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Note

Asia and Global Crisis

M K writes :

Finance ministry and central bank officials and economic experts from Asian countries gathered in Manila recently for a workshop on Asia and the global crisis. It was organised by the UN Economic and Social Commission for Asia-Pacific and hosted by the Philippines Central Bank.

It was a timely meeting, especially since the near-term economic prospects in the United States, Europe and Japan have worsened so significantly in recent weeks.

In the 2008-09 "great recession", the region was affected by a sharp drop in exports which caused a dip in the Gross National Product.

But the economic stimulus policies in the advanced developed countries and many Asian countries (including Malaysia, China and India) led to a quick recovery.

A switch in policies from fiscal stimulus to austerity in the developed countries is a major reason for the recent slowdown, which is likely to last longer.

Asia is vulnerable to a new downturn, because of its high reliance on exports. A South Centre paper estimates that exports contribute about 50% of China's recent pre-crisis growth. China is already preparing for reduced export and GNP growth.

The shared wisdom is that China has to increase domestic consumer spending as its future growth engine. But that is easier said than done.

In recent years the share of consumption in GDP has gone down from 55% in late 1990s to 36% in 2008. A main reason is that wage increases lagged behind productivity increases. As a result, the share of wages in GDP fell to about 40% at present from 50%-55% in the 1990s.

China is now taking measures lo raise workers' wages, which can then spur domestic demand. But there is also a fear that higher wage rates may make Chinese firms uncompetitive as they have low profit margins.

Many other Asian countries are even more export dependent. In Indonesia. South Korea, Taiwan and Thailand exports contributed over 60% to growth, compared with 40%-50% in China. The export dependence of Malaysia, Singapore and Vietnam is even higher.

They are very vulnerable to a slowdown in exports to developed countries as well as to China. For every US$100 worth of processed manufacturing exports of China to the US and EU, about US$35-US$40 go to East Asian developing countries. They export a lot of the components that China uses to make its finished export products.

Thus a slowdown of Chinese exports to the US and EU will also have a strong impact on Asian countries.

In many South-East Asian countries, a major problem is the seeming lack of investment opportunities, since investment is lagging behind savings.

The new global slowdown has made it all the more urgent to rethink the national and regional growth models, and to have a strong regional voice in global economic policies and financial reforms.