KEYNOTE ADDRESS BY H.E. S. PUSHPANATHAN, DEPUTY SECRETARY-GENERAL OF ASEAN FOR ASEAN ECONOMIC COMMUNITY AT THE LAUNCH OF UNDP's REGIONAL SYNTHESIS REPORT ON THE GLOBAL ECONOMIC AND FINANCIAL CRISIS AND THE ASIA PACIFIC REGION ON 30 NOVEMBER 2009 AT THE INSTITUTE OF SOUTHEAST ASIAN STUDIES, SINGAPORE

"Sustaining Recovery, Rebalancing Growth and Mitigating the Social Impact of the Global Financial Crisis in ASEAN"

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Distinguished Speakers and Participants

Ladies and Gentlemen,

It is indeed a pleasure for me to speak at this important event to launch the UNDP's Regional Synthesis Report on the Global Economic and Financial Crisis and the Asia Pacific. At the outset, let me congratulate UNDP for undertaking this important study further expounding our understanding of the impact of the current crisis on the Asia-Pacific region, in particular the social dimension of the crisis, and providing appropriate short and long-term responses to policy-makers and officials in addressing the fallout from the crisis. The Report will certainly serve as a valuable input to countries in the region in achieving stable, sustainable and equitable growth fully cognisant of the changes the world economy is undergoing due to the shifts in consumption and investment patterns, capital flows, climate change phenomenon, rising food and energy prices, and rapid urbanisation.

Impact of the Financial Crisis on ASEAN

The current global economic slowdown, in contrast to the Asian financial crisis more than a decade ago, originated in the advanced economies, which were the hardest hit. According to the IMF, the advanced economies are expected to contract by 3.4 percent this year.

The crisis affected ASEAN in two ways. The first is the financial wave resulting in the collapse of the equity markets, local currency depreciation, and the credit crunch. The second is the real sector wave resulting from falling demand for exports, tourism and migrant workers exacerbated by food and energy prices volatility and several natural disasters.

ASEAN, in particular, was affected more by the second wave due to its high dependence on export trade. This resulted in decreased global demand for manufactured exports, decline in key commodity prices, lower levels of foreign direct investment (FDI), fewer tourist arrivals, and reduced remittance receipts from overseas migrants.

Several ASEAN Member States were severely affected. Based on the World Bank statistics, in the first seven months of 2009, manufacturing exports declined by 30 percent in Viet Nam and by almost 40 percent in Indonesia, compared to the same period in 2008. Demand for semiconductors and electronics manufactured in the Philippines also declined as much as 60 percent in the first quarter of 2009. Electronics exports of Singapore contracted by 14 percent in August 2009 after a 15 percent decline in the previous month. At the same time, the average prices of key commodities such as crude petroleum, copper, palm oil, coffee, and rice have fallen by 25-50 percent since the start of the crisis and through the first quarter of 2009, although prices of major commodities have started to rebound since then.

A similar picture emerged for foreign direct investments (FDIs) even though ASEAN was able to secure US$ 59.7 billion in FDIs in 2008. According to the World Bank figures, FDI in Cambodia decreased by nearly 50 percent in the first quarter of 2009 compared to the same period in 2008, resulting in significantly lower investment in the construction sector. Thailand faced a 22 percent contraction in FDI in the first quarter of 2009. As for tourism, during the first seven months of 2009, foreign tourist arrivals fell by 14 percent in Indonesia and 20 percent in Viet Nam, compared with the same period in 2008.

With regard to remittance receipts, the World Bank estimates that international remittances worldwide have fallen by 7-10 percent. In Indonesia, remittances are expected to decline to US$3 billion in 2009, from US$6 billion in 2007. The frequency and size of remittances sent home were also declining in recent months.

