The Chinese Economy in the Asian Financial Crisis:

The Prospect of RMB

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ABSTRACT

The Chinese economy has been reasonably stable during the Asian financial crisis. However, there is a widespread speculation about the prospect of the stability of RMB, the Chinese currency. While the Chinese government has repeatedly promised the stability of RMB, many oversea economists have downgraded the future RMB. Unlike the speculation by many in the academic and business circles outside China, the paper argues that the Chinese government is able to and will defend RMB in the near future. The cost for China to defend RMB is not formidably high for the time being. However, as China implements an expansionary macroeconomic policy, hence the macroeconomic environment changes, it will be economically unacceptable to peg the RMB to the U.S. dollar. The uncertainty of the Hong Kong dollar and the economy of Hong Kong is another concern for the RMB stability. In the long run, the exchange rate of RMB will have to be adjusted.

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I. Introduction

Will Renminbi (RMB), the Chinese currency, depreciate in the near future? The subject has received widespread attention across the world. The Asian financial crisis is characterized by currency depreciation followed by an economic recession (Table 1). So far, China and Hong Kong are the only two countries that have maintained currency stability (Figure 1). Since China is the tenth largest trader in the world, and as the size of the Chinese economy is estimated as the second largest in the world by the purchasing power parity standard,[1] if RMB depreciates, it will inevitably cause a confidence crisis and trigger a new round of currency devaluation in Asia. Consequently, the global economy will be greatly affected.

The Chinese leaders have repeatedly promised that there will be no devaluation for RMB, including in their recent speeches and meetings with oversea guests.[2] The market, however, has reacted with suspicion. As observed, "fear of a yuan devaluation has continued to roil global financial markets, and has hung heavy on confidence domestically."[3] The black market exchange rate has been hovering at around 8.7 yuans of RMB for one U.S. dollar, representing a 6 percent devaluation.[4] In some place such as Taishan, Guangdong Province, the exchange rate once even hit a level of 11 yuans for a dollar. Standard and Poor has cut the yuan rating from stable to negative.[5]

Will China maintain RMB stability in the near future? An academic investigation to the question cannot rely on the promises of Chinese leaders for the answer. After all, governments in Thailand, Indonesia and Malaysia had all struggled hard to keep their currency stable in terms of the U.S. dollar but all failed. The market force was more powerful than their capability. However, neither is the verdict of the speculations on the exchange rate in the black markets reliable. The final conclusion will depend on economic fundamentals and other related factors. In this article I will investigate the issue through the academic perspective. To do this, we should start with the following questions: First, is China able to maintain the stability of the RMB? Second, is China willing to do it at any cost? What are the costs and how large are the costs? The fate of RMB stability will depend on the answers to these two questions. Our arguments are organized as follows. Section II examines the government's ability to maintain RMB stability. Section III analyzes the cost associated with maintaining RMB stability. Section IV discusses the uncertainty and the outlook of the state of RMB. Section V is the summary.

II. Will the Chinese Government Be Able to Defend RMB?

Although many economists attribute the Asian crisis to some factors that include the non-transparency of the government's decisions and the corrupted financial system,

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[1] IMF, "World Economic Outlook", 1998, p.133.

[2] Zhu Rongji, Jiang Zhemin, and others all made such a statement in various occasions. See AFX News, quoting Xinhua News Agency, on August 28, 1998.

[3] KARBY LEGGETT, "China's State Banks Fortify Control on the Yuan Market", Wall Street Journal, Asia Section, Sept. 11, 1998.

[4] Karby Leggett, "Hong Kong's Peg to U.S. Dollar Is Impeding Confidence in Yuan," The Wall Street Journal, Section Asia, Sept. 9, 1998.

[5] "Hopes for China Revifal in '98 Recede", The Asian Wall Street Journal, July 20, 1998, p.3.

the triggering cause apparently was a currency crisis. In all the suffering Asian countries, the currency disaster started from a large sale of local currency by speculators, joined by creditors and the public in panic, and accompanied by the government's inability to meet the demand. The large scale of excess supply caused the quick fall of currency in the foreign exchange market.

