

The Global Economic Crisis and Rebalancing Growth in Asia*

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I. Impact of the crisis : Deeper and Scary

-Large Variations in Forecasting: Is the End near?

| Country | 2009 | | 2010 |
|-------------|-------|-------|------|
| China | 6.5* | 6.0** | 7.5* |
| Japan | -6.2 | -6.4 | 0.5 |
| Hong Kong | -4.5 | -5.9 | 0.5 |
| Korea | -4.0 | -10.1 | 1.5 |
| Singapore | -10.0 | -7.5 | -0.1 |
| Taiwan | -7.5 | -9.3 | 0.0 |
| Indonesia | 2.5 | 1.9 | 3.5 |
| Malaysia | -3.5 | -3.0 | 1.3 |
| Philippines | - | -1.9 | 1.0 |
| Thailand | -3.0 | -4.4 | 1.0 |

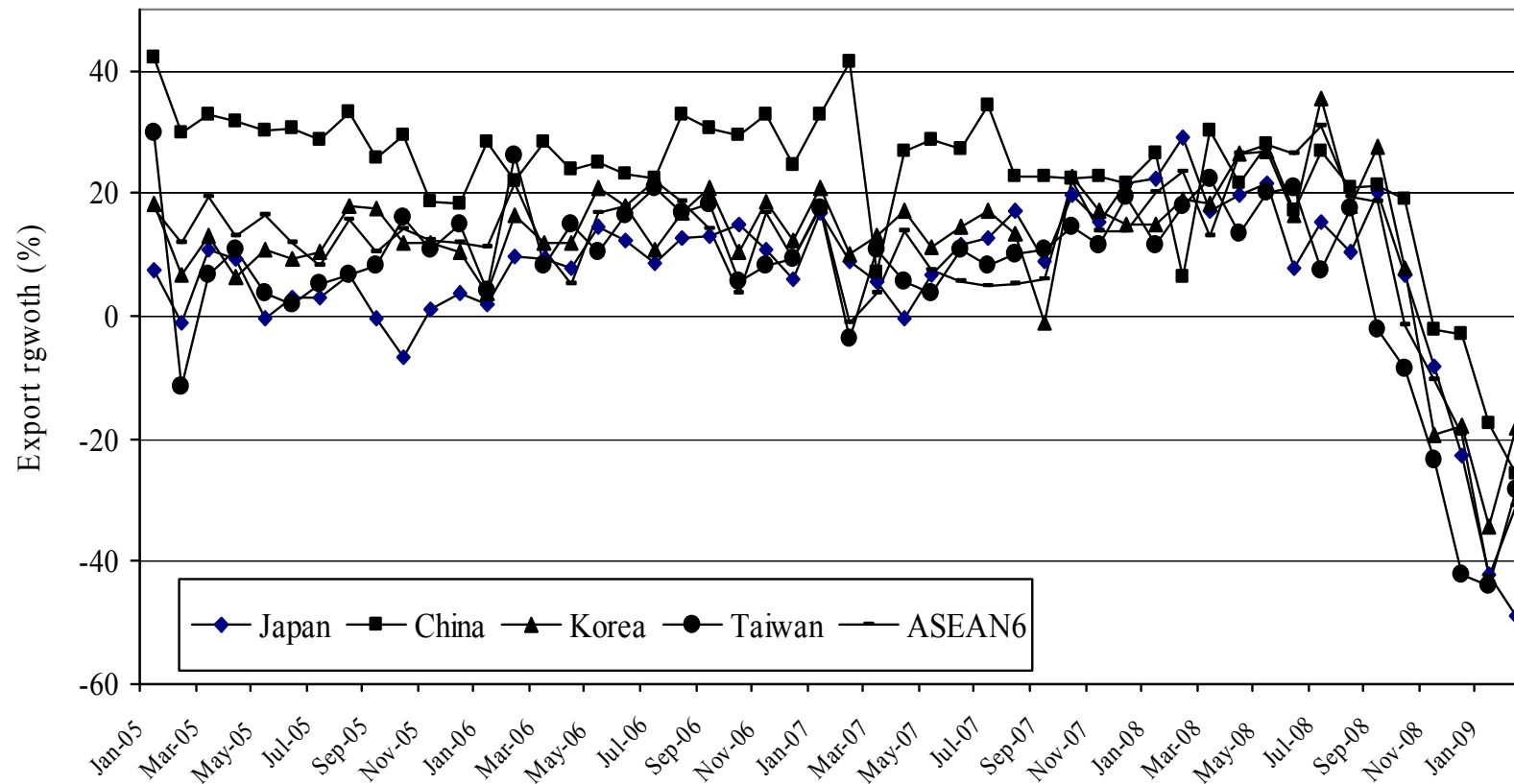
Source : **International Monetary Fund, World Economic Outlook, April 2009*

