Standard Chartered

press release

ECONOMIC REFORM: THE UNFINISHED AGENDA

10 October 2012, LONDON – Emerging economies such as China, India, Indonesia, Nigeria and Brazil can boost average individual income by as much as 40% to 50% by 2030 by once again pursuing vigorous economic reform, according to a Special Report by Standard Chartered Research published today.

After a “golden era” of reforms in the 1990s, which improved living standards for hundreds of millions of people, the pace of reform has slowed in many countries in recent years. This slowdown has been due to several factors: the fact that economies have grown relatively strongly has lessened the pressure for reform but there have been other influences including complacency, resignation, disillusionment with market-oriented reforms and political resistance. The study analysed the state of reforms in 14 emerging and major economies.

Even without reforms, emerging economies have helped drive global growth in recent years. But a faster pace of sustained reform would boost future growth potential. The failure to pursue reform may be costing emerging economies 1-3 percentage points in terms of gross domestic output growth each year. In order to further raise living standards in the emerging economies, and in the process boost global growth, policymakers urgently need to jump-start a key set of reforms. But before that, they must convincingly frame the case for reforms.

“One of the key lessons to be drawn from this report is that countries need a longer-term vision as to why reform is necessary, why any near-term pain is worth bearing and what success might bring,” said Dr. Gerard Lyons, Chief Economist and Group Head of Global Research. “All too often – as is the case with the euro area now – reform is imposed when things are not going well and when individuals, companies or economies are not able to cope. The best time to press ahead with reform is when economies are already growing or doing well."

The report examined the energetic debate now raging across various markets on the best ways to accelerate economic development and found considerable agreement on the course countries should follow to grow and prosper. However, the study also found important disputes, notably the role of the state and state-owned enterprises. This is especially so with the dramatic rise of China over the past three decades, which is shifting the focus away from the decades-old “Washington consensus” of free-market economic policies to the “Beijing consensus” characterised by state-led development.

"One size need not fit all," said Lyons.

In the country studies section, the report analyses one key area of reform in each economy which, if implemented, would have a major impact. Some of the recurring topics are improving infrastructure, liberalising labour markets and implementing bureaucratic and fiscal policy reforms.

The report finds that economic reform is a major positive for investors and financial markets, boosting returns and smoothing volatility by encouraging economic growth, lowering interest rates and attracting new investors. Countries which pursue reforms are seen to be rewarded by investors, often responding to expectation for reforms ahead of implementation.

The report analyses the progress of reforms in the following 14 countries: Brazil, China, Hong Kong, India, Indonesia, Japan, Nigeria, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, the United Arab Emirates and the United States of America.

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For further information please contact:
A. Arno Kermaputra
Corporate Affairs
Standard Chartered Bank Bank
Tel: 021- 25550000   Fax: 021-5719625
Email: CorporateAffairs_Indonesia@sc.com

Note to Editors:

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