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An Analysis of the Problem Loans at Asian Banks: Trends, Issues and Implications[1]

by

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[1] This paper is part of a series of reports exploring global tourism markets of opportunity. This paper is the second in the series. A third paper assessing future inbound and outbound tourism flows to and from Asia will follow. The first study dealt with tourism opportunities in Latin America and Caribbean region. Meanwhile, a fourth study will examine tourism opportunities in Russia and Eastern Europe. As usual, the views, and remaining errors, expressed in this paper are the sole responsibility of the authors and do not necessarily reflect those of the Canadian Tourism Commission (CTC), the CTC's Marketing Programs or any institutions with which they are associated.

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Executive Summary

Most Asian countries have now entered a period of transition from rapid economic growth to slower, more sustainable growth. It is therefore highly unlikely that most Asian economies will be able to grow their way out of their problem bank loans anytime soon. If global industrial overcapacity is not sharply cut, most export-oriented Asian economies will face continued oversupply conditions. The deterioration in economic conditions in Asia, Russia, Latin America, a slowing U.S. economy and weak commodity prices will lead to depressed export prices and volumes and lacklustre corporate earnings. This will aggravate the region's funding and payment's difficulties.

Problem loans at Asian banks will most likely increase. Cleaning up Asia's non-performing loan and bad loan problems will likely take years, if not decades. The cost of recapitalizing the region's banking system will be enormous.

Asia's operating environment will get riskier in the next two to five years. This means that the costs of conducting business in Asia will rise. Lenders and investors will need to intensify monitoring their exposures. In the longer term, financial sector restructuring and consolidation will result in fewer but more profitable and internationally competitive Asian regional banks, securities firms and insurance companies.

An Analysis of the Problem Loans at Asian Banks: Trends, Issues and Implications[5]

Introduction

Since mid-1997, plunging Asian stock and property markets and mass currency devaluations have destroyed hundreds of billion of dollars in wealth (Annex 1).[6] It is widely regarded that the combination of lax financial regulations and supervision, official corruption, credit expansion boom, rampant mismanagement, reckless lending policies, rapid deregulation, financial innovation, new technologies, excessive lending to property and stock market investors and heavy dependence on foreign capital has saddled many Asian banks with huge non-performing and bad loan portfolios.[7] This coupled with the Asian and Russian financial crisis, worsening economic volatility in Latin America and weak commodity prices has fuelled speculation that many emerging countries are at increased risk of defaulting on their foreign debt obligations.

Not surprisingly, investor confidence in the once high-flying Asian and other emerging economies has plummeted. Banking system and financial sector fragility has been exposed across Asia and elsewhere. Most Asian economies remain highly susceptible to interest rate hikes, slowing economic growth and deepening economic recessions (Annexes 2, 3). The risks and costs of doing business in Asia will rise. Foreign lenders and investors will need to intensify monitoring their exposures.

Purpose of Study

The purpose of this paper it to gain a better understanding of the scale and scope of the non-performing loans and bad debt problems in Asia. This paper provides a brief overview of the bad debt problems at Asian banks. It also examines the nature and magnitude of this problem

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[5] For the purpose of this paper, the Asia region comprises: China, Hong Kong, India, Indonesia, Japan, Malaysia, Myanmar (Burma), Pakistan, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

[6] Much has been recently written on the causes, nature, issues and implications of the Asian crisis. See, for example, Akyüz, 1998; Aschinger, 1998; BIS, 1998; Goldstein, 1998; Hu, 1998; IMF, 1998b; Little, 1997; Marshall, 1998; Moreno, 1998; Moreno et. al., 1998; Noland et. al., 1998a; Nunnenkamp, 1998; OECD, 1998b; Radelet and Sachs, 1998; Strizzi and Kindra, 1998b,c; The World Bank, 1998b; UNCTAD, 1998.

[7] According to Fitch (1990), ***bad debt loans*** are loans deemed by banking officials as unrecoverable since payment of interest and principal is overdue. These loans are written off from the bank's loan portfolio and charged to reserves for possible loan losses account. Meanwhile, ***non-performing loans*** are loans where the borrower fails to make payments as contracted. Radelet and Sachs (1998, p. 5) stated that "An insolvent borrower lacks the net worth to repay outstanding debts out of future earnings. An illiquid borrower lacks the ready cash to repay current debt servicing obligations, even though it has the net worth to repay the debts in the long term. A liquidity crisis occurs if a solvent but illiquid borrower, is unable to borrow fresh funds from the capital markets in order to remain current on debt servicing obligations".

and international bank exposure to Asia. Next, the paper explores non-performing loans and bad debts in selected Asian countries and identifies the major obstacles that will most likely delay banking industry and financial sector reforms. Summary remarks conclude the paper.

The Extent and Nature of the Problem

There is no reliable data on the scale and scope of Asia's bad debt problem. Estimates vary widely. One estimate, for example, suggests that bad debts in Asia may total over U.S. $1 trillion, with bad debts at non-Japanese Asian banks representing roughly U.S. $500 billion of the total (Bacani, 1998). The absence of a reliable estimate of the volume of the problem loans will contribute to ongoing official policy paralysis in resolving the region's deepening banking industry and financial difficulties.[8]

The immediate concern is that as bad loans continue to pile up, Asian banks will be forced to accelerate their provisions against bad debts, adversely affecting future growth and earnings' potential. This it is feared will make them increasingly reluctant to provide new loans or roll over old loans, perhaps even to creditworthy low-risk Asian borrowers. Likewise, foreign lenders are less likely to supply the necessary funds for infrastructure development and imports of Western plant, equipment and modern technologies. Regional efforts to upgrade and diversify product compositions and export markets will be delayed. This will deepen the region's financial and payments difficulties, seriously stalling an export-led economic recovery. The number of unemployed people in many Asian countries will increase.[9] That will heighten regional political, economic and social pressures and stability in the years ahead.[10]

The scale and scope of the region's problem loans will likely rise well beyond current projections in the next two to five years. The slowdown in economic growth in Asia, Russia and Latin America suggest that bad loan problems at Asian banks will most likely increase. As well, the recent failure of a number of Chinese international trust and investment corporations (Itics) will contribute to increased bad debts at Asian banks and in particular

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[8] In addition to U.S. $43 billion already pledged to the Asia region, Japan's Finance Minister, Mr. Kiichi Miyazawa "recently announced some [U.S.] $30 billion in bilateral help for the five worst-hit Asian economies - Indonesia, South Korea, Malaysia, the Philippines and Thailand" (Williams, 1998a, p. 9). It is hoped that the combination of a fiscal stimulus in Japan and increased aid to Asian countries will stimulate an economic recovery (Williams, 1998a). More recently, Japan announced that it would also provide an additional U.S. $8 billion in tied loans to the above-noted countries (Nakamoto, 1998b).

[9] A recent study on global employment noted that "by the end of 1998, some 1 billion workers - or one third of the world's labour force - are either *un*employed or *under*employed ...The Asian financial crisis alone is expected to add about 10 million new unemployed to the 140 million global unemployed estimated prior to the start of the financial crisis" (ILO, 1998a, p. 1).

[10] High and rising urban unemployment in many Asian cities is forcing many workers to return to their rural homes (Jones, 1998). This, it is feared, will provoke increased criminal activity and violence, resulting in social and political instability. In fact, it was observed that "When decreasing availability of money, land and water is combined with an increasing demand, the prospect for violence is high" (Jones, 1998, p. 1). Even worse, it is opined that if current Asian economic and financial conditions worsen, there is a greater possibility that it would lead to mass expulsions of Asian foreign workers regionwide (Waldman, 1998; Jones, 1998). One estimate suggests that there may be over 7 million Asian migrant workers working in neighbouring countries, "2m [million] migrants leave home legally every year, and there is probably just as many illegal migrants" (Jones, 1998, p. 1). Repatriation of these migrant workers would put enormous strain on already fragile economic and social infrastructures, compounding regional fiscal and funding problems.

Japanese banks.[11] The massive cost of correcting the year 2000 computer problem (Y2K) will also intensify Asian banks' budget and funding problems.[12] In fact, it is widely regarded that the deepening and protracted Asian financial turmoil has put the year 2000 bug "second to survival for many banks" (Arnold, 1998, p. B4). Failure to adequately address the Y2K problem, might lead to credit rating downgrades which, in turn, will increase borrowing costs for many Asian banks.[13]

Table 1: International Banks' Financial Exposure to Selected Asian Countries (U.S. $ billion)

Loans from:	**Europe**	**Japan**	**U.S.**	**World total**
South Korea	36.3	23.7	10	103.4
China	28.1	18.7	2.9	57.9
Indonesia	22.5	23.2	4.6	58.7
Thailand	19.8	37.7	4	69.4
Taiwan	14.4	3	2.5	25.2
Malaysia	12.7	10.5	2.4	28.8
Philippines	6.8	2.1	2.8	14.1
Total	**140.6**	**118.9**	**29.2**	**357.5**
% of total	**39.3**	**33.3**	**8.2**	**100**

Source: BIS; end-June 1997.
Table reproduced from *The Economist*, "Hard Talking", April 4th, 1998a, p. 42.

Table 1 shows that international bank exposure to selected Asian countries totalled around U.S. $360 billion by mid-1997. Of this amount, international banks' exposure was greatest to South Korean borrowers (28.9 per cent), followed by borrowers from Thailand (19.4 per cent), Indonesia (16.4 per cent) and China (16.2 per cent). International banks also had heavy exposure to Malaysia (8.1 per cent), Taiwan (7.1 per cent) and the Philippines (3.9 per cent). Of the U.S. $360 billion loans from international banks to Asian countries, almost 81 per cent of the total was held by banks from Europe, Japan and the United States. European banks, at U.S. $141 billion (over 39 per cent of the total), had the largest loans outstanding to Asian borrowers,

[11] It is estimated that 23 Japanese banks lent approximately U.S. $443.2 million to the now closed Guangdong International Trust and Investment Corp. (Gitic) (Tong, 1998). Meanwhile, 32 South Korean banks lent U.S. $206.8 million to Gitic, followed by U.S. $169 million by eight Hong Kong banks, U.S. $144.8 million by five French banks, U.S. $124.8 million by nine German banks and U.S. $103.7 by eight Chinese banks. Banks from the United States, Italy, Australia and the Middle East were also exposed to Gitic.

[12] For illustrative purposes, it is estimated that the cost of repairing computer systems at major U.S. banks such as Chase Manhattan Corp. and Bank America Corp., range from over (U.S.) $360 million to $550 million (Brooks, 1998). One estimate suggests that Y2K computer repair costs at the top 15 U.S. banks could reach almost U.S. $3.5 billion, leading to slower bank earnings (Brooks, 1998).

[13] A recent press report noted that the "Credit rating agency Moody's Investors Service Inc. warned in May that Japanese banks, among the world's largest, were so lackadaisical about Y2K that their negligence could pose a risk to banks that trade with them" (Arnold, 1998, p. B4).

followed by slightly more than one-third (33.3 per cent) by Japanese banks. At the same time, American banks were at a distant third, holding over eight percent of the total outstanding loans.[14]

In the longer term, the adoption of stricter international loan classification and accounting standards (prompt corrective action), greater transparency, tougher banking supervision and regulation, modern bankruptcy codes, improved credit risk analysis and better corporate governance will result in a rationalized, competitive and profitable Asian banking industry.

The following section examines the scale and scope of non-performing loans and bad debts in selected Asian countries and identifies the major obstacles that will most likely delay banking industry and financial sector reforms.

Snapshot of Financial Distress

Japan

The financial sector in Japan, the world's second largest economy, is in a mess. Japan's financial sector, particularly its banking industry, is saddled with large and growing non-performing loans and bad debts. It is estimated that the bank loan problem in Japan totals over U.S. $600 billion, excluding those in the credit portfolios of the country's credit cooperatives, insurance companies and finance firms (Sapsford, 1998a; Ostrom, 1998; OECD, 1998a).[15] Still, another estimate suggests that Japan's total bad debt loans could reach U.S. $1 trillion, roughly 30 per cent of gross domestic product (GDP) (Sanger, 1998; *The Economist*, 1998c).[16] It was recently observed that over "two-thirds of Japan's largest banks are technically bankrupt" (Norton, 1998, p. C9).

Non-performing loans[17] might represent around 15 per cent of total loans during the 1998-1999

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[14] Bank of Canada data (1998) show that Canadian chartered banks' exposure in Asia totalled around CDN $47 billion as of March 31, 1998, representing roughly 11.3 per cent of total international exposure of CDN $424.1 billion. The banks' financial exposure to Japan, CDN $16.9 billion, accounted for about 4 per cent of total exposure. Meanwhile, banks' financial exposure to 'other' Asian countries was about CDN $8.5 billion (2 per cent of total exposure), followed by Hong Kong (1. 7 per cent) and Singapore (1.3 per cent). Canadian chartered banks also had sizeable financial exposures to Taiwan, South Korea, Malaysia, China, Thailand and the Philippines.

