THE ASIA FOUNDATION

Asia's Economic Downturn: Prospects for Reform in Economics and Governance

ASIAN PERSPECTIVES SERIES

What is clear in this downturn compared to problems that we have seen before in East Asia is that this situation is clearly a systemic problem—it is more than a macroeconomic problem, it is more than a problem of balancing out the current account deficits. It gets into microfoundations on the economic side. It gets into fundamental political capabilities, and it gets into international market confidence—factors that many of the East Asian countries are just beginning to confront seriously.

STEPHEN PARKER

Chief Economist
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Introduction

The Asia Foundation's seminar on "Asia's Economic Downturn" took place on January 27, 1998, at The Carnegie Endowment for International Peace. The seminar focused on the Asian countries which are recipients of three of the world's four largest financial bailouts from the International Monetary Fund: Thailand, Indonesia, and Korea. This seminar was important in that it was the first fora held in Washington, D.C., which brought together senior Asian, IMF, World Bank, and American officials to discuss what many view as the most significant event in the post Cold War era.

Since late January, a portion of the content of the seminar has been overtaken by subsequent events in Asia. Nonetheless, the need for economic and political reform remains constant. These reforms will require strong, stable institutions that are transparent, accountable, and predicated on rule of law. The seminar participants addressed these issues important to economic and political reform, and provided keen insight on how Asian governments can meet challenges for reform in the post-industrial, information age.

Panel 1: Lessons from Thailand, Korea, and Indonesia

Panelists:

William P. Fuller, President, The Asia Foundation

Virabongsa Ramangkura, Chairman, Executive Board of the Advance Agro Public Co., Ltd.; Member, Senate of Thailand

Han Seung-soo, Member, 15th National Assembly of the Republic of Korea; Distinguished Visiting Professor, Yonsei University Graduate School of International Studies

Iwan Jaya Azis, Professor of Economics, University of Indonesia; Visiting Professor, Cornell University

Dr. William Fuller: I want to welcome you to this seminar on "Asia's Economic Downturn: Prospects for Reform in Economics and Governance." Our purpose is to add further insights about the causes, implications, and possible remedies for the Asian financial crisis, drawing on a superb group of Asian and American panelists. Our objective is not merely to discuss some of the economic aspects of the crisis, but also to consider its many political dimensions. Issues, for example, related to governance, law, transparency, leadership transition, and even international relations. In our first session we have three outstanding commentators who are going to deal with Thailand, Korea, and Indonesia, and also offer broader perspectives about the region.

Dr. Virabongsa Ramangkura is one of Thailand's best known economists. He was brought in as deputy prime minister by the Chavalit Yongchaiyudh government in August 1997, to restore public confidence in financial markets, among other reasons. He left this position when the government changed in November 1997, but still continues as an active member of the Senate. In the early 1990s, he was minister of finance and chairman of the Council of Economic Advisors to Prime Minister Chuan Leekpai.

Dr. Han Seung-soo served as deputy prime minister in Korea and stepped down from that position in March 1997. He also served as minister of finance in the Kim Young Sam administration, as well as a past ambassador to the United States. Dr. Han has been deeply involved in Korea's economic policy formulation, and has been interested and concerned about the health of Korea's financial institutions for some time.

Dr. Iwan Jaya Azis is professor of economics at the University of Indonesia and served as chairman of the Economics Department for nine years. Dr. Azis is currently a visiting professor at Cornell University. Much of his writing has focused on the issue of the politics of reform, a topic of great interest today and certainly one of relevance to Indonesia, in light of allegations that the Indonesian crisis may in fact be more of a political than economic crisis.

As our participants speak this morning, listen for their views regarding a number of issues: whether current governments have the capacity to implement needed reforms; the time frames for the difficult transitions that are underway, particularly the time frames for institution building; the likely effects of the crisis on employment and public and political stability; the effects of this crisis on real people; implications of this crisis for international relations,

particularly perceptions of America's response (or some may say, lack of response); concerns about the International Monetary Fund (IMF); and finally, some of the potential implications of this crisis for major actors in the region, including the United States, Japan, and China.

Dr. Virabongsa Ramangkura: Thailand's economy has been one of the most-stable economies in Asia. After the Second World War, Thailand pursued very conservative monetary and fiscal policies. As a result, Thailand's economy has been growing steadily for the past 30 or 40 years. But there has been a crash recently.

What were the causes of the economic crisis that happened so quickly in Thailand? A lot of people put the blame on the legalization of the economy and financial sector. Actually, we were pressured to open up our financial sector and financial market, so we decided to pursue the IMF's recommendation by adopting the binding Article 8 in 1990. Since then, we have gained great confidence from foreign investors. Sizable capital flowed into Thailand, and that made our economy grow at a very rapid rate and improved our export programs. The growth of exports was about 25 percent annually. With the Japanese opening up their market, our export of goods and services to Japan has been growing at a rate of more than 30 percent, 50 percent in some years.

However, when you open up your markets and financial sector, but you are not well prepared, you are going to have problems in the end. Soon, the economy became overheated and speculative demand dominated, especially with regard to stock market and property sector investments. That creates a so-called "bubble economy." As people invest in this sector, it creates an excess supply in the property market. As you can see, the economy cannot grow at a rate of 7 to 9 percent forever. One day, it will stop. And this is the case with Thailand.

In recent years, because of an unsound investment-to-savings rate, our current account deficit has been increasing from 3 or 4 percent of gross domestic product (GDP) to 8 percent of GDP in 1996. Everybody knows that a deficit of 8 percent of GDP is not sustainable. In 1997, the story repeated what happened in the U.S. when the Savings and Loan banking system became corrupt and what we saw in Japan in 1990 when the bubble economy's rupture began in the property sector. The problem in the property sector was transmitted to the financial sector.

As a result, the number of nonperforming loans increased rapidly and that wiped out the confidence of our lenders. Consequently, there was capital outflow because the lenders would not loan to clients in Thailand. Thai monetary authorities did not realize that we cannot sustain an economic deficit forever, we cannot borrow forever to finance our deficit. So they used a sizable amount of reserves to defend the value of the Thai currency when the baht was attacked repeatedly in 1996 and early 1997. Eventually, we ran out of reserves and we had to let the baht float on July 2. Since then, the value of Thailand's currency has been depreciating, forcing us to enter the IMF program.

The currency problem spilled over from Thailand to neighboring countries—the Philippines, Malaysia, and Indonesia; even a capital exporting country like Singapore has been affected. The crisis did not stop with the Association of South East Asian Nations (ASEAN), but spread to Korea and probably Japan. Some people are worried that the contagion may spread to China and Hong Kong.

The consequences of this situation are very serious in the sense that once confidence in the Thai economy was lost, deposit-withdrawal from financial institutions ensued and the proportion of nonperforming loans increased as lenders ceased rolling over short-term debt for our financial institutions. The problem first hit finance and security

companies and the banking sector, causing our financial system to break down and transmitting the effect to all real sectors, including manufacturing, agriculture, import, and export. Because of an extremely tight money supply, the economy was severely deflated.

The lowest growth rate for the Thai economy in the past 50 years was 4 percent, but last year was the first time that we experienced negative growth. In 1998, the economy will probably contract substantially. All of the economic sectors have been short of liquidity, so it is difficult to predict when the economy will recover. We have been trying to facilitate exports of goods and services so that foreign exchange rates and currency account balances will improve, but the problem is that they all lack liquidity. A lot of financial institutions have been forced to close down in order to comply with the conditions set by the IMF, and others have been forced to lay off educated, white-collar employees in the banking sector. Many industries have had to close down because of the depreciation of the Thai currency. I would like to mention that our current deficit is not caused by overconsumption. Our savings rate is one of the highest in the world — in 1996, the savings-to-GDP ratio was 35 percent, compared to Korea's 40 percent and Singapore's 50 percent.

> The immediate problem we have is how to restore confidence to our financial system, how to bring back stability to our economy, when lenders consider the Asia region.
>
> — **Virabongsa Ramangkura**
> *Senate of Thailand*

We were told by the IMF that in order to halt the deterioration of the economy, confidence has to be restored, but how can confidence be restored when lenders are expecting that our economy will contract? The Thai government has to implement the IMF reform program. About two-thirds of the financial institutions have closed down but the bleeding from the rest of the financial system has not stopped. The problem is not confined to Thailand. This has become a regional problem.

We were also told that we should not panic, that we should not reverse our policy of economic liberalization. But in order to strengthen the regulation and supervision of our financial institutions, we have to follow sound macroeconomic management, so we are aiming at maintaining a budgetary surplus. In the boom years, economic surpluses were easy to achieve, but in an economic downturn, even a balanced budget is extremely difficult to attain. Whether this is a correct strategy or not has been the topic of discussion, both within and outside Thailand. One strategy is efficiency improvement through privatization, an approach that has been long-discussed. The investor restructuring program is another area that will be supported by the World Bank and the Asian Development Bank (ADB). A lot of industries may have to go, although some can be restructured by utilizing the domestic market to serve export industries. Another issue that is important is political stability — a prerequisite to economic recovery. Social and environmental conservation programs are also important for Thailand's recovery.

The immediate problem is restoring confidence to our financial system and stability to our economy, when lenders consider the Asia region. Some people are quite pessimistic:

even if Thailand has fulfilled all the conditions set by the IMF, it will be impossible to restore confidence in Thailand if the situation in Indonesia and other countries continues to deteriorate.

The Asian financial crisis is a very urgent problem. Countries with strong economic fundamentals will melt down if this crisis is not handled effectively. It is our duty to stop it before it spreads and becomes a worldwide problem. So, I would like to ask Americans to pay more attention to what is going on in Asia.

Dr. Han Seung-soo: In the past two months, we have seen the sheer value of the Korean currency (the "won") cut in half and, although it has been doing better recently, it has sunk to its lowest level since the mid-1980s. Even as I speak to you, the crisis continues with no definite end in sight. As the New Year dawned, Koreans faced an uncertain future with grim determination not witnessed since the dark days of the Korean war. How could this have happened in such a relatively short time?

