



Challenges to Asia's Strong and Sustainable Growth

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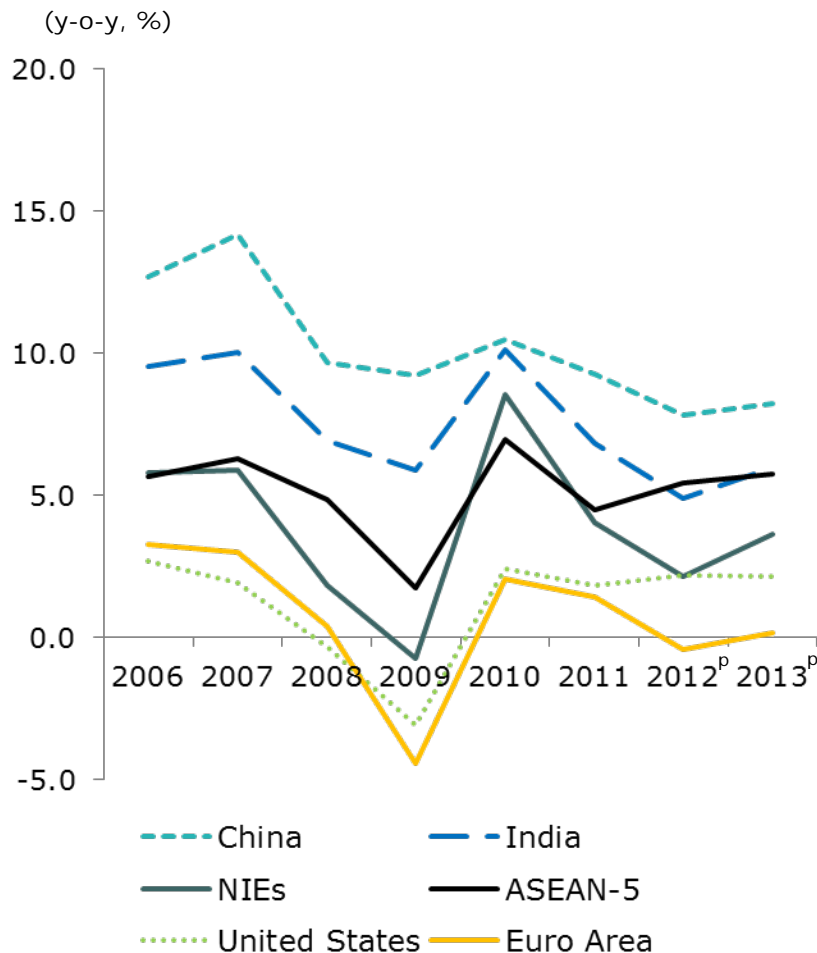
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Outline

1. Is Asia's recovery robust?
2. Risks and challenges to ensuring stable and strong growth
3. Sustaining growth in the long-term

Emerging Asia showed resilience during global crisis

GDP growth, Emerging Asia



Source : IMF, World Economic Outlook, October. 2012

GDP growth

(y-o-y, %)

	2011	2012 ^P	2013 ^P
China	9.2	7.8	8.2
India	6.8	4.9	6.0
NIEs	4.0	2.1	3.6
Hong Kong SAR	5.0	1.8	3.5
Korea	3.6	2.7	3.6
Singapore	4.9	2.1	2.9
Taiwan Province of China	4.0	1.3	3.9
ASEAN-5	4.5	5.4	5.8
Indonesia	6.5	6.0	6.3
Thailand	0.1	5.6	6.0
Malaysia	5.1	4.4	4.7
Philippines	3.9	4.8	4.8
Viet Nam	5.9	5.1	5.9
United States	1.8	2.2	2.1
Euro Area	1.4	-0.4	0.2