[15] Genay (1998) reported that Japan's major banks (city, trust and long-term banks) comprise over 70 per cent of that country's banking assets. For more details on Japan's banking system, including total fund volume by type of bank, ranking of banks, number of branches, outstanding bad loans, see *The Nikkei Weekly*, (1998d).

[16] It was recently reported that Japan's Financial Supervisory Agency (FSA) was in the process of "drawing up plans to force disclosure from next spring of bad loans that banks have hidden in affiliated companies. The move has been triggered by revelations that troubled banks have partly concealed the scale of their financial problems by not reporting the level of bad loans held by closely linked affiliates...Japanese accounting law requires banks and brokers to report their affiliates' bad loans only when they own more than 50 per cent of the group...The FSA's proposals would address this problem by requiring banks and brokers to report bad loans at all 'closely linked' affiliates, even if they own only a small proportion of the shares" (Tett, 1998a, p. 6). The FSA assumed in June 1998 "the supervision of banks from the MoF [Ministry of Finance]" (Genay, 1998, p. 28).

[17] It is generally regarded that "about 2% of the loans at a healthy bank will be non-performing - defined usually as those that are not serviced for at least three months. A rate of less than 5% is considered acceptable. More than 10% is a problem; more than 20% a disaster" (Healy, 1998, p. 58). It is interesting to note that "in several crisis countries loans could be delinquent for 6 to 12 months before they were

period (*Asiaweek* 1998d, p. 73).[18] The deepening economic downturn in Japan coupled with worsening economic and financial volatility in Asia, Russia and Latin America suggest that problem loans will continue to comprise a large and growing portion of Japanese banks' loan portfolios in the next two to five years.[19] Pressure is mounting on Japanese officials to get their financial fiscal house in order soon since the country's ageing population is expected to put additional strains on government finances (pensions) and healthcare system (OECD, 1998a).

Japan's ailing banking industry is highly vulnerable to declining domestic asset prices. If, as seems highly likely, domestic property and stock market values slide further it will lead to additional decreases in the value of assets pledged as security for bank loans.[20] This would reduce Japanese banks' tier one capital which, in turn, might lead to credit ratings cuts and higher borrowing costs. Japanese banks with "international operations are required to maintain a capital-adequacy ratio of at least 8%, and those with only domestic operations a ratio of at least 4%" (Yamamoto, 1998, p. 3). A lower valued yen against the U.S. dollar and weaker global economic conditions will lead to reduced market share and decreased profits for many Japanese banks with international operations.

The diminishing importance of Japanese international banks is clearly reflected in recent rankings of the world's biggest banks. For instance, according to the annual *Euromoney/Fitch IBCA* ranking of the world's biggest banks, six of the banks in the top 20 category were from Japan, as measured by shareholders' equity, in 1998; only one Japanese bank - the Bank of Tokyo-Mitsubishi (second place) - was ranked in the top ten category (*Euromoney*, 1998a).[21] By contrast, eight of the world's top 20 banks were from Japan in 1995, with six Japanese banks in the top 10 category (*Euromoney*, 1995). This trend is unlikely to be reversed anytime soon,

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classified as nonperforming (versus 3 months in the US system" (Goldstein, 1998, p. 12).

[18] In Japan, prompt corrective action regulations were implemented in April 1998. These regulations " required fuller disclosure of nonperforming loans and more adequate provisioning for problem loans" (Genay, 1998, p. 28). According to Yamamoto (1998, p. 3), loans are classified as non-performing "if in default for 90 days or more, the same as in the U.S. The previous standard in Japan was 180 days or more".

[19] According to recent FSA estimates, Japan's "17 largest banks had risky loans totalling ¥49,490bn [billion] ([U.S.] $427bn) at the end of March [1998], ¥5,410bn above the banks' own estimates of ¥44,080bn" (Nakamae, 1998, p. 6). Presently, bank loans in Japan are sorted into four groups: Category 1 - Healthy loans; Category 2 - Risky loans; Category 3 - Extremely doubtful loans; and Category 4 - Uncollectible loans (*The Nikkei Weekly*, 1998b). Yet, it was recently reported that "Japanese financial institutions are carrying out unorthodox and secretive securities trades to hide recent losses in Japanese government bond markets. In particular, some banks have been pretending to 'sell' JGBs [Japanese Government Bonds] at artificially high prices to large Tokyo brokers, in exchange for other, low quality bonds 'bought' at artificially low prices" (Tett and Nakamae, 1999, p.1). Such transactions enable "investors to conceal losses temporarily because although JCB losses need to be regularly reported under Japanese accounting rules, losses on other securities, such as local government bonds, do not" (Tett and Nakamae, 1999, p. 1).

[20] Genay (1998, p. 27) noted that "By some private estimates, 50 percent to 70 percent of new lending by Japanese banks in 1985-90 was collateralized by real estate".

[21] In fact, one press report observed that "In October[1998], the most recent available month for which data are available, [Japanese] banks' overseas assets fell below ¥100,000bn [billion] ([U.S.] $898bn) for the first time for 15 years to ¥96,800bn. This was almost ¥13,000bn lower than the level in September and ¥47,000bn lower than the level in October 1997" (Tett, 1999e, p. 4). The recent rapid appreciation of the yen against the U.S. dollar "is unlikely to help the [Japanese] banking sector because the banks have slashed overseas assets in recent months as part of their restructuring" (Abrahams et. al., 1999, p.1).

leading to further declines in global economic prestige and financial power.[22]

Corporate bankruptcies in Japan continue to soar, despite the very low interest rate environment. During the first ten months of 1998, the number of Japanese corporate failures reached 16,527 (Ishizawa, 1998a) and could easily top 18,000 bankruptcies if current trends persist. By contrast, the number of Japanese corporate failures reached 16,365 in 1997 (*Bloomberg News*, 1998; *The Nikkei Weekly*, 1998a). Bankruptcy liabilities have ballooned, adding to banks' swelling bad debts. The combination of worsening global economic conditions, weak domestic demand, sluggish foreign sales, growing job insecurities, stricter bank lending and poorer corporate earnings' prospects promises a continuation of the current corporate bankruptcy trend during the next two years or so.[23] Small and medium-sized enterprises (SMEs) will continue to account for the majority of Japan's corporate failures (Sapsford, 1997; Altbach, 1998).

Japan's jobless rate continues to remain high by historical standards. Japan's unemployment rate is projected to reach "4.4 per cent in 1998 and 5.1 per cent next year" (Spindle, 1998a, p. B11).[24] Weak domestic private investment and consumption, massive economic and industrial restructuring and consolidation and slower global economic and export growth suggest that Japan's jobless rate will rise even higher over the next two to five years. Pressures on Japan's much-touted lifetime employment system to change drastically or come to an end will most likely intensify. Japanese consumers' job insecurities will likely accelerate, seriously dampening confidence, spending and economic recovery.

The number of Japanese people filing for bankruptcy has risen to 72,849 for the first nine months of 1998 and is expected to exceed 100,000 failures for 1998 as a whole (*The Nikkei Weekly*, 1998c, p. 18). In comparison, 71,299 Japanese people filed for bankruptcy in 1997 (*The Nikkei Weekly*, 1998c). As more and more Japanese people seek debt relief from their creditors, including rescheduling of interest and principal payments and defaults, there will be a further piling up of banks' non-performing loans and bad debts.[25] That will compound the banking

[22] Japanese banks, however, remain regional leaders (Annex 4). The most recent *Asiaweek Financial 500* survey of the region's biggest banks showed that Japan had 150 banks, based on assets, in the region's top 500 banks, with Indonesia at a distant second (50 banks), followed by India (47 banks), Taiwan (37 banks) and Malaysia (32 banks) (Healy, 1998). The survey noted that "Total assets of the 500 plummeted by [U.S.] $1.28 trillion in the last fiscal year, to [U.S.] $10.57 trillion. And for the first time ever, the institutions in the ranking suffered a collective net loss, with total net profits of [U.S.] $22.1 billion wiped out by net losses in five countries, led by Japan's [U.S.] $36.77 billion" (Healy, 1998, p. 60).

[23] Perhaps more worrying, it was recently reported that "Big Japanese companies are replacing capital stock more slowly than rivals in Europe and North America, suggesting that Japan's economic problems are eroding its competitive position..." (Brown, 1998, p. 1). In fact, a Japanese study estimated that "the share of private investment in plant and equipment in GDP could fall from 16 in 1997 to 11 per cent in 2003" (*Financial Times*, 1998b, p. 9). If so, this situation will also impede Japan's long-run economic growth, social development and living standards.

[24] Despite a series of huge multibillion dollar government stimulus packages, job losses have been especially heavy in Japan's manufacturing and construction sectors, with young workers bearing the brunt of the job cuts (*Reuters*, 1998a). It is reckoned that underemployment in Japan's major firms could reach approximately 4.5 million people (*The Economist*, 1999c, p. 35).

[25] One estimate indicates that there could be as many as 1.5 to 2 million Japanese consumers with heavy debt loads (*The Nikkei Weekly*, 1998c).

industry's financial malaise.

With Japanese interest rates at already extremely low levels, there is little hope that monetary policy will encourage business and consumer spending (OECD, 1998a).[26] Yet, the very low interest rates "have supported exports by facilitating the reversal of the yen's previous appreciation, and mitigated problems in credit markets by assisting bank profitability and helping to stabilize equity prices" (OECD, 1998a, p. 24).

Since the early 1990s, hundreds of billions of dollars have been pumped into Japan's ailing economy and banking system.[27] The Japanese government recently agreed to earmark around U.S. $518 billion (¥60,000 billion) toward bailing out the country's financially-troubled banks (Sapsford, 1998b).[28] These public funds, it is hoped, will bolster the capital base of Japan's ailing banks, thereby averting loss of depositor confidence and lessening the risk of destabilizing bank runs.[29] It is widely speculated that Japan's 'Big Bang" financial reforms implemented in early 1998, the recent establishment of a 'bridge bank' to, inter alia, purchase bad loans, declining bureaucratic regulatory influence and the creation of the Financial Supervision Agency (FSA) will facilitate banking industry and financial sector rationalization and consolidation.[30]

Nonetheless, it is generally regarded that Japanese financial authorities have been very slow in redressing their banking difficulties. A return to financial health by most Japanese banks is not anticipated during the next two to five years given the scale and scope of the industry's non-performing loan and bad loan problems.[31] It was recently observed that "Eighteen major

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[26] *Asiaweek* (1998e) recently reported that Japan's prime lending rate was 1.5 per cent, whereas time deposit rates (annualized) were 0.05 per cent (1 month), 0.11 per cent (3 months and six months) and 0.03 per cent (1 year).

[27] Japanese authorities announced the latest fiscal stimulus package in mid November 1998 worth U.S. $150 billion (¥18,000 billion), comprising public infrastructure spending (¥10,000 billion), income and corporate tax reductions (¥7,000 billion) and a shopping voucher scheme (¥700 billion) (Tett, 1998d).

[28] According to the terms of the bank bailout package, "The ¥60,000bn [billion] comprises ¥17,000bn to protect depositors, ¥25,000bn to recapitalise banks and ¥18,000bn to buy the shares of nationalised banks" (Nakamoto, 1998a, p.1). Press reports indicate that Japan's Industrial Bank of Japan "became the first big bank to indicate it would apply for more public funds to boost its capital base [and that] Japan's other major commercial banks have also indicated support for the rescue package, including Fuji Bank, Tokai Bank and Mitsubishi Trust Bank (Tett, 1998c).

[29] While the bank rescue package is a step in the right direction, some observers have noted that the "$500-billion-plus infusion will only maintain the status quo of banking overcapacity, and do little to repair balance sheets, since even conservative estimates for bad debt exceed $1-trillion" (Norton, 1998, p. C9).

[30] In late 1995, the Japanese government "announced the liquidation of seven housing loan companies [the jusen] and the Housing Loan Administration was established in July 1996 to takeover the assets of the failed jusen" (Genay, 1998, p. 27). In late 1997, Japan was seriously shaken by the failure of three financial institutions - Yamaichi Securities Co., Hokkaido Takushoku Bank Ltd., and Sanyo Securities Co.. The Japanese government recently nationalized the Long-Term Credit Bank of Japan Ltd. (October 23, 1998) and Nippon Credit Bank Limited (December 13, 1998). For a discussion of the nationalization of the of Nippon Credit Bank, see Choy (1998, pp. 1-3).

