Some thoughts on the Asian financial crisis

By Estelito C. Bicara, Lecturer, Management of Financial Institutions Department

Who should be followed in reading the Asian market? I think both the technicians and the fundamental analysts make sense. We saw three waves of bullish pattern in the Asian economy from 1985 to 1995. A slight correction occurred in 1995, followed by another surge of growth in 1996. In 1997, another downside happened. What about 1998? Let us see whether the downtrend will persist, or whether a reversal towards an upward movement takes place.

Asian currency, equity, and interest rate markets experienced a bearing in the past six months. We experienced significant volatilities in the derivatives market, which serves as a hedging, trading, and especially as a speculative tool. After almost half a year, the bearish trend still holds, and what seemed to be a short-term occurrence is becoming a long-term event.

Maybe the technicians and the fundamental analysts are all crawling in the dark as they attempt to anticipate the trends and prospects of the Asian financial markets.

We have heard different views regarding the financial crisis. Some blamed speculators for the collapse of the Asian tigers especially on the currency side. On the other hand,
Looking back

I believe we should take a look at the previous events that contributed to the economic ‘prosperity’ of the Asian economies. We should focus on the previous and current fundamental macroeconomic situation of the region to determine the reasons for the bleeding Tigers.

The following are some Asian fundamentals to consider:

The ‘Asian virus’ has infected the North American, European and Australian markets, proving the interdependence of players in the global economy. Even Hong-Kong, Korea, Taiwan, and Japan are taking a beating.

Japanese export strength in 1985 and 1986 resulted in a significant appreciation of the Japanese yen. This extended until 1995 when the dollar reached a low of JPY80.0/US$1.00. To overcome the increasing uncompetitiveness of Japanese exports due to the yen’s appreciation, Japanese companies moved the production of their products to Southeast Asia to take advantage of the cheap labor. During this period, Asian economies had ‘Good Prospect Years’ with the beginning of massive economic liberalization, particularly in the foreign exchange market. Investments and tax collections rose, and government-owned corporations were privatized. During these years, Asia experienced a surge in direct investments from the U.S., Japan, and the European community.

Growth of the Asian economies, particularly Thailand, Malaysia and Indonesia, ranged from 5% to 13%. Thailand’s growth averaged 9.8% compared to 4.0% in the U.S. and Europe from 1987 to 1995. These ‘growth years’ were supported by relaxed lending policies in Asia, particularly in Thailand and Indonesia. Moreover, financial institutions supported the long-term expansion of the property sector.

It was reported that from 1989 to 1994, Standard and Poor’s upgraded Thailand’s credit rating four times; Malaysia, five times, and Indonesia twice, increasing investor confidence in the region.

Asian economies experienced a surge in speculative funds in the foreign exchange and equities market, boosting their Gross International Reserve and Balance of Payment levels without allowing its currency to appreciate. Speculators took the arbitrage opportunity between local and US Dollar interest rates through the Non-Deliverable Forward (NDF) market.

Trouble brewing

In 1995, the improving economy in Asia resulted in high demand for luxuries, properties, and short-term investments. During this period, the ‘Bubble
Bath' resulted into the 'Asset Bubbles' that was felt in the equities market of the region particularly for property and financial institutions' stocks. Asian economies also experienced wage growths that proved to have a negative impact on the inflow of funds for direct investments. Thai wages, for example, grew by 70% since 1989.

In the meantime, China and Vietnam aggressively captured a significant share of the export market with its cheap labor. This caused a slowdown in the exports of Thailand, Malaysia, Indonesia, and the Philippines. These countries experienced wider trade deficits due to heavy reliance on imports and rising demand for luxury goods.

For the risk takers, 1996 was an 'Alarming Year.' Asian property prices increased continuously due to huge investments in real estate development, and relaxed credit policies of banks. Thailand over-invested in the property sector as the economy experienced high levels of disposable income. During this period, the entry of speculative money to Thailand and Indonesia eased as a cautious stance due to consumer-driven, rather than long-term investment-driven, growth. Some of these speculative funds were believed to be channeled to the Philippines, Korea, and Taiwan.

The Blood-Baht

Currency speculators, looking at the fundamentals of huge short-dollar position for money market arbitrage and unsustainable long-term investment driven growth, attacked the Thai Baht and Indonesian Rupiah in mid-1997. This confirmed the 'meltdown.' Standard and Poor's downgraded Thailand eight times in September and October 1997. Low dollars reserves of the Thai government exposed its inability to defend the currency. After realizing that sustained interest rate intervention will be more detrimental, and that the GIR level can no longer support the intervention, the government allowed the baht to float and let market forces determine its value. The Thai baht collapsed. After the 'Blood-Baht,' short-term fund managers decided to unload their exposures in the regional equities markets. Most corporates in the Asian economy rushed to unload their exposure in the regional equities markets, and rushed to cover their dollar import requirements.

