



Southeast Asian Studies at the
University of Freiburg (Germany)
www.southeastasianstudies.uni-freiburg.de

Conference report (March 2012)

**Academic and Policy Roundtable: How East and
Southeast Asia Cope with the Global Economic and
Financial Crisis (27 January 2012)**

Kristin Kupfer (University of Freiburg)

SPONSORED BY THE



Federal Ministry
of Education
and Research

Introduction



Since 2008, the U.S. and Europe are faced with financial and economic crises exposing weaknesses of their financial and economic systems but also the eminent difficulties of finding common – regional or global – solutions. On the contrary, Asian economies seem to be affected only modestly and mainly through trade channels. Most of them continue their dynamic growth.

Against this background, the Southeast Asian Studies Program of the University of Freiburg¹ organized an Academic and Policy Roundtable on “How East and Southeast Asia Cope with the Global Economic and Financial Crisis”. The event was sponsored by the German Ministry of Education and Research (BMBF). Some 40 scholars, practitioners and representatives of East and Southeast Asian embassies convened at the Free University of Berlin on January 27, 2012 to discuss the precise impact of the current crises on the region.

Presentations and debates were organized in four thematically focused panels. Major topics included comparative aspects of the 1997 Asian crisis, the 2008/2009 US subprime crisis and the ongoing European Debt crisis, the response of Asian regional powers to the current crisis, trends and challenges of East Asian economic cooperation and the role of Asia in international economic institutions. A final panel discussion with representatives from Southeast Asian embassies concluded the one-day event.

Panel I

Participants of the first panel, Prof. Dr. Rolf Langhammer, Institute for the World Economy Kiel and Prof. Dr. Werner Pascha, University of Duisburg-Essen, presented similarities and differences of recent financial crises and their impact on East Asia.



Prof. Langhammer laid out ten observations concerning the underpinnings of the recent crises. He identified the emergence of asset price bubbles and the incapability of commercial banks and central banks to assess “fundamentally” fair asset prices as one of the core causes of global financial crises. Continuing, Langhammer juxtaposed non-smart and smart reforms. While fiscal stimulus programs financed through more public debt belong to the former, the latter include commitments in the creditor countries being both responsible and vulnerable. He named writing off sovereign debt as another helpful policy measure. Although the crises have shown differences related to investor

¹ For more information, see: <http://www.southeastasianstudies.uni-freiburg.de>

behavior, bank reactions and equity market developments, Langhammer identified four common steps of the crises path: credit expansion/abundant liquidity, aggressive search for yields by investors, lenders` credit imprudence and emergence of bubbles in asset market. However, as the current crises depart from mature industrial countries, it can have more adverse effects than the previous one, also upon the real economy. Concluding, Langhammer suggested “the gradual establishment of deep financial markets in emerging economies with genuine bond markets in local currencies” as the key measure to decouple Asian economies from the shock wave of the recent crisis.

Prof. Werner Pascha started by summarizing the effects of the Asian Financial Crisis 1997/98 on South Korea, Japan and China. From these crises, the countries learnt to be very careful about financial liberalization and financial market regulation. Although East Asian countries held only a low percentage of foreign assets in stocks and financial derivatives, they still were strongly hit by the crisis, commonly by a decrease in exports. Specific effects in Japan included strong appreciation of the Yen as a result of the repatriation of funds to the West due to rising risk aversion and capital needs. Korea was hit harder as a non-reserve currency country with an open capital account and reacted swiftly with massive fiscal stimulus packages. China responded similarly in order to revitalize its labor market that was the most affected one among the three countries.

Talking about longer term consequences, Prof. Pascha pointed out that the massive stimulus packages delayed necessary structural changes within the respective economies. In Japan and South Korea, public risk aversion seems to have increased. Therefore, according to Pascha, government will face difficulties with bolding reforms. In China the crisis measures may have postponed an overdue soft landing of an overheated economy. “Although regional economic cooperative mechanisms have been strengthened, their ability to deliver remains in questions”, said Pascha. Besides, East Asian countries are still searching for and testing various forms of future cooperation, also with international scope (i.e. TPPs, FTAs).

