ROLE OF IMF ENCOUNTERING ASIAN FINANCIAL CRISIS: A COMPARATIVE ANALYSIS OF THE SOUTH KOREAN AND MALAYSIAN ECONOMY

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Abstract:
This research work discusses the Asian Financial Crisis to examine its impact on Malaysian and South Korean economies. The role of the International Monetary Fund in the Asian Financial Crisis that occurred in 1997 remained controversial and pushed the aid-seeking countries into further recession. Malaysia restrained from getting assistance from the IMF due to its strict policies and demand for rigid structural reforms. While, South Korea received the largest aid package from IMF, to pay its debts. This package came along with great regulation of South Korea's economy by the IMF. First, this work provides details about the Asian Financial Crisis, its causes and impacts. Secondly, it incorporates a case study of Malaysia and South Korea to create a comparative analysis of the economic conditions of both countries during the crisis to highlight whether the role of the IMF was significant or not. It analyzes the policy response of the Malaysian government that helped the country to overcome the crisis without the help of the International Monetary Fund (IMF) and also analyses the IMF's role in recovering South Korea's economy.
Keywords: Financial crisis, economy, structural reforms, policies, comparative analysis

INTRODUCTION:

The International Monetary Fund (IMF) is an international organization that stimulates international financial cooperation and international trade, decreases poverty, and maintains financial stability. The IMF produced numerous aid packages in the countries most affected by the fiscal crisis. Providing nearly $ 20 billion packages to Thailand, $ 40 billion to Indonesia, and $ 59 billion to South Korea to support them. Funding programs are building remodelling packages. Countries that receive funds are supposed to reduce their government expenditures, permit indebted financial institutions to close, and raise interest rates by force. The purpose of this amendment was to assist monetary values and confidence over international settlement.

During the financial crisis, East Asia had a significant role in the global economy accounting for 30 percent of the GNP's global value in terms of electricity purchases, and the crisis was unpredictable. There is no settled agreement on the root cause of the problem, relatively it can be caused by several factors. First, one of the major reasons for this problem is considered to be the prompt liberation of large accounts, and it is essential to note that institutes such as the IMF stimulated East Asian countries to open their markets with foreign investment. The IMF said the release of capital would diverge resources and accelerate economic growth through the most efficient use of its resources.

Before the Crisis, East Asian economies did well, being dubbed the "Miracles of East Asia" in 1993 by the World Bank for their efforts. Many thrifts have saved and financed several products, leading their national savings to the private sector and exporting, and consequently, do not require extra funding. The shortage of large accounts is currently thought to be one of the causes of the problem, as adjusting their exchange tariffs to the US dollar immediately led to more expensive currencies in these states, in addition to a loss of investor confidence. The crisis is also the result of financial instability, which is instigated by deriving between private banks and large non-profitable companies and domestic lending companies that have left banks and organizations at risk of inflation. A sudden cash outflow led to a financial crisis.

The recession began in Thailand in July 1997 and range to other states in the region, such as Malaysia, Indonesia, the Philippines, and South Korea. This situation was later called the "contagion effect" As in many other states in East and Southeast Asia, Thailand retained a fixed exchange rate before the 1997 financial catastrophe. This option of policy forces the central bank to buy and sell foreign currency to control the price of the currency, an exchange rate within a small group. When the demand for local currency exceeds the supply, the central bank will buy foreign currency in baht. On the other hand, where there is a greater need for foreign currency, the central bank sells dollars or other foreign currencies at a fixed rate, using its foreign reserves to do so.

On July 2nd 1997, the demand for dollars seemed overwhelming, and a few hours later the central bank was forced to allow the baht to float, its value will be determined by supply and demand in the market without the obligation of the central bank to intervene. From a trading range of about 24-26 to a dollar in the months leading up to the crisis, both dropped to more than $ 29 to a dollar in one day. Over the next six months, it will hit about $ 55 before settling down. This attack on the Thai baht was immediately felt in the foreign exchange market in another part of Southeast Asia, known as the "contagion". The Philippines was required to drift the peso on July 11, and Malaysia also followed the same. Countries most affected by the Asian Financial Crisis include Indonesia, Thailand, Malaysia, South Korea and the Philippines (Bello, 1999).

