# East Asia Update

## Regional Overview

## Special Focus:

**Financial & Corporate Restructuring**
**Poverty Reduction and**
**International Development Goals**
**Environment**

*March 2001*

East Asia and Pacific Region
**The World Bank**

# REGIONAL OVERVIEW

## EAST ASIA: AN OVERVIEW

**1. The region is at an important juncture.**

- After sustained and exceptional growth East Asia suffered a major setback during the recent crisis. Yet the recovery from the crisis has been remarkable, helped by exceptional conditions of the global economy and the fruits of structural reform.
- At the same time, the past six months have seen a continuation of political change across East Asia, some orderly and anticipated, some completely unexpected. There have been new governments in Thailand and the Philippines, and challenges to governments in Indonesia and some Pacific Island countries.
- Meanwhile, the region is now facing a major global slowdown.

**2. Against this backdrop, confidence in economic prospects has faltered. Progress on structural and institutional reforms remains key to restore confidence and increase resilience to shocks.**

- Business and investor confidence, as well as domestic household confidence, still suffers from the perceived slow pace and questionable quality of some financial and corporate restructuring.
- Talk about trade liberalization and regional integration has not yet been evenly matched by action and the required adjustments in the real economy.
- Awareness is growing of the difficulty of public sector reform—to effectively manage decentralization and public sector debt. Civil service, governance, and judicial reform will take a long time.
- Good progress has been made on reducing extreme poverty as measured by headcount ratios, but social vulnerability remains high: nearly half the population live on less than $2/day.
- Progress on other social development goals –which require institutional strengthening and good service delivery —has been slower.
- Other issues command attention, too. The environment remains a major impediment to sustainable growth.

**3. Given these vulnerabilities, the cyclical weakening in the global economy is a cause for concern.**

- East Asian economies are heavily dependent on exports to the U.S. and Japan.
- This is compounded by weakness in the global IT sector, with some East Asian economies heavily exposed to the sharp semiconductor slowdown.
- East Asia has seen sharp reductions in equity markets, which closely mirror NASDAQ developments.
- Hence, growth prospects for developing East Asia for this year are dampened but positive, ranging from 3-5 percent for EA5 countries, 5.5-7.3 percent for transition countries, and 1.2-5.7 percent for small economies.

**4. Yet many of the macroeconomic vulnerabilities that were at the root of the crisis have been significantly reduced.**

- External positions are strong enough to manage a normal cyclical downturn, with high domestic savings, sizeable—albeit declining--current account surpluses, and high levels of international reserves relative to short term debt.
- Considerable pull-back from East Asia by international banks, including Japanese banks, already has occurred, leaving East Asia less vulnerable to further sharp contractions in bank lending.
- The exporting and electronics sub-sectors in East Asia most affected by the global slowdown have stronger financials and, hence, are better cushioned to absorb the downturn.
- Real wages remain competitive, with dollar unit labor costs below their pre-crisis levels except for China.
- International and domestic interest rates are falling, easing fiscal pressures and reducing the burden of high corporate indebtedness.

5. **As long as reform programs remain broadly intact, the impact of the global slowdown could be mitigated.**

The following overview provides a brief update on the major developments in the Region over the past six months. Also attached are "Special Focus" briefs on Financial and Corporate Restructuring; Poverty Reduction and International Development Goals; and the Environment.

## Region is at an Important Juncture

The past six months have seen a continuation of change across East Asia – some orderly and anticipated, some completely unexpected. The changes to the political, economic and social landscape have altered, perhaps irreversibly, the overall development agenda in East Asia. The region is now facing increased political uncertainty, including more reports of ethnic and sectarian unrest and political protests. Recognized throughout the 1980s and much of the 1990s for its steady, exceptional growth and as a stable destination for investment, the East Asia region now appears to have settled into a lower growth pattern.

The major changes in the last six months include:

- new governments or leaders in Thailand and the Philippines;
- political protests in Indonesia and bloodshed in Kalimantan, along with continuing unrest in other provinces, such as Aceh, West Irian [Irian Jaya], and the Malukus;
- challenges to governments in some Pacific Island countries;
- continued growth of civil society, in virtually all countries of the region, often playing a valuable role in delivery of services and in informing public debate;
- delay in implementation of the internationally supported reform program in Indonesia;
- renewed implementation of significant pro-market reforms in China, in preparation for the WTO entry; and in Vietnam, with the signing of a trade agreement with the United States and adoption of new reform measures in trade, and bank and SOE restructuring;
- revival of discussion about trade liberalization and financial market integration, with some moves to establish bilateral agreements within and beyond East Asia.

Amidst these events, countries of East Asia pursued often complex and challenging reform agendas — which were the legacy of the 1997 financial crisis. With often weak or new political systems and leadership, it was to be expected that the pace of reform in the crisis-affected countries would vary, as indeed it has. While there has been back-sliding in some important areas, overall the direction of reform has remained true and progress is being made across a broad front.

Greater-than-average fluctuations of currency rates in the Philippines, for example, showed however, that international markets will exact a price for signs of domestic instability, and the slowing of new investment to the region – especially to the countries of South East Asia – underscored the lingering wariness of investors, even as growth and exports showed healthy signs of recovery. In Indonesia, political uncertainty, regional and ethnic strife, a deterioration in law and order, and a continued weak judicial system are combining to undermine investor confidence.

The longer term process of change, however, is important, for two reasons. First, it is clear that the changes in the region are effectively creating a new East Asia, one with more room for public debate (including in the political system itself) and for private sector-led growth supported by stronger public institutions. Second, there is reason to view these changes as leading to a more stable, more sustainable group of countries. Certainly, the upheavals in some countries have been great, and the reform agenda remains formidable. But it is important to see that East Asia's strong traditions of private savings, of investments in health and education, of outward-oriented development policies, and of reducing poverty -- coupled with China's role in the region as an engine of growth -- offer some ground for believing that these changes will lead to more responsive public institutions, thereby laying the ground for stability and more equitable, steady growth.

Meanwhile, East Asia has begun to feel the impact of a global slowdown.

## Against This Backdrop, Economic Confidence has Faltered. Progress on Structural and Institutional Reforms Remains Key to Restore Confidence and Increase Resilience to Shocks

### *Financial and corporate restructuring agenda…and impact on investor confidence*

Business and investor confidence, as well as household confidence, still suffers from the perceived slow pace and questionable quality of some financial and corporate restructuring. Key to Asia's future is the urgency of improving the business and investment climate. The most poignant reminder is the region's heightened vulnerability to the weakening external environment. Particularly for open economies, flexibility in production and investment decisions is an important attribute with which to address shifting external demand conditions. But if substantial resources are tied up in unrestructured or failing firms, the capacity to adjust is constrained.

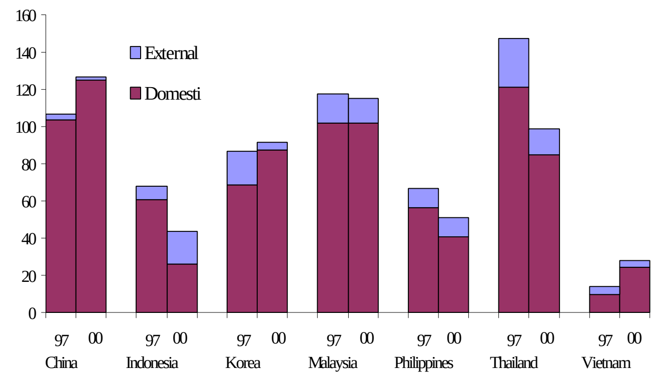
The implications of the East Asian financial crisis for financial and corporate restructuring have consistently been underestimated. Although substantial financial and corporate restructuring has occurred, the quality of that restructuring is hard to assess, and difficult parts of the agenda remain. (See Special Topic on Financial and Corporate Restructuring.) Making the task more difficult has been a complex mix of institutional factors, including powerful political connections of major debtors, conglomerate ownership of banks and other financial institutions and the resulting subservience of the latter to their corporate owners, and government concerns about systemic or social implications of allowing important firms to fail. These have complicated the implementation of technical solutions. Weak judicial capacity has added to the backlog in court-supervised restructuring cases, as allegations of judicial corruption have undermined faith in judicial efficacy. A shortage of skilled personnel more generally, in areas such as bank regulation and supervision, accounting and auditing, also has slowed the process of achieving international prudential and corporate governance standards. And slowing economic growth will not make restructuring any easier.

Unfortunately, none of these factors diminishes the importance of persevering with the restructuring effort. The difficult part of the corporate restructuring agenda still appears to lie ahead. First, the London rules-based resolution approach is primarily a voluntary process—suggesting that the most difficult cases involving well-connected or recalcitrant debtors or substantially distressed firms are either being addressed through the courts or not at all. Second, the out-of-court workout resolutions themselves tend to focus on simpler cases first. Thailand's CDRAC, for example, was unable to resolve about half its cases after two years effort, and these are now being transferred to the courts. Third. despite ostensibly faster progress through out-of-court proceedings, the quality of restructuring is of concern, focusing as it primarily has on temporary easing of debt servicing rather than operational restructuring, asset sales, equity infusions, debt/equity conversions and write-offs. In many such cases there is concern that corporate debt classified as "restructured" could return to non-performing status once grace periods have been exhausted.

Since the crisis, progress in financial and corporate restructuring has helped ease the problems of access to financial services. The World Business Environment Survey finds that access to financing is no longer considered a major constraint in most East Asian countries.[1] Stress levels in the domestic banking systems were on a gradual downward path. Yet the vulnerabilities associated with high leverage remain, and many countries remain vulnerable to financial shocks. East Asian corporate balance sheets depend heavily on credit, as reflected in the relatively high ratio of private (non-bank, non-public) sector credit to GDP which is relatively high for East Asian economies.[2] One indicator of problem loans is when the growth rate of credit exceeds that of GDP. In Korea and Malaysia, this ratio has changed little since the crisis. Only the most severely affected EA5 countries, Indonesia and Thailand, have brought down this ratio. In China, this ratio has continued to rise. Retained earnings, asset sales, new equity issues and debt write-offs are required before credit risk can return to reasonable levels.

*Leverage of East Asia corporate sector may be coming down but still a major vulnerability…*

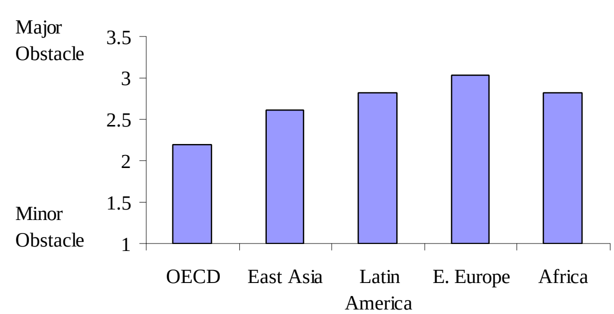
**Credit to Private Sector**
As ratio of GDP




*Source: IMF International Financial Statistics for Domestic BIS for External Credit*

*…access to financing not considered the major constraint*

**Constraints to Growth: Financing Constraints**
**Firm-level ranking by region**




*Source: World Business Environment Survey (2000).*

More probing assessments of emerging market risk by international creditors and investors points to the need for discernible progress on the restructuring front as competition for foreign capital intensifies. While external capital flows to developing East Asia appear to have improved in 2000, above 1999 levels, the flows continue to be dominated by those to China. For example, of the $11.6 billion in inflows into equity markets in the first half of 2000, $10.4 billion was for China, dominated by some large issues, with less than $0.6 billion into the equity markets of the East Asia-5 countries. The bulk of FDI flows continue to be directed to China, estimated at $41 billion in 2000, slightly above 1999 levels. Malaysia FDI remains well below historic levels, Thai FDI is estimated to have fallen by a third, and FDI is still flowing out of Indonesia, albeit at a much reduced pace

[1] The WBES is an initiative of the World Bank, in partnership with other institutions, which seeks to assess the state of the enabling environment for private enterprise in at least 100 countries, including Cambodia, China, Malaysia, the Philippines, Singapore, and Thailand. Most recent surveys were carried out in mid-2000 This overall result for access to financing holds less for small- and medium-sized firms in Thailand

[2] In the US domestic credit as a share of GDP is less than 20 percent, for example.

(-$0.5 billion in 2000 compared with -$2.7 billion in 1999). In Korea, net FDI amounted to $3.3 billion through November 2000 compared to $3.9 billion in the same period in 1999. Continuing losses at the bankrupt Daewoo Motors, the deep declines in the corporate value of the other Daewoo affiliates, and the purchase of Hyundai Electronics bonds by Korea Development Bank (KDB) have generated much controversy in the markets.

Asian economies also need to focus beyond relative prices in the labor force to upgrading the quality of education and enhancement of science and technology, in order to ensure competitiveness in the world market. Asian economies are relatively well-endowed with an educated population: economic literacy and secondary school enrollment is higher than comparable economies in other regions. However, on other indicators of competitiveness related to skill, scientific knowledge and infrastructure of information technology, most Asian countries lag far behind, particularly Southeast Asia and mainland China. Korea, albeit more advanced, was still lagging behind other NIEs in IT infrastructure. Malaysia, Thailand and the Philippines measure substantially lower than the U.S., Singapore and Korea in their per capita R&D personnel nationwide, measured in fulltime working equivalent. Another indicator of domestic base of scientific research – patents awarded to residents – shows an average number for 1996-97 of 61,406 in the U.S., 158,809 in Japan and 11,409 in Korea, but 1,458 in China and only about 25 in Malaysia, Thailand and the Philippines, and less than 10 in Indonesia.

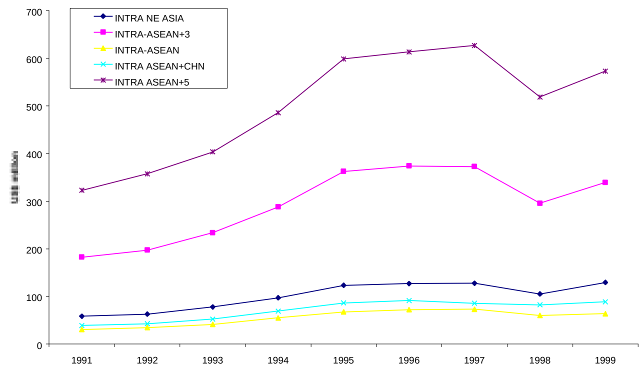
***Increasing focus on trade reform and regional integration needs to be matched with required adjustments in the real economy…***

Medium-term structural challenges are being addressed at not only the country level but also the regional level. Regional trade integration has further implications for domestic structural reform. To benefit from the gains from regional trade and investment liberalization, the production structure in the real economy throughout East Asia will have to adjust. The financial and corporate sector restructuring agenda as well as support for regulatory and competition policy is critical for efficient firms to be effective players in an increasingly integrated economy and region.

Extent of trade integration has increased steadily in the 1990s. Trade within ASEAN is about 20 percent of total ASEAN trade. Trade within the large northern Asian countries of China, Korea and Japan is also about 20 percent of total trade of those countries. Recent intra-ASEAN+3 trade is estimated at 35 percent of total trade of these countries; including the economies of Hong Kong and Taiwan, China; intra-ASEAN+5 trade is estimated at nearly half of total trade. While falling from peaks pre-crisis, regional investment flows remain at significant levels.

*Intraregional trade continues to grow…*

**Intraregional Trade -- Exports and Imports**
**In US$**




*Source: WITS*

Interest has heightened recently in regional trade and investment arrangements, with regional free trade agreements (RTA) as well as several bilateral free trade agreements within the region under active discussion. RTAs, if properly designed for trade creation, can be positive forces, especially for smaller economies, and in the context of stimulating trade in a global context.[3] One major channel for a positive economic impact of an RTA in East Asia is through an enlargement of the market as a whole and resulting economies of scale, improved efficiency and greater competitiveness of regional producers. Inclusion of China is particularly important for achieving a large-scale regional market. Realizing these gains requires that East Asian countries allow expansion and contraction of sectors and firms as the markets develop. Another channel would be through trade and location effects. Any negative impact from trade diversion to less efficient sources in particular for poorer countries is likely to be offset by the positive impact of relevant technology transfer and modernization of standards and procedures – as has been the case with the expansion of AFTA to countries such as Vietnam and Cambodia. [4] Growing regional activities also can stimulate increased demand for inputs from non-regional sources.

Hence, any RTA could have significant welfare gains for both the region and globally if based on trade

[3] See World Bank (2000). *Trade Blocs.* A World Bank Policy Research Report. According to recent estimates of the Institute for International Economics (Scolley and Gilbert, forthcoming), removal of tariffs under an ASEAN+3 RTA for example would result in a gain for all economies in the grouping, with the exception of Taiwan-China ,as well as a gain for the world as a whole (in US$1995 equivalent, about $0.6 billion for the region and $0.1 billion globally)

[4] See Fukase and Martin (2001). 'Free Trade Area membership as a Stepping Stone on the Development Path: Examining the Expansion of the ASEAN Free Trade Area." A World Bank Discussion paper.

creation. Gains also depend on extent of 'deeper' integration including investment issues and going beyond tariff reduction measures to reduction in non-tariff barriers, deregulation of domestic markets to enhance competition, and harmonization of regulations and standards. The model of ‘deep’ integration is that envisioned by AFTA and the new ASEAN Investment Area initiative. However, given progress on the ground has been uneven, one should not underestimate the challenges arising from regional integration – for example, the recent debate surrounding the Malaysian automobile industry.

***… with China as competitor and opportunity.***

The development of China as a growing economic force in the region presents significant opportunities for the other countries of the region. Of course China will continue to compete. Continued reforms in the state-owned enterprise sector will be critical to help it cope with the competitive pressures from WTO accession. In China’s export trade, some southeast Asian exporters will lose primarily due to the removal of quotas on Chinese textile and apparel products. Under the proposed WTO accession, China will be eligible for the phasing out of quota restrictions under the Uruguay Round Agreement on Textiles and Clothing, the successor to the Multi-Fibre Agreement. However, the projected growth in world trade leaves ample opportunity for growing exports for all countries of the region. More importantly, China with its growing economy represents a source of increasing demand, from which neighboring countries are well positioned to benefit. China’s imports from ASEAN countries alone have grown nearly four-fold over the past ten years, with the share of China’s imports from ASEAN countries in its total imports growing from a little below 6 percent in 1990 to 9 percent in 1999. The ASEAN countries that have benefited the most from China’s phenomenal growth in the nineties include Singapore, Thailand, Malaysia, and Indonesia, and more recently the Philippines. In the near-term, China’s imports are expected to increase sharply, particularly investment goods imports but also final consumer goods (while intermediate inputs for exports are expected to flatten in line with lower export growth), providing some offset to decreasing external demand elsewhere.

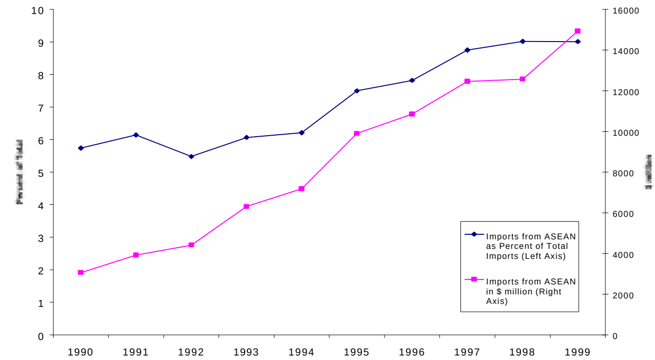
A recent analysis of the impact of China’s joining the WTO indicate that overall it will benefit exporters from all countries in the region, and the East Asia region more than other regions of the world.[5] Japan, Taiwan-China, and other NICs are likely to have the strongest volume gains, exceeding 100 percent, but countries of southeast Asia also benefit by more than 20 percent. The commodities with the largest volume increases are textiles, petrochemicals, wood products, and other manufactures. (See Annex Table 1.)

[5] See Ianchovichina and Martin, 2001.

*…with imports from ASEAN countries representing a growing share of China's imports*

**China Imports from ASEAN**

(as percent of total and in US$)




*Source: WITS*

On the investment front, China remains attractive to foreign investors, in part because of increased opportunities associated with WTO accession. Real estate, electronics and communications industries, and investment related to the services economy, have all experienced a surge. Regional investors are key players: Hong Kong-China, Japan, Malaysia, Singapore and Korea represent five of the six largest points of origin for FDI. This, however, also represents opportunities for gains for all countries based on ‘deep’ integration. Southeast Asian countries in particular have the opportunity to adapt their labor force and business environment to an increasingly technologically sophisticated global economy, and move up the ladder of comparative advantage in an increasingly integrated East Asian market.

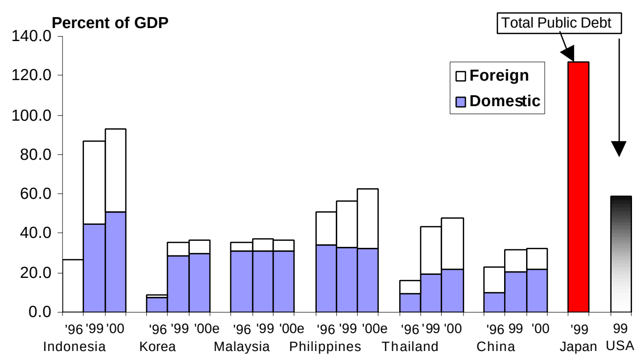
***Managing public sector debt and decentralization***

Awareness is growing of the difficulty of public sector reform. It is increasingly clear that civil service, governance, and judicial reform will take a long time. Yet these reforms are essential to manage decentralization which is occurring throughout the region. They also are essential for managing public sector debt.

Most East Asian countries entered the crisis with very healthy public finances, and this undoubtedly helped contain the crisis. Public sector debt grew sharply, however, as a result of three factors: the initial sharp depreciation of the exchange rate (which raised the domestic currency value of government external debt), the resolution of troubled financial institutions, and fiscal stimulus programs. As a result, public sector debt levels have become high. As a ratio to GDP, public sector debt has tripled in Indonesia, Thailand, and Korea (excluding government guaranteed bonds issued for financial restructuring.). In Philippines, with a steady decline in government revenues, earlier progress in reducing the considerable burden of public debt has been partially reversed, representing a major challenge for the new administration. In China, although the public sector debt level is relatively modest, the rapid increase in fiscal deficits aimed at stimulus as well as regional development are adding to debt levels. Additionally, for all countries these public sector debt figures may not fully reflect all the governments' debt obligations because they exclude contingent liabilities, such as future additional needs of financial sector resolution and debts of troubled public infrastructure corporations and other state-owned enterprises.

*Public Sector debt burdens are high…*

**Public Sector Debt**




*Notes: e= estimate.Thailand - includes central government debt and SOE debt guaranteed by the govt. Philippines - National Govt. debt only, excludes onlending and contingent liabilities. Korea - includes financial sector restructuring bonds; if restructuring bonds were excluded, public debt would be 22.3% of GDP in 1999 and 23.1% in 2000*
*Source: IMF for Japan and USA.*

Several countries also face the challenge of fiscal decentralization, which can expand fiscal deficits unless managed prudently. In Indonesia, concerns over the impact of decentralization on already high public sector indebtedness has led the central government to ban regional borrowing, except through the center.

High public-sector debts raise questions of debt sustainability, thereby raising risk premia on sovereign debt. Any high risk premia on sovereign debt in turn sets the benchmark for domestic corporate debt and can create a climate of high real interest rates which complicates recovery and restructuring efforts. In Indonesia in particular, such high levels of public debt have raised questions of debt sustainability. Indonesia, along with the Philippines, remain the two countries in East Asia which have not been able to bring the spreads on their external sovereign debt back to reasonable levels.

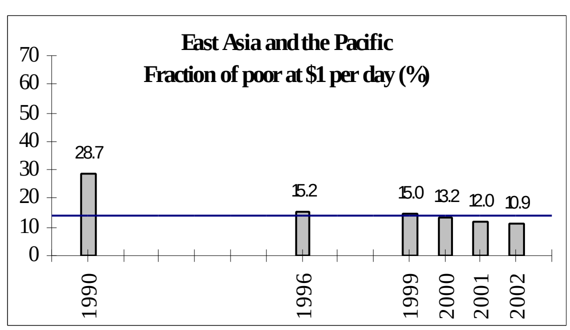
High public sector debt has diminished capacity for a fiscal response to another shock. Large government debt servicing obligations also pre-empt development and social expenditures. Without financial and corporate restructuring, a sustainable economic recovery is difficult and, hence, there is a risk that these economies will develop problems similar to those of Japan, whose public sector debt is approaching 130 percent of GDP, limiting the government's options. While debt dynamics for developing East Asian economies in the short term are likely to be positive in line with declines in interest rates, public sector debt may remain a drag on medium growth.

***Progress on reducing extreme poverty reduction, but social vulnerability remains high, and other International Development Goals have been harder to meet***

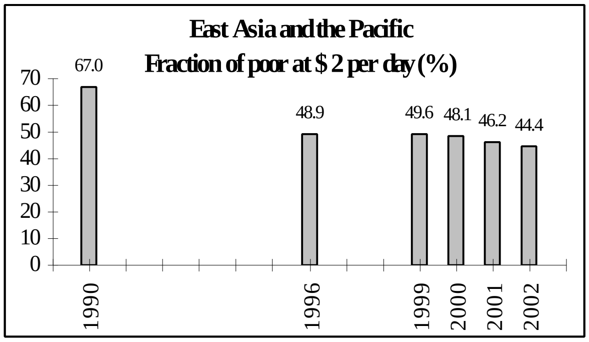
East Asia made rapid progress in reducing poverty between 1990 and 1996, driven largely by the spectacular gains in China. But the economic crisis interrupted progress in some countries, and led to an increase in the share of the population in poverty in Indonesia, Thailand and Korea. The adverse impact of the Asian crisis has dissipated for the region as a whole. Yet, for some badly affected countries like Indonesia and Thailand, it will take up to 2002 or beyond till poverty incidence has returned to the 1996 levels. (See the Special Topic on Poverty Reduction and International Development Goals.)

Despite the slowdown in poverty reduction, the East Asia and Pacific Region leads the world in progress toward meeting the International Development Goals, embraced by 160 nations. Already by 1998 the East Asia and Pacific Region had achieved the International Development Goal of reducing extreme poverty, defined as the proportion of the population living under $1/day, by half between 1990 and 2015. The proportion of population under this poverty line is estimated at 13.2 percent in 2000 compared with 27.6 percent in 1990. Yet social vulnerability remains high: nearly half the population (48 percent in 2000) live on less than $2/day.

*East Asia region making good progress on reducing extreme poverty…*



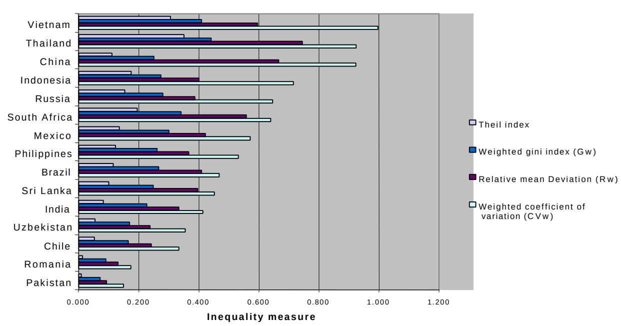
*… but social vulnerability remains high, with nearly half the population living on less than $2/day*




. Progress in reducing extreme poverty has been uneven. Some smaller economies are falling behind, for example, PNG. There are also sub-national variations and serious regional disparities within countries. For instance, while the Philippines as a whole seems to be on track for attaining the poverty reduction goal, regions within the Philippines such as Eastern Visayas, and Central and Muslim Mindanao have lagged behind. In several countries, inequality and ethnic issues are undermining social stability, making sustained progress harder to achieve.

*Regional disparities within countries of East Asia are high…*

**Regional disparities within non-industrial countries**



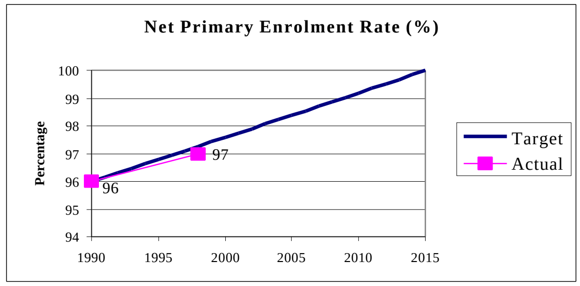

*Source: World Bank*

Progress on other social development goals—which require institutional strengthening and good service delivery—has been slower. In terms of the education goals, such as achieving universal primary enrolment by 2015 and gender equality in primary and secondary education by the year 2005, the East Asia region is largely on track. But, this hides country-level variation. Net enrollment rates in Cambodia have actually declined between 1996 and 1998. Progress on achieving gains in health indicators has been disappointing, and hence progress towards reducing the infant and child mortality rates have not been rapid enough for the region to achieve the target of reducing these rates by two-third by 2015. Reductions in the under 5 mortality rates in China, Vietnam, Thailand and Laos have not been rapid enough to achieve the targets. It is particularly striking that despite the fastest gains in the region on poverty reduction in China and Vietnam this has not been matched by gains in health indicators.

