

# **Restoring Global Financial Stability: Role of Asia-Pacific**

**Masahiro Kawai**  
**Asian Development Bank Institute**

PECC 18<sup>th</sup> General Meeting  
“Economic Crisis and Recovery:  
Roles for the Asia-Pacific Economies”

Washington, DC, 12-13 May 2009

# Global Financial Stability

## *Absence of global financial turmoil/crisis*

- Restoration of financial system health in the US and Europe
- Lack of massive capital outflows and of currency crises
- Reduction of capital market volatility and of high risk premiums
- Normalization of financial flows to emerging markets and for trade activity
- Adjustment of the global payments imbalance

# **What is needed to restore global financial stability**

## **(1) Restoration of US financial health**

- “Stress tests” a good first step, providing a degree of transparency and confidence in the market
- Banks need to remove “toxic assets” and other NPLs from their balance sheets
- Banks need to be adequately capitalized
- Authorities and banks need to be ready to respond to rising NPLs as weak economic performance can create new NPLs
- US and Europe need to put in place credible regulatory and supervisory frameworks to ensure future stability

## **(2) IFIs have key roles to play**

- IMF provision of liquidity for crisis-affected emerging economies
  - IMF resource increase welcome
  - Introduction of FCL useful
- MDBs (WB, ADB, IDB, etc) provision of funding or guarantees (for bond issuance) for emerging economies' fiscal support
- MDBs and bilateral export credit agencies provision of financing for trade credit

### **(3) Regional financial arrangements can play a complementary role**

- CMIM (CMI multilateralized) finally agreed, to be in place by end-2009
  - Japan 32%, China+HK 32%, Korea 16% and ASEAN 20%
  - total size of \$120 billion
  - to be supplemented by Japan MOF bilateral yen-swaps of 6 trillion yen (\$60 billion) and central bank (mainly PBOC) bilateral swaps of \$94 billion
- A surveillance unit to be set up under ADB and ASEAN Secretariat

## **(4) Adjustment of the trans-Pacific payments imbalance**

- Evaporation of US consumption, forcing trans-Pacific adjustment
- Asian economies are forced to reduce manufacturing production (CGE simulation)
- Asia needs to rebalance sources of growth
  - demand side (consumption and investment) and supply side (non-tradables sector including services)
  - green industry (energy efficiency, environment)
  - social sector protection
  - regional market integration
- Trans-Pacific exchange rate adjustment

# Final demand for Asian exports has come from the advanced economies

## Final demand composition of Asia's export in 2006

Total Asia's exports = 100.0%					
Inside Asia = 51.8%			Outside Asia = 48.2%		
<i>of which to</i>			<i>of which to</i>		
final demand 16.5%	production 35.3%		final demand 23.2%	production 25.0%	
+	<i>of which to</i>		+	<i>of which to</i>	
	final demand inside Asia 15.1%	final demand outside Asia 20.2%		final demand inside Asia 0.9%	final demand outside Asia 24.1%
16.0%			44.3%		
=			=		
Total final demand inside Asia 32.5%			Total final demand outside Asia 67.5%		

# Trans-Pacific payments adjustment

	CA (change as % of GDP)	Terms of trade (% change)	Real private absorption (change as % of GDP)
China & HK	-2.6	1.2	2.6
JPN	-1.3	1.9	1.3
KOR	-2.6	1.4	2.5
TWN	-3.2	1.3	3.3
IDN	-2.0	1.2	2.3
MYS&SGP	-3.4	0.6	3.9
PHL	-2.7	1.0	3.0
THA	-2.8	0.9	3.0
VNM	-3.5	1.1	3.8
USA	4.5	-7.4	-5.1

Source: Kawai and Zhai (2009)



