

**Impact and Response of Asian Economic Crisis and Global  
Imbalances of  
Emerging Market Economies**  
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# INTRODUCTIO

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Economic and financial crisis attacked the Asian region starting from Thailand in 1997. Many countries in this region had been domino affected by the crisis. Balance of payment twin deficit from both balance of trade and capital balance contributed to the massive loss of international reserves. The regional currencies had also been speculated and then led to the over devalue of these currencies particularly for Thai baht. Thailand has also been affected by the non-performing loan (NPL) of bank and non-bank financial institutions and over supply of real estates are other essential factors contributed to the crisis. NPL created by financial institutions from the advantage of the cost of borrowing differentiation between on shore and off shore. This economic situation in Thailand can be called the bubble economy. This chapter reviews and investigates the impact and responses of Asian debt crisis. It also explains about the global imbalances of emerging market economies that can be considered as one important of the crisis.



# CAUSES AND CONSEQUENCES OF ASIAN DEBT CRISIS

There were different and various causes led to the financial instability especially in Asia during the past two decades. These causes had been addressed to both policy makers and market participants. These causes can be explained as follows (Ellis, 2009).

1. Boom –Bust Cycle
2. Financial Sector Instability
3. Credit-fuelled Booming

Other factors can be contributed to the Asian financial crisis are as follows (Sheehan, 2009).

1. Ineffective quality of fund management system
2. Ineffective capital inflows stabilisation
3. Foreign banks entry restriction
4. Higher cost of financial services and NPL



# GLOBAL ECONOMY IMBALANCES CIRCUMSTANCE

Global economy imbalances have been currently happened between developed and developing countries. These imbalances can be described from various economic development gap aspects. The global financial weakening and instability is one essential factor distributed to global financial crisis. This circumstance has currently originated from the US that has affected credit markets and financial system in other countries very rapidly. There are eight transmission channels that can be described as follows (Sheehan, 2009).

1. Financial Market Conditions
2. Real Activity in the Impact Industries
3. Expectations
4. Export Shocks-The Impact Industries
5. Export-Other Industries
6. Wealth and Profitability Effects
7. Resources and the terms of trade effects
8. Reduction in Capital Flows, FDI and Foreign Aid

# IMPORTANCE OF EMERGING MARKET ECONOMIES AND IMPACTS OF ECONOMIC CRISIS AND GLOBAL IMBALANCE



The importance of emerging market economies has been increased in the present. The World Bank categorised the classification of countries into the newly industrialised economies consist of Singapore, Hong Kong, Taiwan, Korea, Indonesia, Malaysia, Thailand and China. These countries have common characteristic as the dominated of Asian growth attribute to continue and sustain rapid growth. Saving rate and huge amount of investing increased rapidly in many Asian countries during that time. These Asian economies can also be regarded as emerging market economies.

Four main issues have been analysed in this section as follows.

1. The Impact of the Global Economic Crisis on China
2. The response of China to the Crisis
3. Domestically and Internationally Emerging from the Crisis of China



# IMPORTANCE OF EMERGING MARKET ECONOMIES AND IMPACTS OF ECONOMIC CRISIS AND GLOBAL IMBALANCE (CONT.)

The stimulus economy package had been injected via various strategies to achieve the target (English, 2009). This stimulus plan has four ultimate goals of rebalancing the economy, efficiency, social balancing and stability. These goals need to effective transmission instruments that can be described as follows.

- 1) Rebalancing the economy by determining long-term growth via increasing domestic consumption as well as slowdown the exports.
- 2) Efficiency by restructuring the high potential industries to reach more productivity.
- 3) Social balancing led by strengthening and expanding social welfare and employment to decrease high unemployment.
- 4) Stability by continuing implementation of the above strategies to maintain economic reform and long-term sustainable development.



## ENHANCEMENT BENEFITS POLICIES

The policy makers have currently proposed and debated about the efficient policies to assure the benefits particularly for solving and protect the economic and financial crises re-emerge. Government and central banks play an important role to implement macroeconomic policies including fiscal and monetary policies. One essential condition is to restructuring the regional and global financial system to be recovered and strengthened. The effective reform policies need to be focused.

Many procedures are crucial to restore the financial system particularly for banking system of the affected countries that mostly are in Asia. The examples of these procedures were substantial technical supporting to financial institutions and markets as follows (Ellis, 2009).

- 1) Debt Insurance Guarantee
- 2) Bank Capitals Injection
- 3) Balance Sheet Risk Reducing



## ROLES AND IMPORTANCE OF REGIONAL ECONOMIC INTEGRATION

The current important example of regional economic integration is ASEAN. ASEAN has increased an important role in terms of not only regional trade and investment liberalisation but also the expanding of other and deeper economic integration to be the ASEAN Economic Community (AEC) by the end of 2015 (Wattanakul, 2010). The ultimate goals of AEC are to be single market in order to create the efficient production hub and network. Furthermore, the service sector liberalisation is also the additional important target of AEC.

Bilateral free trade agreements (FTAs) are an essential step that can be led to the building blocks for the comprehensive regional economic cooperation and plurilateral economic integration later. Many countries in ASEAN currently particularly for Thailand has enthusiastically negotiated and implemented the bilateral FTAs. Thailand has signed and implemented the bilateral FTAs with the countries both inside and outside the region.



## ROLES AND IMPORTANCE OF REGIONAL ECONOMIC INTEGRATION (CONT.)

Moreover, the enlarged ASEAN has been progressed because of the major East Asian countries of China, Japan and South Korea has very interested to be part of AEC as the ASEAN+3 (Wattanakul, 2010). This progress will be benefit to all partners lead to the more negotiation power under the WTO and other mutual benefits. Another enlarged ASEAN negotiation and progress in the present is ASEAN+6. ASEAN+6 consist of ten ASEAN members and China, Japan, South Korea, Australia, New Zealand and India. All mentioned East Asia economies are very important for regional economy's growth because of the massive foreign direct investment (FDI) in export manufacturing in ASEAN host countries. In addition, China is also the largest international reserves holders in the global economy as well as the Chinese Yuan is very powerful currency.



## CONCLUSION

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Many countries in Asia have been affected by the financial and economic crisis during the past two decades although these countries have experienced continued economic growth. One of the key Asia's economies is China. Others countries especially in the ASEAN region have also affected considerably. This situation and challenge caused the global economy imbalances. Global economy imbalances have led to different consequences under different economies. Therefore, these affected countries need to implement effective economic policies to response and solve the challenges.



## CONCLUSION (CONT.)

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The regional economic integration is one possible channel that can be applied to use as the solution. Consequently, the bilateral FTAs have developed both inside and outside the region. The enlarged ASEAN in terms of ASEAN+3 and ASEAN+6 is the opportunity to expand the economic collaboration to alleviate the adverse impacts and prevent the re-emerge of the crisis including the other economic collaboration. The current obvious example of this proposes is AEC that the ultimate goal as single market targeted by the end of 2015. Nevertheless, the plausible mutual benefits from the single AEC market need to be investigated by further studies.



Thank you!



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