



Asia-Pacific Regional Economic Outlook Does Asia Need Rebalancing?

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Main Issues and Outline

- Assessing Asia's Export Dependence

- ➔ **Is Asia more dependent on external demand than other regions?**

- What Does Rebalancing Mean for Asian Economies?

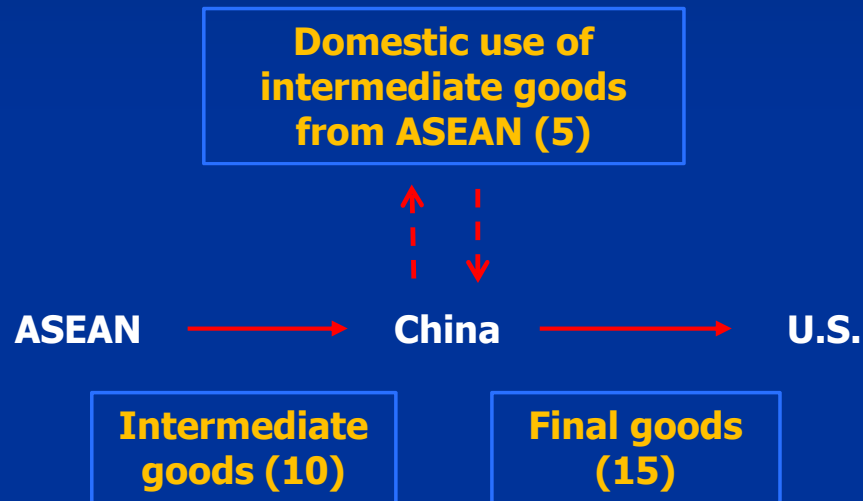
- ➔ **What is needed to strengthen domestic sources of growth in Asia? Are there differences in the region?**

- Policies to Rebalance

- ➔ **Which policies, in Asia and abroad, would achieve a successful rebalancing of global demand?**

Asia's exposure to external demand remains high.....

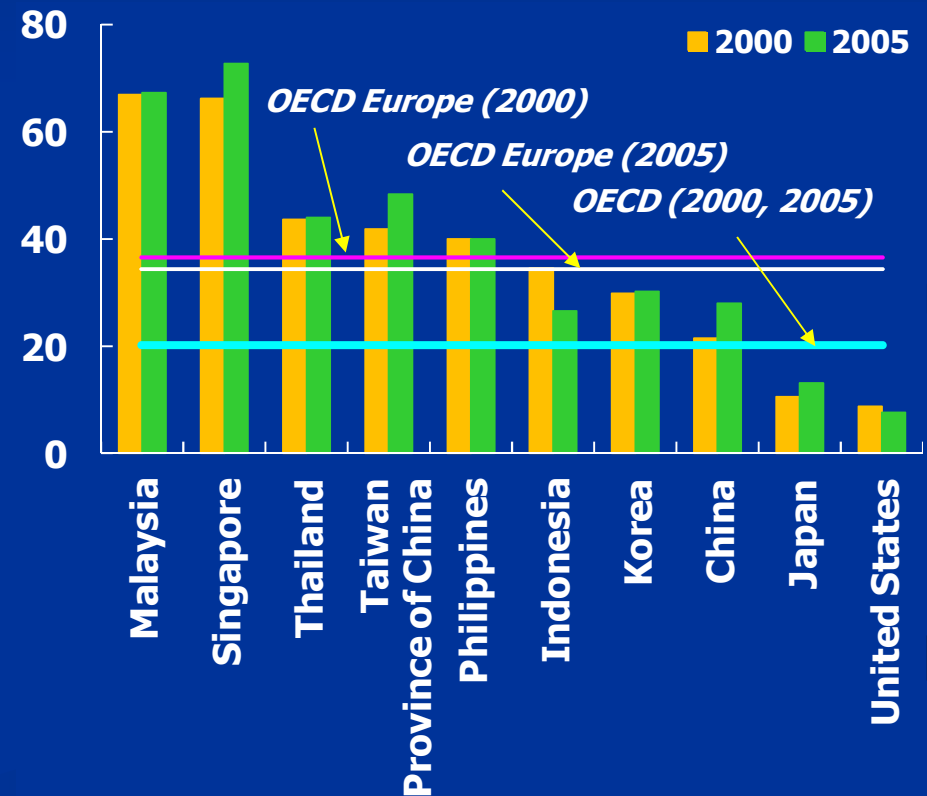
Effect of Vertical Integration on Trade



Actual exposure: ASEAN to China (5), ASEAN to U.S.(5), China to U.S. (10), Total 20.

