

# Asian financial crisis and globalisation



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Asian Financial Crisis and Globalisation Introduction When the world first came up with the idea of globalization, its main aim was to integrate the regional economies, cultures and societies through a global network of political ideas. Through this it was anticipated that the economy of many countries would improve tremendously. However this is not the case in Asia especially in countries like Thailand, Malaysia, Korea and Indonesia. Since the economic crisis of Asia begun two years ago, the region has started to express its doubts about the impacts of globalization on the regional societies (Michie 2003). Most Asian scholars argue that globalization may be a possible threat to the internal cohesion and economic health of the region (Kyōkai 1999). Therefore this paper investigates the possible causes, contagions and effects of the Asian financial crisis with regard to globalization.

### Causes of the Asian Crisis

The list of potential causes of the crisis is long but a short list would include: the futile attempts of the governments to keep their currencies at artificially high levels, massive overinvestment by various corporations funded by excessive borrowing, government ability to direct banking systems and decisions of lending, crony capitalism, lack of transparency, inadequate financial regulations and supervision, rigidity of labor markets and pronounced mismatch of assets and liabilities in both the corporate and banking sectors (Agénor 1999; Walker 1998).

However, the most important causes to the current Asian crises include the low corporate profits and unwillingness of the policy makers to relinquish control. The governments' directive to the banking systems and the corporate governance structures to increase their sizes and market shares

resulted in systematic overinvestment and sharp declines in corporate profitability. Besides decreasing the overall value of most countries in Asia, the shrinking profits weakened the banking sector that most firms rely on for funding (Walker 1998).

The government interventions in the currency markets have led to high reductions in the value of currency of most countries in Asia (Rotblat 2001). For instance, when the currency of Thailand (the baht) was overvalued, the government failed to allow an orderly depreciation but fought the market forces because it thought it had enough foreign exchange reserves and wanted to avoid the high political costs associated with the devaluation of baht. With this move, the baht was finally allowed to float and its value fell.

#### Contagion and its Impacts

Contagion refers to the spread of a financial crisis from one institution to another or from one country to another according to Walker (1998). For instance, the Asian financial crisis has spread from Thailand to other countries in the East of Asia, Latin America and Russia despite their differences. The Asian financial crisis had significant effects in Asia and spread to other parts of the world. There was a sharp reduction in values of currencies, stock markets and asset prices of many countries in Asia. In South Korea most businesses collapsed and most people fell below the poverty line (Turner and Kim 2004). The most affected countries by the crisis were Thailand, South Korea and Indonesia.

The crisis also led to political upheaval especially in Thailand and Indonesia. In Indonesia it led to the resignation of President Suharto whereas in Thailand it led to the resignation of the Prime Minister General Chavalit Yongchaiyudh. These effects spread to the rest of the world in that most

international investors became reluctant to lend money to developing countries hence slowing down their economic growth. It also led to the price reduction of oil to about \$ 12 per barrel in 1998 hence causing financial constraints in OPEC nations and other exporters of oil. The reduction in oil revenue led to financial crisis in Russia which in turn caused long term capital management in the US to collapse after it had lost close to \$5. 0 billions in four month (Walker 1998).

### Conclusion

Generally, the Asian crisis and contagion led to global financial crisis especially in developing countries. With the rise of the anti globalization movement in 1999, globalization has become unpopular in developed countries. Developing countries have become more assertive and many nations have turned towards regional or bilateral free trade agreements as opposed to globalization.

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