

A Tale of Two Crises

Asian Financial Crisis & the responses to the Pandemic

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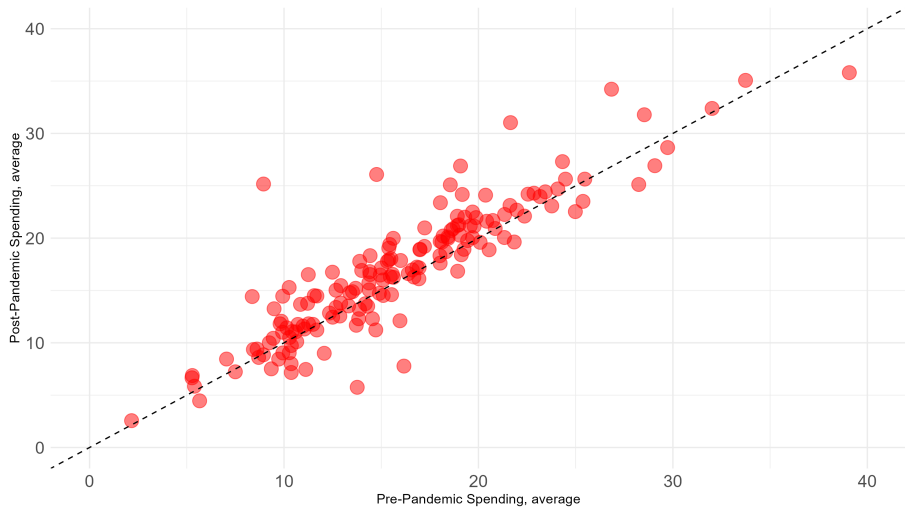
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April 2, 2024

Motivation: differences in the pandemic spending



Questions

- Do governments learn from past crises?
- Do political institutions play a role?
- Empirical query: Any group of countries that experienced two crises within a reasonable time frame?
- 🗺️ Asian Financial Crisis (1997-8)
 - IMF loans about the crisis itself were about 10% of GDP recovery package
- 🌐 Pandemic-induced economic crisis (2020-2022)
 - IMF stimulus packages to keep the economy afloat
- Asia as an unlikely place for **fiscal learning** to occur
 - they are in general under-spenders
 - they cut their spending particularly while in IMF programs
 - they look as though they are inherently fiscally prudent

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- Empirical query: Any group of countries that experienced two crises within a reasonable time frame?
- 🗺️ Asian Financial Crisis (1997-8)
 - How did the crisis itself make Asian countries more resilient?
- 📰 Pandemic-induced economic crisis (2020-2022)
 - How did stimulus packages to keep the economy afloat?
- Asia as an unlikely place for **fiscal learning** to occur
 - All countries in general under-spenders
 - They cut their spending particularly while in fiscal programs
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- Do governments learn from past crises?
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- Empirical query: Any group of countries that experienced two crises within a reasonable time frame?
- 🗺️ Asian Financial Crisis (1997-8)
 - Less about the crisis itself, more about post-crisis recovery process
- 🌐 Pandemic-induced economic crisis (2020-2022)
 - How do countries manage to keep the economy afloat?
- Asia as an unlikely place for **fiscal learning** to occur
 - Asian governments under scrutiny
 - However, their spending particularly while in crisis programs
 - They look as though they are inherently fiscally prudent

