

The Asian Financial Crisis of 1997-99

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Introduction

The Asian economic crisis of 1997-99 was a singular event in the region's postwar economic history. Since the period of high growth began—a period dating to the 1950s for Japan and the 1960s for Korea, Taiwan, Hong Kong and Singapore—East Asia had not experienced a collective shock of this magnitude. Much of the debate about the crisis has focused on its economic dimensions, particularly on the market forces and economic policy choices that generated such a sharp contraction. The crisis, however, also had a strong international political dimension that centered on the perennial conflict between creditors and debtors in the world economy.

When economic crises erupt, creditors are concerned primarily about repayment, but also about potential policy reforms that will restore investor confidence. Creditors tend to believe that the origins of financial crises can be found primarily in the borrowing countries, for example, in mismanaged exchange rates or weakly regulated financial systems.

In contrast, debtor governments seek financial support to ease the tremendous social costs associated with the crisis, whether in the form of debt forgiveness, rescheduling, or new financing. Since creditors share responsibility for bad lending, debtor governments feel, not all the burdens of adjustment should fall on the citizens of the

borrowing countries. During the Asian financial crisis, Malaysia argued repeatedly that the crisis was caused by increasing financial integration and that a recurrence could only be prevented by fundamental reforms of the international financial system.

Given their weak bargaining position, and the desire to maintain access to flows of both public and private credit, debtor governments typically make some policy adjustments; their sheer lack of resources often guarantees that this is the case. But they may or may not have an interest in undertaking the full panoply of reforms sought by their creditors and the international financial institutions, most centrally the IMF. Moreover, governments may also resist reforms because of interest group and constituent pressures or because of the nature of political institutions and decision-making processes.

Overview of Events I: The Crisis Breaks

As with most countries in East and Southeast Asia, Thailand maintained a fixed or pegged exchange rate regime prior to the financial crisis of 1997. This policy choice obligates a country's central bank to buy and sell foreign currency to hold the price of the currency—the exchange rate—within a narrow band. When the demand for local currency—the *baht* in Thailand's case—outstrips supply, the central bank will buy foreign currency with *baht*. Conversely, when there is excess demand for foreign currency, the central bank sells dollars or other foreign exchange at the fixed rate, using its foreign exchange reserves to do so.

This policy had several perceived advantages, including its attractiveness to investors. A stable currency eliminates (or at least appears to eliminate!) exchange rate risk. Over the course of the 1990s, Thailand mirrored other countries in the region by

gradually opening its capital account, allowing domestic banks and firms to borrow abroad and foreigners to lend and invest more freely. This borrowing fueled economic booms throughout the region. In Korea, the boom took the form of aggressive fixed investment in infrastructure and equipment, but in other countries it was also made manifest in property speculation, stock market bubbles and outright financial fraud. Well prior to the foreign exchange crises of the second half of 1997, these bubbles had begun to burst, exposing the fragility of weak domestic banking sectors.

Beginning in 1995, Thailand began to experience speculative attacks: situations in which the sale of the *baht* was motivated by fears that the central bank would have inadequate reserves to maintain the fixed rate. On July 2, 1997 the demand for dollars proved overwhelming, and after several hours the central bank was forced to allow the *baht* to float; its value would be determined by supply and demand in the market without any obligation for the central bank to intervene. From a trading range of roughly 24-26 to the dollar in the months prior to the crisis, the *baht* fell to more than 29 to the dollar in a single day. Over the course of the next six months, it would hit a low of almost 55 to the dollar before stabilizing.

The successful assault on the Thai *baht* was immediately felt in the foreign exchange markets elsewhere in Southeast Asia, the phenomenon known as "contagion" (for a more extended chronology of the crisis, see <http://www.stern.nyu.edu/globalmacro/>, Asian Crisis; Basic Readings; Chronology). The Philippines was forced to float the *peso* on July 11, and Malaysia followed suit shortly thereafter. Although the crisis in Indonesia would ultimately prove to be the most severe in the region, the *rupiah* did not initially follow the domino pattern. Nevertheless, by mid-August Indonesia was also

forced to abandon the use of a band for its currency, and within three months the *rupiah* had lost more than two-thirds of its value.

