

1997 Asian Financial Crisis



Ed Vallorani

12/14/2009

1997 Asian Financial Crisis

Table of Contents

Background	1
Japan – The Lost Decade	4
Country Information	
China	6
Hong Kong	6
Taiwan	7
Indonesia	8
Japan	8
Korea	9
Philippines	10
Singapore	10
Thailand	11
Country Summary	12
Lessons Learned	13
Notes	17
Sources	18

1997 Asian Financial Crisis

Asian Crisis – Background

Nine Asian countries, South Korea, Japan, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia and the Philippines were considered as Asian Tigers in the early 1990s. These economies were rapidly growing due to the inflow of investments, improvements in technology, increases in education, a ready supply of labor as people moved from the countryside to the cities to work in factories, and reduced restrictions on trade and commerce leading to free-market economies.

In the buildup to the 1997 crisis there was excessive borrowing. This borrowing tended to be for speculative purposes in projects such as retail space, office buildings, hotels, other real estate and other assets. The great inflows of money into these assets caused their prices to rise dramatically, creating a bubble. This speculation was fueled by national banks borrowing excessively from abroad and lending excessively in their home countries. Deregulation in the financial sector led to easy money, which caused many speculative and bad loans to be made. It also led to large debt burdens. Since hot money tends to follow hot money, a feeling of “euphoria”, an “I can’t lose” mentality, pumped money into already overvalued sectors, leading to valuations that could not be sustained. It also led to a misunderstanding of the risks involved with these investments.

As long as asset prices continued to rise, the speculation continued. In the case of these Asian countries, rapidly growing GDP and stable exchange rates kept the speculation going. In the boom years, speculative loans were made to businesses whose credit worthiness did not warrant the loans. As the crisis began, these businesses could not repay their loans.

1997 Asian Financial Crisis

Asian Crisis – Background

As the realization started to spread that loans could not be repaid, currency speculation began. The Thai baht was the first currency to experience problems. Expecting the currency to devalue because macroeconomic conditions dictated that the exchange rate could not be maintained at current levels, speculators sold the baht. In an almost self-fulfilling prophecy the baht devalued rapidly. This only exacerbated that situation. Since Thailand's debt was denominated in U.S. dollars, in just a few months it required twice as many baht to repay the dollar denominated debt. In effect, the currency devaluation doubled the debt of Thai organizations, catching more organizations in the debt crisis.

At this time another phenomenon occurred. All of a sudden, investors began to reassess their investment risk, not only in Thailand, but in the entire region as well. As risk was reassessed, the events in Thailand spread like a virus to the other countries of the region. The "I can't lose" mentality quickly turned into an "I am going to lose big unless I get out" mentality. Money flows turned around quickly. Regional currencies devalued repeating the same stress for many of the countries that Thailand was suffering. As the crisis continued, the financial problems were worse than originally expected. The crisis also exposed the varying levels of political risk inherent in each country.

The crisis cascaded through the region like a row of strategically placed dominos being knocked down when the first domino falls. One way to fight the crisis would be through monetary policy; however, this was not an option for these economies. Pumping more money into their economies would only put pressure on their currencies to devalue further, making

1997 Asian Financial Crisis

Asian Crisis – Background

the debt crisis worse. These economies needed help from the IMF. When the IMF gets involved, it has stringent rules. One is its insistence on the raising of interest rates. Unfortunately, in the short-term, this only deepens the recession.

1997 Asian Financial Crisis

Japan – The Lost Decade

While the Asian crisis started in 1997, Japan's bubble burst in 1989. For Japan, the entire decade of the 1990s was difficult. It was considered a lost decade. The late 1980's saw an unprecedented rise in asset prices. In the five years before its 1989 peak, the Nikkei stock index rose 275% to 38,916. Property values also reached stratospheric heights. These values could not be sustained. When the bubble burst, it burst hard. From the peak in 1989, the Nikkei index dropped 80% by early 2003.¹ The Nikkei closed on Friday, December 11, 2009 at 10,108. After 20 years, the Nikkei is still 74% below its all time high.

Land prices plummeted. Banks that had made loans on inflated real estate values soon found themselves in trouble. Many loans became uncollectable. In response the Japanese central bank kept interest rates high. By the time it lowered rates to near zero, the economy was in a deflationary spiral.²

Japanese banks borrowed heavily in the Euro-dollar market. Borrowing was so extensive that they were charged a premium, the so-called "Japanese rate." Proceeds from the borrowing were used to finance leveraged buyouts and real estate purchases in the U.S. The lending came when the U.S. real estate market was at a peak. In addition to the collapse of the real estate market in Japan, the collapse in the U.S. market at the time made many more loans uncollectable.

