3 International Economic Survey

Performance of the Global Economy

The world economy in 2000 rebounded strongly from the 1997–1998 crisis and is expected to register the strongest growth in more than a decade. World trade expanded significantly in tandem with the robust economic growth. These performances were achieved within the context of low inflation despite recent increases in oil prices. In the light of these favourable trends, better than anticipated economic performance is expected in all the major regions of the world.

In line with the rebound in the world economy, global financial conditions are expected to generally improve. Global foreign direct investment (FDI) flows are expected to surpass the one-trillion-dollar mark in 2000 compared with US$800,000 million in 1999. The United States (US) is expected to continue to remain as the largest recipient of FDI flows while FDI flows to the developing countries are expected to resume after stagnating during the 1997-1998 crisis period. A significant increase in FDI flows to Japan is also expected.

World output

The better than expected growth in the European economies, a nascent recovery in Japan, the consolidation of recovery in the East Asian economies and in particular, the continued strong growth in US economy, are all expected to accelerate growth in world output to 4.7% (1999: 3.4%), as shown in *Table 3.1.* In the industrial countries, a higher growth of 3.9% is envisaged (1999: 3%) while the performance of the developing countries is expected to improve significantly to 5.6% in 2000 (1999: 3.8%), aided by a strong rebound in the Latin American, Middle Eastern and Asian economies The countries in transition are also expected to register strong growth of 4.9% (1999: 2.4%), underpinned by the improved performance in Russia.

World Trade

The volume of world trade in goods and services is expected to increase significantly to 10% (1999: 5.1%). Imports of the advanced economies are expected to grow rapidly to 10.3% (1999: 7.6%), boosted by strong import growth in US, Japan and the euro area. Exports of the advanced economies are also expected to rise sharply to 9.9% (1999: 4.8%), given the pick-up in domestic

Table 3.1

Global Economic Indicators

(% change)

	Real GDP			Inflation[1]		
	1999	2000	2001	1999	2000[e]	2001[f]
World	**3.4**	**4.7**	**4.2**	**n.a.**	**n.a.**	**n.a.**
Advanced countries	3.2	4.2	3.2	1.4	2.3	2.1
Industrial countries	3.0	3.9	3.0	1.5	2.3	2.0
Developing countries	3.8	5.6	5.7	6.6	6.2	5.2
Countries in transition	2.4	4.9	4.1	43.8	18.3	12.5

[1] Consumer prices-weighted average.
[e] Estimate.
[f] Forecast.
n.a. not available.
Source: IMF World Economic Outlook, September 2000.

demand from the emerging economies. Japan in particular, is expected to register strong growth in exports, surging from 1.9% in 1999 to 9.7% in 2000, due mainly to increased demand from the Asian economies. Imports of goods and services of the developing countries indicate a remarkable turnaround. The volume of imports is expected to increase sharply by 10% (1999: -0.1%), following economic recovery in most regions. Exports are also expected to rise significantly by 8.8% (1999: 3.5%), given increased demand from the advanced economies. The overall improvement of trade performance in both developed and developing countries is a reflection of the continued strength of the world economy.

World Inflation

World inflation is expected to generally remain subdued. Amongst the major industrial countries, the higher oil prices, the relative strength of domestic demand, the tight labour market conditions in US and the weak euro may contribute to some inflationary pressures. Despite this, inflation in the industrial countries, though edging upwards, is expected to remain low at 2.3% (1999: 1.5%). In the developing countries, inflation however, is expected to decline to 6.2% (1999: 6.6%).

Financial Flows in Emerging Markets

The emerging market economies are expected to register a significant decline in **net private capital flows** in 2000, due largely to an increase in foreign debt repayments by a few large economies as well as a reduction in borrowings by Asian economies. On a regional basis, the crisis-affected Asian economies, Middle East and Europe are expected to register net private capital outflows. The Latin American economies, on the other hand, are envisaged to record the largest positive net capital flows among the emerging market economies, followed by the countries in transition.

Net private capital flows, which comprise net direct investment, net portfolio investment and other long- and short-term net investment flows, including official and private borrowings, are estimated to decline to US$36,400 million (1999: US$67,500 million), the lowest in nearly a decade, as shown in *Table 3.2*. Within these, however, FDI is expected to remain as the major source of private capital flows to the emerging markets with the level of net private direct investment estimated at US$141,900 million (1999: US$154,600 million). Investments in electronics, internet and wireless telecommunications in Korea, China's expected entry into the World Trade Organisation (WTO), and the liberalisation of restrictions on foreign participation in some members of the Association of South-East Asian Nations (ASEAN), are expected to account for the continued strong growth in FDI. Net private direct investments in Latin America and countries in transition are expected to register US$56,600 million and US$21,700 million, respectively. In Asia, net private direct investments are expected to total US$47,500 million while in the Middle East and Africa, the flows are substantially lower at US$8,200 million and US$8,000 million, respectively. Other net capital flows, particularly bank loans, have been more volatile and are expected to register outflows amounting to US$122,800 million (1999: US$91,900 million), given large foreign loan repayments mainly by the Asian banks. Net portfolio investment is estimated to reach US$17,300 million (1999: US$4,800 million), given substantial equity flows into information technology (IT) firms.

Table 3.2

Net Private Capital Flows Emerging Market Economies
(US$ Million)

	1999	2000[e]	2001[f]
Total	**67,500**	**36,400**	**116,000**
Africa	10,300	9,000	7,900
Asia	2,300	-17,800	23,600
Middle East and Europe	1,100	-18,300	1,200
Latin America	40,400	47,500	65,100
Countries in transition	13,400	16,000	18,200

[e] Estimate.
[f] Forecast.

Source: IMF World Economic Outlook, September 2000.

