

# **East Asia-Crisis Aftermath: Recovery and Challenges in Asia**

**Friska Parulian, PhD  
Economic Research Institute for ASEAN and East Asia (ERIA)**

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**\* The views expressed in this presentation are those of the author and do not necessarily represent those of the ERIA or ERIA policy.**

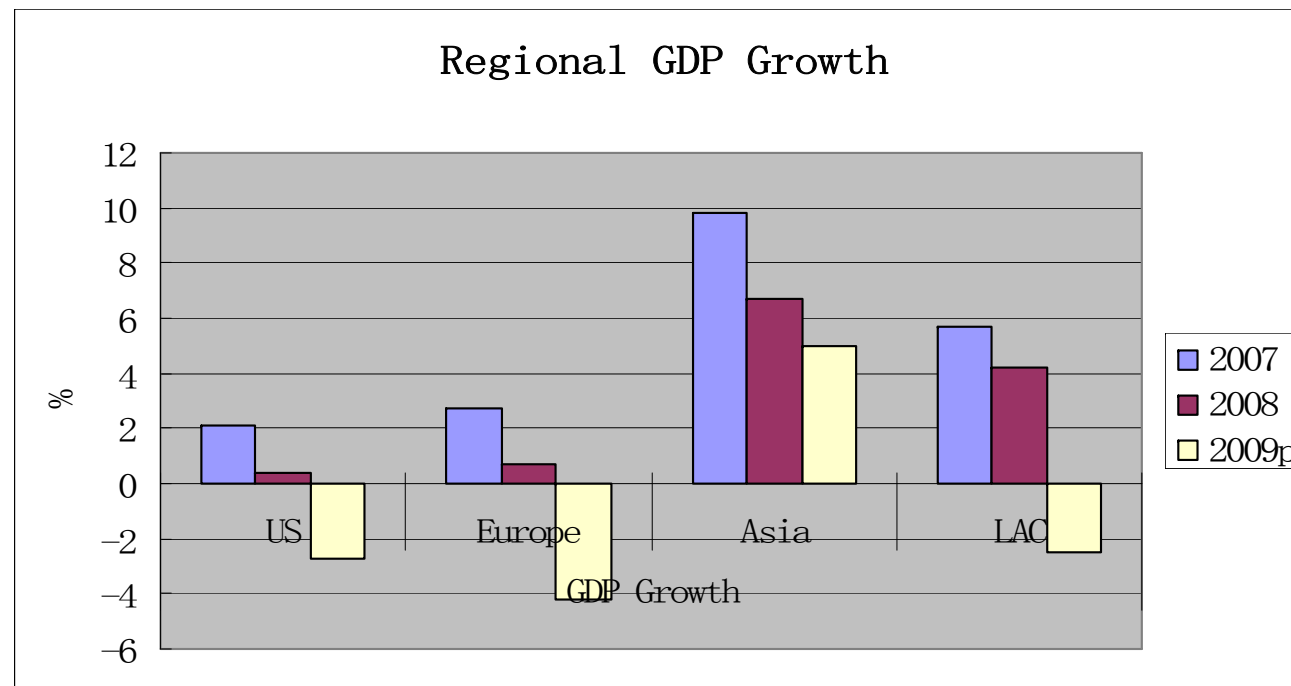
# OUTLINE

- ◎ Crisis: Regions Overview & Comparison
- ◎ Impact for Asia
- ◎ Policy Responses : Fiscal and Monetary Policy
- ◎ Recent Development
- ◎ Challenges and Policy Cooperation to Build Domestic Demand

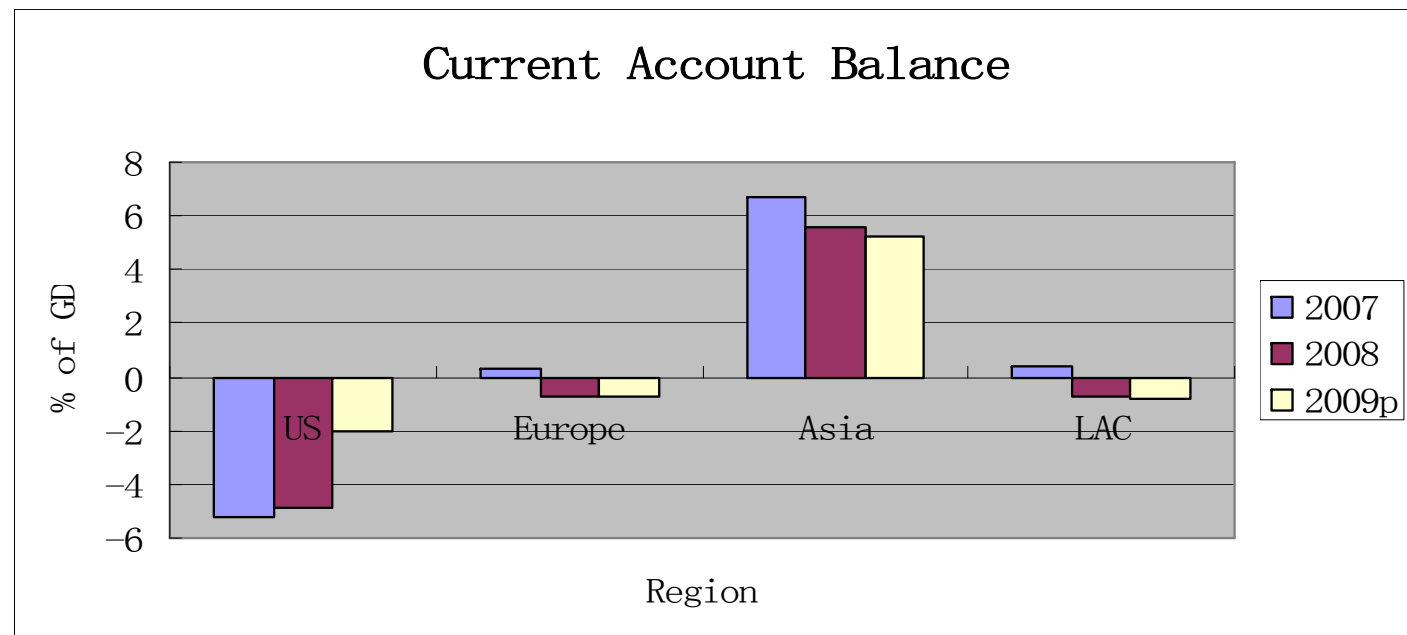
# CRISIS: REGIONAL PERSPECTIVE

Region	Source/impact of crisis
US	Epicenter of the crisis, squeeze on credit, sharp falls in housing and equity prices, high uncertainty
Europe	Financial system blow down, housing correction, industrial production decline by decline in durables demand
Asia	Shrink in global trade, heavy dependence on manufacturing export, pressure on domestic investment, volatility in foreign exchange market
Latin America	Drop in commodity prices, reducing capital inflow, volatility in equity and foreign exchange market

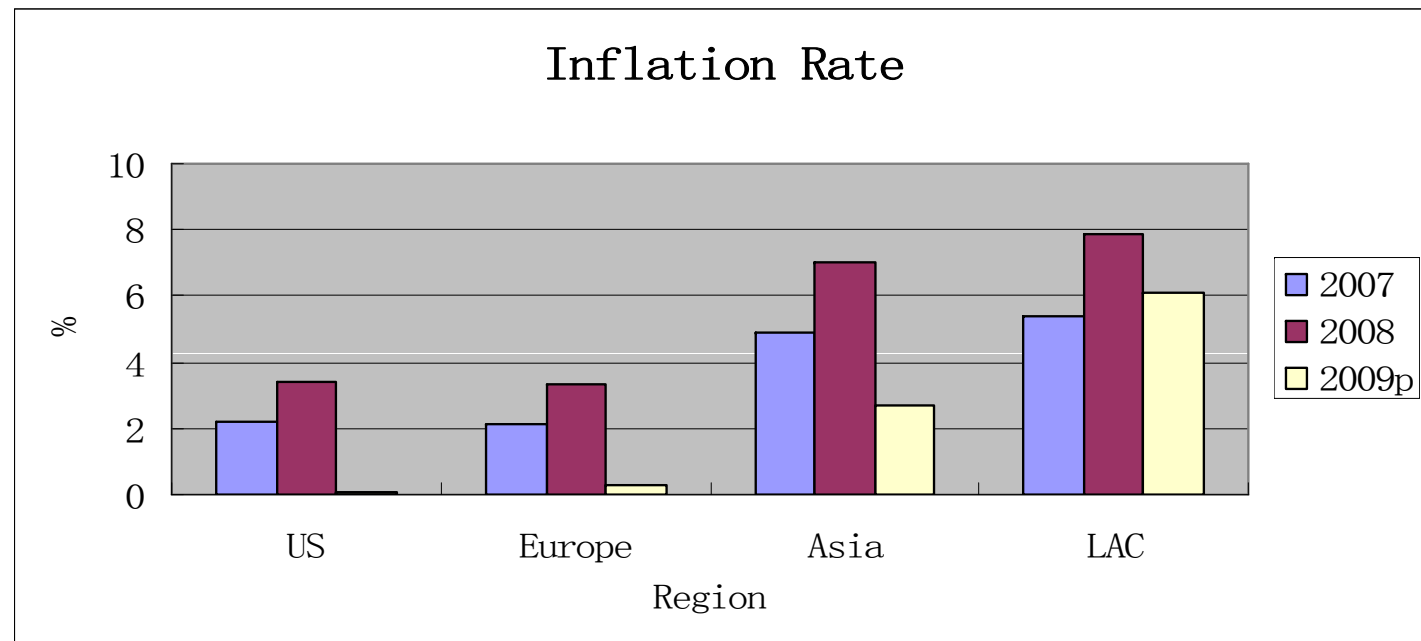
# REGIONAL ECONOMIC INDICATORS: PRE AND DURING THE CRISIS



# REGIONAL ECONOMIC INDICATORS: PRE AND DURING THE CRISIS



# REGIONAL ECONOMIC INDICATORS: PRE AND DURING THE CRISIS



# PRE-CRISIS CONDITION

US	Europe	Asia	LAC
-Housing market bubbles	-Robust export and employment growth	-Strong export growth	-High dependency on commodity, but better fiscal condition
-Trade and fiscal deficit	-Strong investment	-Solid investment	-Lagging in labour productivity
-Highly indebted household & private sector	-Lower labour utilization compare to US	-Saving and reserves surplus	-Facing inflation pressure

# FISCAL POLICY RESPONSE

US	Europe	Asia	LAC
-Fiscal stimulus package 4.6% of GDP	-EU stimulus package 1.5% of GDP	-Fiscal stimulus varies from 1.2% to 22% of GDP	-Fiscal stimulus 0.4%–1.6% of GDP
-Federal tax cuts	-VAT and CIT tax cut	-Infrastructure investment	-Focus on public works
-Expansion on unemployment benefit	-Infrastructure project, support in health and education	-Support on SME and social safety net	-Mainly in transport, water and sanitation, energy and public housing
-Infrastructure, education, and health care and social safety net	-Liquidity help to household	-Tax cut and employment generation	



