

**Table 1.5 External Debt and Foreign Exchange Reserves**

Country	External Debt (as % of GDP)			Exchange Reserves (as months of imports)		
	1990-95 Avg.	1995	1996	1990-95 Avg.	1995	1996
Taiwan	0.3	0.2	0.1	14.5	11.8	10.3
Hong Kong				9.0	9.1	10.9
Singapore*	7.7	8.0	8.2	6.8	7.0	7.0
Korea	10.0	9.4	11.2	2.8	3.1	2.8
Thailand	22.1	20.1	19.8	6.9	7.0	6.6
Malaysia	32.0	32.2	28.8	5.2	4.2	4.3
Indonesia	47.7	43.4	38.9	6.5	5.6	6.1
Philippines	53.6	50.9	n.a.	3.7	3.5	4.4
China	14.4	15.3	15.0	4.9	8.0	9.1
Vietnam	176.8	122.5	n.a.	1.4	2.2	2.1
Australia	46.1	46.8	n.a.	4.4	3.1	2.5

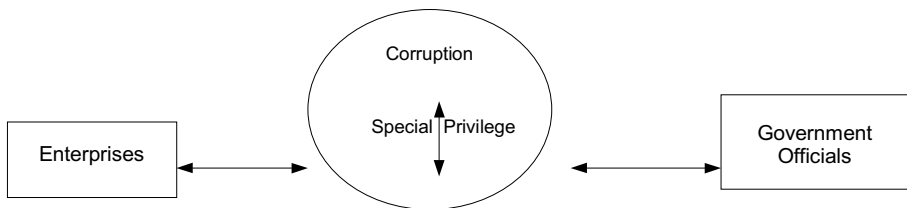
\* 1993-95 average external debt estimated by Singapore Department of Statistics, Dec 1998.  
*Source:* Ross H. McLeod and Ross Gamant (eds.) *East Asia in Crisis*, p. 26.

figures at Table 1.5, the answer is inconclusive. For instance, Thailand's exchange reserves were equivalent to 6.9 months of its imports during the period 1990-1995, and were larger than any one of the other Southeast Asian countries. Therefore, it follows that Thailand should have suffered much less from the financial crisis, however, Thailand was the one country most affected by the financial crisis!

## **6. CORRUPTION AND NEPOTISM BETWEEN OFFICIALS AND ENTERPRISES**

In general terms, corruption may be a culture of developing countries, but corruption itself is not the main rootstock of financial crisis, although it does have the capacity to weaken the foundation of financial institutions. In East Asia, with the notable exceptions of Singapore and Hong Kong, none

of the countries are currently able to avoid corruption<sup>5</sup>. Corruption is viewed as a kind of transaction cost, through which enterprises can enjoy special privileges offered by the government. For instance, most of the governments in the Asian countries still own and run banking businesses. Enterprises can borrow large amounts of mortgage-free capital from the state-owned banks with low interest rates, and since it has become so easy for them to obtain loans, these enterprises usually tend to enlarge their scales whilst ignoring efficiency. Under these conditions, it is impossible for banks to set up a sound supervision system for use in overseeing the debtors' behavior. Therefore, many of the financial institutions involved become too fragile to be able to withstand the financial challenge.



**Fig. 1.1 The Black Market Mechanism**

Through the operation of the black market mechanism, relevant officials obtain ill-gotten gains from the enterprises while the enterprises themselves are provided special privileges to make money.<sup>6</sup> When the economy becomes sluggish, many debtors do not have the ability to repay their loans, leaving the relevant banks saddled with accumulated heavy bad loans, and thus

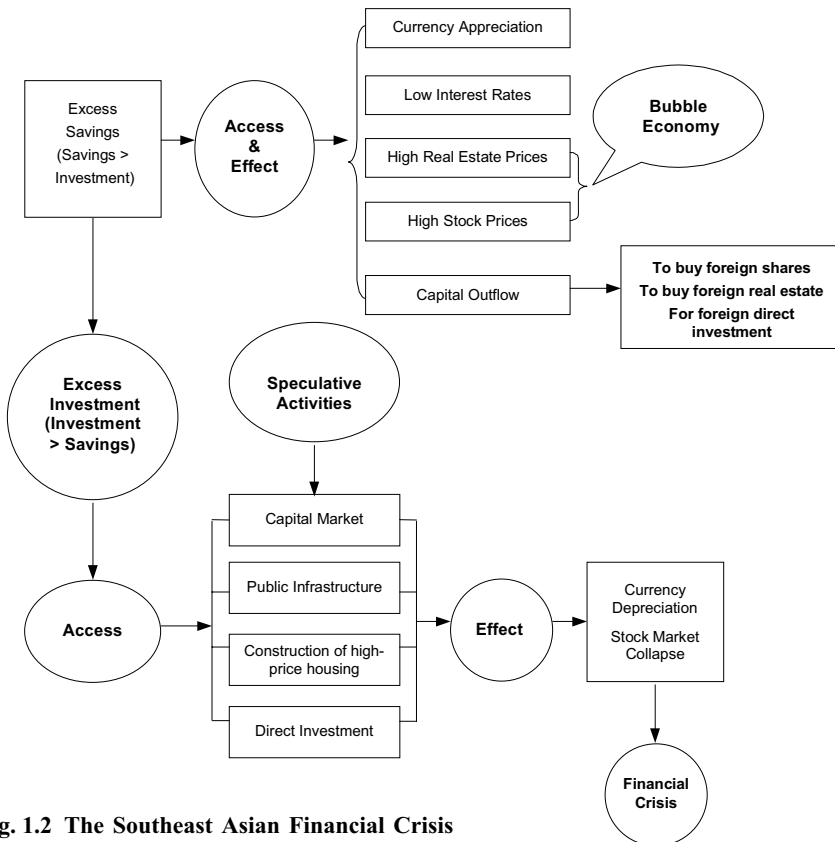
<sup>5</sup> Prior to the 1970s, Hong Kong also had a serious corruption problem, but since then, corruption cases have been greatly eliminated due to the operation of clean administration.

<sup>6</sup> In some countries, the enterprise would reward the official for the special privilege by offering a high position within the enterprise once he retired from the government. The so-called “corruption, cronyism and nepotism”, as popularized on CCN, takes place in most Asian countries: the most serious being Indonesia. This is why, when financial crisis struck, political revolution immediately followed.

extremely vulnerable to financial crisis. When these banks go bankrupt, the government will usually use special measures to rescue them, which causes the problem of “moral hazard”.

## 7. A MODEL USED TO EXPLAIN THE FINANCIAL CRISIS

Returning to the causes of the financial crisis, as already mentioned, many explanations have been provided. Here, we present a further explanation: the marriage of internal excess investment and external excess



**Fig. 1.2 The Southeast Asian Financial Crisis**  
(An Explanatory Model)