

## OVERVIEW

CRAWLING BACK: OVERVIEW  
2003-4

Weighted average output in the Asia Pacific economies grew by 3.1 per cent in 2002, a significant increase over the 1.2 per cent in 2001.

Forecasters expect growth this year to ease slightly to 2.8 per cent, and then to accelerate to 3.9 per cent in 2004.

There are substantial uncertainties around this forecast. Earlier in 2003, the main uncertainties were associated with the events in Iraq. Those issues are now largely resolved in economic terms. Uncertainties associated with SARS have emerged since then. A new 'puzzle of the markets', with simultaneous rallies in bond and equity markets, emerged in the second quarter of 2003. The forecasters' assessments of the expected effects of these developments are embodied in the forecasts.

## 2002 EVENTS

The United States grew in 2002 at 2.4 per cent. While well below the Asia Pacific average, this represented a significant recovery from the 0.3 per cent in 2001.

The pattern of the NAFTA partners diverged. Canada grew substantially faster than the United States in 2002, more than doubling its own growth rate in 2001. By contrast, Mexican growth in 2002 was barely positive after contraction in 2001.

Singapore and Chinese Taipei turned around sharply in 2002 from their

negative performance in 2001. Hong Kong too increased its growth rate, from below 1 per cent to 2.3 per cent in 2002. Growth in these economies continues to show far more variability than in the years before the financial crisis of 1997-98. Performance has been sensitive to shifts in external demand.

Japan grew again in 2002 but slightly less than in 2001. (Japan's 2001 growth has recently been revised upward in newly released and revised data).

There was reasonably strong growth in the East Asian economies that had been most badly damaged in the region's financial crisis: 4.2 per cent in Malaysia, 4.6 per cent in the Philippines, 5.2 per cent in Thailand, 3.7 per cent in Indonesia, and 6.3 per cent in Korea. The ASEAN economies in this group have settled into reasonably strong growth, albeit at a lower rate than before the crisis. Korea has re-emerged as a top performer after reforms to policy and institutions affecting its interaction with the international economy.

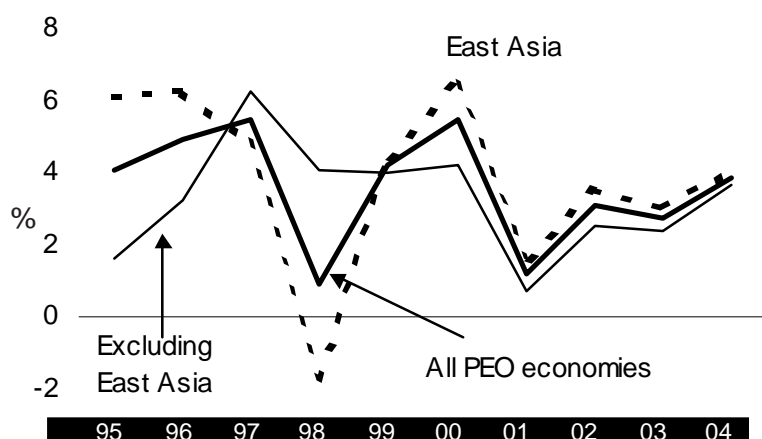
China still reports the highest growth in the Pacific, with 8 per cent in 2002. Vietnam was second fastest, followed by Korea.

China is benefiting from the productivity gains associated with reform, at a stage of development that allows 'catching up' with international competitors. Vietnamese growth, from a low base, has similar origins. Chinese growth in recent years has been greatly strengthened by facilitation of private sector development and by more reforms

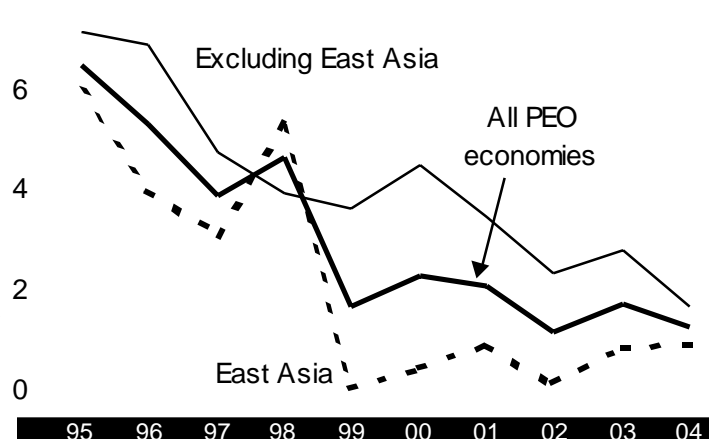
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Real GDP growth rates



CPI inflation



to support deep integration into the world economy. The strength of Korea is especially interesting. Korea is large and influential in the region, and is coming out of the latest downturn relatively quickly. It is not experiencing the hollowing-out that is happening in Chinese Taipei and Japan, since it has had less of the labour-intensive activities in which China is most competitive. Fiscal and monetary expansion also underpin the strong performance in Korea.

