SOAS Working Paper No. 82.
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From East to West Asia: Lessons of Globalization, Crisis and Economic Reform

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Paper written for the World Bank/SOAS Symposium on *'The Changing Role of the State in the Middle East and North Africa'*, London: 6 May 1998. This paper was also presented at the Middle East Economic Association's Annual Conference, New York: 3-5 January 1999. The final version of this paper is to appear in:

H. Hakimian & Z. Moshaver (eds, 2000), *The State and Global Change: The Political Economy of Transition in the Middle East & North Africa*, London: Curzon Press.

1 INTRODUCTION

Until the onset of the Asian crisis, East Asia's economic successes were considered with much admiration and spoke favourably of the experience of globalization in the developing regions. The Asian 'model' inspired and informed key debates on development policy and was a common point of reference for liberalization and outward-oriented economic policies, which the development orthodoxy has strongly advocated since the early 1980s.[1]

In the MENA context, the wider application and general attractions of this model have been influenced by two sets of considerations: the region's faltering growth trend in recent decades on one hand; and its apparent failure to take advantage of increasing global opportunities, on the other. Much of the recent literature on economic reform in the MENA region has thus emphasized an urgent need for sound macroeconomic policies including domestic economic liberalization and a more open approach to the international economy (see, for instance, World Bank 1995; Shafik 1998b; Handoussa 1997).

Until recently, some of this literature was somewhat optimistic about the potential outcome of globalization. Upbeat accounts of external opportunities abounded in which success was largely a function of the choice of appropriate economic policies alone.[2] MENA states also faced an historic opportunity for catching up with new and real hopes of convergence 'in the twenty-first century' (Handoussa, 1997: 4).[3]

The dramatic reversal of Asia's financial and economic fortunes since the second half of 1997 has, however, cast a new, critical light on this perspective. As controversies have arisen over the causes and consequences of this crisis, the remarkable consensus that once united mainstream development economists over the perceived benefits of globalization has been weakened. This has led to new questions about the underlying tenets, character and sustainability of the Asian 'miracle' as well as its implications for other regions and developing areas.

This chapter examines the recent Asian crisis and evaluates its lessons and implications for policy debates and development prospects in the MENA region. The experiences of East Asian and the MENA economies are, in many ways, antithetical. East Asian economies have been characterized widely as models of openness and beacons of economic orthodoxy and macroeconomic stability. In contrast, the MENA states have been viewed as inward-looking, interventionist, over-reliant on natural riches and hence vulnerable to large external shocks. Moreover, MENA's tardiness in introducing economic reforms and adjustment has been widely interpreted as contributing to its deteriorating relative position in the world economy.

Given the differences between the two regions and especially the limited experience of the MENA countries along the road to reform, it may be argued that any comparisons between them may be premature and unlikely to produce useful common insights. While it is undoubtedly true that any crisis has its own specific (regional) characteristics, drawing lessons from Asia's recent woes may prove useful for at least two reasons.

First, several countries in the MENA region (notably, Morocco, Jordan, Tunisia, Turkey and Egypt) have embarked on economic reforms in recent years and more countries are likely to follow in the near future. Whether already committed to reforms or still pondering over the costs and benefits of full participation in the global economy, MENA countries can usefully learn from Asia's experiences of both prolonged boom in the past and bust in recent years.

A second point relates to the significance of the crisis itself. Largely unforeseen, this calamitous event which swept Asia in the second half of 1997 has helped bring 'to the fore some of the structural and institutional challenges posed by globalization' (World Bank 1998b). It is apparent that its lessons and implications are of interest beyond the region itself and will be the subject of wide ranging debate in the coming years.

The structure of this chapter is as follows. Section 2 provides an overview of arguments in favour of restructuring MENA's position in the world economy. First, Section 2.1 reviews MENA's recent 'crisis of growth'. It argues that a poor growth record in MENA cannot be merely ascribed to lack of economic reforms as it is also related to factors like rapid demographic momentum and lack of diversification. Section 2.2 then examines MENA's position in the wider international economic setting. The next two sections then take up the theme of globalization and its opportunities and risks for developing regions in light of the Asian crisis. Section 3 discusses the features of this crisis. Section 4 draws lessons from it for other developing countries and regions. Section 5 then confronts the Asian lessons with MENA's realities. It discusses challenges and prospects for economic reform in the latter in light of lessons from the former. Some concluding remarks close the chapter in Section 6.

2 PROSPECTS AND PROMISES OF GLOBALIZATION IN MENA

2.1 A Crisis of Growth?

MENA's comparatively poor economic performance in recent years has been a common focal point in the literature dealing with economic reform and liberalization. Various analysts and researchers have highlighted the region's generally weak growth record since the early 1980s and its inflexible production structures as a strong rationale for extensive economic reforms in the area (Page 1998; World Bank 1995; Shafik 1998a and 1998b; Handoussa 1997).

It is widely recognized that economic performance in the MENA region faltered after the oil-boom prosperity of the 1970s. Real GNP per capita in the region contracted throughout the 1980s, falling on average by about 2.4 per cent per annum. This contrasted sharply with East Asia's comparable positive growth rate of 6 per cent and South Asia's 3.5 per cent in the same period (World Bank 1998a).

Figure 1 depicts the comparative growth performance for different regions in five-yearly intervals since 1975. It can be seen that MENA's strong growth performance of the late 1970s remains an exception to date and largely attributable to the strength of OPEC and the oil-boom in that period. The 1980s' debacle was followed by a moderate recovery in the first half of the 1990s, raising the region's average growth in income per head to marginally above zero (0.5 per cent). However, this is still well below MENA's potential and considerably inferior to the performance of other areas (with the exception of Africa). For instance, East Asia continued with an impressive annual growth rate of 8 per cent until recently and South Asia's growth rate has topped 2.5 per cent per annum in the 1990s (Figure 1.1).

Figure 1:
Comparative Growth Performance - World Regions, 1975-95 (% change in real GNP per capita)

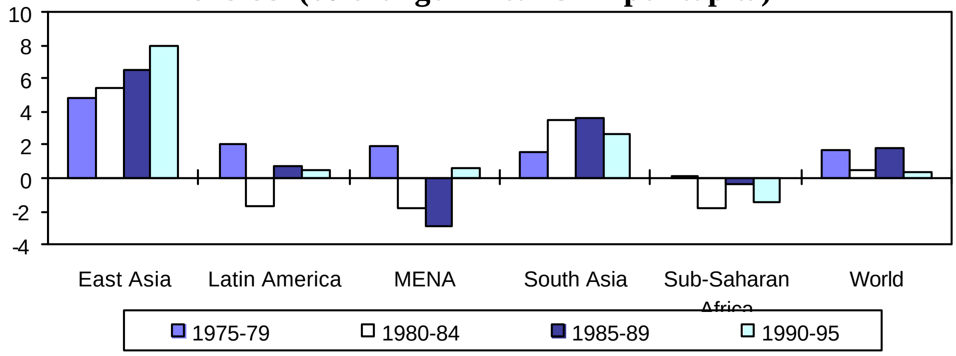

Table 1 provides a more disaggregated perspective on growth by contrasting the performance of a select group of East Asian and MENA countries in the past two and a half decades. It can be seen that almost all countries in the former group (with the exception of the Philippines) experienced impressive growth rates until the mid-1990s. The individual country growth experience of the MENA region is, however, far more varied and disappointing. As stated before, this applies specially to the 1980s, but is also true of more recent years. Several MENA countries have continued to suffer from falling real per capita incomes (for instance, Qatar, Saudi Arabia, Algeria and UAE), while others have been only moderately making up for the 1980s' reversals (Iran, Syria, Tunisia; in the case of Turkey the catching up was over the 1970s' decline).

