7. Asian economy expected to act as the growth engine of the global economy

(1) Lessons of the current crisis

As described above, while the current economic crisis has produced a significant impact on countries and regions around the world in various ways, the intensity of the impact differs from country to country and from region to region. The crisis has utterly upset the growth structure of the United States, its epicenter, as well as countries like the United Kingdom and Spain that realized strong growth in domestic demand through an expansion of the housing market and consumption and an increase in the domestic credit market. As a result, those countries have entered serious recession, with housing investment and personal consumption declining.

At the same time, export-oriented countries such as Japan and Germany, which depended heavily on external demand, including exports of consumer durable goods and capital goods to the United States and other Western developed countries that continued domestic demand-led growth, were directly hit by the impact of the recession in these countries. Their industrial production dropped sharply because of the combined effects of this decline in exports of final goods and a drop in exports of parts and intermediate goods to overseas production bases in Asia and Eastern Europe, and their economies contracted at an unprecedented pace, even more sharply than the U.S. economy, the epicenter of the crisis.

On the other hand, although the economic growth of emerging economies such as China, India and Brazil was slowed down by a decline in exports, the impact of the crisis on them has been limited compared with the impact on developed countries because of the robust consumption and strong demand for infrastructure development that are typical features of emerging economies. In addition, fiscal measures to stimulate consumption, including tax cuts and subsidies, and credit easing measures such as interest rate cuts have already started to bring about some positive effects to these countries, as potential fund needs are generally strong there.

However, the situation is different for emerging economies in Eastern Europe, such as Hungary, that depended heavily on an inflow of foreign funds attracted by their high growth potential from European developed countries in order to meet the fund needs for achieving economic growth. Many of the East European emerging economies became unable to secure seed money for growth and plunged into serious recession. Among Asian emerging economies, Singapore, Malaysia, South Korea and Taiwan, all of which depend heavily on exports, were thrown into serious recession.

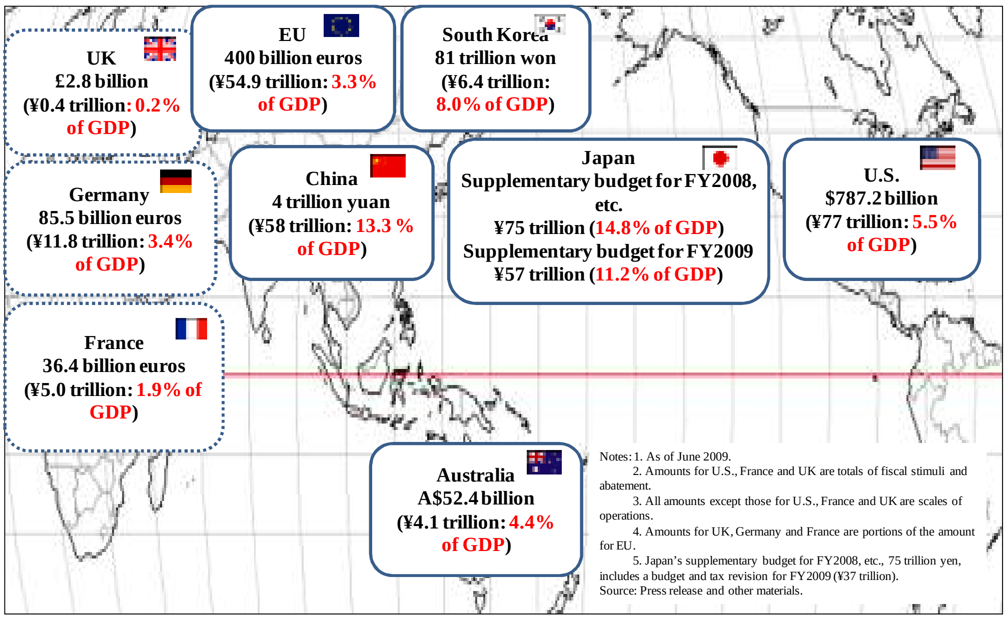
Besides being conspicuous for the extent and depth of its impact, the current crisis is also notable for having exposed the problems and weaknesses of the existing growth structures of countries and regions. As a lesson of the crisis, priority should be placed on correcting these problems and weaknesses.

