When Things Don't Fall Apart

Global Financial Governance and Developmental Finance in an Age of Productive Incoherence

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3 The East Asian Financial Crisis and Neoliberalism: The Beginning of the End of a Unified Regime

The East Asian financial crisis erupted in Thailand in May 1997, and through the summer and fall it swept through some of the most important and stable economies in the region—Malaysia, Indonesia, and the Philippines. By late October, the crisis had reached Brazil and Russia. Soon thereafter, the crisis destabilized South Korea. Aftershocks of the crisis further destabilized the region and other EMDEs in early 1998. In its scope and depth, the crisis of 1997–1998 proved to be far more disruptive and less tractable than prior crises in other regions, such as the crisis that engulfed Mexico in December 1994.

The Asian crisis took investors and IMF officials completely by surprise. Up until the eve of the crisis, IMF reports and business accounts were uniformly bullish about economic prospects in the region. Indeed, through 1996, four of the countries involved in the crisis were among the world's top six recipients of private capital flows. Moreover, the crisis occurred *after* the IMF had implemented a new set of information-based safeguards in the wake of the Mexican crisis that were intended to prevent financial instability. With the exception of Malaysia, the governments of the countries most deeply affected by the crisis approached the IMF for assistance. As a condition of assistance, the IMF demanded stringent neoliberal reforms, including severe austerity policies.[1]

The East Asian financial crisis laid the groundwork for consequential shifts in several dimensions of global financial governance and developmental finance that deepened during and since the global crisis. Here we explore inter alia the responses of EMDEs not just in East Asia but also far beyond the epicenter of the crisis, and the impact of these EMDE strategies and the crisis itself on the IMF.

The Solidification of Neoliberal Reform

Had the East Asian financial crisis not intervened, the IMF almost certainly would have modified Article 6 of its Articles of Agreement to make liberalization of international capital flows a central purpose of the Fund and to extend its jurisdiction to capital movements. A chief effect would have been to dismantle existing capital controls and preclude future ones. The proposal reflected the neoliberal tenor of the times and the related power of financial interests. During the long neoliberal era, the majority of leading academic economists, policymakers, and IMF staff advocated capital flow liberalization as a key to development along the lines of what Hirschman derided as the simplistic tendency to identify obstacles and universal quick fixes.[2]

Capital Flow Liberalization and Conflicting Interpretations of the Crisis

In the neoclassical canon, liberalized international capital flows were predicted to benefit the EMDEs in several mutually reinforcing ways. Liberalization would give the public and private sectors access to capital and other resources (such as technology) that were not being generated domestically, and consequently would increase the nation's capital stock, productivity, economic growth, and income. Capital flow liberalization would ensure policy discipline via the threat of capital flight and the attendant incentives for governments to maintain international standards for policy design, macroeconomic performance, and arm's-length forms of corporate governance. Liberalization would also ensure that finance would be allocated by markets rather than by governments, with the effect of directing capital to those projects that promised the greatest net contribution to social welfare (i.e., those projects that promised the highest rates of return).

In view of the impressive set of expected benefits, neoclassical academic economists and like-minded policymakers zealously promoted capital flow liberalization in EMDEs (and beyond) during the long neoliberal era. With notable exceptions to be explored later, the drive to liberalize finance marked the periods both prior to and following the Asian crisis. The case for liberalization was damaged by the Asian crisis, but the damage was scattershot. We will consider this matter in depth in chapter 7 since the pushback against capital liberalization that begins with the Asian crisis gathered strength during the global crisis.

Rejecting the neoclassical view, observers from Europe and Asia identified unrestrained capital flows as a key culprit in the Asian crisis (Wade

1998–1999). The Keynesian-inflected narrative focused on the intrinsic instability of financial markets and the way in which instability is amplified by the removal of regulations over domestic and especially international financial flows. The Keynesian narrative was quickly defeated by a far less threatening, non-Keynesian diagnosis that deflected attention from financial liberalization and the deficiencies of the global financial architecture.[3] Federal Reserve chairman Alan Greenspan and first deputy managing director of the IMF Stanley Fischer consistently rejected the view that financial liberalization contributed to the Asian crisis (Kirshner 2014b, 229–230). In a seminar at the IMF shortly after the first signs of crisis emerged, Fischer argued forcefully for the (by then) doomed effort to amend Article 6, arguing that capital account liberalization is an "inevitable step on the path of development, which cannot be avoided and therefore should be adopted. . . . [Liberalization ensures that] residents and governments are able to borrow and lend on more favorable terms . . . financial markets will become more efficient . . . [there will be a] better allocation of saving and investment. . . . Almost always these swings [in market sentiment] are rationally based" (Fischer 1997, points 9, 15).

