

## The Asian Crisis: Three decades on

Why three decades? To many observers the crisis only broke in July 1997, when the Thai government was forced into floating the baht, a move which led to its rapid depreciation against the dollar. At the time many experienced observers of the Asian scene thought that the Thai problems resulted from mistakes which the government had made in the early 1990s when it decided to liberalise the capital account of the balance of payments, while at the same time pegging the baht against the dollar, and using monetary policy to dampen domestic demand (the so-called impossible trinity). As other governments in the region had not made similar decisions, there was unlikely to be much contagion from Thailand's problems. But the contagion spread rapidly, while the Bretton Woods institutions appeared unable either to stop the contagion, or to suggest appropriate remedies. From 1998 onwards, as GDP shrank at an alarming rate in several of the "Asian Miracle" economies, there began an avalanche of literature trying to explain what had gone wrong. This paper will look back at this literature, summarise its usefulness and suggest what lessons have been learnt. It will argue that while premature financial liberalisation may have been part of the problem, there were several other developments, including the declining influence of technocrats across the region, and the failure of government agencies including central banks to adequately control foreign borrowing on the part of business groups. The paper will also examine some of the longer term consequences of the crisis for subsequent economic policies and economic growth in the most affected countries (Malaysia, Indonesia and Thailand) as well as the effects on other countries in the region which were considered to have escaped with little damage (the Philippines, and Vietnam). In Indonesia and Thailand the crisis led to regime change, which was especially dramatic in Indonesia; the 32-year presidency of Suharto was brought to an abrupt end in May 1998. In Thailand changes occurred which ultimately led to Thaksin taking power in 2001, with consequences for politics in that country which are still being felt today.