The collapse of the Japanese stock market put other pressures on Japanese banks due to their capital structure. The Bank of International Settlements (BIS) defines Tier 1 capital as money from stockholders and retained earnings. Tier 2 capital includes bad loan reserves and

1997 Asian Financial Crisis

Japan – The Lost Decade

“hidden assets.” 45% of unrealized capital gains on stocks could be considered “hidden assets”; therefore, they could be counted as Tier 2 capital. When the stock market collapsed, so did the capital structure of the banks. Most were not able to meet their capital requirements. They had to resort to selling high-cost junk bonds or selling assets. In many instances, these assets were sold at a loss.³

1997 Asian Financial Crisis

Asian Crisis – Country Information

China

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	390	409	488	613	559	728	856	953	1019	1083	1198
CA	12.0	13.3	6.4	-11.8	7.7	1.6	7.2	37.0	31.5	15.7	20.5
CA % to GDP	3.1%	3.2%	1.3%	-1.9%	1.4%	0.2%	0.8%	3.9%	3.1%	1.4%	1.7%
FDI	3	4	11	28	34	38	42	45	45	40	41
FDI % to GDP	0.9%	1.1%	2.3%	4.5%	6.0%	5.2%	4.9%	4.8%	4.5%	3.7%	3.4%
Exports	62	72	85	92	121	149	151	183	184	195	249
Exports % to GDP	15.9%	17.6%	17.4%	15.0%	21.6%	20.4%	17.6%	19.2%	18.0%	18.0%	20.8%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

China was one of the countries that was least affected by the 1997 Asian crisis. GDP continued to rise through the late 1990's, although not at as fast a rate. FDI was fairly level from 1996 through 2000. Exports were relatively flat from 1997 through 1999; however, the current account balance improved in 1997. The Chinese yuan, which is pegged to the dollar, appreciated slightly from 8.30 yuan per U.S. \$1 on 3/1/97 to 8.28 yuan per U.S. \$1 on 6/1/98. At the end of 1999, the yuan remained at 8.28 yuan per U.S. \$1.⁴

Hong Kong

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	77	89	104	120	136	144	159	176	167	163	169
CA	4.8	3.8	3.1	5.7	-1.1	-9.1	-4.0	-7.7	2.5	10.3	7.0
CA % to GDP	6.2%	4.3%	3.0%	4.8%	-0.8%	-6.3%	-2.5%	-4.4%	1.5%	6.3%	4.1%
FDI	3	1	4	7	8	6	10	11	15	25	62
FDI % to GDP	4.3%	1.1%	3.7%	5.8%	5.8%	4.3%	6.6%	6.4%	8.8%	15.1%	36.6%
Exports	82	99	119	135	151	174	181	188	174	174	202
Exports % to GDP	107%	111%	115%	113%	112%	120%	114%	107%	104%	106%	119%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

1997 Asian Financial Crisis

Asian Crisis – Country Information

On 7/1/97, Hong Kong reverted back to Chinese control from British control. Hong Kong's GDP dipped a little in 1998 and 1999 before rebounding in 2000, although the 2000 GDP had not reached 1997 levels. FDI remained fairly constant, but rose dramatically in 1999 and 2000. Exports decreased slightly. The current account took a hit in 1997, although it was not as negative as it was in 1995. The Hong Kong dollar, which was also pegged to the U.S. dollar, maintained its value from 3/1/97 to 6/30/97 at 7.75 Hong Kong dollars per U.S. \$1. At the end of 1999, the Hong Kong dollar remained almost unchanged at 7.77 Hong Kong dollars per U.S. \$1.⁵

Taiwan

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	165	184	219	231	252	274	289	301	276	299	321
CA	10.9	12.5	8.6	7.0	6.5	5.5	10.9	7.1	3.4	8.0	8.9
CA % to GDP	6.6%	6.8%	3.9%	3.0%	2.6%	2.0%	3.8%	2.3%	1.2%	2.7%	2.8%
FDI	1.3	1.3	0.9	0.9	1.4	1.6	1.9	2.2	0.2	2.9	4.9
FDI % to GDP	0.8%	0.7%	0.4%	0.4%	0.5%	0.6%	0.6%	0.7%	0.1%	1.0%	1.5%
Exports	67	76	81	85	93	112	116	121	111	121	148
Exports % to GDP	40.7%	41.3%	37.2%	36.6%	36.8%	40.7%	40.0%	40.3%	40.0%	40.7%	46.0%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

