Coping with Crisis: Lessons from Asia and Latin America

Akio Hosono

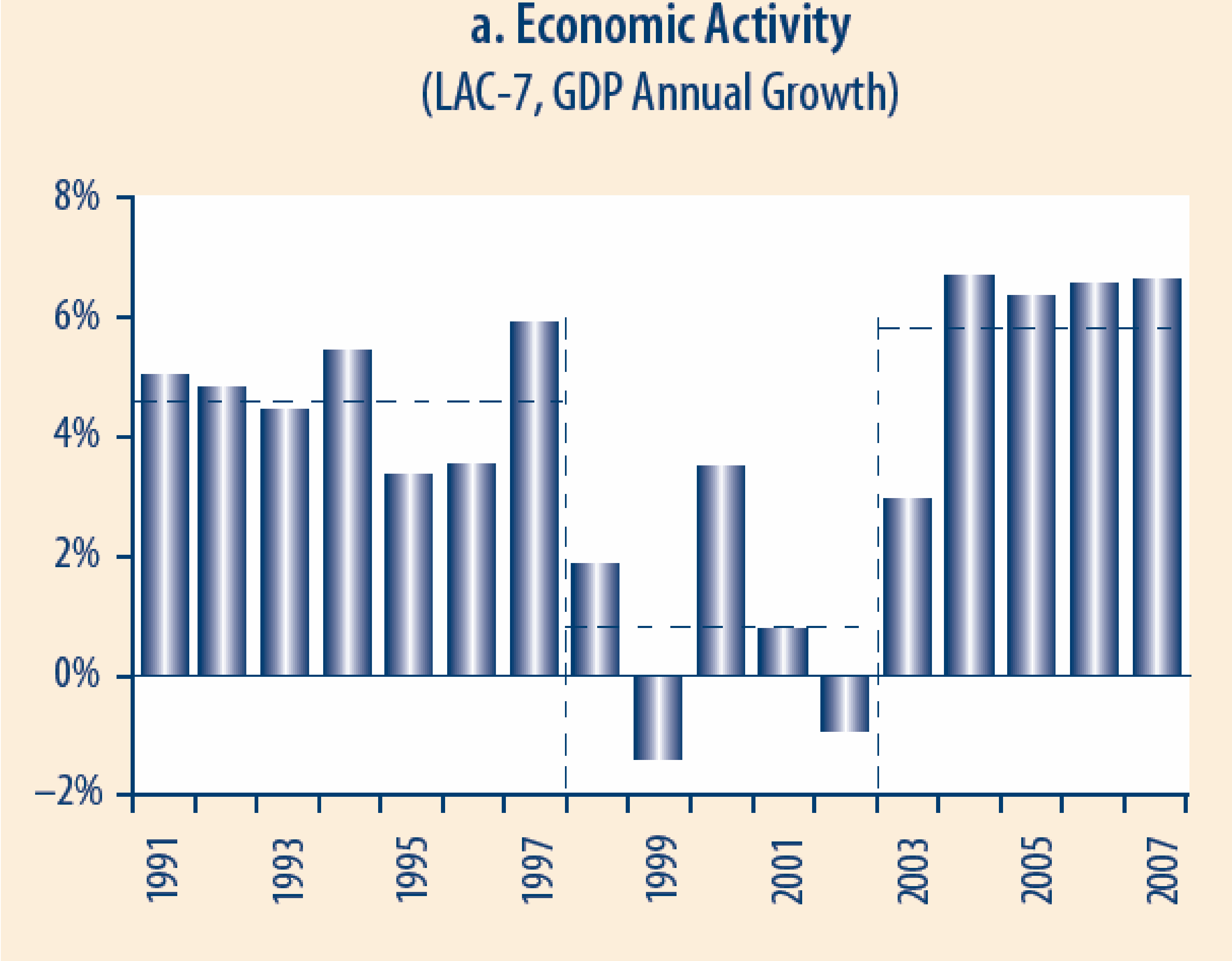
National Graduate Institute for Policy Studies

1. Introduction

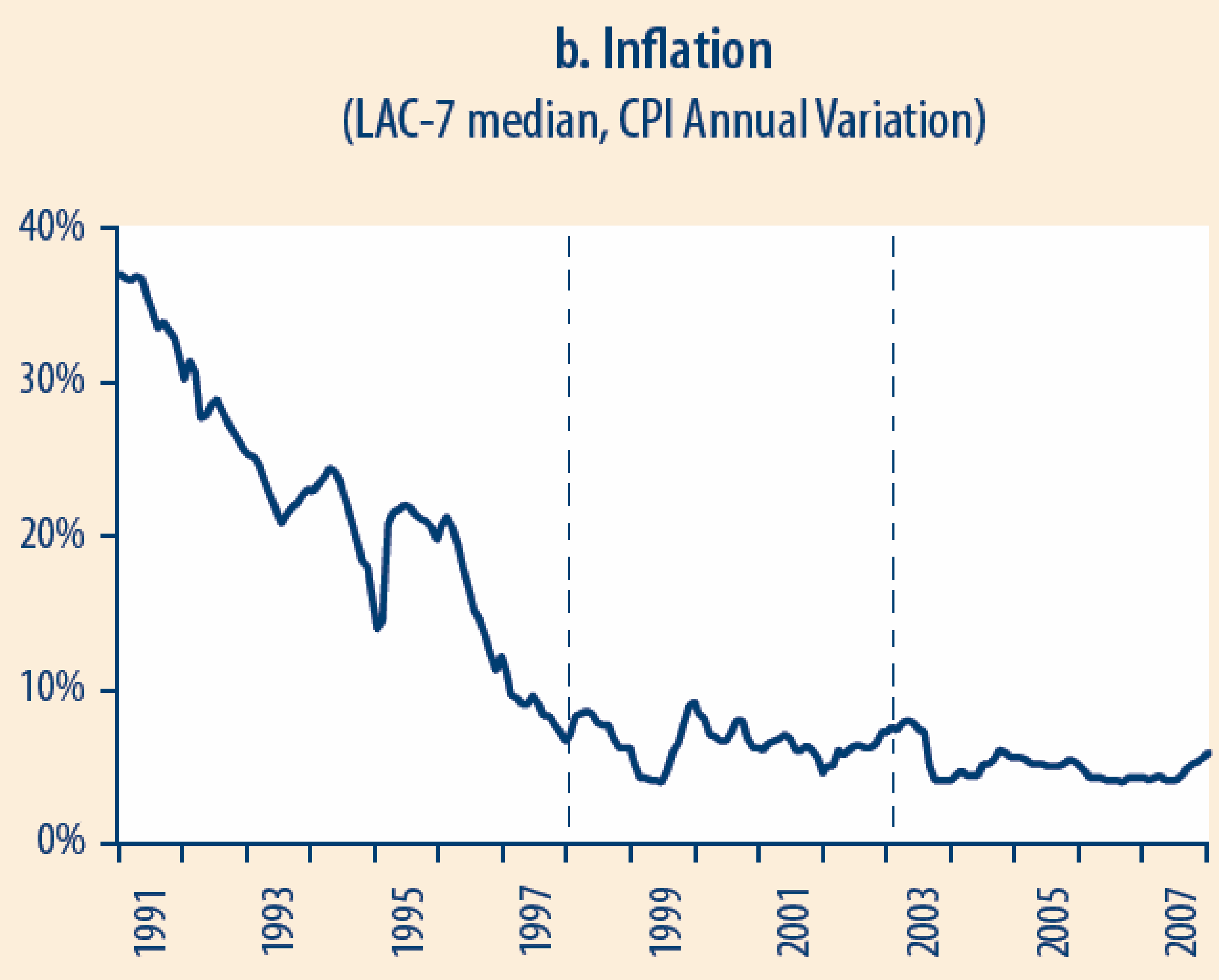
- Both Asia and Latin America experienced serious financial crises.
- Both regions recorded high rate of growth with sound macro-economic conditions after financial crisis and reforms
- Common and different lessons Asia and Latin America learned from their crises and reforms could give us useful insight for African development

2. Latin America: Repeated Crises and Recovery

- 1982: Debt Crisis in most of Latin American countries
- *Reforms in 80s and 90s*
- 1994: Financial crisis in Mexico
- 1998: Financial crisis in Brazil
- 2001: Financial crisis in Argentine
- 2003-07: Recovery (6% growth per year, the highest rate since 70s) with lower inflation rate
- *LAC 7 (Argentine, Brazil, Chile, Colombia, Mexico, Peru and Venezuela) account for 91 % of LAC's GDP*



IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008



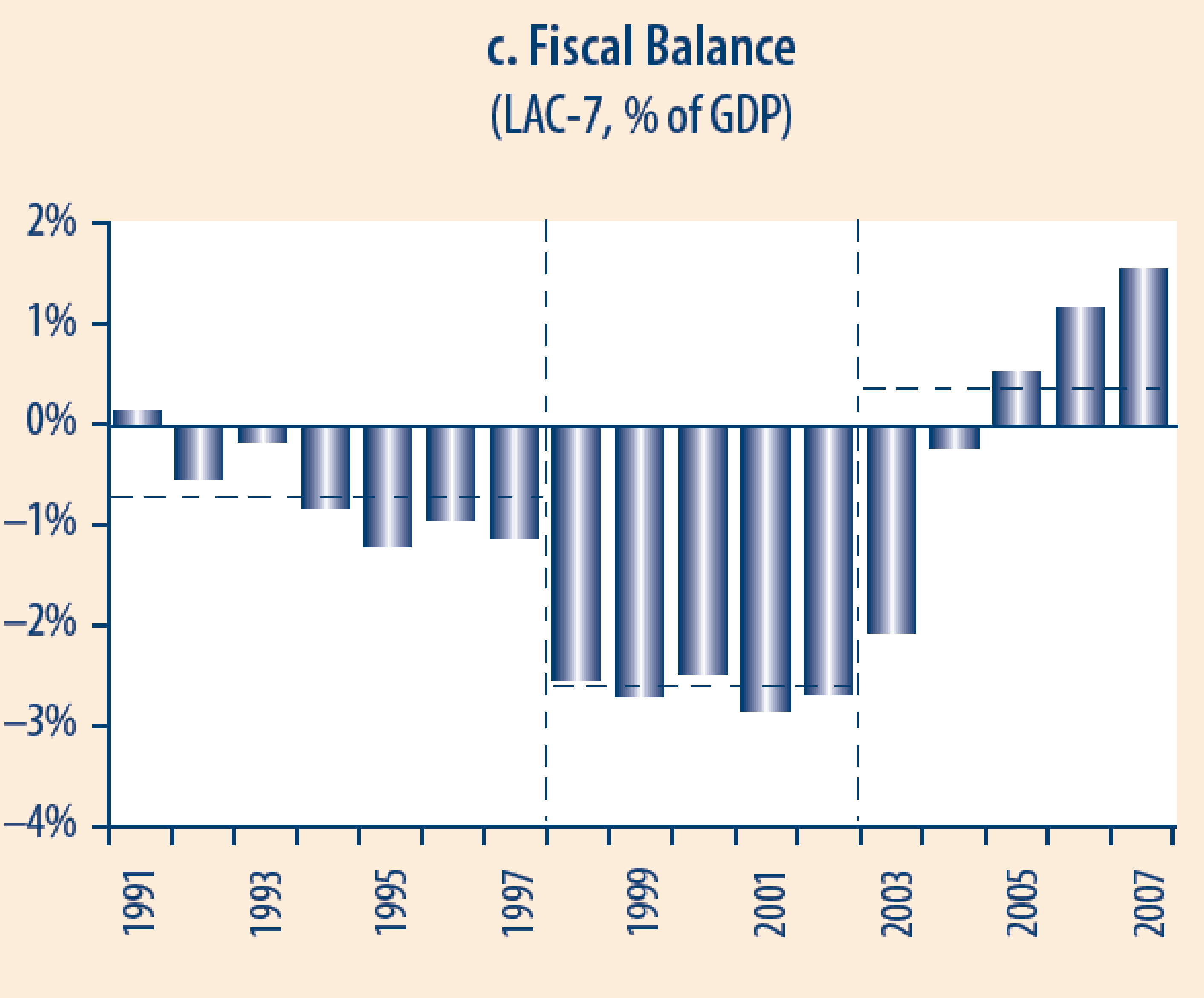
IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008

