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Guest Commentary: Globalisation and Emerging Nations – Conceptualisation of the Asian Crisis

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ABSTRACT

This article discusses the impact of 'the Asian Crisis' as explained within a globalising environment. Within this context, consequently, the Asian Crisis itself has been identified as part of the on-going globalisation process. This article begins by tracing the emergence of many East Asian nations in terms of their rapid economic growth and development, contrasts East Asian versus Western models of economic development, describes the evolution of Asian versus colonial economic institutions, and traces the rise of the Asian Tigers, Japan, ASEAN-4 and the People's Republic of China. It culminates with the events that ensued during the Asian Crisis of mid-1997 to 1998. Five "wild cards" or key factors, advocated to contribute to a resolution of this regional crisis are then discussed. The author concludes with a call to the international community to tackle the free flow of speculative investments, to determine the type and amount of acceptable foreign direct investment, and to determine the form of selective intervention that best suits an individual country's development, to avoid economic instability and impoverishment.

ABSTRAK

Rencana ini membincangkan impak 'Krisis Asia' dalam konteks persekitaran globalisasi. Dalam hal ini, akibatnya, Krisis Asia ini boleh dikenal pasti sebagai sebahagian daripada proses globalisasi itu sendiri. Rencana ini bermula dengan menyingkap kemunculan banyak negara Asia Timur dari segi perkembangan ekonomi dan pembangunannya yang pesat, membandingkan model pembangunan ekonomi Asia Timur dengan model Barat, serta membandingkan juga evolusi institusi-institusi ekonomi Asia dengan institusi-institusi ekonomi kolonial. Kemudian, rencana ini meninjau kebangkitan "Harimau-Harimau Asia", Jepun, ASEAN-4 dan Republik Rakyat Cina. Rencana ini memuncak dengan peristiwa-peristiwa sekitar Krisis Asia dari pertengahan 1997 hingga 1998. Lima faktor utama yang disarankan menyumbang kepada penyelesaian krisis rantau ini, kemudiannya dibincangkan. Pengarang merumuskan rencana ini dengan menyeru kepada masyarakat antarabangsa untuk menangani aliran bebas pelaburan spekulatif dan menentukan jenis dan amaun pelaburan terus asing yang boleh diterima, sambil menentukan jenis

campur tangan terpilih yang terbaik untuk pembangunan negara tertentu, demi mengelakkan berlakunya ketidakstabilan ekonomi dan kemiskinan.

INTRODUCTION

"Given the globalised environment within which we operate, we should not give an opportunity to the markets to question the credibility of any of our policies…." – Dr. Ramasamy Thillainathan (Quote in the *Asian Business*, April 1996: 37)

The link between Asia's economic development and global economic environment goes back to colonial times when Asia, before the Second World War, served as an outpost of the colonial world. Not only almost 80 per cent of its exports went to the colonial powers, but also the vast bulk of such trade comprised of agricultural produce. A specialisation in terms of both destination and output was clearly evident. The trading structure that emerged demonstrated the 'comparative advantage' between the colonial powers and the colonies.

Global economic changes, however, are not always governed by considerations of the classical concept of comparative advantage. With the termination of the Second World War, in particular, other concerns characterised by political economy factors had gained significance. Foremost among them were the twin needs of rebuilding individual European economies and the preservation of global peace. Policy makers saw the nationalistic character of pre-war political and economic policies as a major threat to the latter. Consequently, economic and political unification or integration was on the agenda. On the other hand, comparative advantage had slowly but steadily been substituted by competitive advantage. Specialisation, the core of the comparative cost doctrine, needs to be replaced by continuous innovation and change.

'Globalisation', like all other – 'sation' verbal nouns, implies change. The change is not confined to one area alone. According to Albrow (1997: 86). "Globalisation has become a focus of concern for groups as diverse as politicians, historians, geographers, businessmen, management consultants, economists and literary critics … . It conveys a widespread sense of transformation of the world". Yet, the economic dimension of the globalisation process has incorporated the political economy needs of the post-war era. Economic integration has progressed initially from genuine moves towards a European integration to a complete global realignment. Today, it has reached a stage where the trading system is in the verge of breaking into blocks or regional areas within which trade is relatively free but between which protectionism dominates.

The objective of this paper is to discuss the impact of the Asian crisis as explained within a globalising environment. It is in this context, the paper strives to examine the Asian crisis and its impact on the global economy. Consequently, the Asian crisis itself has been identified as part of the ongoing globalisation process.

REGIONAL TRADE

A major contributory factor in the growth of trade with Asia had been the East Asian 'miracle' itself. Table 1 shows the comparative position of East Asia with other key regions of the world. The table reveals that there had been, between 1980 and 1995, an exponential growth of 359 per cent in exports and 314 per cent in imports, far exceeding those for other regions. The trade intensity index between the two years has moved from 0.86 to 0.78 indicating that there had been a trade creation.