# MONETARY POLICY RESPONSE

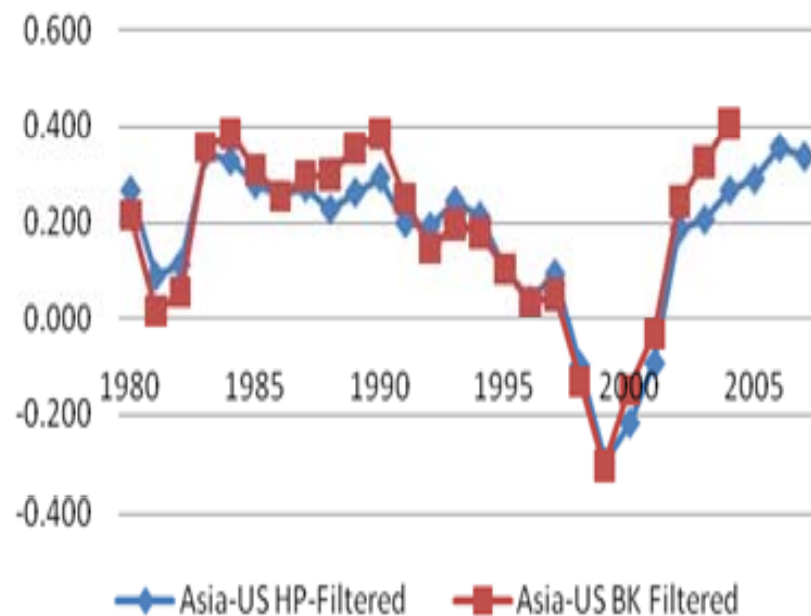
US	Europe	Asia	LAC
-Provision of short term liquidity to financial institutions	-Reduce policy rate and blanket guarantee	-Policy rate and reserve ratio cut	-Open currency swap link with FED
-Provision of liquidity directly to borrowers and investor in credit markets	-Liquidity provision through fixed rate and maturity extension	-Liquidity injection and exchange rate arrangement	-Liquidity provision in foreign exchange and domestic market
-Purchase of long term securities for FED' s portfolio	-Enhanced credit support	-Credit quotas lifting (China)	-Extension of credit

# CHANNEL OF TRANSMISSIONS TO ASIAN ECONOMIES

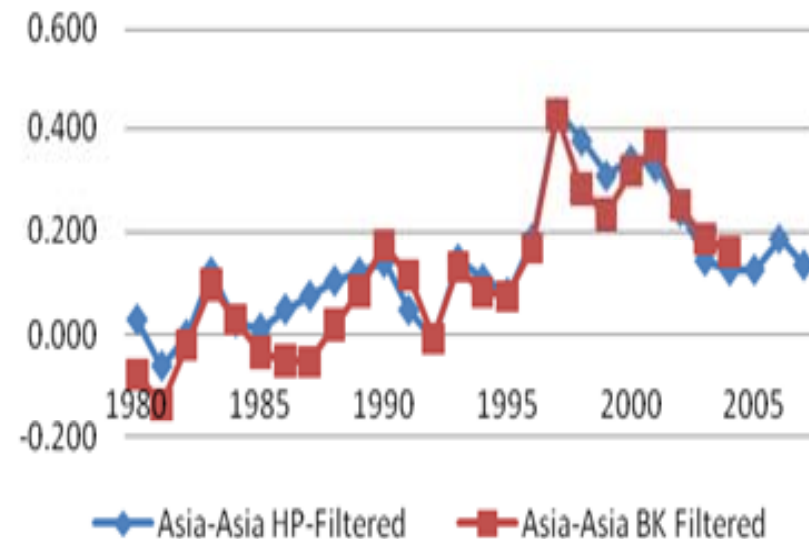
1. Pressure on domestic investment
2. Liquidity constraint, volatility in capital and foreign exchange market
3. Declining trade volume through lower export demand
4. Pressure on private consumption (decline in remittance, commodity price and worse job market )

# HARDLY HIT BECAUSE MORE SYNCHRONIZED BUSINESS CYCLE WITH THE US

### Business Cycle Synchronization Asia-US



### Business Cycle Synchronization Intra Asia



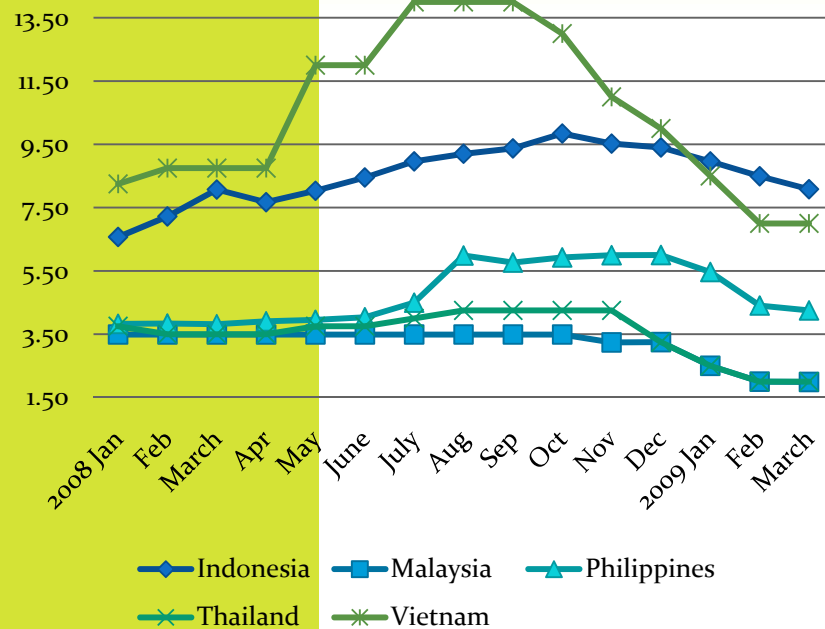
# □ POLICY RESPONSES : FISCAL AND MONETARY POLICY

# MONETARY POLICY: EAST ASIA & INDIA

Country	Monetary Policy Instrument
JAPAN	Policy rate, reserve ratio, liquidity injection, non-traditional measures (purchase of corporate bond and commercial paper)
KOREA	Policy Rate
CHINA	Policy rate, lifting credit quotas
INDIA	Policy rate

# MONETARY POLICY RESPONSE IN SOUTHEAST ASIA

**Monetary Policy Easing  
(Policy Rate in %)**



Country	Policy rate	Reserve ratio	Liquidity injection	Exchange rate arrangement
Cambodia	X	O	X	O
Indonesia	O	O	O	O
Lao PDR	X	X	X	X
Malaysia	O	O	X	X
Philippines	O	O	X	O
Singapore	X	X	O	O
Thailand	O	X	X	X
Vietnam	O	O	X	O

ASEAN countries loosened the monetary condition after tightening it in early 2008

# FISCAL STIMULUS PROGRAM EAST ASIA AND INDIA

Component/Country	China	Japan	India	Korea
Low income support or housing	O	X	O	O
Healthcare	O	O	X	X
Environment	O	X	X	X
Post-disaster reconstruction	O	X	X	X
Technological innovation	O	X	X	X
Infrastructure construction	O	X	O	X
Assistance to SME	X	O	O	O
Assistance to daily lives	X	O	X	X
Public Projects/Jobs Creation	O	O	O	O
Sectors or Export Support	X	X	O	X
Tax Cut	n.a	O	O	O
Size	13% of GDP	2% of GDP		4% of GDP
Amount	USD 585 billion	USD 125 billion	USD 6 billion	USD 26 billion

# FISCAL STIMULUS CONDUCTED IN SOUTHEAST ASIA

Components / Country	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Vietnam
<b>Expenditure:</b>								
Infrastructure investment	O	O	O	O	O	O	O	O
Support to SMEs and/or farmers	X	O	X	O	O	O	O	O
Safety net	O	O	X	O	O	O	O	O
Housing/construction support	X	O	X	O	X	O	X	X
Strategic industries support	O	O	X	O	O	X	O	X
Increase/subsidy in wage	O	O	O	O	X	O	O	O
Employment generation	X	O	X	O	O	O	O	O
Other	X	X	X	O	X	O	O	O
<b>% of Total Stimulus</b>	n.a	<b>21.3%</b>	n.a	<b>95.5%</b>	n.a	n.a	n.a	n.a
<b>Revenue:</b>								
Corporate income tax incentives	O	O	O	O	O	O	O	O
Personal income tax incentives	X	O	X	O	O	O	O	O
Indirect tax exemptions	O	O	X	O	X	O	O	O
Other	X	O	O	O	X	X	X	X
<b>% of Total Stimulus</b>	n.a	<b>78.7%</b>	n.a	<b>4.5%</b>	n.a	n.a	n.a	n.a
<b>Stimulus Size (billion US\$)</b>	n.a	6.1	n.a	<b>18.1</b>	6.5	<b>13.7</b>	3.3*	<b>18.6</b>
<b>Stimulus Size (% of GDP)</b>	n.a	1.2%	n.a	10.0%	4.6%	11.5%	1.2%	22.1%

O = with policy response, X = no policy response

\* US\$ 44.3 billion for infrastructure investment during 2010-2012 is not included

Source: ADB.2008; IMF 2008; release of ministries of finance, news releases



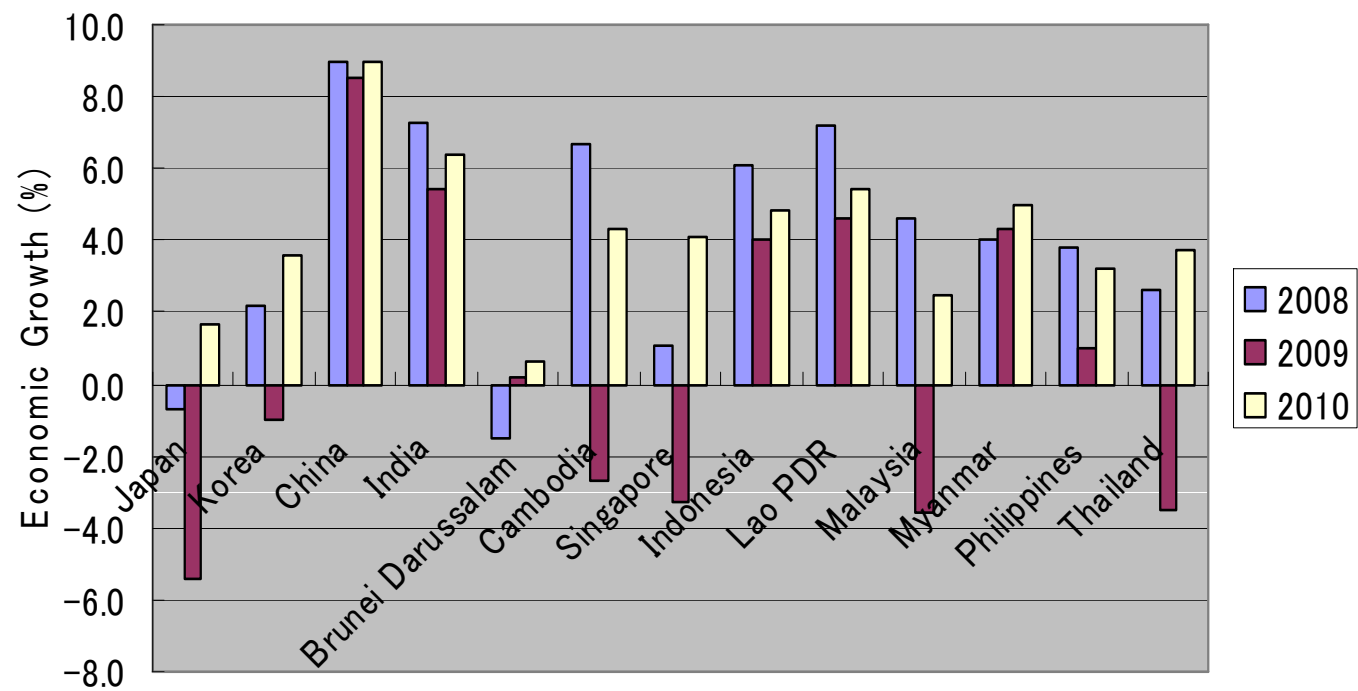
# ISSUES OF THE STIMULUS PROGRAMS

- ◎ The effectiveness of “tax-cut” stimulus in Southeast Asia economy:
  - How much additional spending due to PIT and CIT cut VS loss of potential revenue?
  - Will tax cut increase consumption or saving? Who will be “the better off”
  - Large size of informal sector in the economy
- ◎ What is the source of stimulus funding? Debt, grant, or domestic funding?

