



INTERNATIONAL MONETARY FUND: ASIAN FINANCIAL CRISIS, 1997

MARCH 15th-17th, 2024



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MSUMUN Notices

Committee Content Warning

While MSUMUN values the discussion and awareness of most topics and a delegate's obligation to accurately represent their assigned role, all participants who engage in any bigoted, racist, sexist, homophobic, ableist, fatphobic, xenophobic, or other such comments or sentiments will be subject to appropriate disciplinary action at the discretion of MSUMUN's Secretariat. Additionally, in all things, MSUMUN pledges its Secretariat and staff to maintain approachability and inclusivity; if any participant has any questions, comments, or concerns they are encouraged to contact MSUMUN's Secretariat or, in the case of delegates, its staff. If you have questions or concerns regarding this, please reach out to your committee's senior staff before conference weekend.

Michigan State University Model United Nations (MSUMUN) is committed to fostering a safe and secure environment for all delegates, staff, and advisors. In this, MSUMUN operates with a zero-tolerance policy concerning any and all instances of harassment and discrimination. Further, MSUMUN is committed to promoting the mental health of its participants and requires all participants to act with compassion, grace, and understanding. MSUMUN encourages participants to step out of their committee room and/or speak with a trusted individual if they are feeling overwhelmed or are otherwise uncomfortable.

All participants should be aware that MSUMUN's Secretariat and staff are designated mandatory reporters with MSU's Office of Institutional Equity while operating within their roles before and during the conference.

MSUMUN Statement on Mental Health

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Moreover, MSUMUN recognizes that some of its committees may include references to or discussions of sensitive topics. While MSUMUN values the discussion and awareness of these topics and a delegate's obligation to accurately represent their assigned role, all participants who engage in any bigoted, racist, sexist, homophobic, ableist, or other such comments or sentiments will be subject to appropriate disciplinary action at the discretion of MSUMUN's Secretariat. Additionally, in all things, MSUMUN pledges its Secretariat and staff to maintain approachability and inclusivity; if any participant has any questions, comments, or concerns they are encouraged to contact MSUMUN's Secretariat or, in the case of delegates, its staff.

All participants should be aware that MSUMUN's Secretariat and staff are designated mandatory reporters with MSU's Office of Institutional Equity while operating within their roles before and during the conference.

MSU Provisional Land Acknowledgement

“We collectively acknowledge that Michigan State University occupies the ancestral, traditional, and contemporary Lands of the Anishinaabeg – Three Fires Confederacy of Ojibwe,

Odawa, and Potawatomi peoples. In particular, the University resides on Land ceded in the 1819 Treaty of Saginaw. We recognize, support, and advocate for the sovereignty of Michigan’s twelve federally-recognized Indian nations, for historic Indigenous communities in Michigan, for Indigenous individuals and communities who live here now, and for those who were forcibly removed from their Homelands. By offering this Land Acknowledgement, we affirm Indigenous sovereignty and will work to hold Michigan State University more accountable to the needs of American Indian and Indigenous peoples.”¹



¹ “Land Acknowledgement,” American Indian and Indigenous Studies, accessed December 5, 2021, <https://aiis.msu.edu/land/>.

Rules of Procedure

Article I: General Rules

1. Delegates are expected to adhere to all regular MSUMUN XXIII rules and standards of decorum.
2. In the event of a dispute over the Rules of Procedure, either those of MSUMUN generally or IMF, the MSUMUN Secretariat will be the ultimate authority of appeal.

Article II: Meetings

1. All of IMF meetings shall be attended by all specified members of the committee, unless otherwise authorized by the MSUMUN Secretariat.
2. Unless otherwise indicated by the MSUMUN Secretariat or IMF staff, all meetings of the committee will be held in the specified IMF room as designated by MSUMUN.

Article III: Agenda

1. Items for debate may be pulled from the background guide, but are not limited to what is explicitly mentioned. Staff would like to see well-rounded and well-researched delegates bring new and relevant topics to the table.
2. Any Committee member may make a motion to restrict debate to one topic. If this motion passes, debate shall be limited to the topic specified until such time as another motion is made to either change the topic under consideration or return to general debate.

3. The Agenda is to be set at the beginning of committee, formal debate on committee topics may not begin until the Agenda has been set.
4. A Speaker's List may be opened at any time when motions are being entertained. Additionally, a delegate may request to be added to the Speaker's List at any time. If the Chair is not actively calling for speakers to be added, a delegate may send a note to the dias.

Article IV: Types of Proposals

1. Working Papers: When initially proposing solutions, delegates must first draft and present working papers to the committee. These documents will not be subject to a vote by committee, but are merely a presentation of ideas. These will then be adapted into resolutions, as described below.
2. Resolutions: A resolution requires only one sponsor, though it may have more. The amount of required signatories is up to the discretion of the Chair. A committee member need only move to introduce a resolution in order for it to be considered by the entire committee.