While these changes were taking place, the ongoing globalisation process itself should not be ignored. Selvarajah (1998a) identified four stages through which economic relationships of nations progresses from one based on national interest to a more global relationship. The first stage is characterised by a relationship based on nationalism and independence while at the extreme end of the developmental stage the relationship transforms into one of mutual growth, cooperation and interdependence of nations within a global free trade framework. In the 1980's, the shift towards regionalism, seen as a 'medium' measure prior to 'globalism', was well on its way. While the European Union was fast materialising, the Association of South East Asian Nations (ASEAN), formed in 1967, on the Asian front was also expanding. Brunei had joined the original five (Indonesia, Malaysia, Philippines, Singapore, and Thailand) in 1984. At the same time, across the Atlantic, the USA – Canada Free Trade Area was born in 1989. In the very next year, Mexico announced its interest in joining the Area, which culminated in the formation of the North American Free Trade Agreement (NAFTA) in January 1994. NAFTA also symbolised a co-operation between a most developed economy and a developing economy. Another major step in the globalisation direction (that also saw the involvement of New Zealand) was the origin of the Asia Pacific Economic Cooperation (APEC), formed in 1989 by twelve countries. Along with the ASEAN economies, the USA, Canada, Australia, New Zealand, Japan, and South Korea were included in the formation. By 1991, China, Hong Kong, and Taiwan too had joined the APEC. All in all, the evidence is clear that the world was moving in the direction of a tripolar global economic focus – the EU, NAFTA, and APEC.

An accompanying feature of the globalisation process has been the manner in which the growth of trade was becoming more dominant than the growth of production. Though the trend of trade outpacing growth was there from the beginning, what is significant is the alarming rate at which this is taking place with the intensification of globalisation. During the period 1950 – 1960, for example, while the average annual growth of world trade was 6.5 per cent, output was growing at an annual rate of 4.2 per cent. The transformation was so rapid during the last three decades that for the 1990 – 1995 period, the corresponding figures were 6.2 per cent (trade) and 2.0 per cent (output) (World Bank 1997). The three regions mentioned increasingly control such growing trade. The percentage of combined exports has increased from 71 per cent in 1980 to 80 per cent in 1995 of total world exports (Table 1).

TABLE 1. World trade share % and trade intensity indexes of three largest economic regions

	Exports $ millions		Imports $ millions		Trade Intensity 1980	Trade Intensity 1995
	1980	1995	1980	1995		
EU	1,014,903	2,534,638	971,904	2,393,824	0.59	0.62
% of world trade	43%	40%	41%	38%		
NAFTA	369,291	1,087,819	388,375	1,169,755	0.84	0.81
% of world trade	15%	17%	16%	19%		
East Asia	315,346	1,446,794	329,360	1,362,865	0.86	0.78
% of world trade	13%	23%	14%	22%		
Rest of the world	684,300	1,317,660	690,430	1,328,732	1	1
% of world trade	29%	20%	29%	21%		
Total World Trade	2,383,840	6,386,911	2,380,069	6,255,176		

Regional Trade Growth 1980 – 1995

	Exports	*Imports*
EU	150%	146%
NAFTA	195%	201%
East Asia	359%	314%
World Trade	168%	163%

Source: *World Development Indicators* 1997, p. 210-212. Adopted from Selvarajah (1998c).

The philosophical implications of these developments cannot also be overlooked. Arguments have always been advanced favouring multilateral trade agreements as against any form of regional group formation. Bhagwati (1993), for example, emphasised the virtues of multilateral trade agreements as contributing to trade creation whereas regionalism, in his view, promoted trade diversion. It is in such a context that the role of General Agreement on Tariff and Trade (GATT) and World Trade Organisation (WTO) is highlighted. However, in a growing environment of an imperfect world, where there is no effective multilateral trading system operating even Bhagwati, has to accept that regionalism may be the political answer to arrive at a non-discriminatory free trade for all. In order to achieve a positive political solution towards a freer world economy, he suggests that 'it is necessary to give to it a programmatic world trade system, unifying format and agenda' (p. 45).

In an effort to maintain some control over their internal economies while the world goes through a transitional phase towards a more non-discriminatory economy, nations are seen to be entering regional trade arrangements and alliances as a way of countering economic threats of nations and the promotion of freer trade. In this regard then, is regionalism a transitional concept leading to globalism? The answer to this lies in whether the formations of trade arrangements are trade creating or trade diverting. In simple terms if a region contributes more to global trade since its formation than previously, the region is said to be trade creating. In Table 1 this is the case with NAFTA and in a sense this is also true with East Asia, even though it lacks formalisation. The acid test in favour of regionalism then, is whether regional integration increases or decreases global welfare and whether regional trading blocs lead to global trade more quickly than multilateral trade.

DEVELOPMENT AND EMERGING ASIAN NATIONS

The period after World War II saw the emergence of many East Asian countries. The development of these nations formed a crescent-like area from Japan and culminating in Thailand. The development in these nations was phenomenal as projected in Table 2. Considering the speed of development, the term 'Asian miracle' aptly exemplified the phenomenon. The reasons for this growth were vaguely understood. Political scientists, social scientists and educators alike were providing ample reasons, and many of these lay in the cultural field. The common explanation management researchers provided was that the Asian societies were basically confucianist and this provided the productive base for good business.

