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Asia Pacific: Perspectives
Center for the Pacific Rim
2130 Fulton St, LM202
San Francisco, CA
94117-1080

Tel: (415) 422-6357
Fax: (415) 422-5933
email: pacrim@usfca.edu

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Our task is to inform public opinion through a broad hospitality to divergent views and ideas that promote cross-cultural understanding, tolerance, and the dissemination of knowledge unreservedly. Papers adopting a comparative, interdisciplinary approach to issues of interrelatedness in the Pacific Rim region* will be especially welcome. Graduate students, as well as established scholars, are encouraged to submit their work.

* 'Pacific Rim region' as used here includes North America, Pacific Central and South America, Oceania, Australia, New Zealand, Southeast Asia, East Asia, South Asia (India, Pakistan, Nepal, Bhutan, and Sri Lanka), and the Russian Far East.

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Globalization and Economic Crises in Emerging Countries

by Rolf Màrio Treuherz, Ph.D.

Abstract

Any country emerging from whatever state of development into the tumult of the global economy can expect to be jolted by the experience. Some observers have claimed that the economic crises suffered by some such countries from the mid-90s onward can be attributed to the effects of globalization and the unique demands it places on national economic policy makers and economic actors. This paper will examine the course of economic crises in nine countries on four continents, tracing the existing circumstances, the challenges presented by the crises, and government responses in each case. A concluding section rates each country's experience according to a set of 'pre-requisites' for successful integration into the global economy.

Globalization has been held responsible for stimulating and accelerating the economic and financial crises in emerging countries between 1994 and 1999 and more recently in Turkey and Argentina. It is frequently suggested that globalization was instrumental in precipitating currency devaluations, recessions, imbalances in income distri-bution, poverty, and unemployment. Can these accusations be taken seriously? In this paper, we will examine the political, social, economic, and financial events that occurred before and during the crises that affected nine countries—Mexico, Thailand, Indonesia, Malaysia, South Korea, Russia, Brazil, Turkey, and Argentina. Next, we will analyze the post-crisis scenario in each of these economies to determine whether the experience gained from past difficulties has been fruitful. A discussion of the concept and main attributes of globalization will follow. The final objective is to find out if and how globalization affected emerging countries and whether the influence was harmful or beneficial afterall. Rather than considering the origin of globalization from a historical viewpoint, our study is directed mainly to the relationship of globalization to the crises that took place in some emerging countries. It is indeed a fertile ground and a rare opportunity for discussion, especially now that a significant amount of information is available. Complete episodes of each crisis can thus be examined, starting at the origin, passing through the critical phase, and ending with the outcome.

The History of Economic Crises in Emerging Countries

As an overview of each individual crisis, we shall analyze the main factors that caused so many disorders in these countries.[1] The description will consist of three sections. The first encompasses the political, social and government related factors. The second, consists of an outline of the economic and financial problems that contributed to the disturbances. The third shows what each country has been able to learn and accomplish, and what may be expected for the country's future. The corresponding results are substantiated by a series of tables, with indicators until the year 2001, showing past data and forecasts.

MEXICO

Political, Social, and Government Related Factors

Two important events caused social and political problems in Mexico before the currency crisis of December 1994. First, on January 1, 1994, news spread that four towns in the southeastern state of Chiapas had been taken over by the Zapatista National Liberation Army (EZLN). Through a well-timed coup against the Mexican army, the EZLN declared war on the government with the objective of obtaining better conditions of "work, land, housing, food, health care, education, independence, liberty, democracy, justice and peace."[2]

The rebels called for the revision of NAFTA (North America Free Trade Association) at a time when President Carlos Salinas de Gortari proclaimed that Mexico was on the verge of becoming a more modernized and industrialized state. The NAFTA negotiations dealt with agricultural tariffs, the final impediment to economic reform. These tariffs protected Mexican farmers from cheap US and Canadian grains and it was the realization that NAFTA would eliminate this protection that provided the impetus for the rebellion by the indigenous population since the Mayan Indians of Chiapas relied on this protection in order to continue to trade corn, beans and other products.

Both the insurrection and the NAFTA debate raised the question of stability in the country and left foreign investors wondering if, in fact, Mexico was stable enough for their investments. Negotiations between the government and the rebels took place in February 1994, but the revolt left a definite mark upon the political atmosphere. On January 14, 1995 a cease-fire was finally established.

Secondly, in March 1994 the presidential candidate Luis Donaldo Colosio of the ruling political party, the Partido Revolucionàrio Institucional (PRI) was assassinated, and his replacement candidate Ernesto Zedillo Ponce de León was elected president in August 1994. The assassination aggravated not only the existing domestic tension, but also increased the fear of foreign investors that the country was on the verge of further economic problems. The devaluation of the *peso* (Ps) occurred in December 1994, leading to a banking crisis and a period of deep recession.

Economic and Financial Factors

Mexico achieved remarkable economic progress between 1988 and 1993. The country's stabilization efforts were so successful that it became part of NAFTA. Mexico pursued a tight fiscal policy, liberalized trade and capital flows, privatized public companies, restructured its external debt, and reduced inflation from 160% in 1987 to 8% in 1993. As a result, foreign capital inflows surged considerably, with US$104 billion entering the country between 1990 and 1994.

This sizeable inflow, however, overvalued the peso and widened the current account deficit, mainly financed by short-term capital. In addition, monetary policy became expansionary with a resulting deficit in public accounts. Both of these phenomenon were inspired by the coming elections. Furthermore, the maintenance of the exchange rate pegged to the dollar was an incentive to borrow in foreign currencies, increasing the country's exposure. The pressure against the local currency by both domestic and international sources depleted Mexico's foreign exchange reserves and eventually forced the Central Bank to switch to a free-floating exchange regime in December 1994. Political and economic fragility was further magnified by the replacement of its peso-denominated government debt by US$29.2 billion of so-called '*tesobonos*' (treasury bonds) linked to the US dollar. This constituted a risky procedure in view of the imminent devaluation that threatened the economy. In fact, a 71.4% and 43.3% devaluation of the peso ensued in 1994 and 1995 respectively, confirming that the attempt to maintain the value of the currency had been suicidal.

Table 1: MEXICO (Selected Indicators)

Indicators	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	-15.9	-13.5	-18.5	7.1	6.5	0.6	-7.7	-5.7	-8.0	-9.0
Current account balance (US$ bn)	-24.4	-23.4	-29.7	-1.6	-2.3	-7.5	-15.8	-14.3	-17.7	-22.8
Foreign direct investments (US$ bn)	4.4	4.4	11.0	9.5	9.2	12.8	11.3	11.8	12.7	na
Portfolio investments (US$ bn)	18.0	28.9	8.2	-9.7	13.4	5.0	-0.6	11.0	-2.2	na
International reserves (US$ bn)	18.4	24.9	6.1	15.3	19.2	28.1	31.5	33.0	35.1	38.7
Real GDP growth (%)	na	1.9	4.5	-6.2	5.1	6.7	4.9	3.7	6.9	4.5
Consumer price inflation (% - p.av.)	na	9.8	6.9	35.0	34.4	20.6	15.9	16.6	9.0	6.5
Interest rate (%)	18.9	17.4	16.5	60.9	33.6	21.9	26.9	25.9	18.3	16.5
Exchange rate (Ps / US$ - p.av.)	3.12	3.11	5.33	7.64	7.85	8.08	9.87	9.51	9.57	9.31
Unemployment rate (% - p.av.)	na	2.4	na	4.7	3.7	2.7	2.4	2.0	1.9	2.6
Stock exchange (index in US$)	24.0	26.9	21.3	13.9	18.1	24.8	19.4	34.9	28.3	30.1
Population (million)				91.2					97.4	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Instituto Nacional de Estatistica, Geografia y Informatica (INEGI) = http://www.inegi.gob.mx/economia/ingles/fieconomia.html Bank of Mexico = http://www.banxico.org.mx/. Secretaria de Hacienda Y Credito Publico (Mexico's Ministry of Finance) = http://www.shcp.gob.mx/ english/index.html. CNNfn = http://cnnfn.cnn.com. Year 2001: Trade Balance, Current Account Balance, GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Unemployment = Feb. 28. Interest Rate = April 4. Exchange Rate and Stock Exchange = April 17.

Finally, Mexico was bailed out of this situation by the IMF, the US Stabilization Fund, and by short-term support from the G-10 central banks through the BIS (Bank of International Settlements) in a joint financial assistance of US$47.8 billion in January 1995.

The Outcome

The Mexican government adopted a rigorous program of internal macroeconomic and structural adjustment, with a restrictive target for monetary growth and wage restraints. The lower domestic demand in 1995 forced businesses to redirect their effort to foreign markets facilitated by privileged access to United States and Canadian markets (i.e., NAFTA). Meanwhile, the funds supplied by the IMF (US$10 billion), by the United States (US$20 billion), and by the Bank of International Settlements (US$17.8 billion) were instrumental in preventing the default of the country's external debt. International credibility in Mexico's future was rapidly restored. Despite the tight money and spending cuts, the economy managed to grow from 1996 onward.

As shown in Table 1, GDP (gross domestic product) has grown steadily after 1995 and reached 6.9% in 2000. It is expected to close at 4.5% in 2001. International reserves improved from the 1994 low of US$6.1 billion to US$35.1 billion at the end of 2000 and US$38.7 billion on February 28, 2001. In contrast to 1994, when the current account deficit was equivalent to 7.0% of GDP**,** in 2000 it decreased to 3.3%. Although the trade and current account balances became negative after 1996, they were being financed by foreign direct and portfolio investments. Exports increased annually, but were outpaced by imports. Presumably the trade deficits will remain at manageable levels. Unemployment rates are low, close to 2.5% and the exchange rate showed mild fluctuations around Ps9.50 per US dollar (Ps9.31 on April 17, 2001). Consumer prices decreased from 16.6% in 1999 to 9.0% in 2000 and are estimated to decline to 6.5% in 2001. Although government spending rose during the first half of 2000, the increase was financed by higher tax revenues from the stronger economy and from oil price increases in the international market. The stock exchange followed the path of the United States bear market since mid-1999, but recovered slightly as of April 17, 2001.

The redistributive nature of public expenditure was enhanced through the enlargement of basic education, widening access to health services, social security coverage for low income earners, reorientation of subsidies towards low income families, a more equitable regional distribution of programs, and greater focus on extreme poverty alleviation in rural areas. More than three million new jobs were created and the open unemployment rate dropped to its lowest level since 1985.

A new 'Financial Strengthening Program' for the Mexican economy for the years 2000-2001 was negotiated in the second semester of 2000 with various financial institutions. The program's objectives are (a) to renew and expand credit lines with multilateral and official financial institutions and the extension of the North American Framework Agreement; (b) to reduce the public external debt and servicing costs, as well as improve its maturity profile; and (c) to consider the 'Stand-By Arrangement' with the International Monetary Fund as a 'Precautionary Arrangement'. The cancellation of all current liabilities to the Fund is under review.

This Strengthening Program comprises a total of US$26,440 million, distributed as follows:

– US$1,540 million from the IMF, under a ‘Precautionary Arrangement’;
– US$6,000 million from the World Bank for projects in 2000 and 2001;
– US$4,200 million under the lending program of the Interamerican Development Bank;
– US$8,000 million from the EXIMBANK of the United States (US$4,000 million), Japan (US$2,158 million), and other countries to finance commercial credit lines for goods and services imports;
– US$6,700 million in contingency lines under the North America Framework Agreement.

President Vicente Fox, of the center-right Partido de Acción Nacional (PAN) although he lacked a majority in either house of Congress, succeeded in bringing to an end the 71-year federal predominance of the Partido Revolucionario Institucional (PRI). Overall, the performance of Mexico in 1999 established a firm image among international investors, a picture which President Fox will try to maintain through orthodox economic measures and a tight fiscal policy in 2001.

On April 4, 2001 Fox sent a new fiscal reform plan to Congress, designed to boost revenues by 4% of GDP. The plan would permit the implementation of reforms that guarantee an increase in tax revenues for 2002. One of the items, a proposed 15% tax on food and pharmaceutical products was harshly criticized by his political opponents. The prime objective of this tax is to compensate for a proposed cut of personal and corporate income tax. Mexico’s belt-tightening is being driven by the current economic slowdown—a result of the downturn in the US economy.[3]

Recently, Mexico has made substantial efforts to convince other Latin American countries, especially Chile, to join the Free Trade Area of the Americas (FTAA) before 2005 (maybe 2003). This endeavor received a setback at the Sixth Meeting of Ministers of Trade of the Hemisphere in Buenos Aires on April 7, 2001, where an agreement was reached among 34 countries to postpone the inauguration until December, 2005. Brazil’s pressure to maintain the date of 2005 succeeded at the end, thus maintaining the unity of Mercosur (the regional association between Brazil, Argentina, Paraguay, Uruguay, and recently Chile and Bolivia), although the new Argentinian Minister of the Economy, Domingo Cavallo, favored an earlier date, with the support of Uruguay. Other developments are likely at the Summit of the Americas, to be held in Quebec between April 20 and 22, 2001,[4] “where Heads of State and Government will review the progress made together both in addressing the challenges highlighted at the previous Summits of the Americas and in identifying new priorities for hemispheric action.”[5]

THAILAND

Political, Social, and Government Related Factors

As in other emerging countries of East Asia, government authorities in Thailand were reluctant to accept the timely advice of the IMF in 1995 and 1996 to take into consideration their vulnerability to external shocks. The authorities were confident that the outstanding economic situation in terms of balance of payment surpluses, and annual GDP growth at an average of between 7.5% and 8.5% would insulate their economy from such “exaggerated premonitions”.[6] This turned out to be too optimistic, but making matters worse inadequate government controls over the banking system led to various concessions being made to privileged groups closely connected to government officials while, at the same time, the real economic and financial situation was not adequately displayed in objective measures at the time.

