Niyaz Abdulgaleev  
What Led to the East Asian Financial Crisis?

Main Facts

This research has found that the best explanation of the major causes of the crisis is in the form of stacking vulnerabilities. These vulnerabilities have been ranked in importance. Having these vulnerabilities left the countries susceptible to shocks, which could cause the financial crisis.

Methodology and Approach

The research was conducted in the form of a literature review with a combination of meta-analysis. By using a combination of several citation-metrics providers and digital libraries the experts responsible for analysis of the causes were analyzed. The scope of the study has been narrowed to 1997 to 2007. Research Papers in Economics (RePEc) was the main backbone of the research, providing the primary sources.

In order to supplement the research, additional bibliographic services such as Thompson Reuter’s Web of Science, Google Scholar, CitEc: Citations in Economics were also used. Eligible works by authors were reviewed and their main arguments summarised and evaluated. The results were further summarised in tables and sorted by each of the different citation metric indicators.

According to the rankings the most important general cause has been the (1) underdeveloped states of the affected countries’ economies which have went through highly financial liberalisation while lacking prudence, experience and supervisory bodies (Wade and Veneroso, 1998). There is an agreement that inherent volatility of international markets makes developing countries especially susceptible to shocks and contagion.

State of the Art

The classical approaches are divided into generations of economic crises models. The first generation models used balance of payment models to explain crises (Krugman, 1979; see also Flood and Garber, 1984). The second generation models introduced more sophisticated elements including multiple equilibria (Obstfeld, 1994) explaining the East Asian financial crisis itself, third-generation models have become less defined but with a more diverse focus. Examples are studies looking at bandwagoning and herding (Chari and Kehoe, 1997), contagion effects (Eichengreen, Rose and Wyplosz, 1996), sudden stop models (Dornbusch, Werner, Calvo and Fischer, 1994), credit booms and investment booms (Claessens, Igan and Dell’ariccia, 2010), and other models that also became the focus of this thesis.

Finally more general reviews of the literature have been conducted on the East Asian financial crisis in order to review the existing hypotheses such as the study by Pablo Bustelo, review by Corbett and Vines, and the review by Griffith-Jones and Pfaffenzeller (Bustelo, 1998; see also Corbett and Vines, 1998; see also Griffith-Jones and Pfaffenzeller, 1998).

Results

Finally, a similar ranking was compiled for the case of South Korea. The main difference was that corporate sector vulnerabilities and inefficiencies topped the ranking, (e.g. Alba et. al., 1998; see also Chang, Park and Yoo, 1998) Experts argued that the government arrangements and preferential loans have developed huge inefficient conglomerates known as chaebols which became dangerously leveraged and exposed to shocks and contagion.

Similar to the general causes, financial liberalisation and inherently volatile financial system were the next two causes in terms of importance. Finally, supply-side shocks and moral hazard were at the bottom of the list and were responsible for uncovering the other vulnerabilities. (Ballifio and Ubide, 1997)

The conclusions call for more attention and scrutiny aimed at developing strong supervisory bodies, raising the standards of financial markets, especially in risk-assessment and avoiding dangerous macroeconomic policies. Inherent volatility of international markets makes developing countries especially susceptible to shocks, crises and contagion.

References

All references can be found in the full version of the MA thesis available at http://othes.univie.ac.at.

About the Author

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