Table 1: Comparative Growth Rates - MENA and Selected East Asian Economies, 1970-95

(Annual % change in real GNP per capita)

	1970-79	**1980-89**	**1990-95**
East Asia:			
Hong Kong	6.7	5.9	3.7
Singapore	7.0	5.5	6.4
Korea	8.0	12.7	6.8
Malaysia	5.0	2.9	6.3
Indonesia	4.4	4.4	6.2
Thailand	4.3	5.2	7.8
Philippines	3.1	-0.6	0.9
MENA:			
Algeria	3.4	0.0	-2.5
Egypt	4.9	3.9	-0.2
Iran	-2.9[a]	-3.2	2.5
Iraq	6.9	-9.6	n/a
Jordan	n/a	-6.6[b]	1.7
Kuwait	-1.1	-5.0	8.4
Libya	-0.5	-8.4	n/a
Morocco	2.5	1.9	-0.1
Oman	4.3	4.6	0.5
Qatar	-3.9[c]	-4.9	-6.0
Saudi Arabia	3.1[d]	-5.3	-1.9
Syria	5.4	-1.5	4.5
Tunisia	5.2	1.0	2.4
Turkey	-18.3	1.8	2.5
UAE	-0.9	-5.0	-2.4

Notes: [a] For 1975-79; [b] For 1984-89; [c] For 1971-79; [d] For 1974-79

Source: World Bank, (1998a).

As stated before, this inferior growth record, and its deteriorating trend especially in the 1980s, has been a cause of serious concern in numerous studies in recent years. Alarmed by the scale and extent of what has been referred to as the region's 'crisis of growth' or 'the crash' of the 1980s (see Page 1998), various studies have legitimately sought an explanation and proposed remedies. A broad consensus has emerged which has attributed MENA's disappointing track record to the pursuit of old-fashioned statist and inward-looking policies, and stressed the need for a radical policy overhaul in favour of outward orientation and more market-friendly approaches to development. Among policies specified for the MENA region are: reducing the role of the state; empowering the private sector; and promoting exports (Page 1998: 154-56; Riordan *et al* 1998).

In the rest of this section, we will argue that while there is a strong case for reforms in the region, there is a stronger case which concerns MENA countries' need to *diversify* their economic structures rather than merely improve their growth record.

First, trends in *per capita* income are likely to over-state MENA's inferior growth record due to the ravaging effect of population growth in the region. Table 2 shows demographic trends in a comparative context suggesting that variations in living standards in MENA may have as much to do with demographic forces as with sluggish economic growth.

Table 2: Population Growth Rates: World Regions, 1975-95

	1975-79	1980-84	985-89	1980-89	1990-95
East Asia	1.69	1.56	1.69	1.62	1.36
Latin America	2.32	2.15	1.99	2.07	1.77
MENA Region	**2.98**	**3.18**	**3.16**	**3.17**	**2.76**
South Asia	2.40	2.32	2.26	2.29	1.97
Sub-Saharan Africa	2.88	3.13	2.78	2.95	2.81
Low & Middle income	2.02	1.99	2.02	2.00	1.71
World	1.79	1.75	1.79	1.77	1.54

Source: World Bank (1998a).

It can be seen that the MENA region has consistently recorded the highest population growth rate in the world since 1975, at a pace well above that for the low and middle income countries. Only Sub-Saharan Africa has in recent times (the 1990s) surpassed the record of demographic growth in MENA. Moreover, both MENA and Africa have, until recently, been immune from a general trend of demographic transitions, which has checked population growth in various regions. In both these regions, the population growth rate has hovered around 3 per cent per annum in the past two and a half decades. This contrasts, for instance, with the experience of both East and South Asia, where annual population growth rates have declined from 2 per cent and 2.5 per cent, respectively, to 1.4 per cent and 2 per cent between the 1980s and 1990s.

The case of the small Gulf states as well as Saudi Arabia and Libya, which have experienced some of the highest population growth rates in the world in the past two decades (often exceeding 4 per cent per annum) illustrates perhaps best the pervasive effect of demographic forces in the region. These economies have small population bases and high per capita incomes. Moreover, whether through natural increases or incoming migrant populations, excessive population growth rates in their case is more likely a sign of relative prosperity than of relative decline.

A second caveat regarding MENA's growth record, and particularly the individual country variations within it, is that the observed growth pattern does not seem to lend itself to ready-made explanations or policy prescriptions. There is no clear dividing line between countries pursuing statist and market-oriented policies. For instance, Syria, with perhaps one of the most statist regimes in the region, indicates one of the highest growth records in the 1970s and 1990s. Egypt and, to a lesser extent, Algeria seem to reflect a similar anomaly.[4] Although some of the literature has emphasized that reforming countries (such as Tunisia, Morocco and Jordan) have out-performed non-reformers in recent years (Shafik 1998a: 2), the evidence is perhaps too recent and short, and the sample of countries affected by reforms too small to warrant over-generalizations in this respect.

A third and final observation relates to structural characteristics of the MENA economies, namely, the predominance of the oil sector and its direct and indirect influence over growth prospects in the region. Both the 1970s' boom and the 1980s' bust were closely driven by large swings in international oil prices. The growth crisis of the 1980s, in fact, deepened after the mid-1980s, reflecting the international oil price crash of 1986. A re-examination of Figure 1 shows that in the first half of the decade, GNP per capita in the region contracted by 1.8 per cent per annum falling to just under 3 per cent negative growth during 1985-89. It was largely against the backdrop of this major oil price crash that the MENA region recorded both its worst recent growth record over time and compared to other regions.[5]

The oil sector's pervasive influence in the region is seen in the fact that in the Gulf countries, oil accounted for just over a third of domestic output and as much as 95 per cent of the total exports in 1993. For other oil exporters, these shares were 10 per cent and 85 per cent, respectively (World Bank 1995: 17). This makes the oil economies not only vulnerable to declining terms of trade for their major export item, but also highly susceptible to erratic and volatile price trends.[6] As a result, their growth prospects have been dampened by the declining real price of oil since the late 1970s, but also by a much greater instability in their merchandise exports earnings.[7] Moreover, non-oil exporters are affected indirectly as their principal foreign export earnings (migrant workers' remittances and the volume of OPEC aid) are strongly associated with oil price movements and the fortunes of the oil economies.

Nevertheless, despite the proviso about the supposed link between MENA's recent growth record and its policy orientations, it remains true that the record is less than a success story. The comparative perspective helps demonstrate that MENA has not been able to sustain the prosperity of the 1970s or achieve its full economic potential. It also means that continuing along these lines could mean deeper relative stagnation in the future and possibly more painful adjustments in the years to come.

2.2 Missing out on External Opportunities

MENA's 'crisis of growth', as described above, has also focused attention on its relatively unfavourable position in the international economy in recent decades. This has featured prominently in much of the recent literature, which has argued for a new role for MENA in the global economy to identify new sources of long term growth.

