Southeast Asia’s Policy Response to the Global Economic Crisis

David Jay Green

This paper examines the impact of the global financial crisis on Southeast Asia, focusing especially on the policy responses of the various governments. In spite of seeing OECD asset markets crumble and financial credit freeze, Southeast Asia was slow to fully mobilize to reduce the impact of the crisis. Monetary policy-makers did rise to the challenge, but the tools of fiscal expenditure were slow to be used. The impact of fiscal policy was too late to stimulate domestic demand and mitigate the impact on the poor. This review of policy responses could yield policy lessons for sustaining growth and cushioning the poor in the face of future crises. The discussion is on the larger, more populous and more globalized countries of Southeast Asia: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. These countries have the resources to address the impact of the global economy through individual and collective actions and policies.

Keywords: Southeast Asia, government policy, financial crisis.

I. Introduction
This paper examines the impact of the global financial crisis on Southeast Asia, focusing on the policy responses of the various governments. The global financial crisis has had a nearly unprecedented impact on OECD countries with collapses in asset markets, failures of financial firms, and falling demand. As of January 2010, the threat of a true global depression appears to have receded, asset markets have stabilized, and some economies are showing slow recovery. There is, however, considerable uncertainty over the future course of the OECD economies and little hope of a quick rebound in employment: a “jobless” recovery is underway.

The initial section below provides a sketch of the crisis focusing on trade as the determining factor in bringing economic difficulties to Southeast Asia. The impact of the global problems on regional financial markets is reviewed in section III. Despite clear signals from OECD economies that a true crisis was developing, regional growth forecasts appeared to reflect the changing conditions only with a lag and this is reviewed in section IV. A note on the impact of this slower growth on poverty is section V. The
remaining sections of the paper contrast the relatively quick response of monetary policy (section VI) with a tardy use of fiscal policy (section VII), and some final notes on trade policy (section VIII). A concluding note is section IX.

II. Southeast Asia’s Reliance upon International Trade Left it Vulnerable

The collapse of asset markets and financial market failures in the OECD had echoes in Asia, but the major channel of influence for Southeast Asia was trade — a sharp fall-off in demand for exports. The OECD recession translated into a strong drop in imports from Southeast Asia, a region that had come to depend on trade to marshal robust economic growth. The OECD recession had all major economies in East Asia “suffering double-digit declines in exports”.\(^1\) The trade collapse was most evident in 2008-Q4 and 2009-Q1 with the pace of decline moderating by 2009-Q2. Figure 1 shows the situation in the Philippines.

Although media headlines focused on the failures of iconic OECD financial market institutions and blockages in what had been normal financial market exchanges, it was the more plebisan fall-off in orders for goods that transmitted the OECD crisis to Southeast Asia. In trade-dependent countries such as Malaysia and Thailand, the fall-off in exports led to lower private domestic spending, especially fixed investment.\(^2\) That trade was the primary and lasting channel is clear. However, there were very complicated and inter-related movements in the various aspects of the different economies. Initially the freezing of short-term credit markets

---

**FIGURE 1**

Philippine Trade 2000–2009 (3-month moving average)

![Figure 1](http://aric.adb.org/aric_database.php)

**SOURCE:** Downloaded from <http://aric.adb.org/aric_database.php>.
in the United States\textsuperscript{3} had a sharp impact on trade finance and orders. This was exacerbated by outflows of capital, especially portfolio funds.\textsuperscript{4} The subsequent downturn in aggregate demand in OECD economies confounded the initial shocks.

The channelling of the global crisis to Southeast Asia through trade reflects the historic dependency of this region on trade to spur growth. Especially the economies of Malaysia, Singapore and Thailand are keyed to international trade.\textsuperscript{5} This reliance upon international trade to harness their growth potential left some countries particularly vulnerable to weaknesses in OECD outlet markets. As Figure 2 shows, it was the degree of trade dependency that explains the impact on growth of the global recession in Southeast Asia.\textsuperscript{6} Singapore, as an economy centred on trade, showed the largest turnaround in growth with GDP falling 9.6 per cent, year-over-year in 2009-Q1. Indonesia and the Philippines, less dependent upon external demand, have skated through the crisis better than their richer neighbours. This is the double-edged sword of relying on external markets for development: it provides a tremendous boost to the efficiency of the economy and long-term growth, but increases short-term vulnerability to external shocks.

Within the broad context of trade, country-specific issues affect the overall picture of the impact of the crisis on growth. For example, a counter-balancing force in Indonesia was the very robust growth in the agricultural sector, which protected some in the rural sector.\textsuperscript{7} Election spending further cushioned Indonesia’s economy. Some analysts estimate that election spending in 2009 could account for 1 per cent of total GDP.\textsuperscript{8}

FIGURE 2
Trade Dependency vs. Decline in GDP

\begin{center}
\includegraphics[width=\textwidth]{figure2.png}
\end{center}

\textbf{SOURCE:} ADB, AEM, July 2009.
While the primary channel for the rollover of the OECD recession to Southeast Asia is the trade in goods, closely related activities including tourism and the international demand for labour services have reacted to the global downturn. Across Southeast Asia a crisis-related fall-off in global tourism weighs on economies.9 The Philippines, for example, saw a fall of 6.3 per cent of tourist arrivals in the fourth quarter 2008, relative to the year-earlier value. Indonesia and Thailand also seem to be seeing a fall-off in tourism earnings. In the Philippines, inward remittances from workers in other countries have held up in 2009, boosting the economy, but growth in these income inflows was at a lower level through the first ten months of 2009 than seen in 2008.10 The degree to which these remittance flows continue without significant weakening may be an important key to next year’s growth in the Philippines.

