

The Global Economic Crisis: Asia and the role of China

Elliott School of International Affairs,
George Washington University
March 31, 2009

Anoop Singh
Asia and Pacific Department
IMF

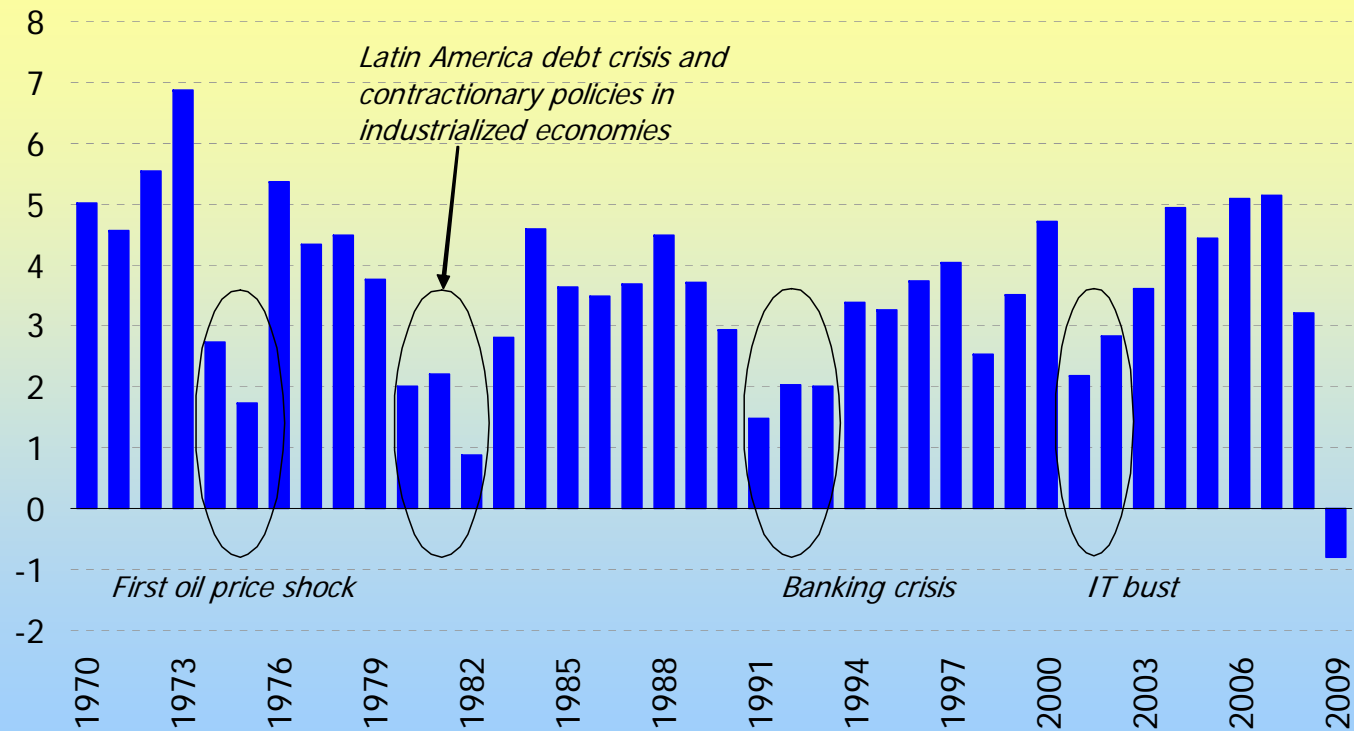
Five key questions

- Why has Asia been hit so hard?
- What is the outlook for Asia?
- What are the main risks to Asia?
- What is the role for policies in the region?
- Is China different?

A sharp and synchronized collapse in global growth...

World Real GDP growth

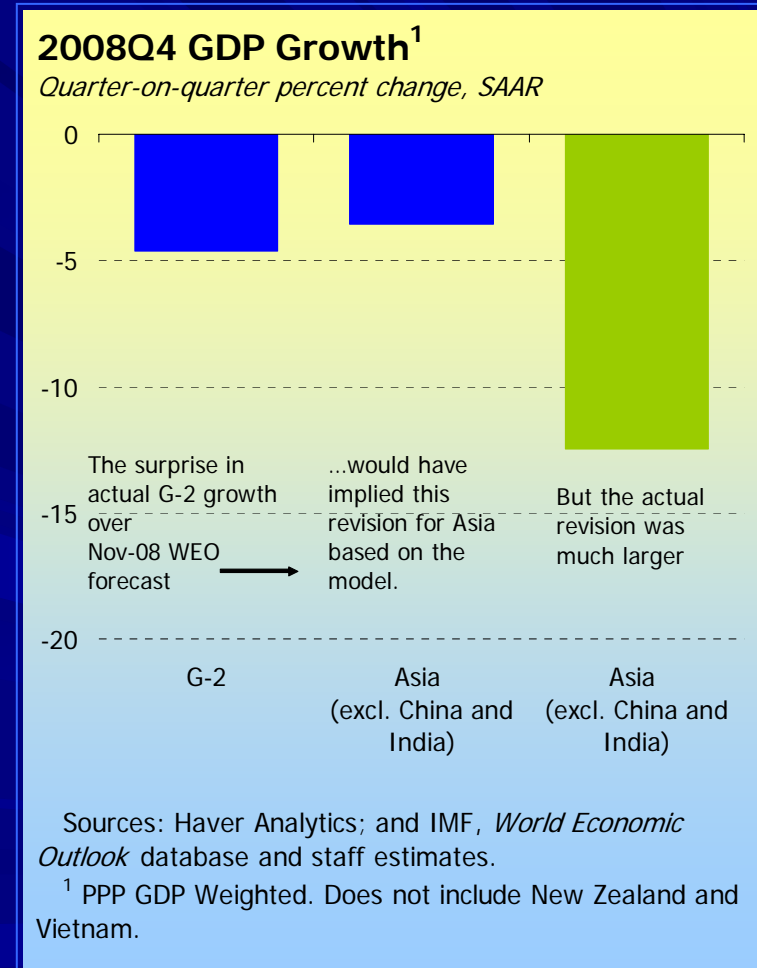
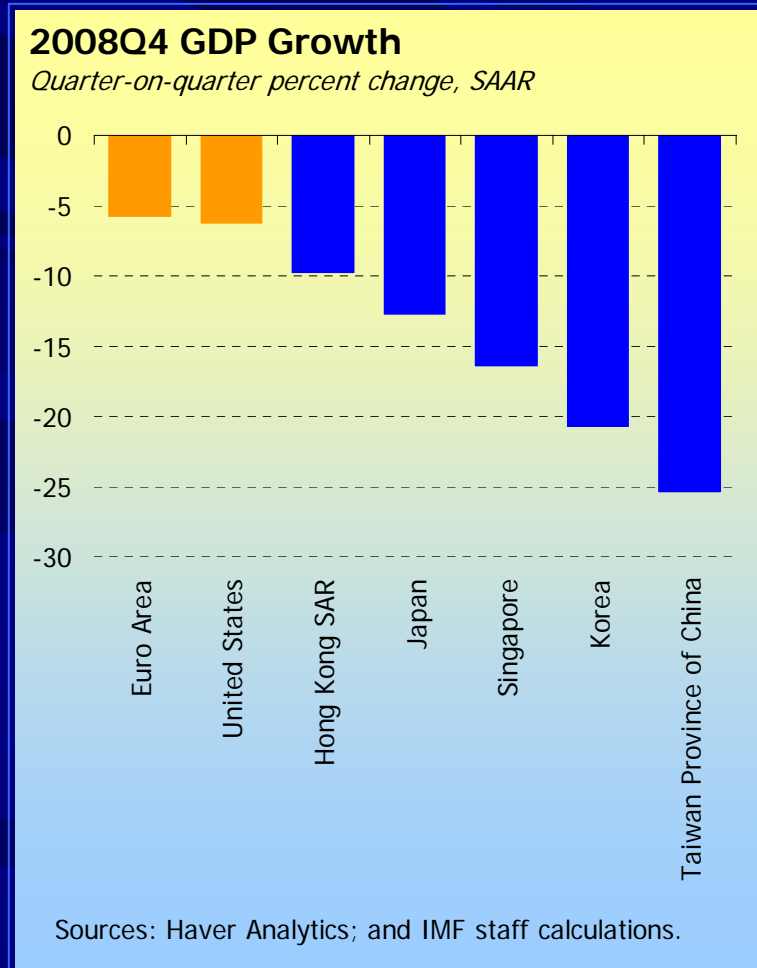
Year-on-year percent change



Source: IMF, *World Economic Outlook* database.

Why has Asia been hit so hard?

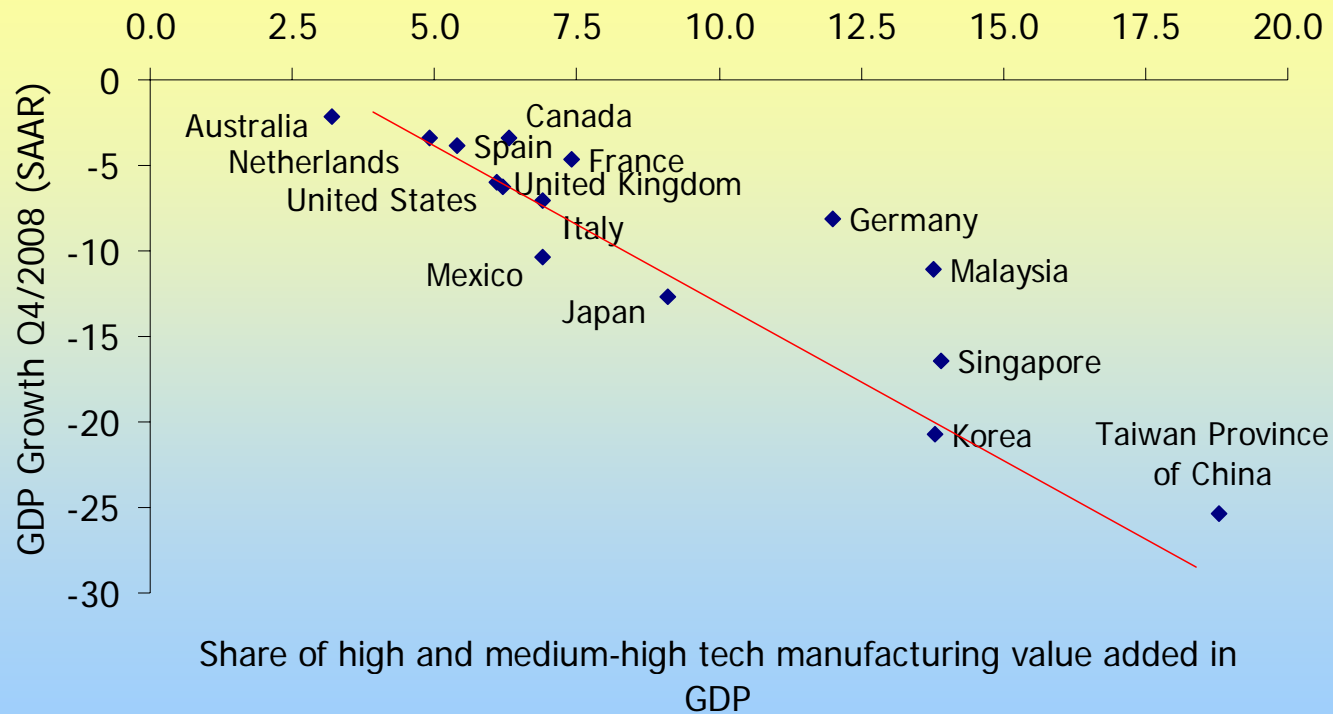
...has hit Asia more than we expected



Why has Asia been hit so hard?