They have seen their exchange rates, stock markets, and product prices all fall. The GDPs of the affected states even fell into double digits. From 1996 to 1997, per capita GDP fell by 43.2% in Indonesia, 21.2% in Thailand, 19% in Malaysia, 18.5% in South Korea, and 12.5% in the Philippines. Hong Kong, Mainland China, Singapore and Japan are also affected, but very slightly (Liew, 1998).

To improve the economic foundations, Thailand, Indonesia and South Korea have a clear stance to apply for and receive rescue from the International Monetary Fund (IMF). However, as IMF conditions were so difficult, some experts questioned the legitimacy of IMF policies. Some economists have raised the point that the IMF for producing the wrong analysis and providing the wrong treatment in Asian countries. They believe the IMF recovery packages are suitable for countries with issues caused by public sector debt and government overuse. The problems of Asian states, conversely, stem from the private sector. Those in the economy believe that IMF strategies, such as cuts in public spending and debt consolidation, were negative measures in the Asian economy. They thought IMF policies forced Asian countries into deep recession. Dissimilarly, the Malaysian government was certain not to get money from IMF. Instead, the government carried out monetary control to overcome the fiscal crisis triggered by the "impact of the" crisis on the Asian economic crisis. The problems faced by aid-receiving countries like South Korea, under the reclamation packages' stringent conditions, exemplify the faults in the IMF's policies.

LITERATURE REVIEW:

- Lauren argued that the role of the International Monetary Fund in the Asian Financial Crisis of 1997 serves as a vital lesson in how international financial institutions can affect the nation's financial and political connections. His work set out the IMF's policy on their South Korean rescue package, as well as provided for discussions on the positive and negative consequences of these dogmas. A momentary overview of what the IMF signifies and how they are in the Crisis is shadowed by an acute argument of the positive and damaging effects of South Korea's economic, social and financial policies on IMF structural restructuring loans, such as labour, housing societies, domestic finance, loans and economic facilities. He analyzed that while the IMF's settings have helped to boost growth, they have done so at great cost to the standard of living of the South Korean population.
- Wang (2005) argues that hasty financial account release was a core reason for many financial problems, including the 1997-1998 Asia Crisis. He further emphasizes that it is advisable to delay the release of a large account or to maintain financial control before countries set up an

effective framework for domestic control and financial infrastructure. He furthers his view that compared to China and the Southeast Asian countries, China is less likely to face the problem. China regulates and monitors the measures and consistency of its fiscal freedoms and domestic economic regulations. Therefore, it is possible to withdraw money from the country. The blockade of Chinese domestic stocks by foreign stakeholders means they have not been able to trade the shares made by the Renminbi in the Chinese stock market. Foreign stakeholders can trade or buy shares that are categorized as B stocks and dealt on a small B stock market price. Only this type of stock can be sold or discarded if foreign investors can find another buyer for foreign stakeholders. Wang also pointed out that, unlike other Asian countries throughout the crisis, foreign portfolio managers all rushed out at the same time, subsidizing a sharp decline in local stocks. They also contributed to the reduction in value by disposing of local currency to overcome losses.

- This article (Fischer) gives details about the IMF fund programs of Indonesia, Korea and Thailand. Economic stability is also felt in Malaysia and the Philippines. While, they argue that IMF policy advice in these countries during emergencies was flawless, remedial action was taken quickly, and the strategies found were successful in restoring financial market confidence and stability, and achieving a resumption of economic growth, in many cases by the end of 1998. Sustainable recovery and long-term progress in poverty reduction are highly dependent on the continued maintenance of macroeconomic stability and the strong implementation of key structural changes. This was released in January 1999. It has four international boxes (one in Indonesia, Korea, and Thailand, and a fourth covering Malaysia and the Philippines), and seven pages of charts, the first five in each case, and the last two, respectively, a regional perception and a comparison of macroeconomic development throughout the Asian and Tequila crises.
- Stanley Fischer, who worked as the First Deputy Chief Executive Officer of IMF from 1994 to 2001 wrote this essay. The IMF strongly criticized some of its activities during Fischer's time and strongly defended the "battlefield medicine" used by the IMF during the economic crisis, which comprised the problems of economic transformation in the former Soviet Union and the Asian financial crisis. Fischer handles the following calls for reform of the international financial system and is making a case for the IMF as the last international lender. The first section of the article, "The Role of the IMF and the Transformation of the International Monetary Fund," looks at the IMF's role in the international financial system in the wake of the 1990 crisis. The second section, "Macroeconomic Policy, Stabilization, and Transition," explores topics such as exchange rate rates, inflation, and Eastern European relations with the European Union. The final section, "Poverty and Development," replicates Fischer's belief that financial strategies should focus on decreasing poverty. These inclusive and available articles will not only attract economists and policymakers but also common reader who is interested in the international financial system.