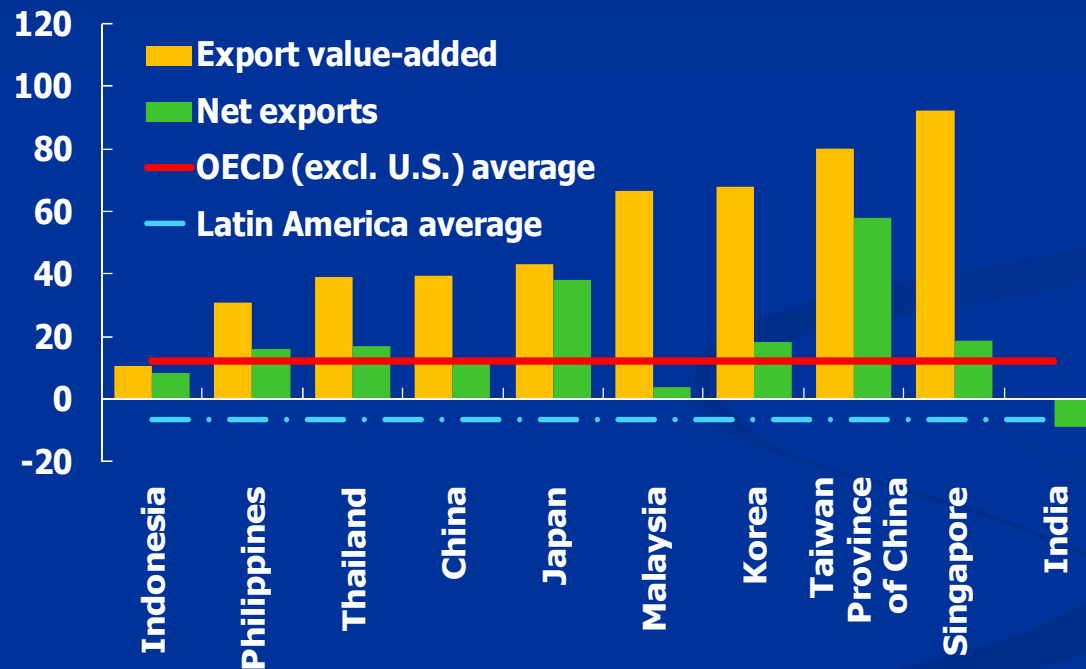
Gross trade data: ASEAN to China (10), ASEAN to U.S. (0), China to U.S. (15), Total 25.

Share of Export Value Added in GDP (percent)



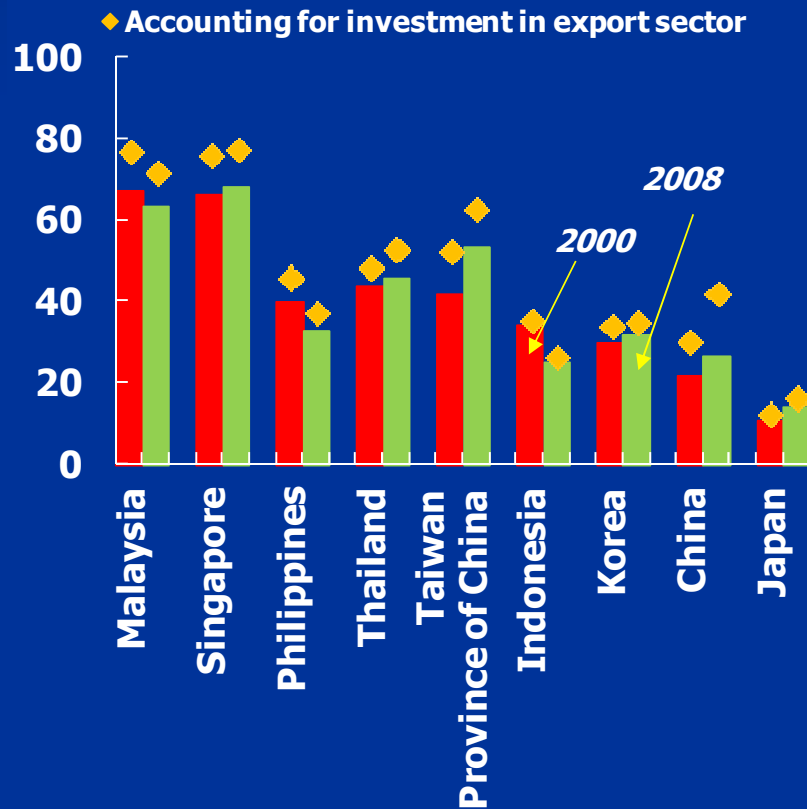
... and exports have been a primary engine of growth in the region

