



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Ballroom 3, Hyatt Regency Hotel
Hangzhou, People's Republic of China

Meeting Paper 7-B

RESEARCH PROJECT: IMPLICATIONS OF GLOBAL SHOCKS FOR ASIA'S GROWTH

Asian Development Bank Institute

IMPLICATIONS OF GLOBAL SHOCKS FOR ASIA'S GROWTH
How can Asia Cope with the Fallout of the Subprime Mortgage Crisis
and Rapid Rise in Prices of Oil and Non-oil Commodities

Concept Note

1. Project Objectives

The global financial turmoil originating from the US subprime mortgage market crisis seems to be deepening and broadening. As this turmoil continues, conditions in global financial markets remain uncertain and volatile. Even though developed economies have been made sizable liquidity injections and other policy measures to calm the market, the contagious effects of the crisis on financial markets have prevailed not only in developed economies but also in emerging market economies. Short-term financial market has been almost frozen for a while and high-risk financial products have been traded on a very limited basis.

Many have insisted that the spillover effects of the US subprime mortgage crisis to the Asian financial markets has been and will be relatively small and capital inflows from developed countries will remain strong. There are several factors that may explain this resilience in Asian economies. First, the region's financial institutions have been less exposed to the US subprime mortgage and structured financial products. Many financial institutions in the region were still in the process of strengthening their balance sheets when structured financial products were widely marketed. Second, strong economic growth potential and sound external positions in emerging Asian economies attract the attention of international investors. Despite the subprime crisis and looming recession in the US, Asia's economic growth was better than expected across the region in 2007, and according to recent updated forecast by the IMF and the ADB, economic growth in the region remains strong. Exports continue to be an important driver of growth in the region. Moreover, domestic demand is making an increasing contribution in a number of Asian economies. Third, enhanced macroeconomic management and reforms adopted by financial institutions since the Asian crisis have helped mitigate the impact of external shocks.

Recent developments, however, seem to have cast doubt on the resiliency of Asian economies. The global market turmoil might likely continue for some time than has been hoped for. In fact, the US Federal Reserve has recently announced that it may extend the duration of its facilities for large investment banks to access emergency cash beyond year-end, which is a tacit admission that the financial market turmoil will likely remain next year. This raises the question whether Asia's economic growth can continue in a period when the US economy enters into a prolonged stagnation and the rest of the world feel the effects of the subprime mortgage crisis. But what has raised more concern among Asian economies is the relentless rise in inflation in recent months largely brought about by rapidly rising prices of oil and non-oil commodities including food. The simultaneous occurrence of the subprime mortgage crisis and the commodity price hike

can complicate the management of economic policies in Asian economies. The full impact of these two global shocks on Asian economies must therefore be studied thoroughly so that Asian economies can formulate appropriate policy responses. This is what this activity intends to do.

2. Approach

Before formally launching this activity, ADBI shall organize an informal meeting among a few experts to discuss the specific issues that should be rigorously examined, the best approach to conduct the study, the expected outputs and the timeframe for the activity. The total number of participants in this meeting will be between 15 and 20 who will come from:

- ADBI and ADB;
- Market players (ABAC and private sector participants);
- Asian think-tanks; and
- Key economic policy-making agencies of selected Asian countries.

The expected output of the brainstorming session is a detailed research agenda to be implemented within one year. This meeting shall be held at ADBI on 27 August 2008. Below is the tentative agenda.

Asian Development Bank Institute
Tokyo, Japan

IMPLICATIONS OF GLOBAL SHOCKS FOR ASIA'S GROWTH
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and Rapid Rise in Commodity Prices

Brainstorming
27 August 2008

Tentative Agenda

9:30 – 10:00	Registration
10:00 – 10:10	Welcome remarks Masahiro Kawai Dean, ADBI
10:10 – 10:45	Background paper: Global Shocks and the Asian Economy Kwanho Shin Professor Department of Economics, Korea University
10:45 – 11:00	Coffee Break
11:00 – 12:00	General Discussion: Reactions to the presentation of the background paper Moderator: Shinji Takagi, Visiting Fellow, ADBI
12:00 – 13:00	Lunch
13:00 – 14:45	General Discussion: Issues for research Moderator: Masahiro Kawai
14:45 – 15:00	Coffee Break
15:00 – 15:15	Summing up Mario B. Lamberte, ADBI
18:00 – 20:00	Dinner Reception