The IMF and its policies emerged as the core topic in the subsequent discussion. While both Prof. Pascha and Prof. Langhammer pointed to a disappointment within the Asian region concerning the role of the IMF as well as the IMF`s failure to deliver pre-crisis surveillance, both still considered the IMF to be a legitimizing and attractive player in the region.



Panel II

The second panel featured contributions by Dr. Margot Schüller (GIGA Hamburg), Dr. Christian von Luebke (University of Freiburg) and Prof. Hanns Günther Hilpert (SWP Berlin) and focused on the response to the global financial crisis by China, Japan and Indonesia.

Dr. Margot Schüller, GIGA Institute of Global and Area Studies, Hamburg, started off by

presenting China's policy measures in the wake of the collapse of its foreign trade growth and the slowing down of economic growth due to the crisis. The focus of China's 486 Billion US-Dollar fiscal stimulus package was mainly on infrastructure although some adjustments in favor of social welfare expenditure and investment in technological restructuring was made later on. In order to further increase liquidity, the Chinese Banking Regulatory Commission required more loans to specific customer groups, mostly state enterprises.

Schüller pointed out that although the measures stabilized China's development, it had several negative side-effects: high inflation, domestic indebtedness increased with local government having to repay 62 percent of total loans and banks being increasingly under pressure from non-performing loans. Structural adjustments, like a stronger role of private consumption or more market-based and innovative industries, have still not been made. "Whether China will issue another stimulus package in order to keep growth rates at around 10 percent remains to be seen", said Schüller.

Concerning Japan's reaction to the global crisis, Prof. Hanns Günther Hilpert, SWP (German Institute for International and Security Affairs), Berlin, raised the questions why Japan hasn't been able to turn around its economy since 1991. Presenting two common explanations – lack of aggregate demand and low productive growth – Hilpert mentioned three additional factors complicating Japan's recovery: escalating fiscal debt, demographic transition and post-disaster reconstruction. Economic challenges are not easy, but manageable, said Hilpert. However, Japan lacks political forces willing to push for change. Despite its importance for East Asia, i.e. as a supplier of ODA and technology as well as having the only free floating currency in the region, Japan's policy measures remain inward orientated. "Japan is not willing to lead other than preventing Chinese leadership", said Hilpert.



Dr. Christian von Lübke from the University of Freiburg introduced the experience of Indonesia in coping with the crisis and drew a very optimistic picture. "Indonesia is Asia's next powerhouse in the waiting", said von Lübke. Three issues contributed to his assessment. First, a strong domestic market with, among other factors, a youthful demography (50 percent under 29 years old) in Indonesia drives domestic consumption. Second, a public reform drive including restriction on high-risk financial instruments, subsidy cuts as well as tax reforms. Third, sound macro fundamentals referring to solid capitalization of private banks, a stable currency, inflation, and interest rates. Therefore even amid the crisis, government debt, unemployment rates and poverty headcount decreased. GDP development, per capita income as well as FDI inflows still showed stable

growth rates. Against this “clear economic skies”, as von Lübke put it, he sketched “intermitted political rainfalls”. Political clientalism and elite resistance, a tenacity of corruption and red tape delayed public reform, e.g. in the banking sector. Additionally, challenges arise from decentralized governance structure. Overall, von Lübke found Indonesia “moderately well-positioned” to cope with the current crisis.

Following questions pursued further details of the three countries` reactions and future development. Related to China, participants questioned its ability to manage challenges, especially the asset price bubbles, its possibility to function as a development model for other Asian countries and its self-understanding about its role within regional and global institutions. While Dr. Schüller was rather optimistic about the first two issues, she was more reluctant about the Chinese willingness for institutional leadership.