The domesticated and ultimately dominant Asian crisis origin story reinforced the drive toward neoliberal reforms. According to this narrative, the roots of the Asian crisis were to be found in deficiencies in information, transparency, and market discipline, and in pervasive and damaging—though somehow previously unnoticed—cronyism, corruption, and institutional and political pathologies.[4] Taken together, the deficiencies came to be seen as the product of poor domestic policy choices and weak regulatory and supervisory practices in the crisis countries (Kirshner 2014b, 230; Helleiner 2014b, 95). These were broadly classed as features of a misguided "Asian model of development."

The Asian crisis narrative mirrored in key respects the official understanding of the Mexican crisis of 1994–1995 (Grabel 1999a; 1999b; 2002; Helleiner 2014b, 95). IMF crisis prevention efforts in the period after the Mexican crisis focused entirely on providing investors with accurate and timely information about the EMDEs. Indeed, the main message of the June 1995 Group of Seven (G-7) summit in Halifax was that accurate and timely information could dampen crisis tendencies. Summit participants urged the IMF to encourage prompt publication of economic and financial statistics and to identify countries that did not comply with the institution's new information standards. The standards eventually became the IMF's Special Data Dissemination Standard (SDDS), which was launched in April 1996 and became operational in September 1998.[5]

After the Asian crisis, the IMF continued to promote the SDDS and other measures to increase transparency and the availability of information to market actors (see Best 2006; Grabel 2003d; Mosley 2003). In 1999, the G-7 also created the FSF, an effort that was guided by the view that future crises could be avoided if a network of key financial regulators and actors shared information, engaged in dialogue, and coordinated actions (as we will discuss in chapter 4).

Neoliberalism and the Market-Perfecting Agenda

Given the dominant interpretation of the Asian crisis, it its unsurprising that in its aftermath the IMF and G-7 leaders, especially the United States, promoted reforms through a variety of forums that focused on regulatory and institutional harmonization around Anglo-American norms. Initiatives comprised greater dissemination of information and increased transparency; increased but light touch monitoring and surveillance; the adoption of universal, market-friendly standards and codes; arm's-length corporate governance; political independence of the technocrats that regulate financial markets; and an enhanced role for market liberalization, discipline, and private actors (such as credit rating agencies) in economic and financial governance.[6] Transparency became the "new golden rule" (Kahler 2000; Best 2005, chaps. 6 and 7). Greenspan argued that the benefits of measures that promoted transparency, discipline, and competition would naturally take hold in Asia as crony capitalism in the region receded (Cumings 1999). He was adamant about the broader implications of the Asian crisis for the victory of neoliberal capitalism. In triumphalist testimony before the Foreign Relations Committee of the U.S. Senate that was intended to overcome congressional resistance to increasing support to the IMF during the Asian crisis, Greenspan argued:

> We saw the breakdown of the Berlin wall in 1989 . . . and the massive shift . . . towards free market capitalist . . . structures. Concurrent to that was the . . . very strong growth in what appeared to be a competing capitalist-type system in Asia. And as a consequence of that, you had developments of types of structures which I believe at the end of the day were faulty, but you could not demonstrate that so long as growth was going at 10 percent a year. [But in the last decade or so, and particularly because of the Asian crisis, there has emerged] a consensus towards the . . . Western form of free-market capitalism as the model which should govern how each individual country should run its economy. (Quoted in Sanger 1998, D1)

While Greenspan was correct in attributing tremendous significance to the Asian crisis, he failed to note the coercion that facilitated the move to a more neoliberal form of capitalism in the crisis countries. The IMF's stand-by arrangements (SBAs) with countries in crisis conditioned assistance on stringent austerity policies; market liberalization and privatization; economic openness that provided foreign investors with access to formerly protected areas, such as banking; and a strengthened commitment to export-led growth.[7] The Asian crisis thus amplified pressures toward neoliberal conformance in the crisis countries through a variety of policy and ideational mechanisms, even in countries whose own development experiences shared little with this model.[8]

