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Dampak dan Tanggapan Indonesia, Malaysia, dan Singapura Terhadap Resesi Ekonomi Global 2008

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Effects and Responses of Indonesia, Malaysia, and Singapore to the Global Economic Recession of 2008

Thesis

Submitted for the Undergraduate Level Thesis Defense

International Relations Study Program

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ABSTRAK

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Judul : Dampak dan Tanggapan Indonesia, Malaysia, dan Singapura terhadap Resesi Ekonomi Global 2008

Diketahui dengan baik bahwa pada tahun 2008, gelembung keuangan telah terwujud karena ledakan gelembung perumahan Amerika Serikat. Krisis finansial ini, khususnya market bubble, disebabkan karena deregulasi CDO dan subprime mortgages. Penelitian ini mendekonstruksi dan menganalisis gagasan utama tentang bagaimana limpahan Resesi Ekonomi Global 2008 telah mempengaruhi Asia Tenggara, khususnya Indonesia, Malaysia, dan pasar saham domestik Singapura. Dalam makalah akademis ini, penulis mencoba mengidentifikasi karakteristik utama pasar keuangan Indonesia, Malaysia, dan Singapura bersama dengan kebijakan yang telah mereka terapkan untuk pulih dari tumpahan Gelembung Perumahan AS. Rumusan skripsi ini berdasarkan pertanyaan penelitian yang dirumuskan sendiri oleh penulis. Pertanyaan penelitian utama dari makalah ini adalah “apa dampak GER 2008 terhadap IMS dan kebijakan apa yang telah mereka ambil?” Metodologi penelitian umum dilakukan melalui penelitian deskriptif komparatif ekstensif yang menggunakan data kuantitatif dan kualitatif. Melalui sarana ini akan memudahkan pembaca untuk lebih memahami masalah umum dan jawaban atas pertanyaan penelitian itu sendiri. Melalui penggunaan teori merkantilisme oleh Adam Smith dan teori Krisis Keuangan oleh Joseph Schumpeter, penulis dapat menyimpulkan beberapa pengertian sehubungan dengan menjawab pertanyaan penelitian utama. Dalam tulisan ini, penulis berpendapat bahwa pemulihan IMS melalui beberapa kebijakan dan beberapa di antaranya mencakup kebijakan yang dinilai dalam negeri dan kerjasama ekonomi. Beberapa data penting yang ditemukan adalah bahwa pasar saham Indonesia mengalami penghentian total dalam aktivitas perdagangan setelah penurunan 10%. Hal ini menyebabkan pertumbuhan ekonomi 6,1% di tahun 2008, di bawah 6,3% di tahun sebelumnya. Malaysia menghadapi karakteristik serupa. Indeks saham Malaysia turun lebih dari 30 persen antara Q3 2008 dan Q1 2009. Karena itu mereka juga harus menghentikan sementara aktivitas perdagangan seperti di Indonesia. Karena GER 2008, FDI ke Malaysia turun 98% persen dari RM15,89 miliar di Q2 menjadi RM0,34 miliar di Q3 2008. Terakhir, Singapura mengalami resesi terburuk dari ketiga subjek. Indeks saham Singapura berada di sekitar 1700 poin (pada Q4 - 2008) yang kira-kira setengah dari tahun sebelumnya (3500 poin Q4 - 2007). Dalam tulisan ini dijelaskan bahwa karena karakteristik tersebut, ketiga negara harus melaksanakan kebijakan yang berusaha menarik FDI dari negara lain. Untuk melakukannya, mereka memiliki beberapa cara yang mencakup mempromosikan perusahaan untuk berinvestasi melalui kebijakan keuangan dan moneter, memperkuat integrasi dan kerja sama dengan negara tetangga, dan sebagainya.

Katakunci: GER, CDO, IMS, Krisis Finansial, *Market Bubble, Housing Bubble*

ABSTRACT

Name : Billy Prakarsa Mabe

NPM : 2016330236

Title : Effects and Responses of Indonesia, Malaysia, and Singapore to the Global Economic Recession of 2008

It is well known that in 2008, a financial bubble has manifested due to the burst of the United States housing bubble. This financial crisis, specifically a market bubble, was caused due to the deregulation of CDOs and subprime mortgages. This research deconstructs and analyzes the main idea of how the spillover of the Global Economic Recession of 2008 has affected Southeast Asia, in particular Indonesia, Malaysia, and Singapore's respective domestic stock markets. In this academic paper, the author attempts on identifying the main characteristics of the financial markets of Indonesia, Malaysia, and Singapore alongside the policies they have enforced of to recover from the overspill of the US Housing Bubble. The formulation of this paper is based on the research question formulated by the author himself. The main research question of this paper is of "what are the effects of GER 2008 to IMS and which policies have they taken?" The general research methodology is done through an extensive comparative-descriptive research that uses both quantitative and qualitative data. Through this means it will facilitate the reader to better-understand the general issue and the answers to the research question itself. Through the use of theories namely mercantilism by Adam Smith and the Financial Crisis theory by Joseph Schumpeter, the author was able to conclude several notions in regards to answering the main research question. In this paper, the author argues that the IMS recovered through several policies and some of them includes both domestic-assessed policies and economic cooperation. Some of the more notable data found is that Indonesia's stock market experienced a complete halt in trade activities after a 10% drop. This lead to an economic growth of 6.1% in 2008, below the 6.3% in the previous year. Malaysia faced a similar characteristic. Malaysia's stock index declined more than 30 percent between Q3 2008 and Q1 2009. Because of this they also had to have a temporary halt in trade activities just like Indonesia. Because of the GER 2008, FDI into Malaysia declined 98% percent from RM15.89 billion in Q2 to RM0.34 billion in Q3 2008. Lastly, Singapore experienced the worst recession out of the three subjects. Singapore's stock index was around 1700 points (on Q4 – 2008) which was roughly half of the precedent year (3500 points Q4 – 2007). In this paper, it is explained that because of these characteristic, all three states had to implement policies that attempted to attract FDI from other countries. In order to do so they had several means which includes promoting firms to invest through financial and monetary policies, strengthening integration and cooperation with neighboring countries, and so forth.

Keywords: GER, CDOs, Market Bubble, IMS, Housing Bubble, Financial Crisis

LIST OF ABBREVIATIONS AND ACRONYMS

CDO	Collateralized Debt Obligations
IMS-GT	Indonesia, Malaysia, Singapore Growth Triangle
IMS	Indonesia, Malaysia, Singapore
SEA	Southeast Asia
IPE	International Political Economy
ARM	Adjustable Rate Mortgages
US	United States
MBS	Mortgage-backed Securities
CIS	Commonwealth of Independent States
IDX	Indonesia Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
SGX	Singapore Stock Exchange
ETF	Exchange-Traded Funds
BUMN	State-owned Enterprises
Q1	Quarter-I (January, February, & March)
Q2	Quarter-II (April, May, & June)
Q3	Quarter-III (July, August, & September)
Q4	Quarter-IV (October, November, & December)
AFC	Asian Financial Crisis (1997)
GFC	Great Financial Crisis (2007-2008)
FDI	Foreign Direct Investment
BNM	*Bank Negara Malaysia*
SME	Small-Medium Enterprises
SMI	Stock Market Indices / Stock Market Index

GER	Great Economic Recession
GLC	Government-linked Corporations

Preface

Praise be made to the Lord Almighty, for the blessings and grace of this thesis entitled "The Global Financial Crisis: Understanding the Cooperation between Indonesia, Malaysia, and Singapore" can be completed. This thesis is structured to fulfill part of the requirements for obtaining a Bachelor's Degree in International Relations at the Parahyangan Catholic University in Bandung.

