

Outline

1. Crisis impact on ASEAN
2. The region's response
3. V-shaped recovery likely
4. Long-term challenges:

A functioning ASEAN Economic Community

US subprime crisis led to a contraction in G3, and...

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



G3 = United States, eurozone and Japan.

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

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

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

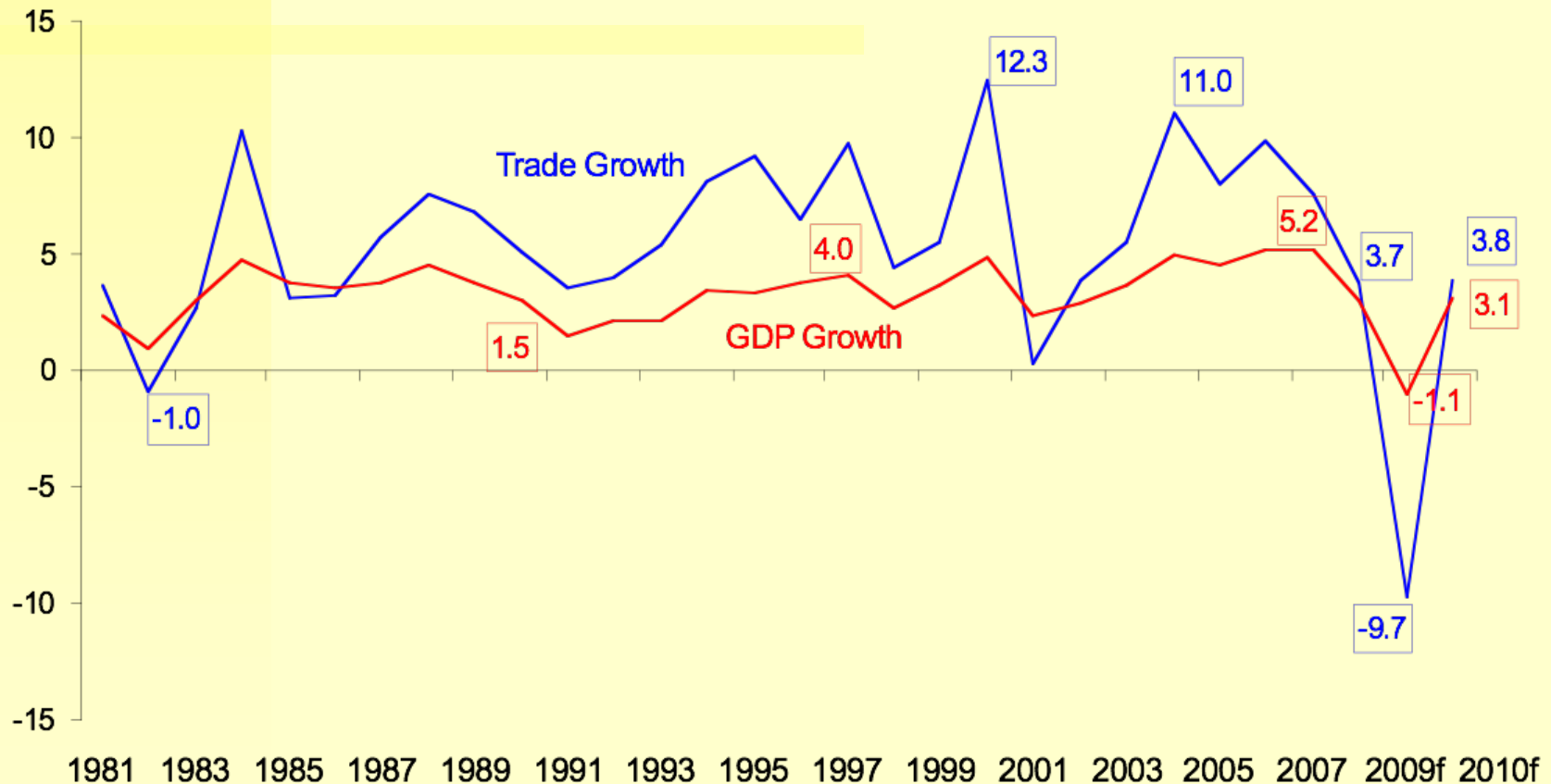
Source: OREI staff calculations based on national sources.



...the worst global recession since WWII

World GDP and World Trade Volume ¹

(y-o-y change, %)



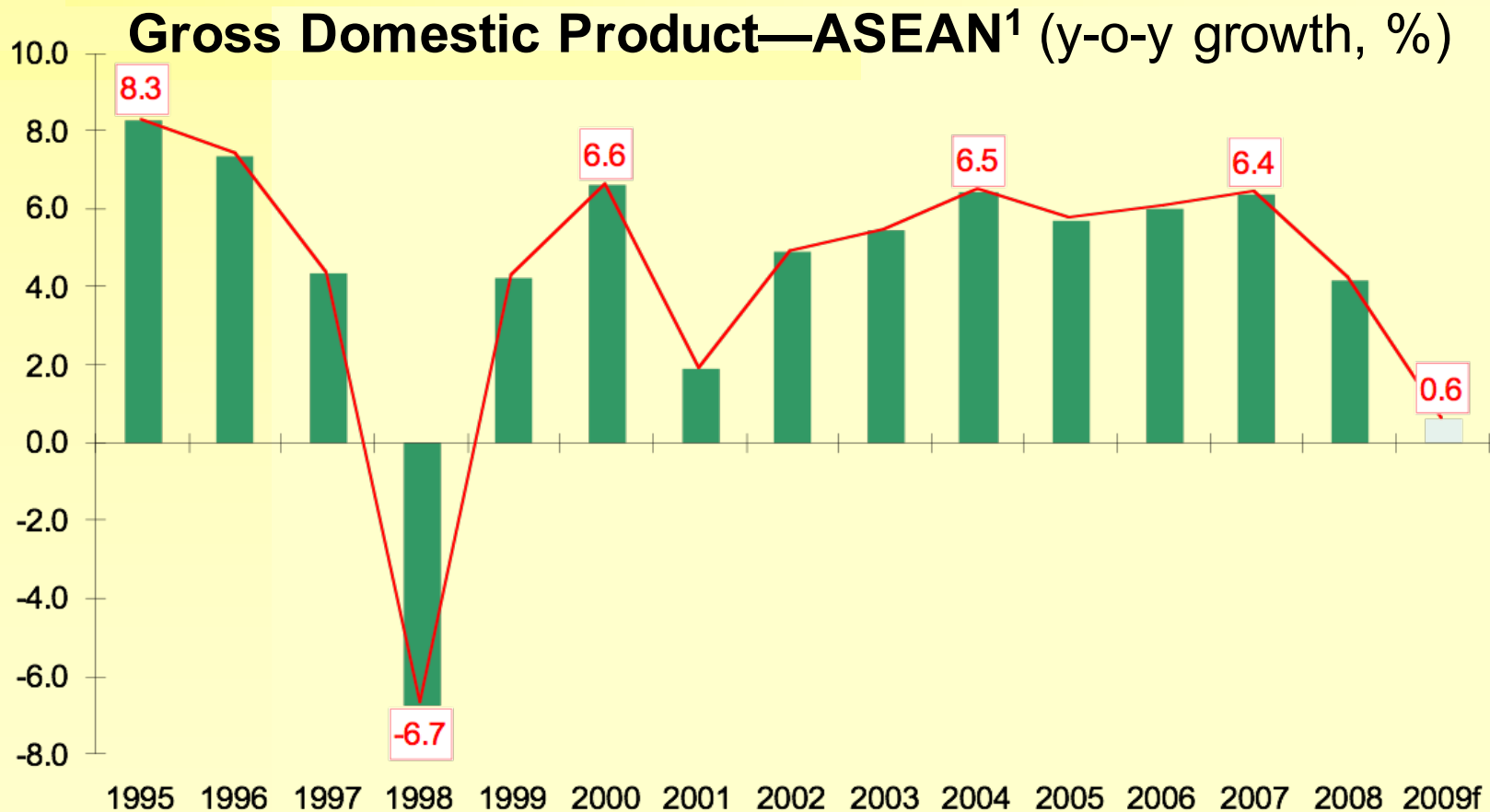
GDP = gross domestic product, f = forecast

¹ Export Volume.

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



ASEAN hit hard by the external demand shock...



