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IMF regrets are too little too late

ONE of the strongest images of the South-East Asian financial crisis is a press photograph of Mr Michel Camdessus, the International Monetary Fund's (IMF) boss, arms folded and standing tall, looking down as Mr Suharto, then the Indonesian President, signs a document to formally ask for help from the IMF to get Indonesia out of the crisis. More than 14 months after the start of the crisis in South-East Asia, Indonesia is still deep in economic trouble. The crisis has since spread to other Asian countries, rocked Russia and is even now threatening the well-being of the Latin American economies. Last Wednesday, Camdessus finally admitted to errors by the IMF in its handling of the South-East Asian financial crisis, all at once shredding the almighty image of the press photograph of him and Suharto.

The Fund, Camdessus told a German weekly this week, committed errors in predicting and preventing the financial crisis. He confessed that the IMF had not been properly informed about short-term capital movements and should have done more to monitor the financial sectors in the stricken South-East Asian countries. But if Indonesia or its neighbours, expected an apology for the mistakes, it was not forthcoming. The IMF chief instead blamed the mistakes of the IMF partly on those countries. Either the authorities in the crisis-hit countries did not have the data then, or they did not want to release the data because it was so worrying, he said. The IMF's member states, he went on, were simply not equipped with the correct information machinery before the crisis. With hindsight, Camdessus said that the IMF should have campaigned harder for the governments involved to let it supervise the banking and financial institutions. IMF supervision over these sectors, he added, could have helped prevent the crisis.

One has to wonder which country or government the IMF boss was making reference to. Wasn't it in Thailand that banks were ordered to close by the IMF and wasn't it in South Korea that several major financial institutions were given a similar directive? In Indonesia, one of the first things Camdessus and friends had asked Suharto to do was to close down banks that clearly could not compete under the harsh economic times. That Jakarta did, and that Bangkok and Seoul had to abide to, however grudgingly or reluctantly. The IMF had supervision of the banking and financial sector in these countries, but what good did that do their economies? The Fund was the one that told the banks and finance companies to push their interest rates in the direction of the skies, arguing that this would keep investors and bring more in. What happened was that companies suffered and went bankrupt and millions of people lost their jobs, Suharto lost his presidency, and the crisis proceeded to spread to other parts of the world.

The IMF's judgement and handling of the crisis had been criticised on many occasions by economists. With the benefit of hindsight, one tends to regret the fact that Camdessus had not listened to these criticisms. Beginning with Datuk Seri Dr Mahathir Mohamad and leading economist Paul Krugman, the view-point that the IMF might have squandered its chances of containing the crisis is shared by more and more people each day. Nobody was actually blaming the IMF for the crisis, or for compounding the problems facing the crisis-hit economies, but suggestions were made but never considered seriously enough by the people at the IMF. Camdessus'

regime of high interest rates and limited credit to unproductive sectors has proved to be ineffective, even disastrous, for the businesses and the economies it was supposed to help.

Many forget that Malaysia introduced its exchange controls after a year of experimenting with the prescriptions of the IMF. The Government found that the Fund's approach was wrong. And that was not the only hitch. The IMF had refused to consider regulating currency trading, the root of the problems faced by South-East Asian countries, and later by Hong Kong, Taiwan, South Africa, Russia and now Latin America. Camdessus can offer say a thousand apologies - in reality he has not offered even one - and it would still be too little too late.

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