

Chapter 3

Macroeconomic Overview of the ASEAN economies

Until 1997, compared with developing countries in other regions, the ASEAN countries continued to record an impressive economic performance. During 1991 and 1996, the economic growth of ASEAN was relatively high, averaging at 7% as in Table 3.1 (a). The high growth rate of these export-driven ASEAN countries was primarily attributed to strong domestic demand in lined with continued high capital inflows. However, despite the strong performance of the ASEAN economies (as indicated by their high economic growth rates), over recent years some “overheating” problems began to emerge.

High economic growth in ASEAN has been accompanied by a build-up of price pressures. The weighted average inflation rate for ASEAN countries during 1991 and 1996 was substantial, at 7.2%, as a result of strong domestic demand, high capital inflows and rising production costs. Nonetheless, compared with other developing regions, the inflation rate of the ASEAN countries has remained relatively low. In the external sector, the combined current account deficit of the ASEAN economies widened from US\$ 17.04 billion in 1991 to US\$ 31 billion in 1996, owing to a surge in imports, particularly in capital goods and raw materials, in lined with growing investment activity, as well as the deficit in the services balance. Meanwhile, the combined debt outstanding of the ASEAN countries had increased dramatically to US\$ 260.1 billion at the end of 1996 compared with US\$ 166.3 billion at the end of 1991, reflecting the increasing reliance of ASEAN on external finance.

Notwithstanding the strong economic performance of ASEAN countries as a group during the 1990s, the performance of individual countries has varied. In this regard, the economic performance of individual countries in ASEAN will be examined in greater detail in this chapter, based on an analysis of six important macroeconomic indicators: economic growth, inflation, current account balances, budget balances, international reserves and external debt levels.

Table 3.1 (a)
Economic growth, inflation and current account balances.

	1991	1992	1993	1994	1995	1996	Annual Average
Real GDP growth (%)							
ASEAN¹	6.5	6.1	6.7	7.7	8.0	7.1	7.0
Indonesia	7.0	6.5	6.5	7.5	8.1	7.8	7.2
Malaysia	8.7	7.8	8.2	9.2	9.5	8.2	8.6
Philippines	-0.5	0.3	2.1	4.4	4.8	5.5	2.8
Thailand	8.4	7.9	8.6	8.9	8.7	6.4	8.2
Consumer price inflation (%)							
ASEAN²	9.4	6.4	6.5	7.0	7.5	6.8	7.3
Indonesia	9.4	7.5	9.7	8.5	9.4	7.9	8.7
Malaysia	4.4	4.7	3.6	3.7	5.3	3.6	4.2
Philippines	18.7	8.9	7.6	9.1	8.1	8.4	10.1
Thailand	5.7	4.1	3.4	5.2	5.7	5.9	5.0
Current account balance (% of GDP)							
ASEAN	5.5	3.5	3.7	4.1	5.7	5.3	4.6
Indonesia	3.7	2.2	1.3	1.6	3.5	3.5	2.6
Malaysia	8.9	3.7	4.7	6.4	9.1	5.8	6.4
Philippines	2.3	1.9	5.6	4.6	2.7	4.3	3.6
Thailand	7.8	5.7	5.1	5.7	8.2	7.9	6.7
Current account balance (US\$bn)							
ASEAN	-17.04	-12.25	-14.48	-18.35	-29.91	-31	
Indonesia	-4.26	-2.78	-2.11	-2.79	-7.02	-7.7	
Malaysia	-4.18	-2.17	-2.99	-4.52	-7.36	-5.1	
Philippines	-1.03	-1.00	-3.02	-2.95	-1.98	-3.6	
Thailand	-7.57	-6.3	-6.36	-8.09	-13.55	-14.6	

¹Estimates, weighted by relative shares of real GDP in 1990.

²Estimates, weighted by relative shares of private consumption in 1990.

Sources: EIU World Outlook 1997 and International Financial Statistics.

Table 3.1 (b)**Budget balance, international reserves and external debt.**

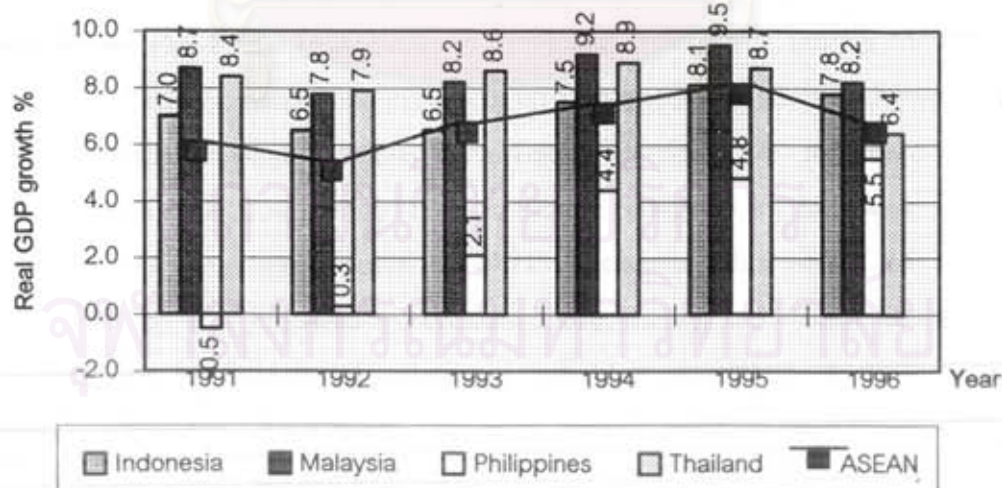
	1991	1992	1993	1994	1995	1996	Annual Average
Budget balance to GDP ratio (%)							
ASEAN	0.25	0.1	0.36	1.55	1.64	0.73	0.77
Indonesia	0.43	-0.42	0.61	0.94	2.23	1.17	0.83
Malaysia	-2.04	-0.84	0.22	2.32	0.85	0.73	0.21
Philippines	-2.11	-1.18	-1.48	1.07	0.58	0.28	-0.47
Thailand	4.70	2.84	2.09	1.87	2.90	0.73	2.52
Foreign reserves (Month of import)							
ASEAN	4.7	5.3	5.7	5.3	4.7	5.7	5.2
Indonesia	4.5	4.7	4.8	4.5	4.1	5.0	4.6
Malaysia	3.9	5.6	7.6	5.5	4.0	4.4	5.2
Philippines	3.2	3.6	3.2	3.4	2.9	3.8	3.3
Thailand	6.1	6.8	7.2	7.3	6.8	8.3	7.1
External debt (% of GDP)							
ASEAN	53.7	50.5	49.1	48.4	47.8	46.2	49.3
Indonesia	68.4	69.0	56.6	54.6	50.7	46.0	57.6
Malaysia	37.8	34.5	36.8	35.1	37.4	38.1	36.6
Philippines	71.6	62.7	66.0	61.3	57.0	56.2	62.5
Thailand	36.8	35.9	37.0	42.8	46.2	44.6	40.1
External debt (US\$bn)							
ASEAN	166.3	180.92	197.38	227.04	251.5	260.1	
Indonesia	79.8	88.3	89.5	96.5	101.3	101.9	
Malaysia	18.15	20.02	26.15	29.54	34.35	28.9	
Philippines	32.45	33.0	35.93	40.0	39.45	47.2	
Thailand	35.9	39.6	45.8	61.0	76.4	82.1	

Sources: EIU World Outlook 1997 and International Financial Statistics.

3.1 Economic Growth

During 1991 and 1996, the economic performance of ASEAN countries as a group was relatively strong, with the average economic growth rate ranging between 6 and 8%. Among the ASEAN countries, Malaysia continued to be the fastest growing economy during the 1990s with average real GDP growth at 8.6%, followed closely by Thailand (8.2%), Indonesia (7.2%) and lastly the Philippines (2.8%) as shown in Table 3.1 (a). The high growth of these ASEAN economies was mainly driven by strong domestic demand, in lined with continued high capital inflows and the increased growth of intra-regional trade in Asia. Furthermore, strong export growth was also another relevant driving engine of the impressive growth of the ASEAN economies during the 1990s. However, the economic performance of individual ASEAN countries during 1991 and 1996 was varied, owing primarily to differences in economic structure as well as policy implemented. Therefore, it is worthwhile to analyze the performance of individual ASEAN economies during this period in order to gain a broader perspective on their country risk.

Exhibit 3.1: Economic Growth in ASEAN Countries.



Source: The Economist Intelligence Unit.

Table 3.2: Gross Domestic Product (% real change), average 1991-1996

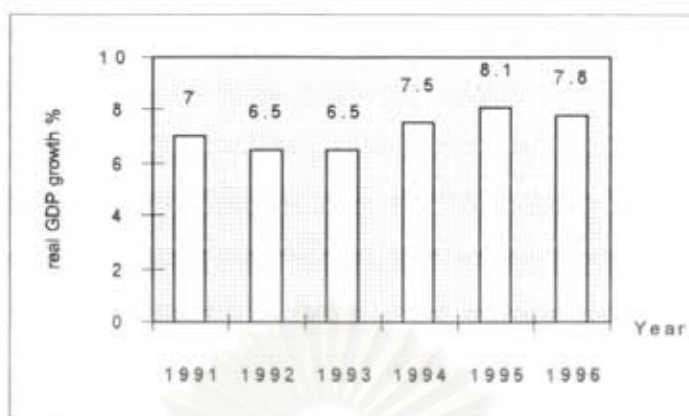
	Indonesia	Malaysia	Philippines	Thailand*
Private consumption	6.6	7.9	3.5	7.6
Government consumption	3.4	8.0	2.9	6.4
Gross fixed investment	9.5	15.1	4.2	10.4
Exports of goods & services	10.9	-	12.1	16.0
Imports of goods & services	10.7	-	11.7	15.7
GDP	7.2	8.6	2.8	8.4

*For Thailand, all variables are in annual average from 1991-1995.

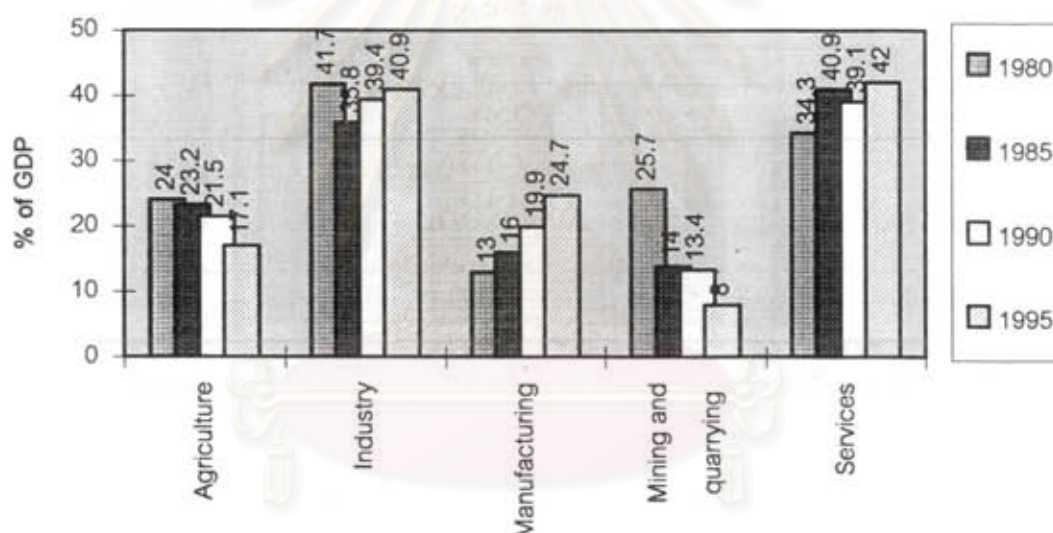
Source: The Economist Intelligence Unit.