During the preparation of this academic paper, the author realized there were various challenges that were faced upon the progression of writing this thesis. Even with such challenges, there are several individuals who helped, motivate, and supported me during the writing of this thesis until it was fully completed. For that reason the author is eternally grateful to these individuals namely, but not limited, to:

1. The Lord Almighty, who have bestowed upon the author of this paper the strength, wisdom, and knowledge necessary to complete this thesis.
2. Linda Mesiana and Dahlan "Raul" Sektiawan as my loving mother and little brother respectively.
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4. All levels of lecturers / teaching staff and the administration section of the Faculty of Social and Political Sciences of the Parahyangan Catholic University who have provided the author knowledge and provided all forms of assistance.

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7. The International Relation – Batch 2016 and beyond, that has helped the author grow and contributing to an essential and mayoral-part of my university education & social life. The author wishes them the best of luck for what lies ahead beyond the horizons of the unknown.

With this statement, the author of this academic paper hereby states that this series of research presented in this academic paper is the result of scientific writing itself and is not a work that has been submitted to obtain an academic degree by another party or individual. The work or opinion of the any other party cited is written in accordance with the applicable scientific rules of writing & referencing. I, Billy Prakarsa Mabe, make this statement responsibly and agree to accept any-and-all consequences according to the scientific rules of writing & referencing if it was later discovered that this statement was incorrect.

Bandung, December 3rd, 2020

Billy Prakarsa Mabe

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CHAPTER I

INTRODUCTION

1.1 – The Background of the Issue

In the year of 2008, an economic spillover phenomenon occurred. It was a global pandemic which stemmed from the burst of the housing bubble. This contagion was formally known by many names which includes "The Great Economic Recession of 2008," "The 2008 Financial Crisis," and "The Economic Crisis of 2008". This bubble was firstly experienced by the US stock market which eventually lead this chaos to become a contagion. Because of this contagion many countries worldwide faced a disarray in economic stability due to the 'domino effect' the US stock market had towards peripheral stock markets. Some countries were effected more than others whiles some experienced less. The financial crisis was primarily caused by deregulations in the financial industry, specifically due to sub-prime mortgages, collateralized debt obligations, frozen credit markets, and credit default swaps.[1] That permitted banks to engage in 'hedge fund trading' with derivatives. Banks then demanded more mortgages to support the profitable sale of these derivatives. They created interest-only loans that became affordable to subprime borrowers. Before the market crash, in the year of 2004 the Federal

[1] 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.

Reserve raised the fed funds rate just as the interest rates on these new mortgages reset. Housing prices started depreciating as supplies outpaced demand. That trapped homeowners who couldn't afford the payments of mortgages, but couldn't sell their house. When the values of the derivatives crumbled, banks stopped lending to each other. That created the financial crisis that led to the Great Recession and the 2008 stock market crash.[2]

The subprime crisis in the US began, among others, with expansionary government policy. Soft policies in place several years before the crisis fostered widespread high-risk lending. Furthermore, mounting incentives to borrow (such as easy loan application terms) supported by a long-term trend of rising housing prices encouraged borrowers to apply for home mortgages on riskier terms, expecting to refinance these loans at lower rates.[3] Defaults and foreclosures mounted dramatically as initial fixed rate periods on loans came to an end and adjustable rates (ARM) moved higher. Low interest rates and the heavy inflows of foreign funds created conducive conditions on the credit market during the years before the crisis. Subprime mortgages contributed extensively to increased home ownership and heavy demand in the property sector. High demand for houses spurred rising housing prices. Relaxed borrowing terms and expectations of perpetual gains in housing values encouraged many subprime debtors to apply for loans at adjustable rates (ARM).[4] This credit offers easy terms to debtors, applying

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[2] Paul Katzeff, "Next Stock Market Crash: Lessons From The 2008 Financial Crisis On Its 10th Anniversary," Investor's Business Daily, February 08, 2019, accessed February 4, 2019, https://www.investors.com/etfs-and-funds/personal-finance/2008-financial-crisis-next-stock-market-crash/.

[3] Bank Indonesia, "Bank Indonesia - 2008 Economic Report on Indonesia," 2008 ECONOMIC REPORT ON INDONESIA, 2008, accessed April 13, 2019, doi:ISSN 0522-2572.

[4] *Ibid.*

a low interest rate during an initial grace period, followed by a change to the market interest rate. Mid-2007 marked the beginnings of the crisis triggered by subprime defaults, which then led to the bursting of the property sector bubble. In September 2008, average

US housing prices were down 20% from the high in mid-2006. This drop in housing prices left debtors unable to obtain refinancing, and many could no longer afford the heavier monthly instalments.[5] The large numbers of debtors defaulting on their mortgage payments, with banks and creditors foreclosing and repossessing homes, increasing the supply of houses available for sale. The growing inventory of houses for sale put added pressure on housing prices. The formation of an asset price bubble was driven to a large extent by property speculation. Banks and creditors kept offering loans to debtors, even those categories as high risk such as illegal immigrants. At the time, creditors tended to ignore the low credit ratings held by these subprime borrowers.[6]

The problems that surfaced with the defaults on subprime mortgages raised questions over the role of rating agencies. Formerly, subprime-based CDOs and MBS had consistently been rated above investment grade.[7] The high ratings at the time were justified because assessment was based on customary risk management practices, such as overcollateralization (surplus guarantee when taking out the debt)

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[5] Bank Indonesia, "Bank Indonesia - 2008 Economic Report on Indonesia," 2008 ECONOMIC REPORT ON INDONESIA, 2008, accessed April 13, 2019.
[6] *Ibid.*
[7] *Ibid.*

or guarantees against default. The high ratings encouraged investors to buy up subprime-based securities, thus helping to finance the property boom.[8]

The global financial crisis had a spillover effect reaching to places such as a majority of Asian countries. The spillover was experienced due to the cooperative nature of the global economy. The 2008 market crash initiated what seemed to be a ripple effect that does not only alter the United States' stock market but also a majority of other nation's stock market such as the one found in Southeast Asia.[9] At the time, the main issues experienced by 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. These issues were faced by multilateral growth relations such as the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT)[10] at the time.