There are vast studies conducted on all dimensions of the Asian Financial Crisis 1997, from its reasons, impacts and solutions to every individual country's conditions. However, there is a gap in comparative study in the literature that could highlight the effectiveness or validity of the role of IMF in the Asian Financial Crisis. This study seeks to analyze the economy of Malaysia and South Korea during the crisis, to verify whether the role of IMF during the crisis was worth it or not. This study seeks to highlight Malaysian government policies that helped in recovery without the assistance of the IMF.

Significance of the Study:

IMF has been accepted as the most influential international institution in terms of international and political economy. Being part of the United Nations, it advocates liberalization of economies of the world. It grants loans to countries and requires them to make significant changes in their structure. Its role during the Asian financial crisis remained controversial. It helped countries recover from the crisis (South Korea under this research) but at the same time, it affected their social conditions by forcing them to change their structure. On the other hand Malaysia unlike other countries in Southeast Asia denied seeking help from the IMF because of its requirements.

This study analyzed the economic recovery conditions of both countries and provided readers with significant information. This paper contains information about the Asian financial crisis, its reasons, and its impacts. This research defines the Malaysian government's economic strategies to counter the "contagion effects" of the Asian financial crisis. Then in the second it states the economic setback of Malaysia and South Korea due to the crisis and gives a critical analysis of the role of IMF during the crisis by comparing Malaysia's independent recovery with South Korea's dependent recovery.

Research Objectives:

The basic objectives of this research are stated below:

- To understand the role of IMF during the Asian Financial Crisis
- To analyze economic recovery conditions from the crisis in both countries
- To assess the success and failure of the IMF's role during the Asian Financial Crisis
- To analyze the success of Malaysia's independent policies which affected the well-being of the natives

Research Questions:

- What were the weaknesses in IMF policies during the Asian Financial crisis?
- How did Malaysia's policy change help it to recover its economy during the Asian Financial Crisis as compared to other states of Southeast Asia?
- What were the IMF loan requirements which left deep effects on South Korea?
- What could be the findings by comparing economies that helped the IMF with independent economies during the Asian Financial Crisis?

Research Methodology:

This study used a mixed-method approach. It means that both qualitative and quantitative data are used in this paper. Qualitative data is used to explain and elaborate on the topic while quantitative data from the Bureau of Statics gives information about the elements of the economy. Quantitative data helps in creating a comparative analysis of Malaysia and South Korea's economy.

In terms of methodology, this paper has used the case study method. Robson (2002) describes a case study as a research strategy, which contains the intensive research of certain modern objects in a real-life setting and uses many sources of evidence. In other words, this research paper uses Malaysia and South Korea as case studies exploring the most common aspects of the Asian financial crisis and the Malaysian and South Korean response. This problem is largely focused on the independent policies of the Malaysian govt. and the role of IMF in South Korea's recovery its impact and comparative analysis of both to find out which country's strategy remained more successful.

Asian Financial Crisis, Malaysia and South Korea:

The Asian economic crisis was led by a series of catastrophes since the stock market collapse in 1929 and the Great Depression of the 1930s. The crisis spread rapidly throughout Southeast Asia, affecting South Korea seriously. The value of Asian local currencies in the region has fallen with the Thai baht, the Indonesian rupiah and the Malaysian ringgit going into trouble. As stated, three-quarters of the value of Indonesian and Thai economic assets has been reduced due to declining combinations of stock and currency prices. One of the causes why the "miracle" economy of Southeast Asia has collapsed is the suspension of export-oriented operations that took place at a time when short-term loans were due. For example, loans to Thai companies from overseas banks doubled from 1988 to 1994, with half of the debt being short-term loans that fell within a year. Southeast Asian countries export a wide range of goods from automobiles, computer chips and metal to textiles (Vajragupta, Y., 2001).