Latin America: Lessons learned from crises

- Improvement in fundamentals made Latin America less vulnerable to adverse external shocks and financial crisis.
- Improvement in fundamentals allowed Latin America to sustain high levels of growth in last five years 2003-07. (Together with favorable external factors: strong world growth, high commodity prices and benign financial conditions)

LAC: Sound Economic and Financial Policies

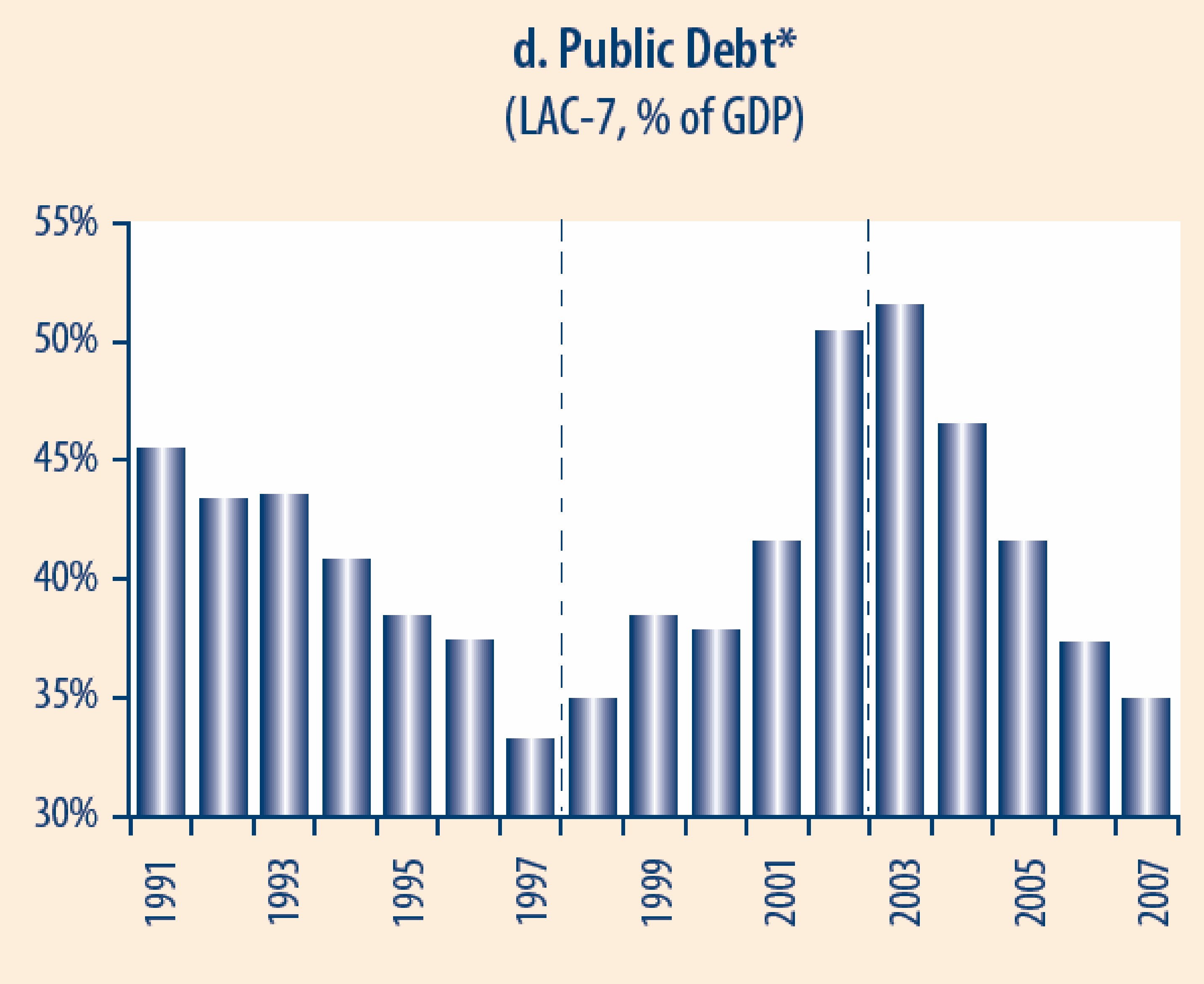
- Fiscal position: regions' overall surplus of 1.5% of GDP in 2007
- At the peak of the previous expansionary period LAC 7 exhibited a fiscal deficit of 0.9% of GDP
- Brazil: a sizable primary surplus (overall deficit due to a high debt burden)
- Other LAC 7: in balance or a surplus



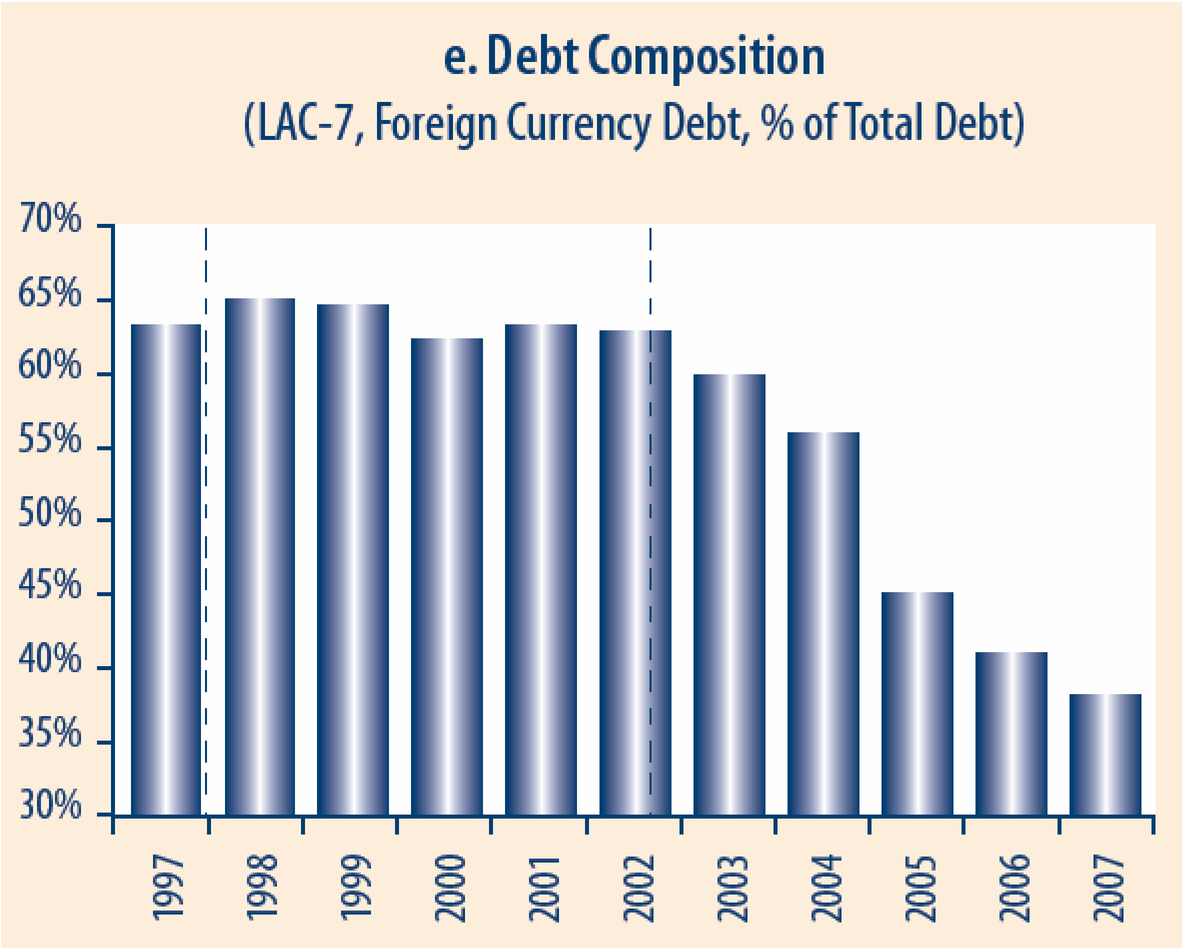
IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008

LAC: Lower debt levels and less risky debt

- Significant reduction in public debt levels: from 51 % of GDP in 2003 to 35% in 2007
- Debt riskiness has been reduced (Risky debt includes foreign- currency debt, short-term debt and variable interest rate debt)
- Major improvement in debt composition: Foreign-currency debt in total public debt fell from 65 % in 1998 to 38 % in 2007
- Maturity has been lengthened: Public debt maturing in the next twelve months has declined from 6.9 % of GDP to 4.8% of GDP



IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008



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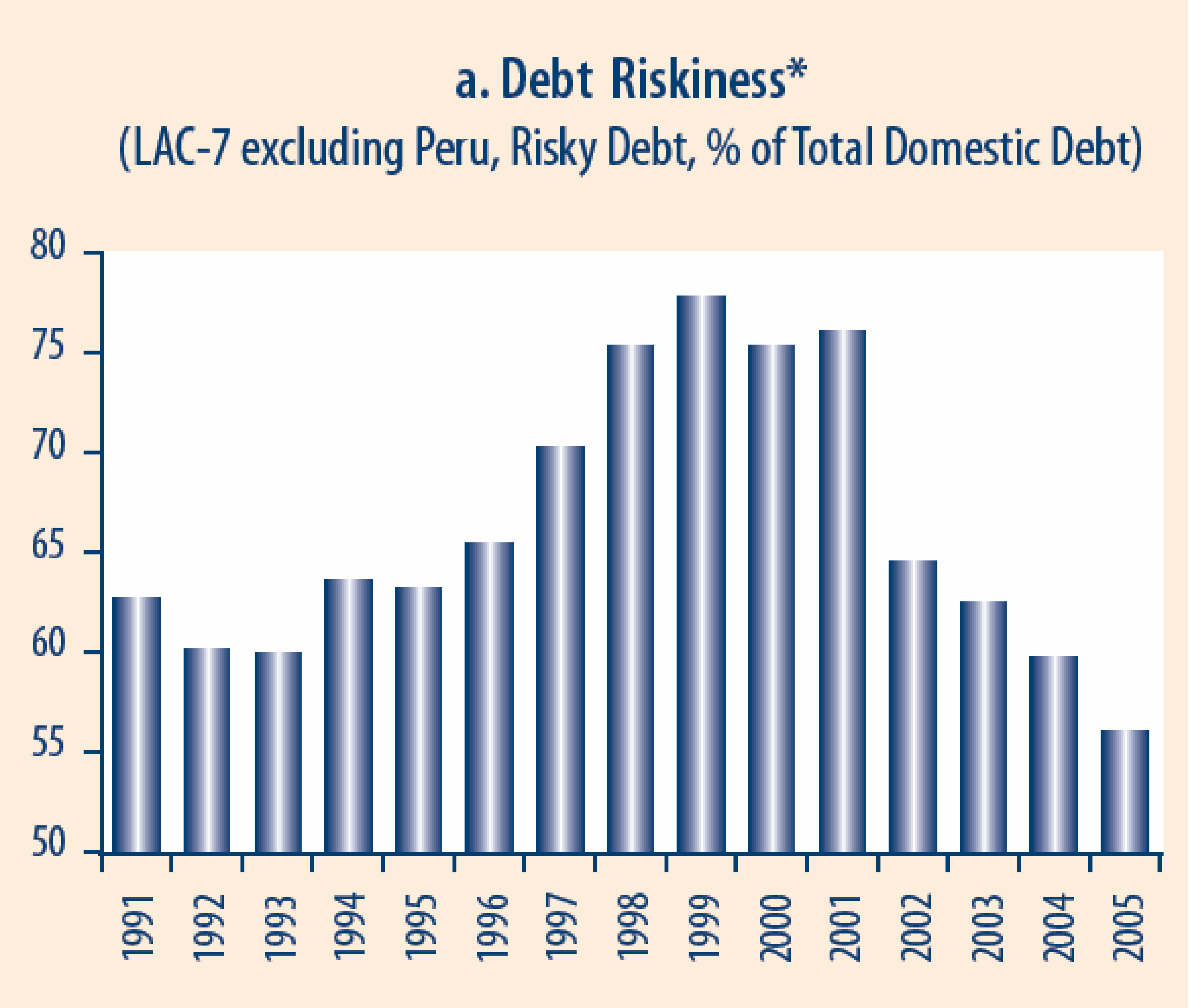
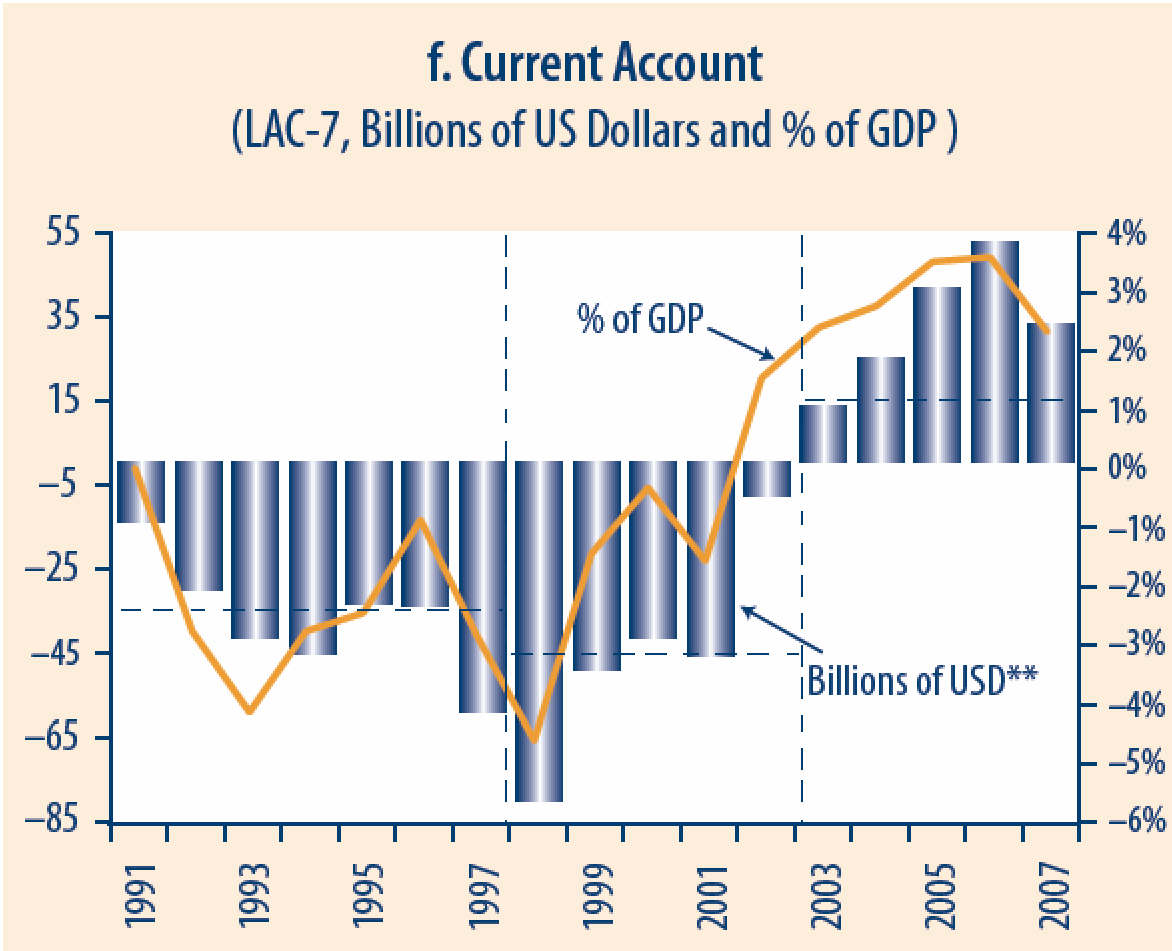


IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008

LAC: Reduced Exposure to External Shock

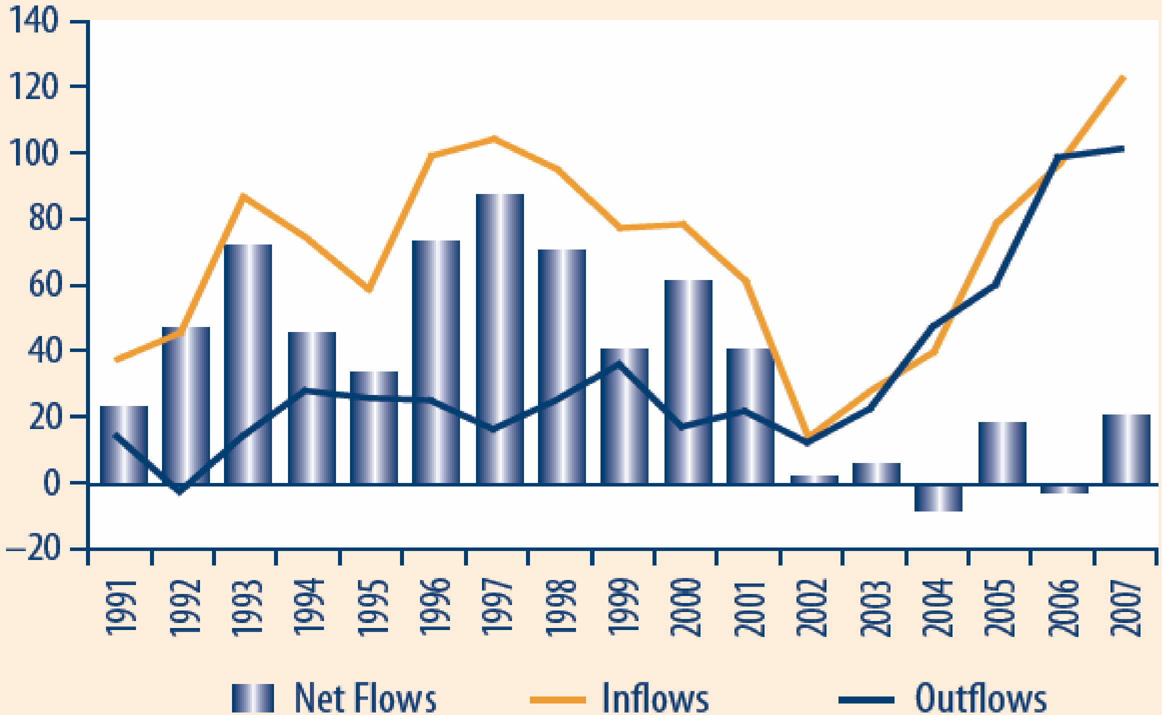
- Improvement in the current account: LAC 7 from a deficit of 3.0% of GDP in 1997 to a surplus of 2.2% of GDP in 2007
- Strong build-up of international reserves
- Pre-crisis: Previous expansions were associated with large current account deficit and thus, heavily dependent on a steady flow of external financing
- Post-crisis: Exposure to sudden stops in capital flows has been mitigated



IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008

FIGURE 10 Capital Flows to Latin America

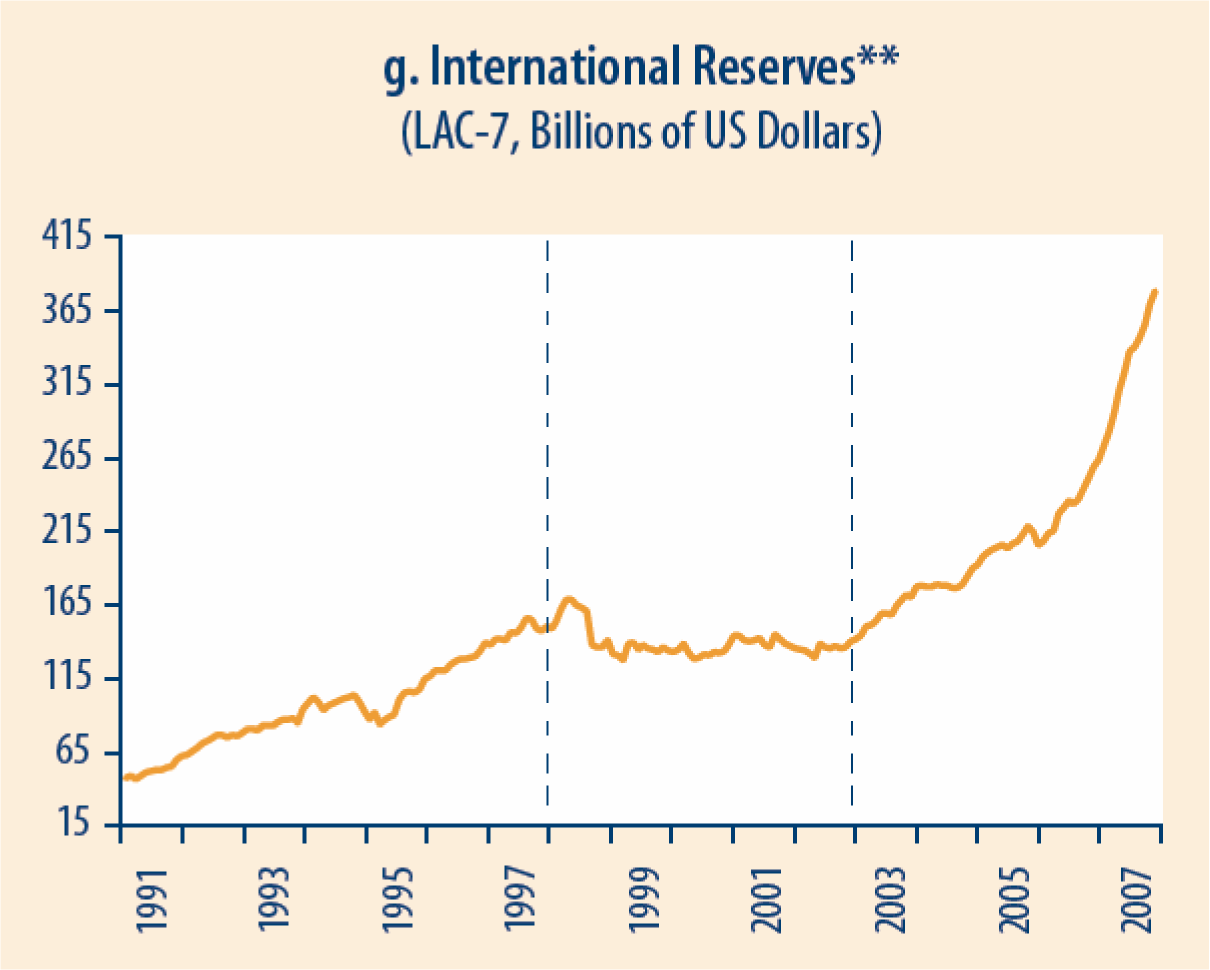
(LAC-7, Billions of US Dollars)



LAC-7 is the sum of the seven major Latin American countries, namely Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. These countries represent 91 percent of Latin America's GDP.

Data Source: Based on IFS.

IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008



IDB, *All That Glitters May Not Be Gold: Assessing Latin America's Recent Macroeconomic Performance*, 2008

Impact of the current financial turmoil to Latin America

- ***As mentioned, improvement in fundamentals made Latin America less vulnerable to adverse external shocks and financial crisis.***
- ***However,***
- LAC have not "decoupled" themselves from advanced nations: Some of them are still fragile and affected by the current financial turmoil (According to Sebastian Edwards, Ex-chief economist for LA, WB), and therefore
- Price of stocks lowered in LAC stock exchanges
- LAC's currencies depreciated
- In some of LAC, cost of external financing soare

- Some of LAC "need to create a robust economy with a high and sustainable growth rate." **"Agility, dynamism, productivity and economic policies that promote efficiency and enterprises are required."** (Sebastian Edwards, Ex-chief economist for LA, WB)
- LAC need to strengthen regional integration and cooperation to reduce their fragility

Competitive sectors and enterprises

- In the process of reforms after crises, competitive sectors and enterprises have emerged in Latin America such as:
- Car and electronics industries in Mexico (due to NAFTA and other FTA or EPA)
- Car, steel, electronics, agro-industry, etc. in Brazil
- Natural resource related sectors, non traditional export sectors in Chile
- However, as mentioned above, **economic policies that promote efficiency and enterprises are required**

2. Asia: 1997 Financial Crisis and Robust Recovery

- The East Asian Miracle
- 1997 Financial Crisis
- Reforms
- Robust Recovery

East Asian Miracle

Figure 2.2. Successive waves of rapid development

Growth rates of per-capita GDP of selected Asian economies

ASEAN=Association of Southeast Asian Nations, GDP=gross domestic product, NIE=newly industrializing economy, PRC=People's Republic of China.

Asian NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei,China.

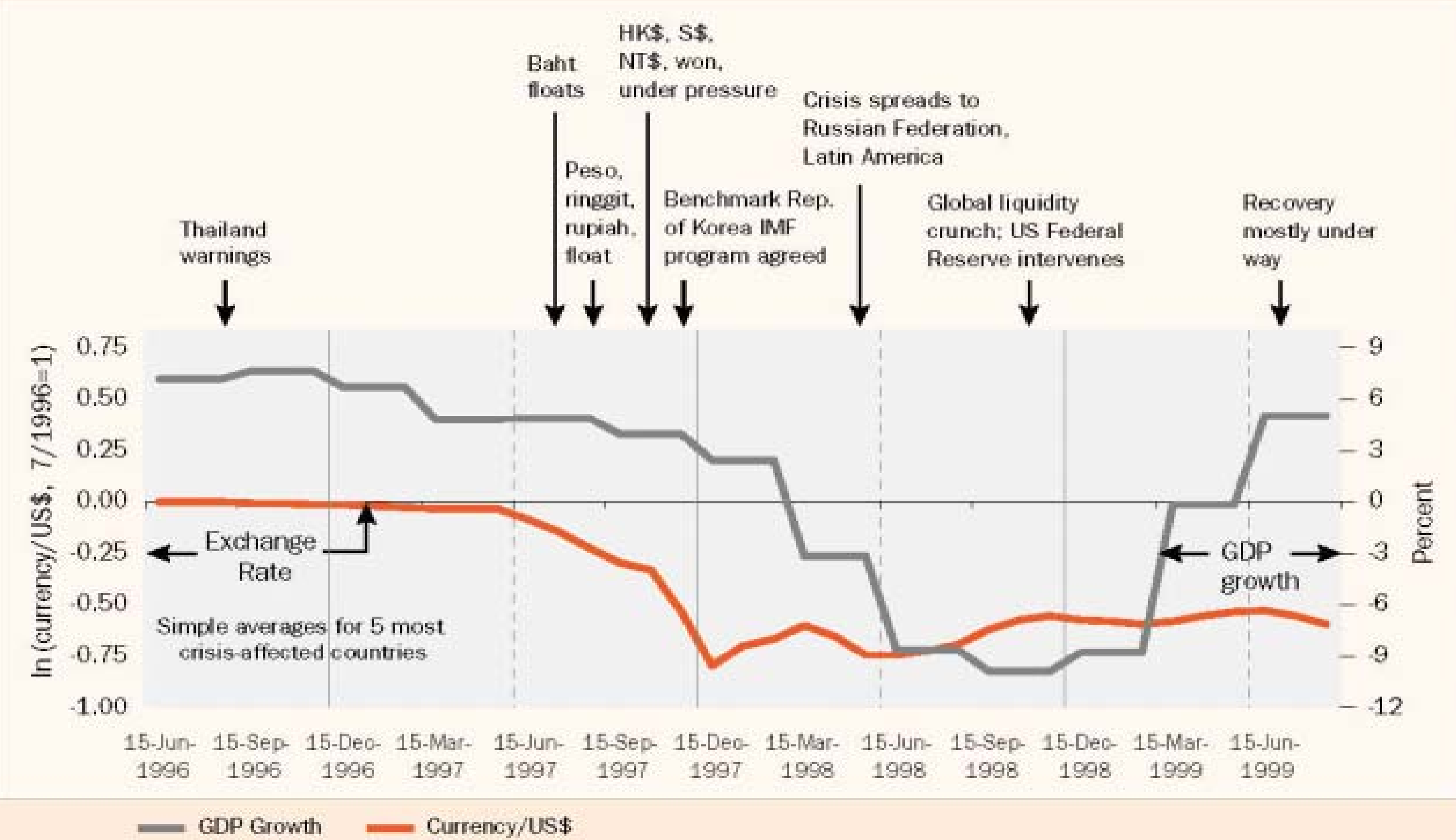
ASEAN-5 economies include: Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.

Source: CICUP 2007. Penn World Tables. Available: http://pwt.econ.upenn.edu/ (accessed October 2007).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 2.3. Timeline of the Asian financial crisis

June 1996–June 1999



GDP = gross domestic product, HK$ = Hong Kong dollar, IMF = International Monetary Fund, ln = logarithm (natural), NT$ = New Taiwan dollar, S$ = Singapore dollar, US$ = United States dollar.

Source: Data from IMF various years. International Financial Statistics. Available: http://www.imfstatistics.org/ (accessed October 2007).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 2.4. Asia's robust recovery

Real GDP growth rates of selected Asian economies

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, NIE = newly industrializing economy.
Asian NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei,China.
ASEAN-5 economies include Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.
Source: ADB 2008c. Statistical Database System. Available: https://sdbs.adb.org/sdbs/index.jsp (accessed April 2008).