Financial Markets

Monetary policies were tightened in many of the economies due to inflationary pressures as a result of increasing oil prices and rapid expansion in major economies. In US, the Federal Reserve raised overnight lending rates by 175 basis points over the past year. The inflation-targeting approach was also partly prompted by asset prices which increased markedly in 1999, driven mainly by volatile technology stocks which remained richly valued even after the sharp correction in April and May 2000. In Japan, the Bank of Japan abandoned its zero **interest rate** policy adopted over the past 18 months and raised interest rates by 25 basis points in August 2000, as a response to growing signs of business confidence. In the European Union (EU), however, interest rates remained well below those in US. In the Asian financial markets, interest rates generally reversed their downward trend.

The rise in interest rates triggered downward revisions in **stock valuations**. Stock prices fell sharply between mid-March and late May 2000, and by end-June most indices remained well below their early 2000 peak. In US and other industrial countries, the drop was largely felt in the technology sector. In Japan, the stock market declined by 18.4% during the period 4 January until 16 October 2000, due to concerns about the economy and the impact of volatile technology stocks. Among the emerging markets, stock prices also fell generally during March-May 2000 and recovered in June 2000. The largest fluctuations were observed in Asia where the IT sector has grown briskly over the past year. In Korea, the stock market declined due to concerns about the performance of the economy and progress in the implementation of corporate and financial sector restructuring. Equity markets across ASEAN experienced significant losses since early 2000. During the period 4 January until 16 October 2000, the Indonesian market fell 41.2%, the Philippine market 40%, the Singapore market 26% and the Thai market 48.2%, as shown in *Table 3.3*.

In the **foreign exchange markets**, the major development has been the weakening of the euro against all other major currencies by over 15% in nominal effective terms since its inception in 1999. The strong macroeconomic performance of the US economy has lowered investor perception of the long-term growth potential of the euro area compared with US, thereby reducing the attractiveness of the single currency. In addition, the euro area-US interest rate differentials contributed to the movement of funds, thereby, weakening the euro. This is evident from the large financial outflows, particularly FDI, from the euro area to US. In contrast to the euro, the US dollar

Table 3.3

Stock Market and Foreign Exchange

	4 January 2000	16 October 2000	% Change
Stock Market			
KL Composit Index	832.80	766.18	-8.0
Jakarta	700.22	411.75	-41.2
Bangkok	498.46	258.08	-48.2
Manila	2,153.18	1,295.02	-40.0
Singapore	2,530.15	1,883.37	-26.0
Seoul	1,059.04	550.1	-48.0
Taipei	8,756.55	5,630.95	-36.0
Hong Kong SAR	17,072.82	14,973.4	-12.3
Tokyo	19,002.86	15,512.32	-18.4

	4 January 2000	16 October 2000	% Change
Currencies (Against US Dollar)			
Malaysian ringgit	3.8000	3.8000	0
Indonesian rupiah	7,095.00	8,895.00	-20.2
Thailand baht	37.12	43.325	-14.3
Korean won	1,127.80	1,126.35	0.1
Philippine peso	39.88	48.675	-18.1
Japanese yen	102.485	107.80	-4.9
New Taiwan dollar	30.9100	31.900	-3.1
Hong Kong dollar	7.7769	7.7973	-0.3
Singapore dollar	1.6577	1.7527	-5.4
Euro[1]	1.0252	0.8551	-16.6

[1/] US dollar against euro.

Source: Kuala Lumpur Stock Exchange, *Bank Negara Malaysia.*

has been more stable, appreciating by around 5%. In Japan, the exchange rate remained under upward pressure and appreciated almost 30% since 1998 against the US dollar, resulting in repeated exchange market interventions.

In Asia, two factors led to the weakening of domestic currencies. First, rising US dollar interest rates made domestic Asian currency assets less attractive; and second, the value of some currencies were eroded by perceptions of heightened risks. The Indonesian rupiah came under severe pressure, having fallen by about 20.2% against the US dollar since the beginning of 2000. Similarly, the Philippine peso depreciated by about 18.1%, the Thailand baht by 14.3% and the Singapore dollar by 5.4% during the period from 4 January to 16 October 2000. In Korea, intervention continues to be used to limit the upward pressure on the won.

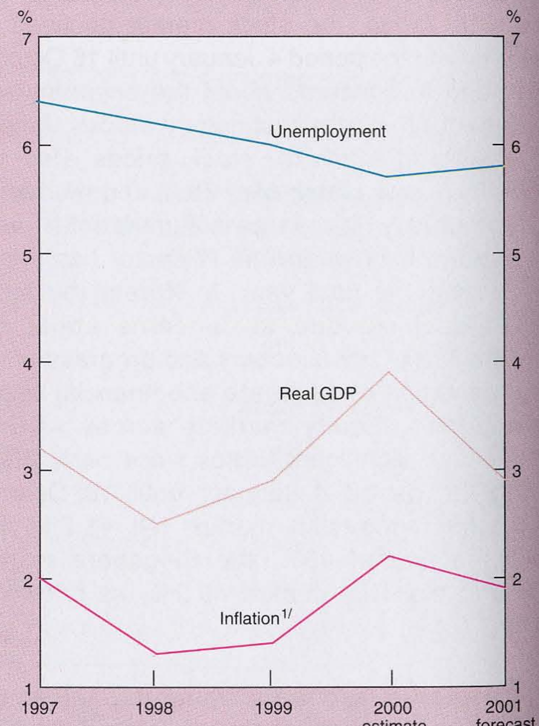
Economic Situation in Industrial Countries

The positive 2000 outlook for the global economy is primarily premised on the continued strength of the economies of major industrial countries, which are expected to register an average Gross Domestic Product (GDP) growth rate of 3.9% (1999: 2.9%), as shown in *Table 3.4*. Inflationary pressures, although an area of concern, are expected to be contained with inflation at 2.2% (1999: 1.4%). The current account deficit is expected to widen to US$265,000 million (1999: US$218,000 million).

