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Korean Currency Crisis and the Reform of International Financial Institutions

Chang-Kyu Choi*

The currency crisis in Korea, by its nature, had a self-fulfilling element. Therefore an appropriate international lender of last resort could have prevented the worst crisis. In this context the characteristics of the Korean currency crisis and the role of the IMF in the Korean currency crisis are discussed. The IMF could not function as a proper international lender of last resort especially in currency crisis in Korea. Some wrong and even unnecessary conditionalities are required just siding with the creditors.

To function as an efficient international lender and manager of last resort, the IMF must reform itself so that the demands of developing and poor countries can be properly accommodated. Also constructive and innovative alternatives to the current IMF should be continuously explored to prevent and cure future crises more efficiently and economically. A regional crisis lender and manager are needed desperately. The coexistence of both regional and global lenders of last resort will significantly contribute to balancing the current IMF.

1. INTRODUCTION

The Asian crisis of 1997 reignited the discussion on the reform of international financial institutions. The IMF's role in predicting, preventing, diagnosing, and providing prescriptions for the Asian crisis has widely been regarded as unsatisfactory. Asian countries, which depended on the IMF's stand-by credit, have doubts about the policy requirements demanded by the IMF. Malaysia even refused to ask for the IMF's help and instead resorted to capital controls and a fixed exchange rate quite contrary to the IMF's traditional prescription. In every respect the position of the IMF as an international lender of last resort has been seriously questioned. Most East Asian countries believe that the current IMF could not play the proper role in dealing with the currency crisis. I will be reviewing the crisis in Korea, especially in connection with the IMF.

Instead of the current IMF, various other proposals for reforming the current international financial institution have been proposed. If there is any better alternative to the current IMF system, it should be seriously considered. Advanced countries often led discussions on reform in the past but recently developing and poor countries have voiced their concerns as they began to recognize that a dysfunctional international financial institution could seriously damage them. Regional efforts to prevent the future crisis are also intensifying. The basic argument is that as crises are, by nature regional and contagious, regional devices may be more desirable. Furthermore, East Asian countries feel closer after experiencing Asian crisis and witnessing the successful launching of the euro.

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The IMF has recently faced the serious external criticism that it should be dismantled and a new institution should be set up or that it should be reformed thoroughly. Others say that the IMF's role has already ended with the adoption of the flexible exchange rate system in 1973. Others still argue that only the IMF can serve as an international lender of last resort. The IMF, however, is going to strengthen its role as an international lender of last resort by expanding crisis facilities against the recurring crisis.

Lastly I draw some policy implications on the reform of international financial institutions from the point of view of the Korean currency crisis.

2. CRISIS IN KOREA AND THE IMF

2.1. Causes of Crisis in Korea[1]

After the 1997 currency crisis in Korea, much research on the causes of crisis has been published from inside and outside of Korea. Immediately after the crisis much of that research tried to find the causes of the crisis from internal weaknesses in Korea. Among these weaknesses were cronyism, corruption, lack of financial supervision, over-investment by the 'chaebol,' and the deterioration of the current account. First generation theorists of speculative attack currency crisis tend to relate deteriorating macroeconomic fundamentals with the outburst of crisis. It cannot be denied that these weaknesses are necessary conditions of crisis. However, it is insufficient to attribute the crisis to these weak fundamentals only. It is also argued that microeconomic rather than macroeconomic conditions are more important in understanding the crisis. That would be also true but these microeconomic inefficiencies existed even several decades ago. If these conditions were really sufficient conditions of crisis, mainland China would have had a crisis instead of Korea. Asian countries including Korea have had these problems long before the crisis.

Unprepared financial and capital liberalization resulted in a boom and bust crisis in Korea. From the early nineties the IMF and OECD strongly pushed capital market opening to developing countries, arguing that capital liberalization would contribute to increasing the welfare of the whole world. This pressure was strongest especially before Korea entered the OECD in 1997. Massive capital flew into the Asian countries including Korea. We can see from Table 1 that capital inflows jumped up from 2.6 billion dollars in 1990 to 23.3 billion dollars in 1996. These excessive capital inflows caused excessive spending and a current account deficit. Furthermore the weak yen and terms of trade deterioration added to the widening current account deficit. Additionally a crisis in Thailand spread to neighboring countries like a flu. In 1996, the current account deficit in Korea amounted to 23 billion dollars. We can easily confer that this current account deficit was hardly sustainable. Furthermore Korean banks borrowed in dollars and in short-term and lent in won and in long-term. Foreign reserves were not enough compared with the amount of short-term external debt. Korea's short-term external debt comprised more than 55% of the total as is shown from the above Table 1. As foreign banks suddenly stopped rolling over the existing debt in Korea, Korean banks had a kind of liquidity shortage. Korea had a banking crisis and urrency crisis at the same time. In this context crisis in Korea is self-fulfilling like a bank run model of Diamond and Dybvig(1983).

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[1] Refer to Choi (2001).

Until Korea had a crisis, the IMF did not or could not give us the signal that a crisis was impending. In fact, the IMF actually praised the Korean economy up until the crisis. Here I am explaining the IMF's role before the crisis in two respects. The first probable case is that the IMF was well aware of the forthcoming problem already and it did not notify Korea. Some Koreans refer to this case as a 'conspiracy' of the IMF and developed countries. In addition, the IMF had already a lot of crisis experiences from other countries including Mexico and it was equipped with the most capable economists in the world. Even if not 100 percent correctly, the crisis could have been predicted from inside the IMF. The second case is that the IMF could not predict crisis in Korea at all, as they were really ignorant about the characteristics of recurring crisis in the world. If the IMF is really going to be an international lender of last resort in the real sense, the IMF is to blame for the currency crisis in either case.

Furthermore the IMF imposed too harsh reform plans on the Korean economy that disguised their mistakes. Here I stress that the IMF's moral hazard is the most serious concerning the crisis especially in East Asian countries. It is the IMF itself who compelled developing countries to adopt capital and financial liberalization without regard to the different economic development stages of the relevant countries. It is a wonder why the IMF did not force labour market liberalization all over the world. The labour market liberalization as well as the capital market liberalization would have increased welfare in the world economy.