Source: ADB, *Emerging Asian Integration*, 2008

Asia: ***Lessons Learned from the Crisis***

- Reforms
- Regional Cooperation and Integration
- In this process, competitive sectors and enterprises have been expanded in Asia

Asia: Reforms

- ***Sound Macroeconomic management***
- Sound fiscal policy
- Limit public debt
- Limit current account deficit
- ***Other measures to prevent or reduce the risk of crises***

National measures	Regional measures	Global measures
Preventing or reducing the risk of crises		
Adopt sound macroeconomic management		
Pursue noninflationary monetary policy Pursue sound fiscal policy Limit public debt Limit current account deficits Maintain data transparency	Strengthen regional policy dialogue Maintain early warning system	Strengthen IMF surveillance and policy advice Strengthen private-sector monitoring (rating agencies)
Adopt sustainable exchange rate regime		
Adopt viable exchange rate regime Ensure consistency between exchange rate regime and macroeconomic policy	Strengthen regional exchange rate coordination	
Manage risk in the national balance sheet		
Maintain adequate foreign exchange reserves Monitor short-term capital flows Liberalize capital account cautiously	Monitor short-term capital flows and remove regulatory biases that favor short-term external lending	Monitor short-term capital flows and remove regulatory biases that favor short-term external lending
Manage risk in the financial and corporate sectors		
Strengthen financial regulation and supervision Improve disclosure and information transparency Strengthen governance in financial and corporate sectors Develop capital markets	Help develop regional capital markets Support international standards and codes in regulation and supervision Support best practice governance	Strengthen financial sector monitoring Implement international standards and codes Support best practice governance
Managing crises effectively		
Mobilize timely and adequate external liquidity		
Adopt consistent policy packages Minimize moral hazard	Establish regional liquidity support	Expand and accelerate IMF liquidity support
Tailor macroeconomic and structural policies to crisis specifics		
Tailor monetary and fiscal policies to specifics of the crisis and the economy	Strengthen regional capacity to advise on adjustment	Streamline IMF conditionality on macroeconomic and structural policies
Bail-in private international investors		
Impose official standstills If necessary, impose private sector involvement	Establish international rules for private sector involvement	Establish international rules for private sector involvement
Resolving the systemic consequences of crises		
Resolve impaired bank assets and corporate liabilities		
Establish procedures for bank exits and recapitalization Establish procedures for corporate workouts Include insolvency clauses in debt issues	Help finance bank and corporate restructuring	Establish international procedures for the resolution of non governmental debt Help finance bank and corporate restructuring
Support vulnerable groups through social sector policies		
Strengthen safety nets and support hard-hit populations	Provide support to finance social sector programs	Provide support to finance social sector programs

IMF = International Monetary Fund.
Source: Based on Kawai 2007b.

Source: ADB, *Emerging Asian Integration*, 2008

Asia: Macro-economic Soundness Attained by post-crisis reforms

- Low inflation rate
- Lower fiscal deficit
- Low public debt
- Current account surplus
- Increase of foreign exchange reserves
- Lower non performing loans (Improvement of bank efficiency)

Figure 6.7. Variations in Asia's fiscal indicators

Sources: Data from ADB various years. *Asian Development Outlook*. Available: http://www.adb.org (accessed April 2008); and IMF 2008. *World Economic Outlook*. Available: http://www.imf.org (accessed April).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 5.11. Rising current account surpluses

Selected Asian economies, percent of GDP 1988–2006.

GDP = gross domestic product.

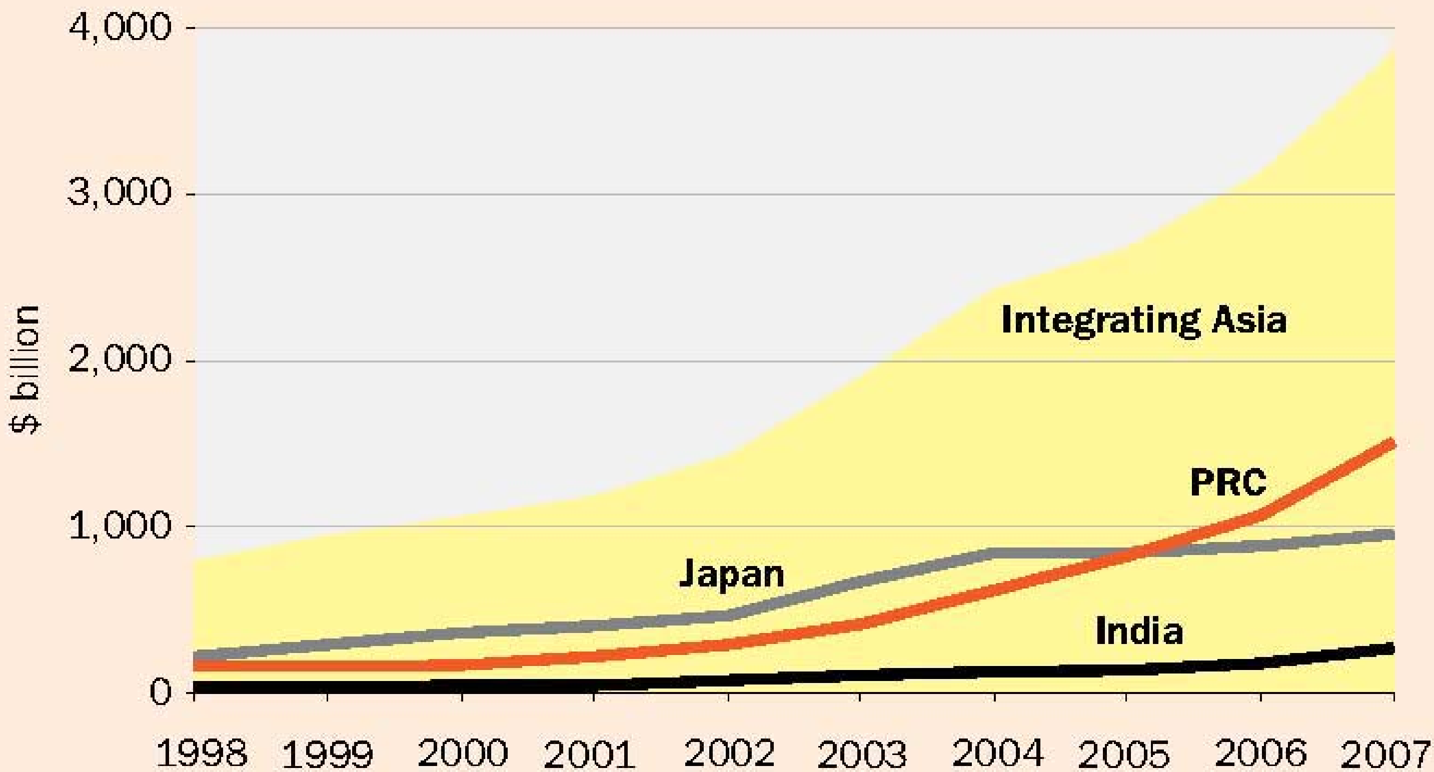
Notes: The five most crisis-affected countries are Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand.

Sources: Data from World Bank. 2008. World Development Indicators. Available: http://www.worldbank.org (accessed April 2008).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 5.12. Rising foreign exchange reserves

Integrating Asia, 1998–2007 (excluding gold)



PRC = People's Republic of China.

Notes: Data include the most recent month available. For Brunei Darussalam, the most recent data are for December 2006.

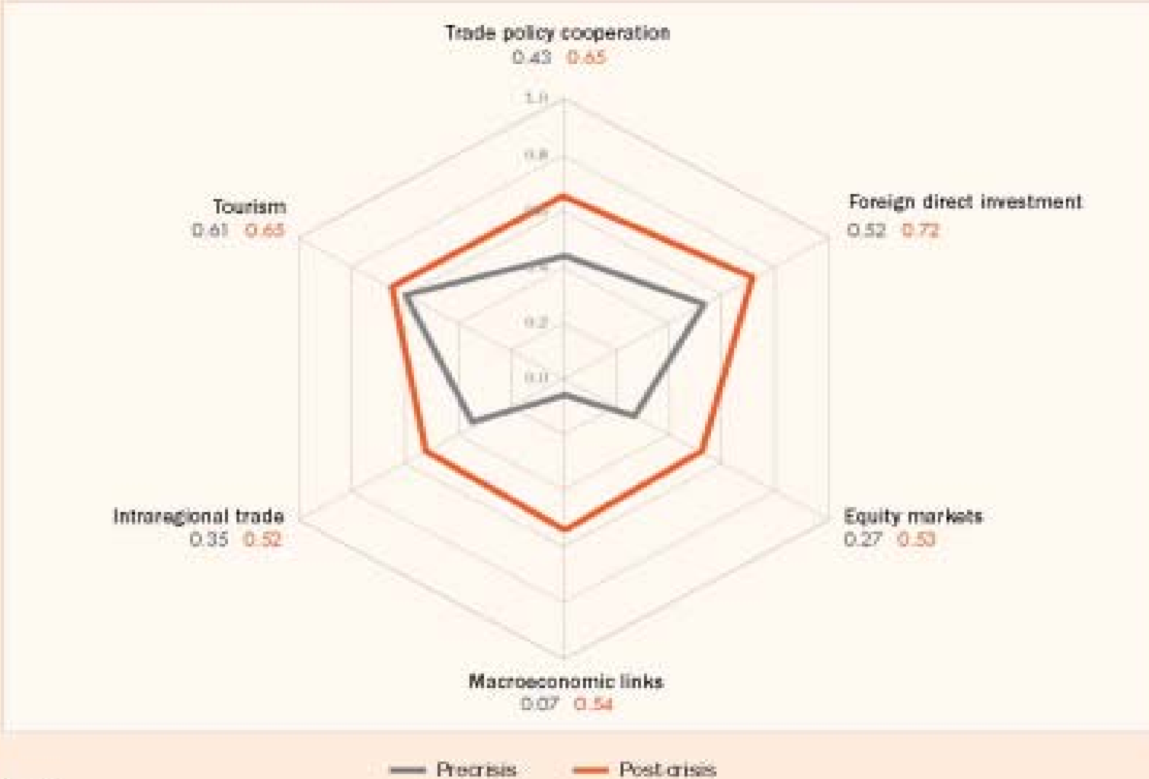
Sources: Data from IMF various years. International Financial Statistics. Available: http://www.imfstatistics.org; and CBRC. 2008. Available: www.ceicdata.com (accessed April 2008).