[31] It is generally regarded that only, "a few of Japan's major city banks are barely investment grade, and other banks are also being reviewed for possible downgrades by Standard & Poor's and Moody's Investor Service" (WuDunn, 1998, p.2). Japanese banks that have experienced credit rating cuts or have come under increased scrutiny by credit rating agencies include: Sanwa Bank, Sakura Bank, Asahi Bank, Fuji Bank, Tokai Bank and the Industrial Bank of Japan (*The Indian Express*, 1997). More recently, Standard & Poor's "lowered ratings for the

[Japanese] banks reported huge losses totaling [U.S.] $31 billion for the year ended in March [1998]" (*Asiaweek*, 1998c, p. 52). Should current trends continue, then credit rating's reductions will increase risk premiums and borrowing costs.[32] That will seriously damage Japanese banks' share prices and profits.

To make matters worse, the Japanese financial community was rocked by a series of corruption scandals at the Ministry of Finance and the Bank of Japan in early 1998. This has further weakened the power and influence of Japan's financial regulators and supervisors. Moreover, it has undermined the legitimacy and credibility of Japanese government officials to push through deeper banking industry and financial sector reforms. This has contributed to policy paralysis in properly redressing Japan's deepening economic and financial problems.[33] Based on past experience, adequately addressing Japan's non-performing loans and bad debt problems, might take years, if not decades.[34]

China

China's banking system is widely believed to be technically insolvent.[35] Early estimates indicate that Chinese banks have about U.S. $240 billion in bad debt. It is also reckoned that more than one third (U.S. $200 billion) "of a total $600 billion owed by SOEs [state-owned enterprises] could be delinquent by the end of the year, and more than two-thirds of that is probably uncollectible" (*Asiaweek*, 1998d, p. 73). Recent estimates also suggest that non-performing loans at Chinese banks might reach 30 per cent of their loan portfolios (*Asiaweek*, 1998d, p. 73).

In early 1998, China floated over U.S. $32 billion in special bonds to recapitalize its fragile state-

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Industrial Bank of Japan, Sanwa Bank, Sumitomo Bank, Daiichi Kangyo Bank, Tokai Bank and Daiwa Bank, because of increased credit costs and unrealised losses on equity holdings" (Nakamae, 1998, p. 6).

[32] It was recently reported that "Moody's downgraded the rating of Japanese government bonds on Nov. 17, from Aaa, or highest quality, to Aa1, or high quality. Japan is now the third country in the Group of Seven major industrialized countries, along with Canada and Italy, to lack an Aaa from Moody's" (Sato, 1998, p. 15).

[33] According to Dawson (1998, p. 1), to redress it's banking problems Japanese "banks found to be insolvent will be managed by the Financial Supervision Agency, a new government watchdog agency, while a merger partner is sought. Bridge loans will be provided to corporate customers dependent on financing from the troubled banks. When no suitor can be found, the banks will be taken over by the state-funded holding company and then sold off or liquidated. Bad loans will be handed over to special institutions and good loans are to be transferred to healthy private banks. The process is to be completed within five years and funded with up to $93 billion in taxpayer money allocated from Japan's Deposit Insurance Corp., which insures bank deposits".

[34] Japan's banking problems are considered to be more severe than the U.S. savings and loan (S&L) crisis of the early 1980s and 1990s. The cleanup cost for the S&L debacle has, for instance, already cost U.S. taxpayers in excess of U.S. $200 billion and the cost may climb even higher (Arena, 1996). It also led to massive financial sector consolidation and restructuring, resulting in fewer banks and S&Ls. One American study observed that between 1983-1990, 1,150 commercial and savings banks had gone belly up, while hundreds of other banks and S&Ls were either insolvent or dangerously near insolvency (Benston and Kaufman, 1997).

[35] China's banking problems have steadily worsened. For example, Smith (1996, p. A10) observed that "Many experts say that at least a third of all [Chinese] bank loans in this vast, fast-developing country are nonperforming, with interest and principal repayments long overdue. Hidden is a potential banking debacle that could top the U.S. savings-and-loan scandals or the crisis at Japan's banks, with bad debts totaling hundreds of billions of dollars. The World Bank recently called China's banking system 'technically bankrupt'".

owned banks, including the Bank of China, the Construction Bank of China, the Industrial and Commercial Bank of China and the Agricultural Bank of China which together account for 90 per cent of bank loans in China.[36] However, it is anticipated that approximately U.S. $175 billion will likely be required to boost capital adequacy ratios to at least 8 per cent (*Asiaweek*, 1998d).

The recent collapse of the Guangdong International Trust and Investment Corporation[37] (Gitic) and the Guangzhou International Trust and Investment Corporation (Gzitic) in October 1998 have heightened worries that foreign investors will be unable to recover their investments in Chinese infrastructure projects since project revenues are inadequate to pay off foreign debts (Harding 1998b,c,d).[38] China's central bank has repeatedly stressed that with regard to the closure of Gitic, "obligations to international creditors would be made a priority as long as loans were accompanied by the appropriate official documentation" (Harding and Kynge, 1998, p. 1). But, there is mounting concern that the recent implementation of tougher Chinese foreign exchange barriers will lead to increased collection and payment problems.[39] Domestic and foreign lenders and investors could suffer heavy financial losses.

These failures have further eroded international bankers' confidence in China's banking system

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[36] In addition, China's banking system comprises "several dozen commercial banks, owned by a variety of stockholders, about 2,000 urban credit cooperatives and 50,000 rural credit cooperatives" (Lawrence and Saywell, 1998, p. 58). Recently, Bank of China reported "a 40 per cent slide in profits last year to RMB3.52bn [billion] ([U.S.]$425m [million] compared with RMB5.87bn in 1997...China Construction Bank...reported profits of RMB850m, 44 per cent down on the RMB1.51bn in 1997...Industrial and Commercial Bank of China...[announced profits of] RMB3.39bn [in 1998] (from RMB3bn)..." (Harding, 1999, p. 4).

[37] *The Economist* (1999a) recently reported that Gitic filed for bankruptcy on January 11, 1999. It is reckoned that Gitic owes foreign lenders over U.S. $1 billion, of which it is believed that "they will be lucky to recover 60 cents in the dollar. The many banks that lent to GITIC without registering their loans with the central authorities may get no cents at all" (*The Economist*, 1999a, p. 66). Guangdong Enterprises (GDE) is also in serious financial troubles since "It has been asking foreign bankers to reschedule its nearly [U.S.] $3 billion of debts" (*The Economist*, 1999a, p. 67). It is estimated that GDE's total loan repayment requirements might "reach some US$1.2bn by the end of April [1999] (principal plus interest)..." (Lucas, 1999a, p. 4). Meanwhile, another press report noted that "Fujian Enterprises (Holdings) Ltd., owned by China's Fujian provincial government, told its bankers it will pay only interest and not principal on an $80-million (U.S.) syndicated loan. Hubei province's Yi F Trading Co. told foreign creditors Friday that it had estimated liabilities of $1.1-billion Hong Kong ($142-million U.S.), but realizable assets of just $16.9-million Hong Kong. And Hong Kong newspapers reported that Gang Ao International Holdings Co., controlled by Bank of China and the Hong Kong branch of China's official Xinhua news agency, has stopped paying both principal and interest on several syndicated loans" (Smith, 1999, p. B9). Reportedly, "an Itic in the southern island of Hainan, the Huitong Itic, had missed payment for a US$7m [million] loan that matured on October 19 [1998]" (Kynge, 1998d, p. 1).

[38] It is widely regarded that "The collapse of Gitic, the former investment arm of the provincial government, has raised concerns about the security of other foreign loans to scores of Chinese international trust and investment corporations - the so-called ITICS - as well as projects whose loans they have guaranteed. The ITICS have been the primary vehicle for raising foreign capital for infrastructure developments in China, but are now widely suspected to have amassed a total of more than [U.S.] $10bn [billion] in foreign debts and lost money through a mixture of corruption and incompetence"-(Harding, 1998d, p. 6). China's Minister of Finance - Mr. Xiang Huaicheng - has "warned foreign banks not to expect the Beijing government to bail them out of their loans to bankrupt Chinese financial companies" (Harding and Kynge, 1998, p. 1).

[39] The aim of these tougher foreign exchange restrictions is to curtail "illegal foreign exchange transactions that threaten to undermine confidence in the Chinese currency" (Harding, 1998g, p. 4).

and financial sector (Harding, 1998b).[40] It has also put China's ability and willingness to service its foreign debts as scheduled in serious doubt. In fact, nervous foreign bankers have already "called in credit lines, cancelled rollover loan agreements and stopped new lending with other Itics, following the closure of Gitic" (Harding, 1998h, p. 6).[41]

Estimates suggest that there might be between 200 to 240 Itics nationally (Harding, 1998b; Kynge, 1998d). In the years ahead, the number of Chinese Itics might be sharply reduced "from about 240 to fewer than 100, perhaps fewer than 20" (Knecht, 1998, p. B10). It is widely speculated that these closures are part of a larger concerted strategy by China's central authorities to regain control and discipline, decrease Guangdong's financial power, crack down on smuggling and corruption and close military business operations (Harding, 1998c).

The absence of well-functioning legal and regulatory regimes coupled with weak contract enforcement mechanisms will make debt collection a long and costly process. This suggests that the numbers of Chinese delinquent borrowers will soar especially as economic conditions worsen. Recent Chinese policy flip-flops with regard to curtailing foreign activity in major industrial and service sectors have also heightened investor uncertainty and nervousness.[42] This raises the costs and risks of doing business in China.

A World Bank study estimated that there might be as many as 350 million Chinese people that fall below the internationally regarded poverty-line threshold of US $1 a day (The World Bank, 1997).[43] Meanwhile, hundreds of millions of people are close to or slightly above subsistence

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[40] Twelve Chinese credit co-operatives were also closed in late October 1998 in the city of Beihai, Guangxi (Harding, 1998e). Meanwhile, it was also reported that, around "30 local credit co-operatives which offered illegally high deposit rates were closed earlier this year and taken over by the Hainan Development Bank (HDB). The HDB was then shut down, collapsing under the weight of bad debts it had inherited from the co-operatives or had generated itself (Harding, 1998e). Furthermore, Chinese central authorities closed down "the country's largest over-the-counter (OTC) stock markets, the latest step in the govemment's drive to clean up informal institutions of the financial sector. The unofficial local stock market in Wuhan was sanctioned by the municipal authorities but not by the central government...The OTC exchanges, which sprang up in the 1990s in medium-sized cities across China and flourished while the central government turned a blind eye, have at their height boasted a combined market capitalisation of more than [U.S.] $5bn [billion]" (Harding, 1998j, p. 6).

[41] Official Hong Kong estimates suggest that Hong Kong banks' exposure to non-bank Chinese institutions, including Itics reached U.S. $42 billion as at September 30, 1998 (Lucas, 1999b).

[42] One press report recently noted that Chinese officials have instructed that "telecommunications companies should, where possible, buy locally made mobile telephony equipment - which could threaten the position of several foreign companies" (Kynge, 1998d, p. 1). More worrisome, it was reported that China's Minister of Information Industry - Mr. Wu Jichuan - recently stated that "foreign-invested [telecommunications] ventures which had abided by the rules would be "OK". But measures would be taken against those that had violated the rules" (Kynge, 1998c, p. 5). Meanwhile, another press report observed that "Foreign life insurance companies are facing further restrictions over their entry to the Chinese market following Beijing's signal that future operators in China cannot expect majority control of joint ventures" (Harding, 1998f, p. 6). Chinese officials also moved to curtail foreign ownership in the country's retail sector -- stores and supermarkets (Harding, 1998i). More recently, China's Finance Minister, Mr. Xiang Huaicheng, announced that tax perks at China's economic and technology zones would be phased out, putting at risk "the future of 44 important industrial parks across the country, including a US$20bn [billion] Singaporean flagship project [located in Suzhou, close to Shanghai]" (Kynge, 1999a, p. 6).

[43] The benefits of China's rapid economic growth over the past 18 years have not been evenly distributed. Economic development in China continues to be mainly concentrated in the country's coastal areas, special economic zones and major urban centres. Poverty in China's inland and frontier provinces and regions remains widespread, and uneven economic development is worsening. Income and wealth disparities continue to intensify. China's per capita income is roughly U.S. $800.

levels. The average mainland Chinese person spends most of his/her annual income on meeting basic needs, such as food, clothing, housing, medical care and education. The recent Asian banking and currency turmoil coupled with slower economic and export growth will slow the pace of poverty reduction efforts in China and elsewhere.