(2) Economic stimulus measures taken by countries and regions and their effects

At the London Summit that was held in April this year, when major countries were adopting and implementing large-scale economic stimulus measures one after another, the participating countries agreed on the implementation of fiscal pump-priming measures totaling $5 trillion (around ¥500 trillion) by the end of 2010.

The United States, the epicenter of the crisis, adopted an economic stimulus package with expenditures totaling a record $787.2 billion (¥7.8 trillion; equivalent to 5.7% of nominal GDP) over two years. European countries are implementing economic stimulus packages totaling 400 billion euros (¥50 trillion; equivalent to 3.0% of nominal GDP). In addition, the European Commission has decided to disburse 6.3 billion euros from the European Structural and Social Funds and allocate 5 billion euros each to infrastructure investment and support for research and development in the auto industry. Japan is implementing economic stimulus packages totaling ¥75 trillion (equivalent to 14.8% of GDP), and it has also allocated an additional ¥57 trillion yen for fiscal expenditures under the fiscal 2009 supplementary budget (see Figure 1-2-7-1).

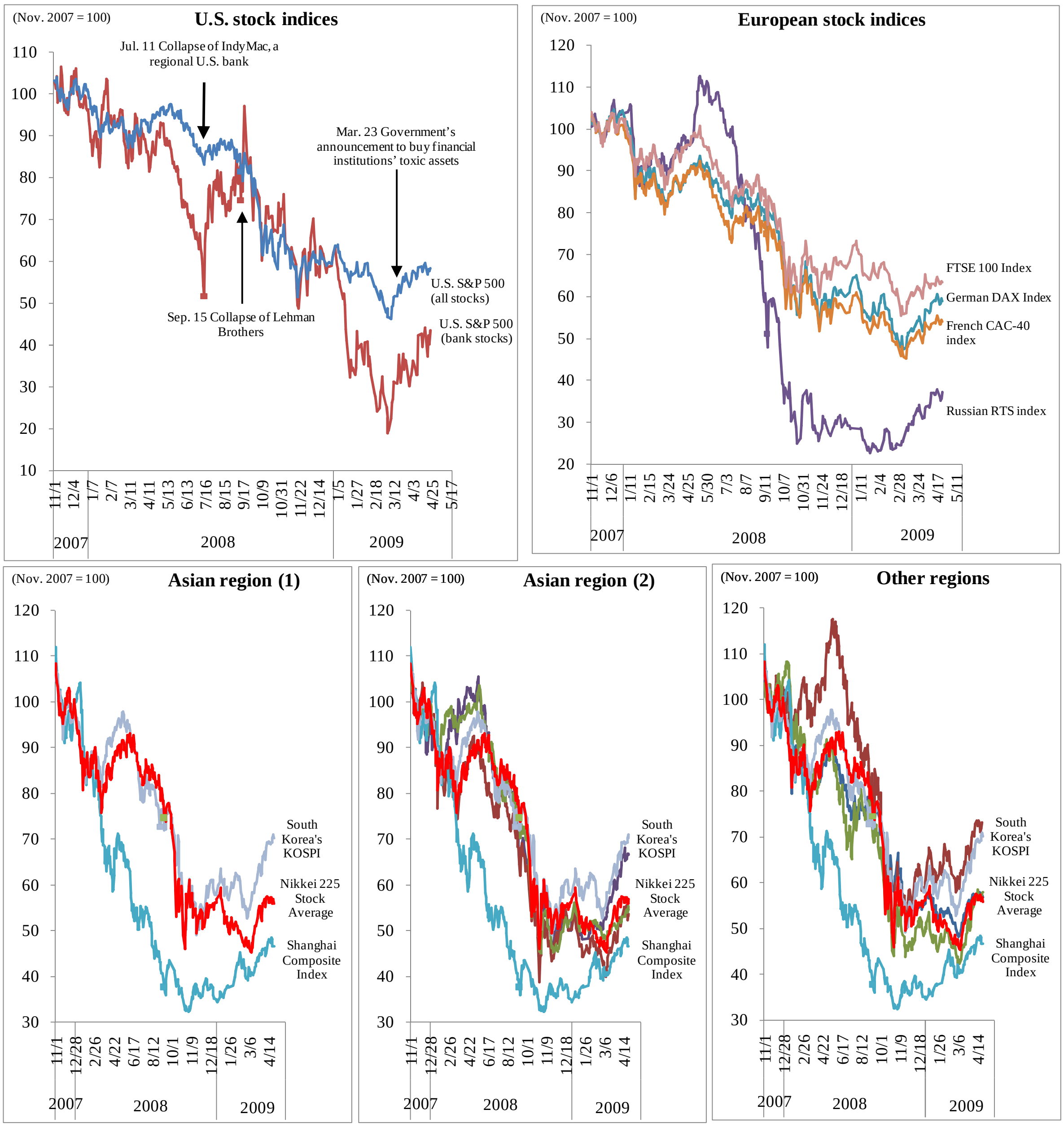
Figure 1-2-7-1 Economic stimulus measures in major countries or regions



