China, India and the emerging markets slowdown

My View

Global Economics

By **Razeen Sally**

CHINA and India are in the vanguard of a historic 'shift to the East'. While economies in the West shrunk during the global financial crisis (GFC) and remained in a funk afterwards, China, India and other emerging markets bounded ahead. But then the global economic slowdown hit them as well.

India has seen a dramatic fall in growth, China a more gradual, milder decline. This has exposed deep fault-lines in both countries. Is the shift to the East still happening? And where will it go from here?

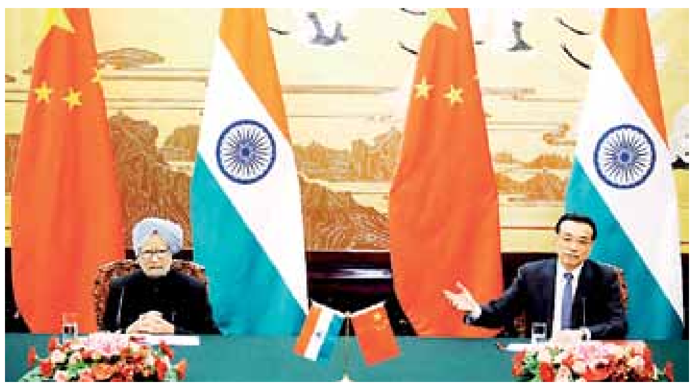
Emerging markets hit

Most countries in the West had accumulated unsustainable levels of household, corporate and government debt. The GFC hit them particularly hard, and recovery since has been anaemic. Most emerging markets, however, went into the GFC with much healthier balance sheets. Hence they were not as badly affected and rebounded quicker.

China and India continued to enjoy rates of growth of 8-10% annually. This short-term divergence of economic performance between the West and emerging markets (in Asia in particular) accelerated the long-term convergence of emerging markets on the West. Between 2007 and 2012, developed economies grew by 2% (at purchasing-power parity). But, in the same period, China grew by nearly 60%, India by over 40%, and developing Asia by close to 50%.

Now a global economic slowdown has hit emerging markets as well. This first appeared in 2011, notably in Russia, Brazil and India. It got worse in these countries last year, when China too slowed down. And it has worsened this year, especially with the threat of tightening monetary policy in the USA. The IMF projects China to grow at just under 8%, India by just under 6%, and developing countries by 5%, in 2013.

Why has this happened?



Chinese Premier Li Keqiang (R) shakes hands with India's Prime Minister Manmohan Singh after a joint news conference at the Great Hall of the People in Beijing – REUTERS/File photo

Start with India, which has seen a vertiginous drop in growth from 9% to 5% or less in two years. This is almost entirely the result of a hopelessly incompetent, blundering Congress-led government since 2004. It inherited high growth as a result of market reforms carried out by its BJP-led predecessor. But it did virtually nothing in terms of further market reforms until late 2012, and since then it has been a case of too-little-too-late.

It has also backtracked in several respects. Public expenditure has ballooned, and been squandered on hugely wasteful, corruption-ridden projects. Domestic and foreign investment has been deterred by long delays in project approvals, myriad regulatory restrictions and red tape, and a wilfully obstructive bureaucracy.

Much-needed reforms on labour markets, infrastructure development, the energy sector, taxation, property rights and land acquisition – to name just a few areas – have long been stalled. India now finds itself with a falling rupee, high current-account and budget deficits, relatively high inflation, low growth – and even talk of a looming balance-of-payments crisis. All this is home-brewed.

China's growth slowdown

China's growth slowdown is milder. Prima facie, its economic problems seem less acute than India's. But China too has mounting problems. Market reforms stalled under the decade-long Hu-Wen leadership; high growth rates meant they had no incentive to reform. And there was backtracking. Industrial policy became more interventionist to boost giant national State-Owned Enterprises (SOEs).