## □ RECENT DEVELOPMENTS

# AN ASTONISHING REBOUND?

Figure 7. Recent Development of Asian Economies



# FACTORS OF ASIA'S REBOUND

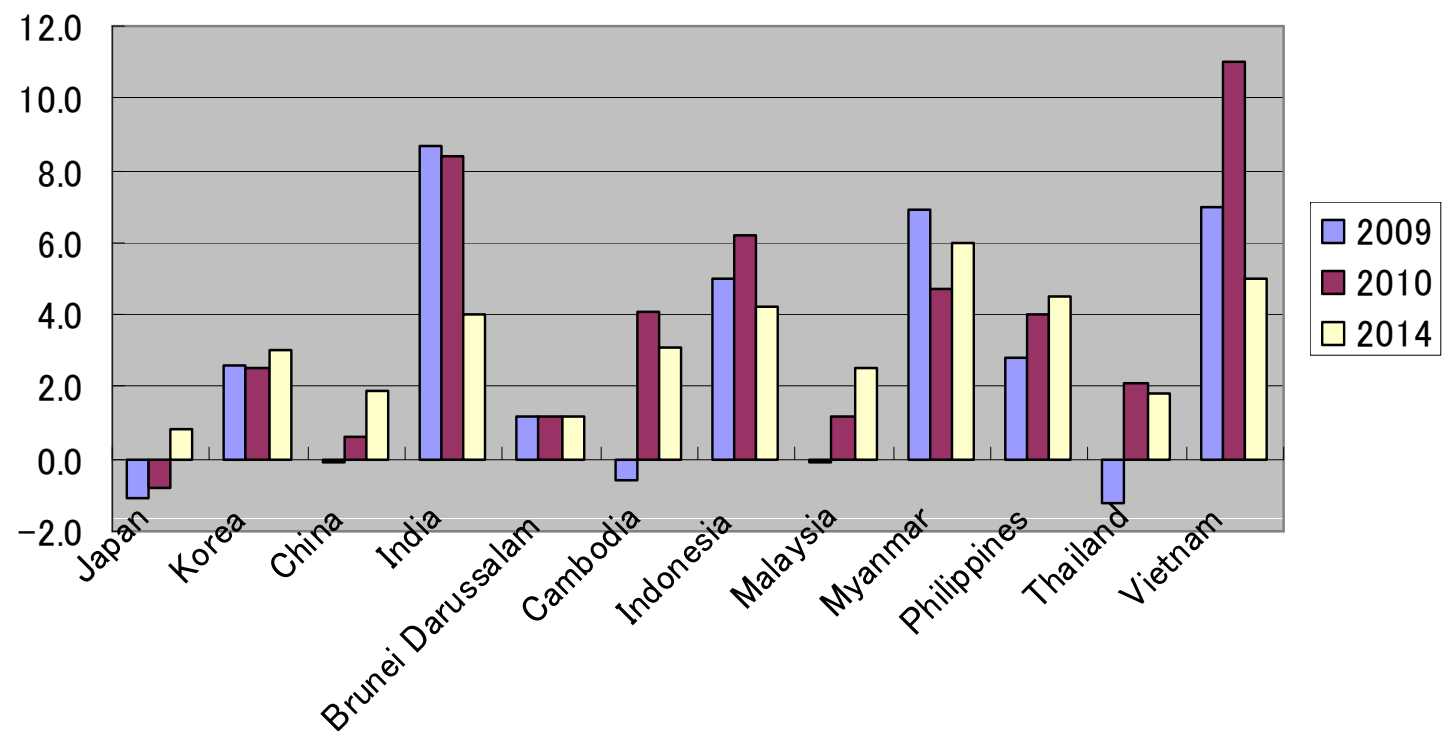
- ◎ Fiscal stimulus was big and work fast
- ◎ A healthier government finances enable government to spend more
- ◎ Low private-sector and households debt + better shape of Asian banks
- ◎ Manufacturing the biggest part of local industries has been back
- ◎ Better flow of trade finance

## CHALLENGES AFTERMATH

- ◎ How to sustain recovery without inflating credit and asset bubbles?
- ◎ How to maintain the economic growth once fiscal stimulus fades?
- ◎ How to build more domestic demand?

# INFLATION RISK

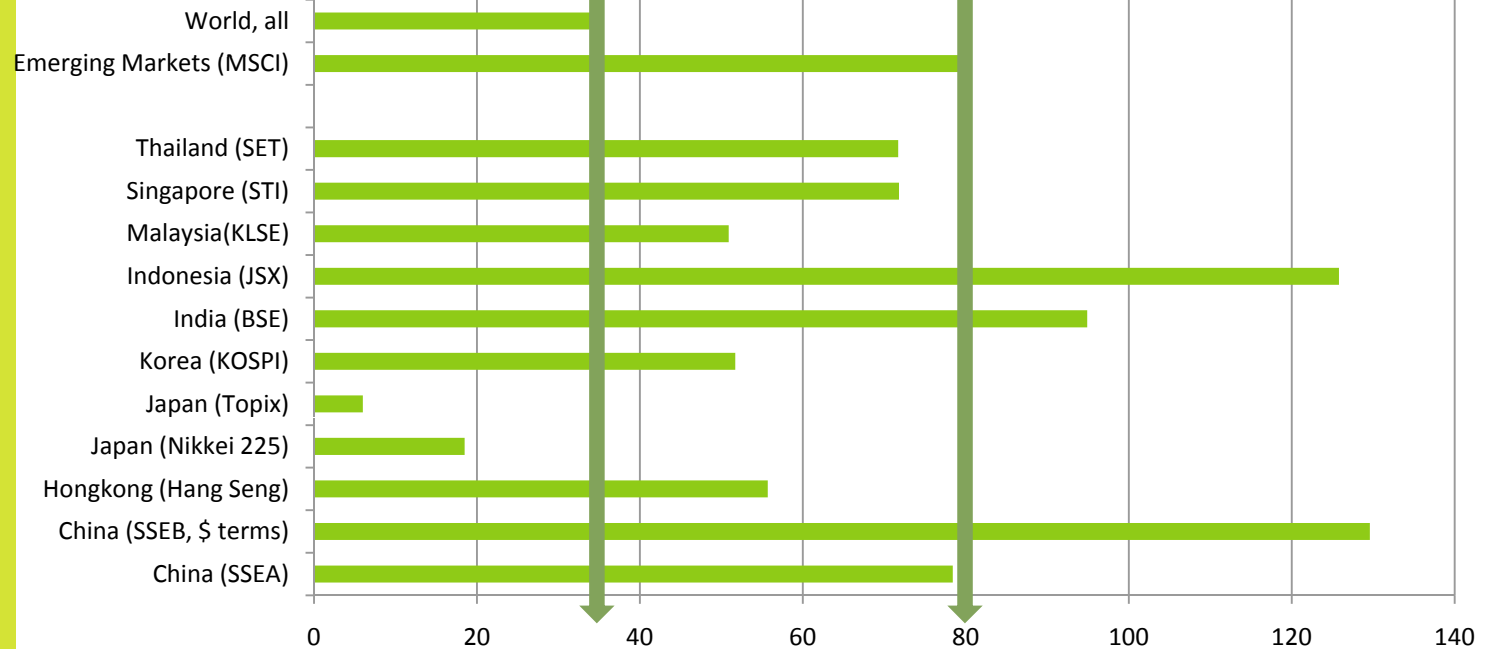
Figure 8. Forecasted inflation in Asian Economies (%)



# ASSET BUBBLES?

## Asian Stock Market (% change to Dec 2008)

Source: The Economist



# □ ADDRESSING THE CHALLENGES AND POLICY COOPERATION IN THE REGION:

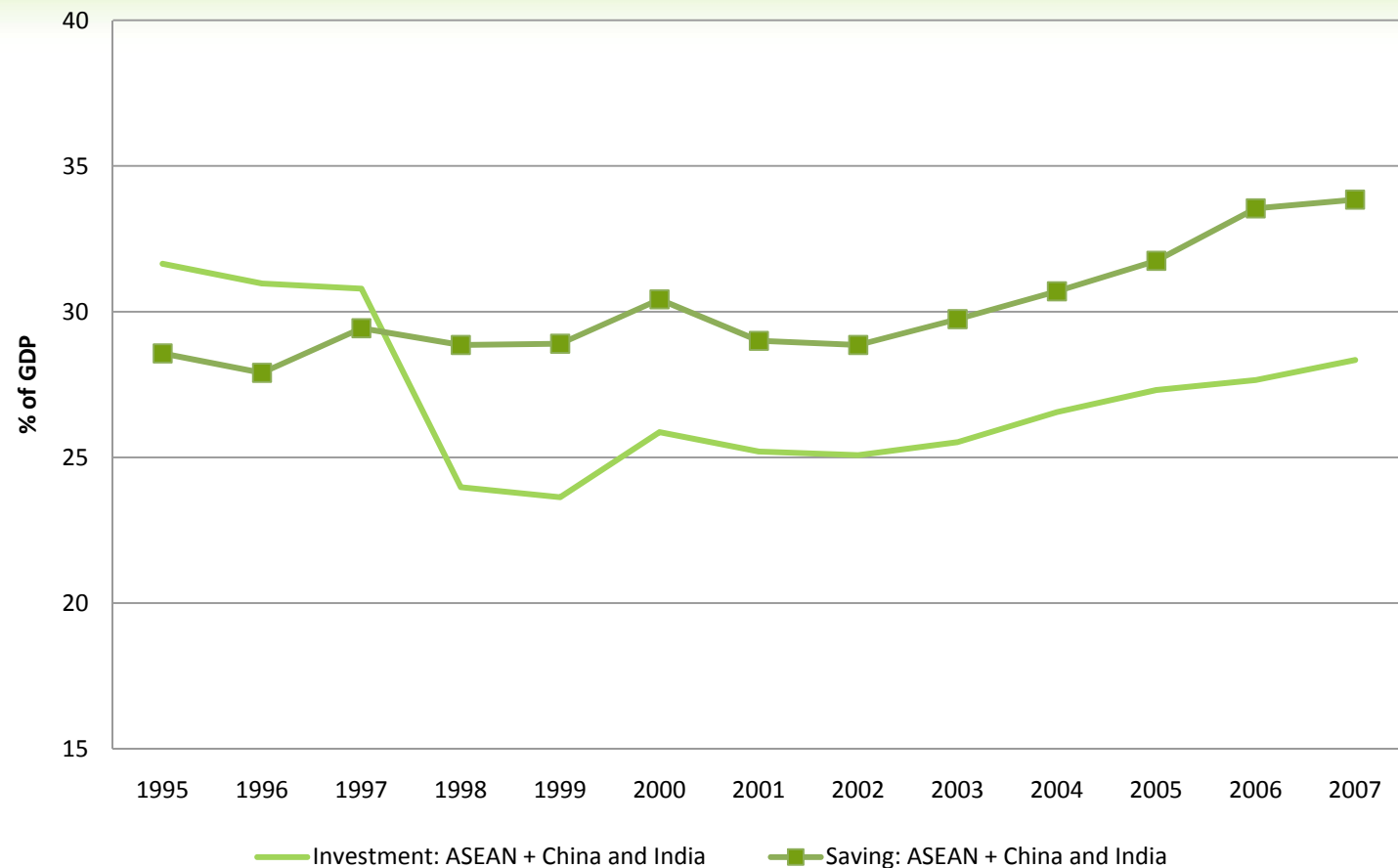


## KEYWORDS:

- 1) Institutional intermediation between growing reserves and saving and investment + infrastructure deficit
- 2) Middle class expansion for deepening domestic market
- 3) Sub-regional development and intraregional trade support

