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China and Taiwan signed a significant and long-awaited cross-Strait trade deal. The Economic Co-operation Framework Agreement (EFCA), which sees China cut tariffs on 539 products and services, could help Taiwan compete more fairly with other economies in the China market, says Taiwan's President [Ma Ying-jeou](#). The [China Daily](#) says that the EFCA normalizes mainland-Taiwan economic links and lays a solid foundation for peaceful cross-Strait relations. The deal will have an impact on South Korea's information technology industry, if China's capital strength is combined with Taiwan's technological capabilities, warns the [Hankyoreh](#).

Factory Wage Hikes: A Turning Point for China

Pay hikes won by workers at both Honda and Foxconn could mark the beginning of significant changes in China's low-cost labor market advantage, says the [Guardian](#). The pressure of increased costs could be passed on to U.S., EU, and Japanese companies operating in China. The [Japan Times](#) estimates that wages at many private-owned companies in China could increase by 17 percent annually for the next three years. India hopes to benefit from its favorable demography, and become the "factory of the world" over the coming decades. By 2020, its working age population will increase by 120 million, compared to China's increase of 19 million. Read [more](#).

Defining the Middle Class in Asia

The phenomenal increase of the middle class populations of Asian countries has created new consumer markets for businesses. By 2020, McKinsey expects India's middle class to increase from about five percent of the current population to more than 40 percent and China's middle class to rise to 69 percent by 2015. What does it mean to be middle class? Different definitions of the middle class have implications for how businesses understand this growing consumer market. Read [more](#).

How the U.S. is Adapting to the Asian Century

American policymakers are accommodating the rise of Asia: President Barack Obama and Treasury Secretary Tim Geithner's push for G-20 (Asia members include China, India, Indonesia, Japan, Korea, and Saudi Arabia) has increased Asia's presence on the global stage; World Bank President Robert Zoellick has presided over increased financial contributions and voting power by China and Indonesia; Defense Secretary Robert Gates has engaged with the Asian regional security architecture of ASEAN + 8, which includes the 10 ASEAN countries and the U.S., China, India, Japan, Korea, Australia, Russia, and New Zealand. Washington needs to now explain to Main Street how to adapt to the Asian century, a phenomenon that will define the global political and economic landscape. Read [more](#).

New Japanese Prime Minister's Economic Plans

Within two weeks of taking office, Prime Minister Naoto Kan's cabinet approved a mid- to long-term economic growth strategy that targets over 2 percent real economic growth over the next decade, the creation of almost five million jobs (mainly in the environment, health care, and tourism industries) by 2020, and a four percent decrease in the unemployment rate. The [Asahi Shimbun](#) argues that Kan has shown exceptional enthusiasm similar to many former Japanese Prime Ministers, but the goals set by the new government's strategy for economic growth are ambitious and hard to achieve, as Japan's economic recession was the result of a series of macroeconomic and financial policy mistakes in the past several decades. Business leaders in Japan have high expectations for the new leadership and hope Prime Minister Naoto Kan can regain public trust in politics, think long term, and rebuild the economy through integrated taxation, fiscal and social welfare reform. Read [more](#).

India's Post-Crisis Action

Despite being one of Asia's most resilient economies during the financial crisis of 2008-09, India still faces stresses in its external environment. In a commentary, Morgan Stanley's outgoing Asia Chairman Stephen Roach contends that exports, the main driver of India's economic growth, are still vulnerable to the repercussions of the sovereign debt crisis of Europe, which is India's largest export market. A double-digit decline in domestic saving also compounds India's widening current account deficit. Roach recommends that India effectively exit from its emergency stimulus policies, enabling it to combat rising inflation and restart its investment-led growth. Read [more](#).

North Korean Refugees in South Korea: "Small Unification"

[Kongdan Oh](#) of the Brookings Institution explains that South Korea's ambition of Korean unification is difficult when the South has trouble dealing with "small unification" involving 18,000 North Korean defectors, with two to three thousand more coming annually. Oh's recent book, a collaboration with Ralph Hassig, *In The Hidden People of North Korea: Everyday Life in the Hermit Kingdom*, also highlighted the North's collapsing regime. Read book review by the Council's [Mark Clifford](#) in *TIME*.