Table 1. Economic Indicators Related with the Currency Crisis

(%)

	90	91	92	93	94	95	96	97
GDP growth rate (%)	9.0	9.2	5.4	5.5	8.3	8.9	6.8	5.0
Terms of trade (1995=100)	94.2	97.0	95.5	98.7	100	90.5	88.1	84.2
Current account (bil. dollars)	-2.0	-8.3	-3.9	1.0	-3.9	-8.5	-23.0	-8.2
Capital account (bil. dollars)	2.6	6.4	6.6	2.7	10.3	16.8	23.3	1.3
Foreign reserves (bil. dollars)	14.8	13.7	17.2	20.3	25.7	32.7	33.2	20.4
Current Account/GDP (%)	-0.8	-2.8	-1.3	0.3	-1.0	-1.9	-4.7	-1.9
Fiscal Account/GDP (%)	0.4	-0.8	-0.3	0.1	0.6	0.5	0.0	0.0
Total external debt (bil. dollars)	-	-	-	-	72.9	127.5	163.5	159.2
Long-term (bil. dollars)	-	-	-	-	43.5	55.6	70.2	95.7
Short-term (bil. dollars)	-	-	-	-	53.9	71.9	93.3	63.6

Source: Choi(2001)

2.2. The IMF Program in Korea

Towards the end of 1997, the Bank of Korea failed to defend the abruptly depreciating won and almost exhausted its foreign reserves. Finally, the Korean government asked for the IMF's help and had to reach an agreement with the IMF on December 3, 1997. Even though the Korean government withdrew approximately 11.1 billion dollars out of a 58 billion dollar rescue package[2], foreign creditors continued to pull their investments out from Korean financial institutions. International credit rating agencies downgraded Korea's sovereign credit rating on December 11, 1997. On December 24, 1997 the IMF and major industrialized countries including G-7 announced their decision to further frontload their financial assistance. More important, however, is the fact that the financial institutions of the major advanced countries agreed to tentatively roll-over their exposure to Korea for one month. On January 28, 1998, the Korean government and foreign commercial banks reached a final agreement on the principles for maturity extensions. Finally the contracts were signed on April 8, whereby 96.4% of 22.65 billion dollars in short-term debts extended to Korean commercial banks were converted to long-term maturity of one to three years. This enabled Korea's commercial banks to improve their foreign currency position and allowed Korea's foreign exchange market to regain stability (MOFE 1999).

To understand the IMF's intervention in the Korean economy let us briefly summarize the program imposed upon the Korean economy. The IMF program was an austerity program that enforced several structural reforms. In order to improve the current account, fiscal contraction and high interest rate were required. At the initial stage of the program fiscal tightening was inappropriate. Radelet and Sachs (1998) argued that fiscal tightening in the program could not improve the current account and simply added to the contractionary force of the crisis. Here the fiscal contraction was subsequently dropped as the crisis was found not to result from the fiscal side. As we can see from Table 1, the fiscal account was almost in equilibrium unlike the case of past crisis countries. A flexible exchange rate policy was recommended with interventions limited to smoothing operations.

Financial restructuring included strengthening prudential regulation by monetary authorities, revocation of licenses of several merchant banks, and rationalization of the commercial financial institution. Capital account and trade liberalization was accelerated further. In addition the IMF required transparency of relevant statistics such as foreign exchange reserves and short-term external debt.

This harsh program almost drove the Korean economy into a credit crunch. The eight percent BIS ratio is used as the only critical criterion of bank existence. It is very natural that many illiquid but solvent Korean firms, which traditionally had a high debt-to-equity ratio, regardless of whether good or not, went bankrupt.

2.3. The IMF's Role as the International Lender of Last Resort in the Korean Crisis

Many lessons from the crisis in Korea can be drawn. I, however, am going to draw them in relation with the role of the IMF as an international lender of last resort. The Korean crisis was due to liquidity shortage and similar to Diamond and Dybvig's (1983) explanation of bank runs (Chang and Velasco 1998). In any state of the economy, 'good' and 'bad'

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[2] Total of 58.35 billion dollars are committed by international organizations and second line of defense. International organizations committed 35.0 billion dollars (the IMF: 21 billion dollars, IBRD: 10.0 billion dollars, ADB: 4.0 billion dollars) and 23.35 billion dollars of second line of defense is committed in case the funds from international organizations prove to be insufficient (Japan: 10.0 billion dollars, US: 5.0 billion dollars, Germany, UK, France, Italy: 5.0 billion dollars, Belgium, Netherlands, Switzerland, Sweden: 1.25 billion dollars, Australia: 1.0 billion dollars, Canada: 1.0 billion dollars, New Zealand: 0.1 billion dollars). Total of 21 billion dollars committed by the IMF is composed of stand-by credit (7.6 billion dollars) and SRF (Supplemental Reserve Facility, 13.4 billion dollars).

equilibria coexist at the same time.[3] For any country not to fall on a bad equilibrium for temporary shortage of liquidity, an international lender of last resort is needed.

Concerning the lender of last resort, we can borrow Bagehot's (1873) idea that, in a crisis, the lender of last resort should lend freely to temporarily illiquid but solvent banks, at penalty rates on good collateral. His basic idea can be easily applied to the IMF's role as an international lender of last resort in the currency crisis of Korea. To 'lend freely' implicitly means that the lender of last resort has access to resources that, if not actually unlimited, are at least well in excess of the largest need which could materialize in a crisis. The IMF did not 'lend freely' to Korea. The amount, which was committed by the IMF, was not enough to stop the capital outflows immediately after the IMF got involved in the crisis. The total amount committed by the IMF was much smaller than the short-term external debt of Korea. To prevent a moral hazard from emergency lending and ensure the quick retirement of emergency finance once the crisis is over, imposing 'penalty rates on good collateral' is needed. Higher surcharges than the international interest rate were imposed on the emergency loan to Korea. In addition to the higher rate, they imposed overly harsh conditions. As authorities in Korea already recognized the excessive cost of the IMF emergency loan, they were extremely hesitant about the loan and made efforts to cope with the crisis themselves. Imposing penalty rates on the crisis loan would have been enough to induce the crisis country to repay the loan as soon as possible.

The problem was that even after IMF's initial intervention in the Korean crisis, the crisis continued. The IMF alone surely could not play the role of crisis lender and manager. The crisis was not resolved actually until the G-7 committed their support for Korea and a roll-over agreement with major creditors was arranged.[4] The IMF and advanced countries including the G-7 together played a role of crisis lender and manager. Therefore while dealing with the crisis, the IMF could not be impartial.

