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Let growth engines drive recovery

By working together, governments can show markets that they mean business and will hold each other accountable

By PETER A PETRI

LAST week, the International Monetary Fund (IMF) raised its semi-annual forecast of world economic growth for next year, from 2.5 per cent to 3.1 per cent. The projections confirm that Asia is leading the global recovery. This is good news: the last three such revisions were downward, and at the time of the last report in the spring, many Asian economies were still in free fall.

But for policymakers, the beginning of the recovery means new, difficult choices. The challenge is not just to exit interventions adopted in the crisis - which dominates the policy debate - but to replace these with structural policies that promote growth through the recovery and beyond.

The policies that stopped the free fall - huge stimulus packages in China, the United States and even small countries like Singapore, and massive financial bailouts in the West - were urgent, relatively easy to sell, and to a large extent forced by circumstances (particularly the fall of Lehman Brothers).

Sustained recovery requires tackling different problems, including (especially) current account imbalances between the United States, China and other economies. As is now well understood, US consumers won't drive world demand in the near future; they need to be replaced in part by Asian consumption and investment.

The structural policies that will drive balanced growth in the future are less time-sensitive than stimulus policies were, are more complex, and may be tougher to implement politically. But the stakes are high; if rebalancing fails, the recovery could soon fade into anaemic growth or even another crisis.

The good news is that imbalances have shrunk to sustainable levels in the crisis; the challenge now is to keep them there.

The arithmetic of this challenge is well within the region's potential. A US current account deficit of 3 per cent of GDP or less is generally considered consistent with balanced growth. Even when imbalances were at their highest before the crisis, only one per cent of total Asia-Pacific GDP (about US\$300 billion) would have had to have been shifted from US consumption to Asian demand to eliminate excessive US deficits.

Our calculations suggest that the implications of such rebalancing are also manageable. Chinese consumption would have had to rise by less than a normal year's growth. US exports would have had to expand by 9 per cent and imports shrink by 6 per cent. Recent months have seen far larger percentage movements in demand and trade.

But the policies will need to reach deeply into national economies. They will vary considerably from country to country, and call for innovation and flexibility in design. For example:

- The US policy mix would need to impose discipline on consumers and the government to live within their budgets. And US exporters would need to dust off their Asian Rolodexes and compete in markets they abandoned in the past.
- China would likely raise the incomes of households at the expense of the flush corporate sector, create services and safety nets to encourage spending, provide financing for small firms, and scale up investments in education, healthcare and the environment.
- Japan might free up services, energise consumption and redirect its extraordinary technological capabilities towards growth markets such as products and services for ageing populations, and technologies for energy conservation.

And so on. Each Asia Pacific economy has an opportunity and responsibility to drive its corner of growth. Some will target households, others investment or infrastructure, and still others agriculture, resources or services. Exchange rate flexibility, including the gradual appreciation of the Chinese yuan,

would provide crucial support for the necessary changes.

Deeper regional cooperation

That's where international cooperation comes in. The Group of 20 (G-20), now the premier global consultative mechanism, is a promising platform with appropriate Asian ownership. But the global process needs to be complemented by deeper regional cooperation.

Asia Pacific institutions - Asean, the East Asian Summit, Apec (which meets in Singapore next month), and smaller groups - need to step up to translate global goals into real projects.

New growth engines should be launched based on the region's priorities and huge capabilities. The economies of the Asia Pacific have converged markedly in their priorities, and virtually all emphasise these areas:

- **Economic integration:** efforts to create new types of trade, building on the region's dynamic markets, global and regional trade agreements, and strategic investments in the infrastructure of transport and communications.
- **Green economy:** programmes to support energy conservation, breakthroughs in 'clean coal' and alternative energy, and energy-efficient vehicles and transport systems.
- **Quality of life:** investments in education, healthcare, social safety nets, and infrastructure to connect regions and people left behind with centres of economic growth.
- **Knowledge and productivity:** initiatives in education and research, and policies such as deregulation, to drive gains in productivity.

Concerted initiatives in these areas would stimulate Asian demand, create markets for Asian manufactures, engage American resources and technology, and put Asian savings to truly productive use.

The Asian Development Bank (ADB) could be a catalyst with a new growth fund focused on infrastructure and other investments.

Many of these initiatives - and projects within them - have been widely studied and action plans are available. Good pilot models exist, for example for rural healthcare in China, energy conservation in Japan, and regional integration in Asean. The blueprints are ready; it's time to start building.

By working together, governments can signal to markets that they mean business, will stand behind priorities, and will hold each other accountable for keeping growth on track.

They can create a stable, forward-looking environment that is crucial for private investment, especially in uncertain times. These are not usual times. The crisis and the reversal of the fortunes of East and West present an opportunity to reinvent the Asia Pacific economy.

All of us - not just academic, business and policy experts, but citizens - need to understand the choices. And we need to urge governments to make this a turning point, not only for the crisis, but for long-term global development.

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