KIEP

Working Paper 99-06

Restructuring and the Role of International Financial Institutions: A Korean View

Yunjong Wang

KOREA INSTITUTE FOR
INTERNATIONAL ECONOMIC POLICY

Founded in January 1990, KIEP is a research institute with the responsibility of advising the government on major international economic policy issues, as well as keeping public and private sector participants informed of significant economic and policy developments abroad. KIEP maintains a research staff of about 80, including 30 fellows with Ph.D.s in economics.

KIEP deals in depth with international macroeconomic issues as well as international trade and investment topics. This approach allows KIEP to systematically monitor and analyze the challenges and opportunities faced by the Korean economy in all regions of the world. KIEP also studies those international issues related to promoting the integration and unification of the Korean peninsula.

KIEP maintains a pool of international economists (Korea's Official Pool of International Economists: KOPIE) who maintain contact with in-hause researchers through regular study group activities. Similarly, KIEP maintains a pool of regional experts (KIEP's Official Pool of Regional Experts: KOPRE) who meet regularly in regional study groups to discuss developments abroad.

KIEP serves as Korea's National APEC Study Center and sponsors a nation-wide consortium of APEC study centers based at various universities. At the same time, KIEP serves as the secretariat for KOPEC, the Korea National Committee for the Pacific Economic Cooperation Council (PECC).

In addition, named by the government as the Northeast Asia Research and Information Center (NARIC), KIEP places special emphasis on the networking of Korean experts on the four major powers influencing Northeast Asia: the US, China, Japan, and Russia.

The international activities of KIEP are supported by its Beijing Office as well as the Korea Economic Institute (KEI) of America, which is KIEP's sister organization in Washington, D.C.

In these ways, KIEP hopes to contribute to the furthering of a more open international economic order, as well as integrating its efforts with those of research centers throughout the world. For this reason, KIEP looks forward to working closely with our international colleagues in the years to come.

Kyung-Tae Lee, *President*

KOREA INSTITUTE FOR INTERNATIONAL ECONOMIC POLICY

300-4 Yomgok-Dong, Seocho-Gu, Seoul 137-747, Korea
Tel :02)3460-1045 / FAX: 02)3460-1144,1199
URL: http//www.kiep.go.kr

Price USD 5

KIEP Working Paper 99-06

Restructuring and the Role of International Financial Institutions: A Korean View

Yunjong Wang

1999. 6

KIEP KOREA INSTITUTE FOR INTERNATIONAL ECONOMIC POLICY

KOREA INSTITUTE FOR
INTERNATIONAL ECONOMIC POLICY (KIEP)
300-4 Yomgok-Dong, Seocho-Gu, Seoul 137-747, Korea
Tel: (822) 3460-1080 Fax: (822) 3460-1144
URL: http://www.kiep.go.kr

Kyung-Tae Lee, *President*

KIEP Working Paper 99-06
Published June 20, 1999 in Korea by KIEP

Executive Summary

Since the agreement on the IMF restructuring program, Korea has swiftly implemented a wide range of economic reform measures. All of the measures have been driven towards rebuilding market confidence as well as expediting the economic restructuring. Although foreign sentiment relates that Korea's restructuring process is moving toward the right direction but slowly, Korea deserves much credit for its recovery and reform efforts so far made, as it has come up with solid results. The international credit rating agencies have each upgraded Korea's sovereign credit rating from non-investment to investment, and it is among the evidences, which purport to show that Korea has been committed and will continue to commit itself to changes and improvement.

In retrospect, we can draw some lessons about the role of international financial institutions (IFIs). Certainly, the key question is whether the diagnosis of the IMF was correct and the policy prescription of the IMF was relevant and effective. Regarding such diagnosis, a balanced view regarding the root of the Asian crisis is needed. The amount of research and policy papers pouring out since the onset of the Asian crisis is understandably great, with the differing views leading to different policy implications. Academics have greater liberty to choose among different economic models or theories on which to base their views. However, policy makers have to be more cautious in implementing the policy measures by taking into account the reality and relevance of all findings and views.

The fundamental difference among the academic circles may be divided into two camps for the sake of simplicity. One camp, which focuses on the liquidity shortage of the Asian countries, emphasizes the vulnerability of the international financial market and the skittish behavior of international investors and creditors as a major triggering factor in the outbreak of the crisis. In this light, expanded financial support facilities through the IFIs, orderly capital market liberalization, and safeguards in the case of emergency could be relevant policy proposals for building the new international financial architecture. In addition, this view holds that the high interest rate policy and/or other austerity programs should be reconsidered as those policy measures may aggravate the situation rather than improve credibility in the eyes of international investors.

The other camp, which focuses on structural weakness of the country in question, and, in particular, the moral hazard problem in both the corporate and financial sectors, stresses the necessity of restructuring and growth sustainability based upon a sound economic system. In the international dimension, the practice of bailing-out international private creditors with international public funds or government debt payment guarantees has created a serious moral hazard problem. In this regard, a pre-established program for international debt workouts would help to shape market expectation in advance and thereby would reduce uncertainty in times of crisis.

The purpose of this paper is to discuss the role of international financial institutions by reviewing Korea's restructuring program and its process. Based on Korea's experience of crisis management, this paper will address four issues. First, this paper will discuss the key question of whether the root of the Asian crisis should be attributed to regional structural weakness, or must be understood in the context of inherent vulnerability of the global financial market. Second, the Asian crisis has ignited a lively debate on the necessity of the inclusion of a restructuring program in the IMF rescue package. Because both internal structural weakness and external factors combined together have caused the Asian crisis, overcoming the crisis in the true sense will not be achieved without a successful completion of restructuring. Third, as the liquidity provision by the IFIs is alone insufficient to resolve the immediate crisis, we will ask if there is a catalytic effect of lending by the IFIs. In light of Korea's experience, the credibility and capital inflows are largely associated with the perceived strength of commitment of the government to economic restructuring rather than IFI involvement per se. Finally, a short remark will be made on the necessity of an international lender of last resort.

Dr. Yunjong Wang, Director of Department of Global Economy, earned his Ph.D. in Economics from Yale University. His field of concentration mainly covers liberalization of trade, foreign direct investment, and capital markets in Korea. Corresponding address: 300-4 Yomgok-Dong, Seocho-Ku, Seoul 137-747, Korea. Ph. (822)3460-1124; Fax. (822) 3460-1212; E-mail: yjwang@kiep.go.kr.

Contents

Restructuring and the Role of International Financial Institutions: A Korean View*

Yunjong Wang

Ⅰ. Introduction

On July 2, 1997, Thailand, which had been under continuous pressure to devalue the baht, finally did so by abandoning its U.S. dollar–pegged system in favor of a freely floating exchange rate. The vulnerability displayed by Thailand quickly spread elsewhere as financial crisis spread to Indonesia in October and further affected other neighboring economies, including the Philippines, Malaysia, and Hong Kong. In the midst of this economic maelstrom, the Korean won quickly depreciated following a futile currency defense which cost Korea most of its foreign reserves. This led to Korea, the world's 11th largest economy, being forced to seek financial assistance from the International Monetary Fund (IMF) on November 21, 1997.

After reaching the agreement on the restructuring program with the IMF on December 3, 1997, Korea was promised emergency funding of USD 10 billion from the IBRD and USD 4 billion from the Asian Development Bank (ADB), in addition to USD 21 billion from the IMF.

* A preliminary version was presented at the ICFTU–APRO Preparatory Regional Workshop on "Trade Union Perspective of an Asian Monetary Fund," 6–8 May 1999, Seoul, Korea.

Since the agreement on the IMF restructuring program, Korea has swiftly implemented a wide range of economic reform measures. All of the measures have been driven towards rebuilding market confidence as well as expediting the economic restructuring. Korea has now completed its first round of restructuring by mopping up and chiseling away bulky problems. Although foreign sentiment is that Korea's restructuring process is moving toward the right direction but slowly, Korean recovery and reform efforts made so far should not be overlooked as they have delivered solid results. All international credit rating agencies have upgraded Korea's sovereign credit rating from 'non-investment' to 'investment' grade. This shows that Korea has not only committed, but also that there is substantial confidence that Korea will continue to commit itself to changes and improvement.

In retrospect, we can draw some lessons about the role of international financial institutions (IFIs). Certainly, the key question is whether the diagnosis of the IMF was correct and the policy prescription of the IMF was relevant and effective. Regarding such diagnosis, a balanced view regarding the root of the Asian crisis is needed. The amount of research and policy papers pouring out since the onset of the Asian crisis is understandably great, with the differing views leading to different policy implications. Academics have greater liberty to choose among different economic models or theories on which to base their views. However, policy makers have to be more cautious in implementing the policy measures by taking into account the reality and relevance of all findings and views.

The fundamental difference among the academic circles may be divided into two camps for the sake of simplicity. One camp, which focuses on the liquidity shortage of the Asian countries, emphasizes the vulnerability of the international financial market and the skittish behavior of international investors and creditors as a major triggering factor in the outbreak of the crisis. In this light, expanded financial support facilities through the IFIs, orderly capital market liberalization, and safeguards in the case of emergency could be relevant policy proposals for building the new international financial architecture. In addition, this view holds that the high interest rate policy and/or other austerity programs should be reconsidered as those policy measures may aggravate the situation rather than improve credibility in the eyes of international investors.

The other camp, which focuses on structural weakness of the country in question, and, in particular, the moral hazard problem in both the corporate and financial sectors, stresses the necessity of restructuring and growth sustainability based upon a sound economic system. In the international dimension, the practice of bailing-out international private creditors with international public funds or government debt payment guarantees has created a serious moral hazard problem. In this regard, a pre-established program for international debt workouts would help to shape market expectation in advance and thereby would reduce uncertainty in times of crisis.

The purpose of this paper is to discuss the role of international financial institutions by reviewing Korea's restructuring program and its process. Based on Korea's experience of crisis management, this paper will address four issues. First, this paper will discuss the key question of whether the root of the Asian crisis should be attributed to regional structural weakness, or must be understood in the context of inherent vulnerability of the global financial market. Second, the Asian crisis has ignited a lively debate on the necessity of the inclusion of a restructuring program in the IMF rescue package. Because both internal structural weakness and external factors combined together have caused the Asian crisis, overcoming the crisis in the true sense will not be achieved without a successful completion of restructuring. Third, as the liquidity provision by the IFIs is alone insufficient to resolve the immediate crisis, we will ask if there is a catalytic effect of lending by the IFIs. In light of Korea's experience, the credibility and capital inflows are largely associated with the perceived strength of commitment of the government to economic restructuring rather than IFI involvement per se. Finally, a short remark will be made on the necessity of an international lender of last resort.

