face is beyond imagination. Droughts would deliver a major blow to agriculture. According to one estimate, agricultural productivity in sub-Saharan Africa would drop by 26 percent in 2060. With changes in rainfall patterns, in 2080, an additional 1.8 billion people are expected to face water stress.

It is mostly industrialized nations that have been emitting greenhouse gases. Even though many developing nations are not responsible for causing global warming, they are the ones that will suffer the most. Industrialized countries, including Japan, have committed large amounts of development assistance in an attempt at solving the North-South problem but if global warming advances, the achievements will come to naught.

Necessary measures for developing countries to adapt to climate change are varied,

depending on location. Dikes are needed along shorelines and rivers to prevent storm surges and floods. In areas prone to droughts, irrigation systems must be built. Efforts are also needed to spread new agricultural methods to secure food. Measures to prevent infectious diseases and extinction of wild animals and plants are also indispensable.

The 13th Conference of the Parties to the United Nations Framework Convention on Climate Change that took place in Bali, Indonesia, in December agreed on a method to manage an "adaptation fund" to help such initiatives. Industrialized countries that invest in projects to reduce greenhouse gas emissions of developing countries receive emissions credits in exchange for their investments. Under the agreement, they will use this system to donate the equivalent of 2 percent of their credits to the fund.

According to estimates, in 2030, \$100 million to \$5 billion will be added annually to the fund. However, the UNDP estimates that in order to alleviate damage in developing countries, a minimum of \$86 billion a year will be needed by 2015. The fund alone is far too inadequate to cover such expenses.

Drastic measures are needed. Funds must be found to finance adaptation projects from investment funds that are circulating around the world with economic globalization.

In his recent policy speech to the Diet, Prime Minister Yasuo Fukuda stressed the need to create an international "funding mechanism" for adaptation. As host of the Group of Eight summit to be held in Lake Toyako, Hokkaido, in July, he should demonstrate leadership and promptly come up with concrete measures to deal with this problem.

First, Japan needs to re-examine its aid strategy. In addition to boosting official development assistance, which has been declining, the government should set up a special account for adaptation assistance with a bold target amount. Japan must show its determination with action.

—The Asahi Shimbun, Jan. 24

Special to The Asahi Shimbun

Iraq has left the front page of the U.S. election campaign. The fear of recession partly accounts for this, but more broadly Americans believe that conditions in Iraq are improving. It is, however, important for Japanese to be aware that America's position in the region that was once Mesopotamia continues to worsen, with important implications for Japanese interests.

On the surface, there are improvements in Iraq. American fatalities are down and suicide bombings are less common. Sunni Arabs are fighting al-Qaida with U.S. help. The Shiite government may be gaining ground against the Mahdi Army of Muqtada al-Sadr.

Unfortunately, even if these trends continue (which is far from certain), they do not spell victory for the United States. The new Iraq that is emerging will be as hostile and more dangerous than the dictatorship of Saddam Hussein. Returning exiles from Iran are the core of the current administration in Baghdad. Not all of them are Iranian, but it is inevitable that many harbor sympathy toward Tehran while others are in the pay of Iranian intelligence.

Their foreign policy objectives, let alone their political and religious values, are irreconcilable with American interests. In fact, if a few years ago we had been told that the

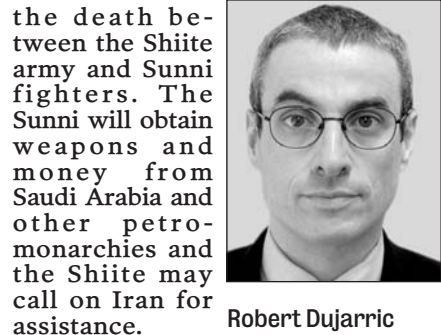
U.S. president would praise a government backed by the Supreme Council for the Islamic Revolution in Iraq, journalists would have laughed in disbelief.

On the Sunni side, American allies against al-Qaida are guerrillas who led the Baath/Sunni insurgency. They know that "jihadist" victory would deprive the Sunni elites of their power and probably of their lives as well. But, these Sunni Arabs, who were the beneficiaries of Baathist rule, are neither supportive of American interests nor of U.S. ideals.

