

# **Outlook for China and the Region**

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## **About the Speaker**

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## **THE WTO, CHINA, AND SOUTHEAST ASIA**

This paper will focus on the consequences of China entering the World Trade Organization (WTO), the consequences for China's own economy, the impact on Southeast Asia, and also the possible impact on the rest of the world. Let us hope that 2002 will be a less exciting year than 2001. For me 2002 will be a very exciting year because, in September, I will have to take up where my friend, Mr Mike Moore (the former New Zealand Prime Minister), is going to leave off as director general of the WTO. This is going to be an important period, a so-called transition period for both of us. I have given several interviews in which I said this would be a highly challenging task in many ways.

At the November 4th Ministerial Conference of the WTO we launched the future work programme for the WTO. Many try to avoid using the word "new round", because many countries, particularly the European countries, have objections to the word "global round" because past rounds arguably have not brought them the kind of benefits that they were expecting. Thus we avoided calling this the launch of a "new round", calling it instead the launch of a "work programme". This time around, of course, the launch was difficult. In 1999, at the Seattle Meeting, there was no launch in spite of the tremendous efforts from the leading member states of the WTO. The more recent launch was difficult, but according to my own opinion, the completion of a round will be even more complicated. There are now 144 member countries of the World Trade Organization, and in order to complete the round all these countries will have to agree with the final position. That means that there can be no serious objections in the final phase so that we can complete the new round. At Doha we agreed that the new round should not last beyond the year 2005 (or January 2005 to be precise). It is supposed to be a three-year round. In order to reap the real

benefits from the round, the round should not be allowed to drag on indefinitely. The duration of the former round, the Uruguay Round, which was a total of eight years, was one of the reasons why the Uruguay Round has not really brought the kind of benefits for world trade that anticipated because, in the meantime, countries increased their subsidies, invented new non-tariff barriers (NTB), and all sorts of other measures so that at the end of the Round improvements had been undermined. This time around, we will try to be as efficient as possible and so it rests upon my shoulders to see to it that the Round only lasts for three years.

But if one looks at the agenda of the Round, contained in the Ministerial Declaration at Doha, one should not be surprised to see that the wishes of all and sundry are included in the Declaration. If you look at the agricultural text, everyone's wishes are included in many different directions. We can go on to negotiate the reduction of subsidies, although we can equally leave subsidies out, because the Declaration contains no pre-judgement on the final outcome. In spite of the need to move towards a rapid elimination of all kinds of different subsidies, including domestic and particularly export subsidies for the farm sector, there is no outright consensus at the moment in spite of the fact that we have been negotiating this for a number of years. Agriculture is part of a built-in agenda left over from the previous Uruguay Round. This means we are supposed to negotiate on agriculture with or without a new round.

Of course a lot of expectations will be heaped upon my office. One challenge will lie with the European countries, which seek to have more say in the WTO, at least insofar as determining the kind of work programme and the finalization of the work programme. An area to be negotiated concerns benefits in the areas where there is trade in labour intensive industries and farm trade. Treatment of NTBs needs to be taken seriously, in particular with the penetration of so-called anti-dumping activities that have resulted in the blocking of goods coming from the third world.

China's membership of the WTO at this moment is, of course, very appropriate, and very timely, but no one planned it that way. China has been negotiating for the last 15 years to gain admission. In the beginning, before GATT was turned into the World Trade Organization in 1994, China was negotiating to resume its old place at the table because China was one of the founding members of

the GATT in 1947. China withdrew from GATT after 1949, but after several decades wanted to resume its old signatory membership.

China's involvement in world trade attracts a lot of need for negotiations — both economic and non-economic negotiations. China attempted to enter as a founding member of the World Trade Organization in 1994, but this was not possible due to political difficulties. So China could not join the WTO as a founding member. As a result, negotiations on China's entry were turned from the resumption of China's place in the organization, to which China once belonged, into an accession negotiation. Given the passage of time, the range of topics that China will have to handle with its trading partners has been widened. For example, while agriculture was left out for many years it is now part of the process. The legal framework, initially kept to some of the basic rules and regulations on trade, has now widened to include many rules and regulations, particularly on intellectual property rights protection.

The necessary reforms of the Chinese economy were made towards the end of the negotiations. The liberalization not only occurred in terms of the international trade regime between China and the rest of the world, but also engaged in the kind of reforms that would open up important sectors in China like banking, insurance, services, wholesale and retail trading in China, telecommunications, automotive sectors and so on. So it involved actually not only trade negotiations *per se*, but it has deep-seated implications for China's own economy. But does this kind of agreement have negative implications for the Chinese economy? Will this bring about deflationary trends in the Chinese economy? I do not think so. I would say that since China started with its own domestic reform in 1978, some 24 years ago, China has already committed itself to drastic reforms in various sectors and privatization. Many of the more straight-forward reforms have been undertaken. What we will witness in the next few decades in China will be the more difficult reforms across the various sectors as part of the accession protocol with the WTO.

This accession protocol, the commitments that China has entered into with the WTO, will help to generate a consistent and continuous momentum within China to go with the domestic reforms. Of course the kind of biting reforms that require fundamental changes in China will go on for years to come and will have to survive

the transition from the present leadership of China. But the prospective leadership changes in the next couple of years should not undermine the reform agenda. It is in China's own interest that the commitment with the WTO will come at a time when a change of leadership in China is in the cards. The momentum of reform will continue and this is truly important for China, given its emerging role in the international trading system. The continuation of China's reform process is partly derived from the impetus coming from the WTO. To reap benefits from the multi-lateral trading system, it is much simpler for China to achieve changes, even before the achievement of its accession, as China has already successfully emerged into the world trading system in the last couple of years. For example, from seemingly out of nowhere a couple of years ago, China has now emerged to be one of the world's largest producers of IT equipment. Having now surpassed many major industries around the world, China is probably second only to Japan in terms of IT equipment production. Soon China may even surpass Japan in terms of IT production capacity. For the last couple of years, China's economy has been growing consistently on the basis of an average of 7 percent, despite the fact that the rest of Asia has been going through a traumatic period of ups and downs in their own economies — sometimes even suffering from recession. But China has consistently been successful in maintaining its high average rate of growth. Of course people can comment on, and dispute, the reliability of the figures, but nevertheless, the new investments in China are clearly visible. There are new ports, new roads, new power plants, new buildings, and substantial new investments. For the time being investments might be limited only to some of the eastern regions and the coastal areas, but with the proliferation of export-oriented industries, and trade-oriented industries, the spin-off from the expanding trading activities will spread into the inland areas in China and will help supplement China's development programmes targetted at the inland and western areas. The rest of China will ultimately benefit from this transformation.

