UVA-WISE

# The East Asian Financial Crisis

## Panic, Failed Policies, and Foreign Influence

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This paper examines the causes of the East Asian Financial crisis, demonstrating that the failures of capitalism and the quasi-liberalized economies of the countries affected were not significant enough to result in the economic crisis that followed. Rather, primarily using the case study method and quantitative analysis through copulas, this paper attempts to prove that widespread panic from foreign investors and those within the region exacerbated the economic woes through speculation and the failed policies of the East Asian states, international institutions, primarily the IMF, transnational corporations and the United States. Furthermore, this paper's sub hypothesis is that the Western World, primarily the United States, seized the wake of the financial crisis as a means to further infiltrate East Asian markets and encourage further economic liberalization. Moreover, it was this market infiltration that played a significant role in speeding up the economic recovery initially, but has been responsible for many of the issues with the East Asian regional economy since.

**The East Asian Financial Crisis**

The East Asian financial crisis of 1997-1998 impacted the region far and wide. Many of the effects of this financial crisis resonate in the present, albeit with much less vibrato and significance. Beginning in Thailand and steadily making its way across the region, the financial crisis crippled both the individual economies of affected states, as well as the regional economy as a whole. The near collapse of the East Asian regional economy instilled fears of a global economic crisis, prompting widespread concerns, both within the region and elsewhere. As the following research will attempt to demonstrate, much of this widespread economic panic and speculation can account for the severity of the crisis. Using the case study method to examine the individual states affected by the crisis as well as quantitative statistical analysis of these states and the region as a whole, this paper will attempt to prove that the microeconomic and macroeconomic shortcomings of the affected East Asian states cannot alone account for the severity of the crisis, rather, as mentioned before, the widespread panic, economic speculation, and the failed response policies by the East Asian states, International Monetary Fund (IMF) , transnational corporations, and the United States all coalesced and catalyzed further economic downturn in an attempt to right the ship.

This research is organized as follows. Firstly, this paper will examine the traditionally accepted roots and causes of the East Asian financial crisis as a regional economic event. In this section, one will see how the quasi-liberal form of state-controlled capitalism in the region allowed corruption to run rampant in the banking industry, fostering a lack of government transparency, setting up the regional economy for failure. Following this, an examination of three of the primarily effected states is discussed. First, Thailand is examined with significant time spent analyzing the way in which the state allowed the crisis to begin unfolding, and moreover, the way in which it allowed the crisis to spread to other parts of the region. Additionally, quantitative statistical analysis will demonstrate that the economic shortcomings of Thailand were greatly exaggerated leading to panic and intense speculation, amplifying the economic downturn and further catalyzing its spread elsewhere. Next, the economy of the Philippines is examined, first as a state in which the economic crisis "spilled over" from Thailand, and then as an individual economy. The Philippines also demonstrates both the negative and positive effects of foreign involvement in the economies of East Asia in an attempt to rectify the issues stemming from the crisis, primarily in the form of U.S. and IMF intervention. Lastly, South Korea is examined, much like the former states, first as an economy affected by East Asia's regionalism and the spillover of the crisis, then as an individual economy. Detailed examination of the Korean economy demonstrates the high level of speculation, panic, and exaggeration that the region fell victim to during the crisis, as its overall economic health, even in the midst of the crisis, was nowhere as negative as was being portrayed. In each of these case studies, particular attention is given to specific policies that were passed both by the state or implemented by outside influence and the effects that these policies had on the individual and regional economy.

Following these individual case studies, the conclusions of each will be taken together to paint a more accurate picture of the economic condition of East Asia as a regional political economy and, as this paper hypothesizes, will demonstrate that panic, speculation, and failed political and economic policies were what truly accounted for the crisis. This picture will then be used as a framework from which to analyze the way in which foreign involvement in the economies of the region in the wake of the crisis has affected them in the present. This paper will argue that, although many of the actions taken by outside influencers aided in a faster recovery of the regional political economy, they also account for present-day political issues, specifically pertaining to the economies of the states comprising the case studies.

Lastly, brief attention is given to China and Japan, as these states maintained relatively healthy economies throughout the crisis, in part because their economies were far larger and more efficient than the states examined in this research, and also because many of the state's economic policies and relationships with outside influencers were, in fact, the inverse of those of the affected states.  This is followed by a conclusion and verdict on the accuracy of the research hypothesis.

**Literature Review**

A variety of sources were used in the development of this paper's research question and hypothesis, as well as relevant information for individual case studies and political information. In terms of analyzing East Asia as a region with particular regard to the regional economy, *The Political Economy of East Asia:  Striving for Wealth and Power* by Ming Wan was instrumental in providing accurate information about the state of the regional political economy at various points in the history and development of the region.  Wan spends a great deal of time delving into detailed accounts of the health of various economies in the region during the East Asian Financial crisis and in the present day, allowing one to juxtapose the two and examine, in great detail, any significant changes that have occurred between the crisis and the present day.  Wan ultimately argues that the causes and effects of the crisis are rooted in globalization, misguided policies at the macroeconomic level in the states in question, and crony capitalism.  However, Wan merely touches on the roles of outside influence through globalization, and this is ultimately the flaw in his argument. In many ways, this research is an expansion on and compliment to Wan's work.

*Korean Politics* by John Kie-Chiang Ho was used to specifically analyze Korea's political and economic relationship with East Asia as a region, as well as outside influencers during the economic crisis. Moreover, Kie-Chiang Ho, in the same vein as Wan, devotes a significant amount of time to discussing quantitative specifics of the state of Korean economic affairs in isolation and relation to the region during the crisis, and gives specific attention to the effects of the IMF bailout and the policies of the political regimes in power during the crisis.

Two academic journals on the subject of quantitative analysis of the East Asian financial crisis are referenced frequently throughout this research both for specific information on the political economies of individual states as well as the region, and for verifying the accuracy of one another. *East Asian Financial Crisis Revisited: What Does a Copula Tell?* By Fei Pei, Albert K. Tsu, and Zhang Zhaoyong and *Ownership Structure, Corporate Governance, and Firm Value: Evidence for the East Asian Financial Crisis* by Michael L. Lemmon and Karl V. Lins are both frequently referenced. The former offers an almost entirely quantitative analysis of the East Asian regional political economy during the crisis, as well as examines the economies of individual states, complementing the work of Wan and Kie-Chiang Oh. The latter, on the other hand, draws upon quantitative analysis in the same vein as Pei, Tsu, and Zhaoyong and analyzes the roots of the financial crisis in terms of the international banking system, internal corruption, and general foreign involvement/investment in the region.

