Asia's Growth and Recovery—
A Regional Update

Highlights

Growth and Recovery in 2001

- The years since the onset of the Asian crisis represent the most turbulent half decade in East Asia’s recent economic history, with the severe recession in 1998 followed by a sharp slowdown now.

- Reflecting the conclusion of previous Asia Recovery Reports, first half data suggest that most East Asian countries will see a deceleration in growth this year. However, the slowdown is turning out to be more severe than anticipated.

- Reflecting slowing growth and trends in the global equity markets, regional equity markets have generally remained subdued, or declined in the last six months (with the exception of the People’s Republic of China [PRC] and Thailand), while regional currencies have weakened.

- Available evidence also indicates that the global slowdown has led to a decline in capital flows to most East Asian economies, once again with the exception of the PRC.

- Slowing growth, subdued asset markets, and domestic political uncertainties have also constrained the pace of financial and corporate restructuring in several countries.

External and Domestic Risks

- Since the release of the June 2001 ARR Update, external risks to the region’s growth have increased.

- The global slowdown is turning out to be deeper, longer, and broader than expected, and the balance of risks is still weighing on the downside.

- The 11 September attack on the US has added another element of uncertainty to an already weak global economy, although early assessments suggest that the economic costs could be manageable.

- This year’s global growth may turn out to be close to that posted in 1998 at the height of the Asian crisis. However, this year’s slowdown has been triggered by the industrialized countries, as opposed to that of 1998, which was driven by the developing countries.

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On the domestic front, political uncertainties in Indonesia, Philippines, and Thailand have receded. Yet, several countries are showing signs of “reform reluctance” or “reform fatigue.” Continued reform fatigue and policy drift constitute additional risks to the region’s growth.

Economic Outlook

- It is now expected that the regional economic downturn will last longer than anticipated. Hence, growth will pick up in the first half of next year rather than later this year.

- Next year’s rebound is also likely to be more subdued than anticipated. Growth forecasts for this year and the next have thus been marked down for most East Asian economies.

- The London-based Consensus Economics, in its September report compiled before the 11 September attack on the US, has scaled down the 2001 average growth projection for the East Asian region to 4.4 percent. This will be East Asia’s second lowest yearly growth in the last two decades, bettering only the 1.4 percent contraction the region suffered in 1998 at the height of the Asian crisis.

- East Asia is expected to post an average growth of 5.7 percent next year, falling short of the trend rate of growth for the region.

- Coming so soon after the 1997 crisis, both the sharper-than-expected slowdown this year and the slower-than-expected rebound next year raise concerns about the robustness of the region’s recovery from the crisis. So does this year’s deterioration in private capital inflows to the region.

- Fortunately, however, judged by several prudential indicators, most countries in the region are now more resilient to any 1997-type financial crisis. Moreover, the movement toward more flexible exchange rate regimes since the 1997 crisis should also enable them to adjust to external shocks more smoothly.

- However, countries cannot afford to be complacent about the broader agenda of economic reforms and restructuring that they initiated in the aftermath of the 1997 crisis.

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