...reflecting its specialization in advanced manufacturing

Q4 GDP Growth vs. Share of Advanced Manufacturing in GDP

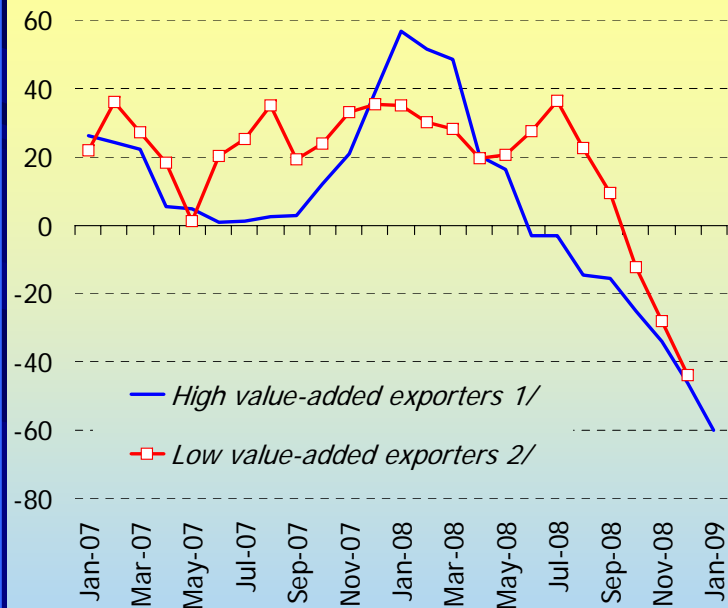


Sources: Haver Analytics; OECD; and IMF staff estimates.

Exports have declined through the Asian supply chain, and more than in other regions

Asia: Exports of Goods

3-month percent change of 3-mma, SAAR; US\$ basis



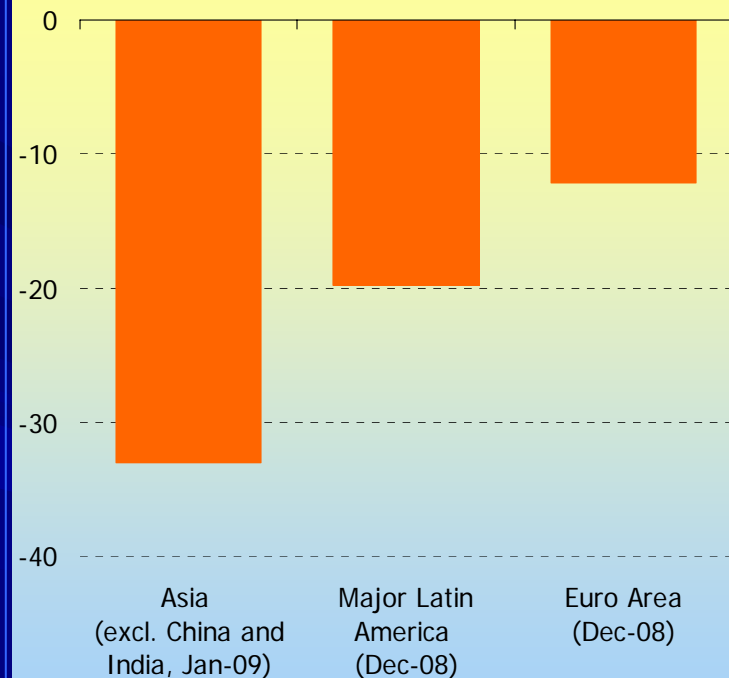
Sources: Haver Analytics; CEIC Data Company Ltd.; and IMF staff calculations.

1/ Japan, Hong Kong SAR, Korea, Singapore, Taiwan Province of China and Thailand.

2/ China, India, Indonesia, Malaysia, Philippines, and Vietnam.

Exports of Goods¹

Year-on-year change; US\$ basis



Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff calculations.

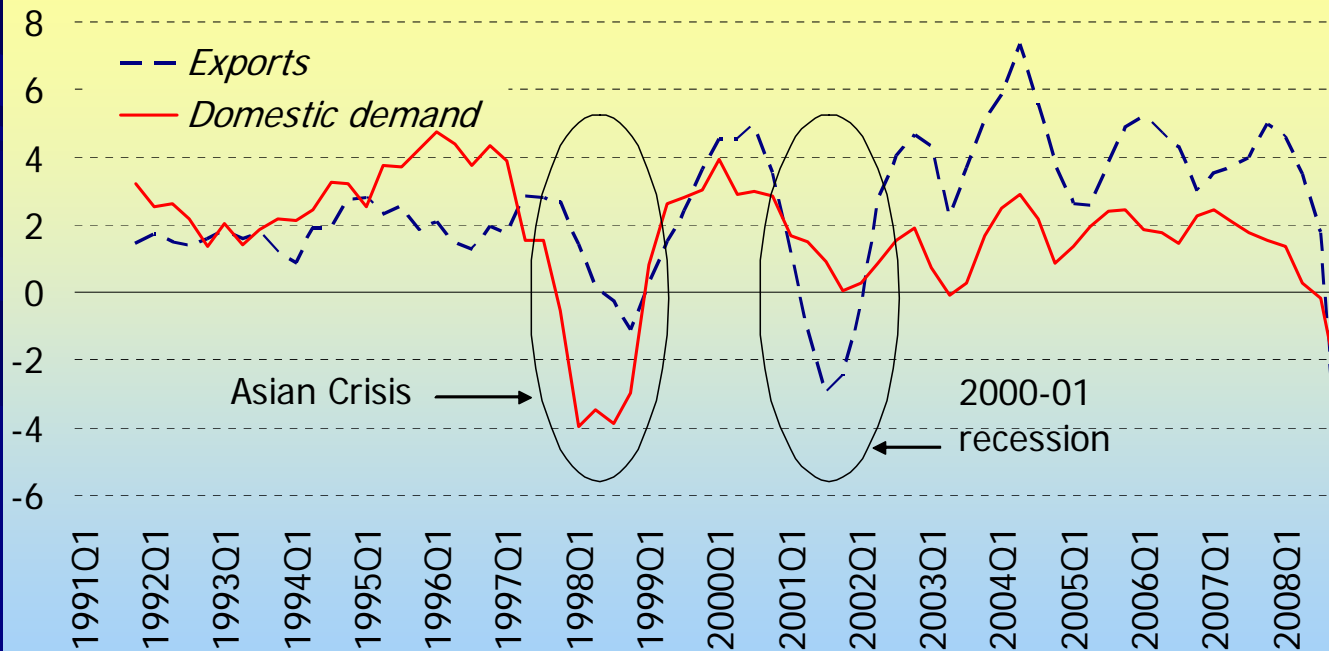
¹ Nominal export share weighted for Asia and Latin America.

Why has Asia been hit so hard?

A double hit for Asia: it's both exports and domestic demand

Japan and NIEs: Contribution to GDP growth

Year-on-year, in percent



Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff calculations.

Global recovery is expected only in mid-2010 and risks are on the downside

	2008	2009	2010
World Output	3.2	-1.5 to -0.5	1.0 to 2.0
US	0.8	-3.2	0.3
Euro Area	1.1	-2.6	0.2
Japan	-0.7	-5.8	0.1
Emerging and developing economies	6.1	2.0 to 2.5	3.5 to 4.5

What does this mean for Asia?

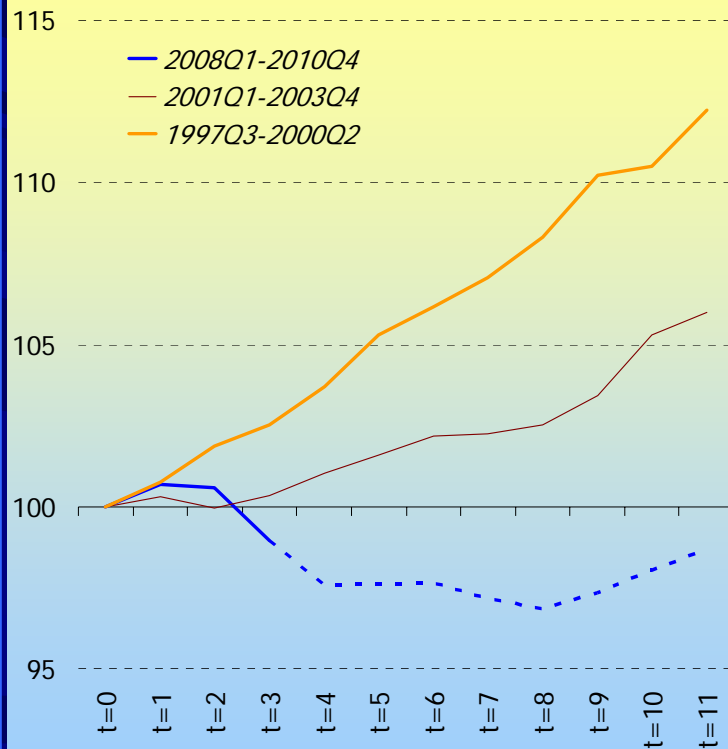
Growth will fall sharply this year and recovery will be slow

y/y in percent	2008	2009	2010
Asia	5.1	1.4 to 2.7	4.2 to 5.2
Industrial	-0.3	-5.0 to -2.2	0.0 to 0.8
Emerging	6.9	3.4 to 4.2	5.4 to 6.4
NIEs	1.7	-5.8 to -3.9	0.6 to 3.1
ASEAN-5	4.9	0.4 to 2.7	2.5 to 4.1