In hindsight, one may then equally ask whether the same cultural platform had the seed for the current crisis the nations are experiencing. There may be some truth in this. Answers to the crisis may also be found in factors

TABLE 2. GDP growth rate (%) of East Asia

Years/ Countries	1979-88	1989-93	1994-95	1996
NIE's	8.0	7.0	7.5	6.3
ASEAN-4	4.8	7.2	7.7	7.0
Malaysia	7.0e	8.0e	9.5	8.6
China	9.8	9.0	11.6	9.7
India	4.7	4.8	7.2	6.9

Islam & Chowdhury (1997: 8) & Lim Kok Wing et al. (1998); e = estimated figures.

such as the level of political and social maturity of the economies, the stage of economic development, and the impact of the 'globalisation model' on feudalistic societies. Lall (1996) provided some explanations to why the emerging markets of Asia have done so well as they have. His prescription was that a measure of state intervention would not go wrong. He also suggested that the models of development in East Asia were unique and were different to the West. Not only were they different to the West, the NIE's of Asia each have a different economic model from the other.

Generally, the differences between Western and East Asian models of economic development as suggested by Lall (1996) can be categorised as shown in Table 3.

TABLE 3. Western and eastern models of economic development

Western	East Asian
• Static assumption-based foundation	• Static assumption-based foundation are of little relevance
• Non-government intervention	• Government & business are often seen in partnership
• Planning models are seen as having 'centralist' tendency	• Planning models are a common feature
• Free-market economy	• Support of adjusted free-market operations
• Underlying national development policies are based on comparative advantage – i.e. accumulation of factor endowments	• National development policies are based on competitive advantage where technological capability approaches are firm specific.

Government intervention is seen as positive experience in the Asian NIE's. Generally, the relationship between the society and the governments is basically one of mutual respect (Selvarajah 1997). Relationships are set within the framework of a feudalistic society where respect is very much hierarchical. The Asian developmental phenomenon views the world as a complex place where firms cannot operate with full knowledge of all possible technologies. It is in this respect that the partnership between the government and the firm is supported. It is also in this regard that planning models are pursued vigorously.

Strategic planning and the resulting intervention of governments are seen to be the factors contributing to economic growth in East Asia. Lall explains that the strategic planning in the NIEs involves the deepening of industrial structures and the expanding of technological capabilities. To pursue these goals, many East Asian nations have pursued planned shift from import substitution to export oriented industries, from agro-based industries to export-oriented manufacturing industries, from manufacturing to service and from low to high technology-based industries. Investment in education, training human resources and purchase of technology know-how by the Asian countries have contributed to the expansion of technological capabilities. The planning features in the Asian NIE's, unlike the Western economies where industrial and technological policies are 'market-friendly', are selective. In other words, the Asian governments and industries have 'planned' development of selected industrial sectors or of new industries.

In many ways, Malaysia has gained or has pursued the path of economic growth along the lines outlined above. The Malaysian government has been proactive in the planning and implementation of the nation's industrial and technological policies. It is within this framework that the businesses and the society operate. It is also this planning activity that has made Malaysia 'skip the typical low-technology exports' such as garments, leather goods and toys. Why then didn't this success continue? The following are some reasons, which may have contributed to the downturn in the economic conditions in Malaysia: (1) export structures dominated by multinational companies; (2) low technological and supply linkages to the local economy; (3) investment for the expansion of the industrial base has been raised by fund managers, hence highly speculative; and (4) these structures may have been unstable for export growth and for structural upgrading as desired by the government.

THE ASIAN ECONOMIC FOUNDATION

THE COLONIAL PERIOD

The colonisation of Asia played an important part in the history of both Asia and Europe. After World War II, although most of the Asian countries had already gained independence, the effects and influences from the former European colonies still existed in their societies. As early as 1498, Portugal's Vasco Da Gama arrived in India. It signified the beginning of the Western colonialist's dominance over the Asian people, their governments and their economies. Why was the West able to dominate Asia for many hundreds of years? The answer is simple; they had superiority in maritime, industrial and military technology. They also acted as a unified force, whereas Asian nationalism is only a recent phenomenon. Historically, much of the region was typified by small kingdoms led by local warlords, where "divide and conquer" worked extremely well.

Since the outbreak of World War I in 1914, the West was to make a slow retreat from Asia. As a new world power, the Japanese fought for and gained political control of many Western colonial possessions. Japan's show of Asian nationalism inspired Asia's people to revolt against their colonial rulers and claim their independence throughout the second half of this century. During the colonialist time, Asia's people were exploited and repressed on education, independence and self-confidence. However, the colonial powers played a special role in Asia's economy and culture. The experience left far-reaching and deep impacts on Asia's economic development, leaving a legacy of an economic and legal system, which still survive today in many former colonies. Figure 1 contextualises the development of the Asian economic institutions within a cultural framework.

