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The Impact of Financial Crises and Economic Growth of East Asian Countries

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Abstract

In last quarter of 1997, the economic crises came in the East Asian countries. However, the countries those are affected by these crises are Malaysia, South Korea, Indonesia, Japan, Philippians, Thailand and Taiwan. The reason behind these crises were due to miss management of economic system and bankruptcy because mostly bank became corrupt during these crises and real GDP effected by these crises, whereas GDP in some countries are less effected as compared by the remaining countries after the crises in 2000. But the investment ration fell during that period, whereas, a comparative analysis are done in this paper that showed the investment ratio decreased during the period but slightly recovered after the crises. We explored the growth of the Asian economy and determinants of the economic growth before and after the crises. In the first part of the paper, we review the East Asian economy before 1997 while in second part we discuss the crises development of East Asia countries after the crises. The crisis resulted in the stock market values have failed to pre-crisis values retain is supported by the result. A picture of currency and banking crises exhibited a slightly different image study in the result.

Keywords: **Economic crises and Growth; East Asian countries; Effective strategies; Investment**

INTRODUCTION

The Asian financial crises was started in July 1997, these crises spread in many East Asian countries like Philippines, Malaysia, Singapore, china, south Korea, Indonesia, Thailand, Taiwan and Hong Kong. However, it is observed that mostly East Asian countries devalued their currencies during these crises. These crises were occurred due to bankruptcy of east Asian countries banks, such as the Singapore dollar also devalued in August, Taiwan dollar in October and south Korea depreciation started in November, Japanese currency devalued in July 1997 china was less affected by these crises the purpose of this study investigated the financial crises on Asian economies, where some of countries depreciations more the 50% from 1997 to 1998 and these countries were Thailand, Philippines, Malaysia, South Korea and Indonesia in 1997, the nominal interest rate reached at 25% of other countries effected by less than 25% depreciation and nominal interest rate below 20%. However, some people think differently about the reasons of these crises and it is difficult to understand because these are unpredictable crises. On some extent the Asian development bank and the international monetary fund [1] are failed to anticipate the financial problem. What lesson learns by policy makers of these countries from these crises and effective strategies for these economies to overcome such crises effectively?

There is no consensus of the diagnosis of the crises. Whereas, some people have idea about these crises that the crises were start due to mismanagement of resources and capital outflow. The World Bank committed about these crises that it was difficult to sustain the economies after the crises only very couple of the countries sustained the economy through industrialization in few years and the growth rate was the 70% and fluctuate 7% per year in 1990. Before 1990, there were big private cash flow in countries but after 1996, it was fell down, after the rapid growth of the economy than double decrease and some countries face large current account deficits. It also showed the structural issues and stopped the fast growing economy, whereas the overall exports recovered on the first half of the 1997. Azis [2] is noted that a large current account deficit is due to high flow of private investment rather than the limited domestic savings although there are some private concerns about the banking system and its results the risk of banking trust, the most of the Asian countries have more rapidly grow of their fiscal position as compared to others. Whereas, Shabbir [3,4] elaborates that market innovation is a comprehensive tool in order to meet the demands of their target customers.

Due to exports led in 1980 the labor shortage will become low and it caused sharp increases in real wages and average wages in from 1997 to 1981 in Korea and Taiwan. It rosed by 60% these wages and stimulate the private consumption the problem facing by the countries are the rapid growth in consumption as well as in the investment and face the inflation before the crises, there were little bit effect of the inflation. The banking insolvency increased through some years due to this and the currency crises start after the crises of five Asian countries Indonesia, Korea, Thailand, Malaysia and Philippines have managed the crises effectively after the 1997. In Korea the economies have bottom after mid of the 1998. The growth rate in 1990 was turnaround -6.7% in 1998.

LITERATURE REVIEW

The growth rate is improved by higher schooling and life expectation, lower productivity and lower government expenditure better preservation of the rule of law, lower inflation and improvements in the conditions of trade. For known values of these and extra variables, growth is harmfully related to the first level of real per capita GDP [5]. The initial excitement centered on “endogenous growth” theories, in which the long term growth rate determined by government policies and other forces. Succeeding analyses argued that technical development generated by the finding of new ideas was the only means to avoid withdrawing returns in the long run. The purposive manners that underlay innovations hinged on the vision of monopoly profits, which provided individual incentives to carry out costly research [6]. Whereas higher inflation goes along with a lower rate of economic growth inflation also effect the economic growth if inflation increases then defiantly the growth will decrease.