Taiwan's GDP suffered in 1998 before rebounding in 1999 and 2000. Throughout this time, Taiwan was able to maintain a positive current account balance, although the surplus shrank in 1998. Exports also decreased in 1998 before rebounding in 1999. The Taiwan dollar depreciated from 27.5 Taiwan dollars per U.S. \$1 on 3/1/97 to 34.95 Taiwan dollars per U.S. \$1 in mid-June 1998, a total of 21%. By the end of 1999 the Taiwan dollar had rebounded slightly to 31.5 Taiwan dollars per U.S. \$1.⁶

1997 Asian Financial Crisis

Asian Crisis – Country Information

Indonesia

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	126	141	153	175	195	223	251	238	105	155	166
CA	-3.2	-4.4	-3.1	-2.3	-3	-6.8	-7.3	-3.8	4	5.8	8.0
CA % to GDP	-2.6%	-3.1%	-2.0%	-1.3%	-1.5%	-3.0%	-2.9%	-1.6%	3.8%	3.7%	4.8%
FDI	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FDI % to GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exports	26	29	34	37	40	45	50	56	50	51	65
Exports % to GDP	20.4%	20.7%	22.2%	21.1%	20.5%	20.3%	19.9%	23.6%	47.8%	33.1	39.5%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

Indonesia saw its GDP drop by 55% in U.S. dollar terms in 1998. This was due in large part to the massive devaluation of the Indonesian Rupiah. The Rupiah depreciated by 85% from 2,398 per U.S. \$1 on 3/1/97 to 16,475 per U.S. \$1 in mid-June 1998. The Rupiah did rebound in 1998 reaching 6,700 per U.S. \$1 in mid-July 1999. By the end of 1999 the Rupiah had fallen again to 7,150 per U.S. \$1.⁷ Exports held fairly constant during this time. The current account actually turned from negative to positive in 1998. There was no information available for FDI.

Japan

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	3,032	3,454	3,770	4,337	4,767	5,278	4,638	4,264	3,872	4,384	4,669
CA	44	68	112	132	131	111	66	97	119	115	120
CA % to GDP	1.4%	2.0%	3.0%	3.0%	2.7%	2.1%	1.4%	2.3%	3.1%	2.6%	2.6%
FDI	2	1	3	0	1	0	0	3	3	13	8
FDI % to GDP	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.2%
Exports	288	315	340	362	397	443	411	421	388	419	479
Exports % to GDP	9.5%	9.1%	9.0%	8.4%	8.3%	8.4%	8.9%	9.9%	10.0%	9.6%	10.3%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

1997 Asian Financial Crisis

Asian Crisis – Country Information

As mentioned earlier, Japan was in a decade long slump. GDP increased until 1995, and then decreased until 1999. The current account remained positive and exports held up also. The Japanese yen depreciated by 18% from 3/1/1997 until mid-August 1998, 120.4 yen per U.S. \$1 and 147.26 yen per U.S. \$1, respectively. By the end of 1999, the yen had rebounded to 102.23 yen per U.S. \$1.⁸

Korea

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	275	321	344	378	441	539	582	550	363	464	534
CA	-2.0	-8.4	-4.1	0.8	-4.0	-8.7	-23.1	-8.3	40.4	24.5	12.3
CA % to GDP	-0.7%	-2.6%	-1.2%	0.2%	-0.9%	-1.6%	-4.0%	-1.5%	11.1%	5.3%	2.3%
FDI	1	1	1	1	1	1	2	3	5	10	9
FDI % to GDP	0.3%	0.4%	0.2%	0.1%	0.2%	0.2%	0.3%	0.5%	1.4%	2.1%	1.7%
Exports	65	72	77	82	96	125	130	136	132	144	172
Exports % to GDP	23.6%	22.4%	22.3%	21.8%	21.8%	23.2%	22.3%	24.8%	36.4%	30.9%	32.3%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