Moreover, the possible pacification of the Shiite areas by Iraqi government forces and of the Sunni zones by the foes of Osama bin Laden is not a prelude to peace. There are rivers of blood running between the Shiites and the Baathists.

The Shiite activists remember their suffering at the hands of Saddam's death squads. The Sunni blame the new Shiite rulers for depriving them of their status and opening the door to Persian hegemony. Until 2003, many Iraqi Arabs harbored few sectarian prejudices, at least by the standards of Middle Eastern societies. But the massacres and ethnic (or rather denominational) cleansing of recent years have inflamed religious hatred.

Therefore, the success of the mainstream Shiite and Sunni may be the semi finals, to be followed by the grand finale, a struggle to



Robert Dujarric

Osama bin Laden's men, criminal gangs, and other minor players may (re)enter the playing field. In the improbable event that the two main groups settle their differences, after years of fighting, hatred of America will be glue that will bind them together.

Finally, Kurds set up a de facto state thanks to the breakdown of Iraq. They will not accept the return to Arab domination, nor will Iraqi Arabs acknowledge the loss of a territory that has been theirs since Iraq's creation. Anybody who thinks that a compromise will be easy should study how India and Arab nations reacted to the birth of Pakistan and Israel respectively. Besides the start of a Kurdish-Arab war, there is a strong probability that Turkey will join the fight.

Therefore, regardless of the place Iraq occupies in the competition for the White House, it will be the most pressing foreign challenge the new American president will face. Only

unforeseen catastrophes, such as hostilities with China or Iran, or an implosion of Pakistan merged with both the Afghan conflict and another Indo-Pakistani war, could overtake Iraq as the number one problem.

This situation has consequences for Japan. First, even if the new American president follows the best policy possible, namely a quick withdrawal of all U.S. forces from Iraq, conditions in the country and the entire region will remain bad. Japanese policymakers and businesses should, therefore, be ready for other oil crises. The silver lining of this development is that it will provide opportunities for Japanese companies with expertise in energy conservation and alternative energy.

It will also make it easier to convince the Japanese public of the wisdom of the country's nuclear program. Second, Japanese officials should not expect Americans to pay much attention to Japanese affairs.

The new American president will be the "janitor-in-chief" with the thankless task of cleaning up the mess left by the previous administration in Iraq and Afghanistan. He or she will confront more pressing issues than the Japan-U.S. relationship.

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POINT OF VIEW / Thitinan Pongsudhirak

With PPP poll win, Thailand tug-of-war goes on

The voters' verdict in the Dec. 23, 2007, elections will set Thailand's course of events for 2008. Ousted Prime Minister Thaksin Shinawatra's People Power Party (PPP) triumphed at the polls, bringing Thailand back to where it was two years ago. The full events comprised three main phases.

The first phase began with sporadic, limited anti-Thaksin protests in Bangkok in September 2005 and intensified throughout 2006 to the climactic military coup Sept. 19, 2006.

This brought Thailand to the brink and was marked by street demonstrations, the Lower House's dissolution, a nullified snap election and ultimately Thaksin's overthrow and self-imposed exile.

The second phase belonged to Thaksin's opponents, but they made a mess of it. They managed to see to it that his Thai Rak Thai party was dissolved and 111 of its leading members banned from politics, but they were unable to put Thaksin away for good politically on the corruption and other charges that led to the putsch.

By rejecting everything Thaksin stood for, the coup-makers failed to win over his downtrodden grass-roots supporters and poor urban dwellers.

Having abolished the popular 1997 Constitution, they came up with a new charter, but its promulgation has only handed power back to Thaksin's PPP proxy and his nominees.

The third phase will belong to Thaksin. At issue is how he intends to play his winning hand, and how his opponents will forestall his efforts and cling to the Thailand that they built and presided over for several decades.

Unless the two sides are willing to converge, Thailand faces prolonged and protracted instability and volatility in the 21st century.

To be sure, the generals who overthrew Thaksin and the powers who backed them are snookered. On one hand, international opinion and domestic expectations require democratic rule. It is an entrenching norm of the new era. They can seize power by force, but the men in uniform are inevitably forced to come up with a Constitution and elections—which Thaksin and his cohorts will win indefinitely, owing to their proven agenda that captured the popular imagination and addressed long-neglected needs and grievances of the electorate.

