Dateline: Meltdown
Reports from the Front
Line of the Asian
Contagion

Presentations by
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MR. ZIELENZIGER: Thank you. Excuse me for that, you can see that -- in the last four days, I've been in Vietnam, Thailand, Japan and now here, so maybe that's jet lag.

I'm always struck when I have one foot in Asia and one foot in America, how to start talking to people. Because living in Japan, I know I'm supposed to start out telling you how I'm not the right person to be here and be very humble and say I have no right to speak to you. And if I'm in America, I'm supposed to tell you a joke to make you feel at home.

So I'll do a little bit of both and tell you about the man who does go to Heaven and after about the second day on the job, St. Peter knocks on his door and says, "Well, we're glad you made it to Heaven, but you know, you're going to be here for a few years, so it's customary for people who are as esteemed as you to give an address and tell some of us about your life in the past world. We'll give you a couple of days to think about it."

So two days later, St. Peter comes back and says, "Well, you're scheduled for tomorrow. What's your address going to be?" And the man says, "Well, you know, I was a professor in America, I was a professor of hydrology and it's actually a rather boring field. But I've been thinking about it and not to be immodest, but I was actually an expert on the Johnstown's flood. So I thought tomorrow when everybody's assembled, I'd give a little talk about my expertise about the Johnstown's flood." And St. Peter looks at him and he scratches his head and he says, "Well, Johnstown's flood, that sounds like a pretty good topic, but I've got to warn you that Noah will be in the room."

And I suppose there are a lot of experts about Asia here today, so maybe I'm not the one to be talking about Asia. But nevertheless, I've been spending a lot of the last six months in places like South Korea, in Thailand, watching this meltdown as it takes place and I want to share some thoughts about that.

You know, we in the press are often accused of sort of missing a story or not seeing clear signals of an unfolding crisis. Well the economic crisis of 1997 and now 1998 was missed not only by the press, but by just about everyone, the rating agencies who are supposed to tell us about risks, the investment bankers, the finance ministers, our own Treasury Department in a sense. And I am unaware when you think back of a single prediction last January of the kind of systematic regionwide crisis we've seen unfolding over the past six months.

We knew that Thai exports were slowing, that South Korea's banks lent on the basis of insider dealing and top line growth, rather than bottom line profits. We knew that Indonesia faced a secession crisis, that the growth prospects in Malaysia were slowing, and that the Fidel Ramos presidency in the Philippines
would probably end in 1998, even if it's true he was flirting for a few months and danced with the notion of amending the constitution to run again. We even knew about Japan's economic and political difficulties.

But no one predicted the raging Asian financial contagion that is sweeping Asia today and I think, in a sense, that is the good news. The good news is that because of this incredible downdraft of the last few months, it's going to make it less likely for investors and financial markets alike to get swept up in the very easy enthusiasm of the past few years, enthusiasm that was equally contagious and not always underpinned with facts and clear-headed, hard-headed analysis. Good news because now investors and finance ministers are going to have to start coming clean in telling the truth, both to the international business community, as well as to powerful domestic political constituencies in their nations.

That's going to be very, very painful. In some of the cases, there will be major domestic upheaval and as the old rationale for supporting dictators and strongmen and collusion among firms begins to disappear, as does the intellectual, upscale middle class which after years of rising expectations and rising prosperity, is going to begin to shrink in real terms as the economic problems mount.

But it's also good news because finally, I think, mainstream America, people in this country, will wake up to those of us who are out in Asia, covering Asia, know very well, that no region is more demanding, more varied or more potentially rewarding in the long term than Asia and that it's going to have major impacts on the U.S. economy, as well as the U.S. national security investment in the future. Because even with this downturn, I think it's pretty obvious that over the next five years, Asia will still grow faster than the United States, but it will require a lot of attention to detail and appreciation of the different political and economic constraints and opportunities in each nation of this region.

I remember that during the currency crisis in Mexico, for instance, I was talking to an emerging markets analyst who said, "Mexican peso, Philippine peso, it doesn't matter, they're all being sold." That was an irrational response at that point, but at a certain level, I think it's being repeated today. A rising tide lifts all boats, to be sure, and of course the reverse is also true, as the tide now rushes out of Asia, a lot of holds are scraping bottom, even those of ships that are otherwise seaworthy.

