

Global Economic Issues

Promoting Global Financial Stability: Lessons from Asia

The extent and depth of Asia's financial turbulence was largely unanticipated by international institutions, the private sector and governments in emerging markets and industrialized countries.

The events in Asia were triggered by the devaluation of the Thai baht in July 1997 and quickly spread to Malaysia, Indonesia and the Philippines. Thailand sought financial assistance from the International Monetary Fund (IMF), the World Bank, the Asian Development Bank, and other bilateral donors in August 1997 and obtained \$17 billion US in support. In October 1997, Indonesia received over \$41.2 billion US from multilateral and bilateral donors.

Canada is contributing to the international rescue effort through its membership in these international financial institutions and through bilateral contributions. Canada has pledged \$1 billion US to the "second line" of defence for Korea, \$280 million Cdn in assistance to Indonesia, and will contribute \$500 million US of the Thai package to replace contributions by other countries that have been forced to withdraw.

The region's financial markets, however, remained tumultuous and, in late October, a sharp decline in Hong Kong's Hang Seng stock market index caused other stock markets around the world to plummet as well. Although global equity markets had stabilized by late 1997, the crisis struck Korea, the world's 11th largest economy. Its currency fell sharply and it almost ran out of foreign exchange reserves. The international package to help Korea support its currency and reform its economy totalled \$58.35 billion US, the largest in IMF history.

In addition to providing financial support, IMF programs have stressed the need for structural reforms, particularly in the banking and financial sector. As a result of vigorous reform efforts in Thailand and Korea, the region's currency and stock markets have begun to recover from their January 1997 lows which, in most cases, were 40 per cent to 50 per cent below last summer's levels.

Unemployment, however, has begun to rise and is expected to more than double in some economies. High inflation is also making basic goods less affordable for the poor, a problem compounded in Indonesia by a prolonged drought. Affected governments, with international help, will need to address the serious social consequences of events in Asia, since protecting the most vulnerable will be a key factor in maintaining political and popular support for reform.