

Reproduced from *Managing Economic Crisis in East Asia*, edited by Saw Swee-Hock and John Wong (Singapore: Institute of Southeast Asian Studies, 2010). This version was obtained electronically direct from the publisher on condition that copyright is not infringed. No part of this publication may be reproduced without the prior permission of the Institute of Southeast Asian Studies. Individual articles are available at <<http://bookshop.iseas.edu.sg>>

MANAGING ECONOMIC CRISIS IN EAST ASIA

The **Saw Centre for Financial Studies** was established at the National University of Singapore on 1 December 2003. The Centre is named after a distinguished NUS alumnus Professor Saw Swee-Hock, whose generous endowed gift has enabled the founding of this Centre. The Saw Centre is situated within the vibrant community of the renowned NUS Business School.

The Saw Centre's purpose is to conduct quality research, educational activities and training programmes related to the financial services industry in the Asia Pacific region. With the resources of the university and active contribution from industry professionals, it is a resource centre that will benefit both academics and practitioners.

The **East Asian Institute (EAI)** was set up in April 1997 as an autonomous research organization under a statute of the National University of Singapore. It is the successor of the former Institute of East Asian Political Economy (IEAPE), which was itself the successor of the Institute of East Asian Philosophies (IEAP), originally established by Dr Goh Keng Swee in 1983 for the study of Confucianism. The main mission of EAI is to promote academic and policy-oriented research on contemporary China, including Hong Kong, Taiwan and Macau, and other East Asian economies. The long-term vision of EAI is to develop into the region's foremost research institution on East Asian development, with a strong focus on China. For more information on EAI, please visit <www.eai.nus.edu.sg>.

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional centre dedicated to the study of socio-political, security and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

ISEAS Publishing, an established academic press, has issued more than 2,000 books and journals. It is the largest scholarly publisher of research about Southeast Asia from within the region. ISEAS Publishing works with many other academic and trade publishers and distributors to disseminate important research and analyses from and about Southeast Asia to the rest of the world.

MANAGING ECONOMIC CRISIS IN EAST ASIA

EDITED BY
SAW SWEE-HOCK AND JOHN WONG



EAI

LSEAS

First published in Singapore in 2010 by ISEAS Publishing
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang
Singapore 119614
E-mail: publish@iseas.edu.sg
Website: <http://bookshop.iseas.edu.sg>

jointly with
Saw Centre for Financial Studies
NUS Business School
National University of Singapore
BIZ 2 Building, #04-01
1 Business Link
Singapore 117592

and
East Asian Institute
National University of Singapore
469A Bukit Timah Road
Tower Block #06-01
Singapore 259770

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Institute of Southeast Asian Studies.

© 2010 Institute of Southeast Asian Studies, Singapore

The responsibility for facts and opinions in this publication rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of the publishers or their supporters.

ISEAS Library Cataloguing-in-Publication Data

Managing economic crisis in East Asia / edited by Saw Swee-Hock and John Wong.

1. Global Financial Crisis, 2008–2009.
2. Financial crises—East Asia.
3. Financial crises—China.
4. Foreign exchange—Government policy—East Asia.
5. Foreign exchange—Government policy—China.
 - I. Saw, Swee-Hock, 1931–
 - II. Wong, John, 1939–

HB3816.5 M26 2010

ISBN 978-981-230-972-3 (soft cover)
ISBN 978-981-4311-18-2 (hard cover)
ISBN 978-981-4279-01-7 (E-book PDF)

Typeset by Superskill Graphics Pte Ltd
Printed in Singapore by Utopia Press Pte Ltd

Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	ix
<i>Preface</i>	xi
<i>The Contributors</i>	xiii
1. The Global Financial Crisis: Impact and Response in East Asia <i>Saw Swee-Hock and John Wong</i>	1
2. The Impact of the U.S. Subprime Crisis on China's Financial System <i>Qian Meijun</i>	14
3. The Impact of the Global Financial Crisis on Chinese Foreign Exchange Reserves and China's Responses <i>Zhang Ming</i>	46
4. The Global Financial Crisis and China's Trade Prospects <i>Sarah Y. Tong</i>	80
5. Hong Kong's Management of the 2008–09 Financial Crisis <i>Francis T. Lui</i>	108

