The asian financial crisis

Government

The Asian financial crisis that lasted from 1997 to 1998 is regarded as one of the most significant economic events in the modern history. The crisis began in July 1997, leading to a severe currency depreciations and economic recessions that almost erased decades of economics progress for the affected states, creating a drawback in economic growth in East and Southeast Asia (Muchhala, 2007: 5). The financial crisis was first triggered by Japanese commercial banks, who had been severely affected by the collapse of the real estate and the stock market bubble in Japan during 1990 (King, 2001: 438). Weakened, Japanese commercial banks then reduced their exposure to Asia due to recent emerging troubles in Thailand and South Korea, as the largest lenders in Asia and the key creditor in Thailand, Japanese banks signalled the change to other foreign commercial banks which later will follow suit, and triggered a capital outflow and end up devaluating Thailand's Baht in mid-1997 and it spreads to South Korea in late 1997 due to different exchange rate regimes in both countries (King, 2001: 438). By January 1998, the currencies of Indonesia, Thailand, South Korea, the Philippines and Malaysia lost half of their values in terms of the US Dollar, Thailand's baht lost 52% of it's value against the US Dollar, while Indonesian Rupiah lost 84% (Muchhalla, 2007: 5).

When currencies experienced depreciation and major falls on the world's stock markets, it ended up worsening the crisis in South East Asia and it spreads to other countries, investor trust and confidence on Asian market economies significantly deteriorated and the spillover effects have been felt throughout the global financial systems (Cabalu, 1999: 336). The rapid spread of the financial crisis was due to similarities of their economies, while

trade among Thailand, the Philippines, Malaysia and Indonesia only accounts 6% of their total trade, they are close competitors in world markets, thus, currency devaluation in Thailand resulted in a domino effect for others (Cabalu, 1999: 336). The economic recession brought additional problems along with it, costing governments a staggering amount of economic and social costs, over a million people in Thailand and another 21 million in Indonesia found themselves struggling economically in just a span of a few weeks as personal savings and assets were devalued to a fraction of their pre-crisis worth not to mention firms went bankrupt, requiring them to lay off workers which resulted in a drastic rise in unemployment, this created a chain reaction, soaring inflation in the end raised the cost of basic necessities (Muchalla, 2007: 7). The recovery of the crisis didn’t come overnight, it took billions of dollars and countless policies applied in order to stabilize the economy in countries that are affected the most by the crisis such as Thailand, Indonesia and South Korea. To stabilize the economics of these critically hit countries, on 20 August 1997, the International Monetary Fund (IMF) provided funds and at the same time IMF also designed plans to help these countries overturn their economies (Noerlina, 2003: 15).

After squandering through its foreign-exchange reserves, in the end Thailand turned to IMF for assistance, on August 1997, Thailand entered into a three-year Stand-By Arrangement with the IMF which enabled the Thai government to get a loan package worth $17. 2 Billion (Sharma, 2003: 101). The objectives of this IMF-led program were to achieve a rapid effective management of the exchange rate by stemming the free fall of the baht and the restoration of financial market stability, to achieve these objectives, the

IMF called for fiscal tightening where the primary aim of the monetary policy in that current period was to stabilize the baht and prices through high interest-rate policy (Sharma, 2003: 101). As for Indonesia, why was Indonesia emerged as the most serious casualty of the crisis? The answer lies within Indonesia's root which has been contaminated by " crony capitalism" or korupsi, kolusi dan nepotisme by the Suharto regime itself, not to mention the poor micromanagement by the regime worsened the crisis (Sharma, 2003: 123).

In May-June 1999 big changes were expected to heal Indonesia politically and economically, effective on May 1999, a new central bank law significantly increased the powers and authority of the nation's central bank, making it more accountable (Sharma, 2003: 161). The new law emphasizes that Bank Indonesia has one important objective which is to achieve and maintain the stability of the value of the rupiah, to achieve this, the law has enhanced the Bank's independence as a state institution outside the administration of the executive branch, meaning that the Bank doesn't report directly to the president but to the House of Representatives (Sharma, 2003: 161). Desperate for a major restructuring of the entire banking sector, in September 1998, Bank Indonesia along with the IMF came up with a multi-billion-dollar bank recapitalization plan, and in October, the Indonesian parliament amended the banking law to end restrictions of foreign ownership of banks (Sharma, 2003: 167). On June 1999, Indonesia also held its first democratic election since 1955, with the collapse of the Suharto regime, power was restored, and it shifted away from the central to the provinces and districts (Sharma, 2003: 170). The Asian financial crisis damaged South

Korea's economy severely, causing the country to have its worst recession in the post-war period, the real GDP growth fell from 7-12% to negative 5. 8%, and the stock market dropped 50%, to make matters worse, per capita income declined from $10, 543 to $9, 511, and around 17, 000 companies went bankrupt, including eight conglomerates (Sharma, 2003: 221). At the peak of the crisis, the government worked with the IMF and the World Bank to construct an adjustment program that's designed to address the problems in the financial and corporate sectors, the program consists of macroeconomic stabilization, financial and corporate sector reforms including the dismantling of the old financial system and further measures for trade liberalization, capital account liberalization and labor market reform (Sharma, 2003: 222). From the facts that were withdrawn from the articles and journals above, we can conclude that the miraculous recovery of the Asian financial crisis is caused by the IMF implemented programs and loans to the affected countries this helps them curb the effects of the crisis itself so that over the years after the crisis they are able to get themselves back to their feet.