

KEYNOTE ADDRESS

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Impact of Global Economic Crisis and Challenges to Governance in Asia

Thank you for inviting me to this ISAS-CIGI Symposium. Many experts and scholars are listed in the programme of this Symposium to speak on the economic, strategic, political and development impact of the global economic crisis. I am a career diplomat and not an economist or social scientist. As such, this morning, I will dwell on the generalities but I do hope to convey a few key messages across to you. I also hope that my remarks would be useful for your subsequent deliberations here and in other forums elsewhere.

Many people in Asia and Europe like to talk about the current economic downturn by pointing to the source of the crisis and how complacency and greed have led to the present meltdown. Related to this, many opinion makers have articulated that this crisis is the worst since the Great Depression in the 1930s. I prefer to begin by saying that Asian governments have mostly moved on to cope with the unprecedented challenge of the financial turmoil. It is unprecedented because the Great Depression of the 1930s is not a good reference point. At that time, technology as we know it today did not exist. The sheer numbers and spread of the present crisis are also so vastly different from those of the 1930s. With the globalisation of the past 20 years, the truly global proportions of the contagion have been mind boggling.

Simply put, the policy responses to the crisis revolved around four approaches, and these are:

- (1) Fiscal stimulus to increase consumer spending;
- (2) Liquidity to ease the credit crunch;
- (3) Saving jobs to minimise unemployment; and
- (4) Reform of relevant institutions and regulatory regimes at national and international levels to prevent a recurrence of such a financial disaster.

The first three approaches are within the realm of domestic policy-making. The governments concerned can move quickly and put appropriate measures into place. However, the fourth approach requires multilateral efforts and coordination across national boundaries, and more time and political will are needed to bring about a substantive outcome.

Let me first focus on ASEAN - the Association of Southeast Asian Nations. As you all

know, ASEAN has ten member states. As a region, ASEAN has a total population of 575.5 million today with a combined nominal GDP of US\$1,486.5 billion, and a per capital income of US\$2,583.

ASEAN plays an important part in the global supply chain and the economic structures of ASEAN Member States show high degree of open-ness, with the export sector playing a dominant role in ASEAN's economic growth. According to one official estimate, the main source of growth in ASEAN has been the export sector, comprising over 75 per cent of the region's GDP. When global demand fell, as we have witnessed in the past six months, the ASEAN economies have been severely affected.

The exports of several ASEAN Member States have declined significantly. Year-on-year, in US\$ term, the fall ranges between 20-40 per cent. This scenario is scary not just because of higher unemployment and large reduction in national income, including the drastic drop in remittances of workers abroad. Many ASEAN Member States lack comprehensive social safety nets and welfare programmes like those found in the more developed nations in the West. Where there is lack of adequate social support systems, the impact of the crisis on the lower-income segments of ASEAN's population could lead to disruptive social tension and even social instability. The potential for social upheaval is very real, especially if the recession is prolonged and there is little help for those hit by the retrenchment.

Many businesses and entrepreneurs in the ASEAN region have found it difficult to access financing and technical support even during the best of times. With the onslaught of the economic downturn, domestic financial institutions are becoming more risk averse and thus reluctant to provide the necessary credits, resulting in more hardship for the smaller enterprises and those families relying on subsistence-level transactions and pay-outs. ASEAN is still mostly agrarian, rural-based societies and many activities at the grassroots level need the vibrancy of a high-growth economy to survive. The domestic and foreign demand has dropped so rapidly that no adequate provisions can be made for the lower-income groups.

ASEAN governments have proactively implemented expansionary fiscal and monetary policies. The aim is to boost domestic demand. The size of these programmes ranges from two to eight per cent of GDP, depending on their respective economic situations and fiscal capacity. Most of the stimulus allocations are targeted at the lower-income groups as they have higher marginal propensity to spend their added income. This is the quick way to generate a multiplier effect on the economy. For example, in Thailand, there was a recent one-time distribution of 200 Bahts in cash cheques for those earning less than 15,000 bahts a month. In Viet Nam, the farmers have received subsidised loans. Elsewhere, personal tax has been cut and more subsidies for utilities such as electricity and water were given.

At the same time, ASEAN governments have moved to put more money into the business sector, in the form of credit programmes, credit guarantees, and trade finance. Significant allocations have also been made for public investment programmes to improve physical and social infrastructure. The Philippines is spending a third of its fiscal stimulus package of US\$6.5 billion on infrastructure while most of Malaysia's measures to boost domestic expenditure are in infrastructure works. In Singapore, the estimates have put government spending on infrastructure at between US\$10 to 13 billion a year. As the recession bites more deeply, ASEAN Member States are expected to spend more on infrastructure and this is a positive development as it is an area requiring more budgetary allocations in the first place.

