# THE ECONOMICS NEWSLETTER

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## The Next Chapter

When we published last month's issue, we were split between the pride of achievement and the fear of harsh criticism. 'Is it good enough?' echoed in our minds, a question that was to be answered only by you. We waited for a sound to break the silence; a scratch or a dropping pin but instead we heard music, the thunderous boom of your approval. Thank you.

Vithiya Ragu
Editor

## In This Issue

# World in a Nutshell

*By Rahul Datta*

## No risk, no return

Until the global financial crisis, central banks neglected bubbles: they were hard to detect and to deflate, so best left alone; the problems could be managed once the bubble burst.

No central bank admits to ignoring the bubble. "No one wants to live through another financial crisis," Janet Yellen, who was a candidate to head the Federal Reserve, said last year. "I would not rule out using monetary policy as a tool to address asset-price misalignments."

After six years of near-zero interest rates the contradiction between central banks' responsibility for output and inflation, and financial stability is growing.

On June 12th the Bank of England dropped hints that it would pursue new measures to stop the rise of property prices. This could be in place to stop the bubble from bursting too early.

## Just Yuan problem

The Yuan is on its way to dominating world currencies. The Yuan deposits outside China have increased tenfold during the past five years. This is the current instalment of a five year long PR campaign.

In 2009, China declared that it wants to promote the Yuan internationally. Although this was not taken very seriously then, now it is a strong contender to the dollar as it is more widely used.

The only thing that stops the Yuan from going global is the design of the Chinese system. Although running a deficit will be helpful in its case, China runs a large trade surplus.

## Germany grows

German growth of 0.8% (or 3.3% at an annualised rate), reflected in Berlin by massive construction undertakings, was the key factor that prevented he economy of the euro area from contracting in the first quarter of 2014. Germany's economy is expected to expand by around 2% a year in both 2014 and 2015, much higher than the rest of the European countries.

The European Central Bank implemented certain measures on June 5th to fight against the very low rate of inflation, currently just 0.5% in the Eurozone.

The ECB lowered its main lending rate from a very low 0.25% to an even lower 0.15%. More important, it became the first big central bank to resort to negative interest rates by lowering its deposit rate and funds from zero to minus 0.1%—in effect charging them.

It also announced new measures to help credit-starved businesses in the borders of the Eurozone by providing less expensive long-term funding to banks supporting the existence of such firms through their lending. Such incentives had become essential to promote a recovery that relies less on Germany.

# Trade Traits: India-SG

*By Rishabh K Vaish*

India has always been an important trade and business partner for Singapore and by this they both have been **successful** in strengthening these ties.

Singapore has recognised India as a very important economic partner before Singapore's independence, as a part of Malaysia and even after independence in 1965.

Regular business with different parts of India has been maintained so that Singapore is aware of the constantly **changing economic landscape** of India. This will help the Singapore government to change their trade policies with India so that in bad times the Singapore economy is not affected by the mishaps in India.

Singapore Indian business community assured that this trading will continue playing a vital role in **the development of Singapore's trade** and **investment relations** with India.

Trading with India has not only been beneficial to Singapore's building economy but has also satisfied the demands of the Indians who have been living here, not only goods but also hiring labour from the Indian subcontinent has helped build up Singapore from what it was in 1965 to this modern Singapore in which we all live.

This has not only been beneficial for Singapore but for India as well. By hiring manpower from India, the people have been given employment. The people who work here and earn in Singapore Dollars (SGD) send some of their income to their homes back in India. This helps in the growth of the families and the **poverty in India reduces** for they get much more than what they might have earned in India. Thus, this trade relation has been beneficial to both Singapore and India.

But this has also caused a lot of problems too. Singapore has been **dependent** on India too much and because of this the labour population in Singapore have increased from **47.3 % in 2003 to 67.5% in 2010 and increasing**.

This has resulted in overpopulation in the labour force and hence creating problems like living lifestyle. The dependence on foreign labours has also created growth in unemployment of the local Singaporeans. This issue was realised in 2012 by the Ministry of Manpower (MOM). This lead to the **decrease in the issuing of employment passes** to foreign workers.

This was one of the main issues of Singapore government to worry about. But not only Singapore, India was also getting affected by this. The working force in India was reducing creating a problem in the advancement of the country itself. Therefore, Singapore as well as India controlled their labour force and thus there

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was a fall in the labour force in 2012.

Despite all these issues, Singapore has maintained good relations with India and has been helping India in trading and helping flourish both the economies. A recent expression of this was when the speaker of the Singapore's parliament, **Ms. Halimah Yacob** said that she looks forward to having great businesses with India as she addressed the Singapore Indian Chamber of Commerce and Industry (SICCI) members. Let's hope that this cordial relationship stands the test of time.