Then came massive fiscal and especially monetary stimulus in the wake of the GFC. This went overwhelmingly to SOEs, channelled through state-owned banks. The public sector gained at the expense of foreign multinationals and domestic private business. Monetary stimulus flooded the country with cheap credit, much of it squandered on white-elephant projects and resulting in asset bubbles. Debt has spiralled to about 200% of GDP.

These measures have propped up China's economic model of high savings, high investment and low consumption. This model has run its course; it can no longer deliver high and sustainable growth rates. The economy needs to be "rebalanced" – lower saving, lower – but more productive – investment, and higher consumption. But that cannot be engineered by a quick fix.

It needs deep market reforms, especially in the factor markets of land, labour and capital. These, however, are politically much more sensitive than previous market reforms. Financial-market reforms, for example, would go to the heart of the political system that unites the Communist Party, the government apparatus, SOEs and state-owned banks. So far, the new Xi-Li leadership has sent ambiguous signals on further market reforms.

Exaggerated claim

So the shift to the East has been exaggerated. Emerging markets' growth over the past decade was artificially boosted, first by skyrocketing commodity prices, and then by cheap credit as a result of loose monetary policies around the world. In the meantime, governments became lazy and complacent. They coasted on high growth rates and neglected market reforms. Distortions built up, not least a mountain of public and private debt.

Now the commodity supercycle seems to have come to an end, and cheap money is on the verge of becoming tight. This exposes deep fault-lines – in China and India, but also in Brazil, Indonesia, Russia and a host of other emerging markets. Big reforms are needed to avoid a prolonged growth slowdown, and even to avoid crises and crashes in some countries.

Still, the shift to the East is real, despite the hype. Most emerging markets retain the potential of big 'catch-up' growth for years, indeed decades, ahead. But they need to crack on with long-delayed market reforms. Can governments operating in malfunctioning political systems and with still backward economic institutions deliver these reforms? That is a vital question, not least for China and India.

FT Quote

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Ornamental live fish exports need national priority

Guest Column

By **T.K. Premadasa**

THE notable feature of our exports during the last few years was the decline in exports, an ominous signal to the economy. The reasons behind this decrease were local and foreign market factors such as high cost of production, lack of strategic strength, non-preference by Western countries and economic crises in the occidental world.

Major products manufactured in Sri Lanka which took take the precedent role in contribution to the export trade also shown a declining trend. Under this situation, the export of fresh and marine water ornamental fish has significantly maintained export strength except in 2012 and now is showing nearly a 20% increase in exports in 2013 up to August compared to the previous year.

Contribution of fresh water and marine water ornamental fish to the total export comes to nearly 0.4 %. Even if the percentage seems to be small, it carries a continuous share of its contribution to the national development. It is of much importance to look into this sector in a positive manner to take to a priority area of exports as Sri Lanka is rich with resources related these products.

Popular hobby

Ornamental fish keeping is one of the most popular hobbies in the world today. Some people believe that looking at these fish moving in tanks provides mental relaxation and it is an ideal tool for mediation. Even scientists believe that looking at the fish provides stress and frustration reduction. The keeping of fish as pets is not harmful to human health like other pets.

The hobby of keeping colourful fish in tanks has a long history. The first such fish kept as a pet is the Gold Fish (Carassius auratus). According to historians, it was popular in China and first historical records in this regard go back to the Ming Dynasty in China (1368–1644).

But all Sri Lankans should be proud that during King Dutugemunu's time (161 BC to 137 BC), Sri Lanka kept gold fish as a hobby. Archaeologists discovered the gold fish park or Ranmasu Uyana which is located below the bund (dam) of the Tisawewa tank in Anuradhapura. It is considered to have been the royal park/pleasure gardens with granite ponds.

It is interesting to note that in an inscription it is stated that, somewhere in this park, there had been a pond with Gold Fish. The Vessagiriya inscription of King of 4th Mihindu has mentioned this garden as a Gold Fish Park. This proves that Sri Lanka was the first country that kept ornamental fish as a hobby.

