

Outline

1. How did the global crisis impact Asia?
2. How did Asia respond?
3. What is the economic outlook for Asia?
A V-shaped recovery?
4. What are the long-term implications for Asia?

**But first...Why the US subprime
crisis went global**

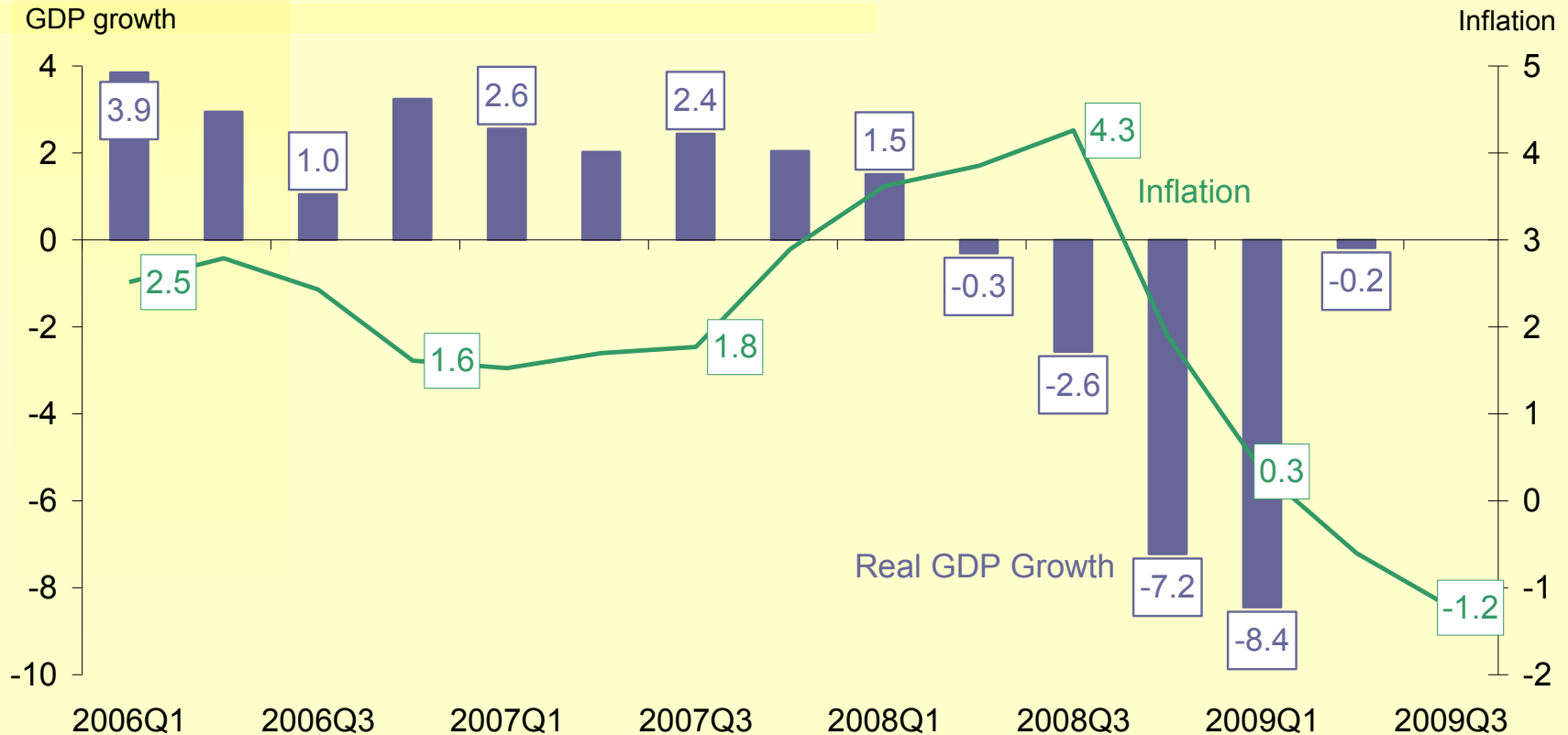
Why US subprime went global (or How did the tail wag the dog)?

US subprime only 3% of US financial assets—so why was everyone affected?

- Excessive global leverage—capitalism without capital (\$1 of subprime-related losses forced \$12 to \$50 of asset liquidation)
- Poor risk management—opaque financial products
- Financial globalization—rapid, unexpected contagion
- Insufficient regulation—shadow banking system
- Result: credit crunch; panicked sell offs; and global recession

G3 contracted earlier, and led to...

GDP Growth¹ and Inflation²—G3 (y-o-y, %)



G3 = United States, euroarea and Japan.

¹ Seasonally-adjusted, annualized, quarter-on-quarter growth rates.

² Year-on-year changes in quarterly consumer price indices.

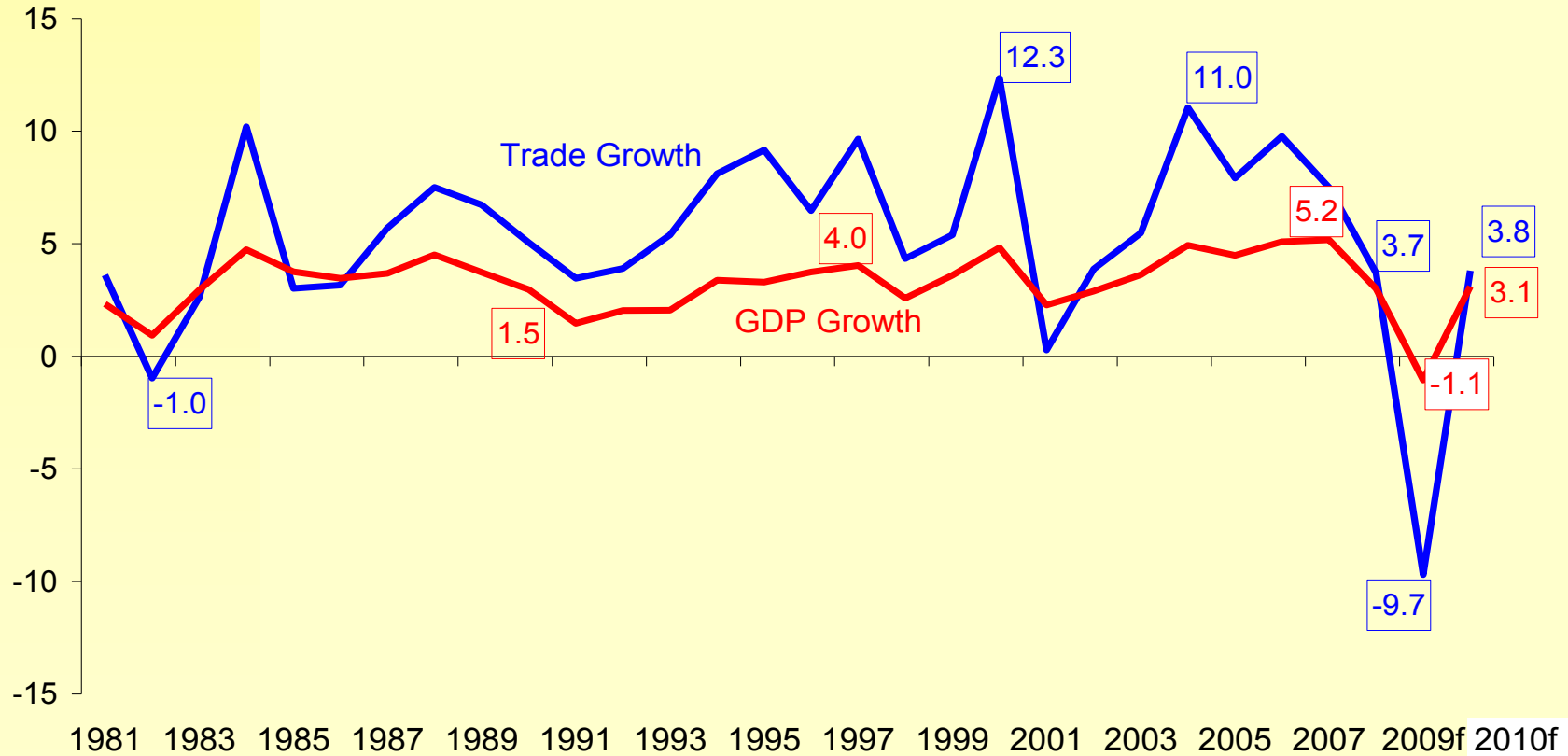
Aggregates are weighted by gross national income (atlas method, current USD).

Source: OREI staff calculations based on national sources.

...Worst global recession since WWII

World GDP and World Trade Volume¹

(y-o-y change, %)



GDP = gross domestic product, f = forecast

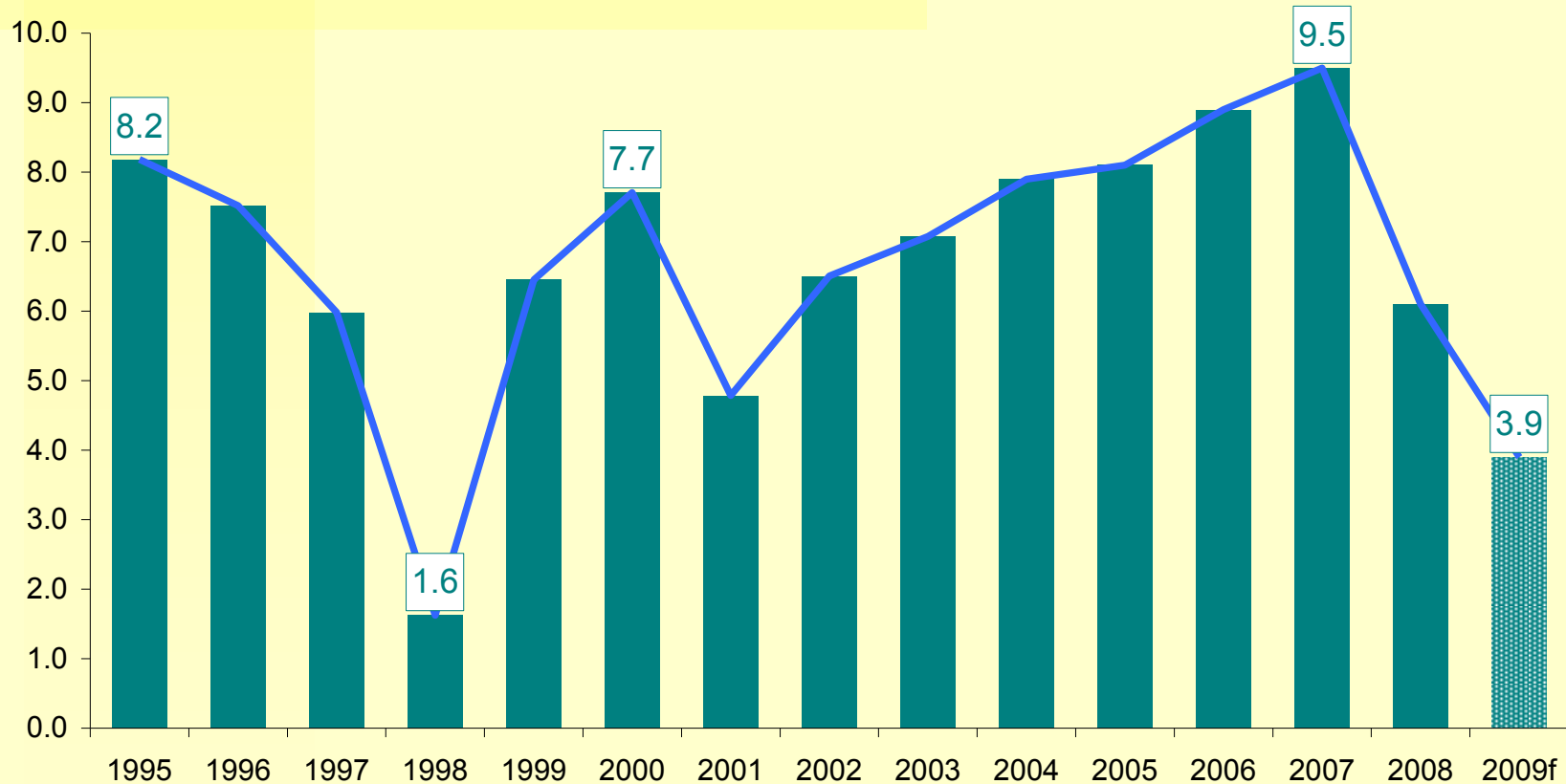
¹Export Volume.


