

International Economic Survey

Performance of the Global Economy

Global growth slowed down considerably in 2001, led by a marked downturn in the major industrialised economies. The pace of growth in these economies began to slow down, notably in the United States (US) during the second half of 2000. The steeper-than-anticipated slowdown in the US, dismal performance of the Japanese economy as well as weakening domestic demand growth and consumer confidence in Europe have contributed to the global slowdown. The prospects for an early recovery of the US and global economy have become more uncertain with the attack on the US on 11 September and the military operations by the US and its allies to combat terrorism.

Before the attack on the US, a moderate recovery was anticipated, particularly for the US economy in early 2002, with downward pressure on global growth projected to ease in the fourth quarter of 2001. The projected recovery was based on several factors including the easing of fiscal and monetary policies in most industrial countries, the abatement of oil and commodity prices and improved consumer sentiment. However, the economic and financial implications of the recent incident in the US, which adversely affected consumer confidence and investor sentiment, has raised the degree of uncertainty about an early rebound in global growth.

World Output

Growth in **world output** is expected to be lower at 2.6% (2000: 4.7%), as shown in *Table 3.1*.

This forecast, however, has not taken into consideration the assessment of the impact of the recent attack on the US and other subsequent events. Real Gross Domestic Product (GDP) growth in advanced countries is expected to decelerate to 1.3% (2000: 3.8%) on account of the slowdown in the US, continued weakness in Japan, weak demand in the euro area, decline in investment spending on information and communications technology (ICT) and a sharp drop in consumer confidence. Real GDP growth in developing countries is generally expected to

TABLE 3.1
Global Economic Indicators
(% change)

	Real GDP			Inflation		
	2000	2001 ^a	2002 [†]	2000	2001 ^a	2002 [†]
World	4.7	2.6	3.5	n.a.	n.a.	n.a.
Advanced countries	3.8	1.3	2.1	2.3	2.4	1.7
Developing countries	5.8	4.3	5.3	6.0	5.9	5.1
Newly Industrialised Economies	8.2	1.0	4.3	1.2	2.1	2.1
Countries in transition	6.3	4.0	4.1	20.0	16.4	10.7

^a Estimate.

[†] Forecast.

n.a. not available.

Source: IMF World Economic Outlook, October 2001.

slow down to 4.3% (2000: 5.8%) depending on how closely they are linked to the US through trade and capital flows.

The Newly Industrialised Economies (NIEs) are likely to grow at a significantly slower rate of 1% (2000: 8.2%) also contributed by the weak external demand, particularly for electronic products, given their large exposure to the sector. In Latin America, growth is expected to decline sharply to 1.7% (2000: 4.2%), primarily caused by the contagion impact of the slowdown in the US economy and the financial crisis in Argentina as well as the energy crisis in Brazil. With oil prices levelling off and cutbacks in production as well as the ongoing financial crisis in Turkey, growth prospects in the Middle East have weakened to 2.3% (2000: 6%). Growth for transition economies are also expected to weaken to 4% (2000: 6.3%), reflecting the adverse impact of the slowdown in Europe and in the Middle East as well as the financial difficulties in Turkey. In Africa growth is however, expected to be higher at 3.8% (2000: 2.8%), aided by improved weather conditions and a more stable political environment in several countries.

World Trade

World trade in goods and services decelerated to 4% in 2001 (2000: 12.4%) largely due to slower growth in the US economy, which accounts for one fifth of world trade, and the severe downturn in world electronics demand. Overall export growth declined drastically, with growth in the advanced countries projected at 3% (2000: 11.5%), developing countries 5% (2000: 15.1%) and for countries in transition 7.1% (2000: 16.5%).

In tandem with the declining export growth and slowing domestic activity, imports are expected to fall sharply, with projected growth in advanced countries and developing countries 3.6% (2000: 11.5%) and 6.4% (2000: 16.6%), respectively. Import growth for countries in transition is expected to moderate slightly to 10.1% (2000: 12.9%).

World Inflation

Inflation continued to remain relatively low in most advanced economies at 2.4% (2000: 2.3%), following notable price deflation in Japan as well as lower consumer price increases, particularly in the US and Europe. Oil and food prices are expected to decline in the second half of the year which would contribute to lower price pressures during the year. For the developing economies, weaker domestic demand following moderation in economic activity is also expected to result in lower inflation of 5.9% (2000: 6%) and in countries in transition, 16.4% (2000: 20%). Notwithstanding these improvements, fluctuations in oil prices as a result of political or economic uncertainties could negate current efforts at monetary easing.

Financial Markets

Monetary policy across the major advanced economies shifted towards easing in 2001 from the generally biased tightening in the previous year. In the US, the Federal Reserve Board (Fed) took the lead by cutting interest rates, beginning on 3 January. Within a period of ten months, interest rates were reduced nine times totalling 400 basis points to 2.5% in an effort to counter the sharp slowdown in its economy through stimulating economic activities and consumption. The most recent interest rate cut of 100 basis points in mid September and early October were undertaken to address the anticipated adverse impact of the 11 September incident on the US.

In Japan, as private demand continued to remain flat and as economic activities weakened within an environment of benign inflation, the Bank of Japan (BOJ) re-adopted the zero interest rate policy in order to increase consumption. BOJ also announced additional measures to ease monetary policy on 18 September, following the US Fed cut. In the euro area, the European Central Bank (ECB) reduced interest rates by 50 basis points in May and August. The ECB also followed suit to lower key interest rates on 18 September by another 50 basis points to mitigate inflationary pressures in anticipation of the adverse impact arising from the recent attack

on the US. Given the relatively low inflation rates, there remains scope for further monetary policy easing in the near term.

The performance of **stock markets** across the world has continued to remain unstable in 2001, as shown in *Table 3.2*. The instability was as a result of substantial losses in the past year led by the significant monetary policy tightening in 1999 and 2000 as well as weak consumer and investor confidence. The technical correction in ICT-related stocks has also severely affected the performance of stock markets. The lacklustre performance of world stock markets deteriorated further, driven by concerns over the recovery prospects in the US and global growth.

Equity markets in the US have been volatile because of uncertainties in investor sentiment amidst poor corporate earnings, sharp increases in unemployment as well as weak economic indicators that have further depressed markets. The situation has been further compounded by the September attack on the US which caused a crash in stock markets. The US equity market was severely affected with the Dow Jones Industrial Average plunging by 685 points when it reopened on 17 September, representing the largest single-day fall ever recorded.

Similarly, the performance of the Japanese stock market continued to remain weak in 2001. The Nikkei index fell steadily to close at a 17-year low of 10,196 points on 10 September, due to concerns about the impact of *yen* appreciation on the earnings of high technology (high-tech) companies and the slow resolution of bad loan problems of the Japanese banks. The Japanese stock market performance declined further, owing to the contraction in Japan's second quarter GDP and, like other bourses, was adversely affected by the recent incident in the US. As of 17 September, the Nikkei declined further by 7.1% to a new low of 9,504 points.