Indonesia

Economic growth in Indonesia remained steady during the early of 1990s, ranging between 6.5 and 8% (Exhibit 3.2). The impetus to such steady growth was mainly provided by the growth of its manufacturing industries. In particular, manufacturing expanded significantly from 13% of GDP in 1980 to more than 24% of GDP in 1995 (Exhibit 3.3). Real GDP growth in Indonesia improved to 7.5% in 1994 and to 8.1% in 1995, from 6.5% attained in 1992 and 1993. This increased growth was stimulated largely by stronger domestic demand due to low interest rates and high capital inflows, particularly foreign direct investment. The expansion in domestic demand during the 1990s (especially in 1994 and 1995) was mainly the result of stable macroeconomic conditions in the country, in lined with an improvement in the business climate through various investment deregulation measures. As a consequence, business confidence in the economic prospects for Indonesia increased, which led to an investment boom in 1995. However, this period of very high economic growth was followed by economic overheating tendencies that prompted the government to tighten its monetary policy in an effort to curb excessive inflationary pressures. As a result, real GDP growth declined to 7.8% in 1996, but remained higher than Thailand's (6.4%).

Exhibit 3.2: Economic Growth of Indonesia.

Source: EIU World Outlook 1997.

Exhibit 3.3: Structural Changes in Indonesia.

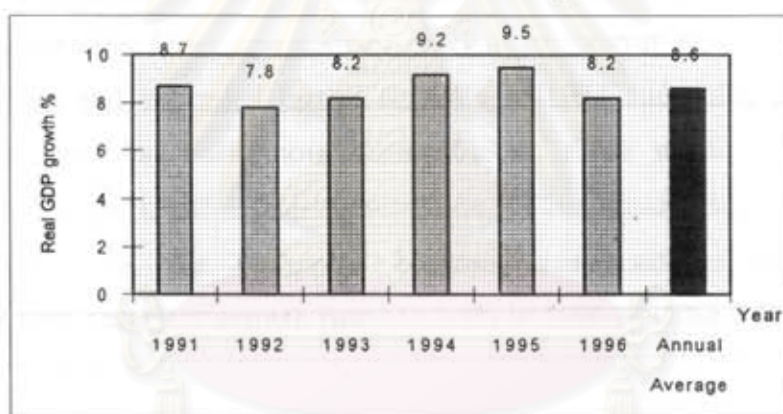
Source: Asia Pacific Profiles 1996.

Malaysia

Malaysian economy had been expanding at an impressive pace throughout the 1990s. Among the ASEAN countries, Malaysia attained the highest economic growth, averaging 8.6% during 1991 and 1996 (Exhibit 3.4). The expansion of its manufacturing sector, in its share of GDP from about 20% in 1980 to 33% in 1995 (Exhibit 3.5), resulted in Malaysian economic growth. On the demand side, economic growth also came from robust domestic demand, particularly in consumer spending as well as private and public investment (Table 3.2). Continued high capital inflows to emerging markets including Malaysia during the early 1990s, were another important

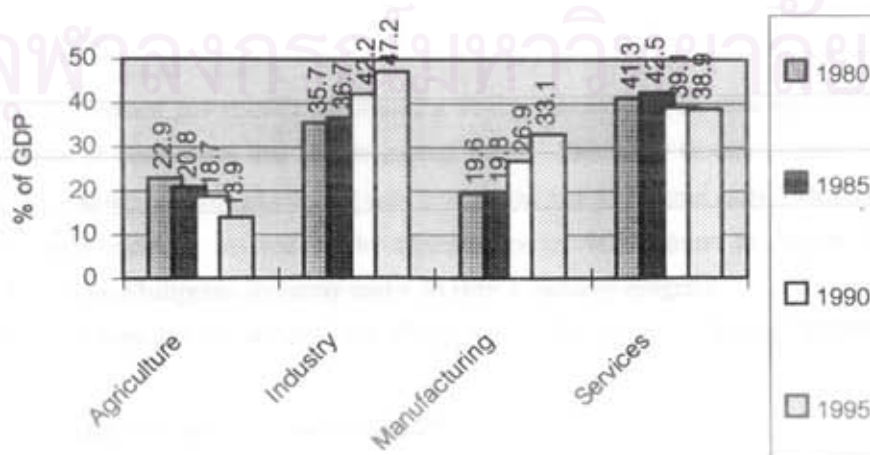
factor driving Malaysia's real economic growth to quite substantial level at 9.2% in 1994 and 9.5% in 1995. However, continued several years of rapid economic expansion had begun to erode Malaysia's macroeconomic stability. As a result, tight monetary policy, together with some fiscal measures in cutting operating expenditure, removing infrastructure bottlenecks as well as encouraging domestic industries' competitiveness through the reduction of import duties, have been implemented since then. Therefore, with these efforts to stabilize the economy, in lined with reduced inflows of foreign investment due in part to reduced competitiveness (e.g., the increased wage rate), and a decline in export growth, especially in the export-oriented electronics sector, Malaysia's real GDP growth declined to 8.2% in 1996 from 9.5% in 1995.

Exhibit 3.4: Economic Growth of Malaysia.



Source: Malaysia: EIU Country Profiles 1997-98.

Exhibit 3.5: Structure changes in Malaysia.



Source: Asia Pacific Profiles 1996.

Philippines

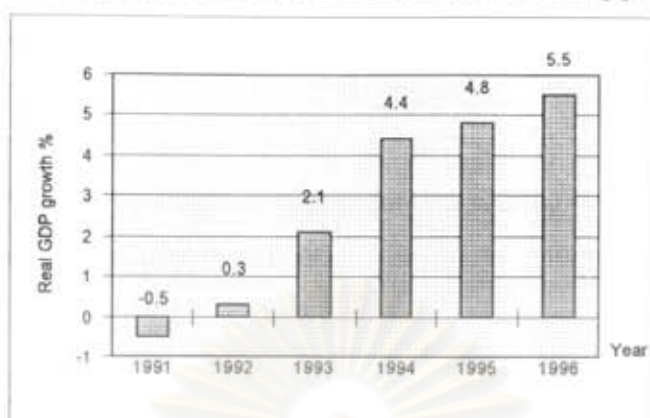
After periods of wild economic fluctuations during the 1980s, as evidenced when the real GDP growth declined by more than 10% in the crisis years of 1984 and 1985, and then bounced back to 6% growth by the end of 1980s following the austerity program of the International Monetary Fund (IMF)¹, the Philippines' economic growth stabilized significantly during the mid-1990s.² During 1991 and 1992, the Philippine economy further deteriorated as the country experienced a decline of its economic growth by 0.5% in 1991 and a marginal growth of 0.3% in 1992, owing to natural disasters and a deterioration in the power shortfall, particularly in the supply of electricity, that affected agricultural and manufacturing production, as well as structural deficiencies.³ Subsequently, however with the implementation of more prudent macroeconomic policy and ongoing structural reforms, such as the resolution of the power shortfall, foreign exchange liberalization as well as increased political stability, the Philippine economy began to recover in 1993 with a slight growth of 2.1% and expanded further to 4.4% in 1994 and 4.8% in 1995. This economic recovery has been more sustainable as it has mainly been driven by investment and exports, rather than consumption.⁴ Thus, amidst the ASEAN regional economic slowdown, the Philippine economy continued its much improved performance with real GDP growth rising to 5.5% in 1996 (Exhibit 3.6).

¹ The Philippines government negotiated a 90-day moratorium on debt repayments in 1983, following a crisis of confidence that led to capital flight. The main factors causing the crisis of confidence were a sharp increase in external debt level in the late 1970s and early 1980s, coupled with a decline in export earnings as well as the assassination of Mr. Aquino in August 1983. This eventually brought the Philippine economy under an IMF's austerity program.

² The Economist Intelligence Unit, Philippines: EIU Country Profile 1997-98, (London, 1997), p. 17.

³ Bank Negara Malaysia Annual Report 1992, p. 91.

⁴ Tan Kim Song, "The ASEAN Six", in Regional Outlook: Southeast Asia 1997-98, Institute of Southeast Asian Studies (Singapore : 1997), p. 57.

Exhibit 3.6: Economic Growth of the Philippines.

Source: Philippines: EIU Country Profiles 1997-98.

Thailand

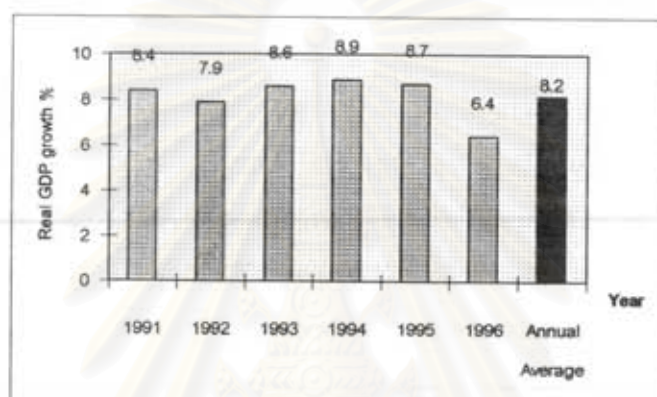
During 1991 and 1995, the Thai economy continued to be impressive with annual GDP growth averaging at 8.5% (Exhibit 3.7). However, in 1996, the economy began to slow down with real GDP growth declining to 6.4% lower than its regional counterparts, especially Indonesia and Malaysia. Thailand's economic growth was underpinned by strong growth in the manufacturing and services sectors since the mid 1980s (Exhibit 3.8). Although the dominance of agriculture has been replaced by the growth of manufacturing and services, Thailand still retains its position as one of Asia's leading agricultural exporters.⁵ Therefore, when agricultural output or price is affected either by natural disasters or external conditions (i.e., lower world agricultural commodity prices), the country's growth is affected. For example, the impact of a prolonged drought on agricultural output was one of the major factors reducing real output growth to 7.9% in 1992. By contrast, higher agricultural commodity prices in line with global price movements were also the main factors supporting stronger economic growth of 8.9% in 1994.

Apart from strong export growth, buoyant domestic demand, particularly private investment, has also supported the rapid expansion of Thai economy during the 1990s. However, this rapid growth has been accompanied by rising inflationary pressure which arise as a result of an increase in the minimum wage rates, owing to

⁵ The Economist Intelligence Unit, *Thailand: EIU Country Profile 1996-97*, (London, 1996).