As late as October 15, 1997, the IMF mission concluded that the situation in Korea was different from that in Southeast Asia, and that Korea's main fundamentals remained strong and the weaknesses in the financial sector were manageable, if dealt with promptly. In any event, Korea was not immune to the so-called "Asian flu," despite generally favorable economic indicators.

As you will undoubtedly recall, the crisis began in Southeast Asia in early July when Thailand had to devalue the baht. The ripple effect then spread throughout Southeast Asia, but Korea was spared for several months. By mid-Autumn, we thought we had escaped the worst of the regional contagion, strengthened by our generally favorable and sound economic fundamentals. At this point, however, foreign investors and bankers began to be struck more by the similarities than the differences between the Korean and Southeast Asian economies.

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>
> — **Han Seung-soo**
> *National Assembly of the Republic of Korea*

The real shock came on October 23, 1997, with the plunge in the Hong Kong stock market. The flight of foreign capital ensued, and foreign banks began to discontinue their loans and stopped new lending to Korea. This undermined confidence in the Korean economy both abroad and at home, setting the stage for a full-blown crisis over late November and December.

Our failure to appropriately address financial-sector reform in recent years has led to a certain level of awareness. The weaknesses of our financial system have been widely analyzed and discussed at least since the mid-1980s. Perhaps our mistake was in thinking that the dramatic success of the real economy up until last year made financial reform less of a priority than it should have been. We need to radically revise our strategy to meet the very different challenges facing us in the globalized economy of the late 1990s and the 21st century.

Against this background, I would like to discuss the origin of the financial crisis, how we are managing the crisis, and the implications of the financial crisis on U.S.-Korean relations.

The current financial crisis can be attributed to several different factors interacting together. First, from a policy standpoint, the measures taken by the Korean government, which can be seen in retrospect as rather inadequate and belated, were the root cause of the loss in confidence by the international banks and foreign investors. The dangers of Korea's external liabilities should have been recognized far in advance.

Second, the contagion from the currency turmoil in Southeast Asia quickly spread to its neighbors. In particular, speculators' attacks in Hong Kong were directly responsible for triggering the current crisis in Korea, because they created fear and anxiety about the soundness of the Asian market among global investors and induced them to dramatically reduce their exposure in Asia.

Third, overambitious risk expansion left many domestic firms vulnerable to cyclical shocks. This has put extreme pressure on the conglomerates, the so-called *chaebols* which need a high economic growth rate to maintain their highly leveraged balance sheets.

Fourth, the rapid, unprecedented industrialization of the Korean economy over the last four decades far outpaced the reform and development of the financial sector. In contrast to the developing industrial sector, the financial sector has been closed to foreign competition, with limited integration of the international market. As a consequence, the financial sector has remained large and inefficient, creating a structural imbalance in the Korean economy.

Fifth, flexibility in the labor market has been lacking. The labor laws that were revised in March 1997 after labor unrest and violent demonstrations left the issue of layoffs alone for two years, until 1999. Wages have been increasing at an economic rate of about 9 percent during the last 10 years, resulting in the loss of international competitiveness, particularly in the area of light manufacturing.

On December 4, 1997, the IMF approved Korea's request for three years of stand-by credit, equivalent to $21 billion in support of the Korean economic and financial reform programs. In addition, the IMF and the ADB provided credit in the amount of $10 billion and $4 billion, respectively. With the first line of defense totaling $35 billion, the major countries, including the United States and Japan, agreed to credit totaling $53 billion as a second line of defense.

Currently, the first effort at financial-crisis management is restoring international confidence in the Korean market. All measures taken by the Korean government, in consultation with the IMF, have been directed toward rebuilding confidence by removing uncertainties in the domestic market, as well as expediting economic restructuring and structural reforms.

Korea's crisis management is comprised of three major programs: 1) facilitating external financing, 2) extensive restructuring and liberalization of financial and corporate sectors, and 3) sound macroeconomic management. At present, external financing is the most pressing issue in the current crisis. With a persistent shortage of foreign exchange, the won has remained weak and volatile. The resulting exchange risks have been one of the major deterrents to capital inflows from abroad which, in turn, tends to further destabilize the exchange rate.

Economic restructuring and structural reforms are critical elements of current crisis management. The IMF economic program calls for financial and corporate sector restructuring, capital market liberalization, labor market reform, and more transparent disclosure of information. As for financial-sector restructuring, the government has already suspended the operations of 14 troubled merchant banks, while commercial banks have been required to improve their capital base and initiate intensive rehabilitation measures on their own.

To facilitate foreign capital influence, drastic market-

opening measures have been taken in the equity and bond markets, as well as the short-term money market, in removing investment ceilings and restrictions on foreign participation. Despite the perceived risk, high interest rates and low equity prices are making the Korean market increasingly more attractive to foreign investors, as indicated by the recent influx of funds into the Korean stock market, which has been doing very well recently. We expect that the market-opening measures will promote foreign participation in the domestic financial market, which would also balance the process and improve our financial system.

The financial vulnerability of the corporate sector has been identified as one of the fundamental roots of the current crisis. The *chaebols'* initiative for business restructuring is an important factor in securing the sustainability of crisis management, both politically and economically. Given this diagnosis, the Korean government has urged the *chaebols* — and the *chaebols* responded relatively positively — to improve their capital structure, reform their corporate government, and restructure their businesses.

What Korea needs now more than ever is increased labor market flexibility. However, in the absence of a full-fledged unemployment insurance system, it is exceedingly difficult to induce concessions on layoffs and on labor-saving schemes from the labor unions. Yet on January 14 of this year, the labor unions (we have two labor union movements — radical and conservative) agreed to participate in a dialogue with management and political parties within a framework of a consultative commission.

Sound economic management is a necessary condition for economic reform and the stabilization of financial and currency markets. In particular, improvement in the current account is the key to overcoming the challenges of the present crisis, as it can directly contribute to inflow of scarce foreign exchange. We have already made substantial progress: the current account shifted to a surplus during the last two months of 1997 for the first time in four years and we expect this to strengthen even further. Recently released statistics show that the current account deficit was reduced to $8.9 billion in 1997, an improvement of more than $14.8 billion from the previous year, boosted by a surplus of more than $3.6 billion in December alone. The IMF called for tightening monetary policy by raising short-term interest rates, since this is crucial for the stabilization of the currency market. Accordingly, the national assembly last year passed legislation for an interest rate cap. However, the stabilization exchange rate, through high-interest rates, created an increased financial burden and related default risks in the corporate sector.

High interest rates have further strained the already highly leveraged firms. Parallel to monetary policy, fiscal policy has been tightened to be consistent with mandated price stability and improvements in the external balance. Financial sector restructuring requires a substantial amount of fiscal resources. In the short-term, the growth outlook has weakened significantly since the acceptance of the IMF conditionality. The Korean government and IMF share the view that GDP growth for 1998 is likely to be around 1 to 2 percent, although the initial weakness is expected to be followed by some strengthening as the recovery progresses. The rate of inflation is now predicted to accelerate temporarily in early 1998 as a result of the won's depreciation and to remain at about 9 percent for the year. The current account is expected to record a surplus due to the robust performance of the export sector combined with slower growth of import demand. Fiscal monetary policies will continue to remain tight until the exchange rate stabilizes and external financing conditions are improved. The Korean government, in consultation with the IMF, will flexibly adjust its policy stance during the quarterly review of economic and financial conditions. In fact, the monetary growth targets for the first quarter, as well as the entire year, have recently been adjusted

upward because of the weakened outlook for growth.

Even in the midst of a financial crisis, Korea conducted a free and fair election in which the opposition won the Presidency for the first time in our history. President-elect Kim Dae Jung reaffirmed his commitment to restore Korea's international credibility by abiding by the terms of the IMF agreement and by quickly carrying out structural reforms. Considering the emphasis that President-elect Kim Dae Jung has placed on an open and free market, we are confident that Korea will create a radically new environment for foreign investors. Despite the various difficulties, Koreans are preparing for the future with a long-term vision and accelerated structural reform efforts. The Korean National Party, of which I am a member, and the majority of the national assembly will give their full support to the new government in its endeavor to implement structural reforms that are necessary to recover the health of the Korean economy and to regain the confidence of foreign investors. We are closely monitoring the actions of the new government to make sure it does not renege or backpedal on its economic reform programs.

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I am keenly aware of the strong bond between the United States and Korea, and of what we Koreans owe to your country. Without the American victory in the Second World War, for example, Korea might never have begun its independence. Without your support in the Korean War, our country might today be an impoverished Communist nation. And without American economic assistance and later access to the vast U.S. market, Korea's economic miracle would surely not have been possible. Yet I must admit that Koreans, while relying on the goodwill of the United States, tended to take the relationship for granted. In part, this attitude is the legacy of the Cold War.

However, we Koreans must recognize that the end of the Cold War has brought about fundamental changes in the U.S.-Korean relationship. Because the U.S. and Korean economies are much more complementary than competitive, our two countries are natural economic partners. In recent years, for example, Korea has remained the fifth-largest U.S. export market and the seventh-largest U.S. trading partner. Korea is the only major East Asian country with which the U.S. has been recording trade surpluses. In 1996, for example, the U.S. recorded bilateral trade surplus with Korea totaling $11.6 million, almost double the previous year's total of $6.2 billion. I do not have figures for last year, but up until November of last year, the U.S. trade surplus was $8.6 billion. So the U.S. is not helping Southeast Asia or Korea. If the Korean economy recovers, it will be the U.S. that will benefit more than any other country.

But an economic partnership is different from a military alliance in two crucial aspects. First, it lacks a strong emotional bond, and second, it is rather prone to public disagreements. Certainly, the U.S. and Korea have had no

shortage of the latter in the past few years, most recently regarding the U.S. invocation of the Super 301 provision over access to Korea's automobile market. These disputes, unfortunately, have sometimes obscured the fundamental goodwill and common interest that exists between the peoples of the U.S. and Korea. Koreans, in particular, need to do some serious fence-mending with the United States. At the outset of our financial crisis, many Koreans felt disappointed at the serious conditionality of the IMF bailout package and at the American response. To the extent that their perceptions are accurate, it ought to serve as a timely reminder that America's friendship must never be taken for granted. This is the message that Korea's leaders from the new government, especially the incoming government, should strongly convey to their countrymen.

