

Part II

Synopsis of Presentations and Discussions

Session 1

The Asian Crisis: Meeting the Challenges to Human Security

PANEL PRESENTATIONS

CHIA SIOW YUE, director of the Institute of Southeast Asian Studies (ISEAS), began session one with a summary presentation of a paper prepared jointly by ISEAS, the Centre for Strategic and International Studies (CSIS), and the Japan Center for International Exchange (JCIE) on the human dimensions of the Asian crisis. Drawing on secondary information sources, the paper was intended to demonstrate the breadth and the depth of the crisis' social impact on East Asian countries. Accordingly, it focused on the countries most affected by the crisis: Indonesia, Thailand, Malaysia, South Korea, and the Philippines.

In preparing the paper, the chief challenge was obtaining substantive data. The paper cites the tremendous disparity in available data and the rapid changes taking place on the ground, and states that it is the lack of reliable and up-to-date information and analysis that has been hindering policymakers' efforts to deal with the crisis. The list of key social problems exacerbated by or newly arising from the crisis across the region is long, including falling income and increased poverty, rising unemployment and underemployment, food shortages and increased malnutrition, loss of health-care services, accelerated environmental degradation, and restricted access to education, with women and children suffering, in particular.

Chia outlined two main areas for policy development and urgent action: restoring economic growth to the region and solving escalating social problems. Unemployment needs to be reduced by creating new jobs and minimizing retrenchments. In addition, the issues of unemployment insurance, vocational training and support, and social safety nets need to

main problems being faced are massive unemployment and underemployment. Recent figures show that in a labor force of 32 million, 1.6 million were unemployed as of May 1998, and the figure continues to rise. Unemployment is concentrated in the manufacturing and financial sectors, and for the first time in the country's history the middle class has been severely affected by a crisis because of unemployment. The closure of 56 financial services companies in 1997 alone has had an enormous effect on professionals in the finance industry. Female workers concentrated in the textile industry have also been retrenched in large numbers and face bleak prospects for reemployment, and the service and tourism industries are experiencing severe downturns.

According to Suchit, existing social problems have been aggravated, and crime and drug usage have escalated. Observers speculate that prostitution has increased, but it is difficult to discern the actual situation. Education clearly has been affected, as parents are withdrawing their children from schools with the intention of putting them to work to supplement family incomes. However, it is increasingly difficult for these children to find work because a supply of jobless skilled workers already exists on the market. As a result, many of these children are ending up living on the streets and becoming involved in petty crime.

While no social conflicts have erupted, tensions between the rural and urban sectors have deepened. The rural poor feel that they have been neglected because the Thai government has prioritized the reform of the financial sector and thus the assistance has been concentrated in urban areas. The Thai government's main challenges are to reduce tensions between the rural and urban areas, find a balance between reforming the financial sector and addressing other parts of the economy, provide female workers and children the necessary support and protection, and limit the widening of social gaps and the seriousness of social problems overall.

The final presentation in the session was given by Kojima Akira, director and editorial page editor of the *Nihon Keizai Shimbun*. His perspective was that it is misleading to characterize the phenomenon as an "Asian" or an "East Asian" crisis, because its contagion has affected a larger number of countries and regions in various ways, including Russia, Latin America, and the United States. The crisis is a new species not witnessed before and should be considered as a "crisis of the 21st century." If we were to try to characterize this new phenomenon, it is distinguished from previous crises by the facts that it is far more serious than any observers

initially imagined, the speed of its contagion's spread exceeded all expectations, all affected countries' currencies were pegged to the U.S. dollar, overinvestment was by the private sector rather than by governments, and it occurred as finance and capital markets were being liberalized and globalized.

Lessons to be learned from the experience include the necessity of securing the fundamentals of sustainable economic growth, in particular strengthening national banking systems. Foreign exchange policies must be corrected, and the ratio of short-term foreign debt to foreign exchange reserves must be in balance. In addition, Kojima recommended that the framework of financial institutions and the composition of capital inflows both be right. Finally, governments should prepare a lender of last resort as a contingency plan and adopt the most appropriate economic model for their particular level of development.

Kojima noted that an important point which tends to be overlooked in discussions surrounding the crisis is the immediate and medium-term social costs that will continue to emerge before the International Monetary Fund (IMF) reforms take effect. Daily life must go on for people and for businesses. He cited the example of local import businesses ceasing operations because banks will not issue the necessary letters of credit. To try to solve these problems, bridging finance programs should be put in place to keep daily life manageable for as many as possible. Otherwise, the risk of destabilization in the region will increase.

