

The Global Financial Crisis: Implications for FDI Flows in Southeast Asia

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1. Dragged In and Getting Out

- Unprecedented contraction in the developed economies since the 1920s-1930s depression.
- Fundamental differences between 2008-2010 crisis and 1997-98 Asian financial crisis.
- The United States – the epicentre this time.
- Gathering storm
- The contraction
- Government responses
- Lessons and Resumption of FDI

2. Gathering Storm

- Subprime Mortgage Spark
- Banking and Credit Crisis
- Market failure
- Exacerbation of Crisis
 - Inflation targeting following oil crisis
 - Scapegoating – East Asian Liquidity (Easy money)

3. The Contraction

- Financial Exposure
 - China and Japan – through treasury bonds
 - Singapore and Hong Kong – through banking
- Exposure to Trade Bursts
 - Export collapse
 - Exports falling faster than imports
 - Translation of trade surpluses to trade deficits
- Exchange Rates?
 - Exchange rate swings not as volatile
- Domestic Investment
 - Fiscal stimulus and government expenditure has raised domestic investment
- Foreign Investment
 - Portfolio equity flows – capital flight
 - Collapse in foreign direct investment

Figure 1: GDP Growth Rates, East Asia, 2004-2010 (%)

Country	2004	2005	2006	2007	2008	2009*	2010*
China	10.1	10.4	11.6	13.0	9.0	7.0	8.0
Hong Kong	8.5	7.1	7.0	6.4	2.5	-2.0	3.0
Korea	4.7	4.2	5.1	5.0	2.5	-3.0	4.0
Taipei, China	6.2	4.2	4.8	5.7	0.1	-4.0	2.4
Indonesia	5.0	5.7	5.5	6.3	6.1	3.6	5.0
Malaysia	6.8	5.3	5.8	6.3	4.6	-0.2	4.4
Philippines	6.4	5.0	5.4	7.2	4.6	2.5	3.5
Singapore	9.3	7.3	8.4	7.8	1.1	-5.0	3.5
Thailand	6.3	4.6	5.2	4.9	2.6	-2.0	3.0
Cambodia	10.3	13.3	10.8	10.2	6.5	2.5	4.0
Vietnam	7.8	8.4	8.2	8.5	6.2	4.5	6.5

Source: ADB, 2009 ; * Forecast; Reproduced by

Figure 2: Growth in Industrial Value Added, East Asia, 2004-2010 (%)

Country	2004	2005	2006	2007	2008
China	11.1	11.7	13.0	14.7	9.3
Hong Kong	-2.4	-1.4	-2.1	-0.5	-1.9
Korea	8.8	5.7	6.6	5.5	2.5
Taipei, China	8.9	6.3	6.8	9.3	-1.2
Indonesia	3.9	4.7	4.5	4.7	3.7
Malaysia	7.4	3.4	4.4	3.2	0.9
Philippines	5.2	3.8	4.8	7.1	5.0
Singapore	10.5	8.1	10.6	7.2	-1.0
Thailand	7.9	5.4	5.7	5.7	3.4
Cambodia	16.6	12.7	18.3	8.4	7.1
Vietnam	10.2	10.7	10.4	10.6	6.3

Figure 3: Current Account Balance, East Asia, 2004-2010 (US\$ Millions)

Country	2004	2005	2006	2007	2008	2009*	2010*
China	68,660	160,818	253,268	371,833	440,000	418,000	434,700
Hong Kong	15,730	20,180	22,935	25,530	30,622	19,271	22,482
Korea	28,174	14,981	5,385	5,876	-6,406	13,400	11,700
Taipei, China	19,728	17,578	26,300	32,975	25,024	32,014	34,416
Indonesia	1,564	278	10,859	10,492	606	-1,887	2,806
Malaysia	15,079	20,693	25,490	29,209	39,740	29,018	31,909
Philippines	1,628	1,984	5,347	7,119	4,227	1,618	3,280
Singapore	19,888	27,468	35,383	39,209	26,984	15,759	23,888
Thailand	2,767	-7,642	2,315	14,049	-178	19,935	11,680
Cambodia	-435	-606	-521	-670	-1186	-1454	-962
Vietnam	-1,564	-497	-164	-6,992	-8,430	-10,633	-9,509