There are some growths theories like neoclassical and endogenous developed by Ramsey et al. [7-11]. The lower the initial level of real per capita gross domestic product (GDP) is higher than the expected growth rate. The growth rate will be high if the starting per capita GDP low in case of long run. If the population is growing, then a section of the economy’s investment is used to give capital for new workers, rather than to increase capital per worker, due this the high rate of population growth have negative impact on economic growth and higher productiveness rate means that increased resources must be devoted to childrearing, rather than to production of goods. The rules of law also have big impact of economic growth [12]. Different kinds of laws indexes are also responsible economic growth and it attracts the international investors to free come and increase the growth rate. The intercepts enclosed comprise quality of the administration, political corruption, probability of government repudiation of contracts, risk of government and overall maintenance of the rule of law. The attractiveness of country is depending upon the laws and rules and regulation imposed by the country. However, terms of trade also affect the overall imports and exports influence in the developing countries. Some empirical studies of cross-country growth have also reported an important positive role for the investment ratio.

ASIA: A HISTORICAL PERSPECTIVE

Asian review of economic history has an open area that will show since the modern era to compete in the global economic system. Even when China and Japan, 15th and the 17th century respectively, appear to Close Boundaries of International and foreign trade, the data did not show complete closure. It has expanded his empire and became a great world power during the first industrial economy of Japan reached on its peak during the Second World War.

In the early 1960s, the British colony of Hong Kong, strong textile production from developing economies and in the 1970s became the first four Asian Tiger economies as a global financial center and quickly established itself as a progressive “I changed world economy”. By 1997, four Asian Tiger economies of East Asia, such as Japan advanced economies joined. In 2012, as Japan, Hong Kong and Singapore the most developed markets in the economic indicators are the only countries in Central Asia Historians believe that the world economy in recent years has come from more than a Eurocentric point of view [13]. In the last century, Asia is now recognized and discovered only a part of the world and for Europe, but not the most open Prior to his arrival had only one economic system.

In fact, this system can be Europe and Asia for growth as Europe's economic growth has contributed the most. Lughod [14] examined as the time period between 1250 and 1350 focuses on an international business, developing economy that has been fully stretched. “Of Northwest China, traders and producers involved in a worldwide network is congested exchange.” Frank [15] explains that there is a claim Labor and the multilateral trading with the world, ASEAN plus as a variety of regional institutions Asia and the Pacific in one of three different groups. Historical economic literature is a photograph of an emergency late expansion of the global economy, trade and institutions, which includes not only this is supported by the system. The system is important in this world and the main focus of this certain point of view, is Asia. While many of the area, the countries that make up the states and cities of Asia, the region has changed over time, and prominence in partnership, global economy can be denied.

ASIAN GROWTH IN GLOBAL PROSPECTIVE

Economic growth in china and Asia are much faster as compared to others developing countries and grown fasters then the industrial countries, for example the over the 1987 to 1994 the real GDP growth rate in developing countries were 2.75% per annum more than in the industrial countries and this growth system is estimated by 3% in 1995 and 1996 during this period the population growth was 0.5% in developed countries and 2% in less developed countries the growth rate was faster in developing countries then the industrial countries. The stunning growth of lots of economies in East Asia above the past 30 years has surprised the economist profession and caused an avalanche of books and articles that attempt to explain the experience [16]. Articles on why the common successful economies in the area of Hong Kong, Korea, Singapore and

Taiwan state of China have increased, to say the least, with vigor always mention the incident as "amazing." When doctors resort the dismal science to a higher power, the reader knows he is in problem.

Since 1960, Asia became a major and most heavily populated continent in the World. Of course, this increase did not occur at the same rate throughout the continent. The western element of Asia has increased in this period more or less the same speed as the rest of the world but in common, the eastern half ten countries: Malaysia, China, Hong Kong, Japan, Korea, Indonesia, Philippines, Singapore, Taiwan and Thailand twisted in a better performance, even though the variation in results can also be seen here. The worst performance was the Philippines, which has increased by about 2 percent per year (per capita), approximately equivalent to the average non-Asian countries. Whereas, Japan, China, Indonesia, Malaysia, Thailand were reaching better growth rates of 3.5 percent. This striking result is still small as compared to the impressive development of Hong Kong, Korea, Singapore, Taiwan and Province of China, as the "four tigers" because of the strong economic performance and intimidation. The Tigers had yearly growth rates of production per person over 6 percent; these growth rates became constant above the period of 30 years. While the average occupant of non-Asian countries in 1990 was 72 percent better off than his parents in 1960, the figure for Korean media is not less than 63.8 percent. Everybody agrees that the East Asian economies, in particular the four tigers have risen dramatically over the previous generation, but no one looks to agree on this. The debate, over which they grew so fine in the past, raises difficult questions of regional development in the future and the desire of countries elsewhere to repeat the success of East Asia. The topics at the center of the discussion are based on theoretical Concepts of Growth accounting. The key factor behind the performance of Management is based as team work, while the progress of employee’s depending upon leadership of the management. However, the term management is not only consisting on firm level but also for Institutions, Economy and State levels respectively [17,18].

This method of accounting deals with three fundamentals that supply to the manufacture of goods and services: labor, capital, Labor and assets are known as "input", refers in this situation to the work force and capital goods (buildings, machinery, vehicles) that the labor force used in producing a product or providing a service. The technology refers to all methods used by labor and capital to make a good and depends on the progress or achievement of useful skills to find the job completed faster and more capably. Nobody denies that the three elements must be present in a certain extent, if the financial system is to grow. Some consider that the increased use of labor and resources make clear the whole development; others are convinced that the answer to development is the use of more efficient technologies.

In the context of the development of accounting can be described mathematically using an easy equation, the assistance of the three mechanism in the total production of the economy [19]. Dividing the equation by the amount of people in the world of work, we can obtain an active equation that shows how production per individual increases within time. This equation mathematically explain the donation to GDP growth in the growth rate of participation in the labor market, capital per worker, and the technology (the end also identified as the development of total factor output). If implemented empirically definite economies and this equation can give a good idea of what rate of productivity growth is the result of increased participation in the labor market and a superior use of capital and this rate is the result of technological development. The conventional formulation of this equation looks to be a strong and steady pace of technological progress is only possible in the long term, for an economy to achieve a constant rate of increase in output per person. Because the participation rate in the labor market can grow for a while 'and increases production, but, of course, cannot increase indefinitely (all eventually be used). And more capital growth than the work eventually guide to withdrawing returns to capital, leading to a decline in output growth, even if the fund keep on to grow at a stable pace. Hence, in order to accomplish sustainable progress, the economy must constantly improve its technology, this type of development called "intensive development". Difference of intense development, increase production, growing inputs of labor and assets (wide growth) can only work for a limited period of time, but it can last a long time. In a famous study, Solow accomplished a performance increase of accounting, as described above.

It is noted that the growth of capital and the growth rate of participation in the labor market have had a relatively limited impact, while technological progress accounted for the majority of the growth in output per worker. Further studies have confirmed the validity of these conclusions. In this vision, these economies have succeeded because they have learned to use the technology more quickly and capably than their competitors have done. Asian economies have grown faster than the rest of the world and search of the lessons that may be transferable to other countries the literature contain several types of arguments.

However, Growth deal is great deal from decade to decade for each country. Some appropriate allowances has been made for the large increase in labor force participation rates and for investment levels, whereas the rates of total factor productivity increase in the four triggers not unusually high specially compared to those in the industrial countries during three convergences in 1960 and 1970. The eight high performance Asian economies do provide a remarkable mix regionally concentrated and sustain high growth, which combined and sustain high growth. It combines with low and declining levels of income inequality [20]. The World Bank study attributes to growth to high rates of accumulation of physical and human capital goods, macroeconomic management which declining population growth and market friendly government policies, perhaps aided in some countries by number of market leading interventions to promote growth and export.

ECONOMIC GROWTH IN EAST ASIA WITH ANNUAL GDP GROWTH

The growth in the East Asia fluctuate year by year but it rapidly fall in the year of 1998 the some countries are les effected and some highly effected by these crises the real

GDP fall 16% in Indonesia, 12% in Thailand and 10 % in Malaysia and Philippines 3% and 8% south Korea the figure show that the other countries are less effected in 198 the growth rate -5% in Hong Kong 7% in china -2% in Japan after this in 1999 the growth recovery started and it was positive after the 1998.the growth rate after 1998 was in south Korea 8% Malaysia 5% Thailand 3% and 1% in Philippines and Indonesia.