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 - ▶ Asia as an unlikely place for political learning to occur
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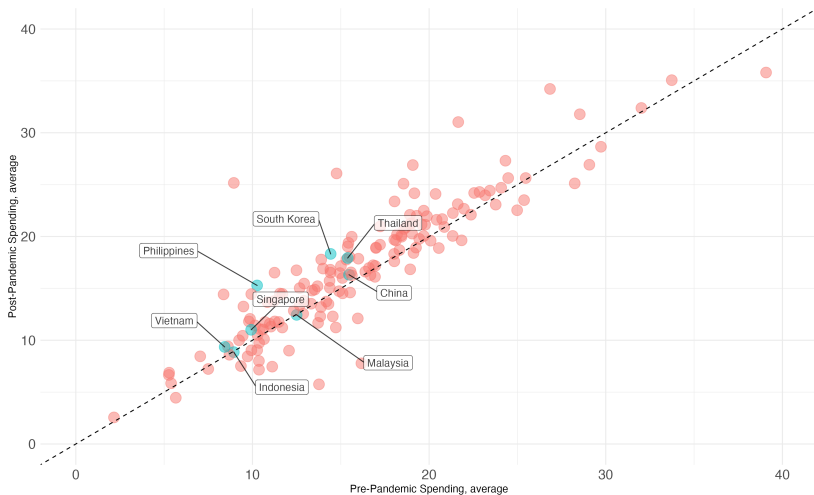
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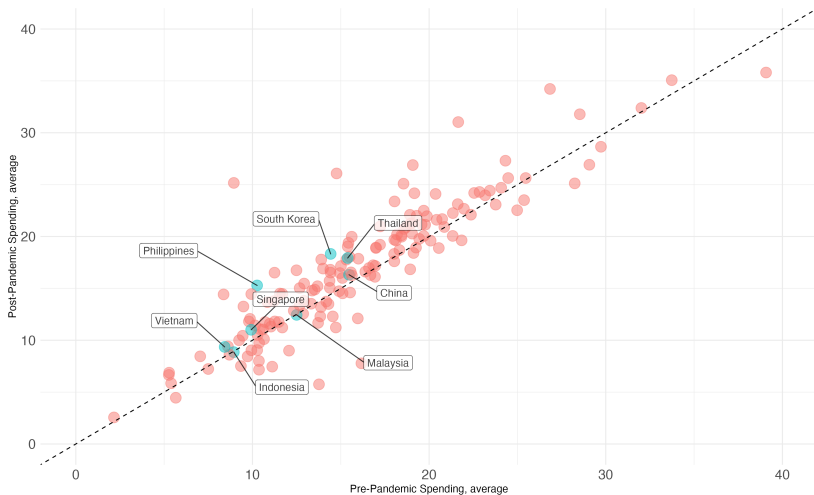
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Motivation: differences in the pandemic spending (Asia)



◆ Let us come back to this figure later.

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Is Asia actually different?: Global Comparison

Did Asian states spend less? (and *even less* under IMF programs)

	(1)	(2)	(3)	(4)
Polyarchy	3.576*	3.596*	3.600*	3.566*
	(2.54)	(2.57)	(2.57)	(2.55)
IMF SBA past 5 yrs	-0.217	-0.112	0.132	0.222
	(-0.62)	(-0.30)	(0.45)	(0.71)
AFC states	-1.718*	-1.419 ⁺	-1.719*	-1.728*
	(-2.21)	(-1.81)	(-2.24)	(-2.25)
IMF × AFC		-1.467*		-1.324*
		(-2.79)		(-2.46)
Observations	6061	6061	6037	6037
R ²	0.707	0.707	0.708	0.708

* p<0.05, + 0.1. Country+Year FEs. SE clustered over countries.
t-stats in the parentheses.

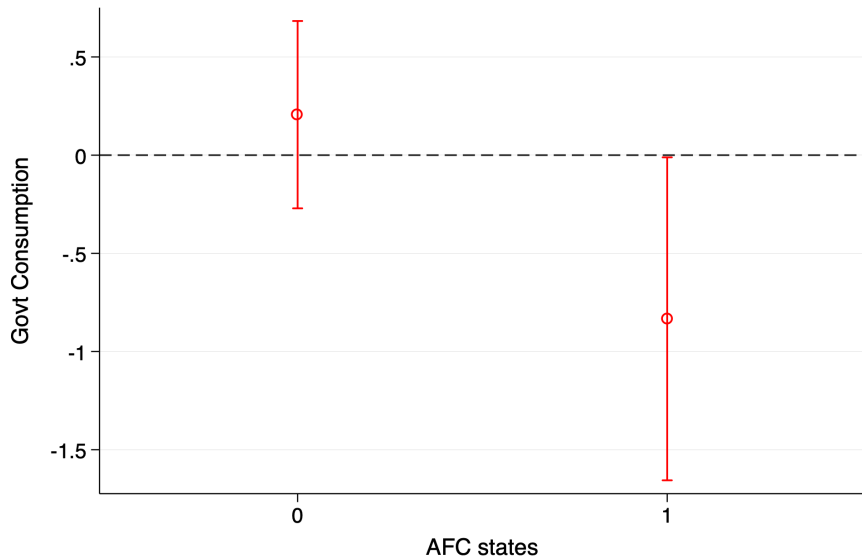
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Marginal Effect



