Chapter I Major trends in the world economy

This chapter is an overview of the current situation of the world economy. It also offers an analysis of the growth of and challenges for the Chinese economy. Furthermore, this chapter examines the changes in economic systems experienced by Japanese businesses by comparing them to economic systems that are in place in foreign businesses.

Section 1 Current status in the world economy

<Key points>
1. Movements in the world real economic growth rate
   Looking at the world economy since the 1990s, East Asia has maintained a high economic growth rate. Although the economies of the Association of South-East Asian Nations (ASEAN) and the Newly Industrializing Economies (NIEs) suffered a drop in growth due to the Asian currency crisis, the following year growth recovered to positive figures. During this period it was the robust economies of the United States (US) and Europe that supported the world economy, and in particular the US economy, which after 1992 persistently maintained a positive growth rate, supporting the exports of various countries and regions including the NIEs and ASEAN by actively importing goods from those countries and regions. However, the US economy took a downward turn in 2001, and although moderate recovery was witnessed in 2002, since autumn the growing tension in the situation in Iraq has contributed to weakening the drive for revival, due to the spreading feelings of opacity about the direction of the economy. The European economy also experienced a slowdown in 2001 and growth stagnated. In this environment, the Chinese economy, with its robust domestic demand, has maintained a high economic growth rate, although there are concerns in 2003 about the impact of Severe Acute Respiratory Syndrome (SARS).

2. World economic comparisons by region
   Looking at comparative world economic trends by region, during the twenty-year period from 1980 to 2000, the share of global GDP accounted for by advanced industrial nations has either stayed almost the same or fallen. Meanwhile, the share of global GDP accounted for by East Asia has risen approximately 2.4 times. In addition, on a PPP base, the GDP of East Asia in 2000 had attained a scale approaching that of the European Union (EU), indicating that the East Asian region has come to play a large part in the world economy.

3. Regional trends
   Although high economic growth was maintained in the US economy, supported by robust personal consumption and plant and equipment investment amidst a background of rising stock prices and low interest rates, the bubble began to burst in 2000 with a drop in the tech-heavy stocks represented in the Nasdaq, and in 2001 economic growth marked a sharp downturn. 2002 witnessed moderate recovery but since autumn the growing tension in the situation in Iraq contributed to weakening the drive for revival,
due to the spreading feelings of opacity about the direction of the economy.

The European economy maintained a course of stable economic growth, although since 2001 this growth has slowed. The slowdown in the German economy in particular has been remarkable, falling to a growth rate of almost zero in 2002. Moreover, 2001 and 2002 saw slowdowns in the economies of the UK and France also.

Throughout the 1990s until the Asian currency crisis, the NIEs and ASEAN maintained a high level of economic growth. During the Asian currency crisis, although growth entered negative territory temporarily, in 1999 growth recovered to positive figures. Due to the influence of the US economy, 2001 and 2002 experienced slowdown and recovery respectively, and there are concerns that 2003 could be affected by another slowdown in the US economy.

The Chinese economy, buoyed by robust domestic demand, achieved high economic growth throughout the 1990s, and in the new decade, China was maintaining an economic growth rate of seven to eight percent. Although a growth rate of around seven percent is similarly expected for 2003, the prospect of the world economy including the US and the adverse effects of the spread of SARS are causing concern. During the 1990s the growth rate of the Japanese economy in general languished at low levels in comparison with the US and Europe. Looking at recent trends, the Japanese economy reached a peak in October 2000 (provisional) going through a phase of contraction. Although the economy bottomed out in 2002, there was no dynamic recovery witnessed, and it is forecast that there will be moderate recovery in 2003.

During the 1990s, the growth rate of the Japanese economy in general languished at low levels in comparison with the US and the EU. Looking at trends since 2000, after the trough of January 1999, the Japanese economy recovered and reached a peak in October 2000 (provisional), going through a phase of contraction. In 2001 production slumped and deflation advanced. Although the downturn in production ceased and the economy bottomed out entering 2002, the unemployment rate rose to record levels, and no dynamic recovery was witnessed. Continued modest recovery is forecast for 2003.

Public finances were in deficit throughout the 1990s due to fiscal stimulus measures by the government, an increase in social security-related costs, long-term economic stagnation and tax reduction measures.

