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NIEs and ASEAN-4 in 1999 and 2000**

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Economic Growth of NIEs and ASEAN-4 in 1999 and 2000

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Summary

1. NIEs and ASEAN-4 have posted a significant economic recovery in 1999 following the severe contraction during the currency crisis in 1998. This recovery has been continuing in 2000.
2. The rapid recovery in 1999 can be interpreted as a rebound from the steep output falls caused by the shrinking of consumer sentiment and substantial lowering of inventories in the previous year. However, it is also important to note that a favorable economic cycle has started: capacity utilization has risen thanks to strong electronics-related exports and improved consumer sentiment backed by a favorable income outlook and the rapid recovery of equity prices.
3. The momentum of economic recovery is expected to increase backed by stronger domestic demand in 2000. The Consensus Forecasts indicate higher growth in most countries in 2000.
4. However, the high growth in the pre-crisis period has not yet been resumed especially in ASEAN-4 because stock adjustment in the construction sector will continue as a result of the negative legacy inherited from the real estate bubble, and also because capital inflows will remain subdued reflecting balance sheet problems in the financial and corporate sectors.

Key terms: NIEs, ASEAN, Growth forecast, Currency crisis

JEL classifications: F00, F01, F31

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1. Economic Recovery in 1999

Most NIEs and ASEAN-4² experienced significant negative growth during the currency crisis in 1998, but posted positive growth in 1999 owing to the pick-up of exports (electronics-related goods to the US and Japanese markets as well as intra-regional trade), and private consumption, and the easing of inventory adjustments. Furthermore, in the latter half of 1999, gross fixed capital formation (private equipment and construction investment plus public investment) began to recover in an increasing number of countries (charts 1.1, 1.2)³.

The GDP growth forecast for 1999 has been constantly revised upward (chart 2). Underlying causes for stronger-than-expected recovery in the region can be summarized as follows. The surge in worldwide sales of electronics has led to stronger-than expected exports. Because the region is highly reliant on exports⁴, strong external demand has revitalized the corporate sector by raising capacity utilization and improving cash flow. Moreover, consumer sentiment has also recovered because strong exports have allowed the region to rebuild foreign exchange reserves and brought an end to the currency crisis, and also because of the rapid recovery of equity prices.

Nevertheless, it should be noted that high growth in 1999 was partly in reaction to the low figure the previous year. Specifically, 1) the rapid recovery of private consumption was mostly due to a rebound in the propensity to consume as the currency crisis subsided rather than being backed by an income increase, and 2) the significant positive contribution of inventory investment to GDP (chart 1.1 and 1.2) owed to a slower rate of decrease in inventories. As a matter of fact, in many countries, inventory adjustments continued until the latter half of 1999 following the significant compression

² NIEs: South Korea, Taiwan Province of China, Hong Kong SAR, and Singapore.
ASEAN-4: Thailand, Indonesia, Malaysia and the Philippines.

³ Private consumption in every country (except Indonesia) posted positive year-to-year growth from the second quarter of 1999 (even in Indonesia, the hardest hit economy in the region, private consumption recorded positive growth from the third quarter). Gross fixed capital formation, especially in the electronics industry, has also posted positive year-to-year growth, in South Korea and Thailand since the second quarter of 1999, and in Singapore and Malaysia since the third quarter. Taiwan P.O.C. saw a relatively late equipment investment recovery affected by the earthquake last September, but posted significant positive growth in the fourth quarter.

⁴ The export ratio (percent of nominal GDP) in NIEs and ASEAN4 is more than 40% on average (more than 100% in Hong Kong SAR, Singapore, and Malaysia).

caused by steep output falls and serious credit crunch the previous year (Chart 3)⁵.

2. Consensus Forecasts of GDP Growth for 2000⁶

(1) GDP growth expected to be higher in 2000 than 1999

The Consensus Forecasts indicate that output in 2000 will achieve higher growth than in 1999 in NIEs and ASEAN-4 except South Korea (Chart 4). Aggregate GDP growth of the eight countries⁷, which recovered to 4.6% in 1999 after a remarkable contraction to -6.7% in 1998 from 4.4% in 1997, is forecast at 5.9% in 2000.

The momentum of economic recovery is expected to increase in 2000. Exports will continue buoyant amid the global business boom. Domestic demand is also forecast to exhibit a full-scale recovery. First, the recovery of private consumption will be firmer against the background of an improvement in income conditions. Second, gross fixed capital formation, except construction investment in some countries, is forecast to post a stronger recovery reflecting the progress of stock adjustment (Chart 5). Furthermore, in some countries, inventory investment will enter a rebuilding phase.

There are some differences in terms of rise in growth from country to country. In Taiwan P.O.C., Singapore, Thailand, Malaysia, and the Philippines, GDP growth in 2000 is forecast to rise by approximately 1 percentage point. In Indonesia, where economic activity has remained sluggish partly due to domestic turmoil in 1999, output is expected to grow by approximately 4 percentage points. On the other hand, South Korea has already resumed the high growth of 10.7% in 1999 partly driven by pent-up consumption demand. And the growth in 2000 is expected to continue high, but moderate to 7.9%.

The following should be noted in evaluating GDP growth forecasts for 2000: 1) the forecast continues to be revised upward, but 2) on the other hand, it should be realized that higher growth in 2000 partly reflects the base effects of the sharp recovery in output in 1999 (Chart 6)⁸.

⁵ Inventory investment in South Korea has entered the rebuilding phase since the end of 1999 (Chart 3). Other countries also accumulated inventories in the fourth quarter of 1999, possibly due to preparations to cope with any Y2K problems.

⁶ The latest Consensus Forecasts is as of May 2000.

⁷ Calculated using GDP weights based on purchasing power parity (1998) compiled by the IMF.

⁸ Since the currency crisis, economic statistics have improved substantially in Asian

(2) GDP growth in 2000 will not reach the pre-crisis level

Most countries are forecast to overcome the damage inflicted by the currency crisis much earlier than expected. Based upon the Consensus Forecasts, business activity as measured by GDP will recover to the pre-crisis level by the end of 2000 in most countries except Thailand and Indonesia (Chart 7). South Korea, Hong Kong SAR, Singapore, and the Philippines regained the pre-crisis level in 1999. Also, Malaysia is forecast to regain the pre-crisis level in 2000.

However, this does not mean that these countries have overcome structural problems and resumed the high growth at the pre-crisis period. For example, in Singapore and ASEAN-4 (except the Philippines), comparing GDP growth forecasts with pre-crisis average growth, growth in 2000 and 2001 will be lower than the pre-crisis average (1990-96) by approximately 3 percentage points (Chart 5)⁹.

The reasons for the lower growth projections are that structural problems remain, especially in ASEAN-4, and also that high growth-oriented policies at the pre-crisis period, especially excess capital accumulation backed by foreign capital, were not sustainable¹⁰. In these countries, gross fixed capital formation is not expected to increase significantly due to 1) the remaining negative legacies inherited from the real estate bubble economy such as an excess supply of office buildings, and 2) subdued capital inflows from abroad (Chart 8)¹¹. On the other hand, in South Korea and Taiwan P.O.C, where the real estate bubble was less severe, growth in 2000 and 2001 is reaching pre-crisis levels¹².

countries and seasonally-adjusted GDP figures have been compiled in South Korea, Hong Kong SAR, Singapore, Thailand, and the Philippines.

⁹ The GDP growth forecast for the Philippines in 2000 exceeds 1990-96 average growth because, 1) GDP growth in the early 1990s was relatively low due to natural disasters and an electricity shortage, and 2) the damages stemming from a real estate bubble was relatively small. The growth forecast for 2000 is lower than average growth of +5% during 1994-96 when high growth started to be driven by direct investments.

¹⁰ During the pre-crisis period, ASEAN-4 experienced excessive capital inflows from abroad as capital accounts were liberalized under de facto dollar-pegged exchange rate regimes.

¹¹ Credit ratings for ASEAN-4 are much lower than pre-crisis ones mainly due to the delay in financial and corporate restructuring.

¹² In Taiwan P.O.C., the aftereffects of the real estate bubble seen in the latter half the 1980s had mostly subsided by the first half of the 1990s.

3. Risk factors

Risk factors for NIEs and ASEAN-4 economies are: 1) an unexpected economic downturn in foreign countries, especially the US, 2) inflation, and 3) a deterioration in the current account balance. To achieve sustainable growth, these economies are required to tackle structural problems such as the delay in financial and corporate restructuring since such problems will possibly constrain private fixed investment (Chart 9)¹³.

Inflationary pressure has been on the rise, especially in NIEs, due to high crude oil prices and rise in capacity utilization, resulting in a gradual consumer price increase (Chart 10). However, as slack remains in the labor market, overall, there is no significant risk of inflation,¹⁴.

Regarding the current account balance (Chart 11), sizable surpluses are expected to continue in ASEAN-4, where economic recovery is moderate. In South Korea, the current account surplus is narrowing substantially due to rapid economic recovery and high crude oil prices, but a deficit is unlikely to be recorded during 2000¹⁵. Taiwan P.O.C., Hong Kong SAR, and Singapore, which consistently posted current account surpluses before the crisis, are expected to post surpluses¹⁶. Even though balance of

¹³ Under these circumstances, central banks must find the right balance between interest rates and the exchange rate. While interest rates have to be kept at relatively low levels to facilitate financial and corporate restructuring, the tightening of monetary conditions may be required to keep inflationary pressures in check and prevent current accounts from falling into a deficit. Exchange rate policies need to weigh the balance between the additional accumulation of foreign exchange reserves and the maintenance of export competitiveness through intervention and further gradual currency appreciation to keep inflation in check.