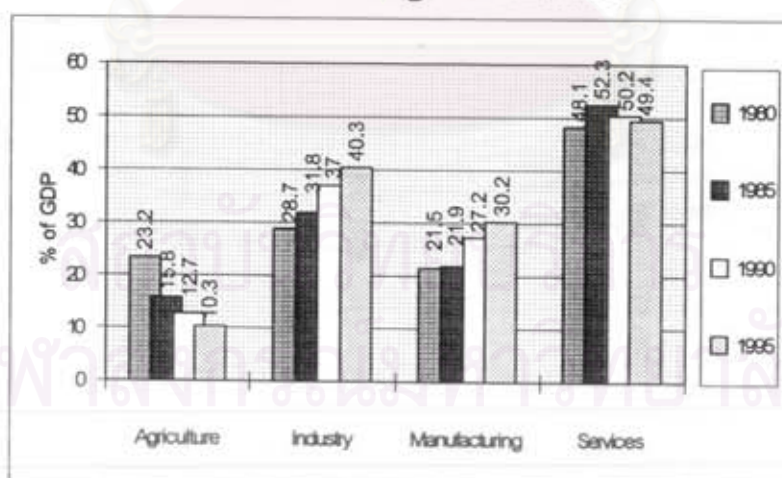
the increased cost of livings. The increased wage rates has gradually eroded Thailand's vital competitive edge over lower cost manufacturers in neighbouring China, Vietnam and even Indonesia. This problem of declining competitiveness, especially in traditional labour-intensive goods such as textiles and footwear* intensified in 1996 when merchandise export growth slowed down to 0.4%, causing a reduction in total economic growth to 6.4%.

Exhibit 3.7: Economic Growth of Thailand.



Source: Thailand: EIU Country Profiles 1997-98.

Exhibit 3.8: Structure Changes in Thailand.



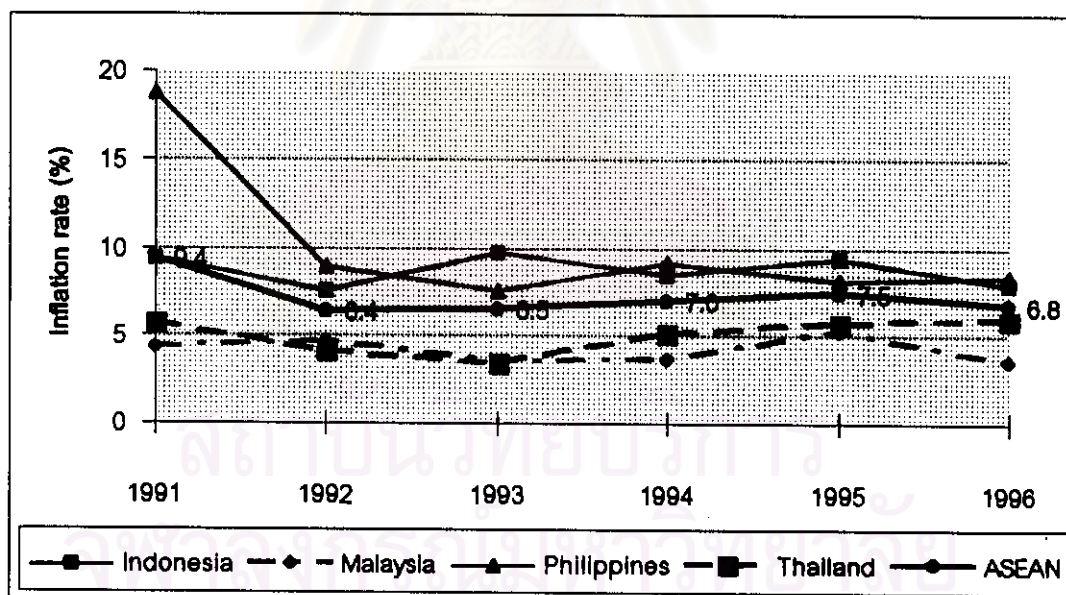
Source: Asia Pacific Profiles 1996.

* According to the Bank of Thailand data, export receipts from garments declined dramatically from Bt101.9 billions in 1995 to Bt79.6 billions in 1996, and the export of footwear declined from Bt53.7 billions in 1995 to Bt38.5 billions in 1996.

3.2 Inflation

In developing countries with high economic growth as ASEAN, it is likely that inflation will be relatively high as spendings will increase in line with increased income. As a consequence, the countries' economic efficiency will decline, thus reducing investor confidence in their economic stability. During the 1990s, the inflation rate in the ASEAN countries was high, but still lower than in other developing regions. Nevertheless, the weighted average inflation rate for ASEAN was substantial at 7.25% during 1991 and 1996, owing primarily to strong domestic demand and increased cost push pressures (i.e., an increase in minimum wage rates, an increase in import prices of crude oil and raw materials, as well as imported inflation). Among the ASEAN countries, the Philippines experienced the highest price pressures during 1991 and 1996 with its annual inflation rate averaging 10.1%, followed by Indonesia at 8.7%, Thailand at 5% and Malaysia at 4.2% (Exhibit 3.9).

Exhibit 3.9: Consumer Price Inflation in ASEAN Countries.

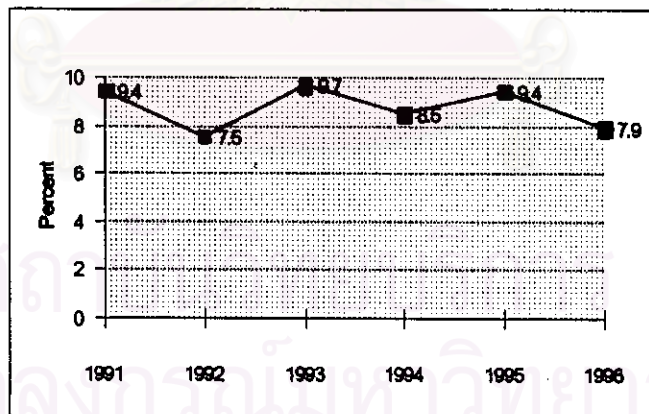


Source: International Financial Statistics.

Indonesia

Although Indonesia could attain single-digit inflation during 1991 and 1996, Indonesia's inflation rates ranged between 7.5-9.7%, double the rates experienced in its neighbouring countries as Malaysia and Thailand. Indeed, the increase in inflationary pressure was an outcome of Indonesia's relatively high level of economic growth which was stimulated by strong exports and investment in line with strong domestic demand and continued high foreign direct investment. In 1991, consumer prices increased to 9.4%, owing to cost-push factors as an adjustment in domestic energy prices and a reduction in rice supply due to a long drought.⁶ However, with more prudent economic policy, specifically tight monetary and fiscal policies (e.g. the introduction of more stringent standards for bank's lending operations, debt provision and bank capitalization, as well as an increase in taxes on luxury goods), coupled with higher agricultural output and the effect of price controls on consumer goods, inflation declined to 7.5% in 1992. However, inflationary pressures worsened again reaching 9.7% in 1993, 8.5% in 1994 and 9.4% in 1995 (albeit declining to 7.9% in 1996) sparking renewed efforts to bring down inflation in order to restore investor confidence in its economic stability.

Exhibit 3.10: Consumer Price Inflation in Indonesia



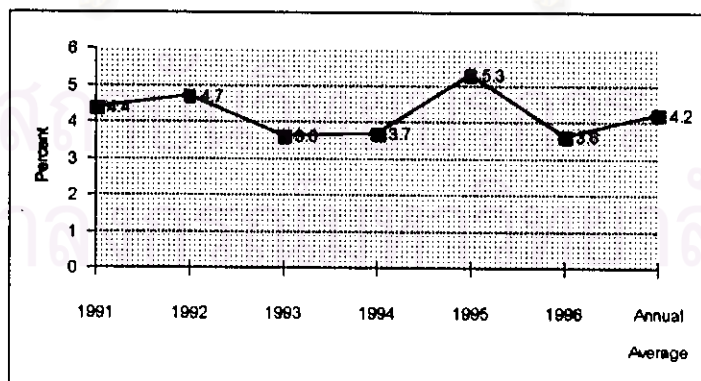
Source: International Financial Statistics.

⁶ Bank Indonesia Annual Report 91/92, p. 91.

Malaysia

Among the ASEAN countries, Malaysia experienced the lowest inflationary pressure during the period of study (1991 to 1996), with an annual inflation rate averaging 4.2% (Exhibit 3.11). The relatively low level of inflation rate in Malaysia was attributable to its consistently high domestic savings*, combined with substantial foreign direct investment used to finance its high rates of investment. However, the successful economic expansion raised its inflationary pressures throughout the 1990s by increasing demands on natural resources, raising wages and production costs, and attracting large speculative capital inflows that also increased imported inflation. Furthermore, high infrastructure spending during this rapid economic development also increased inflationary pressures in Malaysia. As a consequence, the government has maintained both fiscal and monetary tightening throughout the 1990s to limit inflationary pressure which may destabilize the economy. In particular, several measures have been implemented during the 1990s to curb inflation, including the management of liquidity to dampen excess demand, the discouragement of destabilising speculative capital flows, the introduction of wage reforms, the removal or reduction of import duties as well as the reduction and postponement of government's investment in some mega-projects. In addition, Malaysia's exchange rate management policy, previously used to boost exports, has been used since 1994 mainly to control inflation.

Exhibit 3.11: Consumer Price Inflation in Malaysia.



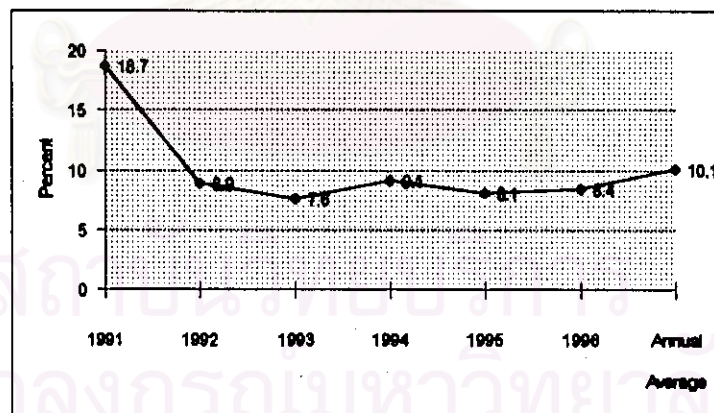
Source: International Financial Statistics.

* Malaysia's high savings ratio is partly the result of compulsory payments into the Employees' Provident Fund (EPF) as the mandatory rate of the EPF contribution from employees' wages is relatively high, at 10%, then further revised to 11% in 1996.

