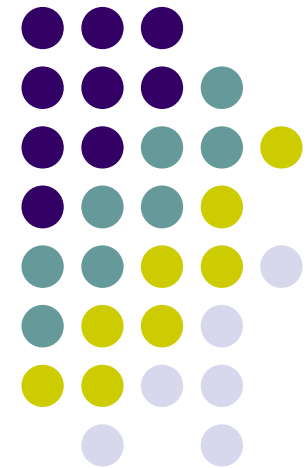


How Emerging Asia Coped with the Global Turmoil: Recovery and Challenges

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Outline



I. Crisis and Recovery

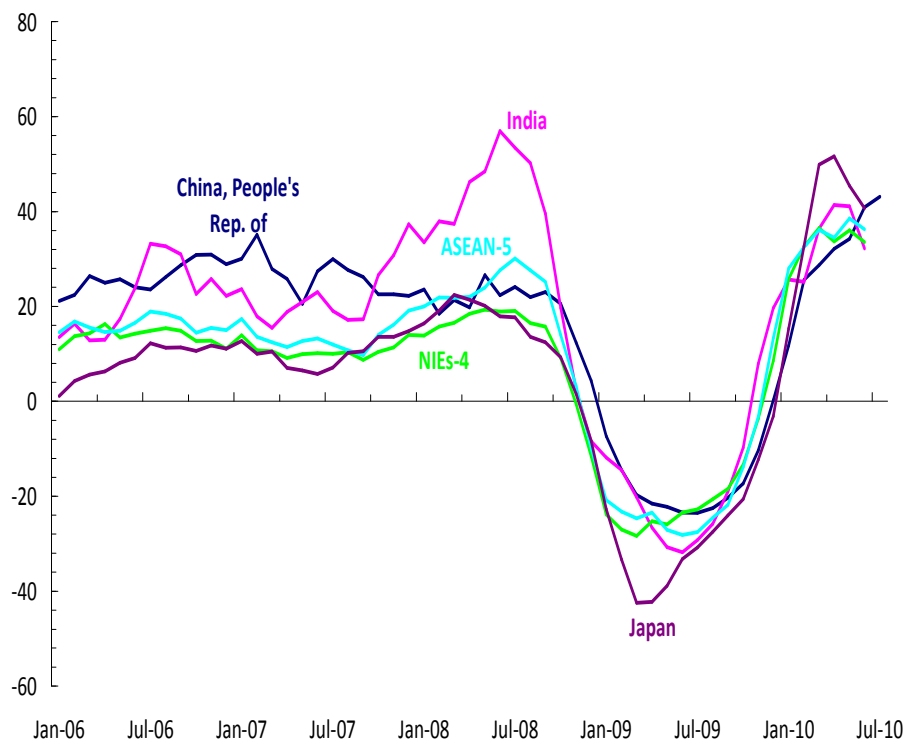
II. Risks and Policy Challenges

III. Role of Asia in the Post-Crisis Global Economy

Asia staged a V-shaped recovery

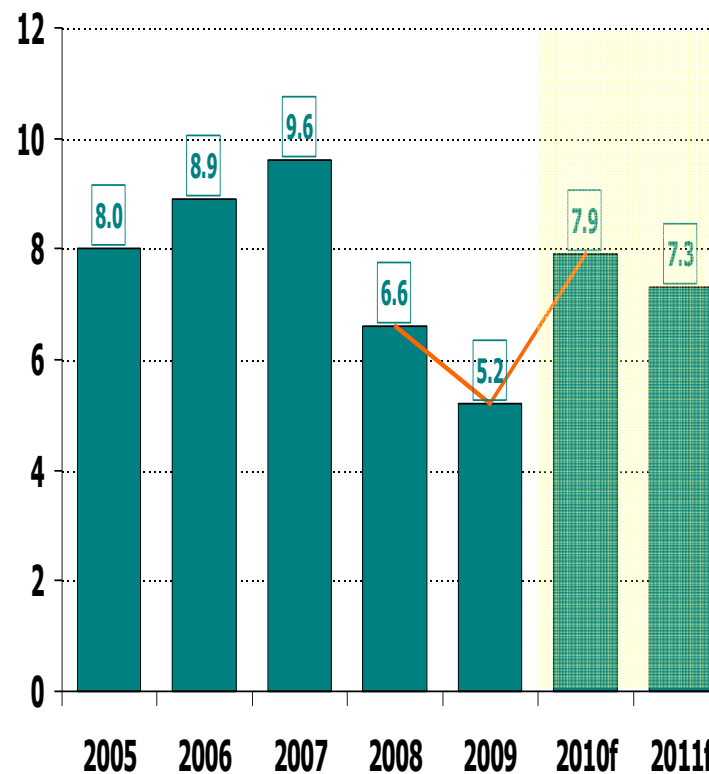


