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Tiger! Tiger! burning less bright
First Report of the Asian Economic Crisis Monitoring Group

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Introduction

The crisis in Asia has dominated economic, financial, and much business thinking for more than seven months. It looks set to continue to do so for an extended period. The effects on the countries concerned, on the region, and on New Zealand are all immediate questions. There are a host of others. What caused the crisis? Was the cause the same in all the countries most affected? People talked about the contagion, but what were the mechanics of the crisis passing from one country to another? How are the societies, as opposed to the financial markets and the traders, reacting? Will there be long-term effects on political stability and security issues in the region? There are more.

This paper is the first of occasional papers on the crisis which will be published by the International Trade Policy Research Centre in the Commerce Division of Lincoln University. As a phenomenon the crisis is of academic interest but palpably of business interest as well. The series of papers will have material of interest to specialists but will be presented in such a way that it is widely accessible to other readers as well.

In such discussions there is always tension between the general and the specific. For the first in the series we have presented and analysed the financial and economic sequence of events broadly. We have also examined political instability and security factors broadly. But in examining the effect on New Zealand we have decided on a sector approach. In this paper we look as the effects on forestry. In the next paper we will deal with education.

The financial economic, and trade analysis is given first, the examination of the effects on forestry second, and the political and security section is last.

A Note on Sources and Methodology

The sources for the financial and economic data are the most authoritative that we were able to find and are identified. We hope in time to widen the sources of useful data. The analysis is of a current event and the only instant important sources are often to be found in newspapers, magazines, radio, and television. Sometimes a news report will contain more up-to-date information on economic matters than is available from a government, the world Bank, or the

International Monetary Fund. These two sources are supplemented by personal contacts and from observations made while travelling. We are not in the business of prophecy on the crisis, as is Mr Lee Tai-ming, a Hong Kong fortune-teller whose business, at HK$200 ($44) a time, is booming, according to the *Far Eastern Economic Review* .Yet we are aware that the duration of the crisis is critical to many business people and in a future paper we will make our own predictions on its likely length. In the meantime we do not think that growth will return to Asia as suddenly as light should return to Auckland.

Financial and Economic

The Asian economic crisis came about when investors, mainly local, lost confidence in the value of their local currencies and switched investments at the margin into dollars. The causes of the Asian crisis originated in Asia but are not confined to one country. This section discusses why the crisis occurred and why the impact has been so dramatic. First, some background information is given and factors leading to the crisis and market sentiment are discussed.

Causes of the Crisis

A major underlying cause of the crisis can be traced back to the early nineties when China, Vietnam and others realigned their policies and currencies to make themselves competitive in the non-communist sphere. These moves included a 40% devaluation by China in 1994. The depreciation of the yen by 25% from early 1995 to late 1996 was also significant, signalling deep political and structural stresses in the Japanese economy. The effect of the fall of these two currencies put pressure on the external competitiveness on the rest of Asia, eroding external trade positions and causing trade deficits.

Currency speculators believed that the Thai currency, the baht, was overvalued and started a series of speculative attacks on the baht. As a result, Thailand was the first country to face the crisis. Thailand had been one of the Asian economic success stories, enjoying strong economic growth over the last few decades. It was, however, this high growth rate that contributed to Thailand's undoing. The country has a moderate-wage/medium-skill labour force which attracted foreign direct investment to build plants manufacturing labour intensive goods such as electronic products for export to developed countries. Thailand was particularly attractive to foreign investors because its currency, the baht, was pegged to the US dollar. It remained competitive by upgrading its chemical, automobile, electrical and electronic industries (Asian Development Bank, 1996). Thailand's strong growth and sensible macroeconomic management, resulting in public sector fiscal surpluses, attracted large inflows of foreign capital. Most of this capital was in the form of short-term borrowing, especially after the creation of the Bangkok International Banking Facility in 1993.

The Thai government, seeking political advantage, engaged in excessive official spending. It also encouraged banks to lend generously for private real estate and other spending. The result was a building boom. Moreover, internal migration to the population centres created pressure to build infrastructure adding to more bank-financed speculative building programmes in the domestic economy. This stimulated imports more than the terms of trade could sustain. The result was a trade deficit which grew quickly because of the currency was pegged to the appreciating US$ (which it does intermittently relative to other major currencies).

The past success of the economy added to a sense of denial that the country was heading for trouble. Although the IMF had warned of a crisis since the beginning of 1996 and macroeconomic indicators showed that the current account deficit was unsustainably large, the high growth rates reduced any sense of urgency by the authorities for policy reform (Fischer, 1998).

