

US slowdown hits Asian economies

Nick Beams
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The downturn in the United States, where the estimated annual growth rate in the first quarter has been cut from 2 percent to 1.3 percent, is starting to have a significant impact on the once “miracle” economies of East Asia.

Across the region reports are coming in of falling exports, cuts in manufacturing and declining growth rates. According to the chief economist at UBS Warburg in Hong Kong, the overall effect of the slowdown in the US economy, which accounts for 25 percent of the region's exports, has been “brutal.”

The figures for the first three months of this year give a clear indication of the damage so far, amid fears that much worse may be to come.

In the year to April, exports dropped 11.3 percent in Taiwan, 10 percent in Thailand, 9.9 percent in Korea and 2.4 percent in Hong Kong.

The South Korean economy, considered to be the strongest in the region, grew only 3.7 percent in the first quarter, compared with 8.8 percent for the year 2000, and 12.6 percent for the corresponding quarter last year. The International Monetary Fund has cut its forecast for Korean growth in 2001 from 6.5 percent to 3.5 percent.

Malaysia, where electronics account for 59 percent of total exports, has been badly affected by the bursting of the high-tech bubble in the US. The economy grew by 3.1 percent in the first quarter of this year, compared to 8.3 percent growth in the year 2000.

In Indonesia, first quarter growth fell to 4 percent, compared to 4.8 percent last year, and the government statistics bureau expects the economy to slow further in the second quarter. In Thailand Prime Minister Thaksin maintains a growth rate of 5 percent is possible, but the IMF predicts 3 percent.

The Philippines' growth rate has fallen to its lowest level in two years—2.5 percent compared to the rate of 3.8 percent in the previous quarter. Year-on-year

growth in manufacturing, which accounts for about a quarter of the economy, fell to 2.4 percent in the first quarter from a rate of 4.4 percent for the final quarter last year. The main reason was the decline in shipments of semiconductors and computer equipment to the US and Japan, the country's two largest markets.

In Hong Kong the growth rate for the first quarter fell to 2.5 percent compared to 6.9 percent in the previous quarter and 14.1 percent a year earlier. Singapore, which expanded rapidly last year, recorded a growth rate of 4.5 percent in the first three months of this year compared to 11 percent in the previous quarter.

One of the most significant expressions of the impact of the US decline is the figures for the Taiwan economy. The growth rate for the first quarter fell to just 1.06 percent—the lowest in 26 years—after exports slumped by 17 percent. The official forecast is for a growth of 4 percent this year, but this is considered optimistic.

While the East Asian economies are being squeezed by the slowdown in the US, the situation in Japan goes from bad to worse.

Figures published earlier this week showed that industrial production fell by 1.7 percent in April compared to a month earlier, lifting the fall in the past four months to an annual rate of decline of 20 percent. Unemployment rose to 4.8 percent (just below the 4.9 percent record it reached last December) and spending by wage-earners was 4.4 percent down compared to a year ago.

And there are no signs of a turn around. On the contrary, with the major Japanese banks weighed down with bad debts, estimates of the country's long-term potential growth rate have fallen to 1-1.5 percent compared to almost 4 percent in the 1980s.

Moreover, there does not seem to be any alleviation of the bad debt problem. According to figures released by the Financial Supervisory Agency (FSA) this week,

the level of bad loans for the 16 biggest banks was 11,600 billion yen (\$95.8 billion) at the end of March. While this was 1,000 billion yen lower than at the end of September 2000, the banks had written off 4,400 billion yen in the intervening period. In other words, while the worst debts were being written off, the banks discovered 3,400 billion yen worth of new bad loans.

The FSA commissioner said the increase in the problem loans reflected “weakness in the general economy during the past fiscal year and deteriorating financial health of the debts” as well as the introduction of stricter guidelines on loan assessments.

In addition to the problems created by the US slowdown and the continued stagnation of Japan, so-called “emerging” economies are going to be affected by a downturn in international capital flows as a result of the financial turbulence in Argentina and Turkey, both of which have been on IMF bailout programs.

A report by the Institute of International Finance, an association of 320 of the world's largest banks and financial institutions, said private capital flows to “emerging markets” this year would drop to their lowest level since 1992, falling to \$140 billion from \$168 billion last year. The institute said economic growth in “emerging markets” would fall to 3.5 percent this year from more than 5.5 percent last year.

It warned of further financial turbulence if the US trade deficit continued to remain high and the US economy did not return to higher levels of growth. “A sharp and disorderly adjustment in exchange rates with the potential to disrupt markets and inhibit capital flows remains possible,” the report said.



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