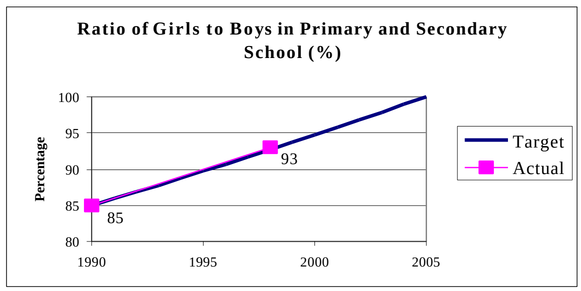
*Progress on other social development goals has been slower.*

**East Asia: Progress Towards Achieving the International Development Goals**

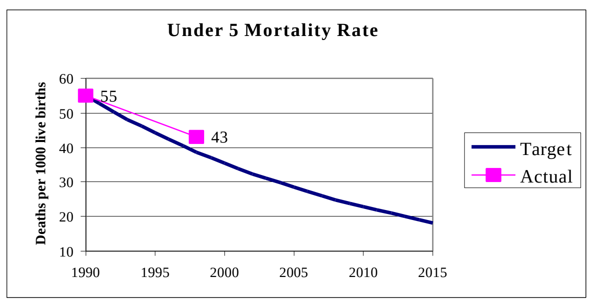
*IDG: Universal primary enrolment by 2015*




*IDG: Gender equality in primary and secondary education by 2005*




*IDG: Reduce under 5 mortality by two-thirds between 1990 and 2015*




These challenges, and the associated issues of managing vulnerability, are the main poverty challenges for the region.. Given ongoing uncertainties created by the short-term cyclical downturns, the social agenda remains key . While it is too soon to gauge impacts on wages and employment in the labor markets, there already are signs of unemployment creeping back up. Korea's unemployment wage rose to 5 percent in February, from 4.6 percent the previous month. The unemployment rate in the Philippines increased to 11.4 percent in the fourth quarter of 2000 from 10.1 percent the previous quarter. In the face of economic slowdown, the authorities will need to be prepared to continue strengthening the safety nets, many put into place recently in response to the 1997 crisis. The experience with social safety nets including public employment activities should put these countries in a good position to respond as needed to any temporary labor market difficulties. Reform of the social security system will be critical to addressing the challenge of redundant labor from enterprise restructuring and an essential precondition for reform of the public enterprise sector in the transition economies including China.

***Other issues command attention—environment.***

For decades, before the East Asian financial crisis, economies in the region experienced unprecedented rapid and long-lasting economic growth, despite diversity in natural resource endowments, geography, population size, and culture. However, policies that emphasized rapid economic growth based on high domestic savings and capital inflows tended to ignore the environmental consequences of rapid growth. This imbalance resulted in congested and polluted cities, rapid deforestation, and the erosion of natural resources. The accumulation of environmental problems has represented the "dark side of the East Asian Miracle", questioning its sustainability in the long term. (See Special Topic on the Environment.)

In the immediate aftermath of the crisis, priority has rightly been given to restoring growth to reverse the decline in personal and national incomes and to continue the battle against poverty. As East Asia moves toward concerns of sustained growth, attention should extend to addressing critical environmental concerns (i.e. urban air and water pollution; sustainable use of natural resources; strong environmental compliance and enforcement at local level) to ensure that regional economies do not relegate environment to a secondary status on the policy agenda and backpedal into environmental neglect again.

## Given These Vulnerabilities, Cyclical Weakening in Global Economy Is Cause For Concern

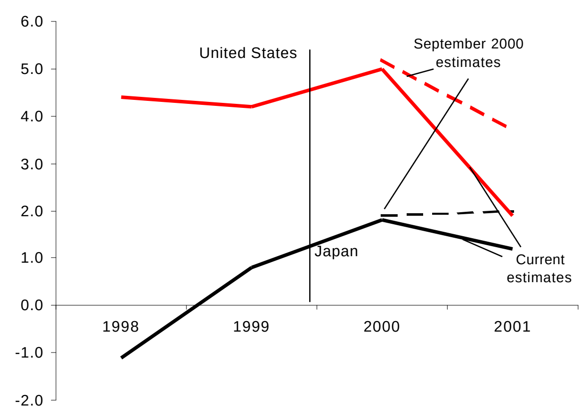
***Negative external developments hit East Asia hard, casting a shadow on heels of strong recovery***

Until recently, the pace of recovery in East Asia exceeded expectations, with growth for developing countries hitting 6.9 percent in 1999 and exceeding 7 percent in 2000. The strong external situation was an important contributing factor to this growth and helped to reinforce domestic macroeconomic policy and structural reform measures aimed at restoring consumer and investor confidence. Strong growth in the United States and Europe bolstered external demand in the East Asian economies, reinforced by the deepening trade linkage in the Region Export expansion and the favorable current account balance, together with a threefold increase in portfolio and foreign direct investment inflows, were sufficient to offset continuing outflows of bank loans.

Now a reverse in those external developments is casting a shadow on the heels of that recovery. A cyclical slowdown in critical U.S. markets combined with a failure of the Japanese economy to recover is dampening the short-term growth outlook in East Asia. Projected GDP growth for the U.S. for 2001 — which was over 3 percent six months ago—is now under 2 percent. Projected GDP growth for Japan for 2001 — which was about 2 percent six months ago — continues to be revised downward. In a few months, Japan could be back into 'official' recession. Industrial production for January dropped 3.9 percent (month on month, seasonally adjusted) instead of expected 0.5 percent growth. Industrial output is now expected to contract 7 percent in the first quarter (quarter on quarter).

*Reversal in external developments is hitting East Asia hard…given slowdown in US and lack of recovery in Japan*

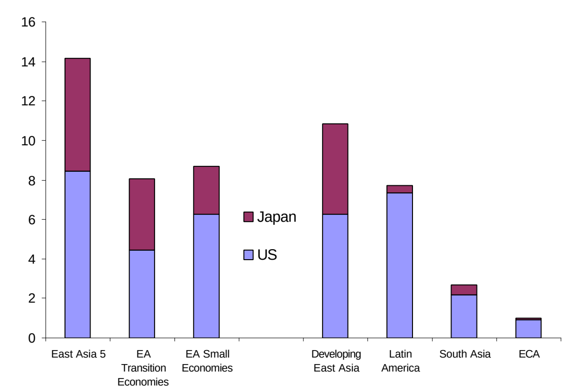
**Projected GDP Growth in the US and Japan**




*Source: Consensus Forecasts*

*…and East Asia's relative dependence on exports to those markets*

**Exports to the US and Japan**
as a percent of GDP 1996-2000* average




*1996-1999 for LAC, South Asia and ECA

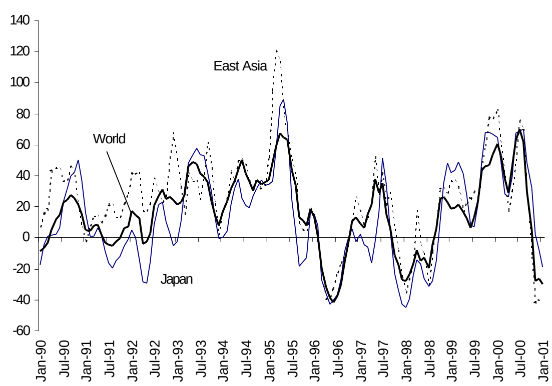
Compared to other emerging markets, East Asian economies are heavily reliant on exports to generate demand, especially on the U.S. and Japan markets. The East Asia 5 countries (Indonesia, Korea, Malaysia, Philippines, Thailand) are particularly dependent on exports to those markets, accounting for 16 percent of GDP, compared with 7 percent for transition economies and 8 percent for other small economies in East Asia). The increasingly integrated production and trade patterns in the Region will reinforce the negative cyclical impact.

East Asia is particularly vulnerable in the current downturn to demand for electronic products, or more broadly, information technology (IT). IT sectors have their own sharp cycles not necessarily linked to broader economic cycles, yet in the current global environment the two cycles are linked.

*…compounded by IT cyclical downturn*

**Semiconductor Sales**

growth rate y/y 3 month average sales in US




*Source: Semiconductor Industry Association..*

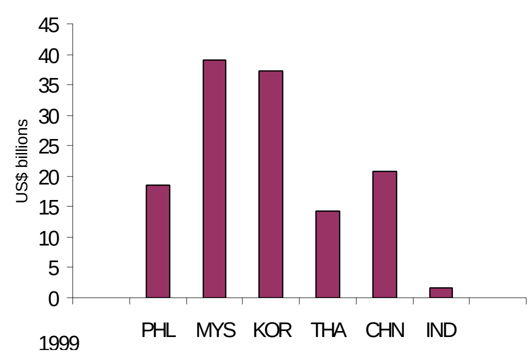
Among developing economies, the East Asian countries are the most exposed to swings in the IT sectors: the region, which accounted for a quarter of the world semiconductor market in 2000, behind North America, Japan and Europe; is increasingly active in the global consumer electronics market. The current global downturn in demand for IT is impacting the semiconductors sub-sector rather than consumer goods. East Asia semi-conductor sales tend to closely track world sales. And, while year-on-year growth rates of personal computer sales remain fairly stable (albeit exhibiting seasonal swings over the course of the year), semiconductor sales growth plummeted by the end of 2000. After a period of slowing yet still robust growth during the summer and into the fall months, (30 percent to above 60 percent growth year-on-year seasonally adjusted), global semiconductor sales year-on-year fell sharply from 4 percent in October 2000 to -27 percent in December . Growth of semiconductor sales in East Asia fell to -14 percent (saar) in October from 30 percent the month before, and by December had plummeted to -41 percent. Similar drops in semiconductor sales occurred in the other major markets except for Japan, which experienced a much shallower decline.

Several countries in East Asia are particularly exposed to this global IT and semiconductor slowdown. Countries such as Malaysia and the Philippines have very high shares of IT exports, as a share of both total exports and GDP, and high shares of exports to the US and Asia (including the NIEs and Japan) Semiconductor exports in both countries comprise over 20% of each country's GDP. The other major IT exporters in the region – such as Korea, Taiwan-China, Thailand – are also vulnerable; semiconductor exports represent 6 percent of Korea's GDP and 4 percent for Thailand. At the same time, as the sectors have matured, the IT products are no longer exclusively concentrated in computers and computer components. Mobile electronics, electronic games, and customized micro-processors are playing an increasingly important role in the IT sector. Half of Malaysia's IT exports and a quarter of the

*…with some East Asian countries heavily exposed*

**IT Exports for Select East Asian Countries**

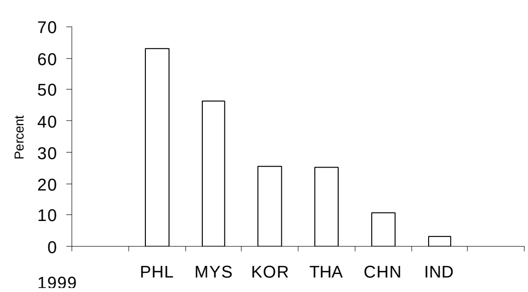
($ billion)




*Source: COMTRADE*

**IT Exports for Select East Asian Countries**

(% Share of Total Merchandise Exports)




*Source: COMTRADE*

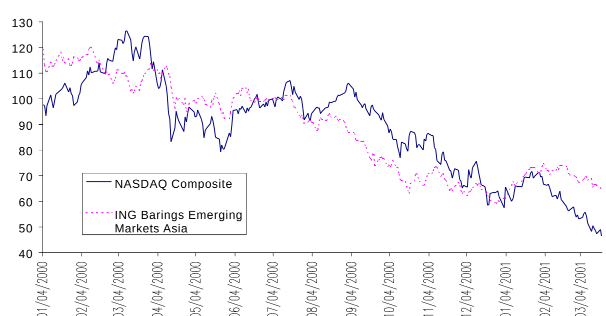
Philippines' are in these more diversified consumer electronic products. The low-end, computer component based production is shifting towards low cost centers, such as China, Indonesia, and Thailand, where the share of IT in the economy, except for Thailand, is still relatively low. (See also Annex Table 2.)

Asian equity markets also have weakened, mirroring to a large degree the decline in global markets. Asia's emerging markets have become much more closely correlated with those in NASDAQ, in line with globalization in financial markets and the IT and electronics industry, and accompanying increased dependence of some East Asia economies on these exports. The correlation between NASDAQ and Emerging Asia indices in 2000-01 is about 0.8, compared to 0.2 for the 1990s as a whole. Investors no longer find the same degree of risk diversification in East Asia emerging markets as previously. The correlation between returns on NASDAQ and Emerging Asia markets has increased from 0.11 in the 1995-96 pre-crisis period to 0.21 for 2000 to early 2001. There has been recent divergence between the NASDAQ and Emerging Asia market indices. However, this is due to political developments, in the Philippines and Thailand, the decision by the Chinese authorities to allow domestic investors into its B share market, and susceptibility of the Indonesia stock market to political events.

*East Asian Equity Markets More Closely Mirroring Developments in NASDAQ in part due to IT linkages*

**NASDAQ and Emerging Markets Asia, 2000-01**

(Jun 30, 2000 = 100)

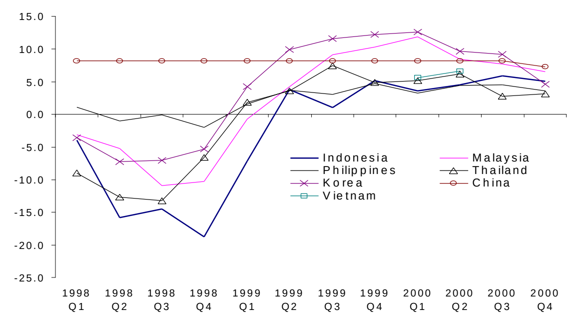



*Source: Bloomberg*

The link between the equity markets and the real economy is muted in East Asia. East Asian firms have a lower reliance for raising money on equity markets, through IPOs or new share issues. Most investment is financed by debt, bank credits, and retained earnings – sources to which firms can continue to turn. Holdings of publicly listed shares are concentrated, with foreigners holding a significant proportion of floating shares in some markets, so the wealth effect on household consumption is low. Managers are less oriented to bottom-line stock market movements as options are not a substantial portion of their compensation packages, so they do not respond as directly to share price movement in comparison to managers in the US for example. On the other hand, there are still important effects of weakening equity markets which should not be ignored, for the following reasons. One, market declines lower confidence which can spill over into reduced investment and consumption. Asian households react to future uncertainties by increasing their savings which could stall growth. Two, corporate and financial sector balance sheets still need more equity to be returned to healthy positions. The fall in stock markets could complicate and slow financial and corporate restructuring.

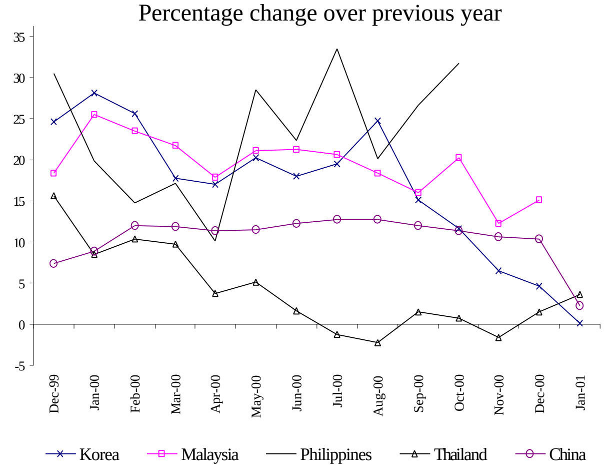
*with signs of slowdown appearing*

**GDP Quarterly Growth Rates**




**Industrial Production Index**

Percentage change over previous year




***…but several international forces mitigate negative impact.***

The way in which major developed countries manage these cyclical developments could mitigate the economic impact on East Asia. These international forces include: lower nominal and real interest rates, lower oil prices, and possible depreciating value of the US dollar – all of which help those East Asian economies most seriously affected by the global and IT slowdown.

Developing East Asian economies are net external debtors, and, hence, declines in *interest rates* have a positive impact. Interest rate policy in key OECD countries in response to the slowdown has led to a decline in international interest rates. The fall in real rates is even starker than that of nominal rate cuts. The fall in US interest rates by 150 basis points in January-mid-March 2001 translates directly into savings on interest payments of variable-rate external debt on the order of $3 billion for East Asia. Fixed rate debt – in particular, short-term debt – will also reflect these lower rates.

Moreover, the decline in international interest rates has permitted a downward adjustment of *domestic interest rates*. Lower domestic interest rates will provide some additional offsetting stimulus to the East Asian economies during the cyclical downturn. From the start of the year to mid-March, East Asia short term interest rates have fallen by 300 basis points in Philippines (also due to restoration of confidence) and by about 90 basis points in Korea and Thailand.

*Decline in interest rates a mitigating factor…*

**Interest Rates**

| | end Dec-00 | 03/22/01 | Basis point change |
|---|---|---|---|
| United States | 6.5 | 5.0 | -150 |
| Japan | 0.2 | 0.03 | -17 |
| Indonesia | 11.547 | 12.96 | 141.3 |
| Korea | 6.01 | 5.06 | -95 |
| Malaysia | 2.8 | 2.8 | 0 |
| Philippines | 13.594 | 10.594 | -300 |
| Thailand | 2.5 | 1.63 | -87.5 |

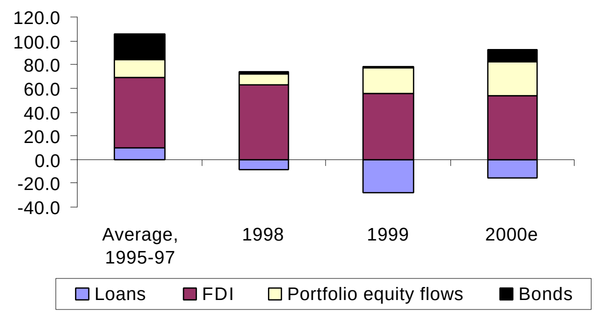
US is Federal funds rate (target).
Japan is uncollateralized overnight call rate (average).
All others are overnight interbank rates.
Source: Bloomberg

With these interest rate declines, liquidity conditions have eased. This has been reflected in a strong upsurge in international *bond issues* from emerging markets, and steady decline in bond spreads – which builds on significant bond activity in 2000 for East Asia emerging markets after two years of virtual absence. The bond market provides an attractive financing source for East Asia over the more depressed equity markets during the cyclical downturn. Korea, Malaysia and Thailand remained active in early 2001. We have not yet seen any evidence of an increase in international spreads over concerns with a weakening East Asian economy. Recent events in Turkey temporarily tightened conditions, but not primarily East Asia emerging markets. An exception is Indonesia where the spreads in the secondary market have been increasing in recent months.

Development of financial innovations including asset-backed securities is broadening access to capital markets, even if the primary market is weak. In Korea, for example, in 2000 domestic businesses doubled the won volume of corporate bond issues; with much of the increase among small-and-medium size enterprises. Asset-backed securities accounted for 70 percent of total, compared to 15 percent in 1999.

*... and renewed access to bond markets helping to offset equity market weakness*

**Composition of Private International flows**
(Billions of U.S. dollars)

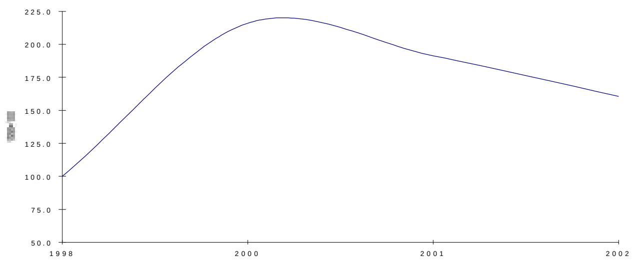



Cyclical weakening in the global economy is putting downward pressure on *oil prices*. Further production cutbacks have been announced by OPEC in response, but non-OPEC supply is expected to increase. While oil prices are likely to remain highly volatile, we continue to expect oil prices to be in the range of $25/bbl in 2001 and $21/bbl in 2002, lower than the price level in 2000, This will provide additional relief especially for several of the countries most seriously affected by the slowdown: Korea, Philippines, Thailand, all major oil importers. The surge in oil prices in 2000 had quite differentiated impacts within the Region. Korea, at one end of the spectrum, with oil and petroleum derivatives representing about 18 percent of imports, saw its oil bill increase by as much as. $14bn (3.5 percent of GDP), closely matching the deterioration in its current account balance in 2000. With oil imports representing about 8 percent of total for the Philippines and Thailand, the decline in the oil bill for those countries also will be significant.. At the other end, Indonesia and Malaysia, which had been benefiting from higher prices, will be negatively affected by the oil price moderating.

A number of smaller economies are heavily dependent on concentrated commodity exports. *Non-oil commodity prices* are unlikely to recover until 2002. However, mineral and metal prices are set to recover by year end – benefiting countries such as Mongolia and Papua New Guinea where metals account for about half of total exports.

*Relief from decline in oil prices relative to 2000…*

**Evolution of Oil Prices**
**1998-2002**




*Source: World Bank estimates, Development Prospects Group, February 2001*

With many East Asian currencies linked to the dollar, any signs of *dollar weakening* will provide some offsetting stimulus to these countries' external sectors vis-à-vis other major trading partners. The role of the U.S. dollar as the most dominant target currency for exchange rate stabilization in East Asia was reduced during the 1997currency crisis, but its prominence has recently been restored, particularly since late-1998.[6] Hence, a more depreciated dollar implies depreciation of East Asian currencies relative to a broader basket of currencies, which can help stimulate exports particularly to the EU. The Euro had been strengthening against the dollar until quite recently. The trend vis-à-vis the yen is more uncertain. The yen may weaken further as part of concerted efforts to stimulate the economy.

## Given Improvements in Several Domestic Structural Risk Areas, Impact of External Shocks can be Mitigated

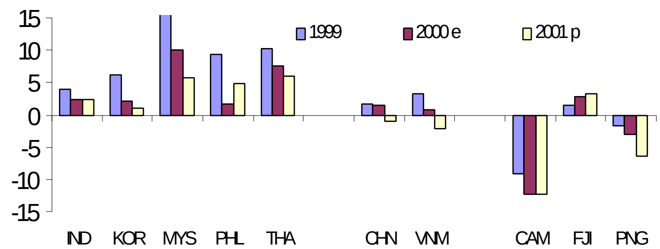
As long as reform programs remain broadly intact, the impact of the external shocks is likely to be mitigated. The underlying fundamentals in many of the East Asian economies are substantially different than those which existed pre-crisis. Because of this, there is less risk that external developments will be magnified or spill over into a larger domestic crisis. This is the case in these major domestic risk areas: macroeconomy, corporate sector, fiscal position.

Prior to the crisis, East Asian economies had a number of weaknesses in their external positions that allowed external shocks to have further destabilizing effects on the economy. A new phase of financial integration with the global economy in the early 1990s resulted in large inflows of capital and build-up in private debt, particularly short-term debt. Current account deficits began to widen as countries increasingly used inflows to finance investment, often less productively. Growth in international reserves slowed, leaving a smaller cushion against shifts by short-term lenders, as well as domestic depositors for those with open capital accounts. As a result, the ratio of short-term debt to foreign exchange reserves exceeded 100 percent in Korea, Indonesia and Thailand immediately before the crisis.

Now, strong external positions have been built back up, strong enough to manage a normal cyclical downturn. Domestic savings have remained high. Current accounts of emerging East Asian countries continued to show strong surpluses in 2000. Despite the global and IT slowdown, economies are projected to show surpluses again in 2001,

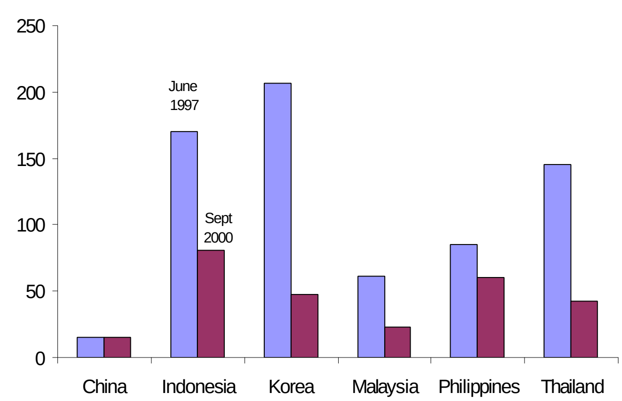
*Current accounts surpluses still positive, except for low income countries*

**Current Account Balances**
as a percent of GDP




*…and external debt profile has improved*

**Ratio of Short-term Debt To International Reserves**




*Note: includes short term liabilities to banks and debt securities issued abroad, and non-bank trade credits.*
*Source: IFS for international reserves; BIS for short term debt*

6 See Kawai and Akiyama (2000). "Implications of the Currency Crisis for Exchange Rate Arrangements in Emerging East Asia", World Bank Policy Research Working Paper No. 2502.

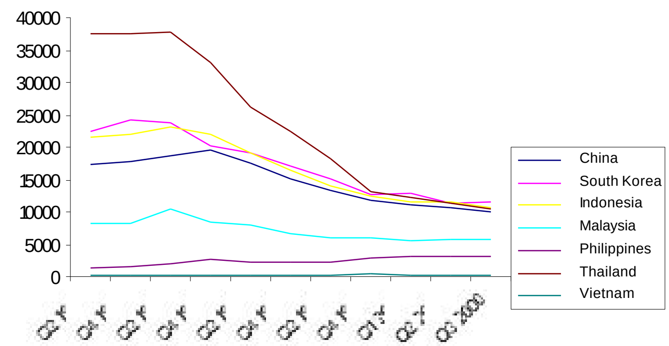
in albeit declining. Lower income countries remain the exception, where concessional finance continues to play a major development role. International reserves continue to grow. In combination with an improved term structure of foreign debt, this has led to a substantial improvement in the external position of the region relative to pre-crisis. The ratio of short term debt to international reserves has fallen steadily all countries. For example, for Thailand and Korea, that ratio has moved from well over 100 percent to under 50 percent by end 2000. During the last year, with strong current accounts and capital inflows, pressure in fact for exchange rate appreciation had built up. That pressure now will be relieved, without necessarily introducing currency instability. Indonesia is an exception. Its current account surpluses reflect a collapse in imports and inability to attract capital, rather than a sign of declining vulnerability. From January to mid-March, gross international reserves have declined.

A considerable pull-back from East Asia by *international banks* already has occurred, leaving East Asia less vulnerable to further sharp contractions. Total bank credit to developing East Asia has fallen by nearly a half between the start of the crisis in 1997 and late 2000 (from $385 billion to $205 billion for EA5 plus China). Net flows which have been negative began bottoming out in 2000. Japanese banks – major creditors to the region – have already cut their Asian portfolio rock bottom since the Asian crisis. Their exposure was reduced by half, from $124 billion as of second quarter 1997 to $58 billion by third quarter 2000. Japanese private commercial banks do not need at this stage to restructure drastically their emerging market portfolio and have made enough provisions for their non-performing loans (NPLs) on their remaining portfolio. Japanese banks may come under further pressure, especially if lack of confidence in recovery of the Japanese economy translates into sharp declines in value of their equity holdings (part of their tier 2 capital, where capital gains have been used to cushion provisioning needs and loan write-offs). However, the TOPIX index has been more stable than the Nikkei 225 index, where part of the 'fall' has been a change in composition toward new economy stocks rather than declines of individual stocks. If the real economy in Japan goes into recession, some intra-firm equity transfers and non-bank financing to East Asian subsidiaries might suffer, but by and large vulnerability to contraction of Japanese financing is far reduced.

East Asian economies have been maintaining more flexible *exchange rate arrangements*. With the exception of Malaysia and China, East Asian economies have allowed their exchange rates to float more freely, an important step to reducing the likelihood of a crisis recurring. Yet Asian

*...significant pull-back by Japanese banks already has occurred*

**Claims on EAP Countries by Japanese Banks**



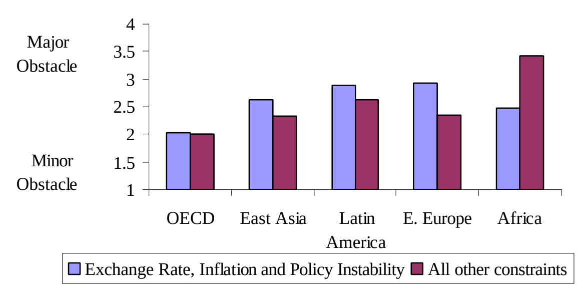

*Source: BIS*

economies are facing a difficult dilemma in management of the exchange rate regime. For countries long accustomed to macroeconomic stability, the sharp movements in international interest and exchange rates of the crisis years caught businessmen in the region by surprise and led, in part, to a halt in new investment projects, thereby aggravating the crisis. The legacy of this still exists: a recent World Business Environment Survey finds, somewhat surprisingly, that businesses in East Asia felt that inflation and the exchange rate, as well as policy instability, were major constraints, particularly in Thailand, Indonesia, and the Philippines.[7] East Asia's rankings in these are almost as high as those for Latin America and the Caribbean and developing Europe and Central Asia. Policy makers are still trying to find the right balance between allowing the currency to float and avoiding too much volatility in corporate balance sheets and operations. This highlights as

*Legacy of concerns with policy instability and sharp exchange rate movements remains…*

**Constraints to Growth: Exchange Rate, Inflation and Policy Instability**

Firm-level ranking by region




*Source: World Business Economic Survey (WBES), World Bank, 2000*

[7] World Business Environment Survey 2000.

