



**The future of the IMF and of regional
cooperation in East Asia**

Yung Chul Park and Charles Wyplosz

Discussion by Richard Portes

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New title for paper:

'How can East Asia get itself out of the alphabet soup?'

BSAs, CMI, ERPD, ABMI, SRPA,
ASEM, RFAs, SLF

and I'd like to add NBW

Now I do know IMF, but beyond that...



IMF errors in E Asia crisis 1997-98

- Didn't foresee – actually, worse...
- Nor understand capital account crisis
- Hence imposed inappropriate fiscal tightening and interest rate hikes (here we go again...)
- Correct policy was massive liquidity provision – but from whom? (actually, the right policy was leaning on the banks, as in 1982-3, but for different reasons)
- Forced structural reforms in mid-crisis (if not then, when? *Carpe diem*)
- Didn't understand contagion - but Mexico hadn't been contagious (just a little tequila in Argentina March 1995), nor Turkey (2001), Argentina (2001), Brazil (2002)



Apologia but no apology

- Apologia for the IMF: this was a new kind of crisis, can't really fault the Fund
- Still, Mexico was a capital account crisis too – we tend to overstress differences between 1st, 2nd, and 3rd generation crises, because we like new and different models
- But the Fund should have apologised!
- And that's why the E Asian countries won't have anything to do with it
- Instead, they accumulate reserves, but you can never have enough reserves



So need regional arrangements too

- CMI: BSAs, monitoring and surveillance, exchange-rate and other policy cooperation
- But BSAs too small, significant draw requires IMF programme (! – why ever?), so useless
- Countries not prepared to establish independent monitoring and surveillance system – and can't multilateralise without one
- But there is EPRD, though we aren't given any concrete detail about how it works



If CMI too demanding, don't try harder, just try something harder...

- ...and that is the SRPA
- But no multilateral surveillance, *a fortiori* no multilateral agreement enforceable in a 3rd-party jurisdiction, hence no SRPA
- But they're working on it (you might think they'd better move fast, but they 'appear to be in no hurry')
- Note explicit acknowledgement of creditor-debtor asymmetries: China and Japan would play role that US has in the IMF



Reform of IFA (yes, I sneaked that one in, it's not theirs...)

- Quibble: Kohler July 2002 was not 'last mention of new international financial architecture' – SDRM (another one) wasn't interred until April 2003, just as CACs (no more, I promise) were coming in
- Can IMF help now? Well, a fair number of countries seem to think so, including one EU member
- Agreed, it's likely to need more resources sooner rather than later
- Is there room for RFAs alongside 'New IMF' (what's that?)



Two cheers for RFAs

- How could an EMU enthusiast say no?
- But an AMU will have to await a China-Japan-Korea rapprochement like the postwar Franco-German rapprochement – plus a Single Market Programme
- Authors ask why big reserve holders shouldn't just contribute more to IMF (indeed!)
- IMF should be global and multilateral, RFAs should analyse countries and regions – feasible distinction?
- And, they say, RFAs would be better at managing regional capital account crises – but not proven, and E Asia 1997-98 is the only postwar example



East Asian countries in the crisis

- Sovereign bond and CDS spreads way up (Korea CDS 300, Taiwan 212, Malaysia 175, China 116!)
- May decide that reserves are still inadequate and revert to export-led growth (when did they depart from it?)
- Asian RFA should be a building block for new IFA – but everyone (US and EU) must recognise legitimacy and support it
- But HK Sept 98 is 10 years ago, and Larry isn't Sec of Treasury (yet...) – why do they need external support? Don't they just have to get their act together?
- Still, I agree that E Asia should get into the New Bretton Woods discussions seriously