

Financial crisis impact on south east asian economy



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The economy in South East Asia is the most successful market of growth before the crisis. Moreover, Asia capital inflow into developing countries those make the economic of South East Asia into interest rates. While this South East Asia also attracted to foreign investors to invested and put their money in the bank. Then the large inflow of investment money flow into region's economic and Thailand's economy developed into bubble money that went into uncontrolled. However, Asian financial crisis started in 1997 because of the financial collapse of the Thai baht to an appreciating US dollar. And it spread to many Asian markets. Firstly, it was a currency crisis and evolving into stock market. Then it's becoming a banking crisis because currency had a massive depreciation.

Asian financial crisis affected to Asian countries such as Thailand, Philippine, Indonesia, and Korea and so on.

The economic of Thailand in 1997/98 was the period of crisis and other sectors was melt down such as industrial product and so on. Before the crisis Thailand liberalized financial inflows and banks borrowed in dollar. But it did not hit their position because they were no exchange rate risk. Now let's me review some point about Thailand's economic in period of crisis. The GDP of purchasing power parity was \$525 billion and the GDP of real growth rate was -0.4%. Moreover, the GDP of composition by agriculture was 10% industry was 28.7% and services were 61.3%. Anyway, the inflation rate of consumer price index was 5.6% and the total of labor force was 32.6 million. In additional, the budget of revenues was \$24 billion and the expenditures were \$25 billion including capital expenditures of \$8 billion.

While this industrial production growth rate was -15% and the total value of <https://assignbuster.com/financial-crisis-impact-on-south-east-asian-economy/>

imports was larger than exports. For instance the total value of import was \$73.5 billion and the total value of exports was \$51.6 billion. And Thailand had the debt of external was \$90 billion. The exchange rates of bath to US dollar are per US\$1 to bath was 31.364. These are the data in 1997/98 when Thailand had crisis. (According to, <http://www.world66.com/asia/southeastasia/thailand/economy>)

More important point, Thailand had some responsible to solve that problem. For example, IMF drops a lot of cash into Thai economy to improve capable of conversion into cash and activation up the cash flow between key entities. It means that Thai loan money from IMF. International Monetary fund (IMF) is an organization within the United Nations which encourages trade and economic development. It lends economic problems and sometimes tells governments to change their economic policies. (p. 238, book: Oxford Learner's Pocket, dictionary of Business English). Moreover, Thai government invited IMF to deal with this liquidity crisis such as re-establishing financial stability. So when economic turn around export was raise. In addition, IMF worked on loans conditional on a set of reforms such as in 1997 crash is “laying the foundation for a better Thailand by having forced greater transparency reform of financial institutions and reduction of corruption”. (According to, <http://www.thailandguru.com/1997-asian-financial-crisis.html>)

Secondly, let's me describe about the Philippine economy in crisis 1997/98. The Philippine's economy mix of agriculture and light industry growth led by expansion of exports and investment in 1997. In 1998, government of Philippine growth to slow, it growth about 3% because the financial crisis in <https://assignbuster.com/financial-crisis-impact-on-south-east-asian-economy/>

South East Asia. Then government had some strategies to solve the crisis such as improving in restructure to the tax system to support with government revenues and moving toward private and remove of the economy. Now let's me review the economic in Philippine in 1996/1997. First of all, the GDP of purchasing power parity was \$244 billion and the GDP of the real growth rate was 5. 1% in 1997. Anyway, the GDP of process by agriculture was 22%, industry 32% and services 46% in 1996. (According to, [http://www. world66. com/asia/southeastasia/philippines/ecomony](http://www.world66.com/asia/southeastasia/philippines/ecomony))

Furthermore, Philippine is likely to recover in 1999, by the monetary and fiscal authorities such as the greater attention paid to improving the banking and financial sector and the demand through exports and private that helped in private investment. ([http://www. adb. org/documents/News/1999/nr1999035. asp](http://www.adb.org/documents/News/1999/nr1999035.asp))

Thirdly, I would like to take a bout the Malaysia's economic. Before the crisis Malaysia was a popular investment destination. It is not affected economy in Malaysia in mid 1997 because Malaysia authorities are well aware of the challenges of management such as inflow substantial capital flows. But, it is impacted in late 1997. Moreover, the grew of GDP at a commendable rate of 7. 3% in 1997, but the economic contraction was at -7. 4% in 1998 such as regional economic slowdown, public sector expenditure reductions and so on.