Selected Asia: Average Contribution to Real GDP Growth
(percent of real GDP growth)

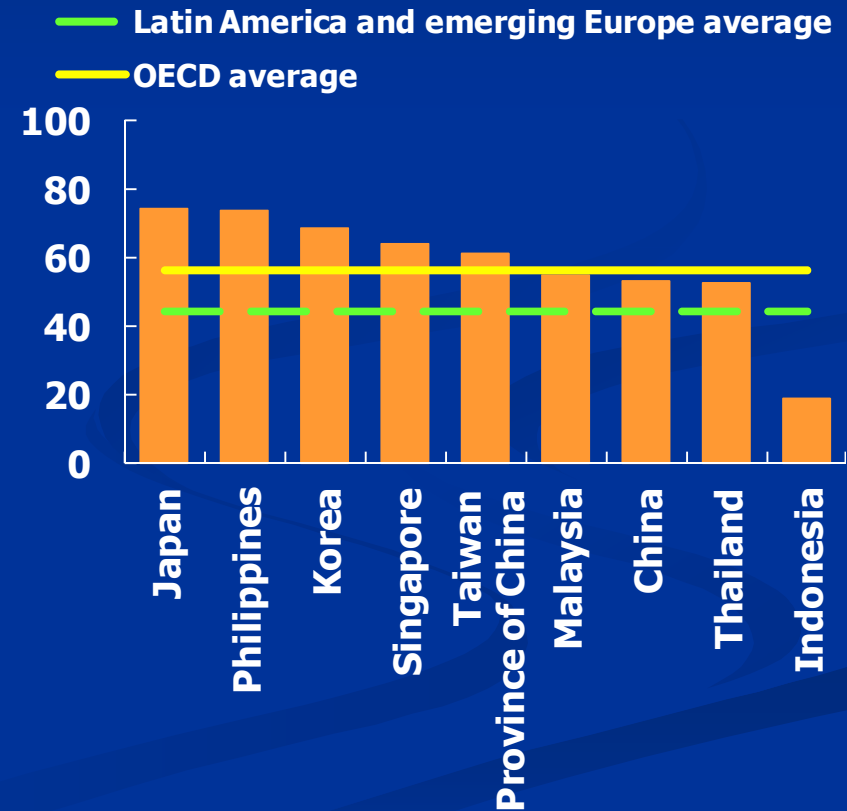


Export-related investment and concentration effects add to Asia's export exposure

Selected Asia: Share of Export Value Added in GDP
(percent of GDP)



Asia: Share of Medium and High-Tech Exports in Total Exports
(percent; average over 2000-08)

