

Lessons of Global Financial Crisis for Asia

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Summary

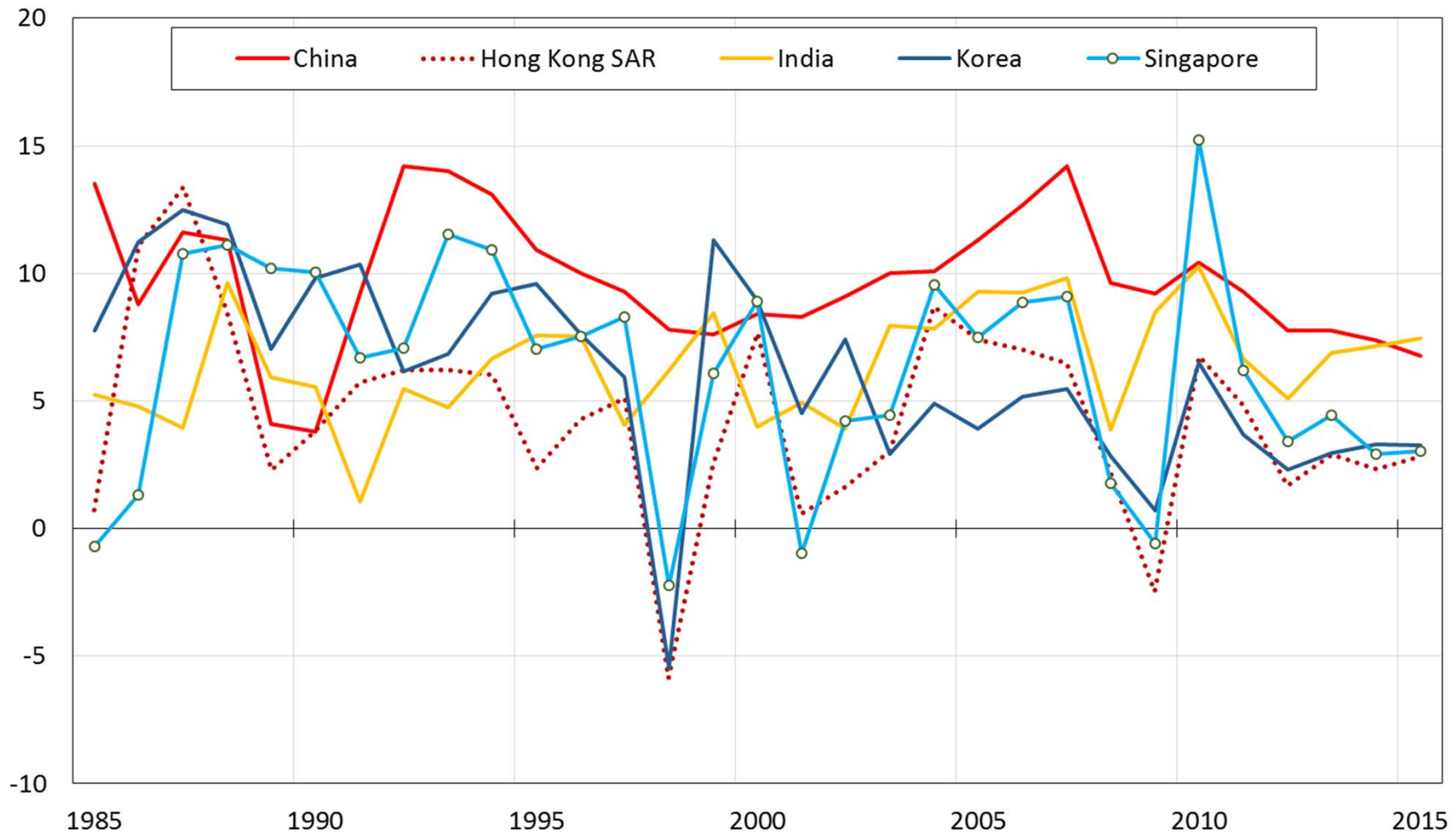
- Global Financial Crisis (GFC) 2008-09 Impacts on Emerging Market (EM) economies in Asia were limited
- GFC impact was less than Asian currency crisis impact 1997-98
- Part of growth deceleration is due to “convergence” and partly due to crisis damage
- Self-insurance of Asian countries has worked
- Some countries have accelerated in post-GFC

Global Financial Crisis (GFC) to Asian Emerging Market (EM)

- Effects on Asian EM economies
 - Growth rate decline, but recovered quickly
 - Better than EMs in other regions
 - Better than advanced economies
 - Better than EM post-Asian Financial crisis of 1997-98
- Lessons
 - Resilience of Asian EM economies, confirmed
 - Capital outflows were endured, large foreign reserves (self insurance) worked
 - Managed floating exchange rate worked
 - Intervention to moderate volatilities but not to maintain an overvalued fixed exchange rate