To avoid a moral hazard in relation with the emergency loan, 'constructive ambiguity' is often cited. Uncertain crisis loan lending can reduce the moral hazard of debtor country. I feel that the current 'constructive ambiguity' changed too easily into 'destructive ambiguity' by placing a large degree of discretion in the hands of the agency responsible for crisis management, which can be biased towards creditor country.

I would like to add that to be a capable international lender of last resort, the lender must have a full understanding of the economy before a crisis hits. Ironically, the IMF's 1997 annual report praised the soundness of Korea and Thailand's economic fundamentals. Shortly after their appraisal of both economies, the crisis occurred. This means that the IMF itself did not understand the possibility of a crisis beforehand.

The fact that they wanted a contractionary fiscal policy shows their ignorance about Korean economy. As we reviewed in the previous section, the Korean crisis was not caused by weak fundamentals only. Rather it is really self-fulfilling and relaxing the creditors are the most important issue in this case. Economic reform should be the long-term goal of the program rather than a short-term one. Feldstein (1998) also criticized the IMF conditionalities as inappropriately detailed and microeconomic. Further he argues that it is inappropriate for an international agency to intrude so deeply into domestic economic policy,

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[3] Refer to Choi (2001) as to the self-fulfilling characteristics of Korean currency crisis.

[4] The reason why GAB could not be utilized is that it has a double-lock system, as it needs the approval of GAB member countries and the IMF Executive Board. That kind of complexity can explain the uselessness of GAB in crisis country where emergency funding is necessary (Giannini 1999).

especially since its charter provides no mandate to do so. If the main goal of program had been to reverse the current account, imposing a higher rate than market rate on the bailout loan would have made the country seek a current account surplus. I mean that the crisis country should reserve policy flexibility. The IMF seemed to attain some other objects through the program. The program even included additional trade and capital liberalizations, which are not related with improving the current account at all. The high interest rate policy prescribed by the IMF could not stop runs on the currency and even exacerbated financial problems in manufacturing companies, which led to more bankruptcies and a large increase in the exposure of bad loans in the banking sector.

3. VARIOUS PROPOSALS TO REFORM INTERNATIOANL FINANCIAL INSTITUTION

Can the market solve the current crisis properly? The answer may be 'No.' Many East Asian countries were forced to open their capital market by advanced countries and international financial institutions. In some sense capital and labour are production factors. Until recently the economists in the advanced countries have often stressed the benefit of global capital liberalization. Economists in advanced countries seldom advocate the logic that "global labour liberalization" is the same as "global capital liberalization." Fast and unprepared global labour market liberalization will, at least temporarily, make the workers in advanced countries poorer than at present. Here I am not calling for labour market liberalization in the world. It seems to me that economists around the world have now begun to realize the possibility of the rampage of financial globalization in the world.

So far the market does not seem to have resolved the currency crisis even if Schwarz (1998) contends that the IMF should be abolished as it precludes more effective market solutions. If she really believed in the free market of the world, she must advocate labour market liberalization. The market already proved to be incapable of preventing and curing currency crises in the world. In this context Krugman says that the IMF as an international lender of last resort is perhaps flawed, but "all we have, and it is a lot better than nothing at all."

If the market cannot prevent and solve the crisis, then other measures can be suggested as follows. Granting that the current IMF flawed, what other measures can be suggested? By overviewing various ideas on how to prevent and cure the crisis properly, we can get a balanced view of the current IMF system and also have a vision for international financial institutions.

3.1. Building International Institution[5]

Sachs (1999) argues that an international bankruptcy court is needed to deal with crisis. When there is a financial panic, suspension on the existing debt could be possible as in domestic bankruptcy law. Without the bankruptcy law, in times of emergency, all creditors will demand their shares at the same time. In this case domestic bankruptcy court can provide some breathing room so that creditors do not liquidate or abandon potentially high-

[5] Refer to Rogoff (1999).

yield productive investment projects. This can be easily extended to the international context. Similarly this can stop the competitive outflow of capital from the crisis country.

He explains that the Korean crisis did not end on December 4, 1997, when $58 billion of the IMF package came into shape, but on December 29, 1997, when the Fed engineered a roll-over of short-term debts and everybody breathed a sigh of relief that we were no longer playing on a day-to-day basis in Korea. So the normal way that these panics end is not necessarily through the infusion of new capital, but rather the suspension of repayment of short-term debt.

Further he argues that by analogy, in the bankruptcy context, under the US Law, for example, we usually allow the bankrupt to gain access to working capital by prioritizing the new lending, the post-bankruptcy debt, under section 364 of the Bankruptcy Code. Instead of the IMF loan, we could arrange debtor-in-possession financing. We do not need an official creditor to lend. What the bankruptcy judge does is to say that the next $100 million tranche is going to have priority over the pre-bankruptcy debt. Especially this kind of new loan will be very critical to trade financing. This solution is closer to the market than the current regime.

Finally in domestic bankruptcy law we end up cancelling debt on debt overhang. One way to relieve the burden on an international lender of last resort would be actually to get rid of bad debt. Litian et al. (1998) have suggested that borrowing countries should pass legislation contemplating a mandatory reduction ("hair-cut") of the principal of foreign currency loans that are not rolled over in the event of a crisis. Creditors would not be prevented form leaving the country, but would be imposed a loss for doing so. A more extreme case will be a moratorium on foreign payments.

However, there still remain problems to be solved in this idea. If the world government and court exist like in an individual country, this could be one of the solutions to the crisis. Unlike domestic bankruptcy case it is very difficult to replace the "board of directors" of a crisis country. Eichengreen and Portes (1995) assume that an international bankruptcy system is not feasible and perhaps not even desirable.

Soros (1988) contends that setting up an international deposit insurance corporation equivalent to the US Federal Deposit Insurance Corporation would help prevent a bank run style crisis. Originally deposit insurance is devised to prevent a 'bank run.' As the current crisis is similar to a bank run, setting up a global deposit insurance would be able to prevent a bank run in the international context. By imposing higher insurance fees for riskier lending, it can control banks' activity. Uninsured countries, however, cannot be left alone during a crisis. It is still a difficult task to calculate proper insurance fees. Lastly it is doubtful whether to endow a regulatory power with any global deposit insurance institution can be acknowledged or not.

