

The Social Impact of the Economic Crisis in Mexico and Asia: A Comparative Study

The economic growth experience between 1975 and 1995 in Mexico and the East Asian countries has been very different. It's true, because their macroeconomic structures, historical backgrounds and political framework differ. Obviously, it has led to their government to apply some unique policy that has determined both country experiences. However, in this decade Mexico and the East Asian region have suffered the worst crisis in the last 25 years characterized by balance of payment and financials problems. It has caused a lot of pain and a loss in the standard of living of their population. The main purpose of this paper, is to make some comparisons between the Mexican and East Asian crisis in terms of its social costs. When I mention the East Asian countries, I mean Thailand, Malaysia, Indonesia, Korea and The Philippines.

The Mexican economy has been marked for its vulnerabilities to external factors since the seventies. Before 1970, the economic performance was very successful. In those golden years, the Gross Domestic Product per capita grew at an annual average rate of 7.5 percent with an average rate of inflation of 3 percent. It was a period characterized by a great macroeconomic and financial stability and manageable fiscal and current account deficits. Further, the industrialization process that occurred in the fifties and sixties was based on an import-substitution strategy.

In the seventies, the story was different. With a new president, there was a new economic approach. The economic growth, especially in the first half of the decade, was provoked by huge expansion of public spending. However, since it was not accompanied by proportionally higher government revenues, the fiscal deficit rose and with it the current account deficit and inflation. The import-substitution policy and the public spending expansion strategy created some structural inefficiencies that along with the oil crisis brought up the 1976 balance of payment crisis.

After the recession, there was a dramatic policy change thanks to many oil discoveries. It helped Mexico to minimize the external constraint. The government uses this abundance in reserves to promote the economic growth based on oil exports through increases in public spending. Between 1978 and 1981, the real GDP grew at an annual average of 8.4 percent.

Nevertheless, some problems appeared. An increasingly overvalued domestic currency and an incorrect high expectation of future public revenues taking into account permanent rises in oil prices, led to a higher public spending and a huge fiscal deficit, partially financed by borrowing abroad. The result of this was another balance of payment crisis in 1982, worse than the previous one.

The next six years are called “the period of zero growth.” After 1982, when output contracted by 6 percent, inflation rose to 98.8 percent, the “*peso*” was largely devaluated and the external debt was huge, Mexico entered in an era where its economic policies were imposed by the International Monetary Fund as a condition of a loan. But the government was very inconsistent in carrying them out. So, Mexico could never make a come back to a sustained economic growth between 1983 and 1988.

In 1987, Mexico was affected by a three-digit rate of inflation. It happened as consequence of a significative devaluation that occurred in 1986 due to a drastic fall in the oil prices. Another policy change came from it, policymakers saw in the high inflation problem the cause of the volatility expectations and speculative attack on the “*peso*.”

After this, fighting inflation became the first priority, but with a new strategy. The government, formal representatives of labor, agriculture’s producer and a business sector signed a pact with a set of policies aimed to reduce inflation drastically: trade liberalization, cuts in the fiscal deficit, tighter monetary policy and some comprehensive incomes policy taking the exchange rate as a nominal anchor variable.

The results were positive. The inflation rate fell from 159.2 percent in 1987 to 29.9 percent in 1990 and to 15 percent in 1992. The vulnerabilities to external factors was reduced since the participation of oil sectors in the total exports and governments receipts decreased

significantly. But the most important achievement was the economic growth between 1988 and 1994. The average real GDP was 3.1 percent in this period thanks to a great performance of consumption and investment.

On contrast, the economic growth experience of the Asia Region was very much less unstable than in Mexico. The Four Tigers (Korea, Hong kong, Singapore and Taiwan) and the Newly Industrializing Economies (Thailand, Malaysia, The Philippines and Indonesia), most of them with different economics characteristics, have had the most successful economic performance in the last thirty years. It has been centered in three areas: high per capita income growth, great macroeconomic stability and exports success. Moreover, these economies, especially the four tigers, were able to face and recover better and faster than other countries to external shocks occurred during the seventies and the eighties. However, unlike Mexico, one of the most important features of the growth of this region was the policy consistencies that avoid the arbitrary changes in the path of reforms.