The effects of the global slowdown on employment and earnings, which are at the core of its social impact, are occurring largely through job "churning" and reduced worker earnings in crisis-affected sectors rather than through wholesale job loss and open unemployment. In most ASEAN Member States, workers are facing increased prospects of underemployment, lower earnings and income, shifts from formal to informal employment, greater job insecurity, and in some cases, higher open unemployment. Most observed job losses in the region have been in manufacturing, while most job creation has been in the informal sector or in the public sector. Most laid-off workers appear to have found other jobs, even if those jobs are less remunerative. According to the World Bank figures, about 600,000 jobs were lost in the manufacturing sector in Thailand, but almost 800,000 jobs were created in wholesale and retail trade and in the accommodation and catering sectors, where informal activities dominate. In the Philippines, the manufacturing sector shed about 100,000 positions, but almost 800,000 jobs were created in the agriculture and wholesale/retail sectors. Apart from the quality of jobs, the global slowdown is also affecting real wages in vulnerable sectors such as tourism, manufacturing, and public sector wages.

As a result of the global economic slowdown, the pace of poverty reduction in ASEAN Member States, though still positive, is expected to fall. The World Bank projections indicate that 4 million fewer people will be pulled out of poverty in 2009 than originally anticipated before the slowdown. While the global economic slowdown will have serious impact on the welfare of millions of people in the region, it is unlikely to reverse the progress made by ASEAN Member States in reducing poverty in recent years. Since 1990, the share of East Asia's population living in absolute poverty (less than US$1.25/day) has declined from 55 percent to less than 10 percent of the population.

Global Economic Recovery in 2010

It is indeed a relief to know that the global economy is now poised for a modest recovery after the worst downturn since the Second World War. Global financial markets have stabilised, credit has eased and public confidence in the financial system is returning. The stimulus packages, both fiscal and monetary, appear to have worked with global trade once again rebounding and inflation subdued. According to the IMF estimates, advanced economies are expected to grow 1.3 percent next year.

The US economy is expected to continue its recovery in 2010. In fact, the US economy grew by 3.5 percent in the third quarter of 2009, ending four consecutive quarters of negative growth. The recovery is attributed partly to the aggressive fiscal and monetary policies as well as the boost to US exports due to the weaker US dollar. The ADB has forecasted US economy to grow by 1.6 percent in 2010. However, unemployment remains high even though the rate of job losses is decreasing affecting the consumer spending power. While the recovery is still fragile, substantial concerns remain over the size of the US fiscal deficit and the health of the financial system.

Europe is also entering a recovery phase with financial markets stabilising, exports rising and consumer sentiment improving. However, recovery is expected to be anaemic. The ADB predicts that the Euro zone will see recovery in 2010 with GDP growth rising by 0.5 percent. However, the strengthening of the Euro against the US dollar may dampen demand for Europe's exports in the months ahead.

World trade has started to pick up with the global recovery after a sharp drop in 2008 and 2009. This is good news for export-oriented ASEAN Member States. According to ADB estimates, world trade volume will grow by 3.8 percent in 2010 compared with a decline of 9.7 percent in 2009. The IT sector is expected to lead the recovery with new orders for IT products from the developed countries. The release of the Microsoft Windows 7 is also envisaged to give an additional boost to the IT sector as consumers upgrade their computer systems.

The improved external environment and swift and coordinated policy responses have helped East Asian economies to weather the crisis. Early indications suggest that the region will achieve a V-shaped recovery with aggregate GDP growth rebounding to 4.1 percent in 2010, similar to the growth posted in 2008 from a 0.5 percent contraction in 2009. Emerging East Asia is expected to post GDP growth of 4.2 percent in this year and 6.8 percent in 2010.

With regard to the ASEAN Member States, Singapore grew by 0.6 percent in the third quarter driven by biomedical and electronics manufacturing. It is expected to recover in 2010 achieving a modest growth of 3.5 percent supported by the global upturn and domestic fiscal stimulus. Malaysia and Thailand too is expected to recover and grow by 4.2 percent and 3.0 percent in 2010 respectively. Indonesia's robust growth is expected to continue through 2010 with the hefty expansion in private consumption, falling inflation, good harvest and government transfer payments to poor households. The Philippines growth is also projected to increase to 3.1 percent in 2010.

