

# **The Global Financial Crisis and Asia's Rebalancing Agenda**

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**“Asia after the Global Financial and Economic Crisis”**

**Plenary Session**

**Organized for the Singapore Economic Review Conference**

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# Outline

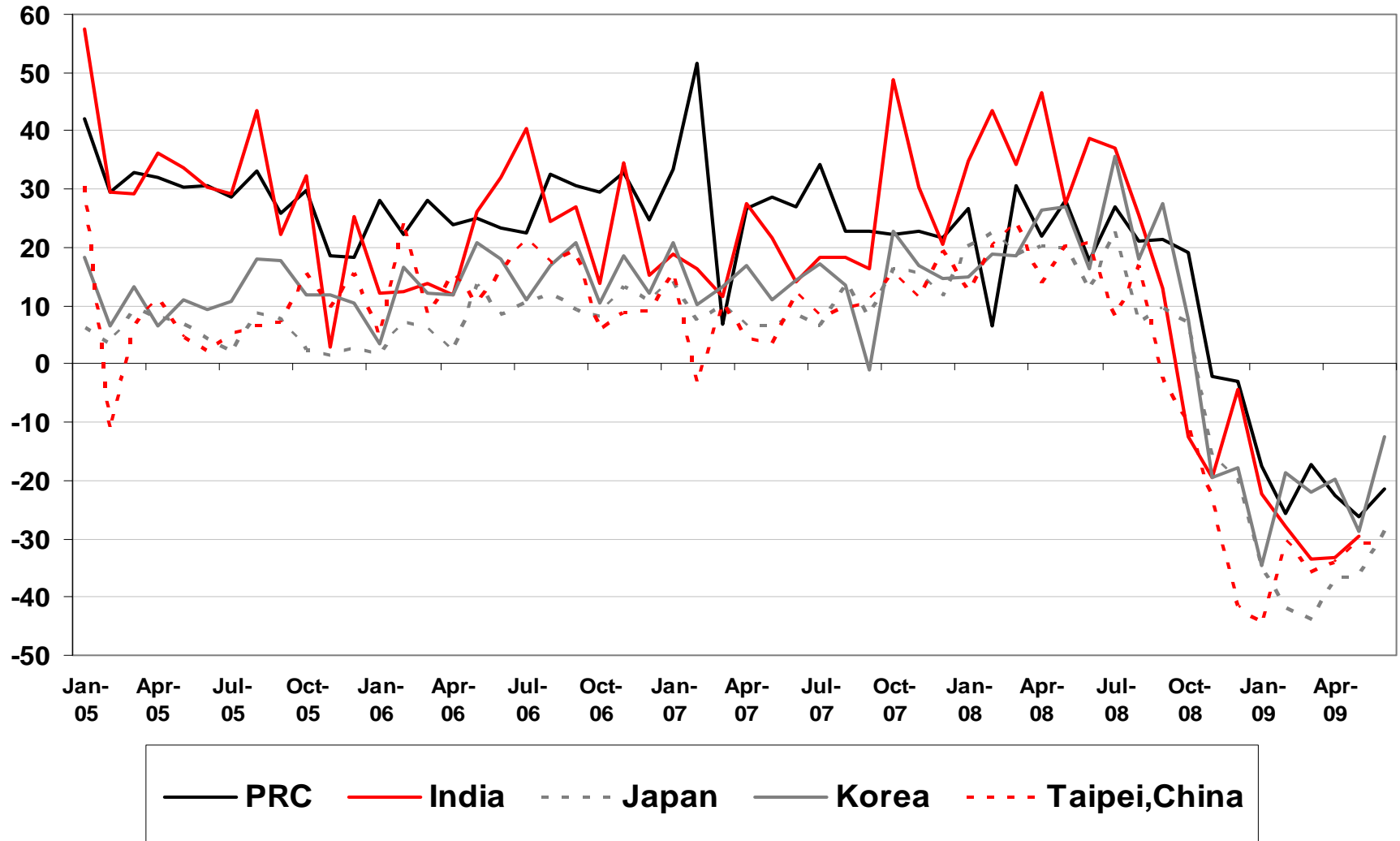
- **Impact of the crisis on Asia**
  - **Export collapse**
  - **Financial contagion**
  - **Loss of confidence**
  - **GDP contraction/slowdown**
- **Adjustment of US over-consumption**
- **Post-crisis agenda for Asia**

# **Impact of the crisis on Asia**

- Export collapse**
- Financial contagion**
- Loss of business and consumer confidence**
- GDP contraction/slowdown**

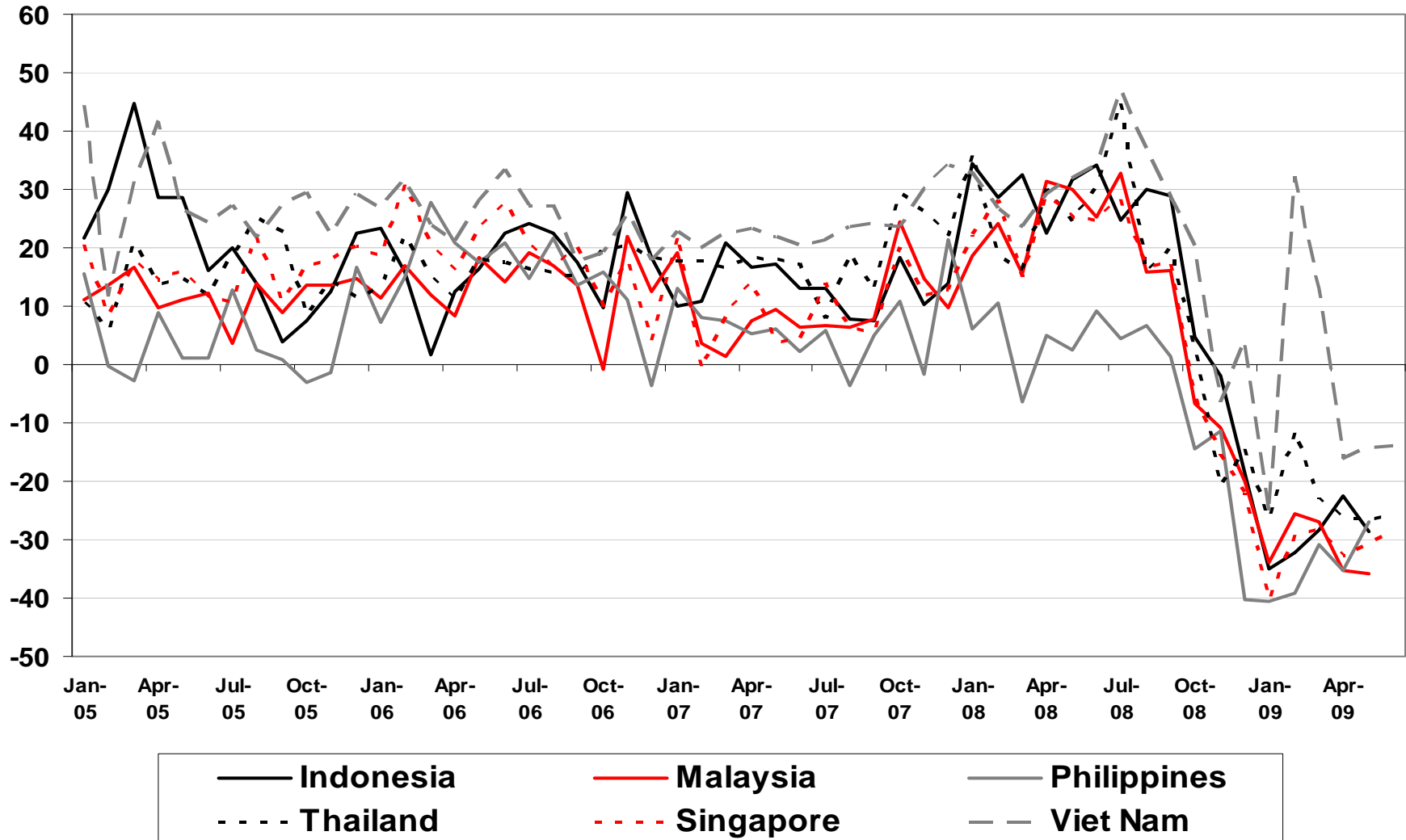
# Exports collapsed but are stabilizing in recent months (1)

