GLOBAL MARKETS AND FINANCIAL CRISIS:A THEORY FOR THE 21st CENTURY CRISES BASED ON ASIA'S MANGLED MIRACLE

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CHAPTER 1

INTRODUCTION

The Mangled Miracle and the Alchemy of Finance

GRONTE: It seems to me you are locating them wrongly: the heart is on the left and the liver is on the right.

SGANARELLE: Yes, in the old days that was so, but we have changed all that, and we now practice medicine by a completely new method.

Molière: *Le Médecin malgré lui*

It was the best of times getting even better if that can happen when things came crashing down in Asia. Nothing as dramatic as what happened in Asian financial markets in 1997 has occurred since the great crash of the thirties. This is not mere hyperbole, but the sad truth about the Great Asian Crash of 1997. When economic historians look back they will mark not only Asia's progress and unparalleled growth, but also its rapid descent into chaos within a few short months. But Asia was by no means an exception. In 1994,another crash had already happened in Mexico, and in 1998 Brazil and Russia also faced financial crises. Finally, Argentina in early 2002 descended into an economic and policy chaos that was not foreseen by the media pundits and many mainstream financial forecasters.

Do these crises share something in common, or are they just idiosyncratic events--- each one a unique tragedy, but with no connections to the others, or any deeper common causal mechanisms? If the uniqueness hypothesis is true, then the logical implication is that no single underlying causal structure can be expected to have operated in all cases. On the other hand, how plausible is the uniqueness claim? This is the first task to which any serious student of these crises must turn.

At the same time, the Asian case, even if it turns out to have been unique still poses many difficult and embarrassing questions. How did it happen to Asia? How did a devaluation of baht in July 1997 precipitate a cascading wave of currency crisis spreading all the way to Korea in less than six months? How did Asia develop the symptoms of a debt crisis that was not supposed to happen there?

Not only did Asia suddenly develop a debt crisis, it also seemed to have been plunged into a full development crisis. Output plummeted precipitously in the affected countries. Living standards followed suit. Unemployment rose. Millions of poor people added to their anguished lives even more misery. Millions more became poor even by the modest official standards used to measure poverty. It is no exaggeration to say that Indonesia, Thailand and South Korea were pushed into depressions comparable to the historic crisis in Europe and North America in the 1930s.Although recovery did occur in Korea,it is questionable if the former growth rate can be restored on a sustainable basis for long. Recovery in Thailand has continued to be fragile. Finally, Indonesia still could not emerge from the multiple crises as of Spring, 2002.

We need to think long and hard about the causes of these crises. According to the euphoric descriptions during the heydays of Asian growth--- and Russian, Brazilian and Argentinean economic prospects heralded by the Wall street and the believers in the so-called Washington consensus--- these economic disasters were not supposed to happen. Yet they very palpably did happen.

And in case of Asia in particular,when the dizzying growth was replaced with a sobering shakedown, there was immediately a cacophony of condemnations of the `Asian way’ of doing things. Wise heads were shaking in Washington in triumph as fingers were being pointed at Asian heads of state and government officials. Some wise Western economists would even write articles with the title “I told you so.”

Yet in sober moments most reflective people – professional and non-professionals alike – had to admit that the Asian crisis in particular, was baffling in several respects. For one thing the so-called macroeconomic fundamentals seemed sound in Asia going into crisis. For another, unlike Mexico or other Latin American countries most of the debt was not sovereign. It was a private sector debt crisis. So once again, the question arises, how did this come to be?

This book is really an attempt to answer this deceptively simple question by appealing to the historical facts, and economic theory. It will turn out that a fully satisfactory analysis and the crises that followed, must include a consideration of both international and national political economies. It is also hoped that by understanding this unusual crisis, the global forces that dominate our economic lives can be better controlled through necessary institutional innovations. But before we go any further, it will be instructive to examine briefly some attempts to explain the crisis away, as it were, initially. The insights gained from this exercise will help us appreciate the genuine intellectual challenges posed by the Asian crisis.

