

Asia's Recovery and Global Imbalances

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A seminar co-organized by the
Peterson Institute for International Economics
and the Asian Development Bank
Washington DC, USA, October 14, 2009

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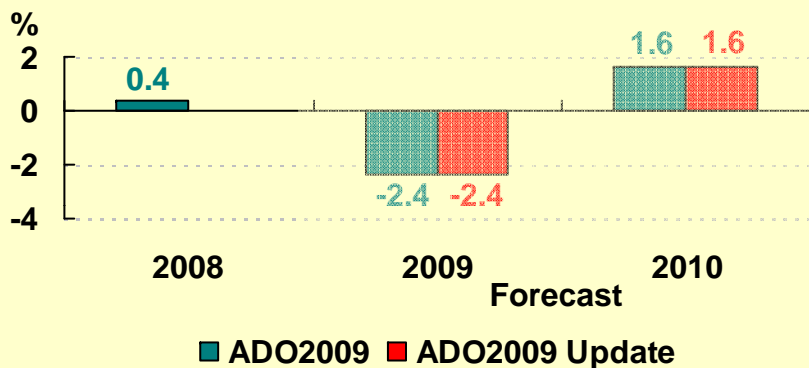


Outline

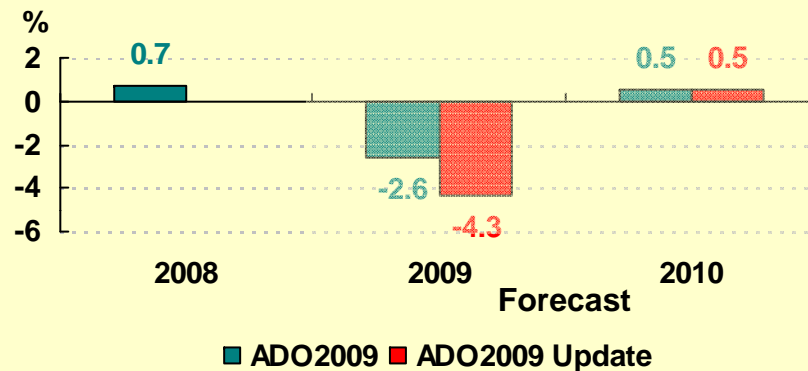
1. Crisis and Recovery
2. Risks and Prospects
3. Global Imbalances
4. Rebalancing Asia's Growth
5. Global and Regional Cooperation

Global conditions deteriorated...

