

Advanced Asia

Shinji Takagi

Graduate School of Economics

Osaka University

Advanced Asia

Australia, Japan, Korea, New Zealand, Singapore, and Taiwan

Differences and Similarities

- As a group, they were hit hardest by the global crisis (less so for Australia and New Zealand)
- Composition of trade made them particularly vulnerable to the collapse of world trade (Japan, Korea, Singapore, and Taiwan)
- Australia and New Zealand, commodity exporters, had current account deficits

Differences and Similarities (II)

- More policy space in some countries than in others
- All countries eased fiscal policy substantially regardless of policy space (e.g., Japan vs. Singapore)
- Australia, Korea, and New Zealand faced the crisis with relatively high interest rates—the conventional transmission channel more or less intact

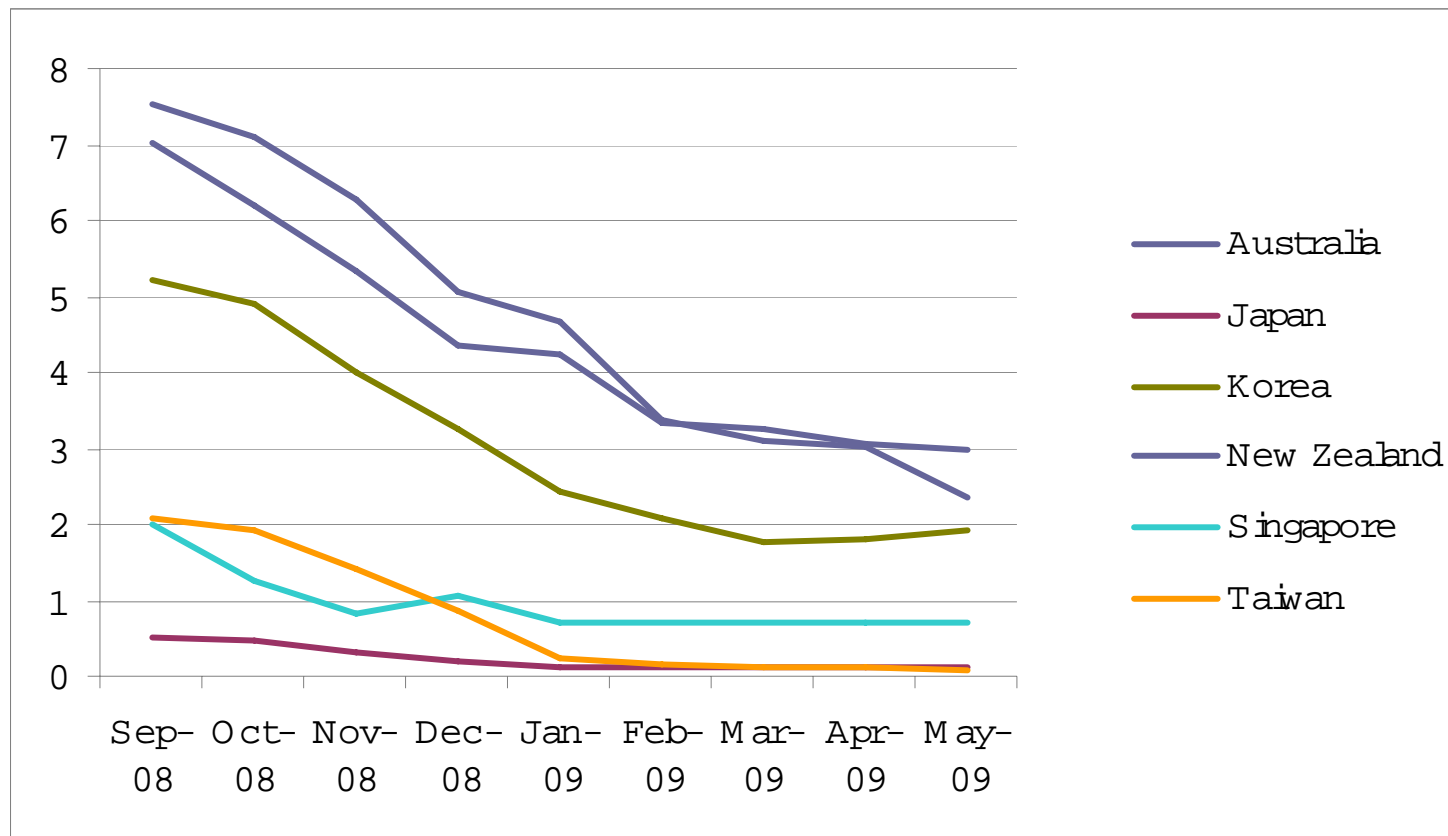
Differences and Similarities (III)

- All central banks except New Zealand used “unconventional” measures
- Australia, Korea, and Singapore entered into swap arrangements with the Fed
- Australia, Korea, and Taiwan expanded eligible collateral or counter-parties
- Korea paid interest on required reserves
- Japan increased purchases of government bonds and began outright purchases of corporate bonds