On 2 July, 1997, Thailand's central bank abandoned the pegging of the baht in favour of a managed float. This started a chain of devaluations across South-east Asian countries as they devalued to remain competitive with Thailand. A further force towards devaluation came from China, Vietnam and others. As the competitiveness of the Asian tigers fell, China and others took over export markets, leaving countries no option but to devalue to remain competitive. The problem for Thailand, which no longer had the confidence of investors, was that it could no longer rely on foreign investment to finance current account deficits. Fast running out of foreign reserves, the Thai government finally sought help from the IMF. That help was approved on August 20, 1997.
After the attack on the Thai baht, The Malaysian ringgit started to depreciate. The authorities decided not to raise interest rates. The ringgit has fallen by nearly a third against the US dollar

since early July. The Malaysian stock market fell by nearly 60% from its highest point in 1997. After a run of speculative attacks on the ringgit, the Malaysian Government delayed several multi-billion dollar construction projects and scaled back on some Commonwealth Games facilities.

Feeling the pressure, the Indonesian currency, the rupiah, depreciated sharply, starting a crisis in Indonesia. Indonesia was affected for different reasons. Since 1970 the Indonesian economy had been one of the fastest growing among developing countries, real GDP growth averaging 7% annually. This has been attributed to high rates of investment and savings, facilitated through reasonable macro-economic management and increasingly market-driven trade regimes. As with other developing Asian countries, Indonesia's growth came from labour intensive industry. Indonesia improved its health and education services and reduced poverty levels.

Companies and banks took advantage of interest rate differentials, borrowing heavily overseas to finance domestic projects. However, the Indonesian economy suffered from domestic trade regulations and import monopolies which impeded economic efficiency and competitiveness. In common with a number of other countries, there was a lack of economic data. This increased investor uncertainty and adversely affected investor confidence. Therefore, like Thailand, Indonesia was not in a position to withstand external shocks and then had to contend with a major crisis.

In Taiwan, considerably further north but feeling some of the same strains, authorities stopped intervening, allowing the new Taiwan dollar to depreciate. This put pressure on the Hong Kong share market, which lost about half its value. The Hong Kong economy was already at risk because the government was trying to defend its fixed exchange rate regime pegged to the appreciating US$. Other Asian countries had abandoned their pegs. Hong Kong's financial institutions, exposed to property lending services, were linked closely to the sharemarket. The falling New Taiwan dollar contributed to the depreciation of the won, the currency of Taiwan's closest competitor, South Korea.

During 1995 and early 1996 the Korean economy had grown fast. Investments were large and productive capacity boomed. Government policy encouraged this growth giving incentives such as tax cuts, subsidies, and monopolistic rights to various industries. The major beneficiaries of these incentive schemes were the *Chaebol* or large conglomerates.

In 1996 a cyclical downturn slowed export growth to 3% for that year. The factors responsible for this were weaker external demand, the collapse of computer chip prices, and a loss of competitiveness because of the deprecation of the yen. Investment growth also slowed, partly reflecting the political uncertainty in the presidential election. As the productive capacity of businesses became under-utilised, the profits of companies eroded. Some firms made losses, resulting in difficulties in debt servicing on loans. When new bank loans were unavailable, a number of firms, including the large conglomerates of Hambo Steel, Jinro, Dianong, New Core Group and KIA motors, went bankrupt.

As companies delayed or stopped servicing debt, the balance sheets of banks weakened, lowering overseas creditors' confidence in Korean banks. Raising overseas borrowing premiums made it difficult to borrow money, even for government-owned banks. By mid-November a number of banks faced liquidity problems, some being close to insolvency. The South Korean Government and Bank of Korea injected money into the banks and made announcements to boost confidence. But confidence did not increase; nor did the economy stop deteriorating.

The measures did not work for the following reasons: first, South Korea had excessive external short-term debts amounting to $US 100 billion or one-third of GDP. The fact that businesses were unable to service such a debt suggests that this level was excessive. Secondly, the Korean economy operates in the global marketing system where confidence plays a crucial role especially in the supply of marketing credit. A policy of saving insolvent banks did not boost confidence enough to gain external financing. Political uncertainty added to the lack of confidence, as did the failure to get parliamentary approval for nine financial sector reform bills in mid-November, 1997.

A Summary of the Causes of the Crisis

High economic growth masked the problems a number of countries faced and it was not until export demand slowed that the problems were uncovered. A summary of the factors is listed below.