Another area of concern for the Japanese economy in the mid- to long-term is the falling birthrate coupled with the aging of society. From 2000 to 2050, Japan’s birth rate is expected to remain at between 1.31 and 1.39, and it is forecast that the productive population (15-64) will start to fall after a peak in 1995, that the elderly population (over 65) will increase and that after peaking in 2006, the overall population will start to decrease.

1. Movements in the world real economic growth rate

Looking at the world economy since the 1990s, until the Asian currency crisis that began with the fall of the Thai baht in 1997, the economies of the Association of South-East Asian Nations (ASEAN) and the Newly Industrializing Economies (NIEs) maintained high economic growth (Fig. 1.1.1). Although in 1998, the economies of ASEAN and NIEs suffered a drop in growth, growth recovered to positive figures in 1999. During this period, it was the robust economies of the United States (US) and Europe.
that supported the world economy, and in particular the US economy, which after 1992 persistently maintained positive growth, supported the exports of various countries and regions including the NIEs and ASEAN by actively importing goods from those countries and regions. However, the US economy rapidly took a downward turn in 2001, which had a negative impact on the NIEs and the ASEAN economies as a high percentage of their exports were directed to the US. The US economy after the end of 2001 showed signs of recovery due to increased automobile sales and the effects of fiscal and financial policy. Although moderate recovery was witnessed in 2002, the feelings of opacity about the direction of the economy that had spread as a result of the growing tension in the situation in Iraq in the latter half of 2002 contributed to falling stock prices and dampening business sentiment. As a result, businesses became wary in their stance on plant and equipment investment, and employment. Even after the war in Iraq ended, the movements in the business sector remain weak and the drive for economic revival is weakening.

The European economy also experienced a slowdown in 2001 and growth stagnated. In this environment, although the growth rate of the Chinese economy is slowing down somewhat, with its robust domestic demand throughout the 1990s, it has maintained high economic growth from a global perspective. However, in 2003 there are concerns about the impact of Severe Acute Respiratory Syndrome (SARS) especially in Asian countries and regions, and there is increasing uncertainty about the outlook.

<The impact of SARS>

Although it is difficult to accurately measure the impact of SARS on the global or Asian economies, the World Bank believes that the short-term impact of SARS will be seen in industries such as tourism. The World Bank has hypothesized that the decline in the number of tourists to East Asia will be 10 percent and has estimated that East Asia’s gross domestic product (GDP) will fall by 0.3 percent in 2003. In addition, according to estimates computed by the Asian Development Bank (ADB), if the impact of SARS can be limited to the second quarter of 2003 the GDP growth rate in China, East Asia and Southeast Asia will fall by 0.2 percent, 0.4 percent and 0.5 percent, respectively (Fig. 1.1.2). Furthermore, if the impact of SARS should continue into the third quarter, the ADB has estimated that the GDP growth rate in China, East Asia and Southeast Asia will decline by 0.5 percent, 1.0 percent and

Figure 1.1.1 Trends in the real GDP growth rate around the world

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Advanced industrial nations</th>
<th>Developing countries</th>
<th>Countries in transition</th>
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<td>3.0 3.2 3.9 4.1</td>
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</tr>
<tr>
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<td>1.4</td>
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<td>4.3 4.0 4.3 2.0 2.2 3.6</td>
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</tr>
<tr>
<td>92</td>
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<tr>
<td>93</td>
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<td>3.1 0.5 2.7 2.3 1.9 2.4 2.8 2.5 3.3 1.4 0.8 1.1 2.3</td>
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<tr>
<td>94</td>
<td>3.7</td>
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<td>96</td>
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<tr>
<td>98</td>
<td>3.5</td>
<td>3.1 0.9 0.4 1.0 1.4 1.4 1.1 0.8 2.4 0.4 0.3 0.8 1.0</td>
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<tr>
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<td>2002</td>
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<td>2003</td>
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</tr>
<tr>
<td>2004</td>
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<td>1.4 1.1 0.8 2.4 0.4 0.3 0.8 1.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: 1. Until 2000 the real GDP of each country from World Bank data were added to calculate a regional GDP growth rate (1995 dollar prices). From 2001 IMF statistics have been used. 2. Figures for 2003 and 2004 are forecasts. 3. Data for “EU/Euro Zone” is calculated until 2000 on the 15 countries of the EU. From 2001, as there is no EU classification in IMF statistics, the Euro Zone is used for convenience. 4. The “NIEs” are the Republic of Korea, Hong Kong, Taiwan and Singapore. The “ASEAN 4” are Thailand, Malaysia, Indonesia and the Philippines. 5. “Central and Eastern Europe” includes Russia. Source: World Development Indicators (WDI) (World Bank), World Economic Outlook, April 2003 (IMF).
Moreover, the International Labour Organization (ILO) has estimated that the impact of SARS will result in approximately 5 million people losing their jobs in the tourist industry around the world in 2003. For the time being, the direct impact of SARS has been seen in the service sector, especially in tourism, transport and the retail trade. However, it is necessary to keep a close watch on this matter because depending on the spread of SARS, in the future it may have an impact on other industries such as manufacturing.