In terms of resources used for case study, a large amount of academic journals were sourced for information regarding Thailand, South Korea, and the Philippines. All of these sources may be found on the reference page of this paper. Many of these journals provided small or supporting details to the overall research, however, a few key journals of note were sourced frequently for these case studies. *The Philippine Economy in the Face of External Shocks* by Maria Socorro Gochoco-Bautista, *Contingent Political Capital and International Alliances: Evidence from South Korea* by Jordan Siegel, and *Financial Systems in Developing Economies: Growth, Inequality, and Policy Evaluation in Thailand* by Robert M. Townsend all provided a wide range of details pertaining to the political economies, state policies, and the interactions with foreign influencers of each of the case study states. In each of these sources, the role globalization played in the development of the crisis is discussed, giving credence to the legitimacy of the hypothesis of this research.

A variety of other sources, primarily academic journals courtesy of Ebscohost, were used in varying capacities to provide supplementary and complimentary information for this research, verify and cross reference the aforementioned sources, as well as to provide smaller, yet important details about the political economy of East Asia and/or the states analyzed for the case studies, but were not used frequently enough to warrant mention here. However, each of these sources may be found on the reference page of this document.

**Methodology**

As stated before, the primary methodology behind this research is the case study, coupled with intense quantitative analysis of the economies of the states examined in these case studies, as well as qualitative inferences regarding the effects of policy, panic, and speculation in the exacerbation of the economic woes of the East Asian political economy during the financial crisis. In choosing the countries for case study, each one was chosen for its specific and unique role, response, and interaction with the financial crisis and outside influencers. Thailand was chosen because it is generally considered to be the state in which the crisis began. Additionally, Thailand had frequent interactions with the International Monetary Fund (IMF) in the wake of the crisis. The Philippines was chosen due to its rapidly growing economy at the onset of the crisis, as well as its close ties with the United States in terms of a political and economic relationship. The Philippines demonstrates the role this type of relationship and interaction had on the outcome of the financial crisis as well as its long term effects. Lastly, South Korea was chosen because of its economic health throughout the duration of the crisis. In terms of raw GDP and overall quality of life, South Korea, though certainly affected by the crisis, largely retained its status as a strong economy relative to the other affected states in the region. South Korea also played a significant role in international finance and investment, giving it a unique interaction with these outside influencers that is notable throughout the crisis. In taking each of these states together, one can see that the regional political economy was nowhere near as badly damaged as was feared, and it was not until a series of political and economic policies and decisions were implemented that the downturn truly took place.

The specific quantitative data analyzed for this paper is largely based on statistical models created through a variety of copulas using information limited to the period between January 3rd 1994 and December 31, 2004 with specific note and attention given to the 1997-1998 period of financial crisis in the region. This information is then compared to more simplistic measurements of GDP, quality of life, and other nascent features of the regional and state-by-state political economies. The primary source for copula data is Fei, Tsui, and Zhong source mentioned in the literature review section of this document as well as the references page.

The sub-hypothesis of this research is that, in the wake of the crisis, the United States and smaller players in the West seized the opportunity to implement further globalization through market infiltration and the encouragement of further economic liberalization in the region. The states chosen for case study all have specific interactions with the United States, and/or other international players, primarily from the Western world, that demonstrate this correlation. Coupled with the quantitative data analyzed by this research, a verdict as to the accuracy of this hypothesis can be made.

In terms of determining the accuracy of the first hypothesis, the conclusion will rank the validity as a true-false statement as follows:

- **True** – the hypothesis was thoroughly tested by a variety of sources and information, and insofar as is it is reasonably argued, the hypothesis has been proven accurate and true.
- **Plausible** – the hypothesis, though thoroughly tested, required further examination and testing of intervening variables with a variety of sources to render a true/false verdict. The information provided suggests that the hypothesis may or may not be true.
- **False** – after thorough testing, the hypothesis has been demonstrated to have little to no impact on the findings of this research and, insofar as it is reasonably argued, the hypothesis has been proven inaccurate and false.

On the other hand, the sub-hypothesis of this paper can only be reasonably demonstrated through a correlative relationship due to the logistical constraints of this research. As such, the validity of the sub-hypothesis will be determined through a strength of correlation matrix, as follows.

- **Strong Correlation** – this research suggests a correlation to such a degree that the likelihood that market infiltration and promotion of further liberalization of the East Asian political economy by the United States and other foreign actors has had a direct impact on present day economic issues in the region is almost certain.
- **Moderate Correlation** – this research suggests that, though a correlation may be present to a notable degree, market infiltration by the United States and other foreign actors is unlikely the primary source of the present day economic issues in the East Asian political economy.
- **Weak Correlation** – this research suggests that market infiltration and promotion of further liberalization of the economies of East Asian polities has impacted present-day economic issues to some degree, but ultimately does not account for any significant effects.
- **No Correlation** – this research suggests that there exists no evidence that market infiltration by outside influencers has impacted present-day economic issues in the East Asian political economy.

*Terms and Definitions*

The definitions of a few key terms as they are used throughout this research is fundamental to properly understand the information provided, arguments made, and conclusions developed in this paper.

1. Panic – In this paper, panic refers to sudden withdrawal of funds by foreign investors perceiving a higher than normal economic risk to maintain their investments.

2. Peg – Peg refers to the process by which a country sets up an exchange rate ratio with another form of currency, generally the U.S. dollar in this research.
3. Korea – Korea, as used in this paper, explicitly refers to South Korea only, rather than the entire Korean Peninsula or North Korea in isolation.
4. The Neoliberal *Laissez Faire* Agenda – The process by which the United States and other foreign investors and influencers infiltrate foreign markets by encouraging neoliberal reforms to economic policy, such as the privatization of state-owned enterprise.