Exports drive economies in Southeast Asia, but in some cases in late 2008 as OECD purchases fell, imports adjusted faster than exports, limiting the drag on aggregate demand and on the economy generally (Figure 1). The link between imports and exports reflects the fact that trade in Southeast Asia has increasingly been in processing: imports are for re-exporting with regional trade often in intermediate goods. However, that imports moved so quickly testifies to the responsiveness of the business community. Managers understood what was happening in the OECD and immediately adjusted their expectations for sales. Figure 1 clearly shows the situation in the Philippines, but a similar picture can be found across the region.11

The near synchronization between exports and imports meant that the recession had little overall impact on the balance of payments, foreign reserves (Figure 3) and exchange rates (Figure 4). This is the judgement looking back from the vantage point of early 2010. The picture is complicated in that, depending on the period, Southeast Asian countries had different experiences relative to the U.S. dollar through the first two-thirds of 2008. By August 2008, however, all currencies were depreciating; a trend that quickened in the wake of the global trade collapse. The period of depreciation lasted generally until April 2009 when the five currencies we are looking at stabilized and started a rebound. This rebound is testimony to how different this crisis was than the 1997/98 traumas — Southeast Asia is viewed as suffering “collateral damage” from someone else’s problem.

Indonesia had a more severe experience than others in the region with a large slide in the rupiah-U.S. dollar exchange rate of 19.7 per cent in just a few weeks in late 2008. Similarly, Indonesian bond yields remain higher and appear to have been more volatile than regional comparators. Part of the explanation may lie in the generally high inflation seen in the country. But there is anecdotal information that Indonesian currency and credit volatility was exaggerated by the marketing of “complex foreign exchange derivative instruments”.12

The Indonesian experience may reflect in a smaller fashion the kind of mismatch between market expectations and actual market movements seen in the 1997/98 crisis. This kind of “disorderly” market is very sobering to those holding the wrong positions and poses systemic risks if not contained. On balance, in Southeast Asia, “disorderly” markets were seen in relatively few instances and were short-lived. This situation is dependent upon the nature of any recovery. A prolonged worldwide depression could disrupt the fragile stability found in 2009.

III. Financial Market Stability Helped Cushion Southeast Asia

Although the conclusion that Southeast Asian financial markets suffered relatively little disorder compared to OECD markets is generally correct, this is from the perspective of hindsight. Stock markets in Southeast Asia did fall over an extended period of time (Figure 5), and in some countries the value destruction was close to what occurred in the financial crisis of 1997/98.13

The IMF (2009b, pp. 140–41) concludes that, for a brief period of time at the end of 2008 and into 2009, emerging Asia (including Indonesia, Malaysia, the Philippines, and Thailand) suffered...
FIGURE 3
Foreign Exchange Reserves


FIGURE 4
Foreign Exchange Rate Indices

“historic levels” of financial stress. The IMF uses a measure that aggregates indices across both financial and foreign exchange markets. As one aspect to this, credit availability and credit costs did weigh on non-financial firms. In Thailand, the credit squeeze had considerable impact on small and medium-enterprises. Indonesia also saw banks generally tightening lending conditions. The Philippines may be an exception, as liquidity appears to have increased throughout 2008 and into the first two months of 2009. Even here it is likely that credit conditions have tightened with banks reviewing their lending conditions.

Reflecting global capital flows, with OECD banks and other financial institutions rebuilding their reserves, bond spreads in Southeast Asia widened sharply in 2008-H2. But the ability of Indonesia and the Philippines to issue sovereign bonds in 2009-Q1 may be considered to mark the end of this period of market uncertainty. Successful bond placement indicates that markets saw that the crisis is not one of policy in Southeast Asia.

The non-financial corporate sector has escaped the kind of widespread insolvency seen in 1997/98 partly because in most countries there is simply less of a general slump in economic activity (Singapore is an exception) and most companies entered the present crisis with stronger, more resilient balance sheets. The World Bank, for example, noted that Philippine firms “deleveraged” and paid down debt levels, especially during 2007 when the peso was seen as relatively strong (Philippines QEU 4/2009, p. 5).

The impact of stock market declines on growth varies in Southeast Asia but is not expected to be similar to that found in the OECD economies. The collapses in the stock market will weigh upon American households, as there is a need to rebuild

![Composite Stock Indices](http://aric.adb.org/aric_database.php)
pensions and family savings, for instance, for children’s schooling. In contrast, in the Philippines, the World Bank estimates that less than 2 per cent of the population will be directly affected by changes in their wealth associated with asset market drops (Philippines QEU, 4/2009).

One additional factor insulating Southeast Asia from the asset market meltdown was the continued growth in property markets. This helped support personal consumption expenditures. Where falling prices were observed, they were not the huge losses experienced especially in the United States and some European economies. ADB estimates suggest that house prices in Singapore rose 13.4 per cent in 2008, those in Malaysia 4 per cent and Indonesia 5.5 per cent; although Thailand did see a slight slump of 1 per cent in prices.

IV. Economic Forecasts Only Slowly Captured the Likely Regional Slowdown

The financial market turmoil in the OECD, especially in the United States, was well publicized. But the rolling, downward adjustments in public growth forecasts for the region’s economies suggest a slow, reluctant acknowledgement of the magnitude of the crisis. Table 1 shows that even by December 2008, analysts were resisting suggestions that Southeast Asian countries such as Malaysia, Singapore, or Thailand would face a recession in the coming year. Data for 2009-Q1 showed a very dismal regional experience and did lead to a better understanding that growth was falling for most countries and could be negative for the year for some, but this was late in coming if the goal was to support better economic policy.

The failure to understand in a timely fashion the likely regional growth patterns has costs, as this global downturn will not quickly disappear. Table 2 shows the ADB forecasts for 2010 growth for the major industrialized economies — the markets for Southeast Asia — as a sparse 1.1 per cent. These are uncertain forecasts, but by early 2010, when there has been some stabilization of financial markets and some rebound in assets, there is still no shortage of concerns that real recovery is some time off and there are risks of another widespread downturn.