Source: ADB, *Emerging Asian Integration*, 2008

Asia: Regional Cooperation and Integration as Another Measure to Reduce Vulnerability to External Shock and Enhance Competitiveness

- Trade policy coordination
- Macroeconomic links
- Intraregional trade
- Intraregional foreign direct investment
- Equity market
- Tourism
- ***In this process***
- FTA and regional integration
- Regional cooperation (such as Chang Mai Initiative)
- Physical integration by regional or sub-regional infrastructure

Figure 2.1: Advancing integration: regional indicators, pre- and post-crisis

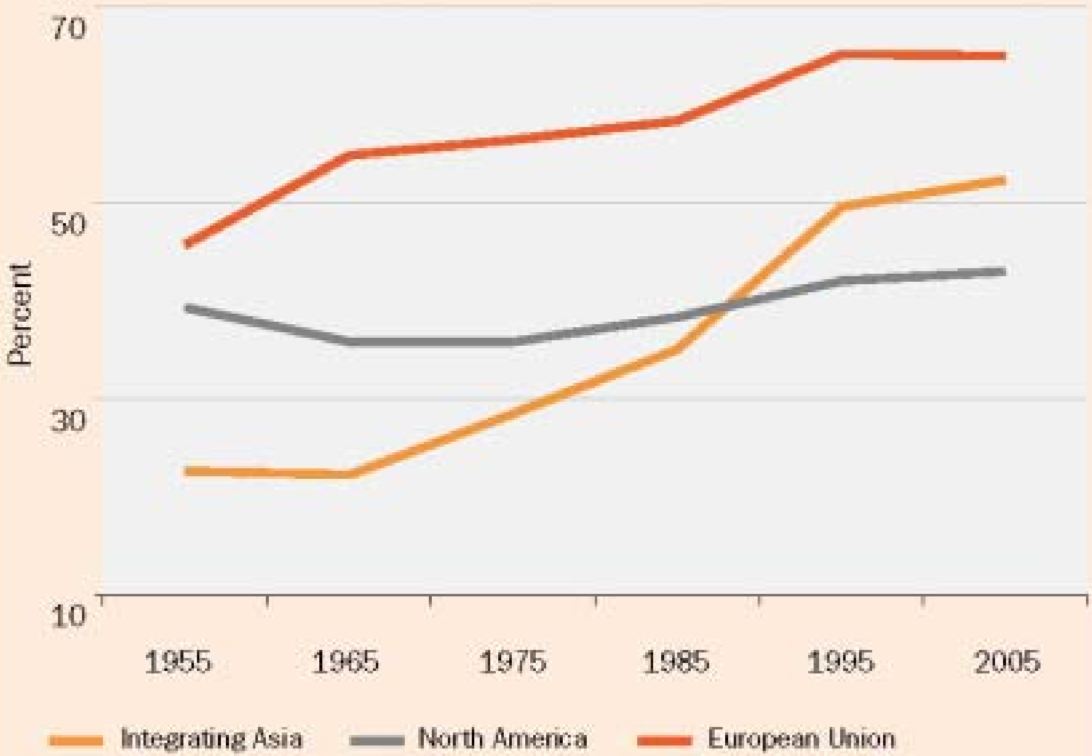


Notes:
Data are calculated for the 16 integrating Asian economies, except as noted below.
Trade policy cooperation: Density of free trade agreements among integrating Asian economies (share of pair-wise trade relations that are under a free trade agreement, with a weighting of 1.0 for concluded agreements, 0.5 for agreements under negotiations, 0.25 for agreements under study)—precrisis, until 1997; post-crisis: 1998–2007)
Foreign direct investment: Intraregional foreign direct investment share among integrating Asian economies—precrisis, 1982–1996; post-crisis, 1999–2002.
Equity markets: Correlation of detrended quarterly equity price changes, with simple average for integrating Asian economies—precrisis, 1990:Q2–1996:Q4; post-crisis, 2000:Q1–2007:Q2. Data not available for India and Viet Nam.
Macroeconomic links: Correlation of detrended quarterly growth rates of gross domestic product, with a simple average for integrating Asian economies—precrisis, 1988–1996; post-crisis, 1999–2007. Data not available for India and Viet Nam.
Intraregional trade: Intraregional trade share—precrisis, 1980–1996 average; post-crisis, 2000–2006 average.
Tourism: Share of intraregional tourist inflows and outflows—precrisis, 1984–1995 average; post-crisis, 2004–2005 average.
Sources of data:
Trade policy cooperation: Asian Regional Integration Center. FTA Database. Available: http://aric.adb.org (accessed February 2008).
Foreign direct investment: UNCTAD. FDI Statistics. Available: http://www.unctad.org (accessed February 2008).
Equity markets: Asian Development Bank staff elaborations from Bloomberg data.
Macroeconomic links: Oxford Economics 2008. Forecasting and Analysis. Available: http://www.oef.com/OE_FA_Int_Mac.asp (accessed February 2008); and Bureau of Economic Analysis, United States, 2008. National Income Accounts. Available: http://www.bea.gov/national/index.htm
Intraregional trade: International Monetary Fund various years. Direction of Trade Statistics. Available: http://www.imf.org (accessed February 2008).
Tourism: United Nations World Tourism Organization. Various years. ***Yearbook of Tourism Statistics***. Available: http://www.un.wto.org/ (accessed February 2008).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 2.5. Increasing intraregional trade shares

Long-term trend: 1955–2005



Notes:

European Union includes all 25 members as of 2005.

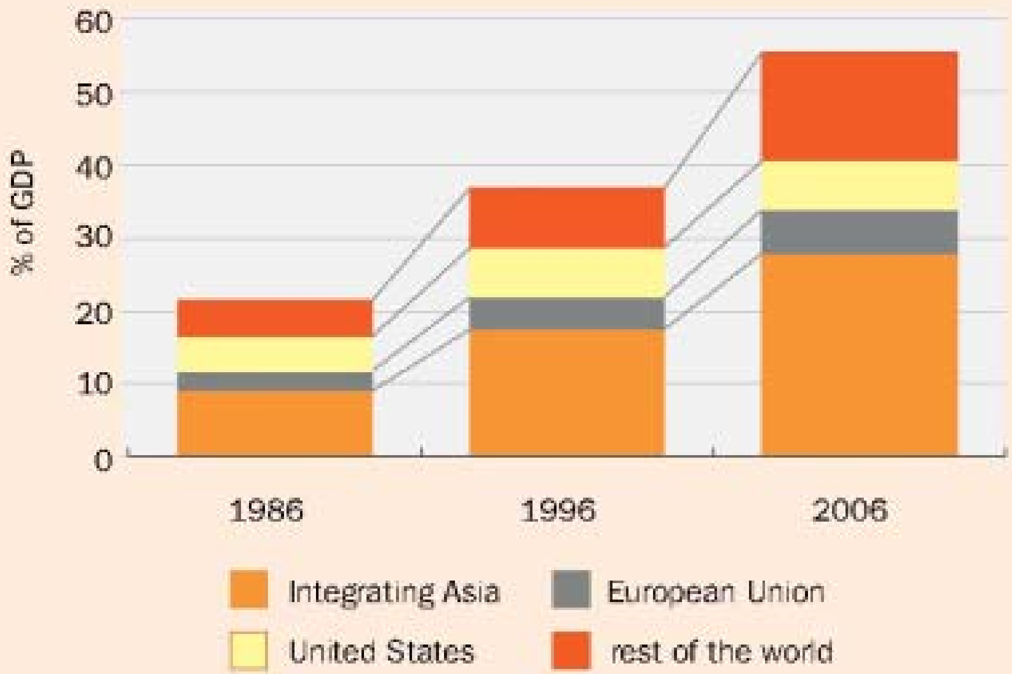
Integrating Asia includes Brunei Darussalam; Cambodia; People's Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei,China; Thailand; and Viet Nam.

The intraregional trade share is defined as: $(X_{ii} + M_{ii}) / (X_{i.} + M_{i.})$ where X_{ii} is exports of region *i* to region *i*; M_{ii} is imports of region *i* from region *i*; $X_{i.}$ is total exports of region *i*; and $M_{i.}$ is total imports of region *i*.

Source: Data from IMF various years. Direction of Trade Statistics. Available: http://www.imf.org (accessed October 2007).

Source: ADB, *Emerging Asian Integration*, 2008

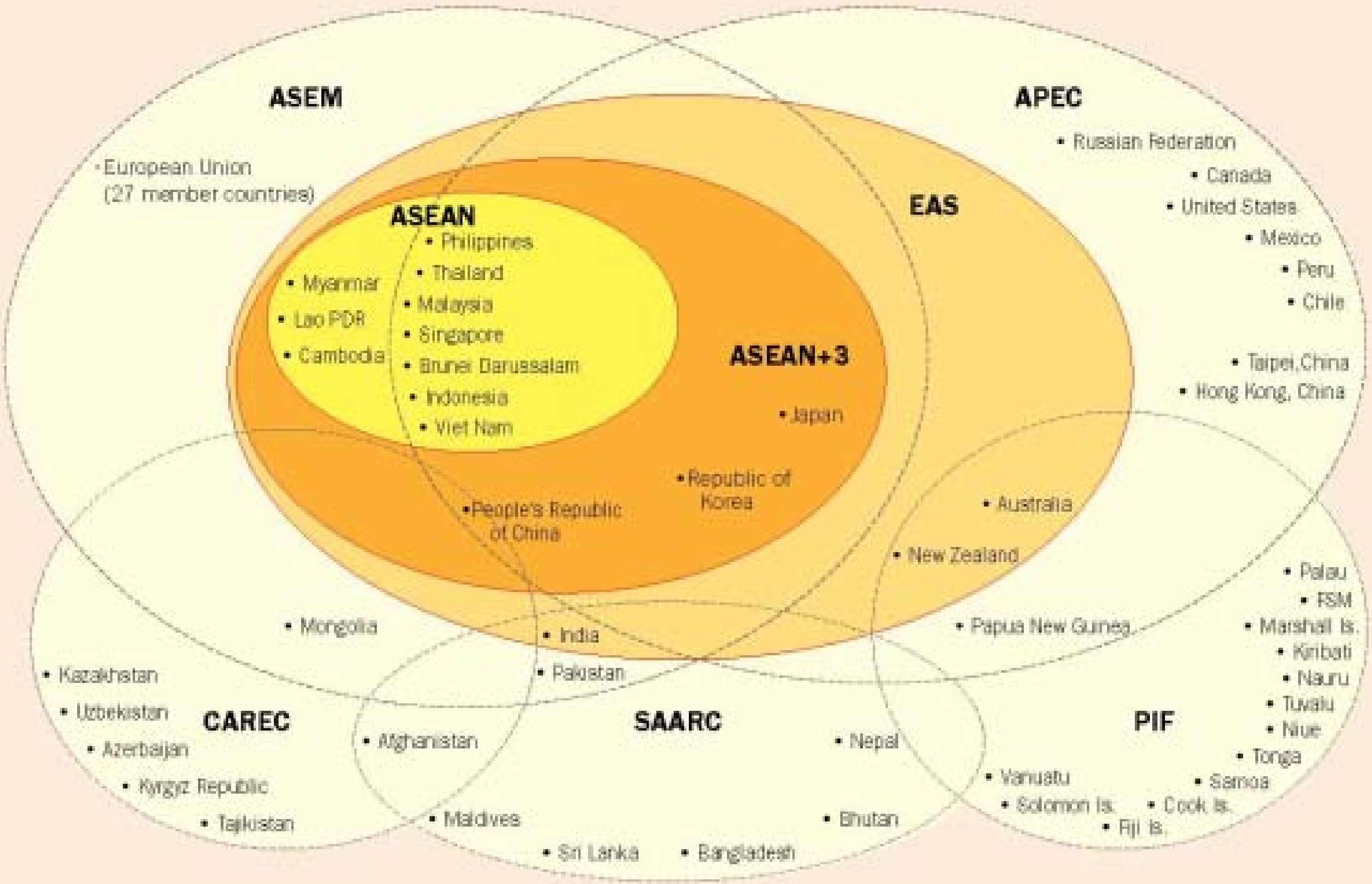
Figure 3.4. Increasing trade links
Trade of Integrating Asia as a share of GDP by destination



GDP = gross domestic product.
Notes:
Trade is import+export.
European Union includes the 25 countries that were members as of 2006.
Integrating Asia includes Brunei Darussalam; Cambodia; People's Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei,China; Thailand; and Viet Nam.
Source: Data from IMF various years. Direction of Trade Statistics. Available: http://www.imf.org (accessed October 2007).