Adv decline 08-09 < Adv decline 97-98

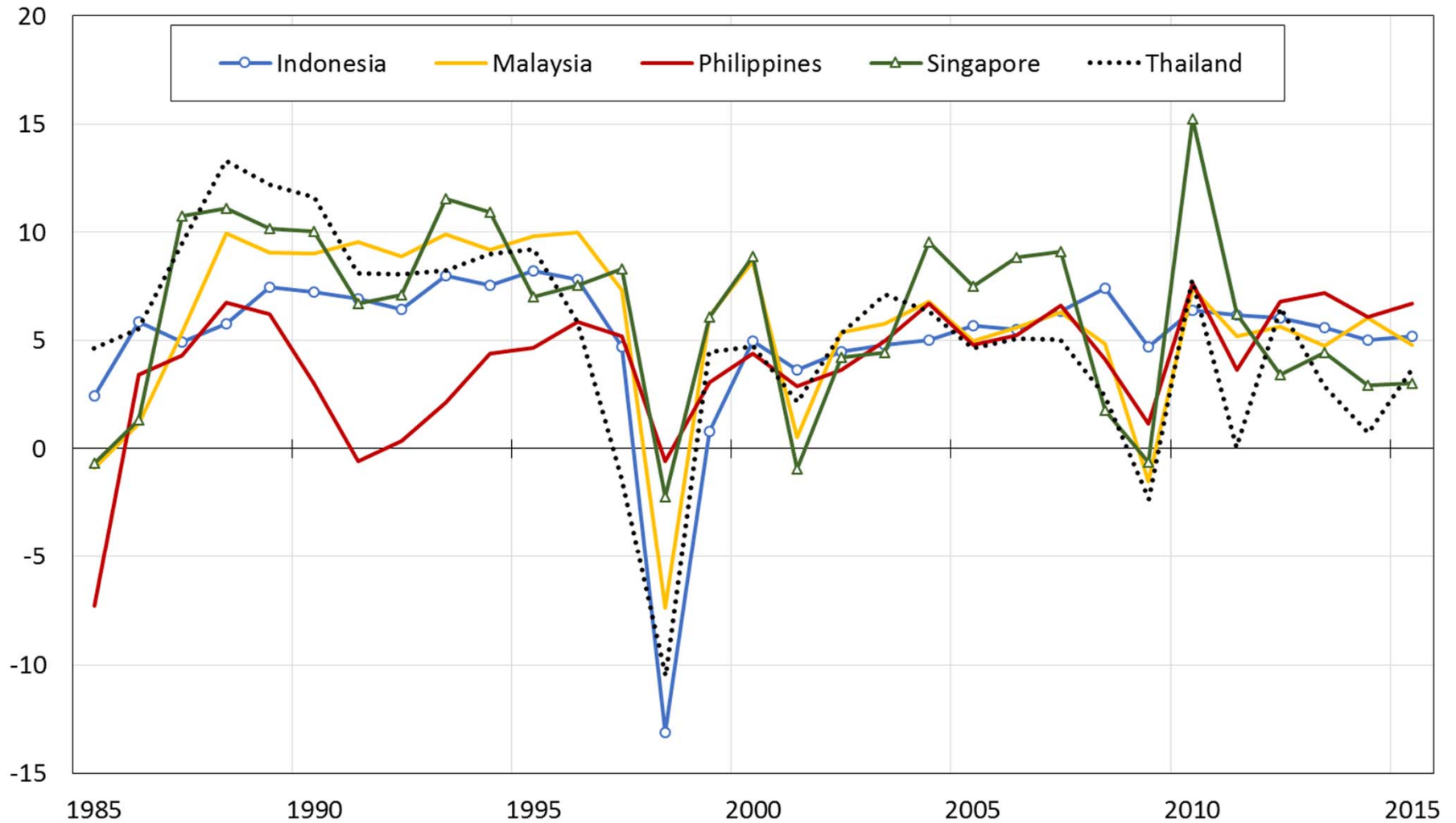
Gross domestic product, constant prices (% change)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

ASEAN: Decline 07-08 < Downturn 97-98

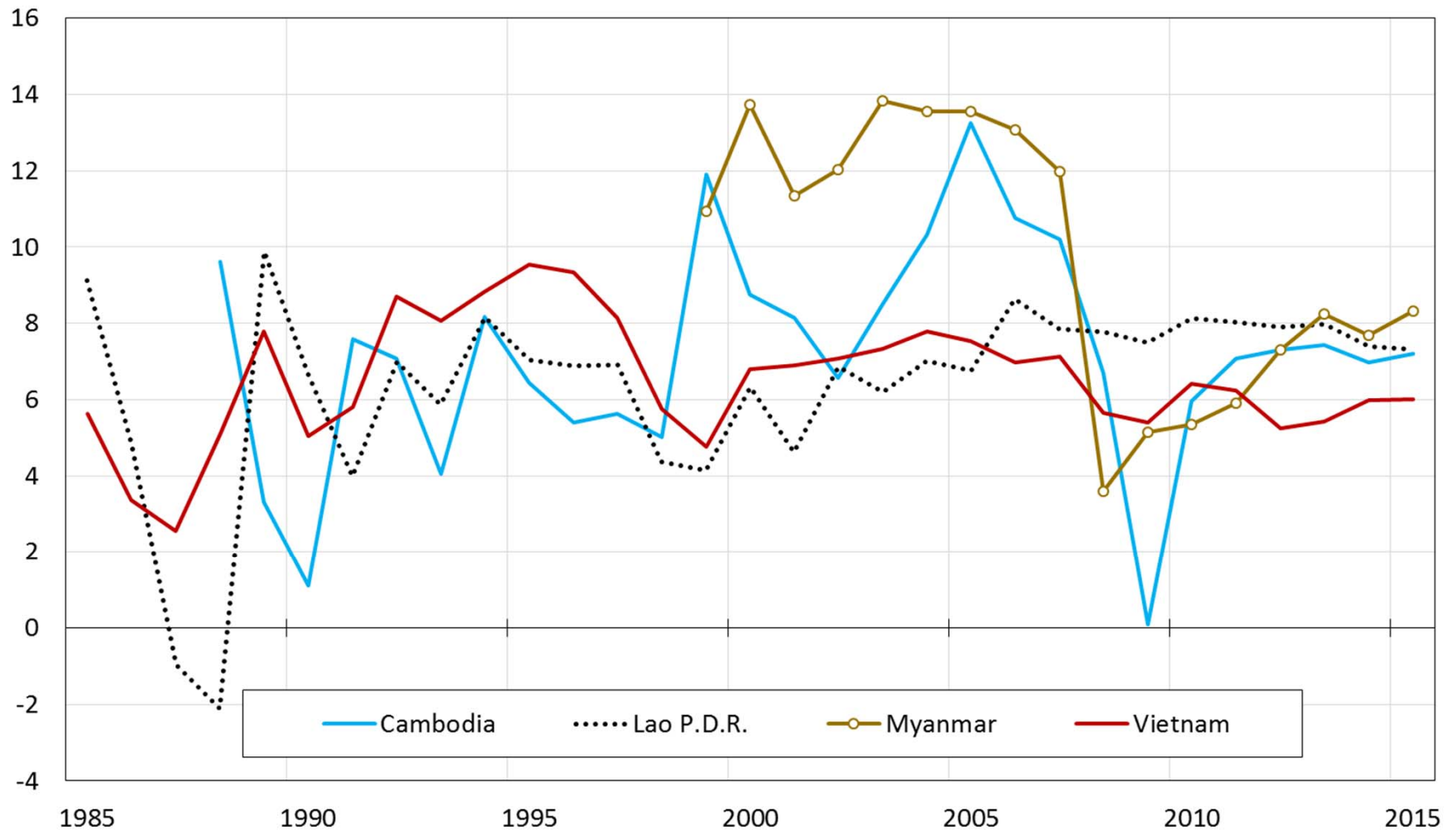
Gross domestic product, constant prices (% change)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