A few months into the crisis in 1997 the dominant view of the crisis from the U.S. was a round condemnation of the Asian version of capitalism. Robert Wade (1998) called this view, somewhat dramatically, `the death throes of Asian state capitalism.’ According to Wade, “the chairman of the US Federal Reserve, Alan Greenspan [became] the most prominent if not the most eloquent, exponent of the idea.” Indeed Greenspan in early December 1997 had said:

> The current crisis is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of government-directed investment, in which finance played a key role in carrying out the state's objectives. Such a system inevitably has led to the investment excesses and errors to which all similar endeavors seem prone…
>
> Government-directed production, financed with directed bank loans, cannot readily adjust to the continuously changing patterns of market demand for domestically consumed goods or exports. Gluts and shortages are inevitable…[1]

Greenspan further linked this position with what he identified as a global move towards "the Western form of free market capitalism." The note of triumphalism was barely concealed. "What we have here is a very dramatic event towards a consensus of the type of market system we have in this country," he said in his testimony before the U.S. Senate Foreign Relations Committee in February, 1998.

George Soros advised the Korean government on Korean national television to invite foreigners buy up Korean companies and to let the rest go bankrupt. Stanley Fischer of IMF blamed domestic causes such as the failure to dampen overheating, maintenance of pegged exchange rate in the face of credibility problems, and lack of prudential regulations and political will.

On the face of it Fischer's list of problems is not incorrect. But the problem is that such analysis lacked depth. This was revealed in 1998 when IMF was forced to change its stance. In retrospect the flaws have become much clearer now.

[1] Alan Greenspan, speech at the New York Economics Club, December 1997, quoted in Wade (1998) p. 2.

We will offer a detailed critique of the then dominant U.S. Federal Reserve-Treasury and IMF views in chapter 5 later.

For the moment let us turn to an alternative explanation offered by "structuralists" such as Wade, and more surprisingly by "dissident" neoclassicals such as Jeffrey Sachs. In this view the problem was a crisis of confidence in an otherwise sound but underregulated system. Sudden investor pull outs then caused a severe debt-deflation. As Wade (1998) describes this view:

> These, then, are the pre-conditions of the Asian crisis: (1) Very high rates of domestic savings, intermediated from households to firms via banks, creating a deep structure of *domestic* debt. (2) Fixed-exchange-rate regimes, with currencies pegged to the US dollar (apart from Japan, and partially, Korea), that created the perception of little risk in moving funds from one market to another. (3) Liberalization of capital markets in the early to mid 1990s and deregulation of domestic financial systems at about the same time, without a compensating system of regulatory control. (4) Vast international inflows of financial assets, coming from excess liquidity in Japan and Europe being channeled through financial institutions scouring Asia for higher returns and lending at even lower nominal rates than domestic borrowers could borrow from domestic sources, creating a deep structure of *foreign debt*.[2]

[emphases in the original]

This is not the place to evaluate these rival arguments. As alluded to earlier, this will be done in chapter 5. But it is significant that the Asian crisis rekindled fundamental debates about the role of governments and markets in capitalist development. Furthermore, this time the general theoretical debate which is ongoing has a global dimension. This last point has not always been made clear. It is one of the major arguments of this book that the global dimension is indeed critical. This will be

2 Wade (1998) p. 9.

developed in chapter 6. A synopsis here, however, may serve as an appetizer before the main course.

Clearly, the East Asian financial crisis was by all accounts the most significant event in the world economy in 1997. The topic dominated the headlines, attracted the attention of the world and generated much despairing rhetoric. As we have seen, the economists naturally joined the cacophony of condemnations. Truly, the dismal science had never looked so dismal since the great depression of the 30s. Without doubt, the speed and depth of the collapse of financial markets in East Asia caught all by surprise. Neither the existing surveillance mechanisms nor markets warned the euphoric investors adequately of impending calamity. The reversal of fortunes in East Asia came suddenly and surprised even the experts. The contagion spread rapidly, engulfing a number of economies in quick succession. It started as a currency crisis, then became a financial crisis. By 1998 it had become a full-blown economic crisis. To recapitulate briefly, and anticipate a little, the actual trigger for the crisis was the 1996 export slowdown in Asia. The cyclical downturn in the demand for electronics, in conjunction with a rising dollar and a declining yen, slowed export growth, and led to some skepticism about future growth. The initial export downturn and growing skepticism threatened the inflow of foreign capital, now badly needed to sustain the increasing current account deficits. This in turn led to market concerns about the more or less fixed exchange rates, culminating in pressure on them and their eventual collapse. Investors suffering losses started to withdraw from these markets, and the bubble in asset prices burst. Falling asset prices resulted in insolvency of financial intermediaries, resulting in a full-fledged financial crisis.

