

Asian Miracle to Asian Crisis and the Role of Financial Liberalization: Evidence from Selected Asian Economies

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The financial liberalization hypothesis forwarded by McKinnon and Shaw (1973) postulates that financial liberalisation in financially repressed developing countries would induce higher savings, especially financial savings, increase credit supply, stimulate investment and hence economic growth. The recent economic crisis in many East-Asian economies has cast some doubts on the validity and sustainability of Asian Miracle. As financial liberalization was considered to be the main ingredient of economic success in the region, the economic downturn is also attributed to the mismanagement in the implementation of financial liberalization policies. We, however, believe that it was not financial liberalization but the inadequate monitoring and improper sequencing that led the crisis. To prove our argument, we make an attempt in this study to analyse the effects of financial liberalisation with particular focus regarding the effects on savings (private and financial), investment, and growth in three Asian Economies, namely, South Korea, the Philippines and Singapore. We develop econometric model and use quarterly time-series data (pre-crisis) to estimate specific equations for the above listed variables. Our empirical results support the financial liberalisation hypothesis for the sample countries. We found that removing regulations that cause financial repression would increase the flow of financial savings and hence credit supply. This would stimulate investment and economic growth.

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