INTERNAL ANTECEDENTS TO THE 1997 ASIAN ECONOMIC CRISIS

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While a large body of literature lays the blame of the 1997 Asian economic crisis on external factors, such as Japan’s recession and non-stringent international bank credit, the body of literature examining the internal factors is scant. The purpose of this article is to examine the internal antecedents to the Asian crisis by examining the region-specific economic and cultural conditions leading to the crisis. Not only the traditional factors, such as debt and banking problems are examined, but also the less mentioned and equally important cultural antecedents of collectivism, authoritarianism, and power-distance are explored. This article proposes that investors and academics look beyond economic “hard” data, and examine the values, traits, and customs of a society in order to evaluate the possibility of a financial collapse.

INTRODUCTION
The Asian economic crisis, which burst to life in July of 1997 when Thailand could not maintain its currency exchange rate, has spread throughout Asia with a profound impact on local and global economies (Roubini, 1999). The crisis hit South Korea, Thailand, Indonesia, Malaysia, and Philippines hardest (hereafter referred to as “crisis Asia”). Within several months, the entire region saw declining currency values, large layoffs, contracting GDPs, bank closures and consolidations, rising prices of staples, and crashing stock markets. Table 1 shows the decline in market capitalization between 1997 and 1998. Furthermore, the area experienced an overall rise in lending rates, inflation, debt repayment problems, and cutbacks on megaprojects.

Economic hardships spilled over to the political and cultural realms with the ousting of several ruling parties and their leaders, labor protests and demonstrations, and public outcry. Prime Ministers of Korea, Thailand, and Indonesia were forced out of office. What caused the mostly unexpected crisis to occur in the midst of envied growth and prosperity? How could a region go from first to worst so quickly?

Table 1
Market Capitalization (in U.S.$)

<table>
<thead>
<tr>
<th>Country</th>
<th>6/1/97 ($ millions)</th>
<th>8/1/98 ($ millions)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>$76,530</td>
<td>$12,497</td>
<td>-83.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>177,083</td>
<td>43,443</td>
<td>-75.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>47,893</td>
<td>16,337</td>
<td>-65.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>58,762</td>
<td>22,444</td>
<td>-61.8</td>
</tr>
<tr>
<td>South Korea</td>
<td>87,980</td>
<td>44,483</td>
<td>-49.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>428,195</td>
<td>229,720</td>
<td>-46.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>125,067</td>
<td>67,451</td>
<td>-46.1</td>
</tr>
<tr>
<td>Japan</td>
<td>3,050,619</td>
<td>2,172,973</td>
<td>-28.8</td>
</tr>
</tbody>
</table>

Figure 1
Time Line of Asian Crisis
Selected Events from July 1997 to Jan 1 1999

Thai baht floats, Jul 2

Malaysian Ringgit floats Jul 14

Indonesian Rupiah floats Aug 14

Hong Kong stock market loses 25% of value Oct 20-23

Malaysia Imposes Capital Controls Sep 2

Korean Won floats Nov 17

Foreign Banks roll over Korean debt Dec 30

Indonesia's Suharto forced from office May 21

Dow Jones loses 554 points, 7.1% Oct 27

July 1, 1997

Thailand IMF package $17 billion Aug 20

Indonesian IMF package $43 billion Oct 31

Jan 1, 1998

Indonesian IMF Program Revised Jan 15

Korean IMF package $58 billion Dec 3

Jul 1, 1998

Indonesian IMF Program Revised again Apr 10

Jan 1, 1999

Sources: Sweet (1999) and Roubini (1998)
Asian economic growth policies were highly coordinated with the World Bank, the International Monetary Fund (IMF), and developed nations partly because Asian countries were dependent on economic aid and guidance from them. Despite this high level of coordination, the Asian countries could not prevent a precipitous fall in currency values and their stock markets. Governments, international institutions, financial groups, and private investors did not foresee the upcoming events in Asia because of the way economic growth is assessed in the global market (Zaman, 1998).