¹⁴ South Korea adopted inflation targeting in 1998 (the inflation target for 2000 is 2.5% +/-1%, based on CPI after excluding non-cereal agricultural products and petroleum-based products). And Indonesia (3-5% target for this year) and Thailand (0-3.5 % target for the years 2000-2002, based on CPI after excluding raw food and energy) also adopted inflation targeting in 2000.

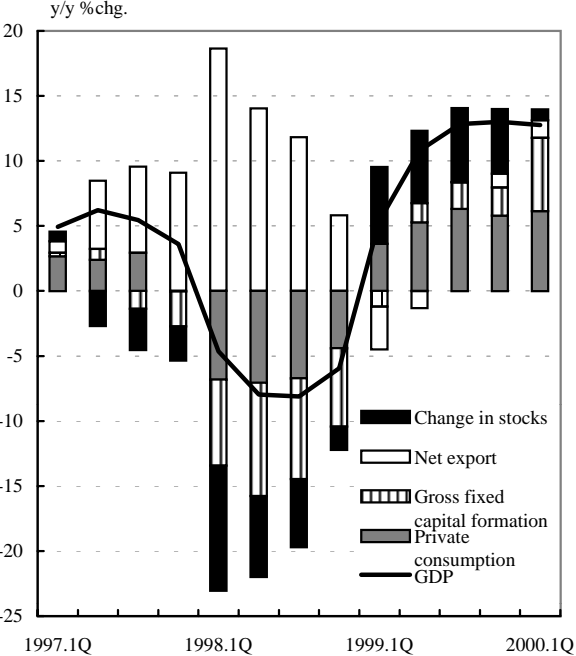
¹⁵ The impact of high crude oil prices on current accounts is a negative for NIEs, Thailand, and the Philippines while it is a positive for Indonesia and Malaysia, which are oil-producing countries.

¹⁶ Taiwan P.O.C. has constantly recorded a large trade surplus. Hong Kong SAR and Singapore, functioning as intermediary trading ports and financial centers, have consistently recorded large surpluses in the service account (transportation and travel) and income account while recording trade deficits (Chart 12).

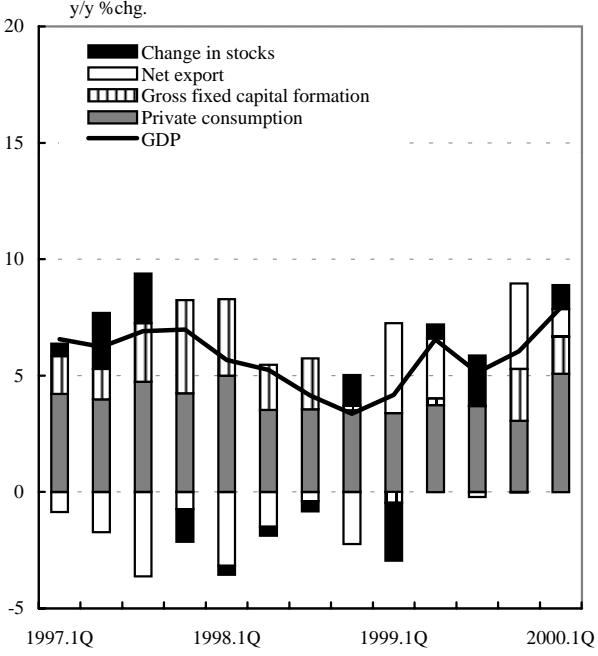
payments developments will not constrain growth in 2000, some attention is required over the medium term because high income elasticity to imports can't be rectified in the short run.

Real GDP Growth of NIEs

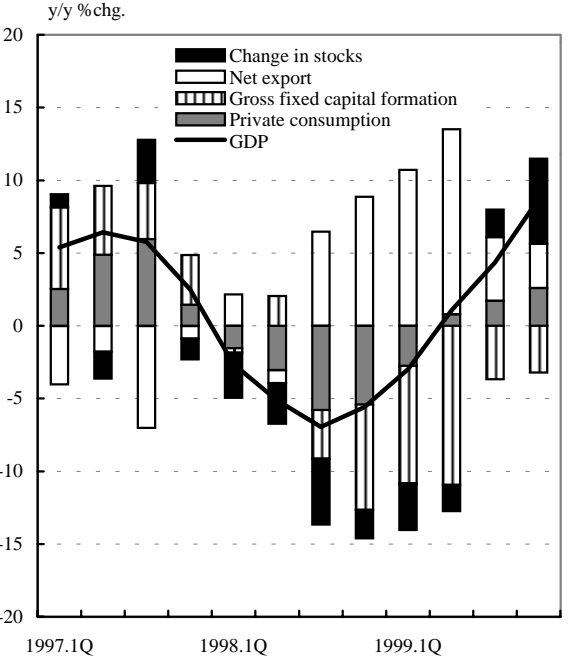
1. South Korea



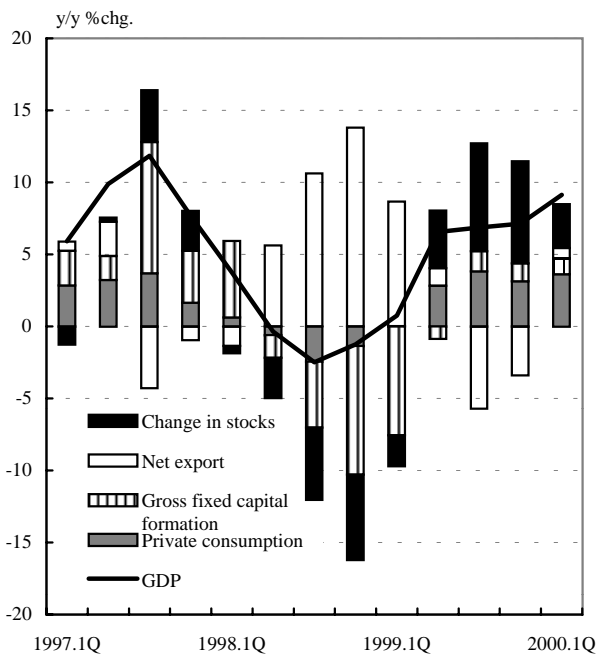
2. Taiwan P.O.C.



