

Asia's Developing Future



ASIAN DEVELOPMENT BANK INSTITUTE

How resilient is Southeast Asia in weathering economic volatility?

Asian Development Bank Institute Dean Naoyuki Yoshino met with Indonesian Finance Minister Sri Mulyani to discuss the future of trade and economic resiliency in Southeast Asia. Dean Yoshino kicked things off by assessing the economic health of the Association of Southeast Asian Nations, or ASEAN, and inquiring how policy adjustments and rising prosperity in the wake of past crises could impact the region's preparedness for future shocks.

"I'd like to ask about the future of ASEAN and Asia, Asia has lots of middle-income class, and high savings rate, and it is growing very, very well. So, I think ASEAN community can create big mutual trade. And that could be very helpful for each other.

Asian countries are growing very rapidly, compared to 1997. At that time, savings rate was very low. And foreign capital came in and out. But now you have lots of savings within Asia. Secondly, middle-income classes are growing, then it is an engine of a great demand. If that can be combined within Asia, I think we can also develop ourselves rather than relying too much on Europe or United States."

"ASEAN and East Asia, I think learned a lot from the Asian crisis 1997-1998. I think at that time, many Asian countries were growing very rapidly, but through what they call borrowing savings from abroad, they are importing capital. And at the same time, then they actually combined with their currency policy, which is relatively fixed, creating vulnerability. I think each country have their own (system). Thailand have their own problem, even South Korea, Indonesia or Malaysia. But it is this combination of their own domestic problem, combined with the capital inflow and current account deficit. While their

exchange rate was relatively fixed, that created a recipe of disaster. At some point, you cannot afford to do that.

So, since the Asian financial crisis of '97-'98, many of the Asian countries learned the hard lesson from this crisis. You mentioned about the savings rate improvement, they also accumulated more reserves in order to create the first line of defense and buffer for them. Then relatively some of them have become export oriented and performed very well. So, their trade account and current account become positive rather than the deficit. Thailand is a case in a point because they currently have a very strong surplus. I think that created the resiliency when they are facing the global financial crisis in 2008-2009.”

Finance Minister Sri Mulyani went on to explain how increasing trade and economic cooperation in Southeast Asia is solidifying the region’s foundation for growth by transforming it into a magnet for capital, innovation, and value add capacity across supply chains:

“You are right that East Asia or ASEAN in general is actually becoming a community --an Economic Community who has a very strong and powerful potential to become an economic zone or community in itself. The savings rate has relatively increased. Manufacturing and economic transformation is also is actually being very, very impressive.

If you look at the manufacturing sector, it is actually comprised from very simple manufacturing up to the very advanced one. It's all here (in the region). So, (in terms of) the technology, innovation, capital, savings, I think they (ASEAN countries) are all very much relatively abundant. So, with that, I think that ASEAN definitely can have the ability to withstand if the global environment is not going to be favorable.

The region has a sizeable middle-income class, which is growing. Also, the reduction of poverty is one of the fastest in ASEAN. So, this is a very strong, resilient, and --also most importantly-- relatively safe and peaceful region. And that's why we do hope that we are going to be a region in which the peaceful environment, which has become the foundation for prosperity and economic progress, is going to be continually maintained in this region.

Finance Minister Sri Mulyani also noted the progress of policy collaboration in Southeast Asia to mitigate volatility.

With that, there are a lot of possibility. We started with the Chiang Mai initiative, as you remember, ASEAN plus three, these are all the initiative in which we want to create the regional safety net, financial safety net, using our own currency. And I think the initiative by many central banks to do many bilateral swaps is a move in the right direction.”

Dean Yoshino concluded by underscoring the importance of continued efforts to boost Southeast Asia’s middle class to secure growth.

“I think as you said, political stability is very important. And secondly, I think we have created very big middle-income class. Japanese success was 90% of Japanese feel they are middle income class. I think that is all very important to ASEAN countries in order to do so, tax system is very important to charge progressive tax so that that can be mitigated. And lastly, education to everybody. Those are the key for the success of Asia.”

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