

# Asia

The financial crisis in Asia poses serious trade and commercial issues for U.S. firms, workers and consumers. After years of rapid growth, the crisis has created disarray in Asian markets and has exposed American firms to a highly uncertain export and investment environment. Devaluation of many Asian countries' currencies, failed and failing financial institutions, a lack of liquidity, and an increased risk of nonpayment have made financing exports to a number of Asian countries more difficult. At the same time, a slowdown in economic activity has lowered the capacity of many Asian countries to import U.S. goods. The Asia crisis also is likely to result in increased imports from Asia, as currency devaluations make products from the region much cheaper in the United States.

Last year, Indonesia, South Korea, Malaysia, the Philippines, and Thailand ("Asian Five") accounted for over 8 percent of our total exports (slightly less than our exports to Mexico). But this year, because of the crisis, we expect that these markets will only account for five percent. During the first six months of this year, our exports to South Korea, Thailand, and Indonesia—the hardest hit countries—were 43 percent less than last year as lower currency values raised prices of U.S. goods, financing for imports dried up, and lower growth hurt demand for U.S. products.

Since many U.S. exporters to the region are producers of components which are re-exported to the United States, it is difficult to project the impact of the crisis on U.S. exports. However, manufacturing appears to be the hardest hit by the Asian Crisis with exports of telecommunications equipment down 41 percent, data processing equipment down 29 percent, and electrical machinery down 27 percent. Agriculture industries, which attribute 45 percent of their export growth to Asia, have seen considerable declines in export sales as a result of the crisis. U.S. agricultural exports to South Korea have fallen 31 percent compared to last year, while exports to the Association of Southeast Asian Nations (ASEAN) markets—Brunei, Indonesia, Malaysia, Thailand, Vietnam, Singapore, and the Philippines—were down four percent.

“Our leadership as the United States’ official export credit agency is demonstrated by the critical financing Ex-Im Bank is providing in response to the Asian financial crisis. Ex-Im Bank is vigorously pursuing its mission to support U.S. exports, sustain American jobs, and positively impact economic growth worldwide by offering exporters the loans, guarantees, and insurance products they need to compete in the global marketplace.”

James A. Harmon, President and Chairman  
Export-Import Bank of the United States

The liquidity crunch in Asia has had a dramatic impact on TPCC export credit agencies. The Trade and Development Agency (TDA), the Export-Import Bank (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC), and the Department of Agriculture (USDA) have kept their programs open during this period and have worked to enhance these programs to meet the demands of the Asian situation.

Part of the demand for financing is coming from countries that had “graduated” from the need for official financing support, but that are again seeking assistance. As a result, the overall exposure of these agencies to Asia has increased dramatically. For example, through May of 1998, Ex-Im Bank’s and USDA’s programs supported 27 percent of U.S. exports to South Korea, where, as in the past, exports to South Korea required little support.

### Action Agenda of TPCC Agencies: Long-Term Commitment to Structural Reform

While no one knows how long the crisis will last, the U.S. Government is committed to playing a strong role in assisting Asian countries with the structural reforms needed to restore sound economic growth. While the U.S. Government has supported efforts to help stabilize the region’s financial system, the TPCC has been developing a commercial strategy to bolster these efforts and help U.S. companies maintain their competitiveness in these important markets.

