Economic Study of the Asian Region

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Introduction

After the 2008 global financial crisis, economists have begun to pay high attention to~~n~~ how the Western economies will operate in a world of high government debt. Tharman Shanmugaratnam, the IMFC Chair and Singapore Finance Minister, believed that a good economic analysis involved knowing how things are moving across different sectors in different countries, and then connecting these dots.[1] The International Monetary Fund (IMF) opined in a report issued in October 2012 that the global economy has deteriorated, and therefore, marked down its global growth projections accordingly. For emerging market economies, such as Brazil, Russia, India and China (BRIC), in order to maintain economic expansion, the sensible policy alternative is shifting from external to domestic sources of growth.

However, a number of shipping-industry observers discerned that U.S. demands for products from China were increasing in the third quarter of 2012. Following the global financial crisis, weak exports to Europe and to the U.S. exacerbated a slowdown in China's domestic economy in the first and second quarters. In the third quarter, however, exports grew 7.4% from a year earlier. Colum Murphy from Wall Street Journal reported that Chinese officials released the exports figures of September 2012, which showed a strong rise of 9.9% compares with the figures from a year earlier.[2] The results make some economists opine~~d~~ that the third quarter would mark the bottom for China's slowdown.

This paper conducts an economic study to see whether these positive views from shipping-industry observers are ~~were~~ supported by other economic indicators.

Overall Macroeconomic Performance of the Asian Region

After the 2008 global financial crisis, growth in the Asia-Pacific region has slowed, mainly caused by the setbacks of the recovery in advanced economies. The authors select the four most commonly used economic indicators to conduct the analysis in this paper, namely the (1) Real GDP, (2) Consumer Prices, (3) Current Account Balance, and (4) Unemployment. Since the full negative impacts of the 2008 global financial crisis were reflected in the year of 2009, the authors use the summary statistics of the four indicators in 2009, and compare with that in 2011 (see Table 1 to Table 4).

For Asia as a whole, although GDP growth fell to its lowest rate during the first and second quarters of 2012, capital inflows have started to resume in the third quarter. Economic indicators show that growth is projected to pick up very gradually, and the Asian region is likely to be the global growth leader. IMF has predicted that the Asia and Pacific region will expand about 2 percentage points faster than the world average in 2013.

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1 "*Lessons from a Time of Crisis*", a video recorded the views from Stephen Pickford (former Managing Director, U.K. Treasury), Jean Pisani-Ferry (Director of Bruegel), Professor Stiglitz from Columbia University, and Tharman Shanmugaratnam (the IMFC Chair and Singapore Finance Minister).
http://www.imf.org/external/mmedia/view.aspx?vid=1240515896001

2 Colum Murphy (October 18, 2012) "*U.S. Shoppers Return to China*", *Wall Street Journal*.
http://online.wsj.com/article/SB10000872396390444734804578063732629340540.html

Table 1: Advanced Asia (2011)
Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP		Consumer Prices		Current Account Balance		Unemployment	
	2009	**2011**	**2009**	**2011**	**2009**	**2011**	**2009**	**2011**
Japan	-5.2	-0.8	-1.4	-0.3	2.8	2.0	5.1	4.6
Australia	1.2	2.1	1.8	3.4	-4.4	-2.3	5.6	5.1
New Zealand	-1.6	1.3	2.1	4.0	-3.0	-4.2	6.2	6.5

- Movements in consumer prices are shown as annual averages.
- Current Account Balance is indicated by percent of GDP.
- Unemployment is indicated by percentage, and national definitions of unemployment may differ.

Table 2: Newly Industrialized Asian Economies (2011)
Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP		Consumer Prices		Current Account Balance		Unemployment	
	2009	**2011**	**2009**	**2011**	**2009**	**2011**	**2009**	**2011**
Korea	0.2	3.6	2.8	4.0	5.1	2.4	3.7	3.4
Taiwan	-1.9	4.0	-0.9	1.4	11.3	8.9	5.8	4.4
Hong Kong	-2.8	5.0	0.5	5.3	8.7	5.3	5.1	3.4
Singapore	-1.3	4.9	0.6	5.2	17.8	21.9	3.0	2.0

- Movements in consumer prices are shown as annual averages.
- Current Account Balance is indicated by percent of GDP.
- Unemployment is indicated by percentage, and national definitions of unemployment may differ.