Industry development

Ornamental fish developed as an industry with the development of the aviation industry. It made a path to become a global trade. With the development of new technologies in the modern world such as aquaculture technology, water management systems, better understanding of nutrition and aquatic disease management and many other branches of animal husbandry, sciences have supported the development of this industry as a global industry.

Today it has become a global item with nearly US$ 0.5 billion in trade. Asian countries maintain the large number of supply to the world. Singapore is the largest exporter of ornamental fish and recently Spain came to first place. Over 100,000 varieties of ornamental fish are moving around the world, with the USA, EU and Japan being the leading buyers.

Sri Lanka

The ornamental fish industry of Sri Lanka originated with the establishment of the Zoological Gardens in the early 1940s. A few industrialists were involved in breeding fish before, but not on a commercial basis. Of the few reputed personalities who encouraged divers on collection of marine fish as a hobby was Sir John Kotelawala. However, the first public aquarium was established in 1952. During a period of 60 years the industry became commercialised with the celebration of its 50 year anniversary by some companies like Lumbini Aquarium and Aquamarines International Private Ltd.

Today nearly 50 leading companies export about 1,000 varieties of fresh and marine water ornamental fish to over 50 countries. Leading exporters on large-scale business of aquariums located in Colombo suburban areas and Negombo region have started moving to Mahaveli and dry zone rural areas. The prevalent peaceful environment in the north and east has caused the expansion of the industry into the tropical climatic locations in the island.

Exports

Sri Lanka exports over 1,000 varieties of ornamental fish to the tune of Rs. 1,400 m to around 40 countries world over. It is nearly 1.2% of total world exports.

Ornamental fish keeping is one of the most popular hobbies in the world today

This industry has high expansion of potential available with an abundance of natural resources. Unbelievably, charming fish of various kinds never seen before could be captured in plenty around Sri Lanka. Availability of professional divers who routinely maintain the supply of marine fish is a remarkable advantage towards development of the industry.

Recent records indicate that nearly 120 species have been registered from inland waters. Rivers, reservoirs and lakes with fresh water provide a natural environment for sustenance of fresh fish. This has encouraged the Government to promote production of fresh fish in the Central Province. Sri Lanka has 82 species of indigenous fresh water fish, out of which 54 species have been approved for export.

As the varieties of fresh water ornamental fish are limited, the industry has been concentrating mainly on marine water ornamental fish from the beginning given the vast area in the ocean. Today marine live fish comprise 75% of its ornamental fish exports.

Innovative and alternative measures

However, restrictions on the import of ocean fish have been enforced by the occidental nations of the world, causing a difficult situation for trade of marine fish. Fortunately, Sri Lankan breeders, particularly of the younger generation, have braved the challenges with innovative and alternative measures taken to buttress the situation.

The new generation involved in breeding ornamental fish for export are qualified in professional education directly related to the fish industry. Some of them have marine biology degrees from world-reputed universities and have utilised their knowhow for new innovations with high security measures adopted for the ocean.

A striking example is the introduction of new varieties of sea horse by companies like Aquamarines International Ltd. In early 2000, steps were taken to breed a variety of sea horse fish under the technical name Hippocampus Reidi netted from Brazilian sea exported with great success. Later the new varieties of Hippocampus (Sea Horse), Hippocampus Comes, Hippocampus Trimaulatues and Hippocampus Kudda sea horse fish were captured from the sea and effectively bred. In addition, varieties of shrimps like Fire Shrimp and Cleaner Shrimp were also introduced.

Today the export of new varieties of fish has earned the highest export value. The objective of this research was mainly to secure the environment. The cost of this marine fish is seven times higher than the fish captured from the ocean. Despite the high price of fish, the hobbyists have no qualms in purchasing as this system gives protection to these attractive fish as well as the environment.

