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Causes and Futures of the "Asian" Financial Crisis

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The article focusses on the question whether the Asian financial crisis can be interpreted as crisis of overproduction. It analyses the international economic environment in which the crisis enfolded and comes to the conclusion that a price decline in a number of industries (especially electronics) as well as a sharp slow-down of exports in 1996 predated the crisis in the Asian NICs. It concludes that neither corruption nor other shortcomings in the policy or institutional structure of the Asian NICs led to the crisis, but the build-up of excess capacities in Asia and on a global scale, and the subsequent decline in commodity prices. The article then goes on to analyse the impact of the Asian crisis on the world economy and ends with a description of a gloomy scenario: if the United States will experience a sudden drop in share prices and therefore be no longer able to act as a "buyer of last resort", the world economy might enter a period of prolonged deflation, comparable to the world economic crisis in the 1930s.

Keywords: Asia, financial crisis, development, overproduction, deflation

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Introduction

When the Thai baht started to float against the US dollar on the 2nd of July 1997, most economists dismissed it as a small local difficulty of hardly any significance. Since then, the crisis spread like a wildfire to other countries in the region, it has jumped continents and overwhelmed Russia in 1998, it has reached Latin America early this year and though the crisis seems to be contained at the moment, no-one can be sure whether this is just a short lull before the next storm.

With regards to the Asian Newly Industrialized Countries (NICs)[1], it is no longer possible for analysts to ignore the breadth and depth of the crisis which was the most serious of any they had since the 1930s. Between July 1997 and July 1998, the real effective exchange rate in Indonesia, Korea, Malaysia, the Philippines and Thailand depreciated by more than 35 per cent - in Indonesia even more than 80 per cent.[2] The increasing debt burden, which followed this dramatic devaluation, drove many banks and corporations into bankruptcy:[3] In several countries the cost of recapitalizing banking systems is expected to rise to 20-30 percent of GDP or more.[4]

Estimates of output declines are now about 8.5 percent on average for the four worst-hit crisis countries; they all suffer from a deep recession in 1998.

Table 1[5]:Real GDP (percent change)

	1993	1994	1995	1996	1997	1998
Korea	5.8	8.6	8.9	7.1	5.5	-5.5
Indonesia	7.3	7.5	8.2	8.0	4.6	-13.7
Malaysia	8.3	9.3	9.4	8.6	7.7	-6.8
Thailand	8.5	8.6	8.8	5.5	-0.4	-8.0

As Table 2 demonstrates, unemployment in Indonesia, the Republik of Korea and Thailand is expected to more than triple between 1996 and 1998.[6] An additional 20 percent of the Indonesian population and 12 percent of the Korean and Thai population will sink below the poverty line in 1998 alone.[7]

Table 2: Unemployment

	1997	(pre-crisis)	1998
Indonesia	4.9	(Aug. '97)	15.0*
Korea	2.3	(Oct. '97)	8.4**
Thailand	2.2	(Feb. '97)	6.0*
Malaysia	2.6	(end '97)	5.2*
Hong Kong	2.4	(end '97)	5.0***
Singapore	1.8	(end '97)	4.5**

*Estimate **Sept. '98 *** 3rd quarter '98

With the devaluation in August 1998 of the Russian rouble and default on its debt by the Russian government, the crisis affected all emerging markets whose currencies came under pressure and whose equity markets collapsed.[8]

Table 3:Equity markets (Percent change from June 1997 to September 1998)

Malaysia	-72	Venezuela	-72	Russia	-79
Korea	-59	Argentina	-55	Hungary	-24
Thailand	-58	Brazil	-46	Czech Republik	-22
Philippines	-57	South Africa	-33	Poland	-22
Indonesia	-53	Mexico	-29		

Source: Bloomberg

And though the IMF tried to prevent a currency crash in Latin America by promising a IWF tranch of US$ 41 billion to Brasil, the crisis spread further in January 1999 with the devaluation of the "real" by nearly 40% within a few weeks.

Explanations of the Asian crisis

Since July 3rd 1997, there has been a steady stream of analyses on the origin and nature of the crisis. While most commentators now agree that a sharp and panicky pullout of funds by foreign investors has *triggered* the crisis,[9] there is still much debate about the question what caused this massive and sudden outflow of capital.