Source : IMF, World Economic Outlook, October. 2012

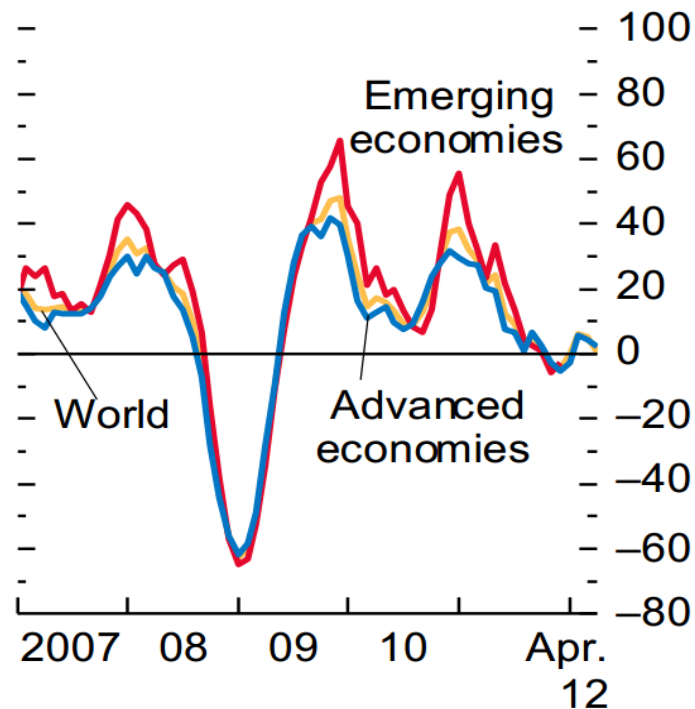
Risks to the recovery outlook

- **Continuing turbulences in the Euro area**
 - Lingering fiscal and financial weaknesses
 - Institutional weakness and lack of leadership
- **Weakening global growth**
 - Growth deterioration in the European economies
 - Slow recovery in US labor market and risk of fiscal contraction
 - Negative spillovers to emerging and developing economies
- **Destabilizing capital flows**
 - Asset price bubbles
 - Complicating macroeconomic policies
- **Volatile commodity prices**

No decoupling from advanced economies

Co-movements of Merchandise Exports

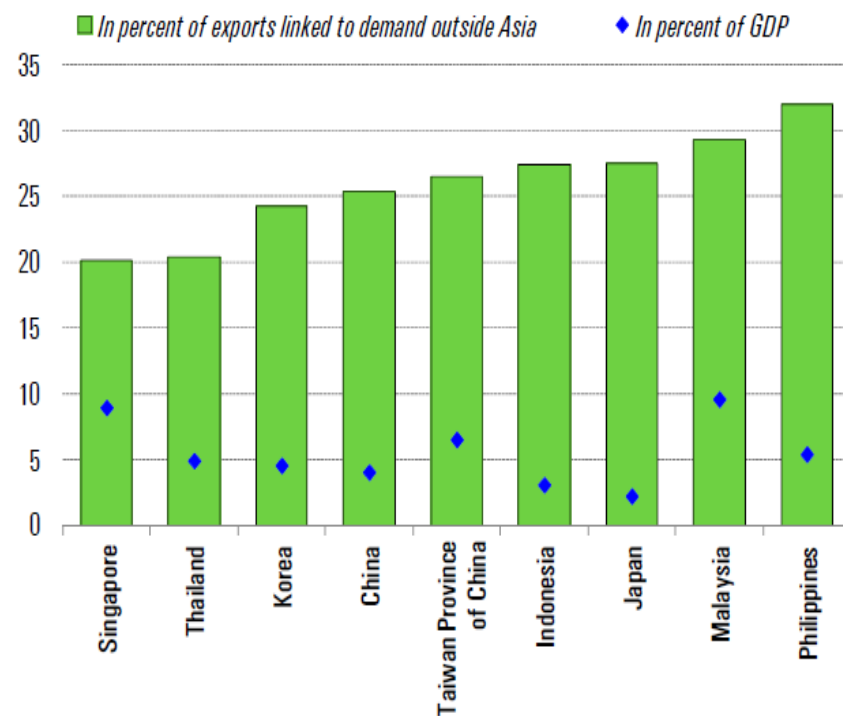
(percent; three-month moving average - 3mma - over previous 3mma, Annualized)