2. World economic comparisons by region

Figure 1.1.3 depicts comparative world economic trends in the major regions of the world. Looking at this graph, the share of global GDP accounted for by advanced industrial nations\(^1\) during the 20-year period from 1980 to 2000 has either stayed almost the same or fallen (US: 24.5 percent \(\rightarrow\) 26.4 percent, EU: 31.1 percent \(\rightarrow\) 27.2 percent, Japan: 17.0 percent \(\rightarrow\) 16.7 percent). In contrast, the share of the global GDP accounted for by East Asia has risen approximately 2.4 times (3.1 percent \(\rightarrow\) 7.4 percent).

In addition, because exact comparisons by country cannot be made by using exchange rates, Figure 1.1.4 examines the share of global GDP on the basis of purchasing power parity (PPP). The share of the global GDP accounted for by advanced nations during the 20-year period from 1980 to 2000 has either stayed almost the same or fallen (US: 21.1 percent \(\rightarrow\) 21.4 percent, EU: 23.8 percent \(\rightarrow\) 19.8 percent, Japan: 8.3 percent \(\rightarrow\) 7.6 percent). In contrast, the GDP of East Asia has increased substantially (6.9 percent \(\rightarrow\) 17.0 percent), attaining a scale approaching that of the European Union (EU) in 2000 (EU: 19.8 percent, East Asia: 17.0 percent). From such developments, it can be inferred that high growth rates have led to the East Asian region playing a large part in the world economy.

\(^{1}\) “Advanced industrial nations” here refers to the total combined GDP of the US, the European Union (EU) and Japan. “East Asia” refers to the total combined GDP of the Republic of Korea (ROK), Taiwan, Hong

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1.4 percent, respectively.

Figure 1.1.2 Estimation of the impact of SARS on GDP of major countries and the region in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated reduction in GDP growth rate (%)</th>
<th>Estimated reduction in GDP levels (hundred million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If SARS lasts 1 quarter</td>
<td>If SARS lasts 2 quarters</td>
</tr>
<tr>
<td>East Asia</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>China</td>
<td>0.2</td>
<td>0.5</td>
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<tr>
<td>Hong Kong</td>
<td>1.8</td>
<td>4.0</td>
</tr>
<tr>
<td>ROK</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Philippines</td>
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<td>0.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.7</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: SARS: Economic Impacts and Implications (Asian Development Bank).
3. Regional trends

This section surveys recent economic trends in the major regions of the world.

(1) US economy
The US economy maintained high economic growth in the latter half of the 1990s, supported by robust personal consumption, and plant and equipment investment amidst a background of rising stock prices and low interest rates (Fig. 1.1.5). However, with a steep drop in the tech-heavy stocks represented in the Nasdaq in 2000, substantial declines in financial assets in the household and business sectors advanced. In the following year in 2001, personal consumption decreased. At the same time, plant and equipment investment, and inventory investment of businesses turned negative. Consequently, the GDP growth rate in the US marked a sharp downturn. Although there were concerns about the effects of the terrorist attacks in the United States in September 2001, due to the significant increase in automobile sales resulting from the zero interest rate campaign as well as the effects of fiscal and financial policy, the

Kong, Singapore, Thailand, Malaysia, Indonesia, the Philippines and China.
economy showed signs of improvement as the growth rate in the fourth quarter of 2001 was positive for the first time in four quarters. Although a moderate recovery was witnessed in 2002, since autumn the growing tension in the situation in Iraq brought about intensifying feelings of opacity about the direction of the economy, contributing to falling stock prices and dampening business sentiment, and businesses became wary regarding plant and equipment investment, and employment. The movements in the business sector remain weak after the end of the war in Iraq and the drive for economic revival is weakening.