Of course, the challenges we face are much different than in 1950 and our two peoples have come to know each other much better since then, but I am hopeful that the United States will be no less supportive of Korea in our current crisis, albeit under quite different circumstances.

Dr. Iwan Jaya Azis: Let me start with the following statistics. In 1996, there was a country where GDP growth was 8 percent, inflation went down to 6.5 percent from 8 or 9 percent, and the current account deficit was only 4 percent of GDP. The size of foreign reserves was sufficient to finance five to six months of imports. That was 1996 and of course the country is Indonesia. Now, tell me if there is any economist who would allude to weak fundamentals. Certainly none would predict a crisis, especially a crisis of this proportion.

Following Thailand's July decision to devalue the baht, Indonesia definitely began to feel the contagion as it spread to the Philippines, then Malaysia, and finally Indonesia on July 11, when the rupiah was first hit. And the central bank did not do anything. Correctly so—I was totally in favor of not interfering with the market. After all, the exchange-rate policies during the 1990s were very different from the exchange-rate policies in the 1980s, when we were basically using the "managed float" system, although it was more like a fixed system rather than a floating system.

But in the 1990s, the exchange rate policies were completely different, because we were using the exchange band, and the band has been periodically increased. The last one was in July when the band was increased to 12 percent. By now we know that new band lasted for only one month, because by August 14, the government gave up floating the rupiah. "Float" now turns out to be a euphemism, because it was not floating at all, it was diving. It is like throwing a stone into a river—I mean, *what* is floating here?

Only two weeks after July 11, Indonesia's central bank intervened, although the amount of the intervention was only around $1 billion, which is nothing compared to the bank's more-than-$20 billion in foreign reserves. But since then, instead of improving, the situation worsened. When the government started to see the decline of the rupiah, it came up with a series of deregulations to remove the monopolies and so forth.

For example, the number of commodities under a national body called Bulog (National Logistics Board), which had been holding a number of monopolies, has been reduced. But it didn't help: the market still reacted negatively. And finally, in October, the government called the IMF to help formulate the necessary policies. At the end of October or early November, they agreed on the first letter of intent.

One of the most-controversial conditions was the closure of 16 banks. Some of the banks were owned by well-connected business people, members of the President Suharto's family, and so forth. Immediately after the closure of the banks, things calmed down, but then there was a series of new events: President Suharto was ill and canceled a trip to the ASEAN summit in Kuala Lumpur and, more seriously, canceled the trip to his wife's grave. This indicated

that he was seriously ill. And you know what that means to the market. Since then, following the bank closures and rumors about the president's illness, the rupiah has plunged, as panic started to spread.

As of last week, domestic deposits in local banks totaled about 30 percent and the deposit rate in foreign banks operating in Indonesia was between 10 and 15 percent. What happened is that many customers moved their deposits to foreign banks. This created a lack of confidence on the banking sector. What is even more dramatic is that the interbank rates were hovering around 50 to 60 percent.

Indonesia did not have an FDIC-type organization. Depositors did not have a sense of security about putting their money into the local banking system. In fact, there were rumors that more banks would be liquidated. So there was a great deal of uncertainty. The first thing to do is to restore confidence in the financial sector. Why is the financial sector so important? Indonesian economic activities and commerce are heavily dependent on banking finance and there are not many alternatives to financing. In a way, the banking system or the banks in general are really a systemic problem, unlike the companies or corporate sectors.

Dr. Virabongsa talked about how strong the economy was during the early 1990s in Thailand. That was exactly the situation in Indonesia, Malaysia, and the Philippines as well. In fact, if you see charts of the capital inflows to all ASEAN countries, especially since 1994, the flow of capital coming into the region was unbelievably high. Why? Because interest rates in Japan and the U.S. were low and investment in this region was pretty high, due to the promise of high returns. Unfortunately, most of this credit was allocated to high-risk projects and activities.

What is worse, we were borrowing in foreign currency and allocating the credits in local currency. That was happening not only in Indonesia, but throughout Southeast Asia. As a result, the size of Indonesia's private foreign debt is tremendous. I think in Thailand it was something like $80 to $90 billion. In Indonesia, private foreign debt is about $66 billion, half of which has a short-term maturity. This has nothing to do with public debt, which is why I can understand why there is a great deal of resentment regard-ing IMF-style rescue packages. There is a great deal of uncertainty and in the Indonesian case, unlike in Thailand, there is also political uncertainty with respect to political succession. Economic uncertainty and political uncertainty are a really bad combination.

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On January 15, the second letter of intent was signed between President Suharto and IMF's Director Michel Camdessus, but the exchange rate is still worsening. Why? Because practically none of the second IMF package deals with those two issues — bank panic and foreign debt. When you have to pay your debt in the short term, you simply

have to rush for greenbacks. I was told that last week there were cases in which some debtors paid debts in local currency at the existing rates. Does it help? No, because once the creditors received rupiah they changed them to U.S. dollars. The market is still suffering from a huge demand for dollars. None of these issues was really tackled by the IMF, even in the second package.

Am I critical of the IMF package? Not at all. I am 100 percent for the second package, even for the first one. It is something that is required, albeit overdue. For many years, many economists, including myself, have been trying to push hard for this. Long-term solutions will improve efficiency in the whole economy, although it cannot be accomplished overnight. This is not the issue. The issue is exchange rate pressure and banking panic. So what are the necessary conditions to ensure the effectiveness of the IMF package?

The first priority is restoring people's confidence in the banking sector. How do you do that? By creating FDIC-type organizations. The Indonesian government came up with a new body, I think it is called the Indonesian Bank Restructuring Agency, to restore the confidence by providing insurance on deposits in local banks. As for the exchange rate, I do not see any alternatives besides restructuring the debts. Some people came up with the idea of debt moratorium, but it will mean totally closing off capital in the long run. Hopefully, that moratorium will not be viewed as an alternative.

Restructuring will not be easy. You have two extreme approaches: one is the Latin America-style, which almost forces the creditors to roll over their debts. The other extreme is like the current U.S. administration's approach, a market-driven approach to restoring confidence in the market, which is not happening now. Any restructuring model cannot be applied across the board, because some of the banks, some of the corporate sectors, are indeed not supposed to be rescued. Whatever the restructuring model, there should be a huge amount of capital and this capital has to come from abroad. So the challenge is how to bring capital from abroad, either from the IMF or from friendly countries, i.e., Japan, Singapore, etc. In fact, last week, Japan, Singapore, and the U.S. showed again their support for resolving the problems in Indonesia.

Let me close by giving you my outlook on the Indonesian economy. Of course, it is conditional. The first condition is apparently already met, regarding the creation of an FDIC-type organization. The second condition is to speed up efforts to restructure foreign private debt. The third condition is to consistently implement the transfer of the IMF packages that were agreed upon on January 15. With these three conditions, I can assure you that 1999 will be the turnaround year for the Indonesian economy. In fact, if you ask me to make an outlook, a long-run outlook, I am of the opinion that the economy will be even more robust than in the last 15 years. Why? Because the structure will be much improved, hopefully, after the IMF package is implemented.

Dr. Fuller: We are going to open the floor now for discussion and comment. Dr. Azis has been pretty favorably disposed toward the IMF package, but our other two speakers certainly raised questions about that package with respect to its austerity, its impact on deflation, and potentially higher levels of unemployment. Even the term "social unrest" was mentioned. I would like to ask Dr. Virabongsa and Dr. Han if they could tell us what they think the IMF's role should have been.

Dr. Virabongsa: Well, it is not that I don't agree with the IMF package. I think the IMF package is necessary to restore confidence. The IMF may have been successful in many cases, but in this particular case, instead of things improving, they have spilled over to other countries and

have become a regional problem. Therefore, the IMF formula is required: austerity, budget surplus, deflation, high interest rates, and so on. But without giving serious consideration to political and social aspects, it [the IMF formula] will be doomed to failure, because the preconditions for economic recovery are political and social stability. For example, after the IMF began negotiating a bailout agreement with Thailand on August 5, the situation did not stop deteriorating — it became worse. Why was confidence not restored after the IMF program was adopted? Probably there are many factors. But many people believe that the assumptions underlying the packages may not necessarily be realistic.

For example, the size of the fund is too small compared to the damage done to our financial sector. I have had the chance to talk with the people at the IMF and ask them what they think about the extent of the damage to our system.

I was told that the rough damage estimate was about 10 percent of GDP, which was about 5.5 percent at the time. When the IMF stepped in, the Bank of Thailand had spent about 500 billion baht to bail out our financial institutions already, even before the IMF's intervention. It had already paid 10 percent of GDP to restore confidence in financial institutions. Therefore, the damage must be greater than 10 percent. So, if you base your assumptions on this figure, creditors and lenders know that this is not enough. If half of the short-term debt is not rolled over, how can confidence be restored?

Secondly, how can confidence be restored if you are expecting great economic contraction? You have to leave some room for the economy to grow, so that the private sector will be able to pay something back to the lender. Almost 70 percent of the external debt was borrowed by the private sector. When the package is so tough that economic contraction is expected, that would cause the lender to panic. I think all this has to be taken into consideration.

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> *Senate of Thailand*

In the case of Indonesia, the precondition to halting the crisis is how to halt currency depreciation, and hence, inflation. While Indonesia is not an importer of food, suppose food does become a problem? This will create social turmoil. Without political stability or social stability, how can lenders' confidence be restored? All of this has been given very little attention by the IMF.

Dr. Han: I am supporter of the IMF package in Korea. But, as you may know, the package is comprised of two components. One is a macroeconomic policy component and the other one is a microeconomic policy component. The latter deals with structural management in the corporate sector, the financial sector, the labor market, and other areas. I am a full supporter of the microeconomic package. On the macroeconomic policy — monetary, exchange rate, and fiscal policy — I have some reservations. But, at the time of the first agreement with the IMF on December 4, for example,

the monetary policy, the money supply advised by IMF, was about 9 percent growth per year. But, in the second negotiations on January 8, they relaxed the closed rate and increased it to 14 percent. This was very flexible in dealing with the macroeconomic aspect of the package.