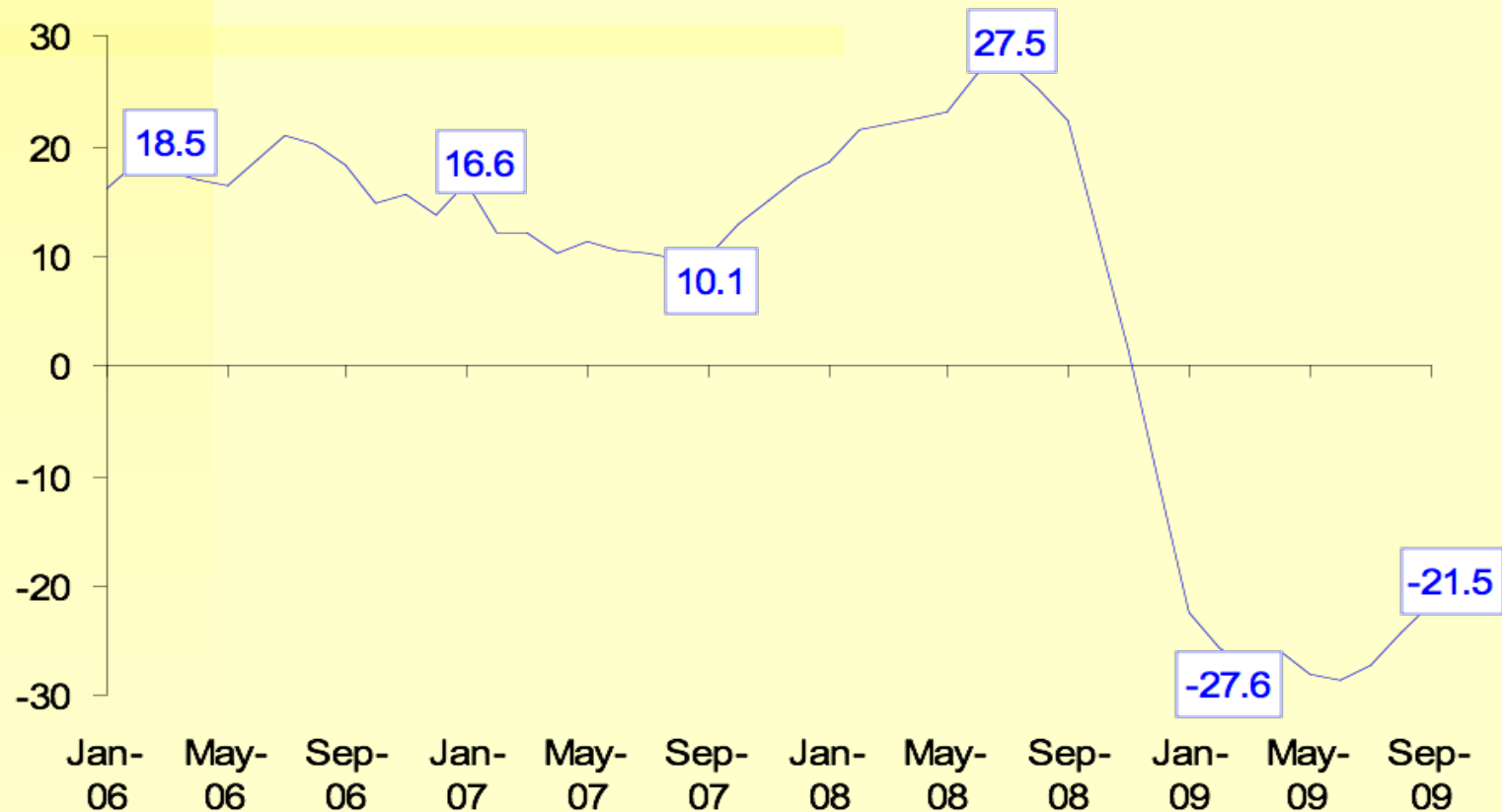
f = forecast

¹ Excludes Myanmar for all years as weights are unavailable.

Source: *Asian Development Outlook* various issues, Asian Development Bank (ADB); national sources; and ADB staff estimates.

...as exports plummeted...

Export Growth¹—ASEAN-7² (\$ value, y-o-y, %)



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

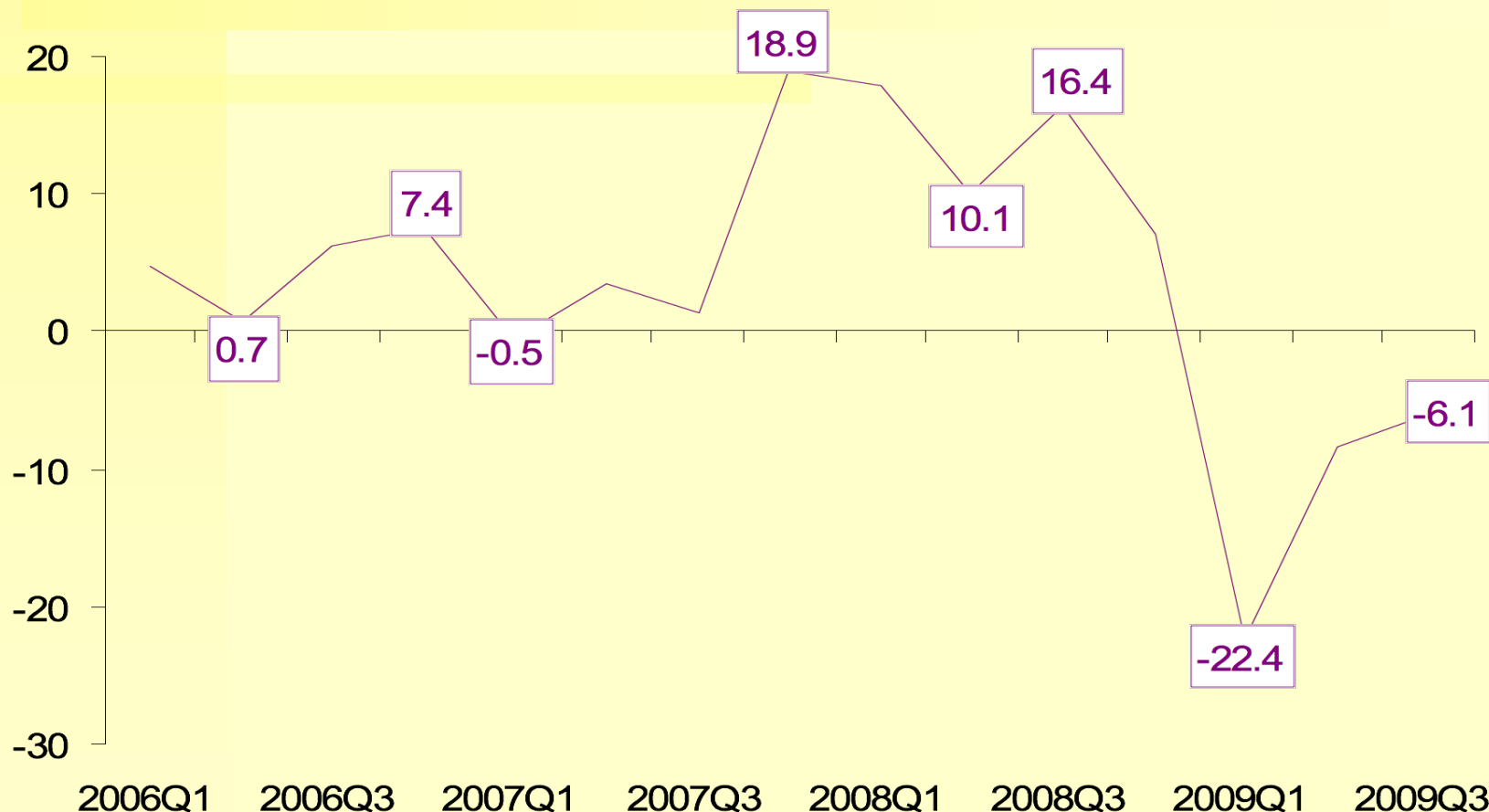
¹ 3-month moving average of merchandise exports.

² ASEAN-7 includes Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam. Excludes Brunei Darussalam, Cambodia, and Lao People's Democratic Republic for which monthly data unavailable.

Source: OREI staff calculations based on CEIC data.

...and investment collapsed

Gross Domestic Investment—ASEAN-5¹ (y-o-y, %)



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

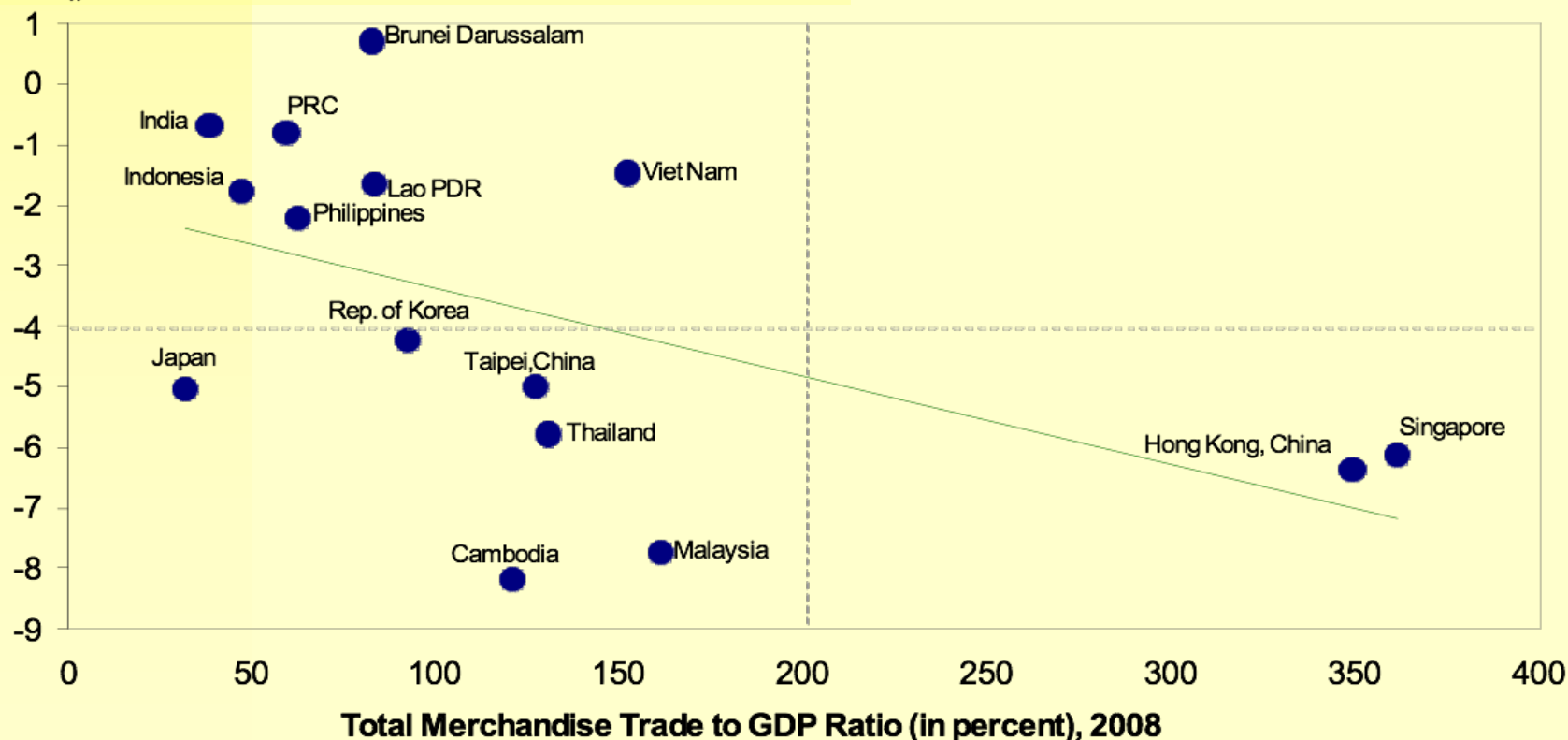
¹ ASEAN-5 includes Indonesia, Malaysia, Philippines, Singapore, and Thailand. Does not include Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam for which quarterly data unavailable.

