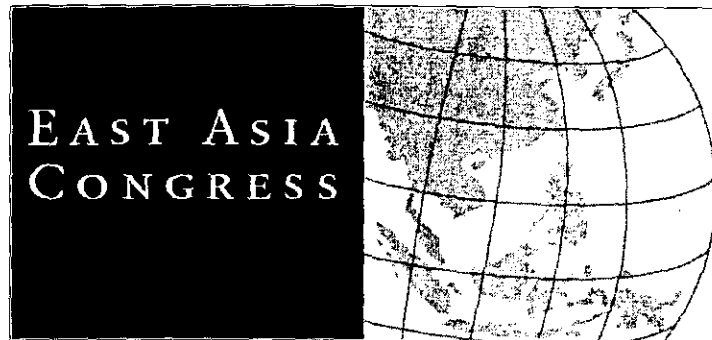


SEVENTH EAST ASIA CONGRESS

6-8 December 2009
Kuala Lumpur, Malaysia



SESSION ONE

“After the Perfect Storm: Making East Asian
Economies More Sustainable”

by

Dr Young Soogil
Chairman
Korea National Committee for Pacific
Economic Cooperation
Republic of Korea



The Challenge of Structural Reforms, the G20 and East Asia¹

Talking Points for Session One, "After the Perfect Storm: Making East Asian Economies More Sustainable" at The 7th East Asia Congress Session on Positioning East Asia in a Post-Crisis World, held in Kuala Lumpur, Malaysia, on 6-8 December 2009

By

Soogil Young
Korea National Committee for Pacific Economic Cooperation
(KOPEC)

1. The Global Financial Crisis has demonstrated that East Asia's export-led growth model is no longer sustainable.
 - East Asia's growth miracle has depended on the export demand from outside the region, and the U.S., in particular.
 - The growth of exports to U.S. has hinged on high private consumption demand in the U.S. This, however, has been financed largely by the continuing inflows of foreign capital, especially, from China and other East Asian economies, sustained by persistent current account imbalances across the Pacific.
 - Those capital inflows to the U.S., together with financial supervision, have brought on the financial crisis.
2. The current situation in China shows that the pursuit of export growth, supported by high investment in the export industries, in the absence of external demand, will not be sustainable.
 - Pursuit of high export-led growth, with concomitant investment in the export sector, especially in heavy industries (electronics, steel, auto, etc.), has been breeding inefficiencies and creating overcapacities in the sector.
 - The collapse of export demand from the U.S. has been worsening the overcapacities in the export industries, causing deflationary pressure, thus, dimming the outlook for corporate profits, and causing job losses in those industries and hence, slowing down increases in wages and labor income.
 - The latest stimulus package of an unprecedented magnitude, consisting largely of massive investment plans by the central and state governments and injection of massive liquidity through loans, worsens these problems. In addition, it is causing asset bubbles and crowding out private investments.
3. The international global imbalances, especially, those across the Pacific, are the outcome

¹ Drawn from Peter Drysdale, Hadi Soesastro & Soogil Young (2009), "G20 Meeting in Korea: Asian Agenda of Structural Reform for Strong, Sustainable and Balanced Growth of the Global Economy – Framework Paper", and Peter Petri, et. al. (2009), "From Crisis to Growth: Strategies from Recovery in the Asia Pacific – Report of PECC Task Force on the Global Economic Crisis".

of domestic imbalances in the respective economies.

