

The 1997 Asian Financial Crisis (Tom Yum Kung Crisis)

Explain the cause(s) or the story behind the recession.

The Asian Financial Crisis is a crisis caused by the collapse of the currency exchange rate and hot money bubble. During the 1980s and early 1990s, Thailand, Singapore, Malaysia, Indonesia, and South Korea, their economic growth of an 8% to 12% increase in their GDP. It was known as the "Asian economic miracle." However, there is a risk in this growth. This growth was boosted by export and foreign investment. Thus, high-interest rates and fixed currency exchange rates attract hot money. In the mid-1990s, after the recovery U.S. from the economic crisis, the Federal Reserve increased the interest rate against inflation. It attracted hot money flow into the U.S. market, leading to an appreciation of the U.S. dollar. This situation made an effect on export growth. Both export and foreign investment began to collapse. The foreign investors began to panic and withdraw. A large outflow of capital caused by depreciation pressure in the currencies of Asian countries. First of all, the Thai government loses foreign currency to support the exchange rate, forcing the baht to float. The baht value collapsed immediately after that.

What happened to GDP (or growth rate), unemployment, and inflation of affected counties?

From 1997 to 1998, the nominal GDP per capita dropped by 21.2% in Thailand. It becomes a deflation in Thailand and many of Thailand's biggest corporations went bankrupt. The unemployment rate increased by 23% to 1.3 million people.