

RIETI/ADB Symposium: Ten Years After: Learning from Asian Financial Crisis

Are Prevention Mechanism Sufficient to Avoid Another Financial Crisis?

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**No mentioning on environment and security issue,
due to time constraint**

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Basic Recognition on E.Asia

- **‘Growth Center of the world’ amid global imbalance.**
- **Macro-economic management in East Asia: Better. Huge current A/C surplus**
- **Banking systems:
Strengthened but not enough**
- **Regional cooperation not to repeat the ‘Crisis’
Much improved institutionally, but not complete**
- **Then, no problem? Far from it.**
- **Self-surveillance on performance of each country is not enough**
- **Expanding income gaps in the region:
China emerged quickly, offering huge market to ASEAN, while ASEAN has been polarized.**

Changes of BOP Position of East Asia in 10 years

10 years ago ('96-97)

- Current A/C -\$12.0 bil.
- Private capital inflow
+\$82.0bil.
- Then, sudden capital flight took place

Now (in 06)

- Current A/C +\$340.0bil.
- Net capital inflow
+\$54.0bil
- Foreign reserves
+ \$980.0bil ('04-06)

New apprehensions: (1) Global excessive liquidity ('Assets Bubble' here and there) , (2) Corporate behavior—another diversification? (3) 'Natural Resource Nationalism'

GDP Growth in Hard Currency in Asia

(Billion U.S.\$)

	1996(a)	2005(b)	(b)/(a)%	2006
NIES—4	1,045.2	1,419.3	135.8	
Korea	520.2	768.0	151.5	n.a.
Singapore	91.3	106.8	117.0	116.78
Taiwan	279.6	346.5	123.9	355.7
Hong Kong	154.1	178.0	115.5	189.0
ASEAN—4	593.6	686.8	115.7	
Indonesia	227.4	281.0	123.6	364.0
Thailand	182.4	176.6	96.8	206.2
Malaysia	100.9	1369	129.6	148.9
Philippines	82.9	98.4	118.7	116.9
PRC	822.0	2,106.1	256.2	

(Sources) IMF, *IFS*; ADB, *Key Indicators*

- Main subject in East Asia Now: How to realize Total Optimization for Regional Common Interests on top of economic integration
- Popular arguments: Fragmentation theory, Agglomeration theory, FDI + FTA → Increasing economic integration in the region + cooperation to risk aversion (by regional public goods) → Effective economic integration → (final goal) East Asian Economic Community
- In reality, various distortions and increasing growth gaps among regional countries. Hence, we must reconfirm future visions of individual states and support the weak to lessen intra-regional conflicts. FTA alone is not enough.

Thailand

Bhasu's paper reviews the past economic development and shows a new challenge to middle-income track.

- He also points out a new need to optimize fiscal balance and foreign reserves.**
- Thailand has been successful in its recovery leaving its exchange rate relatively low. Received FDI in mfg. → 'Detroit of Asia' as a strong auto-producer. How is it placed in his analysis? No need of industrial policy?**
- New situation: Rising pressure on Baht rate and stock prices**
- Behavior of big local firms: Diversification again ?, rather than 'select and focus'**

Malaysia

- **Athukorala's paper introduces various arguments on Malaysia's peculiar diagnosis at Asian financial crisis and the condition of the success of the diagnosis.**
- **Continuous high economic growth**
- **High expectation on stable capital influx to Islamic banks from rich middle-east countries and more export to China, etc.**

What are the problems, then?

- **Relatively high cost structure for mfg. → Cannot be a candidate of "China+One"**
- **Quality of projects financed by Islamic banks. Really viable?**
- **HRD & Entrepreneurship strongly required**

Indonesia

- Hendar's paper states (a) Good macro-economic management, and reveals (b) Problem on Supply-side rigidity such as less lucrative investment climate

What are the basic problems, then?

- We should look at non-economic issues. For instance, leadership issues, cost of 'democratization' (rampant CCN, labor problem, decentralization issue), weak cross-departmental cooperation, mindset of the people—looks somewhat excessively nationalistic
- HRD strongly required

Korea

- **Doo Yong Yang's paper stresses (1) Korea's relatively weak consumption, (2) decline in savings, domestic investment and labor productivity, while exports sharply rose, with won/U.S.\$ rate rising and with worsening terms of trade, (3) banking industry is sound**
- **What are the basic problems, then?-----**
(1) politics, (2) investment climate: rising assets prices (bubble?), labor issue, winds against chaebols, (3) yen/won rate, (4) active FDI in China → worry about 'deindustrialization' ('hollowing out') → Then, where to go?

China

- Yao paper is crucially important because China is currently one of the two biggest engine of the world.
- So many issues deserving discussion. I only pick up two issues from his paper, (a) Assets bubble, (b) Reform of Exchange-rate of RMB
- China has been clever in delaying liberalization of capital transactions.
- China would not allow quick appreciation of RMB from domestic reasons (Dilemma).
- However, China is in asset bubble right now.
- Expectation on China's future high exchange-rate is giving huge impact on neighboring countries.

Some questions

- **ASEAN's trade structure from now: China-ASEAN trade structure has been said to be competing rather than complimentary. However, China's share to ASEAN in both export and import is dominantly increasing. Why? We tend to attribute everything to FTA. No more important factors?**
- **That depends on China's growth rates, commodity prices and relative exchange rates. If RMB were not appreciated much in a coming decade, increase of many of ASEAN's export will much depend on natural resource-based items, and labor-intensive mfg. industries such as textile will continue to lose its competitiveness(auto/electronics industries run by foreign firms have been exception, though).**
- **What will be Korea's future vision?: FTA with the U.S. signed. Next FTA negotiation is with EU, not with Japan and China. What's happening in Korea? How can we coprosper in economic integration process?**