Some research pointed towards certain cultural factors unique to Asia that created antecedent conditions that led to the economic collapse. This research has prompted reexamining the Asian values concept and the link between capitalism and democracy (Lohr, 1998). Myrdal (1968) states that the Asian economy cannot be described solely in economic terms. Culture has been increasingly cited as the key determinant of economic and political outcomes (Lohr, 1998). Consequently, this article emphasizes cultural factors including collectivism, authoritarianism, and power-distance. Using the 1997 Asian economic crisis as a case study, this article contributes to the body of knowledge by developing a framework which suggests a causal map between region-specific economic and cultural variables and the possibility of financial crisis.

HISTORICAL PERSPECTIVE
Prior to the 1997 crisis, the newly industrialized countries (NIC) of the Far East including the Asian “tigers” of Taiwan, Hong Kong, Singapore, South Korea, and the emerging countries of Malaysia and Thailand enjoyed fast growth in GDP and per capita incomes, foreign investment, and exports of manufactured high-technology products. Much of the financial world inside and outside of Asia hailed their newly industrialized economies as a miracle. Table 2 illustrates how Japan and Far East GDP was expected to equal that of the U.S. and Europe by the year 2000. The IMF reported that growth in ASEAN-5 countries’ GDPs (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) as close to 8% over the past ten years, ten fold increases in per capita income levels in Korea (five fold in Thailand, and four fold in Malaysia), and capital inflows of $100 billion in 1996 alone (Fischer, 1998). Such success led to acclaim for the Asian “miracle” and recommendations to adopt the “Asian model”.

Lohr (1998) proposed that Asian values help explain a “best-of-both-worlds” achievement: high economic growth without corresponding social ills. However, towards the middle of 1997, the miracle turned into a nightmare for many investors, policy makers, and especially companies using short term external borrowing. Starting with the fall of the baht in Thailand on July 2, 1997, the Philippines (July 11), Malaysia (July 14), Indonesia (August 14), and Korea (November 17) were all forced to abandon their pegged exchange rate. Within one year, the value of the currency of each of these nations nearly halved, with the Indonesian rupiah falling by more than 70 percent. The year 1997 marked the end of the pegged exchange rate system in crisis Asia. Figure 1 shows a brief outline of major events to the NIC and crisis Asia.

Table 2
Percentage of World’s GDP

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1987</th>
<th>2000 (predicted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United</td>
<td>39.2</td>
<td>25.0</td>
<td>22.0</td>
</tr>
<tr>
<td>EEC</td>
<td>27.5</td>
<td>25.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Japan/ Far East</td>
<td>13.7</td>
<td>18.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Other</td>
<td>19.6</td>
<td>32.0</td>
<td>34.0</td>
</tr>
</tbody>
</table>

Source: Edward D. Barbato (1996)

Much has been written about the causes of the Asian crisis. The common underlying factors researchers cited for the crash are generally accepted by the economic and political community: overheated economies, large external debts, lax oversight, and reluctance to close insolvent institutions (Fischer, 1998). Also cited are institutionalized corruption which led to less than secure investments allocated to often dubious government-favored entities, extreme corruption and concentration of market power (The Economist, November 11, 1995;
and costly to the other member. Relating to the Asian crisis, moral hazard came about because Asian countries undertook risky investments in the anticipation that the IMF, other world powers, or even their own national banks would bail them out. In testimony before the U.S. House of Representatives Committee on Banking and Financial Services, Federal Reserve Chairman Alan Greenspan (1998) said that “the expectation that monetary authorities or international financial institutions will come to the rescue of failing financial systems and unsound investments has clearly engendered a significant element of moral hazard and excessive risk taking.” (p. 5).

Economic development theories explain that economic growth is a function of economic and non-economic factors. As early as 1968, Myrdal (in *Asian Drama*) argued that very same premise. Therefore, the body of this article also examines the cultural antecedents of the crisis.