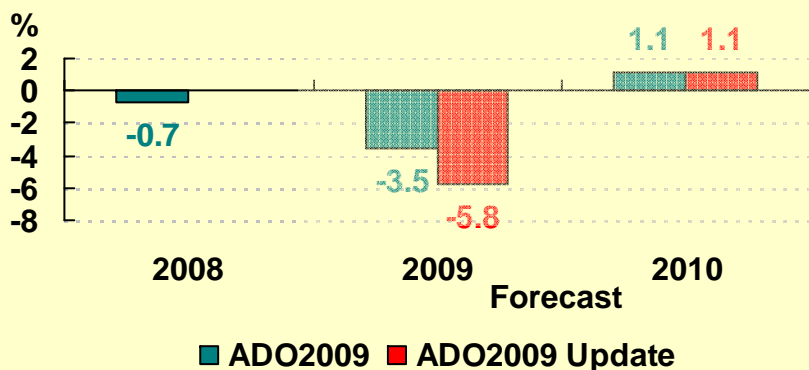
US GDP growth



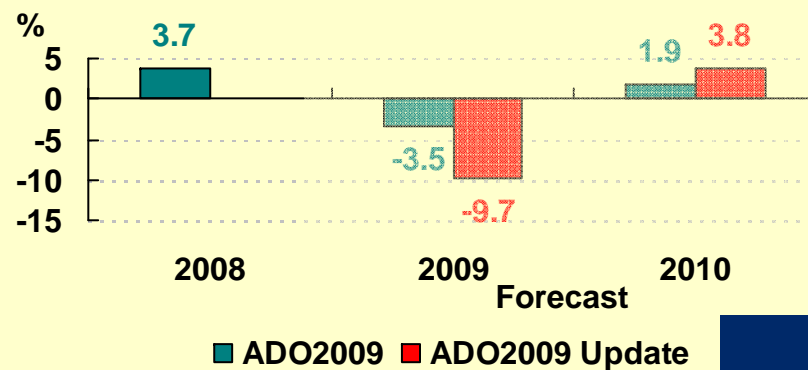
Eurozone GDP growth



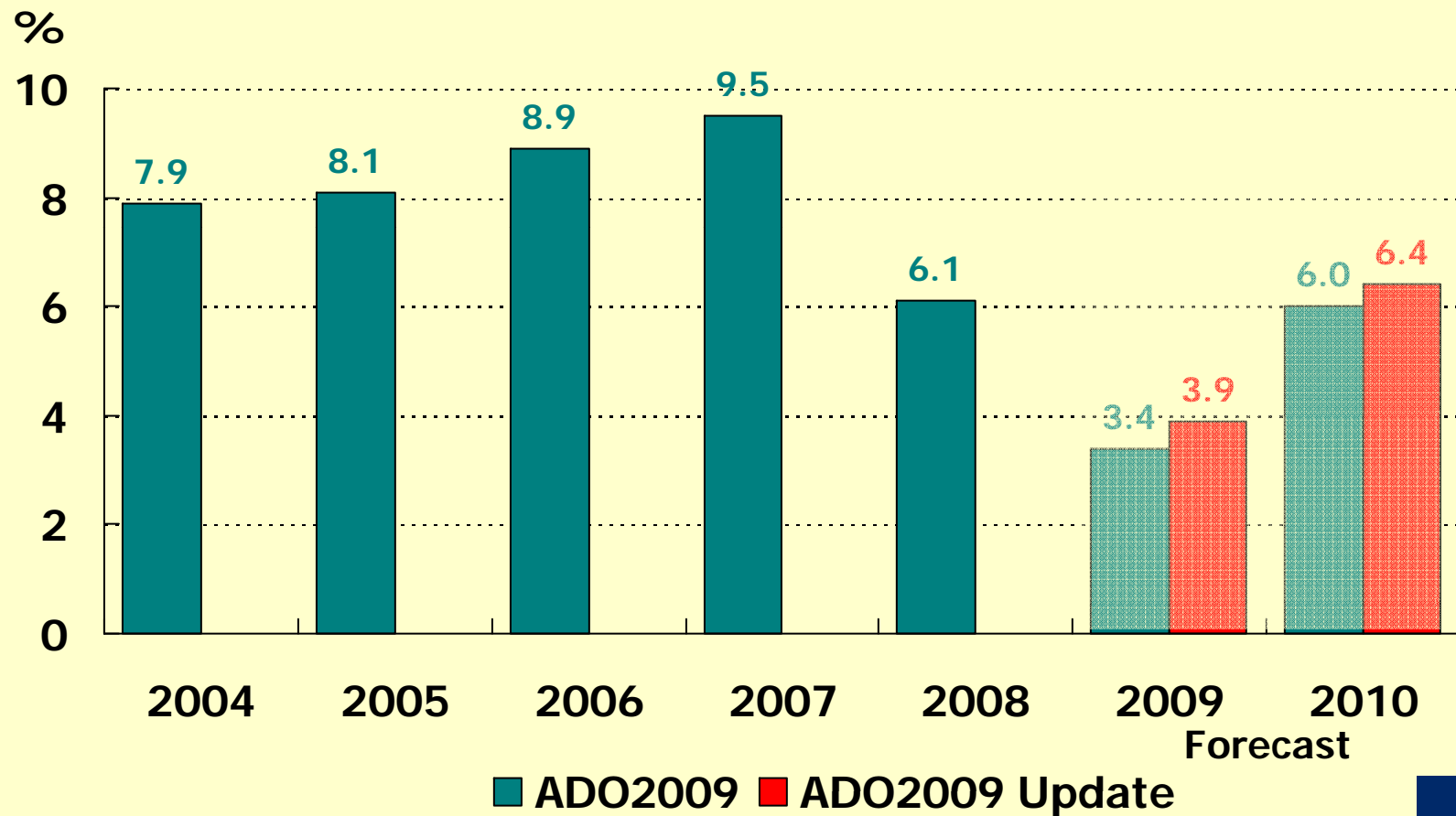
Japan GDP growth



World trade volume growth



...but developing Asia is more resilient than expected...