The remaining ASEAN Member States are also expected to see economic growth return to 2008 levels. Viet Nam is expected to be a star performer after its economy bottomed out in the first quarter of 2009. Driven by strong investment and higher inflows of foreign direct investment, GDP growth is expected to increase to 6.5 percent in 2010. Cambodia's economy, which was badly affected by decline in garment exports, construction, and tourism, is expected to post a 3.5 percent growth in 2010 while Lao PDR is expected to achieve a 5.7 percent growth in part due to the government spending on infrastructure for the Southeast Asian Games next month. Brunei Darussalam is also expected to grow after contracting slightly this year due to lower world demand for oil and natural gas. It is expected to achieve a growth of 2.3 percent fuelled by higher global energy demand and petroleum prices. Myanmar with its post Nargis recovery efforts is expected to grow at a higher level next year.

Managing the Downside Risks to Economic Recovery

Growing signs that the property bubble in Dubai may burst re-emphasises that the global recovery we are witnessing is fragile. The current recovery being experienced by ASEAN Member States could falter if recovery in advanced economies turns out to be short-lived. Weaker consumer and investment demand in the developed countries and worsening unemployment, in particular the US, as well as the slide of the US dollar may impact this recovery.

Timing of the exit strategy for stimulus packages and coordinating the strategy among Member States is going to be important in maintaining the growth trajectory of ASEAN. Recovery could be hampered if governments tighten too soon and if it is too late, it may lead to higher inflation and unsustainable fiscal deficit in the following years. As such, execution of exit strategy may have to wait till recovery is on firm footing. Meanwhile, ASEAN Member States will have to look at improving private demand to gradually withdraw the fiscal stimulus through appropriate policies to spur employment and domestic consumption.

Another potential risk that Member States should be vigilant about is resurgence of volatile short-term capital flows, which could destabilise growth prospects, especially since there is now ample global liquidity and risk appetite is gradually returning.

At the regional level, ASEAN and its East Asian partners will have to work together in restructuring the global economic order through global forums such as the G-20. Already, six countries of the East Asia Summit are G-20 members and ASEAN had been invited to the last two G-20 Summits. East Asia should play a part in correcting the global imbalances and realigning the global financial architecture.

Here, the contribution would also include East Asia supporting the shift towards greater domestic and regional demand as a source of growth.

It is important at this juncture to emphasise regional integration and cooperation as a way for ASEAN and its East Asia partners to ensure sustained economic recovery and future growth. Intra-regional trade in goods and services, cross-border investment, and finance cooperation will be critical for such a recovery.

Come January 2010, the more developed ASEAN-6 countries will achieve zero tariffs for all goods traded under the ASEAN Free Trade Area. Intra-ASEAN trade accounts for 25-27 percent of the total trade of ASEAN, which stood at US$458.1 billion in 2008. Services trade is expected to be fully liberalised and an ASEAN Investment Area, which promotes and guarantees investment in the region, including those of foreign-based ASEAN investors will help to create a single market and production base by 2015 that will support the recovery and growth of ASEAN. The various free trade agreements of ASEAN with its East Asian partners will also further improve intra-regional trade and investment in East Asia.

On the finance side, the Chiang Mai Initiative Multilateralisation, which will be operationalised by the first quarter of 2010, is expected to provide the liquidity support mechanism to defend the region from future crisis and put into effect the vision of "regional savings for regional contingencies" and the ASEAN principle of "prosper thy neighbour". The Credit Guarantee Investment Mechanism (CGIM) under the Asian Bond Market Initiative will also provide another source of financing for companies through the issuance of locally denominated bonds. The

CGIM is expected to be operationalised next year with a trust fund of over US$ 500 million.

ASEAN and East Asia must start thinking of rebalancing their sources of growth too. They can't rely fully on external demand as the primary source of growth. Strong domestic demand and regional demand must fill the gap. This will require structural reforms to the economies to encourage households to spend more and companies to invest more on the demand side and promote small and medium enterprises development and services industries on the supply side to cater for domestic demand.

