

The People's Republic of China, Singapore and Viet Nam Updates¹

The People's Republic of China

Recent Trends. Economic growth began to slow in the PRC in the fourth quarter of 1998. In response, the government cut interest rates in June 1999 and announced a fiscal stimulus package in August. These measures, together with a rebound in exports during the second half of 1999, have helped support growth at an impressive rate of 7.1 percent, which is only 0.7 percentage point lower than the growth rate in 1998 (Table 3).

Table 3: **GDP Growth and Projections (%)**

Country	1996	1997	1998	1999	2000			
					Consensus Economics ¹	ADB ²	IMF ³	World Bank ⁴
People's Republic of China	9.6	8.8	7.8	7.1	7.3 (6.5-7.9)	6.5	7.0	7.0
Singapore	7.5	8.0	1.5	5.4	5.7 (4.9-6.5)	5.9	5.9	5.7
Viet Nam	9.3	8.2	4.4	4.4	4.6	4.5	4.5	4.6

Note: Data for 1996-1999 are from the Asian Development Outlook 2000.

¹ Consensus Economics Inc., Asia Pacific Consensus Forecasts, March 2000; Figures in parentheses represent the range of forecasts.

² ADB, Asian Development Outlook 2000, April 2000.

³ IMF, World Economic Outlook, April 2000.

⁴ World Bank, East Asia and Pacific Quarterly Brief, 22 March 2000.

Fixed investment grew by 5.2 percent in 1999, down from 14 percent in 1998 due to excess capacity in many sectors. Consumer demand remains weak partly because of the increased unemployment arising from redundancies in state-owned enterprises (SOEs). Weak aggregate demand and an overall deflationary trend in the region caused the consumer price index to decline another 1.4 percent in 1999, after falling by 0.8 percent in 1998. To counteract these deflationary trends, more accommodating fiscal and monetary policies were adopted.

Largely because of the Asian crisis, export growth was subdued in 1998 and again in the first half of 1999. Exports increased in the second half of 1999 as growth in the rest of Asia began to pick up. However, for 1999 as a whole, export growth was a modest

¹ Among others, we have benefited from the Asian Development Outlook 2000, April 2000.

6 percent, while imports grew at a robust 18 percent, leading to a decline in trade surplus. Foreign direct investment (FDI) inflows declined in 1999 for the first time since 1990, reflecting foreign investors' concerns about weak financial institutions. The external payments situation, however, continued to be comfortable. The external debt and debt-service ratios are low by developing country standards. Foreign exchange reserves were about \$155 billion in December 1999 (11 months of import equivalent), slightly higher than the total external debt and about nine times the short-term external debt. At less than 10 percent, the external debt-service ratio is easily manageable.

Medium-term Prospects. GDP growth is expected to remain at around 7 percent in 2000-2001. However, there may be some slow-down in industrial and construction sectors and increasing unemployment arising out of the continued SOE reforms. Moderate growth should help keep inflation in check. Recent constitutional amendments to recognize the role of the private sector should improve the prospect for private investment. Broader recovery in the region should improve the PRC's export prospects, while import demand is expected to be more moderate. Balancing these factors, the current account is likely to remain in surplus during 2000-2001, but the surplus will be lower. This, together with continued capital inflows, is expected to increase foreign exchange reserves further.

Policy Issues. The resilience of the PRC economy to the region's crisis was due to its strong macroeconomic performance and external positions. Capital and exchange rate controls also helped insulate the economy from external shocks. But the PRC suffers from structural weaknesses in the financial and corporate sectors, similar to those of the five affected countries. These weaknesses include high levels of NPLs, a low capital base in many banks, weak prudential regulations and supervision, and a limited role for market based competition. Addressing these weaknesses, including reforming the SOEs, remains the most challenging task confronting the government. Further SOE reforms will increase urban unemployment, which has become a pressing issue in recent years. The government needs to harness better the role of the private sector to help generate needed jobs. It is also essential to accelerate reforms in the social security system to provide effective protection for the unemployed and the poor. The PRC has been successful in recent years in reducing poverty. But inequality, especially, regional inequality, has increased significantly. The government is now attaching a high priority to developing the poorer western region of the country.

