

International Conference on “The Impacts of and Lessons Learned from the Global Economic Crisis”

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Outline

- I .Policy measures to respond to the recent financial storm
- II .Policy discussion
- III .The vulnerability of Asian economy
- IV .Key issues for the future
- V .Taiwan's strategies

I .Policy measures to respond to the recent financial storm

- **Most countries adopt similar policy measures to respond to global financial storm, ranging from inter-bank loan guarantee, bank guarantee notes/bonds issue, capital injection, deposit insurance, setup relief/exchange fund etc.**

Table 1. The monetary policy measures of major countries responding to the recent global financial crisis

Major policy measures		Major countries
Guarantee inter-bank call loan		UK, Euro zone (15 countries), Germany, France, Netherlands, S. Korea.
Issued bank guarantees notes / bond		USA, Italy, Spain, Ireland, S. Korea.
The protection of depositors Deposits	(1) Increase the amount of deposit insurance	USA, EU(27 countries), UK, France, Spain.
	(2) In full security deposit	USA, Germany, Ireland.
Prohibition of stock short		USA, Canada, UK, Germany, France, Ireland, S. Korea.
To stop the stock market transactions		Iceland, Russia.
To set up a fund	(1) Relief fund	USA, Canada, Spain, Sweden, Russia, Australia, Hong Kong.
	(2) Exchange Fund	Japan, China, S. Korea.
Central bank capital injection		USA, Canada, UK, Euro Zone, Hong Kong, S. Korea.
Central bank conducts swap transactions with other countries		USA, Canada, UK, Euro Zone, S. Korea.
Policy interest rates lowered		USA, Canada, UK, Euro Zone, China, Hong Kong, S. Korea.
Lowering the deposit reserve rate		China, India, Indonesia.

Source : Yu, S. Y. and H. S. Lu et al. "The recent policy measures responding to fiscal storm of major countries. " International Finance Reference Material, Vol. 56, P.65.

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- **In terms of monetary policy, all of the major countries used interest rate cut, liquidity provision (or quantitative easing) to increase banks' liquidity.**
 - **USA is the center of the financial tsunami, took the biggest interest cut, followed by UK, while Japan is the smallest and the slowest, reflecting that Japan was not hit hard by the financial crisis.**
 - **In the bank nationalization, UK took the first move, followed by EU countries and USA.**

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- **In fiscal policy, the Chinese 4 trillion RMB program to revive the economy has attracted wide attention.**
 - **Through the "sending home appliances to the countryside" program, government offers 13% discount of list price to boost domestic consumption.**
 - **With these domestic consumption stimulating package, it is generally predicted that China will be the first country to recover from the crisis.**

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- **In Europe, due to the difficulties of inter-country integration and the complete system of social security, better relief unemployment package, the revitalization plan is much smaller than China, and USA.**
 - **It is expected that EU countries' recovery will take longer time.**

Table 2. The comparison of monetary and fiscal policy measures of major country responding to recent financial storm

	USA	UK	Germany	Japan	Taiwan	Hong Kong	China	S. Korea
Monetary policy								
Cut in interest rate	V	V	V	V	V	V	V	V
Liquidity provision	V	V	V	V	V	V	V	V
Bank's capital restructuring	V	V	V					
Asset swap	V	V						V
Loan guarantee	V	V	V					V
Deposit guarantee	V	V	V		V	V		V
Fiscal policy								
Rebate / allowance	V			V		V	V	V
Tax cut	V		V	V	V			V
Expansion of public expenditure			V	V	V	V	V	V
The provision of corporate finance	V		V	V	V	V	V	V
Financial expenditure / GDP (%)	5.3	4.1	6.3	14.8	2.1	2.4	13	5.5

Source : Compiling from Taiwan Economic Research Journal (Vol. 32(3)), Business Today (Vol. 640)

