

Asian Crisis Ten Years On: Policy Perspectives

by

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Some Lessons from 1997/98 Crisis

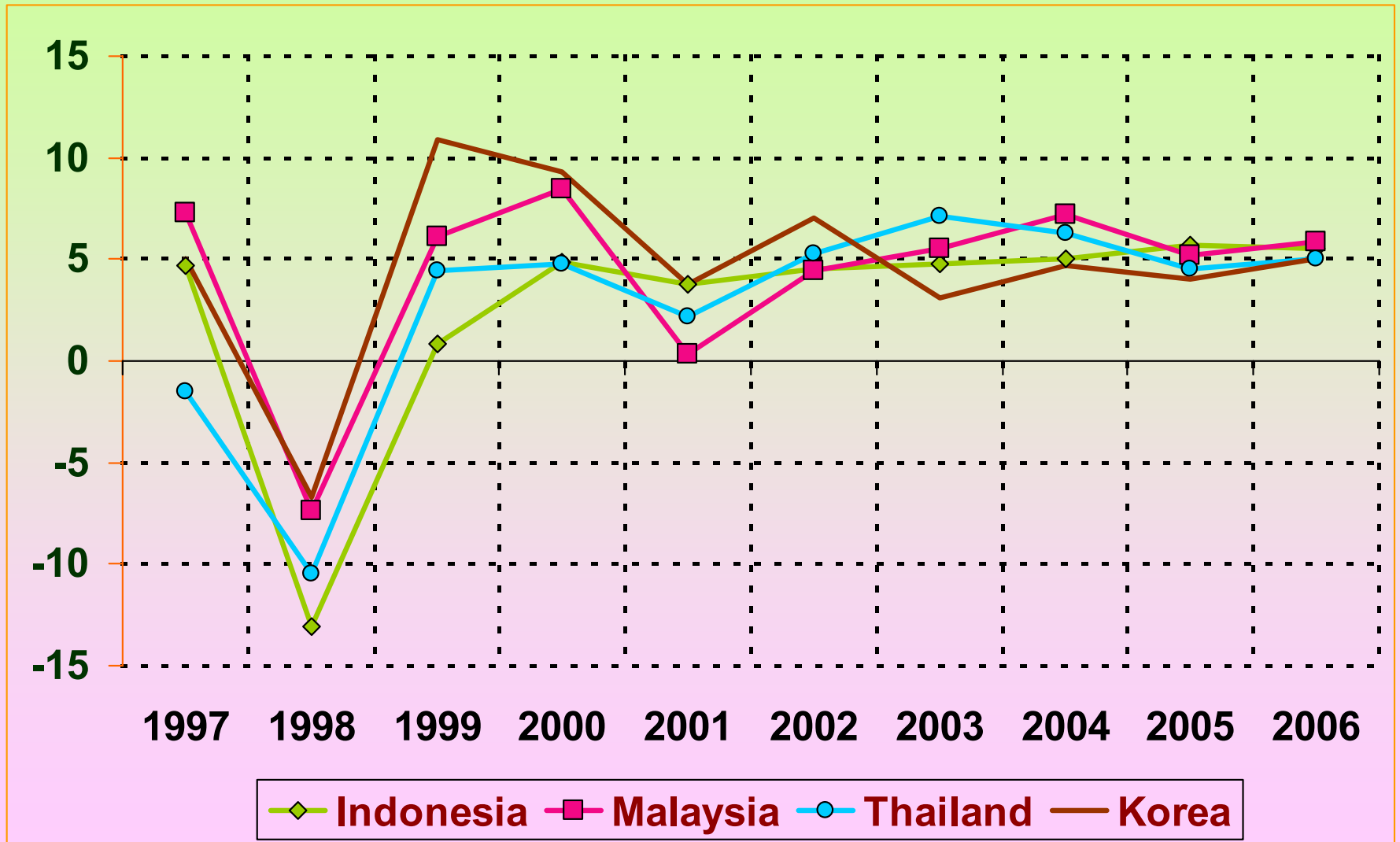
- **Conduct good macro policies**
- **Avoid overvaluation of currency**
- **Secure adequate foreign reserves**
- **Strengthen monitoring of short-term capital flows**
- **Manage public and external debt prudently**
- **Build robust and resilient financial system**
- **Practice good corporate governance**

Some Key Questions

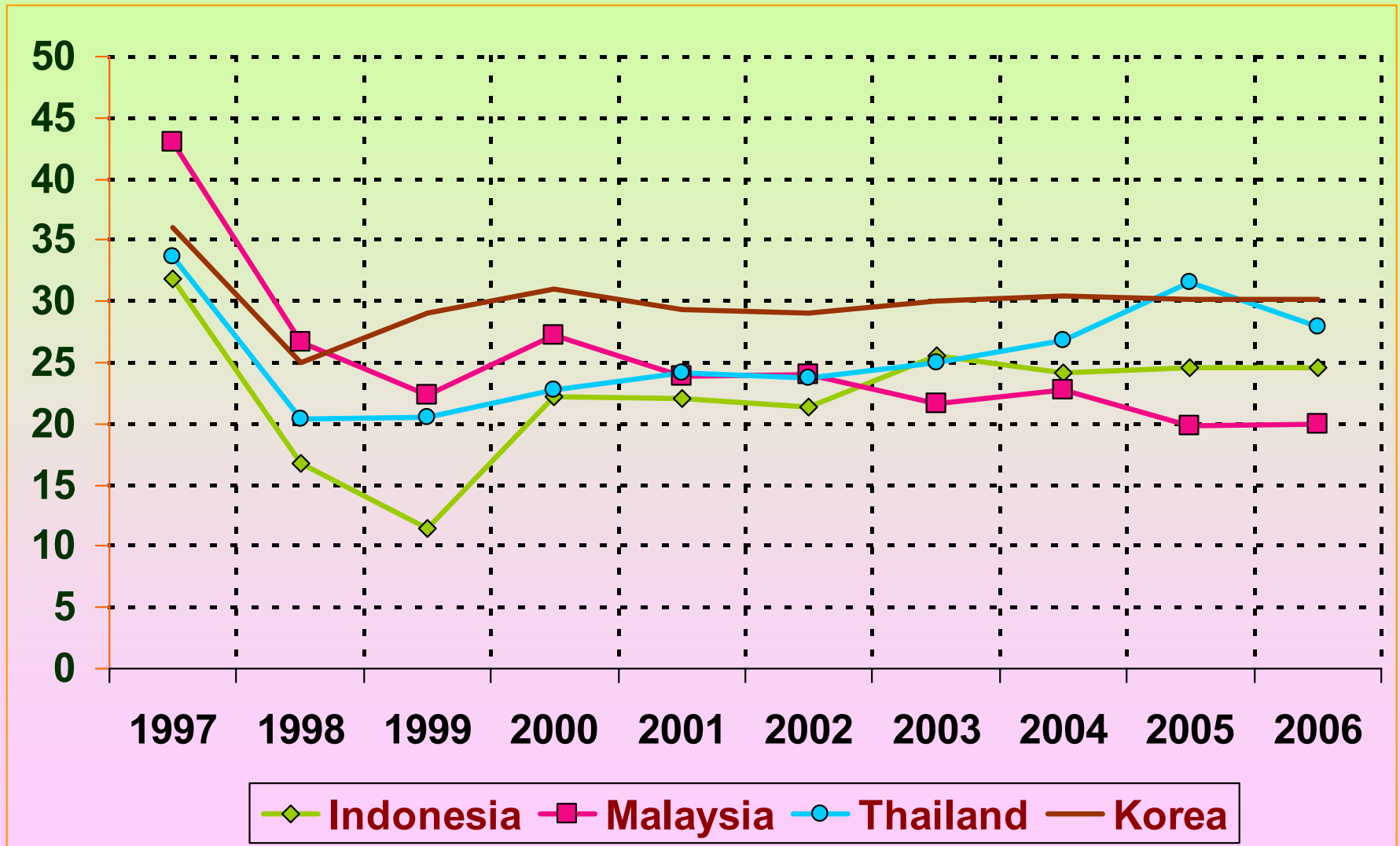
- **Have macro fundamentals improved?**
- **Have exchange rates become more flexible?**
- **Do large reserves reduce vulnerability to crisis?**
- **How far have reforms progressed?**
- **Is the current investment level acceptable?**
- **Has Asia decoupled from the G3 growth cycles?**
- **Is the US dollar weakening an adjustment to the global imbalance?**
- **Are oil prices going to stay high?**

