

According to one hypothesis, the transmission of the crisis across Asian economies, also known as "contagion", was due to the presence of national "idiosyncrasies". These idiosyncrasies were generally known in financial market circles (eg. pegged exchange rates, weak banks, asset bubbles in Thailand, political cronyism in Indonesia, and unproductive borrowing in Korea), but what caught most observers by surprise was the speed with which financial markets shifted their attention from one national idiosyncrasy to another. The speculative attacks on currencies were merely manifestations of market forces trying to get at a deeper malaise.

It was suggested that the markets are not finished with their correction of national idiosyncrasies and that even industrialised countries could be vulnerable. For North America markets, the test is likely to come in the run-up to the US presidential election, when trade pressures due to an anticipated flood of imports from Asia will coincide with a presidential election in the United States. Canadian financial markets will likely be tested at this time too, as the economy is impacted directly or indirectly by trade imbalances with Asia and by the possibility of American trade actions.

Winners and Losers in the Asian Crisis

One view has it that the winners are Greater China -- China, Hong Kong and Taiwan -- and the losers are overseas Chinese from Southeast Asia, Japan, and Korea. The optimism about Greater China is based on the fact that these three economies have so far been relatively unscathed by the current crisis, and the possibility that China will emerge as an important market for the region's exports. However, the participants were reminded of China's internal problems, principally the enormous debt load of the state-owned enterprises and the insolvency of its banking system. How China will manage these challenges is perhaps the single most important variable in Asia's medium to long term recovery. Many felt that should China fail to meet these challenges, a crisis far greater in scope than the present one would result.

The theory that the overseas Chinese from Southeast Asia will be amongst the losers is extrapolated from the belief that profound structural change is underway in economies hitherto dominated by overseas Chinese business networks. The crisis shows that