

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## **Meeting Paper 10-A**

### **Asian Development Institute Research Agenda**

### **GLOBAL FINANCIAL CRISIS AND ITS**

### **IMPLICATIONS FOR ASIA**

Asian Development Bank Institute

# Asian Development Bank Institute

## Global Financial Crisis and its implications for Asia

### Research Agenda

#### Background

Sustained economic growth can contribute significantly to poverty reduction. Indeed, countries that have enjoyed economic growth for long periods of time have witnessed marked declines in poverty incidence. But an economic and financial crisis could frustrate such development. Even though countries can recover quickly from the crisis, they may not return to the same growth path as before the crisis, thus delaying further the economic development process. Because a crisis can have long-term developmental implications, ADBI is keen in making a contribution to the understanding of the causes of a crisis and to the formulation of policy measures that ADB's developing member countries (DMCs) could adopt to avoid a crisis.

The current financial crisis and global economic downturn did not originate in Asia, and, indeed, Asian countries in structural terms are generally in good shape. Nonetheless, Asian economies and financial markets have already begun to feel the impacts of the crisis, and these are likely to deepen substantially over the coming year. The most obvious areas of impact have been exports and equity markets, which have declined sharply across the region, but stresses in currency and credit markets have emerged as well, and domestic demand has softened. This sensitivity has been heightened by the export-led growth strategies followed by many countries.

ADBI is planning a series of conferences related to major aspects of the impacts of the crisis on Asia and policy recommendations. The conferences will be organized into five broad thematic areas: macroeconomic impacts and policy; real economy (sectoral) impacts; social and environmental aspects; financial regulation and reform; and regional cooperation and regional/global architecture. Topics to be included are:

- **Macroeconomic impacts and policy:** growth impact scenarios for the current crisis, lessons from previous crises, the prospects for rebalancing growth away from exports and policy recommendations for fiscal policy, monetary policy and currency and reserve management;
- **Real economy impacts:** SMEs, trade finance and industrial structure;
- **Social and environmental impacts:** employment and income distribution, poverty, sub-national regional economies, health, education, gender and environment;
- **Financial reform and regulation:** ways to avoid or mitigate a systemic financial crisis in the region, ways to improve regulation and oversight of financial products, markets and investor groups, streamlining of regulatory structures, strengthening the functioning of regional financial markets, credit rating agencies and payment systems;
- **Regional cooperation and regional/global architecture:** recommendations for improving and/or developing regional economic policy and institutions aimed at preventing the recurrence of a systemic financial crisis in the region, improving policy coordination, promoting of regional trade, and political economy aspects of cooperation; and developing Asian proposals for reform the global financial architecture.

It is intended that the conferences form a cohesive and inter-related whole, with the results and conclusions from earlier conferences, e.g., analyses of the experience of this and

previous crises, being used to develop policy recommendations in later conferences. The individual conferences are described in more detail below.

## **Macroeconomic impacts and policy**

### **1. Impacts, lessons and growth rebalancing**

The objective of the conference is to review evidence and analysis of the effects of the global economic and financial crisis on Asia, with the aim of setting up a reference basis for subsequent conferences dealing with appropriate policy responses in the area of macroeconomic policy, structural and institutional developments; regional integration, financial sector reform, etc. The three main areas included in this conference are:

- Analysis of macro impacts from trade, FDI and financial shocks, including employment impacts;
- Lessons from previous crises, including those of Japan, Sweden, and others; and
- Analysis of prospects for growth rebalancing, i.e., assessment of ways to promote growth of domestic demand and intra-regional trade of final-demand goods, given the likelihood that the contribution to growth from exports to developed countries will be less than previously.

### **2. Macroeconomic policy issues**

The objective of the conference is to develop concrete macroeconomic policy recommendations aimed at minimizing the impacts of the economic and financial downturn, and setting the stage for an early return to sustainable growth. The focus is on short-term measure related to the cycle. The four main areas included in this conference are:

- recommendations for monetary policy to address both macro-stability and systemic financial risk impacts;
- recommendations for fiscal policy, including those related to investment, current spending and tax policy;
- recommendations for currency policy and reserve management, including the potential for regional cooperation to stabilize currency movements; and
- recommendations aimed at the constraints on policy resulting from the so-called “impossible trinity” of fixed exchange rates, open capital accounts and independent monetary policy.

## **Real economy impacts**

### **3. SMEs and trade finance**

The objective of the conference is to review evidence and analysis of the impacts of the global economic and financial crisis on SMEs and trade finance in Asian countries, with the aim of setting up a reference basis for subsequent conferences dealing with appropriate policy responses in the region. The output of the conference will be discussion papers, possibly leading to a book. The two main areas included in this conference are:

- SMEs: Lessons from previous crises, including policy responses, and a preliminary assessment of likely impacts from the current global crisis. The focus will be on four regions: China, E. Asia excluding China, South Asia and Central Asia.
- Trade finance: Lessons from previous crises, including impacts and policy responses. The findings will include those for both Asian and non-Asian countries, including, e.g., Europe and Latin America.

