

**THE
INTERNATIONAL
FINANCIAL
ARCHITECTURE**

WHAT'S NEW?

WHAT'S MISSING?

PETER B. KENEN

INSTITUTE FOR INTERNATIONAL ECONOMICS
WASHINGTON, DC
NOVEMBER 2001

Contents

Preface	ix
Acknowledgments	xi
Acronyms	xiii
1 Introduction	1
The Origins of the Architecture Exercise	1
The Rey Report and Private-Sector Involvement	5
The Asian Crisis and the Architecture Exercise	6
What Lies Ahead	11
2 Causes and Consequences of the Recent Crises	13
The Capital Inflow Problem	14
The Mexican Crisis of 1994-95	19
The Asian Crisis of 1997-98	26
Contagion, Exchange Rates, and Output Effects	35
What Happened Thereafter	43
3 Myths and Metaphors	49
Culpability, Confidence, and Conditionality	51
Can the IMF Function as an LLR?	57
Metaphor and Mischief in the Meltzer Report	63
Can Floating Fix It?	71
	vii

4 The Architecture Exercise: What's New?	87
The Evolution of the Architecture Exercise	88
Halifax and Lyon	88
Denver and Birmingham	93
Köln and Okinawa	101
Achieving the Objectives of the Architecture Exercise	105
Detecting Vulnerability	105
Strengthening the Infrastructure in Emerging-Market Countries	109
Limiting Reliance on IMF Financing	111
Applying the Köln Framework	117
5 The Architecture Exercise: What's Missing?	125
Promoting Compliance with Standards and Codes	126
Interim Measures	132
Short Notes on Other Shortcuts	135
Rethinking Private-Sector Involvement	138
Summing Up	150
References	157
Index	173
Tables	
Table 1.1 Official financing for Thailand, Indonesia, and Korea	8
Table 2.1 Private capital flows to developing countries, 1977-95	14
Table 2.2 The balance of payments of Mexico, 1993-96	20
Table 2.3 Change in real GDP of Indonesia, Korea, Malaysia, and Thailand, 1996-99	42
Figures	
Figure 2.1 Mexican exchange rate, 1994-97	21
Figure 2.2 Asian exchange rates, 1996-2000	30