Article V: Voting

1. Votes may be entered as For, Against, or Abstentions.
2. Any delegate who designates themselves as "Present and Voting" during roll call may not abstain on any matter.

3. Votes on non-substantive proposals or procedural matters will be passed by the affirmative vote of a simple majority of committee members. Abstentions are allowed on non-substantive proposals, but not procedural matters.
4. Votes on substantive matters will be passed by the affirmative vote of a simple majority of committee members.
5. In all cases, a simple majority constitutes more than half of the For and Against votes.

Remaining Points

1. Any rules and regulations are subject to change at the discretion of the Chair.
2. If you have additional questions, please visit the [MSUMUN Website](#)



SPECIAL RULES AND PROCEDURE

Firstly, while this committee is a general assembly, there are a few other procedures that you will need to know for the conference weekend. To more accurately simulate the role of the International Monetary Fund, this committee will incorporate crisis drops throughout the committee sessions. The drops will be based upon the International Monetary Fund's loan program where member countries have the ability to request financial assistance. However, there will be no overarching story to the crisis drops and there will be no backroom or crisis notes in the set-up of this committee. The sole purpose of the incorporation of crisis drops is to more accurately simulate the process of IMF aid and lending to countries affected by financial crises. Additionally, following the event of a crisis drop, all debate on current working papers will be paused and delegates will be responsible for debating and passing a short directive outlining the best approach to aid the affected country, as well as what policies the country will have to enact, to be eligible to receive a loan from the IMF.

All additional rules of procedure will be addressed by the dias at the start of the conference to clarify any lingering questions delegates may have about the rules and procedures of this committee. For more information on how crisis drops work or how to write a directive, please feel free to email us at GA3@msumun.org or check the MSUMUN website. Crisis — MSUMUN

Example of an actual directive

Directive: Seoul Food

In light of the alarming humanitarian situation mounting in the Northern end of the country, the cabinet will:

1. Release emergency food stores to the Korean public, to be distributed by police forces over the next two weeks, to reduce rates of malnutrition and starvation from this conflict;
2. Request assistance from the International Committee of the Red Cross is providing clean water to residents of Seoul, Incheon, Uijeongbu, and Ansan as needed;
3. Establish emergency lodging centers in non-essential government buildings for individuals that have been displaced due to recent violence;
4. Temporarily cease exports of agricultural products and order mandatory sale of all foods to the Ministry of Agriculture for 50% below market value to help mitigate the current food crisis.

Through these steps, we hope to stem the humanitarian crisis in our country and regain the trust of the public.

Signed: Minister of Commerce, Minister of Culture, Minister of Foreign Affairs



LETTER FROM THE DIAS

Hello everyone and welcome to the IMF: Asian Financial Crisis, 1997 Committee! My name is Kate VanderWeele and I have the honor of being your chair for MSUMUN XXIII. I am so excited to be facilitating debate over the role that the International Monetary Fund (IMF) should have in assisting the Asian Countries affected by the ongoing currency crisis. I look forward to seeing what you as delegates do throughout the committee to address these global economic challenges, including financial contagion, macroeconomic imbalances, and to what extent the IMF should be able to enforce its loan process and policy conditionality.

Firstly, let me introduce myself and my amazing Staffers! I am a second-year student at Michigan State University, double majoring in Comparative Cultures and Politics and International Relations. Last year during MSUMUN XXII, I was a Junior Staffer in the Faith Trust and Pixiedust: Disney Board of Executives, 1998 Committee. This year, I am also an Assistant Vice President of Finance Operations for the International Relations Organization, the competitive Model UN team here at Michigan State. Outside of MUN, I am a member of the MSU Chinese-American Student Coalition and work at the Wharton Center here on campus. This year I am joined by three wonderful Junior Staffers: Reda, Eleanor, and Ethan!

First we have Reda Samih. He is a freshman majoring in Computer Science and Economics. Outside of Model UN, he enjoys listening to and making music and watching movies. Finally, he is super excited to help make this conference enjoyable for all of you!

Second, we have Eleanor Pugh. She is a freshman majoring in International Relations and Russian. Outside of school, she love biking and spending time outdoors and plays in an orchestra. She is so excited to help out with MSUMUN and hopes you all enjoy the conference!

Next we have Ethan Pyscher. He is a freshman majoring in Political Theory and Constitutional Democracy and History. In his free time, he enjoys hanging out with friends and running.

Lastly, we have Elijah-Kelly Roberson. He is a Junior studying International Relations, Business, Asian Studies, and Japanese. In his free time, he enjoys playing music and studying history. He looks forward to working with all of you and hopes you all have fun during the conference!