Source: IMF, World Economic Outlook Update, July. 2012

Share of exports linked to demand from Europe

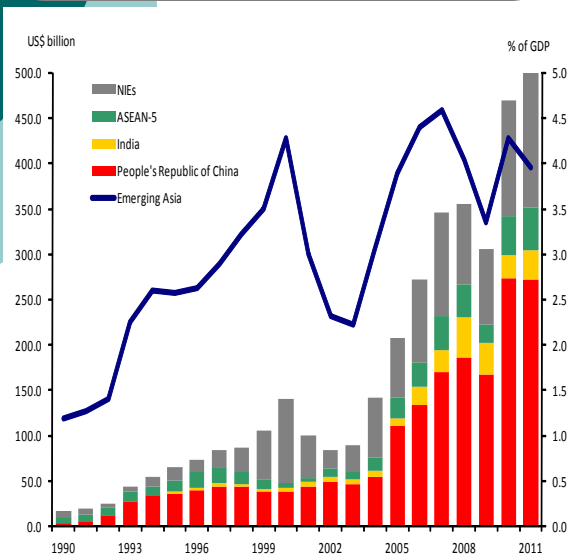
(Value-added basis, 2010)



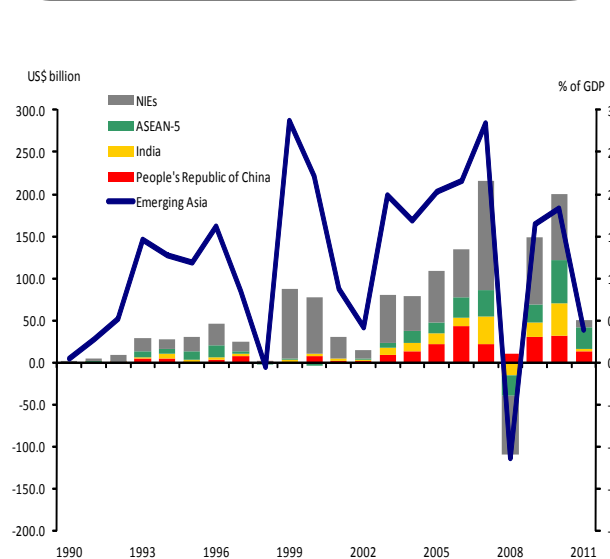
Source: IMF, Regional Economic Outlook : Asia and Pacific, April 2012

