Economic crisis in east asian country

Countries

A large economic downturn in East Asia threatens to end its nearly 30 year run of high growth rates. The crisis has caused Asian currencies to fall 50-60%, stock markets to decline 40%, banks to close, and property values to drop. The crisis was brought on by currency devaluations, bad banking practices, high foreign debt, loose government regulation, and corruption. Due to East Asia" s large impact on the world economy, the panic in Thailand, Indonesia, Korea, and other Asian countries has prompted other countries to worry about the affect on their own economies and offer aid to the financially troubled nations (Sanger 1).

The East Asian crisis has affected almost all of the Asian ations, but the three hardest hit countries are Thailand, Indonesia, and South Korea. The panic began in Thailand in May of 1997 when speculators, worried about Thailand" s slowing economy, excessive debt, and political instability devalued the baht as they fled for market-driven currencies like the American dollar. Indonesia" s economy soon fell soon after when the rupiah hit a record low against the U. S. dollar. Indonesia is plagued by more than $70 billion worth of bad debts and a corrupt and inefficient government.

Thailand and Indonesia also suffer from being overbuilt during real estate booms that Reven2 were the result of huge influxes of cash by optimistic foreign investors. South Korea faltered under the weight of its huge foreign debt, decreasing exports, and weakening currency (Lochhead 4-5). Other major countries touched by the crisis are Japan, China, Malaysia, and the Philippines. Japan" s economy is burdened by $300 billion in bad bank loans and a recession. Chinese banks may carry bad banks loans of up to $1 trillion.

The banks lend 66% of China" s investment capital to state-run industries that only produce 12% of China" s industrial output (Manning 2). Malaysia and the Philippines are both faced with devalued currencies and lowered stock markets The implications of the Asian financial crisis are many. A declining Asian economy will reduce demand for U. S. and other countries" exports. The devalued currencies of East Asia will make Asian imports seen cheap and will lead to increased American imports, thus increasing our trade deficit (Lochhead 2).

A worldwide banking mergency could result if the embattled Asian economies failed to pay back their loans to the U. S. and other countries (Duffy 2). If the Asian economies fall further, in a desire to raise cash, they might sell the hundreds of billion dollars of U. S. treasuries they now own, leading to higher interest rates and an American recession (Lacayo 2). An article in the Economist reported that the Asian economic turmoil and the layoffs that may result, could instigate increased discontent and possibly give rise to violent strikes, riots, and greater political instability (1-2).

Reven 3 Since the financial tumult causes instability in the world market, several solutions have been proposed designed to restore thehealthof the Asian economy. The International Monetary Fund is offering $60 billion in aid packages to Thailand, Indonesia, and South Korea (Lacayo 1). The aid will be used for converting short-term debt to long-term debt and to keep currencies from falling lower in the world market (Passell 2). Lower currency values make repaying loans to other nations more difficult (Sanger 1).

The aid packages are tied to measures that will ensure that the recipient countries reform their economies. Some of the measures the nations must follow are increasing taxes to decrease budget deficits, ending corruption, increasing banking regulation, improving accounting information so investors can make better decisions, closing insolvent banks, selling off inefficient state enterprises, and increasing interest rates to slow growth and encourage stability (Lacayo 3). Hopefully these market reforms will allow East Asia to improve its economic outlook.

Since most of the Asian nations have balance budgets, low inflation, cheap labor, pro-business governments, and high savings rates, the long-term outlook for these countries is very good (Marshall 1). The financial crisis, instead of destroying the Asian tigers, will merely serve as a much needed lesson in debt management, orderly growth, competent accounting practices, and efficient government. Considering the size of Asias contribution to the world economy, a rapid recovery will be greatly anticipated.