Chinese officials recently reported that the Chinese economy grew by 7.2 per cent in the first nine months of 1998 from the same period in 1997 (Kynge, 1998b).[44] If China's annual economic growth rate drops below the 7 to 8 per cent targeted range, then there will be a rapid increase in that country's jobless rate.[45] Since political and social stability will continue to be the major policy priority for the Chinese leadership, there is a strong possibility that China will try to export its way out of its current domestic economic and social problems. That makes a devaluation of the Chinese currency highly likely in the coming year or so.

The recent devaluation of the Brazilian real might give Chinese authorities a credible face-saving way to devalue the yuan. Should a devaluation of the Chinese currency occur, it would trigger another potentially destabilizing round of competitive currency devaluations across Asia and elsewhere.[46]

Politically, Chinese authorities cannot tolerate worsening poverty, higher unemployment and loss of export competitiveness for too long a period of time.[47] Failure to provide employment opportunities for millions of laid-off Chinese workers at state-run factories, township and village-owned enterprises as well as millions of new job seekers (estimated at 10 million people annually) and tens of millions of surplus agricultural labourers pose serious political, economic

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[44] During the first ten months of 1998, China's exports grew by 1.3 per cent over the same period in 1997 (*Reuters*, 1998c). In 1997, China's exports increased by almost 21 per cent. It was also reported that "Exports to Asia, which absorbed about 60% of China's overseas sales last year, fell a year-on-year 8.6% in the first 10 months of this year" (*Reuters*, 1998c, p. C10). The sharp export slowdown raises fears that the unsold goods will be added to China's already swelling inventories and thereby delay an export-led regional recovery (Kynge, 1998a,b). It also increases the possibility that Chinese authorities will be forced to devalue the yuan.

[45] There is growing concern over the accuracy of official Chinese statistics, meaning that the Chinese economy might in fact be performing much lower than anticipated (Kynge, 1998a,b). It has been widely reported that "Although the government reports healthy growth this year in industrial output, electricity output (usually a good proxy for production) has barely risen. Meanwhile, it is hard to square claims of growth in consumer spending of 6.3% in the first nine months of the year with price deflation of around 3%, or with flat or even falling freight volumes" (*The Economist*, 1998d, p. 24). See also Kynge (1998a,b).

[46] In fact, the official *China Daily* quoted Chinese analysts that a devaluation of the Chinese currency "would not definitely be a bad thing and may not trigger a fresh round of currency devaluation that has been feared by most people" (*Agence France-Presse*, 1999, p. C8). However, China's central bank governor, Mr. Dai Xianglong, recently reiterated that there would not be a devaluation of the Chinese yuan since "It would harm the interests of foreign investors...it would increase the foreign debt in China...[and] it would not benefit the stability of Asian financial markets" (Cernetig, 1999, p. B9). Mr. Dai, however, noted that "the renminbi would only devalue when there is a great imbalance in the balance of payments of China, and there is a great increase in the cost of exports" (Kynge, 1999c, p. 14). China currently "maintains tight controls on its currency, keeping the yuan near its target level of 8.28 to a U.S. dollar" (*Reuters*, 1999e, p. C14).

[47] *The Economist* (1998e, p. 17) recently observed that in China "The legacy of 50 years of communism is that the party has no intellectual or moral hold on its people, just a material and a nationalistic one. Prosperity is its chief source of legitimacy; once that is endangered, there is only nationalism to fall back on". Against the backdrop of weak domestic economic conditions and rising social unrest, China's top leadership launched a crackdown in November 1998 of dissidents and suppression of books (Kynge, 1998e). Another press report observed that this security crackdown has already "sent at least 10 pro-democracy dissidents to prisons and labour camps for alleged attempts to challenge the monopoly rule of the Communist Party" (Albright and Kunstel, 1999, p. B6).

and social risks for China's leadership.[48] It is projected, for example, that China's surplus rural labourers might reach 200 million by the turn of this century and 300 million by the year 2010 (TAMU, 1998). This will foster greater rural to urban out-migration in the years ahead (Strizzi and Stranks, 1996). Public administration and governance will get tougher.[49] That will further undermine the legitimacy and credibility of one-party communist rule in China.

In China, corruption remains widespread despite recent crackdowns. Recently, it was reported that "Out of a total of [U.S.] $65 billion set aside to buy grain from [Chinese] farmers since 1992, $25 billion - 40% - had disappeared [and] much of the missing money had gone into luxury condominiums, futures trading and the purchase of cars and mobile phones" (McCarthy, 1998, p. 41; Smith, 1998). Still, another disturbing estimate suggests that "Between 1982 and 1992, the state lost 500 billion renminbi ([U.S.] $87 billion) in assets to state-enterprise mismanagement and corruption, according to the State Administration of State Property" (Yatsko, 1997, p. 59). Chinese officials estimate that "Kickbacks and corruption last year amounted to more than [U.S.] $5bn [billion] - or roughly 5 per cent of the RMB923bn ($111bn) China spent on government purchases..."(Harding, 1998k, p. 5).[50] In a recent survey of business executives conducted by the Berlin-based *Transparency International*, China received a score of 3.5 which suggests widespread corruption (Annex 5).[51] This rating ranked China in 52nd place out of 85 countries surveyed.

Weak tax collection and enforcement has contributed to massive evasion of payments,

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48 Crowell and Hsieh (1998) recently reported that China's workforce totalled some 696 million people. Of this total, the rural workforce accounts for 71 per cent (494 million workers) and the urban workforce accounts for 29 per cent (202 million workers). Roughly 110 million Chinese workers are employed at money-losing state enterprises. In the absence of a comprehensive national social safety net system, the pace and extent of state-enterprise reform will be drastically slowed. Currently, state enterprises still provide all kinds of services to their workers, including housing, education, pensions and health care (Crowell and Hsieh, 1998). In fact, 'Even after workers are laid off, they retain their connections to their former work units. In most cases, the enterprises issue subsistence stipends, and maintain insurance and medical benefits. Laid-off employees also can accumulate seniority toward their formal retirement after they have left" (Crowell and Hsieh, 1998, p. 49). One estimate suggests that reforms to restructure China's money-losing state-owned enterprises will result in 3.5 million Chinese workers losing their jobs in 1998 alone (*Reuters*, 1998a).

49 Worsening economic conditions have already fuelled rural and urban discontent and protests in numerous major Chinese cities and rural areas, including Chengdu, Sichuan, Shaoguan, Guangdong, Shanghai, eastern Jiangsu, southern Hunan and northern Shanxi (Crowell and Hsieh, 1998; Smith and Leggett, 1998, *TIME*, 1999). Recent research conducted by the Chinese Academy of Social Sciences (CASS) noted that "sporadic protests occur almost weekly, but regional or industry-wide outbreaks, or mammoth strikes like that staged by Russia's coalminers, are unlikely. The biggest trouble spots are one-industry towns in the northeastern rust belt with empty government coffers and few job opportunities" (Crowell and Hsieh, 1998, p. 49). Interestingly enough, Chinese authorities plan to shut down some 25,800 coal mines in 1999, of which "Most of the planned 25,800 closures were expected to come from among roughly 75,000 mines in township and rural areas" (Kynge, 1999b, p. 5). It is estimated that 400,000 jobs will be cut (Kynge, 1999b).

50 It was recently reported that Chinese central authorities are in the process of designing new laws "to regulate government procurement, a measure to fight corruption and waste that costs the government billions of dollars each year...In trial areas where the government has already introduced a special authority to oversee spending and started public bidding for large purchases, costs have tended to be cut by 10-15 per cent. In some cases, the government has saved 30-50 per cent" (Harding, 1998k, p. 5). To combat widespread smuggling, Chinese authorities recently established a 6,000 member police unit "with another 4,000 officers joining the force by the end of June [1999]" (*Reuters*, 1999a, p. 7). According to *Reuters* (1999a, p. 7), "The PLA [People's Liberation Army], police and the judiciary have been ordered to surrender their business empires as part of the crackdown on smuggling".

51 A score of 10 represents a corrupt-free country.

compounding the central government's revenue-raising capacity. One estimate indicates that tax revenues represent around "11% of China's gross domestic product, compared with about 30% in most developing countries" (*Reuters*, 1998e, p. A14). This increases central budget and funding problems. If left unaddressed, this situation will hinder China's long-term economic growth and social development.

Taiwan

Taiwan's economy was least affected by the Asian financial meltdown. Taiwan has huge foreign exchange reserves (U.S. $84 billion) and a very small foreign debt (U.S. $100 million). Non-performing loans could reach 7.5 per cent of total loans during the 1998-1999 period (*Asiaweek*, 1998d). Still, Taiwanese banks are heavily exposed to the domestic property sector. Bank loans to Taiwan's property sector account for 39 per cent of total domestic loans, second only to Hong Kong banks' exposure (44 per cent) to the property sector (Chang, 1998).[52] The higher the share of property-backed loans, the greater is a bank's vulnerability to sudden property and interest rate fluctuations.

Signs of growing banking and financial problems in Taiwan are mounting. For instance, it was recently reported that "The privately run Central Bill Finance came under the control of three government-linked institutions - Hua Nan Commercial Bank, First Commercial Bank and Taiwan Business Bank...Central Bill Finance was taken over after it failed to honour a record 700-million Taiwan dollars ([U.S.] $32.9-million) worth of checks" (Ching, 1998, p. C14). Meanwhile, another press report indicated that "Taiwan for the first time took control of a bank traded on the main stock exchange after authorities began investigating what they suspect were $7.4 billion New Taiwan ($227.8-million U.S.) of questionable loans from Taichung Business Bank to companies" (Flannery, 1998, p. B10). It is reckoned that "Many [Taiwanese] rural credit co-operatives are unstable and several new regional banks may show signs of trouble" (Harding, 1998l, p. 10).[53]

In the next two to three years, slower economic growth, massive industrial overcapacity, heightened competitive pressures and declining export competitiveness will further squeeze the profit margins of most Taiwanese manufacturers and exporters (Chang, 1998). Reportedly, Taiwanese exports "to ASEAN countries fell 28.5% in the period [first six months of 1998] while

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[52] By contrast, 33 per cent of total loans are to the property sector in Singapore, followed by 25 per cent in both the Philippines and Malaysia, 18 per cent in both Japan and South Korea and 13 per cent in Thailand.

[53] In an attempt to lessen growing pressures on Taiwanese banks, the central bank recently raised "the interest it pays on banks' mandatory reserve accounts to 3.2 per cent from 2.7 per cent. The bank had increased the rate on November 16 for the first time since 1975...[It is hoped that the move] "would boost banking system liquidity by T$93.2bn [billion] (US$2.9bn), or an average of about T$3.2bn per bank" (*Reuters*, 1999b, p. 7).

sales to Japan were 23% lower" (*Asiaweek*, 1998c, p. 55).[54] Pressures to rationalize and consolidate Taiwan's manufacturing base and industrial sector will accelerate in coming years given weak domestic and foreign demand and global industrial overcapacity. This coupled with higher interest rates will increase the risk of greater bankruptcies among heavily-indebted Taiwanese enterprises and consumers. Higher unemployment is a likely result. Taiwanese banks will experience rising non-performing loans and bad debts, contributing to declining asset quality and lower bank profits.

South Korea

There are around 30 banks in South Korea (Healy, 1998). South Korean officials have already closed 12 merchant banks.[55] More recently, South Korean authorities "announced the merger of its third- and sixth-largest banks into a new institution that will be the country's largest' (Healy, 1998, p. 58). It was also recently reported that "The newly established Korea Asset Management Co. has purchased more than [U.S.] $8.2 billion in non-performing loans so far from ailing banks and five regional lenders are closing" (*Asiaweek*, 1998d, p. 74). South Korea needs roughly U.S. $25 billion to recapitalize its banking system[56] (*Asiaweek*, 1998d). Non-performing loans may reach 32 per cent of total loans in the 1998-1999 period (*Asiaweek*, 1998d).

In 1997, 15,000 South Korean companies declared bankruptcy, including eight of South Korea's leading family-run industrial groups (chaebols) such as Hanbo Group, Sammi Group, Jinro Group, Dainong Group and New Core Group. Tens of thousands of jobs have already been eliminated, with unemployment reaching around 1.2 million people (4.7 per cent jobless rate) in early 1998 (Marshall, 1998).[57] High interest rates continue to dampen consumer and investment spending, further squeezing South Korean borrowers. There will be greater reluctance by South Korean debtors to repay their bank loans as contracted, implying a greater likelihood of default. This will further contribute to soaring non-performing loans and bad debts at South Korean banks.