A further examination reveals some more fundamental reasons responsible for the panic sale. Prior to the crisis, the affected countries had run current account deficits for a long period of time. They had accumulated a large amount of external liability that was due shortly. Their currencies were convertible. Their institutions allowed easy flow of financial capital so they were vulnerable to a sudden capital flight. They did not have enough foreign reserves to meet the demand. The combination of all these factors caused a shortage of foreign exchange. When the shortage led to a sudden sale of local currency and quick capital outflow, the crisis burst.

Yet China is quite different. The above conditions for a currency meltdown do not exist in China, and the mechanism on which a capital flight relies does not exist either. Let us examine these conditions of the devaluation for China.

It is true that the Chinese economy has many problems. Some of the problems are similar to those of the affected Asian countries, for instance, the problems of overinvestment, a large amount of bad loans in the banking system, etc. Many economists attribute the Asian crisis' origin to these problems. However, it should be noted that these problems did not directly cause the currency crisis.

The currency crisis was triggered by a sudden capital flight in the affected countries. To have a large amount of currency flight, there must exist a mechanism in the country that allows investors and speculators to sell local currencies, securities, and other assets; to convert the proceedings to foreign exchange; and to deliver them abroad. The key link in this process is currency convertibility. The affected Asian countries permitted free exchange in capital accounts (with the exception of South Korea, which had some restrictions); hence capital flight could occur. Yet in China, such a mechanism does not exist. RMB is not convertible in capital account. Foreign financial capital cannot freely flow across the border. It is not possible for foreign speculators to sell short on RMB or Chinese securities outside China. It is equally difficult for them to sell RMB and Chinese securities in China and deliver dollars overseas. Hence there is no mechanism for a sudden capital flight outside China.

To be more precise, there exists a small loophole for capital flow crossing the border. The "B" shares of stocks in Shenzhen and Shanghai, which are denominated in the U.S. dollar, are supposed to be traded by oversea investors.[6] Theoretically, oversea investors can sell the stocks and take the proceeds out China. However, in reality, sales in the B shares can hardly generate any significant impact on the exchange rate. First, the B shares account for only an insignificant amount of the total stock shares. The market

[6] Limited amounts of Chinese companies are publicly listed in Hong Kong, termed "H" shares in the Hong Kong stock market, and listed in New York, termed "N" shares in the New York stock exchange market. However, their transactions are restricted only in Hong Kong dollars or the U.S. dollars outside China, so no money can be delivered crossing the border. Recently China further tightened the control of “illegal” stock transaction crossing the border.

value of all B shares amounts to only 2.1 billion U.S. dollars, accounting for 0.4 per cent of GDP. Even including A shares, which can only be traded in RMB inside China, the stock market capitalization in China is still only 7.5 percent of GDP. It is insignificant compared with the affected Asian countries, which ranges from 44% for South Korea to 340% for Malaysia.[7] Moreover, most of the B shares are actually owned by the local Chinese. Although we do not have the breakdown figures in terms of value among the nationalities of the shareholders, but the 1994 Shanghai Stock Exchange Report reveals that 74% of the B share accounts were owned by Chinese living in China.[8] Given the tiny amount of B shares owned by outsiders, even a large fluctuation in the stock market and outflow of this category of money cannot make a significant impact on the exchange rate.

The non-convertibility of RMB in the capital account shields China from sudden capital flight from speculators' attacks. Yet this factor in itself is still insufficient for RMB stability. The equilibrium exchange rate is determined by supply and demand in the foreign exchange market. That is, the country's ability in earning foreign exchange and the need for foreign exchange by various agents in the economy. This state of supply and demand is reflected by the current account balance. A country cannot avoid a currency crisis if it runs a chronic current account deficit. South Korea also had restrictions for the capital account, but it was unable to avoid the crisis because of its inability to service their large amount of short-term debts. Table 2 presents the statistics of debt service, current account balances and other relevant information for concerned countries.