3. Hong Kong SAR

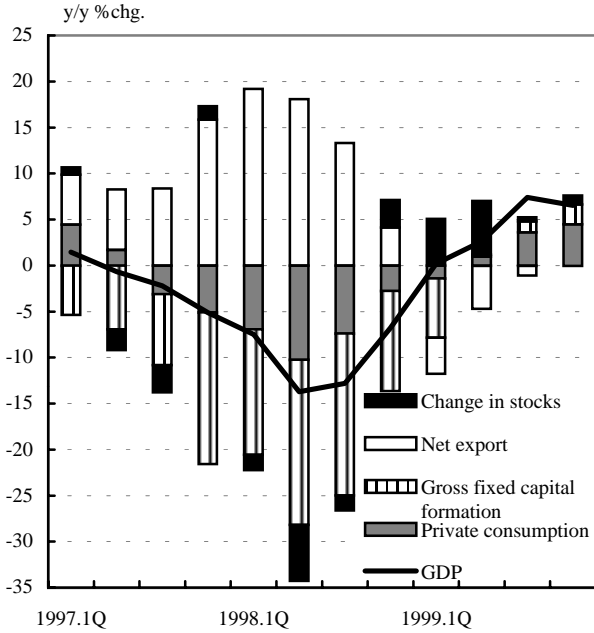


4. Singapore

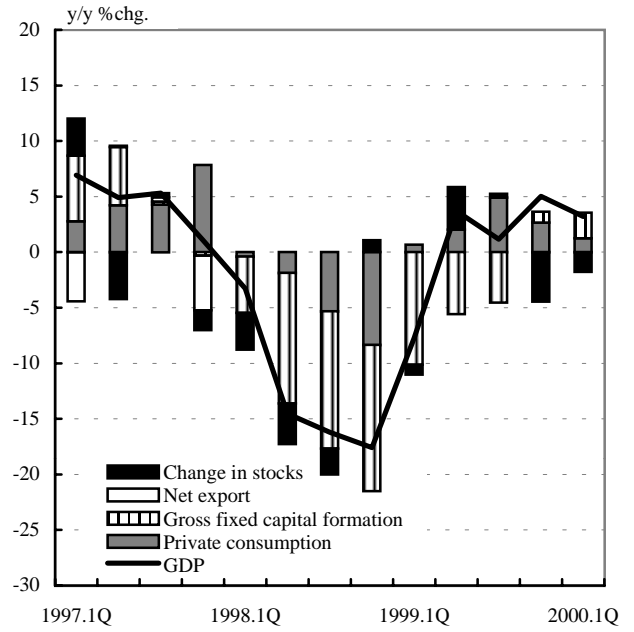


Real GDP Growth of ASEAN-4

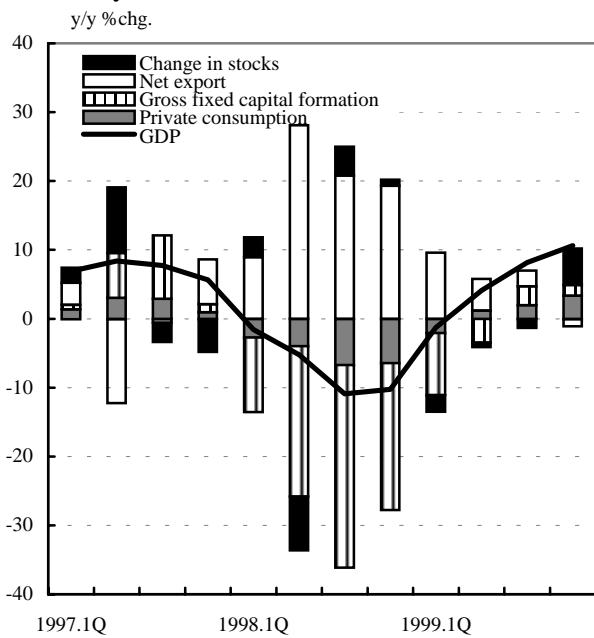
1. Thailand



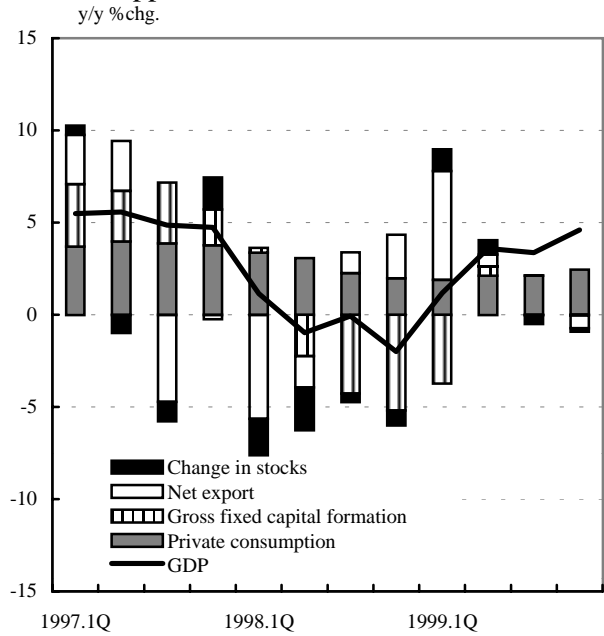
2. Indonesia



3. Malaysia

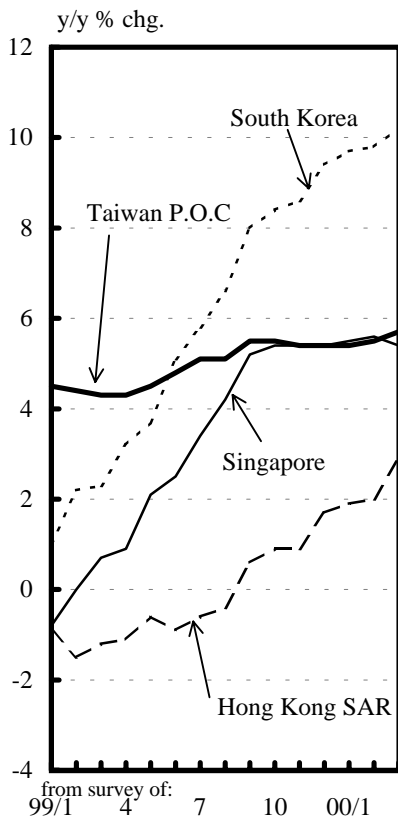


4. Philippines

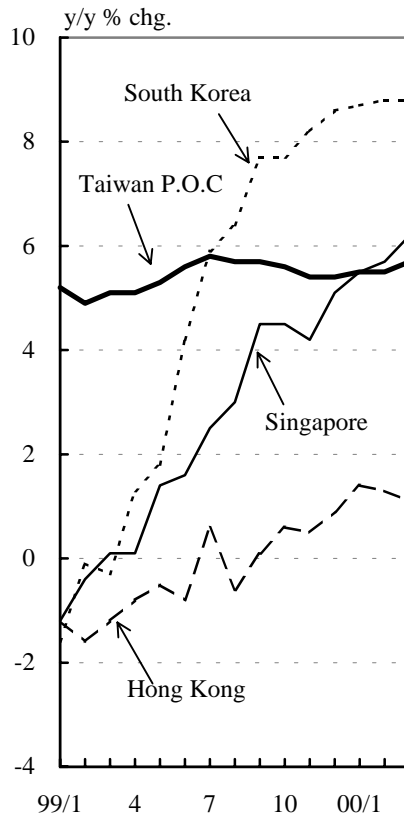


1. NIEs

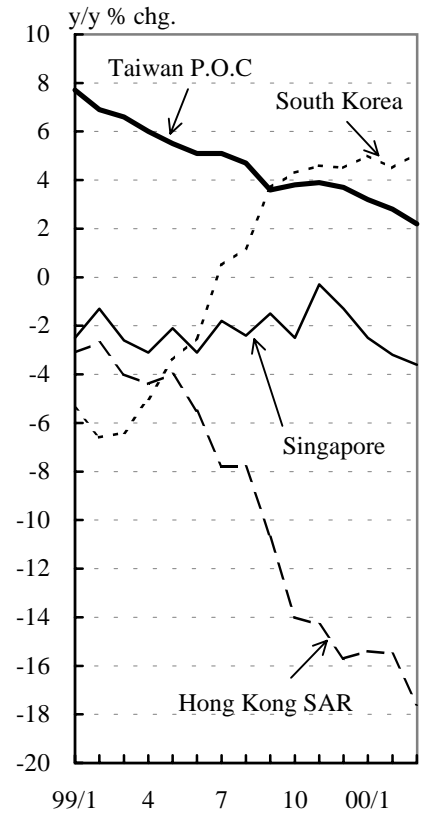
(a) Real GDP



(b) Private Consumption

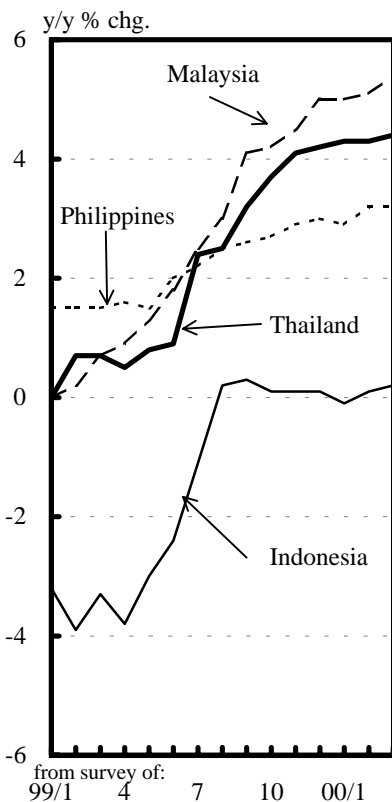


(c) Gross Fixed Investment

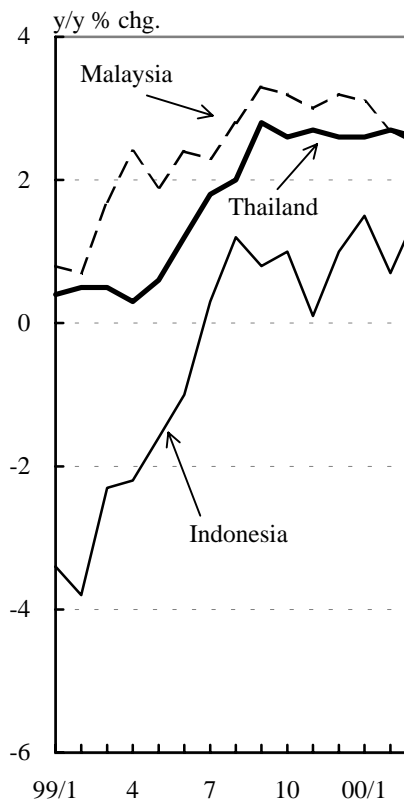


2. ASEAN-4

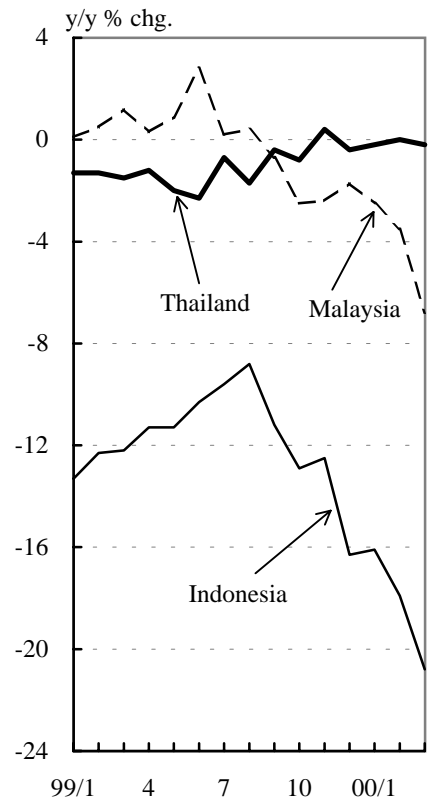
(a) Real GDP



(b) Private Consumption



(c) Gross Fixed Investment

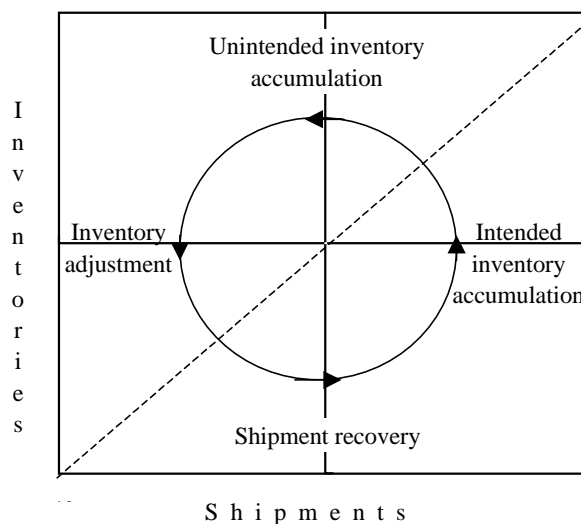
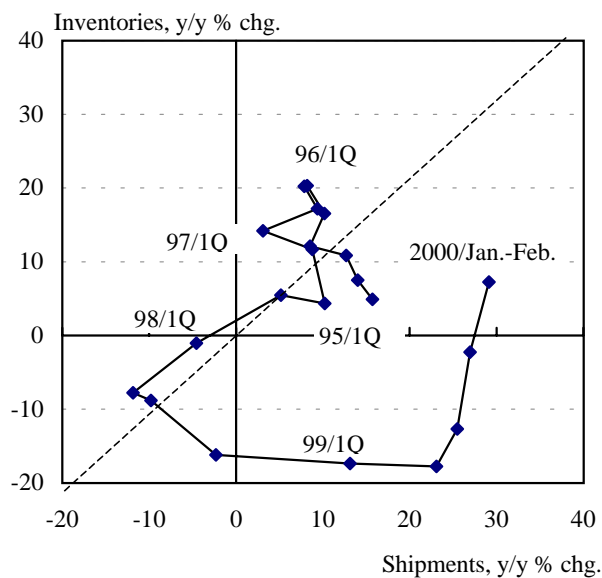


Inventory Investment

(not seasonally adjusted, change from the previous period)

	1996	1997	1998	1999					2000 1Q
					1Q	2Q	3Q	4Q	
South Korea (tril. Won)	3.9	-4.2	-27.6	-5.9	-4.0	-3.0	-2.8	3.9	-3.3
Taiwan (bil. NT\$)	54.0	122.8	126.5	134.8	-31.8	76.3	58.1	32.2	-9.7
Hong Kong (bil. HK\$)	9.6	10.9	-14.9	-8.7	-7.8	-4.5	1.0	2.5	n.a.
Singapore (bil. S\$)	-1.4	0.4	-4.3	0.7	-0.9	0.2	0.9	0.5	0.1
Thailand (bil. Baht)	14.7	-7.5	-56.1	28.5	25.2	-10.5	-20.2	34.0	n.a.
Indonesia (bil. Rupiah)	5.9	3.3	-5.5	-6.6	-1.4	-0.1	-0.8	-4.2	-3.1
Malaysia (bil. Ringgit)	-1.9	-0.3	-0.2	0.2	0.2	0.5	0.2	-0.7	n.a.
Philippines (bil. Peso)	3.6	4.5	-7.8	-5.1	0.8	-2.7	-3.8	0.6	n.a.

Inventory Cycle in South Korea



GDP Growth Forecasts

y/y % chg.

□ : increasing growth rate, ■ : decreasing growth rate

		1997	1998	1999	2000 (forecast)	1999 1Q	2Q	3Q	4Q	2000 1Q
South Korea (19.6)	Y / Y(a)	5.0	-6.7	10.7	7.9	5.4	10.8	12.8	13.0	12.8
	<Q / Q>	-	-	-	-	<3.1>	<4.1>	<3.3>	<2.8>	<1.8>
	base effects(b)	1.3	-0.5	1.7	4.8	-	-	-	-	-
	(a)-(b)	3.7	-6.2	9.0	3.1	-	-	-	-	-
Taiwan P.O.C. (13.9)	Y / Y(a)	6.7	4.6	5.7	6.7	4.2	6.5	5.1	6.8	7.9
	<Q / Q>	-	-	-	-	<1.1>	<3.3>	<-0.1>	<2.5>	<1.9>
