

Near-Term Policy Challenges for Low-Income Asia

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Four Challenges

1. Dealing with Public Debts
2. Managing Capital Flows
3. Increasing Regional/Domestic Trades and Investment
4. Continue Tackling Poverty and Inequality

Dealing with Public Debts

Many governments' sovereign rate were downgraded because of the crisis



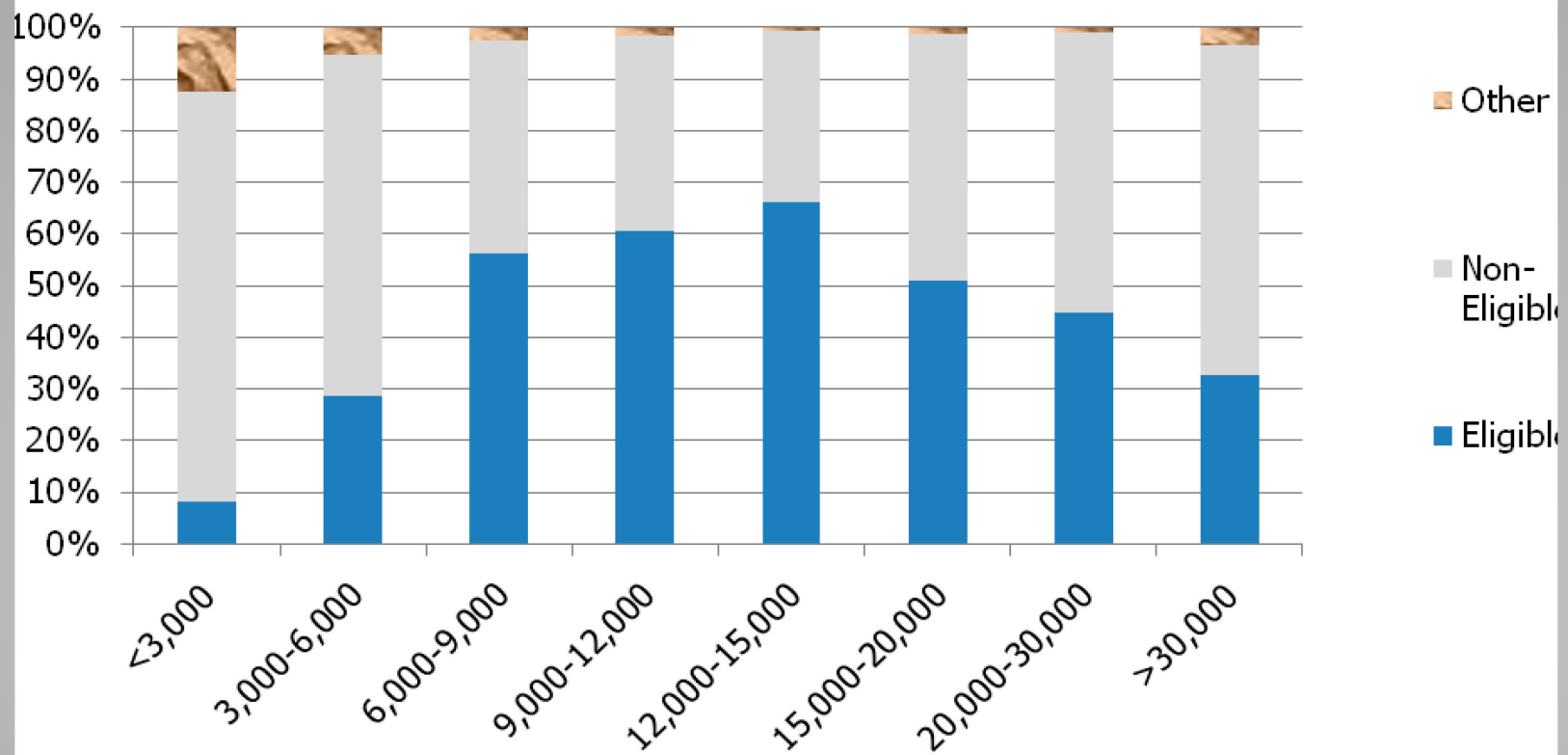
Source: The Economist Online, March 4th, 2010