I've often felt that in the new world of fast technology, fast communications, instantaneous deployment of capital and feverish global competition, that the
ability of powerful market forces to respond to change far exceeds the capacity of slow moving governments to react. That has been clearly true in this crisis, but the U.S. was particularly restrained and slow in its reaction.

Let's talk about Thailand, for instance. I was in Bangkok at the beginning of this crisis and was there again just this past Friday. The baht in just two months has gone from 30 to 52, 53. To put that in perspective, the sales manager at Tower Records in Bangkok told me on Friday that just a week ago, he had restickered all his CD inventory to reflect the collapsed price of the baht, but in the intervening week, the baht had fallen again. So that CDs that cost $15.00 in the United States, I think, are now going for seven or $8.00 in Bangkok. They just cannot keep up with this decline.

And even more tellingly, when the crisis hit last July, it was Tokyo that offered hot tea, warming words and financial assistance. The first American response was to send aides to -- to send a delegation from the USTR, from Charlene Barshefsky's office, to complain about intellectual property rights in Thailand, not to talk about propping up the baht. Just a few weeks ago, it was Clinton who called this whole economic problem a glitch. Now of course, Larry Summers is in Jakarta, trying to talk about what we do about Indonesia. So I think things have been rather slow to be understood here.

Whether in South Korea or in Thailand, most people really don't know what hit them. Many don't understand the vagaries of financial markets. And while it's true that some nouveau riche stock brokers and real estate developers will go bust, the real pain will not be felt by them, but by the innocent, hard working, laboring classes, folks who worked hard to provide a way of life for their families and now find their wages are going down and their costs are going up.

I'm reminded of the story of the Thai computer salesman I spoke to in October, standing in front of a desk full of Hewlett Packard laser printers that will not sell because there are no customers in his store and there are no customers in his store, in part, because there's no money, but in part, because in his wisdom, the manager of the store has cut the air-conditioning in the store to save money. So he's standing there and he's sweltering in a 90-degree room, trying to push computer printers that no one will buy. And his bonus, of course, and his commission are, you know, dependent on sales. And he says, "I don't know what we've done. We worked very hard. We thought we were successful; we wasted all this money."

Now this salesman isn't responsible for what's happened, but he's going to pay the consequences. And there are many, many people in the region who don't really understand what hit them and are going to be looking to blame people
down the road. I'll get to that. It's gotten so bad in Thailand that when I was there in October, the supreme Buddhist monk of the country called special prayer services to pray for the nation's revival, not that the Buddhist monk knows anything about economics, but he felt that if we had a prayer service, it would help clear the mind and help people think more clearly and more helpful, healthy thoughts about how to deal with the crisis we have. You see this in Korea, you see this in Thailand, you see this in Indonesia. People are just stuck about how are we going to move forward.

The mood in Bangkok is even worse this week than it was two months ago. An editorial cartoon in the Bangkok Post on Friday showed Uncle Sam with a ball and chain, only the chain was attached to Uncle Sam's wrist and the ball was the world. And it wasn't clear whether it was the ball and chain of imprisonment or whether it was the chain of control. Saturday's cartoon showed an IMF bird picking over a carcass of skin and bones known as Thailand. That's pretty serious stuff.

After the meltdown, my great worry is that '98 will be the year of the backlash. This I think will be especially true in South Korea where Kim Dae-jung, yes, he won election, but with only the slimmest of margins and in a campaign in which he is now politically indebted to Kim Jung Pil, the former chief of the KClA that once tried to kill him, the former chief deputy to Park Jung Hee. His party provided D.J. Kim with a margin of victory, but he's better known for his authoritarian leanings than for his willingness to break up chaebol, so I'm very worried about that situation. Korea is a country where corruption, political ties and high levels of debt are an intrinsic part of the Korean Miracle. It will be very, very difficult for Korea to endorse and move forward with fundamental reforms.

I spoke to a senior U.S. diplomat in Seoul just before the election and he said the Koreans, when it comes to the IMF, the Koreans have to own this program, they have to accept it as theirs, not something imposed on them from outside. That is asking a lot for a nation that even with 37,000 of our U.S. troops present, is prone to extreme fits of economic nationalism. Last year, for instance, there was a buy local campaign, a frugality campaign initiated, and anyone who dared buy a U.S. import car was faced with either a heavy-duty inspection or tax audit, some incentive to buying a foreign car. And the layoffs and bankruptcies have only just begun to hit in South Korea and when they really begin to bite, there will be a massive search for people to blame. And the people who'll be blamed will be the IMF and the United States, which clearly acted as a key, behind-the-scenes participant in negotiating the terms of the bail-out package for Seoul, between the Seoul government and the Kim Young Sam administration.