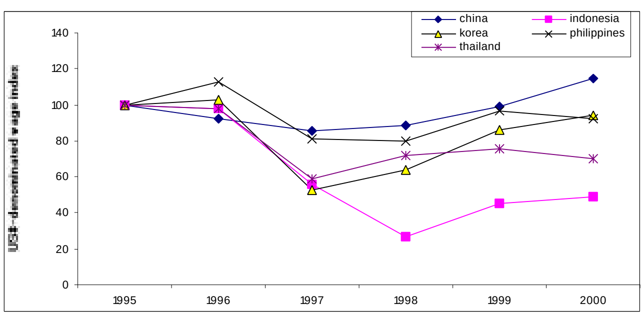
major issues for the financial sector the deepening of financial markets and the strengthening of debt management.

On the corporate side, the sub-sectors of the real economy that will be most directly affected by negative external developments are the exporting and electronics sectors. These sectors historically have had *stronger financials* and, hence, have been better cushioned than other sectors in East Asian economies to absorb cyclical downturns. In addition, the firms in these sectors are exactly the ones which have profited significantly from the recent boom, further strengthening their underlying financials. For example, in Korea in 2000 the electronics sector contributed more than half of the total growth of industrial production and exports. The EA IT sector already accounts for a small share of total loans (4 percent of total in Korea). In Malaysia manufacturing exports, as well as consumer goods and the manufacturing sector generally, have lower levels of debt than real estate, construction, and infrastructure sectors where corporate sector distress is concentrated. This puts the exporting and electronics sectors in a better position to weather temporary market slowdowns without adding to the non-performing loans of the banks. The monetary easing across region is also expected to provide some relief to firms which remain highly leveraged.

The East Asian labor force generally is also more competitive than pre-crisis, providing an additional boost to the corporate sector as well as employment prospects. Crisis-hit economies in East Asia have become more competitive in their relative prices in the labor market,

*…For corporate sector, real wages remain competitive*

**US-Dollar-Denominated Wage Indices**
Between 1990 and 2000.




Note: Growth rates of real wage in 2000 for Indonesia and the Philippines are non-official estimates.

Source: World Economic Forum, *The Asia Competitiveness Report*, 1999; the World Bank, *Social Monitor* (Thailand), June 2000; the World Bank, *East Asia Regional Brief*, Sept 2000; Badan Pusat Statistik, Indonesia, 2001; National Statistical Office of Thailand, *Report of the Labor Force Survey, 2000*.

as reflected in both the lower *real wages* and depreciated currencies. For the EA5 countries, dollar unit labor costs fell during 1997-98 before edging up in 1999; the upward trend has continued into the year 2000 but their exchange-rate-adjusted real wages are still below pre-crisis levels. This is particularly the case for Indonesia and Thailand. In China, real wages have continued to rise, with real wages in the urban sector rising at 13-14 percent per year over the past two years. While this increase bears watching, not least because of the erosion of international competitiveness, China’s relatively low wage labor force remains competitive internationally.

On the fiscal front, governments have built up sizeable stocks of public sector debt which impose a heavy debt servicing burden. Lower international and domestic interest rates which will characterize the cyclical downturn will ease this fiscal pressure. *Public debt dynamics* overall will improve. Interest rates now are less than GDP growth rates for most countries, so that the public debt to GDP ratio will decline unless large primary deficits are produced.

***Given cyclical nature of shock, impact likely to be mitigated.***

The negative external developments which are hitting East Asia hard this year are cyclical in nature. The expectation is for an end to the global slowdown by 2002. Based on Consensus Forecasts for March, the U.S. economy is projected to grow 1.9 percent in 2001, with growth picking up to 3.4 percent by 2002. For Japan, while there is risk of recession, the consensus is for GDP growth of 1.2 percent in 2001. The slowdown in the IT sector also is cyclical in nature and should reverse by 2002. While this cyclical downturn appears steeper than recent cycles and might last longer, the global downswing and spillover on East Asia sales associated with past semiconductor cycles has lasted anywhere from 6 to 9 months (see earlier figure).

Growth prospects for developing East Asia for this year and next are dampened but positive. Our projection for 2001 ranges from 3-5 percent for EA5 countries, 5.5-7.3 percent for transition countries, and 1.2-5.7 percent for small economies. Our projections for 2002 show some rebound, in particular for EA5 countries

*Growth prospects still cautiously positive…*

**GDP Growth Projections**

| | Actual | | | | | | Projection | |
|---|---|---|---|---|---|---|---|---|
| | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** |
| **ast Asia 5** | | | | | | | | |
| Indonesia | 8.2 | 7.8 | 4.7 | -13.2 | 0.8 | 4.8 | 4.0 | 4.0 |
| Korea | 8.9 | 6.8 | 5.0 | -6.7 | 10.7 | 8.8 | 4.5 | 5.5 |
| Malaysia | 9.5 | 8.6 | 7.5 | -7.5 | 5.6 | 8.5 | 5.0 | 6.0 |
| Philippines | 4.7 | 5.8 | 5.2 | -0.5 | 3.2 | 3.9 | 3.2 | 4.0 |
| Thailand | 8.9 | 5.9 | -1.7 | -10.2 | 4.2 | 4.0 | 3.0~~8~~ | 3.5~~5~~ |
| **ransition** | | | | | | | | |
| China | 10.5 | 9.6 | 8.8 | 7.8 | 7.1 | 8.0 | 7.3 | 7.3 |
| Vietnam [1/] | 9.5 | 9.3 | 8.2 | 4.0 | 4.2 | 5.5 | 5.5 | 6.0 |
| **ther Economies** | | | | | | | | |
| Brunei | 2.0 | 3.5 | 4.0 | 1.0 | 2.5 | -- | -- | -- |
| Cambodia | 7.6 | 7.0 | 3.7 | 1.8 | 5.0 | 4.0 | 5.5 | 6.0 |
| Fiji | 1.4 | 3.4 | -0.9 | 1.4 | 8.0 | -8.0 | 3.0 | 3.0 |
| Lao PDR | 7.0 | 6.8 | 7.0 | 4.0 | 7.3 | 5.7 | 5.7 | 5.7 |
| Marshall Islands | 3.7 | -15.2 | -5.3 | -- | -- | -- | -- | -- |
| Micronesia, Fed. Sts. | 1.6 | 0.6 | -4.0 | -3.1 | 0.3 | -- | -- | -- |
| Mongolia | 6.3 | 2.4 | 4.0 | 3.5 | 3.3 | 1.1 | 1.2 | 3.0 |
| Myanmar | 6.9 | 6.4 | 5.7 | 5.8 | 5.7 | -- | -- | -- |
| Papua New Guinea | -3.6 | 3.5 | -4.6 | 2.5 | 3.2 | -1.2 | 3.1 | 3.1 |
| Solomon Islands | 7.0 | 3.5 | -2.3 | 1.1 | -1.3 | -14.0 | 2.0 | 3.0 |
| Tonga | 4.7 | -1.4 | -4.4 | -1.5 | -- | -- | -- | -- |
| Vanuatu | 3.8 | 3.5 | 2.7 | 2.1 | -- | -- | -- | -- |
| **ast Asia NIEs** | | | | | | | | |
| Hong Kong SAR | 3.9 | 4.5 | 5.0 | -5.3 | 3.1 | 10.5 | 4.1 | 4.6 |
| Singapore | 8.0 | 7.5 | 8.4 | 0.4 | 5.4 | 9.9 | 5.2 | 6.3 |
| Taiwan (China) | 6.4 | 6.1 | 6.7 | 4.6 | 5.4 | 6.0 | 4.7 | 5.4 |
| **ıpan** | 1.6 | 3.5 | 1.8 | -1.1 | 0.8 | 1.7 | 1.2 | 1.7 |

Source: World Bank for EA5, Transition and Other Countries; Consensus Forecasts 2001 for Japan, Hong Kong (SAR),
Singapore, and, Taiwan (China); ADB for Myanmar, and APEC for Brunei
Note: 1/ Differs from government data of 5.8 for 1998, 4.8 for 1999 and 6.7 for 2000

## Country Developments

While external developments are worthy of note, domestic political and economic developments are central to restoring confidence. The mixed picture across the region reflects the importance of these country factors, as noted below. Detailed country briefs are posted on the website (www.worldbank.org/eapupdate).

### East Asia 5

***Indonesia.*** According to official estimates, GDP grew by 4.8 percent in 2000 compared to its level a year ago. This was primarily driven by investment growth ( 17.9%) and exports (which rose by 16 percent) helped by a depreciating rupiah and higher oil prices. Increasing real wages, improving employment and the sharp decline in food prices – especially rice – has resulted in a decline in poverty levels from the crisis peak.

However, the economic recovery is far from secure. Quarterly growth in manufacturing and construction has been decelerating sharply in 2000. The fragility is being demonstrated by: the gradual but continuing increase in domestic interest rates (with the 30-day SBI rate rising to 14.75% in mid-February, 2001, up from 14.5% at end-December 2000); susceptibility of the stock market to political events (with the Jakarta Stock Market (JSX) composite index down 36 percent by end February from December 1999); and the re-emergence of inflationary pressures. There also has been some slow down in export growth during the fourth quarter of 2000 and first months of 2001, mainly due to deceleration in world trade. Lower projected oil prices will compound this.

Political uncertainty, regional and ethnic strife, a deterioration in law and order, and a continued weak judicial system are combining to undermine investor confidence. The first quarter of 2001 saw domestic uncertainties increasing as ethnic violence escalated in the province of Central Kalimantan. Fighting also continues in Aceh, Irian Jaya, and Maluku (the Spice Islands). The IMF's review mission that was scheduled for late December, 2000, has been delayed due to outstanding issues in four key areas: the Central Bank Law; fiscal decentralization; the privatization of Bank Niaga and BCA, and corporate restructuring principles.

***Korea.*** The rapid expansion of the economy seen during 1999 and the first half of 2000 has slowed substantially in the past months, from a combination of external and domestic factors. Fourth quarter GDP increased 4.6 percent year-on-year but contracted by 0.4 percent compared with third quarter, resulting in GDP growth of 8.8 percent overall in 2000. The sharp decline in domestic consumption has been the most visible, with a continuous slowdown in the growth of wholesale and retail sales since October. The Consumer Expectation Index is at a record low. After declining to a near-three-year low of 3.4 percent in October, the unemployment rate has picked up, reaching 5 percent in February. The current account surplus declined substantially to an estimated $10.5 billion in 2000, compared to $24.5 billion in 1999; it is expected to decline further as export growth moderates. However, slowing domestic demand will result in lower imports, with the current account surplus expected to remain a strong $5 billion. Capital account performance remains strong, and the level of international reserves has remained high, although the rapid rate of reserve accumulation is likely to diminish with the narrowing current account surplus and the expected repayments by Korea to the IMF in the amount of $6 billion this year. On the fiscal front, fiscal consolidation has proceeded more rapidly than expected, with a surplus estimated at 1.1 percent of GDP in 2000. Thus, fiscal balance has been achieved four years ahead of the target specified in 1999. This provides some scope to loosen fiscal policy if necessary. The improved social safety net should enable the economy to better weather any temporary dislocations, including the flexibility to expand the employment insurance fund if needed.

Bank credit remained flat in the fourth quarter of last year, and the loan-to-deposit ratio remained essentially unchanged. Noting that the economy had contracted more rapidly than anticipated, the Bank of Korea lowered the target for the overnight call rate from 5.25 to 5 percent in February and further eased lending conditions by extending the preferential lending program for small and medium-size enterprises to second-tier conglomerates. While a more accommodating monetary policy stance may be appropriate given the weakening economic environment, it is important to ensure that this extension does not impair the balance sheets of the commercial banks. Continuing losses at the bankrupt Daewoo Motors, the deep declines in the corporate value of the other Daewoo affiliates, and the purchase of Hyundai Electronics bonds by Korea Development Bank (KDB) have generated much controversy in the markets. As uncertainty regarding the health of the corporate sector lies at the root of the decline in market sentiment, equally important is the need to push ahead with the corporate restructuring agenda.

***Malaysia.*** Growth has moderated sharply in the last three quarters but remains positive. The quarterly y-o-y increase in Q4 was 6.5 percent, down from the peak of 11.9 percent in Q1. Growth for 2000 as a whole was 8.5 percent compared with 5.6 percent in 1999. The change in momentum is largely due to exports which actually declined by 5.1 percent between Q3 and Q4, but are still up 5.7 percent in Q4 over the same period in 1999 including electronics exports. The current account is expected to deteriorate in 2001 in line with external developments, but remain positive, with GDP growth also projected to decline to more modest levels in 2001. Manufacturing project applications and approvals at MIDA were up sharply in the fourth quarter (314 and 64 percent, respectively), largely on the strength of domestic investment. Political uncertainty will influence whether foreign investment is forthcoming and whether the approvals translate into actual investment on the ground. Consumer sentiment remains muted with a decline in both the Consumer Sentiment Survey index and the Business Conditions Survey index in the fourth quarter. The government's projected fiscal deficit of 4.9 percent of GDP for 2001 reflects an anticipated need to provide additional stimulus. Development spending plans introduced in the 2001 budget, including the huge Bakun hydro electric dam, will have an impact lasting 2-3 years. Price pressures remain modest in the face of slackening demand. Interest rates have been steady to slightly downward trending since September 1999. Net lending has resumed, with disbursements outstripping disbursements during the last three quarters of 2000.

Net international reserves – rebuilt from less than $US20 billion in the immediate aftermath of the crisis to a peak of $US 33.5 billion in April 2000 – have since declined despite continued trade surpluses. These recent declines reflect debt repayments, overseas investment by Malaysian companies, foreign exchange valuation losses and other factors. Portfolio flows related to political uncertainty and removal of capital controls may have played a part. Moral suasion may have been brought to bear on some large firms to repatriate capital to Malaysia during the crisis and recent outflows may also reflect these firms' desire now to rebuild their external balances. But the reserve position remains strong at 6.3 times short term external debt and 4.4 months of import cover. As a small open economy, Malaysia will need to continue to strengthen its ability to manage its boom and bust cycles and improve corporate governance to fully restore market confidence. Recent financial and corporate restructuring activities, including the buyout of Tajudin's share of MAS, the lease back of two bankrupt KL light rail companies to their developers, the purchase of loss-making firms by United Engineers Malaysia (UEM) and subsequent debt relief measures, give cause for concern.

***Philippines.*** Preliminary figures on economic growth in 2000 – 3.9 percent GDP growth, 4.2 percent GNP growth – indicate a modest increase over 1999. Despite higher growth in 2000, unemployment rose to 11.1 percent from 9.8 percent in 1999 as a result of a contraction in the agricultural labor force in 2000. The pattern of accelerating quarterly growth rates in 2000 observed through the third quarter was interrupted in the fourth quarter, impacted by the adverse reaction of investors to the political crisis. The events leading to the removal of former President Estrada were traumatic. Equity prices were deeply impacted, the peso hit an intra-day low of P55.75/US dollar on January 17, and interest rates were raised by 400 basis points to stem the flight from peso assets. The Philippines emerged from a four month period of political turbulence with the appointment of a new president on January 20, 2001. Financial markets have reacted favorably to the removal of political uncertainty. The peso has strengthened to about P48/US dollar, central bank overnight borrowing and lending rates returned to their pre-political crisis levels – 11 percent and 13.25 percent, respectively – and stock prices rose by nearly 18 percent on January 22.

The new government is well aware that it faces pressing policy concerns in a number of areas. These include: reversing the deterioration in public finances, enacting and implementing power sector reforms, strengthening public sector management, accountability, governance and anti-corruption programs, and addressing structural weakness in the banking and corporate sectors.

Government revenues have declined steadily since 1997 resulting in increases in the public sector deficits over the same period and loss of policy credibility from overshooting of fiscal targets by wide margins. Reversing these trends and bringing the public accounts into approximate balance over the medium term has been accorded high priority by the new administration. A budget deficit target of P145 billion for 2001 (3.7 percent of GNP) has been set; in the absence of new measures, the 2000 deficit of P136 billion was set to exceed P200 billion in 2001 by official estimates. The new administration has decided not to pursue passage of the draft 2001 budget prepared by the Estrada government, but to base 2001 spending on the 2000 budget. Government is preparing a supplementary budget for 2001 together with a fiscal adjustment plan for 2002.

However, given dependence of Philippines' exports on US and Japan markets as well as the electronic sector, weaknesses in global and regional markets have partly overshadowed the positive sentiment stemming from local developments. Softer external demand could continue to pressure merchandise export performance, whose growth slowed to below 9 percent in 2000 from nearly 19 percent in 1999. GDP growth in 2001 is expected to slow to about 3.2 percent. Yet investors are clearly more favorably inclined to the policy thrust of the new administration. Particularly if sound intentions can be backed up by results, the prospects for stronger growth in the medium term have clearly improved.

***Thailand.*** Thailand's economic recovery is on track, but it remains fragile and uneven. Real GDP grew by 4.3 percent in 2000, with exports acting as the major driver. Despite growing imports, the current account generated a sizeable surplus of 7.5 percent of GDP, compensating for capital outflows. FDI flows are mellowing as extraordinary opportunities that have arisen with the crisis disappear. There are signs that the economy may be slowing.

We now project real GDP to grow at 3 percent in 2001, and for Thailand to grow at the modest rate of around 4-5 percent in the medium-term. The current slowdown has been caused by several factors. First, the contribution of exports will be lower this year. Thailand posted a deficit on its trade balance in January 2001 for the first time in 30 months, as a consequence of the slowdown in US orders for computer parts and electronics, and the purchase of airplanes by Thai airways. We expect the trade balance to remain in surplus (as indicated by the February data) in 2001, although the magnitude of surplus will decline over time. Second, domestic demand has turned more sluggish. Consumer sentiments remain weak, despite the low interest rate environment (Thai banks cut interest rates by 50 basis points recently), as future job security is threatened by high unemployment rates. Private investment also remains sluggish given the excess capacity in the non-tradable goods sector, slow down in export growth, and the weak legal and regulatory regimes. Third, given the high level of public debt, there is limited room for using additional fiscal stimulus to support growth. It now is likely that it will take longer for Thailand to recover fully from the crisis than earlier anticipated. Strengthening of both investor and consumer confidence will be critical.

Progress on financial and corporate sector reform continues to be characterized by (a) a declining trend in headline NPLs (20 percent), reflecting transfers to AMCs and some write offs. New NPLs continue to rise and the re-entry of restructured NPLs is increasing; (b) overhang of distressed assets remaining high in the public sector; (c) winding down of CDRAC process with a big bulge in court cases; (d) market restructuring deals consisting largely of rescheduling; and (e) firms remaining highly leveraged (averaging a ratio of 2-3 for non-financial limited private companies). Challenges ahead include the implementation of the national AMC, further strengthening the regulatory framework of commercial banks and improved supervision of government-owned specialized financial institutions.

Importantly, government policy must enable banks to attract more private capital to cover losses and provide a platform for new lending, once capacity utilization picks up. Secured lending and the bankruptcy regime needs to be further strengthened to encourage voluntary restructuring.

## Transition Countries:

***China.*** Official estimates show that, after seven years of declining growth rates, GDP growth picked up in 2000 to 8 percent. Fiscal policy played an important role in supporting growth while structural reforms worked their way through the economy. Government consumption grew by 12.0 percent compared with private consumption which grew by 7.9 percent in 2000. State-sector investment rose faster than non-state investment. China's fiscal deficit has climbed quickly from 1.5 percent of GDP in 1996 to a budgeted 3.6 percent in 2000, or an actual of around 4 percent as a result of a supplementary fiscal packaged announced in late-2000 for western region development. Weakness in the rural economy continued, with agricultural growth continuing to decline to 2.4 percent in 2000, slowing improvements in the living standards of the poor. While there is some evidence that rural household consumption may have been protected by the fiscal stimulus program, the rate of increase in urban real income has grown more than double the rate of real rural income, exacerbating rural-urban income inequality. On the external front, the current account surplus for 2000 is estimated at 1.4 percent of GDP, on the back of a large trade surplus.

By second half of 2000, the effects of a pause in exports became apparent. Global slowdown will affect the export sector, where growth is expected to decline to about 5 percent in contrast to import growth continuing to exceed 25 percent, projected to result in a slight current account deficit in 2001. The continued need for corporate restructuring and likely effects of WTO-accession will need to work their way through the system with bleaker prospects for employment and poverty. Chinese SOEs have shed some 14 million workers over the past two years, and urban unemployment has tripled to at least 10 percent in the past five years. While the pace of lay-offs might have slowed, the overall labor market situation does not show many encouraging signs. Reforms in the financial sector continue to be slow, partly held hostage to developments in the SOE and social security sectors.

Hence, despite growth in 2000 higher than projected, recent data bring China's economic vulnerabilities into sharper focus: rural economy, global slowdown; slower-than expected pace of financial reforms; and likely effects of WTO-accession. Government's response is expected to be comprehensive, as evident from the Premier's speech of March 5 to the opening session of the legislature. However, over the medium term, the scope for action on the macroeconomic front is being reduced by a need for consolidation and emerging wage pressures in the urban economy so as to maintain international competitiveness.

***Vietnam***. Three years after the outbreak of the Asian crisis, the economy has bottomed out. Since late 1999, GDP growth has picked up, helped no doubt by higher export growth, stronger consumer demand and a revival of private investment. GDP growth rose from around 4 percent in 1998 and 1999 to around 5.5 percent in 2000 (official estimates of GDP growth are higher than Bank's estimate, but the trend in both estimates is similar). Expansionary credit policy and an easing of the fiscal stance in 2000, made possible by higher oil revenues, contributed in part, to this recovery.

The pick-up in the pace of reforms which prompted a revival in domestic private investment, clearly helped to support the recovery. Implementation of a more liberal Enterprise Law, removal of business licensing restrictions in 145 trades and industries, and the signing of the US bilateral trade agreement improved the climate for domestic investors. Around 14,000 new domestic private firms registered in 2000 (compared to 3000 registrations a year for the last three years) in response to these reforms. Though foreign investment inflows has continued to stagnate since 1998, the revised Foreign Investment Law permitted the approval of several large foreign investment deals in energy that is expected to increase inflows over the next three years.

Nevertheless, the current recovery remains fragile. Foreign investment is yet to recover and growth of domestic credit is slowing down to reduce risk of inflationary pressures and weakening asset-quality in state-owned banks. There are also early signs of a slowdown in the growth of non-oil exports, due to a deteriorating external environment. The good news is that the recent pick-up in the pace of reforms is expected to be sustained. With the ratification of the US trade agreement, expected around the middle of this year, higher private investment – both domestic and foreign – is likely this year and beyond. Thus GDP growth is expected to rise to 6-7 percent a year in 2002 and beyond, even if it is unlikely to exceed 5-5.5 percent this year.

## The Small Economies:

***Transition economies***

***Cambodia.*** For the first half of 2000, economic activity was buoyant, especially in the garment sector and tourism. However, in July-November, Cambodia was hit by severe floods, the worst in 70 years. Total damage was estimated at some $180 million, and expected to reduce GDP growth by about 1.5 percentage points. Growth in real GDP in 2000 is now estimated at 4 percent. CPI inflation reached about 8 percent due mainly to pick-up in food prices owing to flood damage. Fiscal policy has been prudent, with improved revenue mobilization (11.6 percent of GDP), and expenditure restraint but only limited progress was made in increasing social sector spending. Monetary developments have reflected the prudential fiscal policy, with broad money growth by 35 percent. External developments have reflected increased garment exports and tourism earnings, higher oil imports, and higher capital inflows. Further progress was made in the major structural reform areas, with the adoption of a new Financial Institutions Law; completion of a civil service census; discharge of 1,500 soldiers under a pilot demobilization program; and completion of a review of forestry concession management. Looking ahead, in order to reduce poverty significantly through broad-based economic growth – in addition to continuing and deepening reform efforts in macroeconomic and fiscal management – the Government now needs to move decisively toward a second generation of reforms, in particular civil service capacity building and strengthening governance.

***Laos.*** During 2000 Laos made significant progress in stabilizing the economy and reducing inflation which peaked in early 1999 at a 12-month rate of 167%. The earlier problems had their roots in excessive expenditures aimed at establishing self sufficiency in rice production through massive investment construction and rehabilitation of irrigation systems. Sharply tightened macroeconomic policies were necessary to contain inflation which eventually fell to 10 percent year-on-year by September 2000. The authorities estimate GDP growth of 7.3% in 1999 and 6.5% in 2000 although actual growth may be about 2 percentage points less. The external deficit is running at about 3.8 % of GDP and official reserves have risen to about 2.5 months of imports. Given that exports of agricultural products such as coffee make up half of total and roughly 13 percent of GDP, Laos likely will continue to see a decline in export revenue as a share of GDP until price recovery in 2002. The government will shortly finalize its 2001-2005 plan which is expected to emphasize the role of renewed economic growth in reducing poverty. However, to achieve this the government will have to overcome a number of challenges. These include deep restructuring of insolvent state banks; improvements in banking sector governance including phase out of directed lending; and management of decentralization for providing public services that are more responsive to local needs but in a way that ensures adequate fiscal control.

***Mongolia.*** Parliamentary elections in June 2000 resulted in an overwhelming victory for the Mongolian People's Revolutionary Party, 72 of 76 parliamentary seats. Despite adverse external conditions the new government is advancing on structural reforms. GDP contracted by 1.1 percent in 2000, after averaging over 3 percent yearly growth during 1996-1999, due to an unusually harsh winter (Dzud) in the early part of the year which claimed over 7% of livestock. The national poverty headcount index remained basically unchanged between 1995 and 1998, reflecting lackluster growth and worsening inequality as evidenced by the Gini coefficient which went up from 31 percent to 35 percent over the same period. Growth prospects for 2001 remain modest in the wake of another severe (Dzud) disaster, the worst in fifty years. The current account deficit in 2000 widened to 9 percent of GDP in 2000 from 6.7 percent in 1999 as a result of a sustained deterioration in the terms of trade. Higher costs of oil imports offset all gains from rising copper and favorable gold prices. Further recovery in copper prices combined with lower oil prices should provide some relief in 2001. Fiscal discipline weakened in the run-up to the parliamentary elections in mid-2000, leading to a heavy build up in local government arrears, 2.5 percent of GDP. However, preliminary fiscal data indicate the general government narrowed deficit to 6.5 percent of GDP in 2000. Increases in the VAT from 13 percent to 15 percent in 2001 and other additional revenue measures should offset expected increases in expenditure caused by the Dzud.

***Post conflict: East Timor.*** The economy collapsed in 1999 in the aftermath of widespread violence and damage to property triggered by the results of the August 1999 independence referendum. In 2000, the recovery has been strong – estimated at over 15 percent growth – reflecting the aid-financed reconstruction effort and revival of commerce and basic services. But there are concerns about the sustainability of growth once the large expatriate community begins to depart and uncertainty grows about prospective aid flows. . Given its large ongoing requirements for technical and financial assistance, transforming East Timor from U.N. administration to a self-governed nation will represent a major development challenge for the East Timorese people and the international community. The present schedule calls for independence by year end, preceded by legislative elections in August 2001.

***Pacific Islands***

***Fiji.*** The coup of May 2000 was followed by a period of military rule. An interim civilian government was ruled illegal by the High Court but has said that it would stay on until a political solution is found to bring Fiji back to parliamentary democracy. It has announced that fresh national elections would be held on August 27. The initial economic impact of the coup was smaller than anticipated. GDP is estimated to have declined about 8 percent in 2000 in contrast to an earlier official forecast of 15 percent. The smaller decline can be attributed in large part to the international trade sanctions being much weaker than initially feared. The government had imposed capital controls in the aftermath of the coup which have helped protect reserves to 6 months of imports. The austerity measures introduced by the mini-budget last year have helped stabilize the fiscal situation by restricting the deficit to 2.8 percent of GDP. With private spending not likely to pick up in 2001 the government has planned an expansionary fiscal policy and is targeting a deficit of 4 percent of GDP. A new investment package has been announced in the 2001 budget which significantly improves upon the existing regulations but is unlikely to have an appreciable impact until the considerable political uncertainty is resolved.

***Solomon Islands.*** A peace agreement was signed in October 2000 that has succeeded in halting hostilities among the warring groups from the islands of Guadalcanal and Malaita. Progress on arms surrender and returning stolen property has however been slow. The conflict has displaced about 30,000-40,000 people and has left about 80-100 people dead. GDP is estimated to have declined by about 15 percent in 2000. Key economic activities – a gold mine and a palm oil plantation – remain closed, while fishing has been very weak. Of concern is reports that logging activity has picked up again to well above the sustainable rate, some of which is unmonitored. The government faces the difficult task of resettling displaced people, rebuilding damaged infrastructure, and revitalizing the economy. While economic and social recovery, and fulfilling commitments under the peace agreement requires substantial expenditure, government revenues have collapsed. The government has already exceeded the limit set on borrowing from the central bank. Their immediate challenge is to formulate a budget that will help consolidate the peace process and facilitate economic and social rehabilitation. However, progress has been slower than anticipated. Considerable external assistance will be needed in financing and implementing the government's programs over the next 12 months.