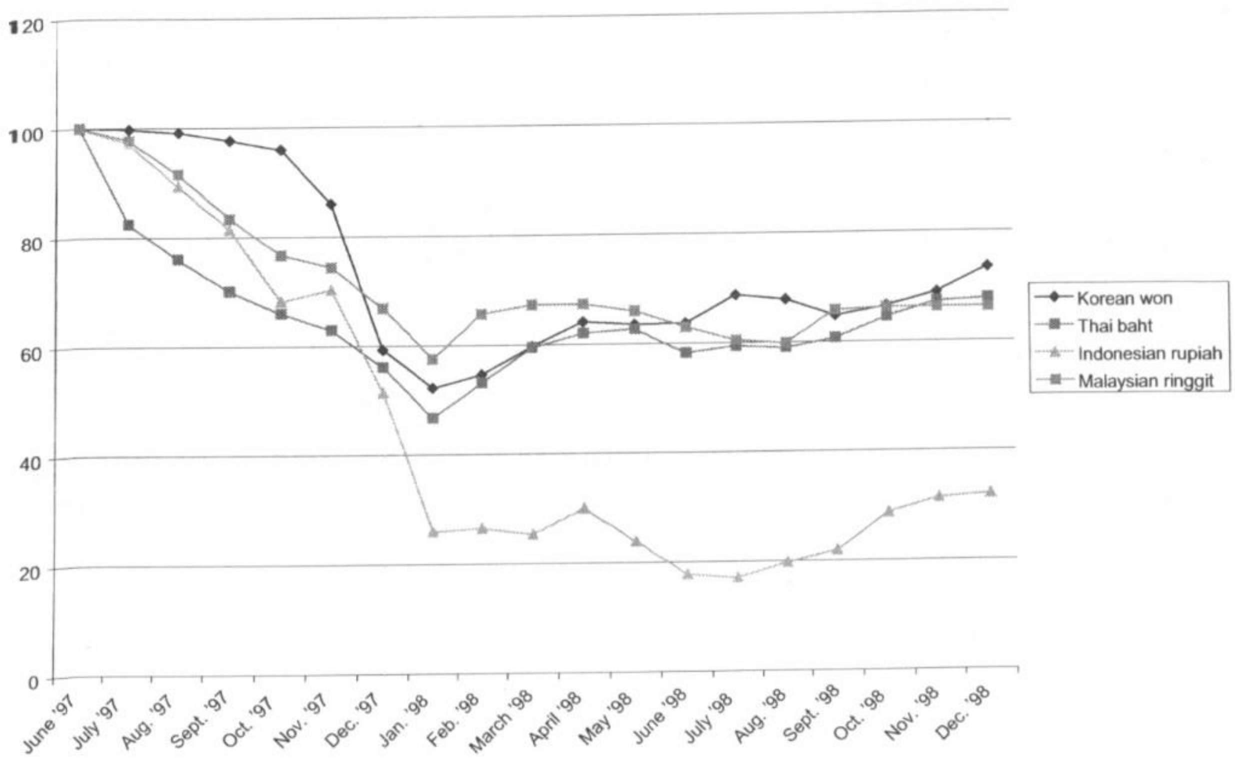
**Introduction to the East Asian Financial Crisis**

On the surface, the East Asian Financial crisis appears quite unique for a number of reasons. The crisis hit the region of the world wherein the fastest economic growth on record was occurring, seemingly coming out of nowhere. The crisis also prompted one of the largest bailouts in global economic history (Fung and Forrest 2011, 1235). Much like the subprime mortgage collapse that ultimately resulted in the financial crisis of 2008, it was as if no one saw the crisis coming, despite all signs being present when one examines the crisis at a more fundamental level. As the economic growth of the East Asian political economy suddenly reversed course, there was an attempt to look for the root of the problem internally, and though as time has gone on, many have considered external factors to play a significant role, it is generally believed that the internal issues within affected countries in the region were the most relevant culprits in causing the crisis. Corrupt bank management, crony capitalism, state-controlled capitalism, and generally high corruption levels in the established regimes are all viewed as the fundamental causes for the initiation of the crisis (Wan 2008, 172). However, as this research argues, this is not the case.

Certainly it would be unwise to dilute the true effects of the aforementioned issues, as the state-run capitalist system ultimately fostered the corruption and poor investment/bank management that harmed the economies of the states in question, however, despite the effect of these forces, one can argue that outside forces played just as important, if not more important roles in catalyzing the crisis. Certainly the onset of economic downturn was contingent upon these internal issues, but as what follows demonstrates, these issues cannot account for the sheer scope of the economic crisis, leaving the outside influencers and international investment systems to fill the gap.

At any rate, the financial crisis began in Thailand, a country that had a newly liberalized political economy with little to no oversight. The genesis of the crisis was directly linked to globalization in the sense that, through liberalizing their economy, foreign investments were attracted to the country, ultimately culminating in a rapidly growing economy and a great deal of foreign investment with minimal risk, courtesy of the U.S. dollar to Thai baht ration of $1USD:25 baht (Wan 2008, 172). Ultimately these foreign investments became too large for the Thai central bank. On July 2, 1997, the central bank of Thailand was forced to float baht, creating "a foreign exchange crisis" (Wan 2008, 172). Initially, however, one sees that this issue was relatively minor relative to the greater crisis that would occur in its wake. Despite having to float its own currency, Thailand's economy maintained its health for several months, but, as illustrated in the chart below, as foreign investors began to speculate that that Thai bank could not maintain the peg ratio of baht to USD, they began selling baht. Thailand attempted to reduce the negative effects of the decreasing demand of baht by using its reserve of U.S. dollars to buy its own currency, but this ultimately failed and truly started the crisis (Wan 2008, 172-173).

ЗURE 6.1
·cline in East Asian Currencies (monthly average rates)




ırce: Calculated based on data from Bank of Korea, http://ecos.bok.or.kr/EIndex_en.jsp.

Fig. 1 (Wan 2008, 173)

As the table demonstrates, Thailand's floating of currency immediately had an effect on the demand of its currency, but it wasn't until speculation began about Thailand's ability to maintain the peg that sharp downturns could be seen across the region, almost five months later. This is the first demonstration that the economic stability of the region was not the only factor that contributed to the crisis. In fact, the crisis itself is directly linked to outside influencers from the onset. At any rate, the speculation impacted the entire region, forcing the demand for currencies of South Korea, Indonesia, and Malaysia down as well, creating a full-blown regional crisis.