Equity markets in emerging economies fell back sharply, reflecting investor concerns about domestic and external risks, in particular Turkey and Argentina due to renewed financial difficulties. Most East Asian stock markets, with the exception of the Peoples' Republic of China (China) and Thailand, have remained subdued or declined,

reflecting global stock market trends and the slowdown of economic activities in the region, leading to weak corporate earnings. The development in the US stock markets has also affected bourses in this region with indices of the major markets tumbling to record lows.

In **foreign exchange markets**, despite the economic slowdown, the US *dollar* appreciated in the first half of 2001 due to the relative strength of its economy. Since, July however, the US *dollar* has been depreciating against the *euro* and *yen*, triggered by changing market perceptions on the US Administration's monetary stance. The weak sentiment on the *dollar* was further aggravated following expectations that the manufacturing sector weakness was spreading to other sectors of the economy as well as possible *dollar* depreciation due to the unsustainability of the US current account deficit. Since the attack on the US, the *dollar* has traded downwards, depreciating between 3-4% against the *yen* and *euro*. The *yen*, on the other hand, continues to remain relatively strong, supported by doubts over a strong *dollar* policy, despite sharp decline in the Japanese stock market and persistent deflation.

After initial weakening, the *euro* strengthened against the *dollar*, supported by the weaker US *dollar* as well as anticipation of interest rate cuts by the ECB. The recent attack on the US has led to a broad weakening of the US *dollar* against all major currencies, following capital flight to 'safe haven' currencies, particularly the *Swiss franc*, *euro* and *sterling*, resulting in the further strengthening of these currencies.

Most East Asian currencies, after the initial weakening against the US *dollar*, have remained stable since the second quarter, supported by favourable domestic developments. The weakening of regional currencies reflects mainly the weaknesses of the *yen*, depressed exports, a general shift towards flexible exchange rates and declining capital inflows.

Financial Flows in Emerging Markets

In emerging markets, **net private capital flows**, comprising net direct investment, net portfolio investment and other long-and short-term

TABLE 3.2

Stock Market and Foreign Exchange

	1 September 1998	28 September 2001	Change (%)
Stock Market Indices			
KL Composite	262.70	615.34	134.2
Jakarta	325.85	392.48	20.4
Bangkok	211.09	277.48	31.2
Manila	1,191.76	1,126.63	-5.5
Singapore	823.33	1,319.53	60.3
Seoul	309.71	479.68	54.9
Taipei	6,335.09	3,636.94	-42.6
Hong Kong SAR	7,062.47	9,950.70	40.9
Tokyo	14,369.63	9,774.68	-32.0
Dow Jones	7,827.43	8,847.56	13.0
	2 September 1998	28 September 2001	Change (%)
Currencies (Against US dollar)			
Malaysian ringgit	3.80	3.80	0
Indonesian rupiah	10,750.00	9,675.00	11.1
Thailand baht	40.55	44.44	-8.8
Philippine peso	43.04	51.35	-16.2
Singapore dollar	1.73	1.77	-2.1
Korean won	1,344.50	1,309.25	2.7
New Taiwan dollar	34.77	34.53	0.7
Hong Kong SAR dollar	7.75	7.80	-0.7
Japanese yen	136.98	119.25	14.9
Euro ¹	—	0.91	—

¹ US dollar against Euro.

Source: Kuala Lumpur Stock Exchange and Bank Negara Malaysia.

investment flows including official and private borrowings, are expected to turn negative and register a net outflow of USD1,400 million in 2001 for the first time since the mid-1990s, as shown in Table 3.3. The deterioration is due to market volatility, with investors avoiding risks as well as weakening economic fundamentals in some countries.

Since 1997, the **crisis-affected countries**, namely Indonesia, Republic of Korea, Malaysia, the Philippines and Thailand have continued to register net outflows. In 2001, these outflows are expected to increase to USD28,900 million. For the **other Asian emerging markets** net private capital flows, however, have improved since 1999 and are expected to continue to record positive flows of USD6,600 million in 2001. Hong Kong Special Administrative Region (SAR) is expected to register the largest net inflows in the region, amounting to USD1,600 million.

Countries in the **Middle East and Central Europe** that recorded an increase in net private capital flows totalling USD22,400 million in 1997 during the East Asian crisis have, since 1999, seen net outflows totalling USD34,000 million in 2001. Emerging markets in **Latin America**, on the other hand, are expected to continue registering positive net private capital inflows at USD39,000 million, although at a lower level compared to the period between 1996-1998. While emerging markets are expected to benefit from lower global interest rates, financial flows are expected to remain uncertain in 2001, given the downside risks of a more pronounced slowdown in the global economy, further significant deterioration in major equity markets and its contagion impact across emerging markets as well as the flight to quality in financial markets.

Foreign Direct Investment (FDI), which constitutes a part of net private capital flows, continues to expand rapidly and grew by 18% to record USD1.3 trillion in 2000. The bulk of global FDI continues to flow into **developed economies**, which accounted for USD1 trillion or about 75% of total global FDI flows in 2000, mainly contributed by the increase in cross-border mergers and acquisitions. The share of FDI flows to **developing economies** decelerated for the second consecutive year, accounting for 19% of

TABLE 3.3
Net Private Capital Flows
Emerging Market Economies¹
 (USD million)

	1997	1998	1999	2000	2001 ^e	2002 ^f
Total	119,100	69,100	58,600	500	-1,400	71,000
Crisis hit Asian countries ²	-5,900	-31,900	-18,300	-19,800	-28,900	-15,100
Other Asian countries	22,300	-14,100	8,900	4,300	6,600	11,600
Hong Kong SAR	11,600	-8,500	1,000	3,800	1,600	-2,600
Middle East & Central Europe	22,400	11,900	-1,100	-26,000	-34,000	-1,800
Latin America	68,300	72,700	44,600	36,700	39,000	57,800
Africa	8,800	9,800	10,800	3,500	10,800	12,000
Countries in transition	3,200	20,700	13,600	2,000	5,100	6,400

¹ Developing countries, countries in transition, the Republic of Korea, Singapore and Taiwan.

² Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand.

^e Estimate.

^f Forecast.

Source: IMF World Economic Outlook, October 2001.

total global FDI flows in 2000 or USD240,000 million compared to the highest level of 41% in 1994. The **economies in transition** maintained their share of 2% of total global FDI flows or USD27,000 million, while flows to the **least developed countries** (LDCs) remained marginal, accounting for only 0.3% of total global FDI flows.

Among the developing economies, FDI flows into **Asia** increased 44% from the previous year and reached a record level of USD143,000 million, accounting for 11% of total global FDI flows in 2000. The largest increase was recorded in **North East Asia**, particularly in China, Hong Kong SAR, the Republic of Korea and Taiwan, accounting for USD121,000 million or 9% of total global FDI flows. Among these economies, Hong Kong SAR experienced an unprecedented surge

in FDI inflows, amounting to USD64,000 million or 5% of total global FDI flows. The surge reflects the recovery from the recent financial crisis, additional funds parked by international companies in anticipation of China's entry into the World Trade Organisation (WTO) as well as major cross-border mergers and acquisitions in the telecommunications sector. FDI flows to China increased to USD41,000 million or 3% of total global FDI flows because of its anticipated entry into the WTO, impending new policy measures to encourage FDI as well as more cross-border mergers and acquisitions.