Source: ADB, 2009

Figure 4: Trade Balance, East Asia, 2004-2010 (US\$ Millions)

Country	2004	2005	2006	2007	2008	2009*	2010*
China	58,983	134,189	217,746	315,381	351,000	370,000	380,000
Hong Kong	-9,311	-7,631	-14,029	-19,699	-23,128	-16,146	-18,164
Korea	37,569	32,683	27,905	28,168	5,994	26,466	22,274
Taipei, China	17,363	19,456	24,197	30,445	18,176	23,996	24,904
Indonesia	20,152	17,533	29,660	32,754	23,310	15,083	20,580
Malaysia	27,572	34,034	36,682	37,140	50,937	39,430	41,584
Philippines	-5,684	-7,773	-6,732	-8,391	-12,582	-9,221	-8,540
Singapore	30,670	36,384	42,762	47,152	30,726	19,558	17,848
Thailand	1,460	-8,254	994	11,572	237	17,701	11,555
Cambodia	-680	-994	-1033	-1330	na	na	na
Vietnam	-2,287	-2,439	-2,776	-10,360	-12,782	-12,379	-11,833

Figure 5: Fiscal Balance of Federal Government, East Asia, 2004-2008 (% of GDP)

Country	2004	2005	2006	2007	2008
China	-1.3	-1.2	-0.8	0.6	-0.4
Hong Kong	1.7	1.0	4.0	7.7	-0.3
Korea	-2.3	-2.7	0.4	0.5	-1.7
Taipei, China	-2.4	-1.6	-0.7	-0.4	-2.3
Indonesia	-1.1	-0.5	-1.0	-1.2	-0.1
Malaysia	-4.1	-3.6	-3.3	-3.2	-4.7
Philippines	-3.8	-2.7	-1.1	-0.2	-0.9
Singapore	6.9	9.0	8.2	9.6	5.7
Thailand	0.3	0.2	0.1	-1.1	-0.3
Cambodia	-4.1	-2.5	-2.7	-2.9	-2.1
Vietnam	-1.3	-3.6	-1.2	-5.5	-4.7

Figure 6: Debt Service Ratio/GDP, East Asia, 2004-2008 (%)

Country	2004	2005	2006	2007	2008
People's Rep of China	3.5	3.3	2.6	2.4	2.2
Korea	4.4	3.2	4.4	5.4	5.3
Taipei, China	2.9	5.4	3.2	1.7	n/a
Indonesia	30.1	17.3	24.8	19.0	18.0
Malaysia	4.5	5.4	4.8	3.8	3.1
Philippines	13.8	13.5	10.7	9.8	9.8
Thailand	8.5	10.8	11.4	11.8	6.7
Cambodia	1.5	1.3	1.1	0.5	0.8
Vietnam	6.1	5.3	5.3	5.5	6.5

Source: ADB, 2009 ; * Forecast

Figure 7: Unemployment Rates, East Asia, 2004-2008 (%)

Country	2004	2005	2006	2007	2008
China	4.2	4.2	4.1	4.0	4.2
Hong Kong	6.8	5.6	4.8	4.0	3.5
Korea	3.7	3.7	3.5	3.2	3.2
Taipei, China	5.0	4.4	4.1	3.9	5.0
Indonesia	9.9	11.2	10.3	9.1	8.4
Malaysia	3.5	3.5	3.4	3.0	3.1
Philippines	11.8	11.5	8.0	7.3	7.4
Thailand	2.1	1.8	1.5	1.4	1.4
Cambodia					
Vietnam	5.6	5.3	4.8	4.6	4.7

Figure 8: Gross Domestic Investment, East Asia, 2004-2008 (% of GDP)

Country	2004	2005	2006	2007	2008
China	43.3	44.0	44.5	43.3	42.9
Hong Kong	21.8	20.6	21.7	20.9	20.2
Korea	30.4	30.1	29.9	29.4	n/a
Taipei, China	22.7	21.4	21.5	21.5	21.2
Indonesia	24.1	25.1	25.4	24.9	27.8
Malaysia	23.0	20.0	20.9	21.9	19.1
Philippines	16.7	14.6	14.5	15.3	15.3
Thailand	26.8	31.4	28.4	26.6	28.8
Cambodia	16.2	18.5	20.6	20.8	na
Vietnam	35.5	35.6	36.8	41.6	38.7