Philippines

Due to the sharp depreciation of the peso in 1990 and the surge in oil import prices, the Philippines experienced the sharpest increase in consumer price inflation of 18.7% in 1991 (Exhibit 3.12). However, with more prudent monetary policy in lined with the stability of the peso against the dollar (Table 3.3), the rate of consumer price inflation in Philippines has become more steady since 1992, within the range of 7-9%, although it has remained higher than its neighbouring countries in ASEAN. In particular, inflation in the Philippines declined sharply to 8.9% in 1992, compared with 18.7% in 1991, as a result of both monetary and fiscal tightening, the appreciation of the peso, reductions in prices of oil and food, and the fully abolition of the previous import levy. However, in 1994, the inflation rate accelerated from a decline of 7.6% to 9.1%, primarily due to a substantial increase in minimum wage rates as well as an increase in fuel prices. With a concern on the increasing inflationary pressure, the Philippines continued its restrictive monetary and fiscal policies in 1995 and 1996; as a result, inflation declined to 8.1% in 1995 and 8.4% in 1996, consistent with historical experiences of its neighbouring countries in ASEAN in the early stages of rapid development.

Exhibit 3.12: Consumer Price Inflation in the Philippines.



Source: International Financial Statistics.

Table 3.3: Exchange rates (period averages)

	1990	1991	1992	1993	1994	1995	1996
Pesos : Dollar	24.311	27.479	25.512	27.120	26.417	25.714	26.216
% Change	-11.84%	-13.03%	7.16%	-6.30%	2.59%	2.66%	-1.95%

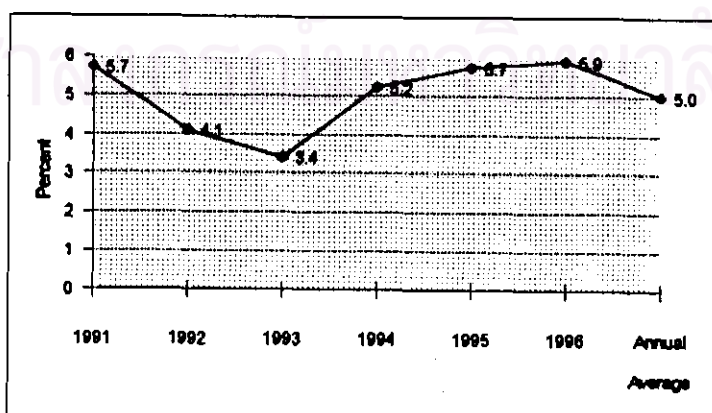
Source: International Financial Statistics.

Thailand

During the high economic growth of the past 5 years, the Thai economy also began to suffer from rising inflationary pressure which started to erode its economic competitiveness. The average annual consumer price inflation during 1991 and 1996 was at 5%, lower than the weighted average inflation rate of ASEAN countries during the same period (7.25%), but still higher than the average inflation of neighbouring Malaysia (4.2%). Strong domestic demand, particularly from burgeoning private investment and consumption, together with excess liquidity due to very rapid credit expansion, and continued speculative investment inflows (especially during 1995 to benefit from high interest rate differentials, were the major factors increasing domestic inflationary pressure. In 1994, inflation also rose to 5.2% as a result of an increase in the minimum wage rate. Rising cost pressures due to higher import prices and a supply shock due to severe nationwide flood bumped the inflation rate even higher to 5.7% in 1995.

With an attempt to curb rising inflationary pressures, Thai authorities adopted fiscal and monetary tightening aiming to restrain buoyant domestic expenditure. Unfortunately, recent financial liberalization had significantly increased the difficulty in implementing effective monetary policy. As a consequence, inflationary pressure has continued on its rise since 1994. Furthermore, inflation became a problem undermining the fundamentals of the Thai economy which encouraged the speculation against the baht during 1997 that ultimately brought the Thai economy under the austerity of the International Monetary Fund's stabilization program.

Exhibit 3.13: Consumer Price Inflation in Thailand.



Source: International Financial Statistics.

3.3 Current Account Balance

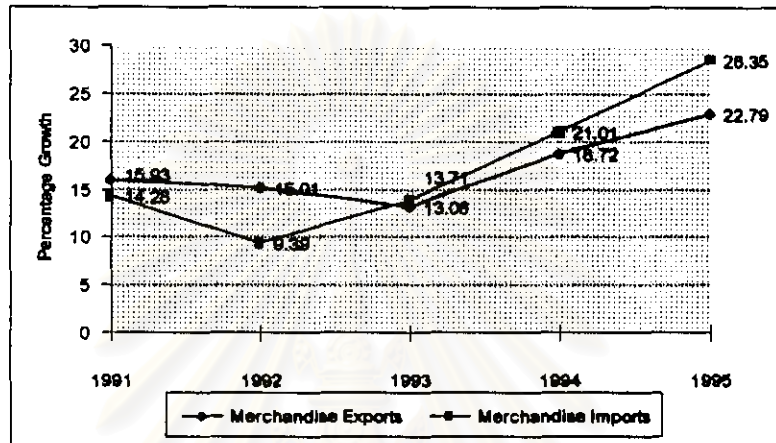
Accompanying strong domestic demand and the acceleration in exports which resulted in a rapid economic expansion in ASEAN countries during 1991 and 1996, there was a dramatic increase in the imports of capital goods and raw materials in order to expand production and investment which subsequently pushed the current account balance of ASEAN countries into substantial deficit. In particular, the aggregate imports of the ASEAN countries dramatically increased at a rate of 28.35% in 1995, compared with 14.28% in 1991, outpacing the growth in aggregate exports of 22.79% in 1995 (Exhibit 3.14). As a result, the combined trade deficit of the ASEAN countries widened to US\$ 11.3 billion in 1995 from US\$ 4.01 billion in 1991. Furthermore, with the small size of ocean-going fleet of individual country in the ASEAN region, there were also large net payments for transportation and associated services as the volume of external trade expanded. As a consequence, the service balance of the ASEAN countries also moved into deficit. However, net earnings on travel during the boom in tourism in the ASEAN region were not sufficient to bring the service balance into surplus, except for the Philippines. Therefore, the current account balance of the ASEAN region has consequently been in almost continuous deficit for over a decade, thus disturbing the macroeconomic stability of the ASEAN region. In fact, the combined current account deficit of the ASEAN countries sharply widened to US\$ 31 billion in 1996, compared with US\$ 17.04 billion in 1991.

In addition, although the deficits in the current account balances of the ASEAN countries were approximately 50% financed by foreign capital inflows in the form of other investment rather than direct or portfolio investments, their share of direct investment inflows accounted for approximately 30%* of total net capital inflows to ASEAN during 1991 and 1995 (Exhibit 3.16). Furthermore, the share of portfolio inflows to total net capital inflows increased dramatically in 1993 as a result of increased interest in emerging markets.

* This moderate share of net direct investment flows to total net capital flows is mostly dominated by the relatively high portfolio flows of Malaysia.

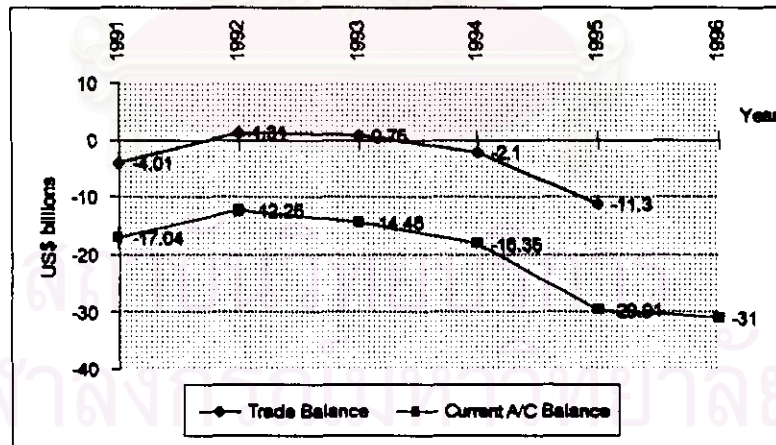
Among the ASEAN countries, Thailand experienced the highest current account deficit relative to its economic size during 1991 and 1996 recording an annual average ratio of current account deficit to GDP of 6.7%, followed by Malaysia (6.4%), the Philippines (3.6%) and lastly Indonesia (2.6%) as in Exhibit 3.17.

Exhibit 3.14: Growth in Aggregate Merchandise Exports and Imports of the ASEAN Countries.



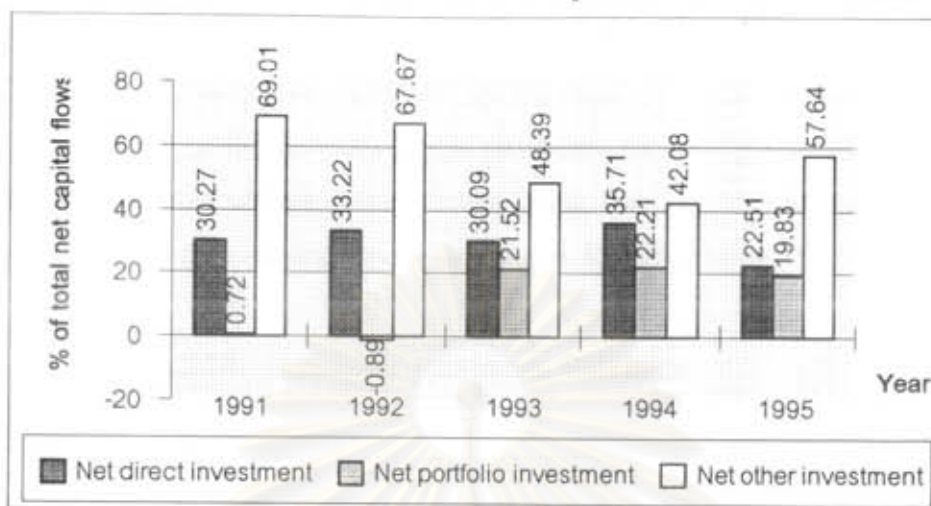
Source: International Financial Statistics.

Exhibit 3.15: Trade Balance and Current Account Balance of the ASEAN region.



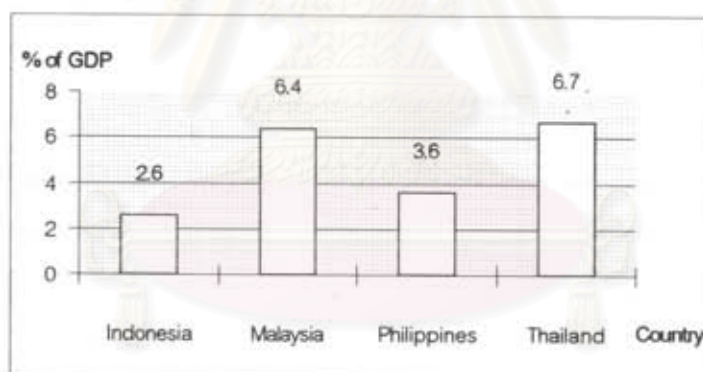
Sources: International Financial Statistics and The Economist Intelligence Unit.

Exhibit 3.16: Aggregate share of net direct, portfolio and other investments to total net capital flows in ASEAN countries.



Sources: International Financial Statistics.