Indonesia poses equally severe problems because of the lack of transparency in
business dealings, the insider political relationships, and of course the lack of clear successors to Suharto. It's fitting that Larry Summers is in Jakarta this week, I guess Stanley Roth from the State Department is also there, to talk to the Indonesians, but a system created in 30 years does not change overnight. Moreover, there seems to be a real mismatch between the economic problems these nations face and the instruments to use to deal with them.

I wrote a piece from Seoul in November that I could write again from Indonesia this week. It raises the question if a nation requires fundamental economic reforms of its structure, its foundational principles, is it the IMF that's supposed to be the entity that carries this out? In South Korea, for instance, reforming the chaebol system, where debt ratios are often 30 or 50 times higher than in the United States, is it really the IMF that's the institution to change things? Is it for the IMF to tell Suharto that it's time for him to step down or to tell some of his cronies to stop feeding off the government trough? Is that really what the IMF is empowered to do? I'm not sure it is, but eventually someone, either an institution or the markets, are going to have to do it.

There's yet another actor in this crisis, too, who cannot escape our attention, even though I'm afraid it's been pushed a bit to the sidelines and that is the Japanese. The economic performance, the psychological mood, and the lack of confidence in Tokyo are really abysmal, really abysmal, but there are no signs of change. I was just in Tokyo yesterday and the Sunday talk shows were full of conversation about how it's time for Hashimoto to accept responsibility for the terrible economy, for the fact that we can't get on track, for the problem for the banks, and that he should quit. He should quit, he should quit, he should quit. Unfortunately, there's absolutely no one to replace him; the opposition is now fractured six ways and there is really no leadership either in the LDP or in the opposition.

And that's really a tragedy because obviously, there is little evidence that the system that Japan permitted to grow is ready to change. It's not clear that Japan is ready to lower its bureaucratic barriers, to welcome foreign competitors, to spark new economic growth and spark more productive use of the region's savings to buy the exports from countries like Korea and Indonesia, for this is a problem, after all, that began with Japan and ends with Japan. It was Japan that created and perfected the system of internal production behind high protective tariffs for use as an export platform to seize advantage in U.S. markets.

After the Plaza Accords and Endaka, the rising of the yen, it was the Japanese who crafted the flying geese architecture that hollowed out Japanese industry and created and transformed Thailand into a car manufacturer or Malaysia into an electronics hub and created centers of low wage manufacture in Shinzen and in Vietnam and in other nations of Southeast Asia.
Now there is more capacity than consumers can handle and with the rise of the dollar and the fall of the yen, these exporters can't compete with high quality Japan. So 1998 effectively becomes a derby for position, who can export the most to the one economic power still standing, the United States. If Japan had come clean with its banking system by now, if it had cleaned up its bad real estate loans, if it had properly and forthrightly come to grips with its Sokaya extortion scandals, then Japan would be in a stronger position to lead a regional economic recovery effort. But because it has done none of these things, it won't be the mule pushing these Asian economies out of the mud.

Japanese taxpayers, like some on Capitol Hill, are wondering why they should be forced to spend tax money to pay for the series of bad bankers who've created the mess. So the Japanese problem isn't going to end soon and that only makes the regional problem that much worse.

I didn't mention some other things. China. We've got a problem with state owned enterprises that are going bust and there's going to be tremendous, I think, pressure on the Chinese to devalue once again the RMB and if they do that, it's going to create even more financial panic. Clearly, the Hong Kong peg of 7.7 to the dollar will also be under pressure. And of course Malaysia hosts the next APEC meeting which will give Mahathir Mohammed of Malaysia more opportunity to bash the West about turmoil in Asia.

So it's going to be a very interesting year, we are not out of the woods yet. And I suppose the one message I would want to bring to everybody is to remember that each of these countries is different, I mean that Peregrine collapsed overnight meant the Hong Kong market fell, but the Seoul market went up. It's too easy to say Asia is Asia and a problem in one country is a problem in another country. There are linkages, but each country ought to be looked at differently as we move forward; otherwise, we're going to drown in a blur of oversold pessimism.