Risk 1: A much slower recovery of the G2

United States: Gross Domestic Product

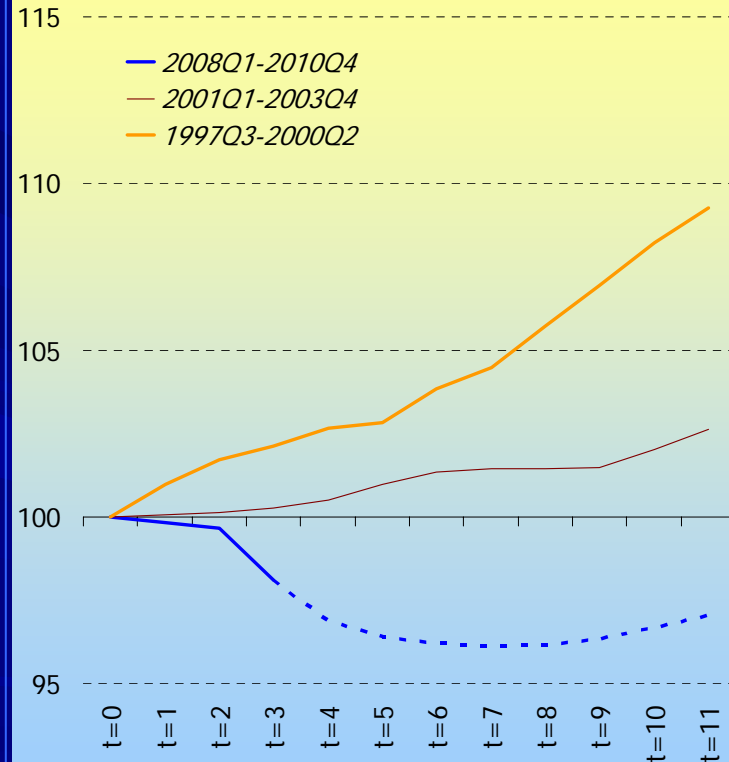
Rebased at the beginning of each time period = 100



Source: IMF, *World Economic Outlook* database.

Euro Area: Gross Domestic Product

Rebased at the beginning of each time period = 100

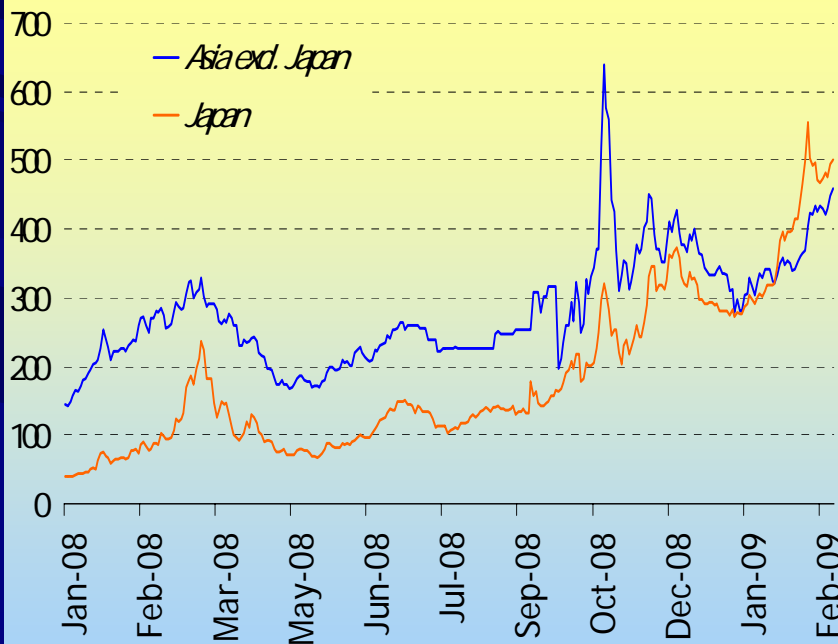


Source: IMF, *World Economic Outlook* database.

What are the risks to Asia?

Risk 2: Intensified feedback loop between corporates and banks

Credit Risk: iTraxx Indices¹

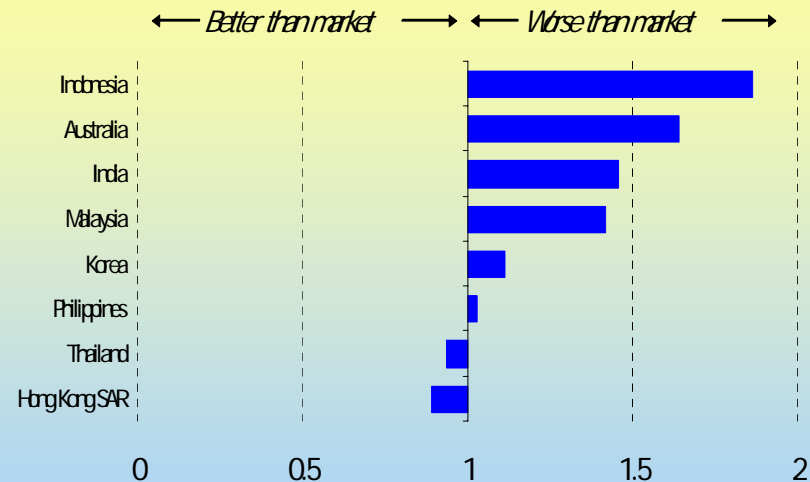


Sources: Bloomberg LP, and Datastream

¹ iTraxx Indices are a set of credit default swap indices covering regions or sectors and contain the most liquid names in that market, based on a dealer poll.

Selected Asia: Drop in Financial Sector Stocks vis-à-vis Overall Stock Market

Ratio of change since January 2008



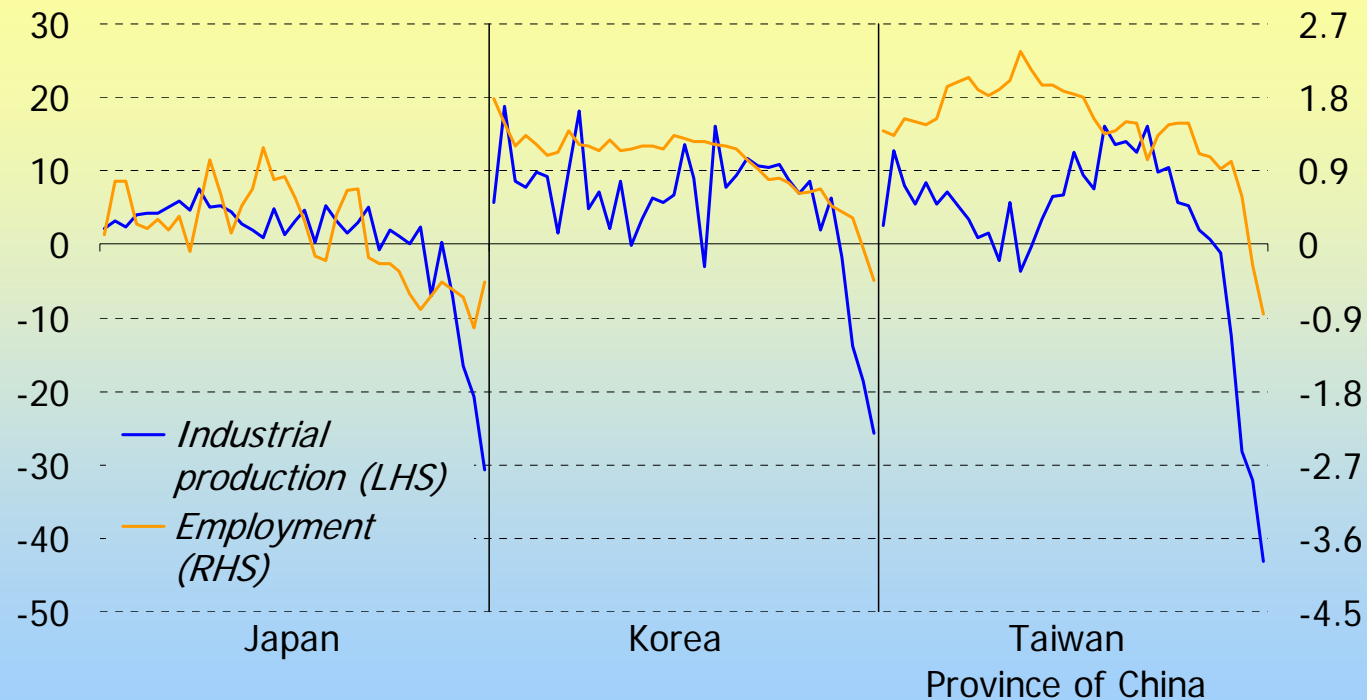
Sources: CEIC Data Company Ltd, and IMF staff calculations.

¹ A ratio greater than unity implies a higher relative loss for the financial sector stocks. A ratio between zero and one implies financial sector stocks losing less than market since January 2008.

Risk 3: Much larger unemployment lies ahead

Selected Asia: Industrial Production and Employment

Year-on-year percent change; January 2006 to January 2009

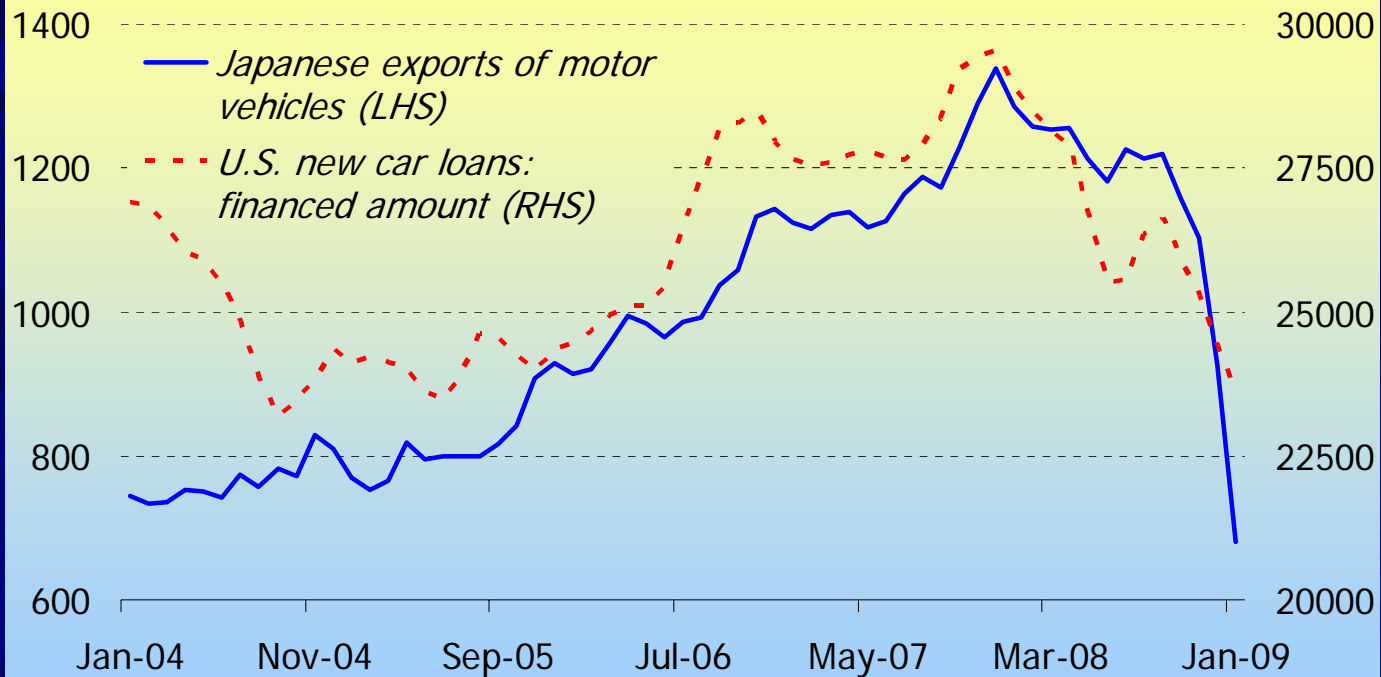


Sources: CEIC Data Company Ltd; and IMF staff calculations.