Export Growth (US\$ value, y-o-y)



Notes: 3-month moving average of merchandise exports. ASEAN-5 is comprised of Indonesia, Malaysia, Philippines, Thailand, and Viet Nam. NIEs-4 is comprised of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.

GDP growth, Developing Asia (% , y-o-y)



f: forecast

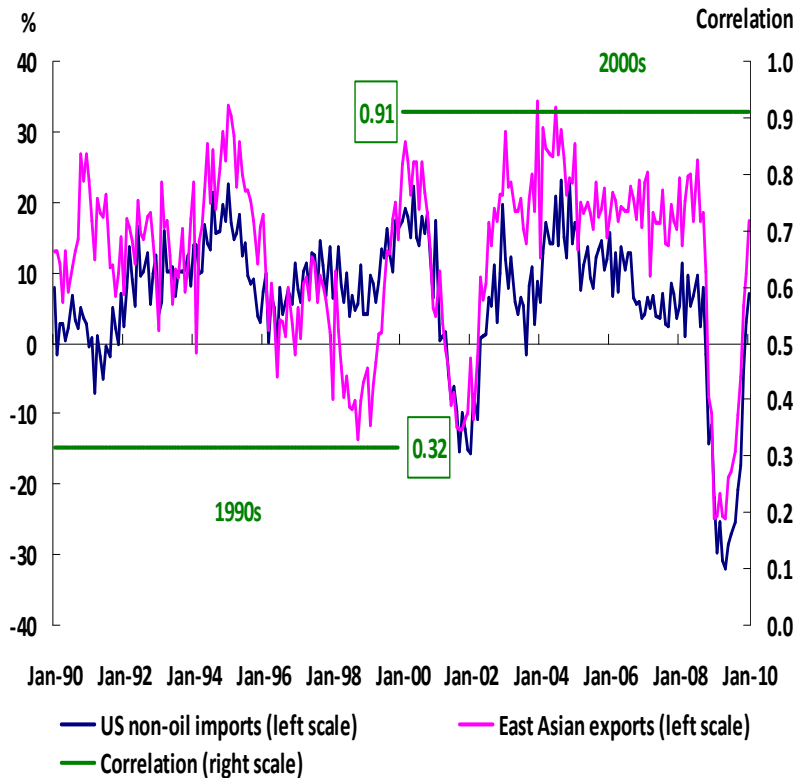
Sources: Asian Development Outlook 2010 and Special Note July 2010.