The "market-perfecting" reform agenda quickly drowned out concerns in Asia and beyond about premature, ill-advised financial liberalization and deficiencies in the global financial architecture. Instead, the new dominant discourse focused on opening markets and speeding the reform of policies and institutions so that they were consistent with Anglo-American norms (Chang 2000; Chang, Park, and Yoo 1998; Noble and Ravenhill 2000). A handful of countries, most notably China, were able to resist pressures for neoliberal conformance. Nevertheless, reform in the post–Asian crisis environment in both AEs and in most EMDEs cohered in the direction of enhancing neoliberal, market-led, private financial governance.[9]

The IMF in the Aftermath of the Asian Crisis

Paradoxically, despite its success in pushing a neoliberal agenda, the IMF emerged from the Asian crisis a greatly weakened institution. In the years that followed, the IMF faced a crisis of credibility and suffered from a decline in its financial resources, the size of its staff, and the geographic reach of its programs. Following the Asian crisis, academics and activists from across the intellectual spectrum called attention to the institution's domination by the U.S. government and private financial interests; its mission creep into areas that were historically the province of domestic policymakers; its ideological capture by market fundamentalists; its myriad failures in East Asia prior to and following the crisis; and its politically intrusive, overly expansive, and excessively harsh "one-size-fits-all" procyclical conditionality programs.[10] Conservative foreign policy analysts also denounced the IMF's handling of the Asian crisis. Former U.S. secretary of state Henry Kissinger (invoking a quip by the chief economist of Deutsche Bank in Tokyo) likened the IMF to "a doctor specializing in measles [who] tries to cure every illness with one remedy" (Kissinger 1998). Criticisms of the Fund's performance came even from its sister institution, the World Bank (Sanger 1999; Noble and Ravenhill 2000), and from inside the U.S. Treasury (Kristof and WuDunn 1999).

Many observers criticized the role of U.S. business and especially financial interests in driving the terms of the SBAs in crisis countries, especially in South Korea and Indonesia.[11] Concern about the role of private interests was driven home by the jubilance of then deputy U.S. Treasury secretary Lawrence Summers, who at a conference said that "the IMF has done more to promote America's trade and investment agenda in East Asia than 30 years of bilateral trade negotiations" (quoted in Hale 1998). In the same vein, former U.S. trade representative Mickey Kantor said, "Troubles of the tiger economies offered a golden opportunity for the West to reassert its commercial interests. When countries seek help from the IMF, Europe and America should use the IMF as a battering ram to gain advantage" (quoted in Weisbrot 2015, 132). The then managing director of the IMF, Michel Camdessus, referred to the Asian crisis as a "blessing in disguise" (ibid., 134). The United States and the IMF had been pushing to open financial markets in East Asia (and other countries) prior to the crisis (Kirshner 2014b), but the crisis provided precisely the leverage that earlier efforts lacked.

The U.S. government distanced itself from the IMF after the Asian crisis despite Greenspan's reading of the event and its tacit benefits to the domestic business community. U.S. criticism intensified after a congressionally appointed commission chaired by Alan Meltzer, a prominent conservative academic economist, issued a sharp indictment of the Fund's performance (International Financial Institution Advisory Commission 2000). The so-called Meltzer Commission, formally named the International Financial Institution Advisory Commission, indicted the IMF on many of the same grounds as other critics had done.

Downsizing the Institution and Its Geography of Influence

The IMF was hobbled by the events in Asia. The institution lost its sense of purpose and standing. Most observers came to view the IMF as increasingly irrelevant. Barry Eichengreen described the IMF in 2005 as a "rudderless ship adrift on a sea of liquidity" (quoted in Nelson 2014a, 156). A year later, Mervyn King (then governor of the Bank of England) had this to say: "Certainly, the Fund's remit is unclear. Its lending activities have waned, and its role in the international monetary system is obscure" (King 2006, 3). But King went on to explain that this was not a cause for worry since there was little need for the institution anymore: "From time to time, there may well be financial crises when it would be appropriate for the international community to provide temporary financial assistance. . . . But [it] has not been the role for the IMF vis-a-vis any developed economy for many years.

