

Curbing 
the Global
Economic
Downturn

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Curbing the Global Economic Downturn



Southeast Asian
Macroeconomic Policy

Edited by
Aekapol Chongvilaivan



INSTITUTE OF SOUTHEAST ASIAN STUDIES
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INTRODUCTION

The global economy has been in the grip of the worst economic downturn since World War II, painting a bleak picture of the global economic outlook around the world. The global economic slump in 2009 witnessed a contraction of the advanced economies by 2 per cent — 2.4 per cent for the United States (US), 1.8 per cent for the European Union (EU), and 5.8 per cent for Japan. While a turnaround in the economic prospects in 2010–11 is expected to be gradual and highly uncertain, the International Monetary Fund (IMF) cautioned that the timing and pace of the recovery hinge critically on strong policy actions to rebalance growth paths.

The impact of the global economic turmoil on the Southeast Asian community, however, is less clear-cut. The Asian Development Bank (ADB) revised downward the major Southeast Asian economies' growth to the worst post-1997 contraction in 2009 — at least 6 per cent for Singapore, 2.7 per cent for Thailand and 0.2 per cent for Malaysia. The rest of the region, in contrast, had yet to feel the ripple effects as the economic growth remained robust — 7 per cent for Vietnam, 4.8 per cent for Cambodia, 4.5 per cent for Indonesia and 3.7 per cent for the Philippines.

The Southeast Asian region as a whole is by no means recession-proof, nevertheless. Recent developments convey a series of caveats and worries about the resilience and sustainability of its economic conditions. The International Labour Organization (ILO), for instance, estimated a spike in unemployment rates across the region from 5.7 per cent in 2008 to 6.2 per cent in 2009. This means 7.2 million more jobless people due to the fallout from the global economic recession.

In fact, among the worst hit regions is Southeast Asia where the emerging economies have long thrived on export-led development and foreign direct

investment (FDI). On the one hand, the trade link between Southeast Asia and major industrialized countries is substantial, with the US, the EU and Japan sharing more than 60 per cent of total demand for exports from the region. Undoubtedly, the globally prevailing economic slump saps global demand, cutting back on imports from the region. In the most export-oriented economies like Malaysia, Singapore, and Thailand, export growth was dramatically reduced by some 40 per cent in 2008–09. The gloomy economic fortune around the corner, on the other hand, weakens business confidence and investors' risk appetite. Unceasing capital inflow reversals and sudden capital flight aggravate their real economies vis-à-vis sharp currency depreciation, deferred investment in new plants and machinery, lacklustre durable goods consumption, and impulsive swings in the stock market. ADB estimated that net equity outflows from the region have totalled US\$72 billion during the same period.

Southeast Asian policy-makers have eased macroeconomic policy to tackle the looming economic climate — falling industrial orders, shrinking industrial production, slashed export demand and deteriorating labour markets. The attempts at the national level to weather the global economic storm and bolster the economic cycle include the boldest stimulus packages that many governments in the region unilaterally injected into their economies and huge cuts in interest rates that the central banks announced.

Many experts, nonetheless, have argued that those fiscal and monetary expansions are unlikely to actually provide much of a boost to the regional economy. Now that all countries cannot export at the same time, the liquidity of all governments around the world that is poured into their economies is unlikely to help rejuvenate export performance and beef-up employment and production. In addition, the limited multiplier effects of fiscal and monetary stimuli are also attributable to emerging protectionism — a series of hikes in tariff and non-tariff barriers like anti-dumping actions, voluntary export restraints, standards, and labour- and capital-market regulations — that emanated from uncoordinated macroeconomic actions to fight the prolonged economic depression. These misguided government interventions pose serious challenges to the Southeast Asian economic community.

The first quarter of 2009 has seen a wide array of coordinated arrangements at the regional and international levels to jointly unravel emerging trade protection and help bring the economies out of the current recession as soon as possible. The leaders of the Association of Southeast Asian Nations (ASEAN) at the summit meeting made a stand against protectionism and agreed on

collective macroeconomic policies, including fiscal stimulus, monetary easing, access to credit and trade financing, and measures to revive buoyant domestic demand. The G20 Summit also concluded that the member countries are now in dire need of fine-tuning resilient packages that are able to get growth back, to create jobs for citizens, and to re-globalize the international community.

