

The *Asia Economic Monitor* (AEM) is a quarterly review of East Asia's growth and recovery, financial and corporate sector reforms, and social developments. It covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China and Republic of Korea. The analysis is supported by high-frequency indicators compiled from the ARIC Indicators section of the Asian Development Bank's Asia Recovery Information Center web site (<http://aric.adb.org>).

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Highlights

- Last year, East Asia experienced its second major external shock in half a decade. A synchronized slowdown in the industrial countries and the collapse of the information technology industry worldwide led to a significant drop in demand for the region's exports.
- Many countries in the region responded with fiscal stimulus measures and interest rate reductions. These measures supported domestic demand and cushioned the external shock somewhat. Yet, the region posted its second slowest growth in decades.
- During the 1997-1998 financial crisis, the countries with open capital accounts were the most affected. By contrast, since last year's shock was primarily one of export demand, countries that were more open to international trade slowed more than others.
- In the aftermath of the 11 September attacks on the US, there was a consensus that East Asia's economic slowdown would deepen, with the rebound occurring some time in the middle of this year. The December 2001 issue of *Asia Economic Monitor* (AEM) reflected this view.
- Global and regional economic developments since then, however, have prompted greater optimism toward the region's immediate economic prospects:
 - As the December 2001 AEM had conjectured, the economic fallout from 11 September has, so far, turned out to be less disruptive than was originally feared.
 - The US economy seems to have bottomed out and appears to be recovering faster than expected.
- For most of the more open and globally integrated East Asian countries, these developments bring good news. Hard on the heels of the better than expected performance of the global economy, signs have started to emerge that last year's economic slowdown in East Asia has perhaps also bottomed out:
 - Exports are showing signs of picking up because of a steady improvement in world electronics demand since November last year.
 - Domestic demand, which cushioned the slowdown somewhat last year, seems to be strengthening in several countries.
 - Reflecting trends in exports and domestic demand, growth slowdown in aggregate gross domestic product as well as manufacturing appears to have stabilized in the last quarter of 2001 in several countries.

Acronyms, Abbreviations, and Notes

ADB	Asian Development Bank
ADO	Asian Development Outlook (ADB)
AEM	Asia Economic Monitor
AMC	asset management company
ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
CAR	capital adequacy ratio
EU	European Union
GDP	gross domestic product
IBRA	Indonesian Bank Restructuring Agency
IIF	Institute of International Finance
IMF	International Monetary Fund
IT	information technology
JCI	Jakarta Composite Index
KAMCO	Korea Asset Management Corporation
KLCI	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
Lao PDR	Lao People's Democratic Republic
NASDAQ	National Association of Securities Dealers Automated Quotation
NPL	nonperforming loan
PCOMP	Philippine Stock Exchange Composite Index
PRC	People's Republic of China
REMU	Regional Economic Monitoring Unit (ADB)
SET	Stock Exchange of Thailand
STI	Straits Times Index (Singapore)
TAMC	Thai Asset Management Corporation
WEO	World Economic Outlook
q-o-q	quarter-on-quarter
y-o-y	year-on-year

Note: In this publication, "\$" denotes US dollars, unless otherwise specified.

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– Stock markets have rebounded significantly since the fourth quarter of last year. In recent months, rentals and vacancy rates have also firmed up in several Asian cities.

- The main message of this report is that East Asia is moving from last year's sharp and synchronized economic slowdown to a faster-than-expected—but moderate—rebound.
- Despite this year's faster-than-expected rebound, for four of the five crisis-affected countries (except Korea), the five years since the 1997 financial crisis are effectively a lost half decade in terms of improvements in per capita incomes.
- The London-based Consensus Economics Inc.¹ now projects East Asia's average growth to reach 5.2 percent in 2002, an improvement on its forecast of 4.7 percent issued in December. Building on this year's rebound, East Asia's growth will strengthen to more than 6 percent in 2003.
- To ensure sustained rapid growth and resilience against external shocks, East Asian countries need to work toward achieving not only sound macroeconomic fundamentals but also sound structural fundamentals. Key to attaining these objectives is expeditious completion of the remaining agenda of financial and corporate sector reforms and restructuring.
- Reforms at the national level need to be complemented by further strengthening of ongoing initiatives to promote greater monetary and financial cooperation at the regional level.

¹A private institution that collates forecasts from 200 economic and financial forecasters from more than 70 countries around the world.

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