It can be seen from Table 2 that there are some obvious differences between China and the affected countries. While the affected countries were running sizable deficits, China has continuously run large trade surpluses since 1994. The current account surplus in 1997 was 22 billion U.S. dollars. The trend has continued in 1998. Although under the pressure from the Asian crisis, China still registered more than 5 percent growth in exports in the first eight months of 1998. In the first eight months of 1998, China had a trade surplus of 31.4 billion U.S. dollars.[9] From the continuous surplus, China has accumulated a large amount of foreign reserve. The foreign reserve at the end of July 1998 was 140 billion U.S. dollars, the second largest in the world.[10]

China is also safe from the demand side. China does not have a large burden from either external liability or short-term payment. China has an external debt of 118 billion dollars[11], but 86% of them are long term debts.[12] Given the large size of the Chinese economy, the external debt ratios are rather small according to international standards. The Liability (debt-to-GNP) Ratio, Debt Service Ratio and Foreign Debt (debt-to-exports) Ratio, are 14.0%, 11.8% and 73.9%, respectively according to 1997

[7] See John Wong, 1998, table 3.
[8] Theoretically, the B-shares must be owned by non-Chinese citizens. However, because of many loopholes, such as special accounts given by the Security Companies to preferred customers, many local people own the B-share accounts.
[9] Quoted by the speaker for the State Foreign Exchange Bureau, People's Daily, Sept. 16, 1998, p.1.
[10] China Statistical Bureau, July, 1998.
[11] It is the 1997 figure, the 1998 figure is not available but should be close.
[12] State Statistical Bureau, Sept. 23, 1998.

figures.[13] To make a comparison, we notice that the corresponding averages of the ratios for the low-income developing countries in 1995 were 38.7%, 15.4% and 183.9%, respectively. For the middle-income developing countries, the corresponding averages in 1995 were 39.9%, 17.4%, and 142.6%. The Chinese ratios should be well within the safety limits.

It should be indicated that, as compared with Latin American countries, the debt ratios for the affected Asian countries in general do not seem to be excessively large. In addition, the Asian countries were great exporters. Feldstein (1998) argues that the Asian crisis to a large extent is a problem of liquidity rather than insolvency. This implies that the crisis could have been avoided if the IMF and creditors had provided sufficient credit relief. This argument appears to be supported by the fact that the Asian countries with large foreign reserves, including Taiwan, Singapore and Hong Kong, have remained relatively unscratched. Given the fact of the sizable foreign reserve China has, which actually exceeds its total external debt, China should have no liquidity problems to meet its external liability. Table 3 presents the information of the Chinese economic fundamentals relevant to the RMB stability.

Given the economic fundamentals as discussed above, China is capable of defending RMB if it wishes. The conditions favorable for the RMB stability are summarized as follows: In the capital accounts, a capital flight cannot happen because of the restrictions of capital flow. In the current account, China is continuing to run trade surplus and current accounts surplus. In terms of external debt and servicing debt, China has a relatively small external liability but possesses a large amount of foreign reserve.

III. The Cost to Maintain RMB Stability in Near Future

Above, we argued that China has the ability to defend RMB. This ability alone does not automatically warrant the action. A rational government should also weigh the benefits and costs associated with defending RMB. If the implied cost is high enough to make the policy economically or politically undesirable, the Chinese government may abandon the rigid RMB policy if it acts rationally.

So, what are the costs associated with the stable RMB? The Asian turmoil has caused real appreciation of RMB with respect to the affected currencies. The appreciation may adversely affect China's competitiveness in the world market, especially in the long run. Thus, some Chinese economists argue that China should devaluate RMB to stimulate exports. However, a careful investigation reveals that, at least so far, it is unclear that how large a stimulus to the exports will be if RMB devaluates.

