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The US crisis and the future of East Asian production sharing

Lurong Chen and Philippe De Lombaerde

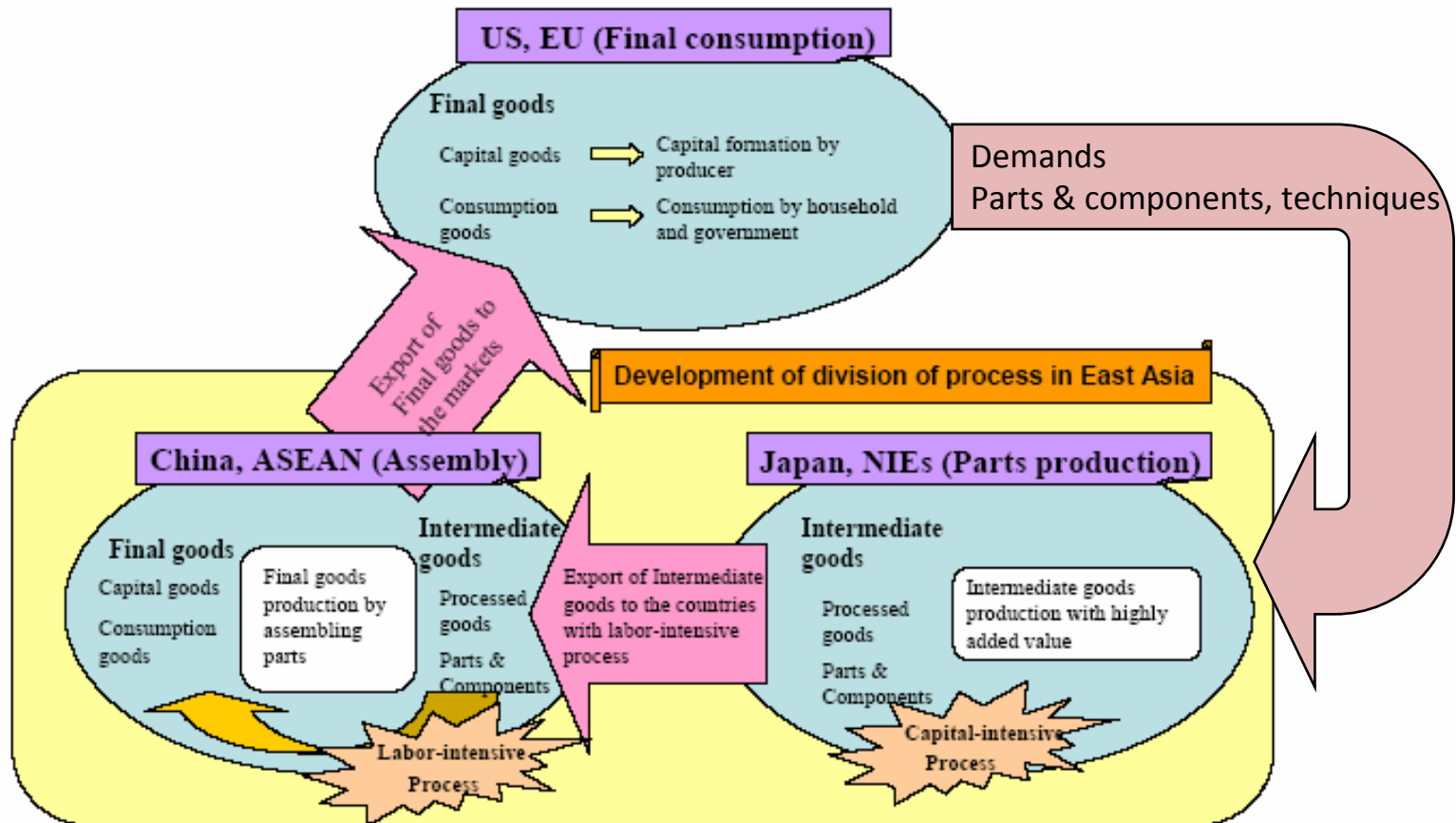
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The Crisis in the U.S. and the Future of East Asian Production Sharing

