OPPORTUNITIES IN THE ASIA-PACIFIC REGION

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ECONOMIC BACKGROUND

Thirty years ago, world economic activity was concentrated around the North Atlantic. But rapid economic growth in the Asia-Pacific region has shifted the centre of the world economy from the Atlantic to the Pacific. This was achieved because the growth rates of the countries in the Asia-Pacific region accelerated over the period 1960-90, but slowed down elsewhere (see Figure 1).

Figure 1

Rapid economic growth was not restricted to a few countries in the region but occurred in most of the nations. Japan was the first country to become industrialized, and was followed by Hong Kong, Singapore, Taiwan and South Korea - the four Newly Industrialized Economies (NIEs). These countries benefited enormously from an outward-looking, market-oriented policies. Following their lead, the four large members of the Association of Southeast Asian Nations - Indonesia, Malaysia, the Philippines and Thailand - also adopted similar policies and soon achieved rapid economic growth around the mid-1970s, but at a somewhat slower pace than Japan and the NIEs. China enacted similar policy reforms in this direction more recently (see Figure 2).

Figure 2

By 1989, international trade was an important component of total economic activity in most Asia-Pacific economies. With the exception of Japan. China and the Philippines, the total value of trade was at least half of gross domestic product (see Figures 3a and 3b). The total value of trade in Hong Kong and Singapore was more than twice the gross domestic product. These two city states had the most open economies of all the Asia-Pacific countries. Both are essentially free ports, particularly Hong Kong.

Figure 3a

Figure 3b

The 1970s and 1980s have been difficult periods for most developing countries. Two oil shocks and high interest rates have resulted in severe economic conditions for most developing countries. World trade (especially exports of developing countries) fluctuated widely and generally stagnated in the 1980s. The Asian-Pacific economies were also adversely affected by these economic conditions. The spectacular growth rates experienced in the 1960s and 1970s slowed significantly in the 1980s. Nevertheless, the Newly Industrialized Economics (NIEs) of Hong Kong, Korea, Singapore and Taiwan, recovered very rapidly; their per capita incomes increased by more than 100 percent in the 1980s. The other developing countries in the Asia-Pacific region, except the Philippines, also performed satisfactorily.

The Asian economies continued to grow faster than other regions because they adopted and implemented policies that promote efficient use of resources and encourage private sector initiative. Governments adopted more market-oriented strategies to promote economic development. Financial and trade liberalizations were carefully implemented in the second half of the 1980s. The key to success for most Asia-Pacific countries in the 1980s was their export-oriented policy. Merchandise exports grew at respectable rates throughout the 1980s (see Figure 4). This was in sharp contrast to experience elsewhere in the developing world.

Figure 4

TRADE BETWEEN LATIN AMERICA AND THE ASIA-PACIFIC REGION

Like Latin America, the Asia-Pacific region is composed of economies at various stages of economic development. Japan is by far the wealthiest in terms of per capita gross domestic product. She is followed by the NIEs and they are in turn trailed by the four large members of ASEAN (see Figure 5).

Figure 5

However, the structure of traded merchandise differs in significant ways between the two regions. It is useful to classify traded goods into four categories: (1) fuel and minerals, (2) other primary products, (3) machinery, and (4) other manufacturing goods. Figure 6 shows that the pattern of imported goods is not very different between the two regions. But the pattern of exports is very different between the two regions. The Asia-Pacific economies exports are far more heavily weighted in the manufacturing of non-machinery products and much less weighted in primary products. Japan has been omitted from these comparisons because it is a much more advanced economy.

Figure 6

Trade between Latin America and the Asia-Pacific region is relatively small as a share of total world trade. On the whole Latin America exports more goods than it imports from the Asia-Pacific region. In terms of volume its most important trading partners are Japan and China, and to a lesser extent South Korea (see Figure 7). The rest of the Asia-Pacific economies have a fairly small trade volume with Latin America. It is particularly important to note that as a percentage of total exports and imports of the economies in the Asia-Pacific region, trade with Latin America is small; only a few percentage points (see Figure 8).

Figure 7

Figure 8

Of considerable interest is Hong Kong's trade with Latin America in general and Peru in particular. In recent years, Hong Kong has experienced a very rapid growth in re-exports to the rest of the world, as well as imports from the rest of the world (see Figure 9).