Riordan *et al* (1998), for instance, urge an active strategy for promoting manufactured exports as the 'new engine of growth' for the region. Similarly, Hoekman (1998) considers membership of the WTO and regional enlargement schemes like the European Union's Mediterranean Initiative to be beneficial and capable of improving the slow supply response to reforms, emanating from their low credibility and slow pace in MENA.[8] The rationale for these arguments is partly rooted in the changing character of the global economy and partly in the opportunities the MENA countries have been missing out on until now, due to their inward-looking orientation.

Like other developing nations, MENA countries find themselves in a world characterized by a massive rise in the 'cross-border flows of goods, services, investment and factors of production' (Safadi 1997: 19). Reflecting the underlying process of globalization, international trade has grown faster than national incomes throughout the post-war period. Between 1970 and 1994, the developing countries managed to increase their share of global trade from 15 per cent to 23 per cent and their share of global manufactured exports from 6 per cent to almost 25 per cent (ESCAP 1997). Capital flows have also expanded phenomenally: net foreign direct investment and portfolio investment in developing countries grew at a rate of 23.2 per cent per annum between 1989 and 1997 alone (rising from $18.3 billion to an estimated figure of $120 billion; IMF 1997: 65). In this context of ever increasing global trends, more and more economies have jettisoned import substitution industrialization strategies in favour of outward-oriented policies, thus hoping to be able to create competitive industries, facilitate technology transfer and exploit economies of scale (Safadi 1997: 22; Nugent 1997).

Cushioned by their mineral riches, however, the MENA countries have generally managed to buck these trends. This is seen from an examination of both their foreign trade and investment experiences.

Table 3 shows MENA countries' poor record in attracting Foreign Direct Investment (FDI) compared to other regions. It can be seen that for LDCs as a whole there has been a significant expansion in net foreign investment flows since the mid-1980s. Between 1985-90 and 1994-96, their share of total world FDI doubled from 17.4 per cent to 34.9 per cent. However, as is commonly known, this trend has been highly concentrated in a few countries led by the fast growing Asian economies (notably China, Singapore, Hong Kong and Malaysia) and a handful of Latin American economies (Mexico, Brazil, Chile and Argentina).

By contrast, average annual inflows of FDI in the MENA region almost stagnated in the same period at around $2.5 billion per annum. This was less than one-third of the annual inflows for Mexico alone (1994-96) and well below the total for any one of the other major host nations in Latin America.[9] MENA's share of world FDI, indeed, declined from only 2 per cent in 1985-90 to less than 1 per cent in 1994-96. Its share of total FDI in LDCs also shrank from about 10 per cent to 2.5 per cent in the same period. Within MENA, only Egypt and Turkey have played hosts to sizeable sums of FDI recently (each with under a billion dollars per annum and even so only about half of that for the smallest FDI host nation in East Asia, i.e. the Philippines).

An examination of global equity capital flows depicts an even more dismal picture for the region. International equity flows to emerging markets rose eighteen-fold between 1986 and 1993 (rising to $61.2 billion from $3.4 billion). Asia apportioned almost 64 per cent of the total by the end of the period, followed by Latin America (33 per cent). 'Other' countries, including MENA, by contrast, accounted for the remaining 3 per cent -- or a total of just $2.2 billion (El-Erian and Kumar 1995: 318).[10]

Table 3:
Foreign Direct Investment Inflows:
World Regions, 1985-96
(annual averages in US$ million)

	1985-90	1991-93	1994-96[(a)]
All countries	141,930	183,597	301,496
Developed countries	116,744	124,415	185,499
(% of all countries)	(82.2)	(67.8)	(61.5)
Developing countries	24,736	54,789	105,178
(% of all countries)	(17.4)	(29.8)	(34.9)
MENA	2,420	3,774	2,596
(% of all countries)	(1.7)	(2.0)	(0.9)
(% of LDCs)	(9.9)	(6.9)	(2.5)
- Egypt	1086	402	865
- Turkey	340	763	870
- Saudi Arabia	586	483	-476
- Morocco	83	410	414
- Tunisia	80	404	355
South, East & Southeast Asia	12,357	32,058	67,378
(% of all countries)	(8.7)	(17.5)	(22.3)
- China	2,654	14,346	37,312
- Singapore	2,952	3,926	7,277
- Malaysia	1,054	4,729	4,591
- Hong Kong	1,597	1,419	2,200
- Thailand	1,017	1,953	1,917
- Taiwan	879	1,022	1,445
- Korea	705	832	1,631
- Philippines	413	670	1,492
Latin America & the Caribbean	8,145	16,544	30,320
(% of all countries)	(5.7)	(9.0)	(10.1)
- Mexico	2,618	4,515	8,490
- Brazil	1,315	1,485	5,810
- Bermuda	1,143	2,929	1,510
- Argentina	914	2,825	2,069
- Chile	700	677	2,203

Note: [(a)] Estimate for 1996.

Source: UNCTAD (1997: Annex Table B1).

A similar picture emerges from an examination of MENA's integration in global trade. Figure 2 shows the evolution of MENA and selected regions' degree of openness (defined as imports plus exports taken as a proportion of GDP) over time. Again East Asia stands out by virtue of its consistently increasing openness since the early 1970s (it trebled its integration index from 19 per cent in 1970 to almost 58 per cent in 1995). Similarly, South Asia saw a rise in its trade integration index from 12 per cent to 30 per cent. However, for the MENA region the index declined by almost one-third between the 1970s and 1990s (falling from 73.3 per cent in 1974-79 to 53 per cent in 1990-95). Even these generally high ratios reflect the continued, although declining, importance of oil exports in the MENA region. On the assumption that these made up some 80 per cent of all exports, MENA's non-fuel trade integration index too has been declining -- albeit less dramatically (from about 40 per cent to 33 per cent in the same period).