Table 3: Developing Asia (2011)
Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP		Consumer Prices		Current Account Balance		Unemployment	
	2009	**2011**	**2009**	**2011**	**2009**	**2011**	**2009**	**2011**
China	9.1	9.2	-0.7	5.4	6.0	2.8	4.3	4.1
India	5.7	6.8	10.9	8.9	-2.9	-3.4	NIL	NIL

- Movements in consumer prices are shown as annual averages.
- Current Account Balance is indicated by percent of GDP.
- Unemployment is indicated by percentage, and national definitions of unemployment may differ.

Table 4: ASEAN-5 (2011)
Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP		Consumer Prices		Current Account Balance		Unemployment	
	2009	**2011**	**2009**	**2011**	**2009**	**2011**	**2009**	**2011**
Indonesia	4.5	6.5	4.8	5.4	2.0	0.2	8.0	6.6
Thailand	-2.2	0.1	-0.8	3.8	7.7	3.4	1.4	0.7
Malaysia	1.1	5.1	3.2	3.2	5.3	11.0	7.5	3.1
Philippines	-1.7	3.9	0.6	4.7	16.5	3.1	3.7	7.0
Vietnam	5.3	5.9	6.7	18.7	-8.0	0.2	6.0	4.5

- Movements in consumer prices are shown as annual averages.
- Current Account Balance is indicated by percent of GDP.
- Unemployment is indicated by percentage, and national definitions of unemployment may differ.

Real GDP Growth and various Domestic Constraint Factors

For Asia as a whole, real GDP growth averaged 5.5 percent (year over year) in the first half of 2012, well above the global average, but the lowest rate since the 2008 global financial crisis. Looking at the economic performance of each individual country in the Asia and

Pacific region, beside the adverse trade spillovers from weakness in the Euro area which acted as a negative factor to their export performance, there also exist the following domestic constraint factors:

The slowdown in China caused the governmental efforts to engineer a soft landing. ~~and~~ ~~i~~n India, the weakening investor sentiment has led to supply constraints. In Japan, the positive impacts of the policy-driven pickup in early 2012 have been slowly withered, being evidenced by a slowdown in consumption and a recent deceleration in growth.

For Indonesia, Malaysia, and Thailand, with the support from public investment, these countries achieve growth close to their potential. For example, growth in Thailand has bounced back sharply, which was led by reconstruction and investment after the devastating floods occurred in October 2011.

In Australia, although the mining-related investment recorded a strong performance, it faces the domestic constraint factor of insufficient working population. In advance economies, it is well recognized that aging is likely to have a negative impact on private saving rates. For every 1 percent decline in the working-age population, it is assumed that saving declines by 0.7 percent.[3]

Unemployment

For the economic indicator of unemployment rate, all countries locate in Advanced Asia and Newly Industrialized Asian Economies have reduced unemployment when compared with the figures in 2009. However, Japan, Australia, and New Zealand have not yet fully recovered to its 2008 level. For the four economies located in Newly Industrialized Asian Economies, both Hong Kong and Singapore have successfully reduced their unemployment level lower than that of 2008 – the pre-global financial crisis level. See Table 5 below:

Table 5: Compare Unemployment level between Advanced Asia & Newly Industrialized Asian Economies

	Unemployment		
Advanced Asia	**2008**	**2009**	**2011**
Japan	4.0	5.1	4.6
Australia	4.2	5.6	5.1
New Zealand	4.2	6.2	6.5

	Unemployment		
Newly Industrialized Asian Economies	**2008**	**2009**	**2011**
Korea	3.2	3.7	3.4
Taiwan	4.1	5.8	4.4
Hong Kong	3.5	5.1	3.4
Singapore	2.2	3.0	2.0

Inflation

Inflation in the Asia region was within its comfort zone, mainly because of the declining global commodity prices caused by reduced consumption from the Western economies. From the policy perspective, with real lending rates on average being ~~are~~ about 150 basis points below the pre-2008 levels, this gives the central banks in the region a margin to cut interest rates for promoting a stable non-inflationary economic growth through encouraging domestic demand. In China, for example, retail sales growth moves at double-digit rates, and the Chinese government must adopt at least two macro-prudential measures: (1) to rein in real estate lending, and (2) to control local government financing activities, as essential complements to its monetary policy for address financial stability.