Figure 9

The growth of re-exports in Hong Kong is intimately related to the opening of China. Hong Kong has highly developed container terminals, transportation networks, production and marketing facilities, and has become the major centre through which China's products are further processed before being shipped out as exports. Similarly many of Hong Kong's imports are subsequently re-exported into China. Although Hong Kong's direct trade with Latin America is small, her role in facilitating trade between Latin America and China is pivotal. Recall that China is the second largest trading nation in the Asia-Pacific region that trades with Latin America. Figure 10 shows the very rapid growth of Hong Kong's re-exports to Latin America and of imports from Latin America in recent years.

Figure 10

Hong Kong's trade with Peru has also reflected this pattern. In recent years one observes a very rapid increase of imports. Most of which are primary products (see Figure 11).

The small volume of trade between the two regions cannot be accounted for simply by transportation costs. The most important factors that prevent trade development between the two regions are policies adopted by many Latin America countries. Import substitution policies and trade barriers limit the incentive for Asia-Pacific countries from exporting goods to Latin America, they also have the side effect of preventing the development of manufacturing industries whose goods can be exported to the Asia-Pacific countries. As a consequence, most of Latin America continue to export primary products to the Asia-Pacific countries. Unless these policies are changed, as they already are to some extent, it would not be likely to see a substantial growth in trade between the two regions.

Figure 11

A more detailed break down of various traded commodities between Hong Kong, on the one hand, and Latin America and Peru on the other is provided in Tables 1 and 2.

Table 1

Table 2

INVESTMENT FLOWS BETWEEN THE TWO REGIONS

In the 1990s, several factors will have significant bearing on the future development of Asia-Pacific countries and the investment opportunities it will bring.

Converging Economic Growth

Until two years ago, the ASEAN countries, including Indonesia, Malaysia, Philippines, and Thailand, were still haunted by falling commodity prices, weak investment, deteriorating debt-services ratios, political instability, and subsequently low economic growth, while the NIEs enjoyed very high growth. The situation peaked in 1987, when the differential between NIEs' and ASEAN countries' growth rate was as high as 7 percent. But in 1989 this has reversed in ASEAN's favour mainly due to a sharp downturn of the Hong Kong economy and political transition in South Korea.

One of the major factors has been the slow down in the growth of the NIEs. The economic growth of the NIEs averaged as high as 9 percent in the last decade. However, the NIEs' growth rate declined to about 6.5 percent in 1989, and it is very likely that their growth rate can only be maintained at about 6 percent in the next decade. Although this still represents a strong and respectable expansion, the slow down is mainly attributable to labour shortages and unrest, rising wages and currency values, deteriorating export competitiveness, growing environmental awareness, a slow down in economic restructuring, and declines in private investment.

The slow down in the NIEs will be inversely matched by a more rapid expansion in the ASEAN countries in the next decade. The ASEAN economies will become less reliant on commodity exports as the sole source of hard currency earnings (in Thailand: rice, rubber, tapioca products, sugar; Malaysia: rubber, tin, palm oil, timber; Indonesia: oil, palm oil, timber; the Philippines: coconut products, fruits, sugar, copper, wood) and increasingly diversified.

Increased foreign investments and infrastructure development will continue to stimulate manufacturing and exports, including commodity-based manufacturing exports, these highly volatile primary commodity economies will be gradually restructured. More foreign investment is likely to flow into ASEAN, therefore, manufactured exports will continue to pull these economies forward. Combined with the successful development of their tourism industry, the average real growth rate of about 5 percent in the last decade may increase to 6.5 percent in the next five years.

Recycling Surplus Capital

Japan and the NIEs have recorded current account surpluses for many years, and their international reserves have consequently risen considerably in recent years. They will continue to be major capital exporters to the ASEAN countries, and will greatly promote the industrialization and development of various services sectors in the region.

The change of competitiveness in labour-intensive production has resulted in a substantial inflow of direct investment from the NIEs and other developed countries into the ASEAN region and China. The growth in foreign investment into these countries also reflects their increasingly aggressive efforts to attract foreign investors to participate in their industrialization, and their continued enjoyment of GSP privileges from most OECD countries. Nevertheless, the political risk involved in these direct investments cannot be easily assessed, as demonstrated by the latest eruption of political disturbances in China and the Philippines.

Other than direct investment, the surplus capital from Japan and the NIEs will also flow into share investment, real estate investment, and financing trade and other projects in the developing countries of the region.

Increasing Intra-regional Trade

Intra-regional trade in Asia increased very rapidly in the 1980s. Its share of total world trade surged from 3.2 percent in 1979 to 9.8 percent in 1988. Further division of labour will occur in the Asia-Pacific region. The realignment of the G-7's exchange rates since 1987 was one of the major reasons leading to such a restructuring of production in the region. Japan will concentrate on the production of innovative consumer products, strategic manufactured inputs, and high-end machinery; the NIEs will expand their production of standardized machinery, manufactured inputs, and high-technology consumer products; and the other low-cost producers in this region will produce labour-intensive goods.

The ASEAN countries will gradually replace their import substitution policy and commodity-based exports by export oriented expansion of manufacturing products. Thailand and Malaysia, which have adopted aggressive exporting strategies earlier than the others, will become NIEs by the turn of the century. On the other hand, South Korea and Taiwan are likely to close the technological gap with Japan gradually.

Due to the large amount of Japanese investment in the region, an increasing portion of ASEAN's exports to Japan has been manufactured exports, and NIEs' exports to Japan have also expanded very rapidly in the last three years. Japan, other developing countries and socialist countries in Asia will become much more important trading partners of the NIEs and the ASEAN countries in the long term.

Financial Liberalization

The Asia-Pacific is renowned for its rapid economic development, yet its financial markets have developed at a much slower pace. The markets continue to suffer from many of the classical defects of a developing economy: financial markets dominated by government-controlled commercial banks, relatively insignificant equity markets, few long-term private debt instruments, insufficient information about many companies, lack of liquidity in many shares, absence of institutional investors, poorly conceived regulatory frameworks, underdeveloped insurance industries.

However, many changes and improvements have taken place in these markets since the early 1980s. The move toward the liberalization of banking and equity markets has multiple origins. The accumulation of foreign and domestic debt, particularly in the Philippines, Indonesia, Thailand, South Korea and Malaysia, became a serious concern to their governments in the mid-1980s. As additional debt could not be accommodated, these governments began to look beyond domestic and foreign borrowing to raise new money to support their economic development. The opposite problem, rising current account surpluses, particularly in Taiwan and South Korea, also pressured them to liberalize foreign exchange controls and capital flows.

In recent years, the interest rate structure of most countries has been liberalized. Interest rates have been used to allocate funds more efficiently. Moreover, governments in the region have invited foreign banks to play a more active role to promote their financial developments. Foreign banks are permitted to open more branches, and participate in different types of domestic and international banking businesses. A selected number of domestic banks has also been encouraged to develop international operations.

The drive for liberalization of equity markets, undertaken at varying pace in different countries, was also due to the recognition that a securities market is a vital mechanism to raise capital, and offers an essential instrument catering to different savers' and investors' preferences.

This recognition was accompanied by a consideration that the involvement of foreign financial institutions is necessary to stimulate financial reforms. During this process, the governments began to adopt a more liberalized exchange rate system and a market-oriented interest rate structure.

In the 1990s, the rapid regional economic development and the trend of urbanization will increase the importance of the monetary economy, and financial deepening will continue. Both domestic and international financial institutions will develop rapidly, and financial transactions will become more regional in nature. Deposits and loans will increase much faster than the growth rate of nominal GNP. Foreign exchange controls on current account transactions, and subsequently on capital flows, will be further relaxed. More private and public firms will be listed on the stock exchange.

These developments represent very attractive investment opportunities for investors all over the world. It also means that increasingly integrated global capital markets will pose a serious challenge to Latin America's development by siphoning off international funds unless these countries are prepared to reduce exchange controls and various capital market restrictions.

COUNTRY ANALYSIS

It is always hazardous to advance projections about future developments. But the Asia-Pacific economies are relatively more predictable, primarily because of their openness, which limits the ability of government to control and intervene. Private markets are therefore less subject to ad hoc political interference and more to market incentives.

Hong Kong

GDP: Hong Kong's economy is likely to grow by only 4 percent in 1990, following a sharp downturn to 2 percent last year. The slow down was mainly caused by political and economic developments in China. Private investment will decline further this year, but consumption sentiment should recover moderately, because (a) property and share prices have largely recouped their losses due to the confidence crisis following the June 4th incident in China; (b) negative real interest rates will be sustained; (c) wages will continue to increase by more than 10 percent; and (d) unemployment will remain very low.

External Position: Domestic exports will remain rather weak, mostly a reflection of the fact that many Hong Kong manufacturers have relocated production to China and developing countries in the region. Tourism will revive moderately.

Exchange Rate and Interest Rate: The linked exchange rate of HK$7.8 to US$1 will continue to hold. In response to U.S. developments, Hong Kong's interest rate is likely to fall 1.5 to 2 percentage points in 1990.

Inflation: Inflation will remain at the 9 to 10 percent level in 1990. The entrenched wage-price spiral is gaining momentum, despite the economic slow down.

Major Uncertainties and Political Issues:
(a) No significant improvement in confidence is expected in the first half of 1990. It is very likely that the three imminent political issues haunting Hong Kong, namely the final version of the Basic Law, the political system implemented in Hong Kong in 1991, and the "right of abode" issue, will not be settled satisfactorily.
(b) The possibility of political upheaval in China will continue to result in great volatility to the Hong Kong market. Economic policy in China may also be subject to greater austerity.
(c) Private consumption may be weaker than expected.

Hong Kong's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	11.9	13.8	7.3	2.0	4.0
Inflation rate (annual average, %)	2.8	5.5	7.5	10.1	9.5
Best lending rate (year-end, %)	6.5	5.5	10.0	10.0	8.0
Exchange rate (year-end, per US$)	7.80	7.76	7.81	7.81	7.81
GDP (US$, b)	38.6	47.5	54.5	61.0	69.0
Exports (US$, b)	35.5	48.7	63.1	73.5	81.0
Imports (US$, b)	35.4	48.7	63.0	73.1	80.0
Trade balance (US$, b)	0.1	0.0	-0.8	0.4	1.0
Current account balance (US$, b)	1.8	2.8	2.8	1.7	2.7

South Korea

GNP: South Korea's real GNP is likely to be maintained at about 7 percent for 1990. The government has recently announced a package of incentives to stimulate the economy, including: (a) cutting the lending rate by 1 percentage point, (b) devaluing the Korean Won up to 3 percent in early 1990; and (c) granting soft loans of 1 trillion won to high-tech and export industries. Private consumption will grow faster.

External Position: South Korea's huge current account surplus will decline further to about US$3.5 billion in 1990. The government is likely to liberalize capital flows further.

Exchange Rate and Interest Rates: The government may depreciate the Won slightly in order to revive its export growth in the first half of 1990. However, the scope for adjustment is very limited, because the U.S. government remains concerned over its trade imbalance with South Korea. The further liberalization of its financial markets and the lowering of U.S. interest rates will permit Korea to cut its interest rate by one percentage point next year.

Inflation: Inflation should increase from about 6.5 percent in 1989 to 7.5 percent next year. The rapid increase in wages and accelerated consumption will put pressure on prices.

Major Uncertainties and Political Issues:
(a) Labour unrest and high wages are the major threat, despite the fact that the government is planning to establish a national committee to pre-empt labour strikes in the upcoming spring.
(b) Despite a compromise between the Roh Tae-Woo government and the opposition groups over the possible prosecution of officials of the Chun Doo-Hwan government, the political climate remains volatile.
(c) The adverse impact of the high Won upon Korean exports may be much greater than expected.

South Korea's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	12.9	12.8	12.2	6.5	7.0
Inflation rate (annual average, %)	2.8	3.0	7.1	6.5	7.5
Best lending rate (year-end, %)	10.0	10.0	10.0	11.5	10.5
Exchange rate (year-end, per US$)	861.4	792.3	684.1	677.4	667.2
GDP (US$, b)	105.1	133.3	180.6	213.0	250.0
Exports (US$, b)	33.9	46.2	59.6	62.5	66.0
Imports (US$, b)	29.7	38.6	48.2	57.5	64.5
Trade balance (US$, b)	4.2	7.6	11.4	5.0	1.5
Current account balance (US$, b)	4.6	9.9	14.2	7.0	3.5
International reserve (US$, m)	7905	9144	12340	16000	19000

Singapore

GNP: Singapore will grow up about 8 percent in 1989, after a robust 9.1 percent real growth in the first half. In 1990, the economy is likely to expand by about 7 percent, as the export momentum will weaken and the tight labour market will remain. However, consumption should benefit from continued rapid increases in wages. Overall, the service sector will expand much faster than the manufacturing sector.