Figure 1 shows the growth rate fluctuate from 1982 to 2000 and GDP growth rate of china is -2%, this is less value because the china is less effected by the crises and after the 1998 the curve goes upward because it sustain the GDP growth. It is also investigated by the researchers that China is less import country rather than other's that's why it had fewer affected.

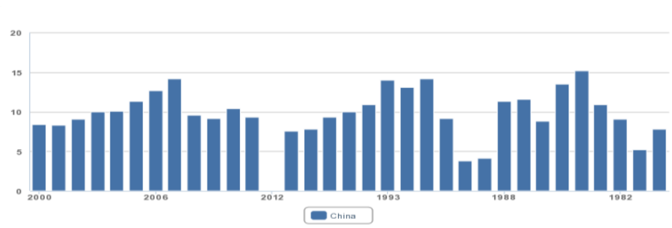

Figure 1: China

Figure 2 shows that Korea GDP growth from 1982 to 2000 whereas, growth rate of Korea is 8% during the crises in 1998 the GDP growth was -3% and after that it increased slowly.

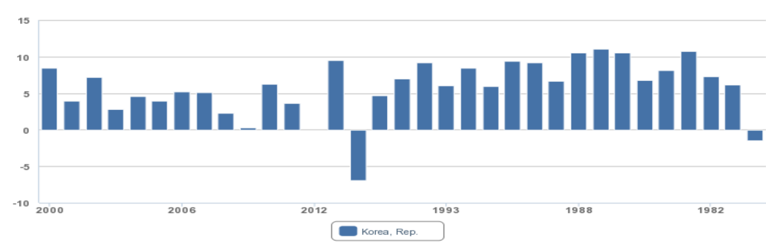

Figure 2: Korea

Figure 3 shows the Hong Kong GDP showed the growth rate of Hong Kong and it was -5% in 1998 then GDP curve downward it shows that its GDP had decreased.

Figure 3: Honk Kong

Figure 4 shows Thailand GDP growth fell with 12% during the crises as it shows in the figure and its shows a downward curve, whereas the GDP in 1998 was -10% that was highly affected by these crises.

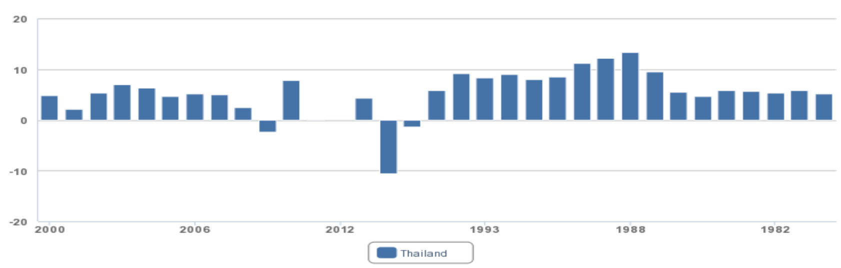

Figure 4: Thailand

Figure 5 shows growth rate of Japan fell by -1% this showed that the GDP growth was -5% in 1998. However, it is noted that Japan is less affected as compared to Thailand in crises year.

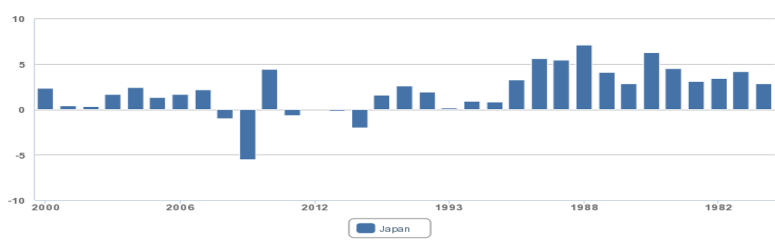

Figure 5: Japan

Figure 6 shows GDP fell in Philippines was just only 3%, which is less affected by the crises.

