The Asian crisis

implications for South Africa

Up until the recent crisis, the Asian 'tigers' were seen by many in South Africa as models for development. John Pape analyses the implications of the crisis for South African workers.

Less than a year ago the Asian tigers were seen as models of development by many in South African business and government. Even some unions and workers were beginning to whisper about the 'Asian miracle'. That was before the Asian 'flu'- the economic turmoil which engulfed at least half a dozen of Asia's Newly Industrialising Economies (NIEs) in mid-1997. By the end of the year, observers were speaking of 'carnage' and 'ruin' in the region.

The details of the collapse are staggering. Within a few months:

- 56 financial institutions closed in Thailand;
- 16 banks shut their doors in Indonesia;
- shares on regional stock markets had declined by up to 44%;
- currency values fell dramatically – the Indonesian Rupiah by as much as 75%, with the Thai Baht and the Malaysian Ringgit not far behind.

By late last year Korea, Thailand, and Indonesia were going to the International Monetary Fund (IMF) begging for a bailout. Even Japan, considered by some to be the most powerful economy in the world, was reeling from the crisis.

The roots of the crisis

The turmoil in Asia ostensibly began with the devaluation of the Thai currency on 2 July 1997. This sparked falls in currency values throughout the region.

In today's globalised economy such devaluations are not accidents. They are the result of powerful global economic forces. In this instance, the most publicised players were the international speculators. At present, speculators move some \$2-trillion a day across the globe. These 'money mandarins' buy and sell currency, shares, or whatever will make a quick profit. In the last two decades, such speculators have taken over from old style investors – those who build factories, construct roads, or buy farms. In 1975 only 20% of global foreign exchange transactions were for speculative purposes. By 1997 the proportion was 97,5%.

When speculators decide that a particular economy is going sour, they will attack that country's currency – selling it off quickly and driving down the value. In part, this is what happened in Asia. Some analysts estimate that speculators made

$30-billion out of the decline of the Thai Baht alone.

The root cause of the Asian crisis does not, however, lie with massive currency deals. Underlying the collapse is the demise of a development model – the free market, export-oriented economy. The history of the most recent NIEs – Thailand, Malaysia and Indonesia – underlines this fact.

Since the early 1980s these three countries have been growing at a rapid rate. Their development was based on the current vision of many South African policy makers – foreign investment and internationally competitive exports.

Foreign investment was forthcoming in enormous amounts, mainly from the Japanese, who were desperate for new markets and production sites. Between 1985 and 1990, Thailand, Malaysia and Indonesia received $15-billion in Japanese investment. Most of this was directed towards export industries such as electronics, rubber products and machinery. But this success was built on a shaky foundation of dependency on Japan and rising debt.

For awhile export income grew; the bill for imports grew even faster. To cover this deficit, the three countries borrowed from foreign banks and pressed even harder to increase exports. But a debt was mounting that could not be rolled over forever.

Decline

The first stage of the decline was in the early 1990s, when production costs began to rise, particularly as labour demanded a slightly higher return for their efforts. Japanese companies pulled out and moved to China and Vietnam, where labour costs were lower. In Thailand alone, Japanese investment fell from $2,4-billion in 1990 to $578-million by 1993. There were desperate attempts to retain foreign investment. High interest rates were designed to attract speculators. Domestic investment projects were financed through borrowing.

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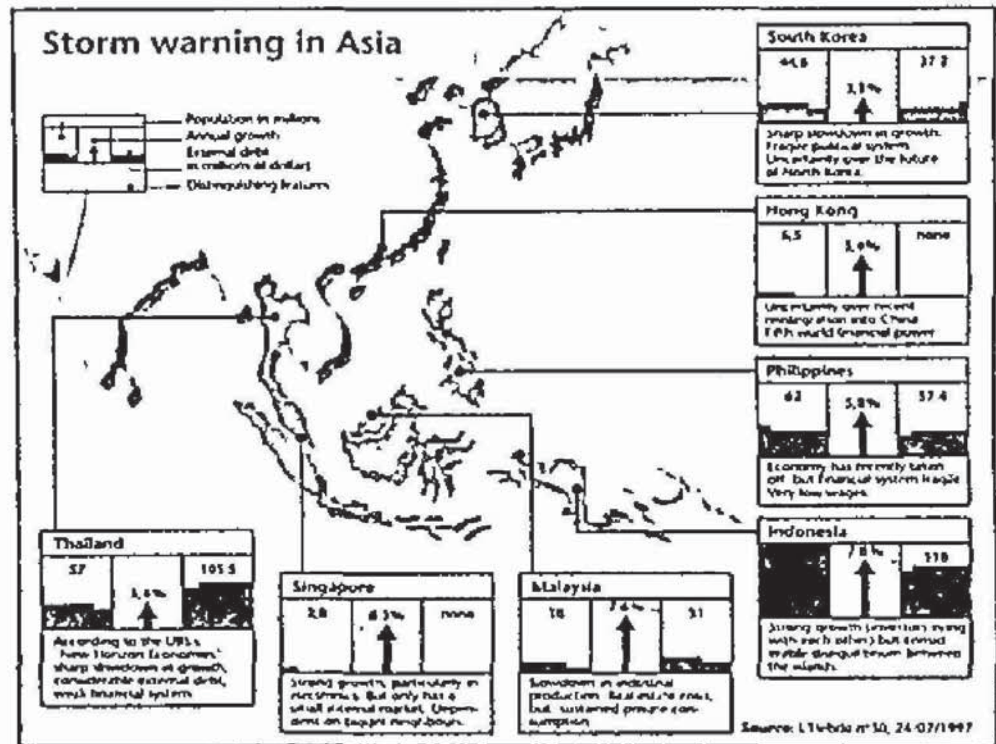
It gradually became apparent, however, that domestic investment was not yielding any profit. Local banks had borrowed money overseas to provide loans for the construction of luxury townhouses and high-rise office blocks which were standing unoccupied. In some cases, up to 20% of local bank loans were being written off as bad debts. The foreign investors and speculators sensed that the game was up. They began to take the money and run.

