

The 1997 Asian Financial Crisis (Tom Yum Kung Crisis)

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

It started with the Japanese yen, which is a manufacturer of important goods. Therefore, the production base was moved to Thailand due to the cheaper costs, causing Thai economic growth rapidly. Later, the government has a policy of financial liberalization. To make access to funds more easily, by borrowing from foreign countries to lend in the country. It is popular because it has a cheaper interest rate and Thailand has a fixed rate of 25 baht per \$1. During that time, borrowing was easy apart from investing in business, but also borrowing money for speculation by buying stocks, land, real estate for sold at higher price until the price is higher than the actual value or call a bubble. Besides that, people have more incomes and fixed rate of money, so a lot of luxury goods imported from abroad and during that time, China's currency depreciation causing the export of products is cheaper, therefore customers from Thailand go to import from China. Widespread balance of Thai accounts, which compare export revenues with import expenditures more deficits. When Thailand is able to export less, creditors are not confident, so the credit ask for pay back. Foreign investors began to withdraw their capital. Demand for the dollar has resulted in the baht weakening. But at the same time, speculators began to see an opportunity to profit from the currency by bringing the baht raised to the dollar. By buying a dollar just 25 baht, according to the national bank but they are sold in foreign markets, which is really worth 30 baht per \$1. Get profit from difference change rate, the real value of baht decrease, but the nation still maintain its money, so it take out more baht until the dollar is almost exhausted from the reserve. Finally, we have to declare to float the currency according to the actual value of 50 baht per \$1. When baht depreciates, business that own foreign currency must spend more Thai baht to pay debt. Many businesses had to shutdown. Property that have very high prices had a bubble they cannot sold.

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

The proportion between foreign debt and GDP is so high, in ASEAN countries rose from 100% to 190% during the worst of the crisis. IMF came to stabilize the currency of Indonesia, Thailand and South Korea by investing US \$40 billion, because those 3 countries were the most affected. There was the Great Depression in Argentina, the direct financial crisis in Russia of 1998 and indirect dot-com bubble. Unemployment rate in Thailand is 14 million people, accounting for the unemployment rate as high as 4.4% of the total labor force.