In the case of Singapore, the stimulus package includes the following elements:

- (1) Jobs credit scheme: cash transfers for employers to cover part of their wage bills and avoid mass lay-offs (S\$4.5 billion);
- (2) Special risk-sharing initiative: government guarantees for working-capital loans (up to S\$5 million) to individual firms to stimulate bank lending;
- (3) Cut in corporate tax rate from 18 to 17 per cent;
- (4) Personal income tax rebates of 20 per cent of taxes due (capped at S\$2,000); and
- (5) The Government plans to draw down S\$4.9 billion from previously accumulated reserves to finance the jobs credit scheme and the special risk-sharing initiative; it will also tap reserves held by the Monetary Authority of Singapore and the Government of Singapore Investment Corporation.

For Singapore, it has been argued that shopping vouchers and cash hand-outs are not effective in driving up domestic spending since a high proportion of such provisions would translate into higher imports. Singapore's economy is export-oriented and the small size of its market and population has limited the range of expansionary fiscal policy options. The emphasis is on saving jobs, re-skilling through intensive training programmes, and measures to help the SMEs.

In fact, the effectiveness of fiscal stimulus in an economic recession has been debated by the experts. However, in many ASEAN policy circles, it appears that there is little choice but to rely on fiscal stimulus. As private investment slows down, public investment is also needed to pick up the slack. ASEAN Member States are likely to earmark more funds for domestic investment projects, particularly in infrastructure development. At the same time, job training and skills development will receive significant budgetary allocation. As seen in the case of the Singapore stimulus package, preserving jobs for as long as possible is a key policy goal. There are also opportunities to re-skill workers and encourage them into new sectors which would flourish after the economic turn-around.

Let me say a few words on what ASEAN Member States are doing with their bigger neighbours. Here, it is useful to look at the Chiang Mai Initiative (CMI) which has been developed with the support of China, Japan and the Republic of Korea (ROK). The original bilateral swap arrangements between ASEAN Member States and China, Japan and the ROK to protect the respective currencies if they are under serious threat, have been multilateralised into a self-managed reserve pooling arrangement with a single contractual agreement. The reserve pool is set at US\$120 billion with ASEAN contributing 20 per cent, and the remaining 80 per cent from the Northeast Asian partners. More discussions are ongoing to operationalise the CMI Multilateralisation or CMIM as soon as possible.

At the international level, ASEAN was represented by Thailand (the ASEAN Chair Country for 2009) at the recent G-20 Summit in London. ASEAN put forward three key messages.

First, ASEAN agreed on the need to stimulate the global demand through initiation of well-coordinated stimulus programmes by all countries and multilateral development financial institutions. In this respect, ASEAN has put across a firm stand against a rising tide of protectionism. The collapse of global demand must be expeditiously rebuilt and any new barrier to international trade would only delay recovery and might even worsen the current global economic downturn. As such, it is important for the international community to reaffirm its commitment to an open multilateral trading

system, and the best way to express this commitment concretely is to ensure a strong and successful Doha Development Agenda outcome.

Second, ASEAN is doing its part to liberalize trade and open the market even further. ASEAN has established its economic integration framework through the ASEAN Economic Community (AEC) and this would bring about a single market and production base for Southeast Asia by 2015. Policy harmonisation and standardisation of rules and regulations are being pursued. Specific timelines for implementing the free flow of goods, services, investments, capital and professional/business people, have been decided. The respective national agencies are working on the ground to keep the momentum going.

Ultimately, all the work boils down to one word, "confidence". If there is no confidence in the international financial system, there will be no expeditious recovery and the economic crisis we are in today will likely be prolonged and even more painful for all of us. Therefore, the third message ASEAN put across to the G-20 Summit is that ASEAN supports the reform of the global financial architecture and financial regulatory regime, as well as the reform of the International Financial Institutions (IFIs). The IFIs must be given more financial resources to assist those in need. As the IFIs are being bolstered with more resources, it is important to deliver better governance for these organisations so that there is more voice and representation of developing countries. The inclusive character of the IFIs will secure the future of globalization as every country will feel a sense of stakeholdership in pursuing and entrenching the new regime.

Let me conclude by reiterating my main points. We must do all we can to raise domestic demand, consumer spending, and investment spending. Regional cooperation and inter-regional cooperation will help to speed up the remedial actions required. As we proceed, it is necessary to stress first thing first: the priority is on the short-term measures. The reform of the international financial architecture and the IFIs is a longer-term concern which should not be neglected but it should not overwhelm the work of the policy-makers already under severe pressure to cope with day-to-day crisis management.

The crisis also presents an opportunity to the region to carefully assess its vulnerabilities, particularly the systemic and institutional weaknesses, and address them in a strategic manner. The underlying issue of the imbalance, summed up by the tagline "Made in Asia, Consumed in America", has to be tackled.

This succinct proposition has come from the UNESCAP Executive Secretary Noeleen Heyzer in launching the "Economic and Social Survey of Asia and the Pacific 2009" in March 2009, in Singapore. Asia has functioned as the factory and back office for the world economy. The present global economic turmoil has clearly illustrated the danger of this status. In the wake of the food and fuel price shocks of 2008, and the climate change affecting Mother Earth, ASEAN and its Asian neighbours can no longer focus on high-growth initiatives without finding a sustainable development strategy. The sooner a sustainable strategy is derived, the better the future outlook for governance in Asia.

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