Risk 4: Long-term consequences of the end of the easy credit finance era

Japanese Exports of Motor Vehicles vs. Auto Financing

In billions of Japanese Yen (left scale); in U.S. dollars per car (right scale)

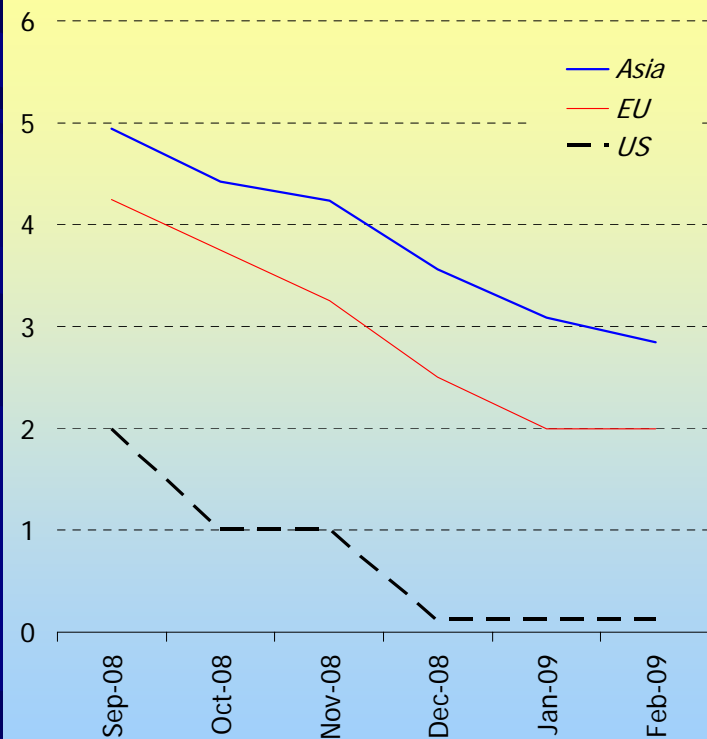


Source: Haver Analytics.

There is some room to lower policy rates further

Policy Interest Rates

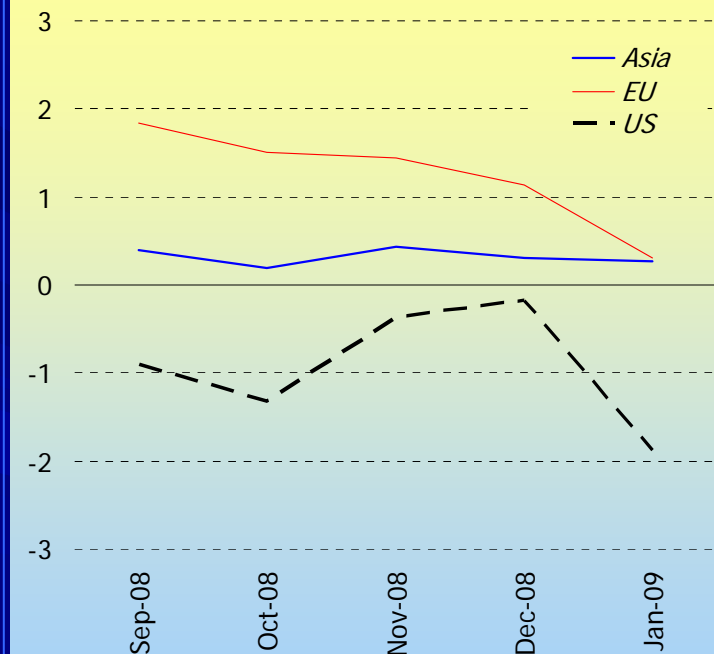
In percent



Sources: Haver Analytics; and IMF staff calculations.

Real Interest Rates¹

In percent



Sources: Consensus Economics Inc; and IMF staff calculations.

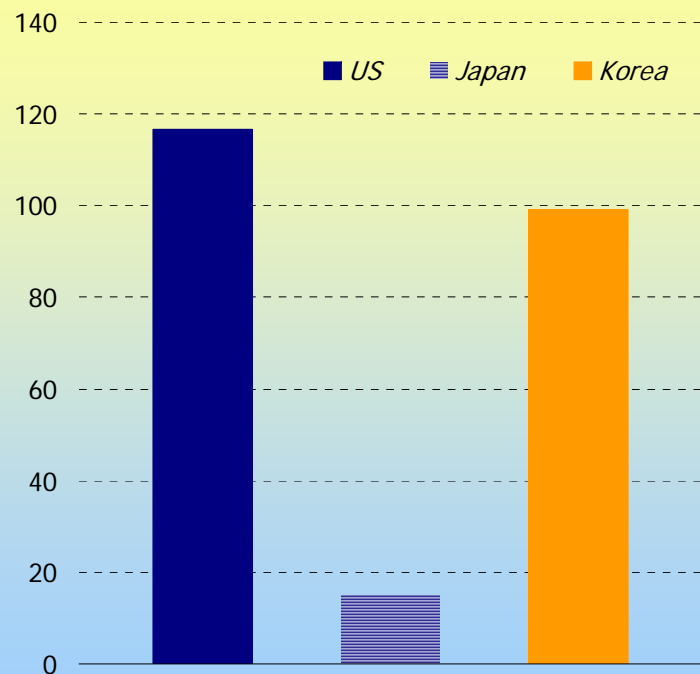
¹ Policy interest rates less one-year ahead inflation expectations from consensus forecasts.

What is the role for policies in the region?

But unconventional policies may also be needed

Domestic Assets on Central Bank Balance Sheets

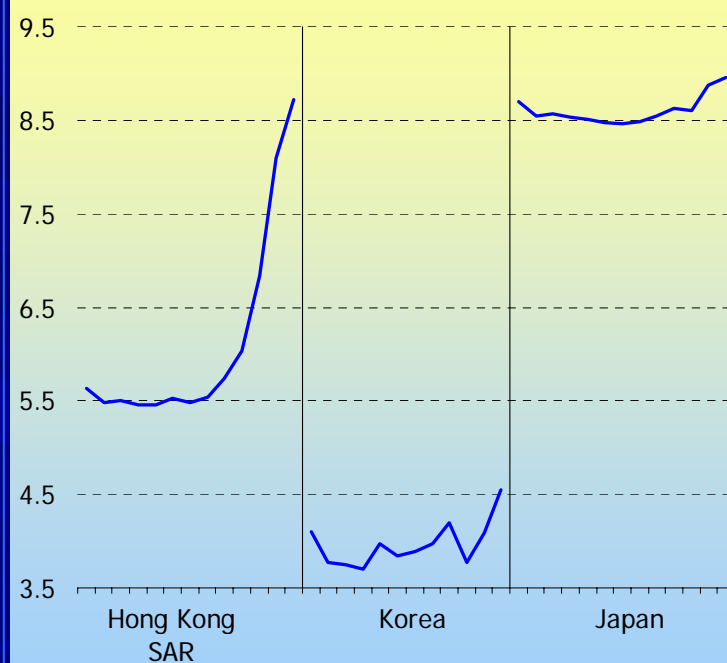
Change since June 2008, in percent



Sources: Haver Analytics; and IMF staff calculations.

Asia: Ratio of Base Money to Broad Money

In percent



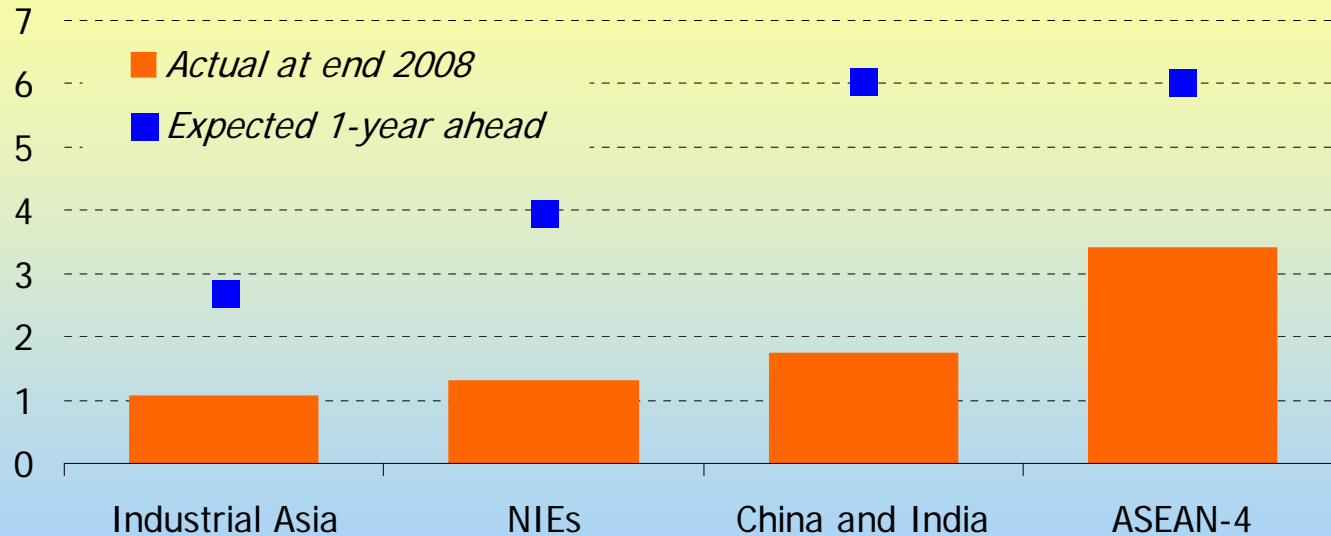
Sources: CEIC Data Company Ltd; and IMF staff calculations.

What is the role for policies in the region?