Figure 1.1.5 Trends in degree of contribution by type of demand to US real GDP growth rate

The unemployment rate in the US had been falling since the latter half of the 1990s (Fig. 1.1.6). However, in 2001 the advancement of corporate restructuring contributed to the trend of a rising unemployment rate. The recovery of employment was delayed in 2002 and the unemployment rate remains high.

Figure 1.1.6 Trends in US unemployment rate and inflation rate

Note: Inflation rate is calculated by comparing the consumer price index of a given quarter to the same quarter of the previous year.

Source: US Department of Labor website, Foreign Economic Data (Cabinet Office).
The public finance balance in the US improved in the 1990s, reflecting the favorable economic conditions, but shifted to a downward trend after 2000 and again fell into the red in 2002 (Fig. 1.1.7). From the beginning, a deficit had been predicted for 2003, but after the war began in Iraq, a supplemental budget of approximately US$79 billion centering on military expenditures was approved, which is expected to increase the deficit even more. Meanwhile, the current account deficit in the 1990s has increased due to the increase in imports. Although in 2001 the current account balance improved temporarily, the margin of deficit again increased in 2002, resulting in the biggest current account deficit ever. There are fears that the “twin deficits” of the public finance balance and current account balance will have a negative effect on the US economic growth rate in the long term.

Keeping such implications in mind, it is necessary to keep a close eye on future developments of the US economy, which continued high growth after the 1990s.

(2) European economy

Although the European economy maintained a course of stable economic growth from the mid-1990s onward, this growth slowed in 2001 and 2002. In particular, as the GDP growth rate in 2002 in the Eurozone is 0.8 percent, falling below the 1 percent mark, the European economy is facing the first low-growth period since 1993.

(a) German economy

The growth of the German economy, which has maintained a high level since the latter half of the 1990s, slowed in 2001 due to significant drops in fixed investment and inventory investment. Although the economy was on a recovery trend at the beginning of the year in 2002, in the latter half of the year, the economy slowed due to pessimistic business and consumer sentiment arising from uncertainties in the future economy brought about by low stock prices and the war in Iraq. Looking at 2002 overall, the economic growth rate was almost zero due to the significant drops in fixed investment as well as in personal consumption (Fig. 1.1.8). The unemployment rate had been falling since the end of the 1990s,
but again shifted upward in 2002 (Fig. 1.1.9). Although the public finance balance was positive in 2000, it again fell steeply into the red in 2001. In 2002, the public finance deficit exceeded the 3 percent criterion established by the Maastricht Treaty, resulting in a situation whereby on the fiscal front, it is difficult to take aggressive measures to stimulate the economy (Fig. 1.1.10).

Figure 1.1.8  Trends in degree of contribution by type of demand to Germany’s real GDP growth rate

Source: Foreign Economic Data (Cabinet Office).

Figure 1.1.9 Trends in Germany’s unemployment rate and inflation rate

Note: Inflation rate is calculated by comparing the consumer price index of a given year to the previous year.
Source: Data from Foreign Economic Data. Deutsche Bundesbank (Cabinet Office).

Figure 1.1.10 Trends in Germany’s public finance balance and current account balance

Note: Public finance balance and current account balance are both compared to GDP (Unit: %).
Source: World Development Indicators (World Bank), European Economy (European Commission), Eurostat news releases, Foreign Economic Data (Cabinet Office).
(b) French economy

Regarding the French economy, whose conditions had been favorable, the economic growth rate fell dramatically in 2001 as a result of negative inventory investment and slowdown in gross fixed capital formation. In 2002, net exports decreased given the sluggish recovery in the world economy and gross fixed capital formation turned negative, leading to a slowdown in the economic growth rate for two consecutive years (Fig. 1.1.11). Furthermore, the unemployment rate, which had been on a downward trend in 2002, turned around and rose once more (Fig. 1.1.12). There are also indications that private sector consumption, which had been bullish, has stagnated. Although the public finance deficit kept contracting until 2000, it stayed at almost the same level as in 2000 in 2001. In 2002, as in Germany, the public finance deficit exceeded the 3 percent criterion established by the Maastricht Treaty (Fig. 1.1.13).

