

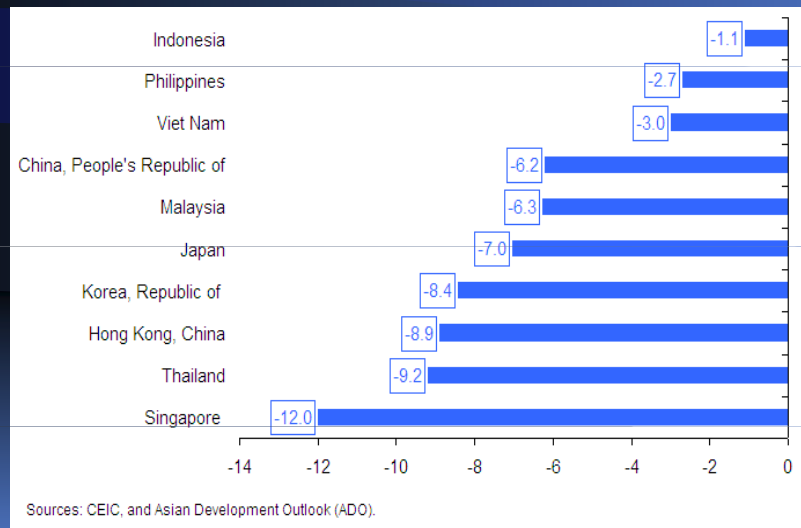
East Asia Beyond the Crisis: Prospects and Challenges of Recovery

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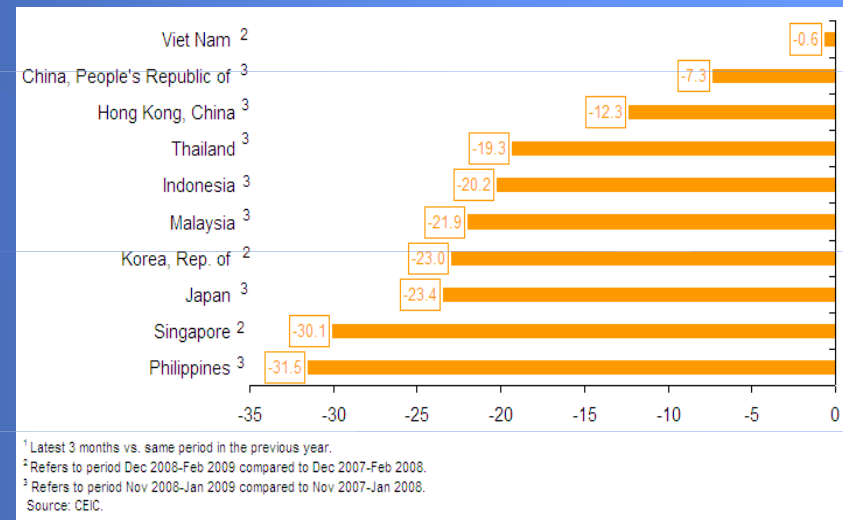
East Asia has not decoupled from the global financial crisis, with impact on real economy more severe than expected ...

Changes in GDP Growth
(year-on-year % change, 2008Q4 vs 2007, percentage points)



Source: Asian Development Outlook, ADB

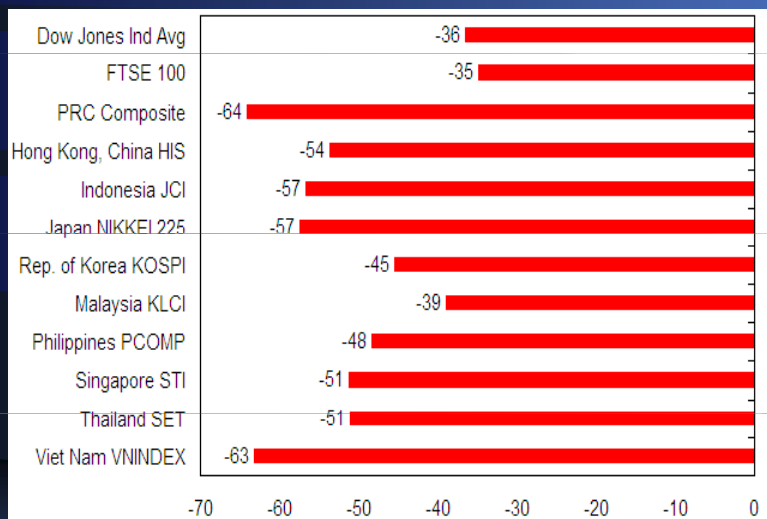
Decline in exports
(latest 3 months, year-on-year % change in US\$)