- Banks lent excessive amounts of money to risky clients.
- Assumptions about continued high growth meant that banks were not monitoring the quality of their loan portfolios adequately and the quality deteriorated.
- Most Asian countries had either fixed or semi-fixed exchange rates against the floating US dollar. Many companies and banks had unhedged exchange rate exposure as they took advantage of domestic and international interest rate differentials.
- The bulk of the overseas borrowing was short-term.
- A feature of the financial systems of some countries was lack of bank supervision. Faulty credit assessment schemes and corruption made the lending process inefficient.
- The lack of data and the lack of transparency at the microeconomic and macroeconomic levels concealed the extent of the problems.
- Structural reforms that should have been carried out to keep up with growing and increasingly sophisticated economies were not carried out. Exchange rates policies that pegged currencies to the US dollar and to the yen resulted in inflexible external regimes that might have, at least partially, buffered the internal and external shocks that inevitably arise.

Table 1
Sequence of Events

Time	Events
Beginning 1994	China devalues its currency, the yuan
1995 - 1996	Japanese yen depreciates
1996	Periodic speculative attacks on the Thai baht
January, 1997	Thai baht attacked by speculators
May 15, 1997	Thailand introduces capital and exchange controls
July 2, 1997	Thailand changes the foreign exchange policy to a managed float.
July 11, 1997	Philippines central bank widens peso trading band
	Indonesia's central bank expands intervention band
July 14, 1997	Malaysia widens foreign currency trading band to reduce speculative pressure
July, 1997	IMF approves extension for Philippines Extended Arrangement
August 14, 1997	Indonesian central bank floats the rupiah
August 20, 1997	IMF approves Thailand's financial support package
August, 1997	Korea defends fixed exchange rate by raising interest rates
October 17, 1997	Taiwan allows New Taiwan dollar to depreciate 6%
October 20, 1997	Korean authorities widen won trading band 10%
November 5, 1997	IMF approves Indonesia's financial support package
December 4, 1997	IMF approves Korea's financial support package

Resolving the Crisis

As discussed earlier, the central banks and governments of affected countries have implemented measures to address the crisis. Korea, Thailand and Indonesia and to a lesser extent the Philippines have requested help from the IMF which is supporting the programmes with finance packages that also include multilateral and bilateral credit packages. The different types of credit the IMF lends out are contained in table 2.

Table 2
Types of IMF Credit

Type of Credits	Details
Stand-By Arrangement or Extended Arrangement	Where funds are made available for strengthening a country's foreign reserve position. Interest rates are quoted at market rates, with 1 - 2 years maturity, extendable to 3 - 4 years
Compensatory and Contingency Financing Facility	Short-term credit to developing nations facing a decline in exports
Structural Adjustment Facility	Provides Funds to low-income members
Enhanced Structural Adjustment Facility	Also provides funds to low-income members
Systemic Transformation Facility	Financial Transformation Facility

The packages approved by the IMF to Korea, Indonesia and Thailand are all Stand-By Arrangements. The breakdown of the financial assistance to these countries is contained in Table 3.

Table 3
Financial Support Packages
(billions of US$)

	Thailand	**Indonesia**	**South Korea**
IMF	3.9	10.1	21.0
World Bank	1.5	4.5	10.0
Asian Development Bank	1.2	3.5	4.0
United States	0.0	3.0	5.0
Europe	0.0	0.0	5.0
Japan	4.0	5.0	10.0
Other *(includes regional bilateral)*	6.5	8.2	2.0
Total	17.1	34.3	57.0

Source: Institute of International Finance

As with any lending institution the IMF requires that conditions be attached to loans and that countries be committed to using the loans for remedying economic problems appropriately, according to IMF guidelines.

The guidelines in general terms usually contain the following conditions:

- keeping interest rates high to encourage capital inflows.
- freeing up exchange rates.
- improving labour market flexibility.
- relaxing foreign ownership rules.
- removing trade barriers.
- deregulating government laws to promote and ensure economic efficiency in the market, and
- privatising government-owned businesses.

So far the countries have committed themselves to adhering to the IMF conditions. However, because the Indonesian economy has not recovered fast enough, the Indonesian Government is talking about reverting back to a fixed exchange rate system.

All three countries that applied for IMF support faced similar problems. Thailand, Korea and Indonesia all suffered from a loss in market confidence, depreciating currencies, weak financial systems, excessive unhedged foreign borrowing in the domestic private sector, and a lack of transparency in the ties among government, banks and businesses. All of these factors contributed to the crisis.

Despite these similarities, these countries also had some significant differences. Thailand had an extremely large current account deficit of 8% of GDP; the South Korean current account was not as great as Thailand's but it was getting worse; and Indonesia's current account was at a manageable level of 3.25% of GDP.

Thailand called the IMF for help when its central bank had nearly run out of foreign reserves, Korea was not quite as bad as Thailand. Indonesia , on the other hand requested IMF help at an earlier stage of the crisis in early November. (Fischer, 1998).