As a reminder, while this committee is considered a General Assembly, it will contain some aspects of a crisis committee during the Conference. I highly recommend that you read the special rules and procedure section of the background guide to understand the crisis elements that are incorporated in the setup of this committee. Please send position papers to GA3@msumun.org. If you have any questions about this committee, Model UN or MSU in general, please also feel free to reach out to us at this email. We'd love to hear from you!

Looking forward to seeing you all MSUMUN weekend!

Kate, Reda, Eleanor, Ethan, and Kelly

GENERAL OVERVIEW

Please note that this committee starts in December, 1997 and takes place during the Asian Financial Crisis.

Historical Background

The 1960s and 70s were decades of immense economic growth for the Asian continent, with Asia becoming richer faster than any other region of the world.² In fact, the four Asian tiger economies of Hong Kong, Singapore, South Korea, and Taiwan, named for their high degree of economic development, consistently achieved double-digit growth rates during the period from the 1960s into the 90s.³ Even the average annual GDP growth rate for the region was 7.8% during this period, which was more than twice the global average.⁴ One of the reasons for this economic boom was the adoption of policies of export-driven industrialization by many Asian economies beginning in the early 1960s, which entailed attracting foreign investment and developing industries that produced goods for export, providing factory and industry job opportunities and economic industrialization to Asian countries in the process.⁵ This export-led growth was particularly successful in the four Asian tiger economies.

A second contributing factor to Asia's immense economic growth during this period was the adoption of agricultural reforms, including land redistribution, improved irrigation, and the

² Albert Fishlow. 1996. "Economic Issues 1 -- Growth in East Asia." International Monetary Fund. <https://www.imf.org/external/pubs/ft/issues1/>.

³ *The Economist*. 2019. "After half a century of success, the Asian tigers must reinvent themselves." December 5, 2019. <https://www.economist.com/special-report/2019/12/05/after-half-a-century-of-success-the-asian-tigers-must-reinvent-themselves>

⁴ "GDP Growth (Annual %)." World Bank Open Data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>
Accessed 6 Nov. 2023.

⁵ Richard Stubbs. "War and economic development: Export-oriented industrialization in east and Southeast Asia." *Comparative Politics*, vol. 31, no. 3, Apr. 1999, pp. 337–355, <https://doi.org/10.2307/422343>.

introduction of new technologies to the food production industry. These agricultural reforms helped to increase agricultural productivity and incomes of workers in rural areas, which in turn contributed to economic growth. Other government intervention not limited to the agricultural industry was also a catalyst for economic development; for example, some governments chose to provide subsidies to select industries, invest in infrastructure, and develop educational systems, helping to cultivate a favorable environment for businesses to operate and grow and attracting foreign investment.

Overall, the 1960s and 70s period of prosperity had many positive effects on East Asia: it helped to lift people out of poverty and generate a new middle class, improve living standards, and create new jobs, transforming Asia into a major player in the global economy. On the other hand, there were also some negative consequences, such as environmental degradation and income inequality. However, this period of economic prosperity and growth also brought negative economic effects that signaled the region's impending fall into financial crisis. Many currencies of Asian countries were overvalued during the 1980s, making it difficult for competitive international trade to occur.⁶ Asset bubbles, or rapidly rising prices of goods or stocks without an underlying reason, developed in many Asian countries, perhaps most notably in the Thai property market. Finally, many Asian countries accrued high levels of foreign debt, making them vulnerable to economic shocks.⁷ Because of these factors, the period of Asian economic prosperity did not last forever; the end of the 1990s brought a financial crisis to Asia, beginning as a currency crisis with the unpegging of the Thai Baht from the US dollar in June

⁶ Paul Krugman. "The Return of Depression Economics." *Foreign Affairs*, vol. 78, no. 1, 1999, pp. 56–74, <https://doi.org/10.2307/20020239>.

⁷ Hanns W. Maull. "Crisis in Asia : Origins and Implications." (2003).

1997 after a speculative attack, which will be covered in more detail.⁸ This devaluation led to concern about other Asian currencies, and thus the financial crisis spread abroad.



⁸ “Asian financial crisis | Causes, Effects, & Facts” 2023.
<https://www.britannica.com/money/topic/Asian-financial-crisis>.

THE IMF

What is the IMF?

The International Monetary Fund (IMF) is an international financial organization made up of 190 member countries that aims to achieve sustainable growth and prosperity.⁹ Founded at the 1944 United Nations Bretton Woods Conference, it served the purpose of preventing the situation of currency devaluation which led to the Great Depression of the 1930s from reoccurring.¹⁰ Representatives from the 44 nations in attendance at the Conference set up a system of exchange rates linked to the US dollar to be supervised by the IMF and gave the organization three critical missions of promoting international monetary cooperation, supporting the expansion of trade and economic growth, and discouraging policies that would harm prosperity. The three main tenets of IMF offerings are policy advice based on monitoring of economic and financial developments in countries, financial assistance including loans, and capacity development, including training and technical assistance aiming to help governments expand their ability to implement sound economic policy.