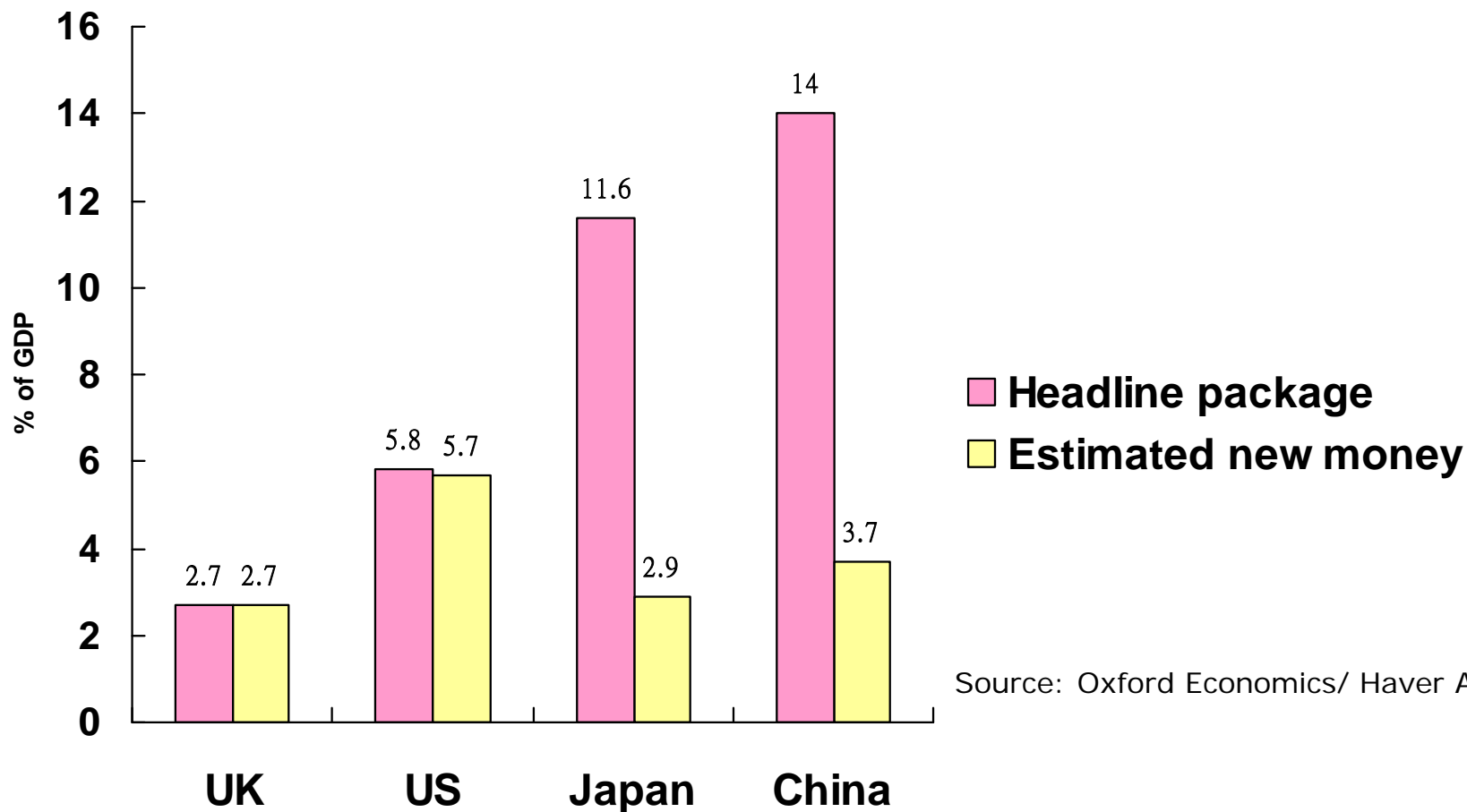


Fig.1 World: Fiscal stimulus packages

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- **Experts predict that the chance of global economy steps into depression is very slim. The main reasons are more policy tools involved, and the quicker reaction speed.**

Table 3. The comparison of The Great Depression and the recent financial turmoil

Financial storm	The Great Depression (1929-1933)	The recent financial storm (2008-)
Symptoms	<ul style="list-style-type: none"> ● Overproduction, falling prices, devaluation competition to encourage exports ● CPI Index fell by 24%, deflation ● To delay the purchase of consumer durable goods, confidence crisis increase ● The unemployment rate from 3% (1929) rose to 25% (1933) ● The stock market plummeted 90% ● Wealth is concentrated (the top 1% holds 36% of assets) 	<ul style="list-style-type: none"> ● Housing prices plummeted, dragging down banks ● The bank highly leveraged, turns into bubble ● Enterprises, and banks lacking of bank solvency ● Shares plummeted 30 ~ 60% ● Deflation has not yet occurred ● The unemployment rate rose ● Wealth is concentrated (the top 1% holds 40% of assets)