FDI flows to the **Association of South East Asian Nations** (ASEAN) in 2000 declined significantly to USD14,300 million or 1% of total global FDI flows and remained below the 3%

level achieved in the mid-1990s before the East Asian financial crisis. The decline is caused by greater competition for FDI from other countries in the region, notably Hong Kong SAR and China, and significant divestments in Indonesia since the recent crisis. **South Asia** also witnessed a drop in FDI flows by 1% in 2000 compared to the previous year. India, the largest recipient in the subcontinent, received USD2,300 million or 0.2% of total global FDI flows.

After a significant increase during the second half of the 1990s, FDI flows into **Latin America and the Caribbean** fell in 2000 to USD86,000 million (1999: USD110,260 million). The region accounts for 7% of total global FDI flows. Among the Latin American countries, the largest amount of FDI flows went to Brazil, totalling USD34,000 million or 2.6% of total global FDI flows largely into the services sector as well as privatisation projects, while Mexico accounted for the second largest at USD13,000 million or 1% of total global FDI flows. FDI flows into **Africa** declined to USD9,100 million or 0.7% of total global FDI flows because of fewer privatisation projects, and merger and acquisition deals in South Africa as well as lower returns from the petroleum sector in Angola. For 2001, however, global FDI flows are expected to decline as a result of the reduction in cross-border mergers and acquisitions as well as the slowdown in global economic activities.

Economic Situation in Advanced Countries

Growth in **advanced countries** is expected to decline to 1.3% (2000: 3.8%), as shown in *Table 3.4*, largely on account of the slowdown in the US and euro area as well as the weak performance in Japan. The recent attack on the US is expected to heighten uncertainties, particularly with regard to the magnitude and the duration of the slowdown in the US raising concerns of the possibility of a global recession. However, concerted efforts on several fronts, particularly the easing of monetary and fiscal policies to address weak consumer and investor confidence are anticipated to avert a possible slump.

The **United States** economy slowed sharply and is expected to remain weak in 2001, following almost a decade of buoyant expansion.

TABLE 3.4
Selected Advanced Countries:
Major Economic Indicators

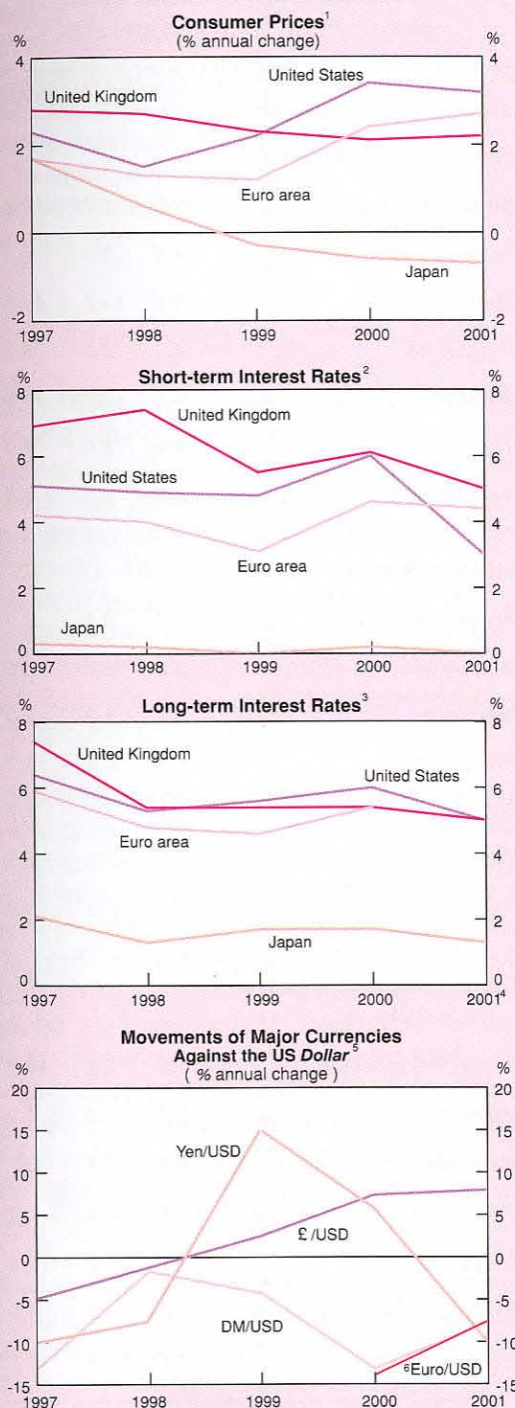
	2000	2001 ^a	2002 ^f
Gross Domestic Product (%)			
Advanced countries	3.8	1.3	2.1
United States	4.1	1.3	2.2
Japan	1.5	-0.5	0.2
United Kingdom	3.1	2.0	2.4
Germany	3.0	0.8	1.8
France	3.4	2.0	2.1
Italy	2.9	1.8	2.0
Euro area	3.5	1.8	2.2
Inflation (%)			
Advanced countries	2.3	2.4	1.7
United States	3.4	3.2	2.2
Japan	-0.6	-0.7	-0.7
United Kingdom	2.1	2.2	2.4
Germany	2.1	2.5	1.3
France	1.8	1.8	1.1
Italy	2.6	2.6	1.6
Euro area	2.4	2.7	1.7
Unemployment (%)			
Advanced countries	5.8	6.0	6.2
United States	4.0	4.7	5.3
Japan	4.7	5.0	5.6
United Kingdom	5.6	5.2	5.3
Germany	7.5	7.5	7.9
France	9.5	8.7	8.5
Italy	10.6	9.5	9.1
Euro area	8.8	8.4	8.4
Current Account Balance (USD million)			
Advanced countries	-248,400	-223,100	-200,500
United States	-444,700	-407,100	-404,900
Japan	116,900	88,800	108,900
United Kingdom	-24,500	-23,300	-29,500
Germany	-19,400	-14,400	-9,300
France	23,800	32,000	35,000
Italy	-5,700	-900	1,100
Euro area	-6,500	15,500	26,200

^a Estimate.

^f Forecast.

Source: IMF World Economic Outlook, October 2001.

CHART 3.1
Current Trends in Key Economic Determinants
in Industrial Countries



¹ 2001 figures are estimates.
² Averages of interest rates weighted by the average US dollar value.
³ Average yield on Government bonds.
⁴ Up to October 2001.
⁵ End of period except for 2001, up to September.
⁶ Euro was introduced in 1999.

Source: IMF, World Economic Outlook, October 2001.

Real GDP growth is expected to slow down significantly to 1.3% (2000: 4.1%). This projection has not taken into consideration the worst case scenario of the US economy entering into a recession resulting from the 11 September incident. The sharp slowdown which began in late 2000 was contributed largely by weak business sentiment due to a steep fall in ICT equipment and software spending, high interest rates, rising energy prices and a significant decline in equity prices, particularly technology stocks. The fall in stock markets further slowed down economic growth through negative wealth effects leading to a marked decline in domestic demand and continued weakening in consumer and business confidence. Manufacturing output contracted due to lagging sales and the resultant build-up in inventories, particularly in semiconductors and personal computers, which subsequently caused further cutbacks in production, affecting corporate earnings and employment prospects.