The first, and originally the most wide-held view was that the crisis was due to *deficiencies within the Asian NICs themselves* such as bad macroeconomic policies, overvalued exchange rates, corruption and "cronyism" and the corre-

sponding accumulation of large amounts of short-term debt by individual countries. The following section will deal with these hypotheses and tries to assess the extent of the validity of each.

macroeconomic policy failures

Neoliberals usually place much emphasis on expansionary macro policies and wage inflation as fundamental sources of Third World Countries' balance of payments and currency depreciation problems. However, pre-crisis reports did not suggest that the fiscal and monetary policy had been particularly lax in the Asian NICs. On the contrary: Until the outbreak of the crisis, the Asian NICs maintained a relatively high degree of macroeconomic stability: "*Fiscal and current account deficits were less than one-half the average for other developing countries, and inflation for the most part was kept in the single digits. Disciplined macroeconomic policies provided a stable environment for private sector decision making and contributed to the high rates of saving, domestic and foreign investment, and export growth that were ingredients in the region's growth performance.*"[10]

"crony capitalism", corruption and government intervention

The "crony capitalism" explanation suggests that the Asian NICs were undermined by excessive government interference in the market which had a negative influence on the allocation of credit and capital and the creation of monopolies. Thus, in the post-crisis literature you can find many examples of dishonest dealings with relatives and cronies of Asian governments who often embarked on highly dubious projects. Instead of using the foreign credits for necessary investments in infrastructure and education, much of the money "*was squandered on speculative property investment or the overexpansion of industrial capacity.*"[11]

While corruption surely contributed to the problem of excessive and misallocated investment, doubts remain whether "cronyism" played the dominant role in provoking the crisis. In this context, it should be remembered that as late as 1997, organisations such as the OECD, the IMF and the World Bank were praising the governments of the region.[12] Therefore, analysts such as Jeffrey Sachs detected "*a touch of the absurd in the unfolding drama, as international money managers harshly castigated the very same Asian governments they were praising just months before.*"[13]

Moreover, explanations who put the blame on the "Asian model of development" usually forget that "there are considerable variations among the affected countries in the policies pursued, the institutions established, and the level of development reached."[14] The Asian NICs "differ hugely in structure and political system, and have applied quite different policies, from fairly heavy

government intervention in South Korea, Indonesia and Malaysia to a more flexible regime in Hong Kong and, to some extent, Thailand"[15].

overvalued exchange rates

Another explanation for the Asian crisis refers to the fact that most of the East Asian currencies were linked to the US dollar in some way. The rise of the US dollar, to which the Asian currencies were effectively pegged and the corresponding depreciation of the yen, a key competitor currency, led to a considerable appreciation of real effective exchange rates in the Asian NICs, thus undermining their competitiveness. However, the estimated overvaluation cannot be held responsible for a currency crisis of such proportions: On Goldman Sachs estimates, the overvaluation did not exceed 5 per cent by mid-1997; by early 1998 Asian currencies were undervalued by up to 70 per cent on these estimates.[16]

"excessive borrowing"

It is a fact that the development of the Asian NICs was fuelled by the massive influx of foreign capital. During the 1990s, bank credit grew at an annual rate between 10 and 20 percent in the East Asian countries so that by the end of the 1990s, the ratio of bank credit to GDP exceeded 50 percent - in the case of Thailand even 100 percent.[17] But though (except for Korea) "East Asia's debt relative to GDP was much higher in 1996 than Latin America's, its debt relative to exports was generally much lower. Thus the size of the external debt-exports ratio was not necessarily a binding constraint on further borrowing."[18]

Nevertheless it is true that the accumulation of large amounts of (short-term) debt made the Asian NICs more vulnerable to sudden changes on global financial markets and most analysts agree that the high indebtedness of Asian corporations which led to several major bankruptcies[19], contributed to a reassessment of risk by foreign investors. But the question is whether Asian governments and corporations themselves are responsible for this "overborrowing" or whether they were rather submitting to international pressure to relax regulations on capital inflows at a time of rapidly growing international liquidity. Thus, it can be argued that the push to institute a world-wide regime of capital mobility came from the IMF, the WTO and the OECD, backed by governments and corporations in the rich countries.[20]

Conclusion

It is certainly true that the authoritarian regimes in South East Asia which provided a congenial environment for corruption are at least partly to blame for the wasteful use of resources, especially foreign credit, which led to the

accumulation of large amounts of bad debts in these countries. But any explanation concentrating on common features of the "Asian model" has to face the question how the Asian NICs could be so successful in saving, investing and exporting manufactures, if their political and economic foundations had been as unstable and corrupt as it is now claimed.

Moreover, as the crisis spread beyond Asia in 1998, it became obvious that deficiencies within the Asian countries alone could not account for an economic shock of such unprecedented scope and severity. Therefore, attention shifted from the search for specific shortcomings and policy failures in individual countries to a closer analysis of the *international environment* in which the crisis enfolded.

The following section of this paper will participate in this debate by analysing several features which entailed the crisis and which are largely responsible for the difficulties in overcoming it: the build-up of excess capacities and the subsequent decline in commodity prices which put considerable strain on the export-oriented model of development in East Asia.