Dealing with Public Debts

- High public debt leads to lower long-term Growth
 - Rising cost of fund
 - Suppress public-led investments (e.g. in infrastructures)
- Needs well planned 'conditional Exit Strategy'
 - Spell out clearly series of conditions that trigger each steps of exit strategy.
 - Should help lowering market pressure on long-term interest rates.
- If need further stimulus, fiscal deficit must be as much redistributive as possible
 - To avoid 'Ricardian Equivalence' trap, thus maximizing the stimulating effects
 - Require better targeting (economic sector, recipients)
 - Can achieve by investing in vulnerable database and outreach capability

Example of Poor Targeting: Thailand's stimulus checks

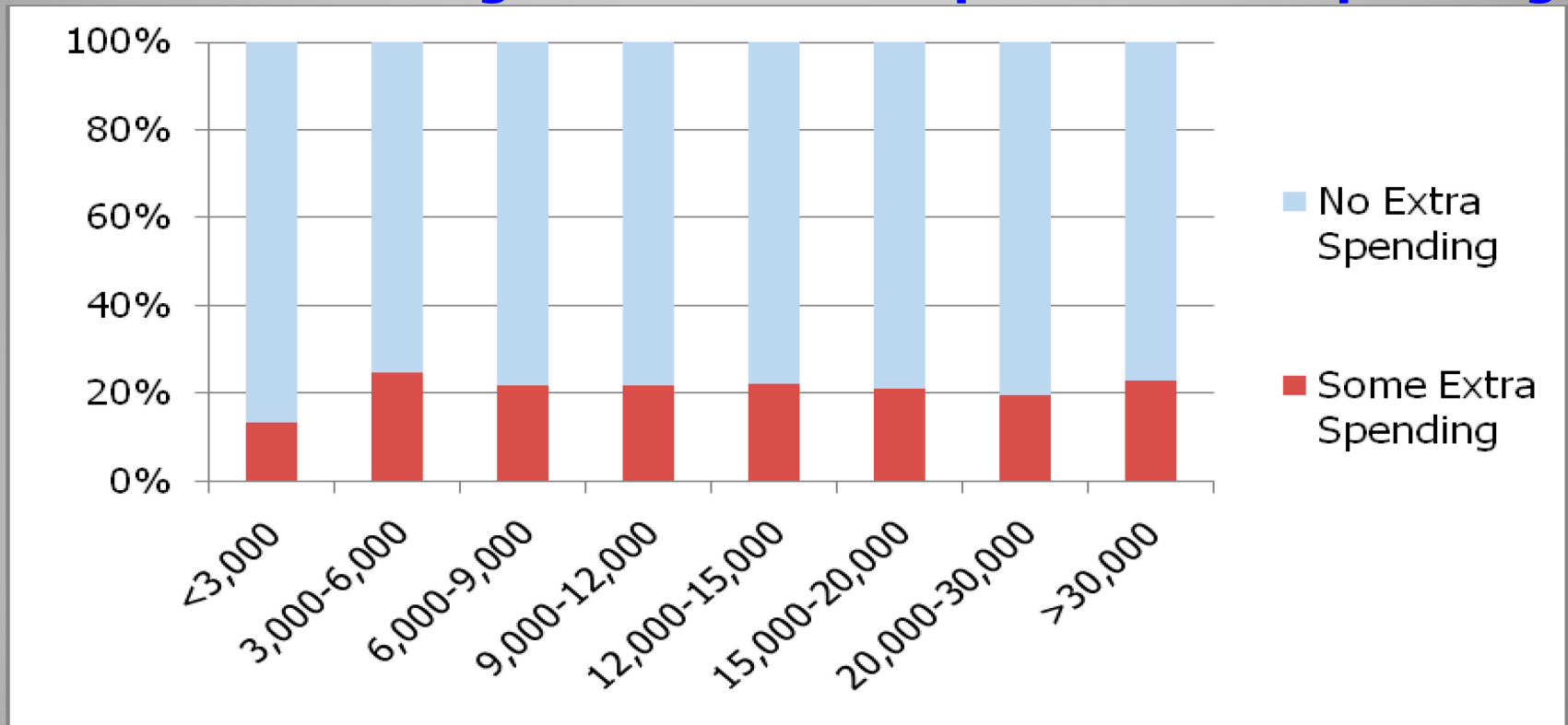
Eligibility to Stimulus Checks by Household Income Class



Source: Jitsuchon (2009)