On the other hand, the generals are ill-equipped to manage Thailand in the era of globalization, with rising expectations at home and growing pressures from abroad. Indeed, the generals have proved unfit in their handling of post-coup Thailand. Policy directions have been murky, leadership incompetent, overall administration inept. The generals made themselves obsolete by botching their latest putsch.

Thailand has changed dramatically

over the last generation, while the Thai military has not. This means another coup is less appealing even to the generals, let alone the Thai public and the international community.

The poll results will force the hands of Thaksin's opponents. Thaksin has been vindicated by the PPP's crushing victory. He has sent his wife, Khunying Potjaman, back to Bangkok to negotiate a deal whereby the PPP forms the core of the incoming coalition government, with Thaksin's triumphant return to be arranged shortly thereafter. But Thaksin's past record of vindictiveness does not engender trust among his opponents. They fear retribution and the resumption of Thaksin's pandering rule and its attendant abuses of power and graft. This temporary stalemate between the winners and the Establishment forces that have lost partly explains the slow progress on coalition formation.

The best near-term outcome would be some measure of modesty and magnanimity and concrete concessions from Thaksin. He would have to own up to the charges of corruption and abuses of power leveled against him.

Short of dramatic court hearings and outright incarceration, some kind of hefty fines, a self-imposed ban from politics and restrictions on his physical movements may be required in exchange for his homecoming.

His opponents would have to yield

to concessions and accept Thaksin's winning hand at the polls. It would allow reconciliation for Thailand and political settlement for the coalition administration.

The worst outcome would be mutual mistrust and conflicting petty egos on both sides. It would reset the crisis that manifested from September 2005 with recurrent Bangkok-based demonstrations propelled by the urban middle class, parliamentary opposition and the military, the same forces that voted against the PPP last month and ousted Thaksin more than a year earlier.

Despite the PPP victory, Thaksin will be stymied by his opponents' resistance. His coalition government will be overshadowed by the judicial and constitutional overhang. Pending cases with the Election Commission and the Constitution Court could culminate with the PPP's dissolution this year.

As he is living abroad, Thaksin's maneuvers will be limited. The crisis is still ongoing. While the ball has been thrown back at his opponents, the initiative still remains with Thaksin. He would be characteristically shrewd—but not smart—if he overplays his winning hand.

The Bangkok Post

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Sino-British relations remain stronger than ever

Britons are getting a good dose of Chinese culture at the moment. An exhibition of the terra cotta warriors from Xi'an is currently showing at the British Museum in London.

And next month, CHINA NOW, the largest festival of Chinese culture in Britain, will be launched, running until the Beijing Olympics in August.

These events are supposed to give Britons a wholistic picture of China—its past and the very best of its vibrant and dynamic present.

On Jan. 14, Prime Minister Gordon Brown held a tea party with about 20 Chinese students, sports people

and representatives from Chinese companies at 10 Downing Street office a warm-up for his trip to China which starts today.

He set the tone for his visit by saying China-British relations are "better than ever."

Since the handover of Hong Kong in 1997, the relationship between China and Britain has been free of thorny problems.

The common challenge the two countries now face is to maintain their sustainable development.

The summit meeting of the two nations' leaders is instrumental in keeping bilateral relations on the

right track.

The two countries agree on many international issues because their leaders have frequent deliberations.

China is at a critical stage of its industrialization. Britain, the first country to become industrialized, can be a very good reference for China. The development of China and Britain's economies can benefit each other. Manufacturing dominates China's economy and exports, and Britain is famous for its service industry.

China's priorities in the years ahead are service, education, finance, research and development, and en-

vironmental protection. Britain's experience in all these sectors leaves more space for cooperation between them.

As an important financial center of the world, London boasts unique advantages in capital management and financial regulations. Opening its arms to Chinese investors, Britain has turned out to be an important destination for the country's "outgoing" strategy.

Brown's three-day visit to China is expected to raise the bilateral comprehensive strategic partnership to a higher level.