Dr. Fuller: I wonder if we could examine a little more closely the issues of political stability that all three of our speakers have raised in general terms. In Thailand, we have gotten an interesting change of government with the two-month old Chuan government and a pretty good new constitution that would offer the hope of somewhat more honest elections, perhaps as early as May of this year, and a somewhat more well-educated group of representatives. In Korea, also, there is an interesting new government, with Kim Dae Jung's strong relationship with the unions. Will he be interested in actually implementing these important labor reforms at the risk of hurting his own constituency? In Indonesia, where there is not a prospect of a change in government, one of the likely problems is social unrest as people thoroughly frustrated with the high price of food and the lack of jobs have no other way of showing their discontent. At least in Thailand and Korea, there has been a change of government.

Dr. Azis: Well, when you say change in government, if you refer to the President, it doesn't seem that there will be a change. But if you talk about the government in general, indicating what kinds of cabinets there will be, I cannot see any other alternative to the return of the economic technocrats. Because, in fact, in one of my publications published by the Institute for International Economics, I said explicitly that there seems to be a see-sawing: When the economy is booming, the hand of the protectionist, the nationalist, is very strong, but when the economy is in disarray, the economic technocrat seems to have the upper hand. So I cannot see an alternative to having a new cabinet with economic technocrats. Regarding the IMF, I fully support the second letter of intent, especially on the structural changes, the removal of monopolies, the effects of the protections, and so forth. I want to reiterate here that, in itself, will not help the situation. I stressed two points before: resolve the banking system and resolve the exchange situation. Only then will the IMF packages be effective.

> Once the election was over, the president-elect, who received about 40 percent of the popular vote, began to act very quickly. And now, according to a Korean poll, over 80 percent support what he has been doing.
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> — **Han Seung-soo**
> *National Assembly of the Republic of Korea*

Dr. Han: As I said in my remarks, during the financial crisis Korea conducted a fair and free election, and for the first time in our history, the operational leader was elected President. We were quite proud of the fact that we carried out free elections. But, remember that the President was elected on December 18, however, the financial crisis started sometime in November. Frankly speaking, the crisis was not appropriately addressed during the election campaign.

However, once the election was over, the president-elect, who received about 40 percent of the popular vote, began to act very quickly. And now, according to a Korean poll, over 80 percent support what he has been doing. Although Kim Dae Jung received only 40 percent of the vote, I think currently the Korean people are supporting what he is doing today. He was supported by low-income groups and perhaps a lot of labor union movement people. Therefore, Kim Dae Jung is in a strong position to persuade those people to support government policy. And, this is exactly what he has been doing.

For example, labor unions have been very much opposed to including labor provision in the labor law. In December 1996, the ruling party passed a law with a provision for layoffs, but that created turmoil and demonstrations. We had to revise the law in March 1997 to put the layoff on hold for two years, until 1999. But layoffs are very essential to making the labor market more flexible. Kim Dae Jung invited labor union leaders to join management, government, and political parties. Initially, labor union leaders objected to joining, but I think on January 14 they were ready to join. Therefore, I think that the election was good for the Korean economy.

Dr. Virabongsa: The new government is still in a honeymoon period. Therefore, it has the full support of the public to solve the problem. But what I am worried about is if the crisis returns and more businesses have to close, and we have more layoffs from corporations and business, things may change quickly. Another thing that worries me is that a few months ago, even about a year ago, our economic fundamentals were quite strong. The economy was growing at the rate of 8 percent, the inflation rate was about 5 percent, and Thailand was one of the most attractive places to invest in the eyes of foreign investors. But if this is not solved quickly, what has been invested, both by local and foreign investors, could melt down. That would be a great pity and would probably create political tension. I think if the World Bank, the IMF, and others put more emphasis on this aspect, the program may be more successful.

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Q I'd like to hear your opinions on what kind of political reforms are necessary to support the economic recovery, because most of the analysis you read says that, in effect, there are major conflicts of interest between the economic center and the political center, where politicians were in some sense influencing decisions about economics. The allocation of capital became investments going to friends and was not based on market signals. So, what is your take in terms of the ancillary and political reforms that have to be put into place? And what are the economic and social interest groups within your countries that would support this reform?

Dr. Han: I think in Korea, the major political event was the election of the president, and the fact that we carried out a free election last year, signifying that democracy, genuine democracy, has settled in Korea. In that respect, we have no problems. If the government is trying to streamline expenditures in terms of the number of public employees and also if the government is trying to ask the private sector to curtail unnecessary inefficiencies by reducing employed people, then the political sector has to lead.

Dr. Azis: I do not know about political reform. Since the new government came in 1966, there have been three major economic pillars that have been improved. One is a balanced budget, which has been in place since 1969; number two is no public debt rescheduling; and number three is a free foreign exchange system.

In the past, despite the fact that officially the budget

has always been balanced, and in some cases even carried a surplus, there is a huge amount of expenditure off-budget. In other words, those expenditures did not have to go to the Parliament. The recent political impact on the budget is that many expenditures have now been internalized in the budget.

Q What happens in the region in the event of a meltdown in Thailand? What happens to the region if Congress does not approve IMF increases?

Dr. Virabongsa: The problem at the moment in the region is a crisis of confidence. People are quite worried that contagion may spread over to China or Hong Kong or even Japan itself, deteriorating the situation in the region. And, it may spill over to other parts of the world, like Europe and even the U.S. eventually. This is what people are talking about.

Dr. Han: We hope that there will be no meltdown in Southeast Asia and East Asia. If there was a financial meltdown, if the economies of Southeast Asia and East Asia collapsed, I think it will certainly have a very adverse impact on the world economy, on the United States economy, particularly, the West Coast. I hear that California, Oregon, and Washington state are already affected by the economic downturn in our part of the world.

Dr. Azis: One of the things that people have started to discuss is the possible ramification of the Asian crisis on the U.S. economy. So far, I understand that the impact on the U.S. GDP is only around half a percent—not significant. If U.S. corporate earnings started to melt down in the first quarter of this year, especially among those corporations that have activities in the region, I think we have to think seriously about a possible worldwide recession. Now is the time for the whole region to improve the balance-of-payments situation, the current account, and so forth. So, for me, recession in Japan means world recession, because recession in Japan means total collapse in the full Asian region, and the ripple effects on corporate earnings of not only the U.S. corporate sectors, but also the European corporate sectors.

Q I manage the World Bank's social development unit for East Asia, and am concerned with the social impact of what is happening. I would like to hear more from you as to what you are doing in your own country and what we can do.

Dr. Virabongsa: Loans from the World Bank would be project loans and it would take time to prepare and implement projects. Social projects financed by the World Bank and ADB are necessary in the medium term, but what I want to emphasize is that the IMF package should not stimulate social problems. How can we convince the IMF that if they go to extremes it will create social problems and, hence, political problems. So, the roles of the IMF and the World Bank are quite different. The World Bank is now preparing social and environmental programs and we are working with the IMF and the ADB, but it will take some time. In the meantime, how can the IMF pay more attention to what it is doing so that implementing the packages will not stimulate social unrest and social disorder?

Dr. Azis: I have a similar opinion. I am really glad that there are World Bank- and ADB-type organizations that really are concerned about social issues. The initial IMF package required a 1 percent of GDP budget surplus, while the second one specified a budget deficit of 1 percent.

Q Will you comment on the state of the agriculture sector in your economy?

Dr. Virabongsa: Thailand is quite different from Indonesia and Korea in the sense that we are a fully exporting country. The 50 percent depreciation of our currency has benefited Thai farmers a great deal. In the case of Thailand, there will be positive impact on the food sector. But currency depreciation in Indonesia and Korea may put a heavy burden on the poor, because they have to import food, and food prices have been skyrocketing.

Dr. Han: Because of this crisis there will be some substitution of imports with domestic production. But in the case of rice, we have been self-sufficient. So we have more problems with wheat and corn in this area. Small farmers may start to produce some more wheat, but that will not be enough to be self-sufficient. So, agricultural products will still have to be imported, mainly from the United States. And after the current turmoil, we may have to pay more to buy wheat and corn from the United States.

Dr. Azis: Last year was considered the worst year for the agricultural sector in Indonesia. The production of rice declined tremendously. I predict that the agricultural sector will grow much stronger this year. Why? Simply because last year's growth was so low due to the drop in price. But production is one side. Price is another. You know, the January 8 pandemonium set in when people went on buying sprees and tried to horde food, even though, at the end of the month, we still had a surplus of rice. As far as supply and demand are concerned, there is no problem, but as long as panic is still there and rumors are still spreading, that doesn't help the situation.

Q Senators Biden and Lugar are exploring "debt-for-nature" construction as one means of addressing a portion of East Asia's financial crisis. This question is for Dr. Azis: Given your emphasis on the need to restructure some of Indonesia's debt and given the pressing environmental concerns that exist globally with respect to Indonesia and the rainforest, what, if any, utility do you foresee in a debt-for-nature arrangement at this time to address some portion of East Asia's financial crisis?

Dr. Azis: I am definitely for it. In fact, I am sure you are aware that Indonesia is one of the very few countries that signed an "equal labeling" agreement, which in a way has a similar spirit to debt-for-nature. The only concern I have is, I do not think that will resolve all of the private debt problems. Usually, debt-for-nature solutions are for public debt. This is private debt, it is not public debt.

Dr. Fuller: We have had some very insightful views about the causes, implications, remedies, and future scenarios. We have certainly had some discussion of the IMF, both its strengths and weaknesses, talked a bit about politics, regional implications of the crisis, even some global implications, and impacts on the poor and vulnerable groups. I am left, though, with a sort of unease, a feeling of uncertainty, as we look ahead. I would like to ask our panelists to respond to one question, and that is, do you see light at the end of the tunnel?