The **United States** is experiencing the longest period of economic expansion primarily due to the strength of consumer demand and business capital formation. Real GDP growth is expected to increase to 5.2% (1999: 4.2%). The strong growth in productivity helped attract substantial capital inflows into US, thereby contributing to the appreciation of US dollar, widening the current account deficit and underpinning the high equity market valuations. Concerns about inflationary pressures, however, have been raised due to rising oil prices, wage pressures and non-oil import prices as well as tight labour market conditions. Consumer price inflation is expected to rise to 3.2% (1999: 2.2%). Strong economic expansion also led to a tight labour market, with unemployment falling to 4.1% (1999: 4.2%) of the labour force. In addition, the current account deficit widened, due mainly to the strength of domestic demand relative to output growth over the past two years, to reach US$419,000 million, or 4.2% of GDP (1999: US$331,000 million, or 3.6% of GDP).

In **Japan**, a modest recovery has been underway since early 1999, supported by strengthening corporate profitability and investment, particularly in the technology sector. A rise in personal consumption as well as the Government's supplementary spending package during the year is also expected to add further impetus to growth. GDP growth is expected to reach 1.4% (1999: 0.2%). Japan is, however, expected to experience deflation reaching 0.2% (1999: -0.3%) with unemployment remaining high at 5% in 2000 (1999: 4.7%). The current account surplus is expected to widen to US$121,000 million, or 2.6% of GDP (1999: US$107,000 million, or 2.5% of GDP) as increased exports to Asia more than offset the impact of rising imports and higher oil prices.

Chart 3.1
Major Industrial Countries:
Major Economic Indicators



1/ Consumer prices.
Source: IMF World Economic Outlook, September 2000.

Growth in the **European Union** is expected to expand to 3.4% (1999: 2.4%), sustained by high consumer and business confidence and the favourable external environment. Strengthened global recovery and the relative weakness of the euro have contributed to export growth. The pick-up in economic activity was accompanied by a decline in unemployment to 8% (1999: 8.8%). Inflation is expected to remain low at 2.1% (1999: 1.4%) while the current account surplus is expected to widen to US$39,000 million (1999: US$25,000 million).

In the **United Kingdom** (UK), real GDP growth is expected to increase to 3.1% (1999: 2.1%) supported by private consumption and fuelled by past wealth effect and continued strong performance of the services sector. Inflation is expected to remain mild at 2% (1999: 2.3%) due to the lagged impact from the strong pound sterling and widespread retail discounts. With the economy expanding, the unemployment rate is expected to decrease to 3.9% (1999: 4.3%). UK's current account deficit is projected to widen further to US$21,000 million, or 1.5% of GDP (1999: -US$18,000 million, or -1.2% of GDP) due to lower export volumes.

In **Germany**, the GDP is expected to grow by 2.9% (1999: 1.6%), driven by buoyant exports, improving business sentiment and increasing capacity utilisation. Economic activity was also

Table 3.4

Selected Industrial Countries:
Major Economic Indicators

	Advanced Economies	Major Industrial Countries	United States	Japan	Germany	United Kingdom	France
Gross Domestic Product (%)							
1999	3.2	2.9	4.2	0.2	1.6	2.1	2.9
2000[e]	4.2	3.9	5.2	1.4	2.9	3.1	3.5
2001[f]	3.2	2.9	3.2	1.8	3.3	2.8	3.5
Inflation (%)							
1999	1.4	1.4	2.2	-0.3	0.7	2.3	0.6
2000[e]	2.3	2.2	3.2	-0.2	1.7	2.0	1.5
2001[f]	2.1	1.9	2.6	0.5	1.5	2.4	1.1
Unemployment (%)							
1999	6.3	6.0	4.2	4.7	8.3	4.3	11.3
2000[e]	5.9	5.7	4.1	5.0	7.9	3.9	9.8
2001[f]	5.7	5.8	4.4	5.3	7.6	4.0	8.8
Current Account Balance (US$ million)							
1999	-134,000	-218,000	-331,000	107,000	-20,000	-18,000	39,000
2000[e]	-176,000	-265,000	-419,000	121,000	-4,000	-21,000	36,000
2001[f]	-188,000	-276,000	-438,000	122,000	n.a.	-29,000	47,000

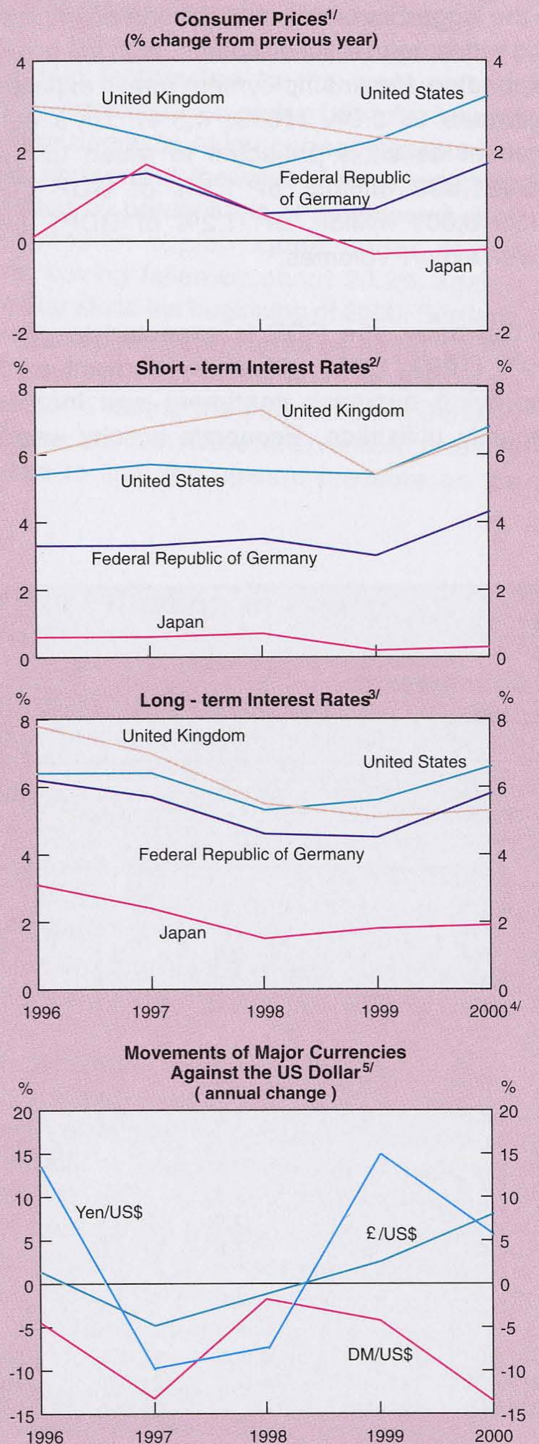
[e] Estimate.