...thanks to a combination of factors

- Monetary and fiscal stimulus
- Better initial conditions—financial systems relatively healthy prior to the crisis
- Rapid turnaround in larger economies in the region

Still, performance varies widely

GDP growth (%)

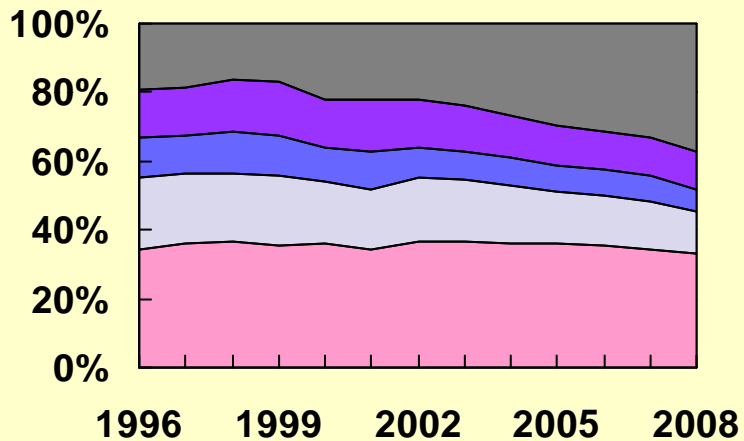
Subregion/economy	2008	2009		2010	
		<i>ADO2009</i>	<i>Update</i>	<i>ADO2009</i>	<i>Update</i>
Central Asia	5.7	3.9	0.5	4.8	3.6
Kazakhstan	3.3	2.0	-1.0	3.3	2.5
East Asia	6.5	3.6	4.4	6.5	7.1
China, People's Rep. of	9.0	7.0	8.2	8.0	8.9
Hong Kong, China	2.4	-2.0	-4.0	3.0	3.0
Korea, Rep. of	2.2	-3.0	-2.0	4.0	4.0
South Asia	6.3	4.8	5.6	6.1	6.4
India	6.7	5.0	6.0	6.5	7.0
Pakistan	4.1	2.8	2.0	4.0	3.0
Southeast Asia	4.1	0.7	0.1	4.2	4.3
Indonesia	6.1	3.6	4.3	5.0	5.4
Malaysia	4.6	-0.2	-3.1	4.4	4.2
Singapore	1.1	-5.0	-5.0	3.5	3.5
Vietnam	6.2	4.5	4.7	6.5	6.5
The Pacific	5.2	3.0	2.8	2.7	3.1
Developing Asia	6.1	3.4	3.9	6.0	6.4

Risks to the outlook

- Protracted global recession
 - Global demand needed for Asia's full recovery
 - Asia alone cannot drive a global recovery
- Mistimed exit from monetary and fiscal stimulus
 - If left too long, may be unsustainable
 - If withdrawn too soon, may lead to double-dip