TABLE 1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>6.2</td>
<td>5</td>
<td>4.4</td>
<td>4.3 to 4.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.3</td>
<td>3.5</td>
<td>−6.2</td>
<td>−2.7 to −1.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.7</td>
<td>3.5</td>
<td>0.5</td>
<td>0.7 to 1.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.6</td>
<td>1.2</td>
<td>−9.6</td>
<td>−4.3 to −1.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>5</td>
<td>2</td>
<td>−7.1</td>
<td>−3.5 to −2.6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6</td>
<td>5</td>
<td>3.1</td>
<td>4.9</td>
</tr>
</tbody>
</table>

NOTES:

c. Actual 2009-Q1 from ADB, AEM, July 2009, Table 1, p. 4 and for Vietnam, p. 7.
d. From Asia Pacific Consensus Forecasts, 13 July 2009.


The social impact of this crisis is considerable, both from the standpoint of the incidence of poverty and with respect to labour demand. Southeast Asia has well utilized the growth since the 1997/98 crisis to help millions of people move above the poverty line (Table 3). The current crisis puts this achievement at risk. In Southeast Asia, a rough rule-of-thumb is that every 1 percentage point increase in growth will reduce the share of people in the total population who are below the poverty line by 2 percentage points. Of the more than 500 million people in Southeast Asia, roughly 200 million people live in poverty — measured by a US$2 per day standard. A fall-off of GDP growth of even a few percentage points can mean tens of millions of people fall back below or fail to move above the poverty line.

A more detailed, disaggregated exercise was conducted by Wan and Francisco (2009) using estimates for different Asian countries of the loss of GDP growth. They suggest that over 2009–10, in the larger ASEAN economies (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) the crisis will cause an increase in the number of people under the US$2 per day poverty line by 13–15 million. The impact ranges from 0.8 million in Malaysia to 5.8 million in Indonesia; a function of the size of the country, the initial level of poverty, and the impact on growth of the crisis.

These calculations, relating the measurement of poverty at the US$2 per day level, reflect only one of the dimensions of the problems. Bauer et al. (2009, p. 2) note eleven variables including undernourishment, child mortality, and educational attainments that are strongly related to growth. Lack of growth or less growth has a huge detrimental impact on the poor and near poor.

### TABLE 3
Proportion of Population below $2 (PPP) a Day (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Mid-1990's Estimate</th>
<th>Current Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>76.5</td>
<td>61.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>64.2</td>
<td>40</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>90</td>
<td>74.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>19.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>52.7</td>
<td>45.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>37.5</td>
<td>25.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>73.5</td>
<td>43.2</td>
</tr>
</tbody>
</table>

**Source:** ADB Key Indicators (2008), p. 128 Table. 1.14.
The impact of this global crisis is coming after an equally serious time for some poor people as the first half of 2008 had seen a continuation of earlier high energy and commodity prices. This had translated into higher food prices and had a particularly deleterious impact on the urban poor. Mangahas (2009) in a provocative article argues that the impact of sharp price changes is much more important than the recent growth experience in determining poverty in the Philippines.23 As energy prices have fallen some people may see an easing of their economic situation. However, any reduction in the cost of living comes with reduced employment opportunities.

Falling GDP in Malaysia and Thailand clearly hurt labour market demand.24 Malaysia, hard hit by the global downturn in trade, has shown some increase in unemployment and expects to see more over the remainder of 2009. Malaysian unemployment rose from 3.2–3.3 per cent in 2006–07 to 3.7 per cent in 2008. Similarly, Thailand shows some increases in unemployment in 2009 and this would likely increase as OECD markets and trade remain depressed.

GDP is not expected to fall in Indonesia or the Philippines, but lower growth can mean that the economies do not provide jobs for an expanding work force. To date, however, statistics do not generally suggest deterioration in labour demand in either country. Indonesia, the regional country least hit by the global crisis, has seen a slight decrease in unemployment through February 2009.25 In the Philippines, employment appears to have grown broadly in line with population growth. ADB analysis suggests that formal sector, full-time employment has weakened; but part-time employment has compensated for this (ADOU, Sept. 2009, p. 152). The World Bank suggests that, in some sectors, unemployment has been limited as a result of the experience after the 2001 collapse of Internet-related stocks and companies. In that period, firms quickly reduced staff levels only to find that rehiring was expensive when the market recovered.26

VI. Monetary Policy-Makers Rose to the Challenge, Helping to Buffer Local Markets

Very dramatically, late in 2008, central banks in Southeast Asia acted in an almost coordinated fashion to reduce key policy rates (Table 4). The first regional move, by the Malaysian Central Bank, was in late November 2008. This was several weeks after OECD monetary authorities took coordinated action — action joined by the Chinese Central Bank27 in an unprecedented act of solidarity. This likely helped stiffen the resolve of Southeast Asian counterparts to move to an easing of monetary policy. Regional cooperation such as the public announcement to deepen the Chiang

<table>
<thead>
<tr>
<th>Date of Policy Rate Reduction</th>
<th>Reduction in Policy Rate (%)</th>
<th>Level in July 2009</th>
<th>Inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>21 November</td>
<td>3.5</td>
<td>3.25</td>
</tr>
<tr>
<td>Thailand</td>
<td>2 December</td>
<td>2.75</td>
<td>3.75</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3 December</td>
<td>9.5</td>
<td>9.25</td>
</tr>
<tr>
<td>Philippines</td>
<td>18 December</td>
<td>6</td>
<td>5.5</td>
</tr>
</tbody>
</table>

NOTE: a. Inflation is year-over-year Headline Inflation.
Mai Initiative also strengthened the hand of monetary authorities. While the first moves do not always appear very large, other steps followed initial policy rate cuts in all cases.

Actions were not confined to reductions in policy rates. Singapore’s monetary policy focuses on exchange rate stabilization and in October 2008 shifted from a concern with inflation to a worry over deteriorating global economic conditions (MAS, 2008). Vietnam also eased monetary policy, doubling the growth rates of reserve money over the period 2008-Q3 to 2009-Q1. In the Philippines, beyond policy rate reductions, the World Bank noted a range of interventions including relaxing accounting rules, opening a dollar-based inter-bank lending facility, increasing deposit insurance, and easing reserve requirements (Philippines QEU 4/2009, p. 7).

