



Charting the Course at the Edges of the Economic Storm

by Zhou Dun Ren

The Asian economic crisis started, almost suddenly, when Thailand experienced trouble in maintaining its currency exchange rate on July 2, 1997. Since then it has spread like wildfire to other nations and regions in Southeast and Northeast Asia, with South Korea and Japan being sucked into it toward the end of the year. This continuing economic crisis promises to become one of the most significant events toward the end of the 20th Century. Given its timing and scale, it is not difficult to see that the tremendous impact it is exerting will be borne into the 21st century.

To help sort out the resulting host of challenging complications, that interact and intertwine with each other, we should perhaps discuss the impact on three dimensions.

– Economic Impacts: This includes impacts in the financial/economic area that are direct and most pertinent, like currency devaluations, IMF loans, growth shrinkages, bankruptcies, and stock index plunges.

– Social and Political Impact: This involves things like worker strikes, social unrest, student demonstrations, and change of government leadership.

– The Philosophical Impact: This touches fundamentals like the social and economic models of the East as opposed to those of the West and the values and mores that support them. The resounding questions are: does this crisis lead to the demise of the Asian (economic) miracle? Does it in turn negate the Japanese model of development that many Asian nations have followed? Does it mean that Asia must be Americanized for economic revival and future development?

Economic Impact. China's immediate and initial response to the crisis was a genuine concern of the possible economic fallout that may affect mainland China and the Special Administrative Region of Hong Kong. The defense of the Hong Kong dollar was much on the minds of the Chinese leadership. Almost at the same time, it was realized that, though China was not totally immune to the crisis, three positives separated China from those affected directly. First, China did not open its capital accounts for free transactions and the renminbi currency was not fully convertible. Second, China had acquired a large hard currency reserve (about \$140 billion), the second largest in the world. Third, China's foreign debt was of a sound structure in that short-term borrowing was a safe percentage of total international obligations. These three positives plus the fact that China had started 4 years ago to cool off its economy under the personal guidance of Mr. Zhu Rongji gave China confidence in its defense against the crisis.

Meantime, China has contributed, to the best it could, to the IMF and provided other economic assistance, the most meaningful being the commitment not to devalue the RMB currency in face of strong economic pressures. However, given the existing economic ties China has in this region and the relative increase of competitiveness as a result of currency devaluation of nations in this region, negative economic impacts are more and more apparent. Toward the middle of 1998 Chinese exports to Asia showed a significant drop and foreign direct investment from Japan, South Korea, and Hong Kong is decreasing.

China was quick to realize the root cause of the crisis to be flaws in fundamental financial and economic management. Therefore a thorough-going restructuring is needed to ensure economic security and development. That is very similar to, though not exactly the same as, what China had been doing in its mammoth economic reform. One of the differences is the rethinking of the economic models of Japan and South Korea. The role of the government in financial micro-management, the formulation of large corporations like chaebols, and the excesses of export-led growth are being challenged. Serious discussions are being conducted as to the need for less direct government control of finance, the growing independence of the central bank, the importance of expanding domestic need, flexibility in the size and structure of future corporations (that the existing State owned Enterprises are being reformed into), and the bubble-prone stock market and real estate industry.

Social and Political Impact. Since the crisis, at the beginning, looked like it was coming from without, it could have generated doubts about China's opening up to the outside world. But, it did not. This is a definite sign of political maturity. The opening up policy, as formulated by Deng Xiaoping, has proved not only necessary but also beneficial. China's integration into the world community is historically inevitable. Few in China argued for closing the doors though precautions are taken in practical financial operations.

Social and politically, China has managed to stay fairly stable and the likelihood of drastic political change and massive social unrest remains very small, for two reasons. First, the impact on China has not been as severe or devastating as in other nations such as South Korea and Indonesia. GDP keeps growing to reach the yearly target of 8% for 1998, despite doubts both at home and abroad. The general living standards of the average Chinese remain pretty stable, with lower prices and higher unemployment. The other reason, equally if not more important, is that economic reforms planned way before the start of the crisis have been going on, with or without the crisis.