When the economic crisis hit, foreign investors fled with their money. This leads to increased domestic spending, lower bank prices, and more jobs. Therefore, the miracle of Southeast Asia has become a story of great human anguish. The cause of the fiscal crisis in Southeast Asia was not the result of improper exchange rates, faulty domestic policy, or a lack of realities in the banking sector. It was caused by a combination of extreme inflation and a decrease in global demand for regional exports from the global economy's changing market rules.

In 1996, 78 billion US dollars came into the region from abroad through foreign bank loans and short-term investments, such as stocks. By 1997, however, that had turned out to be $ 38 billion, especially in the worst-affected states, such as Indonesia, Malaysia, South Korea, Thailand, and the Philippines (Porter, 1996). This abrupt collapse of the Southeast Asian economy has triggered many companies in Thailand and South Korea to face adoption. Apart from that, both states had to take strict regulatory measures by the IMF for emergency loans to help pay off other foreign debts. Malaysia has chosen to govern autonomously the same strength measures.

The IMF's short-term economic directives have, unfortunately, failed to bring it to Asia. The high-interest rates enforced by IMF programs have squeezed businesses, while budget cuts have slowed the economy. The plan, which seems good and good with time, did not help countries recover from the crisis. Although the Asian financial crisis had assumed the IMF had a legitimate interest in their performance concerning the international financial structure, legal interest but not equal to regulatory power. He pointed out that the change had been unsuccessful because the IMF had undermined the democracy of developing countries and lurched countries into chaos.

Malaysia's Strategy Towards Financial Crisis:

The Malaysian Prime Minister Tun. Dr. Mahathir Mohamed started a new financial program in September 1998. The economic plan was aimed at preventing foreign exchange from regulating the flow of national currency, the ringgit. Subsequently, the Malaysian government announced that all ringgit stored outside of Malaysia must be returned, meaning that the ringgit trade would be made entirely within the country's borders. Foreigners were no longer allowed to sell shares and return the money unless a year had passed since the time of purchase. Therefore, the ringgit was officially launched at an exchange rate of RM 3.8 per US dollar. According to Dr. Mahathir, the plan was aimed at separating the Malaysian economy from international speculators and traders who accused them of creating an economic crisis in the country (Osman, 2020).

After the announcement, stocks in Malaysia dropped sharply, but ringgit prices remained stable. Malaysia imposed monetary restrictions because it felt that adopting the IMF's formula for raising interest rates and closing loans would be worse. The monetary policy strategy was aimed at eliminating the Malaysian overseas trade ringgit, especially in the Singapore foreign exchange market. According to Prime Minister Mahathir, the implementation of monetary policy regulation was aimed at ensuring the security of the Malaysian economy and helping Malaysia recover from the economic crisis. This measure has encouraged short-term cash flows by forcing investors to keep their money in the country for at least one year to allow Malaysia to become better acquainted with the global financial system.

This leads to faster economic recovery with smaller reductions in employment and wages, as well as better changes in the stock market. In addition, South Korea and Thailand, both of which have received financial assistance from the IMF and other international institutions, have undergone very drastic changes. Interest rates in both countries should have been increased, and their monetary policy should have been strengthened. Financial markets in South Korea and Thailand should be open to foreign and local banks and financial institutions, and those in dire financial straits should be closed.

In response to the crisis, Tun. Mahathir had to suspend many mega projects. Meanwhile, a group of Malaysian companies has launched an international public relations campaign to restore the confidence of foreign investors and raise the profile of the Kuala Lumpur Stock Exchange. As part of the recovery package, Malaysia has set up an asset management company known as Danaharta to buy loans from financial institutions to reinvigorate its banking sector, as well as the Company's Debt Reconciliation Committee to help companies resolve their debts without court intervention.