Argument

- We try to explain why some AFC-affected countries reacted to the pandemic with **more expansionary** spending policies than others.
- The **recovery** experience from AFC affects the economic responses to the pandemic.
 - ▶ More spending cut \rightarrow more expansionary reaction.
- The political circumstances play a (**conditioning**) role
 - ▶ The historical context of the crisis and recovery from AFC resulting in political consequences \rightarrow more expansionary reaction
- In a nutshell,
AFC + political consequences \rightarrow expansionary reaction

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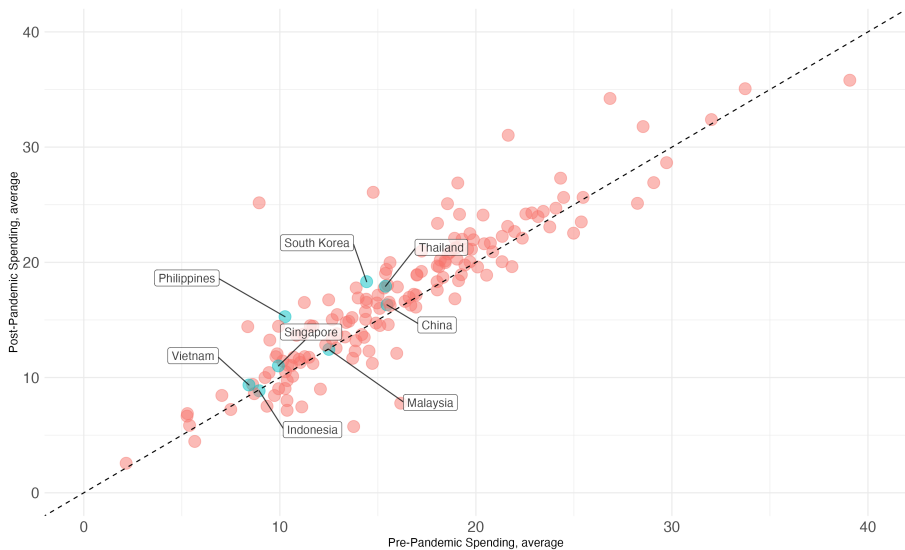
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Differences in the pandemic spending (Asia)



Qualitative Case Study of AFC Countries

	AFC damage	political change	competitiveness	post-crisis spending	pandemic spending
S. Korea	heavy	yes	high	↑	↑
Thailand	heavy	yes	high	↑	↑
Philippines	heavy	yes	high	↑	↑
Indonesia	heavy	yes	medium	-	-
Malaysia	heavy	no	low	-	-
Vietnam	light	no	low	↗	-
China	light	no	low	-	-
Singapore	light	no	low	-	-

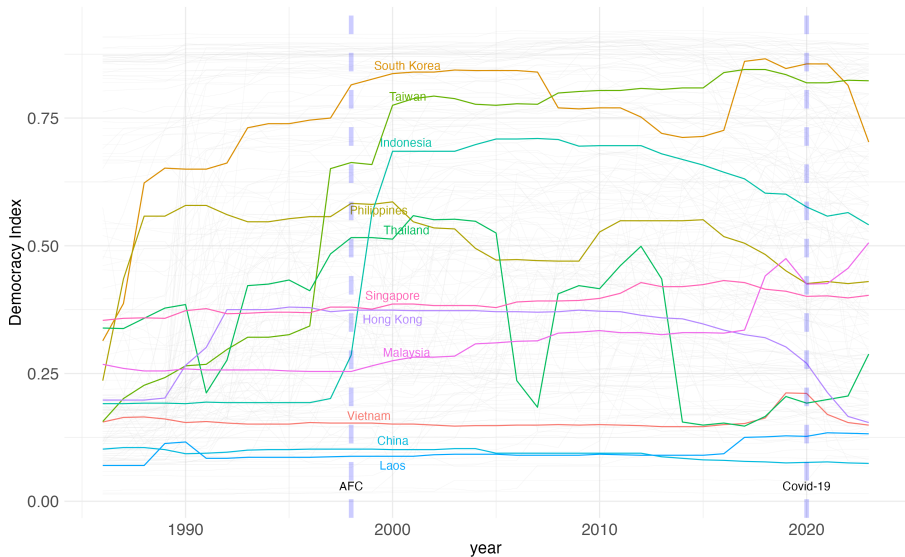
6a Let's see how this holds up with some descriptive numbers.

