ONE ON ONE

ADB's Iwan Azis on Asia's Response to the European Sovereign-Debt Crisis

Iwan Azis, head of the office of regional economic integration at the **Asian Development Bank**, spoke to Bloomberg's Scott Johnson about how Asian countries may weather a slowdown.

Q: In a global recession, how would the long-term policy response in Asia differ from the short-term?

A: Oh, it's very different. In the short run, basically we are recommending moving the pendulum more toward growth, and many countries in the region have been doing it. China has lowered the reserve requirement. Indonesia has lowered the interest rate, and many other countries are doing the same thing. That's the short run, and this is precisely to mitigate the impact of a global crisis -- the Europeans slowing down, the Americans slowing down. In the long run, the policy is structural reform. Asia now has excess saving. Most of this excess saving is invested in the financial sector, both domestically as well as abroad. And then that money abroad in the private sector in the U.S. and Europe was reinvested in Asia. So it's a roundtrip. We know transaction costs are high. What we are recommending is to try to make sure the excess savings stay within the region because the region still needs a lot of infrastructure financing for health, education as well as physical infrastructure, like roads and ports.

Q: Have those savings prevented a repeat of the 1997 crisis? How is this one different?

A: Absolutely. First of all, the source of the crisis is different. Now it's coming from the U.S. and Europe. I'm talking about the 2008 Lehman collapse and subprime, and now the recent one in Europe, starting with Greece. It's like seeing a sequel of a movie. It's a movie about excess investment. That's what happened in many Asian countries: excess investment. How could that happen, and how could they finance this excess? Borrowing abroad in foreign currency, short-term and unhedged. That brought them into crisis in 1997, and that is not the story now because the share in borrowing has been declining in emerging East Asia, especially short-term borrowing.

Q: Aren't capital outflows a concern?

A: Of course. Overall, in terms of numbers, it's not yet serious. For one, two, three countries, it has been serious. But overall for emerging East Asia it's not that serious yet.

Q: Could that rise to a crisis level?

A: No. The reason is because other parts of the world are in trouble now. That is not nice to say, but that's a fact. If you have $100 million now, in terms of areas of the world, where would you put it? It's emerging East Asia. So it's still a safe haven compared to the rest of the world.

Q: Could easing in the U.S. and Europe rekindle inflation in Asia?

A: Of course. In fact, the term we're using is a "balancing act" for the policy makers in East Asia. If that happens, they have to stimulate the economy, but that can reignite inflationary pressure. The difference, however, is that up to six months ago, the major concern was inflation, but the source of the inflation at that time was really commodity prices. Now commodity prices have been easing. Even if there is a trend of reignited inflation, I think it will not be mostly coming from the commodity prices. But precisely because the economy is recovering in East Asia, it means demand is strong, and with demand comes inflationary pressure.

Q: In your models, is a hard landing possible for China?

A: No. Unqualified no. Policymakers in China, like in other Asian countries, are usually quite vigilant. Anything coming from Europe or the U.S., if they see it will affect their economy, they immediately come up with a policy response. I can give you the proof, actually. These days, people are talking about the fear of the slowing down of the Chinese economy. But that's exactly what the Chinese officials want. It's not because they're not performing well. They raised the interest rate several times. They raised the reserve requirement. They are getting what they want.

This interview was condensed and edited. The full version is available at {NSN LVWQEY6JIJVW <GO>}.

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