Moreover, there was a reduction in the foreign direct investment (FDI) inflow into Malaysia from US\$9 billion in 1996 to US\$6. 8 billion in 1997 and US\$2. 7 billion in 1998 after the Asian crisis. Anyway, the total of Malaysia debt

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increased from 43.9% of GDP in 1997 to 50.7% in 2001 from the debt of public and private sectors. However, foreign debt reduced from 25.2% in 1997 to 13.7% in 2001 in short term. In addition, the inflation in 1998 rise to 5.35 double from 1997 while unemployment rise to 3.2% from 2.5%.

On the other hand, government had some policy responses for crisis resolution. For example, macroeconomic policies change from frightening to easing supported the quick recovery of the crisis hit economic. Moreover, even Malaysia is independent macroeconomic policies could be adopted from the beginning of the crisis. But, Malaysia start adopted approach without IMF involvement because they through that IMF are unnecessary. Because of the Asian crisis countries were suffering from a liquidity problem.

Now let's me turn to describe about economics of Indonesia. Indonesia is the largest size of its population. Indonesia seemed far from crisis because had low inflation and good banking sector. However, because of the largest member of population borrowing in US dollars made it turn to crisis. Then Indonesia's economic crisis had problem with finance and banking system because of the rapid fall in exchange rates in South East Asia such as Thailand and Malay. When Thailand and Malaysia had problem with currencies, Indonesia was initially not affected because it did not suffer of a large current account deficit and high dollar-denominate foreign debt.

However, in August 1997 financial sector of Indonesian revealed of weakness by selling of rupiah for dollars. Furthermore, Indonesia was low inflation such as 2.6 per cent during the first half of 1997. Then prices have raised most severe increase such as food and other essentials. For example, rice has

increased from 1800 rupiah per kilo to 3500 and cooking oil from 2000
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rupiah per liter to 5500 during the last year. Additionally, the collapse of Indonesia's currency had impact on employment, especially in urban areas. For instance according to World Bank suggest that the number of widespread poverty below the poverty line will increase from 23 million to 40 million.

The Government also response reform and the IMF, the Indonesian Government's initial response to the pressure on the rupiah was generally seen by floating the currency and increasing interest rates. The Indonesian Government approached the International Monetary Fund for financial support on 8 October 1997. And the IMF announces a US\$23 billion rescue package on 31 October to stabilize Indonesia's currency and restore in its financial markets such as cutting government expenditure, reforming trade and industry policy and improving transparency in relations between business and government. Secondly, in January 1998 IMF set out in more detail a program to prevent an economic contraction. For example, it support to the aircraft industry and the national car project such as trade monopoly on the import of rice and deregulation of domestic trade in all agricultural products. Then government wanted to protect the monopoly of basic commodities trade. The IMF has using loans to force Indonesia to adopt major policy reforms. However, even the fund made currency of Indonesia more confidence, but if no international investors. It also does not reassure in the problem of economic. Current Indonesian government economic projections for 1998 are for zero economic growth and inflation of 20 per cent. (According to, <http://www.aph.gov.au/library/pubs/cib/1997-98cib13.htm>).

Furthermore, there are there reasons that ASEAN seriously consider reviewing some of its policies. Firstly, ASEAN is in deep crisis and is in a state of malaise. Secondly, ASEAN is a club whose members range from authoritarian one party states to military governments. Thirdly, there is a change in attitudes accentuated by a generational gap. (Book: Principles Under Pressure: Cambodia and ASEAN's Non-Interference policy, page 40/41).