	base effects(b)	2.3	2.6	1.4	2.6	-	-	-	-	-
	(a)-(b)	4.4	2.0	4.3	4.1	-	-	-	-	-
Hong Kong SAR (5.4)	Y / Y(a)	5.0	-5.1	2.9	5.8	-3.0	1.1	4.4	8.7	n.a.
	<Q / Q>	-	-	-	-	<0.6>	<2.2>	<2.2>	<3.4>	<n.a.>
	base effects(b)	1.9	-0.7	-1.4	4.2	-	-	-	-	-
	(a)-(b)	3.1	-4.4	4.3	1.6	-	-	-	-	-
Singapore (2.8)	Y / Y(a)	8.4	0.4	5.4	6.2	0.8	6.6	6.9	7.1	9.1
	<Q / Q>	-	-	-	-	<1.0>	<4.4>	<0.3>	<1.2>	<3.1>
	base effects(b)	2.6	2.1	0.5	2.1	-	-	-	-	-
	(a)-(b)	5.8	-1.7	4.9	4.1	-	-	-	-	-
Thailand (16.0)	Y / Y(a)	-1.7	-10.2	4.2	5.5	0.2	2.6	7.4	6.5	n.a.
	<Q / Q>	-	-	-	-	<3.0>	<-1.3>	<3.2>	<1.9>	<n.a.>
	base effects(b)	0.3	-3.1	0.1	2.7	-	-	-	-	-
	(a)-(b)	-2.0	-7.1	4.1	2.8	-	-	-	-	-
Indonesia (26.7)	Y / Y(a)	4.7	-13.0	0.3	4.5	-7.7	3.7	1.2	5.0	3.2
	<Q / Q>	-	-	-	-	<4.9>	<1.4>	<-2.2>	<1.2>	<2.6>
	base effects(b)	4.2	0.7	-4.6	0.1	-	-	-	-	-
	(a)-(b)	0.5	-13.7	4.9	4.4	-	-	-	-	-
Malaysia (7.9)	Y / Y(a)	7.5	-7.5	5.4	6.9	-1.3	4.1	8.2	10.6	n.a.
	<Q / Q>	-	-	-	-	<3.2>	<3.6>	<1.4>	<2.2>	<n.a.>
	base effects(b)	3.3	1.5	-1.8	3.2	-	-	-	-	-
	(a)-(b)	4.2	-9.0	7.2	3.7	-	-	-	-	-
Philippines (7.6)	Y / Y(a)	5.2	-0.5	3.2	3.8	1.2	3.6	3.4	4.6	n.a.
	<Q / Q>	-	-	-	-	<1.5>	<1.5>	<1.1>	<0.5>	<n.a.>
	base effects(b)	1.4	1.3	-0.1	1.3	-	-	-	-	-
	(a)-(b)	3.8	-1.8	3.3	2.5	-	-	-	-	-
Total PPP weighted	Y / Y(a)	4.4	-6.7	4.6	5.9	-0.5	5.3	6.1	7.7	n.a.
	<Q / Q>	-	-	-	-	<3.0>	<2.1>	<0.9>	<2.0>	<n.a.>
	base effects(b)	2.3	0.2	-0.9	2.4	-	-	-	-	-
	(a)-(b)	2.1	-6.9	5.5	3.5	-	-	-	-	-

Source: Asia Pacific Consensus Forecasts (May 2000)

Note1: The seasonally adjusted data for Taiwan P.O.C., Malaysia, and Indonesia are our estimates.

Note2: The figures in parentheses below the country's names are GDP weight in 1998 based on PPP.

Note3: The base effects are defined as GDP growth rates in case GDP levels out from the fourth quarter of the previous year to the fourth quarter of the year.

GDP Components Growth Forecasts

Chart 5

y/y % chg.