Figure 1.1.11 Trends in degree of contribution by type of demand to France’s real GDP growth rate

![Graph showing the contribution by type of demand to France’s real GDP growth rate from 1997 to 2002.](image)

Source: *Foreign Economic Data* (Cabinet Office).

Figure 1.1.12 Trends in France’s unemployment rate and inflation rate

![Graph showing trends in France’s unemployment rate and inflation rate from 1990 to 2002.](image)

Note: Inflation rate is calculated by comparing the consumer price index of a given year to the previous year.

Source: *Foreign Economic Data* (Cabinet Office).
The UK economy maintained stable growth throughout the 1990s, but economic growth in 2001 and 2002 was stagnant, due to effects such as weakening exports brought about by sluggish growth in the Euro zone, reductions in the inventory investment of businesses and gross fixed capital formation. In 2003, private sector consumption, which had remained robust, is weakening due to pessimistic consumer sentiment (Fig. 1.1.14) and stayed at almost the same level as in 2002. The inflation rate has gradually risen since the second half of 2002, but the unemployment rate has remained stable at a low level (Fig. 1.1.15). Since the mid-1990s, the public finance balance has continued to improve, becoming positive in 1998 (Fig. 1.1.16). However, despite the fact that the public finance balance stayed positive, the margin of surplus decreased in 2001 and again became negative in 2002. The current account balance is shifting within negative territory.

(c) UK economy

The UK economy maintained stable growth throughout the 1990s, but economic growth in 2001 and 2002 was stagnant, due to effects such as weakening exports brought about by sluggish growth in the Euro zone, reductions in the inventory investment of businesses and gross fixed capital formation. In 2003, private sector consumption, which had remained robust, is weakening due to pessimistic consumer sentiment (Fig. 1.1.14) and stayed at almost the same level as in 2002. The inflation rate has gradually risen since the second half of 2002, but the unemployment rate has remained stable at a low level (Fig. 1.1.15). Since the mid-1990s, the public finance balance has continued to improve, becoming positive in 1998 (Fig. 1.1.16). However, despite the fact that the public finance balance stayed positive, the margin of surplus decreased in 2001 and again became negative in 2002. The current account balance is shifting within negative territory.
Although the NIEs maintained a high level of economic growth during the 1990s, the effects of the Asian currency crisis that began in Thailand led to negative growth in the Republic of Korea (ROK), Singapore and Taiwan in 1998 (Figs. 1.1.17, 1.1.18, 1.1.19, 1.1.20). In the ROK, the chaebols continued to fail and the exchange rate fell. Meanwhile, in Hong Kong, the high interest rate policy, a measure which was taken to protect the currency, had adverse effects on the economy. At the same time, Singapore also felt the effects of the economic slowdown in neighboring countries. However, in the following year in 1999, economic growth in the ROK, Singapore and Hong Kong recovered to positive territory. In 2001, the slowdown in the US economy led to a downturn in economic growth in NIEs in these countries as well, but exports took a favorable turn in 2002 and the economic growth rate rose. The points of concern regarding NIEs in 2003 include sluggish growth in exports resulting from the slowdown in the US economy.

(3) NIEs

Although the NIEs maintained a high level of economic growth during the 1990s, the effects of the Asian currency crisis that began in Thailand led to negative growth in the Republic of Korea (ROK), Singapore and Taiwan in 1998 (Figs. 1.1.17, 1.1.18, 1.1.19, 1.1.20). In the ROK, the chaebols continued to fail and the exchange rate fell. Meanwhile, in Hong Kong, the high interest rate policy, a measure which was taken to protect the currency, had adverse effects on the economy. At the same time, Singapore also felt the effects of the economic slowdown in neighboring countries. However, in the following year in 1999, economic growth in the ROK, Singapore and Hong Kong recovered to positive territory. In 2001, the slowdown in the US economy led to a downturn in economic growth in NIEs in these countries as well, but exports took a favorable turn in 2002 and the economic growth rate rose. The points of concern regarding NIEs in 2003 include sluggish growth in exports resulting from the slowdown in the US economy.