<p>Government policies</p>	<ul style="list-style-type: none"> ● Decrease in money supply (1933-1937), results in deflation, economic production increased by 10% ● The Government's fiscal policy (Roosevelt's New Deal) ● USA accounted for 1/2 global GDP 	<ul style="list-style-type: none"> ● Aggressive monetary policy (central banks cut interest rates sharply) ● Fiscal policy (mega revitalization program to revive the economy, government spending increase significantly, tax rebates) ● The Government's strong intervention, through bank nationalization, or capital injection, to increase liquidity ● Bank information disclosure is better than in 1930s ● U.S. accounted for global 1 / 4 GDP
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❖ Factors influencing when recession will end?

- **Government policy and bank recapitalizations**
- **Asset price stop declining**
- **The rise in consumer spending**
- **An end to fear within the corporate sector**

II .Policy discussion

1.The controversial practice of bank nationalization

- **Beneficial to the replacement of board members, allowed the Government to improve the capital mobility.**
- **What are the criteria for the nationalization?**
- **Can government have enough capacity to manage?**
- **Will it stimulate a domino effect, causing more banks to fail?**
- **Does government have enough budgets to nationalize so many banks?**

2.The controversial issue of globalization

- **The countries with higher degree of internationalization, the greater impact on banks and the whole economy. Therefore, it gives rise to the doubt on globalization.**
- **Maintaining financial discipline, financial leverage with reasonable regulation, paying more attention to the country's foreign debt in control, the short-term mobility, it can then avoid negative impact and enjoy benefits of globalization.**

Table 4. A examination table for Asian countries' financial condition

Country	Foreign exchange reserves (exclusive of external debt) (100 million U.S. dollars)	Short-term foreign debt/ foreign exchange reserves (%)	Basic condition	Currency exchange rate depreciation	Current account deficit / GDP (2008) (%)	Current account deficit / GDP (2009) (%)
China	14786	13.9	OK	6.1%	9.4	9.2
India	648	16.0	OK	-26.8%	-2.8	-3.0
Indonesia	-937	37.3	Doubtful	-6.7%	0.1	-0.0
S. Korea	-1801	73.3	Dangerous	-53.7%	-1.2	-0.6
Malaysia	253	36.3	OK	-7.9%	14.8	13.1
Pakistan	-372	9.5	Doubtful	-32.3%	-8.7	-6.4
Philippines	-190	24.5	Doubtful	-20.0%	2.4	2.1
Taiwan	1767	30.4	OK	-3.4%	7.8	6.4
Thailand	368	21.0	OK	-15.8%	3.0	2.0
Singapore	1318	6.6	OK	-4.8%	19.2	16.9
Vietnam	23	11.7	OK	-5.3%	-11.7	-10.3

3.The rise of protectionism

- **To accelerate the national economic recovery, many countries raised voices for buying domestic products, resisting foreign imports.**
- **Global co-operation, policy co-ordination in response to the storm, will speed up the global recovery.**
- **The protectionist sentiment will not only damage free trade, but delayed the recovery of the global economy.**

4. The revival of Keynesian school

- **Credit crisis hampered the effectiveness of monetary policy, most governments favor the Keynesian deficit financing theory.**
- **USA and Japan cannot further lower interest rates, and banks are not willing to not lend money to many families and businesses, which are desperate for financial loan.**

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- **Internal forces for the self-restoration of the capitalist economy, however, these forces are weak. Therefore, Governments should seek best opportunity to intervene, either through supply of cheap funds, increase in public spending or tax cuts to compensate for a lack of demand.**
 - **However, large-scale fiscal relief may widen financial deficit, as well as the future inflation concern.**

5. Different opinions in Japan's revitalization experience

➤ The Cons:

- ★ **Japanese scholars:** The past recovery program is a huge waste. Japanese people share the same views on the Big Bang Program, the program turned Japan into a public construction based welfare country.
- ★ **Other complains:** The ruling party uses public expenditure to bribe local politicians to consolidate its political leadership.
- ★ **The huge expenditure put Japanese in deep debt trouble, and leave to future generations the burden of huge tax burden.**

➤ The Pros:

- ★ At least in the Asian financial turmoil, it helps Japan to save out of the mud.
- ★ The practice of the Japanese failed to achieve better results, not because of money waste, but because Japan has not carried out the practice wholeheartedly.
- ★ Japan's spending was far from enough.