Economic and Financial Factors

Thailand attracted almost US$74 billion of foreign capital between 1992 and 1996, mainly in the form of direct and portfolio investments and bank loans which were more than sufficient to finance its growing current account deficit and to provide successive balance of payment surpluses. The positive development of the stock exchange, economic stability in terms of low inflation and unemployment rates, the government policy in favor of opening the economy to trade and capital flows, and an average yearly GDP growth rate between 1990 and 1995, were all favorable indicators for international investors.

However, some negative events combined to dramatically change the country’s fate. First, the Thai currency, the *baht* (Bt), was pegged to the US dollar and remained practically unchanged around Bt25.50 per US$for over 5 years before the financial crisis of July 1997. With the fixed exchange rate regime, the baht fluctuated in tandem with the American currency and became overvalued, affecting the country’s external competitiveness. Second, on the assumption that Thai economic growth would continue, local industries and banks increased their borrowing in foreign currencies from international banks at lower interest rates than those prevailing in Thailand. This obviously increased the country-risk in case of currency devaluation. Third, the higher interest rates in Thailand attracted capital from outside the country to be repaid in US dollars. Fourth, Thailand’s banking system suffered from poor supervision by monetary authorities and loans were preferentially granted to so-called ‘connected borrowers’, meaning those with strong ties to government. In addition, the capital of most lending institutions was inadequate relative to the size of their financial operations. Non-performing loans increased with the complacency of government officials, making it difficult to close these companies or settle accounts with creditors. Fifth, the large proportion of investments in Thailand was directed toward risky sectors such as real estate companies and to the SET Stock Exchange in Bangkok. Sixth, most of the loans were of a short-term nature, with repayment established in foreign currency. Seventh, a long period elapsed before foreign investors became aware of the situation due to asymmetric information and insufficient disclosure of crucial data by monetary authorities. This blinded investors to the actual risks they were taking and exacerbated their reactions after they realized the seriousness of the situation.

The massive of investment in property produced excessive supply and prices of real estate plunged, while investors remained unable to generate positive returns. Both the growing deficits in the current account (almost US$15 billion in 1996) and the instability of the banking system caused great uneasiness among international financial circles and resulted in a massive outflow of capital. This pressure forced the Bank of Thailand to deplete almost US$12 billion in foreign reserves to defend the value of the baht. On June 2, 1997, in order to avoid further reduction of reserves, the Central Bank adopted a free-floating exchange regime. The baht suffered a devaluation of over 80% and Thailand was forced to request the financial assistance of the IMF in August 1997. A package of US$17.2 billion was approved at the end of 1998.

The Outcome

After the devaluation of the Thai baht and the approval of the IMF rescue package, a new restructuring plan was put into effect. Thailand would attempt to restore investors confidence by closing insolvent institutions and strengthening marginal ones. In addition, new rules allowed foreign direct investors to retain the majority of votes in Thai companies. Other structural measures were taken, such as import tax cuts and restructuring of large companies with the assistance of the World Bank. Special attention was given to improving labor quality and to generate new employment openings, both aimed at decreasing existing social imbalances.

The errors committed by politicians and bureaucrats during the crisis resulted in the replacement of the Central Bank's management team by more technically oriented professionals. It was later discovered that before the eruption of the crisis the Central Bank had not been made available important information which would certainly have alerted foreign and domestic investors and would have served as an early warning sign of the coming financial problems. An example was the heavy intervention of the Central Bank in the forward market in defense of the baht, causing the depletion of large amounts of foreign currency reserves.

The planned recovery, at first failed to materialize, in part due to low commodity prices in world markets and because exports did not respond to the more favorable exchange rate after the devaluation. Difficulties in neighboring countries reduced Thai exports, but imports were reduced even further, resulting in a current account surplus of US$14.2 billion in 1998. Credit became scarce, making restructuring more difficult, while measures to attract foreign capital faced the opposition of those interested in protecting domestic industries. Slowly, however, the economy started to improve.

As shown in Table 2, GDP reached 4.3% in 2000 with a similar trend for 2001. Appropriate policy implementation during the IMF-supported program resulted in the rebuilding of international reserves from the 1997 low of US$25.7 billion to US$31.9 in 2000 (US$33.2 billion on February 28, 2001). External demand remains strong, offsetting the impact of higher oil prices and weaker domestic demand. In addition, trade and current account balances have been positive since 1998 and are expected to continue throughout 2001 and 2002 according to estimates of the Economist Intelligence Unit (EIU). Inflation remains low, within the Bank of Thailand's target range. Interest rates are also decreasing to the level of 1994. However, market sentiment is weak, as shown by the drop in the stock market by 52% in 2000. Likewise, the exchange rate has depreciated since 1998, presently quoted at Bt45.66 to US$1 on April 17, 2001.

Table 2: THAILAND (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	-4.3	-3.7	-8.0	-9.5	1.6	16.2	14.0	11.9	10.4
Current account balance (US$ bn)	-6.4	-8.1	-13.6	-14.7	-3.0	14.2	12.4	8.1	6.0
Foreign direct investments (US$ bn)	1.6	0.9	1.2	1.4	3.3	6.7	3.2	1.3	na
Portfolio investments (US$ bn)	5.4	2.5	4.1	3.6	4.8	0.0	0.4	0.6	na
International reserves (US$ bn)	24.1	28.9	35.5	37.2	25.7	28.4	34.8	31.9	33.2
Real GDP growth (%)	8.7	8.6	8.8	5.5	-0.4	-8.3	4.2	4.3	4.0
Consumer price inflation (% - p.av.)	3.3	5.0	5.8	5.8	5.7	8.1	0.2	1.6	2.4
Interest rate (%)	6.5	7.3	11.0	9.2	14.6	13.0	9.0	6.6	7.5
Exchange rate (Bt / US$ - p.av.)	25.54	25.09	25.19	25.61	47.25	36.69	37.81	40.27	45.66
Unemployment rate (% - p.av.)	na	2.6	1.7	1.5	1.9	4.0	4.2	3.2	3.6
Stock exchange (SET index in US$)	na	54.0	51.0	32.0	8.0	10.0	13.0	6.2	6.3
Population (million)								61.9	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Bank of Bangkok = http://www.bbl.co.th/main.html Bank of Thailand = http://www.bot.or.th/bothomepage/ index/index_e.asp. CNNfn = http://cnnfn.cnn.com. Year 2000: Trade Balance, Current Account Balance, Foreign Direct Investments, and Portfolio Investments are estimates. All other items are actual data. Year 2001: Trade Balance, Current Account Balance, GDP Growth, Consumer Price Inflation, Interest Rate, and Unemployment Rate are estimates. International Reserves = Feb. 28. Exchange Rate and Stock Exchange = April 17.

Thailand met the first repayment of part of the 34-month Stand-by Arrangement with the IMF in November 2000 and emerged from the crisis with a strengthened banking system, in which all private banks meet the regulatory capital adequacy standards, and have the required regulatory provisioning against non-performing loans. However, some concern exists about the slow pace and questionable quality of corporate debt restructuring.

As a result of the Thai elections, Prime Minister Thaksin Shinawatra was confirmed on February 9 as the 23rd Prime Minister of the 54th. government of Thailand. Shinawatra is a 51-year-old telecoms tycoon, whose Thai Rak Thai (Thais Love Thais) Party won a landslide victory in the January 6 election. Before the election his party was under investigation by the National Counter Corruption Commission. Thai Rak Thai has agreed to form a coalition with the New Aspiration Party of former Prime Minister Chavalit Yongchaiyudh and the Chart Thai (Thai Nation) Party of former Premier Banharn Silpa-archa. Thaksin's coalition will control more than 320 seats in the 500-member lower House of Representatives. Critics say that Thaksin's populist, big-spending economic programs could widen government budget deficits in the next few years. The Thai Rak Thai leader has pledged to launch a state-funded national asset management company to buy bad assets from commercial banks.[7]

In order to ensure the effective regulatory supervision of the banking system and enhance the independence of the Bank of Thailand, it is urged that the new government passes pending financial sector laws, particularly the Financial Institutions Law, the Central Bank Act, and the Currency Act. It will require a strong commitment to continue the collaboration with the IMF to support these objectives.

INDONESIA

Political, Social, and Government Related Factors

Indonesia's President Suharto held power from 1966 until his resignation in 1998. He engaged in a nationalistic program of protectionism in 1993, aimed at developing domestic industry. In 1994, however, he changed the former restrictive policy by welcoming foreign capital participation in joint ventures with Indonesian companies and allowing foreign investors to wholly own enterprises in practically all sectors of the economy. This represented a definite move in the direction of opening the country to global trade and financial markets. Suharto's approach to liberalization, however, was somewhat ambiguous. In 1996, various groups, closely connected to Suharto were granted special privileges, such as tax and tariff advantages, based on a nationalistic rationale. These concessions were finally revoked in 1998.

As in Thailand, deficient internal and government controls over the banking system became a fertile ground for the concession of advantages to those closely related to Suharto's entourage. Growing opposition against his form of government marked his last two years as president. Such political and social pressures were common in Indonesia and undermined international confidence in the country's economy. Suharto's prolonged tenure in the presidency ended with his resignation in May 1998 and the election of B.J. Habibie, Suharto's former vice-president. Habibie immediately faced difficulties in obtaining political support for his programs. One of the issues that caused great concern to his government was East Timor, annexed by Indonesia in 1976 its independence in October 1999 after a period of civil strife and military repression on the island.

Economic and Financial Factors

Like the Thai baht, the Indonesian *rupiah* (Rp) was linked to the US dollar, which had been strongly overvalued in the period leading up to the crisis. Indonesia's exchange regime appeared to be fixed, but in reality it consisted of a managed floating system whereby Bank Indonesia periodically depreciated local currency within certain limits by using intervention bands. The rupiah remained stable around Rp2,200 per US dollar for a long time before the devaluation of August 14, 1997. This stability strengthened the belief that borrowers could skip necessary currency hedging procedures. Just as in Thailand, the banking system in Indonesia had deficient internal and government controls and their borrowings were mainly composed of short-term foreign currency loans. Before the crisis Indonesia experienced a considerable growth in GDP, but investments were directed primarily toward industries strongly dependent on imports, thus resulting in current account deficits in need of continuous financing and guarantees for the payment of interest on foreign debt. Therefore, while exports declined, interest rates increased to maintain sufficient incentives for foreign capital inflow and to avoid further currency evasion. Economic instability and the demand for foreign currency to cover unhedged positions resulted in a serious attack on the Indonesian rupiah and precipitated the currency crisis in the third quarter of 1997. Even the widening of the intervention band to 6% was insufficient to halt the pressures against the rupiah, which eventually suffered a decline of 95% in 1997 and a further devaluation of 73% in 1998.

In order to avoid further depletion of its foreign currency reserves, the currency was floated on August 14 1997, followed by financial assistance of US$43 billion by the IMF in November, at a time when the banking system was under pressure due to the liquidation of various local banks. It could be argued that the shift from a fixed exchange regime to a floating system was harmful to the country and aggravated the crisis. However, in comparing the Indonesian and Brazilian crises, it would seem more likely that the same kind of error was committed by both Bank Indonesia and the Brazilian Central Bank, in that they were too slow to recognize the seriousness of the overvaluation of their respective currencies.

The Outcome

After the devaluation of the Indonesian rupiah and shortly after the first agreement with the IMF in November 1997, 68 banks were closed and others had to be backed by government funds for restructuring, re-capitalizing and rehabilitating. This program uncovered significant non-performing loans and inadequate capital structures.

On October 20, 1999 the election of President Abdurrahman Wahid demonstrated the lack of popularity of J.B. Habibie, who had been charged with corruption involving the Indonesian Bank Restructuring Agency. Wahid initially promised serious government characterized by law, honesty, transparency, and economic development. Although the government attempted to roll over its sizeable foreign debt, the bank-restructuring program reached a decisive stage only with the issuance of government bonds in May 1999. On November 2, 2000 the Ministry of Finance announced the release of bonds worth US$1.4 billion thus showing that the bank re-capitalization was nearing completion. Even so, local banks are still burdened with bad loans and have been unable to exchange re-capitalization bonds for additional liquidity due to a lack of interest by investors. The selected indicators in Table 3 below show Indonesia's recovery from the crisis of 1997.