Strengthening bank capital would also help

Expected Increase in Bank Write-downs from Corporate Sector Loans¹

In percent of banking sector loans



Source: IMF staff estimates.

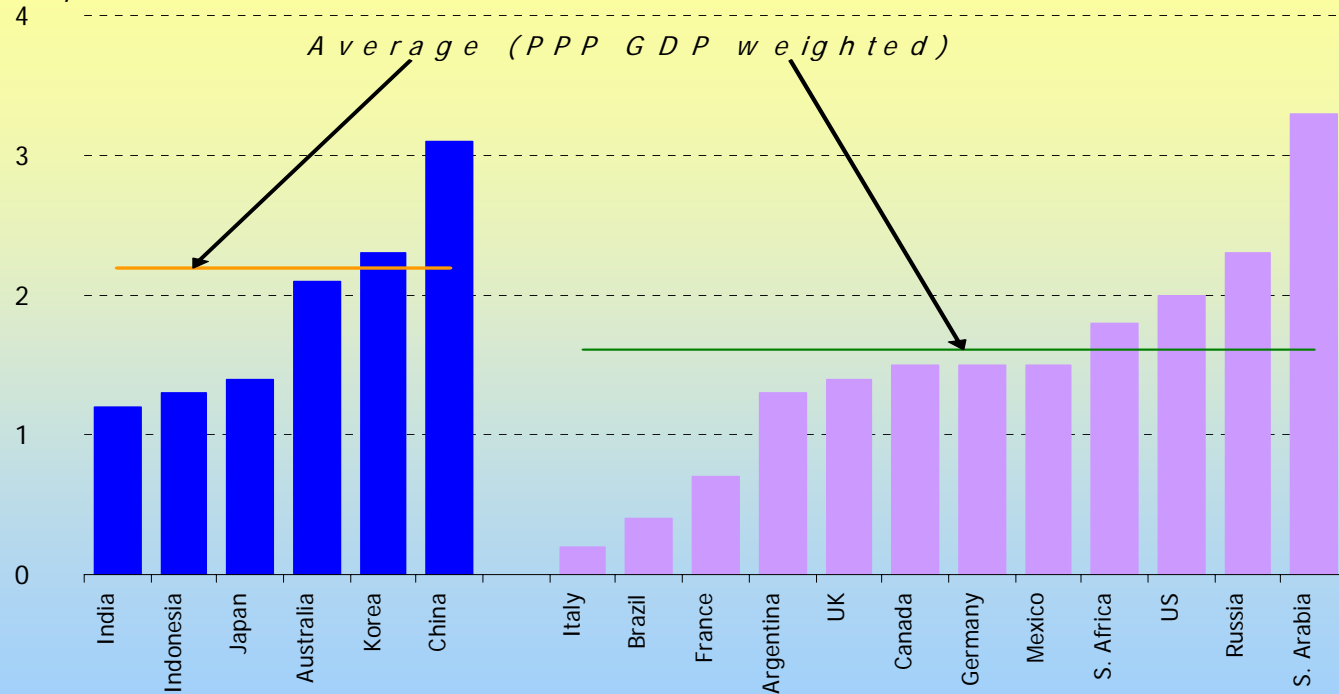
¹ Estimates are based on exposure to corporate sector loans and expected distress in corporate sector as indicated by credit default swap spreads.

What is the role for policies in the region?

Fiscal stimulus for 2009 is slightly above G20 average, but...

G - 2 0 : D i s c r e t i o n a r y F i s c a l M e a s u r e s , 2 0 0 9

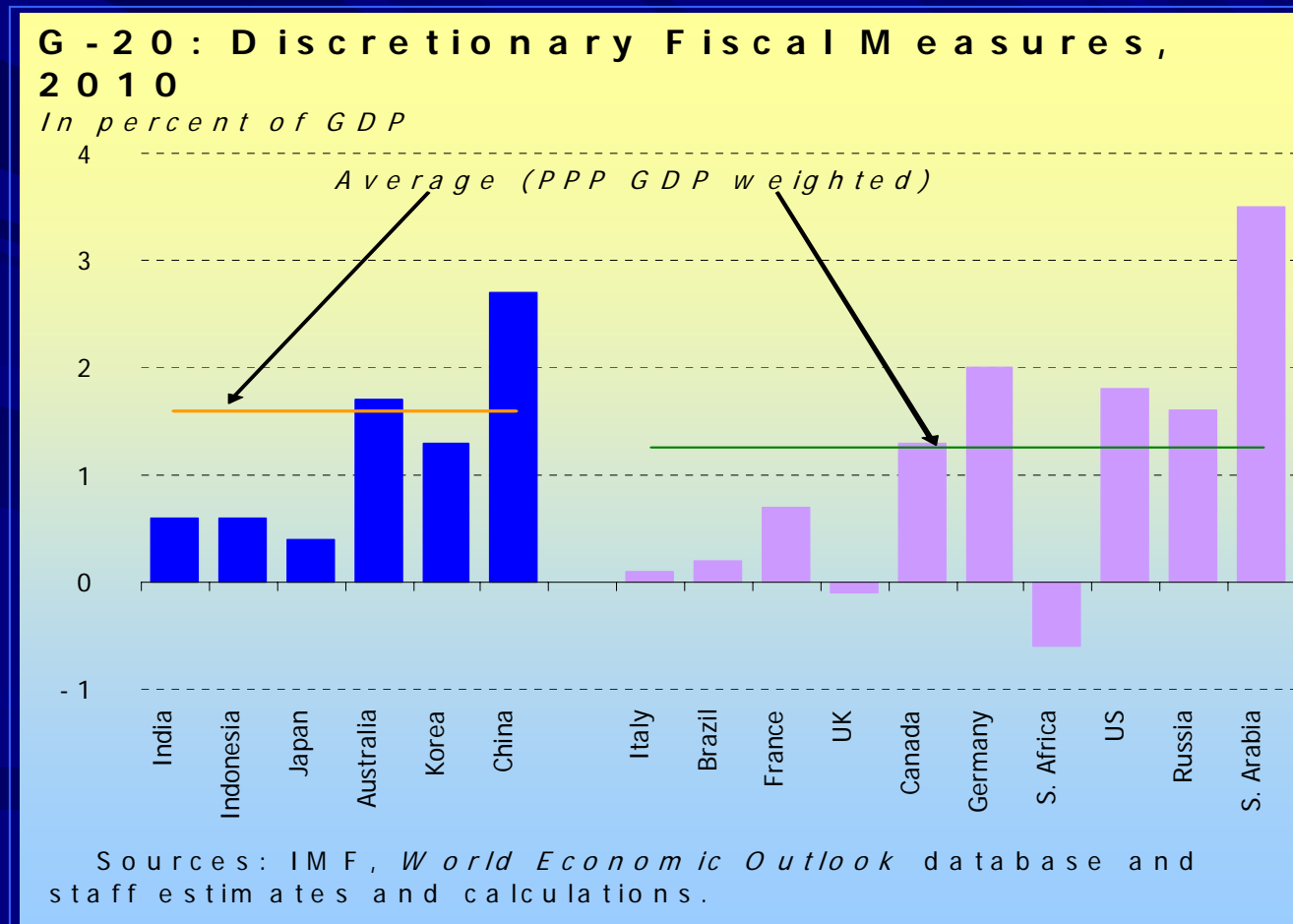
In percent of GDP



Sources: IMF, *World Economic Outlook* database and staff estimates and calculations.

What is the role for policies in the region?

Further stimulus will be needed in 2010

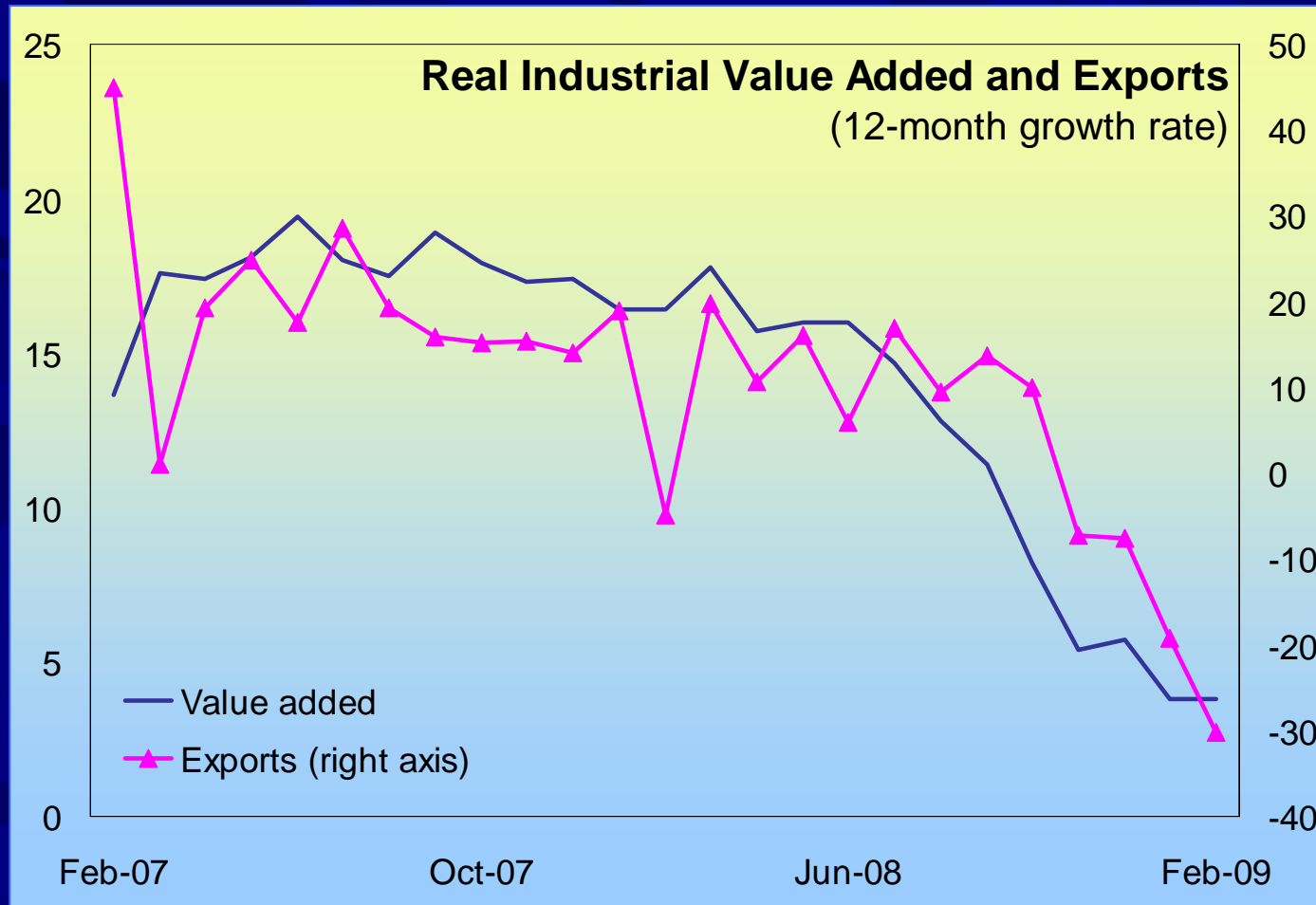


What is the role for policies in the region?