From the outset I would say that China's emergence into the world trading system, an economy open to foreign direct investment, has already been achieved before the accession of China into the World Trade Organization. Even before China's accession, most of the major economies of the world have already granted China the privilege of an MFN (Most Favoured Nation) treatment. MFN status had

not been given to China on a permanent basis, it is extended year by year, such as the process that goes through the US Congress on an annual basis. Every year there were debates in the UN Congress about extending China's MFN status, and some countries sometimes have not given China the full range of MFN status on all Chinese products. But overall, most of the world's major economies have granted MFN treatment to trade with China even before China's entry into the WTO. The permanent status of China as a member country of the WTO, therefore, does not involve much of a change. The main change will be more certainty there, with MFN status being granted on a permanent basis for China.

China has maintained a healthy growth of exports, probably around 15 to 20 percent per year even during the worst part of the crisis. Chinese products have been competitive, particularly in the labour-intensive areas. However, what will occur with China's entry into the WTO will be the more persistent transfer of technology into the Chinese economy, to the extent that it will transform the Chinese economy from being one based on competitiveness only in the labour-intensive fields into an area where China will become more competitive in technology-based industries. Prospects for the future competitiveness of China will not be based mainly on how far China can penetrate the world trading system with its own labour-intensive products, but will be gauged on the basis of how far China can engage in the transfer of technology, so that China can transform its economy into one based on high-tech production.

China has now gained the position of being the second largest location for foreign investments, only after the United States. Foreign direct investments (FDI) flowing into China amount to around US\$40 billion on average per year, and that was before China's accession to the WTO. ASEAN as a whole has only been able to mobilize about US\$26 billion of FDI in the last few years, in a trend in contrast to China's situation. China has risen from an FDI total of US\$20 billion to US\$40 billion in the last decade, whereas Southeast Asia saw its own mobilization of FDI tumbling from more than US\$30 billion to well below that figure and with the prospect of suffering even more downfall in the inflows of FDI. During the crisis, the FDI flows into ASEAN greatly subsided.

These are all important factors that have taken place before the accession. If there is any fear about China's emergence into the world trading system because of

WTO accession, then one should consider that China is already a powerful economic player. Certainly I would like to recommend that we all look at China's entry as a wake-up call, or a challenge, that we all have to face up to in the next couple of years. It is a wake-up call particularly for Southeast Asia, mainly because we have been very lax in our own reform efforts, in all of our countries, including my own country, Thailand. The time that it has taken China to negotiate its way into the WTO, namely the last 15 years, should have been the time that Southeast Asia should have gauged the development process in China and made appropriate adjustments accordingly. Of course, we have been saddled with the Asian financial crisis, but this, again, should have been another wake-up call. Furthermore, the strong currency devaluation in China in 1994 brought China more visibly into the world market at that time.

In actual fact China's entry would help most economies around the world who are prepared to enter into competition with China, as they have a chance to penetrate the Chinese market. Much of the world granted China MFN treatment long before China was a member of the WTO, without having reciprocal treatment granted by China in return. Meanwhile, China was adopting very high tariff walls, all kinds of non-tariff impediments, import quotas, quotas on all state enterprises, and even quotas from provincial authorities on imported products. Protectionism of all types was used to shelter industrial investments throughout China. In the automobile industries, practically all the major provinces in China wanted to be engaged in automotive production, so they put up their own protectionist walls, even against each other. So, protection against the rest of the world, protection within China itself, and state enterprises, of course, which have special protection even when they compete against the private owned industries in China, presented a complex situation for interested foreign companies.

With accession, China will have to overhaul its economy in a big way. In what is a complex subject, some observations can be offered. First, China will have to overhaul its market system. Market reforms mean that pricing will have to be left more or less to the market mechanism, unlike in the past. China has to reduce price controls, and only retain price controls where it is absolutely necessary. For necessary public goods, China will in fact be allowed to adopt certain kinds of control.

China cannot adopt double pricing for products that will compete in the world market anymore. One pricing scheme for the domestic market, and another pricing scheme for the international market, will have to be eliminated in China. The market pricing mechanism will put China more into the realm of a market economy than before. Foreign investors in the past, in China, were obliged to balance their international trade, meaning they had to import goods up to the value that they exported goods. Balancing of foreign exchange earnings will be eliminated. Requirements to export a certain level of production in China by foreign investments will also be eliminated. There will be no special conditions on foreign investments to export certain levels of products out of China. There will also be no requirement for foreign investors to adopt only locally acquired technologies. Foreign investors will be able to source their technologies from inside China, or outside of China, and this has great implications, particularly for the telecommunication sector.

In the past, participation in the services industry in China has been very limited — in logistics, in transportation, in after-sales services, in repairing works, in packaging, in transportation — and all of these will be opened up between the next three years. They will be open to Chinese businesses as well as to foreign investors. Foreign investors investing in automotive industries in China can only produce cars, but they have not been allowed to sell these cars domestically, or even service their own cars. So this has restricted the amount of investment by foreign automobile producers into China. Now investors will be able to extend their business through the whole supply chain of their products, and this will attract a lot more investments from abroad.

In the telecommunication sector, gradually, over two to six years, permission will be granted for foreigners to invest up to the level of 49% in this sector. Of course this is something that has been heavily debated during the negotiating period because telecommunications has been the area where great strides have been made in China. But it has also been the area where control has been the strictest. It was very difficult to discuss the opening up of the telecommunication sector in the past, but with the accession of China to the WTO, foreign investors will be able to participate through ownership, starting from 25 percent in the next couple of years to 49 percent within the next six years.

In the banking system great changes can be expected as restrictions on the participation and location of foreign financial institutions will be eliminated within the next three years. Within five years there will be national treatment for all foreign financial institutions; in this case it means they can do business in the local currency with Chinese businesses and Chinese individuals, which is currently restricted.

So within five years China will have almost fully opened up, as these examples show. There are around 2000 laws and legal provisions to be amended as China becomes more involved with international trade. I was told by MOFTIC (Ministry of Foreign Trade of China) that they have actually been seriously studying the bulk of the 2000 laws and rules on international trade — and this marks another tremendous task that China will have to face up to in the next few years, which is to reform their legal framework. The implication is that the Chinese economy will become more transparent, as the rules of law become more applicable and more uniformly applied to all concerned — not biased in favour to any particular interest group. Foreign investors will be treated in a more equal manner so that when there is conflict, there will be arbitration procedures to reconcile the differences. China will, for the first time, enact administrative laws which will make more transparent the current unclear laws on administrative aspects in China.