Source: *Asian Development Outlook 2009 Update*, Asian Development Bank; *World Development Indicators*, World Bank; and *World Economic Outlook Database* October 2009, International Monetary Fund.



Asia hit hard by the crisis...

Gross Domestic Product—Developing Asia (y-o-y growth, %)



 ADO 2009 Update

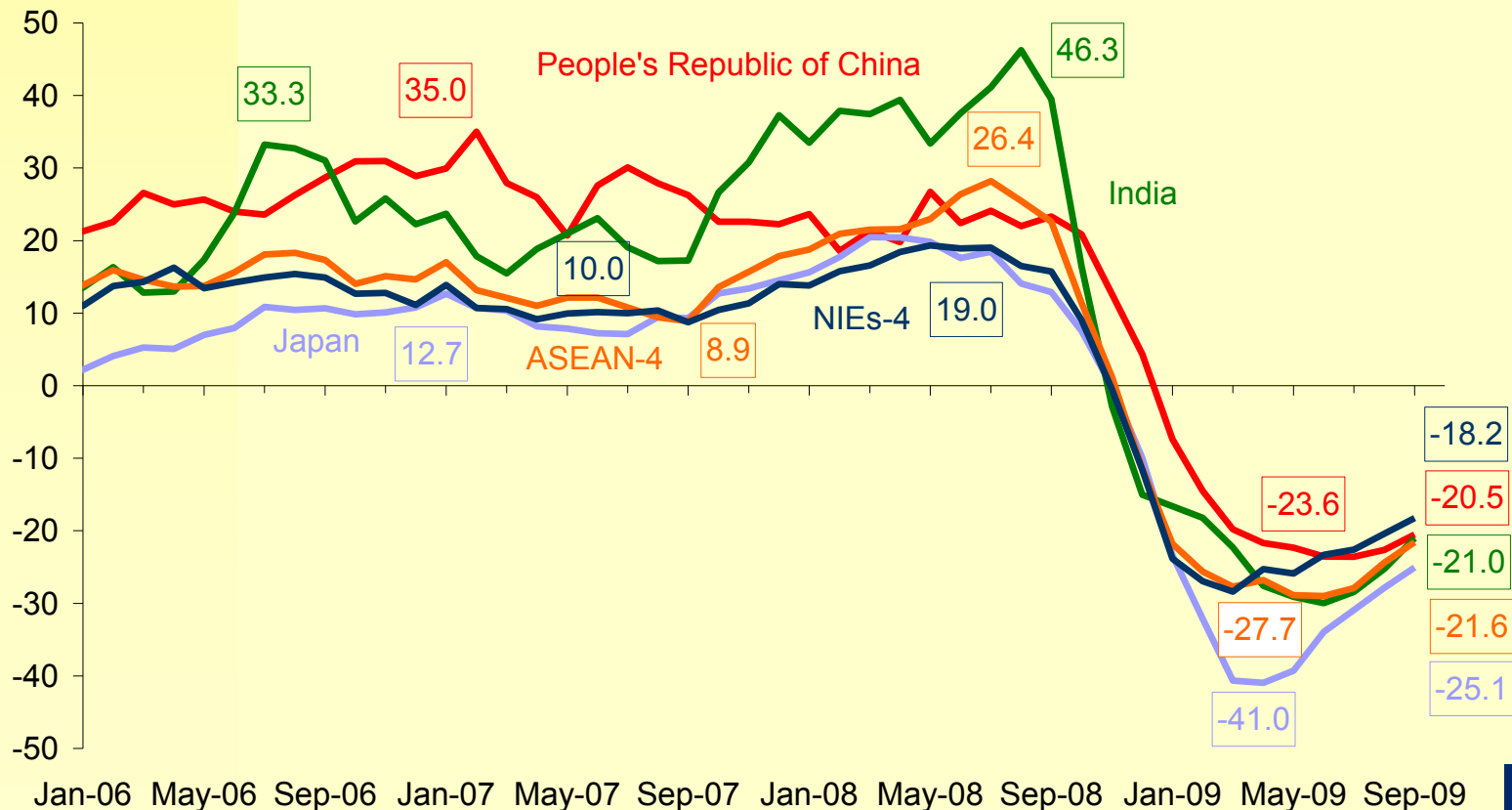
f = forecasts

Source: *Asian Development Outlook 2009 Update*, Asian Development Bank.



...through precipitous drops in exports...

Export Growth¹—PRC, India, Japan, ASEAN-4², NIEs-4³ (\$ value, y-o-y, %)



Jan-06 May-06 Sep-06 Jan-07 May-07 Sep-07 Jan-08 May-08 Sep-08 Jan-09 May-09 Sep-09

¹ 3-month moving average of merchandise exports.

² ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand.

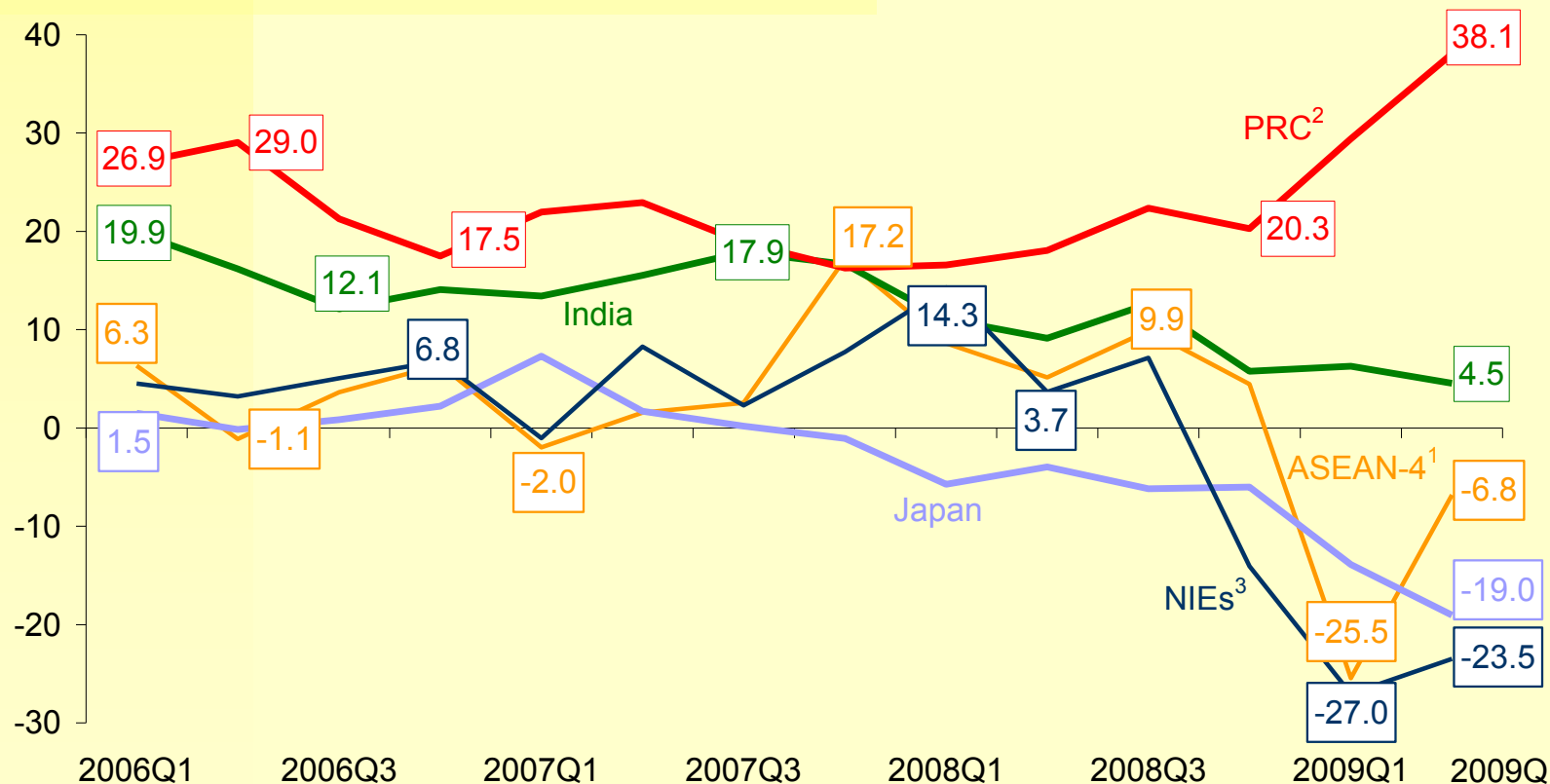
³ NIEs-4 includes Hong Kong, China; Rep. of Korea; Singapore and Taipei, China.

Source: OREI staff calculations based on data from CEIC.



...and a collapse in investment

Gross Domestic Investment—PRC, India, Japan, ASEAN-4, NIES-4 (y-o-y, %)



y-o-y = year-on-year.

