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THE ASIAN ECONOMIC CRISIS AND INTERNATIONAL BUSINESS: IMPLICATIONS FOR TOURISM

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ABSTRACT

This paper reviews the unprecedented events leading to, and surrounding, the East Asian currency, financial, and economic crisis of 1997. It does so in the context of globalization and development trajectories in context with foreign direct investment and the tourism industry. It addresses the imprint of the crisis on Asian development, emphasizes its impact on the region, and elicits implications for the tourism industry in Asia. This paper explores various aspects of the crisis and analyzes the different intensities of impact on regional economic activities. It takes the view that policy-makers require a long-term perspective, it delineates the ensuing challenges, elicits the impact on the tourism industry in the ASEAN region, and concludes by suggesting the areas of the tourism industry worst hit by the crises.

Introduction

Prior to 1997 the East Asian Miracle, the subject of numerous academic and business analyses, was real enough. There were few if any dissenting voices (Krugman, 1994).¹ Those sufficiently courageous to publish their prognostications were unceremoniously dismissed. However, it was readily apparent that there were major risks in the endogenous policy developments of some Asian economies. According to the perceptions of one highly respected observer, these policies on occasion demonstrated "stupidity and weakness"² which, unchecked or unmoderated, would lead inevitably to rapid, and ultimately, uncontrollable exogenous adjustment pressures. The IMF/World Bank meeting in Hong Kong in September 1997, imagined previously as a tribute to the "miracle economies," instead degenerated into a gladiatorial arena where the policy strands of the "miracle" unraveled and exposed fundamental systemic flaws. An attempt to understand the dynamics and demise of regional economies witnessed the bizarre and unparalleled display of one of the region's prominent statesmen trading insults with an equally prominent global financier.

In the "Year of The Tiger," the Asian currency and financial crisis is arguably the first, and we believe it will be viewed in retrospect as the most significant, "event horizon" of

¹ P. Krugman, "The Myth of Asia's Miracle," *Foreign Affairs*, November/December 1994, pp. 62-78.

² David Lamb, "An American perspective of Singapore's strength in the face of the regional crisis," *The Sunday Times*, 22 February 1998, p. 6.

the postmodern era of globalization and economic interdependency. It is entirely different in global magnitude to the European exchange rate crisis of 1993/94 or the Mexican peso crisis of 1994/95. The volumes already published in academic, business, economic, and socioeconomic organs are vivid testament to the grip the still-unfolding event has on our imagination and intellect. In its speed and its regional and ultimately global reach, the dimensions of the crisis in contagion have taken all but the most prescient—an exalted few³—by surprise. Those few discerned misfortune not only in the extraordinary indices of growth posted by the miracle economies but also in the region's inundation by long-term private capital in the form of Foreign Direct Investment (FDI) inflows (in 1997 capital flows to developing countries amounted to US\$256 billion, of this about US\$90 billion [70%] went to Southeast Asia).⁴

Why then another paper on Asia's woes? To answer critics, we would argue that the quadrilateral dimensions of the crisis—currency, financial, economic, and socioeconomic—warrant examination in the light of international business and its globalization. Firstly, the crisis is exacerbated by the ex-ante condition of unseasonably dry climate and ex-post impact of oil prices slumping to 1973 levels. Secondly, in support of the insightful Peter Drucker, the underlying dynamic to the widening crisis is social in character due to the explosive dislocations of the last 30 to 40 years of Asian development.⁵ Thirdly, a critical long-term analysis of Asia's intertwining "developmental state" and "statist" development and laissez-faire trajectories reveals four constant significant factors: (a) the vastly accelerated industrialization of urban Asia; (b) the institutional "paralysis of Japan"—"a 19th century European country" (Drucker, 1998; Wolf, 1998) run by a civil service bureaucracy; (c) the resentment felt towards international Chinese capital (incidentally, this capital finds itself in some cases, because of historical experience, in collusion with discredited power elites); and (d) related to the preceding point, a discernible inability, in all but rare cases, to make an efficient and effective separation between economic policy and business interests. These contingencies together represent the absence of stabilizing checks and balances and have the potential to turn Asia into a powder keg. On this basis, Asia deserves immediate attention.

The overall consequences cannot be other than long lasting.⁶ However, ultimately, the Asian crisis represents the opening gambit in the battle for "the commanding heights" and control of the integrated global economy between the political institutions of governments (predominantly Western) and the forces of the marketplace (Stopford, Strange, & Henley, 1991; Korten, 1995; Yergin & Stanislaw, 1998).

³ Among these were the noted Paul Krugman (1994); Jim Walker, Chief Economist of Credit Lyonnais Securities, who reported in January 1995 on the potential of Thailand to emulate Mexico in a currency crisis [*The Straits Times*, 23 March 1998, pp. 34–35]; and UNCTAD [Trade and Development report 1996, Geneva, pp. 104 and 123].

⁴ See UNCTAD, World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy, UN, UNCTAD, New York, pp. 5–8.

⁵ See *The Straits Times*, 28 March 1998, p. 66, for a unique perspective of the critical situation in Asia.

⁶ See *The Straits Times*, 25 March 1998, p. 6.

The Asian Economic Crisis—An Overview

There are technical and social reasons that have interacted to generate the contagion of the Asian crisis. The technical explanations focus on the relationships of globalization, liberalized and deregulated financial sectors with immature banking systems, rapid accumulation of FDI, and availability of international and domestic credit (Akyuz, 1998) that has led to high-octane economic performance. The social reasons focus on an unfavorable cocktail of distorted self-assessment of values⁷ by Asian nations with misconceptions of "regional cultural theory"⁸ that has led not only to uncritical choices for investment but also to the excesses of "crony capitalism."

The currency crisis of mid-1997 in Asia was manifested by the crisis of confidence in capital and government authorities' ability to continue defending their U.S.-dollar-pegged currencies. The lack of confidence arose partly because of interaction of the banking sectors and stock markets and the region's overdependence on highly leveraged real estate. Excessive foreign "off-shore" borrowing by banks, corporations, and investors on a short-term basis went into real estate, stock market speculation, and unproductive expansion. Inadequate loan management policies, corruption, and cronyism were other manifestations that contributed to the regional currency meltdown. No doubt massive inflows of FDI boosted growth in industrial projects and tourism-related investments, but they also built up problems. Weaknesses in the regulation of national banking systems made reckless borrowing for asset investments possible, and this in turn led to unrealistic asset price inflation (which incidentally started in Japan in the 1980s).

Borrowing by banks in Southeast Asia was US\$241 billion or 62 percent of the Bank of International Settlements (BIS) lending to all of Asia by the end of 1997.⁹ The sharp rise in regional short-term external debts occurred without accounting for exogenous global macroeconomic risks.¹⁰ The following table profiles emerging-market external debts and debt servicing.

⁷ See Terry McCarthy's interview of Lee Kwan Yew, "Asian values and the crisis", *Time*, 16 March 1998 for an appreciation of the meaning and interpretation of Asian values in relation to the crisis.

⁸ See Steve Lohr, "Asian versus Western values: Are capitalism and democracy linked?" *The Straits Times*, 20 February 1998, p. 36 for an analysis that brings into relief the notion of Asian values and argument that "authoritarian states have an advantage in promoting economic progress."

⁹ Neil Behrmann "Euro bank admits to Asian lending spree," *The Business Times*, 20 January 1998, p. 33.

¹⁰ Bank for International Settlements. "International Banking and Financial Market Development," *The Quarterly Report*, December 1997, p. 12.

TABLE 1
External Debt (US\$) and Debt Servicing (% of GDP)

Country	EXTERNAL DEBTS		DEBT SERVICING	
	1996	1997	1996	1997
Indonesia	49.8	188.7	5.9	19.1
Malaysia	38.8	68.9	5.4	8.1
Philippines	50.1	79.7	7.4	10.6
Thailand	49.0	97.1	4.7	9.0

Source: *The Straits Times*, Thursday, January 22, 1998, p. 46.

Note: The 1997 debt burden is computed using exchange rates on January 16, 1998.

A measure of credit available to Asia as a whole is provided by the sobering detail that as of 1997, European banks had a loan exposure of US\$320 billion to the region. In comparison, Japanese banks had an exposure of US\$260 billion while U.S. banks had an exposure of US\$46 billion.¹¹ The external debts and the debt servicing increased in 1996 and 1997 due to growth in bank lending. Lending to the private sector took place in the context of a rapid economic boom in the second half of the 1980s that continued until the collapse of investor confidence. The growth in bank lending in these Asian emerging markets between 1994 and 1996 averaged 22.4% in Indonesia, 23.9% in Malaysia, 30.20% in the Philippines, 22.0% in Thailand, and 15.8% in Singapore.¹² Much of this growth in bank lending went into largely unproductive input factor growth such as real estate, stock markets, overcapacity in tourism investments, and overambitious asset ventures. Private sector companies were the main culprits, and governments of the emerging countries may be censured for failing to institute "financial repression." The main reasons for large-scale borrowings by investors and failure may be seen as follows.

- The apparent firm commitment by national authorities to stick to U.S. dollar currency pegs. The currency exchange rates of the countries had remained tied to the U.S. dollar and since 1995 the U.S. dollar had been appreciating. This ensured attractiveness of local assets to international investors.
- The ongoing process of deregulation in most Southeast Asian countries complicated the situation for governments that had liberalized their financial markets without strengthening their financial regulations and banking supervisory systems. This not only allowed massive loan portfolios to accrue in property investments but also allowed companies to substitute equity for debt, leading to highly unstable capital structures. The average debt-equity ratio of South Korea's top 30 chaebols stood at approximately 400% in 1996.¹³

¹¹ See speech by SM Lee Kwan Yew, reported in *The Straits Times*, 21 February 1998, p. 48.

¹² *The Straits Times*, "Currency crises: How and when will East Asia recover," 22 January 1998.

¹³ See Report by the Institute of International Finance, "Capital Flows to Emerging Market Economies," 29 January 1998, p. 12A.

- The progressive broadening of the range of investors amidst ample global liquidity. Many companies and banks in emerging markets had borrowed U.S. dollars for the short term but used the liquidity for long-term investments in office blocks, condominiums, and residential apartments. As currencies were tied to the U.S. dollar, regional exports became expensive and competitiveness declined precipitously in 1996. This widened current account deficits (shown in Table 3).
- The seriously inadequate understanding of foreign exchange exposure, financial instruments, and their dynamics by government operatives. *The Financial Times* (January 12, 1998) gives a startling account of this incompetence with reference to Thailand and its central bank at the start of the crisis on June 25, 1997. The respected paper quotes "With the blessing of his superiors, the central bank's young and inexperienced chief currency trader, Paiboon Kittisrikangwan, had locked up most of Thailand's foreign exchange reserves in forward contracts. Thailand's reported foreign reserves of over \$30bn were a myth; in fact, they had dwindled to \$1.4bn, equal to just two days of imports."¹⁴
- Computer and information technology has globalized foreign exchange transactions. In Asian capitals, American, European, and Japanese bankers, stockbrokers, and financial analysts were noting the moves of governments in East Asia, instantly analyzing them, and reporting back, round the clock, to the headquarters in New York, London, and Tokyo. However, the governments in the region were reacting to financial markets the same way as in the past—a failure to recognize that the global financial machine, which had brought so much investment inflow to the region, could easily be put into reverse.

The BIS further states that overly rigid exchange rate regimes in the region associated with unsound macroeconomic fundamentals and deficits in current account balance also caused currency volatility. Table 2 reveals the macroeconomic fundamentals in the region.

TABLE 2
Macroeconomic Fundamentals (Average 1994 to 1996)

Index	Indonesia	Malaysia	Philippines	Thailand	Singapore
Growth (%)	7.9	9.1	5.0	8.0	8.8
Inflation (%)	8.6	3.6	8.5	5.6	2.1
Fiscal Balance (% of GDP)	-0.8	1.3	-1.1	2.2	6.5
Savings Rate (% of GDP)	29.5	34.9	18.6	35.1	50.0

Source: *The Straits Times*, Thursday, January 22, 1998, p. 46.

Regional macroeconomic fundamentals with the exception of fiscal balance were relatively strong. However, the current account balances in all the emerging markets with

¹⁴ *Financial Times*, 12 January 1998, Internet Version, <http://www.ft.com> accessed 23 January 1998.

the exception of Singapore are negative. The depreciation of currencies against the U.S. dollar may therefore widen the gap further still once disposable incomes decline because of soaring prices and widespread closure of real estate development sites around the region. Table 3 provides data for the current account balances of Indonesia, Malaysia, Philippines, Thailand, and Singapore.

TABLE 3
Current Account Balances (% of GDP)

Country	1994	1995	1996
Indonesia	-1.8	-3.3	-3.4
Malaysia	-6.3	-8.5	-5.2
Philippines	-4.5	-4.3	-4.3
Thailand	-5.6	-8.0	-7.9
Singapore	17.1	16.9	15.0

Source: *The Straits Times*, Thursday, January 22, 1998, p. 46.

As stated earlier, poor loan portfolio management policies played a significant role in the manifesting the crisis. The loan decisions in many Southeast Asian nations were made on either inflexible dirigiste intervention or networking rather than on dispassionate and objective risk assessment by financial institutions. Hence, the poor loan management policies exaggerated the speculative asset "bubble." Furthermore, as governmental agencies, bureaucrats, and political leaders in Southeast Asian countries had geared their economies into high-growth trajectories, shocks were bound to have amplified multiplier effects. Indonesia's first passenger jet project, the new airport in the city of Medan, and a proliferation of toll roads; Malaysia's Multimedia-Super Corridor Developments and the world's two tallest buildings; Singapore's adventure in Suzhou Industrial Park; and Thailand's real estate-based projects and industrial investments in the Mekong Basin are some examples of the elements of the growth trajectories.

The Asian Economic Crisis—Development and Macro Dimensions

The crisis, initially a currency crisis, began through a series of events in Thailand in mid-1997 and spread throughout Southeast Asia like wildfire. The crucial episodes included the attempted bailout of its largest finance company—Finance One—and revelations in the weeks that followed that many more finance companies were distressed. A slide in the stock market occurred and botched-up investigations led to the failure of the Bangkok Bank of Commerce. Panic among investors provoked the withdrawal of funds from banks. As investors rushed to the banks, international (and domestic) speculators attacked Thailand currency. The currency fell sharply as a result; it now stands at 45 percent less than its value in December 1997. The Thai government resorted initially to shoring up the value of currency but, in the face of massive capital movements, had to float its currency (in effect a devaluation exercise). This unpegging of the Thai baht from the U.S.

dollar sparked off regional currency crises. Since July 1, 1997, the Thai baht and the Indonesian rupiah have depreciated by 45 and 70 percent respectively against the greenback, and the Malaysian ringgit and Philippine peso have lost 40 percent of their value against the U.S. dollar.¹⁵ The Singapore dollar, however, has fallen only 20 percent due to relatively strong macroeconomic fundamentals.

The depreciation of regional currencies has continued relentlessly. In the earlier years of the 1985 Plaza Accord, Asian countries tied their currencies to the U.S. dollar. This worked well when the U.S. dollar was weakening against the Japanese yen and the German deutsche mark. With the Thai baht, the Indonesian rupiah, the Malaysian ringgit, and the Philippine peso tied to a weak dollar, exports of these countries increased constantly. However, after the U.S. dollar began to strengthen against international currencies in mid-1995, instead of reconsidering policies, these Asian countries continued their currency link with the U.S. dollar. Companies in these countries kept on borrowing short-term loans with impunity for long-term investments, comfortable in the presumption that exchange rates would remain more or less the same. Total regional external debt has soared. Table 4 reveals the state of indebtedness of some Asian countries in terms of U.S. dollars.

TABLE 4
Asia's Biggest Debtors—Amounts Outstanding (in US\$ million)

Country	June 1997	December 1996	December 1995
South Korea	116,823	108,792	83,260
Thailand	98,941	98,693	92,178
China	85,699	79,644	67,061
Indonesia	60,626	56,518	48,932
Malaysia	32,813	25,835	18,756
India	21,638	19,467	17,049
Philippines	16,501	13,351	8,067
Asia as a Region	474,169	439,700	372,025

Source: The Bank for International Settlement's Report, January 1998.

Massive indebtedness vis-à-vis the widespread repayment difficulties in the depreciating currencies have added to the general loss of confidence in Asia. Fund managers have sold out their assets in Asian currencies and, in a downward spiral, their selling has further eroded Asian exchange rates. It is cogent to note that in September 1997, U.S. Federal Reserve Chairman Alan Greenspan, when meeting finance ministers from Southeast

¹⁵ *The Straits Times*, 22 January 1998, p. 46.

Asian countries in Hong Kong, pointed out not only the "poor investment decisions" by their governments but also widespread unsound bank lending.¹⁶

The Asian Economic Crisis—Implications for Political-Economy and International Business

It needs emphasizing that the arguments over prescriptions and solutions to Asia's economic crisis are becoming as intense and as complicated as the problems thrown up by the crisis. The Sachs argument (you don't revive an economy by IMF conditionalities)¹⁷ is elegantly countered by Linda Lim, the director of the South East Asian Business Program of the University of Michigan.¹⁸ Paul Krugman vigorously opposes the currency board solution by Steve Hanke.¹⁹ The liberal Western view is opposed by those in Asia with autocratic tendencies (notably Indonesia's elites who evoke the national constitution to argue against IMF conditions of assistance).²⁰

The Asian currency crisis has broadened into an socioeconomic crisis and is therefore being dramatized in two dimensions: that of ideology and political economy. In this the crisis firstly, evokes the engagement of finance capital in the world economy as per the analysis of Rudolf Hiferding (McLellan, 1979, pp. 59–71). Secondly, it brings to the fore the contention between The West (as defined by Huntington, 1996, pp. 81–90) and Asia's economic affirmation (Huntington, 1996, pp. 103–109). It is arguable that dispassionate and objective scrutiny of Asia's socioeconomic performance was hindered recently by the World Bank's study, *The East Asian Miracle*, 1993. Ironically, some of the characteristics advanced in 1993 as necessary for accelerated economic growth and performance have turned out, in 1997, to be precisely what is responsible for crisis and economic failure (in this regard the interventionist or statist orientation of policy deserves particular mention).

At the operational level, the Asian crisis permits international business—in a world of increased interdependency, diminishing barriers to trade, and increasing globalization—to witness factor mobility at work in financial and labor markets. Locally, perhaps the most significant socioeconomic implication is a rising, uncontrollable pressure for regional labor transmigration from the relatively worse-off areas (Indonesia) to the relatively better-off locations (Malaysia and Singapore). The intraregional friction this

¹⁶ *The Straits Times*, "Greenspan blames Asian policies for crises," 10 October 1997, p. 60.

¹⁷ See Jeffrey D. Sachs, "The Wrong Medicine for Asia," 3 November 1997, *New York Times*, Internet Version accessed 30 March 1998 for this viewpoint.

¹⁸ See Linda Lim, "'Asian values' idea: Is it out?" *The Sunday Times*, 29 March 1998, pp. 36–37.

¹⁹ See "U.S. expert slams 'snake-oil' cures," *The Sunday Times*, 29 March 1998, p. 4 for an appreciation of the vituperative nature of the arguments.

²⁰ See *The Straits Times*, "Coping with a crisis of legitimacy," 26 March 1998, pp. 24–25.

pressure is causing is already apparent.²¹ The social stress that will be placed, in coming months, on migration authorities in dealing with "boat people" constitutes a cost, with relatively little value added, that Asian countries can ill afford. The labor issue is compounded by the increasing shortages of food²² and concomitant hyperinflation for basics in urban areas of Indonesia.²³ The now silent infrastructure and construction sites in several parts of the region mean rising unemployment and—as in developing countries one worker usually supports an extended family—the social consequences are dire.²⁴

The multiplier effects of these negative social impacts are such that the tentacles of the crisis reach deep into regional society. The story is one from riches to rags for many of the emergent middle classes of Asia. This group is the very sector whose spending patterns are responsible for domestic demand-led growth and import propensities (for the benefit of the United States and Europe)—the phase after export-led growth. The once growing and assertive but now stunted middle classes have to alter drastically their discretionary spending as unemployment, personal, and business debt take their toll.²⁵ This toll ultimately results in the loss of life.²⁶

Internationally, the inflationary as well as deflationary pressures in the region have prompted Multinational Enterprises (MNEs) to reappraise their regional and global strategies. Those in predominantly export-oriented sectors are investing. Many of those with FDI in sectors servicing domestic markets (for example, automobile production) are retrenching. However, others are taking advantage of debased asset prices.²⁷ This means movements in personnel on a tremendous scale as MNEs relocate productive capacities in a rearrangement of their networks, not only through mergers and acquisitions, but also by repositioning elements of their integrated international sourcing and production to reflect the new capitalization values of the assets of corporate Asia. The crisis has the potential, in its resolution, to represent what many in the region fear—the economic "re-colonization of Asia."

²¹ See Editorial, "Growing calluses on the heart," *The Straits Times*, 19 March 1998, p. 42; and Pang Gek Choo and Ravi Veloo, "Should the iron fist be tempered by compassion?" *The Straits Times*, 28 March 1998, p. 62 for a valuable appreciation of the tensions at work on this issue of illegal immigration in Asia.

²² Indonesia's poultry industry "is expected to run out of chicken this month" according to Reuters in a piece cited in *The Straits Times*, 23 March 1998, p. 9.

²³ See AFP, "Jakarta needs \$2B rice aid," *The Straits Times*, 25 March 1998, p. 4.

²⁴ See "Stabilize rupiah or face chaos," *The Straits Times*, 23 March 1998, p. 9.

²⁵ See Michael Shari, "Picking up the pieces," *Business Week*, 30 March 1998, pp. 18–19 on the restructuring strategies of business in relation to the crisis.

²⁶ See *The Straits Times*, 24 March 1998, p. 4 for an indication as to how financial losses are leading relatives of patients to turn off kidney machines.

²⁷ General Electric, "The U.S. MNE is planning to spend US\$40 billion in Asia over the next four years" [See "GE to pump \$64b into Asia," *The Straits Times*, 30 March 1998, p. 52.].

The Asian Economic Crisis—Sector-Specific (Tourism Industry) Implications

The currency crises have dampened the region's tourism industry. In comparison with others, East Asian and Pacific countries recorded in 1997 the smallest growth in international tourist arrivals. According to the latest bulletin of the World Tourism Organization (WTO),²⁸ 90.2 million international tourists traveled to the region in 1997, or just about 15 percent of the world's total tourism movement. These tourists helped East Asia and Pacific countries tally up US\$83 billion in tourism-related earnings. The study asserted that had East Asia and the Pacific continued to grow as in previous years, world average earnings would have approximated the 5.5 percent growth rate of 1996. In the event, average earnings from international tourism grew only by 2.7 percent. The study also indicates that tourist arrivals in the region would grow by 5.5 percent to 104 million by the year 2000, down from the original forecast of between 9 and 12 percent. Table 5 indicates the impact of the crisis.

TABLE 5
Top Destinations in East Asia and the Pacific Region

1997 Rank	1985 Rank	Country	Tourist Arrivals (2000)	% Change (1996–1997)
1	1	China	23,770	4.4
2	2	Hong Kong	10,406	-11.1
3	3	Thailand	7,263	1.0
4	4	Malaysia	7,200	0.9
5	5	Singapore	6,542	-1.0
6	6	Indonesia	5,065	0.6
7	7	Macao	4,915	0.5
8	8	Australia	4,286	2.9
9	9	Japan	4,226	10.1
10	10	South Korea	3,908	6.1
11	11	Taiwan	2,371	0.6

Source: World Tourism Organization.

The study claims that Asia-Pacific destinations would lose up to 12 million tourists annually over the next three years due to decreases in interregional tourism. Traditionally, 80 percent of tourist arrivals in the Asia-Pacific were interregional. It can be expected that even with weaker currencies, interregional arrivals might post close to zero growth in 1998. While the intraregional decreases might be compensated by long-haul tourism, particularly tourists from Europe and North America seeking bargains in a postdevaluation Asia, caution is necessary. The destabilizing events in Asian destinations could scare away foreign tourists.

²⁸ WTO (1998), "Tourism Market Trends: East Asia and the Pacific" Madrid, Spain.

The managing director of the Pacific Asia Travel Association (PATA), at the close of a three-day conference March 30, 1998, reported that the region's travel industry was facing "the greatest challenge." Forecasts of tourist arrivals in the region in 1998 are now gloomy following the rather bizarre mixture of problems; collapsing currencies, a Japanese economy on the brink of deep recession, forest fires in Indonesia, and health warnings in Hong Kong. The PATA executive, however, was optimistic in indicating a return to growth "once the region stabilizes."²⁹ In contrast, the WTO predicts that tourism in Asia and Australasia will "stagnate or decrease" in 1998. East Asia and Pacific arrivals increased by only one percent to 88.3 million in 1997 compared to 9.7 percent growth in 1996. Receipts from tourism grew only 1.1 percent to US\$82.1 billion compared to a 10.4 percent rise in 1996. The outlook is therefore ominous.

Hotels, food outlets, and airlines have started feeling the impact of the economic crises. Indonesian hotels are adjusting rates and firing expatriates as the collapsing currency and potential for social unrest continue to influence external perceptions and hence plague the country's tourism industry. Twenty-five percent of Jakarta's population of 12 million is already unemployed.³⁰ The star-rated hotels—which charge in U.S. dollars—have suffered more than non-star hotels. Star-rated hotels have lost their domestic market share while non-star hotels, charging in rupiah, have benefited, grabbing the domestic market share partly due to the inability to determine the exchange rate for the local currency.³¹ Many hotels in Indonesia are baffled in calculating the "reasonable exchange rate" for the rupiah against the dollar. Some hotels have started using Asian currencies to lure visitors. While this policy has helped non-star hotels to capture some regional market share, the star-rated hotels have continued facing low revenues and low occupancy rates.

Regional air transport (notably Indonesian airlines) have been among the worst casualties of the deepening economic crises. All Indonesia's major airlines have cut down on staff and fleet size while at the same time suspending services. Bouraq, an airline that serves regional and domestic routes, has returned two of its seven B-737-200 plans to cope with rising operational costs, 70 to 80 percent of which are dominated in dollars while earnings are primarily in rupiah. Garuda, the national carrier, has suspended 300 workers, pilots, and flight attendants to try to cope with soaring costs.³² Indonesian carriers have unpaid dues of US\$500 million for aircraft leases (a small but significant part of the US\$80 billion corporate debt hobbling Indonesia). To resolve this issue, the Indonesian government seeks a stay on debt servicing for several airlines. The Indonesian National Air Carriers Association (INACA) secretary general has asked the government to call a "soft moratorium" on debt payments. The Indonesian domestic airline market has

²⁹ "Travel execs upbeat about Asia-Pacific despite region's crises," *The Business Times*, 31 March 1998, p. 16.

³⁰ Debe Campbell, "Industry braces for crises," *Travel News Asia*, 16 February–1 March 1998, p. 1.

³¹ Interbank currency rate of OCBC bank published in *Business Times*, 4–5 April 1998, p. 10.

³² *The Indonesia Observer*, 14 March 1998.

therefore diminished greatly in its tourism service capacity and capability as a direct consequence of the crisis.

The crisis has prompted the Indonesian government to review or postpone major infrastructure projects worth 50 trillion rupiah (US\$15.7 billion). Many of these spending cuts relate to tourism developmental projects.

In 1995 Thailand intended becoming the tourism center of Southeast Asia, exploiting especially the Mekong subregion (incidentally named as a focus of major economic development effort at the ASEAN Summit in December 1995). However, Thailand's currency crises has inhibited severely these aims with the devaluation of the baht. In recent months, holidaying abroad has become more expensive for Thais. Tourist traffic from Thailand to Singapore has come to a standstill. The Tourist Authority of Thailand (TAT) shows that, from January to November 1997, total arrivals were 6,457,455, down 1,119 from the same period a year earlier.³³ The Thai authorities, which launched a high-profile tourism campaign in 1996, had hoped that the weaker baht would attract foreign visitors.