**METHOD**

This research uses an eclectic approach with a variety of environmental factors to explain the antecedent factors that led to the increasing sensitivity of Asian economies (See figure 2). Though some external factors (role of IMF, World Bank, foreign investors, and neighboring countries) are recognized, regional internal factors form a framework for understanding cultural considerations that led government ministers, lending institutions, and investors to ignore sound financial practices.

**Figure 2**

A Framework for Analyzing the 1997 Asian Crisis

<table>
<thead>
<tr>
<th>Economic Antecedents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Growth Model</td>
</tr>
<tr>
<td>2. Debt Problems</td>
</tr>
<tr>
<td>3. Current Acct Deficits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cultural Antecedents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Collectivism</td>
</tr>
<tr>
<td>2. Authoritarianism</td>
</tr>
<tr>
<td>3. Power Distance</td>
</tr>
</tbody>
</table>

Possibility of Crisis
This study reviews academic and non-academic sources including government reports, business magazines, and institutional publications in an attempt to arrive at a unique explanation for the Asian crisis. The central thesis will show an association between economic conditions and cultural values that produced guarantees and encouraged excessive risk.

The variables suggested in this study both for the economic and cultural antecedents are interrelated. For example, to some extent, current account deficits contributed to the debt problems. Similarly, in attempting a cultural explication, treating authoritarianism, collectivism, moral hazard, corruption, and transparency as distinct and discrete variables would be difficult. Cultural variability theories have the liability of overlapping definitions, e.g. where does power-distance end and authoritarianism begin. We make the associations between economic and cultural practices and behavior leading to fiscal vulnerability. The framework suggested may help investors evaluate the possibility of a crisis and may help figure out what changes need to be made in order for Asia’s economies to recover.

ECONOMIC ANTECEDENTS
The Asian economic crisis can be divided into exchange rate crisis, external debt crisis, and banking crisis. Both the exchange crisis, and later the debt crisis, were worsened by a reversal of capital flows from private sources. Debt that was denominated in foreign currency, in particular, could not be paid off easily because of the declining purchasing powers of local currencies. This triggered a collapse in asset prices in the banking sector. Non performing loans in crisis Asia ranged from 20 percent in the Philippines to 75 percent in Indonesia with an average of around 42 percent. Nearly all banks in Korea, Thailand, and Indonesia are insolvent by current international standards (Sweet, 1999).

Jardine Fleming, a Japanese investment company, estimated the Southeast Asian banks were carrying US$73 billion worth of bad loans, representing a staggering 13% of Southeast Asian GDP, compared with the 2-3% of the U.S. GDP associated with the 1980s Savings and Loan crisis and 10-12% associated with Mexico’s 1994 currency crisis. The Central Bank of New York estimated that the costs of the recent banking crisis of Korea, Thailand, Indonesia were 30 to 35 percent of their GDPs, twice as high as that of the Mexican crisis, and ten times as high as the of the U.S. Savings and Loan banking crisis of 1984 to 1989 (Sweet, 1999).

Asian growth model
According to Zaman (1998), East Asian nations developed their economies through 1) modernization of agriculture, 2) promotion of labor based technologies, 3) increases in literacy, education, science, and technology, 4) industrial policy offering protection to infant industries and, 5) liberalization of trade and capital flows. These investments, however, were often in industries in which these Asian countries had no comparative advantage (for example, Indonesia’s Aircraft manufacturing) and necessitated large government support to compete globally. It also later became apparent that many of these policies were implemented to enrich select families, companies, and influential figures, a prominent feature of authoritarian governments and the Asian value of “quanxi” (personal connections).

The emphasis on export promotion came at the expense of other industries, leading to sub-optimal allocation of resources. Zaman (1998) pointed out that Asian economic growth was led by rapid exports expansion financed by foreign direct and portfolio investment growth. This necessitated high levels of borrowing and industrial investment in such export oriented industries as auto, shipbuilding, steel, and consumer electronics. Industries tailored to accommodate domestic consumption were given secondary emphasis, thus helping sensitize Asian economies to external economic shocks.