- In many East Asian economies, export-led growth has been associated with low private consumption, and thus, excessive private saving that is invested in the export industries and low-return dollar assets.
 - In the U.S., there have been excessive private consumption and persistent government budget deficits, both financed by unsustainable borrowing from abroad, including East Asia, in particular.
4. In order to newly launch strong and sustainable growth, the East Asian economies have to “rebalance their growths”, that is, shift to a new, ‘region-led’ growth paradigm, in which growth engines are found within the region, including their respective national economies. Such shift should be undertaken individually, as well as collectively through regional cooperation. Rebalancing growth on the part of East Asian economies means that the regional economies as a whole will be exercising a new ‘growth leadership’ for the world as a whole.
5. Such shift in East Asia requires a complex array of various structural reforms . For example:
- Increasing domestic aggregate demand in the respective economies, especially, consumption in most cases, by increasing household incomes (away from corporate profits) through deregulation of labor and other factor markets, income support and other supports in kind, such as education and housing, for low income people, as well as by discouraging precautionary saving through enhancement of social safety net such as health care, unemployment insurance, and pensions.
 - Switching demand from the tradables sector to the non-tradables sector, especially, services, by real exchange rate appreciation, on the one hand, and shifting resources in the same direction, by extending market-oriented reforms to the services sector such as financial, educational, medical, environmental, and infrastructure services, for example, by deregulating competition and investment in this sector, on the other hand.
 - Investing in the development of new growth engines, i.e., business opportunities of macroeconomic significance, such as silver industry, tourism industry, entertainment industry IT industry, ‘conversion technologies’, ‘green technologies’, etc.
 - Real exchange rate appreciation can be achieved most effectively through flexible adjustment in the nominal exchange rate, coupled with increases in domestic demand, but the nominal exchange rate flexibility should be coordinated among the regional economies for more effective demand switching and to promote intra-regional trade.
 - Creation of new growth engines can be done more effectively as regional initiatives. For example,
 - Connected Asia: through strategic investment in the infrastructure for

- connectivity;
 - Greener Asia: through investment in the infrastructure for 'low carbon green growth' and for adaptation to climate change;
 - Secure Asia: through building programs in education, health care, and social safety nets;
 - Innovative Asia: through investment in technology and reforms to drive productivity gains, and in improving the financing and other business environments for SMEs;
 - Market integration through a region-wide FTA and other facilitating arrangements will help increase regional demand for one another, as well as help facilitate the development of new growth engines.
6. The strong and sustainable growth of the East Asian economies will be effectively pursued as part of the global effort to realize 'strong, sustainable and balanced growth of the global economy'. Accordingly, those structural reforms should be effectively undertaken in coordination and conjunction with the concomitant structural reforms to be undertaken by the U.S. and other chronic current account deficit countries.
 - The international cooperation to realize a strong, sustainable and balanced growth of the global economy requires dialogue and cooperation, not only on those structural reforms, but also on macroeconomic stabilization including the so-called exit strategies, financial market regulation and reform of the international financial architecture.
 7. The G20 Summit which is rooted in the G20 Meeting of Finance Ministers and Central Bankers brings together those economies which, together accounting for more than 85% of global production, has been created so that these economies may work together in order to play the leading role in promoting those global efforts.
 8. The decision to hold two more meetings of the G20 Summit in 2010 and to hold it annually in 2011 and beyond institutionalizes the G20 Summit as the 'premier forum for international economic cooperation'. The fact that nearly half of the members of the G20 are from Asia Pacific and that this includes 6 Asian countries, including China, Japan, India, Korea, Indonesia, and Australia, signifies the "recognition of global power shift from West to East"(WP), and to East Asia, in particular.
 9. The implementation of those agendas which have been discussed above requires international cooperation beyond the membership of the G20. To undertake its role effectively, more inclusive forums will be required in order to engage countries not at the G20 table. The Asian G20 economies will want to include a broader constituency in the Asian and Asia-Pacific region, in developing their responses to global economic challenges. They should thus explicitly include their partners in Asia and communicate the substance of these regional dialogues to the G20 and the substance of G20 dialogues to regional forums. This will make the G20 more inclusive without adding to the number at the G20 table.
 10. The G20 Summit to be held in Seoul, Korea, on November 13-17 in 2010 is especially significant in that it will be held in Asia for the first time, hosted by Korea, an Asian

country which is in transition from the developing world to the so-called developed world. The compelling need for global rebalancing in order to realize a strong, sustainable and balanced global growth beyond the crisis signifies that the realization of this goal depends critically on the exercise of global growth leadership on the part of East Asia. The success of the global endeavor to launch a strong, sustainable and balanced growth will depend critically on East Asia's bringing the global structural reform agenda to the G20 Summit in Seoul in 2010, as well as in proposing to exercise a leadership in implementing the agenda. And for the purpose of ensuring such role, the meeting in Seoul may be used as an occasion on which to consider the modalities for engaging the broader regional and global constituencies.

-
-
- 11.
- 12.