The 1997 Asian Financial Crisis (Tom Yum Kung Crisis)

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

The Asian financial crisis began with a series of asset bubbles. Growth in the region's export economies led to high levels of foreign direct investment, which in turn led to soaring real estate values, bolder corporate spending, and even large public infrastructure projects. Heavy borrowing from banks provided most of funding.

Ready investors and easy lending often lead to reduced investment quality, and excess capacity soon began to show in these economics. The U.S. Federal Reserve also began to raise its interest rates around this time to counteract inflation, which led to less attractive exports and less foreign investment.

The tipping point was the realization by Thailand's investors that the rate of appreciation in that country's property market values had stalled, and its price levels were unsustainable. After that, currency traders began attacking the Thai baht's peg to the U.S. dollar. This proved successful and the currency was eventually floated and devalued. Following this devaluation, other Asian currencies including the Malaysian ringgit, Indonesian rupiah, and Singapore dollar all move sharply lower. These devaluations led to high inflation and a host of problems that spread as wide as South Korea and Japan.

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

The IMF required the countries to adhere to strict conditions, including higher taxes, reduced public spending, privatization of state-owned businesses, and higher interest rates designed to cool the overheated economies. Some other restrictions required countries to close illiquid financial institutions without concern for jobs lost. By 1999, many of the countries the crisis affected showed signs of recovery and resumed gross domestic product (GDP) growth.