The IMF Loan Process

In the IMF loan process, a member country in need of financial assistance first requests a loan from the IMF. The IMF and the country's government discuss the country's economic and financial situation and how much money the country needs along with agreeing on a program of economic reforms that the country must implement to receive the loan. Policy conditionality,

⁹ "What is the IMF?" n.d. International Monetary Fund. Accessed October 28, 2023. <https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance>.

¹⁰ "IMF Timeline." n.d. International Monetary Fund. Accessed October 28, 2023. <https://www.imf.org/en/About/Timeline>.

which is a country's commitment to undertake certain policy actions, is an integral part of IMF lending and is required in most cases. The country's government writes a letter of intent to the IMF, stating its commitment to implementing the agreed-upon reforms. The IMF's Executive Board approves the loan, and this endorsement process may be expedited through the IMF's Emergency Financing Mechanism. The IMF monitors the country's progress in implementing the reforms. Finally, once the country has implemented the reforms and its economy has recovered, the country repays the loan to the IMF, so it can loan it out to another country in need.¹¹

The role of the IMF in the 1956 Suez Canal Crisis

The first major test for the IMF was the 1956 Suez Canal conflict between Egypt, France, Israel, and the United Kingdom. In July 1956, Egyptian President Gamal Nasser announced the nationalization of the Suez Canal Company, disrupting its previous multi-state joint-ownership of the facility with the British and French governments.¹² In response, the British and French governments held secret meetings with Israel, which viewed Nasser as a threat to its security and launched a plan to invade and depose the Egyptian President.¹³ While the countries soon withdrew their troops, the Egyptian nationalization of the canal caused a financial crisis in the four countries and particularly the United Kingdom, which had previously profited from canal trade.¹⁴ The United Kingdom in particular was forced to deplete its reserves of US dollars to maintain the value of its currency.¹⁵ The IMF's response to this crisis led to the first large IMF

¹¹ "IMF Lending." n.d. International Monetary Fund. Accessed October 28, 2023. <https://www.imf.org/en/About/Factsheets/IMF-Lending>.

¹² Office of the Historian. (n.d.). The Suez Crisis, 1956. U.S. Department of State. <https://history.state.gov/milestones/1953-1960/suez>.

¹³ *ibid.*

¹⁴ Boughton, J. (2001, September). *Finance and development*. Finance and Development | F&D. <https://www.imf.org/external/pubs/ft/fandd/2001/09/boughton.htm#:~:text=The%20IMF's%20lending%20to%20the%20cope%20with%20international%20financial%20crises>.

¹⁵ *ibid.*

bursts of lending to the involved countries, and specifically its loans to the United Kingdom, raised its profile on the international stage.¹⁶



Delegate IMF Resources

Below is a list of resources that the Dias believes are helpful in order to fully understand the topics and issues that will be covered in the background guide and potentially brought up throughout committee. Additionally, at the end of this background guide there is a glossary of

¹⁶ *ibid.*

terms and contextual information on page 26. It is highly recommended that you review the terms in the glossary, as well as explore the links below, before reading the rest of the background guide, in order to understand the terminology that is used throughout this committee.

IMF:

- [IMF Lending](#)
- [IMF Conditionality](#)

Economic terms:

- [Glossary](#)
- [What Is Financial Contagion During an Economic Crisis?](#)
- [Speculative attack on a currency \(video\) | Khan Academy](#)

Asian Financial Crisis:

- [Financial crisis in Thailand caused by speculative attack \(video\) | Khan Academy](#)
- [25 years since the East Asian financial crisis: 2 forgotten lessons | Brookings](#)
- [Asian financial crisis | Causes, Effects, & Facts | Britannica Money](#)
- [Four Asian Tigers: What They Are, Economic Strengths Explained.](#)

Country research Resources:

- [The World Factbook](#)

TOPIC A: MACROECONOMIC IMBALANCES IN SOUTHEAST ASIA

For questions or clarification concerning terms or contextual information please see the glossary on page 26.

