The much publicized Asian economic “crisis,” which began with the collapse of the Thai baht in July 1997, is over! Instead of a situation that was initially and properly characterized as a “crisis”—to which some observers implausibly ascribed responsibility for triggering crises in Russia and Brazil as well—Asia currently displays a wide range of economic performance, problems, and prospects. Asia’s collective economic circumstances no longer constitute a “crisis.”

This is not to deny or minimize the fact that individual countries within the region still confront serious economic problems, with sharply different prospects for alleviating, let alone solving them. But the collective record is both better and more promising than the “crisis” rhetoric implies.

First, consider the four original “crisis” countries: Thailand, Korea, Indonesia, and Malaysia. Following the mid-1997 collapse of the baht, these countries experienced asset deflations of between 40 and 70 percent (analogous to that of the 1930s in the United States), currency depreciations between 30 and 80 percent, and reversals of annual economic growth from mid to high positive single digits (between 6 percent and 9 percent), to negative rates between high single digits and low double digits (between –15 percent and –6 percent).

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By the second quarter of 1999, Korea and Thailand have turned the corner. Their GDP growth, though still negative, is much less so than in the prior year; by the fourth quarter of 1999, both Korea and Thailand will probably experience positive growth rates. In both countries, foreign direct investment (FDI) has resumed—in Korea, FDI increased by two and one-half times to $2.0 billion in the first quarter of 1999, compared to the same period a year ago. Their foreign exchange reserves have increased—slightly in Thailand, and substantially (doubling) in Korea (to $55 billion). And Korea’s international credit rating has been significantly upgraded by the Moody and Standard and Poor’s rating organizations.

When hospitals and doctors issue bulletins about the condition of particular patients, their progress is sometimes described as moving from “critical” to “serious.” Similarly, the condition of Korea and Thailand can be reasonably characterized as having progressed from “crisis” conditions to simply “difficult” ones.

This certainly does not apply to Indonesia and Malaysia. Both continue to register high negative rates of GDP growth, weak or convertible currencies (Indonesia and Malaysia, respectively), and plunging asset values. In both cases, political rather than economic factors predominantly account for the economic quagmire that still engulfs them. Unless and until political stability and a favorable and predictable policy environment is realized, the outlook for Indonesia and Malaysia will remain dismal.

The economies of Japan and China confront serious economic problems that not only differ between them, but also differ enormously from those of the previous group of four. While Japan’s and China’s economic problems are serious, in neither case is the term “crisis” appropriate.

Japan’s problems predate and transcend the mid-1997 “Asian” financial crisis, and indeed these problems have only been marginally affected by that crisis. The Japanese economy has stagnated for most of the 1990s decade, experiencing an average annual growth rate of about 1 percent, and in 1999 a negative growth rate of about 2 percent. This is a striking contrast to Japan’s record of strong and sustained growth in the previous decade. Japan’s deep-seated structural problems include an industrial system that has
been driven by considerations of size, market share, and exports, rather than profitability; a banking system pervaded by non-performing loans resulting from this distorted industrial base and associated credit misallocations; and a regulatory system marked by the heavy hand of government limiting free entry and market access both within the Japanese economy and from potentially competitive firms outside it.

In recent work at RAND, which attempts to measure the relative degree of economic “openness” of different economies, the economy of Japan ranks far below those of the United States and Germany, and is roughly similar to China and Korea in the non-tariff barriers to economic openness permeating the economy, and in impeding market access by foreign businesses.

Yet Japan’s per capita gross domestic product remains among the highest in the world (about $40,000), and its current account surplus and foreign exchange reserves ($125 billion and $220 billion, respectively) are the world’s largest. While most observers believe that Japan’s three-pronged reform policies—bailing out the major banks to make their balance sheets more robust, increasing levels of public spending, and providing a modest degree of deregulation—are too little and too timid to deal with the economy’s fundamental structural problems, it cannot be said that Japan is in a “crisis” condition.

China, like Japan, has been only marginally affected by the mid-1997 crisis elsewhere in Asia. Its recent economic performance and near-term prospects are decidedly mixed. Among the positive indicators, its GDP growth has been high and sustained. Even allowing for the occasional fuzziness of China’s statistics, annual growth has been and currently is between 5 and 7 percent. Its current account surplus has been running at an annual rate of over $30 billion; foreign exchange reserves are about $150 billion (the second largest after those of Japan); and annual foreign direct investment is more than $35 billion—the largest of any emerging market country. Still another of the positive indicators is the progress made in the government’s “buy-out” of the military’s ownership of many commercial businesses.
To be sure, there is an equally impressive list of negative signs and signals. Hundreds of large state-owned enterprises (SOEs) continue to register negative net earnings, although Zhu Rongji has mandated them to register profits within the next two years or be liquidated. The four major state banks are dominated by non-performing debt that has been perennially accumulated to cover the persistent losses of the SOEs. Yet, the financial system continues to misallocate credit in favor of the inefficient SOEs, while constraining credit access by the more dynamic non-state and emerging private sector. Whether or not China succeeds in becoming a member of the World Trade Organization later this year, the future robustness of China’s economic performance will depend on substantial progress in opening its economic and financial markets.

Although China confronts myriad difficult economic problems, they do not qualify as approximating a “crisis.”

The final piece in the complex and variegated Asian economic mosaic is the smaller, more resilient economies: Taiwan, Hong Kong, and Singapore. Although they differ from one another—for example, Taiwan and Singapore have floating exchange rate systems, while Hong Kong maintains a fixed-peg currency board—they also have certain similarities. Each has been seriously impacted by the economic reversals elsewhere in the region, Hong Kong most severely by the bursting of its bubble in asset and property prices. Both Singapore and Hong Kong have registered negative GDP growth as a result of these impacts. Still, the three economies have shown an impressive capacity to adapt to changing circumstances, and to maintain (in the case of Taiwan) or to resume significant economic growth in the near future.

Once again, the term “crisis” is inapt: the reality is more buoyant.

It is time to deflate the rhetoric of “economic crisis”: it is a distinctly misleading characterization of the widely differentiated, as well as generally reflating, Asian economic environment.
Postaudit

In retrospect, I was more optimistic about Asia’s economic recovery than the post-1998 record has warranted. Still, deflating the “crisis” rhetoric was legitimate.