

# **How Will Asia Weather the Global Recession?**

## ***Implications for Utah Companies***

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Asia is home to a plethora of emerging economies and economic giants, none of which have escaped the impact of the global recession. Prospects for global recovery depend in part on how Asia weathers the crisis, particularly China and Japan. Yet, the export-driven, manufacturing based Asian economies are highly dependent on foreign demand for their own recovery. This has created an economic quagmire with no obvious solution other than a complete global recovery in 2009. No economists are projecting that. Therefore, it is essential to understand how Asia will fare in this economic climate to better estimate the economic outlook of the coming years and its corresponding impact on Utah companies.

Forecasts for Asia across the board project lower GDP growth rates compared to 2008 and foresee at least a multi-year climb back to previous rates. However, optimistic reports by the World Bank and The Economist expect Asia to show significant signs of recovery by 2010.<sup>1 2</sup>

### **Implications for Utah Companies**

This year will not result in the same growth and business opportunities for Utah companies compared to the years immediately before the global recession. 2010 will likely be better, though by no means should one expect a vibrant international businesses climate. Therefore, Utah companies should be circumspect in expanding internationally and avoid making unrealistic presumptions about near-term returns on investments abroad. However, with China at the forefront, Asia could be one of the first regions to see economic recovery in the coming years. In fact, 2010 could prove to be an ideal time to seek out new opportunities and relationships as many Asian companies will be seeking to revitalize their business with new partners.

China will continue to be an economic powerhouse and should seem just as appealing to Utah businesses as it did before the recession; do not let the a drop in GDP growth daunt business opportunities. In fact, a recent Goldman Sachs study projects that China will overtake the U.S. as the biggest economy by 2027, and nearly twice as large by 2050. Japan, despite its economic woes, still boasts one of the largest economies in the world. Therefore, Utah companies that are not seeking to expand into the automobile or electronics market should in fact find a healthy array of opportunities in Japan. South Korea can still be a profitable area in the right markets. Yet it may be wise to wait until at least next year to invest since much of South Korea's future depends on global recovery. Without significant increases in foreign and domestic demand, South Korea is expected to fall into a recession. Finally, Utah companies should stray away from expanding into Southeast Asia without sufficient market research relevant to their company. Companies looking for the next site for cheap manufacturing should indeed watch Southeast Asia closely as rising manufacturing costs in China drive many jobs to the region.

## **The Recession in Asia and Future Predictions**

In general, Asian countries began to see the affect of the recession in the second half of 2008, with palpable decreases in exports and domestic demand. China and Japan moved quickly to pass stimulus packages to shore up government spending in hopes of buoying their economies. For China, the plan seems to have worked and future growth projections are optimistic. Japan on the other hand, currently in the midst of trying to pass a massive stimulus plan, has stagnated into one of the worst recessions it has ever experienced. The emerging economies of Southeast Asia have not had the same government response and have had to take the hit without significant assistance. Some, like Vietnam and Indonesia, seem to be pulling through, while others, like Malaysia and Cambodia, are experiencing significant slumps. To better understand the economic situation it is beneficial look at the major Asian economies one at a time, specifically: China, Japan, South Korea, and Southeast Asia.

### ***China***

Though the economic outlook for China is not dire enough to induce international panic, the world is watching closely because any slowing in economic growth has serious implications domestically and abroad. Signs that the recession had hit China began to show in late 2008. The Asia Development Bank reported that merchandise exports receded by 2.2% in November and 2.5% in December 2008; the first downturn in nearly 7 years. Imports during this time dropped approximately 20%.<sup>3</sup> Chinese stock markets followed suit when the Shanghai A-Share index dropped 69% in December 2008 from its apex in October 2007.<sup>4</sup> Moreover, for the first time since 2002, state-owned enterprises saw their profits drop by 30%.<sup>5</sup> The central government took swift action to assuage the economic downturn by implementing a stimulus package worth \$586 billion (CNY 4 trillion) intended for domestic spending.<sup>6</sup>

Despite initial apprehensions, forecasts of China's economic performance are increasingly optimistic. The World Bank's June 2009 China Quarterly Update reported that the stimulus plan has already resulted in higher bank lending and a tangible increase in government investment, despite lackluster private investment and weak export numbers.<sup>7</sup> The International Monetary Fund (IMF) expects this money to bolster domestic demand and maintain significant growth rates through the end of 2009.<sup>8</sup> In fact, reports indicated that Goldman Sachs Asia estimates China's second quarter GDP growth this year to be 7.8%, up from their previous assessment of 7.0%.<sup>9</sup> As new data become available, many economic institutions have started increasing their forecast for overall GDP growth for 2009. Economists have projected various GDP growth estimates: the IMF projects 6.5%; Asian Development Bank forecasts 7.0%;<sup>10</sup> the World Bank foresees 7.2%;<sup>11</sup> and The Economist believes growth could approach 8%.<sup>12</sup> Projections into 2010 are even higher, though not reaching the same growth rate as previous years.