Kaufman (1998) suggests that an international financial regulator would help prevent a crisis in the future. It is needed to harmonize currently decentralized financial regulations. In this context the 1988 and 1999 Basle Accords can be very good devices. These Accords impose a uniform capital adequacy standard so that banks avoid high risk-high return projects. It is designed so that banks will maintain certain ratio of capital to risk-weighted assets. Therefore as banks invest in riskier assets, they have to accumulate more capital. It is rather uncertain which regulator system is better, national or global. Under the national regulator system, there may be some competition among national regulators and banks may bypass the inefficient regulatory policy of their own country. This competition may make a regulator system more efficient than a global one. A global financial regulator, however, will be unavoidable and will become inefficient.

When we think of a role of lender of last resort, the liquidity should be supplied sufficiently to extinguish a crisis in the market. Garten (1998) argues that a world central bank can do that kind of role in emergency. Considering the current shortage of facilities of the IMF, this seems to make sense. There may be criticisms about this idea. In a global currency, we may lack competition among key currencies in enhancing anti-inflationary performance and competition among key currencies will enhance the anti-inflation performance. Another criticism may be that adopting a global currency may prohibit countries from undertaking their own monetary policy. Nowadays the dollar is used as a quasi-global currency and basically the production and circulation is only left to the US only. Despite the above-mentioned criticisms, global currency can have the following advantages. Seigniorage can be available by a neutral agency rather than by a few advanced countries only. Compared with the current IMF, it can supply crisis countries with liquidity more rationally and neutrally.

So far the IMF and OECD pushed capital liberalization too quickly. It is always possible that extreme volatility of capital flows and a financial liberalization can drive developing countries into a financial turmoil. It may be the time for us to widen the policy choices of each country depending on their stages of economic development. Malaysia adopted Krugman's (1998) recommendation of controls on capital outflows amidst crisis. He argues that capital controls would be a better idea when the lender of last resort does not function properly. It looked very dangerous for any country in crisis to adopt a capital control, but Malaysia utilized it successfully. Compared with other East Asian crisis countries, which were forced to undertake a severe contractionary policy and sharp depreciation, the cost of recovery in Malaysia does not seem so big. The IMF and advanced countries may not welcome this success story of Malaysia. Definitely controls on capital outflows proved to work well in emergency period. It also proved that the IMF intervention need not be the only unique solution for crisis and that the IMF currently cannot function as a reliable international lender of last resort. The Tobin tax proposed by Tobin (1978) can be considered in this context. 'Putting sand in the wheels' may be necessary in currently unstable international capital flows.

Controls on capital inflows may also be useful, too. For example Chile required that all non-equity foreign capital inflows be accompanied by a non-interest bearing one-year deposit in the central bank equal to 30 percent of the initial value of the investment from May 1992 to May 1998 inducing longer stay of foreign capital in Chile. Therefore the shorter the borrowing period is, the higher the cost of borrowing becomes. This can curb down the speculative capital inflows to any country. Columbia adopted a similar system in 1993. These capital taxes in Chile and Columbia turned out to help improve the debt maturity structure by imposing a kind of implicit tax on short-term capital inflow.

3.2. Regional Efforts to Prevent Crisis

Recently we witnessed the trend towards both globalism and regionalism in trade. The coexistence of WTO and NAFTA is such an example. There is not an explicit regional apparatus among the East Asian countries so far. Especially in trade arrangement there have been some discussions about the necessity of a regional free trade area in East Asian countries. After experiencing the crisis in the region, most East Asian countries seriously felt the need to form regional arrangements so that regional surveillance and cooperation could take place. Before the crisis this movement was rather weak in Japan. After the crisis, however, Japan has become very active in this movement. Other East Asian countries agree with Japan's initiative. Still there remain worries about the strengthening role of Japan. As we have seen in Korean case, the IMF could not properly anticipate and prescribe for the crisis. Some of the IMF conditionalities were unnecessarily harsh and wrongly prescribed and the debt solution was not fair to debtor countries. It means that the current IMF does not care as much as it should be required for the countries concerned, especially in the East Asian regions. Malaysia even refused to call in the IMF's help and they managed the crisis in their own way. They succeeded in coping with the crisis. It is very natural that the movement towards regional monetary cooperation becomes intensified.

In some sense this idea is not the first one. Already European countries are equipped with a regional device to stabilize the currency in the region. The launching of euro may be a good example of regional monetary cooperative mechanism. This can explain why European countries feel relatively safer now than without the adoption of euro despite the recent drop in the value of euro against dollar. This kind of regional monetary cooperation movement can also be observed in the North American countries recently. The reason why the US is against East Asian monetary cooperation is based on the concern that they may lose the international seigniorage of US dollars. As the dollar is one of the most competitive exports to Asian countries, they do not want any substitute of dollar in the region. Financial instability in the region will increase the precautionary demand for the dollar in the region. However, it is time for the US to reconsider the role of dollar in the world economy. The US may recognize this kind of liquidity problem if the US dollar is seriously challenged as a key currency in the world by euro or some other currency.

Regional crisis lender and manager can be supported for the following reasons(Giannini 1999). First geographical proximity may be the most important advantage compared with international financial institutions. Secondly since the number of countries involved being by definition smaller, it may be easier at the regional level to win a consensus on both the need for concerted action and the policies that countries should take. Finally relatively deep-rooted cultural ties-which again can be expected to be the natural outcome of proximity-may provide a favourable terrain for the establishment of an "epistemic community," namely of "a professional group that believes in the same cause-and-effect relationships, truth tests to accept them, and shares common values so that its members show a common understanding of a problem and its solution(Haas 1995: 55)."

Unlike the EU's case, the international community is not so amenable to the cooperative movement among the Asian countries. Asian countries including Korea felt seriously the need to cooperate with each other to get their proper rights back from the current international financial system. Regional devices are very important in checking the monopoly power of the IMF as an international lender of last resort. Here I will explain several visions of regional cooperation among East Asian countries.

When Korea had a crisis, cooperation among the East Asian countries proved to be very critical. As the recent crisis is regional, policy coordination among the Asian countries is really important. The Korean crisis is indirectly related with unsound Japanese banks as well as Korean banks. Before the crisis, Japanese banks withdrew their loans from Korea, which actually triggered the outburst of crisis in Korea. The crisis in the neighbouring countries also influenced the crisis in Korea. When East Asian countries had a crisis, China did not devalue the yuan in order not to aggravate the neighbouring country's current account. This shows that macroeconomic policy coordination of neighbouring countries is very important. Especially concerted efforts of East Asian countries are needed to complement the current international financial institution that lacks the full capacity to deal with regional crisis. Dialogue among the Asian countries to discuss regional problems should be continued on a regular basis. Strengthening the regional financial surveillance and developing regional financial markets are also very important to stabilize the regional financial market. Stabilizing exchange rates among Asian countries will be necessary to promote the trade and capital flows in the region.

