

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. This October 2002 issue also features country updates on seven East Asian economies—People's Republic of China, Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, and Thailand.

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## Highlights

### Growth and Recovery in 2002

- Driven by both exports and domestic demand, East Asia's economic rebound that started in the first quarter of this year continued in the second and third quarters.
- Fiscal and monetary policies have remained moderately expansionary, thus supporting domestic demand and growth. Most countries have also made progress in restructuring and reforming their financial and corporate sectors.
- The region's stock markets began to slide in the second quarter and the decline intensified in the third quarter. Nevertheless, their performance this year still compares favorably with stock markets in industrial countries as well as those in most other emerging markets around the world.

### Prospects for East Asia's Growth and Recovery

- Since the release of the July 2002 *Asia Economic Monitor* (AEM), the external environment facing East Asia has turned less favorable. Growth forecasts for the major industrial economies for this year, and—more important—for next year, have been revised down. However, the global rebound is expected to continue, but at a more moderate pace than was foreseen only a few months ago.
- The main message of this report is that East Asia's modest economic rebound scenario for this year and the next remains intact, mainly because of the following factors:
  - In the face of slower-than-expected growth in industrial countries, East Asia's export growth may soften somewhat but will remain relatively healthy.
  - The progress made by East Asia in restructuring and reforms and the expansionary stance of monetary and fiscal policies should enhance the buoyancy of domestic demand.
  - Projections suggest an improvement in private capital flows to the region, especially next year.

*Continued overleaf*

## Acronyms, Abbreviations, and Notes

ADB	Asian Development Bank
AEM	Asia Economic Monitor
AMC	asset management company
ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
BOK	Bank of Korea
bp	basis point
CAR	capital adequacy ratio
CDRAC	Corporate Debt Restructuring Advisory Committee
CDRC	Corporate Debt Restructuring Committee
CPI	consumer price index
FRA	Financial Sector Restructuring Authority
GDP	gross domestic product
IBRA	Indonesian Bank Restructuring Agency
IIF	Institute of International Finance
IMF	International Monetary Fund
IPO	initial public offering
IT	information technology
JCI	Jakarta Composite Index
JITF	Jakarta Initiative Task Force
KAMCO	Korea Asset Management Corporation
KLCI	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
Lao PDR	Lao People's Democratic Republic
MAS	Monetary Authority of Singapore
NASDAQ	National Association of Securities Dealers Automated Quotation
NPL	nonperforming loan
PHISIX	Philippine Stock Exchange Composite Index
PRC	People's Republic of China
REMU	Regional Economic Monitoring Unit (ADB)
SCB	State commercial bank
SESALL	Singapore All Equities Index
SET	Stock Exchange of Thailand
SME	small and medium enterprise
SOCB	state-owned commercial bank
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.

The *Asia Economic Monitor* October 2002 was prepared by the Regional Economic Monitoring Unit of the Asian Development Bank and does not necessarily reflect the views of ADB's Board of Governors or the countries they represent.

- The London-based Consensus Economics Inc.<sup>1</sup> now projects East Asia's gross domestic product (GDP) growth to reach 6% in 2002 (compared to 5.8% forecast at the time of the July AEM) and 5.9% in 2003 (marginally lower than the 6.2% forecast indicated in the July AEM).
- This scenario is, however, subject to a higher degree of uncertainty than before. There are two sets of risks that could undermine the current forecasts: (i) much lower growth among industrial countries than is expected, and (ii) any US-led military action against Iraq and the associated heightened uncertainty and increase in oil prices.
- Summing up, the emerging global environment appears to call for a two-pronged response by East Asian countries. First, they should closely monitor the emerging external environment, and remain ready to initiate appropriate fiscal and monetary responses should export prospects deteriorate sharply. Second, countries should push ahead with the remaining agenda of financial and corporate restructuring and reform, in order to improve resilience to external shocks.

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