CHAPTER 5

CONCLUSION

5.1 – Conclusion

To conclude this thesis, and answer the main research question – "what are the effects of GER 2008 to IMS and which policies have they taken?" – We must go back to the very concepts and background of this entire research. The main issues experienced by the three states within the Southeast Asian region were stock-market corrections; a growth in each nation's government debt; external debts still being a risk; easing external debts; and lastly strains in credit access and the banking sector. In this chapter, the author will be discerning these main issues. In order to do so, several theories and concepts will be put into use. These theories includes Mercantilism by focusing on aspects of 'Complex Interdependence' and 'Economic Interdependence' by Robert Keohane and Charles Kindleberger; the concept of 'Multiple Channels'; the theory of 'General Equilibrium' by Léon Walras; and the Financial Crises Theory by Joseph Schumpeter accompanied with aspects of the 'Financial Market Bubbles,' 'Contagion Theory,' and the 'Hot Hand Fallacy'.

Initially, the Great Economic Recession of 2008 was cause by several causes. One of these causes included deregulations in the financial industry, specifically due to sub-prime mortgages, collateralized debt obligations (CDO), frozen credit markets, and credit default swaps.[124] This deregulation –in hindsight – permitted banks to engage in hedge fund trading with derivatives. This in favor gave investors and firms the confidence to invest in CDOs in large quantities. They did so because of the notion of a “hot hand” in where they’ll profit more from this investment rather than experience loss. Because these mortgages were subprime, it meant that a majority of the people who borrowed money from banks to afford homes were unable to pay them back. This caused in an overall collapse which caused these CDOs to be untradeable. This phenomenon is now considered a financial bubble. Because of the financial bubble that happened in the US, it slowly made its way to all parts of the world including SEA stock market. It created a contagion for the region. The domestic stock markets of the region were affected by this spillover. Domestic stock markets such as IDX, KLSE, and SGX experienced challenges due to the spillover contagion. The governments of Indonesia, Malaysia, and Singapore had to attempt in correcting their stock markets and maintain growth of their stock indices whilst cutting as much loss as possible.

Following the General Equilibrium theory and the Ten Principles of Economics[125]; specifically referencing ‘Principle 4: People Respond to Incentives’ and ‘Principle 10: Society Faces a Short-run Trade-off between Inflation and Unemployment,’ the nature of supply and demand in this case may become unstable from time-to-time. By going back to these two principles, we can assume that even

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[124] Justin Yifu Lin and Volker Treichel, "The Unexpected Global Financial Crisis: Researching Its Root Cause," *Policy Research Working Papers*, 2012, doi:10.1596/1813-9450-5937.
[125] N. Gregory Mankiw and Mark P. Taylor, *Economics* (Andover, U.K., Hampshire: Cengage Learning EMEA, 2020), pp 1-15.

though this was the case the market will always attempt to readjust itself when it is deemed as a necessity. By doing so, any form of group-economy such as a regional or state level economy will attempt to survive & maintain their respective economies in times of crisis. This, as a matter of speaking, indirectly tells us a state's will to maintain their economy's survivability as best as they can by any means necessary. This of course solely depends on several factors such as a state's factor of production and wealth. Through the vast and multiple channels an individual country has it is known that it affects both real-economics and a focused section of the capital market being the capital market.

The 'Contingency Theory' or the 'Contingency Approach' in itself states that the effectiveness of a firm comes from the alignment or fitting of the characteristics of a firm to contingencies that reflect the situation of the firm. A contingency is any variable that moderates the effect of organizational characteristics on performance. [126] Here, the author advocate for contingencies in order to be prepared and avoid such spillovers if one were to happen in the future. Financial bubbles are generally unrecognizable until one finally bursts. This approach or theory is regularly applied by multinational corporations that face certain challenges when it comes to the threats they face in accordance with applying social, political, economic, and technological analysis. I believe that this approach – when given the chance – could be applied on a nation-wide or even regional level for governmental and non-governmental entities; rather than, in turn, simply playing the "blame-game" when trouble arises which coincidentally wields no results. With the notion of understanding the ideas of what general equilibrium

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[126] Abdul Ghofer and Sardar M. N. Islam, *Corporate Governance and Contingency Theory: a Structural Equation Modeling Approach and Accounting Risk Implications* (Cham, London: Springer, 2015).

is, it can be put into consideration that the interaction of demand and supply will result in an overall general equilibrium, in this case the global financial stock exchange. With general equilibrium and the understandings of Knut Wicksell in regards to the interaction of two rates of return (Money Interest Rate and Natural Rate of Return (Neoclassical)) we can assume that the notion of a domino effect is the result of a form of cooperation between one entity and another, ergo the existence of a global cooperation is within reason.

Ultimately, the greatest failure of the 2008 Global Recession – caused by the housing bubble – was not the contagion itself, but rather, it was the people (or in this case institutions) who heavily invested on their assets and stocks whilst underestimating the countless factor at play that could have the slightest capability of initiating a world-scale collapse. In lack of better words, the general idea of the 'Hot Hand Fallacy' played successfully in these conditions for both the West and the aforementioned Southeast Asian countries being studied in this paper. This, in turn, brings me to conclude that theories such as the 'contingency theory' or 'the contingency approach' by Charles Kindleberger to be valid points to take into account when all else fails. Finally, when it comes to cooperation between IMS, it exists as both direct and indirect cooperation as mentioned in the previous chapters. In such regards, the author believes that when it comes to investments any form of institution or government should be able to acknowledge the idea of any form of market being transformed into a contagion at an unprecedented time. In order to avoid the worst case scenario they should be able to put into account the social-economic aspects that becomes a majoring key factor in terms of the origin of the Great Economic Recession of 2008. Being solely dependent in cooperation may not

seem to always be a benefit as it also shows from this paper’s analysis that sometimes it is better to have stronger ties with relations that are closer than others.

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