When a country faces crisis, central banks in the East Asian countries can share their foreign reserves by swap arrangement. On January 15, 1999, as part of the Miyazawa Plan, the Japanese government agreed to provide a back-up facility of 5 billion dollars to the Bank of Korea in the form of a central bank swap arrangement. If necessary, this facility will be activated for trade-related financing, assistance for small and medium-sized firms, and funding for economic stimulus measures. Recently central banks in East Asian countries continue to expand contracts with each other to share liquidity during a crisis. This, however, can act only as a back-up facility not as a perfect solution.

Japan proposed an “Asian Monetary Fund (AMF)” to prevent the recurrence of the Asian currency crisis and to institutionalize financial cooperation among countries within the region at the ASEM finance ministers’ meeting in Bangkok on September 19, 1997. An undisclosed meeting of deputy finance ministers from twelve Asian nations was held on September 21 at the request of Japan during the IMF/World Bank annual meeting. They were Korea, Japan, China, Hong Kong, Malaysia, Indonesia, the Philippines, Thailand, Australia, Singapore and New Zealand. The US and a representative of the IMF attended the meeting with observer status. The IMF and US opposed the plan worrying that an AMF may weaken the existing international financial architecture under the IMF. The meeting adjourned without agreeing on the details. However, discussions on the AMF are still going on among the East Asian countries. The slightly different form from the AMF is the APMF. The APMF (Asia Pacific Monetary Fund) proposed by Bergsten (1998) is a modification of the AMF. I, however, think that the real intention of the APMF is to discourage AMF, not to propose an alternative to the AMF. The APMF may encounter similar problems to APEC, which seemed to be not working properly because of different interests.

Immediately after the Asian crisis in 1997, ASEAN countries considered adopting their own common currency in the region. This has not been formalized yet. A single currency in the region may be the strongest form of regional monetary cooperation. A regional single currency may be more feasible than a global single currency. European countries adopted the euro as their regional currency. Latin American countries continue to adopt dollarization. Recently ‘amero’ in the North American Monetary Union is proposed by Grubel (2000). In Asia, however, there is no currency that can be utilized as a regional common currency. Adopting single currency means the abandoning member country’s monetary policy or sovereignty in some sense. It may not be that easy in East Asian countries. Heterogeneity among East Asian countries is referred to as an obstacle to regional single currency. Recent dollarization in some Latin American countries, however, is not based on homogeneous macroeconomic background.[6] The yen, as a regional currency in the area, may be difficult for several reasons. The role of the yen in the East Asian countries is weaker than that of the dollar in the north and South American countries.

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[6] Dollarization, however, still has the problem of seigniorage monopoly by the US.

3.3. IMF's Reponses

It may be very natural that the IMF would say that creating another global or regional financial institution is redundant and wasteful and they may well advocate the current IMF for themselves (Fischer 2000). If the IMF continues to hold that line, reforming the current IMF will be unavoidable. To handle criticisms of the operation of the IMF, the IMF recently strengthened the role of the Interim Committee. The IMF's Board of Governors adopted a resolution approving a proposal of the Executive Board to transform the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors on September 30, 1999. In addition to the name change, the Board of Governors explicitly provided for preparatory meetings of representatives of the Committee members. The new Committee continues to advise and report to the Board of Governors with respect to the functions of the Board of Governors(IMF 2000b: 48).

Furthermore the IMF has been forced to reform itself as a better international crisis manager and lender. Already there existed facilities, which can be used for emergency financing. The financial assistance provided by the IMF is made available to member countries under a number of policies, the terms of which reflect the balance of payments problem that the borrower is experiencing.

Recently the IMF shortened the repurchase expectation of the existing facilities to ensure efficient use of Fund resources(IMF 2000c). Around 40 percent of the IMF credit has been provided through a Stand-By Arrangement (SBA), which is designed to deal with short-term balance of payments problems of a temporary or cyclical nature and must be repaid within two and one-fourth to four years, as compared with repurchase obligations that span three and one-fourth to five years. The member would be expected to meet these expectations, but the Fund could extend them on request by the member, if the Board agreed that the member's external position had not improved sufficiently for repurchases to be made. Financial assistance through extended arrangements under the Extended Fund Facility (EFF), which was introduced in 1974, is intended for countries with balance of payments difficulties resulting primarily from structural problems and has longer repayment periods, four and a half to seven years, rather than to 10 years currently, to take account of the need to implement reforms that can take longer to put in place and have full impact(IMF 2000). Access limit is decided by the sum of SBA and EFF in relation to the quota and is 100 percent of quota annually and 300 percent cumulatively. The surcharge would begin at a level of 100 basis points at 200 percent of quota, and would rise to 200 basis points with credit outstanding above 300 percent of quota

The IMF has been trying to strengthen its role as an international lender of last resort.[7] At the end of 1997, the IMF introduced the Supplemental Reserve Facility(SRF), which can make short-term loans in large amounts at penalty rates to countries in crisis. SRF Loans have been made to Korea, Russia, and Brazil, subject to policy conditionality.

Shortly after the establishment of the SRF, the IMF turned its attention to the creation of a facility that would help prevent the spread of capital account-driven crises. The result was the establishment of the CCL in May 1999. It takes the form of an addition to the IMF's

[7] Refer to Goodhart and Huang (1999) on the theoretical model of lender of last resort and Fischer (1999) and Giannini (1998) for international perspectives on the lender of last resort.

existing decision on the Supplemental Reserve Facility (SRF). A key difference is that the SRF is for use by members already in the throes of crisis, whereas the CCL is a preventive measure intended solely for members that are concerned with potential vulnerability to contagion, but are not facing a crisis at the time of commitment. The SRF is used to provide financial assistance for exceptional balance of payments difficulties owing to a large short-term financing need resulting from a sudden and disruptive loss of market confidence, like during the Mexican and Asian financial crises of 1995 and 1997. Under the SRF, repayments are expected to be made within one to one and a half years but can be extended to two to two and a half years. SRF drawings are made within the context of a Stand-By or Extended Arrangement but are not subject to a specific quota limit.

