6204641341 Pimchanok Sangngern

Zombie Firms

The term “Zombie company" was first used in 1990 after the collapse of the Japanese asset price bubble, also known as the Lost Decade. The Japanese banks decided to support failing businesses rather than let them go bankrupt. The zombie firms or living-dead companies are referred to companies that are not capable of paying off their own debts. In other words, they are neither alive nor dead because they earn enough money to continue the operation but not their debts. Usually, Zombie companies remain in a competitive market with tons of debts that they will not be able to cover. The share of zombie firms tends to increase over time due to the higher shift in the economic downturn which is completely irreversible in later recoveries. There is also a zombie start-up, the company that has a lot of funding but does not succeed after the initial investment uses up.

The causes of zombie firms can be defined in many aspects. Firstly, a time of extremely low-interest rates encourages more debt. For example, in 2009, the interest rate was close to 0% which stimulated firms to take on more debts since it is affordable, although it might be unsustainable if the interest rises. Secondly, when a firm is left behind because of changes in customer preferences, Demand is decreasing with unsold stock and capital investment. For instance, a record company invests in new CD players, but suddenly consumers change their preference to electronic download. Subsequently, the company will be left with bad debt. Lastly, deflation occurs when a company has a high level of debt. A period of deflation can raise the real value of debt repayment because the business needs to reduce their products’ prices to gain more sales due to deflation, meanwhile, the debt keeps rising until paying off their debt becomes more and more difficult.

As a consequence, zombie firms have a significant impact on the economy. The zombie firms are less productive and may disguise the growth of more productive companies by locking up resources, or congestion effects, that should be used for higher performance companies. Without cash to flow in the zombie companies, they cannot grow, then become uncompetitive survivors which lowering productivity and weakening the global economy.

While these companies can have a negative impact on the economy, some play an essential part in the economy. To illustrate, if a company with a large number of employees goes bankrupt, the massive unemployment rate can cause a huge social impact.

Each country has different ways of coping with zombie firms. In Thailand, the former governor of BOT stated that the COVID-19 crisis affects the economy, business, and individuals differently. Therefore, the government should reduce the general help for everyone, instead, they should concentrate on specific business groups or people who need special assistance since workers and entrepreneurs have different recovery abilities. In order for this to work out, the government has to support the market mechanism to work effectively by itself. Otherwise, if the government continues helping zombie firms, these companies will cause surplus production to cut market prices, which makes it more difficult for potential businesses to survive. Moreover, the market mechanism will be distorted because the zombie firms cannot survive without the government's hands.

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