



## Asia feels the pain caused by the crisis but could be poised for rapid recovery

**Asia can't escape the financial and economic crisis that is battering the rest of the world, but the region may be poised for a more rapid recovery if leaders in business and government work together and show leadership.**

In a panel discussion at INSEAD Leadership Summit Asia 2008 on '*Asia as a power: financial and macroeconomic challenges*', four experts shared their views on the impact of the global financial crisis on the region. All were optimistic that Asia will recover from the crisis in about a year, but the experts also flagged potential problems.



"Asia actually has much less direct impact from the subprime product. The reason is because we have much less sophisticated markets," says **Eddy Fong**, Chairman of the Securities and Futures Commission in Hong Kong. "But we do get hit."

On the plus side, **Vaseehar Hassan Abdul Razack**, Chairman of Unicorn International Islamic Bank Malaysia, says Asia's central banks have greater reserves than countries in the West, its banking

sector and most businesses are less leveraged and much of the bad debt was cleaned out 10 years ago during the Asian financial crisis.

But Asia will not be immune to the crisis.

"The banking sector is sound but there is this feedback effect. The real economy starts shrinking here or is not growing as fast and that translates into deteriorating balance sheets and that is the danger. De-coupling is a nice story but if in the United States and Europe this financial crisis is not arrested, then Asia, with very sound banks, will see a deeper crisis coming," says Ilian Mihov, INSEAD Professor of Economics.

The downturn in Asia may be more serious than many economists and business leaders currently expect.



“We will see an economic downturn in Asia. It will be quite severe,” says **Rajat Nag**, Managing Director General of the Asian Development Bank. “It is also true that Asia today is far more resilient and much more capable of handling this than we were 10 years back.”

Officials face one of their toughest challenges in Asia right now because no one can predict just how serious the downturn might become. From what they can see right now, Asia will stumble but it may not fall.

“We’ve been extremely cautious in terms of lending and loan to asset ratios,” Fong says. “When you have a big thick reverse in your balance sheet, you can take the punch.”

What the experts are beginning to see is that the problems faced by the banking industry and their resulting reluctance to lend is putting a lot of pressure on business and what is sometimes called the ‘real economy.’

“From a financial crisis, it has transformed into a real economy crisis,” Fong adds.

That will mean a much more challenging business environment in the coming year, declining economic growth and rising unemployment. Still

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they predict that growth in Asia will continue, just at a much slower pace.

Nag of the ADB warns that governments in Asia will be tempted to slow the pace of reform and that would be a mistake. He urges government leaders to push reforms in global trade, finance and in the real economy, in areas such as competition and support for small- and medium-sized businesses.

Hassan agrees. “We need to look at both the political and business leadership.” He believes Asia has produced some strong, successful business leaders. “What is sadly lacking is the political leadership in Asia,” Hassan says.

For the next few months, regulators in Asia will be looking towards the West to gauge the fallout in the financial sector in the US and Europe, and will also be looking at Asia to see the impact closer to home. Fong says it is nearly impossible for regulators in Asia to predict what will be required in the coming year, “We are waiting to see how the banking and investment banking industries will settle.”

All four experts agree that Asia will be the engine of growth in this century and that the region will become a much bigger economic player.

“Asia will be the powerhouse of the 21st century,” Hassan says.



Mihov says the shift to the Asian century is historic. Given the size of their respective populations, China will produce 20 per cent of global goods and services, India 17 per cent and the US and Europe should each produce 5 per cent. That shift is nearly unprecedented.

“This is a shift of power commensurate with only one other event: the discovery of North America by Europeans and the subsequent rise of the United States as a major production center,” says Mihov.

That shift will require new structures and new Asian regional cooperation. There isn’t likely to be an Asian Union along the lines of the European Union any time soon, but Asia should come up with a unified position on trade for example.

The region remains divided along national lines and along economic lines. According to Nag, “Asia is

(made up of) two Asias.”

“We should spend some time talking not just about Wall Street, not just about Main Street, but the addresses which don’t have a street,” says Nag.

“Not very far from here you see an Asia where 620 million people still live on less than one dollar a day and 700 million people do not have access to clean water,” Nag says. This group will be more affected by rising unemployment as the real economy in Asia slows in the coming year and these are the people who will really hurt.

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