In this paper, the main actors that will be focused upon are the states within the IMS-GT, namely Indonesia, Malaysia, and Singapore. During the time-span, the two nations (Indonesia & Malaysia) within the growth triangle is commonly known as an emerging economy. However, these three states cooperated with one another through various actions to achieve economic growth. However, in the year 2008 Indonesia, Malaysia, and Singapore faced various challenges due to the conditions of the global economy. This phenomena seems to intrigue the author the

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[8] *Ibid.*

[9] Lucía Morales and Bernadette Andreosso O'Callaghan, "Understanding Market Inefficiency in the East Asian Region during Times of Crisis*," Journal of Southeast Asian Economies Vol. 35, No. 3 (2018)*, June/July 2018, , accessed February 11, 2019, doi:ISSN 2339-5095 print / ISSN 2339-5206 electronic.

[10] Majid and Rahimah, "Regional Economic Cooperation and Integration through Growth Triangles: The Case of IMS-GT," UUM Repository, January 01, 1970, accessed February 13, 2019, http://repo.uum.edu.my/2741/.

most is how they overcame these conditions and a market correction at the time. Because of this the main research question for this research paper is “What are the effects of GER 2008 to IMS and which policies have they taken?

The methods of gaining data for this paper is through extensive research found in other credible sources such as research papers, books, videos, and so forth. This research will also analyze the situations of this growth triangle through the theory concocted by Robert Keohane & Joseph Nye which tries to introduce the understanding on how states are interconnected in the global economy; namely put the ‘Complex Interdependence theory’. Due to this reasoning, the author of this research paper is ecstatic in choosing the topic at hand due to the data presented. The author hopes that the data found in this research paper is able to help people use the information as a basis or contingency plan if an economic crisis similar to the ‘global economic crisis (2008)’ were to happen again. With this in mind, hopefully this paper is able to give a broader perspective on how the 2008 market crash affected various states, especially Indonesia, Malaysia, and Singapore. This paper aims on trying to open the reader’s mind on why the global economic crises occurred and how it affects the stock market between the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT).

1.2 – Identification of the Study

1.2.1 – Identification of the Study

Just as previously mentioned within the background of the issue, the main latter at the time was how Indonesia, Malaysia, and Singapore faced the spillover effect originating from the United States' stock market crash of 2008. 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.[11]

1.2.2 – Limitations of the Study

Within this research, the author will set upon certain limitations of the study itself. These limitations include – but are not limited to – the timeline, the issues, the location, and the subjects or main actors of the study's main theme. The author will limit the timeline of how the Global Economic Crisis (2008) came to be and its effects to the financial markets of Indonesia, Malaysia, and Singapore starting from the year that it was established 2007 up to the years that it these countries slowly recovered namely 2011. The author will focus on the main issues of the Global Economic Crisis (2008) came to be alongside its general impacts upon the three aforementioned states' financial market. Following the study, the author will use the theories applied in order to identify the actions taken by these countries in order

[11] Prieur, "The Impact of a Global Recession on Asia," Seeking Alpha, March 12, 2009, accessed February 4, 2019, https://seekingalpha.com/article/125473-the-impact-of-a-global-recession-on-asia.

to find the answer for the research question being “what are the effects of GER 2008 to IMS and which policies have they taken?”.

1.2.3 – Formulation of the Study

During the progress of this study, the author has formulated a question which becomes the main basis of whole general point of research namely “what are the effects of GER 2008 to IMS and which policies have they taken?” The formulation of the research question was done in order to better-understand the idea of what a financial crisis is. Because there are only seven financial crises throughout history, the author picked the most recent one. This is done in order to facilitate readers about the signs and policies that may be taken during a global economic crisis. The global economic recession is a perfect example for the most recent and impactful global financial crisis in the world. This crisis itself stemmed from the US Housing Bubble.

1.3 – Purpose of Research

1.3.1 – Purpose of Research

This research paper was created with the main purpose of providing information regarding to the 2008 stock market crash originating in the United States and how it impacted the Southeast Asian region, specifically Indonesia, Malaysia, and Singapore. This paper aims to identify the characteristics and policies the three states of this paper (Indonesia, Malaysia, and Singapore) respectively have taken in order to recover from the 2008 Global Economic Recession. This research paper is able to provide more in-depth knowledge regarding how these three states

tried to manage their regional stock-market corrections; 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.

1.3.2 – Use of Research

The author hopes that through this extensive research with the main topic concerning Indonesia, Malaysia, and Singapore's policies and characteristics during the GER (2008), it may help the readers further comprehend the dangers of a financial crisis and its direct & indirect impacts towards another country. The Global Economic Recession itself creates financial contagions which in turns causes the subject-countries in this study to face a halt in economic trades and even faced a harsh recession due to having the need of formulating a plan to recover from the economic crisis rather than having one prepared beforehand.

1.4 – Literature Survey

1.4.1 – First Source: "The Impact of the Financial Crisis on Emerging Asia" - compiled by Morris Goldstein and Daniel Xie

The first source talks about the main decline in economic growth in developing countries around the Asian region. The decline in economic growth in developing countries in the Asian region during the 2008 financial crisis was not as severe as that experienced by either the 'Commonwealth of Independent States' (CIS) economy or by some Asian developing countries (Singapore, Indonesia, Hong Kong, Malaysia, Korea, China and India) were most affected during the 1997-

1998 Asian financial crisis.[12] These countries have experienced a major decline in growth during this crisis, especially China and India where their economic growth rates have fallen by half from the peak before their crisis because they depend on their export activities.

Asian growth during this period are similar to other emerging market groups in terms of export changes & equity prices, or a surge in the financial pressure index. Developing countries in the Asian region do not have to be strongly committed to government financial support to troubled financial institutions committed in some of the largest developed countries, and international reserves, exchange rates and domestic credit flows are not too affected.[13]

Most of those who have attempted to predict the outcome of Asia believe that better Asian economic fundamentals that emerge will not limit the size of the decline and that the region will experience a prolonged decline has been denied. They overstate the extent to which economic growth in Asia has been led by export activities.[14] In this case, they have failed to understand that Asia's strong external position, its control of currencies and maturity mismatches, and a lower dependence on wholesale international funding would reduce the balance sheet effect of the crisis. They underestimated the helpful role played by inflation control, relatively good debt dynamics, and the improvement of the banking system fundamentals in enabling developing countries in Asia to implement more aggressive fiscal and monetary policy responses to crises.

[12] Morris Goldstein and Daniel Xie, "The Impact of the Financial Crisis on Emerging Asia," SSRN Electronic Journal, 2009, doi:10.2139/ssrn.1499875.
[13] Morris Goldstein and Daniel Xie, "The Impact of the Financial Crisis on Emerging Asia".
[14] *Ibid.*

1.4.2 – Second Source: "A Comparison of Global Financial Market Recovery after the 2008 Global Financial Crisis" - compiled by Prof. Jennifer Foo

In the journal "A Comparison of Global Financial Market Recovery after the 2008 Global Financial Crisis," Prof. Jennifer Foo tries to explain that the Financial Crisis of 2008 had a great impact on the disparity of the stock markets within several developing countries in Asia, specifically on its risks and returns. The financial crisis in 2008 had a significant impact on the stock market in disproportionate risks and returns. Bullish markets ended in most global capital markets in the period between June and November 2007. In China (Shanghai Stock Exchange) took place in February 2007, in Germany in December 2007, in Indonesia and Malaysia in January 2008.[15] There were eight countries where the bear market began later after April 2008: Taiwan, Mexico (where markets were bullish followed by periods of stagnation), Brazil, Canada, Singapore, Hungary, Croatia and Slovakia. In this case, it is difficult to find a strong argument that the situation in developed capital markets is different from in developing and developing countries in terms of more or less vulnerable to volatility in financial markets and their ability to recover after a crisis has occurred. We can only note that among developing countries the tendency for markets to change after the crisis is more often than among developed countries, namely recovery from crises requires more stages for emerging markets.

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[15] Jennifer Foo and Dorota Witkowska, "A Comparison of Global Financial Market Recovery after the 2008 Global Financial Crisis," *Folia Oeconomica Stetinensia* 17, no. 1 (2017):, doi:10.1515/foli-2017-0009.

1.4.3 – Third Source: "Contagion and the Spread of the Recent Global Crisis to Asia: The Effect of Transmission on Equity Markets" - compiled by Nan Zhang

Nan Zhang in his compilation of "Contagion and the Spread of the Recent Global Crisis to Asia: The Effect of Transmission on Equity Markets" tried to explain several things regarding the 2008 financial crisis, notably the multichannel framework on how the US overspill at the time affected several determinants within the stock market such as compensation returns on equities. Compensation returns on the equities of Asian and US economies increased substantially in the financial crisis of 2008. Global factors, especially US equity markets, played an important role in the transmission of the financial crisis and impacted Asian equity markets with a greater magnitude in the recent financial crisis than the previous period. The price of equities in the Asian economy began to decline in 2008.[16] As risk appetite for investment by global investors declined, low-class borrowers such as those from India, Indonesia and the Philippines lost access to markets. High-level borrowers with large external financing requirements face high funding costs over time. Central banks in all Asian economies have aggressively reduced the attitude of monetary policy and the policy level is at a record low. Reserve requirements were also reduced. Among the Asian economies, equity markets in Indonesia, Hong Kong, South Korea and Singapore have the biggest impact from the US, and the Philippines has the smallest impact.[17] In order to prevent similar financial crises in the future in the Asian economy, efforts can be made to limit the transmission of the crisis from outside and to reduce the crisis.

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[16] Nan Zhang, *Contagion and the Spread of the Recent Global Crisis to Asia: The Effect of Transmission on Equity Markets,* 2011, accessed February 4, 2019, https://search.proquest.com/docview/885876104/88775F678CAB4D7EPQ/1?accountid=31495.
[17] *Ibid.*

1.4.4 – Fourth Source: "Too Big to Fail" by Andrew Ross Sorkin

In the book entitled "Too Big to Fail", Andrew Ross Sorkin meticulously explains how uncertainty in the financial market lead to rise and fall of many institutions due to the US Housing Bubble. He further explains that this financial bubble established one of the biggest financial market crash throughout history which soon became global. Although this wasn't the first time, September 2008 will remain carved deep into Wall Street history. Unlike other types of crisis, the Global Financial Crisis emerged from seemingly nowhere. Only a few select people were able to identify the issue before-hand and cut losses from it. Some even profited from this crisis. Because the crisis was a sudden action, Wall Street had no other choice than to try and confront the calamitous collapse, in order to protect its shareholders. During 2007, the year was beneficial for investors, and shareholders, if we take into consideration the estimated $53 billion subprime mortgages and CDOs earned in the previous 12 months. Because of this large estimation, the then-inflated real estate market took a turn slowly becoming a full collapse due to the inability to sell these CDOs and subprime mortgage bills from financial institution to another. Wall Street began to go back and forth because of the dilemma. Because of this dilemma, companies were on the edge of facing bankruptcy due to the failure of attracting investors. This lead to the stock market to crash. This market crash lead to several large firms to face bankruptcy. In this book, Andrew Ross Sorkin was able to identify the main key events of the whole collapse alongside the data that it holds.[18]

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[18] Andrew Ross Sorkin, *Too Big to Fail: inside the Battle to Save Wall Street* (London: Penguin, 2010).

1.5 – Theoretical Framework

In the making of this thesis, the primary theory that will be put unto use is the Financial Crisis Theory and Mercantilism. The Financial Crisis Theory in this paper will be focusing on the understandings and teaching of Robert O. Keohane & Joseph S. Nye in regards to their concepts of 'Complex Interdependence'; and Richard N. Cooper in regards to their concept of 'Economic Interdependence'. Other conceptualizations include the use of the concept of 'multiple channels' and 'general equilibrium'. This thesis' main theory and numerous concepts stems upon the study of international relations in which it tries to identify the relation of the Indonesia-Malaysia-Singapore Growth Triangle and their cooperative nature through Neoliberal understanding. The main Neoliberal theory and its respective concepts mentioned previously will be used in order to answer the research question of this paper – being "what are the effects of GER 2008 to IMS and which policies have they taken?" – In a theoretical and empirical manner of understanding.

1.5.1 – Mercantilism

Mercantilism will be one of the main paradigm on explaining the issues regarding the cooperation between Indonesia, Malaysia, Singapore, and many other actors after the 2008 stock market crash. Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state. Adam Smith coined the term "mercantile system" to describe the system of political economy that sought to enrich the country by restraining imports and encouraging exports. This system

dominated Western European economic thought and policies from the sixteenth to the late eighteenth centuries. The goal of these policies was, supposedly, to achieve a "favorable" balance of trade that would bring gold and silver into the country and also to maintain domestic employment.[19] Most of the mercantilist policies were the outgrowth of the relationship between the governments of the nation-states and their mercantile classes. The mercantile classes induced governments to enact policies that would protect their business interests against foreign competition. These policies took many forms.[20] Domestically, a state's government would provide capital to new industries, exempt new industries from guild rules and taxes, establish monopolies over local and colonial markets, and grant titles and pensions to successful producers.[21] In trade policy the government assisted local industry by imposing tariffs, quotas, and prohibitions on imports of goods that competed with local manufacturers. Governments also prohibited the export of tools and capital equipment and the emigration of skilled labor that would allow foreign countries, and even the colonies of the home country, to compete in the production of manufactured goods. At the same time, diplomats encouraged foreign manufacturers to move to the diplomats' own countries.

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[19] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Charleston, SC: Bibiobazaar, 2010), pg. 558-569.
[20] *Ibid.*
[21] *Ibid.*

1.5.2 – Complex Interdependence

In international political economics, states are universally tied together according to Neoliberal values thus dubbing the term ‘Neoliberal institutionalism’ as previously mentioned. To better understand how states are incoherently correlated to one-another, we must understand a concept which tries to introduce the understanding on how states are interconnected in the global economy by Robert Keohane & Joseph Nye namely put ‘Complex Interdependence’. The idea of complex interdependence originates from Robert Keohane & Joseph Nye’s book “Interdependence in World Politics (1997)”. According to Keohane, complex interdependence is comprised of three main ideas. These main ideas include:

The concept of multiple channels tries to connect societies, including: informal ties between governmental elites as well as formal foreign office arrangements; informal ties among nongovernmental elites (face-to-face and through telecommunications); and transnational organizations (such as multinational banks or corporations).[22] These channels can be summarized as interstate, trans-governmental, and transnational relations. Interstate relations are the normal channels assumed by realists. Trans-governmental applies when we relax the realist assumption that states act coherently as units; transnational applies when we relax the assumption that states are the only units.

