ASIAN RECOVERY AND FINANCIAL REFORMS: AN OVERVIEW

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The financial crisis that erupted in Thailand in July 1997 spread rapidly through the region, plunging the East Asian miracle into the East Asian debacle. Almost two years have passed. What have we learned and what has been done?

The spread and depth of the crisis took both experts and laymen by surprise. The regional contagion through the integration of financial markets and through trade and investment flows saw crisis spread to encompass most of East Asia. The crisis has been deeper and lasted much longer than most have anticipated. In the worst-affected economy, namely Indonesia, the GDP growth rate plunged from 7.8 percent in 1996 to negative 13.8 percent in 1998, that is a change in GDP of more than 20 percent.

The dust has settled and there is greater understanding of the factors that brought East Asia down. The triggering factor appears to be the massive withdrawal of short-term foreign funds, both portfolio and loan capital, reflecting crisis of confidence among international investors and lenders. There was a panic reaction. The underlying factors include the erosion of both macroeconomic and micro-financial fundamentals and weak domestic institutions. The policy responses have been at national, regional, and international levels. There has been much debate on the international financial architecture, on the role of the IMF, on the use of capital controls, on the restructuring of the financial systems of various countries, and on corporate governance.

From the bewilderment, anger, and despair of 1997 and 1998 have emerged rays of hope in 1999. There are indications that the economies of the region have bottomed out and are on a recovery path. Some argue that the stock market index serves as a good leading indicator, so that the surge in regional stock markets in recent months augurs well for the real economies. This afternoon, leading economists from the region will enlighten us on whether the recovery is underway and whether it is sustainable.

A critical factor that contributed to the crisis was a weak domestic financial sector and its inability to absorb the surge in short-term capital inflow prior to the crisis. There is now general agreement that financial restructuring is crucial to a robust recovery. Hence, this afternoon our speakers will also focus on this aspect.