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.

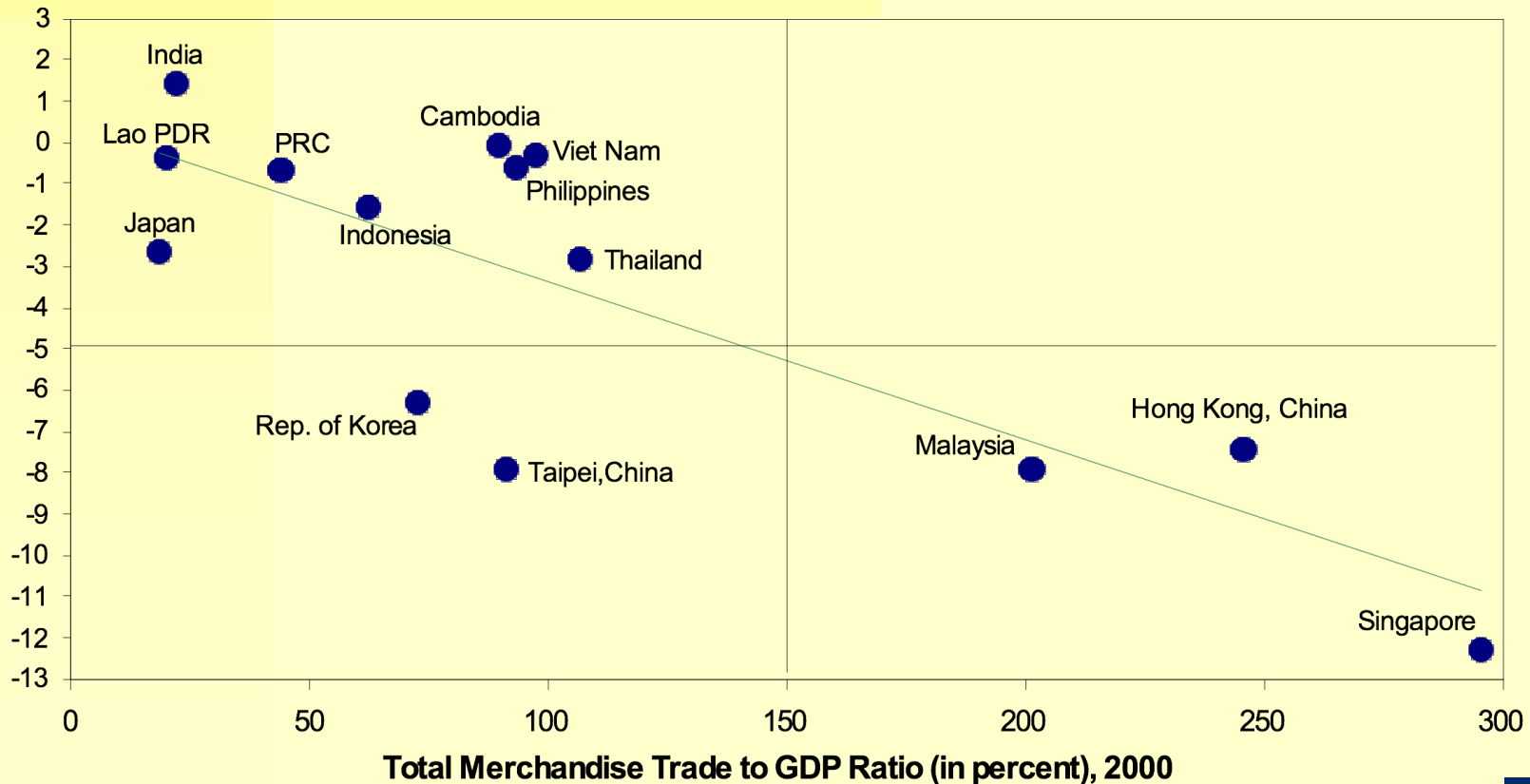
Note: Total Merchandise Trade = Exports + Imports.

Source: *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 happened in the 2001 recession

Growth Slowdown and Openness

2001 minus 2000 GDP Growth



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

Note: Total Merchandise Trade = Exports + Imports.

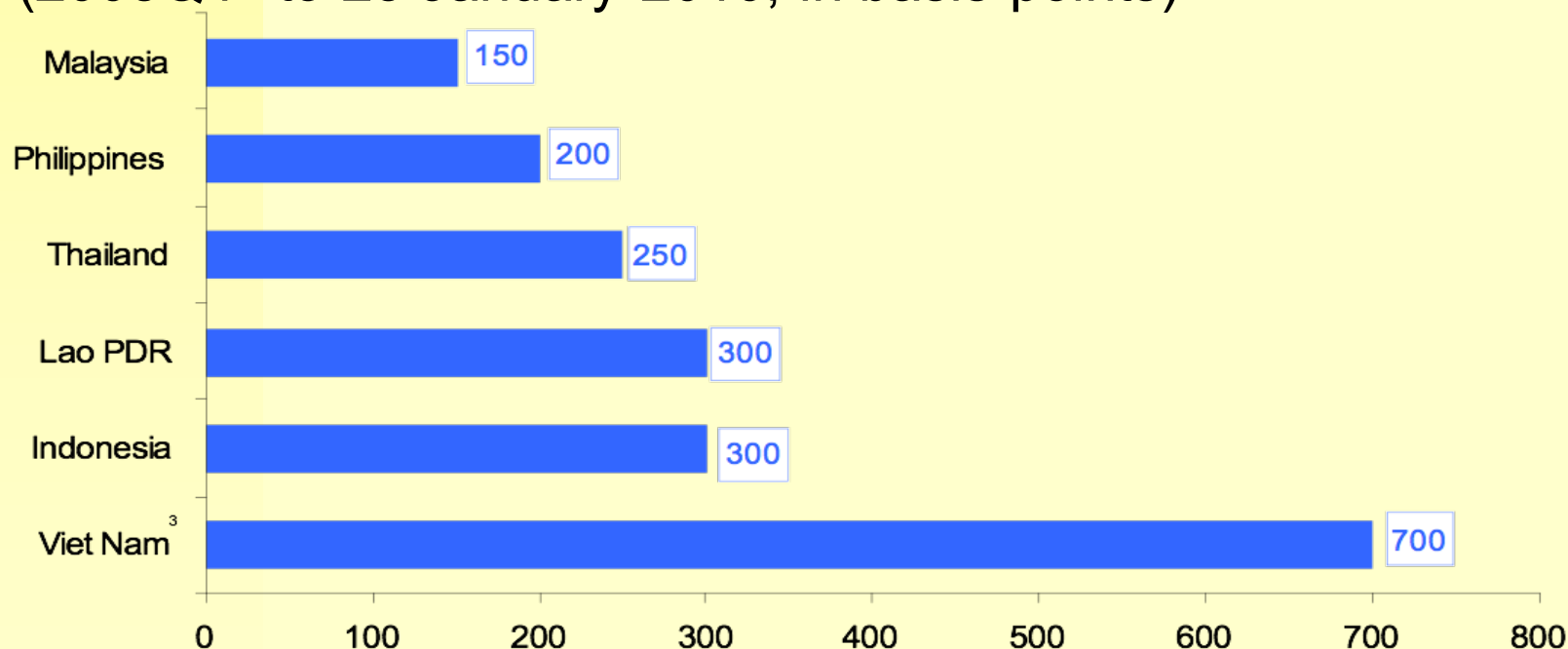
Source: *Asian Development Outlook* (Apr 2002), Asian Development Bank; *International Financial Statistics*, International Monetary Fund.



In response, ASEAN eased monetary policy...

Decline in Policy Rates¹

(2008Q4² to 25 January 2010, in basis points)



¹ Policy rates for each economy are as follows: Bank Indonesia rate (Indonesia); overnight policy rate (Malaysia); reverse repurchase (repo) rate (Philippines); 1-day repo rate from 17 Jan 2007 onwards (Thailand); prime rate (Viet Nam); Bank of Lao lending interest rate—less than 1 week (Lao People's Democratic Republic).