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[54] Taiwan's industrial production increased by some 3.8 per cent in 1998 from the year before, whereas exports decreased by 4 per cent to over U.S. $118 billion, due largely to heightened competitive pressures from Asian rivals and weak demand in Japan and other key export markets (Dickie, 1999).

[55] Press reports indicate that South Korea's "Housing and Commercial Bank would absorb the operations of Dongnam, Kookmin Bank Daedong, Shinhan Bank Donghwa, KorAm Bank Kyungki and Hana Bank Chung Chong" (*Agence France-Presse*, 1998, p. B6). In addition, Finance Ministry officials also suspended operations "at two more merchant banks, Daegu Merchant Bank and Samyang Merchant Bank [and] closed Hansol Merchant Bank, and extended business suspensions at Daehan Merchant Banking Corp., and Nara Banking until the end of March" (Cho, 1998, p. B13). More recently, it was reported that "Commercial Bank of Korea and Hanil Bank, two of South Korea's largest and weakest banks, are to merge in the first big move towards the consolidation of the nation's troubled banking industry" (Burton, 1998, p. 24).

[56] In early 1998, South Korea's Ministry of Finance and Economy estimated that "South Korean companies had foreign debt outstanding of [U.S.] $53.2 billion at the end of 1997, with $20.8-billion of that owed to the overseas branches of South Korean financial institutions" (Cho, 1998, p. B13).

[57] It is estimated that South Korea's jobless rate could reach between 8-10 per cent in 1999, resulting in 2 million unemployed people (Burton, 1999b).

In recent efforts to boost the attractiveness of South Korea as an investment destination, around "500 South Korean officials were dismissed - including two deputy cabinet ministers and 13 other senior officials who have been indicted on bribery charges - in a crackdown on corruption"[58] (*TIME,* 1998, p. 11). Still, a current weak South Korean government under President Kim Dae Jung and violent worker and student demonstrations suggests that there will be little, if any, political will to aggressively implement far-reaching economic and financial reforms in coming years. Compounding South Korea's macroeconomic problems, is a politically-unpredictable, poverty-stricken and famine-ravaged North Korea. Taken together, these developments will likely contribute to a slowing of the reform process on the Korean Peninsula. This will reduce the appeal of South Korea as an investment destination.[59]

The severity and extent of the recent Asian economic and financial turmoil will delay South Korea's privatization ambitions.[60] The ownership structure of the South Korea's corporate sector is not expected to change drastically in the next two to five years (Strizzi and Kindra, 1998c). That means that the long-standing cozy government-business links will most likely remain intact (Strizzi and Kindra, 1998c). Debt-laden chaebols will remain a serious drag on the South Korean economy.[61] In the longer term, greater transparency and accountability, government and leadership changes, well-functioning legal and regulatory regimes and heightened public awareness mean that the importance of the government-business nexus will be greatly reduced (Strizzi and Kindra, 1998c).

Indonesia

When the Asian financial crisis broke in mid-1997, there were approximately 237 commercial banks in Indonesia (Healy, 1998). Since then, "28 had been closed and 44 were under the supervision of the Indonesia Bank Restructuring Agency [IBRA], which was set up to supervise - read close - the banks with the worst financial problems...those not under IBRA control may

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58 See Annex 5.

59 Press reports noted that South Korea recently regained its investment grade rating from Fitch IBCA credit rating agency and upgrades from other international credit rating agencies are expected (Luce, 1999; *Reuters*, 1999c).

60 Parliamentary hearings are currently underway in South Korea to determine the reasons why top officials failed to "contain the country's short-term external debt troubles from progressing into a full-blown economic crisis" (*Reuters*, 1999d, p. C15). Former finance minister Kang Kung-shik and former presidential secretary for economic affairs Kin In-hoi "have been charged with neglecting duties for minimizing the seriousness of the financial crisis last year while reporting it to former president Kim Young-sam" (*Reuters*, 1999d, p. C15).

61 Reportedly, South Korea's five top chaebols - Hyundai Group, Daewoo Group, Samsung Group, LG Group and SK Group - recently "agreed to reduce the number of their affiliates by about half by selling, closing or absorbing businesses not in their core specialties" (Schuman, 1998a, p. B9). It is projected that Hyundai Group will go from 63 companies in 1998 to 32 companies in 2002, whereas Samsung Group will go from 66 companies in 1998 to 40 companies in 2002, Daewoo Group from 41 companies in 1998 to 10 companies in 2002, LG Group from 53 companies in 1998 to 32 companies in 2002 and SK Group from 42 companies in 1998 to 22 companies in 2002 (Ishizawa, 1998c). This will most likely increase economic power and industrial concentration among these chaebols. For example, it was recently reported that Hyundai Group may account for roughly 64 per cent of South Korea's domestic auto market, whereas Samsung Electronics Co. Ltd., might represent 60 per cent of that country's consumer electronic market (Schuman, 1998b). However, it is anticipated that increased labour and union militancy will most likely make industrial restructuring and corporate reform a lengthy, painful and costly process. This will likely slow the pace and extent of the reform process.

number fewer than 150" (Healy, 1998, p. 62). Meanwhile, another "32 banks have been identified for merger, liquidation or nationalization" (Healy, 1998, p. 58). Perhaps no more than 12 Indonesian banks will survive, suggesting that over "200 institutions will disappear due to mergers, nationalization, asset sales to foreigners and outright closure" (*Asiaweek*, 1998d, p. 74).

As the number of Indonesian enterprises and consumer bankruptcies rise, bad loans will mount. Non-performing loans could reach 60 per cent of total loans in the 1998-1999 period (*Asiaweek*, 1998d). High interest rates and heavy debt loads will continue to slow economic recovery in Indonesia. Indonesian borrowers' access to credit will be sharply curtailed as ailing Indonesian banks tighten lending criteria. It will also make it tougher for Indonesian borrowers to float new shares and bonds.

Indonesian officials have already pumped close to U.S. $15 billion to recapitalize the nation's banking system (*Asiaweek*, 1998d). Recently, the Indonesian government announced its latest bank bailout plan.[62] The Indonesian government earmarked roughly U.S. $33.5 billion "to recapitalise 70 state and private banks" (Thoenes, 1998d, p. 4). However, there continues to be little public support to use taxpayer funds to bailout Indonesia's near-bankrupt banking system. This is largely attributed to the fact that "many of the banks are linked to former President Suharto and close associates, who used much of the deposits to fund their own projects" (Thoenes, 1998a, p. 4).[63]

Since mid-1997, the number of Indonesian people living in poverty has surged. One estimate suggests that "Indonesia could see nearly half of its population of 201 million living below the poverty line - that is, subsisting on less than [U.S.] $4 a day - by year's end" (Saludo and Shameen, 1998, p. 39). At the same time, Indonesia's State Statistics Agency (BPS) recently observed "that the number of Indonesians living below the poverty line has soared by 57 million since 1996 to almost 80 million, or 40% of the total population, the highest percentage since 1976" (Praginanto, 1998, p. 20). Worse still, it was noted that "By the end of this year, the figure will increase to 95.8 million, or nearly half of Indonesia's 203 million people" (Praginanto, 1998, p. 20).

Over 15 million Indonesian people are currently unemployed and this number is expected to rise

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[62] A recent audit of 150 Indonesian banks "found that 40, including six state banks, failed to meet the minimum capital adequacy ratio of minus 25%...[Specifically] 54 banks have a 4% capital adequacy ratio and 56 banks have a capital adequacy ratio of between minus 25% and 4%, and 40 banks are below minus 25%...Banks below the minus 25% limit will be given 30 days after being notified by the central bank to lift their ratio" (*Reuters*, 1998d, p. C15). A capital adequacy ratio "measures the ratio of equity capital to risk-weighted assets" (*Reuters*, 1998d, p. C15). The audit also discovered that at the 150 banks around "two-thirds of the outstanding loans are non-performing" (Thoenes, 1998d, p. 4).

[63] Simpson and Phillips (1998, p. B8) recently reported that "A World Bank mission to Indonesia last month found a 'broad consensus' in Indonesian government and society that corruption there 'is widespread, systemic and deeply embedded' [and that] World Bank officials estimated that 20 per cent or more of bank [World Bank] loans are improperly diverted". Another press report also noted that "officials from almost all arms of [Indonesia's] government - including the judiciary, civil service and security forces - had sophisticated 'systems' for diverting [World Bank] funds into individuals' own pockets" (Fidler, 1998, p. 16). See also Annex 5.

even further.[64] This poses serious political, economic and social risks for President B.J. Habibie's administration. A severe drought, natural disasters (forest fires), crop failures, food security, rising inflation, falling export oil revenues and deepening political uncertainty will further compound Indonesia's problems in coming years.[65] The resolution of long-standing issues over East Timor, Aceh, Irian Jaya, rising religious and ethnic violence and public demands to address past abuses under former President Suharto's regime pose additional dangers for the Habibie administration (Tesoro, 1998).[66] Taken together, these factors will limit the flexibility of Indonesian authorities to fully implement massive structural reforms and institutional changes. This will slow the process of economic and financial reforms.[67]

Indeed, the implementation of tough IMF austerity measures has already provoked widespread public resistance and demonstrations to, inter alia, price subsidy reductions, steep budget cuts, financial deregulation, trade liberalization, privatization and foreign investment. Public opposition against market-oriented reforms will likely escalate, especially if foreign debt-servicing payments begins to take a greater priority over badly-needed infrastructure development and social spending.[68] Nervous investor's will continue to stay away from Indonesia.[69]

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[64] It is feared that rising unemployment, particularly among new labour market entrants "can often lead to vandalism, crime, drug abuse, alienation, social unrest and conflict" (ILO, 1998b, p. 2). The International Labour Organization (ILO) reckons that "eight million Indonesians have lost their jobs since the economic crisis began last year, bringing the unemployment rate to 12-15 per cent. That could rise to 20 per cent this year, the ILO says" (Gee, 1999a, p. A14).

[65] Gee (1999a, p. A14) reported that "On June 7 [1999], Indonesia is scheduled to hold the first fully free election in 50 years. Voters will choose a new national parliament, which in turn will help choose a new president later in the year. More than 104 parties have announced their intention to run". One recent report noted that the Indonesian government for the first time "has publicly stated the possibility of independence since invading East Timor in 1975 and annexing it the following year" (Gee, 1999b, p. A8).

[66] There is growing public pressure to investigate former President Suharto's human right's record, corruption and family wealth. It is estimated that former President Suharto's wealth might total between (U.S.) $4 billion to $20 billion, excluding his family's and close friend's vast business holdings (Thoenes, 1998c).

[67] There have already been mass student demonstrations calling for the resignation of President Habibie. As economic conditions worsen, these protests will most likely grow in frequency and intensity. During the recent People's Consultative Assembly (MPR), the highest legislative body, roughly "30,000 police and soldiers [were moved] into the capital, Jakarta, to protect government buildings" (Gee, 1998, p. A12). More recently, it was reported that "At least 24 people have died this week and almost 3,000 have fled their homes in the province of Maluku, once known as the Spice Islands. At least 10 places of worship were set on fire and thousands of police officers and military troops have been flown in to restore order... About 90 per cent of Indonesia's 202 million people are Muslim, making it the world's most populous Islamic country. The riots hit areas with large Christian populations" (*Associated Press*, 1999a, p. A11).

[68] According to Praginanto (1998, p. 20) the "BPS estimates that the Indonesian economy will shrink 13.06% this year and GDP per capita will fall from [U.S.] $1,055 last year to $436 this year". Recent estimates also indicate that inflation might reach 80 per cent in 1998, with the rupiah hovering at 7,800 to the U.S. dollar (October 20, 1998) compared to 17,000 rupiah to the U.S. dollar in June 1998 (Thoenes, 1998b).

[69] It was recently reported that the Indonesian government "attempted to revive investor interest in its shaky economy by offering tax holidays of up to eight years for new projects in 22 industries. New investments in production of textiles, pharmaceuticals, steel, various machinery and equipment, vehicles and some chemicals can receive a tax holiday of five years if located outside the islands of Java and Bali. Domestic and foreign investments on these two relatively industrialized islands get a three-year holiday" (Thoenes, 1999, p. 6).

Thailand

Thailand had just 15 banks but many more finance companies in 1997 (Healy, 1998). Since then, Thai authorities have closed 56 finance companies. The government has also taken control of six of the nation's 15 banks, including Bangkok Bank of Commerce, First Bangkok City Bank, Siam City Bank and Bangkok Metropolitan Bank, and may close four of them (Healy, 1998). One estimate suggests that Thailand requires roughly U.S. $30 billion to recapitalize its wobbly banking system (*Asiaweek*, 1998d).