CLMV: Decline 08-09 > Decline 97-98

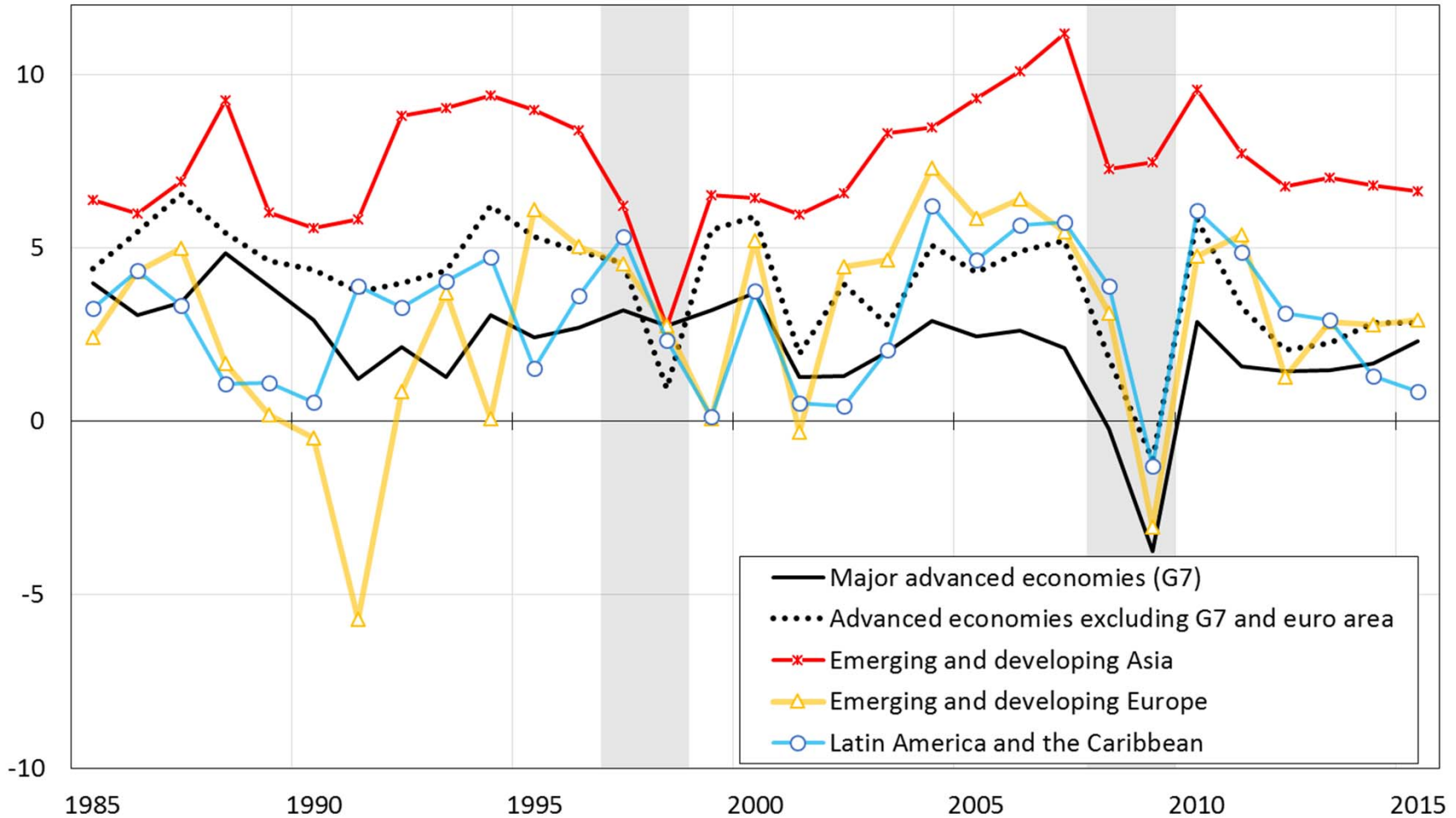
Gross domestic product, constant prices (% change)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

Decline 08-09 in Asia < other resions

Gross domestic product, constant prices (% change)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

Post-GFC

Economic growth

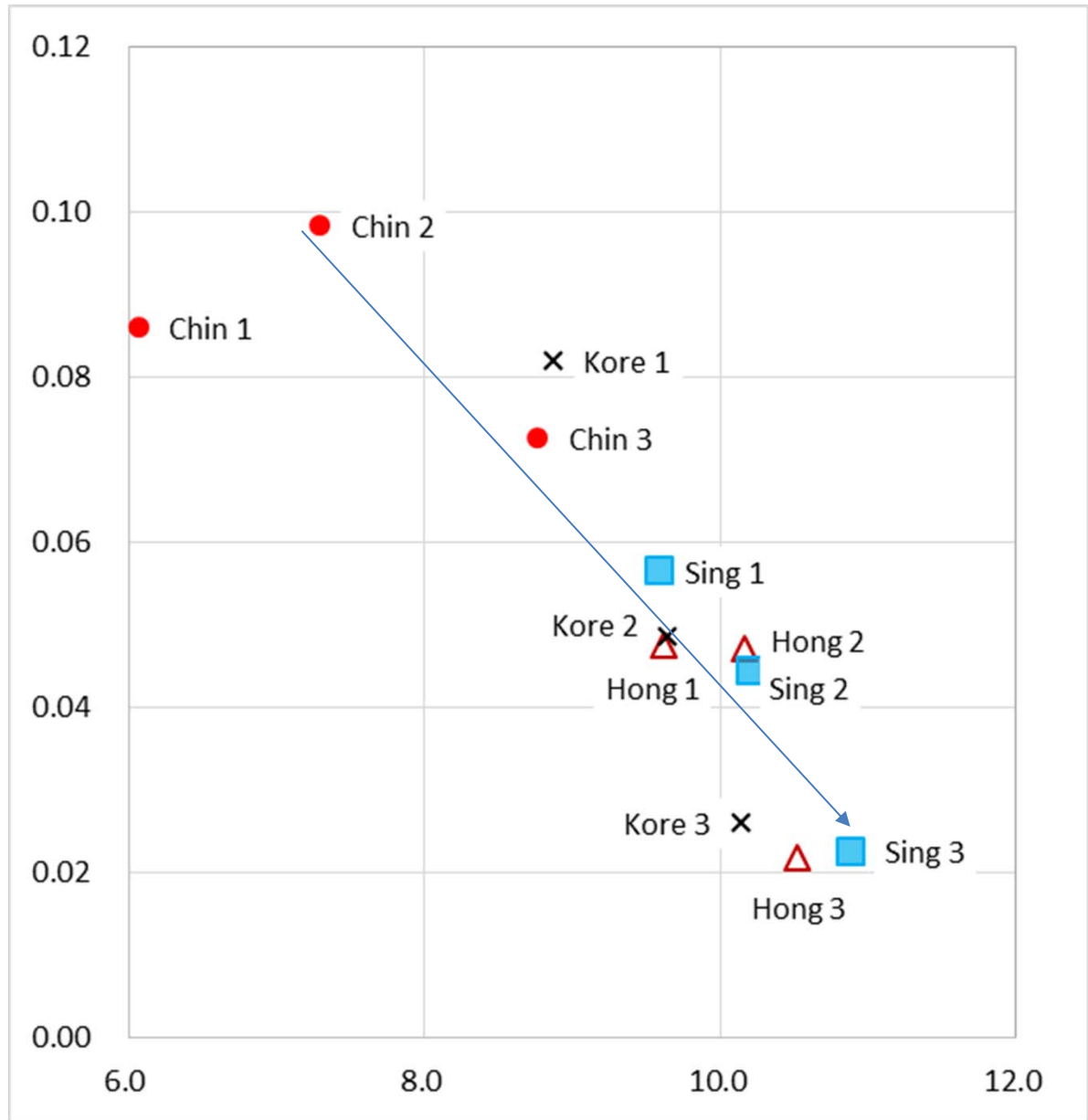
- Slower growth in Asia
 - China is slowing down
 - Other EM economies struggle to increase growth rates
 - Advanced economies continue QE (quantitative easing)
 - Currency Wars?
 - Volatile capital flows & exchange rate pressures (up and down)
- Slower growth: Legacy of GFC?
 - Combination of “convergence” and “advanced economy slow growth”