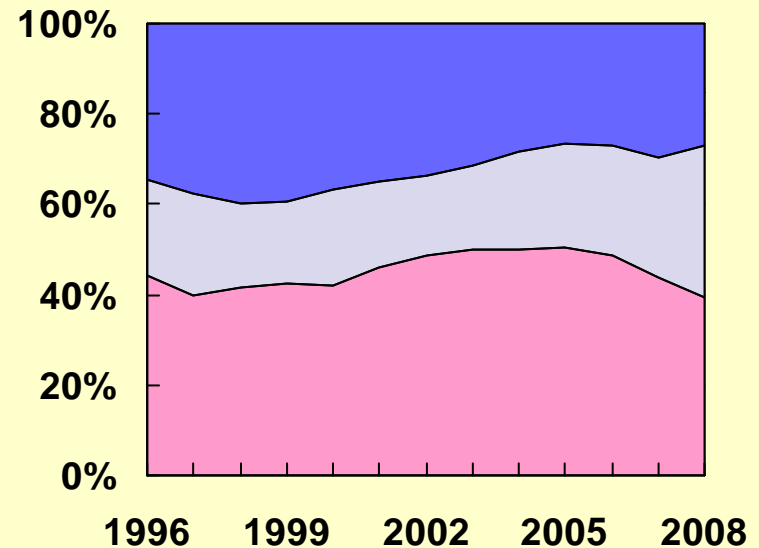
Can China lift Asia out of recession?