To support demand, monetary policy was eased with interest rates cut nine times up to early October totalling 400 basis points to 2.5%, while fiscal policy was also eased with tax cuts amounting to USD38,000 million. Inflationary pressures remain generally subdued, easing slightly to 3.2% (2000: 3.4%) as consumer spending weakened in the face of rising unemployment to 4.7% (2000: 4%). The number of unemployed reached about seven million persons up to September. The current account remains in deficit at 4% of GDP (2000: 4.5% of GDP) due to the slowing down of the export market, particularly for high-tech products, and the relatively stronger dollar. Following the 11 September attack on the US, the Government approved an allocation of USD40,000 million for security, relief and recovery efforts as well as a USD15,000 million bailout for airlines and cargo carriers.

The slowdown in the **euro area**, which began in the second half of 2000, is expected to deteriorate further in 2001 to 1.8% (2000: 3.5%). The slackening growth was due to weak domestic demand caused by higher oil prices in 2000, the mad cow and foot-and-mouth diseases, poor weather conditions, higher food prices and exacerbated by the weak external sector. Weaker

equity markets and technology sector performance as well as slower employment growth further aggravated the deceleration. Final domestic demand weakened most significantly in Germany and Italy, reflecting depressed private consumption and weaker gross fixed investment. Inflation in the euro area, which rose markedly initially due to the high oil and food prices, is expected to moderate slightly to 2.7% (2000: 2.4%). The euro economies have undertaken measures to counter the slowdown by injecting substantial liquidity in the financial system and lowering interest rates.

Among the euro economies, growth in **Germany** slowed down most significantly due to the impact of high energy prices in 2000 and a sharp deceleration in global demand for exports, dampening both investor confidence and export growth. Real GDP growth is expected to slow down to 0.8% (2000: 3%) following significant decline in trade. Growth in **Italy** is projected to slow down to 1.8% (2000: 2.9%) on account of weaker export performance. Real GDP growth in **France** is expected to moderate to 2% (2000: 3.4%) due to the impact of the global slowdown and downturn in the ICT sector. Nevertheless, among the three largest euro economies, the economy in France has remained relatively strong as household spending rebounded following robust job creation, tax cuts and stronger consumer confidence.

Outside the euro area, growth in the **United Kingdom** is projected to decline to 2% (2000: 3.1%). The manufacturing sector continues to be affected by the strength of the *sterling*, which reduced its competitiveness, as well as slowing global demand. Growth, however, is expected to be supported by easing monetary conditions, tax cuts and a strong pick-up in public spending for infrastructure and human capital development. Unemployment is expected to decline to 5.2% (2000: 5.6%) while inflation is expected to remain low at 2.2% (2000: 2.1%). The current account deficit is estimated to register USD23,300 million or 1.7% of GDP (2000: 1.7% of GDP).

Economic Situation in Developing Countries

Developing countries are expected to experience slower growth of 4.3% (2000: 5.8%) mainly on

TABLE 3.5

Selected ASEAN Countries: Major Economic Indicators

	2000	2001*	2002 [†]
Gross Domestic Product (%)			
Brunei Darussalam	3.0	2.7	2.5
Indonesia	4.8	3.0	4.3
Malaysia	8.3	1 - 2	4 - 5
Philippines	4.0	2.5	3.5
Singapore	9.9	-0.2	4.0
Thailand	4.4	2.0	4.0
Vietnam	5.5	4.5	6.0
Inflation Rate (%)			
Brunei Darussalam	1.5	2.1	2.0
Indonesia	3.8	10.8	7.0
Malaysia	1.6	1.3	<2.0
Philippines	4.3	6.5	5.7
Singapore	1.4	1.5	1.7
Thailand	1.5	2.5	2.7
Vietnam	-1.7	0.6	4.3
Current Account Balance (% of GDP)			
Brunei Darussalam	75.5	71.2	48.3
Indonesia	5.2	3.2	2.0
Malaysia	9.4	7.3	7.7
Philippines	12.5	6.4	7.2
Singapore	23.7	21.0	19.8
Thailand	7.5	4.4	3.2
Vietnam	2.1	1.3	-2.7

* Estimate.

[†] Forecast.

Source: IMF World Economic Outlook, October 2001.

account of the slowdown in the US economy as well as the downturn in global electronics demand.

Asian economies that rebounded in 2000 following the 1997-1998 financial crisis are expected to experience a marked slowdown given their high dependence on exports. The **Latin American** countries are also expected to register a sharper decline in growth to 1.7% (2000: 4.2%) due to their exposure to the US as well as expected contagion effects from weaknesses in Argentina and the energy crisis in Brazil.

ASEAN Economies

Most **ASEAN** economies have been severely affected by the global slowdown, particularly the sharper-than-expected deceleration of the US economy, as shown in *Table 3.5*. The severity of the impact depends on a number of factors, particularly the extent of dependence on electronic products and exports to the US. Nevertheless, given the improvements in macroeconomic fundamentals since the last Asian financial crisis, regional economies are better placed to manage external shocks.

Growth in **Singapore** registered a decline in the first two quarters of 2001, leading to a technical recession, primarily caused by its high dependence on electronic exports. Real GDP growth is expected to contract to 0.2% (2000: 9.9%) with unemployment increasing to 3.2% (2000: 3.1%). Inflation is expected to remain subdued at 1.5% (2000: 1.4%) due to weak consumer sentiment and lower retail sales. With declining exports, the current account surplus is expected to narrow to 21% of GDP (2000: 23.7% of GDP). In response to the slowdown, the Government introduced a USD1,200 million fiscal package in late July 2001.

Following two years of sustained growth after the crisis, real GDP in **Thailand** is projected to slow down to 2% (2000: 4.4%). The weaker global environment that affected export performance, concerns about the pace of debt restructuring and implementation of fiscal measures, high oil prices, rising electricity tariffs and the weaker *baht* have added uncertainties to the growth outlook. Inflation is expected to

increase to 2.5% (2000: 1.5%) while unemployment continues to rise. Several stimulus measures have been implemented, including the postponement of a rise in value-added tax (VAT), suspension of farmers' debt for three years as well as the establishment of the state-owned asset management company to clear up non-performing loans in the banking sector. The Government has also announced an additional fiscal stimulus package totalling USD1,100 million to revive domestic demand.