The combination of higher fund-raising costs, tumbling share and property prices, political uncertainty and economic slowdowns in regional economies will push more and more Thai firms into bankruptcy and non-performing loans will continue to climb. Non-performing loans could rise to 40 per cent of total loans in the 1998-1999 period (*Asiaweek*, 1998d). Needless to say, banks' asset quality and profits will decline. This will further erode the safety and soundness of Thailand's already weak banking system and financial sector.[70]

In Thailand, unemployment could reach 2 million people in 1998 relative to around 400,000 to 700,000 jobless people in 1996 (ILO, 1998a).[71] This will intensify political, economic and social pressures.

Banks in India, Malaysia, Pakistan, the Philippines and Vietnam are also plagued with credit portfolios bulging with non-performing loans and bad debts.

Crisis of Confidence

Since mid-1997, many Asian and foreign investors have withdrawn their capital from the region, preferring instead safer destinations and investments, namely U.S. and German government securities. For example, "In 1996, the capital inflow to the five Asian crisis economies was [U.S.] $493 billion.[72] In 1997, the figure was - $12.1 billion, with estimates for 1998 of - $9.4 billion" (Marshall, 1998, p. 15).[73] The further deterioration of international economic conditions,

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[70] Thailand's Financial Sector Restructuring Authority (FRA) has already sold off "Bt76bn ([U.S.] $2bn) of [bad] loans at 48 per cent of face value..." (Bardacke, 1998, p. 6). On December 15, 1998, the FRA "will sell bad business loans with a face value of [U.S.] $10.8 billion, the assets of 56 bankrupt finance companies that were closed last year" (Phillips, 1998, p. B11). Recently, it was reported that the FRA "agreed to sell nine lots of the loans, with a face value totalling 31.8 billion baht ($879.7-million U.S.), at prices reflecting discounts of 54 to 75 per cent" (Utumporn, 1998, p. B11).

[71] Thai official estimates show that "Thailand exported goods worth [U.S.] $4.47bn [billion] in November [1998], down from $4.49bn in October [1998] and $4.78bn in November 1997. The country registered a small rise in its trade surplus to $1.11bn from $1.09bn in October but this reflected a continuing fall in imports as domestic demand collapsed. The economy is expected to contract by around 8 per cent this year [1998] after a decline of 0.4 per cent in 1997" (*Reuters*, 1998f, p. 3).

[72] The five Asian crisis economies include: Indonesia, Malaysia, the Philippines, South Korea and Thailand.

[73] A recent estimate shows that "International bank lending to Asia fell by [U.S.] $51.7 billion, or 14 per cent, in the first half of the year [1998], the biggest decline in a decade" (John, 1998, p. 18).

worsening political and social instability, weak domestic demand, sluggish export performance, declining commodity prices and rising foreign debts and debt-servicing costs will continue to make investors very jumpy about Asian sovereign credit risks.

The sharp and sudden loss of investor confidence is also reflected in the latest country credit ranking survey conducted by *Institutional Investor* (September, 1998). This survey clearly revealed that Asian countries suffered the biggest credit rating declines during the September 1997 to September 1998 period, with Indonesia (down 18.9 points), South Korea (down 16.1 points), Thailand (down 12.4 points), Malaysia (down 7.7 points), Japan (down 3.2 points), Hong Kong (down 2.5 points), Vietnam (down 2.3 points) and India (down 2.0 points) (Shapiro, 1998). Recent *Euromoney* (1998b) rankings of country creditworthiness and *Standard & Poor's* (1999) long-term sovereign debt ratings show roughly similar declines in investor confidence in the loan repayment capacity of most Asian sovereign borrowers. Annex 6 illustrates these results.

Financial Sector Consolidation Needed

Despite strong international pressure, Asian legislators and regulators will continue to drag their feet in tackling financial sector reforms. Recent government efforts to recapitalize shaky banks in numerous Asian countries will have little, if any, lasting impact given the size and extent of the banking industry's non-performing loans and bad debts. In fact, the recent bailouts could encourage fragile financial institutions to delay much-needed restructuring and consolidation, thereby compounding worries about moral hazard.[74] The chronic overcapacity in Asia's banking industry and financial sector is unlikely to be removed or scaled back significantly during the next two to five years (Annex 4).

To clean up the region's bad loan mess, Asian banks will need to accelerate the process of writing-down, to reflect asset valuation losses, or writing-off bad debts against their loan loss provisions. This will lead to massive banking industry and financial sector restructuring and consolidation of both domestic and international operations. For example, this will most likely lead to asset growth reductions, branch network cutbacks, job layoffs, salary cuts, cost-saving mergers and bankruptcies. Lately, strategic alliances, mergers, joint ventures and ties ups, have been gaining greater popularity among Japan's banking and financial institutions, including Mitsui Trust & Banking Co., Fuji Bank Ltd., and Dai-Ichi Kangyo Bank Ltd., Chuo Trust, Sanwa Bank and Toyo Trust (Spindle, 1998b; *The Economist*, 1999b).[75]

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[74] According to Marshall (1998, p. 17), "Moral hazard arises whenever an insured party, by virtue of being insured, fails to take precautions to prevent the event being insured against. In financial markets, moral hazard can arise if investors or bank depositors believe that the government will bail them out if their investments (or the bank) fail. They have less incentive to monitor the firms or banks to ensure that these institutions make prudent decisions. In particular, they lend more than they would in the absence of the government guarantee".

[75] Specifically, "There are dozens more link-ups being forged or expanded in Japan these days, spanning traditional divisions between domestic firms or crossing international borders. The frantic activity is being driven by a mix of deregulation and recession that is forcing banks, brokers, life insurers and their customers to rapidly overhaul time-worn strategies" (Spindle, 1998b, p. B12).

Failure to close insolvent Asian financial institutions will substantially increase taxpayer exposure to mounting financial losses. Greater budget deficits and increased future taxpayer liabilities are likely results. It will also undermine already weak public confidence in the safety and soundness of Asia's banking system and financial sector. Public support for publicly-funded bailouts of the region's ailing banking and financial institutions remains lacklustre. Table 2 shows the number of financial institutions closed, nationalized or restructured in selected Asian countries.

Table 2: The Extent of Financial Restructuring in Selected Asian Countries

	No. of banks and finance companies July 1997	**Closed/ suspended**	**Nationalised/ administered by restructuring agency**	**Planning to merge**	**Foreign-bought majority stake**
Thailand	108	56	4	0	4
Malaysia	60	0	0	41	0
Singapore	13	0	0	4	0
Indonesia	228	16	56	11	0
South Korea	56	16	2	0	0

Sources: Central banks; press reports.
Table reproduced from *The Economist*, "Fusion Confusion", April 4th, 1998b, p. 81.

Heightened competitive pressures, ongoing financial liberalization, rapid technological advances and ongoing new financial product and service developments suggest that the number of weak Asian banks will decline in the longer term.[76] That will improve Asian banks' balance sheets, profit margins and international competitiveness.

Export Squeeze

The current slowdown in Asia's economic and export performance largely reflects massive regional manufacturing and industrial overcapacity, weak global demand and the widespread adoption of export-led growth strategies. For example, the region's economies, excluding Japan, are heavily dependent on the production and export of similar labour-intensive and low-technology manufactured products to a few export markets, namely to the United States, Japan and the European Union. Japan's deepening banking and financial problems, declining

[76] The retrenchment of Japanese banks from overseas operations has already begun and will most likely continue over the next two to five years. These banks include, inter alia, Sanwa Bank Ltd., Sumitomo Bank Ltd., Fuji Bank Ltd., Sakura Bank Ltd., Mitsubishi Trust & Banking Co. and Daiwa Bank Ltd. (Ishibashi, 1998; Ishizawa, 1998b; Sapsford, 1998d). It is opined that the retreat from overseas operations will free Asian banks from having to meet Bank for International Settlements (BIS) regulations "obligating banks that operate internationally to be backed by the capital equivalent of at least 8% of risk weighted assets. By turning into a regional bank, ...[banks]will only be required to maintain a capital adequacy ratio of 4%..." (Ishibashi, 1998, p. 12).

commodity prices, rising labour costs, changing consumer preferences and heightened global protectionist trade pressures have also contributed to eroding international market shares, weak export prices and depressed profit margins for most Asian exporters.

Industrial overcapacity is most severe in such Asian labour-intensive and light assembly industries as footwear, clothing, toys, steel, automobiles, chemicals, consumer electronics and semi-conductors.[77] By one estimate, China alone had stockpiled inventories worth over U.S. $360 billion in 1996 (Smith, 1996). More recently, Chinese officials noted that "Inventories at the end of June [1998] totalled some RMB600bn [billion]($72.5bn) or a sixth of GDP in the first half of the year" (Kynge, 1998a, p. 18). Indeed, it is estimated that "China has built up a glut of manufacturing capacity so huge that the country could produce nearly twice what it does...As a result, China is flooding the U.S. and traditional Southeast Asian export targets with cheap goods - crimping its neighbors' export-led economies" (Kahn, 1998, p. A10).

Excess global semiconductor manufacturing capacity has led to sharp price reductions. It is estimated that, "Over-capacity worldwide, especially in the Far East, and a fall in demand due to the Asian crisis, have caused prices for these mass-storage chips [dynamic random access memory] to drop by more than 90% since 1995" (Commerzbank 1998, p. 1). This has adversely affected the profitability of semiconductor makers in the United States, Japan, South Korea and Taiwan. It is also estimated that "Overcapacity in cement is so severe that unless plants are closed, the region [Asia] may not see supply-demand equilibrium for at least seven years" (Shameen, 1998, p. 2).[78] The deepening economic downturn in Asia, Russia and Latin America, a slowing U.S. economy and rising global unemployment will contribute to high and rising inventory stockpiles of all types of Asian-made products in the coming year or so. This will lead to lower export volumes and prices, resulting in depressed future corporate earnings and lower foreign exchange earnings.

The problem of excess production capacity is unlikely to be corrected soon given rising concerns over political and social costs in many Asian countries. For instance, in the short run, massive inventory and capacity corrections will further aggravate the region's industrial output and job losses. It will also contribute to growing non-performing and bad debts at Asian banks as enterprises go either bankrupt or refuse to honour their contractual obligations. This will impede a speedy export-led economic recovery. In the longer term, the removal or scaling back of Asian industrial overcapacity will contribute to improved global demand and supply conditions. Consequently, this will likely bolster Asian corporate profits expectations, increase share prices

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[77] In 1995, for instance, the electronics sector represented over two-thirds (66.2 per cent) of Singapore's exports, followed by 34.9 per cent for South Korea, the Philippines (32.9 per cent), Malaysia (30.5 per cent), Taiwan (29.7 per cent) and Thailand (18.8 per cent) (Shameen, 1996). According to Radelet and Sachs (1998, p. 19) "The rapid growth in electronics production in East Asia, coupled with the addition of China and Mexico in these markets (see below), probably created excess productive capacity and contributed to these price declines".

[78] Similarly, it is reckoned that "Asia and Europe account for about 40 per cent each of the overcapacity [in the world car industry], with the much more efficient US industry accounting for the remaining 20 per cent" (Jowit, 1999, p. 10). This, in turn, is costing the global car industry U.S. $130 billion in lost profits (Jowit, 1999).

and strengthen stockmarkets. That will improve the ability and willingness of most Asian borrowers to fully satisfy their contractual debt obligations on a timely basis.

The Wild Card

Publicly, Senior Chinese officials, including China's Premier Zhu Rongji, have repeatedly stated that China would not devalue its currency despite eroding international competitiveness.[79] Rather, Chinese officials have provided their exporters with larger trade financing (almost U.S. $3 billion) to improve their international price competitiveness (Harding, 1998a). Chinese officials expect that its commitment to not devalue will improve its chances to re-enter the World Trade Organization.

Even so, the combination of massive state enterprise reform, rising unemployment, worsening poverty levels, excessive production overcapacity, weakening domestic demand and decreased export competitiveness will likely force Chinese authorities to devalue the yuan in the coming year or two. Should this occur, it will mean the end of the Hong Kong currency peg to the U.S. dollar. Rising Chinese trade surpluses will likely provoke strong foreign criticism, particularly from the United States and the European Union (E.U.), leading to increased protectionist pressures.

It should be remembered that the Chinese currency devaluation in 1994, the declining value of the Japanese yen against the U.S. dollar, global industrial overcapacity, global weak demand and an export slowdown largely contributed to the recent Asian currency and banking crises (Little, 1997; Jaw-Yann, 1997; Mitsuhiro, 1997). If, as expected, the Chinese currency - the yuan - is devalued, it will trigger another potentially destabilizing round of competitive currency devaluations across Asia and elsewhere. This means that Chinese-made products will be cheaper on global markets compared to products made in Thailand, Indonesia, Malaysia, South Korea, Brazil, Mexico and Russia.[80] Similarly, it will divert much-needed foreign investment and technology transfers to China, especially companies seeking low-cost, low-tech assembly work. That will substantially decrease potential economic growth and prosperity of other emerging economies in Asia, Latin America and the former Soviet bloc.