Participants also wondered whether Japan couldn`t find a more constructive way to deal with its economic problems and the current crisis. Dr. Hilpert considered Japan still to be economically vulnerable and facing difficulties to find buyers for its government bonds. Relying on private wealth to deal with liquidity issues, as mentioned by one of the participants, is linked with the question of which levy is appropriate for investment, said Hilpert. Moreover, this will not solve structural problems of the economy. Concerning a possible Trans-Pacific Partnership Agreement (TPP) with the United States, Hilpert pointed to Japan`s agricultural lobby as an internal pressure tool.

The positive assessment of Indonesia`s development as presented by Dr. von Lübke was doubted by some participants who also raised questions about the social inequality and potential ethnic/religious tension in the country. Inequality might pose some risk to power imbalance, said von Lübke. Religious tensions, however, have mostly eased in recent years.

Panel III

Presentations by Mikko Huotari (University of Freiburg) and Dr. Ulrich Volz (DIE, Bonn) analyzed trends and challenges of East Asian regional economic cooperation in the third panel after the lunch break.



Mikko Huotari of the University of Freiburg introduced and commented on existing financial cooperation mechanisms in the region. He identified the ASEAN plus 3 (China, Japan, and South Korea) mechanism as the most important driving force in this regard. ASEAN+3 countries have successfully negotiated a comparatively high level of institutionalized cooperation, said Huotari. The Chiang Mai Initiative Multilateralisation (CMIM), together with the set-up of the surveillance unit ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore in April 2011 could serve as important building blocks of further integration in the region. Although the underlying swap agreements have never been activated and the arrangement is still only one component in addition

to other national/bilateral crisis prevention measures, it is “financially not bad equipped and is generally perceived positively within the region – also vis a vis the IMF”, said Huotari.

Concluding, Huotari presented four possible future scenarios concerning future regional cooperation. The first two scenarios put more weight on detrimental factors to further cooperation, such as national policy prevalence and disputes among the participating countries, especially China and Japan. Alternative patterns of cooperation that could emerge from a regionalization of the Chinese Yuan or an increased focus on global governance structures and shift attention away from ASEAN+3-cooperation. Huotari’s third scenario “Autonomy” was based on a strengthened CMIM and a deepened cooperation among China and Japan which would lead to further insulation from global institutions. The final scenario “Cooperation” evolved around the idea of a close collaboration among IMF and CMIM which could incorporate financial contributions of associated members.

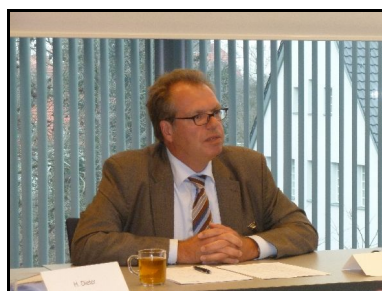
Dr. Ulrich Volz from the German Development Institute in Bonn began his presentation by naming three points of interest in regional cooperation among East Asian countries: the instability of the international monetary system, the rise of China and increasing real economic ties among Asian nations. Volz termed the status quo of the current financial cooperation as “East Asian Dollar Standard/Bretton Woods II”. He mentioned several rationales for the US-Dollar peg, considering the idea of a common link to an external anchor as a guarantee for internal exchange rate stability as one of the most important ones. However this arrangement has brought up major problems. As countries are vulnerable to monetary instability in the USA, monetary authorities are forced to intervene at foreign exchange market and therefore accumulating potentially further devaluating foreign currency. Moreover, the US-Dollar peg hinders the development of domestic capital markets.



Volz projected that the US-dollar peg is not likely to continue for a long time. He argued that a currency basket will be the most likely form of new cooperation as it allows flexibility and doesn’t require a lot of political commitment. Volz backed his final argument by pointing at historical experiences of integration, i.e. in the Tang Dynasty (618-906) related to Chinese currency and favorable opinions polls within the region.