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2 See Section 1, Chapter IV.
Figure 1.1.17 Trends in degree of contribution by type of demand to ROK’s real GDP growth rate

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).

Figure 1.1.18 Trends in degree of contribution by type of demand to Singapore’s real GDP growth rate

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).

Figure 1.1.19 Trends in degree of contribution by type of demand to Hong Kong’s real GDP growth rate

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).
Throughout the 1990s, the unemployment rate continued on a downward trend. In 1998, it rose dramatically in the ROK, Singapore and Hong Kong during the Asian currency crisis, but has since leveled off. However, in 2002 the unemployment rate rose in Taiwan and Hong Kong (Fig. 1.1.21). Looking at the inflation rate, this has been negative in Hong Kong since 1999 and prices have fallen. As for Taiwan and Singapore, inflation rates were negative in 2002 as well (Fig. 1.1.22).

Figure 1.1.21  Trends in NIEs’ unemployment rates

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).

Figure 1.1.22  Trends in NIEs’ inflation rates

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).
(4) ASEAN economies

ASEAN economies maintained a high level of economic growth throughout the 1990s. However, because long-term domestic credit had been financed by short-term foreign funds under the de facto dollar peg system, the Asian currency crisis that began in 1997 resulted in a credit crunch caused by the fleeing of short-term funds, and economic growth was negative (Figs. 1.1.23, 1.1.24, 1.1.25, 1.1.26). However, economic growth recovered to positive territory in the following year in 1999 and growth continued in 2000, sustained by exports to the US and other factors. In 2001, growth in ASEAN economies slumped due to a slowdown in the US economy, but in 2002 the economic growth rate increased as net exports improved. The points of concern regarding ASEAN economies in 2003 include sluggish growth in exports resulting from the slowdown in the US economy.

Figure 1.1.23  Trends in degree of contribution by type of demand to Thailand’s real GDP growth rate

Figure 1.1.24  Trends in degree of contribution by type of demand to Malaysia’s real GDP growth rate

3 See Section 1, Chapter IV.
Figure 1.1.25  Trends in degree of contribution by type of demand to Indonesia’s real GDP growth rate

Source: *World Development Indicators* (World Bank), *Foreign Economic Data* (Cabinet Office).

Figure 1.1.26  Trends in degree of contribution by type of demand to Philippine’s real GDP growth rate

Source: *World Development Indicators* (World Bank), *Foreign Economic Data* (Cabinet Office).
In 1998, the unemployment rate began to increase in each of the ASEAN economies, but is declining in Thailand afterward (Fig. 1.1.27). Moreover, the drop in the inflation rate is prominent in Thailand as it is roughly zero percent for 2002 (Fig. 1.1.28).

Figure 1.1.27  Trends in ASEAN countries’ unemployment rate

![Graph showing trends in ASEAN countries’ unemployment rate]

Source: Foreign Economic Data (Cabinet Office).

Figure 1.1.28  Trends in ASEAN countries’ inflation rate

![Graph showing trends in ASEAN countries’ inflation rate]

Note: Indonesia's inflation rate is 57.6% for 1998 and 20.5% for 1999.
Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).

(5) China

China, buoyed by robust domestic demand, maintained high economic growth throughout the 1990s (Fig. 1.1.29). In the new decade, China was maintaining an economic growth rate of 7 to 8 percent. China’s maintaining a growth rate in the range of 7 percent in 2001 is particularly noteworthy, considering that every one of the NIEs and ASEAN economies experienced a slowdown as a result of the stalling US economy. In 2002, China achieved accession to the World Trade Organization (WTO) and both exports and imports rose by over 20 percent. However, it is believed that employment conditions remain severe. In addition, a deflationary trend has continued since the end of the 1990s because of factors such as falling product prices that are caused by excess supply (Fig. 1.1.30).
Although a growth rate of around 7 percent is similarly expected for 2003 (around 7 percent according to the government outlook, 7.5 percent according to the International Monetary Fund (IMF)), the prospect of the world economy including the US and the opacity resulting from the spread of SARS are causing concern.