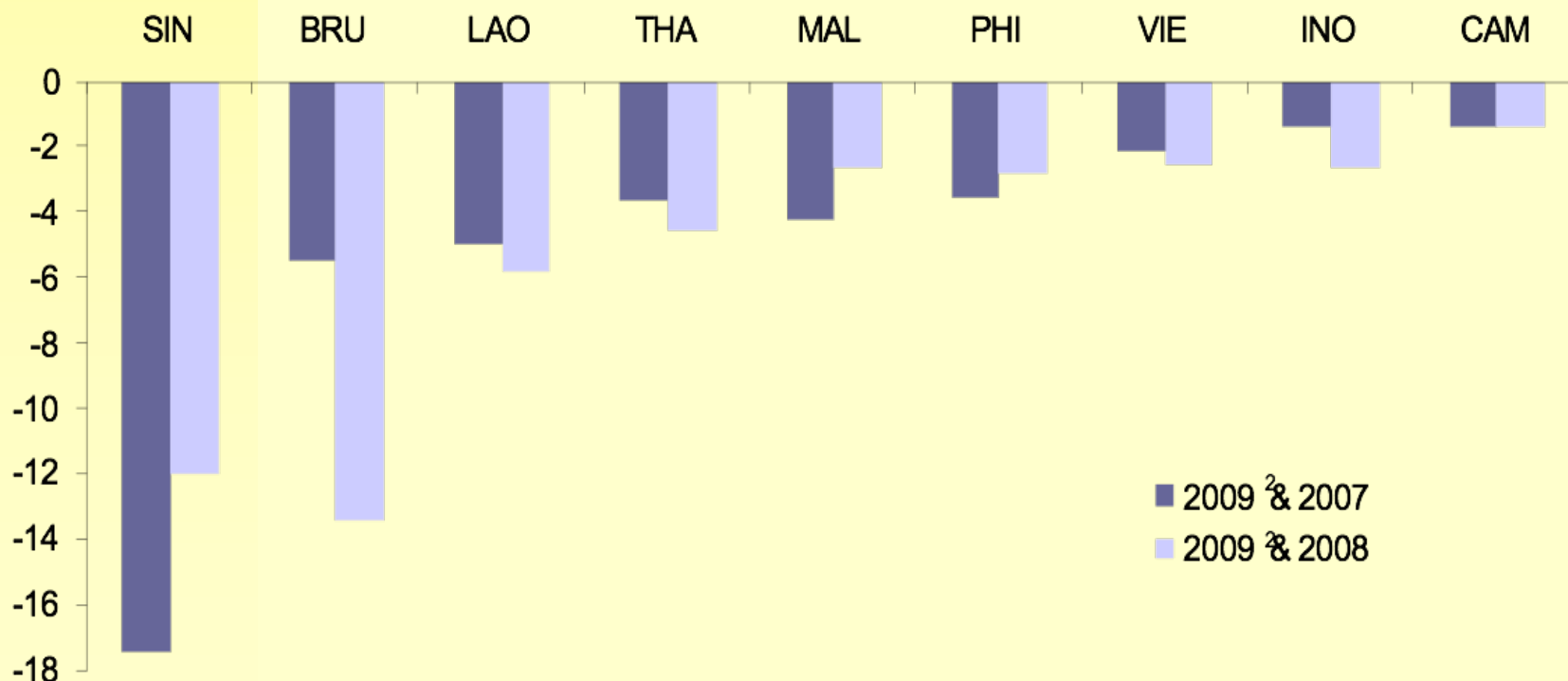
² 2008Q4 refers to October for Viet Nam and Lao People's Democratic Republic; November for Malaysia; and December for Indonesia, Philippines, and Thailand.

³ State Bank of Viet Nam decided on 25 November 2009 to raise policy rate from 7.00% to 8.00% effective 1 December 2009.

Source: OREI staff calculations using data from Bloomberg, Datastream and Bank of the Lao PDR website.

...along with significant fiscal stimulus

Change in Fiscal Balance¹ (percentage points)



BRU = Brunei Darussalam; CAM = Cambodia; INO = Indonesia; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; SIN = Singapore; THA = Thailand; and VIE = Viet Nam.

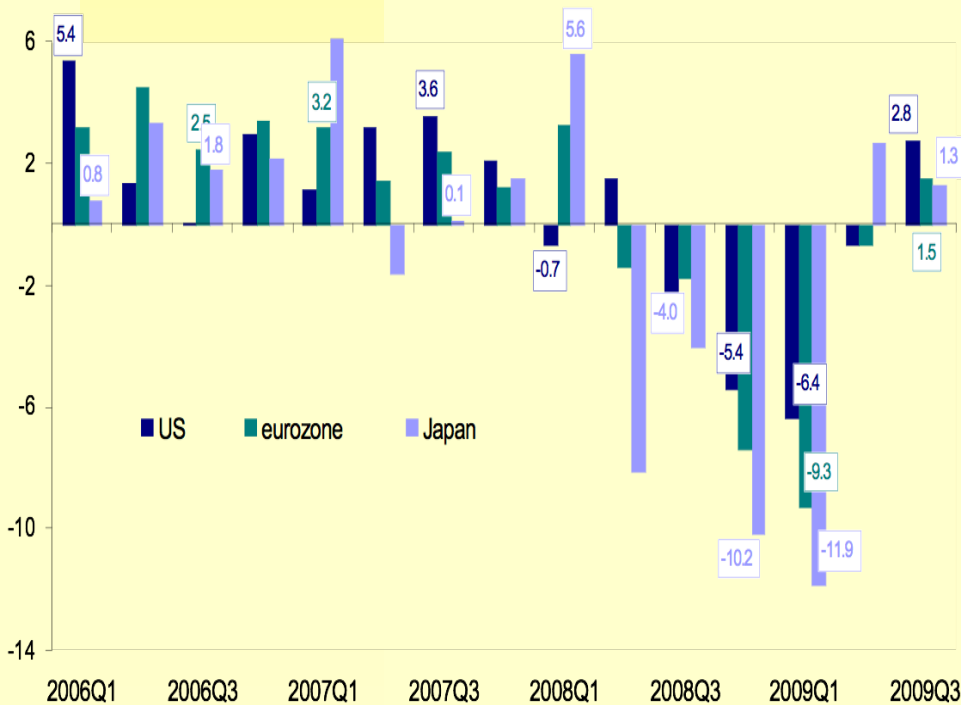
¹ Central government balance as % of GDP, except for Brunei Darussalam (primary budget balance); Cambodia and Singapore (general government balance); Malaysia (federal government balance); and Viet Nam (state budget balance);

² 2009 figures are budget estimates (CAM, SIN, MAL); government estimate (PHI); ADB projection (INO), and IMF Staff projections (BRU, LAO). Figures for THA and VIE are actual turnout figures.

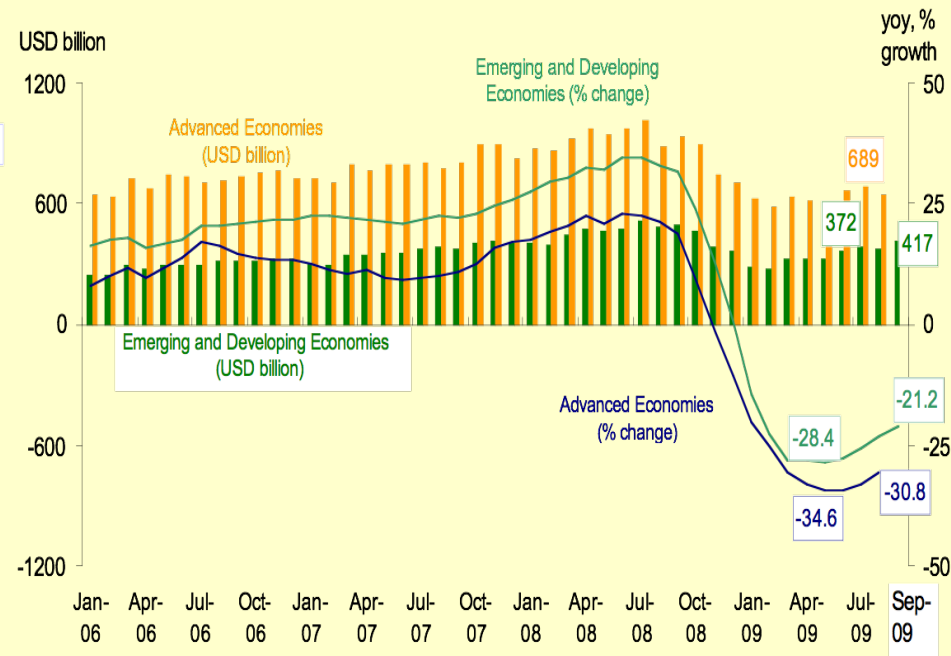
Source: national sources; *Asian Development Outlook* (March 2009), ADB; *Article IV* reports, International Monetary Fund; and CEIC.

As global economy turns the corner...

GDP growth—G3
(seasonally adjusted, annualized, q-o-q, % change)



Imports—Advanced Economies; Emerging and Developing Economies
(US\$ billion, % growth)¹



¹ Year-on-year (y-o-y) growth rates of 3-month moving averages.
Source: International Financial Statistics, International Monetary Fund.

Sources: Cabinet Office, Government of Japan (Japan); Eurostat website (eurozone); and Bureau of Economic Analysis (US).



...the external environment improves

GDP growth of major trading partners (y-o-y, %)

	ASEAN Trade Share ¹ , % 2008	GDP Growth ² , %			
		2007	2008	2009	2010
NIE-3 ³	16.0	5.5	1.9	-1.1	4.2
Japan	14.4	2.4	-1.2	-5.8	1.2
People's Republic of China	13.9	13.0	9.6	8.7	8.9
United States	13.1	2.1	0.4	-2.4	2.0
eurozone ⁴	11.1	2.7	0.6	-4.3	0.8
India	3.6	9.0	6.7	7.0	7.0
Weighted growth of major trading partners		5.5	2.5	-0.5	3.7

¹ Share of economy to total ASEAN trade.

² Aggregate weight by the share of economy to total ASEAN trade. Figures for 2009 and 2010 are forecasts except People's Republic of China and Republic of Korea (included in NIE-3). 2009 growth rate for People's Republic of China and Republic of Korea are actual rates.