Moreover, nor is it likely to be true of many important emerging market economies in the future" (ibid., 10).

In contrast, Dominque Strauss-Kahn, then managing director of the IMF, worried about the IMF's loss of purpose in 2007: "What might be at stake today is the very existence of the IMF as the major institution providing financial stability to the world" (quoted in Weisman 2007, C1).

The scope of the IMF's loan portfolio contracted dramatically after the loans associated with the Asian crisis were repaid. Those EMDEs that could afford to do so deliberately turned away from the institution. The IMF's decline was reflected in many ways. Prior to the global crisis, demand for the IMF's resources was at a historic low. Major borrowers, including Argentina, Brazil, Ukraine, and Indonesia, had repaid their outstanding debts to the institution (Kapur and Webb 2007).[12] In fiscal year 2005, just six countries had SBAs with the Fund, the lowest number since 1975 (ibid.). From 2003 to 2007, the Fund's loan portfolio shrank dramatically: from US$105 billion to less than US$10 billion, with just two countries, Turkey and Pakistan, accounting for most of that debt (Weisbrot, Cordero, and Sandoval 2009). Indeed, with few exceptions, the Fund's portfolio after the Asian crisis primarily comprised loans to extremely poor countries that had no choice but to seek its assistance since they were not able to self-insure against crises through reserve accumulation (Chorev and Babb 2009). These trends radically curtailed the IMF's geography of influence.

The curtailment of the IMF's loan portfolio was also reflected in the institution's bottom line. By 2007, interest payments on outstanding loans to the IMF had nearly disappeared, and in the face of declining resources its executive board announced plans to trim staff by 15%, cut the administrative budget by US$100 million, and sell some gold holdings (IEO 2014, Annex 1; Kapur and Webb 2007; Nelson 2014a). The downsizing, which began in April 2008, constituted the largest reduction in staff in the institution's sixty-five-year history (IEO 2014, Annexes 1 and 2; Rozenberg 2007). But, as we will see, the downsizing at the IMF proved to be short lived.[13]

Institutional Reinvention

The IMF's role has evolved substantially over time.[14] Its original mission was to provide offsetting financing to states confronting exchange rate shocks under the Bretton Woods system of pegged exchange rates. The IMF adjusted its mission when that system collapsed in the early 1970s. The debt crises of the 1980s provided the IMF with new purpose, especially in Latin America. A reinvigorated IMF participated in sovereign debt negotiations and worked with private creditors, conducted surveillance over member country policies, and enforced structural adjustment programs (SAPs) in indebted client economies. Later, the IMF served as a reputational intermediary in the post-Soviet states following their transitions to capitalism (Broome 2010), joining the World Bank in what Rodrik terms the campaign to "stabilize, privatize, and liberalize" (Rodrik 2006a, 973).

The aftermath of the Asian crisis posed a more demanding challenge to the IMF's mission than had earlier crises. Fallout from the crisis left the IMF casting about as it sought to restore its legitimacy.[15] Its efficacy and privileged role in financial governance were threatened by the lack of a widely recognized purpose, broad customer base, and resources. The crisis also amplified long-standing concerns about governance and voice at the institution (Best 2007; Holroyd and Momani 2012; Seabrooke 2007). At the same time that the IMF faced strong backlash from the United States, many of its former clients had begun to walk on their own. The Asian crisis also deepened divisions between the IMF and World Bank on important matters, particularly the IMF's precrisis advocacy of capital flow liberalization and the conditions attached to the Asian SBAs (Kristof and WuDunn 1999). Indeed, World Bank staff joined other critics in identifying the IMF's capture by private financial interests (Feldstein 1998; Noble and Ravenhill 2000; Wade and Veneroso 1998).

The Asian crisis induced the leadership of the IMF to appease critics more than it had in the past. Some concessions were more meaningful than others. In response to criticisms about IMF insularity and mismanagement of the Asian crisis, the IMF created an independent in-house unit charged with conducting analyses of its operations. This unit, the Independent Evaluation Office (IEO), was established in 2001. The IEO's second report, in 2003, echoed the by then widely advanced criticism that the IMF instrumentally used the SBAs in Korea and especially Indonesia to press some reforms that were orthogonal to crisis resolution but that served the interests of key stakeholders (IEO 2003; Crotty and Lee 2002; 2004).