Transparency, uniformity, and consistency in the legal framework will mean that China will be very competitive, not only in world trade, but in attracting more investment. China will, however, suffer some economic pain in the next few years from the relocation of people, of industries, and of more unemployment coming out of the farming sector in China. (About 600 to 800 million people are in the farming sector in China.) The farming reform needs to be executed as quickly as possible, because the moment China enters into the WTO, China will have to eliminate immediately all forms of export subsidies. China will be granted only some domestic subsidies, the so-called amber box treatment, which involve the kind of subsidies that would have some implications on market allocations. These subsidies would be allowed only up to the level of 8.5 percent of China's gross domestic product. Developing European countries are usually allowed the amber box subsidies of up to 10 percent of their GDP, while advanced countries are allowed only a 5 percent intervention.

In spite of the fact that China will have to make a tremendous adjustment in their banking industry, their state-owned enterprises, and in their farming sector, this is a continuation of the momentum of existing reform. It will ultimately be very good for China. It could produce, on average, around 10 million newly unemployed every year, but it will create more employment beyond the 10 million places lost because of advances in the growing high-tech market share of China. We have made certain predictions that the accession of China into WTO would add, on an annual basis for the next 10 years, one additional percentage point growth in China. That may not seem like much, but at least it would give China additional impetus. It will enhance China's economic growth to roughly about 7 percent on average.

Of course the impact of China's entry into the WTO on the ASEAN economies will be something that we need to pay a lot of attention to, and I think the leaders in Southeast Asia have actually duly paid attention to this. We have noticed that China's trade with ASEAN has been growing healthily. Growth in trade between China and ASEAN has been on average achieving an annual growth of around 20 percent, as compared to only 15 percent of trade between China and the rest of the world. There will be an expansion of this market share before China's entry into the WTO. Negotiations between China and ASEAN before China enters into WTO will result in a strong reduction in tariffs. For agriculture, tariffs will be reduced from about 20 percent to only 14½ percent; for industrial tariffs there will be a reduction from 15 to 10 percent. For ASEAN there will be more room to expand trade with China and so the acceleration of pace in the expanding trade with China will continue into the future.

ASEAN is now China's fifth largest trading partner, after Japan, the US, the EU, Hong Kong and ASEAN. I am sure that ASEAN can climb up the ladder quite soon. Diversification of trade between ASEAN and China has been quite encouraging, as 10 years ago most of the trade between China and ASEAN revolved around raw materials like oil, or bulk commodities like rice, vegetable fats and oil, or wood products. More than half of Southeast Asia's trade with China was centred around primary products. From the second half of the 1990s the composition of trade has altered towards manufactured products, often with a high technological input. Now the trading in equipment for computers, machinery, and electrical equipment

amounts to about 40 percent of trade between China and Southeast Asia. One would expect this trend to continue.

For the countries which are well prepared, the richer countries which have a certain complementarity in their production structure with China, like Japan, South Korea, and some of the more advanced countries in Southeast Asia like Singapore, Malaysia, and to a certain extent, Thailand, they will also gain. But the new members of ASEAN, mainly Vietnam, Cambodia, Laos and Myanmar, will have to rapidly reform their production system because they will be out-competed by Chinese penetration in the labour-intensive fields. China will be expanding its textile and apparel trade more rapidly than before. But because of the fear that China may dominate the world trade in textiles and apparel, there has been an additional requirement in the accession protocol with the WTO. The Agreement on Textiles and Clothing (ATC) provides for the total elimination of quotas on textile trade by the year 2005. This will not be applicable to China for the time being. For China, total elimination of the quota would take place three years later than that, namely in 2008. This is in line with existing provisions that give time for some of the poorer country members of the WTO to make further adjustments, so they have been given three more years to make adjustments. But the accession protocol for China, for the next ten years, provides a special provision that countries can put up special safeguards against rapid surges of goods to be imported from China. This is an additional protection against sudden surges of products from China that might produce injury in the economies of the member countries of the WTO.

One hopes regional fears are allayed. China will be going down the road of rapid export expansion, assisted by accession, helped by more permanent MFN treatment, and aided by a greater degree of domestic transparency. But it will not be a sudden landslide change because of the WTO provisions that allow for a gradual advancement of China into the world trading system. As for ASEAN in particular, it gives rise to the need to reform their own economies faster than in the past, and also to put in more assistance to the poorer economies in ASEAN so they might be able to catch up or to reduce the gap with the rest of ASEAN and be more competitive.

It is most advisable, of course, for ASEAN to embark upon this economic integration exercise with China. We have already started with the Chiang Mai

Initiative, a bilateral swap agreement that will help in terms of fast movements in the foreign exchange market, probably mainly due to speculative movements, and this will be one of the foundations of economic cooperation of the future. I would say it is a correct approach for cooperation between Southeast Asia and China, because we will need more time to negotiate a full free trade agreement with China. According to the current agreement that has been concluded between China and ASEAN, it might take 10 years before the free trade arrangement will be agreed upon. But financial agreements that will prevent the recurrence of a crisis, which would have strong negative implications for international trade, particularly trade between China and Southeast Asia, would be a priority.

Economic partnership between China and Southeast Asia must be highly recommended and should be embarked upon by all concerned as soon as possible. It should not be limited to trade cooperation, but should also cover financial cooperation in the areas of investment. The ASEAN Investment Area (AIA) could be reconsidered with China's participation.

China's outbound investment into Southeast Asia now amounts to something like few hundred million US dollars — less than one percent of the total FDI of Southeast Asia — while Southeast Asia is one of the major investors in China. This pattern can change when China becomes more prosperous and when the economic partnership between China and Southeast Asia is enhanced. I see China's entry into the WTO as a wake-up call and a challenge that urges all of us to be more seriously committed to reform and to move as quickly as possible to engage ourselves in closer economic partnership with China. All of that would help to resolve some of the potential conflicts, or fears, that some of the industries might perceive as a negative impact of China's entry into the WTO. We should also take opportunities to enhance the volume of intra-Asian trade so that Asia will be less dependent on outside trading forces and major trading areas around the world. This will also serve to eliminate the unnecessary impact of a contagion coming from the rest of the world, if the rest of the world enters into the kind of crisis that we have seen in the past year.

## **About the Speaker**

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## **CHINA AND SOUTHEAST ASIA: COLLISION OR COLLUSION?**

The countries of Southeast Asia, through their ASEAN identity, won recognition by acting together in their relations with neighbours and larger powers through the ASEAN Regional Forum (ARF). This was enhanced by ASEAN support for the larger Asia Pacific Economic Cooperation (APEC) meetings and its commitment to a Free Trade Area (FTA). Although the latter is still incomplete, an important step was taken recently when six of the ten ASEAN members started the year by reducing most of their remaining tariffs. It is no wonder that ASEAN was able last year to agree to move on to the next stage and negotiate a FTA directly with China.