Pre-crisis growth > Post-crisis growth

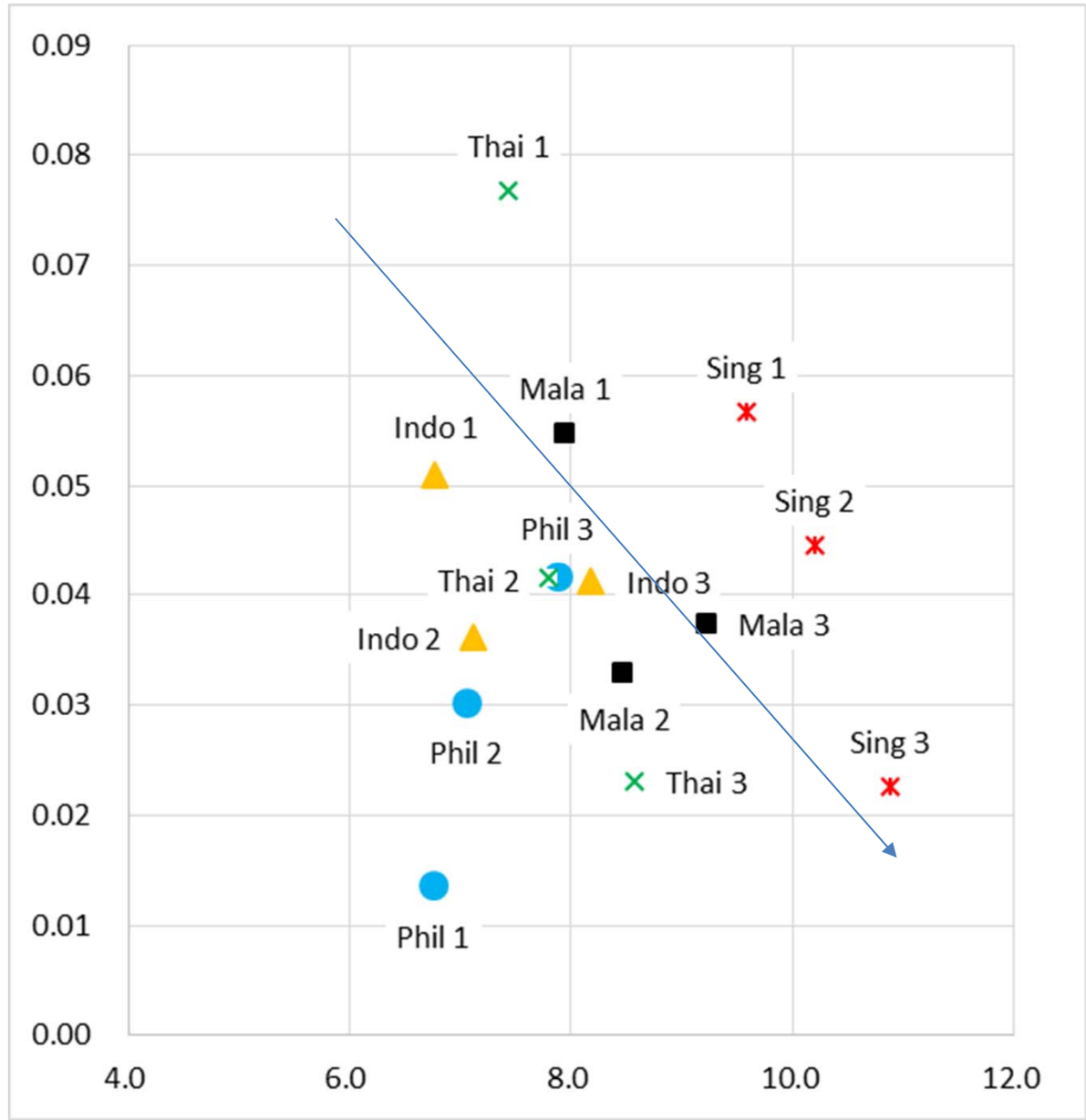
Growth Rate, Per-capita real GDP					
(compound rate)					
	1985-1996		1999-2007		2010-2015
Cambodia			7.7%	>	5.5%
China	8.6%		9.8%	>	7.2%
Hong Kong SAR	4.8%		4.7%	>	2.2%
India	3.5%		5.4%	>	5.2%
Indonesia	5.1%	>	3.6%		4.1%
Japan	2.8%	>	1.4%	>	1.0%
Korea	8.2%	>	4.8%	>	2.6%
Lao P.D.R.	2.2%		5.1%		5.7%
Malaysia	5.5%	>	3.3%		3.7%
Myanmar			12.1%	>	6.6%
Philippines	1.4%		3.0%		4.2%
Singapore	5.7%	>	4.4%	>	2.3%
Thailand	7.7%	>	4.1%	>	2.3%
Vietnam	4.8%		5.9%	>	4.7%