# FIFA Fever

*By Vithiya Ragu*

We all know that familiar feeling of sitting in front of the TV past midnight, with potato chips or some calorie-laden snack in hand, watching 22 jersey-clad men run after a ball for 90 minutes (usually): cheering when a goal is scored; crying 'Offside!' and 'Foul!' when the referee fails to notice the opponent's mistakes. Yes, that's football. Yes, that's the beautiful game.

This year, the FIFA World Cup 2014 is held in Brazil, and by now we've filled in more than half of the score charts. Although FIFA is about the game, football is also a business. Brand endorsement and sponsorship, tourism for the host country, the list goes on and on. Let's take a closer look:

This year's FIFA World Cup will create over US$4 billion for FIFA, 25% higher than the revenue generated for FIFA through the South African World Cup.

The Tourism Ministry in Brazil anticipates that tourists will spend approximately $1.5 billion in total during the course of the World Cup.

The host of the 2010 World Cup, South Africa received about US$5 billion. This is a huge boost that helped the country to better its infrastructure.

Over $14 billion has been invested in Brazil for this year's 2014 FIFA World Cup. The profit that Brazil has derived from this event is not yet known.

Over 1.3 million jobs were created during the 2010 FIFA World Cup. Most of these were jobs were attributed to the maintenance of the stadiums.

A survey reveals that 61 % of Brazilians believe that hosting the World Cup is a "bad thing because it takes money away from public services".

# Laughing Stock

*By Grace Harper*

## Cambodia's challenges

A second company listed its share on Cambodia's underdeveloped exchange; the poor performance of the stock exchange could slow down the growth in an already-ailing securities market. Brokers believed a successful listing for Grand Twins International (Cambodia)PLC, a Taiwanese-owned garment maker that completed a **$19.3 million** initial public offering last month , would help the stock market to grow. Instead, the shares fell in their trading debut. Grand Twins' poor performance, analysts say, could reverse the government's plan to develop its stock market.

Many Cambodians have declined the effort as a vanity project in an underdeveloped economy that still is grappling with rural **poverty and fragile industrialization**.

Cambodia's garment industry, which is the country's largest export and formal sector employer ,has faced **labour unrest and rising wage costs.** Which affect the performance of the Grand Twins .

"This is an odd time to float a foreign-owned Cambodian garment manufacturer, just six months after labour strikes were suppressed with force," said Douglas Clayton, chief executive of Leopard Capital, a private-equity firm that invests in frontier markets. "This industry doesn't have permanent roots in Cambodia's economy and can move out with little warning." Grand Twins' IPO underwriter, however, played down the significance of the stock's weak debut

There's a lack of confidence in the market but this can be turned around. Lack of technology and liquidity need time to be resolved. Cambodia's stock market has experienced **declining investor interest and trading volumes** since its first listing in April 2012, the **$20 million** flotation of the state-owned Phnom Penh Water Supply Authority.

The authority's share **price jumped 63% in its first week of trading**, but foundered in the following months. This year, the stock has gone untraded in 37 sessions and **lost 10%** of its value. It closed Monday unchanged at 4,800 riel, well **below its IPO price** of 6,300 riel. Since the water-supply authority's debut, other IPO candidates have either struggled to meet regulatory requirements or decided to hold off until the market gains depth and liquidity, industry executives say. Grand Twins, for instance, had considered listing since as early as 2012, but delayed its plans over compliance issues and concerns about **market liquidity**.

"Liquidity begets liquidity, and the lack of liquidity is going to scare off some investors," said Stephen Higgins, a Phnom Penh-based businessman and former chief executive of ANZ Royal Bank, the Cambodian arm of Australia &

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New Zealand Banking Group Ltd. "It's a real chicken-and-egg situation, and until they can get quite a few more stocks listed, it is going to be hard to get that liquidity."

Some state-owned companies are preparing potential listings, but it is another Taiwanese-owned garment maker, TY Fashion Co., that appears most likely to become the third stock to list on the Cambodian exchange, according to Mr. Hsu of Phnom Penh Securities. That IPO could raise up to $20 million and be launched as early as September, he said.

# Exchange Rates & Jokes

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|---|---|
| Singapore Dollar | 1.00 SGD |
| Euro | 0.587691 |
| US Dollar | 0.800441 |
| British Pound | 0.469540 |
| Indian Rupee | 48.194482 |
| Australian Dollar | 0.850566 |
| Canadian Dollar | 0.865853 |
| Emirati Dirham | 2.940095 |
| Swiss Franc | 0.714796 |
| Chinese Yuan Renminbi | 4.985174 |
| Malaysian Ringgit | 2.576751 |


Achieving free trade is like getting to heaven. Everyone wants to get there, but not too soon.

Fiscal ideology:
If it moves, tax it. If it keeps moving, regulate it. And if it stops, subsidize it.

Credits: Rahul Datta (Headlines: World In A Nutshell)
Rishabh K Vaish (Trade Traits: India –SG Article)
Grace Harper (Cambodia's Challenges Article, Exchange Rates & Humour)
Vithiya Ragu (FIFA Fever feature, Designing & Editing)