Dr. Azis: After March and April, things will be much clearer, because March-April is really the time when things will be clearer from the political side. I am not so much pessimistic about the economic side, because I think they will move even faster toward reform. I think the signs, that is the ingredients for the light at the end of the tunnel, are out there. But from the political side, I do not know.

Dr. Han: Yes, I think that at the end of the tunnel there is a light. The problem is whether we can reach the light. In the case of Korea, I think we can make it, but how fast we can make it depends on the leader, the new president-elect, and also on people who support him. I think we will make it and the president-elect promised the people that perhaps it may take a year-and-a-half or two years at most. By the end of next year, we hope that we are back to normal.

Dr. Virabongsa: The crisis is now a regional problem. A lot of people are quite worried about how Indonesia can stop the crisis. People are still withdrawing their money from our banks and depositing in the charter bank. Many people are quite pessimistic that there will be another typhoon coming in April.

Panel 2: International and U.S. Perspectives

Panelists:

Stephen Parker, Chief Economist, The Asia Foundation

Timothy Geithner, Assistant Secretary, Treasury for International Affairs

Daniel Leipziger, Manager, Private and Public Sector Division of the Economic Development Institute, World Bank

Stanley Fischer, First Deputy Managing Director, International Monetary Fund

Mr. Stephen Parker: This morning, we had a chance to learn first-hand from a group of Asian experts about the perspectives in Asia in terms of dealing with the economic downturn. What is clear in this downturn compared to problems that we have seen before in East Asia is that this situation is clearly a systemic problem—it is more than a macroeconomic problem, it is more than a problem of balancing out the current account deficits. It gets into microfoundations on the economic side. It gets into fundamental political capabilities, and it gets into international market confidence—factors that many of the East Asian countries are just beginning to confront seriously.

We know that the four countries that have been affected most by the turmoil have all had current account deficits. Clearly the international market was saying that those deficits were too high. A traditional approach to that problem is to slow down the economy, scale back imports, and increase exports. But we also learned that much of the crisis this time is not a public-debt crisis, but a private-debt crisis. Companies have to make money to pay off their debts. And it is particularly hard to do that when you have to pay off dollar debts and your currency is getting weaker and weaker. The kind of contraction that might make sense in dealing with the current account deficit may not make sense in helping the private sector pay off its debts.

We also have recognized the need for difficult political decisions on economic policy, and yet we have heard about the importance of political and social stability. How do you apply enough pressure to get governments to make changes that they have not made for 10 years? Many of the problems in the banking sector, the corporate sector, and the trade-investment sector have been well-known in these countries and there have only been marginal changes. How do you make these changes and still create political stability and social stability? How do you deal with the international community now, which is much more complicated than 10 or 15 years ago? There was confidence then, you knew the people you were working with. Now, the situation is so much more complicated.

With this second panel we want to get perspectives from the donor community. We have three experts from three institutions that are integrally involved with managing the recovery from the Asian economic downturn: Timothy Geithner, the assistant secretary of the U.S. Department of Treasury and a major advisor involved with U.S. government response to the Asia downturn; Daniel Leipziger, an economist from the World Bank and a key player on the World Bank side for the restructuring of the Korean debt for the World Bank; and Stanley Fischer, First Deputy Manager from the International Monetary Fund.

Mr. Timothy Geithner: Let me say a little about the implications of this from the perspective of the United States and the approach we have adopted in response. First, this crisis presents real risks to American interests. It is bigger than Mexico, even if it stabilizes and the more optimistic scenarios prove true. The economic risks are real because of the real potential loss to U.S. exports, because of the implications for the United States of a deep, sustained decline in the currencies of our major trading partners, and because of the potential for slower U.S. growth as a result.

The security risks are real not just because we have some 30,000 troops on the Korean peninsula, but because of the link between acute economic stability and political instability, which is more important where successions are underway or on the horizon. This matters to the United States, because how this crisis unfolds will affect the course of these political transitions in the region; it will affect the strength of popular support in these countries for the types of policies in favor of openness, in favor of market-oriented reforms that are central to their success; and it is important because it will affect the U.S. role in the region—the perceptions of our credibility, our strengths, and our effectiveness as a leader. Those who have underestimated this crisis and the potential risk to us have unfortunately been wrong from the beginning. The risks here are potentially global, and the United States, despite the strength of our economy now, will not be insulated from its effects.

The causes of this crisis will make it difficult to resolve and we may face a significant period of uncertainty about the depths and duration of the crisis, and uncertainty about the potential risks it may present to other countries outside the region. The combination of causes of the crisis—the large accumulations of short-term external debt, the use of much of that to finance a bit of financial excess, the fact that supervisory and regulatory systems and financial systems in these countries were a bit behind the curve, the lack of disclosure and transparency, concerns about political stability and succession—will make it potentially harder to resolve. This is a crisis where confidence and credibility have been severely damaged, and they will be hard to rebuild.

The only solution we believe can work in this context is for countries to implement the types of reforms that are necessary to restore the confidence required for their citizens to be willing to keep their savings in the country and to attract new flows of foreign capital. That is why we have invested so much of our capital in helping the IMF and the ADB work with these countries to quickly implement programs that try to address the underlying causes of the financial crisis.

These are programs that include financial-sector restructuring, a full range of market-oriented reforms, improved transparency and disclosure, and the removal of restrictions on trade and investments, complemented by a supportive framework of monetary and fiscal policies that will help promote stronger and more stable exchange rates, allowing interest rates to fall as quickly as possible to pre-crisis levels, and thereby promoting an early, quick return to growth.

These programs are growth-oriented, market-oriented structural reforms. They are not austerity programs. It is unavoidable that these programs get associated with, and blamed for, the economic distress that follows crisis. But it is the crisis that induces the distress, not primarily the programs. The programs that are essential to help these countries limit austerity, help arrest declining growth and living standards, and help create the conditions that are essential to promote quick recovery. These programs are tailored to the specific conditions in each country. They can be adapted as circumstances change, they incorporate a full range of measures to try to limit the effect on the poorer segments of society, and to strike the right balance between the necessary

adjustment and the need for a quick return to growth.

Temporary financial assistance from the international financial community led by the IMF and the other international financial institutions is a necessary part of the solution and a necessary complement to the policy and reform programs. It is necessary to provide confidence, to provide some breathing space for reforms to take hold, to augment reserves, and to help ensure that these governments can meet their international obligations and stand behind their financial systems. Official finance cannot substitute or compensate for a lack of community reform, but even though the most virtuous, most credible, committed governments could not successfully confront financial problems of this scale without temporary financial assistance from the international community. This assistance is temporary — it comes with a market-related interest rate, particularly in the aftermath of the creation of a new IMF facility called the Supplemental Reserve Facility, which provides assistance at short maturities at rates that are substantial premiums.

> In each of the three major countries involved in the Asia crisis, after quite damaging, faltering initial attempts, governments have recommitted themselves to sweeping, comprehensive reforms necessary to help restore confidence.
>
> — **Timothy Geithner**
> *Treasury for International Affairs*

The assistance is structured with strict limitations on its use so that it cannot be used to bail out private corporations, so that it is not squandered on intervention, and so that there are strict limitations on any provision of liquidity to the financial sector. Not providing this assistance, in our view, would risk or would induce more austerity, more instability, with the risk of a deeper, more protracted loss of economic output, the risk of deeper, more sustained appreciation in currency, and greater contagion, with all the attendant risks to U.S. interests and to the international financial system.

This crisis reveals, just as Mexico did, a variety of features of the global capital market that suggest the need for changes to the architecture of the international financial system that would help reduce the risk of future crisis, that would help make the system more resilient in the face of future crisis, and that would improve our capacity to respond in ways that are consistent with U.S. interests. We began this process in 1994 and it gained a lot of momentum with the rather bracing experience of Mexico. We are now involved in another global effort to identify concrete steps that could better deal with risks in the system. This is a system in which we are all affected by the failures and successes of other countries and other governments, yet we do not have the capacity to induce sovereign countries to take changes that they do not yet perceive to be in their interests.

There will be a temptation to try and stop the clock of the world economy and the financial markets as we try to figure out the best way forward, but we do not believe that is a tenable approach. We believe that we have to move relatively quickly to ensure that the IMF has the financial capacity to respond to any intensification or spread of this

crisis. So even as we try and consider and build consensus on a set of changes to the architecture of this system as a whole, we need to make sure we take those steps that are prudent now to make sure the IMF can respond effectively to any future evolution of this crisis.

Finally, the U.S. and our active involvement in this crisis is critical, because the IMF will not be able to strengthen its financial resources in the absence of action by, and the participation of, the United States — it just does not happen. It is important because the other major economies are not, for a variety of reasons, in a position to substitute for effective action by the United States. And, if they were prepared to try, we could not afford to stand back in the hope that they would adopt a solution that is consistent with our interests. And it is important because there is no other country now that has the capacity to lead the type of global effort necessary to help deal with these risks in the system. For better or worse, we do not think there is a substitute for U.S. credibility in this crisis. Our perceived capacity to play a central role in supporting the IMF and a forceful international response is critical to confidence at a delicate moment in the international financial system.

There are also a few things that are relatively positive in the current environment. In each of the three major countries involved in the Asia crisis, after quite damaging, faltering initial attempts, governments have recommitted themselves to sweeping, comprehensive reforms necessary to help restore confidence. The IMF, with support from the World Bank and the ADB, has moved to strengthen and reinforce programs in each of these countries. We have now seen in Thailand, Korea, and Indonesia a set of follow-up measures that are designed to strengthen the program. The market is differentiating a bit more among each of these countries in Asia, which is constructive and probably necessary to any resolution of this crisis over time. Critically important in our view, there has been a lot of progress toward mobilizing an effort by the major global private financial institutions to try and play a constructive role, in Korea in particular, in trying to put together a longer-term plan to help refinance the existing stock of claims on Korean financial institutions.