Exports: Y/y% change



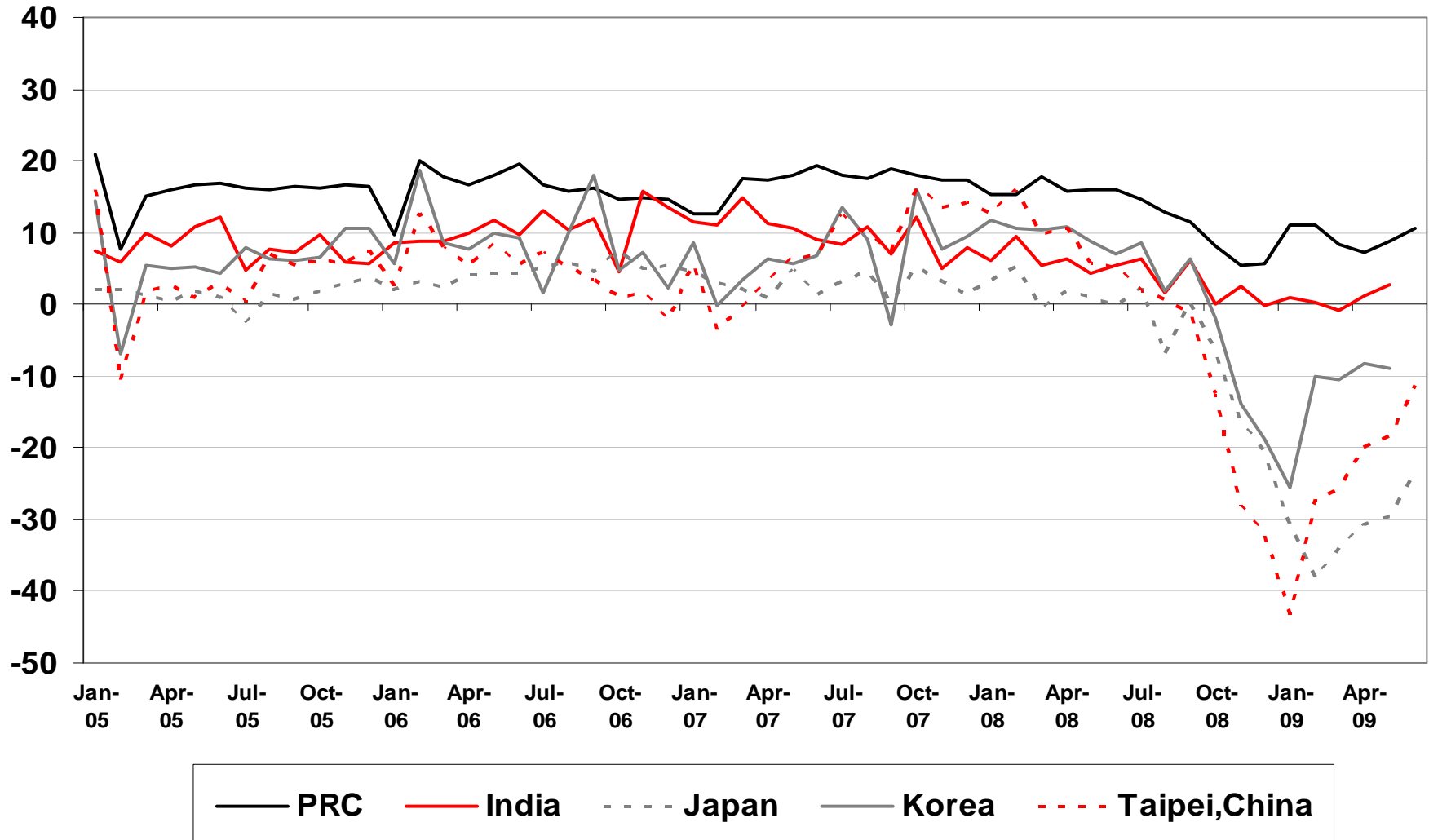
# Exports collapsed but are stabilizing in recent months (2)

Exports: Y/y% change



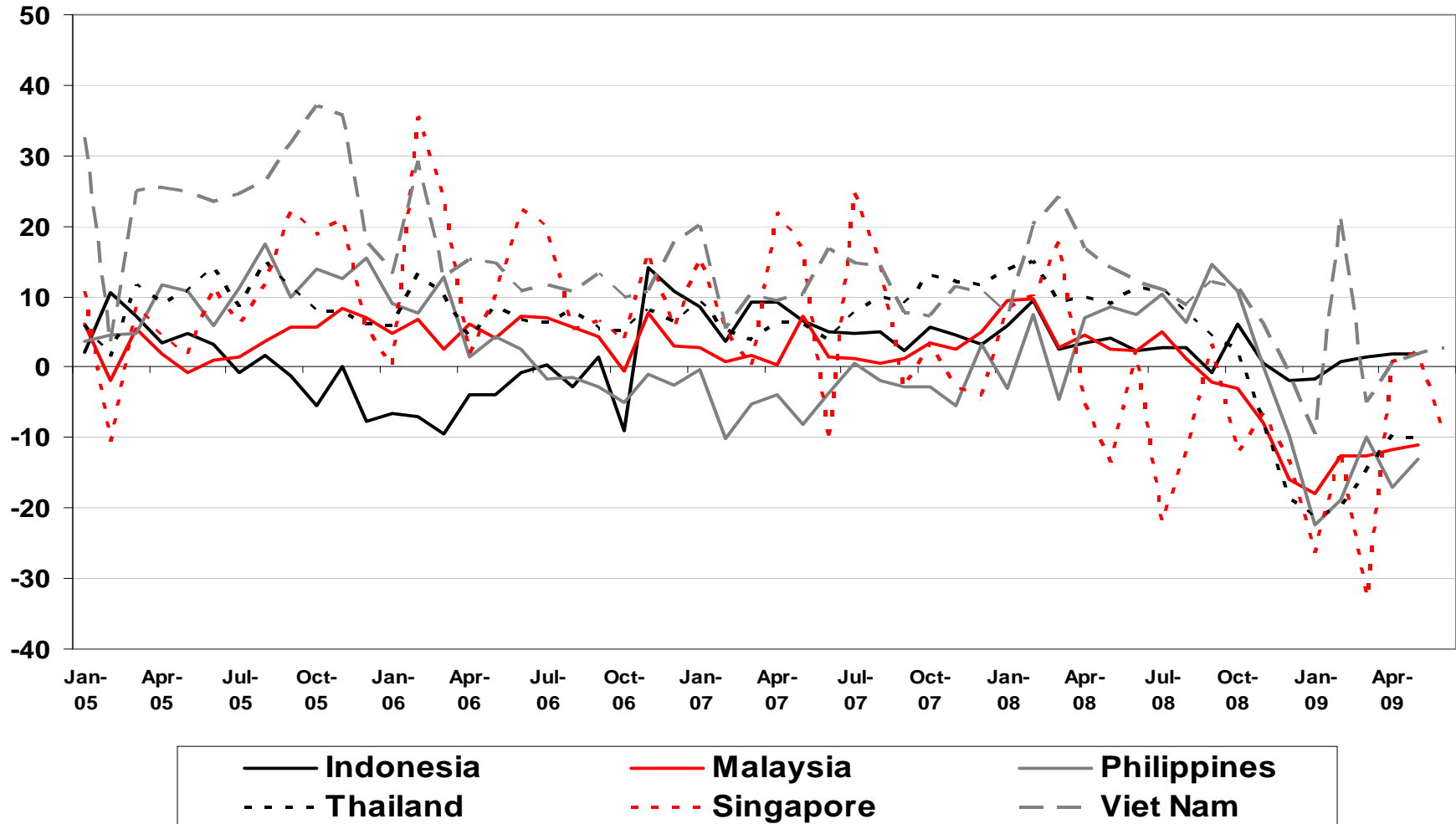
# Industrial production likewise declined but is stabilizing in recent months (1)