The structure of this paper is organized as follows. In section II, the nature of fund support by the IFIs will be briefly introduced. Section III describes conditionalities of the structural adjustment programs designed by the IFIs. Section IV explains the content of the restructuring program applied to Korea. Section V discusses the current status of the Korean economy. Finally, the role of IFIs will be reconsidered in the light of Korea's experience of crisis management.

Ⅱ. The Nature of Fund Support by the IFIs[1]

Stand-by arrangements enable IMF member countries experiencing short-term balance of payments difficulties to have access to funds within the previously agreed borrowing limits without any additional consultation with other members. In other words, the member countries, which conclude stand-by arrangements through the satisfactory conditionalities set forth by the IMF, may withdraw their credits from the Fund within the agreed limit at certain intervals. Such a method of granting access to funds was first introduced in December 1953.

The first procedure of concluding a stand-by arrangement initiates when a member country experiences difficulties with its balance of payment and hence declares the need for support from the IMF. The Korean government officially asked the IMF for support on November 21, 1997. Upon the call for assistance from a member country, the IMF, under the direction of the Managing Director, dispatches a mission team to the country in question. The IMF requires from the member country a Letter of Intent, which stipulates plans for policy implementation of a structural adjustment. The member country's government drafts the Letter of Intent and Stand-by Arrangement documents for submission, which the Managing Director delivers to the Executive Board for approval. The agreement on fund support may only be concluded after such an approval is made.

Conditionalities attached to the stand-by agreements include: a domestic ceiling for the financial institutions, a limit on the central

1) For a more detailed explanation, see Wang and Zang (1998).

bank's granting credit to the government, agreements on the money growth rates and levels of net foreign assets, an overseas borrowing limit, and goals for balance of payments levels and foreign exchange management. These conditionalities differ from case to case, however. In general, the specific credit withdrawal period in each Stand-by Arrangement is 12 to 18 months in length (allowed for a 3-year extension), while the borrowed funds must be repaid within 3 to 5 years. The applied interest rate, which is the sum of the SDR (floating) rate and a service change, stands at approximately 4.5 percent.

Korea joined the IMF and IBRD in 1955. Korea was allocated 2.321 billion SDR between its first stand-by Arrangement in 1965 through its 16th Arrangement in 1986, of which it withdrew 1.680 billion SDR. And on December 3, 1997, Korea concluded its 17th stand-by Arrangement as a result of the current financial crisis in which it was allocated 15.5 billion SDR. By the end of 1998, 14.05 billion SDR of the original amount had been withdrawn. The remaining 1.45 billion SDR will be withdrawn during 1999-2000. This large volume of borrowing amounts to approximately 2000 percent of Korea's quota, which clearly demonstrates the IMF's firm commitment to Korea.

The Fund's support is composed of two types: 4.245 billion SDR was provided through normal credit tranche while the other 11.255 billion SDR was disbursed through the Supplemental Reserve Facility (SRF). The Executive Board of the IMF decided to apply the SRF rate to the disbursement made between December 19, 1997 and December 31, 1998. This decision was based on the fact that Korea had already received 2,000 percent quota-financing, which exceeded the typical credit limit of 300 percent. This figure is the largest IMF package ever and is the first time the SRF facility was ever applied. The Stand-by Arrangement conditions were applied to the first round of support

(4.1 billion SDR = approximately USD 5.6 billion, which is 513 percent of the quota), and the 1.45 billion SDR (approximately USD 2 billion, which is 184 percent of the quota) is to be disbursed between 1999 and 2000.

The SRF, a new fund facility, was created in December 1997 during the Manila Finance Ministerial Conference (November 18–19, 1997) in order to stabilize the financial market through providing short–term, early financial support at higher interest rates than normal IMF funding. In principle, the SRF could be used by any country. However, it is intended for situations where contagion effects of difficulty in one country may potentially destabilize the international financial system. The disbursement takes place when there is a chance of improvement in the balance of payment in a short period based on bold restructuring policies and monetary policies.

Furthermore, when the SRF is disbursed, the IMF is to strengthen its supervision of the benefiting member country and provide support to the member country in choosing the appropriate restructuring policy measures. The use of the SRF will be limited to a supplementary form only when a Stand–by Arrangement or an extended fund facility exists. Ordinarily, any amount exceeding that of the annual credit limit in the Stand–by Arrangement or the Extended Fund Facility (EFF) will be disbursed through the SRF. The withdrawal period is within one year after approval and it is also possible to make the withdrawals in two or more tranches. The SRF rate is calculated as follows: the Stand–by Arrangement interest rate plus a 300 basis points penalty interest rate will be applied for one year to the entire amount after the approval of the SRF is made. After one year, a 50 basis points penalty will be added and then, another 50 basis points will be added every 6 months until the total penalty interest rate reaches the limit of 500 basis points. In order to avoid the penalty charges, the borrowed amount must be repaid in two equal installments after one year, and after one and half year from the date of disbursement.[2)]

In the case of Thailand and Indonesia, SRF loans were not applied. In Thailand, a normal credit tranche of USD 4 billion was provided through the Stand-by Arrangement. Indonesia has signed with the IMF an extended arrangement, which generally refers to the Extended Fund Facility (EFF). The EFF is an IMF facility which can be used when a longer credit withdrawal period and larger funds (in the case of Indonesia, borrowing from the IMF amounts to USD 11.2 billion) are necessary than that allowed under the stand-by Arrangement. The disbursement period is usually 3 years (may be extended to 4 years) and must be repaid within 4 to 10 years of disbursement. It was intended to give support to developing IMF members and was not offered to Korea.

The original function of the World Bank is to provide different types of Project Loans or Structural Adjustment Loans (SAL) to aid the economic development of developing countries. As an exception, however, the World Bank provided Korea with USD 3 billion in

2) The Korean government has delivered a total of USD 4.8 billion in repayment for the SRF loans to the IMF, out of USD 14.2 billion, thus far: USD 2.8 billion in December 1998, USD 1 billion in January 1999, and USD 1 billion in February 1999. On April 13, 1999, the Korean government announced that it would make an early repayment of the SRF loans that are due May and June to the IMF. The decision was made with the view to ease the burden of the SRF's high interest rate at 7.1% level as of March 1999 and to prevent a sudden fall in foreign reserves when the repayment is made for the lump sum of SRF loan that will mature in June of this year.

Economic Recovery Loans (ERL) on December 24, 1997. Later, the ERL was followed by USD 2 billion of the Structural Adjustment Loan I (SAL I) as a second round of support on March 27, 1998. A third round of support, USD 2 billion of SAL II, was approved on September 26, 1998. Strict conditionalities were also imposed on both SAL I and SAL II.

The Asian Development Bank also promised loans totaling USD 4 billion. The first tranche of USD 2 billion was disbursed on December 23, 1997. Furthermore, a loan of USD 15 million for technical assistance was provided on December 23, 1997 in order to revitalize the financial sector. A disbursement of USD 1 billion was subsequently made on January 6, 1998, followed by a disbursement of USD 0.7 billion at the end of 1998 and a final disbursement of USD 0.3 billion will be made during 1999.

Ⅲ. Conditionalities of the Restructuring Program

When a member country experiencing a currency crisis requests balance of payment support, the IMF has an obligation to provide such support. At the same time, the IMF has the responsibility to ensure the formulation and implementation of a structural adjustment program that will return the beneficiary to a healthy condition. Thus, the IMF financial assistance is in principle a conditional balance of payments support.

Prior to giving its support to a member country, the IMF has to assess the repayment capability of the member country so as to ensure that it may provide support to future member countries in need. To this end, the IMF has to verify the recipient country's commitment to the structural adjustments that will result in an improvement of balance of payments. The whole set of requirements surrounding the nature and contents of the restructuring program is termed *conditionalities*.

The conditionalities for the IMF's fund support ranges broadly from general consultations for mutual cooperation to specific and quantitative formulations of economic policies. Prior to the first oil shock in the early 1970s, the conditionalities of the IMF's financial support were not very rigorous. However, as it became recognized that a simple financial support was insufficient to help developing countries overcome their debt problems, the IMF started to heavily strengthen conditionalities in 1976. The conditionalities are set forth in the Letter of Intent and Stand-by Arrangement, which the member country submits to the IMF.

The IMF-dispatched mission team and the government of a financial-support-seeking member country agree on a series of policies following the IMF financial assistance, which is then formulated into the Letter of Intent for submission. The Letter of Intent takes on the form of a unilateral document, through which the government announces its policies for countering and resolving the crisis. Because the Letter of Intent does not bear any contractual nature as a form of an agreement, neither party has to bear any special obligation under the international law. This is because the Letter of Intent only contains policy objectives and understandings, which the member country could modify in consultations with the IMF.

Along with the Letter of Intent, monetary authorities and policymakers of the member country would draw up a Stand-by Arrangement for submission to the IMF's Executive Board for approval. The Stand-by Arrangement stipulates the timetable for phased drawings and performance criteria, which are to be strictly carried out in each of the stages. The performance criteria, which are derived from the policy understanding, constitute the core of the IMF conditionalities. Hence any failure to comply with the performance criteria would result in a suspension or a withdrawal of fund support.

Unlike the policy understanding, which could be more detailed and far-reaching, the performance criteria are generally limited to the macroeconomic variables. One could observe from many of the Stand-by Arrangements with the IMF that performance criteria are typically applied to the credit limits, money growth rates, amount of foreign assets, balance of payment, and the foreign exchange guidelines, as mentioned above. In the case of Korea, the criteria for macroeconomic policies included a ceiling on the net domestic assets of the Bank of Korea, a ceiling on the reserve base, a floor on the Bank of Korea's net international reserves, and a ceiling on the consolidated budget deficit.[3] Furthermore, since the 3rd Letter of Intent of January 7, 1998, the structural performance criteria have been set for quarterly reviews.

The IMF offers different types of credit facilities for the conditionalities that it proposes to the benefiting member country. The Fund also proposes conditionalities, which differ in the nature of the structural adjustment programs and according to the size of the country's economy. If the country is supported by the general resources account, then the conditionalities are likely to increase in stringency the larger the support and longer the maturity.