Singapore

Recent Trends. The Singapore economy has rebounded strongly after a difficult year in 1998. GDP growth of 5.4 percent was achieved in 1999, which was sufficient to lift real per capita incomes (measured on a resident basis) above the previous 1997 peak.

The manufacturing sector accounted for much of the growth, reflecting strong external demand for electronics. With increased regional trade flows, rising tourist arrivals, and improved regional demand for financial services, the service sector also staged a recovery. The construction sector, however, continued to decline, mainly because of a sharp drop in private construction due to excess capacity in residential and nonresidential markets.

On the demand side, overall growth in fixed investment remained below its pre-crisis rate, due to industrial overcapacity. Fiscal policy proved less of a stimulus to the economy than originally envisaged. The original budget for fiscal year 1999 ending 31 March 2000 had predicted a budget deficit. However, considerably faster-than-expected revenue growth, combined with lower operating and development expenditure, led to a budget surplus. Despite an increase in the interbank rate, reflecting hikes in US interest rates that began in mid-1999, domestic retail rates remained relatively stable throughout the year because deposits continued to increase even as lending remained weak.

Inflation remained low in 1999. However, residential property prices rose significantly, though they remain about 30 percent lower than their peak levels of 1996. Prices of commercial property, by contrast, continued to decline, as oversupply dampened the market. Boosted by growing optimism about the region's growth prospects, equity prices rose sharply in the first half of 1999, and then leveled off because of trading curbs by brokering houses, and rising US interest rates. Overall, equity prices, as measured by the Stock Exchange of Singapore all-share index, rose 74.8 percent in 1999.

The Singapore dollar remained broadly stable against the US dollar. The trade surplus narrowed from its record level of 1998. Although strong growth in the region and in the United States

increased demand for Singapore's electronic goods, a higher rate of import growth, which resulted from renewed consumer confidence and diminished inventories, more than offset this demand. However, due to a positive service account, the current account surplus declined only slightly from its 1998 level. In net terms, the withdrawal of portfolio and "other investment" capital continued in 1999 but at a slower pace than in 1998.

Medium-term Prospects. GDP growth is expected to accelerate further in 2000–2001 as private demands strengthen. This should reduce excess industrial capacity and provide greater incentives for investment. As the regional recovery gathers momentum, the finances of domestic banks that have lent to non-residents should improve. Inflation may edge up in 2000 as a consequence of increased fuel prices, some wage inflation, and stronger domestic demand. Meanwhile, the trade surplus is set to contract as imports increase more rapidly than exports. An improvement in the services and income account and steady inflows of FDI, however, will ensure that overall reserves remain at healthy levels.

Policy issues. Singapore's strong institutions and flexible approach to macroeconomic management have allowed it to emerge quickly from the Asian crisis. A recurring challenge, though, is how to remain competitive. The Committee on Singapore's Competitiveness has called for a knowledge-based economy to help improve long-term competitiveness. To this end, the government has been developing an institutional structure that will provide appropriate support, and has taken steps to provide incentives to entrepreneurs entering high-tech industries and to train people in skills related to information technology. Although the government's past interventions in industrial development have been beneficial, there is some concern that continued interventions on this scale could impede necessary corporate restructuring as market conditions change. Over the next five years, a series of measures intended to strengthen and expand Singapore's role as a regional financial center will be introduced. As portfolio and bank capital return to the region, Singapore will be better positioned to provide the range of services, within a securely regulated environment, that international investors increasingly demand. Among measures in the pipeline are moves to deepen the Singapore dollar bond market through allowing foreign sovereigns and companies to issue Singapore dollar-denominated bonds.

Viet Nam

Recent Trends. GDP grew in Viet Nam in 1999 by about 4 percent; half the average growth rate during the six-year period from 1992 up to the onset of the Asian crisis in 1997. The slowdown began in 1998 as the country felt the impact of the regional crisis and lost the reform momentum.

