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FINAL REPORT

PROJECT NO. : US/RAS/09/005

CONTRACT NO. 16001889

UNIDO - GSIS SEOUL NATIONAL UNIVERSITY
Organization of the Asia and Pacific Regional Forum on Industry,
Seoul, Republic of Korea

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RISING TO THE CHALLENGE OF THE GLOBAL ECONOMIC CRISIS:
Opportunities and Options for Competitive Asian Industries
12-13 November 2009, Seoul, Republic of Korea

PROGRAMME AGENDA

DAY ONE	
9:00 – 9:50	**OPENING AND WELCOMING SESSION** Opening and welcoming remarks by : - Prof. Taeho Bark, Dean, GSIS & chairman of Korea Trade Commission, Republic of Korea - Mr. Wilfried Luetkenhorst Managing Director of Programme Coordination and Field Operations Division, UNIDO Keynote Speech by: - H.E.Mr. Che Min Rim Vice Minister of Knowledge and Economy, Republic of Korea **Rising to the Challenge of the Global Economy: Opportunities for Competitive Asian Industries** *Issues:* Can Asian industries rise to the challenge?
9:50 – 10:00	**Short Break**
10:00 – 11:05	**SESSION ONE:** **Impact of the Global Financial Crisis on Asian Industries: Challenges and Responses** - Presentations - Panel discussion - General discussion *Issues:* 1. Causes of the crisis. Financial or economic crisis? 2. The speed of contagion in advanced countries 3. Developed countries and international responses: good enough? 4. Overall impact on developing countries and industries (some emphasis on textiles and autos) 5. Transmission mechanisms to Asia 6. Impact on Asian manufacturing industry: who is doing well and who is not at the regional level and why 7. Corporate and official responses: brown or green? ***Moderator:*** Mr. Wilfried Luetkenhorst, Managing Director, UNIDO ***Speakers:*** Prof. Choong Yong Ahn, Investment Ombudsman of KOTRA, Republic of Korea

	Panelists: 1. Dr. Aladdin Rillo, Head Finance and Integration Division, ASEAN Secretariat 2. Mr. Saumitra Chaudhuri, Member, Planning Commission, India 3. Prof. Dr.Rajah Rasiah, Univ. of Malaya, Malaysia
11:05 – 11:30	***Coffee Break***
11:30 – 13:00	**SESSION TWO:** **Responding to the Impact of the Financial Crisis: Case Studies (China, India, Viet Nam)** - Presentations - Panel discussion - General discussion *Issues:* 1. What is the overall impact of the economic crisis on China, India and Viet Nam? 2. How have manufacturing industry and its different sub-sectors been affected? What explains the relative performance? 3. What has been the corporate and government response to the crisis? Will it succeed? ***Moderator:*** Mr. Augusto Alcorta, Director, UNIDO ***Speakers:*** - China Case: Dr. Daniel Wang, Executive Director of BIO & ECO Solutions - India Case: Dr. Basanta Pradhan, Head of Development Planning Centre, Institute of Economic Growth - Vietnam Case: Mr. Vu Thanh Tu Anh, Director of Research, Fulbright Economics Teaching Program ***Panelists:*** 1. Ms. Phan Ngoc Mai Phuong, Vice President, Development Strategy Institute, Viet Nam 2. Dr. Basanta Pradhan, Head, Institute of Economic Growth, India 3. Mr. Dewan Zakir Hussain, Secretary, Ministry of Industry, Bangladesh
13:00 – 14:00	***Lunch Break***

14:00 – 15:30	**SESSION THREE:** **Sector Studies I: Textiles (Asia, Bangladesh, Cambodia and Lao PDR)** - Presentations - Panel discussion - General discussion *Issues:* 1. What is the impact of the economic crisis on the textiles industry? What are the mechanisms of transmission? 2. Are the difficulties faced by the textiles industry temporary or structural? 3. How can the textiles industry be restructured? What needs to be done at the corporate level and at the policy level? 4. Is there room for higher value added products, innovation and improvements in production (energy) efficiency? ***Moderator:*** Mr. Sergio Miranda-da-Cruz, Director, UNIDO ***Speakers:*** - Asia Case: Dr.John Thoburn, School of Development Studies, Univ. of East Anglia - Bangladesh Case: Dr. N.S.Sodhi, Gherzi, India - Cambodia and Lao PDR Case: Prof. Dr.Rajah Rasiah, Univ. of Malaya ***Panelists:*** 1. Mr. Shahabuddin Mohammad, Secretary-General, FBCCI, Bangladesh 2. H.E. Mr. Siaosavath Savengsuksa, Vice Minister, Ministry of Industry and Commerce, Lao PDR 3. H.E. Mr. Pan Sorasak, Secretary of State, Ministry of Commerce, Cambodia 4. Mr. Asitha Seneviratne, Additional Secretary, Ministry Industrial Development, Sri Lanka
15:30 – 16:00	***Coffee Break***
16:00 –17:30	**SESSION FOUR:** **Sector Studies II: Automotive Industry (Asia, ROK, Thailand)** - Presentations - Panel discussion - General discussion *Issues:* 1. What is the impact of the economic crisis on the automobile industry? What are the mechanisms of transmission? 2. Are the difficulties faced by the automobile industry temporary or structural? 3. How can the industry be restructured? What needs to be done at the corporate level and at the policy level? 4. Is there room for green innovation and energy efficiency? What will be the

	new roles of the parts and component suppliers in the light of technological changes? ***Moderator***: Mr. Abdul Ghaffar Soomro, Secretary, Ministry of Industry and Production, Pakistan ***Speakers:*** - Asia Case: Mr. Masato Abe, Economic Affairs Officer, ESCAP, - Korea Case: Dr. Hang-Koo Lee, KIET, Republic of Korea - Thailand Case: Mr. Nobuya Haraguchi, Industrial Development Officer, UNIDO ***Panelists***: 1. Mr. Agus Tjahayana Wirakusumah, Secretary General, Ministry of Industry, Indonesia 2. Mr. Kamaruddin Ismail, Deputy Secretary General, Ministry of International Trade and Industry, Malaysia
<u>DAY TWO</u>	
9:00 –10:30	**SESSION FIVE:** **Green Industry: A Way out of the Financial Crisis?** - Presentations - Panel discussion - General discussion *Issues:* 1. What is the impact of the global economic downturn on the performance of green industries? 2. Can green industries act as an agent of recovery and an engine of growth for manufacturing industry in Asia? 3. How to stimulate the production and trade of Asian green industry products? 4. What government polices are necessary to make emerging Asian green industries a successful story? ***Moderator:*** Mr. Aziz Pane, Executive Director, Chamber of Commerce and Industry, Indonesia ***Speakers:*** - Wind energy: Dr. Joanna Lewis, Georgetown University - Organic recycling: Dr. Kojima Michikazu, IDE, JETRO - Paper recycling: Dr. Shun Fung Chiu, De La Salle University ***Panelists***: 1. Prof. Sung-Jin, Kang, Korea University, Republic of Korea 2. Dr. Xu Dajiang, General Manager Business Development Department, Trina Solar, China 3. Mr. Anil Kane, President, World Wind Energy Association, India

10:30 -11:00	***Coffee Break***
11:00 – 12:30	**SESSION SIX:** **New Direction for Industrial Policies: Lessons from ROK's Experience** - Presentations - Panel discussion - General discussion *Issues:* 1. What was the rationale for the green approach to ROK's recent counter-crisis stimulus package? Is this the beginning of a radically new approach to industrial development? 2. What does the new green approach imply in terms of ROK's industrialization strategy? Which sub-sectors are being prioritized and why? 3. What is the experience of specific green industries in terms of long-term industrial performance and in relationship with the global economic crisis in ROK? 4. What specific government policies are required to promote the growth of selected green industries? **Moderator:** Ms. Phan Ngoc Mai Phuong, Vice President, Development Strategy Institute, Viet Nam ***Speakers:*** 1. Mr. Park,Heung Kyeong, General Director, Presidential Committee on Green Growth, Republic of Korea 2. Dr. Jeehoon Lee, SERI, Republic of Korea ***Panelists:*** 1. Mr. Nguyen Minh Tuan, Vice Director-General, Chamber of Commerce and Industry, Viet Nam 2. Mr. Batmend Rentsen, Secretary-Scientist, Strategic Studies of National Security Council, Mongolia 3. Mr. Alberto A. Lim, Executive Director, Makati Business Club, Philippines
12:30 – 14:00	***Lunch Break***
14:00 – 15:30	**SESSION SEVEN:** **The Way forward: Policy Agenda for Asia** - Presentation - Panel discussion - General discussion *Issues:* 1. The potential for industrial greening in Asia 2. Policies to aid industrial greening in Asia ***Moderator:*** Prof. Taeho Bark, Dean, GSIS & Chairman of Korea Trade

	Commission, Republic of Korea ***Panelists:*** 1. Prof. Choong Yong Ahn, Investment Ombudsman of KOTRA, Republic of Korea 2. Dr. Xu Dajiang, General Manager Business Development Department, Trina Solar, China 3. Mr. Phichai Tinsuntisook, Chairman, Renewable Energy Industry Club, The Federation of Thai Industries, Thailand 4. Mr. Saumitra Chaudhuri, Member, Planning Commission, India
15:30-15:45	**CLOSING SESSION**

Key Points: Day 1 of UNIDO Conference
Introduction & Session 1 – Session 4

General:

- Effective government stimulus package (Chae)
  - ✓ But also concern of large budgetary deficit (or at least burden) of having such stimulus package
- Strong manufacturing base a source of fast recovery from the economic crisis (Chae)
- Emerging importance of Asia in the world economy, particularly that of China and India (Chae, textile, automobile)
- China is becoming the market of the world from workshop of the world (Chae)
- **Globalization a double-edged sword →** driver of many Asian economic development, but also transmission channel for economic crisis (Chae), greater the export share of GDP, the lower the GDP growth (Ahn), export-oriented manufacturing roducts have shown negative growth rate (Wang)
- **A New World Order** (post-crisis) (Chae)
  - ✓ **Regional integration in Asia** (Chae, Ahn, textiles, automobile)
  - ✓ Cooperation is key to new competitiveness
  - ✓ **Low-carbon sustainable green growth**

Financial Crisis and Transmission:

- Financial Crisis started in the United States affecting Asia through **collapse of exports** and **sudden pull-out of capital by the advanced countries** (Ahn) through financial (particularly FDI) and non-financial (int'l trade) (Wang)
- V (or U) shape recovery observed in many Asian countries (Korea, China, Vietnam,
  - ✓ Many speakers seemed to be concerned about sustainability of such recovery (Rilo)
- Asia as the center → Global imbalance issue → rebalancing extra-regional exports and intra-regional demand (Ahn) vs. you cannot divide the two (Rilo)
- **Need for Domestic Demand Increase** (Ahn, Wang,

- Different implications between the financial crisis of 1997 and the current crisis
  - ✓ We could get out of the crisis in 1997 by exporting to big markets like the US that did not collapse. This time, they contracted.

Country-specific (China, India, Vietnam)

- Manufacturing industry in China very much affected (Wang)
- India's economic recovery mostly driven by **domestic demand**, but importance of export also increasing
- Importance of social area expenditures in stimulus package (Wang, Pradhan,

Industry-specific (Textile and Automobile)

- Severely affected by the financial crisis (contraction of demands from the US, EU, etc.)
- Asian countries emerging as the main players in both textile and automobile (not just Japan and Korea for automobile, but China, Thailand, Malaysia, etc.)
- **Green issue**
  - ✓ Implementation of green standards – like labor standards were introduced (Thoburn)

  - ✓ Green is important, but the price will still be the most important determinant (Thoburn)
  - ✓ Winners of the race to develop green products will dominate the market in the future
- **Global overcapacity** (in both textile and automobile industry)
  - ✓ Financial crisis will shake-off the overcapacity
- Cluster Development (Regional specialization)
- Upgrading industry through technology (spillover from other countries in the region, etc.)
- Global and Regional Value Chains
- Demand will go up for small cars
- **Green Innovation** (Eco + Powertrain + Information Technology by collaboration of government, institutions, companies, universities, etc.)
- **Possible Policies**
  - ✓ Crisis Fund
  - ✓ Improving basic infrastructure
  - ✓ Improving technology transfer
  - ✓ Customs Coordination **(Regional integration / cooperation)**
  - ✓ Regional Assemblers / Production Hub (Clusters)

UNIDO – SNU GSIS
Asia Pacific Regional Forum on Industry
Rising to the Challenge of the Global Economic Crisis
Opportunities and Options for Competitive Asian Industries

November 12, 2009 (Thursday)

Notes by Taeho Cho & Jooyeon Hong (SNU GSIS)

OPENING AND WELCOMING SESSION (9:00~9:50)

I. Opening and Welcoming Remarks

II. Keynote Speech:
H.E. Mr. Chae, Min Rim, Vice Minister of Knowledge and Economy, Korea

<u>Rising to the Challenge of the Global Economy: Opportunity for Competitive Asian Industries</u>

☞ ***Issue***: Can Asian industries rise to the challenge?

*** In order to solve current crisis we need to answer two questions**

1. Question #1. How Asian economies have responded to current crisis?
2. Question #2. What do we need to do to succeed in post crisis?

*** What is propelling Asia?**

1. Surprising resilience of Asia to economic crisis
- Asian economies head start on recovery early this year
2. Korea achieved a quick recovery from global economic crisis
- Korea exports, particularly to the US declined and consumer confidence tanked, GDP also plummeted
3. The current crisis showed how deeply integrated we are and vulnerable to external influence
- Korea's export-oriented economy = double edge sword

*** Recovery**

1. Korea
   1) Factors
      - **Government** has taken rapid and proactive measures
        - Interest rate was pushed downward to increase liquidity
        - Tax cuts
        - Government support: Stimulus package
      - **Employment**: Able to avoid unemployment in large scale and temporary jobs were created in order to help low income and young people
        - Social welfare
      - **Corporate side**: Companies took initiatives in restructuring in dealing with market forces
        - Aggressive marketing strategy: Appeal to consumer sensibilities and gain market share
        - Trade unions and businesses compromised
        - Korean companies took aims at gaining profiles in developing countries by

increasing national competitiveness (Weak Korean currency may have helped)

2. Other Asian countries

: Similar to Korea, many Asian countries are following suit (similar patterns)

1) China: Speed at which Beijing is recovering is amazing
2) India: Getting back on track very rapidly, especially through service sector
3) Malay, Singapore, Thailand: Heavy dependence on export
4) Japan: Biggest turn around case if it can
    - Positive signs in Japan: Recently GDP in 2nd quarter went up. Thus, Japan might be turning around soon.

➔ South East Asia stayed ahead of the game

3. Asia's relative rebound

1) Korea, Japan, China: Strong manufacturing base
2) Trade surplus and foreign reserves dealt well
3) Emerging economies were able to take advantage

4. China cannot be overlooked.

1) China may be taking the first step to become the large market of the world
    - China used to be called as the workshop of the world
    - China's increase in domestic consumption by 50% & its large facility investment will further boost economy
2) Stoke intra-regional trade

5. Investors heading to Asia: Many institutional investors are looking at Asia to invest

6. Global slowdown has elevated the wall of China and India to the unprecedented level

7. East vs. West

: Asia much more resilient and successful compared to the US and Europe during the economic crisis

1) China & Korea
    - Quick to put out the fire with stimulus packages largely in infrastructure and R&D for new technology
    - Green growth strategy: Preparing for the aftermath of the current crisis
2) US and EU however, not as quick as Asia
3) How was Korea able to take such swift actions?: The answer lies in our past experience from the 1997 Asian economic crisis
4) Lessons from 1997/1998 Financial crisis
    - Need to act swiftly and resolutely
    - Companies restructure after 1997 crisis

*** New World Order and Post crisis opportunities**

1. World has completely changed since the crisis and current upheaval has caused paradigm shift

1) Not only to survive but also to thrive → New world order has emerged (varied texture of the world economy)
2) 3 million people entering the mainstream economy: market expansion, corporate competition
3) Significant Asian presence in G20 forum

2. How can Asia make the best opportunity from the changed economic environment?

1) Bigger better integrated Asian market
    - Remove trade barriers ideally under the WTO framework
    - Regional trade agreement: Encouraging signs → ASEAN + 3, China/Japan/Korea exploring possibility of signing FTA

- Stimulating regional market through trade agreements will allow Asia to be much more resilient to any future crisis to come
- In larger Asian market, firms have much more freedom and flexibility in its production, marketing, and sales decisions.
- Competition will increase

2) Corporation is the key
   - Maximum efficiency by research development and including new ideas, investment scheme, free exchange of people and goods
   - Asian countries differ in history with different range of economy but can we cooperate? → With effective cooperation Asian economies seem optimistic
   - Korea is willing to share expertise and experiences through technology transfers and informing Korea's know-how
     a. Korea achieved significant growth during last 50 years
     b. Urban development projects and infrastructure development, particularly in IT business
     c. Creating local jobs and technology development will raise quality of life
   - Asia can be self-sustainable → Asian competitiveness
     a. Develop new products and technology, new markets and trade with one another
   - Asia must pursue common agenda
3) Go Green: Low-carbon sustainable green world
   - Going green is not easy: A lot of money and time involved
   - But if we were to collaborate, it would be easier to get it done: Develop technologies in order to Go Green
   - Biggest payout will be to increase quality of life and create high functioning jobs

*** Conclusion**

1. We must pull our resource for more active and opened Asian economy
2. Crisis will be resolved soon
   1) The question now is "who can turn the crisis into opportunity?"
      - Entrepreneurs who cooperate and seek timely opportunity will succeed than those who don't
      - Sustainable environment: Developing new value chain → Not Asia as a new trade block against rest of the world
   2) APEC model: More opened and constructive model
      - Holding social and cultural perspectives & democratic ideals is critical
3. He praised UNIDO's sustainable growth agenda

SESSION ONE (10:00~11:05)

Impact of the Global Financial Crisis on Asian Industries: Challenges and Responses
Moderator: Mr. Wilfried Luetkenhorst, Managing Director, UNIDO

☞ ***Issues:***

1. Causes of the crisis. Financial or Economic Crisis?
2. The speed of contagion in advanced countries
3. Developed countries and international responses: good enough?
4. Overall impact on developing countries & industries (some emphasis on textiles & autos)
5. Transmission mechanisms to Asia

6. Impact on Asian manufacturing industry: who is doing well and who is not at the regional level and why?
7. Corporate and official responses: Brown or Green?

Moderator
1. Goal of Session One
: To lay the foundation for further discussions on main challenges created by the global economic crisis and try to identify the main causes of the crisis
2. Summary of the Keynote Speech
   1) Globalization being a double-edge sword
   2) Importance of regional Asian markets: Must be strengthened and better integrated
   3) Going green very important, but not easier said than done

I. Presentations: Prof. Choong Yong Ahn, Investment Ombudsman of KOTRA, Korea

*** Introduction**
1. Previous works: Prime Minister Mahatir's Vision 20/20 & Malaysia Industrial Master Plan for three years
2. He was reluctant to make this presentation because:
   1) Asia is very broad, so wasn't sure what to cover
   2) Crisis was still going on, so data was not available

*** Definition of Asia**
1. Broad and Divers:
   1) Developing Asia (Asia minus Japan), Emerging Asia, East Asia
   2) Focus on ASEAN + China, Japan, Korea and maybe India as key data available
   3) Mixture of developing and emerging economies
2. Twice Beaten Asia (1997/1998 financial crisis & current crisis) but managed to depart from the storm quicker than expected
   1) Asian Financial Crisis in 1997/1998: Basically due to underdeveloped and shallow financial system
   2) Now, Asia is dismayed at what happened in Wall Street since Wall Street was instructing Asia how to govern, manage, etc. 10 years ago
      - Greedy Wall Street capitalists: subprime mortgage loans & selling new derivatives
   3) South Korean model: Diversification of Korean business sector (conglomerate focus was problem before the Asian Financial Crisis)
   4) Lesson: Risk management and government system critical in recovering from the crisis
3. Improved Asian Financial System:
: Asian countries enhanced BIS Ratios of Asian Financial Institutions
   1) Asian financial institutions: capital adequate ratio (risk-weighted)
   2) 1997/98 crisis reformed banking systems regarding BIS ratio: Korea, Malaysia, Hong Kong, Indonesia through IMF bailout package (financial sector reform → raising BIS ratio)
   3) As a result: Significant reduction in **non-performing loans** EXCEPT China
      - 2008&2009: Substantially reduced
      - Indonesia, Philippines and Thailand did well

*** Contagion Channels and downward impacts on Asian economies**
1. The **First Contagion Channel** of Global Crisis into Asia

: Through export collapse (Net Export) to advanced economies

1) Likely to continue in next year (possibly even in 2010)
2) Top 3 Economy in Asia (China, Japan, Korea): Also suffered a lot from the export collapse
   - From 2008 to 2009, Export growth rate was negative
   - Japan registered the largest decline following China and Korea
3) Similar trend could be followed
4) Greater the share of export in GDP: Export dependent countries suffered significantly from current financial crisis (Singapore)

2. The **Second Contagion Channel**

: Sudden Stop and Sudden Pull-out of foreign capital flows by advanced economies

1) The data shows the global trend because there was no data available specifically focusing on regional results
   - End of 2007: Substantial drop and reached negative level in 2009
   - Korea: After collapse of Lehman, Korea suffered a lot from sudden stop and pull-out of foreign capital inflow into Korea (volatility of exchange rate virtually causing negative investment rate)
2) Financial protection of advanced economies that they pull out their capital when crisis hits
3) Selected indicators of FDI
   - Indonesia, the victim of the Asian financial crisis, performed much better than Taipei China which had escaped from Asian financial shock
   - Taipei China, and Indonesia show a mirror image of growth performance between two crisis periods
     a. 1997 Crisis: Taipei escaped by registering 3.3% growth
     b. 1997 Crisis: Indonesia however experienced -18%
     c. But for this crisis Taipei actually experienced negative GDP growth while Indonesia was able to reach positive growth
     d. Indonesia was able to escape through raising BIS ratio
4) Export collapse & collapse of FDI flows (Except China and India)
5) China and India's high growth regime
   - Both managed to reach respective positive economic growth (register respectable GDP growth rate)
   - Helped the rest of Asia and the world by mitigating the negative impact from the current global economic crisis

3. Industries most affected by the Global Economic Downturn in Asia

1) **Manufacturing industry** suffered a lot due to export collapse
2) Electronic industry, depending on G-3 market
3) Intra-Asia trade in parts and components also declined
4) Medium and high tech products: Textile (no data available)

*** Quicker Rebound than expected**

: V or U-shaped recovery trajectory

1. Stimulus package with fiscal and monetary expansion by Asian economies in unison in line with G-20 spirit
   1) China 54 trillion package on infrastructure
   2) Korea: mixture of expenditure measure and tax cuts
2. Tax cuts and income support to give fillip to consumption
3. Korea, Indonesia, India: Reduced interest rate substantially
4. Why such a "v" shaped recovery trajectory forecast in Asia: Refer to Power Point Slides

1) Relative robustness of financial sector
2) Strong fiscal position
3) High savings rate and low levels of household debt
4) Rather muted threat of inflation
5) Signs of recovery of portfolio capital
6) Banking systems' lending reviving in consumer credit

*** Issues and Challenges (1)**

1. When is appropriate for an exit from expansionary policies, given uncertainties and gloomy global trade prospects?
   1) Advanced economies still suffering and US banks still cleaning up these toxic assets
   2) Timing of exit strategy critical
2. Any danger to create asset bubbles? A downward correction in asset prices critical?
   1) If true (there is a danger to create asset bubbles), downward correction in asset prices becomes very crucial
3. Rebalancing extra-regional exports and intra-regional demand
   1) Key to resolve global imbalance
   2) Asia needs to shift from an excessive export reliance to more internal domestic demand
   3) Exchange rate adjustments, especially Chinese Yuan
4. Expansion of intra-regional trade
   1) Separately completed in the region but need open regionalism in East Asia to include India, AUS, NZ, and the US
   2) Open regionalism in East Asia to include India, Australia, NZ, and the US
5. Already going in Chiang Mai Initiative & Asian Bond Market Initiatives → Needs to be intensified
6. New financial architecture to monitor and regulate cross-border flows of hedge funds
7. Standstill of protectionist measures and pushes DDA forward
8. Search for sustainable growth mode
   1) Global warming and carbon emission
   2) Green house gases are not mainly local and regional
   3) Levying taxes on the carbon at the border should not open a backdoor to protectionism

4. Knowledge sharing with less-developed economies and poverty eradication of poorest economies

*** Conclusion**

1. We thought Asia was decoupled from unprecedented global downturn but was not able to do so. However, Asia successfully weathered the global shock.
2. Asia's relative strength as evidence in financial sector's robustness, positive growth performances of China and India, fiscal soundness, intra-Asian functional cooperation helped Asia to revive its economy faster than expected
3. Asian members should raise their voice in G-20 in designing a new global financial architecture at the G-20 meetings
4. Emerging Asia still contains many caveats in its financial system in risk management. Asia should update their financial institutions by benchmarking the global best practices.
5. By embarking upon an East-Asia wide FTA and gradual expansion of members, East Asia should continue to accelerate on-going regional integration towards "East Asian Community" and thus continue to accelerate.