Introduction

To understand the Asian Financial Crisis and how to combat it, knowing the role of macroeconomic imbalances in Southeast Asia is essential. A macroeconomic imbalance is when ideal economic conditions (fair and efficient distribution of economic resources) are disrupted. These disruptions occurred on a significant scale in Southeast Asia as a result of the spreading of the crisis from Thailand as a result of the collapse of the Baht. Interconnected markets can substantially magnify shocks which helped amplify the severity of the crisis.¹⁷ This is due to the increase in global trade in Asia which caused markets to become interconnected as the share of global trade in Asia (excluding Japan) rose from 9 to 15 percent.¹⁸ Markets were reacting strongly to speculative attacks (the precipitous selling of assets deemed risky by previously inactive speculators and the corresponding acquisition of some valuable assets) and the devaluation of currencies¹⁹ which resulted in the magnification of the crisis. These strong

¹⁷ Matthias Raddan and Kenneth Y Dror. "Interconnectedness in the Global Financial Market." *Journal of International Money and Finance*, September 12, 2020. <https://www.sciencedirect.com/science/article/pii/S0261560620302369>.

¹⁸ Lowell Dittmer. "GLOBALIZATION AND THE ASIAN FINANCIAL CRISIS." *Asian Perspective* 23, no. 4 (1999): 45–64. <http://www.jstor.org/stable/42704234>.

¹⁹ Team, The Investopedia. "Asian Financial Crisis: Causes, Response, Lessons Learned." Investopedia. Accessed October 27, 2023. <https://www.investopedia.com/terms/a/asian-financial-crisis.asp#:~:text=Once%20the%20crisis%20began%2C%20markets,imbalanced%20capital%20inflows%20and%20outflows.>

reactions were due to the imbalances that existed in these nations such as poor debt service ratios, current account deficits, climbing budget deficits, imbalanced capital outflows and inflows, excessive bank lending,²⁰ and a high reliance on foreign capital.²¹ These issues all highlight general cash flow issues within these nations that resulted in them reacting strongly to this crisis. This financial crisis has also occurred following a series of financial crises that have occurred across the world, such as Mexico's from 1994 to 1995. Fixing these imbalances is going to be incredibly difficult, as this committee will need to determine how much involvement they will have, and what they will do to assist the nations in crisis, prevent such a crisis from occurring again, and put an end to the troubling chain of financial crises.

History

The Asian Financial Crisis originated in Thailand with the collapse of the Baht. Prior to the Crisis, Thailand's Baht was de facto pegged to the U.S. dollar which supported its exchange rate. In 1997, Thailand would face months of speculative pressure that would deplete their foreign exchange reserves which forced them to float their currency (allowing its value to fluctuate in relation to the supply and demand of other currencies).²² During the first six months of the crisis, the value of the Indonesian Rupiah fell by 80 percent, the Thai Baht by over 50 percent, the South Korean Won by nearly 50 percent, and the Malaysian Ringgit by 45 percent.²³ This was due to the speculative pressures that resulted in Malaysia and Indonesia having to let

²⁰ *ibid.*

²¹ Lowell Dittmer. "GLOBALIZATION AND THE ASIAN FINANCIAL CRISIS." *Asian Perspective* 23, no. 4 (1999): 45–64. <http://www.jstor.org/stable/42704234>.

²² Team, The Investopedia. "Asian Financial Crisis: Causes, Response, Lessons Learned." Investopedia. Accessed October 27, 2023. <https://www.investopedia.com/terms/a/asian-financial-crisis.asp#:~:text=Once%20the%20crisis%20began%2C%20markets,imbalanced%20capital%20inflows%20and%20outflows.>

²³ "Asian Financial Crisis." Encyclopædia Britannica, October 6, 2023. <https://www.britannica.com/money/topic/Asian-financial-crisis?>

their currencies fall. In South Korea, the spread of this crisis would bring about a balance-of-payments crisis that would put their economy on the brink of default.²⁴

Balance-of-payments crises typically come about due to excessive internal debt, however, South Korea's case was different. Their crisis was more of a liquidity crisis due to the mismatches in maturity, currency, and capital structures in the balance sheets of financial and non-financial sectors within their economy.²⁵ Some other nations were able to fare better through the crisis such as Hong Kong. This was due to them having stronger market fundamentals that were able to fend off major speculative attacks so that they caused less damage to their economy.²⁶

Current Issues

Aside from the Asian Financial Crisis itself, Asia has undergone substantial change throughout the 20th century. One such change is the growth of trade between Asia and the rest of the world. As stated earlier, Asia's share of global trade has grown greatly throughout the 20th century which helped cause the growth that their economies saw. Asia's involvement in the global market, despite driving massive growth, also resulted in the spreading of the crisis and some of its causes. This is because global trade allowed Asian economies to grow substantially²⁷ whilst interconnecting their markets atop dangerous vulnerabilities like rapid domestic credit growth alongside inadequate supervisory oversight.²⁸ The economic collapse of Japan following

²⁴ Team, The Investopedia. "Asian Financial Crisis: Causes, Response, Lessons Learned." <https://www.investopedia.com/terms/a/asian-financial-crisis.asp#:~:text=Once%20the%20crisis%20began%2C%20markets,imbalanced%20capital%20inflows%20and%20outflows.>

²⁵ Kim Kahwan. The 1997-98 Korean Financial Crisis: Causes, policy response, and ... - IMF. Accessed November 3, 2023. <https://www.imf.org/external/np/seminars/eng/2006/cpem/pdf/kihwan.pdf>.