Source: ADB-OREI

... as asset prices and currencies have fallen sharply

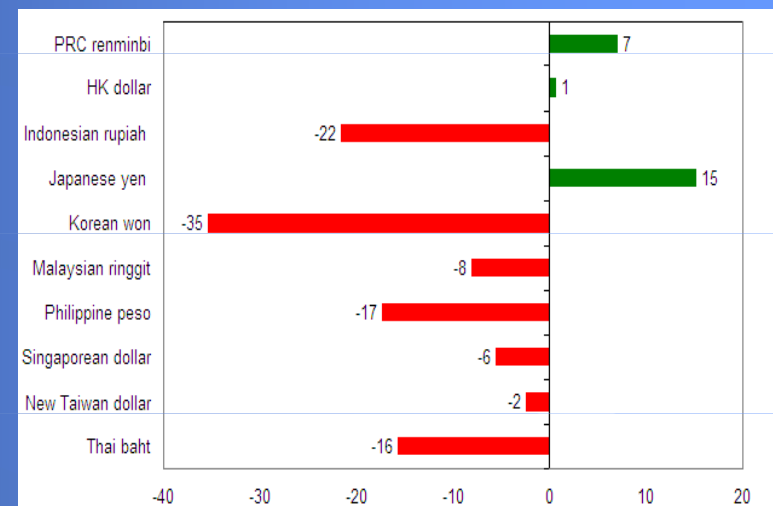
Stock Price Indexes*
(year-to-date, % change)



* Latest closing as of 18 November 2008.
Source: OREI staff calculations based on Bloomberg data.

* Latest closing as of 18 November 2008
Source: ADB-OREI

Currencies *
(year-to-date, % change)



* Latest closing as of 18 November 2008, based on the US\$ value of local currency. Negative values indicate depreciation of local currency.
Source: OREI staff calculations based on Bloomberg data.

* Latest closing as of 18 November 2008, based on US\$ value of local currency. Negative values indicate depreciation of local currency
Source: ADB-OREI

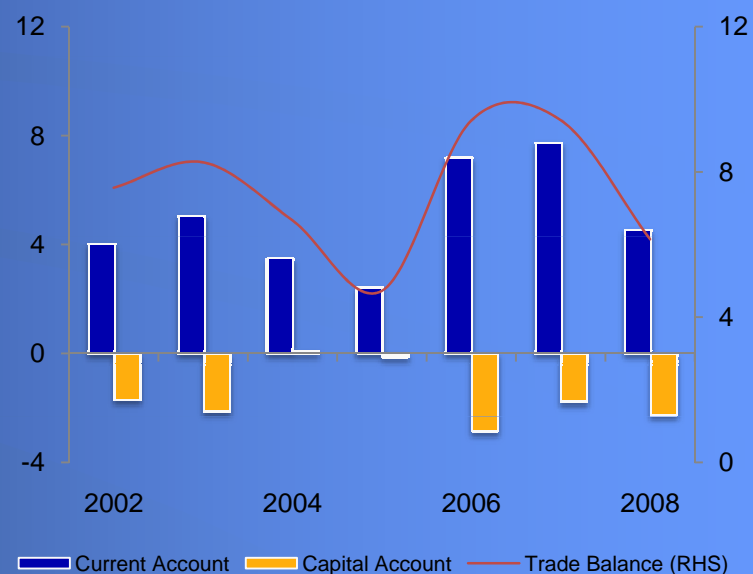
... and liquidity and financing conditions have come under severe strain

JP Morgan EMBI Sovereign Stripped Spreads (basis points)



Source: Bloomberg; cited in J. Lee and C. Park (2008)

External Balances: ASEAN-5 (Percent to GDP)



Source: ASEC Database

Given its dynamism, East Asia remains an engine for recovery in global output

- Developing Asia as fastest growing region in the world, with rate above previous global downturns

Overview of the World Economic Outlook Projections (Percent Change)

	2007	2008	2009	2010
World Output	5.2	3.2	-1.3	1.9
Advanced Economies	2.7	0.9	-3.8	0.0
United States	2.0	1.1	-2.8	0.0
Euro Area	2.7	0.9	-4.2	-0.4
Japan	2.4	-0.6	-6.2	0.5
Africa	6.2	5.2	2.0	3.9
Central and Eastern Europe	5.4	2.9	-3.7	0.8
Developing Asia	10.6	7.7	4.8	6.1
China	13.0	9.0	6.5	7.5
India	9.3	7.3	4.5	5.6
ASEAN-5	6.3	5.4	2.7	4.1
Middle East	6.3	5.9	2.5	4.5
Western Hemisphere	5.7	4.2	-1.5	1.6

Source: World Economic Outlook, April 2009

➤ East Asian banks are generally in good shape for now ...