Volatile capital inflows to emerging Asia

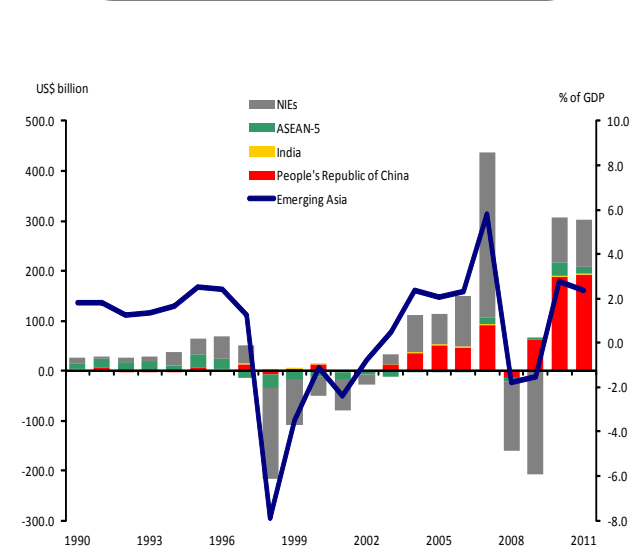
Foreign Direct Investment Inflows



Foreign Portfolio Investment Inflows



Other Investment Inflows



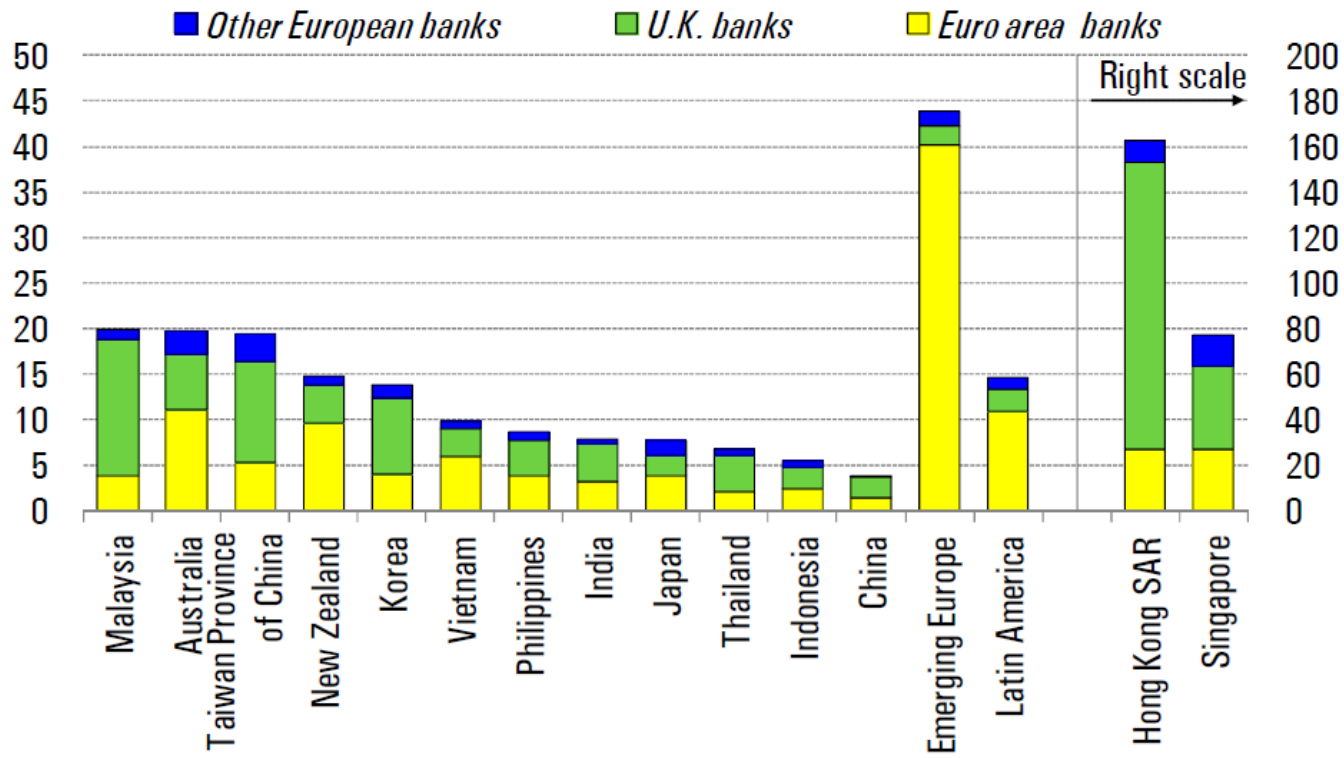
Note: Emerging Asia includes People's Republic of China; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. ASEAN-5 includes Indonesia; Malaysia; Philippines; Thailand; and Viet Nam. NIEs includes Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.

Source: International Financial Statistics, and World Economic Outlook Database, International Monetary Fund.