The CCL is available, in the absence of a crisis and as a precautionary mechanism, only to members that satisfy eligibility criteria. No member has yet made use of the CCL(IMF 2000a). To be eligible for the CCL, member countries should prove to adopt prudent macroeconomic policies. Recently eligibility has been weakened to increase the automaticity of the CCL by dropping some of its clauses.[8] Similarly, commitments and, upon activation, drawings under the CCL are made within the context of a Stand-By Arrangements and are not subject to general access limits, but commitments under the CCL would be expected to be in the range of 300 to 500 percent of the member's quota in the Fund, unless otherwise warranted by exceptional circumstances, and with due regard to the Fund's liquidity position (See Table 1). Countries drawing under the CCL are expected to repay within one to one and a half years of the date of each disbursement (The Board may extend this repayment period by up to one year). The penalty rate applies to the CCL. During the first year following the first drawing of CCL resources, the member will pay a surcharge of 150 basis points above the rate of charge on the regular IMF drawings. The surcharge would then rise with time to a ceiling of 350 basis points.

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[8] Eligibility under the CCL can be summarized as follows; (1) that, at the time of commitment, is implementing policies that are considered unlikely to give rise to a need to use Fund resources; (2) whose policies have received a positive assessment from the Fund at its last Article IV consultation and whose policies have continued to be assessed favorably by the Fund thereafter based on economic indicators reflecting domestic stability and external sustainability, and taking into account the extent of the member's adherence to relevant internationally-accepted standards; in particular, the member would have subscribed to the Special Data Dissemination Standard and be judged to be making satisfactory progress towards meeting its requirements; (3) that is maintaining constuctive relations with its private creditors with a view to facilitaing appropriate involvement of the private sector, and has made satisfactory progress in limiting external vulnerability through the management of the level and structure of its external debt and international reserves; and (4) that has submitted a satisfactory economic and financial program, including a quatified framework, which the member stands ready to adjust as needed. To increase the automaticity of CCL, (3) and (4) are dropped on September 18, 2000.

Table2. Access limits, April 1999
(In percent of member's quota)

Facility or Policy	Limits
Stand-By and Extended Arrangements[1]	
Annual	100
Cumulative	300
Special Facilities	
Supplemental Reserve Facility/Contingent Credit Lines	None
Compensatory and Contingency Financing Facility	
Export earnings shortfall[2]	20
Excess cereal import costs[2]	10
Contingency financing	15
Optional tranche	20
Buffer Stock Financing Facility	25
Enhanced Structural Adjustment Facility	
Three-year access	
Regular	190
Exceptional	185

Source: the IMF Annual Report 1999, p. 99.
Note: 1) Under exceptional circumstances, these limits may be extended.
2) When a member has a satisfactory balance of payments position except for the effect of an export earnings shortfall or excess in cereal import costs, a limit of 45 percent of the quota applies to either the export earnings shortfall or the excess cereal import cost, with a joint limit of 55 percent.

4. POLICY IMPLICATIONS ON THE REFORM OF INTERNATIONAL FINANCIAL INSTITUTION

4.1. Reform of International Financial Institution

Without a sufficient lender of last resort, the benefit of capital liberalization is very doubtful. Countries, which cannot print the dollar, should prepare as much foreign reserves as they import from abroad. Capital inflows then become always costly to developing countries.

I fear that foreign banks are learning that they can lend without fear of default because of the implicit protection of the IMF and G-7 (Calomiris 1998). Imprudent lenders as well as imprudent borrowers should be penalized on an equal basis. The incentive structure of the IMF should be set up so that prevention of crisis will be the first priority rather than the solution of crisis. The more often the crises, the more influential the IMF becomes without any penalty on the IMF. We know that crises repeat themselves and that after any crisis the IMF gets bigger and stronger without any penalty.

In Korea he who worked hard in solving the crisis got an award, but he who worked hard in order to prevent the crisis got nothing. It means that to be awarded there should be a crisis in the future in Korea and the IMF. This is to say, the incentive structure is wrongly set up now. The IMF should be responsible for the prevention of currency crisis in the future. Just replacing the top manager of the IMF with another person may not be sufficient. They should compete with other institutions for the same function to be more efficient, whether it be regional institute or private or other alternative. The market principle should apply to the lender of last resort. Once they fail to win the game they should get out of the market. We learned in basic economics that a monopoly is not good and competition makes a firm more efficient. This may apply to the international lender of last resort role in the international context.

Moratoria and trading facilities could be one of the options in face of currency crisis. Moratoria can work as a 'stick' to the creditors through revising the ArticleVIII.2(b). Giannini (1999) suggests that the international community can have a legal means of temporarily suspending not only the country's foreign payments, but also the creditors' legal rights by clarifying that the expression "exchange contracts" is to be interpreted as encompassing credit agreements.[9]

As we have reviewed in the previous sessions, the role of the IMF as an international lender of last resort, if strengthened, still has a lot of shortcomings. I still do not think that the next crisis can be successfully prevented and cured rationally despite the recent efforts of the IMF. Therefore very insightful alternative ideas including Sachs' should be seriously studied and considered not only by the IMF but also by academia. I understand that there still remain problems to be solved in his suggestion. His idea, however, is very intuitive and persuasive. Frankly the most difficult part would be the opposition of the current international financial institution rather than the immaturity of any alternative. It is likely that the IMF will always downgrade any other alternative instinctly as it is a bureaucracy. The international community should make every effort to devise a better institution than the current system.

We have seen that the IMF is striving to reform itself as a better international lender and manager of the crisis. In addition the IMF should also spend considerable portion of their efforts to meet the needs of regional and developing countries'. They should try to reflect the developing and poor countries' voices in their decision making process more seriously, as they are always the victims of the current malfunctioning international financial system in some sense.

If the IMF is really going to perform a role of international lender of last resort, the role of the IMF should be confined to that purpose. In this context I personally agree with the suggestion of the Meltzer Report (2000) that the IMF should restrict its lending to the provision of short-term liquidity to strengthen the IMF's role as international crisis lender. After the change from fixed exchange rate system to flexible exchange rate system, the IMF lost its own roles.

When the IMF prescribes conditionality for a crisis country, they should focus more on a macroeconomic policy direction rather than microeconomic reforms. Currently the IMF's conditionality seems to be too kind and too specific. World Bank rather than the IMF should be in charge of microeconomic reforms. The IMF does not seem to have perfect information about a specific country. When they impose IMF program on a crisis country, microeconomic policy options should be left to the crisis country. The role of World Bank or Asian Development Bank is basically providing development loans. Therefore the role of international lender of last resort should not be expected too much from these development banks. Rather they should increase their role in developing and helping poor countries that are afflicted with globalization and poverty.

