

# The 9<sup>th</sup> CJK Cooperation Dialogue

## CJK Cooperation in the Post Pandemic Era

### Session 1 : Geopolitics

the current international economy and politics in view of Ukraine crisis  
to evaluate the impact of unprecedented outcome  
and search for our regional cooperation.

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# Strong economic rebound early this year is losing momentum.

Waning momentum reflects three formidable headwinds, which may prove to be persistent

- 1) A sharp tightening of financial conditions, raising government borrowing costs, as central banks in major advanced economies continue to raise interest rates to tame the fastest inflation in decades. Rapidly depreciating currencies could further complicate policy challenges.
- 2) Russia's invasion of Ukraine, triggering a sharp slowdown of economic activity in Europe, further reducing external demand for Asian exports
- 3) China's strict zero-COVID policy and the related lockdowns, coupled with a deepening turmoil in the real estate sector, has led to an uncharacteristic and sharp slowdown in growth, in turn weakening momentum in connected economies.

## Economic forecasts: Asia and the Pacific

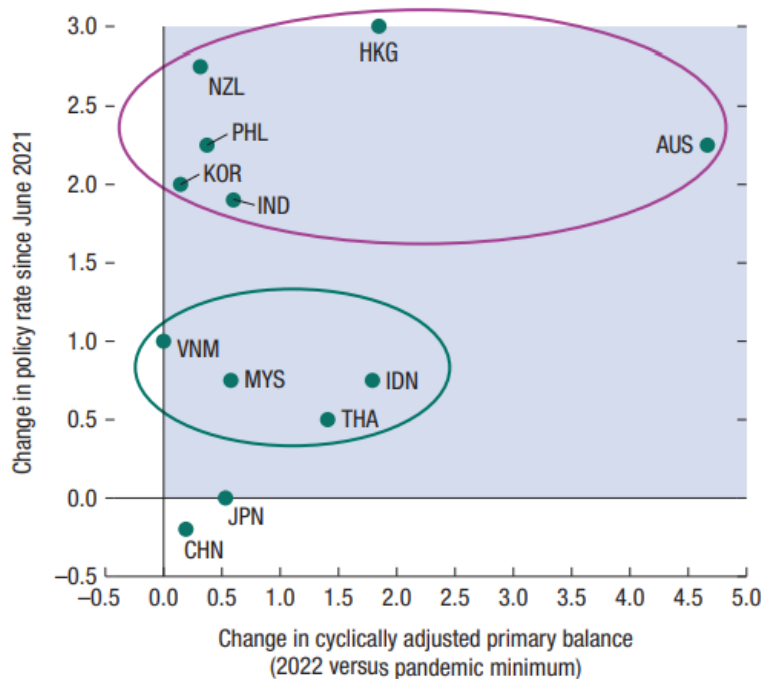
(real GDP growth, percent)

	PROJECTIONS		
	2021	2022	2023
<b>Asia</b>	6.5	4.0	4.3
<b>Advanced</b>	3.7	2.3	2.0
Australia	4.9	3.8	1.9
New Zealand	5.6	2.3	1.9
Japan	1.7	1.7	1.6
Hong Kong SAR	6.3	-0.8	3.9
Korea	4.1	2.6	2.0
Taiwan Province of China	6.6	3.3	2.8
Singapore	7.6	3.0	2.3
<b>Emerging market and developing*</b>	7.2	4.4	4.9
Bangladesh	6.9	7.2	6.0
Brunei Darussalam	-1.6	1.2	3.3
Cambodia	3.0	5.1	6.2
China	8.1	3.2	4.4
India**	8.7	6.8	6.1
Indonesia	3.7	5.3	5.0
Lao P.D.R.	2.1	2.2	3.1
Malaysia	3.1	5.4	4.4
Myanmar	-17.9	2.0	3.3
Mongolia	1.6	2.5	5.0
Nepal	4.2	4.2	5.0
Philippines	5.7	6.5	5.0
Sri Lanka	3.3	-8.7	-3.0
Thailand	1.5	2.8	3.7
Vietnam	2.6	7.0	6.2
<b>Pacific Island Countries***</b>	-1.9	0.8	4.2

Sources: IMF, World Economic Outlook database; and IMF staff estimates and projections.  
 Note: Projections as of 09/26/2022. \*Emerging market and developing economies excluding Pacific Island Countries and other small states. \*\*India's data are reported on a fiscal year basis (April 1 - March 31). \*\*\*Computed as simple average across countries.

