Asian currency crisis

The Asian Financial Crisis The Asian Financial Crisis begun with the collapsed of the Thai baht when the Thai government decided to float its currency (baht) against the dollar, pegging its value away from the US dollar after supporting its artificial expansion which was largely real estate driven. This was a period beginning in July of 1997 that caused international fear of recession due to the financial contagion that started in much of Asia. The Asian financial systems were subject to two additional risk fators: maturity mismatches due to excessive liabilities that were predominantly short-term and assets that were much longer term or illiquid, and excessive risk taking. Credit was made available from abroad cheaply and in large quantities because of the implicit government guarantees (Hale, 2011, pg. 2) The Asian Financial Crisis was also a set back from its artificial growth from the 1980’s until July of 1997 where its growth was fueled primarily by “ hot money” that expects high profit on a short term. This “ hot money” kept pouring in South East Asia (around half of all the investments that went in the developing countries) as a result of high interest rate which made investing in that part of the world attractive. As a result, asset prices rose with a Gross Domestic Product (GDP) registering from 8-12 %. While this was initially laudable, this was not sustained as real total factor productivity growth, or productivity output, especially in Thailand is not commensurate to its financial growth. Such, this continuous capital inflow into Thailand formed into a bubble fueled by “ hot money” and not by total productivity output. And as the bubble furtherly developed, it required more and more “ hot money” needed to sustain it until it burst resulting to the Asian Financial Crisis of July, 1997. During these time also, Thailand already accrued so much debt that The same thing ensued in Malaysia and Indonesia where economic growth was fueled more by capital inflow rather productivity output. Aggravated by the " crony capitalism" prevalent in those countries where development money and capital infusion went to those who are close to the centers of power. One of the factors that caused the crisis was due to imprudent banking system in that region where credit was availed in huge quantities that pushed the prices of assets to an unsustainable point. As it is unsustainable, the prices of the assets begun to manifest its true value, that led to its collapse triggering borrowers to default on their debt obligations. This resulted in a contagion effect where lenders refused to extend credit causing a credit crunch which furtherly contracted the economy and put pressure on the exchange rates to a downward spiral. This vulnerability of the South East Asian Economies was revealed when the United States recovered from its recession in the initial part of 1990's where the Alan Greenspan, the head of U. S. Federal Reserve bank raised its interest rates to cut inflation. This made the US a more preferred market for investors compared to Southeast Asia which used to be the favored investment destination of investors. Such, the " hot money" which used to fuel the economies of Southeast Asia left leaving a bubble economy which eventually collapsed. This movement of capital to the US also raised the value of the dollar which affected the exports of Southeast Asian economies as their products became less competitive in the world market resulting in the slowdown of their export growth which also contributed to their worsening financial condition. During the height of the crisis, most of Southeast Asia and Japan experienced devalued currencies, plummeting stock markets and other asset prices, and an exponential rise in private debt. The financial crisis has been a " wake-up call" for investors who had confidence in, for example, credit ratings placed on securities by credit rating agencies operating under what some have referred to as " perverse incentives and conflict of interest" (Nanto, 2009, pg. 22) which was blamed on the countries' pursuit of industrial policy that played a part in enabling the crisis (Greenspan 1998b; Summers 1998) elaborated by Summers; " Not just an end to government-directed lending, but wholesale market opening and deregulation to increase the power of market incentives adn reduce the scope for official rent-seeking and corruption - to build a system, in short, which rewards hard work not hard graft, adn settles disputes in the courts not in the palace. (Summers, 1998). REFERENCES:

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