We have convinced the IMF, the World Bank, and the ADB to take a number of steps to mobilize substantial forms of financial assistance with quite unprecedented speed. In the IMF's case, to a lesser extent, we have changed in some ways the terms of that finance to help deal with the moral-hazard risks that are implicit in this kind of response.

Finally, although I do not think it is widely appreciated, there is really a major, well-coordinated global effort underway among the G10, the G7, and the major Asian financial economic teams in these countries, with the World Bank, the ADB, and the IMF, and some support and reinforcement from the international regulatory agencies. The response that has helped to produce the consensus that underlies the remarks I made earlier has helped ensure that there was very broad and, in some ways unprecedented, burden-sharing in the financial response of this crisis. The international financial institutions have been doing a much greater share of the financing, which in our view is appropriate, with Japan and a number of other countries playing a very major financial role.

Dr. Daniel Leipziger: The financial crisis in East Asia is relatively unique from a number of viewpoints. First, because of its unprecedented size. Second, because it happened in a region of the world that we long thought was the best-managed among developing regions of the world. Third, because it was basically a private-sector problem, at least with respect to debt. Fourth, because it was based on microdifficulties, rather than macrodifficulties. There was some exception in Thailand, on the current account, but largely micro. Fifth, because it has entwined a lot of issues

that relate to governance in the crisis, both corporate governance and also political-economy style governance.

It cannot be accidental that these crises have occurred in Thailand, Korea, and Indonesia, all of which had some element of political risk and vulnerability. In Korea, in particular, my impression is that some sort of crisis clearly was inevitable, although no one could predict either its size or its timing. It was inevitable because of some failures in corporate governance and bank supervision. Poor banking practices have long dominated Korea, along with difficulties in the regulatory framework in dealing with the *chaebols*.

There were cracks in Korea's unprecedented growth performance; it was just a question of those cracks widening over time, and then getting caught up in a regional crisis. Previously, investors had been able to turn a blind eye toward some of these questions, but now all of a sudden they reexamined them. It is sort of like zero-based budgeting, because you step back and say, "If all this debt is due, will the government be able to service it?"

At the core of Korea's problem was the fact that lenders, domestically, failed to do due diligence because they assumed that the government would in the end help them out. International lenders failed to do due diligence because they saw it all as Korea's debt and assumed that they would be a lender of last resort. But, given the crisis, that presumption may now be questioned. So, I think there were certainly enough indicators that some sort of crisis was inevitable. In the case of Thailand, the macrofundamentals were different, but there also were serious questions about the quality of governance over the last five or six years. Even given the Thai system, the checks and balances that had previously existed to try and keep things on a relatively steady course began to fail.

In restoring confidence, one issue that governments have to deal with is what is attractive in the short-run; dealing with bank or corporate failure may not be in their long-term interests. If moral-hazard behavior is at the core of East Asia's crisis, then clearly actors that misbehave have to take losses. In a number of cases, countries that have acted to prevent either a bank panic or deposit withdrawals have reinforced past perceptions that the government would always stand in and that equity holders would not lose. So it is important once one gets through the immediate crisis to start crisis-resolution procedures that result in a healthier banking and corporate sector, which is at the core of the challenge that countries like Korea have.

Regarding the role of international financial institutions (IFIs), I do not think there is any other solution at the moment other than the IMF and other international organizations performing some sort of lender-of-last-resort function, despite comments in the press by various academics and others. Nevertheless, as we see in the case of Korea, the private sector really needs to do its part, but I think it was rather late in coming into the game. The normal distinction that the World Bank tries to make between short-term stabilization and liquidity being the province of the IMF and longer-term development being the province of multilateral development banks gets a bit blurry in these circumstances.

That is because much of what the development banks have been useful in bringing about in collaboration with the countries, namely poverty reduction and improvements in standards of living, can very drastically be put at risk by crises of this severity. If you have asset prices falling by half and the exchange rate depreciating by half, and an inevitable recession, you are going to put at risk a lot of the gains that developing countries in this region have made. So it would be illogical for institutions like the World Bank to sit on the sidelines.

With this in mind, and with Korea as a precedent, the World Bank made a $3 billion economic reconstruction loan to Korea—an unprecedented loan in terms of both size and speed. It was a new concept based on an agreement

with the government on a program of reform that would be addressed in subsequent structural loans, which is our normal vehicle, but we joined the short-term effort to provide liquidity.

In the case of Korea, if you take the amount of money made available by the World Bank and the ADB at a certain point in December, you have probably 40 percent of the financing that was made available to Korea shortly before Christmas, notwithstanding announcements of larger packages. This was a conscious decision by the World Bank board and president to get into this type of lending for the reasons that I indicated. The areas that the World Bank is interested in during the subsequent structural adjustment loans are, in the case of Korea, financial-policy reform, corporate-governance reform, competition policy and labor markets. All of this is required to try to underpin the types of changes that we think are necessary for countries like Korea to maintain the great progress that they have made so far.

> In periods of regional contagion, no one is safe, and I think there was a certain complacency in some countries that led to an underinvestment in contingency planning.
>
> — Daniel Leipziger
> *World Bank*

Let us consider what we have learned from this crisis, although it is obviously not over in countries like Indonesia. In periods of regional contagion, no one is safe, and I think there was a certain complacency in some countries that led to an underinvestment in contingency planning. There is clearly a need to distinguish yourself from people in the region when these crises occur. Lenders tend to flee and I think anyone that does not realize that is misreading the role of banker and borrower. It was true in Argentina, it was true in most countries that are surrounded by regional crisis. This means that if you find your debt profile to be heavily short-term, you should not make the assumption, as the Koreans did, that it would be rolled over, which was the big variable that no one could predict.

I think it is also important in this crisis to look at governance structures. There is a fair probability that policies might have been pursued differently in Korea in the last six months before the crisis had there not been a presidential election going on, had there not been a crisis of confidence domestically already in play, and had there not been big fights between the two major regulatory supervisory agencies. Similarly, the case in Thailand and elsewhere is that governance really matters and it matters perhaps more when a crisis hits and lenders start to reexamine their fundamentals. I think there is an issue being raised as to whether or not countries in the region have liberalized their capital markets too quickly, and I think it would be a mistake to assume from this crisis that capital account liberalization is a bad thing.

The lesson, if there is one with respect to globalization and liberalization of capital markets, is that you have to pay a lot more attention to supervision. And many countries in the region did not. There is a great similarity, for example, between the short-term finance companies in Thailand and the merchant banks in Korea — they essentially were engaged in the same types of business and they essentially were underregulated.

Whether or not the Asian miracle is over and whether or not the Asian paradigm was the wrong one to look at, only time will tell. I do not want to be the first to predict whether or not our fundamentals about the Asian paradigm are right or wrong, but I think you should consider the fact that in countries that have savings rates above 30 percent, traditional productivity levels that are the highest of any region, and extremely competitive exports, the social indicator is very high that it would take a lot to undo all that progress. That said, there is no doubt that Asia will have a large recession and no one knows whether or not it will take a year or two years to get out of it. There is probably some economic evidence that the depth of adjustment is inversely correlated with the length of time it takes to recover.

My view is that the Asian paradigm still offers a lot to us. On the financial-market side, for example, it is very important that lending be restored to countries like Korea, because if you look at sources of growth, we know that consumption will be down for obvious reasons, we know investment will be down, given high interest rates and expectations, and we know government spending will be curtailed. So the only remaining source of restarting growth is really exports. So the question is how you can regenerate normal credit flows to those sectors. That is where lenders in the past, who have been blinded by the moral-hazard issue, have not been able to distinguish very well between who is a good borrower and who is a less good borrower. That is where the international lending community needs to quickly get its act together so that countries can access international capital.

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> — Daniel Leipziger
> *World Bank*

Dr. Stanley Fischer: We are in the midst of the crisis now and it is very hard to get any perspective on what is happening and what will happen. I remain an optimist about most of these countries. Some of them have been through major crises, like Korea in the 1982 debt crisis, and got out of them very quickly because of their determination to turn the situation around. I think we are seeing that in Korea and, to some extent, also in Thailand right now. Some of the fundamentals are there. Of all the many things that have frightened me during this crisis, the one that disturbed me most is the line I read in *The Economist,* which said, "No doubt, the fundamentals of the American economy in 1930 were very good." The fundamentals are not enough — we have to overcome the short-term financial crisis as well. I think a good start has been made on doing that and we should pause to look back a bit and look forward a bit.

Now, the very rapid growth in recent years in some countries clearly did owe something to overheating and that is clearest in the Thai case. Of these various crisis countries we are dealing with, Thailand's macroeconomic situation was closest to a classic case of overborrowing, excessive current account deficits. Thailand happened not to have a large budget deficit and that was partly misleading, or at least a reason that people were lulled into confidence.

However, we all know that having a current account deficit equivalent to 8 percent of GDP is unsustainable. You take that number and you calculate how fast the economy is growing, and then you say, "Is the economy growing fast enough to generate foreign exchange that will repay these

debts and have the debt-to-GDP ratio going down?" They look fine, as long as the growth rate is maintained and as long as the capital is available. Those calculations are so sensitive to the growth rate that what is sustainable at an 8 percent growth rate is totally unsustainable at a moderately different growth rate like 5 or 6 percent. Thailand was sailing very close to the wind—it would all work if everything stayed right, but we know that nothing ever stays right. There was a lot of concern about Indonesia before it happened despite the budget responsibility or discipline there.

As Thailand encouraged short-term capital inflows, the International Banking Facility was explicitly set up to bring capital, which happened to be short-term capital, into the country, i.e., foreign lending to Thai firms, and that increased the dependence on foreign capital and increased the stock of short-term capital. There was a pegged exchange rate that was being defended successfully at first, but suspicions were that this scenario was not sustainable. A situation may be stable for a long time if you defend it. But if you are going to defend it, you have to actually defend it. That may mean raising interest rates, being willing, as Hong Kong is, to put up with the recession.