# In most economies, core inflation is above target and output is nearing its potential.

## Fiscal and Monetary Policy in Asia

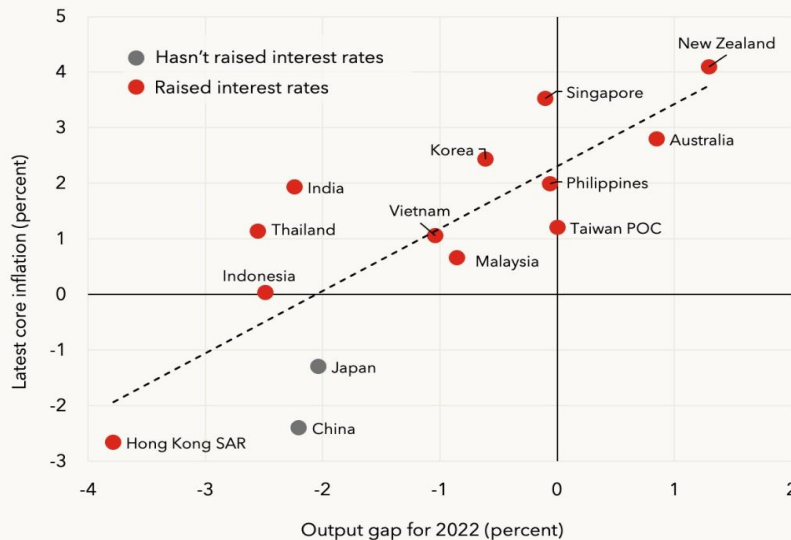


Sources: Haver Analytics; and IMF, World Economic Outlook database.  
 Note: Country abbreviations are International Organization for Standardization country codes.

## Core Inflation and Output Gaps for 2022 in Asia

### Above and below

In most economies, core inflation is above target and economic output is nearing its potential, requiring monetary tightening.



Source: Haver Analytics, World Economic Outlook, and IMF staff calculations.  
 Note: For inflation targeting economies, deviation from target or range midpoint is used. For economies without a target (Hong Kong SAR, Malaysia, Taiwan POC, Singapore), deviations are from 2010-19 average. Dashed line is fitted linear regression. Latest available inflation data as of Sept. 19, 2022. Output gap for 2022 shown as a percent of potential GDP.

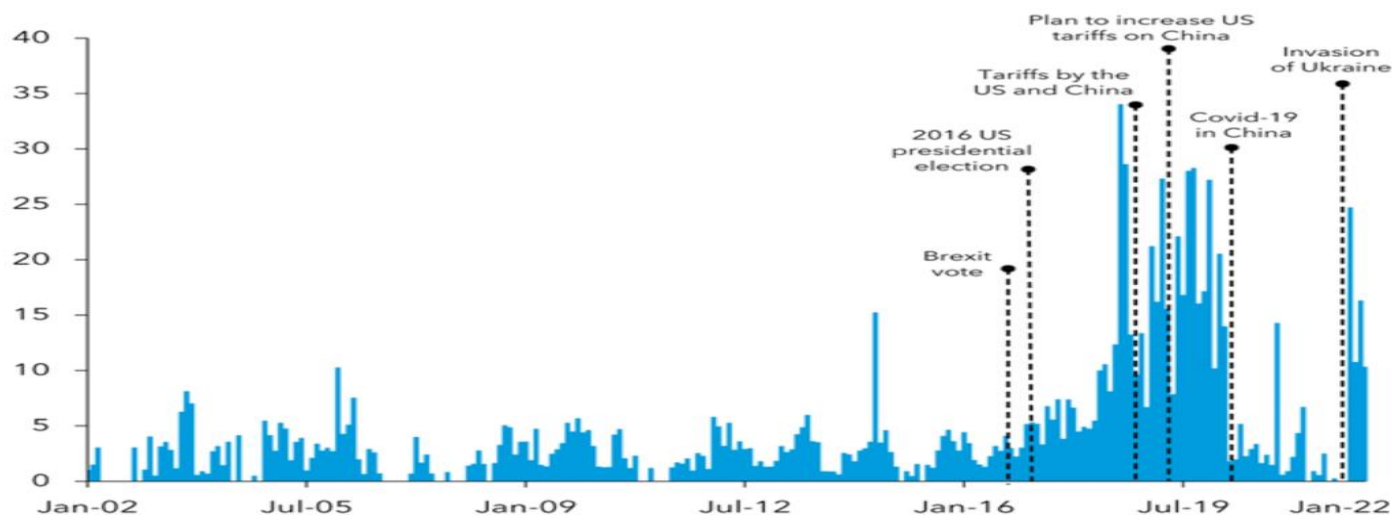
- Sign of fragmentation pressures comes from measures of trade-policy uncertainty.
- This measure spiked in 2018 amid tensions btwn U.S. and China.
- have increased again amid Russia's invasion of Ukraine, as sanctions on Russia created uncertainty around future trade relations.