6. The question of whether the Government should acquire the problem assets

➤ The Pros:

- ★ Government acquisitions of banks' non-performing assets so that banks tend to improve their financial strength, enabling the early recovery of the economy.
- ★ The Government's decision to acquire non-performing assets wins supports from financial sector and stock market investors, at least in the short term.

➤ The Cons:

- ★ The chance of success is slim. Because many banks no longer solvent, the Government should not "spend money on garbage."

III. The vulnerability of Asian economy

- **The majority of Asian countries are export-oriented and aiming at US market. After the US economic contraction, it also a severe blow for Asian countries. Therefore, Asian economies should boost domestic demand to make up the loss of export decline.**
- **Expanding domestic demand to balance export-oriented growth model needs to be reconsidered.**

	2008	
United States	13.3	
Eurozone	17.1	
Japan	17.9	
China	34.5	
Russia	31.0	
India	24.9	
Brazil	14.1	
Latin America*	19.3	*Excluding Brazil
East Asia**	81.8	**Excluding China and Japan
East Europe***	55.6	***Excluding Russia
Taiwan	60.0	

Source: Oxford Economics/ Haver Analytics

Fig.2 Share of Exports in GDP

➤ **The fragility of Taiwan's trade and industrial structure**

- ★ **Concentrated on the electronic information industry, especially electronic information, chemical and metal industries, The above three industries accounts for about 70 percent of the GDP of manufacturing sector.**
- ★ **Exports ratio reaches 60 percent.**
- ★ **China market accounts for 40 percent of Taiwan's exports**

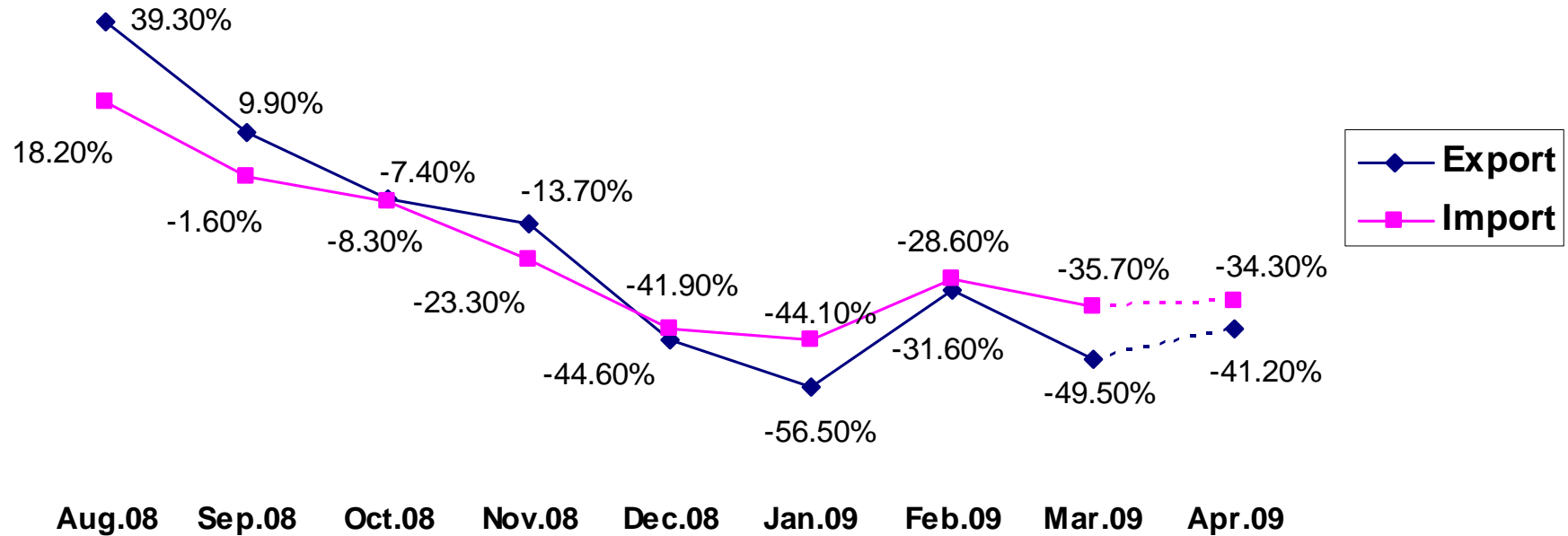
Table 5. Taiwan's economic contribution rate from each industry