Trends in Macro Data

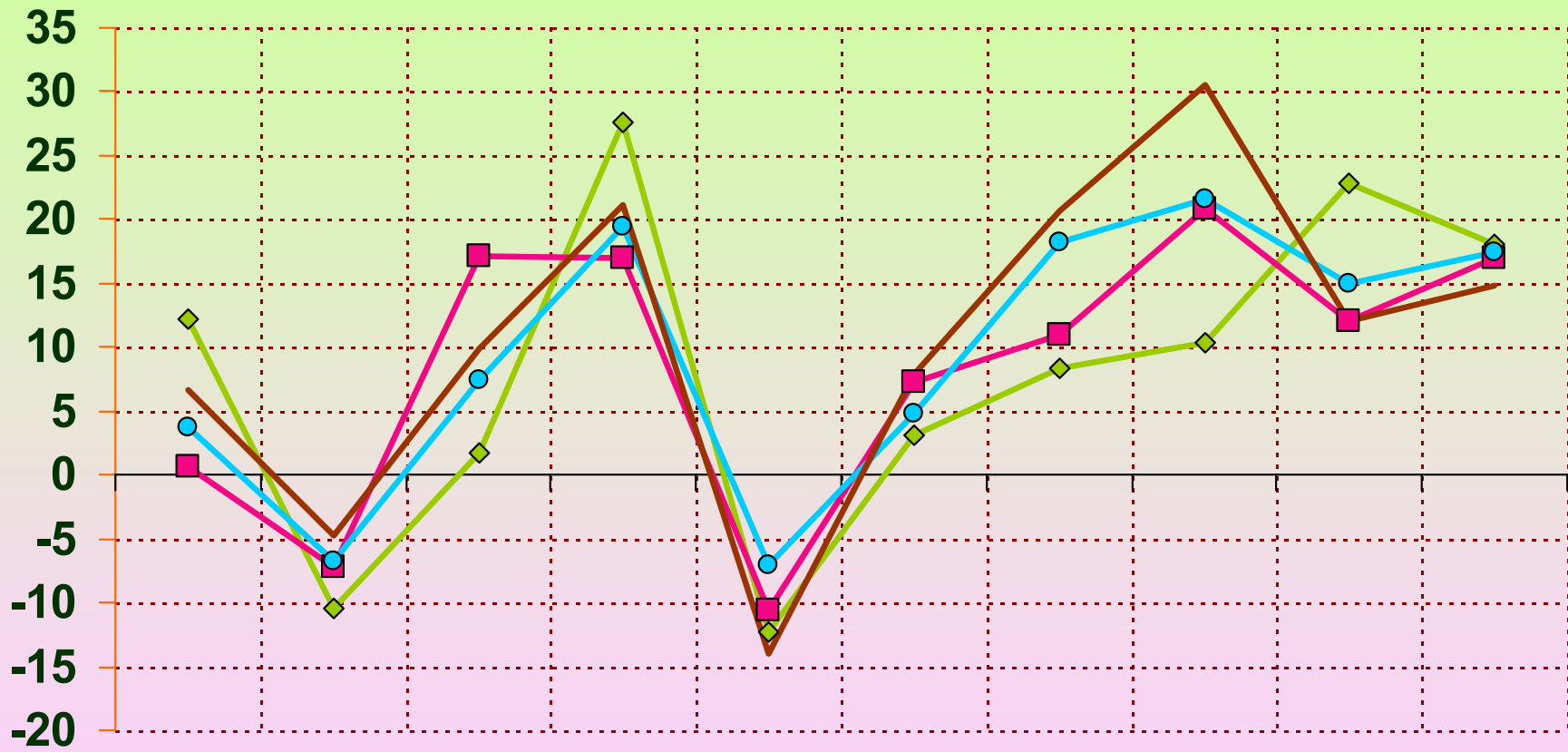
Real GDP Growth (%)



Domestic Investment (% of GDP)