## <graph 1>Trade Fragmentation in relation to Specific Events

### Turbulent era

Signs of trade fragmentation are increasing, with trade-related uncertainty surging in recent years.

(trade uncertainty contribution to World Uncertainty Index, percent)



Source: Ahir, Bloom, and Furceri 2022.

IMF

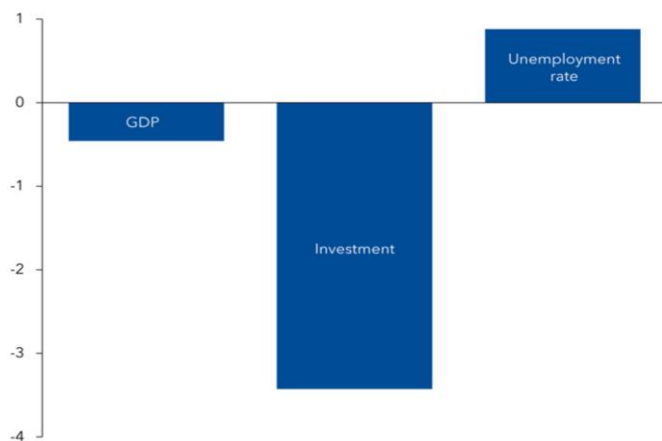
Source : [“Asia and the World Face Growing Risks From Economic Fragmentation”](#) by the IMF Asia and Pacific Department’s [Diego Cerdeiro](#), [Siddharth Kothari](#) and Chris Redl October 27, 2022,

- A typical shock to trade policy uncertainty, like the 2018 buildup of US-China tensions, reduces investment by about 3.5% after two years, decreases GDP by 0.4%, raises unemployment rate by 1%p.
- Adverse scenarios such as where the world divides into two blocs (along the lines of the March 2022 United Nations General Assembly vote demanding Russia end its invasion of Ukraine), with trade restricted between countries in favor and those against or abstaining.
- Permanent global annual losses are estimated at 1.5% of GDP, with larger losses in Asia and Pacific countries at over 3% of GDP.
- Losses are larger in countries where trade with the other bloc is significant, due to a loss of export markets and splintering of complex production networks.

## <graph 2>

### Lingering effects

Increased trade policy uncertainty reduces investment and economic output and raises unemployment for years.  
(peak of cumulative effects, percent)

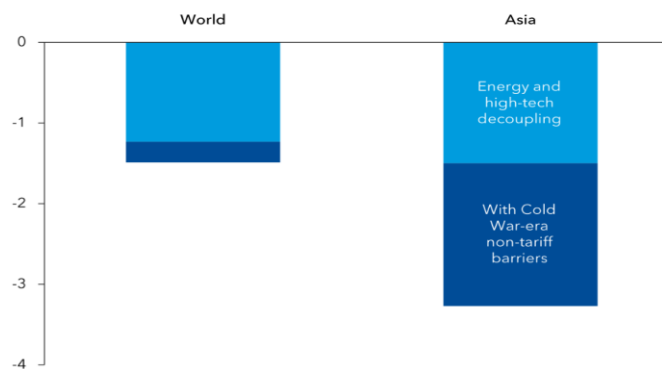


Source: Ahir, Bloom, and Furceri 2022; and IMF staff calculations.

## <graph 3>

### Divided world

Permanent economic output losses due to lower productivity from global trade fragmentation can be significant.  
(estimated aggregate GDP losses, percent)



Source: IMF staff calculations based on the model by Caliendo and others (2017) and UNCTAD-Eora Global Value Chain Database.  
Note: Scenario assumes trade fragments between countries that supported United Nations General Assembly Resolution ES-11/1, demanding Russia end its war in Ukraine, and those opposed or abstaining.

- Difficulties in implementing Korean economic Policies are aggravating due to internal and external imbalances and deterioration of corporate profitability high debt ratios in both public and private sector.

But, it is still an external creditor country, and the proportion of short-term debt is low, stable, and has sufficient foreign exchange reserves.