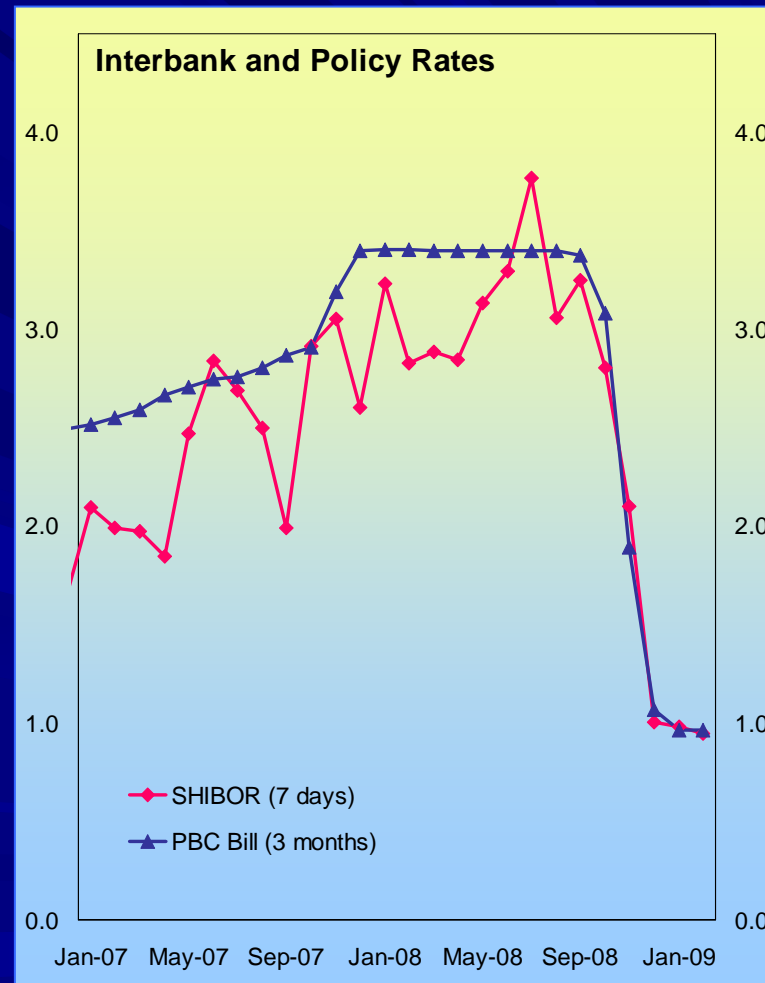
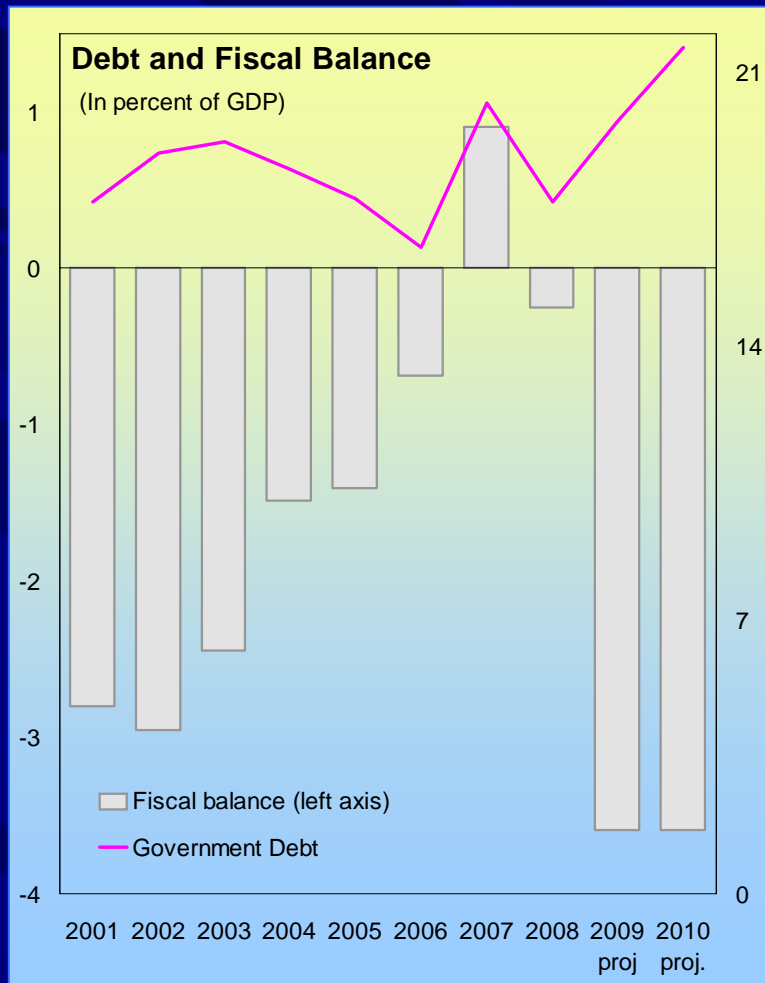
Is China different?

- What has its policy response been?
- What is China's economic outlook?
- What are China's key medium-term challenges?

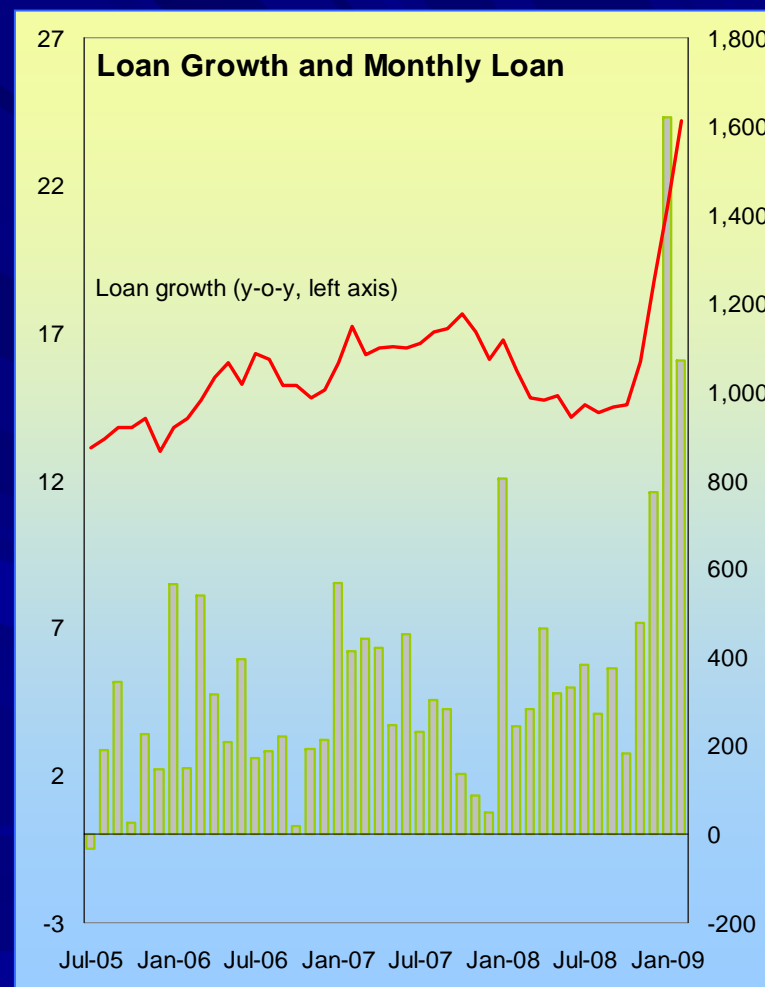
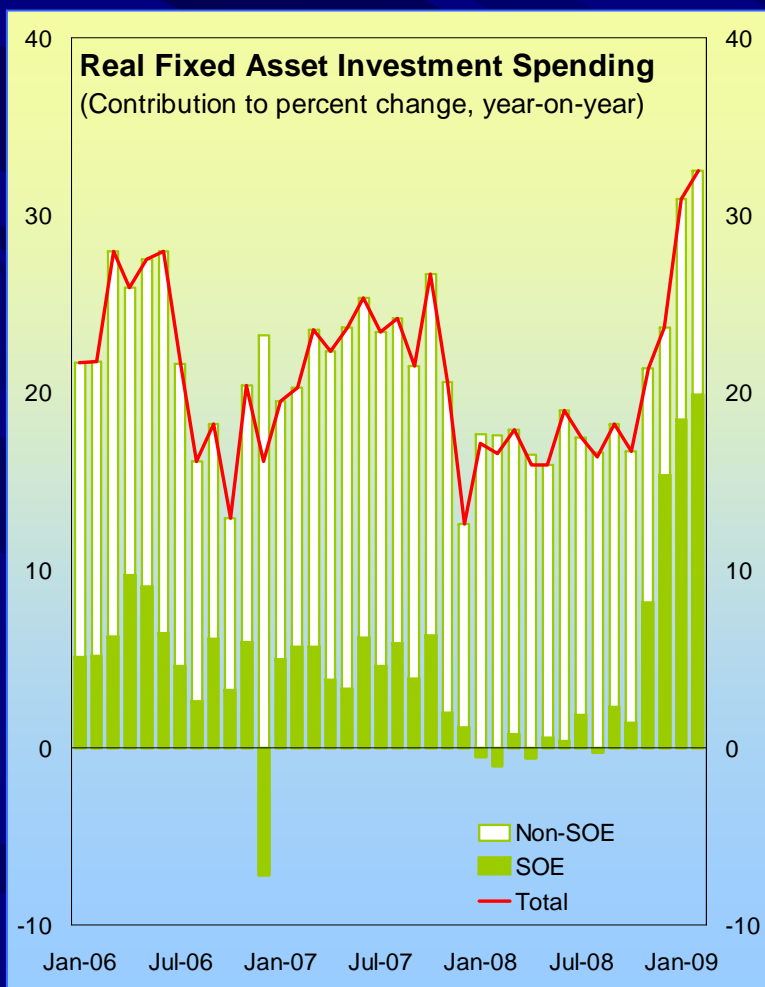
China has not been immune to the crisis