Resulting in poor stimulating effects

% those receiving checks ended up with extra spending

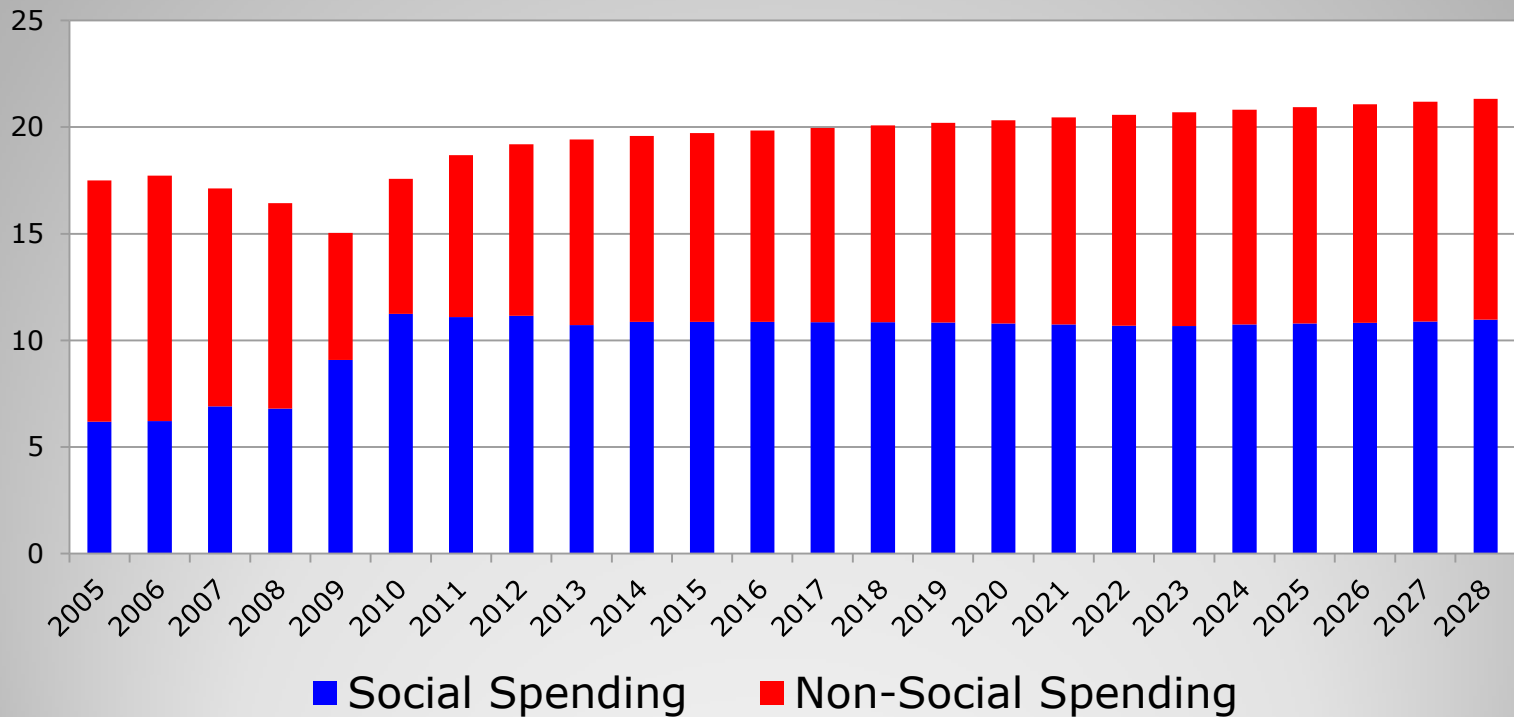


Source: Jitsuchon (2009)

Dealing with Public Debts

Beware of long-term commitment of stimulus package

Projection of Thailand's Public Spending (%GDP)



Managing Capital Flows: Why

- The crisis, and its corrections, adds extra fluctuation to capital flows to/from Asia.
- They are pro-cyclical.
- They might be here to stay.
- Managing capital flows requires a broad package, both macroeconomic and specific measures (such as various forms of capital controls).
- Must weigh cost (volatility) with benefits.