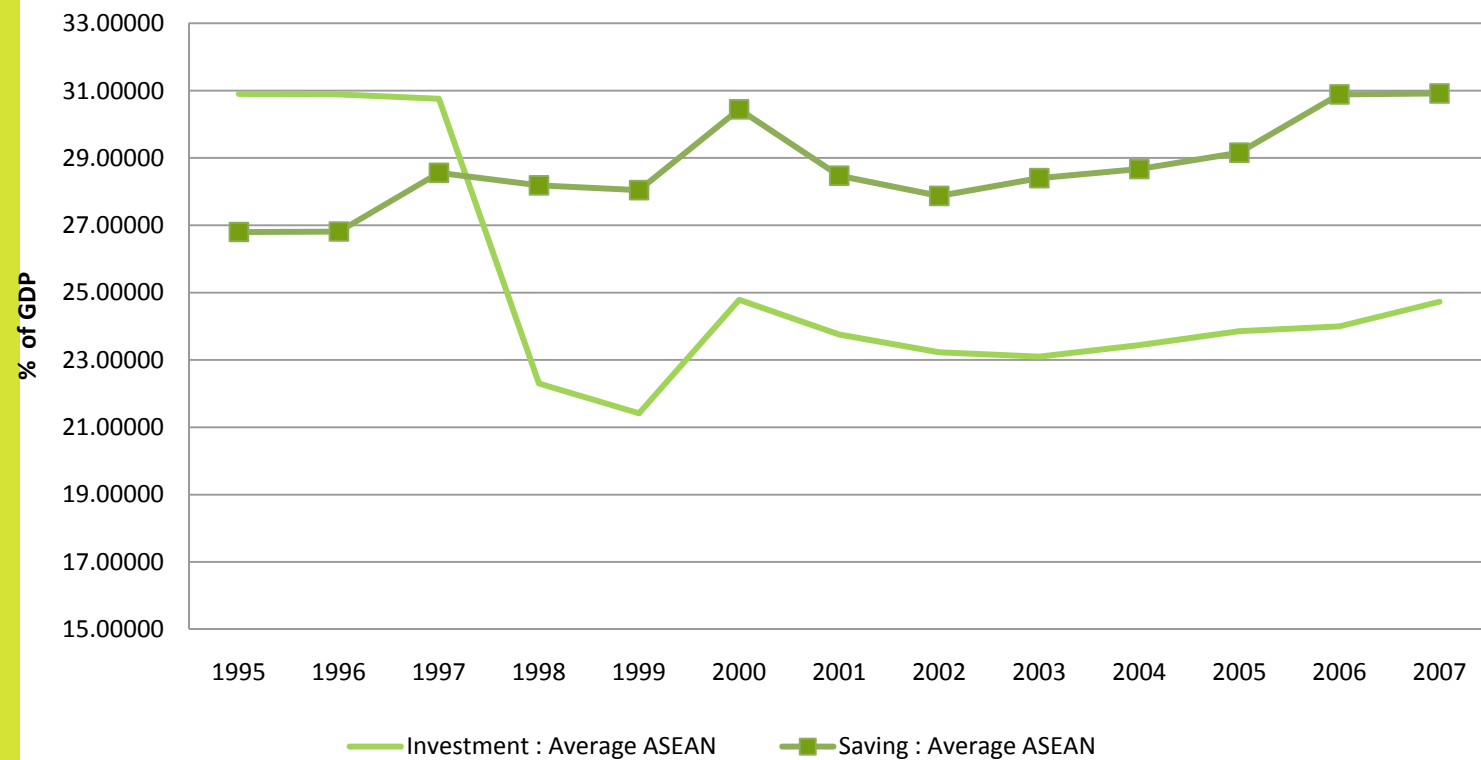
# SAVING AND INVESTMENT IN EAST ASIA

## Saving and Investment in ASEAN+ China and India



# SAVING AND INVESTMENT IN ASEAN COUNTRIES

Saving and Investment  
in 7 ASEAN Countries



# TIME REQUIRED TO START BUSINESS (DAYS)

	2003	2004	2005	2006	2007	2008
<b>Cambodia</b>	94	94	86	86	86	85
<b>Indonesia</b>	168	151	151	97	105	76
<b>Malaysia</b>	30	30	30	30	24	13
<b>Philippines</b>	60	60	58	58	58	52
<b>Singapore</b>	8	8	6	6	5	4
<b>Thailand</b>	33	33	33	33	33	33
<b>Vietnam</b>	63	56	50	50	50	50
<b>China</b>	48	48	48	35	35	40
<b>India</b>	89	89	71	35	33	30

# CHANCE FROM THE FACTS

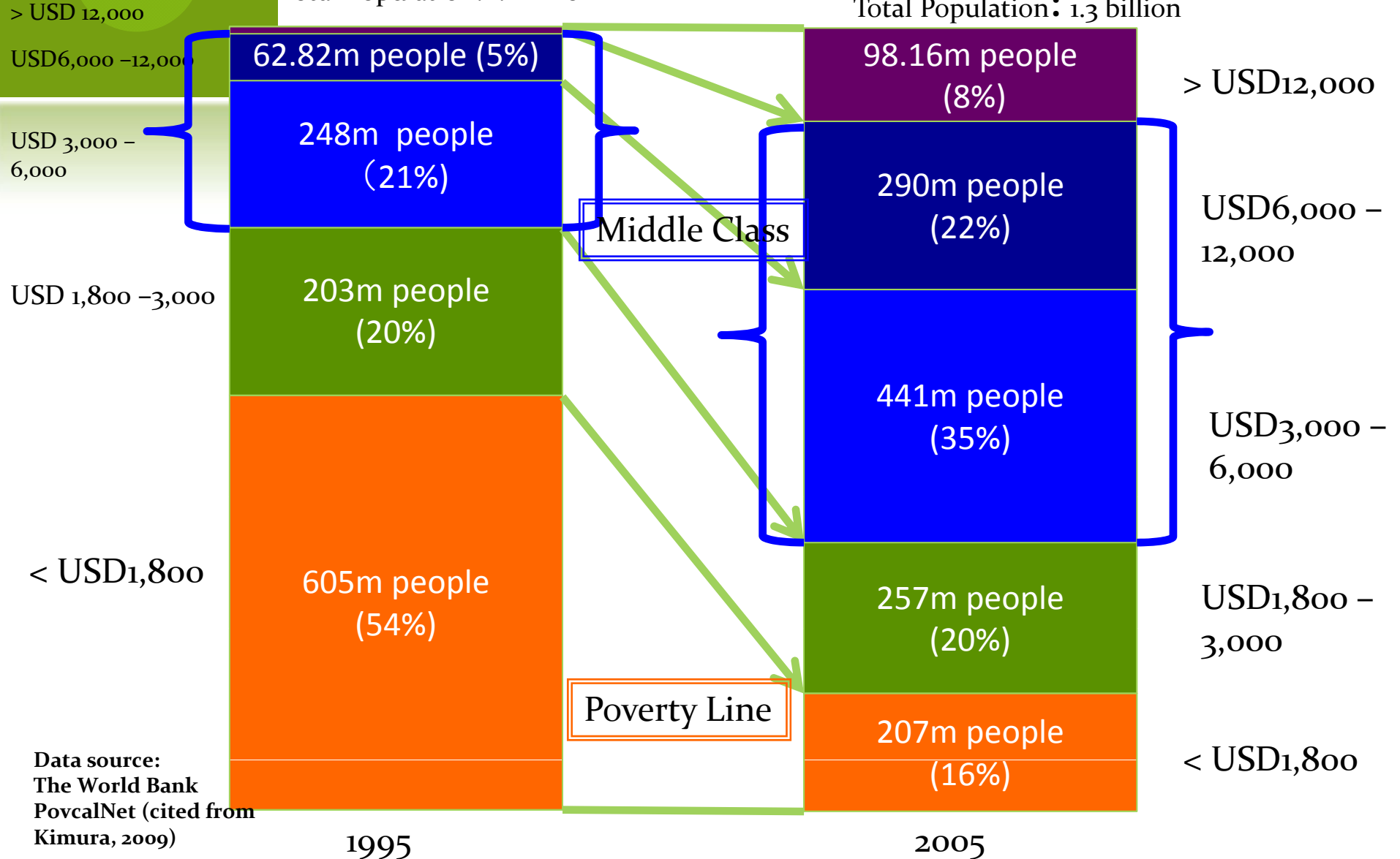
- Large saving-investment gap inside the region + less synchronized business cycle = > higher benefit from risk sharing
- More consumption and less saving as often suggested to balance the global imbalance may be suitable for some Asian countries, but more investment may suit better ASEAN countries
- Improvement in infrastructure and “soft” infrastructure are necessary

# POTENTIAL MIDDLE CLASS SIZE

CHINA (in USD•2005 PPP base)

Total Population: 1.2Billion

Total Population: 1.3 billion

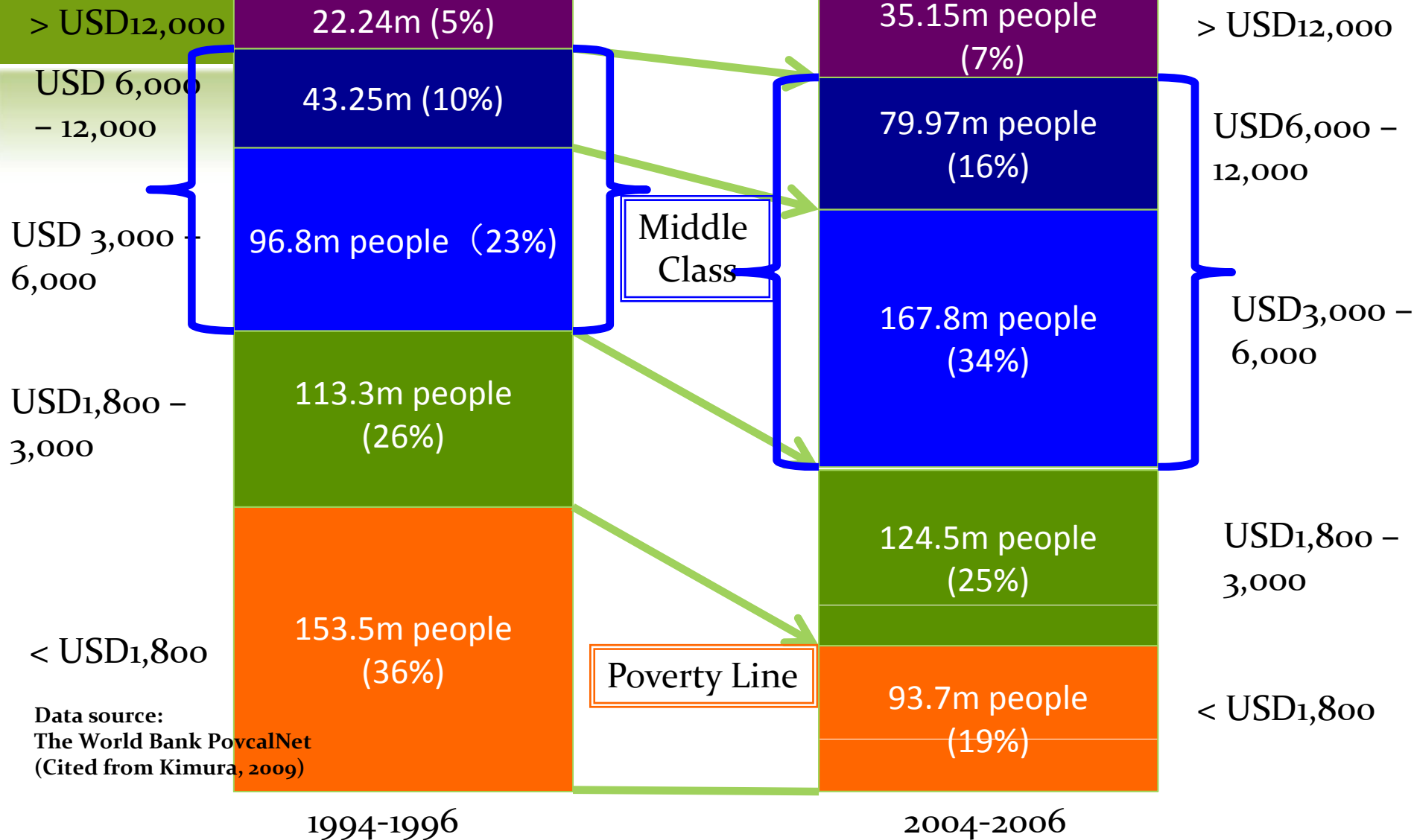


# ASEAN (Excl. Singapore, Brunei and Myanmar)

( in USD•2005 PPP base)