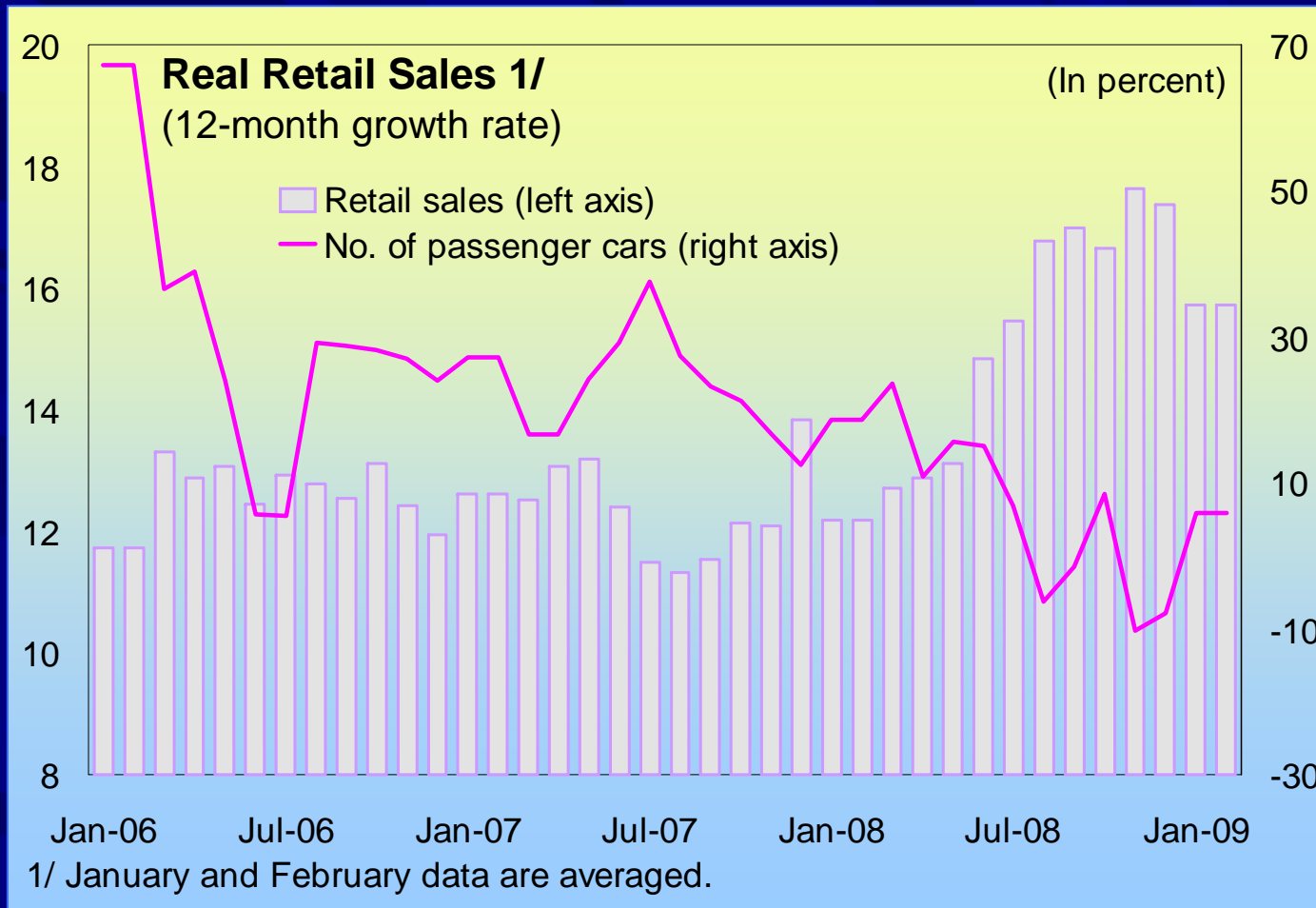
But the authorities have responded proactively



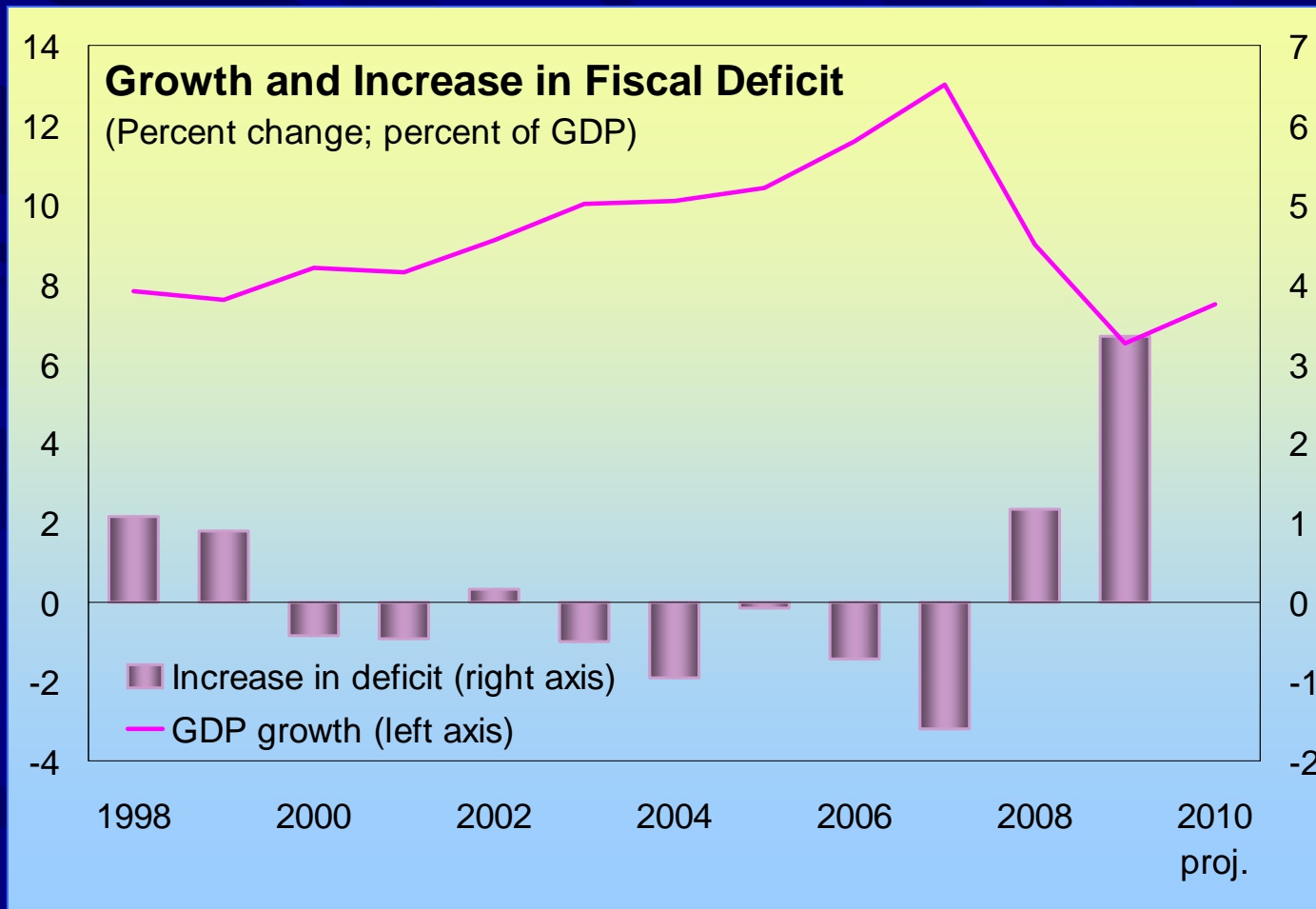
The stimulus is already working...



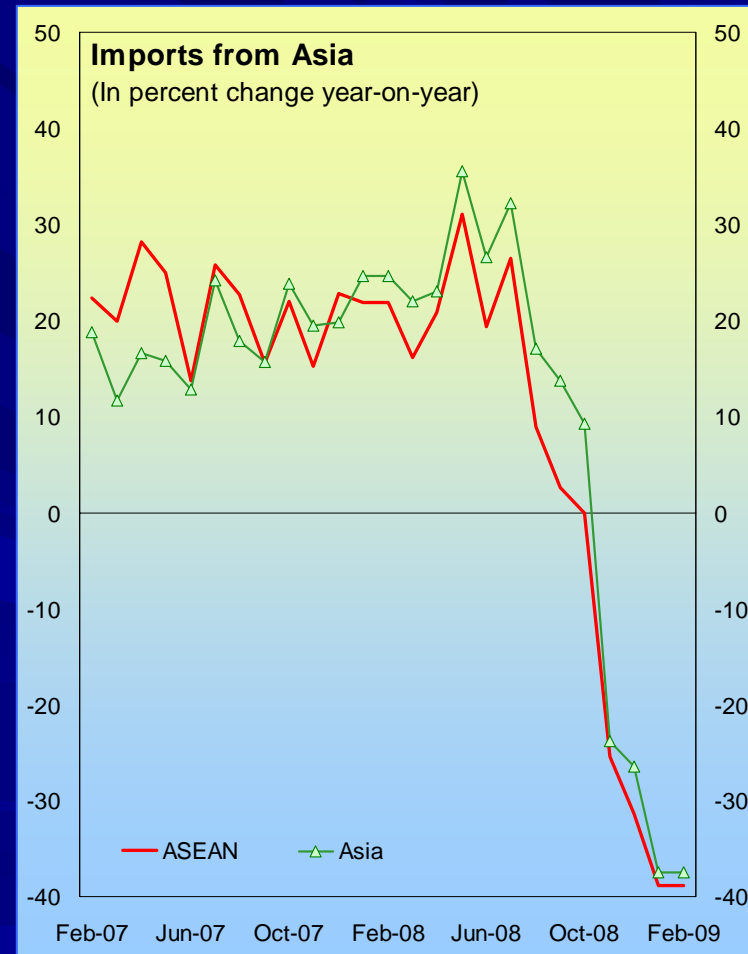
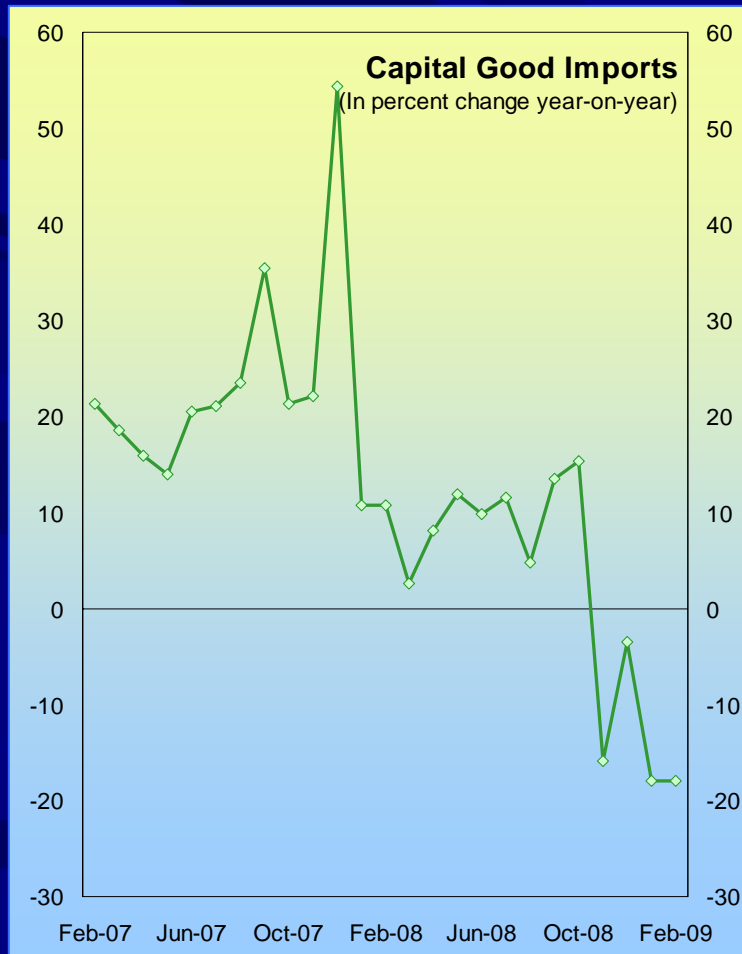
...and its spillovers are benefiting households