II. Panel Discussion

Moderator: Summary of the Presentation

1. Strengthen regional integration
2. Rebalance in terms of domestic market and regional market orientation
3. Sustainability through strong policy coordination

Mr. Saumitra Chaudhuri (Panelist): Impact of Global Financial Crisis on India

* India's case

1. Recent Growth:
    1) Two crisis: first crisis- domestic issues but current crisis-domestic issue less prominent
    2) Distinct peaks: First in 1997 and Second right before the current crisis
2. Overall GDP fell at least 2% points (Q4 of 2008 significant decrease but picked up during Q1 of 2009)
    1) There has been a significant impact on India due to current crisis

* Transmission channels

1. The trigger crisis of financial meltdown
    1) Many talk about Lehman, but there were signals a year before
    2) Global crisis impacted Indian economy in two phases through separate channels
        - 2007 & first half of 2008: High commodity prices, runaway inflation, tight monetary policy and diminished corporate profitability
        - Post- Lehman 2008 & first half 2009
          a. Collapse of export demand, business sentiment
          b. Significant inventory valuation losses
2. Drying up of funding channels—Both equity and debt

: Banking broadly unaffected (no exposure to toxic assets and thus damage was limited)

1) Rudimentary financing which holds up the process caused negative impact on trade bonds
2) Although India was severely affected by drying up of trade bonds essentially the financial sector was insulated against the crisis and India only suffered in limited scope

* Policy responses to crisis

1. Rapid shift from tight monetary policy to accommodation
2. Fiscal stimulus through reduction in duties on manufactured goods & other tax concessions
3. Larger transfers to agrarian sector and higher civil service pay

* Final Comments

1. Bad lose regulation was critical cause in current economic crisis
2. Exchange rate: Severe exchange rate fluctuation is also part of the problem that we are experiencing right now

AHN

1. India doing very well especially after integrating global economic system
    1) Exchange rate volatility: Huge concern
    2) How would this exchange rate would fluctuate relating to Yuan and Yen is critical
2. Korea is very sensitive to exchange rate issues
    1) Companies saving increase a concern: Households, however, different. They must save for their retirement, etc.

2) Korea experience
    - Korea's debt equity ratio was 400% but after 1997 crisis corporations reformed debt equity ratio
    - Agree that corporate debt equity ratio is critical

Rajah Rasiah (Panelist)

1. We need to distinguish the 1997 financial crisis and current one
    1) US economy booming in 1997 → mitigated the crisis since Asia can export much more; now the major economies have contracted, so exports are not easy
2. Mission 2020 by Malaysian government (goal of $15000 per capita GDP by 2020)
    1) GDP growth, manufacturing growth have fallen even before the crisis
    2) Malaysia too had a low NPR (?) as well
    3) Malaysia's gas importer
    4) 0.1% growth in the 2nd quarter of 2009 (negatives before) due to contraction of exports
    5) In 1960, Malaysian GDP similar with Korean and Taiwan, but completely different
        - Growing deficit in technological programs (R&D)
3. FDI deficiency
4. Focus on stimulus package solely on external consumption, and not on internal consumption

AHN

: How can we create automatic stabilizer package and how economies can insulate a little bit
→ Sending right signal is critical

Dr. Aladdin Rillo (Panelist)

* 3 specific questions
1. What relates to describing the economic rebound of the world?
    1) Current economic rebound:
        - ASEAN: GDP growth declined until the Q2 of this year and industrial output also declined (still negative)
    2) Whether the current rebound is going to be sustained or whether it will be transformed to a sustainable recovery?
        - Rate of inventory restacking
        - Some implications on exit strategy for each country → An important policy implication
        - Rebound due to fiscal and monetary policy: What would happen? Current rebound maybe temporary results of policy implementation
2. Issue of rebalancing → Policy discussions on domestic vs. export-led growth
    1) Debate on export driven growth vs. domestic demand enhancement: False notion to separate the two issues
    2) Impossible for a country to isolate itself (meaning not to rely on trade) → interdependent economy
    3) How to enhance the domestic demand?
        - Things have not been achieved much relating to domestic demand
        - Rebalancing growth: We can't afford piecemeal approach, look at factors related to precautionary demand for high savings rate
    4) Not simply by fixing the exchange rate but through systematic structure change to increase domestic demand
3. Policy options & challenges

1) We have to take financial sector into consideration
   - In order to achieve sustainable growth in upcoming years, we must consider financial reforms
2) Financial reform needed: Two areas
   - Need for effective management system: Risk assessment must be improved
   - Cross- management necessary; Ability to manage capital critical considering interdependence of economy

4. Private investment also important

AHN

1. Chiang Mai Initiative → Tremendous achievements can be made
2. Importance of domestic spending: Private investment very important → so this is a policy challenge

III. General Discussion

Questioner #1

- Table #8: Indonesia → mirror image, but what happened to its industrial sector?
- Surge of FTAs → issues of trade diversions (marginalization problem for smaller economies)

→ Answer

- Possible marginalization → we need to look at multilateral free trade agreements, ways to incorporate the smaller countries
- This was raised by many experts: We need to pay attention to multilateral FTA
- DDA needs to push this so many economies can participate
- Many SEA countries need to update the system so they can move on to push for DDA Agenda
- As long as they meet the basic level playing field requirement, many more countries will be able to participate

Questioner #2

- Consumer responses from Asia in economic rebound? Consumer income level is very much different

→ Answer

- How to enhance private consumption? Prof says he needs to incorporate data (data needs to be updated)
- Region should endeavor to create domestic demand through private sector

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SESSION TWO (11:30~13:00)

Responding to the Impact of the Financial Crisis: Case Studies
<China, India, Vietnam>
Moderator: Mr. Augusto Alcorta, Director, UNIDO

☞ ***Issues:***

1. What is the overall impact of the economic crisis on China, India and Viet Nam?
2. How have manufacturing industry and its different sub-sectors been affected? What explains the relative performance?
3. What has been the corporate and government response to the crisis? Will it succeed?

Moderator

: We will now see global crisis from country level.

- Issues of impact vis-à-vis:
    1) foreign export performance (manufacturing industry)
    2) Asian economies were far able to withstand the crisis due to stronger financial system
    3) Better fiscal position
- Question we want to address now is what response these economies have and whether they were able to sustain this rebound affect

I. Presentations #1. China Case: Dr. Daniel Wang
- The Impacts of the Financial Crisis on Industry in Developing Countries -

* Impacts of the Crisis on China's Economy

1. Overall economy in China
    1) GDP growth decreased but back up since Q1 of 2009 (from 6.1% to 7.9% in Q2 of 2009)
        - Since October 2008, growth rate has slowed significantly across all countries
        - 2007 to 2008: Decrease in Secondary industry (from 13% to 9%)
    2) Secondary industry: Manufacturing
    3) Tertiary industry: Service industry
2. Employment and Poverty
    1) Employment (Feb 2009)
        - Migrant workers lost their job and many returned home (approx. 20 million)
        - 24 million urban unemployed laborers
        - Remittance decreased (worth 300 billion dollars)
    2) Poverty and disparity
        - Given the crisis, the urban-rural income gap exceed 10,000 RMB (largest gap since 1978)
3. Welfare of the People
    1) Income growth lower than the GDP Growth
    2) Affected groups reduced their daily expenditure and relied on increased subsidies
        - Government $124.30 billion for public medical services reform from 2009 to 2011
        - What the US has been fighting for years can be done in a few months in China (merit of a different regime)
4. Fiscal condition
    1) Tax cut and government fiscal revenue
    2) ODA: China is entering the low-middle income country
        - Many ODAs will thus be terminated in 2010 (financial crisis not a major driving force for China)
5. Monetary Balance: Loan decreased
6. 2009 GDP Expectations
    1) 8/2008~7/2009: Economy showed "U-shaped" rebound trend
    2) Everybody expecting around 8%

* Transmission mechanisms

1. Overview: Financial Crisis
    1) Financial Channels: Stock market, FDI, Liquidity demand, exchange rate, etc. ➔ Focus on FDI
    2) Non-financial Channels: Focus on the international trade (another area that China needs to work on)

2. Exchange Rate Transmission
   1) Further appreciation or devaluation depending on the negotiation and political relationship between US and China (also EU)
   2) Since the crisis, the exchange rate is fixed around since July 2008
3. Stock market channel
   1) Great impact on overall confidence of China economy
   2) Stock market coming back recently
4. FDI Transmission Channel:
   1) FDI not coming back
   2) Major DECREASE in FDI affecting production and technical upgrades—an obstacle to growth
   3) Slowdown of RMB appreciation: High proportion capital outflow (hot money)
5. Market Expectation Transmission
   1) The recovery will take 2~3 years: done by a survey in February
   2) Now they think recovery will take shorter than 2~3 years

*** Impacts on the manufacturing industry**

1. Major impact on heavy industry
2. Yields of major industrial product
   1) Export-oriented manufactured goods → hit hard
   2) Textile industry was severely hit and manufacturing industry
3. Investment in Fixed Assets
4. Industry using foreign capital

: Secondary industry severely hit in terms of using foreign capital

5. Imports & Exports → U-shaped trend
6. Impacts on different forms of companies

: State owned and foreign invested enterprises were most severely hit

7. Scenario of the national economy during financial crisis (CHART)

: Earlier stage= more blues and light blues → more serious issues were raised

*** Government responses: policies and measures**

1. Main focus on domestic consumption due to international trade downturn
2. Four Areas
   1) Financial and Trade Policies: Similar to other countries
   2) Tax policies
      - Small scale taxpayer VAT down to 3%
      - Stock trading stamp tax decreased from 3% to 1%
   3) Stimulus Package: 4000 billion RMB"
      - A lot of financial scheme to overcome financial crisis
      - Infrastructure
      - System construction (social components): Really helped China to overcome crisis a lot

*** Conclusion**

1. International trade (exports /imports) is the leading force of impacts on China's Economy. Evidence for policies (bailout plans) to concentrate on domestic demand.
2. The major impact on poverty is on migrant employment and remittances to rural communities. The crisis deepened the urban – rural income gap. More focused ODA support to China.
3. Significance of the economic impacts depends on sector, ownership and organizational

form. Best opportunity for the government to review and reform regulations.
4. Central government policy should focus on expanding domestic demands and direct investment
5. New opportunities: merging and acquisition overseas
6. Government lending to state-owned enterprises

*** Lesson Learned**

1. Stimulus package
    1) Focusing on domestic demand
    2) State owned key industries and public sectors, strong social components
2. Saving was critical: Cultural aspect? Maybe it's Asian culture

II. Presentation #2. India Case: Dr. Basanta Pradhan
- Global Recession and Indian Manufacturing -

*** Manufacturing Sector**

1. Textile very important for India
    1) Manufacturing sector is about 17% of GDP
    2) Domestic demand is the main driver of China's manufacturing sector however, exports as % of demand is increasing
    3) Peaked in 1995~1996
    4) US$ 180 billion investment opportunity
2. Employment

: Excluding plantation and agricultural workers, manufacturing sector is the largest employer

3. Globalization and Mfg sector
    1) 5-year Economic Development Plan: 8th plan UP, 9th plan DOWN, 10th plan UP again
    2) Manufacturing sector: % of export → 52% in 1970 to 59% in 1980 and 71% in 1990 and 77% in 2000-2001
    3) IIP: Index of industrial production
        - Again, the major contributor was the manufacturing sector with 80% of IIP
        - Growth suddenly started to deplete around 2007 (steeper decrease)
        - Manufacturing sector began to pick recently
        - Sectors within Mfg: Only capital goods is positive but all other subsectors (consumer goods, **intermediates**, basic goods decreased)
    4) Capital goods very important: in the future it will have a great impact on India's expansions

*** Concerns for Mfg sectors**

1. Business rules are not very transparent
2. FDI policies are discretionary

*** Positive signs**

1. Because of the crisis, there was a restructuring and cost cutting on the supply side
2. Demand side improving
3. Social sector expenditure especially in the rural area is highly increasing and has been proposed to increase → stimulus measures basically

*** Forecasts**

: GDP, Agricultural sector, industrial, service, and manufacturing sector will continue to increase 2011-12

*** Remarks**

1. The impact of global crisis on India's manufacturing industry is very severe
2. Exports shrank & capital flows reduced
3. The general pessimism reduced the growth of domestic demand, both consumption and investment, which are drivers of India's growth story
4. Jobless growth: If lower end manufacturing sector employees more people will help India to reduce poverty

*** Sustainability of Growth**

: India growth will be sustainable due to following reasons
1. Demographic dividend
2. Rising saving rates
3. Large FER
4. Low dependence on exports

*** Poverty:**

1. Large portion of "near poor" may fall into poverty trap
2. Countries in SA 1% higher poverty level due to slowdown in growth (approx. 3 million people will not cross poverty line as growth fell to 6.7% against 9% in previous 3 yrs)
3. A large portion of near poor may fall in to poverty trap (200 million mostly in informal sector by NCEUS)
4. The financial crisis pushed near-poor down under poverty line

III. Presentation #3. Vietnam Case: Mr. Vu Thanh Tu Anh
- Responding to the Impact of the Financial Crisis: Vietnam Case Study -

*** The Economic Situation up to 2009 Q1**

1. Microeconomic dynamics: 3 distinct phases in Vietnamese macroeconomic economy
→ Kind of a V-shaped recovery (in quarterly GDP growth rate)
    1) Place #1: Emphasis on achieving high growth (approximately 8% GDP growth)
    2) Place #2: Inflation was hit and dynamics of microeconomic management turned to achieving high growth to fighting inflation
    3) Place #3: GDP growth went down sharply in early 2009 → V-shaped economic growth (from 3.1% GDP to nearly 6% in 2009 third quarter)
2. Situation in 2009-Q1: BAD SHAPE
    1) GDP 3.1% growth
    2) Industry value added went down severely from 8.8% to 0.7%
    3) Manufacturing value added also went down from 10.8% to -0.3%
    4) Export also went down a lot 2.4%, much lower than Q1 of 2008
3. Growth of major industrial products
    1) Products that are more dependent on domestic consumptions remained similar or went up
        - Beer and cigarettes: actually increased due to crisis dealing
    2) Products depend on exports went down (glass, etc.)
4. Manufacturing export performance
    1) Export growth pretty good in 2008 → Crisis kicks in and there was initial impact
    2) Rubber product export actually decreased by 30% compared to 12/2008 vs. 12/2007
5. Transmission mechanism of the crisis

: Global Financial Crisis → product markets/ capital markets/ macro-economy

6. Economy bottoms out in 2009 Q1

*** Response of manufacturing firms**

1. Manufacturing firms' perception on the crisis impact
    1) Most thought it would be really bad
    2) Some firms thought it would be positive (those that have high productivity that can consolidate contracts from other weaker firms)
2. Question about how firms think about Vietnamese government policy
    1) Firms think that government policies have been effective
    2) Stimulus economy good
3. Firm's response:
    1) Cutting expenses (60%)
    2) Proactive strategy: Developing new markets (72%)

*** Response of government: Stimulus package**

1. Vietnamese government implemented ambitious stimulus package: 9% of 2009 GDP
    1) Interest rate subsidies on short-term loans: government will subsidize a firm-borrowing from commercial banks with low interest rate (partially paid by the government)
    2) Infrastructure and social housing
    3) Tax cut
    4) Social safety net measures: Directly from state budget (smallest amount)

*** Overall economic performance**

1. Vietnam's stimulus package vs. Others

: In terms of GDP: Deficit increased as government expenditure increased and now it is raising concerns for upcoming years

2. Vietnam's V-shaped recovery thanks to 2 factors

: Overcoming Recession since the second quarter of 2009 GDP has been going up again
    1) Stimulus package
    2) Reducing trade deficit

3. Vietnam economy vs. Others' economy
    1) Not as high as China but close to Thailand GDP growth
    2) Vietnam doing relatively well
4. V-shaped recovery in industrial performance
    1) Sharp decline in growth rate in march 2009 but soon began to pick up and now it reaches 13.8% in September 2009 (recovered quite fast)
    2) Non-state sector leading the economy: Benefitted the most
5. Industry value added growth (%)
    1) First 3 quarters of 2008: 11.5% in manufacturing industry but decreased during first 3 quarters of 2009 (down to 2.0%) → not a healthy signal
    2) Utilities and industry sector also decreased but not as severely as manufacturing industry
    3) What's behind the Vietnam's industrial recovery? → Mining sector
6. Export & Import
    1) Export performance is really good but began to decrease since April 2008
    2) Imports rising again
        - Another concern for Vietnam → trade deficit → it was the driver of recovery, but if the deficit increases, it can be problematic

IV. Panel Discussion

<u>Mr. Phan Ngoc Mai Phuong (Panelist)</u>

1. Differences of impact of the financial crisis impact on different countries
: China and Vietnam similar while India somewhat different
2. Additional information on Vietnam: Recent statistics
    1) GDP growth of first 10 months of this year is 4.9% and GDP growth will be average of 2% this year as a whole
    2) Target for next year is 6.5%: Really high but government aiming to achieve this high GDP growth
3. Phuong's opinion on Vietnam's economy: Different view on government stimulus package from Dr. Ahn
    1) Big corporation play an important role in recovery of economy
    2) Need to look at the different picture of Vietnam economy in order to respond to the financial crisis (Look at different features of each country)
    3) Need to pay more attention to the rural sector: Previous year (during the financial crisis) rural sector has been a buffer zone both for Vietnam and China
        - Solution that government should pay more attention in developing rural areas as a buffer zone of economy in face of crisis
        - After financial crisis, many migrant workers had to go back home. If the government pays more attention to developing rural sector, these migrant workers will have a place to go back → Rural area as a buffer zone
4. Rather fast recovery of Vietnam
: Compare to other countries Vietnam macro-economy policy not strong but still effective in facing global economic crisis
5. Stimulating domestic demand is critical but should not ignore stimulating exports
: We should not be attracted to protectionist approach

<u>Dewan Zakir Hussain (Panelist)</u>

1. China: Huge economy with large population
    1) We know that China is achieving high growth rate
    2) Huge skilled-men power in competitiveness contributed → Number 1 factor of economic growth in recent decade
    3) Excellent manufacturing, export
    4) Strong currency

2. India
    1) Manufacturing sector → Local demand
    2) India is not the only country that has high local/domestic demand but needs to recognize that they benefit from interacting with other countries (like Bangladesh) through trade
    3) FDI discrimination?
    4) Many small countries depend on countries like China and India

3. Vietnam: Three points
    1) Improving productivity
    2) Be more competitive
    3) Stimulus package
4. Bangladesh
    1) Skilled and unskilled workers but Bangladesh is moving toward creating more

skilled-labor workers
2) Focus on garment industry

V. General Discussion

Questioner #1

- China: Small vs. Large Size of enterprises and their impact (Dr. Wang)

➔ Answer

: Size of firm: impact is bigger on the bigger firms. In the supply chain, smaller firms are lost due to drying up of fund.

Questioner #2.

- Budget deficit counterpart: Source of funding? (Dr.Wang)

➔ Answer

- Bigger part from the government and contribution from foreign government and private sectors → Three parts
- Not just government funding this budget deficit
- Questioner and Moderator said he misunderstood the question

Questioner #3.

- Tax cut worked for Vietnam? (Mr.Pradhan)

➔ Answer:

- Impact from Macroeconomic points of view, we expected that investment could be down by 10% but partly investment was only down by 2% in first two quarters thanks to tax cut
- Overall, it is the good measure for business and government habit
- They achieved the budget revenue: Tax cut didn't hurt too badly
- So tax cut was a good policy

Questioner #4.

- India: India has very good economic growth especially during the recession. But India does not depend on the export a lot. What makes the figures?

➔ Answer:

- Consumption growth was not negative overall, but just for manufacturing sector at specific time period.

SESSION THREE (14:00~15:30)

Sector Studies I. Textiles <Asia, Bangladesh, Cambodia and Lao PDR>
Moderator: Mr. Miranda Da Cruz

☞ ***Issues:***

1. What is the impact of the economic crisis on the textiles industry? What are the mechanisms of transmission?
2. Are the difficulties faced by the textiles industry temporary or structural?
3. How can the textiles industry be restructured? What needs to be done at the corporate level and at the policy level?
4. Is there room for higher value added products, innovation and improvements in production (energy) efficiency?

