The Political Economy of the Asian Financial Crisis

Stephan Haggard

INSTITUTE FOR INTERNATIONAL ECONOMICS
Washington, DC
August 2000

Contents

Preface xi

Acknowledgments xvii

Introduction: The Political Economy of the Asian Financial Crisis 1
The Debate over Causes: A Brief Intellectual History 3
Bringing Politics Back In 7
The Arguments in More Detail 9

1 Business-Government Relations and Economic Vulnerability 15
The Microeconomics of the Crisis 16
Business-Government Relations: The Benefits 20
The Concentration of Private Economic Power 21
The Politics of Moral Hazard I: The Government and the Financial Sector 24
The Politics of Moral Hazard II: Industrial Policy 30
The "Capture" of Liberalization 32
The Politics of Business-Government Relations 38
Conclusion 45

2 Incumbent Governments and the Politics of Crisis Management **47**
Political Sources of Uncertainty 49
Thailand 51
South Korea 55
Malaysia 59
Indonesia 65
Conclusion 71
Appendix 2.1: The Political Economy of Malaysia's Capital Controls 73

3 Crisis, Political Change, and Economic Reform **87**
Thailand 92
South Korea 100
Malaysia 107
Indonesia 114
Conclusion 124
Appendix 3.1: Two that Got Away–the Philippines and Taiwan Compared 126

4 The Politics of Financial and Corporate Restructuring **139**
The Political Economy of Financial Reform 141
The Political Economy of Corporate Restructuring 146
Liberalizing Foreign Investment 178
Conclusion 180

5 The Social Fallout: Safety Nets and Recrafting the Social Contract **183**
The Economics and Politics of Growth with Equity 185
The Limits of the Model in the 1990s 187
Who Got Hit? 190
The Policy Response: The Political Economy of Social Policy 198
Conclusion 213

6 Conclusion: A New Asian Miracle **217**
The Political Economy of Financial Crises 218
Crisis and Political Change 222
Looking Forward I: The Reform of Business-Government Relations 224
Looking Forward II: Toward a New Social Contract 230
A New Asian Miracle 236

References **239**

Index **255**