In the **Philippines**, the slowdown in the global economy, weaknesses in the financial sector, fiscal imbalances and slackening in both the industrial and services sectors, are expected to contribute to the deceleration in growth to 2.5% (2000: 4%). Unemployment is expected to increase and inflation to rise to 6.5%

TABLE 3.6

East Asian Economies: Major Economic Indicators

	2000	2001 ^a	2002 ^f
Gross Domestic Product (%)			
Japan	1.5	-0.5	0.2
China	8.0	7.5	7.1
Republic of Korea	8.8	2.5	4.5
Taiwan	6.0	-1.0	4.0
Inflation Rate (%)			
Japan	-0.6	-0.7	-0.7
China	0.4	1.0	1.5
Republic of Korea	2.3	4.4	3.4
Taiwan	1.3	0.1	0.8
Current Account Balance (% of GDP)			
Japan	2.5	2.2	2.6
China	1.9	1.0	0.2
Republic of Korea	2.4	2.6	2.1
Taiwan	2.9	2.5	2.6

^a Estimate.

^f Forecast.

Source: IMF World Economic Outlook, October 2001.

(2000: 4.3%) as a result of the lagged impact of the rise in fuel prices and consumer spending. The Government has implemented a budget deficit reduction programme to ensure stability and sustainability of its financial position.

In **Indonesia**, real GDP growth is expected to decline to 3% (2000: 4.8%) on account of weak domestic and external environment. The poor performance of its major trading partners is expected to contribute to slower growth in trade. Among other measures, the Government has launched a programme, which aims to strengthen confidence by maintaining low inflation and sound public finances, while promoting the recovery of investment and output through accelerated asset recovery and structural reforms.

East Asian Economies

Growth in **East Asian economies** is expected to slow down to 6.2% (2000: 8%), largely due to weak global growth and a deceleration in world electronics demand. Weak exports from the region contributed to the slowing down of growth with economies that depend heavily on electronic exports recording the sharpest slowdown. Since the beginning of the year, regional stock markets have seen greater volatility, especially in the ICT sector, while slowing growth has been accompanied by weakening regional currencies. The region's consumer prices are anticipated to edge upwards, despite weakening demand, mainly due to the impact of depreciating currencies and the lagged effects from past increases in energy prices.

In **Japan**, the economy which showed signs of recovery last year has weakened more sharply than expected, as shown in *Table 3.6*. Real GDP growth is expected to contract to 0.5% (2000: 1.5%), following continued weaknesses in consumer confidence and external demand as well as concerns about the slow pace of restructuring and renewed financial sector problems. Private consumption has weakened and is expected to deteriorate further due to uncertainties in economic prospects, compounded by continued weak labour market conditions and lower household incomes. Slowing export growth is expected to weigh heavily on domestic demand,

while private investment is forecast to weaken. In the external sector, trade is expected to slow down with export and import volumes in all the major markets decelerating. Consumer prices are expected to deflate further to 0.7% (2000: -0.6%) and unemployment is expected to increase to 5% (2000: 4.7%), the highest rate since the Second World War.

The economy in **China** has been the least affected by the global slowdown and continues to maintain its growth momentum. China is forecast to register strong GDP growth of 7.5% (2000: 8%). Growth will be underpinned by strong domestic demand, supportive macroeconomic policies and continuing restructuring efforts. The accommodative fiscal policy with deficit to GDP ratio being kept within 3%, easing monetary policy and greater outsourcing of high-tech production by foreign companies are expected to drive economic growth. China's entry into the WTO is envisaged to increase market opening and integrate it further with the global economy. With improved consumer sentiment following the increase in civil servants' wages amidst an environment of low interest rates, consumer prices are projected to rise moderately to 1% (2000: 0.4%).

The economy of the **Republic of Korea** is expected to decline sharply to 2.5% (2000: 8.8%) following its robust performance since the 1997-1998 Asian financial crisis, due to the slowdown in electronic exports as well as domestic demand. The downturn in retail sales and construction is expected to further weaken economic activity. Inflation is estimated to rise to 4.4% (2000: 2.3%), reflecting mainly increases in prices for fuel, medical care services and food. Since the crisis, the Government has pressed ahead with financial, corporate, labour and public sector restructuring to address the structural problems within the domestic economy. With the successful completion of the first and second stages of restructuring, the financial crisis was resolved within a short period, enabling the Government to fully repay the International Monetary Fund (IMF) loan ahead of schedule. These efforts are being continued with the launch of the third stage in January 2001. In view of the prospects for weaker external market performance, the Government has implemented an additional fiscal

TABLE 3.7

**Developing Countries:
Major Economic Indicators**

	Real GDP (%)			Inflation (%)			Current Account Balance (USD million)		
	2000	2001 ^a	2002 ^f	2000	2001 ^a	2002 ^f	2000	2001 ^a	2002 ^f
Latin America	4.2	1.7	3.6	8.1	6.2	4.9	-48,600	-57,900	-62,400
Africa	2.8	3.8	4.4	13.6	12.6	8.0	2,100	-3,900	-6,400
Middle East ¹	6.0	2.3	4.8	19.2	18.9	14.5	60,900	62,200	37,000
Asia	6.8	5.8	6.2	1.9	2.8	3.3	45,800	22,000	8,700

¹ Includes Malta and Turkey.

^a Estimate.

^f Forecast.

Source: IMF World Economic Outlook, October 2001.

stimulus package amounting to USD7,800 million to strengthen domestic demand.

In **Taiwan**, where ICT-related products account for about one third of total exports, the economy is expected to contract to 1% (2000: 6%), due to the slump in the global ICT sector and weak domestic demand. The weak performance of the stock market and the downturn in the real estate sector combined with rising unemployment and consumer prices are expected to further depress consumer confidence. Besides undertaking reforms in the financial sector, Taiwan also announced a USD1,800 million stimulus package to address the slowdown and revive consumer confidence.

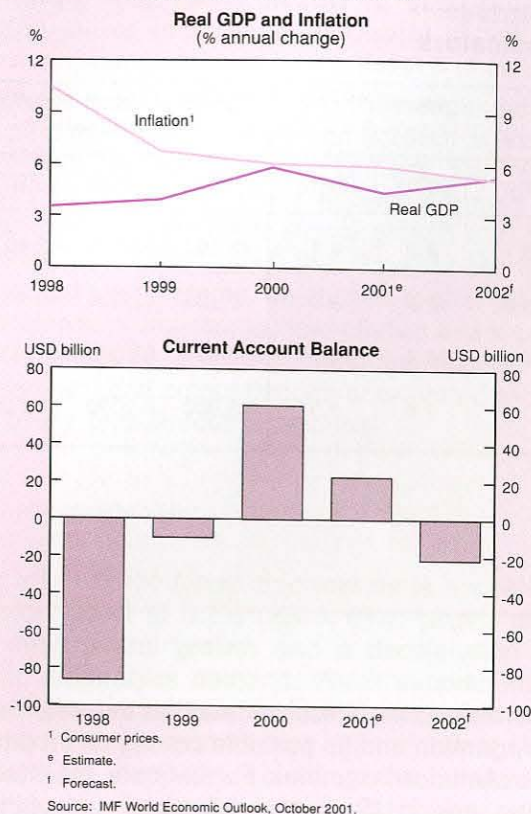
Latin America

In **Latin America**, following a strong recovery in 2000, regional growth is expected to decline to 1.7% (2000: 4.2%), as shown in *Table 3.7*. The decline reflects mainly the contagion from the weak US economy, weakening commodity prices and increasingly volatile international financial markets as well as domestic

macroeconomic difficulties, such as the weakness in Argentina and its possible contagion on other Latin American countries. Furthermore, the effects of the slowing US economy have been transmitted to Latin America through the strong trade and investment linkages. The extent of export dependence on the US, however, varies widely with Mexico deriving almost 90% of its export earnings from the US and Argentina, 15%. More importantly, however, a protracted slowdown in the US will affect capital flows into Latin American markets. Given the low domestic savings rate and large external debt, the region depends heavily on external sources of financing. In addition, lower commodity prices have adversely impacted the region as commodities are an important source of export revenue to all Latin American countries. At the same time, depreciating exchange rates, high public debt and higher interest rates add pressures on the economic performance of the region.