A crisis of overproduction

With output growing more than 7 percent on average, the economic development of the "Asian tigers" in the last two decades came close to a "miracle". This extraordinary growth in East Asia was based on an outstanding *export performance*: Exports grew by 10 percent per annum in virtually every quarter and trade as a share of GDP increased from 15 percent in 1970 to over 50 percent in 1995.[21] By 1990, the Asian NICs had become successful challengers of their Western counterparts on the world markets: their "*collective share of global manufacturing exports was 9.6 percent, which compares favourably with Great Britain (6.0%) and France (6.6%) and is not far behind the world leaders, Germany (14.5%), the United States (11.9%) and Japan (11.2%).*"[22] However, the long period of export-driven growth came to an abrupt end in the mid-1990s when it turned out that the world market would not be able to absorb the ever growing export volumes.

As I want to demonstrate below, the Asian NICs had simply invested and produced too much: As supply of goods started to outstrip demand, prices fell and in the end, the Asian corporations were no longer able to repay the debts they had taken on to build the over-capacity in the first place.

Success as failure: The creation of an "investment bubble"

The combination of disciplined macroeconomic policies, a relatively skilled and cheap labour-force and an overall "investor-friendly climate" made East

Asia the most attractive investment site in the world: "*Between 1990 and 1995 gross domestic investment grew by 16.3% per annum in Indonesia, 16% per annum in Malaysia, 15.3% in Thailand, and 7.2% per annum in South Korea. By comparison, investment grew by 4.1% per annum over the same period in the US, and 0.8% per annum in all high income economies.*"[23]

According to Castells, it is fair to say that the Asian Pacific has become the main center of capital accumulation in the planet.[24] "*In 1990-1996, East Asia, which accounted for around a fifth of current world gross output, was responsible for half of international growth and for two-thirds of global investment.*"[25] If there had been no Asian crisis but a continuity of 1970-1995 growth trends, by 2020 Asia (without Japan) would have accounted for a larger proportion of world output than the total of OECD countries.[26]

However, this was not allowed to happen and after the crisis hit with full force, many analysts declared in retrospect that the Asian NICs had simply "invested too much": "*indications of excessive investment in particular sectors had already emerged by 1996. In that year, the massive investment in Asia's electronics industry contributed to conditions of oversupply and a resulting price collapse in world markets. But investment has sharply increased in other areas as well (such as automobile construction, household appliances and electricity generation) at the risk of flooding local and foreign markets,*"[27] states the Bank for International Settlements (BIS) in its 68th Annual Report.

The World Bank makes a quite similar observation: "*East Asian countries have been aggressive in expanding capacity and capturing significant market shares, but in the process, they also became more vulnerable to terms of trade declines and over-capacity problems.*"

Build-up of excess capacities

These over-capacity problems manifested themselves in a number of industries as well as real estate. In cities such as Hong Kong or Bangkok, for example, the soaring value of real estate led to an excessive building boom with the result that in 1996, in Bangkok alone there was $20 billion worth of new commercial and residential space unsold. "*By early 1997 it was estimated that there were 365,000 apartment units unoccupied in Bangkok. With another 100,000 units scheduled to be completed in 1997, it was clear that years of excess demand in the Thai property market had been replaced by excess supply.*"[28]

As long as exports were booming, there were ever bolder investments in industrial capacity, too. The best examples are the giant diversified conglomerates (chaebol) in South Korea which successfully competed with the "global players" in various industries such as automobiles, electronics, computer chips etc. Before the crisis hit, the four leading South Korean chaebol, Samsung,

Lucky Gold Star, Daewoo and Hyundai were among the world's 50 largest conglomerates and they successfully penetrated markets in America, Eurpe, Asia and Latin America with their exports and their direct investment.[29]

The build-up of excess capacity was further fuelled by the governments in the region, which had embarked upon a number of mega projects. *"In Malaysia, for example, a new government administrative center was been constructed in Putrajaya for M$20 billion (US$8 billion at the pre July 1997 exchange rate), the government was funding the development of a massive high technology communications corridor, and the huge Bakun dam, which at a cost of M$13.6 billion was to be the most expensive power generation scheme in the country."* [30]

The background: massive capital export to Asia

The investment boom in East Asia had been fuelled by large capital inflows. As an Asian Development Bank Report noted in 1995: *"the declining returns in the stock markets of industrial countries and the low real interest rates compelled investors to seek higher returns on their capital elsewhere."*[31] As a consequence, private capital flows to developing countries rose from US$ 42 billion (1990) to US$ 256 billion (1997):

Table 4: Net long-term private resource flows to developing countries, 1990 1997 (in billions of US $)

Years	1990	1991	1992	1993	1994	1995	1996	1997
Privated Resource Flows to Developing Countries	41.9	53.6	90.1	154.6	160.6	189.1	246.9	256

Source: World Bank (1998): Global Development Finance, p. 9.