# Asia's output adjustment is significant in vehicles, machinery and electronics

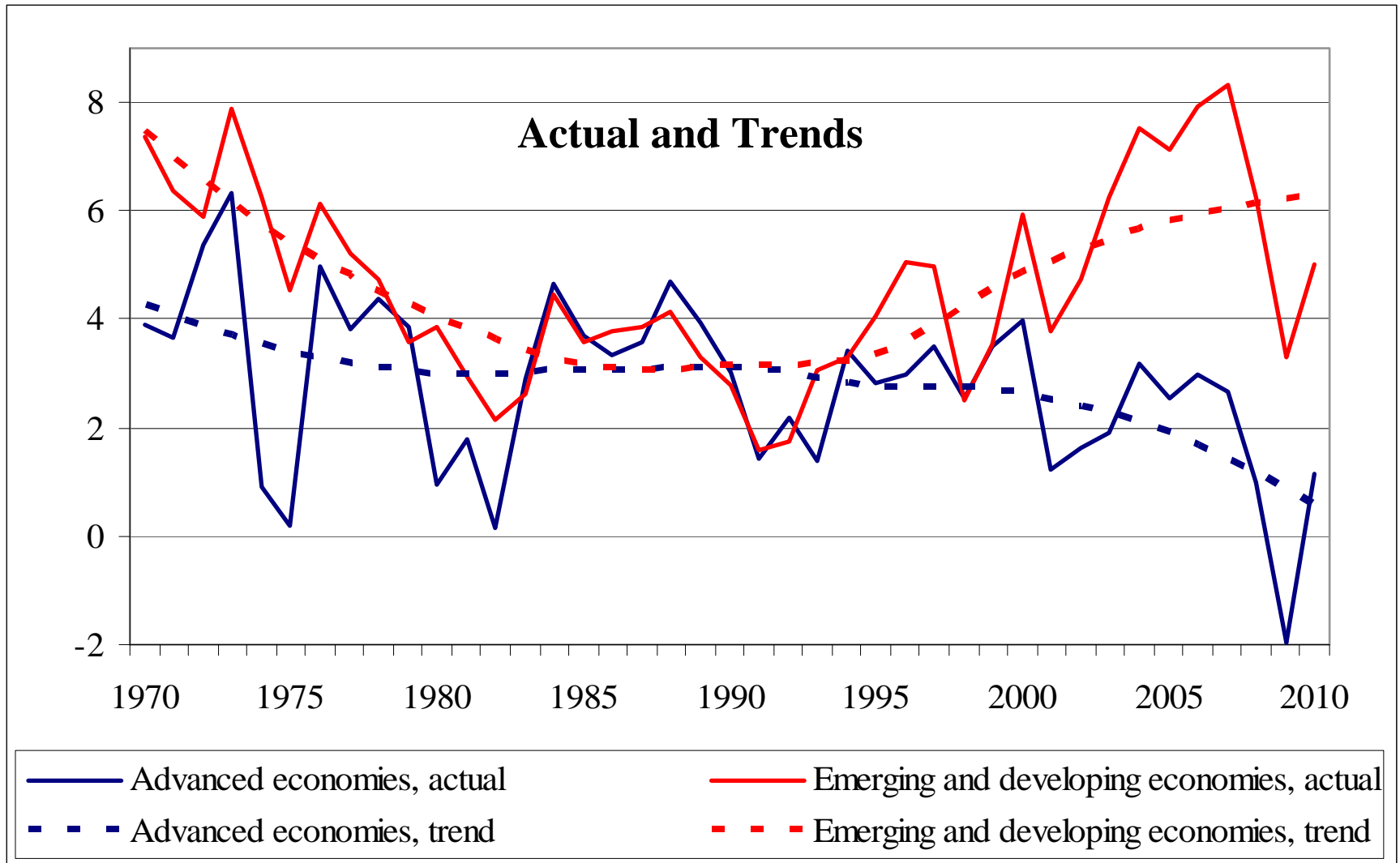
## Percentage change in output

	East Asia	CHN	JPN	KOR	TWN	ASEAN6
Agriculture	0.3	0.7	-0.2	0.0	0.4	0.4
Textile	-2.1	-2.1	-1.3	-2.9	-2.1	-2.1
Apparel	-1.7	-1.9	-0.1	-1.2	-1.9	-3.2
Vehicles	-3.6	-0.7	-5.0	-3.6	-1.7	0.6
Electronics	-2.7	-3.0	-2.6	-3.1	-3.2	-1.9
Machinery	-3.0	-2.2	-3.9	-3.4	-3.4	-1.7
Other manufactg	-1.7	-2.8	-0.8	-1.6	-2.4	-1.6
Services	0.3	0.4	0.4	0.6	0.5	0.6