Although the 1996 export slowdown triggered the currency crisis, the roots of the financial crisis go much deeper. It is important to note the fact that the crisis occurred in those countries in the region that were more advanced and more integrated with global financial markets and, for that reason, were more successful in attracting large inflows of foreign private capital. In this sense, the crisis can be viewed as a new challenge facing the Asian developing countries as they move up the ladder of economic development. It is fair to say that the problems were not confined just to the affected economies and they can emerge in other developing countries when they reach a similar stage of economic development and integration globally. But this would be cold comfort for the economies that were so affected, at least in the short-run.

Why were the affected countries so vulnerable? To begin with, there were weaknesses in financial and exchange rate management in these economies. For all practical purposes, these countries had all pegged their currencies to the US dollar for a decade or so. With good investment potential built up by past economic success, foreign capital inflows accelerated, especially since the capital accounts were liberalized. To keep the local currencies from appreciating and to curb inflation, much of the foreign capital inflow was sterilized. The sterilization led to an increase in the gap between domestic interest rates and international market rates, which, coupled with a fixed exchange rate system, further encouraged foreign capital to flow into the countries. Clearly, massive capital inflows increased the level of investment. But the institutional capacities in the financial sectors of these countries were not robust enough to manage these inflows effectively. In essence, these countries lacked the capability to allocate capital resources efficiently through a mechanism that would penalize excessively risky behavior while rewarding productive use of capital. Poor corporate governance due to lack of transparency as well as inadequate accounting and auditing standards also contributed to the emergence of such overly risky behavior. Short-term external loans were often used for financing projects with long gestation periods. This led to a mismatch in maturities of financial instruments. Part of the foreign capital inflows were also invested in real estate and other non-traded sectors which are prone to speculation. Such risky behavior in the asset markets created bubbles that had to burst eventually. Thus, in contrast to the earlier Latin American crises, the Asian crisis was mostly a private sector phenomenon.

To make the situation worse, a self-reinforcing vicious circle developed between currency and asset market declines and banking and corporate failures. The falling currency drastically increased the local currency equivalent of the foreign debt owed by local enterprises, which in turn exacerbated the currency decline. The fall of asset market prices decreased the capital of the banks which held the assets, and increased the level of non-performing loans to the corporate sector which used assets as collateral. The vicious circle contributed to the drastic depreciation of currencies and a large number of banking and corporate bankruptcies.

For all intents and purposes, the Asian financial crisis put a halt to the steady capital accumulation in Southeast Asia and South Korea for at least some time. I have suggested here that the standard neoclassical orthodox explanations really do not explain the specificities of the crisis. The "structuralist" explanations do somewhat better. But we are still left with the puzzle of how quickly these "sound" economies succumbed to the crises. It is also remarkable that both the postKeynesian and the structuralist views do not have any sharp predictions regarding how adversely long-run capital accumulation prospects are affected during financial crises. The neoclassical steady state prediction ignores the path-dependent nature of accumulation and technological change entirely.. An alternative theoretical approach which is consistent with the "structuralist" position but has a greater reach is called for. An attempt do this will be made in the final two chapters. But first we need to see how sweeping the crises really were. For driving this point home, three of the most important affected economics have been selected. The next three chapters look at the proximate causes of the unfolding crises during 1997-1998. First we look at Thailand, where the crisis started in July 1997 as a currency crisis. Next we study the case of Indonesia which suffered much greater turmoil – both economic and political – than any pundits had predicted in early 1997. Finally, we investigate the important (and also tragic) developments in South Korea. Initially, it appeared that all three were sudden and unexpected victims. But was it really to be so unexpected? An even better way to pose the question is perhaps to ask: Why were these crises so unexpected? What caused the blindless and what caused the insights to be shallower than they needed to be after the initial blindness was cured? The next three chapters will gradually lead us to these and other relevant questions.