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[9] Presently it states "exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member."

The operation of the IMF should be more transparent to member countries. Recently some measures to make the IMF's operation more transparent have been undertaken. Now transparency of the IMF is required as much as the IMF requires transparency of the member countries.

Moral hazard also exists in the IMF as well as in the creditors and debtors. Expanding quotas of the IMF and blaming the crisis countries for their mismanagement of the economy have always been repeated after the outbreak of past crisis. The real problem is that crisis, however, could not be stopped even by the existence of the IMF for decades. The IMF can be compared to fire fighters. Only when there happens to be a big fire, they can be interviewed by TV reporters. When the fire increases, he can ask for a wage increase. He or she may not be really interested in preventing fire. Moral hazard can exist both in arson and fire fighters. As long as his damage can be fully insured against the fire, he will not be careful to prevent a fire. With more fires, fire fighters can maintain their jobs longer or promotion may be easier. If he intends to be a 'good' fire fighter, he will devote himself to prevent the fire.

The incentive structure of the fire fighter should be on preventing fire rather than on how well he extinguishes fire. Financial turmoil in developing countries could have been foreseen. I feel that the IMF itself is partly to blame for the recent crisis. There should be any form of penalty or disadvantage to the IMF when a crisis happens. For instance the IMF pushed capital and financial liberalization onto developing countries, which induced a lot of capital inflow and made domestic banks vulnerable to external shocks. The IMF avoids responsibility for their policy mistakes by always attributing the crisis to debtors. They should have predicted side effects of fast capital liberalization.

So far whenever crisis happens anywhere in the world, the solution was to strengthen the role of the IMF in whatever form. The most severe penalty will be replacing the role of the international lender of last resort with any other institution suggested in the previous sessions. When there is a fire, the solution should not be just increasing the number and budget of fire stations. They should have some responsibility in warning and preventing forthcoming crisis. Just replacing the governor of the IMF may not be sufficient enough. The incentive mechanism of the IMF should be redesigned so that it really is willing to prevent the crisis.

Currently developing and poor countries are under-represented in the IMF decision-making process. The voices of emerging market economies and poor countries in the IMF operation have been weak. In this context quota allocation should be improved so that it can reflect the economic position of those countries properly. On this issue Camdessus (2000) suggested replacing the G7 Summit every two years by a meeting of the heads of state and government of the countries —approximately 30 at any one-time —who have Executive Directors on the Boards of either the IMF or the World Bank and argued that this would provide a fair and legitimate representation of the entire membership of 182 countries. Further he desired to ensure permanently that each country feels properly associated to the decision making process.

Crisis is in its nature contagious and regional. However, the regional aspect of crisis seems to not have been reflected satisfactorily. The IMF should reflect more regional demand for the lender of last resort. This is the only way the IMF can compete with a regional lender of last resort. Once it is proven that the IMF can do better than any other regional devices, it can survive competition. In addition non-G7 or East Asian countries should be able to reflect their demands collectively even inside the IMF. If the IMF is now the only international lender of last resort, then cooperation among non-G7 or East Asian countries inside the IMF is also needed to reflect their interests.

Here I would like to stress that the current international monetary system has definite flaws. One of the main factors which triggered the crisis in Korea is the weak yen before the crisis. Most Korean exports vying with Japanese exports in the US lost their competitiveness. This caused a deterioration of the current account before the crisis. This also applies to other East Asian countries. I mean that the current international financial system has to be transformed to have more stable exchange rates among the key currencies. The stability of major currencies is very essential for the stability of the neighbouring small open countries.

4.2. Facilities for Preventing Financial Crisis

One of the reasons why the harsh IMF program imposed on Korea may be that facility of the IMF was not so enough that their program wanted a fast result. When G-7 countries committed to help Korea, capital outflows could be stopped. G-7 countries actually performed the role of crisis manager as well as crisis lender. Therefore the voices of G-7 countries are so strong that the negotiation power of the indebted countries is almost nothing. I mean that G-7's role of crisis manager and lender cannot be impartial, as most international creditors are from advanced countries.

Currently the IMF quota of Korea is just 1.6 billion SDRs (0.78 percent of the total SDRs). It needs to be expanded in accordance with the size of her economy. Considering that the maximum access limit of CCL is up to 500 percent of the member's quota in the Fund, the available amount is 8.0 billion SDRs (approximately 10.3 billion dollars) only. Even if we include all other sources such as stand-by and extended arrangements etc, it may not be enough. If we have another crisis, G-7 countries and other supporter's help may be still required. Recent currency crisis is really self-fulfilling. Capital flows between countries are too big to be cooled down with this limited amount of lending.

Currently the fund is too small to provide liquidity in crisis countries and further bailout promises by advanced countries' commitment are unavoidable, as we have seen in Korean case. In this context I agree with U.S. Treasury Secretary Summers' proposal at a speech at the London Business School on December 19, 1999 that "the Fund should phase out low interest rate financing, forcing most countries to raise money from private sources at prevailing (i.e. market) interest rate (New York Times, December 15, 1999)."[10] If current facilities are thought to be insufficient against the crisis, then the low interest rate fund such as PRGF[11] can be supplied by other development banks such as World Bank. Table 3 shows that PRGF Arrangements occupy around 12 percent of the total outstanding IMF credit as of April 30, 2000. I have never heard of any central bank as a domestic lender of last resort that is in charge of the fight against poverty in a country.[12] Policy loans are not a proper function

[10] Such a concessionary loan program in the Philippines has run for 25 years.

[11] Beginning with the Structural Adjustment Facility (SAF) in 1986 and then the Enhanced Structural Adjustment Facility (ESAF) in 1987, concessionary assistance to poor countries has become a major feature of the IMF's work. In September 1999, the Interim Committee endorsed the transformation of the IMF's concessionary lending facility-The Enhanced Structural Adjustment Facility (ESAF)-into the Poverty Reduction and Growth Facility. The IMF combines concessionary lending from the IMF in support of appropriate macroeconomic policies with antipoverty assistance from the World Bank and other development agencies.