Rising Trade Disputes

The recent sharp Asian currency devaluations against the currencies of major industrialized

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[79] A recent Institute for International Economics' study indicates that "currency devaluations in the rest of Asia will cost China about [U.S.] $12 billion in exports, and says a renminbi depreciation of about 6 per cent would be enough to restore their competitiveness to the level before the region's financial crisis erupted" (de Jonquières, 1998, p. 5).

[80] Radelet and Sachs (1998, p. 19) observed that "From a mere [U.S.] $20 billion in exports 20 years ago, China's $150 billion in exports in 1996 made it the eleventh largest exporter in the world. China's manufactured exports grew by more than 22 percent per year in nominal dollar terms between 1990 and 1995. Concerns about competition from China were heightened by its effective 50% devaluation of the yuan in January 1994".

export markets, especially against the currencies of E.U.-member countries and the United States, will lead to larger bilateral trade deficits. One estimate, for example, suggests that "The crisis is expected to add [U.S.] $43bn [billion] to the US trade deficit, and $47bn if China makes a modest revaluation of the renminbi" (de Jonquières, 1998, p. 5). The trend toward rising U.S. and E.U. trade deficits with Asian countries will intensify trade disputes, especially if output and job losses mount in major industrialized countries (de Jonquières, 1998). It is generally regarded that "bilateral trade tensions are largely a function of bilateral trade imbalances - the bigger the US-Japanese trade imbalance, the more that US producers complain about competition from Japanese imports" (Noland et. al., 1998b, p. 2).[81]

Asian exporters and in particular exporters from Japan, China and South Korea can be expected to come under increased pressure to slow their export shipments.[82] Failure to do so, will most likely result in retaliatory trade sanctions, fuelling economic nationalism and protectionist sentiments.[83] This might delay the removal of tariff and non-tariff barriers in the Asia Pacific region by 2010 for developed nations and by 2020 for developing nations. Export-oriented Asian countries will find it harder to generate the necessary international currencies to pay off their maturing foreign loans.

Foreign Debt Buildup

The latest World Bank (1998a) data show that Asia's total foreign debt level reached U.S. $580 billion in 1996 from almost U.S. $90 billion in 1980, up by an astonishing 550 per cent (Table 3).[84] Indonesia, China, Thailand and India accounted for over three-quarters (U.S. $438 billion) of the region's total foreign debt, with the rest (U.S. $142 billion) held by the region's smaller debtor countries. Recent IMF-led international financial rescue packages, such as the ones already arranged for Indonesia (U.S. $47 billion), South Korea (U.S. $58 billion) and Thailand (U.S. $17 billion), will enable these countries to repay their old loans, and thus alleviate immediate payments' problems. Nonetheless, IMF-led financial rescue packages will contribute

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[81] Recent official Japanese statistics show that "Japan's global trade surplus climbed 40.1 per cent to a record $121.8-billion (U.S.) in 1998, including a 33.4-per cent increase with the United States...The surplus for 1998 topped the previous record of $120.4-billion set in 1993. Japan's surplus with the United States increased to $58.3-billion in 1998..." (*Associated Press*, 1999b, p. B10).

[82] A recent WTO report observed that "while governments have in general resisted protectionist pressures up to now, the strains will increase next year as the crisis-hit Asian economies step up export deliveries to kick-start recovery" (Williams, 1998b, p. 6). One press report observed that "South Korea's Pohang Iron & Steel (Posco), the world's second largest steelmaker...would reduce exports by more than 5 per cent this year to avoid possible trade conflict with the US" (Burton, 1999a, p. 8). Meanwhile, another press report noted that "The US bluntly warned Japan...to cut steel exports quickly or face retaliatory action... The US steel industry has filed three anti-dumping cases against Japan, Russia and Brazil..." (McGregor and Brown, 1999, p. 1). It was also reported that the European Union had "opened an investigation into alleged dumping by six Asian and east European countries" (McGregor and Brown, 1999, p. 1).

[83] It is widely regarded that the "defeat in the US Congress of 'fast track' legislation sought by the Clinton administration to negotiate international trade agreements signals a shift towards economic nationalism and protectionism in American ruling circles. Every American president since Gerald Ford has been granted fast-track authority to engage in trade talks" (Symonds, 1997, p. 2).

[84] For a detailed discussion on the foreign debts in Asia Pacific and the Latin American and Caribbean region refer to, Nicolino Strizzi and G.S. Kindra, Foreign Debt in Asia Pacific and the Latin American and Caribbean Region: Is There a Cause for Concern?, European Business Review, Volume 98, Number 4, 1998b, p. 235-244.

to the region's foreign debt accumulation and greater debt-servicing burdens in the years ahead. That will heighten moral hazard concerns.[85]

If debt-burdened Asian countries are unable to regain rapid economic and export growth, they will fail to earn the necessary foreign exchange to repay their foreign debt obligations in full and on time. Cash-strapped Asian countries will be further squeezed. Country creditworthiness will likely deteriorate which, in turn, will boost risk premiums and borrowing costs. That will undermine the region's long-term economic outlook and growth possibilities.

Table 3 shows that a large share of Asian country foreign debts is denominated in U.S. dollars. This suggests that these countries are highly vulnerable to sudden U.S. interest rate hikes and hasty changes in investor risk perceptions. If interest rates were to rise, it would increase these countries' debt-servicing burdens. This, in turn, would increase the likelihood of general debt defaults among the region's most heavily dollar-indebted countries. The safety and soundness of world financial markets would be put at increased risk.

Table 3 also shows that most Asian countries had satisfactory country risk indicators in 1996. The debt service ratio exceeded the 20 per cent warning level in three Asian countries but was well below this threshold in five Asian countries. Vietnam's debt to GNP ratio, at almost 115 per cent, surpassed the generally regarded critical level of 85 per cent while seven Asian countries had ratios well below the danger zone. At the same time, four Asian countries had debt to exports ratio above the comfort zone of 150-200 per cent, while another four Asian countries had ratios below this range. Eight Asian countries had interest to exports ratio below the internationally viewed 12 per cent critical line. Furthermore, two Asian countries, Pakistan and the Philippines, had foreign reserves to import ratio below the critical line of 3 months, whereas three Asian countries had ratios above this threshold. Finally, three Asian countries had short-term debt to total foreign debt ratio above the internationally regarded 25 per cent comfort zone and six Asian countries had ratios below this critical line.

It is widely expected that these ratios have deteriorated drastically in light of the Asian and Russian financial crises, growing economic volatility in Latin America, weak commodity prices, declining export prices and volumes and massive capital outflows. The recent sharp currency devaluations have also driven up foreign debt servicing costs. In the next two to three years sluggish world demand, rising global interest rates, a slowing U.S. economy, heightened

[85] Aschinger (1998, p. 60) recently observed that "The aid packages laid on by the IMF, other institutions and governments have attracted a variety of criticisms. First of all, the considerable size of the bridging loans (totalling $100 billion for East Asia as a whole), exacerbate the problem of moral hazard. In a market system, private enterprises and government bodies ought to bear their own risks. That requires losses to be internalized, i.e. bankruptcies and all their ensuing consequences ought to be allowed to happen, thus increasing the pressure on everyone in the market to improve efficiency. If there is a general expectation that countries with currency problems will have an international safety-net held out for them, this sends out all the wrong signals and encourages parties to commit themselves to risky projects. It is probably no coincidence that, after credit lines were granted to the East Asian countries, the share price indices in Brazil and Argentina showed strong gains". Furthermore, Aschinger (1998, p. 60) noted that "The conditions laid down by the IMF are supposed to ensure that the countries affected will improve their economic situations. Yet many of the mistakes that have been made might possibly have been avoided if the institutions had stated from the outset that there would be 'no bail out'".

Table 3: Selected Asian Country Risk Ratios (1996)

Country	Foreign Debt Level *(US $billion)*		Debt Service Ratio *(%)*	Debt to GNP Ratio *(%)*	Debt to Exports Ratio *(%)*	Interest to Exports Ratio *(%)*	Foreign Reserves *(US $billion)*	Foreign Reserves to Imports *(months)*	Short-term Debt to Total Foreign Debt Ratio *(%)*	Currency Composition of Long-term Debt *(US $, %)*
	1980	1996								
China	4.5	128.8	8.7	16.0	71.3	3.0	111.7	7.7	19.7	64.8
Hong Kong	--	--	--	--	--	--	--	--	--	--
India	20.6	89.8	24.1	25.6	170.8	8.5	24.9	5.1	7.5	54.1
Indonesia	20.9	129.0	36.8	59.7	221.4	11.4	19.4	--	25.0	24.3
Japan	--	--	--	--	--	--	--	--	--	--
Malaysia	6.6	39.8	8.2	42.1	42.4	1.9	27.9	--	27.8	55.7
Myanmar (Burma)	1.5	5.2	--	--	--	--	0.3	--	7.3	24.7
Pakistan	9.9	29.9	27.4	46.3	250.5	10.0	1.3	0.9	9.4	34.0
Philippines	17.4	41.2	13.7	47.3	97.6	5.4	11.7	0.0	19.3	33.8
Singapore	--	--	--	--	--	--	--	--	--	--
South Korea	--	--	--	--	--	--	--	--	--	--
Taiwan	--	--	--	--	--	--	--	--	--	--
Thailand	8.3	90.8	11.5	50.3	120.5	5.8	38.6	5.1	41.4	32.1
Vietnam	--	26.8	3.5	114.7	271.2	2.0	--	--	14.5	10.6
TOTAL	89.4	581.3					235.8			
Critical debt ratio thresholds			20	85	150-200	12		3	25	

[1] (–) refers to data not available.
Data compiled from the World Bank, Global Development Finance 1998 Country Tables, The World Bank, Washington D.C., March 1998a.

protectionist sentiments, massive financial restructuring, mounting non-performing bank loans, growing fiscal pressures and lower aid flows will further undermine the ability and willingness of most heavily-indebted Asian countries to pay off in full and on time their foreign loan commitments.

Heavily dollar-indebted Asian countries, particularly China, Indonesia, South Korea and Thailand, will continue to experience loan repayment difficulties in the next two to five years. This will divert scarce resources from the region's financial and productive sectors. The burden of the region's large and growing education, healthcare and pension obligations will intensify pressures on already shaky fiscal balances.

Since mid-1997, Asian officials have spent tens of billions of dollars to defend their currencies against speculative attacks, seriously depleting their foreign exchange reserves. Slower export growth will continue to compound the region's foreign exchange generating capability. That will seriously affect a country's ability to service short-term debts or deter currency speculators. Consequently, there is a greater probability that these countries would intensify their demand for short-term emergency funding, including foreign aid and new loans.

Heavily-indebted Asian countries, such as China, Indonesia, India, Malaysia, the Philippines, South Korea, Thailand and Vietnam, will find it harder to finance ballooning import bills, purchase Western plant, equipment and modern technologies and service rising foreign debt obligations. It can be anticipated that these countries will increasingly resort to non-debt-creating funding techniques, such as barter and offsets, to preserve scarce hard currency reserves, sidestep foreign funding restrictions and decrease loan repayment burdens (Strizzi and Kindra, 1996, 1997b, 1998a, 1998b; Dunne, 1998). One recent estimate indicates that "within two or three years, countertrade could account for as much as 20 per cent of Southeast Asia's total trade, compared with less than 2 per cent today" (McDermott and Witcher, 1998, p. B7). There is growing evidence that non-monetary transactions have also spread to other financially-troubled economies in Latin America, the former Soviet Union and Central and Eastern Europe (Strizzi et. al., 1997a; Whitehouse, 1998; Clover, 1998; Higgins, 1998; Dunne, 1998; *Financial Times*, 1998a).

Conclusion

Most Asian economies are now in a transition phase from rapid economic expansion to slower, more balanced growth. This entails painful, but necessary, industrial and financial sector upgrading and consolidation as well as massive labour force adjustment. Weak global demand coupled with industrial overcapacity will continue to erode Asian export prices and profit margins. Economic recovery will be a lengthy, painful and costly process for most Asian export-oriented economies.

