

# Global Crisis & Asia: Finance, Stimulus & Free Trade

By Simon TAY

## Asia Amidst Crisis

The world faces a profound crisis. For a time in early 2008, some contemplated a decoupling of the Asian and American economies. Decoupling suggested that a drop in the US economy could be offset by continued regional growth in Asia, especially China and India. The current crisis has debunked this theory.

While China, India and some other Asian economies continue to predict growth for 2009, their projected rates are lowered and their prospects going forward are uncertain. Other Asian economies with more exposure to world markets have already contracted, including Japan and Singapore.

The central questions facing Asia are therefore little different from those in America and Western Europe. Will growth return? What can and should best be done? And by whom?

Yet while the world economy is impacted by the crisis, this does not guarantee that countries act in unison. The global economy is interdependent. But separate and sovereign states remain the primary actors in the international system, and not the institutions of global governance – whether the International Monetary Fund (IMF), the World Bank or the World Trade Organization (WTO).

Against this background, even if all are affected, there may well be relative winners and losers in this crisis. Measures by one country to help itself can hurt another. Policies designed to protect jobs may dampen imports from other countries and shield sectors and companies that are fundamentally uncompetitive.

What can and should Asians do?

## Asia's Pre-Crisis Agenda: Resilience & Growing Regionalism

Asians had a strong economic agenda before this crisis. That agenda grew in response to the earlier crisis of 1997-9 to increase resilience and regionalism. Asians worked to clean up and better govern their domestic financial systems, adroitly manage currencies, and grow linkages among Asian economies.

## Growth in Southeast Asia: Forecasts going negative

	Previous forecast (%)	Forecast as of Mar 2009 (%)
Singapore	-4.0	-8.0
Malaysia	1.7	-3.5
Thailand	-0.8	-4.0
Indonesia	3.0	2.0
Philippines	1.8	0.5

Source: Forecasts by Goldman Sachs (as reported by Reuters March 19, 2009)

This fundamental effort explains many different initiatives such as the free trade and wider economic partnership agreements among so many Asian countries; the ASEAN plus 3 process with the three Northeast Asian giants of China, Japan and South Korea; and the later East Asia Summit that added India, Australia and New Zealand; and even the efforts within ASEAN to form a community, with an integrated economic market.

Asian regionalism was a direct outgrowth to the perception that the United States did little to assist them in the crisis. It also grew during the Bush administration, which gave less attention to Asia outside of China and India, and the imperative of dealing with global terrorism. In comparison, engagements with the United States and others across the Pacific, like the Asia-Pacific Economic Cooperation forum (APEC), were neglected.

One example of Asian regionalism in these 10 years is the creation of arrangements to head off problems in short-term currency fluctuations. Using the ASEAN+3 framework, this began with the Chiang Mai initiative for modest bilateral swap agreements, before recently scaling up to \$80 billion.

## What Asians Can Do

In this context, Asians would do well to respond to the crisis by pursuing and indeed redoubling their pre-crisis efforts.

The Asian financial cooperation that has grown out from the Chiang Mai initiative may prove to be timely and necessary in view of fluctuations in the South Korean won and other currencies vis-a-vis the US dollar. Exchange and surveillance on currency policies and movements must be strengthened.

Beyond finance, freer trade in Asia can assist the economic resilience and recovery. While Asians have made progress, much remains to be done.

FTAs amongst Asian countries are still subject to sensitivities in some sectors, especially agriculture. ASEAN is a hub for FTAs with other larger Asian economies, but the latter countries have no FTAs with each other and an FTA that covers all of Asia is currently elusive. Within ASEAN, while a blueprint for an economic community has been agreed, the pace of implementation is questionable.

There have been calls worldwide to avoid protectionism and a repetition of the mistakes that led to the Great Depression of the 1930s. Yet the WTO's Doha Round of negotiations remains unresolved. Asians can and should set the right example not only to avoid protectionism but to actively open and integrate our markets.

In ASEAN, implementation of its economic community blueprint can create a market of more than 500 million people. If a Pan-Asian market is created, this would cover approximately three billion people.

## Encouraging Asian Demand

Market integration ties to an area that has been given insufficient attention. In the decade since the crisis, while Asians produced and saved, they have largely depended on the US consumer to spend.