When concluding a Stand-by Arrangement with, or extending a fund facility to a member country in support of its structural adjustment program, the IMF requires the member country to determine and implement the new performance criteria on a quarterly basis.[4] The revised or added criteria are included in the subsequent Letter of Intent. For Korea, the performance criteria have been revised and quoted in each of the Letters of Intent since January 7, 1998. Stand-by Arrangements, which exceed a year in length, include review clauses, through which the performance criteria may be changed in the member government's consultations with the IMF.

With the fund support from the IMF, Korea has been subject to Article IV Annual consultations with the IMF, as well as Quarterly Performance Reviews at least once every quarter. Considering the significant progress made in stabilizing and restructuring the economy, the IMF decided to change future reviews of the Stand-by Arrangement from a quarterly to a semi-annual basis

3) Of these criteria, the upper limit on reserve base is stipulated as an indicative limit.

4) The Enhanced Structural Adjustment Facility requires new performance criteria every six months.

Ⅳ. The Content of the Restructuring Program

The IMF Structural Adjustment Programs for the crisis-affected East Asian countries, including Korea, are a mixture of traditional macroeconomic stabilization and restructuring policies, which have been applied to the transition economies in the past. There is no doubt that various inherent structural defects in each of the crisis-affected countries - the general lack of transparency, the lax supervision and ineffective corporate governance, the unsustainable level of short-term external debts - played a major role in the crisis.[5] The IMF characterizes the cause of Korea's currency crisis as a financial one. As they watched corporations such as Hanbo and Kia went under, foreign investors became concerned that Korean financial institutions would become insolvent. In particular, they became suspicious of Korea's ability to service its external debts as it became apparent that Korea's foreign reserves were rapidly being depleted. The situation subsequently drove foreign investors to rush to recover their investments, and the ensuing rapid outflows of dollars marked the beginning of Korea's currency crisis.

As said above, the IMF Program stressed not only a tight aggregate demand policy to stabilize the foreign exchange market in the short-term, but also structural reforms of the financial and corporate sectors, which were the underlying causes for the currency crisis, in the mid-

5) However, the Korean government also emphasized that the domestic bust cycle, which was amplified by negative external factors as well as the moral hazard and herd behavior of international investors, also contributed to the crisis. See more details in MOFE (1999).

to long-term. Such an approach underlines the IMF and Korean government's belief that the structural reform, rather than a tight contractionary policy, is the key for Korea to recover its financial and economic health. However, structural reforms could be successful only if stability in the foreign exchange market is ensured.

The Korean government and the IMF have come to agree on nine Letters of Intent since December 3, 1997. The contents of the agreement can be separated into two categories: macroeconomic policies and restructuring measures. While the former stipulates specific quarterly and annual macroeconomic figures as the implementation guidelines or as the indicative targets, the latter contains the general responsibilities for the restructuring.

The Korean government's macroeconomic policy goals at the outset of the IMF program had targeted the stabilization of the foreign exchange market and the accumulation of foreign reserves through the maintenance of high interest rates and tight monetary policies. As a result, the usable foreign reserves have increased from less than USD 3.9 billion in December 1997 to USD 58.7 billion as of May 31, 1999. Such a level of the foreign reserves would serve as an effective buffer against any potential external shock, including further currency instability in the region. Upon examining the Letters of Intent, the policy instruments for restoring the stability to the foreign exchange market appear to have been the biggest concern during the early stages of the crisis. As the foreign reserves have increased to a substantial amount, the IMF Program has notably shifted its focus toward the specific implementation of the structural reforms.

The sixth Letter of Intent of May 2, 1998 served as a turning point, where the focus of the Korean government's economic policy experienced a transition from overcoming the immediate crisis to targeting the structural reforms in the financial and corporate sectors to prevent future crisis. In particular, the IMF has agreed to relax the pressures that adversely affect the domestic credit crunch by lowering the high interest rates and resolving the financial difficulties, experienced by the export sector. In addition, the specifics and deadlines on the introduction of sound banking standards, based on the Basle Agreement's Core Principles concerning the financial soundness, were put in place in the sixth Letter of Intent. The detailed measures for the corporate restructuring were also for the first time confirmed in the sixth Letter of Intent. In effect, this was a break from the previous five Letters of Intent, which discussed only the principles.

From the onset of the crisis, the Korean government recognized the structural causes of the crisis and set out to restructure entire sectors of the economy. Structural reforms and restructuring measures have been actively carried out in four fronts: the financial sector, corporate sector, public sector and the labor market.

1. Financial Restructuring

The 1997 financial crisis demonstrated how development of Korea's financial sector had failed to keep up pace with both the development of the economy and Korea's integration into the world financial markets. The granting of excessive credit for projects with limited or uncertain returns had weakened the financial sector and was a main contributing factor to the outbreak of the financial crisis. The restructuring program in the financial sector has focused on greatly expanding the market mechanism in the domestic economy and reinforcing the soundness of the financial sector. For this purpose, the Korean government first enacted the financial reform bills to establish the Financial Supervisory Commission (FSC), which is an independent, consolidated financial supervisory institution. The IMF also advised the Korean government to implement a plan for the closure of the nonviable financial institutions, which have no possibility of revamping health, while others are set to undergo rigorous restructuring to rehabilitate.

Plans and procedures to resolve the nonviable financial institutions were developed, satisfying international standards. The Bank for International Settlement (BIS) capital adequacy standards formed the basis for identifying the financial institutions which are to be resolved. The BIS capital adequacy ratio has been used for the depository institutions such as banks, the operational net capital ratio for securities houses, and the solvency margin ratio for insurance companies. The institutions failing to satisfy the prescribed capital adequacy standards were required to submit management rehabilitation plans to the FSC. International auditing firms performed diagnostic reviews, and an appraisal committee, composed of legal, financial, and business experts, performed evaluations of the management rehabilitation plans. The FSC determined that policies are to be implemented after reviewing the opinions of the appraisal committee.

The need to restructure the banking sector has taken precedence. The capital of the unhealthy Korea First Bank and Seoul Banks was written down to the minimum level. The banks then received a capital injection from the government and were put on a fast track for privatization where they will be sold to foreign investors. The Korean government has signed a Memorandum of Understanding (MOU) with Newbridge Capital consortium for the sale of Korea First Bank towards the end of last year,[6)] and it also has signed an MOU with HSBC for the sale of Seoul Bank on February 22, 1999.

Of 27 commercial banks, the FSC has ordered closure of 5 banks and restructuring of 7 conditionally approved banks, whose BIS ratio had fallen below 8 percent at the end of 1997. Of the 13 remaining banks, voluntary mergers between Hana and Boram banks, and between Kookmin and KLTCB, followed last September. Such a merging trend is likely to continue. It is not only the banking sector that has experienced drastic changes. The FSC has also undertaken substantial measures for the non-bank financial institutions. Thus, 16 merchant banks, 2 investment trust companies, 4 life insurance companies, and 6 securities companies have been either closed or suspended.

Non-performing loans (NPLs) have been on a steep rise since the end of 1997. The Korean government estimated that under the current asset classification standards total accumulated NPLs stood at KRW 65.4 trillion as of the end of March 1999. This amount was comprised of KRW 37.6 trillion from the banks and KRW 27.8 trillion from the non-banking financial institutions. With KAMCO's total purchases of KRW 44.1 trillion worth of NPLs, total cumulative NPLs, as of the first guarter 1999, stands at KRW 109.5 trillion. If the forward looking criteria is implemented to value the NPLs, it is estimated that te total

6) On May 13, 1999, the FSC announced that it plans to inject fiscal funds into Korea First Bank, of which the government is currently in negotiations to sell to a foreign investor. The decision was reached out of concerns that the bank's clients were facing difficulties, as the bank has been suffering from an erosion in its capital base. Meanwhile, negotiations between the government and Newbridge Capital for the sale of Korea First Bank failed to come to a successful close by its extended deadline of May 12. Newbridge Capital recently submitted a new proposal and the government is currently studying its content.

would not surpass KRW 90–100 trillion.

The Korean government successfully completed the first stage of financial restructuring at the end of last year, with much of the efforts having been focused on the banking sector. Major steps were taken to revitalize the banking sector and normalize the credit flows through the injection of fiscal resources to dispose of the NPLs and recapitalize banks. These measures have marked the beginning of a new era of clean banks in Korea.

2. Corporate Restructuring

While the financial sector was given priority, given the tight linkage between the corporate and financial sectors, the corporate and financial restructuring needed to be implemented simultaneously. Only through joint restructuring could the economic uncertainties arising from bad loans and the related credit crunch be minimized. The Korean government has developed market–oriented principles to drive the corporate restructuring process, much of which has already been implemented.

To facilitate the market mechanism by enhancing transparency, accounting standards and disclosure rules have been improved to meet the international standards. Last year, the FSC organized a Special Committee to review the existing accounting and auditing systems. The Committee recommended several reforms, including compliance with the international accounting standards. For the enhancement of transparency in the corporate management, group–consolidated financial statements have been required beginning this year. In addition, penalties for fraudulent auditing reports – whether external or internal – have been strengthened significantly.

Prohibition of the affiliates' payment guarantees for new borrowings and the reduction and elimination of the cross guarantees have been enforced. More specifically, new guarantees between the affiliates of the 30 largest chaebol are prohibited and the existing cross guarantees should be resolved by March 2000. Furthermore, payment and loan guarantees among affiliates of the same top 5 chaebol have been eliminated by the end of last year. Furthermore, illegal intra-chaebol transactions have been subject to continuous investigations of the Fair Trade Commission. As a result, the current convoy system of the large business conglomerates will be transformed into a united entity of independent and competent affiliates in the near future.