# **Asia's contribution to global financial stability and economic recovery**

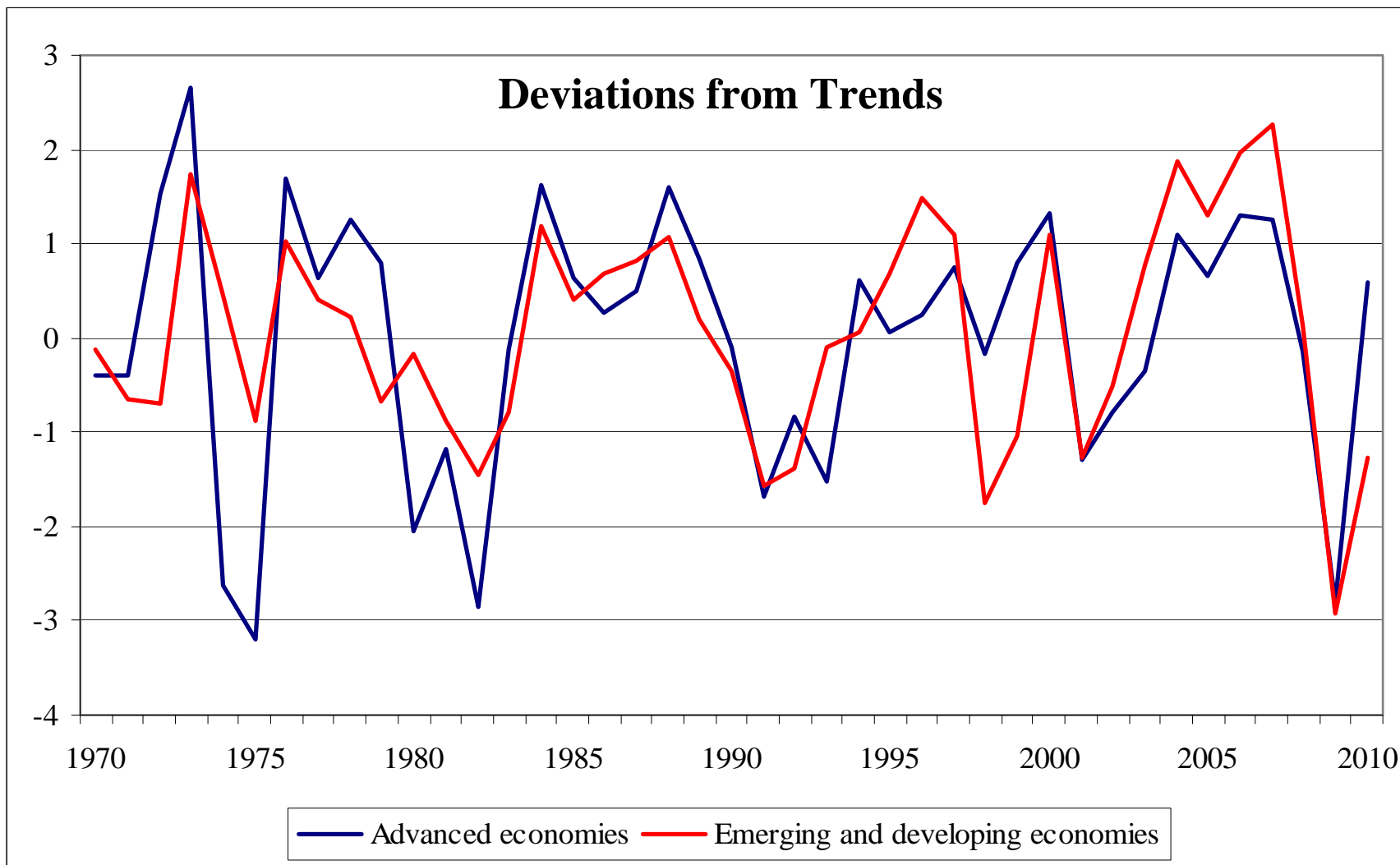
- Developing Asia's trend growth is higher than that of advanced countries (“trend decoupling” vs. “cyclical coupling”)
- China, India and ASEAN are key supporters of global economic recovery
- But their economic weight is still smaller than the US and Europe
- For the full recovery of the global economy, recovery of the US and Europe is essential

# “Trend decoupling” in real GDP growth 1970-2010



Source: Computed from IMF, WEO (October 2008) and WEO Update (January 2009)

# “No decoupling” in GDP growth cycles 1970-2010



Source: Computed from IMF, WEO (October 2008) and WEO Update (January 2009)

# China, ASEAN and India

<b>Size of GDP (2007)</b>	<b>Local Currency Trillion</b>	<b>US Dollar Trillion</b>
<b>United States</b>	<b>13.8 USD</b>	<b>13.8</b>
<b>Euro Area</b>	<b>8.9 Euro</b>	<b>12.1</b>
<b>Japan</b>	<b>515.7 Yen</b>	<b>4.4</b>
<b>China</b>	<b>24.7 Yuan</b>	<b>3.2</b>
<b>ASEAN</b>	<b>-- --</b>	<b>1.3</b>
<b>India</b>	<b>47.1 Rupee</b>	<b>1.1</b>

**Thank you**  
**For more information:**

**Dr. Masahiro Kawai**  
**Dean& CEO**  
**Asian Development Bank Institute**

**[mkawai@adbi.org](mailto:mkawai@adbi.org)**

**+81 3 3593 5527**

**[www.adbi.org](http://www.adbi.org)**