Discussion

1. General Discussion

Discussion centred on the implications of Sakakibara's paper for the choice of exchange rate regime and the role of the IMF.

It is often argued that the most successful exchange rate regimes are either freely floating or rigidly fixed. Yet not everyone accepted that the polarisation of regimes was desirable.

The inevitability of the polarisation of exchange rate regimes was also disputed. Intermediate regimes continue to flourish around the world, suggesting that flexibility in the mode of exchange rate management remains an option for economies which are functioning well and which have currencies that are not subject to extreme speculative pressure.

Preventative measures for currency crises were also discussed. Some felt that earlier exchange rate floating in east Asia may have relieved subsequent pressure on foreign exchange markets, while others felt that exchange rates could have been devalued and defended more vigorously at a lower rate.

The effectiveness of standstill arrangements – the suspension, or restructuring, of foreign debt repayments – was also discussed. One participant argued that standstills impose severe economic distortions. Another participant suggested that South Korea's experience casts doubt on the efficacy of standstills, citing BIS data that identified large capital outflows from South Korea in the first quarter of 1998, despite the introduction of a voluntary standstill at the end of 1997.

Be that as it may, official controls on capital movements might still be useful. As one participant observed, no economic regulation is invalidated simply because it is subject to imperfect compliance. Rather, the costs associated with evasion need to be weighed against the social benefit of the regulations which, in the case of a standstill on the repayment of foreign debt, may be a reduction in the extent of economic dislocation in the crisis country.

Institutional development was seen by some as central to the prevention of crises. It was argued that monetary authorities need to improve their communication with financial markets. More broadly, one speaker identified governance problems as a contributory factor in the east Asian crisis.

On a different tack, some participants supported Singaporean-style regulations which aim to limit potentially destabilising speculation from offshore markets.

Discussion about the IMF revolved around the political aspects of the Fund's approach to crisis management and containment. One participant argued that conditionality in IMF lending was too closely aligned with the interests of the United States and that it adhered too inflexibly to US economic orthodoxy. Indonesia was cited as a country that had suffered from this approach to crisis management. Other participants said that they were encouraged by what they saw as the IMF's increased sensitivity to the social and political ramifications of its rescue packages.