***Economist .Com/Country Briefing, April 19 2009*

- Crisis contagion has thrown Asia into a deeper recession through:
 - <Trade Channel: Dominant>
 - Exports are plunging at double digit rates
 - So are Imports, producing recession surpluses
 - <Financial Market Channel: Secondary>
 - . Financial meltdown in the US => contraction of global financial intermediation=>dollar liquidity shortages => deeper recession in Asia
 - . Asset prices have nosedived and many currencies have weakened vis-à-vis the dollar
 - . Soundness of the banking system deteriorated

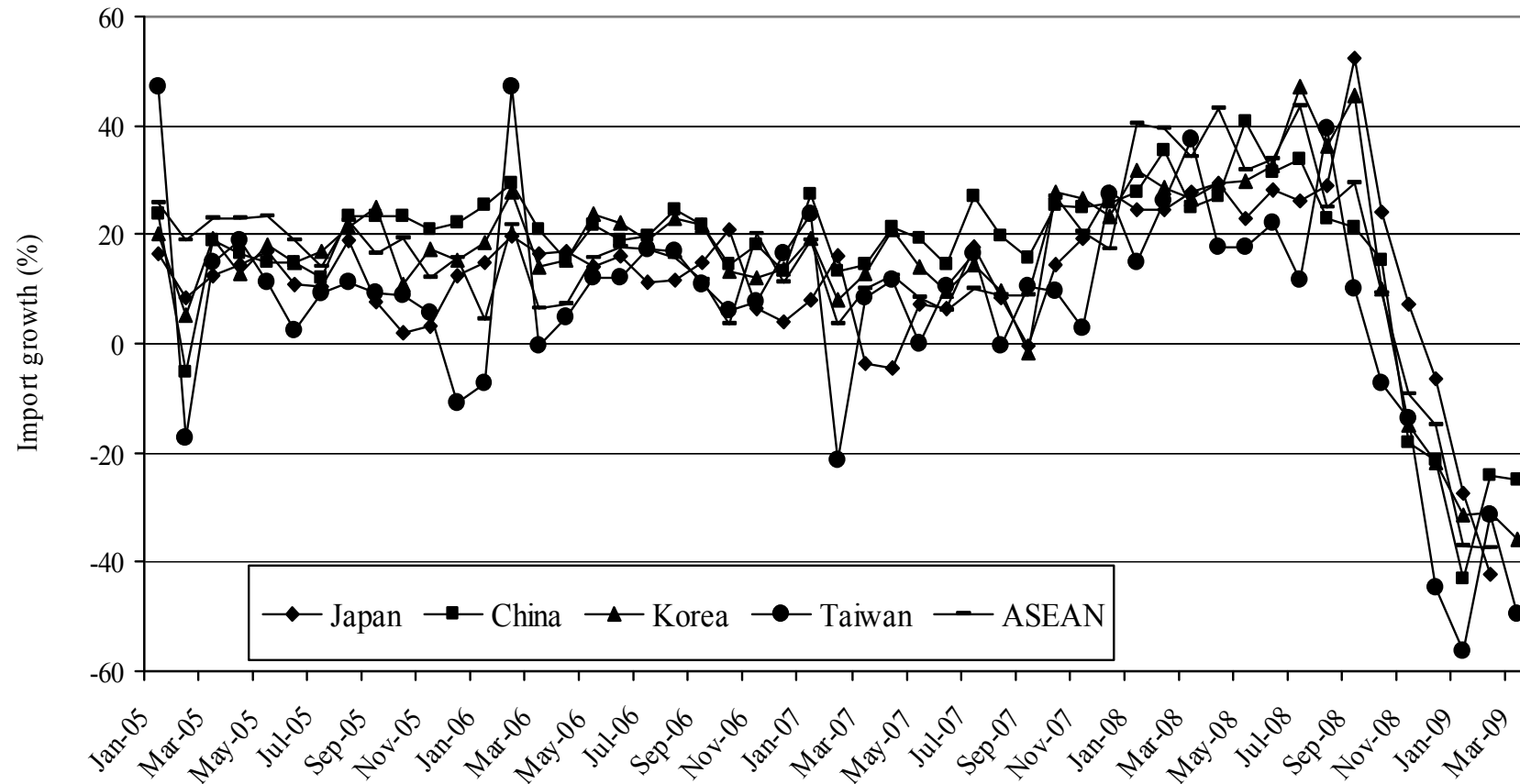
- Uncoupling or Recoupling of Asia : Too early to judge?
 - China has not been able to substitute US and Europe as a regional engine of growth
 - Japanese market for Asian exports has contracted
 - Financial linkages constitute a key channel of crisis transmission for emerging market economies (IMF April WEO)
 - Falling exports suggests that the volume of Asia's intra-regional trade is shrinking rapidly

