In the Forests of the Night
Second Report of the Asian Economic Crisis Monitoring Group

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1. Introduction

This month marks the first anniversary of some of the most dramatic events in the East Asian economic crisis, the first of which was Thailand's forced change in its foreign exchange policy to a managed float. The financial instability led to economic instability and, particularly in Indonesia, to severe social and political instability. Since we published our first monitoring report in February the two biggest developments have been the departure of Suharto as President of Indonesia and the intervention by the United States to help support the Japanese yen. Neither development has played itself out yet, though both have produced a breathing space. Suharto did not go until there were extensive riots in Indonesia and more than 1000 people died. Unrest continued in parts of Indonesia after Suharto had gone. There was speculation that his successor as President, B.J. Habibie, would also be forced out of office by political demonstrations. However, the unrest has been less intense than it was during Suharto's last weeks in office and Habibie seems temporarily secure. In the other important regional move, the United States support for the yen, was subject to conditions that Japan would make changes to its economy. Japan has certainly expressed its intention to do so and announced a plan to manage bad loans and a plan to boost the economy. At the time of writing the world is waiting for Japan to be as firm in its actions as it has been in its expressions of intent. In the case of Indonesia, had Suharto remained in power the social and political unrest would probably have become uncontrollable; in the case of Japan the rapidly declining value of the yen might have brought about a whole new round of devaluations. For a few days, the financial stability of the region and perhaps of the world was under a threat. In both cases the worst was avoided, though with little time to spare.

In our second paper we focus on the effects of the crisis on New Zealand exports, including the effects on New Zealand manufacturers, on the effects of the crisis on growth in East Asia, on the effects of the crisis on the education sector in New Zealand, and on some of the elements of political instability in Indonesia.

We are retaining the use of the word "crisis" because no other seems to describe more precisely the condition of several countries of East Asia. An argument can be advanced that the crisis occurred during 1997, the International Monetary Fund responded to the circumstances of that time, and that the region is recovering. According to this line of reasoning, the term "crisis" lacks accuracy for the new set of conditions. We do not deny that there have been changes during the crisis and that the region is in a different phase than it was a year ago. Nor would we want to insist that all countries in the region are in crisis. Nevertheless, we have found no other word to convey adequately the mixture of urgent, serious, and unresolved aspects of the financial, economic, social and political conditions which have beset a group of countries and which present a huge regional problem.
Michel Camdessus, the managing director of the International Monetary Fund, described the fall of the yen as creating a “crisis within a crisis” (The Press, June 25, p 19). The description seems apt.

The first section again deals with the economics of the crisis, the second with education, the third with the effect on manufacturers, and the last with the social and political stability conditions within Indonesia.

2. Implications for New Zealand exports

2.1 Key Points

- Asian and New Zealand economic growth rates revised down.
- New Zealand exports to Asia down on last year.
- Total New Zealand exports increased 3% for the year ended May, 1998.
- NZ more competitive from fall in NZ$.
- Exports to Japan, our second largest trading partner estimated to be down 6% in 1998.

The effects of the Asian crisis on New Zealand are being reflected in New Zealand’s export statistics and in downward revisions of economic growth for Asia and New Zealand. There is still a lot of uncertainty on how the Asian crisis will affect New Zealand exports in the longer run. This section discusses New Zealand’s exporting history with Asia, the effects of the Asian crisis to date and finally an estimate of the effect of the crisis on New Zealand exports to Asia for 1998.

<table>
<thead>
<tr>
<th></th>
<th>Aug-1997</th>
<th>Feb-1998</th>
<th>Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-4</td>
<td>8.0</td>
<td>1.1</td>
<td>-6.9</td>
</tr>
<tr>
<td>South Korea</td>
<td>8.2</td>
<td>3.0</td>
<td>-5.2</td>
</tr>
<tr>
<td>Japan</td>
<td>2.5</td>
<td>-1.0</td>
<td>-3.5</td>
</tr>
<tr>
<td>OECD</td>
<td>2.7</td>
<td>2.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>Australia</td>
<td>4.1</td>
<td>3.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.9</td>
<td>2.4</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: Consensus Forecasts

1 Defined as industrial production growth
2 ASEAN-4 are Indonesia, Malaysia, the Philippines and Thailand. Consensus Forecasts weight each country equally.
Table 1 reports Consensus Forecasts economic growth estimates for the 1998 calendar year. The major downward revisions in growth are for the ASEAN-4, South Korea and Japan. New Zealand’s growth estimate has only been revised down 0.5%. However, this relatively small downward economic growth revision masks the impact of the Asian crisis on specific sectors, especially export oriented sectors. New Zealand’s exposure to Asia by country and product is discussed later in the paper.

Figure 1 shows the monthly exports (fob) to Asia since January 1996. A feature of this graph is the seasonality of exports. Fluctuations peak during March, May, July and October. Overall exports since 1996 have been reasonably static.

Although New Zealand exports to Asia have been relatively static over the last two years, Figure 2 shows that the percentage of New Zealand’s exports going to Asia has been quite erratic. Interestingly, the peaks of total exports to Asia correspond to the Asian share being at its lowest. This is due to Asia’s disproportional share of seasonal increases of New Zealand export supply and demand. The percentage of exports to Asia has fallen since the crisis started in July, 1997.

Source: Statistics New Zealand

Figure 1
Exports to Asia (fob)
Table 2 reports the value of New Zealand exports to Asia, broken down by country and product, for the year ended 30 June 1997. Table 2 gives an indication to the extent of New Zealand’s exposure to Asia. Most of New Zealand’s exports to Asia are used as inputs in the manufacture of exportable goods by these countries.