This has continued even as the United States went into deficit at the household and national levels. Asian holdings of US Treasury bills, chiefly by China and Japan, have continued to ensure the value of the US dollar. The dependence on the American market is now hurting many Asian companies. Even companies known for their efficiency and innovation, like Toyota, have felt problems as American demand has fallen. It will be worse if the American recession lasts one or more years and consumer confidence and appetite do not return.

There have been increasing calls for the region to be its own engine of consumption and growth. Some suggest that the Chinese consumer can take up the demand for products. This will not be possible in the short term. But freer trade among Asians is one step in this direction for the medium to longer term.

Another hope is in the stimulus spending that is being undertaken by almost all Asian governments. These measures differ from one country to another in scale and method.

Some countries, such as Thailand and Japan, have given out funds to citizens and households. China and others have emphasized state spending on infrastructure. Some like Singapore have measures to assist companies to avoid layoffs and thus retain people in jobs.

But while the stimulus packages differ, Asian governments can usefully exchange information and consult as the effects of these measures are felt to better coordinate their effort. Indeed as their markets integrate, stimuli from different nations can boost Asian demand on a regional basis.

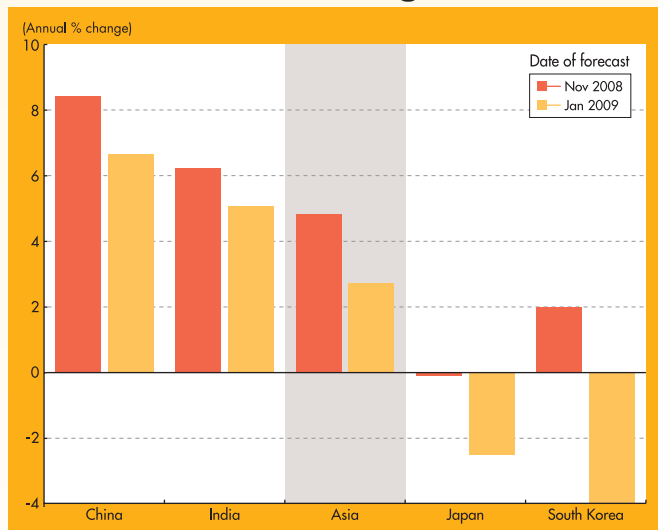
## Engaging on Global Governance

While there are things that Asians can do for themselves, the crisis is global in nature and efforts must ultimately be made at this level. Asians must make an effort to lend their perspectives and shape global governance on this issue. Otherwise, too often so-called "global" responses have been decided only by the United States, the European Union and other developed countries.

The crisis has seen one step forward in this direction with the creation of the G-20 to expand beyond the club of developed economies to include large developing countries. Among the Asians, China, India, Indonesia and South Korea are included in this new grouping, together with G-8 member Japan.

Yet while this step must be welcome, a broader inclusion does not ensure effective action, a coordinated outcome or new thinking.

## IMF forecasts for GDP growth in 2009



Source: IMF

Asian voices must contribute broadly to ideas about the way forward for the global systems for finance and the economy.

Much of the focus will be on coordinating stimulus packages and financial policies, and on regulatory reform. Talk about long overdue changes to the IMF will also feature. Perhaps more can be achieved.

One hope is for the completion of the stalled Doha Round. The talks began after the shock and horror of 9/11 hit the United States and perhaps the new financial shock and horror might help push for a conclusion.

If this cannot be approached directly, then a patchwork of FTA initiatives may help push in that direction. The prospect of a high-quality, Asia-only FTA might reemphasize to North Americans and Europeans the need to retain and indeed strengthen their links to the region that is most likely to keep growing even in this time of crisis.

Asia-US ties can be moved forward through a revitalized APEC, which is chaired by Singapore and will be led by Japan and then the United States in coming years. Or America might consider joining the Pacific-4 trade agreement that links Singapore, Brunei, New Zealand and Chile. Asian ties with Europe can also be progressed through the negotiation of an economic agreement within the framework of the Asia-Europe Meeting.

The efforts of Asian regionalism have not led to a decoupling between Asia and other economies. This in fact should not be our aim. Instead, with a greater intraregional resilience in the face of crisis, Asians can poise themselves well to partner others as equals. **JS**

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