

**Change and Prosperity:
The Aspen Institute Program on the World Economy**

**Global Macroeconomic and
Financial Conditions
Market Developments in
Non-Japan Asia**

**Andrew Sheng
Chairman
Securities and Futures Commission
19 August 2004**

GDP Growth and Inflation

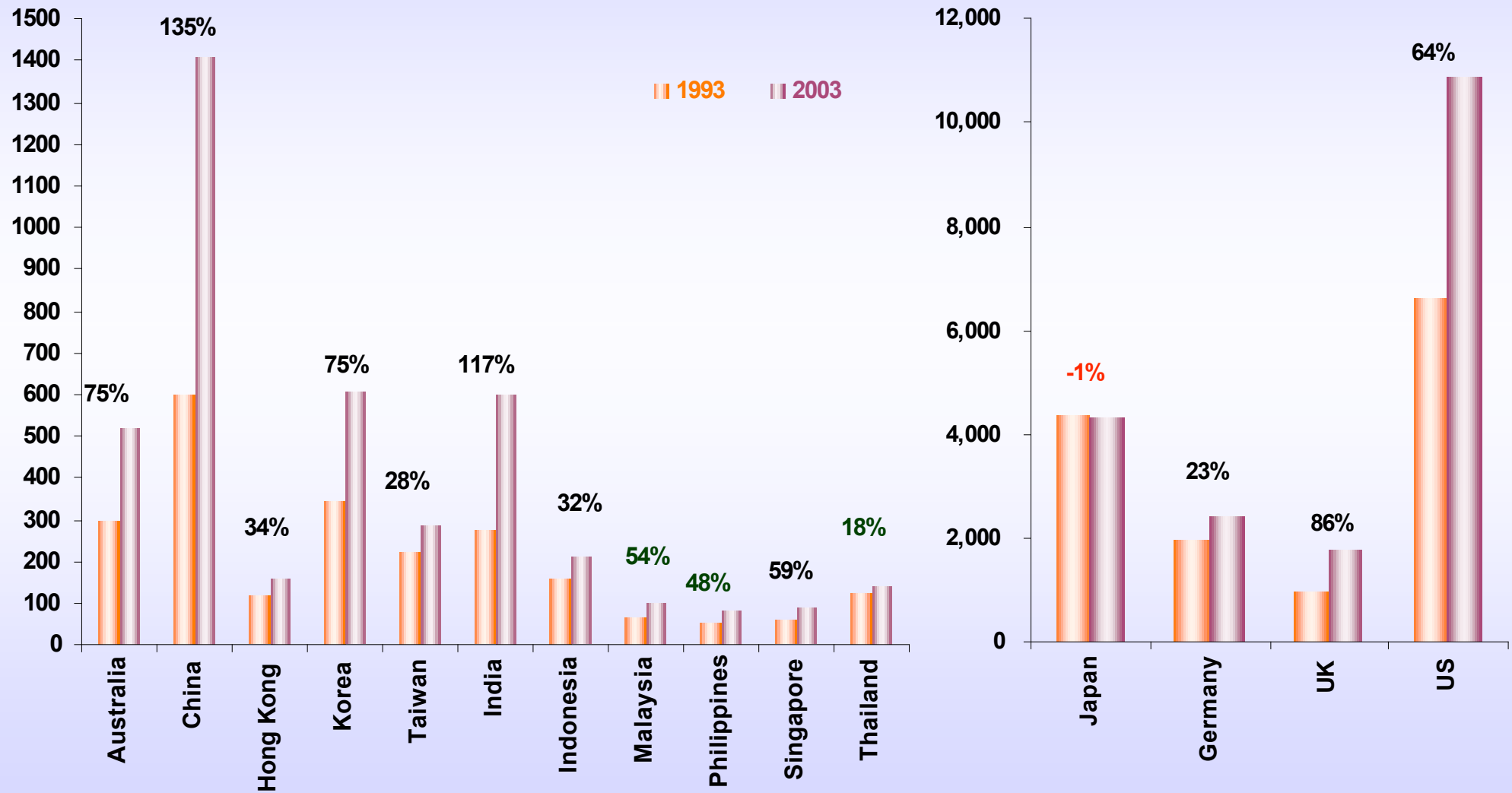
<u>Country</u>	GDP Growth Rate (%)		Inflation (%)	
	<u>2003</u>	<u>2004e</u>	<u>2003</u>	<u>2004e</u>
<u>Australia</u>	<u>3.0</u>	<u>3.5</u>	<u>3.1</u>	<u>2.4</u>
China	9.1	8.5	1.2	3.0
Hong Kong	3.3	5.5	-2.5	1.1
Korea	3.1	5.5	3.6	3.1
Taiwan	3.2	4.9	-0.3	0.8
<u>Average</u>	<u>4.7</u>	<u>6.1</u>	<u>0.5</u>	<u>2.0</u>
India	7.4	6.8	5.3	5.0
Indonesia	4.1	4.8	6.6	6.5
Malaysia	5.2	5.7	1.2	1.5
Philippines	4.5	4.5	3.1	4.5
Singapore	1.1	5.0	0.5	1.2
Thailand	6.7	7.0	1.8	2.4
<u>Average</u>	<u>4.8</u>	<u>5.6</u>	<u>3.1</u>	<u>3.5</u>
Japan	2.7	3.4	-2.5	-2.4
Germany	-0.1	1.6	1.0	1.0
UK	2.3	3.5	3.1	2.8
US	3.1	4.6	1.6	2.1
<u>Average</u>	<u>2.0</u>	<u>3.3</u>	<u>0.8</u>	<u>0.9</u>

