Asian economic slump deepens

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Fresh economic indicators this week dented claims by Asian governments that the worst of the region's economic crisis is over. Data from a number of key countries suggest that the meltdown is deepening.

Malaysia's slump intensified with a sharp decline in the third quarter of the year, according to figures released by its central bank, Bank Negra. They show that the economy shrank by 8.6 percent in the September quarter, with heavy falls in manufacturing and construction.

The September figures are worse than the 6.8 percent contraction in the June quarter, which followed a 2.8 percent fall in the first three months of 1998. Official forecasts of a 4.8 percent reversal for the year as a whole will have to be further revised. Announcing the figures, Bank Negara governor Ali Abul Hassan admitted there would be a further contraction of Gross Domestic Product in the final quarter.

These are staggering figures for an economy that boasted annual growth rates of near 10 percent at the height of the so-called Asian miracle. Hassan, who was appointed after Prime Minister Mahathir's government introduced currency controls, claimed that the economy would rebound next year when the impact of the currency controls was fully felt. He blamed the International Monetary Fund-inspired high interest rate policies of former deputy prime minister and finance minister Anwar Ibrahim for the severity of the latest economic data.

Malaysia was not the only country to unveil disastrous results this week however.

Hong Kong said its GDP fell an estimated 7 percent in the third quarter from a year earlier. There had been hopes in financial and official circles that a 56 percent rise in the share market's Hang Seng Index since its low point in mid-August would fuel a recovery, but retail sales were down 20 percent in the September quarter from a year earlier.

The government--now an adjunct of the Beijing regime--was forced to lower its economic forecast to a 5 percent contraction for 1998. It also reported a budget deficit for the first seven months of the fiscal year of $HK50.16 billion ($US6.43 billion). This was well above the $HK21 billion target for the year that ends on March 31.

Thailand's recession is also deepening. The private investment index fell 22 percent in September from a year ago--the biggest drop in at least a decade--exceeding the 21 percent fall in August. The Bank of Thailand reported this week that loans by commercial banks fell by 2 percent during October, despite interest rate cuts. The decline in manufacturing output slowed slightly, falling 5.4 percent in October from a year earlier, compared with a revised 8.9 percent drop in September. However, exports remained 12.5 percent below a year ago.

The figures indicate that overseas companies and banks are still reluctant to invest. Prime Minister Chuan Leekpai's government is trying to push through bankruptcy and other measures designed to allow foreign companies to buy up the assets of failed companies--measures demanded under the IMF's rescue package. Chuan is facing intense opposition in the unelected Senate from those who represent the interests of local tycoons.

Industrial output in **South Korea**, the region's second largest economy, fell 8 percent in October, ending claims that a slight 0.1 percent rise in September marked the beginning of a turnaround. Wholesale and retail sales fell by an even greater amount--14 percent. President Kim Dae Jung's government reported that factories operated at just 68 percent of capacity in October.

Officials in the **Philippines** tried to present their economy as an exception to the gloom by producing what analysts described as "surprisingly solid third-quarter numbers". The government said the economy expanded 0.8 percent in the three months to September 30, reversing a 0.3 percent drop in the second quarter. However, this result was boosted by remittances from Filipinos forced to work overseas as contract labour.

After discounting their earnings, the GDP shrank by 0.1 percent in the quarter from a year earlier, on top of an 0.8 percent decline in the second quarter, indicating that the economy plunged into recession. The higher foreign remittances confirm that the slump has become so devastating that thousands more workers have had to leave their families behind and seek work elsewhere.

Nevertheless, like Hassan in Malaysia, National Economic and Development Authority Director Felipe Medalla asserted that the economy had turned the corner. He said investor confidence was slowly returning to the region, albeit cautiously. "We're not just taking about the Philippines but the region as a whole," he said, adding, "we still believe that we will recover at a much faster rate, probably a year ahead of everyone seriously affected by this crisis."

His remarks point to a fierce competition between the region's regimes to attract transnational investment back to their shores. Each government is straining to present the rosiest possible scenario in order to bolster their prospects against their regional and global rivals.

Yet claims of a prospective turnaround were further belied by the statistics from the region's giant economy-- **Japan**. It sank further into recession last month, despite the largest economic stimulus packages in history. Industrial output fell 8 percent year on year in October and overtime worked plunged 15 percent.

Another key indicator of labour demand--the number of job vacancies--slid from 48 to 49 per 100 applicants, the lowest level since the index began in 1963. The official jobless rate remained unchanged at the record level of 4.3 percent, with the rate for women climbing to 4.34 percent. Retail sales in turn dropped 5.5 percent during October, on top of September's 3.8 percent fall.

These data represented a "vicious cycle" that the Obuchi government's stimulus packages would be unlikely to arrest, said Jeffrey Young, economist at Salomon Smith Barney in Tokyo. He and other commentators are warning that the slump will become a deflationary spiral, where consumers, expecting price cuts in the future, postpone purchases and thus drive down demand. After adjusting for unusual weather, the core consumer price index slid 0.2 percent in November.

Japan is already suffering its worst slump since World War II. Production fell 0.7 percent in the year ended March 31, and the government expects it to contract another 1.8 percent in the current business year. This is in spite of the latest stimulus package, worth as much as 24 trillion yen ($US 200 billion). The Finance Ministry last week announced that the package, still being debated in a special parliamentary session, would include 4 trillion yen in individual income tax cuts and 2.3 trillion yen in corporate tax handouts.

Finance Minister Kiichi Miyazawa this week said it was too early to say that Japan's economy had bottomed out. His remarks cut across comments last week by Economic Planning Agency chief Taichi Sakaiya, who said recent indicators showed the economy would not deteriorate further.

When Asian stockmarkets regained ground in October and November in the wake of US interest rate cuts and Wall Street's sudden rise, many government officials and economists argued that the gains signalled that the bottom of the collapse was in sight. These statements have proved no more reliable than the initial claims that the crisis, which began in July 1997, was merely a glitch.

Throughout Asia, one of the main arguments of governments is that things cannot possibly get worse. Similar declarations were made in South Korea when industrial production in September rose for the first time this year.

Meanwhile, efforts by the Howard government in **Australia** to portray its national economy as the strongest in Asia have been deflated by the latest results on foreign trade and debt. In October, for the second month in a row, the country's goods and services balance was in deficit by more than $A1 billion. The $1.11 billion shortfall was the second largest ever, eclipsed only by a $1.162 billion gap in August 1989, recorded just as the economy slid into sharp recession. Treasurer Peter Costello conceded that the Asian economic crisis had had a severe impact on exports.

Net foreign debt rose to just under $233 billion, the equivalent of 41.5 percent of GDP, the highest figure since December 1993. Total foreign liabilities leapt to their highest recorded level, at 59.8 percent of GDP or $336 billion. The figures show the Asian breakdown has begun to impact on the Australian economy, despite the government's claims to have "fire-proofed" it.

Across the Tasman Sea, the **New Zealand** economy is already officially in recession, having contracted for two quarters in a row.

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