Moderator

: Now moving to the specific sector, specifically focusing on the textile industry

1. What is the impact of the crisis?
2. What are the difficulties?
3. How can they be restructured?
4. High value-added?

I. Presentations #1. Asia Case: Dr. John Thoburn
- The Impact of World Recession on the Textile & Garment Industries of Asia-

*** Transmission mechanisms: Export demands**

1. Essentially via Western demand for Asian Textile and garment exports
   1) Direct demand: US & EU
   2) Indirect Demand: via Japan, and for textiles via China (Korea/Japan → China → Export)
2. Importance of Asia in major markets
   1) Asia supplies 2/3 of total garment supplies in the US
   2) Although Mexico should have huge advantage in garments, they lost competitions to Asian supplies like Vietnam (Even though Mexico has a free access to the US due to NAFTA)
   3) Asia to EU
      - China still the most important exporter
      - Less compared to Asia export to the US because of inter-EU trade in garments and textiles is very high
      - Turkey: Duty free excess
        a. Lost its market share due to recession
        b. Less than China but one of the top five suppliers to Europe
3. Asia in Japan

: China is even more striking: Diminished, however, in recent years

*** Structural problems in the industry rather than temporary problems due to recession**

1. T&G already in state of major readjustment before the recession
   1) Since the start of 2005 the textile and garment industry has been adjusting to the multi-fiber arrangement/agreement
      - Controlled exports from developing countries for 30 years to US and EU by means of export 'quotas' specified in volumes product-by-product, country-by-country
      - Multi-fiber arrangement/agreements allowed non-Chinese countries to enter the US and EU market and constrained China
      - Gave scope for new entrants to Western markets
   2) Obvious dangers to new entrance:
   3) Continuing pressures at retail end: Competition high, strongly downward price pressure
2. Impacts-Trade data USA
   1) Not necessarily completely compatible: it is quite clear that the affect of recession is quite huge
      - 2008 a worse year than 2007
      - 3~4% drop in total import value although unit values only fell slightly for garments and rose for non-apparel
   2) 12 months (~05/2009), deterioration more marked than when comparing 2008 with

2007

- For apparel and even worse for non-apparel
- For both apparel and non-apparel, there were small percentage falls in UVs and quantities had fallen even more

3) Recession working bad for textiles and garment exports
4) EU vs. US: Difference
   - Recessions have hit garment trade more slowly in EU than in US
   - Slow depreciation of EU against the US: Unit values rose in EU
   - Similar situation in Japan to the US

3. Impacts on Producers
   1) Already after end of MFA in 2005, some countries gaining greatly at expense of others
      - African producers lost their share to the Asian producers
      - China overwhelmingly a winner (also Bangladesh, Vietnam and Cambodia
      - Performance of India disappointing compared to the expectations
   2) Has recession strengthened or changed such trends?
      a. Suppliers near to major markets not doing as well as predicted
      b. Due to feature of market, the 'fast fashion' → no more need for short lead time → less advantage for geographical proximity
4. Structural characteristics and drivers of change
   1) Issues of control
      - Production decisions are essentially made by global bias such as large changes who are not suppose to decide productions
      - Global value chain- driven by global buyers
      - Role of East Asian garment producing multinationals—triangular manufacturing
        a. Relocating to China, Cambodia, Vietnam
        b. Cambodia: Multinationals very important → harder for local firms to come in
        c. EA garment companies: raise barriers for local garment companies to enter
        d. MFA quotas up to end-2004
   2) Economic characteristics
      - High labor intensity—wage costs as driver, especially in garments
      - Relocation driven by wage costs to countries has been a important feature of garment industry
      - The products can be exported and imported at each stage of production: Jordan became major exporters of garments without having any large producers
      - Esp. garments one of the most globalized industries
5. Western market impacts

: Differential implications in western industries

6. Green issues in garments and textiles
   1) Introduce them in a similar way that labor standards were introduced
   2) Problem in green issues
      - Consumers; Eco-friendly product but would they pay more for them?
      - Lack of common standards

* Prospects

1. Short term
   1) Stronger firms becoming more and more competitive (concentration)

2) Recession will continue to shakeout the global overcapacity
3) Asia will be relatively better off
4) Egypt is rising as an important player

2. Medium term
1) Hard to see T&G as sunset industry in Asia
2) Green will be important, but the price will be the most predominant

II. Presentation #2. Bangladesh Case: Dr. N. S. Sodhi
- Textile & Clothing Industry in Bangladesh –

* Introduction

1. Goal of study
: Assess the impact of the global economic and financial crisis on the T&C industry
2. Key objectives
1) Examine the structure of T&C industry with relevance to Bangladesh
2) Assess the impact of the economic crisis and government response
3) Identify areas for UNIDO intervention,

* Global trends in T&C industry

1. Textile industry had watershed period in 2005 when 30-year multi-fiber arrangement was phased out
1) There are fundamental and structural shifts in the T&C industry: dating back to Early 2000 (from phasing out of quota system)
2) Less than 100 billion dollars in 1980 to 668 billion dollars in 2008
3) % of share of clothing increased

2. International trade in textiles and clothing is more and more dominated by finished products asked by prime contractors
1) massive growth of trade in T&C
2) After phasing out, the clothing trade actually increased by significant amount
3) Fundamental shift: Importance of apparels or garments has increased
   - Share of 43% in 1996 → 70%
   - More garment exports than fabrics
4) 4~5 countries dominate garment exporting: India, Turkey, EU, Bangladesh, China, etc.
5) Importing: US, EU, Japan, Hong Kong

3. Trade blocks (thus trade preference) become a key element in sourcing decision
1) FTAA (NAFTA)/ EURO-MED/ ASEAN+3 are some of the notable agreements
2) T&C industry move with lower cost
3) Two factors of textile demand increase
   - Growth of population
   - Growth of income
4) About 70% garments: major consumption growth

4. Developing countries will have higher growth rate in per capita consumptions
1) Within the year 2010, Men made fiber (MMF) will cover 2/3 of all fiber consumption
2) Cotton lost its competitiveness to polyester: Cotton production happens where cotton is produced
3) Growth rate for the developing countries will be much higher

5. Changes
1) More synthetic process, closer to consumption
2) Shift in the production of textile machinery: China is the top

    3) Textile expansion: Major in Asia even in small countries like Bangladesh
6. Technological changes in textiles make the difference
    1) Weaving/Knitting
    2) Spinning
    3) Garmenting
    4) Processing/Finishing

➔ Conservation of water and energy critical

7. Globalization Impact
    1) More and more countries will integrate their industries
    2) Reduce the environmental footprint of textiles
8. Bangladesh T&C Industry
    1) Negative growth in developed country imports of T&C
        - EU, USA, and Japan all saw decline in textile exports
    2) Undergoing unprecedented changes caused by a combination of factors which are specific to the industry and the fallout of the global economic crisis
        - Growth rates came down
9. Different countries came up with different approach relating to the textile industry
    1) Bangladesh Case
        - Textile industry a backbone of Bangladesh economy
        - 3 year plan to revitalize the textile and garment industry
        - Largest employer (5 million people of which 80% are women)
        - Contribution to GDP 10%
        - 80% of share of total exports
        - Vertically integrated with modern equipment (50% of equipment younger than 10 years)
    2) Investment trend up for all, except for weaving

*** Key issues (1)**

1. Trends of machinery in spinning and knitting rose
2. The price pressure: The prices in US and EU has been falling → greater impact on Bangladesh T&C because it cannot reduce price any further
3. Bangladesh T&C not immune to challenges—both external and internal
    1) Gas shortage: T&C industry is using only 60~70% of capacity due to gas shortage
    2) Shortage of unskilled power
    3) Government response received adequate
        - US$ 735 million (not only T&C)
        - Borrower power from private companies

*** Key Issues (2)**

1. Issue #1) The economic crisis has had a wide and deep impact on the sector: Temporary or structural problem?
2. Issue #2) The present situation reflects several structural changes?
3. Issue #3) How can textile industry be restructured
    1) Power sector especially critical
    2) Cotton productivity and quality improvement using bio-technology
    3) 5 ways
        - Vision and sectoral policy
        - Infrastructural development – power
        - Capacity building
        - Cluster development

- Cotton productivity for innovation and improvements in 5 years

4. Issue #4) There is a scope for innovation and improvements in 5 areas
    1) Technology
    2) Energy conservation
    3) Products
    4) Raw materials
    5) Regional integration → removal of non-tariff barriers
5. Difficult for Bangladesh to trade

III. Presentation #3. Cambodia & Lao PDR Case: Dr. Rajah Rasiah
- Implications of the Global Financial Crisis on Garment Manufacturing in Cambodia & Lao PDR -

* Introduction

1. Examine the impact of financial crisis on garment manufacturing in Cambodia and Laos
2. Before crisis, export of Lao continued to rise

* Theoretical Guide

1. Technical Agreement (1999)

: Until the financial crisis hit, the exports from Cambodian companies thrived, even though agreement has ended

2. Unless you expand high tech infrastructure, it is not easy to find too many firms coordinating logistics

: High tech infrastructure: Institutions to drive learning and innovation, technology diffusion, licensing, training and R&D

3. Michael Porter & Cluster
    1) Underdeveloped cluster → Dynamic cluster (High Tech infrastructure, basic infrastructure, integration in Global Markets and Value Chains, and Network Cohesion)
    2) You can actually have the entire value chains without the brand (Hong Kong firm case, headquarter in UK)
4. Systematic stakeholder coordination

* Contributions of Garment Manufacturing

1. FDI

: Cambodia and Laos benefit not so much from developed market but from contractors from China, Hong Kong, Malaysia (not from Western country)

   1) Cambodia: A lot to do have to do with political instability
   2) Most transition economies are doing really well in attracting FDI
   3) Swings have a lot to do with political instability in Cambodia (inflow of FDI)
   4) Transition countries are doing well with holding FDI

2. Exports
    1) Cambodia shows much bigger garment industry than Laos
    2) 70% of export is garments and textiles
    3) Laos' LESS exports: small industry because of smaller population size and geography (landlocked)
    4) Exports declining from 2007 to 2008 and falling dramatically in 2009
    5) Share of Garment Exports in Total exports
        - Cambodia's share of garment exports in total exports has been increasing (recent increase due to contraction)

- China is trying to expand garment industry within China
- H-O is not completely true, since the distance to shipping is crucial (so even though China might expand its textile/garment industry to West, that might not be that ideal) → so optimistic about Cambodian textile industry → **LOCATION MATTERS**

3. Employment
: Because of contraction in exports, the clothing manufacturing employment has been low in Lao
4. Cambodia and Lao need to be changed (switched) <Figure 4>

*** Upgrading in Clothing manufacturing**

1. Basic infrastructure
2. Integration in global markets and value chains
3. Learning and Innovation: High Tech Infrastructure

*** Garments woven from textiles vs. circular knitting**

1. Cambodia has advantage over Lao in both but not significant
2. Skilled intensity higher for Cambodia
3. Cambodia and Lao do not look that impressive relative to other countries → Not growing that rapidly
: Figure 8= For each 1% growth in export, you can have 0.15% growth in employment growth
4. T&C: Technology using industry, not technology creating industry but still technology matters

***Conclusion**

1. Financial crisis caused contraction in exports, FDI inflows, and employment.
: There should a **crisis fund**, hopefully coordinated by the ILO, to address the issue to retrenchment and wage cuts, as well as, support for helping those affected to seek alternative employment even if is to be temporary
2. Industrial promotion and monitoring mechanism must focus on both driving diversification and upgrading
3. Government in Cambodia and Lao PDR must put in place stakeholder coordination councils who should meet on regular basis
4. Successful use of training levies in Singapore, Malaysia and Vietnam must be adopted by Cambodia and Lao
5. Meso-organization to inject flexibility in targeting export markets
6. Basic infrastructure, security and customs coordination should be improved
→ Initiatives should also be taken to map in detail the agglomeration of garment firms

IV. Panel Discussion

Moderator
: Structural problem serious in textile industry and there needs to be restructured/reformed

Mr. Shahabuddin Mohammad (Panelist)- Bangladesh
1. Direct effects of the factors: Indirect factors also need to be considers (Thoburn mainly talked about direct factors)
   1) Unfortunately, last quarter growth was -3% in Bangladesh
   2) What can we do?
   - Regional stability: Members of WTO, same family → United together and work

together
- Managerial bailout, R&D missing

2. How can we unite as an Asian region to exceed trade amount of the US or EU?
    1) Let's make ourselves more competitive in textile industry
    2) Technology transfer → The whole industry will be save-able
    3) Cluster program for the whole area: Joint programs in regional basis

Mr. Siaosavath Savengsuksa (Panelist)

1. Textile and garment industry is dynamic and the fastest growing industry in Laos
    1) Lost profit because:
    - Market price went down
    - Local currency much stronger thus demand also decreased
    2) 2009 was thus very challenging year for Lao garment industry
    - A lot of workers were unemployed
2. What need to be done?
    1) Policy relevant: USA to consider reconsidering market access program (Easy-access program)
    2) Innovation and improvement in production in Laos → Manufacturers show high quality and unique garments (accessories, traditional garments)
    - Become more skillful through training program
    3) Uruguay Round and Doha Round

Mr. Pan Sorasak (Panelist): Garment/Shoe industry in Cambodia

1. Cambodia
    1) Center of gravity of South East Asia
    - Accession of WTO in 2004
    - Tariffs will become 0% in 2010
    2) SEZ (Special Economic Zones): 19 of them
    - They are located along the border lines so foreign companies can benefit from SEZs (one stop processing) → You process your work in Cambodia, move it to Vietnam or Thailand to export
    - 2005: Significant increase
    - Garment industry: 2.9 billion Exports in 2008
    - 350,000 workers feeds 1.8 million (peak)
    - 289,000 workers for 258 active factories (2009)
    - Monthly average wage for workers: US$79
    - 90% of Cambodia exports revenues → US 70% buyers, 20% EU buyers
    3) Real GDP growth declined due to crisis
3. Textile exports
    1) Export is increasing gradually until 2007 (7.3% growth from 2000 to 2007)→ Close to 2008 (3.3%), began to decline due to crisis (very small growth)
    2) One of the LDCs to export over the US $1 billion bar
4. Footwear growing really fast
    1) Export to EU, Japan, etc.
    2) Industry that Cambodia needs to nurture and diversify
5. Better Factories Cambodia (BFC) and CSR (Social responsibilities)
    1) 1999 US Cambodian Trade Agreement
    2) ILO was requested to help setup monitoring project
    3) quota access for compliance
    4) MFA expires 02005

5) Continuing government, employers, buyers, union stakeholders engagement
6) Buyers have to go to each factories: Problem—it is difficult to know the quality and it is time consuming
7) Thus they created BFC which allows large buyers like GAP, Marks and Spencer, and HM to verify and audit those factories that they are interested in

- Helps to translate businesses social responsibilities principle/code of conduct in to practice
- Helps to move beyond monitoring/auditing

Capacity building/training → monitoring → suggestions
(cyclical manner)

8) Funded by donors, government, world bank, US Dept of labor, etc.

6. Government response
   1) Creation of job centers to assist laid-off workers
   2) skill training programs: US$ 2 million worth
   3) tax holiday on profits

<u>Mr. Asitha Seneviratne</u>

1. Global buyers are controlling the market as well as production of garments/textile
2. Sri Lanka Situation
   1) Sri Lanka does not produce for the mass market, but produce for niche market
   2) Those companies are doing very well: most of the world renowned companies are in Sri Lanka
3. Recession did not affect very much but some sectors were affected
   1) Exports still increasing
   2) Companies that went through paradigm shift in Sri Lanka doing very well
   3) Within a sector some are doing well and this is exactly what happened in Sri Lanka
   - Thus it depends on how the goods are produced in within what structure
4. No general rule: Under specific case, social conditions (not one size fit all)
   1) You cannot generalize the whole industry in a country, some are doing extremely well in the expense of others
   2) Cases are all different, so there is no one solution for every firm or countries (case-by-case approach is needed)

V. General Discussion

<u>Question #1</u>

- Free exchange of people and ideas: How do you evaluate the possibility of integrating and maximizing ventures with capital?

→ Answer:

- We see greater possibility for integration: A lot of overlap of functions and processes in the region
- Pakistan have advantage in cottons (home textile), India have wide ideas for synthetic product, Bangladesh is the 3rd largest knitting products
- Once a regional trade occurs, these special industries will come together
- However, this can only happen only if there's trade barrier reduction

<u>Question #2</u>

- Average sales mark up price in the final market?

→ Answer

: 1 dollar from factory and retailed at 5 dollar… where did that 3 dollars go? Brand

SESSION FOUR (16:00~17:30)

Sector Studies II: Automotive Industry <Asia, Korea, Thailand>
Moderator: Abdul Ghaffar Soomro

☞ ***Issues:***

1. What is the impact of the economic crisis on the automobile industry? What are the mechanisms of transmission?
2. Are the difficulties faced by the automobile industry temporary or structural?
3. How can the industry be restructured? What needs to be done at the corporate level and at the policy level?
4. Is there room for green innovation and energy efficiency? What will be the new roles of the parts and components suppliers in the light of technological changes?

I. Presentations #1. Asia Case: Mr. Masato Abe
- The impact of the crisis on global and regional value chains: A case study of excess capacity in the automotive sector -

*** The emergence of Global and Regional Value Chains**

1. Definition of global value chain: "value chain," supply chain, etc. → Three points
   1) Full range of value-added cross-border business activities (several layouts of transaction included)
   2) One leading firm control a global value chain: utilize their brand power and control distribution, production, etc.
   3) SMEs' supporting role within GVCs
   4) 2nd tier supplier <-> 1st tier supplier <-> **lead firm** <-> distributor <-> End Customer
2. GCVs emerged particularly in middle of 1980s: Factors that caused rise of GCV
   1) Multilateral and regional FTA abundant
   2) Policy liberalization: Trade, investment, capital & finance, HR
   3) Technological innovation: Transportation & ICT
   4) New management strategies: JIT, ERP, lean, supply chain management

*** Pre-crisis Structural Adjustments in the Automotive Sector**

1. Assemblers developed GCVs to produce automobiles near their major markets
: To avoid issues of risks
2. Over-capacity intensified competition (since mid 1980s), dividing assemblers into winners and losers
: You can see the results at this point: Some automobile assemblers faced problems (GM, Ford) but other survived
3. Asian assemblers increased their presence in the global markets (Korea, China)
   1) Hyundai, Chinese maker growing up, Indian also growing
   2) China: There are 16 Chinese automobile manufacturers ranked top 50 in the world
4. Emerging Asian markets (China, India, and ASEAN) provided new opportunities
5. A limited number of large, strong suppliers were emerged (Denso from Japan)
6. Competition over the development of environmentally friendly & fuel efficient vehicles—Green Car- was intensified

*** Excess Capacity for Automobile export in Asia**

1. Statistics
   1) Asian production of automobiles by sub-regions: Chinese and Korean productions

surpassed that of advanced countries

2) Estimated export capacity in Asia
   - In 2006 approximately 1/4 of domestic productions in Asia supposed to be developed for export
3) Country-by-country export capacities
   - Japan, China, and ROK: Top 3 largest automobile producer in East Asia
   - Among small countries: ROK and Japan have large export capacity
   - Thailand: Number small (small scale industry) but share of export large
   - China and Malaysia, Indonesia: Their domestic and sales are similar → No export capacity share
   - Some of the countries have negative export capacity: Australia, Russia
4) Even though the global economic crisis affecting the automobile sector, the size of impact differ by country-by-country based on the structure of the industry

2. Impacts of Global Economic Crisis & Excess Capacity
   1) Urgent needs to reduce operational costs throughout the value chains
   2) Slumped production
   3) Job cuts, shortened working hours
   4) Less order to suppliers, including SMEs
   5) Reduction of the number of models & distribution channels
   6) An increase in both horizontal & vertical integration among…
3. Potential of Asian Automobile Market
   1) 300 car/1000 people: distinction between mature and not-yet mature market
   2) We still see market potential in Asia (business chance much greater)

*** Future Direction**

1. Over capacity is most likely to continue, further dividing automobile GVCs into winners and losers

: Even though Asia shows some potential, many automobile manufacturers have set up their targets in US and EU

2. Major global markets comprising three traditional production hubs & upcoming countries in Asia would be emerged by linked through a web of global value chains

3. Winners of the race to develop environmental friendly & fuel efficient cars—green car—are expected to dominate the global market (he has more ideas, but no time…)

*** Policy Suggestions**

1. Development of global automobile brands

: Even though they are competing, creating global automobile brand will be interesting (Joint R&D investment for instance)

2. Development of regional automobile assemblers through South-South cooperation

: Specifically to ASEAN countries: taking Airbus model → Create ASEAN brand

3. Development of local supplier base
   1) To develop more local domestic suppliers to attract more FDIs
   2) Thailand is using this model
4. Linking with emerging Asian markets
   1) Take advantage of Asian emerging markets and integrate
   2) Such approach will create big business opportunities
5. Development of niche markets: Green Car

: Technological difficulties → electric battery or small hybrid cars

6. GDP PPP of Asia (south, southeast & northeast Asia automobile size) > GDP PPP of Europe or GDP PPP Asia

II. Presentation #2. Korea Case: Dr. Hang-Koo Lee
- Korean Automobile Industry's Response to the Financial Crisis -

* Status and Challenges of the Global Auto Industry

1. Two paradigm shift in auto industry
   1) Power technology change: Energy changing from fossil fuels to electric power
      - Regulations on the environment, fuel efficiency
   2) Competition structure
2. Overcapacity is one of main problems causing current crisis of automobile industry
3. Overall production in developed countries will decrease for a couple of years
4. Demand will increase in small car segment and developing countries

: More opportunities for China, India, and other Asian countries

5. Domestic demand increases with government incentives

* Response by the Korean Automobile Industry

1. Foreign newspapers praise Hyundai's performance
   1) Industry has grown rapidly since 1990s
   2) Harsh blow in 1998 due to IMF Crisis
   3) Since then they did: Restructuring > Quality/HR management (training) > R&D Design, Brand Management > Marketing
   4) Strengthened marketing effort, synergy creation
2. Korean automobile industry trends
   1) Increased automobiles & Parts production
   2) Increased overseas capacity
   3) Improved quality
   4) Strengthened parts industry: self-reliance model
3. Competitiveness of assemblers are closely related to the suppliers
4. Factors that had positive impact in Korea auto industry
   1) Small car production structure
   2) Building of basic capability
      - Open innovation system centered on cooperative technology development
      - Continued quality improvement, cost reduction
   3) Accelerating R&D investment
      - Hyundai's investment has increased significantly
      - New models introduced and recent market share expansion
   4) Boost domestic demand
      - Bipolarization and high oil prices deflated sales in Korea.
      - But Korean government lowered the consumption tax rates and generated incentives for big purchasers → right support at right time
   5) Support small-medium supplies:
      - High dependency on large corporations centered on domestic consumption (cooperative supplier chain)
5. Aggressive marketing efforts but exports decreased for the first time in 7 years owing to the worldwide economic recession
6. Negative aspects
   1) Polarization of Korean auto assemblers
   2) Foreign-affiliated companies in trouble because of parent company restricting
      - Overall export decreased, but foreign production of Hyundai and Kia increased by 18.1% to 1.33 million units
      - Suppliers of three foreign assemblers are in trouble (Renault)

*** Green innovation and the role of suppliers**

1. Present: Restructuring for survival
    1) Future: Sustainable growth with green cars – Not size but environmentally-friendly and fuel efficiency
    2) Age of convergence
        - The wave of M&As, equity partnerships and strategic alliances will continue in the auto industry
        - Eco + Power train + information technology: Technology improvement will determine their position in the auto industry in the future
2. Developing technology infrastructure for green vehicles:
    - Stimulate collaboration of R&D: Government, universities, carmakers cooperating to create green vehicles
    - Develop high quality human resources
    - Enact green vehicle related laws
    - Set-up infrastructures
3. Korea wants to be top 4 green car producers by 2018
4. Korean government subsidy for R&D
5. Establishing a global supply base

: Government must cooperate with auto industry and attract FDI, marketing, Regional Technology Innovative Center Clustering

III. Presentation #3. Thailand Case: Mr. Nobuya Haraguchi
- Impact of the Global Economic Crisis on the Thai Automobile Industry?-

*** Why is a case of the Thai automotive industry interesting to study?**

1. Provide lessons to other small countries that began to produce automobiles
    1) Relevance to today's developing countries: Not an exceptionally big country like China or India
    2) This approach is becoming more common
    3) With this country size and approach, Thailand has been relatively successful
2. 14th largest total auto producer/ 4th largest commercial vehicle production/ 2nd pick-up car producer

*** What is the impact of economic crisis on the automotive industry?**

1. Severe
    1) One of the hardest-hit industries in Thailand
    2) The Thai auto industry has been affected most among SEA countries
    3) Maximum effect is comparable to the time of the Asian financial crisis.
2. Potential effects of output decreases in the automotive sector on the employment of others and the whole economy
    1) Successfully developed linkages with other sectors: so output decrease in automotive sector cause severe problems in other sectors (steel, iron, etc.)
    2) Even the financial sectors were affected
3. Affected by export decline, affecting consumer confidence (November 2008)
    1) Domestic sales: Impact was more noticeable
    2) Crisis deepened and Thai economy slowed down: Domestic sales also start to decline this year (The shock transmitted to the export sector)
4. Effect on the commercial vehicle
    1) Pick-up trucks are often used as multi-purpose vehicles: The government provided tax incentives so consumers can buy pick-up trucks at cheaper price

2) Effect on the commercial vehicles was worse than the effect on cars in general
3) Effect was transmitted to the industry quite quickly and graph shows rapid decline
4) Effect on passenger car was negligible (price is more affordable etc.)