### Table 2

**New Zealand Exports to Asia by Country and Product (Million NZS)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Meat</th>
<th>Dairy</th>
<th>Fish</th>
<th>Fruit</th>
<th>Wool</th>
<th>Wood</th>
<th>Aluminium</th>
<th>Oil</th>
<th>Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6</td>
<td>49</td>
<td>40</td>
<td>3</td>
<td>217</td>
<td>17</td>
<td>2</td>
<td>0.06</td>
<td>12</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>34</td>
<td>61</td>
<td>87</td>
<td>69</td>
<td>57</td>
<td>27</td>
<td>6</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29</td>
<td>89</td>
<td>2</td>
<td>10</td>
<td>3</td>
<td>87</td>
<td>19</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>152</td>
<td>339</td>
<td>306</td>
<td>349</td>
<td>54</td>
<td>769</td>
<td>424</td>
<td>0.003</td>
<td>2</td>
</tr>
<tr>
<td>Korea</td>
<td>45</td>
<td>42</td>
<td>47</td>
<td>25</td>
<td>6</td>
<td>359</td>
<td>135</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>37</td>
<td>243</td>
<td>10</td>
<td>27</td>
<td>3</td>
<td>17</td>
<td>3</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>Philippines</td>
<td>7</td>
<td>146</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>44</td>
<td>11</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Singapore</td>
<td>24</td>
<td>30</td>
<td>9</td>
<td>39</td>
<td>0.2</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Taiwan</td>
<td>68</td>
<td>161</td>
<td>44</td>
<td>54</td>
<td>37</td>
<td>90</td>
<td>13</td>
<td>0.0</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>113</td>
<td>14</td>
<td>13</td>
<td>12</td>
<td>27</td>
<td>13</td>
<td>0.02</td>
<td>6</td>
</tr>
<tr>
<td>Total Asia</td>
<td>404</td>
<td>1273</td>
<td>560</td>
<td>593</td>
<td>391</td>
<td>1444</td>
<td>634</td>
<td>10</td>
<td>93</td>
</tr>
<tr>
<td>Asian Share</td>
<td>16.6%</td>
<td>32.4%</td>
<td>54.9%</td>
<td>33.4%</td>
<td>37.5%</td>
<td>74.2%</td>
<td>78.2%</td>
<td>32.6%</td>
<td>26.0%</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs and Trade

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3 Meat includes sheepmeat and beef. Dairy includes butter, casein, cheese and curd and milk and cream products. Fruit is defined as vegetables, kiwifruit, fruit and apples. Wood consists of wood and wood products combined. Oil is oil and petroleum exports, and paper is paper and paper products.
For the year ended June, 1997, Asia was New Zealand’s largest market for fish, wood and wood products and aluminium. Wood products are New Zealand’s largest export to Asia. In addition, Asia imported approximately one-third of New Zealand’s dairy products, wool, fruit and vegetables and oil products. Markets least exposed to Asia include New Zealand meat and paper products. Of these export markets, Japan is the largest market of New Zealand meat, dairy, fish, fruit, wood and aluminium. Of Asian countries, China imports the most wool from New Zealand. Singapore is the largest Asian importer of oil and petroleum, while Hong Kong is the largest Asian importer of New Zealand paper and paper products.

A feature of Table 2 is the importance of Japan to many of New Zealand’s export industries. Japan was the most important Asian market for meat, dairy, fish, fruit, wood and aluminium products for the year ended 31 June 1997. This is not surprising given that Japan is New Zealand’s second most important trading partner after Australia. Over half of New Zealand’s aluminium exports and almost a third of New Zealand’s fish and shellfish exports go to Japan.

Table 3
New Zealand Exports to Asia (FOB) by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Month ended MAY 1997</th>
<th>Month ended MAY 1998P</th>
<th>% change</th>
<th>Twelve months ended MAY 1997</th>
<th>Twelve months ended MAY 1998P</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>284.9</td>
<td>201.8</td>
<td>-29.2</td>
<td>3139.0</td>
<td>2973.5</td>
<td>-5.3</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>92.5</td>
<td>42.6</td>
<td>-53.9</td>
<td>972.1</td>
<td>749.6</td>
<td>-22.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>50.1</td>
<td>47.6</td>
<td>-5.1</td>
<td>572.6</td>
<td>618.2</td>
<td>8.0</td>
</tr>
<tr>
<td>China, Peoples Republic of</td>
<td>62.4</td>
<td>53.6</td>
<td>-14.1</td>
<td>544.4</td>
<td>602.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Taiwan, Province of China</td>
<td>59.9</td>
<td>48.4</td>
<td>-19.2</td>
<td>553.1</td>
<td>550.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>55.9</td>
<td>28.7</td>
<td>-48.6</td>
<td>485.9</td>
<td>450.9</td>
<td>-7.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>27.3</td>
<td>32.0</td>
<td>17.1</td>
<td>282.2</td>
<td>375.7</td>
<td>33.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>33.6</td>
<td>16.1</td>
<td>-52.3</td>
<td>294.0</td>
<td>299.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>21.9</td>
<td>15.5</td>
<td>-29.2</td>
<td>278.5</td>
<td>242.4</td>
<td>-13.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>31.9</td>
<td>8.3</td>
<td>-74.0</td>
<td>366.4</td>
<td>228.0</td>
<td>-37.8</td>
</tr>
<tr>
<td>Total Asia</td>
<td>720.4</td>
<td>494.6</td>
<td>-31.3</td>
<td>7488.2</td>
<td>7091.0</td>
<td>-5.3</td>
</tr>
<tr>
<td>Total all countries</td>
<td>2077.1</td>
<td>19.4</td>
<td>-8.3</td>
<td>20865.9</td>
<td>21493.8</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand
P - Provisional

Overall, New Zealand exports to all countries in the world have increased by 3% for the year ended May, 1998. However, with the exception of Singapore, New Zealand exports to Asia were all down for the month of May, 1998, from May, 1997. Annual export earnings for the year ending May, 1998, from Japan, Korea, Taiwan, Malaysia, Thailand and Indonesia were down on the year ended May, 1997, while exports increased to Hong Kong, China, Taiwan, Singapore and the Philippines in the same period. Exports to Asia as a whole decreased 31.3% for the month of
May, 1998, compared to May, 1997, while for the 12 months ended May, 1998, exports to Asia have decreased by 5.3% (Table 3).

The lowering of Asia’s demand for New Zealand exports can be attributed to the following:

- Asian demand for imports will fall as Asian incomes are eroded and the depreciation of their exchange rates against the New Zealand dollar make imports more expensive in Asian markets.
- Depreciation of the Asian currencies against the New Zealand dollar will increase the competitiveness of Asian companies enabling them to be more competitive against New Zealand goods and services.
- Lower economic growth in Asia will also lower the demand for goods and services from New Zealand’s competitors, which will lower their economic growth, also reducing the demand for New Zealand’s goods and services in the markets of New Zealand’s main competitors.
- A fall in Asian visitors to New Zealand
- Banks not issuing letters of credit to Asian importers due to declining confidence in their financial integrity.

![Graph showing exchange rates](image)

**Figure 3**

**Selected Economies Bilateral US Dollar Exchange Rates**

**June 1997=100**

Figure 3 shows the movement of Asian exchange rates against the US$ since June 1997 for seven Asian economies. The exchange rates are monthly averages defined as US dollars per currency unit indexed June 1997 = 100. Since the start of the crisis in July, 1997, all of the currencies reported in Figure 3 have weakened against the US dollar.