THE RISE OF THE ASIAN TIGERS, JAPAN, ASEAN-4 AND PRC

"This new regional grouping (the Asian Tigers, Japan, ASEAN-4 and Peoples' Republic of China) has emerged as the most dynamic component of the global economy. While the region is increasingly dominated by Japan, it has over the last twenty years contained most of the world's fastest growing economies ..." (Islam & Chowdhury 1997: 3). When we talk about the Asian Tigers we are referring to Taiwan, Hong Kong, Singapore and South Korea. The ASEAN-4 is a subset of the full Association of South East Asian Nations, namely Indonesia, Malaysia, the Philippines and Thailand. Due to their superior growth in both GDP and living standards over the last twenty years, the two groupings when combined with Japan and more recently, China, provide for the bulk of Asian growth, manufacturing and wealth.

Prior to World War II, Japan's rise as an imperial nation played the main influencing role in the region, in both commerce and its often brutal colonialist moves into Korea and parts of mainland China. Following Japan's defeat in World War II, the country was rebuilt using a combination of American technology, low cost labour and infrastructure investment from the Allies. These factors combined with Japan's work ethic and business style produced Asia's first economic superpower in the 1970s. As Japan grew, its economic

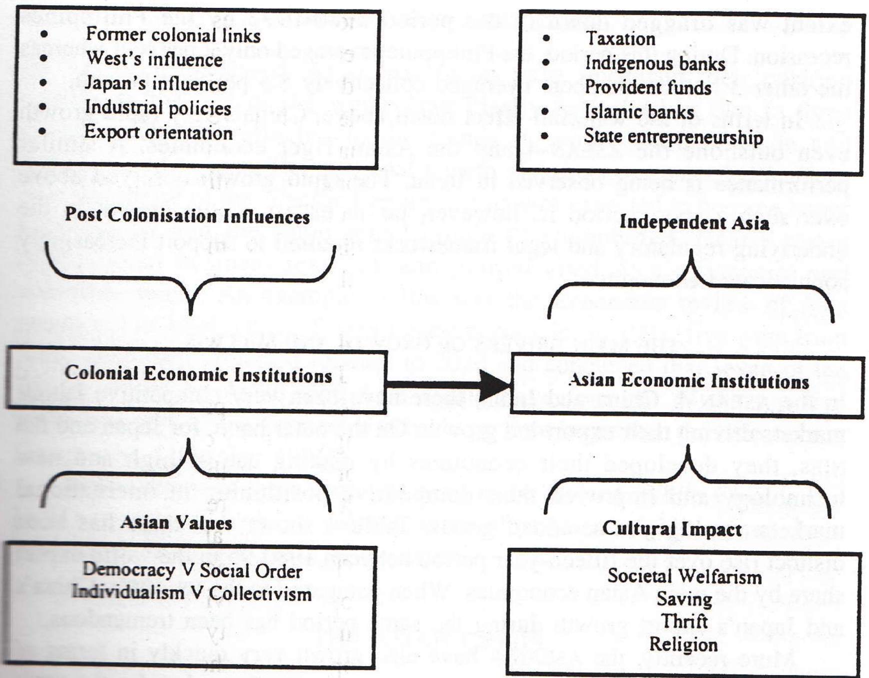

FIGURE 1. Evolution of Asian economic institutions

growth and increases in the standard of living resulted in an ever increasing exchange rate and relative decrease in the cost competitiveness of its labour force. Japan responded by moving from low cost, low value production to high cost, high value-added goods base utilising high technology.

As Japan grew in economic power, it started to invest in what were to become the Asian 'Tiger' economies. These economies became centres for low cost manufacturing, initially attractive because of their cheap and well-disciplined work force. This waterfall effect was later to repeat itself as these economies in turn became newly industrialised nations (NIEs), and they in turn invested in developing the economies of the ASEAN-4 and China.

Post World War II Asian economic development has been very rapid. As can be seen in Table 2, there has been some slowing down of growth from [illegible] per cent in the 1979-88 period to 7.0 per cent in the 1989-95 period (world growth was at an average of 2.9 per cent per annum). However, in 1996, the NIE's maintained their growth rate at around 6.3 per cent. The 1994-95 period seemed to be the watershed period for both the NIE's and the ASEAN-4. Both groups fared well achieving 7.5 and 7.7 per cent respectively. The slowing down was also evident in the ASEAN-4 economies in 1996 where the growth rate has dropped to 7 per cent. The performance of ASEAN-4, to an extent was dragged down in the period 1980-1992 by the Philippines recession. During this period, the Philippines averaged only 2 per cent whereas the other 3 ASEAN members averaged collectively 8.5 per cent growth.

In terms of the waterfall effect noted above, China's very rapid growth even outshone the ASEAN-4 and the Asian Tiger economies. A similar performance is being observed in India. The rapid growth observed above over such a short period is, however, far in excess of the growth in the underlying regulatory and legal frameworks required to support increasingly sophisticated economics.