Since many western banks and financial institutions were trapped in slow-growing home markets,32 they had a great interest in establishing a regime of capital mobility throughout the world and with the help of the International Monetary Fund (IMF), they succeeded in removing most of the existing national barriers and restrictions during the 1990s.[33]

In this context, institutional investors played an increasingly important role: Following a wave of deregulation and privatization in the 1990s, global fund managers have become *"the driving force behind emerging markets in Asia."*[34] In 1995, institutional investors[35] had to invest the enormous sum of US$ 21.000 billion.[36] The IMF has calculated that a mere 1 percent shift in the assets managed by institutional investors toward emerging markets would represent a capital inflow of $200 billion.[37]

As Table 4 demonstrates, capital flows to the Asian NICs greatly accelerated during 1995 and 1996, followed by a sudden outflow of capital after the crisis had begun. This massive inflow and subsequent outflow was especially associated with short-term bank borrowing[38] and though reliable data on this are scant, it can be presumed that a significant amount of these short-term loans were used by speculators who borrowed in local currency and bought dollars knowing that they would be able to repay the domestic loans with fewer dollars after a devaluation.

Table 5: Private capital flows to emerging markets in Asia (in billions of U.S. $)

Year	1990	1991	1992	1993	1994	1995	1996	1997
Net private capital inflows	19.1	35.8	21.7	57.6	66.2	95.8	110.4	13.9
Net FDI	8.9	14.5	16.5	35.9	46.8	49.5	57.0	57.8
Net portfolio investment	-1.4	1.8	9.3	21.6	9.5	10.5	13.4	-8.6
Other*	11.6	19.5	-4.1	0.1	9.9	35.8	39.9	-35.4

*Other private capital flows largely consisted of bank lending.
Source: IMF (1998): International Capital Markets. Developments, Prospects and Key Policy Issues, p. 13.

Declining commodity prices

Due to the build-up of overcapacities, the prices of major export products from the East Asian NICs declined during the 1990s. Based on U.S. import prices by origin, prices for imports from Asian countries dropped by 25 percent relative to industrial country import prices.[39] As the World Bank points out: "*The largest price declines occurred in the electronics industry, especially for computers, semiconductors, and telecommunications, in which East Asia specializes. Korea was particularly hard hit when the 16MB DRAM chips, which account for a large share of its electronics exports, fell from a peak of about US$150 per unit in 1993 to less than US$10 in 1997.*"[40] Because of this exceptional price collapse, the "*earnings of chipmakers fell by 90 per cent. Cars, shipbuilding, steel and petrochemicals were also affected.*"[41]

The depreciation of the yen since 1995 as well as the growing competition from China surely played a role in changing the terms of trade at the expense of the NICs in East Asia. But even more important has been the lack of effective demand in Japan and Western Europe; the former struggling desperately to cope with its banking crisis, the latter trying to curb deficits in order to meet the Maastricht criteria.

Slowdown of exports

In 1996, it became increasingly clear that the strategy of export-led growth, which had been successful for over two decades, no longer worked:

"As a result of falls in foreign demand and export prices, the growth rate of export earnings dropped markedly in 1996 throughout the region, notably in Malaysia (by over 15 percentage points) and in Thailand (by over 20 percentage points)."[42]

Table 6:Export slowdown in East Asia (dollar percent)

	1994	1995	1996	1997
Thailand	19	20	-1	3
Korea	14	23	4	5
Indonesia	8	12	9	7
Malaysia	20	21	6	1
Philippines	17	24	14	21
China	25	19	2	21
Hong Kong	11	13	4	4
Singapore	24	18	5	-1
Taiwan	9	17	4	4
EA9	**19**	**21**	**4**	**8**

Source: World Bank (1998): East Asia: The Road to Recovery, p. 20.

"By the first quarter of 1996, export growth fell to zero in the East Asia 5 countries and to negative rates for other East Asian countries, including China and the Newly Industrialized Economies (NIEs)."[43]

The corporate debt bomb

Due to the fall in export prices, the earnings of manufacturers dropped which made it extremely difficult for them to make scheduled payments on the debt they had taken on to make their investments in the first place. As a consequence, short-term borrowing rose rapidly as industrial groups and banks struggled to service their long-term debt.

Table 7: Short term debt stocks 1994-1997 (in billions of US$)

Year	1994	1995	1996	1997
All developing countries	286.2	324.0	345.8	360.9
East Asia and the Pacific	79.9	104.2	116.6	123.9

Source: World Bank (1998): Global Development Finance, p. 9.