Capital structure improvement of the Korean chaebol remains the foremost concern to the foreign investors. The average debt-to-equity ratio of the 30 largest business conglomerates rose sharply to 518.9 percent by the end of 1997 from 386.5 percent back in 1996. The recent FTC reported that the average debt-to-equity ratio significantly fell by 139.1 percent to 379.8 percent at the end of 1998. Nevertheless, this level of corporate debt is still simply unsustainable. By December last year, major creditor banks and the top 5 chaebol had completed revising the CSIP (Capital Structure Improvement Plan), which entailed specific and feasible restructuring plans, such as the reduction of debt/equity ratios, divestiture of the affiliates and assets, and the inducement of foreign investment.[7] Unlike the top 5 chaebol, which

7) On April 27, 1999, President Kim Dae-Jung met with the heads of the top five chaebols to discuss the progress made in the corporate restructuring since the last meeting in December 1998. At this meeting, the FSC chairman reported that the top five chaebols cut their debt-to-equity ratio without the effect of asset revaluation to 386% by the end of 1998 from 470.2% from a year ago, but failed to meet the target of 320.1%.

have the ability and capacity to pursue restructuring through their own means, the remaining 59 chaebol would enter into workout programs to improve their financial structure.

Most important in Korea's corporate restructuring is the large-scale reform of the top 5 chaebol, given the preponderance of their market share and, thus, their economic influence. Restructuring the top 5 chaebol should involve not only capital structure improvement, but also business restructuring. The Korean government has set an aggressive goal to reduce the average debt-to-equity ratio of corporations to less than 200 percent by the end of this year. Asset sales, investment reduction, and debt repayment with the corporations' on-balance-sheet liquidity have already been initiated. Equity expansion, including the inducement of foreign capital, is just another way of improving the top 5 chaebols' financial structure. Last year, the top 5 chaebol had improved their financial structures through KRW 11 trillion in asset sales, KRW 11 trillion in new equity issues, and USD 8 billion in foreign capital inducement. And this year they have set even more aggressive goals to improve their capital structures.

With the corporate restructuring underway, nonviable companies

---

The top five chaebols raised 81% of their target of KRW 27.3 trillion or a total of KRW 22.1 trillion through asset sales and capital expansion from 1998 to the first quarter of 1999. Chaebols that fail to implement their restructuring plans will face penalty measures including suspension of fresh loans, application of penalty interest rates. Slow-reforming chaebols will also be placed under workout programs or court receivership. From now on, the major creditor banks will review chaebols' restructuring progress on a monthly basis instead of on a quarterly basis. Also, the FSC requested Hyundai and Daewoo to revise their quarterly restructuring plans.

will be forced to exit promptly, whereas the viable but financially weak companies will be given support through workout programs. The Corporate Restructuring Agreement (CRA), serving as the main vehicle for corporate workouts, was reached by 210 financial institutions on July 25, 1998 to coordinate diverse interests of the creditor institutions and facilitate cooperation among them. Corporate workouts have been carried out through voluntary negotiations between creditor banks and corporate groups. The process resembles the London Approach, which was adopted by the United Kingdom to restructure its economy. In cases where creditor banks are unable to reach agreements on a workout plan, the Corporate Restructuring Coordination Committee (CRCC), which had been set up pursuant to the CRA provisions, is to provide and govern the arbitration process.

Thus far, 248 affiliates of 16 chaebols in the top 64 have applied for corporate workouts. However, only 38 out of 248 affiliates were allowed to enter the workout processes. The remaining non-viable affiliates are undergoing resolution procedures through mergers, liquidation, or sell-offs. Most recently, 3 affiliates have dropped out of the workout processes primarily due to the heavy resistance by major shareholders against the loss of their corporate control, forcing them to undergo the due resolution procedures.

As previously noted, each business conglomerate now has to identify and determine its core business areas, as described in its Capital Structure Improvement Plan. Non-core affiliates are to be reorganized through a variety of measures, such as spin-offs, management buyouts, liquidation, employment purchase. Despite all of the propositions and conditions for improvement, chaebols have poured only half-hearted efforts into carrying out the reforms. To remedy the situation, the FSC came up with a 3-year plan to dismantle them. Furthermore, with the government's guidance and mediation, the top 5 chaebols have currently engaged in a collective restructuring program, known as the "Big Deals," which are designed to promote the conglomerates to streamline down to a concentration on their core businesses and reduce overcapacity by their own initiatives. Consequently, the top 5 chaebols have finally announced that they would restructure 7 business lines as part of their overall restructuring efforts. This part of the restructuring is to be achieved by the establishment of new business entities, asset transfers, mergers, and business swaps among the top chaebols or other large corporations.

To enhance transparency of the corporate management, external directors and external auditing system have been strengthened. The legal scope on the liability of shadow directors has been broadened. That is, controlling owners are to register as directors and will bear any liabilities which may arise during the course of their management. As de facto major shareholders, institutional investors will be allowed to vote, which provides new checks against the management of companies. Minority shareholders' rights have also been strengthened to a significant extent through the revisions of related laws. The market for corporate control has also been developed to enhance the accountability of corporate management.

3. Public Sector Reform

Public sector reform is an urgent issue which is also a growing trend in the world, as the role of the government has to change to meet today's challenges. First of all, poor productivity and rampant inefficiency in the public sector has to be addressed. The Korean government has advanced public sector reform through privatizing and restructuring state-owned enterprises (SOEs) and downsizing government organizations. The government is proceeding with its plans to privatize 11 SOEs and their subsidiaries. The National Textbook Company, Korea Technology Banking Corporation, and Namhae Chemical Corporation have been privatized. The recent sale of a 5.8 percent share in POSCO has reduced government ownership to 20.8 percent. Korea Heavy Industries will be offered for sale in early 1999 and Korea General Chemicals will be offered for sale later in the year.

Full privatization of four other state-owned enterprises (Korea Ginseng and Tobacco, Korea Gas, Daehan Oil Pipeline, Korea District Heating) will occur in phases over the next four years. In addition, the government will offer for sale a 5 percent share in KEPCO in the first half of 1999. Korea Telecom has been publicly listed and the government will reduce its share in the company to 33.4 percent by 2000.

Even in cases where the government retains ownership, drastic restructuring in the area of management is also taking place. Restructuring has been implemented to eliminate all sources of inefficiency. Professional career managers are appointed as top CEOs and are given full authority over corporate management itself.

Downsizing of the government is also an important feature of the public sector reform. The government streamlined its organizational structure in February 1998. It plans to reduce its employees by 11 percent, or approximately 18,000 out of a total of 162,000 employees, by the end of 2000.

4. Labor Market Reform and Improving Social Safety Net

To realize effective labor market reform, the Korean government is continuously working towards increasing labor market flexibility through the rigorous enforcement of labor laws against illegal strikes and other illegal labor practices. Simultaneously, the Korean government has been working to broaden the social safety net in order to ensure the maintenance of social cohesion and stability throughout the reform process. By October 1, 1998, unemployment insurance had been expanded from covering only displaced workers who lost their jobs at large corporations, to complete coverage of all displaced workers, regardless of their previous employment. Furthermore, an excess of KRW 10 trillion has been appropriated in this year's budget for various types of welfare benefits.

Unfortunately, throughout last year the restructuring process was accompanied by continued widespread economic difficulty. Since the onset of the financial crisis, Korea's economic growth rate has experienced sharp drops, while the rate of unemployment has been climbing relentlessly. However, no matter how difficult the current socioeconomic conditions are, they will be more than offset by the future benefits, which will be derived from the solid fundamentals of the successful economic reform.

V. Reform Gains Momentum: Do we need a further restructuring?

Foreign sentiment may be summed up as saying that while Korea's restructuring process is moving in the right direction, it does so slowly. The Korean government now recognizes that the economic problems are not confined to the short-term, but that recovery will necessitate a removal of the inefficient elements of the domestic economy. This recognition may be essential to prospectively attaining high levels of sustained growth based on the results of satisfactory economic reform.

While much remains to be done, Korea deserves much credit for its recovery and reform efforts so far made. Recently, the three international credit rating agencies - Fitch ICBA, Standard & Poor's, and Moody's - have each upgraded Korea's sovereign credit rating from 'non-investment' to 'investment' grade. The spread on 5-year sovereign bonds, fell below 200 basis points, in April of this year and the spread on 10-year bonds was around 220 basis points. The issuing prices of 5- and 10- year bonds were 345 and 355 basis points over the U.S. Treasury bills, respectively. By due analysis, the latest narrowing of the spreads on sovereign bonds was mainly caused by the improvement in Korea's sovereign credit rating.

Korea's GDP grew by 5.0 percent in 1997, contracted by 5.8 percent in 1998, and grew by 4.6 percent in the first quarter of this year - the first growth in five quarters. If continued, this would be the first "V-shaped" recovery of any Asian country following the recent crisis. While this growth rate is impressive, we should be careful and note that it reflects in part a technical rebound based on inventory adjustments. Following a 17 percent decline in the level of inventories in 1998, a deceleration of inventory depletion would be sufficient to provide a substantial boost to growth in 1999.[8] The restocking effect will be partially offset by an increase in imports, which is projected to lead to a decline in the current account surplus from USD 40 billion in 1998 to around USD 20 billion this year. The need for further corporate restructuring to reduce corporate debt is likely to limit any rebound in investment, employment and wages this year. Consequently, private consumption is expected to show little growth, while unemployment remains high at around 7.5 percent. With substantial slack in the labor market and the appreciation of the currency during the past year, inflation is expected to undershoot the official 3 percent inflation target.

Although the current economic situation has definitely turned around, participants in the Korean economy must safeguard themselves against the false notion that the ongoing restructuring process is no longer necessary. As the recent OECD economic outlook correctly pointed out, sustaining the recovery will depend largely on the growth of private consumption and investment. This requires successful restructuring of the financial and corporate sectors.

At this critical juncture, we should be careful of four important economic developments. First, the labor situation is currently the most significant challenge to the Korean economy. Unemployment peaked at 8.7 percent in February 1999. Although the unemployment rate for April 1999 dropped to 7.2 percent from 8.1 percent in March 1999,

---

8) Depletion of stocks was very acute in 1998 and accounted for a negative contribution to GDP of 7.0%. This implies that Korea would experience 7.0% GDP growth this year if all other components of aggregate expenditure remain at their 1998 levels and there is no change in stock levels.

the pace of restructuring will continue to be conditioned by the need to avert mass unemployment. The fall in unemployment is largely attributable to the growth in the number of seasonal workers hired in agriculture, forestry, and construction and increased employment in all industrial sectors owing to the economic recovery. In this regard, the Korean government's stance of macroeconomic policy should remain supportive until a genuine recovery is firmly established. Meanwhile, the government also has to accommodate the pressures of labor unrest by ensuring the adequacy of the social safety net, thereby reinforcing social stability.

