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The Impact of Asian Financial Crisis on the four Asian Dragons

Pranesh .S

pranesh.s@bba.christuniversity.in
Christ University, Bengaluru, Karnataka

Prem Kumar. R

prem.kumar@bba.christuniversity.in
Christ University, Bengaluru, Karnataka

ABSTRACT

The outbreak of the Asian Financial Market Crisis (1997) has a persistent impact on the economies of the Asian countries. This dissertation tries to portray the impact of the Asian Financial Market Crisis of 1997 on the Four Asian Dragon countries namely South Korea, Taiwan, Hong Kong, Singapore and how the governments of these countries formulated policies to efficiently overcome these impacts.

Keywords: *Asian Financial Market Crisis (1997), Government, Taiwan, Hong Kong, Singapore, South Korea.*

1. INTRODUCTION

Thailand's currency was devalued on July 2, 1997, with regard to the US dollar. With the devaluation of the Thailand currency which was over the months had led to the development of over pressure which subsequently impoverished Thailand's official foreign exchange reserves. In the following months, the overheated economy had collapsed because of the highly speculated the real estate market structure, equity and Thailand's currency (Thai Baht) had weakened a lot which led to major difficulties such as the crisis in the banking sector and balance of payments.

Taiwan, South Korea, and Singapore were the main counties which were mostly affected by the crisis. The financial crisis also had affected and hurt many other countries like Philippines, Laos, Malaysia, China, Brunei, Indonesia, Hong Kong and Vietnam. Many countries in the south east gave a rose to private debt.

Although, the governments of Asian countries had better fiscal policies, the International Monetary Fund (IMF) had taken initiative to introduce a program which was known as the \$40 billion program which aimed at stabilizing the currencies of the countries like South Korea, Thailand and Indonesia and other economies which were particularly affected by the financial crisis. The devaluation of the Thai Baht had a domino effect, the Malaysian Ringgit, Indonesian Rupiah, and the Singapore dollar weakened.

The economic growth of South Korea had slowed down, the prices of various products began to rise and so did the imports. The initial reaction of the stock market and currency market was in favor of Korea with an increase of 7% but gradually led to a stock market decline by 49% and the currency had to be depreciated by 65.9%. The unemployment level rose from 2% to 8.7%. The elimination of subsidies to the export and the quick liberalization of the imports took place in Korea.

The economic growth of Singapore drastically reduced from 8% (1997) to 1.5% (1998). In the Singaporean labor market, unemployment rose to 3.2% that accounts to about 62,800 people. Manufacturing, commerce, construction transport and communications sectors perform extremely inefficiently. It impacted the currency of the country adversely. It also led to a fall in the prices of assets, weakening of the financial and corporate sectors.

The effect on the Hong Kong economy was the worst in comparison to the Asian country economies, The GDP reduced by 5.5%. The economy of the country wobbled for the next five consecutive years.

The economies of Asia were recovering by the year 1999. The financial crisis had made the economies to develop more towards the financial stability and supervision towards finance.

2. OBJECTIVES

The dissertation on the Asian Financial Market Crisis and its impact on the Four Asian Dragons endeavor the:

- The Asian Financial Market Crisis(1997)
- Impact of the Asian Financial Market Crisis (1997) on the Four Asian Dragons
- The policies formulated by the dragons to overcome this effect
- The current situation of the 4 Asian Dragons

3. LITERATURE REVIEW

▪ *Korea, Taiwan, and the Asian financial crisis*

Domestic institutional differences and impact of external pressure for liberalization. This paper shows the impact of the Asian financial crisis of 1997 on South Korea and Taiwan and the government's strong intervention in the economy's functioning to overcome the effects. (Joon S. Kil, 2004)

▪ *Taiwan and Asian Financial Crisis*

This article talks about the way Taiwan adopted itself to the effects of the Asian Financial Crisis of 1997. Even when Taiwan's economy was affected by the devaluation of the Thai Baht the economic growth was of 6.7%. (January 1998)

▪ *Asian Financial Crisis (1997-1998)*

It states that the financial crisis leads to economic slowdowns in several countries but Singapore was not directly affected and the various measures were undertaken by the government to help ease the cost burden. (Valerie Chew)

▪ *Effects of the Asian Economic Crisis on Singapore and Its Policy Responses: A General Equilibrium Analysis*