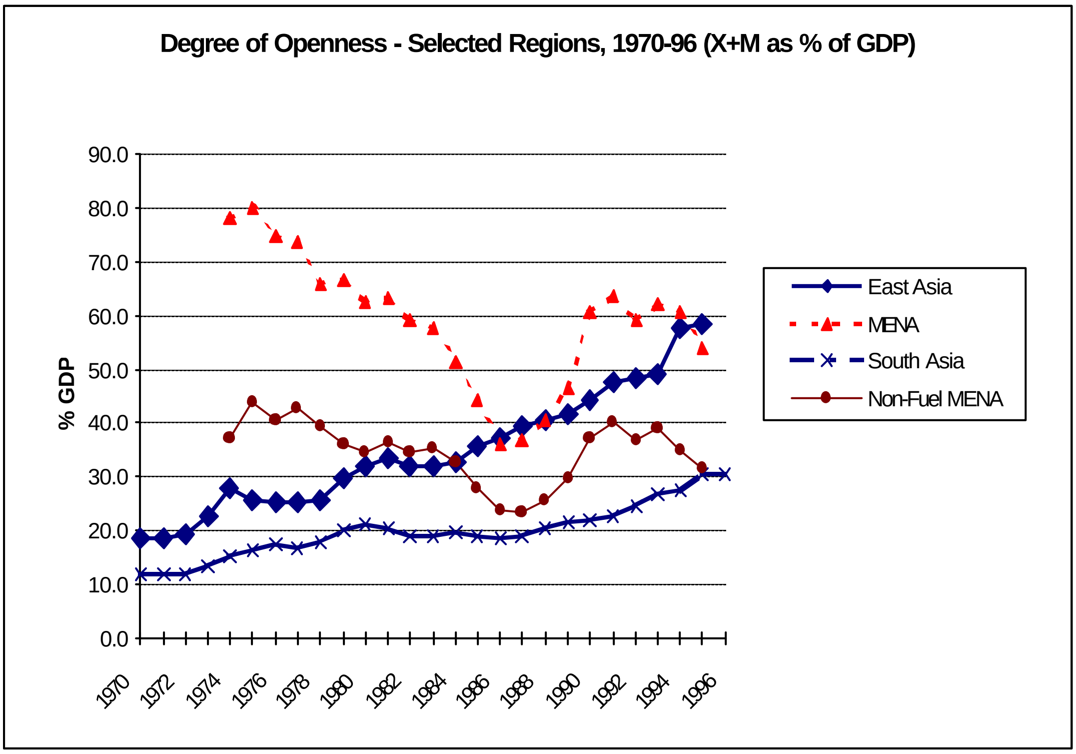

Figure 2

These trends show that MENA's integration tempo has been largely dictated by oil exports (notice, for instance, the influence of the 1970s' oil-boom and the 1980s' oil price crash, as discussed in the last section, on the region's integration trend). Secondly, even in terms of non-fuel trade, the region's degree of integration, which was about three times higher than South Asia's to start with, has just about levelled off with the latter.

To sum up, this section has demonstrated that a growing body of thought in recent years has stressed the need for MENA countries to adopt market-led policies to stimulate their economies. Alongside domestic reforms, adopting outward-oriented policies has been seen as crucial to MENA's ability to meet the present and future challenges of globalization. The region has failed to maintain its own past standards, has fallen behind other regions and faces uncertain prospects if it continues to rely on its oil riches into the future. In this context, therefore, turning to the global economy can understandably be elevated to a position of holding the key to much of the region's weaknesses.

But as we shall see from the experience of East Asia, the global economy can pose as much risk as it can offer opportunities. Other regions like MENA need to weigh both against each another carefully before drawing firm conclusions about the consequences and impact of globalization for their own region.

This is now what we turn to, by first looking at the Asian crisis and then drawing lessons from it both generally – and for MENA particularly.

3 THE SIGNIFICANCE AND FEATURES OF THE ASIAN CRISIS

The Asian crisis first surfaced in Thailand with the abandonment of the Thai currency's peg against the US dollar on 2 July 1997. After that, market volatility and turmoil accelerated sharply, spreading first to other neighbouring ASEAN countries (Indonesia, Philippines, Malaysia) and beyond (including in other so-called emerging economies of Latin America and Eastern Europe). By early 1998, economic slowdown and business failures were widespread in Asia; many projects had been put on hold or were cancelled; the burden of foreign debt had mounted with companies squeezed through falling currencies and high interest rates; the cost of living and unemployment were both climbing steeply; and property prices had collapsed widely. Food riots in Indonesia and forced expatriation of migrants from Malaysia and Thailand were other grim realities facing what had, until recently, been one of the world's most vibrant areas.

Perhaps one of the most prominent features of the Asian crisis was that it happened rather quietly and its early stages went almost undetected.[11] This feature is all the more surprising for an event that was subsequently dubbed 'the world's most important development in 1997' and was likened in significance to the collapse of the Soviet Union in 1991 (*The Economist*, 20 December 1997).

Although some alarms had been raised earlier about the Asian economies, these warnings went largely unnoticed (see, for instance, Krugman 1994; UNCTAD 1996). They were few and far between and tended to be subsumed in the euphoria which surrounded Asia's hitherto impressive successes. They were also mainly concerned with the possibilities of a *cyclical* slowdown in growth (rather than a full-blown international financial crisis) and proved out of line with the timing of the crisis.[12] Even when the crisis was well under way, the tendency to underestimate its extent and full ramifications was relatively strong.[13]

This widespread inability to predict the crisis derived partly from the unfamiliar characteristics of the crisis itself (see below for more on this). It also indicated difficulties of a *conceptual* nature for the conventional wisdom in its handling of the crisis from its early stages. With its perception of macroeconomic fragility mainly rooted in public sector weaknesses, the orthodox approach proved ill at ease detecting a crisis that, by most accounts, originated in the decisions and behaviour of *private* sector agents. In particular, the signalling instruments or variables used in the past to predict and monitor crises proved poor indicators in this instance, leading some to argue that the Asian crisis was in fact *unpredictable* judged by conventional macroeconomic criteria (Salvatore 1998; Furman and Stiglitz 1998).[14]

The second distinguishing aspect of the Asian crisis, as suggested above, was its 'unorthodox' characteristics. The Thai crisis stood against the background of exceptional economic performance since 1990 with an overall track-record that was the envy of most LDCs.[15] By 1996, certain stress signs had surfaced, namely, a modest slowdown in growth; a persistent current account deficit, a rise in short-term debt and a sharp slow-down in export receipts. None of these, however, seemed unduly alarming.[16]

There were also sharp contrasts between the Thai macroeconomic setting and other familiar crisis settings in the past (such as in Mexico in 1994): public sector accounts were sound; sovereign debt was negligible; currency over-valuation was moderate; and international reserves were healthy and had been gradually built up throughout the 1990s.[17] Furthermore, Asian economies were characterized by high investment ratios, in sharp contrast with Mexico (where large foreign savings that financed the current account deficit were principally channelled to consumption; see IMF 1997).[18]

A third feature of the crisis, in fact, stems from, and reflects, the above two points: its unpredictability and unorthodox nature. It seems that the controversy around this crisis has brought to an end the broad development consensus which had been achieved since the early 1980s (the so-called Washington consensus). This consensus had been built around the twin goals of macroeconomic stability and outward-oriented development and was set against a background of the receding powers of the state. But as the beacons of this strategy in Asia were engulfed in financial turmoil by the mid-1997, the consensus behind that strategy itself started to come under a new wave of scrutiny.

Tension has been evident at different levels of discussion and debate about the crisis: from conflicting analyses of its causes[19] to differing crisis management strategies and remedial measures prescribed. This is probably best seen in the divergent analyses and policy prescriptions that have emerged from the IMF and the World Bank.

The crisis seems to have reinforced the IMF's faith in conventional policy measures such as macro stability and deregulation to restore investors' confidence in the region. But the crisis has also led to controversies over the Fund's short-term shock therapy measures. Critics have, in particular, viewed its standard financial package -- a combination of tight fiscal and monetary policies meant to curb inflation and to support ailing currencies -- as too deflationary and ill-suited to the conditions of the Asian economies affected by the crisis (Chang 1997: B7).[20]

By contrast, the World Bank's position -- as articulated in the recent works of its Senior Vice President, Joseph Stiglitz -- has brought into question some of the underlying tenets of the 'Washington consensus', while simultaneously calling for a new ('Post-Washington') consensus.

In Stiglitz' view, the 'Washington consensus' addressed the development problems of debt-ridden, high inflation, countries of Latin America in the 1980s. These concerns have little applicability to Asia today. Here, a vibrant, but *under*-regulated corporate sector was the spearhead of the miracle that transformed the region. The state provided essential partnership and back-up, but which did not go far enough in providing the regulatory and supervisory framework necessary either to prevent or contain the crisis. For the state to perform this type of strategic role, in fact, would require redrawing the lines of power and responsibility between private and public sectors well beyond that allowed or envisaged by conventional development thinking.