THE MAIN DRIVERS OF GROWTH AND SUCCESS

In the ASEAN-4, China and India, there have been very competitive labour markets driving their export-led growth. On the other hand, for Japan and the NIEs, they developed their economies by making use of high and new technology and improved their competitive positioning in international markets via high value-added goods. Table 4 shows that there has been distinct rise over the fifteen-year period between 1980-95 in the world export share by the main Asian economies. When compared to the US, NIE's, China's and Japan's export growth during the same period has been tremendous.

More recently, the ASEAN-4 have also grown very quickly in terms of export share as they embark on a similar process to that taken by the NIE's and Japan. Japan's lacklustre performance has somewhat diminished in recent years and this is reflected in the 1995 figure. Much of the rapid economic growth of Asian economies has been driven through the exports of manufactured goods. Asia's competitive advantage was through the low cost, well-disciplined work force, combined with Western and Japanese technology. These have been the core drivers of growth.

TABLE 4. Percentage of share of world trade exports

Year/ Country	1980	1985	1989	1992	1995
NIE's	4.4	6.3	8.5	9.4	10.3
ASEAN-4	2.5	2.5	2.6	3.1	3.7
China	1.0	1.5	1.8	2.2	2.9
US	11.6	11.8	12.5	12.3	11.4
Japan	6.9	9.8	9.4	9.3	8.6

Islam & Chowdhury (1997: 11) & IMF World Indicators 1997

FORECAST OF AN ASIAN CRISIS

As has been discussed, Asian economies have improved their position relative to the rest of the world dramatically over the last two to three decades. This is reflected in the trends in world share of trade and manufactured exports. The continual growth of Asian economies led many to coin the phrase of the "Pacific Century". Asia was expected to become larger than the US and the Economic Union's GDP combined. Nearly every international business textbook and journal cited Asia's financial and economic might. An example of this was the *Economist* review of Asia conducted in 1994. Of the fifteen largest economies in 1992, five were from Asia. They then projected forward to 2020 and concluded that seven of the fifteen would be Asian, and Asia would have four out of the top five economies with China, forecasted to be 40 per cent larger than the US economy (Economist, 1 October 1994).

Today, many of these forecasts need to be revised. While China's and India's growth still looks very strong, many of its Asian neighbours have been set back three to five years by the crisis.

THE ASIAN CRISIS

At the outset, it must be mentioned that the crisis was not something altogether unexpected. Nor is it true to say that the world was not warned of its prospects and implications. The 1997 World Bank report *Pacific Economic Outlook 1996/97* specially drew the world's attention to some nations in Asia that may be facing economic problems. In New Zealand, Barber (1996: 22) wrote as follows:

> ... Some of New Zealand's most important export markets could be heading into economic and political difficulties over the next two years ... (the report) warns of potential trouble ahead for the economies of the US, Japan, South Korea, Hong Kong, China, Indonesia and European nations. If the predictions come true and these economies suffer badly, the repercussions could set back New Zealand's own economic recovery ... .

In this connection, Professor Krugman's observations are also relevant. He was of the view that the Asian miracle was a chimera. He reached his conclusion by looking beyond the micro statistics of growth and national savings to comparing productivity performance industry by industry, with similar industries in the West (For details, see Tremewan 1998).

The Asian crisis unfolded first in Thailand in mid-1997 – ironically a country the 1997 World Bank report mentioned above did not pick. Yet, the spread of the crisis to other countries in the region has been rapid. The extent of regional linkages, evolved in recent years and the degree of structural weaknesses among individual nations vastly aided the spread. By the end of 1997, dozens of banks and financial companies across the region had put their shutters down. Till April 1999, it has been nearly two years since the crisis began. The severity and duration of this crisis have resulted in a loss of income and wealth. The associated social and political turmoil created in the region too, look unprecedented. According to a conservative estimate, the loss of wealth in Indonesia, South Korea, Thailand, Malaysia, and Philippines is about 60 per cent of their combined pre-crisis GDP, which is over US$600 billion. Unemployment forecasts vary from 3.5 per cent in Malaysia – a labour deficit country earlier – to nearly 17 per cent in Indonesia for 1998.

It is not the intention of this paper to elaborate this grim picture and analyse the reasons for such an outcome. (An analysis on these lines including possible remedies can be found in Selvarajah 1998b and Adnan et al. 1999). Instead, the aim is to view the crisis within the globalisation process. Globalisation has seen, as already discussed, a dramatic rise of the Asian economies in the last two to three decades. It had even been anticipated that Asia's total output would exceed the combined GDP of the USA and the European Union in the 21st century. But this overwhelming success had led to a degree of complacency and neglect of several key factors necessary for the sustenance of high level growth.

Five such factors emanating from internal conditions could be identified: (1) The build-up of overheating pressures manifesting in large external deficits and inflated property and stock market values; (2) The maintenance of pegged exchange rate regimes for too long a period. This complicated the response of the monetary policy to overheating pressures, which came to be viewed as implicit guarantees on exchange value. Consequently, external borrowing – often at short maturity – was encouraged leading to excessive exposure to foreign exchange risk in both the financial and corporate sectors; (3) The weak management of financial systems contributed to poor control of risk factors, lax enforcement of prudential rules, inadequate supervision, and government directed lending practices. The combined effect of all these was a sharp deterioration in the quality of banks' loan portfolios; (4) The lack of transparency and problems of data availability hindered market participants from maintaining a realistic view of economic fundamentals. In the long run, it breeds an element of uncertainty; (5) Asia's political elite were closely involved with the growth especially with the business sector. Problems of governance in many Asian countries have become a major obstacle to their globalisation polices. Consequently, conflict of interest prevents reforms from being implemented.