External Accounts: Total domestic exports continued to grow strongly by 13 percent in the first eight months of 1989, but the declining trend will remain because of the slowing global economy. However, the stable Singapore dollar and low inflation have improved the price competitiveness of its products against the other NIEs. Moreover, the strong growth in other ASEAN countries will benefit Singapore's re-exports and exports of services. The current account is expected to strengthen slightly further in 1990. Moreover, the substantial inflow of direct and portfolio investments will continue to increase international reserves to about US$21 billion by the end of 1990.

Exchange Rate and Interest Rate: The Singapore dollar is likely to strengthen by about 5 percent by the end of 1990. because of low inflation and improved external position. Given a slowing global and domestic economic environment, the prime rate may decline by 1 percentage point.

Inflation: Inflation will increase to about 4 percent in 1990, compared with 2.5 percent for 1989. The major contributory factors are labour shortages, higher wages and rising inflationary expectations.

Major Uncertainties and Political Issues

(a) A significant decline in the electronics industry may substantially affect economic performance in 1990.

(b) The gradual transfer of power to the second-generation leaders of the ruling People's Action Party should not create any unnecessary alarm among foreign investors.

Singapore's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	1.8	8.8	11.0	8.7	7.0
Inflation rate (annual average, %)	-1.4	0.5	1.6	2.5	4.0
Best lending rate (year-end, %)	6.1	6.1	6.3	6.4	5.5
Exchange rate (year-end, per US$)	2.18	2.00	1.95	1.90	1.80
GDP (US$, b)	18.2	21.8	25.6	28.0	33.0
Exports (US$, b)	21.3	27.3	38.0	43.5	48.5
Imports (US$, b)	23.4	29.9	40.3	46.5	51.5
Trade balance (US$, b)	-2.1	-2.6	-2.3	-3.0	-0.3
Current account balance (US$, b)	0.5	0.6	1.7	2.0	2.2
International reserves (US$, m)	12939	15227	17073	19500	21000

Taiwan

GNP: The economy will grow by 6 to 7 percent in 1990, probably slightly less than that in 1989. The slowing export performance will be largely offset by higher consumption and an increase in public investment.

External Position: Taiwan's trade surplus increased by 18 percent in the first eleven months in 1989 to US$11.2 billion, and the bilateral surplus with the U.S. widened. By the end of 1989, the government has further liberalized imports of many commodities and products. Imports are likely to increase much faster in 1990, thus reducing the trade surplus to about US$9 billion. Capital outflows will continue to be very substantial. Both the trade and current account balances will be reduced by about US$2 billion each in 1990.

Exchange Rate and Interest Rate: In mid-October, the U.S. Treasury Department issued a report indicating that the U.S. government was satisfied with Taiwan's management of the NT$.

However, the NT$ is likely to appreciate by another 5 percent in 1990. The further slow down of the economy will prompt the government to reduce the interest rate slightly.

Inflation: Inflation is likely to increase to about 6 percent in 1990, because of labour shortages, higher wages, rapid growth of money supply and high inflationary expectations.

Major Uncertainties and Political Issues:
(a) Private direct investment will remain weak, and the government has not been effective in implementing infrastructure projects.
(b) On the political front, although the ruling party, the Kuomintang, obtained about 60 percent of the total votes in the latest election, this was considered a major success for the opposition Democratic Progressive Party (DPP). This will definitely change Taiwan's political prospects and economic policies in the longer term, because the DPP emphasizes on environmental protection, social welfare, and public utilities.

Taiwan's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	11.7	11.9	8.1	7.5	6.5
Inflation rate (annual average, %)	0.7	0.5	1.3	4.0	6.0
Best lending rate (year-end, %)	6.25	6.25	6.75	10.50	10.00
Exchange rate (year-end, per US$)	35.50	28.55	28.1	26.05	24.70
GDP (US$, b)	79.3	110.8	121.5	143.0	170.0
Exports (US$, b)	39.5	53.2	60.3	66.0	70.0
Imports (US$, b)	22.6	32.6	46.5	51.0	57.0
Trade balance (US$, b)	16.90	20.6	13.8	15.0	13.0
Current account balance (US$, b)	16.3	18.0	10.2	11.0	9.0
International reserves (US$, m)	46310	76750	74030	73000	71000

Indonesia

GNP: Indonesian's economy is likely to grow by about 6 percent in both 1989 and 1990. The steady growth is mainly supported by the strong export performance, higher-than expected oil prices, and inflows of foreign investment.