Concern that massive financial and industrial sector restructuring and consolidation will lead to large-scale business closures and job layoffs will persuade regional Asian authorities to focus on the pace and extent of reforms. This will likely slow the process of economic and financial reforms. Moreover, regional governments must wrestle with the problems of massive underemployment and of creating new jobs for tens of millions of new job seekers annually. The higher the level of unemployment, the greater the threat of social unrest and political instability. The absence of comprehensive national safety net systems will further delay the pace and extent of Asian economic and financial reforms. The problem loan situation at most Asian banks will likely get worse before it gets better.

As Asian economic and financial difficulties worsen, many Asian borrowers will find it increasingly difficult to repay their foreign loans in full and on a timely basis. The deepening and protracted global economic and export slowdown will only compound Asian borrowers' payment problems. As Asian banks intensify efforts to clear up their balance sheets, tighter credit conditions and higher interest rates will likely follow. Banks' lending squeeze places many cash-strapped companies, especially small and medium sized enterprises, at increased risk of bankruptcy. Rising bankruptcies will compound Asian banks' exposure to bad debts. Higher unemployment, rising job insecurity and income fluctuations will combine to undermine Asian consumer confidence. Many Asian consumers are more likely to curtail their discretionary spending.

There is a strong possibility that Asian investors, namely Japanese, will continue to cancel or delay their overseas investments. The increased sell off of overseas investments to shore up their weak domestic balance sheets is also likely to continue. If current financial difficulties persist, foreign borrowers will find it increasingly difficult to access Asian capital markets and in particular the Japanese capital market. Higher borrowing costs are likely results.

Many Asian economies will continue to face enormous structural problems, including infrastructure constraints, worsening environmental degradation, rising crime and corruption, deteriorating current accounts, foreign debt accumulation, rising debt-servicing costs and political uncertainty, that will take years, if not decades to correct. This will increase the risks and costs of doing business in many Asian economies. Public and private sector decision makers will need to intensify monitoring their Asian exposures to limit potentially huge financial losses.

Annex

Annex 1: Major Economic Indicators for Selected Asian Countries[1] (June 1997 - July 1998)

Country	Currencies (%)	Stock Index (%)	Market Fall		Unemployment		Prime Rate		Imports (%)	Vacant Offices	
			(US $billion)	(%)	1998 (%)	1997 (%)	1998 (%)	1997 (%)		1998 (%)	1997 (%)
Indonesia	-83.2	-35.0	-96	-88	16.8	14.2	65.0	18.25	-33.4	13.6	12.4
Thailand	-40.2	-48.0	-40	-66	8.8	3.0	15.5	13.25	-39.5	26.7	21.9
Malaysia	-39.4	-56.0	-217	-76	5.0	2.7	12.1	9.45	-22.4	10.6	2.9
Philippines	-36.1	-33.8	-43	-58	13.3	10.4	18.0	14.50	-7.5	3.5	2.0
South Korea	-34.1	-58.7	-111	-71	6.9	2.6	11.5	8.50	-36.1	--[2]	--
Singapore	-16.5	-43.5	-91	-53	2.2	1.7	7.5	6.00	-19.5	8.7	6.1
Hong Kong	nil	-43.2	-223	-42	4.2	2.5	10.0	8.75	-4.0	7.5	5.1

[1] Fall in currency vs. US$, June 30, 1997 - July 3, 1998; % decline in stock-market index; fall in stock-market capitalization, $b [billion] and %; % decline in imports, by value; vacancy rate in main business district.
[2] (--) refers to data not available.

Table reproduced from Ricardo Saludo and Assif Shameen, "How Much Longer?" *Asiaweek*, (July 17, 1998), p. 41.

Annex 2: Consumer Prices for Selected Asian Countries[1] (Annual per cent change)

Country	Average 1980-1989	1990	1991	1992	1993	1994	1995	1996	1997
China	7.1	2.1	2.7	5.4	13.0	21.7	14.8	6.1	1.5
Hong Kong[2]	8.9	7.5	9.2	9.7	8.5	6.9	2.6	5.5	6.5
India	9.1	9.9	13.0	9.8	8.4	10.0	10.2	6.9	6.1
Indonesia	9.6	7.8	9.4	7.5	9.7	8.5	9.4	7.9	6.6
Japan	2.5	3.1	3.3	1.7	1.2	0.7	-0.1	0.1	1.7
Malaysia	3.6	2.8	2.6	4.7	3.5	3.7	3.4	3.5	2.7
Myanmar (Burma)	10.1	21.9	29.1	22.3	33.6	22.4	28.9	20.0	10.0
Pakistan	7.2	9.1	11.6	3.6	9.6	11.8	12.1	10.3	12.5
Philippines	14.1	12.7	18.7	8.9	7.6	9.0	8.1	8.4	5.1
Singapore[2]	3.6	4.9	3.7	0.9	5.5	3.8	2.7	1.4	1.5
South Korea[2]	8.4	9.9	10.1	6.1	5.1	5.5	5.6	3.4	4.7
Taiwan[2]	4.2	3.8	3.8	3.9	3.5	1.9	1.9	2.7	1.3
Thailand	5.7	6.0	5.7	4.1	3.4	5.1	5.8	5.9	5.6
Vietnam	124.1	67.0	84.4	37.8	8.3	9.4	17.0	5.7	3.1
Asia	8.8	6.5	7.8	6.8	10.3	14.7	11.9	6.7	3.9

[1] Data compiled from the International Monetary Fund, World Economic Outlook May 1998. International Monetary Fund, Washington D.C. 1998a, pp. 157, 161.

[2] Refers to GDP deflators.

Annex 3: Real Gross Domestic Product Growth for Selected Asian Countries[1] (Annual per cent change)

Country	Average 1980-1989	1990	1991	1992	1993	1994	1995	1996	1997
China	9.5	3.8	9.2	14.2	13.5	12.6	10.5	9.7	8.8
Hong Kong	7.3	3.4	5.1	6.3	6.1	5.4	3.9	4.9	5.3
India	6.0	5.9	1.7	4.2	5.0	6.9	7.9	7.5	5.6
Indonesia	5.3	9.0	8.9	7.2	7.3	7.5	8.2	8.0	5.0
Japan	3.8	5.1	3.8	1.0	0.3	0.6	1.5	3.9	0.9
Malaysia	5.8	9.6	8.6	7.8	8.3	9.2	9.5	8.6	7.8
Myanmar (Burma)	1.8	2.8	-0.7	9.7	5.9	6.8	7.2	7.0	7.0
Pakistan	6.4	4.5	5.5	7.8	1.9	3.9	5.1	4.5	3.5
Philippines	1.9	3.0	-0.6	0.3	2.1	4.4	4.8	5.7	5.1
Singapore	7.3	9.0	7.3	6.2	10.4	10.5	8.7	6.9	7.8
South Korea	7.8	9.5	9.1	5.1	5.8	8.6	8.9	7.1	5.5
Taiwan	8.1	5.4	7.6	6.8	6.3	6.5	6.0	5.7	6.9
Thailand	7.3	11.6	8.1	8.2	8.5	8.6	8.8	5.5	-0.4
Vietnam	5.0	4.9	6.0	8.6	8.1	8.8	9.5	9.3	7.5
Asia	7.0	5.6	6.6	9.5	9.3	9.6	9.0	8.3	6.7

[1] Data compiled from the International Monetary Fund, World Economic Outlook May 1998. International Monetary Fund, Washington D.C., 1998a, pp. 146, 161.

Annex 4: The Asiaweek Financial 500 Ranking of the Region's Largest Banks[1]

Country	Banks in 500	Assets (US $billions)	Share of total (%)	Deposits (US $billions)	Share of total (%)	Loans (US $billions)	Share of total (%)	Net interest income (US $million)	Share of total (%)	Net profit (US $million)	Share of total (%)
China	23	1,379	13.04	910	12.81	744	11.40	21,803	13.67	3,641	16.47
Hong Kong	26	367	3.47	296	4.16	196	3.00	9,033	5.66	5,979	27.04
India	47	165	1.56	125	1.77	62	0.95	4,860	3.05	943	4.26
Indonesia	50	108	1.02	67	0.94	78	1.20	2,828	1.77	-527	–[2]
Japan	150	6,682	63.22	4,394	61.87	4,254	65.20	82,492	51.70	-36,766	--
Malaysia	32	136	1.29	110	1.54	81	1.25	3,782	2.37	1,305	5.90
Pakistan	8	21	0.20	17	0.24	9	0.13	441	0.28	-36	--
Philippines	23	51	0.48	34	0.48	30	0.45	1,896	1.19	816	3.69
Singapore	12	153	1.45	127	1.79	109	1.66	3,064	1.92	1,219	5.51
South Korea	28	395	3.74	227	3.19	194	2.97	5,555	3.48	-2,324	--
Taiwan	37	445	4.21	353	4.97	307	4.71	6,202	3.89	3,076	13.91
Thailand	15	127	1.20	88	1.24	101	1.54	3,776	2.37	-1,638	--
Other	49	541	5.12	353	5.00	360	5.54	13,816	8.65		
Total	500	10,570	100.00	7,101	100.00	6,525	100.00	159,548	100.00	22,109	100.00

[1] Data compiled from Tim Healy, "Fixing the Banks", *Asiaweek*, September 11, 1998, p. 60.
[2] (–) Refers to data not available.

Annex 5: The Transparency International 1998 Corruption Perceptions Index[1]

Country Rank[1]	Country	1998 CPI Score[2]	Standard Deviation	Surveys Used
52	China	3.5	0.7	10
16	Hong Kong	7.8	1.1	12
66	India	2.9	0.6	12
80	Indonesia	2	0.9	10
25	Japan	5.8	1.6	11
29	Malaysia	5.3	0.4	11
71	Pakistan	2.7	1.4	3
55	Philippines	3.3	1.1	10
7	Singapore	9.1	1	10
43	South Korea	4.2	1.2	12
29	Taiwan	5.3	0.7	11
61	Thailand	3	0.7	11
74	Vietnam	2.5	0.5	6

[1] 85 countries ranked. Data compiled from Transparency International, "Transparency International Ranks 85 Countries in Largest Ever Corruption Perceptions Index", TI Press Release: 1998 Corruption Perceptions Index, Berlin, (22 September 1998), wysiwyg://6/http://www.transparenc...-releases/1998/1998.09.22.cpi.html, pp. 2-4.
[2] CPI refers to corruption perception index. A CPI score of 10 represents a corrupt-free country.

Annex 6: Selected Asian Country Credit Ratings

	Institutional Investor Credit Rating[1]			Euromoney Risk Ranking[1]			Standard & Poor's Foreign Currency-denominated Debt[1]	
Country	**Country credit rating** (Sept. 98)	**Global rank** (Mar. 1998)	**Global rank** (Sept. 1998)	**Country creditworthiness ranking** (Sept. 98)	**Global rank** (Dec. 1997)	**Global rank** (Sept. 1998)	**Long-term rating**	**Short-term rating**
China	57.7	32	31	47.97	39	43	BBB+	A-2
Hong Kong	61.4	28	27	75.75	25	30	A	A-1
India	44.9	51	52	39.01	53	63	BB	B
Indonesia	32.9	46	73	27.2	49	94	CCC+	--
Japan	88.3	4	9	88.02	18	23	AAA	A-1+
Malaysia	59	24	30	41.89	35	55	BBB-	A-3
Myanmar (Burma)	20.7	101	103	17.48	139	138	--[2]	--
Pakistan	25.3	88	97	18.64	88	132	CCC-	C
Philippines	43	55	54	40.34	57	59	BB+	B
Singapore	82.3	13	14	89.17	16	21	AAA	A-1+
South Korea	53.6	25	39	64.47	30	34	BB+	B
Taiwan	76.2	20	20	86.49	23	24	AA+	A-1+
Thailand	47.5	41	47	41.14	51	57	BBB-	A-3
Vietnam	30.2	79	81	27.48	77	90	--	--
Global average rating	41.2							

[1] 136 countries ranked in *Institutional Investor* Credit Rating survey; credit ratings close to zero depict countries with the highest likelihood of default. One hundred and eighty countries ranked in the *Euromoney* Risk Ranking survey; the closer the score is to 100 the higher the creditworthiness. Under *Standard & Poor's* credit rating system, bonds rated between AAA to BBB- are deemed as investment grade while those bonds rated from BB+ to C- are speculative grade.
Data compiled from Harvey D. Shapiro, "A High-Level Stall", *Institutional Investor: Domestic Edition*, (September 1998), p. 133-135; *Euromoney*, "How the Mighty Are Falling", (September 1998), http://www.euromoney.com/contents/...ey/em.98/em.98.09/em.98.09.17.html and *Standard & Poor's*, "Sovereign List", Canadian Focus, The McGraw-Hill Companies, Inc., New York (January 1999), p. 79-80.
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