***Papua New Guinea.*** Previous expectations of robust growth have not yet materialized. The government commenced a wide ranging stabilization and structural adjustment program in the first half of 2000 and has made significant progress in its privatization agenda and in a number of aspects of financial sector reform. But despite a number of positive achievements and the passing of a solid 2001 budget, the continuation of adverse business conditions and poor non-oil commodity prices have delayed the anticipated economic turnaround. Official estimates released in late 2000 estimated growth of 0.8 percent for the year, while recent evidence suggests that growth may in fact have been negative. This reflects sharp declines in coffee and oil production – by about 36 percent and 24 percent respectively – an absence of large new construction projects, and subdued consumer demand. Downward pressure on the kina in the second half of 2000 in part reflected a shortfall in commodity export receipts. More recently, market concerns regarding delays in credit disbursements from multilateral and bilateral sources may have contributed to currency depreciation. Retail interest rates remain near cyclical highs and credit growth has been stagnant. The forecast for 2001 is for GDP growth of 3.1 percent spurred by an expected increase in agricultural exports and initial construction work on the large Ramu Nickel and PNG-Queensland gas projects.

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**Annex Table1: Changes in China's import volumes due to accession over the perio**

| | Japan | Taiwan | Other NICs | Indo-nesia | Other SEA | South Asia | Latin America | MENA | EIT | SSA |
|---|---|---|---|---|---|---|---|---|---|---|
| **Foodgrains** | 0.0 | -7.4 | 0.0 | 0.0 | -34.3 | 3.1 | -1.2 | 0.0 | 0.0 | 0.0 |
| **Feedgrains** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.6 | 0.0 | 0.0 | -0.2 |
| **Oilseeds** | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.6 | 2.5 | 0.0 | 0.9 | 0.0 |
| **Livestock-Meat industry** | 16.9 | -6.6 | 6.4 | 25.3 | 61.8 | 2.5 | 18.3 | 5.1 | 128.7 | 2.5 |
| **Dairy industry** | 0.0 | -0.6 | -0.7 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| **Other Agriculture** | 0.1 | -17.0 | -25.9 | 11.9 | 45.6 | 15.1 | 66.0 | 1.5 | 29.4 | 61.1 |
| **Other food Processing** | -19.0 | -13.6 | -54.0 | -7.7 | -112.2 | 35.6 | -93.7 | -0.3 | -10.3 | -0.6 |
| **Beverage-tobacco** | 237.9 | -0.4 | 5843.0 | -0.1 | 18.7 | 0.0 | 3.4 | 0.0 | 2.4 | 2.9 |
| **Natural resources** | 471.8 | 259.0 | 2.3 | -927.0 | -210.5 | -134.7 | -42.5 | -1030.9 | 136.6 | -394.5 |
| **Textiles** | 6500.9 | 13213.2 | 11240.2 | 310.1 | 625.4 | -248.9 | -173.9 | -18.9 | -47.3 | -33.6 |
| **Apparel** | 670.8 | 564.9 | 5960.1 | 3.1 | 24.3 | 161.4 | 9.5 | 11.2 | 9.0 | 5.6 |
| **Wood-paper Industry** | 477.4 | 1583.8 | 1334.3 | 554.5 | 104.7 | 12.5 | -100.1 | 9.4 | -44.2 | 26.2 |
| **Petrochemical Industry** | 665.0 | 10542.2 | 3032.8 | 11.2 | 153.9 | -2.4 | 21.9 | -274.9 | -1504.4 | 17.5 |
| **Metals** | -173.7 | 4047.1 | 3510.8 | 30.8 | 61.4 | 6.2 | -172.3 | -10.7 | -775.2 | -12.3 |
| **Motor vehicles*** | -1208.1 | -43.9 | -265.8 | 0.0 | -11.3 | -10.7 | -128.7 | -10.3 | -165.4 | 159.3 |
| **Electronics** | 5688.5 | -233.4 | 2123.0 | 0.1 | 198.9 | 3.1 | 7.6 | 0.2 | -4.0 | 2.5 |
| **Other Manufacturers** | 13113.4 | 17478.2 | 17838.2 | 272.2 | 1220.6 | 1817.6 | 99.6 | 83.0 | -74.0 | -12.4 |
| **Total** | 26441.7 | 47365.6 | 50544.6 | 284.5 | 2147.2 | 1661.1 | -484.5 | -1235.7 | -2317.6 | -176.0 |
| **Total (%)** | ***115.9*** | ***149.5*** | ***182.2*** | ***3.9*** | ***20.6*** | *65.7* | -5.5 | -9.4 | -34.6 | -3.6 |

Source: Martin and Ianchovichina (2001).

## Annex Table 2: Composition and Shares of East Asia

**(*percent*)**

| | CHN | IDN | KOR | MYS | PHL[a] | THA |
|---|---|---|---|---|---|---|
| **IT exports to the United States** | | | | | | |
| Share of total IT exports | 25.7 | 9.0 | 28.2 | 30.7 | 31.8 | 26.4 |
| Share of total merchandise exports | 2.7 | 0.3 | 7.2 | 14.2 | 20.1 | 6.6 |
| Share of GDP | 0.5 | 0.1 | 2.6 | 15.2 | 9.1 | 3.0 |
| **IT exports to Asia including NIEs and Japan** | | | | | | |
| Share of total IT exports | 46.5 | 78.5 | 49.3 | 45.9 | 43.6 | 51.6 |
| Share of total merchandise exports | 4.9 | 2.6 | 12.6 | 21.3 | 27.5 | 12.9 |
| Share of GDP | 1.0 | 1.0 | 4.5 | 22.7 | 12.4 | 5.9 |
| **IT sub-sector exports** | | | | | | |
| ***share in total IT exports*** | | | | | | |
| Share of consumer IT exports | 74.3 | 80.6 | 33.3 | 51.2 | 27.1 | 65.8 |
| Share of semiconductors & other component IT exports | 25.7 | 19.4 | 66.7 | 48.8 | 72.9 | 34.2 |
| ***share in GDP*** | | | | | | |
| Share of consumer IT exports | 1.6 | 1.0 | 3.0 | 25.3 | 7.7 | 7.6 |
| Share of semiconductors & other component IT exports | 0.5 | 0.2 | 6.1 | 24.2 | 20.8 | 3.9 |
| *Memo item:* | | | | | | |
| **Total IT exports as share of GDP:** | | | | | | |
| 1990 | 1.1[b] | 0.0 | 3.8 | 14.5 | .. | 3.4 |
| 1999 | 2.1 | 1.2 | **9.1** | **49.5** | **28.5[a]** | **11.5** |

*Note Data for 1999 unless indicated otherwise*
a) Data for 1998. b) Data for 1995.
*Source*: COMTRADE/WITS, IMF/IFS.

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| Cambodia Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | .. | .. | .. | .. |
| GDP ( % change previous year) | 3.7 | 1.8 | 5.0 | 4.0 |
| Industrial production index (1993=100) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Unemployment Rate (%) | .. | .. | .. | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 9.2 | 13.3 | -0.5 | 2.4 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -4.1 | -6.0 | -4.4 | -4.2 |
| Domestic public sector debt (% GDP) | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | |
| Trade balance (million$US) | -263 | -227 | -273 | -398 |
| Exports of goods, ($millionUS) | 786 | 867 | 948 | 1,140 |
| (% change, previous year) | .. | .. | .. | .. |
| Key Export, (% change, previous year) | .. | .. | .. | .. |
| Imports of goods, ($millionUS) | 1,050 | 1,094 | 1,221 | 1,538 |
| (% change, previous year) | .. | 4.2 | 11.6 | 26.0 |
| Current account balance ($millionUS ) | -246 | -246 | -281 | -408 |
| (percent GDP) | -8.5 | -8.1 | -9.1 | -12.4 |
| Foreign Direct Investment (million US$) | 168 | 121 | 129 | 130.00 |
| Total external debt (million $US) | 2,050 | 2,044 | 2,059 | 2,132 |
| (% GDP) | 66.0 | 72.7 | 68.4 | 66.3 |
| Short-term debt (million $US ) | .. | 34 | 43 | .. |
| Debt service ratio (% exports of g&s) | 17.8 | 16.1 | 14.5 | .. |
| Reserves, including gold ($US billion) | 262 | 390 | 422 | 490 |
| (months of imports of goods and services) | 2.4 | 3.5 | 3.4 | 3.1 |
| **Financial Markets** | | | | |
| Domestic credit (% change, previous year) | .. | .. | .. | .. |
| Short-term interest rate | .. | .. | .. | .. |
| Exchange rate (end-period) | 3,452 | 3,780 | 3,775 | 3905 |
| Real effective exchange rate (1990=100 and + = appn) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Stock market index (end-period, Aug 88=100) | .. | .. | .. | .. |
| Memo: GDP in US$ million | 3,105 | 2,813 | 3,008 | 3,217 |

| China Key Indicators | 1998 | 1999 | 2000/e | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Q3 | Q4 | Nov. | Dec. | Jan. |
| **Output, Employment and Prices** | | | | | | | | |
| GDP ( % change previous year) | 7.8 | 7.1 | 8.0 | 8.2 | 7.3 | .. | .. | .. |
| Industrial production index (value-added, % over prev. period) | 8.9 | 8.5 | 9.9 | 14.4 | 10.7 | 10.6 | 10.4 | 2.3 |
| Unemployment Rate (%) /1 | 3.1 | 3.1 | 3.1 | .. | .. | .. | .. | .. |
| Real Wage Growth | 7.2 | 13.1 | 15.0 | 14.0 | .. | .. | .. | .. |
| Consumer price index (% change, previous yr) | -0.8 | -1.4 | 0.4 | 0.1 | 0.9 | 1.3 | 1.5 | 1.5 |
| **Public Sector** | | | | | | | | |
| Government balance (% GDP) | -1.2 | -2.1 | -3.6 | .. | .. | .. | .. | .. |
| Domestic public sector debt (% GDP)/2 | 16.4 | 20.7 | 21.6 | .. | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | |
| Trade balance (US$ Million) | 43,475 | 29,232 | 24,115 | 6,780 | 4,900 | 505 | 572 | 1,380 |
| Exports of goods, (US$ Million) | 183,529 | 194,931 | 249,200 | 67,782 | 66,880 | 22,146 | 21,986 | 16,920 |
| (% change, previous year)/3 | 0.5 | 6.1 | 27.8 | 25.1 | 15.4 | 13.8 | 8.2 | 0.8 |
| Key Exports (% change, previous year) /4 | 3.0 | 7.0 | 27.9 | 25.5 | 14.3 | 13.2 | 10.3 | 7.0 |
| Imports of goods (US$ Million) | 140,237 | 165,699 | 225,097 | 61,000 | 61,980 | 21,641 | 21,414 | 15,540 |
| (% change, previous year)/3 | -1.5 | 18.2 | 35.8 | 43.1 | 28.8 | 28.0 | 23.1 | 1.8 |
| Current account balance (US$ Million ) | 29321.1 | 15882.4 | 10,700.0 | .. | .. | .. | .. | .. |
| (% GDP) | 3.1 | 1.6 | 1.4 | .. | .. | .. | .. | .. |
| Foreign Direct Investment (US$ Billion)/5 | 45.5 | 40.4 | 37.3 | 26.1 | 40.8 | 36.2 | 40.8 | 2.2 |
| Total external debt (US$ Billion) | 154.6 | 154.2 | 165.2 | .. | .. | .. | 165.2 | .. |
| (% GDP) | 16.3 | 15.6 | 15.3 | .. | .. | .. | .. | .. |
| Short-term debt (US$ Billion ) | 27.9 | 17.7 | 17.7 | .. | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 8.5 | 8.2 | 8.0 | .. | .. | .. | .. | .. |
| Reserves, including gold (US$ million) | 152,831 | 161,404 | 166,216 | 163,163 | 166,216 | 166,937 | 166,216 | |
| (months of imports of goods and services) | 13.1 | 11.7 | 8.9 | .. | .. | .. | .. | .. |
| Total Reserves without Gold (US$ Million) | 149,185 | 157,726 | 165,614 | 163,147 | 165,614 | 166,921 | 165,614 | |
| **Financial Markets** | | | | | | | | |
| Domestic credit (% change, previous year) | 20.0 | 12.1 | 10.8 | .. | .. | .. | .. | .. |
| Short-term interest rate (less than 20 days)/6 | 6.3 | 3.9 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 |
| Exchange rate (end-period) | 8.2787 | 8.2795 | 8.2777 | 8.2798 | 8.2774 | 8.2777 | 8.2774 | 8.2781 |
| Real effective exchange rate ( + = appn) 1995=100 | 112.35 | 106.94 | 108.18 /8 | 108.2 | .. | .. | .. | .. |
| (% change, previous year) | 0.2 | -4.8 | .. | .. | .. | .. | .. | .. |
| Stock market index (Dec. 19, 1990=100),close/7 | 1,331.9 | 1,554.4 | 2,097.3 | 2,149.7 | 2,097.3 | 2,125.7 | 2,097.3 | |
| Memo: GDP in US$ Billion | 946.3 | 991.2 | 1079.8 | 750.3 | 1079.1 | .. | .. | .. |

1. Official unemployment rate, not including laid-off workers
2. Includes treasury bonds, policy financial bonds and other financial bonds (end-period outstanding).
3. Norminal growth rate
4. Manufactured Exports
5. Gross flows
6. Central Bank loans to financial institutions.
7. Shanghai Stock Exchange High Comprehensive Index (A shares, Dec.1990 =100).
8. Real effective exchange rate for the first three quarters of 2000.

| Fiji Key Indicators | 1997<br>Year | 1998<br>Year | 1999<br>Year | 2000/e<br>Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | | | | |
| GDP ( % change previous year) | -0.9 | 1.4 | 8.0 | -8.0 |
| Tourist Arrivals ('000) | 359.4 | 371.3 | 410.0 | 298.0 |
| (% change, previous year) | 5.9 | 3.3 | 10.4 | -27.3 |
| Unemployment Rate (%) | .. | .. | .. | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 2.9 | 8.1 | 0.2 | 2.0 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -6.5 | 4.6 | -0.7 | -2.8 |
| Domestic public sector debt (% GDP) | 38.0 | 32.6 | 32.5 | .. |
| **Foreign Trade, BOP and External Debt** | | | | |
| Trade balance (million$US) | -244 | -192 | -120 | .. |
| Exports of goods, ($millionUS) | 519 | 423 | 535 | .. |
| (% change, previous year) | -21.4 | -18.5 | 26.5 | .. |
| Sugar Export (% change, previous year) | -39.8 | 1.7 | 53.2 | .. |
| Imports of goods, ($millionUS) | 763 | 615 | 655 | .. |
| (% change, previous year) | -10.5 | -19.4 | 6.5 | .. |
| Current account balance ($millionUS ) | 32 | -6 | 28 | .. |
| (percent GDP) | 1.5 | -0.4 | 1.5 | .. |
| Foreign Direct Investment (million US$) | | | | |
| Total external debt (million $US) | 227 | 225 | 261 | .. |
| (% GDP) | 10.8 | 13.7 | 14.3 | .. |
| Short-term debt (million $US ) | | | | |
| Debt service ratio (% exports of g&s) | 2.9 | 4.1 | 3.4 | .. |
| Reserves, including gold ($US billion) | 360 | 385 | 421 | .. |
| (months of imports of goods and non factor services) | 3.8 | 4.8 | 4.9 | .. |
| **Financial Markets** | | | | |
| Domestic credit (private, % change, previous year) | -13.0 | -4.9 | 3.4 | .. |
| Short-term interest rate | 1.4 | 2.0 | 2.0 | .. |
| Exchange rate (end-period) | 1.55 | 1.99 | 1.97 | .. |
| Real effective exchange rate (1995=100 and + = appn) | 106.7 | 88.7 | 88.9 | .. |
| (% change, previous year) | 4.7 | -16.9 | 0.2 | .. |
| Stock market index (end-period, Aug 88=100) | | | | |
| Memo: GDP in US$ million | 2,104 | 1,640 | 1,821 | .. |

| Indonesia Key Indicators | 1997 | 1998 | 1999 | 2000/prel. | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Q3 | Q4 | Nov | Dec | Jan |
| **Output, Employment and Prices** | | | | | | | | | |
| GDP ( % change previous year) | 4.7 | -13.1 | 0.8 | 4.8 | 4.4 | 5.2 | .. | .. | .. |
| Industrial production index (1993=100) | 157.4 | 136.4 | 169.8 | .. | .. | .. | .. | .. | .. |
| (% change, previous year) | 13.2 | -13.3 | 24.5 | .. | .. | .. | .. | .. | .. |
| Unemployment Rate (%) | 4.7 | 5.5 | 6.4 | 5.9 | .. | .. | .. | .. | .. |
| Real Wage Growth (%) | 4.1 | -29.9 | 2.0 | .. | .. | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 6.1 | 58.5 | 20.5 | 3.7 | 6.6 | 9.3 | 9.1 | 9.3 | 8.3 |
| **Public Sector** | | | | | | | | | |
| Government balance (% GDP) | -0.6 | -2.1 | -1.5 | -3.4 | .. | .. | .. | .. | .. |
| Domestic public sector debt (% GDP) | 0.0 | 10.5 | 44.7 | 50.7 | 47.6 | 48.4 | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | | |
| Trade balance (million$US) | 10,067 | 15,682 | 20,644 | 25,470 | 6,343 | 5,806 | .. | .. | .. |
| Exports of goods, ($millionUS) | 56,297 | 50,371 | 51,242 | 62,511 | 14,270 | 13,761 | .. | .. | .. |
| (% change, previous year) | 12.2 | -10.5 | 1.7 | 22.0 | 13.4 | 12.5 | .. | .. | .. |
| Key Export, (% change, previous year) | -3.7 | -36.7 | 38.2 | 50.8 | 40.4 | 28.6 | .. | .. | .. |
| Imports of goods, ($millionUS) | -46,230 | -34,689 | -30,599 | -37,041 | -7,927 | -7,955 | .. | .. | .. |
| (% change, previous year) | 4.5 | -25.0 | -11.8 | 21.1 | 15.9 | 14.6 | .. | .. | .. |
| Current account balance ($millionUS ) | -5,001 | 4,097 | 5,783 | 3,537 | -1,574 | 1,966 | .. | .. | .. |
| (percent GDP) | -2.3 | 4.2 | 4.1 | 2.3 | -4.2 | 5.5 | .. | .. | .. |
| Foreign Direct Investment (million US$) | 4,677 | -356 | -2,745 | -4,556 | -1,084 | -1,550 | .. | .. | .. |
| Total external debt (million $US) | 136,088 | 150,886 | 148,097 | .. | .. | .. | 140,623 | .. | .. |
| (% GDP) | 63.1 | 155.9 | 104.8 | .. | 93.1 | .. | .. | .. | .. |
| Short-term debt (million $US ) | 35,104 | 23,702 | 19,035 | .. | .. | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | | | | | | | | | |
| Reserves, including gold ($US billion) | 17,396 | 23,516 | 27,257 | 23,314 | .. | .. | 28,756 | 23,314 | .. |
| (months of imports of goods and services) | 3.3 | 2.0 | 1.6 | 2.1 | .. | .. | .. | .. | .. |
| **Financial Markets** | | | | | | | | | |
| Domestic credit (% change, previous year) | 42.0 | 36.0 | 17.3 | 25.5 | 23.2 | 27.0 | .. | .. | .. |
| Short-term interest rate (1 month dep.) | 25.4 | 41.4 | 12.2 | 11.5 | .. | .. | 11.4 | 11.5 | 12.4 |
| Exchange rate (end-period) | 2,909 | 9,875 | 7,855 | 8,520 | .. | .. | 9,510 | 9,379 | 9,446 |
| Real effective exchange rate (1990=100 and + = appn) | 96.6 | 47.3 | 68.1 | .. | .. | .. | 63.7 | .. | .. |
| (% change, previous year) | -5.5 | -51.0 | 43.9 | .. | .. | .. | .. | .. | .. |
| Stock market index (end-period, Aug 88=100) | 402 | 398 | 677 | 421 | | | 429 | 421 | 426 |
| Memo: GDP in US$ million (based on Ex.rate eop.) | 215,747 | 96,789 | 141,309 | 151,489 | 37,796 | 36,032 | .. | .. | .. |

**Korea Key Indicators**

| | 1997 | 1998 | 1999 | 2000/e | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Q3 | Q4 | Nov | Dec | Jan |
| **Output, Employment and Prices** | | | | | | | | | |
| GDP ( % change previous year) | 5.0 | -6.7 | 10.7 | 8.8 | 9.2 | 4.6 | .. | .. | .. |
| Industrial production index (1995=100, seas. adj.) | 113.5 | 106.1 | 131.6 | 154.0 | 160.6 | 155.4 | 154.8 | 153.5 | 155.0 |
| (% change, previous year) | 5.3 | -6.5 | 24.1 | 16.6 | 19.8 | 7.6 | 6.5 | 4.7 | 0.1 |
| Unemployment Rate (%) | 2.6 | 6.8 | 6.3 | 4.1 | 3.6 | 3.7 | 3.6 | 4.1 | 4.6 |
| Real Wage Growth (% change previous year) | 3.0 | -9.1 | 11.0 | .. | .. | .. | .. | .. | .. |
| Consumer price index (% change, previous yr) | 4.5 | 7.5 | 0.8 | 2.3 | 3.2 | 2.8 | 2.6 | 3.2 | 4.2 |
| **Public Sector** | | | | | | | | | |
| Government balance (% GDP) 1/ | -1.5 | -4.2 | -2.7 | 1.1 | .. | .. | .. | .. | .. |
| Consolidated central government debt (% GDP) | | | | | | | | | |
| Excluding financial restructuring bonds | | | 22.3 | 23.1 | | | | | |
| Including financial restructuring bonds 2/ | | | 35.4 | 36.3 | .. | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | | |
| Trade balance ($US b) 3/ | -8.5 | 39.0 | 23.9 | 12.1 | 4.0 | 4.0 | 0.9 | 2.0 | 0.3 |
| Exports of goods, ($US) 3/ | 136.2 | 132.3 | 143.7 | 172.6 | 44.4 | 45.5 | 15.0 | 15.2 | 12.8 |
| (% change, previous year) 3/ | 5.0 | -2.8 | 8.6 | 20.1 | 26.6 | 6.8 | 5.8 | 1.4 | 5.2 |
| Key Export: Electronic Parts, (% change, previous year) | 8.0 | -6.7 | 33.6 | .. | .. | .. | .. | .. | .. |
| Imports of goods, ($US b) 3/ | 144.6 | 93.3 | 119.8 | 160.5 | 40.4 | 41.5 | 14.2 | 13.2 | 12.5 |
| (% change, previous year) 3/ | -3.8 | -35.5 | 28.4 | 34.0 | 35.7 | 16.3 | 20.8 | 5.0 | -1.0 |
| Current account balance ($US b ) | -8.1 | 40.4 | 24.5 | 11.0 | 3.6 | .. | 1.1 | 1.2 | .. |
| (percent GDP) | -1.7 | 12.6 | 6.1 | 2.1 | .. | .. | .. | .. | .. |
| Foreign Direct Investment (US$ b) 4/ | -1.6 | 0.7 | 5.1 | 3.5 | .. | .. | 0.3 | 0.6 | .. |
| FDI Commitments (US$b) 5/ | 7.0 | 8.9 | 15.5 | 15.7 | 4.7 | 5.3 | 1.5 | 2.0 | .. |
| Total external debt ($US b) | 159.2 | 148.7 | 137.1 | 136.3 | .. | 136.3 | 136.6 | 136.3 | .. |
| (% GDP) | 33.4 | 46.8 | 33.7 | 26.8 | .. | .. | .. | .. | .. |
| Short-term debt ($US ) | 63.6 | 30.7 | 39.2 | 44.2 | .. | 44.2 | 44.8 | 44.2 | .. |
| Debt service ratio (% exports of g&s) | 8.9 | 12.9 | 23.7 | 12.6 | .. | .. | .. | .. | .. |
| Usable reserves ($US billion) | 8.9 | 48.5 | 74.1 | 96.2 | 92.5 | 96.2 | 93.3 | 96.2 | 95.4 |
| (months of imports of goods and services) | 0.7 | 4.4 | 4.9 | 6.1 | .. | .. | .. | .. | .. |
| **Financial Markets** | | | | | | | | | |
| Domestic credit (% change, previous year) | 21.9 | 9.8 | .. | .. | .. | .. | .. | .. | .. |
| Short-term interest rate 6/ | 31.3 | 6.5 | 4.7 | 6.0 | 5.4 | 6.0 | 5.3 | 6.0 | 5.3 |
| Exchange rate (end-period) | 1695.0 | 1204.0 | 1138.0 | 1264.5 | 1115.0 | 1264.5 | 1214.3 | 1264.5 | 1259 |
| Real effective exchange rate ( + = appn) | 92.9 | 69.0 | 78.3 | 84.7 | 86.9 | 85.094 | 86.1 | 81.3 | .. |
| (% change, previous year) | -6.0 | -25.6 | 13.5 | 8.2 | 11.3 | 8.6 | 9.6 | 1.0 | .. |
| Stock market index (Dec 1996=100) | 68.1 | 81.4 | 149.0 | 73.1 | 88.8 | 73.1 | 73.7 | 73.1 | .. |
| Memo: GDP in US$ b | 476.5 | 317.7 | 406.9 | 471.9 | 116.9 | .. | .. | .. | .. |

1/ Consolidated central government. Excludes privatization proceeds. For 2000, includes the civil service pension fund.
2/ Includes domestic & external debt. Includes bonds issued outside the budget for bank restructuring in 1998-99, & the global bond issue in April 1998.
3/ Trade figures are on a customs clearance basis.
4/ Foreign direct investment is on a net basis as reported in the BOP.
4/ FDI commitments are reported by the Ministry of Commerce, Industry and Energy.
6/ Overnight repo rate (end-of-period).

