Although it has become eclipsed by the global financial crisis, the Asian financial crisis is considered one of the most dramatic episodes in recent economic history. It should come as no surprise that the IMF’s role has been analyzed extensively in the years since the crisis. The previous chapter has important lessons for those interested in understanding conditionality during the Asian crisis. It found a statistically significant relationship between G5 economic interests and the number of binding conditions, across hundreds of IMF agreements from 1997 to 2006. One would therefore expect there to be fewer binding conditions during the Asian crisis, given the exceptionally high exposure of the G5. However, despite the shareholders’ exposure to the crisis, the affected countries received many binding conditions and in some cases hundreds of non-binding conditions. This chapter investigates this statistical abnormality by analyzing the issue of conditionality in Thailand, Indonesia, and Korea. It also asks a number of important questions. Why did conditionality deviate so much during the crisis? Which processes identified in the theoretical framework unfolded during the crisis? Which processes did not? Should the book’s theoretical framework be modified in light of the Asian crisis or was conditionality in that period and that particular context unique?

To answer these questions, I begin with a description of G5 economic exposure and conditionality during the crisis. This basic overview establishes that conditionality was severe even though the shareholders were highly exposed. Following this, I analyze the response of domestic interests amongst the shareholders to the emerging crisis, finding that their reaction was broadly in accordance with the theory set out in this book. I then continue with an analysis of the impact of the G5 shareholders on negotiations over conditionality. Here the findings demonstrate why
conditionality during the Asian crisis deviated so strongly from the norm. In Indonesia, a group of reform-minded technocrats lobbied successfully for more conditions, and in Korea, pressure from US domestic interests led to the inclusion of additional structural benchmarks. The chapter ends with a discussion of the implications of the crisis for the IMF’s practice of conditionality, finding that the crisis triggered a series of ambitious reforms that led to the end of binding structural conditions. Today, no structural condition is so important that the IMF is willing to “walk away” from one of its own programs if its borrower refuses to comply.

Shareholder exposure

Many of the economies and societies of East Asia industrialized rapidly from the 1960s to the 1990s. The economic development of Hong Kong, Singapore, South Korea, and Taiwan was so impressive that they came to be known as the “Four Asian Tigers.” Indonesia, Malaysia, and Thailand were known as the “newly industrializing economies,” reflecting their improving reputations. During these decades of rapid growth, East Asia established and consolidated strong economic linkages with the G5 shareholders. Beginning in the late 1980s, there was also a resurgence of capital flows to Asia. By the mid-1990s, G5 banks and exporters were highly exposed to Korea, Indonesia, and Thailand. Of these, Japanese banks were the most exposed; at the peak of their exposure, they reported $39.4 billion in outstanding claims on Thailand, $25.7 billion on Korea, and $23.4 million on Indonesia.

In Chapter 5 (“Testing the Argument”), I argued that it is important to consider each shareholder’s exposure as a percentage of their total exposure to the world. This measurement estimates more precisely the importance of IMF funding to domestic interests. A closer consideration of this measurement during the Asian crisis shows that domestic interests in the United States, France, and Japan had similar levels of bank exposure to Korea. Figure 9.1 illustrates this finding; it shows that approximately six per cent of each shareholder’s bank lending was concentrated in Korea. It also shows that Japan was the most exposed in Indonesia – at approximately five per cent – and in Thailand – at approximately ten per cent. In fact, the exposure of Japanese banks to the Asian crisis threatened the stability of its own financial system, which was already fragile in 1997. The crisis posed such a threat to global financial stability that a Washington Post Editorial said: “One possibility is a total collapse of the global financial system, spreading from South Korea to Japan and thence to the United States” (Washington Post 1998).