□ : increasing growth rate, ■ : decreasing growth rate

				forecast				80-96 average		
		1998	1999	2000	deviation from '90s	2001	deviation from '90s	80s	90s (90-96)	
South Korea	Real GDP	-6.7	10.7	7.9	0.2	5.9	-1.8	7.9	8.1	7.7
	(Private Consumption)	(- 11.4)	(10.3)	(7.8)	(0.0)	(6.3)	(- 1.5)	(7.3)	(6.9)	(7.8)
	(Gross Fixed Capital Formation)	(- 21.2)	(4.1)	(9.7)	(- 1.0)	(7.6)	(- 3.1)	(9.4)	(8.6)	(10.7)
Taiwan P.O.C	Real GDP	4.6	5.7	6.7	0.1	6.1	-0.5	7.5	8.1	6.6
	(Private Consumption)	(6.5)	(5.7)	(6.6)	(- 0.9)	(6.5)	(- 1.0)	(8.1)	(8.4)	(7.5)
	(Gross Fixed Capital Formation)	(8.0)	(2.9)	(9.0)	(0.6)	(6.9)	(- 1.5)	(7.9)	(7.5)	(8.4)
Hong Kong SAR	Real GDP	-5.1	2.9	5.8	0.8	4.7	-0.3	6.3	7.3	5.0
	(Private Consumption)	(- 6.7)	(1.1)	(4.4)	(- 1.7)	(4.4)	(- 1.7)	(6.7)	(7.2)	(6.1)
	(Gross Fixed Capital Formation)	(- 6.4)	(- 17.6)	(7.0)	(- 2.6)	(8.0)	(- 1.6)	(7.6)	(5.5)	(9.6)
Singapore	Real GDP	-0.2	5.4	6.2	-2.7	5.9	-3.0	8.0	7.4	8.9
	(Private Consumption)	(- 2.4)	(6.2)	(6.5)	(- 0.5)	(6.3)	(- 0.7)	(6.4)	(5.9)	(7.0)
	(Gross Fixed Capital Formation)	(- 6.3)	(- 3.6)	(6.6)	(- 6.2)	(7.9)	(- 4.9)	(9.4)	(7.0)	(12.8)
Thailand	Real GDP	-10.2	4.2	5.5	-3.1	5.3	-3.3	*7.8	*7.2	8.6
	(Private Consumption)	(- 12.3)	(3.5)	(6.5)	(- 1.7)	(6.2)	(- 2.0)	*(6.7)	*(5.6)	(8.2)
	(Gross Fixed Capital Formation)	(- 44.2)	(- 3.7)	(8.0)	(- 4.6)	(8.4)	(- 4.2)	*(10.8)	*(9.4)	(12.6)
Indonesia	Real GDP	-13.2	0.2	4.5	-2.7	4.9	-2.3	6.4	5.8	7.2
	(Private Consumption)	(- 3.3)	(1.5)	(4.5)	(- 3.5)	(4.8)	(- 3.2)	(6.8)	(5.9)	(8.0)
	(Gross Fixed Capital Formation)	(- 35.5)	(- 20.8)	(2.2)	(- 8.4)	(6.8)	(- 3.8)	(9.7)	(9.2)	(10.6)
Malaysia	Real GDP	-7.5	5.4	6.9	-2.6	6.4	-3.1	**7.5	**5.5	9.5
	(Private Consumption)	(- 10.8)	(2.5)	(9.1)	(0.6)	(8.4)	(- 0.1)	**(6.2)	**(3.9)	(8.5)
	(Gross Fixed Capital Formation)	(- 42.9)	(- 6.8)	(9.3)	(- 8.0)	(9.5)	(- 7.8)	**(10.6)	**(3.9)	(17.3)
Philippines	Real GDP	-0.5	3.2	3.8	1.0	4.4	1.6	2.3	2.0	2.8
	(Private Consumption)	(3.4)	(2.7)	(n.a.)	-	(n.a.)	-	(3.2)	(2.9)	(3.7)
	(Gross Fixed Capital Formation)	(- 11.4)	(- 3.4)	(n.a.)	-	(n.a.)	-	(3.5)	(1.9)	(5.7)

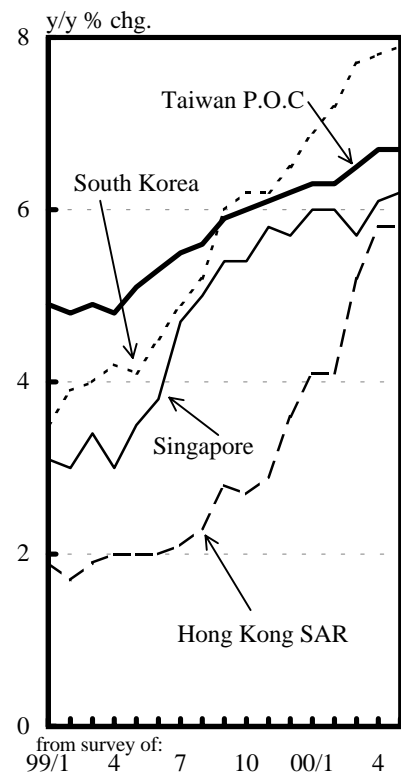
Source: Asia Pacific Consensus Forecasts (May 2000)