The Latin American economies on average grew more slowly than East Asia (1.3 per cent compared to 3.5 per cent). While Ecuador and Peru grew above the Pacific average, Latin America overall was dragged back by Mexico in 2002.

Australia and New Zealand grew faster than the average in 2002 at 3.8 per cent and 4.4 per cent respectively. Weak currencies continued to contribute to that performance. This weakness, which was surprising but which is now being reversed, draws attention to the importance of factors driving decision-making in international capital markets. These factors are discussed as risks in this forecast.

#### TRADE AND GROWTH IN 2002

Export growth for the PEO group turned positive again in 2002, exceeding 5 per cent. This followed decline in 2001.

In 2002, all of the region's substantial export growth was from East Asia. Exports were up by more than 10 per cent. This owed much to booming Chinese imports. Mainland China has

now become the largest export market for other Northeast Asian economies. Exports fell in the rest of the PEO region, entirely as a result of negative outcomes in Australia and the United States. Exports from Latin America in 2002 increased just over 1 per cent.

Imports for the whole region grew faster than exports in 2002. Imports in East Asia expanded at over two and a half times the rate in other PEO economies. In East Asia, export growth outpaced imports. The reverse applied elsewhere.

East Asia is becoming increasingly interdependent in trade and growth. Strong imports could in these circumstances feed back into export growth in the region as a whole in 2003, and output growth rates may be higher than currently expected. Contagion effects, evident in the downturn in 2001, should not be discounted as a positive influence in the recovery.

#### 2003 AND BEYOND

The picture for growth is for more of the same in 2003 with acceleration in 2004 to an average rate just below 4 per cent for the region as a whole.

The rates of growth in the region are crawling back towards the post-Asian crisis peak of 2000.

As the PEO has pointed out before, it is important to place current growth in the context of longer-term potential.

A decline in the labour force of 1 per cent is expected in Japan, and so with labour productivity growth of 2 per cent, expected sustainable growth is only about 1 per cent, which is the rate of growth forecast for 2004.

The main driver of growth in the forecast for Japan, is net exports of goods and services, with domestic consumption and private investment both growing very slowly.

One risk in that outlook comes from changes in currency valuations. A stronger yen will reduce Japan's net exports and may prompt a further outflow of direct foreign investment. On the other hand, a stronger yen will lift export growth in other economies in the region, offset to some extent by slower growth in Japan.

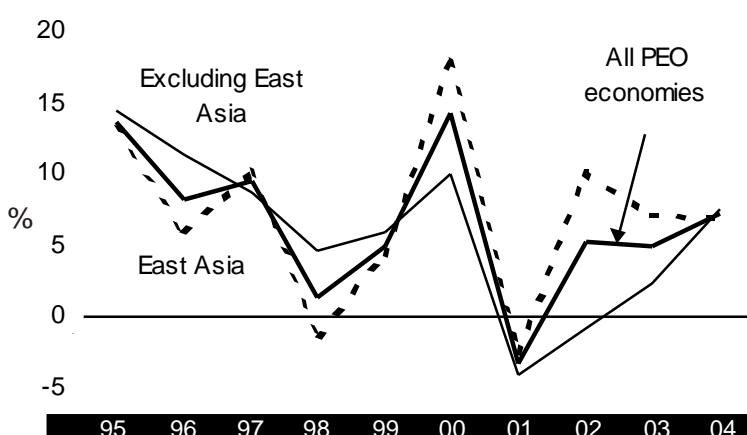
There is an argument that a set of strong policy adjustments, generating a 'hard landing', would be beneficial for long-term growth in Japan. The adjustment would include measures to deal with non-performing loans in the banks at the same time as accelerating productivity-raising reform, especially in services.

Supporters of the 'hard landing' are pitched against those of a vigorous anti-deflationary policy. The former group fear the implications of further large increases in public debt in the anti-deflationary policy package. They argue that there is no alternative to confronting the main inhibitors to growth in Japan.

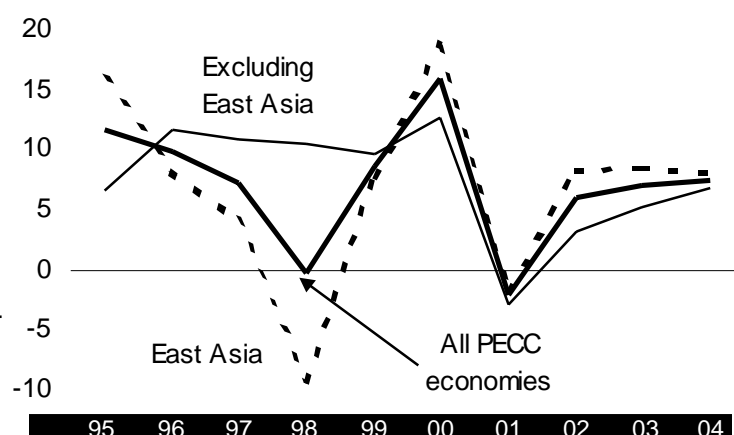
A similar approach to assessing potential growth suggests in the order of 3 per cent for the United States. The United States forecast sets growth below this sustainable rate in 2003 but above it in 2004. This leaves little room for the deflation that has been discussed in the second quarter of 2003.