As the foreign investors vacated, the currency values fell, thus increasing the cost of debt repayment. The Thai government used up most of its US

dollar reserves buying up its own currency in order to try to prevent an enormous dive.

In the end, there was no way of avoiding a collapse. Once the Baht went down, the Indonesian Rupiah and the Malaysian Ringgit followed. The fall of these currencies raised the greatest fear possible in the hearts of the foreign banks: they may not be able to collect their debts.



Trade Union World

The global economy does not allow such a crisis of potential unpaid debt to remain localised. This is doubly true when, as in this case, the debt was owed primarily to western-based banks. For both the debtors and creditors in the Asian crisis there seemed to be only one option: call in the IMF.

The IMF

IMF intervention in a debt crisis has two purposes. The immediate objective is 'solving' the crisis. The key element of any solution is to ensure that international banks and financial institutions ultimately get their money. To this end, the IMF provided loans of $57-billion to Korea, $43-billion to Indonesia and $18-billion to Thailand.

The IMF also uses a crisis as an opportunity to re-shape the assisted economies in the free market mould. While the Thai and Indonesian economies were already fairly open to foreign trade and investment, key sectors, especially the banks, were protected. Korea had much stronger limitations on foreign participation in their economy.

The conditions which the IMF attached to its bailout resulted in more opportunity for foreign control. Regulations imposed by the IMF forced Korea to allow up to 55% foreign ownership in local companies. Previously the maximum was 7%. The IMF also levered open the financial sector. For the first time Thailand permitted overseas firms to hold a controlling interest in Thai banks.

By late November, Citibank of New York had signed a memorandum of understanding to buy 50,1% of first Bangkok City Bank.

While the speculators and corporations were counting their profits, the region's workers were tightening their belts. Indonesia was perhaps the hardest hit. Job losses are expected to reach at least 2,5 million. Inflation soared. In a period of five months, the price of rice, the main staple food, went up by 36%. Charges for electricity tripled. Many workers lost the little savings they had when the region's banks collapsed.

The situation is likely to worsen in the future. Central to the IMF's conditions is 'fiscal discipline' which will undoubtedly lead to cutbacks in services such as education and health. There is also the fear that migrant workers may become the scapegoats of the crisis, with some 2,5 million migrants in Malaysia likely to be deported to their home countries.

The global economy

The long-term effects of the crisis on the majority of the population raise important questions about the global economy, especially for workers in countries like South Africa.

While East Asia was the epicentre of the crisis, repercussions spread to many countries. In November, the tenth largest commercial bank in Japan folded – the largest bankruptcy in Japanese history. Many attribute the collapse to panic withdrawals by customers who feared that the bank had made extensive loans to Korea.

On the other side of Asia, India also felt the pinch. The Indian authorities took the dramatic step of raising interest rates by 2% in order to discourage investors from withdrawing their money. Stock markets around the world, from New York to London to Johannesburg, experienced convulsions.

Global speculators played a major role in this process. The decline in profitable outlets for productive investment, coupled with the rise of new technology, means that no country can remain immune to the effects of quick shifts in global trends in speculation.

Apart from exposing the global nature of the system, the events in Asia have heightened another crisis – that of the New Economic Paradigm. Since the fall of the Soviet bloc, many business people and economists have heralded the arrival of a 'new paradigm'.

Under this new paradigm, capitalism can supposedly deliver uninterrupted growth and prosperity. The cycle of 'boom and bust' which has been a main feature of 20th century capitalism was supposed to be a thing of the past.

For a few, the new paradigm remains intact. Michel Camdessus, Managing Director of the IMF remains unshaken in his belief in the market. For him it is not the foreign investors, speculators or international financial institutions who bear the blame for the Asian crisis. It is the region's economic policy makers who, in his view, failed to set appropriate interest rates.

