Philippines and malaysia economies asian financial crisis recovery

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During 1997, the Asian Financial Crisis put a stopped to the Miracle Years of the Asian countries and brought many countries and their citizens into despair. Many have managed to salvage themselves (countries) from the onslaught that this event have concurred but there are some that still experience until this day the hardships and consequences of the said crisis. The main objective of this paper is to have a comparison between two Southeast Asian countries that were greatly affected by the crisis. To see their current economic status and what have led to this after the crisis and compare their methodology and government actions that have helped their country get out from the mess or vice versa.

During 1997, the Asian regions faced a crisis that would be known as the Asian Financial Crisis. It started in Thailand and would affect many Asian countries and even those outside of Asia. The result of the crisis for many countries during that time were disastrous s it lead to many people losing their jobs, stock markets plummeting and currency rates sky rocketing. Different governments of the different countries involved conjured many ways in order to fight against the crisis and its consequences. Although not all Asian countries were affected, those who were received dire consequences and some of them have not recovered up until the present times. During this (crisis) time, many of the countries are driven by foreign-debts and investors from developed countries started to pull out investments in response to the crisis. The countries that were greatly affected included the Philippines, Indonesia, Thailand, Malaysia, South Korea, Hong Kong and Laos.

The aim of this paper is to compare and contrast both Philippines and Malaysia checking out the things that they have done in order to get out of the slump that they have been due to the Asian Financial Crisis. After 13 years, are they still affected by the said crisis or they have already fully recovered and is enjoying a pre-1997 economic growth? Are their different decisions and ideas to handle the crisis made huge significance to their current economic development? And last but not least, the paper aims to see why people blame the IMF for making the crisis worse for other countries.

Brief Background on the Asian Financial Crisis

According to the IMF the source of the crisis was the key domestic factors that led to the present difficulties appear to have been: first, the failure to dampen overheating pressures that had become increasingly evident in Thailand and many other countries in the region and were manifested in large external deficits and property and stock market bubbles; second, the maintenance of pegged exchange rate regimes for too long, which encouraged external borrowing and led to excessive exposure to foreign exchange risk in both the financial and corporate sectors; and third, lax prudential rules and financial oversight, which led to a sharp deterioration in the quality of banks' loan portfolios. As the crisis spread, there were many speculations and fears circulating regarding political authorities and their power to implement the necessary policies and reforms for the pressures that have been put to the stock exchange and markets and currency exchange. Reluctance to tighten monetary conditions and to close insolvent financial institutions has clearly added to the turbulence in financial markets. (Fischer, S., 1998).

Until 1997, almost half of Asia's total capital inflow has been because of developing countries. Many of Southeast Asian countries have maintained high interest rates that were relatively good-looking in the eyes of the investors because they aim for a high rate of return. Because of this, the countries in Asia had a large inflow of money thus an increase in the prices of assets. Also at the same time in the late 1980s and early 1990s, the regional economies of Thailand, South Korea and others experienced high Gross Domestic Products (GDP) of almost 7-12%. This dream-like achievement was noted by many economists and analysts as part of the " Asian Economic Miracle."(Hardy, C., N/A).

But the miracle was short lived and had nearly died during the 1997 financial crisis that was said to have started in Thailand The crisis started in Thailand with the financial collapse of the Thai baht caused by the decision of the Thai government to float the baht, cutting its peg to the USD, after exhaustive efforts to support it in the face of a severe financial over extension that was in part real estate driven. During those periods, Thailand has managed to ram up foreign debts that have made bog contributions to the bankruptcy of the country even before the Baht devalued. As the crisis spread, most of Southeast Asia and Japan saw slumping currencies, devalued stock markets and other asset prices, and a precipitous rise in private debt. (Kaufman, GG., Krueger, TH., 1999). The Thai government decided to make its currency float and remove its peg from the US dollar but it was too late to help the economy of Thailand to stop from entering a financial monetary crisis. Many investors feared for the worse thus they pulled out investments and invested them in U. S. A. Most of the Asian countries that were affected by the crisis were highly dependent on foreign trade and investments and the decision of investors pulling out caused more damaged to these countries.

According to Table 1, foreign debt-to-GDP ratios rose from 100% to 167% in the four large ASEAN economies in 1993-96, and then shot up beyond 180% during the worst of the crisis. In South Korea, the ratios rose from 13 to 21% and then as high as 40%, while the other northern newly fared much better. Only in Thailand and South Korea did debt service-to-exports ratios rise.
(ADB Report, 2003)

For most countries, the shock of the crisis didn't last long. Although some have low GDP by 1998, a year after, many analysts have seen and said that Asia is now over from the crisis and is recovering from it. Although this may not be true for every country that was affected by the event. The 40 Billion dollar bailout plan by the IMF only did make things a take a turn for worse, which what most analysts believed. Although for the IMF, their interference is needed as they because the crisis was not only affecting the Asian regions but also countries outside of the continent as well, including USA.

