

Preface

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Preface

In December, 1997, the Institute of Developing Economies released a report entitled “The 1997 Asian Currency Crisis” (Only Japanese version is available). About a year has passed since then, and the state of Asian economies has worsened beyond most expectations. This report was planned as a follow-up on that earlier piece. Former report was centered on a country-by-country (region-by-region) analysis of the ASEAN countries, South Korea, Hong Kong, China, and Taiwan, but this report is centered on a general analysis of the region as a whole. Single country-wise analyses will be limited to those receiving IMF assistance – Thailand, Indonesia, and South Korea – and will mainly focus on the events of the past year.

In the last report we pointed out that there were two factors that precipitated the currency crisis; 1) Macroeconomic policy – including exchange rate policy – did not provide an appropriate response to massive inflows of foreign capital. 2) Supervision of domestic financial institutions was inadequate. We thought that the financial crisis would worsen, and we were pessimistic about further developments. Unfortunately, our predictions came true.

At this juncture, we believe that rather than hunting for the causes of the currency crisis, we should concentrate on solutions. This report was compiled to help answer the question, “What is the way out of this economic crisis?” The first half of Chapter 1 provides a macroeconomic overview, and the second half analyzes the current situation in terms of the balance of payments and debt problems. Chapter 2 provides an analysis of problems with international financial markets and capital controls. Chapter 3 gives an overview of the financial sector reconstruction efforts in East Asia. Chapter 4 organizes and discusses the debate surrounding the IMF’s prescriptions. Chapters 5 to 7 provide country-by-country analyses.

We would like to emphasize that the views and criticisms contained herein are those of the individual authors, and not those of the various institutions to which they belong. The editor assumes responsibility for coordinating Chapter 1 through Chapter 4. In these chapters, the contribution of the coauthors to data collection, processing, and analysis was significant, but the views expressed (especially criticism) are the responsibility of the editor.

November 1998

The Editor

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The views expressed in this paper are those of the authors and do not necessarily coincide with those of the Institute of Developing Economies.