Yet “how” to optimally pursue collaborative macroeconomic policy remains unanswered. The ASEAN Summit Meeting did not provide any specific policies or actions that its members can take on. Neither did the G20 Summit reached a consensus on how to solve the global economic turmoil. The quest for regional and global solutions has been hampered critically by the complication of individual economies and the diverse levels of economic and cultural development.

After all, there is no one-size-fit-all panacea for economic ills. The answer to this question lies with the in-depth, region-specific research inquiries into how macroeconomic tools are at work in the Southeast Asian economies. The objective of this book is to examine in-depth region-specific research on how macroeconomic tools are at work in the Southeast Asian countries. The compilation from *ASEAN Economic Bulletin* has provided this and a forum for policy-oriented discussion of contemporary economic interest. The Bulletin is also well-established as a series of original contributions on the ample scope of economic studies, that is, macroeconomics, public economics, international trade and finance, development economics, financial economics, agricultural economics and environmental economics, among many others.

In a nutshell, this book will establish itself as a compendium that provides a timely response to and a key reference for a broad range of readerships — policy-makers, practitioners, academics, and serious researchers who are interested in developments and designs of macroeconomic policy and economic co-operation that potentially help the Southeast Asian economies embark upon the adverse impacts of the global economic downturn.

All said and done, I would like to confer my heartfelt thanks to all *ASEAN Economic Bulletin* contributors whose cutting-edge research paved the way toward the production of this book. In particular, my special thanks are due to Iwan J. Azis, Yuri Mansury, Gan Wee Beng, Soon Lee Ying, Choy Keen Meng, Tsangyao Chang, Wen Rong Liu, Henry Thompson, Anthony J. Makin, Sasatra Sudsawasd, Prasopchoke Mongsawad, Jenny D. Balboa, Erlinda M. Medalla, Josef T. Yap, and Worapot Manupipatpong. I must also gratefully acknowledge Triena Ong for her advices on publication of this book. Last

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Editor

Aekapol Chongvilaivan

Fellow and ASEAN Economic Bulletin Co-editor

Regional Economic Studies

Institute of Southeast Asian Studies

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LIST OF CONTRIBUTORS

Iwan J. Azis is a Professor in Johnson Graduate School of Management at Cornell University in New York, USA.

Jenny D. Balboa is Supervising Research Specialist at the Philippine Institute for Development Studies.

Tsangyao Chang is Professor in the Department of Economics at Feng Chia University in Taichung, Taiwan.

Choy Keen Meng is a Postdoctoral Fellow in the Department of Economics, National University of Singapore.

Gan Wee Beng is Executive Director of CIMB Investment Bank, Kuala Lumpur, Malaysia.

Wen Rong Liu is Associate Professor of Co-operative Economics at Feng Chia University, Taichung, Taiwan.

Anthony J. Makin is Professor of Economics at Griffith Business School, Griffith University, Australia.

Yuri Mansury is currently a Ruth L. Kirschstein post-doctoral research fellow in the Division of Health Sciences and Technology, Massachusetts Institute of Technology in Cambridge, USA.

Worapot Manupipatpong is Director of the Bureau of Finance and Surveillance at the ASEAN Secretariat in Jakarta.

Erlinda M. Medalla is Senior Research Fellow at the Philippine Institute for Development Studies.

Prasopchoke Mongsawad is Assistant Professor of Economics at the School of Development Economics, National Institute of Development Administration, Bangkok, Thailand.

Soon Lee Ying is Associate Professor at the Nanyang Business School, Nanyang Technological University, Singapore.

Sasatra Sudsawasd is Assistant Professor of Economics at the School of Development Economics, National Institute of Development Administration, Bangkok, Thailand.

Henry Thompson is Professor of Economics at Auburn University, Alabama, USA.

Josef T. Yap is President of the Philippine Institute for Development Studies.