| Lao PDR Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | | | | |
| GDP ( % change previous year) | 6.9 | 4.0 | 7.3 | 5.7 |
| Industrial production index (1993=100) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Unemployment Rate (%) | .. | .. | .. | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous | 26.6 | 141.9 | 86.7 | 10.5 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -4.3 | -9.6 | -4.0 | -5.1 |
| Domestic public sector debt (% GDP) | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | .. | .. | .. | .. |
| Trade balance (million$US) | -331.0 | -216.0 | -191.0 | -198.0 |
| Exports of goods, ($millionUS) | .. | .. | .. | .. |
| (% change, previous year) | -1.4 | 6.4 | 7.7 | 8.3 |
| Key Export, (% change, previous year) | .. | .. | .. | .. |
| Imports of goods, ($millionUS) | .. | .. | .. | .. |
| (% change, previous year) | -6.0 | -14.7 | 0.3 | 6.6 |
| Current account balance ($millionUS ) | -53.0 | -18.0 | -3.0 | 44.0 |
| (percent GDP) | -10.7 | -4.4 | -1.5 | -1.6 |
| Foreign Direct Investment (million US$) | .. | .. | .. | .. |
| Total external debt (million $US) | .. | .. | .. | .. |
| (% GDP) | 55.9 | 86.4 | 81.6 | 71.5 |
| Short-term debt (million $US ) | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 8.9 | 9.7 | 10.3 | 9.2 |
| Reserves, including gold ($US billion) | 0.1 | 0.1 | 0.1 | 0.1 |
| (months of imports of goods and services) | 2.7 | 2.2 | 2.0 | 2.4 |
| **Financial Markets** | | | | |
| Domestic credit (% change, previous year) | .. | .. | .. | .. |
| Short-term interest rate | .. | .. | .. | .. |
| Exchange rate (end-period) | 2135.0 | 4274.0 | 7600.0 | 8149.0 |
| Real effective exchange rate (1990=100 an | .. | .. | .. | .. |
| (% change, previous year) | 0.5 | -19.5 | 4.3 | 15.0 |
| Stock market index (end-period, Aug 88=1C | .. | .. | .. | .. |
| Memo: GDP in US$ million | 495.3 | 409.1 | .. | .. |

| Malaysia Key Indicators | 1997 | 1998 | 1999 | 2000/e | 2000 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | | Q1 | Q2 | Q3 | Q4 | Nov | Dec |
| **Output, Employment and Prices** | | | | | | | | | | |
| GDP ( % change previous year) | 7.5 | -7.6 | 5.6 | 8.5 | 11.2 | 8.5 | 7.8 | 6.5 | .. | .. |
| Industrial production index (1993=100) | 156.1 | 144.9 | 158.0 | 189.3 | 175.5 | 186.2 | 194.1 | 201.5 | 188.6 | 215.9 |
| (% change, previous year) | 10.6 | -7.2 | 9.0 | 19.8 | 23.5 | 20.1 | 18.3 | 17.9 | 10.0 | 23.4 |
| Unemployment Rate (%) | 2.4 | 3.2 | 3.0 | .. | 3.0 | 3.3 | 3.1 | .. | .. | .. |
| Real Wage Growth (%) | 6.2 | 0.9 | .. | .. | .. | .. | .. | .. | .. | .. |
| Consumer price index (% change, previous yr.) | 2.7 | 5.3 | 2.8 | 1.5 | 1.6 | 1.4 | 1.5 | 1.8 | 1.9 | 1.4 |
| **Public Sector** | | | | | | | | | | |
| Government balance (% GDP) /1 | 2.6 | -1.8 | -3.2 | -4.0 | 1.2 | -1.9 | -5.3 | .. | .. | .. |
| Domestic public sector debt (% GDP) | 27.3 | 31.2 | 29.5 | 30.9 | .. | .. | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | | | |
| Trade balance ($US billions) | -0.3 | 14.9 | 19.1 | 16.0 | 4.3 | 3.2 | 3.9 | 4.5 | 1.6 | .. |
| Exports of goods, ($US billions) | 78.7 | 73.3 | 84.6 | 98.2 | 22.3 | 23.9 | 26.8 | 25.2 | 8.6 | .. |
| (% change, previous year) | 0.6 | -6.9 | 15.4 | 16.1 | 22.0 | 16.7 | 21.6 | 14.6 | 16.6 | .. |
| Electronics export, (% change, previous year) | .. | 1.9 | 20.2 | .. | 9.7 | 4.6 | 11.0 | .. | .. | .. |
| Imports of goods, ($US billions) | 79.0 | 58.4 | 65.4 | 82.2 | 18.0 | 20.7 | 22.8 | 20.7 | 7.0 | .. |
| (% change, previous year) | 0.8 | -26.1 | 12.0 | 25.7 | 27.1 | 31.8 | 33.8 | 11.8 | 19.4 | .. |
| Current account balance ($US billions) | -5.9 | 9.5 | 12.6 | 8.8 | .. | .. | .. | .. | .. | .. |
| (percent GDP) | -5.5 | 12.9 | 15.9 | 10.0 | .. | .. | .. | .. | .. | .. |
| Foreign Direct Investment (US$ billions) | 3.8 | 3.0 | 2.6 | 2.7 | | | .. | .. | .. | .. |
| Total external debt ($US billions) | 45.6 | 42.6 | 42.3 | 41.3 | 40.8 | 41.0 | 41.3 | 41.3 | .. | .. |
| (% GDP) | 46.6 | 59.2 | 53.5 | 46.9 | | | .. | .. | .. | .. |
| Short-term debt ($US billions) /2 | 13.9 | 8.4 | 6.0 | .. | 5.7 | 5.2 | 4.7 | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 6.5 | 6.6 | .. | .. | .. | .. | .. | .. | .. | .. |
| Reserves, including gold ($US billions) | 20.9 | 25.7 | 31.0 | 29.9 | 33.7 | .. | 32.3 | 29.9 | .. | 29.9 |
| (months of imports of goods only) | 3.2 | 5.3 | 5.7 | 4.4 | 5.1 | .. | .. | .. | .. | .. |
| **Financial Markets** | | | | | | | | | | |
| Domestic credit (% change, previous year) | 29.3 | -2.7 | 0.3 | 5.4 | .. | 1.7 | 3.2 | 5.4 | .. | 5.4 |
| Short-term interest rate /3 | 7.8 | 9.4 | 4.1 | 3.2 | 3.1 | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 |
| Exchange rate (end-period) | 3.9 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Real effective exchange rate (1995=100, + = appn) | 101.8 | 81.0 | 83.1 | .. | 82.9 | 84.2 | .. | .. | .. | .. |
| (% change, previous year) | -2.4 | -20.5 | 2.6 | .. | 0.0 | -0.2 | .. | .. | .. | .. |
| Stock market index (Dec 1996=100) | 48.0 | 47.3 | 65.6 | 54.9 | 78.7 | 67.3 | 57.6 | 54.9 | 59.0 | 54.9 |
| | | | | | | | .. | .. | .. | .. |
| Memo: GDP (US$ billions) | 100.2 | 72.5 | 79.0 | 88.0 | 21.1 | 22.4 | .. | .. | .. | .. |

1. Federal government.

2. BIS consolidated international banking statistics for end-December 1998 and previous issues.

3. 3-month interbank rates.

| Mongolia Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | | | | |
| GDP ( % change previous year) | 4.0 | 3.5 | 3.2 | 1.1 |
| Industrial production index (1993=100) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Unemployment Rate (%) | 7.5 | 5.8 | 4.6 | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 20.5 | 6.0 | 10.0 | 9.5 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -9.2 | -14.3 | -11.9 | -9.9 |
| Domestic public sector debt (% GDP) | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | |
| Trade balance (million$US) | 31 | -120 | -113 | -130 |
| Exports of goods, ($millionUS) | 569 | 462 | 454 | 529 |
| (% change, previous year) | 0.35 | -0.19 | -0.02 | 0.17 |
| Key Export, (% change, previous year) | | -0.08 | -0.04 | 0.34 |
| Imports of goods, ($millionUS) | 538 | 582 | 567 | 659 |
| (% change, previous year) | 0.05 | 0.08 | -0.03 | 0.16 |
| Current account balance ($millionUS ) | 14 | -129 | -128 | -153 |
| (percent GDP) | 7.2 | -7.8 | -6.7 | -9.1 |
| Foreign Direct Investment (million US$) | 20 | 19 | 34 | 40.00 |
| Total external debt (million $US) | 605 | 755 | 847 | 919 |
| (% GDP) | 58.0 | 77.6 | 93.6 | 91.9 |
| Short-term debt (million $US ) | 0 | 0 | 12 | 10 |
| Debt service ratio (% exports of g&s) | 6.3 | 7.3 | 9.7 | 5.5 |
| Reserves, including gold ($US billion) | 137 | 125 | 157 | 188 |
| (months of imports of goods and services) | 3.3 | 2.8 | 3.6 | 3.7 |
| **Financial Markets** | | | | |
| Net Domestic credit (% change, previous year) | .. | -0.5 | 0.2 | -0.1 |
| Short-term interest rate | .. | 34.2 | 36.5 | 25.8 |
| Exchange rate (end-period) | 813 | 902 | 1,072 | 1097 |
| Real effective exchange rate (1995=100 and + = appn) | 120.4 | 139.2 | 136.0 | 147 |
| (% change, previous year) | 0.0 | 0.16 | -0.02 | 0.08 |
| Stock market index (end-period, Aug 88=100) | | | | |
| Memo: GDP in US$ million | 1043 | 972 | 906 | 924 |

| Papua New Guinea Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | | | | |
| GDP ( % change previous year) | -4.6 | 2.5 | 3.2 | -1.2 |
| Industrial production index (1993=100) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Unemployment Rate (%) | .. | .. | .. | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 4.0 | 13.6 | 14.9 | 16.4 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -4.3 | -7.5 | -7.8 | -7.4 |
| Domestic public sector debt (% GDP) | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | |
| Trade balance (million$US) | 708 | 734 | 841 | 817 |
| Exports of goods, ($millionUS) | 2,192 | 1,843 | 2,111 | 2,167 |
| (% change, previous year) | -16.0 | -16.0 | 14.5 | 2.6 |
| Key Export, (% change, previous year) | .. | .. | .. | .. |
| Imports of goods, ($millionUS) | 1,484 | 1,109 | 1,270 | 1,350 |
| (% change, previous year) | -2.3 | -25.2 | 14.5 | 6.3 |
| Current account balance ($millionUS ) | -224 | -58 | -61 | -119 |
| (percent GDP) | -4.5 | -1.6 | -1.7 | -3.1 |
| Foreign Direct Investment (million US$) | -157 | 15 | 92 | 146.00 |
| Total external debt (million $US) | 2,270 | 2,241 | 2,303 | 2,385 |
| (% GDP) | 46.1 | 60.2 | 64.2 | 61.4 |
| Short-term debt (million $US ) | 154 | 157 | 234 | 154 |
| Debt service ratio (% exports of g&s) | 14.3 | 8.2 | 11.1 | 10.7 |
| Reserves, including gold ($US billion) | 355 | 194 | 205 | 240.1 |
| (months of imports of goods and services) | 1.8 | 1.2 | 1.1 | 1.2 |
| **Financial Markets** | | | | |
| Domestic credit (% change, previous year) | .. | .. | .. | .. |
| Short-term interest rate | .. | .. | .. | .. |
| Exchange rate (end-period) | .. | .. | .. | .. |
| Real effective exchange rate (1990=100 and + = appn) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Stock market index (end-period, Aug 88=100) | .. | .. | .. | .. |
| Memo: GDP in US$ million | 4,927 | 3,724 | 3,586 | 3,882 |

| Philippines Key Indicators | 1997 | 1998 | 1999 | 2000/p | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Q3 | Q4 | Nov | Dec | Jan |
| **Output, Employment and Prices** | | | | | | | | | |
| GDP ( % change previous year) | 5.2 | -0.5 | 3.2 | 3.9 | 4.6 | 3.6 | .. | .. | .. |
| Industrial production index | 156.2 | 138.2 | 142.4 | 144.4 | 163.14 | .. | 171.8 | .. | .. |
| (% change, previous year) | 5.0 | -11.5 | 3.0 | 4.5 | 16.2 | .. | 36.6 | 8.6 | |
| Unemployment Rate (%) | 8.7 | 10.1 | 9.7 | 11.1 | 10.1 | .. | .. | .. | .. |
| Real Wage Growth /1 | 5.2 | -2.0 | 1.4 | -0.2 | .. | .. | .. | .. | .. |
| Consumer price index (% change, previous yr) | 6.0 | 9.8 | 6.6 | 4.3 | 4.5 | 5.8 | 6.0 | 6.5 | 6.9 |
| **Public Sector** | | | | | | | | | |
| Government balance (% GDP) /2 | -0.8 | -2.7 | -3.7 | -3.3 | .. | .. | .. | .. | .. |
| Domestic public sector debt (% GDP) | 65.4 | 64.2 | 54.1 | 49.5 | .. | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | | |
| Trade balance ($US billion) | -11.3 | -0.03 | 4.3 | 5.2 | 2.0 | 2.5 | 0.6 | 1.3 | .. |
| Exports of goods, ($US billion) | 25.2 | 29.5 | 35.0 | 39.9 | 10.3 | 10.2 | 3.3 | 3.5 | 2.9 |
| (% change, previous year) | 22.7 | 17.0 | 18.7 | 13.9 | 5.1 | 7.8 | 6.5 | 18.7 | 6.3 |
| Key Export, (% change, previous year) | 41.0 | 38.0 | 27.0 | 15.0 | 1.8 | 3.7 | 7.7 | 22 | 5.9 |
| Imports of goods, ($US billion) | 35.9 | 29.5 | 30.7 | 34.7 | 8.3 | 7.8 | 2.7 | 2.2 | .. |
| (% change, previous year) | 11.2 | -18.0 | 4.2 | 12.9 | 3.6 | 1.9 | 13.5 | -15.7 | .. |
| Current account balance ($US billion) | -4.3 | 1.3 | 7.2 | 1.3 | 2.6 | .. | .. | .. | .. |
| (percent GDP) | -5.2 | 2.0 | 9.4 | 1.6 | .. | .. | .. | .. | .. |
| Foreign Direct Investment (US$ billion) | 1.2 | 1.7 | 1.1 | 1.0 | 0.4 | .. | .. | .. | .. |
| Total external debt ($US billion) | 46.7 | 46.3 | 52.2 | .. | 51.8 | .. | .. | .. | .. |
| (% GDP) | 0.6 | 0.7 | 0.7 | .. | 0.7 | .. | .. | .. | .. |
| Short-term debt ($US billion) | 8.6 | 9.1 | 5.7 | .. | 5.6 | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 11.7 | 11.4 | 12.7 | .. | 11.4 | .. | .. | .. | .. |
| Reserves, including gold ($US billion) | 8.9 | 10.7 | 15.0 | 15.1 | 14.9 | 14.9 | 14.4 | 14.9 | 14.3 |
| (months of imports of goods and services) | 1.9 | 3.0 | 3.8 | 3.8 | 4.3 | 4.3 | 4.1 | 4.26 | 4.08 |
| **Financial Markets** | | | | | | | | | |
| Net Domestic credit (% change, previous year) | 28.1 | -3.3 | 2.7 | 8.0 | .. | .. | .. | .. | .. |
| Short-term interest rate /3 | 15.8 | 13.8 | 10.8 | 10.6 | 10.9 | 14.0 | 15.1 | 14.0 | 12.50 |
| Exchange rate (end-period) | 40.0 | 39.2 | 40.3 | 50.0 | 46.3 | 50.0 | 49.4 | 50.0 | .. |
| Real effective exchange rate ( + = appn) | 88.5 | 69.5 | 73.9 | 67.4 | 66.6 | 61.8 | 61.4 | 60.9 | .. |
| (% change, previous year) | -3.3 | -21.5 | 7.3 | -8.8 | -12.1 | -10.1 | -12.8 | -12.8 | .. |
| Stock market index (Dec 1994=100) | 67.1 | 70.7 | 76.9 | 59.2 | 52.5 | 51.0 | 50.4 | 53.6 | 60.6 |
| Memo: GDP in US$ billion | 82.5 | 65.5 | 76.5 | 65.1 | .. | .. | .. | .. | .. |

1. Non-agriculture, National Capital Region
2. National Government
3. Interbank Call Rate

| Solomon Islands Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year |
|---|---|---|---|---|
| **Output, Employment and Prices** | | | | |
| GDP ( % change previous year) | -2.3 | 1.1 | -1.3 | -14.0 |
| Industrial production index (1993=100) | .. | .. | .. | .. |
| (% change, previous year) | .. | .. | .. | .. |
| Unemployment Rate (%) | .. | .. | .. | .. |
| Real Wage Growth (%) | .. | .. | .. | .. |
| Consumer price index (% change, previous year) | 8.1 | 12.3 | 8.3 | 5.0 |
| **Public Sector** | | | | |
| Government balance (% GDP) | -4.1 | -1.6 | -2.7 | .. |
| Domestic public sector debt (% GDP) | 22.0 | 22.1 | 21.4 | .. |
| **Foreign Trade, BOP and External Debt** | | | | |
| Trade balance (million$US) | -35.5 | -6.1 | 9.5 | .. |
| Exports of goods, ($millionUS) | 173.9 | 140.8 | 149.6 | .. |
| (% change, previous year) | 7.1 | -19.0 | 6.2 | .. |
| Key Export, (% change, previous year) | -15.7 | -51.0 | 13.5 | .. |
| Imports of goods, ($millionUS) | 209.4 | 146.9 | 140.1 | .. |
| (% change, previous year) | 38.5 | -29.8 | -4.6 | .. |
| Current account balance ($millionUS ) | -37.9 | 16.4 | 35.1 | .. |
| (percent GDP) | -8.7 | 4.6 | 9.8 | .. |
| Foreign Direct Investment (million US$) | 31.4 | 4.9 | 3.1 | .. |
| Total external debt (million $US) | 173.0 | 166.1 | .. | .. |
| (% GDP) | 39.9 | 46.3 | .. | .. |
| Short-term debt (million $US ) | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 7.9 | 18.1 | .. | .. |
| Reserves, including gold ($US billion) | 31.7 | 47.9 | 50.6 | .. |
| (months of imports of goods and services) | 1.3 | 2.8 | 2.7 | .. |
| **Financial Markets** | | | | |
| Domestic credit (% change, previous year) | 10.0 | 25.0 | 8.0 | .. |
| Short-term interest rate | 13.3 | 6.0 | 6.0 | .. |
| Exchange rate (end-period) | 4.7 | 4.9 | 5.1 | .. |
| Real effective exchange rate (1995=100 and + = appn) | 116.6 | 108.9 | 112.1 | .. |
| (% change, previous year) | 9.1 | -6.6 | 2.9 | .. |
| Stock market index (end-period, Aug 88=100) | .. | .. | .. | .. |
| Memo: GDP in US$ million | 433.7 | 358.8 | 359.4 | .. |

| Thailand Key Indicators | 1997 | 1998 | 1999 | 2000/p | | 2000 | | | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Q3 | Q4 | Nov | Dec | Jan |
| **Output, Employment and Prices** | | | | | | | | | |
| Real GDP ( % change previous year) | -1.7 | -10.2 | 4.2 | 4.3 | 2.8 | 3.1 | .. | .. | .. |
| Industrial production index (1995=100) | 107.2 | 96.5 | 108.8 | 111.8 | 108.3 | 114.6 | 115.3 | 115.3 | 114.4 |
| (% change, previous year) | -0.5 | -10.0 | 12.7 | 2.8 | -0.7 | -0.6 | -3.6 | 1.2 | 3.6 |
| Unemployment Rate (%) 1/ | 2.2 | 4.5 | 3.3 | 3.7 | 2.4 | 3.7 | 3.7 | .. | .. |
| Real Wage Growth (%) 1/ | | 3.3 | 3.1 | 2.0 | -0.5 | -0.4 | -0.4 | .. | .. |
| Consumer price index (% change, previous year) | 5.5 | 8.1 | 0.3 | 1.5 | 2.2 | 1.6 | 1.7 | 1.3 | 1.3 |
| **Public Sector** | | | | | | | | | |
| Government balance (% GDP) 2/ | -2.7 | -5.8 | -6.1 | -5.3 | -2.0 | -4.1 | -5.1 | -3.0 | -1.4 |
| Domestic public sector debt (% GDP) 3/ | 36.3 | 45.2 | 55.9 | 56.9 | 21.8 | 22.2 | 21.9 | 22.2 | 22.4 |
| **Foreign Trade, BOP and External Debt** | | | | | | | | | |
| Trade balance (million$US) 4/ | -4632 | 9978 | 9228 | 5682 | 1509 | 1090 | 470 | 413 | -282 |
| Exports of goods, (million$US) | 56721 | 52873 | 56852 | 68110 | 18012 | 17974 | 6051 | 5753 | 5040 |
| (% change, previous year) | 3.7 | -6.8 | 7.5 | 19.8 | 21.7 | 15.2 | 18.6 | 10.6 | -3.9 |
| Key Export, (% change, previous year)6/ | 7.4 | 16.1 | -17.2 | 7.2 | 1.4 | 10.5 | 14.4 | -1.5 | .. |
| Imports of goods, (million$US) | 61353 | 42895 | 47624 | 62428 | 16503 | 16821 | 5581 | 5340 | 5323 |
| (% change, previous year) | -15.7 | -30.1 | 17.2 | 31.1 | 35.3 | 21.3 | 18.7 | 13.6 | 31.3 |
| Current account balance (million$US ) | -1282 | 14314 | 12421 | 9140 | 2162 | 2183 | 870 | 901 | 298 |
| (percent GDP) | -0.8 | 12.8 | 10.2 | 7.5 | 7.4 | 7.4 | 8.8 | 9.1 | 3.0 |
| Net Foreign Direct Investment (million$US) | 2322.6 | 8142.2 | 6037.7 | 3218.7 | 797.8 | 972.7 | 430.0 | 477.0 | .. |
| Total external debt (million $US) | 109731 | 104943 | 96335 | 83725 | 83725 | 80248 | 82639 | 81342 | .. |
| (% GDP) | 72.6 | 93.8 | 79.0 | 68.8 | 71.5 | 67.8 | .. | .. | .. |
| Short-term debt (million $US ) | 37836 | 29660 | 23418 | 14541 | 15194 | 14541 | 14711 | 14541 | .. |
| Debt service ratio (% exports of g&s) | 15.3 | 20.8 | 19.0 | 23.0 | 16.8 | 13.4 | .. | .. | .. |
| Reserves, including gold (million$US) | 26968 | 29536 | 34781 | 32700 | 32200 | 32700 | 32300 | 32700 | 32800 |
| (months of imports of goods and services) | 4.5 | 7.3 | 7.2 | 5.3 | 5.2 | 5.3 | 5.2 | 5.3 | 5.2 |
| **Financial Markets** | | | | | | | | | |
| Domestic credit (% change, previous year) | 30.1 | -3.3 | -4.0 | -8.2 | -8.5 | -7.7 | -8.2 | -7.7 | .. |
| Short-term interest rate (end period) /5 | 9.6 | 5.7 | 3.8 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Exchange rate (end-period) | 47.2 | 36.9 | 36.8 | 43.1 | 41.9 | 43.1 | 43.7 | 43.1 | 43.1 |
| Real effective exchange rate (1994=100) | 72.6 | 90.1 | 87.5 | 83.7 | 80.8 | 79.3 | 78.3 | 79.3 | 79.4 |
| (% change, previous year) | -31.9 | 24.2 | -2.9 | -4.4 | -1.7 | -8.4 | -7.7 | -8.4 | -8.4 |
| Stock market index (Dec 1996=100) | 575.3 | 361.7 | 482.0 | 269.0 | 277.0 | 269.0 | 274 | 269 | 330 |
| Memo: GDP in billion US$ | 151.1 | 111.9 | 122.0 | 121.8 | 29.3 | 29.6 | .. | .. | .. |

1/ Labor Force Survey. 1997 unemployment rate is February survey, 1998-1999 are November surveys.

Rates are percent of current labor force and do not include seasonally unemployed. Real wage growth is Feb/Feb.

2/ Central Government (CY Year) augmented for the cost of fiscal sector assistence, except for the quarterly and monthly data.

3/ Includes domestic central government (CG) debt and SOE's domestic debt guaranteed by the CG and financial sector assistence liabilites, except for the quarterly and monthly data.

4/ In Million US Dollars.

5/ Average interest rates on time deposits of less than 6 months (percent per annum).

6/ Key exports are rice and rubber

| Vietnam: Key Indicators | 1997 Year | 1998 Year | 1999 Year | 2000/e Year | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
|---|---|---|---|---|---|---|---|---|
| **Output, Employment and Prices** | | | | | | | | |
| GDP (% change previous year) 1/ | 8.2 | 4.0 | 4.2 | 5.5 | 4.4 | 5.4 | 5.5 | 6.4 |
| Industrial production index | .. | .. | .. | .. | .. | .. | .. | .. |
| (% change, previous year) | 13.8 | 12.1 | 10.4 | 15.7 | 13.4 | 15.9 | 16.9 | 16.7 |
| Unemployment Rate (%) (urban areas) | 6.0 | 6.9 | 7.4 | 6.4 | .. | .. | .. | .. |
| Real Wage Growth | .. | .. | .. | .. | .. | .. | .. | .. |
| Consumer price index (% change, Dec-to-Dec) | 3.6 | 9.2 | 0.1 | 2.0 | -2.0 | -2.4 | -1.8 | -0.6 |
| **Public Sector** | | | | | | | | |
| Government balance (% GDP) /2 | -1.4 | -0.5 | -1.6 | -2.5 | .. | .. | .. | .. |
| Domestic public sector debt (% GDP) | 3.8 | 3.4 | .. | .. | .. | .. | .. | .. |
| **Foreign Trade, BOP and External Debt** | | | | | | | | |
| Trade balance ($US million) | -2,475 | -2,156 | -102 | -1,210 | -216 | -490 | 58 | -565 |
| Exports of goods, ($US million) | 9,145 | 9,338 | 11,520 | 14,422 | 3,054 | 3,386 | 3,892 | 4,090 |
| (% change, previous year) | 26.8 | 2.4 | 23.4 | 25.4 | 41.2 | 14.9 | 27.7 | 22.2 |
| Key Export, (% change, previous year) - crude oil | 4.7 | -12.5 | 60.0 | 67.5 | 157.7 | 58.7 | 80.1 | 37.8 |
| Imports of goods, ($US) | 11,620 | 11,494 | 11,622 | 15,632 | 3,270 | 3,876 | 3,834 | 4,655 |
| (% change, previous year) | 4.4 | -1.1 | 0.9 | 34.5 | 36.2 | 33.5 | 31.1 | 37.1 |
| Current account balance ($US billion ) | -1.8 | -1.3 | 0.8 | 0.16 | .. | .. | .. | .. |
| (percent GDP) | -7.3 | -5.1 | 3.3 | 0.7 | .. | .. | .. | .. |
| Foreign Direct Investment (US$billion) | 2.0 | 0.8 | 0.7 | 0.6 | 0.15 | 0.15 | 0.5 | 0.15 |
| Total external debt ($US billion)/3 | 10.1 | 10.8 | 11.1 | 13.5 | .. | .. | .. | .. |
| (% GDP) | 40.7 | 41.7 | 40.7 | 43.8 | .. | .. | .. | .. |
| Short-term debt ($US billion ) | -0.53 | -0.19 | -0.18 | -0.13 | .. | .. | .. | .. |
| Debt service ratio (% exports of g&s) | 11.5 | 15.5 | 13.7 | 14.9 | .. | .. | .. | .. |
| Reserves, including gold ($US million) | 2,085 | 2,028 | 2,700 | 3,100 | .. | .. | .. | .. |
| (weeks of imports of goods and services) | 10.3 | 10.1 | 8.3 | 8.2 | .. | .. | .. | .. |
| **Financial Markets** | | | | | | | | |
| Domestic credit (% change, period-end) | 22.6 | 20.5 | 10.5 | 38.0 | 9.6 | 21.2 | 28.8 | 38 |
| Short-term interest rate (3-M deposits, average) | 8.1 | 9.6 | 7.0 | 7.0 | .. | .. | .. | .. |
| Exchange rate (period-end) | 12,292 | 13,896 | 14,008 | 14,490 | 14,040 | 14,115 | 14,325 | 14,490 |
| Real effective exchange rate ( + = appn) | | | | | | | | |
| (% change, previous year) | 3.4 | 8.2 | 0.8 | 3.4 | .. | .. | .. | .. |
| Stock market index (Dec 2000=100) | | | | 100 | .. | .. | .. | .. |
| Memo: GDP in US$ billion | 24.8 | 25.9 | 27.4 | 30.7 | 6.2 | 7.9 | 7.6 | 8.9 |

**Note:**

1. Differs from government data of 5.8 for 1998, 4.8 for 1999 and 6.7 for 2000.
2. Overall deficit on cash basis
3. Excludes non-convertible debt.

# SPECIAL FOCUS: FINANCIAL AND CORPORATE RESTRUCTURING—AN UPDATE

The repercussions of the East Asian financial crisis for financial and corporate restructuring have consistently been underestimated. Unfulfilled expectations of the quality and pace of restructuring in part reflect the unprecedented nature of the crisis. Decades of uninterrupted growth, accompanied in the 1990s by excessive private debt accumulation presented the main crisis-impacted countries—Indonesia, Korea, Malaysia, Thailand (EA4)—with a massive restructuring agenda that would have been disruptive to any country. A complex mix of institutional factors has made this task more difficult. The powerful political connections of major debtors, conglomerate ownership of banks and other financial institutions and the resulting subservience of the latter to their corporate owners, and government concerns about systemic or social implications of allowing important firms to fail have each complicated the implementation of technical solutions. Deficiencies in legal frameworks and bottlenecks in judicial capacity have added to the backlog in court-supervised restructuring cases, while instances of judicial corruption have undermined faith in judicial efficacy. A shortage of skilled personnel more generally, in areas such as bank regulation and supervision, accounting and auditing has also slowed the process. The nature of these multi-faceted constraints should serve notice that corporate restructuring in particular will be a lengthy process.

Slowing economic growth will not make restructuring any easier—unless rapid post-crisis recoveries had produced complacency, as is often claimed. Social constraints to restructuring will heighten if labor markets soften. If credit demand falls due to falling capacity utilization (which in most cases had not recovered to pre-crisis levels), the incentive for recalcitrant firms to resolve their debts with creditors could diminish. And if banks fear diminished prospects, credit decisions would become more hesitant.

Unfortunately, none of these factors diminishes the importance of persevering with the restructuring effort. The most poignant reminder is the region's heightened vulnerability to the weakening external environment: slowing U.S. growth, faltering recovery in Japan, and falling demand in electronics and technology markets have lowered growth projections for 2001—sharply for Korea and Malaysia. Particularly for open economies, flexibility in production and investment decisions is an important attribute with which to address shifting external demand conditions. But if substantial resources are tied up in unrestructured or failing firms, the capacity to adjust is constrained. The accumulation of public debt also limits the ability of governments to mount future rescues. Finally, more probing assessments of emerging market risk by international creditors and investors points to the need for discernible progress on the restructuring front, as competition for foreign capital use intensifies.

**Bank Resolution**

Against such a background of constraints, significant progress has in fact been made, and stress levels through 2000 were on a gradual downward path among the EA4 countries. Table 1 provides details of the substantial sums that have already been spent or committed by governments, first in providing liquidity support to banks and then to recapitalize banking systems. Governments in Korea and Indonesia have had to provide the most support: Indonesia's government debt now approaches 100% of GDP from a pre-crisis level of 23%, with the gross costs of bank restructuring estimated at over 50% of 2000 GDP. In the case of private Thai banks, private capital has been the dominant source of capital infusion, reflecting more stringent conditions imposed on bank owners for the provision of public funds. In parallel, a large number of banks in Indonesia, finance companies in Thailand, and non-bank financial institutions (NBFIs) in Korea have been closed, merged or nationalized. Malaysia, which did not resort to closures, formulated an ambitious bank consolidation plan based on bank mergers. By end-2000, agreements had been reached for the consolidation of 50 of the 54 financial institutions into 10 bank groups. This covers 94% of the total assets of the banking sector.