The role of the IMF during the crisis

During the onslaught of the financial crisis, the IMF decided to take initiative and intervene since the severity of the crisis not only affected many developing countries in Asia but also their rich compatriots like Japan and Singapore. At the same time, some countries outside Asia were also affected by the said event including the United States if America. Many believed that the intervention of the IMF was another form of colonialism that had been transcribed by the superpowers of the world. Many analysts have blamed the turn for the worse of the crisis for mot countries because of the aid that the IMF had provided them. One article from essentialaction. org states that and I quote

“ There were other underlying causes for the financial crisis, including overinvestment in real estate and other speculative and unnecessary ventures, but almost everyone agrees the currency crash and financial disaster were vastly disproportionate to the weaknesses in the Asian economies.

Having contributed in important ways to the development of the crisis, the IMF proceeded to make it worse.

The IMF treated the Asian financial crisis like other situations where countries could not meet their balance of payment obligations. The Fund made loan arrangements to enable countries to meet foreign debt payments (largely to private banks in these cases) on the condition that the recipient countries adopt structural adjustment policies”

Even the former World Bank Chief Economist Joseph Stiglitz explains in a New Republic article:

“ I thought this was a mistake. For one thing, unlike the Latin American nations, the East Asian countries were already running budget surpluses. In Thailand, the government was running such large surpluses that it was actually starving the economy of much-needed investments in education and infrastructure, both essential to economic growth. And the East Asian nations already had tight monetary policies, as well: inflation was low and falling. (In South Korea, for example, inflation stood at a very respectable four percent.) The problem was not imprudent government, as in Latin America; the problem was an imprudent private sector–all those bankers and borrowers, for instance, who’d gambled on the real estate bubble.’ “

The IMF created a series of bailouts packages that were called Structural Adjustment Package (SAP) that ties up the Asian currency and finance to those of in the USA or Europe. The Saps that the IMF created asked nations to cut down on government spending to reduce the deficits it would concur, at the same time it would raise interest rate aggressively and allow banks who were bankrupt in the first place to be dissolved. The main justifications for this type of action was to bring back confidence n the country’s solvency fiscally, protect the value of the currency and punish those bankrupt companies. It was believed that the IMF capital fund has to be rationally controlled in the future thus no parties received fund thru preference. In at least one of the affected countries the restrictions on foreign ownership were greatly reduced. (Woo-Cumings, M. 2003) All financial activities had to be greatly supervised by the government and those institutions and companies who cannot are already broke should be closed down but at the same time, the meaning of broke should be clearly defined before and actions are to be made. In short, exactly the same kinds of financial institutions found in the United States and Europe had to be created in Asia, as a condition for IMF support. In addition, financial systems had to become " transparent", that is, provide the kind of reliable financial information used in the West to make sound financial decisions.(Noland, Markus, Li-gang Liu, Sherman Robinson, and Zhi Wang. 1998) But this decision of the IMF was greatly criticized especially in the country of Indonesia were the many of the people were suffering from hunger. With the government cutting back on spending, many of the people were asked to fast twice a week in order to recover from the crisis. The poverty rate of Indonesia during the time of the crisis rose to a whooping 40% of their total population. In other countries like South Korea there were many notably " IMF Suicides" that took place because of people losing their jobs due to the crisis. The term IMF became a household name but not usually pertaining to positive effects of their intervention to the countries.

But one of the most notable criticisms of the IMF is when they encouraged lenders to use the dollar instead of their own national currency. Because of this, dollar prices went up and the countries are forced to devalue their own currency. But in their defense, the First Deputy Managing Director of the International Monetary Fund Stanley Fischer stated in his speech that contrary to what many people say, they have did a fine job in managing the crisis and helping the affected countries from sinking any further. Quoting him