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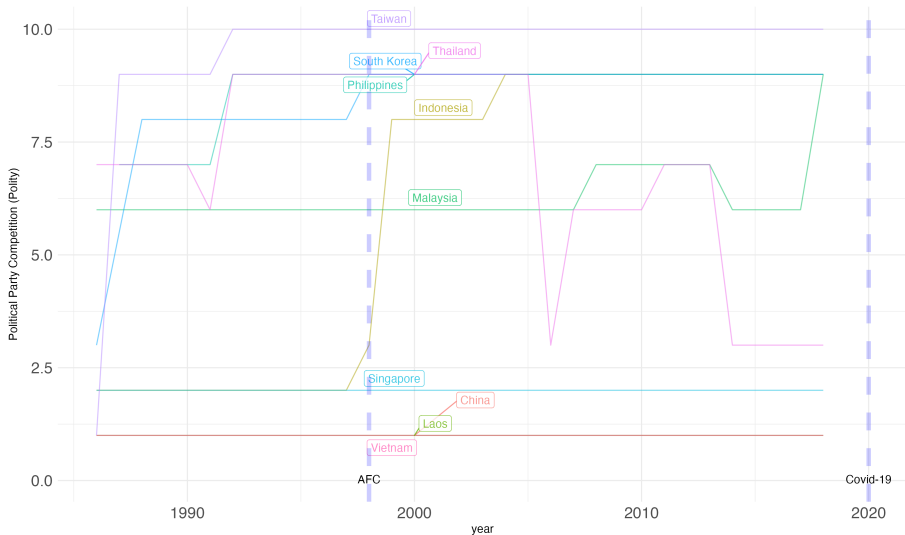
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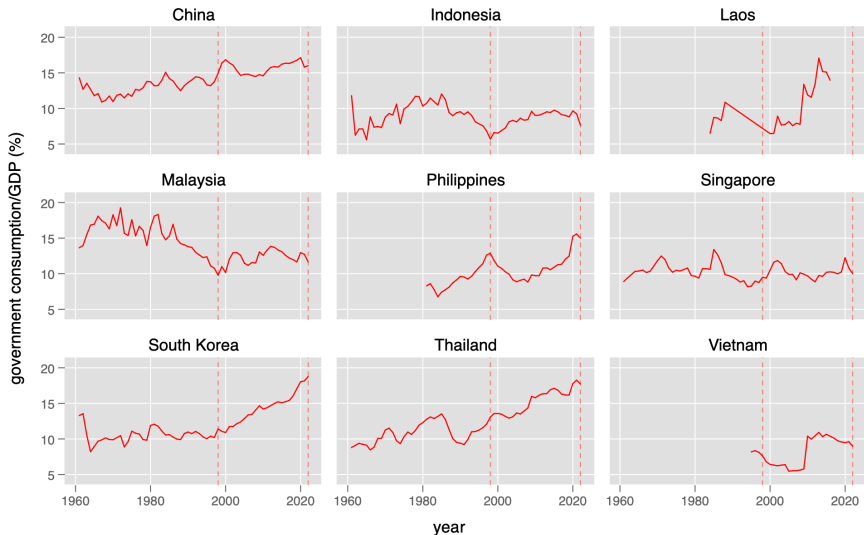
Democracy Trajectories of AFC states (Vdem)



Political Competition in AFC states (Polity)



Varying Government Spending Levels



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Seems like it holds up quite fine.