### Our Immediate Response to the Crisis

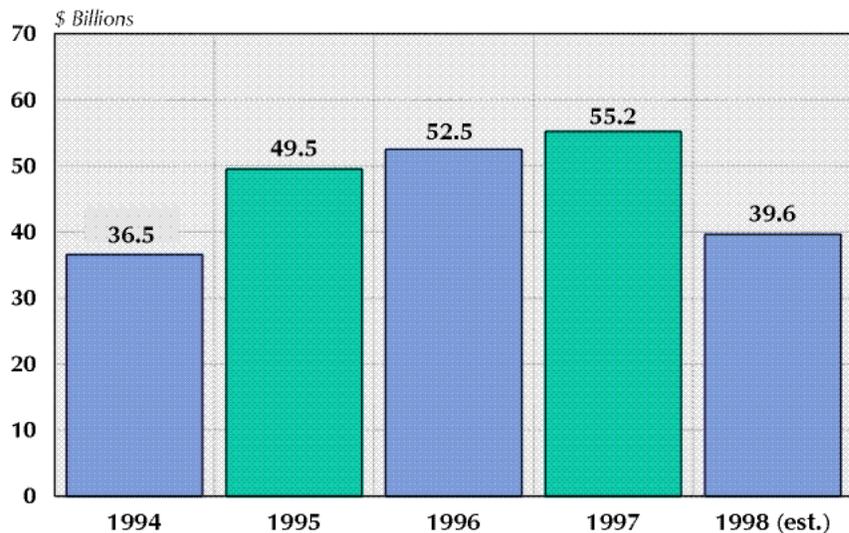
The TPCC agencies have already taken a number of quick actions to mitigate the negative impact of the crisis on U.S. exports. The Asia working group, chaired by Ex-Im Bank, was split into three subgroups to respond to different aspects of the crisis. These groups are trade finance, technical assistance, and business development.

**Trade Finance:** Because of severe restrictions in the availability of short-term finance in the most heavily-impacted markets (U.S. exporters report that the banks of their Asian customers require as much as 150% collateral against currency fluctuations), the TPCC’s first priority was to respond to U.S. exporters’ immediate need for trade financing.

**Ex-Im Bank:** Ex-Im Bank is responding to the crisis in several ways. First, Ex-Im Bank led a multilateral initiative with its foreign counterparts in other major export countries to encourage these

### U.S. Exports to the Asian Five

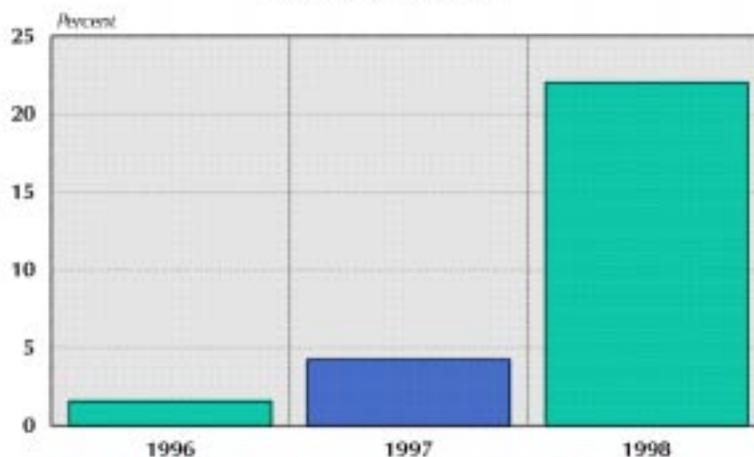
Indonesia, Korea, Malaysia, the Philippines, and Thailand



Source : Department of Commerce. 1998 is annualized from YTD through June

agencies to keep programs operational in the Asian region. This initiative began with the G-7 countries, but has since broadened to other OECD members. The goal is to prevent an unnecessary liquidity crisis by continuing to make available trade finance for Asian imports. Second, Ex-Im Bank developed mechanisms to supply up to \$1 billion in short-term financing and \$2 billion in medium-term financing to South Korea. Similar short-term financing support has been developed for Thailand and Indonesia. Collectively, in the first half of 1998, Ex-Im Bank approved financing support totaling \$5 billion for U.S. export sales to South Korea, Thailand, and Indonesia. Through these efforts to meet financing requirements of U.S. exporters, Ex-Im Bank has supported an estimated 14 percent of all U.S. exports to Thailand, Indonesia and South Korea so far in 1998—export sales which otherwise could have easily fallen through—and could support up to 50 percent of U.S. export sales to those markets if the financing support offered by Ex-Im Bank is fully utilized.