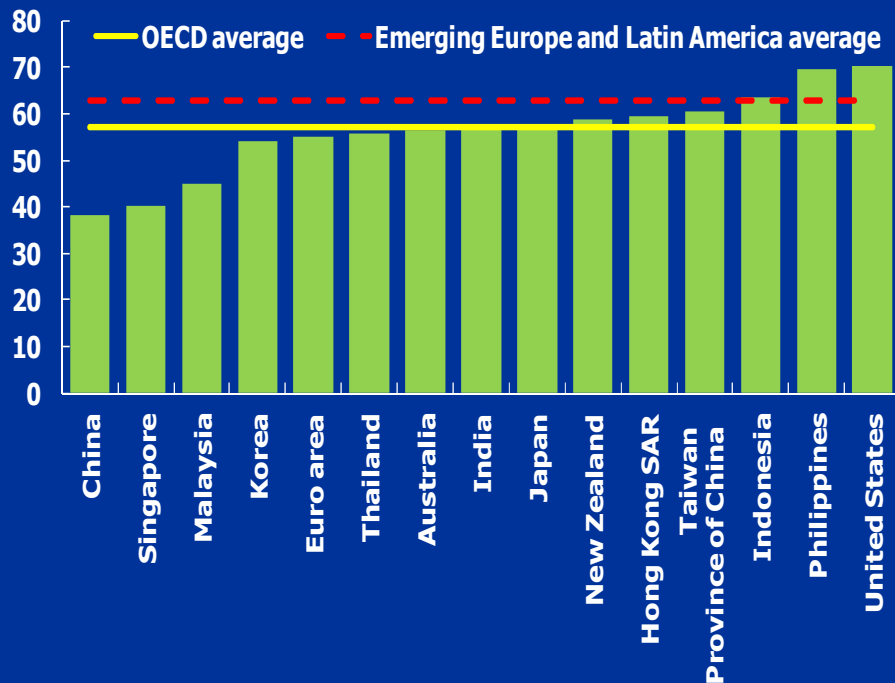


What does rebalancing mean for Asian economies?

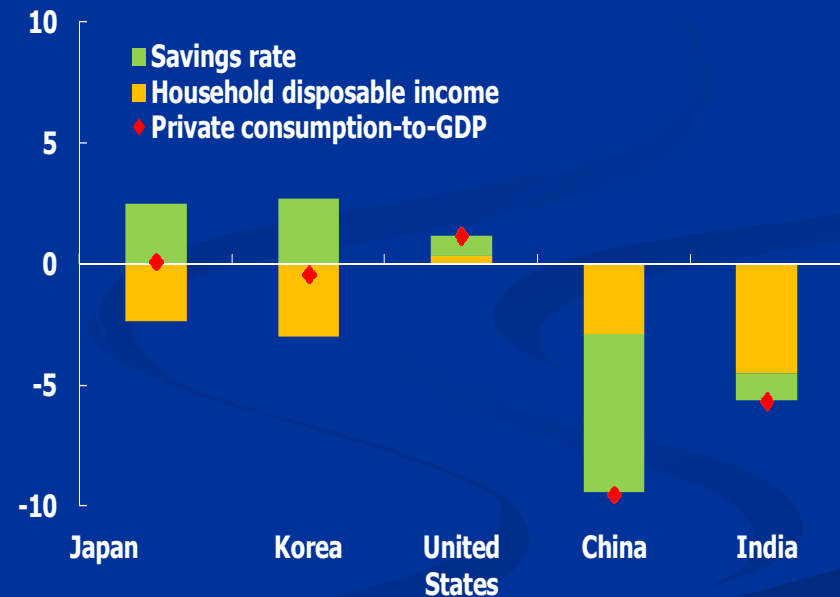
- Is consumption too low?
- Is there underinvestment?
- Are there any supply-side imbalances?

Consumption is not generally weak, but China is a notable exception

Private Consumption
(percent of GDP; 2004-08 average)



