

CHAPTER 7

CONCLUSION

The study first focused on the fundamental factors comprising three areas of discussion. These include competitiveness in exports, macroeconomics deficits and weaknesses in the financial sector. The objectives are to determine the economic fundamental conditions of Malaysia and Singapore prior to the SACC, explore the possibility that economic fundamentals might have exacerbated the SACC and objectively assess the economic systems using structural models with identical behavioral assumptions.

Relevant theories were outlined to explain the equations used in the simultaneous equation models. This is to ensure that the economic relationship between the independent and dependent variables used in each model can be clearly defined. The theories include (i) Consumption growth and the interest rate, (ii) Investment and the cost of capital, (iii) Consumption and investment, (iv) Money demand, deposits and high inflation, (v) Real effective exchange rate and exports, (vi) Total factor productivity and exports, (vii) Imperfect capital mobility, and (viii) The expectations-augmented Phillip curve.

The discussion on methodology looked at simultaneous equation models which form the basis of our structural estimation.

Results reported on structural differences comprised the trend analysis and findings based on simultaneous equation models. From the trend analysis, we surmised that except SB and TFP, overall both economies had quite similar path characteristics for most of the economic variables. Meanwhile, from the simultaneous equation models analysis, it was noted that although the parameters of the two economies did show differences, they are not significant. In fact, besides TFP and REER, the rest of the parameters in these two economies did not sharply differ in terms of magnitude and direction.

In a nutshell, it could be surmised that the structural systems are broadly similar and that differing economic fundamentals are not likely to have been critical in the disparity between the two economies 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 expansionary or

contractionary stimulus. The findings suggest that external factors play an important role in the SACC and this concurs with the characteristic of high openness associated with both countries.

It was proposed that some degree of insulation should 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.

The findings derived in this research could lead to future research on an evaluation of the economic fundamentals of Indonesia and Thailand. If for example, the result shows divergent characteristics, we might have to do a similar comparative study between Malaysia, Indonesia and Thailand to determine the depth and implications of such differences, perhaps correlating them to individual strength or weaknesses.