Even during the crisis, Indonesia managed to have positive trade balances. This is expected to continue in the following years. From 1998 onward, the current account balance returned to positive numbers while international reserves surged to US$29.1 billion on February 28, 2001, up

Table 3: Indonesia (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	8.2	7.9	6.5	5.9	10.1	18.4	20.6	26.7	26.9
Current account balance (US$ bn)	-2.1	-2.8	-6.4	-7.7	-4.9	3.9	5.8	8.5	7.1
Foreign direct investments (US$ bn)	1.6	1.5	3.7	5.5	4.5	-0.4	na	na	na
Portfolio investments (US$ bn)	1.8	3.9	4.1	5.0	-2.6	-1.8	na	na	na
International reserves (US$ bn)	11.0	11.8	13.3	17.8	16.9	22.4	26.2	28.4	29.1
Real GDP growth (%)	na	7.5	8.2	8.0	4.7	-13.7	3.3	3.5	na
Consumer price inflation (% - p.av.)	9.6	10.9	9.4	8.0	6.7	57.8	20.5	9.4	7.8
Interest rate (%)	8.7	9.7	13.6	14.0	27.8	62.8	12.1	11.0	13.4
Exchange rate (Rp / US$ - p.av.)	2087	2160	2249	2342	2909	10014	7100	9725	10815
Unemployment rate (% - p.av.)	2.2	3.7	na	3.6	na	na	17.5	13.0	9.5
Stock exchange (JCI index in US$)	279.0	213.0	223.0	267.0	86.0	50.0	97.0	42.8	33.0
Population (million)								225.0	

na = not available p.av. = period average

Sources: International Financial Statistics (IMF)=http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles=http://www.eiu.com. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Central Bank of Argentina = http://www.bcra.gov.ar. Ministry of Economy of Argentina = http://www.mecon.gov.ar/news/novecoi.htm. Yahoo Finanzas = http://ar.finance.yahoo.com/ International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = http://www.mecon.gov.ar/progeco/dsbb.htm#real. Year 2000: Trade Balance and Current Account Balance are estimates. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Consumer Price Inflation = March 1. Interest Rate = March. Exchange Rate and Stock Exchange = April 17.

substantially from US$16.9 billion in 1997. GDP reached the 3.5% estimated for 2000. Inflation declined to 9.4% in 2000 and may reach 7.8% in 2001. Interest rates, although much below the 1998 level of 62.8%, suffered a slight increase in 2001 to 13.4% (as of March). Deterioration of the exchange rate occurred in 2000 and 2001 (Rp 10,815 per US dollar, on April 17, 2001, versus Rp 7,100 at the end of 1999 and 9,725 at the end of 2000). The Jakarta Stock Exchange Index (JCI) faced a severe drop of almost 60%, in view of weak investor sentiment, partly due to poor market capitalization that deterred foreign investors, and partly due to the US stock market volatility.

On September 7, 2000, the government of Indonesia sent a letter of intent to the IMF stating that a major cabinet restructuring had come into effect on August 29, significantly streamlining responsibilities and ensuring greater coordination of economic policies. A new Coordinating Minister for Economic Affairs was appointed to oversee the country's economic program. The Government's new economic team announced its 10 Point Economic Recovery Program, as follows:

– Maintain macroeconomic stability with the support of IMF/World Bank/AsDB.
– Reduce unemployment by creating jobs in all regions.
– Improve agricultural productivity and farmer welfare.
– Increase non-oil export revenues, particularly in manufacturing and agro-industry.
– Promote domestic and foreign equity investment.
– Expedite banking and corporate restructuring.
– Accelerate privatization of state-owned enterprises.
– Initiate comprehensive small and medium scale enterprise (SME) development program.
– Ensure sustainable development of natural resources.
– Implement economic decentralization through an orderly and phased transition.

Since the last Article IV Consultation with the IMF on September 14, 2000, Indonesia underwent a major political transition to democratic government with the support of the international community. The government of President Wahid adopted a three-year IMF-supported economic program, and secured necessary financing assurances through a successful Consultative Group meeting and a Paris Club rescheduling.[8]

However, in 2001, the political situation in Indonesia has deteriorated markedly. President Wahid is presently facing impeachment charges by parliament for two financial scandals. Although he alleged innocence and defied the House of People's Representatives (DPR), the political pressures against him are strong, especially by the People's Consultative Assembly (MPR). It is believed that he is unlikely to remain in office much beyond August 2001. Such an assumption is corroborated by his inept and meandering leadership and by loss of support from those parties which had previously backed him. Mr. Abdurrahman's future seems to depend upon the continuing support of the vice president, Ms. Megawati Soekarnoputri, who leads the party with the largest representation in parliament (the Indonesia Democratic Party of Struggle, PDIP, with 34% of the seats).[9]

MALAYSIA

Political, Social, and Government Related Factors

The Malaysian crisis differed from those in Thailand or Indonesia. Prime Minister Mahathir Mohamad argued that the crisis his country suffered was mainly a consequence of the removal by foreign speculators of their currency and stock holdings from Malaysia and that the recommendations set forth by the IMF were totally inadequate. Furthermore, he stated that the adoption of a market-oriented economy was not exactly in line with the country's primary interests. Mahathir maintained a particularly antagonistic view of international financing agencies, particularly the IMF, for having contributed to the downgrading of the country's international credit ratings, which produced strong exchange volatility. Mahathir's statements caused great apprehension about the future of Malaysia, a situation that was aggravated by rumors that politically influential businessmen had received preferential treatment for resource allocation, further undermingin international confidence in the Malaysian future. This situation was further worsened by currency and capital controls and by taxation imposed on foreign investments.

One additional political factor consisted of the open dispute inside the government between Mahathir and the former deputy prime minister of Malaysia, Anwar Ibrahim, who was finally arrested in April 1999. This dispute greatly affected the image of Malaysia vis-à-vis the international financial community. Although some steps were taken in the direction of a more open economy, such as the opening of the Kuala Lumpur Stock Exchange (KLSE) to overseas brokers, the prevailing policy was to maintain investments under local control and under unfavorable conditions.

Economic and Financial Factors

Malaysia was another victim of the financial turmoil that shook East Asia. Upon examining the main affected regions, it becomes apparent that most emerging countries had attracted the attention of foreign investors for some eight to ten years prior to the crisis to such an extent that their economies began to rely heavily on foreign investments for survival. This was also the case in Malaysia.

For many years the Malaysian *ringgit* (M$) was pegged to a package of currencies and was quoted around M$2.50 per US dollar. When Thailand was struck by the devaluation of the baht, the ringgit started to depreciate to M$2.80 and reached 3.89 ringgit per dollar at the end of 1998. After the crisis, Prime Minister Mahathir promised to maintain the exchange rate at M$3.80 per US dollar. Although Mahathir gave particular importance to the country's exports and to a conservative approach to the government budget, several factors had adverse effects upon the country's economy.

First, Malaysia's high-tech industries required imports of basic materials and foreign technology. Due to the country's dependency on export revenues, the pegging of the ringgit to the US dollar and other currencies made the Malaysian economy vulnerable to currency fluctuations, especially coming from Japan, its main trading partner. Second, although the financial system was well developed in terms of services, banks were asked to supply credit at preferential rates to privileged groups. It soon became apparent that such credits had been granted to vulnerable businesses, such as property development and stock market investments. Non-performing loans surged considerably at the end of 1997 when outstanding loans represented 170% of GDP. Third, although a more liberal approach toward foreign capital was adopted, as was the case in the new Kuala Lumpur Stock Exchange, foreign listings in the KLSE were still subject to unfavorable conditions. Fourth, the foreign capital controls and taxation instituted by Prime Minister Mahathir, his open reproach of international financing agencies, particularly the IMF, and the protection given to politically influential businessmen undermined the confidence of the international financial community in Malaysia's future. Fifth, the attempts of Bank Negara Malaysia (the country's central bank) to halt the devaluation was costly in terms of foreign exchange reserves, which decreased from US$26 billion at the end of 1996 to US$20 billion in December 1997.

Unlike all the other eight countries in this study, Malaysia did not accept the financial assistance of the IMF in view of Prime Minister Mahathir's resentment against foreign financing agencies.

The Outcome

Among several measures deployed to improve the banking system, Bank Negara Malaysia (Malaysia's Central Bank) created an asset management company to assist in the restructuring, re-capitalizing and rehabilitating the country's financial institutions. This was made possible through the sale of government bonds to domestic investors. The number of banks decreased by about 50% through mergers of stronger and weaker institutions. Foreign investment has been conservatively low due to the capital and currency controls introduced at the end of 1998.

The recession in Malaysia in 1998 following the currency crisis prevented prices from increasing excessively. Price moderation was achieved at fairly low interest rates (7.3% in 1999), in contrast to the approach adopted by Brazilian monetary authorities, who increased the rate to 49% after the crisis of January 1999. The result, however, was the same in that prices did not increase in either country, although different economic strategies were applied. This phenomenon fueled numerous academic discussions—most of them challenging the recommendation of the IMF to raise interest rates as a way to prevent increases in rates of inflation and to stem capital flight.

To understand the discussions that developed it is useful to see how, on the one hand, Malaysia adopted capital controls which resulted in a negative flow of foreign capital to the country in 1998, largely neutralized by an impressive trade and current account surplus. In addition, recession reduced the purchasing power of the population and moderated prices. Brazil, on the other hand, with a policy of capital and trade liberalization, needed foreign funds to finance its growing trade and current account deficits. These were partly covered by direct and portfolio investments, and by foreign loans and financing. At the same time, the successful implementation of the *Real Plan* created a new anti-inflationary mentality among the population, resulting in low inflation rates, in line with targets established by the Central Bank. High interest rates also caused problems for the Brazilian economy. Obviously, such rates were extremely harmful to domestic industry and raised the cost of the government debt, while serving to attract sizeable amounts of foreign investment. Malaysia, by not utilizing the financial assistance of the IMF and by maintaining low interest rates did not have to cope with these problems. Brazil, on the other hand, had to lower interest rates periodically to improve business activity (from 49% in January 1999, the rate reached 15.75 at the end of 2000 and was still the same on April 17, 2001).

The selected indicators presented in Table 4 below show the recovery of Malaysia after the crisis.

Malaysia's trade and current account performance has been impressive due to a significant export volume, which is reflected in GDP growth, which reached 8.6% in 2000. International reserves stabilized around US$30 billion and inflation is within international standards. The promise made by Prime Minister Mahathir to maintain the exchange rate fixed at M$3.80 per US dollar is being kept. The ringgit, however, has been appreciating slightly in relation to the euro and Sterling, and relative to neighboring countries, compensating for the devaluation from M$2.53 to M$3.89 in 1997. Finally, with low unemployment rates, the economic scenario in Malaysia looks promising; the only exception is

Table 2: THAILAND (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	-4.3	-3.7	-8.0	-9.5	1.6	16.2	14.0	11.9	10.4
Current account balance (US$ bn)	-6.4	-8.1	-13.6	-14.7	-3.0	14.2	12.4	8.1	6.0
Foreign direct investments (US$ bn)	1.6	0.9	1.2	1.4	3.3	6.7	3.2	1.3	na
Portfolio investments (US$ bn)	5.4	2.5	4.1	3.6	4.8	0.0	0.4	0.6	na
International reserves (US$ bn)	24.1	28.9	35.5	37.2	25.7	28.4	34.8	31.9	33.2
Real GDP growth (%)	8.7	8.6	8.8	5.5	-0.4	-8.3	4.2	4.3	4.0
Consumer price inflation (% - p.av.)	3.3	5.0	5.8	5.8	5.7	8.1	0.2	1.6	2.4
Interest rate (%)	6.5	7.3	11.0	9.2	14.6	13.0	9.0	6.6	7.5
Exchange rate (Bt / US$ - p.av.)	25.54	25.09	25.19	25.61	47.25	36.69	37.81	40.27	45.66
Unemployment rate (% - p.av.)	na	2.6	1.7	1.5	1.9	4.0	4.2	3.2	3.6
Stock exchange (SET index in US$)	na	54.0	51.0	32.0	8.0	10.0	13.0	6.2	6.3
Population (million)								61.9	

na = not available   p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Bank of Bangkok = http://www.bbl.co.th/main.html Bank of Thailand = http://www.bot.or.th/bothomepage/ index/index_e.asp. CNNfn = http://cnnfn.cnn.com. Year 2000: Trade Balance, Current Account Balance, Foreign Direct Investments, and Portfolio Investments are estimates. All other items are actual data. Year 2001: Trade Balance, Current Account Balance, GDP Growth, Consumer Price Inflation, Interest Rate, and Unemployment Rate are estimates. International Reserves = Feb. 28. Exchange Rate and Stock Exchange = April 17.

the behavior of the Kuala Lumpur Stock Exchange, which had a negative performance of 14.4% in 2000, (though this was not as bad as the performance of neighboring stock markets.) The Malaysian stock exchange was also affected by Wall Street volatility and declined another 17% up to April 17, 2001.

Higher overseas investment contributed to greater synergy with Malaysian corporations while also improving the potential of future exports of goods and services. Foreign direct investment, especially from the United States, may increase in 2001. Market confidence is improving due to the recovery and the gradual easing of capital controls.

Commercial banks and the private sector reduced their liabilities[10] in response to the relatively low domestic interest rates in 1999 (thereby weakening the capital account). However, portfolio inflows have resumed since early 2000, aided by the upgrading of Malaysia's ratings and the re-inclusion of the country in the Morgan Stanley Capital Index at end-May10.[11] There has been progress in Malaysia's trade liberalization in line with the commitments under the WTO and the ASEAN Free Trade Agreement. The trend toward the reduction of capital controls also seems to be continuing.[12]

However, in view of the uncertain worldwide economic environment, the Malaysian government announced on March 27, 2001 a US$790 million fiscal program to increase government spending and boost private consumption. The new plan is an effort to reduce the effects of a slowing economy in the United States, the destination of more than 20% of Malaysia's exports. The new plan, announced by Prime Minister Mahathir Mohamad, is intended to raise GDP to 6% this year. The government will also ease restrictions on foreign ownership of property and asset acquisition by foreigners. The prime minister also pledged to retain the ringgit peg which has been fixed at M$3.80:US$1 since September 1998. Rapidly slowing US orders for Malaysia's information technology exports and a weak yen may increase the risk that Malaysia could face some pressure on the external front, however.[13]

SOUTH KOREA

Political, Social, and Government Related Factors

One of the main problems faced by South Korea before the currency crisis was the long ongoing disputes arising from a divided Korean peninsula. North and South Korea are located in one of the world's most highly militarized areas, so that a clash between the two nations represents a potential danger for foreign investors.

Another area of concern is the relationship between politicians and the large industrial conglomerates (*chaebol*) which provided political support for the ruling party in the form of cash passing between industrialists and politicians. Political pressure, not the economic and financial health of a particular company, was the criterion for granting loans. All these factors underlay the vulnerability of the South Korean economy.

