

ASIA / PACIFIC



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THE UNFOLDING OF EVENTS IN Southeast Asia's currency markets have confirmed the weaknesses in Thailand's economy. With the newly revealed weaknesses in the East Asian "miracle" economies so clearly evident, there are divided opinions over whether the economic malaise in the region is cyclical or part of a long-term slowdown.

During a recent multi-country speaking tour, a number of objections were raised about suggestions in my new book, *The Rise and Decline of the Asian Century*, that the "Asian Century" might be stillborn. This doubt was particularly evident in Europe due to the considerable anxiety over the international competitiveness of their own national economies. However, as I moved eastward, both time and geography worked in my favour as people with first-hand experience in Asia were more likely to agree. Indeed, fewer objections to the general viewpoint were raised by Asians, even if there was quibbling over interpretations of cultural, economic or political institutions in specific countries.

Bahts, Bubbles, and Breakdowns

It is increasingly apparent that "bubble" economies have formed in much of East Asia. The collapse of the Thai currency, which has declined in value against the US dollar by over 20% since July, provides the clearest indication. Policies which led to an over-valuation of the Thai baht against the US dollar encouraged an unsustainable boom in Thailand. With access to cheap loans from abroad, funds were put into non-economic investments, especially property devel-

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An Epilogue on an East Asian Summer of Truth

opments. In turn, there was a price surge in the real-estate market that was echoed in the stock market. These markets followed one another in an upward spiral, driven by collateralised leverage from unrealised profits. A downward path in one market will similarly feed the decline in others.

The large flows of foreign capital into Thailand inevitably led to high current-account deficits. The first chink in the armour of this once formidable Tiger economy appeared in response to an economic slowdown in the mature economies in Europe and North America. As Thailand's exports slowed, the current-account deficits swelled to the point that currency speculators saw a no-lose arbitrage opportunity.

The Thai government had few good choices. If they chose to retain their peg to the dollar, they would have had to raise interest rates, thus slowing their already weak economy. If they tried instead to revive the economy by lowering interest rates, the peg on the dollar would have been even less defensible.

Seeking the Culprit

As the wave of speculative probing swept through most of Southeast Asia's currency markets, many leaders in the region defamed domestic speculators as traitors and accused the international traders as part of a dark conspiracy. But speculators are only bearers of bad tidings. The evil deeds were done by those same leaders who tried to deflect public criticism for their poor economic management.

Currency speculators merely exploited arbitrage opportunities created by the interventionist attempts, by various governments, to maintain unrealistic exchange rates. In Thailand's case, Thai banks and other domestic financial institutions were left holding a huge bag of bad debt. But the damage from the losses is unlikely to be limited to the Thai financial establishment. This is due to the interconnectedness of the many overseas Chinese banks throughout the

region, and the exposure of Japanese banks for much of the foreign lending.

Facing New Challenges

Waves of competition will sweep across the international economies with increasing strength. The consequence of these challenges will be that countries or regions will find their comparative advantage to be transitory as they attempt to respond to the whims of global markets.

East and Southeast Asia had a good run for the past 30 years as they made their presence felt in the world economy. Their successes rocked the established industrial powers, some of which are still reeling, especially in Europe. But this was only the first round in the successive competitive shocks to the world economy.

The easy part for them is now over. The East Asian economies will now be put to the true test of their fundamental economic strengths as their export markets become increasingly contested by newcomers both within and outside the region.

Although the World Bank has attributed the enviable economic record to good governance, the weak economies in Japan and Korea along with the dramatic change in fortunes of the Thai economy suggest that other factors might be more important. Although it sounds less charitable, it is likely that a combination of factors outside of the direct control of the region's governments provides a better explanation. For example, most of the "miracle" economies benefited initially from their privileged access to mature markets due to the verities of the Cold War—markets which also served as a source of technology transfers and development capital.

Hong Kong's Politicisation

There is a widespread expression of anxiety about the widely expected loss of freedoms and rights in Hong Kong. This may signal a break with the past where Hong Kong people were generally apolitical. As a colony of Great Britain, participatory democracy

under a limited franchise was introduced only recently. Even without active democratic involvement, however, Hong Kong citizens enjoyed extensive individual freedoms and civil rights protected by an independent judiciary which had a deep commitment to the rule of law. Under these conditions, they could afford to be apolitical since involvement in civic affairs brought little gain.