Second, throughout last year, nearly 20,000 small- and medium-sized enterprises (SMEs) have lost ground due to the sharp fall in demand and the rise in interest rates. Given the fact that it is the sector where job creation opportunities are most abundant, such a high level of business dissipation gives rise to an impression that restructuring has failed to address a key need. The Korean government has a variety of sound and extensive programs to resuscitate the SMEs and encourage venture capital programs. Wiping out the chaebol-oriented rigid economic system will see the Korean economy increasingly based on more creative and flexible SMEs and thereby become even more competitive in the global market.

Third, the main external risk to a continued rebound in 1999 is the potential depreciation of other major Asian currencies, which would undermine the prospects for Korean exports. The maintenance of an undervalued exchange rate of the Korean won is the key to sound economic growth. The role of an undervalued currency is to create loose monetary conditions for an output gap to close quickly. Inflationary pressure will be suppressed by excess capacity. One by-product of this policy is asset inflation. This policy should be abandoned as soon as the output gap is gone. However, the Korean won has already rebounded sharply, and will likely remain strong if left to market forces. The Korean government should take concerted action to prevent unwanted appreciation.

Fourth, Koreans should not give in to any sense of euphoria or self-complacency. Again, the reform is not complete yet. Rather, they should look into ways all of the economic participants - consumers, producers, businesses, labor, and the government - could come together to create the foundation of a more dynamic and competitive economic system. Thus far, the Korean people and the government have demonstrated that they are serious about the economic reform. Koreans should take this one step further and find ways to progress to the level of an advanced economy.

Since the true meaning of 'graduating' from the IMF Program will be to rid itself of excessive uncertainties and risks, Korea's economic prospects depend greatly on the efficacy of structural reforms. Continuing structural reforms will ensure soundness of the corporate and financial sectors, and bring in its wake a recovery of foreign investor confidence this year.

The signs are abundant that the economy has bottomed out. The rapid decline in interest rates will boost economic activities. With large and growing foreign exchange reserves, Korea is in a position to maintain the stability of exchange rates, and this obviates the need to again raise interest rates. Furthermore, concerted international efforts to cut interest rates last year have lessened the pressure to tighten monetary policy. The IMF has also agreed that Korea may pursue more lax monetary and fiscal policies. Low interest rates will encourage domestic investment and growth. Although the severe economic contraction dimmed prospects for the future, the Korean people have continued to display impressive resilience and reacted with a strong resolution to reconstruct the economy, paving the way for another economic miracle in the next millennium. The effect of the ongoing structural reforms will soon be evident. When the long-term investments from both domestic and foreign sources pick up speed, the Korean economy will experience a new takeoff.

Ⅵ. The Role of International Financial Institutions

Looking back upon the transitional path of the Korean economy since the outbreak of the financial crisis, we can draw some lessons about the role of international financial institution (IFIs). Rather than one overall linking view of the performance of IFIs in terms of the Korean crisis, four different performance areas will be assessed. It is the intent that together, review of the four areas will not only give an accurate assessment of the current performance of IFIs in mitigating the effects of economic crises, but also suggest areas of future performance enhancement. Following discussion regarding the accuracy of IMF assessments of the causes of the crises, analysis turns to the IMF response in terms of whether the conditionalities attached to IFI loans are needed and whether they provide sufficient liquidity. Chapter VI and this paper then concludes with the need and prospects for a true international lender of last resort.

1. Diagnosis of the Crisis

Certainly, the key question of the Asian financial crisis is whether the root of the Asian crisis should be solely attributed to regional structural weakness, or must be understood in the context of inherent vulnerability of a global financial market which lacks an international lender of last resort. In this regard, the original assessment made by the IMF, that the Asian crises fundamentally stemmed from structural deficiencies, but were exacerbated by illiquidity, have proven quite accurate.

Prior to the crisis, the IMF had several times recommended to the Thailand government that it undertook structural adjustment and abandoned a futile defense of the currency. However, the Thai government ignored the recommendation, as it firmly believed that it could defend its currency. Its strong belief was based upon the presumption that if it devalued the currency, the external liabilities denominated in the domestic currency would increase and thus servicing the debt would become unbearably difficult. In this sense, the Thai government justified their position by arguing that the hedge funds' currency attacks would be temporary and that their attacks were not based on economic fundamentals.

Although the IMF had a strong sense of the growing difficulties in Thailand, there was little they could do to prevent the crisis. It was only after crisis struck that the Thai government gave in and requested IMF liquidity support. As for Korea, as late as mid-October neither the IMF nor the Korean government expected Korea to become the next victim of crisis. Despite the negative sentiment present in both the domestic and international markets, Korea, the 11th largest economy in the world, was expected to remain solvent.

As shown in MOFE (1999), the Asian emerging economies were quite vulnerable to investor skittishness. Prior to the crisis, the net flow of private capital to the crisis-affected Asian countries increased from USD 24.9 billion in 1990 to USD 72.9 billion in 1996.[9] This surge of capital flows into the Asian region was due to both the international financial communities' rapidly growing confidence in the continued growth potential of the Asian economy and its high interest rates.

9) The crisis-affected countries include Indonesia, Korea, Malaysia, the Philippines, and Thailand.

However, this was followed by the abrupt reversal of private capital flows in 1997. What triggered this sudden reversal of private capital movements? The explanations are numerous and diverse.

MOFE (1999)[10] explains that "After an decade of strength, the Japanese yen began to weaken in April 1995 vis--vis the U.S. dollar. This, in effect, significantly eroded the export competitiveness of emerging market economies of the Asian region. This resulted in a rise in current account deficits of other Asian countries, thus making the conditions ripe for the currency crisis in 1997. Another negative effect of the yen's weakening was its effect on the BIS ratios of Japanese banks. As yen-denominated assets lost their value, the corresponding drop in the capital adequacy ratios of Japanese banks forced many of them to pull their loans out of other Asian countries."[11] As clearly shown in the BIS reported data, total outstanding Japanese bank loans to the three crisis-affected countries of Asia diminished in 1997 from their level in 1996 by USD 4.3 billion in Thailand, USD 4.1 billion in Korea, but only by USD 17 million in Indonesia.

10) MOFE, *New International Financial Architecture: Korea's Perspective,* April 1999, p. 7.

11) Japan's leading international financial official, Mr. Eisuke Sakakibara, known as Mr. Yen in financial markets, recently pointed out that the U. S. and Japan had inadvertently put pressure on the other economies of Asia with their joint decision to weaken the yen in 1995. The weaker yen, by giving Japan's exports a price advantage on world markets, undermined the competitiveness of its Asian competitors. This led to a deterioration in the current account balance of the other Asian countries in 1996 and 1997. He said that the power of the yen's depreciation against the U.S. dollar was related to the fact that the others had pegged their currencies to the U.S. dollar.

In Korea's case, the rise of the Japanese premium in the global financial market had prompted the withdrawal of short-term loans beginning in mid-October1997.[12] In addition to the decrease in Japanese lending to Korea, the uneven financial liberalization also contributed to Korea's difficulties. Korea maintained many restrictions in financial markets, even after it joined the OECD. However, other areas of the financial sector were being liberalized and this allowed a surge in borrowing by domestic banks to take place. As Japanese banks were facing increased difficulty in their own finances, they retreated from the Korean market, as did a number of other lenders to Korea. As much of this debt was short-term lending, this immediately led to a liquidity crisis in Korea. This demonstrates that in the Korean case, the capital outflows of the portfolio investment were not a major triggering factor. Instead, a sharply declining rollover

12) Japanese banks, already in fragile conditions after the burst of the 1980s asset bubble and weakened by a stagnant economy in the 1990s, had heavily lent to other Asian economies. Given the very low interest rates in Japan, large scale lending to the fast-growing East Asian countries was stimulated by the higher returns available outside Japan. In 1997, many of the Japanese banks suffered capital losses and were required to re-balance their loan portfolio in adherence to capital adequacy standards. Since the capital adequacy requirement is higher for international than for national lending, many banks chose to recall foreign loans and contain the magnitude of the domestic lending squeeze. Compared to the role of the U.S. in Mexican crisis of 1994-95, undoubtedly the weakness of Japan in 1997 exacerbated poor economic fundamentals in Asia and worsened the unfolding of the currency crises. At the same time, the Asian crisis hit the vulnerable economy of Japan severely. See Corsetti et al. (1998) and DRI (1998) for further information.

ratio of short-term loans, particularly from Japanese banks, led to the cash flow mismatch.

According to Chang and Velasco (1998a, 1998b, 1998c), the 1997-1998 Asian crisis is no more than a liquidity crisis. Thus, the crisis was mainly caused by the illiquidity of a financial sector where their potential short-term obligations in foreign currency exceeded the amount of foreign currency it could access on short notice.[13] They claimed that the illiquidity of the financial system was almost entirely rooted in the previous bout of financial liberalization, which accentuated the maturity mismatch between international assets and liabilities.[14] In addition, capital flows from abroad, caused by an opening of the capital account and a fall in world interest rates, magnified the problem by making available huge amounts of resources that could be intermediated by domestic banks. When this mismatch met head on the panicking international creditors and their refusal to roll over short-term loans, the stage was set for an immediate illiquidity crisis and the resultant bank-runs.

Although this classical view also emphasizes the danger of financial

13) Insolvency is defined as the inability of an economic agent to fulfill its obligations. However, in the case of illiquidity the economic agent is fundamentally solvent but is not able to meet its obligations when they fall due. In practice, the distinction between the two concepts is not easy to draw. Insolvency may depend on the general state of confidence of the market, which may be measured by its degree of illiquidity. See De Bonis (1999) for more details.

14) In Karminsky and Reinhart (1996), of the 26 banking crises surveyed, 18 were preceded by financial sector liberalization within a five year interval and that financial liberalization accurately signaled 71 percent of all balance of payments crises and 67 percent of all banking crises.

liberalization that is not matched by the necessary regulatory supervision, the structural weakness in the region - the lack of transparency, inadequate corporate governance, imprudent bank lending practices - were not satisfactorily addressed. A number of economists, instead, have stressed the role of moral hazard in the onset of the Asian crisis.[15] According to Corsetti et al (1998), the moral hazard problem in Asia exhibited three different, yet very interrelated dimensions at the corporate, financial, and international level.

