

Asian Financial Crisis of 1997

South Korea joined the Organization for Economic Co-operation and Development (OECD) in 1996, taking a significant step towards becoming an advanced economy. By the early 21st century, the country's gross national income per capita surpassed that of most of its neighbors, with the exception of Japan and Taiwan (IM, 2022). However, these remarkable achievements were occasionally overshadowed by economic challenges arising from both external and internal factors, notably the 1997 crisis.

This crisis, often referred to as the Southeast Asian monetary crisis (REIS, 2019), involved a series of currency devaluations and other events that began in the summer of 1997, affecting numerous Asian markets. The foreign exchange markets first faltered in Thailand due to the government's decision to cease indexing its local currency to the US dollar (USD). The subsequent decline of the currency quickly spread throughout East Asia, leading to a downturn in stock markets and a decrease in import revenues.

The situation was aggravated by non-performing loans in many South Korean commercial banks. In December 1997, the International Monetary Fund (IMF) approved a loan of \$21 billion as part of a \$58.4 billion bailout plan (KOO; KISER, 2001). By January 1998, the government mandated the closure of one-third of South Korea's commercial banks (KOO; KISER, 2001). Throughout 1998, the South Korean economy continued to contract, averaging a quarterly decline of 6.65% (KOO; KISER, 2001), and the South Korean chaebol Daewoo was dismantled by the government in 1999 due to debt issues.



Source: Hankookilbo's archives (1998)

The actions taken by the South Korean government, along with debt exchanges with international financiers, helped stabilize the nation's financial predicament. Much of South Korea's recovery from the 1997 Asian financial crisis can be attributed to labor market adjustments—characterized by a dynamic and productive workforce with flexible wage rates—and alternative financing sources (KOO; KISER, 2001).

By the first quarter of 1999, GDP growth rebounded to 5.4%, and robust growth in subsequent periods, coupled with deflationary pressure on the currency, resulted in an annual growth rate of 10.5%. In December 1999, President Kim Dae-jung proclaimed the end of the currency crisis (KOO; KISER, 2001).

References

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