6.	Taiwan's Policy Responses to the Financial Tsunami in 2008 <i>Shen Chung-Hua</i>	133
7.	The Foreign Exchange Crisis in Korea <i>Shin Jang-Sup</i>	162
8.	Global Financial Crisis and Policy Issues in Japan <i>Naoyuki Yoshino</i>	190
	<i>Index</i>	207

List of Tables

2.1	Comparison of Market and Bank Features	19
2.2	Performance of the Big Four Listed Commercial Banks at the end of 2008	26
2.3	Trading on Major Stock Exchanges, 2005	30
3.1	U.S. Rescue Package	58
3.2	Projection of U.S. Fiscal Deficit, 2008–19	60
5.1	Hong Kong’s Real GDP Growth Rates, 2007–09	116
6.1	Sources of Taiwan’s Economic Growth, 1997–2008	137
6.2	Basic Statistics of SMEs in Taiwan, 2005–07	144
6.3	Bank Lending Decreases During the Two Crises	145
6.4	Project to Expand Investment in Public Works — Six Main Targets, 2009–12	150
6.5	Paid-in Capital to SMEG, 2005–08	154
7.1	Major Components of the IMF Programme in Korea	165
7.2	Korea’s Capital Account during the Global Financial Crisis, 2008	169
8.1	Bubble Indicators	193

List of Figures

2.1	NPL Balance and their Ratio in Major Commercial Banks, 2003–08	23
2.2	Comparison of Returns, 2006–09	28
2.3	Returns on Stock Indices around the World, 1992–2009	29
2.4	Information Content in Stock Trading	31
3.1	Chinese Foreign Exchange Reserve, 1993–2008	49
3.2	Continuous Twin Surplus, 1993–2008	52
3.3	U.S. Fiscal Deficit and Net Issuance of Treasury Bonds, 1980–2008	61
3.4	U.S. Fed’s Balance Sheet: Supply Side, 2007–09	65
3.5	U.S. Fed’s Balance Sheet: Liability Side, 2007–09	66
4.1	Sources of China’s GDP Growth, 1978–2008	82
4.2	China’s Monthly Exports and Imports, 2008–09	84
4.3	China’s Monthly Export Growth, 2007–09	90
4.4	Monthly Growth of Ordinary and Process Trade, 2008–09	91
4.5	Monthly Growth of Exports for PRD, YRD, and the Rest of the Country, 2008–09	92
4.6	Monthly Growth of Imports for PRD, YRD, and the Rest of the Country, 2008–09	93

4.7	Anti-dumping: Number of Investigations Initiated, 1995–2008	98
4.8	Anti-dumping: Number of Final Measures, 1995–2008	99
5.1	Hang Seng Index, 2007–09	114
5.2	Centaline Housing Price, 2007–09	115
5.3	Seasonally Adjusted Unemployment Rate, 2006–09	118
5.4	M3 in Hong Kong (HK\$ plus Foreign Deposits), 2007–09	121
6.1	Loan Amounts to the Four Different Sectors, 2004–08	139
6.2	Loans to Public Enterprises by Four Types of Banks, 1998–2009	140
6.3	Loans to Private Enterprises by Four Types of Banks, 1998–2009	142
6.4	Loans to SMEs by Four Types of Banks, 1996–2009	143
6.5	Guarantee Coverage Ratio, 2004–09	157
6.6	Effects of SME Loan Guarantees, 2005–09	158
7.1	Foreign Share of Listed Korean Stocks, 1994–2008	174
7.2	Oil Price and Current Account of Korea	178
7.3	Trend of Korea's Short-term Foreign Debts	180
7.4	Composition of Korea's Foreign Debt	182
8.1	Japanese Banks, Stock Prices and Land Prices, 1983–2006	191
8.2	Movement of Share Prices on the Shanghai Stock Exchange	199
8.3	Leveraging Private Sector Funds for Infrastructure Development	204

Preface

In November 2009, the Saw Centre for Financial Studies, NUS Business School, and the East Asian Institute, National University of Singapore, jointly organized the International Conference on Managing Economic Crisis in East Asia. The seven chapters included in this book consist of a selection of the papers presented in the conference, and subsequently revised for publication. Chapter 1 was specifically written by the volume editors to present the salient features of the important subject covered in the book.

We would like to thank the chapter writers for their excellent cooperation for presenting their papers in the conference and, more importantly, for revising the papers for publication. Our appreciation also goes to Mrs Triena Ong of ISEAS Publications Unit for overseeing the expeditious publication of the book. We are delighted for ISEAS to be a co-publisher.

Saw Swee-Hock and John Wong

The Contributors

Francis T. Lui is Professor of Economics at the Hong Kong University of Science and Technology. He is also Director of the Centre for Economic Development at the University. His research interests include economic growth, social security, exchange rate system, the Hong Kong economy and the Chinese economy. He served as a member of the Long Term Housing Strategy Advisory Committee, Mandatory Provident Fund Schemes Appeal Board, and the Task Force Employment of the Hong Kong SAR Government. His major publications are *Old-Age Retirement Protection: A Plan for Hong Kong* and *Industrial Development in Singapore, Taiwan and South Korea*. He obtained his Ph.D. from the University of Minnesota.

Qian Meijun is an Assistant Professor at the Department of Finance, National University of Singapore (NUS). She is also an affiliated Research Fellow at the Wharton Financial Institution Centre and the Risk Management Institute, NUS. Her research covers comparative financial systems, institutions and mutual funds. She obtained her Ph.D. from the Boston College.

Saw Swee-Hock is Professorial Fellow at the Institute of Southeast Asian Studies and President's Honorary Professor of Statistics at the National University of Singapore. He is

also an Honorary Fellow of the London School of Economics and Honorary Professor at the University of Hong Kong and Xiamen University. He is a member of the Board of Trustees of the National University of Singapore. His publications are mainly on statistics, demography and finance. Among his major publications are *ASEAN-China Economic Relations* (editor), *Managing the Economic Crisis in Southeast Asia* (editor), *Sovereign Wealth Funds* (co-author) and *Introduction to Islamic Finance* (co-author). He obtained his Ph.D. from the London School of Economics.

Shen Chung-Hua is Professor of Finance at the Department of Finance, National Taiwan University. He is a member of the President's Economic and Finance Advisory Committee and the Taiwan Resolution Trust Corporation Committee. He is also Director of the Board of the Taiwan Financial Holding Company, Taiwan Bank, Security and Futures Association and Taiwan Small and Medium Enterprise Guarantee Institute. His research interests are mainly in banking, financial markets, monetary policy, international finance and econometrics. He received his Ph.D. from the University of Washington.

Shin Jang-Sup is Associate Professor of Economics at the Department of Economics, National University of Singapore. His research interests include East Asian economic growth, financial crisis and restructuring, technology and innovation, and competitive strategies and organization of firms. Among his major publications are *The Five Theorems on the Financial Crisis and Policy Responses*, *Restructuring Korea Inc.*, *A Paradigm Shift for the Korean Economy*. He has

worked for about fourteen years in the Maeil Business Newspaper in Korea. He received his Ph.D. from the University of Cambridge.

Sarah Y. Tong is Assistant Professor of Economics at the Department of Economics, National University of Singapore (NUS) and a Research Fellow at the East Asian Institute, NUS. Prior to that, she held an academic position at the University of Hong Kong. Her research interests are in international trade, foreign direct investment, economic reforms and industrial restructuring. She obtained her Ph.D. from the University of California at San Diego.

John Wong is Professorial Fellow at the East Asian Institute, National University of Singapore. Until very recently, he was Research Director of the Institute. His main research interests are in the economy of China as well as the ASEAN economy. Among his major publications are *Understanding China's Socialist Economy*, *China's Emerging New Economy: The Internet and E-Commerce* (co-author), *China's Reform in Global Perspective* (co-editor), *Interpreting China's Development* (co-editor) and *Regional Economic Development in China* (co-editor). He obtained his Ph.D. from the University of London.

Naoyuki Yoshino is Professor of Economics at Keio University. He is also Director of the Financial Research and Training Centre at the Japan's Financial Services Agency. He serves as Chairperson of the Foreign Exchange Council and the Fiscal Council, Ministry of Finance, Japan. He was appointed Board Chair of the Financial Planning Standard

Board. He was conferred an Honorary Doctorate by the Goteborg University in Sweden. He obtained his Ph.D. from Johns Hopkins University.

Zhang Ming is Deputy Director at the Department of International Finance, Institute of World Economics and Politics, Chinese Academy of Social Sciences (CASS). His fields of interest include international finance, macro-economy, cross-border capital flow, and sovereign wealth management. Before joining CASS, he worked in KPMG and Asset Managers Group, a Japanese investment bank.