

Stanley Fischer and the IMF Changed Asia for Good

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As he leaves the Fed, remember his influence in a previous role, shaping aid during the 1990s economic crisis.

As he steps down as vice chair of the Federal Reserve, Stanley Fischer has been saluted for his overall contribution to central banking. His complex legacy after transforming key Asian economies should not be forgotten.

As first deputy managing director of the International Monetary Fund in the late 1990s, he played an important role in the emergency loans to Thailand, Indonesia and South Korea when their currencies collapsed. All three are American allies, and the last two are pivotal strategically.

That the nations required rescue amid the Asian economic crash is beyond question. The conditions attached to the loans, at least initially, were controversial. Especially in Indonesia, the prescriptions were perceived as onerous and doctrinaire: limit government spending, end subsidies, raise interest rates, close banks. While the IMF did eventually revisit some of these, the short-term damage was done.

Indonesia plunged into deep recession and political chaos. Ultimately, the structures built up around aging autocrat Suharto couldn't bear the strain. He was forced out after three decades. In the period that followed, the country was wracked by sectarian bloodshed and separatism while millions were plunged back into poverty.

In South Korea, a deep recession helped usher one-time dissident Kim Dae-jung into the presidency in 1998. After campaigning against the IMF and the strings attached to its aid, Kim ultimately embraced it after becoming the first elected opposition leader. It's tempting to see the economic crisis and that election as the real start of a proper two-party system in South Korea.

It's Indonesia, by far Southeast Asia's largest economy, that is now unrecognizable -- mostly for the better -- from what it was before the crisis and the IMF program.

Despite the suffering and a few years of living dangerously, the country emerged stronger as a vibrant democracy determined not to go back. The period did scar the country and altered the way it was governed beyond just elections. The country's president is now elected directly and limited to two terms. The nation's 34 provinces, spanning about 10,000 islands, now guard their greatly expanded autonomy. But the country didn't come apart. Only one province, East Timor, broke away. (It had been seized by Suharto in 1975 and never really fit.)

The generation now running economic policy saw the tumult firsthand. Finance Minister Sri Mulyani Indrawati was an activist at the time and recalls vividly when student protesters were shot and killed by authorities. Budget chief Suhasil Nazara was at Cornell University on a scholarship denominated in Indonesian rupiah. When the currency imploded, he had to go home.

A large part of current policy is to ensure no repeats of the 1998 crucible. There are strict limits on budget deficits and government debt, an independent central bank, a social security program, and efforts to slowly but steadily reduce the amount of government borrowing denominated in foreign currency.

The IMF certainly shouldn't lend money for free. And some of these countries were indeed accidents waiting to happen. There are always conditions attached to loans, and they are often unpopular at the time -- just ask Greece. But it's tough to say everyone at the IMF truly appreciated the whirlwind that was unfolding and all the dynamics at work in these countries.

Incidentally, the Asian country that did exactly the opposite of what the Washington consensus recommended -- Malaysia -- escaped with the least damage. Malaysia, where I served as Bloomberg News bureau chief for two years, bucked conventional wisdom, pegging its currency and imposing capital controls.

Malaysia's foreign debt was relatively small. Mahathir Mohamad, then prime minister, gambled that it would escape the need for IMF money even as the Asian economy

crumbled. It did borrow from the World Bank. And Malaysia did have its own political crackup, but it was a purge within the ruling party, not a wholesale overturning of the system.

So the IMF, during Fischer's time as its number two official, was midwife to the emergence of a new Asia -- with a new balance of power in Indonesia and a significantly reformed political system in South Korea.

This shows Fischer's fingerprints, even though we can't know exactly how. A complex array of forces can shape the terms of such loans. The U.S. Treasury Department certainly played its role, as did the IMF board and an array of stakeholders.

Two decades on, Indonesia and South Korea are certainly the better for it. But they can be forgiven for not always thanking Fischer and the IMF. The nations paid a price, in blood and treasure.

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