Significant exposure to Euro area bank deleveraging

Consolidated Foreign Claims of European Banks on Asia

(% of GDP; as of 2011:Q3)



Source: IMF, Regional Economic Outlook : Asia and Pacific, April 2012

Asia needs to improve resilience and rebalance growth

○ **Reduce vulnerability to shocks**

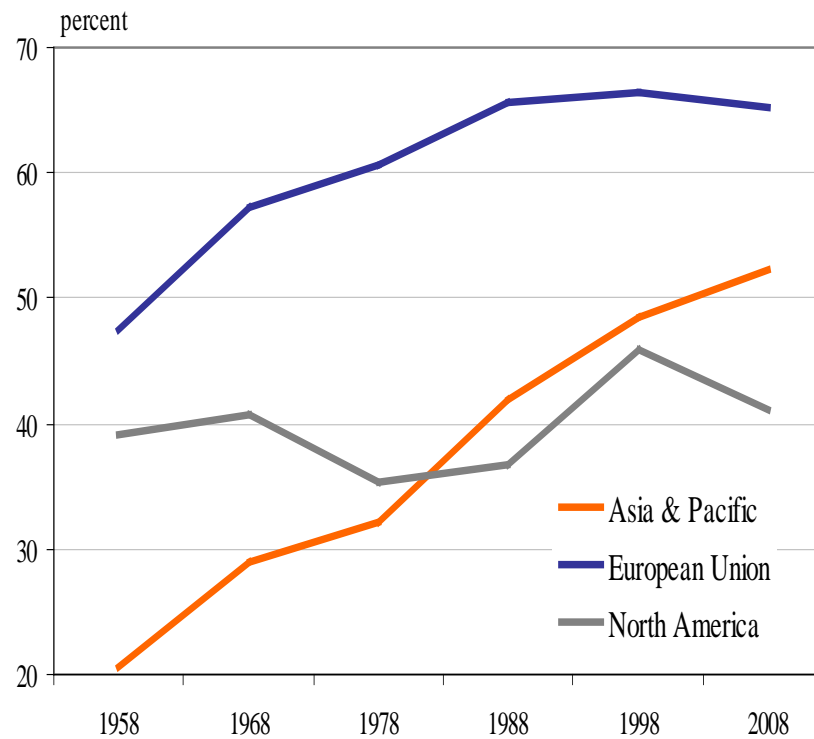
- Strengthen effective financial supervision and regulation
- Develop better macro-prudential and monetary policy framework
- Safeguard mid-term fiscal sustainability
- Maintain adequate international reserves
- Implement carefully- designed capital controls

○ **Rebalance sources of growth**

- Strengthen domestic consumption
- Improve investment climate
- Promote small and medium enterprises and service industries
- Strengthen intra-regional demand

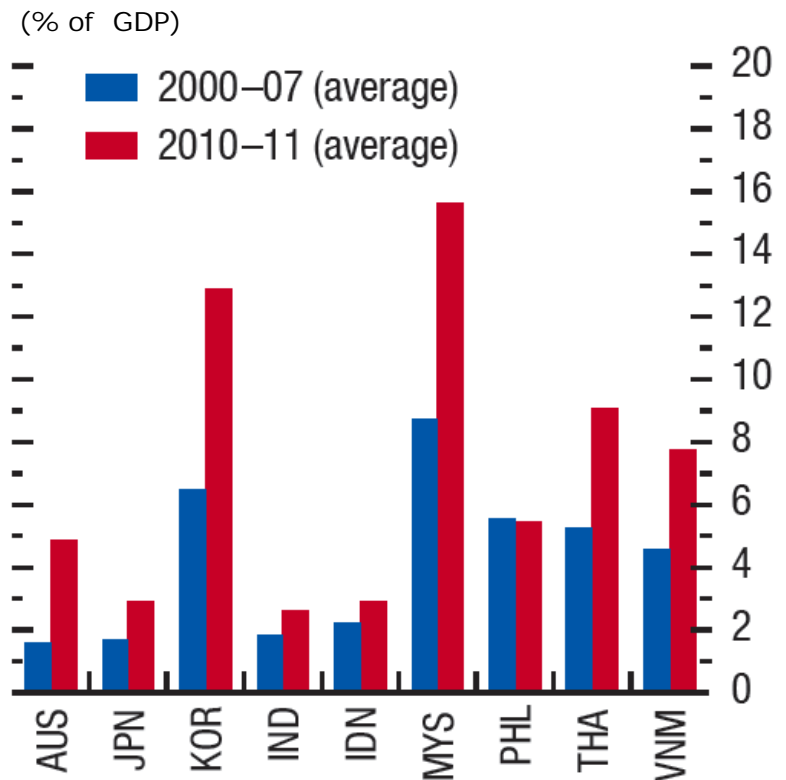
Asian intra-regional trade share growing