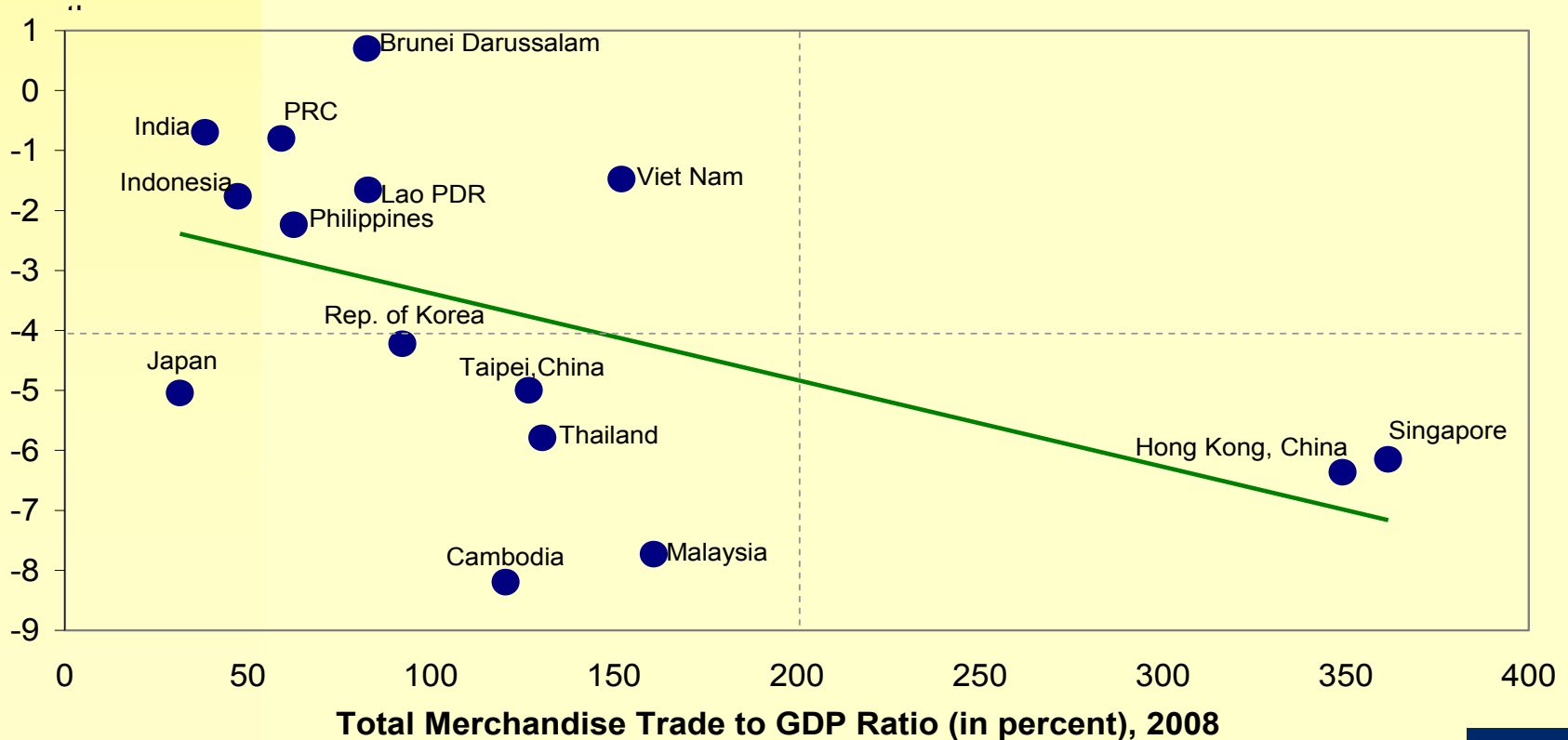
¹ Refers to Indonesia, Malaysia, Philippines, and Thailand. ² PRC = People's Republic of China. Data refers to year-on-year growth of Fixed Asset Investments (in real terms). Nominal fixed asset investment levels were first deflated using quarterly consumer price indices. ³ Refers to Hong Kong, China; Korea, Republic of; Singapore and Taipei, China.

Source: OREI staff calculations based on CEIC data.

The more globalized, the harder hit...

Growth Slowdown and Openness

2009 forecast minus 2008 GDP



Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Note: Total Merchandise Trade = Exports + Imports.

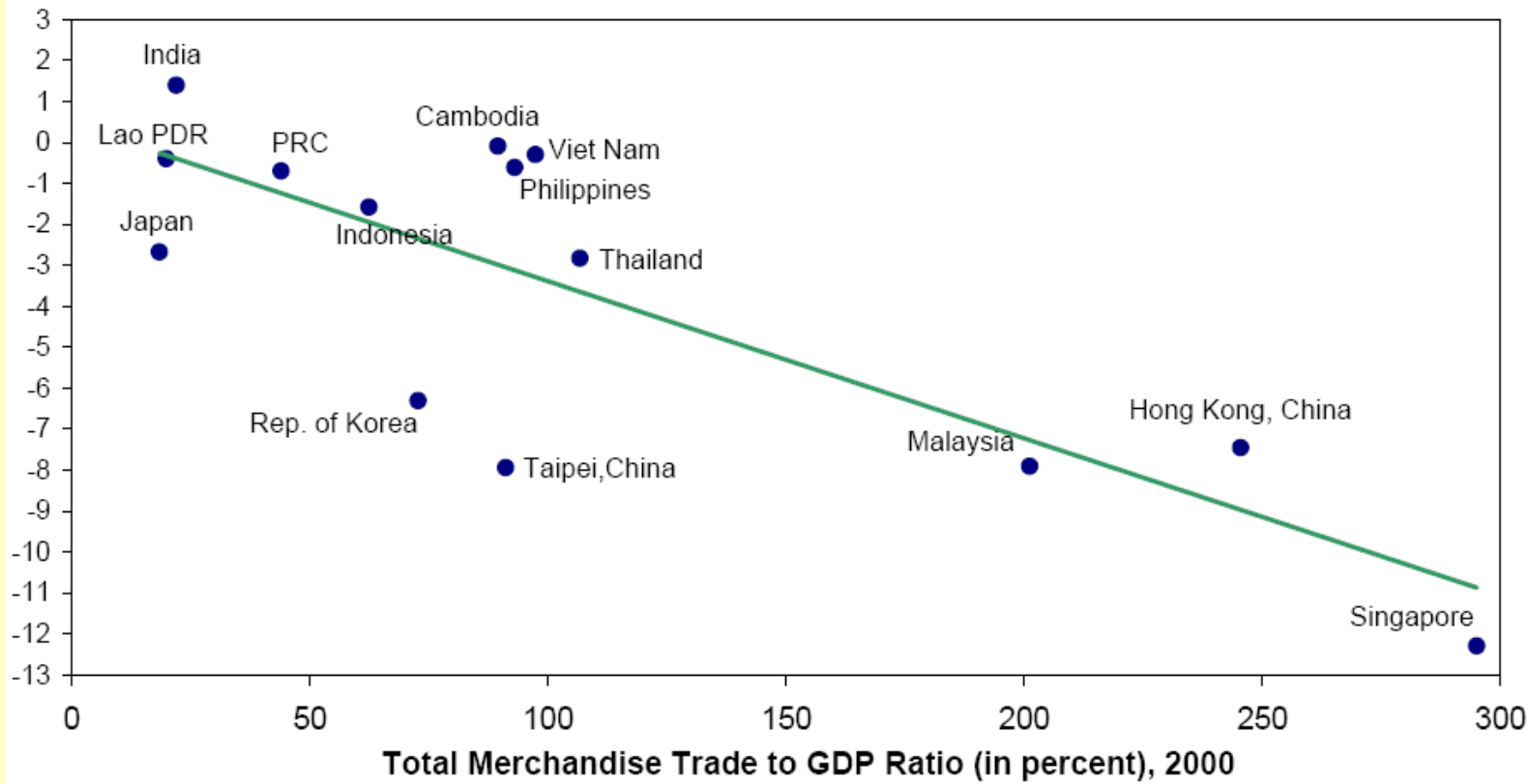
Sources: *Asian Development Outlook Update* (Sep 2009), Asian Development Bank; *International Financial Statistics*, International Monetary Fund; *World Economic Outlook Database* (Oct 2009), International Monetary Fund.



...as it happened in the 2001 recession

Growth Slowdown and Openness

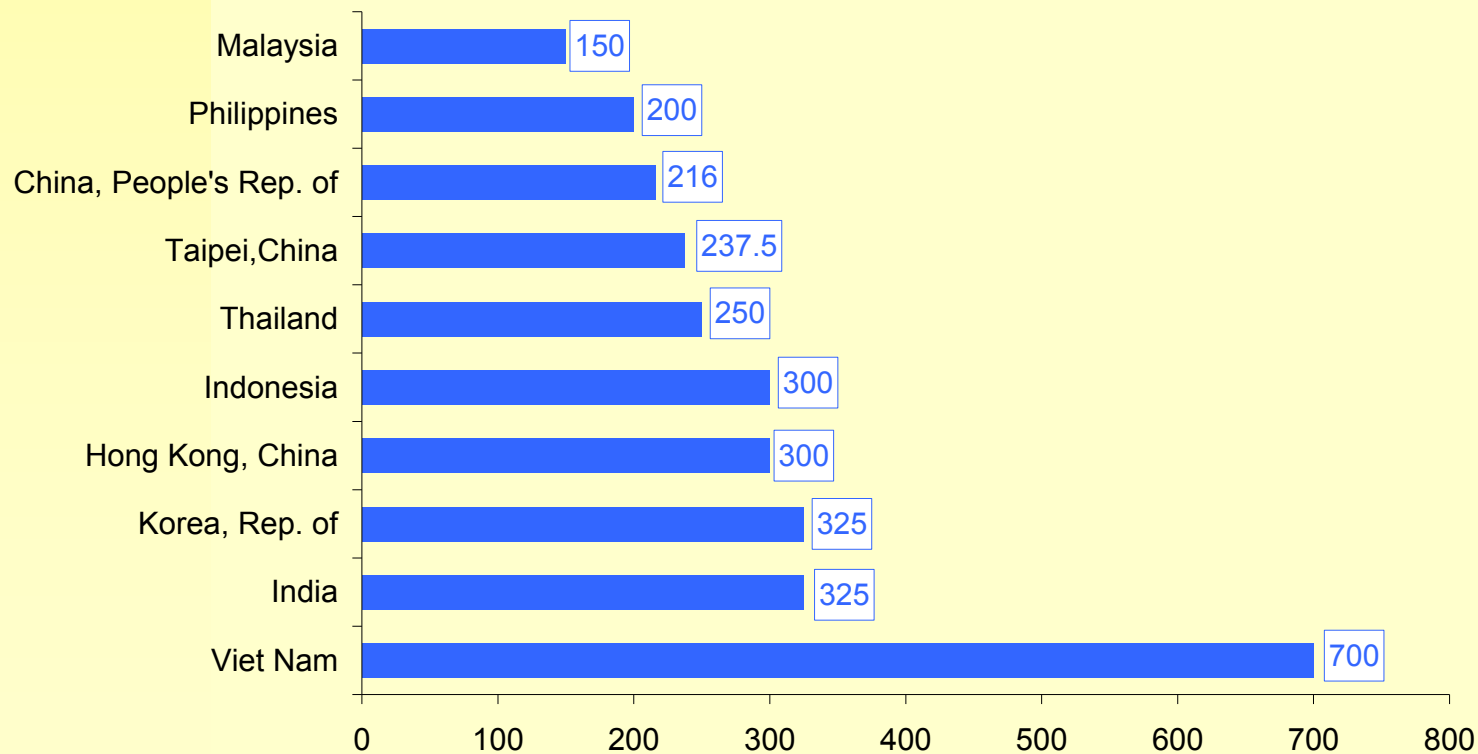
2001 minus 2000 GDP Growth



Asian central banks ease monetary policy...