Exhibit 3.17: Current Account Deficit to GDP ratio of ASEAN during 1991 and 1996.



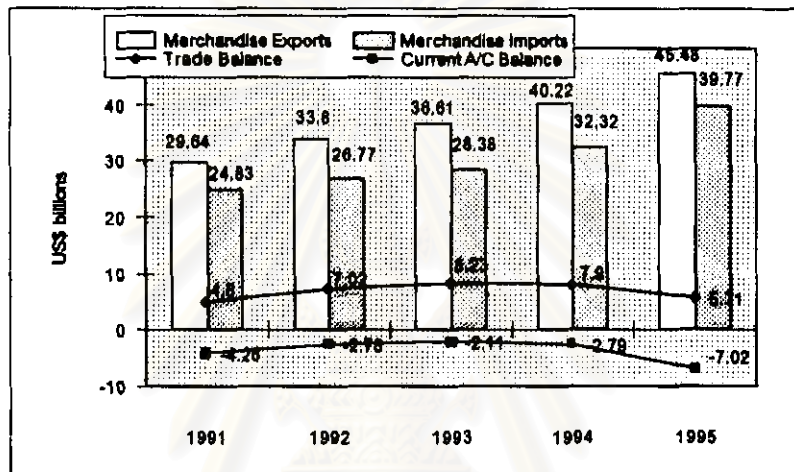
Sources: International Financial Statistics and The Economist Intelligence Unit.

Indonesia

As the rapid growth of the Indonesian economy during the 1990s was accompanied by a rapid expansion in production and investment, imports rose sharply to US\$ 39.77 billion in 1995 from US\$ 24.83 billion in 1991. Apart from this increasing imports, Indonesian exports also rose sharply to US\$ 45.48 billion in 1995, compared with US\$ 29.64 billion in 1991 (Exhibit 3.18), owing to strong growth in agricultural and manufactured exports. Moreover, net receipts from oil and natural gas exports, although declining since 1990, were another important factor

bringing Indonesian trade balance into surplus throughout the 1990s. However, the current account deficit of Indonesia widened sharply from US\$ 4.26 billion in 1991 to US\$ 7.02 billion in 1995 and to US\$ 7.7 billion in 1996, despite the large surplus in its trade balance. This can be explained by the huge deficit in Indonesian services balance, due largely to the increase in net payments for transportation services as a result of the small size of Indonesia's ocean-going fleet, as well as substantial debt repayments with the debt service ratio averaging at 32.35% during 1991 and 1994.

Exhibit 3.18: Indonesia's External Balances.



Source: International Financial Statistics.

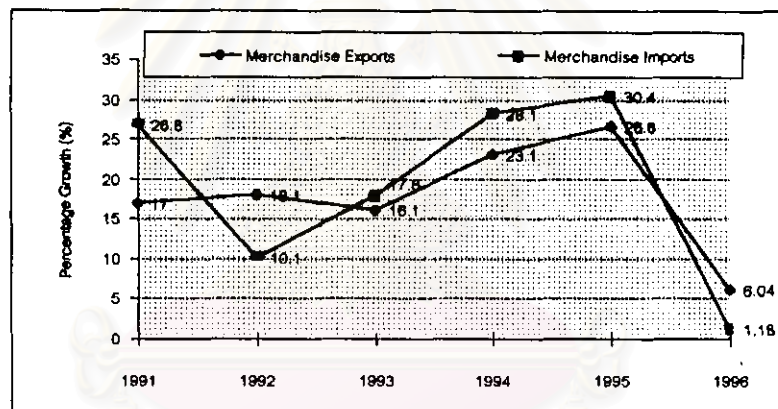
Malaysia

With the high import content of its exports, the consistently rapid economic growth in Malaysia, spurred mainly by the growth of export-oriented manufacturing industries, created an import surge. Growth in merchandise imports ranged between 10-30% during 1991 and 1995, but sharply decelerated to 1.18% in 1996, as against the rate of 30.4% in 1995 (Exhibit 3.19). However, in absolute terms, total merchandise imports increased only slightly from US\$ 72.15 billion in 1995 to US\$ 73 billion in 1996. The deceleration in import growth in 1996 reflected the virtual stagnation in the import of investment goods, owing partly to the slowdown in international demand for electronics products*, as well as weaker demand for

* Electronics manufacturing industry accounted more than 50% of Malaysian exports, specifically in 1996.

intermediate and consumption goods.⁷ Growth in merchandise export also accelerated from 17% in 1991 to 26.6% in 1995, before sharply declining to 6.04% in 1996. However, Malaysian merchandise exports remained slightly higher than its merchandise imports, resulting in a continuation of the trade balance surplus. Notwithstanding the surplus in the trade balance, Malaysia's current account balance was in deficit during 1991 and 1996. The current account deficit widened from US\$ 4.18 billion in 1991 to US\$ 7.36 billion (8.6% of GDP) in 1995, but subsequently narrowed to US\$ 5.1 billion (5.2% of GDP) in 1996. This was due to the large deficit in the services balance, reflecting the net payments on imports of services such as freight and insurance, as well as repatriated profits from direct investment by foreign companies.*

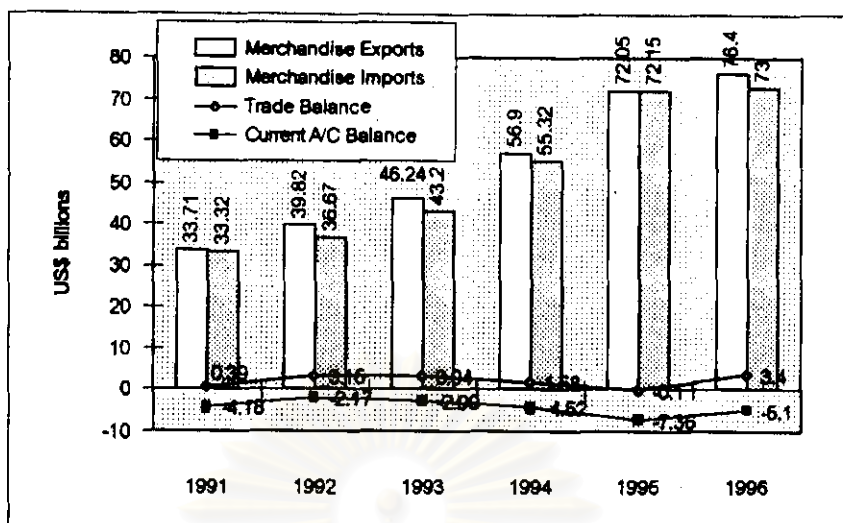
Exhibit 3.19: Growth in Merchandise Exports and Imports of Malaysia.



**Sources: International Financial Statistics and
Malaysia: EIU Country Profiles 1997-98.**

⁷ The Economist Intelligence Unit, *Malaysia: EIU Country Profile 1997-98*, (London, 1997), p. 36.

* As Bank Negara (the central bank) of Malaysia treats all profits on investment of foreign companies as if they are payments across the exchanges, even if they are retained and reinvested, and then subsequently treats the reinvestments as capital inflows; therefore, any substantial deficit on investment income in the service balance tends to overstate the real position.

Exhibit 3.20: Malaysia's External Balances.

Sources: International Financial Statistics and Malaysia: EIU Country Profiles 1997-98.

Philippines

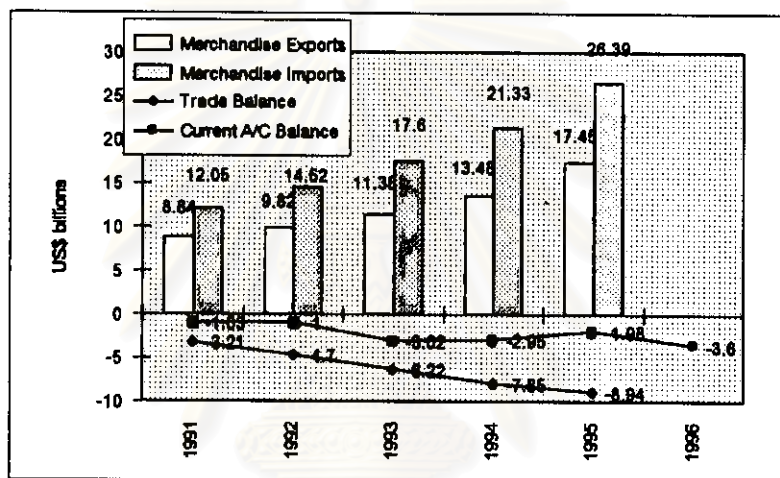
In response to the resumption of economic growth in the Philippines since 1991 which has become more foreign investment-driven, in line with a structural shift from traditional commodity exports such as forestry products, sugar and copper in favour of manufacturing exports like electronic goods and garments that have a high import content, the import spending of the Philippines rose sharply between 1991 and 1995. In absolute terms, merchandise imports accelerated from US\$ 12.05 billion in 1991 to US\$ 26.39 billion in 1995. Meanwhile, its merchandise exports steadily increased from US\$ 8.84 billion in 1991 to US\$ 17.45 billion in 1995 (Exhibit 3.21). However, this steady growth in exports was exceeded by the strong growth in import spending. As a result, the Philippines' external trade balance has remained in deficit.

In contrast to its substantial deficit on merchandise trade, the Philippines' service balance has remained in surplus, owing primarily to substantial remittances from Filipino workers outside the country* as well as income from tourism. Although interest payments on the Philippines' external borrowings have been the most important outflow from its services account, they have tended to ease off in recent

* Remittances from overseas Filipinos (both emigrants and contract workers) appears in the Philippines' balance of payments as a services export rather than as unrequited transfers.

years, partly due to the impact of debt rescheduling and restructuring agreements since the mid 1980s.⁸ Nonetheless, the surplus in its service balance was not enough to totally offset the deficit on merchandise trade and push the current account balance into surplus. As a result, the Philippines current account deficit increased from US\$ 1.03 billion (2.3% of GDP) in 1991 to US\$ 3.6 billion (4.3% of GDP) in 1996. Although, this level of current account deficit is low relative to neighbouring Malaysia and Thailand, it is still high for a country with relatively low savings and only modest investment levels.*

Exhibit 3.21: The Philippines' External Balances.



Source: International Financial Statistics.