But external overdependence made Asia vulnerable

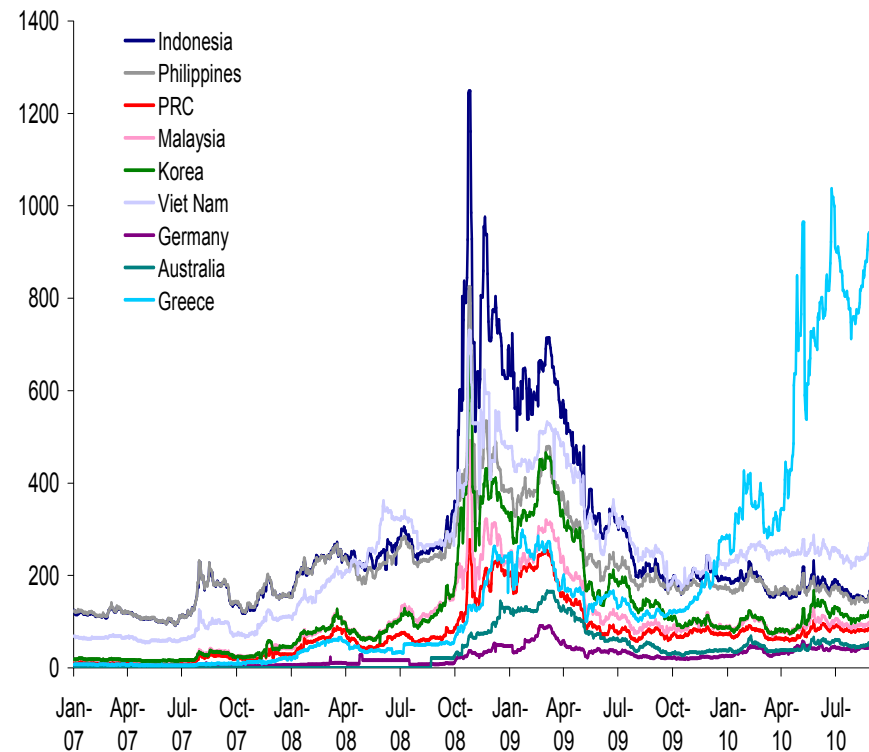


Correlation between growth in US non-oil imports and East Asian exports



Note: East Asia comprises PRC; Hong Kong, China; Indonesia; Korea; Malaysia; Philippines; Singapore; and Thailand.
Sources: IMF Direction of Trade Statistics and US Census Bureau.

Credit Default Swap Spreads, Selected Emerging Asia and OECD (basis points)



Source: Bloomberg.



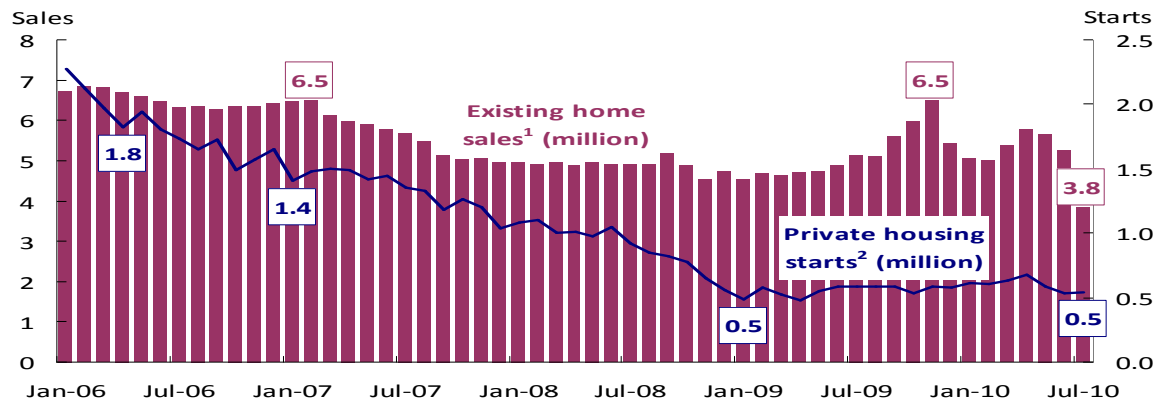


Risks to emerging Asia

- Double dip in advanced economies
- Mistimed unwinding and its unintended consequences
- Insufficient private sector demand
- Volatile capital flows
- Overheating and hard landing in the PRC



US economy remains weak...