Economic and Financial Factors

Before the financial crisis South Korea had maintained high growth rates averaging 7.2% for the 5 years up to 1998. From an underdeveloped agricultural, fishing, and forestry economy, the country switched to the production of heavy steel, shipbuilding, and automotive vehicles. South Korea had a managed floating exchange regime before switching to a free-floating system of the *won* (W) on December 16, 1997.

The remarkable development of the Korean industry may be analyzed through the country's GDP growth. From a total of US$2.1 billion, in 1961, it reached US$484 billion in 1996. GDP per capita surged from US$82 to US$10,543 in the same period, a performance that qualified it for membership in the OECD (Organization for Economic Development and Organization).

However, due to a combination of circumstances the South Korean economy deteriorated and eventually faced a financial crisis, ending with a currency devaluation of the won at the end of December 1997. First, the country's production structure was highly dependent on imports of fuel, semiconductors, chemicals, and other materials from its main trading partners, the United States, Japan, China, Hong Kong, and Singapore. This affected the current account balance, which showed deficits of US$23.0 billion and US$8.2 billion in 1996 and 1997 respectively. Second, private companies were seriously indebted to foreign lenders due to the lower interest rates of the latter. These loans were taken without the necessary exchange hedging procedures, because of the apparent stability of the won, which remained fixed around W800 per US dollar between 1992 and 1996. Third, while most East Asian countries adopted trade and capital flow liberalization, South Korea maintained restrictions and controls on its economy, thus affecting the confidence of foreign investors. The downgrading of several South Korean banks by the US credit agency Standard & Poors aggravated this situation. Although the government attempted to restore international confidence, by opening the domestic bond market to foreign investors, by widening the daily trading band of the won from 2% to 10%, and by increasing the capitalization of the Korean Asset Management Corporation (a bailout fund), results were negligible. In November 1997, both the won and the Korean stock market plunged significantly. Fourth, the decreasing prices of South Korean export products and the growing current account deficits were accompanied by an increase in the country's foreign debt. Most of the debt was for short-term repayment (US$100 billion of a total of US$200 billion) but most of this capital was invested in long-term projects. This exposed the economy to credit shortness at the end of 1997 and forced South Korea to request a rescue package from the IMF and from other institutions and countries. Thus, on December 4, 1997 a financial assistance package of US$60 billion was agreed to by the IMF, the World Bank, the Asian Development Bank, Japan, the United States, and other bilateral lenders. As a consequence of this package, the existing controls were finally relaxed after the devaluation that began accelerating in November 1997. The won depreciated to W1,401 from the prevailing W800 per US dollar and reserves plunged from US$33.2 to 19.7 billion at the end of 1997.

Table 5: South Korea (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	2.3	-2.9	-4.4	-15.0	-3.2	41.1	28.4	16.6	8.3
Current account balance (US$ bn)	1.0	-3.9	-8.5	-23.0	-8.5	39.0	24.5	11.0	1.8
Foreign direct investments (US$ bn)	-1.2	-2.1	-2.3	-3.0	-2.2	0.6	5.1	na	na
Portfolio investments (US$ bn)	10.1	6.1	11.6	15.2	14.3	-1.9	8.7	na	na
International reserves (US$ bn)	19.7	25.0	31.9	33.2	19.7	52.0	74.1	96.2	95.3
Real GDP growth (%)	na	9.2	8.9	6.8	5.0	-6.7	10.9	8.8	6.8
Consumer price inflation (% - p.av.)	4.8	6.2	4.5	4.9	4.5	7.5	0.8	2.3	3.6
Interest rate (%)	12.1	12.5	12.6	12.4	13.2	15.1	8.9	9.3	6.8
Exchange rate (W / US$ - p.av.)	803	803	771	804	951	1401	1188	1118	1330
Unemployment rate (% - p.av.)	2.8	2.4	2.0	2.0	2.6	6.8	6.3	4.1	4.2
Stock exchange (KOSPI index in US$)	1.1	1.3	1.1	0.8	0.2	0.2	0.9	0.5	0.4
Population (million)								47.3	46.9

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = http://www.eiu.com. Bank of Korea = http://www.bok.or.kr/index_e.html. Ministry of Finance and Economy of the Government of Korea = http://www.mofe.go.kr/mofe/eng/e_econo_trends/e_public_data/library/keu42.pdf. Korea Stock Exchange = http://english.bestez.com/newhome/en/main/index.html International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = http://www.nso.go.kr/stat/imf/nsdp.htm. CNNfn = http://cnnfn.cnn.com. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves = Feb. 28. Interest Rate = February. Exchange Rate and Stock Exchange = April 17.

The Outcome

South Korea had a remarkable recovery after the crisis. More than W100 trillion were spent on helping the financial sector, an amount equivalent to 20% of GDP. The success of this endeavor will depend on how rapidly the problems of the Daewoo group are resolved and whether the Hyundai group is able to contain its liquidity problems. The Daewoo problem harmed banks, forcing them to build up higher provisions for bad debts and making it harder to lend to the rest of the corporate sector.

Export volumes decreased in 2000 and are expected to close weaker in 2001, especially due to the lower worldwide demand of electronics and chemicals, the source of the country's main foreign trade revenues.

Table 5 illustrates selected indicators of South Korea.

Today South Korea's GDP per capita is seven times India's, 13 times North Korea's, and comparable to the lesser economies of the European Union. According to Economist Intelligence Unit estimates, the positive current account balance is expected to turn slightly negative in 2002, although GDP may continue to grow. As of February 28, 2001, reserves reached the amount of US$95.3 billion in response to positive trade and current account balances. South Korea also sustained a low inflation rate of 2.3% in 2000, with an estimated 3.6% for 2001, and presented reasonable interest rates. The exchange rate of the won stabilized around W1,100 per US dollar in 2000, down from the 1997 high of W1,401. However, the currency depreciated somewhat to W1330, as of April 17, 2001. One unfavorable indicator for South Korea is the negative behavior of the stock exchange. In 2000 it declined 48%, mostly due to the slump of Samsung Electronics' (SEC) stock price in October 2000, because of cyclical fluctuations in the price of DRAM chips (dynamic random access memory), and due to competition from Taiwan in transistor-liquid crystal displays. This bear phase continued in 2001, influenced by the negative behavior of the United States stock market.

In the political arena President Kim Dae-jung will remain in power until the elections of 2002. He has been active in trying to consolidate a better relationship with North Korea, a move that has been challenged by his former adversary in the election of 1997, Lee Hoi-chang. Lee Hoi-chang won control of the Grand National Party (GNP) in opposition to Kim Dae-jung's Millennium Democratic Party (MDP), a party without potential candidates for the coming election.

Kim Dae-jung was recently awarded the Nobel Peace Prize. He enjoys international credibility and is continuing to strengthen the relationship with the United States, Japan, and China (the latter mainly to avoid Chinese interference in negotiations with North Korea). Russia is still a doubt, considering that President Putin has already paid his tribute to North Korean President Kim Jong-il. Kim Dae-jung will also continue to make efforts to obtain a higher profile in the United Nations, in the Asia Pacific Cooperation Forum (APEC) and in 'ASEAN-plus 3' (members of the Association of Southeast Asian Nations, plus China, South Korea and Japan).

Faced with declining approval ratings and still unsettled relations abroad, President Kim Dae-jung overhauled his cabinet on March 26, 2001, replacing much of his foreign policy and defense team and building new bridges to smaller political parties. In the process the president strengthened his government for what are likely to be significant new tests with the US and North Korea and with an opposition party preparing for next year's national elections.[14]

The economy of South Korea continues to be heavily dependent on foreign trade for economic growth, thus increasing the country's vulnerabilty to external factors. The main reason for this situation is the sluggishness in domestic consumer spending and corporate capital investments.[15]

RUSSIA

Political, Social, and Government Related Factors

The political situation of Russia before the financial collapse is full of illustrative examples. President Boris Yeltsin dominated the political scene before his resignation in December 1999. He followed in the footsteps of Mikhail Gorbachev with a more liberal approach, although his foreign policy consisted of only partial cooperation with the West on the main international issues. Consistent with Yeltsin's feeble method of administration, a total of five Prime ministers were dismissed, thus increasing the lack of confidence in the country's outlook. The president faced fierce opposition against his more liberal approach. Insecurity for foreign investors persists in view of the frequent accusations of corruption in the high echelons of the Russian government.

Economic and Financial Factors

In 1995 the Russian foreign exchange regime was based on a corridor that kept the *ruble* (Rb) between Rb4.30 and 4.90 per US dollar. It was later replaced in July 1996 by a 'sliding corridor', widened by the Central Bank on August 17, 1998 from Rb5.27-7.13 to Rb6.00-9.50.

Foreign investment in Russia, although slow after the break-up of the Soviet Union, started to grow in 1995, with a total inflow of US$24.1 billion in the period 1997-1998. However, Russia's indebtedness to the London Club and the Paris Club was a threat to the country's stability. At the end of 1997, US$32.5 and US$40 billion in debt, respectively, was restructured by these entities.

Several obstacles to Russian stability preceded the financial crisis of August 1998. Soviet production was based on state subsidies in the planned economic system. The switch to a market-oriented regime was regarded by most domestic industries as a means to evade their tax obligations. Consequently, government revenues failed to achieve budget objectives. Second, the strategy of the Soviet regime had been to obtain its industrial power from large complexes for the production of fuel, oil and heavy machinery. This structure generated higher costs and lowered the country's competitiveness and eventually resulted in bankruptcies and increase in unemployment. Third, lack of financial assistance to the agricultural sector caused food price increases and a burden to Russian consumers. Fourth, as had happened in Brazil during the inflationary phase prior to 1994, Russian banks until 1996 profited from high spreads generated from open market operations, investments in fixed income, and stock exchange and foreign exchange speculation. As soon as inflationary pressures subsided, Russian banks were faced with lower profit margins, resulting in bankruptcies that liquidated more than 50% of banks. Fifth, the Central Bank's struggle to maintain the value of the ruble was costly in terms of foreign exchange reserves, which dropped from US$20.3 billion to US$12.8 billion at the end of 1997. All this undermined the country's external credibility. Sixth, falling oil prices in international markets at the time reduced trade revenues. Also, growing indebtedness, particularly in the private sector, resulted in a strong currency devaluation, caused the restructuring of domestic debt, and forced the government to declare a moratorium of 90 days on foreign debt payments. The adjustable crawling peg exchange regime was eventually replaced by a free-floating system to avoid further depletion of reserves, while the ruble/dollar rate deteriorated to Rb20.82 on September 9, 1998 and ended at Rb 26.35 on November 15, 1999.

Although monetary authorities were able to restructure part of Russia's debt of roughly US$150 billion with the London and Paris Clubs, the country still had a sizeable service debt of US$17.5 billion in 1999. In August 1999, however, Russia won a temporary reprieve on US$8.0 billion and a new loan of US$4.5 billion from the IMF.

The Outcome

Russia is achieving visible economic recovery since President Vladimir Vladimirovich Putin's election in May 2000. Two positive factors helped the country to obtain better results: (a) the tripling of oil prices in the second half of 1999, and (b) the strengthening of monetary and fiscal policies. High priority was given by the government to supplementing low incomes by paying down wage and pension arrears. A structural market reform is under way in terms of deregulation and liberalization, where foreign investment is encouraged through reduction of red tape and by facilitating the setting up of and conducting business. These reforms are intended to increase the predictability and transparency of the business environment and to strengthen institutions and the rule of law. Tax reform brought good results, but there is still opposition from vested interests and from an unwieldy and corrupt bureaucracy.[16]

Table 6 below contains Russia's selected indicators.

As stated earlier, exports have generated significant trade and current account surpluses, with an obvious improvement in the amount of foreign exchange reserves, which surged from US$8.5 billion to US$29.7 billion as of March 31, 2001. The balance of payments also benefited from debt restructuring by both the Paris and the London Club creditors.[17]

Table 6: Russia (Selected Indicators)

Indicators	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	17.8	20.8	23.1	17.4	17.3	36.1	60.7	44.1
Current account balance (US$ bn)	9.3	8.0	12.1	4.1	2.4	24.6	46.3	30.4
Foreign direct investments (US$ bn)	0.5	1.7	1.7	3.6	1.1	1.3	-0.3	na
Portfolio investments (US$ bn)	0.1	-1.6	9.7	17.2	8.5	-0.9	-10.5	na
International reserves (US$ bn)	4.0	14.3	11.3	12.8	7.8	8.5	27.9	29.7
Real GDP growth (%)	-12.7	-4.2	-3.5	0.9	-5.0	3.2	7.7	4.0
Consumer price inflation (%-year end)	na	131.0	21.8	11.3	84.5	36.5	20.2	18.0
Interest rate - Interbank rate (%)	na	190.4	47.7	21.0	50.6	11.8	8.5	12.1
Exchange rate (Rb / US$ - p.av.)	2.19	4.56	5.12	5.78	9.72	27.00	28.16	28.87
Unemployment rate (% - p.av.)	5.5	8.2	9.3	9.0	11.8	11.7	10.2	10.0
Population (million)						145.0		144.8

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Central Bank of the Russian Federation = http://www.cbr.ru/eng/. Business Information Service of the Newly Independent States = http://www.bisnis.doc.gov/bisnis/country/010402russia_factsheet.htm. Year 2001: Trade Balance, Current Account Balance, Consumer Price Inflation, and Unemployment Rate are estimates. International Reserves = March 31. Interest Rate = February. Exchange Rate = April 17. Population = January.

Foreign investors, however, are still on the sidelines, due to Russia's previous problems with capital outflows. GDP growth showed a positive 3.2% in 1999 and 7.7% in 2000 and is expected to continue for the next two years. Inflation targeting has provided better results and the exchange rate, although depreciating somewhat in 2000 and 2001, has been fluctuating between Rb 28.0 and 29.0 per US dollar. Unemployment reduction, however, is still a problem for the Russian government.