Imports of PRC by Economy or Region



- Others
- EU-27
- US
- Japan
- East and Southeast Asia

Imports of PRC by Commodity Classification

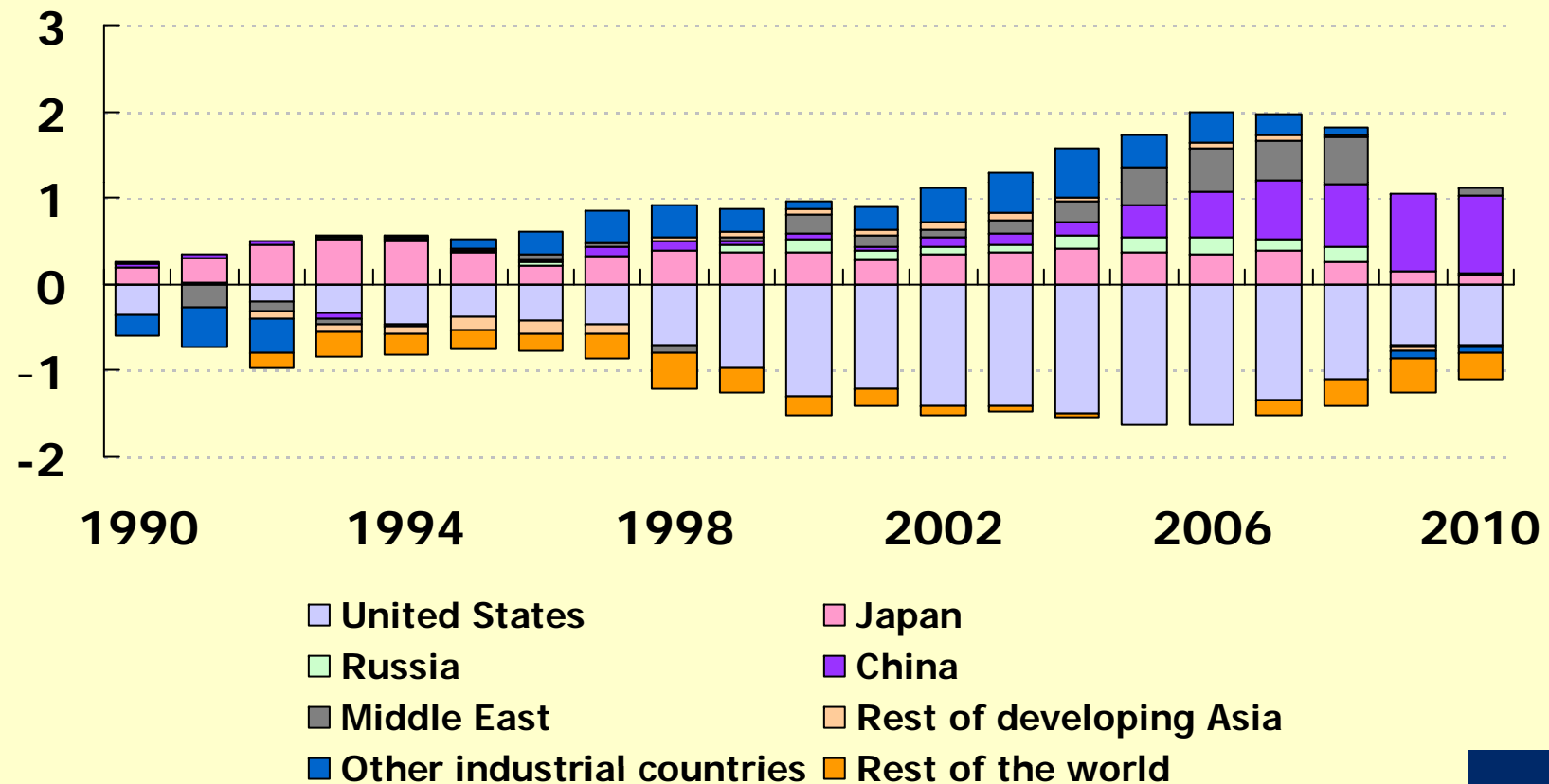


- Parts & Components
- Basic Products
- Final Goods



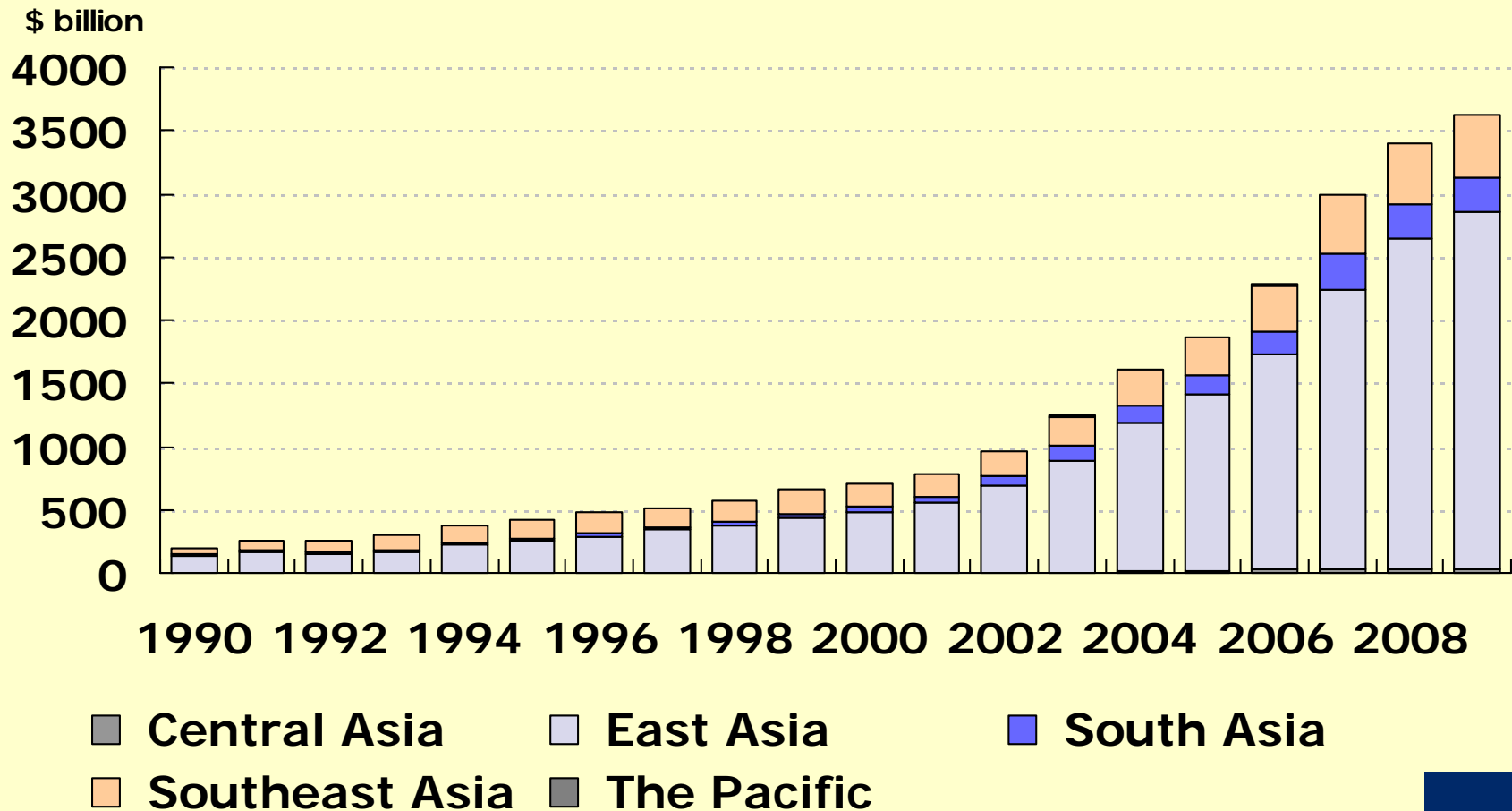
How about global imbalances?