The Thai defense was to use foreign-exchange reserves and then forward transactions to defend the currency, but not to defend it by tightening monetary and fiscal policies. Eventually the string ran out—it was revealed to the markets as the IMF program went into effect just what the state of the foreign reserves was. On the day that the Thai program was signed, there was one bit of good news—namely the program was signed, and a huge piece of bad news regarding the state of the reserves and the forward commitments of the Bank of Thailand. Actually, I think the markets misinterpreted the data, but nothing could straighten it out. In any case, this was a pretty standard crisis except for the budget balance and the bankruptcy rate.

There was then a protracted period in which relatively little information was provided about what was happening in Korea and to the reserves. In retrospect, it was okay until the attack on Hong Kong in October. Shortly after that, the reserves depleted rapidly, as they tend to in a crisis. And all the lines of credit were being pulled and the Bank of Korea was using up its reserves and replacing those lines of credit. A truly astonishing fact confronted us when we signed our program with Korea, which was that essentially the currency reserves of this powerful economy were within days of running out, meaning zero. It was hard to believe the first time we saw it, which was a week or so before the program negotiations began. They had essentially used up all the reserves trying to maintain the borrowing lines of Korean companies and replacing the lines of Korean banks with reserves so that the companies to continue, could maintain their foreign currency borrowing.

Chaebol problems combined with a weak financial sector with no reserves meant that the situation was very, very difficult. The loan that was extended to Korea in very short order was the biggest we had ever made, certainly the fastest. The Korean program was truly of exceptional size, and even then, the situation was bad enough that IMF lending alone was not sufficient to turn the tide of confidence that underlay the difficulties that were being faced by Korean banks and Korean corporations.

It was only when the second line of defense was put into play on Christmas Eve, together in acceleration of the IMF program and strengthening of the Korean program (which justified the acceleration of our program) that the situation stabilized, in part because of the agreement that the banks would now find a way of rolling over credits.

Now we say Korea had a liquidity crisis, not a solvency crisis. That is true of the Korean economy as a whole, and it is a point that has to be reiterated. It is also true that there is a massive bankruptcy problem within the Korean corporate sector that has to be dealt with by getting debt equity ratios

to reasonable levels, which is to say to replace debt finance with equity. In the context of restructuring, that should be possible for many companies and it is a focus of the IMF program, again with World Bank leadership in this area. It is also true that the banking systems need to be substantially restructured. There is a well-recognized bankruptcy program in the Korean merchant banks, finance houses, and commercial banks.

But the economy per se is not bankrupt. It did, however, have these financial difficulties, which have to be dealt with and which will ensure for a while that economic activity will decline. Korea's determination to take hold of the situation and to reverse it is in fact going to make this one of the more impressive recoveries. We see enormous help coming from the current account. It turned around in December to an unsustainable extent of a three billion current account surplus.

That will not hold, because that was a destocking phenomenon in part, and growth and imports will pick up. But the current account is turning very fast and while the financial-sector change is taking place, the banking sector is going to make the situation work considerably better. In addition, there is a new team that understands fully what needs to be done. As several people who have read Kim Dae Jung's autobiography tell me, it could have been written by the IMF (not all of it). There is no question about what he wants to do and that he understands what needs doing, and is determined to take hold. And there was a change of government in Thailand that also played an important role.

The situation in Indonesia is more complicated because the governance issues are very, very difficult. The macroeconomic situation in Indonesia was not bad, inflation was relatively low, the current account deficit had been large but was declining, the budget was okay. Problems that occurred in Indonesia had as much to do with governance as with that common feature of all three cases, the banking system. We actually started talking to Indonesia about a program before this crisis got serious and the Indonesian government wanted the IMF to come in because they knew the banking system needed to be cleaned up, but they were not in an IMF program to deal with the banking-system problems. That was a recognized difficulty. In addition to that, there were the governance problems.

With any country entering a program, the negotiation is very difficult. You are pushing very hard against people who are in shock to be where they are, not quite accepting it, and believing that somehow with just a little bit of money they can find their way around this problem. Despite what you may believe, the IMF does not get what it wants in every negotiation, nor as a matter of practice do we push to the point where we believe we will destroy the self-confidence of people or their willingness to carry out a program. There is a delicate, serious tradeoff to be made between having the country believe in what it is doing and having you believe that what they are doing is perfectly right. So on the governance issues, we got a lot in the first stage. We did not get some things that we thought we needed, but we were willing to go ahead.

At the beginning, the Indonesian program worked better than any of the others. The response was immediate, the exchange rate strengthened, interest rates were raised, things went very well. And then doubts began to set in related to the willingness to maintain a tight monetary policy, the commitment of the government to the program. Then the Korean contagion hit Indonesia and then the President Suharto got sick. That combination of events turned what was possibly going to be a very successful program into a very difficult situation.

We are now in the second stage of dealing with the Indonesian crisis. In the second stage, the first step was to strengthen the governance measures that had been agreed on between the IMF and the Indonesians in the negotiations

with President Suharto. Those talks ended with a new letter of intent and a lot of serious structural measures, including removal of monopolies that many people thought would never change. There were two issues left unfinished: restructuring the banking sector and corporate debt. Both of those have now been dealt with in a set of announcements that came out of Jakarta this morning, January 27, 1998. That means that most of what is needed on the economic side to turn the situation around has been done. Whether confidence will be restored depends in part on the market's perception of whether the commitments that have been undertaken on the structural side, in particular, are implemented and on other factors that are not necessarily under control. But I believe many of the most important measures have now been put in place and there is not a lot left to be done.

Regarding the capital account, the country that is most proud of not opening up its capital account has as disastrous a capital outflow program as any — namely Korea. My conclusion is that it is better to go into a process of rational liberalization of the capital account, and to do it gradually and with the right safeguards in place, than to pretend that you can remain closed and partake of the benefits of the loading of the international financial markets. Every country here had short-term overborrowing. There was a lack of prudential controls on banks, although that is something in financial-sector restructuring that we can put in place.

There is another part that is much harder to deal with. There is a lack of control on corporate borrowing by companies in that region. We do not have the equivalent of prudential controls for bank borrowing or corporations, but we are going to have to get them in some way or the other. We are going to have to develop a set of norms of what is acceptable short-term exposure for companies that are operating in an environment where you cannot guarantee that the exchange rate will remain fixed. So I am a firm believer that we have to continue the process of capital-market liberalization. It is an illusion to imagine that you can close up and selectively partake of the goodies by letting your banks borrow as Korea did and keep the foreigners out.

I finally understood that closing the capital account means protecting an industry — the financial-sector industry. We generally believe that when you protect an industry it becomes inefficient and does not meet world standards. That is what happened with protected financial industries in all these countries, so they have to be exposed, gradually to be sure, to competition, and to be brought up to world standards. We do not have financial-sector crises of this magnitude in the industrialized countries anymore, although we used to have them, and it is because the supervisory standards, the information-provision standards, and the prudential standards of corporations, have all improved so that we do not have them to that extent.

> The IMF does not get what it wants in every negotiation, nor as a matter of practice do we push to the point where we believe we will destroy the self-confidence of people or their willingness to carry out a program.
>
> — **Stanley Fischer**
> *International Monetary Fund*

Is the Asian model good? Well, if the Asian model means high-serving, high investment, hard work, I doubt it. If the Asian model means the bureaucrats telling the banks to whom to lend, yes, it is very unlikely to continue. But, in terms of what really drove these economies, which is entrepreneurship, increasingly educated, hard-working labor forces, high savings rates, and good macroeconomic policy, that all will be there. Those characteristics will bring them back to growth rates, not like those we have had for the last 30 years, but still well above world average rates, provided the structural reforms that are in these programs are implemented.

I am struck by one thing that is very impressive. We have three countries with intensely difficult economic programs with the IMF. Two of them, Thailand and Korea, started their programs with a great deal of uncertainty on the part of the markets regarding whether they do implement them. When the political situation changed in Thailand and a new government that was committed to the program came in, the outlook for Thailand changed. In Korea, there was a grave uncertainty about what would happen, but when the new president made things absolutely clear, the situation changed.

It is clear that political change in the right direction, of course, brings economic change. Will these economic forces bring political change? I believe so, but I really do not know much about these things. I don't believe that governments that have presided over the creation of very large crises are likely to survive unscathed without significant changes in the government system. What has happened is a shock to everybody. I believe it can be overcome in most of these countries quickly if the will is there to make it happen, with the backing of the international system, and if the system backs those changes. I expect that there will be continuing political changes in the direction of less state direction of the economy.

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Q I was wondering what kind of admonitions the administration is trying to use to change the perceptions in the Beltway towards helping the Asian countries. Also, a question about the difference from what the IMF did with the Mexican crisis, i.e., that instead of just putting conditionalities on the countries in crisis, you put conditionalities on the lenders. My question is, why change the strategy? And secondly, what do you think about setting up currency ports in all those three countries?

Mr. Geithner: We just try to do what is practical and sensible. Secretary Rubin, Chairman Greenspan, and Secretaries Albright and Cohen, as well as the president, have tried to explain the implications for us, the stake we have in seeing this thing restored quickly, why this type of response is the most effective way to get there, what role the IMF has to play, and why it is better for all of us that the IMF has the resources necessary to deal with this. Our only ammunition is really persuasion and that is a difficult, challenging process. It is always a difficult process with the IMF, because it has many adversaries. We are the adversaries, but it is a difficult, challenging process now in this political environment.

Dr. Fischer: We have been very conscious of the difference between the 1982 crisis and Mexico in 1995. There was some underlying difference, which was that the lending in the 1980s was syndicated bank-lending to those countries, so you could get the creditors together very easily and coordinate them in a very simple manner. But that is not really the reason we are concerned. We did not want to repeat the 1980s experience because it took countries a long time to restore market access in the 1980s. And that lengthy process of stopping debt service, coordinating the banks and forcing new money through the banks, forcing them to lend,

led to a prolongation of crisis, perhaps inevitably. It is easy to be wise after the event, and at the time it was not so clear that there were many alternatives. But it eventually led to an adjustment period of six to eight years.

