

Asia

Bangladesh

Political

Bangladeshi politics are nationalistic, confrontational and violent. Leaders of the two principal parties – the ruling Bangladesh Nationalist Party (BNP) and the Awami League (AL) - hold deep personal animosities toward each other despite the fact that their policy positions are broadly similar. It is common for the opposition to resort to strikes to discredit the governing party and disrupt the political system. Bangladesh has a history of political violence including the assassinations of several past leaders. It is expected that political violence will increase in the lead up to elections in 2007. A number of transnational and domestic Islamic extremist groups operate in Bangladesh. There has been a surge in Islamist violence since August 2005 when over 500 small bombs exploded across the country. Islamists have also been targeting the legal community through the assassination of judges and lawyers. . Although good relations with India are key to bettering the economy, various disputes (commercial, border, immigration, etc) continue to hamper the relationship. The BNP has traditionally had a more hostile relationship with India than the opposition AL. According to Transparency International's 2005 Corruption Perception Index, Bangladesh is the world's most corrupt nation.
March 2006

Economic

The economy is expected to grow by 5.3% in fiscal year 2005/06 (July-June), down slightly from the previous year due to the floods of 2004 reducing agricultural output. However, industrial production is forecast to grow by 8%, led by export-oriented industries such as chemicals, processed foods, and textiles. Imports will continue to grow by double digits due to strong demand for raw materials and capital goods. This will cause the trade deficit to widen but the current account will remain in surplus due to remittances from citizens working abroad. Foreign exchange reserves will remain stable at 3 months of import cover. Inflation will remain a concern due to high food and oil prices. Bangladesh is heavily dependent on foreign aid. The damage from floods will increase the dependency on aid. The exchange rate was floated at the end of May 2003.
July 2005

Laos

Political

Laos is a one-party state governed by the Lao People's Revolutionary Party ("LPRP"). The LPRP will hold its 8th Party Congress in 2006 where there may be some divergence of opinion on certain economic and social issues. However, the party is firmly united in its determination to maintain one-party rule.. At 80 years of age, President, Gen. Khamtay Siphandone is a veteran of Lao politics and was Military Commander of the Pathet Lao rebellion in the 1950s. Khamtay and leaders of his generation have maintained an authoritarian, inward-looking political and economic structure. Under this regime, Laos remains one of the world's poorest and least developed countries. All media are tightly controlled by the LPRP so it is difficult to determine the extent to which any opposition to the LPRP exists. Observers suggest that there is a younger, more internationalist LPRP leadership waiting in the wings. Change occurs very slowly as those in power realize that improved standards of living require increased economic openness, which in turn could undermine the state's ability to maintain its high level of repression. Laos is likely to be politically stable over the medium term, but the current regime's balancing between control and development is not sustainable over the long term.
March 2006

Economic

GDP is expected to grow by 5-7% over the medium term due to mining projects and the planned construction of a hydropower dam. The economy will also be supported by strong growth in its major trading partners – Thailand and Viet Nam. Although agriculture accounts for half of GDP and provides 80% of total employment, the main drivers for economic growth have been the industrial and services sectors. The country's growing trade and current account deficits as well as the large budget deficits are pressuring the currency to depreciate against the US dollar. Exports are led by minerals, electricity and garments. Tariff barriers are expected to be lowered in line with its AFTA commitments. Although the country's external debt level is high at 59% of GDP, most of this is at concessional terms.
July 2005

PNG

Political

Politics in Papua New Guinea (PNG) is characterized by corruption, patronage and narrowly defined interests. Loyalties in PNG tend to be based more on tribe and clan than on ideology or party and, as such, the composition and direction of government is prone to rapid and radical shifts. No PNG Prime Minister has ever served a full term in office and the government is essentially bankrupt.

Overall political stability has improved since the violence and chaos that followed disastrous national elections in 2002 largely owing to the fact that former Prime Minister Mekere Morauta (defeated in the 2002 elections) joined the government of Prime Minister Somare in May 2004. However, any semblance of stability is best viewed as temporary in nature. Debates over economic reform, resentment of Australian aid and influence and fallout from the Bougainville conflict top PNG's political agenda.

May 2006

Economic

The economy is expected to grow by over 2% over the next couple of years due to higher commodity prices for its main exports – gold, copper, oil and gas. However, if commodity prices recede, this will cause exports to decline. Strong tourism receipts have also contributed to recent growth.

Although inflation is benign, it may rise as the central bank cuts interest rates to support economic growth.

The floating exchange rate system has been successful in adjusting to external shocks. Gross international reserves are at about 6 months of non-mining imports.

As of June 1 several foreign exchange restrictions were lifted by the Central Bank.

July 2005

Sri Lanka

Political

Sri Lanka is a politically unstable country largely as a result of four factors; 1) a bitter relationship between the country's two main political dynasties which have alternated between leading the country and the opposition; 2) entrenched ethnic-religious divisions; 3) weak governing coalitions emerging from the country's fragmented political environment (128 political parties); 4) an insurgency that has been on-going for more than 20 years led by the Liberation Tigers of Tamil Eelam (LTTE) -- a rebel group demanding political and administrative authority over the north east of the country. In the November 2005 Presidential Election former Sri Lankan Prime Minister Mahinda Rajapakse defeated former prime minister Ranil Wickremesinghe. During the campaign Rajapakse allied himself with the Marxist-Sinhalese nationalist JVP party and the party representing Buddhist monks, both of which oppose the current terms of ceasefire with the Liberation Tigers of Tamil Eelam. Rajapakse adopted a hard-line position on renegotiating the ceasefire agreement with the LTTE. The election results were close with Rajapakse receiving only a bare majority in the popular vote (50.33%) on a 75% turnout in the majority Sinhalese south and southwest of the country. The Tamil community engaged in a massive boycott of the election with only 0.014% of eligible voters in the north casting a ballot. The election, as is often the case in Sri Lanka, was marked by violence. In December 2005 and January 2006, the LTTE launched a series of deadly attacks against military personnel but in late January the two sides agreed to the resumption peace talks. The first of these meetings took place in late February 2006 in Geneva. Violence between the government and the LTTE will persist in the medium-term unless a new ceasefire agreement can be negotiated.

March 2006

Economic

The economy is expected to expand by 5-6% over the medium term. The overall negative impact of the December 2004 tsunami on GDP growth will be limited due to the inflows of aid and the reconstruction efforts.

Although tourism and garment exports have increased sharply, this is offset by the strong demand for imports of capital goods in the reconstruction effort. This will double the current account deficit to about 6% of GDP.

Inflation is in the double digits due to higher prices for food and oil.

The rupee has been volatile and steadily weakening against the US dollar, particularly since August 2004.

Foreign exchange reserves are low. IMF funding is therefore essential for maintaining solvency. Sri Lanka will continue to also require aid assistance to meet its external payment obligations.

Risks to the economic recovery taking firmer roots are instability in the political situation, a resumption of ethnic conflict and higher oil prices.

July 2005