*** Fast Recovery**

1. Industry has increased employment up to 80~85% of the 2008 level
   1) Industry association project: Increase the production by 20% in the 4th quarter
   2) Production level like to return to 2008 level (approximately 85%)
2. Economic crisis impact on Thai automotive industry:
   1) Maybe the shock effect was only temporary.
   2) But it was very severe for the Thai auto industry about the same amount as the 1997 Asian financial crisis (huge dip in 1997 and 2008)
3. From the middle of the 1980s~Asian financial crisis
   1) Government transition from import substitution to export oriented industrialization
   2) Multinational transition from localization to global market
   3) Because of the structural change which occurred after the Asian financial crisis, the industry became more competitive and because of this increased competitiveness, the industry was able to experience relatively less damage from the current crisis.

*** How can the industry be restructured?**

: Three groups of factors that cause impact on automotive industry

1. Industry
   - Domestic or export orientation
   - Product diversification
   - Income elasticity of demands for the industry's products
   - Competitiveness (quality, cost, delivery time)
   - Strength of linkages with other sectors
   - Size of the industry in the economy
2. Country
   - Domestic market size and growth: resilience and continuation of growth
   - Policy reaction: stimulus package and the timing (policy intervention, scale, scope of stimulus package and timing
3. Crisis
   - Severity
   - Scale: global regional country or industry specific
   - Origin: external or internal

➔ Asian financial: regional, sever, domestic oriented crisis
➔ Current crisis: external, global, severe crisis

4. Countries cannot protect their industries from global economic crisis but there are ways to better protect them from future crisis that may come

IV. Panel Discussion

<u>Mr. Kamaruddin Ismail (Panelist)</u>

1. Malaysia only country with national automobile policy
   1) Looking at what is going around the world and yet in Malaysia government still pursues goals to make sure that their automobile industry to survive
   2) Is this the right policy?
2. Companies continued to survive due to concentration in domestic market
   1) Government will do whatever it takes in order to keep these two companies
   2) Malaysian policy was helpful for Malaysia automobile industry to survive this current

economic crisis
   3) He thinks Malaysia made the right choice with the national car policy
   4) If not, what would have happened with the 20% drop in the export?
   5) The US is paying a lot to avoid GM and Ford from collapsing
3. Concentration of production hubs: Regional hub for certain industry (cluster)
4. Overcapacity has been and still there
   1) Recession is the only element that can force integration of the countries and solve overcapacity
   2) Automotive industry is the first one to suffer, and first one to pick up
   3) Recession can turn into new opportunity
   4) Automobile sales down, usually it is the sign that economy is in danger
5. Agree with green car development
6. Whatever policy Malaysia is taking, we will pursue this policy.
   1) Government will liberalize some sectors
   2) But will focus on the domestic market (entering into niche market)

Mr. Agus Tjahayana Wirakusumah (Panelist): Indonesia
1. Role of automotive industry
   1) Indonesia: 4.83% of world automobile industry
   - #2 Automobile industry size among ASEAN countries
   - #6 Asian component industry
   2) Role of the Indonesia's Automotive Industry: 1995 vs. 2008
   - Food, beverages, tobacco production decreased in 2008 while transportation equipment, machine and tools increased
   - Employment in Indonesia's automotive industry: 100,000 employees
   3) Astra Daihatsu (2009)
2. Impact to ASEAN Automotive industry
   1) Total sales and production of 4 wheelers: Around the same
   2) Sales of motorcycles & Scooters: Over 6 million a year: #1 in ASEAN countries
   3) The level of sale as well as production in 2009 move back to the figures of 2007
   - October 2009 right now, 49,000 unit of 4-wheelers were sold (total sales)
3. Respond to Crisis
   1) Government: Bolstering financial sectors, fiscal consolidation, providing stimulus, fostering infrastructure development
   - 2008 was an extraordinary year: Domestic demand increased, etc.
   2) Business responds: September 2008~March 2009
   - Slow down production, conduct stock taking in-house as well as in the dealers and set up a new target
   - Promote big discount
4. Respond to Future: Eco-friendly
5. Indonesia would like to achieve 1 million auto sales in year 2015

V. General Discussion

Question #1.
- Presenters said there is need for productivity increase. Can you do it not just by decreasing the labor, but from other factors?

Question #2.
- Capacity-related question. Where is the technology city in the US and EU?

➔ Answer:

Technology development, productivity increase, and training human resources are very important factors in industry improvement

UNIDO – SNU GSIS
Asia Pacific Regional Forum on Industry
Rising to the Challenge of the Global Economic Crisis
Opportunities and Options for Competitive Asian Industries

CLOSING SESSION
November 13, 2009 (Friday)

CONCLUSIONS FROM THE FORUM
Presented by Mr. Augusto Alcorta, Director, UNIDO

1. **Turning Crisis into Global Leadership** – Asia has very rapidly rebound from the crisis, based on its learning from the previous financial crisis, a rapid shift to the domestic market, an increasingly sound financial system and pragmatic fiscal and monetary policies. Not only is Asia turning the crisis into an opportunity in the short run, but it is also trying to build its long-term future by integrating regional markets, cooperating for the design of world financial and economic architecture and going green ahead of anybody else.
2. **Diversifying Markets** – While all Asian countries have rebounded, countries with large domestic markets, significant reserves and high savings rates have done better than middle and smaller more open economies with poorly diversified manufacturing export markets, which remain more vulnerable to shifts in the world economy. It is especially these countries that should focus on regional markets, cooperation and green growth.
3. **Capturing Value Added** – International textile and clothing industry is going through major structural restructuring due to the ending of the MFA, overcapacity, technical change, changes in power relations across value chain and cut-throat competition. Asian textile manufacturers, while being hit by the reduction of exports, have proven quite resilient and been able to take market share on the basis of reducing wages. But challenges remain in terms of how much further can wages be depressed, achieving new energy and resource efficiency, and the ability of Asian producers to abide by green standards and establish their own brands.
4. **Green Innovation** – International automobile industry is facing major overcapacity and is characterized by products out of tune with shifting demand. The Asian automobile industry was also hit by the global economic crisis, but has been able to recover extremely quickly, and will feel a major increase in demand from the region in the coming years. Main losers in the restructuring process have been US and European producers, but who remains in the long run will be determined by the ability to develop fuel efficient vehicles.
5. **Green Growth** – Growth in renewable sources of energy and in the recycling industry has been very rapid in developing countries, and has an even larger potential in Asian countries, let alone because it starts from a very low base. Technological

leapfrogging is possible and the industry learning curve has been traveled already very quickly by Indian and Chinese firms. But green growth is more than the expansion of specific sectors. It is a new approach to economic development that provides profits, jobs, and environmental sustainability. However, the competitiveness of green industries *vis a vis* brown industries and green growth will depend on government policy and climate change negotiations.

6. **Greening Policy** – For green policy to work, it is necessary to develop a green strategy and provide the necessary leadership, improve the regulatory and legal environment, spend public monies to the required physical infrastructure and R&D, properly price energy, and engage in moral suasion. But firms must also dedicate their capabilities to explore new business opportunities in the emerging green market.

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Keynote speech on the occasion of

"UNIDO: Asia Pacific Regional Forum on Industry"

by Vice Minister Rim Chaemin
Ministry of Knowledge Economy

Nov. 12, 2009
Seoul, Korea

Good morning.
Dean Taeho Bark and Managing Director Luetkenhorst.
Esteemed guests, ladies and gentlemen.

I am very honored to be here-- and join this important and timely discussion on how to find opportunities for Asian industries in these trying times. In order to do so, I suppose we will have to look into how some Asian economies have responded to the crisis and second, what we need to do to succeed in the post-crisis.

Here we are one year since the implosion of the global economy. Many of the magazines I have seen on the newsstands have covered the surprising resilience of Asia in dealing with the crisis.

While the major powerhouses, like the US and the EU, are just starting to show some signs of recovery in the third quarter, Asian economies have had a head start into positive terrain from the early this year.

< The case of Korea >

Let's take a look, then, at what is propelling Asia into the limelight. In Korea's case, the crisis landed a quick blow but we were able to pick ourselves up just as quickly.

When the dark clouds descended last year, Korea's exports to major markets-- especially the US-- dropped dramatically. Consumer confidence tanked and there was an overall freeze in investor sentiment. Final quarter GDP plummeted to -5.9%-- the steepest drop in a decade.

This quick blow to the Korean economy underscored how deeply integrated we are to the larger global environment and how vulnerable we can be to external forces. The export-oriented growth strategy that propelled Korea's economy for decades, in fact, has been a double-edged sword.

In a remarkable turnaround, however, we have seen the first quarter GDP gain positive ground and the third quarter hit a seven-year high. Several factors are prominent in this upturn-- the government has taken speedy and proactive measures-- including large stimulus packages and tax cuts. Also, interest rates went down to increase liquidity and stave off the credit crunch.

Before the panic of mass-layoffs could set in, businesses and trade unions made substantial compromises-- on both sides-- to "job-sharing" arrangements. While the total number of jobs may have dipped, we were able to avoid unemployment on a massive scale.

In addition, many temporary jobs were created in the public works, education and service sectors to provide relief to vulnerable groups like seniors, low-income families, and young first-time job seekers.

On the corporate side, companies took the initiative in carrying out restructuring to deal with changing market forces-- as we have seen in the shipbuilding sector.

Some firms took on an aggressive marketing strategy-- going against the grain-- to garner valuable market share. The companies appealed to consumer sensibilities-- assuring them they should actually buy the product and that the company would step in to take care of them if dire circumstances-- like a job loss-- prevented full payment.

On top of the bold moves into developed economies, Korean firms took aim at raising their profile in new emerging markets. Alongside these measures, the weaker Korean currency may have helped these companies take a more aggressive marketing strategy than their competitors.

< Asian response to the crisis >

I've outlined Korea's actions so far. Now we can see that a familiar pattern emerges among other Asian economies too. Initially, many experts had grim predictions for such a large economy like China but the speed at which Beijing is recovering is truly amazing. Likewise, India is getting back on track at a breakneck speed-- due to steady domestic demand and sturdy service sector.

Some Southeast Asian countries-- Malaysia, Singapore and Thailand-- are expected to contract because of their heavy dependence on exports. Meanwhile, Indonesia and Vietnam will probably perform better than expected this year. So taken as a whole, Southeast Asia will stay ahead of the game.

Japan might prove to be the biggest turnaround case-- if it can maneuver out of the sluggish turmoil it has been embroiled in for more than a decade. There are some bright signs-- GDP for second quarter is up for the first time in five quarters.

< How Asia pulled through >

I would not attempt to over-generalize the phenomenon I have just illustrated but I would like to make a couple of points on Asia's relative healthy rebound.

First, Korea, Japan and China have a strong manufacturing base that was less affected by the financial shockwaves of the US and Europe. This vital fact helped Korea achieve a trade surplus and thus stable foreign reserves-- despite initial anxieties expressed in the media that we would not be able to withstand the brunt of the global meltdown.

The emerging economies like China, India and Vietnam were able to take advantage of their dynamic growth spurt and undiminished enterprising spirit to weather the storm.

Second, we can not overlook the role of China in assessing the aftermath of the crisis. What has long been considered the "workshop of the world," China may be taking the first steps to becoming the "market of the world" with steadily increasing domestic consumption.

While China's export declined by more than 20% up to the third quarter, domestic consumption went up by 15% during the same period. This increase in consumption, combined with large-scale facility investment, will likely boost the economy-- topping the government's target of 8%.

The budding Chinese consumer market could stoke intra-regional trade-- making Asia less dependent on developed Western markets.

We have already heard of many institutional investors who are headed to Asia because they realize how important it is to beef up their presence at a time when intra-Asia regional business is picking up steam.

If anything, the global slowdown has elevated the role of China and even India in the world economy to unprecedented levels.

Third, you can see a stark contrast between how the governments were prepared to respond to the crisis. Korea and China were quick to put out the fire with substantial stimulus packages, largely in the area of infrastructure building and new technology development for future growth.

In particular, the Korean government's swift calls for new growth engines and the green growth strategy had the effect of not only bracing the country for the storm ahead but also preparing for the eventual aftermath.

We knew instinctively that innovation had to be a priority in our policy making decisions-- and this had a very positive impact on the Korean psyche.

On the other hand, the US and EU were constrained by huge deficits, and their reaction time was not as speedy as those in Asia. Moreover, the nature of their action was directed at stabilising financial systems and stimulating consumption rather than future investments.

In hindsight, things may seem very clear-cut but when the global crisis was spiraling out of control how was Korea able to take on such a speedy and daring approach? The answer lies in our past experience from the devastating Asian financial crisis of the late 90's.

We have learned our lesson well-- the need to act swiftly and resolutely. It is also worth noting that companies have been finishing up re-structuring since the Asian crisis. They were well-positioned to tackle this most recent crisis based on a quick, strategic managerial response system.

< Post-crisis and new opportunities >

We've covered Asia's response to the crisis so now I would like to focus on the new world order and post-crisis opportunities.

I think many of you will agree with me when I say that the world has forever changed since the crisis. The upheaval of the past year have brought on huge paradigm shifts-- and we must adjust accordingly in order to-- not only "survive" but "THRIVE."

A new world order has emerged-- embracing a more varied, textured economic landscape-- in the G20 model. Three billion people are newly entering the mainstream economy. The demographics will result in enormous changes in terms of market expansion, the consumption of energy and resources, and corporate competition. In line with today's theme, I can not help but point out the significant Asian presence in the G20 forum which signals many new opportunities not only for Asia but the world at large.

< Expected benefits of pan-Asian cooperation >

So the big question is "How can Asia make the best of the opportunities in the changed economic climate?" For this, I propose three scenarios that will greatly benefit all of us.

First of all, I would like to see a bigger, better integrated Asian market. That will only happen when we have removed trade barriers-- ideally in the WTO framework but until that is achieved, we could come to the table to sign regional trade agreements.

Fortunately we have seen encouraging signs from our regional neighbors-- like ASEAN+3-- in coming to a mutual agreement on the need to stimulate regional markets.

And recently, the leaders of Korea, China and Japan agreed to explore a possible FTA between the three. All these efforts would make Asia much more resilient to any future turbulence.

In the larger "One Asia" market, firms would have greater flexibility to be more creative in their production, investment, and sales decisions. This will ultimately provide Asian companies with a competitive edge when going head-to-head with non-Asian rivals.

Next, I strongly believe "cooperation" will be key to our future ventures-- in other words, we can attain maximum efficiency by collaborating in research projects, investment schemes and the free exchange of peoples and ideas.

Asia is such a broad term-- there is a multitude of differences in size, history, and range of economic development. It is understandable that some people are rather skeptical when it comes to whether effective cooperation within Asia is possible. I, for one, am optimistic. I see common areas for cooperation. Korea-- having reaped remarkable economic growth in less than a generation-- is more than willing to share its experiences with emerging neighbors.

One example that has proved quite successful is when we share our expertise on large-scale infrastructure projects with our partners. We have carried out many urban development projects and also accumulated expertise in developing infrastructure management based on Information Technology.

These types of long-term development projects creates many local jobs, trains and develops human resources, increases technology transfer and ultimately, raises the quality of life.

This example shows what we in Asia can achieve by relying on each other-- namely, self-sustainability. We can manufacture, build, develop, market and sell to one another in a virtuous circle of growth.

And my final suggestion for raising Asian competitiveness is to pursue a common agenda on low carbon, sustainable green growth. We all need it and we want it but "going green" is easier said than done because of the huge amounts of money, effort and time involved.

If we were to collaborate, we could definitely make it easier to develop green resources, make new markets to support these technologies and raise the energy efficiency of existing industries-- especially since many Asian sectors are very energy intensive.

The biggest payout of green growth would be our ability to improve quality of life issues and to create many productive, high-functioning jobs. Seen from a larger perspective, the green strategy would be a boon as a driver of growth for economies large and small, developed and less so.

< Open, active Asian cooperation >

In conclusion, I would like to propose that we pool our resources for a more open and active Asian community.

The consensus among economists is that the crisis will taper off soon. The critical question is "Who" can turn the crisis into an opportunity. My feeling is that the entrepreneurs and businesses who are keen to partner up and cooperate are more likely to seize timely opportunities than those who are not. Such actors may fit quite well with the newly emerging Asian era.

No man is an island and the same is true for businesses. You need a sustainable environment that keeps on producing, consuming and developing a new value-chain.

This is the direction I see for Asian industries-- to join forces to form a bigger, better whole. I am not talking about building up Asia as an exclusive new trade bloc against the rest of the world. This could and would never happen.

As we have seen from the APEC model, we ought to pursue a more open and constructive relationship. We should accept each other's differences and respect the unique social and cultural perspectives. We can not ignore other universal values-- how we must adhere to global standards and democratic ideals.

I am very encouraged by the important work put forth by UNIDO-- as we've seen in the Manila Declaration that highlights resource efficient and low-carbon industry in Asia. I applaud your efforts and leadership in the sustainable growth agenda. I also hope to see more cooperation between Korea and UNIDO.

Thank you and I look forward to many of your stimulating and constructive dialogue in the remaining sessions.

Impact of the Global Financial Crisis on Asian Industries
: Challenges and Responses

Nov. 12th 2009

Choong Yong Ahn, Ph.D
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&
Foreign Investment Ombudsman, Korea Trade-Investment Promotion Agency

Order of Presentation

1. Definition of Asia

2. Contagion Channels and Downward Impacts on Asian Economies

3. Quicker Rebound Than Expected

4. Issues and Challenges

5. Conclusion

1. Definition of Asia

Broad and Diverse :

- Developing Asia, Emerging Asia, East Asia
- Focus on ASEAN + China, Japan, Korea and India as key data available

2. Twice Beaten Asia but Managed to Weather the Storm Quicker Than Expected

- Asian Financial Crisis in 1997/98 basically due to underdeveloped and shallow financial systems internally embedded in their high growth regimes
- This time, Asia became the victim of "greedy Wall Street capitalism" as evident slick and continued "repackaging of financial derivatives" originated from the sub-prime mortgage loan in the U.S. (Ahn 2008)
- Asia has improved a great deal its financial system since the Asian financial crisis in risk management, governance, etc. (Ahn 2001, ADB 2009c)

Enhanced BIS Ratios of Asian Financial Institutions

- Since Asian financial crisis, risk-weighted capital adequacy ratios as percentage of risk-weighted assets in Asia have improved a great deal to the global best practice level

(Unit : %)

Economy	2000-2004 Average	2008	2009
China, People's Rep. of	-2.3	8.2	-
Hong Kong, China	16.1	14.7	15.6
Indonesia	18.7	16.8	17.8
Korea, Republic of	10.7	12.7	13.4
Malaysia	13.4	12.2	13.7
Philippines	17.0	15.7	-
Singapore	17.7	14.3	-
Taipei, China	10.5	10.8	-
Thailand	13.2	14.1	15.2

Source : Asia Development Bank, Asia Economic Monitor, July 2009, p22

- The crisis-hit economies in 1997/98 have faithfully reformed their banking systems to raise their BIS ratios under the IMF conditionality and guidelines

Substantial Reduction of Non-Performing Loans

- Non-performing loan as percentage of commercial bank loans as a result of risk management

Economy	2000-2004 Average	2008	2009
China, People's Rep. of	21.0	2.5	2.0
Hong Kong, China	4.0	1.2	1.5
Indonesia	10.2	3.2	3.6
Korea, Republic of	3.1	1.2	1.5
Malaysia	8.9	2.2	2.2
Philippines	14.8	3.5	3.7
Singapore	5.3	1.4	-
Taipei, China	5.2	1.5	-
Thailand	13.5	5.3	5.5

Source : Asia Development Bank, *Asia Economic Monitor*, July 2009, p24

- Most notable improvements in the past 10 years have been achieved by China, Indonesia, Philippines, and Thailand.

The First Contagion Channel of Global Crisis into Asia is Through Exports' Collapse (Net-Export) to Advanced Economies

- Quarterly export growth rates of major East Asian economies to corresponding quarter of previous year indicate that major Asian economies suffered from the export collapse beginning in the 4^{th} Q of 2008 to 1^{st} Q and 2^{nd} Q of this year and likely to continue in the rest of the year and even in 2010.

(Unit : %)

	2007				2008				2009	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Korea	16.0	13.5	8.3	19.0	18.5	22.7	26.1	-9.5	-24.8	-20.7
China	27.9	27.4	26.2	22.2	21.3	22.3	23.0	4.3	-19.8	-23.4
Japan	11.9	7.5	7.8	14.3	23.1	17.7	9.4	-10.5	-37.8	-34.3
Indonesia	13.9	15.6	9.4	14.1	31.9	29.6	27.9	-5.6	-31.8	-26.2
Malaysia	7.6	7.8	6.9	16.1	19.2	28.9	21.4	-12.9	-28.9	-33.3
Philippines	9.4	4.6	2.3	9.9	2.8	5.5	4.1	-22.3	-36.8	-28.9
Singapore	9.8	7.2	8.5	14.8	21.2	26.4	21.0	-13.9	-32.7	-30.7
Thailand	20.7	17.4	13.7	25.1	19.1	28.6	26.0	-10.4	-19.9	-26.1
Vietnam	18.6	19.9	15.8	33.5	26.9	32.3	44.8	4.7	4.8	-14.7
Cambodia	14.8	17.1	7.7	20.4	8.3	12.5	4.6	-6.3	-0.6	-6.9
Laos	6.4	-3.5	22.1	25.5	39.4	17.8	39.2	-6.5	1.2	-6.7

Source: CEIC [online] ; Global Insight [online].

