

GLOBAL FINANCIAL TSUNAMI:



CRISIS OR AN OPPORTUNITY FOR ASIA-PACIFIC

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The Asian Century??

- In 1820 Asia's income was 56% of world income
- In 1950 Asia's income was 15% of world income
- In 2001 Asia's income was 31% of world income
- In 2050 Asia's income projected to reach 57% of world income

Will the Crisis Slow This Trend or Might It Even Accelerate?

What's the Prognosis for an Asian Century?

Asia Hit Hard Economies Slowing Down Rapidly

- Growth in Asia also likely to decelerate significantly: from 9% in 2007 to 4-5% in 2009; with question marks in 2010 on recovery
- Within Asia in 2009, South Asia may for the first time grow faster than East Asia
- Nevertheless, Asia is one of few regions in the world still growing
- Although Asian economies will experience serious slowdowns, their growth is projected to remain at or above rates observed during Asian financial crisis.

Millions of People Will Lose Jobs or Become Part of Working Poor

- Number of the unemployed people in Asia increased from 79 million in 2007 to 84 million in 2008; projected to go up to 94 million in 2009
- More important than job loss is slow-down in new job creation. A 4% drop in growth will reduce employment growth by 2 – 2.4% per year
- Though Asia accounts for 57% of global employment creation in 2008, significant proportion of these new jobs are not remunerative; consequently, 47% of the employed (over 250 million) in South Asia are classified as working poor compared to global average of 20%
- Due to the financial and economic crisis, workers in the informal sectors such as construction, tourism, and textiles & garments, and trade & retail are not only likely to lose their jobs, but their wage income also likely to decline substantially

100 Million People Could Be Pushed Into Poverty

- Poverty incidence (1.25\$US a day) has declined sharply in Asia. However, the region still has over 900 million people living under extreme poverty conditions
- Since 1996, Asia was able to lift some 300 million people out of extreme poverty, but they are under huge threat from financial crisis
- It is estimated that some 60 million more people will be pushed into poverty in 2009 which could go up to 100 million in 2010
- In addition, there are adverse impacts on the nutrition and school drop-outs

Hunger and Strife Rising

- FAO estimates – Higher food prices during 2006-7 caused hunger to increase by additional 75 million; largest increase in Asia (44 million)
- In 2008, another 40 million people have been pushed into hunger primarily due to higher food prices bringing the overall number of undernourished people in the world to 963 million
- In 2009 and 2010, the financial and economic crisis could tip even more people into hunger
- Crisis could exacerbate civil conflicts and strife

Global Crisis Hitting Asia Very Hard Because

- Asia's trade integration with western economies is relatively high (about half of region's GDP)
- Asia's financial integration with western economies, particularly with the US, is also relatively high (40% of region's GDP)
- Remittances, tourism receipts, and ODA also constitute significant proportion of GDP for many Asian LDCs
- Asia's long-term growth started to de-couple from US growth but cyclically Asian growth closely correlated with US
- A one percentage point decline in US growth would lead to a 0.6 percentage point drop in Asia's GDP
- It is, therefore, quite natural that the crisis in the Western economies spreading rapidly into Asia-Pacific

Current Crisis Different From Previous Crises

- It is global crisis, as it exerts a much greater social and economic impact throughout the world than any previous crises
- It is likely to be deeper and more prolonged than previous crises and recovery will be slower
- It originates at the center, not the periphery: so much harder to contain
- It comes on top of a food and fuel crisis, which has now tempered, but could return
- Unlike the crisis in late 1990s, this time Asia cannot rely on an export-led recovery

Limited Impact on Asia's Financial Sector

- Banks and other financial institutions in Asia-Pacific seem to have escaped from the global financial turbulence
- This is because, thanks to Asian financial crisis in the late 1990s, Asian banks have now better supervisory and regulatory mechanisms; moreover, Asian banks have only limited exposure to the US sub-prime related products
- Asian corporates also not so heavily leveraged.
- Credit growth decelerated but has picked up again – but financial sector coordination across Asia is weak

Equity Markets Collapsed

- The crisis, however, caused rapid capital outflows, mainly short-term portfolio investments
- Share index values declined sharply (more than 50%) in 2008 in many countries; losses on financial assets (equity and bond markets) in developing Asia is about \$10 trillion (about one year's worth of region GDP)
- Developing Asia was hit harder than other parts of the developing world because Asia's equity markets had expanded much more rapidly than GDP in recent years
- In recent weeks, there have been some signs of recovery, but further recovery depends on the depth and length of the economic slowdown

Currencies Weakened Significantly

- National currencies against US dollar weakened significantly in many countries except for Japanese Yen and Chinese Yuan
- Collapse of stock prices and weakening local currencies not only affected the balance sheets of banks and other financial institutions adversely, but also dampened region's business and consumer confidence
- In recent weeks, there have been some signs of stability in currency markets, but initial turbulence could have been avoided with an expanded Asian Monetary Facility to bolster confidence

Labour-Intensive Exports Collapsed

- The WTO predicts that the volume of global trade, which grew by 6% in 2007 and 2% last year, will fall by a dramatic 9% in 2009; biggest drop in 40 years
- In recent months, exports collapsed in many Asian countries as import demand evaporated in the industrial economies
- Labour-intensive exports such as garments & textiles, footwear, toys, gems & jewelry have been affected badly
- Countries that export these products, such as Bangladesh, Cambodia, China, India, Indonesia, Sri Lanka and Vietnam have been badly hit
- Exporters of electronic items such as China, Malaysia, Thailand and Singapore have also been severely affected