Notes: 1. As of June 2009.
2. Amounts for U.S., France and UK are totals of fiscal stimuli and abatement.
3. All amounts except those for U.S., France and UK are scales of operations.
4. Amounts for UK, Germany and France are portions of the amount for EU.
5. Japan's supplementary budget for FY2008, etc., 75 trillion yen, includes a budget and tax revision for FY2009 (¥37 trillion).
Source: Press release and other materials.

The stock markets around the world were the first to respond to the announcement and implementation of the series of huge economic stimulus packages. After continuing to plunge for some time, U.S. stock prices have bottomed out and continued to rise since March 23, 2009, when the U.S. Department of Treasury announced a plan for purchasing troubled assets (see Figure 1-2-7-2). In line with the U.S. stock market rebound, stock markets in Europe, Asia and Japan have also been recovering since March 2009.

Figure 1-2-7-2 Changes in stock indices in countries and regions
(Reprint of Figure 1-1-2-2)

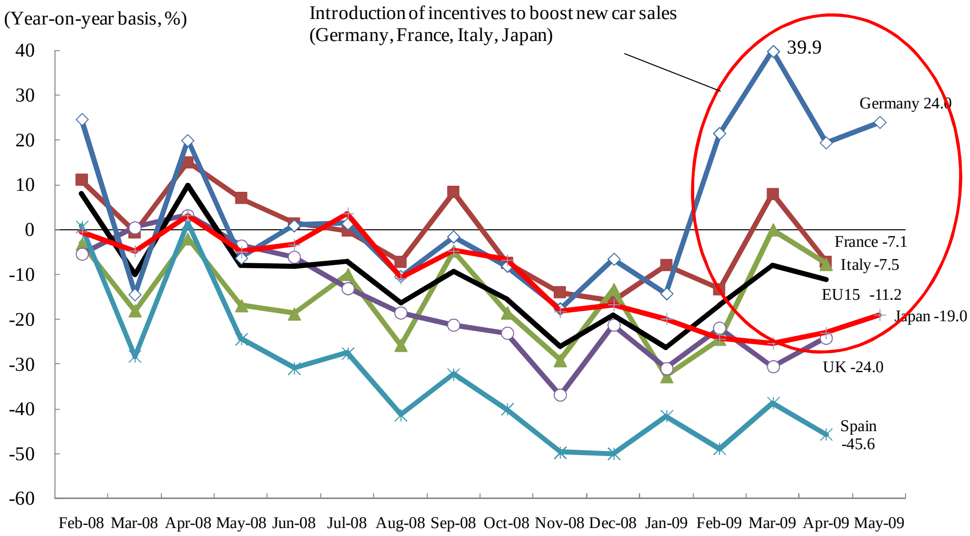


Following the rebound of the stock markets, the real economies have also started to show some signs of positive effects brought about by the economic stimulus measures.

For example, Japan, Germany, France and Italy, each of which has a major auto industry, have introduced incentive schemes for the purchase of new cars, and these schemes have produced some positive effects (see Figure 1-2-7-3). In Asia, the Chinese government has introduced subsidy schemes to promote the purchase of cars and home electric appliances by rural residents, and as a result, sales of cars and home electric appliances increased sharply (see Figure 1-2-7-4). The effects of the Chinese economic stimulus measures have contributed to an expansion of production by South Korean home appliance manufacturers, for example, by increasing exports to China.