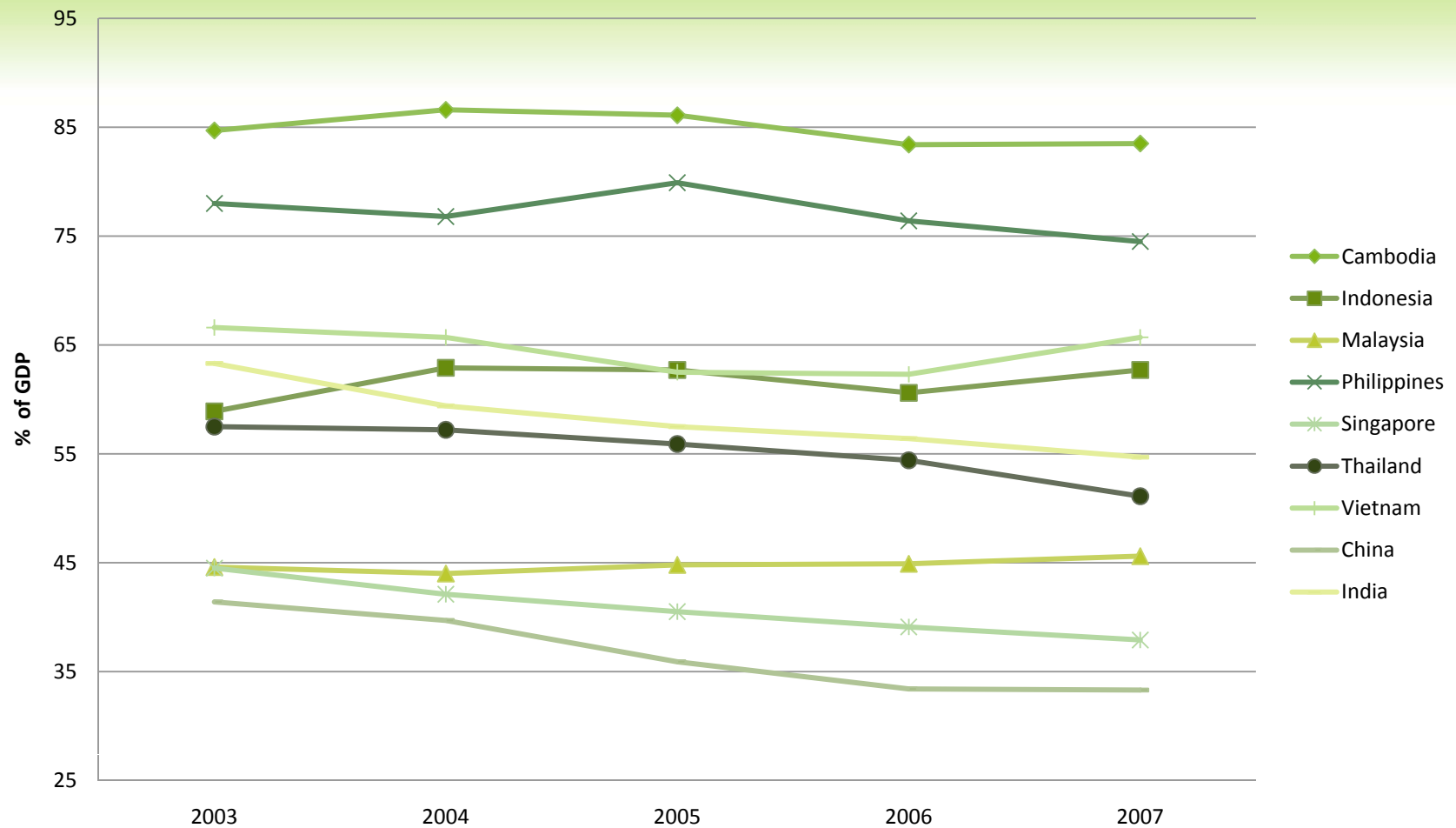
Total Population: 429.14 million

Total Population: 501 million



Data source:  
The World Bank PovcalNet  
(Cited from Kimura, 2009)

# ASIAN HOUSEHOLD FINAL CONSUMPTION EXPENDITURE





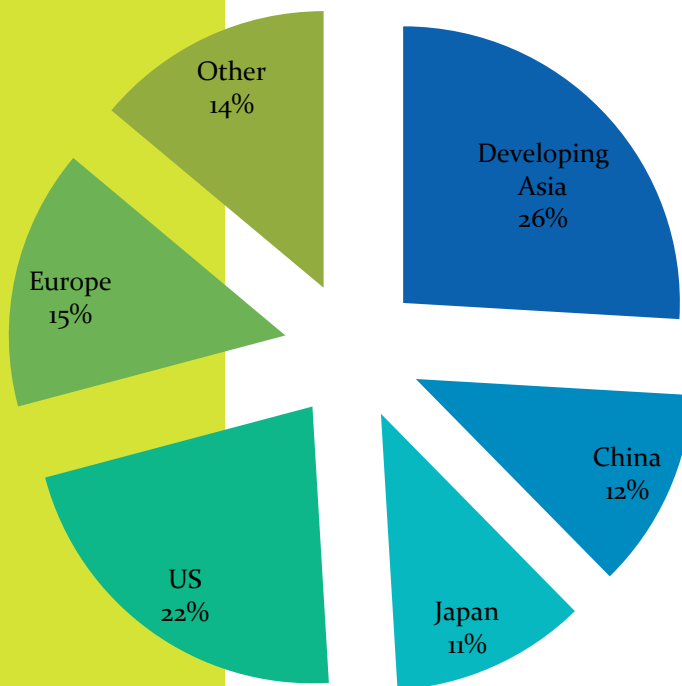
# CHALLENGES FOR THE REGION

- ③ Further regional financial integration with prudent regulation while narrowing development gap in the region
- ③ Creation of viable instrument for saving to go to long term investment in the region
- ③ Induce consumption may suitable for countries like China, Japan and India, but investment is more crucial for ASEAN countries
- ③ Business environment improvement and clear regulatory side for PPP to support intermediation of financial saving into physical investment