In March, 1998, the newly elected Premier of the State Council, Mr. Zhu Rongji announced his reform plans, based on Party Congress decisions as well as the accomplishments

and flaws of earlier economic reforms. Many of Zhu's reform plans to strengthen finance and to produce a healthier real estate market, and to effect a retrenchment of the government both on the national and local levels coincide with lessons learned from the crisis. Such reform measures are being carried out steadily, though not without difficulties. But the crisis and its impact on China do not constitute fundamental challenges to the reforms. Rather, it helps to reinforce the hand of the reformist government. If there are any changes, they will likely be changes of process, speed or tactics. The negative impact of the crisis has helped to produce a sense of urgency to accelerate reforms.

Having said so, one can hardly rule out the possibility that the economic crisis, bad as it is, may take another sharp turn for the worse if Japan gets into bigger trouble. Then the impact on China may tip the existing social and political balance and China will have to make more direct response to keep the country stable.

Philosophical Impact. One of the fundamental questions people in China often ask now revolves around the Asian economic model that previously brought sustained high economic growth in Japan and other Asian nations and regions. In the late 1970s and 1980s, there were loud praises from both East and West. For a time the admiration for and desire to learn from the Asian economic model was not concealed, even in the United States. The major elements were export-led growth, government guidance/control, and collectivism (as against individual initiative and competition). Some in the West and in the East saw an implicit competition between the two economic models. Some alarmists in the West were crying "threat" from the Orient. But now the Asian model has lost its luster as the crisis deepens. A seemingly logical conclusion is Asia has lost in the competition. An extension of the logic is that, given the changes being made at the behest of IMF (allegedly at the bidding of the United States) the crisis has led to the "Americanizing" of Asia.

Discussions on this matter seem heated though pretty much limited to academic circles. There are basically two schools of thought: One is that Americanization comes from the triumph of liberal capitalism in the world. Almost all the existing economic practices in Asia were copied from the West. What went wrong was that the copied economic regime was not well supported by the Asian social and political structure since it was based on Western values and mores. Asian nations cannot hope to copy only the economic regime or individual practices without changing basic values and corresponding social and political structures. In Asia, the ruptures finally began to show up at the interface between the economic upper structure and the social and political foundation. The extreme of this logic implies not only that drastic and fundamental changes are necessary but that Asia will continue to follow behind the West in the centuries to come. Politically at least, this looks totally unacceptable to the Asian nations, nor is it subscribed to by some Western scholars.

An almost opposing view is that economic woes or troubles as shown by the Asian crisis are the very symptoms of the ills of the Western economic system. They have happened in the West itself and on other continents. One view

is that the Asian crisis is symptomatic of the crisis of world capitalism. Yes, it is happening in Asia, and the Asian governments and businesses are responsible for their own mistakes. But, complete copying of liberal capitalism does not solve the Asian problem simply because liberal capitalism does not solve its own problems in the West, which have been there a long time for everyone to see. Rather, the crisis happens at a historical juncture when the rapid globalization and the fast development of information and information technology are changing the roadmap of all those places involved. In fact, the faster economic growth is achieved, the greater the exposure to risks. What is more, the reckless and therefore irresponsible pursuit of profits, is also thought to be part of the cause of trouble as it had piled risks on the already somewhat fragile financial structure in these afflicted nations. So the diagnosis has to be careful and accurate.

Asian values and mores are products of thousands of years, and cannot be expected to change quickly and drastically. If and when they do change, they change in the direction as determined by the development of human history. Western values and mores are changing, too, and the direction of change will have to be determined by the development of human history which is common to all those on this planet. The positive ingredients from both Western and Economic culture will be adopted by a converging world development culture to take shape in the coming century.

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