Current Account and Fiscal Deficit

<u>Country</u>	<u>Current Account Balance</u> <u>(% of GDP)</u>		<u>Fiscal Balance</u> <u>(% of GDP)</u>	
	<u>2003</u>	<u>2004e</u>	<u>2003</u>	<u>2004e</u>
<u>Australia</u>	<u>-6.0</u>	<u>-5.4</u>	<u>N.A.</u>	<u>N.A.</u>
China	2.1	1.6	-2.7	-2.5
Hong Kong	11.0	10.3	-4.0	-3.1
Korea	2.0	1.5	-1.7	-0.5
Taiwan	10.0	7.3	-3.1	-3.0
<u>Average</u>	<u>6.3</u>	<u>5.2</u>	<u>-2.9</u>	<u>-2.3</u>
India	0.5	0.2	-11.0	-10.0
Indonesia	3.9	2.9	-2.1	-1.3
Malaysia	11.1	10.9	-5.3	-3.6
Philippines	2.1	1.6	-4.6	-4.2
Singapore	30.9	28.0	6.4	3.5
Thailand	5.6	4.4	0.6	-0.1
<u>Average</u>	<u>9.0</u>	<u>8.0</u>	<u>-2.7</u>	<u>-2.6</u>
Japan	3.2	3.1	-6.8	-6.6
Germany	2.4	3.1	-2.0	-1.5
UK	-2.4	-2.2	-3.2	-3.1
US	-4.9	-4.2	-4.1	-4.2
<u>Average</u>	<u>-0.4</u>	<u>-0.0</u>	<u>-4.0</u>	<u>-3.9</u>

Sources : Asian Development Outlook 2004, ADB and World Economic Outlook, IMF

10-Year Economic Growth (US\$ bn and % GDP increase)



Sources : WFE and websites of exchanges

10 year GDP and Stock Market Performance

<u>Country</u>	<u>GDP (2003) (US\$ bn)</u>	<u>Increase Since 1993 (%)</u>	<u>Mkt Cap to GDP (%)</u>	
			<u>Jun 2004</u>	<u>Dec 1993</u>
<u>Australia</u>	<u>518</u>	<u>75</u>	<u>115</u>	<u>68</u>
China	1,410	135	35	7
Hong Kong	159	34	449	326
Korea	605	75	50	40
Taiwan	286	28	132	86
<u>Average</u>	<u>562</u>	<u>68</u>	<u>166</u>	<u>115</u>
India	600	117	36	34*
Indonesia	208	32	26	21
Malaysia	103	54	167	329
Philippines	81	48	31	74
Singapore	91	59	202	234
Thailand	143	18	71	105
<u>Average</u>	<u>204</u>	<u>55</u>	<u>89</u>	<u>133</u>
Japan	4,326	-1	80	66
Germany	2,401	23	44	24
UK	1,795	86	139	119
US	10,882	64	114	75
<u>Average</u>	<u>4,851</u>	<u>43</u>	<u>94</u>	<u>71</u>

* Market Cap of India was as of end of Nov 1994

Sources : World Bank, WFE, CEIC, Bloomberg, various central banks and government websites

Average GDP Growth and Fiscal Costs of Selected Banking Crises

Fiscal costs of selected banking crises
(In percent of GDP in 2000)