The Asian collapse

The rest of the Asian economies followed Thailand's lead--Indonesia, Malaysia, Philippines, Hongkong, Korea, and Taiwan. Stock markets plunged across the board with funds fleeing the region. It was reported that the Asian stock market lost $400 billion in value to date. High interest rates stunted the economic growth of the region. Financial institutions experienced tight liquidity and capital as they experienced loan defaults, increase in reserve requirements and loss provision mandates from the monetary authorities. The collapse of the property sector eventually caused the collapse of some major financial institutions in the region. Forecast growth in Southeast Asia was expected to retreat from 7% to 5%--negative news for Western multinationals. This contributed to the recent historic 554 point drop of the New York stock market.

Who is to blame?

I think the currency and equity speculations were just reflections of the given economic fundamentals. Speculators, investors, fund managers, commercial traders, central banks, and individuals will always find ways 'collectively' to reflect economic fundamentals. An economy with strong fundamentals should be ready to absorb the nature of speculation. Otherwise, deregulation should be abandoned in favor of a regulated financial environment.

Are we going to blame the speculators, the property sector, or the Western agenda? Well, let's just blame those people who bought the Jaguars and the Volvos!

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Sense and Sensibility in Marketing

By Ma. Luisa A. Chua
Assistant Professor
Marketing Management Department

Consumer perception as defined by Schiffman and Kanuk is the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world. It is not what actually is so, but what consumers think is so. This is what affects their actions, buying habits, leisure habits and so forth.

There are two key factors in perception: stimulus characteristics and consumer characteristics. Between these two factors, stimulus characteristics are, in a sense, controllable for the marketer. This would explain the interest of marketers in understanding how stimulus characteristics affect consumer perception. Basically, stimulus characteristics involve the five senses of consumers as sensory receptors. These are the human sense organs: eyes, ears, nose, mouth and skin.

Stimuli

Stimulus characteristics encompass a wide-ranging scope which includes color, size, photos, story, scent, loudness, design, music, and so forth. In marketing terms these can be referred to as the marketing stimulus which ex-
ists only in the external world.

Every minute, we are continuously exposed to different stimuli—from the moment we wake up until the time we go to bed. Sometimes, even in our unconscious state, we are subjected to different stimuli. In the morning, during our waking hours, as we smell the frying bacon (as shown in the bacon commercial), are we not stimulated to get up and go to the breakfast table?

During a commercial break while watching a primetime movie on television, we see Sharon Cuneta about to eat a McDonald’s apple pie. Do we perceive it to be a signal to pick up the phone and order for home delivery a McDonald’s apple pie? As you choose something to eat in a food court, does the smell of bagoong influence you to walk towards the source and decide to eat there?

Which of our sensory receptors could have been stimulated us to make purchase decision? Wouldn’t it be interesting to know product brands that are commonly associated with each of the five senses?

**Results of mini-survey**

To answer the question, a mini-survey was recently conducted on three marketing classes to determine the products commonly associated with each of the five senses. Top ten results for each of the senses are seen on the accompanying table.

### Catchy visuals

Sony is distinctly identified with sight and sound. Its positioning in the appliance market especially in the television and radio/component category is clearly evident. What is noticeable though for the sense of sight is the mention of Blue Ice and Fridays. Based on the discussion with the respondents, Blue Ice’s association with sight was attributed to its catchy television advertisements. As with Fridays, no particular reason was mentioned.

### ‘Ang sarap ulitin’

McDonald’s was distinctly identified with the sense of taste. It claimed the top spot among all the other fast food chains. According to the respondents, the advertisement of Sharon Cuneta with the punch line “ang sarap ulitin” made them associate McDonald’s with the sense of taste. The sensationalization of her temporary absence beefed up the campaigns of all the products she endorses, especially McDonalds. This was just recent, thus the high recall. Other brands such as Jollibee, KFC, Wendy’s, etc. could be understandably associated with taste. Fridays was again mentioned. Again no apparent reason was identified by the respondents.

### ‘Langhap sarap’

For the sense of smell, as can be expected, most brands mentioned were perfumes. Johnson & Johnson and Jollibee were also included. Johnson & Johnson was mentioned for its commercials for baby cologne. Jollibee, on the other hand was mentioned due to its “langhap sarap” advertisements. Using scent as a marketing cue created strong perception for Jollibee’s hamburger. Jollibee’s association of food with the sense of smell is probably why Jollibee is one of the leading brands in the market today.

### ‘Haplos ng pagmamahal’

Johnson & Johnson was clearly associated with the sense of touch. This was attributed to its “haplos ng pagmamahal” advertisements. As can be seen most of the brands mentioned for the sense of touch are clothing apparel, other than Body Shop and Downey which were listed for no identifiable reason.

### Power of sound

For the sense of sound, other than the major brands in the stereo market, *See SENSE next page*

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<thead>
<tr>
<th>SIGHTY</th>
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<td>Sony</td>
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<td>Blue Ice</td>
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<td>Fridays</td>
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complex interaction of the two senses-taste and smell. That is probably why Jollibee, one of the leading fast food chains, was identified with the sense of smell. Some of our Filipino customs/practices distinctly involves heightening of the sensual experience. This can be observed in a regular “palengke” atmosphere. As customers look for a perfect buy, they continuously touch, smell and sometimes even taste food products before they decide to make the purchase. We see “tinderas” allowing customers to taste their products, touch generally believed to bring joy, luck and happiness.