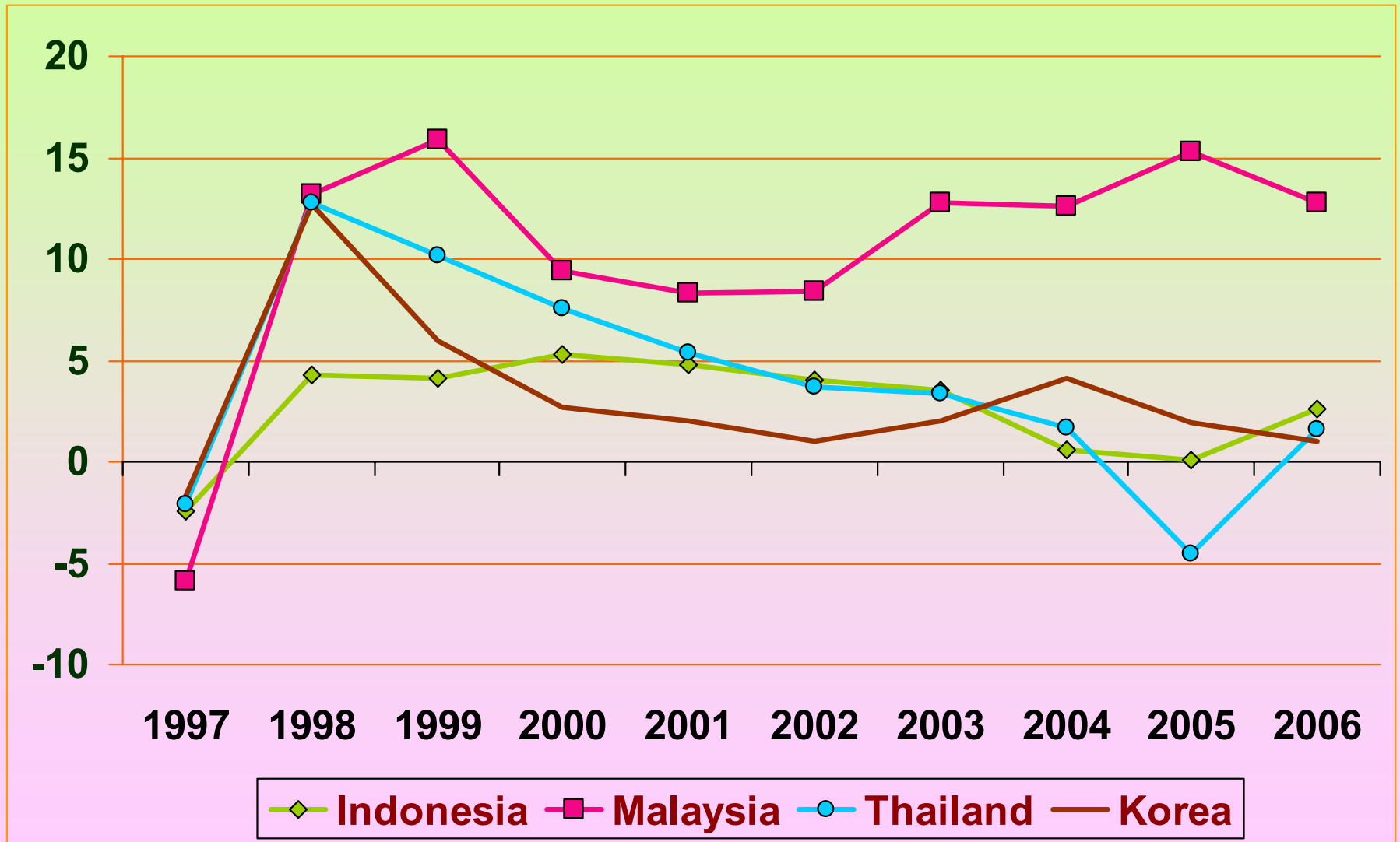


Export Growth (%)