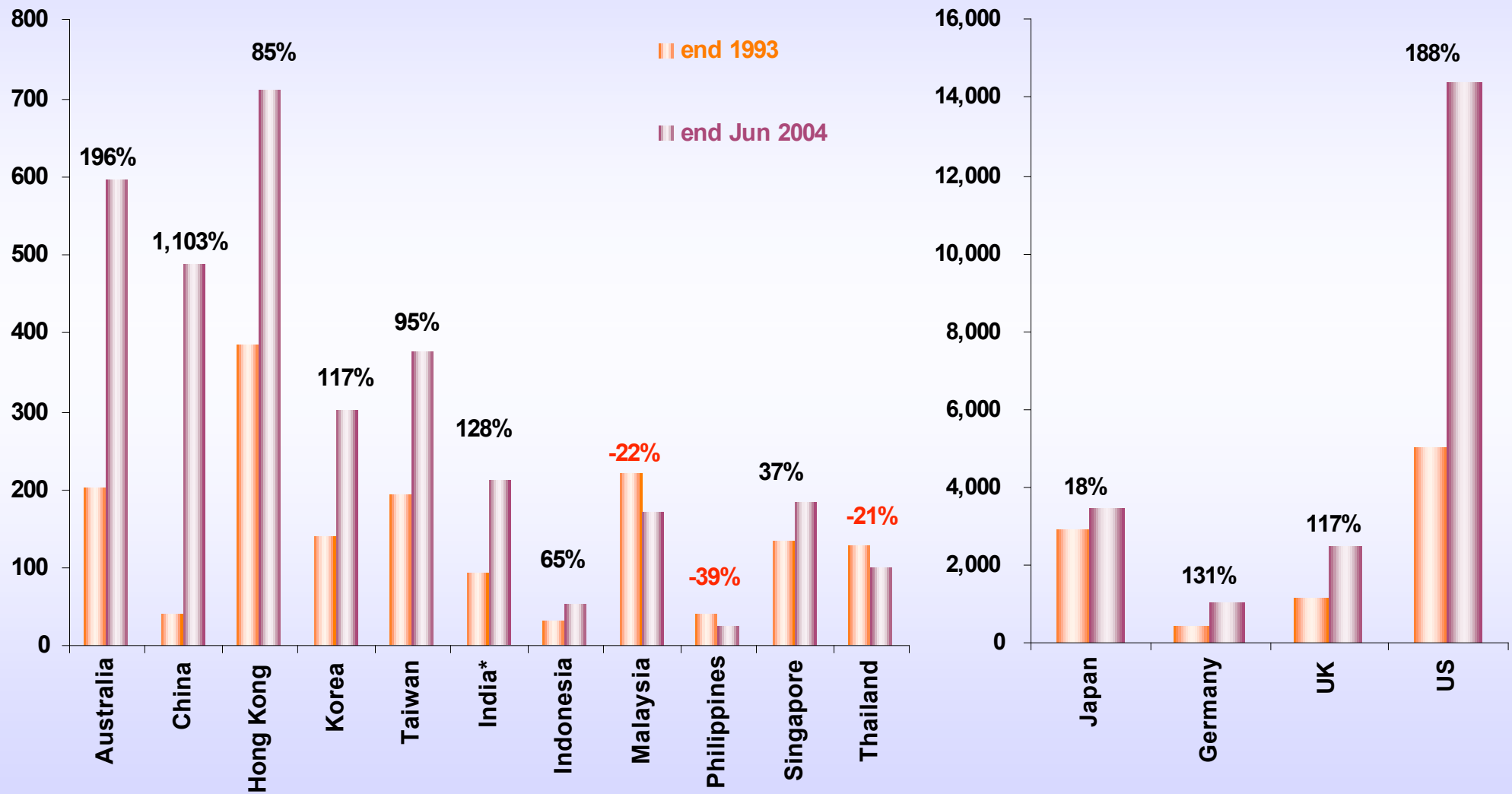
Country	Average GDP Growth (1997-2000) (A)	Average Gross Outlay (1997-2000) (B)	Net Cost# (1997-2000) (C)	Net GDP Growth	
				A-B	A-C
Korea	3.95	7.8		-3.85	-1.85
Malaysia	5.8	11.8		-6.10	-4.4
Indonesia*	1.20	7.3		1.85	2.65
Thailand	5.6	17.3		-11.67	-6.72

Sources: IMF, Indonesia: Selected Issues, IMF Country Report No. 04/189 (Table III.7)
IMF, World Economic Outlook, April 2004, Statistical Appendix