China, on the other hand, is not formally part of any region. It is but one country in an area called either East Asia, or Northeast Asia. The countries there have not tried to form any kind of common organization. Nor does China look only to any one region. Its land borders tie the country to Russia in North Asia, to the new Muslim states in Central Asia and, across the Himalayas, to at least three of the troubled countries in South Asia. It has also been said that, through provinces like Yunnan and Guangxi, China also has much in common with Mainland Southeast Asia. In short, there is an underlying asymmetry in China's relations with Southeast Asia that needs special attention. But this paper will begin with what the two obviously have in common. Neither China nor our region can escape the larger global context in which world affairs are conducted today.

There are four major points of concern that are common. First, both country and region are locked into a world trading system that has greatly weakened the idea of national sovereignty. None of the countries of Southeast Asia can expect to be free to determine the kind of economy each wants. Even the long isolated People's Republic of China has been forced to join that system and accept its role in it. In so

doing, it will have more than ever to share common experiences with its neighbours in Southeast Asia. An example of this trend is the recent move to bring China into a Free Trade Area with the region.

Second, both China and the region have to get used to the idea that United States power in the Asia-Pacific will become comparable to the power it projects across the Atlantic. Although the Pacific Ocean is wider and America's historical ties with Asia are weaker, the balance of American national interests have shifted westwards. If the United States commits the same kind of resources towards Asia as it has done in Europe for the past two centuries, both China and Southeast Asia would become subject to closer attention by the US than they have been even during the Second World War and the Vietnam War. The one major difference would be that the new US commitments would be based less on ideological and moral issues than on matters of *realpolitik* and trade. Both China and Southeast Asia would need to build that more firmly into their strategic calculations.

Third, the US war on terrorism since September last year has reshuffled some alliances and networks of cooperation that touch on both China and the region. It is still too early to say what exactly will change. The Bush administration has radically shifted its position on China within a matter of months, so much so that not only Chinese, but even Americans, are bewildered. But it is likely that future relations in both China and the region will involve more interventionist actions than have been common in global politics in the past. But while it is uncertain how China and Southeast Asia will ultimately fit into the power structure that will be projected across the Pacific to the Indian Ocean, neither can afford to underestimate the processes and effects of readjustment in the decades to come. For the moment, the most militant political terrorism has been identified with Islamic extremists, and this will have an impact on policy debates. How China and the region deal with developments linking religion to terror, and redefine their relationships with the US, will become increasingly sensitive. Whether such matters can be resolved or not could also deeply alter relations between the region and China.

Fourth, rapid advances in technology have brought tensions to established traditional values, and the pressures are likely to grow. In theory, both China and Southeast Asia could ignore their past differences and bring themselves closer

together by accepting only what is new, that is, what represents the common path to universal secular progress. But such modernizing forces could generate quite separate scenarios even among members of ASEAN themselves. If the region itself should fail to share a similar progressive goal, cultural differences within it could lead to political divisions. Where China is concerned, however, the new technologies could lead to a monolithic cultural resurgence that unites the Chinese, one that is encouraged and cultivated by national pride. If that should dictate future Chinese economic and political power, it could lead to the kind of collision that both sides have been working hard to avoid for the past decades.

In this larger context, both China and Southeast Asia are themselves changing in response to global shifts in power and wealth. Both have their own needs, and their responses to external pressures will not necessarily be made with their neighbours in mind. Southeast Asia had thirty years of economic growth before the financial crisis hit it hard in 1997-1998. Now the region faces more difficult times while slowdowns are occurring elsewhere. Politically, the leadership uncertainties in Indonesia remain, but it is encouraging to see how tirelessly ASEAN governments have continued to adapt and change while they seek a new role that will benefit them all. There is great urgency here because there is the danger that, for many outside the region, ASEAN is already barely relevant.

The biggest challenge now is to ensure that the coming together of all ten nations into ASEAN will, in the long run, be fully justified. The original goal of uniting former colonies and semi-colonies to give them more purpose and leverage in international affairs is being reviewed. When China was seen as a communist power seeking world dominance, the value of regional unity among anti-communist countries was obvious. The surprising transformations in China since the country embarked on the economic reforms since 1978, and the sudden end of the Cold War, have combined to reduce the need for concerted ASEAN action on political grounds. Thus, attention has understandably turned to economic challenges. The fact that China has been relatively unaffected by the downturn of the past four years has been seen as a potential obstacle to the region's own efforts at recovery. Even its entry into the WTO is not expected to affect China's growth trends by much. For the first time in two centuries, China's economic performance has become a subject of intense

debate among all Southeast Asian governments. Under the terms of the current debate, will China and Southeast Asia collide or co-operate? Or, put another way, will China be a threat to the region's economies, or will it provide new opportunities for the region to grow?

There is growing concern that more Foreign Development Investment (FDI) funds will be diverted to China, funds that would normally have come to Southeast Asia. There is no agreement among the experts about what sums are involved: investment intentions are notoriously difficult to measure. In any case, this is what one must expect in an open trading system should investors clearly see better prospects in one area over another. The question is, if these funds indeed flow disproportionately towards China, will this create a hostile environment for collision to occur?

A counter-argument could also be made. This would insist that economic growth is not a zero-sum game. If China's economy keeps on growing, there could be spillovers if Southeast Asian governments and entrepreneurs set out to channel the flow and attract more Chinese trade and investment into the region. This may require changes in mindset among those who are used to being suspicious of a nationalist or revolutionary China. For many, it may indeed be difficult to contemplate a new framework of co-operation. The major problem here is that the countries of Southeast Asia have had different experiences of China in the Twentieth Century. It may not be easy for them to agree what each might do and what the ASEAN group as whole might do.

So, will it be collision or cooperation? The answer in Southeast Asia may depend on how each country eyes China and how their leaders can iron out their differences of attitudes for the greater good of the region as a whole. Much has already changed compared with the Cold War stances only a decade ago, but given the trend towards a weaker sense of national sovereignty and the drive towards borderless economic relations, there are new challenges to mindsets for all concerned.

