

amounts of stock, pushing up the stock prices until they reached a high level, whereupon they withdrew their capital from the market, offloading all the stocks they held, so that the stock prices dropped sharply. This illustrates the case earlier described, that where the stock market is not sufficiently large, it is easily attacked and destroyed by powerful speculators. And once the market has collapsed, no small investors are able to survive. In order to maintain a free market, in which no one single buyer or seller can dominate prices, it is necessary to have international laws or regulations, which to a large extent are able to eliminate the influence of these speculative activities.

Foreign exchange systems are also an important factor in speculative activities. If a country adopts a fixed exchange rate system, it is very easy for international speculators to take advantage of the system to make huge gains without any foreign exchange loss. If the country were to adopt a floating exchange rate system, the speculators must then run the risk of currency depreciation.<sup>7</sup>

## **9. THE FUNCTION OF THE IMF**

Following its establishment, many developing countries have benefited greatly from the implementation of programs offered by the IMF. As the financial crisis has affected so many East Asian economies, the IMF has played the role of firefighter. However, these countries including Indonesia, Thailand and Korea, which have each received the support of the IMF, must meet some specific requirements: the receiver should agree to a program of restructuring, which includes macroeconomic, structural adjustment and social policies. The macroeconomic policy includes suggestions on economic policies including contraction of monetary and fiscal policies, and liberalization policy, all of which have been criticized by western economists

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<sup>7</sup> Before the financial crisis, most Southeast Asian countries had adopted fixed foreign exchange rate systems, which had provided speculators with an opportunity to take advantage of the system to make speculative gains. Since then, they have all adopted managed floating foreign exchange rate systems.

since these economic policies are considered unhelpful to these troubled countries attempting to recover from recession. Rather, they are regarded as the cause of a deepening of their financial crisis instead<sup>8</sup>. Even so, these three countries have adopted the suggestions and have already received more than 77 percent of the promised amount. Among the three countries, Korea has carried out most of the suggestions, as can be seen from Table 1.6.

**Table 1.6 IMF's Rescue Program**

(Unit: US\$ bill)

	IMF Promised Amount (1)	IMF Paid Amount (2)	(3) = (2) / (1)
Thailand	4.0	3.1	77.5%
Indonesia	11.2	8.8	78.6%
Korea	21.1	19.0	90.0%
Total	36.3	30.9	

Source: IMF, International Financial Markets, Dec 1998.

Although the policies have been criticized, the three troubled economies have started to recover, demonstrating growth in their industrial production and exports. So far, Korea has displayed the best achievement in its economic activities, followed by substantial growth in Thailand. Due to political chaos, Indonesia could achieve only slight positive growth. Their foreign exchange reserves have also increased, for instance, Korea now has US\$65.42 billion, Thailand has US\$32.4 billion and Indonesia has US\$26.18 billion, and their balance of trade figures have also greatly improved. An interesting point is that positive growth was demonstrated in Korea from November 1998, in Thailand from January 1999 and in Indonesia from April 1999. It is expected that Korea's economic growth rate for 1999 will have been around 9%, Thailand around 3.5% and Indonesia around 0.1%.

<sup>8</sup> In a meeting held in the mid-October, 1998 in Singapore, Jeffrey D. Sachs criticized the IMF's reform plan as undermining Asian economies because it failed to understand the real causes of the financial crisis.