The crisis moved beyond Southeast Asia with a decision by Taiwan's monetary authorities on October 17, 1997 to let the New Taiwan dollar float. Speculation immediately shifted to the Hong Kong dollar, which had been pegged to the US dollar since an earlier foreign exchange crisis in 1983. With massive reserves (and the promise of even more support from Beijing, which had taken control of the former British colony in June), Hong Kong's financial authorities successfully defended the peg, but the sharp increase in interest rates required produced a dramatic sell-off in the Hong Kong stock market.

The sell-off in Hong Kong in October 1997 rippled through the stock markets in the United States and Europe, and marked the first sign that economic events in Asia could have global repercussions. Hong Kong's woes were felt most acutely in Korea, where the *won* came under intense pressure in early November. On November 21 it too was allowed to float. The Korean economy was much larger than any of the Southeast Asian ones, and its crisis sent a new set of shockwaves through the world and regional economies.

The events in Korea did not mark the end of the currency crises of 1997-98; the effective Russian default of August 1998 provided another sharp shock to emerging markets, and Brazil experienced the fallout in early 1999. Other Latin American markets also came under pressure. But this case study focuses on the four Asian countries hit hardest by the crisis: Indonesia, Thailand, Malaysia and Korea.

Overview of Events II: The United States, Japan, and China Respond

The United States

When the crisis broke, the United States was in its sixth full year of robust economic growth. Nonetheless, the U.S. had strong concerns about the prospect that Asia's growth and exchange rates might collapse. In addition to the potential economic impact,¹ the Clinton administration feared the social and political effects of the crisis and even the prospect that countries' changing economic fortunes could upset the delicate strategic balance in the region.²

The Clinton administration had waged a difficult political battle over a rescue package for Mexico in early 1995, following a somewhat similar financial crisis there. Congressional leaders of both parties had initially supported a rescue package for the country, but that support quickly fell apart. President Clinton was forced to use American influence in the IMF and other international organizations, persuasion of allies, and discretionary resources in the Exchange Stabilization Fund to cobble together the Mexican bailout. In the aftermath of that program, Congress severely tied the hands of the president with respect to the assistance that could be provided without Congressional approval. A decision not to seek a waiver to this policy meant that the United States did not contribute directly to the first Asian rescue package, the \$17 billion arrangement with Thailand signed in August. That decision appeared to signal American disinterest in the region's troubles.

¹ . American exporters would be damaged by the fall in demand and exchange rates that made imports prohibitively expensive for Asia. Import-competing U.S. industries would face a flood of Asian exports. In combination, these developments would mean widening current account deficits (for estimates on these effects, see Marcus Noland et. al., "The Depressing News from Asia" at <http://www.iie.com/NEWSLETR/news98-5.htm>).

² See Stephen J. Blank, "East Asia in Crisis: the Security Implications of the Collapse of Economic Institutions at <http://carlisle-www.army.mil/usassi/ssipubs/pubs99/eastasia/eastasia.htm>; and Robert Zoellick and Philip Zelikow, *America and the East Asian Crisis: Memos to a President*, New York: W.W. Norton, 2000.

Even had Congress not restricted the president's use of the Exchange Stabilization Fund, the U.S. could not have acted alone in providing the enormous amounts of financing required to mitigate the multiple crises in the region. The centerpiece of U.S. strategy was therefore to rely heavily on the international financial institutions.

The key policy issues thus centered on what conditions the IMF and the World Bank would seek in return for their support. This issue proved highly controversial, because the crisis overlapped with a debate over expanding the IMF's financial resources. A "minimalist" line would have provided financial support for the purpose of restoring balance-of-payments equilibrium and applied limited conditions to the monetary, fiscal and exchange rate policies required to achieve this goal (see Martin Feldstein "Refocusing the IMF" at http://www.stern.nyu.edu/globalmacro/asian_crisis/imf_role.html).

This view was also held by a somewhat odd coalition of critics of the IMF on both the left and right of the political spectrum, some of whom argued that the IMF should be abolished altogether (See George Schultz, William Simon and Walter Wriston, "Who Needs the IMF?" at http://www.stern.nyu.edu/globalmacro/asian_crisis/imf_role.html). These libertarian critics argued that IMF programs ended up bailing out not the countries and their citizens but foreign creditors. The prospect of such bailouts generated a problem known as "moral hazard": the prospect that creditors might be assisted by IMF programs made them less prudent in making loans in the first place, thus contributing precisely to the kinds of financial crises that the IMF should be trying to prevent.