Devaluation might lead to a decrease in foreign exchange earnings from the export in the short run, according to the J curve theory. Besides, there are other reasons to counter the devaluation argument. First, China's export structure differs from other affected Asian countries (only Indonesia appears to be close). China tends to export more low-end manufacturing goods. It is estimated by some economists that only 10 to 15 percent of the Chinese exports to the rest of the world overlaps those from the affected Asian countries (see Fan, 1998). Second, a substantial amount of the overlapping goods

[13] Estimates from Dai Xianglong, Chairman of the Central Bank (People's Bank) , cited by People's Daily, Dec. 29, 1997, p.1.

are textile products, which are restricted by the import quotas of developed countries. Hence, there is not much room for affected Asian countries to increase exports. Third, given the low-income base in China, even after the depreciation, the wage rate in the affected countries, with the exception of Indonesia, are still higher than that in China. Fourth, many export products of affected Asian countries are from the processing industry. The currency depreciation causes the imported material to become more expensive, thus largely offsetting the price advantage due to the devaluation. Fifth, China imports much more from the affected countries than it exports to them. Many of the imports from these Asian countries are used as inputs for processing exports to the U.S. and to Western Europe. About fifty percent of Chinese exports are of the processing trade. The devaluation of these countries has lowered the cost of Chinese exports significantly. Finally, the instability of the currency has raised the risk and cost of export finance. Hence many exporters in the affected countries lack credit and working capital to finance their exports. All these factors combined restrict the countries from taking the cost advantage from devaluation. For instance, it is reported by an Indonesian organization that foreign exchange earnings from the Indonesian footwear industry, which is an overlapping area with Chinese exports, has dropped to 1 billion from 1.9 billion in 1997 due to a decline in order. And instead, the orders have gone to China (and Vietnam), despite the fact that Chinese products now are 20% more expensive than Indonesia's.[14] It was largely due to the concern by American and European importers over the risks of uncertainty in the affected countries.

So far the Chinese export sector has weathered the crisis rather well. Although export growth has slowed down, however, it is mainly caused by the shrinking demand from the affected Asian countries. China still maintains a healthy export growth with other regions. In the first half of 1998, exports to Southeast Asia, Japan and Korea fell by 12.9%, 4.3%, and 30.2% respectively, however, exports to Russia, Africa, Latin America and Europe rose by 48.8%, 44.1%, 33.3%, and 25%. Exports to the U.S. in the first five months rose by 18.1%.[15] In the first seven months of 1998, China registered 26.7 billion dollars of trade surplus, representing a 6.9 percent increase from the same period a year before.[16] Since exports to the affected Asian countries, which include Japan, Korea, and Southeast Asia, account for only 30% of total exports, the increase of exports to other regions largely offsets the decline of exports to the affected Asian countries.

In addition, China has adopted a series of measures to minimize the impact. China encourages the export industries to raise efficiency, to improve non-price attributes of the exports, and to diversify the product lines. This year China also raised the export tax rebate from the previous 9% to 11%; it is estimated the two percentage point increase in tax rebate is equivalent to 4 percent currency devaluation.[17] Moreover, China is experiencing deflation, thus resulting in a real devaluation. All these factors have lowered the costs of exports. From the performance of Chinese exports so far in the crisis period, it seems that the costs to Chinese exports by maintaining the current RMB exchange rate are rather limited.

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[14] The Jakarta's Post, July 15, 1998, page 8.

[15] reported by Chinese Statistics Bureau, from Security Times (Zhengquan Shi Bao), July 10, 1998, p.1, Beijing, http://www.securitytimes.com.cn

[16] Report by the Chinese Statistical Bureau, August 18, 1998.

[17] Report by Xinhua News Agency, Sept. 11, quoted by Security Times, Sept. 11, 1998, Shenzhen, China.

One major cost for the rigidity of exchange rate is monetary dependency. A country loses its independent monetary policy in a pegged exchange rate regime. Hence the country cannot adjust its macroeconomic policy to the best, resulting in an economic cost. This is the basic argument of the optimal currency area theory. If China maintains the RMB "stability", which means pegging the RMB to the U.S. dollar, China's monetary policy will be handicapped by the policy changes of the Fed in the U.S. Since the two economies are quite different, there will be a great cost from the macroeconomic aspect.

