The rise of the

Asian Tiger

Asia has been earmarked as the primary driver of global growth for several years, but in 2009 the region emerged from the global recession in a position of real strength. In this article we look at the reasons behind Asia's powerful recovery and explain how the region's swift response to the collapse in export trade may have helped bring the Asia-Pacific closer to economic autonomy than ever before.

Rebounding from the global recession

The liquidity problems that brought about the collapse or near-collapse of several financial institutions in the West during 2007 and 2008 may not have been shared by their counterparts within Asia. Nonetheless the West's crisis had an unfortunate knock-on effect. Asia has traditionally been an economic region that relies heavily on its exports to drive growth. Unsurprisingly, this growth was put under severe pressure by the West's sudden retrenchment.

The financial dislocation within markets brought about a form of paralysis in terms of foreign trade. The profound lack of liquidity meant international trade seized up and corporate financing froze. Those areas most heavily affected were the consumer goods – such as cars and electronic goods – imported by the West from Asian countries. As consumer demand for these goods fell, overseas importers simply stopped ordering new stock and instead started running down their existing inventories. As a result, Asia's previously bulging export order book tumbled and industrial production of these goods suffered heavily.

Over the course of 2009, however, the trend began moving sharply in the opposite direction (as shown by the chart). According to data from the International Monetary Fund, industrial production in 'emerging Asia' (countries including China, India, Hong Kong, Singapore and Indonesia among many others) has regained on average about 90 percent of the ground lost since September 2008, with some countries managing to return production back to pre-crisis levels.

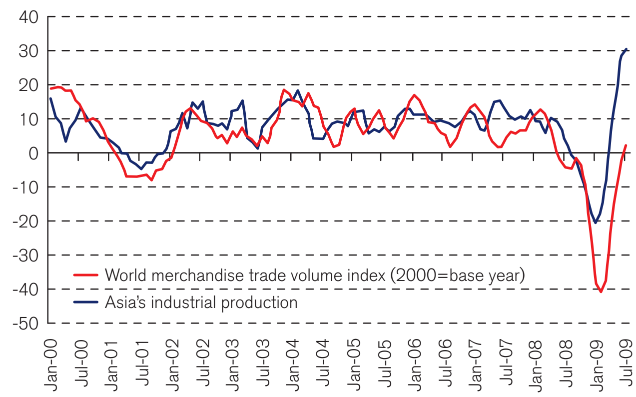
So what prompted the reversal?

Part of the recovery can be attributed to the fall in commodity prices, which helped to reduce the unit price cost of many products, and also the ability of Asian companies to reduce their short-term prices without suffering any lasting damage. Analysts have noted the improvement in regional trading that took place in 2009, particularly trade from other Asia-Pacific countries with China. Heavy commodity exporters such as Australia and Indonesia and capital goods exporters such as Japan, Taiwan and Korea were all beneficiaries of the ramped-up infrastructure spending of the Chinese government.

Arguably, however, the biggest single cause of Asia's resurgence was the realisation that while the West was left to sort out its own problems, (and before the export cycle began to pick up again) countries throughout the region needed to make significant undertakings of their own, both in terms of domestic policies and fiscal stimuli, in order to ensure the region's own recovery.

World Trade and Asia's Industrial Production

3 month percent change of 3 month moving average, seasonally adjusted annual rates* (SAAR)



Sources: CPB Netherlands Bureau for Economic Policy Analysis; and IMF staff calculations at October 2009.

* SAAR means adjusting for the seasonality in data, allowing more accurate relative comparison across the year.

Unprecedented stimulus measures

Of all the countries in the region, China remains of greatest importance in terms of population, economic growth and political influence. Its response to the global financial crisis was swift, bold and comprehensive and played a pivotal role in the successful resurgence of the region as a whole. In fact, the response has seemingly been so successful that markets are questioning whether the government will be able to apply the handbrake swiftly enough to prevent the economy from overheating.

