Asian Economic And Financial Crisis Essay, Research Paper

Asian Crisis

The crisis began in Thailand in July 1997 and spread to Indonesia, the Philippines and Malaysia, then to Hong Kong, Korea and Japan. Financial systems in Thailand, Korea and Japan all came under intense strain, but nowhere as destructively as in Indonesia, which by early 1998 had become the worst-affected victim.

The 1997 Asian financial meltdown began in Thailand on July 2 after the collapse in late June of 16 finance

companies alerted investors to the strains on the financial system. After surging ahead in the mid 90s Thai exports had shrunk in 1996. The government was shaky, economic growth was slowing, and there had already been two speculative attacks on the currency. By July 1997 money market traders believed the government could be forced to abandon its pledge to link the Thai baht to the US dollar.

Malaysia was not as badly hit by the currency crisis as Thailand, Indonesia or South Korea. Mahathir’s

complaints helped bolster his political support at home but undermined his nation’s credibility with the outside world. Hong Kong remained almost untouched by the Asian turmoil until a massive selloff of its sharemarket in the week of 20 October, a trauma that brought home to the world that the crisis would not be isolated to Southeast Asia. The dive in the market was driven by fears of a downturn in the Hong Kong economy and the prospect it would abandon the peg between the Hong Kong and US dollars. In the background was a deeper concern, that financial strife in Hong Kong could have profound effects on China.

China had been the darling of Western investors for several years, and huge projects will be under threat if the Chinese economy strikes trouble. China is partially insulated from the turmoil because its own financial markets are rigidly controlled. But its banks are similarly overburdened with debt and its exports at risk from a worldwide slowdown in demand.