Chapter 8

Determination of Factors Affecting the South East Asian Crisis of 1997 Probit–Logit Panel Regression: The South East Asian Crisis

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ABSTRACT

The economic crisis is an important event that hurts societies. Communication between the market and the authorities is an important factor in economic crisis situations. Because if the communication is established in a healthy way, economic crises in the future may not be repeated. In this context, the chapter deals with the economic crisis of 1997 in the Asian region as part of crisis communication. In the study conducted with Logit method, data belonging to the period 1975-2006 were used. In addition, the variables used frequently in the literature were considered as data set indicators. The results indicate that economic growth, financial credit, and money supply are important indicators affecting the crisis. Indeed, the emergence of the crisis with these variables reveals that there was a communication problem in the Asian region. Considering this experience, it has been suggested that Asia and other countries should care about the communication tools.

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INTRODUCTION

The classic definition of financial crises for decades is; economies are caused by excessive increases (often monetary) that lead to economic boom and inevitable pressures (Taylor, 2009).

Financial crisis is related to economic crisis, but the financial crises are caused by the shortcomings and failures in the financial markets and the economic crises as a result of sudden and unpredictable situations in the overall economy. Especially in the post-1980 period, the process of financial liberalization of the countries and the formation of international financial markets due to globalization in the 1990s, the realization of international capital movements brought the concept of “financial crisis” into the agenda. The financial crisis can be defined as the disruption in financial markets, the negative impact of the performance of financial institutions or intermediary institutions in financial markets, and this negative effect spreads to the whole economy and causes the resources not to be distributed effectively. Financial crises can be in four different forms: “money crisis”, “banking crisis”, “systematic financial crisis” and “external debt crisis” (Bostan & Bölükbaş, 2011; Radelet, Sachs, Cooper, & Bosworth, 1998; Gültekin & Ersin, 2018)

The speculative attack on the exchange value of a currency is called the currency crisis if it causes a decrease in money reserves or an increase in the astronomical levels in interest rates in order to prevent the depreciation of money or the loss of money. The banking crisis is the case if the actual or potential bank failures prevent banks from fulfilling their obligations or if the government is forced to intervene to prevent this failure. Systemic financial crises are defined as financial deteriorations with significant negative effects on the real economy by preventing the financial markets from operating effectively. The external debt crisis arises in the event that a country cannot repay its foreign debt, whether it is the state or the private sector. As a result, the common feature of all financial crisis types is that they have unsustainable economic imbalances and significant fluctuations in financial asset prices (or exchange rate). In the studies on the financial crisis; factors such as insufficiencies in the banking system, excessive budget deficits and unsustainability of current account deficit, and excessive liquidity problem in the market were considered as the main reasons for the crises (İşik, Duman & Korkmaz, 2004).

The economic crisis in the world is not only a financial sector crisis. There is a natural disease of capitalism. Despite the increase in the production capacity, it is the main reason for the crisis not to create sufficient effective demand. The pushing of ethical values from the financial sector aside, increasing the risk of not behaving ethically (moral hazard), as well as the fact that the financial sector has moved away from supporting the real sector and becoming a speculative structure has been the trigger of the crisis (Akgüç, 2009).

In the globalized world after 1980s financial crises have created important economic problems for both developed and developing countries. There have been many financial crises in the last 25 years such as Mexico Financial Crisis 1994-95, South East Asian Financial Crisis 1997-1998, Russian Financial Crisis 1998, Argentine Economic Crisis 1999–2002, Turkish Financial Crisis 2001, South American Economic Crisis 2002, Global Financial Crisis 2007-2009 and Turkish Currency and Debt Crisis 2018.

In most of the financial crises and especially in the South East Asian crisis, the crisis situation had worsened the problem of asymmetric information and this led to deterioration in the balance sheets, especially in the financial sector. The crisis situation, which causes worsening of asymmetric information problems and causing financial crises, begins with financial liberalization, which results in an explosion of lending to capital inflows. After all the problem was the rapid increase in lending (over-borrowing)