Another strand of criticism, emanating from a number of prominent economists and anti-globalization activists, was that the IMF pursued the wrong economic strategy

during the crisis (Jeffrey Sachs, "The Wrong Medicine for Asia," at <http://www.stern.nyu.edu/globalmacro/>, Asian Crisis, Basic Readings). Tight monetary and fiscal policies were designed to restore investor confidence, primarily by shoring up the exchange rate. In fact, some argued, these policies had the exact opposite effect. Investors saw high interest rates and tight fiscal policy as the prelude to even deeper recessions and continued to flee the currencies accordingly. The appropriate strategy for managing the crisis would have combined more relaxed monetary and fiscal policies with greater emphasis on forcing banks and other creditors either to accept losses or to reschedule debt.

Yet another set of views characterized the thinking at the Treasury Department, which played the leading role in defining the course of U.S. policy.³ In the view of the Treasury, the need to restore confidence did in fact require a tightening of fiscal and monetary policy in the short run, even at some admitted economic cost. Following the initial failure of the IMF program in Korea, Treasury also came to support the need for banks to bear some responsibility through rescheduling exercises, the most comprehensive of which was reached for much of Korea's debt in March 1998.

But the problems of the East Asian countries did not stem solely from external financial events, nor were they short-term in nature. The new Washington consensus emphasized the fact that both public and private governance in the region was weak. Domestic banking systems had been an important conduit for foreign borrowing, and were poorly regulated. Corporate governance was characterized by lack of transparency and

³. American views of the crisis can be found in several speeches by Treasury Department officials. See U.S. Deputy Treasury Secretary Lawrence H. Summers' Remarks Before the Foreign Policy Association, February 25, 1998 at <http://www.ustreas.gov/press/releases/pr2257.htm> and Treasury

accountability to shareholders. Corruption appeared to play a role in the crisis as well, summed up in the view that the Asian economies were characterized by "crony capitalism." The reform agenda implied by this view was thus a highly ambitious one, involving not only short-term policy measures but longer-term institutional and regulatory reforms as well.

Japan

Japan's circumstances at the onset of the crisis were almost exactly the opposite of those in the United States. Rather than enjoying a long expansion, Japan was in the middle of a period of slow and erratic growth. Moreover, events in Japan had taken a decided turn for the worse just as the Asian financial crisis was breaking. In April 1997, the government implemented a tax increase that immediately sent the gradually-recovering economy back into recession. In November 1997, Yamaichi Securities and Hokkaido Taku-shoku Bank were closed, signaling the onset of a serious domestic banking crisis.

Throughout the crisis, the United States argued publicly that Japan's failure to address its internal economic problems—both macroeconomic and microeconomic or financial—was costly for the region as a whole. The depreciation of the yen prior to the crisis placed direct competitive pressures on Korea and Taiwan, and undermined the competitiveness of the ASEAN countries as well. Currencies in that region were tied to the dollar, and as the yen fell, their currencies appreciated and their economies lost competitiveness. Weak growth in Japan also limited its ability to absorb exports from the region and to invest there.

Most importantly, the fragile balance sheets of Japanese banks made them particularly sensitive to adverse developments abroad. Japanese banks were much more heavily exposed to Asia than their American counterparts, with 40 percent of total foreign lending by Japanese banks going to the region. In many of the Asian crisis countries, Japanese banks had been among the first to call in lines of credit and to limit their exposure when the crisis struck.

Despite (or perhaps because of) its weakened economic position, Tokyo had a very different view of the crisis than Washington. It was more sympathetic to the policies of the countries in the region and less sympathetic to the emphasis on restoring confidence and market-oriented reform advanced by the Treasury Department and the IMF.

In the fall of 1997, the Ministry of Finance floated a proposal for an Asian Monetary Fund (AMF). The AMF would be used in cases where IMF funds were inadequate to meet the needs of countries seeking emergency balance-of-payments financing. It would disburse funds more quickly and in larger amounts than the IMF and with fewer conditions (see Eric Altbach, "The Asian Monetary Fund Proposal" at <http://www.jei.org/Archive/JEIR97/9747f.html#Heading2>).

Why the AMF? Japan was in any case being called upon to supply and organize regional assistance, given the manifest shortfalls in IMF resources. In the Thai package, for example, total IMF financing was over \$10 billion short of what was needed, and Japan's contribution to the package equaled that of the IMF itself. As we have seen, the United States pledged nothing. The facility also indirectly supported Japan's own banking system, which as we have seen had the highest exposure to the region. But the proposal

also reflected the views of a group of technocrats in the Ministry of Finance who sought to counter U.S. and IMF influence with an institution based on an alternative economic philosophy.

