

Tom Yam Kung Crisis

1997 Asian financial crisis or commonly referred to in Thailand as “Tom Yam Kung Crisis” was a period of a financial crisis that affected many Asian countries beginning in July 1997. This crisis raises fears of global economic collapse due to the financial epidemic.

The crisis began in Thailand when the value of the baht decreases significantly due to the decision of the Thai government to float the Thai baht and cut the peg from US dollar currency after all efforts to support the baht in the face of severe financial overextension, especially the real estate drivers. At that time, Thailand had a public debt burden that left the country in a previous bankruptcy. The collapse of the currency and when the crisis spreads outside the country the currency of most countries in Southeast Asia and Japan also collapsed. The effects of the crisis led the stock market and other asset prices plummeted and also raised private debt.

The main reasons are the inability to escape the Impossible Trinity trap or the inability to have free capital flows, independent monetary policy, and a constant currency exchange rate. Simultaneously, at the same time, George Soros and the various hedge funds take advantage of this in the attack on Thai baht currency because they know that the national bank of Thailand has limited international currency reserves until we have to liberalize the exchange rate in the end. There is also a bubble of real estate speculation among institutions that borrow money from the outside at low interest leading many financial institutions have to close in the end.

In August 1997, Thailand entered the IMF's economic recovery program, seeking a loan from the IMF for US \$ 17.2 billion. The Thai government is required to comply with the IMF's conditions which appear in the Letter of Intent. Thailand must be liberalized in all respects, both free in trade and investment, liberalization of occupation of foreigners in order to provide opportunities for foreign capital to take advantage of Thailand. From strictly complying from the Thai government to the IMF's obligations, the obligations that the IMF pushes in the letter of intent

become a constraint on the implementation of economic policies and creates enormous social costs.

Moreover, the Thai government has borrowed money to solve the economic downturn in order to support the banking private financial institutions through the Fund for Banks and Financial Institutions. This causes the government debt to increase which shows that solving the government's economic problems in the post-crisis period is equivalent to converting private debt into government debt (public debt). The higher the national debt burden is inevitably contributing to the long-term economic development because the private sector and the government have to spend a certain amount of money on foreign debt, so the remaining resources are less than they should be.

From this event, many economists have noted that if Thailand did not set a fixed exchange rate at that time and allow the baht to float gradually, financial institutions would be more careful in borrowing or even controlling domestic lending to not release easily also reduce the bubble from various real estate projects. This may bring the Thai economy decline due to the trade deficit, but it will not turn into a big debt that was too late to solve as we met on that day.

However, after the Tom Yam Kung crisis occurred, this makes Thailand more cautious in its monetary policy and strictly control of domestic lending. The debt problems and various bubble problems have been managed better compared to the previous era, while the IMF debt repaid completely. But, the only remaining debt of FIDF, which has been 21 years until today, still has outstanding debt of 880,000 million baht.

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