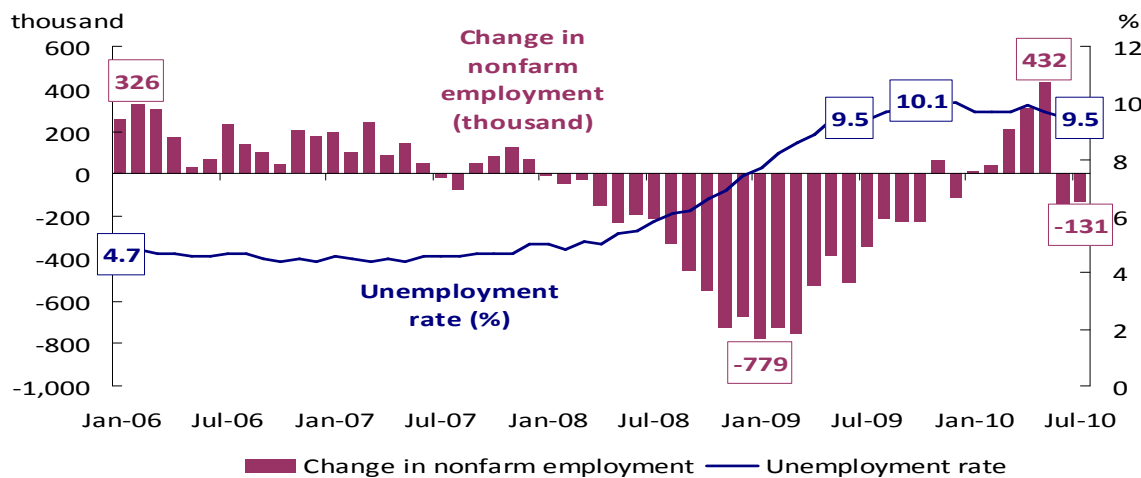
¹ Seasonally adjusted. ² Seasonally adjusted annualized level.
Source: CEIC Data Company Ltd.

Housing sector stabilizes, but fragility remains

US private housing starts and existing home sales

Unemployment remains high

US unemployment rate and change in nonfarm employment



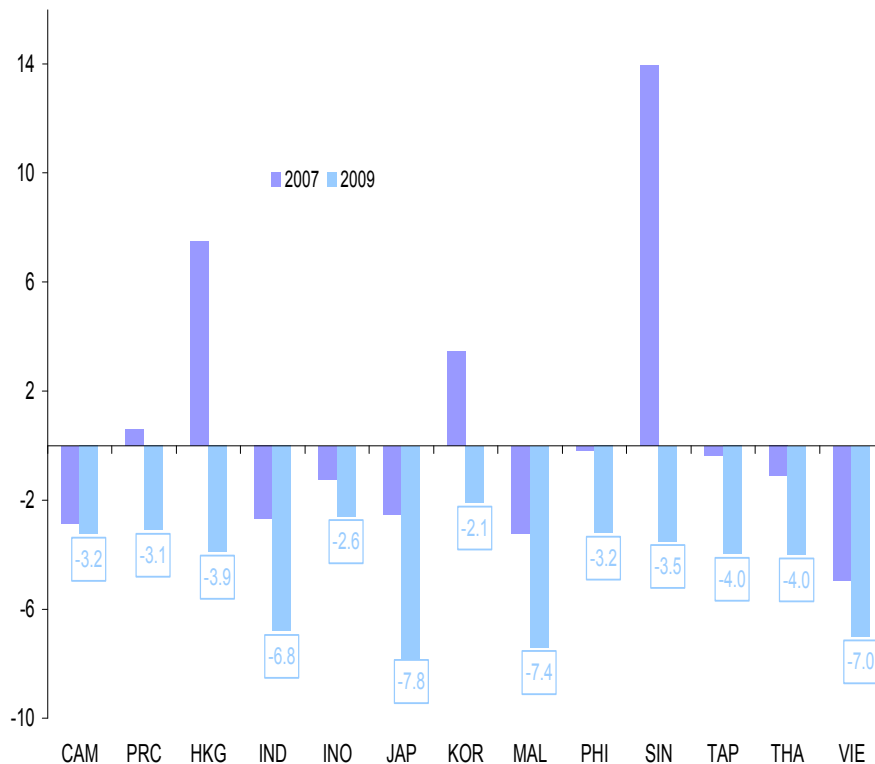
Note: Seasonally adjusted.
Source: CEIC Data Company Ltd.