Asset management companies (AMCs—decentralized in Thailand, centralized in other countries) have acquired significant non-performing loans (NPLs) from the banks, thereby reducing NPL ratios on the banks' balance sheets (Table 2). The reduction in NPLs, recapitalization by governments and infusion of new equity by existing and new owners has buttressed banks' capital throughout the region. Average capital adequacy ratios (CARs) now exceed the 8% Basle minimum standard in Korea, Malaysia and Thailand: end-2000 figures indicate CARs of 12.4% in Malaysia, 11.4% in Thailand and 10.3% in Korea.[1] Even in Indonesia, recapitalization is reported to have raised banks' capital to about 12.7% of risk weighted assets from –8.1% at end-1999, though some individual banks remain undercapitalized.[2] Indonesia's target for end-2001 is to

[1] Banking system in Malaysia; commercial banks in Thailand; eight major commercial banks in Korea.

[2] Source: Bank Indonesia Annual Report, 2000. The high average risk weighted ratio in Indonesia reflects the concentration of assets among the large state banks in government bonds that are accorded zero risk.

reach the 8% BIS guideline for all banks. Capital adequacy figures are not reported in China, but private sector estimates suggest that many banks would report negative net equity if assets were to be classified and provisioned according to international standards.

Notwithstanding the positive trend in capital, many banks particularly in Indonesia and Thailand remain undercapitalized, tolerated through implicit forbearance which allow unrealized losses to remain on banks' balance sheets. Government owned banks tend to be among the weakest. And there remain concerns about whether bank profits will suffice to maintain or strengthen capital adequacy. In Indonesia, the banking system on aggregate made a loss in the first half of 2000. With the rupiah depreciating and interest rates rising, pressure on earnings seems likely to intensify—particularly for banks recapitalized with fixed-rate bonds. Many banks hence appear ill-equipped to achieve the capital adequacy target for 2001. In Thailand, a number of banks have raised capital through high yielding subordinated debt which also adds to earnings pressures. Across countries, the prospect of slowing growth and weaker corporate profits clouds the outlook for strengthening bank balance sheets. Korea's allocation of W40 trillion funding for a second round of financial restructuring is in recognition of the need for additional financing, though at least some of this new financing is directed towards ailing NBFIs. Additional government funding therefore cannot be ruled out within the EA4 countries.

Parallel to the bank resolution effort, the need to address shortcomings in supervision, regulation, accounting, auditing and legal standards has been recognized in the aftermath of the crisis, and measures to improve regulatory frameworks and prudential standards are being adopted. Examples of the latter include reduced elapsed periods before loans are classified as past due or during which interest accrual is allowed and stricter loan loss provisioning standards. It is also recognized that improved prudential standards will have to be accompanied by more credible enforcement, and by complementing the role of supervisors through market mechanisms. In this context, enhancing transparency through more stringent disclosure requirements should continue to play an important role.

**Asset Disposal**

Through their acquisition of NPLs, AMCs in Indonesia, Korea, and Malaysia have become major holders of their countries' assets, and have made progress in asset disposal (Table 3). As of December 2000, Korea's KAMCO had purchased W95.1 trillion of NPLs (at face value) at 38.6% of face value cost, and had disposed of 48% of the assets purchased. Malaysia's Danaharta had acquired 41% of overall NPLs as of November 2000 and its acquisition phase appears to be essentially completed; as of June, it had resolved 61% of the assets under its control. The book value of Indonesia's IBRA amounts to some 57% of GDP. But disposal of IBRA's assets has been more problematic reflecting poor asset values, politically powerful debtors and an inadequate legislative and regulatory environment. Thailand's private banks have set up their own AMCs, for which disposal data are scarce. Some 70% of closed financial company assets has been disposed of by Thailand's Financial Sector Restructuring Agency (FRA).

In recent corporate loan sales, asset prices have been bolstered, aided by strengthening economic conditions. Danaharta's recovery rate of 73% of face value through June 2000 represents a high, but recovery rates on recent sales by KAMCO have also tended to rise. Notwithstanding progress on asset disposal by AMCs, their impact upon fostering genuine corporate restructuring is less clear. With improved results in asset disposition, it may be opportune to take a deliberate view of remaining sales, recognizing that they provide an opportunity not only to improve the quality of restructuring, but also to influence the pattern of prospective ownership.

**Thailand's New Centralized AMC**

The new government is in the process of designing and implementing its campaign promise to establish a national AMC. The initial proposal is for the national AMC to exchange FIDF guaranteed bonds for about 1 trillion baht of NPLs in state-owned banks and 250 billion baht of NPLs in private banks at net book value (outstanding principal balance net of provision). This is about half of the current NPLs in private banks, not including transfers to private AMCs and NPLs that remain unresolved, but have been written off. Loans to be transferred will be limited to multi-creditor, non-performing accounts with viable borrowers which are candidates for corporate restructuring. Banks would share gains and losses with the government on their transferred NPLs if recovery rates are different than initial transfer prices.

The objectives of the proposed national AMC are not yet formally defined, but appear geared towards supporting the banks, given that most of the incremental losses will be borne by the taxpayer. The key issue going forward is whether the proposed national AMC will effectively implement extraordinary executive powers or an expedited legal regime to speed resolution of these difficult cases. The track record of debt restructuring by government-owned institutions has been poor to date, in part because employees are subject to legal liability for taking a loss (including a reasonable write down) on behalf of the state. So indemnification is important. The authorities are aware of the costs of creating a freezer, where assets deteriorate at high cost to the taxpayer.

## Table 1. Financial Restructuring in East Asia

| Action | Indonesia | Korea | Malaysia | Thailand | China |
|---|---|---|---|---|---|
| **Initial Government Response** | | | | | |
| Liquidity support | $21.7 billion (18 percent of GDP) | $23.3 billion (5 percent of GDP) | $9.2 billion (13 percent of GDP) | $24.1 billion (20 percent of GDP) | Amount not disclosed |
| **Non-performing Loans** | | | | | |
| NPL/total loans[a] (percent) | 58.8 (11/00) | 17.9 (9/00) | 23.2 (6/00) | 26.5 (12/00) | About 40 |
| NPL/total loans after transfers to AMCs (%) | 23.9 (11/00) | 12.3 (9/00) | 15.3 (12/00) | 17.7 (12/00) | About 10 |
| Provisioning as a % of NPLs | 76.0% (11/00) | 63.1% (6/00) | 40.7% (12/00) | 39.0% (9/00) | NA |
| **Financial Distress Resolutions** | | | | | |
| Bank closures | 70 of 237 | None | None | 1 of 15 | 1 commercial bank |
| Closures of other financial institutions | None | More than 200 | None | 59 of 91 finance companies | About 200 financial institutions including credit cooperatives and trust and investment companies (TICs) |
| Mergers | 9 nationalized banks and 4 state banks have been merged | 9 of 26 banks absorbed by other banks | 50 out of 54 banks were merged into 10 groups by the end-2000 deadline | 3 banks and 12 finance companies | Multiple credit cooperatives, 2 banks and several TICs |
| Banks temporarily nationalized | 4 | 4 | 1 | 4 | None, since banks remain largely under state control |
| **Bank Recapitalization Strategies** | | | | | |
| Public funds for recapitalization | A total of $67.8 billion of sovereign bonds have been issued, of which $44.8 billion were used to recapitalize 4 state banks, 4 nationalized banks, 7 private banks and 27 regional banks. The balance of the bonds were used for liquidity support. | Government injected $50 billion into 9 commercial banks plus NBFIs; 3 major banks now 80% controlled by state. Additional $36 billion being made available for banks/NBFIs | Danamodal injected $1.3billion into 10 institutions | Government injected about $1.7 billion into private banks and about $12billion into public banks. $7.8 billion of private funds injected as tier 1 capital | Government injected 270 billion Yuan through issuance of special bonds in mid 1998 and transferred 1.4 trillion Yuan NPLs to AMCs; no cash transaction involved. Overall amount 1.67 trillion Yuan ($202 billion). |
| Majority foreign ownership of banks | 1 pending | 1 bank sold with majority stake. 6 other major banks now significantly owned by foreign stakeholders | 13 wholly owned foreign banks hold 30 percent of total commercial bank assets. Foreign banks' branch expansion is limited | 4 completed, 2 pending (includes BMB) | Allowed, but not for domestic currency operations. Market share: 2 percent |
| Weak financial institutions still in system | Many weak commercial banks | Many weak NBFIs. Reform of the deposit insurance coverage has had major impact. | Difficult to assess | Some weak public and private commercial banks | Many weak banks, credit cooperatives, and non-bank financial institutions |

*Notes:* (a) Includes non-banks and loans transferred to asset management corporations. For Malaysia figures include commercial banks, finance companies, merchant banks, and Danaharta. Malaysian authorities calculate NPL ratios on the basis of NPLs minus interest in suspense and specific provisions. On this basis, their reported NPL ratio was 10.4% excluding Danaharta. Danaharta assets refers to assets managed by Danaharta as reported by the BNM, it excludes non-bank and offshore assets of approximately RM8.6bn. For China, the People's Bank of China estimate as of January 2001, based on NPL ratio of 30% for state-owned commercial banks (SOCBs) and about 10% of SOCB and policy bank loans previously transferred to AMCs; private estimates are higher.
* In Indonesia, loan transfers were only made to IBRA.

*Source*: World Bank staff.

**Table 2. NPLs of Crisis-Affected Countries**
***(percent of total loans)***

| | 1997 | 1998 | | 1999 | | | | 2000 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Dec.* | *Dec.* | *Mar.* | *Jun.* | *Sept.* | *Dec.* | *Mar.* | *Jun.* | *Sept* | *Latest* |
| Indonesia[a] | -- | -- | -- | -- | -- | 64.0 | 62.4 | 63.5 | 61.7 | 58.8 (Nov) |
| Excl. IBRA | 7.2 | 48.6 | 58.7 | 39 | 38.9 | 32.9 | 32.1 | 30.0 | 26.9 | 23.9 (Nov) |
| Korea[b] | 8.0 | 16.1 | 17.0 | 16.4 | 15.9 | 15.8 | 17.9 | 18.9 | 17.9 | |
| Excl. KAMCO/KDIC | 5.9 | 10.4 | 11.4 | 11.3 | 10.1 | 10.9 | 10.9 | 13.6 | 12.3 | |
| Malaysia[c] | 6.0 | 22.6 | 22.7 | 23.4 | 23.6 | 23.6 | 23.3 | 23.2 | -- | |
| Excl. Danaharta | -- | 18.9 | 18.2 | 18.1 | 17.8 | 16.7 | 16.7 | 16.2 | 16.1 | 15.3 (Dec) |
| Philippines[d] | 4.7 | 10.4 | 13.2 | 13.1 | 13.4 | 12.5 | 14.4 | 14.6 | 15.3 | 15.1 (Dec) |
| Thailand[e] | -- | 45.0 | 47.0 | 47.4 | 44.7 | 41.5 | 39.8 | 34.8 | 30.6 | 26.5 (Dec) |
| Excl. AMCs | -- | 45.0 | 47.0 | 47.4 | 44.7 | 38.9 | 37.2 | 32.0 | 22.6 | 17.7 (Dec) |

*Note*: (a) The first line uses the "stringent" definition of an NPL; the second line excludes transfers to IBRA. (b) NPL figures use the BLC. (c) Figures include commercial banks, finance companies, merchant banks, and Danaharta. (d) Figures are for commercial banks. (e) Commercial banks. First line includes commercial banks, finance companies, and the estimated amount of NPLs transferred to wholly-owned private AMCs.

**Corporate Restructuring** [3]

Recognizing the lack of capacity to simultaneously resolve distress among hundreds or thousands of firms in a systemic crisis, the EA4 countries each adopted variants of the "London approach"—which seeks to prevent insolvency procedures from being instituted prematurely by creditors—to facilitate out-of-court workouts. Progress under this framework picked up in 2000.

- By end-2000, Malaysia's Corporate Debt Restructuring Committee (CDRC) had undertaken to deal with 54 cases with debts totaling RM39.4 billion of which 42 cases representing debts of RM27.3 billion had been resolved. About a tenth of CDRC's caseload was transferred to Danaharta, which was given the power to seize collateral and take over administration of debtor firms.

- By January 2001, Thailand's Corporate Debt Advisory Committee (CDRAC) had resolved about 45% of the loans that have been referred to it. Initially, CDRAC's focus was towards restructuring of large corporate cases; however since mid-2000, small and medium firms, which accounted for a large share of NPLs, were added to the target group.

- In Indonesia, the Jakarta Initiative Task Force (JITF) mediated on debt restructurings of some $7.6 billion in 2000, an almost fivefold increase over the 1999 amount.

- In Korea, Corporate Restructuring Agreement workouts stabilized, at least initially, the financial position of many mid-sized conglomerates. Controlling shareholders in some cases accepted major dilution of their equity ownership and ceded management control reflecting the more credible threat from Korea's bankruptcy system.

Nevertheless, the difficult part of the corporate restructuring agenda still appears to lie ahead. First, the London rules-based resolution approach is primarily a voluntary process—suggesting that the most difficult cases involving well-connected or recalcitrant debtors or substantially distressed firms are either being addressed through the courts or not at all. Second, the out-of-court workout resolutions themselves tend to focus on simpler cases first. Thailand's CDRAC, for example, was unable to resolve about half its cases after two years effort, and these are now being transferred to the courts. Third. despite ostensibly faster progress through out-of-court proceedings, the quality of restructuring is of concern, focusing as it primarily has on temporary easing of debt servicing rather than operational restructuring, asset sales, equity infusions, debt/equity conversions and write-offs. In many such cases there is concern that corporate debt classified as "restructured" could return to non-performing status once grace periods have been exhausted.

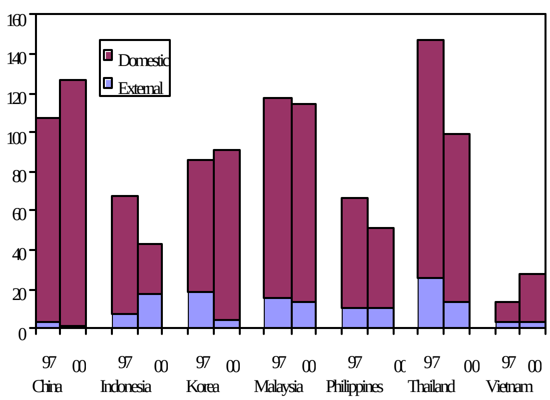
Yet judicial bottlenecks and weak capacity remain serious constraints particularly in Indonesia and Thailand, where debtors can use the courts to frustrate negotiations. Even in Korea and Malaysia, where the inducement for debtors to cooperate with out-of-court workout efforts has been stronger (reflecting more credible legal arrangements for

[3] This section draws on: "Workouts and Restructuring in a Systemic Crisis", Mako (mimeo, February 2001).

creditors to seize ownership or control), restructuring has been slowed through political intervention on behalf of major firms. Reluctance by banks to recognize losses made explicit through write-offs is also a constraint, and may reflect government reluctance to seek additional public funds for bank re-capitalization. Finally, the incentive for creditors and debtors to negotiate in good faith may be lacking as large segments of the real sector may not yet be in need of new credit.

Within the EA4 countries, the share of private credit in GDP hardly declined in Malaysia and actually rose in Korea between 1997 and 2000 (Figure 1). If high leverage and credit quality were problems in 1997, it is unclear to what extent they have been resolved. And given relatively high stocks, rapid private credit growth in these countries may be difficult to sustain in the medium term.

**Figure 1: Credit to Private Sector (Share of GDP)**




**Strengthening the Policy and Institutional Framework**

**Deepening the Restructuring Effort.** The policy agenda therefore remains challenging. Weaknesses remain in a large number of banks, and major segments of the corporate sector have been subjected to little or no meaningful restructuring. The restructuring process should be regarded as work in progress whose quality needs to be enhanced. Pressing ahead with higher quality corporate restructuring that improves the long-term health of firms through operational restructuring, debt/equity conversions, write-offs, etc., rather than merely extending grace periods or providing temporary reductions of interest continues to be needed. Lacking further progress on corporate restructuring, vulnerability to external shocks or domestic slowdowns, with their associated risks to still fragile banking systems, remains of concern. A significant constraining factor, especially in Indonesia and Thailand, appears to be the capacity of the judiciary to deal with the backlog of restructuring cases, pointing to the need to enhance judicial capacity for dealing with debt collection and bankruptcy, enhancing the court mediation process to provide incentive to strengthen the quality of out-of-court settlements, and perhaps also examine alternatives to current debt resolution mechanisms.[4]

**Governance and Ownership.** In view of the unfinished restructuring agenda, officials are understandably focused on it. Yet it is important to recognize that structural weaknesses in the financial and corporate sectors that aggravated the crisis are not unrelated to the quality of corporate governance and the nature of ownership in much of East Asia, the latter characterized by high levels of family control of corporations, and the subservience of banks and other financial institutions to their corporate owners.

These factors reinforced each other prior to the crisis. The political connections of the powerful banks and conglomerates exerted influence over governments and legislatures, undermining the incentive to upgrade supervision. Noncontrolling shareholders lacked effective legal protection and could hence be more easily exploited. Outside investors hence preferred to fund firms through debt rather than equity. This tendency toward high corporate leverage was compounded by controlling owners' reluctance to cede control or to disclose too much information.[5]

Most assessments of corporate governance stress the importance of strengthening the rights of outside investors. While progress has been made on this front, better enforcement of recent and prospective changes will require sustained efforts to strengthen the courts. Greater participation of credit rating agencies, securities analysts, professional watchdogs, and the financial media can also be used to complement more stringent disclosure requirements thereby enhancing transparency and bolstering minority shareholder protection.

Reforming ownership patterns is typically a gradual process. But the crisis provides an opportunity to accelerate change. The combination of massive government intervention in under-capitalized banks and low foreign ownership of banks and low foreign ownership of banks by developing country standards (Table 4) points to the use of foreign banks as an obvious source of new capital and managerial expertise. (Increased foreign bank presence following financial crises has fostered successful financial development elsewhere—e.g. Chile, Hungary, Poland.) Another option may be to sell off intervened bank shares to the public while encouraging fee-based representation of the dispersed owners to oversee

[4] See, for example, Hausch and Ramachandran, 1999. *"Bankruptcy Reorganization through Markets: Auction-based Credit Ordering by Reducing Debts (ACCORD)"*. Policy Research Working Paper 2230, World Bank.

[5] For a more in-depth discussion of these issues, see *Chapter 4 of "East Asia: Recovery and Beyond"*, World Bank, 2000.

**Table 3. Asset Resolution Strategies in East Asia**

| Strategy | Indonesia | Korea | Malaysia | Thailand | China |
|---|---|---|---|---|---|
| **Establishment of Centralized Asset Management Corporation** | | | | | |
| Set up centralized asset management corporation to which the banking system's non-performing loans are transferred. | Yes. IBRA has accumulated about $57.8 billion in assets (NPLs, investment in recapitalized banks, pledged assets from shareholder settlements | Yes. KAMCO has accumulated assets Dec 00: $84 billion (face value); $32 billion (purchase price). Recently, Korea Deposit Insurance Corporation (KDIC) has also received NPLs from ailing and bankrupt institutions ($4.2 billion) face value | Yes. Danaharta has accumulated $10.3 billion in assets | Established Financial Restructuring Agency (FRA) to liquidate failed finance companies. NPL workout for private institutions is decentralized. BOT has approved the establishment of 8 AMC subsidiaries by 7 banks and 1 finance company, and is reviewing applications to set up 4 more. The FIDF's owned AMC (SAM) recently acquired NPLs from the largest state bank, Krungthai Bank (KTB) at subsidized prices. (KTB's NPLs are about one-third of system's NPLs.) | Established four AMCs, one for each SOCB. Conflicting priorities of enterprise and banking system reform. Second tier banks have no access to AMCs. |
| **Nature of Asset Management Corporation** | | | | | |
| Purchase of assets at subsidized prices | Yes | Assets were initially purchased above market-clearing prices with recourse. Since February 1998 purchases have been attempted at market prices | Purchased assets are valued by independent outside auditors and transferred at close to market values. | Not applicable for private institutions. KTB's AMC purchase price was set so that KTB is adequately capitalized. | Yes, loans were transferred at book value. |
| Restructuring or disposition | IBRA created to resolve problem banks; manage and dispose of frozen bank assets; and resolve NPL's transferred from recapitalized banks. | Mostly engaged in disposing of assets but recently CRVs have been established to restructure companies. | Restructuring and disposition | Not applicable for private institutions. For state banks, selection of third party managers to manage SAM has been suspended pending proposed National AMC. | Broad range of activities from asset disposal to debt to equity swaps |
| **Asset Transfer and Disposal** | | | | | |
| Type of assets transferred | Assets of frozen banks and worst assets | Limited to ailing financial institutions | Loans larger than RM 5 million and mostly loans secured by property or shares | Not applicable for private institutions. All assets of failed finance companies transferred to FRA. In case of KTB, transfers to SAM include NPLs whose principals are greater than Bt5mn which are more than 12 months overdue. | Loans granted before the end of 1995 and rated doubtful or loss but not subject to write-off within the quotas allocated to each of the four commercial banks and one policy bank. |
| Assets transferred | IBRA's total assets amount to 57 percent of GDP; transferred NPLs amount to 30 percent of GDP . | 49 percent of NPLs, equal to 11 percent of GDP | 36.2 percent of NPLs, equal to 12.3 percent of GDP | Only assets from failed finance companies sold by the FRA (Bt600 bn of core assets; 13 percent of GDP). Bt 520 bn ($13bn) NPLs of KTB were transferred (11% of GDP) | RMB 1.4 trillion ($ 202 billion) equivalent to 18 percent of end-1999 loans of the five banks and 17 % of 1999 GDP |
| Assets disposed of as a share of total assets transferred | 7 percent | 48 percent | 61 percent | 70 percent of closed finance company assets | RMB 5 billion equivalent to 0.36 percent |

*Source*: World Bank staff.

**Table 4. Government Ownership of Financial System Assets in East Asia, mid-2000**
**(percent)**

| ***Indicator*** | ***Indonesia*** | ***Korea**** | ***Malaysia**** | ***Thailand*** | ***China***[f] |
|---|---|---|---|---|---|
| Share of assets carved out | 29 | 3 | 4 | 22[(a)] | About 10 |
| Share of assets held by state-owned and nationalized financial institutions | 70 | 55 | 14 | 19 | 98 |
| Total share of banking assets held by state | 72[(b)] | 58 | 18 | 30[(c)] | 98 |
| Assets held by the state as a share of GDP | 63 | 124 | 62 | 36 | 190 |
| Share of assets held by foreign banks | 12[(d)] | 8 | 23 | 16 | 2 |

Notes:
(a) Includes assets from failed finance companies and assets transferred to Government (FIDF)-owned AMCs.
(b) Includes 26 regional development banks.
(c) Assets held by state banks. Excludes assets already liquidated by the FRA (11% of total loans) because they have been sold back to the private sector.
(d) Includes Joint Banks.
(f) End 1999 figures, banking sector only, TICs account for less than 3 percent of banking system share.

* *data is for mid-1999,*

*Source*: World Bank staff

bank management.[6] Ultimately, a sound and privately owned banking system will facilitate corporate restructuring—further underlining the importance of bank privatization in the medium term.

The pattern of corporate ownership could also be subject to major changes in the aftermath of the crisis. In Indonesia, IBRA controls the bulk of the formerly private corporate sector; how it re-privatizes can have a major impact on ownership concentration. In Malaysia, government-encouraged mergers of financial institutions could strain prior relationships in the conglomerates to which these institutions belong. These examples suggest that the repercussions of the crisis on ownership changes could be quite significant, and adopting a strategic framework for asset sales may yield considerable dividends over time.

**China's Restructuring Agenda**

China had begun to reform its troubled state-owned enterprises (SOEs) and financial institutions well before 1997, but the regional crisis and prospective WTO membership have lent urgency to these efforts. The regional crisis has highlighted the risks of supervisory and regulatory inadequacies, perverse incentives imposed on the productive sector, and weak corporate governance. The fragility of major conglomerates in neighboring countries has raised questions about the wisdom of promoting a similar path for Chinese corporations. Prospective membership in the WTO has highlighted the need to ready Chinese banks for greater foreign competition, and to align local regulations and legal systems.

**Financial Sector.** Financial restructuring in China, while progressing, is still at an early stage, held back in part by developments in the SOE and social security sectors, and constrained by problems left over from the past, including gaps in loan loss provisioning and bad debt write off.

The financial system remains almost entirely under the ownership of the central and local governments. The central government has been taking several steps to encourage restructuring. For example, top managers of the large central government-owned banks that dominate the financial system have been reshuffled and presumably strengthened. Bank supervision has been restructured to increase the independence of supervisors from local banks and local governments, and increased emphasis is being devoted to training bank supervisors. The China Securities Regulatory Commission (CSRC) has been taking steps to strengthen the governance of listed firms and to reduce market manipulation (see *corporate restructuring* discussion below). The top political leadership repeatedly and publicly emphasizes the importance of bank managers and financial sector supervisors being held accountable for improving governance and operations of the banks and other financial institutions, including their role in exerting governance over the corporate sector.

The central government has also taken steps to improve bank finances. It recapitalized the large banks in 1998 by donating some $34 billion equivalent in government bonds. It authorized the creation of four AMCs that allowed the transfer of a large portion of NPLs, some $175 billion equivalent by mid-2000, from the four major state-owned commercial banks. In a legal sense, however, the banks remain liable for losses on the loans, since the Ministry of Finance has not explicitly agreed to guarantee the AMCs' financing. Moreover, the conversion of some of these AMC-held corporate debts into equity may not result in significantly improved corporate governance and may in fact only permit more lending to these firms which may result in higher NPL levels in future.

[6] If enforcement of prudential regulations provides inadequate oversight to banks where ownership is dispersed.

A number of small failing deposit-taking institutions (mainly urban credit cooperatives) have been either closed or merged with other presumably more sound deposit-takers. Yet closures appear to have been triggered by illiquidity (the banks' inability to meet payment demands) and not necessarily capital insolvency. The exit of banks from the market is especially complicated by their complex ownership structure and difficulties in determining which levels of government will be accountable for making good on deposits.

**Corporate Restructuring.** The share of China's SOEs in industrial production had fallen to 28% in 1999 from 76% in 1978 (aided by a booming private sector), though most large and strategically important enterprises remain state owned and SOEs still account for the bulk of bank loans.

Despite substantial costs in terms of job losses—Chinese SOEs have shed 21 million workers since January 1998 (of whom 13 million have since found re-employment), and urban unemployment has tripled to about 9% in the past five years—the authorities have emphasized the need for continued reform. The five year plan, presented at the National People's Congress, in March 2001, envisages further dismantling of loss-making SOEs, far greater involvement of private—including foreign—enterprise, and enhanced scope for the stock market (which has operated for only 10 years) in allocating capital. In line with the aim of integrating China's "A" and "B" share markets—reserved for local and foreign investors, respectively—"B" shares were opened up to domestic investors on March 1, 2001.

In March 1998, a three-year program to turn around the performance of 6,600 loss-making SOEs was initiated; by October 2000, 62% of the loss-makers had reportedly been "turned around." Bankruptcy and closure have also been used as tools of the "three-year turnaround" program. As part of the continuing efforts of the Capital Structure Optimization Program launched in 1994, the State Economic and Trade Commission gave its go-ahead in July 2000 to 1,093 proposals for SOE bankruptcy and merger to be implemented in 2000. Emphasis was placed explicitly on liquidation of large loss-making SOEs.

*Ownership Transformation.* The wave of privatization of small and medium SOEs that started in early 1998 continued through 2000. Some 70-80% of small and medium SOEs at the county and municipal level have been privatized according to one local estimate. Insider privatization appears to have been the dominant form. In most earlier cases, the state shares in SOEs were sold to employees and managers to form "joint stock cooperatives". In 2000, local governments increasingly opted for limited liability corporations with insiders as shareholders, or individually owned proprietorship, for which a law was enacted in 2000.

- *Corporate Governance.* Increased managerial autonomy and ownership diversification of SOEs brought the issue of corporate governance to the top of the government's reform agenda. In 1999—ten years after this term was introduced into China—the Communist Party officially accepted it and recognized it as the "core" of the new corporation system that the reform is to build up. Awareness has been built up rapidly in the past year, and the most dramatic changes took place in listed companies and the stock market. For example:

- The government has decided that the state shareholdings in listed companies should be sold down to allow more active participation of non-state shareholders in corporate governance. The decision will be implemented gradually to maintain the stability of the market.
- The Securities Law was enacted in July 2000.
- Government approval of IPOs has been largely abolished in March 2001.
- A regulation on de-listing of loss making listed companies was enacted recently to provide an "exit mechanism" in the highly speculative stock market.
- The Shanghai Stock Exchange published a corporate governance guideline in November 2000, the first in China, and the CSRC is preparing a more compulsory corporate governance code for listed companies to follow.
- Listed companies increasingly invite independent directors to their board.
- The financial media and economists have combined since October 2000 to disclose and criticize widespread fraud, speculation, manipulation and poor protection of small and medium investors. The CSRC has declared the protection of small and medium investors as its primary responsibility and promised to clean up the market in 2001.

In other areas, actions have also been taken to improve corporate governance in enterprises of various ownership. The Accounting Law was revised to strengthen the responsibility of the accounting profession and the judicial system has been undergoing fundamental reform.

This Special Focus was prepared by Sanjay Dhar (EASPR) with inputs from Michael Markels, David Scott (BFR), Chunlin Zhang (EACCF) and other World Bank staff working on East Asia's financial and corporate sectors.

