Highlights

Recovery in 2000

• The gains in regional equity prices and currency values posted in 1999 were largely wiped out in 2000. However, the real sector of the countries most affected by the crisis (Indonesia, Republic of Korea [henceforth, Korea], Malaysia, Philippines, and Thailand) turned in its best performance since the crisis began in July 1997.

  – Although the tempo of recovery tapered off a little as 2000 progressed, the estimated growth outturn in the affected countries, on average, was 7.1 percent as compared to 6.9 percent in 1999.

  – During 2000, the Philippines exceeded its previous peak level of per capita real GDP, following Korea which did so in 1999. Other countries also partially recovered their lost incomes.

• Efforts to restructure the banking and corporate sectors continued in 2000. While progress was made, much remains to be done.

• The incidence of poverty is beginning to fall in most of the affected countries.

Outlook for 2001

• Since the October 2000 issue of the Asia Recovery Report, the downside risks to recovery in the affected countries have increased.

• External risks have heightened because of the faster than expected slowdown in the US and global economies, accompanied by a rapid fall-off in the growth of electronics demand.

  – Exports, which had driven recovery in the affected countries, started to slow sometime after September/October 2000. The slowdown is expected to be quite sharp this year.

  – Lower US dollar interest rates and ongoing economic recovery will tempt international investors back into regional equity markets. Net inflows of private capital are projected for 2001 for the first time since the crisis.

• On the domestic front, while political risks have receded in the Philippines and Thailand, investor confidence has still to be fully restored as policy weaknesses remain.
• Heightened external risks will impair but not derail recovery in the affected countries.

– Estimates by the Regional Economic Monitoring Unit (REMU) staff suggest that the adverse impacts of the global economic and electronics industry slowdown will be significant.

– The consensus view among Asia experts is that incomes in the affected countries will grow by 4 percent, on average, this year compared to 7.1 percent last year. But the situation is expected to improve in 2002 when the affected countries will probably grow by about 5 percent.

• Fears of a new crisis are exaggerated. The quality of recovery is improving, adding resilience to the affected countries, which are now in a much stronger position to absorb shocks.

Country-Specific Recovery Prospects

• Indonesia’s recovery is on a firmer foundation, but political problems continue to undermine investor confidence and could lead to policy slippages.

• Countercyclical measures (such as accelerating public spending and lowering domestic interest rates) adopted by the Korean Government will cushion the economic slowdown. However, slow progress in corporate restructuring will continue to be a drag on the economy in the medium term.

• In Malaysia, incomplete restructuring of domestic corporations and restrictions on entry of foreign banks continue to undermine foreign investor confidence.

• In the Philippines, near-term anxiety about domestic political conditions has receded, but the Government has yet to present a comprehensive economic program that resolves past problems and puts the economy on a higher growth path. This might not happen until after the congressional elections on 14 May.

• The prospects of a more stable government in Thailand have improved, but there are concerns that some of the new Government’s proposals may entail large fiscal costs and work against the efficiency of rural credit markets.

Trends in Foreign Direct Investment Inflows

• Foreign direct investment (FDI) inflows have shown considerable resilience in the wake of the Asian crisis. The presence of foreign firms has also helped to temper the contractionary effects of the crisis.

• An important side effect of the crisis has been the further liberalization of FDI regimes. Three years into the recovery, the future of FDI inflows to the affected countries, with the exception of Indonesia, looks bright.