Asia's Recovery—
A Regional Update

Highlights

Growth and Recovery in 2001

• The March 2001 Asia Recovery Report (ARR) and East Asia Economic Outlook (EAEO) of May 2001 had concluded that in the wake of slower global growth and a deceleration in world electronics demand, there would be a sharp slowdown in economic growth in most East Asian countries in 2001.

• Developments in the region, especially the growth outturn in the first quarter of 2001, support this assessment. Most of East Asia, with the exception of the People’s Republic of China (PRC), experienced a slowdown in the first quarter of 2001.

• On the demand side, weak exports from the region have played a key role in slowing growth. As expected, small open economies that depend heavily on electronics exports have seen the sharpest slowdown in growth.

• Since the beginning of the year, with the exception of the PRC, regional stock markets have been largely affected by US stock market volatility, especially in its technology segment, while slowing growth has been accompanied by weakening regional currencies.

• It is encouraging that there was further progress in financial and corporate restructuring. However, the region has a long way to go in making financial and corporate sectors resilient to future shocks.

External and Domestic Risks

• Since the release of the March ARR, downside risks to the region’s growth—both external and domestic—have increased somewhat.

• On the external front, recent data from US, Japan, and Europe suggest further downward drift.

– This month’s report from the Federal Reserve Board in the US suggested that the economy was barely growing and suffering from weaknesses across many industrial sectors.

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Emerging economic trends in Japan are not encouraging either. Some analysts caution that the economy may have already slipped into its fourth recession in a decade.

- Europe, which only a few months ago was expected to post robust growth, is now showing clear signs of slowing close on the heels of the US. The European Central Bank has cautioned that the troubled international environment might deliver a bigger-than-expected blow.

- On the domestic front, several factors that impinge on economic performance have worsened in recent months.
  - The political situation in Indonesia has deteriorated and significant policy drift continues as a result.
  - In the Philippines, despite a favorable outcome in the May elections for President Arroyo’s party and approval of the crucial power sector reform bill, the recent hostage crisis has once again jolted investor confidence.
  - Charges of concealed wealth against the new Prime Minister in Thailand cast doubts on political stability. Several ministerial statements also appear to have questioned the need for market-oriented reforms.
  - In many countries, a reluctance to push ahead with the more difficult and politically challenging reforms—a sort of “reform fatigue”—is also evident.

### Economic Outlook

- Heightened external and domestic risks point to a continuation of low economic growth at least over the next few months deepening the expected slowdown in 2001.

- The London-based Consensus Economics Inc. has now scaled down 2001 average growth projections in the five crisis-affected countries from 3.9 percent, when the March ARR was released, to 3.4 percent. This 0.5 percentage point reduction comes on top of a substantial downward revision that was made only three months ago. Similarly, the 2001 growth forecast for the East Asian region has been scaled down from 5.6 percent to 5.1 percent.

- However, there is growing consensus that US growth, and with it global growth, will pick up in the early part of 2002, if not later this year. Most East Asian countries are, therefore, expected to post higher growth rates in 2002 compared to 2001.