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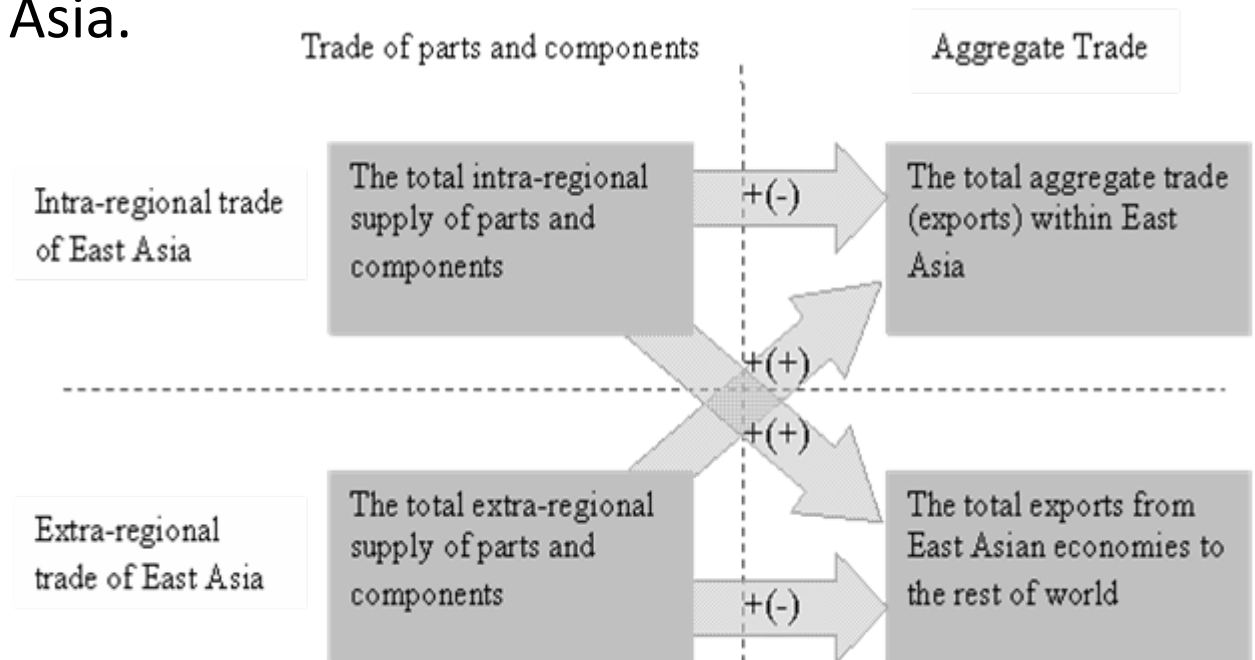
The triangular trading system



Source: METI

THE GLOBAL DIMENSION OF EAST ASIAN PRODUCTION SHARING

- The export-oriented economic growth
- The “import-supported” competitiveness
- Followers in technological progress
- The “dual” linkages between intra-regional and extra-regional trade in East Asia.



Challenges Faced by East Asia

1. Value losses in foreign exchange reserves
2. Export and import collapse
3. Capital outflow
4. Unemployment and social instability

(1) Value losses in foreign exchange reserves

- Six of the world's top ten countries/ monetary authorities with the largest foreign reserves in 2008 were in East Asia.
- On average, more than 40 percent of East Asia's total foreign exchange reserves are in the form of U.S. treasury securities.
- Unexpected major fluctuations on the exchange rate of the U.S. dollar can lower the real purchasing power of the reserves.

Table 2: Foreign exchange reserves and official gold holdings, world and selected countries

Rank	Country/monetary authority	Foreign exchange reserves ⁱ⁾ (billions of USD)	Foreign holdings of US treasury securities, as of April 2009 ⁱⁱ⁾		Official gold holdings, as of March 2009 ⁱⁱⁱ⁾		
			In value (billions of USD)	As share of total reserves	In volume (tonnes)	In value ^{iv)} (billions of USD)	As share of total reserves
	World ^{v)}	7471	3262.6	43.7%	29691.7	877.8	11.7%
	East Asia ^{vi)}	4195.7	1735.8	41.4%	2280	67.4	1.6%
1	China	1953	763.5	39.1%	600	17.7	0.9%
2	Japan	1019	685.9	67.3%	765.2	22.6	2.2%
4	Chinese Taipei	312.6	78.3	25.0%	423.6	12.5	4.0%
6	South Korea	226.8	35.4	15.6%	14.3	0.4	0.2%
8	Hong Kong SAR	193.4	80.9	41.8%	2.1	0.1	0.0%
9	Singapore	166.1	39.7	23.9%	127.4	3.8	2.3%
12	Thailand	120.5	28.5	23.7%	84	2.5	2.1%
15	Malaysia	87.7	11.6	13.2%	36.4	1.1	1.2%
25	Indonesia	56.6	n.a.	n.a.	73.1	2.2	3.8%
33	Philippines	39.3	12	30.5%	153.9	4.5	11.6%
50	Vietnam	20.7	n.a.	n.a.	n.a.	n.a.	n.a.