Factors in the recovery in the United States include a change in consumer

Export growth



Import growth



sentiment after the end of the Iraq war, the rebuilding of inventories by the private sector, and the fiscal stimulus, associated with tax cuts, the rebuilding of the defence system and the decline in the US dollar.

Acceleration in the Latin American countries is a feature of current and forecast growth. By 2004, the PEO forecasters have Latin American performance at the PEO average and only a touch below East Asia.

**SARS in East Asia.** East Asian growth in 2003 on the other hand will be less than in 2002, before lifting to just over 4 per cent in 2004. The main cause of the dip in 2003 is SARS, which has cut the expected weighted average rate of growth by about one-tenth.

Hong Kong and Singapore are hit hardest in relative terms. Hong Kong is now forecast to grow at 0.8 per cent (1.3 percentage points less than an earlier estimate of 2.1 per cent). Singapore is expected to grow by 2.0 per cent (1.6 percentage points less than an earlier estimate of 3.6 per cent).

The forecast for China in 2003 is 7.8 per cent. China had previously been expected to grow at rates approaching 9 per cent in 2003 and actual performance in first-quarter 2003 was consistent with this outcome. So the SARS fall was 1.2 percentage points. SARS led to smaller cuts in growth expectations in New Zealand, Malaysia, Chinese Taipei, and Vietnam (all by about one half a percentage point).

The main economic effects of SARS have been in the service sector, where travel is important. Tourism and education were especially vulnerable.

There has been diversion of some travel to domestic rather than international channels and some travel has simply been delayed.

The direct and immediate effects of SARS on merchandise trade growth appear to be small. The longer term effects on new project development (which require movements by executives, technicians, etc) may be significant if the SARS crisis in the region persists for a long period.

**The China story.** Many of our forecasters point to the contribution of Chinese demand to growth in trade in their economies. This positive story is reported in the outlooks for Japan, Korea, Hong Kong and Chinese Taipei. In the first two, there has been a significant 'hollowing-out' of the manufacturing sector. But this phenomenon is also reported in Southeast Asia, including Indonesia and the Philippines. The Philippines' author has explained the importance of staying ahead of the frontier of Chinese export competitiveness, with continuing transformation into higher-value goods and services.

There has been considerable relocation of production facilities to China from other economies which are losing competitiveness in labour-intensive manufacturing processes. This leads to a diversion of intermediate products exports to China.

Relocation of production capacity to China means that in some markets in third countries, international competition becomes more intense. The forecast for Mexico discusses this phenomenon in Mexico's trade with the United States.

At the same time, China has become a powerful new engine of growth for East Asia, through both its contribution to the competitiveness of the whole supply chain, and its own consumption of final products. Most analysts currently take the view that this positive effect is larger than the negative impact of increased Chinese competition in third country markets.

## RISKS IN THE OUTLOOK

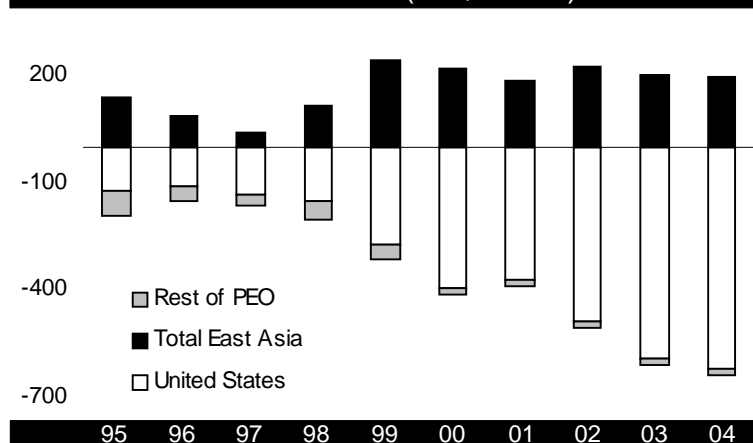
Beyond lingering effects of SARS we see risks in the forecasts in uncertain financial market responses to the US current account deficit, and in growing fractures in the international trading system that are increasing the costs of international trade and investment and causing deceleration in their expansion.

The threat of deflation demands some comment, following global excitement in May at comments from the Governor of the US Federal Reserve that deflation was a (albeit low probability) risk. Deflation (sustained falls in the general price level) has been persistent in Japan and Hong Kong. It has been present for some periods in China, Chinese Taipei and Singapore.