During the 1995 Mexican crisis, market access was retained by Mexico. It managed to get back to market within a few months of the start of the crisis and it came back to the capital markets. Things turned around with growth within 18 months. It was at a more rapid rate than Mexico has had since the 1970s. We were very concerned not to put in place a process that would stop capital flows to these countries. Now obviously nothing much is flowing today to Indonesia. On the other hand, money is going into the Korean stock market already at not massive rates, but it is going in and it is helping.

So we were concerned with doing what we could, together with the country, to indicate that it had no desire to depart from the general tradition of Indonesia, which is to maintain open capital markets, to maintain debt service where possible, and to maintain voluntary attempts to service the debt, even though Indonesia's depreciation is about twice or three times as bad as any other country. Your companies are in a situation where many of them cannot pay. They attempt to do a private sector arrangement, which says, private sector to private sector, "We need to deal with this issue. We have no intention of stiffing anybody, and we want to maintain good relations with the creditors." That, we think, is the best way of ensuring that a year or two from now Indonesia will be back in the capital markets with full market access and able to benefit from what it had before. So there is a very clear decision to try and do things differently this time, based on a look back to what happened then.

On the subject of the currency board, there are very strong arguments for it. Where currency boards succeed, say in Bulgaria, which is the case we are most-familiar with, you see phenomenally good things happening. Bulgaria got interest rates down to world levels within a matter of weeks because there was confidence. But if there is no confidence, you have to defend the currency board. We see Hong Kong defending the currency board now. So you would have to know if you were going to put in a currency board that all the essentials were in place, so that people would have confidence that the authorities would defend it if the crisis came. It is an argument that I think is well worth analyzing and well worth thinking through. It has strong pluses and strong minuses. At the moment, it seems to me the minuses predominate. It would be easier if stability could be restored without going that route and that is certainly what we are trying to do.

Q Right now we are having a difficult time gearing up Congress to become more internationally focused. The problem with the IMF funding seems to be also that there is an intellectual consensus that the IMF has not been beneficial for these Asian crises, that the IMF's actions actually exacerbated the crisis. My question is that, when this crisis first began, there was the idea of an Asian monetary fund and we pretty much sought to squash that. Do you think that might have helped the situation, or perhaps it got Japan more involved in resolving the crisis?

Dr. Fischer: I think Japan has played a very constructive and critical role in helping to lead an international response to help these countries deal with these problems. It has put up substantial sums of money. It has been a real catalyst for action by other countries and by the international financial institutions. It is true that they floated a set of proposals, which in retrospect look somewhat ill-conceived and which ultimately fell under their weight. But they failed to take hold in gaining momentum, mostly because they did not prove to be viable in the minds of most of the countries of the region.

Most of these crises of confidence can only get solved through a sustained commitment to reform and that type of policy will bring confidence back. Throwing a lot of money at the problem or pretending to throw a lot of money at the problem was not viewed by most people as a credible way forward. But let me end where I began by saying that they actually have played quite an active role and constructive role in supporting this broad effort.

Mr. Geithner: In this crisis, whenever we have called on Japan for help, it has been very posit ive in its response. You know, building an intellectual consensus is very difficult. We are getting hit from the left and the right. All we can do is try to deal with critics on both sides. The Left's criticism is that programs are all "one-size-fits-all-and-too-tight," and the Right's is "you are betting out A, B, C, D, E." On the Left, the programs are quite different, as Dr. Azis said. In particular, these have the common core of the financial sector that is different than in the past. If you actually look at what has been done on the fiscal side, you will see relatively little.

We are now in the unaccustomed position of having a country insist on having a much tighter fiscal policy than we are asking for. It is not part of the Asian tradition to run large budget deficits and I think basically they are right. I do not think the fiscal corrections were excessive in any country. So we will have to keep pushing down those roads in answering arguments. And even pure success is not sufficient. I believe, for instance, that Mexico in 1995 was a great success, but even that is regarded by some as somehow an ambiguous case.

Q I understand in Korea that the Central Bank of Korea did begin to reduce policy loans. I think you are familiar with the so-called policy loans. And I had the impression that there is probably a lot of blame to go around on the side of the government, the *chaebols*, and the banks. But as a result of reducing these policy loans, which was a step in the right direction, perhaps this led to increased foreign borrowing which, of course, eventually got into too much short-term in the reserves that they had. Now, I do not know if this is true, whether that is a very important aspect or not. I would be interested in your comment on that.

Dr. Fischer: It may well be true. I just do not know the answer. I am not familiar enough with the details.

Mr. Geithner: I am not sure of the linkage. I have heard there is some evidence about that linkage. It is true that policy loans had gotten smaller, but it is also true that the whole system of mutual guarantees between subsidiaries of conglomerates and other features of the banking system really led to over-borrowing. Therefore, I would not see the link as being the reduction in policy loans.

Q I was intrigued by what you mentioned earlier, making the connection between political change in Thailand and Korea and the markets turning around in their perceptions of the packages in those countries and the prospects of those countries, but we have not seen that sort of political change in Indonesia.

We have had this political change in Korea and Thailand, the markets do seem to have turned out. The reaction of the last two weeks or 12 days since the January 15 package in Indonesia, which was a very strong package economically, appears to be again that the case for Indonesia is that the markets do not feel that there have been enough adjustments or change in the political reform side. Which poses, of course, a dilemma for the IMF. You are not in the business of dictating or conditioning political changes. But what do you do if the broader goal here is to get markets to turn around in their perceptions and to restore confidence, and the markets

appear to feel that this is a necessary aspect of an overall package of change? What is the right way to handle that?

Dr. Fischer: There is really nothing to do but to do everything we can to make sure that the program is implemented as agreed, and to hope that as the markets see that the changes that were promised were done, that their views will gradually begin to change. You would always wish that it changes back on the day of the agreement, but it is going to take time, it is going to take implementation for the markets to become convinced. Now, as people see those things being implemented, expectations would begin to change. We have just got to sit there and work with the Indonesian team, which is determined to do it and make sure it happens. That is all we really have right now.

The Participants

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Dr. Azis is the former chairman of the Department of Economics, Faculty of Economics University of Indonesia. He has been a consultant to a number of research institutes, including the Research Triangle Institute of North Carolina. During his career in academia and economic policy formulation he has addressed such topics as interregional capital movement and investment allocation; decisionmaking management practices; decentralization in Indonesia; national and urban development strategy; and foreign impact assessments.

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Dr. Fischer has served as vice president, development economics and chief economist at the World Bank, as well as the editor of the NBER Macroeconomics Annual. He has also held consulting appointments with the U.S. State Department, the U.S. Treasury, the World Bank, the International Monetary Fund, and the Bank of Israel.

Dr. Fischer is a Fellow of the Econometric Society and the American Academy of Arts and Sciences, a member of the Council on Foreign Relations, a Guggenheim fellow, a Research Associate of the National Bureau of Economic Research, and a member of the Visiting Committee for the Kennedy School of Government.

Dr. Fischer received his Ph.D. in economics from MIT.

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Dr. Fuller is the former director of the U.S. Agency for International Development mission in Indonesia.

Prior to joining The Asia Foundation in 1989, Dr. Fuller served as deputy assistant administrator of USAID, with responsibility for U.S. assistance in the Near East. He also has held posts with the Ford Foundation in Asia; served as an advisor to the National Education Commission and Ministry of Education in Thailand, and later as the Ford Foundation's representative in Bangladesh. He has worked with the World Bank-UNESCO Cooperative Program in Paris and with UNICEF in Beirut, Cairo, and New York.

He is a member of the Council on Foreign Relations, the U.S. National Committee of the Pacific Economic Cooperation Council, the National Committee on U.S.-China Relations, and Advisory Council of the Institute of International Studies at the University of California. He is the vice chairman of the Board of Directors of Winrock International and the World Affairs Council of Northern California. He also serves on the Board of the Institute for the Future.

He received his bachelor's and master's degrees and doctorate from Stanford University. He holds a master's in business administration from Harvard University.

Timothy Geithner

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Prior to this appointment at the Treasury for International Affairs, Mr. Geithner served as senior deputy assistant secretary for International Affairs. During this time, he played a key role in formulating U.S. exchange rate policy and U.S. policy towards Japan.

Mr. Geithner has also served as deputy assistant secretary for International Monetary Affairs and Financial Policy. In this capacity, he was responsible for U.S. exchange rate policy and operations, the G-7 policy cooperation process, financial market issues in the U.S. and major financial centers, and U.S. policy with respect to the International Monetary Fund.

Mr. Geithner graduated from Dartmouth College with a B.A. in Government and Asian Studies, and from the Johns Hopkins School for Advanced International Studies with an M.A. in International Economic and East Asian Studies.

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During the Kim Young Sam administration, Dr. Han was deputy prime minister and minister of finance and economy, as well as President Kim Young Sam's chief of staff in 1994 and 1995.

Prior to this, Dr. Han was Korea's ambassador to the United States and also served as chairman of the Korea Trade Commission and was a visiting professor at the University of Tokyo.

He is currently an honorary professor at the University of York, England, and a councillor of the Asia-Australia Institute of the University of South Wales.

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Dr. Leipziger is the Chairman for the EDI Strategy Group and team leader for the World Bank's $3 billion emergency loan to Korea. Previously he served as the lead economist for Latin America and the Caribbean region, where he managed the Emergency Bank reconstruction loan for Argentina in 1995 and negotiated the World Bank's first reimbursable advisory services agreement with Chile.

As the Lead Economist for East Asia and the Pacific Region (World Bank), he led the opening of Vietnam. Dr. Leipziger also served as principal economist of the Korea and Southeast Asia Division of the East Asia and Pacific region.

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Prior to joining the Foundation, Mr. Parker worked for the U.S. Agency for International Development as the trade and macroeconomist in Indonesia. He also served as an associate analyst in the Natural Resources and Commerce Division of the U.S. Congressional Budget office and as a project associate with the Indonesia Project for the Harvard Institute for International Development in Indonesia.

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He has also served as chairman of the Council of Economic Advisors to the prime minister and chairman of the Board of Commissioners of the State Railway of Thailand. He serves as director to a number of prominent Thai companies and has published numerous books and articles about Thailand's economic development.

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