Evolution of Intra-regional Trade Shares



Source: Asian Development Bank

Exports to China



Source: IMF, World Economic Outlook, October, 2012

Asia should improve long-term productive capacity

- **Sustaining growth in the long-term matters**
 - Living standards in the region remain below those of the industrialized countries
 - No guarantee that developing Asia's stellar growth record will carry over into the post-crisis period
- **Core elements of Asia's future growth**
 - Infrastructure
 - Human capital
 - External trade and FDI
 - Governance and institutional quality

Long-term growth projections for Asia

○ Approach based on 'Growth Accounting'

- GDP growth = Labor force growth + Human capital growth + Physical capital growth + TFP growth
- Estimate determinants of each growth component using a simultaneous equation system
- The model is based on "conditional convergence" of per capita output (physical capital stock per labor and TFP)

○ Data

- Decade averages of 1981-90, 1991-2000, 2001-07 for 113 developing and developed countries

○ Projections

- 2011-2020 and 2021-2030 for 12 Asian economies

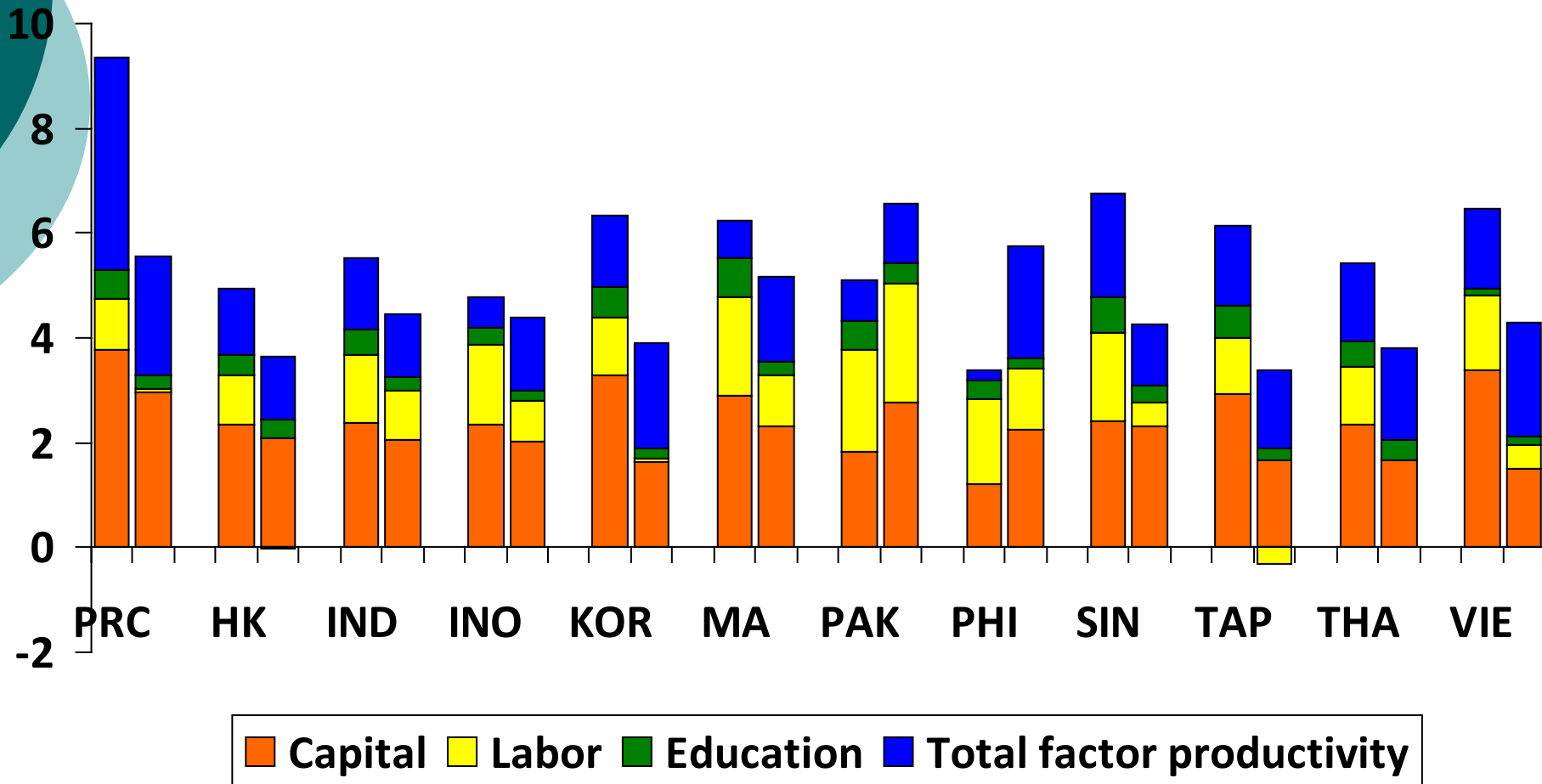
GDP growth set to slow in emerging Asia

	Actual 1981-2007	Projections 2011-2030
China, People's Rep. of	9.3	5.5
Hong Kong, China	4.9	3.6
India	5.5	4.5
Indonesia	4.8	4.4
Korea, Rep. of	6.3	3.9
Malaysia	6.2	5.2
Pakistan	5.1	6.5
Philippines	3.4	5.7