Debt problems
One factor which increased the external vulnerability of crisis Asia was the obvious willingness to borrow heavily and on risky
terms, leading to high foreign denominated short-term debt. Alan Greenspan (1998) claimed that a high degree of debt to equity leverage was a symptom of excessive risk taking and was aggravated by the fact that these assets were less liquid than the liabilities. He reported that while the average growth in real GDP between 1986 and 1996 of crisis Asia was 7.32 percent, the rate of credit growth was almost 17 percent.

Excessive borrowing was also evident in the non-financial sectors. Early indicators of the financial crisis were the payment delays of leading industrial conglomerates in South Korea (Hanbo Steel in January 1997 and Sammi Steel in March 1997) and Thailand (Somprasong in March 1997). These warnings were dismissed by Michael Camdessus, Managing Director of the IMF (Hitchcock, 1998). Since these large companies had numerous links to the domestic and regional economies, the insolvency of Korean chaebols hurt labor, banking, industry, government, and the social fabric, most noticeably in Korea but in other constituencies throughout Southeast Asia as well.

External short-term debt ranged from just over 13 percent in the Philippines to nearly 33 percent in Thailand, with much of that debt in variable-rates and hard currency. As debt began to accumulate, the financial bubble grew. Using the moral hazard argument, Krugman (1998) suggested that financial intermediaries, whose liabilities were seen as having implicit government guarantees, drove up prices of risky projects making their financial integrity seem more stable than it really was. Each newly funded project became another step in a giant Ponzi scheme.

To a large degree, this financial bubble was hidden from the eyes of investors and regulators. The authoritarian governments in Asia had no interest in revealing the structural weaknesses in their economy. At the outset of the crisis, the “official” South Korean bad loan rate was 6.1% of total loans outstanding while Merrill Lynch figured that the rate was more like 15%, compared to the U.S. rate of 1-2% (the Economist, 1998). The Economist (November 8, 1997) reported that at nine of the largest institutions, bad loans ranged from 94% to 376% of banks’ capital. The central bank of Korea had to pump 5 trillion won (US$1 billion) into the financial system to keep it afloat.

Current account deficits
A persistent current account deficit under a fixed exchange rate regime meant that the government had to use central reserves if private sector inward capital flows do not offset outward flows. In 1996, the current account deficit of Thailand exceeded eight percent of GDP, while the deficits of Malaysia, Philippines, and Korea were about five percent (Sweet, 1999). Large and growing current account deficits were largely due to an increase in trade deficit. While the export growth was slowing, imports were growing with personal incomes. Persistent and growing current account deficits that characterized crisis Asia put a constant pressure on central bank reserves and sensitized the economy to speculative attacks. See Table 3 for the magnitude and growth of the current accounts of crisis Asia.

<table>
<thead>
<tr>
<th>Country</th>
<th>1980 CA deficit</th>
<th>1996 CA deficit</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>-$266</td>
<td>-$7,362</td>
<td>2,668</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-$566</td>
<td>-$7,023</td>
<td>1,140</td>
</tr>
<tr>
<td>Thailand</td>
<td>-$2,076</td>
<td>-$14,692</td>
<td>608</td>
</tr>
<tr>
<td>S. Korea</td>
<td>-$5,273</td>
<td>-$23,061</td>
<td>337</td>
</tr>
<tr>
<td>Philippines</td>
<td>$1,904</td>
<td>-$1,980</td>
<td>4</td>
</tr>
</tbody>
</table>

*Source: World Bank (1999)*

6

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CULTURAL ANTECEDENTS
There is an emergent body of literature pointing towards cultural factors that produced antecedent conditions that allowed the economic crisis to happen. Joel Kotkin, senior fellow at the Institute for Public Policy at Pepperdine University, explained that culture forms a basis for most of what happens in economic progress and that a “cultural virus” shapes most of what societies do, and how they do it in politics, economics, and other areas (Lohr, 1998). Collectivism, authoritarianism, power-distance (status and hierarchical considerations) were cultural considerations of the morally hazardous antecedent conditions that led to the Asian economic crisis.

