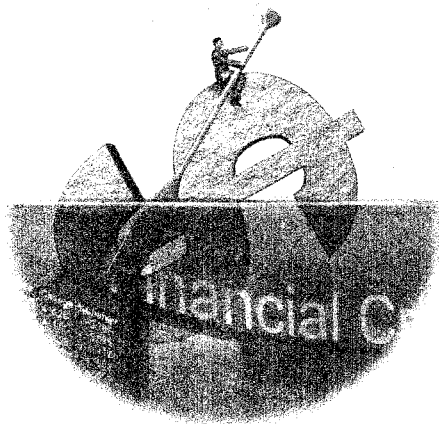


Crisis ^{and} Recovery

Learning from the
Asian Experience



Jong-Wha Lee

Korea University, South Korea

 World Scientific

NEW JERSEY • LONDON • SINGAPORE • BEIJING • SHANGHAI • HONG KONG • TAIPEI • CHENNAI • TOKYO

Contents

<i>About the Author</i>	vii
<i>Acknowledgements</i>	ix
<i>List of Tables</i>	xix
<i>List of Figures</i>	xxv
<i>Introduction</i>	xxxix
Part 1 Anatomy of Asian Financial Crises	1
Chapter 1 The Determinants and Prospects of Economic Growth in Asia	3
1.1. Introduction	3
1.2. The Basic Growth Framework	5
1.3. Estimation Results	19
1.4. Economic Growth of the Asian Countries in Comparative Perspective	27
1.5. The East Asian Financial Crisis	30
1.6. Conclusions	35
References	37
Chapter 2 Overinvestment, Collateral Lending, and Economic Crisis	41
2.1. Introduction	41
2.2. The Model	44
2.3. Implications	53
2.4. Capital Market Liberalization	59
2.5. Interpretation and Discussion of the Asian Crisis	64
2.6. Concluding Remarks	69
References	70

Chapter 3	Financial Reform and the Efficiency of Credit Allocation in Korea	73
	3.1. Introduction	73
	3.2. Financial Sector and Financial Reform in Korea	75
	3.3. Testing the Efficiency of the Financial System	79
	3.4. Concluding Remarks	86
	References	88
Chapter 4	Growth and Investment in East Asia Before and After the Financial Crisis	91
	4.1. Introduction	91
	4.2. Recent Economic Performance in the East Asian Economies	92
	4.3. Cross-Country Analyses of Economic Outcomes	108
	4.4. Concluding Remarks	130
	References	131
Part 2	Asian Financial Crises: Responses and Lessons	133
Chapter 5	Recovery and Sustainability in East Asia	135
	5.1. Introduction	135
	5.2. Cross-Country Patterns of Adjustment to Currency Crisis	138
	5.3. Assessments of the Recovery Process in East Asia	158
	5.4. Prospects for Long-Term Growth in East Asia	181
	5.5. Concluding Remarks	185
	References	186
Chapter 6	Crisis and Recovery: What We Have Learned from the South Korean Experience?	189
	6.1. Introduction	189
	6.2. The Role of Macroeconomic Policies in the Recovery Process	192
	6.3. The Role of Financial Market Development and Structural Reforms	200
	6.4. Conclusion	212
	References	213

Chapter 7	Financial Crisis and Credit Crunch in Korea: Evidence from Firm-Level Data	215
	7.1. Introduction	215
	7.2. Monetary Contraction and Credit Crunch	218
	7.3. Credit Allocation During the Crisis: Empirical Evidence	226
	7.4. Conclusions	243
	References	245
Chapter 8	IMF Programs: Who Is Chosen and What Are the Effects?	249
	8.1. Introduction	249
	8.2. Characteristics of the IMF	251
	8.3. Determination of IMF Loan Programs	254
	8.4. Economic Effects of IMF Loan Programs	269
	8.5. Concluding Observations	285
	References	287
Chapter 9	Exchange Rate Regime and Monetary Policy Independence in East Asia	291
	9.1. Introduction	291
	9.2. Exchange Rate Regimes in East Asia	293
	9.3. Empirical Test of Monetary Policy Independence	295
	9.4. Empirical Results	300
	9.5. Conclusion	307
	References	312
Part 3	Global Financial Crisis and Challenges to Asia's Sustained Growth	315
Chapter 10	Crises in Asia: Historical Perspectives and Implications	317
	10.1. Introduction	317
	10.2. Data and Methodology	318
	10.3. Stylized Facts of Economic Crises in Asia	322
	10.4. The Global Crises and Asia	340
	10.5. Concluding Remarks	351
	References	352

Chapter 11	Global Financial Turmoil: Impact and Challenges for Asia's Financial Systems	355
	11.1. Introduction	355
	11.2. The Recent Turmoil and Background	357
	11.3. Impact on Asian Financial Markets and Further Potential Spillover	362
	11.4. Challenges from the Changing Financial Landscape	375
	11.5. Policy Implications	384
	A.1. Data Description	388
	A.2. Empirical Methodology	389
	A.3. Specification Issues	391
	References	392
Chapter 12	Real and Financial Integration in East Asia	395
	12.1. Introduction	395
	12.2. Price and Quantity Measures of Integration	398
	12.3. Empirical Model for Macroeconomic Consequences	408
	12.4. Results for Macroeconomic Consequences	412
	12.5. Conclusion	414
	References	417
Chapter 13	Emerging Asia: Decoupling or Recoupling	421
	13.1. Introduction	421
	13.2. Economic Integration and the Decoupling of Asia: Literature Survey	424
	13.3. Evolution and Nature of Macroeconomic Interdependence	428
	13.4. Empirical Analysis	443
	13.5. Concluding Remarks	453
	References	454
Chapter 14	Financial Integration in Emerging Asia: Challenges and Prospects	457
	14.1. Introduction	457
	14.2. Financial Integration Trends in Asia	459

14.3. Financial Integration and Risk of Contagion	472
14.4. Conclusions and Policy Implications	481
References	483
Chapter 15 Will the Renminbi Emerge as an International Reserve Currency?	487
15.1. Introduction	487
15.2. From a Single to Multicurrency Reserve System	493
15.3. Empirical Investigation of Reserve Currency Shares	505
15.4. Monetary Cooperation and an Asian Common Currency	513
15.5. Concluding Remarks	516
References	517
Chapter 16 Economic Growth in Asia: Determinants and Prospects	521
16.1. Introduction	521
16.2. Sources of Growth, 1981–2007	525
16.3. Determinants of Growth	535
16.4. Estimation Results	540
16.5. Growth Projections, 2011–2030	543
16.6. Conclusion	557
References	558
<i>Index</i>	563