



***Making Financial Markets Work for Development  
10 Years after the Asian Financial Crisis – Lessons  
Learnt?***

***ÖFSE-Conference, Vienna***

***18 September 2007***

**The IMF Ten Years after the East Asian Crisis:  
Role, Policy Recommendations, Lessons Learnt?**

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## The IMF's Role in Bringing about the Crisis

“IMF-Trap” rather than “Modernisation Trap”?

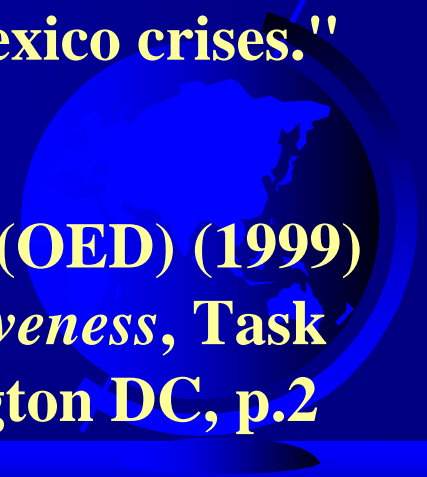
Fund knew or had reason to know that policies it recommended to Asian “Tigers” would trigger Crash

“Chilean Miracle”/Crash 1981-2 (GDP fell by over 14%; government forced to socialise private losses; quick, unsequenced liberalisation, **ROBICHEK Doctrine!!!**)

neglect of proper sequencing and institution building  
"featured prominently in the Chile and Mexico crises."

*Source:*

IBRD, Operations Evaluation Department (OED) (1999)  
*1998 Annual Review of Development Effectiveness*, Task  
Manager: Robert Buckley, IBRD: Washington DC, p.2



**China, Taiwan, and India retained substantial state control over financial sector - NO “contagion”.**

**“China... with a non-convertible currency largely isolated from speculative attack”**

**WTO (1998) *Annual Report 1998*, Vol.1, Geneva, p.26**

### **An IMF Self-Interest in Crises?**

**IMF's First Deputy Managing Director argued during Crisis (using Thailand & Mexico as supporting evidence) that the prospect of larger crises caused by capital account liberalisation would call for more IMF-resources to cope with the very crises the IMF's proposal would create in the future**

**Stanley Fischer (1997) “Capital Account Liberalization and the Role of the IMF”, IMF Seminar *Asia and the IMF*, Hong Kong, (19 September)**

**<http://www.imf.org/external/np/apd/asia/FISCHER.HTM>**

## Lessons Learned – The IMF

- a) Liberalisation can be too quick - Sequencing
- b) With Malaysia's help: Capital controls can work and ARE a statutory right of any IMF member
- c) Countries may reconsider IMF's usefulness

### Claims outstanding:

70 bill. SDR (2002)

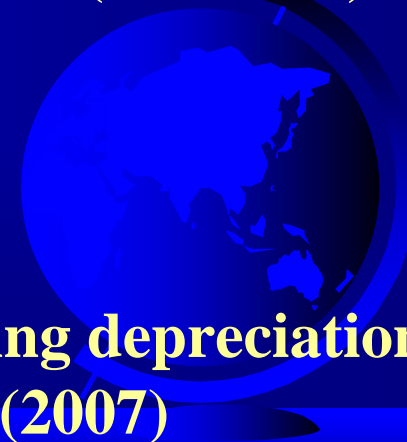
appr.15.5 bill. SDR (end 2006)

### Projected income shortfall\*:

FY 2007:      appr. 17%

2008–10:      up to 41%

\*% of Net Administrative Budget (not counting depreciation for capital assets and IT equipment); Torres (2007)



## **Lessons Not Learned – The IMF**

**a) IMF continues to FORCE members not to exercise their right to capital controls & to use aid increases meant to finance MDGs to stock up unnecessary FOREX reserves**

**IMF-IEO (2007): this practice so common that “outside observers perceive the Fund as ‘blocking’ the use of aid”**

**b) No real change of neoliberal ideology**

**c) Not prepared to defuse discontent of members, especially from the South regarding institutional arrangements (nomination of Managing Director, voting, representation of countries)**



## **Lessons Learned – Southern Members**

- a) IMF not as necessary as one had thought (East Asian Countries, Argentina after 2001)**
- b) IMF policies might not always be helpful or advisable**
- c) IMF may be very lenient with deficit countries after all, asking surplus countries to adjust**

**A “5 percent of GDP permanently higher investment rate” (*WEO*, p. 113) of surplus countries**

**IMF-employee: shifting one’s demand away from Asia**

**OPEC should “recycle their petrodollars” as in 1970s**



# RECOMMENDATIONS

## a) Member Countries should use their contractual rights

**Art. VI(3) Articles of Agreement of the IMF:**  
“exercise such controls as are necessary to regulate international capital movements”

**Art. XXX:** payments for amortisation of loans, depreciation of direct investments can be restricted

**Article VI(1)(a):** IMF's general resources may not be used to meet a large and sustained outflow of capital

**Art. IV(1)(ii):** no "erratic disruptions“

## b) Introducing financial accountability of IMF (“tort law”)



## RECOMMENDATIONS

c) **NEVER** follow the “advice” of IFIs unless you have checked and counter-checked whether this is advisable

d) Be aware that international regulations, such as **Basle I** (!!!) may be dangerous, because they may help bring about crises and enormous damages

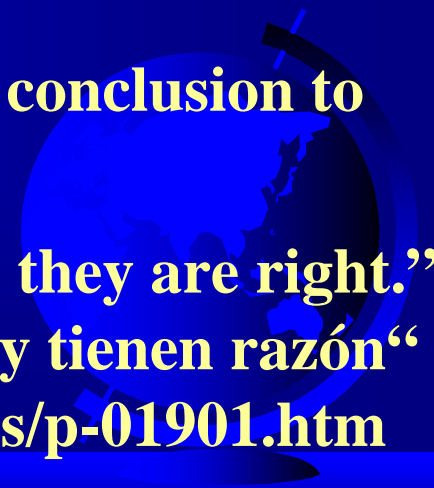
e) Sovereign bankruptcy needed (High-Level Regional Consultative Meeting Asia & Pacific, FfD, August 2000)

f) Perhaps, take M. Dominique Strauss Kahn’s conclusion to heart?

“Many Argentines see the IMF as the devil, and they are right.”

“Muchos argentinos ven al FMI como el diablo y tienen razón“

<http://www.clarin.com/diario/2007/09/06/elpais/p-01901.htm>



**THANK**

**YOU**

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