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THE INTERNATIONAL MONETARY FUND: ITS ROLE

IN THE ASIAN FINANCIAL CRISIS

The International Monetary Fund (IMF) is an organization formed at the Bretton Woods economic conference in 1944, tasked to maintain monetary stability in the world community (Investopedia). The Bretton Woods system required that member countries fix their exchange rates vis-à-vis the US dollar, to be changed only under specific circumstances. This linkage was abandoned in the early 1970s.

Today, the IMF plays three major roles in the global monetary system: It surveys and monitors economic and financial developments around the globe, lends funds to countries with balance-of-payment difficulties, and provides technical assistance and training for countries that request them. In the perception of many in the developing world, the IMF has played major roles in helping countries overcome financial problems such as those that occurred in Mexico, Brazil, Argentina and Mexico, and Turkey. The problem with Turkey sticks out like a sore thumb: the country has had it eighteenth program with the IMF but its problem persists.

In 1997, the IMF thrust itself into prominence when it intervened in the Asian Financial Crisis as countries such as Malaysia, Singapore, the Philippines – and more particularly, South Korea, Thailand, and Indonesia -- saw the value of their currencies plummet to unprecedented lows. The timely assistance provided by the world financial body helped these countries tide over the crisis but the process was fraught with painful adjustments and even triggered harsh criticism of IMF policy measures in these countries as to their appropriateness, given the peculiar domestic macroeconomic conditions. South Korea obtained a $55 billion credit from the IMF with certain attached conditions. South Korea was to open its economy and banking system to foreign investors and eliminate trade-related subsidies and import licensing, thereby making it vulnerable to foreign competition . The IMF also required the country to maintain a low inflation rate of 5 per cent. This was inconsistent with the fact that the fall in the value of the Korean won and subsequent rise in import prices would create pressures on domestic prices. The unpleasant consequence of this was that the high interest rates made all the more difficult for South Korean companies to service their debts, thus the IMF was criticized for exacerbating the crisis these companies were facing instead of abating them.

By applying cut-and-dried solutions to problems in countries with unique problems, the IMF opened itself to criticism of lack of competence and expertise in doing its job, according to Harvard economist Jeffrey Sachs. To illustrate this point, the IMF, according to Sachs, was profuse with praise for the South Korean and Thai governments a few months before these countries plunged into the financial crisis. Thus the international body needed to undergo reforms and to invite outside experts as well as to open itself to outside scrutiny (Sachs 1997, cited in Hill 366).

Conclusion

An objective evaluation of the role and performance of the International Monetary Fund in relation to developing countries experiencing financial distress is necessary in order find a balance between criticisms against the world financial body and its real accomplishments. The Asian Financial Crisis of 1997 and subsequent events need to be studied in greater depth in order to arrive at a good evaluation, as well as a determination of whether the IMF may need reforms as its critics so vociferously suggest.

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