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Contents

Abbreviations and Acronyms *iv*

Emerging East Asia— A Regional Economic Update 1

Highlights 2

Recent Economic Performance 4
 Growth and Inflation 4
 Balance of Payments 10
 Financial Markets and Exchange Rates 15
 Monetary and Fiscal Policy 18

Assessment of Financial Vulnerability 21

Economic Outlook for 2010, Risks, and Policy Issues 29
 External Economic Environment 29
 Regional Economic Outlook for 2010 38
 Risks to the Outlook 42
 Policy Issues 43

Regional Surveillance for Economic Stability 51
 What is Surveillance? 51
 Why “Regional” Surveillance? 53
 How is regional surveillance currently carried out in East Asia? 55
 How should an effective regional surveillance mechanism
 be designed? 56
 How should regional surveillance in East Asia be strengthened? 57
 What role has ADB played—and what is its future role—
 as regional surveillance deepens? 60
 Conclusion 62

Boxes

1. Output Gaps and Post-crisis Policies: What’s the Connection? 47
2. Spotting a Crisis Before It Happens 64

Abbreviations and Acronyms

ABMI	Asian Bond Markets Initiative	ISM	Institute for Supply Management
ADB	Asian Development Bank	IT	information technology
ADO	Asian Development Outlook	JCI	Jakarta Composite Index
AEM	Asia Economic Monitor	KLCI	Kuala Lumpur Composite Index
AFDM+3	ASEAN+3 Finance and Central Bank Deputies' Meeting	KOSPI	Korean Stock Price Index
AFMM+3	ASEAN+3 Finance Ministers' Meeting	Lao PDR	Lao People's Democratic Republic
ARIC	Asia Regional Integration Center	LIBOR	London Interbank Offered Rate
ASEC	ASEAN Secretariat	M2	broad money
ASCU	ASEAN Surveillance Coordinating Unit	MSCI	Morgan Stanley Capital International Inc.
ASEAN	Association of Southeast Asian Nations	m-o-m	month-on-month
ASEAN+3	ASEAN plus People's Republic of China, Japan, and Republic of Korea	NEER	nominal effective exchange rate
ASEAN-4	Indonesia, Malaysia, Philippines, and Thailand	NIE	newly industrialized economy
ASP	ASEAN Surveillance Process	NPL	nonperforming loan
BIS	Bank for International Settlements	OECD	Organisation for Economic Co-operation and Development
BI	Bank Indonesia	OPEC	Organization of the Petroleum Exporting Countries
BSA	bilateral swap agreement	OREI	Office of Regional Economic Integration
BSP	Bangko Sentral ng Pilipinas	PCOMP	Philippine Composite Index
CAR	capital adequacy ratio	PRC	People's Republic of China
CMI	Chiang Mai Initiative	PMI	purchasing managers' index
CMIM	Chiang Mai Initiative Multilateralization	Q3	third quarter
ECB	European Central Bank	q-o-q	quarter-on-quarter
ERPD	economic review and policy dialogue	REMU	Regional Economic Monitoring Unit
EWS	early warning system	repo	reverse repurchase
FSA	Financial Services Authority	SET	Stock Exchange of Thailand
Fed	Federal Reserve	SIV	special investment vehicle
G3	US, eurozone, Japan	SME	small- and medium-sized enterprise
G7	Group of Seven industrialized economies	STI	Straits Times Index
G20	Group of 20	TOR	terms of reference
GDP	gross domestic product	TWSE	Taiwan Stock Exchange Index
HKMA	Hong Kong Monetary Authority	UK	United Kingdom
HP	Hodrick-Prescott filter	US	United States
IMF	International Monetary Fund	VaR	value-at-risk
		y-o-y	year-on-year

Emerging
East Asia—
**A Regional
Economic
Update**

Highlights

Recent Economic Performance

- Beginning the second quarter of 2009, economic growth in emerging East Asia rebounded strongly, with domestic demand picking up as confidence returned.
- Inflation across the region remained muted in the second half of 2009 despite the recovery beginning to take hold.
- Balance of payments across the region improved in 2009 as current account surpluses increased and capital inflows returned to the region.
- Stock markets in emerging East Asia continued to rebound in the second half of 2009, though still below early 2008 levels.
- Almost all currencies in the region appreciated against the US dollar in the second half of 2009 with strong capital inflows and an improved regional economic outlook.
- Movements in bond yield curves in emerging East Asian markets were mixed in the second half of the year with changes generally small.
- With recovery in its early stages and inflation low, authorities have continued to maintain an accommodative stance in monetary and fiscal policy.
- Emerging East Asia's banking systems weathered the financial storm well, showing strong profits, ample capital cushions, and improved prudential oversight.

Outlook and Risks

- Large and timely liquidity support, unprecedented monetary easing, and substantial fiscal stimulus have helped advanced economies begin to emerge from the worst global downturn since the Second World War.

- Emerging East Asian economies have performed better than anticipated this year thanks to swift policy responses and an improved external environment; GDP is now expected to grow 4.2% in 2009 and 6.8% in 2010.
- Major downside risks to the outlook include (i) a short-lived recovery in developed economies, (ii) policy errors such as premature policy tightening, (iii) a slower-than-expected pick up in private demand, and (iv) destabilizing capital flows.

Policy Issues

- Emerging East Asia now faces the challenge of converting economic rebound to sustained recovery.
- With the global recovery tentative, monetary policy should remain accommodative where feasible, with a watchful eye on inflation and asset prices.
- Fiscal stimulus must continue, where there is room, to bolster domestic demand.
- Stimulus exit strategies must be planned carefully—if done too soon, recovery may be at risk; if too late, fiscal deficits and monetary expansion could become unsustainable and inflationary.
- Emerging East Asia must play a constructive role in reshaping the global economic architecture through its expanded influence in global forums such as the G20.
- It is time to take regional cooperation to the next level, in trade, finance, and economic surveillance.

Regional Surveillance for Economic Stability

- With the multilateralization of the Chiang Mai Initiative, the need for effective regional surveillance in East Asia has taken on a more immediate, yet evolving, purpose.
- Regional surveillance by an objective regional institution should create a more effective crisis prevention mechanism.
- Most importantly, an effective regional surveillance mechanism can help bring East Asian policy dialogue—and cooperation in general—to the next level.
- An effective regional surveillance mechanism for East Asia should (i) clearly define the purpose of surveillance, (ii) coordinate with other multilateral and regional institutions, (iii) use objective indicators for analysis, (iv) ensure the surveillance unit's independence, and (v) report results directly to senior policymakers.
- For regional surveillance to grow stronger, enhanced capacity to conduct surveillance is needed along with an appropriate institutional mechanism to carry it out.

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The Asia Economic Monitor is a semiannual review of emerging East Asia's growth and policy issues. It covers the 10 members of the Association of Southeast Asian Nations; People's Republic of China; Hong Kong, China; Republic of Korea; and Taipei, China. This issue includes a special section on regional surveillance in East Asia.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.