Politically, President Putin continues to consolidate his command of the country and holds a firm majority in the Russian *Duma* (lower house of parliament). He succeeded in implementing the needed tax reform and his prestige throughout the country has grown markedly. Even so, capital flight has increased in the last months. Household incomes, although rising, are still below desirable levels. Nearly 50 million people have incomes still below subsistence level.[18]

The results of Putin's first year in command of Russia shows a mixed record of achievements. The economy improved substantially in 2000 but a slowdown is anticipated for 2001. One of Putin's positive accomplishments originated from his style of dealing with regional leaders. At the start, he divided Russia into seven super-regions, each headed by a presidential envoy directly reporting to the Kremlin—the so-called *polpredy*—and kept regional governors under strict orders to obey federal laws. Later, however, he conceded greater autonomy to the leadership of the regions and moved from threats and coercion to a greater spirit of co-operation and consultation with the regional bosses in the State Council ahead of big policy initiatives. This political strategy seems to have ensured that the majority of the regional governors will remain faithful to the Kremlin's authority.[19]

BRAZIL

Political, Social, and Government Related Factors

As a result of the Real Plan (named after the new Brazilian currency, the *real* (R$), President Fernando Henrique Cardoso was able to tame the persistent inflation and currency devaluation that plagued Brazil before 1994. The stabilization strategy of his government was complemented by a policy of trade and capital flow liberalization.

In 1997, however, Cardoso's re-election campaign became the main priority for a whole year, to the detriment of the most important economic, financial, and social needs and the struggle against the public deficit and for proposed tax and social security reforms were all postponed. Such conduct played a crucial role in the gradual loss of confidence by international investors in the country's ability to comply with its urgent economic responsibilities.

Shortly before the devaluation of January 1999, two political events produced a fatal impact on the confidence of the international financial community in Brazil's future. First, in a very inopportune statement, former President Itamar Franco, at the time elected governor of one important Brazilian state, declared default of the state's short-term debt to the federal government. Although insignificant in relation to the total government debt, this statement affected most international stock exchanges and further undermined Brazil's international credibility. Second, political opposition parties demanded immediate currency devaluation, suggested a complete default of the country's foreign debt, and recommended the resignation of the president of the Central Bank.

Economic and Financial Factors

The real was created in 1994 at the rate of R$1.00 to the US dollar. According to the Real Plan, the currency would initially float freely. The plan was designed to drastically reduce the high inflation and currency devaluation rates that prevailed before 1994 (around 2,500% for both indicators in 1993). In addition, President Cardoso was trying to stabilize the Brazilian economy and complement this strategy with a policy of tariff reduction and liberalization of trade and capital flows. Other measures consisted of the long-awaited fiscal, administrative, tax, and political reforms.

The development of the plan suffered a series of interruptions, caused in part by the international crises that occurred between 1994 and 1998, starting with the Mexican financial turmoil. Defensive steps were immediately taken at a time when the Brazilian currency had also been overvalued. The fear of a similar attack against the real prompted the government to increase interest rates to 39% to stem foreign capital flight, a strategy that prevented the contagion from spreading to the Brazilian currency. As a result, international confidence in Brazil's future remained unharmed, especially because the country's fundamentals were different from those prevalent in Mexico. In fact, Brazil had sufficient foreign exchange reserves and was therefore less vulnerable to a currency attack. In 1995, a new foreign exchange regime with a new system of crawling bands was adopted allowing the currency to fluctuate within certain limits.

Although the Real Plan achieved many of the expected results, especially in terms of lower inflation rates, decreasing currency depreciation, and the end of the monetary correction that had prevailed earlier, various circumstances prevented Brazil from reaching its proposed goals. First, the overvaluation of the real and lower tariffs were responsible for a severe increase in the current account deficit. The favorable development of the Real Plan and the confidence of the international financial community in the future of the economy helped to cover these deficits in 1995 and 1996 through direct and portfolio investments, and through foreign loans. Even so, the balance of payments turned sharply negative in 1997 and 1998. Second, measures aimed at fighting the public deficit were deferred due to the continuing inflow of foreign capital and the privatization of public companies, thus 'relieving' the Brazilian congressmen temporarily from this undeniable responsibility. Third, the international financial crises in Mexico, East Asia, and Russia forced the Brazilian government to take defensive steps that otherwise would not have been necessary, such as a considerable increase in interest rates which made Brazil vulnerable to speculative currency attacks. Fourth, growing unemployment resulting from the introduction of more sophisticated information and communication technology, especially in the banking sector, also undermined the Real Plan. Fifth, although the prevailing currency anchor of the crawling band exchange regime adjusted the value of the real in slow intervals, the speed of these adjustments was considered too slow by exporters who ended up losing competitiveness due to the overvaluation of the real vis-á-vis other foreign currencies. Sixth, as mentioned earlier, political, social, and governmental factors also contributed to the crisis. Seventh, Russia's problems at the end of 1998 delivered the final impetus that precipitated the devaluation of the real.

Table 7: BRAZIL (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	13.3	10.4	-3.4	-5.6	-6.7	-6.6	-1.3	-0.7	1.7
Current account balance (US$ bn)	-0.6	-1.7	-18.0	-23.5	-30.8	-33.4	-25.4	-24.6	-23.0
Foreign direct investments (US$ bn)	0.4	1.8	3.6	11.3	17.8	26.1	26.9	30.8	25.0
Portfolio investments (US$ bn)	12.3	44.7	9.2	21.6	12.6	18.1	3.8	6.9	na
International reserves (US$ bn)	32.2	38.8	51.8	60.1	52.2	44.6	36.3	33.0	34.8
Real GDP growth (%)	6.0	4.9	4.2	2.7	3.3	0.2	0.8	4.2	4.2
Consumer price inflation (% - p.av.)	2169.2	2288.0	71.8	18.2	7.7	2.8	4.9	7.5	5.8
Interest rate (%)	3284.0	4821.0	53.4	27.5	25.0	29.5	33.5	16.1	15.8
Exchange rate (R$ / US$ - p.av.)	na	na	0.92	1.00	1.08	1.16	1.81	1.82	2.19
Unemployment rate (% - p.av.)	4.4	3.4	4.4	3.8	4.8	6.3	7.6	7.1	6.5
Stock exchange (Bovespa index in US$)	3217.0	5134.0	4420.0	6773.0	9133.0	5615.0	9554.0	7825.0	6578.0
Population (million)								169.5	171.7

na = not available   p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Brazilian Central Bank = http://www.bacen.gov.br/ingles/economic/frmdef.asp IBGE (Instituto Brasileiro de Geografia e Estatística) = http://www.ibge.gov.br/ibge/default.php. International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = http://dsbb.imf.org/country/bra/bradisc.htm. CNNfn = http://cnnfn.cnn.com. Year 2001: Trade Balance, Current Account Balance, Foreign Direct Investments, Real GDP Growth, Consumer Price Inflation, and Unemployment are estimates. http://www.bacen.gov.br/ ingles/. economic/frmdef.asp. International Reserves = April 5. Interest Rate, Exchange Rate, and Stock Exchange = April 17. Population = April 8.

The Brazilian monetary authorities succeeded in negotiating a financial assistance package with the IMF in the amount of US$41.5 billion that was approved in November 1998, shortly before the devaluation of January 1999. Neither this loan, nor the re-election of Cardoso to the presidency, was able to prevent the devaluation. The real lost almost 80% of its value, depreciating from R$1.21 to R$2.20 in a few days in mid-January 1999. To prevent further depletion of the country's foreign exchange reserves, the Central Bank established a free-floating regime. (Reserves had decreased by almost US$40 billion between 1997 and 1999.)

The Outcome

The Brazilian government took a number of steps to fight the effects of the crisis. With the nomination of the new President of the Central Bank, Armínio Fraga, the international credibility was rapidly recovered. He adopted an inflation-targeting framework, aimed toward a single-digit in 1999. In addition, a tight fiscal and monetary policy was implemented, with results conforming to guidelines recommended by the IMF. The pessimistic forecasts of 33% inflation for 1999, a negative GDP rate between 4% and 7%, a further overshooting of the devaluation, etc., did not materialize.

Obviously, the high interest rate of 49% directly following the devaluation of January 1999 undermined domestic production and delayed increases in exports which would otherwise have surged due to a more favorable exchange rate. Fraga also instituted an interest-rate-bias concept, similar to the US Federal Reserve's, and announced a downward trend, which would allow the Central Bank to lower rates between committee meetings. Brazil also needed to continue to finance the current account deficit by assuring that sufficient foreign funds would be available. The financial package of the IMF played a fundamental role at the start and the Central Bank was able to lengthen the maturities of the government's domestic debt from six months to a year. Very few interventions were used in the exchange market.[20]

Table 7 presents selected indicators about Brazil.

Since 1994 Brazil has been troubled by consistent trade and current account deficits covered by foreign capital. This was also the case after the crisis, as shown by US$25.4 billion and US$24.6 billion of foreign direct investments in 1999 and 2000 respectively Estimates point toward an additional US$25.0 billion in 2001. Exports did not correspond to expectations despite improvements in industrial productivity and a more favorable exchange rate. In order to solve the current account imbalances, a sizeable increase in international trade approaching 3% of GDP would be desirable. Such an increase would improve Brazil's economy even further by reducing dependence upon external investors.

International reserves stabilized around US$34 billion. GDP reacted favorably in spite of negative premonitions and closed 2000 with 4.2% growth. For the year 2001, although the Economist Intelligence Unit (EIU) is predicting an inflation rate of 7.1% for 2001, the final outcome in 2001 will more likely be closer to 6%. Interest rates were periodically decreased from the initial 49% after the devaluation to 15.75% at the time of this writing (April 17, 2001). Unemployment reacted favorably, down to 6.5% in 2001. However, from the negative side, the Brazilian stock exchange showed a decline of 18% for the year 2000, in dollar terms. This bear phase was still in effect on April 17, 2001.

The social picture is still an issue of concern, (i.e., poverty, inequality, race relations, education and health, and environmental management), despite important improvements attained by the government. From the political viewpoint, the elections of 2002 are starting to agitate the parties seeking to capitalize on each side's accomplishments. On the one hand, the political power of the opposition (PT-Partido dos Trabalhadores, or Labor Party) increased markedly in the last elections, by conquering important positions in Brazilian cities and states. This gave an incentive to the 'eternal' presidential hopeful of the PT (and defeated leftist candidate in the last three elections), Luiz Inacio Lula da Silva, to announce on April 13, 2001 that he will again run for the presidency. On the other hand, President Cardoso is trying to take advantage of the healthier economic situation to increase his chances of choosing a successor although his administration can be criticized for overlooking a number of social needs.

The consolidation of Brazil's economic stability is presently being supported by rigorous control of government accounts. One of the latest accomplishments was the timely presentation of the government budget before year-end, a remarkable feat quite different from previous periods. In addition, the newly imposed Law of Fiscal Responsibility will hold public authorities (federal, municipal, legislative, executive, and judicial) personally responsible for their spending. Unexpected expenses left behind by an outgoing mayor, governor or president and not called for in the budget or not compensated for with cuts elsewhere can result in up to four years in jail for the culprit.[21]

Two other initiatives of the Ministry of Planning were the so-called 'Advance Brazil' (Avança Brasil) and the 'Invest Brazil' (Investe Brasil) proposals. The first is concerned with the efficiency of public spending, especially for the needs of Brazilian society, with emphasis on improving transportation infrastructure, energy, and telecommunications. The second was created to attract investments for these plans, both domestically and internationally. With the progress achieved in 2000, Brazil is bound to enter a completely new phase of sustained growth in terms of employment, income distribution, and social well being.[22]

Although it is unlikely that the problems in Argentina (described in greater detail in the next section) will have a material effect upon the Brazilian economy as a whole, there are obviously concerns about developments there. In fact, since the resignation of former Argentinean Minister of the Economy José Lopez Murphy and his replacement by Domingo Cavallo, the Brazilian currency depreciated almost 10% although this is also partly due to the deceleration of the US economy and, in smaller degree, to the recent currency crisis in Turkey.

With only 18 months left in office, President Cardoso is facing an intricate political scenario. First, the dispute between the former president of the Senate, Antonio Carlos Magalhães and the recently elected Senate president, Jader Barbalho, both accusing each other of corruption. Second, on April 17 the approval by the Senate of a Corruption Investigation Committee aimed at all government levels. Third, the recent creation of another Investigation Committee to investigate Antonio Carlos Magalhães and the political leader of the government, José Roberto Arruda, both accused of violating voting secrecy in the Senate. Fourth, the threat of a new interest rate increase in view of the recent depreciation of the Brazilian real to R$2.20 per US dollar, which would affect the economy and, in consequence, the chances of a government candidate in the presidential elections of 2002. All these events divert the attention of politicians from more important issues on the agenda. Fifth, to complicate the political scenario even more, former President Itamar Franco, presently governor of the important state of Minas Gerais and presidential hopeful in the 2002 elections, is threatening to obstruct the privatization plan of Furnas, one of Brazil's largest electric power plants, located in his state. According to a recent statement, he would even use military force to prevent any attempt to privatize the company. As unbelievable as it might seem, several politicians are now suggesting postponing the privatization project on the grounds that a direct confrontation would divert votes from the federal government candidate and benefit Itamar Franco in the next presidential elections. It seems as though once again ballots have become more important than the public interest.

Meanwhile President Cardoso achieved a significant victory at the Sixth Meeting of Ministers of Trade of the Hemisphere in Buenos Aires on April 7, 2001 by obtaining an extension of the kick-off date of the Free Trade Area of the Americas (FTAA), against the wishes of the NAFTA members. President Cardoso recently proposed a new US$33 billion action plan. It encompasses several social programs, centered on health, education, and water sanitation, as well as other economic measures such as the privatization of the electricity supply (presently at a stalemate as described above), pension and tax reforms, and the long-awaited reform to sanction the autonomy of the Central Bank.[23]

ARGENTINA

Political, Social, and Government Related Factors

Following the Brazilian crisis of January 1999, the situation in Argentina deteriorated to a point where the IMF was once more called upon to provide financial assistance to help the country deal with its most urgent needs.