Decline in Policy Rates¹

(2008Q4² to 11 November 2009, in basis points)



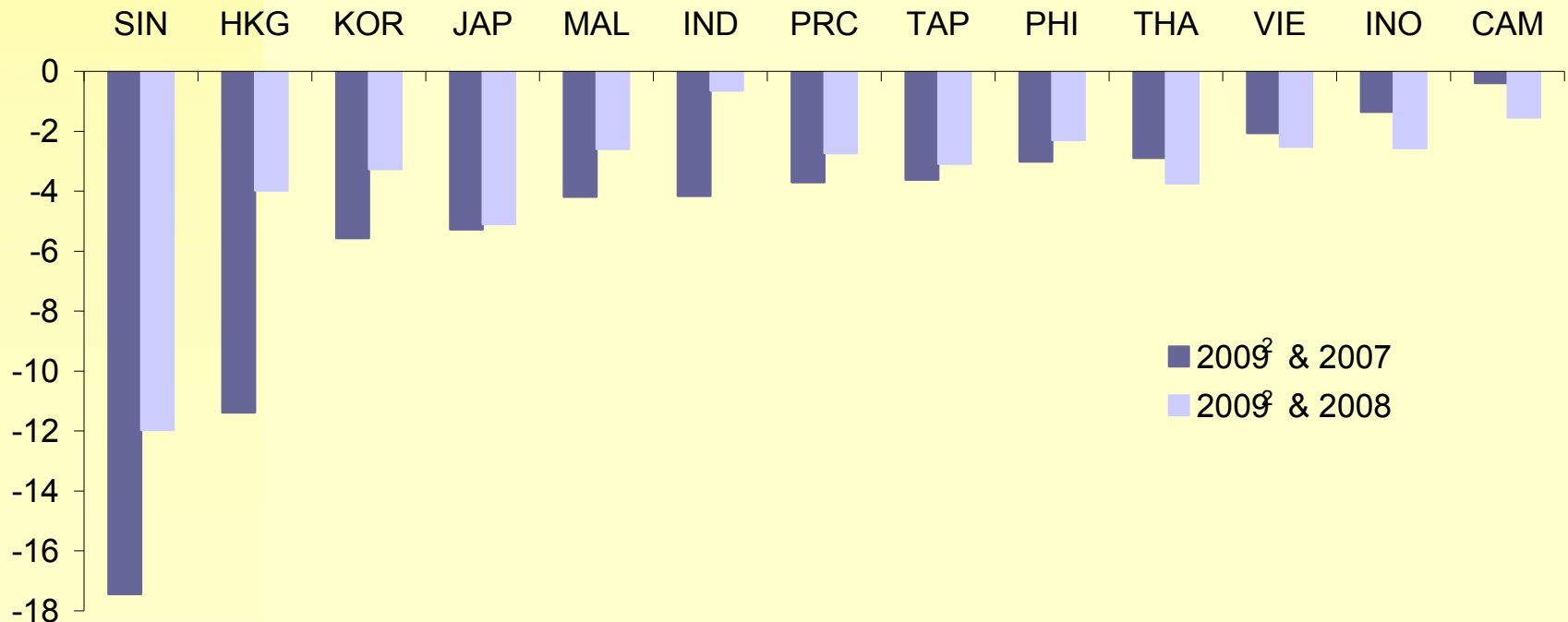
¹ Policy rates for each economy are as follows: 1-year lending rate (People's Republic of China); Hong Kong base rate (Hong Kong, China); repo rate (India); Bank Indonesia rate (Indonesia); Korea base rate (Korea); overnight policy rate (Malaysia); reverse repurchase (repo) rate (Philippines); discount rate (Taipei, China); 1-day repo rate from 17 Jan 2007 onwards (Thailand); prime rate (Viet Nam).

² 2H 2008 refers to September for People's Rep. of China and Taipei, China; October for Hong Kong, China; India; Rep. of Korea; and Viet Nam; November for Malaysia; and December for Indonesia; Philippines; and Thailand.

Sources: OREI staff calculations using data from Bloomberg and Datastream.

...and governments resort to fiscal pump-priming

Change in Fiscal Balance¹ (percentage points)



CAM = Cambodia; PRC = China, People's Republic of; HKG = Hong Kong, China; IND = India; INO = Indonesia; JAP = Japan; KOR = Korea, Rep. of; MAL = Malaysia; PHI = Philippines; SIN = Singapore; TAP = Taipei, China; THA = Thailand; and VIE = Viet Nam.

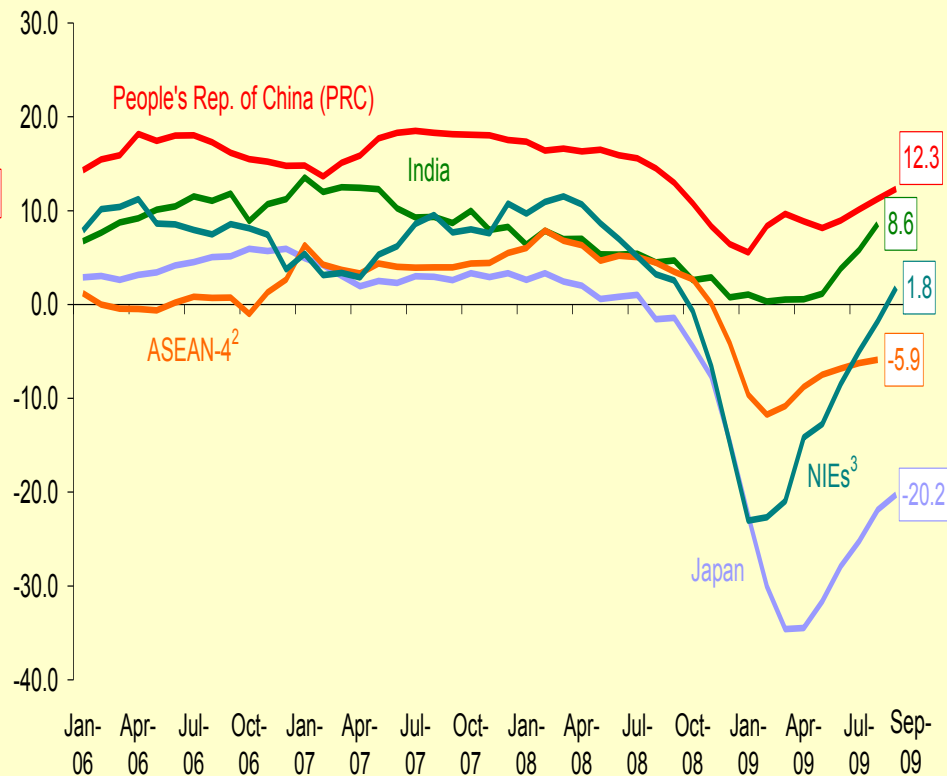
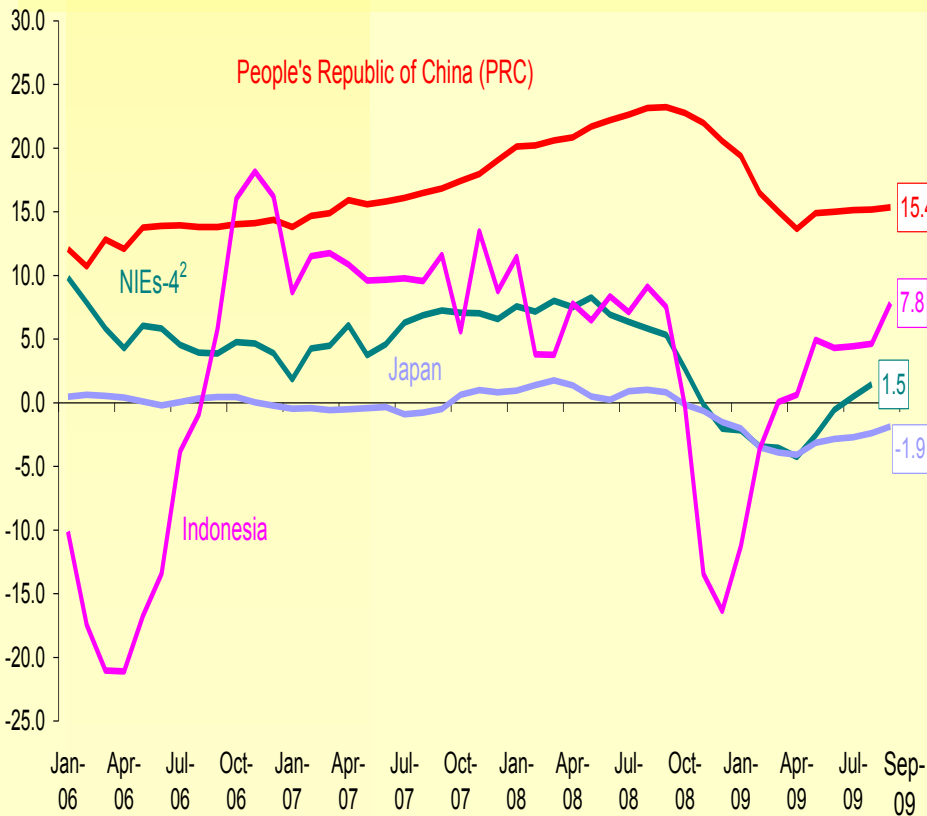
¹ Central Government Balance as % of GDP, except for Cambodia; China, People's Rep. of; Japan; Singapore and Taipei, China (general government balance); Malaysia (federal government balance); and Viet Nam (state budget balance); ² 2009 figures are either Budget estimates; government ceilings/ targets; and ADB/ IMF projections.

Source: National sources; *Asian Development Outlook* (various issues), ADB; *Article IV reports*, International Monetary Fund; and CEIC.

Swift policy responses help quick rebound...