Our environment is full of marketing stimuli. But not all generate the desired response. Marketers in particular should be able to properly execute the stimuli to get the consumers attention and to generate a perception that would result in a favorable or desired consumer response. On the other hand, consumers should be aware of the effects in their perception and purchase behavior whenever they are exposed to marketing stimulus in the external environment.

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As customers look for a perfect buy, they continuously touch, smell, and sometimes even taste food products before they decide to make the purchase.
Combatting Speculation
(Examining NDFs and PHIBOR)
By Estelito Biacora, Lecturer, Management of Financial Institutions Department

Non-deliverable forwards, otherwise known as NDFs, are a type of financial transaction in which two parties settle only the differential of the future agreed rate (discount or premium is imputed as in the case of the dollar-peso exchange) against the prevailing spot rate of an underlying instrument. It may not be the textbook definition but I think this describes its nature and treatment in the financial market.

Just recently, following the peso depreciation, the Bangko Sentral ng Pilipinas (BSP) tightened the rules on NDF deals as a move to temper further speculative attacks on the peso. The restrictions prevented increased speculation from the foreign side due to the absence of a local route in buying dollars that is considered speculative in nature. However, banks were not barred to do onshore NDF transactions as long as they comply with the requirements set by the BSP.

Based on the BSP circular, only banks with expanded derivatives licenses can do NDF transactions. Clearance from the BSP on a "per transaction" basis and submission of regular reports are also requirements set by the BSP. Local banks stopped quoting NDFs in the offshore market when the peso fluctuation band widened.

Forward contract defined

To further discuss the implications of NDFs in the current market, let me define a forward contract as an agreement to buy or sell a specific commodity (a currency in our market) at a future date and at a fixed price. This is also regarded in traders' parlance as an outright deal, and normally represents a hedge to an uncovered exposure from a fully-hedged position or, simply speaking, speculation.

Outright deals have the same risk as spot transactions for they are settled just like spot when they mature. The only difference is the timing of delivery and the additional cost due to the premium from the interest rate differential in using pesos to buy dollars.

Thus, outright deals can easily result in favorable profits from the interest differential in case the currency moves flat in a short dollar position, or a huge financial loss in case the currency bought loses its value like the case of the Philippine peso when it depreciated.

It is considered a convenient vehicle to speculate due to absence of liquidity impact other than the profit or loss implication of the position during its settlement.

The PHIBOR

On February 1, 1996 the Philippine Interbank Offered Rate (PHIBOR) was launched as an alternative benchmark in pricing loans to develop the Philippine money market. Banking proponents are pushing for its implementation as a benchmark, or as a better basis for lending and borrowing transactions, other than the 91-day Treasury bills rate. PHIBOR's maturities range from one week to 12 months and, in some cases, 45 or 21 days depending on the dealing requirements of banks.
SPECMULATION...
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How can PHIBOR relate to NDFs and the outright forward market considering that, in its true sense, PHIBOR is a lending and borrowing deal disguised as a foreign exchange (FX) transaction?

Previous speculations on the dollar peso market were done through the outright forward market settled as an NDF, and transacted in the PHIBOR market. However, after the de facto devaluation in July 11, the pressure is purely commercial to cover FCDU loans, oil and import requirements. NDFs are no longer the main reason, since their closure to the offshore market.

However, if we take a look at the enormous growth in the country’s GIR we can guess that these NDFs also contributed largely to its build up. With the expectation that the BSP will consistently defend the peso, NDFs contributed to the short dollar position of the market for months (or years). This allowed banks engaging in the market to sell dollars to the BSP, more than what is necessary to hedge their offshore exposure and maintain in a short dollar position themselves. Most banks took advantage of the interest rate differential that hovered between 5-8 percent for the past two years. This situation persisted for a long time which allowed most speculators to be short in dollars against the peso.

However, as the market sought its true level, and as the law of the invisible hand states that the market will find its equilibrium somewhere, the situation no longer held due to some pressure on the overly short dollar market. This reversed the original sentiment of the speculators to lighten their position in the NDF and eventually square it to go long. This is normal for any speculator he feels market resistance like a slight depreciation from a previously flat dollar-peso movement. After the rumored devaluation, coupled with the covering of the over sold position and reversing it to overbought, the July 11 thing happened.

With the market still not willing to listen to the cost of intervention in maintaining a long dollar position due to the expensive peso cost at a high of 32%, the BSP allowed the peso to seek its own level against the mighty dollar.

The presence of speculators in a free market is a sign of its maturity in a strict sense. A fully deregulated financial market should be ready to absorb the cost of speculation.

The presence of speculators in a free market is a sign of its maturity in a strict sense. A fully deregulated financial market should be ready to absorb the cost of speculation. Maintaining a healthy GIR level may contribute to other problems in the financial market structure (considering that its additional level was also contributed by speculation). Speculation will always take place despite intervention because the market, which includes the speculators and traders, is the ultimate mover of the economy. I’m not sure if this is related to the Keynesian model but I think that the Invisible Hand can find its way in an interventionist market.

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