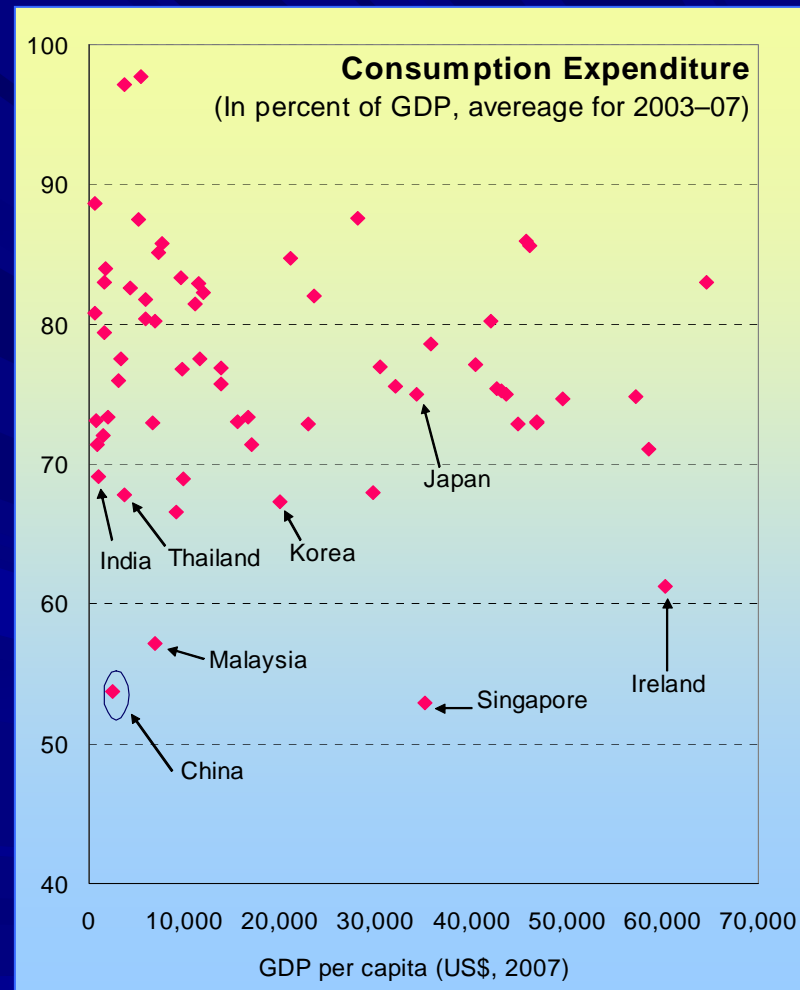
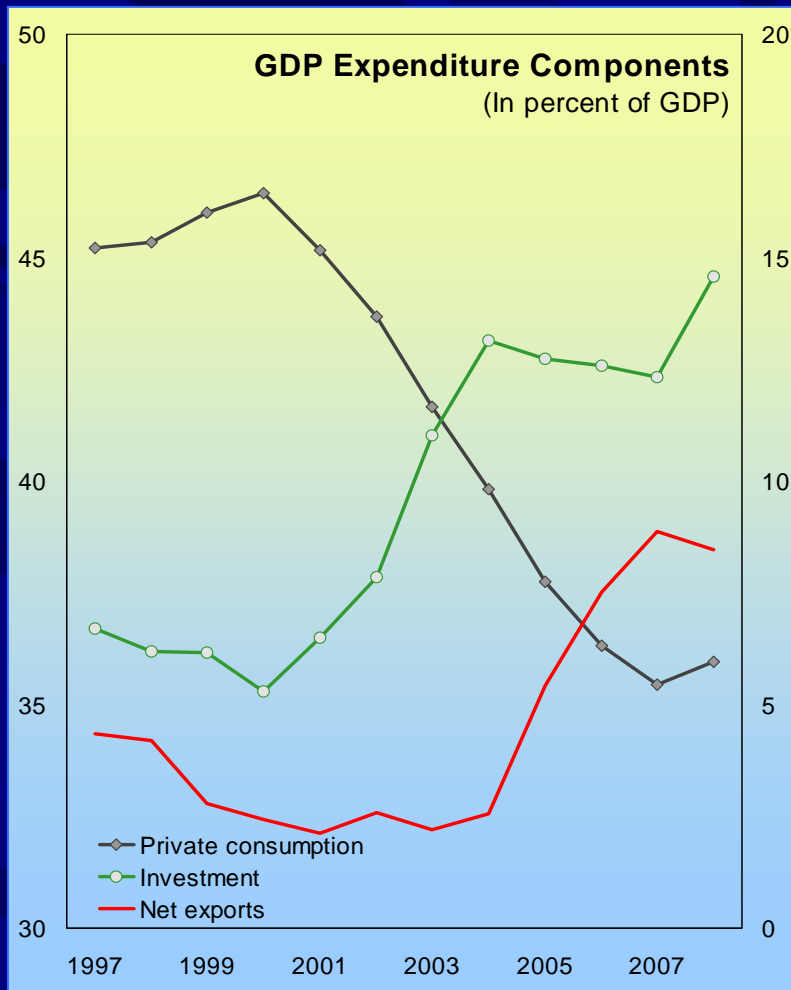
The policy action is expected to support China's growth



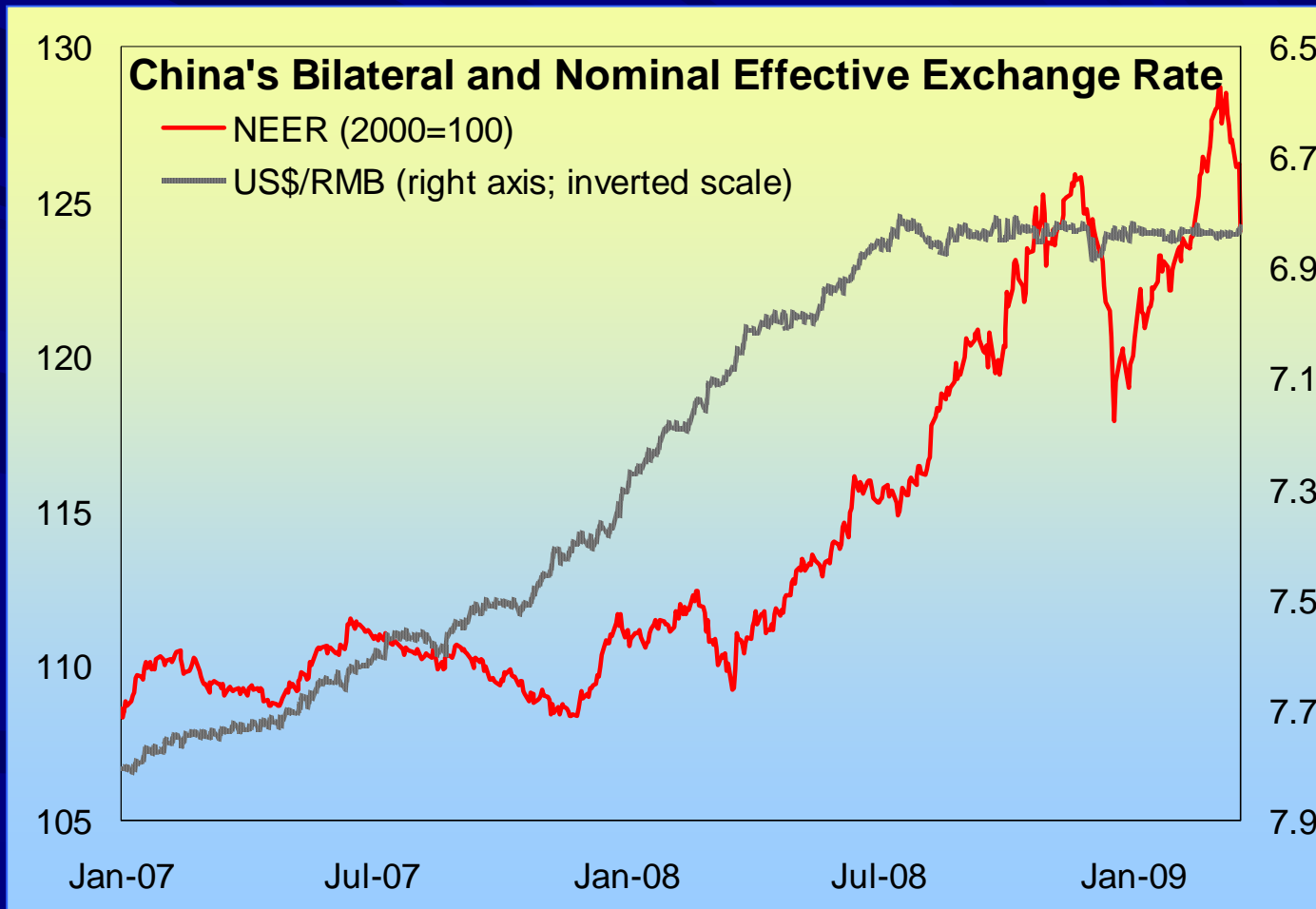
...but the spillover to the region is likely to remain small



China's key medium term challenge: rebalancing growth



Steady appreciation would help boost consumption and rebalance the economy



Is China different?

There is still scope for further fiscal stimulus to reverse the decline in private consumption

China: 2008–2010 Stimulus Package

(In percent of 2008 GDP)