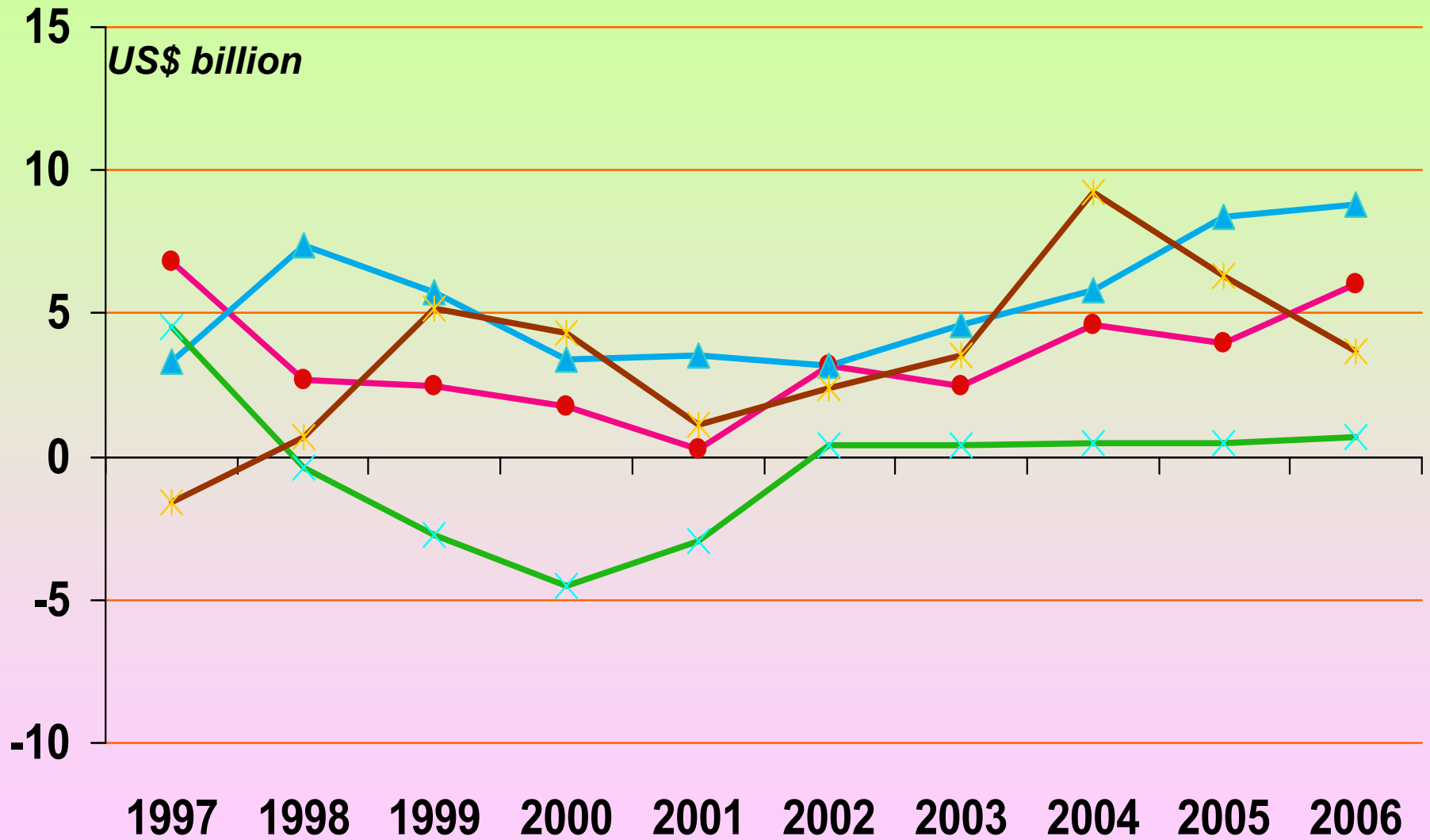


◆ Indonesia ■ Malaysia ● Thailand — Korea

CAB as % of GDP

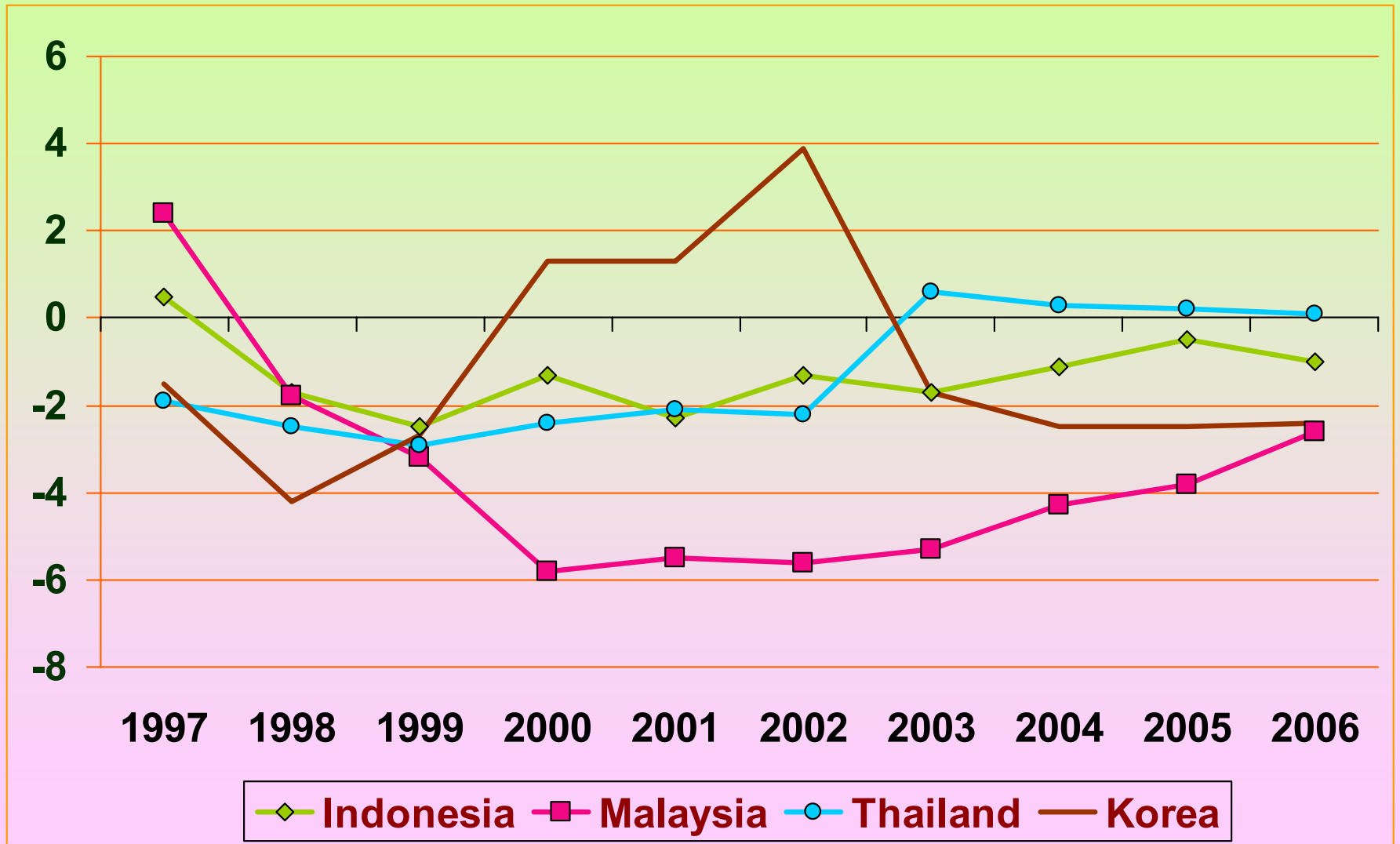


FDI Inflows

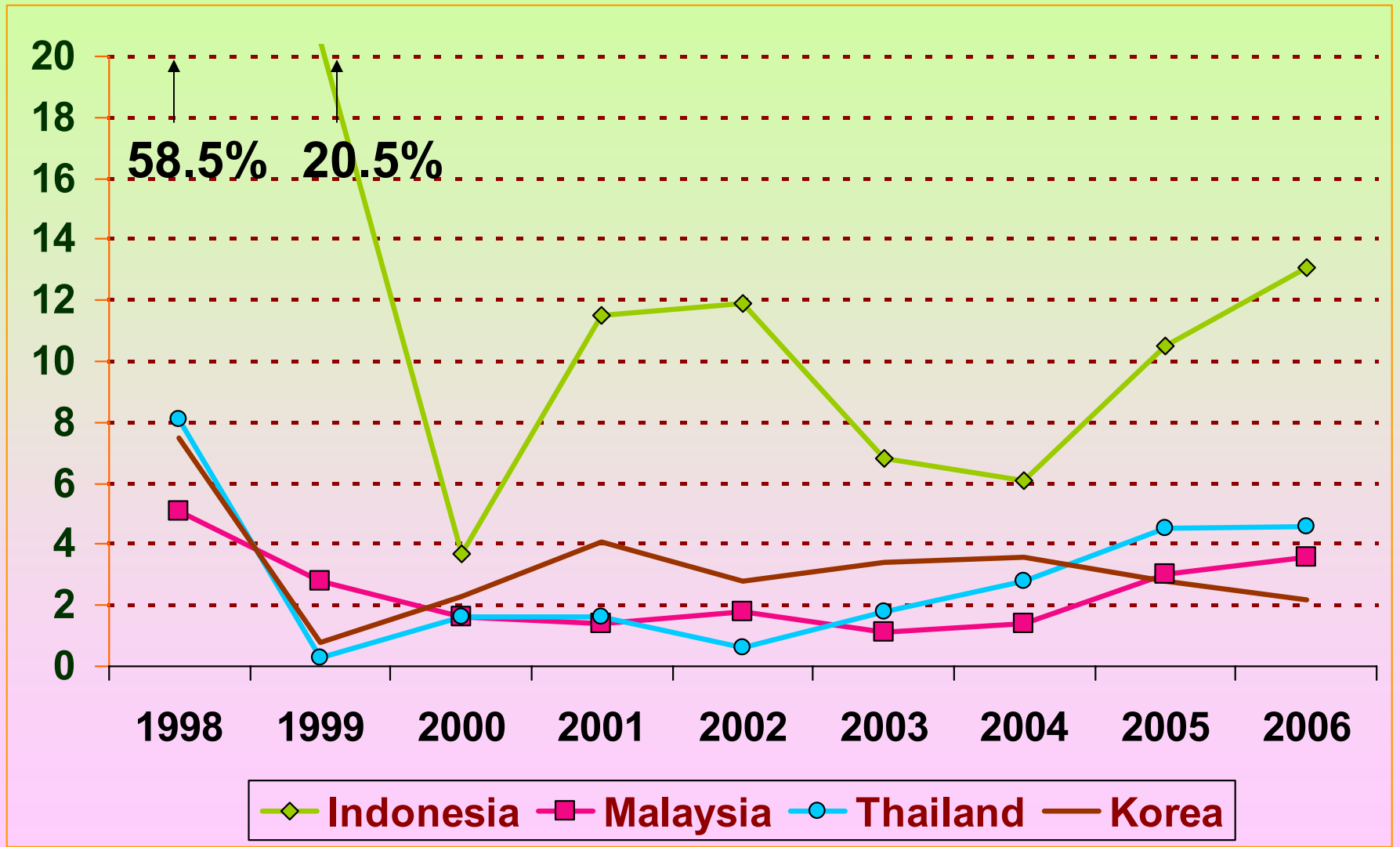