MR. DEANS: Thank you. And to those of you who came here hoping to see David Sanger, I must apologize to you. I'm David's fill-in, which is appropriate, since for about the past ten years since Sanger came to Tokyo after I was there, I've been following Sanger around, responding to editors' queries to match his stories. So if anyone is capable of filling in for David Sanger, it's certainly myself. I called Sanger on Friday to thank him for this opportunity and to let him know that if he needed any help with his laundry while he was in Jakarta, just to feel free to call on me.

Now to grasp just how thoroughly the economic landscape and, hence, the
political landscape has shifted in the last few months, try to imagine a scenario in which perhaps in a room like this, the leaders of Japan, South Korea, Thailand and Indonesia and perhaps a half-dozen Asian dynamos are sitting in a room and they're listening to a lecture, they're being lectured on economic discipline and the virtues therein by none other than the President of Mexico. That is precisely what capped off the APEC meeting just last month in Vancouver when Ernesto Zedillo told the leaders of Asia to morder la balla, or bite the bullet, and take those painful first steps toward economic readjustment.

Since then of course, in Asia, things have gotten worse. And to fathom the level of concern the Asian economic debacle is now generating, imagine that you're on Air Force One, traveling on a midnight flight halfway across the country. The President of the United States has just spent about 16 hours politicking, fund-raising and otherwise trying to manage the world's last remaining superpower when he's imposed upon to place a 20-minute call to Jakarta to tell one President Suharto that, "You're on the verge of seeing an entire generation of economic gains wash away like sand, unless you begin to play ball with the IMF." That as we know is precisely what happened last Thursday night as President Clinton traveled from New York to Texas.

As we speak, according to what we were told this morning at the White House, President Clinton, who just got off of a helicopter flight from Camp David and is preparing for a day of initiatives on crime, his drug lord, General McCaffrey, is just about to brief in about an hour, and in the middle of all of this, President Clinton is getting a briefing from his top economic advisors not on the first non deficit budget in 30 years, but on the Asian economic crisis, after what was I think we'll all agree yet another terrible day across the Pacific.

And finally, to try and get our arms around the political dimensions, the kinds of political questions that are going to be raised when the opposition returns to town in a couple of weeks, I'd like to invite you to join me in my telephone call Friday with Congressman Bernie Sanders, who is the lone independent congressman from the State of Vermont. Mr. Sanders had the grace to call me from the depths of an ice storm he was enduring in Vermont and he called to tell me, "You know, I've got farmers up here with cows who are in a lot of trouble in this ice. And I'm going to my constituents, trying to explain to them why it is we're continuing to cut Medicaid, why it is we're continuing to cut Medicare, why it is we're continuing to cut back on low housing, low-income housing programs for families and children. And I'm at the same time having to explain to my constituents that, 'By the way, without question, without debate and without a vote, we've committed $20 billion to bail out our competitors in Asia.' Now who wants to trade places today with Bernie Sanders? Nobody.
Now what this means in the White House is that President Clinton is going to have quite a sales job to do in Congress when he comes back. Basically, if nothing else goes wrong, 1998 is already going to be a very difficult year for economic globalization and those people here in Washington who've made a living, or at least an office, out of trying to promote economic globalization. President Clinton is going to have to once again do something that he hasn't done very well since NAFTA, which is use the White House as a bully pulpit to get out and explain to the American people we live in a global economy, we're going to have to adopt rules and integrate ourselves with that even further.

Fortunately for Clinton, I think he still has a reasonably good story to tell on this, but what he can't afford is to let the headlines and the stock market and these other things that the White House doesn't have as much to do with as they would like get out in front of him in a battle for public opinion. He's going to be asked a lot of questions about the IMF bail-out, about the efficiency of applying billions and billions of American dollars toward helping to bail out Asian economies that are, after all, running huge, soaring and this year, certain to be skyrocketing trade surpluses with this country.

The numbers are beginning to come in. China's going to have a $50 billion trade surplus with the United States this year. People were rubbing their hands together this time last year, saying you know, "Thank goodness for the Chinese, they'll finally eclipse the Japanese." It's not going to happen; Japan's going to have about a $56 billion trade deficit with the United States, according to the latest figures that are coming out.