Since mid-1998, **Argentina** has been experiencing increasingly difficult fiscal and monetary conditions compounded further by the deteriorating global economic environment. Real GDP growth is expected to contract further by 1.4%

CHART 3.2
Developing Countries
Major Economic Indicators



(2000: -0.5%). In **Brazil**, sharp fall in the terms of trade and the depreciation of the Brazilian *real* continues to undermine their competitiveness. Real GDP is expected to fall to 2.2% (2000: 4.5%). The Government has initiated an economic programme to improve its fiscal position by strengthening the tax system and implementing a USD29,500 million debt swap to boost consumption and investment. The situation, however, is expected to remain fragile as economic activity is slow and confidence continues to be weak.

Africa

Growth in **Africa** is expected to rise to 3.8% (2000: 2.8%), as shown in *Table 3.7*, driven by the growth in oil-exporting countries of North and West Africa, faster recovery in South Africa as well as macroeconomic and structural reforms

undertaken in some countries. Oil-importing countries are, however, expected to be severely affected by high oil prices and external financial constraints. In **South Africa**, vulnerability to external shocks was substantially reduced with the implementation of sound macroeconomic and prudent public spending policies. Real GDP is projected to decline to 2.8% (2000: 3.4%). On the other hand, most **Sub-Sahara African economies**, which are highly dependent on primary commodity exports, continue to be vulnerable to volatile commodity prices. Weak prices in 2001 for agricultural commodities including coffee, cocoa, cotton and tobacco as well as minerals such as copper, aluminium and gold are expected to generate reduced earnings for these economies. Among the **least developed countries** in Africa, Botswana, Cameroon, Mozambique, Tanzania and Uganda are expected to record relatively strong real GDP growth of 5% and more, reflecting sound macroeconomic and structural policies.

Middle East

Oil price fluctuations are expected to continue to influence growth in the **Middle East**. Real GDP growth is expected to moderate to 2.3% (2000: 6%), as shown in *Table 3.7*, mainly reflecting the limits set on oil production by the Organisation of Petroleum Exporting Countries (OPEC). Higher oil revenues in 2000 have led to improvements in fiscal and external balances in many oil-exporting countries, especially Saudi Arabia, Kuwait, Oman and Yemen.

Recent regional trade initiatives including the negotiation of Association Agreements with the European Union, involving Egypt and Jordan, and entry of both countries into the WTO are expected to augur well for growth in the region. Many countries are pressing ahead with reforms such as improving the efficiency of the public sector, introducing privatisation and deregulating economic activities to promote domestic and foreign investment.

South Asia

Real GDP growth in **South Asia** is expected to slow down to 4.5% (2000: 5.8%), led by the

performance of the Indian economy. As a whole, all countries in South Asia are heavily dependent on energy imports and agricultural exports and remain vulnerable to the global economic environment as well as weather conditions.

Growth in **India**, which has expanded strongly in recent years, is expected to slow down to 4.5% (2000: 6%) due to rising energy prices, drought, floods and the earthquake experienced in 2001. The ICT sector, which accounts for 10% of total exports, has been relatively unaffected by the global slowdown and remains highly competitive as its software development and related services are cost effective. It continues to attract foreign investments, bringing about a fundamental change in the composition of India's exports.

As for **Pakistan**, real GDP growth is expected to continue to remain at 3.9% (2000: 3.9%). Its external sector remains fragile and its reserves continue to decline, while its currency is under pressure from the depreciation of other regional currencies. **Sri Lanka's** real GDP growth remains relatively strong at 4.5% (2000: 6%) supported by strong demand for its two major exports, garments and tea.

Economic Situation of Countries in Transition

The overall pace of economic activity of **countries in transition** is projected to slow down to 4% (2000: 6.3%), largely due to the rise in oil prices and weak performance of their trading partners, mainly in Europe. The main challenges facing the **Central Asian Republics** such as **Azerbaijan** and **Mongolia** are their small economies, remoteness from world markets, long-term isolation from global technology and capital flows, heavy dependence on primary production of energy, minerals and commodities and continuing vulnerability to external shocks arising from volatilities in international oil and commodity prices. The increase in domestic energy and transportation prices in 2000 has affected the manufacturing sector. Conditions have deteriorated further with the removal of Soviet fiscal subsidies, resulting in a sharp decline in

the provision of public services and amenities and the emergence of widespread poverty.

In the case of **Russia**, real GDP growth is projected to decline significantly to 4% (2000: 8.3%) as a result of increases in domestic energy prices and appreciation of the *rouble*. In most of the transition economies, however, growth is expected to improve with the implementation of structural and institutional reforms such as deregulation of small-and medium-size enterprises and reform of the electricity, railway and pension systems.

Regional Financial Cooperation

The 1997-1998 financial crisis that seriously affected the Asian region highlighted the vulnerability of the regional and global monetary and financial system to external shocks and systemic risks. The crisis also illustrated the high level of integration and interdependence of global and regional markets and underscored the urgent need to address the weaknesses in the international financial system. While efforts were focussed on putting in place sound and consistent macroeconomic policies at the national level, various cooperative efforts and initiatives have been launched, particularly by regional fora including ASEAN, ASEAN+3 (China, Japan and the Republic of Korea), the Asia Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM) and the Group of 15 (G-15). Such efforts concentrated on supplementing and complementing initiatives at the national level with particular emphasis on strengthening financial systems, restructuring the financial and corporate sectors, upgrading capacity building, reforming the international financial architecture as well as reviewing the challenges and risks brought about by globalisation.

ASEAN and ASEAN+3 Finance Ministers have made significant progress in the development of regional self-help and support mechanisms to assist members experiencing temporary liquidity or balance of payments problems. The first mechanism is the **ASEAN Swap Arrangement**, which took effect on 17 November 2000, and the second is the **Bilateral Swap Arrangement** which was agreed upon by the ASEAN+3 Finance Ministers in Chiang Mai on 6 May 2000.

The implementation of the ASEAN Swap Arrangement, which involves the enlargement of the facility's coverage from the original five members to all ten ASEAN member countries, also saw the size of the fund increasing from USD200 million to USD1,000 million. With the ASEAN Swap Arrangement in place, member countries can avail themselves to an unconditional and immediate short-term swap facility when faced with temporary liquidity or balance of payments problems.