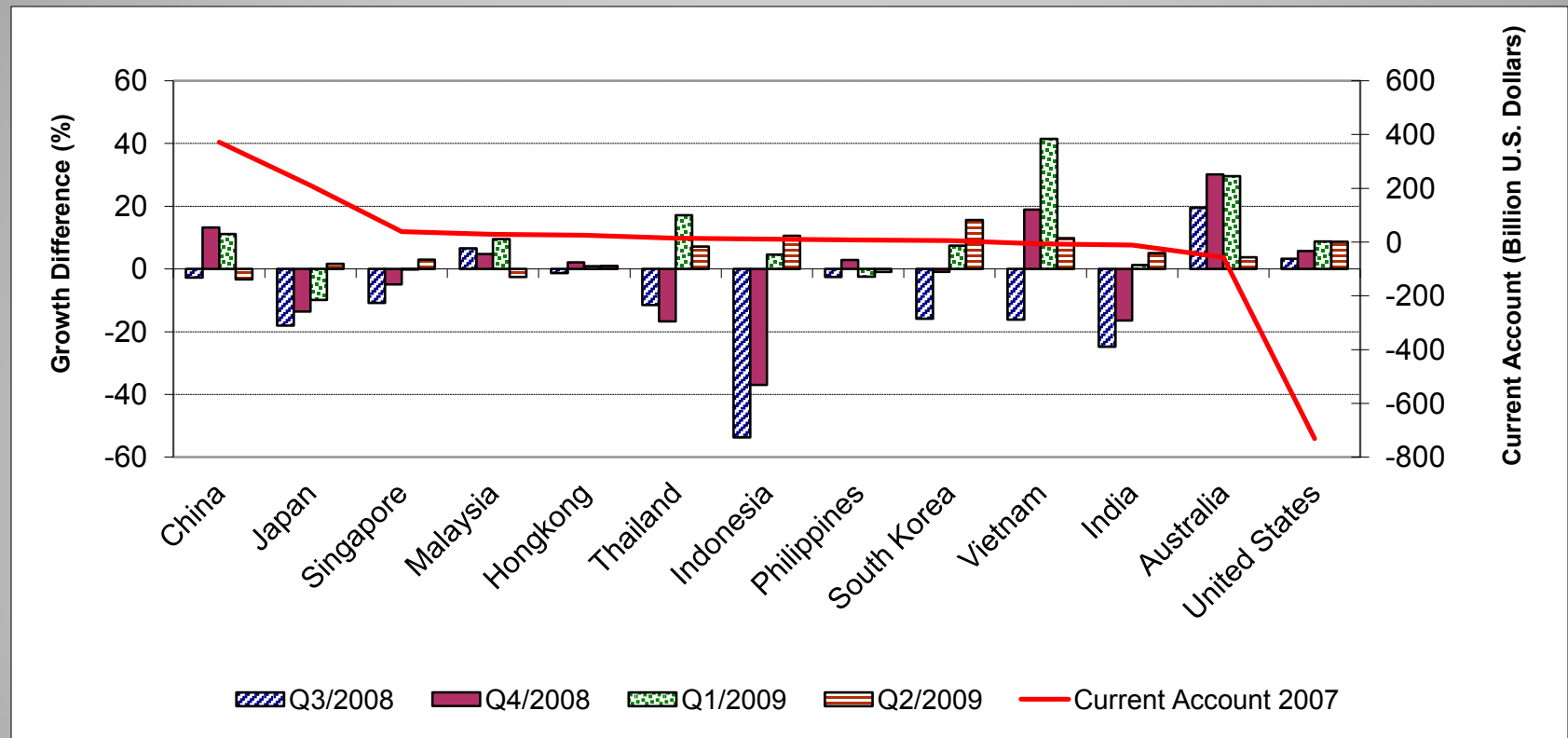
Managing Capital Flows: How

- Information disclosure, to facilitate better risk pricing
- Develop new, and promote the use, of risk management tools
- More stringent prudential measures on FIs, increase competition
- More legal safeguard under various trade agreements
- Deepening financial markets

Global trade pattern showed a weak sign of correction to global imbalance, further correction can be expected

Differences between Export and Import Growth

(sorted by current account position in 2007, from most surplus to most deficit)



