Preface

In most Asian economies, the global financial crisis is increasingly becoming a thing of the past. By mid-2009 recovery was already evident in much of the region; in 2010 it was by far the fastest growing region of the world. Among the most impressive performers have been the dynamic economies of the People’s Republic of China and India, each of which registered growth approaching or exceeding 10 percent for the year. The performance of several other economies, notably Singapore and Taipei, China, was more impressive, and the Association of Southeast Asian Nations (ASEAN) member countries also registered healthy growth rates in 2010. While advanced economies remain sluggish, the Asian region is once again leading the way.

The legacy of the crisis, however, will be long lasting. The diagnosis and the lessons of the crisis – including whether or not Asia’s policy mix had contributed to the crisis and how to reform the international financial architecture to prevent another crisis of the same kind – will no doubt be debated over the coming years. An important post-global financial crisis agenda for the Asian region involves building a consensus on appropriate macroeconomic policies over the medium term. Should a country pursue a more flexible exchange rate policy? Should it target both price and financial stability as objectives of monetary policy? Should it continue to accumulate foreign exchange reserves as an insurance against a sudden outflow of capital? These are some of the critical issues for the region’s policymakers.

This volume brings together both theoretical and empirical studies that address aspects of the macroeconomic policy issues noted above. The studies were originally prepared for two international conferences on the global financial crisis hosted in 2009 by the Asian Development Bank Institute (ADBI). Most of the empirical works have a specific focus on Asia. But the issues they discuss are by no means region-specific. The volume pays particular attention to monetary and exchange rate policy issues, though fiscal policy is also discussed in one chapter as it relates to broader issues of macroeconomic policy management. The Asian region’s recovery ahead of other regions, together with ultra-low interest rate policies and quantitative easing in advanced economies, has led to a
resumption of large capital inflows and attendant currency appreciation pressure, thus presenting a set of challenges for macroeconomic policy management. In this respect, the topics discussed in this volume are both urgent and timely.

The volume consists of nine chapters, including an overview chapter. The eight analytical chapters are organized into five parts. Part I deals with monetary policy issues, including the effectiveness of unconventional policies and medium-term policy frameworks. Part II is devoted to exchange rate policy and foreign exchange reserve management issues. Part III discusses policy choices related to the ‘impossible trinity’, the proposition in the economic literature that no economy can simultaneously achieve all three objectives of (i) exchange rate stability; (ii) capital mobility; and (iii) monetary policy independence. Part IV models the impact of the global financial crisis and policy responses on Asian economies. Finally, Part V proposes a framework for regional exchange rate cooperation. All of these chapters, though initially prepared in 2009, were subsequently updated for inclusion in this volume.

As co-editors, we are first and foremost grateful to the authors of the individual chapters for providing high-quality analyses of the macroeconomic policy issues that are so relevant to the Asia region today. Our thanks are also due to many others whose assistance has made the production of this volume possible. Mario Lamberte, as one of the architects of the 2009 ADBI project on the global financial crisis, provided intellectual inputs at each stage of the production process. Nimesh Salike assisted with the final preparation of the manuscript. Ainslie Smith was responsible for ADBI’s internal editing. Last but not least, able ADBI support staff, especially Hideki Miura, Kazumi Hasegawa, Tomoko Doi and Yuzuru Nagai, provided invaluable logistical support to the 2009 conferences where the chapters were initially presented. It is our sincere hope that this volume will contribute to the ongoing debate on post-crisis macroeconomic policy management and become part of our collective efforts to make Asia and the world a more stable and resilient place.

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