* Since 1981

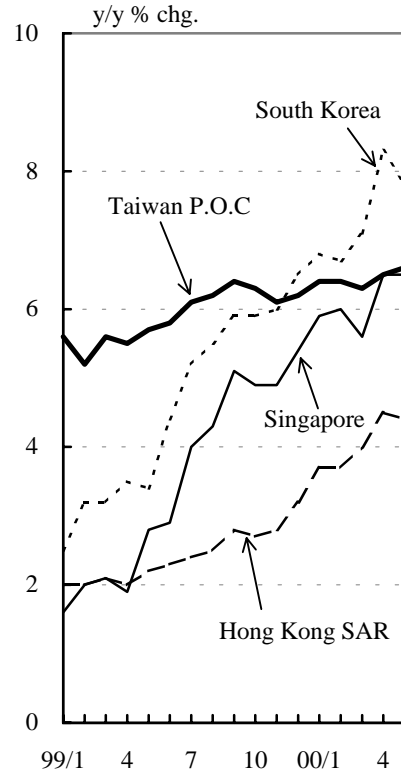
** Since 1983

1. NIEs

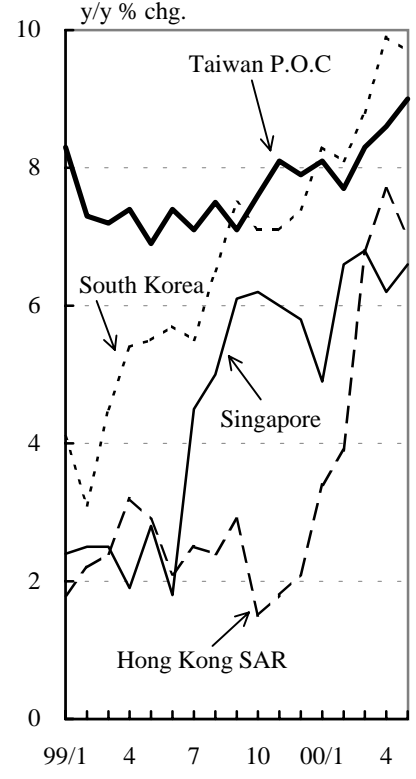
(a) Real GDP



(b) Private Consumption

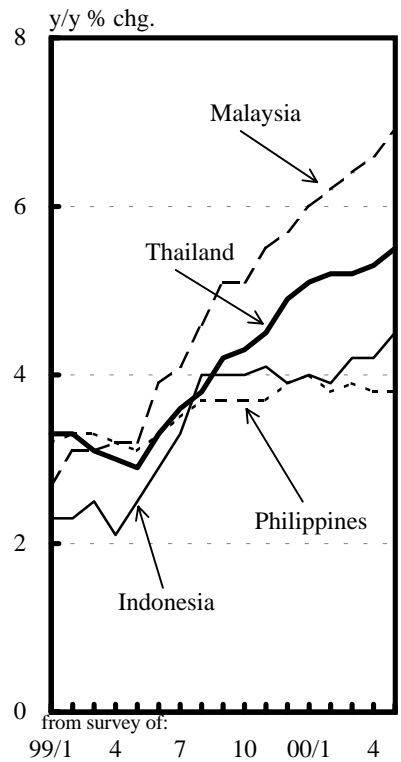


(c) Gross Fixed Investment

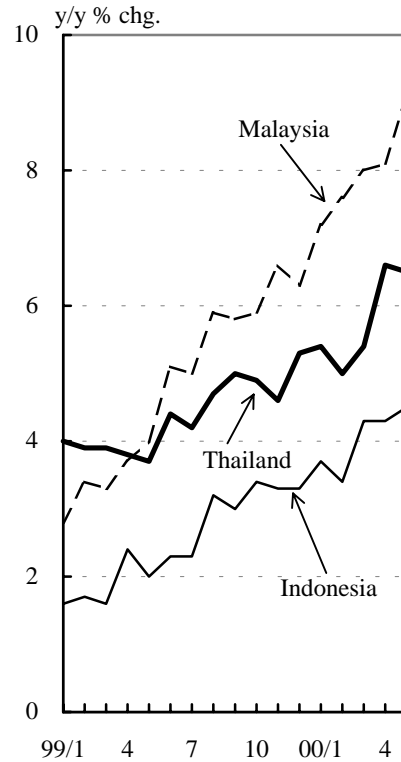


2. ASEAN-4

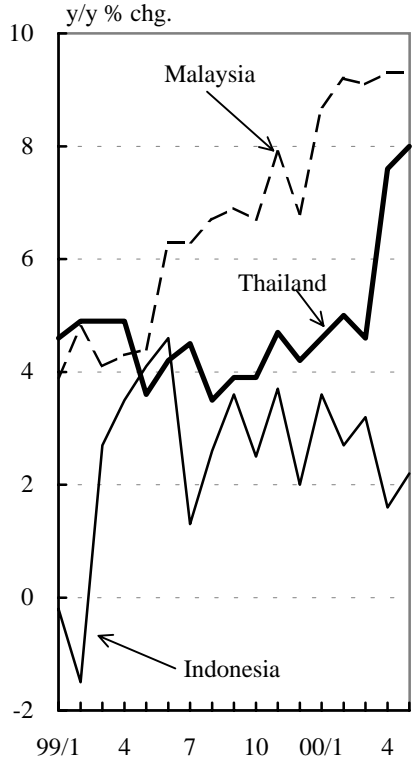
(a) Real GDP



(b) Private Consumption

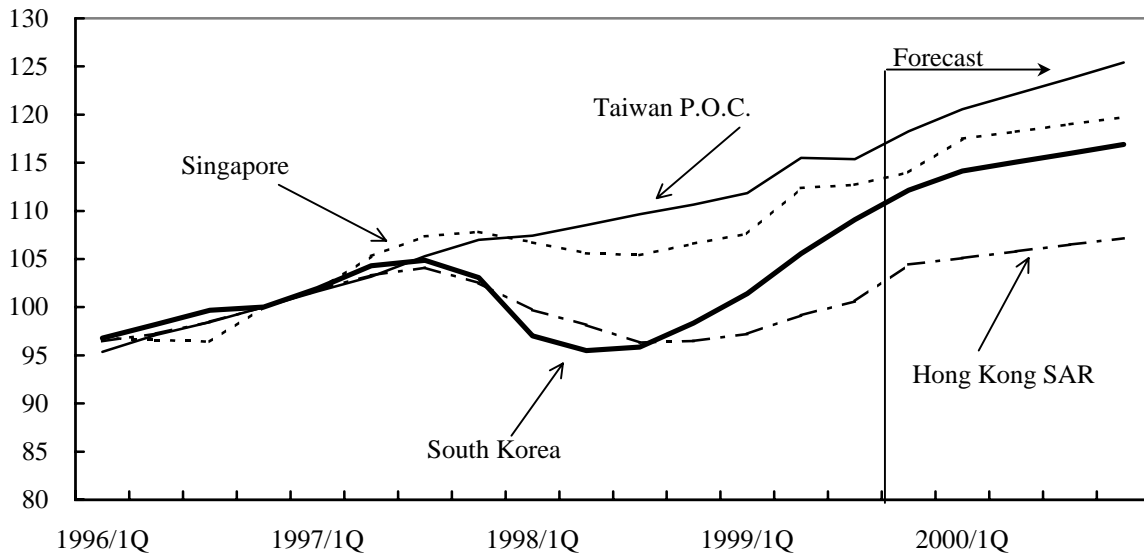


(c) Gross Fixed Investment

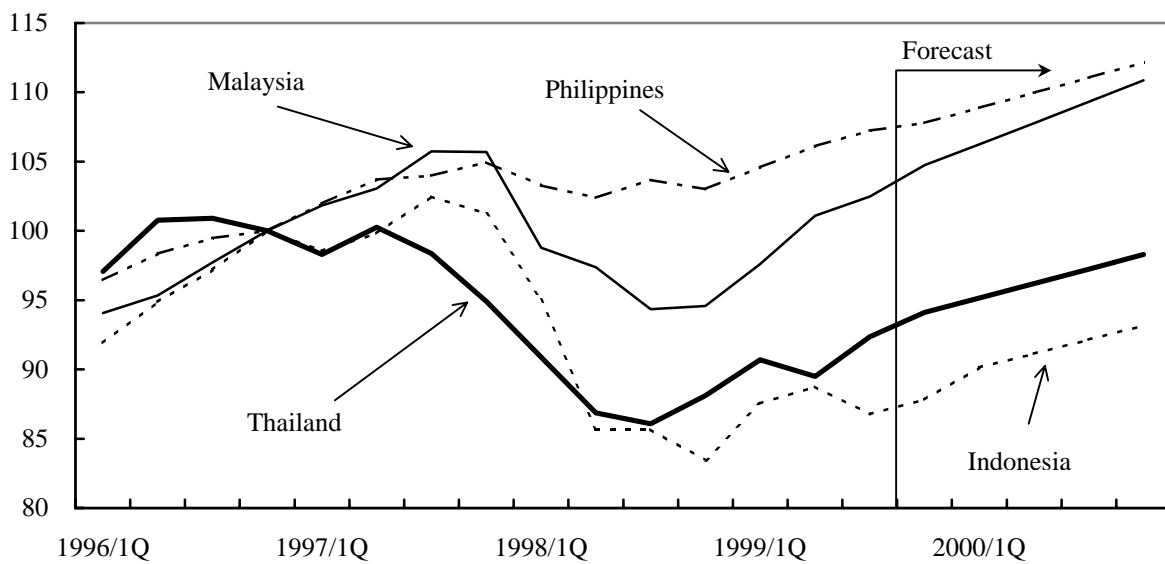


Level of Real GDP

1. NIEs



2. ASEAN-4

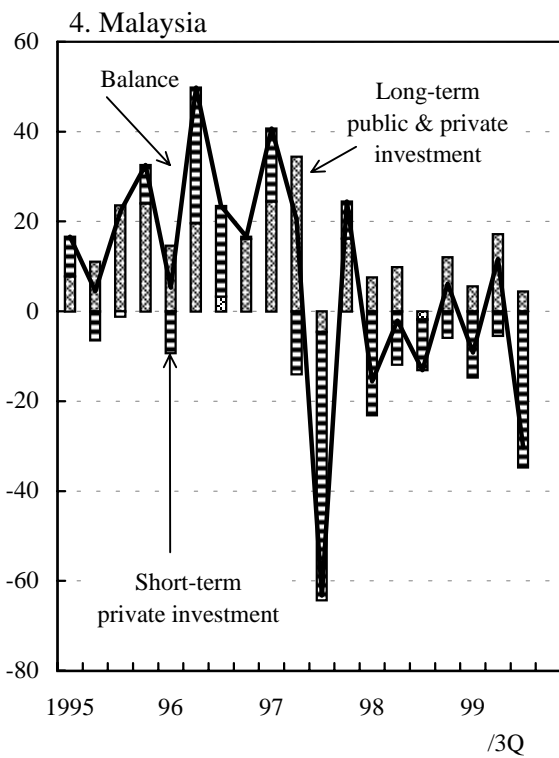
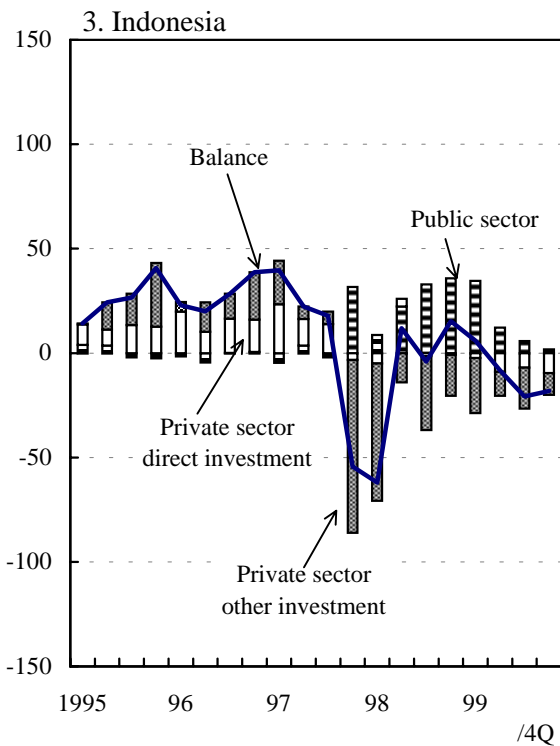
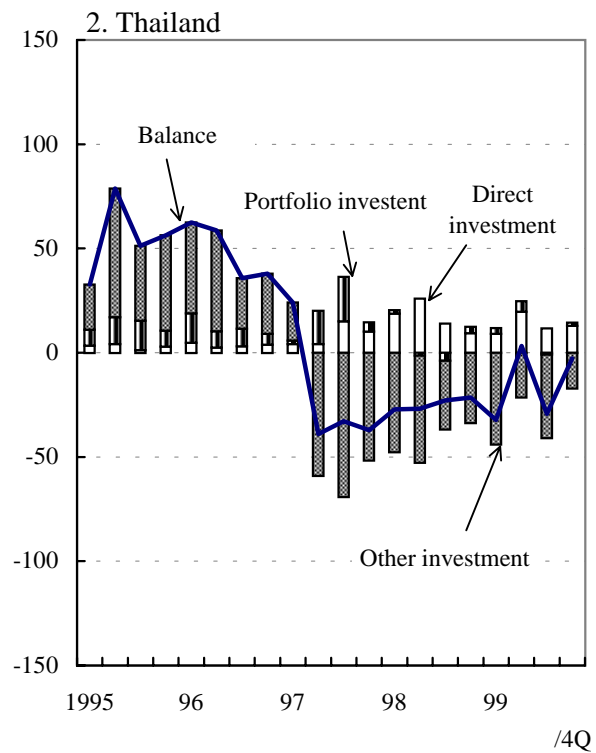
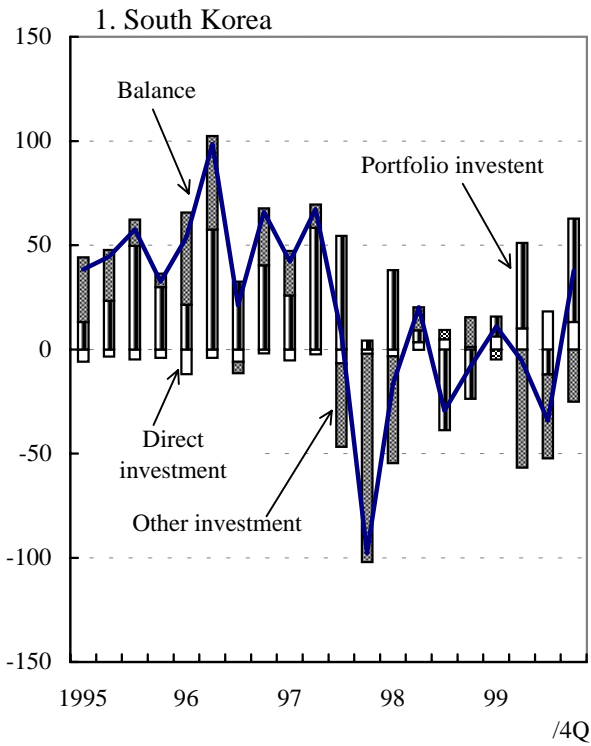


Source: Asia Pacific Consensus Forecasts (May 2000)

Note: The seasonally-adjusted figures for Taiwan P.O.C., Indonesia, and Malaysia are calculated by the authors.