Retail Sales improve (y-o-y, %)

Industrial Production picks up (y-o-y, %)



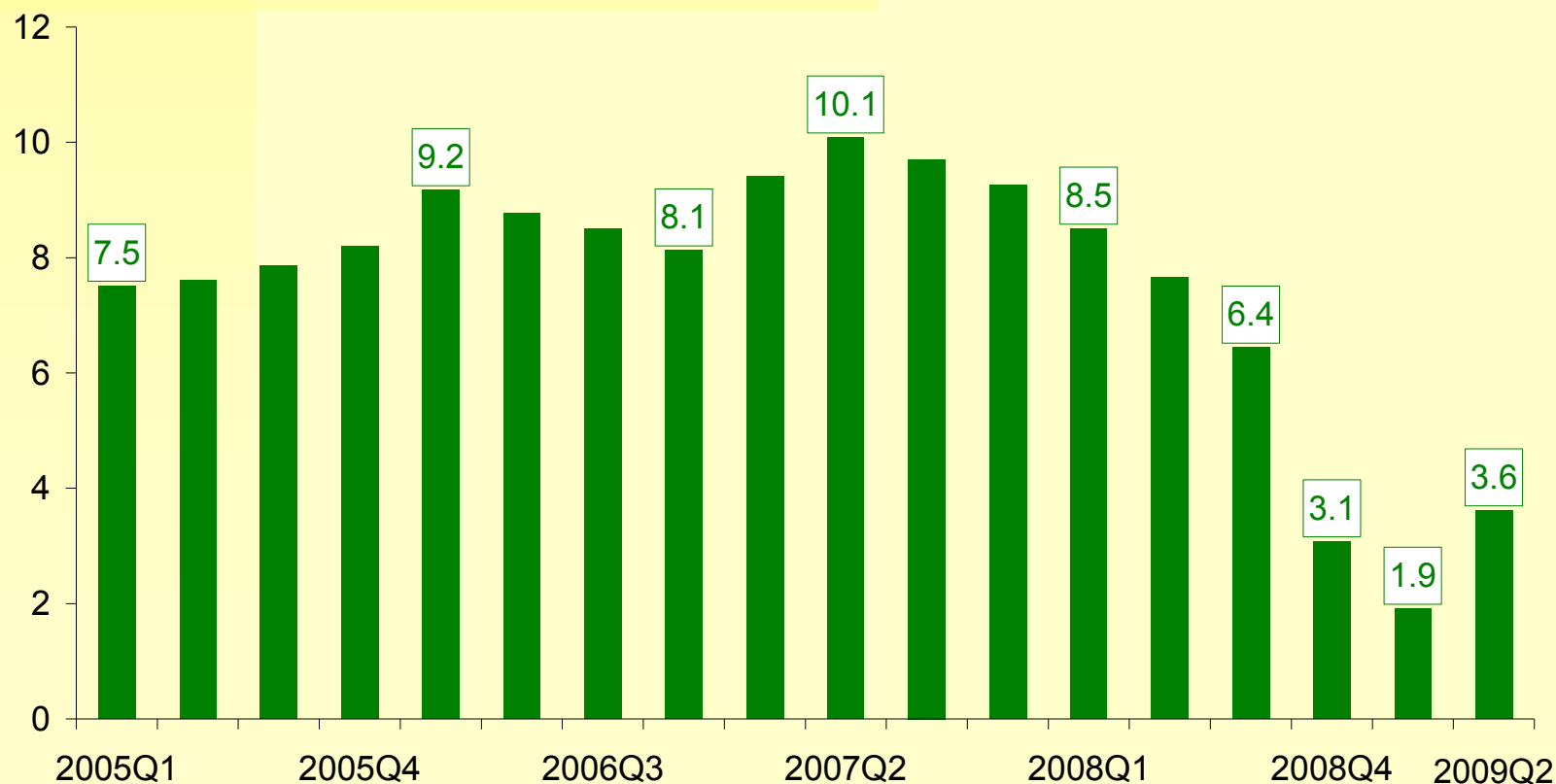
¹ 3-month moving average. ² NIEs-4 includes Hong Kong, China, Republic of Korea, Singapore and Taipei,China. Source: OREI staff calculations based on CEIC data.

¹ 3-month moving average. Latest data as of Sep 2009, except for India and ASEAN-4 which is as of Aug 2009. ² ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand. ³ NIEs includes Korea, Republic of, Singapore, Taipei,China. Source: OREI staff calculations based on CEIC data.



...and growth rebounds

Quarterly Real GDP Growth—Emerging Asia¹ (y-o-y, %)



GDP = gross domestic product, y-o-y = year-on-year.

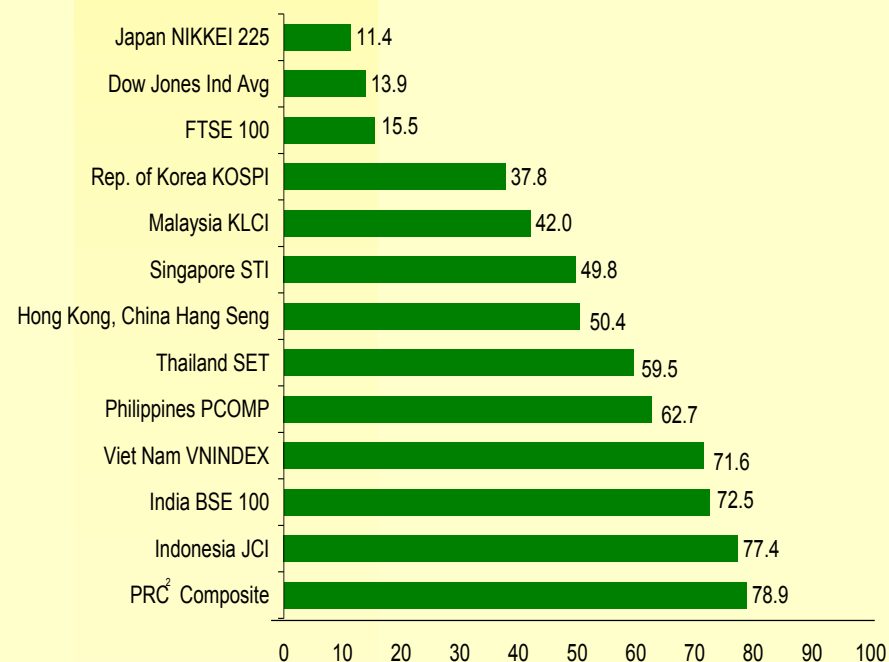
¹ Emerging Asia includes China, People's Republic of; Hong Kong, China; India; Indonesia; Korea, Republic of; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. It is computed using Gross National Income (Atlas method) as weights.

Source: Staff calculations based on data from CEIC and *World Development Indicators*, World Bank.

Stocks up and currencies strengthen

Stock Price Indexes¹

(2 January 2009 to 11 November 2009, % change)



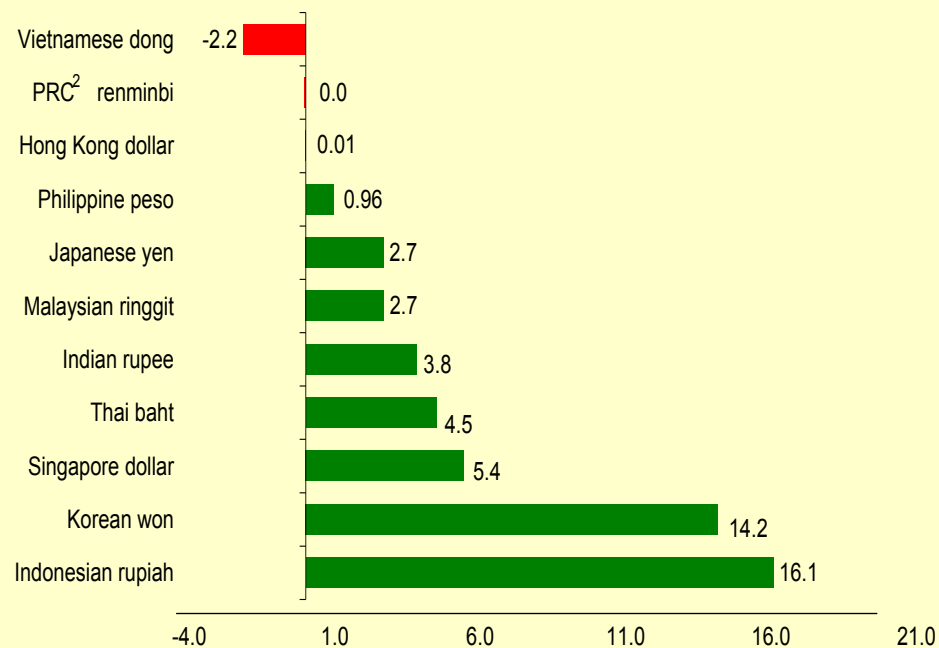
¹Latest closing as of 11 November 2009.

²People's Republic of China (PRC)

Source: OREI staff calculations based on data from Reuters and Bloomberg.

Regional Currencies¹

(2 January 2009 to 11 November 2009, % change)



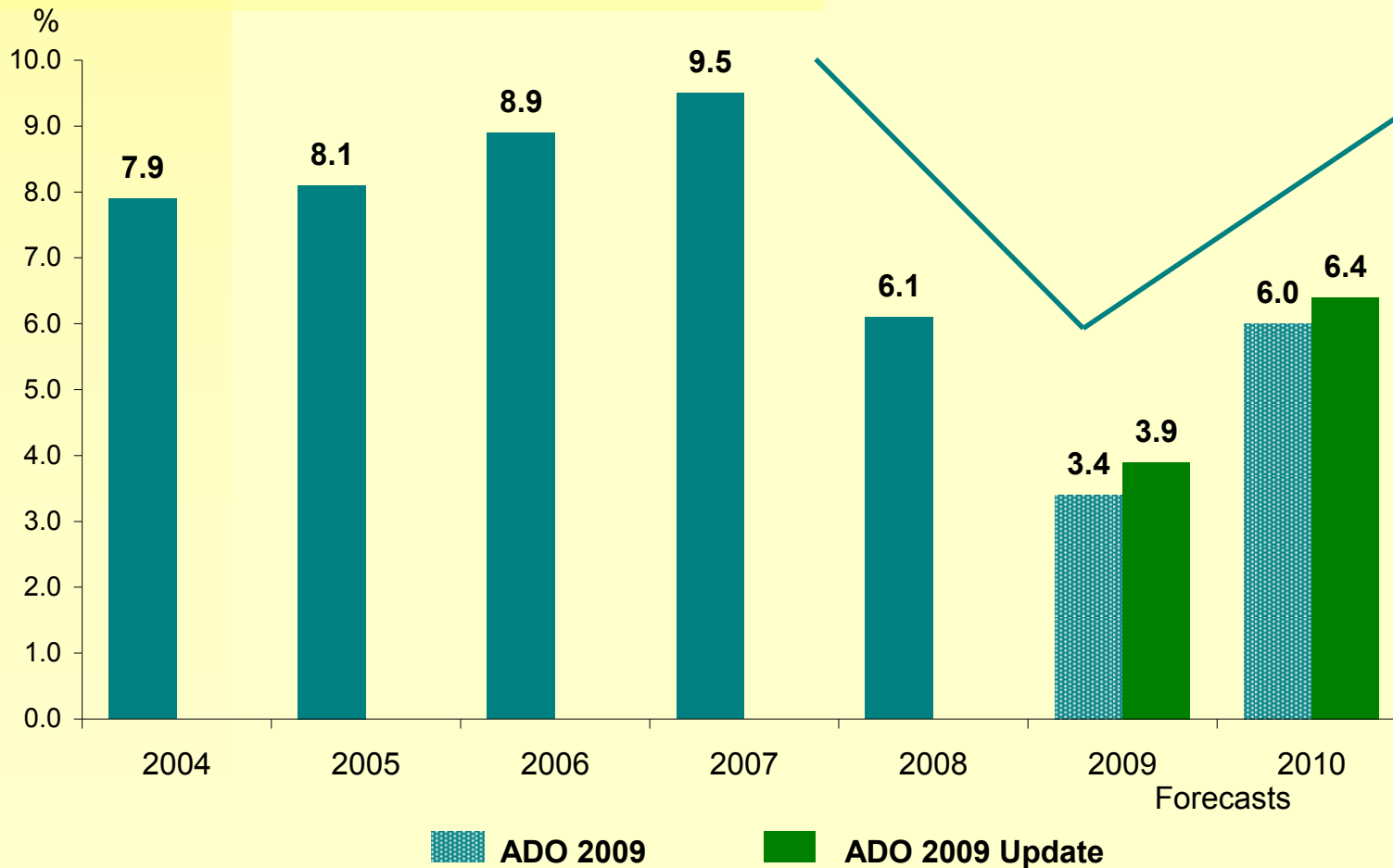
¹Latest closing as of 11 November 2009, based on the USD value of local currency. Negative values indicate depreciation of local currency.