Exit from stimulus requires careful management

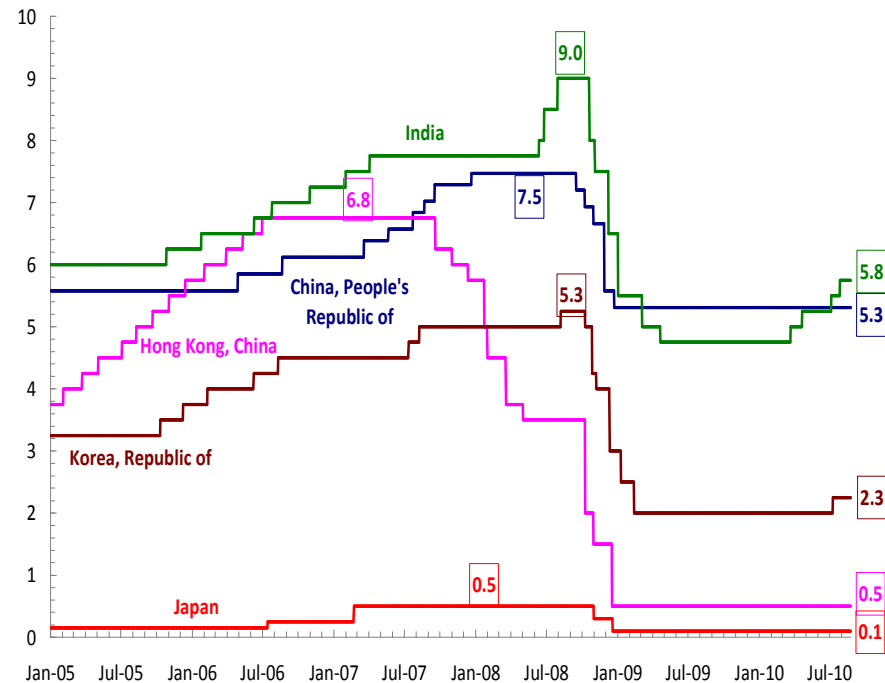


Fiscal Balance of Central Governments
(% of GDP)



CAM = Cambodia; PRC = China, People's Republic of; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Korea, Rep. of; MAL = Malaysia; PHI = Philippines; SIN = Singapore; TAP = Taipei, China; THA = Thailand; and VIE = Viet Nam.
Source: National sources; *Asian Development Outlook* (various issues), ADB; *Article IV reports*, International Monetary Fund; and CEIC.

Policy Rates (% per annum)



