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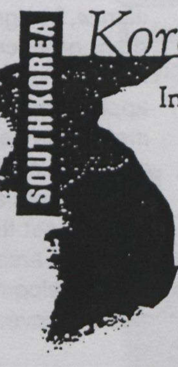
It is nearly a year since the financial whirlwind that brought havoc to East Asian economies first touched down in Thailand. Now is the time to take stock of the opportunities that repair of the economic storm damage may offer Canadian business and also of the role Canadian policymakers can play in assisting both Asian recovery and the Canadian private sector's participation.

Asia's economic landscape has changed – is still changing — though perhaps not as much as the rhetoric by politicians and economists may have us believe. The countries that stand out as having weathered the turmoil the best are Thailand and South Korea. Both have stabilized their foreign financial sectors with the help of injections of capital through packages led by the International Monetary Fund (IMF). Both have been able to reschedule or at least roll over their most pressing foreign debts. Both have begun implementing financial reforms mandated by the IMF. Both have seen their currencies recover from their low points of early this year. Yet the relative attractions of the countries to Canadian business at this time are quite different.

Canada's business relationship with South Korea and Thailand has traditionally been through trade rather than investment. Exports to South Korea in 1997 were $2.9 billion, while cumulative Canadian direct investment to the end of 1996 was just $177 million. Exports to Thailand in 1997 were $444 million: cumulative direct investment in 1996 was $271 million. However, in today's new environment, the best avenue for Canadian involvement appears to be through direct investment rather than increased exports. Of the two countries, South Korea looks a better, though still risky, bet as Bangkok has not yet moved as far as Seoul in opening to foreign investors.



Korea flings open the door to FDI

In South Korea both international support and internal reform have been extensive. Because of this, the opportunities opening up are more obvious and may involve less anguish than in Thailand — though there are many reasons to believe that internal and external shocks over the next year will make Korea's recovery less than smooth. There is a high probability of crises accompanying the restructuring of debt-laden banks, massive corporate bankruptcies, violent protests by unemployed workers and backsliding by the government on its reform promises as the urgency of crisis eases and political compromises come into play. There is also the unpredictable impact of unrelated developments in Indonesia, Japan or Hong Kong which, given the fragile state of foreign investor confidence in all of Asia, are likely to cause fluctuations in the value of the won and hinder the raising of new capital.

But, for companies willing to accept the risks of currency instability and political scares, South Korea could be attractive. The accompanying panel shows that the door to foreign investors has been opened wide. But, who should enter?

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