In many cases, the internal affairs of affected states began to fall apart. Thailand saw a regime change in November of 1997 after loss of jobs, homes, and stocks due to speculation based real estate, similar to the 2008 crisis in the United States (Wan 2008, 172-173). Likewise, the quality of life throughout the region was on the decline as the reserves of useable currency in each of the affected countries continued to decline. The degree of the crisis began to become known not only to those affected, but worldwide as well. This prompted Thailand to seek aid from the International Monetary Fund (IMF). As the crisis continued, between Thailand, the Philippines, South Korea, and other affected countries, the IMF had injected an over $100 billion aid packaged into the East Asian political economy alone in an attempt to foster recovery (Wan 2008, 174-177). These bailouts were, however, conditional. The money was offered to the region on the condition that it would not be used to bailout failing banks, that the state would cut spending, there was to be regulatory provisions in place to prevent misuse of IMF funds and crony capitalism, and continue further liberalizing the economy while pegging their currency to the U.S. dollar to encourage foreign investment (Fung and Forrest 2011, 1240). It was the IMF's logic that this high interest bailout would reduce spending, stabilize the economy, and reassure foreign businesses and investors that investment was safe (Lafalce 1998). However, this initially had the inverse effect of increasing the panic at hand. The size of the IMF bailout alone was enough to see foreign investments drop by another 60% after the initial crisis began (Lafalce 1998).

Although the crisis was short lived, and through deregulation of the economy, reduced spending, and further overall economic liberalization most of the affected countries were recovering nicely by the end of 1998, examining this event solely as a regional crisis does not reveal the entire, accurate story of the crisis. By this generalized account, one could easily say that the foreign involvement via the IMF aided in the region in economic recovery, having little to no measurable negative impact. However, when one examines the economies of the individual countries affected, one begins to see that, in many ways, the IMF did more harm than good.

**Thailand**

*Introduction and Historical Context*

As mentioned earlier, Thailand was ultimately the epicenter of the East Asian Financial crisis when it was forced to float the baht when it could not keep up with foreign investment. This reiterates the fact that the East Asian Financial crisis is inherently caused by speculation, panic, and outside influences. Before examining the economic condition of Thailand during the East Asian financial crisis, it is worth discussing the nature of its relationship with outside influences, primarily the United States and transnational corporations.

Thailand had long been a center of foreign investment in the East Asian political economy, notably due its rapid growth rate of 9% per year, something almost entirely unheard of in global economics (Fei, Tsui, et al. 2011, 30). Naturally, this made Thailand attractive to foreign investment, as well as transnational corporations. One of the industries that have invested in Thailand in the form of establishing its production as a part of a greater transnational corporation is the automobile industry. From the late 1980s leading up to the crisis, Thailand was the production epicenter for Ford, Mitsubishi, Isuzu, and Mazda, with many foreign investors, including the United States, with a number of investments in the business, as Thailand became the largest auto exporter in Southeast Asia (Lemmon and Lins 2003, 1448). At the onset of the economic crisis, the United States attempted to respond to the situation rather than immediately withdraw the bulk of its investments, unlike other foreign influencers. Instead, the United States offered economic aid the Thailand at a high interest rate, similar to the strategy the IMF would also implement (Lemmon and Lins 2003, 1448-1449). However, this proved to ultimately be a detriment to Thailand. The country, having already initiated the crisis due to panic and speculative capital, received even more speculative capital from the United States and the IMF, exacerbating the panic that had already set in, and ultimately this free flow of capital in the region's political economy is what catalyzed the spill over into other countries in the region (Lemmon and Lins 2003, 1450-1458). To demonstrate why this is the case, one must understand the nature of speculative capital. Wan puts it best in saying,

> Free capital flow generates instability because of speculation. Speculators try to make money from the change in value of a currency by betting correctly on the direction and rate of change in the currency market. One cannot speculate unless one can trade in currencies easily. Because of lack of perfect information, people tend to influence each other, creating a herd effect. Thus, there is an overshoot in market adjustments, more than is justified by economic fundamentals that ultimately perpetuate the crisis. What the Asian financial crisis shows is that although there were structural reasons such as crony capitalism, there was also a strong element of self-fulfilling panic leading into the crisis (2008, 178).

Again, there is no denying that there is an effect by outside influence on the economy of Thailand, and ultimately this influence started the crisis while the response to the crisis caused it to spread to other countries in the region. One can also see how the economic interests of the United States in particular in Thailand motivated a hasty response that ultimately exacerbated the situation. This, as will be discussed shortly, proves to be a negative for Thailand and a positive for the United States, long term.

*The Thai Economy During the East Asian Financial Crisis*

There is no question the economy of Thailand was damaged severely by the East Asian Financial crisis. When one refers to Fig. 1 in the prior article, one can see where Thai currency was devalued almost 20% over the course of two months (Fei, Tsui, et. al 2011, 30). Indeed, as this research will demonstrate, on an individual level, the Thai economy was damaged by far the most, despite efforts by the IMF and the United States to prevent the crisis from worsening. Given that profit was generated primarily out of foreign investment and exports in Thailand, the decline in foreign investments directly affected Thailand's ability to export, further causing internal divisions beyond the speculative capital issue and ensuing panic that started the crisis (Fei, Tsui, et. al 2011, 31). The following copulas (Fig. 2) illustrate the reliance on foreign investment and exports to maintain Thailand's growing economy. The copula on the left illustrates the consistency of Thailand's economic health in terms of net revenue received from foreign investments and exports prior to the onset of the crisis. The red line represents the median. The left copula examines a dataset from 1985 to 1994, and as one can see, the overall health of the Thai economy began to dip below the median line slightly in the early 90s, possibly due to the country's rapid economic growth slowing down. The copula on the right demonstrates the economic health from 1994-1999. The onset of the crisis is denoted by the red dot it. It is notable that, at the onset of the crisis, despite the value of Thai currency immediately falling, the overall economic health of Thailand remains above the median line, remaining fairly consistent with the mean of the data set since 1985. However, when the indicator dips below the mean line, it corresponds directly with the IMF and U.S. bailouts (Fei Tsui, et. al 2011, 32).