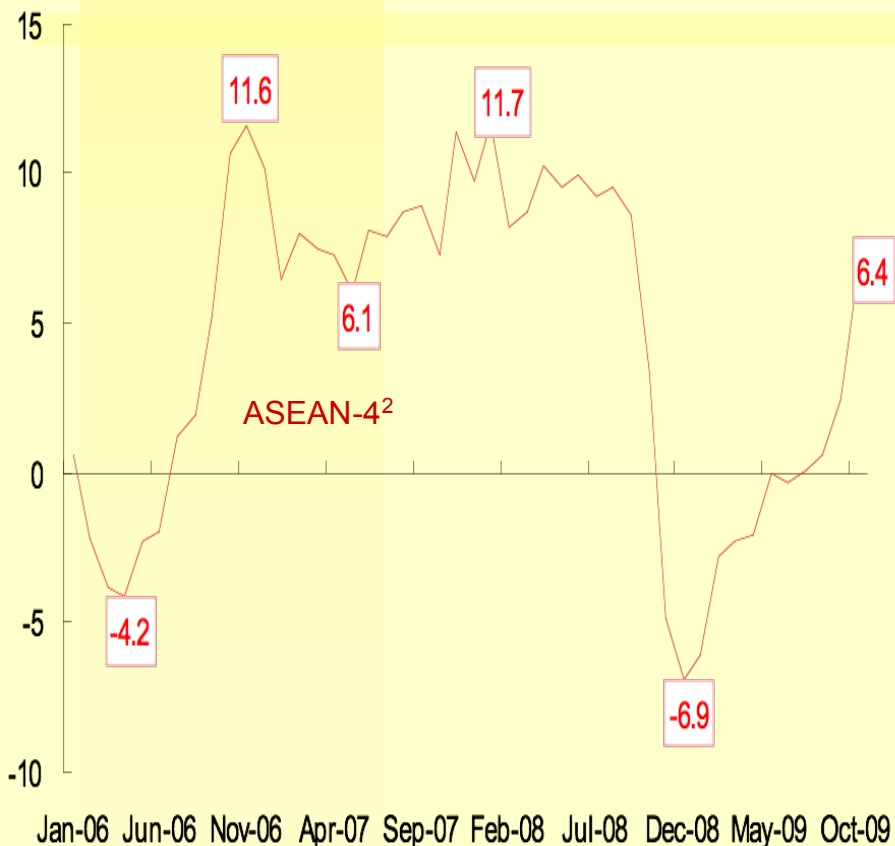
³ Newly industrialized economies (NIE-3) include Hong Kong, China; Republic of Korea, and Taipei, China.

⁴ eurozone includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, and Spain.

Source: *Direction of Trade Statistics*, International Monetary Fund; Asian Development Bank; Eurostat website; US Bureau of Economic Analysis; and CEIC.

ASEAN economy rebounds...

Retail Sales¹ growing again (y-o-y, %)



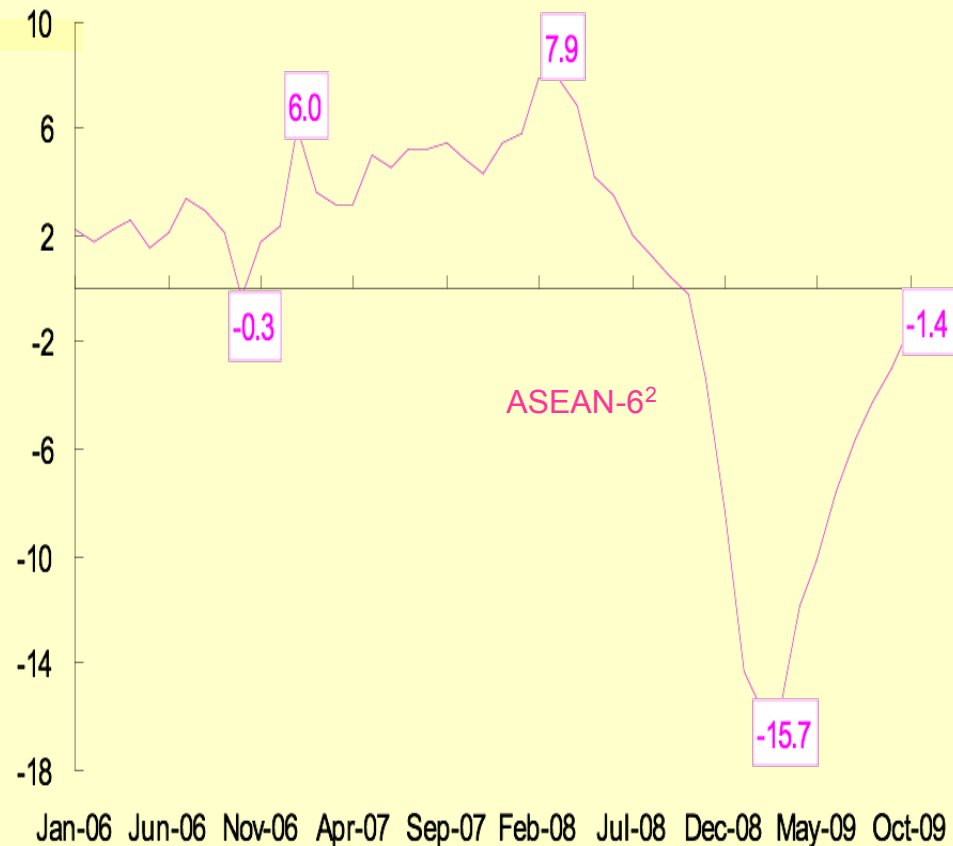
y-o-y = year-on-year.

¹ 3-month moving average.

² ASEAN-4 includes Indonesia, Singapore, Thailand, and Viet Nam. Excludes Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Malaysia, Myanmar, and Philippines for which monthly data unavailable.

Source: OREI staff calculations based on CEIC data.

Industrial Production¹ picks up (y-o-y, %)



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

¹ 3-month moving average.

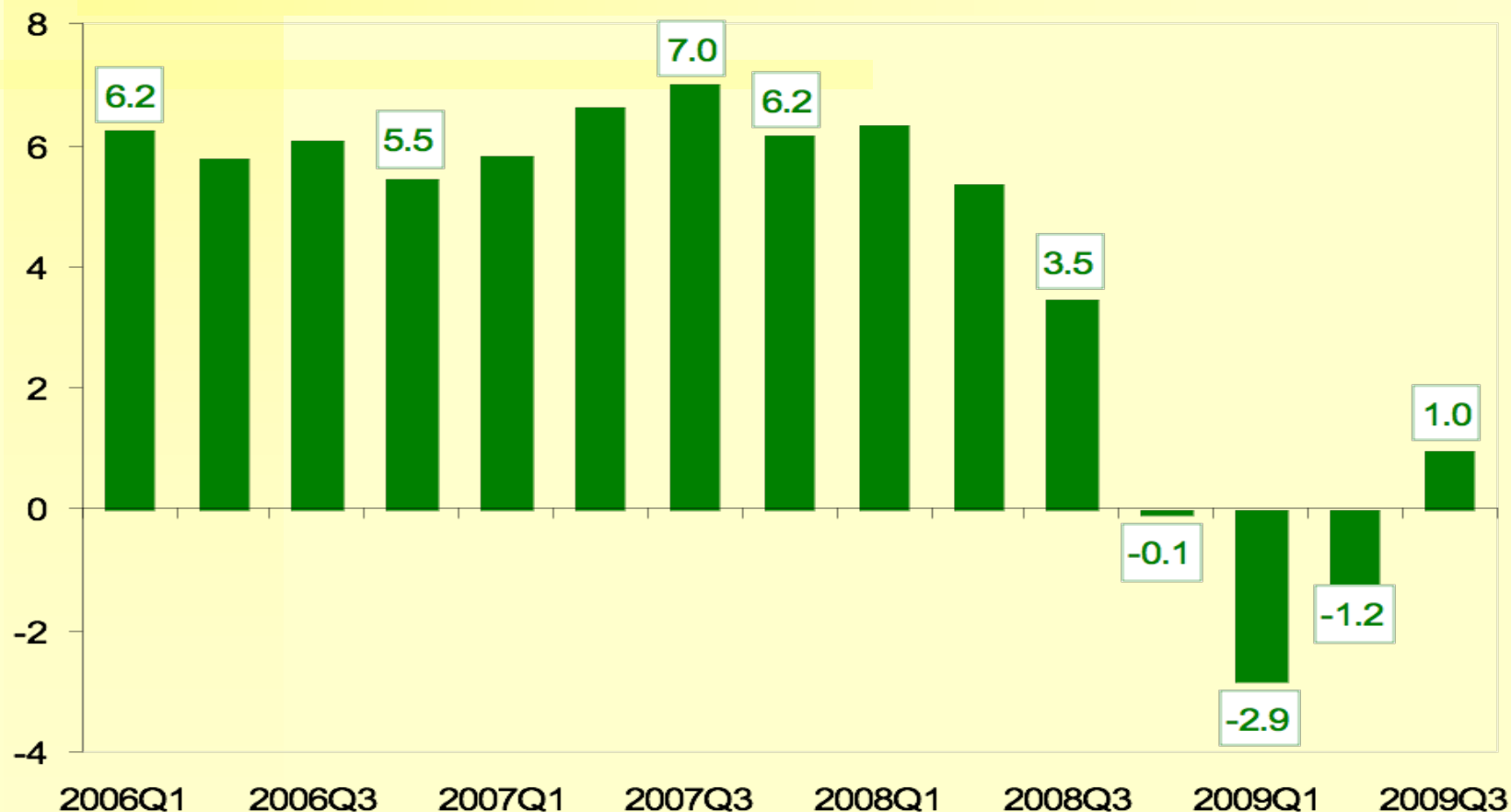
² ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam. Does not include Brunei Darussalam, Cambodia, Lao People's Democratic Republic, and Myanmar for which monthly data unavailable.

Source: OREI staff calculations based on CEIC data.