²⁶ Team, The Investopedia. "Asian Financial Crisis: Causes, Response, Lessons Learned." Investopedia. Accessed October 27, 2023. <https://www.investopedia.com/terms/a/asian-financial-crisis.asp#:~:text=Once%20the%20crisis%20began%2C%20markets,imbalanced%20capital%20inflows%20and%20outflows.>

²⁷ Robert J. Barro. Econgrrth Eastasia - National Bureau of Economic Research. Accessed November 3, 2023. https://www.nber.org/system/files/working_papers/w8330/w8330.pdf.

²⁸ Michael Carson, and John Clark. Asian financial crisis, November 22, 2013. [Asian Financial Crisis | Federal Reserve History](#).

their economic miracle also had a profound effect on Asia as a whole. In late 1991, the Japanese asset bubble crashed and resulted in economic stagnation in the following years. Japan was still going through this throughout the 1997 financial crisis as they remained in their lost decade. Though Japan would not face issues as great as those of Indonesia, Malaysia, the Philippines, South Korea, etc. they still faced issues as a result of their vulnerabilities. Japan, alongside many other Asian nations, suffered from structural weaknesses in their banking system. This was due to their banks being plagued with nonperforming loans due to a sharp decline in land prices. Many Asian banks were also encumbered by excessive borrowing from abroad or nonperforming loans as a result of sharp currency devaluations. Japan, alongside many Asian countries, did not have a legal framework to close insolvent banks before the crisis to mitigate some of these issues.²⁹

Current Positions

In reaction to these issues in Asia, the IMF will have to discuss the causes of the macroeconomic imbalances in Asia, and how these resulted in the Asian financial crisis to find methods to assist Asia's recovery and foster a healthy global economy. The IMF must take caution, however, as they have been critiqued due to their handling of economic crises. Perceptions that the IMF is taking far too many "one-size fits all" approaches are becoming more widespread which could hinder the IMF's effectiveness. Critiques of the IMF have gained increased relevance to the point where Malaysian Prime Minister Mahathir bin Mohamad has resisted IMF-style reforms, and instead opted for short-term capital controls to prevent the spread

²⁹ Japan and the Asian Financial Crisis: The role of financial ... - agi. Accessed January 14, 2024. <https://agi.or.jp/media/publications/workingpaper/WP1999-10.pdf>

of the crisis in Malaysia.³⁰ There has also been opposition to fiscal austerity measures (a set of economic policies to increase government revenues e.g tax increases and spending cuts) due to an interpretation of them being inappropriate in the case of the Asian financial crisis, and a propeller of economic and political crises.³¹

What to Include in a Resolution

The present structures within these economies have shown themselves to have glaring vulnerabilities that must be addressed by the IMF. Encouraging policies to stabilize economies and financial systems as well as minimize vulnerabilities are essential to the IMF's role in fighting the Asian Financial Crisis. Loans and assistance will also be incredibly important tools in reducing the impact of the financial crisis. The IMF will be faced with a multitude of problems in creating reforms and providing assistance; however, due to the skepticism of their alleged "one-size-fits-all" approaches, a resolution must be created with the awareness of the present situation in Asia, as well as the perception of the IMF.

Questions to Consider

1. What are effective ways that the IMF can stabilize currency values?
2. Which nations have faced the greatest damage from this crisis?
3. What reforms can the IMF make to address weaknesses within financial sectors?
4. To what extent would IMF loans and assistance work, and should they be conditional?
5. What is within the bounds of the IMF and what role should the IMF play?

³⁰ "Asian Financial Crisis." Encyclopædia Britannica, October 6, 2023.
[https://www.britannica.com/money/topic/Asian-financial-crisis.](https://www.britannica.com/money/topic/Asian-financial-crisis)

³¹ *ibid.*

6. How can the authority and image of the IMF be preserved amid its policy recommendations?



TOPIC B: POLITICAL ECONOMY

For questions or clarification concerning terms or contextual information please see the glossary on page 26.