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*Defined as US dollars per currency unit*
The Thai baht was floated on July 2, 1997. This caused other currencies to lose value in order to stay internationally competitive starting a contagion effect. Soon after the baht was floated the Indonesian authorities followed, floating the rupiah on 14 August, 1997. A week later the IMF approved a financial support package for Thailand, but the baht continued to fall. The crisis was spreading causing the stock prices in Hong Kong and Seoul to fall during October 1997. Companies went into receivership and bankruptcy. The Korean government tried to defend its currency, the won, by raising interest rates. However, in October the Korean government was forced to abandon its fixed exchange rate regime in favour of a managed float allowing the Korean won to plummet to 1,100 won per US dollar by the end of November. Taiwan's currency, which was closely tied to the Japanese yen, weakened in conjunction with the weakening of the yen. In response the Taiwanese authorities allowed the New Taiwan dollar to depreciate 6% in October. The IMF approved a financial support package for Indonesia in November. By December the baht and rupiah appeared to have stabilised. Korea's newly elected President, Kim Dae-jung, made it clear that the IMF conditions would be adhered to any cost. This made investors uneasy as they were worried that South Korea would not be able to service its US$157 billion debt. As a result, on December 23 the value of the won almost halved to 1,962 won to the US dollar, causing the baht and rupiah to weaken again.

In January 1998, Indonesia struggled to comply with the conditions imposed by the IMF. The IMF responded by postponing financial support to Indonesia which caused the rupiah to fall once again.

Between February and May the most affected currencies stabilised. However, in May 1998, riots in Indonesia caused by students' dissatisfaction with Suharto caused the rupiah and other currencies to fall even further.

The depreciation of the Asian currencies has made imports to Asia more expensive but made the Asian economies more competitive internationally. This will affect New Zealand's products that compete with Asian products overseas. However, the New Zealand dollar has depreciated against the US dollar and other major currencies (14.9% depreciation in the Trade Weighted Index since 30 June 1997) making New Zealand increasingly competitive relative to US$ based economies (Table 4).
### Table 4
**New Zealand Nominal Exchange Rate**  
**Trade Weighted Index Base: June 1979 = 100**

<table>
<thead>
<tr>
<th>Date</th>
<th>T.W.I</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 July 1997</td>
<td>65.5</td>
</tr>
<tr>
<td>30 August 1997</td>
<td>64.3</td>
</tr>
<tr>
<td>30 September 1997</td>
<td>64.5</td>
</tr>
<tr>
<td>31 October 1997</td>
<td>64.5</td>
</tr>
<tr>
<td>30 November 1997</td>
<td>64.3</td>
</tr>
<tr>
<td>31 December 1997</td>
<td>62.9</td>
</tr>
<tr>
<td>31 January 1998</td>
<td>61.8</td>
</tr>
<tr>
<td>18 February 1998</td>
<td>61.1</td>
</tr>
<tr>
<td>31 March 1998</td>
<td>60.6</td>
</tr>
<tr>
<td>30 April 1998</td>
<td>59.3</td>
</tr>
<tr>
<td>31 May 1998</td>
<td>58.8</td>
</tr>
<tr>
<td>30 June 1998</td>
<td>57.3</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of New Zealand*

### Table 5
**IMF Forecasts of 1998 GDP Growth (annual percent change)**

<table>
<thead>
<tr>
<th></th>
<th>May 1997</th>
<th>October 1997</th>
<th>December 1997</th>
<th>Extent of revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>5.0</td>
<td>5.0</td>
<td>4.1</td>
<td>-0.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7.5</td>
<td>6.2</td>
<td>2.0</td>
<td>-5.5</td>
</tr>
<tr>
<td>Japan</td>
<td>2.9</td>
<td>2.1</td>
<td>1.1</td>
<td>-1.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.9</td>
<td>6.5</td>
<td>2.5</td>
<td>-5.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.4</td>
<td>5.0</td>
<td>3.8</td>
<td>-2.6</td>
</tr>
<tr>
<td>South Korea</td>
<td>6.3</td>
<td>6.0</td>
<td>2.5</td>
<td>-2.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.0</td>
<td>3.5</td>
<td>0.0</td>
<td>-7.0</td>
</tr>
</tbody>
</table>

*Source: International Monetary Fund World Economic Outlook*

#### 2.2 Effect of the Asian crisis on Asian GDP Growth

Table 5 shows the economic growth projections for Asian countries made before and after the onset of the Asian crisis by the International Monetary Fund. All revisions have been downwards, the latest revisions being the largest as the extent of the crisis became clearer. The largest revision was for Thailand, whose economic growth for 1998 was revised down from 7.0% to zero.

Economic growth forecasts for the Asian economies were revised downward in December, 1997, in response to the reduction in net private capital inflows to Asia. This was due to reduced domestic demand, improved international competitiveness from currency depreciations, loss of business confidence and the cost of capital (IMF, 1998). In December, currencies which appeared to be stable (rupiah, baht and ringgit) plummeted when the won depreciated. In addition, Indonesian financial institutions reduced credit and cancelled loans. Although net exports have increased, they possibly will
not have enough effect to offset the reduced demand and reduced real wages, especially in Indonesia where inflation is now 39.1%. Consequently the December revisions may not reflect the extent of the crisis from later events.

2.3 Measuring the Direct Trade Effect of the Asian Crisis

Table 6 is a summary of the International Trade Policy Centre’s estimate of the direct trade effect of New Zealand’s exports to Asia caused by the Asian crisis. The direct trade effect is an estimate of the percentage reduction in exports based on 1997 year as a result of the crisis. These figures are presented in the third column of Table 6. The direct trade effect is derived by multiplying the income elasticity of demand for New Zealand exports by the change in economic growth forecasts before and after the Asian crisis. The direct trade effect for each country is then multiplied by 1997’s total exports to give the export loss.