The argument is valid, however, given the unique circumstances of China, the implied cost may not be as great as it would be otherwise. The cost would be greater for a small open market economy. But China is different. It is large in size, hence the impact from outside is relatively small. China does not have free capital flow and RMB is not freely convertible. Hence China can to a large extent isolate its markets, both the monetary and the real markets, from outside shocks. China does not have a developed financial market, and the public is not very sensitive to the interest rate. An interest rate differential between RMB and foreign currencies does not induce a substantial change in the money holding behavior of the residents. Moreover, the government controls the overwhelming portion of the economy, and it does not hesitate to intervene in the market with administrative measures. Hence, China still has much flexibility to adjust its monetary policy even if it maintains a stable exchange rate with the U.S.

IV. The Likelihood of RMB Depreciation in 1999 and After

Above, we argued that China is able to defend RMB if it desires, and the costs to defend RMB are not substantially high for the time being. However, it would be wrong to consider the above conclusion would be valid in the long run. As the international and domestic conditions change in future, the cost of pegged RMB may increase. And, such a change is more likely as time elapses.

Although currently handicapped by financial difficulties, the affected Asian countries will eventually increase their competitiveness in the world market, as argued by the J curve hypothesis. In fact, China has already encountered some challenges. In 1998, China had lost a large amount of orders for steel, shipbuilding, and chemical products to South Korea due to the price disadvantage. The prices of the textile and shoe products from Indonesia are now 20 to 30 percent cheaper than the Chinese similar products. As the Indonesian situation stabilizes, they will expand their share in the world market, taking the cost advantage. As the pressure mounts, the internal voices from the export sector in China calling for depreciation will get louder, and RMB will be forced to devaluate.

The rapid change in the Chinese macroeconomic environment will force adjustments in the monetary policy. A rigid RMB exchange rate can make the implementation of the monetary policy impossible or ineffective. This is a potentially great cost from the rigidity of the RMB exchange rate in the near future.

The Chinese economy is currently in an economic recession. This recession is homegrown. It was caused by insufficient demand in the domestic market. The recession is characterized by the slowdown in economic growth, an increase in unemployment, and deflation. The growth continues to decelerate to 6.8 percent in the second quarter of 1998. The unemployment situation is rising and is further aggravated by the restructuring in the state-owned sector in urban areas. The deflation causes the Consumer Price Index

to fall by 1.4 percent in July on an annual basis.[18] In order to stimulate the economy, the Central Bank (People's Bank) has cut the interest rate three times within a short period of only nine months since October 1997.[19] However, the policy has generated little impact so far because China is mired in a liquidity trap like that of Japan.

In response to the recession and the ineffective monetary policy, the Chinese government now turns to expansionary fiscal policies by increasing the fixed asset investment. In April, it announced a series of increases in fixed asset investment.[20] The additional increase in infrastructure alone amounts to 150 billion yuans each year. The scales of investment increase in various sectors are from 1.4 to 17 times the original plans at the beginning of the year.[21] The source of the increase includes bank credits from state banks and bonds issued by the government. In July, M0, M1, and M2 increased by 10%, 10.5% and 15.5% from a year before. In the same month, bank credits increased by 75.64 billion yuans, representing an additional increase of 24.45 billion yuans from a year before.[22] An additional 100 billion yuans of government bonds is to be issued to finance investment.[23] It is reported that as a result the industrial output growth in August has been bottomed out and has started to accelerate. Meanwhile, the prices of construction materials have also turned around from fall to increase.[24]

What are the implications to the stability of RMB by these macroeconomic policies? First, the monetary expansion, which includes the cut in interest rate, will inevitably add pressure to the RMB. At this moment, the RMB deposits in the banks are still stable even though there exists an interest differential between RMB and foreign exchanges, because of the restrictions on currency convertibility. Yet such a system can only be operated within certain limits. China allows the domestic public, including firms and residents, to hold a certain amount of foreign currency. If the differential gets too large, a large scale of selling of RMB by public, including individuals and firms, in the black market or through other channels would be inevitable.[25] As the economy develops and China becomes more open, it will be more difficult to isolate the domestic financial market from the rest of the world, and the enforcement cost will increase. The Chinese government will eventually find that it is impossible to maintain the fixed interest rate.