Figure 1. Export growth of Japan, China, Korea, Taiwan and ASEAN6
(Jan 2005 – March 2009)



Source: Prema-Chandra Athukorala (2009)

Figure 2. Import growth of Japan, China, Korea, Taiwan and ASEAN6
(Jan 2005 – March 2009)



Source: Prema-Chandra Athukorala (2009)

- China: A “ W ” shape recovery and contraction?
 - The Chinese authorities are prepared to execute a series of stimulus packages to achieve target rate of growth
 - They are confident about sustaining 8 percent growth in 2009
 - Many fear that a slowdown in growth in 2010

- Japan
 - Hoping that a huge stimulus package amounting to 10 percent of GDP will prevent a free fall of the economy
 - Experts are divided on the possible effects of the expansionary policy

- Why have Asian NIEs been hit harder? Is their performance predicated on:
 - Export dependence(Yes and No, see Netherland)
 - Export-led growth strategy(Yes)
 - Export product concentration(Yes, see Korea)
 - Degree of deregulation and openness of financial markets(Definite Yes)
 - Labor market rigidities(Yes)
 - Flexibility of the exchange rate (Yes, see Korea)
 - Inflation targeting(?)

II. Short-Run Crisis Management

- Fiscal and monetary stimulus: too little or too much?
- . Where to sell all those goods and services unable to ship abroad in the short-run?
- . China and Japan have organized large stimulus packages: Other Asian countries to follow
- IMF: Effects of fiscal stimulus are small(WEO October 2008), but now large (WEO April 2009)
- Asia may need additional stimulus: Do they worry fiscal sustainability?
- Can Asia prevent the rise of trade protectionism?

- Preoccupation with fiscal stimulus may incur long-run losses: A serious problem?
 - Domestic demand stimulation conceals structural weaknesses revealed by the crisis that call for reform
 - The delayed reform will undermine long-run growth potential
 - Domestic stimulus should be accompanied by institutional reform, but is it realistic ?

- Lack of policy coordination to prevent leakages :
Another Problem?
- Urgent need for curtailing the region's expected current account surplus-requires coordination for stimulus and prevention of trade protectionism
- But no effective mechanism for policy coordination: ASEAN+3 has not met the region's expectations
- The collective action problem may frustrate regional efforts

III. Rebalancing Growth: Long-run Policy

- What is meant by Rebalancing?
 - It means changing composition of demand and production in favor of non-tradables
 - Can Asia go back to the export-led growth after the crisis is over? No
 - Rebalancing should focus on rectifying the bias of the incentive scheme in favor of particular sectors such as export-oriented industries
 - Rebalancing is needed to remove impediments to resource allocation to the service sector and to consumption and investment in Asia