It should be mentioned here that I do subscribe to the view that the Asian Crisis was a new-fangled type in so far as it was the capital account that was the immediate locus of the problems. However, to call it a “capital account crisis” is not to offer an explanation, and certainly not a deep causal explanation. Therefore, to me this characterization can only be a beginning of any sustained inquiry into the causes and consequences of the crisis. Both the explorations in financial economic theory and the political economic analysis developed later will be used to substantiate this claim.

A note about the two appendices that follow this chapter and the appendix to chapter 3 that describes the structural CGE model may be helpful here at the outset. Appendix 1.1 gives some basic statistical information about the affected Asian economies. The particular chapters will give only minimum relevant information so as not to distract the reader from following the causal patterns of the events described. Therefore, supplementary information given in Appendix 1.1 and in the appendices to the three-country chapters can be used to elaborate on some of the statistical aspects mentioned in these chapters. In an analogous way, appendix 1.2 offers a detailed chronology of events in 1997 as the crisis unfolded. It covers all the affected countries (and also some not directly affected), and gives a journalistic blow-by-blow account of the events. For the interested reader, this can provide additional details that have been omitted from the country chapters. Finally, the `structural’ computable general equilibrium model in the appendix to chapter 3 is applicable not only to Indonesia but to all other countries as well. My intention here has been to show that the marriage between formal modeling based on modern economic theory and classical and modern `ordinary language’ political economy approaches need not end in an acrimonious divorce. Rather, like yin and yang, the two approaches can combine to produce a genuinely dialectical motion picture of a complex reality that is constantly changing.

Appendix 1.1: Economic and Financial Conditions in Asian Countries

Panel A: Per Capita Income and Recent GDP Growth Rates

	1995 Per Capita (US$)	GDP Growth Rates (% per year)					
		1991	1992	1993	1994	1995	1996
Indonesia	980	7.6	7.0	4.1	4.0	7.6	6.0
Malaysia	3,890	8.7	8.0	9.0	9.1	10.1	8.8
Philippines	1,050	-0.6	0.3	2.1	4.4	4.4	5.5
Singapore	26,730	7.3	6.2	10.4	10.5	8.8	7.0
Thailand	2,740	8.5	8.1	8.3	8.9	8.7	6.7

Panel B: Gross National Savings Rates (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	30.4	32.3	32.8	31.9	31.4	33.7
Malaysia	29.9	34.1	35.3	35.5	36.4	38.8
Philippines	18.2	19.4	18.1	19.0	19.0	20.5
Singapore	45.8	46.5	45.9	49.2	49.9	49.7
Thailand	35.4	34.5	34.2	35.2	35.0	35.3

Panel C: Change in Consumer Prices (% per year)

	1991	1992	1993	1994	1995	1996
Indonesia	9.4	7.6	9.6	8.5	9.4	7.9
Malaysia	4.4	4.7	3.6	3.7	3.4	3.5
Philippines	18.7	8.9	7.6	9.0	8.1	8.4
Singapore	3.4	2.3	2.3	3.1	1.7	1.4
Thailand	5.7	4.1	3.4	5.1	5.8	5.9

Panel D: Current Account Balances (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	-3.5	-2.1	-1.4	-1.6	-3.6	-4.1
Malaysia	-9.2	-3.9	-4.6	-6.0	-9.0	-6.3
Philippines	-2.2	-1.8	-5.5	-4.5	-3.3	-4.1
Singapore	11.1	11.1	7.3	15.9	17.6	15.3
Thailand	-7.8	-5.8	-5.2	-5.8	-8.3	-8.1

Panel E: Central Government Budget Surpluses (as % of GNP)

	1991	1992	1993	1994	1995	1996
Indonesia	-0.7	-0.4	-0.4	0.2	-0.2	-
Malaysia	-2.0	-0.8	0.2	2.3	0.9	0.6
Philippines	-2.1	-1.2	-1.5	1.0	0.6	0.3
Singapore	4.7	5.4	4.6	3.4	7.4	5.4
Thailand	4.3	2.6	1.9	2.7	3.0	0.9

Source: ADB (1997).