The paper studies the impact of the Asian Financial Crisis on Singapore and the effects of the policies proposed in order to correct them. The areas of concern were wage reduction, domestic demand stimulation, and exchange rate policies. (Mahindra Sriwardana, Dec 2015)

▪ *The Asian Financial Crisis, Economic Recession and Structural Change in Hong Kong*

This article studies the interaction between two important factors influencing the deflationary pressure on the Hong Kong economy since 1997. (Yue-Chim Richard Wong, June 2002)

▪ *Coping with the Asian Financial Crisis: The Singapore Experience*

This paper examines the roots of Singapore's resilience and assesses Singapore's policy responses to the crisis. (Ngiam Kee Jin, 2000)

▪ *The Effect in Hong Kong's Economy after the Asian Financial Crisis*

The report focuses on the economic situation of Hong Kong in the year 1997-1998 as a result of the financial crisis in the Asian economies in 1997 has created tremendous interests in the economic point of view.

4. FORMULATED POLICIES

- i) **South Korea:** The crisis in Korea occurred due to excessive external debt. In order to correct this liquidity crisis, a rapid injection of money in the economy as a necessity. The IMF agreed to lend Korea a sum total of \$58.4 billion. The reforms were undertaken by the Korean government aimed at the following:
 - To strengthen the legal and regulatory infrastructure
 - To rehabilitate the financial sector
 - To strengthen the prudential regulation
 - To reduce moral hazards
 - To promote capital account liberalization
 - To strengthen the corporate governance of financial institutions.

- ii) **Singapore:** The policy formation of the Singaporean government aimed at lower business costs and to provide relief to individuals and households. The 1998 budget included measures to help in reducing the business costs. The policies undertaken by the Singaporean are as follows:
- Exchange rate depreciation
 - Fiscal and cost cutting measures
 - Financial sector reforms
- iii) **Hong Kong:** The country that was enormously affected by the Crisis was Hong Kong. The country had to undergo various policies formulated by the government. The primary policy objective was to maintain the exchange rate stability within the framework. The formulated policies aimed at:
- Rise in the GDP growth rate
 - Decrease in the unemployment level existing in the country
 - Increase in external trade (majorly exports)
 - Emphasis on the tourism sector
 - Recovery of the stock market
 - Stability in the interest rates
- iv) **Taiwan:** Taiwan is one of the countries that was not majorly affected by the Asian Financial Market Crisis of 1997. The formulation of policies was done keeping in mind the following aims:
- Freedom from internal control
 - Enhancement of transport and communication services
 - The provision of better education facilities
 - Increase in foreign trade relations in the form of wide spread exports
 - Increase in the GDP growth of

5. CURRENT SITUATION

- **South Korea:**
 - The GDP amounts to about \$1.4 trillion
 - The GDP per capita is \$27,500
 - It is ranked 15th in Human Development Index
 - It is ranked 19th in the Forbes list of best countries for business
 - It has an expected economic growth rate of 2.9% in 2018
- **Singapore:**
 - The GDP is estimated to be approximately around \$537.447 billion and is ranked 39th among other countries
 - It ranks 5th on the United Nations Human Development Index
 - GDP per capita is \$93678 million and ranks the 3rd highest
 - It is ranked as the freest economy in the world by the 2015 Index of Economic Freedom
 - It was rated as the world's most expensive city for three consecutive years by the Economist Intelligence Unit in 2016
 - It is the 2nd largest foreign investor in India
 - It is the 14th largest exporter in the world
- **Hong Kong:**
 - The 2017 Index of Economic Freedom lists Hong Kong as the number 1 nation with the score of 8.97
 - Hong Kong does not have public debt, a sound banking system and a strong legal system
 - Foreign exchange reserves to US\$ 408 billion approximately as of mid-2017
 - The GDP is \$319.7 billion at current market prices
 - The Hong Kong stock exchange is the sixth largest in the world with a market capitalization of about US \$ 3.732 trillion
- **Taiwan:**
 - It is the 22nd largest economy in the world and 7th largest in Asia.
 - The trade surplus is substantial and foreign reserves are world's 5th largest
 - Taiwan's total trade in 2010 reached an all-time high of US\$526.04 billion according to Taiwan's ministry of finance

- Exports, as well as imports, reached record levels totaling to US\$ 274.64 billion and US\$ 251.4 billion respectively
- The GDP growth per capita is estimated around US\$ 22598 in 2014 and ranks 36th among other countries

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