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THE GLOBAL ECONOMIC CRISIS, REGIONAL POLICY COORDINATION AND REBALANCING GROWTH IN ASIA

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The Global Economic Crisis, Regional Policy Coordination 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

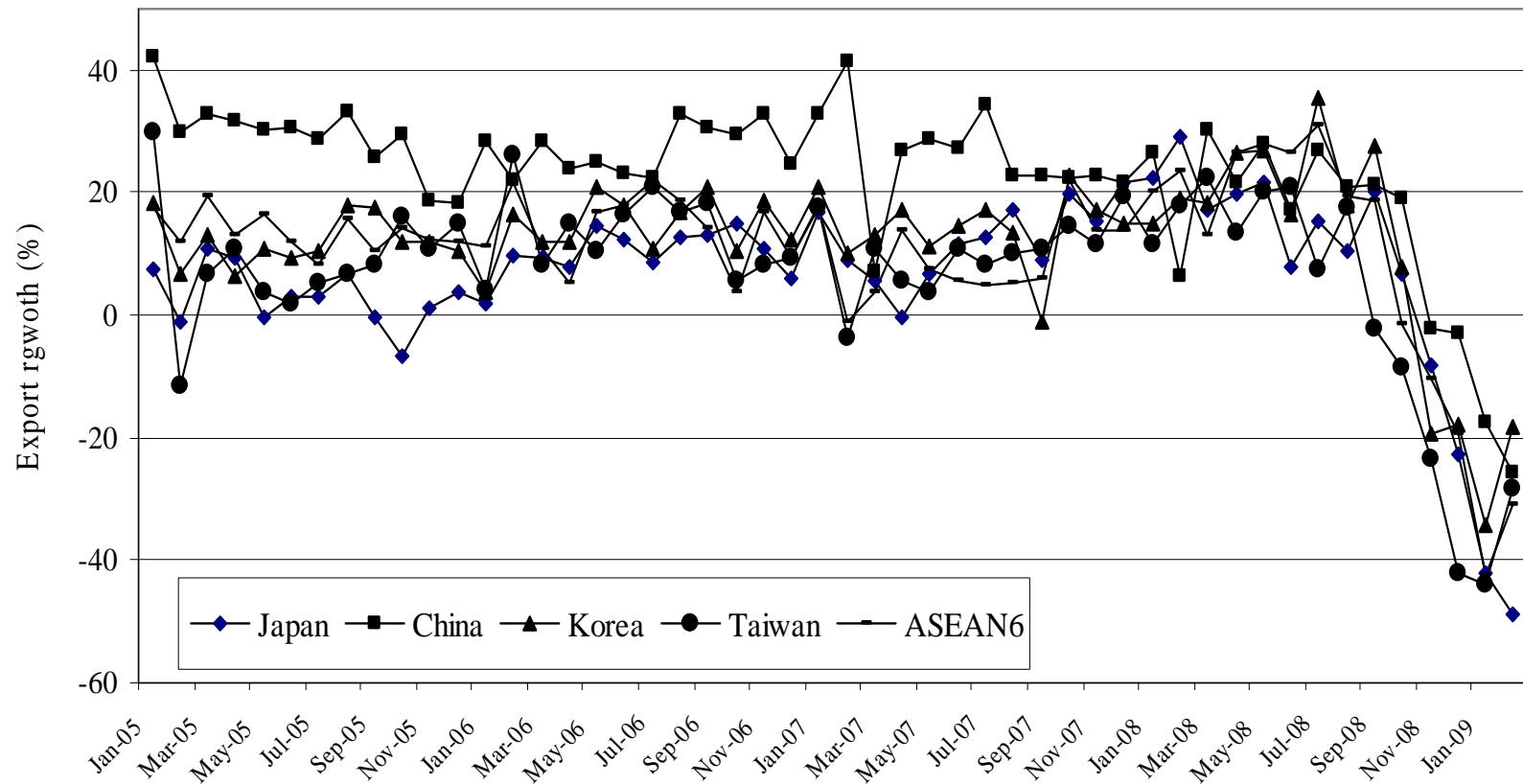
Source : * *International Monetary Fund, World Economic Outlook, April 2009*