A host of other observers have argued that the recent crisis is caused by a fundamental flaw in the world capitalist economic system.

Fred Goldstein of Workers' World News Service, attributes the crisis to structural problems in the capitalist system. He argues that there was a crisis of overproduction. Potential consumers did not earn enough to buy the goods that were being dumped on the market. He suggests that the Asian crisis might herald a world-wide depression.

Harsh criticism of the globalised market economy has also come from key Asian leaders. The most prominent voice has been that of Malaysian Prime Minister, Mahatir Mohamad. He accused currency speculators of leaving "a trail of shattered, disoriented economies and nations wherever they went... For so long as they are not controlled, their capacity to attack and damage economies will remain and they will strike fear into the hearts not just of governments and finance ministers but of businessmen and people, rich and poor alike."

Even long-time free marketeers have begun to waver. Conservative economists

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Pressure will be put on workers to labour for even less money.

like Harvard's Jeffrey Sachs, frequent adviser to the IMF, have called for greater regulation of the fund. Referring to the fund as a "small, secretive institution" he criticised the fact that "IMF decisions have been taken without any public debate, comment or scrutiny," adding that, "it is time that the world take a serious look at the International Monetary Fund."

Such positions were echoed by billionaire George Soros who made his fortune off crises like the Asian situation. In assessing the recent events he remarked: "We have this false theory that markets left on their own tend towards equilibrium... I'm afraid the prevailing view, which is one of extending the market mechanism to all domains, has the potential of destroying society."

If Asian economies and workers suffered a serious blow in the crisis, so too did those who have been holding up the free market as the solution to all economic problems.

For countries like South Africa, presently moving toward a greater engagement with the market forces of globalised capitalism, the meaning of Asian events should be dissected with extreme care.

South Africa

In the middle of the crisis, Raymond Parsons, head of the South African Chamber of Business, declared: "Indonesia has pneumonia, South Africa has simply sneezed." But the jittery commentary in the local business press indicated serious concerns that South Africa's condition could deteriorate rapidly. Although South Africa was not hard hit this time, there is no guarantee of future immunity. Moreover, there are a few after-effects that we can anticipate.

The changes in Asia will directly impact on the government's drive to become 'internationally competitive'. With the enormous decline in the value of Asian currencies, exports from Indonesia, Thailand, Korea and other countries will

become cheaper on the world market – and more difficult for South Africa to undersell. The pressure of competition will be made all the more difficult by the fact that the authoritarian regime of Suharto in Indonesia is likely to put pressure on local workers to labour for even less than the current legal minimum of about R280 per month.

Local markets may also be adversely affected. Cheap exports from Asia could flood the South African market, undermining domestic industry. Company closures and job losses could follow.

In the long term the events in Asia may derail the government's quest to attract foreign investors. With the vulnerability of powerful economies like Indonesia and Korea exposed, western investors may be hesitant about relocating to 'emerging markets'.

In recent times, about a third of South Africa's foreign investment has come from Asia – a situation which is likely to change given the problems many Asian companies are facing at the moment.

South African business has already drawn its own conclusion – stick to the free market and GEAR. As *Finance Week* put it "Obviously if the GEAR strategy was sacrosanct before, it is more so now." In its view, South Africa's only choice is to open up the economy and take our chances in the globalised marketplace. Business is likely to lend further support to Finance Minister Trevor Manuel's policies of 'fiscal discipline' and prioritising repayment of foreign debt.

For workers, the need to confront the free market forces of globalisation seems ever more pressing. The speed with which supposedly successful NIEs were brought to their knees calls into question the viability of export-led growth, particularly if it is based on extensive foreign investment.

The promise held out for workers in the NIE model is that short-term sacrifice (wage restraint, labour flexibility, etc) will lead to long-term sustainability. For decades, Asian workers have borne the brunt of repressive dictatorship, denial of basic union rights, unsafe working conditions, and long working hours for low wages. Now they are called upon not to enjoy the *fruits of their labour* but to once again tighten their belts.

What chance does South Africa have of holding foreign investment when wage levels throughout Africa are lower than in this country?

If IMF austerity measures can be imposed on the likes of South Korea, the eleventh largest economy in the world, or Indonesia, a nation of more than 200 million people, what chance will South Africa have of avoiding a similar fate when the international financial community decides it is our turn to bite the bullet of structural adjustment?

What are the alternatives? In the short term, policy measures like the social clause, company codes of conduct, and taxes on speculators have some potential for moderating the effects of the unbridled market.

COSATU has given its support to such measures. In the long run, more comprehensive national and international strategies are needed, which must include mobilising unions and social movements across borders. In this way workers may be able to stay even half a step ahead of the transnational corporations and financial institutions which can move billions of rands with the click of a computer mouse. ★

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