	overall	Agriculture industry	Industry	Manufacturing	Information industry	Service industry
Real GDP growth rate						
2003	3.50	-0.06	4.00	5.34	9.58	3.39
2004	6.15	-4.09	8.94	9.74	14.51	5.28
2005	4.16	-8.07	6.34	6.96	17.95	3.53
2006	4.89	6.09	7.04	7.51	18.10	3.93
2007	5.72	-2.91	9.31	10.29	19.17	4.30
Growth contribution rate(%) = industry's real GDP growth rate (current year) / industry's real GDP growth rate (last year)						
2003	3.50	0.00	1.13	1.26	0.73	2.37
2004	6.15	-0.07	-2.54	2.34	1.18	3.68
2005	4.16	-0.13	1.85	1.73	1.57	2.44
2006	4.89	0.09	2.10	1.92	1.79	2.70
2007	5.72	-0.04	2.83	2.70	2.14	2.93
Growth contribution rate(%) = industry's growth contribution / overall growth contribution						
2003	100	0.00	32.29	36.00	20.86	67.71
2004	100	-1.14	41.30	38.05	19.19	59.84
2005	100	-3.13	44.47	41.59	37.74	58.65
2006	100	1.84	42.94	39.26	36.61	55.21
2007	100	-0.70	49.48	47.20	37.41	51.22