Financial Rehabilitation without IMF Assistance:

Selected Malaysian financial management systems, as the model have shown success in protecting the Malaysian economy. This measure has allowed Malaysia to incur much lower costs than most of its neighbours in adapting to the new environment. Strong confirmation of the implementation of the measures came in September 1999, when the monetary and financial control of RM 5.2 billion had left the country. The problem is the issue of market failure. Stanley Fischer, IMF's economic director, acknowledged at a regional conference in Hong Kong that markets are not always stable, as revenue is sometimes excessive and sometimes unsustainable, and markets sometimes react too late.

The major markets of Southeast Asia have failed in three critical ways. First, there has been a huge influx of money due to the prospect of continued growth of two digits. In the search for new investment opportunities, finance continued to flow into the real estate sector, even though financial instability was widespread and obvious. Second, major markets and the banking system have failed to convert money into productive use. Very little money has been spent on productive investments that would have been able to support export growth. Instead, most of the money was invested in the real estate sector. Third, a lot of money came out because of over-inflation in the past.

Malaysian unconventional approaches to the financial crisis have been adopted by many experts. In addition, measures have proven that different countries may need different policies. Economists have argued that the IMF's position is a flawed regulatory measure in which it should not be allowed to focus as part of a new investment framework.

South Korea’s Strategy Towards Financial Crisis:

Before the crisis, South Korea enjoyed a strong economy, the eleventh-largest economy in the world and the third-largest in Asia. However, it also faced problems with its external debt, weak financial rules and inadequate cooperative governance systems, and this crisis quickly weakened its economy. South Korea experienced a sharp decline in economic activity, as well as a significant increase in the number of unemployed and homeless people, after annual GDP growth of 8.0 per cent over the past three decades (Heo, U., 2000).

Role of IMF:

The IMF has provided South Korea with a $ 58 billion loan, the largest borrowing from all other East Asian countries, and the conditions require a fundamental transformation of its major economic sectors. The conditions mentioned were common in the IMF concerning changes in the financial sector, including financial stability, financial accounting and trade liberalization, as well as changes in labour markets suggests that the IMF provided such a large loan out of fear of South Korea's position as the 11th largest economy in the world that threatens the international financial system.

Changes made by the IMF rescue package in South Korea led to a radical change in its economic model. The IMF rescue package was seen as an attempt to make South Korea's economic system work as a Western model, some of the specificities of the financial sector include establishing an independent central bank that focuses on inflation management, and the creation of a management body that will oversee all corporate and financial activities. Existing financial institutions that were experiencing problems were closed or reimbursed, and all maritime lending limits were removed by domestic companies. The IMF has forced banks to adhere to Western credit rating standards, reducing loans from channels for expansion. Chaebols were the influential economic organizations in South Korea that throughout the crisis in 1997, were loaded with great credit.

The IMF aims to end the dominance of Chaebol in the Korean economy by lowering tariffs and raising imports. This has allowed sectors such as the automotive industry to be included in the import and export competition won by attracting foreign investment and attracting Korean investors to save on their domestic investment. The interest rate rose from a pre-crisis level of 12 per cent to 27 per cent by the end of 1997, and then an increase of 30 per cent in early 1998 (Kim, 2000). IMF officials not only transformed South Korea's economy; they also had a great impact on society.

Drawbacks of the IMF Policies:

It can be argued that the IMF's high-interest rate policy has succeeded in strengthening the financial market by blocking outflows of domestic currency, but this has been a major cost of income inequality between rich and poor. Interest policy also did not achieve its goal of increasing foreign investment; rather it has diminished the confidence of foreign investors in the economy as there have been concerns that high interest rates could destabilize the South Korean corporate sector. Another criticism of this policy is that it has led to inflation, in which there has been an increase in unemployment rates among consumer prices.

For the Korean government, it was difficult to abandon the macroeconomic model that brought them long-term success, but many gave up on the idea that accepting IMF rescue conditions was the best way to recover. A study of how Korean people responded to IMF intervention in this crisis shows that while most people were critical of some of the changes, especially declining incomes, there was agreement that this helped long-term recovery. However, it is important to note that opinions on the IMF will differ from who was affected by the crisis and who was not, for example, Koreans who had to pay mortgage or mortgage were critical of IMF policy tightening policies, which increased interest rates.