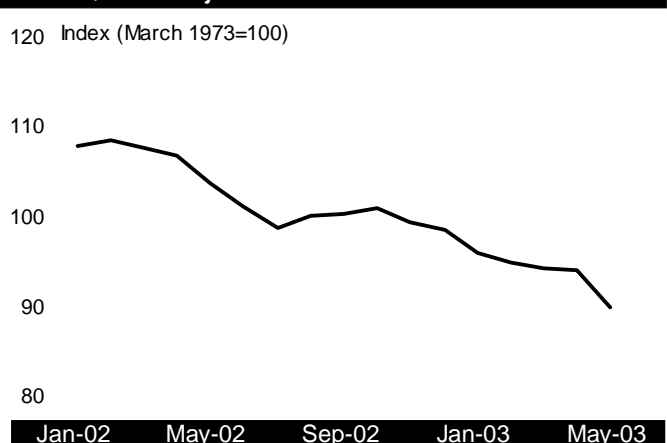
Inflation for the region as a whole is expected to change little. East Asia and Latin America are on divergent paths. The Latin American economies continue to cut inflation rates. Rates on average in East Asia are climbing but only slowly.

Rates around the Pacific are converging towards 2 per cent in 2003, a common mid point in the bands of central banks which adopt an inflation target.

PEO current accounts (US\$ billion)



US\$ vs. major currencies



The general price level in Japan is expected to continue to fall.

In the United States, inflation is expected to accelerate as growth moves back into the band of 3 to 4 per cent. Accelerating inflation in 2004 leads in this forecast to a return to rising interest rates in the United States in that year. Revival of the economy and dollar depreciation can be expected to diminish the concerns about deflation in the United States, but also to lead to a further round of adjustments in financial markets as expectations of falling interest rates are reversed.

Inflation in China was negative again in 2002 but positive rates are expected in the next two years. The weak currency, pegged to the US dollar, supports this expectation.

Falls in the general price level in 2002 were also reported in Hong Kong and are expected to continue in 2003 and 2004. Deflation has been part of the adjustment process in an economy with an exchange rate fixed to the US dollar. The recent weakness in the US dollar introduces upside risk into the inflation forecast. Price falls observed in Singapore and Chinese Taipei in 2002 are expected to be reversed in 2003 and 2004.

Fears of deflation damaging growth in the Pacific region generally have little foundation. There is an issue only in a few high-income East Asian economies. **US current account.** The region's combined current account deficits were in the order of US\$200 billion in both 2000 and 2001. By the end of our forecast period, the combined deficit is expected to be over two times as big. This change is driven by divergent trends across the region.

The US current account deficit fell to about US\$380 billion with the downturn in 2001 but far exceeded that level in 2002, reaching nearly US\$490 billion. It is expected to rise substantially in absolute terms in 2003 to nearly US\$600 billion, or about 5.5 per cent of GDP. The forecast for 2004 is for an even larger deficit in absolute terms but a stable share of GDP.

Behind this change is the acceleration in the growth of imports into the United States from 2002. This acceleration is

also an important source of growth for the rest of the region.

At the same time the East Asian surplus falls to about US\$200 billion in 2004 and the deficit in Latin America rises to about US\$20 billion.

The gap for the PEO group therefore rises from about US\$200 billion in 2000 to nearly US\$450 billion in 2004, implying an immense draw on funds from the rest of the world. The Europeans and the Middle East economies become more important 'savers' for the United States in this scenario—the latter partly based on recycling the United States' spending on oil.

In the last edition of the PEO, there was an expectation that the markets could sustain the growing deficit, because holding US dollar assets remained attractive. The consensus at that time was that the willingness to invest in US dollar-denominated assets would persist, with the formal dollarisation in some economies reinforcing this effect. Moderate depreciation of the US dollar was expected.

We did note however, the risk that the attitude to US assets could change rapidly and that if this occurred, markets may respond with a large and more sudden dollar depreciation.

The US forecast is premised on a large depreciation of the US dollar against other major currencies over 2003 and 2004. This depreciation moderates the current account deficit in the US forecast, and makes a contribution to its stabilisation as a share of GDP. Depreciation of the dollar also lessens the risk of deflation.

The expectation in the forecast was for depreciation of 7 per cent in 2003 against major US trading partners. Depreciation of more than that (9 per cent), according to Federal Reserve data, had already occurred by May 2003, following a similar depreciation over the whole of 2002. A further decline in the dollar is expected in 2004. This may reduce the US current account deficits below forecast levels, moderately enhancing output growth in the United States and correspondingly reducing prospects for its trading partners, first of all in North America.

We expressed the concern in earlier editions of the PEO that if the depreciation were to occur over a short period, and if there were the overshooting which is common in foreign exchange markets, it might be associated with changing volatility in financial markets in general. Associated uncertainty among investors would be damaging to growth in the Pacific.