Much also depends on how China sees the region. For centuries, China saw the maritime ports and kingdoms and the tribal valley states of the Irrawady, the Salween and the Mekong as useful trading partners but no threat to China. It was enough to extend a tributary relationship to them all to regulate the trade and ensure

peaceful relations. Since the Nineteenth Century, however, the region has been a staging area by Western powers for attacks against China, wars that left China enfeebled and impoverished for nearly 150 years. China's efforts to seek security in the south had been aimed at the foreign powers operating in the region, but these have often been described as threats to Southeast Asian nations themselves. Initially, the communist leaders believed that such descriptions were used by the former colonial powers to retain the loyalties of the new national leaders that they had put in place. This led the Beijing government, urged on by their communist allies, to act as if these local leaders were erstwhile imperialists. Thus, the Beijing government often used unnecessarily hostile rhetoric towards legitimate national leaders and thus incurred the fears and anger of their peoples as well.

Since the Nixon-Kissinger initiative in 1971, Chinese views towards Southeast Asia have been gradually revised. Diplomatic relations with Malaysia, Thailand and the Philippines in the mid-1970s helped to start the rethinking, but it was not until the restoration of relations with Indonesia in 1990, and Russia's withdrawal from Vietnam after the end of the Soviet bloc, that a different framework could be contemplated. The key lay in China's new respect for the region's national leaders as they worked towards an ASEAN that could more often than ever speak with one voice on matters crucial to the region. When China saw that ASEAN is not an organization used by other powers against it, but could in fact be one that helped make friends and good trading partners in the region and elsewhere, the prospects for cooperation over collision improved dramatically.

But there remain concerns within the region about China, the huge neighbour growing ever stronger. These concerns stem from several sources. Historically, many European and indigenous traders have long feared the thousands of Chinese entrepreneurs who did well in Southeast Asia, and this has led to deep biases and suspicions towards them. The idea that there are now millions of Chinese in China mastering the skills of modern business and building an irresistible economic superpower can only be a terrifying one. A China inside the WTO that is capable of wielding the weapons of a globalized world to expand its own interests would, in many eyes, need to be restrained.

Also, modern literature abounds with stories of Chinese corruption, political instability, overpopulation and social unrest, revolutionary violence and occasional anti-foreign outbursts. These images provide a great overhang over any discussion of China. Furthermore, foreign commentators often use doubtful analogies to analyse Chinese ambitions, notably comparing China to Nazi Germany and Japanese militarism. Until recently, China's bureaucrats contributed to this negative image by managing to sound defensive and arrogant at the same time. This is even more troubling when contrasted with the public relations skills of Western business and governments. From the point of view of its smaller neighbours, China's controlled media often appears insensitive to the feelings of peoples who are seen as unable to help or who threaten China. Of course, this is not unusual among the media of all big powers, but China has to realise that it is not just any power, but one right next door.

Most of all, China is difficult to read. Consider the simple fact that, across a wide spectrum of views, there are so many contradictory interpretations and predictions about China's future development. There are times when it is hard to believe that people are talking about the same country. For example, at one extreme, China has been systematically portrayed as the inevitable enemy of the United States that has to be contained now before it is too late. The spate of books projecting China's ambitions to be a superpower and offering scenarios of hostility and war have made a lot of money for the authors. Perhaps the best-known example of these is Richard Bernstein and Ross Munro's *The Coming Conflict with China* (New York: A.A. Knopf, 1997), and this is a relatively unhawkish work compared to other more sensational writings. But, even though the authors hedged their predictions at the end of the book, its title alone was enough to arouse the militant and alarm the fearful.

Books like these are based on predictions that China's economy will go on growing at more or less the dramatic rates of the past twenty years. That growth will enable China to build up its military capacities to the point where it will dominate its weaker neighbours and ultimately drive the Americans out of the western rim of the Asia-Pacific. The authors disagree as to how long that would take if nothing were done to stop China, but generally agree that China is a danger to the US and therefore also to all those countries the US considers its allies and dependencies. While one

may not doubt that the US itself has no ambition to create a formal empire, many of its futurists would like others to believe that China will ultimately be expansionist.

China as a threat does not depend on its economic successes. An opposite scenario predicting economic failure could also lead analysts to a similar conclusion. It would postulate that, when China is in deep economic trouble, it could in desperation seek salvation through war. In short, whether China prospers or not, it is likely to be aggressive. For example, there are many books that point to a whole range of negative factors that will ensure that China's economy from now on, especially after it becomes open to WTO rules, has nowhere to go but down. These books draw on well-known facts that show deep inefficiencies in China's financial system. They underline the irrationality of protecting loss-making state-owned enterprises. They are rightly indignant at the pervasive corruption in high places, and mock the ineffectual attempts to control that. Some would emphasize the large number of unemployed disrupting the cities or roaming the countryside. Yet others stress the growing gap between rich and poor, something approaching the danger levels associated with the fall of earlier regimes in China. At its most extreme, authors despair of the capacity of the Communist Party to remedy the situation from within. They describe the party as having lost credibility, and even go so far as to say that its ideology is now bankrupt. And, not least, there are those who point to the persistent unrest among China's minorities in provinces like Xinjiang and Tibet. Perhaps the most direct example of this genre of writing is Gordon Chang's *The Coming Collapse of China* (New York: Random House, 2001). In this book, the author is confident that the Communist Party will fall when the economy finally fails altogether, and that this will be accelerated by China's entry into the WTO.

Actually, an even more persuasive list of China's problems may be found in the work published within China in 1998 by He Qinglian, entitled *The Pitfalls of Modernization: the Economic and Social Problems of Contemporary China*. Here is evidence that the Chinese themselves know how precarious rapid economic development has become for the people's livelihood. He Qinglian provides abundant data to argue that, if these conditions continue to be badly handled, economic disaster would soon be inevitable. It does not need jaundice-eyed foreigners to see the dangers that China faces. The main difference is that, while using the same materials,

Chinese accounts would stress the fear of a return to poverty and anarchy for the country, while foreign authors may highlight China's possible adventurism abroad.

Given the complexities of China and the propensity for the unexpected to occur, one cannot be dogmatic about what will happen there. It is interesting to remember that the conditions for China's growth in 1978 were so poor that no-one predicted the rapid transformations of the 1980s. Also, the aftermath of the Tiananmen tragedy in 1989 was so grim that no-one foresaw the remarkable performances of the 1990s. It would be justified for us all to be cautious and optimistic at the same time. Unfortunately, that would not be dramatic and headline catching. And what a mockery it would be to suggest that China has a fifty-fifty chance of success. Any realistic assessment must measure the country's immense problems against the exceptional things that its 1.3 billion people have been able to do. The key may lie not in diluting power and control further, but in ensuring that the country finds another generation of bold and inspiring leaders to unite the people to tackle the difficulties together.