At the corporate level, political pressures to maintain high rates of economic growth had led to a long tradition of public guarantees to private investment projects, some of which were effectively undertaken under government control, directly subsidized, or supported by policies of directed credit to favored firms and/or industries. Even in the absence of explicit promises of 'bail-out,' the large business groups often overlooked the costs and risks of their investment projects. With financial and industrial policy enmeshed within a widespread business network that was under the influence of political favoritism, and with a government that appeared willing to intervene in favor of troubled firms, markets operated under the impression that the return on investment was somewhat insured against adverse shock.

Such pressures and beliefs represented the underpinnings of a sustained process of capital accumulation, resulting in persistent and large current account deficits. Asian countries in the mid-1990s were widely experiencing a low profitability of new investment projects.[16]

15) See e.g., Krugman (1998), Fischer (1998a), and Corsetti et al. (1998).

16) According to Krugman (1994), the diminishing returns on capital accumulation in East Asia was hinted and there was nothing miraculous about the Asia's success story. He asserted that if growth in East Asia is indeed running into diminishing returns, the newly industrializing

In Korea, 20 of the largest 30 conglomerates in 1996 realized a rate of return on invested capital below the cost of capital. By mid-1997, 8 out of the 30 largest conglomerates were effectively bankrupt. According to Classens et al (1998), for a sample of large Korean firms, 40 percent of firms were technically insolvent during the crisis.[17] The bankruptcies of conglomerates were interpreted as a sign that the Korean government would no longer provide its implicit guarantees. Thus, the widespread 'too big to fail' syndrome finally vanished.

Investment rates and capital inflows in Asia remained high even after the negative signals sent by the indicators of profitability. In part, this occurred because the interest rate fall in industrial countries (especially in Japan) lowered the cost of capital for firms and motivated large financial flows into Asian countries. However, the crucial factor underlying the sustained investment rates was the financial side of the moral hazard problem in Asia, leading national banks to borrow excessively from abroad and then lend these huge funds to domestic firms. Financial intermediation played a key role in channeling funds toward projects that were marginal if not outright unprofitable from a financial and/or social point of view.

The international dimension of the moral hazard problem hinged upon the behavior of international banks, which over the period

countries of Asia, like the Soviet Union of the 1950s, would end up with paper tigers.

17) The concept of technical insolvency or a benchmark definition of non-performing loan is frequently used in the financial reports of the investment firms. According to definitions, the firms are technically insolvent when their liabilities exceed assets. The loans are also regarded as non-performing when their interest payments exceed their earnings (before interest and taxes).

leading up to the crisis had lent large amount of funds to the region's domestic intermediaries, with apparent neglect of the standards for sound risk assessment. Underlying this syndrome may have been the presumption that short-term interbank cross-border liabilities would be effectively guaranteed by either direct government intervention or by an indirect bail-out of an IMF support program. As shown in Korea's case, a very large fraction of external debt accumulation was in the form of bank-related short-term, unhedged, foreign-currency denominated liabilities. Given the situation that a more formal inclusion of private creditors in the process of both containing and preventing crises was lacking prior to the crisis (and still does), the practice of bailing-out international private creditors with international public funds or government debt payment guarantees has created a large moral hazard problem. A pre-established program for debt workouts would help to shape market expectations in advance and thereby would reduce uncertainty in times of crisis.[18] However, no general consensus regarding international debt workout programs has yet been reached.

18) The absence of an internationally agreed legal framework for sovereign debt workouts has important consequences. First, because of the lack of an explicit enforcement mechanism as in the case of commercial law, the actions of the borrower cannot be monitored by the lender. Second, the responses to the debt crisis have been largely ad hoc in nature. Thrid, the negotiation between sovereign borrowers and their creditors is a lengthy process. This, in turn, complicates the problem of co-ordination among the parties concerned and encourages free-riding behavior. See Williamson (1988, 1992), Group of Ten Report (1996), Miller and Zhang (1997), and De Bonis et al. (1999) for more details.

2. Do We Need a Restructuring as in the IMF Conditionalities?

The Asian crisis has ignited a lively debate on the necessity of a restructuring program as part of the IMF rescue package.[19] The IMF has vigorously pursued both policy goals of macroeconomic stabilization and restructuring the economy. As part of its conditionalities in the affected countries, such corporate and financial restructuring programs have been well articulated. The appropriate policy prescription evidently rests on one's assessment of the crisis. If the problem is primarily one of illiquidity brought to a head by a panicked and herding behavior of international investors and creditors [as was asserted by Radelet and Sachs (1998),[20] and Chang and Valesco (1998) in the case of the Asian crisis], liquidity should be injected into the crisis-hit economies at a much higher rate than is currently standard practice. A failure to do so merely results in fire sales of domestic assets. However, if the cause of the crisis is one of moral hazard or structural weakness, then more drastic restructuring should be required as conditionalities for IMF financial support.

I believe that both internal structural weakness and external factors

---

19) Feldstein (1998) first made a criticism that, by including in the program a number of structural elements, the IMF was moving beyond its traditional macroeconomic adjustment. Stanley Fischer in his reply to Feldstein made the main counter argument. See Fischer (1998b). He asserted that "the basic approach of the IMF to these crises has been appropriate - not perfect, to be sure, but far better than if the structural elements had been ignored or the fund had not been involved."

20) Radelet and Sachs (1998) takes the perspective that the currency crisis was a self-fulfilling prophecy. Along with Obsfeld (1996) and Sachs, Tornell and Velasco (1996), their model allows for multiple equilibria.

led to the Asian crisis. While identification of whether structural weakness or external factors was the leading cause of the recent crisis might help in some regards, an approach that treats each cause with equal weight will likely bear greater results.

In order to resolve internal structural weakness, in particular, the moral hazard problem in domestic corporate and financial sectors, restructuring is an absolute necessity. Moral hazard is in no way limited to the three Asian countries receiving IMF assistance. While other countries have so far survived the financial turmoil without resorting to IMF assistance, they, too, will have to properly address structural weakness inherent in their economic system. For example, Japan and China, who are the world's leading holders of foreign reserves, are unlikely to have to result to IMF funding soon. However, they are both unlikely to realize sustained future economic growth unless they, too, undergo successful restructuring.

According to Chang and Velasco (1998), the economic and financial crisis of Chile in 1982 and Mexico in 1994 support their argument regarding the disastrous effect of illiquidity. Both in Mexico and Chile many investment projects, which were left for dead once the crisis erupted, turned out to be perfectly sound once the economy returned to normal. However, this should not be taken as proof that the only cause of the crises were illiquidity. The reality is that once the Chilean government successfully accomplished corporate and financial restructuring, economic growth ensued. This tandem improvement of liquidity and financial and corporate structure leading to renewed economic growth explains that the two areas are both the causes and solutions to not only the Asian, but also future crises.

3. Is there a Catalytic Effect of Lending by International Financial Institutions?

The 1990s have experienced a rapid decline in the relative importance of official lending and a corresponding increase in the relative importance of private lending. However, since the onset of the Asian financial crisis, a sudden reversal of private capital movements has taken place. And official lending from the international financial institutions has started to fill the vacuum of private capital outflows in the emerging markets. The important question now is whether the strong commitment to conditionalities imposed by the international financial institutions will improve international investor confidence and thus see a remobilization of private investment in emerging markets. Although the IMF has emphasized the importance of its catalytic effect, the catalytic effect may be more pronounced in some countries than in others. Factors determining the degree of catalytic effect include the perceived commitment of the government to economic restructuring and the potential efficacy of reform and restructuring.

Dhonte (1997), in a Fund-based study, emphasized the role that IMF conditionality performs in signaling policy credibility. Latin America's renewed access to financial markets is claimed to be a response to changed policies which 'Fund programmes have been instrumental in stimulating.' However, no matter how strong the commitment of the country involved in the IMF program, the gap between the receipt of IMF funds and inward flows of private investment is often lengthy, regardless of the commitment of the country involved. Bird and Rowlands (1997) posit that the high interest rate policy, which is originally designed for stabilizing the foreign exchange market, may also increase the likelihood of default to such an extent that the expected rate of return to capital falls. Moreover, not only will higher interest rates likely lead to economic recession, but they may adversely affect capital inflows in the form of direct and portfolio investment due to their destabilizing effect on the domestic economy.

As shown in MOFE (1999), the experiences of Korea and other Asian countries clearly illustrate that expanded liquidity support by the international community at the initial stage of crisis resolution would be a better alternative, in terms of economic costs, than the more common prescription of macroeconomic tightening. High interest rate policies imposed for the purpose of achieving currency stability in fact led to a severe credit crunch, massive bankruptcies, deepened economic contraction, and even social unrest. Such complications threaten to jeopardize any reform process, making recovery more difficult.[21)]

The theoretical basis for the proposition of a catalytic effect based on IMF conditionality, therefore, is unclear. There may be a general consensus that policies designed to reduce fiscal deficits, rates of monetary expansion, and exchange rate overvaluation are generally useful in correcting a severe current account deficit. However, there

21) Nunnenkamp (1998) also critically asserted that more viable Asian firms and banks could have survived the crisis if the IMF had not insisted on harsh austerity measures. The argument for lax monetary policy is termed as a model of a currency/interest rate 'Laffer curve': a fall of the interest rates would have strengthened the economy and restored confidence, causing the Asian currencies to appreciate. As regards the 'Laffer cure' argument, Paul Krugman scorned that it is as silly as it sounds. See Krugman (1998b).

remain doubts about the use of interest rate hikes, both in terms of their efficacy in achieving their stated policy objectives and in their consequences for subsequent capital flows.

Based on the demonstrated mixed results of crisis countries, the credibility and capital inflows are appear largely associated with the perceived commitment of the government to economic reform and its strong economic potential to realize full recovery, rather than IMF involvement per se. Since the IMF and the Korean government agreed to undertake a more balanced approach between macroeconomic policies and restructuring, the growing signs of Korea's economic recovery have attracted foreign capital inflows.

