

## 10. EAST ASIA'S RECOVERY

1998 was the worst year of the East Asian financial crisis. The financial markets clearly show that, with the exceptions of Hong Kong and China, all the currencies of the ten countries in this study were seriously depreciated, and in each of the countries, stock prices dropped sharply. From the commodity markets, we know that apart from Taiwan, Singapore and China, which still achieved positive growth rate, all the remaining countries had a negative growth rate.

However, through the readjustment of their financial institutions and the enhancement of their endeavor, most of the East Asian countries have started to improve their economic conditions since early 1999. And from January 2000 on, their currency depreciations have greatly improved, and their stock prices have resumed their increasing trend to the eve of the outbreak of the financial crisis (see Table 1.1). As for their growth rates in 1999, all of them had achieved positive growth rates. For instance, among the most affected countries, Korean's growth rate would be 9.2%, Indonesia 0.1%, Thailand 4.2%, and Malaysia 4.9%, even though some of them have not yet achieved their growth rates as high as them before the crisis (see Table 1.3).

Generally speaking, East Asia has tended to recover, though many of the countries have not yet recovered to the level achieved in 1996, all of them have greatly improved as compared to their economic situation in 1998. It may be ironic to say that none of the economists foresaw the sudden meltdown of the financial markets in East Asia and predicted the recovery of East Asia so rapidly.

The reasons why East Asia can resume its path to growth are interesting to know. Actually, the economic fundamentals of East Asia are not as weak as expected by many western economists, otherwise, it would prove impossible for the region to gain strength again from its depression in two years. The key factor is that most industries in the region are trade-oriented, and their major markets are the United States and the European Union. During the last years, the two regions have maintained high growth so that they have the capacity to absorb the exports with low prices from East Asia. In addition, many of the trade-oriented industries are managed by foreign

investors who have no serious financial problems. Even if they had, it is rather easy for them to resolve their financial difficulty. Another equal important factor is that almost every East Asian country has undergone restructuring of their financial institutions. They also have tried to eliminate the nepotism between government officials and enterprises, to make their management more transparent and to reduce their debt and unnecessary investment, which should be helpful for them in regaining their growth.

By the end of 1998, the rising prices of stocks in the U.S. have reached more than 10,000 points, which has caused many people to become worried about the busting of the bubble economy. Correspondingly, many big international funds started to consider the reallocation of their capital in order to avoid the risk of “putting all eggs to one basket”. In particular, finding that the financial crisis in East Asia has reached its bottom and was in position to rise again, and not wanting to lose an opportunity, they shifted the direction of their capital movement from the developed area to the newly emerging markets. Since the summer of 1999, all the countries in the region have tended to gradually recover.

So far, East Asia has met two basic requirements for its recovery, that is, the expansion of their foreign trade and the inflow of capital to their financial markets.

## **11. THE PURPOSE OF THIS VOLUME**

The financial crisis in East Asia is almost over; now is the time for us to review the real causes and potential effects of the crisis, and to examine the most important lessons to be learned from the bitter experiences of the past three years. There is an old Chinese saying, “the past that should not be forgotten may serve as a master for the future”. This is of paramount importance in exploring the problems of the East Asian financial crisis.

In this volume, we have dealt with ten counties, the four Asian dragons, Singapore, Hong Kong, Taiwan and Korea, the four Asian tigers, Thailand, Malaysia, Indonesia and the Philippines, and two giant countries, China and Japan. We would like to find the answers to the following questions: