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ASIAN FINANCIAL CRISIS 20TH ANNIVERSARY: Dr. Khor Hoe Ee, Chief Economist, ASEAN+3 Macroeconomic Research Office (AMRO)



Twenty years have passed since Asian countries survived the financial crisis in 1997 and they are widely seen with improved financial strength. Yet today they are facing the threat of the U.S. from international alliances and the growing ambition of China in the region. What lies ahead for AFC survivors amid this power reshuffle and the complications from monetary tightening led by the Federal Reserve?

On Thursday, June 29, Dr. Khor says: “Asian policy makers took the lessons of the AFC crisis to heart and implemented very painful reforms to strengthen the economic fundamentals and the macroeconomic framework. They also repaired balance sheets of the banks and corporate sector to address the issue of over-leverage and currency mismatch... The economies are definitely more resilient now and better able to withstand external shocks.”



HERE'S THE EDITED TRANSCRIPT OF THE CHAT

Q: Abundant liquidity and excessive lending were the key factors leading up to the 1997 crisis. Fast forward to now, how soon would you think central banks should proceed to tightening to avoid the next crisis?

A: You are right about the risk of excess liquidity but central banks are now much more vigilant of the risk and they have been taking measures to mitigate the risk. Still, it has been a struggle for some central banks managing the risks. I think most central banks would like to see the rates normalise, but it should be done gradually and communicated well. Vulnerabilities have built up with higher leverage in the household and corporate sectors and any abrupt and sharp increase in interests can be destabilising.

Q: Are Asian economies in better shape in terms of growth and balance sheet to sustain a replay of the Asian Financial Crisis, if that occurs again?

A: Asian policy makers took the lessons of the AFC crisis to heart and implemented very painful reforms to strengthen the economic fundamentals and the macroeconomic framework. They also repaired balance sheets of the banks and corporate sector to address the issue of over-leverage and currency mismatch. They have also built up much stronger buffers in the form of foreign reserves and lower public debt. The economies are definitely more resilient now and better able to withstand external shocks.

The economies have undergone real-life stress test in recent years. During the taper tantrum, most of the economies were able to manage the shocks very well. Indonesia came under some stress, but since then they have strengthened their macro fundamentals and improved their policy framework. As a result they were very resilient during the more recent financial shocks, such as Brexit and Trump-tantrum.

Q: What are the potential risks from China replacing the U.S. in terms of economic influence in Asia?

A: China has become a big part of the region. It played an important role in the rebalancing and integration of the region. However, it also means that the spillover of China on the region and the rest of the world is now greater than even the U.S. This is why we are relieved that the Chinese economy appears to have soft landed and is expected to grow at a relatively stable rate of 6.5 percent over the next few years.

Q: How do you see the economic relationship between China and the ASEAN countries developing?

A: The economic link between China and the ASEAN countries has strengthened considerably over the years and can be expected to remain strong going forward. China has become a huge market for consumer durables now with the rapidly rising middle class and is a major importer of consumer goods from some of the countries in the region. It is also a major source of investment. The "Belt and Road" initiative will only enhance the linkages between China and region. China has the funding and capacity to invest in infrastructure in the region, which is badly needed in many of the countries. China has also become the biggest tourist market in the world and tourism has the potential to be a major driver of growth for the ASEAN countries.

Q: Dollar-peg was seen as one of the reasons leading up to the 1997 crisis. Against the backdrop of a rising yuan, how do you see the future of the dollar's role in the region?

A: That was a key weakness, but since the AFC, countries have adopted more flexible exchange rate to reduce the risk. Both regulators and corporates are also more wary of the currency risk and most borrowing in the region are now in local currency except when there is a natural hedge or the corporates are able to hedge their risk.

The Renminbi will continue to grow as an international currency because of the size of China in trade and investment. However, the U.S. dollar will remain the dominant currency in financial transactions and we expect that to continue in the foreseeable future.

Q: What would be the biggest potential risk to watch out for in Asia?

A: Fortunately the risks have receded in recent months but the major risks for the region would be protectionism, anti-globalisation and financial shocks that lead to disorderly markets and massive capital outflows.

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