Apart from these internal factors, external forces too, played a role (IMF 1998: 3). In the large-scale flow of private capital into the region the international investors tended to underestimate the risks. This was particularly true during a period when sluggish economic growth in Japan and Europe necessitated low interest rates and made investment opportunities in those countries appear less profitable. The desire for higher yields had contributed towards the overlooking of risks. With the pegging of exchange rates to the US dollar, wide swings in the yen/dollar rates between 1994 and 1997 resulted in shifts in international competitiveness that proved unsustainable, leading to a build-up of the crisis. One particular instance was when from mid-1995 the appreciation of the dollar contributed to an export slowdown and loss of competitiveness. A number of countries in the region were badly affected during the period 1996/97.

From the foregoing account it is clear that the seeds of the crisis were in the process itself. Countries have become victims of their own success. The crisis, in a manner, has applied the brakes on the globalisation process. This has the power to create repercussions not for Asia alone, but for the rest of the world.

In retrospect, it is easy to indulge in 'I said so' remarks. There is plenty of that both in the West and in Asia. Radelet and Sach (1998: 5) have explained the acceleration of the crisis as follows: "... The basic notion is that international loan markets are prone to self-fulfilling crisis in which individual creditors may act rationally and yet market outcomes produce sharp, costly and *fundamentally unnecessary* panicked reversals in capital flow".

Lall (1996), though agreeing with the NIE's developmental models, cautioned on aspects of the policies, especially in reference to foreign investment. The planning seems to have some risk elements which appeared to have been realised, as explained by Radelet and Sach (1998). The following causes, experienced by ailing economies in Asia, seem to have contributed to the acceleration of the crisis: (1) too much reliance on fund managers for raising investment funds; (2) investment should largely be on export performance revenue; (3) infrastructure development out-of-kilt with technology based development; (4) "leap-frogging" on the industrial development ladder can be risky – especially during an economic crisis; and (5) shortening of development cycle on borrowed funds may not pay off in a crisis.

FIVE WILD CARDS

Should the reforms be adopted by the main ASEAN nations then there is some hope that the adjustment of the Asian business fundamentals will result in a stronger and more robust regional economy. However, before we can comfortably discuss the rebuilding of tattered economics, we must first ask ourselves whether Asian economies have reached the bottom of the bear cycle, or is the worst still to come?

While the economies may well have reached the bottom of currency devaluation and huge drops in stock market values, this is but the first trough in three related business cycles, namely the financial, economic and social cycles. Since the beginning of Thailand's financial crisis in July 1997 we have largely witnessed the financial crisis, that is, paper losses in wealth through drops in the region's currencies and stock markets. These financial problems flow through to effect the real economy in terms of business and banking failures resulting in an economic crisis. Lastly, the very real economic crisis in turn causes massive social and political upheaval with the likes of huge unemployment, loss of wealth and income and its social issues. All this places increasing pressure on the incumbent political parties and leadership – whom the people hold responsible for their new found situation.

All the three cycles are related and a major adjustment in the social and political scene of a country will affect its financial and economic situation. In this sense the economies may well have not reached the bottom of the crisis. There are several "wild cards" which could further weaken the regional economies.

There are at least five key factors or "wild cards" that are as yet unresolved and any one of them could further weaken the Asian economies and have flow-on effects to the West. These are, (1) the potential for massive social and political unrest in Southeast Asia, particularly Indonesia, (2) how Japan will react to the crisis, (3) China's continued fortitude and resilience, (4) the Indian economy's 'experiment' with liberalisation and (5) the threat of renewed Western protectionism. Each of these issues will now be briefly examined.

In 1965, Indonesia had a series of racially motivated riots where over 500,000 mainly overseas Chinese Indonesians were killed. The riots had occurred after the Indonesian State suggested that the overseas Chinese, some of them residents for many generations, were behind a communist plot to overthrow the government. Throughout Asia the overseas Chinese have played core roles in commerce, initially acting as the middlemen for the colonialist powers and more recently controlling the bulk of the region's wealth through a network of family businesses and racial ties. The real danger in Indonesia today, is that the government may attempt to deflect interest in its own corrupt practices by suggesting that there should be some form of wealth redistribution from the overseas Chinese. The overseas Chinese control 70 per cent of Indonesia's wealth while only accounting for 3 per cent of the country's 220 million inhabitants. In the economic crisis, many overseas Chinese have fared better than their Indonesian nationals who were much higher leveraged and willing to take higher risks in their pursuit of financial growth. Early in March 1998, the Indonesian government announced that they were increasing the army by 1 million new recruits. The real danger is that conflict with the overseas Chinese could lead to nation-wide chaos and the exit of Indonesia's Chinese nationals bringing further economic problems to the country.