Industrial Production: Y/y% change

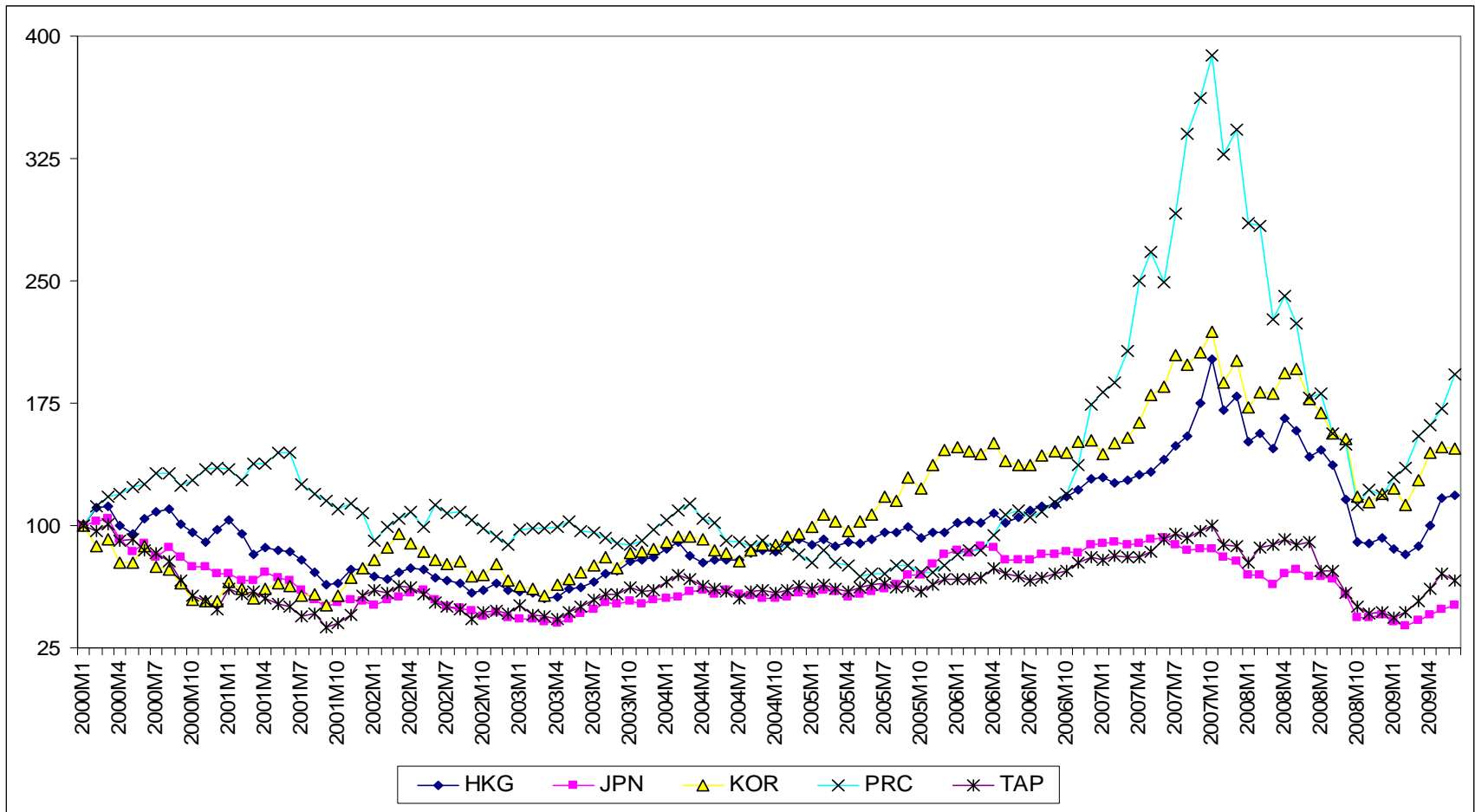


# Industrial production likewise declined but is stabilizing in recent months (2)

Industrial Production: Y/y% change



# Stock price indices declined but are rebounding in recent months (1)

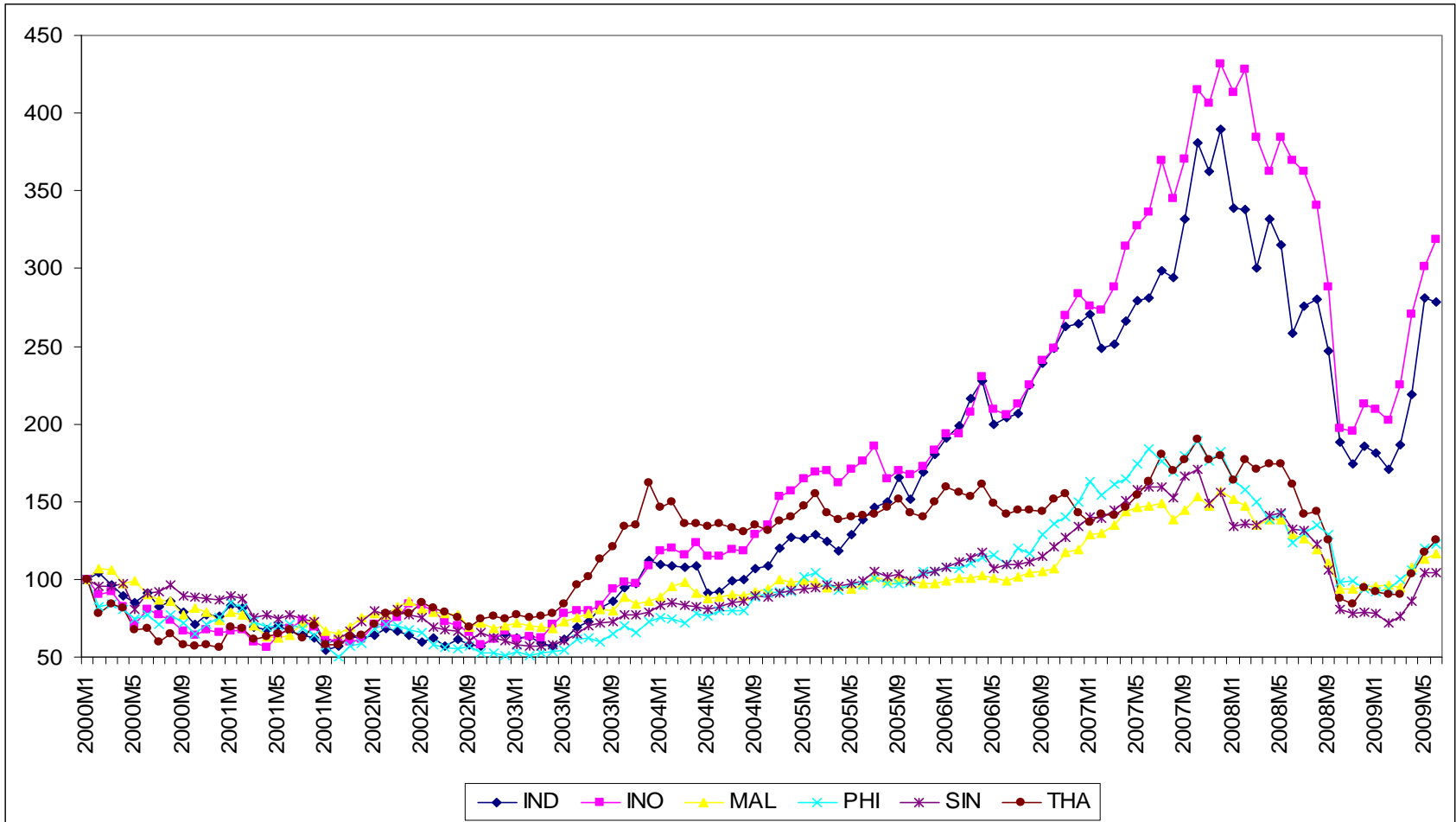


Note: January 2000 – June 2009 (January 2000= 100)

Source: <http://finance.yahoo.com>.



# Stock prices declined but are rebounding in recent months (2)



Note: January 2000 – June 2009 (January 2000= 100).

Sources: <http://www.set.or.th> for Thailand; and <http://finance.yahoo.com> for the rest.

# Asian NPL ratios low

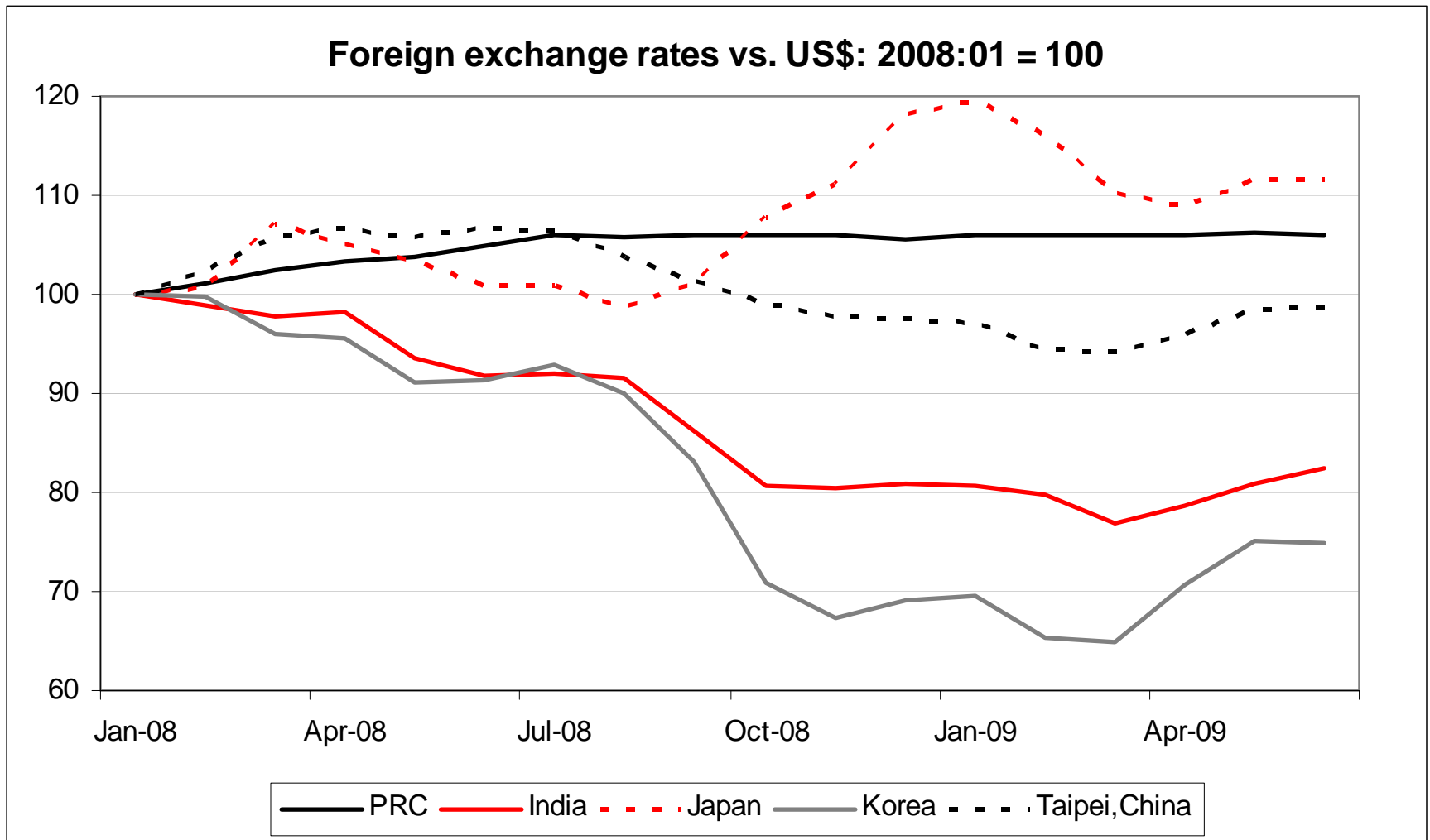
## Bank Nonperforming Loans to Total Loans, 2003–2008