The agenda of interstate relationships consists of multiple issues that are not arranged in a clear or consistent hierarchy. This absence of hierarchy among issues means, among other things, that military security does not consistently dominate the agenda.[23] Many issues arise from what used to be considered domestic policy,

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[22] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Longman, 2012), 20.
[23] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 20.

and the distinction between domestic and foreign issues becomes blurred. These issues are considered in several government departments (not just foreign offices), and at several levels. Inadequate policy coordination on these issues involves significant costs. Different issues generate different coalitions, both within governments and across them, and involve different degrees of conflict. Politics does not stop at the waters' edge.

Military force is not used by governments toward other governments within the region, or on the issues, when complex interdependence prevails. It may, however, be important in these governments' relations with governments outside that region, or on other issues.[24] Military force could, for instance, be irrelevant to resolving disagreements on economic issues among members of an alliance, yet at the same time be very important for that alliance's political and military relations with a rival bloc. For the former relationships this condition of complex interdependence would be met; for the latter, it would not.

1.4.2.1 – Economic Interdependence

Economic Interdependence, not to be confused with complex interdependence is partially different. In a concentrated period of time – specifically during the late 1960s and early 1970s – economists Richard Cooper, Charles Kindleberger, Raymond Vernon, and Albert Hirschman began definitively crossing the divide between international economics and international relations.[25] Following Cooper's language, economic "interdependence" between national economies was

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[24] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 21.
[25] Darrel E. Paul and Alba Amawi, *The Theoretical Evolution of International Political Economy: A Reader*, Third Edition ed. (Oxford University Press, 2013), 19.

growing markedly. Such economic interconnectedness was having not only economic effects but increasingly noticeable and important political effects as well. This pushed forward to the development of international political economy (IPE). The growing price sensitivity of national product markets to international trade, the rise of transnational corporations, and the return of international capital mobility continued to strive as furthermore challenging the cherished autonomy of states to pursue their own national economic strategies, a feature built into the very foundations of the "embedded liberal" compromised after World War II (WWII).[26]

From the side of international relations, no scholars were more influential in establishing IPE than Robert Keohane & Joseph Nye. In their notable work regarding the interdependence theory, Keohane and Nye argued that the rise of transnational relations and global economic interdependence gives rise to a new kind of politics in which they dub as "economic interdependence."[27] Because of this, the developing new power relations are established based on asymmetrical interdependencies. These interdependencies are refracted through international regimes, networks of rules, norms and decision-making procedures, some formalized in international organizations and some not.[28] This arguably means that most states can be considered more or less depending on their cooperative-worth to other states. The state-centric bias of international relations must give way in a world populated by powerful transnational corporations and international organizations. In such a world, military power is rendered effectively useless in an array of crucial political-economic arenas and the low politics of plenty is linked to

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[26] John Gerard Ruggie , "International regimes, transactions, and change: Embedded liberalism in the postwar economic order," *International Organization 36* (1982): 379–415 .
[27]Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, Fourth ed. (Boston: Longman, 2012), 85-109.
[28] *Ibid.*

the high politics of security in new and challenging ways. Over time IR scholars labeled this approach neoliberalism, or neoliberal institutionalism, due to its contrast with realism over non-state actors, the importance of non-military international interactions, and the role of international law and institutions in molding state behavior. Despite the label, it is of importance to note that, Keohane in particular did not fully reject the ideas and understanding of realism. States still remain the most important, if not the only, actors in his analysis, and power rather than plenty remains the key value pursued by actors. [29] Keohane does embrace a methodology of "rational choice analysis in the utilitarian social contract tradition," following an important strand of liberal philosophical thought that lies at the foundation of liberal microeconomic theory.

However, all this shows that, once again, the close relationship between liberal social theory and IR realism does not stray too far from one-another. Keohane's methodology is the very same one used by structural or "neo-" realists. Moreover, neorealist doyen Kenneth Waltz explicitly built his theory of international politics through an analogy with ideal competitive markets lifted from liberal microeconomics. [30] The animating force of the liberal tradition in IR has always been solving the problem of cooperation, and the waning of American dominance in the 1970s caused this problem to once again be keenly felt—at least among American liberals grown accustomed to the ability of the United States to underwrite cooperation among the capitalist democracies. Consistent with liberal traditions and values, open markets are taken as the primary setting for the realization of the benefits of cooperation. Since Keynes such markets are no longer

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[29] Darrel E. Paul and Alba Amawi, *The Theoretical Evolution of International Political Economy: A Reader*, Third Edition ed., 20-24.
[30] *Ibid.*

understood to be inherently self-regulating. Therefore, contemporary liberals appreciate much more the role of states in sustaining them and compensating for their failure. Liberals also emphasize the importance of state power, international institutions, and international law for maintaining an overall liberal international economic order. Within the American academy. At its center are, in the words of one of its most prominent advocates, “the assumptions of neoclassical economics and international trade theory.”[31] In particular, the interests of actors are derived from extant neoclassical theory, and it is here that economic models credited to Hecksher and Ohlin, Ricardo and Viner, and Stolper and Samuelson perform significant theoretical work. Both domestic and international institutions aggregate and express these interests in important and distinct ways. Throughout the 1980s and early 1990s, the theme of hegemonic power and stability dominated liberal IPE, generating perhaps the field’s premier (some claim it’s only) theoretical contribution to the social sciences.

1.5.3 – Multiple Channels

Multiple channels connect societies, including: informal ties between governmental elites as well as formal foreign office arrangements; informal ties among nongovernmental elites (face-to-face and through telecommunications); and transnational organizations (such as multinational banks or corporations). These channels can be summarized as interstate, trans-governmental, and transnational relations. Interstate relations are the normal channels assumed by realists. [32] Trans-

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[31] Darrel E. Paul and Alba Amawi, *The Theoretical Evolution of International Political Economy: A Reader.*

[32] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 93.

governmental applies when we relax the realist assumption that states act coherently as units; transnational applies when we relax the assumption that states are the only units. In this case of this study, when it comes to multiple channels, arguably, we don't simply talk about interstate relations but we also talk about nongovernmental entities that make up the international economy.

When we talk about the international cooperation and relation established worldwide, it is important to note that there are various factors such as politics, the global economy, and other peripheries that play an important role towards having and maintaining multiple channels for a state. A minor example this is cross-border travelling to establish economic ties. Nongovernmental elites frequently get together in the normal course of business, in organizations such as the Trilateral Commission, and in conferences sponsored by private foundations. [33] In addition, multinational firms and banks affect both domestic and interstate relations. The limits on private firms, or the closeness of ties between government and business, vary considerably from one society to another; but the participation of large and dynamic organizations, not controlled entirely by governments, has become a normal part of foreign as well as domestic relations. These actors are important not only because of their activities in pursuit of their own interests, but also because they act as transmission belts, making government policies in various countries more sensitive to one another.