Korea took a big hit to its GDP in 1998 with a decrease of 34%. Exports held relatively steady and the current account improved from 1996 through 1998. The South Korean won depreciated 55% from 864.4 won per U.S. \$1 on 3/1/97 to 1,967 won per U.S. \$1 at the end of 1997. By the end of 1998, the won had recovered to 1,195 yen per U.S. \$1. By the end of 1999, the won had recovered to 1,142.50 won per U.S. \$1.⁹

1997 Asian Financial Crisis

Asian Crisis – Country Information

Philippines

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	44	45	53	54	64	76	84	84	67	76	76
CA	-2.7	-0.9	-1.0	-3.0	-2.8	-2.0	-3.9	-4.3	1.5	-2.9	-2.2
CA % to GDP	-6.1%	-2.1%	-1.9%	-5.5%	-4.4%	-2.6%	-4.6%	-5.2%	2.3%	-3.8%	-2.9%
FDI	1	1	1	1	2	1	2	1	2	1	2
FDI % to GDP	1.2%	1.2%	1.5%	2.3%	2.5%	1.9%	1.8%	1.5%	2.6%	1.6%	3.0%
Exports	8	9	10	11	13	18	20	25	29	37	40
Exports % to GDP	18.4%	19.4%	18.4%	20.5%	20.8%	23.2%	24.2%	29.7%	44.2%	48.0%	52.4%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

The Philippines GDP was flat for 1997 and decreased by 20% in 1998 before recovering in 1999. Amazingly, exports continued to rise throughout this period. This helped to move the current account balance from a negative number in 1997 to a positive number in 1998. The Philippine peso devalued by 43% against the U.S. dollar, falling from 26.3 pesos per U.S. \$1 on 3/1/1997 to 46.1 pesos per U.S. \$1 in early January 1998. Unlike other Asian currencies, by the end of 1999, the Philippine peso had only rebounded slightly to 40.4 pesos per U.S. \$1.¹⁰

Singapore

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	37	43	50	58	71	84	93	96	82	83	93
CA	3.1	4.9	5.9	4.2	11.4	14.4	13.9	14.9	18.3	14.4	10.7
CA % to GDP	8.5%	11.3%	11.9%	7.2%	16.1%	17.1%	15.0%	15.5%	22.2%	17.4%	11.6%
FDI	6	5	2	5	9	12	10	14	7	17	16
FDI % to GDP	15.1%	11.3%	4.4%	8.1%	12.1%	13.7%	10.5%	14.3%	8.9%	20.1%	17.8%
Exports	53	59	63	74	97	118	125	125	110	115	138
Exports % to GDP	143%	137%	128%	127%	137%	140%	135%	130%	133%	139%	149%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

1997 Asian Financial Crisis

Asian Crisis – Country Information

Singapore's GDP dropped by 14% in 1998 and remained flat in 1999 before recovering in 2000. Exports decreased in 1998, but by 2000 they had surpassed pre-crisis levels. FDI was off in 1998, but otherwise, remained fairly constant. The capital account remained positive throughout the time period. The Singapore dollar depreciated by 20% from 1.425 Singapore dollars per U.S. \$1 on 3/1/1997 to 1.793 Singapore dollars per U.S. \$1 in mid-January 2008. By the end of 1999, the Singapore dollar made only a slight recovery to 1.668 Singapore dollars per U.S. \$1.¹¹

Thailand

U.S. dollars (billions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	86	96	109	122	144	168	182	151	112	123	123
CA	-7.1	-7.2	-6.0	-6.1	-7.8	-13.2	-14.4	-3.1	14.3	12.5	9.3
CA % to GDP	-8.3%	-7.5%	-5.5%	-5.0%	-5.4%	-7.9%	-7.9%	-2.1%	12.8%	10.2%	7.6%
FDI	3	2	2	2	1	2	2	4	7	6	3
FDI % to GDP	3.0%	2.1%	2.0%	1.5%	0.9%	1.2%	1.3%	2.6%	6.7%	5.0%	2.7%
Exports	23	28	32	37	45	56	56	57	54	58	69
Exports % to GDP	26.9%	29.6%	29.7%	30.4%	31.4%	33.6%	30.6%	38.0%	48.7%	47.7%	56.2%

Source: IMF-World Economic Outlook Database, U.N. Conference on Trade and Development, IMF-International Financial Statistics

Thailand was the first country to have a currency crisis in 1997. The baht fell by 54% from 25.9 baht per U.S. \$1 on 3/1/1997 to 55.8 baht per U.S. \$1 in mid-January 1998. By the end of 1999, the baht had recovered to 37.6 baht per U.S. \$1.¹² GDP suffered in 1997 and 1998 falling 39% from U.S. \$182 billion to U.S. \$112 billion. Recovery was modest in 1999, and there was no further improvement in 2000. Exports held steady through this period, and the current account turned from negative to positive in 1998.