But, could be just “convergence,” that is, the higher the income level, the slower the growth rate

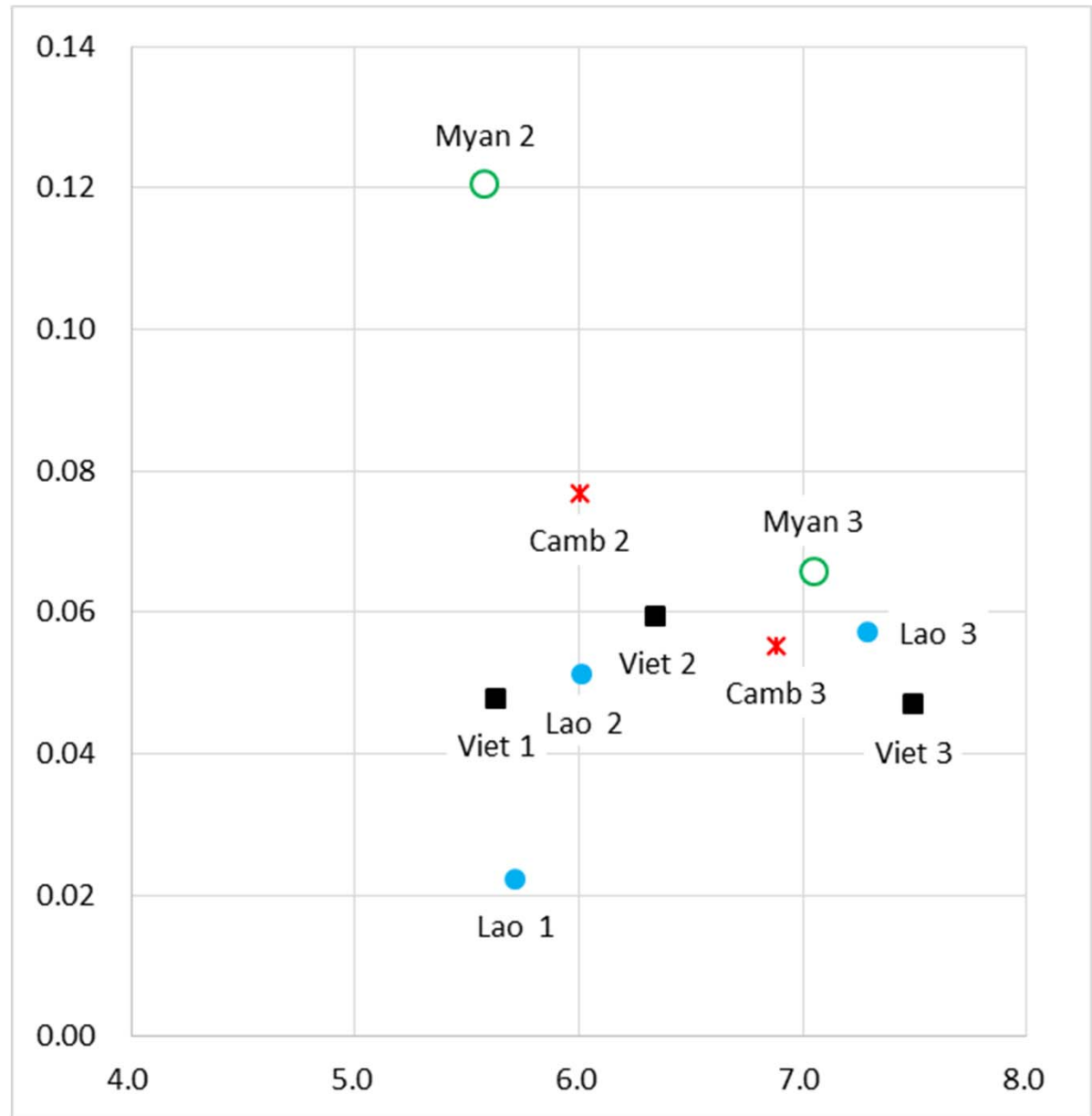
Singapore; Korea; Hong Kong; China; 3 subperiods



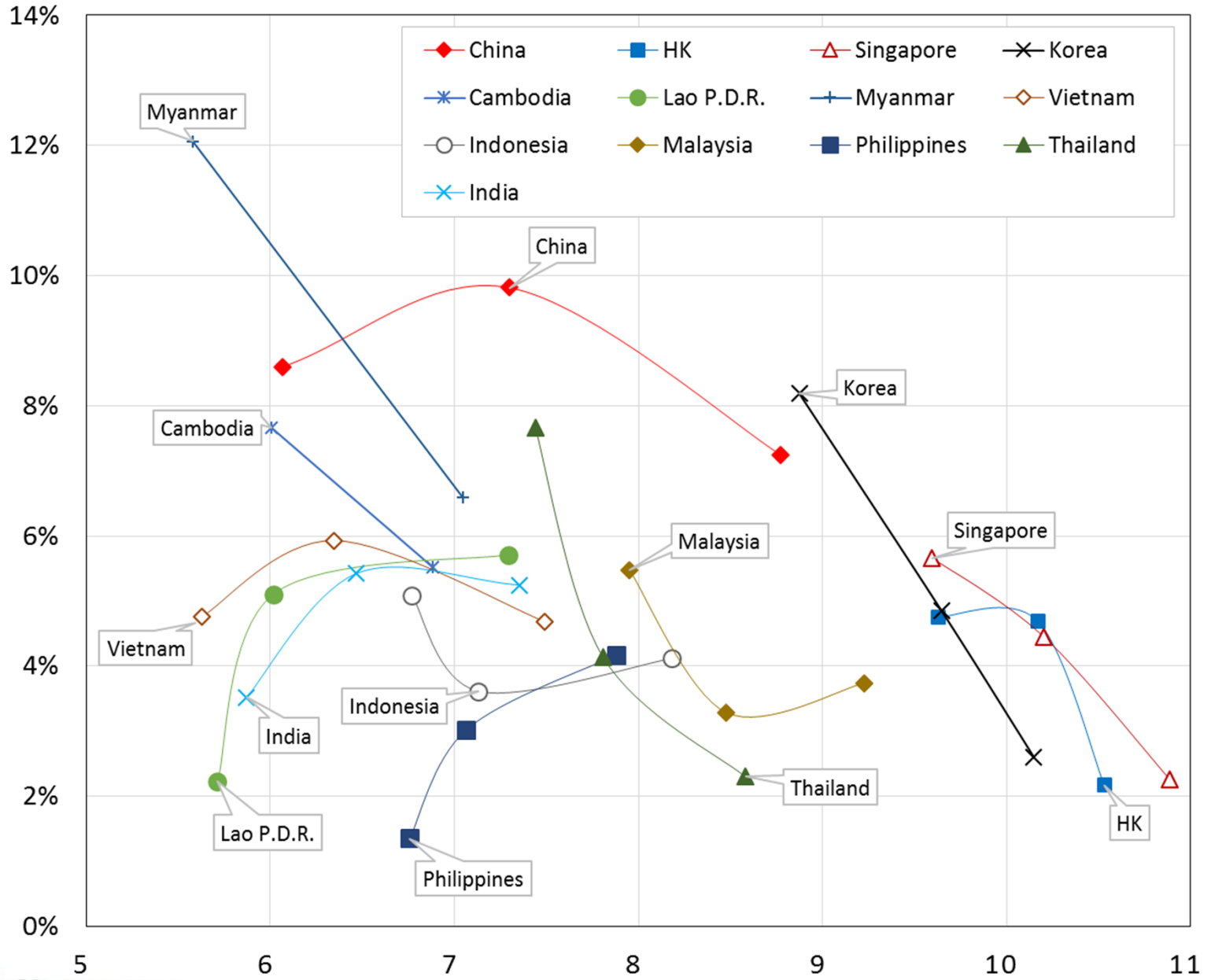
ASEAN 5
convergence
(Philippines,
outlier,
catching up
to the
convergence
path,
belatedly)



