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Asia faces capital flood if Fed injects more liquidity

US urged to be mindful of global implications of its monetary policy

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IN TOKYO

PROSPECTIVE further injections of liquidity into the US economy could see a fresh tidal wave of capital wash up on the shores of Asian and other emerging economies.

Federal Reserve chairman Ben Bernanke's decision to target inflation of 2 per cent annually 'implies a very large injection of liquidity into the US economy' which could further stimulate global capital flows and create instability, Brandeis University professor Peter Petri told the Pacific Economic Cooperation Council (PECC) at a meeting yesterday in Tokyo.

At the same time, the international finance academic cautioned that any expectations of a 'quick fix' to the problem of volatile exchange rates when G-20 finance ministers meet in South Korea today, or when political leaders from the group of advanced and emerging economies meet next there month, are likely to be disappointed.

Speaking at the same meeting, Masahiro Kawai, dean of the Asian Development Bank Institute, in Tokyo called on the US Federal Reserve to 'pay more attention to the global implications' of its domestic monetary policy.

Their comments came in the wake of a statement in Washington on Wednesday by US Treasury Secretary Timothy Geithner suggesting that there was no need for the dollar to sink further against the euro and the yen. His remarks caused the dollar to gain against both currencies.

This fell short, however, of any express commitment to a 'strong dollar' on the part of the US and Prof Petri's comments suggested that the course of monetary policy in the US was likely to cause further appreciation of other currencies against the dollar.

Finance Minister Yoshihiko Noda said yesterday that Japan would not tolerate continued appreciation of the yen. 'Japan's economy is in a difficult situation as deflation has deepened,' he said. 'We cannot overlook excessive currency moves. We will take decisive steps, including intervention, when needed.'

Volatile currencies are bound to have an adverse impact on short-term growth in Asia and elsewhere unless steps are taken 'immediately' to address the problem, Mahani Zainal Abidin, chief executive of Malaysia's Institute of Strategic and International studies, told the PECC meeting.

The meeting, held in advance of next month's summit meetings of the G-20 in Seoul and of the Asia Pacific Economic Cooperation forum (Apec) in Yokohama, Japan, also heard that Japan might soon announce a decision to join the Trans-Pacific Partnership (TPP) trade group of which Singapore is a member.

'I hope that within days we will hear that Japan will join' the nine-member TPP, Prof Petri said. 'It is a very small (group) but it is a building block toward a great trans-Pacific vision' of economic cooperation, he added.

The TPP is a multilateral free trade agreement that aims to integrate the economies of the Asia-Pacific region. The original agreement between the countries of Brunei, Chile, New Zealand and Singapore was signed in 2005 and took effect the following year.

Five additional countries - Australia, Malaysia, Peru, United States, and Vietnam - are currently negotiating to join the group. The group is in no way 'intended to exclude China' from a new Asia-Pacific alliance, Prof Petri insisted yesterday.