The value of the US dollar is a significant issue for PEO economies. Some of the bilateral exchange rates have changed much more than the broader index. Dollar depreciation is less challenging for the economies whose currencies are linked formally or informally to the US dollar (foremost Hong Kong, China, Malaysia, Ecuador and Peru). It is challenging to Japan. It will reduce growth in a few economies recently performing well and experiencing exceptionally large appreciations against the dollar, including Australia, New Zealand and Canada.

Given the increase in the value of the Euro against the dollar so far, we would expect to see the Europeans seek to contain the depreciation of the US dollar relative to their currencies by further reducing interest rates. That response would also stimulate growth in domestic demand. This effect is an upside in the forecasts.

Japan's options are more limited because of the zero interest rate policy already in place. As explained in the country forecast, central bankers in Japan are looking for new ways to increase the money supply and to support markets for financial assets. As the Japan forecast also makes clear, the issue is critical for Japan given the expected role of net exports in growth in 2003 and 2004.

Responses by other economies, if taken to extremes, could diminish the contribution of US dollar depreciation to containment of the current account deficit. Given the large, early depreciation of the US dollar, we do not see this as a major risk.

**Costs of international business.** There are two sources of rising costs of international business transactions -- the

security agenda; and the proliferation of preferential trading agreements. There are important links between these two.

We have commented in earlier editions of the PEO on the effects of new security requirements on the costs of doing international business. However, the nature and extent of the responses to the security tax are still emerging. Significant differences are likely between sectors of the economy, between modes of transport, and among bilateral trade flows. As the forecasts make clear, not all the effects for all economies are negative. Some countries gain from the diversion of trade. For example, New Zealand seems to have attracted tourist and student flows away from destinations regarded as more risky or now more difficult to enter.

The adoption of a preferential approach to negotiation of trade agreements now seems firmly established as an idea although not much has yet happened in practice since NAFTA. There may soon be an explosion of discriminatory trading arrangements, with rules of origins greatly complicating international exchanges between firms. Australia and the United States are negotiating what could be the first intercontinental free trade area between substantial economies. There is active discussion of free trade areas joining the major Northeast Asian economies with each other in various combinations, and with Southeast Asian economies.

Some of our forecasters (Singapore and Chile for example) point to the benefits that policymakers in their economies perceive from the use of preferential trading arrangements. Optimistic expectations of gains from new free trade areas are likely to be mostly disappointed.

As we have noted in earlier editions of the PEO, preferential arrangements add to the cost of doing business, because of the complexities they introduce, such as the terms of the rules of origin. They can also undermine the domestic political interest in general trade liberalisation in countries participating in their negotiation. The

costs of trade and investment diversion are also significant. For all these reasons, we have for some time been concerned about the proliferation of preferentialism. The enthusiasm for free trade areas has been one factor denying energy to the multilateral trade negotiations that were initiated at Doha in late 2001.

The last of the economies which had resisted the enthusiasm for discriminatory free trade areas, Malaysia and Hong Kong, have now turned to the preferential approach. Just as financial markets turn when the last resisters join the old trend, could it be that we will now see the beginnings of reassessment of the relative merits of preferential and most-favoured nation trade liberalisation?

There is a link between these two sources of higher transaction costs. The motivation for seeking preferential agreements is often political, for example, to strengthen a bilateral relationship. This motivation for seeking preferential trading agreements has been reinforced by the adoption of a policy agenda for more secure trade. However, as we pointed out in earlier editions of the PEO, the use of preferential agreements for this purpose risks creating new divisions without dealing efficiently with the security concerns. A further problem is that political priorities change with circumstances. One economy having invested in a set of negotiations with an important trading partner might find its position diminished and the implementation of the agreement delayed when its own views on a set of political issues fails to align with the opinions of its trading partner. The impact of political considerations makes the preferential strategy more precarious than a multilateral approach, which is based more substantially on economic interests.

Finally, these risks, plus the large increase in the current and prospective budget deficit discussed in the United States forecast, and the continuing large deficits in Japan, are likely to damage the longer-term growth outlook. Increased risks in, and other costs of,

international transactions are a much greater problem for long-term growth than for prospects this year and next. The same can be said for the marked loosening of US budget policy: while immediately stimulatory, it will bring forward and magnify the rise in long-term interest rates that will accompany continued recovery in private investment. Together, these influences suggest that the potential non-inflationary growth capacity of the Pacific economies will be lower than during the mostly prosperous 1990s.