In May 1998, the crisis in Indonesia reached a crescendo with President Suharto stepping down in favour of Dr. Jusuf Habibie. The new president has promised immediate political reforms and anti-corruption drives.

Since the early 1990's, Japan has been in its own financial crisis which saw the property market fall by some 70 per cent, a series of financial scandals involving senior government officials and the collapse of several major finance and banking corporations. Prior to the broader crisis, Japan was focusing on dampening domestic demand in order to ease inflation and the huge trade deficit with the U.S. The time is right for Japan to kick-start regional growth through the opening up of its economy to low cost Asian exports and through renewed FDI in its Asian neighbours. Should Japan take the opposite approach of a fortress mentality combined with restrictive domestic growth, then it could put the region's recovery back several years.

To date, China has remained a pillar of growth in the region with 1998 growth in GDP forecast at 7 per cent. China is largely shielded from the worst of the crisis since its currency is not directly transferable to foreign currencies. While the central treasury has reduced the currency by some 15 per cent, its markets have been left intact due to strong domestic consumption and forward trade with the West. How long China can maintain its fortitude in the face of increasing low cost competition from Asia and mounting internal pressures to reform its over-employed state sector, is the question. India to date has not been effected greatly by the crisis. This is partly due to the fact that its exchange and capital markets are not as open or frenzied as its Southeast Asian counterparts. The medium term health of India will depend on how well it maintains its move towards state sector reforms, and how competitive its industries remain in the face of devalued Asian exports. Lastly, protectionism in the West has the potential to hold back Asian recovery for several years. As Asia tries to export its way out of trouble, it will become tempting for Western countries like the U.S. to revert to trade barriers to protect local industry.

In the long run, the current crisis should be seen as a necessary adjustment to an overheated region, lacking the sophistication in its business fundamentals and infrastructure to support its own growth. While in purely dollar terms, the economies of Indonesia and Thailand have shrunk back to 1970 levels, the numbers are deceptive. Table 5 shows how the crisis-hit countries fared financially in 1997-98, in terms of their non-performing loans and external debt. In 1998, ASEAN countries including Singapore, registered a group decline of 7.3% in real output (1997: +4.6%). A Malaysian Central Bank report stated that throughout 1998, the crisis countries underwent structural adjustments, namely banking sector consolidation and recapitalisation and resolution of non-performing loans. Strengthening prudential regulation and supervision, corporate restructuring and governance gained momentum (*The Star Business*, 1 April 1999: 6). Recent improvements in the real estate

TABLE 5. Financial indicators of crisis countries in 1997 and 1998 (end periods)

Countries	NPL's (% of total loans) - 1997	NPL's (% of total loans) - 1998	External Debt (US$Bn) - 1997	External Debt (US$Bn) - 1998
Malaysia	4.7a	13.2a	43.8	42.0
Philippines	5.4	11.0	45.4	46.4
Korea	2.7	10.5	158.1	151.5
Indonesia	8.2	63.3	136.1	143.0a
Thailand	19.8	45.9	93.4	86.2

a = Refers to non-performing loans' (NPL's) classification of 3 months
Source: Adnan et al. (1999: 6)

sector recorded in the first quarter of 1999, further indicated early signs of a bottoming in several of these countries. The underlying volume of goods and services in Asian economies is still forecast to continue at a healthy level. When purchasing power parity is used to compare equivalent baskets of goods within the region, a more positive picture in terms of the underlying economic conditions can be seen.

Most of the IMF reforms are likely to be implemented by Korea and the ASEAN-4 (including Thailand and Indonesia); they will simply find it too difficult to stabilise their economies without the IMF's blessing and the much-needed dollar. However, Malaysia is the exception. Sulong (1999: 2) (as highlighted in Table 6) pointed out the strongly divergent recovery strategies between those advocated by Malaysia and the IMF. One would appreciate that Malaysia has its own model of nursing its ailing economy back to recovery (Michie 1999). As shown in Table 7, among those most severely hit by the currency crisis, South Korea, followed by Malaysia and Thailand seem to be the fastest to see their recovery remedies bearing fruit. Notwithstanding a worst case scenario of several of the wild cards eventuating, it is very likely that the region will gradually return to healthy growth over the next three to five year period. Asia will also be able to sustain its competitiveness. As the growth returns, it may be on top of a much more robust business framework that could sustain further growth for several decades.

