Executive Summary

East Asian Economy from Japan's Perspective

With average annual growth of 8.5 percent over the past decade, East Asia has come to be called the world's growth center in terms of both production and demand. In 1996, the region exported 1.7 times more than Japan and imported 2.1 times more. East Asia as it is referred to here groups the newly industrializing economies of South Korea, Taiwan, Hong Kong and Singapore (NIES), the four Association of South East Asian Nations members of Malaysia, Thailand, Indonesia and the Philippines (ASEAN4) and China.

This expanding region promises to become the base for the further globalization and strengthening competitiveness of Japan in the future. In 1996, East Asia accounted for 42 percent of all Japanese exports and 35 percent of its imports. Therefore, the future economic trends of East Asia will also exert a significant impact on the Japanese economy.

Decreasing Growth of East Asia in 1996

Barring the two years after the Tiananmen Square incident when the Chinese economy slowed down (1989-1990), East Asia sustained average annual growth of over 8 percent from 1986 through 1995. In 1996, however, growth fell below this line to 7.6 percent. The slowdown in South Korea and Singapore in 1996 stemmed from lackluster exports amid a worldwide adjustment in personal computer and its component inventories. The slowdown in Thailand was primarily due to a reduction in exports in the process of adjustment toward a more sophisticated industrial structure.

Long-Term Economic Forecast for East Asia by Econometric Model

Considering the growth slowdown in East Asia in 1996, future high growth cannot be taken as a given. It is therefore necessary to analyze the macroeconomic structure of the countries and regions of East Asia based on statistical data in order to lend substance to the long-term economic forecast for East Asia over the next 10 years. This spot survey predicts the economic situation through the year 2005 based on values forecast by econometric models for each country and region in East Asia, which were developed by the PAIR project team of IDE.

Long-Term Economic Forecast for East Asian Economy

According to predictions by the PAIR project team, the NIEs annual growth rate will decrease to 5.8 percent over the next decade, 2.3 points lower than in the previous decade. This reflects the transition of NIEs toward industrialized economies. The growth rate of ASEAN4 over the next decade is predicted to reach an annual average of 7.9 percent, a 0.4 point increase over the previous decade. This is because Thailand is expected to recover after a slowdown in 1997 and 1998 due to monetary and financial instability including its volatile foreign exchange rates, while Indonesia and the Philippines are expected to see accelerated growth through the deregulation of foreign capital. From the start of the 21st century, Indonesia is likely to join China as an engine of growth in East Asia if it continues to promote deregulation with respect to capital and trade.

China achieved high annual growth of 9.9 percent over the past decade. If the reforms and open-door policy continue in post-Deng China, the nation is likely to achieve annual growth of 9.2 percent under single digit inflation.

East Asia as a whole is likely to undergo an average annual growth decrease of 1.0 point from the previous decade to the next decade, reflecting the slowdown of NIEs. Nevertheless, this translates into high annual growth of 7.5 percent for the region, fueled by continued economic development in China and ASEAN4.

IDE and ADB Forecasts

This volume offers a 10-year forecast of GDP growth rates for East Asia based on econometric models of IDE (hereinafter called the "IDE forecast"). In May, the Asian Development Bank (ADB) made a 30-year economic forecast for developing countries, including those in East Asia. The ADB forecast is not a GDP growth rate but an annual average growth rate of per capita GDP, which can be called an "economic development rate", for each country and region. Hence, the IDE economic forecast values for East Asia were converted into an economic development rate to enable a comparison with the ADB values. Comparing the East Asian figures of the ADB forecast with those of the IDE forecast in this way, the ADB figures for NIEs, ASEAN4 and China are 2.0 points lower than the respective IDE figures.

As evident from Japan's experience from the 1960s through the 1980s, when the stage of economic development dramatically rose, the pace of that development lowered. If East Asia is able to sustain its high growth in the future, the annual average economic development rate will naturally decrease with time. While the forecasting methods are different, the annual average economic development rate for East Asia is predicted to decrease from 6.2 percent over the next 10 years (IDE forecast) to 4.2 percent over the next 30 years (ADB forecast), a two point drop. Considering the one-point drop in the annual average growth rate of GDP for East Asia from the previous 10 years (1986-1995) to the next 10 years, the IDE and ADB forecasts could be called consistent.

Summary Table. Annualized Economic Growth Rates (GDP) of East Asian Economies

(%)

	1986-1995	1996-2000	2001-2005	1996-2005
South Korea	8.8	6.4	5.2	5.8
Taiwan	7.9	5.5	6.3	5.9
Hong Kong	6.5	5.1	4.8	4.9
Singapore	8.5	7.4	7.2	7.3
NIEs	8.1	6.0	5.6	5.8
Malaysia	7.7	7.8	7.4	7.6
Thailand	9.4	6.6	7.9	7.2
Indonesia	7.8	8.0	9.4	8.7
Philippines	3.4	6.7	7.8	7.2
ASEAN4	7.5	7.3	8.4	7.9
China	9.9	9.7	8.6	9.2
East Asia	8.5	7.6	7.4	7.5

Notes:
(1) Figures for 1996 are actual or government estimates except for Thailand and the Philippines, for which estimates by the PAIR project team are adopted.
(2) For group GDP, 1996 fixed US dollar denominated GDP of each country or region are added. Growth rates of groups are those of these GDP.
(3) These are two ways to express a period for which an annualized growth rate is calculated. For example, when it is calculated for the last decade; 1985 is time=0, 1986 is time=1, ..., and 1995 is time=10.
The one way to express this ten year period is "1985-1995" and another is "1986-1995." In this report, the latter way is adopted to express a period.