While this, Asian Economic Crisis are impacts on Cambodia. The below is the impacts on Cambodia and its ASEAN integration. The key domestic factors that led to the crisis appear to be the following:

- Large external deficits,
- Property and stock market bubbles,
- The maintenance of pegged exchange rate regime for too long, which encouraged external borrowing and led to excessive exposure to foreign exchange risks in both the financial and corporate sectors and
- Lax prudential rules and financial supervision, which led to the deterioration in the quality of bank's loan portfolios. (Book: Principles Under Pressure: Cambodia and ASEAN's Non-Interference policy, page: 82).

There is some policy responses to the crisis, as the value of national currencies plummeted and in some countries reserves were low when the crisis unfolded. So the policy response was to confidence in the currency. It means that countries had to make it more attractive to hold domestic currency by raising interest rates that also aimed at stemming the outflow of <https://assignbuster.com/financial-crisis-impact-on-south-east-asian-economy/>

capital. (Book: Principles Under Pressure: Cambodia and ASEAN's Non-Interference policy, page: 83). In addition, in 1997 the Asian crisis fighting have has a cumulative effect on economic growth in Cambodia. For example, GDP growth dropped from 7% in 1996 to 2% in 1997. Anyway, in 1997, agriculture grew 0.8% compared to 2.4% in 1996. The Asian crisis and the July fighting led to the downturn of the tourism industry. For instance arrivals decreased by 45% from 156,578 in the second half of 1996 to 85,753 people during the same period of 1997.

(Book: Principles under Pressure: Cambodia and ASEAN's Non-Interference policy, page: 85).

Moreover, it also impact on foreign direct investment. For instance Asian investors have either stalled or decided not to expand their projects in Cambodia. It means that they prefer to buy deflated assets in neighboring countries rather than put their money in Cambodia such as foreign direct investment (FDI) dropped by 16% from US\$ 240 million in 1996 to US\$ 200 million in 1997. (Book: Principles under Pressure: Cambodia and ASEAN's Non-Interference policy, page: 87).

Furthermore, it impact on the sector banks in Cambodia consist of locally incorporated banks and branches of overseas banks. The regional economic crisis has had adverse impacts on the country's banking sector. The banking crisis is not conspicuous, since not many Cambodians keep their savings in the banks. This was caused by low income, low saving rates and the general distrust of banks.

It impacted on the exchange rate, too. Cambodia has adopted a floating exchange rate system. The National Bank of Cambodia intervenes periodically stabilize the exchange rate. For example, the exchange rate depreciated by 40% from 2,700 riel per US\$1 in June 1997 to 3,900 riel per US\$1 in October 1998.

In the social implications of the crisis, the crisis has produced large and rapid increases in inequity. The country has seen increasing poverty, unemployment and falling real wages. Given the potential impact of a weak economy on Cambodia's ASEAN integration, ASEAN's engagement with Cambodia should include a robust programme of assistance and broad flexibility regarding timetables and conditions for implementing ASEAN economic initiatives.

(According to, book: Principles under Pressure: Cambodia and ASEAN's Non-Interference Policy, by: Hang Chuon Naron, page: 88, 89, and 90). (3)

After the cause of Asian crisis, we had some experience to control the further crisis. To Preventing Future Crises IMF and others have some recommend.

The Chancellor's specific proposals for an updating of the system which established the IMF and the World Bank at Bretton Woods in 1948 were:

- Improving global regulation, which would involve the IMF, the World Bank and other regulators forming a new, permanent standing committee for global financial regulation,

- Creating a process of active and transparent surveillance of borrowing nations,

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- Creating a Code of Best Practice on Social policy issues, so that financial crises, if they do occur, do not result in disproportionate increases in poverty within developing countries. (1)

The IMF has made a similar case, that to strengthen the “ architecture of the international monetary system”, a framework is needed centered on five aspects of the system:

- Reinforcing international and domestic financial systems,
- strengthening IMF surveillance,
- Promoting more widely available and transparent data on member countries’ economic situation and policies,
- Underscoring the central role of the IMF in crisis management,
- Increasing the involvement of the private sector in forestalling or resolving financial crises.

At the IMF and World Bank meeting in Hong Kong in autumn 1997, discussion about making fundamental change to financial systems was already under way. (2)

To sum up, the Asian financial crisis made the economics of South East Asia melt down. While this spread worldwide Cambodia’s economy is donor-driven.