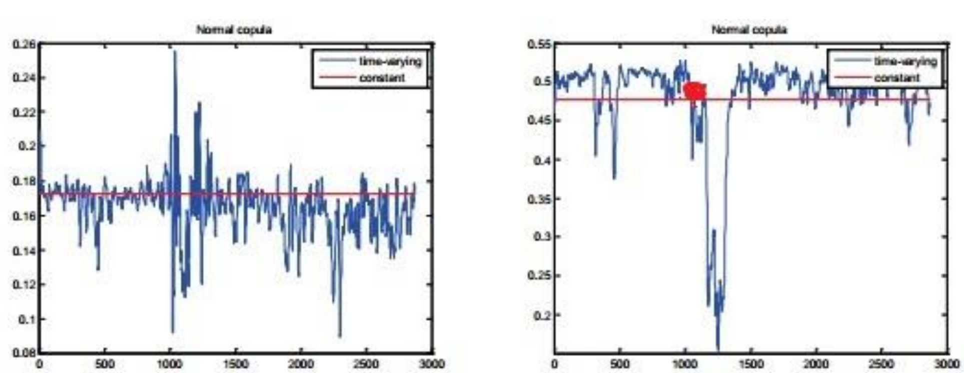


Fig. 2 (Fei, Tsui, et. al 2011, 31).

This clearly demonstrates that the impact of the IMF and U.S. bailout of Thailand during the East Asian financial crisis only exacerbated the issues. One can also logically infer that, although it is clear that the Thai economy was on a downturn as a result of the panic, the speculative capital that was injected into the region ultimately accounts for the decline a massive decline in foreign investment and, along with it, exports.

Though GDP in and of itself is not a good measure of overall economic health, when combined with the information in Fig. 2, the record of change in GDP growth as a percentage over time is much more useful. Courtesy of the IMF World Economic Outlook, Fig. 3 represents the GDP growth of Thailand leading up to, during, and after the crisis. The crisis is denoted by the vertical red line. As one can see, Fig. 3 remains consistent with the aforementioned information.

Fig. 3 (Gottret et. al. 2009, 4).

The Thai economy slows in growth leading into the crisis after a period of relatively steady growth in the 1980s, and then takes a sharp down turn, bottoming out in 1997 in the wake of the IMF and U.S. bailouts. The research for Thailand alone demonstrates that the crisis was impacted profoundly by outside influences and that the IMF and U.S. bailouts, though appearing helpful on the surface, actually account for a continued downturn in the political economy of Thailand. That said, it is worth analyzing both the Philippines and South Korea as a means of verifying this effect. First, however, this research will examine Thailand in term of its relationship with the United States over time in order to draw conclusions regarding the sub-hypothesis of this research: that the United States seized the East Asian financial crisis as a means of gaining deeper access to the financial markets of the region, the effects of which resonate in the present.

*U.S.-Thai Economic Relations*

As was established previously, the United States had a well-defined economic interest in Thailand through foreign investment and through transnational corporations in the automotive industry. This relationship was fostered for many years, significantly from the mid-1970s leading to the financial crisis (Dixon 2012, 380). The United States received a great deal of benefit from the investments in Thailand, however, at the onset of the East Asian financial crisis, amidst the panic that ensued, the United States began to worry about its investments. Seizing the opportunity to offer economic aid, as was established previously, the ultimate impact on the economy of Thailand was immediately negative. However, this proved to be a positive for the United States.

In many ways, the negative effect on the Thai economy allowed the United States to gain deeper access to East Asian markets. The United States began to implement what this paper refers to as the neoliberal *laissez faire* agenda, the process by which neoliberalism is applied to the economic systems of the developing world, underdeveloped countries, or countries in crisis. Steadily, the United States oversaw increasingly neoliberal policies and tendencies emerge in the Thai economy, for instance, privatization of public enterprise (Lemmon and Lins 2003, 1452). Though this ultimately helped Thailand regain its financial footing and reopen the country to foreign investment, this action was not without its side effects. As is typical with globalization and market infiltration, corruption emerged in Thailand when the state disproportionately distributed much of the economic benefit among the elite, a problem that still exists in Thailand today (Lemmon and Lins 2003, 1455). This ultimately did not sit well with the citizenry. This corruption ultimately aided in the initiation of a variety of political crises between 2005 and 2013 that have resulted in regime changes and sweeping political reforms (Rodan 2013, 128). It is interesting to note that, despite these radical political issues, the Thai economy has continued to recover and maintain respectable growth over time (Rodan 2013, 128).

## *Conclusion*

It is clear that Thailand, while credited for starting the East Asian financial crisis, did not experience this crisis because of an inherent flaw in the economic structure or policy of its state. Though these issues certainly contributed, the core of the financial crisis begins with external influence in the form of panic and speculative currency. It is those two fundamental issues that caused the East Asian financial crisis in Thailand and allowed it to spill over and seize the bulk of the region. With regards to the hypothesis of this paper, at this point relative to Thailand only, the notion that foreign influences played a more fundamental role in causing and exacerbating the East Asian financial crisis is true. Secondly, the sub-hypothesis of this paper has been demonstrated to have a degree of truth value in that the United States clearly seized the crisis as an opportunity to gain further access to East Asian financial markets in Thailand, the effects of which have resonated in corruption leading to political crises, revolt, and regime change. That said, however, discussing the regime change in Thailand as a part of these crises is another research topic altogether, and as such, other intervening variables are not logistically reasonable to examine within the context of this research. Therefore, though a correlation has clearly been demonstrated, it is at best a moderate correlation simply because it is unclear the degree to which other intervening variables may supersede it.

## Philippines

### *Introduction and Historical Context*

The Republic of the Philippines is unique for one particular reason with regards to this research: it was a founding member of the United Nations, and the country was under control of the United States for a significant portion of its pre-Cold War history (Gochoco-Bautista and Socorro 2009, 90). After World War II and the Philippines establish a UN presence, the United States relinquishes its control on the country, and a large amount of turmoil and corruption ensues, ultimately coalescing in martial law and civil insurrection that was not ended until the late 1980s when democracy once again gained footing (Gochoco-Bautista and Socorro 2009, 93). Since then, the Philippines has been plagued with governmental corruption, though the economy has managed to grow rather significantly despite this fact (Reyes and Sobrevinas et al 2010, 65-66). However, in addition to the perpetual government corruption, the Philippines has experienced two fundamental issues of note, both of which, as this research predicts, are rooted in the market infiltration of the United States and other foreign investors. The first of these issues is the rising price of rice. Since January of 2007, the Philippines has seen the price of rice skyrocket, in part due to the nature of markets both foreign and domestic (Reyes and Sobrevinas et al 2010, 68). The second of these fundamental problems is the rising price of fuel. Fuel prices have also risen dramatically since January of 2007, due in part to the same reasons the price of rice has increased (Reyes and Sobrevinas et al 2010, 73). The ultimate effect of both of these issues is poverty and income inequality.