Singapore	6.8	4.3
Taipei,China	6.1	3.1
Thailand	5.4	3.8
Viet Nam	6.4	4.3

Source: Lee, J. and K. Hong, "Economic Growth in Asia: Determinants and Prospects," *Japan and the World Economy*, March 2012

Weakening sources of GDP growth

Actual (1981-2007, Left), Projection (2011-2030, Right)



Source: Lee, J. and K. Hong, "Economic Growth in Asia: Determinants and Prospects," *Japan and the World Economy*, March 2012

Reforms will raise growth prospects

- **Reform scenario:** Years of schooling, R&D stock growth, and property rights assumed to improve at the same time over the baseline case.

	Actual 1981-2007	Projections		
		Baseline 2011-2030	Reform Scenario 2011-2030	Policy Impacts
China, People's Rep. of	9.3	5.5	6.6	1.1
Hong Kong, China	4.9	3.6	3.8	0.2
India	5.5	4.5	6	1.5
Indonesia	4.8	4.4	6	1.6
Korea, Rep. of	6.3	3.9	4.2	0.3
Malaysia	6.2	5.2	5.9	0.7
Pakistan	5.1	6.5	8.2	1.7
Philippines	3.4	5.7	7	1.3
Singapore	6.8	4.3	4.3	0.0
Taipei, China	6.1	3.1	3.3	0.2
Thailand	5.4	3.8	4.5	0.7
Viet Nam	6.4	4.3	6.1	1.8

Source: Lee, J. and K. Hong, "Economic Growth in Asia: Determinants and Prospects," *Japan and the World Economy*, March 2012

Key messages

- Asia's growth is set to gain momentum, but exposed to significant outside risks.
- Developing Asia needs to improve vulnerabilities and rebalance sources of growth.
- Structural policies are needed to promote long-term growth potential.