

The imf and the east asian crisis essay examples

[Parts of the World](#), [Asia](#)



The East Asian nations started marching steadily along the growth path from the mid 20th century. From the 60s the growth and development scenario in this region was impressive. Most of the indicators of development showed a positive change at a rapid pace. Income grew at a steady pace with high rate of savings and investment. Governments' thrust on education and industrialization gave impetus to the growth of the economies. Poverty was reduced considerably and the general standard of living improved to a large extent in a span of thirty years. The growth trajectory was so impressive that it is often termed as the ' East Asian Miracle'. This growth experience had been an interesting area of studies for scholars. The growth strategies were mostly devised by the governments and it had drawn very little from the Washington Consensus. Since the growth had taken place without following the directives of the Washington Consensus the World Bank and the IMF seemed to give little importance to this comprehensive growth phenomenon.

As the crisis broke out in the late 1990s and spread like wild fire among the East Asian Nations, many sections of the intellectuals felt that their predictions had proved right. The governments of these countries were blamed for bringing the economy to a period of crisis. There is a section of intellectuals who could perceive the role of the IMF in bringing these economies to this period of crisis. According to them, the IMF not only amplified the problem it is also, to a certain extent, responsible for this economic downturn that East Asia faced in the last decade of the twentieth century. In this paper we discuss the views of Professor Stiglitz [Stiglitz, 2002(a); Stiglitz, 2002(b)] on the IMF's role in the East Asian crisis that

emerged at the turn of the century.

In his article the East Asia Crisis, Stiglitz(2002(a)) blames the IMF for spreading fears at the onset of the crisis which exacerbated the problem rather than pacifying it. He points out that a rapid pace of liberalization in the capital and financial markets is one of the major cause of this crisis. He opined that in the last few decades there had been a sea change in the IMF's policy objectives. There was more reliance on the financial market than on public control. This was even a denial of the caution given earlier by Prof. Keynes about market failures. The IMF strongly believed in the free market regime. But inconsistencies can be perceived in the IMFs policies. The policy of keeping exchange rates unsustainably high is quite contrary to the policy of financial sector liberalization.

The World Bank and the IMF policy of persuading the Asian countries to liberalize their capital markets were fraught with caution by economists in these countries. The flow of speculative money signaled danger for the economies in the years to come. Their fears were proven right when the capital market faced with debacle in most of the East Asian countries as speculative money started flowing out of the economies. The IMF provided huge amount of funds to stave off the crisis. This policy actually made the problem further pronounced. The objective behind the IMF fund flow was to maintain the exchange rate at a high level. Besides, the monetary ' relief' came with ' strings'. The countries were required to launch ' structural reforms' program. Apart from maintaining higher interest rates, reducing government spending and increasing tax rates, the reforms program also aimed at making political and economic changes in these countries like

increased transparency, changes in industrial policies and a more openness in trade and capital flows. The idea behind this restructuring was to restore the macroeconomic imbalance which, according to IMF is the primary cause of the crisis in the East Asian countries. The policies were far from successful in restoring financial health of the economies.

A country facing a severe downturn should follow a policy to boost aggregate demand. The austerity measure imposed by the IMF was just contrary to this economic perception. The contractionary policy followed by IMF worsened the situation. It affected the neighboring countries as well. This is because the incumbent country's imports were reduced to bring down trade deficit. Another policy which proved devastating was the high interest rate regime. The IMF directed the economies to maintain a high interest rate. The logic behind this decision was that high interests will attract foreign capital into the country. This capital flow will stabilize the exchange rate. The high interest rates were dangerous for the overleveraged firms in these countries, according to Stiglitz. As firms became bankrupt the non performing assets of the banks increased. The banks' position weakened. The IMF maintained a policy of shutting down the weak banks. There were dearth of funds. Firms could not even get sufficient funding to maintain their working capital. The IMF was not in favor of government intervention in the corporate sectors to recover the bankrupt firms. It believed in sale of assets. That would help the corporates to generate funds for recovery. This did not prove to be a solution. That corporate sector could not recover in this manner.

The IMF strategy which proved to be most dangerous. As pointed out by Stiglitz, was its reluctance towards socio-political issues. The IMF did not pay

heed to the warning bells sounded from several quarters that such contractionary fiscal and monetary policies would create clashes in these nations which is composed of a number of ethnic groups. In fact, riots broke out in many of these countries as the recession deepened.

With monetary tightening and fiscal contraction on the agenda the IMF was oblivious of a more important objective that was essential for this part of the world - economic and social development. The East Asian countries plunged into the darkness of unemployment, poverty, low income trap because of the strict contractionary policies imposed by the IMF.

The IMF's strategy in handling the crisis in the East Asian countries clearly points out a shift in its objectives which Stiglitz points out as the 'other agenda'. The IMF was more keen on repaying the lenders, especially the lenders from the G7 countries. Instead of following the process of 'standstill' and accelerated bankruptcy which would have helped the economies recover, the IMF took the policy of ensuring creditors' payback. It was clear that the billions of dollars that the IMF provided to the developing nations were used to maintain a high exchange rate so that the foreigners and the rich could gain from their invested capital at a steady and high rate. The European and the American lenders were happy to have got back their money out of a contagious crisis. On the other hand, the businesses and the workers on the recession hit East Asian Nations languished under low production, lack of funds low productivity and growth and rising poverty. The IMF was oblivious of its social objectives while serving the interests of the creditors from the developed world. This, according to Stiglitz, was the prime cause of discontent against the IMF in the East Asian nations. The

crisis that these nations had faced at the turn of the century is often termed as the 'IMF' crisis.

References:

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