Foreign Exchange Rate Regimes And The Asian Currency Crisis

A thesis presented in partial fulfilment of the requirements for the degree of Master of Business Studies in Economics at Massey University

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February 1999
ABSTRACT

This thesis is a study on the Asian currency crisis. It starts with a review of the theories on foreign exchange rate regimes and their adjustment mechanisms. The monetary approach of foreign exchange rate is discussed and used as a framework in analyzing on the origins and causes of the currency crisis, which started in the East Asia in mid 1997.

A lot of statistical data are used in the analysis on the crisis-hit countries in terms of prices, interest rates, external competitiveness, foreign exchange rates of major currencies and the flow of foreign capital and so on. It is found that the main origins and causes of the Asian currency crisis are from the deterioration of external competitiveness and the misuse of foreign capital and bad supervision of the domestic financial markets. The characteristics of a pegged exchange rate regime has proved to be too rigid to reflect the changes in the fundamentals of the economy and has been responsible for the accumulative inconsistencies leading to the collapse of the regime.

The Asian currency crisis indicates that in the present world in which economic globalization has become a mainstream trend, it is getting more difficult to maintain a pegged exchange rate regime. The Asian currency crisis also reflects the importance of the establishment of a sound financial sector and good supervisory and governing abilities of the government when liberalizing its domestic financial market, especially on the opening of the domestic capital market. A rush of financial liberalization would likely generate vulnerabilities to the economic system.
ACKNOWLEDGEMENTS

This thesis is the result of my research work at Massey University, Department of Commerce, in partial fulfilment of the requirements for the degree of Master of Business Studies, and would have been impossible without the assistance of Dr. Li Xiaoming, who served as my thesis supervisor. Besides helping me to resolve some of the problems encountered, Dr. Li provided expert guidance, encouragement and so many stimulating comments. Therefore, I want to express my heartfelt gratitude to him.

I would also like to take this opportunity to thank others who were so helpful during the work leading to this thesis. In particular, I would like to mention Mr. Ju Yadong, Dr. Su Bo, Dr. Wang Chuanglian, Mr. Chen Suojun, Dr. Wang Bin and Mr. Hou Deyou, who have given me some inspiring ideas during our discussions on the issues of the Asian currency crisis and the Chinese financial markets. Mr. Ju Yadong also made available to me some statistical data, research papers and information concerning the topic of this study.

However, none of the above individuals hold responsibility for the opinions expressed, or for any remaining errors and omissions, which lie solely with the author.
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