



Media Release

SG FORECASTS IMPROVED GROWTH PROSPECTS FOR ASIAN ECONOMIES

ASIAN CONSUMERS WILL DRIVE GDP GROWTH IN 2003

Hong Kong, 16 October 2002 - A recovery in consumption is set to drive improved GDP growth levels in 2003 in most of the Non-Japan Asia (NJA) economies, according to the latest Global Economic Outlook quarterly by SG, the corporate and investment banking arm of Société Générale. Investment-savings gaps have reversed on continuously rising current account surpluses, to the extent that a recovery in consumption is inevitable in most economies, argues Steven Xu, director and head economic research for Asia-ex Japan at SG.

Non-US fuelled growth sources needed

However, despite the positive overall growth, the dichotomy between financial variables and real economies will continue, as investors are increasingly concerned about the US consumers' ability to underwrite global growth. In order to capitalise on the potential of consumption-driven growth, it is crucial for NJA to find alternative growth sources.

China increasingly important as regional driver

The report notes that the growth of China's domestic economy has already mitigated some of the external shocks to NJA economies: "Taiwan's 2002 GDP growth would have been flat in the absence of its large trade surplus with China." However, reform of China's capital markets and liberalisation of the exchange and interest rates is needed to unleash the true potential of China's domestic growth.



SG believes that the leadership transition currently taking place in China will have little impact on consumer sentiment. “Most ordinary Chinese pay little attention to the connotation of Jiang’s ‘Three Represents’ doctrine (aimed at turning the Communist Party into a ruling party with more populist appeal). The report notes, the key to boosting consumption lies in deregulation which gives the private sector more room to grow.

Hong Kong - growth hampered by government policies

Hong Kong remains a disappointment in terms of economic recovery, but external factors should not be blamed, notes the report. What is needed, is a sensible housing policy and an immigration policy open to mainland talent, critical to the revitalisation of consumption and enhancement of productivity. Drastic measures to reduce the fiscal deficit must be undertaken immediately. The government’s current policy of pump-priming the economy could even have an opposite effect from the desired, resulting in consumers’ belt-tightening due to concerns over a higher future tax burden and reduced rate of returns from private investment. The SAR Government’s failure to reduce the fiscal deficit is also undermining the foundation of the HKD peg.

Optimistic about Korea’s prospects for sustained growth

Looking at Korea, Mr. Xu believes that while the country does not yet have what would be regarded as a well functioning financial market, the forced liberalisation is at least removing the massive distortions that plagued the financial system for decades. The continuing withdrawal of the government’s role in the economy will provide a significant boost to consumer spending.



Scepticism over the supposed consumer growth in Thailand and Malaysia

While Thailand and Malaysia have been experiencing a nascent consumption boom this year, Mr Xu remains cautious about the robustness and longevity of these recoveries. In Thailand, in particular, where the government-backed soft-loan New Deal has been the main driver, growth could falter subject to a deterioration in the external environment or the government's fiscal standing.

Major risks ahead

There are still issues that could limit the speed of recovery in the region. The main risks are a dampening of consumer growth levels brought by a protracted period of slow growth in the US, Japan and Europe, regional governments' inertia in implementing painful public finance reform and fiscal mismanagement. In addition, the risk premium in the ASEAN region is expected to remain high in the wake of the Bali bombing.

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