T1

Real economic growth and increase of consumer prices for PEO economies,  
2001–2004 (%)

	<u>Real GDP</u>				<u>CPI</u>			
	2001	2002	2003	2004	2001	2002	2003	2004
Australia	2.7	3.8	3.3	3.6	4.4	3.0	2.6	2.4
Canada	1.9	3.3	2.2	3.6	2.5	2.3	3.1	2.2
Chile	3.1	2.1	3.2	4.0	3.6	2.5	3.4	3.0
China	7.3	8.0	7.8	8.3	0.7	-0.8	1.0	1.5
Colombia	1.4	1.5	2.0	3.3	7.6	7.0	6.0	5.0
Ecuador	5.1	3.4	3.3	3.6	37.7	12.5	7.2	3.5
Hong Kong, China	0.5	2.3	0.8	2.5	-1.6	-3.1	-2.0	-1.0
Indonesia	3.4	3.7	3.7	4.9	11.5	12.0	9.0	9.0
Japan	0.4	0.3	0.5	1.0	-0.8	-0.9	-0.5	-0.6
Korea	3.1	6.3	3.5	5.8	4.1	2.7	3.7	2.8
Malaysia	0.4	4.2	4.0	5.0	1.4	1.8	1.7	2.0
Mexico	-0.3	0.9	2.0	4.0	6.4	5.0	4.7	4.2
New Zealand	2.7	4.4	2.7	2.2	2.6	2.7	2.3	1.5
Peru	0.6	5.3	3.6	4.0	-0.1	1.5	1.9	2.0
Philippines	3.6	4.6	3.7	6.0	6.1	3.1	3.8	5.0
Singapore	-2.4	2.2	2.0	3.0	1.0	-0.4	0.5	0.9
Chinese Taipei	-2.2	3.5	3.3	4.5	0.0	-0.2	0.7	1.5
Thailand	1.9	5.2	5.0	5.5	1.6	0.7	1.6	2.0
United States	0.3	2.4	2.5	3.6	2.8	1.6	2.2	1.8
Vietnam	6.9	7.0	6.6	7.4	0.8	4.0	4.5	5.5
Weighted Average	1.2	3.1	2.8	3.9	2.1	1.2	1.8	1.3
WA: East Asia	1.6	3.5	3.0	4.1	0.9	0.2	0.9	0.9
WA: Latin America	0.3	1.3	2.2	3.9	6.8	5.0	4.6	3.5
WA excl US & Japan	1.9	4.1	3.4	4.7	2.5	1.5	2.1	1.5
WA excl East Asia	0.7	2.5	2.4	3.7	3.5	2.3	2.8	1.7

Note: National currency based. The weighted average is based on the respective economies' 1999–2001 exports (see Appendix Table 4).  
Source: PEO forecasters; International Economic Databank, The Australian National University, Canberra.

	Exports				Imports			
	2001	2002	2003	2004	2001	2002	2003	2004
Australia	1.2	-0.5	4.3	11.0	-4.1	10.2	8.4	5.5
Canada	-3.1	-0.1	-1.0	6.4	-5.0	0.6	5.1	7.2
Chile	6.1	1.3	4.8	5.4	3.2	0.5	4.3	5.0
China	7.1	20.4	15.0	9.6	8.2	20.6	24.4	14.1
Colombia	4.3	-3.9	-0.7	5.2	10.7	0.1	-1.6	1.3
Ecuador	-1.3	0.9	5.9	6.6	17.2	17.2	1.3	-1.0
Hong Kong, China	-1.6	9.2	7.8	10.0	-1.5	7.1	6.5	9.9
Indonesia	1.9	1.2	1.5	2.5	8.1	3.3	4.0	7.0
Japan	-6.1	8.3	3.9	3.3	0.1	2.1	3.2	1.8
Korea	0.7	14.9	9.6	12.0	-3.1	16.4	10.4	16.6
Malaysia	-7.5	3.6	6.8	7.0	-8.6	6.2	7.3	7.5
Mexico	-3.6	1.4	2.5	6.4	-1.5	1.8	1.7	6.0
New Zealand	2.1	7.6	4.0	4.9	1.6	8.6	6.0	4.4
Peru	6.9	5.7	9.0	6.0	1.6	2.4	6.2	5.0
Philippines	-5.2	3.3	1.9	9.6	-0.8	4.9	0.1	9.5
Singapore	-6.6	3.9	2.9	4.4	-9.5	1.8	3.8	5.6
Chinese Taipei	-7.8	9.7	6.6	7.0	-13.9	6.2	6.9	6.0
Thailand	-4.1	10.9	6.5	6.4	-5.5	11.3	7.0	6.9
United States	-5.4	-1.6	3.1	8.2	-2.9	3.7	5.7	7.3
Vietnam	3.8	10.0	12.0	14.0	3.4	11.2	14.0	16.0
Weighted Average	-3.2	5.2	4.9	7.3	-2.2	5.9	7.0	7.5
WA: East Asia	-2.5	10.2	7.1	7.0	-1.6	8.3	8.5	8.0
WA: Latin America	-1.8	1.2	2.8	6.3	0.3	1.8	1.9	5.4
WA excl US & Japan	-1.5	7.5	6.0	7.9	-2.4	7.9	8.5	9.0
WA excl East Asia	-4.0	-0.7	2.3	7.6	-2.8	3.2	5.1	6.8

Note: Of goods and services; National currency based. The weighted average is based on the respective economies' 1999–2001 exports (see Appendix Table 4).

Source: PEO forecasters; International Economic Databank, The Australian National University, Canberra.