President Fernando de la Rua has been struggling with high rates of unemployment, which reached 13% in 1999 and surged to 14.7% in 2001. He is also fighting the recession with only a few policy instruments at his disposal, mainly due to his weak power both in Congress and among governors. The opposition criticized the government for not being able to stimulate the economy or to put an end to corruption. At one point the IMF almost suspended financial aid to Argentina due to these accusations, precipitated by the governors of the opposition refusing to sign a fiscal pact that limited the expenses of the provinces and the Union. The difficulties in passing the reforms in congress forced President Fernando de la Rua to declare a series of economic reforms by decree, imposing new policies in pension reform, health care deregulation, and infrastructure spending. However, pension reform is still vulnerable to judicial or congressional attacks, according to the IMF.[24]

The president's ill fortune increased when his former vice-president, Carlos "Chacho" Alvarez, resigned in protest against de la Rua's inability to act against members of the government accused of vote-buying in the Senate. Alvarez was the most prominent representative of the political party Frepaso (Frente Pais Solidario – United Country Front). Later, de la Rua dismissed the incriminated individuals and Frepaso remained as a part of the government coalition called Alianza (Alliance), formed in conjunction with the UCR (Unión Civica Radical – Radical Civic Union), the president's party.

Another difficult problem to be resolved by President De la Rua, or perhaps by his successors, will be the extremely high salaries paid to congressmen of the provincial legislatures. The federal monthly expenditure per state deputy corresponds to 13 years of a minimum wage salary for the common worker, according to information supplied by the Ministries of Economics and Labor. Argentina employs 1,236 state and federal deputies, each representing an average government expenditure of US$53,800 per month, while the average worker's monthly remuneration is US$321.[25]

Economic and Financial Factors

The year 2000 represented a difficult period for the economy of Argentina. The following domestic and external developments prevented a sustained recovery of economic activity. First, the country had to face the consequences of the devaluation of the Brazilian real in January 1999, with a decrease of exports to Brazil, one of Argentina's main business partners. Second, growing unemployment, as described earlier, brought significant social unrest, mostly due to failure to recover from the recession that affected the country since mid-1998. Third, slow productivity growth and low industrial competitiveness prevented Argentina's growth. Fourth, recurring current account deficits, which increased after 1997 and continued throughout 2000 and 2001 with no signs of improvement. Fifth, the exchange rate pegged to the US dollar, although having been responsible for lowering inflation since 1994, submitted Argentina to the fluctuation of foreign currencies. Sixth, deficits in public accounts served to weaken the economy as a whole, affecting the country's international credibility.

The Outcome

On December 18, 2000 Argentina and the IMF reached an agreement on an economic program, aimed at boosting the productivity and competitiveness of the economy and ensuring medium-term fiscal balance. The support package consisted of a total of US$39.7 billion and was intended to alleviate the financing constraint in 2001 and subsequent years. On January 12, 2001, the Executive Board of the International Monetary Fund approved an augmentation to approximately US$14.0 billion of the stand-by credit first approved on March 10, 2000. Of this amount, US$3.0 billion will be supplied under the Supplemental Reserve Facility (SFR). Other drawings will be made available to Argentina in 2001, after completion of further review of the program and according to a schedule to be specified for 2002 and 2003. In addition to the US$14.0 billion, the package includes about US$5.0 billion in new loan commitments from the Inter-American Development Bank, and US$1.0 billion from Spain. It also includes about US$20.0 billion of financing from the private sector that relies on a market-based, voluntary

Table 8: ARGENTINA (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	-2.4	-4.1	2.4	1.8	-2.1	-3.1	-0.8	1.3	1.0
Current account balance (US$ bn)	-8.0	-11.0	-5.0	-6.5	-12.0	-14.3	-12.2	-11.9	-13.0
Foreign direct investments (US$ bn)	2.1	2.5	3.8	4.9	5.1	4.3	22.0	na	na
Portfolio investments (US$ bn)	33.7	8.4	1.9	9.7	11.1	8.3	-6.6	na	na
International reserves (US$ bn)	13.3	13.8	13.7	17.7	22.2	24.5	26.1	25.1	23.0
Real GDP growth (%)	na	6.1	-2.8	5.5	8.2	3.9	-3.0	-0.5	3.0
Consumer price inflation (% - p.av.)	na	4.2	3.4	0.2	0.5	0.9	-1.2	-0.9	-1.0
Interest rate (%)	na	na	8.4	5.9	6.4	6.6	6.1	10.1	10.3
Exchange rate (Ps / US$ - p.av.)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Unemployment rate (% - p.av.)	9.1	11.7	15.9	16.3	14.2	12.9	13.0	14.3	14.7
Stock exchange (Merval Index)	257.7	224.1	200.7	232.9	288.1	226.7	276.3	230.5	245.9
Population (million)	33.9	34.3	34.8	35.2	35.7	36.1	36.6	na	na

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = http://www.eiu.com. Economist Intelligence Unit (EIU) Country Reports and Country Profiles = http://www.eiu.com. Central Bank of Argentina = http://www.bcra.gov.ar. Ministry of Economy of Argentina = http://www.mecon.gov.ar/news/novecoi.htm. Yahoo Finanzas = http://ar.finance.yahoo.com/International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = http://www.mecon.gov.ar/progeco/dsbb.htm#real. Year 2000: Trade Balance and Current Account Balance, are estimates. Year 2001: Trade Balance, Current Account Balance, Real GDP Growth, and Consumer Price Inflation are estimates. International Reserves and Consumer Price Inflation = March 1. Interest Rate = March. Exchange Rate and Stock Exchange = April 17.

approach intended to complement Argentina's objective of accessing international capital markets.[26]

Table 8 above shows selected indicators for Argentina.

Early in 2001, according to estimates put forth by the Economist Intelligence Unit, a slight improvement in the trade balance in the amount of US$1 billion was expected for this year, but still with a significant current account deficit. GDP would probably reach close to 3% in 2001, but the reduction of unemployment would still be a cause for concern. Following the trend in world markets, the stock exchange in Argentina closed the year 2000 with a decline of 17%, with a moderate upward reaction as of the time of this writing (April 17, 2001).

According to a program summary supplied by the IMF on January 12, 2000, the government intended to strengthen its policy framework and accelerate structural reforms while maintaining its present currency regime. These measures would include elimination, or at least reduction, of fiscal impediments to investment, such as the 15% tax on interest paid by enterprises, and a partial deductibility of interest paid on new mortgage loans. As a reflection of the large output gap and labor market weakness, consumer prices would likely remain flat. Deregulation and promotion of competition in the economy were also among the projects to be implemented by the government, especially in sectors such as telecommunications and energy.

The situation in Argentina, however, took a sudden turn in March 2001. Social, economic, and political unrest forced President Fernando de la Rua to replace Minister of the Economy José Luis Machinea with José López Murphy, a political move that at first had a positive effect within the international financial community. Murphy's formula, however, was rejected by all sectors in Argentina. His proposed measures included severe job cuts, a considerable contraction in salaries, and compression in expenses for education. Strong resistance developed against his plan, especially from the opposing Justicialist Party (Partido Justicialista) which systematically criticized the new minister's neo-liberal ideas. Former President Raul Alfonsín, head of UCR, also opposed the new restructuring plan and, immediately after the presentation of the new proposition, several high government authorities resigned, leaving President de la Rua in check and needing to obtain as much political support as possible.

On March 20, López Murphy stopped resisting the mounting pressures to which he had been exposed and resigned in favor of former Minister Domingo Cavallo (the creator of the currency board regime in 1991), who has the blessing of the majority of Argentinean political parties and the support of public opinion. His recent nomination received a positive response from the international financial community. Although Argentina has an overvalued currency, Minister Cavallo at the outset declared that he would not change the present foreign exchange arrangement. The essence of his plan relies on a restructuring of the economy through hard measures to curtail public spending, with the reduction of the fiscal deficit by about US$3.0 billion,[27] and on measures to fight tax evasion and corruption.

Unlike former Minister Murphy, he will avoid cuts in the education budget and will not eliminate oil subsidies in Patagonia. He also decided against suspending the provision of special funds for the production of tobacco in the impoverished northern provinces. He feels that it is possible to comply with the country's obligations to the IMF without the need to either apply for a waiver, to pledge for additional financial assistance, or to renegotiate the country's foreign debt.

Cavallo's charisma in Argentina is high and the general opinion both domestically and internationally is that he has already been transformed into a 'super-minister', since the majority of the Senate agreed with almost all of his demands for 'special powers'.[28] With these special powers he will be free to act without consulting the Congress, he may alter the structure of federal institutions and privatize public companies. The Lower House of Congress quickly approved a package of measures known as the 'Competitiveness Bill', drafted by Minister Cavallo. One of the items contained in his proposal was copied from a tax imposed by the Brazilian government indiscriminately on all taxpayers, the so-called 'Temporary Contribution on Financial Transactions' (CPMF—Contribuição Provisória sobre Movimentação Financeira). This tax is levied on all bank account transactions, at the source, at the rate of 0.38%. In Argentina, it was established at the rate of 0.25%. According to another rule imposed by Cavallo, all amounts exceeding US$1,000 must be paid by check or credit card (and will, obviously, be taxed as above). This financial burden has been switched from 'temporary' to 'permanent' in Brazil and may have the same finality in Argentina. It will probably produce an increase of about US$3.0 billion in government revenues, and may help to reduce the estimated fiscal deficit of US$8.5 billion, already in excess of the amount established jointly with the IMF. Another important feature of the bill is a reduction in the import tax on capital goods to zero and an increase from 14% to 35% in the import tax on consumer goods.

Cavallo's prestige gained even more from the decisive approval of his plan by the Brazilian monetary authorities, thus re-establishing the harmony within Mercosur (the regional economic union between Brazil, Argentina, Uruguay and Paraguay, and more recently Chile and Bolivia). Surprisingly, he obtained the additional backing of the mayor of the province of Buenos Aires, Carlos Ruckauf, one of most fiercest opponents within the Justicialist Party. He likewise gained formal support of the government coalition formed by Frepaso and UCR.

Domingo Cavallo is widely recognized as the savior of Argentina. In 1982, during the military dictatorship that lasted from 1976 to 1983, he was responsible for avoiding the collapse of the private sector by transferring the private debt to the federal government. In 1991 he helped former President Carlos Menem to succeed in his fight against the second hyperinflation in Argentina by creating the currency board.

According to Secretary of Finance Jorge Baldrich, Minister Cavallo is preparing a new package of measures that will affect the country's social security administration (which represents 40% of the government budget), the Ministry of the Interior, and the Ministry of Health. It would also reduce expenditures within the country's provinces. These measures are important to help Argentina comply with the fiscal deficit objective agreed to with the IMF in the amount of US$6.5 billion for 2001, a target which is already running behind schedule. A more optimistic statement was issued by Salomon Smith Barney Investment Bank in its 'Strategy for Emerging Markets', declaring that Minister Cavallo was President Fer-nando de la Rua's political salvation and that Minister Cavallo is "capable of producing good news in adverse circumstances.[29]

Notwithstanding the recent shift in the political scenario, several analysts believe that the only solution for Argentina will be to devalue the currency. Such a move would have a perverse effect upon the Argentinean economy in view of the substantial amount of debt indexed in US dollars owed by both the private and public sectors. On April 17, 2001, however, Cavallo sent a new proposal to Congress, whereby the sale value of the peso would be determined by the arithmetic mean of one US dollar and one euro. However, this law would only come into effect when the sale value of the Euro on the London market would reach the value of one US dollar. In other words, everything remains the same until the euro appreciates in the exchange market. The project, however, represented one more political victory for Minister Cavallo, in that Carlos Ruckauf, the Justicialist (opposition) party mayor of Buenos Aires, once again promissed to support Cavallo's innitiative.

Argentina's President De la Rua will continue to face a credibility problem if the proposed measures are unsuccessful. He will have to defeat the stagnation represented by suspicious investors and consumers. His difficulties could very well be exacerbated by the international uncertainties that are presently occurring, especially with respect to the United States' economy. On the brighter side, Argentina benefits directly from US present (and maybe future) interest rate cuts. With its currency pegged at par to the US dollar, domestic lending rates will also be lower. A stronger euro against the dollar should help Argentina's export competitiveness, while lower US interest rates in 2001 could help the domestic economy.

The challenges ahead remain daunting for Minister Domingo Cavallo. He must not only restore Argentina's competitiveness, but also ease concerns about fiscal solvency, straighten up the country's finances, reassure its creditors, and return the economy to growth.[30]

TURKEY

Political, Social, and Government Related Factors

Like Argentina, Turkey requested financial assistance from the IMF, which was approved in December 1999 in the amount of US$11.0 billion. While Argentina is going through a recession with inflation close to zero and high unemployment rates near 15%, Turkey's inflation reached 56% and 52% respectively in 1999 and 2000, with interest rates near 50% last year. The financial asistance given by the IMF was primarily intended to help the Turkish Central Bank defend the value of the Turkish *lira* (TL), which was under severe pressure by investors. This situation started with a controversy between President Ahmet Necdet Sezer and Prime Minister Bulent Ecevit, causing one of the greatest capital flights in Turkish history. Turkey is politically unstable and is undergoing an increasing fiscal deficit. It is also facing the consequences of a deficient banking system and negative trade and current account balances.