The U.S. strongly rejected the AMF concept, primarily on the grounds that it threatened to weaken the authority of the IMF and its ability to impose appropriate conditions. When senior finance ministry and central bank officials from APEC countries met in Manila on November 18-19, the framework that they elaborated—the so-called "Manila Framework"—centered overwhelmingly on the IMF as the lead player (See Treasury Secretary Robert Rubin's summary of the framework at <http://www.ustreas.gov/press/releases/pr2073.htm>).

Japan's ideas for assistance to the region resurfaced in October 1998 in bilateral guise when Japan's finance minister, Kiichi Miyazawa, unveiled a plan to disburse \$30 billion in loans to the region (for an overview of the initiative, see the documents on the Ministry of Finance website at <http://www.mof.go.jp/english/if/kousou.htm>). In announcing the plan, Miyazawa made a number of criticisms of the IMF's role in the crisis during the previous year, arguing that programs were inappropriately designed, were too harsh, and failed to involve the private sector. The Miyazawa plan, in contrast to the IMF's, would provide technical assistance, direct financing, guarantees, and interest-rate subsidies that would more directly assist private sector recovery. All lending would be in yen. In December 1998 and January 1999, support programs were announced for Malaysia, Thailand, Korea and the Philippines. Despite the critical overtone of the Miyazawa Plan announcement, the United States and the World Bank welcomed the Japanese effort.

China

Unlike the United States and Japan, China was not a creditor country, and therefore was not positioned to play a central role in defining the region's response to the crisis. Neither was it a crisis country. Despite substantial banking problems of its own, the country's relatively closed capital market insulated it from the short-term capital movements that undid others in the region.

However, China was able to use the crisis as an opportunity to expand its economic diplomacy in the region. Beijing committed not to devalue its currency, an action that many feared would set off another spiral of competitive devaluations, and contributed directly to several of the rescue packages. Positive U.S. comments on Beijing's contribution contrasted sharply with the periodically tough words reserved for Tokyo coming from Washington during the first year of the crisis, and led some strategic analysts to see the crisis producing a subtle shift in the strategic balance in Asia.

Overview of Events III: Politics in the Region⁴

To what extent were these governments interested in, or capable of, undertaking the "orthodox" reforms demanded by creditors and the international financial institutions? To what extent did they pursue "heterodox" alternatives? To what extent did they simply muddle through? How did these policy choices affect their performance? (For detailed overviews of country performance, see <http://wbln0018.worldbank.org/eap/eap.nsf>, click on Regional Update).

⁴. This section draws on Stephan Haggard, *The Political Economy of the Asian Financial Crisis*, Washington D.C.: The Institute for International Economics, 2000, ch. 2.

The course of policy was in all cases driven by learning. In virtually all cases, initial IMF programs underestimated the depth of the crises, failed to reassure the markets, and required modification, typically in the direction of loosening fiscal policy to address the social dimensions of the crisis. However, the importance of politics can be seen by focusing on six administrations in four countries: four democratic ones, two in Korea's presidential system (Kim Young Sam [2/1993-2/1998 and Kim Dae Jung 2/1998-present), two in Thailand's parliamentary system (Chavalit [11/96-11/97] and Chuan [11/97-1/2001]); one semi-democratic, dominant-party parliamentary system (Mahathir in Malaysia [first elected 7/1981, most recently re-elected 4/1995 and 11/1999]), and one authoritarian system (Suharto in Indonesia [3/1966-5/1998]).

The Democracies: Thailand and Korea

In Thailand, all of the democratically-elected governments prior to the crisis—Chaitichai, Chuan, Banharn and Chavalit—had rested on shaky multiparty coalitions. These coalitions were made up of internally weak and fragmented parties that provided ample opportunities for private interests to gain access to the policy process. Party leaders constructed parliamentary majorities from a pool of approximately a dozen parties, and coalitions typically consisted of six or more parties. Cabinet instability was a chronic problem. The parties, in turn, relied heavily on national or provincial businessmen with strong personal as well as political, interests in financial market and other economic policies.