In contrast to the Washington consensus, which has primarily focused on downsizing the state and public sectors in LDCs, the 'Post-Washington' consensus advocates capacity-building and improving the quality of the state machinery to make it more effective in performing its expected functions. The approach also seeks a shift of emphasis from *macro*- to *micro*-fundamentals; and from deregulation to regulation of the private sector (Stiglitz 1998a).

Although the prospects for achieving an eventual consensus are not yet clear, it is apparent that the shift of perspective implied by the 'Post-Washington consensus' is quite significant. Discussions of the Asian crisis may not have a final and determining role in achieving an eventual consensus (if and when it materializes). Nevertheless, it is clear that they have been instrumental in initiating this wider process of debate with a potential for a real paradigm shift in conventional thinking on development.

4 LESSONS OF THE CRISIS

From the dazzling heights of success and prosperity to the depth of crisis and volatility, the Asian economies clearly witnessed a spectacular turnaround in their fortunes after late 1997. Below, we proceed to draw a few pertinent observations on the crisis and its likely ramification for the future of development thinking and policy. The next section will relate these lessons to the Middle Eastern economies.

The first point to make is that the Asian crisis both emanated from, and brought to the fore, some of the structural and institutional challenges posed by the *globalization* model itself. This was manifest both in the national and international dimensions of the crisis.

At the domestic level, it is remarkable that a burst property bubble in one, relatively small country such as Thailand should have the potency of blowing into a major international crisis with a calamitous effect on the region and beyond. This was at least partly facilitated by the unprecedented degree of integration achieved in the Thai economy between various sectors and markets during its rapid growth phase in the 1990s -- or during the heyday of deregulation. While close linkages forged between the assets, equity and currency markets positively contributed to accelerated growth on the up swing of the economic cycle, the crisis was later to manifest that they also carried the seeds of a more precipitous future downswing. This tendency was no doubt magnified significantly by large inflows of short-term international capital that oiled Thailand's economic expansion.

As the discussion in the last section demonstrated, the Thai crisis was not a classic currency or debt crisis, although each had a part to play in it. In terms of foreign reserves, for instance, Thailand's situation was healthy by regional and international standards throughout the 1990s.[21] The over-valuation of the bhat in the period leading to the crisis, too, is considered to have been modest.[22]

Thailand had experienced a rapid expansion of its foreign debt with an annual average growth rate of 18 per cent after 1994 and reaching a total of US$ 90.5 billion by the end of 1996. By conventional debt criteria, however, the situation was far from alarming. [23] More significant was the structure of debt and its uses. For instance, over four-fifths of the debt was concentrated in the private sector in 1996 and just over half of it consisted of short-term loans with less than one year maturity (Bank of Thailand figures). Most significantly, perhaps, commercial banks had the lion's share of foreign debt within the private sector. With increased access to international financial markets, the banks' foreign liabilities grew sharply in the mid-1990s: from 6 per cent -- 7 per cent of their total liabilities in 1990-93 to about a quarter by 1995-96. Growth was particularly fast during the property boom of 1993 and 1994, when the foreign liabilities of the banking sector rose by a staggering 110 per cent and 121 per cent, respectively (Bank of Thailand).

This was probably the Achilles' heel of the Thai economy. It manifested also the link between international capital markets, of which Thailand had become a beneficiary in the 1990s, and the bubbling property market at home. Channelling vast amounts of mainly short-term foreign funds into the domestic property market contributed to its over-heating and was potentially destabilizing. This was because rising property prices inflated the balance sheets of the banks with exposure in the construction sector, exaggerating their financial 'health' and raising their credit standing among international investors who were too eager to lend to emerging markets. When the property bubble finally burst and the peg system was abandoned, banks with foreign currency debt exposure and those financing construction sector projects were, not surprisingly, amongst the worst affected. The sudden reversal of the flow of short-term international capital further accentuated the crisis in two ways: it contributed to the collapse of property prices and precipitated the currency depreciation. In both cases, the solvency of the banks was imperilled as they were subjected to the double crunch of collapsing asset prices and a rising debt burden.[24]

All this indicated key features of the globalization experience in Thailand, namely, an unprecedented degree of integration and linkage between the international and the domestic economy on the one hand, and between different domestic sectors, on the other.

A second lesson relates to the perceived roots of the crisis. Ever since debate about the Asian crisis began, opinion has been sharply divided between those maintaining that the crisis resulted from international market failures and those attributing it to the institutional and structural weaknesses of the Asian economies themselves (see, for instance, Chang *et al* 1998). On the whole, the latter viewpoint has been dominant, with most proponents of the 'Washington consensus' laying the blame for the crisis squarely at the door of domestic factors such as non-transparent corporate governance or misguided government policies in Asia.[25] An extremist version of this viewpoint has gone so far as to suggest that the peculiarities of Asian capitalism (dubbed 'crony capitalism') are to be blamed for triggering the crisis (see Wade 1998, and Johnson 1998, for a critique of this thesis; Chang *et al* 1998, query its disturbingly 'orientalist' overtones).

Exclusive emphasis on the domestic roots of the crisis is not only simplistic but also ironic, in light of the importance attached to globalization and external opportunities in the first instance as explanatory factors behind Asia's past miracles.

As cogently described by Stiglitz, 'In their haste to place exclusive blame on the governments in the region, many critics have also forgotten that every loan requires not just a borrower, but also a lender' (1998b). This raises the thorny question of the international regulation of capitalism -- a rather difficult area with few ready-made solutions to date. The international economy is still the only market that is not regulated by an overarching institution or authority, yet it continues to grow in size and complexity. In this context, the Asian crisis has reminded us again about the need for safeguards against misallocation of resources on an *international* scale (rather than merely at national or domestic levels) and for mechanisms to reduce such inherent international instability as observed by the Asian debacle.

A third lesson of the crisis relates to the speed of 'contamination' and the regional character of the crisis itself. Despite local variations in the severity of the crisis, the speed of the contagion reflected the close degree of regional integration forged between Asian economies over the years. The success of these economies, arguably, owed more to the fact that, like Europe, Asian countries 'shared a region, and close economic links… rather than a common "Asian model"' (*The Economist* 20 December 1997: 15). It is perhaps no surprise that this common characteristic (regionalism) was proven as strong a characteristic of the 'Asian model' in a time of crisis as during the growth and prosperity phase.[26]

Yet, despite strong regional links, the Asian economies lacked sufficient common mechanisms against, and were ill-prepared to cope with, crises affecting the whole region. Such mechanisms could have assisted these economies with both crisis prevention and management. In the early stages of the crisis, for instance, there was increased local enthusiasm for setting up an 'Asian Monetary Fund'. Potentially deriving strength from Japan's reserves, this type of regional monetary authority could have played a positive role in stabilizing currency volatility in the region. Not keen about a regional rival to the IMF, however, the American opposition seemed to have sunk the project at an early stage, making it, in the words of Amnuay Virawan, Thailand's former Deputy Prime Minister and Finance Minister, 'dead on arrival' (1998).