IMF packages have been criticised on the ground that that they are imposing conditions that are designed for economies with high inflation, high budget deficits, and public sector external debts and are therefore inappropriate because the Asian countries have had low inflation and the external debt is mainly held in the private sector. In addition, some people believe that the IMF packages were influenced and written by America to impose conditions that go beyond normal economic conditions to allow American companies into Asia and allow foreign banks to take over the financial sector (Khor, 1998). Although this view is rather extreme and that a 'takeover' is a most unlikely event, this sentiment exists. However, there is a general feeling that Korea, Thailand, and Indonesia should stick with their IMF programmes to increase investor confidence.

Implications of the Crisis for New Zealand

The effect on New Zealand exports will largely depend on how successful the Asian countries governments are in stabilising their economies and introducing credible structural reforms and trade liberalisation. The success of the IMF programmes is likely to be a contributing factor.

New Zealand exports to Japan, Indonesia, and Thailand were all down for the December, 1997, quarter from same quarter the previous year. Exports to Korea, Hong Kong, China, Taiwan, Malaysia, Singapore and the Philippines rose. Annual New Zealand export earnings for 1997 from Japan, Korea, Hong Kong, Taiwan and Thailand were down on the year ended December 1996, while exports increased compared to 1996 for China, Malaysia, Singapore, Indonesia and the Philippines (see Table 4). It is too early for these figures to reflect the full impact of the crisis.

Table 4
New Zealand Exports (FOB) to Asia

Country	Three months ended December			Twelve months ended December		
	1996	1997	%	1996	1997	%
	$(million)		change	$(million)		change
Japan	789.0	724.8	-8.1	3216.5	3055.0	-5.0
Korea, Republic of	221.5	229.0	3.4	984.7	943.4	-4.2
China, Peoples Republic of	121.2	135.5	11.8	536.9	582.6	8.5
Hong Kong	149.0	151.1	1.4	663.3	581.2	-12.4
Taiwan, Province of China	124.7	141.2	13.3	566.6	566.1	-0.1
Malaysia	117.5	139.5	18.7	476.2	509.1	6.9
Singapore	75.9	110.6	45.7	294.8	353.1	19.8
Indonesia	88.0	67.4	-23.4	338.3	343.4	1.5
Philippines	65.8	83.8	27.4	247.5	336.2	35.8
Thailand	77.1	62.6	-18.7	270.7	261.4	-3.5

Source: Statistics New Zealand. Note that the 1997 figures are provisional.

Tradenz outlined a number of the most important constraints to New Zealand’s export trade:

- depreciation of currencies;
- liquidity problems and the inability of companies to open letters of credit;
- reduced consumer demand;
- import substitution amongst manufacturers; and
- campaigns aimed at frugality.

Short-Term Impacts

New Zealand exports to Asia can be expected to be affected by two major influences. Aggregate demand in Asia is expected to fall in 1998 and this will reduce the demand for imports from all countries, including New Zealand. However, to the extent that the New Zealand dollar itself has depreciated against the US dollar and other major currencies (9.5% depreciation in the Trade Weighted Index since 30 June 1997) New Zealand is increasingly competitive in Asia. In one minor example, Lincoln University saw an increase in enrolments of Asian students at the end of February in part because it is thought students switched from the United States and other education markets.

Table 5
Trade Weighted Index Base: June 1979= 100

Date	T.W.I
30 June 1997	67.4
31 July 1997	65.5
30 August 1997	64.3
30 September 1997	64.5
31 October 1997	64.5
30 November 1997	64.3
31 December 1997	62.9
31 January 1998	61.8
25 February 1998	61.0

Source: Reserve Bank of New Zealand

The IMF reforms on trade and investment in the affected countries are helping to control the uncertain financial environment critical to maintaining trade. The financial stability provided by the IMF allows importers to open more letters of credit. The IMF programmes allow importers in Asian countries to use more than $2 billion in export credit guarantees made available by United States Department of Agriculture (USDA).

The current crisis is estimated to show signs of recovery in two to three years. The New Zealand economy is expected to recover in early 1998 (NZIER, 1997). This will depend on a number of factors, including the ability of the IMF reform packages to boost confidence for investors. In the longer term the trade liber alisation initiated by the IMF should allow New Zealand greater access to Asian markets. For example, Korea is streamlining import certification procedures by adopting harmonised standards on pesticide residue levels and eliminating import licensing practices on products. Korea is also elim inating trade subsidies, reducing high price supports for rice and beef and reducing num ber of agricultural products subject to tariff rate quotas (TRQs).

Indonesia is elim inating monopolies, phasing out all quantitative restrictions and other non-tariff barriers, except those justified by health, safety, environmental and security concerns as permitted under the W TO. It is reducing tari ffs on most imported food products from 20-40 per cent to 5 percent and abolishing dairy domestic content regulations which discouraged imports, especially from New Zealand (USDA, 1998).