Gardels (1998) pointed out that Asian values may have brought Asian countries to the major leagues of the global economy, but adopting Western norms in transparency and democracy issues may help them through their current struggles and prevent them from future troubles.

Singapore Senior Minister Lee Kuan Yew and others have said the Asian governments and business community had taken on a type of “hubris” and lack of humility uncharacteristic of Asians (Hitchcock, 1998). Media in those nations (many of them government-controlled) often touted the Asian model - as good as Western business acumen but with Asian values that encouraged long-term planning, stability, and a togetherness westerners should envy. Senior Minister Lee has said that “these different values have made for fast growth” (Time International, 1998, p. 24). Yet now, some of these cultural factors may be used to explain the precipitous decline of crisis Asia.

A 1994 Center for Strategic and International Studies survey of 100 respected observers of Southeast Asia revealed that Asians rated orderly society, group harmony, and respect for authority as highest priorities. These were the lowest rated priorities among Americans, who rated freedom of expression and resolving conflict through open debate as highest. While the Asian ideals of hard work, respect for learning, and collectivism over individualism brought them unparalleled growth, many analysts now believe that these cultural factors led to the abuses of collusion, lack of transparency, poor banking practices, and corruption that precipitated large weaknesses in many of these countries’ economies and continue to forestall recovery (Hitchcock, 1998).

For many years, the success was too hard to ignore: a tripling of per capita income in Indonesia, Malaysia’s Multimedia SuperCorridor and Petronas Towers (tallest in the world), the development in Thailand, and South Korea’s modern, efficient industries. The question is still how could stewards of the Asian tigers’ growth strategy have become so blind to the growing crisis and so unable to stem the turning tide? The answers may lie in three crucial areas of intercultural communication: collectivism, authoritarianism, and power distance (status and hierarchical considerations).

Collectivism
One of the ways culture differ from each other is in its orientation towards the collective good and the individual. North Americans tend to view the world as individuals creating their own path while Asian cultures tend to sublimate the individual personality for the common good of the group (See table 4). Lohr (1998) proposed that this collective ideology, specifically a high work ethic, a respect for family, and a deference to government authority is characteristic of Asian values and called it a type of Protestant work ethic without the Western reverence for individualism.

Many analysts agree that government and business collusion has invited corruption and thwarted competition. Gardels (1998) explained that it has been a cultural phenomenon - a collective, familialistic and quanxi (personal connections) form of capitalism that has allowed these abuses to exist. The desire for group harmony among economic agents and members of a society increased the “moral hazard.” For example, banks and conglomerates would feel little need to act fiscally responsible if they believe that a government will bail out the well-connected. An editorial in the Economist (January 10, 1998) stated that “this problem of
moral hazard is all too familiar to central bankers. To promote safe lending in the long term, some risk must be left with depositors, and far more (it is to be hoped) with owners, but not so much to make them vulnerable to short-term instability. A trade off must be struck, involving guarantees of one kind of another on one side and regulation to curb excessive risk taking.” (p.13).