Percent of U.S. Exports Supported by  
EX-IM and USDA Programs  
In Korea and Thailand\*



\* Ex-Im Bank needs sovereign guarantee to start its short-term insurance facility in Thailand.  
Source: ITA, Ex-Im Bank, and USDA

**USDA:** Southeast Asia has been one of the fastest-growing markets for U.S. agricultural commodities, foodstuffs, fish, and forestry products, with sales of nearly \$7 billion to Singapore and the Asian Five in fiscal year 1997. Prior to the crisis, importers generally had access to credit at reasonable costs, reducing the demand for USDA trade finance programs. However, the crisis has caused a dramatic contraction in the availability of finance, making Credit Commodity Corporation (CCC) guarantees critical to the conclusion of many export sales to this region. After USDA officials visited the region in early 1998 to assess the situation, USDA dramatically increased program allocations for the Asian Five (and Singapore). This year alone, over \$2.5 billion in General Sales Manager (GSM) credit guarantees have been made available. In addition, \$50 million has been made available to these countries under the Supplier Credit Guarantee Program (SCGP), and \$40 million has been added to available import Facilities Guarantee Program (FGP) coverage for agribusiness projects in Indonesia, Malaysia, the Philippines, and Thailand. While U.S. exporters have since made some use of the SCGP in Korea and Malaysia, USDA will undertake outreach efforts to address limited usage of the FGP.

### Agriculture: GSM 102 and 103 Allocations

**South Korea.** Having reduced its reliance on GSM-102 guarantees from \$550 million in 1989 to only \$10 million in 1996, Korea had largely graduated from guaranteed import finance to purely commercial finance. The crisis has dramatically changed the availability of purely commercial import finance. USDA has responded by allocating \$1.5 billion in GSM-102 credit guarantees for the current fiscal year, backed by a sovereign guarantee from the Korean Ministry of Finance and Economy. By April 1998, nearly \$800 million of this amount was utilized with full utilization expected by year-end.

**Thailand.** Thailand had last used GSM credit guarantees to support \$800,000 in U.S. purchases in 1985. In January 1998, USDA announced a \$300 million credit guarantee allocation for Thailand in response to the crisis. Thai importers and banks have responded well to the program, and the majority of the allocation will likely be used by year-end. By April, this program already had supported \$77 million in U.S. export sales.

**Technical Assistance:** As the crisis worsened this year, the impacted economies began requesting additional technical assistance to cope with problems in areas such as banking regulation, project privatization, and food assistance. The TPCC has responded.

**USAID:** United States Agency for International Development (USAID) withdrew from South Korea several decades ago and from Thailand in 1995, as these countries graduated from “developing” to “developed” status. However, in Indonesia, USAID is sponsoring the placement of long-term policy advisors in several Ministries that play a key role in Indonesia’s response to the crisis. Advisors are being placed in the Ministry of Industry and Trade to help reduce trade barriers and increase the flow of supplies; in the Ministry of Planning to improve macroeconomic policy, draft new commercial laws, and trim low priority infrastructure projects; in the Central Bank to reform economic, monetary, and exchange rate policies, including those key to small business finance; and in the Ministry of Cooperatives to adjust the regulatory environment so that it does not discriminate against small business. USAID is also supporting short-term Treasury Department advisors on restructuring of the financial sector and is funding partnerships between U.S. and Indonesian business associations and think tanks to advocate for liberal policy reform.

In the midst of the crisis, USAID is maintaining its extensive policy and institutional reform programs in Indonesia and the Philippines and continuing to play a role in South Korea and Thailand through the United States-Asia Environmental Partnership (US-AEP). US-AEP promotes policy reforms that create incentives for the adoption of clean industrial and urban environmental infrastructure technologies in all four countries, incentives that lead to the importation of environmentally clean technologies from the U.S. and other developed country exporters. Finally, USAID’s Global Technology Network is providing overseas trade and investment leads to U.S. businesses in the communications and information technology, agriculture, health, and environment sectors.

**USDA:** Through its Foreign Agriculture Service, USDA is providing important technical assistance to these Asian countries. Agriculture assistance includes projects related to economic enhancements and development that promote market operations and infrastructure, food safety and storage, and standards based on sound science. For example, with USDA assistance, University of California researchers are collaborating with South Korean scientists to identify the likely effects of the reduction in trade barriers to high value U.S. agricultural exports.

### USAID Helps Philippines Privatize Energy Sectors Plants

USAID has provided assistance to the Philippines Government’s build-operate-transfer (BOT) Center since the early 1990s. The objective is to develop regulatory frameworks that attract private sector capital into infrastructure investment in the form of BOT contracts—a form of privatization.

The center initially focused on attracting private investment into power projects and has recently taken pioneering steps into the telecommunications and transport sectors. During 1997, USAID assistance helped achieve two major private investments: an \$80 million extension of the South Luzon Express Tollway and a new, \$400 million passenger terminal for Manila’s international airport. Over the life of USAID assistance to the BOT Center (as of 1996), of the 44 projects with an estimated cost of \$8.5 billion that have been awarded or completed, the U.S. business share is estimated to be \$1.3 billion (or 15%) and Japan’s business share is estimated at \$0.9 billion (or almost 11%).

**TDA:** The Asian Financial Crisis has slowed the overall pace of infrastructure development in the region, with many major infrastructure projects postponed or canceled. At the same time, the crisis has prompted project sponsors in the region to conduct more thorough project preparations to support new investments and to reassess existing projects. Consequently, the demand for TDA grant assistance for project planning purposes has increased even as development budgets shrink.

TDA continues to aggressively promote its programs with both public and private sector entities in Southeast Asia in support of infrastructure projects that have significant U.S. export potential and that would otherwise not be able to move beyond the planning phase. This year, TDA expects to fund approximately fifty activities in Southeast Asia, including feasibility studies, tender preparation work, technical advisory assistance, definitional missions, training, technology orientation visits, and specialized industry workshops or conferences.

***Business Development:*** A major element of our immediate response to the financial crisis is to reach out to the business community, particularly small business, to ensure that they are apprised of developments in Asia and aware of the programmatic resources of the TPCC agencies. Towards this end, the Commerce Department has developed a four point plan including:

- A comprehensive effort to assemble analysis and market information to help companies keep abreast of the rapidly changing Asian landscape.
- High-level visits to key Asian countries for fact-finding and to ensure that markets stay open to U.S. firms.
- A special Asian information program to make all our information easily accessible to U.S. exporters.
- A major nationwide series of conferences and seminars for businesses geared to smaller U.S. exporters to provide up-to-the minute information on how to arrange financing, keep customers, and otherwise deal with the Asian situation. Several TPCC agencies will play a major role in addressing the range of questions and concerns of the American business community. The coming year will include:

*Asia Finance Series:* Commerce has undertaken a major series of Asia Finance Seminars for businesses, concentrated in western states, such as California, Oregon and New Mexico, which rely heavily on exports to Asia and which have been most heavily affected by the crisis. State agencies, Ex-Im Bank, the Small Business Administration (SBA), and other appropriate agencies are also participating. The meetings will focus on issues critical to companies by providing updated economic information, lessons learned by other companies who continue to be successful in Asia, and advice on how exporters can overcome the current difficulties and continue their Asian business operations.

*Asia Pacific Business Outlook*

*Conference:* This is the largest annual (spring) Asia-Pacific regional trade promotion event, public or private, in the United States and an excellent venue to let businesses know about programs that the U.S. Government has designed to help exporters deal with the crisis.

*U.S. ASEAN Ambassadors Tour:* This high-profile annual event organized to promote opportunities in ASEAN showcases U.S. Ambassadors to the ASEAN countries along with ASEAN Senior Commercial Officers. This year, the group conducted programs in three U.S. cities (Phoenix, Kansas City, and Greenville) and stopped in Washington, D.C. to call on members of Congress and Administration officials.

*Korea Caravan:* The U.S. and Korean Ambassadors, the Korea Economic Institute, and the Senior Commercial Officer for Korea travel each year to a number of U.S. cities to present to the American business community the latest developments on doing business in Korea. In 1999 the Caravan will visit ten Midwestern cities.

“Men and women working in export oriented industries are the heart and soul of our nation’s economy and key to its continued growth. It is the responsibility of leaders in both the public and private sectors to ensure that they understand their importance to this country’s increasingly export-oriented economy.”