During the 1965 to 1995 period, most of these economies had a sustained GDP growth of above 8 percent. The Philippines had the worst performance, but its growth rate surpassed 4 percent between 1994 and 1996. At the same time, these countries had an average inflation rate of 9 percent and only the Philippines had inflation above 10 percent. Other features of the economic stability were the fiscal discipline, a manageable balance of payments and a stable exchange rate.

But the key feature of this success was the rapid growth of exports. For instance, during 1980 and 1992, the annual growth rate of exports in Malaysia, Thailand and Indonesia, the most affected countries in the last crisis, was 11.3, 14.7 and 5.6 percent, respectively. In Korea, Taiwan and Singapore it was 11.9, 11.0 and 9.9 percent, respectively. These countries were able to raise their share of world trade significantly.

The high investment rates were also important on this performance. It was possible thanks to a savings rate of 30 percent of GDP during the 1965 to 1990-period. In Mexico it was less than 20 percent. The share of the private sector in total investment remained higher than 40

percent. Moreover, since these countries (mainly the four tigers) had not suffered severe crises in the last 25 years, there were not deep cuts in public investment, like in Mexico during the eighties.

The great macroeconomic stability was fundamental in the performance of Foreign Direct Investment. In the eighties, it more than tripled. For example, in Thailand, the average export's propensity of foreign firms rose from 10 percent in 1971 to more than 50 percent in 1988. It was very important in these economies in terms of technology transfer, employment creation and labor force training.

Furthermore, the widening coverage in primary and secondary education played a critical role. There is a lot of evidence that the growth of human capital accumulation has been greater in East Asia than elsewhere because its development strategy demanded more labor and skills. Because of this, secondary school enrollment reached levels higher than in other developing countries including, of course, Mexico.

Logically, in a context characterized by recessions, debt problems, cuts in public investment, import substitution, currency devaluations and high inflation, one should expect a great loss in living standards. It was precisely what happened in Mexico during the eighties.

The application of switching policies, like devaluation, is supposed to increase output of tradeables and reduce its consumption. Expenditure reduction policies, like public spending cuts, are supposed to reduce consumption of both tradeable and non-tradeables. Both mechanisms have contractionary effects and will affect real income and their distribution between wages and profits. Moreover, when fiscal cutbacks are achieved by a reduction of non transfers expenditures such as social spending, it will hurt the population through a reduction in social and earned wages.

These are some of the factors that provoked in Mexico a huge fall in living standards in terms of real wages, poverty, income inequality and social spending

The aggregate wage income decreased during the period of 1983 and 1988 at an average annual rate of 8.2 percent. Moreover, the real minimum wage not only fell drastically in a crisis

period, but after 1988, when the economy began to grow. The population in extreme poverty conditions increased from 11 millions in 1984 to 14.9 millions in 1989 to more than 16 millions in 1994. There is evidence that shows that income inequality rose between 1984 and 1989 (a period of debt crisis) and it remained practically unchanged in the following years. In 1989, the bottom 40 percent of the households had 13 percent of total income, while the top 10 percent had 38 percent.

Further, the number of people employed in the informal sector increased during the eighties and in the first half of the nineties. The school enrollments fell in the eighties and began to rise to 1992. Infants and preschool mortality caused by nutritional deficiencies rose significantly.

On the other side, the most significant element of the East Asian success is the growth with equity and the improvements in living standards. The number of people in poverty conditions in the East Asian region, excluding China, dropped from 147.9 millions in 1975 to 125.9 millions in 1985 to 76.4 millions in 1995. This pace of poverty reduction was faster than any other developing region. However, the changes in poverty levels varied across the region. In 1980, 59 percent of the poor people in East Asia lived in Indonesia, the most populous country of the region. Since then, Indonesians' record has been remarkable. In 1995, only 28 percent of the people living in poverty conditions are in this country. The poverty reduction in Thailand and Malaysia was significant too. Only in the Philippines there was an increase in poverty.