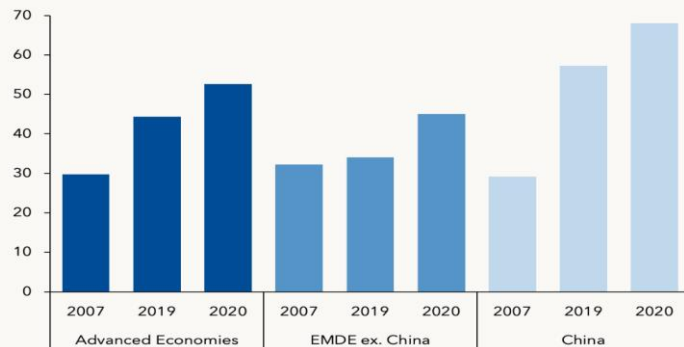
Japan, China and South Korea should play an active role in concert, as strong international cooperation is needed to prevent further geo-economic divisions and ensure that trade helps growth.

Asia's Public Debt (%of GDP)

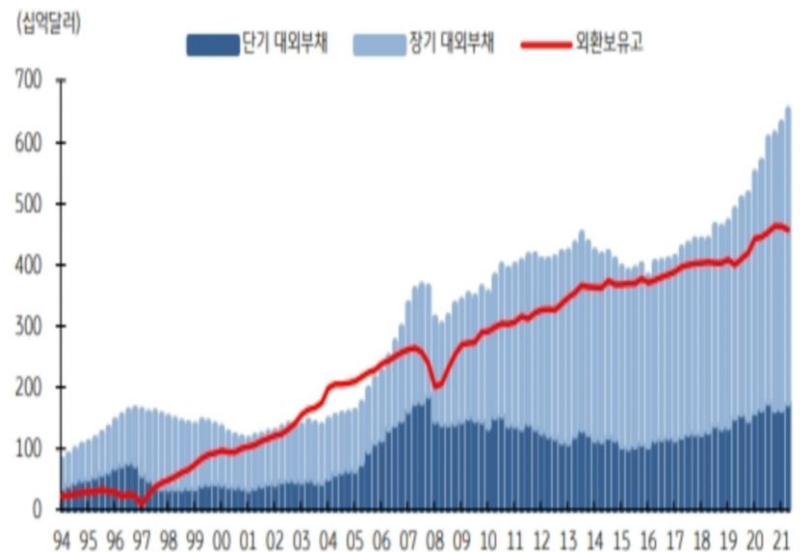
short-term and long-term external debt(blue), foreign exchange reserves (red)

### Bigger borrowers

The pandemic further fueled Asia's public debt growth after an already-substantial rise in prior years.  
(percent of GDP)



Source: IMF Global Debt Database; and IMF staff calculations.  
Note: Bars represent 50th percentile of the distribution. Advanced category includes Australia, Japan, Korea, New Zealand, Singapore and Taiwan Province of China. EMDE = Emerging markets and developing economies. EMDE excluding China includes Cambodia, India, Indonesia, Kiribati, Malaysia, the Marshall Islands, Micronesia, Nauru, the Philippines, Thailand and Vietnam.



# Foreign exchange reserves of major countries (2022.9)

(bIn US\$)

rank	country	Foreign ex rev		rank	country	Foreign ex rev	
1	China	3,029.0	(-25.9)	6	India	532.7	(-27.7)
2	Japan	1,238.1	(-54.0)	7	Saudi Arabia	467.3	(+10.7)
3	Swiss	892.1	(-57.0)	8	Hong Kong	419.2	(-12.6)
4	Taiwan	541.1	(-4.4)	9	Korea	416.8	(-19.7)
5	Russia	540.7	(-25.0)	10	Brazil	327.6	(-12.1)

Note: ( ) is the amount of increase or decrease compared to the end of the previous month

Sources: 1) IMF, Central bank websites

# Composition of Foreign Exchange Reserves

(bln us \$, %)

	2018	2019	2020	2021	2022.9 (a)	2022.10 (b)	(b-a)	
<b>Total f.e.r.</b>	<b>403.69</b>	<b>408.82</b>	<b>443.10</b>	<b>463.12</b>	<b>416.77</b>	<b>414.01</b>	<b>(100.0)</b>	<b>-2.76</b>
Securities1)	379.60	385.02	409.84	421.69	379.41	362.35	<b>(87.5)</b>	17.06
Deposit	13.73	12.85	20.28	16.63	14.19	28.29	(6.8)	14.1
S D R	3.43	3.35	3.37	15.37	14.15	14.31	<b>(3.5)</b>	0.16
IMF posotiom2)	2.14	2.79	4.82	4.63	4.23	4.26	(1.0)	0.03
Gold	4.79	4.79	4.79	4.79	4.79	4.79	<b>(1.2)</b>	0.0

Note: 1) Government bonds, government bonds, corporate bonds, asset-backed securities (MBS, covered bonds), etc.

2) IMF-related claims held by IMF member countries through share capital, loans, etc.

Source: BOK



Thank You!