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[Parts of the World, Asia](#)



Explain the significance of the Asian Economic Crisis of 1997-98 for questions of development

Introduction

There is a lot of significance of the Asian economic crisis that almost led to the fall of Asia. The mistakes that caused the crisis can be learnt by other nations so that they do not make the same mistakes. The Asian economic crisis began in 1997 on the most parts of the East Asia. This economic crisis brought about fear in the world economy. There are many theories as to what caused the economic crisis in Asia. The original place where the crisis began was in Thailand when there was the collapse of the Thai baht (Jones, 2010). The Thai baht collapsed due to the fact the Thailand government was unable to continue financing the fixed exchange. The reason that caused the government to be unable to pay for it was because of the debt situation that the country was having thereby was causing the nation to become bankrupt. When this was happening in Thailand, the other Southeast Asian countries were also having problems with the slumping of the currencies.

The whole of Asia seems to have been affected by the slump of currencies. In looking at the reports, that have been presented it is quite oblivious that the countries that were most hit by this crisis were South Korea, Thailand and Indonesia. The other well-known countries that were affected were Malaysia, Hong Kong, Philippines and Laos. Reports have indicated that the ratio of the GDP increased from a level that was 100 percent to the level of 140 percent. The crisis could be stabilized through the help of the International Monetary Fund. The IMF formulated programs worth forty billion dollars. The program was meant to help in the stabilization of the crisis from

the Asian countries especially those whom the economy had hit the most. The economy crisis lingered until in 1999 when there was a gradual improvement in some of the areas.

IMF

The IMF played a very important role in the restoration of the economy for the Asian countries. According to most reports that have been conducted, it is claimed that the most hit nations were the ones the IMF concentrated on. The severity of the Asian economic crisis would have caused an economic crisis throughout the whole world. The reason for stating this is because of the countries whose economy was going down the hill was among the most richest especially in Asia. The fact the Asian nations were on the verge of losing billions of dollars made them accept any help that will come their way. The help in this case came from the International Monetary Funds. The IMF implemented some reform programs such as the bailouts as a start in order to help curb the crisis.

These programs were started off from the main affected nations such as Indonesia, Thailand and South Korea in order to help them to get bailouts. The IMF helped in the formation of a series of economic reforms. These reforms were under the name of the structural adjustment package. The reason for the formation of this reform was so that it would help the governments of the nations to reduce most of the money that is spent. This reform will also help in the reduction of the deficit by the government. The series of reforms will also cause the government to increase the interest rates and the banks that are claimed to be insolvent will be caused to fail. The reasons for doing this is so that the government will be able to curb

some of the problems they have in the nation when it comes to money and also help in increasing the fiscal solvency of the nations. Bankruptcy might be avoided when the money spent by the government is avoided (Jones, 2010). The companies that prove to be insolvent will face punishments from the government. The reforms will make the government protect the values of the currency in the nation. There were other reforms that paved the way of the foreign ownership in the Asian countries.

In looking at history, most of the Asian nations did not allow or were very restrictive for any foreign ownership in the nation. These restrictions were however removed to pave way for the nations to get investors. The reforms that were introduced by the IMF caused the Asian government to ensure that all the financial activities that were occurring in the nation were being thoroughly being examined and watched. Any forms of company that is seen to be independent or had private ownership were to be shut down due to insolvency. IMF caused the financial systems in the nations to be very transparent and in the open. The main purpose for this was so that the nation will be able to know the amount of money they might have in order for them to be able to make financial decisions that will benefit the nation. There are many nations that sought the aid of the IMF during the Asian economic crisis. Examples of the Asian countries who were aided by IMF were Indonesia, Thailand, Philippines, Singapore, Malaysia and South Korea.

Malaysia (Dr. Mahathir's decision) led to development of Malaysia

Dr. Mahathir who hails from Malaysia is claimed to have increased the economy of the nation significantly. During his term as the prime minister of the nation, he was claimed to have had ambition, which he fully intended to

use in order to increase the economy of the nation. In his 22 years of being in the office, he was started to be a reformist whom made a lot of changes in the nation. Some of the most notable changes were done in the period between 1990 to 1996 he was able to change one of the country's main economic revenue which was in agriculture (Damodaron, 2010). He turned the people to manufacture and the things that were made were exported to the international market this kind of change had a positive impact on the economy of the nation. Technology in Malaysia had become a major economy booster for the country. The country experienced positive developments that have been caused by the digital economy. This has caused the government to be confident in the vision 2020 where the country is stated to becoming a world-class data centre.

The Asian crisis that occurred in 1997 had adverse negative effect on the economy of Malaysia and the GDP vision of 2020. One of the major negative impacts of the crisis was that the nation as a whole was losing a lot of money in short period. The manufactured goods had slowed down significantly and thus the exports of good had begun to collapse. Mahathir used the aid of the IMF in order to help his country from economic crisis. The adaption of some of the IMF reforms where the countries capital was under strict control by the government. He tried to fix their currency to that of the American dollar (Mauzy, 1999). He was able to restrict business or investments between the people and abroad. He made so hard for the exchange of currency in that when people want to do business with foreigners will have a hard time exchanging the money because it would be too expensive for them. After all this measures, the economy continued to decline at an alarming rate. This

caused the government to form new measures where the ringgit was decided to be made a fixed exchange.

There was also the control of the capitals while the nation started agencies that will be in charge of looking at the economy. The other major step that they took was that they ensured that the IMF aid was refused and they decided that they were going to look for solutions themselves. This steps that were taken by Mahathir Mohammad and his government seemed to have been a good idea because as time passed by the economy of the region began to increase (Helmsey, 2013). His influence as a reformist and leader is something that has garnered him many admires and respect by his peers and other nations.

South Korea

South Koreas economic crisis began when people took money from the banks for business purposes but the people were unable to pay for those loans because of the failing market. The KIA motor was another reason that led to the decrease of economy in the nation. The motor company had asked for some loans, which were put in the stock market that fell. This caused the government to stop the KIA motor company from continuing to function in the nation. This put the country on a tight fix that need solutions. The IMF aided the nation, which was able to start developing faster as it normally does (Philippe, 1998).

Thailand

Thailand was one of the most hit in the 1997 to 1998 Asian economic crisis. According to the critics, they believe that the crisis started in Thailand when

the government was unable to pay for the Thai baht. Thailand was considered to be among the most booming nations in Asia. The problem came when a lot of speculations and problems began with the Thai baht. The government was refusing to pay for it and therefore, eventually it caused the decline of economy thus causing many people to lose their jobs and the foreigners who were investing in the nation returned to their countries. The IMF helped the nation with the bailout of 17 billion dollars with the conditions that it must use some of the reforms. The reforms were that it should look into their laws regarding bankruptcy. It was also supposed to regulate and look into the financial institutions. The bailout funds were like a blessing for the nation, who spent the money wisely. The economy of the country began to recover at a faster rate. This made it easy for them to pay the IMF funds that they had lent them.

The negative developments

There are many problems that were associated with the financial crisis in Asia such as the people who had borrowed money from the American banks were unable to pay the debts because of the decrease of finances (Khan, 2004). The businesses in the nations were not doing well and it looked at their every move would have to be checked after the formation of the SAPs. There are many controversies that have come out after the IMF stepped in order to help the financial crisis in Asia. According to those, who are criticizing the reforms made by the IMF by stating that the reforms were a fast ticket of making the Asian countries to be coming a capitalist. According to the critics, they believe that some of the reforms that they had implemented in the American country would have been very useful in the

Asian countries. When there was an economic crisis in America, they had implemented the expansionary reforms that had good results. In the reforms it made it ensured that the tax was lowered, increased some of the money in the budget and the interest rates were lowered. According to the findings that were found the reforms proved to be very successful in that the American government was able to recover some of the crisis that they were facing. Despite the criticism, the IMF aid was adopted in many of the Asian nations (Khan, 2004). Some of the countries with negative development since the economic crisis were Indonesia, Singapore and the Philippines.

Indonesia

Indonesia is claimed to have been hit hard by the Asian economic crisis that occurred in 1997. It is stated that there was an immediate large amount of capital outflows, which weakened the currency of the nation. It has been stated that the economy of the nation before the end of 1997 the economy of the nation had dropped by 13.7%. The decrease of the nation caused a lot of panic in the nation thus caused the resignation of President Suharto. The IMF helped the nation to try to recover the economic situations. This help somehow helped in the stabilization of the country's economy. There have been many problems in the nation that has caused the fluctuation of the economy and development of the nation. The country has been gripped public debts of the nation. The public debts have been caused by the borrowing of loans by people in the nation and are not able to repay them back. The amounting of public debts in the country will cause the downfall of the nation. According to reports made in 2012, the people in Indonesia who

are stated to be living below the poverty line is high with an estimation of 11.7%

Philippines

The Asian economic crisis had adverse effect on the Philippines economy. When the Asian economy crisis first occurred the Philippines immediately took measures by trying to defend the pesos. This was done by the Central Bank of Philippines that raised the rates of the pesos. This however, did not help since when the crisis happened the pesos rates dropped when compared to the American dollar. While other nations in Asia were experiencing increase in economy in Philippines, it was not recovering as fast as they were in 2001. The people of the nation believed that the economy of the nation was also being greatly affected by the President of the nation called Joseph Estrada. The reason for blaming the president was because of the scandal that occurred called the Jueteng scandal (Villegas, 2010). In the scandal it is stated that the Philippine stock exchange is said to have dropped dramatically thus causing the decline of development in the nation. Further problems occurred when there were protests that occurred in the EDSA II Revolution. The main purpose for the protests was so that the president will be able to resign from office. He was able to resign and a new president took office called Gloria Macapagal-Arroyo. The appointment of the new president began to have good effects on the nation's economy. The development of the nation can be said to have started growing in 2007 since the Asian crisis began (Villegas, 2010). However, the nation is gripped with many problems. The gap between the rich and the poor is very high. The country has shown how some regions have increased in development

compared to other regions where poverty and unemployment rates are very high. This causes tensions because of the economic disparities. This shows how the economy of the country has not yet fully recovered for most parts of the regions.

In conclusion, Asian economic crisis was an event that occurred in which threatened the development of the Asian countries. One of the main countries that were hit bad by the crisis Thailand. The country was losing a lot of money as each day went by. The IMF stepped in and tried its level best to help the country and other Asian nations. The reforms that were imposed to the countries by the IMF were criticized by many who did not believe in it. There are some countries who initially accepted the aid of the IMF. They saw the results from the aid, which was not good. This therefore, caused them to change tactics and decided to refuse the help of IMF. The country in this statement was Malaysia who through their own reforms was able to overcome the crisis.

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