[f] Forecast.

n.a. not available.

Source: IMF World Economic Outlook, September 2000.

Chart 3.2
Current Trends in Key Economic Determinants in Industrial Countries



1/ 2000 figures are estimates.
2/ Averages of interest rates weighted by the average US dollar value.
3/ Average yield on Government bonds.
4/ Up to June 2000.
5/ End of period except for 2000, up to September.

Source: IMF World Economic Outlook, September 2000, Organisation for Economic Cooperation and Development (OECD) Economic Outlook, June 2000.

underpinned by a steady growth in private consumption. The unemployment rate is expected to decline to 7.9% (1999: 8.3%) while the rate of inflation is expected to increase to 1.7% (1999: 0.7%), mainly as a result of higher oil prices. The recovery in EU countries and other regions of the world, as well as the weak euro, have boosted German exports and the current account deficit is expected to narrow significantly to US$4,000 million, or 0.2% of GDP (1999: -US$20,000 million, or -0.9% of GDP).

In **France**, GDP is expected to increase to 3.5% (1999: 2.9%), driven by strong domestic and external demand. Inflation is estimated to increase to 1.5% (1999: 0.6%) as higher oil prices and weak currency exert upward pressure on import prices. Employment is expected to grow rapidly, thereby reducing the unemployment rate to 9.8% (1999: 11.3%). The competitiveness of French products grew strongly in the face of the weaker euro. Thus, the current account balance is expected to stabilise at about US$36,000 million in 2000, or 2.7% of GDP (1999: US$39,000 million, or 2.7% of GDP).

Economic Situation in the Developing Countries

Developing countries are expected to experience a rapid growth of 5.6% (1999: 3.8%) with the Asian countries, like China and India, estimated to register growth rates of 7% and above in 2000. Inflation is projected to decline in developing countries to 6.2% (1999: 6.6%) and the current account to record a surplus of US$21,000 million (1999: -US$24,000 million). The surplus is expected to emanate principally from the Asian and Middle East countries given the higher oil prices and demand for IT-related goods.

The ASEAN Countries

ASEAN countries are expected to record stronger economic growth rates led by rapid expansion in exports and recovery in domestic demand. Rising global demand for electronic goods boosted the exports of Malaysia, Singapore and Thailand while favourable weather conditions have raised agricultural output in the Philippines. The robust US economy, strengthening recovery in Japan and an increase in intra-ASEAN trade are also expected to support the economic performance of the region. In 2000, GDP growth of the four most crisis-affected ASEAN countries, namely Indonesia, the Philippines, Thailand and Malaysia are expected to range from 4% to 7.5% (1999: 0.3% to 5.8%), as shown in *Table 3.5*.

Inflation in the ASEAN countries is expected to range from 0.5% to 5% (1999: 0.1% to 20.8%), due to excess capacity, as well as accommodative monetary policies. Singapore and Thailand are anticipated to have a slight pick-up in inflation while a significant decrease is expected to be registered in Indonesia. The export-led nature of recovery has led to strong current account positions, particularly in the crisis-affected countries. The current account surpluses are, however, expected to narrow, following stronger import growth due to higher aggregate demand as well as higher oil prices.

Table 3.5

Selected ASEAN Countries:
Major Economic Indicators

	1999	2000[e]	2001[f]
Gross Domestic Product (%)			
Brunei	2.5	3.0	3.0
Indonesia	0.3	4.0	5.0
Malaysia	**5.8**	**7.5**	**7.0**
Philippines	3.3	4.0	4.5
Singapore	5.4	7.9	5.9
Thailand	4.2	5.0	5.0
Vietnam	4.2	4.5	5.4
Inflation Rate (%)			
Brunei	1.0	1.0	n.a.
Indonesia	20.8	3.2	5.2
Malaysia	**2.8**	**1.8**	**2.2**
Philippines	6.7	5.0	5.9
Singapore	0.1	1.4	2.1
Thailand	0.3	1.7	2.6
Vietnam	4.2	0.5	5.6
Current Account Balance (% of GDP)			
Brunei	n.a.	n.a.	n.a.
Indonesia	3.7	3.7	1.3
Malaysia	**15.9**	**10.6**	**8.2**
Philippines	9.4	8.0	3.8
Singapore	25.0	23.6	22.8
Thailand	9.1	7.2	5.9
Vietnam	4.4	2.5	0.5

[e] Estimate.
[f] Forecast.
n.a. not available.

Sources: IMF World Economic Outlook, September 2000, Asian Development Bank (ADB) Outlook for 2000.