Great Downfall in Exports of Top 3 Economies in North-East Asia

Recent Export Growth Rates of China, Japan and Korea (Quarterly Data)

(Percent)

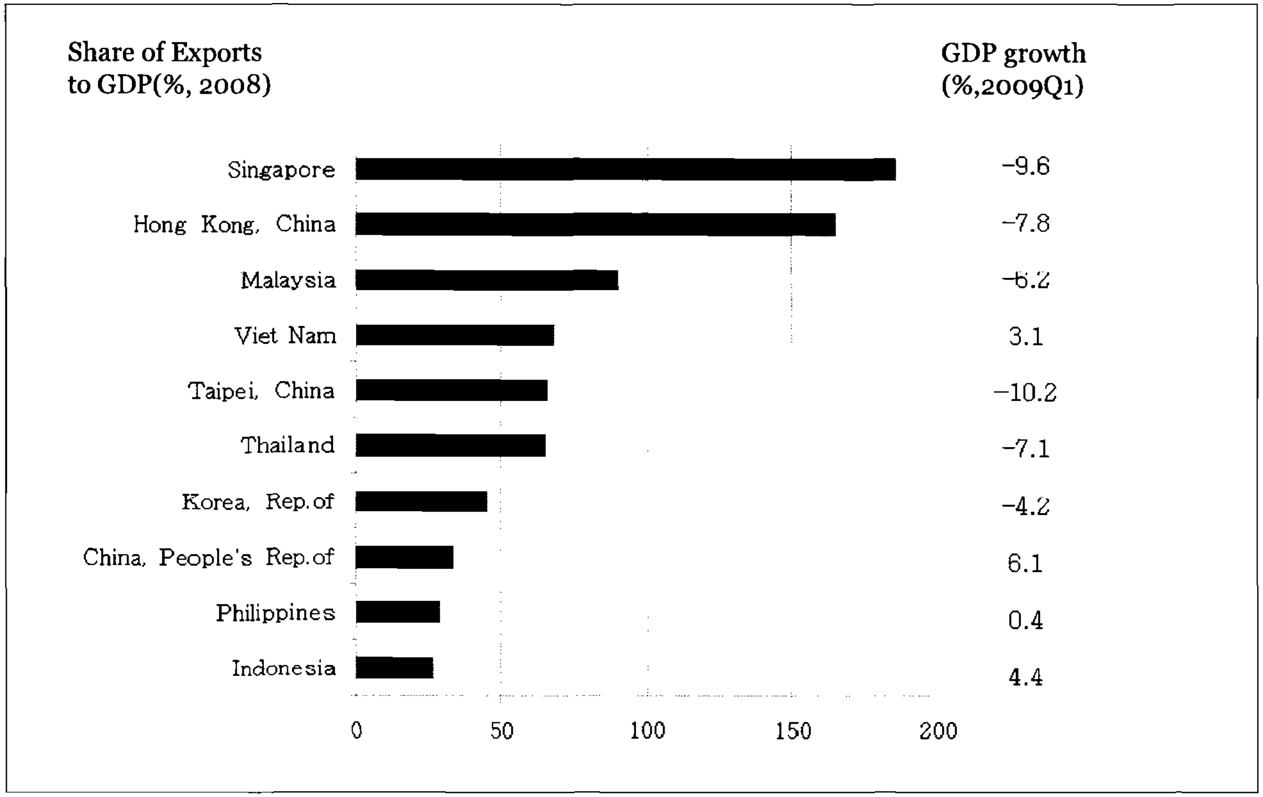
	China		Japan		Korea	
	Q/Q	Y/Y	Q/Q	Y/Y	Q/Q	Y/Y
2008q1	-9.9	21.3	2.0	20.3	-3.7	17.4
2008q2	17.8	22.3	-0.5	17.5	15.1	23.1
2008q3	13.2	23.1	2.8	13.0	0.4	27.0
2008q4	-13.1	4.3	-13.2	-9.4	-19.1	-9.9
2009q1	-30.8	-19.8	-32.8	-40.3	-19.9	-25.0
2009q2	12.4	-23.5	10.1	-34.0	22.2	-20.4

Source: Korea Trade Association (online)

- In terms of percentage reductions of export, Japan registered the largest decline, followed by Korea and China between 4Q of 2008 and 2Q of 2009.

The Greater the Export Share of GDP, the Lower the GDP Growth Rate

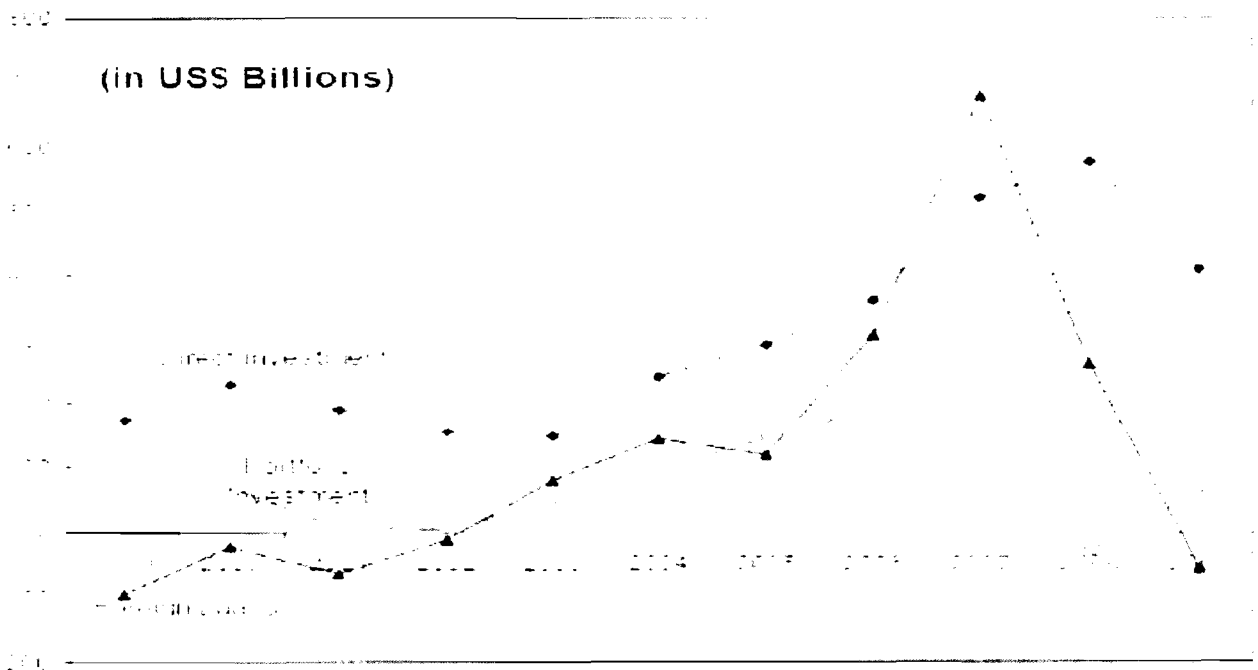
Exports Share and GDP Growth of Selected Emerging East Asia



Source : Asia Development Bank, *Asia Economic Monitor*, July 2009, p5

The second contagion channel is through both a sudden stop and sudden pull-out of foreign capital flows by advanced economies

- Capital flow to emerging economies (1999-2009) has sharply reduced from the peak of the mid-2007



Source : Tong and Wei (2009); IMF's World Economic Outlook database.
The sample includes 24 emerging economies.

- Both the sudden stop of foreign capital inflow and its sudden pull-out in some Asian countries helped cause both exchange rate volatility, especially in Korea, and virtually negative investment rate.

2008 witnessed minus growth in both FDI inflows and outflows

Selected Indicators of FDI

Item	Value at Current Prices (Billions of Dollars)					Annual Growth Rate (Percent)			
	1982	1990	2007	2008	1996-2000	2005	2006	2007	2008
FDI Inflow	58	207	1979	1697	39.4	32.4	50.1	35.4	-14.2
FDI Outflow	27	239	2147	1858	35.6	-5.4	58.9	53.7	-13.5
FDI Inward Stock	790	1942	15660	14909	16.0	4.6	23.4	26.2	-4.8
FDI Outward Stock	579	1786	16227	16206	16.9	5.1	22.2	25.3	-0.1
Income on Inward FDI	44	74	1182	1171	13.3	32.8	23.3	21.9	-0.9
Income on Outward FDI	46	120	1252	1273	10.3	28.4	18.4	18.5	1.7
Cross-Border M&A	.	112	1031	673	62.9	91.1	38.1	62.1	-34.7
Sales of Foreign Affiliates	2530	6026	31764	30311	8.1	5.4	18.9	23.6	-4.6

Source : UNCTAD, World Investment Report 2009-Transnational Corporations, Agricultural Production and Development, table I.6

Taipei, China and Indonesia show a minor image of growth performance between two crisis periods

- Quarterly GDP growth rate of selected Asian Economies show that Indonesia, which was victim of the Asian financial crisis, performed much better than Taipei, China, which had escaped from Asian financial shock

Economy	Lowest	Latest
	1997Q1-1998Q4	2009Q1
China, People's Rep. of	7.20	6.10
Hong Kong, China	-8.06	-7.79
Indonesia	-18.26	4.37
Korea, Republic of	-8.12	-4.25
Malaysia	-11.18	-6.17
Philippines	-2.42	0.45
Singapore	-4.20	-9.6
Taipei, China	3.31	-10.24
Thailand	-13.92	-7.11

Source : Asia Development Bank, *Asia Economic Monitor*, July 2009, p4

The Contagion had resulted in minus growth rates of major economies except China and India

- Respectable positive growth rates by China, India, and Indonesia have helped the rest of Asia and world mitigate the negative impact of the current global crisis

Economic Growth Slowdown in 2007-09 by Individual Asian Economy

Economy	2007	2008	2009	2009-2007
Singapore	7.8	1.1	-10	-17.8
Hong Kong	6.4	2.5	-4.5	-10.8
Malaysia	6.3	4.6	-3.5	-9.8
Korea	5.1	2.2	-4	-9.1
Thailand	4.9	2.6	-3	-7.9
Philippines	7.2	4.6	0	-7.2
China	13	9	6.5	-6.5
India	9.3	7.3	4.5	-4.8
Indonesia	6.3	6.1	2.5	-3.8

Source : Goldstein, Morris and Daniel Xie(2009)

Industries Most Affected by the Global Economic Downturn in Asia

- Manufacturing industries than primary commodities most seriously affected due to much higher income elasticity
- Especially electronic industry, which is more dependent on G-3 markets
- Intra-Asia trade in parts and components has been on the rise as supply chain networks keep deepening but reduced this time
- Medium and high tech products of electronics, motor vehicles, and capital goods have also experienced downfall in their production

Quick Rebound Than Expected - 1

- Stimulus package with fiscal and monetary expansion by Asian economies in unison in line with G-20 spirit
- Tax cuts and income support to give fillip to consumption
- Fiscal stimulus : 7.1% of nominal GDP (ADB)
- China's CNY 4 trillion package on infrastructure
- Korea opted for a mix of tax cuts and expenditure measures
- On monetary side, Korea, Indonesia, and India reduced interest rate substantially to a record level in recent years
- The region as a while is now projected to grow by 3.9% in 2009 and 6.4%, up from 3.4% and 6.0% forecast earlier, fastest recovery in the world (ADB 2009a, IMF)

Quick Rebound Than Expected - 2

- Why such a "V" shaped recovery trajectory forecast in Asia (ADB 2009b)
  - Relative robustness of financial sector
  - Strong fiscal position
  - High savings rate and low levels of household debt
  - Rather muted threat of inflation
  - Signs of recovery of portfolio capital
  - Banking systems' lending reviving in consumer credit

Issues and Challenges

- When is appropriate for an exit from expansionary policies, given uncertainties and gloomy global trade prospects?

- Any danger to create asset bubbles? A downward correction in asset prices critical?

- Rebalancing extra-regional exports and intra-regional demand
  - Key to resolve "global imbalance"
  - Asia needs to shift from an excessive export reliance to more internal domestic demand
  - Exchange rate adjustments, especially on Chinese Yuan

- Expansion of intra-regional trade
  - ASEAN+3 FTA from ASEAN+Japan, ASEAN+Chian, ASEAN+Korea FTAs separately
  - Open regionalism in East Asia to include India, Australia, N.Z., and the U.S.

- Intensifying a functional integration inertia as built in Chiang Mai Initiative and Asian Bond Market Initiatives

Issues and Challenges

- New financial architecture to monitor and regulate cross-border flows of hedge funds

- Standstill of protectionist measures and push DDA forward as emphasized in G-20
  - More subtle type measure like subsidies tied to local purchase
  - Pushing DDA forward

- In search of sustainable growth model
  - To address global warming and carbon emissions
  - Green house gases are not mainly local and regional
  - Levying taxes on the carbon at the border should not open a backdoor for protectionism

- Knowledge sharing with less-developed economies and poverty eradication of poorest economies

Summary & Conclusion

- Asia was not able to "decouple" from the unprecedented global economic downturn but successfully weather the global shock. (Goldstein & Xie 2009)

- However, Asia's relative strength as evident in a) financial sector's robustness, b) positive growth performances of China and India, c) fiscal soundness, d) intra-Asian functional cooperation helped Asia to revive its economy faster than expected.

- Asian members of G-20 should voice proactively in designing a new global financial architecture at the G-20 meetings

- Emerging Asia still contains many caveats in its financial system in risk management. Asia should update and improve its financial institutions by benchmarking the global best practices.

- By embarking upon an East-Asia wide FTA and gradual expansion of members, East Asia should continue to accelerate on-going regional integration towards "East Asian Community".

Thank you !

Field Title:

Korean Automobile Industry's Response to the Financial Crisis

Nov 12. 2009

Korea Institute for Industrial Economics and Trade

Lee Hang Koo

Today's Presentation

Ⅰ. Status and Challenges of the Global Automobile Industry

Ⅱ. Response by the Korean Automobile Industry

Ⅲ. Green Innovation and the Role of Suppliers

Ⅰ. Status and Challenges of the Global Automobile Industry

Ⅰ. Status and Challenges of Global Auto Industry

The global paradigm is changing rapidly in both technology and competition.

Energy is changing from fossil fuels to electric power.

The center of the automobile industry is moving from the United States to East Asia.

Every country has reinforced its regulations on the environment, fuel efficiency and safety.

Policies also lead to a paradigm shift in global automobile industry.

Ⅰ. Status and Challenges of the Global Auto Industry

Status of the Global Auto Industry

- Financial Crisis : Lower Auto Demand in Developed Countries
- Contagion Effect on auto demand in developing Countries: Uncertainty Risk
- Problem of Over Supply : China and Eastern Europe
- Industry Restructuring : Moving the industry center from the U.S. to EastAsia
- Back to basics : Cost Reduction, Quality Improvement, Shorter Delivery Time

North East Asia's Auto Industry

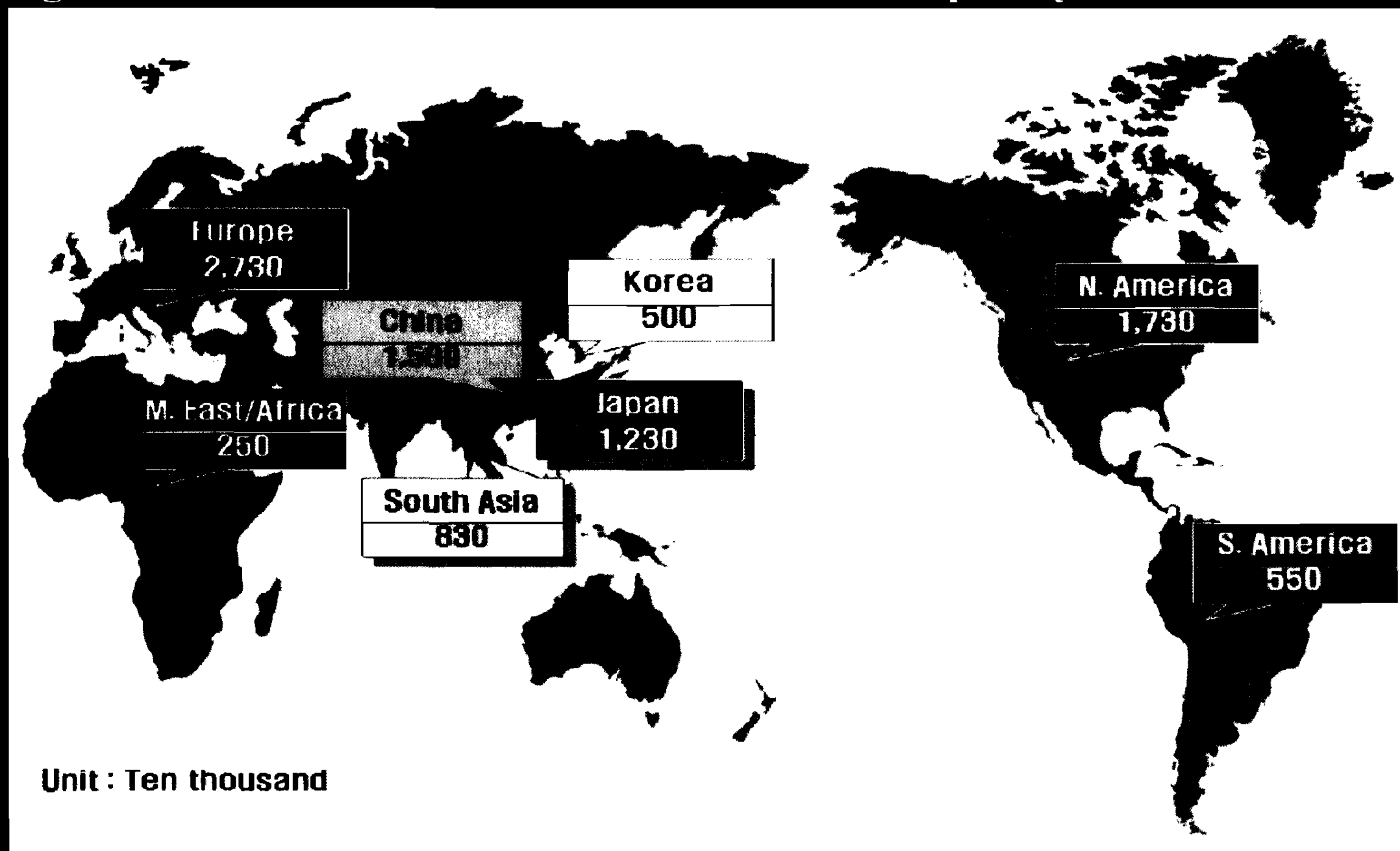
- Emerging as a new global automobile industry center
- China : World's largest production base ⇒ largest market ⇒ Design center
  2015 production capacity : 20 million units
- Japan : Decreasing profits and contracting domestic production
- Korea : Opportunity for growth but polarization of the industry
- Fierce competition between Japanese and Korean auto companies in China
- Green car development competition amongst the 3 countries

Ⅰ. Status and Challenges of the Global Auto Industry

□ Overcapacity is one of main problems causing current crisis of automobile industry.

- Europe, China, Brazil

< Figure > World's Automobile Production Capacity

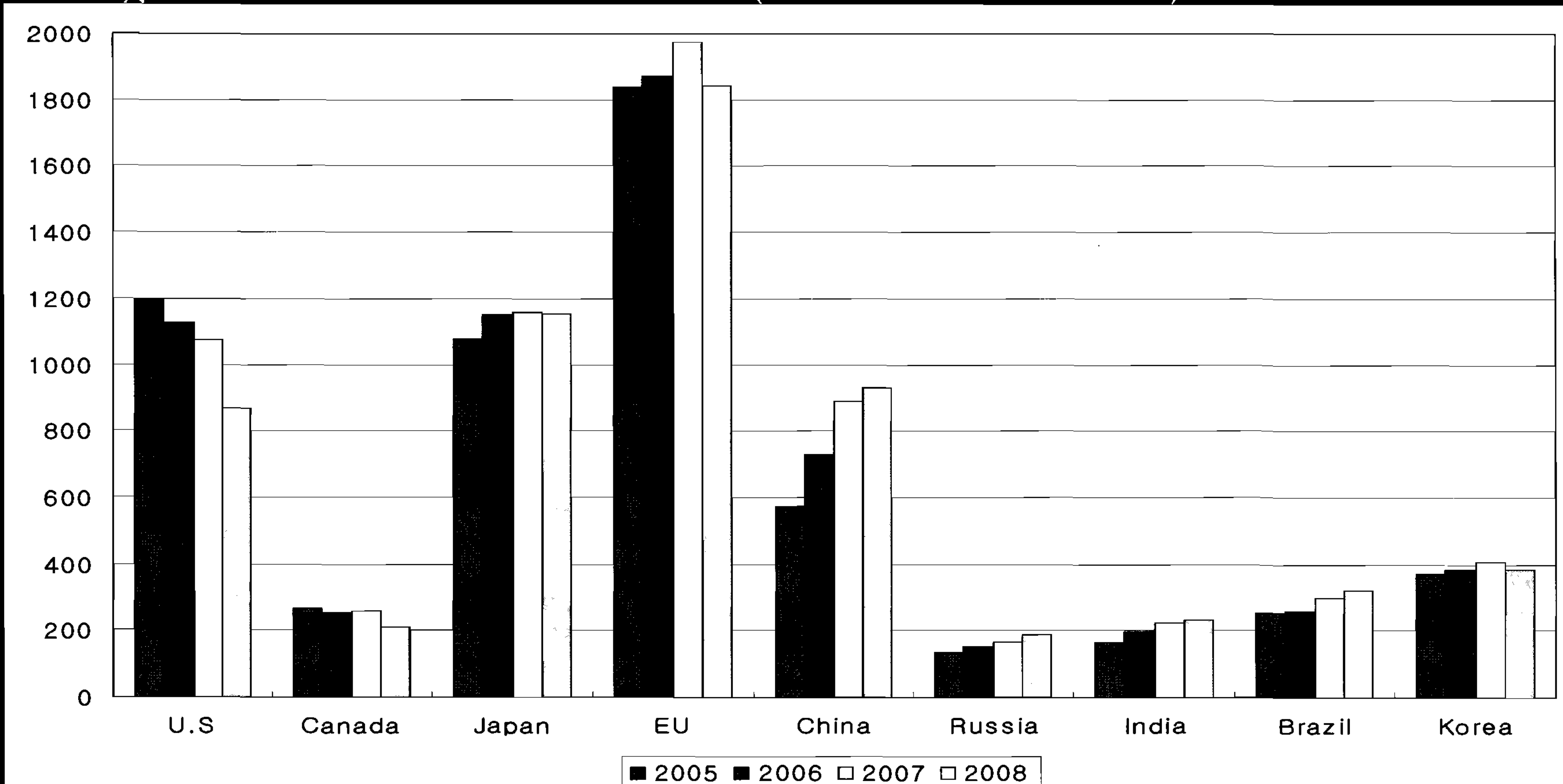


Ⅰ. Status and Challenges of the Global Auto Industry

□ Automobile production in developed countries will decrease for a couple of years.

