

22/09/1997

Asia sneezes, the West shivers ...

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HARVARD: It used to be said that when the US sneezes, Asia catches a cold. The size and economic influence of the US on Asia and indeed the rest of the world could not be denied. It was the world's largest and most powerful economy.

The situation today is vastly different. Other economies have emerged and development and modernisation is no longer centered in the west but has spread far and wide including to the developing countries of Asia and those in the South.

The London based Financial Times declared: "World Stock Markets hit by Asia virus". In late August the fall in world stock markets was also attributed to "Malaysia's financial policy ..."

Malaysia is a very small player in the world financial system. Its stock market nevertheless has grown in recent years. It is the largest stock market in South-East Asia and before the currency crisis nestled comfortably among the top 15 largest bourses in the world. Its integration into the world economy, by virtue of the openness of the market, among others, explains the effect it has had on other markets.

It also proves that South-East Asian developing economies have a far reaching influence and impact than they themselves realise or have even dared to admit.

One estimate shows that economic growth in developed countries will be slowed down by 0.5 per cent due to the currency crisis. Had this happened two decades ago the West would not even have raised an eyebrow as there would have been no impact on their economies.

South-East Asian developing countries have increased their share of the world economy - in terms of increasing their share of world trade, contribution to world Gross Domestic Product, generating wealth, and foreign reserves. Of the 10 largest holdings of foreign reserves by Central Banks at least five are in Asia.

The economies of South-East Asia are more intergrated with the world economy than they were even a decade ago. The diversification of the domestic economies, direction of trade and industrialisation and increased productivity in many developing countries have also increased their profile on the world stage.

These economies are also major importers and exporters of goods and services from the developed countries. With possible declines in the growth rates of Asian economies and the depreciation of their currencies they are likely to reduce imports, thus affecting or reducing the offtake of goods from the developed countries.

The world today is vastly different from the one where the victors of World War II determined the fate of many, and especially of those in developing countries. But the Bretton Woods Institutions, such as the World Bank and International Monetary Fund, have not been very effective in diagnosing the ills of developing countries.

More often than not they prescribe the same dose of medicine to different countries, no matter what ails them, without taking into account local and domestic conditions and sensitivities.

The recent food riots in Jordan, following recommendations of the World Bank, are just one such example. The prescription for Mexico in 1995 is another example where the prescription was certainly not the right one and another attempt had to be made to save the "patient" and the US stepped in

to assist its southern neighbour.

However, the move by Asian countries to come together to help bail out Thailand in the wake of the recent currency crisis in South-East Asia, is something that needs to be looked at very closely with a view to having more permanent solutions in place for similar recurrances and other eventualities in future.

Perhaps the slow action from the IMF was a saving grace as it enabled Asian countries to think what they could do for themselves instead of waiting for others to help them out.

The Asia Pacific donors, led by Japan, hammered out a rescue package of more than US\$16 billion (US\$1 = RM3.03) aimed at bailing out Thailand. Undoubtedly, the IMF came in, but one would not expect anything less from the multilateral institution.

It had ignored East Asia and perhaps it did not have much to do as the "Miracle Economies" in East Asia were growing at rates which many developed countries could only dream off.

Asia, with its increasing share and stake in the world economy, needs to be able to fend for itself and have its own institutions or arrangements to cater to its "Asian" needs.

This will not be unique as Europe has its Monetary Union, and the Latin American countries have the US. And indeed since the debt crisis of the 1970s the Bretton Woods institutions have paid closer attention to Latin America than to Asia.

But Asia and its needs cannot be ignored. It is too important, not only for the Asians themselves but for the rest of the world, that Asia and South-East Asians should determine their own future.

Certainly the changing economic situation, the rising importance, economic sophistication and stature calls for a different approach. There is a need for them to coordinate their actions, and this is even more important in the increasingly boarderless and globalised world.

Thus the proposal by Prime Minister Datuk Seri Dr Mahathir Mohamad for an East Asia Economic Caucus (EAEC) is even more urgent now. The increased sophistication of the world economy means that the countries cannot defend their domestic economies against the onslaught of powerful external forces alone. There is need for collective and concerted effort as has been proven in recent weeks.

In addition to the EAEC, there are other proposals specific to the financial sector that have been aired including the need for an Asian Monetary Fund, like the IMF, in view of the vulnerability of regional currencies. A need for some sort of safety net has also been suggested but what concrete form it would take is yet to be looked into.

There is a loose arrangement among seven Asia Pacific central banks to provide each other with liquidity in terms of crisis but this was insufficient to counter the chaos last month. More powerful forces were at play. Thus more powerful remedies and safeguards are needed.

Thus while Asia and especially East Asia is beginning to exert increasing influence on the world economy, countries in the region need to safeguard their economies collectively to ensure that they are not adversely affected by external forces beyond their control. They certainly do not want to go back to a situation of getting pneumonia when the US sneezes.

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