The establishment of a network of bilateral swap arrangements among the ASEAN+3 members is in line with the East Asian efforts to enhance regional self-help and cooperative efforts to strengthen financial stability in the region. The bilateral swap arrangement enables member countries to withdraw up to 10% of the total facility without IMF conditionalities. Substantial progress has been made on the part of Japan with the conclusion of agreements with the Republic of Korea, Thailand, the Philippines and Malaysia. In respect of the Republic of Korea, Japan has concluded a *dollar-won* swap arrangement up to USD2,000 million on 4 July, in addition to the existing USD5,000 million swap arrangement under the Miyazawa Initiative. As for Thailand and the Philippines, Japan concluded a *dollar-baht* swap arrangement on 30 July and a *dollar-peso* swap arrangement on 27 August, respectively up to USD3,000 million. With regard to Malaysia, in addition to renewing a USD2,500 million swap arrangement under the Miyazawa Initiative, which is without any IMF conditionality, Japan also concluded a *dollar-ringgit* bilateral swap up to USD1,000 million on 5 October. Future progress will include similar swap arrangements between Malaysia and China as well as the Republic of Korea.

Another important development in East Asian cooperation is the agreement by ASEAN+3 Finance Ministers to establish a **Study Group** to examine ways to enhance the effectiveness of ASEAN+3 economic reviews and policy dialogues. Co-chaired by Malaysia and Japan, and comprising representatives of all ASEAN+3 members as well as the ASEAN Secretariat, the Study Group will develop the terms of reference, including the scope and time frame of activities.

ASEAN Finance Ministers also conducted their peer review, exchanging views on regional economic developments and prospects under the **ASEAN Surveillance Process (ASP)**, which was established in 1998 to undertake regional economic surveillance and act as an early warning system to alert members of any impending financial crisis. Another notable achievement by ASEAN Finance Ministers was the **Finance Work Programme** under the **Hanoi Plan of Action (HPA)**. This programme, launched at the ASEAN Leaders Summit in December 1999, is aimed at expediting economic recovery and promoting greater economic integration among ASEAN members. Among the activities included in the Finance Work Programme are proposals to enhance the greater use of ASEAN currencies, develop the capital market, monitor capital flows as well as liberalise financial services. A Mid-Term Review of the progress of the HPA will be tabled during the ASEAN Leaders Summit in November, including a review of the Finance Work Programme.

Other achievements by ASEAN Finance Ministers include efforts to harmonise insurance laws and regulations as well as facilitate transport and improve the logistics system within ASEAN. In the area of insurance, the establishment of the **ASEAN Insurance Training Research Institute** was announced by ASEAN Finance Ministers in April in Kuala Lumpur to serve as the main training centre for both regulators and practitioners as well as conduct research on areas of mutual interest. As for transport and logistics, ASEAN Finance Ministers also signed the protocol governing the **ASEAN Scheme for Compulsory Motor Vehicle Insurance** in April to facilitate the compensation of victims of road traffic accidents caused by transit transport operators and road transit transport vehicles for damage sustained as a result of such accidents.

The liberalisation of financial services among ASEAN members continues to be undertaken. In this regard, member countries are finalising offers to ensure further **financial sector liberalisation** under the ASEAN Framework Agreement on Services (AFAS). The current round of negotiations, which primarily focuses on increasing the level of foreign participation in terms of equity share and management expertise

in the banking and insurance sectors, is scheduled for completion before the end of 2001 with the signing of the Protocol To Implement The Package Of Commitments On Financial Services Under AFAS.

The **Eighth APEC Finance Ministers Meeting** held in September in Suzhou, China focussed on promoting sustainable and broad-based growth for increased prosperity within the APEC region. APEC Finance Ministers acknowledged that the process of globalisation must benefit all countries equitably. Progress was also achieved especially in efforts towards strengthening of financial systems including banking regulations and supervision, improving economic and corporate governance, strengthening financial disclosure and instituting measures to strengthen market disciplines on financial institutions and corporate entities, promoting e-finance and developing adequate social safety nets. APEC Finance Ministers also undertook a strategic review of their meetings in order to effectively complement the work of APEC as a whole and other international fora. In this regard, APEC Finance Ministers agreed on a set of strategic goals to promote sound and credible policies as well as how to achieve them.

At the inter-regional cooperation level, the **Third ASEM Finance Ministers Meeting** in January in Kobe, Japan examined economic and financial developments in Asia and Europe, exchange rate regimes, cooperative initiatives including the ASEM Trust Fund II, Kobe Research Project and customs cooperation, and strengthening the international financial system. ASEM Finance Ministers acknowledged that countries can adopt from a spectrum of possible exchange rate arrangements depending on various aspects such as the size of the economy, trade and investment structure, the sequencing of capital account liberalisation and the level of economic development. The meeting further recognised that no single arrangement fits all countries all the time and that the sustainability of an appropriate exchange rate regime within the context of individual fundamentals can be severely tested arising from weaknesses in the international financial system, which necessitates reforms. To the extent that much of the volatility in the

world foreign exchange market reflects misalignments in the G-3 (US, Japan and Europe) currency areas, it was emphasised that closer coordination in G-3 policies would be important to minimise the risks of an abrupt and disorderly adjustment in foreign exchange markets and thereby, avoid adverse consequences on the global economy.

Strengthening the International Financial Architecture

In efforts to secure a more conducive global economic environment, various regional and international fora have focussed on the **strengthening of the international financial architecture** (IFA). Progress in IFA reforms, while slow, especially in terms of the implementation of the various recommendations and proposals, has been attained in areas such as the introduction of prudential rules and safeguards to promote orderly cross-border capital flows. Originally focussed on debt flows, the Working Group of the Financial Stability Forum (FSF) on Capital Flows has since acknowledged that effective monitoring and risk management of cross-border flows should also include data on non-debt flows in recognition of the fact that they are more volatile and can lead to systemic risk. The recommendations of the FSF Working Group on Offshore Financial Centres (OFCs) have also been followed up by the IMF with a view to ensuring more effective disclosure and supervision of OFC activities. Furthermore, there is a consensus on the merits of temporary capital controls as a prudential measure to restore stability and facilitate economic and financial restructuring. There is also consensus on the need for orderly capital account liberalisation with agreement that countries be allowed to institute appropriate safeguards to facilitate an orderly and well-sequenced capital account liberalisation commensurate with the stage of development of the domestic financial system and supervisory framework.

Despite the progress in IFA reform, the perseverance on the part of the international community to sustain the momentum of the reform process must be maintained. Concern also

continues to be expressed over the slow progress of measures to promote greater transparency, particularly in terms of the need to ensure symmetrical treatment in encouraging both the public and private sectors to be more transparent in order to promote more efficient and stable financial markets. The need to directly regulate and monitor the activities of Highly Leveraged Institutions (HLIs) has also been underscored, particularly since HLIs have highly destabilising effects on the relatively small foreign exchanges and capital markets of emerging economies. In this connection, a global mechanism is required to monitor and manage capital flows to ensure the efficient functioning of international financial markets and minimise the risks of excessive volatility in international capital flows.