(2) Export and import collapse

- The weakened demand from the global market in the aftermath of the U.S. crisis.
- The contraction of global demand triggered a link effect in the regional production sharing network.
- The link effect also exists on the supply side.

Chart 1: Export performance of selected Asian countries, 2008
(percentage changes of 3mma, SAAR, U.S. dollar basis)

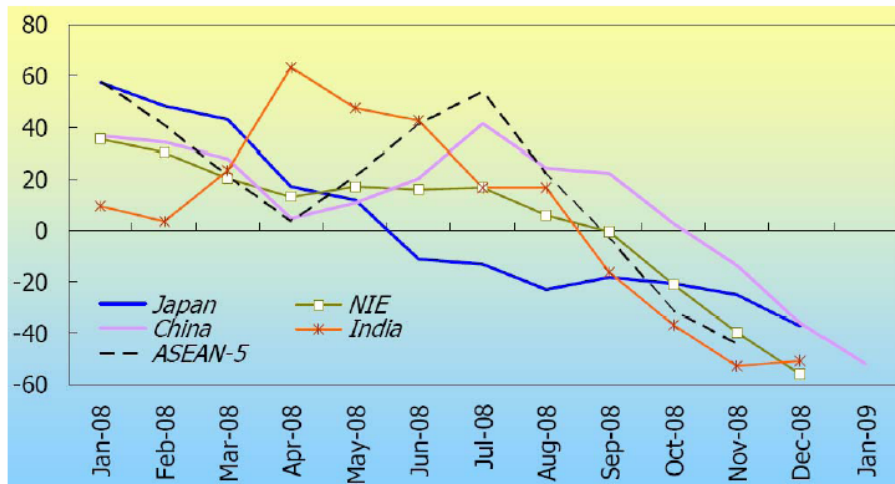
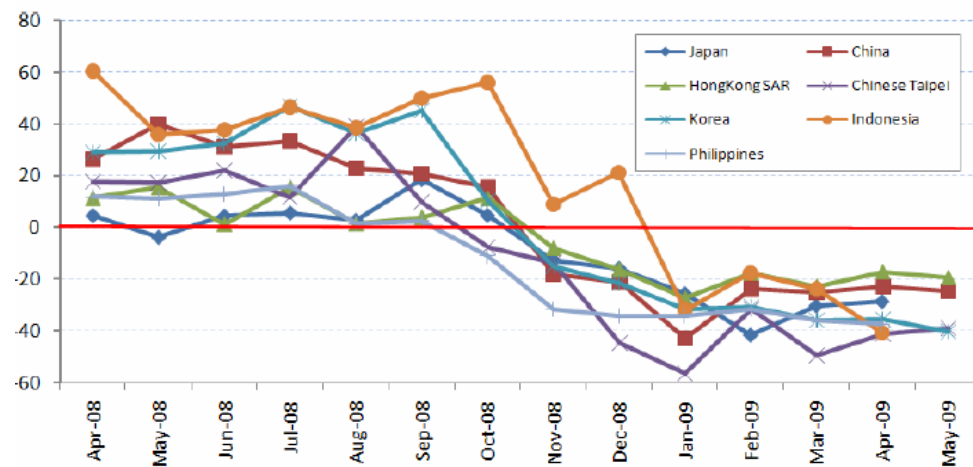


Chart 2: Monthly Import Growth Rates (Year-on-year, percentage)



(3) Capital outflow

Financial turmoil may still transfer to the region
the region's high degree of integration in the global
market (Kato, 2009).

the region were exposed to the process of
crisis because of their reliance on international
capital.

The financial crisis caused dramatic capital outflows
from Asia as global investors rushed to sell the Asian
assets held during the boom.

It became increasingly difficult for the private sector to
obtain credit when domestic credit was tightened.

Producers in the export-oriented industry were forced
into bankruptcy under double hits:

market contraction + difficulties in refinancing external debts

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