IMF Struggles to Shake Off Stigma 20 Years After Asia Crisis

By **Enda Curran**
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- Doctrine of austerity and painful reforms left deep scars
- Critics say the IMF responded differently to Europe's crisis

It's a photo that still haunts the International Monetary Fund <https://www.bloomberg.com/quote/13347Z:US> .

In 1998, as a financial crisis raged across Asia, then IMF Managing Director Michel Camdessus was snapped as he stood with arms folded watching Indonesian President Suharto sign an unpopular bailout agreement that demanded steep spending cuts and painful reforms.

Suharto, right, with Camdessus in Jakarta on Jan. 15, 1998. Photographer: Agus Lolong/AFP via Getty Images

Laden with symbolism given the region's history with colonialism, the image has come to define the IMF's response during the crisis -- a heavy-handed approach that some blame for worsening the turmoil.

"That photograph was very damaging," said James Boughton, former IMF historian and now senior fellow at Canada's Centre for International Governance Innovation. "It was because the Fund already had that image of being the bad boss, and that they jetted in from a long way off and started issuing orders."

Now, 20 years since the Asian financial crisis first erupted, debate continues on the legacy of the IMF's austerity prescriptions. The charge against the Washington-based Fund is that it wasn't flexible enough to take into account rapidly changing and unique circumstances that were destroying the economies of Thailand, Indonesia, South Korea <https://www.bloomberg.com/quote/ROKZ:KS> and others.

The IMF's advice in the years before the crisis included guidance to open capital accounts, which played a role in building up imbalances as speculative money poured in and companies binged on foreign debt.

Read what Malaysia's Mahathir thinks of currency traders 20 years on <https://www.bloomberg.com/news/articles/2017-07-05/mahathir-still-hates-currency-traders-20-years-after-asia-crisis>

Critics say the advice was equally bad during the crisis. The IMF playbook <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp032098> called for countries to raise interest rates to rebuild foreign reserves and boost confidence in their currencies. At the same time, governments were encouraged to tighten fiscal policy to clear room for bank bailouts, and reduce current-account deficits. In some cases, the combination of higher borrowing costs and budget cuts choked off recovery.

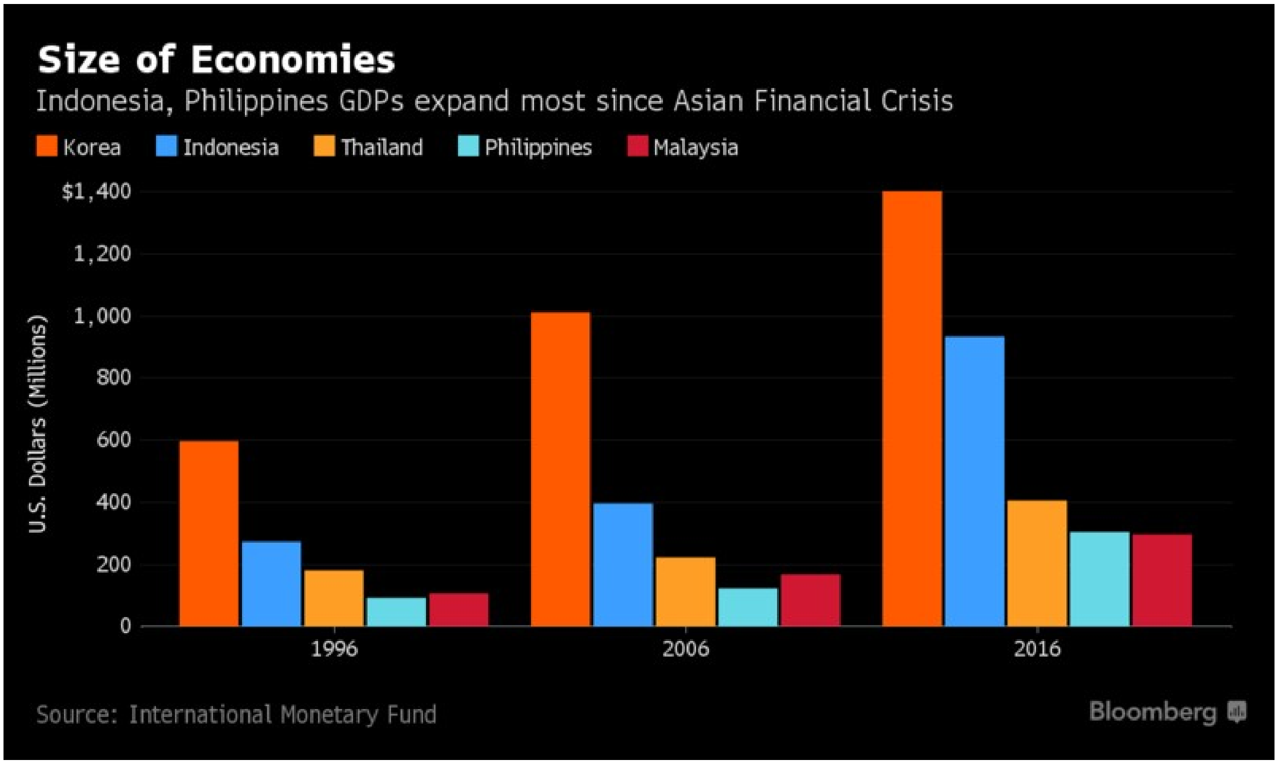
Fuad Bawazier, Indonesia's finance minister under Suharto believes the IMF only made things worse. Jakarta was wracked <https://www.bloomberg.com/news/articles/2017-07-04/asian-crisis-that-crippled-indonesia-also-forged-economic-reform> by street violence and looting as the government pushed through the IMF's plan.