Social Protection Response to the Crisis

In ASEAN, social protection interventions have become mainstreamed as part of the policy instrument to counteract the current crisis based on the lessons learnt during the last Asian financial crisis. In most Member States, the cumulative impacts of the recent food, fuel, and financial crises have given increased impetus to social protection policies and programmes, albeit to varying degrees depending on the country context. For some that have introduced economic stimulus packages, social protection interventions are a significant part of the overall packages in most cases, though both the size of the overall packages relative to GDP and the share of the social protection as a share of the total stimulus vary substantially.

For example, Viet Nam in its initial package and Indonesia have dedicated the bulk of stimulus spending to tax reductions and interest subsidies of different forms, complemented by a sizeable injection of funds into household and community based social protection measures. Singapore has focused on active labour interventions and tax and credit programmes to help firms weather the crisis, while Thailand focused the first wave of stimulus on direct transfers and incentives to sustain human capital investments. Most stimulus packages have also included infrastructure investments which vary in labour intensity and the degree of direct employment generation. Some Member States such as Thailand, Viet Nam and Malaysia have had more than one round of stimulus, with the relative importance of social protection interventions shifting between rounds.

The current crisis has highlighted that well designed and implemented social protection programmes are not simply welfare measures, but can be efficiency as well as equity enhancing. For Member States, which place a premium on competitiveness, the social risk management and efficiency enhancing functions of social protection systems are central.

The crisis has also shown that effective and timely social protection response is in large part a function of what was in place prior to the crisis. Waiting until the onset of a crisis to introduce programmes, develop delivery platforms, or strengthen targeting systems is likely to result in delays. In contrast, ASEAN Member States with well-developed social protection systems have been able to respond quickly and more coherently to the crisis. The nature of the social protection system that Member States choose is likely to reflect the heterogeneity of ASEAN itself - there is no “right” or “one-size-fits-all” set of social protection policies. However, whatever the level of development, experience from the crisis response suggests that blending safety net, active labour market, and livelihood responses - complemented by longer-run efforts to expand social insurance coverage - will help address the needs of different groups during periods of crisis and provide flexibility of response.

Moving forward, in order to achieve more effective social protection programmes which will facilitate future crisis response and provide improved social risk management in non-crisis periods, ASEAN Member States will have to ensure effective surveillance mechanism at the national level to monitor the social impact. They must develop more institutionalised coordination mechanisms as social protection programmes are spread across various agencies, often responsible for different segments of the population with multiple funding sources for programmes. A key issue for all Member States seeking to scale up existing transfer programmes or introduce new transfer programmes in response to the crisis – as well as the food and fuel crises – is to identify poor beneficiaries and those specially impacted through appropriate targeting means such as household survey data.

Finally, a challenging issue faced by Member States is the exit strategy from crisis-response social protection interventions and other stimulus measures. A lesson from past crises in Asia and beyond is the importance of clarity on the exit strategy from crisis-response measures. Exit strategies can vary from total withdrawal of crisis-specific measures, to partial scaling back, to integration of programmes into the longer-run social protection system. Whatever the preferred approach, managing public expectations is paramount, especially if interventions are intended to be temporary.

Conclusion

In conclusion, I would frame the current global situation as follows: "yesterday was gloomy, tomorrow is uncertain, today is promising but we have to be vigilant".

ASEAN and its partners in the Asia Pacific should now continue to take appropriate measures to sustain the fragile economic recovery, adopt appropriate strategies and policies to bring about a rebalancing of growth from a purely export-oriented growth model to a more blended model involving domestic and regional demand while diversifying the export sources. At the same time, ASEAN and its partners should continue to monitor the social impact of the crisis and put focus on improving surveillance, greater coordination in implementing social protection programmes as well as targeting the most affected group. In developing the new strategies and policies, ASEAN must factor the climate change, and food and energy security dimensions amongst others.

Thank you.

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