### **4. Industrial restructuring**

The objective of the conference is to review evidence and analysis of the effects of the global economic and financial crisis on Asia, with the aim of setting up a reference basis for subsequent conferences dealing with appropriate policy responses in the area of macroeconomic policy, structural and institutional developments; regional integration, financial sector reform, etc. The main areas included in this conference are:

- Experience of industrial restructuring during previous crises;
- Implications for investment, employment, productivity and potential growth rate;
- Implications for share of industries in overall economy; and
- Implications for economic performance by size of firm.

## **Social and environmental impacts**

### **5. Social and environmental impacts**

The objective of the conference is to review evidence and analysis of the social and environmental impacts of the global economic and financial crisis on Asian countries, with the aim of setting up a reference basis for subsequent conferences dealing with appropriate policy responses in the region. The main areas included in this conference are:

- Impacts on sub-national regional economies, income distribution and employment;
- Impacts on health and education; and
- Impacts on the environment.

All of the studies will assess both impacts of the crisis itself and impacts that might result from efforts to rebalance growth in the region away from dependence on exports to developed nations.

## **Financial reform and regulation**

### **6. Financial sector reform and regulation**

The objective of the conference is to develop concrete recommendations for financial sector reform and regulation aimed at preventing the recurrence of a systemic financial crisis in the region, strengthening regional monitoring and cooperation, strengthening the functioning of regional financial markets, improving regulation and oversight of financial products and investor groups where needed, and rationalizing regulatory institutions. The focus is on longer-term structural measures. The main areas included in this conference are:

- Scope for regional monitoring and cooperation;
- Deepening and integration of Asian bond and money markets;
- Liberalization/regulation of capital flows;
- Issues related to regulatory structure and cooperation;
- Role of state intervention in the financial sector;
- Need for and impacts of regulations on innovative financial products and specific investor groups such as hedge funds; and
- Ways to reduce pro-cyclicality of regulation.

### **7. Payment systems**

The objective of the conference is to analyze the following issues:

- current funds flows in the Asian region;
- current situation of payment systems in selected countries in Asia;
- improvements in funds flow with by the establishment of robust and efficient payment systems in the Asian region;
- advances in payment systems technology in Asia and appropriate regulatory framework to cope with such advances; and
- benefits that SMEs can enjoy from advances in payment systems.

### **8. Credit rating**

The objective of the conference is to investigate various aspects of credit rating, credit rating agencies, and their developments in Asia. Specifically, a planned conference based on this research project will cover issues such as GRAs' methodologies, rating practices, and potential problems, as well as NRAs' developments in Asia, challenges, and their future prospects.

## **Regional cooperation and regional/global architecture**

### **9. Regional cooperation and architecture policy issues**

The objective of the conference is to develop concrete recommendations for improving and/or developing regional economic policy and institutions aimed at preventing the recurrence of a systemic financial crisis in the region, improving the resilience of regional economies to external economic and financial shocks and strengthening the basis for sustainable long-term growth. The focus is on longer-term structural measures. The main areas included in this conference are:

- The need for an overall “Asia Financial Stability Dialogue” analogous to the global Financial Stability Forum;
- Monetary policy cooperation;
- Fiscal policy cooperation;
- Currency policy and reserve management cooperation;
- Economic cooperation in trade; and
- Political economy of economic cooperation.

### **10. Role of Europe and Asia related to Structure of New BW System (EIAS & ADBI)**

In this workshop, panelists from Europe and Asia will discuss how we can proceed the restructuring in the future considering the current regional integration. Moreover, what kind of actions we should take will be discussed from various aspects. By improving integration in each region, we would like to explore how the global governance system will be changed in the future. In addition, we would like to explore whether there is still room for Europe and Asian countries to implement a joint plan for New Bretton Woods System under this global changing tide. The main areas included are:

- The role of Europe;
- The role of Asia; and
- The possibilities of joint leadership of Europe and Asia;

### **11. The Two Integrations in Europe and Asia: Similarities and Differences**

This conference will do a comparative analysis of the economic integrations in Europe and Asia. For instance, in terms of formal integration the EU is far ahead of Asia, but in terms of de facto economic integration Asia's production networks may be considered the most intensified ones in the world as scholars refer to it as “Factory Asia”. The Asian region has a lot to learn from European integration, but also Europe may have something to learn from Asia's experience. The conference will be interdisciplinary addressing themes such as economics, energy and the environment, global governance, human security and migrations, cultural and institutional issues, etc. The focus will be on the similarities, and the differences, between the two regional integrations from a variety of perspectives with the objective of seeking what we can learn from each other. The main areas included are:

- Analysis of the two integrations in the context of the evolving international system and of the changing modes of global governance in light of the current global financial crisis;
- cultural and institutional factors which may foster regional integration and a regional identity;
- Questions of human security and migrations in European and Asian integration;

- Necessity, and possibility, of an energy and environmental community in Europe and Asia;
- Comparative analysis of production networks in Europe and Asia; and
- Implications of the European intra-regional monetary framework for Asia as well as the future of the Euro and foreign reserves.

## **12. Global governance**

This conference will develop Asian proposals for reforming the international financial architecture, with the intent of presenting them to the G20 summit in April. The main areas included are:

- Reform of missions of international institutions such as the IMF and the World Bank;
- Reform of governance structures of international institutions such as the IMF and the World Bank;
- Guidelines for regulation of international capital flows; and
- Framework for allocating “demand-side” and “supply-side” adjustments.