Appendix 1.1 – Table 2
Product Structure of Developing Countries' Merchandise Exports, 1973-95

(Percent based on value figures)

	1973	1980	1985	1990	1995
Agricultural products	30	15	17	14	14
Mining products	47	65	47	34	22
-Fuels	39	61	43	29	19
Manufacturers	22	19	34	50	62

Source: World Trade Organization.

Appendix 1.1 – Table 3
Exports Classified by Sectors

	1990	1991	1992	1993	1994	1995	1996
Indonesia							
Agricultural products	4.15	4.46	5.00	5.15	6.38	7.88	9.67
Mining products	17.62	17.46	17.09	16.54	16.44	16.63	16.89
Manufactures	78.23	78.08	77.91	78.31	77.19	75.50	73.44
Thailand							
Agricultural products	28.67	27.02	26.17	21.99	21.11	19.35	19.84
Mining products	6.62	6.13	5.92	5.37	5.74	6.47	7.41
Manufactures	64.72	66.85	67.90	72.64	73.15	74.18	72.75
Malaysia							
Agricultural products	4.38	404	3.77	3.43	2.98	2.65	2.70
Mining products	39.86	33.89	30.23	25.32	21.63	20.33	19.37
Manufactures	55.77	62.07	66.00	71.25	75.39	77.02	77.93
Philippines							
Agricultural products	13.84	14.86	12.07	12.07	10.22	7.92	7.02
Mining products	13.52	11.36	12.47	8.68	8.28	9.39	6.73
Manufactures	72.64	73.78	75.46	79.25	81.50	82.70	86.24
Korea							
Agricultural products	3.32	3.16	2.87	2.59	2.50	2.24	2.25
Mining products	2.60	3.48	3.68	3.67	3.32	3.42	4.28
Manufactures	94.08	93.36	93.45	93.74	94.19	94.33	93.47
Singapore							
Agricultural products	4.33	4.78	4.80	4.44	4.07	3.48	3.30
Mining products	22.03	20.23	16.00	14.53	11.43	10.14	10.91
Manufactures	73.64	74.98	79.21	81.04	84.50	86.38	85.78
ASEAN-4							
Agricultural products	24.95	23.66	23.02	19.40	18.55	17.07	17.40
Mining products	10.84	9.61	8.92	7.90	7.86	8.31	9.05
Manufactures	64.21	66.73	68.06	72.70	73.59	74.62	73.54

Source: Key Economic indicators, Asian Development Bank, 1997.

Appendix Table 1.1 – Table 4
Intra-Regional Exports of East Asian Countries

(% of each country's total exports to the world)

	1990	1991	1992	1993	1994	1995	1996
Thailand	37	39	40	43	47	48	49
Indonesia	69	65	61	59	55	56	51
Malaysia	56	57	55	54	52	52	56
Philippines	38	38	34	35	34	40	43
Singapore	44	46	43	47	49	52	52
Japan	30	32	33	36	38	42	51
Korea	35	37	40	42	44	46	42

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 5
Inter-Regional Exports of Selected East Asian Countries

	1990	1991	1992	1993	1994	1995	1996
East Asian	39	42	43	43	46	48	49
USA	27	25	25	24	25	23	23
EU	19	19	18	16	15	15	15

Appendix Table 1.1 – Table 6
Intra-Regional Imports of East Asian Countries

	1990	1991	1992	1993	1994	1995	1996
Thailand	55	54	56	50	55	55	52
Indonesia	48	49	47	47	50	49	48
Malaysia	55	59	60	60	58	58	58
Philippines	43	47	45	47	53	50	45
Singapore	51	53	53	53	56	58	54
Japan	27	29	30	32	33	34	35
Korea	36	40	39	40	40	39	35

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 7
Inter-Regional Imports of Selected East Asian Countries*

	1990	1991	1992	1993	1994	1995	1996
East Asian	41	47	49	49	50	51	49
USA	16	16	15	15	14	14	14
EU	13	12	12	12	13	13	13

*Japan, Korea, Thailand, Indonesia, Malaysia, Philippines, and Singapore.

Source: Direction of Trade, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 8
Current Account Deficits of Selected East Asian Countries

(% of GDP)

	Singapore	Korea	Japan	Thailand	Malaysia	Indonesia	Philippines
1987	-0.8	7.4	3.6	-0.7	8.1	-2.8	-1.3
1988	7.3	8.0	2.7	-2.7	5.4	-1.7	-1.0
1989	9.6	2.4	2.0	-3.5	0.8	-1.2	-3.4
1990	8.3	-0.07	1.2	-8.5	-2.0	-2.8	-6.1
1991	11.2	-2.8	2.0	-7.7	-8.9	-3.7	-2.3
1992	11.3	-1.3	3.0	-5.7	-3.8	-2.2	-1.9
1993	7.2	0.3	3.1	-5.1	-4.8	-1.3	-5.5
1994	15.9	-1.0	2.8	-5.6	-7.8	-1.6	-4.6
1995	16.8	-2.0	2.2	-7.9	-10.0	-3.3	-4.4
1996	15.7	-4.9	1.4	-7.9	-4.9	-3.3	-4.7
1997	15.2	-2.0	2.2	-2.2	-4.8	-2.6	-5.4
1998	14.3	5.5	3.0	3.9	-0.5	1.9	-3.2
1999	14.4	4.9	2.9	2.2	-1.9	0.5	-2.9

Source: International Financial Statistics, International Monetary Fund, 1997.

Appendix Table 1.1 – Table 9
External Debt Outstanding (Billions of US$)

	1990	1991	1992	1993	1994	1995	1996
ASEAN-4							
External debt	144.3	166.1	180.9	194.1	221.8	257.0	274.5
Short-term debt	25.7	33.8	41.7	49.6	58.2	69.8	80.4
(% of total debt)	17.8	20.3	23.0	25.6	26.2	27.2	29.3
Long-term debt	118.6	132.3	139.2	144.5	163.6	187.2	194.1
(% of total debt)	82.2	79.7	77.0	74.4	73.8	72.8	70.7
Indonesia							
External debt	69.8	79.9	88.3	89.6	96.6	116.3	118.1
(% of GDP)	65.9	68.4	69.0	56.6	54.6	53.3	52.0
Short-term debt	11.1	14.3	18.1	18.0	17.1	24.3	29.3
(% of total debt)	15.9	17.9	20.5	20.1	17.7	20.9	24.8
Long-term debt	58.7	65.6	70.2	71.6	79.5	92.0	88.8
(% of total debt)	84.1	82.1	79.5	79.9	82.3	79.1	75.2
Debt-service ratio	30.9	32.0	31.6	33.8	30.0	33.7	33.0
Malaysia							
External debt	16.0	18.1	19.8	23.2	24.8	33.2	31.6
(% of GDP)	37.6	37.9	34.6	37.1	37.5	40.3	38.1
Short-term debt	1.9	2.1	3.6	6.9	6.2	7.3	7.5
(% of total debt)	11.9	11.6	18.2	29.8	25.0	22.0	23.7
Long-term debt	14.1	16.0	16.2	16.3	18.6	25.9	24.1
(% of total debt)	88.1	88.4	81.8	70.2	75.0	78.0	76.3
Debt-service ratio	10.3	7.7	6.6	7.7	7.7	6.1	6.0
Philippines							
External debt	30.3	32.2	33.3	35.7	39.3	39.5	45.7
(% of GDP)	69.1	71.5	62.3	66.1	61.3	53.2	56.0
Short-term debt	4.4	4.9	5.3	5.0	5.7	6.0	6.3
(% of total debt)	14.5	15.2	15.9	14.0	14.5	15.2	13.8
Long-term debt	25.9	27.3	28.0	30.7	33.6	33.5	39.4
(% of total debt)	85.5	84.8	84.1	86.0	85.5	84.8	86.2
Debt-service ratio	27.0	23.0	24.4	25.5	18.5	15.1	15.4
Thailand							
External debt	28.1	35.9	39.5	45.7	61.1	68.1	79.0
(% of GDP)	32.9	36.4	35.5	41.7	45.3	47.0	49.9
Short-term debt	8.3	12.5	14.7	19.7	29.2	32.2	37.3
(% of total debt)	29.5	34.8	37.2	43.1	47.8	47.3	47.2
Long-term debt	19.8	23.4	24.8	26.0	31.9	35.9	41.7
(% of total debt)	70.5	65.2	62.8	56.9	52.2	52.7	52.8
Debt-service ratio	16.9	13.0	13.7	18.5	15.6	11.7	14.5

Sources: International Financial Statistics, 1997; World Debt Tables, 1996.

Appendix Table 1.1 – Table 10
Net Capital Flows (% of GDP)

	1983-88	1989-95	1991	1992	1993	1994	1995	1996	1997
China									
Net private capital flows	1.2	2.5	1.7	-0.9	4.5	5.6	5.2	4.7	3.7
Net direct investment	0.4	2.9	0.9	1.7	5.3	5.9	4.8	4.6	4.3
Net portfolio investment	0.2	0.2	0.1	-	0.7	0.7	0.1	0.3	0.2
Other net investment	0.5	-0.6	0.7	-2.6	-1.5	-0.9	0.2	-0.3	-0.8
Net official flows	0.3	0.5	0.3	0.8	0.9	0.4	0.3	0.2	-0.1
Change in reserves	-0.4	-2.2	-3.7	0.5	-0.4	-5.6	-3.2	-4.0	-4.5
Indonesia									
Net private capital flows	1.5	4.2	4.6	2.5	3.1	3.9	6.2	6.3	1.6
Net direct investment	0.4	1.3	1.2	1.2	1.2	1.4	2.3	2.8	2.0
Net portfolio investment	0.1	0.4	-	-	1.1	0.6	0.7	0.8	-0.4
Other net investment	1.0	2.6	3.5	1.4	0.7	1.9	3.1	2.7	0.1
Net official flows	2.4	0.8	1.1	1.1	0.9	0.1	-0.2	-0.7	1.0
Change in reserves	-	-1.4	-2.4	-3.0	-1.3	0.4	-0.7	-2.3	1.8
Malaysia									
Net private capital flows	3.1	8.8	11.2	15.1	17.4	1.5	8.8	9.6	4.7
Net direct investment	2.3	6.5	8.3	8.9	7.8	5.7	4.8	5.1	5.3
Net portfolio investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other net investment	0.8	2.3	2.9	6.2	9.7	-4.2	4.1	4.5	-0.6
Net official flows	0.3	-	0.4	-0.1	-0.6	0.2	-0.1	-0.1	-0.1
Change in reserves	-1.8	-4.7	-2.6	-11.3	-17.7	4.3	2.0	-2.5	3.6
Philippines									
Net private capital flows	-2.0	2.7	1.6	2.0	2.6	5.0	4.6	9.8	0.5
Net direct investment	0.7	1.6	1.2	1.3	1.6	2.0	1.8	1.6	1.4
Net portfolio investment	-	0.2	0.3	0.1	-0.1	0.4	0.3	-0.2	-5.3
Other net investment	-2.7	0.9	0.2	0.6	1.1	2.5	2.4	8.5	4.5
Net official flows	2.4	2.0	3.3	1.9	2.3	0.8	1.4	0.2	0.8
Change in reserves	0.5	-1.1	-2.3	-1.5	-1.1	-1.9	-0.9	-4.8	2.1
Thailand									
Net private capital flows	3.1	10.2	10.7	8.7	8.4	8.6	12.7	9.3	-10.9
Net direct investment	0.8	1.5	1.5	1.4	1.1	0.7	0.7	0.9	1.3
Net portfolio investment	0.7	1.3	-	0.5	3.2	0.9	1.9	0.6	0.4
Other net investment	1.5	7.4	9.2	6.8	4.1	7.0	10.0	7.7	-12.6
Net official flows	0.7	-	1.1	0.1	0.2	0.1	0.7	0.7	4.9
Change in reserves	-1.4	-4.1	-4.3	-2.8	-3.2	-3.0	-4.4	-1.2	9.7

Source: World Economic Outlook, December 1997.