In 2006, the IMF made a modest gesture to those demanding that EMDEs should be granted more voting power at the institution. Minor governance changes, known as the "Singapore reforms," gave China and South Korea slightly greater voting weight. Other IMF initiatives followed. New directives from the IMF leadership emphasized the reduction of poverty and inequality (Momani 2010), "country ownership" of Fund programs (Best 2007), and limits on the scope and content of conditionality (Momani 2005).[16] These policy directives largely failed to influence the institution's practices when it came to working with individual countries (see chapter 5),[17] but they nonetheless provided outside observers and even IMF staff with new standards, sanctified by the IMF itself, to hold the institution accountable.

Although few expected it at the time, the IMF's tepid steps during the early twenty-first century prepared the way for much deeper and more consistent changes in thinking and practice around capital controls during the global crisis. We return to this matter in chapter 5 and especially chapter 7 (see also Grabel 2011; 2015b; 2017).

Escaping the IMF: The Rise of National Self-Insurance

The IMF is often portrayed as having been the sole driver of the painful and politically unpopular reforms in East Asia following the region's crisis. Certainly it played a key role in advancing and enforcing the reforms. But that story is incomplete. Various domestic actors that had long felt themselves disadvantaged prior to the crisis instrumentally used the IMF to promote reforms that they previously had been unable to secure (Crotty and Lee 2002; 2004; 2005; Noble and Ravenhill 2000). Notwithstanding this point, the powerful role that the IMF played in advancing and enforcing neoliberal reforms during the crisis helps to explain the force with which EMDE policymakers sought to escape the institution after the crisis.

The race to escape the institution's orbit after the crisis complicated the IMF's search for a new mission. Policymakers in a number of Asian countries and in other successful EMDEs (particularly in Latin America) sought to insulate themselves from the hardships and humiliations suffered by Asian policymakers.[18] Policymakers achieved this insulation by relying on a diverse array of strategies. Countries that enjoyed strong trade performance and/or were attractive to foreign investors were able to self-insure against future crises through the overaccumulation of foreign exchange reserves. Some began to rely on trade finance, foreign direct investment (FDI), lending, and official development assistance (ODA) from fast-growing EMDEs, such as China and Brazil (Ghosh, Ostry, and Tsangarides 2012; Kapur and Webb 2007). In addition, some countries established bilateral swap arrangements among central banks (ibid.). We might think of these protective strategies collectively as promoting resilience and even antifragility, or the ability to learn from periods of instability and to adjust in ways that dampen the severity of future crises (see Taleb 2012).

The dramatic decline in the IMF's loan portfolio after the Asian crisis indicates the degree to which escapist strategies proved successful. During the global crisis, EMDEs did their best to avoid IMF oversight. Indeed, Korea would have been a good candidate for the (precautionary) Flexible Credit

Line (FCL) that the IMF introduced during the global crisis. But it did not apply for assistance, presumably because of its prior experience and to avoid the stigma of being one of the IMF's clients (Wade 2010, fn10). Instead, the Bank of Korea negotiated a reserve swap of US$30 billion with the Federal Reserve in October 2008 and a swap with the PBOC for US$29 billion in December of that year (Jiang 2014).[19]

The experience of the Asian crisis and IMF intervention had powerful behavioral effects that extended well beyond the region. Not just China, whose reserves have attracted much attention, but also Brazil, Turkey, South Korea, Argentina, South Africa, Russia, and other rapidly growing EMDEs were able to amass massive foreign exchange reserves in the years after the Asian crisis. The strategy is often referred to as the "precautionary" or "self-insurance" motivation for reserve accumulation. Large reserve holdings reduce the likelihood that speculators will identify the national currency as vulnerable to depreciation. Reserves give policymakers the means to protect the national currency if a speculative attack is nevertheless initiated, thereby reducing the probability that it will be necessary to turn to the IMF during economic turmoil. As we will see, the protective effects of reserve accumulation strategies were validated in the global crisis.

