THE ASIAN CRISIS FOUR YEARS LATER
AND THE IMPLICATIONS FOR EMERGING ECONOMIES

ABSTRACT

After close to 30 years of sustained rapid growth, the economies of East Asia—particularly Indonesia, Malaysia South Korea, and Thailand—were hit hard in 1997 by a severe financial crisis. The bankruptcies, devaluations and high interest rates caused sharp economic contractions in these countries, ranging from 7 percent in Korea to 15 percent in Indonesia.

What happens since? Are the macroeconomic adjustments, the structural reforms, and the economic recoveries—very substantial in the case of Korea, with growth averaging 9 percent a year in 1999-2000—strong enough to declare the "Asian Crisis" officially over? And what are the economic consequences for the region and the implications for the rest of the emerging market economies? These are the questions discussed in this presentation.

The presentation is divided in five sections:

I. Causes and Effects of the Crisis

II. Adjustment and Recovery

III. The Present Scenario

IV. The Longer Term Implications of the Crisis for Emerging Market Economies

I. The causes of the crisis are described in terms of a distinction between Macroeconomic vs. Financial Imbalances. The working hypothesis is that the Asian crisis was largely generated by the vulnerability of the financial sector. The characteristics of such vulnerability in the Asian context are discussed in detail.

The immediate consequences of the crisis, including the collapse of output, are then presented in terms of its macroeconomic effects for the countries involved.

II. In this section, the policy response to the crisis, the adjustment programs and the role of the international financial institutions are analyzed. The recovery of macroeconomic variables and of financial market indicators is described and the main structural policies and their results are presented. Special attention is paid to the issue of financial and corporate restructuring.

III. Describes the current situation and the remaining problems. The emphasis in on the shortfall of investment and savings, the performance of stock markets, and, in particular, the fact that the work of financial and corporate restructuring is still not complete.

IV. The analysis turns to the consequences of the crises for emerging market economies as a group—or category of assets. An analysis of the major developments in capital flows to emerging countries emphasizes the contagious effects that are translated into a reduction in the volumes, changes in the composition, and the increase in the cost of external financing. The main conclusion of the paper is that the Asian crisis, followed by the Russian Crisis of 1998 resulted in an increase in the level of risk aversion of savers and investors and increased the volatility of capital resources available to emerging countries.