● Malaysia ▲ Thailand × Indonesia * Korea

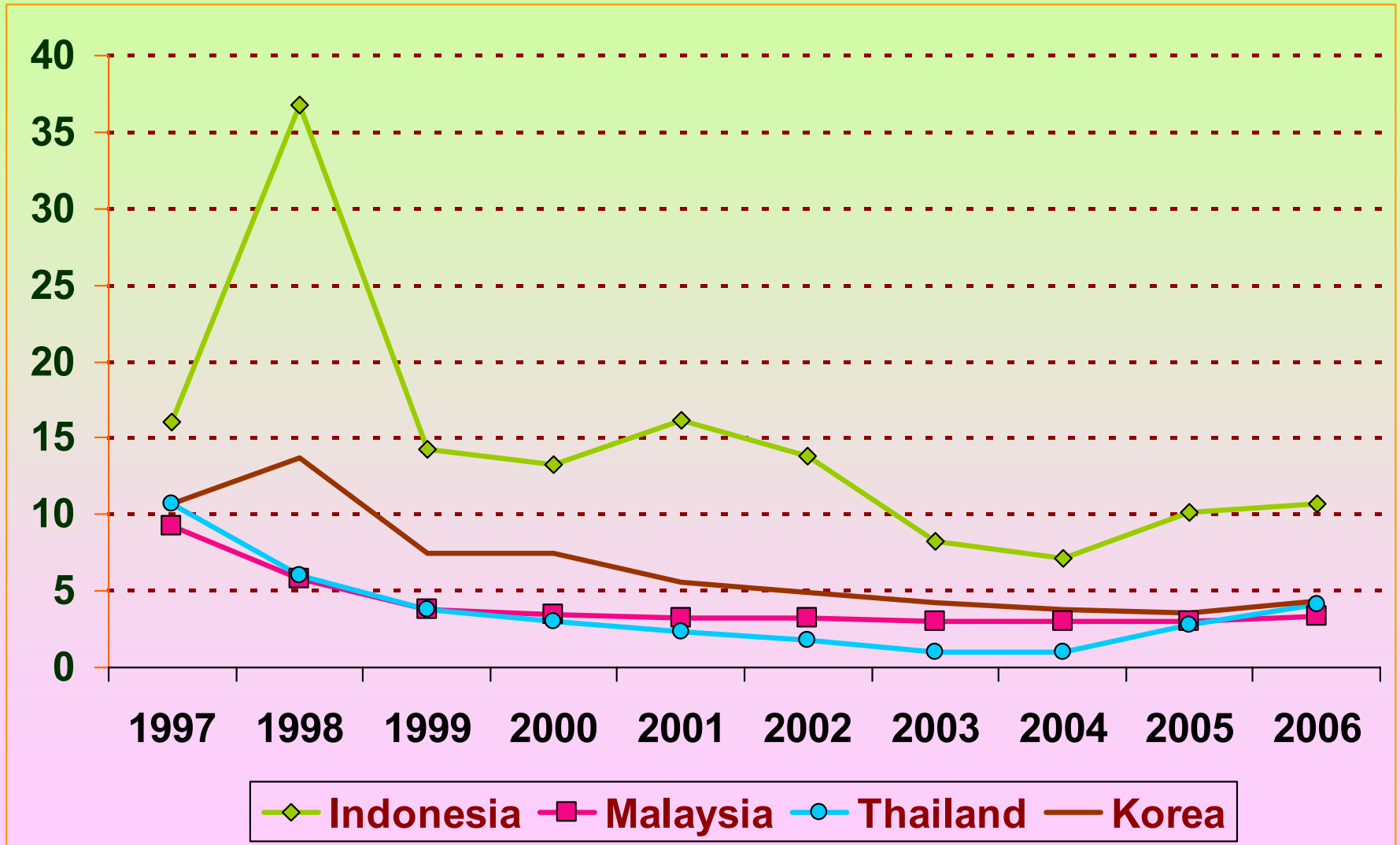
Fiscal Balance (% of GDP)



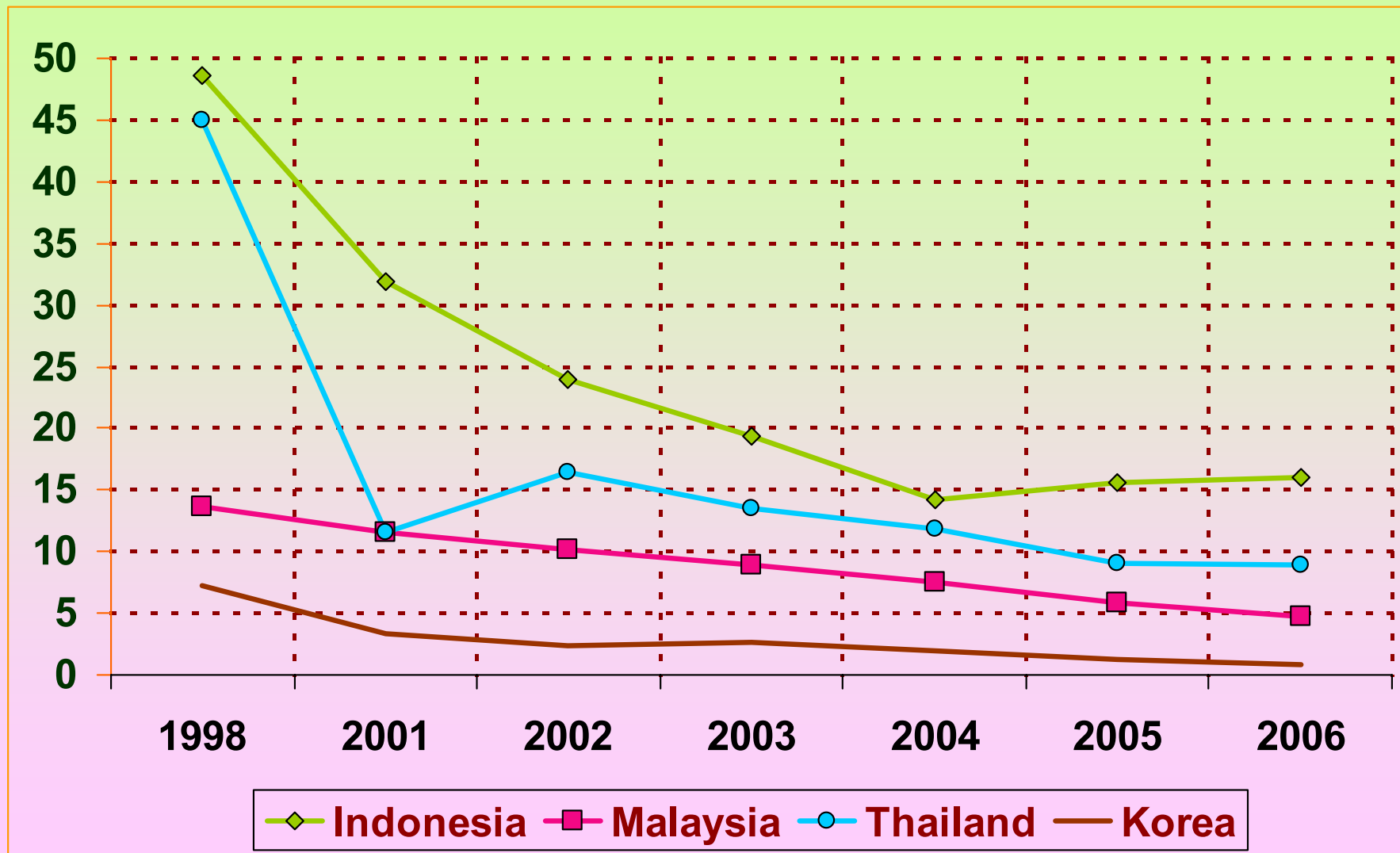
Inflation Rate (%)