As you know, President Clinton had already asked last fall for some more IMF money in his budget, he asked for $3 ½ billion. That was rejected by Congress. Now if you think of Congress that rejected a $3 ½ billion request for IMF money a few months ago when Clinton could go up there and say, "Look what we did in Mexico, we actually made money on that deal," is now going to turn around with everything that's been happening in Asia and stick their necks on the chopping block and approve additional money for IMF budgeting this year, I would suggest that's not going to happen.

Al D'Amato of course is still chairing the Banking Committee, we can expect some hearings from him fairly soon on this. Lauch Faircloth, who is the Republican senator from North Carolina who heads up the subcommittee that looks at World Bank and IMF funding, will certainly call for a hearing if D'Amato doesn't. But again, bearing in mind D'Amato's position on Mexico, it's hard to be encouraging about IMF money. Of course, our friend, Congressman Sanders, who sits on the subcommittee on the House side that looks at these issues, also wants hearings.
Some of the questions they're certain to be asking, "Why bail out bankers?" And I'm afraid this year, they have a better case than they did during the Mexican crisis, because what we saw with bankers over the past 18 months was a rush to emerging markets. The banks' own association studies have revealed this, that basically what happened over the past 18 months was money was just dashing into emerging markets, despite the risk. The margin of difference, the spreads between what was being paid for emerging market loans and Treasury bonds narrowed, even as the risk was widening, and so it's a very real question, why should people be bailed out at this juncture.

The other one is as we talked about, why bail out Asian competitors as our trade deficit with these countries begins to explode; why can't the IMF do a better job of what you might call, for lack of a better phrase, preventive economics? Certainly, Bill Cohen is asked to do preventive defense; certainly, Madeleine Albright is asked to do prevent diplomacy. Why, some are going to ask, can't the IMF predict with more certainty when there are problems and why can't measures be taken to head off crises? The IMF has a decent story to tell on this. At the moment, the IMF is addressing potential crises in about 60 countries around the world, we only hear about the ones that fail, but that is something they're going to be hearing a lot about on Capitol Hill, no doubt.

What does this mean for the President's globalization agenda? Well, first, remember something called "fast track" that the President tried to get last fall and was summarily shot down before it could even get a vote on the Hill. Who here wants to be the one to take the idea of Fast Track up to the Hill now? It's going to be a tough fight. We know that Al Gore, the man who hopes to be elected President in a couple of years couldn't even win the Virginia Lotto without the support of organized labor. Is he really going to be out there arguing for fast track? I would submit that the likelihood of a good fast track ruling now is dim. That means that Santiago in April, where President Clinton had hoped to go, talking about free trade in the Americas, is probably going to be basically a tourist stop. So fast track is dead, Santiago is an overnighter.

The Multilateral Agreement on Investment, another thing that's coming up. Some of you know this is the investment equivalent of an Uruguay Round, 28 nations agreeing on investment procedures. I'm not an expert on it, but the people who are tell me this is a big win for American investment companies, that it would basically level the playing field around the world for American investment houses which have quite a bit of competitive advantage in the area. Again, one has to wonder how eager the Congress is going to be to wed our investment regime with that of others around the world when places that we have always believed to be fairly sophisticated investment centers, like Tokyo, are collapsing.
The bottom line is that this President has a whole lot riding on the global economy, just as the American economy does, and the Asian economic debacle raises some chilling specters for that argument.

Clinton's strong card is that globalization has been responsible for at least one-third and perhaps more of the growth that has made this economy an $8 trillion machine; U.S. GDP will surpass $8 trillion this year for the first time ever, $900 billion of which is exports in U.S. goods and services. You begin to have to tell this story to the American people if you're President of the United States, but the idea is we've got an economy something on the order of the size of France's that does nothing, except sell to other parts of the world. That's an argument in favor of globalization, but I would submit it's being drowned out at the moment by the message we're getting from Asia.

I would expect to see Bill Clinton dream up, cobble together and conjure every kind of way you and I could imagine to tell this story over the next few months. I expect we'll see every way of demonstrating that story you can imagine and the betting here has to be that ultimately, Clinton will prevail. And if he doesn't, he can call his good friend, Ernesto Zedillo. Thank you.

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