How would this help answer the question over whether collision or co-operation will occur with Southeast Asia? History shows that collision did not occur when there were no external powers using the region against China. Thus collision could be avoided if the region does not offer to serve such powers again. But history provides no clear model for cooperation. When China was the greatest power in Asia, it did not need the region for anything important and was content to encourage commerce in a highly regulated way. There was, therefore, for most of history, neither collision nor cooperation. It is unlikely, and obviously not in the region's interest, for cooperation with China to be arranged so that Southeast Asia could be used against other powers. That would undermine the region's independence and is clearly self-defeating.

For there to be genuine cooperation between China and Southeast Asia, the following preconditions must exist. Firstly, Chinese strategists must shift their mindset and acknowledge that Southeast Asia, among all the four major regions that it borders, offers the greatest security for China, but only if it is prosperous and stable. Therefore, it is in China's own interest to assist in helping the region return to the trajectory it had before 1997. There are signs that that recognition has come to the

authorities in Beijing, and this should be encouraged. Secondly, it is time too for Southeast Asian leaders to consider a change of mindset. The region needs to reconsider carefully if its recent heritage of fear and suspicion is still justified. It is not difficult to revisit and harp on every residual problem between China and Southeast Asia and argue that there are reasons to remain fearful. If that kind of thinking continues, or if there is evidence that suspicions are indeed justified, then obviously cooperation will be a long time coming, if ever. But should these fears and doubts be found to be misplaced, or to be no longer valid, then cooperation between the two seems to be on the cards.

I would still hesitate to predict what will happen. The variables are too many. Also, many national players prefer to take short-term options and, in any case, are not agreed on what choices are rational. China may indeed suffer a major downturn for which it has not prepared. And Southeast Asia may have no reliable friends to help from further away. What would help, however, is for the dialogue between China and Southeast Asia to become increasingly open and frank, and for the leaders to get together often and rearrange the furniture to suit themselves for maximum comfort.

## **About the Speaker**

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**THE REMAINS OF THE DAY:  
ASIA PACIFIC STRATEGIC OUTLOOK FOR 2002**

**Introduction**

In a region that is normally defined by its economics, it nevertheless seems natural in this particular year to begin with security issues. I appreciate the opportunity to lead the discussion on political and security matters and am honoured to play the role that the late Michael Leifer has performed in recent meetings of the Annual Regional Outlook Forum. His high standards, clear perspective, and immense knowledge are impossible to replicate.

2001 should have been the Year of China. Successful in its bid to host the 2008 Olympics, successful in hosting APEC in Shanghai, entering the WTO, and a rising force in the economic and political relations of Asia as Professor Wang Gungwu so elegant described in his opening remarks, it was a remarkable year for China.

But September 11 made 2001 the Year of the United States. Whether or not the world changed on September 11, the United States did. As a result, citizens and leaders in all our countries are facing a double challenge. The first is responding to the new face of terrorism. Viewed in a global perspective, Southeast Asia has been less vulnerable to terrorist attacks than many other regions of the world, including Europe. But the announcement recently of the 15 arrests in Singapore is a graphic example of the global nature of terrorist threats.

The second challenge is responding to a more assertive United States and its stronger international role. In every national capital a major preoccupation is how to read Washington and react to it bilaterally and through multilateral channels. When, to borrow a popular phrase in Canada, the 800 pound gorilla shifts position

everyone's status quo is upset. While Canada might be unusual because of its geographical contiguity with the US and level of economic and cultural integration, the major issue being debated is whether Canada can continue to afford an independent foreign policy, not just on matters of immigration and border controls but on fundamental issues of peace and security.

A decade after George Bush Sr. declared a New World Order, the American-led war on terrorism is giving it a foundation and shape that scarcely could have been anticipated twelve months ago. Whether Cold War II or New World Order II, September 11 has been as decisive an event as the collapse of the Berlin Wall.

These brief remarks address two subjects. The first is the general features of the emerging world order, especially the dynamics in Asia Pacific and Southeast Asia. This address will then conclude with some questions about how security imperatives are going to affect economics in the months to come.

### **Elements of the New World Order**

In geo-politics, the devastation of September 11 has had a wide range of effects. Who would have thought a year ago that the peace constitutions in Japan and Germany would evolve so rapidly and that Japanese naval vessels would be operating in the Indian Ocean?

In the domain of great power relations, the Putin government in Moscow seems committed to a shift to the West; a shift that appears unfazed even by the American abrogation of the ABM (Anti-Ballistic Missile) treaty and the positioning of significant military forces in Central Asia.

The most visible changes have been in US-China relations, which have improved substantially after the troubled start at the beginning of the Bush administration. The vocabulary of "strategic competitors" has been replaced by "partners in the war against terrorism". The spy plane EP3 Hainan incident of early spring is a distant memory. Military to military exchanges have resumed. Human rights issues are receiving less attention.

How durable is the upturn? At the level of economics, bilateral relations have entered a new era with Permanent Normal Trade Relations (PNTR) in place, China in the WTO, and the level of American investment in China still robust. Trade disputes

will not disappear — in some sectors they will actually increase, a common pattern when lawyers rule the roost — but they will emerge as part of a “normal relationship” with the characteristic pattern of competition and cooperation.

The chief vulnerability in US-China relations will be security issues. Taiwan and cross-Straits tensions remain at the top of the list. But there are three additional factors, all of them related to September 11, that have the potential to jeopardize the relationship and, in worst case scenarios, lead to direct confrontation.

1. The US exit strategy from Afghanistan and the duration of the American troop deployments in Central Asia. The US now has approximately 13 bases in nine countries surrounding Afghanistan. It remains to be seen whether these new bases will be interpreted in Beijing as building stability or another step in encircling China.
2. Whether there will be US military action against Iraq, new pressure on North Korea, or US or Indian action inside Pakistan. Direct US action without United Nations Security Council endorsement would likely destroy the current coalition and provoke a crisis in US-China relations.
3. The outcome of the dialogue on Ballistic Missile Defence. The ABM deed is done. The relatively muted Chinese response should not lead us to underestimate the level of concern in Beijing. Anticipating US actions, Beijing for some time has been taking steps to improve its second strike capability. Chinese officials are aware that the ABM decision is the thin edge of the wedge and that the US is withdrawing from a whole range of arms control and disarmament agreements, including the Geneva processes on biological weapons.