Source: Calculated

Increasing Regional Trade and Investment

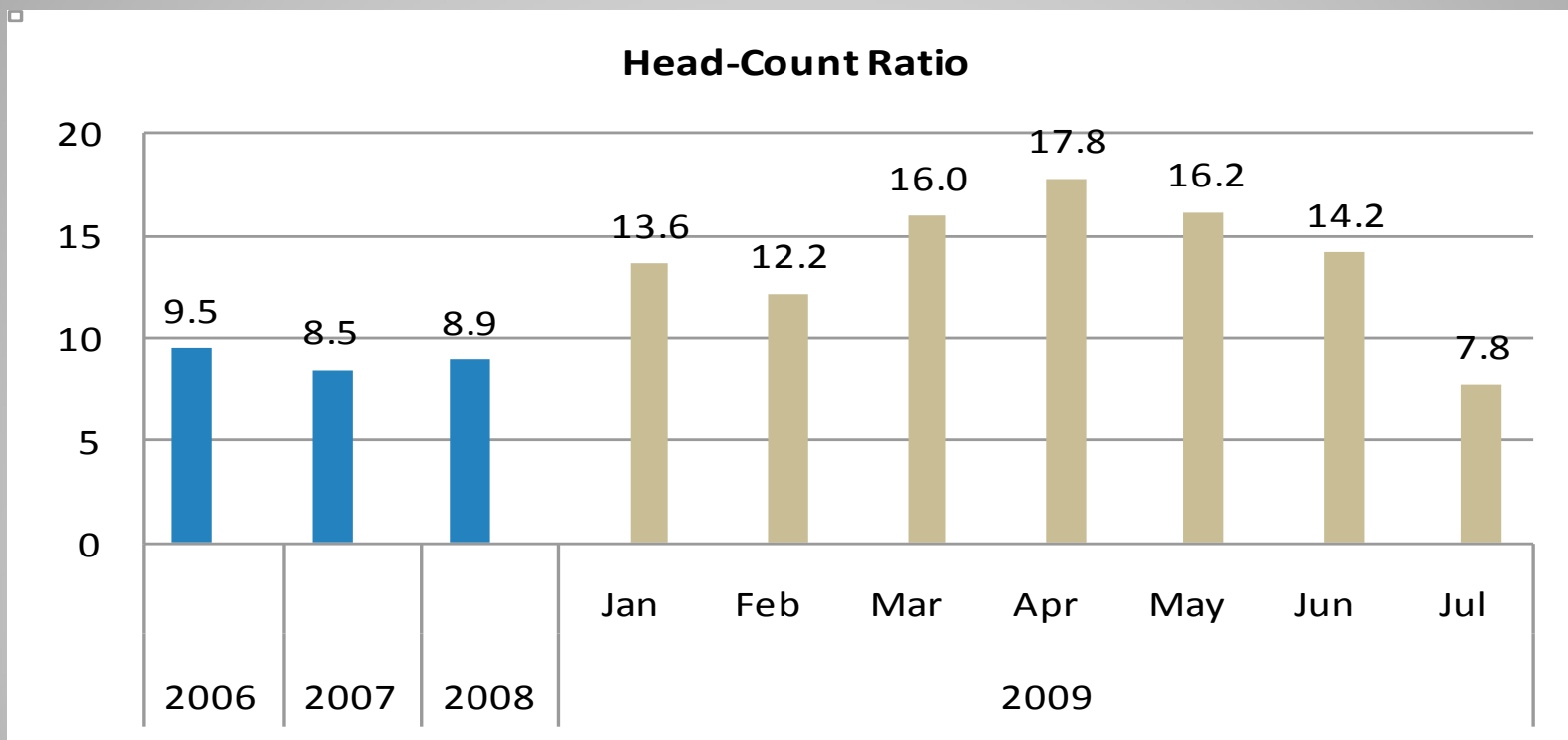
- Challenge: How to reap full benefits from various trade deals?
 - AFTA
 - ASEAN Economic Community (AEC)
 - ASEAN+3
- Should focus more on trade facilitation measures (e.g. custom process, trade-related logistics)
- Increase 'utilization rate' of FTAs etc.

