

12/01/1998

Harvard expert: Asian economies to recover

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HARVARD economist Jeffrey Sachs, who has blamed the International Monetary Fund for aggravating Asia's financial crisis, expects recovery for the region by next year.

He said although the problems facing South-East Asia are serious, once the 1997 currency depreciations have percolated through the economy, "the well-known export process of the region will show itself again".

The director of the Harvard Institute of International Development said this year will see the region displaying two faces: a construction sector still mired in financial difficulties, and a vibrant export sector.

"By 1999, the growing parts of the economy will easily outweigh those which are in difficulty," he wrote in the Economist's The World in 1998.

Sachs, who took the IMF to task last Saturday, said international institutions such as the Bank for International Settlements and the World Bank need to do much more to help the regulatory environment of the emerging markets.

He said they have not done enough to promote proper banking laws, transparency of transaction or decent supervision.

"The broadest lesson for 1998 is positive, however. The emerging economies are determined to stick to the path of global integration. No recent crises has led a country to withdraw from international trade and finance. Global integration is still proceeding apace.

"There is no better news for the world's future wealth," Sachs added.

Meanwhile, the Economist's Asia editor Paul Markillie said 1998 will see an economic slowdown in the Asian "tigers".

But the 1997 currency crisis will force changes that are for the good, and within a couple of years the tigers will be leaping forward again, he added.

Markillie said property development will slow to a snail's pace, and the great cranes of progress will be still.

However, those countries that look the most miserable will be exactly those that come out smiling first.

"Much will depend on the extent that individual governments are prepared to take hard decisions," he said.

Markillie said the shock waves from the turmoil in the Asian financial markets will continue through 1998.

For one thing, speculators will be testing to see if the tigers really are facing up to their problems and trying to get their houses in order.

"Everywhere, big infrastructure projects will be put on hold. The lead has been taken by Malaysia's Prime Minister (Datuk Seri Dr) Mahathir Mohamad, who has shelved many of his cherished but costly projects. Other Asian countries will have to follow," he added.

Reuter reports: Asian critics of the IMF were gathering steam as the economic crisis intensified over the weekend, hitting out at conditions attached to aid packages that were not working.

"The IMF's position is to give an aspirin for every ailment," said Mr Ajay Kapur, regional strategist at UBS Securities.

"They dug into their little medicine kit and started handing out aspirins. And that is the problem."

The IMF applied inappropriate conditions to Asia because it relied on its experience with nations in Latin America and Africa, where economies were characterised by raging inflation, high budget deficits and public

sector debt, analysts said.

Mr Martin Khor, director of international policy group Third World Network wrote in the latest edition of the Far Eastern Economic Review that the IMF did not understand Asia.

Regardless of accusations of cronyism, governments in this region can, on the whole, boast of balanced budgets, low public debt levels and high savings rates.

Rather than the wrecked national economies typical of nations under IMF guidance elsewhere, Asia's problems lay in the private sector, with private businesses responsible for building up mountains of foreign-denominated corporate debt.

"The IMF has failed," said one Hong Kong economist.

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