Thailand

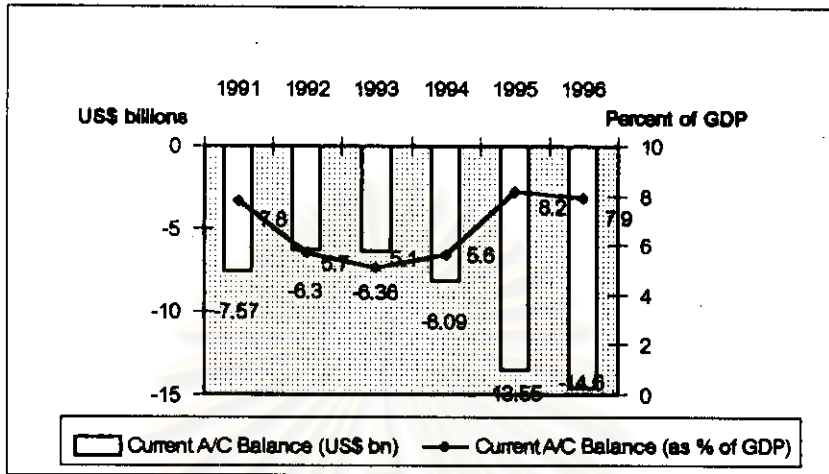
The rising import-dependency of Thailand's economy during the course of intended transformation into a modern industrialized country with a strong manufacturing base has caused its current account balance to deteriorate significantly over recent decades. This has been particularly noticeable during the 1990s with the current account deficit widening to US\$ 7.57 billion (7.8% of GDP) in 1991, then declining to US\$ 6.3 billion (5.7% of GDP) in 1992, but rising marginally to US\$ 6.36 billion in 1993 (although, as a percent of GDP, it declined slightly to 5.1%). However, the current account deficit subsequently widened to US\$ 13.55 billion

⁸ The Economist Intelligence Unit, *Philippines: EIU Country Profile 1997-98*, (London, 1997), p. 39.

* Among the ASEAN countries, the Philippines has the lowest savings rate (approximately 14% of GDP) which is less than half of its neighbours.

(8.2% of GDP) in 1995 and US\$ 14.6 billion (7.9% of GDP) in 1996 as shown in Exhibit 3.22.

Exhibit 3.22: Current Account Balance of Thailand.



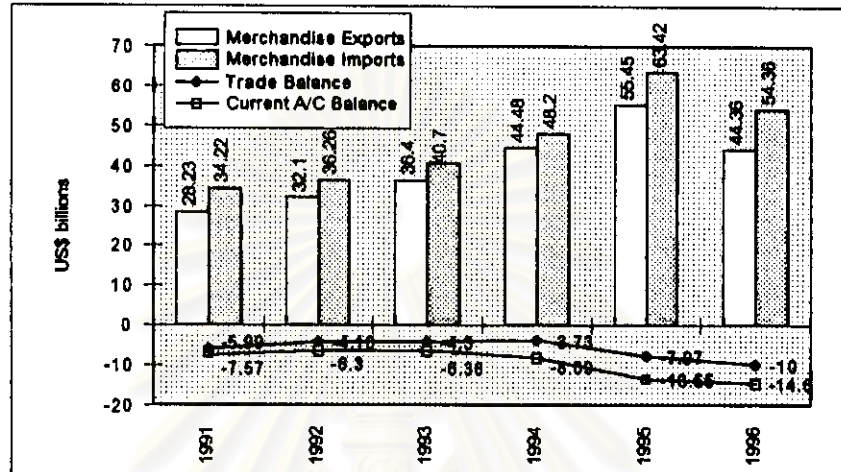
Sources: International Financial Statistics and The Economist Intelligence Unit.

A large deficit in Thailand's current account during 1991 and 1996 was primarily attributable to the surge in imports which exceeded the acceleration in exports. In particular, Thailand's merchandise exports accelerated to US\$ 55.45 billion in 1995, nearly double the amount of US\$ 28.23 billion in 1991. Meanwhile, the merchandise imports increased dramatically to US\$ 63.42 billion in 1995, compared with US\$ 34.22 in 1991. As a result, Thailand has maintained a trade deficit throughout the 1990s. Although, Thailand's trade deficit declined steadily during the early 1990s, it widened sharply to US\$ 7.97 billion in 1995 and US\$ 10 billion in 1996. Moreover, Thailand had been running a deficit on its services balance since 1991, thus pushing its current account further into more deficit. Meanwhile, the steady growth in earnings from tourism as well as workers' remittances from abroad (mainly from the employment of Thais on Middle East and Asian construction site) moderated the size of the current account deficit in recent years.⁹ Nonetheless, earnings from tourism and other sources on the services account had recently being offset by the rapidly rising expenditure of Thais travelling abroad as well as

⁹ The Economist Intelligence Unit, Thailand: EIU Country Profile 1997-98, (London, 1997), p. 42.

increasing interest, profit and dividends payments. These several consecutive years of large current account deficits accurately reflected the deteriorating fundamentals of Thailand's external account. This subsequently led to currency speculation in the early of 1997 which eventually necessitated an IMF economic rescue package.

Exhibit 3.23: Thailand's External Balance.



Sources: International Financial Statistics and The Economist Intelligence Unit.

3.4 Budget Balance

During 1991 and 1996, the ASEAN countries generally maintained fiscal surpluses that could at some level, restrain the countries' inflationary pressures. In *Indonesia*, according to the IMF data, with the only exception of the year 1992 in which the government recorded budgetary deficit of 0.4% of GDP, the country has consistently recorded increasing fiscal surpluses during 1991 and 1996 as in Exhibit 3.24. This has been due primarily to increasing growth in revenue collections, resulting from its strong economic expansion, as well as government concern about "economic overheating" in recent years.

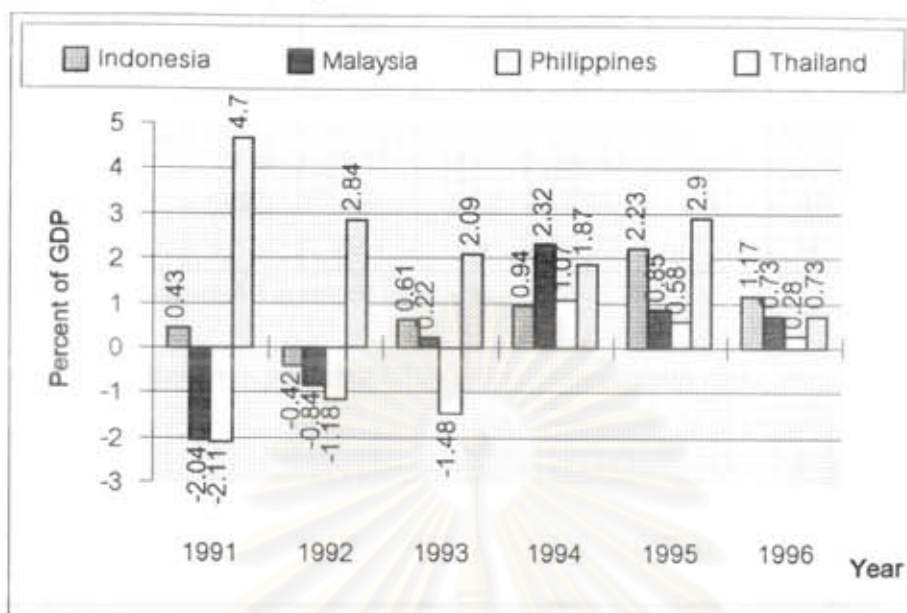
In *Malaysia*, the government recorded budget deficits of 2.04% of GDP in 1991 and 0.84% in 1992 when its development expenditures exceeded its current

revenue surpluses. However, the government has maintained prudent fiscal policies since 1993 and achieved consistent surpluses in its fiscal balance (Exhibit 3.24).

In the *Philippines*, there has been a sustained improvement in the country's fiscal balance. During 1991 and 1996, the budget deficit narrowed and eventually moved into surplus in 1994. The budget remained in surplus in 1995 and 1996, albeit at declining ratios to GDP. This improvement in the Philippines' budgetary position was largely due to significant privatisation proceeds resulting from the government's commitment to the terms of the austerity program agreed with the IMF in 1984 to reduce its funding for state-owned enterprises and to sell off its holdings to the private sector (e.g. the privatisation of its 60% equity in the state-owned oil refinery during the first half of 1994).¹⁰

In *Thailand*, the government recorded budget surpluses over many years, although the country's fiscal policy has generally been expansionary in its intent.¹¹ This occurred because there were high levels of revenue generations in response to the country's vigorous economic expansion; whereas the development expenditures, particularly in reducing infrastructure bottlenecks and promoting a more balanced pattern of industrialisation throughout the country, despite their increase, were still lower than the revenue generations. However, the budgetary positions were in surpluses at declining ratios to GDP as shown in Exhibit 3.24, and moved into deficit in 1997 necessitating severe budgetary spending reductions in order to meet the IMF conditions for a balanced budget.

¹⁰ The Economist Intelligence Unit, *Philippines: EIU Country Profile 1997-98*. (London, 1997), p. 14.

Exhibit 3.24: Budget positions of the four ASEAN countries.

Source: International Financial Statistics.

3.5 International Reserves

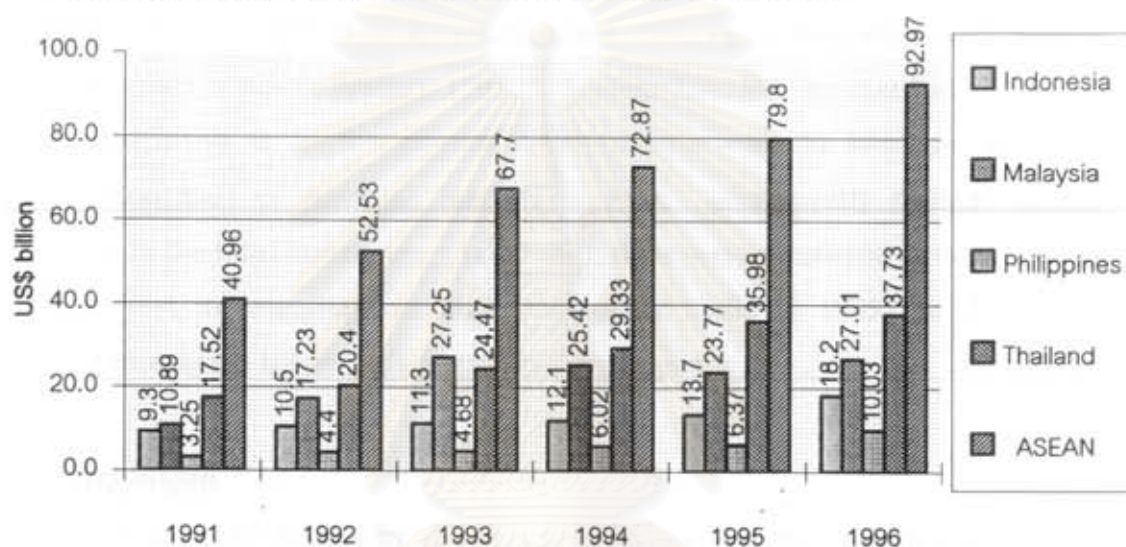
With the substantial financial liberalization so far achieved during the 1990s combined with comparatively high interest rates, there have not surprisingly been substantial inflows of foreign capital to these ASEAN countries more than enough to compensate for their current account deficits. As a result, the overall balance of payments of the ASEAN countries have generally been in surplus which have subsequently been reflected in the sizeable build-up of their foreign reserves, thus allowing them to absorb sizeable fluctuations in their export earnings. More specifically, the aggregate foreign reserves excluding gold for these four ASEAN countries increased dramatically from US\$ 40.96 billion at the end of 1991 to US\$ 92.97 billion at the end of 1996 (Table 3.4). In fact, despite some severe fluctuations in export receipts, these foreign reserves were sufficient to cover approximately over five months of their import bills. However, in order to properly evaluate the country risk of these ASEAN countries, the foreign exchange reserves will be compared with the countries' external debt levels in the next section.

