A Comparison between the Economic Fundamentals of Malaysia and Singapore prior to the 1997 Southeast Asian Currency Crisis

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ABSTRACT

This research paper makes a comparative study on the economic fundamentals of Malaysia and Singapore prior to the 1997 Southeast Asian Currency Crisis (SACC). The overidding objective here is to determine the structural economic characteristics of Malaysia and Singapore prior to the SACC and to explore the possibility that underlying fundamentals might have contributed towards or exacerbated the SACC.

The analysis begins with an overview of the economies of Malaysia and Singapore using graphical and tabular analysis of broad indices. This is followed by the formulation of simultaneous equation models, one for Malaysia and another for Singapore.

Besides services balance (SB) and total factor productivity (TFP), the trend analysis shows that there is no significant difference between most selected key variables. This is mainly due to the close similarity of the two economies in terms of openness and geography. The difference in SB indicates disparities in the service component and its relative contribution whereas the overall upward trend of Singapore TFP shows that their resources have been utilised more competitively.

The results obtained from the simultaneous equation models show that with the exception of real effective exchange rates (REER) and TFP, there is no substantial difference between the two countries' economic parameters. In Singapore, the sensitivity between REER and exports is significantly higher. Its TFP is directly proportional to the exports whereas Malaysia's TFP is inversely proportional to the exports.

It can be surmised that the structural systems are broadly similar and that differing economic fundamentals are not likely to have been critical in-so-far as the impact of SACC is concerned. An implication of the findings, is that the quantum of impact also depends on the type, duration and magnitude of the exogeneous changes which trigger an economic response, whether in an expansionary or a contractionary stimulus.

The importance of external factors is implied since the similarity in fundamentals between the two economies suggests that such external factors play an important role.

This concurs with the openness associated with both countries whereby the proportion of trade to GDP is well known to be high.

Some degree of insulation can be derived from financial governance. Although it cannot alter relative openness, it provides the individual countries with better capacities to handle changes in the wake of turbulence. Diversification of resources may aid in cushioning the impact of such disturbances.

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