

# The Role of Global Production Networks (GPN) in Understanding the Impacts of the Fiscal Stimulus in the United States and China on ASEAN Economies

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# Introduction

- ① **Fast economic growth of the ASEAN region due to increase in exports**
- ② **Increase in exports can be traced from the utilization of Global Production Networks (GPNs)**
  - nexus of interconnected functions and operations in which goods and services are produced, distributed, and consumed
  - liberalization, deregulation, and impact of information and communication technology (ICT)
- ③ **2008 Global Crisis**
  - declining exports volume
  - tight liquidity squeezed by foreign capital outflow
  - ASEAN's most open economies such as Malaysia and Singapore were hit harder
  - Stimulus package in China has been customized to cushion the domestic economy

# Research Question

- ① **What are the implications of the global financial crisis on the economies of US, China, and ASEAN as well as its global production network?**
- ② **Will a drop in US's Gross Domestic Product (GDP) adversely affect China's exports to US and China's imports from the ASEAN?**

# Economic Stimulus: Current Account Imbalance

- ① ASEAN has been experiencing expansion in merchandise trade over the past thirty years
- ② Economic expansion due to:
  - rapid expansion of developing economies
  - liberalization measures in trade such as reduction of trade barriers
  - investment policies

# Trade Flows between East Asia and US

Share of East Asian Exports/Imports to/from the United States  
Selected Countries for 2006

| Country                         | Exports            |                                    | Imports            |                                    |
|---------------------------------|--------------------|------------------------------------|--------------------|------------------------------------|
|                                 | Percent of Exports | Amount of Exports (in Billion USD) | Percent of Imports | Amount of Imports (in Billion USD) |
| Japan                           | 24.2               | 151.86                             | 26.8               | 59.60                              |
| South Korea                     | 7.6                | 47.69                              | 14.6               | 32.47                              |
| China                           | 48.5               | 304.34                             | 24.8               | 55.16                              |
| Singapore                       | 2.9                | 18.20                              | 11.1               | 24.69                              |
| <b>Total East Asian Exports</b> | 627.5 Billion      |                                    | USD 222.4 Billion  |                                    |

Source: United Nations Comtrade Database

# Adjustments in Current Account Imbalances

## ① Accomodating Transactions in the Current Account

- deficit or net outflow of monetary assets in the current account, which is offset by a surplus or a net inflow of monetary and financial assets in the capital account
- surplus or net inflow of monetary assets in the current account, which is offset by a defiict or net outflow of in the capital account

## ② Changes in the Exchange Rate

- current account deficit may also be addressed by devaluing the domestic currency

# Adjustments in Current Account Imbalances

## ① Changes in Domestic Expenditures

- **Current Account Deficit** - there is a need to curb domestic demand including consumption via higher taxes, investments through higher interest rates, and government expenditure through reduced fiscal deficit and through a budget surplus
- **Current Account Surplus** - there is a need to expand domestic consumption through lower taxes, investments through lower interest rate, and government expenditure through deficit spending

# Concept of Decoupling

- ① Interrelatedness of economies with each other in terms of trade
- ② Asia cannot decouple itself and cannot experience higher economic growth compared to the economic slowdown in the global market (Park, 2009)
- ③ Importance of China in the East Asia and ASEAN region
  - in terms of global production networks
  - hub of massive production for its domestic market and the rest

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