

Commentary

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The Recovering Global Economy from an Asian Perspective

Asian nations are leading the recovery from the global economic and financial crisis. Compared to other areas, Asia performed relatively well in the difficult global economic environment of 2009. Decisive policy responses enabled Asia to become the first region to emerge from the global crisis with a strong positive growth outlook. But uncertainty remains, particularly beyond the first half of 2010. Global emergency policy measures will gradually be unwound, but the strength of broader demand is not sufficient to fully replace the effect of temporary stimulus policies. Aggregate GDP growth in the United States, Japan and the Eurozone is expected to recover modestly in 2010, but growth in 2011 for these regions is likely to still be weak at around only 2 percent. Timing the macroeconomic policy responses by the major industrial economies is important to maintaining the recovery process. However, there is a danger that a mistake with timing could undermine global financial stability. International policy coordination and global financial regulatory reform are essential factors in achieving and maintaining financial stability. Leaders of the G-20 nations agree that multilateral cooperation is necessary to avoid bilateral disputes over currency exchange rate and trade issues.

The Asian Development Bank forecasts GDP growth rates for various sub-regions within Asia. According to the Asian Development Bank, as reported in its *Outlook 2010*, Asia can look ahead to a robust recovery in the next two years. Growth for the entire region is forecast to rise to 7.5 percent in 2010 and to 7.3 percent in 2011, representing a healthy rebound from the 2009 slowdown. Growth in East Asia is forecast to accelerate to 8.3 percent in 2010 with strong recoveries in Hong Kong, Taiwan and Mongolia. Korea is expected to rebound

with a 5.2 percent expansion, driven by stronger private investment and domestic consumption as well as by the recovery in global trade. China's economy is forecast to grow by 9.6 percent in 2010. China's aggressive fiscal and monetary stimulus is being gradually adjusted, but will continue to contribute to strong growth. Firmer external demand will complement growth in China's domestic demand. Growth is also expected to pick up in most of South Asia in 2010. India will lead the group with projected growth of 8.2 percent. India's rebound and its continuing strong expansion are attributable mainly to domestic demand growth. GDP growth in the Central Asian economies should improve to 4.7 percent in 2010 and 5.9 percent in 2011, underpinned by higher oil prices, and economic recovery in the Russian Federation, which is the region's major trade and financial partner.

Changing the drivers of growth from monetary and fiscal expansion to non-government sources is now the key to sustaining the recovery, both globally and throughout the Asia region. Inflation pressures are increasing but are expected to be manageable in most developing Asian economies. Looking ahead beyond the financial and economic crisis, Asia will need to manage its monetary, exchange rate, and fiscal policies so as to foster macroeconomic stability and sustained growth, while at the same time returning within a reasonable time to prudent and disciplined economic policies.

As the global crisis recedes, it is acknowledged that countercyclical fiscal and monetary policies have been effective in coping with the aftermath of shocks to the financial system. This has led to an ongoing debate as to whether the Asia region should continue to pursue policies of fiscal and monetary activism in the post-crisis period. The global finan-

cial crisis has highlighted the extreme risks associated with a focus on consumer price inflation. The combination of loose monetary policy and inadequate financial regulation contributed to excessive inflation in the US housing market that is now acknowledged as a major catalyst for the global financial crisis. The lesson for policy makers in Asia is that asset price trends need to be closely monitored and preventive action taken before disruptive asset bubbles materialize.

A particular challenge for Asian economies will be how to rebalance demand toward domestic sources. Another concern is the potential shift toward more flexible exchange rates. Carefully designed capital controls can help guard against disruptive short-term capital flows and provide protection against potential volatility in exchange rates. Policy measures, such as strengthening social protection, in tandem with more flexible exchange rates, can boost domestic consumption and demand. The choice of measures and their implementation will need to be managed so as to accelerate the impact of macroeconomic policy on Asia's rebalancing process.

As recovery takes hold in Asia, inflation pressures, particularly in asset prices, may well start to emerge in the region. Inflation could reach four percent in 2010, depending on how policy measures are implemented. However, it is apparent that easy monetary policy throughout the region cannot be kept for long without a risk of inflation.

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