Current account balance
% of world GDP



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

Developing Asia continues to build foreign reserves

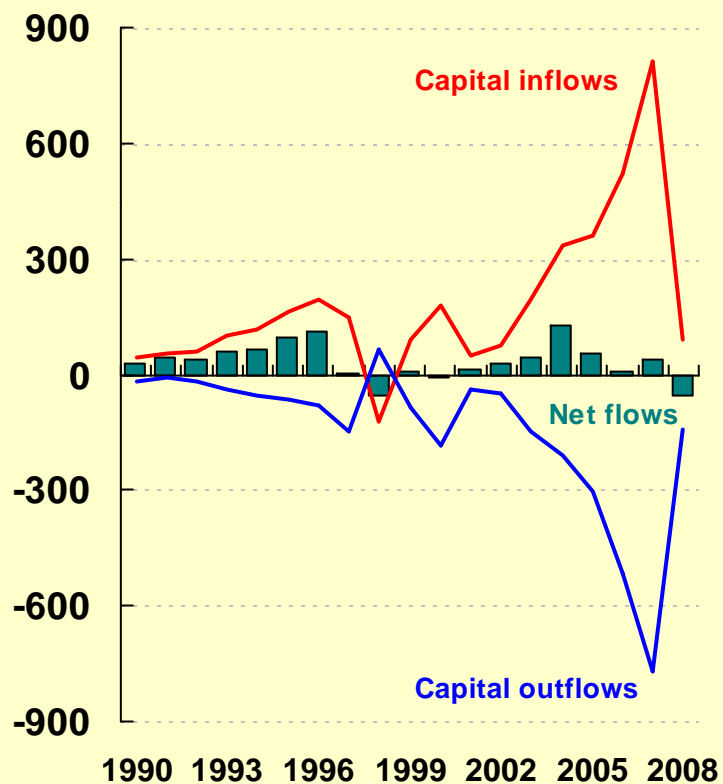


Sources: IMF, *International Financial Statistics*; CEIC Data Company, Ltd.