...and growth recovers

Quarterly Real GDP Growth—ASEAN-6¹ (y-o-y, %)



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

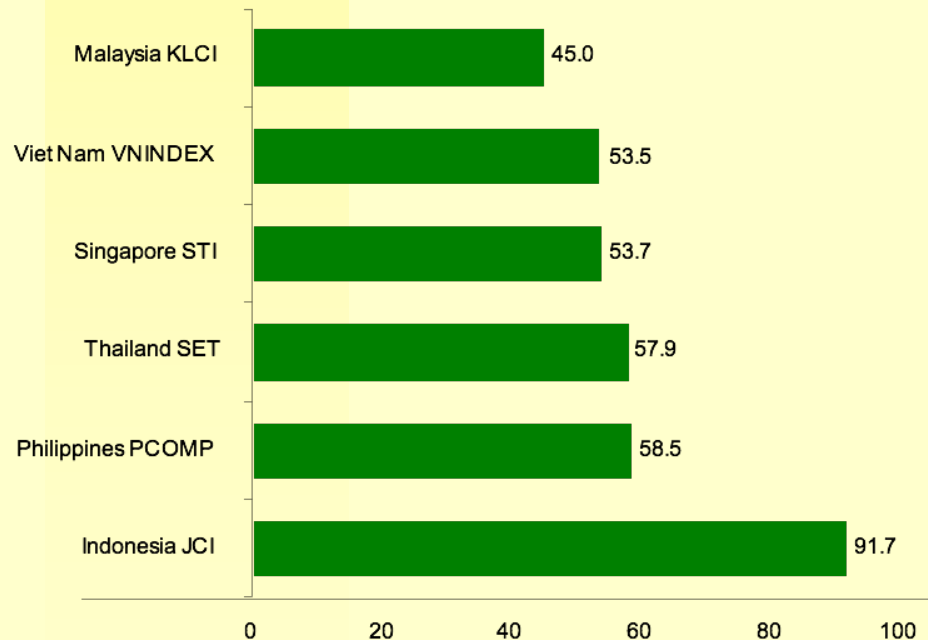
¹ ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam. Does not include Brunei Darussalam, Cambodia, Lao People's Democratic Republic, and Myanmar for which quarterly data unavailable. Weighted by gross national income (atlas method).

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

Stocks and currencies strengthen

Stock Price Indexes¹

(2 January 2009 to 25 January 2010, % change)

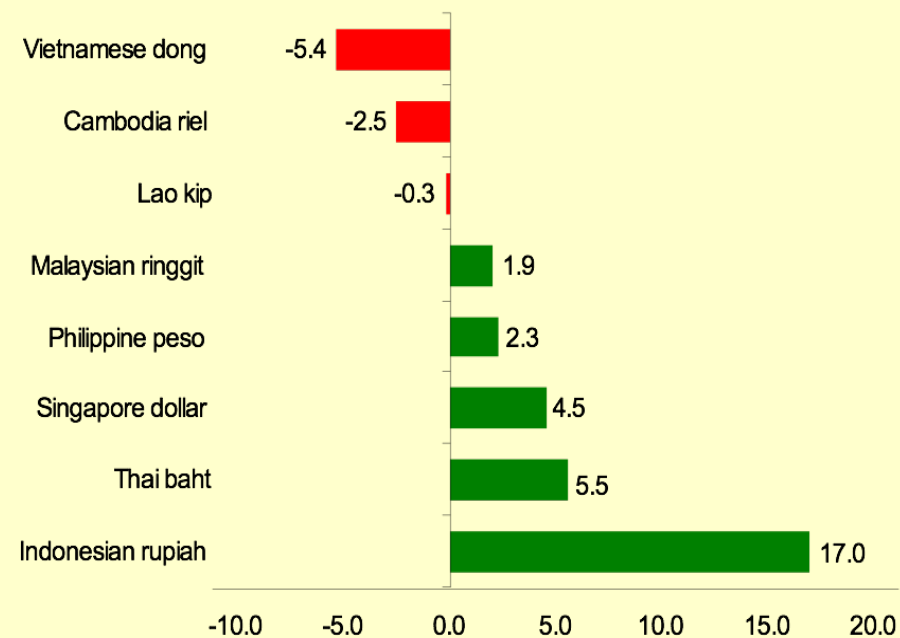


¹Latest closing as of 25 January 2010.

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

Regional Currencies¹

(2 January 2009 to 25 January 2010, % change)



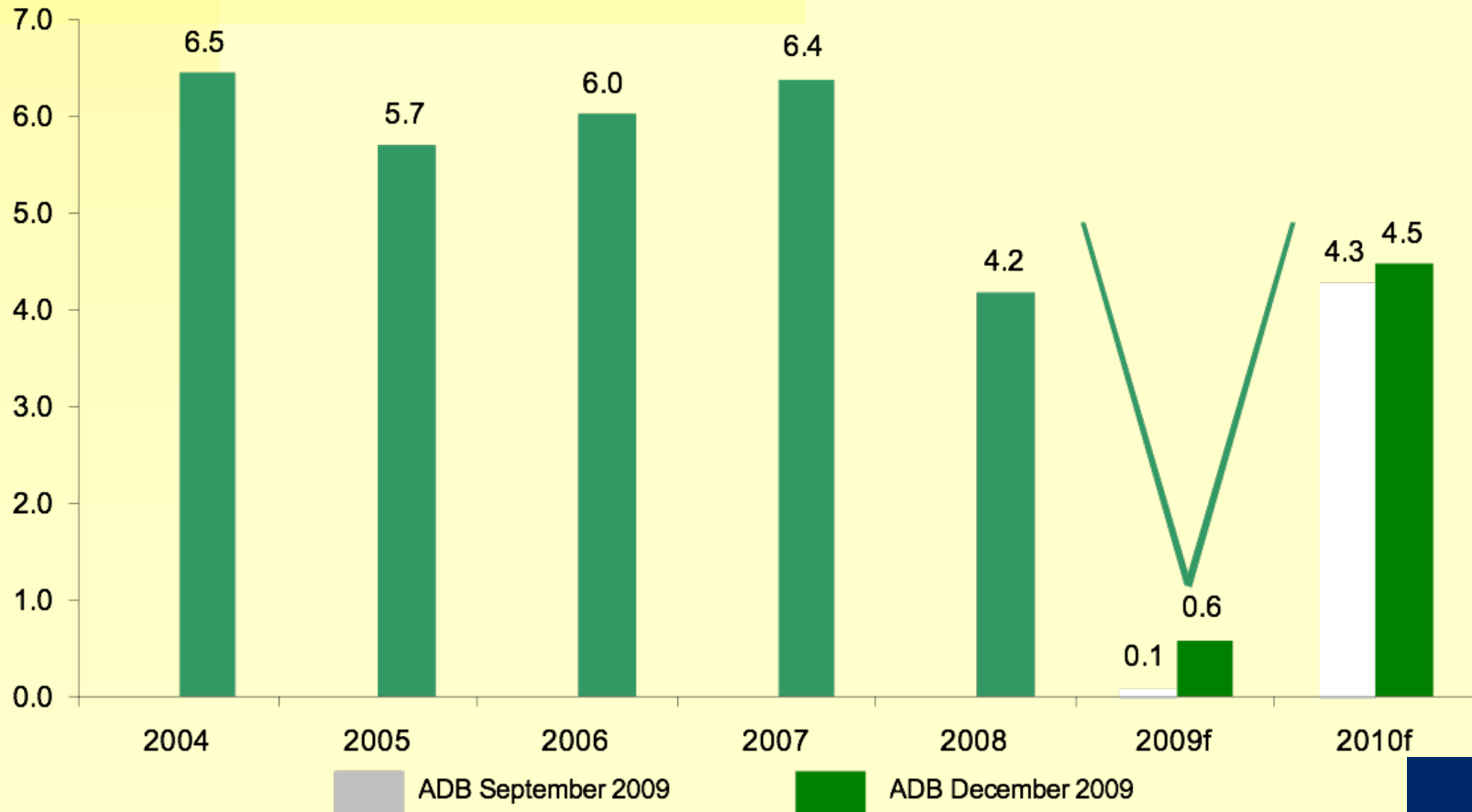
¹Latest closing as of 25 January 2010, based on the USD value of local currency.

Negative values indicate depreciation of local currency.

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

ASEAN amidst a V-shaped recovery

Growth Domestic Product—ASEAN¹ (yoy growth, %)



f = forecast

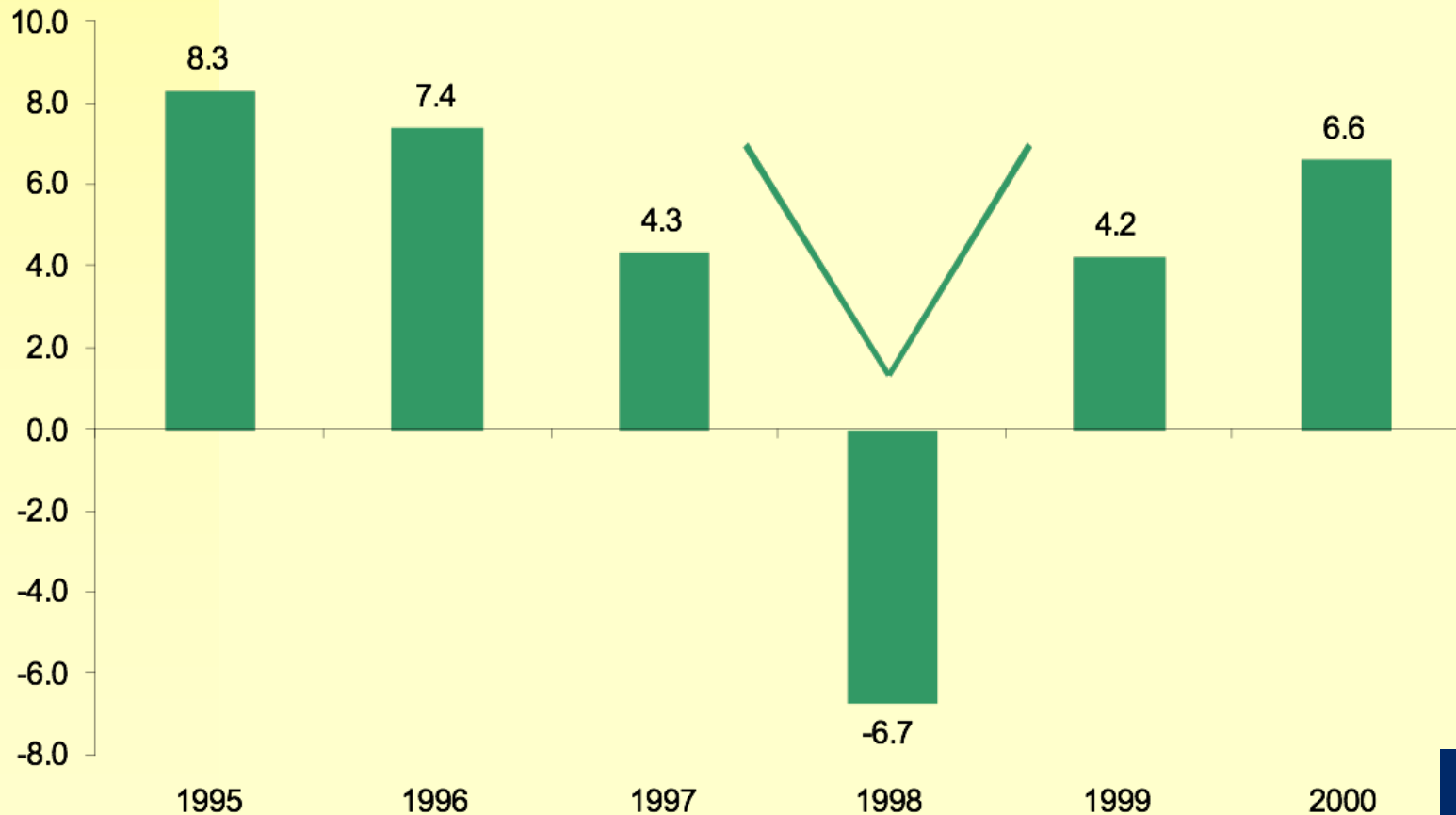
¹ Excludes Myanmar for all years as weights are unavailable.

