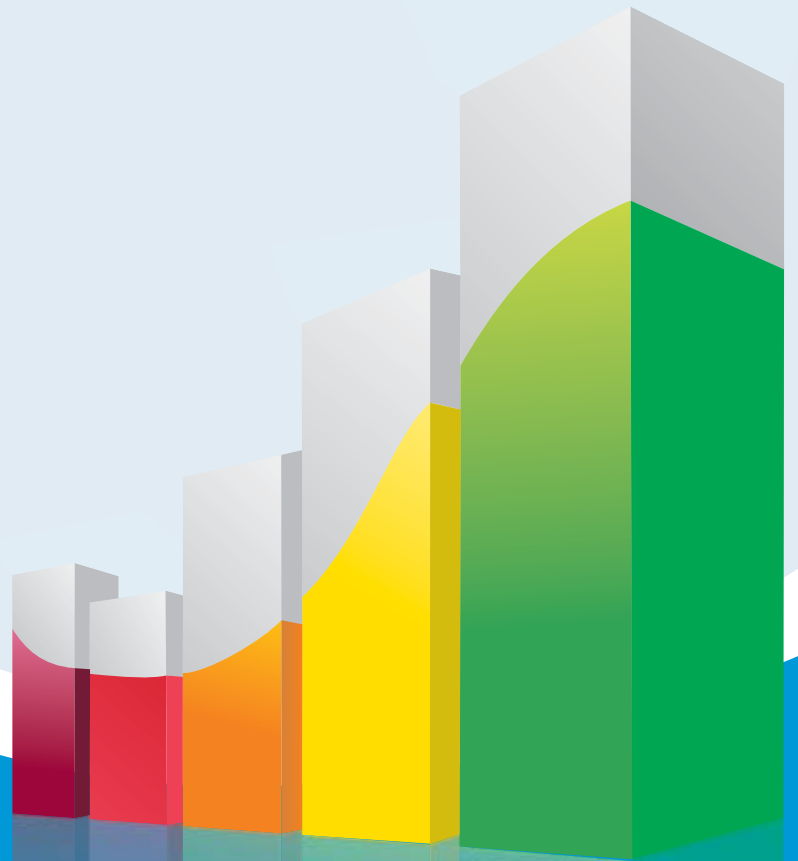


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Contents

Emerging East Asia—A Regional Economic Update

Highlights2

Economic Performance.....3

 Growth and Inflation.....3

 Balance of Payments.....7

 Financial Markets and Exchange Rates.....10

 Monetary and Fiscal Policy.....14

 Financial Vulnerability.....16

Economic Outlook, Risks, and Policy Issues..... 24

 External Economic Environment.....24

 Regional Economic Outlook for 2012.....35

 Risks to the Outlook.....39

 Policy Issues.....40

Can East Asia Weather Another Global Economic Crisis?... 43

 Introduction.....43

 What are the risks of another global financial crisis?.....44

 How would another global financial crisis impact East Asia?.....47

 Estimating the impact of a new global crisis on East Asia.....53

 Where can policymakers make a difference?.....56

 Conclusion.....58

Box

1. A eurozone and US “Lost Decade”: A Comparison with Japan.....25

Abbreviations and Acronyms

ADB	Asian Development Bank	MSCI	Morgan Stanley Capital International
ASEAN	Association of Southeast Asian Nations	m-o-m	month-on-month
ASEAN-4	Indonesia, Malaysia, Philippines, and Thailand	NIE	newly industrialized economy
ASEAN-10	Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam	OECD	Organisation for Economic Co-operation and Development
BI	Bank Indonesia	OEF	Oxford Economic Forecasting Model
BIS	Bank for International Settlements	OPEC	Organization of the Petroleum Exporting Countries
CBOE	Chicago Board Options Exchange	PCOMP	Philippine Composite Index
CDS	credit default swaps	PRC	People's Republic of China
CMIM	Chiang Mai Initiative Multilateralization	PMI	purchasing managers' index
EEA	Emerging East Asia	q-o-q	quarter-on-quarter
EMBI	Emerging Markets Bond Index	repo	reverse repurchase
ERPD	Economic Review and Policy Dialogue	saar	seasonally adjusted annualized rate
EU	European Union	SET	Stock Exchange of Thailand
G3	US, eurozone, and Japan	SIPMM	Singapore Institute of Purchasing and Materials Management
GDP	gross domestic product	SMEs	small and medium enterprises
GIIPS	Greece, Ireland, Italy, Portugal, and Spain	S&P	Standard and Poor's
ICT	information and communications technology	STI	Straits Times Index
IMF	International Monetary Fund	TED	treasury bill and eurodollar futures contract
ISM	Institute for Supply Management	TWSE	Taipei, China's stock exchange
JCI	Jakarta Composite Index	UK	United Kingdom
KLCI	Kuala Lumpur Composite Index	US	United States
KOSPI	Korean Stock Price Index	UV curve	Beveridge curve
Lao PDR	Lao People's Democratic Republic	VNINDEX	Ho Chi Minh Stock Index
LIBOR	London Interbank Offered Rate	WB	World Bank
M2	broad money	y-o-y	year-on-year
		\$	US dollars unless otherwise indicated