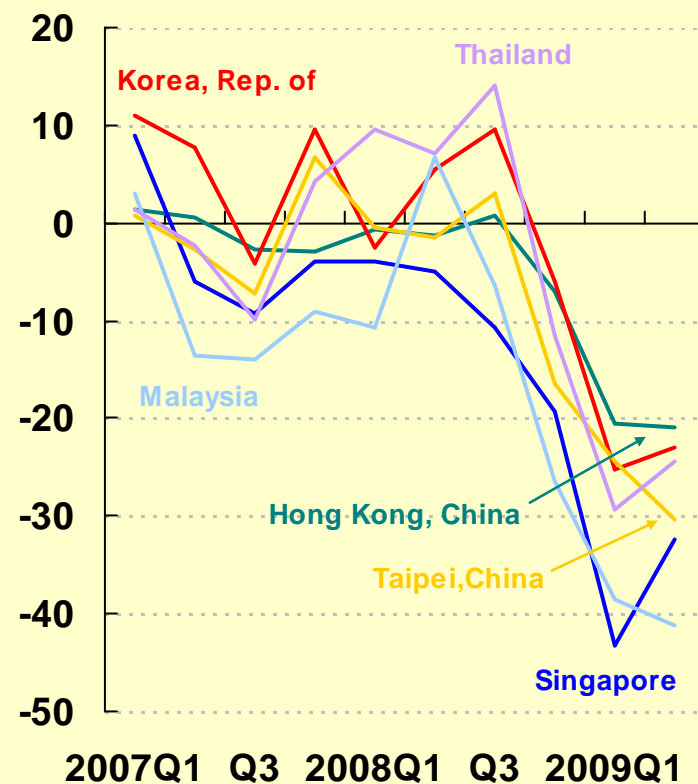


Crises exposed risks of excessive openness

Capital flows to/from developing Asia
\$ billion



Growth in exports to the US
%, year on year



Challenges and solutions

- Global crisis requires global solution
- What's expected from Asia?
 - Balance regulation with innovation
 - Rebalance sources of growth
 - Broaden openness
- How can Asia address these challenges?
 - Expand and reinforce regional cooperation
 - Fortify global partnerships

Global cooperation can avert future crises

- G20 pledges

- Reform global financial architecture
- Keep stimulus in place for now
- Bring down trade imbalances

- Asia's role


- Link regulatory systems to reformed global financial architecture
- Avoid mistimed exit strategies
- Rebalance growth toward greater domestic and regional demand



Rebalance Asia's growth

- Strengthen domestic consumption
- Enhance investment climate
- Promote small- and medium-sized enterprises and services
- Accelerate financial development
- Better manage capital flows—using appropriate exchange rate policies to balance foreign capital supply with demand

Broaden openness



- Safeguard domestic and regional economies from excessive and unbalanced openness
 - Strengthen intraregional demand
 - Manage financial globalization
 - Maximize benefits from labor mobility

Regional cooperation can contain ripple effects of global crisis

- Coordinate policy responses
- Expedite Chiang Mai Initiative Multilateralization
- Speed up Asian Bond Markets Initiative
- Maintain openness

ASEAN+3 Chiang Mai Initiative Multilateralization (CMIM)

CMIM's Goal

- Provide short-term liquidity when needed, supplementing existing international financial arrangements

Why is CMIM important?

- Ensures availability of a regional multilateral reserve pool that members can draw upon in times of crisis

ASEAN+3 Asian Bond Markets Initiative (ABMI)

ABMI's goal

- Develop efficient and liquid local-currency bond markets—both national and regional

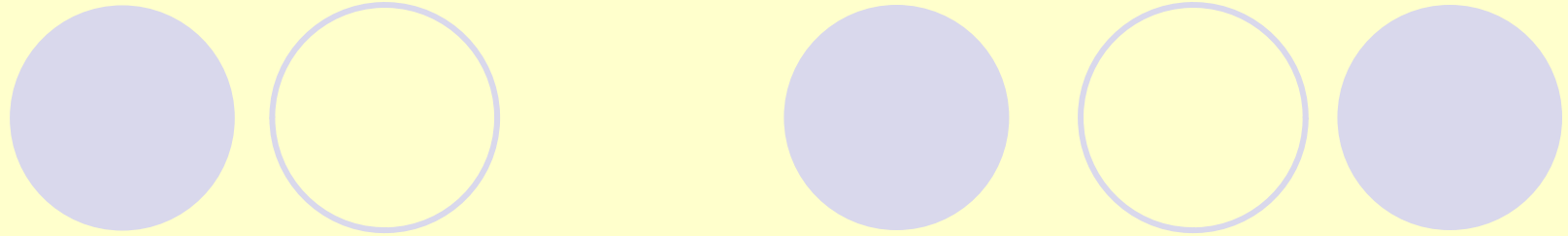
Why is ABMI important?

- Avoids maturity and currency mismatches
- Channels Asian savings into Asian economies
- Promotes regional financial harmonization and integration



Key messages

- Asia poised for V-shaped rebound
- Though recovery faces downside risks
- Stimulus must remain until recovery gains traction
- Openness to continue but carefully balanced
- Rebalance growth for long-term expansion and welfare
- Regional and global cooperation to avert future crises



Thank you

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