** *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

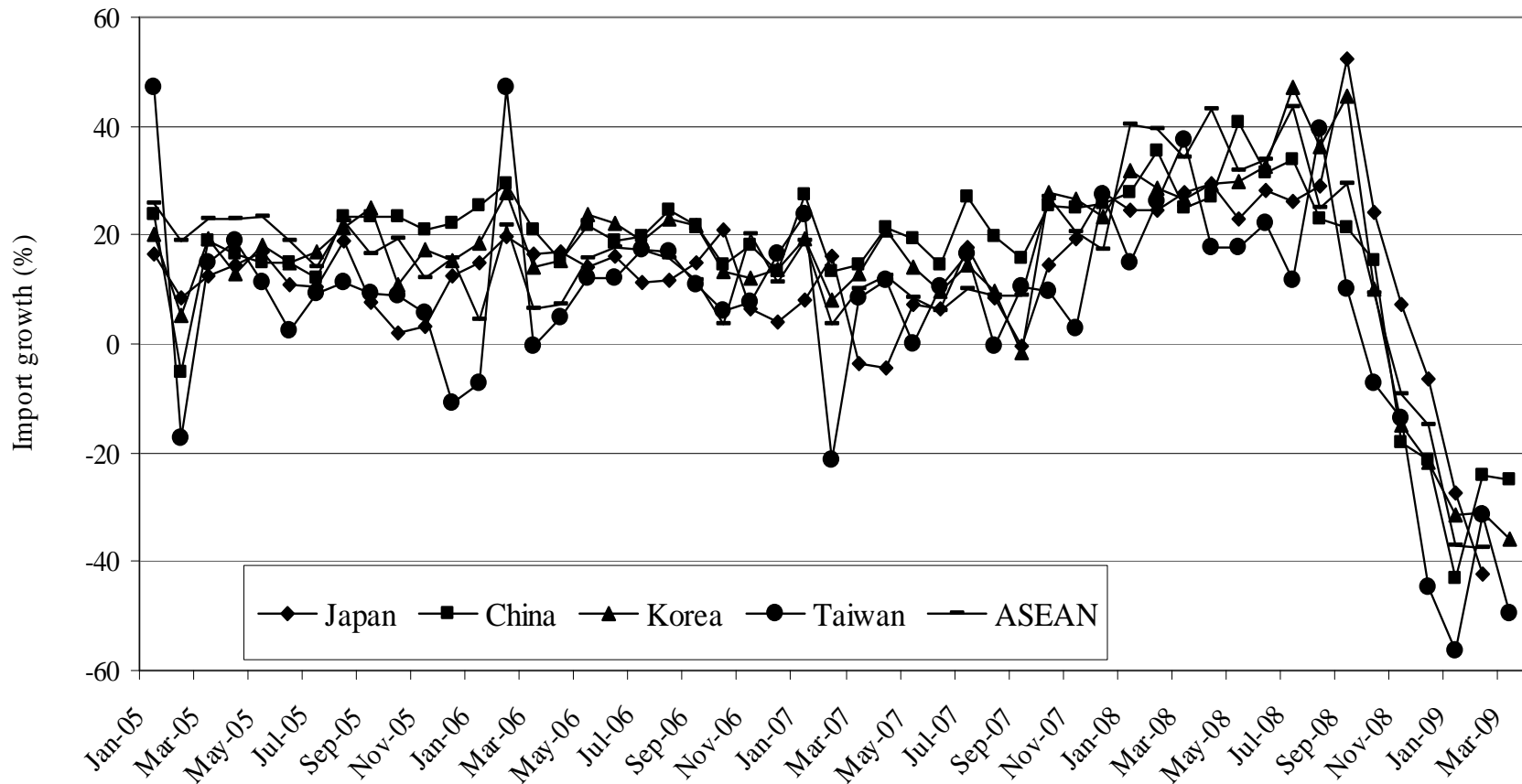
- **Uncoupling or Recoupling of Asia : Too early to judge?**
 - **China has not been able to substitute US and Europe as a regional engine of growth**
 - **Japanese market for Asian exports has contracted**
 - **Financial linkages constitute a key channel of crisis transmission for emerging market economies (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
 - 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. Regional Movements for the Prevention of Future Crisis

- A regional financial and monetary cooperation is built around a liquidity support system, a cooperative arrangement for exchange rate policy, and a surveillance system
 - ASEAN+3 has succeeded only in constructing a mutual liquidity support system known as the Chiang Mai Initiative Multilateralization (CMIM) for ASEAN5 and plus 3

- **The CMIM is a multilateral arrangement governed by a single contractual agreement**
 - A total size of \$120 billion in pooled reserves contributed by ASEAN 5 and plus 3
 - Supported by a soft surveillance system known as the Economic Review and Policy Dialogue (ERPD)
 - Any member drawing more than 20 percent of its borrowing limit is subject to the IMF conditionality

- Other key aspects of the CMIM including borrowing accessibility, activation mechanism, decision making rules, and lending covenants will be worked out
- ASEAN +3 is committed to constructing a credible surveillance system to monitor the economic and financial situations of its member countries
- ERPD will be strengthened to serve as the ASEAN+3 surveillance system

- Once a credible regional surveillance system is constructed, the CMIM will become a *de facto* regional monetary fund
 - Monetary unification is at best a long-term objective
 - The creation of a regional monetary fund will be an intermediate step toward monetary integration
 - It will help enhance exchange rate policy cooperation

IV. 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