- Production of BICs will increase continuously

< Figure > Automobile Production (Thousands of units)



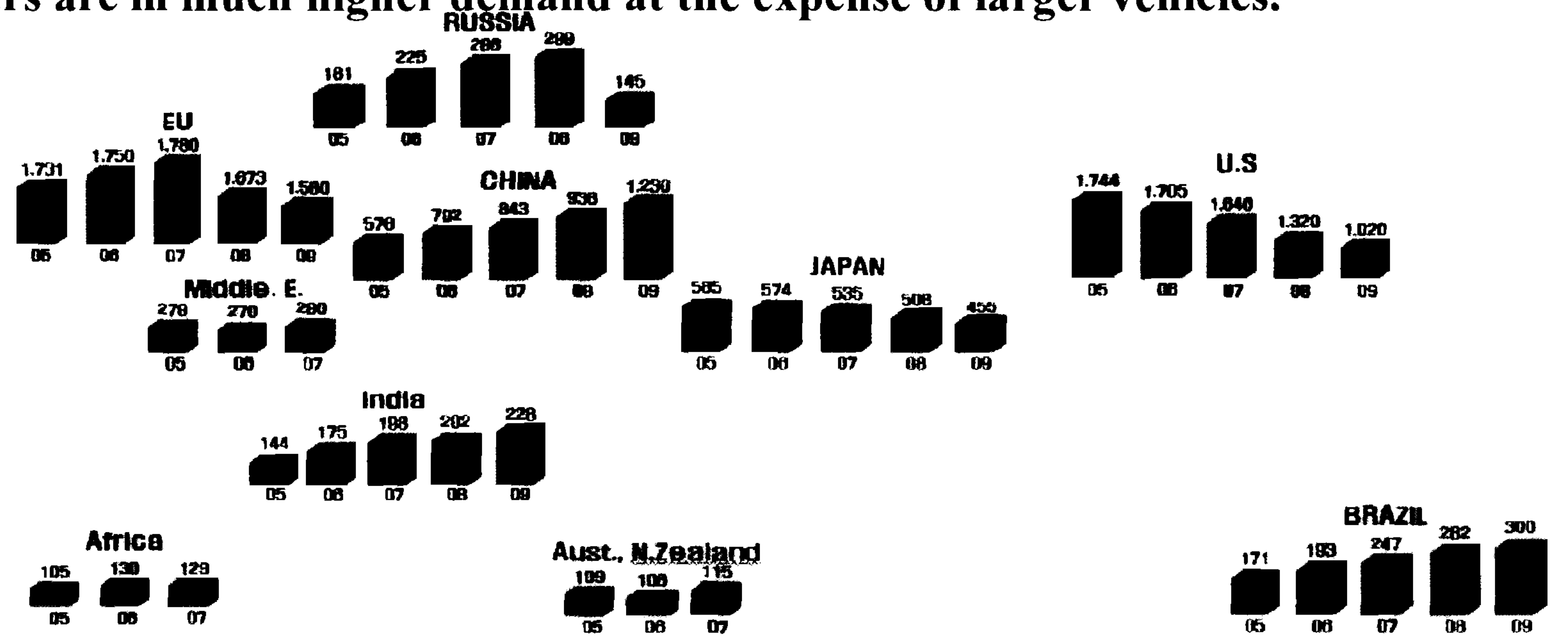
Ⅰ. Status and Challenges of the Global Auto Industry

□ Demand will increase in small car segment and developing countries.

- Manufacturers eager to produce small cars and alternative fuel vehicles.

< Figure > Automobile demand in major areas (Unit: 10,000 cars)

Due to CO2 regulations and changing consumer preferences, small cars are in much higher demand at the expense of larger vehicles.



That could be growth opportunity for low-cost production countries including China, India and ASEAN countries.

Ⅰ. Current Status and Challenges of Global Auto Industry

□ Domestic demand increases with government incentives

- Global demand decreased 17% to 49.2 million units during Oct. 2008~Sep. 2009 (year-on-year basis).
- China leads growth of global automobile sales

< Figure > Domestic sales of major countries (Unit: Thousands)

Source : Automobile Association of each country

Note : Jan.~Sep.

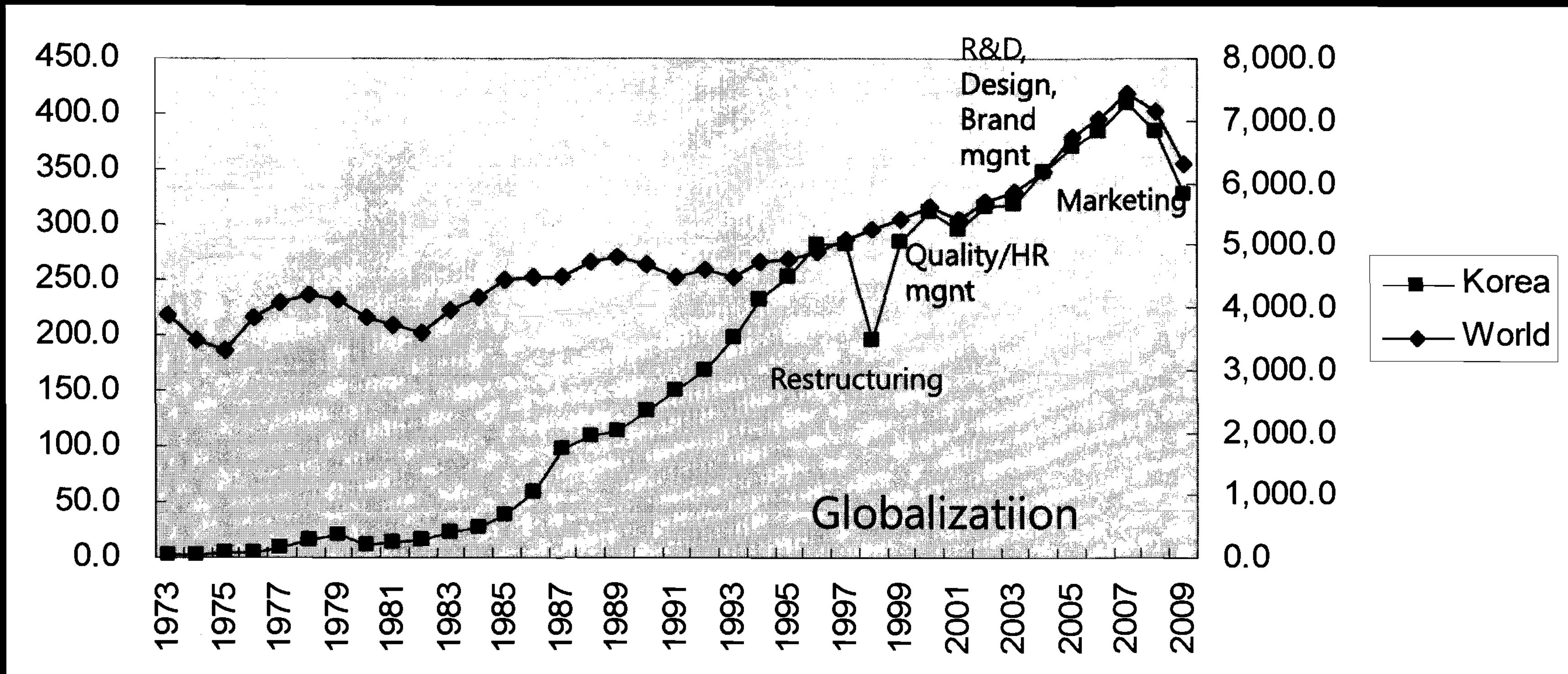
Ⅱ. Response by the Korean Automobile Industry

Ⅱ. Response by the Korean Automobile Industry

□ Foreign newspapers praise Hyundai's performance;

'With Low Prices, Hyundai Builds Market Share', The New York Times, 2009. 9.22
'Why Hyundai is a Hit', The Wall Street Journal, 2009. 9. 14
- Korean automotive companies emphasize their reliability and efficiency.

< Figure > Korea and World Vehicle sales (Unit: 10,000)



Ⅱ. Response by the Korean Automobile Industry

- Korean automobile production in September increased by 42.6% from Sept. 2008, due to a scrap subsidy and introduction of new models.
- Year-to-date auto production dwindled 14.0% amounting to 2,441,794 units.
- Vehicle sales at home achieved positive growth from May.
- Year-to-date domestic sales increased by 9.3% to 968,703 units.
- Exports in September 2009 increased by 26.1% to 225,411 units,
- Exports increased for the second consecutive month in September.
- Auto exports during the year to date registered at 1,486,819 units, 24.3% less figure than a year earlier

Ⅱ. Response by the Korean Automobile Industry

Korean Automobile Industry Trends

Increased automobiles & parts production	• Global Production: 5.8 million, Exports: 2.6 mil('09) 5th largest produc
Increased overseas capacity	• FX fluctuation response, enhance cost competitiveness, and closer relationship with customers • Overseas manufacturing capacity of 3.5 million units by 2011
Improved Quality	• Total quality management and technology development efforts • Ranked 3rd in '06 IQS, improved customer satisfaction
Strengthened parts industry	• Production: 107.7 trillion won('07), exports $US13.9billion(' 08) • Parts companies: 889(2008), % of foreign invested co.: 28%(257)
	• 90% of US technology levels (production 90%, quality 100%, production facilities 95%, design 85%)
	• Revaluation of the Korean Won, high oil prices →undermining profitability and price competitiveness

Ⅱ. Response by the Korean Automobile Industry

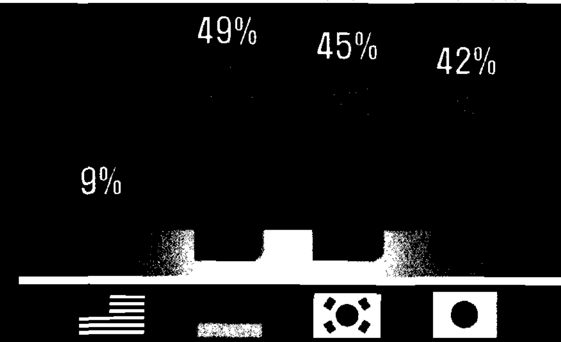
Small car production structure

- Production structure of small-mid cars: 2000cc or under range

→Large cars mkt share 23% → increased import demand

- Expanding model composition

→World market share increasing (09 : 9.6%)



<Small passenger car production>

Building of Basic Capability

- Weak competitiveness in green car technology
- Open innovation system centered on cooperative technology development

→Continued quality improvement, cost reduction, and JIT delivery

Brand	Ranking	Brand	Ranking
Scion	1	Hyundai	8
Honda	2	Porsche	9
Toyota	3	Mercury	10
Infiniti	4	Saab	11
Acura	5	Subaru	12
Mitsubishi	6	Suzuki	13
Lexus	7	KIA	14

Accelerating R&D Investment

□ Overall R&D investment of automobile companies increases

- Hyundai's investment has increased significantly
  * Average annual growth rate recorded 64% during 2004~2007.

- New models introduced and recent market share expansion.
  * Strengthening R&D capability of the parts industry (Sales to R&D ratio in 2007: Korea: 3.4%, Average of 84 Large Auto Companies : 4.2%)

〈 Table 〉 R&D Investment of Major Automobile Companies (2007)

Unit : million pound

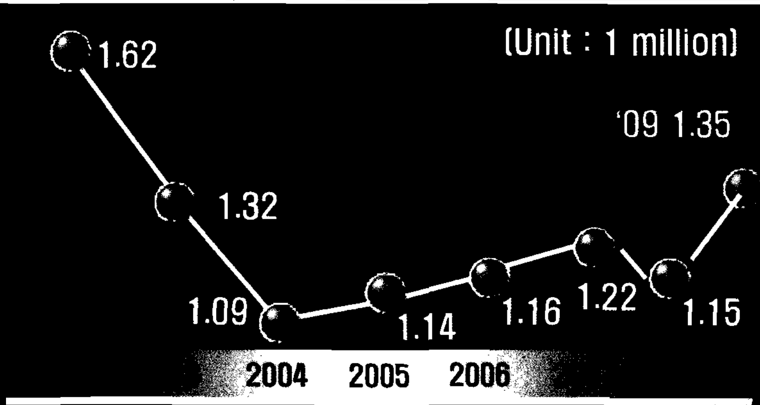
Name	Amount	Change(%)	Name	Amount	Change(%)
GM	4,069.13	23	Toyota	4,005.68	10
Ford	3,767.71	4	Honda	2,481.55	8
VW	3,615.87	16	Nissan	2,090.29	4
D.B	3,590.16	-7	Renault	1,808.30	3
BMW	2,309.22	-2	Hyundai	1,177.20	51

Source : U.K., Dept. of Business, Enterprise & Regulatory Reform. 2008

Ⅱ. Response by the Korean Automobile Industry

Boost domestic demand

- Bipolarization and high oil prices
→ negative effect on domestic demand
- Scrap subsidy boosted domestic demand
→ Shift from new demand to replacement demand
→ Domestic demand increased during Jan.~Sep. 2009 : 9.2%



<Domestic sales>

Support small-medium suppliers

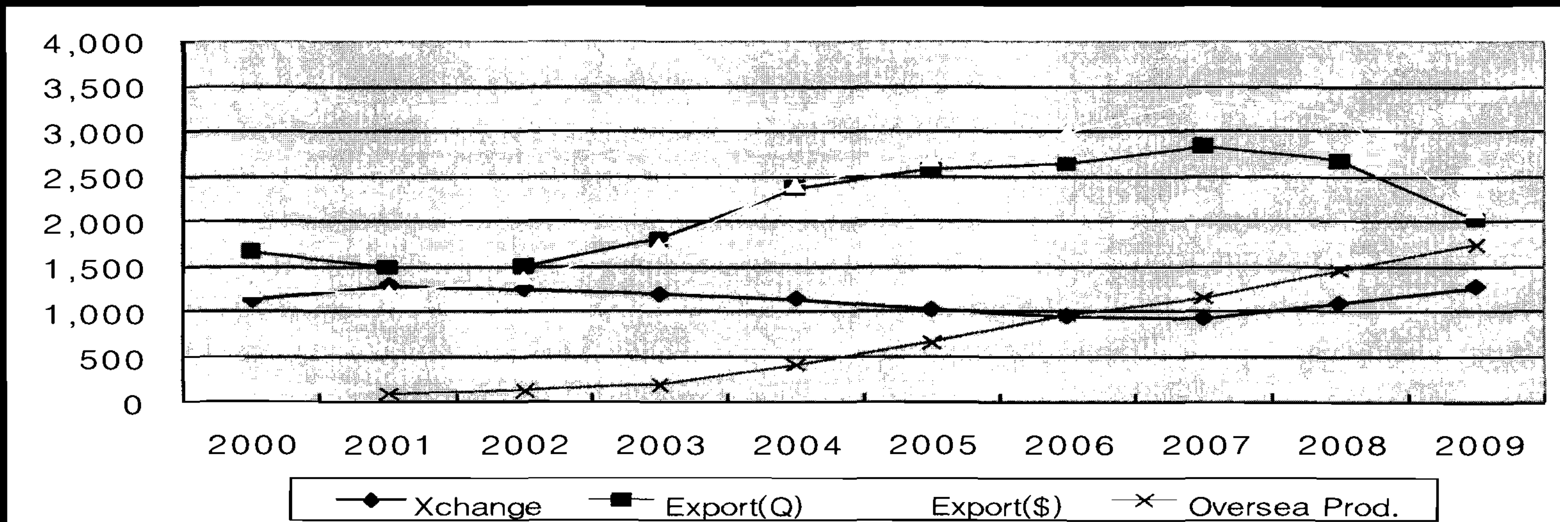
- SMEs account for 87% of 1st tier suppliers (3 cos in the top 100)
- High dependency on large corporations centered on domestic consumption
- Strengthening monitoring system on suppliers cash flow
- Raise regional funds with OEMs, local governments and financial institutes.

→Capability building in response to a cooperative supply chain and expanded open procurement of OEMs

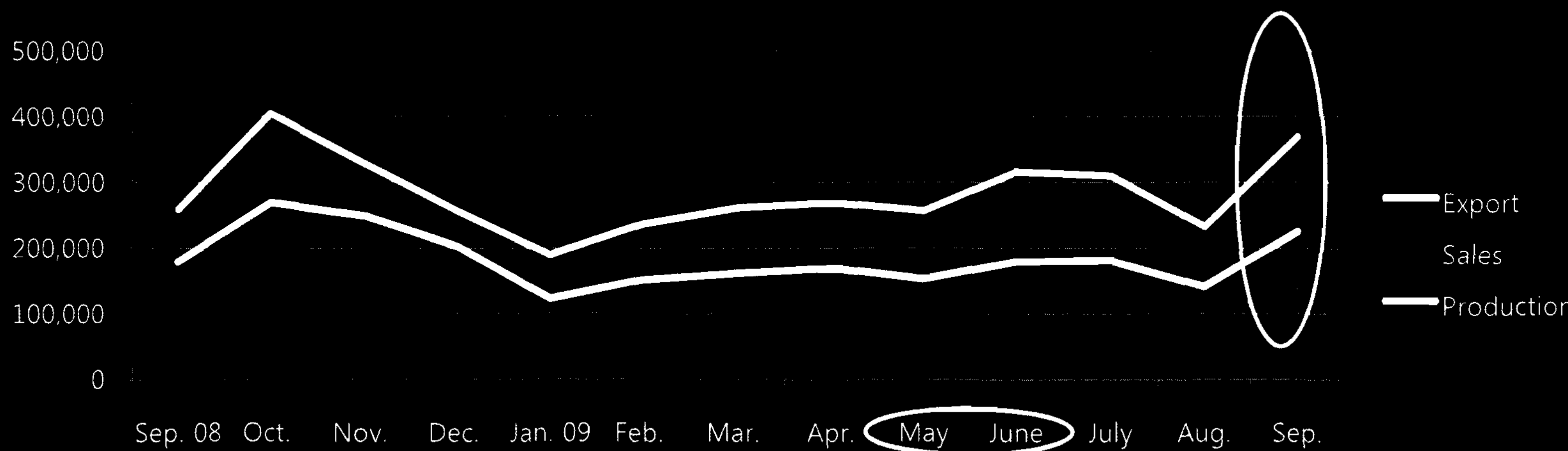
Ⅱ. Responsive Strategy of Korean Automobile Industry

□ Aggressive marketing efforts, but exports decreased for the first time in 7 years owing to the worldwide economic recession

< Figure > Long-term trend of Korean automobile industry Unit : thousand

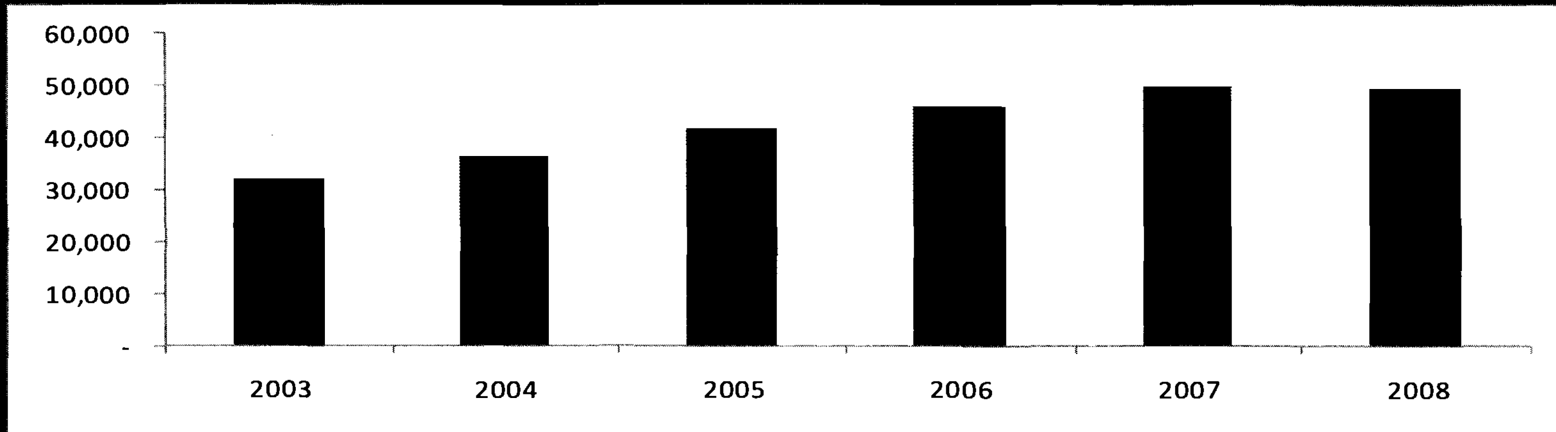


< Figure> Short-term trends in the Korean Automobile industry



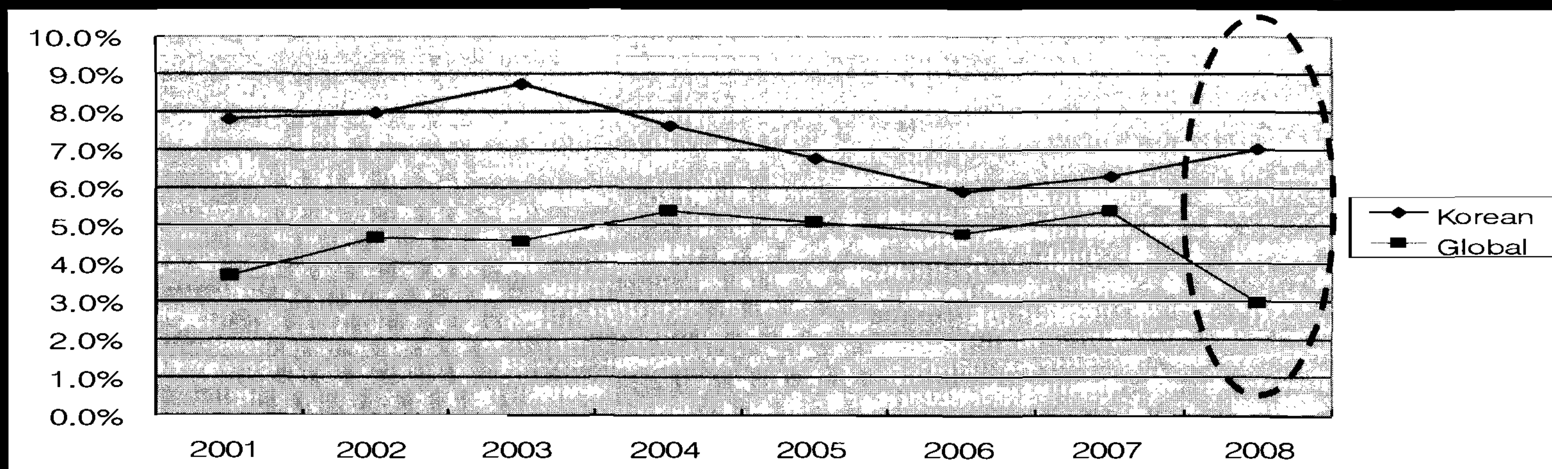
Ⅱ. Response by the Korean Automobile Industry

< Figure > Korean auto parts revenues (billions of Won)



Source : KAIKA

< Figure > Average operational profit rates of auto parts companies



Source : Korean Financial Supervisory Service and Roland Berger and Rothschild

Note : Comparison between 75 Korean auto parts companies and global 410 companies

Ⅱ. Response by the Korean Automobile Industry

□ Polarization of Korean auto assemblers

- Foreign companies in trouble because of parent company restructuring
- Overall export decreased, but foreign production of Hyundai and Kia increased by 18.1% to 1.33 million units.

