

Growth Strategies After the Crisis: East Asia

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Four key themes in the Current Asia Policy debate

- Rebalancing growth
- Averting trade friction and protectionism
- A region-wide FTA
- Macroeconomic policies to reduce vulnerability to future crises (learn to live with global business cycles)

Growth rebalancing

Engineering a structural shift in aggregate demand away from exports and towards domestic demand

The key theme of the current policy debate
(ADB 2010, IMF 2010)

The focus is largely on China.

Limited opportunities for growth rebalancing for other high-performing, trade dependent economies.

The case for growth rebalancing in China is compelling:

A very high export dependence for a continental economy of its size) (Gross export/GDP ratio: 40%; After adjusting for import intensity : 20%)

Unusually high domestic saving rate; over 45%

Vast population base

Highly repressed domestic financial system

Excessively high, and widening, urban-rural household income gap

- Rebalancing became part of China's declared growth strategy well before the GFC;
11th Fiver Year Plan, issued in March 2006 contained a comprehensive rebalancing package

Has not put into action so far because of strong domestic pressure to maintain the momentum of employment-intensive growth through export orientation)

Is the fear that that policies to rebalance growth may impede China's role in global production networks unwarranted?

Growth rebalancing will naturally result in an appreciation of the real exchange rate

But, this is unlikely to diminish China's attractiveness as a production platform within global production networks:

- China's labour market conditions
 - The nature of the ongoing process of global production
- (Growth rebalancing and engagement in global production sharing are not mutually exclusive policy priorities for China at this stage of its economic transition)

Averting protectionist tendencies

Worrying signs that pressure for maintain export competitiveness in face of shrinking export demand can lead to protectionist tendencies.

Firm commitment by China to growth rebalancing can avert a protectionist backlash against its exports by the US and other developed countries

What are the other policy options to strengthen long-term commitment to non-discriminatory multilateral and unilateral liberalisation?

Can the WTO information technology agreement (ITA) be extended to other related products (in particular consumer electrical goods)?

A region wide FTA?

Favoured by the ADB

But

A risky and, possibly, a counter productive, move, given East Asia's heavy reliance on extra-regional markets for its export dynamism driven by global production sharing

- Possible retaliation by the US and EU
- 'Rules of origin' complications arising from the growing trade within global production networks
- The available evidence on the operation of existing FTAs is not very impressive.

Macroeconomic policies to reduce vulnerability to future crises

- Learn to live with global business cycles
 - perhaps the most important strategy for highly trade dependent economies with limited opportunities for domestic demand growth on a sustainable basis

An important policy challenge currently faced by East Asian economies:

How to manage short term capital inflows?

Is there a case some form of capital inflows controls?

(IMF says yes! (World Economic Outlook 2010 April, p 51)