The ratio of short-term debt to foreign reserves - a rough measure for a

country's ability to meet its current obligations from own liquid resources - increased sharply in 1994-1997.[44] By mid-1997, the short-term debt to reserve ratio had risen to well over 100 percent in Korea, Indonesia and Thailand, which made these countries extremely vulnerable to a sudden collapse of confidence.

Table 8: Ratio of short term debt to reserves and to total debt, mid-1997

	Short-term debt / reserves	Short term debt / total debt
Korea	300	67
Indonesia	160	24
Thailand	107	46
Philippines	66	19
Malaysia	55	39

Source: World Bank (1998): Global Development Finance, p. 35.

According to many economic analysts, "overborrowing" in East Asia was the immediate cause of the crisis, provoking a reassessment of risk by foreign investors who suddenly retrieved their capital from East Asia, thereby triggering the currency crisis of 1997-1998. In this context, organisations such as the IMF state that "weak financial systems" and a "lack of regulation" led to the accumulation of "bad debts" to ever higher levels.[45] Contrary to this view I think that even if there had been strong financial systems and proper regulation, this would have not prevented a crisis since the transformation of "good" to "bad" debts was a result of overproduction, which led to a price decline and decreasing returns[46] which in turn swelled the debt burden in East Asia to unsustainable levels.

Which road to recovery?

From the onset of the financial crisis, many financial analysts predicted a quick recovery in the Newly Industrialized Countries in South-East-Asia.[47] In retrospect, all these predictions turned out to be wrong since "*a strong export response, which had helped recovery in Mexico after the December 1994 peso crisis, failed to materialize because of the weakness in overseas market demand due to the regionwide downturn, sharp declines in export prices, and the credit problems facing firms.*"[48] During 1997 and much of 1998, the East Asian countries had been caught in a trap: Though their volume of exports has risen by 20-30 per cent in the year after the crash, in dollar terms Asian exports have stagnated or even fallen. Thus, the "*surge in export volumes has been more than offset by a sharp drop*

in dollar prices and by falling prices in world markets."[49]

Whether the Asian NICs will have regained their strength when they enter the new millenium remains an open question. On the one hand, magazines like *The Economist* already talk about "*Asia's astonishing bounce-back*"[50], pointing to the fact that - after two years of fierce contraction - growth rates and stockmarket indexes have turned around.[51] On the other hand, the spectacular break-up of Daewoo, Korea's second-biggest conglomerate, has demonstrated again that the problems of non performing-loans and ailing banks have not been solved yet - not to mention the social problems of increasing unemployment and poverty.

Given the fact that "*the deflation of an asset price bubble and the necessary contraction of the banking industry are likely to depress demand in the countries affected for a significant period* of time",[52] it is not unlikely that the Asian NICs will - instead of rebounding quickly - enter a long period of painful restructuring, similar to the "lost decade" which followed the debt crisis in Africa and Latin America in the 1980s.

Effects of the Asian crisis on the world economy

Before the currency crises, developing countries in Asia have played a crucial role in generating global demand. The larger East Asian region, including Japan, accounted for nearly one-third of world consumption and much of the growth of global consumption was in this region.[53] Asian developing countries alone "*accounted for two-thirds of the increase in world petroleum consumption between 1992 and 1996, raising their share of world consumption from 12 to 15 per cent. Base metals, rubber, grains, fats and oils show similar patterns*".[54]

In the aftermath of the currency crises, the Asian NICs have cut their demand for commodities dramatically. The current account balance of the crisis countries has swung rapidly from large deficits to large surpluses - a development which is mainly due to falling imports:

Table 9:Asian exports and imports, annual percent change 1997-1998

	Export	Import
Korea	-2.2	-35.4
Thailand	-6.4	-35.5
Indonesien	-8.9	-34.0
Malaysia	-7.0	-25.9
Hong Kong	-7.4	-11.5
Philippines	+17.0	-16.4
China	+0.5	-1.5
Japan	-0.6	-10.5

Source: Handelsblatt: "Asien im Teufelskreis der Exportflaute", February 11th, 1999, p. 9.

A deflationary spiral?

The sharp contraction in domestic demand in East Asia (as well as Russia and the Middle East) contributed to a dramatic fall in commodity prices which had already been in a cyclical downturn when the Asian crisis added extra downward momentum: "*Commodity prices dropped 11 per cent in the second half of 1997, stabilised, and started to fall again in May 1998. Metal and agricultural commodity prices have fallen a quarter from their 1995 highs, while energy prices are a third down from their 1996 peak.*"[55]

Table 10: Nominal commodity prices (annual percentage change)

Commodity	1981-90	1991-96	1996	1997	1998
Nonenergy commodities	-2.3	2.4	-5.8	2.2	-15.7
Agriculture	-3.2	3.9	-4.4	2.6	-16.5
Food	-3.3	3.6	5.7	-6.1	-9.9
Raw materials	-0.5	4.1	-6.0	-10.5	-24.1
Metals and minerals	0.5	-1.9	-12.3	1.2	-15.4
Energy	-4.7	-1.9	18.9	-6.7	-28.5
G-5 manufactures unit value	3.3	2.2	-4.4	-5.1	-3.8

Source: World Bank, Development Prospects Group, November 1998, in: World Bank (1998): Global Economic Prospects and the Developing Countries, p. 24.