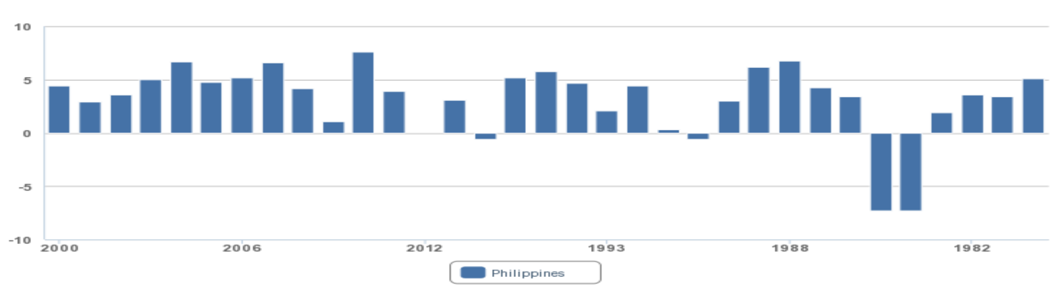

Figure 6: Philippines

INVESTMENT RATIO

Investment ratio of the countries Malaysia, Indonesia, South Korea and Thailand decrease in 1998 and the annual investment ratio in Malaysia was 26.675 % in 1998 and Taiwan 25.994 % ,Korea 25% and Thailand 20.447% Indonesia 16.7% Philippines 23% investment in the 1998.

The Figure 7 shows that investment ratio of Indonesia decreased in 1998 and it was much less than the previous years.

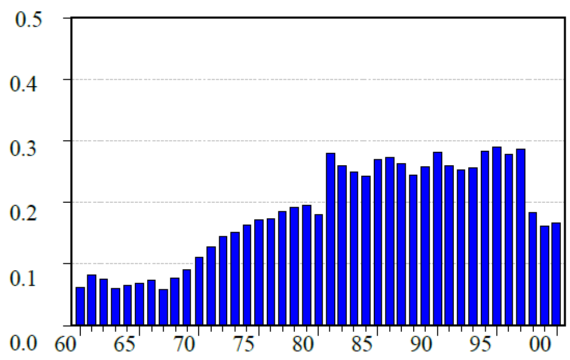

Figure 7: Investment ratio in Indonesia

The investment ratio in South Korea also falls, whereas it was highly affected by the crises in 1998 and the curve of South Korea was small as compared to previous years (Figure 8).

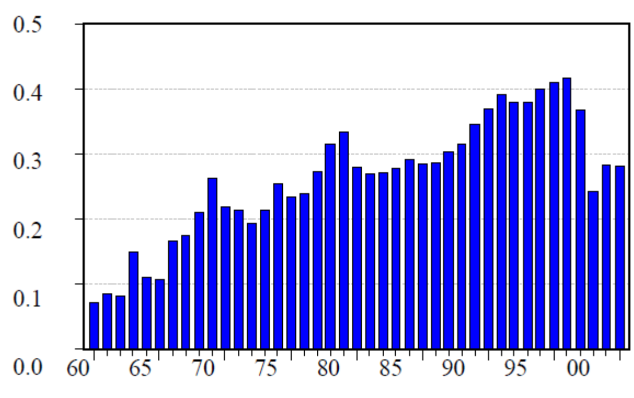

Figure 8: Investment ratio in South Korea

The investment ratio in Malaysia was also low and the curves were so small as compared to the previous years in 1998 (Figure 9).

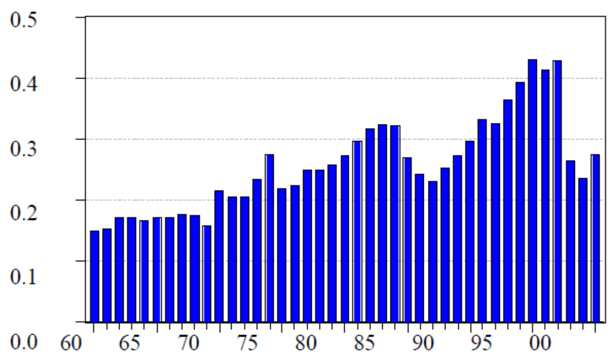

Figure 9: Investment ratio in Malaysia

In Philippines the curve was less fall as compared to other countries because its investment ratio less affected by the crises as compared to other countries (Figure 10).