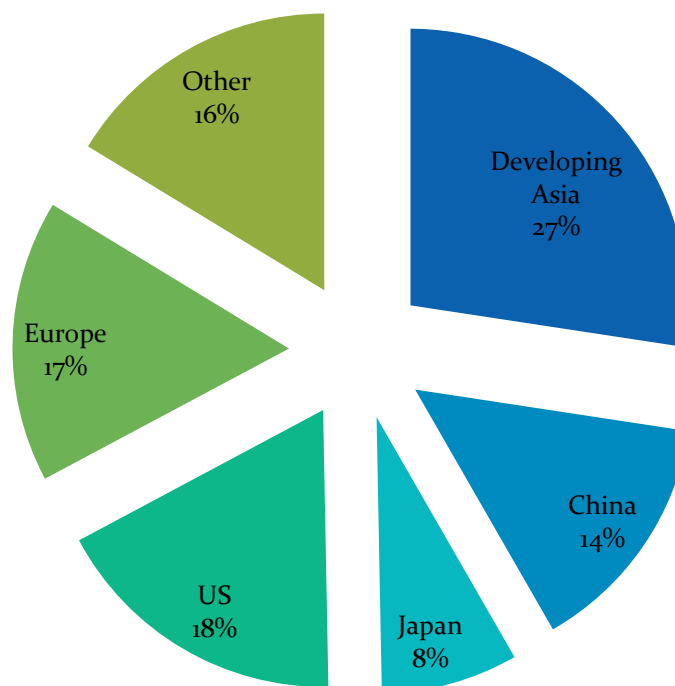
# ☐ SUB REGIONAL DEVELOPMENT AND INTRAREGIONAL TRADE SUPPORT

# INTRAREGIONAL TRADE DEVELOPMENT

**East Asia Trade Direction  
(2000):**



**East Asia Trade Direction  
(2006):**

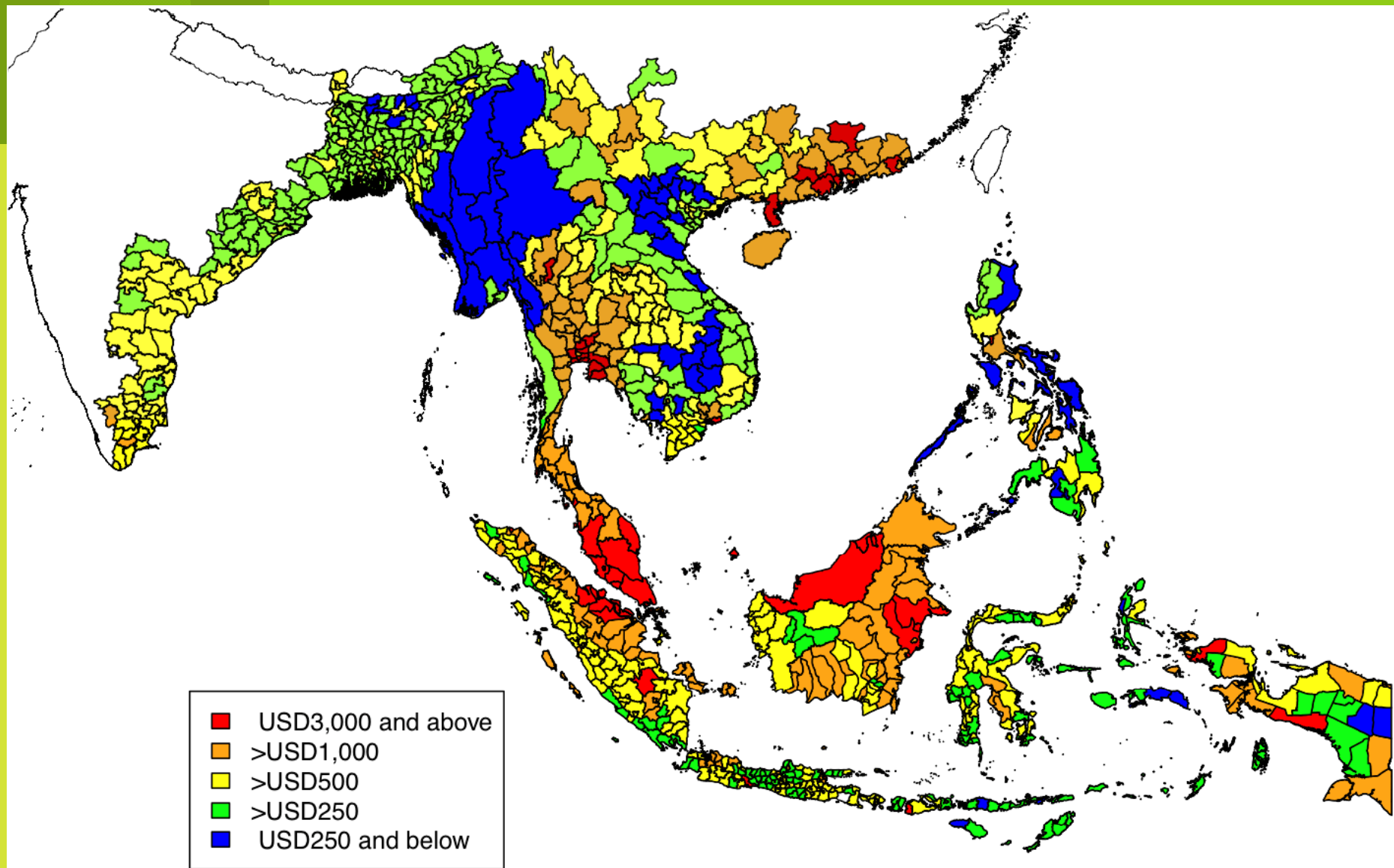


# BASIC CONCEPTS OF SUB-REGIONAL DEVELOPMENT

- ◎ The plan will provide a grand spatial design of economic infrastructure and industrial placement.
- ◎ The strength of the ASEAN and East Asian economies has resided in the development of international production networks.
- ◎ Application of a novel analytical approach based on new waves of international trade theory:
  - ◎ The fragmentation theory
  - ◎ New economic geography
- ◎ Pursue both “deepening economic integration” and “narrowing development gaps” at the same time

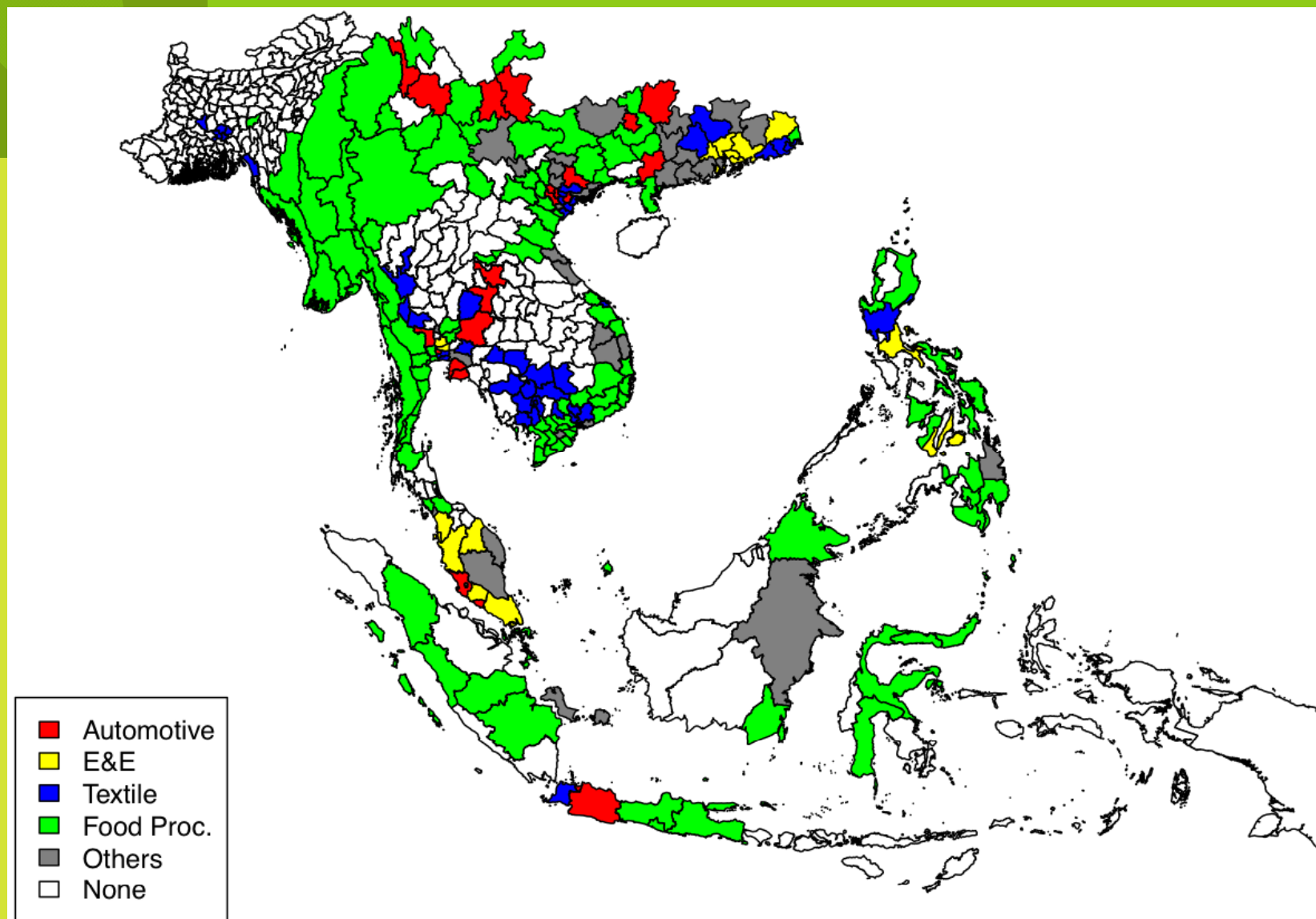
(Cited from: “Comprehensive Asia Development Plan”, Prof. Fukunari Kimura – ERIA Chief Economist)

## ➤ NOMINAL GRDP PER-CAPITA (2005)



Source: ERIA / IDE-JETRO GSM Team.

## ➤ COMPARATIVE ADVANTAGE IN MANUFACTURING SECTOR (2005)

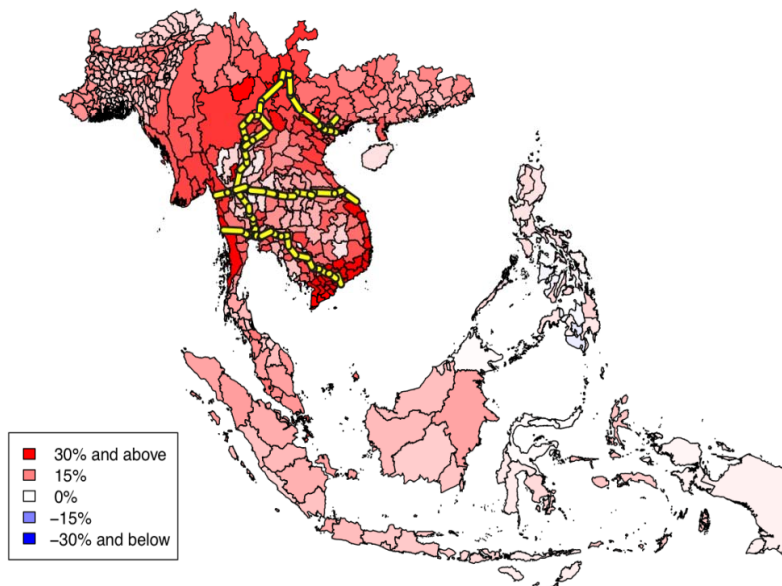


Source: ERIA / IDE-JETRO GSM Team.

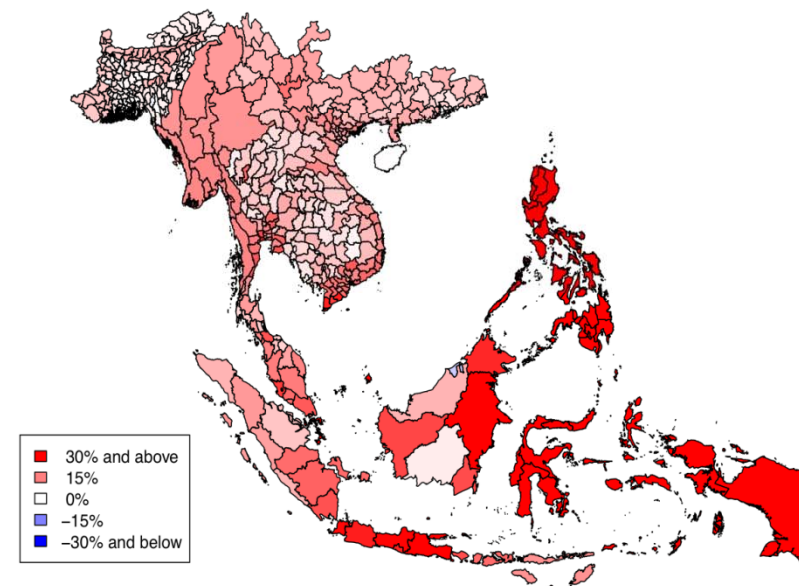
# Geographical Simulation Model

- ERIA developed the IDE/ERIA geographical simulation model, covering 679 cities and 468 regions of 12 countries connected with 866 routes. This model takes in detailed data about various economic activities, and shows the uneven distribution of the flow of goods in this region owing to some obstacles, the lack of, e.g. logistic infrastructure projects and trade facilitation measures at city or province level.
- If these two obstacles are resolved, one costs in trade, Service Link Costs, that link separated production blocks for a final product, are reduced. This accelerates the reduction of costs of input and the increase of the demand from other regions, that makes clusters develop.
- Simultaneous development of key infrastructures are key for maximizing development potentiality in the region.

Gains in Regional GDP; 3 Corridors vs baseline(10 years after)



Impacts of Facilitation of Singapore–Jakarta–Manila and local sea route(10 years after)