It is clear that the United States and outside influences have played a role in Philippine history and politics, but it is important to examine the main hypothesis of this paper first. However, the validity of this sub-hypothesis, again, will be discussed at length after examining the Philippine economy during the East Asian financial crisis.

### *The Philippine Economy During the East Asian Financial Crisis*

The Philippine economy during the East Asian financial crisis is interesting because it behaved much differently from Thailand. Indeed, it unsurprising that Thailand took a sharp economic downturn in the wake of the crisis given that it was the epicenter of the event. Although the Philippine economy was not immune from downturn during the crisis, it was not as drastically affected as Thailand or some of the other regional actors.

The following chart in Fig. 4 analyzes the GDP growth for East Asian economies that were affected by the crisis. As one can see, the Philippine economy (highlighted by the red line), though certainly affected by the spill over from Thailand, actually recovered rather quickly, and when all was said and done, was not affected in terms of GDP all that much.

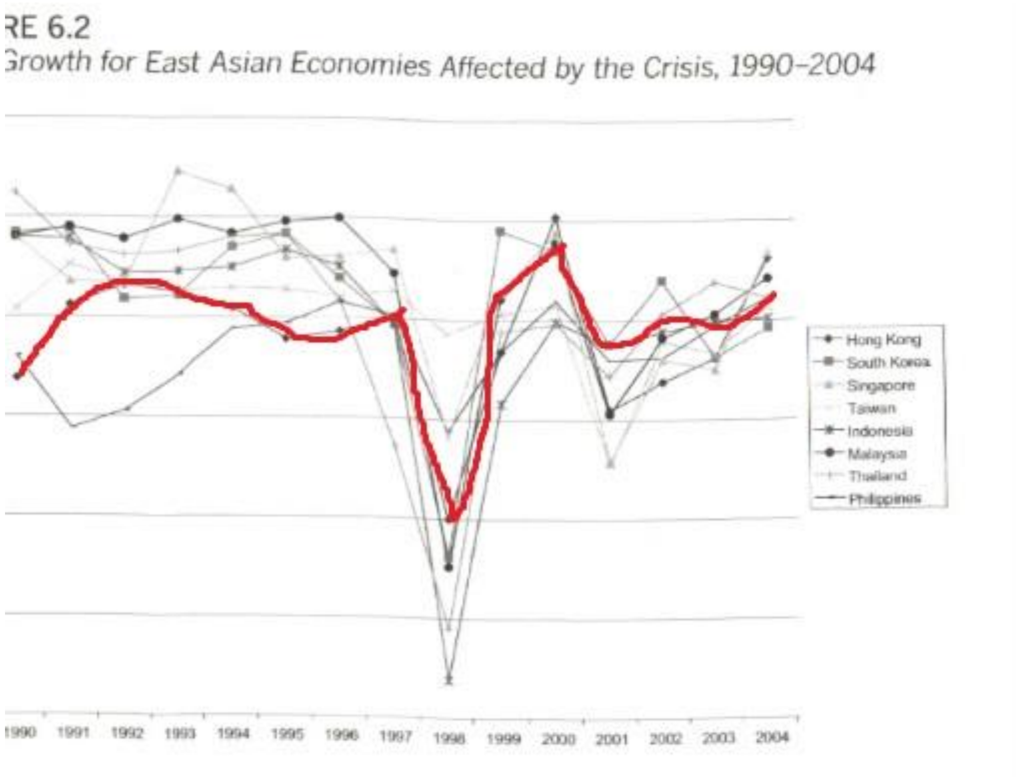



Fig. 4 (Wan 2008, 174)

In fact, using probability copulas, one can account for a scenario wherein, if there had not been speculative capital flowing into the Philippines, it would be reasonable to assume that the GDP growth would have maintained a steady course despite Thailand's economic downturn (Fei, Tsui, et. al 2011, 45). In Fig. 5 below, Fei, Tsui, et. al account for a number of statistically probable scenarios that would account for Philippine GDP maintaining a relatively steady course throughout the crisis were it not for the aforementioned speculative capital.

