The Global Economic Crisis: Asia and the role of China

Elliott School of International Affairs,
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Anoop Singh
Asia and Pacific Department
IMF
Five key questions

- Why has Asia been hit so hard?
- What is the outlook for Asia?
- What are the main risks to Asia?
- What is the role for policies in the region?
- Is China different?
A sharp and synchronized collapse in global growth...

Why has Asia been hit so hard?

World Real GDP growth
Year-on-year percent change

Source: IMF, World Economic Outlook database.
Why has Asia been hit so hard?

...has hit Asia more than we expected

**2008Q4 GDP Growth**
Quarter-on-quarter percent change, SAAR

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP Growth (Quarter-on-quarter percent change, SAAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro Area</td>
<td>-15 (-10)</td>
</tr>
<tr>
<td>United States</td>
<td>-20 (-15)</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>-25 (-20)</td>
</tr>
<tr>
<td>Japan</td>
<td>-30 (-25)</td>
</tr>
<tr>
<td>Singapore</td>
<td>-30 (-25)</td>
</tr>
<tr>
<td>Korea</td>
<td>-30 (-25)</td>
</tr>
<tr>
<td>Taiwan Province of China</td>
<td>-30 (-25)</td>
</tr>
</tbody>
</table>

Sources: Haver Analytics; and IMF staff calculations.

**2008Q4 GDP Growth**
Quarter-on-quarter percent change, SAAR

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<th>Region</th>
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<tr>
<td>G-2 (excl. China and India)</td>
<td>-20 (-15)</td>
</tr>
<tr>
<td>Asia (excl. China and India)</td>
<td>-30 (-25)</td>
</tr>
</tbody>
</table>

The surprise in actual G-2 growth over Nov-08 WEO forecast...would have implied this revision for Asia based on the model. But the actual revision was much larger.

Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff estimates.

1 PPP GDP Weighted. Does not include New Zealand and Vietnam.
...reflecting its specialization in advanced manufacturing

![Graph showing Q4 GDP Growth vs. Share of Advanced Manufacturing in GDP](image)

**Q4 GDP Growth vs. Share of Advanced Manufacturing in GDP**

- **Sources:** Haver Analytics; OECD; and IMF staff estimates.

Why has Asia been hit so hard?
Exports have declined through the Asian supply chain, and more than in other regions.

Why has Asia been hit so hard?

**Asia: Exports of Goods**
3-month percent change of 3-mma, SAAR; US$ basis

**Exports of Goods**
Year-on-year change; US$ basis

Sources: Haver Analytics; CEIC Data Company Ltd.; and IMF staff calculations.
1/ Japan, Hong Kong SAR, Korea, Singapore, Taiwan Province of China and Thailand.
2/ China, India, Indonesia, Malaysia, Philippines, and Vietnam.

1 Nominal export share weighted for Asia and Latin America.
A double hit for Asia: it’s both exports and domestic demand

Why has Asia been hit so hard?

Japan and NIEs: Contribution to GDP growth

Year-on-year, in percent

Sources: Haver Analytics; and IMF, World Economic Outlook database and staff calculations.
Global recovery is expected only in mid-2010 and risks are on the downside

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Output</td>
<td>3.2</td>
<td>-1.5 to -0.5</td>
<td>1.0 to 2.0</td>
</tr>
<tr>
<td>US</td>
<td>0.8</td>
<td>-3.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Euro Area</td>
<td>1.1</td>
<td>-2.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.7</td>
<td>-5.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Emerging and</td>
<td>6.1</td>
<td>2.0 to 2.5</td>
<td>3.5 to 4.5</td>
</tr>
<tr>
<td>developing economies</td>
<td></td>
<td></td>
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</tbody>
</table>
What does this mean for Asia?
Growth will fall sharply this year and recovery will be slow

<table>
<thead>
<tr>
<th>y/y in percent</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>5.1</td>
<td>1.4 to 2.7</td>
<td>4.2 to 5.2</td>
</tr>
<tr>
<td>Industrial</td>
<td>-0.3</td>
<td>-5.0 to -2.2</td>
<td>0.0 to 0.8</td>
</tr>
<tr>
<td>Emerging</td>
<td>6.9</td>
<td>3.4 to 4.2</td>
<td>5.4 to 6.4</td>
</tr>
<tr>
<td>NIEs</td>
<td>1.7</td>
<td>-5.8 to -3.9</td>
<td>0.6 to 3.1</td>
</tr>
<tr>
<td>ASEAN-5</td>
<td>4.9</td>
<td>0.4 to 2.7</td>
<td>2.5 to 4.1</td>
</tr>
</tbody>
</table>
Risk 1: A much slower recovery of the G2

What are the risks to Asia?