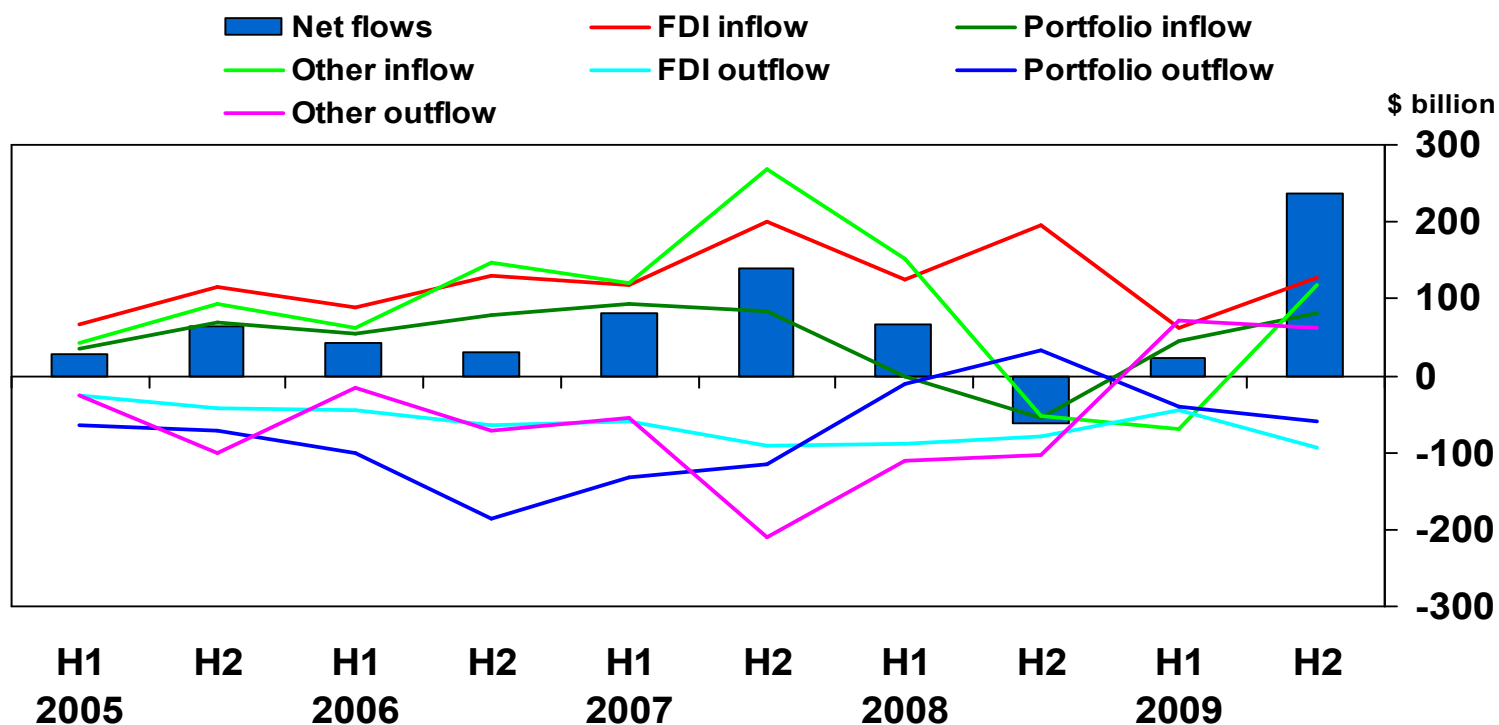
¹ One-year lending rate (People's Republic of China); Hong Kong base rate (Hong Kong, China); uncollateralized overnight call rate (Japan); Korea base rate (Republic of Korea); and repo rate (India).
Source: Bloomberg.