Monetary policy is the preserve of relatively few actors with a degree of political independence. Their actions — lowering interest rates and making credit more generally available — tend to be politically palatable ones, at least domestically. There are others that do act to discourage easier, more accommodative monetary policy: international credit rating agencies and international financial organizations such as the International Monetary Fund. Overall though, the clear character of the crisis in the OECD economies as stemming from the problems in financial markets was a cue to central banks everywhere to move quickly in the direction of easing credit conditions. One common feature, allowing Central Bankers freedom to act in the second half of 2008, was that the pattern of inflation mirrored that of trade data; falling sharply as the magnitude of the OECD crisis became apparent (Figure 6).

Southeast Asian Central Bankers acted decisively, even though regional financial markets were not hit in the manner found in the OECD.

![FIGURE 6](source: ADB, ARIC database, downloaded 18 January 2010.)
Although regional banks are well linked to global capital markets, they had little involvement with the “toxic assets” that caused OECD financial markets to seize up in 2008. Asian banking systems as a whole have shown few of the massive problems that characterize American and British banks. ADB analysts estimate that only 2.7 per cent of reported financial sector write-offs were in the books of banks and other financial institutions in Asia (AEM, July 2009, p. 20). In Thailand, Sussangkarn and Jitsuchon (2009, p. 3) report that only “[o]ne small bank” had to be restructured as a direct result of the crisis. As noted, Indonesia may have been a partial exception to this general case due to some use of complex derivatives that accelerated movements when markets unravelled beyond expectations. However, to the extent that there was some exposure to “toxic” assets, it was handled within the system in a reasonably quick period of time.

The decade-earlier crisis also resulted in stronger regulatory systems and internal systems in Southeast Asia. This helped protect regional financial systems from some global problems.31 The actions of the Central Banks came as the stock markets ended their year-long slide and must have been one of the determining factors for ending the share sell-offs.

VII. In Contrast to Monetary Policy, Fiscal Policy Was Slow to be Turned on

Contrary to headline pronouncements, fiscal policy in Southeast Asia in most countries will have accomplished very little to combat the economic downturn.32 At the time monetary policy-makers were taking swift action, estimates of the fiscal balance for 2009 looked little different from that of 2008 (Table 5, columns 2 and 3). Most governments said they would attempt to spend their way out of trouble, but as of January 2009, UNESCAP could only identify the Philippines and Singapore as having detailed large stimulus packages (Table 5, column 5), with most other programmes characterized simply as “small”.33 By mid-2009 we saw some additional commitment to using fiscal policy to combat the clear weaknesses in the economies, but programmes that were announced in mid-year would have little real impact within that year —

### TABLE 5
Overall Fiscal Balance

<table>
<thead>
<tr>
<th>Overall Fiscal Balance (% GDP)</th>
<th>Fiscal Stimulus Packages</th>
</tr>
</thead>
<tbody>
<tr>
<td>For Year of:</td>
<td>Estimates as of:</td>
</tr>
<tr>
<td></td>
<td>December 2008</td>
</tr>
<tr>
<td></td>
<td>July 2009</td>
</tr>
<tr>
<td></td>
<td>January 2009</td>
</tr>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Indonesia</td>
<td>−1.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>−4.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>−1</td>
</tr>
<tr>
<td>Singapore</td>
<td>7</td>
</tr>
<tr>
<td>Thailand</td>
<td>−1.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>−5</td>
</tr>
</tbody>
</table>

**Notes:**

a. Fiscal packages as reported in UNESCAP (2009).
fiscal programmes generally need months if not years to see full implementation.

The Philippine programme provides an illustration of the challenges. The package was announced in the beginning of 2009 and deliberately targeted quick disbursing of funds. However, only about half of the total package was focused on generalized government spending, including actions that were relatively easy to implement and could have an impact within the year (Table 6). Funds that simply provide for larger or faster government spending were likely to be spent and have an impact on domestic demand. Tax cuts, especially those to corporations, however, would likely have little impact on overall domestic spending. Funds for infrastructure can be exceptionally difficult to disburse in a matter of a few months. In the Philippines case, lessons appear to have been learned from past experiences and infrastructure projects were designed be “shovel-ready”, emphasizing small-scale projects and a remarkable increase in public spending was achieved.35

In contrast to the Philippine programme, the Indonesian package, overwhelmingly centred on tax cuts, would probably not have a strong impact in the near term.36 Tax reductions do provide for quick disbursements. In Indonesia, some of the tax cuts were to support incomes of the poor (taxes on cooking oil used by low-income families) and thus had an immediate impact on spending and aggregate demand. But much of the tax cuts were for businesses, which would not feed so strongly or quickly into aggregate demand. This aspect of the programme may reflect the experience of the 1997/98 crisis in which it was corporate insolvencies that posed much of the broad risk to the economy.37

The lack of bold use of fiscal policy is interesting. Economic textbooks are pretty clear: if you face a shock to your system that reduces spending, you may be able to mitigate some of it by increasing public spending. This policy associated with John Maynard Keynes and reflecting the experiences of the 1930s, would seem a natural response to the problems of today. Sachs, speaking broadly about Asia, argues that “the most likely way out [of this crisis] will be to rely heavily on public-sector spending…” both in service provision and in infrastructure investment.38

Particularly in Southeast Asia, where there was a sharp fall-off in growth, one would think