CONCLUSION

The single most benefit of globalisation is that it brings nations together in a cooperative arrangement rather than in competition. It removes obstacles to

TABLE 6. Two contrasting approaches to recovery: IMF and Malaysia

IMF's Prescription	MALAYSIA's Prescription
1. The security of the banking system is paramount. Banks should be allowed to determine their own lending policies.	1. The security of the banking system is critical, but banks operate in a larger economic environment and they have a role to play in economic revival.
2. Financially-troubled banks should be allowed to fail.	2. No bank should be allowed to fail as it could trigger a systemic collapse of the industry.
3. The banking industry should be thrown open to foreign investment in order to recapitalise the industry and improve management. Non-performing loans of banks should be sold at the earliest possible opportunity and foreigners should be allowed to purchase them.	3. Have set up *Danaharta* to deal with non-performing loans, and *Danamodal*, to inject capital to recapitalise ailing banks.
4. Interest rates should be forced to increase, to defend the currency.	4. Interest rates should be lowered as high interest rates will kill many businesses, turning the recession into a depression and causing massive unemployment.
5. The exchange rate of any currency should be left to market forces.	5. No developing country can defend its currency against the might of hedge funds and currency speculators. Selective foreign exchange controls imposed since September 1, 1998, stabilises ringgit exchange rate at RM3.80 to US$1. It also allows the government to lower interest rates to stimulate business activities.
6. Financially troubled companies should be allowed to go bankrupt and liquidated. Their assets should be sold to enable foreigners to purchase them at the earliest opportunity.	6. Have set up the Corporate Debt Restructuring Committee (CDRC) to act as mediator between debt-ridden companies and creditor banks to find workable solutions to loan repayments.

TABLE 7. GDP growth rates* for East Asian countries: pre-crisis (1996), and revised estimates for 1999 & 2000

	1996	1997	1998	1999	2000
Hong Kong	4.9	5.3	- 5.1	- 1.3	3.1
Indonesia	7.8	4.6	- 13.7	- 4.0	2.5
Japan	n.a.	1.4	- 2.8	- 1.4	0.3
Malaysia	8.6	7.7	- 6.7	1.0**	2.0
Singapore	6.9	8.0	1.5	0.5	4.2
South Korea	7.1	5.5	- 5.5	2.0	4.6
Taiwan	5.7	6.8	4.9	3.9	4.8
Thailand	5.5	- 0.4	- 8.0	1.0	3.0

*Growth rates are calculated based upon inflated adjusted GDP.
Source: International Monetary Fund (reported in Star Business, 26 April 1999 and Reuters (reported in New Straits Times Business, 24 May 1999, p.21)).
**Up to early July 1999, the Malaysian Central Bank has revised Malaysia's 1999's GDP to be 4.3%.

growth and development in both humans and in systems. The downside to this is that, unless economies are prepared to change and accept the challenge of openness, globalisation may be more a curse than a blessing. Globalisation also causes convergence and many nations, though outwardly accept concepts of globalisation, especially when there are gains to be made, will contract to 'independence' and nationalism, and move away from interdependence and cooperation.

A fitting conclusion would be to highlight, in the context of the ongoing globalisation process, some of the anomalies in the evolution of any nation's trading pattern. The quote at the beginning of this essay states that a country 'should not give an opportunity to the markets to question the credibility of ... policies' (Thillainathan 1996: 37). Yet, many nations in their evolving trading patterns have, unfortunately, allowed this to happen. Many of the Asian nations hit by the economic crisis have pursued growth policies with little safeguards and had a very generous attitude for business investors. Similarly, developed nations such as New Zealand and Australia, after being dumped by Britain when it entered the EEC, looked to the Asian region as a single entity for salvaging its recessionary prone economics. Infrastructures are in place for long-term relationships in Asia and what this suggests for New Zealand and Australia is that in the near future, these economies will bear the brunt of some of the upheavals facing Asia.

Despite the visible signs of the Asian crisis on other economies, the enormity of the impact is still in its early stages. As at October 1998, the crisis itself has by no means come to an end. As the crisis deepens, the effect on the world economy will, no doubt, escalate. This would be further exacerbated when major trading partners too are affected. The evidence of the current downturn in Russia is a case in point. The ripples this downturn has created on the global scenario have not failed to extend to neighbouring countries such as Australia and New Zealand. Any conclusion drawn in respect of the direct as well as the indirect impact of the crisis would, therefore, either be hasty or rather pre-mature.

On the other hand, when the composition is considered, specialisation in primary commodities has been the continuing trend from colonial days. Although former colonies have always been conscious of this and much effort have gone towards the diversification of their economies, it cannot be claimed that the 'commodity' tag has altogether been expended. The development of manufacturing, for example, could not be continuously sustained. A clear illustration of this is provided during recent appreciation of currencies when a number of industries, in nations with appreciated currencies, either closed down or changed their location to neighbouring countries.

A number of Asian leaders, including the Malaysian Prime Minister, Datuk Seri Dr. Mahathir Mohamed, have raised concerns about speculative investments that seem to flow freely from one country to another as foreign direct investment. As globalisation takes hold, the free flow of speculative investments is and will become an issue that the international community will have to tackle. The issue of how much and what type of foreign direct investment is acceptable, and which type will contribute to development and avoid economic instability will have to be determined. Another area that may need close attention is the form of selective intervention that best suits development in individual countries. In this instance, global prescriptions, however, are not useful.

Asian countries also require a more multifaceted trade outlook in terms of both direction and composition. So long as 'all eggs are placed in one basket', the volatility arising from global conditions cannot be avoided.

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