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[18] State Statistics Bureau, August 15, quoted by People's Daily, August 16.

[19] The most recent one is on July 1, 1998. It is said that the central bank will cut interest rate again in near future.

[20] State Information Center, Economic Analysis, July 9, 1998

[21] They include, an four times increase in the agricultural infrastructure, a 1.43 times increase in transportation and communication, a 2.8 times increase in urban infrastructure, and 4 times increase in urban residential housing, and 17.5 times increase in grain storage capacity. Reported by the People's Daily, Sept. 2, 1998.

[22] By the Central Bank, August 13, quoted by People's Daily, August 14, p.2.

[23] Reported by People's Daily, Sept. 9, 1998, p.1

[24] By State Statistics Bureau, quoted by Shanghai Security News, Sept. 8, 1998.

[25] KARBY LEGGETT, "China's State Banks Fortify Control on the Yuan Market", Wall Street Journal, Asia Section, Sept. 11, "… reported some of channels for the buying: "Foreign-invested firms and trade companies were cited as heavy dollar buyers. But traders also said some of those firms were acting on behalf of individuals who were trying to convert assets into dollars as a hedge against the yuan. Much of that capital was moving through loopholes that exist in the market regime, such as phony joint venture companies that are set up to transact a financing deal."

In additional to the problem from the monetary aspect, in the real sector, the expansionary policy will cause the current account balance to deteriorate. A regression analysis finds that the imports will be significantly affected by the increase in fixed asset investment. In particular, each 100-yuan increase in investment will induce 30 yuans of increase in imports.[26] The current account surplus in 1997 was 204 billion yuans. Hence China may run a current account deficit, other things held constant, if capital investment rises by more than 680 billion yuans (a 9 per cent of GDP). The deficit may arrive even sooner if we take into account the real appreciation of RMB.

In addition to the above reasons, there is an important but overlooked factor that will affect RMB stability. That is the political and economic link between RMB and the Hong Kong dollar. Hong Kong is unlike China. It is small and dependent. It is highly open. It has a very liquid capital market with little restriction on capital flow. And, it has run current account deficits for a long time. All these factors make the cost to defend the Hong Kong dollar much higher than the RMB. Although the Hong Kong monetary authority so far has maintained the Hong Kong dollar stable against the U.S. dollars, relying on their huge foreign reserve and high interest rate to attract Hong Kong dollar deposit, the cost to defend HK dollar has been very high. The government spent 13% of their foreign reserve to pop up the stock market in August but ended with a failure. Even worse, because of the tight monetary policy being used to defend Hong Kong dollar, interest rate has surged, resulting a shortage of credit in the economy. It has thrown Hong Kong into recession. In the second quarter, Hong Kong observed a 5% fall in GDP, the first time it had had negative growth since 1968. That implies a loss of GDP of 7.5 billion U.S. dollars. Meanwhile, the unemployment rate rose to more than 4.2%, also the worst in the last two decades. By maintaining the pegged rate regime, Hong Kong does not have an independent monetary policy. Hence Hong Kong is handicapped in adopting a more expansionary monetary policy to stimulate the economy. Hong Kong has had a real appreciation of 43 percent against the U.S. dollar since 1990 because it had much higher inflation than the U.S during the seven year period. Hence Hong Kong has lost much of its competitiveness; thus trade balance has deteriorated. As the Hong Kong dollar has now experienced a new round of real appreciation against other regional currencies, it will be even more difficult for Hong Kong to turn to a current account surplus in the near future. All these reasons make the Hong Kong dollar vulnerable in the future, contrary to what the government claims at this moment.[27]

If the Hong Kong dollar is forced to depreciate, it will make it difficult for RMB to stand alone. A confidence crisis for the RMB stability will occur, the Chinese external trade balance will deteriorate, etc. Yet above these reasons, there is a more important reason. Around 50 percent of the basic food in Hong Kong come from the Mainland China. If Hong Kong dollar falls against RMB, the resulting price increase in basic food and other necessities will hurt low-income families. As China is very sensitive to any possible sentiments of residents in Hong Kong and to any element that could destabilize

[26] The structure, data and results of the regression analysis by the author are available on request.