<table>
<thead>
<tr>
<th>% of GDP</th>
<th>Billion Peso</th>
<th>Item</th>
<th>Impact?</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0</td>
<td>160</td>
<td>Increased generalized government spending</td>
<td>Front-loaded, much impact within 2009</td>
</tr>
<tr>
<td>1.2</td>
<td>100</td>
<td>Infrastructure</td>
<td>Often delayed years unless structured for fast disbursement</td>
</tr>
<tr>
<td>0.4</td>
<td>30</td>
<td>Social security benefit payments</td>
<td>Not necessarily targeting poor, not necessarily adding to spending</td>
</tr>
<tr>
<td>0.5</td>
<td>40</td>
<td>Tax cuts</td>
<td>Businesses will not necessarily increase spending</td>
</tr>
<tr>
<td>4.1</td>
<td>330</td>
<td>Total</td>
<td>Perhaps 1/2 impact in 2009</td>
</tr>
</tbody>
</table>

Source: Programme description from World Bank, Philippine QEU 4/2009, p. 10; final column is author’s comment.
governments would be spending money as fast as it could be printed or borrowed. Partly, the differences between the actions and likely impact of the monetary authorities and of those of fiscal policy illustrate the classic economics textbook distinction between the inside and outside lags in the two policy areas.39 But other issues also contribute to a lack of confidence in and the use of fiscal stimulus:

- Large infrastructure projects, a typical part of fiscal spending packages, are simply not a good way to quickly add to aggregate demand as these projects are fraught with delays.
- Spending can be bogged down in political infighting or hampered by bureaucratic procedures.
- Transferring funds to poor people can support spending on domestic goods and services, but programmes must effectively target the right people.
- Spending must be financed in a fiscally sustainable fashion.

These issues are discussed in the following subsections. Overall, as a result of the problems noted and the delayed manner of recognizing the crisis, the present experience is likely to strengthen the consensus identifiable over the last decade: that fiscally conservative policies are the sounder basis for long-term policy and economic growth. The argument will be that we survived the crisis by not spending a lot of money and this will be a guide to future policy.

VII.1 Infrastructure Investment

Infrastructure investment, vital for long-term potential growth, is a difficult mode for short-term support for economic activity. Especially large infrastructure spending is remarkably difficult to start early and have an impact within a short time frame. Infrastructure projects, as part of fiscal stimulus, need to be planned in advance, emphasize labour-intensive technologies, and have clear and quick implementation plans; all difficult to ensure. Labour-intensive technologies, for instance, can be utilized in sectors such as farm-to-market roads, but not in others such as ports or airports,40 limiting the range of projects that can be brought forward at any point in time. Indonesia, in recent history, has experienced very difficult challenges in accomplishing infrastructure projects in crisis periods. The very slow disbursement of funds during the 2004 tsunami rehabilitation programme was illustrative. The World Bank attributes part of the underlying issues to structural problems in budgeting and disbursement institutions.41

Recently Thailand has also had difficulties in implementing infrastructure programmes, particularly the 2005 programme.42 Partly in response to problems, Thailand is focusing on small-scale, “shovel-ready” projects to hasten fund disbursement.43 Accelerating small infrastructure spending is not without problems: contractors must be re-contracted, additional workers engaged, and materials purchased; all within an environment that is increasingly open to oversight and challenge by either civil society or political opposition. The Philippines experience in 2009, leveraging an existing active programme of capital expenditure, expanding existing spending programmes does seem to show that small infrastructure programmes can be a successful part of short-term fiscal stimulus programmes.44

VII.2 Political Uncertainties Can Exacerbate the Difficulties of Implementing Fiscal Programmes

Increasingly lengthy election cycles and contested elections can result in slowing programme approval and implementation. Government programmes also can be difficult to design and start if there is significant political opposition in legislative bodies. In democracies as we see in most Southeast Asian countries it is hard to keep infrastructure projects specifically and government spending generally on track and on schedule.

The Philippines and Thailand exhibit robust political opposition that can result in legislative “grid lock”. Thailand’s experience of a much-divided polity is particularly telling: the World Bank notes that real Thai public investment through the twelve months ending in March 2009
fell by 7 per cent. (Thailand EM 2009, p. 2, see also p. 38) Indonesia’s parliament has assumed a larger oversight role, one that can result in discouraging quick actions by line ministries. Malaysia, too, may see less ability of the governing party to act without opposition.

Recognizing that public spending has a political element, the Philippines specifically restricts the initiation of new government spending during election periods. For example, the Commission on Elections prohibited new projects and new spending during the four months prior to the 2008 elections.45 This adds a further challenging element to the use of fiscal policy to combat shocks.

VII.3 Social Assistance

Supporting the poor and vulnerable is an important target for government policy. This is true even during this crisis when the focus is stability of the financial system. While it is not possible for developing countries to quickly eradicate poverty, especially in the midst of a crisis, most governments have the fiscal space to provide 2 per cent of GDP for programmes that would both stimulate GDP and protect the most vulnerable. This somewhat arbitrary level of funding can make a significant difference in Southeast Asia.46 Table 7 shows that even for the poorest country, Vietnam, 2 per cent of GDP could support a flat transfer of US$84 to the poorest 20 per cent of the population in the country — a significant sum for people living close to the poverty line. Alternatively, that sum could provide an extra US$1 per day to the poorest 4.6 per cent of the population. Of course government programmes would not be so simplistic. The numbers are simply to illustrate that even the poorer countries in Southeast Asia can afford a reasonable degree of social assistance.