A fourth lesson relates to the nature of the tension between globalization and its social impact. Discussions of the risks associated with globalization have hitherto focused on social exclusion and the impact of trade on particular segments, regions and social strata.[27] The Asian crisis has broadened this concern by focusing on the risks of globalization for vulnerable groups even in relatively prosperous and well-to-do countries.

On account of both its severity and constituency, the crisis has underlined the importance of the need for effective safety nets and social insurance mechanisms, no matter how successful a country's experience of globalization may be.

At the height of the crisis, Indonesia, Thailand, Korea and, to a lesser extent, Malaysia were hard hit by financial melt-down and the ensuing severe economic slowdown, and have witnessed rising unemployment, escalating food costs, widespread business closures, and extensive social hardship. Until only recently, it would have been hard to imagine the scale of the devastation that hit the area.

Given the Asian governments' slender social security and welfare systems[28], decisive, internationally-coordinated action will be required to soften the adverse welfare effects of the crisis and to help avert unnecessary austerity and social disintegration in the countries most affected.

Last, but not least, the experience of boom and bust in Asia has led to a rethink about the balance of benefits and risks associated with globalization. A more sober account of such costs and benefits is the most likely outcome of this kind of re-evaluation.

As far as other regions and parts of the world (including the MENA region) are concerned, perhaps the principal message of the crisis is that the costs of globalization may have been *under*estimated so far, resulting in an unduly upbeat view of its *net* benefits. But if East Asia's successes were instrumental in driving such optimism in the past, its present financial woes can help provide a more balanced perspective on the net potential benefits of globalization.

It appears that no matter what the outcome of the Asian debacle, perceptions of globalization may have changed already. Developing countries will naturally be more cautious, if not more sceptical, in their approach to, and expectations from, outward-oriented reforms, particularly the liberalization of their capital accounts. They will want to examine the liberalization package carefully by its contents rather than by its promises alone. For their part, the developed world institutions -- public and private sectors alike -- will be more prudent in designating where the next 'miracle' lies. More realism about globalization and its promises, then, may well be the outcome of this crisis all round.

To sum up this section, we have highlighted five main lessons from the Asian crisis. These are:

- The crisis reflects the inherent characteristics of, and contradictions within, the globalization experience.
- It cannot be reduced to 'internal' or 'domestic' weaknesses and problems in the Asian countries -- rather, the international architecture needs to be put under the spotlight to understand the roots of inherent instability and crisis.
- It had very strong regional characteristics, suggesting the need for region-wide crisis prevention and management strategies.
- Just as the role of the state was critical in Asia's success phase, its importance cannot be discounted during crisis, especially in cautioning its severe social impact and in taking a lead role in getting the economy of the doldrums.
- Overall, this experience, should lead to a more realistic view of the costs and benefits of globalization as a future strategy for developing countries.

It is now time to apply these and other lessons and perspectives from Asia to the MENA region.

5 THE MENA REGION AFTER THE ASIAN CRISIS

The immediate impact of the Asian upheaval on the MENA region was limited. The trade impact consisted principally of reduced demand for oil imports (Asia, including Japan, accounted for 57 per cent of the Middle East's mineral exports in 1996; UNCTAD 1998: 29) and took several months to materialize.[29]

An immediate or short-term financial impact on the region was also noticeably absent. At the peak of market volatility in late October 1997, only Turkey's stock market appeared to be mildly affected, indicating a substantial degree of general insulation for the MENA region from the global markets.[30]

Although insulation at the height of financial turmoil may have appeared as a blessing for the region's economies, and despite an apparent lack of immediate relevance, this section argues that Asia's lessons are, nevertheless, pertinent for the future direction of MENA's development. These are discussed below. Three points, in particular, are discussed: capability to draw on and utilize foreign resources under globalization, regional dynamics and integration, and the transformed role of state.

A first lesson for MENA countries after the Asian debacle is that globalization is not a panacea and its outcome is predicated upon individual economies' ability to tread a fine balance between the opportunities it offers and the risks it entails. For instance, the sudden expansion in external resources following liberalization can be as much a source of crisis and instability as an opportunity for expansion and growth. This was, for instance, the experience of Thailand, as discussed in the last section. Similarly, Mexico's crisis in 1994 erupted against the background of a big private consumption boom fuelled by massive foreign capital inflows. The result was a severe foreign debt crisis and the spectre of default on sovereign debt. A similar event happened in Iran after the end of the war with Iraq. The drive for post-war reconstruction and the ensuing liberalization of imports led to a massive foreign shopping spree and a serious foreign debt with a large short-term component.[31] In both cases, opening up to the outside world was associated with heightened risks of further macroeconomic shocks and disequilibrium. Yet, absent in both cases were adequate monitoring mechanisms for overseeing capital inflows and the use of external funds thus generated.

It may well be that by lowering import prices, liberalization encourages consumption and mitigates domestic savings (Gavin *et al* 1997: 173). However, what the Asian experience has also shown is that even when additional external resources are channelled to *investment*, the type and *quality* of such investment is important for determining the ultimate sustainability of capital flows (see the discussion of the real estate boom and bust fuelled by foreign capital flows in Thailand in the last section).

A second lesson is that to make the most of the globalization experience, MENA countries will have to promote and experience increased economic relations within -- as much as without -- the region. Currently, MENA's inter-regional integration is limited and largely confined to the pervasive influence of the oil price cycle. There are a number of reasons why growing intra-MENA co-operation and closer economic union between MENA countries will be complementary to its experience of globalization.

First, limited regional integration can actually distort the results of globalization in the MENA region. This is best seen in the case the EU-Mediterranean Initiative. In the absence of due integration between the MENA partners, this free trade initiative risks 'verticalizing' MENA trade with the EU and creating a 'hub and spokes' system in which the EU would be the 'hub' and the individual Mediterranean countries the 'spokes' (ERF 1998: 73). This may have adverse consequences on the region's ability to draw in FDI and may, ironically, draw investment towards the European Union.[32]

A second reason for regional integration has to do with the risks of globalization and derives from the Asian experience of boom and bust, as discussed above. As we saw, East Asian successes -- and later crisis -- were magnified by the *regional* features and linkages of these economies. The crisis, in particular, brought to the fore potential vulnerability and exposure to regional disturbances and hence the need for adequate safeguards against such shocks. In a world increasingly carved up between different trade and currency blocs, economic unions and investment zones, the MENA countries too will have to seriously consider the benefits of initiating similar cooperation mechanisms among themselves as a way of reducing risks associated with globalization. For instance, with the liberalization of capital accounts and the increased risks of currency and stock market volatility, a regional monetary authority or currency stabilization fund may be necessary to coordinate monetary and exchange policies in a more unified Middle East in the future.[33]

The third and final rationale for regional co-operation and co-ordination has to do with the growing tendency for global capital mobility between nation states and the challenges it poses for individual countries concerned. In a regional context with geographical proximity of the markets, there may be a tendency among those businesses which are increasingly mobile to engage in 'competitive bidding between countries' (Rodrik 1997: 81--2). Reducing this risk presents a positive externality for all host countries and dealing with it requires cooperation measures such as regional exchanges of information by tax authorities and joint conventions for reducing tax evasion through Foreign Direct Investment (FDI).

This brings us to the third and final 'Asian' lesson for the MENA region: emphasis on macro stability and 'sound' economic fundamentals, while necessary, is unlikely to prove sufficient for sustainable long term growth. This, in turn, raises important new questions for the role of state in the economy -- particularly in a global context.