“ Some have argued that these programs are too tough, either in calling for higher interest rates, tightening government budget deficits, or closing down financial institutions. Let’s take the question of interest rates first. By the time these countries approached the IMF, the value of their currencies was plummeting, and in the case of Thailand and Korea, reserves were perilously low. Thus, the first order of business was, and still is, to restore confidence in the currency. Here, I would like to dispel the notion that the deep currency depreciations seen in Asia in recent months have occurred by IMF design. On the contrary, as I noted a moment ago, we believe that currencies have depreciated far more than is warranted or desirable. Moreover, without IMF support as part of an international effort to stabilize these economies, it is likely that these currencies would have lost still more of their value. To reverse this process, countries have to make it more attractive to hold domestic currency, and that means temporarily raising interest rates, even if this complicates the situation of weak banks and corporations. This is a key lesson of the “ tequila crisis” in Latin America 1994-95, as well as from the more recent experience of Brazil, Hong Kong, and the Czech Republic, all of which have fended off attacks on their currencies over the past few months with a timely and forceful tightening of interest rates along with other supporting policy measures. Once confidence is restored, interest rates should return to more normal levels.”

The Philippine Economy and its growth after the crisis

Prior to the Asian Financial Crisis, the Philippines had a crisis of their own known as the Dictatorship of Ferdinand Marcos or Martial Law. Many have said that the main problem for the current Philippines economic growth/ development can be traced and blamed during this era. Before Martial law was declared, the Philippines has a high economic growth amongst the countries in South East Asia, but due to crony capitalism and high corruption rates caused by the declaration of Martial law, the country's economic development seemed to go down as well as its inflation rates increased. The Philippines became foreign debt-driven and many people began to suffer more as time passed by. Angered by the death of Benigno " Ninoy" Aquino II and encouraged by the Catholic Church to protest against for reform, the people conducted the notable EDSA revolution. Not long after, the Filipino people managed to drive the former dictator out of his seat and replaced him with the wife of Ninoy- the late Corazon Aquino. But not because the dictator had gone it means that the country would be facing high economic growth and the fast- track living as it was before. Cory Aquino became an icon for democracy but nothing more than that. Her presidency did poorly in terms of economic development for the country. Certainly, being a housewife and a literature major was not enough for her to handle the responsibilities of being the president. The 7 coup de etat attempts during her time by the military only proved this theory to be true. Even with much urging, Cory Aquino did not run for office for another term (which was probably for the better) and she was replaced with Ramos. The Ramos administration although not very noteworthy did manage to have done a great job in recovery of the Philippine economy. During his term, he managed to briefly uplift the economy during his term as president, posting modest but positive GDP growth rates.

In an article that he himself wrote after his presidency, Ramos believed that even with the overspill from the 1997 Asian Financial Crisis, the Philippines would not be as much affected by the event compared to most countries. Some of the highlights of that article written in Houston, Texas on 1998 for the Asia Society are the following points

I believe East Asia will return to growth – and for two basic reasons.

First, the economic fundamentals of its countries remain strong. And there is still a lot of room for opportunity and benefit in their determined effort to catch up with the more advanced countries.

Second, the political security arrangements underpinning regional stability are still in place. In fact, they have recently been strengthened by the rapprochement between China and the United States – Between Beijing and Taipei – and between Japan and South Korea.

In the Philippines, ten years of deregulation, liberalization and democratization have enabled our economy to withstand better than our neighbors the full impact of the crisis. While our economy has not escaped being caught up in East Asia’s turmoil, it has been one of the least hurt by it.

First of all, we Filipinos chose to respond to the crisis positively – to take to the heart the lesson it teaches – which is that global interdependence is a fact of life, and that global markets punish policy mistakes severely.

But even with the optimism laid to us by Fidel Ramos, the Philippines was not up to par to compete with other countries yet especially when our president is up for impeachment. During the most crucial time for our recovery from the crisis, the country was more interested in the life and wives of our former president Joseph “ Erap” Estrada then in our GDP rates. Upon his seating, the Philippine GDP got a negative growth of 0. 6% in 1998 from a 5. 2% growth in 1997. Although by 1999, he managed to bring it to a +3. 2% growth it was still not enough for us to recover from the crisis. Erap tried to resist protectionist measures and made great efforts to follow through with the reform that the Ramos administration has started. But a bank failure in 2000 and political instability came to tell otherwise. Erap did not finish his term, was replaced by his vice president then Gloria Macapagal Arroyo and the country’s GDP was led to a lower growth than expected.