United States: Gross Domestic Product
Rebased at the beginning of each time period = 100

Euro Area: Gross Domestic Product
Rebased at the beginning of each time period = 100

Source: IMF, World Economic Outlook database.
Risk 2: Intensified feedback loop between corporates and banks

Credit Risk iTraxx Indices

Sources: Bloomberg LP; and Datastream.

1 iTraxx Indices are a set of credit default swap indexes covering regions or sectors and contain the most liquid names in that market, based on a dealer poll.

Selected Asia: Drop in Financial Sector Stocks vis-à-vis Overall Stock Market

Ratio of change since January 2008

Sources: CEIC Data Company Ltd; and IMF staff calculations.

1 A ratio greater than unity implies a higher relative loss for the financial sector stocks. A ratio between zero and one implies financial sector stocks losing less than the market since January 2008.

What are the risks to Asia?
Risk 3: Much larger unemployment lies ahead

**Selected Asia: Industrial Production and Employment**

*Year-on-year percent change: January 2006 to January 2009*

- **Industrial production (LHS)**
- **Employment (RHS)**

Sources: CEIC Data Company Ltd; and IMF staff calculations.

What are the risks to Asia?
Risk 4: Long-term consequences of the end of the easy credit finance era

Japanese Exports of Motor Vehicles vs. Auto Financing

*In billions of Japanese Yen (left scale); in U.S. dollars per car (right scale)*

Source: Haver Analytics.

What are the risks to Asia?
There is some room to lower policy rates further.

What is the role for policies in the region?

Policy Interest Rates

In percent

Real Interest Rates

In percent

Sources: Consensus Economics Inc; and IMF staff calculations.

1 Policy interest rates less one-year ahead inflation expectations from consensus forecasts.
But unconventional policies may also be needed.

What is the role for policies in the region?

**Domestic Assets on Central Bank Balance Sheets**
*Change since June 2008, in percent*

- **US**
- **Japan**
- **Korea**

Sources: Haver Analytics; and IMF staff calculations.

**Asia: Ratio of Base Money to Broad Money**
*In percent*

Sources: CEIC Data Company Ltd; and IMF staff calculations.
Strengthening bank capital would also help

<table>
<thead>
<tr>
<th>Region</th>
<th>Expected Increase in Bank Write-downs from Corporate Sector Loans&lt;sup&gt;1&lt;/sup&gt;</th>
<th>In percent of banking sector loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Asia</td>
<td>1</td>
<td>Actual at end 2008</td>
</tr>
<tr>
<td>NIEs</td>
<td>3</td>
<td>Expected 1-year ahead</td>
</tr>
<tr>
<td>China and India</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>ASEAN-4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF staff estimates.

<sup>1</sup> Estimates are based on exposure to corporate sector loans and expected distress in corporate sector as indicated by credit default swap spreads.
Fiscal stimulus for 2009 is slightly above G20 average, but...
Further stimulus will be needed in 2010

What is the role for policies in the region?

G-20: Discretionary Fiscal Measures, 2010

Average (PPP GDP weighted)

Sources: IMF, World Economic Outlook database and staff estimates and calculations.
Is China different?

- What has its policy response been?
- What is China’s economic outlook?
- What are China’s key medium-term challenges?
China has not been immune to the crisis
But the authorities have responded proactively

Debt and Fiscal Balance
(In percent of GDP)

Interbank and Policy Rates

Fiscal balance (left axis)
Government Debt

SHIBOR (7 days)
PBC Bill (3 months)
The stimulus is already working...

Is China different?

Real Fixed Asset Investment Spending
(Contribution to percent change, year-on-year)

Loan Growth and Monthly Loan
Loan growth (y-o-y, left axis)
...and its spillovers are benefiting households

Is China different?

1/ January and February data are averaged.
The policy action is expected to support China’s growth

Growth and Increase in Fiscal Deficit
(Percent change; percent of GDP)

- Increase in deficit (right axis)
- GDP growth (left axis)

...but the spillover to the region is likely to remain small
China’s key medium term challenge: rebalancing growth

GDP Expenditure Components
(In percent of GDP)

Consumption Expenditure
(In percent of GDP, average for 2003–07)

Is China different?
Steady appreciation would help boost consumption and rebalance the economy.
There is still scope for further fiscal stimulus to reverse the decline in private consumption.