On balance, social protection programmes do not play a large part of crisis packages in Asia.47 Table 6 suggests that in the Philippines, social assistance would account for about 10 per cent of the total programme. Bender and Rompel (2009, pp. 4–5) detail the Indonesian programme of approximately 1.4 per cent of GDP as providing nearly 80 per cent for tax reductions. Most of the remaining funds allocated for infrastructure projects, and only a relatively small part was directly used to finance social support. Thailand has used “cash handouts” to poor people as part of the crisis package, budgeted at about 0.24 per cent of GDP.48

Social assistance programmes that pre-date the crisis and those few that have been initiated during the present period do offer some lessons on what governments can do and cannot do in a crisis. The Indonesia and Philippine cash transfer pro-

### TABLE 7
Helping the Poor; Transfers

<table>
<thead>
<tr>
<th>Country</th>
<th>Proportion of Population living below $2 per day (%)</th>
<th>(A) A per capita transfer to the poorest 20% of the population of ($)</th>
<th>(B) An extra $1 per day for a given fraction of the population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>40.0%</td>
<td>192</td>
<td>10.5%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9.8%</td>
<td>688</td>
<td>37.7%</td>
</tr>
<tr>
<td>Philippines</td>
<td>45.2%</td>
<td>165</td>
<td>9.1%</td>
</tr>
<tr>
<td>Thailand</td>
<td>25.8%</td>
<td>374</td>
<td>20.5%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>43.2%</td>
<td>84</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

Note: The proportion of population in poverty is from ADB Key Indicators 2008, p. 128, Table 1.14; remaining data are author’s calculations.
Programmes show that there is the capacity to provide meaningful assistance to those most in need. These programmes encourage aggregate demand generally, mitigating the economic downturn in that poor people are not likely to save additional income and that their spending would likely be on locally produced goods and services thus having a strong multiplier effect. The Indonesia programme provided unconditional transfers and was one element in supporting the poor in the current crisis through the first quarter of 2009. In the first two months of 2009, the programme provided support for 18.5 million households. Conditional cash transfers that require school attendance or the use of health facilities by poor families in exchange for public support can also provide for longer-term potential for an economy by investing in human capital. Weber (2009, p. 13, fn 10) describes the Philippine programme as targeting 700,000 families, helping meet the health and educational needs of children.

The challenge is to make transfer programmes work properly. Funds need to be well targeted and monitored to actually go to the poor and near-poor. In the Philippines, local municipal governments are heavily involved and the programme has been criticized as suffering from poor targeting and monitoring. Similar comments can be found for the Indonesia programme (Basri and Papanek 2009), the relatively new Vietnamese programme (Castel 2009), and in the Thai experience (Sussangkarn and Jitsuchon 2009, p. 4). One problem is that a crisis is no time to be building new programmes, especially those that are demanding in administrative capacity and require good governance at the most local levels.

VII.4 The Issue of Sustainability

The issue of sustainability has been the focus of much of the discussion on the use of fiscal stimulus: what is the impact on Government debt and what consequences the expectation of debt will have on the credit-worthiness of the Government and spending and investing decisions by households and firms. Malaysia’s large central government fiscal stimulus programme has produced concerns over debt sustainability. The ADB notes that as a result, Fitch downgraded Malaysia’s local currency debt, albeit maintained still at an A rating (ADOU, Sept. 2009, p. 143). In analysing the Philippine situation the World Bank notes that current slipping revenue efforts jeopardize the sustainability of the fiscal stimulus (Philippines QEU, 4/2009, pp. 11–14). Sussangkarn and Jitsuchon (2009, p. 5) voice concern in an article on the Thai experience that prolonged reliance upon fiscal stimulus could be counter-productive because of the risks to fiscal credibility.

Most Southeast Asian countries, however, entered this crisis with more fiscal space (the ability to raise expenditures) than any time subsequent to the 1997/98 crisis. Figure 7 illustrates this using external debt-to-GDP as a measure, showing that the extraordinary experience of the 1997/98 crisis took years to overcome. Perhaps only the Philippines still sees higher external debt-to-GDP ratios than in 1996. Even here, a study by Philip Medalla suggests that a sustainable fiscal stimulus in the Philippines could amount to 2–3 per cent of GDP. Similarly, the World Bank’s analysis of Thailand concludes that even with a substantial budget deficit in 2009 and continued fiscal stimulus efforts in succeeding years, the Government’s financial situation is sustainable (Thailand EM 2009, pp. 13–15).

The importance of this issue reflects not just theory, but also historical experiences that spending by the Central Government can leave a country in a fiscal straitjacket for years. Conversely there are periods such as the recent recovery from the 1997/98 financial crisis in which fiscal conservatism was pursued and considered successful. Green (2007, pp. 20–22) argues that for Indonesia, the post-1997/98 crisis period reinforced earlier experiences in which fiscal prudence provided a path away from crisis. Indonesia’s policies may also be influenced by the difficulties noted above in implementing infrastructure projects in a timely fashion. This reluctance to readily engage in deficit spending for counter-cyclical efforts is interesting; Kuncoro et al. (2009, p. 170) argue that historically
Indonesian economic policy has had a strong Keynesian core. The experiences of other countries in Asia may also have some impact on how government officials view the likely impact of fiscal policy. Sachs (2009, p. 12) suggests in passing that Japan “has not had a great experience with domestic fiscal expansion”. This must be set against a more positive role model of China, which has used public spending to both support domestic demand and improve infrastructure, underpinning potential growth rates. Even with this enormous positive example, on balance, given the experiences in Southeast Asia over the last two decades, the difficulties in implementing programmes effectively through robust democratic institutions, and the delayed use of public spending, the degree to which Governments can and will rely upon fiscal policy to mitigate external shocks is low.

VIII. Trade Policy Discussions Have Focused on What Not to Do

Trade policy discussion and actions during this crisis have focused overwhelmingly on the issue of protectionism. The widely publicized move by the American Congress to insist that the government “buy American” in the use of its fiscal stimulus funds is one example. Across the globe there is increasing use of anti-dumping trade rules to ease competition for domestic producers. The use of subsidies for domestic industries such as the automobile can discourage international trade. However, on balance, the impact on international trade appears to be limited — current actions are either unlikely to be strongly pursued or, in the case of subsidies, to be quickly ended. Overwhelmingly governments have opted to stay within the letter of international agreements.
What are missing from this debate are the more positive aspects of trade policy that could be called upon to ease the impact of the current crisis on future growth. Trade has spurred growth and development throughout Asia. As shown in Figure 2, those countries that have become more involved in trade have gained the highest standard of living. There are good reasons why this region could be characterized as trade obsessed. What is needed is to move to assist the redirection of trade from targeting OECD final demand to regional markets.

