Governments have not done enough to address crisis

Governments around the world have not done enough to address the damaging effects of the global financial crisis triggered by the one-year old subprime credit crisis in the United States, economist Manu Bhaskaran says.

“I think we will see more shocks to come,” Bhaskaran, director and CEO of Centennial Asia Advisors, told a recent seminar sponsored by the Institute of South East Asian Studies in Singapore on the effects of the global financial crisis. “There are a few things missing in the policy responses.”

Bhaskaran notes that during the Asian financial crisis, governments in the region did not wait for companies to go bankrupt before doing something. For instance, Malaysia set up a corporate restructuring committee to help companies affected by the crisis. Such initiatives helped economies across Asia pull through the crisis. “We don’t have that process now. We have a very reactive process which is not succeeding in stabilising investors expectations in the market,” Bhaskaran says.

While governments have moved to ease the liquidity crunch by injecting liquidity into the banking sector and cutting interest rates, banks are still unwilling to lend, causing the collapse of trade financing and even financing for a number of high-profile projects such as the S$6 billion Las Vegas Sands integrated resort project in Singapore.

“One of the reasons trade finance collapsed is because banks are not recognising letters of credit and so the transactions are not happening. The trade finance problem cannot be solved individually by governments, there has to be multinational effort,” he says. “It is good news to hear that China and the US have pledged US$20 billion to support trade finance. That is a good start but it’s very small.”

Getting trade financing re-started is crucial to revive Asia’s export-dependent economies. “We need to do something globally. Otherwise the most important growth driver for Asia, which is trade, is going to fizzle,” Bhaskaran says.

“We are facing the most serious economic crisis globally since the war. At each stage of the crisis, events have turned out worst than expected,” Singapore Prime Minister **Lee Hsien Loong** told a recent lunch hosted by the Foreign Correspondents Association of Singapore. “A possible scenario is that recession will last for up to a year, followed by several years of slow growth.”

Such a scenario calls for dramatic changes.

“We cannot continue to have the world growing, sustained by the Americans consuming and borrowing, and Asia producing,” Lee says. “This global macroeconomic balance between savings and consumption has to be rebalanced.”

Although Asia is in a relatively stronger position a decade after the Asian financial crisis, emerging Asian economies such as China and India will not be able to cushion fully the impact of a severe slowdown in the US and Europe.

“China has had their four trillion yuan of fiscal measures. It is helpful but it is not going to make a huge difference,” says Lee. “Keeping its economy going will be a plus for the rest of the world. But the impact of China on the world economy (would be) smaller than the impact of the US economy on the world economy.”

Newly-elected US President Barrack Obama is ready to face the crisis head on and has assembled the strongest possible team to find the solutions, Lee says.

“They will do the utmost to moderate the downturn, restore confidence and put the economy on the road to recovery. And for a good measure also strengthen and stabilise the global financial system,” says Lee.

“But even with the best team and best policies it is not possible to turn around the economies overnight,” Lee adds.

Governments will have to do a lot more to ensure stability in the global financial system, he says.

> “The financial markets appear to have stabilised for now but they are far from being back to normal. The real economic problems are just beginning. In this globalised world, none of us can be immune.”

Even though Asia can weather the fallout from the global financial crisis, the region’s emerging economies are still vulnerable to shocks in the financial markets that could lead to loss of confidence and precipitate a depreciation of regional currencies.

“We need to stay cautious and vigilant,” Lee says.

To this end, ASEAN (Association of South-east Asian Nations) countries are cooperating and making available their reserves so that individual countries that run into trouble can tap this pool of funds and deal with any potential liquidity crisis arising from market volatility.

While such moves could help, Lee says ASEAN members may not have sufficient resources to deal with prolonged market volatility. “International institutions like the IMF and the World Bank will have to continue to play key roles in keeping the system stable and maintaining confidence,” Lee says.

The IMF has established a short-term liquidity facility and this could help fundamentally-sound economies deal with the risk of capital flight.

Countries around the region should also avoid political distractions at this time of economic crisis, Lee adds. “Politically, countries around us have various domestic pre-occupations.”

Indonesia will be holding its parliamentary elections next April, while Thailand has yet to resolve the political impasse following the removal of Prime Minister Somchai Wongsawat.

Malaysia, too, is going through major political changes as Prime Minister Abdullah Badawi is scheduled to hand over government leadership to Deputy Prime Minister Najib Razak. In India, businesses are cautious ahead of elections in 2010.

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