(%)

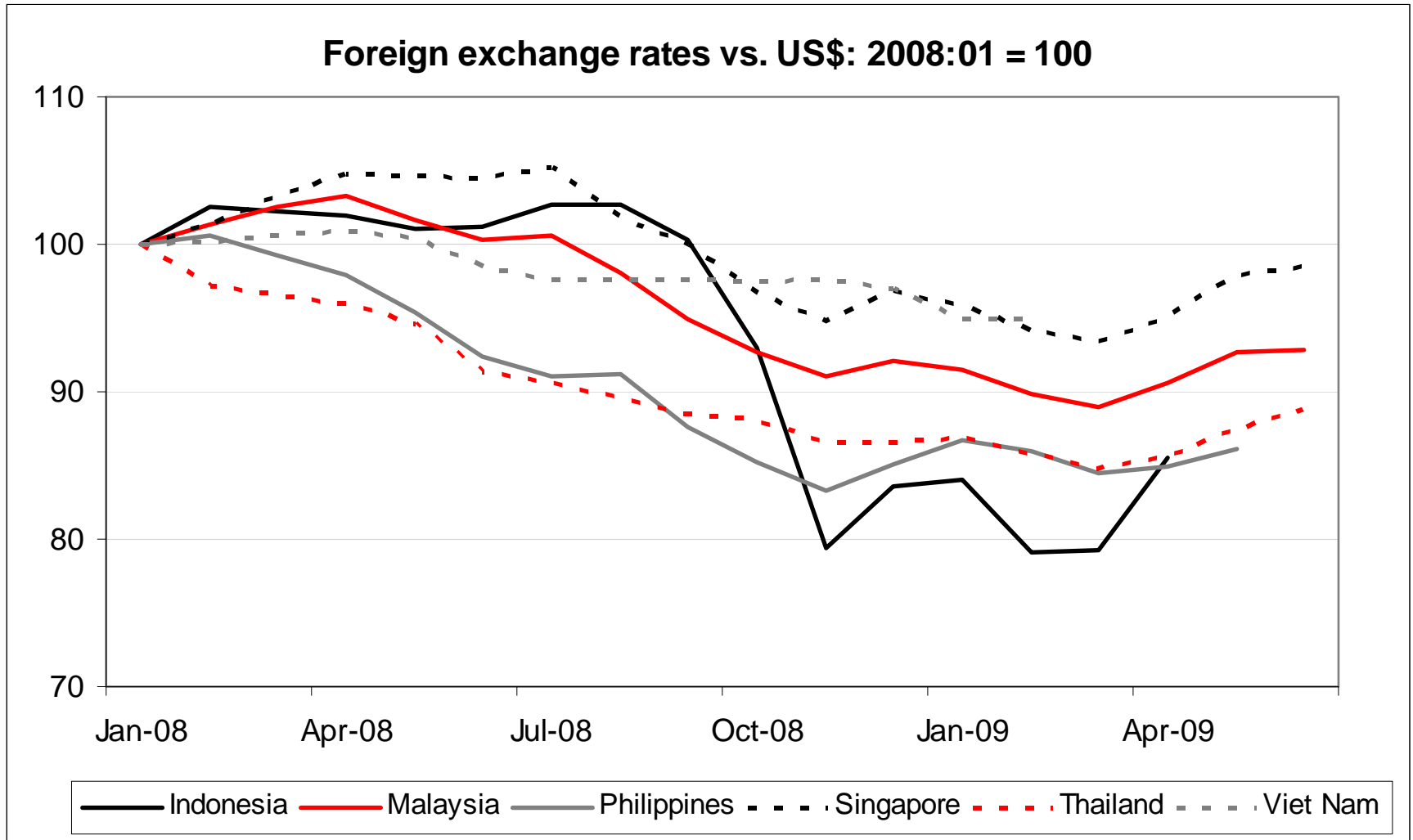
Economy	2003	2004	2005	2006	2007	2008	Latest month
Bangladesh	22.1	17.6	13.6	13.2	14.0	13.0	June
PRC	20.4	12.8	9.8	7.5	6.7	2.5	December
Hong Kong, China	3.9	2.3	1.4	1.3	0.9	1.0	September
India	8.8	7.2	5.2	3.3	2.5	2.3	March
Indonesia	6.8	4.5	7.6	6.1	4.1	3.5	November
Japan	5.2	2.9	1.8	1.5	1.5	1.5	September
Korea	2.6	1.9	1.2	0.8	0.7	1.1	December
Malaysia	13.9	11.7	9.6	8.5	6.5	5.1	September
Philippines	16.1	14.4	10.3	7.5	5.8	5.2	June
Singapore	6.7	5.0	3.8	2.8	1.5	1.4	September
Thailand	13.5	11.9	9.1	8.4	7.9	6.5	December

Sources: IMF 2009.

# Foreign exchange rates show greater adjustment (1)



# Foreign exchange rates show greater flexibility (2)



# GDP growth probably hit bottom in 2009:Q1 overall

## Real GDP growth rates

	Y/y%						Q/q%						
	08/Q1	Q2	Q3	Q4	09/Q1	Q2	08/Q1	Q2	Q3	Q4	09/Q1	Q2 CY08	
<b>PRC</b>	10.6	10.1	9.0	6.8	6.1	7.9	--	--	--	0.6	1.5	3.5	9.0
<b>Hong Kong</b>	7.3	4.1	1.5	-2.6	-7.8	--	1.0	-1.0	-0.8	-1.9	-4.3	--	2.4
<b>India</b>	8.8	7.9	7.6	5.8	5.8	--	2.0	1.5	1.5	0.5	2.0	--	7.4
<b>Indonesia</b>	6.2	6.4	6.4	5.2	4.4	--	1.7	1.8	1.6	0.1	0.9	--	6.1
<b>Japan</b>	1.3	0.6	-0.3	-4.3	-9.7	--	0.8	-0.9	-0.6	-3.8	-4.0	--	-0.7
<b>Korea</b>	5.5	4.3	3.1	-3.4	-4.2	-2.5	1.1	0.4	0.2	-5.1	0.1	2.3	2.2
<b>Malaysia</b>	7.4	6.7	4.7	0.1	-6.2	--	1.6	1.0	0.4	-2.9	-5.1	--	4.6
<b>Philippines</b>	3.9	4.2	4.6	2.9	0.4	--	0.3	1.9	1.2	1.0	-2.3	--	3.8
<b>Singapore</b>	6.7	2.5	0.0	-4.2	-10.1	--	2.9	-2.0	-0.5	-4.4	-3.9	--	1.1
<b>Sri Lanka</b>	6.2	7.0	6.3	4.3	1.5	--	--	--	--	--	--	--	6.0
<b>Taipei,China</b>	6.2	4.6	-1.0	-8.6	-10.2	--	0.9	0.1	-2.0	-7.7	-0.8	--	0.1
<b>Thailand</b>	6.0	5.3	3.9	-4.2	-7.1	--	1.1	0.3	0.5	-6.1	-1.9	--	2.6
<b>Viet Nam</b>	7.5	5.8	6.5	5.5	3.1	4.5	--	--	--	--	--	--	6.2

Source: CEIC

# Economic growth projections 2009-10

Country/Region	2007	2008	2009	2010
<b>World</b>	<b>5.1</b>	<b>3.1</b>	<b>-1.4</b>	<b>2.5</b>
<b>Advanced economies</b>	<b>2.7</b>	<b>0.8</b>	<b>-3.8</b>	<b>0.6</b>
United States	2.0	1.1	-2.6	0.8
Euro area	2.7	0.8	-4.8	-0.3
United Kingdom	2.6	0.7	-4.2	0.2
Japan	2.3	-0.7	-6.0	1.7
Asian NIEs	5.7	1.5	-5.2	1.4
<b>Emerging/developing economies</b>	<b>8.3</b>	<b>6.0</b>	<b>1.5</b>	<b>4.7</b>
Developing Asia	10.6	7.6	5.5	7.0
China	13.0	9.0	7.5	8.5
India	9.4	7.3	5.4	6.5
ASEAN-5	6.3	4.8	-0.3	3.7

*Note:* Data for emerging & developing economies do not include those for Asian newly industrialized economies.

*Source:* IMF, *World Economic Outlook Update*, July 2009.