Convergence among CLMV?

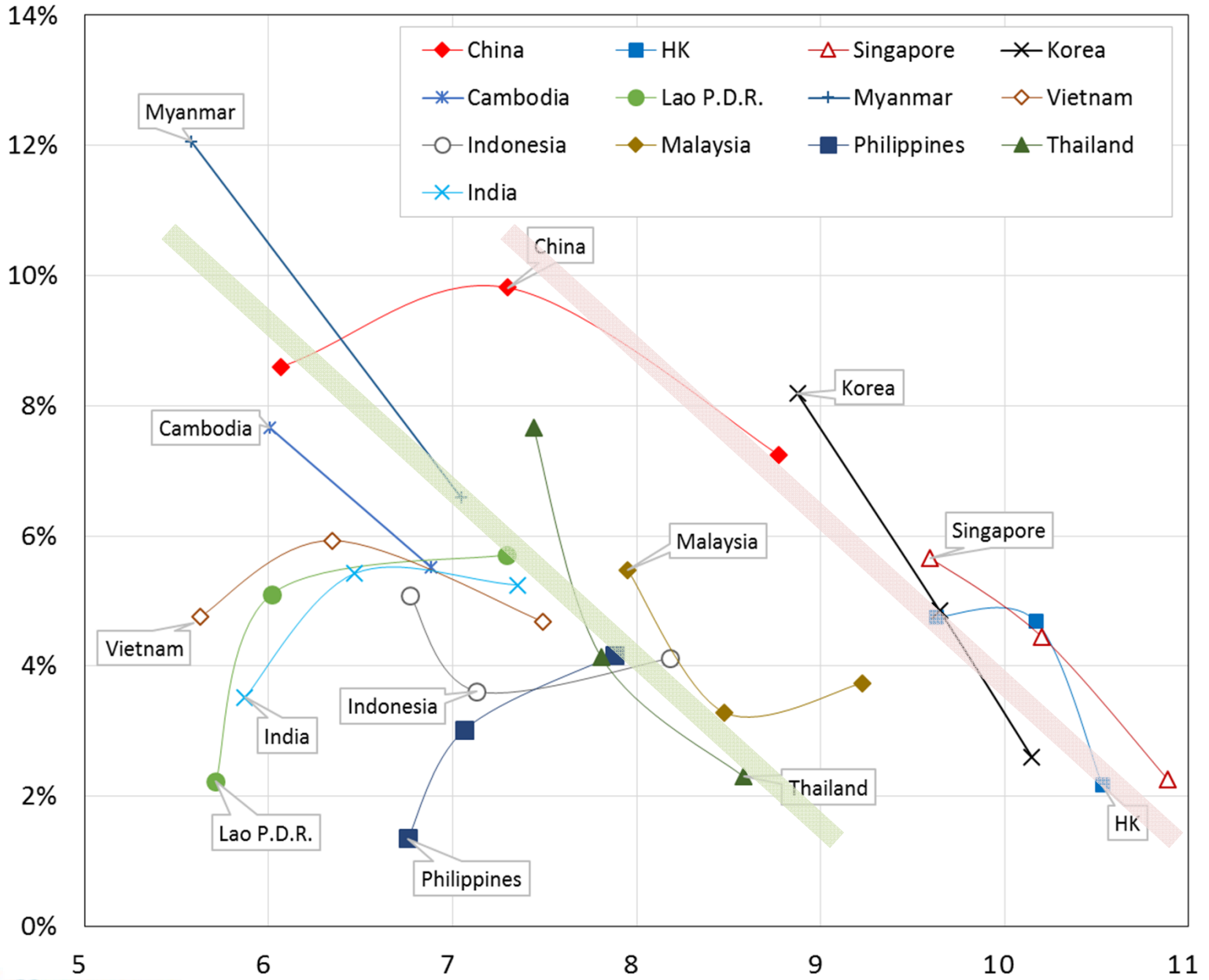


ALL COUNTRIES



Two different technologies, which are shown in two different convergence paths

ALL COUNTRIES



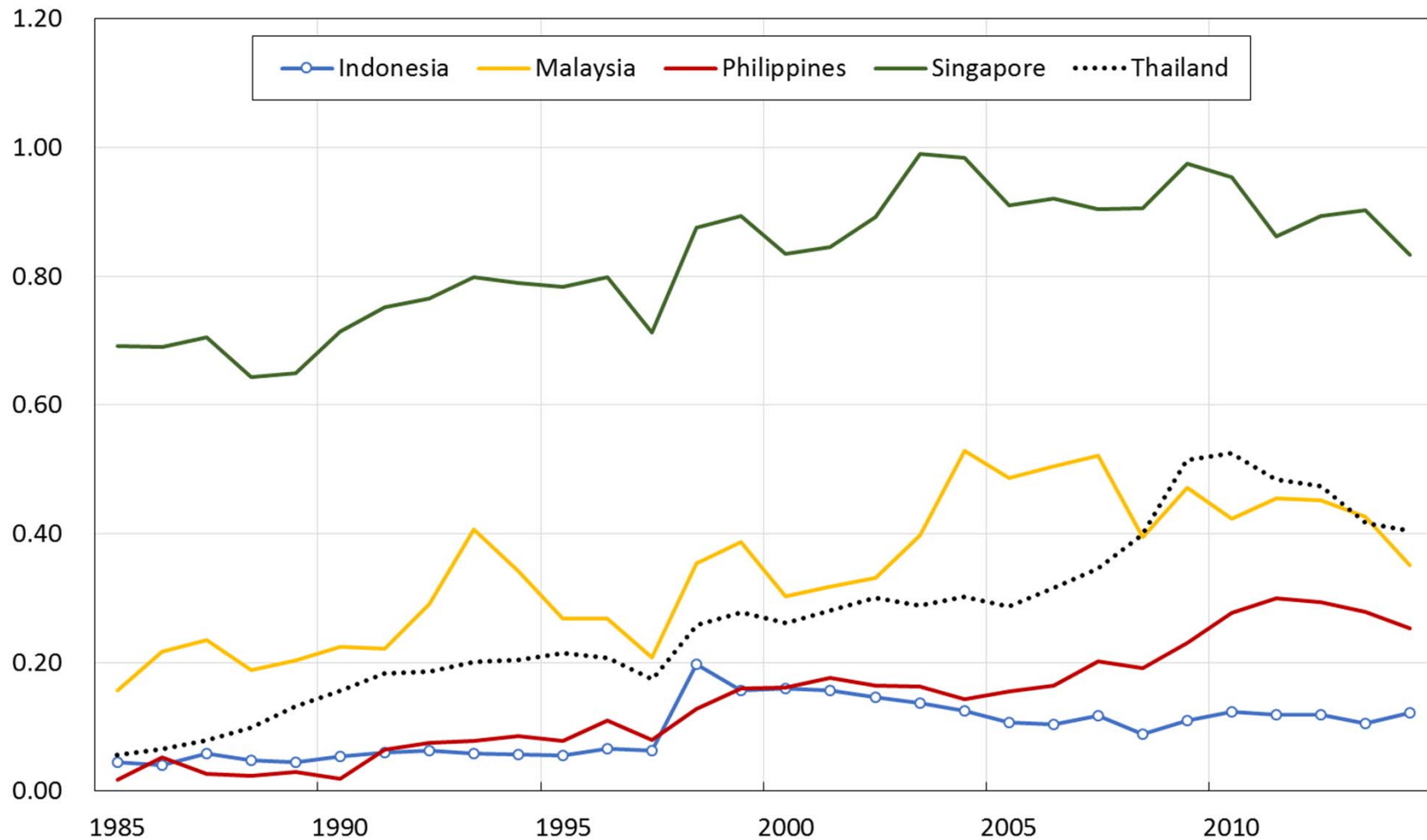
Post-GFC

Currency wars?

- Advanced countries' QE
 - QE = Expansion of central bank B/S
 - Liquidity is provided to the market
 - Portfolio rebalance of the private sectors to occur
 - Currency tends to fall
 - Asset prices to rise
- Currency depreciations of QE countries