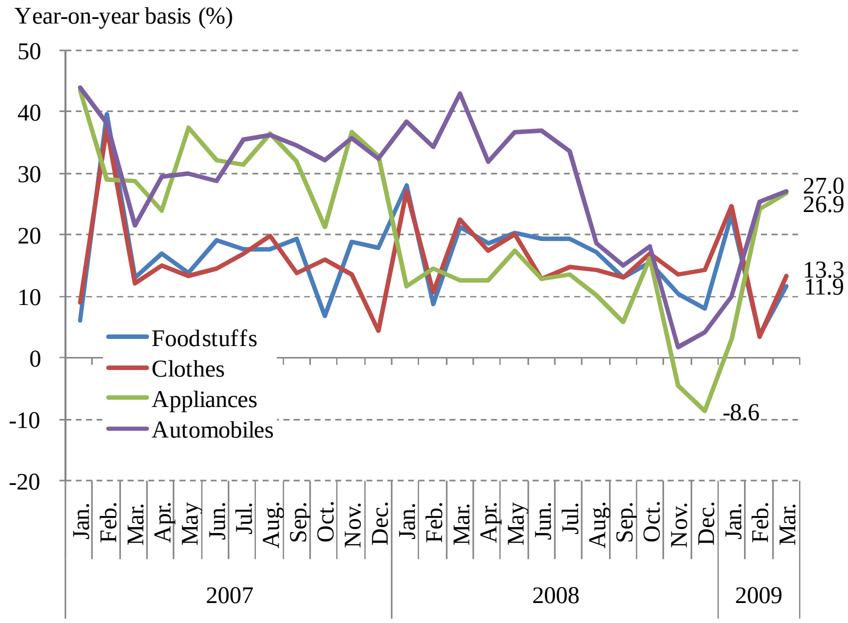
Japan introduced temporary cuts in the automobile weight tax and the automobile acquisition tax for automobiles with superior environmental performance in April and the Eco-Point scheme for environmentally friendly home electric appliances, including refrigerators and air conditioners, in May. As a result, orders for some eligible models, including hybrid cars, have increased sharply, raising hopes for an increase in consumption.

Figure 1-2-7-3 Changes in new car registrations, by country (Partial reprint of figure 1-2-2-22)



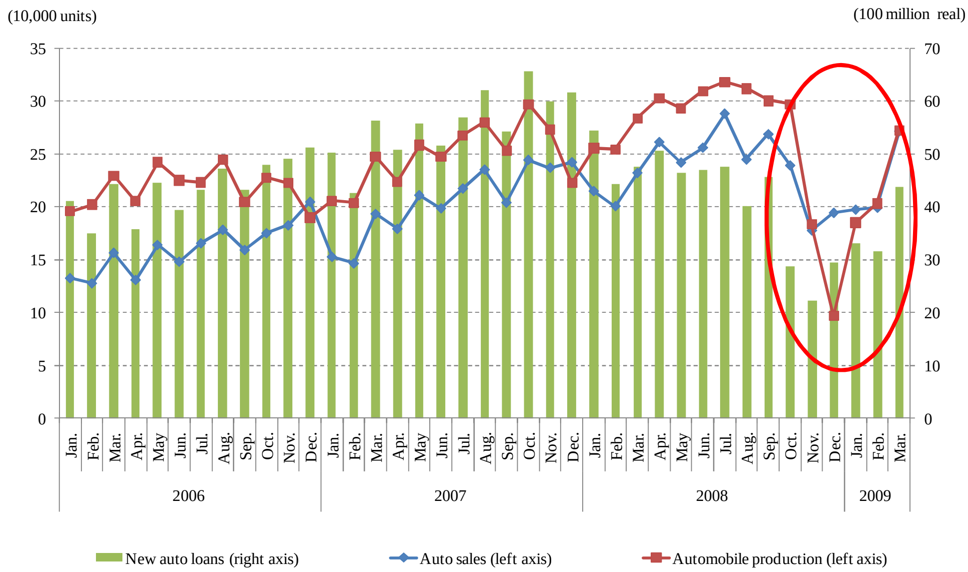
Notes: Figures for April and May 2009 of EU countries are preliminary figures.
Source: ACEA, German Association of the Automotive Industry, Japan Automobile Manufactures Association, Inc. and Japan Automobile Dealers Association.