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth revision</th>
<th>Income elasticity</th>
<th>Direct Trade Effect %</th>
<th>Loss in Export Earnings (Smillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>-0.9</td>
<td>0.7</td>
<td>-0.8</td>
<td>4.48</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-5.5</td>
<td>2.8</td>
<td>-15.4</td>
<td>52.9</td>
</tr>
<tr>
<td>Japan</td>
<td>-1.8</td>
<td>3.3</td>
<td>-5.9</td>
<td>182.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-5.4</td>
<td>1.1</td>
<td>-5.9</td>
<td>30.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>-2.6</td>
<td>2.2</td>
<td>-5.7</td>
<td>19.3</td>
</tr>
<tr>
<td>Singapore</td>
<td>-2.0</td>
<td>0.7</td>
<td>-1.4</td>
<td>4.9</td>
</tr>
<tr>
<td>South Korea</td>
<td>-2.8</td>
<td>2.1</td>
<td>-8.0</td>
<td>76.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>-7.0</td>
<td>1.7</td>
<td>-11.9</td>
<td>31.1</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook, Amor and Lattimore

The country that is estimated to have the largest direct trade effect in percentage terms is Indonesia at -15.4%. Thailand’s direct trade effect is estimated to be -11.9% and South Korea, -8%. This is no surprise as these three countries are also the worst affected by the Asian crisis. At the same time, South Korea and Indonesia both have high income elasticities of demand for New Zealand exports. The direct trade effect for Japan, Malaysia and the Philippines is approximately 6%. Japan’s direct trade effect is caused by a high income elasticity of demand for New Zealand exports and a low downward economic growth revision. On the other hand, Malaysia’s economic growth was revised downwards from 6.5% to 1.1% but its income elasticity of demand for New Zealand exports is low. The Philippines has growth revisions and income elasticity somewhere in between Japan and Malaysia. Hong Kong and Singapore

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5 Income elasticity of demand is an economic measurement that measures the percentage change in quantity demanded from a percentage change in income.
have low direct trade effects, due to the small downward growth revisions and small income elasticities of demand for New Zealand exports.

However, the direct trade effect does not tell us the likely change in New Zealand export earnings to the world as a whole. This is because lower export demand for New Zealand goods in Asia may be offset by increased sales in other markets by New Zealand firms. The export loss (column 4) is calculated by multiplying the direct trade effect by last year’s export earnings. Japan is New Zealand’s largest Asian trading partner and the 6% direct trade effect becomes a $182 million loss in export earnings from Japan in 1997 dollars. New Zealand is estimated to lose $76.4 million in exports to South Korea, which is the second largest export loss. The third largest export loss is Indonesia. This is interesting because, excluding China and Taiwan, Indonesia ranks only as New Zealand’s fifth largest Asian export market, excluding China and Taiwan. The magnitude of export earnings is due to the large downward revision in economic growth and the high income elasticity. The loss in export earnings from Malaysia and Thailand are about equal at $30 million. The export loss from the Philippines is expected to be $20 million. The two Asian countries with the smallest export loss are Singapore and Hong Kong. Hong Kong is New Zealand’s third largest Asian market.

### Table 7
**Importance of Asia (% of Exports)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Meat</th>
<th>Dairy</th>
<th>Fish</th>
<th>Fruit</th>
<th>Wool</th>
<th>Wood</th>
<th>Aluminium</th>
<th>Oil</th>
<th>Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.2</td>
<td>1.3</td>
<td>4.3</td>
<td>0.2</td>
<td>20.8</td>
<td>0.9</td>
<td>0.3</td>
<td>0.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.4</td>
<td>1.5</td>
<td>8.5</td>
<td>3.8</td>
<td>5.4</td>
<td>1.4</td>
<td>0.7</td>
<td>0.0</td>
<td>8.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.2</td>
<td>2.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.2</td>
<td>3.9</td>
<td>2.3</td>
<td>0.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Japan</td>
<td>6.5</td>
<td>8.6</td>
<td>29.8</td>
<td>19.7</td>
<td>5.2</td>
<td>39.9</td>
<td>52.2</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Korea</td>
<td>1.8</td>
<td>1.1</td>
<td>4.5</td>
<td>1.4</td>
<td>0.6</td>
<td>18.6</td>
<td>16.7</td>
<td>5.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.5</td>
<td>6.2</td>
<td>1.0</td>
<td>1.5</td>
<td>0.3</td>
<td>0.9</td>
<td>0.4</td>
<td>0.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.3</td>
<td>3.7</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>2.2</td>
<td>1.4</td>
<td>0.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.9</td>
<td>0.7</td>
<td>0.9</td>
<td>2.2</td>
<td>0.0</td>
<td>0.4</td>
<td>1.0</td>
<td>27.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.7</td>
<td>4.1</td>
<td>4.3</td>
<td>3.1</td>
<td>3.6</td>
<td>4.6</td>
<td>1.6</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.1</td>
<td>2.9</td>
<td>1.3</td>
<td>0.7</td>
<td>1.2</td>
<td>1.4</td>
<td>1.6</td>
<td>0.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Total Share</td>
<td>16.6</td>
<td>32.4</td>
<td>54.9</td>
<td>33.4</td>
<td>37.5</td>
<td>74.2</td>
<td>78.2</td>
<td>32.6</td>
<td>26.0</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs and Trade*

*Note: Bold denotes the major Asian market for each product*
3. Industry Impact: Education Sector

In our last discussion paper we analysed the impact of recent Asian economic developments on New Zealand’s forestry sector. This illustrated the direct economic impact on an important export sector, and the flow-on effects in terms of industry earnings, capital investment, and employment. In the present paper we analyse the effects on another important Asian market for New Zealand, that of exports of education services.

Table 8 summarises the number of full-fee paying students in the formal education sector (secondary schools, polytechnics, colleges of education and universities) in New Zealand in 1997. English language schools also enrol significant numbers of international students. In 1996, almost 17,000 international students studied English language in New Zealand, with over 16,000 of these coming from Asia (Major, 1998).

Table 8
Numbers of full-fee paying international students in New Zealand (1997)

<table>
<thead>
<tr>
<th>Country</th>
<th>Secondary Schools</th>
<th>Polytechnics</th>
<th>Colleges of Education</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>388</td>
<td>123</td>
<td></td>
<td>215</td>
</tr>
<tr>
<td>Indonesia</td>
<td>148</td>
<td>139</td>
<td></td>
<td>210</td>
</tr>
<tr>
<td>Japan</td>
<td>1,049</td>
<td>334</td>
<td></td>
<td>328</td>
</tr>
<tr>
<td>Korea</td>
<td>1,658</td>
<td>270</td>
<td></td>
<td>126</td>
</tr>
<tr>
<td>Malaysia</td>
<td>253</td>
<td>351</td>
<td>53</td>
<td>2,070</td>
</tr>
<tr>
<td>Singapore</td>
<td>28</td>
<td>23</td>
<td></td>
<td>174</td>
</tr>
<tr>
<td>Taiwan</td>
<td>599</td>
<td>187</td>
<td></td>
<td>135</td>
</tr>
<tr>
<td>Thailand</td>
<td>779</td>
<td>208</td>
<td></td>
<td>202</td>
</tr>
<tr>
<td>Total</td>
<td>4,902</td>
<td>1,635</td>
<td>53</td>
<td>3,460</td>
</tr>
</tbody>
</table>


It is not possible to determine accurately the exact amount of foreign exchange earned by education exports. While statistics on the fees paid by international students in the formal sector are available, an even greater amount is spent on living expenses and other activities. Much of the available information on foreign exchange earnings from education exports comes from New Zealand Education International Limited (NZEIL). This non-profit organisation promotes its 250 member institutions overseas. These include all public universities, many polytechnics, all colleges of education, and many private tertiary institutes, secondary schools and private English language schools.
NZEIL has traditionally estimated foreign exchange expenditures using a multiple of fees. On this basis, they assess 1997 foreign exchange earnings from education at $307 million. More recently, NZEIL have sampled actual student expenditures using diaries, and this suggests that the current estimates are highly conservative. It seems likely that the true 1997 expenditure could have been as high as $500 million (Wypych, 1998). Table 9 reports earnings by sector, using the conservative figures (NZEIL, 1998).