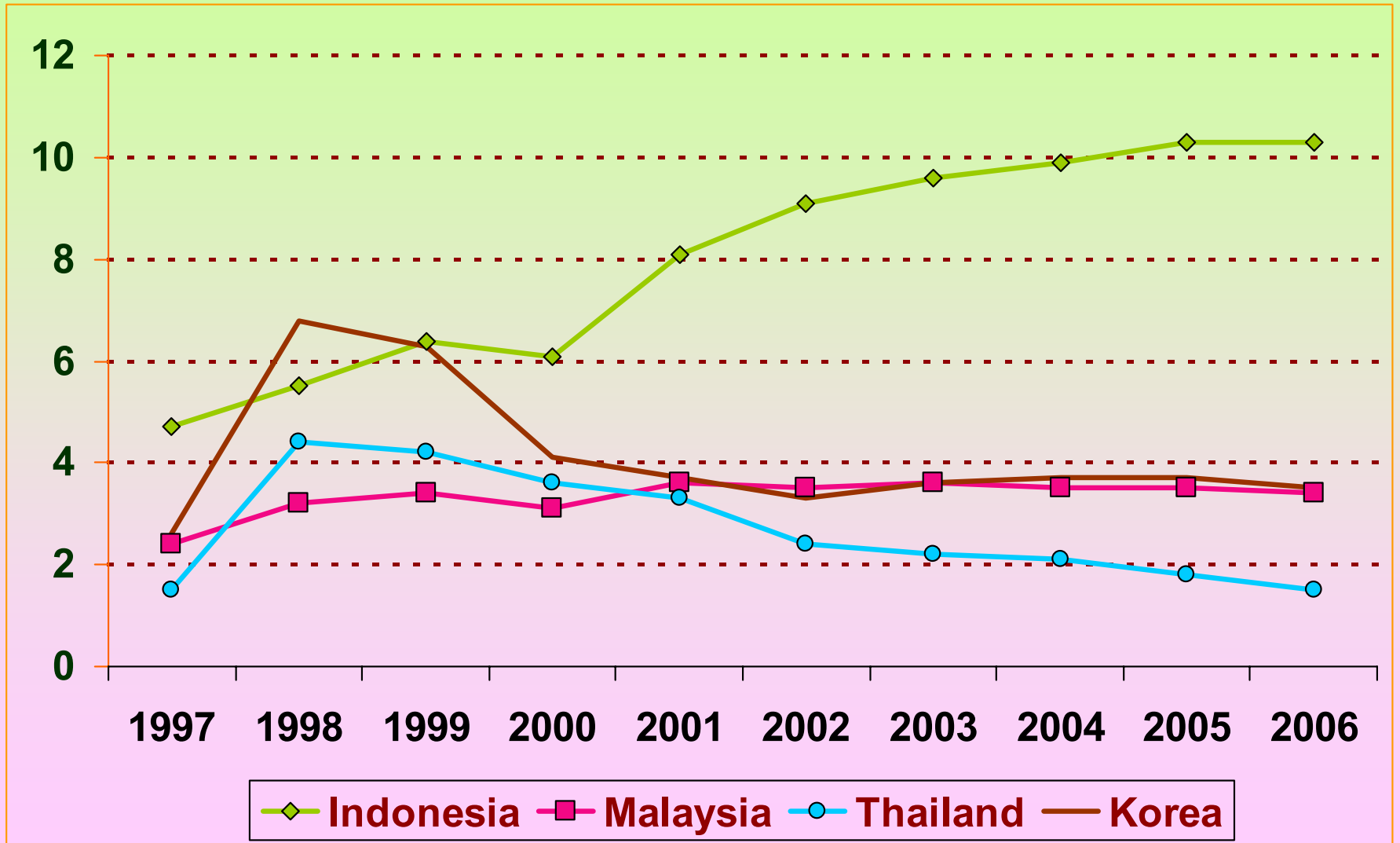
Interest Rate (6m FD,%)



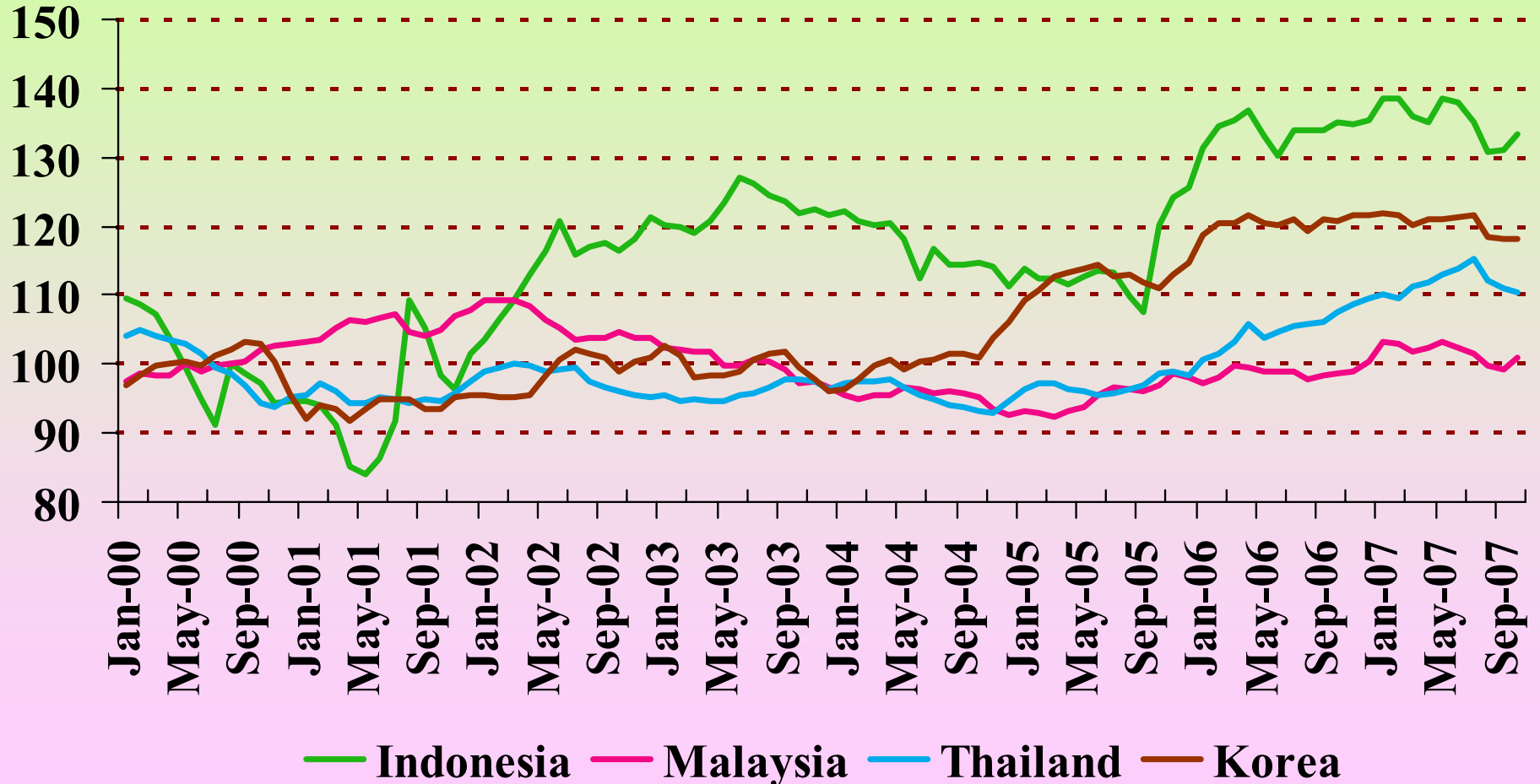
Non-Performing Loans (3-months arrears)



Unemployment Rate (%)