[27] We are again facing the two questions. First, can Hong Kong defend its dollar? It may be, if the mainland intervenes by using its foreign reserve. Second, will Hong Kong be willing to do it at any cost? I doubt it. If recession continues for another one year, the public protest against the rigid monetary policy will force the government to abandon the current policy.

Hong Kong, China will make adjustments to minimize the impact. Then RMB devaluation is probably the easiest way to solve the problem.

In addition to the above reasons, there can be many other factors emerge as time moves on. The changes in the environment will make it more and more costly to maintain a rigid RMB. In the long run, it is impossible for a country as large as China to peg its currency to a foreign currency. It is only a matter of time to switch to a more flexible exchange rate regime, although in the near future the Chinese government would still claim their commitment to the RMB stability.

V Summary

The subject about the RMB stability has been widely discussed as the world currency market is still shaking. Although there are many speculations about the stability of RMB, this articles argues that the Chinese government is able to defend RMB and the costs for them to defend are not substantially high, for the time being. Hence in the near future, RMB will remain stable. However, as China is implementing expansionary monetary and fiscal policies, the changes in the economic environment will add more pressure on RMB. The likely depreciation of the Hong Kong dollar will add more uncertainty to the fate of RMB in future. As time elapses, the necessity for adjustment of the RMB rate will increase. In the long run, it is unlikely that China will maintain a rigid exchange rate.

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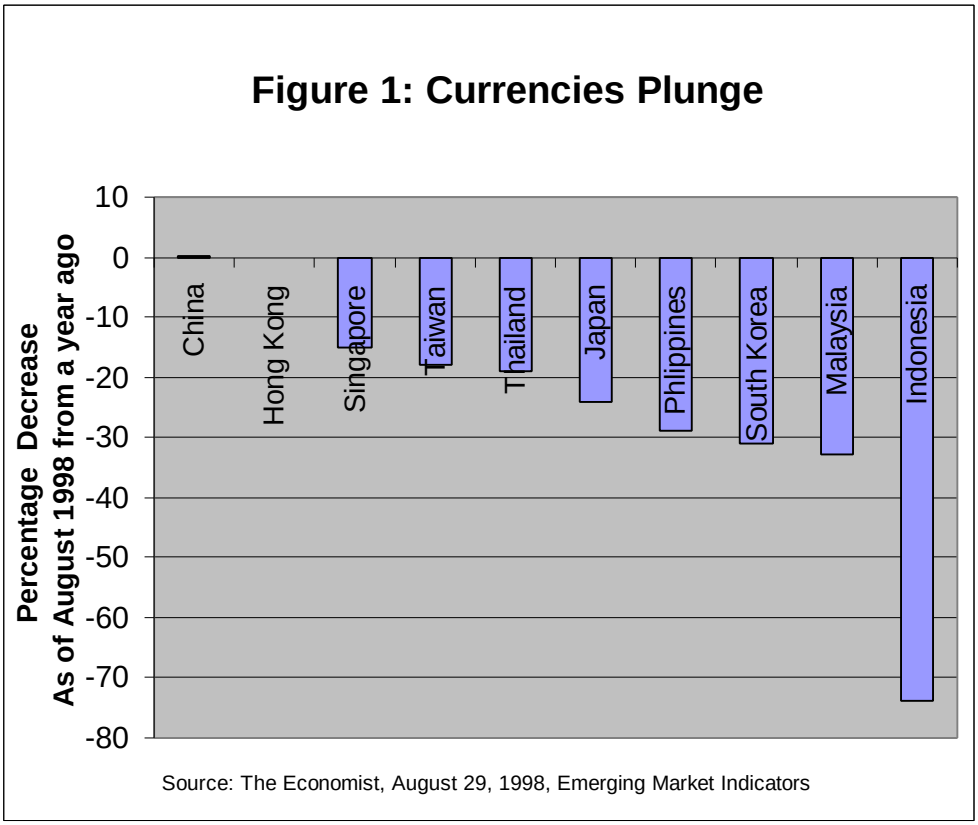

