The East Asian economic crisis

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Abstrak

The Asian currency and financial crisis since the middle of 1997 was a big historic happening for the world economy, as well as for the Asian economy. The economic difficulties in East Asia began when the Thai government was forced to abandon the currency peg and allow the Baht to float on July 2, 1997. The devaluation raised concerns about the economic outlook and exchange rate arrangements in the neighboring countries. Subsequently, capital outflows triggered the depreciation of their currencies and propelled several East Asian economies into crisis. In this thesis, I have considered why the crisis caused and why contagion effect happened, in other words, why the crisis in Thailand triggered the crisis in neighboring countries.

In chapter 2 and chapter 3, I explain 2 crisis models, i.e. 1S4 generation model (the crisis model based on the fundamentals), and 2'd generation model (the crisis model with self-fulfilling features).

In the chapter 4, I considered some supplementary issues, especially the contagion effect which is characteristic of the East Asian crisis, and the relation between currency crisis and financial crisis. In the 2nd generation model, investor's behavior is an important channel for the contagion. Investors can cause contagion in the event of, for instance, liquidity problems and information asymmetries. In addition, changes in the rules of the game on international financial markets can result in contagion by making investors change their behavior.

In the chapter 5, I overviewed and examined the macroeconomic fundamentals of the East Asian economy. I can say that the East Asian economies enjoyed the highest economic growth, low inflation, a relatively modest current account deficit, rapid export growth and growing international currency reserves, before the crisis, except Thailand, which had relatively large amount of current account deficit. When seeing the economic situations in the East Asian countries before the crisis, I can say that the causality between the macroeconomic fundamentals and the crisis was not strong. Judging from such East Asian macroeconomic fundamentals data , the 1" generation model of the crisis (the crisis model based on the fundamentals) introduced in the chapter 2 is only appropriate for explaining the beginning of the crisis in Thailand. This raises the question of why the crisis in the East Asia was so severe and the crisis contagion happened all over this region, despite of the sound economic fundamentals of moat of those countries. Then, I consider that the 2" generation model (the model of the crisis with self-fulfilling features) introduced in the chapter 3 is more appropriate for the contagion and `panic' of the East Asian crisis. In conclusion, I can say that the 1" generation model and the 2m generation model complement each other; the relatively bad fundamentals of Thailand triggered the crisis in Thailand, and after that, the change of investors' expectation worsened the crisis and spread the crisis from Thailand to all over East Asia.

Lastly, I point put that strengthening the financial system is important. Because the rapid capital outflow and

the contagion would not have happened, if there was not the vulnerability of fmancial sectors and the corporation finances in those countries. There was the vulnerability which the financial sectors and the corporation finances in those countries originally had, in the background of the capital inflow before the crisis, and a great deal of capital outflow at the time of the crisis. Therefore, when seeing the economic structure of a country, we need have wide viewpoints and pay attention to the financial system and the corporation finance, in addition to the typical macro economic index.