The slowdown of Asian economies

Economic activities in Asia have so far been expanding well, from both domestic demand and exports. Nonetheless, going forward, downside risks to both growth drivers are expected to increase, which can potentially lead to a period of economic slowdown.

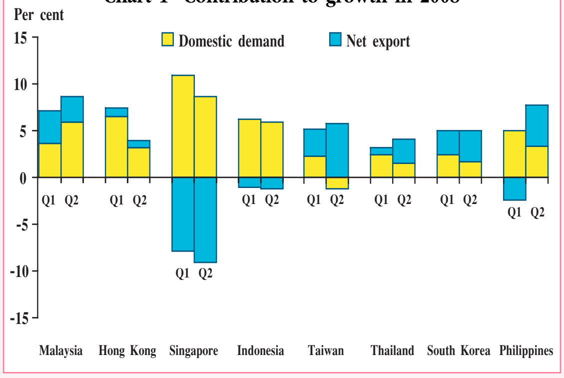
Table: World economic forecasts

Country	(Real GDP) 2007	GDP (%yoy)			
		2008		2009	
		As of Jun 08	As of Sep 08	As of Jun 08	As of Sep 08
World	3.8	2.9	2.9	2.8	2.5
G3					
United States	2.2	1.5	1.8	1.7	1.4
EU	2.6	1.7	1.3	1.4	0.9
Japan	2.1	1.3	0.9	1.5	0.9
East Asia					
China	11.9	10.1	9.9	9.4	9.1
Taiwan	5.7	4.4	4.3	4.8	4.4
Hong Kong	6.3	4.9	4.4	4.9	4.2
South Korea	5.0	4.5	4.4	4.9	4.3
Southeast Asia					
Singapore	7.7	5.1	4.2	5.5	4.6
Malaysia	6.3	5.5	5.5	5.5	5.1
Philippines	7.3	5.3	4.7	5.4	4.8
Indonesia	6.3	5.9	5.9	5.9	5.6
Thailand	4.8	4.9	4.8	5.0	4.6

Note: Forecast for world economy is weighted on 70 countries
Source: Consensus Economics Inc. as of 9 June 2008 and 8 September 2008

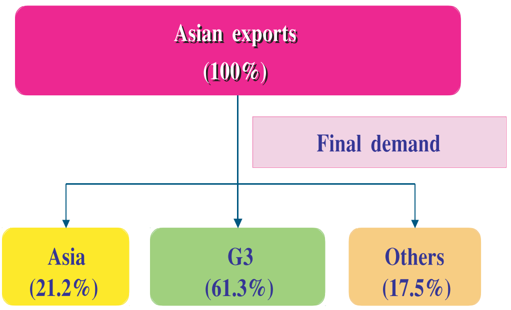
In the second quarter of 2008, the Asian economies started to show signs of slowing down, as consumers' purchasing power dwindled from surging domestic oil and commodity prices. Consumer and business confidence has also been affected by the weakening prospect of the global economy, worsening financial market conditions, and uncertainty over political situation in certain countries. With declining confidence, financial institutions have further tightened their lending criteria and scaled down lending activities. Coupled with tightening monetary policy in the previous period in response to rising oil prices and growing risk aversion from the worsening financial turmoil, financial conditions could continue to tighten further.

Chart 1 Contribution to growth in 2008



Source: Calculations by the Bank of Thailand, based on World Economic Outlook in April 2008, IMF.

Chart 2 G3 economies remain a significant final market for Asian exports



Source: The Asian Development Bank 2007

Exports, which have been the key driver of economic growth in recent years, also began to grow at a slower pace. Although intra-regional trade has increasingly contributed to Asian export growth, a study conducted by the Asian Development Bank (ADB) suggests that around 61.3 per cent of the region's direct and indirect exports[1/] has the G3 economies as final destinations. Thus, economic expansion in the G3 economies is of considerable importance for the outlook of Asian exports. In fact, the recent slowdown of exports in some regional countries including China, South Korea and Singapore can be largely explained by slowing demand from the G3. In addition, signs of a significant slowdown of exports to China, an important market for raw materials and intermediate goods in the regional production network for goods with final destination in G3 economies, have been detected.

Going forward, adverse consequences from the financial turmoil could further weaken the G3 economies and raise the probability of recession there. Meanwhile, regional economies' domestic demand has weakened, posing a downside risk to the momentum of growth. However, the downturn in regional economies will not be severe if the G3 economies do not fall into recession. In addition, policymakers in China and Taiwan have started to relax monetary policy through interest rate cuts and reduction in the required reserve ratios to help cushion the impact as inflation started to decline there. As the majority of the regional countries have sound fiscal positions, as reflected by the ratios of public debt to GDP, more room exists for expansionary fiscal policy. Several regional economies have already implemented fiscal stimulus measures including reduction in income tax, provision of funding for small and medium enterprises as well as subsidies for public utilities.

In sum, Asian economies will likely observe a growth slowdown from softening domestic and external demand. But policymakers could still mitigate the effect of slowing activities through the use of fiscal policy. Countries with declining inflationary pressures may also be able to ease monetary policy. The available policy tools should help avoid a sharp downturn of economic activities amidst the global economic slowdown and rising uncertainties.

[1/] Note: Calculation based on the Asian Input Output Table (AIO table) in 2000, by the Asian Development Bank (ADB). The current G3 final demand figures are likely to be lower than in the ADB study.