### **Global Institutions**

The American response to terrorism has been anything but isolationist. It has been based on creating flexible coalitions and entering peacebuilding and “nation-building” operations that were criticized in Bush’s campaign rhetoric. But nor has it been the kind of multilateralism that much of the international community had hoped. Rather, the general approach has strong elements of unilateralism and exceptionalism. The unilateralist thrust has been widely discussed. The exceptionalism is not the exceptionalism of Americans feeling outside the world but rather of recognizing the value of international rules and agreements while not feeling bound by them. In the war in Afghanistan, the mission has defined the coalition, not the reverse. There might be sound reasons for Washington’s rejection of the Kyoto Protocol on global

warming, the International Criminal Court, the ABM treaty, and the Geneva-based arms control and disarmament process. The difficulty for supporters of a rule-based international order is that the Bush administration has not yet placed alternative regimes on the table.

### **The Impact on Southeast Asia**

September 11 has demonstrated the continuing fragility of security relations in Asia. A decade after the ending of the Cold War, there has been little progress in resolving the key problems in Kashmir, cross-Straits relations, the Korean Peninsula, or the South China Sea. The infant multilateral institutions created with ASEAN's support (for example APEC, the ARF and CSCAP) have not yet reached their potential and are at risk of stagnation.

In domestic politics in Southeast Asia, three main dynamics are in play.

First, the balance of opinion within the region and internationally appears to be shifting towards state authority and against domestic groups committed to separatism or self-determination (including Indonesia policy in Aceh and West Papua). Similarly, the balance is shifting to state security and away from democracy and human rights.

Second, while there are incidents that reflect a "clash of civilizations", the real dynamic in Southeast Asia and the broader Muslim world is the clash within a civilization. In a recent article in *Newsweek* (Special Davos Edition, December 2001–February 2002), Samuel Huntington states that "contemporary global politics is the age of Muslim wars". This applies more to the Arab world and the Middle East than Southeast Asia. Yet it is apparent in Southeast Asia that there is a great debate within Muslim communities about their future. We all have a stake in the outcome of these debates and need guidance on how we can understand the Muslim community better and, when appropriate, engage them.

Third, the economic picture in Southeast Asia is still not in full recovery mode. To borrow the phrase of a Korean observer, "the economic crisis *was* over". Average growth rates for Southeast Asia as a whole are probably less than 2% for 2001, with some actually in full recession. Amidst the downturn, internal stability in Indonesia is of continuing concern. The United Nations has estimated that economic

losses from September 11 could approach US\$350 billion worldwide, or about 1% of global output.

### **Connecting Economics and Security**

What are the implications of the changing security situation for the regional economy? Let me conclude with four questions that will need attention in the year to come.

1. Will more security slow commerce? Globalization was about opening doors and speeding trans-boundary flows. New security concerns demand controlling and monitoring those flows more carefully. Beijing's restrictions on entry to business people from Arab countries is an extreme example. At the Canada-US border there is a back log of trucks that has slowed deliveries and various delays that have considerably slowed two-way business travel. There are clear signs that immigration procedures will be more restrictive. It remains to be seen if security procedures will slow the integrated production networks that are so vital to the regional economy in East Asia.
2. How will the war on terrorism and enhanced domestic security be financed? In the specific case of the United States this has the extra dimension of new military procurements including the development of a theatre and national military defence capability. In the Reagan administration the instrument was public borrowing. What impact will this have on the US and global economies, especially if the Bush administration pushes ahead with tax cuts?
3. During the Cold War politics took precedence over economics. In the current context, what kind of economic concessions will the United States and the developed world make to countries participating in the war on terrorism? There have been examples of direct loans, debt relief, and military assistance packages to countries including Pakistan, Uzbekistan and the Philippines. But what about new support from international funding agencies? Most fundamentally, in countries like Pakistan, Indonesia and Thailand, will the international community be willing to take the pressure off domestic economic and political reforms in exchange for *quid pro quo* support for the war on terrorism?
4. It is worth noting that September 11 was an attack by non-state actors on civilians using the tools of globalization. Beyond military and intelligence instruments, what are the options for a new approach to dealing with the root causes of grievance and violence? To put the issues into perspective, the compensation package being proposed for the 3000 or so American victims of the September 11 attacks is considerably larger than the entire amount of post-conflict aid promised to Afghanistan for the next three year period. The Cold War in Europe was successful because it was connected with programmes like the Marshall Plan. In the New World Order the human security agenda needs as much attention as the national security agenda. Where, for example, are there resources for building a public school system in Pakistan that can compete with or replace the madrassah schools?

These are some of the challenges and questions for 2002 that deserve our attention.



## **About the Speaker**

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## ECONOMIC OUTLOOK FOR EAST ASIA, 2002-2003

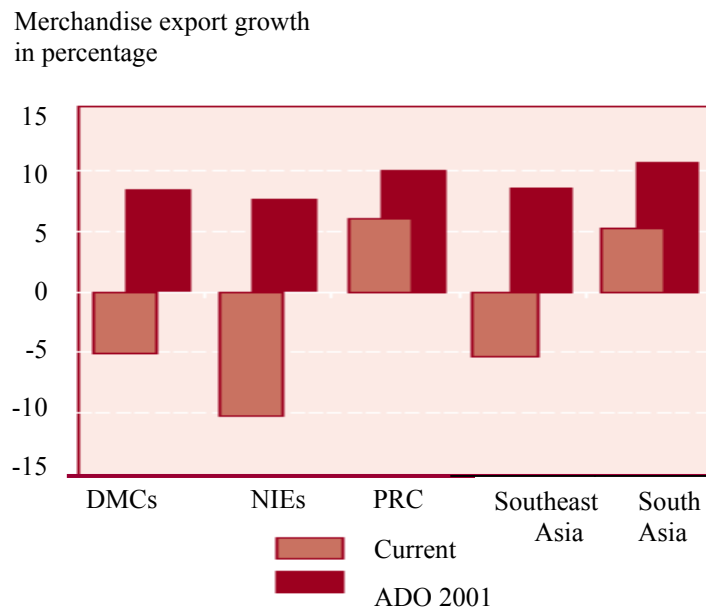
### **Background**

The slowdown in global economic performance in 2001 was sharper and more synchronized across major economies than previously anticipated by many analysts. The September 11 terrorist attacks contributed in no small measure to the slowdown. It abruptly disrupted U.S. economic activity and suddenly raised the uncertainty over the global economic outlook. All this will delay the global recovery till about mid-2002.

The expected U.S. economic rebound in the third quarter of 2001 did not materialize. At the same time, the Euro area's economic activity slowed considerably. Moreover, Japan's economy deteriorated significantly in the second quarter of 2001, and initial recovery is not expected till mid-to-late 2002.