As we saw in the last section, the accent of the Washington consensus has for long been on the *quantitative* diminution of the state in the economy. Yet, the Asian crisis -- and with it the Post-Washington 'consensus' -- have raised important new questions regarding the *quality* and type of state intervention. This concerns the state's *capability* to engage in critical areas in the economy, such as creating and exploiting dynamic comparative advantages, picking and promoting winners, providing an appropriate regulatory framework, monitoring use of internal and external resources and ability to avert and manage crises.

The Asian crisis has served to demonstrate the inadequacy of the traditional 'state versus market' debates in development economics. A narrow emphasis on downsizing the public sector overlooks the importance of the type and quality of state intervention in the economy and its capability to exploit and/or face up to the opportunities and risks of globalization. Asia reminds us that even where markets are buoyant and successful, the possibility of misallocation of resources is real. The private sector -- even when operating in 'market friendly' and stable macroeconomic environments -- is susceptible to making 'bad' decisions and to leading the economy down the path of precipitous economic instability and crisis. In brief, not all economic ills can be put down to inherent weaknesses of the public sector. On the contrary, a capable, high calibre state machinery and institutions may well be the key to ensuring that the pursuit of private interest today does not carry with it the seeds of public destruction tomorrow.

This in turn may require investing in and upgrading the *quality* of states in the MENA region -- rather than aiming to run them down. This is a different story to that accepted in conventional wisdom until recently and we owe it to the Asian debacle.

6 SUMMARY AND CONCLUSION

This chapter has argued that East Asia's past successes have led to an optimistic paradigm in development that has emphasized the link between 'sound' development policies and performance. While Asia's achievements have been considerable, hopes that other countries can now 'choose to remain poor or become prosperous' by virtue of their choice of policies alone may well be inflated in the light of lessons learnt from the Asian crisis.

Even accepting the expected benefits of globalization (and this chapter has not debated these), its potential costs may have been underestimated until recently. The Asian crisis has raised some novel issues and focused our attention on new risks associated with outward-oriented policies. The full extent of some of these risks is probably not yet fully understood (e.g., risks due to capital account liberalization, or an unprecedented integration between the local, regional and international assets, equity and currency markets).

As far as MENA is concerned, we drew three principal lessons from the Asian crisis. First, the risks stemming from globalization need to be carefully balanced against its promises. Second, the risks are probably accentuated for individual countries trying 'to go it alone'; instead measures such as regional cooperation and integration may help better prepare them to reap the benefits from global markets. Third and last, whether for exploiting opportunities or for facing up to the likely risks of globalization, the states concerned need to acquire new capabilities and an upgrading -- not running down -- of their existing abilities in managing the economy.

In closing, a healthy outcome of the Asian crisis is perhaps its contribution to the end of an era of consensus dominated by unwavering faith in open-door policies. While the experience of the Asian crisis has not negated the case for outward orientation, it has, nevertheless, highlighted hitherto discounted risks and challenges *en route* to the glory associated with globalization. It can thus help restore some balance to claims and counterclaims about what can or cannot be achieved through such policies in practice. Hopefully, the MENA countries can benefit from some of these lessons.

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Notes:

[1] The World Bank’s seminal work in 1993 epitomises the copious literature on the East Asian model of development in recent years (World Bank 1993). Krueger (1995) argues that East Asia’s superior economic performance is attributable to its outward-oriented macroeconomic policies. Birdsall *et al* (1997) and Page (1997) draw lessons from, and examine the implications of, Asian success stories for Latin America. For similar literature on the MENA region, see Gangnes and Naya (1997).

[2] For instance, ‘no country’ was thought ‘destined to be poor because of a bad endowment of natural resources, an isolated location, or a concentration on certain products.’ On the contrary, countries could now ‘choose, *through their policies*, to be rich -- or to be poor’ (World Bank 1995: 1; emphasis added).

[3] The reasons why prospects have improved so radically is that as any country with advanced human resources can now acquire an ‘edge in international markets’ by ‘competing in process technology, by adopting better organization methods, and by taking advantage of their lower wage rates’ (Handoussa 1997: 4).

[4] In fact, both Syria and Egypt were among the twenty fastest growing countries classified by the World Bank during the period 1960-85 (World Bank 1995: 3). The list was topped by Botswana, followed by Asia's High Performance Economies (Taiwan, Indonesia, Hong Kong, Singapore, Korea and Japan). The growth rates for Egypt and Syria put them ahead of many European economies and the USA.

[5] This comparison includes Latin America and even Sub-Saharan Africa, both of which sustained serious recessions in the 1980s. As a result of the 1986 oil price crash, almost all oil exporters suffered negative growth rates in 1987 ranging from -5 per cent (Libya, Oman and Iran) to between -6 per cent, and -10 per cent (Bahrain, Saudi Arabia and Kuwait; World Bank data).

[6] Even ignoring the recent oil price crash in 1997-98, the real purchasing power of a barrel of oil (measured against MENA's imports of manufactured goods from industrial nations) has been lower in the 1990s compared to the 1970s.

[7] Riordan *et al* find that the real international purchasing power of exports for MENA was twice as volatile as for other developing nations and nearly four times as for industrial countries. Moreover, instability for the oil-exporters exceeded that of the non-oil exporters by a factor of three (1998: 19--21).

[8] Likewise, Diwan *et al* (1998) consider the impact of the implementation of the Uruguay round and the enlargement of the EU to the East. They find that these are likely to result in a welfare loss for MENA, but argue that reforms will be needed to make them more flexible and to help them make up, in overseas markets, for lost markets at home.

[9] MENA's FDI was only 67 per cent higher than total FDI for the small island of Bermuda, with a population of just over 60,000!

[10] Stock markets in the Middle East are generally either non-existent or small by international standards. In terms of market capitalization, the largest regional markets are in Turkey, Jordan, Egypt, Morocco, Iran and Tunisia. The first four are, however, the most active (El-Erian and Kumar 1995: 322--25).

[11] According to *The Guardian*, 'for a crisis that has caused shock waves throughout the world financial system, it had a quiet start' (30 March 1998). This characteristic was widespread and spanned both private sector institutions dealing with Asia and multilateral agencies such as the World Bank and the IMF. A 1996 investment research report by Morgan Stanley predicted: 'Many of the problems besetting the Thai market today will dissipate over the coming months, leading to a potentially stronger performance next year' (*Bangkok Post* 6 January 1997). The IMF was also candid enough, in retrospect, to admit that its staff had failed to forecast the crisis, resulting in excessive optimism in its baseline projections for 1997 (IMF 1997: 40).

[12] Krugman is widely credited with having articulated strong scepticism about the sustainability of the Asian miracle a few years before the crisis (1994). But as he admits, 'even pessimists… expected a modest downturn, and we expected the longer-term slowdown in growth to emerge only gradually' (Krugman 1998a: 1). Similarly, UNCTAD's 1996 *Trade and Development Report* focused on the difficulties, mainly for second-tier Newly Industrializing Economies of Southeast Asia, of maintaining competitiveness in labour-intensive manufactures because of the entry into the market of low-cost producers (UNCTAD 1996). In this sense, it focused on the need for a change of gear with respect to *industrial* policy rather than the possibility of a financial crisis.

