MR. GLICK: Thank you. Let me inoculate myself first by making the standard disclaimer that the views that I will give you today are mine alone. They do not represent the Federal Reserve Bank of San Francisco or the Board of Governors. My comments will focus on assessing the near term economic outlook in Asia and also assessing the risks of that outlook, particularly the status of the financial sector clean up, which is a prerequisite for sustained, long-running recovery in Asia. Given that East Asia, excluding Japan, accounts for roughly 20 percent of our exports while Japan accounts for another 10 percent of our exports, an Asian recovery is of concern to the U.S., I believe.

It is now clear that contrary to expectations as recently as last year, Asia is experiencing a V-shaped recovery, that is, a very deep, very severe recession, followed by a sharp rebound. This is evidenced in the past year by the stabilization of exchange rates, the rebounding of equity prices from their crisis induced lows, and the return of positive growth rates across the region.

For 1999 real economic growth rates are expected to be positive in all Asian countries, ranging from a projected high of eight percent in Korea to about four percent in Thailand and Malaysia, and to some number possibly just above zero in Indonesia.

Some of this recovery is driven by rising export volumes, especially in countries whose currency has depreciated sharply. And also countries whose products have benefited from relatively strong world demand. Additional stimulus has come from the expansion of fiscal policies. The sharp rebound may also reflect the financial aspects of the crisis. To the extent that the crisis was financial in nature and a loss in investor confidence magnified the severity of the crisis, once conditions stabilized, as they had in 1998, I believe, restored confidence has almost as quickly raised asset values and boosted economic activity. That leads to the question of whether the recent upturn implies a full recovery is imminent. And here there is real cause for concern that the current situation is quite fragile. It depends on, first of all, external economic developments, developments outside of the Asian crisis countries, and secondly as on structural reform policies currently being undertaken domestically in the Asian crisis countries themselves.

Talking about the consumer developments first, what matters most for emerging markets in East Asia is what's going on in Japan and China. Though a

Japanese recovery now seems underway, the forecast is still only for growth of possibly one percent in 1999 for Japan, as measured in a year-over-year basis, and in the year 2000 for growth of one to two percent. And there are risks that the Japanese recovery could be knocked off course by continued depreciation of the yen, and/or by lingering balance sheet problems in Japan's financial and corporate sectors.

In China, which has been widely insulated so far from the crisis, growth is in fact slowing, and the continuing fragility of China's financial sector and the possibility of a Chinese devaluation represent a clear downside risk for confidence in the rest of Asia.

In my view the main risk to Asia is that countries in the region will fail to proceed with the structural reforms of their financial and corporate sectors. In fact, the current favorable economic conditions could actually weaken support for the reform agenda, and leave in place the poor banking and corporate sector practices that many believe, as I do, were at the root of the crisis. The structural reforms needed in the financial sector in Asia involve two strands.

First of all, you need to clear up the fall out from the crisis. Close unviable institutions.

Strengthen potentially viable ones. Secondly, you need to put the systems on a sound footing by creating the right private sector incentives and by improving supervision and regulation in order to minimize the likelihood that problems would recur in the future.

And as everyone, I'm sure, is quite aware, the magnitude of the task of cleaning up the financial sectors in Asia is enormous. As much as 50 percent of outstanding bank loans in some countries are regarded as not performing. Thailand and Malaysia. Estimates of the cost of fixing up financial sectors range from 15 percent of GDP in Korea to 40 percent or more of GDP in Thailand and Malaysia. There has been some progress in cleaning up financial sectors in these countries, but it's still too early to judge their ultimate success. Let me give several examples. In Korea the government has bought up roughly 40 percent of the bad loans and it's forced many weaker, smaller companies, smaller banks, to merge with larger banks, and as a result the bad load ratios is reported by commercial banks in Korea have been reduced; however, while the mergers and the falling bad loan ratios give the appearance of a stronger financial sector, it doesn't necessarily create a stronger institutional culture for future lending discipline. Moreover, of the 17 or so commercial banks in Korea still existing, the government now owns the three largest ones and is a majority shareholder of two to three others.

Malaysia has largely followed the Koreans' approach in trying to get bad loans off the bankbooks and it's trying to engineer mergers. At the same time, the Malaysian government is trying to boost bank lending by setting loan growth rates, risking the possibility of another round of misallocated lending.

Indonesia also has a more hands-on approach. Roughly three fourths of its banking sector is now in government hands. However, well-connected banks still appear to have the power to protect their interests, and I think progress in Indonesia is likely to go pretty slowly.

In Thailand, in contrast, the government has left it more in private sector hands to sort out problems. The government had not injected a lot of capital directly to recapitalize the banks that had as much as 50 percent bad loans on their books. And as a result, the non-performing loan ratio in Thailand still remains relatively high. But a string of recent negative news revelations in Thailand have created concerns about the possibility that the non-performing loan ratio might even be higher than it was first reported.

So, looking across Asia there has been some progress in cleaning up the financial sector, but there still is a long way to go. Now, corporate restructuring is intimately related to restructuring. Here progress has been even slower. I think most reform efforts to date have focused on improving bankruptcy procedures and encouraging voluntary work out agreements between borrowers and creditors. But to the extent there has been any corporate restructuring, most of what has happened is the stretching out of debt repayment, with everyone hoping that the firms involved will eventually return to profitability as the economy recovers and be able to repay their loans.

The more difficult task of truly restructuring their operations through reallocating resources, selling off bad loans, and changing management has largely yet to be done, particularly in the case of large firms. Korea is a good example. There's been particularly little visible change for the top five conglomerates, the Chaebols. On average, they've actually increased their borrowing in the first year and a half of the crisis.

More recently the emerging difficulties of the second largest conglomerate, Daewoo, have focused more energies on dealing with the activities of the conglomerates. And in fact there may be an acceleration of reform efforts because of the circumstances of Daewoo.

While the immediate task in the crisis countries is to reform the health of the financial sectors and to restructure private corporations, there are also longer-term needs. These include, first of all, improving financial regulation and supervision by strengthening the power of supervisor authorities, and also by strengthening various regulations. It is one thing to have these regulations on the books, another thing to enforce them.

In addition to improving regulation and supervision, what Asia also needs is to improve the process of financial intermediation by expanding non-bank channels, particularly by establishing local bond markets. This would reduce the concentration of financial risk in the banking sector, allow a better dispersion of risk across savers, and would enhance the ability of the financial system to cope with shocks. Asia has far to go in this area as well.

So, to conclude, the adoption of financial and corporate structural reforms is essential to ensure a lasting recovery in Asia, and also to make the economies in the region less vulnerable to future crisis. Clearly, structural reforms take time to legislate and to implement. In most of Asia you have a backdrop of political infighting now among competing interest groups as to who's going to be blamed for the crisis and who's going to pay for it. And, in fact, as I mentioned earlier, the current favorable economic upturn could actually weaken support for further reforms. But without these reforms, Asia's going to be involved with other crises in the future, if not this year, next year, five years or 10 years down the road. Thank you very much.

COMMISSIONER KRUEGER: Thank you. Last of our three panelists.

Barry Eichengreen.