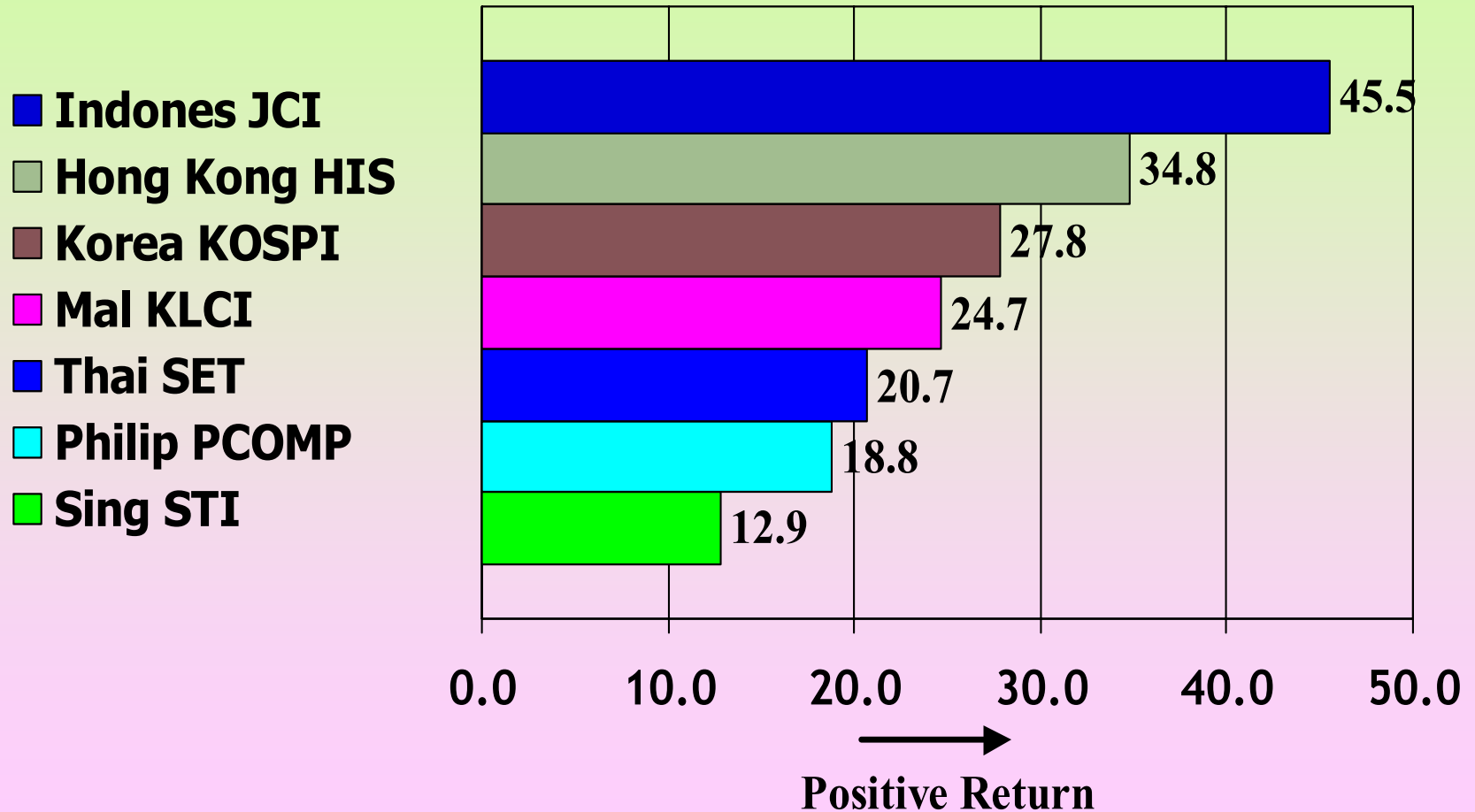


Real Effective Exchange Rate (2000=100)