The **Indonesian** economy is expected to accelerate to 4% in 2000 (1999: 0.3%) following the recovery of investment and non-oil exports, as well as higher oil prices. Even though the economy continued to expand, consumer confidence remained weak due to delays in corporate and structural reforms. The inflation rate is expected to sharply decline to 3.2% (1999: 20.8%), reflecting weak domestic demand given declines in real wages and the depletion of consumer credit. In the external sector, the current account surplus is expected to be maintained at 3.7% of GDP (1999: 3.7%).

Economic growth in the **Philippines** is estimated to reach 4% (1999: 3.3%). Electronic exports, principally semiconductors, are expected to remain buoyant, riding on the extended upcycle in global demand for electronics. The sustained robust increase in exports will provide some buoyancy to the economy at a time when domestic demand is slowing down. The inflation rate is expected to ease to 5% (1999: 6.7%) with stable food prices due to higher agricultural output. A reduced surplus in the current account amounting to 8% of GDP (1999: 9.4%) is anticipated.

The **Singapore** economy is expected to register a growth of 7.9% (1999: 5.4%) underpinned by strong global electronics demand and vibrant intra-Asia trade. Manufacturing output and the retail services are expected to continue to fuel growth in the economy. Inflation is expected to increase to 1.4% (1999: 0.1%) due to higher oil prices. The current account surplus is expected to decline to 23.6% of GDP (1999: 25%).

The **Thai** economy is expected to show sustained growth at 5% (1999: 4.2%). The manufacturing sector is expected to remain as the main engine driving output growth. A weakening baht, rising oil prices, high levels of public debt and slow progress of corporate restructuring could, however, erode consumer sentiments and affect growth.

The higher oil prices are expected to impact on inflation, which is expected to edge upwards to 1.7% (1999: 0.3%) while the current account surplus is expected to narrow to 7.2% of GDP (1999: 9.1%).

East Asian Economies

The recovery of activity in the East Asian economies of Japan, China, South Korea, Taiwan and Hong Kong Special Administrative Region (SAR) is expected to continue in 2000, as shown in *Table 3.6*. Strong growth is projected for most of these economies, particularly Taiwan and Hong Kong SAR, supported by strong exports amidst the upswing in global electronics demand, increase in domestic demand and higher intra-regional trade. Inflation rates in most of these economies are expected to stabilise and remain low. The rise in oil prices, nevertheless, could lead to some inflationary pressures.

Table 3.6

East Asian Economies:

Major Economic Indicators

	1999	2000[e]	2001[f]
Gross Domestic Product (%)			
Japan	0.2	1.4	1.8
China	7.1	7.5	7.3
Hong Kong SAR	2.9	8.0	4.8
South Korea	10.7	8.8	6.5
Taiwan	5.7	6.5	6.0
Inflation Rate (%)			
Japan	-0.3	-0.2	0.5
China	-1.4	0.5	1.2
Hong Kong SAR	-4.0	-2.5	2.0
South Korea	0.8	2.2	3.0
Taiwan	0.2	1.6	2.3
Current Account Balance (% of GDP)			
Japan	2.5	2.6	2.6
China	1.6	1.6	1.3
Hong Kong SAR	5.9	6.9	6.8
South Korea	6.1	2.3	0.4
Taiwan	2.5	2.1	2.2

[e] Estimate.
[f] Forecast.

Source: IMF World Economic Outlook, September 2000.

In **Japan**, clear signs of improved economic activity in 2000 are the result of accommodative macroeconomic and expansionary fiscal policies. The recovery was led by exports and business fixed investments, the latter driven by spending in IT activities. There have also been marked improvements in corporate profits due to restructuring efforts and inventory adjustments. The improved situation will enable Japan to absorb more of the exports from East Asia, thereby sustaining the region's recovery process. In addition, Japanese companies are also increasing production in Asia, confirming that FDI outflows from Japan are on the rise. These positive developments augur well for the region, bearing in mind Japan's pivotal role as the engine of growth in the East Asian region.

In **China**, growth is expected to remain strong at 7.5% (1999: 7.1%) supported by exports and effects of past Government policies to stimulate consumption. Monetary policy is expected to remain accommodative while fiscal policy is expected to consolidate in the face of stronger activity. Inflation for the whole year is expected to be 0.5% (1999: -1.4%) due to rising raw material and energy prices. Total trade for the first seven months of the year amounted to US$257,600 million, 36.3% higher than the corresponding period in 1999. Exports surged 35.8% to US$136,000 million while imports were US$121,600 million, resulting in a trade surplus of US$14,400 million. China's current account surplus is expected to remain unchanged at 1.6% of GDP.

Economic growth in **South Korea** is expected to moderate from its recent rapid pace to 8.8% (1999: 10.7%). The robust performance has been boosted by a strong growth in exports, capital investments in factories and equipment, developments in IT and start-ups of many new small enterprises. Inflation, which averaged 1.5% year-on-year in the first six months of 2000, is expected to accelerate in the latter half due to rising oil prices and growing domestic demand. For the year, inflation is expected to be 2.2% (1999: 0.8%). The current account balance is expected to decline to 2.3% of GDP (1999: 6.1% of GDP).

Taiwan is expected to grow at 6.5% (1999: 5.7%) due to strong growth in domestic demand. Inflation is expected to increase to 1.6% (1999: 0.2%) due to rising oil prices. Imports are expected to grow more strongly than exports due to increasing import demand triggered by rising private investments and post-quake reconstruction activities. The merchandise trade surplus is forecast to decline to US$6,300 million (1999: US$10,900 million) resulting in a lower current account balance at 2.1% of GDP (1999: 2.5% of GDP).