In response to the attention paid to democracy in Hong Kong, officials associated with the Hong Kong Special Administrative Region have insisted that politics are a distraction from Hong Kong's historical commitment to business. There is a suggestion that the introduction of limited democracy under Great Britain's last Governor, Chris Patten, has created an unnecessary politicisation. The reality, however, is that Hong Kong is being politicised by the governing structures imposed by Beijing.

Democracy is normally a vehicle for citizens to restrain the abuse of power and to give them a vehicle to protect or expand their rights and freedoms. Under British rule, the citizens of Hong Kong enjoyed the fruits of democracy even though they had little or no voice in their affairs. Despite Beijing's assurances of "one country, two systems", the true cause of the deepened interest and involvement in politics is the collective anxieties of the people of Hong Kong.

Civil Society under Siege?

This process of politicisation also affects the economic realm. Most obvious is the impact of politics upon the Hang Seng stock index. The inflation of stock prices was partly prompted by mainland funds that were moved in to provide the impression of a market-based vote of confidence in Hong Kong's future. There is also the problem of the "red chip" stocks of companies with mainland connections. The values of these shares have soared on the basis of the political connections of the enterprises, many of which show little or no underlying economic promise.

Meanwhile, many Hong Kong businesses are upbeat based upon a belief that their connections (*guanxi*) or obsequious behaviour will leave them in good stead with the Chinese communists. This view is very short-sight-

ed since access to markets based upon politics tends to be unstable. In any event, these exclusive arrangements stand in stark contrast to Hong Kong's tradition of an open economy that has become mostly free of corruption. The increased role of politics in the economy will lead unavoidably to more corruption.

If the collision with the Communist authorities is to corrupt Hong Kong, such corruption will appear as incremental losses in the institutions of civil society. These institutions include universities, the media, an independent judiciary, and voluntary associations that provide the basis for the protection of individual rights and freedoms from the abuse of power.

The institutions of civil society are interactive. A free press provides a basis for making politicians accountable for their actions and serves as a gauge of the separation of powers of the instruments of government. Lamely, there is widespread acknowledgement that the centre for the most open and free press in much of East Asia is being undermined by self-censorship out of fear of offending the powerful leadership.

One consequence of the loss of a free press is that judges will be more susceptible to the demoralising pressures imposed by commercial and political interests. As current judges resign, they will be replaced with others who are more compliant to the wishes of the regime. Consequently, Hong Kong's courts will become subject to political pressures in dealing with domestic matters, even if they continue to protect international commercial interests.

The Decline of the "Miracle" Economies

There is some optimism that the Basic Law, a mini-constitution implemented by Beijing, will protect Hong Kong interests. For such a document to be effective, however, it must be implemented by good governors who are obliged to take into account the preferences of the governed. In con-

trast, Beijing's policies are based upon maintaining power in the hands of the Communist Party. Any conflicts will be decided in favour of maintaining the political *status quo* on the mainland.

Hong Kong's economic success to date, like that in much of East Asia, is testimony to the triumph of humanity. In the case of Hong Kong, material progress benefited from the presence of extensive individual freedoms sup-

ported by a strict enforcement of civil rights. Under these conditions, the individual choices of Hong Kong's citizens provided substantial benefits shared by the community. There are now many reasons to despair for the loss of freedom and erosion of civil society that allowed Hong Kong's people to accomplish so much.

When the rest of the world turns to

other issues, a human drama will continue to unfold in the lives of the people who fled oppression in their motherland and are now being beckoned back to the bosom so resolutely rejected when they emigrated to Hong Kong. Whatever the promises to the contrary, there are irreconcilable contradictions of a communist system obsessed with control and power that will inevitably undermine the institutions that underpin the spectacular story of Hong Kong.

Many of the "miracle" economies followed Japan's model for growth and all are likely to face similar economic upheavals. These problems include substantial devaluation of property and stock markets. As in Japan, recovery of lost economic potential will demand structural change in economic regulations and intervention as well as change in the overall corporate culture. It seems unlikely that the conservative institutional arrangements in East Asia are flexible enough to provide the sort of timely changes that will be necessary. It remains to be seen whether the decline in the "miracle" economies of East Asia will be the top story of the beginning of the new millennium. ♦

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