Varieties of new products of artificial rocks and possibility of coral farming were introduced on experimental basis by Aqua Marine International Ltd., opening the opportunity of a new venture to be developed to a lucrative business. Apparently, building ornamental fish villages in Sri Lanka has been proposed. Hopefully the new experiment may help develop the industry!

Sri Lanka's exports of ornamental fish in US Dollars

Year	2008	2009	2010	2011	2012	2013 Jan - July
Value	8,981,333	8,523,277	10,076,839	10,053,137	7,573,518	5,816,816

FT Insight

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- Contribution of fresh water and marine water ornamental fish to the total export comes to nearly 0.4 %.
- Today nearly 50 leading local companies export about 1,000 varieties of fresh and marine water ornamental fish to over 50 countries.
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Coral and artificial rock industry

It is imperative for the Government to give priority to improve the industry with the support of the Government. Ornamental fish is usually brought up moving with corals and live stock, etc. Today experiments are being launched on upgrading the coral farming projects in Sri Lanka more effectively.

Most nations have volunteered to help develop the coral farming project in their countries as a protective measure for corals in the ocean and it will be a commercially viable industry. In appreciation of the effort taken by the companies to expand the industry with coral farming projects, it is the responsibility of the Government to grant necessary approval sought by the companies without any delays in support of its endeavour of developing the industry.

As a result of experiments made already, it is possible that export of artificial rocks on a commercial scale will be launched in the near future. Tax rates will be considerably high despite this being a small-scale business venture. So the onus is on the exporters to stress the demand for tax concessions in their efforts to elevate the development of the artificial rock industry.

As a school of thought it is suggested to open aquarium parks in the city that would make the people mentally relaxed. It is important that the Government looks into the possibilities to link this with its urban development activities.

Electricity charges

Another predominant factor is the high rise in electricity charges. It is suggested to address this issue with equal facilities enjoyed by other commercial organisations to be extended to this industry as well.

The potential for the marine fish industry in northern waters post-war has become highly optimistic with the increasing trend of fishing in the region. The environment is peaceful and fishermen can to be engaged in their job quite freely sans threat of terrorism.

If the opportunity is given, the divers in the south skilled with professional expertise are willing to train northern divers as a gesture of reconciliatory goodwill. It is the virtue of necessity on the part of the Government to play the major role in taking all essential measures to have suitable protection for divers in the northern and eastern waters.

Discovery of new varieties

It lends credence to the breeders whose ventures have taken protective measures of nurturing endemic species evidently justified by the discovery of new varieties of species. Daino Pathirana discovered by Ananda Pathirana is a case in point.

Chairman of Aquamarines International Ltd. Ananda Pathirana and Director Yohan Pathirana by their research in 2001 in Kegol and Nuckels successfully collected eight specimens in an effort to checkmate the disappearance of this rare species. Braving a difficult challenge, breeding of a large quantity of fish was begun, encouraging the release of 2,000 and 2,500 with the participation of the local community and the blessings of the Department of Wildlife. The entire nation salutes them in appreciation of this excellent service.

Today the breeders are effectively utilising advanced technology for development of the industry with no harm whatsoever to the environment. Most importantly, capture of rare varieties of marine fish from around the world and breeding them with new scientific resources methodically should be encouraged. Culturing aquarium plants in aquariums is currently in the experimental stage. New technical knowhow being applied to secure the longevity of fish and new packaging techniques to reduce the weight has showcased vast progress.

Support extended by Sri Lanka Export Development Board (EDB) and NARA to uplift the industry is encouraging. The service rendered by the officials assigned for the development of the industry from NARA and EDB in close communication with the exporters has gained high recognition.

As proposed by the President Mahinda Rajapaksa in his budget speeches, the implementation financial grant program to develop innovation on fresh and marine ornamental fish industry by the Sri Lanka Export Development Board with the various bureaucratic barriers is commendable.

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