The growth rate in **Hong Kong SAR** is expected to increase significantly to 8% (1999: 2.9%), supported by recovery in investment and strong external demand. Deflationary pressure is easing steadily with the deflation rate for the year expected at 2.5% (1999: -4%). In the external sector, for the first seven months of 2000, the value of total exports increased by 17% over the previous year. Over the same period, the value of imports rose by 19.8%, leaving a visible trade deficit of US$7,300 million. The current account balance is projected to increase to 6.9% of GDP (1999: 5.9% of GDP).

Latin America

GDP growth for the region is expected to expand strongly to 4.3% in 2000 (1999: 0.3%) fueled by buoyant exports, particularly to US, as well as recovery in consumer confidence. Inflation is expected to decline to 8.9% (1999: 9.3%). The current account deficit is expected to narrow to 2.9% of GDP (1999: -3.1%) reflecting healthy exports and some improvements of terms of trade due to firmer commodity prices.

In **Argentina,** the economic recovery is expected to remain fragile. Domestic confidence continues to remain weak and the industrial production is expected to decelerate. Real GDP is expected to grow moderately at 1.7% (1999: -3.1%). A price deflation of 0.7% is estimated (1999: -1.2%). The current account is estimated to remain in deficit, accounting for 3.7 % of GDP (1999: -4.4% of GDP).

Brazil, rebounding from last year's devaluation, is expected to grow at 4% this year (1999: 1%), underpinned by both domestic and external factors. Rising employment, recovering real incomes and the easing of monetary policies are expected to stimulate private consumption and investment in the second half of the year. Consumer price inflation is expected to be contained at around 7.5% (1999: 4.9%) reflecting the low pass-through effect of the exchange rate depreciation on prices. Strong exports are expected to result in a trade surplus in 2000. The current account is, however, expected to remain in deficit, amounting to 3.9% of GDP (1999: -4.6% of GDP).

Mexico's economy is expected to expand strongly to 6.5% (1999: 3.5%) backed by prudent macroeconomic policies, higher oil prices, rapid growth in the US, buoyant consumer spending and improved demand for investment goods. Inflation is expected to continue to decline to 9.5% (1999: 16.6%) while the current account deficit is expected to be 3.5% of GDP (1999: -2.9% of GDP).

The economy of **Venezuela,** which contracted by 7.2% in 1999, is expected to record a positive growth of 2.5% in 2000. Inflation remains high relative to the other Latin American countries although the inflation rate has dropped to 17% (1999: 23.6%). The recent increase in oil prices is expected to improve the external balance position with the current account surplus expected to reach 7.3% of GDP (1999: 4.4% of GDP).

Middle East, Africa and South Asia

Growth in other developing countries of the Middle East, Africa and South Asia is expected to be strong, as shown in *Table 3.7*. The rebound in oil prices has boosted economic activity and improved prospects for most of the oil-producing countries in the Middle East and Africa. These countries will also experience stronger fiscal and external balances. In many of the non-oil exporting countries, the continuing weakness in the export prices of non-fuel commodities and other primary commodities is, however, expected to constrain growth, especially in Africa.

In **Saudi Arabia**, ongoing strength of oil prices, coupled with the decisions of the Organisation of Petroleum Exporting Countries (OPEC) in March, June and September 2000 to raise output, will help to generate fiscal and current account surpluses. These factors are expected to increase the growth rate to 3.5% (1999: -1%). Inflation will remain low at 1% (1999: -1.2%). The current account surplus is estimated to be substantial at 6.6% of GDP (1999: -1.2% of GDP).

Table 3.7

Developing Countries:
Major Economic Indicators

	Real GDP (%)			Inflation[1] (%)			Current Account Balance (US$ million)		
	1999	2000[e]	2001[f]	1999	2000[e]	2001[f]	1999	2000[e]	2001[f]
Developing Countries By Region	**3.8**	**5.6**	**5.7**	**6.6**	**6.2**	**5.2**	**-24,000**	**21,000**	**-30,000**
Africa	2.2	3.4	4.4	11.8	12.7	8.6	-17,000	-4,000	-9,000
Asia	5.9	6.7	6.6	2.4	2.4	3.3	45,000	39,000	24,000
Latin America	0.3	4.3	4.5	9.3	8.9	7.0	-56,000	-59,000	-66,000
Middle East	2.8	4.8	3.6	7.9	7.4	7.1	4,000	44,000	21,000

[1] Consumer prices-weighted average.
[e] Estimate.
[f] Forecast.

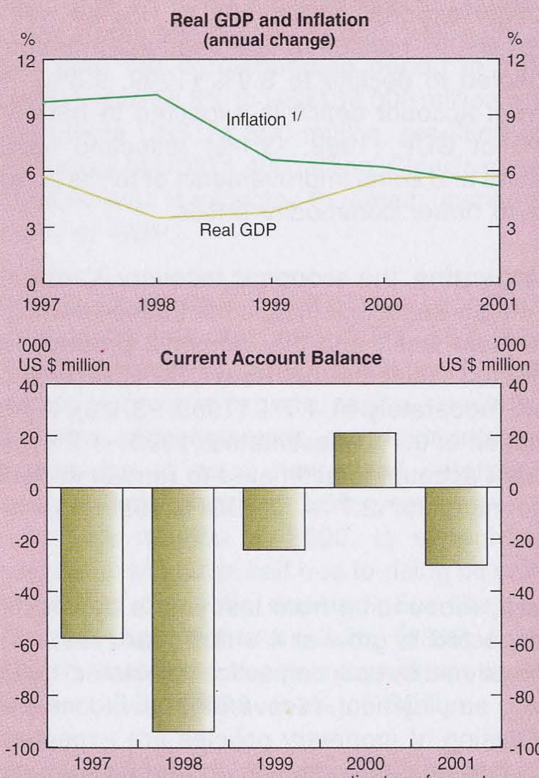
Source: IMF World Economic Outlook, September 2000.