Source: ADB, *Emerging Asian Integration*, 2008

Figure 7.1. Economic architecture: regional and transregional forums



APEC = Asia-Pacific Economic Cooperation; ASEAN+3 = ASEAN plus three countries, as shown; ASEAN = Association of Southeast Asian Nations; ASEM = Asia-Europe Meeting; EAS = East Asia Summit; CAREC = Central Asia Regional Economic Cooperation; FSM = Federated States of Micronesia; Lao PDR = Lao People's Democratic Republic; PIF = Pacific Islands Forum; PRC = People's Republic of China; SAARC = South Asian Association for Regional Cooperation.

Notes:

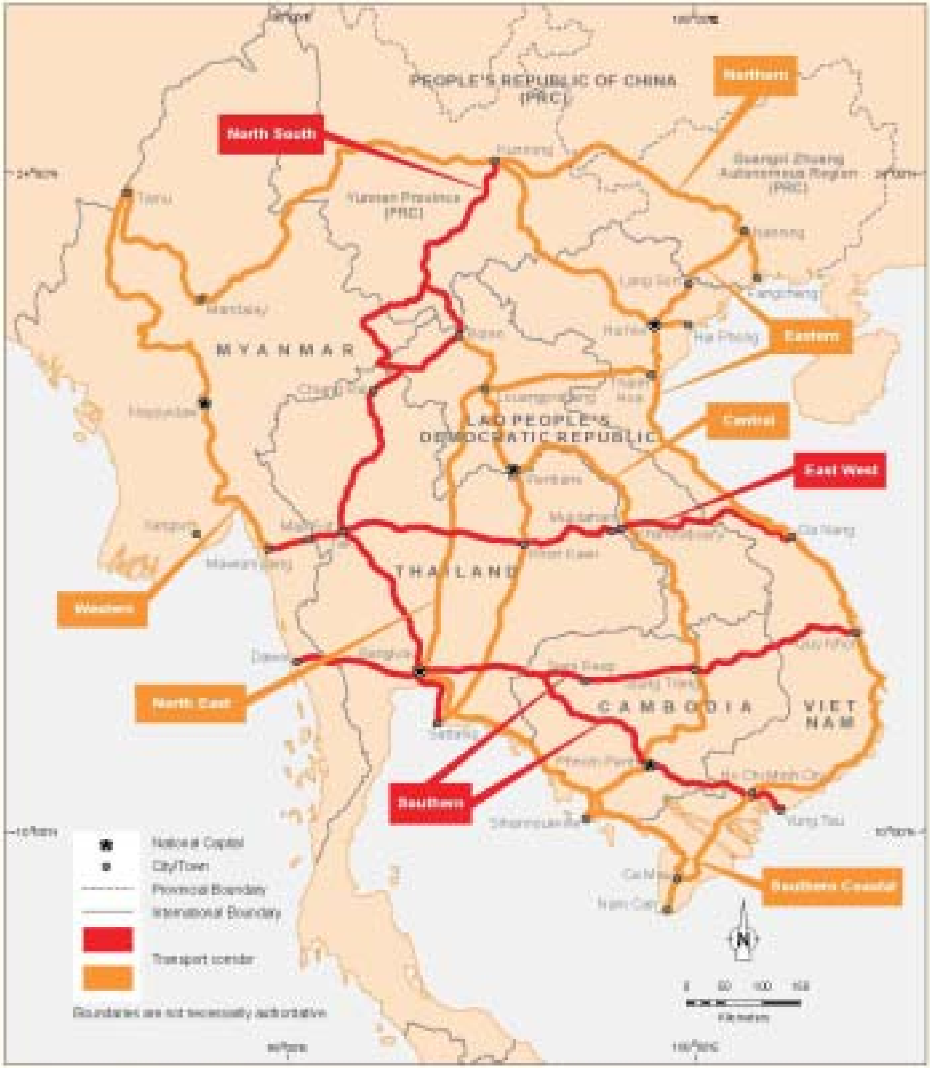
ASEM includes also the European Commission as a member.

For CAREC, the PRC's membership is focused on the Xinjiang Uygur Autonomous Region.

Source: Asian Development Bank.

Source: ADB, *Emerging Asian Integration*, 2008

Figure B6.2. Greater Mekong Subregion transport network



Source: Asian Development Bank.

Source: ADB, *Emerging Asian Integration*, 2008

Table 5.5. Swap arrangements under the Chiang Mai Initiative

$ billions as of January 2008

From \ To	PRC	Japan	Rep. of Korea	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
PRC		3.0	4.0	4.0	1.5	2.0		2.0	16.5
Japan	3.0		13.0	6.0	1.0	6.0	3.0	6.0	38.0
Korea, Rep. of	4.0	8.0		2.0	1.5	2.0		1.0	18.0
Indonesia			2.0					18.5	2.0
Malaysia			1.5						1.5
Philippines		0.5	1.5						2.0
Singapore		1.0							1.0
Thailand		3.0	1.0						4.0
Subtotal	**7.0**	**15.5**	**23.0**	**12.0**	**4.0**	**10.0**	**3.0**	**9.0**	**84.0**
ASEAN Swap Arrangements									2.0
Total	**7.0**	**15.5**	**23.0**	**12.0**	**4.0**	**10.0**	**3.0**	**9.0**	**86.0**

ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China.

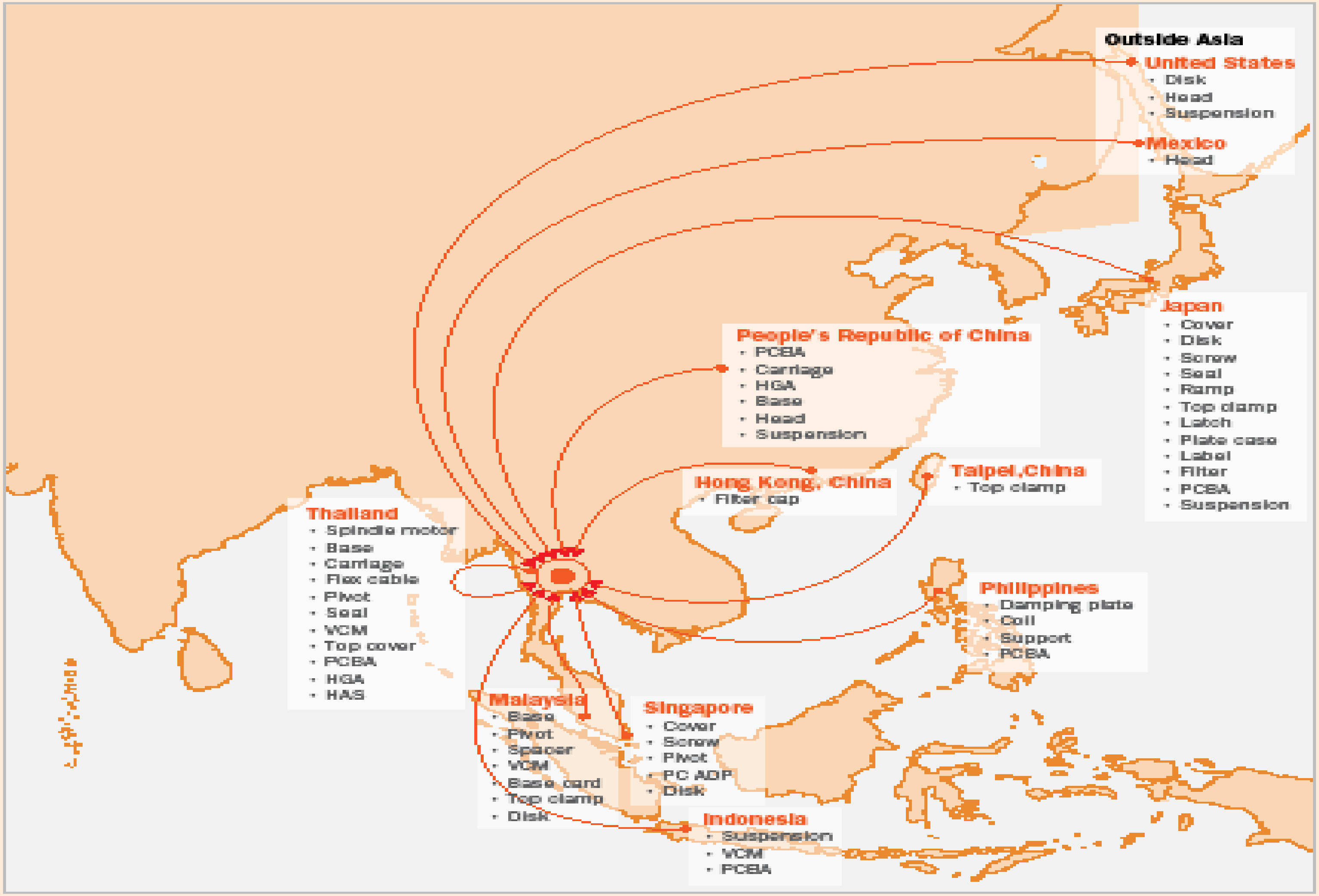
Source: Asian Development Bank staff elaborations based on data from Japan's Ministry of Finance website. Available: http://www.mof.go.jp/english/index.htm (accessed May 2008).