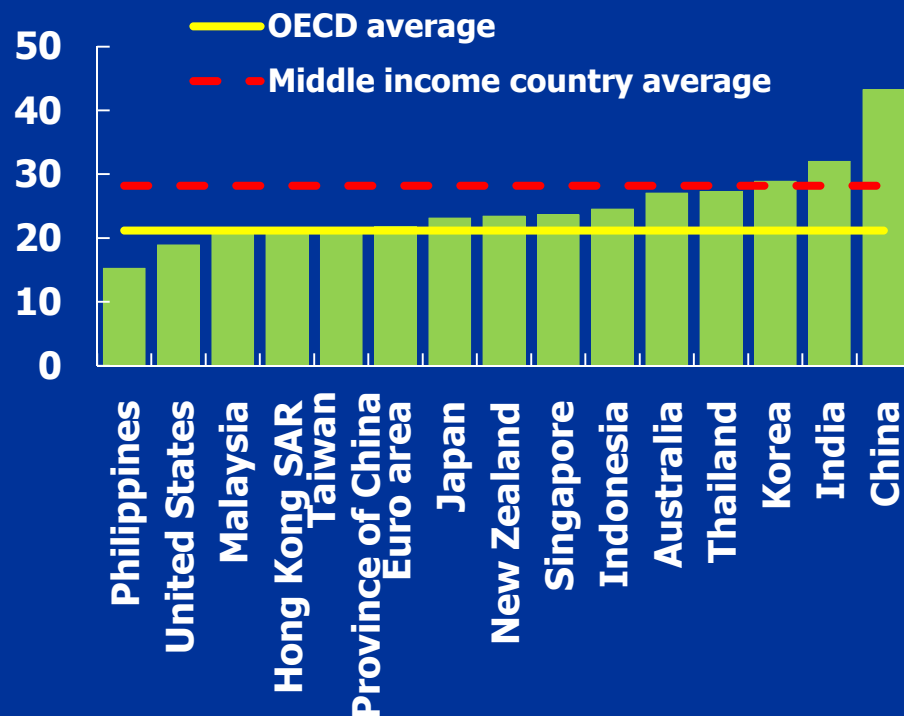
Cumulative Change in Ratio of Private Consumption to GDP (2000–07): Estimated Contribution of Disposable Income and Savings Rate



Is investment in Asia too low?

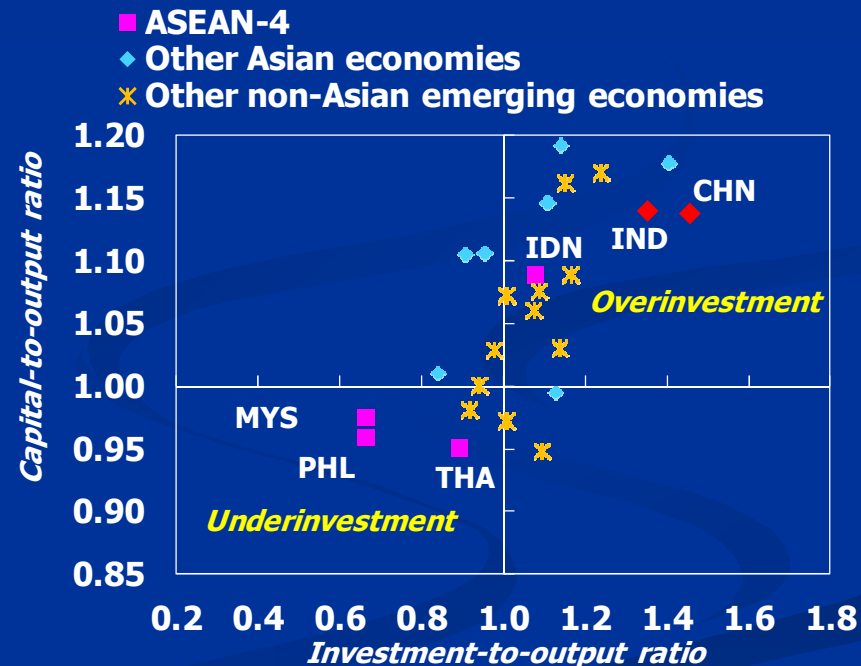
Asia: Investment

(In percent of GDP; 2004-08 average)