Destroyed property in Jakarta following a riot in May 1998. Photographer: Patrick Aventurier/Gamma-Rapho via Getty Images

"The IMF contributed to a worsening situation," he said. "The prescription given by the IMF, to me, is the opposite of what should have been done."

These days, the lender is seen as more flexible in dispensing its medicine.

"The Fund has become more willing to question its own longstanding orthodoxy, and is more open to trying alternative approaches to crises," said Eswar Prasad, senior professor of trade policy at Cornell University and a former head of the IMF's China division.



There's no doubt the IMF has come a long way. These days it often advocates "inclusive <https://blogs.imf.org/2017/07/05/no-time-to-stand-still-strengthening-global-growth-and-building-inclusive-economies/#more-20407> " growth -- read government spending and social safety nets -- and has even softened its stance on capital controls.

Even so, the Fund's actions remain a source of contention, with Greece's economic crisis a case in point. The IMF said it campaigned <https://blogs.imf.org/2016/12/12/the-imf-is-not-asking-greece-for-more-austerity/> for less austerity in Greece, pushing the nation's European creditors to offer debt relief so it had room to recover. To the IMF's supporters, it's proof the Fund has adopted a nimbler approach. But to some observers in Asia, it's another sign the lender favors Europe.

Like Wildfire

Defenders of the institution say the problems in Asia two decades ago were deep rooted well before IMF intervention and, they argue, the Fund was far from alone in missing the crisis build-up.

"We were all very surprised, we didn't expect the crisis to spread like wildfire," said Hoe Ee Khor, chief economist of the Asean+3 Macroeconomic Research Office, or AMRO, in

Singapore. AMRO is the research and monitoring unit of the Chiang Mai Initiative, a multi-country currency swap agreement that was created in the aftermath of the crisis.

“Until the Asian financial crisis, we hadn’t seen anything as big, we hadn’t seen contagion like this,” he said.

Christmas in Seoul

National authorities were also blindsided. Paul Gruenwald, who these days is chief Asia economist at S&P Global Ratings, was at the time working on the IMF’s Argentina team before he was dispatched to South Korea in late 1997. Having never been to Korea before, he spent his Christmas vacation in Seoul.

“Right after Christmas my boss’s boss told me to get on a plane and go to Korea,” Gruenwald said. “The country was in collective shock. They didn’t know what happened.”

The hostility toward foreign advisers wasn’t limited to the IMF. Margit Molnar was at the time working with a Japanese government response team and recalled being forced to hold meetings at the airport in Jakarta.

“The government felt it wasn’t safe for us to drive to the city when there were looters around so they offered to come to the airport," said Molnar, who is now the leading China analyst at the Paris-based Organisation for Economic Co-operation and Development. “We had a day or two of meetings at the airport.”

Asia’s economies have been transformed since 1997-1998. These days the region is the biggest contributor to global growth. In purchasing power parity terms, gross domestic product for Asia’s major economies makes up almost 38 percent of the global total these days compared with 26 percent in 1996, according to Bloomberg Intelligence. Since the crisis, Thailand, Indonesia and Malaysia have seen real GDP per capita rise 66 percent, 65 percent and 55 percent, respectively.

Big structural changes have also been made. Currencies have been floated and holdings of international reserves have been strengthened. Asia’s currency reserves <https://www.bloomberg.com/graphics/2017-asian-financial-crisis-anniversary/> , at well over $6 trillion, make up more than half of the world's holdings -- it was less than $1 trillion in 1996.

There have been other changes too. China now has a much bigger say in the running of the IMF and the region is home to several of its own multilateral lenders which offer fire power for any future crisis.

"The IMF, to its credit, has changed a lot. It's a very different IMF today than 20 years ago," said AMRO's Khor.

Indeed, even the infamous photo of Camdessus and Suharto wasn't quite what it seemed. According to Boughton, Camdessus walked into a huge hall with Suharto, expecting multiple chairs to be arranged at the desk. Instead, he was forced to stand as Suharto sat down by himself.

"Camdessus was standing there by himself, thinking 'Gee, what do I do now?'," said Boughton. "For not very long, he just crossed his arms, in order to do something, and the cameras snapped away."

Still, the IMF has a long way to go before losing the stigma of 20 years ago, said Cornell's Prasad.

“The Fund still remains politically toxic for leaders in Asia,” he said.

— With assistance by Nasreen Seria, Karlis Salna, Lee J Miller, and Andrew Mayeda