

Book Launch

“Rebalancing for Sustainable Growth: Asia’s Post-Crisis Challenge”

edited by Masahiro Kawai (ADB) and Jong-Wha Lee

Monday, 16 August 2010 at 5.15pm, Orchard Hotel, Singapore

1 I thank Professor Tan Khee Giap, the Chairman of the Singapore National Committee for PECC (SINPEC) and the co-editors of the book, Dr Masahiro Kawai and Dr Jong-Wha Lee, for inviting me to launch their book. I do not know whether Khee Giap has told the two distinguished editors that, although I have recently debated an eminent economist on the pages of The Straits Times, I am not an economist. My wife would advise you to give a big discount to my remarks this evening.

2 First, I congratulate the ADB Institute and ADB for taking the initiative to publish a book giving the views of Asian economists and Asia-based economists of the causes of the 2008 American financial crisis and Asia’s post-crisis challenge. It is important for Asia’s public intellectuals to join our American and European friends in discussing these important issues. Otherwise, the world will hear only one view, that of the West and, especially, the views of Americans. I would, therefore, like to congratulate Dr Kawai and Dr Lee for their joint initiative. I hope that the book will be read, not just by Asians, but also by Americans and Europeans.

3 Second, I agree with the editors when they wrote that the 2008 American financial crisis had three major contributing causes:

- (i) excessively easy monetary policy in countries such as the US;
- (ii) regulatory failures, both at the micro and macro prudential levels; and
- (iii) the buildup of global payments imbalance.

I also agree with Drs Kawai and Lee that Asia had nothing to do with the first two causes. They wrote: “the main responsibility for the development of housing price bubbles and excessive financial risk-taking rests with the relevant domestic monetary and financial sector authorities. There is ample evidence of a wide range of policy and regulatory failures in the US and elsewhere.”

4 There are some American officials and former officials, such as, the Chairman of the Federal Reserve, Mr Ben Bernanke, and the former Secretary of the Treasury, Mr Robert Rubin, who have blamed Asia for “easy money” when, in truth, it was the result of the policies of US Federal Reserve, especially during the period when Mr Alan Greenspan was its Chairman. American officials and economists have also blamed China’s undervalued RMB as a contributory cause to the crisis. They have demanded a substantial revaluation of the RMB. Most Asian economists favour a more gradual appreciation of the RMB and other Asian currencies against the US dollar. They would support the view of Dr Yukon Huang, a former senior official of the World Bank

(see FT 11 Aug 10) and not that of Dr Paul Krugman. Dr Krugman favours a drastic revaluation of the RMB. Dr Huang is opposed because such a move would be very disruptive and would have negative social and political consequences.

5 Third, I agree that there is a need for rebalancing in the world economy. The editors support the commonly accepted view that we need to correct the unsustainable current account imbalances in the world. However, unlike some Western economists who have simply urged Asia to save less and to spend more, Dr Kawai and Dr Lee have expanded the concept of rebalancing to include growth that is socially and environmentally sustainable. They have posed a major challenge to post-crisis Asia. They recommend, inter alia, the following agenda:

- (i) Asian policymakers to develop an institutional framework that helps to facilitate better coordination on exchange rates, which will accommodate a general appreciation of their currencies and reduce concerns about unilateral currency appreciation, as well as greater intra-regional exchange rate stability;
- (ii) rebalance production to focus on higher service sector productivity and green growth;
- (iii) enhance social protection and social expenditures to reduce the need for precautionary savings and make growth more socially inclusive;
- (iv) enhance the capacity for recycling Asian savings to finance investment and consumption in the region; and

- (v) strengthen regional macroeconomic coordination, integrate regional markets, promote infrastructure investment and connectivity and contribute to the reform of the global financial architecture.

6 I agree with the challenge which Drs Kawai and Lee have posed to post-crisis Asia. I hope that, in the next phase of Asia's growth story, Asia's growth strategy will emphasise the need for inclusiveness or social equity and environmental sustainability. Asia may be growing rapidly but the growing prosperity is not being shared in a fair manner. Take India as an example. Out of India's population of 1,200 million, 400 million Indians live below the UN's poverty line. Take Singapore as another example. Although Singapore's GDP per capita income is \$51,656 (2009) and one of the highest in the world, the median monthly income is only \$2,400. In other words, half the population of Singapore earns a monthly income of less than \$2,400. Singapore's gini coefficient (2008) is 48.1, compared to 38.1 for Japan (2002) and 31.3 (2007) for Korea. The situation is not optimal. I am very glad that Singapore's Finance Minister, Mr Tharman Shanmugaratnam, has recently announced that the government's target is to raise the median income to \$3,100 in ten years. Taking inflation into account, \$3,100 today will be about \$3,800 in 10 years time. The problem of growing inequality is not unique to India and Singapore, but common to most Asian countries. It is also unacceptable that, in a prospering Asia, there are 500 million Asians without access to safe drinking water and 1,900 million Asians without access to basic sanitation.

7 I also strongly endorse Drs Kawai and Lee's exhortation that Asia's post-crisis growth strategy should emphasise green growth or environmental sustainability. Asia's current situation is unsatisfactory. The majority of Asians live in unhealthy environments where the air, water and land are polluted. Our forests and natural habitats are rapidly disappearing. Our eco-systems and biological diversity are in great jeopardy. Our cities are becoming less and less liveable. China and India may be this century's greatest growth stories, but, unless they embrace environmental sustainability, they could also pose serious threats to our planet's future. Singapore is a small country, but it has a big lesson to share with Asia. The lesson is that it is possible to reconcile rapid economic development with care for the environment. I therefore urge China, India and the other rapidly developing countries of Asia to examine Singapore's example.

8 It now gives me great pleasure to launch the book, "Rebalancing for Sustainable Growth: Asia's Post-Crisis Challenge", co-edited by Dr Masahiro Kawai of the ADBI and Dr Jong-Wha Lee of ADB.

9 Thank you very much.

Prof Tommy Koh
Chairman, Centre for International Law
Special Adviser, Institute of Policy Studies