¹¹ The Economist Intelligence Unit, *Thailand: EIU Country Profile 1997-98*, (London, 1997),

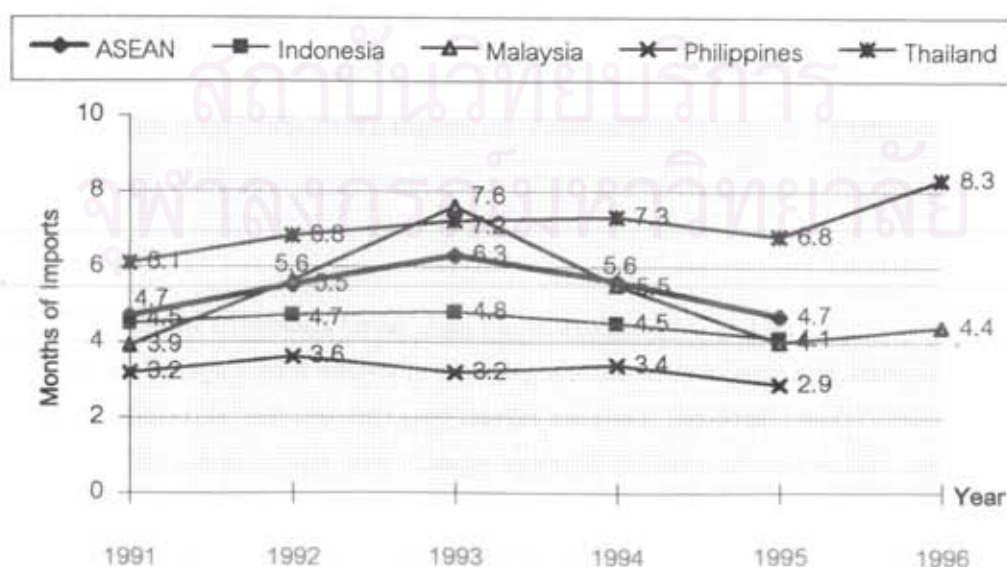
Table 3.4: Reserves, excluding gold of the four ASEAN countries (US\$b).

	1991	1992	1993	1994	1995	1996
ASEAN	40.96	52.53	67.7	72.87	79.8	92.97
Indonesia	9.3	10.5	11.3	12.1	13.7	18.2
Malaysia	10.89	17.23	27.25	25.42	23.77	27.01
Philippines	3.25	4.4	4.68	6.02	6.37	10.03
Thailand	17.52	20.4	24.47	29.33	35.98	37.73

Source: International Financial Statistics.

Exhibit 3.25: Reserves positions of the four ASEAN countries.

Source: International Financial Statistics.

Exhibit 3.26: Reserves relative to months of imports.

Sources: The Economist Intelligence Unit and IFS.

Indonesia

Indonesia's foreign reserves have increased steadily from US\$ 9.3 billion at the end of 1991 to US\$ 18.2 billion by the end of 1996. These reserves have been equivalent in value to over four months of imports throughout the 1990s. The accumulation in Indonesia's foreign exchange reserves between 1991 and 1996 was mainly attributable to the large inflows of investment capital which also drove its overall balance of payments account into successive surpluses. However, as a result of the repercussions from the financial crisis in Mexico in the late 1994, Indonesia lost about US\$ 500 million of its international reserves in defending itself against rupiah speculation during January 1995.¹² Nonetheless, the increased awareness of market participants in the fundamental differences between the Mexican economy and the economies of emerging markets in Asia, subsequently restored market confidence in the local currencies. As a result, there were persistently strong foreign capital inflows to emerging markets including Indonesia in 1995^{*}, resulting in a persistent increase in Indonesia's foreign reserves again.

Malaysia

At US\$ 10.89 billion by the end of 1991, the foreign exchange reserves of Malaysia dramatically increased to US\$ 27.25 billion by the end of 1993, equivalent in value to over seven months of imports. Similar to other ASEAN countries, the high level of foreign reserves accumulated by Malaysia was due mainly to substantial inflows of foreign capital. However, with the deficits in both its current account and overall balance of payments account in 1994 and 1995, its foreign exchange reserves were drawn down to US\$ 25.42 billion in 1994 and to US\$ 23.77 billion in 1995.^{**}

¹² Asia Pacific Economics Group, *Asia Pacific Profiles 1996*, p. 198.

^{*} Strong foreign capital inflows to emerging markets in 1995 were also stimulated by higher interest rate differentials between emerging market rates and industrial country rates which due primarily to the decline in interest rates of major industrial countries in order to boost their economic performance.

^{**} The decline in Malaysia's foreign exchange reserves was also due to Bank Negara Malaysia intervention in the foreign exchange market, either to shore up its currency in order to control inflation, or to keep the ringgit down in order to boost exports.

In terms of import coverage, its reserves were run down from the equivalent of 7.6 months in 1993 to only 5.5 months at the end of 1994 and just 4 months by the end of 1995. Nonetheless, a surplus in the overall balance of payments in 1996 raised Malaysia's foreign exchange reserves to US\$ 27.01 billion at the end of 1996, which equivalent to 4.4 months of imports.

Philippines

As a result of increased inflows of foreign capital which due primarily to relatively high local interest rates and foreign exchange liberalization, the Philippines' overall balance of payments account has generally been in surplus throughout the 1990s. The surplus in the Philippines' overall payments account has consequently been reflected in the improvement in its foreign reserves position. In particular, the international reserves position of the Philippines has increased steadily from US\$ 3.25 billion in 1991 (the equivalent of 3.2 months' imports) to US\$ 10.03 billion in 1996. In addition, the increase in the Philippines' foreign reserves position during the 1990s, particularly in 1992 and 1994, was also attributed to the appreciation of the peso by 7% in 1992 and 2.6% in 1994. (see Table 3.3)

Thailand

During 1991 and 1996, with a surge in foreign capital inflows more than sufficient to cover the deficits in the current account which resulted in the overall balance of payments surpluses, Thailand's foreign reserves position increased substantially from US\$ 17.52 billion in 1991 to US\$ 37.73 billion at the end of 1996. Among the ASEAN countries, Thailand maintained the highest foreign exchange reserves in terms of import coverage, equivalent to 8.3 months by the end of 1996. The relatively high level of foreign reserves during 1991 and 1996 was largely a result of the relatively strong and stable baht which continued to attract large inflows of foreign capital. In particular, as the Bank of Thailand allowed the baht to fluctuate only within an extremely narrow range based on a basket of currencies dominated by the dollar, foreign investors were subject to less exchange rate risk. As a result, there

* The decline in Malaysia's foreign exchange reserves was also due to Bank Negara Malaysia intervention in the foreign exchange market, either to shore up its currency in order to control inflation, or to keep the ringgit down in order to boost exports.

were more speculative capital inflows into Thailand during the past few years. However, the pressure in the baht speculation intensified in 1997, forcing the Bank of Thailand to make around US\$ 23 billion of forward commitments to defend the baht in the mid-1997, thereby resulting in a decline in the reserves to US\$ 25.9 billion by the end of August 1997.¹³ This serious depletion in Thailand's international reserves in the mid-1997 led to the flotation of the baht in July 1997 and subsequently necessitated an economic rescue package from the International Monetary Fund.

3.6 External Debt

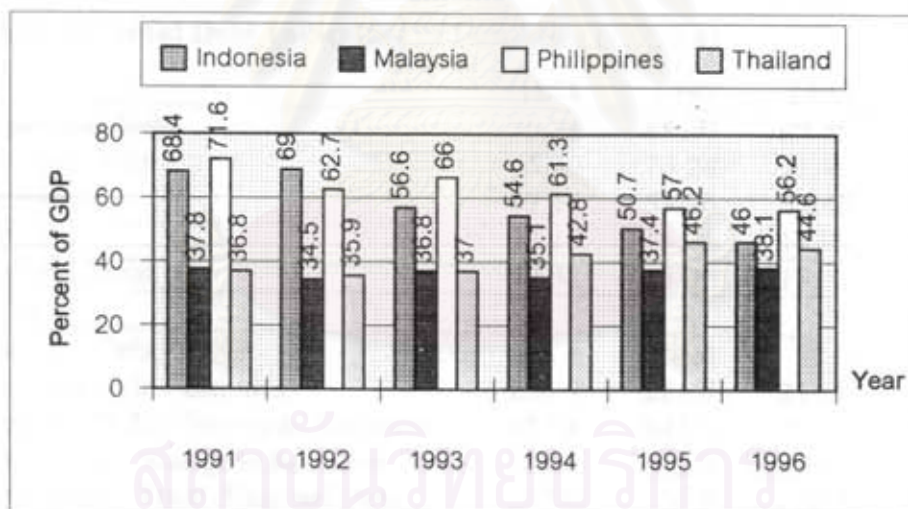
Given the constraints on domestic savings, external debt has played an important role in the economic development of the ASEAN countries over the last decade. In particular, the aggregate stock of external debt for the ASEAN countries increased dramatically from US\$ 166.3 billion at the end of 1991 to US\$ 260.1 billion at the end of 1996 (Table 3.1), causing concern among many analysts not only about the increasing size but also the composition of ASEAN's external debt.

As the private sector has gained increasing importance in these countries economic development process, the relative importance of public long-term capital in the overall debt structure of the ASEAN countries has gradually declined. During the 1990s, the increase in offshore borrowings has generally been generated from the private sector debt which is usually short-term in nature. As a consequence, the increase in external borrowings has placed a considerable pressure on the balance of payments of the ASEAN countries. Moreover, apart from the increasing debt burdens, a concern on the allocation of the ASEAN's external borrowings as to whether they are being used productively in such a way as to enhance the servicing capability has prompted the adoption of more prudent external debt policies by ASEAN authorities, couple with new initiatives to reduce their reliance on debt by promoting more foreign direct investment.

¹³ The Economist Intelligence Unit, Thailand: EIU Country Profile 1997-98, (London, 1997), p. 43.

Among the ASEAN countries, the Philippines and Indonesia have the relatively high level of external indebtedness during the 1990s as indicated by the average ratio of total external debt to GDP of more than 50% (Exhibit 3.27). However, the external indebtedness of both Indonesia and the Philippines had declined since 1991; whereas, Thailand's external indebtedness remained increasing. Moreover, despite Thailand's relatively high level of foreign reserves, the large proportion of its short-term debt began to undermine investor confidence in its ability to service its short-term obligations, particularly should it face unexpected economic shocks. By contrast, among the ASEAN countries, Malaysia maintained the lowest external indebtedness. This is due mainly to Malaysian good investment climate which attracts huge amount of direct investment flows to finance its ongoing economic expansion.*

Exhibit 3.27: External Indebtedness of the ASEAN countries as percentage of GDP.