Figure 1-2-7-4 Changes in China's retail sales of social consumer goods, by type of product



Source: CEIC Database

Figure 1-2-7-5 Changes in auto loans, sales and production in Brazil



Source: Figures for new auto loans are from the Central Bank of Brazil, ANFAVEA (National Association of Motor Vehicle Manufacturers; Brazil).

(3) Conditions for Asian countries in acting as the growth engine of the global economy

Amid the serious global recession, emerging economies, including China and India, which have maintained relatively strong growth despite a slowdown, and Brazil and Middle East and African countries, which are recovering quickly from the impact of the crisis, are attracting hopes as the future growth engine of the global economy. According to estimates by the IMF, while the U.S. and European economies are likely to recover in earnest in 2011 or later, the economic growth of these emerging economies is projected to accelerate in 2010 despite a sharp slowdown or negative growth in 2009 (see Table 1-2-7-6).

However, basically, economic stimulus measures dependent on governmental fiscal expenditures cannot be continued over the long term.

Table 1-2-7-6 IMF world economic outlook

(%)

	2007	2008	Outlook	
			2009	2010
World	**5.2**	**3.2**	**–1.3**	**1.9**
Developed countries	**2.7**	**0.9**	**–3.8**	**0.0**
U.S.	2.0	1.1	–2.8	0.0
Euro area	2.7	0.9	–4.2	–0.4
Germany	2.5	1.3	–5.6	–1.0
France	2.1	0.7	–3.0	0.4
Italy	1.6	–1.0	–4.4	–0.4
Spain	3.7	1.2	–3.0	–0.7
Japan	2.4	–0.6	–6.2	0.5
UK	3.0	0.7	–4.1	–0.4
Canada	2.7	0.5	–2.5	1.2
Other developed countries	4.7	1.6	–4.1	0.6
Asian NICs	5.7	1.5	–5.6	0.8
Emerging economies	8.3	6.1	1.6	4.0
Africa	6.2	5.2	2.0	3.9
Sub-Sahara African countries	6.9	5.5	1.7	3.8
Central-Eastern Europe countries	5.4	2.9	–3.7	0.8
Commonwealth of Independent States (CIS)	8.6	5.5	–5.1	1.2
Russia	8.1	5.6	–6.0	0.5
Except Russia	9.9	5.3	–2.9	3.1
Emerging Asia	**10.6**	**7.7**	**4.8**	**6.1**
China	13.0	9.0	6.5	7.5
India	9.3	7.3	4.5	5.6
ASEAN5	6.3	4.9	0.0	2.3
Middle Eastern countries	6.3	5.9	2.5	3.5
Western Hemisphere countries	5.7	4.2	–1.5	1.6
Brazil	5.7	5.1	–1.3	2.2
Mexico	3.3	1.3	–3.7	1.0
EU countries	3.1	1.1	–4.0	–0.3

Source: IMF World Economic Outlook April 2009.

If the emerging economies in Asia and other regions achieve an expansion of domestic demand and sound development of their own asset markets, they, with their huge populations, may well act as the new growth engine of the global economy.

To that end, it is important that they expand their middle-income class and effectively implement measures to enhance their competitiveness and resolve regional gaps, including building high-speed railways and advanced information highways, modernizing the financial system and introducing advanced medical and educational services. Positive effects brought about by these emerging economies as they continue to post strong growth amid the crisis are expected to spread to developed countries if companies from developed countries develop and introduce products and services targeted at the emerging economies' middle-income class, which is expected to grow significantly in the future.

In order to secure future growth of emerging economies, and spread positive effects brought about by their growth to countries and regions around the world, it is essential that those countries ease restrictions on investment and maintain and enhance the free trade system under the WTO.