# SPECIAL FOCUS: POVERTY REDUCTION AND INTERNATIONAL DEVELOPMENT GOALS

## Recent Trends in Poverty

Since 1990, the proportion of people in East Asia and the Pacific living below a-dollar-a-day[1] has more than halved to about 13 percent of the population and the region has thus attained its international development goal (IDG) of reducing extreme poverty incidence by half by 2015 well ahead of schedule. However, social vulnerability remains high. Nearly half the population lives on less than $2/day. Much of the reduction in the numbers of poor is driven by China and there remains a large variation in the incidence of poverty across countries in the region. The adverse impact of the Asian crisis has dissipated for the region as a whole. Yet, for some badly affected countries like Indonesia and Thailand, it will take up to 2002 or beyond for poverty incidence to return to its 1996 level. More details on these key results are presented below.

The poverty estimates presented here (Tables 1 and 2) are based on the most recent household survey data available combined with (sectoral) growth estimates/projections for these countries. The estimates could be obtained for 10 countries: Cambodia, China, Indonesia, Lao PDR, Malaysia, Papua New Guinea (PNG), the Philippines, South Korea, Thailand and Vietnam.[2] Jointly they account for 96 percent of the region's total population.

### Poverty at the turn of the century

In year 2000, 13.2 percent of the population in East Asia and the Pacific (EAP), or about 236 million persons, were deemed to live below the poverty line of a-dollar-a-day. The dollar-a-day poverty line is however quite austere. At the higher poverty line of $2 per day, the level of poverty in the region still looms large. 48.1 percent of the region's population, or about 857 million people live below this line.

There is a large variation in the incidence of poverty across the countries, ranging from a high of 34.5 percent in Cambodia to a virtual elimination of poverty at a-dollar-a-day in the case of South Korea and Malaysia. This variation in poverty incidence together with the variation in the size of countries implies a large variation in the contribution to the total number of the poor. China alone accounts for 79 percent of all the poor in the region, while Indonesia accounts for another 9 percent.[3] The other countries make up the remaining 12 percent.

### Poverty reduction since 1990

The decade of the 1990s was a period of significant growth and poverty reduction in the region as a whole. The proportion of the population in absolute poverty declined at impressive rates. The progress was however uneven across countries, being the most impressive in the transition economies of China and Vietnam. Poverty reduction was also rapid for the East Asia 5,[4] with the exception of the Philippines which witnessed a slower rate of reduction. Amongst the smaller countries, Cambodia and Lao PDR achieved significant poverty reduction over the decade, while the progress in PNG was modest.

The gains from poverty reduction over the 1990s were not limited to those in the neighborhood of the poverty line. On the contrary, they appear to have been widely shared amongst those below the poverty line. This is evident from the higher rates of decline in the depth and severity of poverty (not reported here). Most of the gains in poverty reduction were driven by an impressive growth in average living standards.

### Crisis and recovery

The trajectory of growth with poverty reduction over the 1990s was interrupted by the Asian crisis. For the region as a whole, poverty reduction stalled; the incidence at the dollar-a-day poverty line was about 15 percent both in 1996 and 1999, in contrast to the steep decline from 28.7 percent in 1990. For the higher poverty line of $2 per day, there was an *increase* in incidence from 48.9 percent in 1996 to 49.6 percent in 1999. The increase in incidence at the higher poverty line suggests that the impact of the crisis was more severe for the relatively less poor than for those below a-dollar-a-day. Amongst the East Asia 5, Indonesia, Thailand and South Korea (at the national poverty line of $7.94 per day) witnessed significant increases in poverty incidence

[1] More precisely, this is a poverty line of $32.74 per person per month (or $1.08 per person per day) at 1993 PPP dollars, and has been widely used for international comparisons of poverty (World Bank 1990, 2000a, 2000b).

[2] These estimates differ from those commonly found in national poverty assessments for two main reasons. First, country assessments typically use national poverty lines that differ from the common international poverty line used here. Another reason for the difference is that while national poverty assessments typically control for within-country cost of living differentials, for comparative purposes the cross-country poverty estimates reported here are based on distributions of nominal consumption per person without any adjustment for such differentials.

[3] The shares of China and Indonesia amongst the total number of the poor at less than two-dollars-a-day are 71 and 15 percent respectively.

[4] The East Asia 5 comprises of Indonesia, Malaysia, the Philippines, South Korea and Thailand.

over this period, while poverty also increased in Cambodia and PNG. These "before-after" comparisons of poverty however tend to underestimate the true impact of the crisis because in the absence of the crisis poverty rates would have declined further below the pre-crisis levels.

The region appears to be well on its way to recovery from the crisis. By 2002, poverty incidence at a-dollar-a-day is expected to decline below the 1996 level to 10.9 percent in the region as a whole and to 7.7 percent excluding China. At the higher poverty line too, the incidence is expected to decline to 44.4 by 2002 for the region as a whole, but excluding China the incidence is projected to be at about the same level as in 1996. The main reason for this seems to be the relatively slow recovery in Indonesia.

## Poverty reduction and the IDGs

A key international development goal is the reduction of the proportion of people living in extreme poverty by half between 1990 and 2015, where extreme poverty is defined by the dollar-a-day poverty line. Despite the slowdown due to the crisis, the EAP region as a whole has already attained this development goal, in large part, from the positive effects on aggregate growth. The incidence of poverty in the region (at the dollar-a-day poverty line) has climbed down from 28.7 percent in 1990 to 14.9 percent in 1999 and 13.2 percent in 2000. However looking beyond extreme poverty, progress has been less rapid if one were to use a higher poverty threshold. At the two-dollars-a-day poverty line, the fraction of the poor is expected to decline from 67 to 48 percent over the same period.

Moreover, even at the dollar-a-day poverty line, there are variations across countries. Country-level poverty projections indicate that by year 2002 China, Indonesia, Lao PDR, Malaysia, South Korea, Thailand and Vietnam would have attained or surpassed this IDG (Figure 1). Cambodia and the Philippines would not have attained the poverty IDGs by 2002, but would be close to doing so, and they are certainly well on track to achieving this target by 2015. Finally, poverty incidence in PNG in year 2002 is projected to be *higher* than its 1990 level and hence there is some doubt about PNG's ability to attain the IDG target by 2015.

There are also sub-national variations. For instance, while the Philippines as a whole seems to be on track for attaining the poverty reduction IDG, regions within the Philippines such as Eastern Visayas, and Central and Muslim Mindanao have lagged behind. Thus, during 1988-97, poverty incidence in these regions stagnated or marginally increased even as the incidence in the country as a whole declined by 3.5 percent per annum (World Bank, 2000c).

While progress towards achieving the development goal of reducing poverty has been remarkable in the region, attaining development goals in education and health is proving harder (Figure 4). Progress in these areas depends heavily on institutional strengthening and good service delivery. In terms of the education goals, such as achieving universal primary enrolment by 2015 and gender equality in primary and secondary education by the year 2005, the East Asia region is largely on track. But, this hides country-level variation[5]. Net enrolment rates in Cambodia have actually declined between 1996 and 1998. In Mongolia, the decline in enrolment rates experienced during the early part of the transition have been reversed.

Progress on achieving gains in health indicators has been disappointing, and hence progress towards reducing the infant and child mortality rates have not been rapid enough for the region to achieve the target of reducing these rates by two-third by 2015. Reductions in the under 5 mortality rates in China, Vietnam, Thailand and Laos have not been rapid enough to remain on track with achieving the targets. It is particularly striking that despite the fastest gains in the region on poverty reduction in China and Vietnam this has not been matched by gains in health indicators. The estimates shown in the graph are based on the assumption that the under-5 mortality rates improved somewhat between 1990 and 1998 in China. But alternate Ministry of Health data show stagnation in the under-5 mortality rates for China. Under a scenario of stagnation, the picture is even more pessimistic.

In summary, it is sobering that despite the rapid progress in reducing extreme poverty and achieving the 25-year targets in less than half that time, the same cannot be said of progress in achieving the development goals in health and education. Progress on these social development goals will require strengthening institutions and improving the efficiency of public spending.

[5] Data availability on the other development goals is problematic. For now, we have compiled indicators, where available on three additional indicators (net primary enrolment rates, disaggregated by gender, and the infant and under-5 mortality rates). For several countries data is only available at one point in time for some indicators making it difficult to assess progress.

**Table 1: Mean Consumption, Inequality and Poverty in East Asia and the Pacific**

| | Mean consumption (1993 PPP $/ person/day) | Gini (%) | Headcount index (%) | Number of poor ('000) | Headcount index (%) | Number of poor ('000) |
|---|---|---|---|---|---|---|
| | | | $1-a-day poverty line | | $2-a-day poverty line | |
| ***Cambodia*** | | | | | | |
| 1990 | 1.59 | 41.6 | 48.3 | 4412 | 83.7 | 7656 |
| 1996 | 1.90 | 41.6 | 36.7 | 4030 | 76.9 | 8432 |
| 1997 | 1.87 | 41.6 | 38.4 | 4310 | 78.0 | 8760 |
| 1998 | 1.85 | 41.5 | 39.3 | 4515 | 78.4 | 9011 |
| 1999 | 1.90 | 41.5 | 37.5 | 4409 | 77.6 | 9123 |
| 2000 | 1.93 | 41.4 | 34.5 | 4138 | 76.2 | 9141 |
| 2001 | 2.00 | 41.4 | 32.0 | 3912 | 74.5 | 9109 |
| 2002 | 2.08 | 41.4 | 29.1 | 3623 | 72.5 | 9026 |
| ***China*** | | | | | | |
| 1990 | 1.88 | 33.5 | 31.3 | 355224 | 69.9 | 793783 |
| 1993 | 2.21 | 42.0 | 29.4 | 346408 | 62.9 | 741067 |
| 1996 | 2.77 | 39.8 | 17.2 | 208613 | 50.7 | 615804 |
| 1998 | 2.91 | 40.3 | 17.1 | 211879 | 50.8 | 628638 |
| 1999 | 3.06 | | 16.7 | 209181 | 49.6 | 619647 |
| 2000 | 3.21 | | 14.7 | 185756 | 48.0 | 605397 |
| 2001 | 3.43 | | 13.5 | 170884 | 46.1 | 584767 |
| 2002 | 3.66 | | 12.3 | 156821 | 44.2 | 565585 |
| ***Indonesia*** | | | | | | |
| 1984 | 1.64 | 30.3 | 36.7 | 58730 | 80.0 | 128119 |
| 1987 | 1.83 | 30.8 | 25.7 | 43363 | 74.2 | 125391 |
| 1990 | 2.02 | 28.9 | 20.6 | 36690 | 71.1 | 126691 |
| 1993 | 2.25 | 31.7 | 14.8 | 27818 | 61.6 | 115534 |
| 1996 | 2.85 | 36.5 | 7.8 | 15398 | 50.5 | 99583 |
| 1999 | 2.20 | 31.0 | 12.0 | 24726 | 65.1 | 134038 |
| 2000 | 2.24 | 30.7 | 10.5 | 21931 | 63.3 | 132299 |
| 2001 | 2.32 | 30.9 | 8.9 | 18827 | 60.5 | 128055 |
| 2002 | 2.40 | 31.0 | 7.5 | 16010 | 57.8 | 124090 |
| ***Lao PDR*** | | | | | | |
| 1990 | 1.29 | 32.7 | 53.0 | 2200 | 89.6 | 3721 |
| 1992 | 1.36 | 32.7 | 48.8 | 2147 | 88.1 | 3873 |
| 1996 | 1.59 | 36.5 | 41.3 | 1903 | 83.1 | 3825 |
| 1997 | 1.66 | 36.5 | 38.4 | 1927 | 81.2 | 4079 |
| 1998 | 1.68 | 36.5 | 37.4 | 1923 | 80.7 | 4157 |
| 1999 | 1.71 | 36.5 | 33.6 | 1772 | 79.2 | 4177 |
| 2000 | 1.78 | 36.5 | 31.5 | 1702 | 77.5 | 4187 |
| 2001 | 1.87 | 36.5 | 29.2 | 1615 | 76.2 | 4215 |
| 2002 | 1.95 | 36.5 | 26.8 | 1518 | 74.8 | 4236 |
| ***Malaysia*** | | | | | | |
| 1984 | 3.96 | 45.5 | 8.9 | 1362 | 39.8 | 6071 |
| 1987 | 4.17 | 42.3 | 3.4 | 561 | 33.0 | 5488 |
| 1989 | 4.65 | 41.6 | 0.9 | 161 | 25.7 | 4539 |
| 1990 | 4.93 | 42.9 | 0.5 | 89 | 22.7 | 4137 |
| 1992 | 6.03 | 42.9 | neg. | neg. | 16.2 | 3097 |
| 1995 | 6.58 | 43.7 | neg. | neg. | 13.3 | 2743 |

**Table 1: Mean Consumption, Inequality and Poverty in East Asia and the Pacific**

| | Mean consumption (1993 PPP $/ person/day) | Gini (%) | Headcount index (%) | Number of poor ('000) | Headcount index (%) | Number of poor ('000) |
|---|---|---|---|---|---|---|
| | | | $1-a-day poverty line | | $2-a-day poverty line | |
| 1996 | 7.06 | 44.2 | neg. | neg. | 11.5 | 2432 |
| 1997 | 8.28 | 44.2 | neg. | neg. | 6.0 | 1302 |
| 1998 | 7.49 | 44.2 | neg. | neg. | 9.3 | 2072 |
| 1999 | 7.76 | 44.2 | neg. | neg. | 8.1 | 1839 |
| 2000 | 8.26 | 44.2 | neg. | neg. | 6.1 | 1407 |
| 2001 | 8.51 | 44.2 | neg. | neg. | 5.2 | 1217 |
| 2002 | 8.86 | 44.2 | neg. | neg. | 4.0 | 962 |
| ***PNG*** | | | | | | |
| 1990 | 3.18 | 48.4 | 23.7 | 908 | 53.0 | 2035 |
| 1996 | 4.15 | 48.4 | 14.3 | 628 | 42.1 | 1854 |
| 1997 | 3.90 | 48.4 | 15.1 | 682 | 44.7 | 2012 |
| 1998 | 3.66 | 48.4 | 17.3 | 794 | 47.2 | 2170 |
| 1999 | 3.69 | 48.4 | 17.2 | 809 | 47.0 | 2217 |
| 2000 | 3.55 | 48.4 | 18.5 | 893 | 48.4 | 2337 |
| 2001 | 3.58 | 48.4 | 18.3 | 908 | 48.2 | 2387 |
| 2002 | 3.60 | 48.4 | 18.0 | 913 | 48.2 | 2446 |
| ***Philippines*** | | | | | | |
| 1985 | 2.46 | 41.0 | 22.8 | 12475 | 61.3 | 33522 |
| 1988 | 2.72 | 40.7 | 18.3 | 10859 | 55.6 | 32979 |
| 1990 | 2.97 | 43.8 | 19.1 | 11969 | 53.5 | 33471 |
| 1991 | 2.88 | 43.8 | 19.8 | 12665 | 55.0 | 35221 |
| 1994 | 2.93 | 42.9 | 18.4 | 12606 | 53.1 | 36432 |
| 1996 | 3.52 | 46.2 | 14.8 | 10648 | 46.5 | 33411 |
| 1997 | 3.62 | 46.0 | 12.1 | 8871 | 45.2 | 33242 |
| 1998 | 3.51 | 46.8 | 14.5 | 10936 | 47.4 | 35632 |
| 1999 | 3.56 | 46.3 | 13.0 | 10013 | 46.1 | 35385 |
| 2000 | 3.63 | 46.1 | 12.0 | 9349 | 44.8 | 35047 |
| 2001 | 3.65 | 46.0 | 11.3 | 9025 | 43.9 | 35025 |
| 2002 | 3.69 | 46.2 | 11.0 | 8944 | 43.2 | 35124 |
| ***Thailand*** | | | | | | |
| 1988 | 2.97 | 43.8 | 17.9 | 9594 | 54.1 | 29029 |
| 1990 | 3.38 | 43.8 | 12.5 | 6955 | 47.0 | 26130 |
| 1992 | 4.27 | 46.2 | 6.0 | 3458 | 37.5 | 21504 |
| 1996 | 4.73 | 43.4 | 2.2 | 1314 | 28.2 | 16939 |
| 1998 | 4.24 | 41.4 | 3.9 | 2353 | 33.2 | 20287 |
| 1999 | 4.37 | 43.5 | 4.3 | 2684 | 32.2 | 19903 |
| 2000 | 4.50 | 43.5 | 3.7 | 2331 | 30.6 | 19066 |
| 2001 | 4.62 | 43.3 | 3.2 | 1991 | 28.5 | 17878 |
| 2002 | 4.75 | 43.1 | 2.6 | 1623 | 26.7 | 16856 |
| ***Viet Nam*** | | | | | | |
| 1990 | 1.37 | 35.0 | 50.8 | 33597 | 87.0 | 57607 |
| 1993 | 1.61 | 35.0 | 39.8 | 27970 | 81.6 | 57390 |
| 1996 | 2.09 | 35.5 | 23.1 | 17171 | 69.5 | 51646 |
| 1998 | 2.32 | 35.4 | 15.0 | 11445 | 63.9 | 48890 |
| 1999 | 2.39 | 35.1 | 13.0 | 10065 | 61.9 | 47982 |
| 2000 | 2.45 | 35.2 | 12.2 | 9675 | 60.6 | 47927 |
| 2001 | 2.53 | 35.4 | 11.6 | 9358 | 58.8 | 47436 |

**Table 1: Mean Consumption, Inequality and Poverty in East Asia and the Pacific**

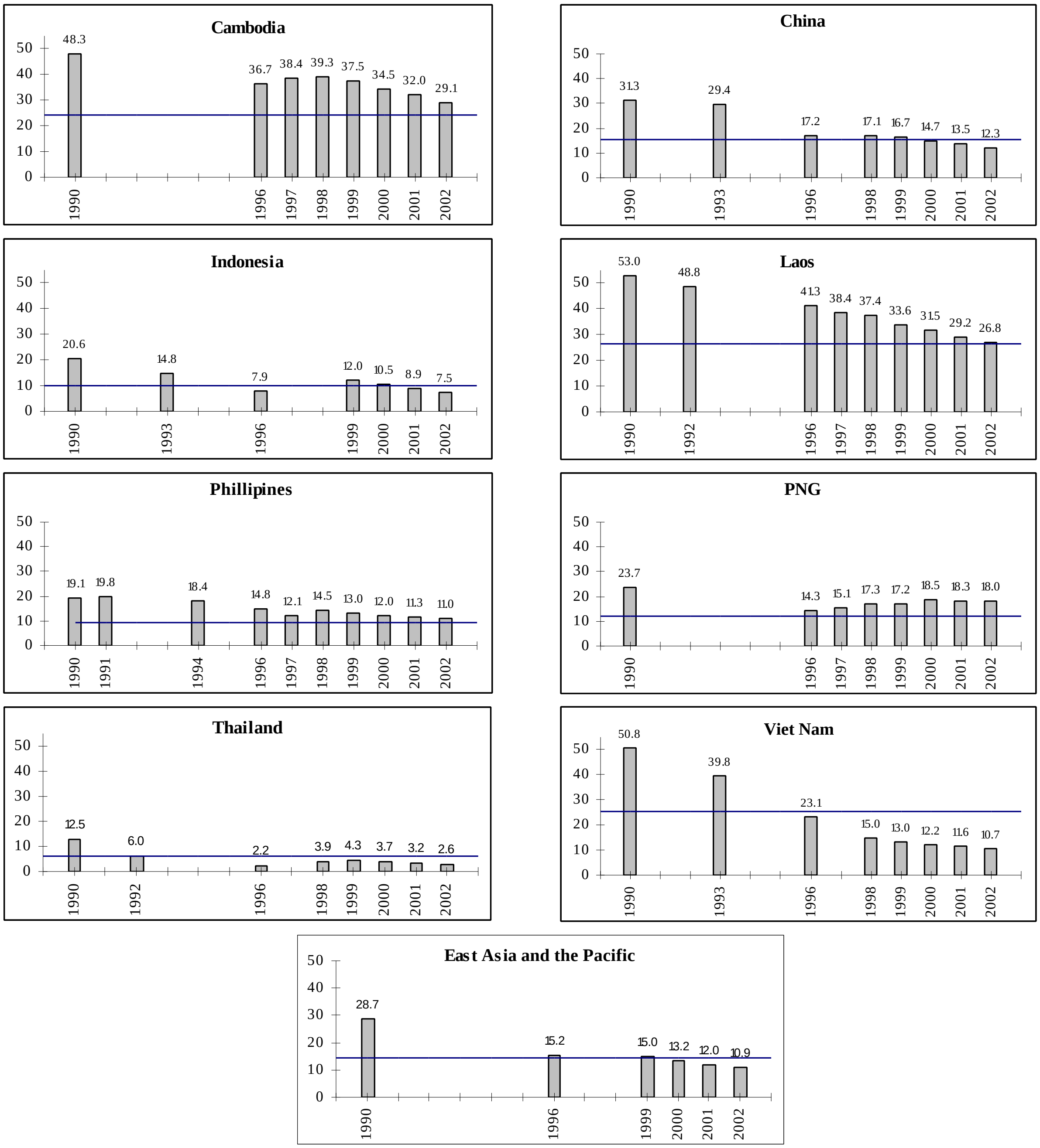
| | Mean consumption (1993 PPP $/ person/day) | Gini (%) | Headcount index (%) | Number of poor ('000) | Headcount index (%) | Number of poor ('000) |
|---|---|---|---|---|---|---|
| | | | **$1-a-day poverty line** | | **$2-a-day poverty line** | |
| 2002 | 2.62 | 35.7 | 10.7 | 8804 | 57.2 | 47062 |
| ***South Korea*** | | | **Poverty line: $7.94 a day** | | | |
| 1990 | 9.90 | 29.9 | 46.4 | 19908 | | |
| 1991 | 10.86 | 29.9 | 38.4 | 16615 | | |
| 1992 | 11.90 | 29.9 | 31.0 | 13549 | | |
| 1993 | 12.59 | 29.4 | 26.1 | 11512 | | |
| 1994 | 13.52 | 29.4 | 21.2 | 9415 | | |
| 1995 | 14.47 | 29.1 | 16.8 | 7555 | | |
| 1996 | 15.80 | 29.7 | 12.7 | 5766 | | |
| 1998 | 13.18 | 29.0 | 23.2 | 10753 | | |
| 1999 | 14.45 | 29.4 | 17.5 | 8217 | | |
| 2000 | 15.70 | 29.4 | 13.3 | 6270 | | |
| 2001 | 16.36 | 29.4 | 11.5 | 5448 | | |
| 2002 | 17.19 | 29.4 | 9.5 | 4568 | | |

*Note*: The poverty lines are set at $1.08 and $2.15 per person per day (at 1993 PPP$) for all countries, except South Korea, for which we use the national poverty line equivalent to about $7.94 per person per day. For most countries, the PPPs are the 1993 World Bank PPPs. The PPP for the Philippines is from the Penn World Tables, while that for PNG is the 1996 World Bank PPPs. PPPs for Vietnam, Lao PDR and Cambodia have been further adjusted using a calorie price ratio between Indonesia and Vietnam and the 1993 World Bank PPP for Indonesia. Projections are based on World Bank Unified Survey growth rate forecasts for 2001-2003. Sectoral growth rates are used wherever possible. In other cases, the projections assume that there is no change in the Lorenz curve since the latest available survey for a country. Estimates for all countries except Malaysia and China are based on surveys of household consumption. The estimates for Malaysia and China are based on income surveys. For Malaysia, the income distribution is adjusted to derive a corresponding distribution of consumption. For China, mean consumption from the survey is used in conjunction with the income Lorenz curve to derive poverty estimates. A comparison for 1998 suggests that such estimates of poverty are a reasonable proxy for poverty measures estimated directly from the consumption distribution available for that year. The 1990 estimates for Thailand should be interpreted with caution as these are based on a more disaggregated food consumption module covering 140 food items relative to 15-20 food categories for other years. neg. denotes negligible.

**Table 2: Regional aggregates for fraction and number of poor at 1 and 2 $ per day**

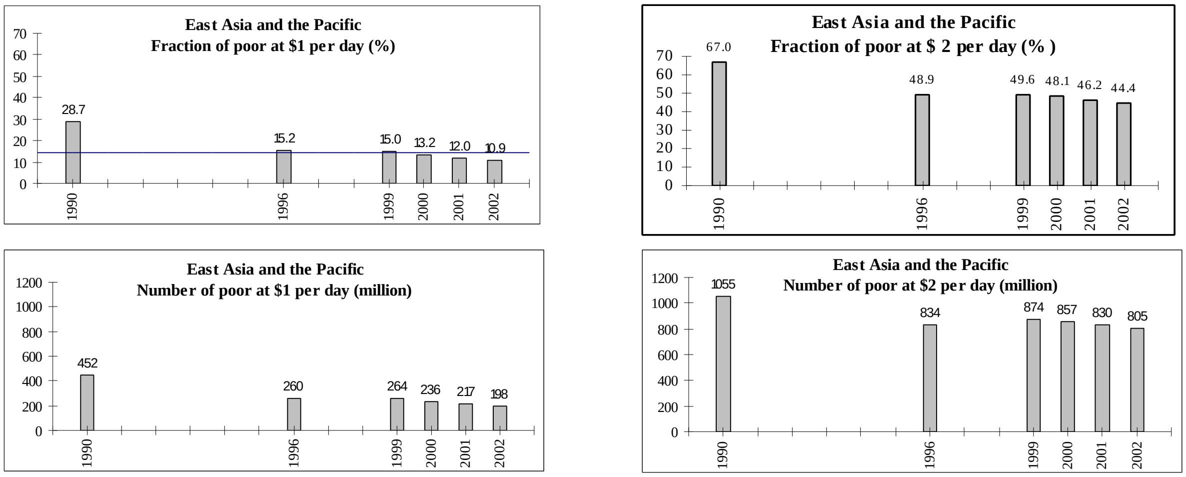
| | 1990 | 1996 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| | | | *Fraction of poor at $ 1 per day (%)* | | | |
| East Asia | 28.7 | 15.2 | 15.0 | 13.2 | 12.0 | 10.9 |
| East Asia without China | 22.0 | 10.4 | 10.6 | 9.6 | 8.6 | 7.7 |
| East Asia 5 | 15.6 | 6.9 | 9.0 | 8.0 | 7.0 | 6.2 |
| East Asia Transition Economies | 32.4 | 17.5 | 16.5 | 14.6 | 13.3 | 12.2 |
| East Asia Small Economies | 43.9 | 32.8 | 32.1 | 30.3 | 28.3 | 26.1 |
| | | | *Number of poor at $ 1 per day (million)* | | | |
| East Asia | 452.0 | 259.7 | 263.7 | 235.8 | 216.5 | 198.3 |
| East Asia without China | 96.8 | 51.1 | 54.5 | 50.0 | 45.6 | 41.4 |
| East Asia 5 | 55.7 | 27.4 | 37.4 | 33.6 | 29.8 | 26.6 |
| East Asia Transition Economies | 388.8 | 225.8 | 219.2 | 195.4 | 180.2 | 165.6 |
| East Asia Small Economies | 7.5 | 6.6 | 7.0 | 6.7 | 6.4 | 6.1 |
| Two dollar a day | | | | | | |
| | | | *Fraction of poor at $ 2 per day (%)* | | | |
| East Asia | 67.0 | 48.9 | 49.6 | 48.1 | 46.2 | 44.4 |
| East Asia without China | 59.3 | 44.5 | 49.6 | 48.3 | 46.4 | 44.7 |
| East Asia 5 | 53.3 | 38.5 | 46.2 | 44.7 | 42.8 | 41.1 |
| East Asia Transition Economies | 70.9 | 51.8 | 50.3 | 48.8 | 46.8 | 45.0 |
| East Asia Small Economies | 78.3 | 70.6 | 71.4 | 70.5 | 69.2 | 67.7 |
| | | | *Number of poor at $ 2 per day (million)* | | | |
| East Asia | 1055.3 | 833.9 | 874.3 | 856.8 | 830.1 | 805.4 |
| East Asia without China | 261.5 | 218.1 | 254.7 | 251.4 | 245.3 | 239.8 |
| East Asia 5 | 190.4 | 152.4 | 191.2 | 187.8 | 182.2 | 177.0 |
| East Asia Transition Economies | 851.4 | 667.4 | 667.6 | 653.3 | 632.2 | 612.6 |

**Fraction of poor in East Asia and the Pacific: Regional and Country Estimates**
(A-dollar-a-day poverty line)



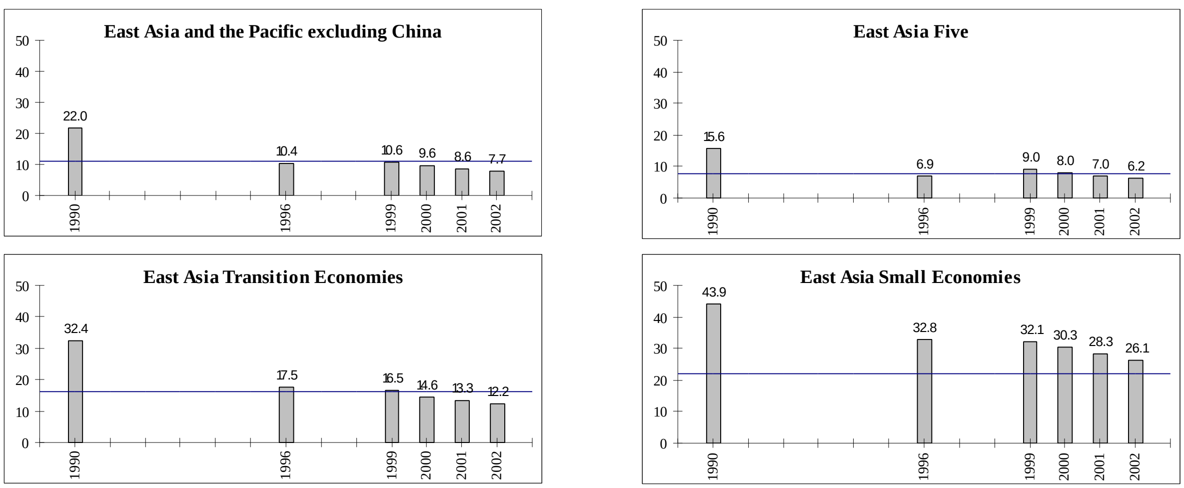

*Note*: The horizontal line denotes the IDG target for 2015

**Fraction and number of poor in East Asia and the Pacific: Regional Estimates**



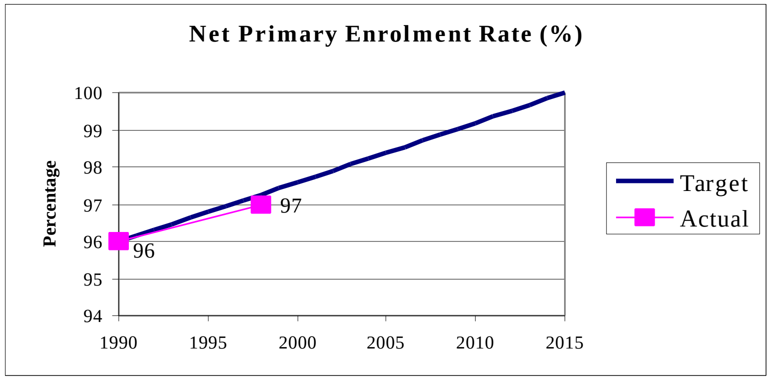
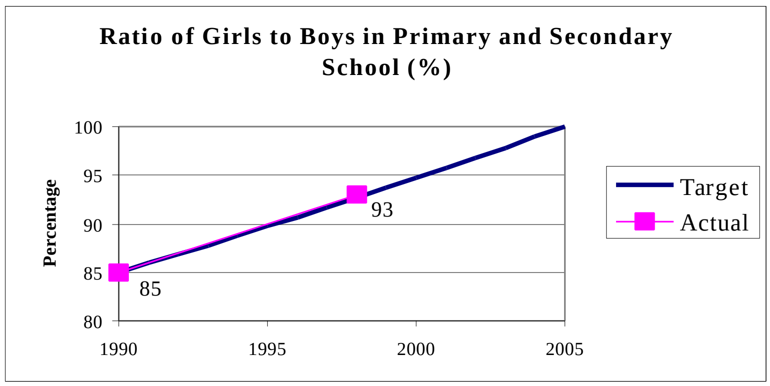
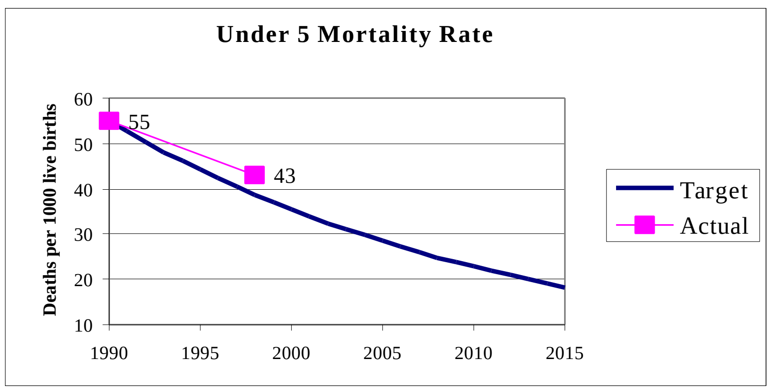

*Note*: The horizontal line denotes the IDG target for 2015.