Between mid-1997 and October 1998, the Economist all-item index has fallen by 30%. And not only commodity prices; producer prices "*are also falling almost everywhere: by 0.8% in America and by 3.5% in Germany in the first half of 1998, for instance. Not only are raw materials cheaper, the prices of many manufactured goods -from computers and cars to steel and ships - have also dropped.*"[56]

Most affected are the developing countries: "*Prices of non-fuel commodities*

exported by developing countries declined by nearly 15 % in 1998, the largest drop registered in the last two decades. Although the erosion of commodity prices also implied some relief in the form of falling import prices, most developing countries suffered significant terms-of-trade losses last year. These ranged from 5 % in Latin America to more than 9 % in the Middle East and over 10 % in Africa."[57]

No wonder then, that more and more people are worried about deflationary tendencies in the world economy which recall the experience of the world economic crisis in the 1930s, when falling prices and a downward spiral in output and demand led to social unrest and violence on an unprecedented scale. Thus, after several decades in which economists were solely concerned with combating inflation, in early 1998, U.S. Federal Reserve Chairman Alan Greenspan warned of the dangers if the U.S. economy should enter a period of falling prices.[58]

In countries like Japan such warnings come too late since deflation has aready become reality: consumer prices, property prices and wages are all falling. *"Japan seems to be stuck in a liquidity trap: interest rates are already close to zero, but they are still to high in real terms to encourage consumers to borrow and spend."*[59] The same might be true for China, where *"prices have been falling for more than three years"*[60] and where a revival in domestic demand is not yet in sight though the government spends billions of yuan on infrastructure projects.[61]

Different predictions

Despite such gloomy outlooks for Japan and much of the developing world, organisations like the International Monetary Fund are as optimistic as they have always been: *"The worst of the crisis that began in Asia in mid-1997 is probably behind us"*, said Mr Outtara, Deputy Managing Director of the IMF, on the 22nd January[62] (- notwithstanding the fact that the Brazilian currency and stockmarket collapsed only one week before). Outtara expects that growth in the Asian NICs as well as in the world economy as a whole will resume in 1999[63] and points to the success of the IMF reform programs, the quick move to ease interest rates in the developed countries, Japan's policy measures to stimulate domestic demand as well as the fact, that *"most countries have resisted the temptation to adopt protectionist and other market-closing measures, even in the face of competitiveness pressures and financial strains."*[64]

The optimism of the IMF is largely based on the outstanding performance of the U.S. economy which is acting as an engine of global growth, thus limiting the effects of the Asian crisis on the world economy. Indeed, the United States have so far been able to act as a "buyer of last resort": *"With a growth rate in domestic demand of 5 percent in 1998, U.S. consumers and investors accounted for almost half of the growth in world demand (and output) last year."*[65]

But though the U.S. has so far rather profited from the crisis in Asia, in the long run they are likely to suffer too: Cheap imports from Asia and elsewhere have already led to a soaring US trade deficit of $ 244 billion in 1998;[66] a development which will undoubtedly increase trade frictions between the US and the European Union as well as Japan. Moreover, there is a growing risk of another stockmarket crash in the United States[67] - a threatening scenario since America's economy is more vulnerable to a sudden drop in share prices than ever before: whereas much more Americans hold shares than they did ten years ago,[68] household savings have deterioated sharply[69] - which means that a crash will have a serious impact on consumer spending.

According to Alan Greenspan, about $ 12 trillion had been added to American household wealth since 1994 - largely because of gains in share prices.[70] No wonder then that even respected economists such as Martin Wolf come to the conclusion that "much now depends on the indefinite maintenance of historically extraordinary stock market valuations in the midst of an increasingly global deflation. The world economy is being held up by its stock-market boot-straps. It is no longer a question of asking whether this can last, but of praying for it to do so."[71]