Source: ADB, *Emerging Asian Integration*, 2008

Expansion of competitive sectors and enterprises after crisis both in Asia and Latin America

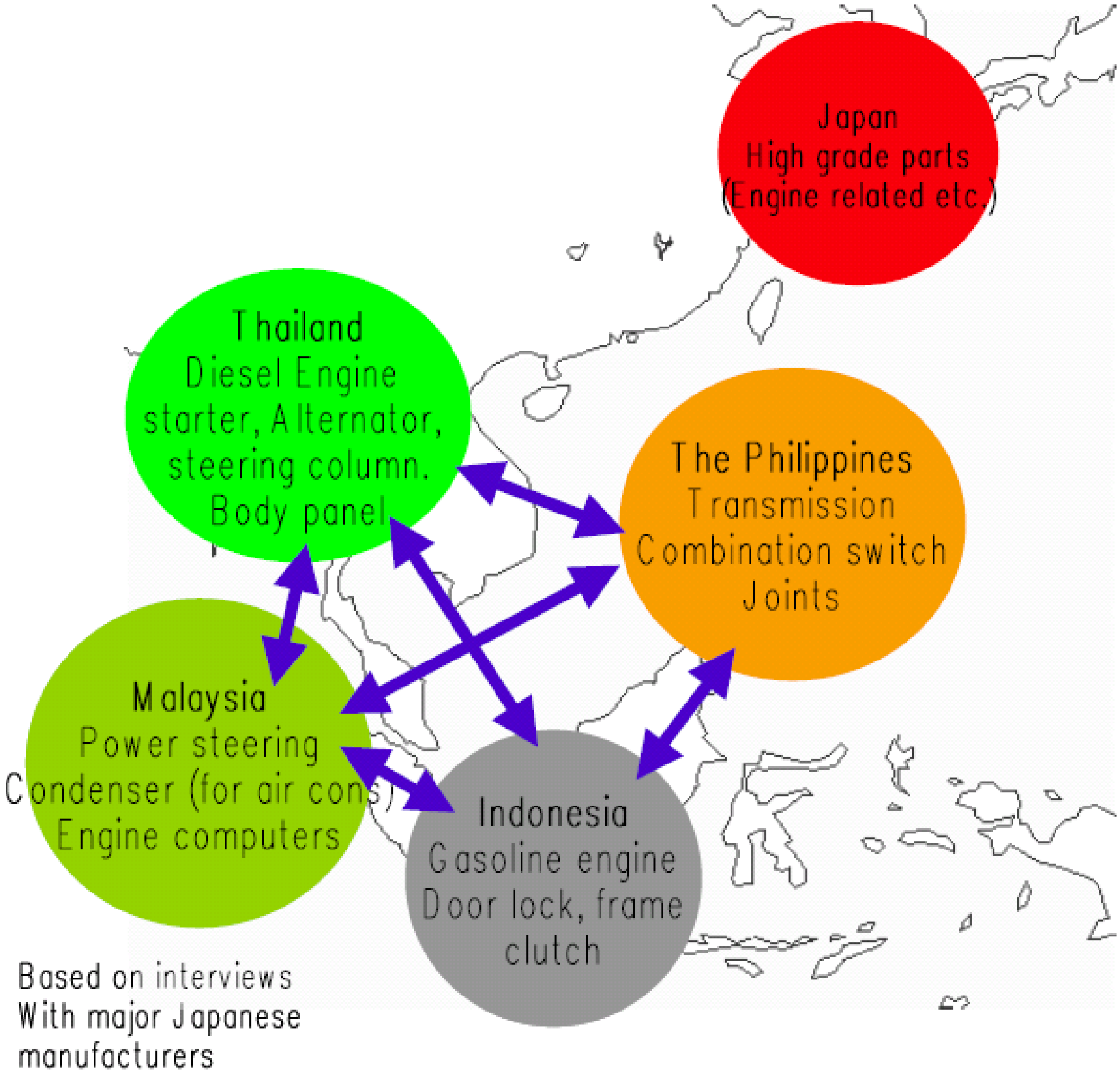
- Economic Reforms made private enterprises more competitive in both regions
- In Asia, in addition, market-led regional and/o sub-regional integration made private enterprises more competitive. (Strengthened "Flying Geese")

Figure 3.1. Networking: sourcing of parts and components for a hard disk drive



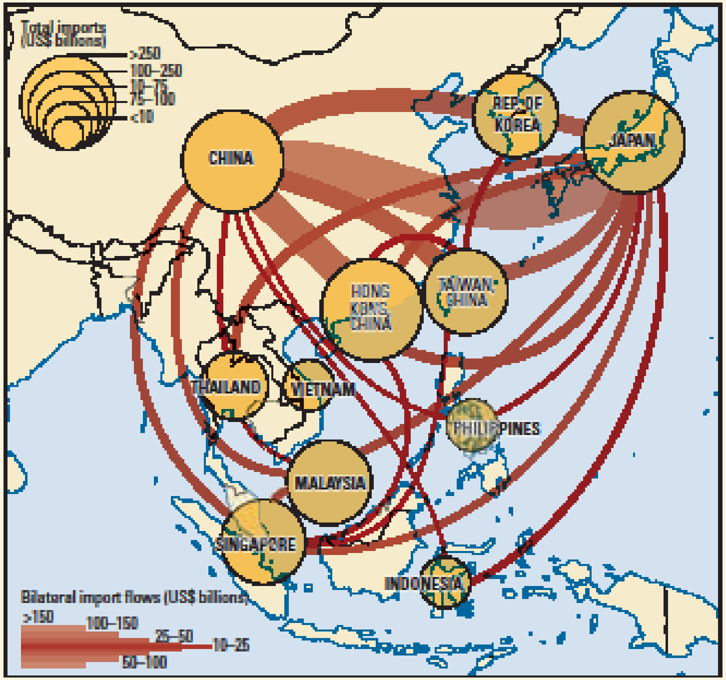
Note: The production of hard disk drives requires several parts and components. The example shows the actual sourcing of parts and components of a hard disk drive assembly firm in Thailand. The largest majority of parts and components are sourced from other integrating Asian economies. Hard disk drives are used in several electronic products. The hard disk drive assembler in Thailand exports a large share of its production to electronic firms mostly in other integrating Asian economies.
Source: Adapted from Hiratsuka 2006.

Figure 2.3: Interdependence of auto manufacturing within ASEAN



Source: Nomura Research Institute, Ltd. (2004).

Map G3.2 Asia integrated: trade at the end of the twentieth century



Source: Gill and Kharas 2007.

significant as an economic force in the region? One answer perhaps lies in the development of world-class cities. The major metropolises of Southeast Asia need to develop themselves into "sticky places," attracting and retaining global talent. Meanwhile, the integration of Australia and India into the region might alter the dynamics of place, offsetting to some degree the northward drift of Asia's economic center of gravity.

The problems encountered by countries *distant* from the major markets of the region are echoed in lagging areas within countries. Significant poverty remains in East Asia, with high poverty rates in areas like western China, southern and eastern Philippines, Thailand's northeast, and Vietnam's central highlands. The gap between per capita incomes in the richest and poorest provinces of China—negligible under the imperial dynasties of the past—has swelled to 13.1:1 (compared with 2.1:1 in the United States). Although many have moved closer to prosperous areas, overcoming the geographic *distances* that isolate these populations is still seen as a major challenge.

Within East Asian countries, people are moving to the markets, and markets are developing where people are concentrated. Urbanization is large and rapid in most countries, perhaps adding 25 million city dwellers every year for the next two decades. Most of these people will move to small and medium-size cities of less than 1 million people, not to major metropolitan areas. Managing these small cities efficiently and integrating them into the national economies will be a crucial task for reducing *distance* and sustaining growth.

Meanwhile, East Asia still faces strategic questions about how to bring down *divisions* between countries in the region. ASEAN's two-speed process shows how hard it is for countries with different incomes and economic structures to integrate deeply. No formal process of economic integration brings together all the economies of the region. A first attempt to start a regional dialogue was at the East Asia Summit in Kuala Lumpur, Malaysia, in December 2005. The summit called for financial stability, energy security, poverty eradication, and narrowing gaps between countries. It underscored the challenges that still divide the region: cross-border migration, environmental spillovers, diversity of governance standards, and cultural understanding. Other interesting experiments to foster regional integration are under way, such as within ASEAN+3, but the institutional leadership to forge a common future is fragmented. Even so, leading scholars have noted that "the emergence of an integrated East Asia is inevitable and necessary."[3] The challenge is figuring out how to make this happen quickly.

Contributed by Homi Kharas.

4. Implications for Africa

- *Africa compared with Asia and Latin America*
- Recent growth rate: Africa's growth rate is higher than Latin America's growth and lower than Asia's growth during 2003-07

Causes of African Growth

- The good news: many of the factors that have contributed to growth collapses in Africa have improved (Page, John, "Hunting for Leopards: Perspectives on Africa's Recent Growth" 2008)
- – Better economic management (lower inflation, etc.; however economic fundamentals remain weak)
- – More competitive exchange rate
- – Better institutions
- – Better governance
- – Fewer conflicts

Africa still remains vulnerable

- In spite of high growth rate in last five years: The region remains **vulnerable to outside shocks and changes in commodity prices** (Page, John, “Hunting for Leopards: Perspectives on Africa’s Recent Growth” 2008)

Then, How to Reduce Vulnerability to External Shocks

In order to reduce vulnerability to external shocks: Lessons from Asia and Latin America suggest the importance of:

- Sound macro-economic management (Common factors of growth in Asia and Latin America in post crises period; certain progress in Africa)
- Regional integration and cooperation (Specially relevant in Asia; some progress in Latin America)
- Promotion of competitive sectors and enterprises (Specially relevant in Asian experience; some progress in Latin America)

Asia has been successful in regional integration and cooperation: Implications for Africa

- World Development Report 2009 mentions regarding Africa: "……transport links can help domestic markets grow. And regional and global integration can promote trade. Regional integration, labor mobility, investments in trade, communication and transport infrastructure, peace and stability should remain high on the agenda. They can create good neighborhoods, and better neighborhoods will facilitate investment, trade, and factor mobility in a cycle of prosperity" (p.285)

Yokohama Action Plan (TICAD IV Process) is important not only to attain self-sustainable economic growth but also to cope with crisis

- TICAD IV process will promote a "Vibrant Africa" and its accelerated economic growth and diversification through support of infrastructure development, trade, investment and tourism, and agriculture. (Yokohama Action Plan, p.1)

Infrastructure in Yokohama A.P.

- Regional transport infrastructure
- Regional power infrastructure
- Water-related infrastructure
- Enhanced involvement of regional institutions
- Promotion of public private partnership in infrastructure

Trade, investment and tourism in Yokohama A.P.

- Promote and expand trade
- Encourage foreign investment
- Assist private sector development
- Promote tourism

Agriculture and rural development in Yokohama A.P.

- Enhance capacity to increase food production and agricultural productivity
- Improve access to markets and agricultural competitiveness
- Support sustainable management of water resources and land use

Thank you very much

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