

The Global Economic Crisis and Rebalancing Growth in Asia : Key Issues*

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I. Impact of the crisis : Deeper and Scary

- Large variations in Forecasting: Is the end near?

Country	2009		2010
China	7.0*	6.0**	6.5*
Japan	-	-6.4	-
Hong Kong	-2.0	-5.9	8.6
Korea	-3.0	-10.1	4.0
Singapore	-5.0	-7.5	3.5
Taiwan	-4.0	-9.3	2.4
Indonesia	3.6	1.9	5.0
Malaysia	-0.2	-3.0	4.4
Philippines	2.5	-1.9	3.5
Thailand	-2.0	-4.4	3.0

Source : *Asian Development Bank, March 31 2009

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

- Crisis contagion has thrown Asia into a deeper recession through:
 - <Trade Channel>
 - Exports are plunging at double digit rates
 - So are Imports, producing recession surpluses
 - <Financial Market Channel>
 - . Financial meltdown in the US => contraction of global financial intermediation=>dollar liquidity shortages => deeper recession in Asia
 - . Asset prices nosedived and many currencies 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**
 - **Anecdotal evidence suggests that the volume of Asia's intra-regional trade is shrinking rapidly**
 - **Financial linkages constitute a key channel of crisis transmission for emerging market economies (IMF April WEO)**

- Why have Asian NIEs been hit harder? Is their performance predicated on:
 - Export dependence(Yes and No, see Netherland)
 - Export-push growth strategy(Yes)
 - Degree of trade liberalization(?)
 - 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)

II. Policy Responses to the Crisis

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

- **Preoccupation with fiscal stimulus may incur long-run losses: A serious problem?**
 - **Domestic demand stimulation conceals structural weaknesses that call for reform**
 - **The delayed reform will undermine long-run growth potential**
 - **Domestic stimulus should be accompanied by institutional reform including financial reform**

- **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' expectations
 - The collective action problem may frustrate regional efforts

III. Rebalancing Growth

- **What is meant by Rebalancing?**
 - The ultimate objective is not to restore current account balance
 - Export-led growth of market-oriented and open economies may generate a surplus or deficit
 - Rebalancing should focus on rectifying the bias of the incentive scheme in favor of particular sectors such as export-oriented industries
 - Rebalancing needs to remove impediments to consumption and investment in Asia