Although a strong increase was recorded from Indonesia, up 12.7 percent, and the number of visitors from Singapore rose by 7.21 percent, arrivals from Malaysia, Thailand's single biggest market, shrank by 0.52 percent. All the major income from Europe continued to decline, effectively erasing gains from markets closer to home.³⁴ The biggest fall came from Russia, considered one of Thailand's most lucrative emerging markets, with a drop in arrivals of 31.6 percent on the same period the year before. The TAT launched a multimillion-dollar campaign called "Amazing Thailand" in 1997 that was intended to attract 17 million foreign tourists in the next two years (a growth rate of 7 percent) and to raise 600 billion baht (US\$14.4 billion). The target remains out of reach due to the crisis.

In addition, as 35 percent or more of operating costs are in U.S. dollars, most hotels in Thailand have started quoting room rates in U.S. dollars. Thai Airways International has posted a substantial net loss of 26.66 billion baht (US\$640 million) in the first quarter of its 1997/98 fiscal year because of the regional economic crisis. The airline, which has a fleet of 80 aircraft and flies to most major destinations around the world, has been forced to cut costs as revenues have slumped.

In the wake of the crisis, the Malaysian government has advised its people to holiday at home. This policy has contrasting results for hotels and travel agents in the country. Although travel agents predict closure and retrenchment, local hotels welcome this policy. The policy and the weak ringgit have worked to the advantage of hotel operators on Pangkor Island. At the Teluk Dalam Resort, occupancy in December 1997 was more than 80 percent. Other resorts on the island also reported high occupancy rates, noting that unlike in the past, foreigners did not outnumber local guests. In Penang, Golden

³³ *Bangkok Post*, 30 January 1998.

³⁴ "Tourism Report," Tourism Authority of Thailand, Bangkok, Thailand.

Sands Beach along Batu Ferringhi reports that the share of Malaysian tourists also increased to 25 percent in November and December 1997.³⁵ However, in contrast, bookings for travel to the United States, Britain, and Australia have dropped sharply. This has affected travel agencies that concentrate solely on the outbound sector. It is estimated that a third of the more than 700 travel agencies in the country might have to merge or go out of business.

Malaysia, with a chronic labor shortage in the tourism sector only a year ago, now plans layoffs. Some one million foreign workers are planned now to be deported in 1998. The government has also increased the annual levy on foreign workers to M\$1,500 (US\$400) from M\$1,200 (US\$320) in a bid to discourage the influx of foreign workers. Malaysia has almost two million registered foreign workers and many of them work in tourism-related sectors.

Singapore's tourism sector is facing a tough year in 1998, with a forecast of eight to 10 percent drop in visitor arrivals compared with 1997. Singapore had 7.2 million visitors in 1997, a 1.3 percent decline on 1996's total. 1997 was also marked by the worst growth since 1983, when visitor arrivals fell 3.5 percent. The Singapore Tourism Board expects the Asian market, which contributed around 70 percent of visitors to Singapore, to weaken by 15 to 20 percent in 1998.³⁶ The STB also expects the bleak picture to bring down hotel room rates and occupancy levels. It appears that the present crisis will hamper the Tourism 21 targets of 10 million arrivals and S\$16 billion (US\$10 billion) in tourism receipts by the year 2000.

The number of visitors coming to Singapore continued to drop from October 1997 to January 1998 as a result of the regional economic turmoil. Only 509,752 tourists came in January 1998, a 16.7 percent plunge over the same month in 1997. Singapore's top three tourist markets in January 1998—Indonesia, Japan, and Malaysia—all showed double-digit declines. The number of ASEAN visitors went down almost 15 percent. The regional economic crisis has also resulted in a marginal fall of 0.4 percent in standard average room rates of hotels, which slipped to \$148.30 a night. Average hotel occupancy rates, about 79.5 percent in 1997, are also expected to go down in 1998. In response to declines, the STB has initiated various promotions.

Conclusions

The preceding discussion about the regional crisis, from the international business perspective, begs the questions how attractive is Asia to FDI and what are Asia's prospects for tourism growth. Previous studies (Mirza et al., 1998; Bartels, Mirza, & Kee, 1997) indicate clearly the selective attractiveness of the region. The current crisis places

³⁵ Brendan Pereira, "Many travel agencies may be forced to close," *The Straits Times*, 22 January 1998, p. 31.