By the time Gloria “ GMA” Arroyo was vowed president by default because of Erap’s impeachment, the currency exchange of Peso to Dollar was reaching its all time high at Php54:$1. Arroyo, who was an economics major back in college, goal for the Philippines is to achieve improved economic growth by the year 2004. And true to her goal, the Philippines did get an impressive 6. 1% growth in 2004 which shocked many analysts and most government estimates. And by the year of 2005, after the controversial re-election of GMA, the Philippines achieved the fastest appreciation rate for national currency, an impressive 6%. However, higher oil prices led to growth amounting to 5. 1%. But amidst all these, the Philippines is still faced with a serious problem – and that’s to generate income within the country. In comparison to other countries, it relies disproportionately on remittances from overseas which are equivalent to around 11. 17% of GDP.(World Bank Report, 2005.) The year after, the Philippine economy had a 5. 4% growth in GDP which was due to two typhoons wrecking many of the agricultural lands and causing great damage to the agricultural sector. Although many people have been dubious of the Arroyo administration, number won't lie at all. It was during her reign that the economy's growth went on the right track and with her knowledge in economy that we managed to achieve the highest GDP growth rate in two decades. Regardless of her corruptions she still manage to do some things right as a president. She left the Malacanang this 2010 and left the dollar- peso exchange rate at Php 44: $1.

Most of the country's GDP come from remittances from OFWs abroad. Aside from human resources, the country is also rich natural resources. Most of the country's exports are mining and agricultural products. Although many international factories were set up in the Philippines for parts production, the country still has a long way to go in order to catch up with other neighboring countries in their technological advancement. With a new president seated just this May 2010, his aim is to lessen the OFWs and proved decent jobs for them in the country. If this plan succeeds the Philippines might see higher economic developments in following years but in the case that it fails, the country may face another crisis again.

The Malaysian Economy and its growth after the crisis

In 2007, the economy of Malaysia was the 3rd largest economy in South East Asia and 29th largest economy in the world by purchasing power parity with gross domestic product for 2007 estimated to be $357. 9 billion with a growth rate of 5% to 7% since 2007 (The Edge Daily, 2008,) In 2009, the nominal GDP was US$207, 400 billion, and the nominal per capital GDP was US$8, 100. On the income distribution, there are 5. 8 million households in 2007. Of that, 8. 6% have an monthly income below RM1, 000, 29. 4% had between RM1, 000 and RM2, 000, while 19. 8% earned between RM2, 001 and RM3, 000; 12. 9% of the households earned between RM3, 001 and RM4, 000 and 8. 6% between RM4, 001 and RM5, 000. Finally, around 15. 8% of the households have an income of between RM5, 001 and RM10, 000 and 4. 9% have an income of RM10, 000 and above. (Puah, P., 2008)

At the start of the 1970s, Malaysia had plans to imitate the Asian tigers. It wanted to stop the country's heavy dependency on mining and agriculture and move into industrialization. With the help of big investments from Japan, heavy industrialization was made possible and by the late 1980s to early 1990s, the country enjoy a consistent GDP growth rate of not less than 7% with a low inflation rate. One of the reasons for Malaysia's rapid growth is through the privatization of many state-owned enterprises that were least efficient and effective. Many of the deals the government had done were through closed-doors for a faster process. One example for this type of transaction was when DRB Hicom was left by the Khazanah National for the Mega Consolidated group. These were noted to be mega projects by the government.

Many foreigners were attracted to invest in Malaysia this it created many job opportunities for the locals of the country. Because of this increased opportunity, the increase of capital helped boost the Kuala Lumpur Stock Exchange. At the same time, it boosts industrialization within the country and also employment rate. Although some time in the future, one would see that more than 50% of the businesses that were established were illegal.

But during the years of the Asian Financial Crisis, the Malaysian government economy growth slowed down. The Ringgit was being devalued as foreign investors pull out their stocks from Asian countries. The KLSE dropped almost a thousand points weeks after the crisis had started and their GDP rate lowered by a whopping 7. 8%. But contrary to the belief of many analysts after Malaysian government rejected the aid from the International Monetary Fund, the country escaped the crisis only after two years. By 1999, the government already had a GDP rate of 5. 6%, although it is lower than their average of 9% annually pre-1997 period, it was better than most Asian countries that were affected by the crisis. Notably, the decisions of the government to reject IMF aids made it easier for them to recover than for those who have accepted the aids. Opposite to the aid being provided by the IMF, the Malaysian government increased government spending and recorded budget deficits. One of the main help for the faster recovery of Malaysia was with their exports, mainly focused on electronics and electrical parts to its principal trade partner the USA.

By 1998, the output of the economy declined causing the country its very first recession in so many years. During this year, the KLSE drop to less than 270 points and the manufacturing sector of the country contracted by 9%. But for someone who is in a recession and financial crisis the GDP that year still managed to achieve a 6. 2% growth. Contrary to what the Thai had done, the Malaysian government decided to peg its currency to 3. 8 ringgit to one dollar and stopped it from floating. Many agencies were formed in order to take further assistance and actions to help the citizens and huge corporations from bankruptcy. By 1999, the Malay government had slowly taken control of the crisis within its borders and managed to get right back on track.