Although these may seem like comforting projections, China has become used to double-digit growth and will surely see even 8% growth as a disaster. Continued domestic upheaval in Xinjiang and massive unemployment may begin to take its toll on China's domestic economy and forestall any significant economic recovery. Nevertheless, the future outlook for China's economy is relatively positive in the coming years.

### ***Japan***

Japan's economy has taken a hard hit from the global recession and is not likely to weather the effects as well as neighboring China. Although Japan has experienced its share of economic woes since the 1980s, some are calling the current downturn Japan's worst recession since WWII.<sup>13 14</sup> The 2009 IMF World Economic Outlook reported that Japan's economy contracted 12%, annualized rate, in the fourth quarter, resulting mostly from the drop in demand of automobiles and electronics.<sup>15</sup> In fact, Japanese auto exports dropped nearly 70 percent since September 2008<sup>16</sup> and Toyota is expected to see its first loss in 70 years this year.<sup>17</sup> Moreover, the ten leading electronic companies in Japan are forecast to lose a combined \$20 billion.<sup>18</sup> Projections from the IMF believe the drop in consumer demand will create a manufacturing excess in these key sectors, which will put a significant strain on the economy.<sup>19</sup> The IMF and The Economist agree that Japan's GDP in 2009 is expected to shrink by approximately 6.5%,<sup>20 21</sup> but the Asian Development Bank projects a smaller contraction of only 3.5%.<sup>22</sup>

Although there is speculation of a slow global recovery in 2010, Japan has turned toward government spending as a way to lessen the severity of the recession. In April 2009 Japan drafted a stimulus plan worth \$154.4 billion (JPNY 15.4 trillion). If passed, this money would be a second wave of government spending, which began with approximately \$123 billion (JPNY 11.6 trillion) spent since autumn 2008.<sup>23</sup> New legislation is also hoping to ease the ability of the older generation, many of whom have significant savings accounts, to pass inheritances onto their children. Opening up these coffers could give Japan's economy a much needed, though rather inconsequential, boost. For these reasons, the near-future of Japan's economy looks bleak and it will take a significant global recovery to erase the losses it has seen from this recession.

### ***South Korea***

The global recession has taken a drastic toll on South Korea's economy, which has been impaired by a decline in global and domestic demand and deteriorating private investment. As a result, GDP growth in 2008 was 2.5%, which underperforms compared to previous years when growth was between 4 to 5%.<sup>24</sup> Most demand for Korean goods comes from the United States, the European Union, and Japan (known as the G3) which, due to their own economic woes, will not see an increase in demand in the near future. Demand from other markets like China and Southeast Asia have also flagged, leaving a void in the South Korean economy. Adding to the troubles, according to the Asia Development Bank, inflation has reached 4.7%, well above the Bank of Korea's ideal range of 2.5-3.5%.<sup>25</sup>

It should be no surprise then that the ability of South Korea to recover from the downturn depends heavily on how the rest of the world fairs, particularly the G3. Without a significant increase in exports, or a miracle turn-around in domestic demand, South Korea can expect a broad-based recession. As such, the IMF projects South Korea's 2009 GDP growth will be -4.0% and may reach 1.5% in 2010.<sup>26</sup> This is a significant decline from 2007 when GDP growth was 5.0%.<sup>27</sup>

### ***South East Asia***

It is those countries which have just recently begun to see economic success—Thailand, Malaysia, the Philippines, and Cambodia— which are the most vulnerable to this economic recession. Most rely heavily on manufacturing exports and therefore have been crippled by waning external demand. Malaysia and Thailand's GDP are expected to contract 3.5% and 3.0% respectively in 2009 compared to previous years

according to the IMF.<sup>28</sup> The Philippines are projected to come to a halt at an even 0.0% growth rate.<sup>29</sup> According to the Australian government, Cambodia's growth rate will drop by at least 5% in 2009 and put significant strains on its already poverty stricken population.<sup>30</sup>

Indonesia and Vietnam on the other hand are expected to fair slightly better than their neighbors. The IMF projects a GDP growth of 2.5% for Indonesia and 3.3% for Vietnam, which is attributed to their lower concentration on advanced manufacturing.<sup>31 32</sup> More significant domestic demand is also a key growth factor in these countries. Yet, this is still a relative defeat for Vietnam in particular which had a GDP growth of 6.2% in 2008, the slowest growth rate in nine years.<sup>33</sup>

Just like most of Asia, the future of these South East Asian economies is highly dependent on a global economic rebound to spur higher demand from abroad. In the meantime, it is safe to assume the economies will stagnate in 2009 and make small gains in 2010.

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- <sup>24</sup> Asian Development Bank, 172
- <sup>25</sup> Ibid
- <sup>26</sup> International Monetary Fund, 73
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- <sup>28</sup> International Monetary Fund, 73
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