In **Iran,** external and fiscal positions are expected to improve sharply owing to the rise in oil prices. Growth is expected to register 3.4% (1999: 2.5%) while inflation will remain high at 16% (1999: 20.4%). The current account balance in 2000 is expected to improve to 7.7% of GDP (1999: 5% of GDP).

In **Egypt**, growth is expected to slow down to about 5% (1999: 6%). Inflation is expected to decline to 2.9% (1999: 3.8%) following the moderation in growth. In the external sector, merchandise and service exports, particularly tourism, gained from the rapid expansion in world economy and trade. The current account deficit is expected to narrow to 1.8% of GDP (1999: -2% of GDP).

South Africa's economic recovery has gained strength and growth is envisaged to increase to 3% (1999: 1.2%). The rebound has been supported by strong macroeconomic policies, improvements in external competitiveness and the expansion in world output. Higher oil prices and the depreciation of the rand, as well as the economic recovery, has led to some inflationary pressures but this has been balanced by improvements in productivity. Inflation is expected to be 4.7% (1999: 5.2%). The current account is expected to remain in deficit at 0.7% of GDP (1999: -0.4% of GDP).

Chart 3.3
Developing Countries:
Major Economic Indicators



1/ Consumer prices.

Source: IMF World Economic Outlook, September 2000.

Nigeria has benefited from the strength of the oil market with GDP expected to rise to 3.5% (1999: 1.1%). Inflation is expected to decline to 5.1% (1999: 6.6%). Boosted by higher oil prices, the trade balance is expected to be in surplus at US$7,000 million. The current account balance is expected to show a surplus at 2.4% of GDP (1999: -11% of GDP).

India's growth is expected to increase to about 6.7% (1999: 6.4%) despite the adverse effects of the Asian regional crisis on its exports and the rise in oil prices. Inflation is expected to increase to 5.6% (1999: 4.7%) following the upward pressure on costs brought about by high oil prices. The current account deficit is expected to widen to 1.2% of GDP (1999: -0.6% of GDP).

In **Pakistan**, the economy is expected to grow strongly to 5.6% (1999: 2.7%) given the recovery in agricultural production which accounts for more than one quarter of national output. Inflation is expected to decline to 3.6% (1999: 5.7%) while the current account deficit is expected to improve to 2.2% of GDP (1999: -3.8% of GDP).

Economic Situation of Countries In Transition

The greater than expected Russian domestic demand and increased revenue in a number of oil-producing transition economies, have contributed to improved performance in the countries in transition. GDP is expected to register stronger growth at 4.9% (1999: 2.4%).

In **Russia**, economic recovery has continued into 2000, assisted by high oil prices, with oil and gas accounting for around one-third of exports. GDP is expected to grow strongly to 7% (1999: 3.2%). Inflation, though coming down sharply when compared with the previous year, is expected to remain high at 18.6% (1999: 85.9%), as rising local energy prices and a rapidly expanding money supply push up the general price level. The high oil prices, as well as strong growth in non-oil exports, have resulted in a strong external position. The current account surplus is expected to be 13.4% of GDP (1999: 11.3% of GDP).

Regional Developments

Emerging strongly from the throes of the Asian financial crisis of 1997-1998, East Asia, is once again, registering high GDP growth, making it one of the fastest growing emerging markets. With concerted efforts at implementing sound and consistent macroeconomic policies, the once beleaguered financial and corporate sectors of the crisis-affected economies are now better poised to meet the challenges of globalisation and liberalisation. While internal strength is in place, it is evident from the crisis that the economic structure is still vulnerable to external shocks and systemic risks, particularly those arising from the instability of the international financial system. Reflecting the desire to contain and avert future recurrences of the financial crisis, several initiatives were undertaken at the regional level, specifically through the ASEAN Finance Ministers process, while at the international level, there are ongoing efforts to address the weakness in the international financial architecture (IFA).

Regional Monetary and Financial Cooperation

The 1997-1998 financial and economic crisis brought to the fore the need for changes in existing economic and financial structures. This resulted in both regional and international cooperative efforts to institute various initiatives to prevent a recurrence of the crisis and to sustain economic growth in the region.

The ASEAN Finance Ministers process focussed efforts on initiatives to lead the region out of the crisis, as well as to build upon the long-term institutional capacity of member countries. Towards this end, in March 1999, ASEAN Finance Ministers established the ASEAN Surveillance Process to encourage candid and frank exchange of views among ASEAN members on current economic and financial sector developments and the impact on the region. Subsequently, in March 2000, ASEAN agreed to expand the size of the ASEAN Swap Arrangement that was initially established on 5 August 1997 among five member countries to include the remaining ASEAN countries. The principal objective of the arrangement was to provide short-term swap facilities to participating countries with temporary liquidity problems and reflects close cooperation within ASEAN in promoting monetary stability in the region.

In order to strengthen the **East Asian** region, ASEAN+3 (China, Japan and the Republic of Korea) Framework agreed to enhance existing cooperative frameworks among the region's central banks and monetary authorities with the pronouncement of the **Chiang Mai Initiative** on 6 May 2000. The Initiative involves the establishment of a network of bilateral swap and repurchase agreements among East Asian countries.

For the long term, in order to avert possible recurrences of the crisis, a regional cooperative financing arrangement, complementing and supplementing the resources of the International Monetary Fund (IMF) is being considered. A regional fund, such as the **Asian Monetary Fund** (AMF), would enhance the region's ability to provide sufficient and timely financial support to ensure financial stability in the East Asian region.