The IMF has faced a lot of criticism for its approach to the East Asian crisis, especially the validity of its policies. While South Korea may recover faster compared to other East Asian economies, it comes at a higher cost through mass unemployment and major structural changes. It is also important to remember that the IMF has pushed East Asian countries to open their markets, and it has been found that this rapid financial liberation has not been the ideal path to economic growth

One of the IMF's most widely criticized policies was its spending policy, which reduced the amount of borrowing the government could participate in; thinking that it would increase the amount needed to repay the IMF and other external lenders. The International Monetary Fund (IMF) has also called for a reduction in international spending, which has reduced the amount of money distributed and increased interest rates. High-interest rates were expected to slow cash out and raise overseas investments. The IMF's financial consolidation was also introduced to prevent further inflation, but instead resulted in higher interest rates, which also increased the interest rates of private firms, reducing their access to credit by undermining investor confidence. If the IMF had not enforced policies that increased interest rates, it would probably not have exacerbated the effects of the financial crisis on the economic downturn and declining tax revenue (Krause, 2000).

Comparative Analysis of Economic Conditions at a Glance:

One of the major effects of the Asian financial crisis is rising unemployment in all countries affected by the crisis. This crisis led to a slowdown in GDP, which led to delays in job growth in Malaysia and South Korea. Facts and figures are stated below to highlight the socio-economic conditions of both countries without and with the help of the IMF in their respective recovery.

Malaysia (without IMF loan)	South Korea (with the help of an IMF loan)
Employment growth stood at 4.9 and 4.6% in 1996 and 1997 respectively. However, it gained 3 per cent in 1998. The unemployment rate in the country increased from 2.6% in 1997 to more than 5% in 1998.	Huge dismissals followed to decrease labour costs. The Korean labour market confronted a record-high unemployment rate of 7% in 1998 and 6.3% in 1999 for the first time in subsequently 1960s.
83,865 employees have been retrenched. This figure has risen sharply to 19,000 in 1997. 30,152 employees lost their jobs in 1998	The number of unemployed rose steeply from 568,000 in 1997 to 1,490,000 in 1998 and 1,374,000 in 1999.
At the same, time inflation reached 6.2 per cent in June 1998.	Inflation reached 7.51% from 4.4% in 1998
The data reached an all-time high of 11.06 % pa in Jun 1998 and dropped to 7.5 in June 1999	The interest rate has risen from 12 per cent to 27 per cent
In 1998, the GDP growth rate fell to -7.4% and increased to 6.1% in 1999	In September 1998, the gross domestic product growth rate (negative) was –6.9% and reached 11.5% in 1999

Source: Bureau of Statistics Malaysia, Statistics Korea.

CONCLUSION:

This study has analyzed the economies of Malaysia and South Korea during their fight with the Asian Financial Crisis to conclude whether the role of IMF during the crisis was worth it or not. The discussion concludes that while South Korea's IMF rescue package may have provided several benefits and helped its recovery, it came with significant social costs including the loss of income and unemployment of its people. While economic growth may be good for the nation, it is not a real indicator of quality of life. In particular, the difficulties faced by other East Asian countries under the strict conditions of the recovery packages point to errors in IMF strategies. The IMF has acknowledged its failure in the Asia Financial Crisis in 2013, indicating that it intends to improve its performance as a financial institution to achieve its goals. On the other hand in Malaysia, the government capital control policies remained more abundant. Even though the growth rate of Malaysian GDP didn't reach the level of South Korea it did perform magnificently well in maintaining social conditions. The unemployment rate of Malaysia remained low and the quality of life of people over there didn't get catastrophic change.

Future Recommendations:

- IMF and other international financial institutions should advocate a neo-liberal model of the economy rather than a conventional liberal model.
- If the IMF wants to remain relevant, it has to adopt flexible structural changing requirements that put less pressure on the social life of countries.
- A better system for predictions of international financial imbalances should be introduced.
- It remains vital to build effective, strong and translucent national financial structures, capable of enduring such swings.
- There is also an effort to be made to refine the resilience of the global financial architecture and consolidate its legitimacy.

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