Following China's move, the Malay government once again allowed its currency to float. As of December 2005, however, expectations of further appreciation were muted as capital flight exceeded USD 10 billion.(Global Economy Malaysia, 2008) According to Bank Negara's published figures, Malaysia's foreign exchange reserves increased steadily since the initial capital flight, from USD75. 2 billion as at 15 July 2005 (just before the peg was removed) to peak at USD125. 7 billion as at 31 July 2008, a few months before the global credit crisis that started in September 2008. As at 29 May 2009, the reserves stood at USD88. 3 billion. Official statistics released in March 2006, confirmed capital flight of more than US$10 billion. However, as of the 4th fiscal year, a surge of FDI has pushed the KLSE above 1200 points, and is expected to strengthen to pre 1997 levels.(Global Economy Malaysia, 2008).

Comparative Analysis

There are many differences that Malaysia and the Philippines faced during the Asian Financial crisis. Both country's were affected b the event and both responded differently to the crisis. Regardless off which, both countries now are moving on from the crisis and are now heading towards economic growth same of that in pre-1997, although the Philippines has a longer way to go compared to Malaysia. The aid that the IMF provided that many believed was a new form of capitalism and colonialism that the Philippine accepted and

Malaysia rejected was one of the main differences the two countries has in terms of reaction to the Asian Financial Crisis. Many analysts believed that the intervention of the IMF caused the countries that accepted the aid to recover slower compared to the country that did not accepted the help. In the former sections of this paper, it was discussed how the help of the IMF caused a negative reaction to the countries and how Malaysia have managed to do well regardless of rejecting the help offered.

Another major difference of both countries that contributed to the difference in their development after the Asian Financial crisis would be the contribution of their political stability. Malaysia have had their fair share of political turmoil but still one could see the effort made by their government to counter-attack the plunging values of their stocks and currency which on the other hand differs from the Philippines. Ever since the Martial Law period of Marcos, the Philippines have in constant doubts with their leaders and many have simply lost trust in them. If the Philippines had only had a more stable government during post 1997 (i. e 1998 onwards) then by now the country would have been in a higher GDP rate than what they currently have to date and our currency would have been devalued or lowered by that much.

But even with major differences, there are still slight similarities that could be seen in these two countries have regarding their journey to higher GDP rates from the financial crisis. First is their step to industrialization and technology from mining and agriculture. Both countries have been exporting mostly agricultural products abroad and now, they both wanted to be part of the industrialization world because this is the demand that globalization has wanted.

Both Malaysia and the Philippines have had their fair share of trouble brought about by the crisis. And since then, these two countries have been trying their best in order to be able to compete with the World Market. And just having been out of the financial crisis, it made not just these two countries but many Asian countries unaffected by the recent recession that has started in the United States of America. Regardless whether the IMF have made things turn for the worse like what most analyst declare, or have helped the economy improve like what the IMF declares, their intervention played a major part in the recovery of every country whether good or bad. The use of Regression Analysis model would be a great help if we wanted to prevent another Asian financial crisis to occur in our countries, because it can help us understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables – that is, the average value of the dependent variable when the independent variables are held fixed.

Summary

The Asian Financial Crisis started with the Thai government investing too much in real estate creating a bubble in the economy. The government was late in action when they decided to float their currency thus affecting their neighboring countries and scaring foreign investors who then decided to pull out investments from affected countries thus lowering the GDP of the affected countries.

The IMF tried to intervene by giving aids in form of SAPs but analysts believed that this only made things worse because it restricted government spending thus resulting to people suffering more form hunger, underemployment and uneducated-ness. But contrary to analysts the IMF believed that they have done a good job and is only doing what they have to do as an international institution that ahs agreed to help its “ family” in times of need.

The Malaysian government and the Philippine government although affected by the crisis have managed to pull themselves out years after the event. It took a lot of dedication from their governments and hard work from their people but eventually, the countries managed to produce positive economic growth rates and higher values for their currencies. The Malaysians rejection of aid from the IMF have had done them good since in just a matter of two years from the crisis they were able to pull themselves out. Whilst for the Philippines, it took them a while longer because of the political instability and impeachment of their president during the height of the crisis. Regardless, both countries now are doing their best to be competitive in the global market and are trying their best to change from an agricultural sector to an industrialized sector.

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