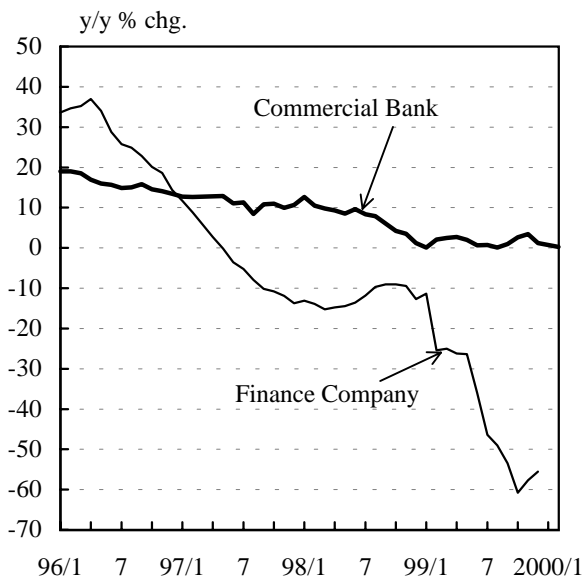
Capital & Financial Account

(100 mil. US\$)



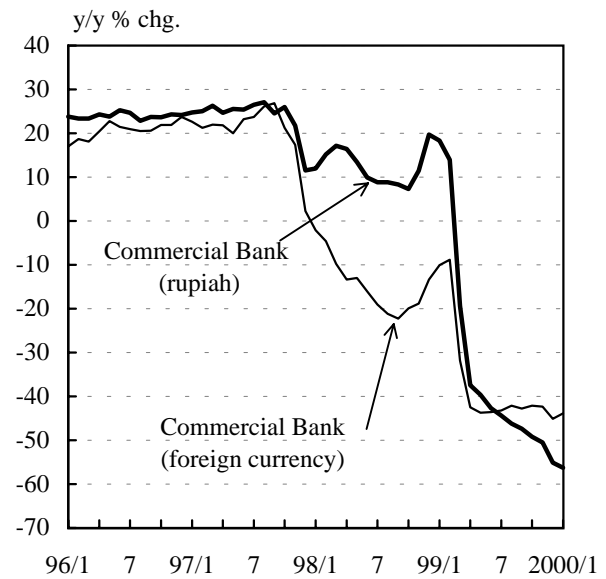
Lending by Domestic Financial Institutions

1. Thailand



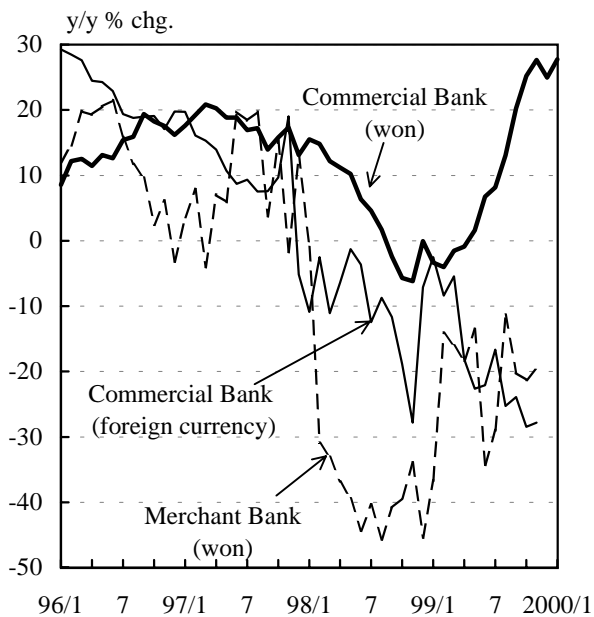
	98/6	2000/2
NPL ratio	35.9%	41.6%
Capital adequacy ratio	10.2%	12.4%

2. Indonesia



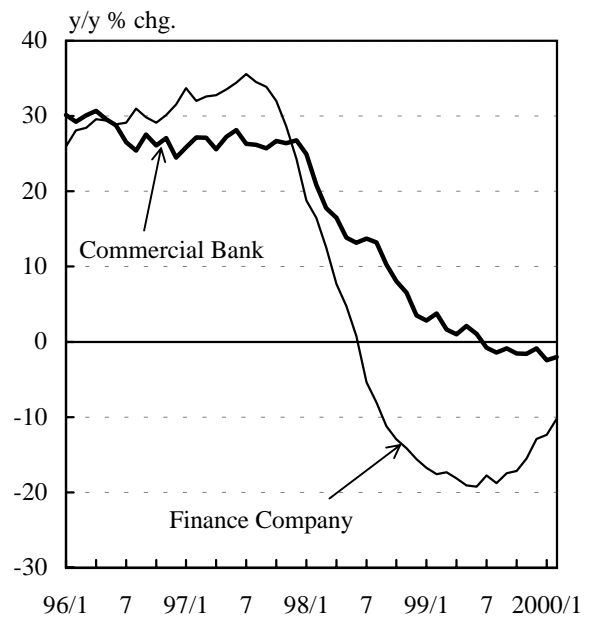
	98/3	99/7
NPL ratio	n.a.	39.1%
Capital adequacy ratio	4.3%	-24.6% (99/2)