Thailand is eliminating tariffs and tariff rate quotas on a number of agricultural products, adopting harmonised import licensing procedures and establishing more transparent customs valuation procedures (USDA, 1998).

Impact on NZ Industry: Forestry

An analysis of reports in the popular press indicates that several industry sectors have been particularly hard hit by the Asian economic crisis (*The Press*, 6 January 1998, p.21). These sectors include: agriculture, education, forestry and tourism. As the intention of this discussion paper is to provide an in-depth look at consequences of the Asian economic crisis, we decided to focus on forestry. (Note: for the next discussion paper we will focus on education).

The Importance of the Asian Market

Forestry remains - despite the Asian economic crisis - New Zealand's third-biggest export earner (after dairy products and meat) -see Table 6. In particular, New Zealand is very reliant on Japan and Korea for wood exports. Together these two countries imported around $1 billion worth of all wood exports, or 63% of all such exports for the year ended June 1997 - see Table 7. Forty-nine per cent of all wood pulp exports go to either Japan or Indonesia - see Table 8. In contrast, we are not so reliant on Asian countries for paper and paperboard exports (Australia imports 62% of our paper and paperboard; the next largest importer is Hong Kong at 8%) - see Table 9. Please note that all export statistics are sourced from Statistics New Zealand. [online] http://www.stats.govt.nz

Table 6
Principal Exports (FOB, $millions)

	Year ending 30 June		
	1995	**1996**	**1997**
Beef & veal	1,161	1,054	992
Lamb & mutton	1,197	1,337	1,503
Total meat & edible offal	2,613	2,655	2,730
Milk, cream & yoghurt	1,405	1,481	1,738
Butter	726	860	918
Cheese	605	617	838
Total dairy products	2,748	2,982	3,515
Sawn timber & logs	1,158	1,091	1,140
Total forest products	2,576	2,531	2,332
Fish	1,118	1,142	1,026
Fruit & vegetables	1,195	1,284	1,050
Wool	1,253	1,034	947
Unwrought aluminium	670	654	811
Casein & caseinates	509	557	569
Totals	20,925	20,721	21,033

Table 7
NZ Exports of Wood, by Country
(year ending June 1997, provisional statistics)

Rank	Country	FOB ($millions)	% Share
1	Japan	663.2	42.2
2	Korea	333.8	21.2
3	Australia	254.4	16.2
4	U.S.A.	113.4	7.2
5	Taiwan	64.6	4.1
6	Philippines	36.6	2.3
7	Hong Kong	26.7	1.7
8	Thailand	17.0	1.1
9	China	12.5	0.8
10	India	9.8	0.6
	All Countries	1,572.3	

Table 8
NZ Exports of Wood Pulp, by Country
(year ending June 1997, provisional statistics)

Rank	Country	FOB ($millions)	% Share
1	Japan	106.2	29.8
2	Australia	72.2	20.3
3	Indonesia	68.2	19.1
4	Korea	25.4	7.1
5	Taiwan	23.4	6.6
6	U.S.A.	17.0	4.8
7	Malaysia	15.5	4.4
8	Thailand	10.3	2.9
9	Philippines	6.6	1.9
10	China	4.5	1.3
	All Countries	356.7	

Table 9
NZ Exports of Paper & Paperboard, by Country
(year ending June 1997, provisional statistics)

Rank	Country	FOB ($millions)	% Share
1	Australia	227.7	62.3
2	Hong Kong	30.4	8.3
3	Malaysia	19.2	5.3
4	Singapore	12.2	3.4
5	China	12.2	3.3
6	Fiji	10.6	2.9
7	Philippines	7.4	2.0
8	Thailand	6.3	1.7
9	U.S.A.	5.9	1.6
10	New Caledonia	5.1	1.4
	All Countries	365.4	

Table 10
New Zealand Wood, Exports of Wood, Wood Pulp and Paper & Paperboard (year ending June 1997, provisional statistics)

Rank	Country	FOB ($millions)	% Share
1	Japan	770.9	33.6
2	Australia	554.4	24.2
3	Korea	359.2	15.7
4	U.S.A.	136.3	5.9
5	Taiwan	89.3	3.9
6	Indonesia	79.3	3.5
7	Hong Kong	57.1	2.5
8	Philippines	50.6	2.2
9	Malaysia	37.0	1.6
10	Thailand	34.0	1.5
	All Countries	2,294.5	

Consequences of the Asian Economic Crisis

In this section we explore the major consequences of the crisis for the New Zealand forestry industry.

