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Could the Asian Crises Repeat?

BY ROBERT FLINT

Ten years after the beginning of the Asian financial crises, everyone is still pondering whether it can happen again.

The float of the Thai baht on July 2, 1997, is widely considered the start of the Asian crises. No one dreamed at that time that troubles for a regional Asian currency would touch off a chain of events that would severely shake the economies of a string of neighboring countries and send ripples world-wide.

The contagion that began in Thailand spread to Indonesia, Malaysia, South Korea, the Philippines and to a lesser degree even affected Hong Kong and Singapore. By the end of 1998, the acute phase of the crises had passed, but the effects were felt for several more years as these countries grappled with recession.

Ten years down the road, academics and government officials can point to various reasons for the turmoil -- financial markets that were inadequately regulated or insufficiently developed; fixed foreign-exchange rate regimes; unbalanced industrial structures; substantial short-term external debt; and heavy speculation by international and domestic investors, among others.

The best guess seems to be that while the conditions that led to the Asian crises in the 1997-98 are unlikely to arise again, there is always the possibility that another is just around the corner, waiting for a fresh spark.

Asia has moved forward after the 1997 financial crisis, but surging capital flows still pose a risk and require closer economic cooperation, the Asian Development Bank and government economic managers said at a forum in Manila to mark the 10th anniversary of the crisis.

ADB President Haruhiko Kuroda said the region has the potential for more bouts of financial market volatility as capital flows surge significantly in line with increased global liquidity.

"In the near future, the prospects of economic growth in the U.S. and the world, global payments imbalance and the pace of unwinding global liquidity pose risks and challenges to the Asian economic outlook," Mr. Kuroda said at the forum.

One major factor in the string of crises 10 years ago was the "flight to liquidity," said Walter Gerasimowicz, chairman and chief executive of New York-based Meditron Asset Management.

When an event, such as the float of the Thai baht, touches off a panic, investors stampede for the exit doors all at once, Mr. Gerasimowicz explained. This "raises the price of liquidity," which tends to spread the contagion further afield as investors seek to escape to safer assets.

In such circumstances, "there is potential for herd mentality," he noted. That basic scenario could rise again, although with entirely different factors igniting the rush, he said.

The Asian financial crisis was not an isolated event," commented Usha Haley, professor of international business and director of the Global Business Center at the University of New Haven, Conn.

"As the global economy is more connected than it has been for most of the last century, and financial regulations are often lax, unenforceable or changing in so many key spots, it's likely that a similar contagion will hit us sometime in the future," said Ms. Haley, author of the book, "Asian Post-Crisis Management."

DOLLAR SELLS OFF; EURO ENDS NEAR A HIGH

The dollar sold off despite a slightly stronger-than-expected report on the U.S. manufacturing sector, with the euro at one point less than half a cent away from its all-time high against the dollar.

Late in New York, the euro was trading at $1.3622, up from $1.3535 late Friday, while the dollar was at 122.32 yen from 123.12 yen. The euro was at 166.75 yen compared with 166.46 yen. The dollar was at 1.2107 Swiss francs from 1.2214 francs, while the pound traded at $2.0169 from $2.0081.

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