Net cost = Gross outlay - Recovery

* Figures for Indonesia are calculated based on the period of 1997-2003; fiscal cost is for period 1997 – March 2004

Growth in Market Cap (US\$ bn and % increase)



Increase was since end of Nov 1994
 Sources : WFE and websites of exchanges

Stock Market Performance (end Jun 2004)

<u>Country</u>	<u>Market Cap (US\$ bn)</u>	<u>Increase since Dec 93 (%)</u>	<u>Index</u>	<u>Increase since Dec 93 (%)</u>
<u>Australia</u>	<u>597.6</u>	<u>196</u>	<u>3,468</u>	<u>60</u>
China	488.2	1,103	1,454*	72
Hong Kong	712.2	85	12,077	2
Korea	302.4	117	739	-15
Taiwan	376.4	95	5,574	-8
<u>Average</u>	<u>469.8</u>	<u>350</u>		<u>13</u>
India	213.0	128**	1,506	-34
Indonesia	54.2	65	696	18
Malaysia	171.9	-22	818	-36
Philippines	24.7	-39	1,537	-53
Singapore	184.4	37	1,814	-13
Thailand	101.3	-21	614	-64
<u>Average</u>	<u>204.3</u>	<u>55</u>		<u>-29</u>
Japan	3,442.4	18	11,492	-34
Germany	1,064.2	131	3,987	76
UK	2,501.9	117	4,433	30
US	14,410.3	188		
(NYSE)	11,567.5	175	10,371	176
(NASDAQ)	2,842.8	259	1,970	154
<u>Average</u>	<u>5,354.7</u>	<u>114</u>		<u>80</u>

Remark: * Shanghai A

** Increase was since end Nov 1994.

Sources : World Bank, WFE, CEIC, Bloomberg, various central banks and government websites

Asian Contrasts

- ◆ Strong in manufacturing exports, weak in services
- ◆ Economic growth and high savings may be demographic endowment effect, which will wear off as population ages
- ◆ Domestic financial sectors weak in protecting value of high savings
- ◆ Hence, Asian-US financial relationship is one of total equity return swap [Folkerts-Landau-Dooley-Garber]
- ◆ Asia supports US consumption by holding US fixed debt, in return for US FDI and FPI
- ◆ Reason: - Asian financial markets have not evolved skills in financial engineering and protecting value, particularly risk management skills.
- ◆ We cannot measure success by GDP growth alone
- ◆ What matters is total value protection over demographic cycle

Chinese Economic trends

- ◆ 2Q GDP 9.6% yoy, shows strong but stable trend, with strong manufacturing exports and retail sales, but slower fixed investments
- ◆ Inflation touched 5% in June, with pressure from higher energy prices
- ◆ Trade balance still positive, but imports continue to rise faster than exports
- ◆ M2 growth slowing to 16.2% yoy, compared with 19.1% in March, with loan growth also slowing
- ◆ FX reserves at US\$471 bn at end June
- ◆ Shanghai composite down 5.8% yoy, whilst Shenzhen composite down 13% yoy in June

Measuring Market Effectiveness

- ◆ Differences in growth attributable to quality of governance, both in public and private/corporate governance
- ◆ Asian government-led or growth-underwriting model has weaknesses in long-term wealth protection sustainability
- ◆ By not allowing rapid exit of inefficient companies, irrespective of SOEs or private companies, and implicit guarantee of banking system, high savings are being eroded by NPLs and exposure to above market PE ratios
- ◆ Asian governance policies will therefore have to shift from growth enhancing to value protection [quality not quantity of growth]
- ◆ Important that governments focus attention on how to improve effectiveness of market, by reducing impediments to market entry and exit.
- ◆ Slides 12 to 19 indicate such impediments to market based on IFC and IMD survey data.

Cost of Starting a Business

<u>Country</u>	<u>Number of Procedures</u>	<u>Time (Days)</u>	<u>Cost (US\$)</u>	<u>Cost (% of GDP per capita)</u>
Australia	<u>2</u>	<u>2</u>	<u>402</u>	<u>2.0</u>
China	11	46	135	14.3
Hong Kong	5	11	581	2.3
Korea	12	33	1,776	17.9
Taiwan	8	48	807	6.1
<u>Average</u>	<u>9</u>	<u>35</u>	<u>825</u>	<u>10.2</u>
India	10	88	239	49.8
Indonesia	11	168	103	14.5
Malaysia	8	31	961	27.1
Philippines	11	59	249	24.4
Singapore	7	8	249	1.2
Thailand	9	42	144	7.3
<u>Average</u>	<u>9</u>	<u>66</u>	<u>324</u>	<u>20.7</u>
Japan	11	31	3,518	10.5
Germany	9	45	1,341	5.9
UK	6	18	264	1.0
US	5	4	210	0.6
<u>Average</u>	<u>8</u>	<u>25</u>	<u>1,333</u>	<u>4.5</u>