Prospects For Quick Global Recovery Remain Small

- Crisis much deeper and wider than any since Great Depression
- Wider Representation in G-20 (6 Asian Countries) rather than G-8 (one Asian Country) is positive

BUT

- Stimulus Packages: Not well coordinated and may exacerbate imbalances
- Insufficient action on bad banks to restore confidence
- Global architecture for finance remains weak
- Excessive reliance on IMF to solve problems of developing world
- Vulnerability framework remains weak and under-funded
- Who represents the rest of developing world

Even If Global Recovery Is Quicker, the post-Crisis World Will have Changed

- Asia's export-led model must be re-thought
- Global imbalance of around 5% of GDP excess consumption by US and Europe and excess savings by Asia cannot continue
- Smaller Asian countries may remain trade-dependent but large Asian economies will need to re-balance towards domestic demand (consumption and investment)
- Structure of Intra-Asian trade will also change from largely intermediate goods and intra-firm orders to final products as well

Asian Savings Rates Are Too High

- Asia's very rapid growth with rising income inequality
- The precautionary motive for saving is very strong among Asian households because of the lack of an adequate pension and health insurance system and the sharply rising costs of health care
- Demographic factors (e.g. aging of population) add to this saving motive
- High company savings and investment (no dividends in public companies) and managed exchange rates also responsible for relatively high savings in Asia

Asia's Social Assistance Programmes: Need Consolidation & Better Targeting

- Current programmes are largely via product subsidies (fuel, food) and are not well targeted
- Very limited use of conditional cash transfers (only in Bangladesh, Cambodia, Indonesia, Philippines)
- Food-for-work and employment guarantee schemes, e.g. NREGA in India have potential but subject to implementation problems

Asia's Stimulus Packages Are In The Right Direction

- East Asia has greater scope for fiscal stimulus – with 80% on expenditure measures and 20% on tax cuts (mainly in Indonesia, Philippines and Singapore)
- South Asia has to rely more on monetary stimulus but implementation must be rapid
- Support for poor and vulnerable has been stepped up – but remains piecemeal and fragmented
- But these are short-term measures: more fundamental re-structuring needed

Policies For Re-balanced Development Strategy

- Fiscal stimulus to boost domestic consumption and expanding health, education and pension systems can help reduce incentives for precautionary household savings
- Government investments in public infrastructure (like roads and ports) and social infrastructure (education) will raise returns to private investment
- Price and tax measures to support rural development and agriculture as well as to adjust the relative attractiveness of tradable over non-tradable sectors
- Financial development needs to be accelerated. A mature financial system will better channel Asia's savings into Asian investment – as opposed to investing in low-yielding foreign government bonds
- Less managed exchange rates and public enterprise reform could also boost more domestic consumption and less savings

Making Growth More Inclusive

- On average globally, a one percentage point increase in the rate of per capita income growth can produce up to a two percent decrease in the proportion of people living below the poverty line
- In Asia-Pacific, a one percentage point increase in the growth rate of per capita income has translated into only about 0.7 to 0.9% decline in the incidence of poverty, because inequality increasing
- Though Asia has been successful in achieving high rates of economic growth, gains with regard to poverty reduction have been limited by the absence of pro-poor growth
- However, some countries in certain periods experienced pro-poor growth. This includes China during 1980s and early 1990s, India during 1970s and early 1980s, Indonesia during 1970s and 1980s, etc.
- Asian experiences show that if economic growth is to be favourable to the poor, then direct resources to the sectors in which the poor work (agriculture), areas in which they live (relatively backward regions), factors of production which they possess (unskilled labour) and outputs which they consume (such as food)

Resetting Asia Towards Cleaner and Greener Growth

- Globe unsustainable if Asia follows western consumption levels
- Shifting from carbon-based (coal and oil) growth to solar, nuclear and renewable energy
- Protecting against climate change-induced disasters
- Saving Asia's dwindling water and natural resources
- Cleaner transport systems and cities
- Crisis an opportunity to re-think and reset

Better Social Protection

- Coverage of basic social protection programmes is very low
- Only 30% of the elderly receive pensions
- Only 20% of the unemployed and under-employed have access to labour market programmes such as unemployment benefits, training or public works programmes
- Only 20% of the population has access to health care assistance. Asia has the highest out-of-pocket health care expenditures in the world
- Asia has worse social protection compared to Latin America and Eastern Europe
- Thailand's 30 Baht Scheme, China's new health insurance moves in right direction

Opportunity To Reset For An Asian Century:

- Rebalance Asian Growth: From Export-led to Domestic
- Shift to More Inclusive and Cleaner Development
- Consolidate and Target Better Social Assistance Programmes
- Strengthen Social Insurance Programmes – Pensions, Health, Unemployment
- Improved Financial Sector – Deepen Bond, Insurance, Mortgage Markets
- Expand Asian Monetary & Financial Coordination – Bigger Asian Monetary Facility
- Establish Legal and Infrastructure for Asian Common Market

Great Leadership Is Vital To Achieve Asian Century

- Asia must lead not wait and follow
- Asian leaders must come together and lead the way
- Asia has intellectual and physical resources: can it master political will

• Thank you.