³⁶ Ollie Quiniquini, "STB faces long hall," *Travel News Asia*, V25, N03, 16 February–1 March 1998.

greater pressure on business management to differentiate more effectively regional location-specific advantages. Asia is far from homogenous, despite the contagion of the crisis.³⁷ Further support for the empirical evidence comes from the posture of the international investing community toward Asia. Investors are beginning to differentiate carefully between the location-specific advantages offered by the different countries in the region. For example, country policy responses are different: while South Korea and Thailand have made discernible, but far from complete, moves towards accepting (and exploiting) IMF conditionalities; Indonesia has adopted an almost duplicitous and perhaps xenophobic attitude; and Malaysia (perhaps, in laudable terms) has reverted to that unique concept of self-reliance—the rejection of “colonialism in all its manifestation”—first articulated so clearly and powerfully at the 1955 Bandung Conference of the Non-Aligned States. Nevertheless, the long-term prospects for a structurally adjusted Asia are excellent (UNCTAD, 1998).

In some significant ways the ideological contention, part of the reaction to the Asian crisis, represents déjà vu—a replay of the concerns of the Bandung Conference. In 1955, Asian-African anxieties revolved about the refusal of the West to incorporate the economic concerns of developing countries into a weakly integrated world economy. In 1997/98, the concerns of Asian states (Africa is almost completely marginalized and has been living with IMF conditionalities since 1983) are overwhelmingly about their inability to constitute an alternative set of rules by which the dynamics and energies of the integrated global economy are orchestrated. Asia is also grievously concerned by the fact that the West refuses to accommodate any new set of rules not influenced by its own institutions. The international business challenges for Asia are enormous. How it copes will be a measure of regional coherence and individual nation maturity in the competitive management of economic affairs in the postmodern era of globalization. Performance from June 1997 to date is not as encouraging as it could be, given Asia's importance.

Not unexpectedly, the impact on ASEAN's tourism industry of two ongoing regional crises—the haze, during the last five months of 1997 and later in February 1998,³⁸ and the economic disorder—have taken center stage. The ASEAN countries' suffocating smog and destabilizing currency crises have cast an ominous shadow over the region's US\$26 billion tourism industry. The ASEAN countries had earlier projected improved tourist arrivals for future years; now they have to accept less optimistic estimates. For instance, Singapore's forecast for growth in 1997 was between 3 and 5 percent over 1996's 7.29 million visitor arrivals; these visitors spent US\$7.3 billion in 1996. The Tourism Authority of Thailand (TAT) forecasted 7.5 million visitors in 1997 over 1996's 7.2 million; spending in 1996 was US\$8.7 billion. In Indonesia, the visitor arrivals in 1996 were 5.1 million; spending was US\$6.31 billion. In 1997, Malaysia derived about US\$1.70 billion (RM6 billion to RM6.2 billion). In 1996, it was about US\$2 billion (RM7.2

³⁷ See *Business Week*, “Age of The Deal,” 2 March 1998, pp. 16–20.

³⁸ Derwin Pereira, “New Indonesian Fires Cause Haze, Flight Delays,” *The Straits Times*, 3 February 1998.

billion).³⁹ All these countries now expect to scale down their projections for visitor arrivals to "near-zero" growth in 1998 and flat if not negative growth in 1999.⁴⁰

The FDI that has been the backbone of recent high performance trajectories in the in "tiger economies of Asia" in the last two decades (not least in tourism projects) faces cut-backs in the immediate future. The price of air travel is also expected to rise because airlines set their airfares in local currencies and the local currencies continue to lose value against the U.S. dollar.⁴¹

The Asian economic crisis (like the bull-run of the U.S. economy but in contrast to it) is of immense importance not only in terms of the centripetal and centrifugal forces of regional integration but also because of the ramifications inherent in globalization. The perceived tardy response by European and American powers, the discernible tendency and attraction for Asian isolationism (also known as "self-determination") and the geostrategic value of the region for post-Cold War confrontation makes for a potentially unstable theater for international business and FDI.⁴² Continued volatility in international business operations across most sectors is one certain outcome.

In the postmodern era of globalization, the implications of the Asian economic crisis for the economic integration of the region are enormous. The amplitudes of economic cycles are likely to become exaggerated. Among the key issues to be addressed is how the vibrancy of global competition in integration can be attenuated to prevent the more excessive by-products of globalization. The Asian crisis provides a much-needed but faint glimpse into the future of globalization. The memory of the "event horizon" will no doubt stay long with those privileged to have witnessed it firsthand.

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³⁹ *The Star Daily*, 2 February 1998. p. 3.

⁴⁰ Ang Wan May, "Tourism board sees near zero growth in '97 visitor arrivals," *The Business Times*, 12 December 1997, p. 2.

⁴¹ William Choong, "S-EA currency slump continues," *The Straits Times*, 7 January 1998, p. 1.

⁴² See "East Asia's new faultlines," *The Economist*, 14 March 1998, pp. 13-14.

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