Cost of Resolving a Payment Dispute

<u>Country</u>	<u>Number of Procedures</u>	<u>Time (Days)</u>	<u>Cost (US\$)</u>	<u>Cost (% of GDP per capita)</u>
Australia	11	320	1,623	8.0
China	20	180	268	32.0
Hong Kong	17	180	1,737	6.9
Korea	23	75	402	4.5
Taiwan	15	210	68	0.5
<u>Average</u>	<u>19</u>	<u>161</u>	<u>619</u>	<u>11.0</u>
India	22	365	444	95.0
Indonesia	29	225	1,754	269.0
Malaysia	22	270	671	19.4
Philippines	28	164	1,086	103.7
Singapore	23	50	3,521	14.4
Thailand	19	210	589	29.6
<u>Average</u>	<u>24</u>	<u>214</u>	<u>1344</u>	<u>88.5</u>
Japan	16	60	2,223	6.4
Germany	22	154	1,483	6.0
UK	12	101	120	0.5
US	17	365	120	0.4
<u>Average</u>	<u>17</u>	<u>170</u>	<u>987</u>	<u>3.3</u>

Cost of Liquidating a Business

<u>Country</u>	<u>Time (years)</u>	<u>Cost (% of Value of Bankruptcy Estate)</u>
<u>Australia</u>	<u>1.0</u>	<u>18</u>
China	2.6	18
Hong Kong	1.0	18
Korea	1.5	4
Taiwan	0.8	4
<u>Average</u>	<u>1.5</u>	<u>11</u>
India	11.3	8
Indonesia	6.0	18
Malaysia	2.2	18
Philippines	5.7	38
Singapore	0.7	1
Thailand	2.6	38
<u>Average</u>	<u>4.8</u>	<u>20</u>
Japan	0.6	4
Germany	1.2	8
UK	1.0	8
US	3.0	4
<u>Average</u>	<u>1.5</u>	<u>6</u>

Openness to Foreign Business

<u>Country</u>	<u>Protectionism does not affect foreign companies</u>	<u>Public Sector Contracts are open to foreign companies</u>	<u>Ease of Doing Business</u>
<u>Australia</u>	<u>7.790</u>	<u>7.649</u>	<u>7.65</u>
China	7.172	4.828	6.58
Hong Kong	7.956	8.182	8.80
Korea	4.980	4.833	4.57
Taiwan	6.197	6.254	7.17
<u>Average</u>	<u>6.576</u>	<u>6.024</u>	<u>6.78</u>
India	5.341	5.636	4.25
Indonesia	4.536	5.500	3.79
Malaysia	7.191	5.868	7.56
Philippines	4.898	5.796	4.00
Singapore	7.939	7.662	8.63
Thailand	6.542	7.138	6.17
<u>Average</u>	<u>6.075</u>	<u>6.267</u>	<u>5.73</u>
Japan	5.472	4.533	5.28
Germany	7.638	7.243	5.42
UK	7.687	7.683	6.94
US	6.373	6.634	8.43
<u>Average</u>	<u>6.793</u>	<u>6.523</u>	<u>6.52</u>

Higher Index = More Open

Source : IMD World Competitiveness Yearbook 2003

Legislation Facilitating Competition

<u>Country</u> <u>discriminated</u>	<u>Government Subsidies</u> <u>are provided</u> <u>(as % of GDP)</u>	<u>Legislation</u> <u>Prevents</u> <u>Unfair Competition</u>	<u>Foreign</u> <u>Companies</u> <u>not</u>
Australia	0.552	7.544	8.340
China	1.086	5.080	7.320
Hong Kong	0.000	6.178	9.045
Korea	0.082	5.184	5.878
Taiwan	0.631	5.855	7.296
<u>Average</u>	<u>0.450</u>	<u>5.574</u>	<u>7.385</u>
India	1.437	4.414	7.149
Indonesia	4.572	3.107	6.179
Malaysia	1.360	6.527	7.563
Philippines	0.257	4.122	7.234
Singapore	0.001	6.563	8.954
Thailand	0.451	5.034	7.034
<u>Average</u>	<u>1.346</u>	<u>4.961</u>	<u>7.352</u>
Japan	0.701	5.774	6.990
Germany	1.927	7.333	8.673
UK	0.489	6.458	8.386
US	0.469	6.725	7.460
<u>Average</u>	<u>0.897</u>	<u>6.573</u>	<u>7.877</u>

Higher Index = Legislation facilitates competition
Source : IMD World Competitiveness Yearbook 2003

Capital Market Regulations Ensuring ...