Table 9
Estimated Foreign Exchange Earnings by Sector (1997)

<table>
<thead>
<tr>
<th>Sector</th>
<th>$M</th>
</tr>
</thead>
<tbody>
<tr>
<td>English Language</td>
<td>95</td>
</tr>
<tr>
<td>Secondary</td>
<td>82</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>46</td>
</tr>
<tr>
<td>University</td>
<td>84</td>
</tr>
<tr>
<td>Total:</td>
<td>307</td>
</tr>
</tbody>
</table>

Source: NZEIL(1998)

Foreign exchange earnings grew at a compound growth rate in excess of 30% during the 1990s, although the 1997 growth rate was only 7% (NZEIL, 1998). For comparison, the more mature United States market for international education appears to have stabilised, with a growth of only 0.9% in the 1996/97 year, continuing a seven-year trend of minimal growth (Institute of International Education, 1997).

Early newspaper reports on the impact of the Asian crisis on the New Zealand education export sector appeared to be based mainly on a consideration of the increased cost resulting from Asian currency devaluations. For example, in December the Post Primary Teachers' Association Vice-President, Barnadine Vester, was predicting that the Asian economic crisis would cause many secondary schools to go into the red (Dominion, 29 December, 1997, p3). She commented that many schools relied on foreign fee-paying students for balancing their operating budgets; at average tuition fees of $7000, they contributed a total of around $30 million. Nelson Polytech forecast a reduction of 11% (amounting to $500,000 revenue) in international students, due in large part to the devaluation of the Malaysian currency (Brock, 1997). NZEIL reported significant falls (eg 20% in Bangkok, 21% in Singapore) in inquiries from Asian students about studying in New Zealand (Williams, 1997). In January, the Wellington Regional Chamber of Commerce was predicting that educational organisations whose main customers were from Asia were expecting numbers to be down as much as 30% compared with 1997 (Dominion, 30 January, 1998, p11).
However, while the New Zealand dollar was becoming more expensive in Asian countries, our continuing depreciation against the United States dollar was opening up a comparative cost advantage for potential Asian students. Figure 4 illustrates this effect.

![Graph](image)

**Figure 4**

*US and NZ Dollars against Malaysian Ringgit*

*January 1997 = 100*

The graph indexes the US Dollar/Malaysian Ringgit and New Zealand Dollar/Malaysian Ringgit exchange rates at 100 in January 1997. By February 1998, the relative exchange rates had shifted to 157 and 127 respectively, providing a relative price advantage for New Zealand. This shift in relativity appeared to underlie an increase in inquiries experienced by Tradenz in Kuala Lumpur (Major, 1998).

When considering the effect of the external environment on businesses, the impact of economic conditions is only one of the factors that need to be considered. In our education export sector, socio-cultural and political-legal considerations have had very important moderating effects on the impact of the economic shifts in Asia.

Malaysia is our biggest provider of international full-fee paying university students. Part of the reason for this lies in Malaysia's domestic policies. Ethnic Malays are guaranteed 60% of places in local universities, under an affirmative-action quota system established in 1971. Around 50,000 Malaysians study abroad, costing the country 2.5 billion ringgit a year; 60% of these are non-Malay, while the other 40% (mainly Malay) receive government scholarships (Jayasankaran, *et al.*, 1998).

The Malaysian government has dramatically reduced the number of scholarships (by 90%), which will place a severe strain on local universities that are already overcrowded. Furthermore, the quota system...
limits the opportunity for non-Malay Malaysians to gain places locally. Given the importance placed on education, families are prepared to make significant sacrifices to ensure their children are able to complete formal qualifications. For many non-Malays, this means continuing to fund overseas university education despite the soaring costs imposed by currency depreciations (Jayasankaran et al., 1998).

The Thai government has sought assistance for the country's overseas students. Thai Ambassador Vikrom Koompirochana expressed his intention to ask the New Zealand Government for financial assistance for Thais studying here (Lane, 1998). Overseas, the United States government has provided scholarships for 165 Thai students to come for university studies, and the US-ASEAN Business Council has agreed to provide financial assistance to enable Thai students already in the country to complete their studies (White House, 1998).

Individual institutions in New Zealand have responded in various ways to support students. Most institutions have adopted more flexible payment options, while Otago University (with the largest number of international students) has put in place a more formal financial-assistance scheme (Lane, 1998).

Table 10
Percent changes in full-fee paying international students in New Zealand
March 1997 to March 1998 Comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>English Language</th>
<th>Secondary</th>
<th>Polytechnic</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>na</td>
<td>-4</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3</td>
<td>2</td>
<td>10</td>
<td>-7</td>
</tr>
<tr>
<td>Japan</td>
<td>-13</td>
<td>21</td>
<td>-15</td>
<td>-3</td>
</tr>
<tr>
<td>Korea</td>
<td>-51</td>
<td>-10</td>
<td>-5</td>
<td>31</td>
</tr>
<tr>
<td>Malaysia</td>
<td>na</td>
<td>-31</td>
<td>-30</td>
<td>-19</td>
</tr>
<tr>
<td>Singapore</td>
<td>na</td>
<td>-30²</td>
<td>-23</td>
<td>-18</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-4</td>
<td>-4²</td>
<td>42</td>
<td>13</td>
</tr>
<tr>
<td>Thailand</td>
<td>-49</td>
<td>-21</td>
<td>-12</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>-32%</td>
<td>-5%</td>
<td>-1%</td>
<td>-11%</td>
</tr>
</tbody>
</table>

Source: Rose (1998)

¹English Language figures are January to January comparisons, sourced from NZEIL (1998)
²Figures for Taiwan and Singapore secondary school students come from Wypych (1998)

Note: The total percentage is calculated by comparing the total changes in students against the 1997 enrolment total at the same date.
Early reports on the effects of the crisis were based largely on student inquiries and anecdotal evidence. Ministry of Education returns detailing actual enrolments are not made until later in the year, but NZEIL has conducted a number of surveys of institutions to identify enrolment trends. These surveys make comparisons between 1998 enrolments in the same institutions, at the same time in 1997. They therefore do not reflect final numbers, but they are a best available indication of enrolment trends. Table 10 summarises these trends for English language schools, secondary schools, polytechnics and universities.