Foreign exchange reserve overaccumulation is also intended to facilitate and protect export-led growth strategies, which continued to be important to many EMDEs after the Asian crisis. Reserve holdings facilitate market intervention (e.g., "sterilization") that is necessary to maintain an undervalued exchange rate.

How extensive were the increases in foreign exchange reserves in the period after the Asian crisis? EMDEs (with reserves of just over US$7 trillion in 2015) accounted for 68% of the increase in global reserves between 2000 and 2015 (IMF 2017; author calculation) (see table 3.1).[20]

Reserve holdings relative to gross domestic product (GDP) have also increased dramatically over the last three decades. In the 1980s, reserves held by EMDEs were equal to about 5% of their GDP. This figure has doubled every decade since then, reaching about 25% of GDP by 2010 (Ghosh, Ostry, and Tsangarides 2012, 3). The ratio held steady through 2015, when EMDEs held reserves equal to about 24% of their GDP (IMF 2017; World Bank *World Economic Outlook*; author calculation). These trends are in stark contrast to developments in OECD (Organisation for Economic Co-operation and Development) countries, where reserves had grown to just US$3.4 trillion, or 8.1% of GDP, by the start of 2011 (Dadush and Stancil 2011). This figure barely changed through 2015, when AEs held reserves equal to about 9.5% of their GDP (IMF 2017; World Bank *World Economic*

Table 3.1
Official Foreign Exchange Reserves: Advanced versus Emerging Market and Developing Economies (US$Billion)

	2000	2005	2008	2010	2015
AEs	1,331.3	2,177.8	2,606.9	3,420.6	4,252.5
EMDEs	733.9	2,256.1	4,854.2	6,274.7	7,066.6
World	2,070.3	4,439.4	7,466.9	9,701.1	11,323.7

Notes: AE=Advanced economies; EMDE=Emerging market and developing economies. AE and EMDE classifications from the IMF.
Source: COFER database (IMF 2017).

Outlook). Reserves are highly concentrated within EMDEs, however. In 2015, reserves held by China accounted for 47% of total EMDE reserves, while 15 EMDEs, including China, held 86% of total EMDE reserves (World Bank World Development Indicators; author calculation).

The overaccumulation of reserves in the post–Asian crisis context was facilitated by a variety of fortuitous circumstances: the boom in commodity prices during much of this period; the ability of some countries to maintain current account surpluses; the persistent appetite for imported energy, low-cost consumer goods, and capital goods in AEs (itself a consequence of many factors, such as deindustrialization, energy policy, income inequality, and wage stagnation); and the need to find an outlet for the vast pools of liquidity created during the long boom that preceded the global crisis. Though reserve accumulation enhances financial resilience and policy autonomy, it nevertheless entails opportunity costs since resources held in reserves might be more productively deployed; for example, to support public investment (Rodrik 2006b; Gallagher and Shrestha 2012).[21] But we must be careful to weigh the opportunity costs of holding large reserves against the beneficial effects of resilience and enhanced policy autonomy (Taleb 2012).

As with reserve holdings, the assets of EMDE sovereign wealth funds (SWFs) grew significantly in the period following the Asian crisis. As of December 2016, EMDE funds held 75% of global SWF assets—US$5.5 trillion of the US$7.4 trillion held globally in such funds (SWF Institute; author calculation).[22] SWF holdings are highly concentrated: as of December 2016, six EMDEs (namely, and in rank order, China, United Arab Emirates, Saudi Arabia, Kuwait, Qatar, and Russia) held 90% of the SWF assets held by all EMDEs. These six countries held 67% of global SWF assets. Though the explicit function of SWFs is not to promote financial stability or policy autonomy, a speculative attack against a country's currency is far less likely to occur when governments have signaled that reserves are so large as to justify cleaving off substantial resources to capitalize a fund.[23]

Large reserves played a key role in the ability of many EMDEs to navigate the global crisis relatively well. They also contributed to the increasing assertiveness of larger EMDEs vis-à-vis the BWIs prior to and especially during the crisis. EMDEs used excess reserves to expand their policy space. In some cases, reserves supported countercyclical fiscal programs, which were not within reach during previous crises (Grabel 2015b; Wise, Armijo, and Katada 2015; Ocampo et al. 2012). Reserve-rich countries were also able to experiment with capital controls and to deepen existing development banks and reserve pooling arrangements and create new ones.