J. Joseph Grandmaison, Director  
United States Trade & Development Agency

## **1999 Strategy for Structural Reform and Economic Growth in Asia**

An important contributor to Asia’s current difficulties is the closed nature of many Asian markets—the cozy buyer-seller relationships, corruption in government contracts, “cronyism,” and other market distorting practices that have led to the misdirection of economic resources. There are several reasons why this is the time to support further liberalization of the economies affected by the financial crisis, so they do not just maintain the status quo. We must counter the tendency of affected nations to use this crisis as an excuse to raise new trade barriers to protect their domestic industries or to renege on market opening commitments. We must emphasize that increasing, not decreasing, openness to foreign trade and investment is the most effective course to economic recovery. There would be no quicker way to undermine U.S. and multilateral support for moves to help Asia recover than to see trade barriers raised against imports while our market remains open.

The strategy for promoting structural reform and continued market openings in Asia will focus on two components essential to any resumption of healthy market growth in the region. First, Asian governments must undertake industry and labor reforms to further open markets. Second, the international business community, including the U.S. exporter,

must be prepared to enter, or reenter, these markets armed with the information and tools needed to adapt to the crisis and seize upon new opportunity. Without the stimulus of outside business activity, reforms will not take hold, and Asian economies will not resume healthy growth.

### Promoting Liberalization and Market Opening

**Encourage Structural Reform:** A key component in encouraging the Asian countries to open their economies is their commitment to IMF stabilization packages which require structural and financial reforms. Korea, for example, committed in its stabilization package to remove safeguard restrictions affecting imports (including from the United States), harmonize import certification procedures, discontinue its import diversification program, and review the economic rationale for existing subsidy programs. Treasury, State, USTR, USAID, and Commerce are working to help these countries adhere to the IMF plan.

**Facilitate Privatization:** As public coffers are depleted by the financial crisis, infrastructure planners are increasingly turning to the private sector to fund and operate sectors of the economy formerly reserved for direct government involvement. As ever-larger slices of the economy are privatized, the opportunity for introducing new transparencies and efficiencies in these sectors is dramatically improved. These privatizations should lend themselves to a leveling of the competitive playing field, especially if carried out in conjunction with reform of regulatory and accounting standards. In turn, demand for U.S. equipment and services in affected sectors (e.g. water/wastewater, environmental, and energy) should improve as prime contractors and procurement officers are forced to consider price and quality in their purchasing decisions.

There is evidence that at least some priority infrastructure projects that were planned to be financed from public funds are now being moved to the private sector for development. This could signal an increase in BOT-structured projects over the next few years. For example, in Thailand, TDA is evaluating a request to assist with the privatization of several water projects that until recently were going to be funded by the government. OPIC Aqua Fund and several U.S. companies are interested in this effort.

- TPCC agencies will undertake an evaluation of infrastructure projects that were on the drawing board for government funding prior to the crisis, and are now candidates for privatization. The TPCC will also monitor large sector privatization studies in Asia for early indications of new sectors to be privatized.
- The trade finance group will explore options such as lowering foreign taxes and other foreign regulatory barriers to increase the use of capital markets to help finance large projects.

### OPIC Provides Critical Support

In March, OPIC approved \$200 million in support for each of two power generation facilities in Thailand. Edison Mission Energy is investing in one project and is working with Texaco on the other. The combined projects are expected to employ 2,400 local workers initially and support over 1,250 American jobs, resulting from the purchase of more than \$600 million in U.S. goods and services, including General Electric turbines from South Carolina and construction services from Black and Veatch in Kansas City. Backing these projects sends a signal of support to Thailand and its commitment to developing an open-market economy.

- Over the next two years, USAID will extend assistance in the development of BOT projects to focus greater attention on the environmental infrastructure sector. In addition, USAID/Manila and BOT Center staff will work with other TPCC agencies to provide technical assistance to other countries in the region on the use of BOT mechanisms.
- Commerce will help sponsor a conference in Seoul on the privatization of Korean energy projects.
- USAID will investigate the possibility of assisting Indonesia in its privatization plans addressing, in particular, the problem of corruption.

**Leveraging the Asia-Pacific Economic Cooperation Forum (APEC):** Our active participation in APEC provides a unique venue for influencing the direction of market reforms in the region that should not be missed.