²PRC = People's Republic of China

Source: OREI staff calculations based on Reuters data.

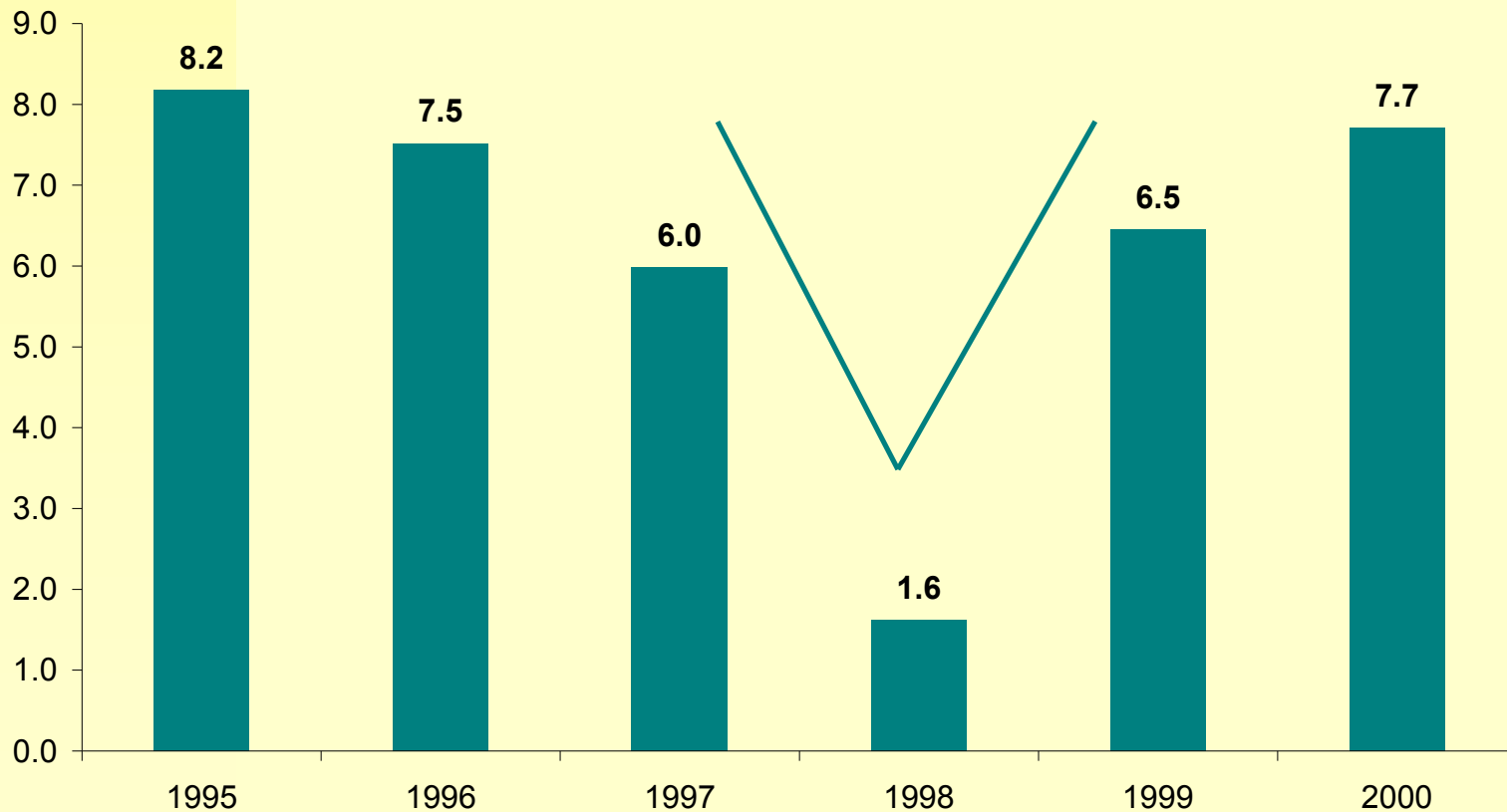
Growth outlook brightens: developing Asia to stage a V-shaped recovery

Growth Domestic Product—(yoy growth, %)



As it happened during Asian Financial Crisis

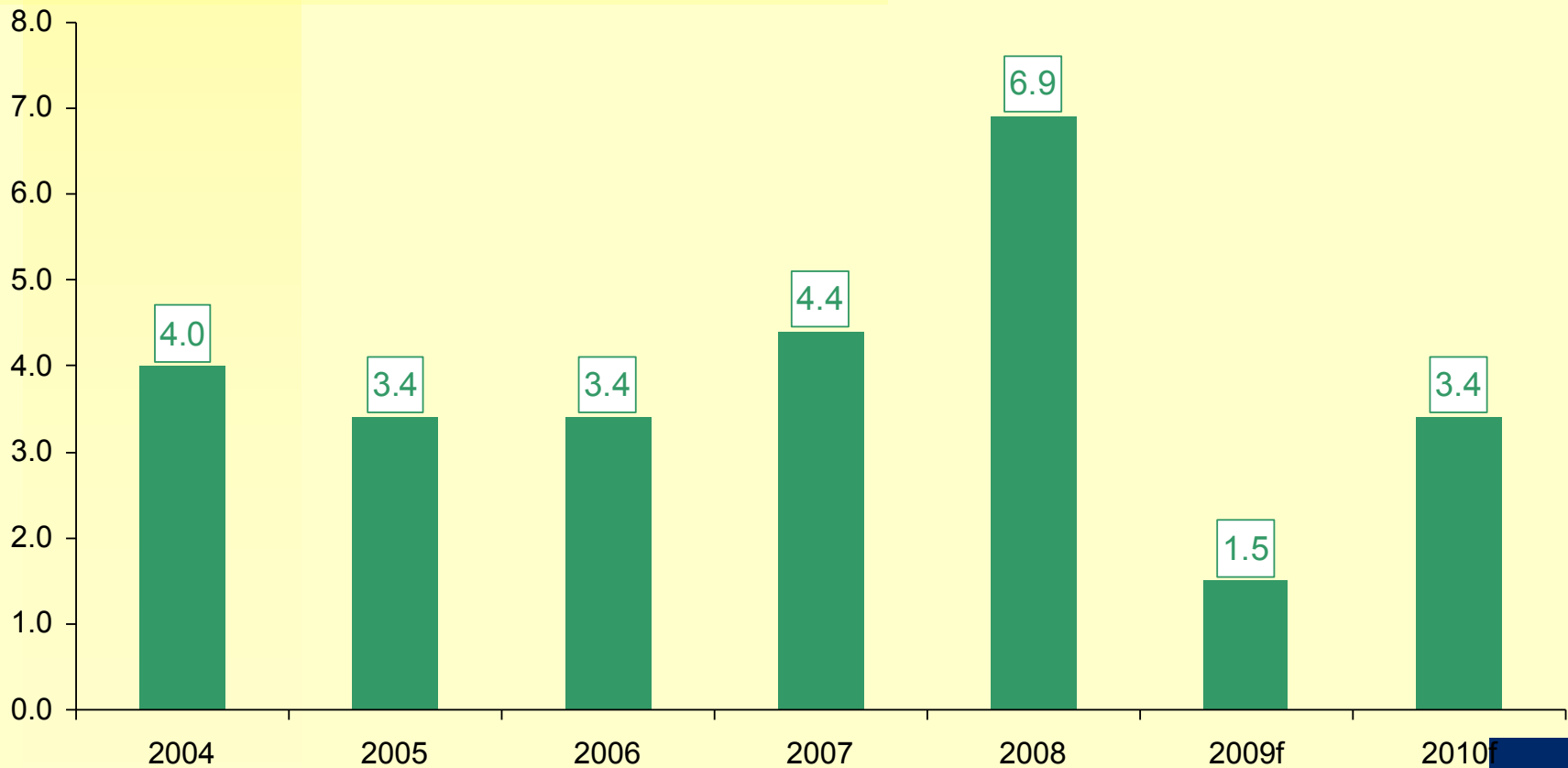
Gross Domestic Product—Developing Asia (yoy growth, %)



Source: *Asian Development Outlook*, Asian Development Bank.

...with inflation edging up, yet subdued ...

Inflation Rate—Developing Asia (yoy, %)

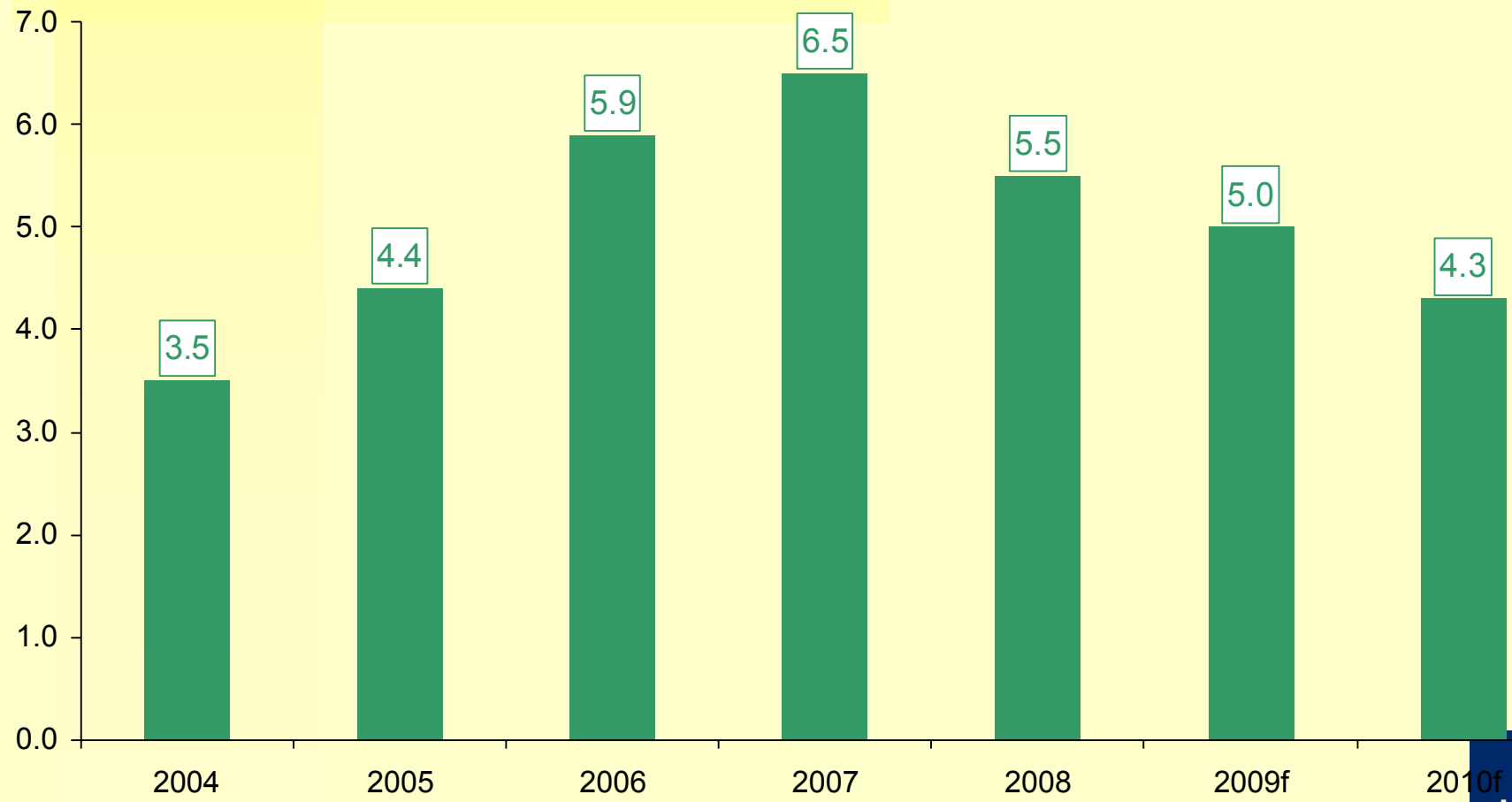


f = forecasts

Source: *Asian Development Outlook 2009 and Asian Development Outlook 2009 Update*, Asian Development Bank.