# Asian growth is expected to recover in 2010 but remains weak

	2008Q4 (yoy)	2008 (actual)	2009 (IMF)	2010 (IMF)
<b>United States</b>	-0.8	1.1	-2.6	0.8
<b>Euro Zone</b>	-1.4	0.8	-4.8	-0.3
<b>United Kingdom</b>	-2.0	0.7	-4.2	0.2
<b>Japan</b>	-4.3	-0.7	-6.0	1.7
<b>China</b>	6.8	9.0	7.5	8.5
<b>Hong Kong*</b>	-2.5	2.5	-4.5	0.5
<b>Korea*</b>	-3.4	2.2	-4.0	1.5
<b>Taipei, China*</b>	-8.4	0.1	-7.5	0.0
<b>Singapore*</b>	-4.2	1.1	-10.0	-0.1
<b>Indonesia*</b>	5.2	6.1	2.5	3.5
<b>Malaysia*</b>	0.1	4.6	-3.5	1.3
<b>Philippines*</b>	4.5	4.6	0.0	1.0
<b>Thailand*</b>	-4.3	2.6	-3.0	1.0
<b>Vietnam*</b>	5.5	6.2	3.3	4.0
<b>India</b>	4.5	7.3	5.4	6.5

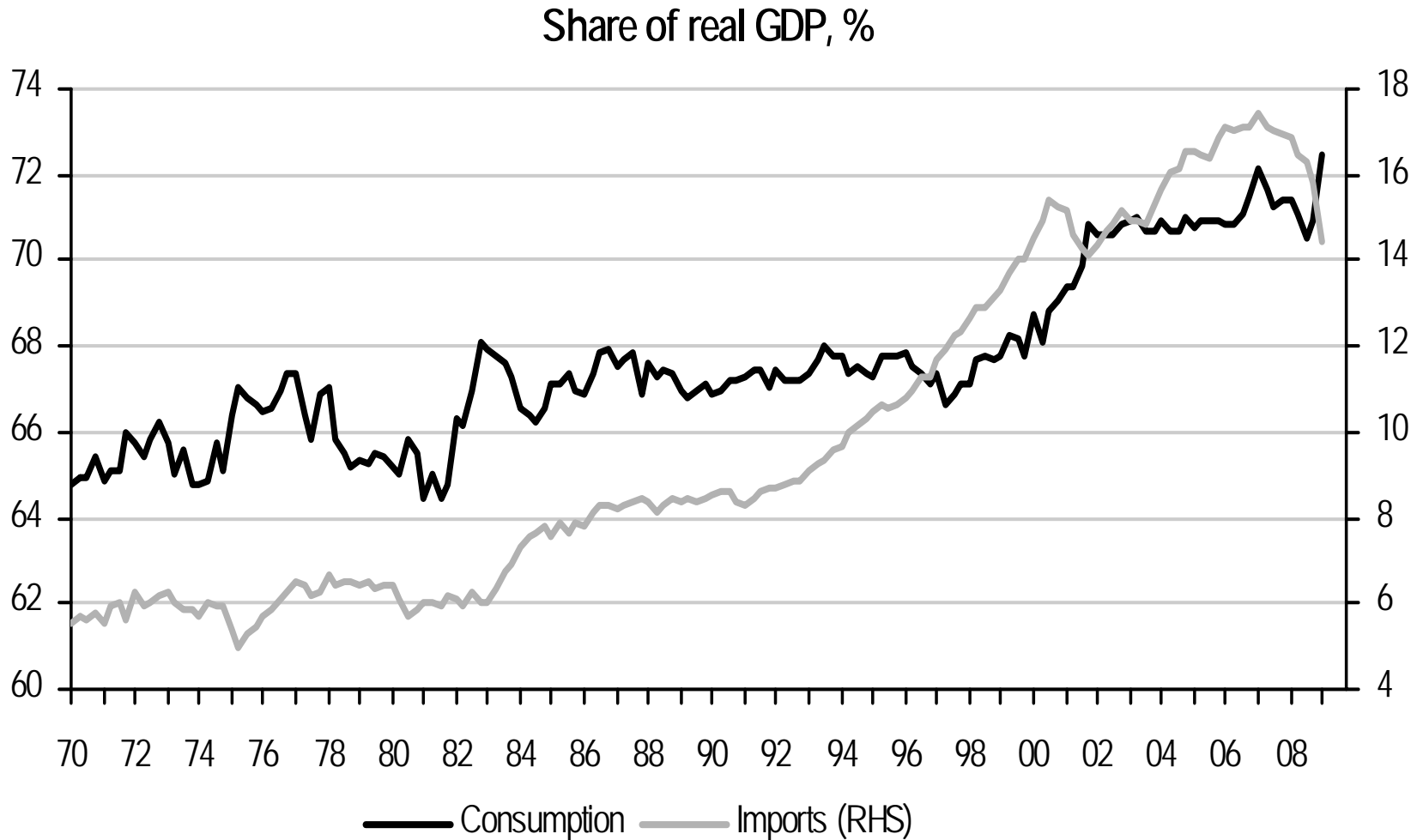
*Note: Data with \* are from WEO Update, April 2009.*

