Global technology slowdown hits "Asian tiger" economies

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The global slowdown and the short-lived "recoveries" of the Asian Tiger economies were the background to the meeting of Asia Pacific Economic Community (APEC) finance ministers held in China last week.

Four years on from the economic crisis that gripped the Asian region in 1997, statistics emerging from the region are once again pointing towards a deepening slump brought about largely by the slowdown in the United States, Japan and Europe.

A Reuters report of the gathering summed up the mood as follows: "The gloom hanging over the meeting is a stark contrast to the early days of APEC a decade ago, when participants believed they were witnessing the dawn of a 'Pacific Century' of startling economic growth that would eclipse the rest of the world."

What a difference a decade makes, or one could say just 12 months in this case. "When APEC finance ministers gathered last year in Brunei," the Reuters report continued, "Asia's recovery from crisis seemed comfortably on track. No more."

"The US economic slowdown and slumping exports have weighed in on Asia. Singapore slipped into recession in the first half, Japan and Hong Kong teeter on the edge and Taiwan has suffered its first contraction in 26 years."

One of the most striking manifestations of the turnaround is the case of Singapore. Having survived the Asian financial crisis virtually unscathed, the island economy has recorded a 0.9 contraction in its economy for the second quarter of this year. The slump in the high-tech market is at the core of the problems.

According to Sim Wong Hoo, the head of electronics company Creative Technology: "This is the worst of times. It's hardware, software, Internet, chips, everything."

His firm, which designs and produces digital entertainment products for personal computers and the Internet, announced a 10 percent cut in its workforce of 5,500 earlier this year. Wong Hoo said Singapore's manufacturing output had fallen 13.2 percent from a year earlier, with the key electronics sector suffering a fall of 32.7 percent.

Singapore's exports showed a record 24 percent decline in July from a year earlier. Unemployment is expected to rise to 4 percent, up from 2.6 percent mid year.

The government has predicted that 20,000 workers will lose their jobs this year, doubling last year's job losses. Of the 3,250 people thrown out of work in the first quarter of this year, half were white-collar workers.

The Malaysian economy slumped 0.5 per cent in the second quarter of this year. Industrial production fell 3.7 percent in May following a fall of 1.7 percent in April. In the first seven months of the year more than 22,000 jobs have been lost and unions have warned that the global downturn will see up to 90,000 jobs lost in the electronics sector, which accounts for more than 55 percent of Malaysian exports.

Hardest hit has been the Penang region, home to Malaysia's "silicon island", where 12,000 jobs have been axed by electronics firms during the first half of 2001.

The Philippines has experienced an export slump of 24.7 percent in June compared to a year earlier. This was the fifth consecutive monthly decline and followed an 11.4 percent drop in May. Job losses have accompanied the export slump. Japan's Kenwood Corp has announced plans to shut its Philippine plant which produces CD-ROM drivers and other computer goods—axing 1000 jobs—while US chipmaker Integrated

Device Technology has said it will cut 700 jobs from its factories in the Philippines and Malaysia.

Unemployment is soaring in the Philippines with the April figure of 4.5 million or 13.3 percent the highest ever recorded in the country.

South Korean exports fell by a massive 20 percent in July, compared to the same period last year and the country's account surplus shrank by more than half, to its lowest level in 16 months with analysts predicting a deficit next month. "Korea will see a more severe decline in exports as the world economic slump continues," commented Lee Sang Jae, an economist at Hyundai Securities.

The export decline has particularly affected Korea's electronics and automotive sectors. Samsung Electronics has announced it will cut its workforce by 10 percent. Samsung Life Insurance will eliminate 1,050 jobs from its combined workforce of 8,000 and the construction division of Samsung Corp has also planned a 10 percent cut in job levels.

The Taiwanese economy is among the hardest hit by the global technology downturn. Taiwan recorded its lowest first quarter growth in 26 years—just 1.1 percent. In June, exports were down 16.6 percent compared to a year earlier, following falls of 11.3 percent in April and 22.6 percent in May.

The unemployment rate increased for the 11th consecutive month in July to a record level of 4.7 per cent. Since June, 218,000 workers have lost their jobs through factory closures or layoffs.

According to a recent Bloomberg report, Taiwan has the fastest growing unemployment rate in Asia as electronics makers cut costs and manufacturers, from textiles to bike makers, move factories to lower-cost China. Wage levels in the Chinese sector are said to be one tenth of those in Taiwan.

As Entrust Securities analyst David Lee told Bloomberg: "The trouble is the traditional sector keeps firing people and moving production to China and high tech companies are cutting production and scaling back expansion. In the short term, money will leave Taiwan and domestic production will shrink, leading to more layoffs and production scalebacks."

Last year China's technology exports increased by a massive 50 per cent to $37 billion. As one Singaporean company executive, previously based in Taiwan, commented: "I calculate that Chinese competitors can make the same quality of rigid circuit boards at half the price."

Not only are the electronics companies moving to China to take advantage of cheaper labour they also see China as a massive emerging market for personal computers and mobile phones.

According to a recent article in the magazine *Asiaweek*: "In addition to low costs and a huge market, China offers abundant land, rapidly improving infrastructure and soon, World Trade Organisation membership. It's a combination the rest of the world finds irresistible. The shift in capital flows is just as dramatic. In a recent report, ABN AMRO commented that China's willingness to tackle structural reform is giving it the edge over Southeast Asian countries in luring foreign investment—including new foreign funded manufacturing facilities. China is projected to attract $43 billion in foreign direct investment this year, up from $38 billion in 2000. In South East Asia, meanwhile, capital is flowing out to the tune of $3.5 billion this year."

"Political leaders in Southeast Asia," the article continued, "are aware of the threat from the north—but seem helpless to defend themselves against it. An uncharacteristically defeatist Mahatir Mohamad said in late June that he expected China to mop up 80 percent of new overseas investment into Asia."

"They (China) are definitely going to attract foreign investment and it's going to be substantive and will cost us in Southeast Asia. But we must learn to live with this," he told journalists.

The collapse of the Asian "economic miracle" in 1997-98 marked a turning point in the global economy—an expression of deep-going recessionary trends. Now that those trends have come to the surface what is emerging in Asia is a never-ending struggle to attract investment and market share in a contracting world economy. For working people this means an intensified assault on jobs and living standards, with the high-tech area sector—supposedly the road to prosperity—among the hardest hit.