**Fraction of poor in East Asia and the Pacific: Regional Aggregates**
(A-dollar-a-day poverty line)




*Note*: The horizontal line denotes the IDG target for 2015.

**East Asia: Progress Towards Achieving the International Development Goals**

| | |
|---|---|
| ***Universal primary enrolment by 2015*** |  |
| ***Gender equality in primary and secondary education by 2005*** |  |
| ***Reduce under 5 mortality by two-thirds between 1990 and 2015*** |  |

*Source: A Better World For All (2000).*

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IMF, OECD, UN and the World Bank (2000)  A Better World for All.

## State of the Region's Environment After the Crisis and Beyond

### Introduction

While the immediate environmental impacts of the crisis were relatively modest, it revealed longer term shortcomings in the regulatory and policy-setting frameworks of East Asian countries; an emphasis on economic growth without due consideration to environmental protection, unsustainable management practices especially in the area of forestry, fisheries and biodiversity conservation, institutional weaknesses and failures, and the lack of transparency in regulation and government-business relations. In the immediate aftermath of the crisis, the reduction in consumption yielded a short-lived decrease in pollution levels. However, as economies began to recover, this immediate "environmental gain" disappeared. The levels of environmental spending, which were relatively limited to begin with, declined in all East Asian economies aside from Malaysia. Expenditures at regional levels have suffered deep cuts, and the share of the total environmental budget allocated to activities at the center relative to regional activities has increased. In light of the planned and ongoing decentralization reforms in many East Asian countries, this trend is seen as worrisome.[1]

Even though it is difficult to distinguish regional environmental trends (natural resource degradation, pollution etc.) because of inadequate data and the large differences in the economic and political situation in the countries in this group, it is possible to qualitatively distinguish patterns of development across the region. These provide useful insights into how the "environment or development" conundrum should be addressed as the region moves into the next millennium.

### Meeting the Challenge of Environmentally Sustainable Development

In the aftermath of the financial crisis, the Bank suggested a three-pronged approach to environmental protection. First, (i) immediate and preventive measures to mitigate major environmental impacts, especially those related to a direct reduction in Government spending, and an increase in the number of poor; (ii) help improve natural resource management by evaluating financial policies and improving government capacity to implement management and protection programs; and (iii) help protect level of environmental and social expenditures by looking for alternative funding sources outside shrinking budgetary revenues. Second, building on synergies between environmental protection and adjustment lending, and third, monitoring and ensuring that Bank programs have the intended environmental impacts.[2],[3]

Recent patterns of development in the region provide strong support for the proposition that the main pre-requisite or necessary conditions for environmentally sustainable development are the following: (i) political and economic stability; (ii) high level political awareness on the importance of the environment and commitment to pursue environmental sustainability; and, (iii) an effective administrative and regulatory framework to implement that objective.

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[1]Of the East Asian countries, Indonesia was particularly hard hit. Economic impacts were compounded by political instability and, even now, there are no clear signs of sustained recovery. Thailand was hard hit but has recovered to a much larger degree. China experienced a slow-down, but it was more related to internal factors (slackening of domestic demand due to uncertainty arising out of internal reforms) than the regional crisis. The Philippines initially weathered the storm much better than others but has subsequently experienced its own economic reversals due to political instability deriving, substantially, from domestic developments. Papua New Guinea (PNG) was essentially unaffected by the crisis but still experienced economic instability due to a combination of domestic developments and changes in its balance of trade due to global commodity price fluctuations. Pacific Island economies were insulated from the effects of the crisis but most continued to suffer from long-standing developmental problems arising from factors such as the narrowness of their economic base, small size, or isolation which were compounded, in some cases, by political upheaval (Fiji, Solomon Islands).

[2] *Environmental implications of the economic crisis and adjustment in East Asia.* (1999) EASES Discussion Paper Series No. 1, The World Bank, p. 27.

[3] In the last two years, the Bank's environmental lending and technical assistance has focused on pollution and urban environmental management, and natural resources and rural environmental improvements. In addition to traditional lending, the Bank developed partnerships on specific themes such as the CGI-Indonesia Forestry policy dialogue, and the Korea-World Bank Environmental Cooperation project. These partnerships have led to the inclusion of environmental considerations in financial policy dialogues, especially in the case of Indonesia where environmental and natural resources management concerns were attached to the Policy Support Loans. Dialogue and consensus-building have led to the preparation of a much-needed National Forest Program.

One of the best illustrations of these pre-requisites is ***China,***[4] which successfully continued its assault on industrial point source pollution control (see Figure 1) and deforestation during the late 1990s within a framework of continuing growth. Nevertheless, the country is still confronted with a widening and increasingly complex array of challenges which may yet overwhelm its environmental objectives. Recent achievements in industrial point source pollution control may be difficult to sustain given the strong potential for industrial growth. At the same time, China's industrial pollution control performance is improving because of an ongoing transition from "dirty" upstream processing to "cleaner" downstream processing

Urbanization will accelerate over the next 20 to 30 years. Urban air and water pollution continue to be extremely serious and environmental quality will continue to decline in most large cities. Notwithstanding its unprecedented success in reversing deforestation, almost all other objective measures of the state of China's natural resources (land, water quantity and quality, biodiversity) are deteriorating and this trend will continue unless comprehensive changes are made to the way in which these resources are managed.

China's experience suggests that the basic pre-requisites are necessary but not sufficient conditions to achieve the ultimate goal of environmental sustainability. The sufficient conditions, once the basic pre-requisites are in place, are to: (i) "mainstream" environmentally sustainable development principles within the work of all relevant government agencies (that is, to move the agenda beyond environmental protection agencies); (ii) ensure that adequate financial resources are allocated; and, (iii) develop effective political feedback mechanisms and a significant public constituency for environmentally sustainable development through education, dissemination of relevant information and the creation of avenues for individuals and groups to participate in and influence relevant decisions.

A contrast is provided by ***Indonesia***, another large and heterogeneous East Asian country. Indonesia entered the last half of the 1990s with an administrative and regulatory framework that was inadequate to meet the demands of environmentally sustainable development, notwithstanding nearly 10 years of effort to develop it.[5] These deficiencies were compounded by economic collapse and the resultant and continuing political instability which: (i) severely compromised the government's capacity to actively pursue an environmental agenda; and, in any event, (ii) completely distracted the attention of the country's leadership. As a result, Indonesia experienced a continuation of the environmentally devastating forest loss for the last 15 years.[6] The devastation caused by the wildfires which had been a regular, although much less devastating occurrence, was exacerbated by the government's inability and/or unwillingness to exercise control over land use management. Huge and growing deficiencies in urban environmental infrastructure, particularly wastewater collection and treatment continued to reduce quality of life in the cities.

The environmentally deleterious effects of this combination of conditions and events are being further compounded by devolving substantial political, economic and administrative authority to kabupaten (district or"Level II") governments, which appear not to have the skills and capabilities to effectively execute responsibility for environmental management and control. For the time being, the environmental future of Indonesia seems to rest with a small number of committed individuals within, and units of, government who continue to pursue their work as best they can given the conditions surrounding them, supplemented by a wide ranging coalition of intellectuals, advocacy and interest groups, and other concerned individuals. These environmental constituencies have little choice but to pursue their

[4] This review only addresses conditions within countries with whom the Bank presently has active, substantial and potentially on-going assistance relationships. As such, it excludes countries such as Singapore, Malaysia (the Bank is administering an ODS-phaseout program under the Multilateral Fund of the Montreal Protocol, but it is virtually complete and it is unlikely that Malaysia will need or seek World Bank assistance in the future), South Korea (the Bank has an emergency structural adjustment program in South Korea but, otherwise, South Korea is in a similar position to Malaysia), Japan and many of the smaller island countries of the South Pacific.

[5] An experience which, in itself, holds lessons. Environmental institutional development in Indonesia during the late 1980s and early 1990s was substantially "supply driven" by foreign development partners (multilateral, bilateral and NGOs) with little sign that the government, as a whole, was interested in setting the agenda or monitoring the effectiveness of institutional development and technical assistance to ensure that it was meeting local needs, such as they may have been.

[6] The Bank's recent detailed analysis shows that the average rate of deforestation during the 1985 – 1997 period was 1.7 million hectares per annum, more than 30% higher than the top end of the range of previous estimates (0.6 to 1.3 million hectares per annum).

aims on a case by case basis while issues of environmental strategy and policy are left hanging.

**Regional Environment and Development Prospects**

While there is a chance of a further slowdown in the near-term, there is every reason to believe that the longer term prospects are for a resumption of aggregate growth. The performance of individual countries will vary depending on local circumstances including. political developments. Some of the general trends and associated environmental challenges that can be expected are outlined below.

***Urbanization*** trends remained unaffected by the crisis. By 2025 almost 55% of East Asians will live in cities. In the Philippines and Malaysia at least 70 % of the population is expected to be urban by 2025. In Vietnam, 45% of the population may live in urban areas by 2020 (up from 23% in 1999). Urban water supply and sewage collection and treatment systems throughout the region are chronically inadequate. Major increases in investments, reform of service charges and management improvements will be required to meet the challenge. The demand for water in the Philippines is expected to double in the next 25 years, with a 200% increase expected in Metro Manila. In Thailand, where almost 90 percent of households have access to public water supplies, water demand has doubled between 1980 and 1990, and is growing at the rate of 10 percent annually. It is projected to roughly double each decade for at least the next twenty years. In Vietnam, only 65% of the urban population has access to drinking water and the demand for water is projected to double in urban areas within the next two decades. Recent historical data for China (see Table 1), illustrates the scale of problem in the country, and hints at the prospects for the future given the rapid urbanization in China. Bank estimates are that current municipal waste water treatment capacity in China will have to be quadrupled over the next 20 years, to maintain the current level of municipal treatment service, and increase by six or seven-fold to double service levels, as the government intends.

Urban air pollution, particularly due to mobile source emissions, is also expected to increase significantly as the effects of urban growth are compounded by an increase in private vehicle ownership and use. Air quality in highly congested cities, such as Manila and Bangkok, will worsen while additional problems arise in secondary cities (see Box 1). In Vietnam, air pollution levels in some urban areas exceed standards by 2 to 5 times, and this trend is likely to worsen as private motorcycle use continues to skyrocket.

**Box 1: Air pollution in Metro Manila and Bangkok—Progress but still a ways to go**

Air pollution continues to be a problem in Metro Manila and Bangkok. Ambient lead levels in both cities have dropped dramatically as a result of the phasing out of leaded gasoline. Fine particulate matter ($PM_{10}$) remains the priority pollutant in terms of health impact.

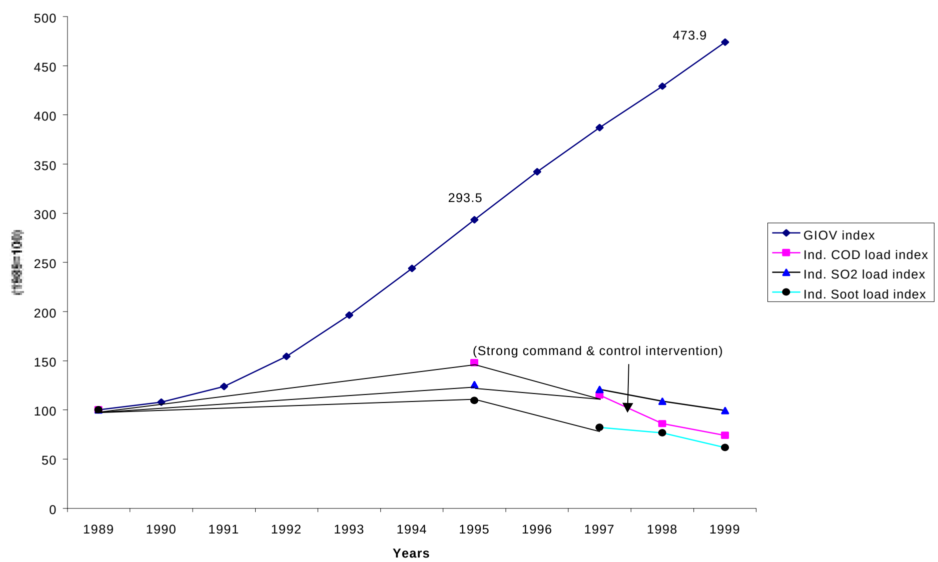
Although air quality improved somewhat in Metro Manila during the 1990s (PM concentration on the most polluted day in 1992 was fives times higher than the standard, whereas, at present, it is three times higher), $SO_2$ and total oxidants still exceed standards. Main sources of air pollution include vehicle emissions, fossil fuel combustion in small and medium industrial and commercial installations, re-suspension of road dust and construction activities. Health costs of PM10 emissions in Manila (in 1993 dollars) are estimated at US254 million per year. Non-health costs are US16 million.

In Bangkok, PM10 concentrations continue to exceed the standard: In 1998, the daily standard was exceeded 12 percent of the time at the curbside. Health costs of exposure to dust, lead, particulates and other pollutants have been estimated at 8-10 % of annual urban income in the 1990s and will rise to 20% by 2025, unless drastic measures are taken.

However, there are some positive signs. In Bangkok, improved urban planning, strategic urban road improvements, and increased investments in public transport and fuel switching may have an effect on inner city congestion. Steps are also being taken to introduce unleaded gasoline in other countries, including Vietnam, but there are also counter-indications (e.g. Beijing).

**Table 1: Urban Growth and Development in China, 1991 - 1998**

| ***Statistic*** | ***1991*** | ***1998*** | ***Annual Growth (%)*** |
|---|---|---|---|
| Official urban population (million) | 305 | 379 | 3.1% |
| City-based non-agricultural population (NAP) | 148 | 199 | 3.8% |
| Built-up city areas ($km^2$) | 13,791 | 21,380 | 6.5% |
| City-based domestic water use (million $m^3$/year)[a] | 10,626 | 18,104 | 7.9% |
| City-based per capita domestic water use ($m^3$/year)[a] | 71.8 | 91.1 | |
| Municipal wastewater treatment capacity (million $m^3$/year) | 1,703 | 5,779 | 19.1% |
| Treatment capacity/domestic water consumption (%)[c] | 11% | 21% | |
| City-based sewer length (km) | 61,601 | 125,94 | 10.7% |




***Industrial Pollution.*** With increased industrialization East Asian countries will face new challenges in industrial pollution. In the centrally-planned economies—China, Vietnam, Mongolia, there may be associated benefits if this trend is accompanied by reform of existing and previously state-owned enterprises that had a poor environmental record due to chronic under-investment and mismanagement. In China, there has been a consistent reduction in pollutant output per unit of industrial output value throughout the 1990. The prospects are that this trend will continue as the economy moves toward its areas of comparative advantage (labor and knowledge), and away from its areas of comparative disadvantage (most natural resource exploitation).

In other countries, including Thailand, Philippines, and Indonesia, the challenge will be to strengthen the effectiveness of industrial point source pollution control. At the firm level, companies with links to international supply chains and markets have introduced cleaner production technologies, and are becoming ISO 14001 compliant. In addition, public disclosure of environmental information, including the pollution control performance of selected industries, is proving to be a powerful environmental management tool to improve compliance with existing command and control regulations (See Box 2).

**Box 2: The PROPER Program in Indonesia**

Starting in the 1980s, the Government of Indonesia charged BAPEDAL, the national pollution control agency, with enforcing industrial pollution control standards. Hoping for a low cost way of improving compliance, BAPEDAL initiated a program of rating and publicly disclosing the environmental performance of Indonesian factories.

PROPER (Program for Pollution control Evaluation and Rating) began in 1995 with the rating of 187 plants, of which two-thirds were shown to be out of compliance. In June of the same year, the third that were in compliance were publicly congratulated and rewarded. In December, all 187 plant ratings were disclosed and within a year compliant plants had risen from a third to half the sample. With the right political support, the PROPER team will be able to cover 10 % of the country's medium and large industrial plants, but about 90 % of the total water pollution.

Armed with these ratings, citizens are able to negotiate pollution-control agreements with neighboring factories, from a position of strength. The market benefits from an accurate view of the Company's performance and BAPEDAL itself benefits by having its credibility raised in the eyes of the people.

***Natural Resources Management***. One of the greatest challenges for client countries throughout the region is to ensure that the rural sector is not left behind in the growth process. Poverty alleviation, increased space for more sustainable approaches to natural resources management including control of land degradation, water resources protection, and biodiversity conservation are critical parts of environmental conservation and protection plans.

Mongolia, Laos, PNG and Indonesia are heavily dependent on natural resources for their future (Mongolia – grasslands and forest, Laos – forests, Cambodia – forest and water resources, PNG – forests, minerals and energy, marine resources) and a fundamental development policy issue should be how to sustainably use these resources for the benefit of the overall economy and the community at large. The environmental challenge for these countries is to maintain their focus on a small number of critical issues that are at the intersection of development, community welfare and environment. The international donor community needs to keep these precepts in mind and resist the temptation to overload their local counterparts with too many agendas that are inappropriate to local circumstances.

Forest resources are also under pressure in Vietnam, the Philippines and Thailand. Although deforestation rates have slowed down in all three countries, annual forest loss in Vietnam is 120-150,000 ha/yr (down from 350,000 ha/yr from 1975-95), while close to 4000 hectares of land is converted to agriculture and other uses in the Philippines annually. The logging ban imposed in Thailand in 1989, has slowed down the rate of deforestation from 0.9 percent per year before the ban to about 0.4 percent per year just after the ban, and was about 0.2 percent between 1995 and 1998. However, it should be pointed out that slowing in forest cover loss masks a continued decline in the quality of the forest cover, which is more difficult to monitor.

**Box 3: Five Million Hectare Reforestation Program--Vietnam**

This program embodies the following vision of the Government of Vietnam: Forests covering 43% of the country, with substantial reductions in soil erosion in vulnerable watersheds, flooding and siltation in reservoirs, better balanced year-round storage of water resources for hydropower generation, household and productive use, and protection of valuable biodiversity. And a Hill and Mountain economy free of hunger, with reduced poverty and secure livelihoods.

Forest cover will be increased by natural forest regeneration and extensive planting efforts, including planting of industrial crops and fruits. Guiding principles of the program include decentralization, local participation, coordination and integration of reforestation activities and more efficient use of scarce government resources.

Governments are using various approaches to halt deforestation, both from commercial logging and agricultural expansion (See Box 3). Underlying causes of deforestation include rural poverty, insufficient arable land, limited and inappropriate institutional capacity to protect forests, and land tenure policies. In addition, fuelwood collection, logging, harvesting of wood and non-wood products, fires and many development activities lead to immediate pressures on the land. An associated issue, common to most countries in the region is poor management of protected areas, both in forests and on the coastlines.

***Mainstreaming Sustainable Development***: Perhaps the greatest challenge for East Asian countries is the immediate and pressing need for their institutions to adopt the concept of sustainable development. At the most basic level, this would entail an increase in the budgets committed to environment, and would require institutional realignment and strengthening. China needs to significantly increase its investments in environmental improvement from its current level of about 1% of GDP.[7] Thailand, still needs to improve its administrative systems and regulatory framework and its first priority is to simplify and focus its administrative approach.

Subject to these provisions, further progress on the environmental dimensions of development will depend on achieving a significant improvement in administrative effectiveness, and even greater improvements in mainstreaming and financial commitments. It is difficult to see that significant progress on the rural environmental agenda will be made in the absence of substantial land reform.

Vietnam is working from a lower base and has a much greater challenge ahead of it, but it benefits from its recent history of political stability. However, priority has to be given to increasing equity and participation in decision-making, and to arresting the declining effectiveness of the administration. Given the limited resources available, it needs to be careful in setting environmental priorities. Looking beyond budgetary resources and international assistance, the Government of Vietnam will have to finance much needed infrastructure in urban and rural areas with market-based fees, taxes and levies. In this regard, state-owned enterprises are not only the worst offenders in terms of pollution but also a large drain on the Government's budget.

Mongolia, PNG, Laos and Cambodia are still in the process of establishing a workable development framework and the institutions necessary to implement it. In this context, it might be imagined that environmental protection and management should necessarily be a secondary concern but closer consideration suggest otherwise. As previously mentioned, all three countries rely on a small natural resource base and their poorest people are also those whose livelihood is directly related to the health of these ecosystems. Therefore, protection of these natural resources is critical both in the short and long terms.

[7] Estimates of pollution costs in China range from a low of 3.5% of GDP to a high of 4%. The Bank has estimated that they might be in the order of 8%.

As for Indonesia, it is difficult to see that any substantive progress on environmentally sustainable development will be made until economic and financial stability are restored. Continued progress will create space for political leaders to turn their attention to a more sustainable environmental policy.

***Community Involvement and Public Participation***. While recovering from the economic crisis, many countries in the region are also trying to complete a transition to a more participatory society. However, there are large differences among East Asian countries on issues relating to public participation and consultation due to institutional and policy constraints and limited access to funding and information.

One of the Philippines' greatest potential assets is its active environmental NGO constituency. Although its effectiveness would also be increased by putting greater effort into constructive policy analysis and local level implementation. In Thailand, in light of Article 290 of the New Constitution that advocates a stronger role for civil society in environmental management, the government is gradually increasing its support to community-based initiatives. However, for these efforts to take deep root, it will require a more responsive bureaucracy that is willing to share information and engage in dialogue with civil society on major policy and development initiatives.

In Indonesia, the crisis has brought to surface an animated public debate about many critical issues facing the country and environment is no exception. Civil society groups and NGOs are now very vocal in advocating greater environmental protection and better management of natural resources, especially with regards to forestry, mining, and biodiversity.

The Vietnamese Government is under considerable pressure to allow greater public participation and its latest five-year environmental action plan recognizes a limited role for communities in plan implementation and in environmental monitoring. Still, the Government could do more to recognize the potential role of community groups and non-governmental organizations outside the influence of the Government structure. As for China, there have been important improvements in public participation and disclosure, but a lot remains to be done.

***Decentralization of decision-making.*** Several countries in the region are currently deploying decentralization programs. Such initiatives are both a source of enthusiasm and apprehension. Enthusiasm, because the devolution of power from central to local governments offers East Asian countries the opportunity to tackle local problems in a more sustainable manner; and concerns, because the transition will be complex and uncertain. There is no assurance of how former top-down governments can support democratization at the local-level, including strong institutions, flexible administrative instruments and empowered local officials.

Indonesia's decentralization program represent a difficult challenge for the country. Under its far-reaching legislative framework for decentralization, the approximately 350 districts gain greater autonomy and new responsibility to manage most government services, and the sub-national share of public expenditures will be more than doubled to over 40 percent. This reallocation would make Indonesia, now unusually centralized for its size and diversity, one of the most decentralized countries in the region. Whether the drive to decentralize leads to more sustainable resource use or invites serious environmental deterioration will depend to a large extent on whether decentralization goes forward with or without adequate environmental safeguards in the regions. The core safeguards are national minimum environmental standards and a consultative environmental assessment (AMDAL) process, and the regional environment agencies (BAPEDALDA) and the line agencies (MoFEC, PKA, MME) share responsibility for their proper application at regional levels. The greatest short- to medium-term opportunity of the decentralization process lies in improved accountability of and coordination among these agencies, leading to integrated planning, permitting, environmental safeguards, monitoring of resource use as well as increased provision of human and financial resources at district and provincial levels.

In Thailand, the Government should give priority to (i) improving local planning in the context of provincial environmental action plans (PEAPs), (ii) building human resources capabilities at local level, and (iii) granting enforcement powers to provincial administrations. The Local Government Code of 1991 gave impetus to decentralization of environmental functions in the Philippines. Since then, many of the locally elected leaders (city Mayors) have instituted wide-ranging grass-root programs ranging from improved garbage collection to coral protection.

**Conclusion**

For decades, before the East Asian financial crisis, economies in the region experienced unprecedented rapid and long-lasting economic growth. The "East Asian Miracle" contributed to significant increases in industrial output, human welfare, and improvements in income distribution despite diversity in natural resource endowments, geography, population size, and culture. However, policies that emphasized rapid economic growth based on high domestic savings and capital inflows tended to ignore the environmental consequences of rapid growth. This imbalance resulted in congested and polluted cities, rapid deforestation, and the erosion of natural resources. The accumulation of environmental problems has represented the "dark side of the East Asian Miracle", questioning its sustainability in the long term.

In the immediate aftermath of the crisis, priority has rightly been given to restoring growth to reverse the decline in personal and national incomes and to continue the battle against poverty. As East Asia moves from recovery to sustained growth, attention should extend beyond financial stabilization to protecting the poor, and addressing critical environmental concerns (i.e. urban air and water pollution; sustainable use of natural resources; strong environmental compliance and enforcement at local level) to ensure that regional economies do not relegate environment to a secondary status on the policy agenda and backpedal into environmental neglect again. The choice should not be between environment and development; both are needed. The challenge is to make recovery work for the environment, not against it, so that the financial crisis may be remembered also as a window of opportunity for improved environmental quality and natural resources management in East Asia.

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