*Source: National data and IMF, World Economic Outlook, April and July 2009.*

# **US Over-consumption and Its Adujstment**

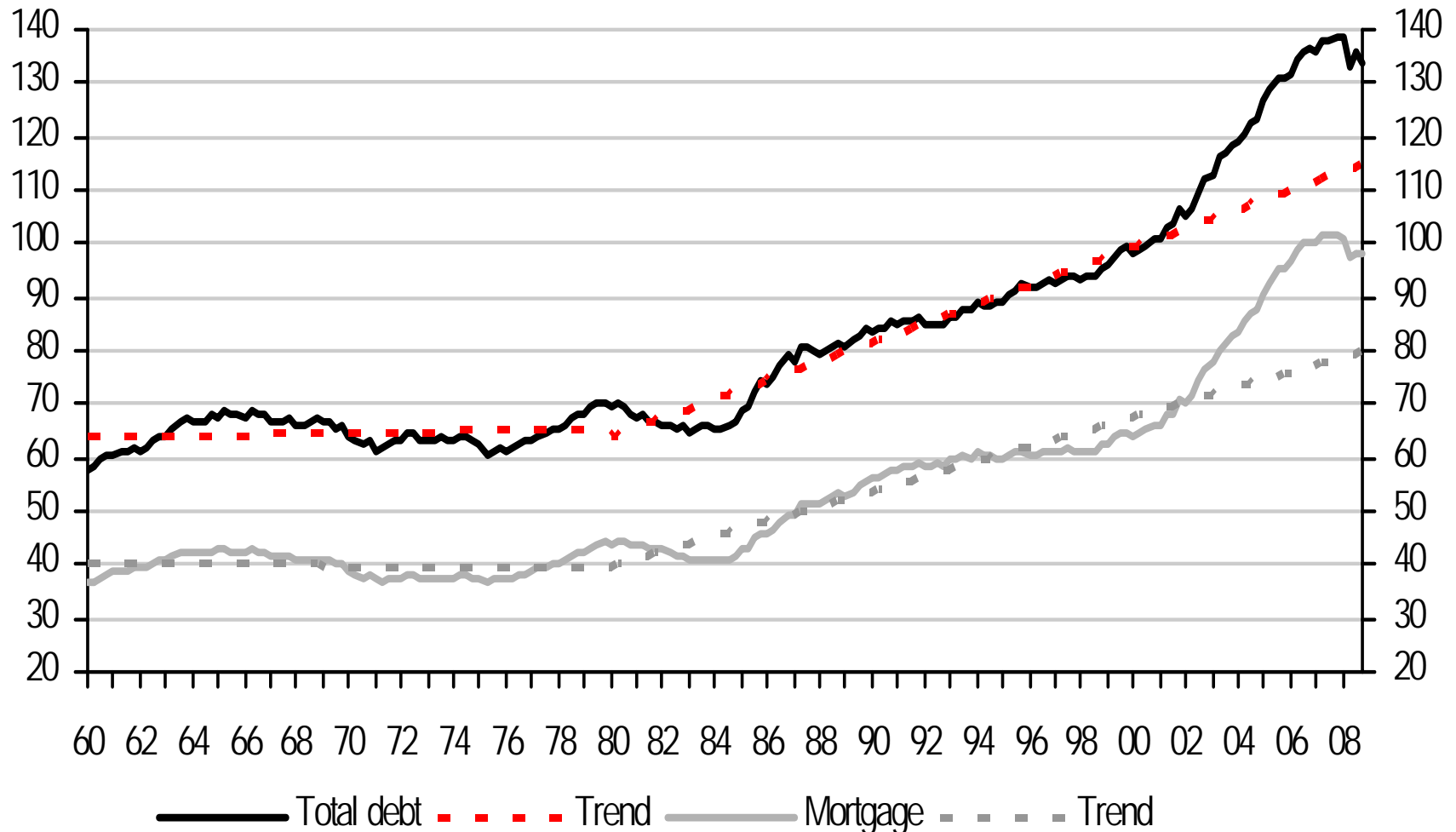


# Share of consumption and imports in US GDP likely to return to longer-term trend



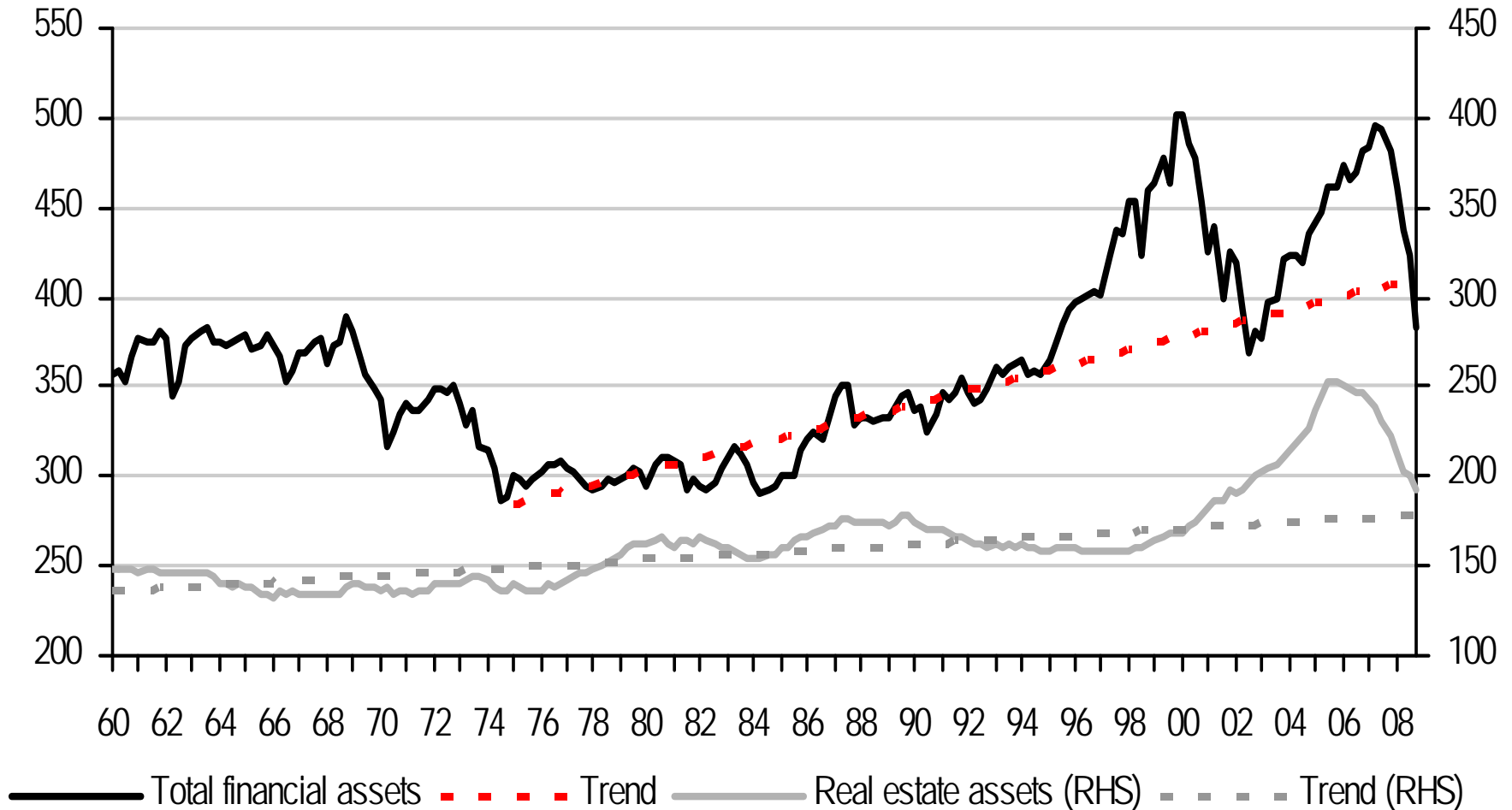
# US household debt (total, mortgage)

