economy and as the external environment improved, the region roared back to life. In Singapore, Taiwan, Hong Kong, Malaysia and Thailand. As stimulus measures fed through into other parts of the world were Asian. In addition, the region's banks – in many countries closely influenced by government policy – could be more easily marshalled than western ones to funnel credit into the real economy.

Excluding Japan, Asian economies therefore managed to grow by 5.8 per cent in 2009, although that hides contractions more easily. As a percentage of gross domestic product, many of the biggest stimulus packages in the world were Asian. In addition, the region's banks – in many countries closely influenced by government policy – could be more easily marshalled than western ones to funnel credit into the real economy.

The result, says Richard Jerram of Macquarie Securities, is that Asian economies had the financial firepower and sophisticated capital markets – Asian authorities managed in the main to stop their banks dabbling in the products that became the ruin of so many western institutions.

Asia has not only kept its own economy reviving at a pre-crisis pace of 9-10 per cent a year but has lifted others, including Australia, up with it.

So powerful is the Asian tide, says Prasenjit Basu of Daiwa Securities, that it is lifting even the leaky boats – such as politically unstable Thailand and macroeconomically challenged Vietnam.

Asia's strong performance raises two important questions. First, in the absence of robust demand from shell-shocked consumers in the US and Europe, how have its supposedly export-dependent economies proved so resilient? Second, are economies now on a sustainable, self-reinforcing growth path that will insulate them from any future tremors in the world? Or, like a cartoon character that runs off a cliff – suspended in the air for a few self-delusional moments – could its gravity-defying feat end with a painful crash to earth?

Though there have recently been signs of a slowdown – partly the result of a deliberate effort by authorities to combat overheating – regional output has rebounded well above pre-crisis levels. Some countries, among them South Korea and Indonesia, have emerged from the financial crisis in better shape than they entered it. India, less open than many Asian economies and thus less exposed to a global downturn, has barely paused for breath. Commodities-hungry China has only kept its own economy reviving at a pre-crisis pace of 9-10 per cent a year but has lifted others, including Australia, up with it.

India, which should grow at 8.5 per cent or more this year, is not the only Asian economy roaring ahead. As the US frets about the possibility of a double-dip recession and Europeans scour the horizon for signs of the next sovereign debt default, Asia is in a confident mood. Having survived the financial crisis, most Asian economies appear to be defying gravity. This year, according to consensus forecasts, economies in the vast region stretching from the Indian subcontinent to Australasia will expand by 8.6 per cent excluding Japan. That would be the fastest pace in 20 years.

For the first time, Asia's contribution to a global recovery is outstripping that of other regions," Naoyuki Shinohara of the International Monetary Fund said in a recent speech in Singapore, which is itself expected to grow by 10 per cent this year. "Rather than being dependent on a narrow export-driven recovery, domestic demand – particularly household consumption – is reinforcing Asian growth."

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It helps to start by remembering how Asia looked going into the crisis. After they suffered their own financial problems of the 1997-98, almost all the region's economies – with the exception of India and Vietnam – built up big current account surpluses. By the time Lehman Brothers collapsed and credit markets froze in 2008, they accounted for more than 60 per cent of global foreign exchange reserves, with China alone holding about $2,000bn.

Most had also cleansed their weak banking systems – some of which had tottered dangerously a decade before. Through prudent regulation – often criticised by westerners before the crisis for supposedly retarding the development of sophisticated capital markets – Asian authorities managed in the main to stop their banks dabbling in the products that became the ruin of so many western institutions.

The result, says Richard Jerram of Macquarie Securities, is that Asian economies had the financial firepower and structural soundness to implement effective stimulus measures. When western demand collapsed in late 2008, governments were able to shift the switch of domestic growth through big infrastructure investments, job subsidies and direct pay-outs to consumers. As a percentage of gross domestic product, many of the biggest stimulus packages in the world were Asian. In addition, the region's banks – in many countries closely influenced by government policy – could be more easily marshalled than western ones to funnel credit into the real economy.

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TAIWAN: THE ROLE OF IT

From ghost town to global linchpin

Half an hour or so from the capital Taipei, the Taiwanese satellite town of Hsinchu sits at the heart of a global supply chain that serves producers of electronics goods from computers to mobile phones.