3. South Korea



	98/6	99/12
NPL ratio	9.4%	8.4%
Capital adequacy ratio	9.2%	10.8%

4. Malaysia

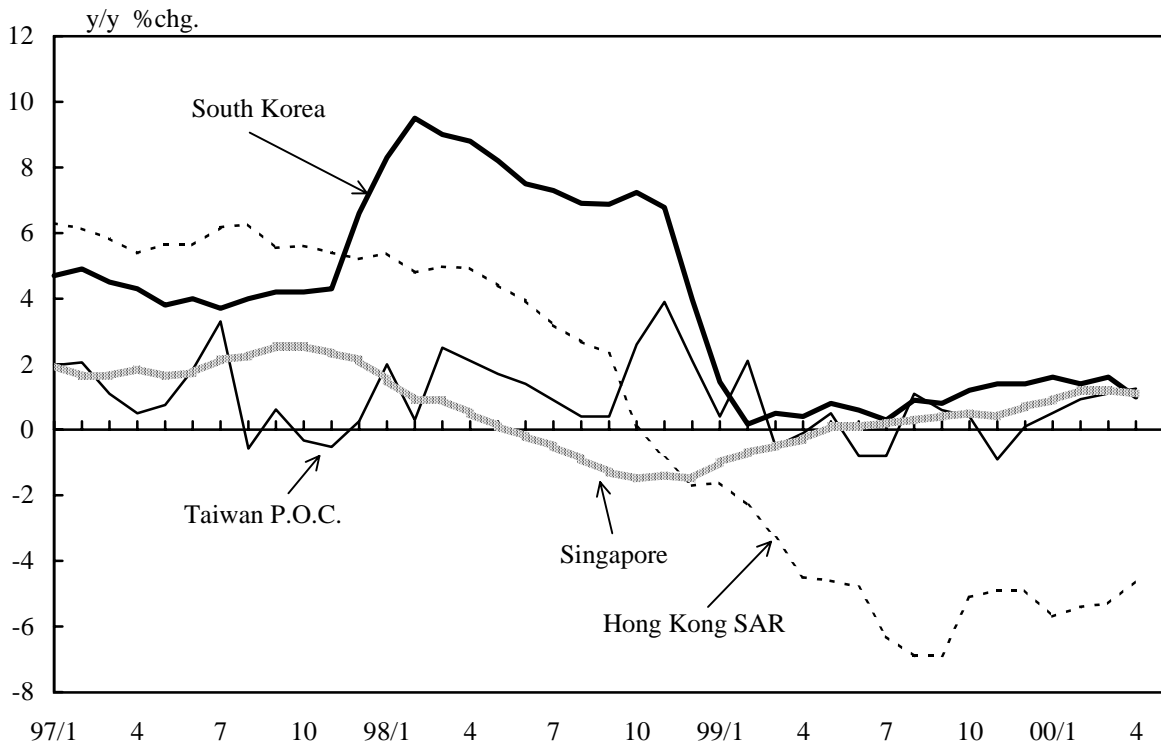


	98/6	2000/3
NPL ratio	7.3%	9.1% (2000/1)
Capital adequacy ratio	11.0%	12.9%

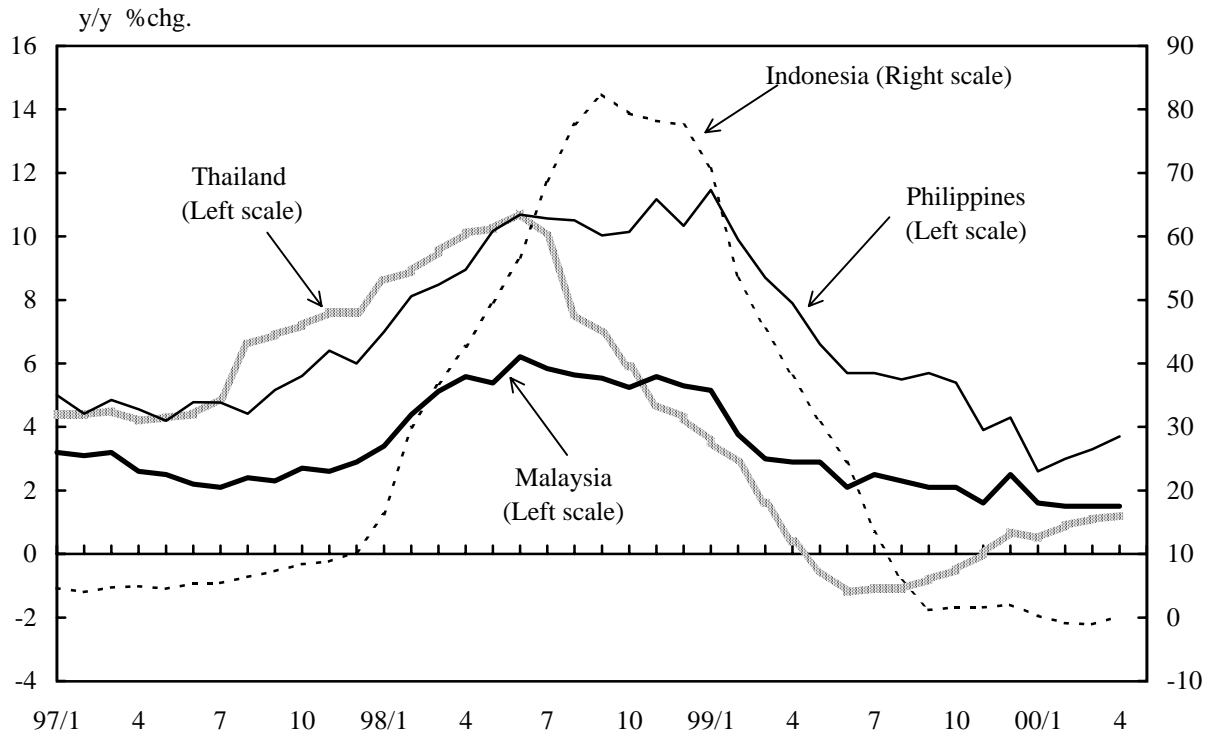
Note: The figures for NPL(non-performing loan) ratio and capital adequacy ratio are those of commercial banks.

Consumer Price Index

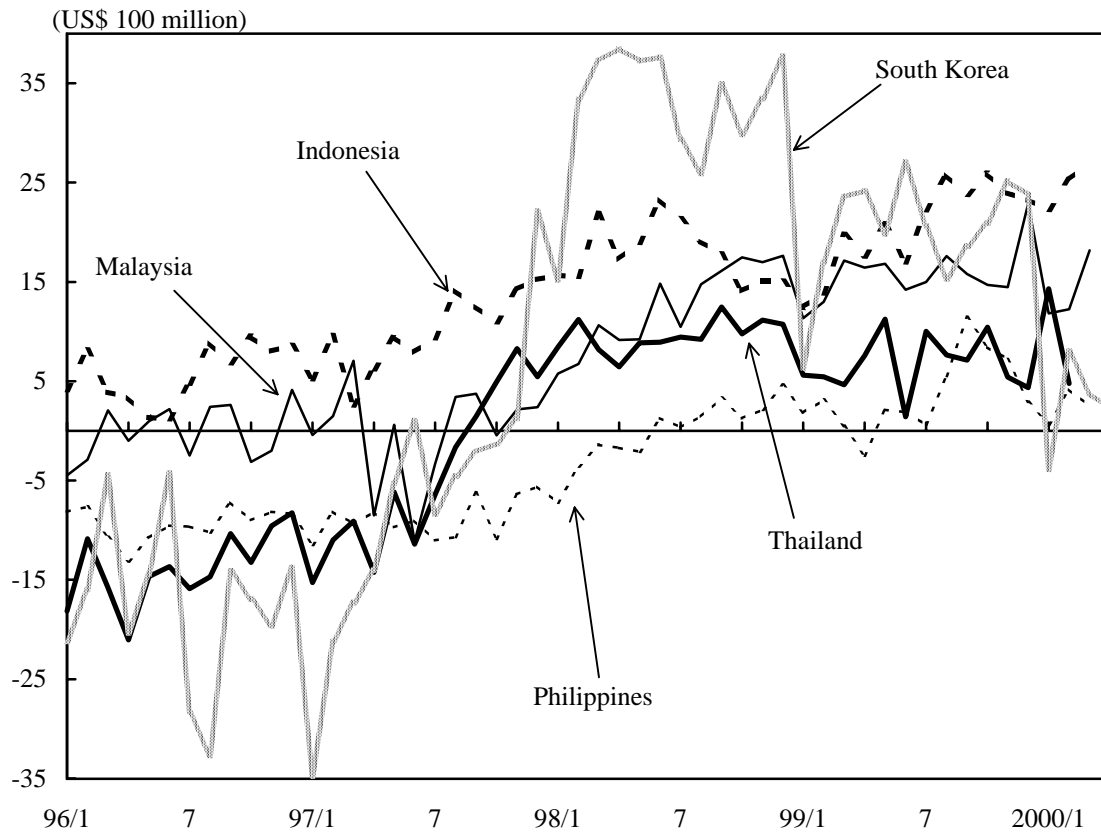
(1) NIEs



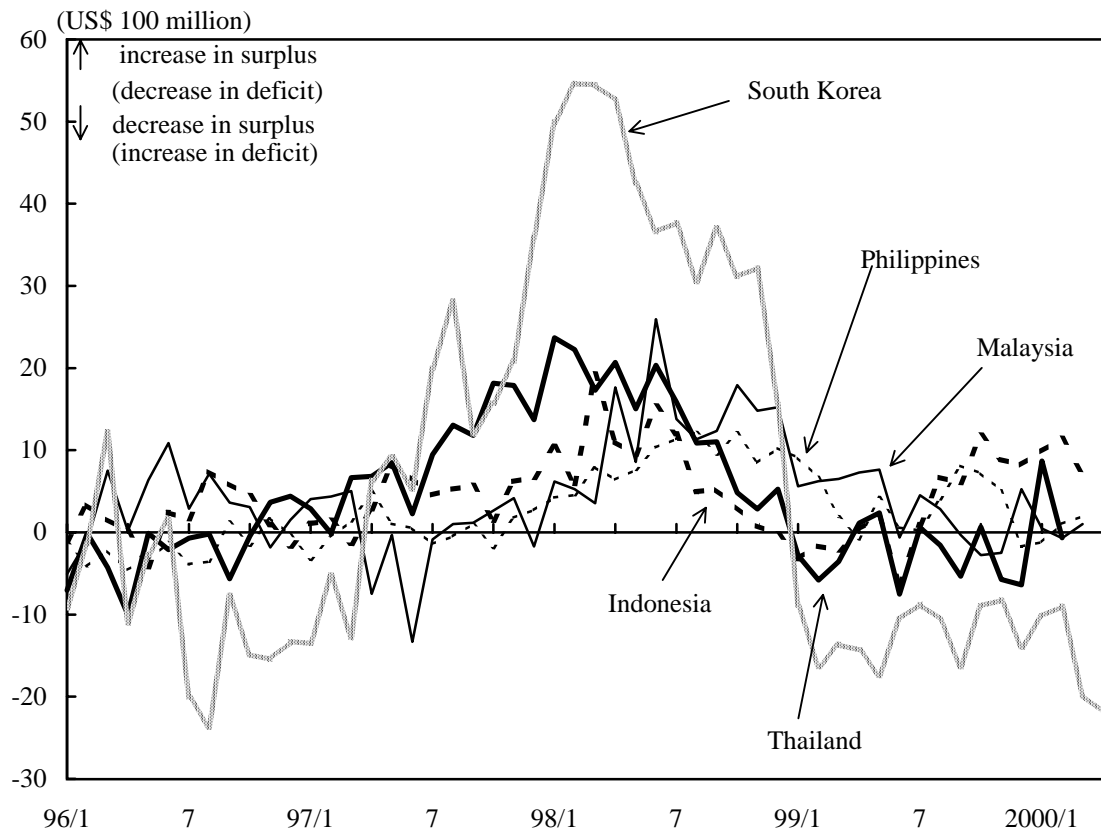
(2) ASEAN-4



(a) Trade Balance



(b) Trade Balance <difference from the previous year>



Breakdown of Current Accounts

Chart 12

(90-97 average, % of nominal GDP)

	Current Account				
		Trade Balance	Services	Income	Current Transfer
South Korea	-1.7	-1.0	-0.7	-0.2	0.2
Taiwan P.O.C	4.0	6.2	-3.7	1.8	-0.4
Hong Kong SAR	1.4	-4.8	5.3	1.9	-0.9
Singapore	13.0	-0.8	12.4	2.6	-1.1
Thailand	-6.3	-4.1	-1.3	-1.4	0.4
Indonesia	-2.5	4.2	-3.6	-3.4	0.4
Malaysia	-5.6	3.3	-3.8	-4.9	-0.2
Philippines	-4.1	-11.0	3.4	2.1	1.4

Note: The figures for Hong Kong are those of 1998.