Following discussions focused on the issue of future monetary cooperation and the political will of Asian countries to do so. Huotari positively assessed the role of AMRO as a valuable surveillance unit also in crisis situation. He also mentioned regional bond markets as a potential form of future cooperation. However, like Volz, Huotari was also

skeptical about deeper and more binding forms of cooperation. Asian countries recognized that they have a problem with the US-Dollar standard, argued Dr. Volz. This is their main impetus to look into new forms of collaboration. A switch from the US-Dollar to an internationalized, freely convertible Chinese Yuan is not very welcomed among the regional players, said Volz. Another dependency will create similar problems. Therefore, he considered a change to a currency basket as the most likely future scenario.



Panel IV

In the fourth panel, PD Dr. Heribert Dieter, German Institute for International and Security Affairs, Berlin, presented his thoughts on the role of East Asia in international economic institutions.

According to Dieter, the crisis context in the US and Europe has become a watershed for Asia. Asian leaders were disappointed by the different reactions of the IMF compared to the Asian crisis and sensed that this “Western” model of cooperation is neither effective nor attractive. Although the crisis has led to a strengthening of Asian economies, the countries still need to develop well working regional institutions. The rising importance of Asian countries, notably China and India, within the WTO and IMF has not resulted in a greater concerted engagement or influence, said Dieter. This is largely due to a lack of trust within the region, especially related to China. Dieter mentioned that Asian countries missed a great opportunity to nominate an agreed Asian candidate for the position of IMF managing director. However, preferential trade agreements have become more important for Asian countries. Talking about the role of Asian countries in future financial institutions, Dieter remained rather pessimistic. “The window of opportunity for coordinated activities related to regulation reform within the G20 is already closed”, said Dieter. Deepened regional cooperation also will be difficult due to single national policy measures (Singapore’s lowering of capital controls) and political obstacles (mainly lack of trust vis a vis China).

Participants were eager to know why Asian countries were not more actively pursuing a leadership role. The perception of China and its still difficult relationship with Japan is one of the main obstacles towards greater Asian leadership and cooperation, said Dr. Dieter. China might provide economic initiatives but not related to security issues. That is where most East Asian countries are more eager to trust the US. With its recent political and economic initiatives related to the Pacific region, Washington is actively exploiting difference und mistrust within the region, said Dieter.

Panel discussion and summary

The concluding panel discussion, moderated by Prof. Dr Langhammer, brought together three ambassadors, H.E. Dr. Eddy Pratomo, Embassy of the Republic of Indonesia, H.E. Maria Cleofe R. Natividad, Embassy of Republic of Philippines and H.E. Jacky Foo, Embassy of Singapore as well as Dr Petr Blitzkovsky from the EU Council Secretariat General in Brussel.



Blitzkovsky mentioned that while Europe needs to draw lessons from the two crises and look at different levels of integration among Asian countries, its experience that a sense of community is important for deepening cooperation can be a valuable reminder to Asian nations. Statements from the Ambassadors stressed the growing positive feeling of and commitment to regional integration. ASEAN has been given a core role as a regional balancing force among China, Japan, India and the US. While the ambassadors still considered Europe a role model for the Asian region, they agreed on a slower pace of integration, possibly focusing on financial markets and avoiding a common currency for the time being.

Prof. Dr Günther Schulze from the University of Freiburg summed up the one-day discussions by making three observations. First, the current crisis has revealed structural problems among Asian countries which are still to be tackled. Second, Schulze saw an urging political will to address deficits and problems within multilateral institutions. Finally, Asia has profited from globalization and this might be continued by deeper integration within and beyond the region.

Southeast Asian Studies at the University of Freiburg

Information & Contact

E-Mail: mail@southeastasianstudies.uni-freiburg.de

Web: www.southeastasianstudies.uni-freiburg.de

Participating Departments

Politics: www.politik.uni-freiburg.de

Anthropology: www.ethno.uni-freiburg.de

History: www.geschichte.uni-freiburg.de

Economics: www.vwl.uni-freiburg.de/iwipol/sopo.htm