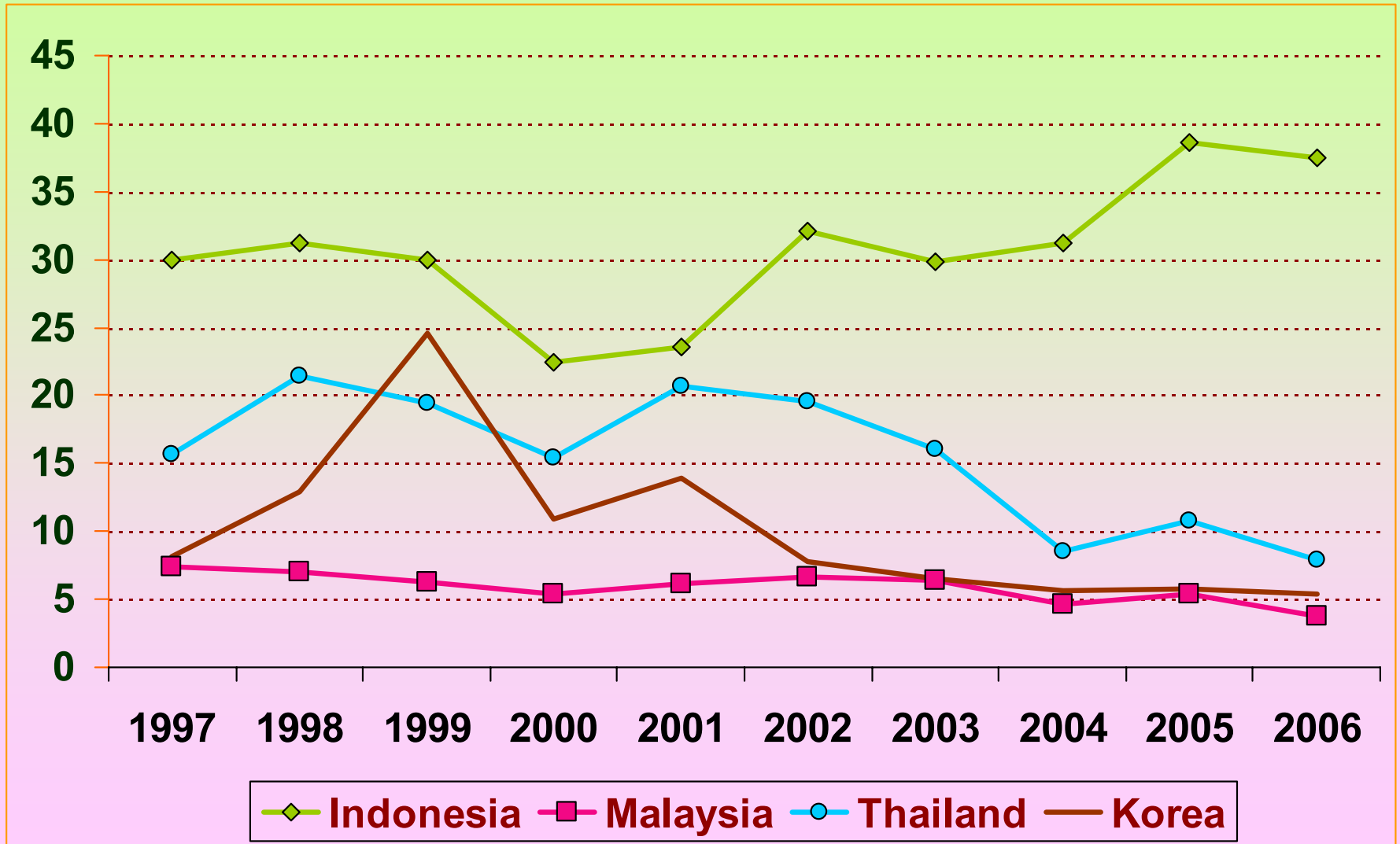


Source: BIS

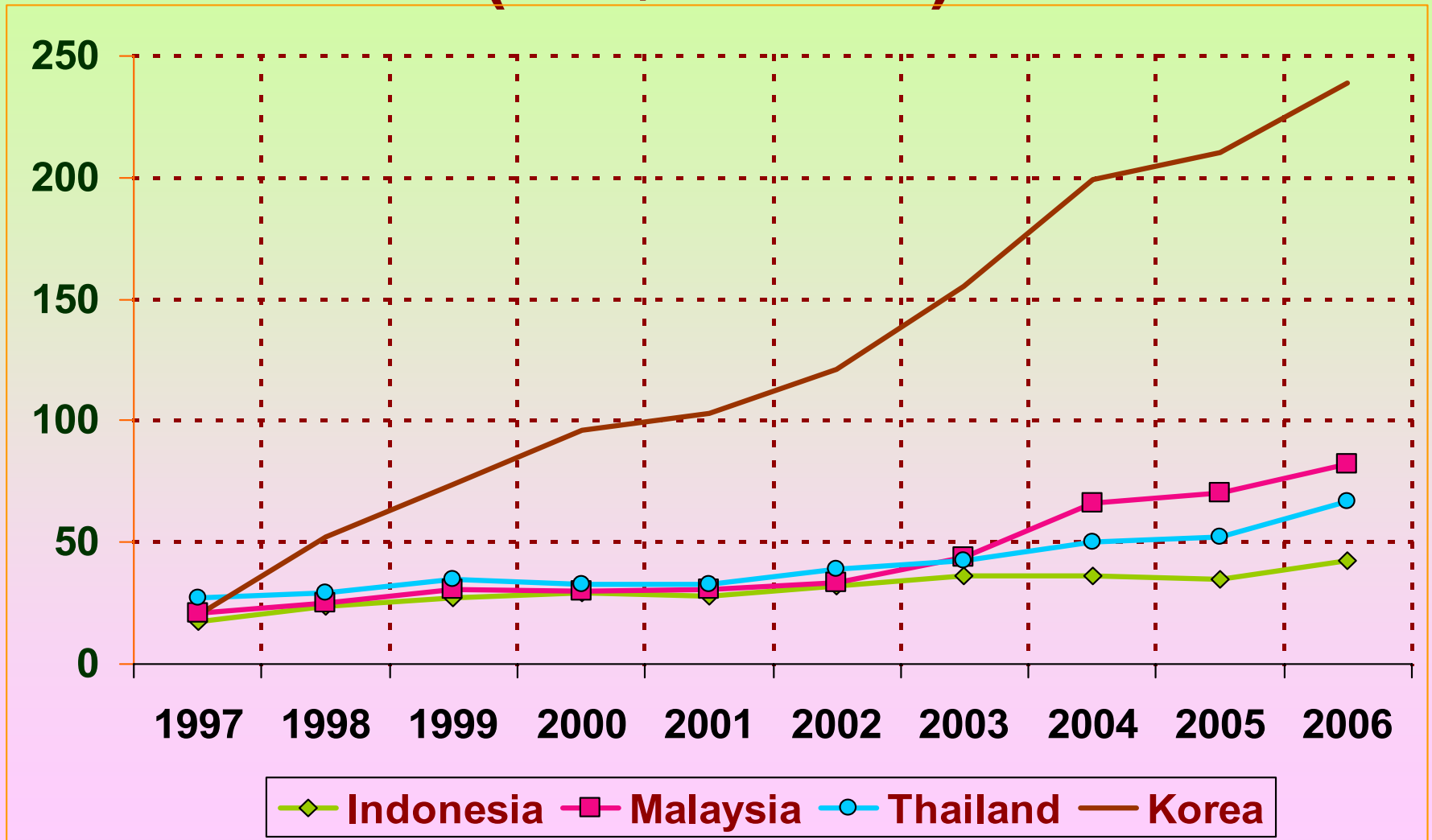
%Change in Stock Indices as at 29 Nov'07, since Jan'07



Debt Service Ratio (% of exports)



Foreign Reserves (US\$ billion)



Foreign Holders of Treasury Securities (US\$ billion), Holdings as at End of May 2007

rank	Country	\$US bill	% share
1	Japan	615.2	28.2
2	China	407.4	18.7
3	United Kingdom	167.6	7.7
4	Oil Exporters	121.3	5.6
5	Brazil	81.6	3.7
6	Luxembourg	62.1	2.8
7	Hong Kong	58.7	2.7
8	Taiwan	57.4	2.6
9	Korea	52.1	2.4
10	Germany	51.4	2.4
13	Singapore	34.4	1.6
19	Thailand	18.7	0.9
28	Malaysia	10.9	0.5

Source: US Treasury

Structure of Financial Sector (% of GDP)

<i>economy</i>	Bank Assets		Equity market capitalisation		Bonds outstanding	
	1997	2005	1997	2005	1997	2005
Indonesia	31.1	49.8	12.2	28.9	1.9	19.6
Korea	37.9	93.5	8.1	91.2	25.2	76.2
Malaysia	100.9	159.4	93.2	138	57	88
Thailand	79.7	103.6	15.1	70.1	7.1	40.8
Philippines	56.1	63.2	37.7	40.4	22.4	36.7
Singapore	122	185.4	110.8	220.4	24.7	68.2

Source: Ghosh (2006)

Banking Sector Landscape

	No of banks		Banking sector assets (% of GDP)		Average state ownership in top 10 banks (%)		Average foreign ownership in top 10 banks (%)	
	1997	2004	1997	2004	1997-99	2004	1997-99	2004
<i>economy</i>								
Indonesia	222	134	85	62	73.8	51.3	0.0	16.7
Malaysia	36	25	170	169	10.9	3.5	15.9	26.2
Korea	16	8	98	106	37.2	5.8	12.2	21.3
Philippines	51	24	104	70	7.8	5.8	11.3	9.0
Thailand	16	12	156	113	1.3	29.3	8.1	11.7
Singapore	152	113	204	221	0.0	4.0	8.3	15.6

Source: Ghosh (2006)

Corporate Governance (CG) Scores

<i>market</i>	CG Rules & Practices	Enforcement (public/private)	Political/Regulatory	IGAAP	CG Culture
Hong Kong	60	56	73	83	61
Singapore	70	50	65	88	53
Korea	45	39	48	68	43
Malaysia	43	35	56	78	33
Thailand	58	36	31	70	39
China	43	33	52	73	25
Philippines	39	19	38	75	36
Indonesia	39	22	35	65	25

Source: Asian Corporate Governance Association (2007)

Notes: Larger scores are better;

IGAAP =International generally accepted accounting practice

Corporate De-Leveraging and Performance

	Debt to equity ratio (% , average)		
	1994-96	1997-00	2001-04
Indonesia	82	289	150
Korea	252	227	106
Malaysia	67	122	76
Philippines	63	113	106
Thailand	109	288	118
Singapore	50	67	61
	Profit over interest coverage (% , median)		
	1994-96	1997-00	2001-04
Indonesia	3	1	2
Korea	1	2	3
Malaysia	6	3	4
Philippines	5	1	1
Thailand	3	2	6
Singapore	6	5	7

Source: Ghosh (2006) ; Notes: Profit over equity of 3 means profit is 3 times larger than interest servicing

Country Perspective

- **Korea recovered the fastest despite having severe *chaebol* crisis. Made fairly good progress in reforms and managed the '03 credit-card crisis without large damage.**
- **Indonesia took longer to recover due to political turmoil. Struggle to attract FDI and improve investor confidence.**
- **Despite the military coup in Sep'06, Thailand's fundamentals are strong. It imposed capital controls on inflows in late '06, but may lift it after elections.**
- **Malaysia's recovery path has been similar to others under IMF conditions, despite the pegged exchange rate and the short-lived controls.**

Risks of another crisis reduced

- **Macro fundamentals have improved**
- **Reforms in banking and corporate sector**
- **Larger foreign reserves**
- **Corporate debt exposure lowered**
- **Better regulatory and supervisory framework in financial system**

Challenges Ahead for Asia

- **Volatile and destabilising capital flows**
- **Increasing inequality**
- **Adjustments in global imbalance and the weaker US dollar**
- **Surge in oil prices**

Conclusion

- **1997/98 crisis was catalyst to reforms**
- **Crisis-hit countries are more resilient**
- **No guarantee another crisis would not happen**
- **Sounder macro policies can reduce intensity of crisis**
- **Reforms are incomplete and still work-in-progress**

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