Other social indicators also show the amazing improvements in living standards. All the countries experienced declines in infant mortality, and gains in life expectancy. In addition, access to education was expanded significantly through the region, especially in Malaysia, Korea and Indonesia. This was made possible by the rapid growth in public provision in schooling, that was a major element of the region human resource strategy.

It does not mean that poverty has disappeared in the region. In fact, there are millions of people suffering the lack of income to satisfy their needs. Indeed, the reductions were not

uniform across the region and poverty remains as a serious problem in all countries. Further, although there was an important reduction in inequality in the region, it Thailand and Hong Kong actually increased. Both economic crises have many similarities. Mexico and Thailand, where the East Asian crisis began, had the same vulnerabilities that triggered the currency problems. The former had been using an adjustable peg currency system since 1988, initially to fight the 1987 inflation problems. Later, it became the most important advantage of Mexico, according to international investors. Thailand had also a fixed exchange rate, but it was supported by a high economic growth. The problems with this type of currency policy is that it required a tough fiscal discipline and that in combination of a trade and financial liberalization, an appreciation of the exchange rate was unavoidable. It was reflected in both countries through the increase in a current account deficit. While in Mexico the current account deficit increased from 6,087 billions dollars in 1989 to 23,399 billions in 1993, in Thailand it rose from 6,303 billion dollars in 1992 to 14,691 billion in 1996. This phenomenon is more critical when such deficits were financed mainly by short term private capital inflows. In the nineties, East Asia absorbed nearly 60 percent of all short-term capital flows to developing countries. By 1995 in Thailand, it had already reached 17 percent of GDP. In the period of 1990 to 1994, Mexico received 106 billion dollars in short term capital flows compared to the two billion received between 1983 to 1989. In both cases, the increases in savings from abroad helped to trigger the economic growth but in different ways.

Mexico and the East Asian countries had liberalized and non regulated financial sectors that supported the local borrowing through the stock market, the domestic banking system or direct corporate borrowing. However, while Mexico used this international savings to sustain a boom in private consumption, in Thailand the capital inflows financed large increases in investment.

Specifically in Thailand, the weaknesses in the financial sector played a more important role in the crisis than in Mexico because of the results of the credit boom that capital inflows created. Furthermore, Thailand and its neighbors had a lot more domestic debt than Mexico, so

their banking-sector problems was more serious. The credit boom led to an increase in assets prices, creating the appearance of high returns. It at the same time led to more lending, more consumption and investment and more foreign borrowing. With these vulnerabilities, Mexico, Thailand and other East Asian countries were subject to many external factors, it was only a matter of time for international investors to become aware of their weaknesses.

The problem with Mexico in 1994, was that political and social elements and the economic policy actions were what makes the investors aware of these vulnerabilities. Chiapa riots, the assassinations of important political personalities of the most important party, kidnap of influential

people, and the knowledge that since 1976, in almost all election years, the Mexican economy has entered in a deep crisis, made investors run against the “*peso*” during the whole year. For instance, during the four weeks after the first assassination episode in April, 10,780 billion dollars flew out from Mexico. It was clear and evident what everybody knew: the peso was overvaluated, since the loss of reserves to maintain the currency in its band was large. Moreover, the government responded expanding the credit which caused a decrease in interest rates when the international community recommended a rise to elevate the financial cost to speculators. Some speculators responded by retiring their funds, others shifted their savings from *peso*-denominated assets to dollar-denominated assets, mostly, with a maturity date of 1995.

When the investor knew that total reserves in December of 1994 were only 6,000 billion dollars and the liabilities were 50,000 billion dollars, they got nervous and the capital flight continued.

In December 22, Mexico abandoned its exchange rate peg against the dollar and allowed the peso to float, when the government could not support the currency due to large capital outflows. It provoked a financial panic and later one of the most severe financial crisis of the Mexican history began.

In the East Asian region, on the other hand, the political problems were not a key factor in the crisis, but the external vulnerabilities. Thailand was the country with the most pronounced macroeconomic unbalances and financial sector weaknesses; a current account deficit of 8 percent of GDP, financed mainly by short term inflows, a peg exchange rate and a significant quantity of short term inflows that created a credit boom aimed to the investment in real property.

Then an unexpected phenomenon occurred. Exports contracted by 1 percent in 1996 in the newly industrializing economies, after a rise of 20 percent in 1995. It was caused by a slow growth in its markets, especially Japan, the loss of competitiveness associated with the appreciation of their currencies and the fall in the world demand for its products, notably electronics. Although exports had slowed in a region, Thailand took the worse part..

In the same year, prices of real assets stopped growing and the supply of office spaces and houses began to outpace demand. In early 1997, banks and other finance companies began to feel the pressures of investors when liquidity problems arose.

These problems were the first sign that investors received about the high asset prices and the overvaluated exchange rate. Again, as in the Mexican crisis, a capital flight was triggered during the whole year sending a message to the emerging markets that the lack of transparency was a bad idea.

In addition, as in the Mexican case, when in February 1997 the Thailand currency (the bath), came under attack, the government intervened not only supporting the peg, but injecting a large volume of liquidity to help the finance companies under pressure. It undermined even more the investors' confidence, augmenting the capital flight. When the government could no longer support the peg, abandoned it. This action led to a mayor devaluation of the bath, and to a world financial crisis.

The devaluation increased even more the capital flight not only in Thailand but in others Asian countries too. The financial panic that it brought on made the investors to seek more

strictly the weaknesses, especially in the financial system, that Asian countries shared and they had so far ignored.

Investors lost more confidence when they found that reserves seemed too short to cover the short term debt, and that government were unable to workouts properly the corporate and bank debt. After that, the panic swept Korea, Indonesia, Malaysia and The Philippines. In one Just year, net capital flow reversed more than one hundred billion dollars. The contagion caused simultaneous falls in assets prices in all countries.

There were basically two forms of contagion. First, trade links, since declines in demand of imports caused by devaluation in one country led to a decline in exports in other countries. In the East Asian countries, intra regional trades accounted 40 percent of total exports in 1996. Second, and maybe most important, the financial linkages in the region were strong because of the relation between them in terms of bank lending, market activities, and foreign direct investment.

When the Mexican crisis blows out and the “*peso*” began to depreciate, both the international investors and the local population were very affected. First, because the devaluation took them by surprise, investors lost 30,000 billions dollars, according to estimates. It undermined their confidence, increasing even more the capital flight.

But the ones who suffered more were the people that live in this country. Why? The measures the government chooses to face the balance of payments crisis was completely, as always, contractionary. These measures are part of the International Monetary Fund prescription in order to reduce the aggregate demand: tight fiscal and monetary policy, and market driven exchange rates.

During the first three months of 1995, the Mexican government prepared and put in practice a hard shock economic program sponsored by the IMF. It included a free exchange rate, increases in interest rates, an increase in the value-added tax from 10 percent to 15 percent and a rise between 20 and 35 percent in prices of public goods and services. Further, the programable public spending was cut by more than 12 percent in real terms with respects to 1994. We can

note two things from this: First, that the public finance adjustment was the axis of the program, second that it could hurt the middle and lower classes.

Other two elements of the program have not been mentioned. These policies were part of an agreement among all economic sectors in Mexico aimed to avoid the inflationary effects of devaluations, to reestablish the confidence, to reduce the cost of the adjustment and to get back to sustained economic growth. In addition, the program was supported by a loan package of 51,000 billions dollars provided by its NAFTA partners (United States and Canada), the IMF and other international banks. The objectives of this package were more than convincing: to contain the international extension of the crisis, avoid the collapse of NAFTA and maybe more important, to guaranteed the payments to the US lenders.

The cost of the crisis and adjustment were large, mainly in the short term. One the most harmful policies was the credit restraint. The monetary base declined 23 percent in real terms. The interest rates of credit cards, public debt bonds and car, and house financing reached more than 90 percent in March 1995. In this context, many small and medium firms could not keep working because the debt service was too high. Among the middle class, a social movement arose called "*El Barzon*" whose motto was can't pay, won't pay. It along with the devaluation of the "*peso*" and the public goods and services prices increase, caused a fall in total aggregated demand. In 1995, the private consumption and investment declined 14.3 and 27.40 percent, respectively. The real GDP fell 6.5 percent. Retail and industrial sales declined 40 and 50 percent, respectively, only in the first semester.

As everybody expected, this economic contraction caused a great employment loss. During 1995, Mexico lost one million jobs in the formal sector and the number of working hours for other 8 millions workers of this country decreased to approximately 15 hours. The open unemployment rate increased from 3.7 percent in 1994 to 6.3 percent in 1995. People working in the informal sector increased 36 percent in this year. The problem was even worst when one consider that Mexico did not have employment insurance.

There is not doubt that the purchasing power of workers was the most affected because of the inflationary effects of devaluations of the “*peso*.” The value of the Mexican currency decreased more than 100 percent in a year. It raised the prices of the imported commodities. Furthermore, the prices for public goods and services increased between 35 and 50 percent, especially gasoline, diesel and propane gas. It caused the inflation rate to hike from 7.1 in 1994 to 52 percent in 1995. For April 1995, the cost of the food basic basket had already erased the minimum wage increase. The minimum ,manufacturing and construction wage rates, in real terms, fell 14, 16 and 13 percent in 1995, and 8, 12 and 9 percent in 1996. Therefore, we could expect more poor people in urban sectors. There is evidence that non wage income fell significantly too, affecting also rural sectors. The social spending was reduced 12 percent in 1995, since debt service grew as consequence of the crisis and the government had to shrink the public spending. A significant part of this reduction happened mostly due the government who allowed that real wages of people working in the social sector be dropped.

However, in spite of the socioeconomic cost that the adjustment program brought on, the economic recession bottomed quickly. After the slump of 9.2 percent in real GDP during the second semester of 1995, the contraction began to slacken, and the economy got back to grow by 5.1 percent in 1996 and 7.0 percent in 1997. The open unemployment rate began to decline after the third quarter of 1995, and for the last quarter of 1997 it was at the same level of 1994. The rate of inflation decreased rapidly to 27.7 percent in 1996 and 15.7 percent in 1997. In addition, social spending began to increase immediately after the crisis through the creation of new social programs to fight poverty.

This recovery has been the fastest ever in the economic history of Mexico. It means that the cost of the crisis was less painful than the previous ones. Why did it occur so quickly? First, Mexico entered to an economic crisis for the first time, with a balanced public sector, what it helped to minimize the damage to the operation margin of the government, to apply the right measures to resolve the crisis. Second, the financial aid of 51 billions dollars had no precedents. These resources allowed the government to face the short term debt and to support the bank to

accomplish with its external liabilities. It reduced the pressures over the financial and exchange market. Finally, the importance that Mexico acquired as United States commercial partner and one of the most important emerging market, led government to contemplate some more realistic goals and to apply the measures with more consistency and responsibility.

However, one advantage that Mexico had over the East Asian countries is that the former has been subject to many crises in the last 25 years, and it knew how to organize itself to face economic problems. It does not mean that the 1995 economic crisis had the same characteristics of the previous ones.

In the East Asian case, trade, capital flow and migration linkages among countries are hastening the transmission of economic and social effects across the region. It became a worldwide crisis, since the relation between the region and the developed countries were very strong. To try to avoid a world depression, the IMF intervened with shock economic programs. As in Mexico, the IMF was called when the damage was done, to restore the confidence of the foreign investors. But, to be successful on it, the country has to accomplish two requisites. First, the country has to use the IMF funds efficiently. Second, the country had to carry out the measures of the program correctly and with consistency.

Thailand, Indonesia, Korea and The Philippines subscribed agreements with the IMF, where this organization lent billions of dollars. Malaysia did not accept this kind of help because its president claimed it was all a western conspiracy to impoverish the Asian economies.

The economic programs contained the following measures: tight fiscal and monetary policies, market driven exchange rate, improvements of the financial regulations, to close the insolvent banks, and to reduce the government intervention.

The results in each country differ. Although, the real GDP growth for the East Asian crisis region was 4.5 percent in 1997, everybody knew that 1998 was the recession year. According to the World Bank, the real GDP of the East Asian crisis countries was expected to fall 8 percent in 1998. Estimates of GDP declines in this year are now 15 percent in Indonesia, 7 percent in Korea, 5 percent in Malaysia and The Philippines, and 7 percent in Thailand. These

projections were based on a drastic collapse in domestic investment and consumption caused mainly by the IMF recessionary measures.

The initial figures of 1998 show that Indonesia has been the most affected with a 6.2 percent fall in real GDP in the first quarter of 1998. The GDP in Thailand, Korea and Malaysia fell in 3.0, 3.8 and 1.8 percent, respectively. We must note, that even though Malaysia was not subject to the IMF policies, the spill over effects has affected this country, but in a lesser degree.

Hundreds of small and medium firms have closed due to the high financial burden caused by a high interest rate, a mayor devaluation, and declines in share values.

This is one of the reasons why the unemployment rate has increased drastically. In the public sector, the work force had to be downsized due to expenditure cuts. The increases in unemployment have been extremely large in just a year from 4.7 percent in 1997 to 21.3 percent in 1998 in Indonesia, from 2.7 percent to 6.4 percent in Malaysia, from 2.6 percent to 7.7 percent in Korea, from 1.9 percent to 4.4 percent in Thailand and from 10.4 to 14 percent in the Philippines. The number of unemployed people in 1998 varied from 600,000 in Malaysia, 1,500,000 in Korea and Thailand and 20,000,000 in Indonesia. Moreover, women in rural areas are the group most affected by unemployment. It's because women lose their jobs first and families pull their daughters out of school before sons. In the Mexican case, there is not evidence of a gender-differentiated impacts of the crisis.

Furthermore, for most low skilled and unskilled workers the option was to join informal sector leading to increase in underemployment. For example, in Thailand the number of underemployed people who worked less than 40 hours a week increased to 7.4 million in 1998 from 5.3 million in 1997.

The purchasing power of the East Asian worker was mainly affected by the inflationary effects of devaluation. Prices, particularly those for basic necessities such as food and medicine, have risen dramatically. According to projections, in Indonesia an inflation rate of 80 percent in 1998 was expected. The costs of drugs had increased dramatically inducing households to

postponed vaccinations or use of other drugs. Something similar has occurred in other East Asian countries.

These problems have become more acute because of the wage reductions. One year after the crisis, the real wages in Thailand and Korea fell 10.3 and 0.4 percent respectively. In Indonesia, a decrease between 40 to 60 percent was expected. It has been reported that in Thailand the real wages have been cut for those who were retained on their jobs during the economic crisis. Moreover, in Korea, an increasing number of workers were not getting paid.

The reduction in the purchasing power of the East Asian workers has caused a large increase in poverty. In East Asian countries, where a high percentage of people work in the agriculture sector, the fall in the demands of crops, rice and other basic food products will hurt the poor a lot. It was estimated that in the middle of 1998 nearly 80 million Indonesians out of a population of 200 million earned four dollars or less, and the number of the country's poor swelled to 40 percent from 11 percent in 1997. In Malaysia, poverty was estimated to have risen from 6.8 percent in 1997 to 8 percent in 1998. In Thailand, the incidence of poverty increased from 11.4 percent in 1996 to 15.3 percent in 1998. The projections made by the World Bank show that between 1997 and 2000, with no change in distribution, poverty would double in Indonesia and increase by 35 to 50 percent in The Philippines, Thailand and Malaysia.

One of the key measures that the IMF usually recommends is a tight fiscal policy. It means that the government has to reduce public spending and raise its revenues in order to improve the operation margin in a context of a crisis. It has been the most criticized measure advocated by the IMF, because such measures might drive the country deep into recession. Another reason is that most government budgets are more or less in balance and inflation is low. Some critics say, "the government is not guilty for the current account deficit." "The problem was that these countries were spending beyond their means."

For example, the public expenditure cuts in health are likely to magnify financial risks of medical care for the poor, either through increasing costs or reduced services provided through public facilities. In the Philippines, the government has instructed departments to reduce their

budgets by 25 percent of the departments non personal expenditures in order to create a mandatory reserve. It caused a cut in immunization programs. In Thailand, the overall budget for 1998 was cut three times to a level of 800 million baths, especially through cuts from the Ministry of Public Health.

In many cases, governments downsizing its professional work force, meant fewer doctors, nurses and health technicians. In other cases, expenditures on fixed investment in government hospitals and clinics was reduced, which affected the quality of the supply of health services. In Thailand for instance, many important public health programs were affected, such as the treatment of HIV/AIDS patients with imported drugs.

The impact of the crisis on education has been broadly similar to that on health. Both private and public educational institutions had to cope with decreasing financial resources. The lack of resources led to cutbacks in the number of teachers and equipment such as computer and laboratory apparatus. For many in the impoverished groups, the education of children was no longer affordable, leading to drops-outs at all educational levels. For example, preliminary survey results from Indonesia show overall enrollment at the junior secondary level to have fallen by 2.3 percent in 1998, with an even larger decline of 6.2 percent in urban areas

There are others kind of social costs that have been present in this crisis. The reverse migration from cities to villages was visible. A great number of the unemployed have gone back to rural areas to avail of the traditional support system provided by families and communities. During the third quarter of 1998, at least one million people who were working in cities had already returned to their villages. Furthermore, a significant number of foreign workers were sent back to the countries of origin. More than 50,000 out of an estimated two million legal and illegal workers left Malaysia in 1998. About 50,000 left Korea after an amnesty granted by this country for illegal workers to leave the country voluntarily.

Concerning the income distribution, the combination of factors such as the fall in real wages, the decline in the agriculture output, the absence of social safety nets, the migration to rural sectors, the increase of people working in the informal sector, the rise in all prices due the

devaluation of the currency, suggest that inequality will be worsened. In fact, recessions have always meant higher inequality in Latin America. Some economist agreed that the increase in inequality in these economies after this crisis will be as drastic as that in Latin America. But, there are not good indicators about it yet.

As we have seen, the social cost of the crisis and adjustment has been very serious. If the East Asian countries want to regain soon the pre-crisis levels of unemployment, real wage, social spending and access to social services, they will have to get back to sustained economic growth. To do that, these countries have to apply the right measures to restore the confidence in their economies. Malaysia was the only country that did not make an agreement with the IMF. However, the people of Malaysia have not suffered more than the other four. Maybe, the fact that the governments of Malaysia have been supporting banks and firms through holding down interest rates, printing money, and imposing capital controls reduced the risks to fall into a deep recession in the short term. But it could be storing up bigger problems for the future.

Like Mexico did in 1995, the different sectors in Korea made an agreement to carry out the measures to make a recovery with a high degree of supervision. The main advantage of this strategy is to help to increase the confidence more quickly. Because of this, it seems that Korea could be the very first country to get back to growth and at the same time, the country with fewer social costs.

On the other side, Indonesia has the worse economic problems. The fears of hyperinflation and food scarcity have created panics and riots. But the most worrying problems in terms of the needed recovery are too much government intervention and corruption that have provoked that the application of the measures being delayed. It could provoke that the recovery needed to get back to growth and reduce the long term social costs will not come soon.

The fact that the East Asian countries had not a strong big brother ready to support them was very important. For example, after devaluation, Mexican exports jumped by 40 percent in dollar terms, and more than 90 percent went to Unites States. It helped Mexico to recover faster.

By contrast, more than 50 percent of the East Asian exports go to other Asian countries, including Japan.

The seriousness of the long term social costs of the crisis will rely on the commitment of the government with the poor, the unemployed people, the women, the children. This commitment must be reflected in the consistency of government in terms of the application of the policies to recover the confidence in their economies, to reduce inflation and to promote economic growth. Once the East Asian countries do that, they could create some programs to protect the poor.