Source: *Asian Development Outlook* various issues, Asian Development Bank (ADB); national sources; and ADB staff estimates.



Similar to 1997/98 Asian financial crisis experience

Gross Domestic Product—ASEAN¹ (y-o-y growth, %)

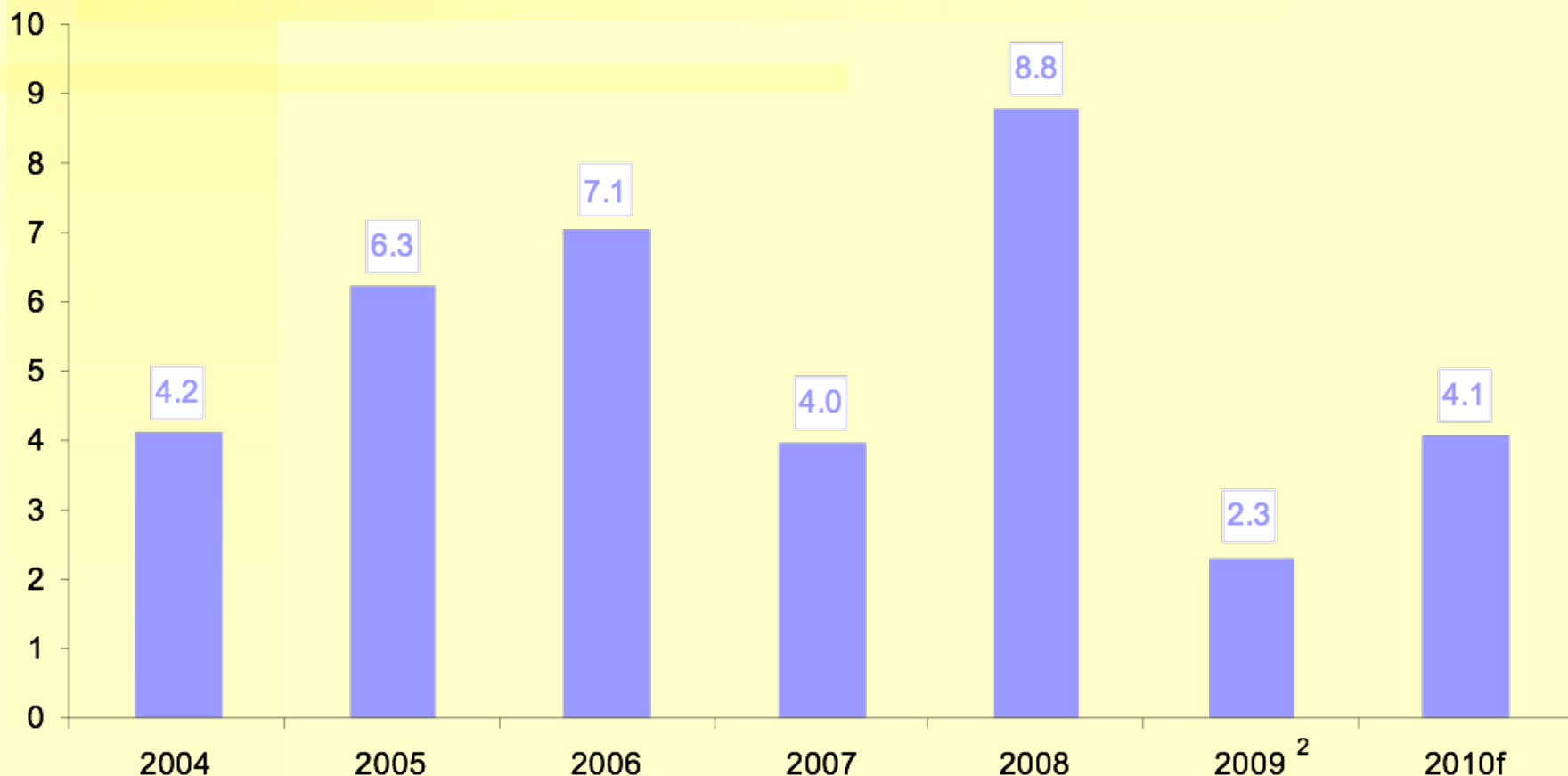


¹ Excludes Myanmar for all years as weights are unavailable.

Source: *Asian Development Outlook* various issues, Asian Development Bank (ADB); and national sources.

Inflation edging up, yet manageable...

Inflation Rate—ASEAN¹ (y-o-y,%)



y-o-y=year-on-year, f = forecast.

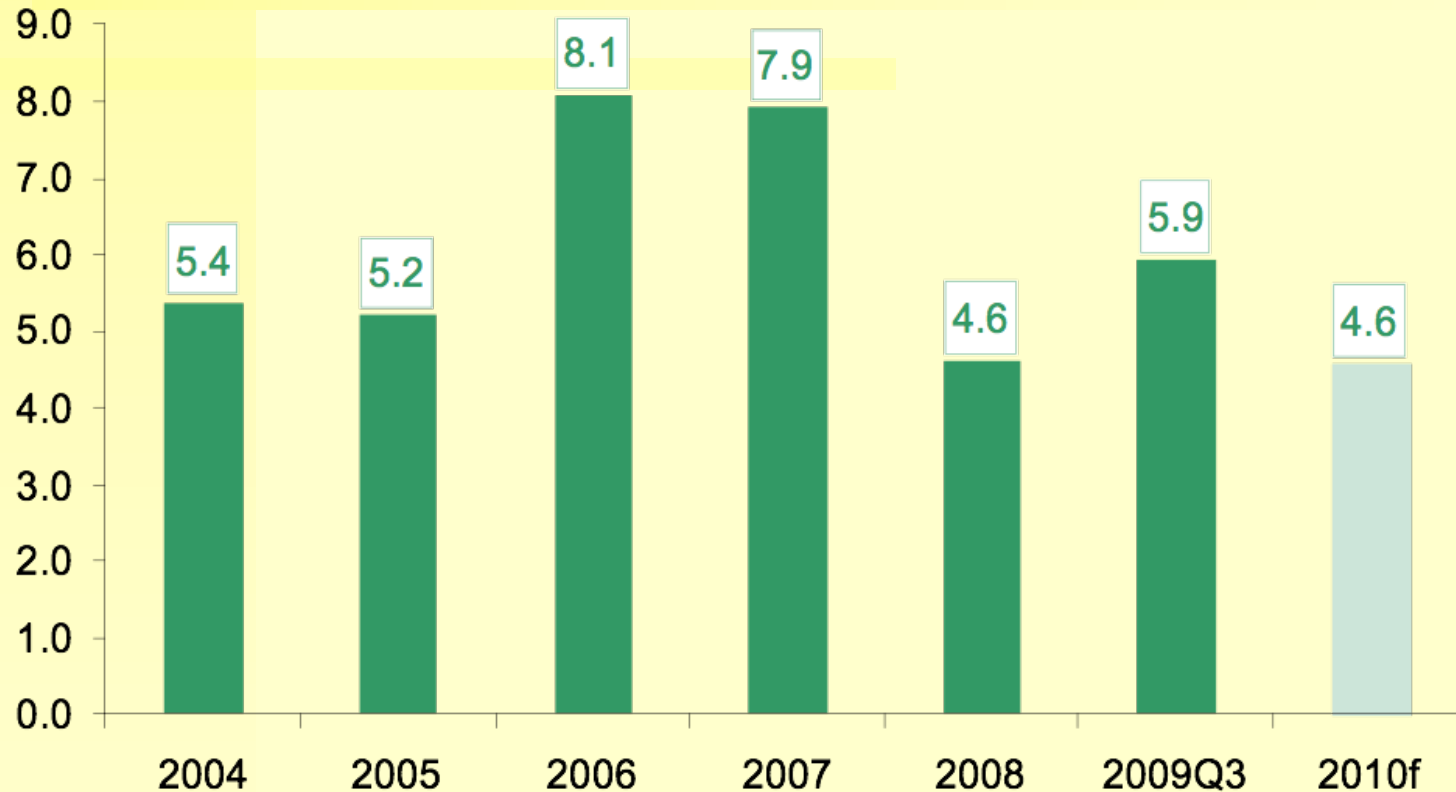
¹ Excludes Myanmar for all years as weights are unavailable.

² ADB forecasts for Brunei Darussalam, Cambodia and Lao People's Democratic Republic.