In November 2008, the Chinese government announced a stimulus package worth RMB 4 trillion (US$ 585 billion). Other countries throughout Asia were by and large quick to follow suit, although certain countries such as Thailand and Indonesia have promised more than they have managed to deliver. For the region as a whole though, governments were able to cut interest rates sharply and introduce large fiscal stimulus packages that proved largely successful during 2009 and the beginning of 2010.

The scale of the response was possible due to Asia's already positive fiscal position, with corporate and government balance sheets looking decidedly healthier than in previous years. The measures taken may have been similar efforts to those taken by the US, UK and other European countries, but having started off on a surer financial footing, the medicine began to work at an accelerated rate.

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While the recovery in export trade can be considered in many ways to have been a reversion to normality, the second decisive factor in Asia's recovery – the unprecedented economic stimulus programme – marked a significant break from the norm for Asian governments. So far the bulk of the stimulus has been focused on infrastructure spend, particularly within China, and governments across the region have been allocating resources to projects such as public healthcare, housing and educational programmes as well as benefits and training schemes for the unemployed.

The future lies in Asia

The last ten years have been dictated by the fortunes of the US consumer, whereas the next decade is likely to be predicated on consumption in emerging markets. The economies of the West will need to undertake a prolonged period of paying off debt in the years to come: the necessary hangover from their credit binge. The challenge for emerging markets and Asia-Pacific markets in particular will be to fill the void left by a sustained period of below-trend growth from the developed economies.

This weak global growth outlook will continue to have implications for Asia. The region as a whole still depends heavily on exports, and the interdependent relationship with the US, which is responsible for around a quarter of Asia's export trade and remains delicately balanced. Countries in the Asia-Pacific region were in a position of strength before the global downturn because of this relationship and weaker long-term growth from the US will have implications for Asia's own growth.

It is clear that countries within Asia have been making clear and significant progress in obtaining a greater degree of independence from the West and demonstrating a willingness to address domestic issues. We believe that selective markets in the Asia-Pacific region should continue to do well in 2010 and beyond, and that we are at the beginning of a clear cultural shift towards economic ascendancy for Asia-Pacific countries.

Asia: Real Gross Domestic Product (GDP)

Year on year percent change

	2008	2009	2010	2009	2010
		Latest projections		Difference from May 2009 forecast	
Industrial Asia	**-0.2**	**-4.4**	**1.7**	**1.0**	**1.2**
Japan	-0.7	-5.4	1.7	0.8	1.2
Australia	2.4	0.7	2.0	2.2	1.3
New Zealand	0.2	-2.2	2.2	-0.2	1.7
Emerging Asia	**6.8**	**5.1**	**7.0**	**1.8**	**1.6**
NIEs	1.5	-2.3	3.7	3.3	2.8
Hong Kong SAR	2.4	-3.6	3.5	0.9	3.0
Korea	2.2	-1.0	3.6	3.0	2.0
Singapore	1.1	-1.7	4.3	8.3	4.4
Taiwan Province of China	0.1	-4.1	3.7	3.3	3.7
China	9.0	8.5	9.0	2.0	1.5
India	7.3	5.4	6.4	0.8	0.8
ASEAN-5	**4.8**	**0.7**	**4.0**	**0.7**	**1.7**
Indonesia	6.1	4.0	4.8	1.5	1.3
Malaysia	4.6	-3.6	2.5	-0.1	1.2
Philippines	3.8	1.0	3.2	1.0	2.2
Thailand	2.6	-3.5	3.7	-0.5	2.7
Vietnam	6.2	4.6	5.3	1.3	1.4
Emerging Asia (excluding China)	**4.8**	**1.7**	**4.9**	**1.6**	**1.7**
Emerging Asia (excluding China and India)	**3.1**	**-0.8**	**3.8**	**2.0**	**2.3**
Asia	**5.1**	**2.8**	**5.8**	**1.6**	**1.5**

Source: IMF, WEO database at October 2009.

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