At the international level, there is a need to address inherent weaknesses in the IFA. Relevant areas for change include reviewing the role of international financial institutions (IFIs) such as IMF and the World Bank, ensuring greater symmetry in promoting transparency and best practices both in developed and developing countries as well as the public and private sectors, and ensuring the effective participation of developing countries as well as involving the private sector in crisis management and resolution.

In this context, many developing countries' fora have called for a review of the roles of IMF and the World Bank, particularly on how IFIs can assist in capacity building of regional financial systems in order to avoid or reduce the impact of future crises. Changes in the international financial system must also take into account the interests and circumstances of all countries, with both industrial and developing countries as equal stakeholders, in implementing any change. Furthermore, the private sector, including highly leveraged institutions (HLIs) and international credit rating agencies, should also be subject to transparency standards to make them more accountable for their actions, particularly in relation to cross-border capital flows. This would include the establishment of prudential standards and appropriate international rules against market manipulation, particularly in relation to the exposure of commercial banks to the HLIs in order to avoid excessive volatility of short-term capital flows in cross-border activities.

Challenges and Growth Prospects for 2001

The outlook for the world economy in 2001 remains positive, despite some potential risks and uncertainties that could disrupt the strong global growth and trade momentum. A number of economic, financial and structural imbalances continue to exist between US, euro area and Japan, mainly in terms of the uneven pattern of development, different rates of demand growth, imbalances in their external current accounts, misalignments among the currencies and the high level of equity valuations. Any sudden correction of these imbalances, if not addressed appropriately, will pose significant risks to the stability of the global economy. Emerging economies, in particular, remain fragile and vulnerable to large swings in key currencies. Optimism, however, remains for a soft landing of US economy which will provide the necessary cushion for any adverse impact.

Another potential risk has been the recent oil prices increases. If continued unabatedly, it could derail global demand and send inflation spiraling. The measures to be undertaken by OPEC and other oil-producing countries to increase their production levels is expected, however, to stabilise oil prices in 2001.

Given the stability envisaged in the global economic environment, in particular the absence of renewed tensions in the financial markets, growth in the global economy is projected to remain relatively strong at about 4.2%. Economic activity in the industrial countries is projected to moderate to 3% while growth in the developing countries is projected to remain strong at 5.7%. In the transition economies, a sustained growth of 4.1% is projected for 2001. In line with this improved world economic outlook, growth in world trade is projected to remain strong at 7.8%. Meanwhile, inflationary pressures are projected to remain subdued.

A soft landing is forecast for **US** economy, which is expected to record a growth rate of 3.2%, with monetary policy tightening to control inflationary pressures. It is also anticipated that the contractionary effect arising from the appreciation of US dollar and higher oil prices would slow down economic activity. The current account deficit is projected to widen to US$438,000 million as imports are expected to continue to exceed exports.

In **Canada**, GDP growth is expected to ease to 2.7% due to tightening of monetary policy and the anticipated slowdown of US growth. Unemployment is projected to decline below 6.7%, the lowest since mid-1970s, and the external current account to move into surplus.

The **Latin American** economies are projected to recover strongly with an overall growth rate of 4.5% amidst an environment of declining consumer prices. The economies of **Argentina, Brazil and Venezuela** are projected to strengthen with GDP growth rates of 3.7%, 4.5% and 3%, respectively. The **Mexican** economy is, however, forecast to slow down to 4.8% in response to both the slowdown in US and possible tighter fiscal and monetary policies. The inflation rate for the region is projected to decrease to 7% due to the continued tight monetary policies in Latin America. At the individual country level, the inflation rates are forecast to be 0.5% for Argentina, 5% for Brazil, 8.2% for Mexico and 16% for Venezuela.

In **EU**, growth prospects are projected to be good at an average of 3.4% while inflation remains stable at 1.7% and unemployment declines to 8.3%. Economic growth in **UK** is projected to decline to 2.8% given the rising real interest rates and low domestic demand. Inflation is projected to remain stable at 2.4% while the labour market is projected to remain tight with unemployment rate at 4%. In **Germany,** output growth is projected to increase to 3.3% with recovery in European economic activity and a buoyant world trade growth. The inflation rate is projected to decline to 1.5% while the unemployment rate is projected to continue to decline to 7.6%. GDP growth is projected to increase by 3.5% in **France,** mainly due to increasing domestic demand. Inflation rate is projected to decrease to 1.1% as a result of lower value-added tax while the unemployment rate is expected to be reduced further to 8.8%.

Growth in the **East Asian economies** is expected to stabilise. In **Japan**, the economy appears to be on the path of cyclical recovery, boosted by public expenditure and policy-induced housing construction. Growth is projected to increase to 1.8% in 2001 with the current account surplus moving upwards to US$122,000 million. Growth in **China** will continue to be strong and is projected to be around 7.3%. In **South Korea**, growth is projected to slow down to 6.5%, due to lower production levels and the short-term contractionary effects of continuing economic restructuring. **Taiwan** will continue to retain its stable course of growth, with growth moderating to about 6%, driven largely by strong domestic demand. Growth in **Hong Kong SAR** is projected to slow down to 4.8%. Trade is likely to contribute less to GDP in 2001, with import growth expected to moderate and exports to contract. In the four most crisis-affected **ASEAN** countries, GDP growth ranging between 4.5% and 7% is projected in line with the recent pick-up in economic activity followed by a significant increase in domestic demand.

In **South Asia,** economic performance will continue to be favourable. **India and Pakistan** are projected to grow at 6.5% and 5.3%, respectively as these countries continue to undertake structural reforms in the agriculture and industrial sectors in order to further agriculture strengthen their economies.

Economic growth in the **Middle East** is forecast to slow down to 3.6% in 2001. The bigger economies in the region like **Saudi Arabia**, **Iran** and **Egypt** will, however, continue to register stable growth rates. In **Africa**, growth is projected to further improve to 4.4%.