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## THE IMF: DOGMA VERSUS UNORTHODOXY Can we afford another Clash?

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2 July 2007

ON THE 10<sup>th</sup> anniversary of the 1997 Asian Financial Crisis, a group of former policymakers directly involved in tackling the regional upheaval huddled in Singapore with analysts for some self-reflection. Debating the key lessons from the turmoil at a conference organized by the S. Rajaratnam School of International Studies (RSIS) were such personalities as Hubert Neiss, Eisuke Sakakibara, better known as “Mr Yen”, and Soedrajad Djwandono. A number of serving officials were also there, such as those from the Monetary Authority of Singapore and the Bank of Thailand – the central bank of the country where the crisis began. There were also prominent economists like K.S Jomo, who now serves as Assistant Secretary-General of economic affairs at the United Nations, and Lim Chong Yah, the guru of many an economist and currently professor at Nanyang Technological University.

### **IMF, saviour or destroyer?**

The presence of Neiss was particularly helpful as he was, at the height of the financial crisis, the Asia Pacific point man for the International Monetary Fund (IMF); he was the one who brought the bitter pills for the distressed countries that turned to the IMF for assistance. One such country that Neiss had to relate to was Indonesia. The Indonesian case must surely be a subject not to be missed by anyone studying the economic and political turmoil arising from the region-wide financial tsunami whose causes and consequences will remain a subject of intense debate for many years to come. It was Indonesia which suffered one of the worst repercussions, leading eventually to the unthinkable – the fall of strongman Suharto. One man who was right in the eye of the storm in Jakarta was Soedrajad, the then governor of the central bank, Bank Indonesia. Soedrajad was sacked by Suharto for a sin that he had no choice but to commit – closing down several weak banks, including those owned by members of the Suharto family.

As a multilateral institution, the IMF's role and relevance will continue to be as much debated, and disputed, as the Asian crisis itself. Was the IMF a saviour, or a destroyer? Did the IMF know what it was doing when it prescribed all the painful reforms – or “conditionalities” -- for assistance? One of those highly critical of the IMF, or the way it went about its rescue missions, was Sakakibara. The then Japanese vice-minister for finance in international affairs developed a reputation for proposing an Asian Monetary Fund. The AMF was seen as the answer to an IMF that was found seriously wanting. The AMF would be the self-help mechanism for East Asia; it would allow Asia to resort to the region's stronger currencies such as the yen to defend against the marauding speculative currency attacks that unravelled Asia. The AMF idea was to some as controversial as its proponent, or the institution it sought to complement. The United States and its allies saw it as an unacceptable move that could undermine the IMF but it also gave rise to suspicions of Japanese intentions, especially in China. In the end it never took off, at least not in its original form, although with hindsight some say,

the AMF could well have been a saviour.

Clearly, the ingredients of a boisterous debate within the RSIS forum were there. Indeed, aided by the Chatham House rule of non-attribution, there was a lively engagement on the key issues of how the region went badly wrong. More important was the focus on the key lessons learned, or half-learned – or yet to be learned from the Asian financial crisis.

### **Lessons from the Asian Crisis**

One obvious lesson of course was the folly of imposing micro-economic dogma which the IMF had been heavily criticized for. The almost uncompromising imposition of IMF dogma, without regard to the peculiarities of each affected country, clearly exacerbated the crisis. Not surprisingly, the IMF was seen by its detractors more as an instrument of US economic and foreign policy. Its insistence on the “Washington consensus” of neo-liberalist financial reform inevitably caused the IMF to be caught up in a titanic intellectual clash between Asia and the West – triggering an unprecedented frenzy of Asian neo-nationalism. The icon of the pro-Asia school was of course Mahathir Mohamad, the then prime minister of Malaysia, who saw an Asia under siege. His counter-formula of currency controls was to him a matter of national survival. He was so convinced of an international conspiracy that all his detractors were swept aside, including his finance minister Anwar Ibrahim. Mahathir’s controversial counter-strategy on finance however proved successful in defending the Malaysian economy -- and his political position as well.

In contrast, when Indonesia tried to similarly resist IMF dogma, it led to unrelenting IMF pressure for reforms which Suharto proved unwilling to fully execute. It eventually led to his downfall. It is no wonder that some see the IMF as the hidden hand behind the regime change in Jakarta, worsened by that infamous picture of the IMF’s chief Michel Camdessus looking down with arms folded, seemingly haughtily, over a defeated Suharto as he signed the IMF Letter of Intent. One person with such a view was Mahathir, whose fear for his own position partly explained his dogged defence – and sacking of Anwar. Whatever the circumstances, Mahathir’s unorthodox response to the financial crisis, contrasted with Suharto’s demise, will remain one of the key issues in how to deal – or how not to deal -- with the next financial crisis, should it come again.

Tellingly, there are not a few people who believe a new regional financial crisis is something not to be ruled out. Should it come to pass – touch wood – will we again see a battle between dogma and unorthodoxy? And who will be bold enough to stand alone against the tide of the world at such a new moment of crisis? In this regard, the Mahathir formula was also very much a lesson in leadership, precisely because it was uncharacteristically out-of-the-box. Yet, some say, his actions and statements may have also exacerbated the impact of the crisis on Malaysia and economists are still debating whether the imposition of currency controls only occurred after the worst of the crisis.

### **No Blame Game**

All told, there is no disputing that there were serious and painful mistakes made by many parties in the Asian Crisis. This was perhaps inevitable given that many trouble-shooting decisions had to be made on the run. The rush for instant solutions would just as inevitably lead to some reckless outcomes. No doubt the IMF was wrong on many counts. The crisis could have been better contained had the international community been more decisive in extending bridging loans to the crisis-hit economies. But the affected countries certainly cannot be absolved from blame either. Would they have come under attack by the currency speculators had their financial and banking systems not been so vulnerable? Did they take positions which worsened the impact of the crisis?

It was the first major international financial crisis to hit Asia in the age of contemporary globalization.

The crisis did not however, according to the pro-IMF school, come out of the blue but was triggered by changing market sentiments. It was a market response to premature liberalization and to flaws in the financial and economic systems, as manifested by weak corporate governance and cronyism. The pro-IMF school however seems convinced that the IMF should not be the only one to carry the can, whatever the mistakes. For despite all the mistakes, the pro-IMF school seems to say, the overall strategy turned out to be successful, wasn't it? Perhaps, but at what cost?

In hindsight, looking at the rise of China, and now India, the Asian financial tsunami may have also unleashed new energy that is putting Asia back firmly on a growth-oriented path. But should some old errors recur, let there be no need for another clash between dogma and unorthodoxy. We simply cannot afford it.

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