External Position: The trade deficit will stabilize at about US$4.5 billion in 1990, with the current account deficit increasing slightly further to US$3.3 billion. The exporting capability of the economy will continue to increase very substantially in the medium term, because of rapid inflows of foreign investment. Indonesia relies primarily on foreign aid for balancing its external position, budget and covering its financial needs, and this will likely be maintained as the Inter-Governmental Group on Indonesia has pledged about US$4 billion for 1990.

Exchange Rate and Interest Rate: With the inflation rate very much under control now, and the need for currency stability, the government is very likely to follow its declared policy of allowing the Rupiah to depreciate slowly against the US$, i.e. by about 5 percent a year. The domestic interest rate is likely to decline by 1.5 percentage points in 1990, given relatively stable inflation and the government's intention to promote private investment.

Inflation: The inflation rate of 1990 will average about 8 percent because of the strong economy. The rapid increase in money supply will also be a contributory factor.

Major Uncertainties and Political Issues:
(a) Despite strong growth in non-oil exports, the Indonesian economy is still vulnerable to a drastic drop in oil prices. Every US$1 drop in the oil price would cost Indonesia about US$400 million in revenues.
(b) The external debt position, though gradually improving, is still worrisome.
(c) Job creations may not be sufficient to absorb the new supply of labour.

Indonesia's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	6.0	4.6	6.9	6.0	6.0
Inflation rate (annual average, %)	5.8	9.2	8.6	6.5	8.0
Best lending rate (year-end, %)	na	na	19.0	17.5	16.0
Exchange rate (year-end, per US$)	1,644	1,653	1,732	1,800	1,900
GDP (US$, b)	55.8	65.6	72.0	78.0	84.0
Exports (US$, b)	14.4	17.2	19.4	22.0	25.5
Imports (US$, b)	11.9	12.5	13.7	17.5	21.0
Trade balance (US$, b)	2.5	4.7	5.7	4.5	4.5
Current account balance (US$, b)	-3.9	-2.1	-1.2	-2.7	-3.3
International reserve (US$, m)	4,051	5,592	5,048	4,200	4,500

Malaysia

GNP: Malaysia's strong growth by 8 percent in 1989 will slow down moderately to 6.5 percent in 1990. Private consumption and investment will remain strong. On the policy side, the latest government budget does not only provide for a sharp increase in infrastructure investment, but also contains tax reduction provisions which should further stimulate private domestic investment in the longer term.

External Position: The sustained inflow of foreign investment has significantly increased the export capability of Malaysia. However, weakened commodity prices in 1989 and strong import growth will reduce the trade surplus of US$5.6 billion in 1988 at about US$3.5 billion in 1989, which will decline further to US$3 billion in 1990. Both investment and consumption will continue to fuel the rapid expansion in import demand. The current account will also deteriorate rapidly, which will be partly supported by the strong inflow of direct and portfolio investments.

Exchange Rate and Interest Rate: The government will continue its policy of permitting the Ringgit to depreciate moderately in 1990, from the current level of M$2.70 per US$ to M$2.80 per US$. The Central bank is likely to raise the interest rate slightly, because of rising inflation.

Inflation: Inflation should average about 3.5 percent in 1989, increasing to 5 percent in 1990. Higher wages, weaker currency and higher inflationary expectations will lead to higher inflation in 1990.

Major Uncertainties and Political Issues:
(a) While Malaysia has reduced its dependence on commodity exports, its five major commodity exports (rubber, tin, timber, palm oil and petroleum) still account for a very significant share of total export earnings. Malaysia remains vulnerable to fluctuation in these commodity prices.
(b) Electrical and electronics products now account for about 60 percent of manufactured exports, which makes Malaysia sensitive to the performance of the global electronics industry.
(c) The ruling coalition party may not focus sufficiently on economic policies, because of the likelihood of a national election in 1990.

Malaysia's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	1.2	5.3	8.7	8.0	6.5
Inflation rate (annual average, %)	0.6	0.8	2.0	3.5	5.0
Best lending rate (year-end, %)	10.0	7.5	7.0	6.8	7.3
Exchange rate (year-end, per US$)	2.60	2.49	2.72	2.70	2.80
GDP (US$, b)	25.5	30.3	31.4	35.0	37.5
Exports (US$, b)	13.5	17.8	20.8	24.5	28.0
Imports (US$, b)	10.3	11.9	15.3	21.0	25.0
Trade balance (US$, b)	3.2	5.8	5.6	3.5	3.0
Current account balance (US$, b)	-0.1	2.6	1.8	0.5	0.2
International reserve (US$, m)	6,027	7.435	6.527	6,500	7,000

The Philippines

GNP: The latest military coup will have a long lasting impact on the economic front. Its 6 percent economic growth in 1989 is likely to slow down to about 4 percent next year.