T3

**Current account of the balance of payments for PEO economies, 2000–2004**  
 (US\$ billion and % of GDP)

	2000	% of GDP	2001	% of GDP	2002	% of GDP	2003	% of GDP	2004	% of GDP
Australia	-15.5	-4.0	-8.5	-2.4	-16.0	-4.1	-20.8	-4.4	-19.2	-3.9
Canada	21.1	2.9	17.3	2.4	14.9	2.0	20.6	2.3	24.8	2.6
Chile	-0.8	-1.0	-1.2	-1.8	-0.6	-0.8	-0.6	-0.9	-0.8	-1.1
China	20.5	1.9	17.4	1.5	20.9	1.6	-3.5	-0.3	-20.2	-1.3
Colombia	0.6	0.7	-1.4	-1.7	-1.8	-2.2	-1.6	-2.2	-1.4	-1.9
Ecuador	-2.0	-12.0	0.9	5.5	0.9	4.3	2.0	8.2	-1.2	-4.4
Hong Kong, China	9.1	5.5	12.3	7.5	17.5	10.8	17.1	10.8	18.6	11.6
Indonesia	7.7	5.0	6.9	4.7	3.0	1.7	1.9	1.0	0.9	0.4
Japan	119.4	2.5	87.6	2.1	113.7	2.8	116.1	2.8	126.3	3.1
Korea	12.2	2.7	8.6	2.0	6.1	1.3	1.5	0.3	1.2	0.2
Malaysia	8.5	9.4	8.3	7.6	6.2	5.5	6.7	0.3	6.4	0.2
Mexico	-18.2	-3.1	-18.0	-2.9	-14.0	-2.2	-13.4	-2.1	-14.9	-2.2
New Zealand	-2.8	-5.3	-1.4	-2.8	-1.8	-3.1	-2.2	-2.8	-1.9	-2.3
Peru	-1.6	-2.9	-1.1	-2.0	-1.1	-2.0	-1.2	-1.9	-1.3	-2.0
Philippines	8.5	11.3	4.5	6.3	4.1	5.3	1.1	1.4	1.5	1.7
Singapore	13.2	14.5	15.6	19.0	19.3	21.5	19.7	21.0	19.8	20.6
Chinese Taipei	8.9	2.9	17.9	6.4	25.7	9.1	32.2	11.1	36.0	11.6
Thailand	9.2	7.6	6.2	5.4	7.6	6.0	6.6	4.9	6.3	4.4
United States	-395.8	-4.0	-376.7	-3.7	-488.9	-4.7	-595.2	-5.5	-623.5	-5.4
Vietnam	0.5	1.3	1.1	3.0	-1.3	-3.1	-0.7	-1.6	-0.9	-1.9
<b>Total</b>	<b>-197.0</b>		<b>-203.7</b>		<b>-285.6</b>		<b>-413.6</b>		<b>-443.4</b>	
Total excl. US and Japan	79.4		85.3		89.6		65.5		53.8	
Total: East Asia	217.8		186.4		222.8		198.7		196.1	
Total: Latin America	-21.9		-20.8		-16.5		-14.8		-19.6	
Total excl East Asia	-414.8		-390.1		-508.4		-612.3		-639.5	
<b>Weighted Average</b>		<b>1.5</b>		<b>1.8</b>		<b>1.9</b>		<b>1.3</b>		<b>1.3</b>
WA: East Asia		4.7		5.1		5.8		5.1		0.9
WA: Latin America		-2.9		-2.4		-1.9		-1.7		3.5
W.A. excl. US and Japan		3.6		4.1		4.6		4.0		1.5
WA excl East Asia		-2.4		-2.2		-2.8		-3.2		1.7

.. not available

Note: The weighted average is based on the respective economies' 1999–2001 exports (see Appendix Table 4).

Source: PEO forecasters; International Economic Databank, The Australian National University, Canberra.

