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Analyzing the Global Political Economy

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4 | The Evolution of the International Monetary System

Chapters 4 and 5 discuss the political economy of international money and finance. In chapter 2 we discussed the reasons for the evolution of the international trade system toward institutionalized multilateralism. Similarly, in this chapter we consider how the literature in political economy has tried to explain the evolution of the international monetary system. As for international trade, the international monetary system also became characterized by institutionalized multilateralism by the mid-twentieth century, for a similar combination of material and ideational reasons. In contrast to trade, however, multilateralism in international monetary arrangements peaked in the 1960s and has been in retreat since then. We emphasize the rise of private financial markets and associated political changes in explaining this trend.

Although international monetary arrangements in the nineteenth century were much less politicized at the domestic level than were those for international trade, over the course of the twentieth century this became less true. And at the international level, international monetary arrangements have always been politically controversial. This has much to do with the strong tendencies toward hierarchy in global monetary and financial markets and the asymmetric consequences this has for the distribution of costs and benefits across countries. The conflict between national macroeconomic stabilization policies and international monetary commitments has become more acute with the reemergence of open financial markets since the 1970s. We postpone to chapter 5 a discussion of the consequences of this conflict.

TABLE 4.1
South Korean Balance of Payments, 1996 to 1999:1, by Quarter (US\$ millions)

	1996				1997				1998				1999	
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
1. Current account	-4,358	-5,127	-7,249	-6,272	-7,353	-2,723	-2,053	3,962	10,919	11,118	9,823	8,692	6,193	6,658
A. Goods and services	-4,020	-4,455	-7,007	-5,662	-6,837	-1,879	-1,402	3,739	10,339	11,625	10,410	9,881	6,658	6,779
a. Goods	-2,383	-3,125	-5,526	-3,931	-5,401	-806	-27	3,056	9,717	11,458	10,596	9,856	6,779	6,779
Exports	31,948	32,918	30,110	34,992	31,058	35,960	34,864	36,739	32,675	34,406	31,428	33,613	31,477	31,477
Imports	-34,331	-36,043	-35,636	-38,923	-36,459	-36,766	-34,891	-33,683	-22,958	-22,948	-20,832	-23,757	-24,698	-24,698
b. Services	-1,637	-1,329	-1,482	-1,731	-1,435	-1,073	-1,374	683	622	167	-185	25	-121	-121
Services receipts	5,486	5,933	5,990	6,004	6,016	6,547	6,696	7,043	5,856	6,002	6,069	6,653	5,949	5,949
Services payments	-7,123	-7,262	-7,472	-7,735	-7,451	-7,620	-8,070	-6,360	-5,234	-5,835	-6,254	-6,628	-6,070	-6,070
B. Income	-362	-648	-227	-579	-417	-796	-566	-677	-705	-1,266	-1,114	-1,969	-1,019	-1,019
Income receipts	860	843	952	1,011	1,002	911	893	1,072	992	834	725	720	886	886
Income payments	-1,222	-1,491	-1,179	-1,590	-1,419	-1,707	-1,459	-1,749	-1,697	-2,100	-1,839	-2,689	-1,905	-1,905
C. Current transfers	24	-24	-15	-30	-99	-47	-85	899	1,285	760	527	780	555	555
2. Capital account	-127	-181	-136	-153	-178	-155	-145	-131	-50	350	-65	-64	-84	-84
Capital account credit	4	4	6	5	4	4	5	3	2	432	23	7	3	3
Capital account debit	-131	-185	-142	-158	-182	-159	-150	-134	-52	-82	-88	-71	-87	-87
3. Financial account	5,378	9,847	2,103	6,593	4,215	6,728	763	-20,901	-5,687	147	-3,922	1,025	3,191	3,191
A. Direct investment	-1,181	-396	-590	-178	-507	-225	-661	-212	-334	347	491	114	618	618
Direct investment abroad	-1,586	-1,076	-846	-1,163	-1,131	-1,016	-1,272	-1,031	-839	-821	-1,671	-1,468	-789	-789
Inward direct investment	405	680	256	985	624	791	611	819	505	1,168	2,162	1,582	1,407	1,407
B. Portfolio investment	2,139	5,759	3,252	4,034	2,594	5,829	5,444	428	3,806	568	-3,878	-2,374	952	952
a. Equity securities	760	2,458	879	1,204	536	2,543	505	-1,380	2,890	-17	-224	1,248	2,805	2,805
Assets	-80	-170	-185	-218	-150	47	-249	31	136	-2	-28	-65	43	43
Liabilities	840	2,628	1,064	1,422	686	2,496	754	-1,411	2,754	-15	-196	1,313	2,762	2,762
b. Debt securities	1,379	3,301	2,373	2,830	2,058	3,286	4,939	1,808	916	585	-3,654	-3,622	-1,853	-1,853
Assets	-829	-645	-1,726	-2,146	-159	-325	329	2,483	1,078	-1,164	-57	-1,485	-170	-170
Liabilities	2,208	3,946	4,099	4,976	2,217	3,611	4,610	-675	-162	1,749	-3,597	-2,137	-1,683	-1,683

Source: IMF, *International Financial Statistics*, February 2000.

TABLE 4.1 (cont'd)
South Korean Balance of Payments, 1996 to 1999: I, by Quarter (US\$ millions)

	1996				1997				1998				1999	
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	I
C. Other private investment	4,623	4,697	-333	3,162	2,236	1,220	-3,961	-25,838	-12,265	-902	-544	1,964	1,130	
a. Banks	570	1,470	391	-654	806	422	-1,734	-17,615	-3,517	1,775	463	2,015	1,329	
Assets	-1,534	-688	-2,373	-3,579	-414	-1,242	-555	-6,125	-139	2,220	2,693	2,196	382	
Liabilities	2,104	2,158	2,764	2,925	1,220	1,664	-1,179	-11,490	-3,378	-445	-2,230	-181	947	
b. Other sectors	4,053	3,227	-724	3,816	1,430	798	-2,227	-8,223	-8,748	-2,677	-1,007	-51	-199	
Assets	-1,505	-1,443	-852	-970	-966	-1,609	-1,337	-1,084	-1,030	-749	383	1,202	933	
Liabilities	5,558	4,670	128	4,786	2,396	2,407	-890	-7,139	-7,718	-1,928	-1,390	-1,253	-1,132	
D. Other public investment	-203	-213	-226	-425	-108	-96	-59	4,721	3,106	134	9	1,321	491	
a. Monetary authorities	-19	-1	-10	0	-41	-1	-3	-18	-2	-1	-6	-3	-2	
b. General government	-184	-212	-216	-425	-67	-95	-56	4,739	3,108	135	15	1,324	493	
4. Net errors and omissions	207	-1,173	1,601	462	6	143	-1,151	-4,006	135	-2,226	-1,282	-2,983	-890	
5. Overall balance	1,100	3,366	-3,681	630	-3,310	3,993	-2,586	-21,076	5,317	9,389	4,554	6,670	8,410	
6. Reserves and related items	-1,100	-3,366	3,681	-630	3,310	-3,993	2,586	21,076	-5,317	-9,389	-4,554	-6,670	-8,410	
a. Reserve assets	-1,100	-3,366	3,681	-630	3,310	-3,993	2,586	9,972	-9,357	-11,265	-5,534	-4,812	-6,321	
b. Use of IMF credit and loans								11,104	4,040	1,876	980	-1,858	-2,089	

Source: IMF, *International Financial Statistics*, February 2000.