Continue Tackling Poverty and Inequality

- The crisis added 60 millions to global poverty trend (ADB, June2009)
- Challenge: How to prevent poverty from climbing up?
 - From crisis-related factors
 - From other structural problems
 - Resumed food price boom?
 - Bioenergy crops expansion
 - Climate change?
- LICs need to invest more in formal safety net

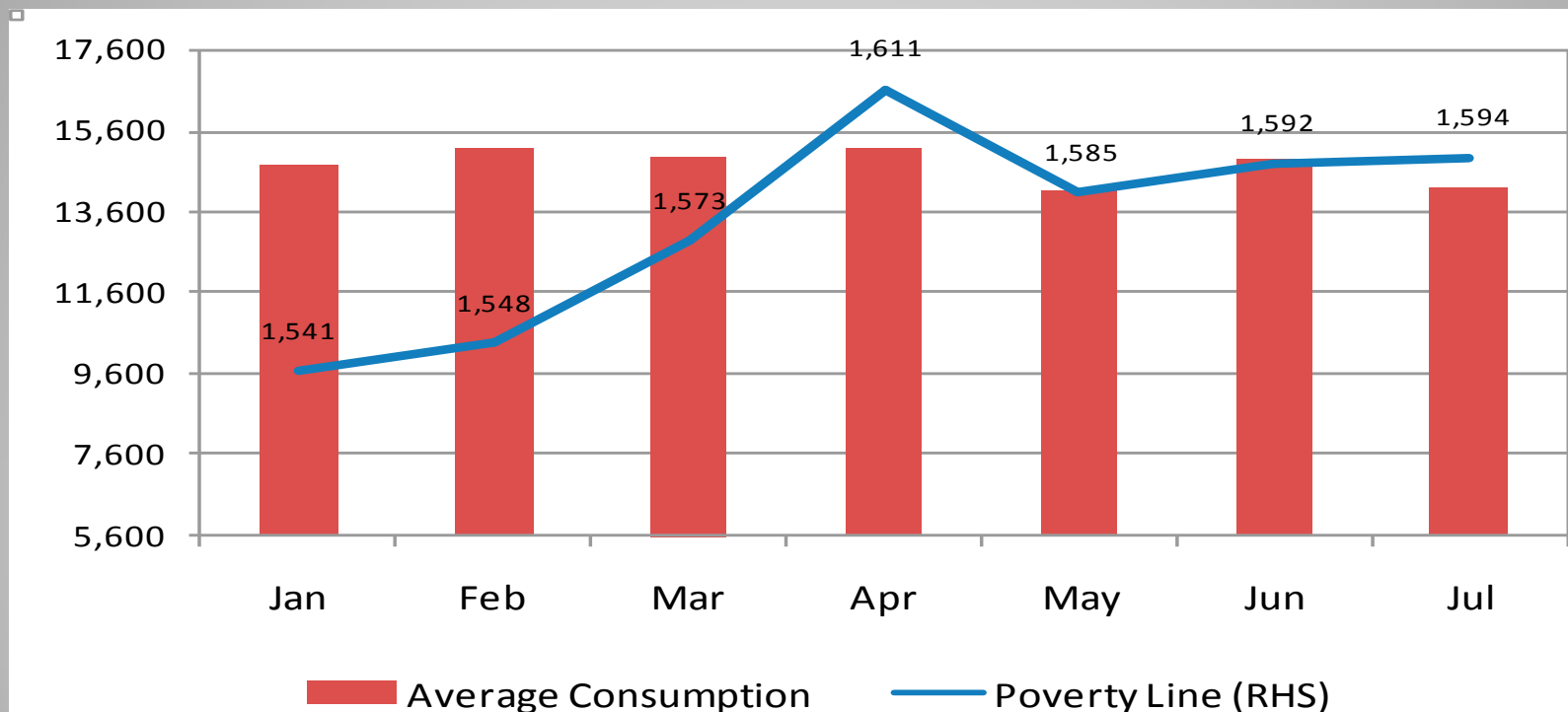
Poverty situation might showed a returning to pre-crisis level.

Thailand's Poverty Incidences, 2006-July 2009



However, improvement was due mainly to falling poverty lines, not increased HH income. Future remain uncertain.

Average Thai Household Consumption and Poverty Lines (Baht)



Investing in Social Safety Net

- Help mitigating adverse impacts from the current global crises (or any crises), allowing the country to continue open up (and gain efficiency)
- Should improve safety net in (a) coverage (b) equality (c) sufficiency
- Achieve this by:
 - Investing in information system about vulnerable HH and individuals
 - Strengthening outreach capacity (reaching to the poor) using public, NGOs, and local government resources.