The impact of these changes depends on the underlying enrolments; Singapore, for example, contributes relatively few students so the large percentage drop has less overall effect. Figures 5, 6, 7 and 8 illustrate, for each sector, the relative importance of each country, and the changes in enrolments.

The figures for English Language enrolments (Figure 5) are somewhat tentative, as they are based only on January enrolments. More up-to-date figures will not be available until after a survey of first-quarter enrolments has been completed. The NZEIL report on which these figures are based (NZEIL, 1998) comments that many schools were experiencing much lower enrolments than expected, and one school expected to close because of this.

![Bar chart showing English Language enrolments in 1997 and 1998 for Indonesia, Japan, Korea, Taiwan, and Thailand.]

Source: NZEIL(1998)

**Figure 5**

*January English Language Enrolments in 1997 and 1998 (Full-Fee Paying)*

Of the four most important markets for secondary school students (Figure 6), all except Japan show a reduction in enrolments. Significant reductions for Malaysia (31%) and Thailand (21%) are in line with
the size of currency devaluations in those countries. Interestingly, Indonesian numbers show an increase. NZEIL speculate that this might be as a result of Indonesians holding bank accounts outside the country (NZEIL, 1998), and the concern that many ethnic Chinese have regarding security and stability (Rose, 1998).

![Bar chart showing hypothetical data]


**Figure 6**

*March Secondary School Enrolments in 1997 and 1998 (Full-Fee Paying)*

Malaysia is the most important Polytechnic market (Figure 7), and student numbers have fallen by 30%. This drop is partially offset by increases from the next two most important countries, Japan and Taiwan. Japan is experiencing financial problems, especially in its banking sector (Landers & Biers, 1997). However, as NZEIL observe, (Rose, 1998) Japan has been experiencing slow growth for five years and student numbers have consistently increased over that period. Again, Indonesian figures go against the general economic picture; they suggest the possibility that Indonesian parents’ concern for the unstable political situation in their country may be translated into a desire to educate their children overseas (NZEIL, 1998).
University figures (Figure 8) are dominated by Malaysia, where government restrictions and currency devaluation have combined to affect student numbers. Information from the New Zealand Education Centre in Kuala Lumpur suggests that some students have delayed their study, hoping that favourable currency shifts will occur in time for them to enrol for courses in the second semester of this year (Rose, 1998).

In some sectors, increased enrolments of full fee-paying international students from non-Asian countries has helped offset the effects of the Asian financial crisis. An estimate of the impact of reduced Asian student numbers on foreign earnings can be obtained by applying the percentage decreases from Table 10 to the 1997 earnings in Table 9. These figures translate into a reduction of foreign exchange earnings of around $4 million for the secondary sector, $0.5 million for the polytechnic sector, and $9
million for the university sector. January figures from NZEIL suggested a drop of $20 million in the English Language sector (NZEIL, 1998), translating into a total reduction of over $30 million in foreign exchange earnings, compared with the 1997 year.

In closing this section, it should be noted that not all of our education export earnings depend on courses conducted in New Zealand. An increasing number of institutions are exploring joint venture or ‘twinning’ arrangements with international partners. This strategy can help insulate individual institutions from the effects of significant economic fluctuations in major source countries. Lincoln University, for example, has a joint venture with a private Malaysian university, Universiti Tenaga Nasional. As a result of Malaysian students being required to return home from overseas, Lincoln has gained over 160 additional students for its Malaysia-based Commerce degree course. Tradenz's Kuala Lumpur Trade Commissioner, Barbara Kohler, in commenting on the importance of such arrangements, has argued the importance of targeting post-graduate degrees, staff exchanges, delivery of short courses, niche marketing of specialist courses and providing assistance in curriculum development (Major, 1998). More New Zealand education institutions are likely to seek linkages with partners in overseas markets in order to gain protection from the uncertain economic situation now prevalent in Asia.

4. Impact on Manufacturing

As the effects of the Asian economic crisis continue to unfold, it is becoming easy to lose track of those changes which can be correctly attributed to the Asian crisis, and those changes which have simply coincided with it.

This is particularly the case for manufacturers at present, who are experiencing major shifts in their markets. Not all may be due to the Asian crisis. Ironically, the effects of the Asian crisis on the domestic market may be greater than on our export markets.

It is useful to put the Asian crisis into context: how exposed is the manufacturing sector to problems in Asia? An encouraging analysis in January indicated that New Zealand’s exposure was greater to those countries in which growth was still forecast, and much less to the countries worst affected by the crisis.

The analysis, by the NZ Manufacturers’ Federation, was based on Statistics New Zealand’s Basic Manufacturing Series (that is, excluding processed meat and fish, dairy products, pelts, wood chips and pulp), dated June, 1997. It broke East Asian countries into two groups. The first comprised Indonesia, Thailand, South Korea and Malaysia, all of which had seen their growth forecasts drop by more than
5%, and where the expectation was for their economies to contract in 1998. The second group of countries consisted of the Philippines, Singapore, Hong Kong, Japan and China, which were forecast to grow (albeit Japan only just), and therefore provide some continuing opportunities for exporters. Taken together, both groups of countries accounted for a third ($2551 million) of our exports of manufactured products.

The first ("at risk") group of countries take just 8% ($648.3 million) of manufactured exports. The most significantly exposed sectors are industrial chemicals (19% of exports) and non-ferrous metals (17%), accounting together for over $280 million, or more than a third of New Zealand’s total manufactured trade with these four countries.

On the other hand, New Zealand’s exposure to the second group of countries ("still growing") is much greater, as they take a quarter of our manufactured exports ($1902.7 million). The most exposed sectors to the second group of countries are food and beverages (35% of total food and beverage exports), sawn timber and wood products (45%), industrial chemicals (34%) and non-ferrous metals (43%). Together, these represent about 70% (over $1300 million) of manufactured exports to these countries. These four sectors are disproportionately exposed, each with about half of their total exports going to these countries.

Just as interesting, however, are those sectors that are not so heavily exposed to these two groups of countries. These markets account for only 17% of New Zealand’s metal products exports; 15% of textiles, furnishings, leather products, clothing and footwear; 17% of pharmaceuticals and cosmetics; and 8% of plastics products. These sectors account for about $3000 million of manufactured exports and are predominantly focused on the Australian and US markets.