Ratio to Disposable Income, %

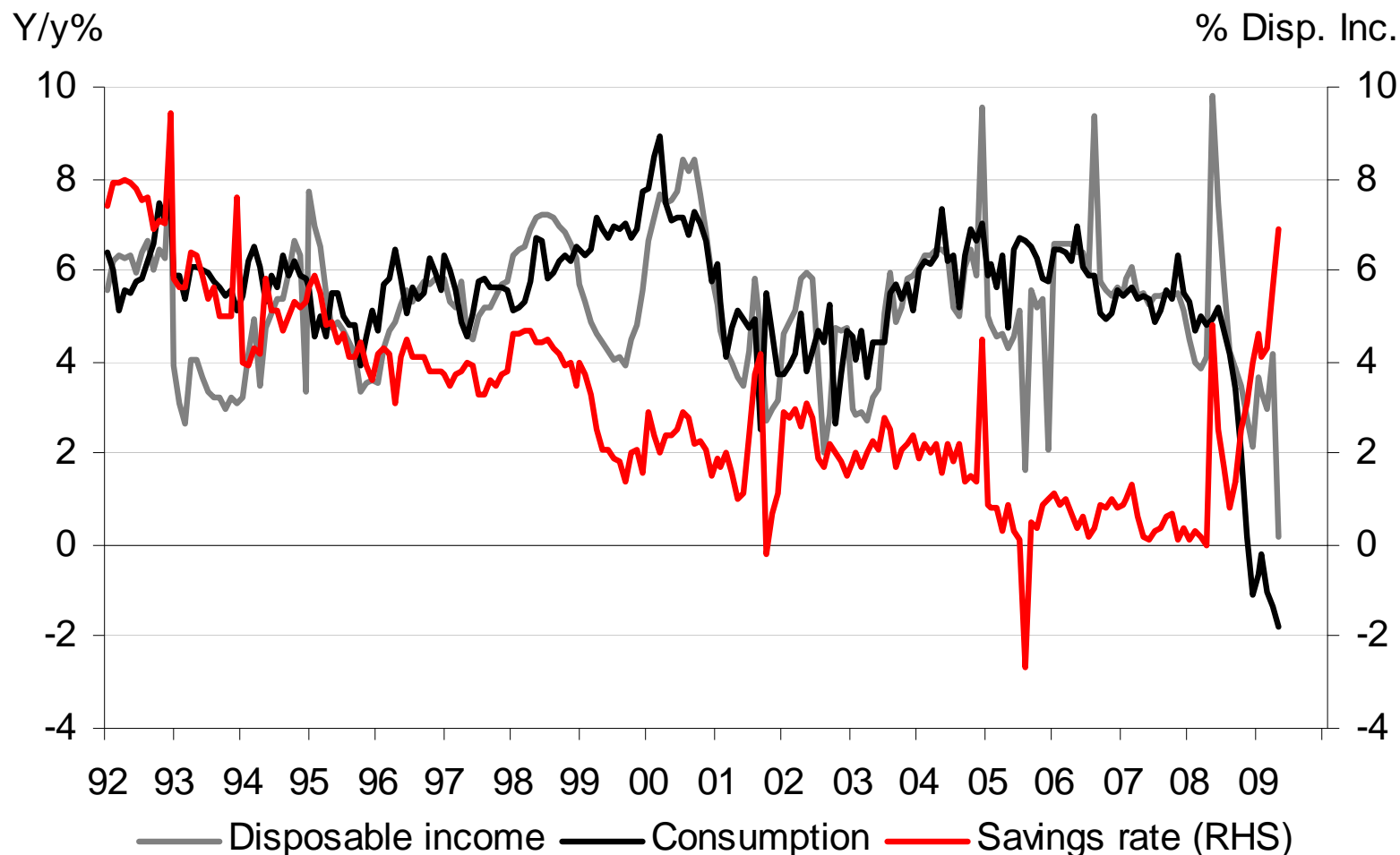


# US household assets (total financial and real estate)

Ratio to Disposable Income, %

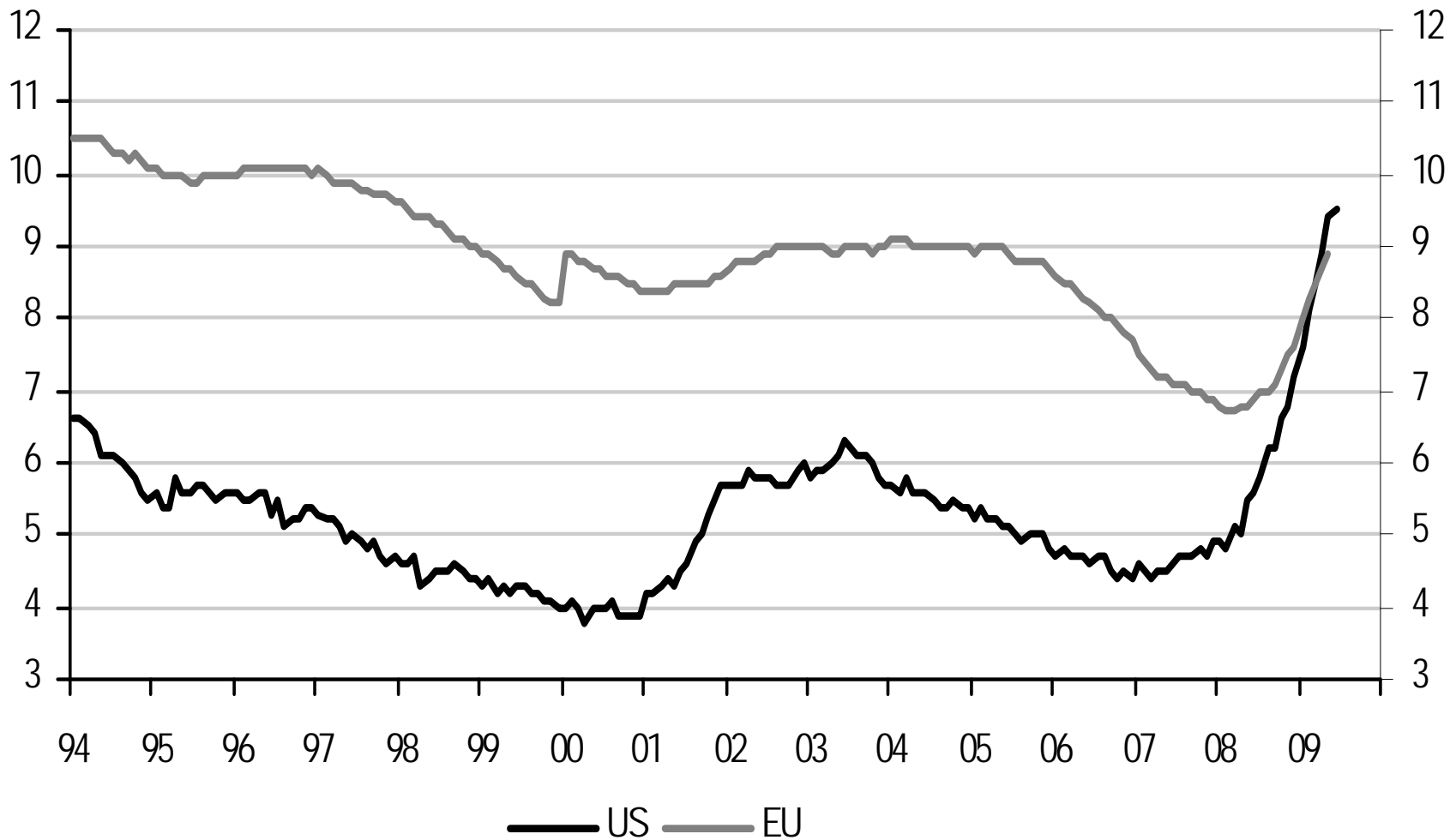


# US household income, consumption and savings rate



# US and EU unemployment rates

Unemployment Rate, %



Source: CEIC Note: EU15 before 2000; EU27 from 2000.

**Impact of  
(Semi-) Permanent  
“Evaporation” of US  
Consumption  
on Asia**

# Final demand for Asian exports still comes from the advanced economies

## Final demand composition of Asia's export in 2006

Total Asia's exports = 100.0%					
Inside Asia = 51.8%			Outside Asia = 48.2%		
<i>of which to</i>			<i>of which to</i>		
final demand 16.5%	production 35.3%		final demand 23.2%	production 25.0%	
+	<i>of which to</i>		+	<i>of which to</i>	
	final demand inside Asia 15.1%	final demand outside Asia 20.2%		final demand inside Asia 0.9%	final demand outside Asia 24.1%
16.0%	← →		44.3%	←	
=			=		
Total final demand inside Asia 32.5%			Total final demand outside Asia 67.5%		

# A CGE simulation study

## *Model assumptions*

- Reduction of US consumption by 5% of GDP, which will induce US current account adjustment through real depreciation of the US dollar against the rest of the world
- US GDP potential growth declines by 1% point
- Exchange rate adjustment by non-US economies with constant bilateral real exchange rates among them, or exchange rate adjustment by East Asian economies only
- Current accounts endogenously adjusted in response to real exchange rate changes
- Long run full employment



# Evaporation of US consumption (together with US growth slowdown) induces Trans-Pacific adjustment

	CA (change as % of GDP)	Terms of trade (% change)	Real private absorption (change as % of GDP)
China	-2.7 [-8.8]	1.2 [4.0]	3.6 [10.9]
Japan	-1.1 [-3.6]	1.8 [5.7]	1.7 [5.3]
Korea	-2.0 [-5.8]	1.1 [3.1]	2.5 [7.2]
Taipei,China	-2.6 [-7.9]	1.0 [2.7]	3.8 [10.8]
Indonesia	-1.8 [-7.5]	0.9 [3.8]	2.3 [9.3]
MYS&SGP	-2.1 [-12.2]	0.4 [1.6]	4.7 [22.1]
Philippines	-2.6 [-7.6]	0.7 [2.5]	3.5 [9.9]
Thailand	-2.5 [-8.0]	0.5 [2.0]	3.2 [10.4]
Vietnam	-5.4 [-15.5]	0.8 [2.8]	4.9 [15.5]
USA	4.0 [4.0]	-6.4 [-6.4]	-6.9 [-6.9]

*Note:* Numbers in [ ] are the case of Asia-only adjustment. *Source:* Kawai and Zhai (2009)

# Asia's output adjustment differs across countries and sectors

## Percentage change in output

	East Asia	China	Japan	Korea	Taipei, China	ASEAN6
<b>Agriculture</b>	1.2 [3.7]	1.0 [3.0]	1.9 [6.2]	1.1 [2.9]	3.1 [8.4]	0.6 [2.2]
<b>Manufacturing</b>	-1.8 [-4.9]	-2.2 [-6.0]	-1.8 [-5.2]	-1.4 [-4.2]	-1.7 [-4.5]	-1.0 [-2.0]
Textile	-2.7 [-9.4]	-3.6 [-12.7]	0.1 [-1.6]	-2.2 [-7.7]	-2.0 [-6.6]	-3.0 [-7.9]
Apparel	-3.0 [-7.6]	-3.9 [-11.9]	2.5 [5.7]	-0.1 [1.4]	-2.4 [-3.9]	-6.3 [-11.7]
Vehicles	-2.9 [-7.4]	-0.7 [-1.6]	-4.2 [-10.7]	-2.2 [-6.7]	-0.8 [-1.7]	0.9 [3.3]
Electronics	-1.9 [-5.0]	-2.9 [-6.9]	-1.8 [-5.4]	-1.5 [-5.0]	-1.9 [-5.6]	-1.0 [-1.1]
Machinery	-2.3 [-5.9]	-2.1 [-5.1]	-2.9 [-8.1]	-1.7 [-5.3]	-0.7 [-4.1]	-1.0 [-0.8]
<b>Services</b>	0.2 [0.6]	0.6 [1.5]	0.2 [0.4]	0.2 [0.6]	0.3 [0.6]	0.4 [0.9]

*Note:* Numbers in [ ] are the case of Asia-only adjustment.

*Source:* Kawai and Zhai (2009)

# Findings of the CGE model simulation

- There will be a switch away from domestic demand-led growth to export-led growth in the US, and a switch away from export-led growth to domestic demand-led growth in non-US (particularly East Asian) economies
- A decline in US demand leads to structural adjustment in production and trade in East Asia
- East Asia's manufacturing sectors—such as vehicles, electronics and machinery—are major losers in the adjustment process, while its agricultural and services sectors are likely to gain from the expanded domestic demand

# **Post-crisis Agenda for Asia**

# Rebalancing growth

*Asia needs to rebalance and diversify sources of growth through structural reforms*

- Demand side
  - personal consumption (social sector protection, financial sector)
  - investment (corporate savings, infrastructure investment)
- Supply side
  - nontradables sector (services)
  - green industry (energy efficiency, clean energy, environment)
  - targeting the rising middle class in China, India, ASEAN
- Regional market integration
- A stronger regional financial architecture

# Regional cooperation is critical

## *Regional market integration*

- Asians should regard Asia as a whole as their market
- Form an East Asia-wide FTA to integrate East Asian economies, create a greater market for regional firms and consumers, and encourage FDI and services trade
- Start from ASEAN+3 and expand to ASEAN+6
- To begin, the Japan-China FTA is key, and the Japan-Korea FTA should be concluded ASAP
- Need to further deepen, and integrate, financial markets (e.g., local currency bond markets) to mobilize regional savings for regional investment