Source : DGBAS, Taiwan

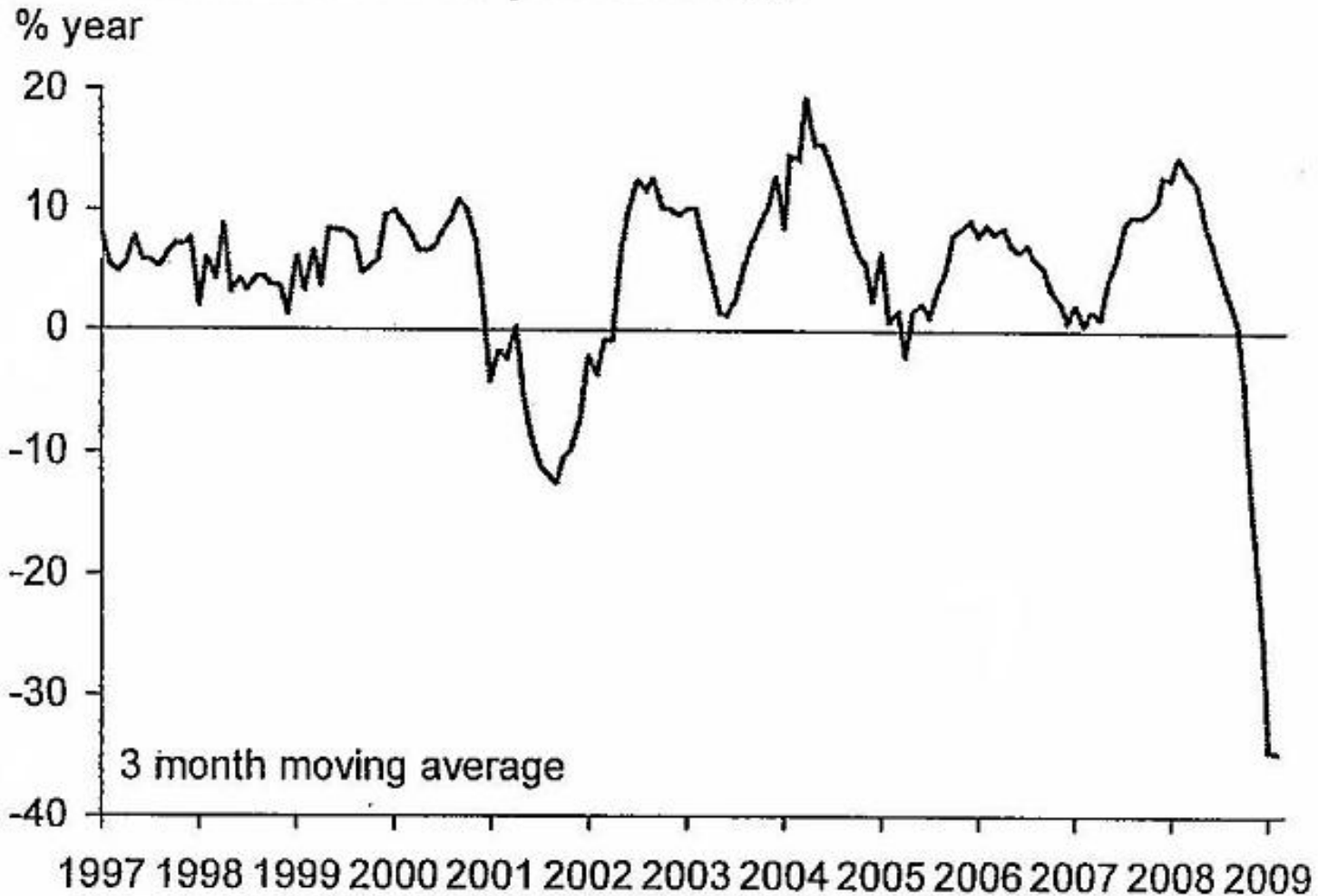
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- ★ **OEM, ODM-based, mainly low value-added industries, and lack of branding to capitalize R&D return.**
 - ★ **Two Trillion, Twin Stars industry, DRAM, TFT-LCD are capital-intensive, cyclical industries, they are vulnerable to economic downturn.**
 - ★ **The service sector accounts for about GDP 70%, but the weak competitiveness, slow pace of upgrading, lack of international competitiveness, so they cannot created value-added for manufacturing sector.**

Taiwan: Exports and Imports



Source: The Ministry of Finance, R.O.C

Taiwan: Industrial production



Source: Oxford Economics cited from Haver Analytics

IV. Key issues for the future

1. Market mechanism restoration/ Market failure correction

- **Strengthening financial discipline/ regulation**
- **Promoting free trade**
- **Enforcing the reveal of the “real” price of energies**
- **R&D, manpower incentives to correct market failure**

2. Good governance in public sector

S-R:

- **Confidence crisis prevention (monetary, fiscal policy, social security)**

L-R:

- **Government deficit concern, financial discipline**
- **The stability of exchange rate, foreign reserves**
- **R&D, manpower investment**
- **Investment for the future**
- **Cost/benefit analysis for public infrastructure**

3.Sustainable growth development strategies - to pursue economic stability before fast growth

- **Trade off between income distribution and fast growth**
- **The balanced growth of environmental protection/ economic growth**
- **The balanced growth of high-tech/ traditional/ service industry**
- **Effective use of energy, raw materials, water, food, etc.**

V.Taiwan's strategies

1.The adjustment of weak trade& industrial structure

- Lower the ratio of DRAM, TFT-LCD industries, or through relief and M&A to access key technology / marketing channel.
- Strengthen the introduction of science and technology, design, branding, into traditional industries and service industries.

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- **To strengthen the linkage of technology and services, technology and traditional industry to balance industrial structure.**
 - **Government's industrial strategy and budget allocation should be adjusted from cost reduction, OEM to value up and branding establishment.**
 - **Investment for the future: promoting promising industries such as biotechnology, medical tourism, cultural and creative, energy-saving, low-carbon industry.**

2. Effective use improving cross-strait relationship to reposition Taiwan's role in the Asia-Pacific

- **Establish Taiwan as Asia-Pacific operation center or asset management center**
- **Take advantage of trade and investment opportunities resulting from improving relationship across the strait. To help Taiwan capture business opportunities to cruise through the financial turmoil.**

**Thank you
for your attention!**