### Table 4
**Individualism Orientation for 11 selected countries (out of 50 countries)**

<table>
<thead>
<tr>
<th>The West</th>
<th>Rank</th>
<th>Ratings</th>
<th>The East</th>
<th>Rank</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1</td>
<td>91</td>
<td>The Philippines</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Great Britain</td>
<td>3</td>
<td>89</td>
<td>Malaysia</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Canada</td>
<td>4</td>
<td>80</td>
<td>Thailand</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
<td>80</td>
<td>Singapore</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>Italy</td>
<td>7</td>
<td>76</td>
<td>South Korea</td>
<td>43</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Indonesia</td>
<td>47</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Hofstede, 1991, p. 53*

The tendency to ignore bankruptcy laws as a leading cause of the economic crisis was reified in collectivism. The modern business practice of debt protection, liquidation, and bankruptcy so commonly utilized in the West were largely unused in Asia. Walker (1998) pointed out that Asians tend to favor reconstruction and compromise in line with Confucian tradition which can stave off insolvency for only so long. According to Hitchcock (1998), to confront an insolvency issue head on is a Western concept, yet the Asian collectivist practice of indirectness, avoiding public embarrassments, not airing dirty laundry in public, and the moral hazard relating to bailouts contributed to the crash.

Morden (1998) found that the South Korean management philosophy of familism and hierarchy, and role specialization were hallmarks of their culturally-based status and hierarchical-based communication styles. Combined with the cultural practice of “special” relationships among favored clients for awarding contracts and a lack of oversight (Hitchcock, 1998), collectivism and power-distance (hierarchical considerations and status) precluded the public from asking for transparency even when faced with overwhelming evidence of mismanagement, corruption, and years of insolvency. Perhaps liberalization in transparency practices would lead to stabilization since market correction will occur sooner, avoiding such a large boom and bust cycle.

Corrupt practices such as a gift basket with brandy, a million dollar payoff, corporate bribe, payoff to low level functionaries, nepotism, cronyism, or lack of transparency often emanate from collectivism (the desire for group harmony). Corruption a country’s economy by injecting private preferences into public dealings. It cheats members of one group - taxpayers, shareholders or Sunday supplement readers- and distributes the spoils to a privileged group (The Economist, January 19, 1999, p. 19). Developing economies from Indonesia to Russia have been severely hurt by “a corrupt form of capitalism which diverted resources from economically well founded enterprises to those that were merely well-connected” (p. 22).

**Authoritarianism**

Another principle difference between cultures involves world view, philosophy, and leadership orientation, values that each culture espouses deeply. Asian cultural philosophy is heavily devoted to strong authority (government, social, familial, or societal), paternalism, collectivism, and the desire for group harmony. Authoritarianism, in particular, create a false sense of stability and security.

Authoritarianism that promote “forced” harmony often produce lax oversight. The respect for
status in a hierarchy ensures that even outrageous allegations against entrenched interests go unheeded. The question du jour around Malaysia for many years was: “Who will tell the businessperson connected to the Prime Minister’s office that they cannot have a low-interest unsecured loan?”

The authoritarians of the Asian “tigers” were quick to point out the successes of the “Asian model”, a concept Sicherman (1998) suggested was an exaggeration of a benevolent autocracy characterized by a modern “free” economy (with much less pain and risk than classic capitalism’s “creative destruction”). Sicherman explained that these types of governments are not strong enough to compel sacrifice for necessary market corrections nor popular enough to inspire sacrifice voluntarily. A lack of restraint characteristic of authoritarians has led to the reckless and irresponsible pursuit of profits and piled risks onto an already fragile financial structure (Zhou, 1998).

Authoritarian societies, at least on the surface, appear stable because the authoritarians rarely have challenges to their perception of events. Prior to the economic crisis, dire predictions and warnings of financial turmoil often brought accusations of promoting disharmony and seditious attempts at destabilization. For example, Malaysian Prime Minister Mahatir bin Mohammed’s jailed his Deputy Prime Minister and Finance Minister Anwar Ibrahim in 1998 for sedition and illegal sex. Dr. Mahatir blamed such “rogue speculators” as George Soros saying “All these countries have spent 40 years trying to build up their economies and a moron like Soros comes along” (Roubini, 1999). In reply, Soros called Mahatir a menace to his own country. He also blamed (1) Western nations intent on buying Asian assets at “bargain” rates and (2) Jewish fundamentalists intent on overthrowing Islamic countries. When faced with allegations by his own ruling party of business losses due to nepotism, Dr. Mahatir gave a witheringly obsequious response that quelled all opposition despite the million dollar business losses of his son and the Renong Group, the country’s largest crony capitalists. Every time he made such comments, foreign investors fled and the Kuala Lumpur Stock Exchange fell to new lows.