The Chavalit government was made up of a six-party coalition including many parties from the previous government, but differed in that it attracted a highly-regarded team of technocrats. The Central Bank succeeded in staving off two speculative attacks

on the *baht* prior to its final collapse in July, but the government failed in efforts to change the fixed exchange rate regime. The problems of coalition politics were most apparent in the recurrent difficulties the government faced in confronting the mounting problems in the financial sector. The government delayed in devising a plan for strengthening weak finance companies and continued to provide a number of them costly liquidity support.

These events unfolded *prior* to the collapse of the *baht*, and were taken by market analysts as signals of the government's weaknesses. The problems in formulating a coherent policy stance contributed directly to the resignation of the finance minister two weeks before the final assault on the *baht* in July of 1997, but even this crisis did not crystallize a more coherent response. The process of supporting failing finance companies was accused of corruption. On October 19 another finance minister resigned in frustration over the reversal of a small gas tax increase a mere three days after it had been announced as part of the government's IMF-backed program. With public protest against government ineptitude rising, including within the business community, Chavalit resigned.

Korea would appear to have been much better positioned to respond to the crisis than Thailand. The country has a presidential system in which the president possesses a range of legislative powers, and Kim Young Sam enjoyed a legislative majority. But a corruption scandal at the outset of 1997 involving loans to the Hanbo corporation, a giant steelmaker, had weakened the president. Moreover, a presidential election was scheduled for December 1997. Increasing concern about the deteriorating economy fragmented the ruling party and contributed to the party's ultimate defeat in this election at the hands of Kim Dae Jung.

These political problems affected economic policy-making in two areas: the management of major corporate bankruptcies and the passage of important financial reform legislation. The most damaging corporate failure was of the Kia group. Kia's management exploited the upcoming elections to mount a major campaign in the summer of 1997 for government support in dealing with its creditors. By late October—prior to the onset of the crisis in Korea—the Korean banking system had been severely damaged not simply by the bankruptcies themselves, but by a highly politicized bankruptcy process.

In the meantime, the passage of a package of financial reform bills had also been stalled by disagreements within the ruling party. Once the crisis broke, their passage became an important signal of government commitment to resolving the crisis, but neither the ruling party's presidential candidate nor the opposition had any incentive to cooperate with the government in getting the legislation passed. It was in this politically-charged environment that the IMF's initial program failed to take hold and had to be revised immediately following the election.

In the light of these initial problems, the crisis generated disaffection with incumbents and led to changes in government. In Thailand, the fall of the Chavalit government led to the formation of a new government led by the Democrats. They also had to form a multi-party coalition, but the crisis allowed the Democrats to maintain control over the key economic portfolios. The new government was able to take decisive action on several fronts, most notably in the swift closure of virtually all of the suspended finance companies and the strengthening of the agency with responsibility for managing the disposition of their assets.

The new government, however, was not altogether immune from the constraints that had plagued its predecessor. The legislative process required review of legislation by a Senate populated with businessmen with a direct stake in important reform legislation, which they sought to modify and delay. Divisions both within the coalition and within the Democrats in the cabinet slowed the introduction of a number of important reform measures for over a year, including new laws governing foreign investment and bankruptcy.

In Korea, by contrast, Kim Dae Jung was an outsider without the same ties to large corporations as his predecessor. He aggressively exploited his electoral honeymoon to pass a number of important reforms, including the same package of financial bills that had languished under Kim Young Sam and a range of reforms of corporate governance. As a result, Korea's recovery from the crisis was much faster than that of other countries in the region.

Malaysia

Malaysia's political system is difficult to categorize. On the one hand, its dominant-party system is more institutionalized and pluralistic than in Indonesia under Suharto, and the dominant party is subject to some electoral constraints and internal competition. But when the crisis struck in mid-1997, it did not face substantial challenges from coalition partners or the opposition, who were weak, nor from elections, which were not due until 2000. Moreover, the political leadership had not shied away from using intimidation and control of the legal system to blunt protest and opposition in the past.

Mahathir had built his political base on an affirmative-action policy that favored the development of the indigenous Malay private sector, although a number of Malaysian

Chinese firms benefited from his policies as well. From the outset of the crisis, Mahathir took a nationalist response to the crisis and avoided recourse to the IMF. He argued that the crisis was a result of "speculators" and hedge funds, and hinted that capital controls—limits on both inflows and outflows of investment—might be required. Investors naturally feared that such controls would trap them in the Malaysian market. As a result, Mahathir's speeches created profound market uncertainties that contributed to the rapid decline of the *ringgit* in the second half of 1997. Efforts to bail out politically-favored companies added to this uncertainty.