〈 Figure 〉 Overall Figures for Auto Companies (2009)

Unit : ten thousand

	Production		Domestic Sales		Exports	
		% change		% change		% change
Hyundai	114	-6.1	49	11.4	64	-17.4
Kia	78	4.7	29	27.2	50	-1.7
GMDaewoo	37	-43.3	7.6	-22.6	30	-46.9
Ssangyong	2	-70.3	1.3	-58.4	0.7	-79.0
RenaultSamsung	13	-15.4	9	15.0	3.4	-53.9
Total	244	-14.0	975	9.3	149	-24.3

Source : KAMA

Note : January-September

Ⅱ. Response by the Korean Automobile Industry

Korean automobile industry

Strengths

- Skilled labor & Supporting Infrastructure
- ...nding global network
- ...se of R&D

Threats

- Rivalry in Green c... Development
- Rapid growt... hase of China
- High oi... erials price...

Opportunities

- Growing demand of g... cars
- Near growing markets (China, ASEAN & India)
- Expanding FTAs with major auto market countries

Weaknesses

- Disadvantage in basic & core technology
- Low productivity
- Vu...erable to the exchange rate

Ⅲ. Green Innovation and the Role of Suppliers

Ⅲ. Green Innovation and the Role of Suppliers

□ Present: Restructuring for Survival

□ Future: Sustainable Growth with Green Cars :

- Not size but environmentally-friendly and fuel efficiency

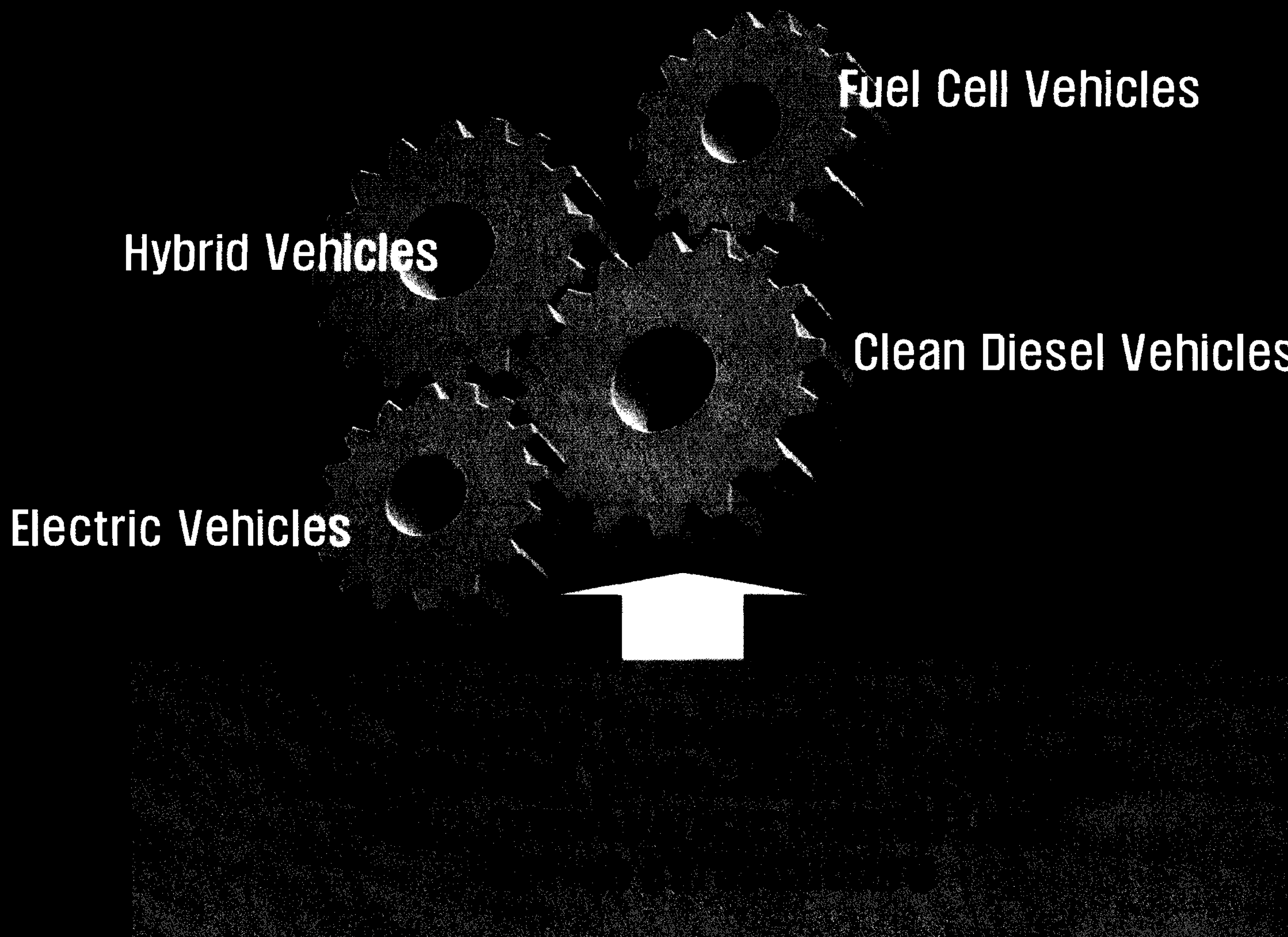
□ Age of convergence

- The wave of M&As, equity partnerships and strategic alliances will continue in the auto industry

- Eco + Powertrain + Information technology
  * Battery, Motor, Controller, Inverter, Converter, Amplifier

Ⅲ. Green Innovation and the Role of Suppliers

1. Developing Technology Infrastructure for Green Vehicles



Ⅲ. Green Innovation and the Role of Suppliers

□ The role of government is key for green car development and commercialization. Government should continue to partner with the auto industry on research to reduce oil dependency.

- Government should develop a technology roadmap with related industry and provide R&D incentives to facilitate green car development and stimulate demand.
- General research agenda for automobile industry
  - Hybrid vehicle systems
  - Energy storage
  - Power electronics and electric machines
  - Advanced combustion engines
  - Alternative fuels and lubricants
  - Advanced materials (Lightweight but high strength)
  - Construction & Deployment : Infrastructure & Clean Cities

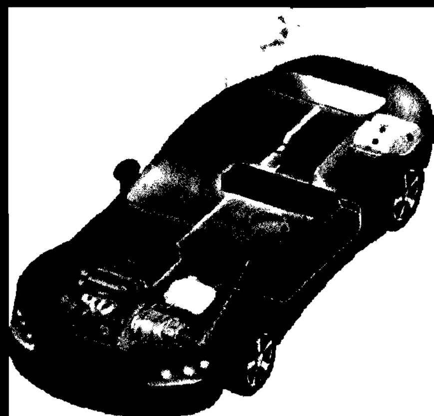
Ⅲ. Green Innovation and the Role of Suppliers

Vision		**Global Top 4**
Goal	2013	-Annual production of 100 thousand hybrid cars -Start mass production of plug-in hybrid, electric & fuel-cell cars -Reduce Energy consumption by 1.75 million kl
	2018	-Annual production of 500 thousand hybrid cars & 30 thousand fuel-cell cars - Increase exports by $9 billion -Reduce CO_2 emissions by 13 million tons annually

Strategy	Support R&D	Strengthen Parts industry	Building Infrastructure	Create Market
Action Plan	Core & basic technology development Localization of High Value-added materials Secure Measure/ proof tech.	Foster Tech-leadership Strengthening global competence Secure Standard certification & reliability	Standardization of Systems Preoccupation of Int'l Standard of Green car tech. Training of design & engineering experts	Tax & financial Incentive Facilitating Green car demand Institutional amendment of proof programs

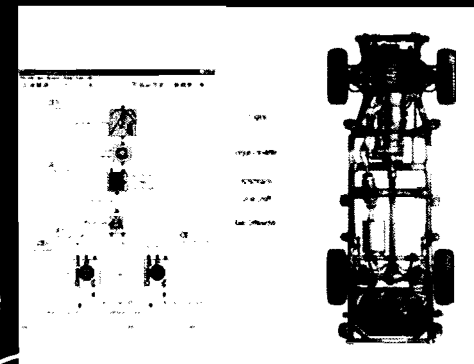
Ⅲ. Green Innovation and the Role of Suppliers

2. Core Technologies and Integration



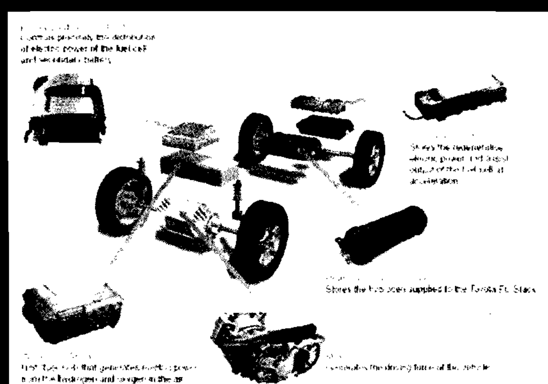
Development of PHEV

Enhancing Clean Diesel Performance



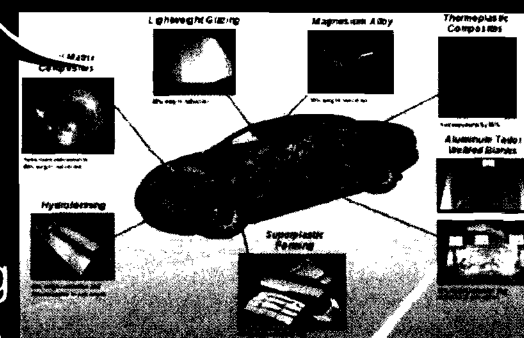
System

Integration



Core Technology Development of EV/FCEV

Reducing Weight Developing Alternative materials



Ⅲ. Green Innovation and the Role of Suppliers

□ Formation of collaborative innovation ecosystem

- OEMs assistance for developing technology of suppliers

* HMC already formed a green innovation ecosystem with more than 300 suppliers and supports their technology and parts development.

- **R&D collaboration will be required between OEMs and suppliers.**

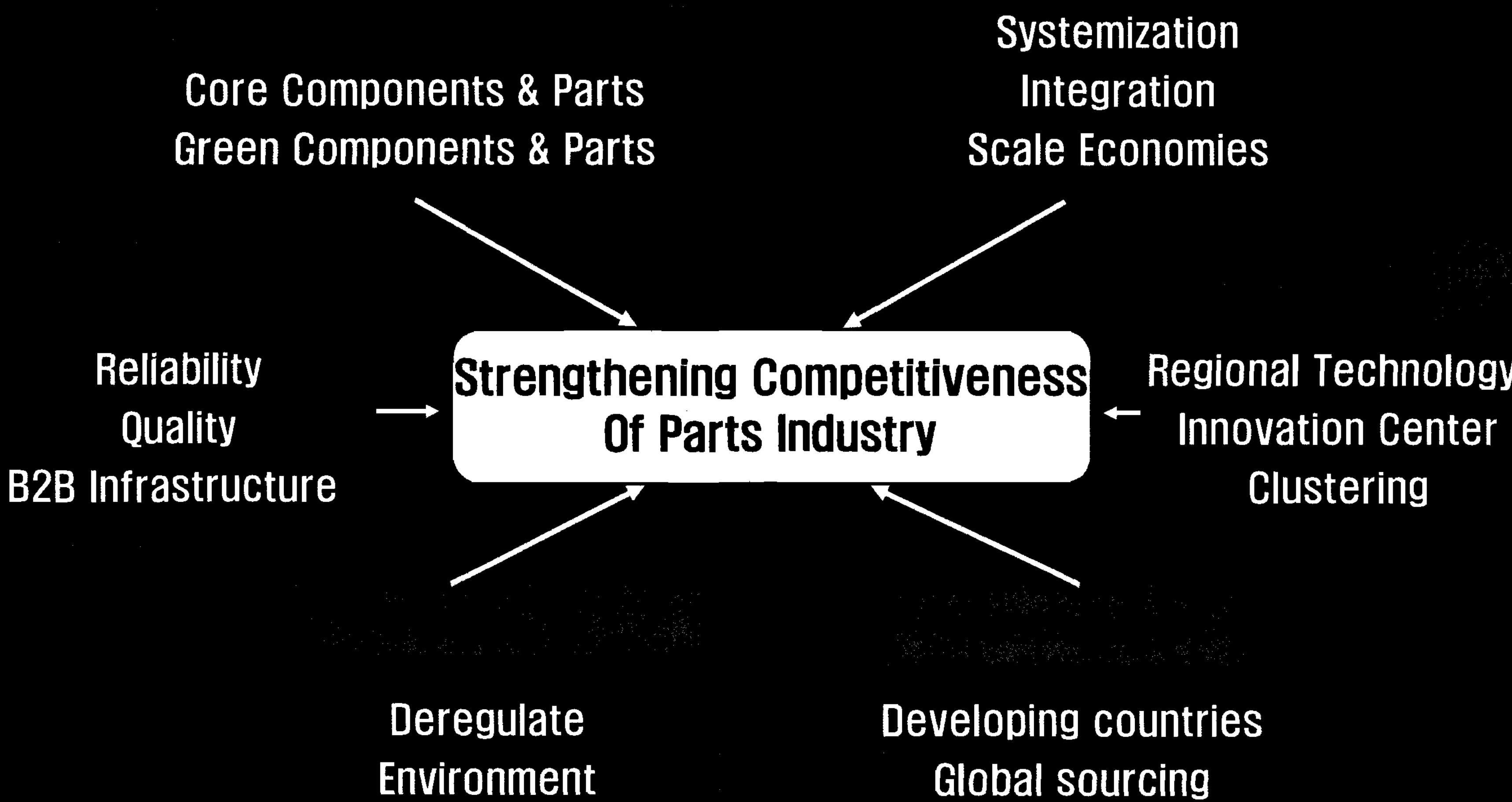
*** R&D costs are increasing for developing green car related technology.**
*** To facilitate green car sales, prices should be lowered with the help of suppliers.**

Growing responsibilities of suppliers for sharing R&D investment and cost reduction.

- Strategic alliances and network competition among auto companies will be intensified.

Ⅲ. Green Innovation and the Role of Suppliers

3. Establishing a Global Supply Base



Thank you

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Cre

Pre

eating Opportunitie s through Green Growth

November 2009

Heung-Kyeong PARK
Director General
esidential Committee on Green Growth

Contents

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I. Imperative for Change

Crises forces change

Climate Impact

- average temperature rise 1.7℃ (2 times more than world average)

Energy security vulnerability

- 140 billion USD energy bill

Economic slow-down

- growth rate declining since the Asian economic crisis in late 1990s
- growth without rise in employment

"New path is needed"

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II. Green Growth, Turning Crises into Opportunities

What is Green Growth?

What do we mean by Green Growth?

’as we go green - we generate money & jobs”

<Elements of Green Growth>

- Green Technology as a new growth engine
- green energy paradigm
- Improvement in quality of life
- Contribution to the global community

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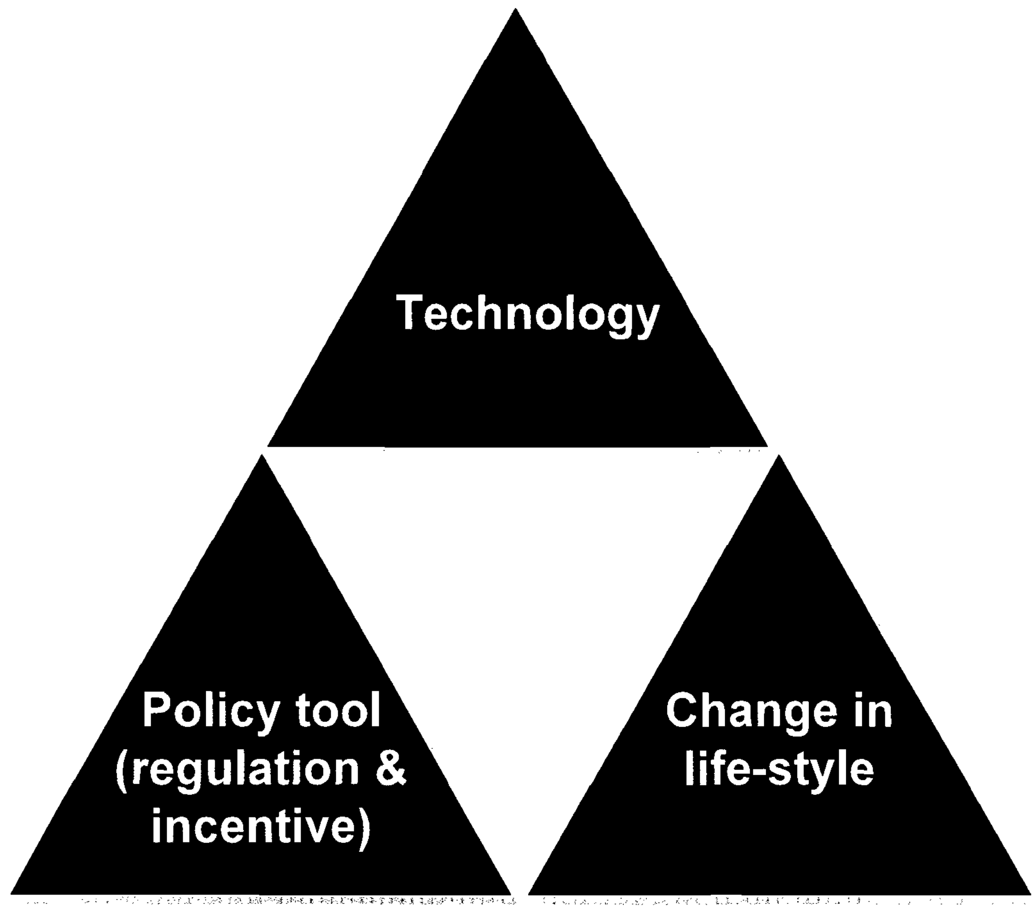
II. Green Growth, Turning Crises into Opportunities

How can we achieve Green Growth?

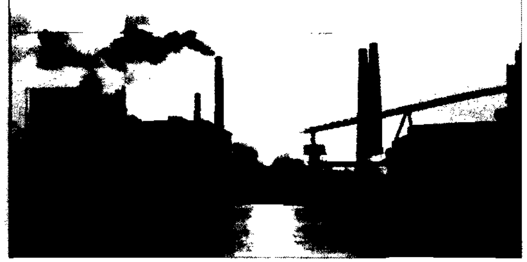


II. Green Growth, Turning Crises into Opportunities
Presidential Vision

Creating New 60 years (announcement of a new national vision in the 60th anniversary of the founding of the Republic on August 15th 2008)

Last 60 years

Economic growth



Next 60 years

Green growth

More than just an environmental policy
- a new paradigm of progress
- changing people's behavior and way of thinking

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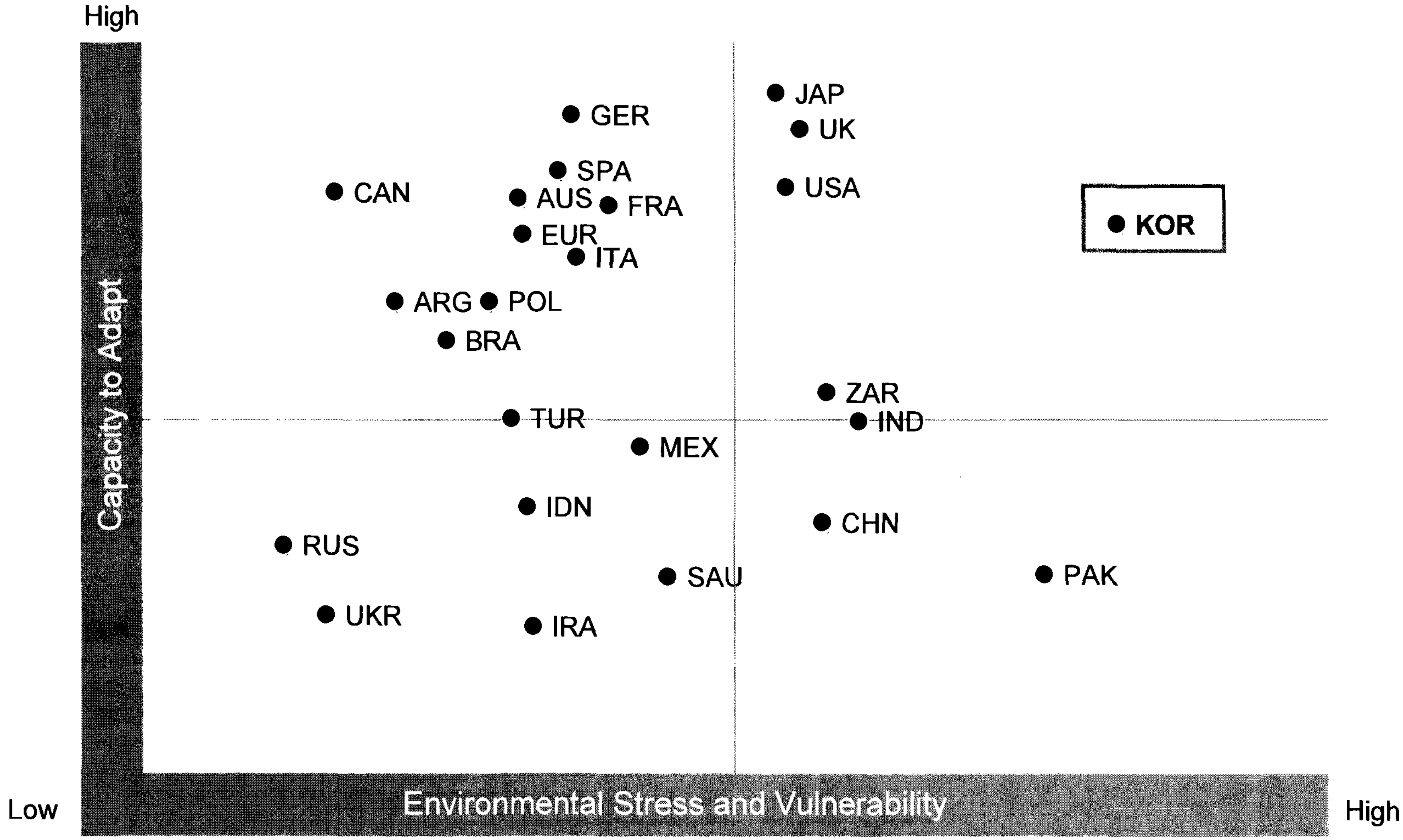
II. Green Growth, Turning Crises into Opportunities

The logic



Source : ESI, Morgan Stanley Research

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II. Green Growth, Turning Crises into Opportunities

The logic

Capacity to adapt · top leadership	Energy dependent industry
Opportunity as a new growth engine	Internal & external uncertainty

II. Green Growth, Turning Crises into Opportunities

What are the distinctiveness of Korea's green growth?