# *Asia needs a strong regional financial architecture*

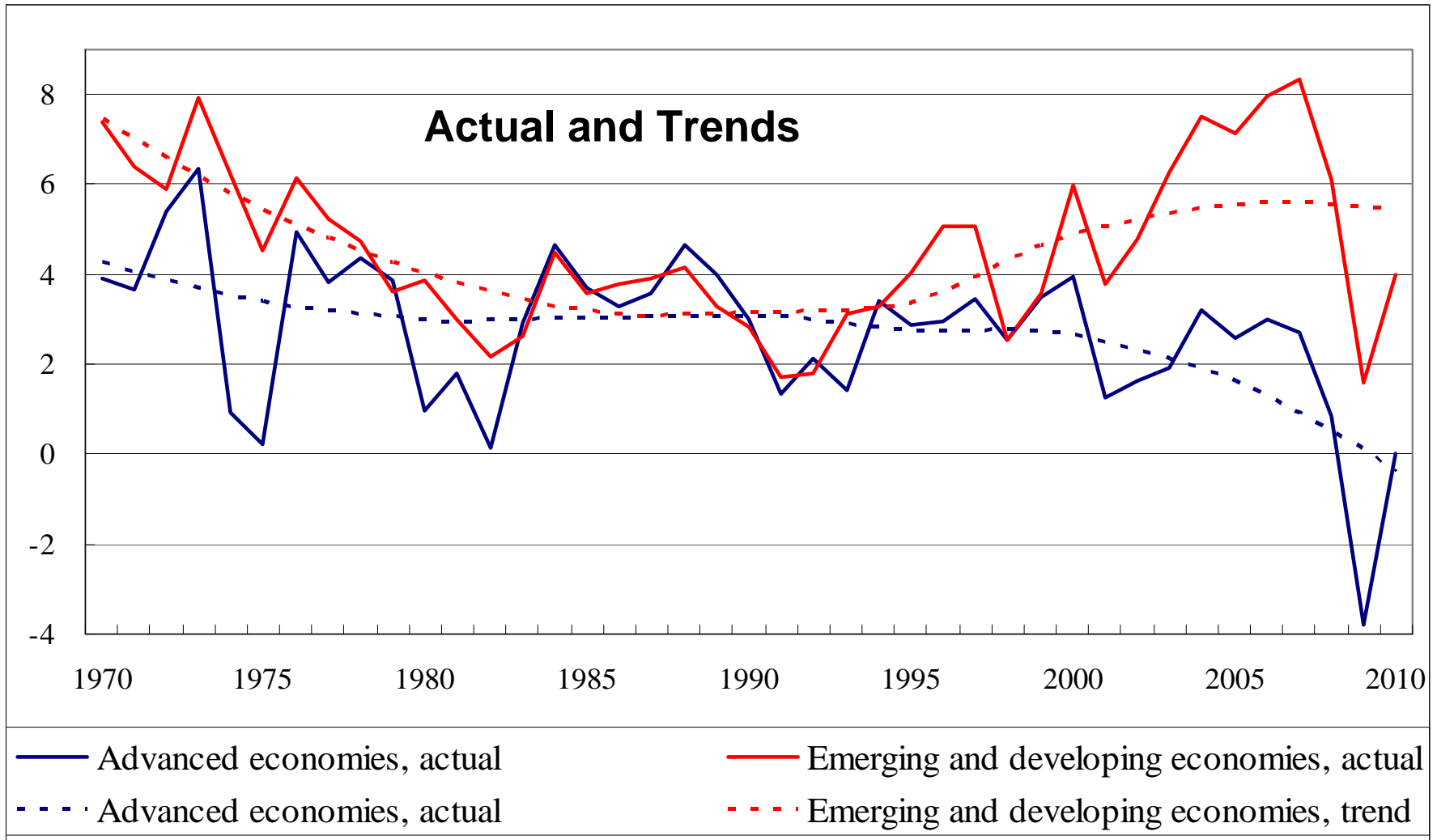
- CMI multilateralized (CMIM) is heading toward an **Asian Monetary Fund**, with \$120 billion, once a surveillance unit (*de facto* secretariat) and a panel of advisors (*de facto* board of EDs) are created
- By establishing a strong, independent secretariat—with a large number of competent professional staff—and enhancing the effectiveness of regional surveillance, the IMF linkage should be reduced substantially
- Under the current exceptional crisis situation, flexibility in CMI will be recommended, in line with IMF FCL
- An **Asian Financial Stability Dialogue (AFSD)** should be set up for regional financial system stability
  - AFSD, CMIM/ERPD and ABMI/CGIM all under the ASEAN+3 process (central bank deputies chairing AFSD)
  - AFSD membership may go beyond ASEAN+3

# **Conclusion: Asia's new growth model**

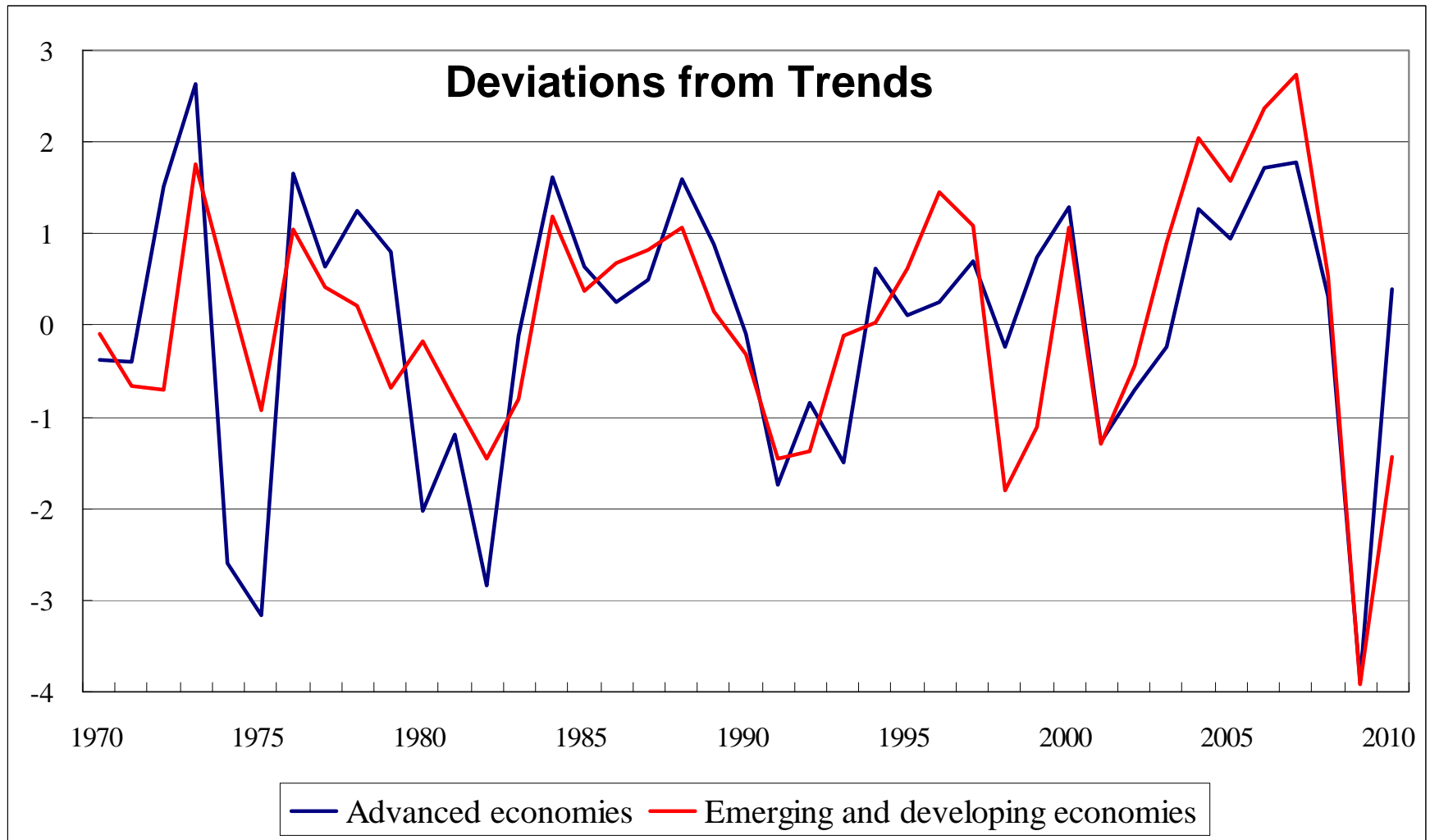
- **Balancing regional savings and investment**
  - for sustainable growth
  - market integration, including services and finance
  - exchange rate adjustment supported by CMIM/AMF
- **Asian “green new deal”**
  - new sources of growth
  - international support needed for technology transfer, financial assistance, capacity building
- **Social sector protection initiative**
  - key for socially sustainable growth
  - basis for supporting household consumption
- **Regional cooperation and integration is critical**



# “Trend decoupling” in real GDP growth 1970-2010



# “No decoupling” in GDP growth cycles 1970-2010



Source: Computed from IMF, WEO (October 2008) and WEO Update (April 2009)

# China, ASEAN and India

<b>Size of GDP</b>	<b>2008</b> Trill. USD	<b>2014</b> Trill. USD	<b>2020</b> Trill. USD
<b>United States</b>	<b>14.3</b>	<b>16.9</b>	<b>23.8</b>
<b>EU-27</b>	<b>18.4</b>	<b>17.9</b>	<b>20.5</b>
<b>Japan</b>	<b>4.9</b>	<b>5.4</b>	<b>6.3</b>
<b>China</b>	<b>4.4</b>	<b>8.5</b>	<b>15.3</b>
<b>ASEAN</b>	<b>1.4</b>	<b>1.9</b>	<b>2.6</b>
<b>ASEAN+3</b>	<b>11.7</b>	<b>16.7</b>	<b>24.8</b>
<b>India</b>	<b>1.2</b>	<b>1.7</b>	<b>2.7</b>

*Note:* The figures for 2020 are estimated by the author

*Source:* IMF, *World Economic Outlook*, April 2009.

# **Thank you**

## **For more information:**

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