Mill Closure and Job Losses

After a 35% drop in the price for sawn timber, Winstone Pulp International (WPI) closed its sawmill at Tangiwai resulting in 76 jobs being lost. The mill had had a turnover of over $30 million, 80% of which was exported, mainly to the United States and Asia. Another factor contributing to this closure was a lack of capital for modernisation of the mill. Kerry Ellen WPI's sawmilling divisional manager said that:

> Capital that the company's owners had intended to invest in bringing the mill up to international standards is no longer available. … We had planned to spend another $6m to improve our competitiveness, but the group now doesn't have that sort of capital available (*The Press*, 6 January 1998, p.21).

To date it appears that no other major mill closures or job losses have occurred as a consequence of the crisis.

Harvesting and Processing Choices

The crisis has also affected choices about when to harvest trees and whether to process those trees into sawn timber. Carter Holt Harvey's CEO, Devon McLean, has said that the company will be processing more logs into sawn timber at its Eves Valley sawmill because of lower log export volumes (Clark, 1998, p.3).

Reduction in Exports to Asian Countries

The major impact on forestry so far has been on log exports. The Timber Industry Federation predicted that log exports to South Korea might be half the levels of earlier in that year (around 400,000 cubic metres compared with 975,000 cubic metres in the June quarter). Fletcher Challenge Forests is among those companies to be hurt by the crisis: on December 26, 1997, the *Dominion* stated that:

> It was reported on Tuesday that consignments of logs were piling up at Mt Maunganui wharf after several South Korean log orders were cancelled. A customer had been unable to obtain a letter of credit through the banking system , and Fletcher Challenge Forests was seeking other customers to take up the slack … The South Korean market made up about 20 per cent of Fletcher' s log exports from Mt Maunganui.

This situation also shows that the crisis has flow-on effect for those associated with the forestry industry, in particular ports through which logs are exported.

Investor Confidence

In late 1997 John Groome, a spokesman for the Forestry Research Institute, warned investors in the forestry sector against overreacting to the Asian economic crisis (D*ominion*, 26 December 1997, p.3). This statement was made on the basis that investment in forestry tended to be a long-term investment. Because the market was expected to recover in about two years, smaller investors and forest owners who were under no immediate pressure to harvest had time on their side. Commenting on radiada pine, Mr. Groome said that this tree did not have a 'use by' date:

> Trees can be anything from 18 to 80 years old and still be gaining in size and value while they're in the ground … the prospects for radiata pine log exports in the Pacific region are bright, with many exporters aggressively diversifying and developing new markets." (*Dominion*, 26 Dec, 1997, p.3).

The Asian crisis has had an impact on share prices of forestry stocks listed on the New Zealand Stock Exchange. Anthony Davis, commenting on the share price performance of these companies, said that:

> For the week ending 29 January, Carter Holt Harvey was down 5% to $2.60, Fletcher Forests 8% to $1.27, Evergreen 9% to 42 cents, Nuhaka 9% to $10 and Opio 7% to 85%. With the exception of Carter Holt [which is the most diversified of these companies], all are either at or close to 12-month lows (Davies, 1998, p.30).

At the end of February the share prices (cents) of these companies were:

- Carter Holt Harvey 261
- Fletcher Forests 127
- Evergreen 43
- Nuhaka 1050
- Opio 71

Conclusion on Forestry

The Asian economic crisis has had a major impact on the forestry industry. This was inevitable given forestry's heavy reliance on the Asian market. In the shorter term the crisis looks set to reduce the prices for forestry exports. Nevertheless, longer-term prospects look good for the industry. As mentioned above, the Asian market is expected to recover in about two years. In a recent address the Minister of Forests, Dr. Lockwood Smith, said that up to 30,000 new jobs were likely to be created in the industry in the coming decades. As one commentator states: "The tiimer industry is bleeding now, but all the experts predict a coming boom for our plantation grown wood as the world's supply of timber from natural forests dwindles, and the Asian economies sort out their problems." (Rooney, 1998).

Political and Security Effects

The effects of the East Asian economic crisis on the regional economies themselves, and on New Zealand trade, investment, and the forestry industry as described in earlier sections are measurable, however difficult it may prove to read all the trends. That the crisis is affecting political stability and security issues through riots and some deaths as well is demonstrable but the sequence of cause and effect is harder to show and predictions even harder to make. The political and security aspects of the crisis were there from the start though they were slower to become apparent than the financial and economic effects. They are certainly a valid part of any economic examination because they traditionally form part of the country risk factors weighed by investors and developers. Yet they are more than a sideshow to the financial and economic mess. They have major impacts on bilateral and multilateral relations between and among countries which can last for many years.