—China Daily editorial, Jan. 18

VOX POPULI, VOX DEI

Poor bear the brunt of waning global economy

The season's first snow fell on Tokyo on Wednesday. I happened to be walking around the Nihonbashi district, where many securities companies are located. Stock prices had recovered somewhat, but there were few people on the streets gazing at electronic display panels of stock price listings at brokerage houses.

On the curbside, a *bento* box lunch vendor had his blue parasol unfurled. All his bento were uniformly priced at 390 yen, and I took comfort in this kind of "stable low price."

Amid the global plummeting of stock prices, the Nikkei average has dipped 30 percent from its peak last summer. Justice Minister Kunio Hatoyama,

whose asset holdings are well known, was quoted as noting lightheartedly, "I've been told I may have lost 4 billion yen." His older brother Yukio, secretary-general of Minshuto (Democratic Party of Japan), is also said to have lost the same amount.

For ordinary consumers, the thought of losing even a little bit of the value of their stock holdings comes as a great blow.

The gross mishandling of the subprime mortgage fiasco by the U.S. government caused the current downturn in the global economy. Even the announcement of Washington's economic stimulus package and a massive key interest rate cut has had little effect

on the stock market.

The United States deploys its invincible armed forces at will and takes little interest in the planet's environment. Mindless of its trade deficits, it continues to guzzle oil and indulges in spending sprees on borrowed money.

Most of the blame lies with the current administration. But I also feel that social structure of American society has come into question. It makes me wonder if the world under U.S. control will last much longer.

Here in Japan, the poor who have no chance of playing the stock market are in serious trouble. Increases in the prices of heating oil and foodstuffs are

hitting these people especially hard this winter. The wealthy justice minister's light jest and the aloof tone of Prime Minister Yasuo Fukuda's remarks have left me with a sinking feeling, making me doubt their political grace for protecting the people.

Temperatures in Tokyo registered the season's lowest on Wednesday. In an underground passageway in the securities firms district, a homeless man lay curled up, his head resting on a paper bag.

When the global economy is deteriorating, we also need to be aware that there are people who suffer from a wrecked life and value just 10 yen.

—The Asahi Shimbun, Jan. 24

The Asahi Shimbun Japan's Leading National Newspaper ESTABLISHED 1879	
Kotaro Akiyama President and Chief Executive Officer	
ENGLISH EDITION	
Nobuo Watarai, <i>Director and Executive Editor</i> Masao Hirai, <i>Managing Editor</i> Toshiro Jo, <i>Deputy Managing Editor</i> Kimie Itakura, <i>Sustiuma Maejima</i> Yasura Komori and Mayo Issobe, <i>Deputy Editors</i> Koichi Nakagawa, <i>Deputy Director (Editorial)</i> Keisuke Yasuda, <i>Manager (Circulation)</i>	
3-2, Tsukiji 5-chome, Chuo-ku, Tokyo 104-8011 http://www.asahi.com/iht-english/	Newsroom Tel: (03) 5540-7641 Fax: (03) 5542-6172 E-mail: iht-asahi@asahi.com
Advertising Dept. Tel: (03) 5541-8149 Fax: (03) 5565-9502 E-mail: hadv@asahi.com	Business Dept. Tel: (03) 5541-8695 Fax: (03) 5541-8696 E-mail: H-A@asahi.com
Subscription & Delivery: ¥3,900 a month. Single copy price ¥150. All prices include tax. Toll-free 0120-456-371	
Other contact points: Tokyo: Tel. (03) 5541-8695 Tsukiji 5-chome, Chuo-ku, Tokyo 104-8011. Osaka: Tel. (06) 6231-0131 Nakanojima 3-chome, Kita-ku, Osaka 530-8211. Fukuoka: Tel. (092) 477-6016 Hakata-eki mae 2-chome, Hakata-ku, Fukuoka 812-8511 Nagoya: Tel. (052) 231-8131 Sakae 1-chome, Naka-ku, Nagoya 460-8488. Sapporo: Tel. (011) 281-2131 Kita 2-Nishi 1, Chuo-ku, Sapporo 060-8602. For overseas subscriptions, contact Overseas Courier Service (OCS): Tel. (03) 5476-8131.	