In December, Mahathir reversed course by delegating authority to Deputy Prime Minister Anwar, who introduced an "IMF program without the IMF." For the next six months, policy seesawed between Anwar's more orthodox views and those of Mahathir and his allies. These disagreements were related to the question of succession. Anwar's position as Deputy Prime Minister suggested that he would ultimately take over leadership of the party, and with it the position of prime minister. Following the fall of Suharto in May 1998, Anwar appeared to issue a more direct challenge to Mahathir, believing that the time was ripe for a "reformasi" movement that would champion political and economic reform and an attack on corruption. But the Prime Minister was able to rally the ruling party, sideline Anwar, and ultimately have him arrested and convicted on charges of corruption relating to a purported sexual scandal. As this political drama was unfolding, Mahathir also dismissed the Central Bank governor, took over the finance portfolio, and on September 1, 1998—the day before sacking Anwar—imposed capital controls.

Indonesia

Although Malaysia followed a somewhat erratic and ultimately heterodox course, the existence of a dominant party and strong bases of private-sector and Malay support allowed Mahathir to consolidate his authority. In Indonesia, by contrast, Suharto initially cleaved closely to the IMF proposal and was initially seen as enjoying some of the "advantages" of a tough dictatorship. He responded quickly to the crisis by freeing the *rupiah* rather than subjecting the country to a costly defense, and initiated a number of reforms, some of which appeared to cut against the interests of cronies and family members.

But within months of these initiatives, Suharto began to undertake a number of rearguard actions that worked at cross-purposes, including several costly investment projects and damaging financial support to a number of crony banks following a mismanaged bank's closure in November. In December, Suharto failed to participate in an important international meeting, and rumors circulated that he was in poor health (it was later revealed that he had had a stroke).

In democracies, such rumors can be unsettling, but in a system as highly centralized as Indonesia's, where succession procedures are highly uncertain, they threatened the very regime and the entire set of property rights that went with it. Even before a controversial budget speech in January, it was clear that Indonesia was experiencing much greater difficulties than other countries in the region. Suharto's choice of B. J. Habibie—an engineer with a record of strong support for interventionist industrial policy—as vice president in February created alarm among investors. In the spring, opposition to the Suharto regime mounted steadily. While other countries had begun to see some stabilization of exchange rates, Indonesia continued to experience high volatility.

The opposition to the regime crested in mid-May, with riots in Jakarta that killed as many as 2,000 people and that resulted in Suharto's ouster. On all indicators, Indonesia fared worse than other countries in the region.

Theoretical Issues

The origins of financial crises are complex and cannot be reduced to any single factor. The East Asian countries pursued a risky exchange rate strategy, particularly as they opened their capital accounts to short-term capital flows. The increasing financial and trade integration of the Asia-Pacific region meant that once a crisis struck one country, it spread to others as well. The lessons to be drawn from this version of the crisis are that countries need to be extremely cautious in their choice of exchange rate regime and the opening of their capital accounts.

On a deeper level, however, the patterns of *domestic* investment associated with these large-scale capital inflows—whether in plant and equipment, real estate, or the stock market—suggest that the depth of the crisis cannot be attributed to international capital movements alone. Weak and poorly-regulated financial sectors bear some substantial responsibility for increasing national vulnerability, as do corporations characterized by weak systems of governance and accountability and, in some cases, outright corruption.

But financial crises also have a political dimension. How do different debtor governments respond to the risks that might generate crises? Does the political behavior of the government directly or indirectly affect the propensity to crisis? How do debtor governments respond once crisis erupts?

One of the most difficult questions is whether the economic consequences of government action are determined completely by the appropriateness of the policy chosen: whether policy is "good" or "bad" given the circumstances. It is clear with the benefit of hindsight that the IMF miscalculated the depth of the recessions that followed the crisis, and thus held to a tight monetary and fiscal policy stance for somewhat longer than they should have. There is also evidence that they miscalculated the extent of the damage in the domestic financial sectors of the affected countries.

However, given the IMF's limited resources and its inability to force resources out of creditors, some macroeconomic policy adjustments were inevitable even without the IMF. Indeed, without the IMF—and in the absence either of some alternative source of funds or the willingness to default—those adjustments would have been even harsher. Moreover, it is important to underscore two components to the policy choices of governments: the appropriateness of the policy given the circumstances, and the assessment by market actors of government intentions and capabilities. Clearly, politics affects these assessments.