The political aspects appear to be working at two levels. The first is the unrest in various places and the threats that might pose to particular governments. That is the case in Indonesia, even though President Suharto will certainly become President for the seventh time during March. Forms of unrest can spread across borders. Malaysia made no fuss about it but recently returned to Thailand a Muslim who has been working to create a Muslim State in the southern provinces of Thailand. But there is a more subtle effect at work as well. The governments of South-east Asia are generally authoritarian, drawing at least part of their legitimacy from their acceptance by their populations as economies have grown and provided more employment, wealth-making opportunities, and increased standards of living. If the governments are not in a position to point to those improvements in living, then their acceptance by their populations becomes far less assured. The situation of citizens becoming alienated from governments is familiar in democracies but there the Constitutional arrangements may be more immediately responsive to public concerns. In Indonesia, by contrast, President Suharto, who faces election (or perhaps more aptly, selection) by the People's Consultative Assembly this month, is bent on preserving his own power and the privileged position in the economy of members of his family and business acquaintance.
In this first paper on the crisis political stability and security will be treated widely, rather than with a focus on any particular country. It should be noted that when the term "security" is used it is to be understood in its wider sense that may include military security, but is in no way restricted to that meaning the wider sense of "security" is to be taken to mean a range of

situations, including uncontrolled mass migration, economic threats, ethnic unrest, threats to the apparatus of a state by criminal elements such as drug running, or even certain forms of disease. Of course not every criminal action threatens a state but when drug running, as it has occurred in some South American countries, invades the police, the civil service, the justice system, and the government itself then it may properly be regarded as a security issue. If a disease become so rampant that it interferes with, say, the ability of a country to recruit for the Armed Forces, then that can properly be described as a security issue.

Below is a discussion of some of the political stability and security issues which have come to the fore during the East Asian economic crisis.

Repatriation

A number of countries plan to send illegal or foreign workers to their countries of origin. Thailand intends to repatriate 300,000 illegal workers. It is also expected that the Thai Social Welfare Ministry will not renew work permits for registered foreign workers (Hutasingh, 1998).

Malaysia plans to repatriate 1 million foreign workers. Thailand's and Malaysia's aims are to provide work opportunities for their own citizens.

Repatriation on such a large scale can produce problems for the home country which has to deal with a large influx adding to the unemployed. Burma is likely to be worst affected by Thailand's action. It is yet to be seen how Burma's military rulers will treat those who are returned. But Burma has been a traditional exporter of labour and its capacity to provide work for those returning is severely limited. Of all the South-East Asian countries, however, the Philippines will suffer most because of the huge number if its citizens working abroad. Most of the foreign workers Malaysia will send home are Indonesians (Skehan, 1998). This will add to the already 8 million Indonesia already admits are unemployed (Lague, 1998). Some reports put Indonesia's figure for the unemployed and the under-employed as high as 40 million.

The unemployed of several countries threaten political stability. It can also produce problem for the repatriating country as pressure on borders mounts. Thailand has not been able to control the influx in the past (Hutasingh, 1998). It may be expected to come under even greater pressure. Another problem for the country which has to take its citizens back is that the workers will no longer be sending remittances home.

Secessionist Movements

Secessionist movements in East Asia did not begin with the economic crisis but the crisis has given them greater force and is complicating relations among countries. The Muslim insurgency on the southern Philippines island of Mindanao has a long history. One group, the Moro National Liberation front, made peace with Manila in 1996 but the Moro Islamic Liberation Front still aims to make parts of Mindanao an Islamic state (Toiglao, 1998).
As the Philippines Government becomes increasingly drawn into trying to resolve its financial problems, it will become harder for it to deal with the already confident separatists. The movement now considers that it is as well armed as the Government troops. The movement for an independent Muslim State made up of several southern Thailand provinces has already been mentioned.

Ethnic and Religious Issues

Ethnic issues form one of the biggest threats to political stability. The memories of communal violence in Indonesia (1965-1966) and in Malaysia (1969) are still alive. In Indonesia about half a million people, mostly of Chinese origin died during the violence of 1965 and 1966. Chinese form only 3 per cent of the Indonesia's 200 million population, but they control a disproportionate number of the businesses. Chinese shops and other businesses have recently been attacked by Indonesians blaming the Chinese for the fierce price rises. A few deaths have occurred. Middle-class Chinese have observed the general unwillingness of the Indonesian security forces to intervene to protect Chinese businesses. Added to that have been public appeals for Chinese to repatriate overseas assets. Chinese fears have been further fuelled by the harassment of Sofjan Wanandi, the informal spokesman for Chinese business interests in Indonesia. Wanandi is a member of a very prominent Indonesian family. One brother, Jusuf, is chairman of the supervisory board of a renowned think-tank, the Center for Strategic and International Studies, and another brother is notable Catholic clergyman. The occasional incident in Indonesia involves the incitement of racial hatred. A fundamental fear of many liberals, Chinese, and non-Muslims in Indonesia is that Indonesia will abandon secular politics.

