Two years after the economic meltdown

No end to the social crisis in Asia in sight

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Nearly two years ago, the devaluation of the Thai baht on July 2, 1997 sparked an economic collapse throughout Asia. Currencies, share and property values plummetted, creating a spate of bankruptcies. The international financial press is now pointing to the first tentative signs of economic growth in former Asian “tigers” like South Korea as evidence that the worst of the crisis is over.

Two recent reports produced by the Asian Development Bank (ADB) point to the fragile character of the economic recovery, and underscore the fact that improvements in profit rates and economic growth will not alleviate the social position of tens of millions thrown out of a job and into poverty during the past two years.

The ADB's *Asian Development Outlook 1999* highlights the extent of the economic downturn throughout the region last year. Excluding China, the so-called Newly Industrialised Economies (NIEs) recorded a negative growth rate of -1.4 percent—a marked reversal from an average growth rate of 6.0 percent in 1997. The bank predicts that Hong Kong's economy will continue to decline by -0.5 percent in 1999, with small increases of 2 percent in South Korea, and 1 percent in Singapore.

The report pointed to the far deeper crisis in the South East Asian economies. More than $30 billion in capital fled from Indonesia, Malaysia, the Philippines and Thailand during 1997 and 1998. An average growth rate of 4.0 percent in 1997 plummetted to -6.9 percent in 1998; and according to the bank will only reach 0.8 percent in 1999 and 2.8 percent in 2000. Worst affected was Indonesia, where the economy shrank by a massive -13.7 percent, followed by Thailand, which recorded a -8 percent contraction and Malaysia with a -6.7 decline.

High levels of bad debt also continued in 1998: “The situation of the corporate and banking sectors continued to deteriorate, particularly in Indonesia and Malaysia. The proportion of non-performing loans rose and more financial institutions found themselves insolvent. At the end of 1998, of Indonesia, Malaysia, Philippines and Thailand, Indonesia had the highest level of non-performing loans at 35 percent or more of loans outstanding, followed by Thailand at upwards of 30 percent, Malaysia at 25 percent, and the Philippines at 10 percent or more.”

While the report cautiously claimed that the “worst in Asia seemed to be over,” it warned of the potential for rapid reversals caused by economic instability elsewhere. “As long as international capital markets remain shaky, developing countries in Asia and the world will be vulnerable to investor panic. .... Developments in the industrial countries are also likely to affect Asia's prospects for recovery. A large enough stock price drop in the United States would damage consumer confidence and reduce US import demand. With the United States being the first or second largest market for many export-dependent Asian countries, a US recession could spark another round of contagion in the region. A recession in Europe could have the same impact, though perhaps a smaller one.”

The economic prospects are further undermined by the vast productive overcapacity throughout the region. An article in the June 17 issue of the *Far Eastern Economic Review* noted: “Business spending across the region also looks shaky—with good reason. In most of Asia there are few compelling reasons to invest in new capacity. The investment boom that preceded the crisis left the region with more than enough restaurants, car factories and chemical plants to meet demand. The amount of factory capacity actually being used has improved slightly this year in Thailand, for example but remains below 60 percent. Using the broadest measure of overall economic capacity, it's clear that there is plenty of slack.”

The Asian Development Bank, a Japanese-backed financial institution, points to criticisms of the International Monetary Fund (IMF) policies imposed on Indonesia, South Korea and Thailand. As the crisis erupted in Asia, the IMF, backed by the Clinton administration sought, to exploit the collapse. It pressed ahead with its longstanding demands for extensive restructuring to open up the region's economies to international trade and investment at the expense of local business interests and monopolies.

The IMF agenda provoked conflicts with Japan, in particular, which was developing its own economic strategy. Japan's leading international financial figure, Dr Eikuke Sakakibara, also known as “Mr Yen,” explained in an interview in May that the US Treasury had vetoed his plan to set up a $US100 billion Asian monetary fund to bail out the region's economies. He told the *Australian Financial Review* that the disagreement between Japan and the US over this issue was “the tensest time” in the two-year crisis.

Far from welcoming signs of economic growth in South Korea, the IMF and the World Bank have warned that an upturn may undermine demands for the restructuring of the country's conglomerates or *chaebol*. Sri Ram Aiyer, World Bank director in South Korea, warned in an article in May that changes to the top five *chaebol* were at an “early stage” and are “an area where the reform program faces perhaps the greatest risk to its sustainability”. “Korea will need to guard against a premature sense of complacency as economic conditions improve,” he warned.

These remarks also highlight the fact that an economic recovery will do nothing to end the social crisis confronting hundreds of millions of workers, small farmers and small businessmen. In fact, the IMF's demands for the removal of price and trade controls, budget cutbacks, the breakup of monopolies, and financial restructuring will lead to a further decline in living standards as jobs, social services and real wages are slashed.

In a comment in the British *Financial Times*, ADB chief economist Dr Jung Soo Lee warned that economic growth would not halt rising levels of unemployment and poverty. “The social impact of the crisis is still unfolding. The social crisis is likely to be deeper and can be expected to persist long after economies have returned to solid positive growth,” he said.

In its second report, the ADB released studies of the economic breakdown's social impact on five Asian countries. While rather conservative in its estimates and patchy in its reportage, the survey does provide an insight into the widespread and ongoing devastation to the lives of masses of people.

The social crisis has been greatest in Indonesia. Real salaries have fallen by 30 percent, average household expenditure is down by 24 percent and the incidence of poverty has doubled from 11 percent in 1996 to 20 percent in 1998. The ADB reports unemployment at 6.37 million or 6.64 percent. Other figures indicate that 20 million workers are jobless and 100 million people, or nearly half of the population, are living in poverty.