**FIGURE 4: CONDITIONAL CORRELATION BY TIME-VARYING COPULA**
**(Pre-Crisis: Left panel and Post-Crisis: Right panel)**

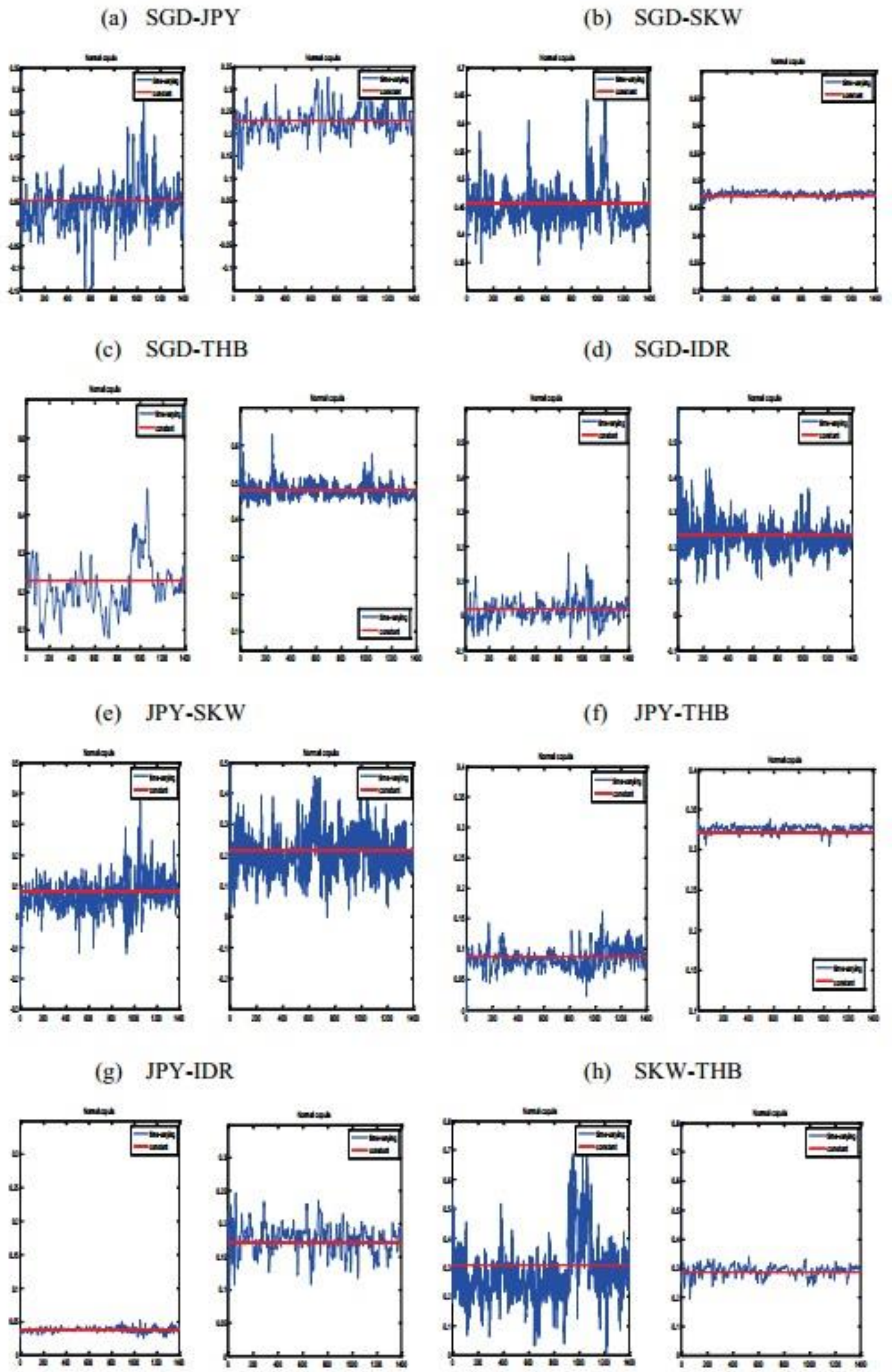



Fig. 5 (Fei, Tsui, et. al 2011, 45).

Each of these copulas uses probability and statistics to account for a variety of other likely outcomes had speculative capital not made its way into the Philippine economy. One can see that, in each of these cases, the overall health of the economy remains quite stable and healthy throughout the duration of the crisis. This provides further evidence that the actions of the United States and IMF coupled with the panic and speculation that began the crisis only exacerbated the situation, leaving one to conclude that the crisis may have been avoidable.

### *U.S.- Philippine Economic Relations: Issues in the Modern Political Economy*

Since the rise of democracy in the Philippines, the United States has had beneficial economic relations with the country. The United States is the largest foreign investor in Philippine markets, coming once again as a result of deregulation and privatization of state-owned enterprise in the country (Majuca 2014, 1-8). Privatization of state-owned enterprise and deregulation is the first step to implementing the neoliberal *laissez faire* agenda, as one can see was the case in Thailand. It is also worth noting that the Philippines ranks in the top thirty exporting countries in the world, and though only a relatively small percentage of these exports go directly to the United States, the U.S. manages to dominate most of the industries that export products (Majuca 2014, 14). Additionally, the Philippine market has recently become more accessible by other foreign investors. At the behest of the United States, further reforms of regulatory policy and privatization of state owned enterprise occurred since the late 90s, an act that ultimately allowed the country to avoid many of the problems associated with the global recession (Majuca 2014, 15-16).

Once again, the image painted in the Philippines is one of economic dominance by the U.S. after gaining access through the neoliberal *laissez faire* agenda, resulting in economic dominance in the country. Moreover, it is this economic dominance by the United States that is connection to the rising price of oil and rice in the Philippines. According to data from Reyes et al, “In the case of rice price increases, results reveal that most of the households in the Philippines are net consumers rather than net producers of rice,” and with the more rice being exported, internal demand is increased with less supply, resulting in poverty (2010, 97). Additionally, the United States’ dominating of oil markets in the Middle East has affected the price of fuel in the Philippines. Given that the Philippines depends directly upon Middle Eastern nations, and in particular, Algeria, for oil imports, the United States effectively determines the price and quantity of oil received by the country, which Reyes et al have demonstrated has also increased the price (2010, 97).

The increased poverty as a result of this has created public dissent and alienation. With corruption dominating the Philippine government, public dissent ultimately coalesced into a regime change in 2001. President Joseph Estrada had been presiding over a corrupt government that was using disproportionate benefits received by the neoliberal *laissez faire* agenda to benefit the Philippine elite, and moreover, Estrada wanted to alter the Philippine constitution so as to further maximize this benefit (Majuca 2014, 39). In addition to this, a faction of Islamic fundamentalists known as the Moro Islamic Liberation Front (MILF) had managed to gain the support of many dissatisfied with the Estrada regime’s goals (Majuca 2014, 40). The ensuing war between MILF and the Estrada regime ultimately ended with end of the established regime. The Philippine House of Representatives impeached Estrada after the rebel forces gained enough ground to have a meaningful impact on disrupting the established regime, and intelligence became available proving the suspected corruption by the Estrada regime (Majuca 2014, 40).

Once again, one sees the role of U.S. foreign economic policy in causing minor, functional regime change to occur that allows for further market infiltration, the benefits of which are disproportionately allocated to the elite, dissenting factions emerge and ultimately coalesces into total regime change.  In the case of the Philippines, the regime to follow the Estrada regime saw some radically fundamental philosophical goals.  Lead by Gloria Macapagal-Arroyo, a movement to radically transform the Philippine constitution has emerged, favoring a transparent republic model wherein the fundamental institutions of government are altered to mimic a hybrid legislature-parliamentary system (Majuca, 2014, 43).  At any rate, a clear regime change occurred in the Philippines in direct response to the consequences of implementing the neoliberal *laissez faire* agenda.

*Conclusion*

It is clear that the primary factor contributing to the economic downturn in the Philippines as a part of the East Asian financial crisis was the vast amount of speculative capital that made its way into the Philippine economy.  This is evidenced by quantitative models suggesting that there would have been little to no effect on the Philippine economy as a result of the economic downturn in Thailand were it not for the speculative capital injected into the region by the IMF and United States.  In that regard, the hypothesis of this research, relative to Thailand and the Philippines, has thus far been proven true.