Kawai (2009) notes that intra-Asian trade has increased more than trade between Asia and OECD in the last few years, but much of this represents a deepening of the production chains. The region still ultimately depends on OECD final demand. This is, however, not an immutable process: for instance, a natural accompaniment to development and higher standards of living in China would mean broader market opportunities for Southeast Asian firms. We have then an opportunity to rethink a wide variety of government policies, from whether or not we provide Chinese language instruction in schools, to the provision of infrastructure that can affect the trade costs from Southeast Asia to the Chinese mainland. This process should not be expected to be quick. However, we need to understand how non-distorting, market-sensitive policies can encourage this type of shift.

Closer to home, there are also opportunities to encourage increased *intra-regional* trading opportunities. Figure 8 shows that intra-ASEAN trade has expanded from 17 per cent in 1990 to 25 per cent in 2007. Much of this represents the expanding supply chain that has characterized world trade. However, the ability to share production is a good indicator that much of the basic infrastructure is in place that would accommodate other types of trade. There is the potential for dealing with collapsing OECD markets by opening further regional markets, through the ASEAN Economic Community (AEC) (Green 2008a and 2008b). The AEC represents a clear political commitment by the ten nations, one now in need of being matched by planning and institutional capacity building of the Secretariat. There is particular scope to improve the costs of intra-regional trade through transport infra-

![FIGURE 8](http://www.aseansec.org/18137.htm)

**FIGURE 8**

Share of Intra-regional Trade in ASEAN Total Trade

![Graph showing share of intra-regional trade in ASEAN total trade from 1990 to 2007](http://www.aseansec.org/18137.htm)

structure provision and the soft-infrastructure such as customs control.

IX. What Should We Learn from this Crisis?
Although monetary policy appears to have emerged with its reputation intact, there are many lessons that need to be taken onboard in this area. Why, in the United States, for instance was Lehman Brothers allowed to fail, but not Citibank? On what criteria do we use public funds to rescue and protect private stakeholders? What prices should be set for toxic assets? Southeast Asian authorities should have something to contribute to this debate. In the wake of the 1997/98 financial crisis, governments assumed private debt in the recapitalization of companies and privatized financial enterprises. Although tremendous controversy followed the crisis, little in the way of clear-cut guidelines emerged. Perhaps now the issues could be re-examined.

With respect to fiscal policy, while the debate in Southeast Asia increasingly appears biased against its aggressive use, there are a number of steps that could be taken to improve the effectiveness of and public confidence in this tool. Part of the problem is the long time lags involved in planning. To reduce these lags, governments could draft contingency plans that involve detailed project designs. Programmes comprising “shovel-ready” projects can improve the effectiveness of public spending. These are expensive to draft and to maintain and require considerable institutional capacity and a credible political consensus, but they represent insurance against a time of need such as the present.

The crisis also offers the opportunity to institute comprehensive support programmes for the poor, key to growth. The programmes should act counter-cyclically, coming on line when growth weakens, shrinking when more opportunity for employment emerges. Monitoring is a challenge. But here, technology can be on the side of progressive programmes. The increasing availability of Internet-based tools and cell-phones for tracking fund disbursement, project implementation, and consultation provides opportunities for improving government operations.

Trade policy has not been a focus in this crisis. With few exceptions, Governments have concluded that obvious moves to restrict trade are counterproductive. It testifies to the understanding that collectively we have bound ourselves to open trade policies through commitments that cannot be sacrificed even as domestic industries feel a pinch. This is, however, a narrow, interpretation of what trade policy might be. One worthwhile result of this crisis could be the hastening of the ASEAN Economic Community and its promise of opening near-by markets to regional trade.

NOTES
This paper follows an earlier note in the Far Eastern Economic Review in March 2009. A summary working paper will be available from the Asian Institute of Management. The author is grateful for comments from Douglas Brooks, Ellen Frost, Brahm Prakash and Joseph E. Zveglich, Jr.; and for research assistance from Paula Salak.

1. AEM, July 2009, p. 4. See also Confesor: “the drop in developing Asia’s exports, many times the driver of many developing economies, has been nothing short of a catastrophe!” (2009, para. 9).

2. Yap, for example, argues that within a very complex environment, falling exports was likely the most important influence on Philippine growth (2009, esp. pp. 2–3). On Malaysia see ADB, ADOU, September 2009, p. 105.