Volatile capital flows



Capital flows in emerging Asian economies



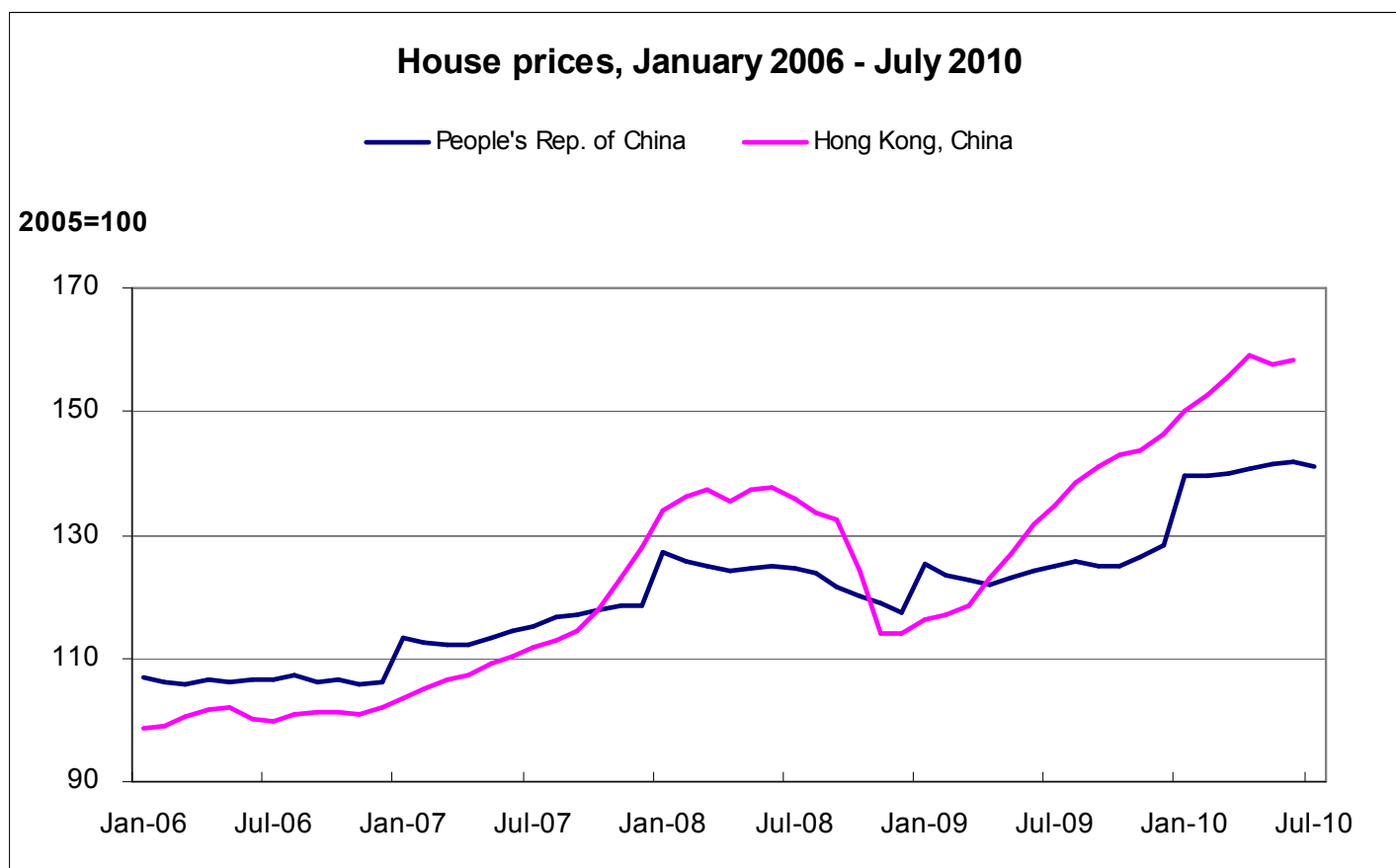
Sources: ADB estimates based on data from CEIC Data Company Ltd. and International Monetary Fund, International Financial Statistics (accessed 14 May 2010).