4. Do we need an international lender of last resort?

The Korean government asserted that "the international community needs to explore feasible ways of establishing an international lender of last resort. With the understanding that this is a long-term project, more immediate emphasis should be placed on strengthening the role of the existing IFIs. As such, we would do well to resolve the issues surrounding the IMF's contingent credit line and the World Bank's partial guarantee facility so that these facilities can be put into place as soon as possible. Furthermore, to complement the role of IFIs in providing emergency financial assistance, regional monetary cooperation, including the establishment of bilateral back-up facilities between central banks, should be pursued more vigorously."[22]

The debate on the need for such an institution dates back to the inception of the Bretton Woods System. J.M Keynes put forward the

22) See MOFE (1999), p. 12.

plan to establish an International Clearing Union, which would issue new international money to be called *bancor*, and provide automatic financing of current account deficits. The issue surfaced again in the 1970s when the international activity of commercial banks increased dramatically with the advent of the Eurocurrency markets and the need for recycling the sizeable surpluses of OPEC countries.[23]

The issue may be simplified into two questions. The first is whether there is a need for an international lender of last resort. If so, the second dimension is what institution, or group of institutions, should assume the responsibility. According to Kindleberger (1973, 1989), the international dimension of crises makes a case for the need of an international lender of last resort.[24] When a crisis is unfolding, countries may face limited access to capital markets even though they are implementing the appropriate policy corrections. However, economic historians challenge Kindleberger's interpretation of the interwar experience on which he partially bases his argument and also his argument for intrinsic instability in the world financial market without an international lender of last resort. They argue that the instability of the interwar period reflected inadequate international economic cooperation rather than any failure of hegemonic leadership. Monetary economists also rejected the notion that markets are intrinsically

23) See De Bonis et al. (1999) for more details.

24) Charles Kindleberger is regarded as the father of the theory of hegemonic stability. According to his book, *The World in Depression 1919–1939*, the instability of the world economy during the interwar period reflected the absence of a dominant power with the ability and desire to stabilize intrinsically unstable international system. His interpretation of specific historical episodes was generalized subsequently into a theory of hegemonic stability.

unstable and need to be stabilized by an international lender of last resort. To the contrary, they argue that markets are intrinsically stable, efficient and smoothly operating and that contagion effects are negligible. They argue that an international lender of last resort would create a greater problem, rather than a solution.[25]

While Kindleberger's detractors may be theoretically justified, the herding behavior of investors, volatility and contagion continue to be the reality.[26] Yet, even if Kindleberger's assertion of intrinsic instability is true, it remains unclear whether an international lender of last resort would effectively reduce the frequency and intensity of global financial crises, and the extent of contagion.

The second dimension of the problem is also clearly pointed out by Kindleberger (1989): "With no world government, no central bank, international law, the question where last resort lending comes from is a crucial one." Historically, such a role was informally performed by either the central bank or the most important financial institutions of the leading financial centers of the world. In 1945, the institutional setting that was shaped at Bretton Woods fell short of providing a full-fledged international lender of last resort. Instea, the IMF was created in order to provide financial assistance to member countries to correct external imbalances without resorting to trade and payment

25) Schwartz (1986), Meltzer (1986), and recently Bordo et al. (1996) rejected Kindleberger's idea on two grounds. First, an international lender of last resort would exacerbate the risk of moral hazard by sovereign borrowers as well as by international banks. Second, the authority to create base money, that is the very raison d'etre of a lender of last restor, remains within the purview of national central banks.

26) In theory, panic or herding behavior has been modelled as cases of self-fulfilling multiple equilibria.

restrictions. However, it has been thought that the principles governing its lending activity can hardly be reconciled with the classic Bagehot rules of (1) lending freely to solvent borrowers; (b) against good collateral; and (c) at a penalty rate.[27)]

In the aftermath of the Mexican crisis two important results were achieved towards strengthening several aspects of the Fund's capacity to cope with abrupt crises where there exists a risk of spillover to neighboring countries. The first has been the setting up by the IMF of an Emergency Financing Mechanism (EFM)[28)] and the doubling of the lines of credit made available to the Fund by member countries. These were made possible through the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). In addition, the Supplemental Reserve Facility (SRF), as mentioned in Section II, has been instituted. Very recently, the IMF's Executive Board has agreed to provide Contingent Credit Lines (CCL) for member countries. Unlike the SRF, the CCL is a precautionary line of defense readily available against future balance of payments problems that might arise from international financial contagion. Moreover, with the provision of the CCL, the IMF's surveillance function would be

27) Fischer (1999) pointed out that the most famous lesson from Bagehot, "in a crisis, the lender of last resort should lend freely, at a penalty rate, on good collateral," could be traced back to Henry Thornton's 1802 analysis of monetary policy and the role of lender of last resort.

28) Critics have complained that the Fund is too slow in emergencies, but it has in recent years demonstrated the ability to respond very quickly, using the EFM. According to Fischer (1999), the main constraint on the IMF's ability to act in time is that governments delay too long in approaching it, in part because they hope to avoid taking actions that would be needed in a Fund program.

strengthened by the Fund's careful monitoring of the reform measures.

At this moment, it is unlikely that the creation of an international lender of last resort as a form of an international central bank will be realized in the foreseeable future. However, the necessity of such an institution is growing. According to Fischer (1999), two elements of Bagehot rules (penalty rate and the notion of lending freely) have been incorporated in the SRF, which can make short-term loans in large amounts at penalty rates to countries in crisis. With regard to good collateral, the loss of market access that would result from default and, as Fischer correctly indicated, the Fund and World Bank would be regarded as preferred creditors, would likely be sufficient "collateral."

In sum, the IMF appears to have the capacity to act as a lender of last resort to individual countries. Already, the IMF performs two types of roles as crisis lender and crisis manager. While the idea of creating an international lender of last resort is a long-term task, strengthening the role of the IMF along with other IFIs as crisis lender and crisis manager will be increasingly important in the short-term.

References

Bagehot, W. 1886. "One Banking Reserve or Many." *The Economist*, Vol. 24.

Bird, G., and D. Rowlands. 1997. "The Catalytic Effect of Lending by the International Financial Institutions." *The World Economy*, pp. 967–991.

Bordo, M.D., B. Mizrach, and A.J. Schwart. 1996. "Real Versus Pseudo International Systemic Risk: Some Lessons from History." NBER Working Paper, No. 5371.

Chang, R., and A. Velasco. 1998a. "Financial Fragility and the Exchange Rate Regime." RR #98–05, C.V. Starr Center for Applied Economics, NYU, February 1998.

Chang, R., and A. Velasco. 1998b. "Financial Crises in Emerging Markets: A Canonical Model." Working Paper, Federal Reserve Bank of Atalanta. (March)

Chang, R., and A. Velasco. 1998c. "The Asian Liquidity Crisis." NBER Working Paper No. 6796. (November)

Classens, S., Simeon Djankov and G. Ferri. 1998. "Corporate Distress in East Asia: Assessing the Impact of Interest and Exchange Rates Shocks." Mimeo, World Bank. (September)

Corsetti, G., P. Pesenti, and N. Roubini. 1998. "Paper Tigers? A Model of the Asian Crisis." NBER Working Paper, No. 6783. (November)

Corsetti, G., P. Pesenti, and N. Roubini. 1998. "What Caused the Asian Currency and Financial Crisis?" NBER Working Paper, No. 6833 & No. 6834. (December)

Dhonte, P. 1997. "Conditionality as an Instrument of Borrower Credibility." IMF Working Paper on Policy Analysis and Assessment.

De Bonis, R., A. Giustiniani, and G. Gomel. 1999. "Crises and Bail–outs of Banks and Countries: Linkages, Analogies, and Differences." *The World Economy* 22, No. 1, pp. 55–86.

DRI. 1998. *A Special Report: Asian Depression and World Recession*. (July)

Giannini, C. 1999. "Enemy of None but a Common Friend of All?: An International Perspective on the Lender of Last Resort Function." IMF Working Paper.

Feldstein, M. 1998. "Refocusing the IMF." *Foreign Affairs*, pp. 93–109. (March/April)

Feldstein, M. 1999. "A Self–Help Guide for Emerging Markets." *Foreign Affairs*. (March/April)

Fischer, S. 1998a. "The IMF and the Asian Crisis." Forum Funds Lecture at UCLA, Los Angeles. (March)

Fischer, S. 1998b. "In Defense of the IMF: Specialized Tools for A Specialized Task." *Foreign Affairs*, pp. 103–106. (July/August)

Fischer, S. 1999. "On the Need for an International Lender of Last Resort." A paper presented for delivery at the joint luncheon of the American Economic Association and the American Finance Association. New York. (January 3)

Group of Ten Report. 1996. *The Resolution of Sovereign Liquidity*. Washington D.C., IMF.

International Monetary Fund. 1999. *IMF–Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment*. (January)

Karminsky, G., and C. Reinhart. 1996. "The Twin Crises: The Causes of Banking and Balance of Payments Problems." International Finance Discussion Paper, No. 544, Board of Governors of the Federal Reserve System. (March)

Kindleberger, C.P. 1973. *The World in Depression, 1919–1939*. Berkely: University of California Press. Second Edition.

Kindleberger, C.P. 1989. *Manias, Panics, and Crashes: A History of Financial Crises*. New York: Basic Books.

Krugman, P. 1994. "The Myth of Asia's Miracle." *Foreign Affairs*, pp. 62–78. (November/December)

Krugman, P. 1998a. "What Happened to Asia?" Mimeo, MIT. (January)

Krugman, P. 1998b. "Will Asia Bounce Back?" Mimeo, MIT. (March)

Meltzer, A.H. 1986. "Comment on Real and Pseudo-Financial Crises." F. Capie and G. Woods, eds. *Financial Crises and the World Banking System*. London: Macmillan.

Miller, M., and L. Zhang. 1997. "A Bankruptcy Procedure for Sovereign States." Global Economic Institutions Working Paper Series, No. 34.

Ministry of Finance and Economy. 1999. "New International Financial Architecture: Korea's Perspective." Available in the website of the Ministry of Finance and Economy (www.mofe.go.kr).

Ministry of Finance and Economy. 1999. *The Road to Recovery in 1999: Korea's Ongoing Economic Reform*.

Nunnenkamp, P. 1998. "Dealing with the Asian Crisis: IMF Conditionality and Implications in Asia and Beyond." *Intereconomics*, pp. 64-72. (March/April)

Obstfeld, M. "Models of Currency Crises with Self-Fulfilling Features." *European Economic Review*, vol. 40, pp. 1037-1047.

Radelet, S., and J. Sachs. 1998. "The Onset of the East Asian Financial Crisis." Working Paper. Harvard Institute for International Development.

Sachs, J., A. Tornell, and A. Velasco. 1996. "Financial Crises in Emerging Markets: The Lessons from 1995." *Brookings Papers on Economic Activity*, No. 1, pp. 147-198.