- *Early Voluntary Sectoral Liberalization (EVSL).* At Vancouver in November 1997, APEC Ministers and Leaders agreed to pursue a program of liberalization for 15 economic sectors: autos, chemicals, civil aircraft, energy, environment, fertilizers, fish, food, forest products, gems and jewelry, oilseeds, medical and scientific equipment, rubber, telecommunications equipment, and toys. Trade in these sectors amounts to \$3.0 trillion. Details are being developed, and if endorsed by APEC Trade Ministers, the process of liberalization will begin in 1999.
- *Electronic Commerce.* In November 1997, APEC leaders mandated an electronic commerce work program, now managed by the Ad-Hoc Task Force on Electronic Commerce, which is developing recommendations and initiatives for the November 1998 Ministerial Meeting. Simultaneously, the United States is laying the groundwork for substantive steps in such areas as privacy and business/technical assistance and training.

**Promote Market Liberalization:** Beyond privatization, a host of regulatory and legal reforms are needed to restructure Asian economies. TPCC agencies will use information campaigns and technical assistance to encourage support in Asian countries for an aggressive reform agenda.

- USIA is developing a comprehensive public diplomacy strategy to explain and support U.S. policies for strengthening the global financial architecture. This strategy will use the full range of media, information, and exchange resources to emphasize: the need for governments to foster accountability, greater openness, and political and economic reforms; the merits of creating a transparent business environment that eschews corruption, supports open markets, and increased competition; and the U.S. commitment to promoting fully shared growth in both the developed and developing world.
- While the technical assistance services of TPCC agencies are addressing some market liberalization issues (e.g. financial reform), TPCC agencies could more systematically coordinate their efforts in this area. Towards this end, TPCC

agencies will explore creation of a mechanism that will allow agencies to fund a broad range of market liberalization technical assistance to Indonesia, South Korea, Thailand, and other countries in Asia under stress from the financial turmoil. Funds from participating TPCC agencies would be obligated toward a region-wide technical assistance project. USAID, State, or Treasury would coordinate this assistance with multilateral donors. Some of the technical assistance could be channeled to host country institutions. In Thailand, the Kenan Institute and Chulalongkorn University are examples of such institutions.

### Equipping U.S. Exporters for Asian Markets

**Increase the Availability of Trade Financing:** While Ex-Im Bank, USDA, and OPIC have already addressed some of the immediate needs of U.S. exporters for trade finance, more can be done to sustain our exports over the medium and long terms.

- Ex-Im Bank will finalize operational details of recently signed sovereign guarantee agreements with Indonesia and Thailand. These agreements could provide up to \$1 billion in financing for each market.
- USDA will explore the possibility of increasing the CCC guarantee program to cover 100% of loans in the countries most affected by the crisis. USDA will also explore the development of a standby, short-term, revolving credit mechanism to help importers obtain financing for U.S. agricultural imports.
- OPIC will help U.S. companies take advantage of the July 30 agreement with the South Korean Government to reinstate OPIC programs.
- With the June announcement of \$1 billion untied trade financing facility for Indonesia from Japan's Ex-Im Bank, TPCC agencies will work to ensure that U.S. exporters have fair and reasonable access to the letters of credit issued by Indonesian banks for financing guaranteed by this untied loan program.

**Advocacy:** While the mission of U.S. Government advocacy—to advance U.S. interests and promote transparency and fair procurement on a project-specific basis—remains unchanged, it has become necessary for advocacy activities to also include a facilitating role as the Asian economies shift to a more transparent, market-oriented environment conducive to U.S. businesses.

- TPCC agencies will hold regional conferences to assist affected countries to implement privatization plans.
- *Untied Aid:* TPCC agencies will build on the TPCC Initiative on Japanese Untied Aid to engage in earlier and more effective advocacy and to ensure that untied aid projects are carried out fairly and transparently. In the past few years, advocacy efforts have had success in reversing disqualifications of U.S. firms and ensuring that consortia with U.S. members remain on the short lists for projects.

- One of the most immediate challenges facing U.S. firms is the threat of having their pending projects targeted for cancellation due to changing economic conditions. TPCC agencies are, therefore, focusing advocacy efforts in Asia on ensuring that Asian governments adhere to an unbiased set of criteria by which they determine which projects to cancel. USAID is assisting the Indonesian Planning Ministry in developing such a set of criteria.