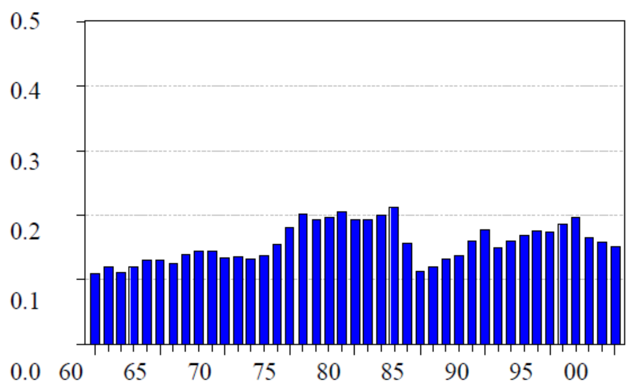

Figure 10: Investment ratio in Philippines

The investment ratio in china was less affected by the crises in 1998 and investment ratio increased as compared to previous year (Figure 11).

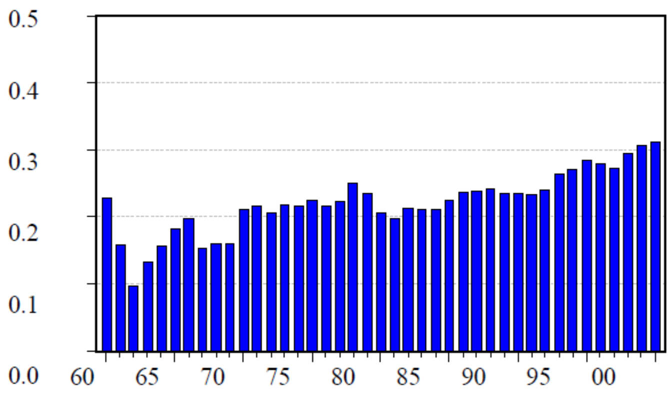

Figure 11: Investment ratio in China

The investment ratio in Hong Kong is not much affected in 1998 because this country was not much dependent on others imports, due to this reason, this country was little bit effected (Figure 12).

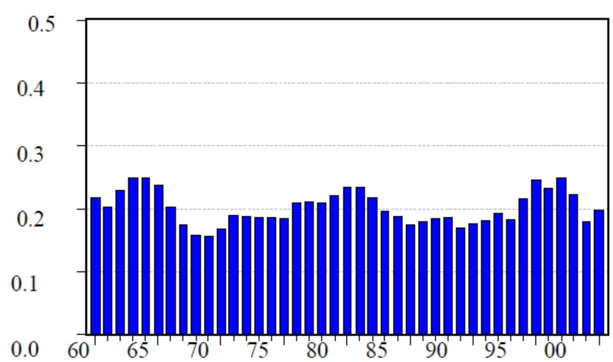

Figure 12: Investment ratio in Hong Kong

STOCK MARKET INDEXES

- The ratios of data from January 1997 to December 2000 were 0.18 for Thailand, 0.16 for Indonesia, 0.22 for the Philippines, 0.37 for Malaysia, and 0.52 for South Korea.
- Whereas, other five East Asian economies were also declined in stock-market valuation. The ratios of values for December 2000 to those for January 1997 were 0.60 for Taiwan, 0.74 for Singapore, 0.75 for Japan, 1.00 for Hong Kong, and 2.21 for China.
- Conclusion from the analysis of stock-market data is that, from the perspective of the financial markets, events from 1997 through 2000 had permanent negative consequences in these all East Asian Countries.

CONCLUSION

The Asian financial crises were due to sharp reduction of the economic growth in the East Asian countries, which has great impact on economy. Financial crisis, especially in the five countries were directly affected by the crisis in economic development in East Asia, however, a significant reduction were associated with them. Economic growth in East Asia has rebounded 1999-2000, and the strength of the recovery is uncertain. The annual reports of affects countries in crises clearly indicate the failure and unable to recover the investment in the long term period. The crisis showed a negative effect in these countries.

The crisis resulted in the stock market values have failed to pre-crisis values retain is supported by the result. A picture of currency and banking crises exhibited a slightly different image study in the result. Analysis of economic growth and investment with discounted prices for simultaneous currency and banking crisis substantiates. However, the effected size in Asian crisis recently viewed and generally it has less than others. Most important test of these crises was negative currency and economic growth, which continually influence the wider banking crisis. Whereas, Investment banking crisis continues there is some indication of adverse effects. According to the Asian crisis, it provides ample evidence that the crisis is likely that in the absence of a return to growth.

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