1997 Asian Financial Crisis

Asian Crisis – Country Information

Country Summary

The country analysis shows that each country was affected differently by the crisis. For some, the crisis was not as deep and did not last as long. This is evident in the GDP numbers. Exports and FDI held up relatively well through the crisis. The biggest issue was the currency devaluations. Asset bubbles, high debt and bad loans put pressure on these currencies. As the currencies devalued, it was harder to pay back the dollar denominated debt. Not all currencies were affected the same. Some fell harder. Some recovered more quickly. Below is a chart that highlights the key currency movements from 3/1/1997 to the end of 1999.

Country	Currency	3/1/97 Rate	Lowest Rate	Maximum Depreciation	Ending Rate 1999	Change 1997 to 1999
China	Yuan	8.30	8.30	0.0%	8.28	0.2%
Hong Kong	Hong Kong Dollar	7.74	7.77	-0.3%	7.77	-0.3%
Taiwan	Taiwan Dollar	27.50	34.95	-21.3%	31.50	-12.7%
Indonesia	Rupiah	2,398.00	16,475.00	-85.4%	7,150.00	-66.5%
Japan	Yen	120.40	147.26	-18.2%	102.23	17.8%
Korea	Won	864.40	1,967.00	-56.1%	1,142.50	-24.3%
Philippines	Philippine Dollar	26.34	46.10	-42.9%	40.40	-34.8%
Singapore	Peso	1.43	1.79	-20.5%	1.67	-14.6%
Thailand	Baht	25.90	55.80	-53.6%	37.60	-31.1%

Source: Oanda – Historical Exchange Rates

1997 Asian Financial Crisis

Asian Crisis – Lessons Learned

There are many similarities between the Asian crisis of 1997 and the U.S. financial meltdown of 2008. Both were fueled by speculation, over-enthusiasm in the real estate segment leading to unsustainable prices, risky loans that turned into bad debt when the real estate bubble burst, and a lack of transparency.

The U.S. crisis also included a moral dilemma. The crisis started in the sub-prime lending market. Mortgage brokers did anything possible to qualify people for loans. Backgrounds, salaries, credit histories and other assets were not fully checked, if they were checked at all. The mortgage broker was assuming no risk. (S)He was paid a fee for originating the loan. The lending institution was also assuming no risk. Most loans were sold to 3rd party entities. The 3rd parties were assuming no risk either. They simply packaged the loans into marketable securities. Rating agencies gave these instruments AAA ratings. Everyone assumed that even if a few loans defaulted, there was plenty of money to be made on the loans that were not in default. In the event of a default, the real estate that was used as collateral on the loan would be worth more than the balance on the loan. Everyone was happy, and these instruments were sold around the world.

This scheme continues to work as long as real estate prices continue to rise; however, too much money was chasing too little real estate. The bubble burst. Loans defaulted in record numbers, and many times, the real estate that backed the loan was not worth as much as the outstanding balance. Financial institutions held a lot of these instruments in their portfolios. All of a sudden, no one knew the true value of these instruments. Mark-to-market required that

1997 Asian Financial Crisis

Asian Crisis – Lessons Learned

the true value be recorded of the book of the financial institutions, causing capitalization issues. The uncertainty caused financial institutions to hoard cash. The financial system of the entire country was coming to a grinding halt. If this happened, the financial system of the U.S. and much of the world could have collapsed.

Like the Asian crisis before it, the U.S. crisis was not contained within its borders. It quickly spread around the globe. This occurred for two reasons. First, much of the world had purchased the same troubled assets that were held by U.S. financial institutions. Second, the U.S. is a large importer of goods and services. As the U.S. economy slowed rapidly, so did the pace of imports. Export driven countries suffered as the largest market in the world cut back its spending.

Unlike the Asian crisis, the U.S. moved quickly to use monetary policy to lessen the impact of the crisis. Japan waited until well into the 1990s to reduce interest rates, even though their economic troubles began in 1989. The U.S. Federal Reserve moved quickly to lower interest rates in an attempt to loosen the tight credit situation. The Federal Reserve also pumped hundreds of billions of dollars into the U.S. economy. The troubled asset relief fund (TARP) was used to stabilize the financial sector. A huge stimulus package was passed by Congress in an attempt to jump start the economy and to stem the tide of job losses.