Finally, we have seen that, while creditors have certain common interests in repayment, politics can also affect their policy choices as well; neither all debtors nor all creditors are alike. Given the creditors' influence over the international financial institutions, an interesting question to ponder is how—and if—the major powers are likely to reconfigure the international financial architecture in the wake of the Asian financial crisis.

A Brief Bibliography on the Political Economy of the Asian Financial Crisis

The best single source for documents relating to the economics of the crisis—including both academic writing, policy papers, and opinion—is the website maintained by Nouriel Roubini at New York University: <http://www.stern.nyu.edu/globalmacro/>, click on Asian Crisis. Country information from the IMF is available at <http://www.imf.org/>. The World Bank maintains an East Asia page that has very useful information on the countries in the region, <http://wbln0018.worldbank.org/eap/eap.nsf/>.

The literature on the political economy of the crisis is somewhat less well-developed. With respect to theory, Jeff Frieden's "The Politics of Exchange Rates," in Sebastian Edwards and Moises Naim, eds., *Mexico 1994: Anatomy of an Emerging Market Crash* (Washington D.C.: Carnegie Endowment for International Peace, 1997) provides an excellent interest-group account of exchange rate regimes, an integral part of the crisis. K.S. Jomo's *Tigers in Trouble: Financial Governance, Liberalization, and Crisis* (London: Zed Books, 1998), presents an early account focused primarily on the risks of financial liberalization. Stephan Haggard's *The Political Economy of the Asian Financial Crisis* (Washington D.C.: The Institute for International Economics, 2000) emphasizes the role of business-government relations as a key determinant of both the onset of the crisis and how it was managed; he also addresses the social dimensions of the crisis. Andrew MacIntyre, in "Institutions and Investors: The Politics of the Financial Crisis in

Southeast Asia," *International Organization* (forthcoming 2001), examines the effects of institutions on policy, and influenced the account provided here.

Country studies and other analytic essays are contained in several useful edited volumes. A very good collection of essays by economists is Ross McLeod and Ross Garnaut, eds., *East Asia in Crisis: From Being a Miracle to Needing One?* (London: Routledge, 1998). T.J. Pempel, ed., *The Politics of the Asian Financial Crisis* (Ithaca: Cornell University Press, 1999) reflects the views of prominent North American political scientists; Richard Robison, Mark Beeson, Kanishka Jayasuriya and Hyuk-Rae Kim, eds., *Politics and Markets in the Wake of the Asian Crisis* (London: Routledge, 2000) contains essays by prominent Australian and Asian scholars, with a focus on the long-run consequences of the crisis for "Asian capitalism."

The international political dimensions of the crisis have still not been thoroughly studied. Robert Zoellick and Philip Zelikow's *America and the East Asian Crisis: Memos to a President* (New York: W.W. Norton, 2000) contains a number of brief essays on the geopolitics of the crisis. Stephen J. Blank paints a bleak picture of the effects of the crisis in "East Asia in Crisis: the Security Implications of the Collapse of Economic Institutions at <http://carlisle-www.army.mil/usassi/ssipubs/pubs99/eastasia/eastasia.htm>.

Much of the debate on the international political dimensions of the crisis has focused on the merits of the IMF's intervention. The IMF defends its policy stance in Timothy Lane, et. al., *IMF-Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment* (Washington D.C.: International Monetary Fund Occasional Paper no. 178, 1999). A more skeptical view is contained in Morris Goldstein, "IMF

Structural Programs" (at <http://www.stern.nyu.edu/globalmacro/>, under "Interesting Readings").

Gregory Noble and John Ravenhill, eds., *The Asian Financial Crisis and the Architecture of Global Finance* (Cambridge: Cambridge University Press, 2000) mixes country studies with essays on the international institutions; see in particular Miles Kahler's "The New International Financial Architecture and its Limits." Barry Eichengreen, *Toward a New International Financial Architecture* (Washington: The Institute for International Economics, 1999), provides the best overview of the issues. John Williamson deftly sums up the post-crisis reports on the international financial architecture in "The Role of the IMF: A Guide to the Reports," Institute for International Economics Policy Brief 00-5 at <http://www.iie.com/NEWSLETR/news00-5.htm>.