

RSOG AND THE WORLD BANK GROUP, MALAYSIA A JOINT SEMINAR

“East Asia and Pacific Economic Update: Rising Vulnerabilities”

with
Dr. Sudhir Shetty

When : 13 December 2016
Where : Razak School of Government
Speakers : Dr. Sudhir Shetty

About the Seminar

As the economist Joseph E. Stiglitz claims, “Development is about transforming the lives of people, not just transforming economies”. The success of The World Bank Group echoes this sentiment by making significant strides in its vision of ending extreme poverty and promoting shared prosperity by 2030 by providing financial and technical assistance across the world. In today’s fast-changing landscape, the importance of keeping abreast with all recent developments and their potential global and regional impact must not be understated. This is particularly true for the East Asia and the Pacific region, where despite showing continued promise of sustainable economic growth, mounting uncertainties threaten to derail any progress made thus far. This session will explore the latest economic update for the East Asia and Pacific region to address the potential risks and opportunities in the short and medium term, including to Malaysia.

Summary

In its regional update, The World Bank has outlined the various trends that have been emerging in the East Asia and Pacific market and its implications on the future global market. Despite the economic slowdown in 2012 that has affected many developed and developing countries alike, East Asia and the Pacific has performed better than other regions in the world (with the exception of South Asia) in showing overall stability and consistent growth. According to the speaker, this performance has been due to countries in the region being supported by mild fiscal expansion policies, including fiscal stimulus and monetary accommodation. Within the year, the East Asia and Pacific region is expected on average to grow approximately 4-6%, with signs of promising economic growth in countries such as Indonesia, Malaysia, Philippines and Vietnam. Nevertheless, the region is also characterised by low commodity prices, low public investment and weak trade balances that experts must be wary of.

Within the region, the presence of China as an economic superpower can no longer be overlooked. According to the World Bank's report, poverty reduction in the entire region has seen dramatic improvements in recent years and is expected to continue due to China's successful poverty eradication measures. China's success in recent years is in contrast to the economic performances of Europe and the United States since the 2009-2010 financial crisis, where both economies have been underperforming with regards to economic growth. According to the World Bank's data, this is a cause for concern as a slowdown in the US economy negatively affects growth in other emerging markets. While the US is expected to raise its interest rates by the end of the year, uncertainty in the details of its fiscal policies shrouds its true consequences on the region. Nevertheless, experts are wary not to repeat the effects of the Taper Tantrum that was seen during 2013.

In terms of global trade, the entire East Asia and Pacific region must act with caution due to its weak trade growth and growing trade barriers. The trend of a global financial tightening and protectionism, coupled with high and rising private sector debt becomes a key source of vulnerability that must be addressed by policy makers as soon as possible.

The implication of these factors in policy planning is vast, but depends on the specifics of each country. From Dr. Sudhir's presentation, the region's continued economic growth must be preserved by reducing financial risks and by maintaining fiscal buffers, especially in the midst of tightening global financial conditions. For developing countries within the region, among the policy recommendations by the World Bank include enhancement of financial regulation by strengthening regulatory oversight and implementing micro and macro-prudential measures. Furthermore, fiscal space should be maintained along with new spending on addressing public infrastructure deficits as well as to improve efficiency of public investments. The report also outlines policy recommendations for China: Given its effect on the region as a whole, it is imperative for the country to strengthen its inter-governmental fiscal system and to reform practices in the corporate sector.

In Malaysia's case, growth is expected to continue until 2018, though at a lower rate than during the years of 2014-2015. While there is not much scope or need for expansionary fiscal and monetary policies to be employed, the continued flexibility of the exchange rate should be maintained especially with the drop in commodity prices. In addition, the country should continue to prioritise measures to promote competition and to improve public sector productivity and human capital.

Key Issues Raised

- Based on the World Bank's report, the East Asia and Pacific Region continues to show signs of growth. However, the perceptions and biases from experts should be managed when crafting policies, especially in the face of rising uncertainties. An example of this is the drop in oil prices that began in 2014, which has yet to recover

- Malaysia's economy has been shown to be generally stable, but it must not be complacent. According to the World Bank, Malaysia's expansion of its service sector is protected by foreign intervention. The speaker advised for Malaysia to be careful in practicing short term macroeconomic policies but bold with long term macroeconomic policies.
- The influence of globalisation can no longer be ignored, as the global market nowadays could largely be affected by domestic politics. This was evident during the 2016 US Presidential election, where President-Elect Trump's victory saw the depreciation of the Malaysian ringgit. As of now, experts have found it difficult to predict Trump's economic approach and has thus been unable devise adequate recommendations.
- The report also shows that nations are moving towards protectionism, as evident with the US opting to pull out of the Trans-Pacific Partnership Agreement (TPPA). A good counter-measure would be the establishment of Free Trade Agreements to encourage trade and for policy-makers to explore different deals.

About the Speaker

Sudhir Shetty is currently Chief Economist of the East Asia and Pacific Region of the World Bank. Until June 2014, he was the Director of the Poverty Reduction and Economic Management (PREM) in the East Asia and Pacific Region. Prior to that, he was Co-Director for the World Bank's 2012 World Development Report on Gender Equality and Development. He previously headed the PREM department in the Africa Region of the World Bank (2005-2009), managed the bank's central Poverty Reduction group (2001-05) and held a number of positions as an economist in both the Africa and East Asia and Pacific regions of the World Bank.

Dr. Shetty has a Ph.D. in Economics from Cornell University and an MBA from the Indian Institute of Management, Ahmedabad. Before joining the World Bank in 1987, he was an Assistant Professor of Public Policy and Economics at Duke University.

Contact

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