The U.S. was able to take these actions because the dollar is the world's reserve currency. The U.S. is in a unique position of having all of its debt denominated in its own currency. The U.S. did not have the money to pay for the programs that it instituted as a result

1997 Asian Financial Crisis

Asian Crisis – Lessons Learned

of the crisis. The U.S. had to incur more debt to pay for these initiatives. Since the U.S. already has a high debt load, this should have put tremendous pressure on the dollar to devalue. The Asian economies struggled in 1997 because their devalued currencies increased their dollar denominated debt load. If the dollar had depreciated, it would not have changed the debt burden since it would not take any more dollars to pay back the dollar denominated debt.

During the Asian crisis, people sold Asian currencies, and they depreciated. During the U.S. crisis of 2008, people bought dollars and the dollar appreciated. Since the world economy was in turmoil, it was perceived that the safest place to put money was in the currency of the world's largest economy, the U.S. dollar. This benefit, which is enjoyed by the United States, is not enjoyed by any other economy at this time. As people's tolerance for risk has increased, the U.S. dollar has depreciated somewhat; however, it has not fallen to its pre-crisis levels.

The biggest lesson that the U.S. could learn from the 1997 Asian crisis is that swift government intervention, with appropriate monetary policy, is necessary to lessen the impact of a financial crisis. It must also realize that its position as the world's largest economy gives it a significant advantage during a crisis.

There is another key lesson to be learned. While a free-market economy is the most productive, left to its own devices, it can run amok. Since market power can become concentrated, some level of regulation is needed to ensure a level playing field. Financial institutions in Asia had become deregulated before the crisis, leading to "easy" money. The U.S. had also deregulated its financial institutions. Creative new products were developed. Money

1997 Asian Financial Crisis

Asian Crisis – Lessons Learned

was “easy.” The “easy” money led to speculation when sound investment opportunities were not available for all of the available money. The risk involved with these investments is at best not understood. At worst, it is ignored.

The lesson that was not learned is that speculative spending, fueled by risky loans, leads to asset bubbles, and bubbles always burst. The Asian bubble burst in 1997. The .com bubble burst in 2000. The U.S. real estate bubble burst in 2008. It seems to be part of human nature to chase what is hot, to chase the next “I can’t lose” investment, to not want to be left out when everyone else is making “easy” money. When greed takes over, bubbles are built. Unfortunately, when they burst, they take everyone with them.

1997 Asian Financial Crisis

Notes

1. Lynch, David J., *U.S. can learn from Japan's deflated economy in the 1990s*, USA Today, N.p., 25 Jan. 2008. Web. 10 Dec. 2009. http://www.usatoday.com/money/economy/2008-01-21-japan-parallels_N.htm.
2. *ibid.*
3. Watkins, Thayer. *The Bubble Economy of Japan*, San Jose State University, Department of Economics, n.d. Publication date not specified, Web. 11 Dec. 2009, <http://www.sjsu.edu/faculty/watkins/bubble.htm>.
4. Historical Exchange Rates Oanda, Web. 12 Dec. 2009, <http://www.oanda.com/currency/historical-rates>.
5. *ibid.*
6. *ibid.*
7. *ibid.*
8. *ibid.*
9. *ibid.*
10. *ibid.*
11. *ibid.*
12. *ibid.*

1997 Asian Financial Crisis

Sources

Lynch, David J., *U.S. can learn from Japan's deflated economy in the 1990s*, USA Today, N.p., 25 Jan. 2008. Web. 10 Dec. 2009. http://www.usatoday.com/money/economy/2008-01-21-japan-parallels_N.htm.

Watkins, Thayer. *The Bubble Economy of Japan*, San Jose State University, Department of Economics, n.d. Publication date not specified, Web. 11 Dec. 2009, <http://www.sjsu.edu/faculty/watkins/bubble.htm>.

Historical Exchange Rates Oanda, Web. 12 Dec. 2009, <http://www.oanda.com/currency/historical-rates>.

World Economic Outlook Database, IMF, April 2009, <http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/download.aspx>.

"FDI statistics." United Nations Conference on Trade and Development United Nations, Web. 10 Dec. 2009. <http://stats.unctad.org/FDI/TableViewer/tableView.aspx>.