Economic growth in developing Asia as a whole fell from 7 percent in 2000 to 3.4 percent in 2001. But a modest rebound to 4.5 percent growth in 2002 and possibly a stronger performance in 2003 are expected. Still, these numbers represent marked downward revisions from earlier forecasts. A major explanation for this sharp downturn in economic growth was that exports were sharply weaker in 2001 than expected, due to the fact that countries in the region have become export-orientated. This is the comparison of our earlier forecasts, represented by the dark shaded bars in Figure 1, but the outcome for the year 2001 is in fact very different. In the case of the newly industrialized economies (NIEs), there was a sharp downturn in exports of manufactured goods and merchandise exports. And for developing Asia a whole the downturn was sharper still for the NIEs. Even for China, there was, in 2001, a slower growth in exports than expected, and also a negative growth in Southeast Asia. In South Asia export growth was positive but sharper than

anticipated as well. These patterns are due in part to the disappointing performance of the major world economies. In the case of Japan, the economy deteriorated significantly in the second quarter of 2001 and initial recovery is not expected till mid or late 2002. The Japanese economy is critical to the performance of the other Asian economies.



Sources: ADO 2001, staff estimates

### **Newly Industrialized Economies: Hong Kong, China; Republic of Korea; Singapore; and Taipei,China**

The newly industrialized economies (NIEs) suffered the sharpest deceleration from 8.4 percent expansion in 2000 to a mere 0.1 percent growth in 2001. A modest growth pickup to 2.7 percent in 2002 is projected (see Table 1). Further improved performance in 2003 is possible, contingent on sustained global economic recovery. (It is too perilous to predict concrete numbers for 2003.)

**Table 1. Growth Rate of GDP (in percent)**

	2000	2001	2002
Newly Industrialized Economies	8.4	0.1	2.7
Hong Kong, China	10.5	-0.4	2.0
Korea, Republic of	8.8	2.0	3.6
Singapore	9.9	-2.2	1.0
Taipei, China	5.9	-2.0	2.0

One positive development is that inflationary pressures will ease in 2002 (see Table 2). In 2002 there will be milder inflation than in 2001. The current account balances of the NIEs will remain in surplus but the surpluses will decline obviously because of weak export demand in 2002 (see Table 3). Table 3 shows the numbers for current account figures as a percentage of GDP. Singapore still has a very high current account surplus as percent of GDP, although lower than in 2001.

**Table 2. Changes in Consumer Prices (in percent)**

	2000	2001	2002
Newly Industrialized Economies	1.1	2.1	1.9
Hong Kong, China	3.8	-1.4	0.3
Korea, Rep. Of	2.3	4.2	3.0
Singapore	1.3	1.1	0.5
<i>Taipei, China</i>	1.3	0.3	1.0

**Table 3. Balance of Payments on Current Account (percent of GDP)**

	2000	2001	2002
Hong Kong	---	---	---
Korea, Rep. of	2.4	2.7	1.7
Singapore	23.6	24.0	22.5
Taipei, China	2.9	3.4	2.7

### **Southeast Asia: Indonesia, Malaysia, Philippines, and Thailand**

Economic growth in Southeast Asia also slowed, though to a lesser extent, from 5.2 percent in 2000 to 2.4 percent in 2001 (see Table 4). Malaysia, where information and communications technology (ICT) exports are important, experienced the steepest slowdown in 2001.

**Table 4. Growth Rate of GDP (in percent)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
Southeast Asia	5.2	2.4	3.3
Indonesia	4.8	3.2	3.9
Malaysia	8.3	0.5	3.1
Philippines	4.0	2.7	3.0
Thailand	4.4	1.3	2.5
Vietnam	6.1	6.0	6.2

Thailand, where tourism is quite important, suffered the second sharpest growth deceleration in 2001. Indonesia and the Philippines — given reasonably smooth political transitions and robust agricultural performance — experienced mild growth slowdowns.

In all four countries progress in structural reforms has been generally slow or uneven. Vietnam is included in Table 4, and it can be seen that Vietnam has maintained steady growth in the face of growth downturns in the other Southeast Asian economies. Growth recovery in 2002 and 2003 will also hinge on the performance of the world economy.

Again, one plus factor is that inflation is expected to be lower in 2002 (see Table 5). Current account surpluses are also likely to diminish as exports will come out of the doldrums (see Table 6). Only Vietnam will experience a current account deficit, negative 3 percent of GDP.

**Table 5. Changes in Consumer Prices (in percent)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
Southeast Asia	4.7	5.9	5.3
Indonesia	9.3	11.0	9.0
Malaysia	1.5	1.7	2.0
Philippines	4.4	6.3	5.5
Thailand	1.6	1.3	2.5
Vietnam	-1.7	0.5	3.0

**Table 6. Balance of Payments on Current Account  
(percent of GDP)**

	2000	2001	2002
Southeast Asia	5.9	2.8	1.8
Indonesia	5.2	2.1	0.6
Malaysia	9.4	5.2	4.7
Philippines	12.5	4.9	4.5
Thailand	7.5	3.8	2.3
Vietnam	1.7	2.0	-3.0

### **People's Republic of China**

The People's Republic of China (PRC) ducked the general trend as it posted robust growth of 7.3 percent in 2001 (see Table 7). Economic growth is expected to be about 7 percent in 2002. And it will likely pick up, or at least be sustained, in 2003.

Export growth will slacken in 2002 in line with the weak export demand in the global market. However, domestic consumption and investment will make up for the weaker export growth. Consumption growth will remain brisk owing to rising incomes. At the same time, investment will stay robust due to the large capital investment program and continued strong flows of foreign direct investment.

Meanwhile, inflation will remain subdued and the current account surplus will diminish slightly (see Table 7).

**Table 7. GDP Growth, Inflation, and Current Account**

	2000	2001	2002
GDP Growth (%)	8.0	7.3	7.0
Inflation (%)	0.4	1.0	0.8
Current Account (% of GDP)	1.5	0.9	0.3

### **Risks and Uncertainties**

The consequences of the September 11 terrorist attacks continue to unfold. Other possible adverse developments include: (i) a marked correction in the U.S. current account imbalance; (ii) a deepening economic recession in Japan; (iii) protracted effects and wider repercussions of terrorism; and (iv) unanticipated domestic political shocks.

Nevertheless, there is cautious optimism due to: (i) the underlying strength of the global economy; (ii) the application of significant macroeconomic stimulus in many countries; and (iii) the greater wisdom and determination of policymakers based on lessons learned.

### **Conclusion**

The high level of uncertainty in the global political and economic environments may require frequent revisions in the economic outlook. However, despite the current difficulties the region faces, the medium-term outlook appears upbeat due to strong fundamentals and generally sound policies. Overall, developing Asia will continue to evince healthy economic growth compared with the other regions.

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