Introduction

To properly understand the intersections between regional politics and economic policy during the 1997 crisis, it's important to understand the domestic government dynamics of the countries impacted. The first country that was visibly impacted by the crisis was Thailand. Thailand's government would continue to struggle to establish legitimacy following its democratization. Instead of encouraging greater domestic participation, Thailand's shaky constitutional framework has allowed coalition groups to take greater autocratic power. Many countries, outside of Thailand, including Burma, Indonesia, and the Philippines, would become military-led, despite being labeled as "guided democracies."³² Many of these countries, such as Thailand, were riddled with government corruption and lacked the capacity to address the needs of the populace. At the start of the 1990's, Neoliberalist policies that advocated for minimal government involvement within the global and domestic markets would take a leading role in Southeastern Asia.³³ This idea would be extremely successful in Southern Eastern Asia, with countries such as Thailand, expanding their economy rapidly.

³² Iyantu Isalml. *The Political Economy of East Asia: Post Crisis Debates*. N.p.: Oxford University Press, 2000.

³³ Byron Ramirez. *Neoliberalism, the Asian Financial Crisis, and Structural Adjustment Programs: The Case of Thailand*. N.p.: American University School of International Service, 2018.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3130457.

History

The first instance of the Asian Financial Crisis being visible is demonstrated by the Thailand Prime Minister Chavalit's response to initial speculation. Chavalit and his coalition assumed power in Thailand in December, 1996. Chavalit would modify the government's economic model to encourage greater interaction between government and banking systems while limiting federal involvement in the public market. This model is commonly referred to as "crony capitalism."³⁴ Crony capitalism is a direct descendant of the Neoliberal economies that emerged a decade ago in Southeast Asia. Chavalit's institutional corruption disregarded Neoliberal free market values; instead, contributing to increasingly higher rates of wealth concentration and economic inequality.³⁵ These institutions worked to create an increasingly wider wealth gap between social classes. Chavalit's primary goal in office was to maintain a consistent rate of economic development in the region. Despite pervasive early warning signs of a looming crisis, it was not until material vulnerabilities emerged that responsive measures were discussed. Thailand's economy was starting to slowly fall from its previous peak a couple of years prior, and Chavalit's leadership would drastically speed up its decline. Due to coalition politics, the government would struggle to take any action against the rapidly declining Thailand Baht, which had gone down in value by 40% in the 11 months Chavalit was in power.³⁶ During his presidency, Chavalit would repeatedly misuse and refuse aid from committees such as the IMF. In August of 1997, the IMF granted Thailand a 17.1 billion dollar assistance package, along with conditions Thailand had to follow. These conditions would have Thailand use money to fix its

³⁴ Stephan Haggard.. *The Political Economy of the Asian Financial Crisis*. N.p.: Institute for International Economics, 2000.

³⁵ Crony Capitalism and Neoliberal Paradigm (Part I).
<https://blogs.lse.ac.uk/eurocrisispress/2016/05/25/crony-capitalism-and-neoliberal-paradigm-part-i/>.

³⁶ Seth Mydans. Thai Prime Minister Quits, a Casualty of Economic Crisis. Last modified , 2000.
<https://www.nytimes.com/1997/11/04/world/thai-prime-minister-quits-a-casualty-of-economic-crisis.html>.

shaky governmental structure and stabilize exchange rates, domestically and foreignly.³⁷

However, Chavalit and his coalition repeatedly choose indecision over attempting to mediate the crisis. For example, Chavalit's coalition prevented him from passing even a minor gas tax suggested by the IMF that would help regulate the economy.³⁸ Chavilit would eventually quit in November of 1997, leaving behind a government and economy in ruin, with other countries left to feel the effects of his decisions.

Political Effect

Thailand is far from the only country affected by the decline of the Baht. Other countries were severely affected as a result of the crisis originating in Thailand. Malaysia's Ringgit went down 45%, the South Korean Won went down more than 50% percent, and in total, more than 100 billion dollars of capital were lost in just 1997.³⁹ However, to put blame solely on Thailand is irresponsible, and neglects the inevitable domino effect that occurred in Southeast Asia. Weak democracies were plagued throughout Southeastern Asia before and during the crisis. If it had not been Thailand, it could have easily been Indonesia or Malaysia. The Asian Financial Crisis has exposed political weaknesses in these Southeastern countries. It's become clear that the only way to start change is to focus on fixing structural government issues in several of these Southeast Asian Countries. We can learn through the example of Thailand, that it's essential to maintain a stable government, before providing significant aid.⁴⁰

³⁷Iwasaki, Yoshihiro. *Asian Financial Crises*. N.p.: International Monetary Fund, 1999.
<https://www.elibrary.imf.org/display/book/9781451965476/ch016.xml?tabs=fulltext>.

³⁸Stephan Haggard . *The Political Economy of the Asian Financial Crisis*. N.p.: Institute for International Economics, 2000.

³⁹Alice Ba. Asian Financial Crisis. Last modified October 6, 2023.
<https://www.britannica.com/money/topic/Asian-financial-crisis>.