<u>Country</u>	<u>Confidentiality of Financial Transactions</u>	<u>Negotiation of Cross-Border Ventures</u>	<u>Access to Domestic Market</u>
Australia	8.491	8.302	7.547
China	5.540	6.303	5.691
Hong Kong	8.682	8.773	9.000
Korea	5.592	6.204	7.184
Taiwan	6.535	7.171	7.000
<u>Average</u>	<u>6.587</u>	<u>7.113</u>	<u>7.219</u>
India	5.770	6.529	6.920
Indonesia	5.143	6.250	7.250
Malaysia	7.663	7.663	6.854
Philippines	6.766	6.553	7.106
Singapore	8.031	8.844	6.875
Thailand	6.310	6.982	7.276
<u>Average</u>	<u>6.614</u>	<u>7.137</u>	<u>7.047</u>
Japan	7.515	7.068	7.373
Germany	7.096	8.667	8.777
UK	7.012	7.902	8.506
US	7.100	8.081	8.420
<u>Average</u>	<u>7.181</u>	<u>7.930</u>	<u>8.269</u>

Higher Index = Capital Market Regulations ensure the items in question
 Source : IMD World Competitiveness Yearbook 2003

Capital Market Regulations Providing ...

<u>Country</u>	<u>Adequate Financial Stability</u>	<u>Access to Local Capital Markets</u>	<u>Access to Foreign Capital Markets</u>
Australia	7.58	8.151	8.604
China	5.37	4.380	4.320
Hong Kong	7.69	8.578	8.933
Korea	5.18	6.500	5.796
Taiwan	6.11	5.829	6.761
<u>Average</u>	<u>6.09</u>	<u>6.322</u>	<u>6.453</u>
India	5.45	6.667	6.230
Indonesia	3.68	6.561	6.947
Malaysia	7.55	6.876	6.966
Philippines	6.09	6.583	7.333
Singapore	8.37	7.600	8.492
Thailand	6.72	6.724	6.862
<u>Average</u>	<u>6.31</u>	<u>6.835</u>	<u>7.138</u>
Japan	4.78	7.282	7.903
Germany	7.44	8.816	8.932
UK	6.55	8.193	7.358
US	6.60	8.280	7.782
<u>Average</u>	<u>6.34</u>	<u>8.143</u>	<u>7.994</u>

Higher Index = Capital Market Regulations provide the items in question
 Source : IMD World Competitiveness Yearbook 2003

Stock Market Being Efficient in ...

<u>Country</u>	<u>Providing Adequate Financing to Companies</u>	<u>Defining Rights & Responsibilities of Shareholders</u>
Australia	7.79	8.286
China	4.82	5.131
Hong Kong	8.04	7.467
Korea	5.06	4.571
Taiwan	6.94	6.583
<u>Average</u>	<u>6.22</u>	<u>5.938</u>
India	5.80	5.886
Indonesia	3.96	4.667
Malaysia	6.36	6.769
Philippines	3.60	5.160
Singapore	6.95	7.600
Thailand	5.76	6.000
<u>Average</u>	<u>5.41</u>	<u>6.014</u>
Japan	4.37	4.519
Germany	6.43	7.592
UK	6.17	7.229
US	8.04	7.294
<u>Average</u>	<u>6.25</u>	<u>6.659</u>

Higher Index = More Efficient

Source : IMD World Competitiveness Yearbook 2003

Thoughts on Asian Growth Model

- ◆ **Post-war Asian growth model has become increasingly obsolete as Asian economies begin to mature and age**
- ◆ **Asia is no longer short of money, but short of relevant skills for managing mature market issues**
- ◆ **Clear nation-building idealism now eroded by market forces and second-generation growth issues:-**
 - How to have sustainable growth, without environmental deterioration and social inequity?
 - How to build efficient financial markets that support growth without financial crises and NPLs?
 - How to build robust retirement and social security schemes?
 - How to improve corporate governance?
 - How to deal with inefficient public sector and corruption?
- ◆ **Asian thought leaders are only slowly beginning to grasp the magnitude of these governance challenges:**
 - What is the process to manage the process of change: growth with stability and social equity?

End of Presentation