Note: Data used in this chart are for PRC; Hong Kong, China; Indonesia; Rep. of Korea; Philippines; Singapore; Taipei, China; and Thailand.





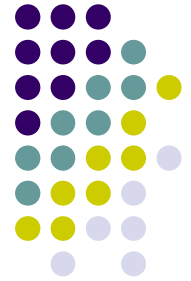
Risk of asset bubbles



Source: CEIC Data Company (accessed 30 August 2010).



Macroeconomic management beyond the crisis



- The recovery relying heavily on fiscal and monetary stimulus—transition to private-demand-driven growth is crucial
- Need to reaffirm prudence and discipline in fiscal and monetary policy
- Effective management of post-crisis challenges (e.g. rebalancing, asset bubbles, capital flows)—an appropriate mix of fiscal, monetary, and exchange rate policies



Policies to deal with capital inflows



- Need to re-establish a broad and consistent policy framework to attract stable capital flows and sustain financial stability
 - Prudent macroeconomic management
 - Flexible exchange rate
 - Sound and effective regulatory system including macro-prudential supervisory framework
 - Temporary and targeted use of capital controls
 - Deep and liquid domestic capital market—e.g. development of local currency bond market
 - Global and regional cooperation



Toward a more balanced and resilient global economy: The role of Asia



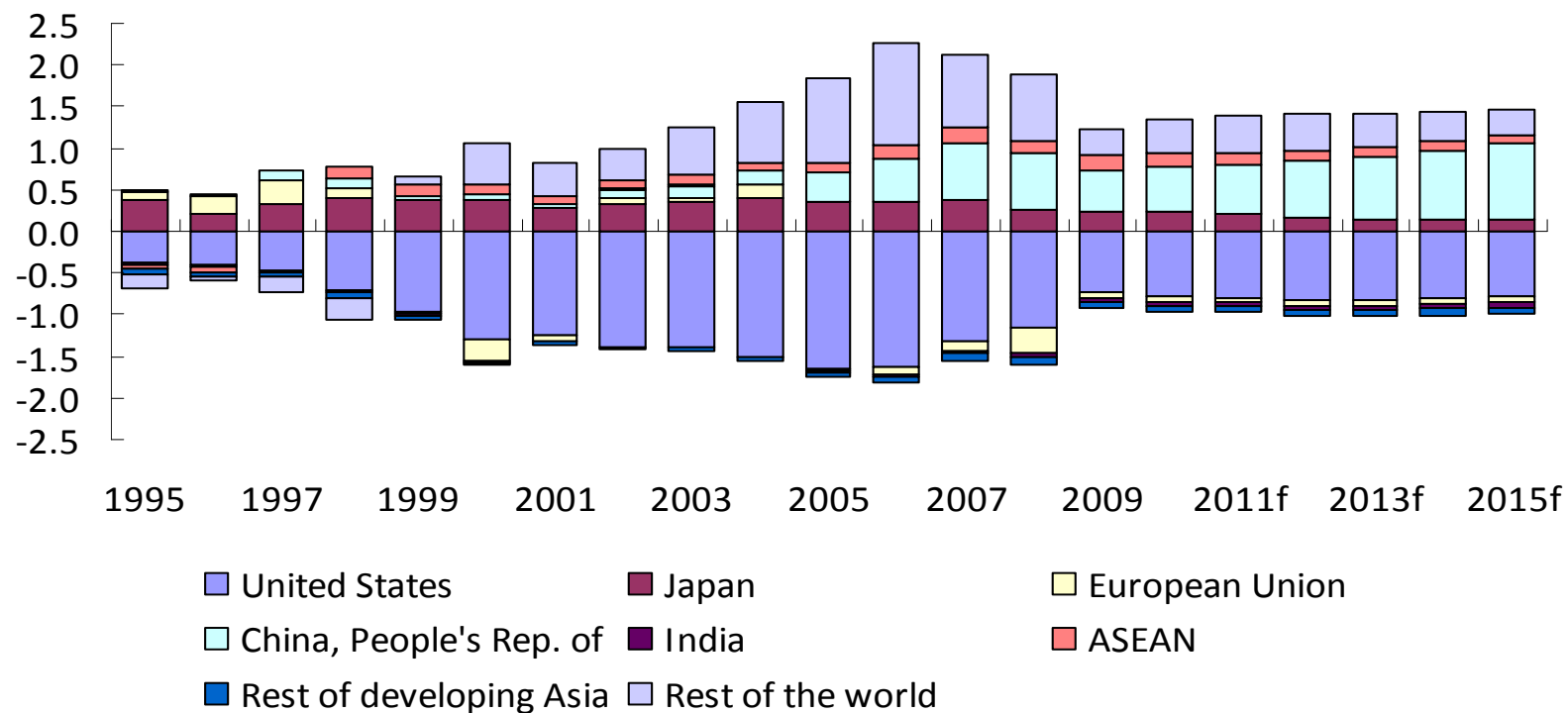
- Rebalancing growth
- Financial development and regulatory reform
- Establishing regional and global safety nets



Global imbalances pose a threat to sustained recovery



Current Account Balance (% of world GDP)



f=forecast

Source: IMF, World Economic Outlook April 2010.

Financial development and regulatory reform



- Improve risk management
- Build stronger and countercyclical prudential regulatory system
- Strengthen legal and institutional framework
- Harmonize international and domestic standards
- Strengthen cross-border cooperation
- Balance between innovation and regulation



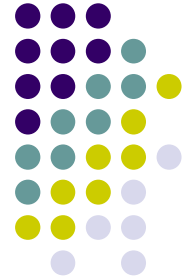
Regional and global safety nets



- ASEAN+3 Chiang Mai Initiative Multilateralization
 - Provide short-term liquidity when needed, supplementing existing international financial arrangements
 - Agreed on details of governing mechanisms and implementation plan of \$120 billion regional reserve pool
 - Establish permanent and independent secretariat to conduct surveillance
- Asian Bond Markets Initiative
- Supporting operational and governance reform at the IFIs
- Policy coordination and cooperation difficult, but feasible



Challenges ahead...



- The role of Asia in the global financial architecture
- Financial development versus innovation
- Regional cooperation to underscore financial stability
- Regional initiatives aligned with global reforms





Thank you

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