So in 2008, when the global information technology industry found itself swept up in the financial crisis, the lights started to go off at Hsinchu's sprawling, tree-lined science park. Revenues from businesses based there peaked at T$11.39bn ($306bn, €228bn, £228bn) in 2007 before falling by 12 per cent the following year and then being decimated to a 2009 level of just T$883bn.

The park became a ghost town. About 75 per cent of its more than 130,000 workers were put on unpaid leave by companies that found themselves bereft of orders.

Then came the recovery. Global chipmaker revenues – a good proxy for the broader industry, since all digital hardware contains a chip – are expected to rise 27 per cent this year, according to Gartner, a research consultancy. Record profits have been registered or are being forecast among others by South Korea's Samsung as well as HTC, the Taiwanese smartphone maker.

Taiwan Semiconductor, the world's biggest contract chipmaker, in the first quarter of 2009 suffered its biggest drop in profits in seven years and barely broke even. But, says Morris

Nirlesh Tomar, a manager at the Hero Honda factory in Gurgaon, north of New Delhi, points to a powder-blue robotic arm as, in a matter of seconds, it welds together two halves of a motorcycle, one of more 4m that will roll off the company's production lines this year.

So rapacious is demand, he says, that the world's biggest manufacturer of scooters and motorbikes is considering building a fourth plant less than two years after opening a state-of-the-art facility in the pilgrimage city of Haridwar. That factory, which started production just six months before the collapse of Lehman Brothers, might have looked like a mistake. But Mr Tomar says the company has never looked back. Sales leap by one-quarter last year and are beating expectations this year, too. Nor is heavy demand for motorcycles a sign Indian consumers are trading down from four-wheeled vehicles.

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What is more, says Frederic Neumann of HSBC, it can afford to borrow even as western economies struggle to pay down their debts. "Bank vaults stuffed with liquidity, lean corporate balance sheets and capital ratios as comfortable as anywhere", is how he describes the picture. After a decade of austerity, he says, "Asians are now in a position to buy decoupling on credit", replacing any shortfall in external demand with a domestic expansion of credit.

In fact, the environment for exports, helped by a strong rebound in the information technology sector, has not remained as weak as many feared. That means Asia's ability to decouple from the west has not been fully tested. Almost all its countries, including China, are exporting at above pre-crisis levels. Shipments to the west have come back more quickly than expected. China's exports to the US have grown by 30 per cent in the first seven months of 2010.

But exports to countries outside the advanced G3 economies of the US, European Union and Japan have also been rising, a second reason for Asia's resilience. Some economists argue that this is part of a long-term increase in the significance of "south-south" trade. According to Daiwa Securities, exports of the top 10 Asian countries excluding Japan to G3 nations fell from 45.5 per cent of the total in 1997 to 36.4 per cent in 2009, with developing countries and oil exporters taking up the slack.

South Korea – a big producer of electronic goods, machine tools and cars – is a good example. More than 40 per cent of its exports go to the Bric economies of Brazil, Russia, India and China. As IMF economists have suggested, if the business cycle in emerging markets and industrial economies diverges, an exposure to developing markets – estimated to account for nearly 40 per cent of global output (at market prices) against just one-quarter two decades ago – has an increasingly good chance of shielding economies from any downturn in the west.

A third, much debated, explanation for Asian resilience is what some economists regard as a structural pick-up in consumer demand. In the past six to 12 months, imports in almost all the region's economies have outstripped exports, says Mr Basu at Daiwa, a sign of rising internal demand. "If you look at China, for example, cars are about seven times what they were a decade ago. China is not yet an exporter of cars but an importer," Similarly, he says, sales of mobile phone handsets in India have risen 250-fold to about 450m over the past decade.

A rising middle class is certainly buying more, although in some cases – particularly in China – higher consumption is being outstripped by an even faster rise in investment. That has steadily pushed down Chinese consumption as a percentage of GDP even as shoppers flood supermarkets, malls and car showrooms. Nevertheless, throughout the region, consumers are providing a stronger market for Asian companies. As before, much intra-regional trade comes in the form of components that make their way as finished goods to western consumers. But a greater proportion of Asian production is staying put.

China, which years ago replaced slow-growing Japan as the region's sturdiest engine of growth, is behind the fourth reason for the region's improved performance. It is "pulling along Asian economies as well as a number of commodity-producing emerging markets and advanced economies", says Professor Eswar Prasad of Cornell University. The economies of Taiwan, South Korea and Japan itself are now heavily skewed towards tapping into the country's seemingly insatiable demand for industrial inputs, heavy equipment, components and consumer goods. Australia, India, Indonesia and others feed it with raw materials.

Peter Elston of Aberdeen Asset Management Asia is among the many who argue that the factors that have enabled Asia to survive the financial crisis in such good shape are self-sustaining. The region's swelling middle class is key, he says. "Of course, Asia continues to be impacted by western demand. But it is increasingly playing less of a role," he says. "It's a fairly simple story, really. Most of Asia is still on a GDP per capita of less than $4,000. That means there is incredible capacity for this region to grow."

Yet other economists – and many Asian officials – caution that it is too early for such triumphalism. One reason is scepticism about the foundations of Chinese growth. In a Financial Times article last week, Yu Yongding, of the Chinese Academy of Social Sciences, worried about the long-term effects of stimulus measures that, he said, would exacerbate – not counter – dependence on investment and exports. "A viable economy cannot be built on steel and concrete alone," he wrote, adding that Beijing's export drive in the context of global slowdown would "crash into a stone wall of trade friction and protectionism".

China, too, is realising that, though its headline growth is impressive, its energy-hungry model is not sustainable. This week, Beijing signalled a crackdown on heavy industry as a way of meeting self-imposed energy efficiency targets. Some officials, including Mr Yu, want to embrace slower, better quality growth, which would affect the rest of Asia.

Stephen Roach, chairman of Morgan Stanley Asia, argues that the region's shift to better balanced growth is far from complete. "Asia's nascent structural shift toward internal private consumption is just not powerful enough at this point to

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**INDONESIA: THE CONSUMER ECONOMY**

A service sector knuckles down to satisfy domestic appetites

The beer taps flowed and waiters raced orders of German sausage and pork knuckles to packed tables. With all 325 seats filled, a queue formed outside the newly opened Paulaner Brauhaus in downtown Jakarta.

The success of a restaurant selling alcohol and pork in the country with the world's largest Muslim population might seem surprising. What is equally unusual is a consumer business expanding so easily while many western companies tighten their belts.

Business at the Bavarian outlet, which opened in May at the Kempinski Hotel, has been "tremendously good", says Hanny Wahyuni, public relations director, with 600-1,000 customers a day "totally beating our expectations".

It is one of scores of new cafes, restaurants and clubs opening across the Indonesian capital, where one might be forgiven for asking: what global financial crisis?

As developed markets floundered, Jakarta's stocks and bonds have been a bright spot, with billions of dollars flowing into an economy that was devastated by the 1997-98 Asian financial crisis. The Jakarta composite index is up 20 per cent this year after soaring 86 per cent in 2009. The rupiah has gained 5 per cent against the dollar since January. Foreign direct investment rose...
more than 50 per cent in the second quarter to $3.7bn (€2.8bn, £2.4bn), while economic growth of 6.2 per cent beat forecasts amid robust domestic spending as well as trade.

Roughly two-thirds of the $600bn economy, the largest in southeast Asia, is generated by domestic consumption. That unusually high proportion for the region helps shield Indonesia from global volatility.

While most Indonesians will not be drinking beer in the coming Ramadan fasting month, sales will pick up in the autumn when Paulaner will be open for the traditional German Oktoberfest.

Anthony Deutsch

offset the post-crisis deleveraging in its largest external markets – the US and Europe,” he says. He warns that, while Asia has had a good crisis, this does not mean it has yet made anything like a full transition to the self-sustaining growth of which it is capable.

Indeed, just on Tuesday, China recorded its biggest monthly trade surplus in a year and a half, as exports surged and imports faltered. That hardly suggests a decisive break with the imbalances of old. It may be some while yet before Asia can declare itself free of the west’s gravitational force.

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