Notes

1. If not otherwise stated, the term Asian NICs comprises the following eight countries: South Korea, Hong Kong, Taiwan, Singapur (the so-called Asian tigers) + the "second-tier NICs" Indonesia, Thailand, Malaysia and the Philippines.
2. See *Economist*, June 27th 1998, p. 124.
3. In South Korea alone, 13971 firms went bancrupt in 1997. See "Bancruptcy in Asia", Economist, January 24th 1998, p. 81.
4. See World Bank (1998): *Global Economic Prospects and the Developing Countries*, p. 58.
5. See IMF (1999): *World Economic Outlook*, May 1999, p. 140 ff.
6. The data are from: International Labour Organization (1998): *Asian Labour Market Woes Deepening*. Press release, Wednesday 2nd December 1998 (ILO/98/42) http://www.ilo.org/public/english/235press/pr/1998/42.htm
7. Ibid.
8. The data are from: World Bank (1998): *Global Economic Prospects and the Developing Countries*, p. 12.
9. There was a massive swing in one year of $ 105 billion (with most of the outflow concentrated in the last quarter of 1997) which equals 11 % of the

combined GDP of the five crisis countries. See Wade, Robert (1998): "From 'miracle' to 'cronyism': explaining the Great Asian Slump". In: *Cambridge Journal of Economics*, No. 22, p. 695.

10. See IMF (1998): *World Economic Outlook*, October 1998, p. 99.
11. See "On the rocks", *Economist*, March 7th 1998, p. 5.
12. See OECD (1998): "Policy lessons for crisis avoidance." *Technical papers* No. 136, p. 19.
13. See Sachs, Jeffrey (1997): The Wrong Medicine for Asia", *New York Times*, November 3rd 1997.
14. See Akyüz, Yilmaz (UNCTAD): *The East Asian Financial Crisis: Back to the future*? http:www.unctad.org/en/pub/pubframe.htm
15. See "Tigers adrift", *Economist*, March 7th 1998, p. 5.
16. See OECD (1998): "Policy lessons for crisis avoidance." *Technical papers* No. 136, p. 14 f.
17. See *Bank for International Settlements (BIS:) 68th Annual Report*, 1998, p. 119.
18. See World Bank (1998): *Global Development Finance*, p. 32.
19. Hanbo Steel, Sammi Steel, Jinro (Korea) Somprasong, Finance One (Thailand), for example.
20. See the revision of the IMF's articles of agreement which call for a liberalization of the capital account, the WTO's financial services agreement and the OECD's Multilateral Agreement on Investment.
21. See World Bank (1998): *East Asia: The Road to Recovery*, p. 19f.
22. See Brohman, John (1996): "Postwar development in the Asian NICs : does the neoliberal model fit reality?" In: *Economic geography*, Vol. 72, No. 2, p. 109.
23. See Hill, Charles W.L. (1998): *The Asian Financial Crisis*. University of Washington. http://weber.u.washington.edu/~chill/updates/AsianCrisis.html
24. See Castells, Manuel (1998): *The Information Age. Economy, Society and Culture. Volume III: End of Millenium. Malden*, Oxford, p. 206.
25. See Bustelo, Pablo (1998): *The East Asian Financial Crises: An Analytical Survey*. ICEI Working Paper, p. 5. http://www.ucm.es/info/icei/asia/bwp98.pdf
26. See Castells, Manuel (1998): *The Information Age. Economy, Society and Culture. Volume III: End of Millenium*. Malden, Oxford, p. 206.
27. See *Bank for International Settlements (BIS): 68th Annual Report*, p. 35.
28. See Hill, Charles W.L. (1998): *The Asian Financial Crisis*. University of Washington. http://weber.u.washington.edu/~chill/updates/AsianCrisis.html

29. See Castells, Manuel (1998): *The Information Age. Economy, Society and Culture. Volume III: End of Millenium.* Malden, Oxford, p. 253.
30. See Hill, Charles W.L. (1998): *The Asian Financial Crisis.* University of Washington. http://weber.u.washington.edu/~chill/updates/AsianCrisis.html
31. See Tang, Min; Villafuerte, James (1995): *Capital Flows to Asian and Pacific Developing Countries: Recent Trends and Finance Prospects.* Asian Development Bank, Manila, p. 10.
32. Ibid.
33. Over the 1990s, the Asian NICs have undergone radical financial deregulation, including near-removal of restrictions on the inflow and outflow of mobile capital. "High profits for those with access to much cheaper foreign credit was the chief reason firms and banks, both national and international, pressured governments to undertake financial deregulation, their pressure converging with that of the IMF and the World Bank." See Wade, Robert (1998): "The Asian Debt- and-development Crisis of 1997-?: Causes and Consequences." In: *World Development*, Vol. 26, No. 8, p. 1539.
34. See Ocampo, Roberto F. De (1998): Pension fund diversification and Asia's emerging markets. In: Foy, Colm; Harrigan, Francis; O'Connor, David (Ed.): *The future of Asia in the world economy.* Paris, p. 55.
35. Collective investment institutions, insurance companies and pension funds.
36. See *Bank for International Settlements (BIS): 68th Annual Report*, p. 84.
37. See World Bank (1998): *Global Economic Prospects and the Developing Countries*, p. 43.
38. See Bird, Graham; Milne, Alistair (1999): "Miracle to meltdown: a pathology of the East Asian financial crisis." In: *Third World Quarterly*, Vol. 20, No. 2, p. 429.
39. "Within East Asia, only the Philippines had rising export prices at the onset of the crisis." See World Bank (1998): *East Asia: The Road to Recovery*, p. 21f.
40. Ibid., p. 22.
41. See Burton, John; Baker, Gerard (1998): "South Korea: The country that invested its way into trouble." In: *Financial Times*, January 15th 1998.
42. See UNCTAD (1998): *Trade and Development Report*, p. 59.
43. See World Bank (1998): *East Asia: The Road to Recovery*, p. 20.
44. See World Bank (1998): *Global Economic Prospects and the Developing Countries*, p. 60.
45. See, for example, IMF (1999): *Economic and Financial Situation in Asia: Latest Developments.* Background paper prepared for presentation by Michel Camdessus, Managing Director of the International Monetary Fund, Asia-