Indonesian riots, inspired by President Suharto and Ministers, against the Chinese community are another prime example of the blame game. Though only 4% of the Indonesian population, the Chinese community controlled 75% of the economy (Muehring, 1998). Many Chinese were forced to leave the country for fear of their lives. Their shops were looted, houses set on fire, women raped, and men killed. This bloodletting (which happened periodically when Indonesia faced currency instability) forced the evacuation of most of the Chinese community in May 1998 from Java and other Indonesian provinces, contributing to massive capital flight and triple digit interest rates.

Authoritarianism often presents a double edged sword. The same paternalistic belief in correctness of authority’s actions brings the tendency of those in power to stick to that perception and to avoid accountability by any means necessary. When economies start to fail, efforts to find scapegoats become a dominant public theme, whether or not anyone outside those countries believes even the most outrageous claims. Serious reform efforts rarely succeed in authoritarian administrations and periodic demagoguery associated with permissible authoritarianism has severe repercussions as in Indonesia.

Paternalistic, familial, and authoritarian governments tend to control the flow of information about conditions leading up to, and after a crisis and this hurts efforts at correction. Cultures who prize authoritarianism in a belief that the leaders will provide for the people (in return for “quangxi”) may have to realize that as Gardels (1998) advocated, adopting Western norms of democracy in the form of individual responsibility, transparency, and accountability may have to be part of economic reform.

The moral hazard of promoting irresponsible behavior through bailouts holds true whether it is the son of a wealthy father who smashes the family car for the third time, a deceitful but unpunished town mayor, or business people...
handling dubious ventures. At first, the IMF insisted on Suharto’s removal before approving Indonesia’s initial US$43 billion loan, in fear that most of it would end up in the hands of government cronies - Suharto as the “bagman” in a continuing siphoning off of Indonesia’s resources.

In reality, much of the progress in crisis Asia in the past decade, especially South Korea and Thailand, were due simply to ongoing bailouts of conglomerates (especially after the Japanese real estate market collapse in the early 1990s). Companies continued to speculate wildly, building monuments that had little to do with infrastructure and solid economic development. Would they have been so keen if they thought that sometime their government would not bail them out? It took the installation of South Korea opposition leader Kim Dae Jung and revelations of massive insolvency for demoralized South Koreans to finally insist upon ending the chaebol bailouts - an unheard of cultural turnaround.

Some analysts have seen Western norms in transparency and democratic stabilization as a liberalizing trend in Asia. This is concept that former Japanese Prime Minister Kiichi Miyazawa is recommending for his country saying that “Transparency is a must...(this) means sometimes a brutal confrontation, which is not really part of our culture,” (Center for Strategic and International Studies Pacific Forum, 1998, p. 1). This view is also echoed by former dissident/opposition leader and current South Korean President Kim Dae Jung who agreed that democratic stabilization is the basic ingredient for economic prosperity.

**Power-distance**

A third factor in cultural variability is what Dutch researcher Geert Hofstede calls the power-distance - the extent to which members of a culture adhere to unequal distributions of power, and the amount of respect accorded people’s positions and status in a hierarchy. The United States, a low power-distance country, has laws designed to protect whistleblowers. On the other hand, high power-distance Asians who cause trouble for their superiors may find themselves circumvented or out of a job (See table 5). Power-distance is an extension of the direct versus indirect communication styles favored by North Americans and Asians, respectively, and may account for a significant amount of lack of transparency throughout the years leading up to the economic crisis (Gudykunst and Ting-Toomey, 1988).