 - Capital inflows to Non-QE countries like BRICS and Asian EM economies; and appreciation of their currencies
- End of QE (US likely to raise the interest rate by end-2015)
 - Capital outflows from Non-QE, EM economies
- Asian countries continue to employ self-insurance, piling up foreign reserves

Self-insurance. ASEAN 5

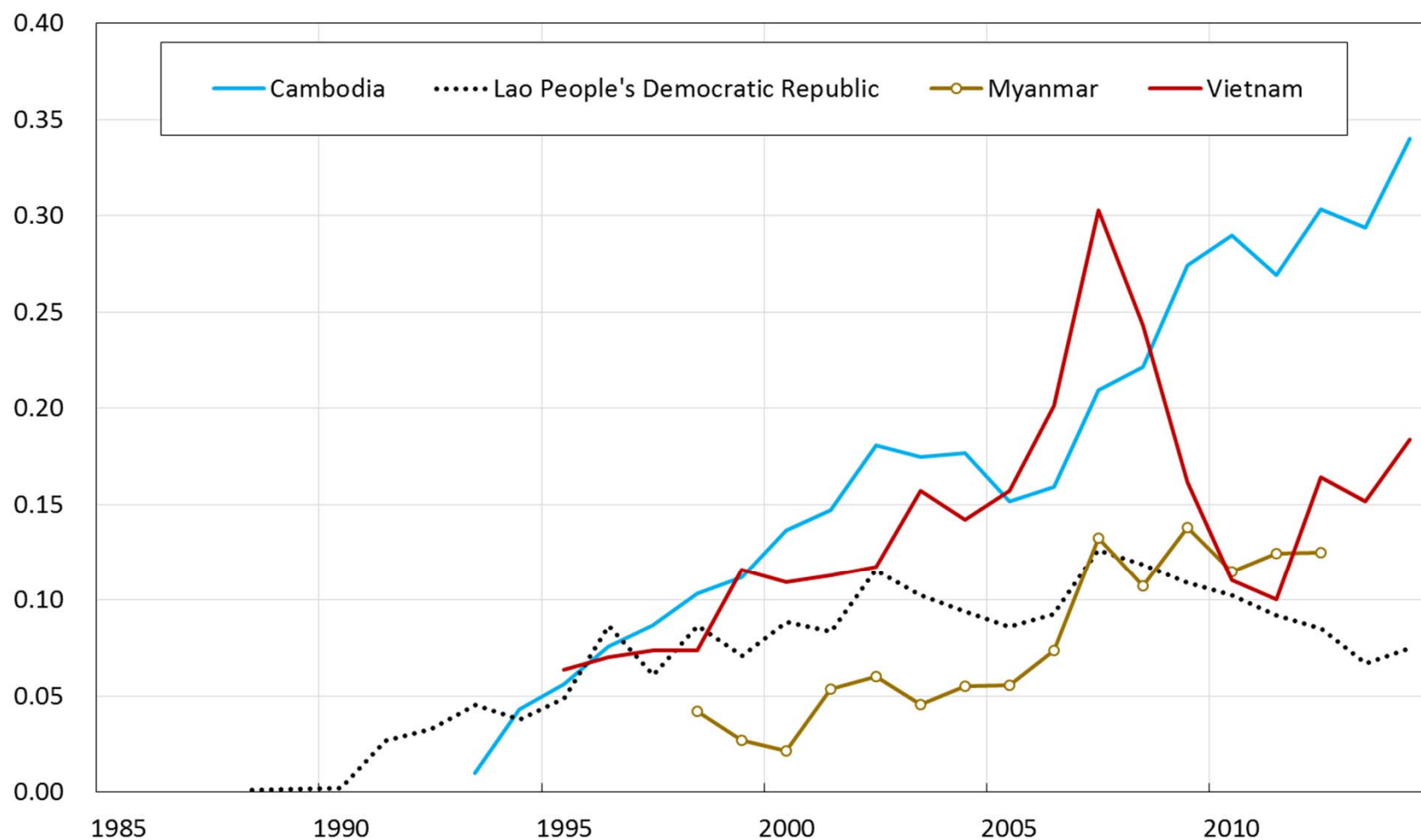
Total Reserves excluding Gold (USD) / GDP, current prices (USD)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