[12] To narrow the increasing gap between rich countries and poor countries as a result of globalization, the role of helping poor countries should be undertaken by any other agency such as so-called world government rather than the IMF. Here I am saying that it is not the essential role of the

of lender of last resort. However, that kind of loans often increases the power of the central bank and sometimes makes them corrupt. With this argument some underdeveloped countries may not agree. Other international institutions than the IMF should take charge of those concessionary loans as the cost of having a malfunctioning international lender of last resort may be sometimes bigger than the benefit from IMF's concessionary loans to the poor countries.

There is still a doubt whether crisis country will apply for the CCL or not. When a country applies for the CCL, it is a kind of bad signalling effect. Applying for the CCL may give a signal that a crisis is imminent. It is very natural that a country in difficulty will hesitate to use the CCL. We can recall that Korea's initial plea for the IMF's help signaled to investors that Korea was in real danger and resulted in a downgraded credit rating and additional capital outflows. We already saw that current crisis is really self-fulfilling and no country will apply for the CCL until it really faces the crisis. It means that the CCL may not be used as originally intended. Therefore the contingent role of the CCL will be very limited. Furthermore the availability of the CCL is subject to approval rather than operating as an autonomous system, even though eligibility has been weakened. The appropriateness of pre-qualification to CCL may be very arbitrary and too strict for some member countries just like current post-crisis conditionality. The real problem of *ex ante* eligibility of CCL is that the IMF may impose the inappropriate and even unnecessary advices on the developing countries just like the pushing of capital account liberalization as seen in case of East Asian crisis.

Table 3. Outstanding IMF Credit by Facility and Policy, Financial Years Ended April 30, 1997-2000[1)]

(In millions of SDRs and percent of total)

	1997	1998	1999	2000
General Resources Account	34,539(85)	49,701(89)	60,651(90)	43,968(87)
Stand-By Arrangements[2)]	18,064(45)	25,526(46)	25,213(38)	21,410(43)
Extended Arrangements	11,155(28)	12,521(22)	16,574(25)	16,808(33)
Supplemental Reserve Facility	-(-)	7,100(13)	12,655(19)	-(-)
Compensatory and Contingency Financing Facility	1,336(3)	685(1)	2,845(4)	3,032(6)
Systematic Transformation Facility	3,984(10)	3,869(7)	3,364(5)	2,718(5)
SAF Arrangements	954(2)	730(1)	565(1)	456(1)
PRGF Arrangements[3)]	4,904(12)	5,505(10)	5,870(9)	5,857(12)
Trust Fund	90(-)	90(-)	89(-)	89(-)
Total	40,488(100)	56,026(100)	67,175(100)	50,370(100)

Source: the IMF Annual Report 2000: 125

Note: 1) Numbers in the parenthesis represent the composition.

2) Includes outstanding credit tranche and emergency purchases.

3) Includes outstanding associated loans from the Saudi Fund for Development.

When a country falls on crisis, the most difficult and necessary problem is trade financing. If trade financing stops, the country may have difficulty in financing basic external trading. Korea experienced that kind of problem amidst the crisis because a credit crunch often happens during the crisis. Regional or global devices of trade financing should be offered

IMF to be a crisis lender and manager. Currently as the IMF took the lead in the globalization, the IMF may be in charge of helping poor countries.

for the coming crisis in the region. In this context Export Credit Agencies (ECAs) can be considered as lenders and guarantors of last resort for trading companies. Additionally the World Bank and other IFIs might consider providing a Trade Guarantee Facility, which can offer immediate trade financing needs together with international financial institution and the ECAs.

For various reasons, it will take real time for the current global lender of last resort to deal with currency crisis perfectly. Therefore both global and regional lenders of last resort should exist in preventing and resolving the currency crisis. If the world really wants to be equipped with a lender of last resort, both regional and global devices should have their own role in dealing with currency crises. A regional lender can complement the global one as lender of last resort. Rose (1998) and Park and Wang (2000) argue that crisis is contagious and regional through regional trade linkages and that multilateral and regional approaches can be effective and efficient in maintaining international financial stability. We cannot deny that the proposal of the AMF itself has stimulated the recent self efforts of the IMF to reform itself. The coexistence of regional as well as global lender of last resorts will bring both institutions to competition.

Compared with Mexico' s peso crisis, Korea was discriminated by the IMF during the crisis in every respect. The reason may be that Mexican economy is more closely connected with the US economy. This may be one of the reasons why a regional lender of last resort among the East Asian countries is needed.

5. CONCLUSION

Currency crisis in Korea proved to be self-fulfilling. Proper liquidity provision from an international lender of last resort could have prevented the worst situation from occurring in Korea. While the IMF was handling the debt problem of Korea, the IMF sided with the creditors. Furthermore some of the IMF conditionalities proved to be unnecessarily and even imposed.

After experiencing the crisis in East Asian countries, the role of the IMF as an international lender of last resort is seriously challenged. Especially the IMF, who pushed capital and financial liberalization in developing countries, is to blame as well as the crisis countries themselves. Massive capital inflows in the nineties towards Asian countries aroused a boom and ensuing sudden capital outflows caused a bust.

The current international financial system seems to be inefficient in preventing and curing the crisis all over the world. Crisis can happen in the future again without a thorough change of international financial institutions. Current capital liberalization would incur heavy defense costs such as keeping sufficient foreign reserves to capital recipient countries rather than contributing to the economic growth. Korea now accumulates a huge amount of foreign reserves after the crisis in order not to have another crisis. Foreign reserves are in some sense very costly to preserve. Capital is often imported with heavy interest and foreign reserves are kept in non-interest bearing assets. For capital liberalization to be successful, a global crisis lender and manager should be fully established.

If there are any better ideas that can prevent and cure the crisis than the current IMF, the alternatives should be seriously discussed and accommodated wisely. Until a better institution arises, the IMF now should focus on its resources on preventing and curing crisis most effectively. Current concessionary loans that have been offered by the IMF should be transferred to development banks. When redesigning the IMF reforms afterwards, regional and developing countries' opinions should be respected more than ever. I think that regional as well as global lenders of last resort are desperately needed to prevent and cure crisis efficiently because regional institution can meet the needs of neighbouring countries that share similar problems better. So far this movement is the best hope for the IMF to be reformed more efficiently.

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Chang-Kyu Choi. Department of Economics, Catholic University of Daegu, 330, Kumrak-ri, Hayang-up, Kyongsan-si, 712-702, Korea.
Tel: +82-53-850-3422(O), Fax: +82-53-850-3402. E-mail: ckchoi@cuth.cataegu.ac.kr