Table 1: Basic Indicators of Economic Performance of the Concerned Asian Countries

	GDP Growth Growth	Inflation Rate (CPI)	Un-employment Rate	Trade Balance	Current Account Balance	Foreign Reserve	Exchange Rate Change	Stock price Change Since Dec.31, 1997
	%	%	%	$bn	$bn	$bn	%	%
China	6.8	-1.4	3.1 - 20?	45.0	24.6	141	0.2	-1.9
Taiwan	5.2	0.9	2.37	5.1	5.7	84	-18	-16.8
Philippines	1.7	10.6	13.3	-6.8	-3.5	9.3	-29	-31
Singapore	1.6	-0.4	2.2	-0.5	13.5	72	-15	-39.5
Thailand	-0.4	10.0	3.7	4.8	2.9	27	-19	-39
Malaysia	-1.8	5.8	2.9	6.4	-4.8	19.7	-33	-45.4
Japan	-3.7	0.4	4.1	113.2	106.4	222	-24	-3.6
Hong Kong	-5.0	3.2	4.2	-16.8	-6.1	96	0	-26.9
Indonesia	-6.2	52.0	20?	17.7	-5.8	18	-74	-10.2
South Korea	-6.6	7.3	6.9	24.7	23.4	40.8	-31	-15.6

Source: The Economist, August 29, 1998; adjustments are made by the recent report from Hong Kong

Table 2: Debt Service versus Current Account Balances for Selected Countries

(As percent of GDP)

China	1990	1991	1992	1993	1994	1995	1996	1997
Current account balance	3.4	3.5	1.5	-2.7	1.4	0.2	0.9	2.5
External debt service	1.7	1.7	2.3	2.5	2.4	2.2	2	1.9
Indonesia								
Current account balance	-2.8	-3.4	-2.2	-1.5	-1.7	-3.3	-3.3	-2.9
External debt service	8.3	8.4	8.7	8.4	8.6	8.5	9	10.5
Malaysia								
Current account balance	-2.1	-8.8	-3.8	-4.8	-7.8	-10	-4.9	-5.8
External debt service	6.9	5.9	5.6	6.1	5.2	6.6	5.4	8.4
Thailand								
Current account balance	-8.3	-7.7	-5.6	-5	-5.6	-8	-7.9	-3.9
External debt service	3.8	4	4.3	4.4	4	5	5.4	7.1
Korea								
Current account balance	-0.9	-3	-1.5	0.1	-1.2	-2	-4.9	-2.9
External debt service	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.3.	22

Source: IMF, World Economic Outlook, Interim Assessment, Dec, 1997, p.49-51, and John Wong, 1998, table 2.

Table 3: The Chinese Economic Fundamentals for the RMB Stability

	1995	1996	1997	1998(1-6)
GDP Growth Rate	10.2	9.7	8.8	7
Inflation Rate (CPI)	17.1	8.3	2.8	-1.4
Trade Balance (bn$)	16.7	17.2	40.3	22.6
Current Account Surplus (bn$)	1.62	7.24	21.7	25
Debt/GNP Ratio (percentages)	15.5	14.3	14	n/a
Debt/Export Ratio (percentages)	69.9	75.6	73.9	n/a
Debt Service/Exports Ratio (Percentages)	7.3	6.7	11.8	n/a
Short-term debt as percentage of total debt	11.2	12.1	14	n/a
Foreign Reserve (bn$)	73.6	105	139.9	140.6

Note:

Debts are all referred to external debts.

Source:

Current account values, 1992-1996 are from State Information Center, Data Express, CEI data.

Other data are from China Statistical Bureau, Statistical Yearbooks, various issues, and new release.