The defense of the currency with funds provided by the IMF was strongly criticized and eventually failed due to the strong devaluation of the lira by almost 60%, forcing the Central Bank to adopt a free-floating exchange regime. As a result, on February 21, 2001, the overnight rate was increased to 6,200% while the currency reached TL1,050,000 per US$on February 28, against TL 675,000 at the end of 2000. After a slight recovery to TL 985,000, the lira depreciated again, reaching TL 1,180,000 on April 17, 2001.[31]

The story of the Turkish crisis begins in August 2000 when the Turkish President Ahmet Necdet Sezer entered into a dispute with the armed forces over his refusal to sign a military-inspired decree allowing the government to dismiss state employees under suspicion of supporting separatist groups or radical Islamists. The controversy threatened to produce a full-blown constitutional crisis, as Mr. Sezer argued that parliament should be consulted on such a delicate issue. The government reluctantly decided to present the decree as a bill in parliament.

The government's decision averted a crisis, but the broader issue of democratization—particularly greater freedom of expression and the protection of minority rights, which must be tackled if Turkey is to become a member of the EU—remains unresolved. As a result, such issues continue to be a major source of confrontation between those who believe in the preeminence of the threat to the secular, unitary state represented by Kurdish separatism and Islamic fundamentalism (who include the military and some members of the political elite), and those who advocate the radical changes needed for Turkey to join the EU.[32]

Public posturing by coalition members was partly responsible for the economic crisis. Tensions were particularly high between the far-right Nationalist Action Party and the center-right Motherland Party, with the former intent on taking over the latter's centrist constituency. Early in December 2000, Turkish finances suffered a sudden loss of confidence in view of the arrest of several prominent banking figures. This turn of events, combined with disputes within the three-party coalition, caused panic that sent interest rates out of control and a severe drop in the stock exchange. This situation continued due to the vulnerability of the government's actions and serious weakness in the banking sector.

Corruption is still one of the main problems faced by Turkey and fighting it seems to create additional difficulties. Various arrests and prosecutions involving private businessmen who are not under political "protection" and minor political officials indicates that authorities may not be prepared to clean up the system, since accusations against leading members of the coalition continue to arise.

The coalition government, led by the Democratic Left

Party (DSP) with the Nationalist Action Party (MHP) and Motherland Party (Anap), is expected to remain in power for the near future. All three are eager to remain in the present government to take credit for the potential success of Turkey's first serious stabilization program in over a decade. Nevertheless, the crisis-prone political system makes it impossible to rule out a government collapse and with it the possible derailment of the IMF-sponsored stabilization program.

Economic and Financial Factors

At the end of 1999, in response to weak macroeconomic fundamentals and a fragile financial structure, Turkish government authorities assembled a package of measures to help the country restore its confidence and avoid further consequences of the recent turmoil in financial markets. The plan envisaged a comprehensive program of stabilization and reforms. Among the objectives of the program, Turkey would attempt to reduce the inflation rate to a single digit, ensure a sustainable fiscal position, remedy chronic structural inefficiencies in the economy, and raise the country's growth level. The fiscal tightening would require improvement in the external current account balance and promote disinflation. In addition, the growth in government expenditures would be kept lower than GDP growth. The strong earthquake in the Marmara region on August 17 was the major event of 1999. Besides the very high number of deaths and injuries, the disaster caused a heavy burden on the economy in terms of reconstruction of infrastructure and housing.[33] However, for some time in 2000 the program was successful in strengthening public finances, improving growth, and reducing interest rates.

Table 9: Turkey (Selected Indicators)

Indicators	1993	1994	1995	1996	1997	1998	1999	2000	2001
Trade balance (US$ bn)	-14.3	-5.2	-14.1	-20.4	-22.3	-18.9	-14.1	-26.7	na
Current account balance (US$ bn)	-6.4	2.6	-2.3	-2.4	-2.7	2.0	-1.4	-3.7	-9.7
Foreign direct investments (US$ bn)	0.6	0.6	0.8	0.6	0.6	0.6	0.1	na	na
Portfolio investments (US$ bn)	3.9	1.1	0.2	0.6	1.6	-6.7	3.5	na	na
International reserves (US$ bn)	6.2	7.1	12.4	16.4	18.6	19.4	23.2	27.6	19.4
Real GDP growth (%)	na	-5.5	7.2	7.0	7.6	2.8	3.2	-5.1	6.0
Consumer price inflation (% - p.av.)	67.4	107.3	87.2	78.0	81.2	75.3	55.8	51.6	48.9
Interest rate (%)	62.8	136.5	72.3	76.2	70.3	74.6	73.5	49.7	na
Exchange rate (TL / US$ - p.av.)	10984	29609	45845	108045	206100	315220	542703	675004	1180
Unemployment rate (% - p.av.)	7.8	8.1	6.9	6.0	6.7	6.8	7.7	6.6	na
Stock exchange (ISE index in US$)	na	na	na	na	na	484.0	1655.0	817.5	767.6
Population (million)	58.5	59.7	60.6	61.5	62.5	63.5	64.4	65.3	na

na = not available p.av. = period average

Sources: International Financial Statistics (IMF) = http://www.imf.org. Economist Intelligence Unit (EIU) Country Reports and Contry Profiles = http://www.eiu.com. State Institute of Statistics of the Ministry of State in Charge of the Treasury of Turkey = http://www.die.gov.tr/ENGLISH/index.html. Istambul Stock Exchange = http://www.ise.org/ International Monetary Fund's Dissemination Standards Bulletin Board (DSBB) = http://dsbb.imf.org/country/tur/turedird.htm. Central Bank of the Republic of Turkey = http://www.tcmb.gov.tr/. CNNfn = http://cnnfn.cnn.com. Year 2000: Trade Balance and Current Account Balance = October. All other items are actual data. Year 2001: Current Account Balance, and Real GDP Growth are estimates. International Reserves = March 30. Consumer Price Inflation = 12 months ending February. Exchange Rate and Stock Exchange = April 17.

Late in November 2000 the combination of the sharp decline in interest rates and the difficulty in lowering inflation spurred domestic demand above the program's expectations, thereby changing the economic scenario. Coupled with the increase in international energy prices and interest rates and the appreciation of the dollar vis-á-vis the euro, Turkey was hit by a liquidity crisis among some medium-sized banks.[34]

On December 21, 2000 the Executive Board of the International Monetary Fund (IMF) approved the third and fourth reviews of Turkey's economic program, supported by the IMF stand-by credit. The decision enabled Turkey to immediately draw about US$577 million under the credit originally approved on December 22, 1999. To date, the amount of approximately US$865 million had been disbursed from a total of about US$3.8 billion stand-by credit, leaving an undisbursed balance of about US$2.9 billion. The Board also decided to provide additional resources under the stand-by credit available under the Supplemental Reserve Facility (SFR) in the amount of approximately US$7.5 billion, to alleviate balance of payments problems originating from the recent financial crisis. Of this amount, US$2.2 billion approximately, were made immediately available.

The Outcome

To defend the economy against the effects of the crisis, the monetary authorities agreed to restore the program's credibility, by adopting essential fiscal tightening measures aimed at reducing the use of external savings and reassuring investors that lending to Turkish banks is safe. This would be accomplished by supplying guarantees for depositors and creditors, implementing a law to remove obstacles to mergers, accelerating the resolution of banks subject to intervention, and strengthening bank supervision.

The main goals of these measures would be to reduce inflation to about 12% by December 2001, and attain a GDP growth of 4-4.5% and current account deficit of around 3.5% of GDP. Monetary and exchange rate policies would also become more flexible, starting with the opening of an exchange rate band around the pre-announced mid-point. The focus of the monetary policy would be to recover the foreign exchange reserves lost during the crisis due to the regime of a preannounced crawling peg with no band which had been in effect. Furthermore, other key measures in the reform agenda would be implemented with the assistance of the World Bank. Groundwork for liberalizing the tobacco and sugar markets is being laid.

The indicators displayed in Table 9 show that Tur-key suffered continuous trade deficits. Estimates supplied by the Economist Intelligence Unit (EIU) indicate that the current account balance for 2001 will reach a negative volume of US$9.7 billion. International reserves decreased markedly due to the currency crisis and stood at US$19.4 billion on April 9, 2001. GDP presented a negative growth of 5.1% in 2000, but is estimated to improve slightly to a negative growth of 3% in 2001.[35] As a result of the new economic program, inflation would settle around 52.5% in 2001.[36] The exchange rate deteriorated in 2000, with a devaluation of 24.4%, depreciating even more in 2001 (TL 1,180,000 per US$ on April 17). Unemployment eased from 7.7% in 1999 to 6.6% in 2000.

In the banking sector 20 financial institutions are still experiencing difficulties, with consistent rumors that more banks could be placed under government supervision. The IMF is recommending the sale of three of the largest state banks needing financial assistance. A consolidation among 87 banks is also a possibility, as well as the sale of about 11 banks under government administration.

As in Argentina, a change occurred in the Turkish Ministry of Economy in March 2001. The new minister, Kermal Dervis, formerly a vice-president of the World Bank, was given full power to restructure the Turkish economy, a move that was very well-received internationally. The cabinet of ministers approved a comprehensive program called the "Law of 100 Changes in Turkey" encompassing political, social and economic reforms, such as the end of the death penalty and a more liberal approach to free speech. This program, apparently, does not comply with requirements of the EU in several fundamental aspects, especially with regard to the rights of the minority Kurdish people, military influence in politics, or the re-unification of Cyprus. All these initiatives are essential for Turkey's effort to join the European Union (EU) and, according to Vice-Prime Minister Mesut Yilmaz, will be effective within the next five years.

On April 14, 2001 Minister Dervis unveiled his recovery program, which received the approval of the government coalition and especially of Prime Minister Ecevit. Dervis announced that he is going to international lenders with the country's need for US$10 to 12 billion . Once obtained, these funds would enable legislative measures aimed at reforming the public finance management and banking sectors, and at accelerating privatization (with emphasis upon Turk Telekom and Turkish Airlines), a tight fiscal policy focused on spending cuts instead of new taxes, and on macroeconomic targets. He would maintain the free-floating exchange regime.

Although the outlook painted by Dervis looks positive, it should not be forgotten that 18 IMF programs have already failed in Turkey[37] and that the sacrifice required by the program may cause social tension as has already been seen in the streets of Ankara in mid-April.

The Concept of Globalization

Globalization is a broad process of technological, institutional and financial integration occurring on the international scene. It influences trade markets, production, services, education, labor, and competition. Globalization may also be defined as the formation of a new international framework whereby the productive and financial structures interconnect through a growing number of transactions and thus form the basis for complete interdependence between economic actors, markets, and nations.

Although international integration on a global scale has been a common fact throughout the world, never before has this phenomenon acquired greater notariety than with the advent of the most recent innovations in the fields of information and communications technology.

The desire to share the advantages provided by the Information Age has propelled countries towards transition from their more restrictive economies. Joining this new order implies the need to understand a completely new environment and the future is now seen in terms of the growing speed in all forms of human activity, which requires a new approach toward modern education. Globalization embodies this transition. Thomas Friedman, in an interview with the Brazilian magazine *Veja*, late in December 2000 said that "globalization is neither an ideology nor an economic program to be defended; it is the interpretation of what is happening in the world."[38] Therefore, whether an analyst is politically inclined to the left, right or center, globalization must be examined without prejudice, focusing on characteristics, advantages, and disadvantages rather than letting any political stance give rise to a mental barrier.

The 'Rules'

In order to relate globalization to the economic crises in emerging countries, it is necessary to discern whether the strategies adopted by countries wishing to participate in the global economic marketplace were in line with basic rules or conditions that lead to successful transitions. These prerequisites or 'rules' are:

1. **Liberalization of trade and capital flows**

Although total liberalization is a fantasy, reductions in tariffs and subsidies, and decreases in capital and trade controls are necessary. Privatization is an additional tool of liberalization.

2. **Fundamental Conditions**

A country emerging in a globalized world must examine to what extent the economic, political, social, financial, productive, educational, and administrative structures are adequate for the transition. Aspects such as macroeconomic weaknesses, balance of payment problems, political unrest, social imbalances, inadequate banking structures, weak levels of industrial competitiveness, unqualified labor, insufficient education in terms of information and communication technology, poor methods of public administration, and excessive government controls, must be carefully weighed to avoid disastrous results when participating in the global market.

3. **Adequate timing**

A convenient preparation for the transition to globalization is also of importance. Consideration must be given to positive and negative indicators to decide if and when the move would be advisable or when strategy changes are required.

4. **Surveillance and outcome controls**

The availability of information (transparency) according to international standards is important before going global and is necessary for the surveillance and control of results.

5. **Awareness and acceptance of worldwide organizations** Relations and interactions with institutions such as the IMF, World Bank, and other international entities should be available when needed and should be accepted, not only for financing, but also for counseling, and for crisis prevention and settlement, thus reducing vulnerability to sudden capital flow reversals.[39]

Adherence to the 'Rules'

The description of each of the nine crises presented earlier allows us, at this point, to interpret whether the countries adhered to these prerequisites or 'rules' for entering a global economy. The arrows show the overall result within each rule.

Mexico

Rule #1: ⇧ Mexico opened its economy long before the crisis.
Rule #2: ⇩ The country had economic stability in terms of GDP growth, positive public accounts, low interest and exchange rates, and low inflation and unemployment, with the exception of its trade and current account balances, mainly financed by foreign capital. But Mexico also had political and social unrest, a fixed exchange rate that caused an overvalued currency, and had an inadequate banking structure, weak industrial competitiveness, and comparably low labor skills.
Rule #3: ⇩ The timing for liberalization was adequate, but the government lost the opportunity to change the exchange regime earlier to avoid reserve losses and embarked on a wrong move with the issuance of '*tesobonos*'.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Mexico accepted financial aid.

