- For industrialised country firms, the change in the relative benefits of exporting to or investing in Asia will impact on corporate strategy. To the extent that this change favours overseas investment, it is likely to create political tensions domestically because of potential de-industrialisation and job losses in developed economies.
- Over a five-year horizon, several Asian stock markets are expected to outperform the US stock market by at least three times. Exchange rates will, however, continue to be a major risk factor.

2.0 Responding to the Crisis: Money, Markets, and Moral Hazard

The early phase of the crisis, which was marked by denial on the part of some Asian economies and a lack of publicly-available information on the extent of the problems, is now largely over. The precipitous declines in Asian currency and equity market values have forced the most seriously-affected countries to seek help from the International Monetary Fund (IMF). This is a familiar role for the IMF, yet it is challenged as never before because of the number of countries requiring assistance and the magnitude of their problems. Some participants felt that the more rapid spread of contagion and the greater severity of the crisis compared to previous episodes is due in part to technological advances in financial markets, the creation of new financial instruments, and the influence of a relatively small number of global funds with enormous assets. The role of hedge funds as such -- a subject that was given much attention during the APEC Leaders' Meeting, mostly at the Malaysian Prime Minister's insistence -- was thought to be small.

Will the crisis lead to international restrictions on capital mobility? The roundtable was reminded of Charles Kindleberger's famous dictum, that it was impossible to sustain a system with fixed exchange rates, capital mobility, and free trade. While a few participants raised the prospect of international efforts to restrict capital mobility as a solution to the Kindleberger dilemma, the majority felt that fixed exchange rates would be the first to go. All participants agreed, nevertheless, that this issue should be closely watched, especially as Asian countries grope for solutions to the continued volatility of their currencies.