...and current account surpluses narrowing

Current Account Balance—Developing Asia (% of GDP)



GDP = Gross Domestic Product, f = forecasts

Source: Asian Development Outlook 2009 and Asian Development Outlook 2009 Update, Asian Development Bank.



China emerging as a key locomotive of Factory Asia

Trade with China as % of total trade¹ (rank among partners)

	1995	2000	2005	2006	2007	2008	2009 ⁵
NIEs ²	8.2 (1)	8.4 (1)	17.8 (1)	18.8 (1)	20.0 (1)	19.5 (1)	19.7 (1)
ASEAN ³	2.9 (8)	5.0 (5)	10.6 (3)	11.2 (3)	12.5 (3)	12.0 (2)	12.3 (1)
Australia	4.7 (6)	6.8 (3)	11.5 (2)	12.2 (2)	13.9 (1)	14.7 (2)	17.2 (1)
India	1.7 (17)	2.4 (10)	7.9 (2)	8.4 (2)	9.9 (2)	10.1 (1)	10.4 (1)
Japan	7.4 (2)	10.0 (2)	16.6 (2)	16.9 (2)	17.7 (1)	17.3 (1)	18.9 (1)
Euroarea ⁴	4.1 (6)	4.5 (6)	8.2 (3)	8.8 (3)	9.6 (3)	9.9 (3)	...
US	4.4 (5)	6.1 (4)	11.1 (3)	11.9 (2)	12.4 (2)	12.0 (2)	13.5 (2)

Figures in parenthesis indicate the **rank** of PRC as a trading partner of the area or country specified. For example, the PRC ranked as the 3rd major trading partner of the US in 2005.

¹Sum of imports and exports.

²NIEs includes Hong Kong, China; Korea, Republic of; Singapore; and Taipei,China.

³ASEAN includes Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

⁴Euroarea includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, and Spain. Figure for 1995 is actually for 1999 (earliest available date).

⁵Refers to January-June 2009.

Source: Eurostat (Euroarea); *Foreign Trade Statistics*, US Census Bureau (US); *Direction of Trade Statistics*, International Monetary Fund; and CEIC.

Asia to post a V-shaped recovery but risks remain

- Short-lived industry country recovery
- Policy errors
- Insufficient pick up in private demand
- Destabilizing capital flows

Authorities should support recovery— short- to medium- term priorities

- Maintain accommodative policies until recovery gains traction
- Manage capital flows effectively
- Keep an eye on inflation
- Manage exit strategies carefully
- Consider regional policy coordination

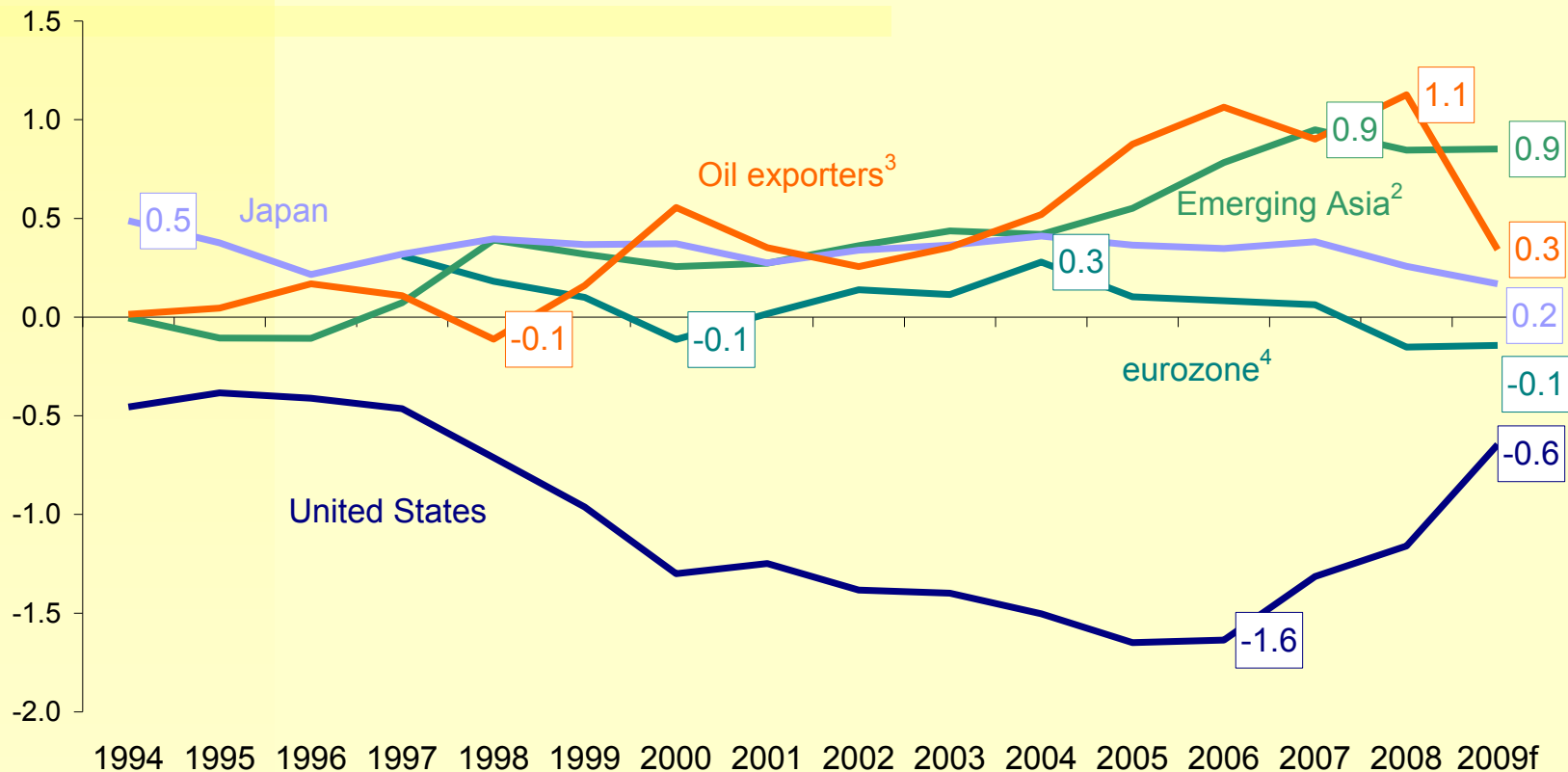
Beyond recovery—long-term priorities for Asia

Play a constructive role in reshaping global governance

- Resolve global imbalances
 - Adjusting mechanism: asymmetric to symmetric
 - Better alignment between trade and finance
 - G20 launches a framework for a strong, sustainable, and balanced global growth path
 - Rebalance sources of growth in surplus economies
- Restructure the global financial architecture
 - Reform the global monetary system
 - Strengthen the financial regulatory framework

Global imbalances contribute to the Great Crash in 2008

Current Account Balances (% of world GDP)¹

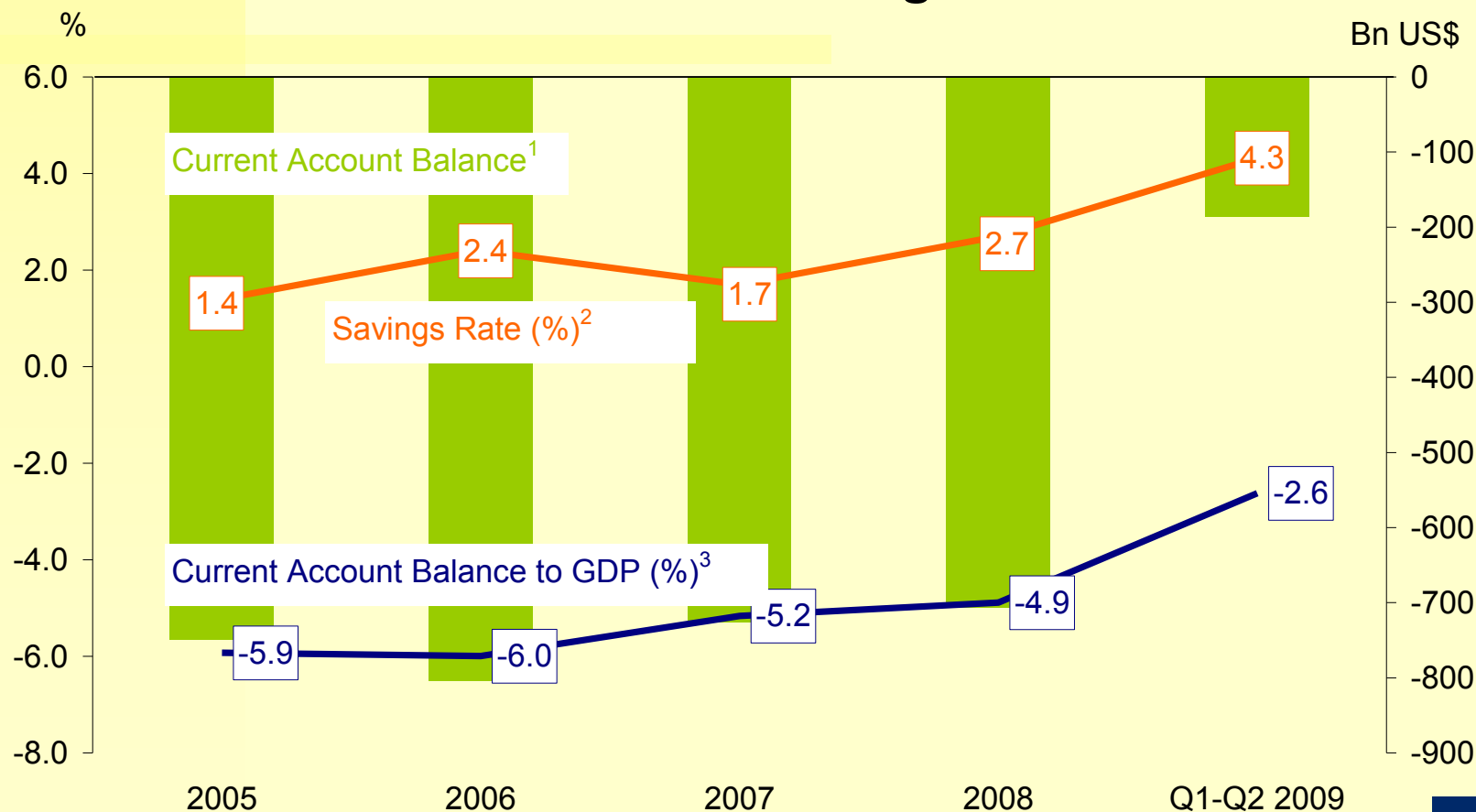


¹ Gross domestic product (GDP) 2008 figures for regional groupings are estimates. All 2009 figures are estimates. ² Emerging Asia includes Emerging East Asian economies and India. ³ The oil exporters are Algeria, Angola, Azerbaijan, Bahrain, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, I.R. of Iran, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Syrian Arab Republic, Turkmenistan, United Arab Emirates, Rep. Bolivariana de Venezuela, and Republic of Yemen, as identified in the *World Economic Outlook (WEO)* October 2008, International Monetary Fund. ⁴ Eurozone includes the sixteen economies in the euro area as defined by WEO.
Source: *World Economic Outlook* October 2009, International Monetary Fund.