According to an ADB press release: “The report ‘Social Impact of the Economic Crisis in Indonesia' paints a grim picture of events since the rupiah's fall from 2,500 to a low of 16,000 in 1997, which led to panic-buying, riots and an overall inflation rate of 58 percent. The price of rice—the country's staple food—doubled. Farmers' inability to afford pesticides and fertilisers coupled with severe drought, led to failed harvest. Some villagers admitted to supplementing their diet with palm tree sap.

“Around a quarter of all families have cut spending on important protein-based foodstuffs such as meat, eggs and fish, and the birth weight of babies is falling. While weighing stations offer supplementary feeding to young children, these are operating less efficiently than before the crisis. Rates of serious health problems are on the rise, but the spiralling cost of medicines have forced many to put themselves at risk through self-treatment or by resorting to faith healers and traditional midwives.

“School fees and books are now beyond the budget of many families. Many older children have left school to help their families earn money, with girls being the most likely to drop their education. Many have been forced into early marriages to relieve the financial burden on their parents. The price of contraception has risen steeply, and while free services are still available in some areas, authorities may be unable to maintain this provision in the long-term.”

Unemployment in South Korea jumped from 2.5 percent in 1997 to 6.8 percent in 1998 and 7.4 percent in 1999 as tens of thousands of workers were retrenched. Despite reports of economic growth, the jobless figure is expected to remain above 5 percent for the foreseeable future. Central and local governments slashed more than 40,000 jobs in 1998. Consumption by urban worker households dropped by 16.8 percent during 1998. The incidence of poverty has more than doubled from 3 percent to 7.5 percent.

“The crisis saw monthly average real incomes fall by 20 percent at end of 1998 compared to a year earlier, while the price of some foods rose by more than 20 percent, and fuel, power and water by 25.1 percent. Households have coped by drastically cutting their spending.

“In education, school dropout and absentees in elementary schools have risen sharply, but college admissions have increased by 8 percent due to decreasing job prospects. Private tutoring, previously viewed as a crucial complement to school education, fell by 24 percent.

“Health care was relatively unaffected, as public health insurance covers 97 percent of the population. However, government expenditure almost halved between 1997 and 1998, and many patients now choose public health centres over more expensive hospitals. The use of contraceptives has risen, and uptake of counselling services for unwanted pregnancies has climbed by 77.7 percent. The number of abandoned babies is expected to double.”

Unemployment in Malaysia rose by 109,000 to 342,000 in 1998 with the greatest impact in urban areas. Food prices rose by 8.9 percent, rent and fuel by 4.4 percent and medical and health expenses by 6.2 percent. The increased medical costs affected the elderly in particular, while the public health system had to cope with up to 18 percent more patients who could no longer afford private health care.

“The incidence of poverty climbed from 6.8 percent in 1997 to 8 percent in 1998, mainly in the cities. Women were particularly likely to lose their jobs, which could severely affect the 630,500 families headed by single mothers.

“However, the biggest issue in the country was its massive reliance on cheap foreign workers—many from neighbouring countries, which have suffered even more from the crisis. With little or no legislation to protect them, many were sent home—around one million in 1998—to make way for newly unemployed locals. Malaysian employers found guilty of harbouring illegal workers were threatened with caning or indefinite detention without trial under the draconian Internal Security Act.

“Education was also badly hit. Government spending was slashed by 18 percent, at the start of the crisis, but was later reinstated. Many teachers apparently drifted away from schools to concentrate on more lucrative private classes, and many of the 54,000 university students studying abroad had to come home after the government sponsorship program was temporarily scrapped.”

According to the ADB survey, the Philippines was one of the least affected countries in the region. Nevertheless as the report noted: “The most significant effects of the regional troubles were rises in unemployment and prices, which resulted in lower real incomes.

“The urban poor and fishing communities were the hardest hit. The report instances cases where parents encouraged their young daughters to go into prostitution, and others where poverty encouraged involvement with illegal drugs.

“More than 3,000 firms closed or retrenched in 1998—double the figure of 1997. Total employment in 1998 grew at a slower pace and was unable to accommodate a growing labour force—causing a rise in both unemployment and underemployment. Jobs in construction, manufacturing and quarrying were most affected.

“Although lower nominal incomes did not affect everyone, price increases did. Inflation rose from 5 percent in 1997 to about 9 percent in 1998 and food prices by 6.4 percent. As wages did not generally increase, the number of families who rated themselves as poor rose from 40 percent in 1997 to 43 percent a year later...

“Health services suffered from reduced availability of drugs and vaccines. In the education sector, the number of school dropouts rose, especially in public secondary schools, as teenagers were forced to stay at home to look after their younger siblings or go out and get jobs themselves.”

The ADB report described the economic crisis as a “surprising boon” to Laos as farmers, who make up 85 percent of the population, found markets for their produce in neighbouring Thailand following the devaluation of country's currency—the kip. The income in agricultural communities doubled since 1997 and there was also increased income from tourism.

“However, the report, ‘Social Impact of the Economic Crisis in the Lao PDR' says the picture is not entirely rosy. Foreign investment fell from $US142 million in 1997 to just $US45 million in 1998. Foreign grant aid fell by 27 percent and loans by 19 percent.

“This has left the government struggling to pay state employees. While government salaries have been raised by 60 percent, prices in the capital, Vientiane, have risen more than twice as fast. A mid-level government employee now earns only a seventh of the income of the average farmer. Inflation is threatening social safety nets and pensions. Hundreds of state employees are resigning in favour of agriculture, and farmers have been selling land in order to buy farm machinery. The price of land near towns is rising rapidly.”

The report notes that there has been no increase in health problems or impact on the country's education system. Health and public education services, however, are poor—the country's life expectancy is very low at 51.7 years and its adult literacy rate is just 60 percent.