There will be some indirect exposure to Asia, especially through the Australian market, where one forecasting group has projected a 0.6% reduction in forecast growth, translating into a 1% reduction in the rate of growth of New Zealand manufactured exports to Australia.

Moreover, the devaluation of Asian currencies will make their products more competitive in the short-term in New Zealand and third markets. Of course, if the devaluations translate into inflationary pressure, then Asian competitiveness will diminish over time.

A major concern is whether Asia will embrace restructuring of their economies, including opening up their markets.
4.1 Recent data - exports and domestic diverge

There is little hard data to indicate how manufacturers have fared since the IMF support packages were approved in November and December, 1997. The data that is available suggests the domestic market has fared worse than our export markets.

National data for the year to January, 1998 indicated that exports were continuing to grow: at that stage, 6% more than the previous year, and on an accelerating trend line. Growth opportunities were identified in Australia, the US and Europe, as devaluations had made New Zealand exports more competitive in these markets. Domestically, the picture was deteriorating.

At a regional level, more recent data is available from sample surveys. For instance, the Canterbury Manufacturers' Association' monthly survey of business conditions has shown a sharp divergence in growth between domestic and export sales.

![Graph showing export sales]

Source: Canterbury Manufacturers' Association survey

**Figure 9**

**Export Sales**

The value (NZS) of manufactured exports from Canterbury has surged since late 1997, with 12% growth in December, 1997, compared with the same month a year earlier; flat sales in the quiet month of January; 14% growth in February, 1998 (against February, 1997), 37% growth in March and 17% growth in April. As Figure 9 shows, there is a distinct positive “tick” to a three-month moving average trend.
Over the same period, domestic sales growth has faltered, slipping into negative figures for five out of the six months to April (compared with the same month a year ago). Figure 10 shows a distinct downturn in the sales growth trend, contrasting sharply with the export profile.

![Figure 10: Domestic Sales](image)

Source: Canterbury Manufacturers’ Association survey

**Factors**

Whether these trends are sustainable is highly debatable with the shadow of the Asian crisis hanging over traders. But, from market commentaries and discussions with manufacturers, the factors which appear to lie behind these trends include:

1. An initial substantial fall in the exchange rate in 1997. In this early wave of devaluation, the currency fell 6% from its peak of 68.9 on the Reserve Bank’s Trade-Weighted Index in April, 1997, to 64.5 by October, 1997 - all in the very early days of the Asian crisis (only the Thai and Philippine currencies were under pressure).

While exposure to Asia - or a linkage in portfolio managers’ minds between Australasia and Asia - may have contributed to this early devaluation, another factor may also have been concern about New Zealand’s growing current account deficit. Such concern would more likely be reflected in a lower currency and higher interest rates, as in fact occurred. (Wholesale 90-day interest rates bottomed out in June, 1997 at 7.5 percent, rising thereafter.)
Manufacturers have identified this earlier devaluation as a factor behind the current improvement in export statistics. Forward cover contracts delayed the benefit.

2. Formal easing by the Reserve Bank in late 1997 and the first half of 1998 to counter weakness in the economy, which was threatening to push inflation below the Reserve Bank's 0-3% target. The economic weakness has been blamed largely on the Asian crisis.

3. This easing in monetary policy combined with a critical change in the balance between the exchange rate and interest rates in meeting the Reserve Bank's desired Monetary Conditions Index. Perhaps because of concern about the current account deficit, the Reserve Bank's easing was carried through a lower dollar, which had to be matched by higher interest rates to meet the Reserve Bank's desired MCI, reversing the trend of the last three years of a higher exchange rate and lower interest rates.

At the time of writing (mid-June, 1998), the TWI had fallen a further 12% (18% from its peak of 68.9) to 59.3 in a second wave of devaluation. Export returns have improved. Interest rates had risen to above 9.8 percent. The extent of upward price pressure on imports was difficult to quantify, but manufacturers reported anecdotally that export returns were offsetting import price increases, or that import price increases were not being accepted. The removal of the ban on parallel importing in the Government 1998 Budget was also seen as likely to reduce import price pressure.

The higher interest rates have adversely affected domestic demand through lower consumer confidence (as floating mortgage rates have risen), higher overdraft and investment costs.

4. Growth in the Australian housing market since late 1997/early 1998 - manufacturing exports are traditionally heavily influenced by the Australian house construction cycle, which, by anecdotal accounts, took considerable time to respond positively to lower interest rates in the last year.

5. The severe drought which has affected east coast regions of New Zealand over the 1997/98 summer. Farm spending is expected to shrink as a result of the drought.

These factors suggest that, depending on the depth of the Asian crisis and the domestic drought, provincial regions could be looking forward to an export-led recovery in late 1998/early 1999. The qualifications are considerable, however.
5. Link between economics and political stability

The events of the last few months have demonstrated vividly the connections between financial and economic stability on the one hand and social and political stability on the other. The connections can be seen in several countries in East Asia, none more clearly so than in Indonesia. The deterioration of the financial and economic circumstances in the country had an observable link on the social and political stability. For instance, some of the worst riots occurred shortly after the removal of the subsidies on food and cooking oil. The economic distress also caused large numbers of Indonesians to cross borders, particularly to Malaysia and Singapore, to seek better conditions.

On a broader political perspective, it could be argued that the factors which came to the fore in Indonesia during the worst of the unrest - cronyism, the privileges enjoyed by the Suharto family, corruption, the divide between rich and poor, the domination of the country’s commerce by the Chinese minority, the highly autarchic rule by President Suharto, and the highly questionable tactics Suharto used to remove any opposition to him - have all been recognised by many Indonesian intellectuals and outside observers for many years but had not engendered enough opposition for the State to be challenged in any significant way.

This stability was reinforced by the growth rates, which in recent years, until the onset of last year’s crisis, were about 7 per cent. The greater wealth was not spread evenly, though the size of the middle classes, from which the demands for political reform were likely to come, grew. Between 1970 and 1990 the gap between the richer and the poorer decreased but from 1990 when there was higher growth the share of national wealth held by the lowest 40 per cent of the population dropped to 19 per cent from 21 per cent. In that time span the share of the next 40 per cent fell to 35 per cent from 37 per cent but the top 20 per cent of the population increased its share to 45 per cent from 41 per cent. There were obvious political and social strains in this but political changes in Indonesia could be postponed almost indefinitely while the growth rate in Indonesia was strong and the population was sharing - even if unevenly - in the greater wealth.