Figure 9: Inflation, East Asia, 2004-2010 (%)

Country	2004	2005	2006	2007	2008	2009*	2010*
China	3.3	2.0	1.6	3.9	5.4	1.1	1.3
Hong Kong	-0.4	0.9	2.0	2.0	4.3	1.5	2.0
Korea	3.6	2.8	2.2	2.5	4.7	2.0	2.0
Taipei, China	1.6	2.3	0.6	1.8	3.5	0.6	1.2
Indonesia	6.1	10.5	13.1	6.4	10.3	6.3	6.9
Malaysia	1.4	3.1	3.6	2.0	5.4	1.5	2.4
Philippines	6.0	7.6	6.2	2.8	9.3	4.5	5.0
Singapore	1.7	0.5	1.0	2.1	6.5	0.5	2.0
Thailand	2.8	4.5	4.6	2.3	5.5	0.5	1.5
Cambodia	3.8	5.9	4.7	5.9	19.7	7.0	4.3
Vietnam	7.7	8.3	7.5	8.3	23.0	4.0	5.0

Figure 10: FDI Inflow, East Asia, 2004-2008 (US\$ Millions)

Country	2004	2005	2006	2007	2008
People's Rep of China	60,630	72,406	72,715	83,521	92,395
Hong Kong	34,035	33,627	45,058	54,343	n/a
Korea	9,246	6,309	3,586	1,784	2,200
Taipei, China	1,898	1,625	7,427	7,769	5,432
Indonesia	1,896	8,336	4,914	6,928	8,340
Malaysia	4,624	4,065	6,047	8,460	n/a
Philippines	688	1,854	2,921	2,916	1,520
Singapore	20,053	14,373	27,680	31,550	22,726
Thailand	5,786	7,545	8,487	9,381	7,703
Cambodia	121	375	475	820	n/a
Vietnam	1,610	1,889	2,315	6,550	8,000

Source: ADB, 2009

Figure 11: FDI Outflow, East Asia, 2004-2007(US\$ Millions)

Country	2004	2005	2006	2007
People's Rep of China	5,498	12,261	21,160	22,469
Hong Kong	45,716	27,201	44,979	53,187
Korea	4,658	4,298	8,127	15,276
Taipei, China	7,145	6,028	7,399	11,107
Indonesia	3,408	3,065	2,703	4,790
Malaysia	2,061	2,971	6,041	10,989
Philippines	579	189	103	3,442
Singapore	10,803	6,943	12,241	12,300
Thailand	76	503	1,032	1,756
Cambodia	10	6	8	1
Vietnam	n/a	65	85	150

Source: UNCTAD, 2008

Figure 12: Net FDI Inflow, East Asia, 2004-2007(US\$ Millions)

Country	2004	2005	2006	2007
People's Rep of China	55,132	60,145	51,555	61,052
Hong Kong	-11,681	6,426	79	1,156
Korea	4,588	2,011	-4,541	-13,492
Taipei, China	-5,247	-4,403	28	-3,338
Indonesia	-1,512	5,271	2,211	2,138
Malaysia	2,563	1,094	6	-2,529
Philippines	109	1,665	2,818	-526
Singapore	9,250	7,430	15,439	19,250
Thailand	5,710	7,042	7,455	7,625
Cambodia	111	369	467	819
Vietnam	n/a	1,824	2,230	6,400

Source: UNCTAD, 2008

4. The Response of Governments

- Guaranteeing banks
- Fiscal stimulus
- Expanding government expenditure
- More reforms but with better regulations on FDI
- Targeting the poor, sectors with strongest multiplier potential the environment
- Emphasis on technological transition

5. Lessons and Resumption of FDI

- Lessons
 - Need for more regulation?
 - Should banks be considered public utilities?
 - Should there be an attempt to combine Keynesian fundamentals (market imperfections and asymmetric relationships) with performance-oriented fundamentals of neoclassical macroeconomics?
- Resumption of FDI: Why not?
- Resumption of FDI: How soon?
- Resumption of FDI: Where will the focus be?
- Resumption of FDI: Which countries will likely benefit?
- Resumption of FDI: What should governments do?