

## ASIAN FINANCIAL CRISIS: TEN YEARS ON

It's been 10 years since the Asian Financial crisis ravaged Asian markets and it is fitting to look back and examine what happened then, how that has changed the landscape of Asia and where we are today.

### Asia... the Comeback Kid

When the Asian currency crisis struck in 1997-1998, many thought that it spelt the end of the Asian miracle and the region would be condemned to stagnation; but it would not be. Today, instead of declining economic growth and collapsing financial markets, Asia enjoys high economic growth rates, appreciating currencies, buoyant stock and housing markets.

### Looking back... Recounting the horror...

Set in motion by the collapse of the Thai baht, contagion spread across Asia, and Asian currencies halved in value<sup>1</sup> vis-à-vis the US dollar within a short span of less than six months. The Indonesian rupiah was the hardest hit, falling to about one-sixth of its pre-crisis level in June 1998, bankrupting many businesses. Depleted in unsuccessful defense of their currencies, Thailand, Indonesia and South Korea's combined foreign exchange reserves were at that time much less than that of Bill Gates wealth<sup>2</sup>.

### A 1997-98 mini-stock market crash ensued...

Panic and mania followed as foreign investors pulled money out of Asian equity markets, causing markets to tumble. The STI index lost almost 60%, falling to a dismal 805 points in September 1998 from a pre-crisis high of 2,130 points while the KLCI index free-fall 80% from its pre-crisis level. On 27 October 1997, a mini-stock market crash ensued as panic spread through the rest of the world. The Dow Jones Industrial Average plummeted 554 points or nearly 7% in a single day, European bourses were also not spared<sup>3</sup>.

The real economy also suffered. All the crisis-affected East Asian countries experienced negative growth rates in 1998, putting millions out of work.

### Ten years on... Stronger and more resilient

Determined not to see a repeat of the 1997-98 crisis, most Asian countries now adopt more flexible exchange rate regimes. They restructured their debts, turned massive current account deficits into surpluses and accumulated record levels of foreign reserves. In fact, the stock of foreign exchange reserves increased more than ten folds from about US\$250 billion in 1997 to about US\$2.7 trillion currently<sup>4</sup>, providing a defense against speculative attacks, making economies less vulnerable to shocks and increasing investors' confidence. In fact, former Federal Reserve Chairman, Alan Greenspan said the chance of a repeat of the 1997 crisis is virtually non-existent<sup>5</sup>.

East Asia ex-Japan is now contributing more to global output, producing approximately US\$5 trillion in output, double the dollar value just before the crisis<sup>6</sup>. Exports in East Asia have grown, making it one of the most open trading regions in the world. The region is also the largest

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<sup>1</sup> Average of the percentage depreciation of the Thai baht, Korean won, Indonesian rupiah, Malaysian ringgit, Taiwan dollar and the Singapore dollar from its pre-crisis levels.

<sup>2</sup> Bill Gates wealth is estimated by Forbes to be US\$51 bn in 1998. Source: Forbes.com

<sup>3</sup> Source: Bloomberg

<sup>4</sup> Finance ministers from 13 Asian nations agreed on May 5 to pool part of their \$2.7 trillion of foreign reserves to prevent a repeat of the crisis. Source: Bloomberg article dated May 11, 2007 by Michael Dwyer.

<sup>5</sup> Source: as above

<sup>6</sup> Source: World Bank – East Asia Update, 2007

recipient of foreign direct investment, capital markets have grown and domestic financial sector assets amount to US\$9.6 trillion. The region has not just become wealthier but also stronger.<sup>7</sup>

At PMA, we are positive on the long-term outlook of Asian markets. We believe that Asian equity markets will outperform relative to the rest of the world. While there may be short-term volatility and market pull-backs, Asian markets will be able to weather further market jitters ahead. Substantial current account surpluses, rising reserves, stable government budgets and strong macroeconomic fundamentals mean that Asia is now in a better position to deal with external shocks and temporary fluctuations in foreign investment flows.

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<sup>7</sup> Source: IMF-World Bank report entitled "An East Asian Renaissance: Ideas for Growth".