Global Economic Crisis and Growth Prospects: 
Evidence from Asia-Pacific

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Among the hardest hit by the global financial crisis are the developing Asian economies even though they are geographically away from the crisis epicenters in the United States (US) and European Union (EU). This paper empirically examines the channels through which the global financial crisis propelled the regional economies into the worst post-1997 recession at both macroeconomic and sectoral levels using the cross-country panel from 1960 to 2008. The evidence points to the FDI inflow reversals and abating international remittances as the catalysts of the economic downturn even though the shrunken export demands are not likely to become a crucial threat to the region’s rapid economic growth. At the sectoral level, the agricultural sectors exhibit more resilience to the economic slump than do manufacturing and service sectors. My empirical findings put forward macroeconomic and trade policy implications that equip the regional economies with immunity to the global financial crisis.

Key Words: Economic Growth, Global Financial Crisis, Global Trade, FDI Inflow Reversals, International Remittances

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I. Introduction

The global financial crisis has inflicted socio-economic hardships and catastrophes on the global economic community. The global economic outlook has been depressing, and the full recovery has yet been put in place. As of April 2009, IMF (2009) projected a sharp contraction of global output by 1.3 percent, compared with an average growth rate of 3.2 percent in 2008, on top of the international trade collapses, international capital flow reversals, and retrenchment in the labour markets.

<Figure 1> Annual GDP Growth among ASEAN+3 Economies, 1990-2008.

Even though the growth prospects of the Asian economies were rather buoyant due to their resilient domestic markets and less exposure to the collapses of the international financial institutions in the economic powerhouses, especially those in the United States (US) and the United Kingdom (UK), the recent developments unveiled the opposite - the downswing in the region is unprecedented. The annual GDP growth of the ASEAN-6 economies, as shown in Figure 1, exhibited a sharp plummet