Agriculture sector growth increased to 5 percent in 1999 from 3 percent a year earlier, thanks to a bumper rice harvest. The industrial sector, however, continued to lag due to weak domestic demand and waning competitiveness in selected sectors. Tourism, real estate services, and transportation were particularly hard hit, resulting in a slowdown in the service sector. Two years of slow growth have led to rising unemployment, particularly in urban areas, where it reached about 7.4 percent in 1999.

Investment as a share of GDP has fallen during the last two years, due to lower investment by the private and state sectors, and reduced FDI inflows. FDI declined for the second year in a row, as investor sentiment remained lukewarm because of uncertainties about the direction and pace of reforms. Two thirds of FDI inflows originated in Asia before the crisis, and hence were vulnerable to weaker regional growth. The budgeted increase in public investment in 1999 to stimulate domestic demand did not materialize.

The budget deficit was kept to a moderate level of 2 percent of GDP in 1999, as revenue shortfall was accompanied by cuts in current expenditure. The retail price level increased by 0.1 percent in 1999, compared with 9.2 percent in 1998. A fall in the food price index, weak domestic demand, and a relatively stable exchange rate contributed to price stability. Growth of bank credit to the government and SOE sector was more restricted than in previous years, while credit to the smaller non-state sector grew faster.

Exports grew slowly in early 1999 but picked up towards the end of the year, largely because of rising crude oil and rice exports. Overall export growth was 22.3 percent, up from 1.0 percent in 1998. Imports, meanwhile, registered only a small increase in 1999 from the previous year. Consequently, the current account registered a substantial surplus, in contrast to a large deficit in 1998. External debt remained within manageable limits.

Acronyms and Abbreviations

AMC	Asset management company
ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
BI	Bank Indonesia
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CAR	Capital adequacy ratio
CDRAC	Corporate Debt Restructuring Advisory Committee
CDRC	Corporate Debt Restructuring Committee
CRA	Corporate Restructuring Accord
CRCC	Corporate Restructuring Coordination Committee
CSIP	Capital Structure Improvement Plan
EMBI	Emerging Market Bond Index
FDI	Foreign direct investment
Fed	Federal Reserve Board
FRA	Financial Sector Restructuring Authority
FSS	Financial Supervisory Service
GDP	Gross domestic product
GIR	Gross international reserves
IBRA	Indonesian Bank Restructuring Authority
IMF	International Monetary Fund
JCI	Jakarta Composite Index
JITF	Jakarta Initiative Task Force
KAMCO	Korean Asset Management Corporation
KLCI	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
NPL	Non-performing loan
PHISIX	Philippine Stock Exchange Composite Index
PPP	Purchasing power parity
PRC	People's Republic of China
S&P	Standard & Poor's
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SOE	State-owned enterprises
WEO	World Economic Outlook
WTO	World Trade Organization
B	baht
P	peso
RM	ringgit
Rp	rupiah
W	won
y-o-y	year-on-year

Medium-term Prospects. During 2000-2001, GDP growth is expected to rise moderately, as the industry and service sectors recover after two years of slow growth. Inflation will also increase because of higher prices for petroleum products and the expected stronger domestic demand. Export growth is likely to be moderate compared with 1999. But after a two-year slump, imports should recover. Consequently, the current account balance will probably remain positive in 2000, with the surplus narrowing.

Policy Issues. The declining trend in fiscal revenue as a share of GDP over the last few years is a cause for concern. High growth will help broaden the tax base but problems in the design and administration of taxes should be addressed. Banking reform is under way, but much more remains to be done, particularly in areas of restructuring state-owned commercial banks, consolidating non-state joint stock banks, and improving regulations and supervision. In reforming SOEs, the government has tried different approaches, including equitization, divestiture, sell-off, and liquidation and restructuring. But so far the pace of reform has been slow. The downsizing and closures that SOE reforms will entail inevitably pose complex social problems. Safety net measures need to be strengthened. Viet Nam passed a new Enterprise Law in June 1999, which should promote private sector activities and provide equal market entry opportunities to domestic and foreign-owned businesses. However, supportive legislation should be completed. A lot more needs to be done to create a business environment conducive to foreign participation and rapid private sector growth.