DISCUSSION

First, participants discussed the specific character of the current crisis, citing firsthand experiences and case studies from their respective countries. In the next part of the discussion opinion split into two strands, with some participants maintaining that the first priority of governments is economic growth and stability, and others pointing out that the region will face an ongoing legacy of chronic social problems if people's basic needs are not addressed immediately. However, there was consensus on the main lesson learned, namely, that there had been too much emphasis on economic growth in the region. All participants agreed on the necessity of a new paradigm, not just for economic but also for social and political systems. Finally, various suggestions were made about how to remedy the current situation.

A Singaporean participant made a key point early on in the discussion about the pressing need for countries to rethink their economic policies and make "growth with equity" a central pillar of policy development. He stressed that economic growth is not inherently sustainable and that unless equity is enshrined in policy it does not naturally occur as a result of growth. The same participant also highlighted the role of technology in the crisis and the need for governments to recognize that information is now freely available to people. Technological change has made censorship by governments increasingly difficult and has put pressure on authorities to make information fully available in a timely fashion.

Discussion of the need for economic reform continued with questions by a Thai economist on whether governments can in fact protect their countries from market volatility and, further, whether the region should consider becoming self-reliant for funds to insulate itself from outside capital. Next, a Malaysian economist suggested that the essentials of the crisis be reexamined and that its specific impacts on different countries and its effects on poverty and equity be analyzed. The intensity of this crisis was such that currencies collapsed immediately, impoverishing people overnight. He concluded by stressing the need to probe more deeply into the problems facing individual countries and communities within each country.

These comments were echoed by an Indonesian delegate, who cited the case of his country as a typical example of the nature of the crisis. While reiterating the need to reconsider the fundamental problems facing the region at present, he conceded that the complexities are difficult to assess and suggested the need to keep in mind the cyclical nature of economic growth in the past. The same participant reiterated the need to incorporate social safety nets in policy and called on governments to be diligent about social and political developments, as neither follows automatically from economic development. It may be for this reason, he argued, that some countries have suffered more than others in the region. In Indonesia, for example, law and order are lacking and the very legitimacy of the government has been called into question. A second Indonesian participant commented, however, that Indonesia's plight has been depicted too bleakly. He did concede that despite—and ironically because of—the fact that Indonesia has received an abundance of financial support and aid, the national and local governments were having difficulties in processing and distributing the assistance effectively, especially as they are wary of accusations of corruption.

Next, a political scientist from the Philippines emphasized the importance of regional cooperation in the current crisis. Describing the impact of the crisis on regional institutions, she claimed that the political instability resulting from the crisis has weakened the influence of the Association of Southeast Asian Nations (ASEAN) and APEC, as well as their ability to carry out their respective roles. As a result, the crisis may have a negative impact on the ASEAN Regional Forum, and ASEAN could be undermined by stronger countries in the region. Given this situation, she asked how political institutions in the region are to be protected if ASEAN cannot respond adequately, concluding that unless the investments already made in human resources in the region can be protected, countries risk their capacity to play a leading role in the future. Proposing that the next century will be knowledge- and technology-based, the same commentator warned that if East Asia cannot compete effectively in these areas then "Asian voices will be weak and inadequate."

Other participants followed up on these comments by suggesting various prescriptions to remedy the current situation. A Japanese participant reflected on changes that the crisis has prompted to political systems and leadership in East Asia. A Chinese participant suggested that in times of crisis the international community be more sensitive to the need to maintain political stability in affected countries. Another Japanese participant developed his earlier points that the crisis was indeed wide in scale and that globalization was inevitable by suggesting that countries consider how to cope with the lag between financial markets and the real economy, as well as develop a strategy for adjusting to the speed of financial market transactions, to avoid falling victim to the same problems in the future.

Another conference participant observed that although the social problems brought on by the crisis read like a litany of woes, participants should try to differentiate among them on the basis of their political short- and long-term impacts. Some problems, for example, threaten to delay the recovery or affect the quality of the recovery and should therefore receive higher priority in the distribution of resources.

All participants agreed that the social problems affecting East Asian countries are vast and, if not solved quickly and effectively, will trigger further tensions between countries and continue to erode the quality of health, education, and employment within the region. This is, of course, tragic for affected individuals and communities in the short term, and the long-term implications for human resources and development across all sectors in the region are equally daunting.