

Min Zhu on Asia's Economy



Min Zhu is Special Advisor to the IMF's Managing Director. He was most recently Deputy Governor of the People's Bank of China, China's central bank, and before that had more than a decade of commercial banking experience as a senior executive at the Bank of China.

Dezhi Ma of the IMF's External Relations Department met with Zhu shortly after his arrival at the IMF to talk about Asia in the new world order, global economic issues, and the IMF's relations with the region that is favored to lead the world out of crisis.

Asia in the global economy

F&D: How do you view Asia's future in the world economy?

Zhu: Asia is obviously becoming more and more important in the global economy. In 2009, the United States had GDP growth of -2.4 percent; Europe, -4.8 percent. But India had 7.3 percent growth, and China 8.7 percent. The center of growth is moving from the West to Asia, and in particular emerging Asia. I think that's a pattern that will continue for at least the next five years, which will change the whole global economic structure.

Another important change for Asia is its role in world trade. Because the crisis started in the advanced economies, trade flows from Asia to the advanced economies fell dramatically. In response, the region further strengthened intraregional trade flows. Looking forward, I believe we will see trade flows among the developing countries and emerging economies growing dramatically, and emerging Asia becoming the centerpiece of a whole new global trade pattern.

Because emerging Asia has strong growth, and advanced economies are experiencing rather weak growth, we see a multi-level, multi-speed recovery. Moreover, emerging Asia had much sounder financial situations, while the advanced economies are experiencing fiscal difficulties. So we can expect global assets to relocate, with Asia attracting more capital.

When these elements are combined, Asia will move more to the center of tomorrow's global economy.

F&D: That seems to be an optimistic assessment from your side. Are there any big challenges, in terms of economic policy-

making, for the region?

Zhu: I am optimistic about Asia's future and its growth prospects. But that doesn't mean everything is fine for Asia. Indeed, Asia is facing a lot of challenges. The recent crisis tells us that Asia is not isolated; it really is part of the global economy and finance. You see how much trade shrunk in the first quarter of 2009. You see how much capital fled in the fourth quarter of 2008. That tells Asia there are a lot of things it needs to do.

First, Asia needs to rethink its growth model. Asia still very much has an export-driven growth model. But we need to move forward to a domestic consumption-driven model to make growth much more balanced and sustainable.

A second issue is financial sector reform. The crisis taught us that a strong financial sector—which Asia does not have yet—plays a very important role in macroeconomic management. For example, Asia does not have a deep bond market, which is absolutely important for long-term financing. Asia has been working on that for years, but there is much more to be done.

Third, Asia needs to deal with global capital flows. The surge in capital flows to emerging Asia presents big challenges for the region, particularly in 2010 and for the next few years. The Asian economies need to handle this issue very carefully and design proper policies to bring lasting solutions.

So yes, on the one hand, I'm positive about the growth prospects for Asia, but on the other hand, Asia is facing a lot of challenges.

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Views on the crisis

F&D: Your experience in the private sector and as a policy-maker must have given you a unique perspective on the global financial crisis. So what stands out to you?

Zhu: From my private sector experience, I can assure you that good corporate governance is very important. A company, particularly a financial company, has got to have transparency. It's got to have good risk-management systems. In particular, it has to have long-term goals rather than short-term, profit-hunting targets. Particularly in the financial sector, if you provide financial services, you really bear responsibility to the whole society.

From a policymaker's point of view, you have to keep a balance between the real economy and the financial sector. What we saw at the end of 2007 is that the financial sector was too big, and it served itself, not the real economy, which is really the reason for the financial crisis.

Looking at the macro level, I would say prudent macroeconomic management has become an important issue for all governments. In all crises you see excessive liquidity. The big lesson is that you need countercyclical, prudent macroeconomic management to prevent this type of crisis in the future.

Correcting imbalances

F&D: How should countries work together to address the issue of global imbalances?

Zhu: That's a challenging issue. Imbalances have troubled the global economy for a while now. There are many forms of imbalance: for example, the current account imbalance between emerging Asia and the advanced economies, and between the

oil-exporting countries and advanced economies. The real problem is when imbalances become big, concentrated, and persistent. In the past five years, we have seen a few countries remain persistently in surplus and a few countries persistently in deficit. Twenty years ago the top five countries accounted for 22 percent of global trade deficits. Today, the five major countries account for 76 percent. So it's very much concentrated. This is a real concern.

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Obviously, we need global cooperation on these issues. There are several things that need to be done. The deficit countries need to consume less and save more, so they can import less, and they should promote exports. The surplus countries should consume more, export less, and import more to achieve a balance.

But if you're looking at the whole global picture of imbalances, you have to think about complementarity issues. The world today is not evenly developed. Every country is at a different stage, with different strengths, different processes, different stages of production. For example, you see most advanced economies are service oriented, and emerging economies are manufacturing oriented, partly reflecting the division of labor. We see this in the persistent and concentrated imbalance that is the issue for the global economy. Both aspects, rebalancing and complementarity, will make the world more productive and more sustainable, and the IMF should play a central role in this process. ■

IMF in Asia

F&D: What do you see as the role of the IMF in Asia?

Zhu: Asia plays an important role in the IMF, and the IMF also plays an important role in Asia. I think the two sides are working closely and very well.

The IMF has a role in Asia through three channels:

- **Surveillance:** through Article IV consultations with countries and through the Financial Sector Assessment Program. Through surveillance, we try to assess domestic financial and economic situations, advise the domestic government, and help build growth capacity. To a few countries, we also provide liquidity as a lender of last resort.

- **Capacity building:** Asia is diverse, and its countries' needs are very different. The IMF offers technical assistance—on prudent macroeconomic management, growth modeling, rebalancing structure, and tax policy, to help governments handle the difficult challenges they face.

- **Training and knowledge:** The IMF has training centers in China, India, Malaysia, and Singapore, and offers many courses to policymakers in the region, to help countries enhance their capacity.

The IMF has a rich knowledge of the global economic situation and the financial sector. The IMF produces the *World Economic Outlook*, the *Global Financial Stability Report*, the *Regional Economic Outlook: Asia and Pacific*, and lots of other research. This helps economies in the region understand the rest of the world and become part of the policymaking process. There is much more the IMF can do in the region. So it needs to study Asia even more to further its links in the region.

F&D: How do you think the bigger role of Asia, and China, in the world economy should be reflected in the IMF?

Zhu: Most people's first response would be the quota and voice reform that is currently under way, to reflect the growing role of Asia and China. It's right to give China and Asia more status within the institution. But more important is for the IMF to understand Asia and China better and to bring Asia's and China's experience to the rest of the world.

Why is Asia so successful? Asia has its own experience and its own stories. There is a role for the IMF to play in bringing that experience to other emerging economies, and maybe to other advanced economies as well. Also, the IMF can and should bring Asia and China to the global platform to ask them to participate in the global policy formation process.