The reserves accumulated by larger EMDEs not only allowed them to withstand the crisis but also created the conditions to reverse their historic dependence on the IMF. For the first time in history, EMDEs provided financial support to the Fund (see chapter 5). The ability of EMDEs to pursue strategies that were previously unattainable shrank the IMF's reach. Equally important, the behavior of those states that have achieved autonomy from the IMF and their economic success have served as examples for weaker states with less autonomy, some of which, in turn, reacted to the crisis in ways that would have been unimaginable in the recent past.

The Asian Monetary Fund and the Seeds of Architectural Innovations

The Asian crisis also turned attention to the creation of a new institution that could serve as a counterweight to the IMF. Interest in an Asian alternative to the IMF emerged in the summer of 1997, as the crisis was unfolding. Japan's Ministry of Finance proposed that an AMF provide emergency financial support quickly—absent IMF conditions—to countries in the region that were ensnared by the crisis.[24] Though the proposal was never fully articulated, it was to be capitalized with an initial US$50 billion contribution by Japan and another US$50 billion from other Asian nations.

The AMF proposal grew out of frustration in Japan and elsewhere in the region with economically harsh and politically intrusive IMF conditionality in the crisis countries.[25] The proposal also reflected concern over the limited voice of Asia at the IMF, dominated as it was by U.S. interests and priorities. The AMF proposal was eventually scuttled by tensions between Japan and China. The tensions were adroitly exploited by the IMF and especially by the U.S. government, both of which strongly opposed the AMF. Eisuke Sakakibara, Japan's vice minister of finance for international affairs during the Asian crisis, claims that "Larry Summers was furious" when the initiative was first proposed by Japan at the annual meeting of the IMF and World Bank in 1997 (quoted in Holroyd and Momani 2012, 206). The Chinese government was not unhappy with U.S. opposition to the AMF; in fact, Chinese leaders supported U.S. efforts to shelve it (Cumings 1999). Chinese and U.S. officials were concerned that the AMF would entail an increased role for the yen and, more broadly, for Japan in the region's complex power politics (Cohen 2012, 52).

We will revisit the failed AMF initiative in chapter 6. As we will see, the spirit of this initiative reemerged in an initiative of the ASEAN+3 countries and has been given new force by the global crisis. We will also see that new reserve pooling arrangements in EMDEs share a common ancestry in the Asian crisis experience.

Summing Up and Looking Ahead

The Asian crisis had paradoxical effects on the global neoliberal regime. On the one hand, it solidified neoliberalism through the leverage granted to external and domestic actors who had been unable to secure liberal reform prior to the crisis. Although the crisis halted efforts to make capital liberalization a central purpose of the IMF, the institution was nevertheless able to use SBAs to open the financial markets of client economies. But the Asian crisis also inaugurated a gradual, uneven rethinking of capital liberalization. In addition, the crisis had paradoxical effects on the IMF. It gave the institution a vast new client base, the economies of which were opened and liberalized in ways that were impossible prior to the crisis. But the crisis was ultimately costly to the IMF insofar as its crisis response led EMDEs to implement strategies to escape its orbit. The combination of a curtailed geography and widespread condemnation of institutional performance undermined the IMF's standing and the material resources at its disposal. Although the AMF vision catalyzed by the crisis failed to materialize, it had powerful effects in the region and across EMDEs more broadly. As we will see, the Asian crisis marked the beginning of a shift away from neoclassical "optimal" or "efficient" policy, regulation, and institutions. We find in the post–Asian crisis context an increased appreciation in EMDEs of policy and institutional innovation, experimentation, and strategies that promote redundancy, robustness, and learning by doing and learning from others.

In chapter 4, we consider the evolving role of two informal networks—namely, the G-20 and the FSB. Both have their roots in the Asian crisis, and both continued to evolve during the global crisis. The G-20 and FSB have the potential to create greater inclusion in global financial governance and provide the space for like-minded EMDE policymakers and technocrats to learn from one another, build coalitions that can be mobilized in other forums, such as the IMF, and leverage their voices—provided they choose to do so.