[33] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 93.

As the scope of a governments' domestic & international activities has broadened, and as corporations, banks, and (to a lesser extent) trade unions have made decisions that transcend national boundaries, the domestic policies of different countries cause various effects – ultimately negative ones – on one another more and more.[34] This is where transnational communications take-part of a vital role in maintaining & establishing cross-border and economic ties for both states and non-state actors. Transnational communications reinforce these effects. Because of this, foreign economic policies touch more domestic economic activity in contrast to the past, blurring the lines between domestic and foreign policy whilst increasing the number of issues relevant to foreign policy. Parallel developments in issues of environmental regulation and control over technology reinforce this trend as well. Ultimately, maintaining a stable & healthy relationship through communication with one-another – or to some extent the multiple channels a state has – is the key to an achievable "successful" economic tie.

1.5.4 – General Equilibrium

In the forces of how the market works, it is important to note that there is a general balance when it comes to the economy. This general balance is what we know as the 'General Equilibrium'. The general equilibrium theory attempts to explain the behavior of supply, demand, & prices in a whole economy – with several

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[34] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 95.

or many interacting markets – by seeking to prove that the interaction of supply and demand will result in an overall general equilibrium. The general equilibrium theory contrasts to the theory of partial equilibrium, which only analyzes single markets. General equilibrium theory both studies economies using the model of equilibrium pricing and seeks to determine in which circumstances the assumptions of general equilibrium will hold.[35] Ultimately, the main utility of this theory is to establish & maintain the survivability of a state or non-state's economic-livelihood. This theory dates back to the 1870s, referencing in particular the work of the French economist Léon Walras in his pioneering 1874 work the "Elements of Pure Economics"[36].

In understanding the general idea of what general equilibrium is, it is often assumed that agents or factors that can be put into consideration are price takers, and under that assumption two common notions of equilibrium exists namely the Walrasian (Competitive Equilibrium), and its generalization: a price equilibrium with transfers. General equilibrium offer an understanding of the whole economy using a "bottom-up" approach, starting with individual markets and agents. General equilibrium macroeconomic models usually have a simplified structure that only incorporates a few markets, like a "goods market" and a "financial market". This form of structure focuses on a single industry or trade. In contrast, general equilibrium models in the microeconomic tradition typically involve a multitude of different goods markets.

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[35] Léon Walras, *Elements of Pure Economics* (Hoboken: Taylor and Francis, 2013).
[36] *Ibid.*

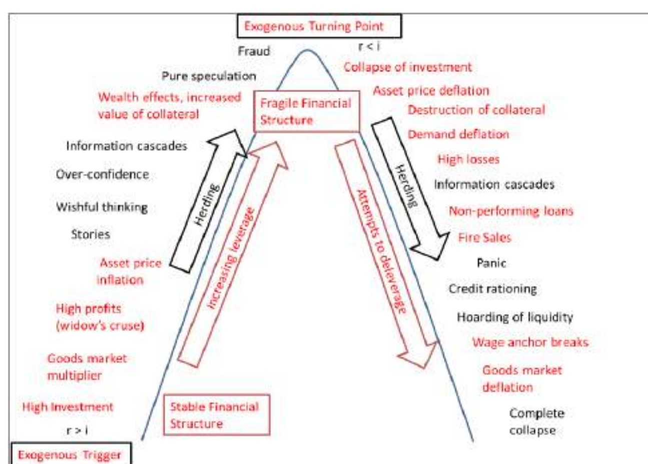
As aforementioned, partial equilibrium is a parallel or a contrast to what is understood as general equilibrium. In partial equilibrium analysis, the determination of the price of a good is simplified by just looking at the price of one good, and assuming that the prices of all other goods remain constant. The Marshallian theory of supply and demand is an example of partial equilibrium analysis. Partial equilibrium analysis is adequate when the first-order effects of a shift in the demand curve do not shift the supply curve.[37]

According to the Ten Principles of Economics[38], 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 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. This, in essence, is a mayoral part of what the General Equilibrium theory tries to explain.

[37] Léon Walras, *Elements of Pure Economics* (Hoboken: Taylor and Francis, 2013).
[38] N. Gregory Mankiw and Mark P. Taylor, *Economics* (Andover, U.K., Hampshire: Cengage Learning EMEA, 2020), 1-15.

1.5.5 – Financial Crisis Theory

Financial crises are not a new phenomenon. They are evident in the form of an economic crash, a major inflation or depreciation, a market bubble, a contagion, and so forth. The history of capitalism has been marked by a repetition of collapses of the financial system, situations in which the "markets" for loans disappear for extensive periods of time. [39] The 18th century saw some bubbles, but these might not be quite modern. But from 1819 on, there have a succession of failures of banks and other financial institutions. These have typically been unpredicted and did not correspond in time to any particular exogenous event (e.g., wars). One possibility is that the financiers were subject to cognitive biases.



Source: "Economic Theory and the Financial Crisis." Procedia - Social and Behavioral Sciences 77 (2013): 5–9.

Joseph Schumpeter (1961) developed a model with a boom-bust cycle which can also lead to a financial crisis. This model can be viewed from the image above. Starting from an equilibrium situation some entrepreneurs start with an

[39] Detzer, Daniel, and Hansjörg Herr. "Theories of Financial Crises as Cumulative Processes – an Overview." *The Demise of Finance-Dominated Capitalism*, n.d., 115–61. Accessed September 1, 2019. https://doi.org/10.4337/9781784715076.00009.

innovation (a new technology, a new product, a new organization, etc.). [40] A stock of inventions and innovation is always available within the market. It derives from the innovative entrepreneurs and businessmen which selects some of them and triggers a boom for economic development commonly known as a trend. This is phase is known as the healing phase where the increasing leverage from these innovations and inventions rapidly rise. This development will ultimately reach a climax point where it receives an increment of wealth effects. However when this increment ceases, it will reach a turning point – or depreciation – in the form of the beginning of a collapse. This collapse follows the deflation of demand, high loss, credit rationing, and so forth. This phase is known as the herding phase. Within this phase, state and non-state actors attempt to deleverage their losses or "cut-loss" in any way possible before ultimately reaching a complete collapse or complete loss.

A financial crisis in itself are divided into various types. These types differ from one another and are noted in contrast by the challenges that they face. These challenges includes factors such as cost inflation; cost deflation & demand inflation; and demand deflation[41]. These factors can be distinguished by:

A. A **combination of demand inflation and cost inflation** leads to a cumulative expansion. A boom phase which, according to Keynes, can be caused by many factors. An economic expansion leads to a demand inflation which leads to undistributed profits in the enterprise sector and typically stimulates further investment and a riotous living of profit receivers.[42] The expansion will lead to higher employment and in the end

[40] Arrow, Kenneth Joseph. "Economic Theory and the Financial Crisis." *Procedia - Social and Behavioral Sciences* 77 (2013): 5–9. https://doi.org/10.1016/j.sbspro.2013.03.055.
[41] *Ibid.*
[42] *Ibid.*

higher nominal wages. Both inflationary forces now enforce each other and lead to a cumulative expansion.

B. The **combination of demand deflation and cost deflation**. A reduction of demand decreases output and prices and increases unemployment. Higher unemployment can lead to nominal wage cuts and a further stimulation of the deflationary process.[43] As soon as the wage anchor breaks a cumulative deflationary wage price spiral together with a lack of demand and high losses of the enterprise sector develops. A systemic financial crisis is hardly avoidable then.

C. The **combination of cost inflation and demand deflation** characterizes a constellation when, due to a lack of demand, firms are not able to roll-over higher costs. Such a stagflation leads to a profit squeeze. A stagflation is typical at the end of an expansion when central banks start to fight inflation.[44] Of course, other explanations of a stagflation are possible, for example a collapse of investment as a result of a negative shock or price increase of natural resources in an overall stagnating economy.

D. Theoretically the combination of cost deflation and demand inflation is also possible.[45] Such a constellation fits, for example, a demand stimulating policy in a country suffering from deflationary wage decrease.

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[43] Arrow, Kenneth Joseph. “Economic Theory and the Financial Crisis.” *Procedia - Social and Behavioral Sciences* 77 (2013), 5-9.

[44] *Ibid.*

[45] *Ibid.*

1.4.5.1 – Financial Market Bubbles

A financial market bubble is unique. No two financial market bubbles follow a path that is exactly the same. Even if this is the case, all bubbles display a similarity of features that are identifiable when analyzed. Bubbles and their narratives have appeared in politics & opinions, fashion, art, and even science. Such is the case with the Great Economic Recession (GER) of 2008. Whether of a political, technological, or monetary nature, announcements and developments that are interpreted as being favorable typically provide the possibility for bubbles to grow.[46] However, this is not guaranteed. Additional factors are required for a bubble to exist. News itself is not one of them as it is often only a coincidental trigger to create a panic, and moreover a chaos in the market. What happens in the market depends instead on how traders *react* to specific news events. In this case, the 2008 GER's news was one of the very few detrimental factors that lead to many economics loss and even bankruptcy.

As stated before, there are several unpredictable factors that may create an economic bubble. Some even appear due to the undermining of a certain factor. Ultimately however, all financial bubbles leave an inimical or detrimental effect upon a burst. Financial bubbles after bursting leave behind an aftermath or residue of some financing, production, and service capacities that may or may no longer ever be needed. This residue lingers in a market for quite a period of time until it slowly fades away assimilating with the economy due to the healing process the economy tries to take place. Contraction and consolidation then follow naturally,

[46] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects* (Cham, Switzerland: Springer Nature, 2018), 7.

as formerly misallocated capital flows are redirected.[47] Those long-lived bubbles that do form will often, however, lead to macroscale, productivity-enhancing innovations, with some of the historically most important ones being the introduction of canals, railways, automobiles, radios, airplanes, computers, and the Internet.[48] For the case of the Great Economic Recession of 2008, the industry that comes to mind is that of the housing industry and subprime mortgages. Failure to look back upon past bubbles end up leading to the same problem to repeat all over again. For this, I reference the famous quote by George Santayana: “Those who cannot remember the past are doomed to repeat it”[49].

In regards to market bubbles, Schumpeter also wrote extensively on the role in the business cycle played by inventions & innovation and described the connections between speculation, credit, and central banking. As for stock market speculation, he highlights that it is:

- *“availability rather than cost of credit that we should look to.”*[50]
- *“…speculation in stocks does not, or not to a significant extent, ‘absorb credit’…the stock exchange is not a sponge but a channel…Since stock speculation does not absorb funds, it must be extremely difficult to stop or to restrain by any of the ordinary tools of central banking.”*[51]

However, once a bubble has burst, contingency plans are sought and legislative and political inquiries and policy initiatives are typically begun with a

[47] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects*, 7.
[48] *Ibid.*
[49] George Santayana, “The Letters of George Santayana, Book Five, 1933–1936,” 2003, https://doi.org/10.7551/mitpress/4205.001.0001.
[50] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects*, 7.
[51] *Ibid.*

widespread sense of outrage and a desire that perpetrators—including also those imagined or fabricated—be punished.[52] This follows that the larger the bubble becomes, the more intense are the consequences & necessity for it to be dealt with. Ultimately, the consequences of a bubble for markets is to reward winners and punish losers with a savage intensity as quoted by Schumpeter.

Generally, a bubble is considered to have developed when assets trade at prices that are far in excess of an estimate of the fundamental value of the asset as determined from discounting of future cash flows using current interest rates and typical long-run risk premiums associated with the asset class.[53] When prices are far beyond estimations, a bubble manifests itself cause the market to go tumbling down just like the GER 2008. In brief, a bubble may be most simply described as a *large and long-lasting* upward deviation of an asset's price from its "fundamental" value.[54] Because of the rapid growth of prices and failure to estimate or predict their prices, some economists speculates that not only do we not know that we are in a bubble while it is happening but also that we may not even know if there was a bubble long after it has ended. The following from Bernanke and Gertler illustrates:

…ultimately asset prices are endogenous variables, (but) there are periods when asset values seem all but disconnected from the current state of the economy…Advocates of bubbles would probably be forced to admit that it is

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[52] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects*, 17-24.
[53] *Ibid.*
[54] *Ibid.*

difficult or impossible to identify any particular episode conclusively as a bubble, even after the fact.[55]

Generally it is hard for financial economist to give a general definition of a market bubble. Flood and Hodrick make this point in writing that a bubble is "what is left over after market fundamentals have been removed from the price. Since neither bubbles nor market fundamentals are directly observable," they write, "one can never be sure that market fundamentals have been specified appropriately."[56] To put it in short terms, bubbles are hard to identify because they are model specific and generally defined from a specific framework, especially because one bubble differs from another. Because of this definitions vary from one person to another and evidence for financial market bubbles cannot be pinpointed to one single variable but rather it is based on its effects and evidence that exists based on market fundamentals that are unobserved. Expected returns or variables in this case are not necessarily or dependably reliable just by basing it on past market bubbles. However the information learned from bubbles that existed in the past serve for a better purpose in order to avoid one in the future. Because of the definitions that vary, Voth quotes that:

"There is no commonly accepted definition of a bubble…The New Palgrave describes them as periods of price increases, followed by a sudden and sharp

[55] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects*, 17-24.
[56] *Ibid.*

reversal. There is also no widely accepted test that would confirm or refute the existence of a bubble in a particular case."[57]

1.4.5.2 – Contagion Theory

When we talk about financial crises, countries that have established economic relations may face the aftermath of the countries they have cooperated with. Ultimately a financial crisis gives of a domino effect. If a single country faces this threat, so will its' partners. All countries are affected, at least to some degree, when a financial crisis hits somewhere across the globe.[58] This phenomenon has been called "financial contagion." A simple interpretation of this concept might be that financial shocks are transmitted across markets and countries around the world; why, when, and how the shocks are relayed is still an open question in the academic literature and for practitioners.