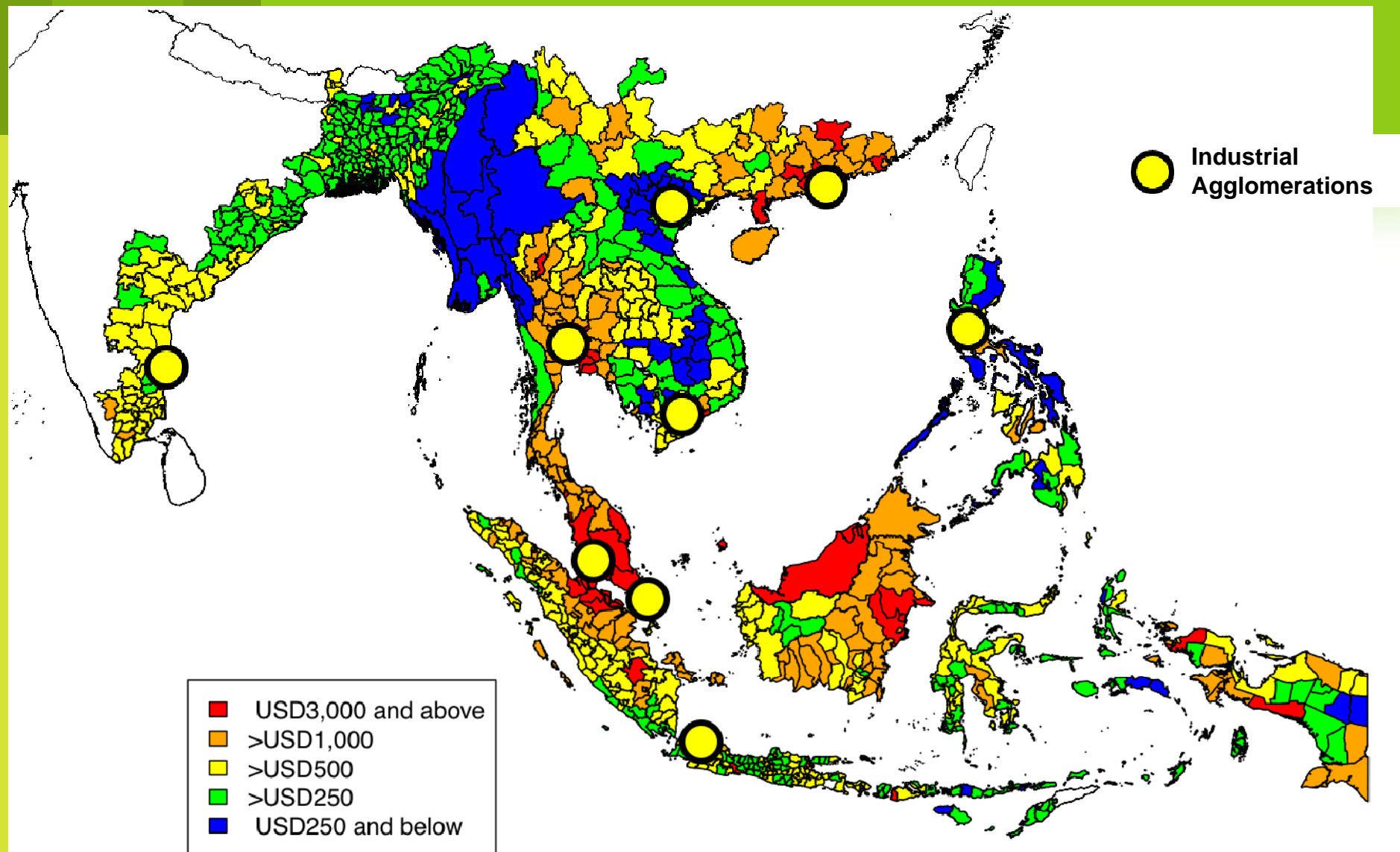


# THREE TIERS OF DEVELOPMENT STRATEGIES

- **Tier 1:** middle-income countries/regions
  - ▶ Make industrial agglomerations innovative
- **Tier 2:** countries/regions close to industrial agglomerations
  - ▶ Push out the frontier of production networks
- **Tier 3:** remote lagging-behind countries/regions
  - ▶ Employ logistics infrastructure as a trigger for a new perspective of industrial development

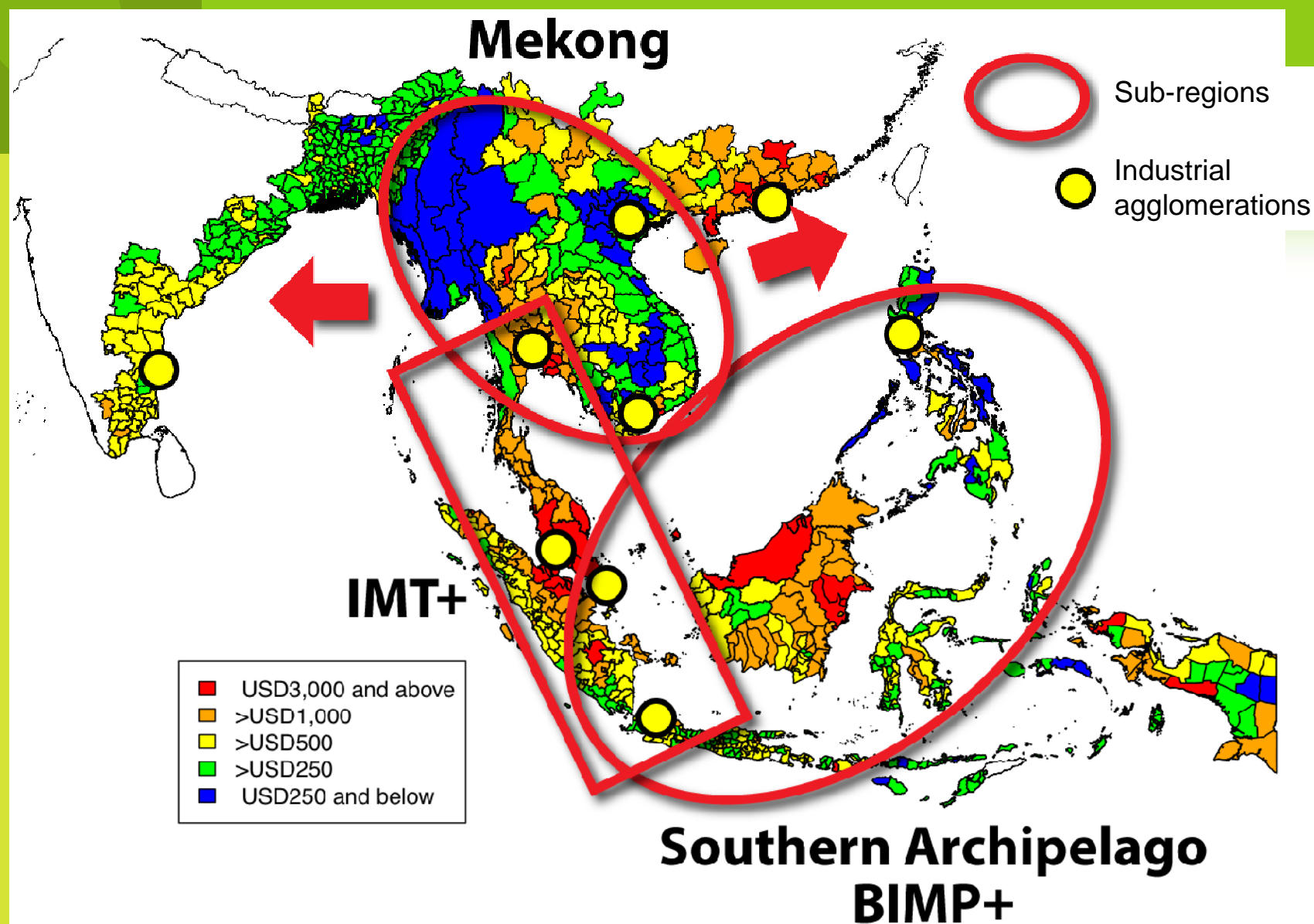


## ➤ INDUSTRIAL AGGLOMERATIONS IN EAST ASIA



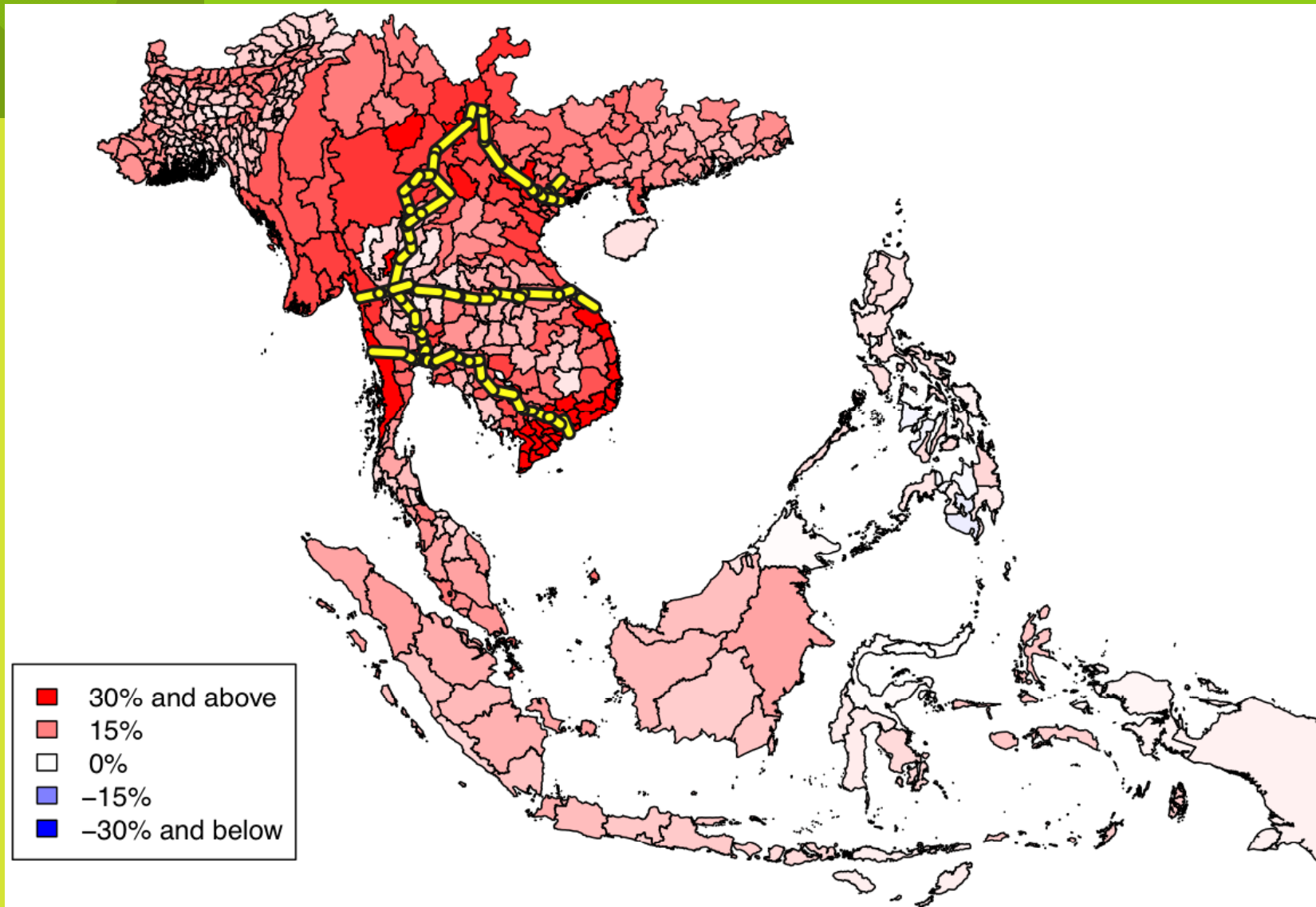
Source: ERIA / IDE-JETRO GSM Team.

## ➤ THREE SUB-REGIONS



Source: ERIA / IDE-JETRO GSM Team.