		<u>GDP growth rate</u>	<u>Personal consumption expenditure</u>	<u>Gross private domestic investment</u>	<u>Government purchasing</u>	<u>Net exports</u>
Australia	2003	3.3	1.9	1.6	0.8	-1.1
	2004	3.6	2.1	-0.3	0.7	1.0
Canada	2003	2.2	1.8	1.6	0.9	-2.2
	2004	3.6	2.4	0.6	0.8	-0.1
Chile	2003	3.2	1.6	1.1	0.3	0.2
	2004	4.0	2.2	1.3	0.3	0.2
China	2003	7.8	3.6	6.2	..	-2.0
	2004	8.3	4.6	5.0	..	-1.3
Colombia	2003	2.0	1.6	0.2	0.0	0.2
	2004	3.3	2.9	0.6	-0.9	0.7
Ecuador	2003	3.3	1.2	-1.8	2.4	1.5
	2004	3.6	1.8	-1.4	0.6	2.7
Hong Kong, China	2003	0.8	-1.4	-0.7	0.4	2.6
	2004	2.5	0.3	0.8	0.2	1.2
Indonesia	2003	3.7	2.3	0.2	0.7	-0.6
	2004	4.9	3.1	0.9	0.9	-1.1
Japan	2003	0.5	0.0	0.3	0.0	0.2
	2004	1.0	0.3	0.6	0.0	0.2
Korea	2003	3.5	0.5	1.1	0.2	1.4
	2004	5.8	2.3	2.2	0.2	1.0
Malaysia	2003	4.0	2.3	0.6	1.2	0.1
	2004	5.0	3.3	0.7	1.3	0.0
Mexico	2003	2.0	1.5	0.1	0.1	0.2
	2004	4.0	2.8	1.1	0.2	0.0
New Zealand	2003	2.7	1.8	0.9	0.6	-0.6
	2004	2.2	1.6	-0.1	0.3	0.2
Peru	2003	3.6	2.5	0.5	0.0	0.6
	2004	4.0	2.8	0.7	0.3	0.3
Philippines	2003	3.7	2.6	0.4	0.0	0.7
	2004	6.0	3.3	2.3	0.2	-0.5
Singapore	2003	2.0	0.5	1.7	0.5	-0.7
	2004	3.0	1.5	2.0	0.6	-1.0
Chinese Taipei	2003	3.3	1.8	1.9	-0.4	0.5
	2004	4.5	2.1	1.2	0.1	1.2
Thailand	2003	5.0	2.7	1.5	0.4	0.8
	2004	5.5	3.0	1.4	0.3	0.7
United States	2003	2.5	1.7	0.6	0.7	-0.6
	2004	3.6	2.5	1.5	0.0	-0.3
Vietnam	2003	6.6	3.8	3.5	1.7	-1.7
	2004	7.4	4.1	3.6	1.8	-2.0

Note: National currency based. Net contributions may not equal the GDP growth rate due to rounding, adjustment in stocks or statistical discrepancies. China's figure is 'Final Consumption Expenditure (= personal consumption expenditure + government purchase).

Source: Pacific Economic Outlook forecasters.

T5

## Index of international stockmarket values, January 1999–June 2003

Value of US\$100 invested on the stock exchange on 1 July 1988  
(Monthly average)

	Jan-99	Jul-99	Jan-00	Jul-00	Jan-01	Jul-01	Jan-02	Jul-02	Jan-03	Jun-03
Northeast Asia										
Hong Kong	117.6	158.2	202.5	187.6	175.5	151.6	132.5	123.2	108.4	113.2
Korea	204.3	343.5	395.7	326.1	173.9	200.0	230.4	269.6	230.4	239.1
China	86.4	117.3	101.1	148.6	159.8	164.5	119.7	126.2	97.7	108.3
Chinese Taipei	88.0	116.6	121.1	122.7	69.7	70.7	72.5	63.6	58.8	66.2
Japan	105.8	133.8	190.0	170.4	126.7	117.1	89.6	97.9	81.7	86.3
Southeast Asia										
Thailand	154.4	223.5	205.7	127.9	97.9	112.3	108.4	147.6	130.4	163.4
Indonesia	161.3	316.1	309.7	180.6	138.7	122.6	122.6	183.9	151.6	196.8
Malaysia	95.1	174.3	193.3	184.0	157.5	135.9	161.3	168.0	149.8	160.0
Philippines	117.5	155.5	124.3	81.9	69.4	61.4	52.6	55.1	44.3	51.6
Singapore	135.8	209.9	251.0	192.5	178.8	150.7	141.5	141.0	124.4	136.9
Latin America										
Chile	88.0	108.8	114.4	105.7	98.3	98.7	94.4	83.6	80.7	100.2
Colombia	81.1	66.8	64.8	42.7	35.7	45.2	44.8	47.0	49.0	55.9
Ecuador	77.4	41.5	17.8	22.3	45.9	41.1	43.6	62.0	58.4	53.6
Mexico	77.2	120.0	141.1	141.5	109.7	142.2	129.7	118.8	106.4	124.0
Peru	75.6	90.1	92.8	75.2	61.2	68.5	60.9	57.6	70.7	95.5
Other Pacific										
Australia	100.8	118.6	125.0	118.7	106.8	105.0	104.8	108.6	102.1	123.4
New Zealand	107.0	112.7	116.6	95.9	83.2	83.2	86.1	102.3	105.3	124.8
Canada	84.1	95.0	116.0	137.2	118.4	101.7	95.9	93.7	83.4	104.7
United States										
Dow Jones Industrial	101.5	122.3	125.5	116.7	119.2	117.1	110.8	100.7	92.2	101.6
S & P 500	107.0	120.2	126.7	127.9	115.0	107.7	100.0	84.3	76.6	86.9
NASDAQ	114.5	141.4	215.8	208.5	129.0	112.2	101.9	73.3	69.8	86.4

Note: Beginning of each month figures. June 2003 figures are as of 12 June 2003.