⁴⁰ Recovery from the Asian Crisis and the Role of the IMF. Last modified June , 2000.
<https://www.imf.org/external/np/exr/ib/2000/062300.HTM>.

The Importance of “Good Governance”

There are several factors that contribute to a strong, or “good” government. To establish a structure that restores confidence in governance, it's important to improve governance in both the public and private, interacting with businesses and sectors. The most vital step for government improvement is to drastically change the way transparency in government happens.⁴¹ As mentioned previously in Thailand, part of their economic downfall occurred as a result of government instability and corruption. Prevention of future incidents can only be possible if accountability can be assigned to government agencies. Had Thailand’s government had the ability to address financial issues and act upon them earlier, this economic crisis could have been almost entirely avoided.

The Role of The IMF

One of the most challenging questions during the 1997 crisis is the extent to which the IMF should get involved with the political economies of the international community. The IMF’s objectives have had to change slightly since its inception following the Great Depression and World War One. The Asian Financial Crisis has provided a lens on why it is important to understand both the political and economic impacts of a financial crisis. Both of these factors work integratively and cannot be evaluated without the other. However, it's important to understand the limits of the IMF when getting involved with government organizations. The most common way that the IMF can get involved is through lending programs. One program that was created in response to the 1997 crisis is known as the Supplemental Reserve Facility (SPF).

⁴¹ The Asian Crisis: Causes and Cures. Last modified June , 1998.
<https://www.imf.org/external/pubs/ft/fandd/1998/06/imfstaff.htm#:~:text=In%20the%20latter%20part%20of,packages%20totaling%20almost%20%24100%20billion.>

This allowed short-term loans to be given to countries at much higher interest rates. This program is intended to provide strong incentives for countries to enter into markets as quickly as possible. The IMF's primary goal during this crisis was to restore market credibility in response to the crisis.⁴²

What to Include in a Resolution

Political systems impact the development of economic policy and domestic access to regional markets. It is critical to establish a framework that addresses both the immediate economic needs while taking into account relevant the political dynamics. An understanding of the snowballing impact of the regional crisis, as well as an appropriate response to the noted incidents must be addressed. Many of the nations affected by the crisis have incredibly diverse government structures that require drastically different support systems. Any resolution passed must ensure that all policies proposed align with domestic needs while adequately addressing regional relationships.

Questions to consider

1. How should the IMF interact with countries that refuse or can't receive aid? Should it continue to deal with them?
2. What recommendations can the IMF make to countries, regarding domestic political institutions affected by the Crisis? To what extent should any aid be dependent on a country's acceptance of the policy recommendations?

⁴²Stanley Fischer. The Asian Crisis and the Changing Role of the IMF.
<https://www.imf.org/external/pubs/ft/fandd/1998/06/fischer.htm>.

3. How can the IMF make sure countries affected by this crisis utilize their money productively? Should they?
4. How can the IMF ease political tensions in Southeastern Asia caused by the economic crisis?
5. What countries should the IMF focus its efforts on?



GLOSSARY

Currency devaluation: the value of one currency is purposefully reduced against another by a country's government in order to reduce the cost of exports and decrease any existing trade deficits.

Currency exchange rate: the rate at which one currency will be exchanged for another currency.

Gross domestic product (GDP): a monetary measure of the value of all final goods and services that are produced in a given country over a specific period of time.

Foreign investment: the purchase of an asset in another country, which gives the buyer direct control over the asset.

Asset: any resource with economic value that is owned because of the expectation it will become more valuable over time or provide a future benefit.

Capital inflows: net purchases of assets from one country to another.

Speculation: purchase of an asset with the hope that it will become more valuable shortly. Or in short sales, the speculator hopes that the value will decline in the future.

Short sale: investor borrows a stock, then sells it because they believe the price will fall in the near future. If it does, they buy the stock back at the lower price and make a profit.

Speculative attack: the precipitous selling of assets by previously inactive speculators and the corresponding acquisition of some valuable assets. Speculators go short in the currency because they believe that it will be devalued in the near future.

Hot money: currency that quickly and regularly moves between financial markets, in an attempt to maximize interest and short term profit.

Interest rates: interest is the price you pay to borrow money through a loan or the return earned on an investment like a savings account interest rate or simple loan interest rate. Lower interest rates increase asset prices and cause financial institutions to move away from safer investments, in favor of riskier assets where they become more vulnerable.

Export: An export is a final good or service that is produced in a country, then sold in a different country.

Capital flight: rapid flow of assets or money out of a country due to consequences of economic or political events.

Stock: a certificate that a corporation sells that symbolizes ownership of share of that company, as an investment.

Asset Bubble: Occurs when the price of an asset, rapidly rises, without an underlying cause that can explain or justify the price increase.



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