Table 5
Power-Distance orientation for 11 selected countries (out of 50 countries)

<table>
<thead>
<tr>
<th>The West</th>
<th>Rank</th>
<th>Ratings</th>
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<tbody>
<tr>
<td>USA</td>
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<td>40</td>
<td>The Philippines</td>
<td>4</td>
</tr>
<tr>
<td>Great Britain</td>
<td>42</td>
<td>35</td>
<td>Malaysia</td>
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<tr>
<td>Canada</td>
<td>39</td>
<td>39</td>
<td>Thailand</td>
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Source: Hofstede, 1991, p. 26

Power-distance refers to the degree that society accepts inequality and considers social and business distance normal. Asian countries are more power-distance than Western nations and their political and economic institutions embody this value. High power-distance cultures are more hierarchical with strong dependence on authority. Therefore, these societies tend to form authoritarian governments characterized by long periods of stability followed by short and abrupt periods of upheavals (Hofstede, 1991). The 1997 crisis represents just such an upheaval after a long period of growth and stability in crisis Asia.
When state banks ran out of money to lend, government ministers, state bank higher ups, well connected business executives, and top loan officers encouraged risky short-term external borrowing - the very damaging practice that started the currency collapses. As mentioned earlier, there was no cultural incentive to anyone to argue with the Prime Minister’s office, the Minister of Trade, the State Bank, or someone with close connections to them. Lohr (1998) pointed out that this form of “crony capitalism” of patronage for well connected business executives is now under great scrutiny and disrepute. This situation resembles the exploitative system of the American robber-barons in the late 1800s, who finally received their punishment through divestiture.

When faced with questions involving transparency on insolvency issues, the aforementioned Asian tendency of (1) respect for people in powerful positions, (2) to not confront directly, and (3) to go carefully around to local press outlets, friends and associates of the target, do not lend themselves to the full and accurate disclosure necessary to correct perilous situations. This lack of confrontation led to ten years of face-value government assurances until that one day in July of 1997 when the Central Bank of Thailand admitted publicly they were insolvent due to unpaid loans. At the same time, the Economist reported that taxpayers’ burden for insolvent banks was 800 million baht, one sixth of the Thai GDP.

The cultural value of non-confrontation of people in powerful positions created in high power distance countries allowed some astounding latitude in fiscal practices. The Economist (1998) reported that Thailand’s Central Bank (1) allowed banks to claim that a secured loan was performing even if no interest had been paid for year and (2) spent nearly 100 million baht (US$2.6 million) a month to stave off insolvency. The same lack of confrontation occurred in South Korea with Hanbo and KIA Motors conglomerates who had been insolvent for a decade. By the middle of 1997, non-confrontation was impossible and the collapse of key industries and currencies rippled instantly and throughout the region.

CONCLUSION
The antecedents of the Asian economic crisis are economic (too much growth too fast, too much unsecured credit, too many unworthy ventures and leaders) and cultural (too much confidence in the leaders’ grand visions, too little investigation of people and situations who needed scrutiny, and too much group harmony, or insistence on it by the leaders). They provide lessons that Asian leaders will have to learn whether it takes IMF restrictions, full scale reform movement, revolution, or merely making laws and economic practices by which they will have to stand resolutely.

Government officials and business people throughout Asia have continually stated that Asian values brought them incredible economic progress over the years. Yet another set of values - absolute trust in leaders, tolerance of corruption, lack of confrontation - emanating from collectivism, authoritarianism and power-distance encouraged risky behavior that led to the economic crisis. Higher-ups spent considerable time avoiding responsibility which at first played well with the public.

While there is no lack of educated leaders and population who should be insisting on change, Zhou (1998) reiterated that Asian values and mores are products of thousands of years, and cannot be expected to change quickly and drastically. The 1997 cataclysm should spur deep philosophical introspection that will encourage Asian countries to forge economies that are less prone to a wild roller coaster ride, so that they enjoy a lengthy boom without this spectacular and devastating bust.

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