Europe Finance Ministers Meeting. Frankfurt, Germany, January 16, 1999. http: //www.imf.org/external/np/speeches/1999/011699.HTM

46. "Although reliable data are scant, available information tends to suggest that capital returns were decreasing since the late-1980s, especially in manufacturing sectors featuring overcapacity." See Bustelo, Pablo (1998): *The East Asian Financial Crises: An Analytical Survey.* ICEI Working Paper, p. 16. http://www.ucm.es/info/icei/asia/bwp98.pd
47. See IMF (1998): *World Economic Outlook*, May 1998, p. 1.
48. See World Bank (1998): *1998-1999 Global Economic Prospects and the Developing countries*, p. 57.
49. See *Economist*: "Better news in East Asia", August 29th 1998, p. 70.
50. This is the title of *The Economist*, August 21st-27th 1999.
51. See *Economist*: "On their feet again?" August 21st 1999, p. 14.
52. See *Bank for International Settlements (BIS): 68th Annual Report*, p. 141.
53. See *World Bank (1998): Global Economic Prospects and the Developing Countries*, p. 23.
54. See *Financial Times*: "Anniversary: Asia's ripple effect" July 2nd 1998. http:/ /www.ft.com/archive/q306e.htm
55. Ibid.
56. See *Economist*: "Singing the deflationary blues" October 10th 1998, p. 81
57. See *Bank for International Settlements (BIS) (1999): 69th Annual Report*, Basle, 7 June 1999, p. 38.
58. See: Remarks by Chairman Alan Greenspan at the Annual Meeting of the American Economic Association and the American Finance Association, Chicago, Illinois. January 3, 1998.
59. Ibid.
60. See *Economist*: "China: On a knife-edge" May 29th 1999, p. 91.
61. Ibid.
62. See Outtara, Alassane D. (1999): *Globalization and the Third Millennium: Challenges and Issues.* Address by Mr. Alassane D. Ouattara, Deputy Managing Director of the International Monetary Fund, to the CERAM Sophia Antipolis. Nice, France, January 22, 1999.
63. "the IMF is looking for growth of around 2.25 percent a year in both 1998 and 1999"...."growth of about 3.5 percent should not be out of reach in the first year of the new millennium." Ibid.
64. Ibid.
65. See IMF (1999): *World Economic Outlook*, May 1999, p. 22.
66. See "Throwing sand in the gears" In: *Economist*, January 30th 1999, p. 65.
67. "...on past trends a sharp fall in share prices is long overdue, says John Rothchild, author of a timely new work, "The Bear Book: Survive and Profit

in Ferocious Markets". In the past 100 years, he points out, America's main share index has experienced a correction every couple of years, and a bear market every four to five years. But between 1990 and October 1997's brief plunge in share prices, there was not one 10% correction in the Dow, let alone a bear market." See: *Economist*: "A wobble down Wall Street", August 8th 1998, p. 63.

68. "Over two-fifths of American households now hold shares either directly or in mutual funds or pension plans. That is twice as many as in the early 1980s." See *Economist*: "Wall Street's money machine", March 28th, 1998, p. 76.
69. Household savings in the U.S. have fallen to only 0.6 per cent in the second quarter of 1998. See World Bank (1998): *Global Economic Prospects and the Developing Countries*, p. 14.
70. See: *Economist*: "A wobble down Wall Street", August 8th 1998, p. 64.
71. See Wolf, Martin: "Threats of depression" In: *Financial Times*, August 26, 1998, p. 9.

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