The phenomenon of a 'contagion' can be defined into two main definitions.[59] In the first are the definitions that relate to contagion as a change in the propagation mechanism around a financial crisis. This definition focuses on the main increase in the strength of how shocks are transmitted across countries is evidence of contagion. The second definition focuses on the type of propagation mechanism driving the transmission. This definition focuses with how much of the shock is propagated through trade, how much by investor behavior, and so on. In

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[57] Harold L. Vogel, *Financial Market Bubbles and Crashes, Second Edition: Features, Causes, and Effects* (Cham, Switzerland: Springer Nature, 2018), pp 17-24.

[58] "International Financial Contagion: Theory and Evidence in Evolution," 2002, 1-3, https://doi.org/10.2470/rf.v2002.n2.3918.

[59] "International Financial Contagion: Theory and Evidence in Evolution," 2002, 5-7.

general, the proportion of shock that is not transmitted through the "standard" channels (e.g., trade links) is considered contagion.[60]

The 'contagion' caused by the great economic recession of 2008 due to the burst of the housing bubble was not only faced by the United States, but it was faced worldwide. It has caused a giant economic bubble to burst leaving a global scar which was felt through the following few years.

1.4.5.3 – The" Hot Hand Fallacy"

The 'hot hand' is the idea, notion, or theory that – because one has had a string of multiple successes – an individual or entity is more likely to have continued success. This belief or notion became mayoral part to blame for the Great Economic Recession that was caused because of the housing & mortgage industry. For example simpler ideology of how the hot hand fallacy plays, one can say that it is similar to how gambling operates. Per se, if one flipped a (fair) coin and guessed correctly that it would land on heads three times in a row, it might be said that they have a "hot hand." [61] Under such circumstances, a person may believe that their odds of guessing which side the coin will land on next are greater than the 50% they actually are. This creates a sense of undermining the worst possible odds. When there is a series of failures, the same concept works as the 'cold hand'.

In this analysis, the "Hot Hand" fallacy could be applied to a wider scale of study in the sense of a socio-political sense. At the basic understanding, this theory has the ability to analyze why the majority of the global stock market was steadfast in not "letting go"

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[60] International Financial Contagion: Theory and Evidence in Evolution," 2002, 5-7.
[61] R. M.. Adams et al., "The Hot Hand Fallacy and the Gambler's Fallacy: Two Faces of Subjective Randomness?," January 1, 1995, https://link.springer.com/article/10.3758/BF03206327.

before the GER. At the time before the collapse or burst of the 2008 bubble, people were simply undermining that the possibility of a financial bubble existing seems surreal and it had an almost impossible chance to manifest. However, evidently this wasn't the case. Instead it did burst due to the market's undermining of this possibility. This is evident in the "Hearding and Healing" phases shown in the image within the explanation of the Financial Crisis Theory in this paper.

1.6 – Methodology of Research and Data Collection Technique

1.6.1 – Methodology of Research

In this research paper, there are several methods of acquiring data. According to John W. Creswell there are four types of data that can be used as a basis of a research paper namely field methods, such as observations and interviews, through a descriptive comparison established through research of other sources and henceforth. In this research, a form of comparative-descriptive research will be used. This method uses images and text as the main source of information in writing. The data found from the research will then be used as the main basis in comparing the three main subjects namely Indonesia, Malaysia, and Singapore. Thus, this method was primarily chosen due to the decision making process in engaging the global financial crisis carried out by the decision makers namely Indonesia, Malaysia, and Singapore is deemed complex and requires observation in regards to their respective actions.

1.6.2 – Data Collection Technique

In addition to requiring observations of actions by decision makers in this growth triangle, the author will also use literature studies to carry out this research,

and the literatures that will be used as references must be credible in origin. The research will involve various literature sources that will be used as references such as journals and books that are considered relevant & credible and include data relating to the dynamics of the overspill from the 2008 financial crisis in order to strengthen the amount of empirical data that underlies within the analysis that will be made by the author.

1.7 – Systematics of Research

1.7.1 – Chapter I: Introduction

In this chapter, the author will try to elaborate the foundation of the research namely the cooperation between IMS-GT in trying to face the overspill of the 2008 financial crisis. In this part of the research, the author tries to describe and elaborate the main issues faced by the states previously mentioned namely Indonesia, Malaysia, & Singapore and other actors that may influence the situation. Literature deriving from books and journals will be the main source of reference for empirical data to help strengthen the author's main argument.

1.7.2 – Chapter II: The Great Economic Recession of 2008 Caused by the Burst of the Housing Bubble

In this section, the author will present the accumulation of data gathered from various sources that will support the research & analysis that will be carried out in the next section. The data within this section will try to describe in various manners the conditions of each of the state's stock market and how the spillover

from the 2008 financial crisis has an effect towards it. Besides the conditions and effects, an elaborate description of how each state's experience in their stock market value will also be mentioned. Another set of data that will be used in this section is the progression of the stock market correction that occurred because of the phenomena and how each respective state undergoes this correction. Soon after, an analysis will be done in the next section, hence chapter III with the data accumulated in chapter II.

1.7.3 – Chapter III: Different Characteristics of Indonesia, Malaysia, and Singapore's Financial Market

For this chapter, the author of this research paper will try to elaborate the factors on why and how Indonesia, Malaysia, & Singapore are able to survive the global financial crisis of 2008 through several actions such as a market correction. This chapter of course will be done in-conjunction with Chapter II and the data accumulated from it. This is due to the reasoning for strengthening the author's main argumentation.

1.7.4 – Chapter IV: Effects and Responses of Indonesia, Malaysia, and Singapore to the Financial Crisis

In this chapter, the author of this paper will attempt to clarify the main characteristics of Indonesia, Malaysia, and Singapore's stock market respectively and attempt to explain the correlations they have with one-another following the effects and recovery of the regional crisis or contagion experienced in 2008. This

chapter will try to elaborate the cooperation, or in this case, the cause & effect of one stock market to another. Following the aforementioned, the author will continue by elaborating the evidence of how global cooperation operates by explaining 'Global Interdependence' in general and 'Southeast Asia's Multilateral Cooperation'.

1.7.5 – Chapter V: Conclusion

With the basis of the accumulated data, main theory & concepts, and the analysis that has been done in the previous section, the author will present the results of the analysis and try to argue the case of how the growth triangle consisting of Indonesia, Malaysia, and Singapore manages around the 2008 financial crisis as descriptive as possible; and the conclusions that can be drawn from the event that took place.

1.8 – Timeframe of Research

Seminar

Table 1.1 – Research Seminar Timeline

Activities and Agenda	January				February				March				April				May			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Chapter 1																				

Defense and Revision of Chapter 1																				

Thesis

Table 2.1 – Research of Thesis Timeline

Agenda	August				September				October				November				December				January			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Chapter 2																								
Chapter 3																								
Chapter 4																								
Chapter 5																								
Proof Reading																								

Editing																								
Defense																								
Revisions																								