US consumes and borrows too much

Current Account Balance¹ and Savings Rate²—United States



¹ Current account in billion US\$ is a non-seasonally adjusted series. ² Savings rate is percent of personal disposable income as estimated by the USBEA. ³ Current account to GDP ratio for the period 2005-2008 is based on non-seasonally adjusted annual figures. The ratio for the first half of 2009 is from Q109 and Q209 seasonally-adjusted current account and seasonally-adjusted annualized GDP figures.

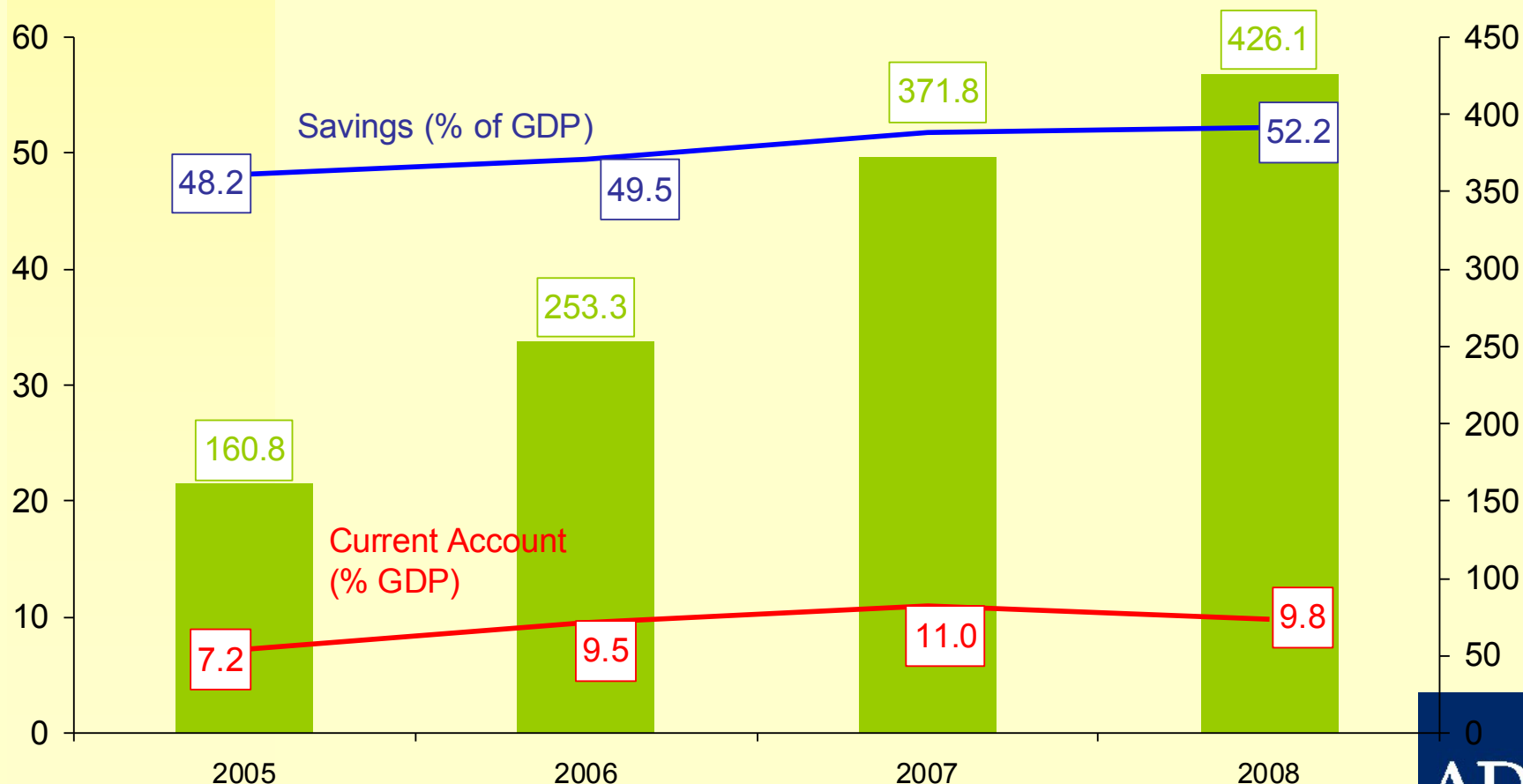
Source: Staff calculation based on data from United States Bureau of Economic Analysis (USBEA).

China saves too much

Gross National Savings and Current Account- PRC

Savings, and Current Account
(as % of GDP)

Current Account
Bn US\$

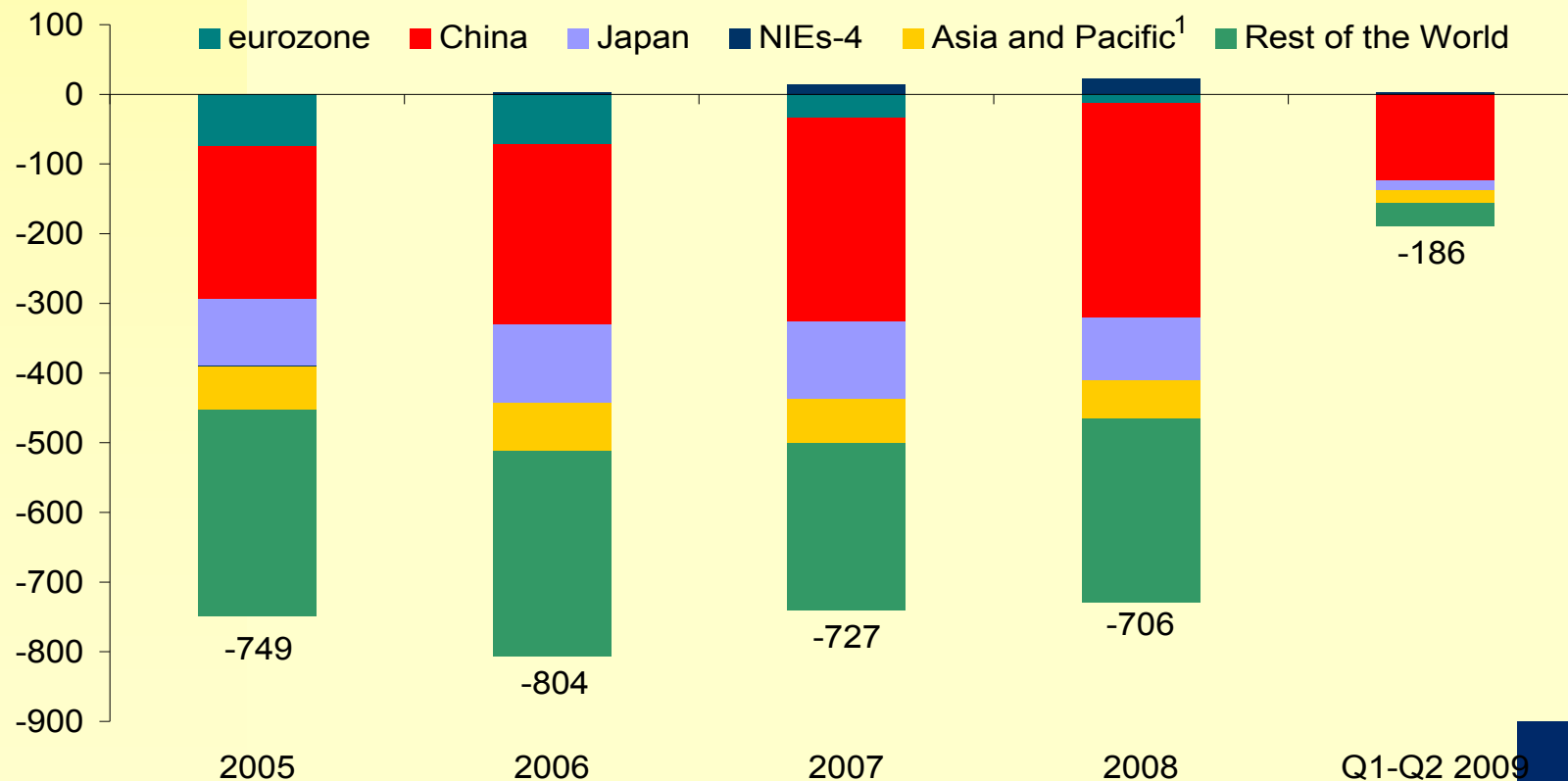


PRC = People's Republic of China.

Source: *Key Indicators for Asia and the Pacific 2009*, Asian Development Bank; CEIC.

The result is the global imbalance

US Current Account Deficit—decomposition by region or country (US\$ billion)



¹ Asia and Pacific as defined by the United States Bureau of Economic Analysis (US BEA) sans China, Japan and NIEs-4.
Source: Staff calculations based on data from US BEA.

Reform the global monetary system

- Headed to a multiple reserve currency world?
 - Dollar is challenged
 - Potential rivals are also challenged
 - Euro, Yen, and Renminbi?
- A variety of SDR proposals
 - UN and PBOC
 - Countries will find an instrument (eg SDR) attractive as reserves only if that instrument can be used
- Asia must play its rightful role in the reform process

Revamp financial regulatory framework (lessons from the current crisis)

- Complexity is not innovation
- Leverage is not credit
- Risk dispersion is not risk reduction
- Market discipline is no substitute for regulation—voluntary regulation does not work
- In good times prepare for bad—case for countercyclical regulation
- Key challenge is to promote financial innovation while ensuring financial stability

Key Messages

- The Great Recession in 2008 hit Asia hard
- Asia responds swiftly and rebounds quickly—key challenge now is to convert rebound into sustained recovery
- Asia should play a constructive role in
...reforming global financial architecture,
...and resolving global imbalances
- Overall, expect what was unexpected in the beginning of this year!

Thank you!

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