[13] In September 1997, a few months after the Thai currency flotation and the spread of the crisis to other neighbouring ASEAN countries (Indonesia, the Philippines and Malaysia), the World Bank President, James Wolfensohn, described the Thai crisis as a 'hiccup' since it was not going 'to stop the future development of Asia' (reported in *Bangkok Post* 20 September 1997).

[14] These were largely a set of macroeconomic indicators or 'fundamentals' rooted in the concerns of the 'Washington Consensus' with macroeconomic management and stability: public sector and current account deficits, inflation, debt and debt service ratios, foreign reserves, etc. (see Salvatore 1998, for an extensive discussion of these variables).

[15] Thailand's economic performance in the years preceding the crisis was robust by most accounts. There was an annual average real growth rate of 8.6 per cent between 1990-96, a healthy fiscal surplus of just under 3 per cent and an average inflation figure of about 5 per cent for the same period.

Domestic savings also stood at a healthy proportion to GDP of over one-third and a similar external debt service ratio of 4.5 per cent seemed to give little cause for concern.

[16] Although a growth rate of 6.4 per cent in 1996 was Thailand's lowest growth rate in the 1990s and the first ever to fall below 8 per cent in recent times, it was still a healthy figure by international standards and exceeded the growth rates for Japan, Hong Kong and Taiwan. Similarly, Thailand's current account deficit in 1995 was proportionately lower than that for Malaysia (8 per cent of GDP against the latter's 10 per cent; IMF 1997: 50) and was hardly a new phenomenon. It had, in fact, peaked in 1990 at 8.3 per cent of GDP and, after falling to 5 per cent in 1993, it was back up at 8 per cent and 7.9 per cent in 1995 and 1996, respectively (Bank of Thailand figures).

[17] Only about one-fifth of the total foreign debt was government-owned with a negligible fraction made up of short-term public debt. Currency over-valuation was at about 15 per cent (compared with double that for Mexico) and foreign reserves amounted to an annual average sum of $26.5 billion for the period 1990-96 (Bank of Thailand figures).

[18] It is worth remembering that the high level and superior *quality* of investment in East Asia were earlier considered as a cornerstone of the Asian Miracle (World Bank 1993).

[19] Views on the causes of the crisis abound. Jeff Sachs, for instance, blames the sudden deterioration in investor sentiments and the ensuing 'panic' for Asia's problems (Sachs 1997; Radelet and Sachs 1998). Krugman (1998b) offers an alternative explanation based on the 'moral hazard' affecting the banks' investment allocation decisions in the region. Dornbusch (1998) focuses on 'vulnerability' as the main factor explaining the big Asian melt-down, stipulating the main roots of vulnerability in 'a shaky banking system, made more shaky by the dollar debts of its clients, a very large and short-dated [private] foreign debt... and a total lack of transparency and a pervasive overlay of corruption.' See Chang *et al* (1998) for a critical perspective and a general discussion of contending viewpoints on Asia.

[20] According to *The Economist*, Asian governments too (in particular, Indonesia, Korea and Thailand) have feared that the Fund's hidden agenda is to open doors for US business as pressures have mounted on the Thai and Korean governments to allow foreigners to buy up local banks and finance companies (13 December 1997).

[21] At the end of 1996, Thailand's total reserves ($37.7 billion) were only marginally below those of the UK and Switzerland and came only second after Singapore with one of the highest reserve ratios in the world: 240.2 per cent for M0 and 207.5 per cent for M1 (Tatom 1998: 6). Less reassuring was, of course, a high short-term debt to reserves ratio, which indicated a far less favourable foreign liquidity position.

[22] The real effective exchange rate rose about 16 per cent over the two year period between April 1995 and June 1997 (Tatom 1998: 4).

[23] As a percentage of the GDP, however, debt service was in line with the 1990s' norms (an average of 4.5 per cent for 1990-96), although the debt service ratio (out of exports) was continuing to rise (it had reached 12.3 per cent by 1996, partly accentuated by sluggish export earnings during 1996).

[24] This process was, of course, complicated by corruption and the political forces that influenced the channelling of funds and the selection of construction projects that benefited from the liberalization of Thailand's capital account.

[25] The IMF has provided a consistent account of the crisis, principally in terms of the domestic economic and institutional weaknesses of the economies affected. These vulnerabilities were, in the IMF's judgement, accentuated by lack of 'decisive government action' in the area to avert a full-scale deterioration of 'investor sentiments' (IMF 1997). Among the allegedly required, but often-delayed, policies were macro measures to address the twin problems of overheating and unsustainable external imbalances, as well as the deregulation of the banking sector to allow for increased foreign competition.

[26] Asian economies are highly integrated through trade: in 1996, about 52 per cent of Asia's total merchandise exports and 54 per cent of total imports were interregional. These ratios were even higher for some categories: 63 per cent for agricultural products, 85 per cent for mining products and 80 per cent for tourism (UNCTAD 1998: 27).

[27] Rodrik, for instance, has argued that the asymmetry in the international mobility of capital and labour is not only likely to shift the demand curve for labour inward but it will also make it more elastic. The result is a disproportionate impact on wages in the event of cyclical variations in demand (1997: 4--7).

[28] Comparative data on social security expenditures are not readily available for the Asian economies. The following, however, should give an idea of the limited scale of their welfare states. Public health expenditure averaged 1 -- 1.9 per cent of GDP only for Hong Kong, Singapore, Korea, Thailand, Indonesia and Malaysia during 1992-94 compared to 5.5 -- 7 per cent for the UK, US, Germany and Japan in 1994. Similarly, social security taxes were virtually non-existent in the Asian countries mentioned. Korea was an exception with 7.7 per cent of government revenue coming from these taxes in 1994 (compared to 34.2 per cent in the US and 46.2 per cent in Germany in 1993; World Bank 1997). It is obvious that, in meeting the social consequences of the crisis, the social security systems of these countries will have to be overhauled. This will, in turn, have significant implications for public sector finances.

[29] A severe and serious slump in the international price of oil began in the last quarter of 1997 -- approximately three months after the start of the Thai crisis. The crisis in Asia, however, was but one factor in the oil price crash. Other contributing factors were: international stock-piling of oil; prolonged mild winters in the Northern Hemisphere; and a 10 per cent rise in OPEC member countries' production quota in November 1997. The international price of crude petroleum fell by 6 per cent in 1997 and by 21.4 per cent in 1998 (see UNCTAD 1998: 6--7).

[30] It has been observed that the Egyptian equity market was more adversely affected by the massacre of tourists in Luxor in November 1997 than by world market volatility a few months earlier (Khayat 1997/8: 11).

[31] Three-quarters of Iran's estimated $23 billion total debt in 1993 were short-term mostly related to trade finance; see Hakimian and Karshenas 2000).

[32] This is because, in the absence of sufficient integration among Mediterranean countries, an EU-based enterprise would benefit from preferential access not only to Mediterranean countries but also at the

same time to the East European markets. But an enterprise based in one individual country of the region would only enjoy preferential access to EU markets (ERF 1998).

[33] Although less than perfect, the experience of regional cooperation in the Middle Eastern energy markets may be relevant in this context. However, both internal difficulties encountered by OPEC as a producers' association and a largely hostile reception to it elsewhere are reminders of the likely substantial political and institutional obstacles to this type of body within and beyond the region.