Another important element in strengthening the IFA is the need for reform of international financial institutions such as the IMF as well as other international and regional financial institutions. The IMF, in particular, needs to enhance its transparency and accountability, refocus on its core functions and improve its diagnostic capabilities. While some progress has been made, particularly in streamlining IMF facilities and in establishing an independent external evaluation office to ensure greater accountability in terms of its policy recommendations to members, more needs to be done. In this context, there is need for a speedy consensus on the formula for IMF quota allocations to better reflect developments in the world economic and financial system and ensure greater participation of developing countries in the IMF decision-making process. The importance of strengthening the IFA was reiterated during the G-15 Summit in May in Jakarta. Towards this end, Malaysia has taken the lead to convene a **meeting of G-15 experts** to examine the current work on IFA issues in order to contribute effectively and better articulate developing countries' positions on IFA reforms at the various international fora.

Outlook for 2002

Prospects for global growth in 2002 depend largely on the severity and duration of the slowdown in

the US economy. The 11 September attack on the US could tip the US economy into negative territory, particularly if consumer confidence and investor sentiment falter sharply. The financial costs of reconstruction and recovery as well as insurance claims are expected to be enormous. In addition, the unprecedented deterioration in the US stock market has also resulted in heavy sell-offs in the other major bourses and world financial markets. Similarly, the US *dollar* may come under pressure as investors continue to liquidate into other 'safe haven' currencies.

The slowdown in the US is further exacerbated by the contraction in Japan's economy. The uncertainties in Japan's economic performance will further erode confidence and worsen existing deflationary tendencies. As the second largest economy in the world, a protracted slowdown in Japan could destabilise the already fragile global financial markets and hamper early recovery in the region, given its role as a source of direct investment and as a market for the exports from the rest of Asia.

Given that the US is the world's largest economy, accounting for about 20% of world output and exports, the duration and severity of its economic slowdown will inevitably affect other economies. The contraction in Japan, if protracted, will further aggravate world economic performance.

Notwithstanding this, the US Administration has taken a series of measures to improve investor sentiment and consumer confidence as well as arrest the slide in the equity market. The Fed has responded by injecting liquidity into the market. To augment this measure, the Fed also undertook further cuts in interest rates. The US Congress has also passed a fiscal allocation of USD40,000 million, particularly for security, reconstruction and relief work as well as a USD15,000 million bailout of the aviation industry. In addition, further efforts are being undertaken to develop an economic stimulus package of up to USD75,000 million.

Other global monetary authorities have also responded to the US Authorities' efforts to inject liquidity to mitigate potential volatility in the

IMPACT OF THE 11 SEPTEMBER ATTACK ON THE US : WHAT ANALYSTS SAY

The 11 September attack on the US is expected to have wide-ranging impact and implications on world growth as well as industries related to the travel sector. In addition to the immediate impact on the world stock markets as well as the redirection of focus by the US government to recovery and reconstruction efforts, economists worldwide have begun computing the financial and monetary losses arising from the attack. Insurance claims and job losses particularly in the travel, hotel and airline industries are rising. With events still unfolding, economic forecasts are increasingly uncertain. The excerpts below, taken from various sources, highlight some of the initial response to the impact from the attack.

Making Economic Forecasts

"The terrorist attacks are without precedent in terms of scale, organisation and the resulting tragic loss of life. This makes comparisons with previous crises and forecasts of what happens next difficult." — Research note, ING Barings, 11 September.

".....the shock of 11 September was an especially devastating blow. A US-led global downturn has suddenly taken on a new and treacherous dynamic it now looks as if the downside could well be deeper than expected, with the duration a good deal longer..... the degree of uncertainty is, of course, extraordinarily high as we ponder our macro forecasting tasks we are slashing the lower boundary of our risk band on 2002 world GDP from 3.0% to 2.25%."

— Morgan Stanley Economists, Global Economic Forum, 21 September.

"..... the implications of the terrorist attack clearly go well beyond the economic sphere. But it has to be recognised that it took place at a difficult time for the global economy."

— Graham Hache, External Relations Department, IMF 26 September.

Tourism: A big backlash

U.S hotel occupancy began plummeting after airlines were grounded September 11..... from September 16-22, the average lodging was 52% full, down 26% from the same period last year. Occupancy in the Washington, D.C., metro area, where the Pentagon was attacked and Reagan National Airport remains closed, slipped 52%. New York, reeling from the World Trade Centre attack, saw a 42% drop. — USA Today, 28-30 September.

"Airlines, hotels and tour companies across Asia and Europe are seeing waves of cancellations as travellers postpone or cut back on voyages amid fears over security and potential military activity after the terror attacks in the United States last week. cancellations since the attacks could cost Japanese companies ¥50 billion (USD428 million) by next month..... in Hong Kong, incoming visitors from the United States, Europe, the Middle East and India have dropped by 50 percent in the last week..... countries across Asia will be hit hard by the drop in U.S. arrivals because many economies rely heavily on tourism."

— International Herald Tribune, 21 September.

"Cancellation for tour groups and hotels have been running as high as 85 percent in some Middle Eastern countries since September 11..... Jordan has reported a tourist cancellation rate of 85 percent, the worst in the region. It was 80 percent for Iran, where the government has built an USD800 million annual tourist business." — USA Today, 4 October.

Airlines: Job losses, grounding planes, suspending flights...

ALITALIA

- Cutting 4,000 jobs
- Slashing flights by 15%

DELTA AIRLINES

- Cutting 13,000 jobs
- Cutting capacity by 15%
- Grounding 60 aircraft

QANTAS

- Cutting executive staff by 10%
- Freeze salaries for top staff

AIR CANADA

- Cutting 5,000 jobs
- Reducing capacity by 20%
- Removing 84 planes

KLM

- Cutting 2,500 jobs
- Reducing capacity by 15%

SAS SCANDINAVIAN AIRLINES

- Laying off 1,100 employees
- Reducing capacity by 12%
- Raising fares by 5% on most routes

BRITISH AIRWAYS

- Cutting 7,000 jobs
- Reducing capacity 9%
- Taking 20 planes out of service
- Freeze pay raises for 36,000 workers in 2002

NORTHWEST AIRLINES

- Cutting 10,000 jobs

SWISSAIR

- Laying off 9,000 employees worldwide
- Reduce fares to attract more customers

From various sources.

Insurance Claims

"The insurance industry defines a catastrophe as an event that results in claims of USD25 million. Using that definition, this attack equalled 1,000 catastrophes. The bill for the destruction of four airplanes, the World Trade Centre properties and a sizable chunk of the Pentagon is projected to exceed USD25 billion, making the 11 September attack the most expensive disaster insurers have ever faced." — Newsweek, 24 September.

"The size and complexity of insurance claims after last week's attack on the World Trade Centre (WTC) break new ground. Estimates for the total cost to the insurance industry start at around \$30 billion, with Lloyd's of London set to take biggest hit....non-life insurance firms will face higher claims. The two WTC towers were insured for \$3.2 billion, the airlines whose aircraft crashed into them were insured for \$1.75 billion per event, and there will be smaller property and casualty claims." — The Economist, 20 September.

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