4. ADB, AEM, July 2009, p. 10, Table 2a.

5. Green (2008a, 2008b, and 2009a) discuss the importance of trade to the Southeast Asian development model.

6. ADB, ADOU, September 2009, p. 36. Longueville and Faure conclude that this characterized a worldwide phenomena: The OECD downturn spread to “the emerging countries most integrated in international trade…” (2009, p. 28). See also IMF (2009a), pp. 2–3, Figure 1.6.
8. Unditu (2009), Kuncoro et al. also note the importance of public spending in Indonesia (2009, p. 159, Figure 2).
11. The Indonesian case is noted in World Bank, Indonesia EQ (2009), p. 1; and ADB, ADOU, September 2009, p. 105. The Thai experience is a bit different in that imports appear to have reacted with a one-quarter lag. But by 2009-Q1, Thailand’s imports were falling more sharply than exports (World Bank, Thailand EM 2009, p. 4, Table 1).
12. The discussion of bond yields is found in World Bank, Indonesia EQ, p. 10, Figure 16. The suggestion concerning complex derivatives is in World Bank, Indonesia EQ 2009, p. 13.
13. The comparison is made in UNESCAP (2009), Figure 1.4, p. 6.
14. In the following sentences, on Thai conditions, see World Bank, Thailand, EM 2009, pp. 8 and 36; on Indonesia see World Bank, Indonesia EQ 2009, p. 12; and for the Philippines, see World Bank, Philippines QEU 4/2009, p. 19.
15. ADB, AEM, July 2009, esp. Fig. 30.
16. IMF (2009a), p. 4 noted the sovereign issuance.
19. AEM, July 2009, Table 19, p. 65. In the Philippines residential price indices such as those for luxury apartments in Manila’s central business district appeared to peak at the end of 2008 and to have declined in the first quarter of 2009 (Collier’s International 2009, p. 8). This may well suggest a future weakness in the Philippines economy, but it pales in comparison to what has happened in the United States.
20. This pattern of rolling downward projections can also be seen in the 2009 publications of the Asia Pacific Consensus Forecasts: the forecast for Singapore, for instance, moved from –3.3 per cent in the February 2009 survey to –7.5 per cent in May (13 July 2009, p. 2).
21. The IMF (2009, p. 65, Table. 2.1) forecasts zero growth in GDP for the advanced economies.
22. Green (2009a), p. 13. This can be endlessly debated, but the interested reader can see ADB, Key Indicators of Developing Asian and Pacific Countries (2004), p. 33.
23. Yap also notes that inflationary pressures caused by the high energy and commodity prices had an impact on Southeast Asian countries such as the Philippines (2009, p. 1). Supporting this, the World Bank estimated that at the height of this past crisis in the Philippines, food prices had increased 18.6 per cent in the space of a year, and an additional 3 million people fell below the national poverty line (Philippines QEU 4/2009, p. 19).
24. In this section, information on Malaysia comes from EPU, Malaysia (2009), Table 1, Key Economic Indicators; on Thailand from IMF (2009a), p. 12, Figure 1.19.
28. The Chiang Mai initiative is a cooperative arrangement among Asian governments supporting currency swap agreements (GMA News, 2008). In the contemporary context of the global crisis, the Chiang Mai Initiative likely helped reduce the risk in the mind of market participants of disorderly currency movements. The expansion of the original currency swap agreements by providing a multilateral structure may yet provide added market credibility to the basic structure.
29. ADB, ADOU, September 2009, p. 162.
30. This judgement, that central bankers acted quickly and decisively, is one that is made in comparison to other policy actions and actors and in hindsight. Those with the perspective of the credit markets, counting days or hours, can rightfully take a different position. Longueville and Faure (2009, pp. 34 and 37) qualify their own analysis, focusing broadly on Asian central bankers, that they worked quickly and aggressively to note that, depending on the country, several weeks passed while credit markets contracted in the face of capital withdrawals and transfers to the United States and Europe.
32. This was apparent in early 2009, see Green (2009a), p. 14.
33. UNESCAP (2009), p. 142, Table 4.13 and p. 139.
34. Analysis by the ADB suggested that, considering the overall fiscal position of the Philippine government, the
The multiplier effect of public spending on GDP would be somewhat less than 1.0; pulled down especially by the funding of tax cuts, pushed up by social assistance support. ADB, RRP (2009), p. 13.


36. World Bank, Indonesia EQ 2009, p. 28, Figure 35 and ADB, ADOU (September 2009), p. 137.

37. See Asmoro 2009 for other concerns about the impact of the fiscal stimulus in Indonesia.

38. (2009, p. 13). UNESCAP (2009, p. 139) takes a similar position that fiscal policy is likely to be “the most effective policy tool currently available”.

39. Inside lags refer to the time required to change policy to react through the decision-making process. Monetary policy is usually characterized as having a shorter response time than fiscal policy, which increasingly requires broad consultations. Outside lags refer to the time after a policy action until impact can be seen. This type of lag depends on the policy tool. The text argues that infrastructure spending requires a very long time to realize.

40. See the discussion in Donnges (2009), esp. pp. 13–14.


42. ADB, ADOU, September 2009, p. 160.


44. To ensure that funds could be disbursed, the focus was on accelerating existing programmes of construction and rehabilitation of education and health facilities and farm to market roads. See the discussion in ADB, RRP (August 2009).

45. Comelec (2008). The author is grateful to Professor Federico Macaranas for pointing this out.

46. Bauer et al. (2009, p. 6), citing ILO work, also suggest that even for relatively poor countries “the costs of a basic SP [social protection] package are relatively affordable…” and 1–2 percentage points of GDP can make the difference between what is being spent and what is needed to be spent.

47. See the comments by Yap (2009, p. 6) and the World Bank, Philippines QEU, 4/2009, p. 20. Yap also criticizes the programme for relying on external funding agencies, which does not encourage programme continuity among other problems.

48. The Thai programme is described in ADB, AEM (July 2009) and by Sussangkarn and Jitsuchon (2009, p. 4).

49. The Indonesia programme in this section is described in World Bank, Indonesia EQ 2009 (p. 41) and ADB, ADOU, September 2009, p. 136.

50. See the comments by Yap (2009, p. 6) and the World Bank, Philippines QEU, 4/2009, p. 20. Yap also criticizes the programme for relying on external funding agencies, which does not encourage programme continuity among other problems.

51. The Medalla study is cited in Chanco (2009).

52. The World Bank discusses specifically Thailand, which it characterized as having pursued a policy after 1997/98 based on “fiscal sustainability guidelines” designed to provide fiscal space against a return of difficult times such as now occurring (Thailand EM 2009, pp. 13–14).

53. Part of this section has appeared in Green (2009b).

54. See the discussion broadly in ADB, ADOU, 2009, especially, box 1.1.2, p. 8.

55. Green (2008a and 2008b) make the case that trade is a central piece of business models and investment decisions in Southeast Asia.

REFERENCES
——. Report and Recommendation of the President to the Board of Directors, (Project: 43300) [RRP] August 2009.


ASEAN Economic Bulletin 26 Vol. 27, No. 1, April 2010

By: ROS

ASEAN Economic Bulletin 26

— — —.


— — —.


— — —.


David Jay Green is Research Fellow at the Asian Institute of Management and is former Advisor at the Southeast Asia Department, Asian Development Bank.