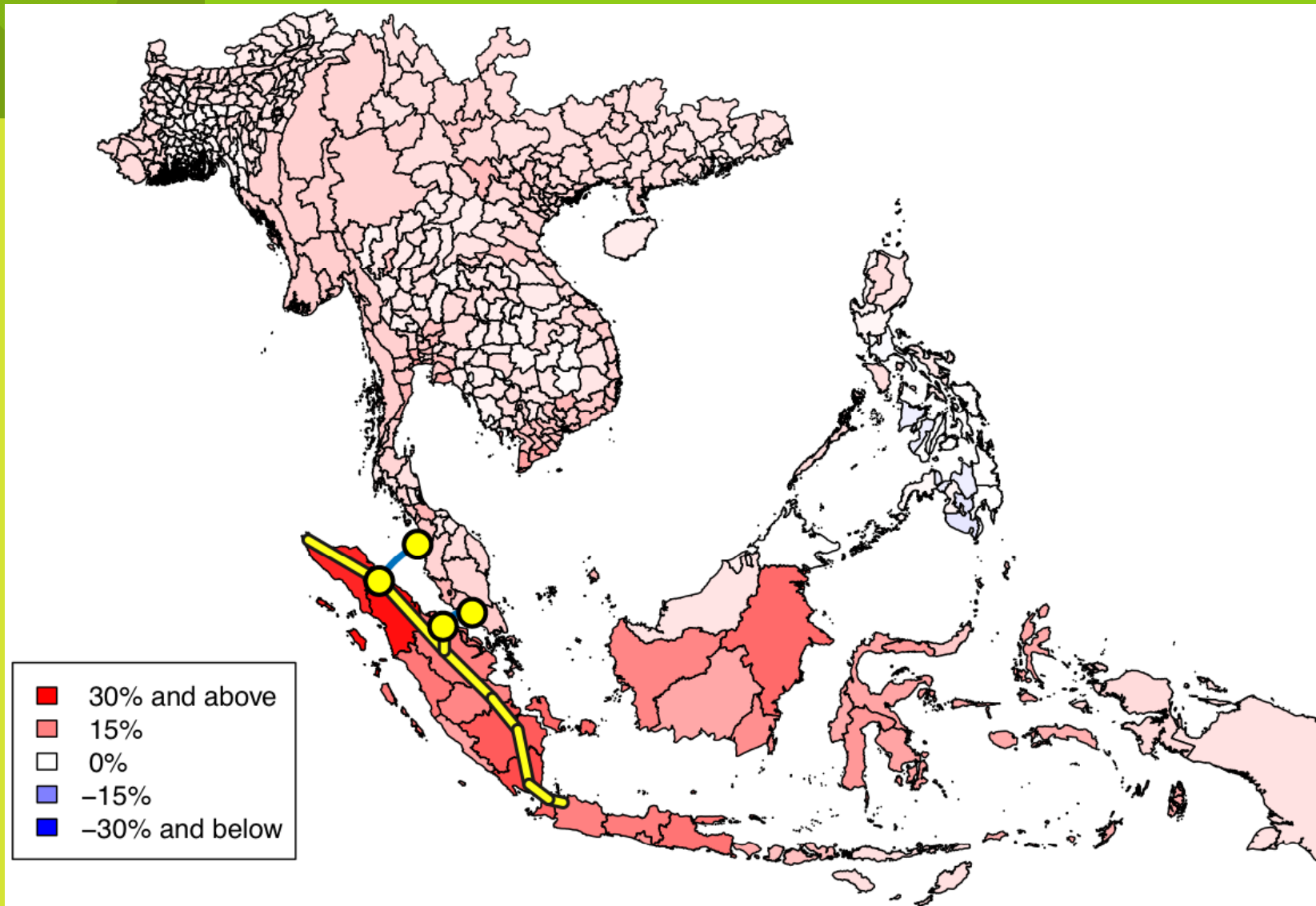
## ➤ GAINS IN REGIONAL GDP (10 YEARS AFTER): 3 CORRIDORS (NSEC, EWEC, AND MIEC)



Source: ERIA / IDE-JETRO GSM Team.

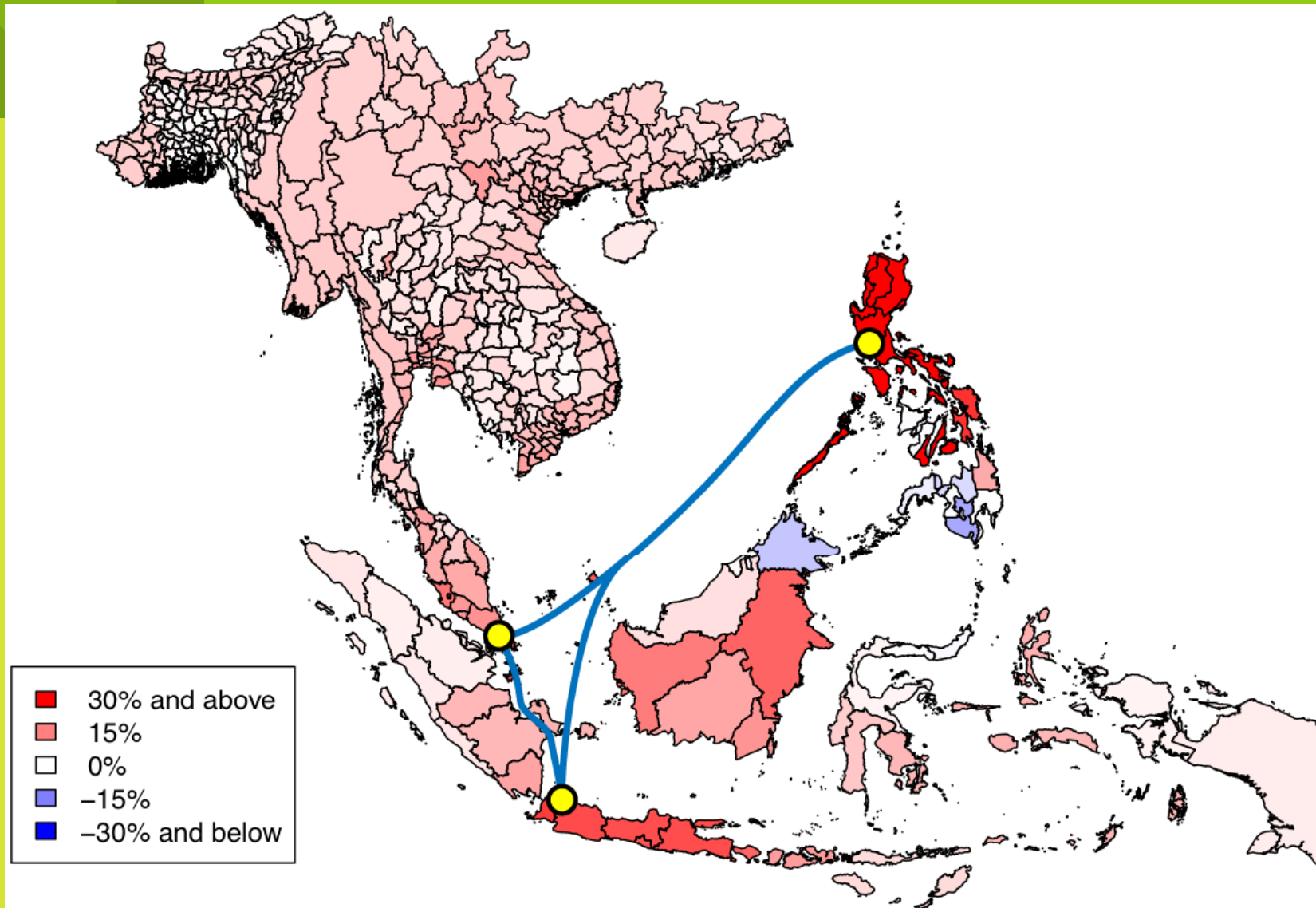
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## ➤ GAINS IN REGIONAL GDP (10 YEARS AFTER): IMT CORRIDORS



Source: ERIA / IDE-JETRO GSM Team.

## ➤ GAINS IN REGIONAL GDP (10 YEARS AFTER): SINGAPORE-JAKARTA-MANILA SEA ROUTES

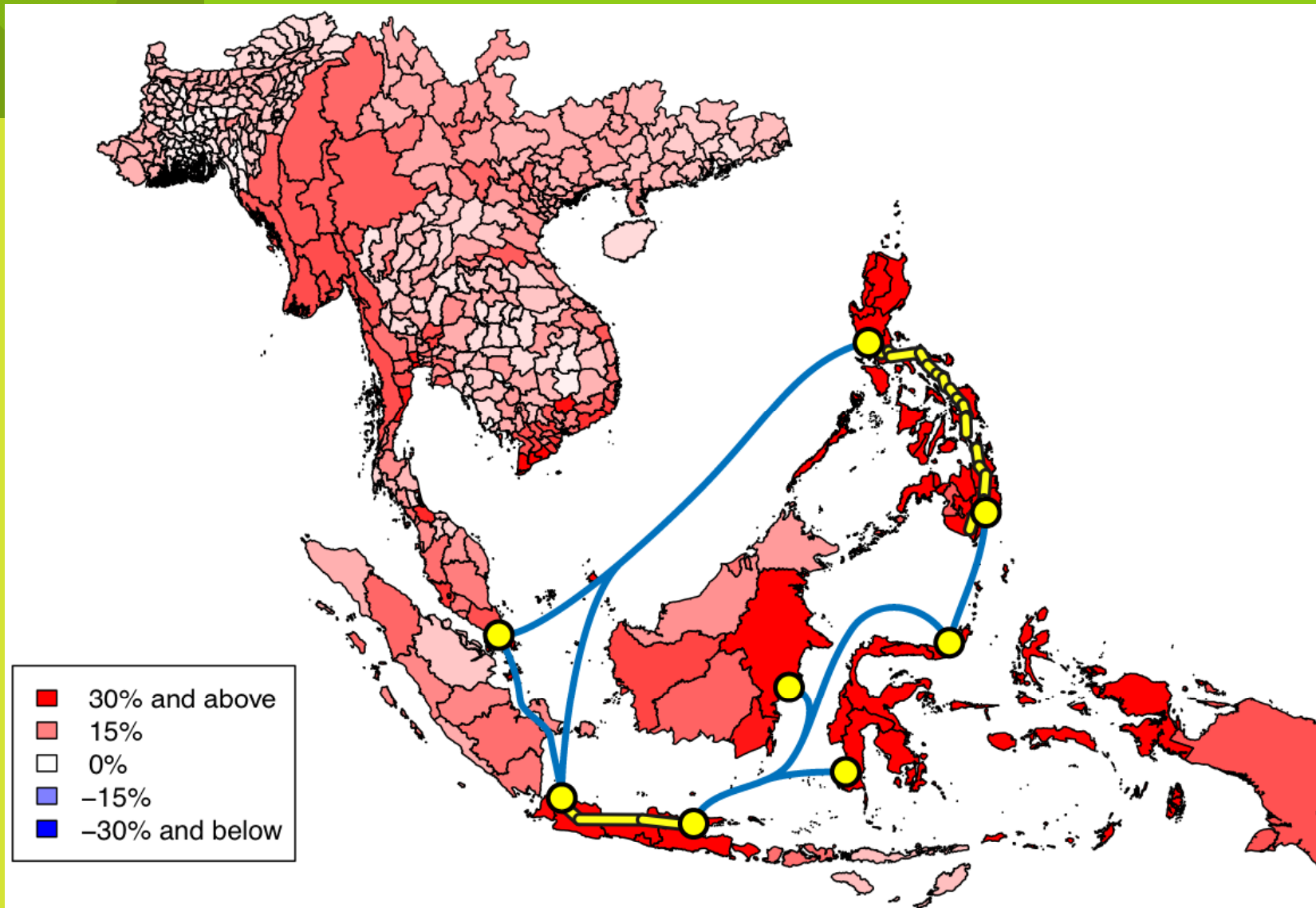


Source: ERIA / IDE-JETRO GSM Team.

2009.12.01



## ➤ GAINS IN REGIONAL GDP (10 YEARS AFTER): SINGAPORE-JAKARTA-MANILA SEA ROUTES + “RING”



Source: ERIA / IDE-JETRO GSM Team.

2009.12.01

# TO CONCLUDE

- ⊙ Macroeconomic perspective=> prudent fiscal and monetary policy required for regional stability and growth
- ⊙ Deepening financial integration with prudent financial sector regulation will be the next challenge
- ⊙ Effort to build domestic demand from expanding the middle class, but investment is also necessary for ASEAN countries.
- ⊙ Beyond the macro aspect, comprehensive development plan to support region production network may support economic growth

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THANK YOU!