

## SOUTHEAST ASIA

**E**conomic performance varied considerably across Southeast Asia in the first half of 2001. Indonesia, Philippines, and Viet Nam outperformed other countries in the subregion due to resilience of domestic demand conditions. In Malaysia and Thailand, the global slowdown negatively impacted both the domestic and external sectors significantly. In 2002, exports are expected to stage a rebound in the subregion, with Malaysia and the Philippines the main beneficiaries.

Economic Indicator (percent)	1998	1999	2000	2001		2002	
				Current	ADO 2001	Current	ADO 2001
GDP growth	-9.1	3.2	5.2	2.4	4.0	3.3	4.8
Inflation rate	33.4	2.8	4.7	5.9	5.4	5.3	4.4
Export growth	-4.7	11.0	18.6	-5.3	8.6	5.8	12.1
Import growth	-26.2	7.0	23.5	0.5	16.1	7.7	19.1
Current account/GDP	4.7	6.7	5.9	2.8	3.6	1.8	3.0

**Economic Assessment.** On average across the subregion, the deceleration of the global economy, which turned out to be steeper than expected at the time of *ADO 2001*, led to a worse drop in GDP growth in the first half of 2001 than anticipated. This was due primarily to the small, open-economy characteristic of the ICT-dependent economies of Malaysia, Philippines, and Thailand, which together account for the majority of the subregion's real GDP. The slowdown has spread to most sectors across the subregion, except in Viet Nam. In fact, just as the subregion's growth in 2000 was generally broad based, so was the slowdown in the first half of 2001. This development is consistent with the views expressed in *ADO 2001*, which anticipated that income effects from the export sector would permeate to other sectors during the course of this year.

As envisaged in *ADO 2001*, intraregional trade has not provided a cushion against the slowdown in the industrialized economies and the consequent effect on the subregion. Much intraregional trade consists of exports and imports of electrical and electronic products, and so any slowdown in final demand for ICT products in the US, Japan, or Europe adversely affects this channel. The negative effect on export growth was seen in the fourth quarter of 2000 for most ICT products as new US orders for these products had started to tail off in the third quarter of the year.

The policy response to the slowing external environment across the subregion has been mixed. In Indonesia, the weak rupiah and high fiscal deficit have constrained the use of monetary and fiscal policy. In Malaysia, the Government has introduced a fiscal stimulus amounting to 2.3 percent of GDP for 2001 (in the form of infrastructure spending) while the central bank made a 50 basis point policy rate cut in September. In Thailand, the corresponding amount was 0.7 percent of GDP (in the form of tax cuts and support for SMEs), while perversely, in light of the slowing growth

environment, the 14-day repurchase rate was raised by 100 basis points in June 2001. As in Indonesia, the Philippines' large fiscal deficit has limited the use of fiscal policy, while monetary policy has brought the reverse repurchase rate down by 475 basis points since December 2000.

GDP growth performance varied considerably across the subregion. Growth in Indonesia, Philippines, and Viet Nam remained resilient, while in Malaysia and Thailand quarterly rates slowed markedly in the first half of 2001. Malaysia and Thailand bore the brunt of the effects of the slowing global economy because of their higher export-to-GDP ratios and relatively high concentration of ICT products in their exports. The Philippines shares these characteristics, but is an anomaly among the ICT export-dependent economies because of its relatively stable private consumption growth performance—due largely to agriculture—which, along with public sector construction spending, has somewhat compensated for its larger than anticipated export slowdown. In Indonesia, pent-up demand dating back to the crisis years, along with a resolution of the political crisis, has led to a pickup in investment and consumption spending. In Viet Nam, growth remained firm as the industry and services sectors held up, while performance of the agriculture sector fell slightly.

In 2000, private consumption had already returned to precrisis levels in Malaysia and the Philippines, hence further growth in the first half of 2001 was limited. In Thailand, private consumption has yet to reach its precrisis levels and the first half national income accounts data imply little prospect of a rebound in the second half of the year. Private consumption remained robust in Indonesia in the first half of 2001, due primarily to the strength of the rural economy.

Fixed investment, however, remains below precrisis levels in most subregional countries. Much of the pickup in investment in Malaysia, Philippines, and Thailand in 2000 was due to increased machinery and equipment investment, primarily in the electrical and electronic goods sector. Therefore, the decline in fixed investment in the first half of 2001 in Malaysia and Thailand can be explained by rising excess capacity stemming from a slowdown in the export sector. In the Philippines, public construction spending programs boosted investment in the first half of 2001. Fixed investment spending in Indonesia remained healthy over this period due to rising capacity utilization rates and the upgrading of plant and equipment to compensate for the negative investment rates of 1998 and 1999.

**Forecast.** GDP growth in 2001 has been revised downward to 2.4 percent from the 4.0 percent forecast in *ADO 2001*. The primary reasons for this are the unanticipated weakening of the global economy in the third quarter (reflecting US economic data); the 11 September attacks; continued weakness in the subregion's export sector and few prospects of a pickup until the first half of 2002; and the feedback effects of the export weakness on the domestic sector in Malaysia, Philippines, and Thailand. The larger than anticipated weakness of the external sector has also led to a downward revision of GDP growth in both Indonesia and Viet Nam. In early 2002, weaknesses in

the external sector are expected to remain in all sectors, as domestic demand conditions are unlikely to stage a strong recovery in the industrialized countries or other DMCs until the second half of the year. The subregion is expected to record GDP growth of 3.3 percent in 2002. For the less export-dependent countries, Indonesia and Viet Nam, GDP growth is forecast to outpace that of its neighbors in 2002, supported by favorable domestic demand conditions. In Malaysia, Philippines, and Thailand, the risks of a further delay in a pickup of global demand, along with the uncertainty created by the 11 September attacks, remain severe. These risks may weigh on the growth rate forecasts for 2002. Their effects are exacerbated by the economic structure of these three economies, which have limited autonomous drivers of growth.