(6) Japan

During the 1990s, the growth rate of the Japanese economy in general languished at low levels in comparison with the US and the EU. Looking at trends since 2000, after the trough of January 1999, the Japanese economy recovered and reached a peak in October 2000 (provisional), going through a phase of contraction. In 2001, production slumped and deflation advanced. Although the downturn in production ceased and the economy bottomed out entering 2002, the unemployment rate rose to record levels, and no dynamic recovery was witnessed. Continued modest recovery is forecast for 2003.

Looking at the trends in real GDP, external demand, and plant and equipment investment propelled growth in the first quarter of 2000. However, the degree of contribution of external demand gradually

Figure 1.1.29  Trends in degree of contribution by type of demand to China’s real GDP growth rate


Figure 1.1.30  Trends in China’s inflation rate

Source: World Development Indicators (World Bank), Foreign Economic Data (Cabinet Office).
diminished as exports fell, triggered by the slowdown in the US economy, and external demand turned negative in the third quarter of 2000 (Fig. 1.1.31). In the first quarter of 2001, following external demand, private non-residential investment fell. In the second quarter, GDP, which serves as an indicator of the overall economy, fell as well, and negative growth continued for the next two quarters. In 2002, there was an upturn in external demand, and the Japanese economy recovered in the first quarter to positive growth. Furthermore, in the second quarter of 2002, together with external demand, private non-residential investment rose as well as the increase in private inventory. However, in the fourth quarter, growth in domestic demand slumped as a result of factors such as the slowdown in private consumption and economic recovery became modest. Although continued modest recovery is forecast for 2003, there are concerns that the outlook of the US economy as well as the effects of the SARS epidemic especially on Asia will put downward pressures on the Japanese economy.

Looking at trends in the unemployment rate, an upward trend has continued throughout the 1990s to 2002 (Fig. 1.1.32). Recent monthly statistics show that after the economy peaked in October 2000, the unemployment rate reached the range of 5 percent in July 2001 and marked an all-time high of 5.5 percent in August 2002.
Examining general prices using the consumer price index (CPI), prices have fallen since 1999 as a result of the increase in low-priced imports (supply side factor), weakness of the economy (demand side factor) and the decreasing ability to fulfill the financial intermediary function (financial factor) (Fig. 1.1.33). Furthermore, as for asset values, land prices have continued to fall since 1991 and stock prices have remained on a downward trend after the bubble burst, accompanied by fluctuations in prices.

![Figure 1.1.33 Trends in consumer price index change in Japan](image)

Public finances were in deficit throughout the 1990s due to fiscal stimulus measures by the government, an increase in social security-related costs, long-term economic stagnation and tax reduction measures (Fig. 1.1.34).

![Figure 1.1.34 Japan's public finance balance](image)

Note: Public finance balance is compared to GDP (Unit: %)
Another area of concern for the Japanese economy in the mid- to long-term is the falling birthrate coupled with the aging of society. From 2000 to 2050, Japan’s birthrate is expected to remain at between 1.31 and 1.39, and it is forecast that the productive population (15-64) will start to fall after a peak in 1995, that the elderly population (over 65) will increase and that after peaking in 2006, the overall population will start to decrease\(^4\) (Fig. 1.1.35). Declining birthrates and the aging of society will bring about a contraction in demand, influenced by the people’s concerns about the future. There are also concerns that the economy will lose its vitality as a result of the decline in the productive population, coupled with a rise in the elderly population, which decreases productivity and tax revenues and increases social insurance premiums\(^5\).

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\(^4\) A mid-level case according to the “Projections of Future Japanese Population (January 2002 forecast),” compiled by the National Institute of Population and Social Security Research.

\(^5\) According to estimates in a report compiled by the New Growth Policy Committee of the Industrial Structure Council (December 2001), in positive growth cases (cases where an environment is developed in which women and elderly people can work with ease, innovations are accelerated, the people’s sense of security is recovered, and consumption of new goods and services is increased by approximately 1.5 times), from 2005 to 2010 the real economic growth rate will be around 3 percent and the unemployment rate will be between 2.5 and 3 percent. However, if there are no changes to the current situation, according to the report, the economic growth rate will be a little less than 1 percent and the unemployment rate will be between 4.5 and 5 percent.