The length of Suharto’s rule presented a particular problem for Indonesia. It may be observed that of the three countries which received rescue packages from the International Monetary Fund, two had had changes of Government leadership. Chuan Leekpai became Prime Minister of Thailand in November and Kim Dae-jung became President of South Korea in December. The measures demanded by the IMF produced austerity and resentment of the austerity in both countries, but the economic passages have been comparatively smooth. In South Korea there is a legal move to lay the blame on the former President, Kim Young-sam, but there is some evidence that the changes in political leadership have
eased the way for the economic changes to be made (Kwon, 1998). By contrast Indonesia, which did not change its leadership and in fact confirmed the continued leadership of the man who had led Indonesia for 32 years, has had a very rough passage, involving considerable resistance by Suharto himself and huge social unrest, to the extent that the IMF has withheld blocks of the US$43 billion bailout package from being available until it had certain assurances.

There was a second difference. In neither Thailand nor South Korea were the political leaders entrenched in the way in which Suharto was entrenched as leader of the country. He had the power to manipulate the politics of the country to preserve his personal position. The economic conditions in the country had changed dramatically but the country had no way of changing its political leadership. Eventually political and economic protests forced his departure in the second half of May.

A third difference was that in neither Thailand nor South Korea were the new leaders or their families such an integral part of the economy as the Suharto family was in Indonesia. The Suharto family had been able to get concessionary loans from banks, receive protection from competition, and obtain monopolies. Other than their listed companies, the children also have business interests in their own names, including chunks of banks, power generation companies and liaison firms for government deals. Suharto has three daughters and three sons. The youngest son, Hutomo Mandala Putra, also known as Tommy, runs the shipping company PT Humpuss, whose tankers carry Indonesia’s oil resources. He also controls companies that provide infrastructure for the oil industry, is a car manufacturer, and also part-owns an airline. Until earlier this year, he also held the monopoly on cloves, an essential ingredient in a popular brand of cigarettes. The eldest son, Sigit Hardjojudanto, has a 10 per cent stake in the Nusamba Group, which is involved with the largest car manufacturer. Sukarno’s second daughter, Siti Hediati Prabow, owns stakes in banks and construction companies and the youngest daughter, Siti Hutami Adyningsih, owns a share in a land reclamation project on the Jakarta coast. Self-preservation and protection of personal fortunes were therefore mixed with political resistance to the IMF programmes.

The most consistent calls for the departure of Suharto came from university students yet it may be doubted whether they would have been successful had it not been for the support they received from members of the public when identified with wider community concerns about rising prices. The students were themselves hit by rising prices, they were more attuned to calls for political and civil rights, and their capacity to organise was enhanced by access to email and other forms of communication. The student riots brought the students into conflict with the security forces, who tried to confine the students to their campuses. Almost certainly the military and Suharto feared that if the students demonstrated in the streets they risked setting off more of the street violence which had already
occurred and which would threaten the deep rifts of Indonesian society: the divide of Moslem and non-Moslem, the divide of Pribumi (indigenous Indonesians) and Chinese, and the divide of rich and poor.

All of these divides have the potential to damage the country significantly. Chinese shops were targeted by looters, some Chinese were killed, and a month after the worst of the riots stories of systematic rapes of Chinese women and girls began surfacing.

The political and social instability generated in turn had the effect of hurting the economy further. This was evident in the exodus of Indonesia's Chinese business people, in the drop in tourism, in the delay in the approval of instalments of International Monetary Fund money, and in the drop in investment.

Large numbers of Chinese left Indonesia after Chinese shops became targeted by rioters and looters. (Jakarta Post, 13 June, 1998, p3). There were several reasons for the targeting of Chinese and for their departure. One was that although Indonesians who are ethnic Chinese make up only 3 per cent of the population of Indonesia, they control about 70 per cent of the businesses. Another was that as inflation rose, those in business got part of the blame. A third related to the divides in society mentioned above, the split between the Pribumi and the Chinese, the rich and the poor, and the Muslim and non-Muslim.

For the Indonesian Chinese the memory is still strong of the violence of the mid-1960s as Sukarno lost power and Suharto gained power. About 500,000 people died in that violence, some of them Chinese. The Chinese are being encouraged to return and the President Habibie is blurring the distinction between Pribumi and ethnic Chinese.

The tourist industry has been badly hit, fears of violence and the financial crisis playing a large part in the reluctance of people to spend time in Indonesia. (Campbell, 1998; Jakarta Post, 15 March, 1998, p4). The warnings given to the citizens of various countries by their governments not to travel to Indonesia compounded the tourist downturn. Economic relief was held up when the IMF withheld instalments of the IMF bailout package of US$43 billion because of political uncertainties (Tripathi, 1998). Other foreign assistance was also held up (Altbach, 1998). The concerns about the relationship between stability and investment were expressed by Suharto (Xinhua News Agency, 1998).

During the unrest in Indonesia fears were raised about broad security issues (Richardson, 1998; Moses, 1998). The major migration of people from Indonesia to Malaysia had the potential to cause tension between the nations but they seem to have handled the issue without this happening. They remained on good terms and even an unresolved dispute about islands did not give rise to tension. (Antara, 18 June, 1998). The IMF insisted that bail-out money should not be spent on arms purchases (Heneghan, 1998), which to everyone, except the suppliers of arms, probably seemed like a good idea.
6. Conclusion

A year into the crisis the depth is more easily appreciated, the effects are more easily measured, and some of the analysis is therefore easier. The analysis leads to a number of conclusions which challenge assumptions that seemed reasonable in the early stages. For instance, the section in this report dealing with education demonstrates that the effects of the crisis were far more complex than initial reactions. Earlier, it might have seemed sensible to assume that the rising value of the New Zealand dollar against, say, the Malaysian ringgit would have a calculable effect on enrolments at New Zealand educational institutions, but the formula has also to include the depreciating value of the New Zealand dollar against the US dollar. Similarly, in manufacturing, the situation has to be looked at on a case-by-case basis and the effects on the domestic market, or in the markets of New Zealand’s competitors, has to be considered as well as any direct effects on New Zealand’s export markets.

However careful the analysis, it cannot answer some of the most fundamental questions. How long will the crisis last? Is the region recovering or is the worst still to come?

The economic uncertainties are compounded by, and sometimes caused by, political and social instability, which has been most pronounced in Indonesia. Predictions about continuing political instability can be easier to make than being sure about the outcome of the political instability. Suharto seemed a fixture, but is no longer. Habibie seemed unacceptable to Indonesia’s military, but given the choice between more change and Habibie, they chose Habibie. Habibie seemed preoccupied with his expensive high technology industries but given the choice between those and political power as President, he chose the Presidency.

This crisis may have been a long time in the making but when it occurred the events followed one another with remarkable speed. As the crisis has been characterised by the rapidity of developments so far, so it seems likely to continue, though this too, may be another reasonable assumption that the coming months will test.
References