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

...and current account surpluses narrow

Current Account Balance—ASEAN¹ (% of GDP)



GDP= Gross Domestic Product; f= forecasts

¹ ASEAN-10. However, figure for 2009Q3 excludes Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam as data are not available.

Source: *Asian Development Outlook Update 2009*, Asian Development Bank; *World Economic Outlook*, and *International Financial Statistics Online*, International Monetary Fund; CEIC; and national source.

V-shaped recovery forecast, yet downside risks remain

- Short-lived recovery in G3
- Mistimed exit from monetary/fiscal stimulus
- Insufficient private demand when stimulus removed
- Volatile or destabilizing capital flows

Short- to medium- term priorities to support recovery

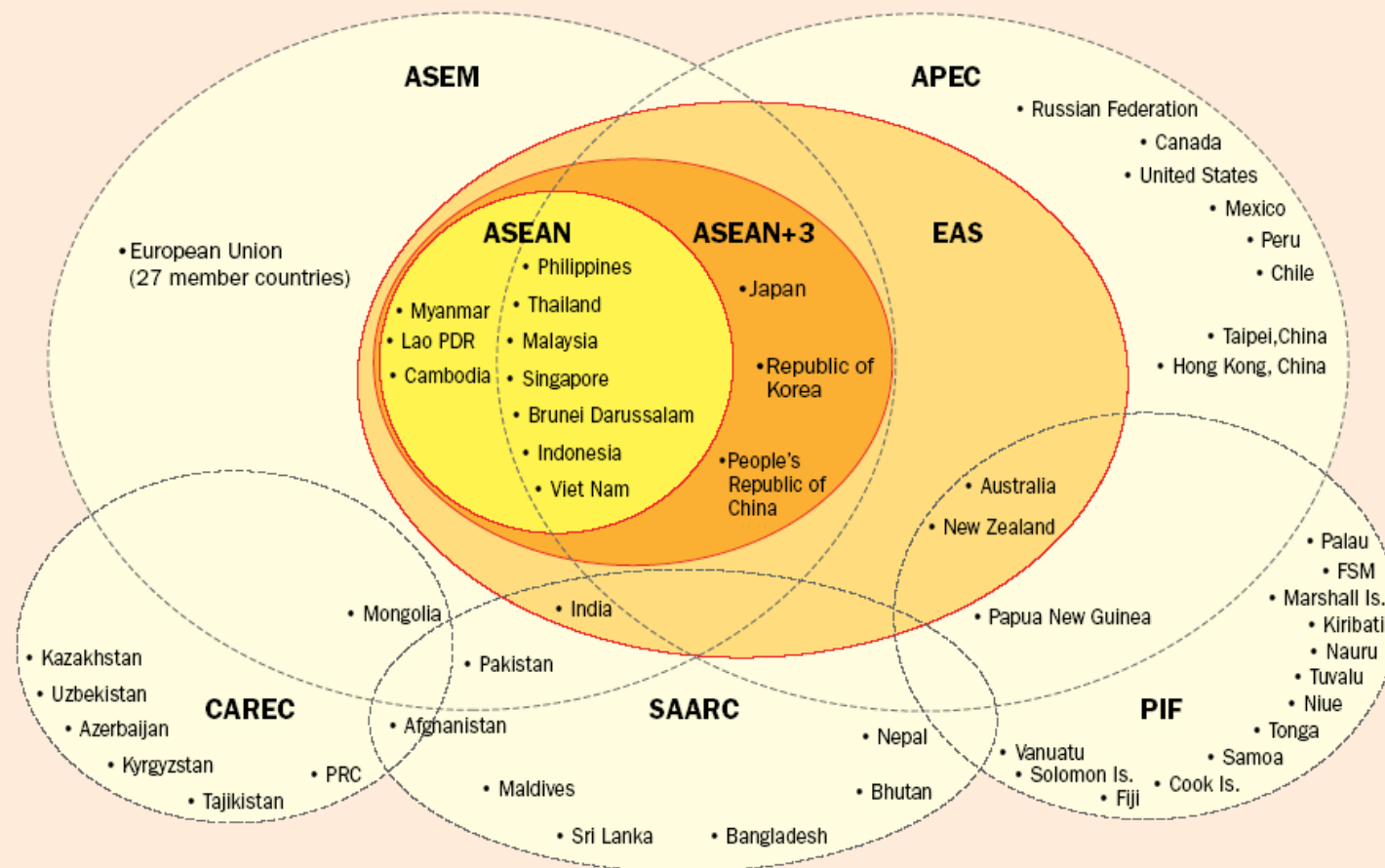
- Maintain accommodative policies until recovery gains traction
- Manage capital flows effectively
- Keep an eye on inflation
- Manage exit strategies carefully
- Enhance regional policy coordination

Beyond recovery— long-term priorities

- **Expedite ASEAN integration**
 - move beyond production integration
- **Bridge the development gap**
 - meld the two-, even three-tier ASEAN
 - exploit complementarities within the ASEAN
- **Avoid the middle-income trap**
 - move up the value chain: assembly to manufacturing
 - then to knowledge- and innovation-based products and services

ASEAN: driving force for Asian economic integration

Economic architecture: regional and transregional forums

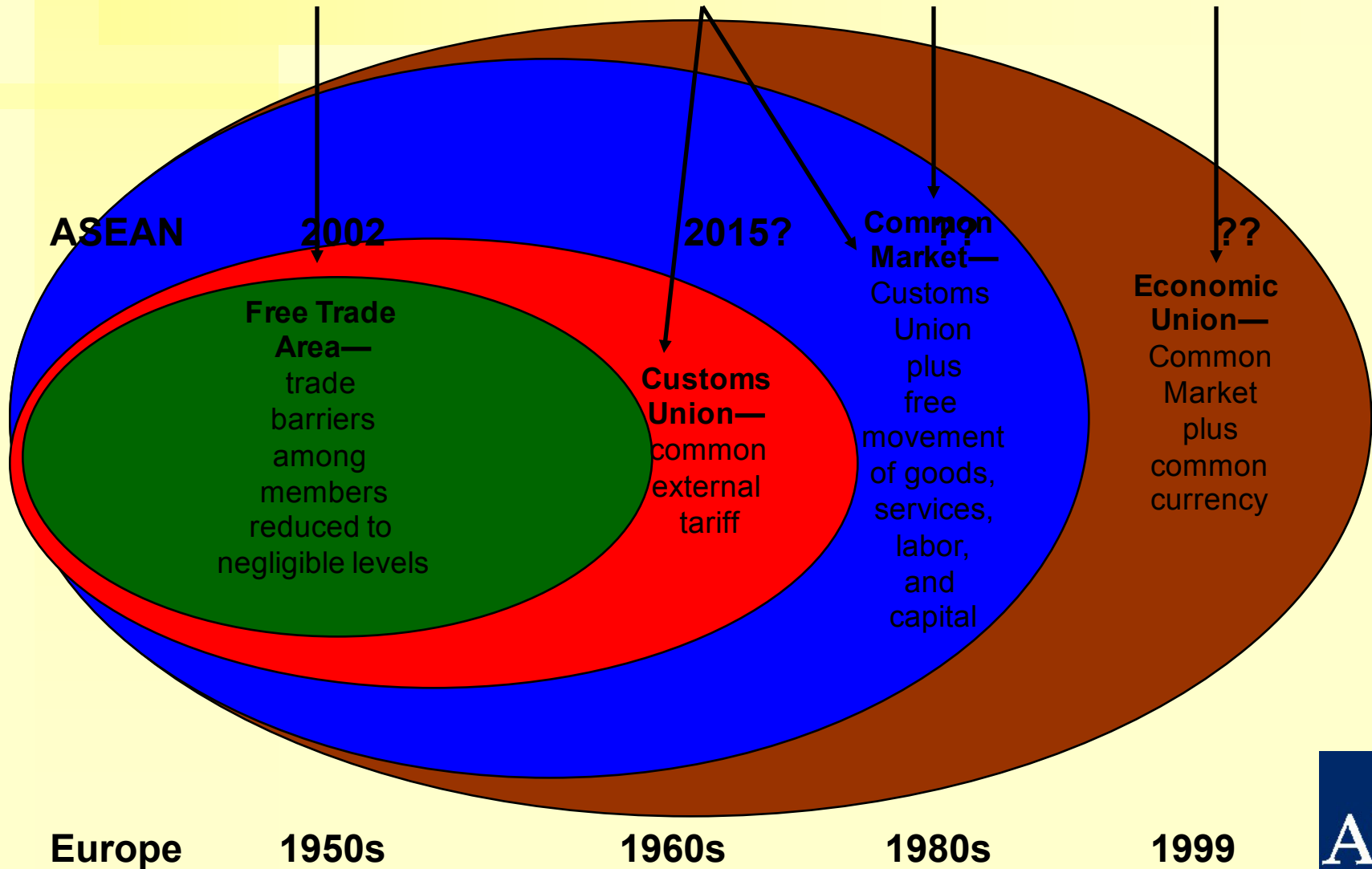


Functioning AEC is crucial for future Asian Integration

ASEAN needs to deepen its own integration to be an effective “driving force” for Asian regionalism:

- reduce transaction costs
- enhance investment climate and “doing business” parameters
- improve trade facilitation
- help private sector compete
- give ASEAN institutional strength; and
- keep “open regionalism” approach—Aim for a regionally integrated and globally connected ASEAN

AEC vs. EU: What's different?



Avoid the middle-income trap

- Invest in human resources and skills development
- Increase labor mobility
- Enhance investment climate to invigorate business; and
- Reform, deepen, and integrate financial markets

Key Messages

- **The Great Recession of 2008/09 hit ASEAN hard**
- **The response was swift and the rebound quick—key challenge is to convert recovery to sustained growth**
- **ASEAN Integration imperative; not a luxury anymore**
- **Bridge the development gap and avoid the middle-income trap**

Thank you!

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