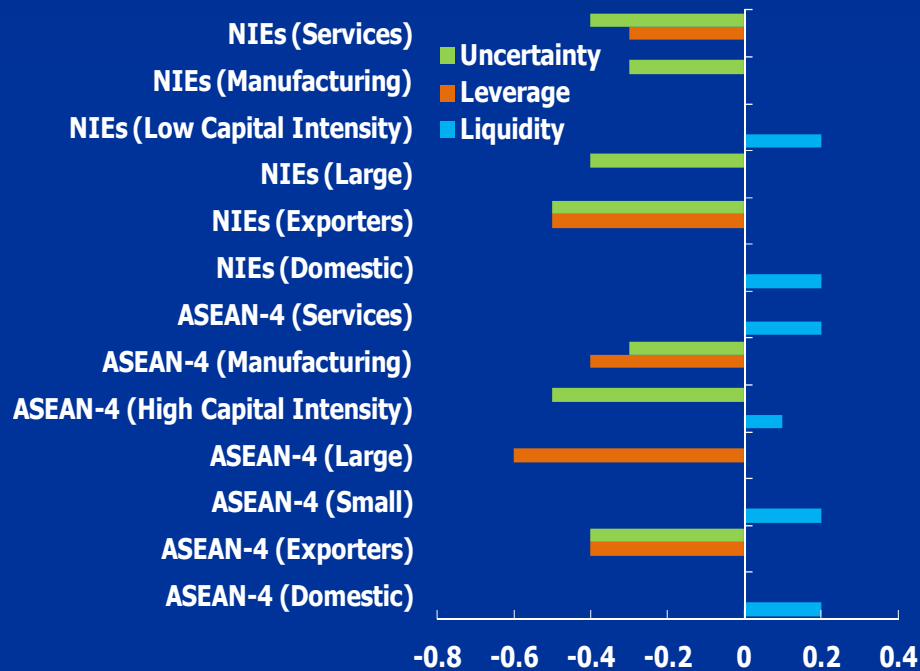
Capital-to-Output and Investment-to-Output Ratio

(Relative to steady-state level in 2008)

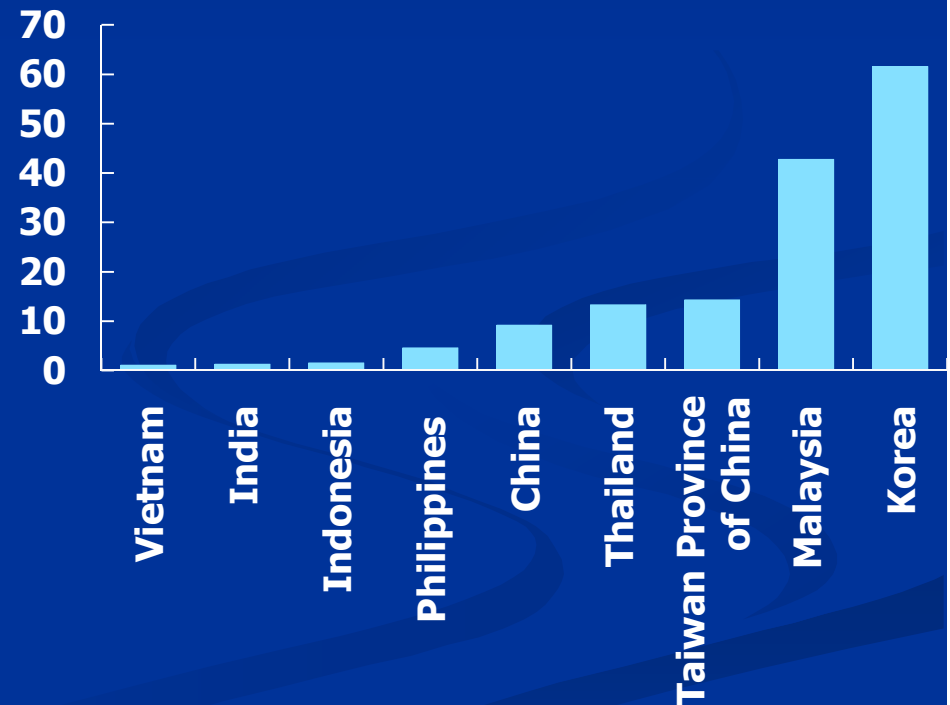


Together with easier access to financing, especially for SMEs

Emerging Asia: Elasticity of Investment Rate to Fundamentals



Selected Asia: Size of the Corporate Bond Market, 2009
(In percent of GDP)