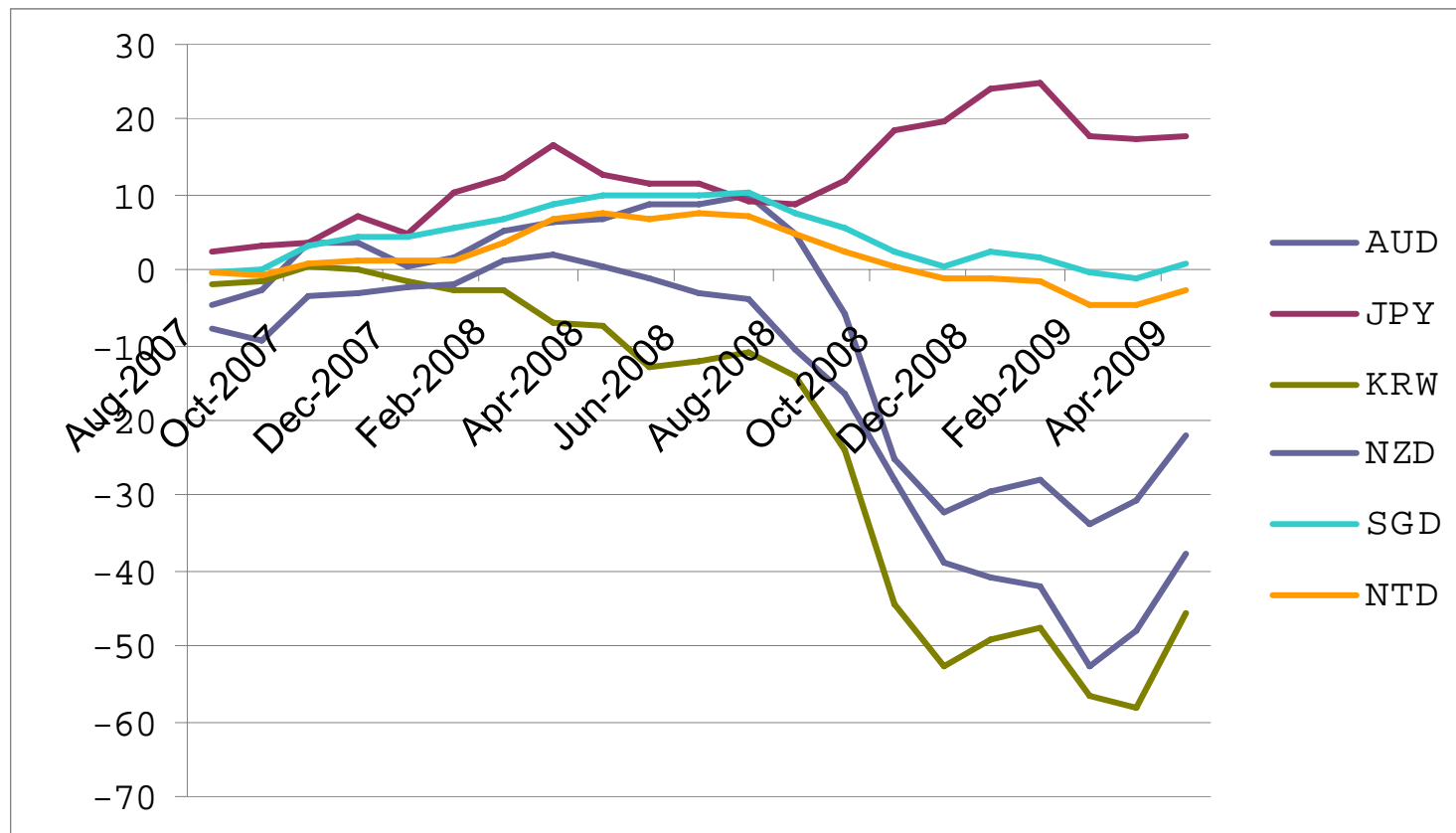
Differences and Similarities (IV)

- Japan was the only country with an appreciating currency (against USD) during the height of the crisis—the yen appreciated with the unwinding of carry trade and diminished interest rate differences
- Korean won, NZD, and AUD depreciated especially sharply as capital flowed out and interest rates were cut aggressively

Market Interest Rates (in percent per annum)



The US Dollar Exchange Rates (in percentage change from July 2007)



Differences and Similarities (V)

- Signs of recovery in all countries
- Australia benefited as commodity prices picked up—the first country to raise the policy interest rate (in October)
- The working of the conventional monetary policy channel and sharp currency depreciation explain part of the early recovery of Australia, Korea, and New Zealand (at the expense of Japan)

Policy Challenges for Advanced Asia

Advanced Asia share the same policy challenges as the rest of PECC:

- ✓ Need to exit from the extraordinary policy stance
- ✓ Need to shift demand from foreign to domestic, tradables to nontradables, global to regional
- ✓ Need to secure policy space during good times

Some issues are more specific to Advanced Asia

- High income levels—less room to grow by catching up—need to deregulate the service sector
- Aging population (even potentially declining population) in Japan, Korea, Singapore, and Taiwan
- ✓ Importance of growing as a region, through regional integration--regional cooperation critical

Regional Cooperation

- Japanese proposal for a Comprehensive Economic Partnership in East Asia (CEPEA) to consolidate the complex web of bilateral trade agreements
- Liberalizing immigration through establishing common rules (rebalancing of population)
- Exchange rate cooperation (including reserve pooling) to minimize beggar-thy-neighbor type behavior