Investment, both domestic and international, will decline very sharply in at least the first half of 1990.

External Position: The external position will deteriorate very rapidly throughout 1990. Although the export performance may not be significantly affected in the short term, its longer term potential must have been jeopardized. The current account deficit will increase very rapidly from about US$1.5 billion in 1989 to US$2.5 billion in 1990. Capital flight is likely to renew again. The number of tourists will decline very sharply as well.

Exchange Rate and Interest Rate: The Peso will depreciate by about 10 percent in 1990, because of the rising inflation and worsened external position. The interest rate will remain at a very high level of over 20 percent.

Inflation: All the factors relevant to inflation will lead to a further rise from about 11 percent in 1989 to about 14 percent next year.

Major Uncertainties and Political Issues:
(a) The latest military coup may frighten away foreign investment more than expected.
(b) Capital flight may significantly deteriorate.
(c) There may be more social and labour unrest.
(d) Stability of the government is threatened by the left, the right and the military. The lack of effective and decisive leadership remains a grave issue.

Philippines Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	1.8	5.9	6.8	6.0	4.0
Inflation rate (annual average, %)	0.8	3.8	8.7	11.0	14.0
Best lending rate (year-end, %)	17.53	13.34	15.92	22.00	22.00
Exchange rate (year-end, per US$)	20.53	20.80	21.34	21.77	24.20
GDP (US$, b)	29.9	33.8	38.6	43.0	46.0
Exports (US$, b)	4.8	5.7	7.1	7.8	8.6
Imports (US$, b)	5.0	6.7	8.2	10.2	12.0
Trade balance (US$, b)	-0.2	-1.0	-1.1	-2.4	-3.4
Current account balance (US$, b)	1.0	-0.5	-0.4	-1.5	-2.5
International reserves (US$, m)	1,728	968	1,003	650	500

Thailand

GNP: The double-digit growth in 1989 will be followed by a slower growth of 8 percent in 1990. Infrastructure constraints will remain as the most crucial factor curbing expansion in the next two years.

External Position: The current account deficit will stabilize at US$2 to 3 billion, as the slowing down in export growth will be substantially offset by tourist income. Strong inflows of direct and portfolio investment will sustain the increase of foreign reserves by another US$1.5 billion next year.

Exchange Rate and Interest Rate: The Thai baht will stay largely stable against the US$ in 1990. Further liberalizations in the financial market and increased domestic liquidity through improved external position will slightly reduce the interest rate by one to two percentage points in 1990. The monetary authority may not significantly tighten the liquidity unless inflation rises much faster than expected.

Inflation: Inflation will average about 6 percent in 1989, rising further to 7.5 percent in 1990. The surging of money supply and higher wage costs will be the major contributory factors.

Major Uncertainties and Political Issues:
(a) A drop in commodity prices during a cyclical economic downturn will reduce Thailand's export earnings.
(b) Thailand's trade friction with the U.S. may result in its loss of some GSP privileges.
(c) A downturn in the global electronics industry will adversely affect Thailand's export significantly
(e) Although the popularity of the Chatichai government is declining, a change of the government should not affect the current economic policies.

Thailand's Economic Outlook

	1986	1987	1988	1989	1990
GDP (real growth rate, %)	4.7	8.4	11.0	10.2	8.0
Inflation rate (annual average, %)	2.5	3.8	3.8	5.8	7.5
Best lending rate (year-end, %)	12.00	11.50	12.00	12.50	11.50
Exchange rate (year-end, per US$)	26.35	25.28	25.20	25.61	25.90
GDP (US$, b)	40.1	47.4	54.0	60.0	69.0
Exports (US$, b)	8.8	11.6	15.8	19.5	23.5
Imports (US$, b)	8.4	12.0	17.9	22.0	26.5
Trade balance (US$, b)	0.4	-0.4	-2.1	-2.5	-3.0
Current account balance (US$, b)	0.2	-0.4	-1.7	-2.3	-2.7
International reserves (US$, m)	3,776	5,212	7,112	10000	11500