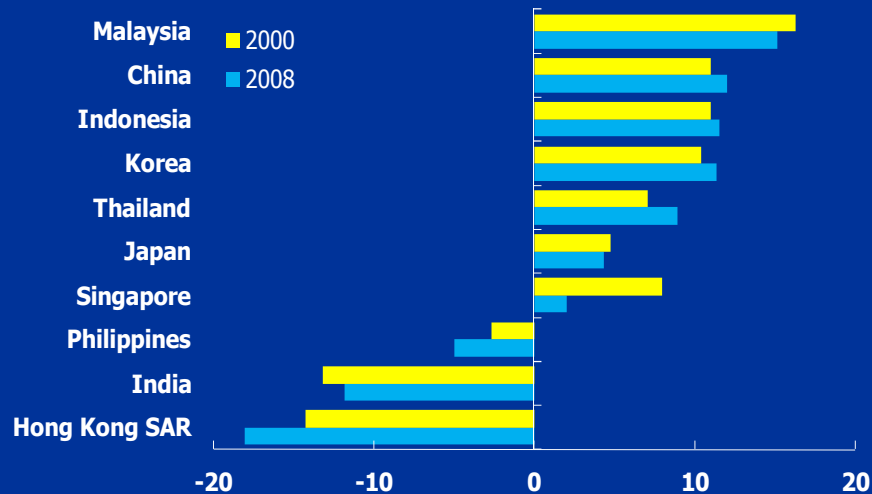


Sources: Worldscope, and IMF Staff calculations

What Does Rebalancing Mean for Asian Economies?

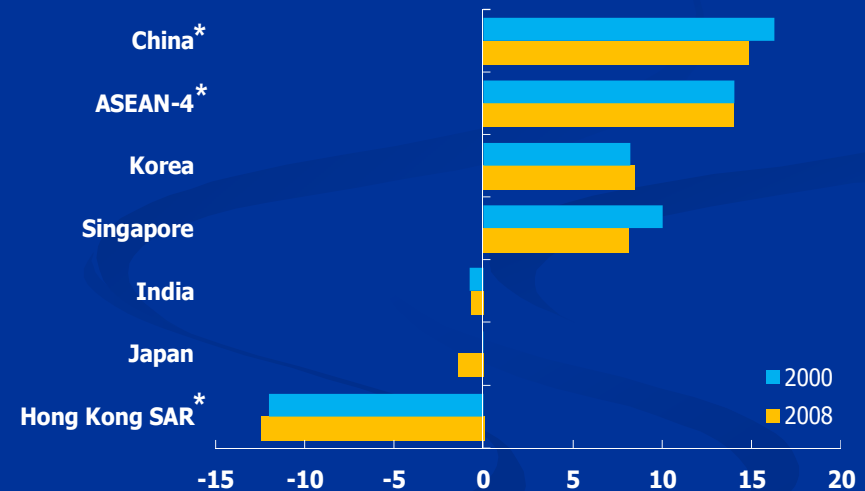
Asia's high export-dependence reflects an over reliance on the tradable sector

Excess Share of industry in GDP¹
(In percentage points; country industry share minus industry share of peer group)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.
¹ Peer-group definitions are based on World Development Indicators. Countries were assigned the following peer-groups: Hong Kong SAR, Korea, Japan, Singapore (OECD); China, Indonesia, the Philippines, Thailand (low-and-middle income countries); India (lower middle income countries); Malaysia (upper middle income countries).

Model Based Excess Share of industry in GDP¹
(In percentage points; country industry share minus industry share of peer group)



Source: IMF staff estimate.
¹ Estimated by country-specific dummy variable. Explanatory variables for industry share include per capita income (PPP), population and geographic size. An asterisk mark next to the economies indicates statistical significance at 5 percent level.

What Does Rebalancing Mean for Asian Economies?

Which policies can achieve successful rebalancing?

A successful rebalancing across Asia would entail

Boosting consumption (e.g., China)	Boosting investment (e.g., ASEAN)	Boosting services sector (emerging and advanced Asia)
<ul style="list-style-type: none">• fiscal reform to reduce precautionary saving (e.g., better social safety net)• further financial development to improve households' access to financial services• gradual real effective appreciation of the RMB	<ul style="list-style-type: none">• deepening financial markets (e.g., through bond market development)• improving the business climate (e.g., governance, rule of law)• promoting infrastructure investment (e.g., public private partnerships)	<ul style="list-style-type: none">• further liberalization of product and labor markets• further financial development to reduce services sector firms' financing constraints (including of SMEs)• opening service sector to foreign competition (e.g., retail services)

Conclusions

- Asia's growth remains heavily dependent on external demand
- This means an unbalanced production structure, heavily tilted toward industry
- The rebalancing process will likely vary across Asian economies: some countries need more investment, others need more consumption, many would need reforms to boost services-sector growth
- A successful rebalancing will require reforms in many Asian economies