Strong Green Leadership

- Strong drive from the top leadership

Fast integration of the Vision in all sectors

- Partnership with private council (business, financial sector, technology experts etc.)

Strong industrial base in relevant areas

- large competent players

Turning the vision into "real actions"

- Setting up Green Budget of 2 % of GDP to enable real actions

III. Turning Grand Vision into Real Actions

What do we need to realize 'Green Growth' vision ?

Sustained Drive

key role for the Presidential Committee on Green Growth

Legal Framework	early ratification of the Basic Act on Green Growth
Strategy Plan	-inherits the spirit of the "Economic Development Plan" in the 60~80s * 5 year implementation plans - new "green saemauel movement"
Green Budget	- Green New Deal - Re-orientation of private-public finance toward green (policy, R&D, SOC)

National midterm GHG reduction target
- set this year -

III. Turning Grand Vision into Real Actions

Basic Act on Low Carbon Green Growth

Composition

- 7 chapters and 65 articles
- a basic act – it has priority over all relevant laws regarding Green Growth

Key provisions

1) legal ground for the **Presidential Committee on Green Growth** and mandates the committee to develop a **national strategy for Green Growth**.
2) mandates the government to **foster and support green economy, green industry**, and the **transformation of conventional industry**.
3) foster **financing for green technology R&D and green investment**, as well as, mandates to promote **environment friendly tax reform**.
4) mandates government to set concrete **targets for GHG emission reduction**, energy saving, energy security, and renewable energy supply.
5) mandates for mandatory **reporting of GHG emission** for businesses. Provides the legal framework to introduce **cap & trade system** in Korea.
6) articles on environment-friendly **land use, green building, low carbon transportation, green consumption and production**, and other issues related to sustainable development.

III. Turning Grand Vision into Real Actions

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III. Turning Grand Vision into Real Actions

Green New Deal

Background & Key projects

- Green New Deal announced on Jan. 2009 - 9 key projects and supporting projects
- focused on job creation as well as building the foundation for low carbon economy transition

	Project Name	Budget (billion KRW)			Job Creation (# of jobs)		
		2009	~ 2012	total	2009	~ 2012	Total
	total sum	4,363	45,687	50,049	93,360	863,060	956,420
KEY PROJECTS	• 4 Major River Revitalization	488	13,990	14,478	7,000	192,960	199,960
	• Green Transportation	1,835	7,819	9,654	25,042	113,025	138,067
	• Integrated Territory Management	25	347	372	816	2,304	3,120
	• Water Resource Catchment	185	758	942	3,063	13,069	16,132
	• Green Car & Clean Energy	321	1,732	2,053	1,643	12,705	14,348
	• Waste Resource Reuse	51	879	930	2,377	13,819	16,196
	• Forestry	313	2,104	2,417	22,498	148,204	170,702
	• Green Home, Green School	-	8,050	8,050	-	133,630	133,630
	• Ecological River	5	479	484	393	10,396	10,789
	Support Projects	1,140	9,530	10,670	30,528	262,038	141,639

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III. Turning Grand Vision into Real Actions

National Strategy for Green Growth & Five Year Implementation Plan

Current Status

- a multi-agency + research institute participating project
- strategy and 5 year implementation plan being developed (target date July 2009)

Key Framework

Vision	**A Model Green Nation** - through creating virtuous harmony of environment & economy		
Objectives	**Increasing Energy Security & Climate Adaptation**	**New Engine for Growth**	**Enhanced Quality of Life & Int'l Leadership**
10 Key Agenda	• Build Low Carbon Society •Enhance Energy Security •Strengthening Climate Actions	• Develop Green Tech. • Foster Green Industry •Greenovate Industrial structure •Lay Foundation for Green Economy	• Green Transportation & Land Management • Green Life Revolution •Global Green Leader

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III. Turning Grand Vision into Real Actions

Policy Tools

Public sector's own investment on infrastructure and R&D technology

- Infrastructure: improving mass-transit system, water quality, green-home project, etc.
- R&D in low emission vehicles

Regulation along with Incentives

- RPS (Renewable energy Portfolio Standard)
- Eco-friendly Tax System

Moral Suasion

- Carbon point, carbon cash-back

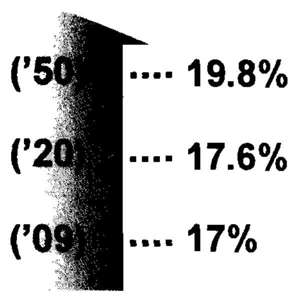
1. Low Carbon Society

Strategies

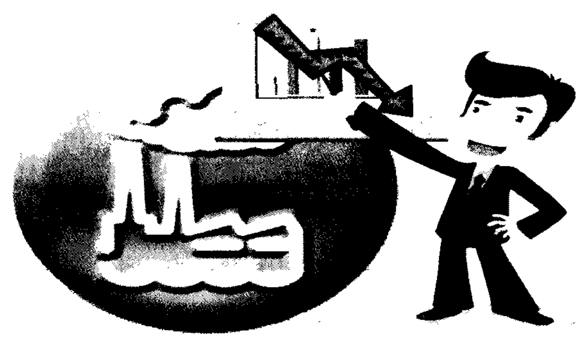
- National GHG info Management System
  - set emissions reduction goal
  - enhance carbon visibility
- Encourage Carbon-3R Activities
- Inter-Korea Cooperation for the Green Korean Peninsula

Indicative target

○ Carbon-3R Rates



Reduce GHGs



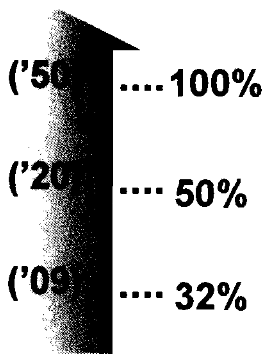
2. Energy Security

Strategies

- Energy Conserving Society
- Expand Clean Energy Development & Deployment
- Expand Safe Nuclear Energy
- Expand off-shore Energy Source Development

Indicative target

○ Enhance Energy Independence



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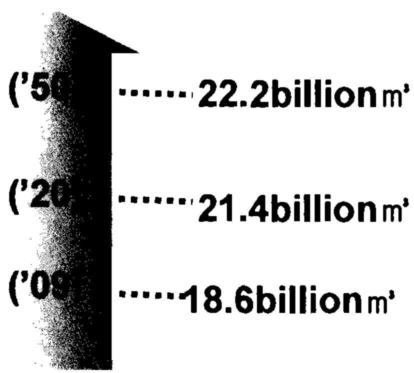
3. Strengthen Climate Actions

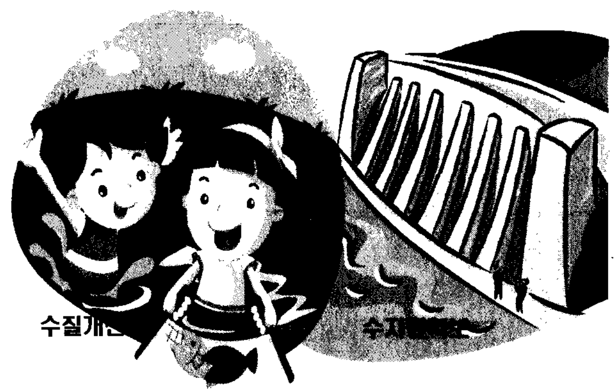
Strategies

- Improve monitoring& early warning system
- Improve climate adaptation & address related health risks
- Improve food security
- Improve water resources management

Indicative target

○ Secure Water Resources





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4. Develop Green Tech

Strategies

- Strategic Promotion of Green tech innovation
- Strategic Investment in Green R&D
- Core Green technologies
  - LED, CCS, Clean Cars, Renewables

Indicative target

○ Invest in Green tech R&D

('50 ···· 30%

('20 ···· 25%

('09 ···· 16%

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5. Fostering Green Industries

Strategies

- Resource-circulating economy & society
- Green conversion of industries
- Foster green SMEs
- Build green clusters

Indicative target

○ Export in Green Products

('50 ···· 35%

('20 ···· 22%

('09 ···· 10%

6. 'Greenovate' Industrial Structure

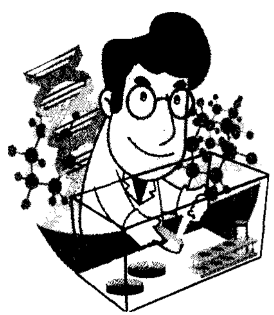
Strategies

• Foster high tech fusion industry

• High value added service industry

Indicative target

○ Export in IT fusion industry		○ Export in contents
$349billion	**('50)**	**$50billion**
$144billion	**('20)**	**$10billion**
$ 75.5billion	**('09)**	**$5.8billion**



7. Build Green Economy Basis

Strategies

- Invigorate Carbon Market
  - Cap & trade, Emissions related business
- Green Financial Infrastructure
  - Sustainable banking, Green fund
- Eco-tax
- Create green jobs

Indicative target

○ Domestic Carbon Market

('50 ···· **5 trillion won**

('20 ···· **2 trillion won**

('09 ···· **Getting ready**

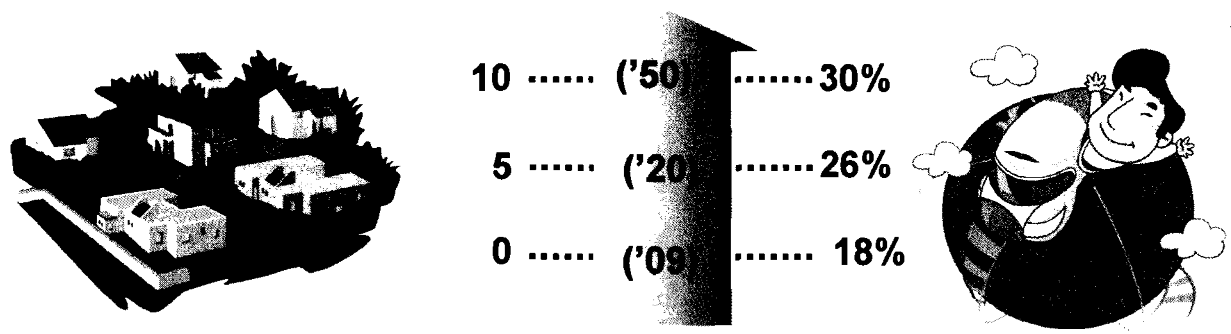
8. Green Land·Transportation

Strategies

- Expansion of Green Home & Green Buildings
- Green cities
- Expand Eco space
- Green Public Transportation bicycles & Promote Green Cars

Indicative target

○ UN Green Model Cities ○ Proportion of railway transportation



9. Green Life Revolution

Strategies

- Introduce Eco-point system & expand Carbon labeling
- Promote green consumption & green lifestyle
- Promote green growth education & public awareness

Indicative target

○ Carbon label certified products

- ('50) .... 4,000 items
- ('20) .... 1,000 items
- ('09) .... 50 items

10 Global Green Leader

Strategies

- Enhance int'l cooperation for green growth and climate action
- Increase Green ODA & support developing countries
- Build Green Hub Korea

Indicative target

○ Green ODA ○ EPI

40% …. ('50 … 8th

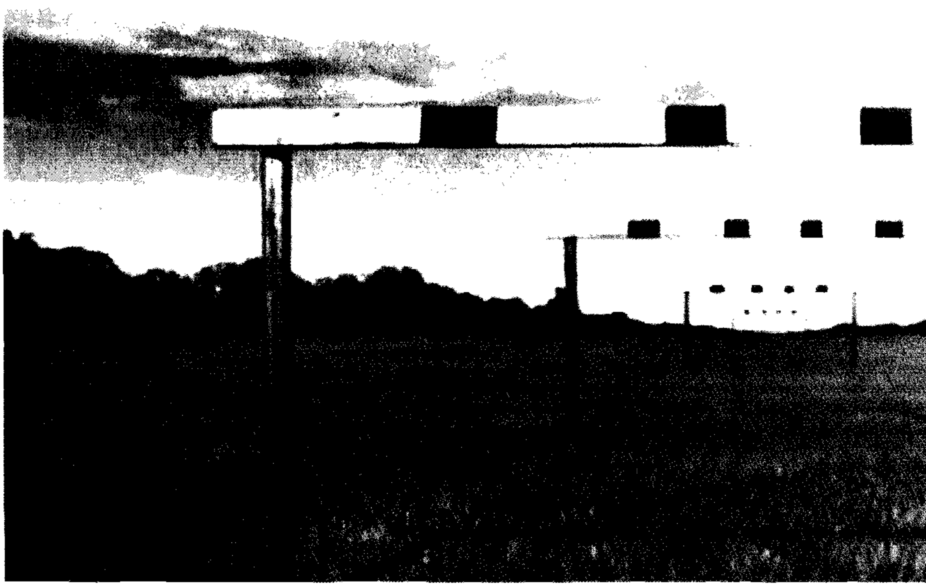
30% …. ('20 … 20th

14% …. ('09 … 51st

IV. Challenges Ahead

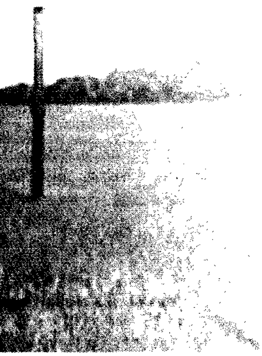
Continued support from the public

- the key to success of Green Growth



Support from business community

- meeting its needs to adapt & change
- setting a price on target
  : emission trading & carbon tax

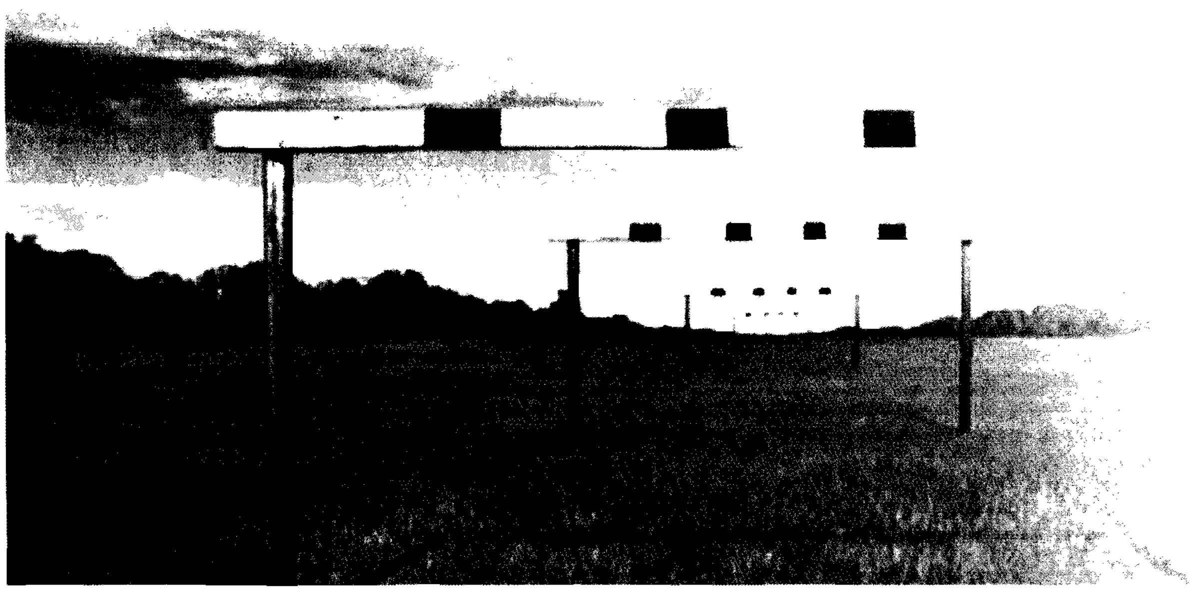


GREEN
GROWTH
KOREA

IV. Challenges Ahead

**M.L. King didn't stir people to action by proclaiming,
"I have a nightmare."**

A. Giddens, 『*The Politics of Climate Change*



Green Growth is not an option but, the only option

Green Growth is not plan B, it's the Plan A

It is the strategy of change that jumps over the chasm

and it is a concept of creativity that opens unthought-of possibilities

Arrival of an Era of Green Growth

Jee Hoon Lee
Samsung Economic Research Institute

Green growth: the pursuit of both environmental and economic growth

Green Growth

- Green growth is a new paradigm for economic growth that attempts to reduce carbon emissions and encourage more environmentally friendly industry

  - Low carbon emissions is a passive way of dealing with climate changes through reduction of CO_2 emissions from industry and transport

  - Green "industrialization" refers to a more proactive way of improving the market by creating environmentally-friendly business models and technologies and using them to create new growth

Key motivators behind the emergence of green growth

- **Full-fledged discussions on climate change**

  - The focus is on how to make it mandatory for the US and developing countries to reduce carbon emissions

- **Growing concerns about the exhaustion of energy reserves**

- **Increased growth potential of the green market**

  - Size of the carbon emissions right market
  $63 billion (2007) → $150 billion (2010)

Overseas best practices for green growth

The world's major countries are focused on attaining first-mover advantage in the green market

Japan

-Japan has established a new vision to transform itself into a low carbon society from 2007. To achieve this goal, the country has focused on the development of core technologies in the areas of energy efficiency and renewable energy

NEDO (New Energy Develop

Led by NEDO, Japan has establishe
investment strategy to carry out a c
commercial value of new technolog

Overseas best practices for green growth

EU

The EU has attempted to take the initiative in the green market through the introduction of a string of rigorous environmental regulations

- The reduction of CO_2 emissions for automobiles 140g/km (2008) → 125g/km (2015)

- Promotion of joint technology development among EU members based on the Renewable Energy Directive

Overseas best practices for green growth

US

Development of next-generation technologies

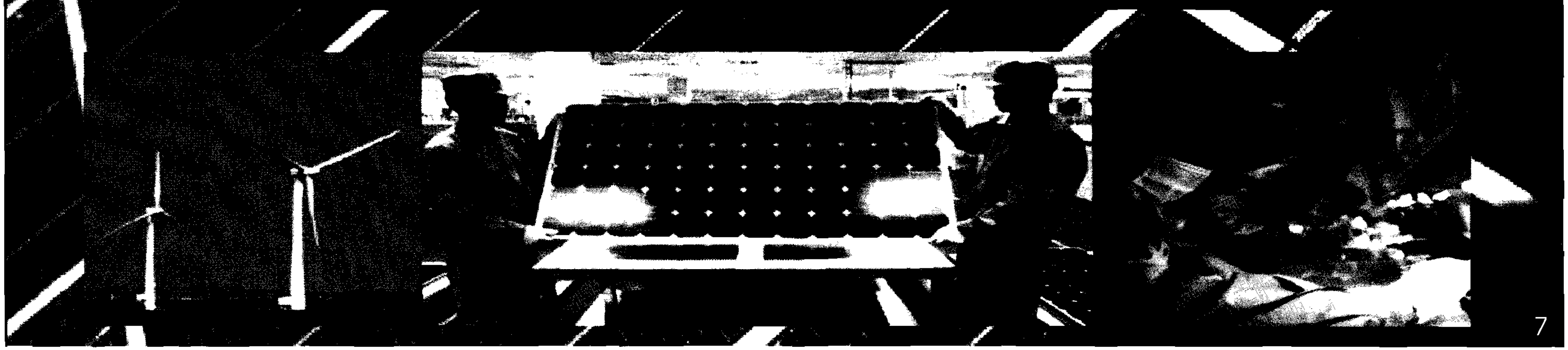
- Well aware that the silicon solar cell market is already dominated by German and Japanese firms, US companies have expanded their investments in non-silicon solar cell technologies
- The US is also carrying out intensive R&D programs in large-scale solar power generation, ligno-cellulosic bioethanol, and IGCC

Overseas best practices for green growth

China

Cultivation of global leaders

- China, typically regarded as one of the world's major polluters, is now also cultivating renewable energy. China now retains the world's second largest solar cell producer, Suntech, and the world's seventh largest wind power turbine company, Goldwind



Global firms take the green initiative

Toyota

- Toyota succeeded in commercializing the world's first mass market hybrid vehicle "Prius" in 1997
- Toyota has released a total of 12 hybrid cars, with cumulative sales estimated to have surpassed 1.5 million vehicles

Gazprom (Russia)

- The world's largest natural gas producer
- It has pursued a strategy of linking exports of natural gas with carbon emission rights

Carbon neutral: This refers to activities that neutralize the effect of corporate CO_2 emissions. To neutralize CO_2 emissions, businesses can purchase carbon emission rights, invest in new renewable energy, or plant new trees, so that their business activities do not, on balance, contribute to global warming

Green competitiveness

- SERI has developed a green competitiveness index aimed at diagnosing green competitiveness among 15 major countries

The index, which combines two subindices called the low carbon index and the green industrialization index, evaluates national competitiveness that enables green growth through low carbon emissions and green industrialization.

Korea was ranked No. 11 in terms of green competitiveness

Classification	Japan	Netherlands	Germany	UK	US	Korea	China	OECD
Green competitiveness index	**112.8 (1)**	**111.1 (2)**	**109.3 (3)**	**109.0 (4)**	**103.2 (7)**	**97.4 (11)**	**81.9 (14)**	**104.3**

Green competitiveness

Low carbon index

Classification	Japan	Netherlands	Germany	UK	US	Korea	China	OECD
Low carbon index	**114.0 (1)**	**110.3 (2)**	**105.2 (6)**	**108.3 (3)**	**101.4 (9)**	**88.2 (13)**	**81.1 (15)**	**104.3**

Green industrialization index

Classification	Japan	Netherlands	Germany	UK	US	Korea	China	OECD
Green industriali-zation index	**110.9 (1)**	**110.4 (3)**	**110.8 (2)**	**108.5 (4)**	**103.8 (7)**	**102.3 (8)**	**84.1 (14)**	**103.8**

Note: 1. Figures for OECD countries (excluding Korea) are an average of the surveyed countries' index

2. Numbers in parentheses refer to rankings within the surveyed 15 countries

Green industry is a future growth engine

A promising future ahead for green industry

Government

- Improvement of the legal and regulatory infrastructure
- Establishment of a concrete strategy for the development of green industry on the basis of three factors: technology, industry, and export competitiveness

Businesses

- Maximum use of capabilities to explore new business opportunities in the emerging green market
- Strengthening of green marketing aimed at promoting a more environment-friendly image