Self-insurance, CLMV

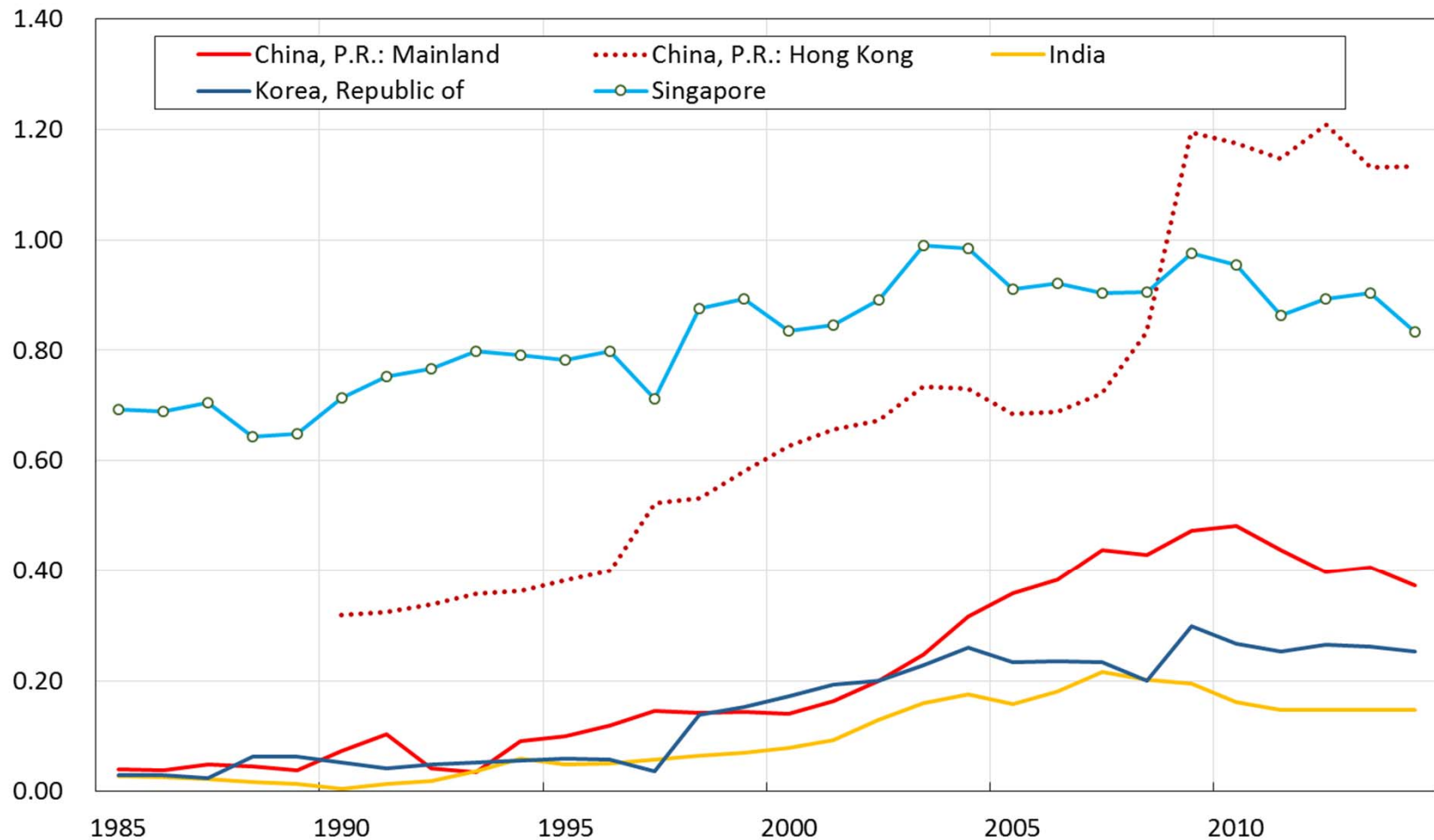
Total Reserves excluding Gold (USD) / GDP, current prices (USD)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

Self insurance, China, HK, Singapore

Total Reserves excluding Gold (USD) / GDP, current prices (USD)



Source: IMF, World Economic Outlook Database, April 2015 and International Financial Statistics.

Comparison to Asian currency crisis of 1997-98

- GFC was much milder for Asian EM economies, compared to the Asian currency crisis 1997-98
- The severely affected countries suffer from lower growth in the post crisis years
 - Indonesia 1999-2007
- Asian EM economies have gained resilience to an external shocks
- Good policies are rewarded with accelerated growth (catching up to a convergence path)
 - The Philippines and some of CLMV

Concluding Remarks (recap)

- Downturn in GFC < Downturn in Asian Crisis
- Growth in the Post-GFC years may appear slow, but some of them are due to “convergence”
- Resilience against external shocks (sudden capital inflows and outflows) seem to have increased
 - Self-insurance (foreign reserves)
 - Good macro (inflation targeting)
- Good macro policies are the key