Thailand

Rule #1: ⇧ Thailand adhered to the rule and opened the economy long before the crisis.
Rule #2: ⇩ The country showed a marked economic stability before the crisis, with high GDP growth and adequate foreign reserves, low interest and exchange rates, as well as low inflation and unemployment. However, trade and current account balances were negative until 1997, mostly financed by foreign capital. Aside from the extremely weak banking system, Thailand also had a fixed exchange rate and an overvalued currency.
Rule #3: ⇩ The timing for liberalization was correct but, like Mexico, Thailand was too slow to change the exchange regime early enough to avoid further reserve losses in 1997.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Thailand accepted financial aid.

Indonesia

Rule #1: ⇩ Indonesia adopted a dubious approach to opening the economy, which was only changed in 1998.
Rule #2: ⇩ The country had current account deficits, but positive trade and payment balances. International reserves were low and inflation and interest rates were not as healthy as those of their East Asian neighbors. However, inflow of foreign capital was reasonable until 1996, while GDP growth was high. The real problems consisted of a deficient banking system with inadequate government controls, a semi-fixed exchange rate, and political problems, mainly with East Timor.
Rule #3: ⇩ Liberalization took too long to materialize and the change to a floating exchange regime was excessively delayed.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Indonesia accepted financial bailout from the IMF.

Malaysia

Rule #1: ⇩ Malaysia avoided liberalizing the economy and adopted capital and exchange controls.
Rule #2: ⇩ Even without opening the economy, Malaysia received direct investments from abroad but suffered some minor outflow of portfolio investment. Trade and current account balances were negative before the crisis, but the country maintained high GDP growth, adequate volume of foreign reserves, low inflation and unemployment rates. Political disputes at high government levels had some effect on the country's international credibility. The banking system suffered from problems similar to those in Thailand and Indonesia and was heavily indebted in foreign currency. The fixed exchange rate was overvalued and became vulnerable to outside currency attacks.
Rule #3: ⇩ The exchange regime was not altered despite the loss in foreign reserves.
Rule #4: ⇩ Disclosure of information was also inadequate by international standards.
Rule #5: ⇩ Malaysia refused any assistance offered by international financing agencies.

South Korea

Rule #1: ⇧ Korea avoided liberalization until shortly after receiving financial aid from the IMF.
Rule #2: ⇩ From 1994 to 1997, trade and current account balances were negative, and so were direct investments (Korea exported capital). However, portfolio investments were quite substantial. Although interest rates were high according to international standards, all other indicators were positive, such as high GDP growth, low inflation and unemployment, and adequate foreign reserves. The exchange rate, however, was fixed and the banking system was not prepared for the transition, just as in other East Asian countries. Concerns about the relationship with North Korea and domestic industrial problems caused some apprehension.
Rule #3: ⇩ The currency was not floated earlier enough.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ South Korea had no other way but to accept the aid of international financing agencies.

Russia

Rule #1: ⇩ Russia's stance toward liberalization was somewhat ambivalent.
Rule #2: ⇩ Sizeable positive trade balances and reasonable current account balances were Russia's greatest advantages.

Although foreign direct investment was small, large sums entered the securities market. Low foreign exchange reserves did not correspond to the size of the Russian economy. In addition to the political instability that characterized President Yeltsin's administration, inflation and interest rates were extremely high, while the people suffered from extreme poverty. Unemployment started to grow in 1995, but the exchange rate remained fairly stable before the crisis.
Rule #3: ⇩ The currency was not floated earlier enough.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Russia in fact had no other option than to accept international financial aid.

Brazil

Rule #1: ⇧ One of the objectives of the Real Plan was to open the Brazilian economy.
Rule #2: ⇩ After 1994, Brazil's trade and current account balances became sharply negative financed by large amounts of foreign direct and portfolio investment, and privatization, bringing reserves to exceptionally high levels. Yearly GDP growth was also among the positive factors and unemployment remained within international standards. However, interest rates were kept high to stem foreign capital flight and to avoid contagion from crises in other emerging countries. Despite government promises, budget deficits persisted and important reforms were continuously postponed due to the re-election campaign. The overvaluation of the currency and the semi-fixed exchange rate regime exacerbated the negative outcomes of the financial crisis. Internal pressures added to the country's political instability, as well as low labor skills, mainly in the banking sector.
Rule #3: ⇩ The currency was not floated earlier enough.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Brazil started negotiations with the IMF before the crisis, as a "preventive measure".

Argentina

Rule #1: ⇧ Argentina has an open economy and participates in the global marketplace.
Rule #2: ⇩ The country suffered from recurring current account deficits, which increased after 1997 and continued throughout 2000 and 2001. Unemployment rates, close to 15% resulted in growing social unrest, made worse by declining industrial production, negligible productivity gains, and low competitivity. In January 1999, the Brazilian currency devaluation plus the overvaluation of the Argentinean peso (pegged to the US dollar) affected Argentinean exports. Furthermore, deficits in public accounts contributed to weaken the economy as a whole, affecting the country's international credibility. Corruption also negatively affected international credibility.
Rule #3: ⇩ The currency board exchange regime is mainly responsible for the overvaluation of the peso.
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Argentina accepted the assistance of the IMF.

Turkey

Rule #1: ⇩ Turkey is still trying to enter the European Union to act more globally.
Rule #2: ⇩ The country is facing high inflation and interest rates, both around 50%, and is political unstable and troubled by corruption at high government levels. The recent currency devaluation adds to Turkish instability, accelerated by political disputes between the president and his prime minister, further contributing to loss of credibility by foreign investors, a situation that is worsened by a growing fiscal deficit.
Rule #3: ⇩ The currency was not floated earlier enough..
Rule #4: ⇩ Disclosure of information was inadequate by international standards.
Rule #5: ⇧ Turkey accepted the assistance of the IMF.

Globalization and Economic Crises in Emerging Countries

A distinction should be made at this point between the crises that occurred between 1994 and 1999 and the problems that are presently afflicting two other emerging countries, i.e., Argentina and Turkey. The experience gained by the seven countries—Mexico, Thailand, Indonesia, Malaysia, South Korea, Russia and Brazil—was precious in that it brought to light the path to recovery. The most important issue that emanated from the crises was the change in mentality in each individual country and the recognition of the need to abide by the 'rules' before being able to participate in the global marketplace. The decision to participate in the global economic market is obviously a courageous one and failures are likely to occur along the way. Nonetheless, favorable results can now be clearly noticed, as shown by the recovery of the emerging countries affected by crises during these years as presented for each country earlier under the 'Outcome' headings. Although different strategies were applied, the results proved that most errors could have been avoided and, obviously, with more favorable results. The details also showed the extraordinary creativity of those in charge of restructuring, reorganizing, and rebuilding these countries after their economic and financial crises.

Both Argentina and Turkey are still in the midst of their dilemmas and are trying to follow strategies recommended by their ministers of the economy. As difficult as it may seem, various actions have been taken by each of these countries to reduce the adverse effects of the crises. Their recovery depends primarily upon the seriousness with which their governments carry out the reforms presently underway. The assistance of international financing agencies such as the IMF is fundamental at this point. Overlooking the recommendations of these institutions may result in additional setbacks.

Globalization was the motive that led so many nations to seek integration, but failures due to not playing by the rules and not fulfilling the requirements before or while attempting the transition should be attributed mainly to the countries themselves. Errors were plentiful. The contagion from other emerging countries was evidently also an aggravating factor, but all nine countries committed mistakes that intensified their dilemmas.

Pursuing integration through liberalization of trade and capital flows and through foreign competition can cause imbalances that affect a country's population in terms of income distribution, unemployment, and social unrest. In spite of the pain that an open and integrated economy can generate, the benefits of opening are still overwhelming. Not adhering to the global market economy would be a serious threat to better living standards, would reduce external trade and decrease intellectual and technological improvement. But, most of all, it would draw away the fundamental framework for opportunity.

Economic stability and long-term growth are sound and reliable policies, irrespective of any globalization process. Stability—which is not an end in itself but rather a means to an end—is one of the instruments needed to improve the standard of living of the population.[40] Other factors, such as healthy competition, both domestically and internationally, the absorption of new technologies, and enterprise creation, are some of the keys to the success of liberalization and globalization. All this, however, can only happen through effective improvements of education in all possible fields of knowledge. Education will fill the gap between poorly and highly-qualified labor and bring awesome advantages to society as a whole. Education is THE solution for countries wishing to reap the benefits of globalization.

Emerging countries gain considerably from trade and investment. The faster the global economy integrates in the marketplace, the more capital will cross national borders. Therefore, countries must possess a healthy banking system with transparency of information and communication, and must be able to correct and adapt to domestic and external problems. In addition, international organizations must provide their assistance whenever possible to contribute to the successful globalization of emerging countries.

Globalization is an idea and ideas do not cause destruction; destruction takes place only when ideas are improperly implemented though inadequate strategies, poor management, and imperfect timing.

ENDNOTES

[1] See also Treuherz, R. *The Crisis Manual for Emerging Countries*, Fabrizio Publications, 2000.

[2] See the sites http://www.american.edu/projects/mandala/TED/CHIAPAS.HTM and http://flag.blackened.net/revolt/rbr/rbr1_abezln.html, for more details.

[3] Newspaper *"O Estado de S.Paulo"*, April 4, 2001 at http://www.estado.com.br/. See also "*Mexico: Fiscal Reforms"* in Economist Intelligence Unit Country Briefing, March 26, 2001. http://www.eiu.com/latest/519359.asp.

[4] Newspaper *"O Estado de S.Paulo"*, April 10, 2001 http://www.estado.com.br/.

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[6] Sharma, S. in "Bitter Medicine for Sick Tigers: The IMF and Asia's Financial Crisis", *Pacific Rim Report* #8, Center for the Pacific Riim, University of San Francisco, June 1998.

[7] CNN - Asianow. *http://www.cnn.com/ASIANOW/southeast/*, February 1, 2001

[8] IMF Concludes Article IV Consultation with Indonesia, Public Information Notice #00/82 – IMF, September 25, 2000.

[9] Economist Intelligence Unit (EIU), in "Indonesia Politics: Still Defiant", March 29, 2001. http://www.eiu.com/latest/521484.asp

[10] The National Economic Action Council of the Malaysian Government stated, in a letter to the Asian Wall Street Journal on Dec. 22, 2000, that outflows in the last 6 months reflect a higher level of economic activity, repayment of debt and overseas investment. Major reasons explaining the outflows include $6.8 billion payments for service transactions and transfers reflecting the services deficit, $1.7 billion repayment of external loans by the Federal Government, non-financial public enterprises and the private sector, and decline in short-term liabilities of commercial banks. Overseas investment by the Malaysian corporate sector totaled $1.9 billion, net outflow of portfolio funds was $2.6 billion, foreign exchange losses due to appreciation amounted to $900 million while foreign currency balances maintained in banks increased $500 million. In addition to this positive trend, the health of the banking system has been restored and the economy remains resilient. Malaysia's reserves, which are usable and unencumbered, are therefore expected to continue to remain strong.

[11] IMF Public Information Notice # 00/63, August 10, 2000.

[12] Economist Intelligence Unit Country Report, November 16, 2000.

[13] Economist Intelligence Unit Country Briefing. *"Malaysia economy: Going for growth"*, March 29, 2001. http://www.eiu.com/latest/521482.asp

[14] Economist Intelligence Unit Latest, April 10, 2001. http://www.viewswire.com/index.asp?layout=country_home_page&country_id=KR

[15] Kwak Young, in *Korea Herald*, April 13, 2001. http://www.koreaherald.co.kr/SITE/data/html_dir/2001/04/13/200104130002.asp

[16] Russia Country Report, Economist Intelligence Unit, November 15, 2000.

[17] IMF Concludes Article IV Consultation with the Russian Federation, Public Information Notice #00/83 – IMF, September 09, 2000.

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[21] Altieri, A. *"2001 Political Showdown Begins"*, in Infobrazil, January 2, 2001.

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[23] Economist Intelligence Unit Country Briefing. *"Brazil: Cardoso's Battle Plans"*, March 19, 2001. http://www.eiu.com/latest/513007.asp.

[24] Newspaper *O Estado de S.Paulo*, January 18, 2001.

[25] Goitia, V. in *O Estado de S.Paulo*, January 16, 2001.

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[27] Newspaper "*O Estado de S.Paulo*", March 21, 2001.

[28] Some congressmen of the Justicialist Party are still negotiating with the Executive Power to limit his 'special powers'. The intention is to obtain a provision whereby he would not be allowed to dismiss public servants, to reduce payments to retirees, to introduce changes in welfare, or to privatize government entities.

[29] "Newspaper "O Estado de S.Paulo", April 14, 2001.

[30] Economist Intelligence Unit (EIU), in *Viewswire* at http://www.viewswire.com/index.asp?layout=country_home_page&country_id=AR and *"Argentina: A New Plan"*, in EIU Country Briefing at http://www.eiu.com/latest/520584.asp.

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[34] IMF *Press Release # 00/80*, December 21, 2000.

[35] Newspaper "*O Estado de S.Paulo*", April 15, 2001, at http://www.estado.com.br.

[36] *Turkish Daily News*, April 15, 2001, at http://www.turkishdailynews.com/FrTDN/latest/econ.htm

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Rolf Màrio Treuherz received his Ph.D. in Accounting from the University of Sao Paulo in Brazil in 1973. He has worked extensively in the banking, finance, and consulting fields in Brazil, and has been a Visiting Scholar at the Stanford University Center for Latin American Studies (1999-2002) and the Stanford University Graduate School of Business (1978-79).

The writing of this paper was undertaken by Dr. Treuherz as part of his duties as Fellow of the Kiriyama Chair in Pacific Rim Studies at the University of San Francisco Center for the Pacific Rim during 2001.