A disturbing aspect of the violence in Indonesia has been the reluctance of the security authorities to act against those threatening Chinese. The Armed Forces, apparently now think it is safer to break their link with the Chinese business community. While more developments will have to occur before it becomes clear what is happening, one explanation is that because Abri, the Armed Forces, back President Suharto for President, they want to deflect attention away from themselves, and from the President, by distancing themselves from Chinese business interests. Previously their link had been profitable to Abri. In many ways, the sooner such links are broken the better, but in the present circunstances, where the very small Chinese minority is under threat, Abri's action is cause for concern.

If violence becomes widespread in Indonesia several basic security issues will come to the fore. The commander of United States Forces in the Pacific, Admiral Joseph Prueher, in a public statement, has expressed concern about the social unrest and the threat that might pose to secure passage through the Malacca Straits. Australia and Papua New Guinea would have to worry about whether they would have to cope with refugees from the unrest. Australia is playing a role in trying to persuade President Suharto to accept the conditions of the IMF. Within Malaysia the corporates are promoting racial harmony. Corporate-sponsored advertisements showing people of different ethnic groups adopting one another's customs or songs are being screened on television. During a week in which there were important Chinese and Islamic festivals, restaurants and hotels featured Malay and Chinese figures in a common celebration. One observer found many analysts assuming that the economic crisis would result in racial disharmony (Sheridan, 1998).

The Rich and the Poor

The economic crisis cannot help but make the division between rich and poor greater. The World Bank has focused on this issue and expressed concern about the possibility of social unrest and the way in which this might undermine economic recovery. James Wolfensohn, president of the World Bank, who toured Asia in early February, gave a warning that social conflict would flare if the needs of the poor were not addressed. He observed urban workers returning to villages creating strains on resources. The World Bank has come up with $US300 million for the crisis as a social safety net (Vatikiotis, 1998).

The crisis is bound to last during the period China reforms its State-owned enterprises. One estimate of the number made unemployed by those changes is 11 million. As always the scale in China practically defies comprehension. The extent to which the issue of unemployment throughout Asia will be a major factor of instability will bear watching.

Arms Sales

The accumulation of armas by South-east Asian nations throughout the 1990s has been remarked on often and been the subject of considerable analysis. Although precise information is not yet easily available, there is some evidence that this has come abruptly to an end. The accumulation was never a traditional arms race. Several factors played a part. One was the movement by South-east Asians to reconfigure their defence forces for external needs instead of for the internal needs which dominated their arms buying during the period of insurgencies. Another was that the nations were richer. A third was that arms were cheap in the post-Cold war years. The ends of arms control might be well served by an end to the extensive buying. However, despite the accumulation not being part of an arms race, one nation kept an eye on what another was acquiring and an abrupt end to the buying might have left one or more nations feeling nervous because they did not have weaponry to match that of a neighbour. The implications of any imbalance (or the perception of such an imbalance) will take some time to become apparent.

Long-Term Effects

The economic crisis may have effects on political stability and security issues which will outlast the crisis itself. Those effects might delay economic recovery. Some States, notably Indonesia, are already hard hit but political instability and security issues may spread across borders. Much will depend on the depth and length of the crisis. There will be financial opportunists who will find ways of turning the crisis to their economic advantage but there will also be political opportunists who will seek to change borders or to seize economic power not for the betterment of the nation or the region but to further their own ethnic or religious ends.

Conclusion

The section on the causes of the economic crisis in Asia disclosed a variety of factors affecting different countries but they had in common the effects of the devaluations of the early 1990s. Although the extensive realignments of the currencies in the last few months and the IMF loans to Indonesia, Thailand, and South Korea have brought an interim measure of greater stability, any further major devaluations might cause wild swings in Asia again. They might also cause the crisis itself to spread further, as opposed to the effects of the crisis, which are already being felt widely. The globalised economy exposes the individual country to the effects of a severe crisis as well as conferring the advantages of freedom for trade and movement of capital. In the section on the effect on New Zealand industry, the impact on forestry is shown to have been severe, affecting both exports and the share prices of companies. Yet each sector of the economy needs analysis, not an assumption that all parts of the economy will be badly affected. The section dealing with political stability and security issues shows that social unrest has been increasing and ethnic and religious issues have reared up. They might not easily be quietened. Yet Asia has changed much in the last few decades and those who forget its resilience judge it badly. The stripes on the tigers may have faded but not disappeared.

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