Schwartz, A. 1986. "Real and Pseudo-Financial Crises." F. Capie and G. Woods, eds. *Financial Crises and the World Banking System*. London: Macmillan.

Thornton, H. 1802. An Enquiry into the Nature and Effects of the Paper Credit of Great Britain, edited by F.A. Hayek, Fairfield: Augustus M. Kelley Publishers (reprint, 1978).

Wang, Y., and H. Zang. 1998. *Adjustment Reforms in Korea since the Financial Crisis*. Policy Paper 98-02. Korea Institute for International Economic Policy.

Williamson, J. 1986. *Voluntary Approaches to Debt Relief*. Washington D. C., IIE.

Williamson, J. 1992. "International Monetary Reform and Prospects for Economic Development." J.J. Teunissen, ed. *Fragile Finance: Rethinking the International Monetary System*. The Hague: FON-DAD.

國文要約

한국정부가 1997년 12월 3일 IMF 구조조정 프로그램에 합의한 이후, 한국은 전례없이 신속하게 금융, 기업, 공공부문, 노동시장 등 광범위한 영역에 걸쳐 구조조정 작업에 착수하였다. 구조조정을 위한 모든 조치들은 경제체질을 개선하기 위한 것이었으며, 아울러 대외신인도를 향상시키기 위한 것이었다. 그 결과 지금까지 한국이 취한 구조조정은 조금씩 성과를 보이기 시작했다. 경제가 금년 들어 빠른 회복세를 보이고 있을 뿐만 아니라, 국제신용평가기관들도 일제히 한국의 국가신용등급을 투자부적격에서 투자적격으로 상향조정하였다. 이는 지금까지 한국이 보여준 구조조정조치뿐만 아니라, 향후 한국이 지속적으로 경제체질을 개선하는 데 매진할 것이라는 확신에 기인하고 있다.

본고의 목적은 한국의 구조조정 프로그램과 그 이행과정을 살펴봄으로써 국제금융기구의 역할을 논의하는 데 있다. 한국의 위기관리 경험에 비추어 볼 때, 네 가지 논점이 제기될 수 있다. 첫째, 아시아 금융위기의 원인과 진단에 관한 것으로 아시아 금융위기가 과연 아시아 국가의 구조적 결함에 기인하는 것인지, 아니면 국제금융시장에 내재되어 있는 취약성에 기인하는 것인가의 문제이다. 둘째, 아시아 금융위기는 IMF 지원프로그램에 구조조정에 관련된 조치들이 포함되어야 하는가의 논쟁을 야기시켰다. 아시아 금융위기는 개별 국가의 구조적 결함과 국제금융체제의 내재적 취약성에 기인한다는 점에서 진정한 의미에서 위기를 극복하기 위해서는 이 두가지 문제를 동시에 해결해야 할 것이다. 따라서 국제적 차원에서 국제금융체제의 개선을 위한 작업이 진행되어야 하며, 아울러 개별국가의 차원에서 성공적인 구조조정이 완결되지 않고서는 위기는 결코 극복될 수 없다.

셋째, 국제금융기구의 유동성 지원은 긴급한 위기를 극복하는 데 충분하지 않다. 이러한 제약하에서 국제금융기구의 유동성 지원이 과연 추가적인 외자유입을 촉진시키는 촉매작용을 하는지 여부가 중요하다. 한국의 경험에 비추어 볼 때, 국제금융기구의 유동성 지원 그 자체보다는 위기 당사국이 과연 얼마만큼 외국인 투자자들에게 신뢰받을 수 있도록 구조조정 프로그램을 실천하느냐가 중요하다는 교훈을 배울 수 있었다. 마지막으로 국제금융기구의 최후의 대부자 역할은 아직도 논쟁의 대상이 되고 있을 뿐 단기간에 가시적인 합의가 도출될 것으로 보이지는 않는다. 다만 IMF의 신용공급기능이 확대되고 있다는 측면에서 최후의 대부자로서의 역할이 증진되고 있음을 알 수 있다.

發刊資料 目錄

■ Working Papers/資料論文

94-01 Current Status and Prospects for Korea-Russian Economic Cooperation
Chang Jae Lee

94-02 Development of Foreign Trade Relations Between Korea and Russia
Je Hoon Park

94-03 Technology Transfer : The Korean Experience Yoo Soo Hong

95-01 Issues in Capital Account Liberalization in Asian Development Countries
Jae-Jung Kwon

96-01 Globalization and Strategic Alliance Among Semiconductor Firms in the Asia-Pacific : A Korean Perspective Wan-Soon Kim

96-02 Toward Liberalization of International Direct Investment in Korea : Retrospects and Prospects Yunjong Wang · June-Dong Kim

96-03 International Trade in Software Suchan Chae

96-04 The Emerging WTO and New Trade Issues - Korea's Role and Priorities in the WTO System Chan-Hyun Sohn

96-05 An Economic Assessment of Anti-Dumping Rules : From the Perspective of Competition Laws and Policy Wook Chae

96-06 Cultural Differences in the Crusade Against International Bribery
Joongi Kim · Jong Bum Kim

96-07 Competition Policy and Transfer Pricing of Multi-national Enterprise
Young-Soo Woo

97-01 Impact of Foreign Direct Investment Liberalization : The Case of Korea June-Dong Kim

97-02 APEC's Eco-Tech : Prospects and Issues Jaebong Ro · Hyungdo Ahn

97-03 기업지배구조에 관한 OECD 논의와 우리경제에의 시사점
王允鍾 · 李晟鳳

97-04 Economic Evaluation of Three-Stage Approach to APEC's Bogor Goal of Trade Liberalization Inkyo Cheong

97-05 EU의 企業課稅와 韓國企業의 直接投資戰略 李晟鳳

97-06 In Search of an Effective Role for ASEM : Combating International Corruption
Jong Bum Kim

97-07 Economic Impact of Foreign Debt in Korea Sang-In Hwang

97-08 Implications of APEC Trade Liberalization on the OECD Countries: An Empirical Analysis Based on a CGE Model
Seunghee Han · Inkyo Cheong

97-09	IMF 救濟金融 事例 硏究: 멕시코, 태국, 인도네시아의 事例를 중심으로	金元鎬 · 李景姬 · 盧相旭 · 權耿德 · 元容杰 · 金完仲
97-10	韓 · EU 主要通商懸案과 對應方案	李鍾華
97-11	러시아의 外國人投資 現況 및 制度的 與件	鄭鎔株
98-01	韓 · 日 主要通商縣案과 對應課題	程 勳 · 李鴻培
98-02	Bankruptcy Procedure in Korea : A Perspective	Mikyung Yun
98-03	美國의 兩者間 投資協定 : 韓 · 美 投資協定의 意義 및 展望	金寬澔
98-04	The Role of Foreign Direct Investment in Korea's Economic Development: Productivity Effects and Implications for the Currency Crisis	June-Dong Kim · Sang-In Hwang
98-05	Korea's Trade and Industrial Policies : 1948-1998	Chan-Hyun Sohn · Junsok Yang · Hyo-Sung Yim
98-06	ASEM Investment Promotion Action Plan (IPAP) Revisited : Establishing the Groundwork for Regional Investment Initiative	Chong Wha LEE
98-07	해외투자사례연구시리즈 1 외환위기 이후 한국해외현지법인의 구조조정실태와 애로사항: 英國	申東和
98-08	해외투자사례연구시리즈 2 외환위기 이후 한국해외현지법인의 구조조정실태와 애로사항: 인도네시아	金完仲
98-09	해외투자사례연구시리즈 3 외환위기 이후 한국해외현지법인의 구조조정실태와 애로사항: 美國	朴英鎬
98-10	해외투자사례연구시리즈 4 외환위기 이후 한국해외현지법인의 구조조정실태와 애로사항: 中國	金琮根
98-11	해외투자사례연구시리즈 5 외환위기 이후 한국해외현지법인의 구조조정실태와 애로사항: 泰國	權耿德
98-12	APEC's Ecotech: Linking ODA and TILF	Hyungdo Ahn · Hongyul Han
98-13	경제난 극복의 지름길 : 외국인투자	金準東 外
98-14	最近 國際金融環境變化와 國際金融市場動向	王允鍾 外
98-15	Technology-Related FDI Climate in Korea	Yoo Soo Hong
98-16	構造調整과 國家競爭力	洪裕洙
98-17	WTO 무역원활화 논의현황과 정책과제 －통관절차 및 상품의 국경이동을 중심으로－	孫讚鉉 · 任曉成
98-18	주요국의 투자자관계 관리사례	申東和
98-19	공기업 매각방식의 주요 유형: 해외매각을 중심으로	尹美京 · 朴英鎬
99-01	改革推進 外國事例와 示唆點	金元鎬 外
99-02	WTO 뉴라운드의 전망과 대책	蔡 旭 · 徐暢培

99-03	Korea-U.S. FTA: Prospects and Analysis	Inkyo Cheong · Yunjong Wang
99-04	Korea's FTA Policy Consistent with APEC Goals	Inkyo Cheong
99-05	OECD 부패방지협약과 후속이행조치에 관한 논의와 평가	張槿鎬
99-06	Restructuring and the Role of International Financial Institutions: A Korean View	Yunjong Wang
99-07	The Present and Future Prospects of the North Korean Economy	Myung Chul Cho · Hyoungsoo Zang

王允鍾
서울대학교 경제학과 졸업(1985)
미국 예일대학교 경제학박사(1993)
대외경제정책연구원(KIEP) 연구위원(現, E-mail: yjwang@kiep.go.kr)
著書 *Korea-U.S. FTA: Prospects and Analysis*(공저, 1999. 4)
Adjustment Reforms in Korea Since the Financial Crisis (1997. 12～1998. 6) (공저, 1998. 12) 외 다수

KIEP Working Paper 99-06

Restructuring and the Role of International Financial Institutions: A Korean View

1999년 6월 15일 인쇄
1999년 6월 20일 발행

발 행 인 李 景 台

발 행 처 對外經濟政策硏究院
137-747 서울특별시 서초구 염곡동 300-4
전화 : 3460-1080 FAX : 3460-1144

인 쇄 오롬시스템(주) 전화 : 2273-7011 대표 이호열

등 록 1990년 11월 7일 제16-375호

ISBN 89-322-4049-3
89-322-4026-4(세트)

값 5,000원