As mentioned previously, the implementation of U.S. foreign economic policy in the Philippines had a direct impact on the country's regime change, once again dominating key economic markets that ultimately benefit the elite, causing poverty and dissent within the country that ultimately results in rebellion.  In the case of the Philippines, it is clear that there is a strong correlation between the historical involvement of the United States in Philippine affairs, particularly in the wake of the East Asian financial crisis and modern political and economic issues in the country, notably evidenced by the Estrada regime's desire to increase the received benefit from this economic arrangement. Despite this quite obvious correlation, it is at best a moderate correlation due to the number of variables that cannot be addressed due to logistical constraints.

**South Korea**

*Introduction, Historical Context, and the Economy of South Korea*

South Korea is somewhat unique in this research, specifically when compared to the Philippines, because it received the bulk of its speculative capital directly from the International Monetary Fund (Oh 1999, 220). Immediately one can infer based on the conclusions drawn from Thailand, that the injection of speculative capital into the country's economy played a key role in its downturn. Much like Thailand, Korea relied heavily on foreign investments to foster its borderline absurd economic growth, and the state controlled the bulk of the economy as a means of ensuring this growth (Oh 1999, 221). Korea, more so than either Thailand or the Philippines, fell victim to failed policies on top of the influx of speculative capital, both in the form of spill over from Thailand and the Philippines, as well as from its IMF bailout loan. The government of Korea, fixated on maintaining the country's rapid growth, refused to relinquish much control of the economy, instead favoring a highly government regulated form of capitalism (Oh 1999, 221). While this worked leading into the crisis, the shortcomings of this policy were made clear when the crisis began. Though the highly controlled capitalism that Korea was operating within perpetuated the foreign investment-based model of economic development, it did not and could not account for the panic that emerged as the crisis appeared as if it would spread across the entire East Asian political economy, leaving the Korean economy with no other choice than to seek and IMF bailout (Oh 1999, 221-222). Naturally, this only exacerbated the problem. Suddenly, as Fig. 6 shows, Korea found itself with almost $30 billion more in long-term debt than it did the day before the crisis began (Oh 1999, 222).

**Table 9. Korea's total external liabilities (in billions of dollars)**

| | End of 1996 | End of November 1997 | End of December 1997 |
|---|---|---|---|
| Long-term debt | 57.5 | 72.9 | 86.0 |
| Short-term debt | 100.0 | 88.9 | 68.4 |

*Source:* Ministry of Finance and Economy.

Fig. 6 (Oh 1999, 222)

The debt forced the Korean state to move to a less controlled form of capitalism, reduce spending, and find a way to pay the high interest on the long-term debt they had accumulated in a mere two years. The quality of life in Korea, having been one of the highest in the region leading up to the crisis, was now at its lowest point since the end of the Vietnam War, prompting a regime change as the citizenry began to feel alienated and poverty ran rampant (Oh 1999, 224-231). However, the regime change and forced reforms as conditions of the IMF lone did eventually allow the Korean economy to recover. Although it did not reach the peak that it had leading into the crisis for several years, its internal affairs were steadily becoming more orderly by late 1999 (Thant and Than 1999, 283).

*U.S.-South Korea Economic Relations*

The United States and Korea have had a longstanding economic relationship predating the East Asian financial crisis. However, this did not stop the United States from using the financial crisis as a means to pursue market infiltration in South Korea. Indeed, in the wake of the financial crisis, the United States renegotiated its free trade agreement with South Korea to be more favorable to the U.S. in gaining further access to East Asian markets (Hong-Sik 2014, 312). Though a mutual benefit was gained from this agreement, the United States clearly comes out on the better end of the bargain. " Between the United States and South Korea, approximately $60 billion dollars of trade revenue is exchanged each year, though South Korea's much smaller, though quite healthy, economy means that it is far more reliant on the United States than the U.S. is on South Korea" (Hong-Sik 2014, 314).

*Conclusion*

Once again, it is clear that outside influences, primarily those with foreign investments in Korea and the IMF, impacted the East Asian financial crisis in South Korea in a significant way. Though South Korea's currency was devalued significantly (Fig. 1) and its economy a shadow of its former self due to the heavily state-run form of capitalism they had adopted, these outside influences still initiated the country's economic downturn. In this regard, the hypothesis of this research can be said to be true relative to Thailand, the Philippines, and South Korea.

South Korea, relative to Thailand and the Philippines, did not see drastic market infiltration by the United States. Rather, given Korea's pursuit of reforms as a condition of the IMF bailout that the United States would have motivated, there was little need for the U.S. to do more than renegotiate the free trade agreement between them. Though one could logically infer that, had South Korea not initiated the proper reforms, the United States would have intervened in the same ways it did in Thailand and the Philippines, since that event did not actually happen, in the interest of accuracy, the correlation between the U.S. seizing the opportunity to infiltrate the Korean economic market with residual effects in the present can be said to be a weak correlation.

**Conclusion**

The cause of the East Asian financial crisis is one of intense debate. Many blame the inherent flaws of the version of capitalism the affected states operated within. Still more argue that the economic downturn was inevitable given the region's rapid and accelerating growth. And many, as this research suggests, believe that international actors actually initiated and exacerbated the crisis to the point that it may have been avoided without their role.

As this research has demonstrated, the financial crisis was initiated only after a panic saw foreign investors pull their investments from Thailand suddenly and rapidly. The effect of this was further exacerbated by the IMF and U.S. bailouts that caused speculative capital to discourage investment, spilling over into other countries in the region as well. Moreover, this research demonstrated that the individual economies of the affected states, when examined in isolation, were actually far healthier than believed, and indeed, each of these examined states recovered quickly in the wake of the crisis. As such, the hypothesis of this paper that outside influencers had a direct and greater impact on the East Asian financial crisis has been proven to be true. Additionally, the sub-hypothesis that in each case, the United States and other foreign actors seized the crisis as an opportunity to initiate market infiltration, leading to residual effects and modern political issues in the present has been determined to be plausible. Though the evidence suggests that it is likely the case, the number of intervening variables necessary to prove this hypothesis with more certainty is simply beyond the scope of this research, however, would be worth looking into as a compliment to the conclusions that were reached by this research.

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