Risk-Weighted Capital Adequacy Ratios
(% of risk-weighted assets)

	2000—2004 Average	2004	2005	2006	2007 ¹	2008 ²
Hong Kong, China	16.1	15.4	14.8	14.9	13.4	14.3
Indonesia	12.0	19.4	19.5	20.5	19.3	17.1
Japan ³	10.7	11.6	12.2	13.1	12.3	...
Korea, Rep. of	11.2	12.1	13.0	12.7	12.3	11.4
Malaysia	13.4	14.3	13.6	13.1	12.8	12.5
Philippines	17.0	18.7	17.7	18.5	19.4	15.7
Singapore	17.7	16.2	15.8	15.4	14.0	...
Thailand	13.2	13.0	14.2	14.5	15.4	15.5

Source: ADB-OREI

- ... with banks' NPLs remaining low and corporations' balance sheets healthy

Non-Performing Loans
(% of commercial bank loans)

	2000—2004 Average	2004	2005	2006	2007 ¹	2008 ²
China, People's Rep. of	21.0	13.2	8.6	7.1	6.2	...
Hong Kong, China ³	4.8	2.3	1.4	1.1	0.9	0.8
Indonesia	10.6	5.7	8.3	7.0	4.6	3.9
Japan ⁴	6.9	2.9	1.8	1.5	1.4	...
Korea, Rep. of	3.5	1.7	1.1	0.8	0.6	0.6
Malaysia ³	8.9	6.8	5.6	4.8	3.2	2.5
Philippines ³	14.8	12.7	8.2	5.7	4.4	4.0
Singapore	5.3	5.0	3.8	2.8	1.8	...
Thailand	13.5	10.9	8.3	4.1	3.9	3.4
Memo items: compromised assets ratio (Indonesia) and nonperforming assets ratio (Philippines)						
Indonesia	...	14.2	15.6	16.0 ⁵
Philippines	...	24.7	19.7	18.6 ⁶

Source: ADB-OREI

How can East Asia contribute to global economic recovery?

- Rebalance growth away from external demand toward domestic demand
 - as U.S. consumption declines thus reducing its deficit, East Asia needs to adjust by restructuring production away from exports to domestic markets
 - need for fiscal stimulus to support real economic growth and infrastructure development (e.g., ASEAN Infrastructure Mechanism)

➤ **Strengthen financial systems and promote financial market development**

- restructure financial institutions to obviate need for high levels of precautionary savings
- develop local currency bond markets by mobilizing regional savings (e.g., Asian Bond Markets Initiative)
- develop and integrate capital markets, including the need to strengthen supervisory and regulatory frameworks (e.g., Roadmap for Monetary and Financial Integration of ASEAN)

➤ Strengthen regional cooperation to coordinate policy initiatives

Trade Liberalization

- maintain open trade and FDI regimes (e.g., ASEAN Comprehensive Investment Area)
- rotation of demand away from exports to advanced markets in favour of regional sources (e.g., intra-regional trade)
- promote existing integration initiatives (e.g., ASEAN Economic Community 2015) and free trade areas (e.g., ASEAN-China, ASEAN-Australia and New Zealand, etc)

Financial Integration

- information exchange to facilitate collective assessment of economic conditions, risks and vulnerabilities (e.g., ASEAN Investment Surveillance Process, ASEAN+3 Economic Review and Policy Dialogue)
- strengthen financial and liquidity support through the Chiang Mai Initiative Multilateralization (CMIM) and other regional financing arrangements

Exchange rate coordination

- allow East Asian currencies to begin to appreciate against the US dollar
- movement toward greater exchange rate flexibility

➤ **Participate in credible reforms of global and regional financial architecture**

- need to increase Asia's participation and voice in international forums like G-20, IMF, WTO and BIS/FSF
- need for reforms in key areas such as regulation and supervision; early warning systems; regulatory cooperation and coordination; and crisis management
- need for policy makers and monetary authorities in the region to act promptly and collectively to respond to changing financial and economic conditions

Final Thoughts: East Asia's resilience implies it's about time to rise from expectations of the world

- Countries in the region have so far responded with individual national measures
- Comprising of monetary easing and fiscal expansion, banking sector support and international liquidity arrangements
- But more coordinated responses are needed to achieve recovery

Thank You!

The ASEAN Secretariat