Emerging East Asia
**A Regional
Economic Update**

Highlights

Economic Performance

- Economic growth in emerging East Asia moderated this year due to weaker external demand and tightened monetary policies to battle inflation; investment edged up, while consumption remained strong.
- Inflation appears to have peaked, but remains a concern for several economies.
- Balance of payments were mixed; the NIEs' surplus narrowed on reduced current account surpluses, while those in the PRC and middle income ASEAN increased slightly.
- Stock market indexes in emerging East Asia were volatile as investor sentiment swayed in tandem with the unfolding eurozone crisis and US economic uncertainty.
- Currency movements were mixed; largely mimicking market reaction to events in the eurozone and US.
- Bond yield curves flattened due to declines in long-term interest rates—meaning investors expect weaker growth.
- Across the region, safeguarding growth is becoming the focus of policymakers as the global economy slows.
- Although emerging East Asia's financial systems remain sound, vulnerabilities exist.

Outlook and Risks

- Since mid-2011, the external environment for emerging East Asia has worsened; no resolution of the eurozone sovereign debt crisis is in sight and the US recovery remains fragile.
- Aggregate GDP in emerging East Asia is expected to grow 7.2% in 2012 after expanding 7.5% this year.
- The cautiously optimistic outlook for emerging East Asia is subject to major downside risks: (i) a deep recession in both the eurozone and US; (ii) protectionism or tight trade finance; (iii) destabilizing capital flows; and (iv) persistent or resurgent inflation.

Policy Issues

- The biggest policy challenge facing emerging East Asia is how to safeguard the region's robust growth against the threat of another global economic crisis.

- With the eurozone's sovereign debt crisis unfolding and risks of faltering global recovery rising, macroeconomic policy must remain cautious and prudent.
- With demand from the eurozone and US expected to remain weak for some time, emerging East Asia should continue to work toward increasing intraregional trade and financial integration, and expanding links with other emerging economies.
- Emerging East Asia could accelerate regional policy cooperation to mitigate the effects of external shocks.

Can East Asia Weather Another Global Economic Crisis?

- The eurozone sovereign debt crisis continues to worsen; it would have a serious yet manageable impact on East Asia should it evolve into a full-blown global financial and economic crisis.
- The region should be able to weather a crisis if policymakers respond promptly, decisively, and collectively:
 - They need to respond quickly and firmly by deploying financial, monetary, and fiscal policies to restore confidence, ensure financial stability, and support growth.
 - Fiscal policy could be central to sustain growth, while monetary policy retains enough flexibility to allow stimulus while keeping inflationary expectations anchored.
 - East Asia must intensify collective action in addressing the knock-on effects of another global financial crisis.
- Regardless, emerging East Asia must prepare for a prolonged crisis and weak post-crisis recovery by implementing appropriate short-term macroeconomic responses and pursuing necessary long-term structural reform.
 - National development agendas and the desire to rebalance sources of growth make targeted fiscal stimulus attractive.
 - Emerging East Asia should cooperate more on efforts to accelerate rebalancing growth toward domestic and regional demand.

Asia Economic Monitor December 2011

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; the People's Republic of China; Hong Kong, China; Republic of Korea; and Taipei, China. This issue includes a special section: *Can East Asia Weather Another Global Economic Crisis?*

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 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.

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