Causes of Mispriced Capital in China

Capital in China is mispriced, and a true capital market will take a long time to develop. This [China Economic Quarterly](#) article, by two top foreign analysts, argues that politics is the main cause of the China's underdeveloped capital markets. The financial system is the government's only fiscal policy tool, and prices are still set by the state to satisfy national budgetary

needs. In China, the state-owned banks control 76 percent of corporate finance and the basis of pricing are mainly determined by the People's Bank of China. China's existing financial system has several key weaknesses: 1) adjustment of interest rates has played no significant role in monetary policy in the past 15 years; 2) the China Securities Regulatory Commission failed to play a role in creating a better-functioning market; and 3) the captive bond market still has no means for measuring and pricing risk. In order to establish a stable financial system, China should gradually deregulate interest rates, offer less protection to state-owned banks, and allow more private-sector as well as international companies in its stock and bond markets in order to improve the accuracy of capital pricing.

Member and Council News

- ✧ Hang Lung Group's [Ronnie Chan](#) was featured in a *CNBC* video interview about why it is a good time to buy land in China. He was also interviewed by *Reuters* about his view of robust China rental growth.
- ✧ Taiwan Semiconductor Manufacturing Company's [Morris Chang](#) was featured in the *Financial Times* about his prediction of greater Chinese demand for electronic goods adding \$30bn to the global semiconductor market over the next five years. He was also featured in an article by *Trading Markets* about his expectation that the global semiconductor market will increase \$30 billion in the next five years.
- ✧ Warburg Pincus' [David Coulter](#) was appointed to Sterling Financial Corporation's board of directors.
- ✧ China National Offshore Oil Corp.'s [Fu Chengyu](#) was featured in an interview in *Caixin* about his career.
- ✧ Quantum Leaps Corp.'s [Nobuyuki Idei](#) was featured by *China Daily* about his vision of Globalization Phase II led by Asia.
- ✧ ICICI Bank's [K.V. Kamath](#) was featured in an interview with *India Infoline Limited* about his views on the effect of the Europe crisis, the Indian and Chinese economies, and other topics.
- ✧ Philips' [Gerard Kleisterlee](#) gave a speech about the company's transformation over the past decade at the Party School of the Central Committee of the Communist Party of China in Beijing.
- ✧ Lafarge's [Bruno Lafont](#) was featured by *The Wall Street Journal* about Lafarge's development strategy of selling assets to cut debt.
- ✧ Mahindra Group's [Anand Mahindra](#)'s article on the need for companies to collaborate and build trust with their wider communities was published in *Forbes India*. He was also featured in a *CNBC-TV18* interview about his entrepreneurial journey and future plans.
- ✧ [Hiroshi Mikitani](#)'s Rakuten was featured in *The Economist* as a champion of Japanese online retailing.
- ✧ Khazanah Nasional's [Azman Mokhtar](#) was featured in an interview with Malaysia's *Business Times* about his views on Singapore's investments in Malaysia and vice versa and on joint rail and land development.
- ✧ Infosys' [Narayana Murthy](#) was featured in an interview with India's *Business Standard* about Infosys' next stage of development, business with the U.S. and Europe, and India's relations with China. He was also profiled in *Reuters* about his prediction of the slow crisis recovery and *The Hindu Business Line* about the importance of technological innovation for future growth.
- ✧ CIMB Group's [Nazir Razak](#) was featured in an article by Malaysia's *thestaronline.com* about his views on Malaysia's banking and finance industry.
- ✧ [Francis Yeoh](#)'s YTL Corp. won the Green Energy Company of the Year award at the 2010 Malaysia Excellence Awards.
- ✧ Ogilvy & Mather's [Miles Young](#) was featured in a *CEI Asia* video interview about the importance of Muslim consumers in Asia's emerging markets and the potential of the Chinese advertising market.
- ✧ [Jaime Augusto Zobel de Ayala](#)'s Ayala Corp. was awarded the best-managed company in the Philippines by *FinanceAsia* in its 10th annual poll of Asia's top companies. His article about the Philippines' rugby team winning streak at the Asian Rugby Football Union was also featured in *thePinoy.com*.
- ✧ The Asia Business Council is, with *TIME* and the Lee Kuan Yew School of Public Policy at the National University of Singapore, organizing an [essay prize](#) this year; the main purpose of the contest is to encourage young professionals to make an impact on public policy and business in Asia.
- ✧ [The Asia Business Council's 2010 Autumn Forum](#) will be held at The Peninsula in Shanghai, September 16-18.