In Japan, the early 2012 monetary easing measures support economic growth and help ~~to~~ provide an exit from deflation. However, it seems that Japan needs to further easing its

[3] Olivier Blanchard, the Director of Research in IMF.

monetary policy to achieve the Bank of Japan's inflation goal of 1 percent.

Elsewhere in the Asian region, we notice high inflation occurs in India and Vietnam, which challenge the governments in using monetary measure (interest rate cutting) to achieve non-inflationary economic growth. For countries with strong past credit growth, such as Indonesia, the government may have limited room for policy maneuver.

Food Price and Inflation

A failure to keep food price under careful control may limit the positive effects of a good monetary policy in promoting non-inflationary economic growth. The experience of the 2007-08 spike of global food prices told the economists that a sudden rise in food prices could cut down disposable income of the general population, and limit the scope for monetary policies to support growth. In most of Asia, inflation remains within a comfort zone, helped by relatively stable local rice prices. However, the 2007-28 experience warned economists that food price frustrations mostly affected those countries where the population spends a high share of food and fuel in (Consumer Price Index) CPI baskets, including in India and Asia's low-income economies. It is quite difficult to estimate which regions are most vulnerable to food price surge from the data collected by the U.S. Department of Agriculture.[4] However, based on the 2007-08 experience, IMF observed that high global food prices could contribute to CPI inflation for many economies in the Asia-Pacific region at about 10 to 20 percent a year after the shock.

The question is how likely another global food price surge may come. Since the 2007-08 food crisis, the supply side has improved in terms of higher acreage and yields, as well as productivity gains. When the authors measure the global inventory buffer in terms of stock-to-use ratios, the 2012 performance has improved significantly, especially for rice and wheat.

How about the likelihood of a food price spike caused by a rise in energy price? The experience of the 2007-08 food crisis shows that energy-intensive inputs such as ammonia-based nitrogen fertilizers and power provide a transmission mechanism, transferring high energy prices to high food prices.

Moreover, advance technology makes it possible to make crops from as fuel production, for example, corn and sugar have been increasingly used for ethanol production. Besides, soybeans and other oilseeds could be used for bio-diesel production. When there is an energy price spike, farms may sell the crops to the energy market rather than the food market, which lowers the total supply for food.

In 2007-08, energy prices surged along with the high food prices, which intensified the spillover effects. However, economic indicators show that energy prices have recently declined, limiting the spillover to food prices. Although China depends on the global market to satisfy a large portion of its domestic soybean demand, but China has accumulated a substantial inventory as buffer. On the global level, the current stock-to-use ratio for soybeans is lower than it was during 2007–08.

Conclusion

The authors of this paper predicted that the performance of the economic indicators of the last quarter in 2012 supports the positive views from shipping-industry observers. Although the fundamentals of the Euro area crisis have not been improved, growth in Asian region will continue if the European and U.S. policymakers fully deliver on their commitments.

It is true that about two-thirds of emerging Asia's exports (on a value-added basis) are linked to demand from Europe and the United States alone, and in the event of a severe global slowdown resulting from a further escalation of the Euro area crisis, it would like to create a

[4] For data supplied by the U.S. Department of Agriculture, it groups North America to include Mexico, and Oceania to includes Australia and New Zealand. Pacific island nations, which are vulnerable to food price shock and could not be disaggregated from Oceania due to data limitations.

powerful downward drag on Asia's most open economies. However, the relatively strong economic and policy fundamentals are there to buffer Asian economies against the possible deleveraging actions by Euro area banks.

Finally, although IMF is quite conservative in its estimating of the 2013 global growth projection, when it uses financial and commodity market data to gauge risks to the Asian region, the result suggests that there is only a one in seven chance of Asia's growth falling below 4% in 2013.

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