Sources: The Economist Intelligence Unit and World Debt Table.

Indonesia

Similar to other developing countries with relatively low domestic savings rates, Indonesia has relied on external financing to accelerate its economic development during a decade. However, as the official financial assistance has steadily declined, there has been a large increase in Indonesian external borrowing.

* Direct investment flows, on average, accounted for more than 70% of the total net capital flows of Malaysia during 1991 and 1995.

This is reflected by the substantial increase in the external liabilities of Indonesia to over US\$ 100 billion by the end of 1996 from US\$ 79.8 billion at the end of 1991.

Although more than 60% of Indonesia's external borrowing is mainly public sector debt which is generally long-term in nature, during the 1990s, the private sector debt has increased at a much faster rate than Indonesian government or public debt. During 1991 and 1996, the ratio of debt to GNP ranged between 57-67%, and the debt service ratio averaged more than 30%. Moreover, rising to US\$ 101.9 billion by the end of 1996, Indonesia's level of external debt had become relatively high compared to its non-gold foreign reserves - as indicated by the ratio of total external borrowings to foreign reserves of 560%. Therefore, as Indonesia's debt burden has remained high, it is necessary to reduce the country's reliance on foreign loans by enhancing more domestic savings and increased foreign investments. In addition, prudent external debt policies should also be supported.

Table 3.5: External Debt Indicators of Indonesia (US\$ bn)

	1991	1992	1993	1994
Total External Debt	79.78	88.30	89.48	96.50
Long-term Debt	65.30	70.24	71.49	79.39
Public	52.12	53.96	57.46	63.85
Private	13.18	16.28	14.03	15.54
Short-term Debt	14.32	18.06	17.99	17.11
Ratio (%)				
Total External Debt / GNP	65.1	66.4	58.9	57.4
Total External Debt / Exports	236.9	221.8	211.9	195.8
Total External Debt / Non-gold Reserves	857.8	841.0	791.9	797.5
Short-term Debt / Non-gold Reserves	154.0	172.0	159.2	141.4
Short-term Debt / Total External Debt	17.9	20.5	20.1	17.7
Debt-Service ratio	34.0	31.6	33.8	30.0

Sources: World Debt Table 1996 and International Financial Statistics.

Malaysia

Among the ASEAN countries, Malaysia has maintained a relatively low level of external indebtedness. Nonetheless, Malaysia's total external debts increased from US\$ 18.15 billion at the end of 1991 to US\$ 28.9 billion by the end of 1996, and its ratio of debt to GNP ranged between 36.8-44% during 1991 and 1996. However, Malaysia's debt service ratio was relatively low, averaging only at 8.5% during 1991 and 1995. In addition, compared with other developing countries, Malaysia also

maintained low ratios of both total external debt and short-term debt to its foreign reserves throughout the 1990s (Table 3.6). Furthermore, due to its fairly prudent financial management in line with increased capital inflows into emerging markets, Malaysia succeeded in attracting foreign direct investment flows which enabled the country to reduce its external debt.¹⁴ With the low level of debt burden, Malaysia has generally been assigned higher credit ratings and perceived as less risky than other developing countries.

Table 3.6: External Debt Indicators of Malaysia (US\$ bn)

	1991	1992	1993	1994	1995
Total External Debt	18.16	20.02	26.15	29.54	34.35
Long-term Debt	16.08	16.39	19.20	23.35	27.08
Public	13.61	12.38	13.46	13.65	15.86
Private	12.47	4.01	5.74	9.70	11.22
Short-term Debt	2.07	3.64	6.95	6.19	7.27
Ratio (%)					
Total External Debt / GNP	40.7	36.8	43.8	44.0	42.6
Total External Debt / Exports	45.9	42.9	48.8	44.9	-
Total External Debt / Non-gold Reserves	166.8	116.2	96.0	116.2	144.5
Short-term Debt / Non-gold Reserves	19.0	21.1	25.5	24.4	30.6
Short-term Debt / Total External Debt	11.4	18.2	26.6	21.0	21.2
Debt-Service ratio	7.6	9.2	8.6	9.3	7.8

Sources: World Debt Table 1996, The Economist Intelligence Unit, and International Financial Statistics.

Philippines

During the 1990s, external borrowing has remained the principal source of funds used in financing the Philippines' external payments. With the deficits in the Philippines' current account throughout the 1990s, the country's external debt increased steadily from US\$ 32.45 billion at the end of 1991 to US\$ 47.2 billion at the end of 1996. However, most of the Philippines' foreign debts are mainly public debts which are long long-term in nature. In addition, with debt rescheduling and restructuring including the conversion of a trade facility into a medium-term loan, the

¹⁴ The Economist Intelligence Unit, *Malaysia: EIU Country Profile 1997-98*, (London, 1997), p. 40.

proportion of its short-term debt to total external debt declined from 15.2% at the end of 1991 to 13.4% at the end of 1995. Meanwhile, the country's debt service burden eased with the debt service ratio declining substantially from 25.6% at the end of 1993 to 18.9% at the end of 1994 and 16.4% at the end of 1995. Furthermore, as a proportion of GNP, the Philippines' external indebtedness declined from 70.5% in 1991 to 51.5% at the end of 1995. This reflects that the country is becoming less dependent on external borrowing to meet its external financing needs. This can partially be explained by the substantial increase in portfolio investment inflows in response to the appeal of a stable peso and consistently high domestic interest rates, in line with a general surge in investor interest in emerging stock markets.¹⁵ Besides, the increase in direct investment inflows has also supported the country's external payments.

Table 3.7: External Debt Indicators of the Philippines. (US\$ bn)

	1991	1992	1993	1994	1995
Total External Debt	32.45	33.0	35.93	40.0	39.45
Long-term Debt	26.42	26.64	29.68	32.22	33.44
Public	25.06	25.61	27.47	30.27	29.91
Private	1.36	1.03	2.21	1.95	3.53
Short-term Debt	4.94	5.26	5.04	5.72	5.28
Ratio (%)					
Total External Debt / GNP	70.5	60.7	64.9	60.8	51.5
Total External Debt / Exports	219.4	187.1	187.0	163.4	-
Total External Debt / Non-gold Reserves	998.5	750.0	767.7	664.5	619.3
Short-term Debt / Non-gold Reserves	152.0	119.5	107.7	95.0	82.9
Short-term Debt / Total External Debt	15.2	15.9	14.0	14.3	13.4
Debt-Service ratio	23.0	24.4	25.6	18.9	16.4

Sources: World Debt Table 1996, The Economist Intelligence Unit, and International Financial Statistics.

¹⁵ The Economist Intelligence Unit, *Philippines: EIU Country Profile 1997-98*, (London, 1997), p. 40.

Thailand

Accompanying the increasing demand for funds to finance the country's rapid economic expansion, Thailand's external debt has increased rapidly during the 1990s. According to World Bank data¹⁵, the country's total foreign debt increased dramatically from US\$ 35.9 billion at the end of 1991 to US\$ 82.1 billion at the end of 1996. This was primarily attributed to the strong growth in the country's short-term obligations which accounted for more than 50% of total foreign debt by the end of 1996. Moreover, the private sector debt has increased rapidly and, according to the Bank of Thailand data, accounted for approximately 80% of the total outstanding external debt at the end of 1995; whereas, the public sector debt increased only marginally from US\$ 12.8 billion at the end of 1991 to US\$ 16.8 billion at the end of 1996 (Table 3.8). The relatively stable public debt during the 1990s can be explained by the continued surpluses in the country's fiscal balance as well as the government's cautious approach to external public sector borrowing.¹⁶ In addition, the growing mountain of Thailand's external debt incurred during 1991 and 1996 was the result of financial deregulation. For example, the establishment of the Bangkok International Banking Facility (BIBF) in 1993 made the private sector access to foreign loans relatively easy. Furthermore, the large interest rate differential between domestic and international interest rates, coupled with a relatively narrow range of currency (baht) fluctuation were also important factors increasing the size of the country's external indebtedness.

However, along with this rapid growth in the country's external indebtedness, Thailand had also developed a higher capacity to service its debt burden - as indicated by the debt service ratio which stabilized at around 11 percent during 1991 and 1995. Moreover, the ratio of Thailand's short term external debt to non-gold foreign reserves ranged between 87-114% during this period, implying the less serious

¹⁵ Data on the structure of Thailand's external debt obtained from the World Debt Table differ markedly from the central bank (Bank of Thailand) data given in Table 3.8.

¹⁶ Bank of Thailand, "Analysing Thailand's short-term debt", Bank of Thailand Economic Focus 3, (July-September 1996), p.10.

problem of the country's short-term debt as the size of the country's short-term external debt could well be covered by the country's foreign reserves.^{*}

Table 3.8: External Debt Indicators of Thailand. (US\$ bn)

	1991	1992	1993	1994	1995	1996
Total External Debt	37.9	43.6	52.1	64.9	82.6	90.5
Public Debt	12.8	13.1	14.2	15.7	16.4	16.8
Private Debt	25.1	30.6	37.9	49.2	66.2	73.7
Long-term Debt	22.5	24.7	29.5	35.7	41.5	-
Short-term Debt	15.4	18.9	22.6	29.2	41.1	-
Ratio (%)						
Total External Debt / GDP	38.3	39.2	41.7	45.3	49.3	-
Total External Debt / Exports	103.7	104.2	107.2	112.9	114.2	162.4
Total External Debt / Non-gold Reserves	216.3	213.7	212.9	221.3	229.6	240.1
Short-term Debt / Non-gold Reserves	87.9	92.6	92.4	99.6	114.2	-
Short-term Debt / Total External Debt	40.6	43.3	43.4	50.0	49.8	-
Debt-Service ratio	10.6	11.3	11.2	11.7	11.4	-

Sources: Bank of Thailand and International Financial Statistics.

In conclusion, based on the analysis of the macroeconomic performances discussed in this chapter, it can be summarized that the developing economies of ASEAN all (to varying degrees) encountered increased economic overheating tendencies during their expansion stages in the 1990s. This was largely because domestic savings were no longer sufficient to finance such rapid economic expansion, due mainly to higher domestic spendings on both consumption and investment. Thus, they became increasingly reliant on foreign capital to finance their development. Moreover, their limited domestic financing resources, combined with the high import content of their export manufacturing industries (particularly in Malaysia and Thailand) created a surge in the demand for imports which pushed their trade and current accounts into deficit. Thus, in order for these countries to continue to attract adequate foreign capitals to finance their deficits, higher domestic interest rates were required. These inflows of foreign capital in line with high interest rates then lead to

^{*} Although Thailand has large stock of foreign reserves, a significant increase in its short-term obligations was one important factor contributing to the economic crisis in the mid-1997.

an increase in their external indebtedness and their debt service burdens, thus putting even more pressure on their external payment positions.

In particular, these economic overheating pressures of the ASEAN countries were indicated by their relatively high inflation rates, increased current account deficits and increased level of external indebtedness as shown in Table 3.1. However, if these countries had followed more prudent macroeconomic management policies, these economic overheating pressures should have remained manageable.



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย