Prague 2000

Why we need to decommission the IMF and the World Bank

FOCUS on the Global South

September 2000

Focus on the Global South
c/o CUSRI, Chulalongkorn University, Bangkok 10330, THAILAND
Tel : 662 218 7363/7364/7365/7383 • Fax : 662 255 9976
E-mail : admin@focusweb.org • Web page http://www.focusweb.org

CONTENTS

3

Melbourrne to Prague : the struggle for a deglobalized world

13

The IMF's Asian legacy

30

The Armadillo and the Chameleon : a cautionary tale

34

All in the family : musical chairs in the neo-liberal establishment

37

The end of imagination : the World Bank, the IMF and poverty reduction

From Melbourne to Prague : the struggle for a deglobalized world

*by Walden Bello**

We are, here in Melbourne in the next few days and in Prague in two weeks' time, participating in a historic enterprise : that of creating a critical mass to turn the tide against corporate-driven globalization.

For years, we were told that globalization was benign, that it was a process that brought about the greatest good for the greatest number, that good citizenship lay in accepting the impersonal rule of the market and good governance meant governments getting out of the way of market forces and letting the most effective incarnation of market freedom, the transnational corporation, go about its task of bringing about the most efficient mix of capital, land, technology and labor.

The unrestricted flow of goods and capital in a world without borders was said to be the best of all possible worlds, though when some observers pointed out that to be consistent with the precepts of their 18th century prophet, Adam Smith, proponents of the neoliberal doctrine would also have to allow the unrestricted flow of labor to create this best of all possible worlds, they were, quite simply, ignored.

Such inconsistencies could be overlooked since for over two decades, neoliberalism or, as it was grandiosely styled, the "Washington Consensus" had carried all before it. As one of its key partisans has nostalgically remarked recently, "the Washington Consensus seemed to gain near-universal approval and provided a guiding ideology and underlying intellectual consensus for the world economy, which was quite new in modern history."[1]

Globalization unravels I: the Asian financial collapse

The unrestricted flow of speculative capital in accordance with Washington Consensus doctrine was what our governments in East Asia institutionalized in the early 1990's, under the strong urging of the International Monetary Fund and the US Treasury Department. The result: the $100 billion that flowed in between 1993 and 1997 flowed out in the bat of an eyelash during the Great Panic of the summer of 1997, bringing about the collapse of our economies and spinning them into a mire of recession and massive unemployment from which most still have to recover. Since 1997, financial instability or the constant erosion of our currencies has become a way of life under IMF-imposed monetary regimes that leave the value of our money to be determined day-to-day by the changing whims, moods, and preferences of foreign investors and currency speculators.

Globalization unravels II: the failure of structural adjustment

The Asian financial crisis put the International Monetary Fund on the hotseat, leading to a widespread popular reappraisal of its role in the Third World in the 1980s and early 1990's, when structural adjustment programs were imposed on

---

**Talk delivered at a series of engagements on the occasion of demonstrations against the World Economic Forum (Davos) in Melbourne, Australia, 6-10 September 2000.*
Walden Bello is Executive Director of Focus on the Global South.

over 70 developing countries. After over 15 years, there were hardly any cases of successful adjustment programs. What structural adjustment had done, instead, was to institutionalize stagnation in Africa and Latin America, alongside rises in the levels of absolute poverty and income inequality.

Structural adjustment and related free-market policies that were imposed beginning in the early 1980's were the central factor that triggered a sharp rise in inequality globally, with one authoritative UNCTAD study covering 124 countries showing that the income share of the richest 20 per cent of the world's population rose from 69 to 83 per cent between 1965 and 1990.[2] Adjustment policies were a central factor behind the rapid concentration of global income in recent years—a process which, in 1998, saw Bill Gates, with a net worth of $90 billion, Warren Buffet, with $36 billion, and Microsoft co-founder Paul Allen, with $30 billion, achieve a combined income that was greater than the total combined income of the 600 million that live in the world's 48 least developed countries, a great number of which had been subjected to adjustment programs.

Structural adjustment has also been a central cause of the lack of any progress in the campaign against poverty. The number of people globally living in poverty-that is, on less than a dollar a day— increased from 1.1 billion in 1985 to 1.2 billion in 1998, and is expected to reach 1.3 billion this year.[3] According to a recent World Bank study, the absolute number of people living in poverty rose in the 1990's in Eastern Europe, South Asia, Latin America and the Caribbean, and sub-Saharan Africa-all areas that came under the sway of adjustment programs.[4]

Confronted with this dismal record, James Wolfensohn of the World Bank had the sense to move the institution away from its identification with structural adjustment with public relations initiatives like the SAPRI, or the Structural Adjustment Program Review Initiative, that it said would be jointly conducted with NGOs. But the IMF under the doctrinaire Michel Camdessus refused to see the handwriting on the wall; it sought, instead, to embed adjustment policies permanently in the economic structure through the establishment of the Extended Structural Adjustment Facility (ESAF).

Yet as a consequence of greater public scrutiny following its disastrous policies in East Asia, the Fund could no longer pretend that adjustment had not been a massive failure in Africa, Latin America and South Asia. During the World Bank-IMF meetings in September 1999, the Fund conceded failure by renaming the ESAF the "Poverty Reduction and Growth" Facility. There was no way, however, that the Fund could successfully whitewash the results of its policies. When the G-7 proposed to make IMF certification a condition for eligibility in the now defunct HIPC Initiative, Rep. Maxine Walters of the US House of Representatives spoke for many liberal American lawmakers when she commented, "Do we have to involve the IMF at all? Because, as we have painfully discovered, the way the IMF works causes children to starve."[5]

So starved of legitimacy was the Fund that US Treasury Secretary Larry Summers, who in an earlier incarnation as chief economist of the World Bank was one of the chief backers of structural adjustment, told the US Congress that the "IMF-centered process" of macroeconomic policymaking would be replaced by "a new, more open and inclusive process that would involve multiple international organizations and give national policymakers and civil society groups a more central role."[6]

Globalization unravels III: the debacle in Seattle

Freedom, said Hegel, is the recognition of necessity. Freedom, the proponents of neoliberalism like Hegel's disciple, Francis Fukuyama, tell us, lies in the recognition of the inexorable irreversibility of free-market globalization. Thank god, the 50,000 people who descended on Seattle in late November 1999 did not buy this Hegelian-Fukuyaman notion of freedom as submission and surrender to what seemed to be the ineluctable necessity of the World Trade Organization (WTO).

In the mid-nineties, the WTO had been sold to the global public as the lynchpin of a multilateral system of economic governance that would

provide the necessary rules to facilitate the growth of global trade and the spread of its beneficial effects. Nearly five years later, the implications and consequences of the founding of the WTO had become as clear to large numbers of people as a robbery carried out in broad daylight. What were some of these realizations?

- ❖ By signing on to the Agreement on Trade-Related Investment Measures (TRIMs), developing countries discovered that they had signed away their right to use trade policy as a means of industrialization.
- ❖ By signing on to the Agreement on Trade-Related Intellectual Property Rights (TRIPs), countries realized that they had given high tech transnationals like Microsoft and Intel the right to monopolize innovation in the knowledge-intensive industries and provided biotechnology firms like Novartis and Monsanto the go-signal to privatize the fruits of aeons of creative interaction between human communities and nature such as seeds, plants, and animal life.
- ❖ By signing on to the Agreement on Agriculture (AOA), developing countries discovered that they had agreed to open up their markets while allowing the big agricultural superpowers to consolidate their system of subsidized agricultural production that was leading to the massive dumping of surpluses on those very markets, a process that was, in turn, destroying smallholder-based agriculture.
- ❖ By setting up the WTO, countries and governments discovered that they had set up a legal system that enshrined the priority of free trade above every other good—above the environment, justice, equity, and community. They finally got the significance of consumer advocate Ralph Nader's warning a few years earlier that the WTO, was a system of "trade uber alles."
- ❖ In joining the WTO, developing countries realized that they were not, in fact, joining a democratic organization but one where decisions were made, not in formal plenaries but in non-transparent backroom sessions, and where majority voting was dispensed with in favor of a process called "consensus"-which was really a process in which a few big trading powers imposed their consensus on the majority of the member countries.

The Seattle Ministerial brought together a wide variety of protesters from all over the world focusing on a wide variety of issues. Some of their stands on key issues, such as the incorporation of labor standards into the WTO, were sometimes contradictory, it is true. But most of them, whether they were in the streets or they were in meeting halls, were united by one thing: their opposition to the expansion of a system that promoted corporate-led globalization at the expense of justice, community, national sovereignty, cultural diversity, and ecological sustainablity.

Seattle was a debacle created by corporate overreach, which is quite similar to Paul Kennedy's concept of "imperial overstretch" that is said to be the central factor in the unraveling of empires.[7] The Ministerial's collapse from pressure from these multiple sources of opposition underlined the truth in Ralph Nader's prescient remark, made four years earlier, that the creation of global trade pacts like the WTO was likely to be "the greatest blunder in the history of the modern global corporation." Whereas previously, the corporation's operating within a more or less "private penumbra" made it difficult to effectively crystallize opposition, he argued that "now that the global corporate strategic plan is out in print...gives us an opportunity."[8]

Truth is eternal, but it only makes a difference in human lives when it becomes power. In Seattle, truth was joined to the power of the people and became fact. Suddenly, facts that had previously been ignored or belittled were acknowledged even by the powers-that-be whose brazen confidence had been shaken. For instance, that the supreme institution of globalization was, in fact, fundamentally undemocratic was recognized even by representatives of its stoutest defenders: the United States and the United Kingdom.

Listen to US Trade Representative Charlene Barshefsky after the revolt of the representatives of developing countries that helped bring down the Ministerial: "The process...was a rather exclusionary one," she admitted. "All meetings were held between 20 and 30 key countries... And that meant 100 countries, 100, were never in the room...[T]his led to an extraordinarily bad

feeling that they were left out of the process and that the results...had been dictated to them by the 25 or 30 privileged countries who were in the room."[9]

Listen to Stephen Byers, the UK Secretary for Trade and Industry, after the Seattle shock: " WTO will not be able to continue in its present form. There has to be fundamental and radical change in order for it to meet the needs and aspirations of all 134 of its members."[10]

Globalization unravels IV: Meltzer torpedoes the Bank

The Asian financial crisis triggered the IMF's crisis of legitimacy. The Seattle Ministerial collapse brought the WTO to a standstill. However, under Australian-turned-American Jim Wolfensohn's command, the World Bank seemed likely to escape the massive damage sustained by its sister institutions. But the torpedo in the form of the famous Meltzer Commission found its mark in February of this year.

Formed as one of the conditions for the US Congress' voting for an increase of its quota in the IMF in 1998, the Commission was a bipartisan body that was tasked to probe the record of the Bank and Fund with the end in view of coming up with recommendations for the reform of the two institutions. Exhaustively examining documents and interviewing all kinds of experts, the Commission came up with the devastating conclusion that with most of its resources going to the better off countries of the developing world and with the astounding 65-70 per cent failure rate of its projects in the poorest countries, the World Bank was irrelevant to the achievement of its avowed mission of global poverty alleviation. And what to do with the Bank? The Commission urged that most of the Bank's lending activities be devolved to the regional developing banks. It does not take much, however, for readers of the report to realize that, as one of the Commission's members revealed, it "essentially wants to abolish the International Monetary Fund and the World Bank," a goal that had "significant pockets of support...in our Congress."[11]
Much to the chagrin of Wolfensohn, few people came to the defense of the Bank, and it was in a state of shock that the agency held its joint spring meeting with the IMF in a Washington, DC, that was shut down by some 40,000 protestors. The spirit of demoralization that gripped the Bank was conveyed in Wolfensohn's missive to Bank staffers before the meeting that "the next week will be a trying time for most of us."[12] That the April 2000 meeting of the Bretton Woods twins could take place only under heavy police protection, with the use of a system of decoys to breach protesters' lines in order to bring apprehensive delegates to the fortified bunkers at Pennsylvania and 19th NW in central DC spoke volumes about the tattered legitimacy of the two institutions.

The Davos process I: relegitimizing globalization

Why do I keep coming back to the question of legitimacy? Because, as the great Italian thinker Antonio Gramsci pointed out, when legitimacy has vanished and is not regained, it is only a matter of time before the structure collapses, no matter how seemingly solid it is. Many of the key advocates of globalization realized this in the wake of the joint crisis of the WTO and the Bretton Woods twins. They knew that the strategy of denial that these three institutions deployed in the past would no longer work and that the aggressive approach of pro-globalization firebrands like Martin Wolf of the Financial Times, who accused NGOs of ignorance and of being an "uncivil society," was likely to be counterproductive.

To the more soberminded among the pro-globalization forces, the first thing to do was to recognize the facts. Fact No. 1, according to the influential free trader C. Fred Bergsten, head of Washington's Institute of International Economics, was that "the anti-globalization forces are now in the ascendancy."[13] And Fact No. 2 was that central to the response to these forces "has to be an honest recognition and admission that there are costs and losers," that " globalization does increase income and social disparities within countries" and "does leave some countries and some groups behind."[14]
Here is where the Davos process—of which the current exercise of the World Economic Forum (WEF) is a part—has proven to be central to the

project of relegitimizing globalization. Davos, high up in the Swiss Alps, is not the center of a global capitalist conspiracy to divide up the world. Davos is where the global elite meets under the umbrella of the WEF to iron out a rough consensus on how to ideologically confront and defuse the challenges to the system. Meeting shortly after what many regarded as the cataclysm in Seattle, the Davos crew in late January composed the politically correct line. Repeated like a mantra by personalities like Bill Clinton, Tony Blair, Bill Gates, Nike CEO Phil Knight, and WEF guru Klaus Schwab, the chorus went this way: "Globalization is the wave of the future. But globalization is leaving the majority behind. Those voices spoke out in Seattle. It's time to bring the fruits of globalization and free trade to the many."

It was British Prime Minister Tony Blair who best articulated the vision and rhetoric of "compassionate globalization." Blair said: "Alongside the advance of global markets and technologies, we are seeing a new search for community, locally, nationally, and globally that is a response to change and insecurity, but also reflects the best of our nature and enduring values. With it is coming a new political agenda-one that is founded on mutual responsibility-both within nations and across the world."[15]

He continued: "We have the chance in this century to achieve an open world, an open economy, and an open economy with unprecedented opportunities for people and business. But we will succeed only if that open society and economy is underpinned by a strong ethos of mutual responsibility-by social inclusion within nations, and by a common commitment internationally to help those affected by genocide, debt, and environment."[16]

"I call it a Third Way," Blair declared with passion. "It provides a new alternative in politics-on the centre and centre-left, but on new terms. Supporting wealth creation. Tackling vested interests. Using market mechanisms. But always staying true to clear values-social justice, democracy, cooperation.... From Europe to North America, Brazil to New Zealand, two great strands of progressive thought are coming together. The liberal commitment to individual free in the market economy, and the social democratic commitment to social justice through the action of government, are being combined."[17]

Now, one thing that the British public has finally realized about Mr. Blair is that with him, there is a huge gap between rhetoric and substance. What actually does "globalization with a conscience" or the "Third Way" or "globalization with compassion" have to offer? To find out, one must turn from Blair to Bergsten, who, to his credit, dispenses with the soaring rhetoric and admits that the program is actually a system of "transitional safety nets...to help the adjustment to dislocation" and "enable people to take advantage of the phenomenon [of globalization] and roll with it rather than oppose it."[18] In short, instead of being run over by the globalization express, people will be asked to quietly and peacefully roll over and adjust to the constant and unpredictable change wrought by the TNCs search for profitability.

The Davos process II: coopting the United Nations

As important as the rhetoric in the Davos response is the process of bringing people onto the bandwagon. This would be achieved through dialogue, consultation, and the formation of "partnerships" between TNCs, governments, the United Nations, and civil society organizations. The UN was a piece of cake. Discussions with Secretary General Kofi Annan produced the "Global Compact" that has become the centerpiece of the United Nations' Millennial Celebrations. Signed by 44 TNCs, the Compact has been promoted by Annan as a major step forward for it supposedly commits its signatories to respect human, labor, and environmental rights and provide positive examples of such behavior. To many NGOs, on the other hand, the Global Compact is turning out to be one of the UN's biggest blunders for the following reasons:

- ❖ Despite a Compact provision that membership in the Compact will not be given to business entities complicit in human rights violations, the founding membership includes the worst corporate transgressors of human rights, environmental rights, and labor rights: Nike, Rio Tinto, Shell, Novartis, and BP Amoco.

- The Compact will provide a great public relations venue for these corporations to promote a clean image very different from the reality since compliance with the Compact will be self-monitored and no sanctions exist for violating the Compact's principles.
- The Corporations will be able to use the UN logo as a seal of corporate responsibility, thus appropriating the UN's image of international civil service "not only for short-term profit but also for the long-term business goal of positive brand image."[19]

The Davos process III: managing civil society

As for civil society organizations, they were not as naive as Annan and the UN and thus neutralizing them demanded more sophisticated measures. As a first step, one had to divide their ranks by publicly defining some as "reasonable NGOs" that were interested in a "serious debate" about the problems of globalization and others as "unreasonable NGOs" whose agenda was to "close down discussion."[20] Then towards those identified as "reasonable," one put into motion what one might call a strategy of "disarmament by dialogue" designed to integrate them into a "working partnership" for reform.

Here the model was the "NGO Committee on the World Bank" and other joint World Bank-NGO bodies set up by Wolfensohn and his lieutenants in the mid-nineties. While the NGOs that joined these bodies may have done so with the best of intentions, Wolfensohn knew that their membership in itself already helped to legitimize the Bank and that over time these NGOs would develop a stake in maintaining the formal relationship with the Bank. Not only was Wolfensohn able to split the Washington, DC, NGO community, but he was able to harness the energies of a number of NGOs-many of them unwittingly—to project the image of a Bank that was serious about reforming itself and reorienting its approach to eliminating poverty before Meltzer Commission was able to expose the hollowness of the Bank's claims.

Wolfensohn 's neutralization of a significant section of the Washington, DC, NGO community in the mid-1990s should serve as a warning to civil society of the mettle of the forces it is up against. The stakes are great, and how civil society responds at this historical moment to the aggressive courtship being mounted for its hand will make the difference in the future of the globalization project. Developments are so fluid in the correlation of forces in the struggle between the pro-globalization and anti-globalization camps that strategies that might have been realistic and appropriate pre-Seattle, when the multilateral institutions had more solidity and legitimacy, may be timid and inappropriate, if not counterproductive, now that the multilateral agencies are in a profound crisis of legitimacy. Let me be specific:

- Will NGOs breathe life into a WTO process that is at standstill by pushing for the incorporation of labor and environmental clauses into the WTO agreements instead of reducing the power and authority of this instrument of corporate rule by doing all in their power, for instance, to prevent another trade round from ever taking place?
- Will they throw a life saver to the Bretton Woods institutions by participating in the civil society-World Bank-IMF consultations that are to be the central element of the "Comprehensive Development Framework" that Wolfensohn and the IMF leadership sees as the key to the relegitimization of the Bretton Woods twins?
- Will they allow themselves to be sucked into the Davos process of "reasonable dialogue" and "frank consultation" when the other side sees dialogue and consultation mainly as the first step to the disarmament of the other side?

Reform or disempowerment?

Our tactics will depend not only on the balance of forces but will turn even more fundamentally on our answer to the question: Should we seek to transform or to disable the main institutions of corporate-led globalization?

Institutions should be saved and reformed if they're functioning, while defective, nevertheless can be reoriented to promote the interests of society and the environment. They

should be abolished if they have become fundamentally dysfunctional. Can we really say that the IMF can be reformed to bring about global financial stability, the World Bank to reduce poverty, and the WTO to bring about fair trade? Are they not, in fact, imprisoned within paradigms and structures that create outcomes that contradict these objectives? Can we truly say that these institutions can be reengineered to handle the multiple problems that have been thrown up by the process of corporate-led globalization?

Perhaps we can best appreciate the current situation by borrowing from Thomas Kuhn's classic Structure of Scientific Revolutions.21 Scientific paradigms, says Kuhn, enter into crisis when they can no longer explain or handle dissonant data after dissonant data thrown up by observation. At this point, the community of science diverges in its responses. Some try to salvage the dominant paradigm with endless minute adjustments that merely prolong its inevitable demise. A brave few try to cut cleanly from it in favor of a simpler, more elegant, and more useful paradigm-in a manner similar to the way the founders of early modern science simply junked the old, hopelessly complex Ptolemaic paradigm for explaining the cosmos (the sun and other celestial bodies moving around the earth) in favor of the simpler Copernican paradigm (the earth moving around the sun).

Like scientific paradigms in crisis, the dominant institutions of globalization can no longer handle the multiple problems thrown up by the process of corporate-led globalization. Instead of trying to reform the multilateral institutions, would it in fact be more realistic and "cost-effective," to use a horrid neo-liberal term, to move to disempower, if not abolish them, and create totally new institutions that do not have the baggage of illegitimacy, institutional failure, and Jurassic mindsets that attach to the IMF, World Bank, and WTO?

Disabling the corporation

Indeed, I would contend that the focus of our efforts these days is not to try to reform the multilateral agencies but to deepen the crisis of legitimacy of the whole system. Gramsci once described the bureaucracy as but an "outer trench behind which lay a powerful system of fortresses and earthworks." We must no longer think simply in terms of neutralizing the multilateral agencies that form the outer trenches of the system but of disabling the transnational corporations that are fortresses and the earthworks that constitute the core of the global economic system. I am talking about disabling not just the WTO, the IMF, and the World Bank but the transnational corporation itself. And I am not talking about a process of "reregulating" the TNCs but of eventually disabling or dismantling them as fundamental hazards to people, society, the environment, to everything we hold dear.

Is this off the wall? Only if we think that the shocking irresponsibility and secrecy with which the Monsantos and Novartises have foisted biotechnology on us is a departure from the corporate norm. Only if we also see as deviations from the normal Shell's systematic devastation of Ogoniland in Nigeria, the Seven Sisters' conspiracy to prevent the development of renewable energy sources in order to keep us slaves to a petroleum civilization, Rio Tinto and the mining giants' practice of poisoning rivers and communities, and Mitsubishi's recently exposed 20-year-cover up of a myriad of product-safety violations to prevent a recall that would cut into profitability. Only if we think that it is acceptable business practice and ethics to pull up stakes, lay off people, and destroy long-established communities in order to pursue ever-cheaper labor around the globe-a process that most TNCs now engage in.

No, these are not departures from normal corporate behavior. They are normal corporate behavior. And corporate crime against people and the environment has, like the Mafia, become a way of life because, as the British philosopher John Gray tells us, "Global market competition and technological innovation have interacted to give us an anarchic world economy." To such a world of anarchy, scarcity, and conflict created by global laissez-faire, Gray continues, "Thomas Hobbes and Thomas Malthus are better guides than Adam Smith or Friedrich von Hayek, with their Utopian vision of a humanity united by "the benevolent harmonies of competition."[22] Smith's world of peacefully competing

enterprises has, in the age of the TNC, degenerated into Hobbes' "war of all against all."

Gray goes on to say that "as it is presently organized, global capitalism is supremely ill-suited to cope with the risks of geo-political conflict that are endemic in a world of worsening scarcities. Yet a regulatory framework for coexistence and cooperation among the world's diverse economies figures on no historical or political agenda."[23] Recent events underline his point. When the ice cap on the North Pole is melting at an unprecedented rate and the ozone layer above the South Pole has declined by 30 per cent, owing precisely to the dynamics of this corporate civilization's insatiable desire for growth and profits, the need for cooperation among peoples and societies is more stark than ever. We must do better than entrust production and exchange to entities that systematically and fundamentally work to erode solidarity, discourage cooperation, oppose regulation except profit-enhancing and monopoly-creating regulation, all in the name of the Market and Efficiency.

It is said that in the age of globalization, nation-states have become obsolete forms of social organization. I disagree. It is the corporation that has become obsolete. It is the corporation that serves as a fetter to humanity's movement to new and necessary social arrangements to achieve the most quintessentially human values of justice, equity, democracy, and to achieve a new equilibrium between our species and the rest of the planet. Disabling, disempowering, or dismantling the transnational corporation should be high on our agenda as a strategic end. And when we say this, we do not equate the TNC with private enterprise, for there are benevolent and malevolent expressions of private enterprise. We must seek to disable or eliminate the malevolent ones, like the Mafia and the TNC.24

The struggle for the future I: deglobalization

It is often said that we must not only know what we are against but what we are for. I agree-though it is very important to know very clearly what we want to terminate so that we do not end up unwittingly fortifying it so that, like a WTO fortified with social and environmental clauses, it is given a new leash on life.

Let me end, therefore, by giving you my idea of an alternative. It is, however, one that has been formulated for a Third World, and specifically Southeast Asian, context. Let me call this alternative route to the future "deglobalization."

What is deglobalization?

I am not talking about withdrawing from the international economy.

I am speaking about reorienting our economies from production for export to production for the local market;

about drawing most of our financial resources for development from within rather than becoming dependent on foreign investment and foreign financial markets;

about carrying out the long-postponed measures of income redistribution and land redistribution to create a vibrant internal market that would be the anchor of the economy;

about deemphasizing growth and maximizing equity in order to radically reduce environmental disequilibrium;

about not leaving strategic economic decisions to the market but making them subject to democratic choice;

about subjecting the private sector and the state to constant monitoring by civil society;
about creating a new production and exchange complex that includes community cooperatives, private enterprises, and state enterprises, and excludes TNCs;

about enshrining the principle of subsidiarity in economic life by encouraging production of goods to take place at the community and national level if it can be done so at reasonable cost in order to preserve community.

We are talking, moreover, about a strategy that consciously subordinates the logic of the market, the pursuit of cost efficiency to the values of

security, equity, and social solidarity. We are speaking, in short, about reembedding the economy in society, rather than having society driven by the economy.

The struggle for the future II: a plural world

Deglobalization or the reempowerment of the local and national, however, can only succeed if it takes place within an alternative system of global economic governance. What are the contours of such a world economic order? The answer to this is contained in our critique of the Bretton Woods cum WTO system as a monolithic system of universal rules imposed by highly centralized institutions to further the interests of corporations-and, in particular, US corporations. To try to supplant this with another centralized global system of rules and institutions, though these may be premised on different principles, is likely to reproduce the same Jurassic trap that ensnared organizations as different as IBM, the IMF, and the Soviet state, and this is the inability to tolerate and profit from diversity.

Today's need is not another centralized global institution but the deconcentration and decentralization of institutional power and the creation of a pluralistic system of institutions and organizations interacting with one another, guided by broad and flexible agreements and understandings.

We are not talking about something completely new. For it was under such a more pluralistic system of global economic governance, where hegemonic power was still far from institutionalized in a set of all-encompassing and powerful multilateral organizations and institutions that a number of Latin American and Asian countries were able to achieve a modicum of industrial development in the period from 1950 to 1970. It was under such a pluralistic system, under a General Agreement on Tariffs and Trade (GATT) that was limited in its power, flexible, and more sympathetic to the special status of developing countries, that the East and Southeast Asian countries were able to become newly industrializing countries through activist state trade and industrial policies that departed significantly from the free-market biases enshrined in the WTO.

Of course, economic relations among countries prior to the attempt to institutionalize one global free market system beginning in the early 1980's were not ideal, nor were the Third World economies that resulted ideal. But these conditions and structures underline the fact that the alternative to an economic Pax Romana built around the World Bank-IMF-WTO system is not a Hobbesian state of nature. The reality of international relations in a world marked by a multiplicity of international and regional institutions that check one another is a far cry from the propaganda image of a "nasty" and "brutish" world. Of course, the threat of unilateral action by the powerful is ever present in such a system, but it is one that even the most powerful hesitate to take for fear of its consequences on their legitimacy as well as the reaction it would provoke in the form of opposing coalitions.

In other words, what developing countries and international civil society should aim at is not to reform the TNC-driven WTO and BrettonWoods institutions, but, through a combination of passive and active measures, to radically reduce their powers and to turn them into just another set of actors coexisting with and being checked by other international organizations, agreements, and regional groupings. These would include such diverse actors and institutions as UNCTAD, multilateral environmental agreements, the International Labor Organization, the European Union, and evolving trade blocs such as Mercosur in Latin America, SAARC in South Asia, SADCC in Southern Africa, and a revitalized ASEAN in Southeast Asia.

More space, more flexibility, more compromise—these should be the goals of the Southern agenda and the civil society effort to build a new system of global economic governance. It is in such a more fluid, less structured, more pluralistic world, with multiple checks and balances, that the nations and communities of the South-and the North—will be able to carve out the space to develop based on their values, their rhythms, and the strategies of their choice.

Let me quote John Gray one last time. "It is legitimate and indeed imperative," he says, "that we seek a form of rootedness which is sheltered from overthrow by technologies and market processes which in achieving a global reach that is disembedded from any community or culture, cannot avoid desolating the earth's human settlements and its non-human environments." The role of international arrangements in a world where toleration of diversity is a central principle of economic organization would be "to express and protect local and national cultures by embodying and sheltering their distinctive practices."[25]

Let us put an end to this arrogant globalist project of making the world a synthetic unity of individual atoms shorn of culture and community. Let us herald, instead, an internationalism that is built on, tolerates, respects, and enhances the diversity of human communities and the diversity of life.

Walden Bello is the Executive Director of Focus on the Global South, a program of research, analysis, and advocacy of the Chulalongkorn University Social Research Institute (CUSRI) in Bangkok, Thailand and Professor of Sociology and Public Administration at the University of the Philippines. Author or co-author of 11 books on Asian economic and political issues, including *A Siamese Tragedy: Development and Disintegration in Modern Thailand* (London: Zed Press, 1998) and *Dragons in Distress: Asia's Miracle Economies in Crisis* (London: Penguin, 1992)

[1] C. Fred Bergsten, "The Backlash against Globalization," Speech delivered at the 2000 Meeting of the Trilateral Commission, Tokyo, April 2000. Downloaded from Internet.

[2] Cited in Giovanni Andrea Cornia, "Inequality and Poverty Trends in the Era of Liberalization and Globalization," Paper delivered at the "United Nations Millenium Conference," Tokyo, January 19-20, 2000.

[3] Ibid.; see also, "Number of World's Poor Unchanged in the 1990's," Reuters, August 3, 2000.

[4] Cornia.

[5] Quoted in Associated Press, reproduced in *Business World*, Nov. 15, 1999.

[6] Op-ed column, *Washington Post*, reproduced in Today (Manila), Nov. 15, 1999.

[7] Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Vintage Books, 1989).

[8] Ralph Nader, speech at International Forum on Globalization Teach-in on "The Social, Ecological, Cultural, and Political Costs of Economic Globalization," Riverside Church, New York, Nov. 10, 1995; quoted in Joshua Karliner, *The Corporate Planet* (San Francisco: Sierra Club, 1997), p. 207.

[9] Press briefing, Seattle, Washington, Dec. 2, 1999.

[10] Quoted in "Deadline Set for WTO Reforms," Guardian News Service, Jan. 10, 2000.

[11] Bergsten.

[12] James Wolfensohn, Memo on "Disruptions at Spring Meetings," World Bank, Washington, DC, April 13, 2000.

[13] Bergsten.

[14] Ibid.

[15] Prime Minister Anthony Blair, Speech at the World Economic Forum, Davos, Switzerland, January 28, 2000.

[16] Ibid.

[17] Ibid.

[18] Bergsten.

[19] Letter of International Coalition against Global Compact, July 26, 2000.

[20] The Wolfensohn memo, above, is an interesting exercise in this branding or categorization of NGOs.

[21] Thomas Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1971).

[22] John Gray, *False Dawn* (New York: New Press, 1998), p. 207.

[23] Ibid.

[24] For excellent recent critiques of the corporation, see David Korten, *When Corporations Rule the World* (San Francisco: Kumarian Press/Beret-Koehler, 1995), Joshua Karliner, *The Corporate Planet* (San Francisco: Sierra Club Books, 1997), and Richard Barnet and John Cavanagh, *Global Dreams: Imperial Corporations and the New World Order* (New York: Simon and Shuster, 1994).

[25] John Gray, *Enlightenment's Wake* (London: Routledge, 1995), p. 181.

The IMF's Asian legacy

*By Jacques-Chai Chomthongdi**

INTRODUCTION

The IMF's Asian Legacy is a continuation of earlier work by Focus on the Global South on the causes and consequences of the Asian crisis and the role played by the multilateral institutions. *Taming the Tigers*, released in March 1998, explored the motives and actions of one of the key players in the crisis - the International Monetary Fund. This paper assesses the consequences of IMF intervention over a two to three year period in three crisis-affected countries in the region.

The paper describes what actually happened in Thailand, Indonesia and South Korea under IMF tutelage. In each case, the report assesses the consequences of IMF-prescribed macroeconomic policy reform using leading economic indicators as a guide. It pays particular attention to the impact of the crisis and the policies subsequently adopted by national governments on the domestic economy and the role and capacity of the state. It analyses both progress to date and the consequences of IMF-led structural reforms in the financial, corporate and public sectors. Finally, it examines the enduring human impact both of the crisis and of IMF-led interventions.

The paper finds that even though the IMF prescribed similar therapy for the three countries, the outcomes have been very different in each case. There is in fact little evidence to support the IMF's claim that the limited and in many ways fragile recovery underway in each of the three countries was in fact due to IMF intervention. To the contrary, there is a clear link between IMF intervention and the crisis in the social sector in each country, particularly increasing unemployment and impoverishment. IMF-prescribed financial sector bail outs have saddled all three countries with very high levels of public debt. Servicing this debt will severely limit the state's capacity to mitigate the negative social impacts of the crisis for the foreseeable future, let alone advance on the modest gains made in human development in the pre-crisis period. More perniciously, debt servicing precludes any serious consideration of policy alternatives to the prevailing economic orthodoxy of privatization, liberalization and deregulation.

As Joseph Stiglitz, the former World Bank Chief Economist, clearly put it "IMF boosters suggest that the recession's end is a testament to the effectiveness of the agency's policies. Nonsense. Every recession eventually ends. All the IMF did was to make East Asia's recessions deeper, longer and harder".[1]

In short, this paper demonstrates that despite nearly three years of IMF intervention, little has been done to address many of the problems which precipitated the crisis in the first place. Exchange rate volatility, capital flight, declining export competitiveness and weak financial sector governance continue to plague some if not all of the crisis affected countries. The critical changes that have occurred - at least from the perspective of the poor - are routinely ignored or downplayed by the IMF. These include increased unemployment, declining wages and conditions,

**Jacques-chai Chomthongdi is a research associate at Focus on the Global South, a policy research and advocacy organisation based in Bangkok, Thailand. jacques-chai@focusweb.org*

increased public debt, cuts in health and education expenditure, increased foreign ownership and reduced national sovereignity in policy making as the IMF has expanded its role and influence in the region.

The paper finds that many of the negative outcomes could have been avoided if the recommendations proposed in *Taming the Tigers* more than two years ago had been adopted. In particular, governments should urgently:

- ❖ Adopt mechanisms for the effective regulation of international capital flows, particularly short-term speculative capital
- ❖ Negotiate a "debt stand still" and facilitate orderly private sector debt work outs
- ❖ Halt the transfer of private sector debt to the public sector

before further damage is done.

THAILAND

After nearly three years of enthusiastic commitment by Thai governments to International Monetary Fund (IMF) prescribed economic reforms, the current government has repeatedly claimed that Thailand is well on the road to recovery. In June 2000, the Chuan Leekpai administration attempted to confirm these claims by pointing to economic indicators such as increasing GDP growth, rapid export growth, increasing government reserves, declining private debt, a reduction in non-performing loans (NPLs) and increasing private domestic consumption. This view was echoed by the Executive Board of the IMF, which in its final review of the status of the rescue package for Thailand, hailed the country's recovery from the financial crisis as "impressive".

In the words of Stanley Fischer, the IMF's First Deputy Managing Director: "indeed, the recovery has turned out to be impressive: output growth this year is set once again to exceed four per cent, exports are growing rapidly, the balance of payments position remains strong and inflation is well under control".[2]

These claims imply that the IMF-led reform program is the right medicine for the Thai economy and that nothing more is necessary then for the Thai people to swallow the rest of it.

Nonetheless, there are a lot of people, not only academics and activists, but also a fast growing number of ordinary Thais, who challenge these claims.

As the former Chief Economist at the World Bank from 1996 until November 1999 put it "austerity, the Fund's leader said, would restore confidence in the Thai economy...even as evidence of policy failure mounted, the IMF barely blinked, delivering the same medicine to each ailing nation that showed up on its door step".[3]

A narrow focus on a limited number of economic indicators such as those cited by both the IMF and the Thai government invariably conceals more they reveal. The impact of the crisis on different social groups, the extent of the recovery and the consequences of IMF intervention need to be examined from a much more critical perspective, one informed particularly by the experience of the poor. How for example, have funds been found to recapitalise the banking system? What have been the consequences of privatisation and further deregulation of the financial sector? What has happened to domestic businesses, particularly small to medium sized enterprises? What has happened to public debt in the crisis affected countries? What has happened to government investment in health, education and environmental management? What has happened to school retention rates and the health status of the poor as a result? What has happened to employment rates, wages and conditions? What has happened to inequality?

The IMF stabilisation and structural adjustment program in Thailand started in August 1997 when the IMF Executive Broad approved a US$ 4 billion loan for Thailand as part of an overall US$ 17.2 billion bailout package. In return, the Thai Government agreed to implement stabilisation measures and undertake structural reform of the financial sector. The main components of the stabilisation package were tight monetary policy to stabilise exchange rates, strict limits to government spending and further economic liberalisation to improve the balance of payments. Financial sector reform included the closure of non-viable financial institutions, government intervention in the weakest banks and recapitalisation of the banking system.[4]

Under the IMF program, the high cost of financial sector restructuring was to be met through the imposition of harsh fiscal measures including a reduction in public spending and an increase in the VAT tax rate from 7 per cent to 10 per cent. In addition, the IMF insisted on the privatisation of public enterprises in most sectors. These changes were designed to deliver a public sector surplus of 1 per cent of GDP in the 1997/1998 fiscal year. In the long run, these structural adjustments were designed to "deepen the role of the private sector in the Thai economy, and reinforce its outward orientation".[5]

Once the IMF was in charge, interest rates were increased dramatically to help stabilise the exchange rate and to restore confidence in domestic financial assets. The principal aim of interest rate policy was to attract foreign capital. However, net capital movement went from a surplus of US$ 19.5 billion in 1996 to a deficit of US$ 9.1 billion in 1997 and an even larger deficit of US$ 9.5 billion in 1998. Not only did this policy fail to attract or retain foreign capital, it also had a very negative impact on the domestic economy by dramatically increasing costs for domestic business. This had a particularly severe impact on small to medium sized enterprises (SMEs). As a result, up to 1,000 businesses closed per month in 1998, leading to a sharp increase in unemployment and a decline in private consumption.[6] The 1998 Private Consumption Index fell to minus 3.7 per cent. The reduction in public expenditure and the rise in the VAT rate further suppressed domestic private demand.

The IMF already knew that "domestically, there [was] pronounced weakness in private consumption and investment demand, and continued liquidity shortage"[7] (LOI, 26.05.98) but did nothing to change its deflationary policy stance. The IMF only relented when large revenue shortfalls, particularly from corporate income tax and from state enterprises, coupled with the higher then anticipated cost of financial sector restructuring, forced it to allow the public sector deficit to increase to 2.5 per cent and later to 5 per cent. Nonetheless, tight monetary policy was maintained for a full eighteen months after the crisis. The IMF had turned a crisis in the financial sector into a full-blown economic recession.

Financial sector reform was seen as the cornerstone of the IMF economic program. Under IMF guidance, the government nationalised 6 banks and 12 finance companies and closed 56 non-viable finance companies. The remaining financial institutions that were unable to raise capital in the market place were offered up to B 300 million in state funds for recapitalisation. To date, the cost of financial restructuring has been borne by the Financial Institution Development Fund (FIDF).

In both the fourth and fifth Letters of Intent (LOI) with the IMF, the government has confirmed that it will take full financial responsibility for the losses of the FIDF by converting FIDF debt into government debt. This process has already begun with the government issuing bonds to the value of B 500 billion in the 1998/99 fiscal year. Interest on these bonds will be paid from the fiscal budget while repayments of principal will be met from the anticipated proceeds of state enterprise privatisation.[8] In effect, private sector debts, often due to impudent lending, have been transferred to the public sector and hence to the taxpayer.

The auction of assets seized from the 56 failed finance companies by the Financial Restructuring Authority (FRA) has been a failure. At the first auction, assets worth B 31.757 billion were sold to four bidders for a total of only B 11.66 billion, just 37 per cent of their book value. The large size of the bid lots discouraged local participation and favoured powerful foreign bidders that were able to purchase Thai assets at fire-sale prices.

By the end of 1998, it was obvious that the IMF program was pulling the Thai economy deeper into the recession. The IMF's stringent restructuring measures, which even if they had helped restore the stability of the exchange rate, had wrought havoc on the domestic economy. Private investment was down by 45.8 percent from 1997. Export growth in US$ terms had fallen to minus 6.4 percent. The current account stayed in surplus but only because of a sharp decrease in domestic demand and a 35.5 per cent contraction in the value of imports in US$ terms. Non-performing loans in the banking sector had jumped as corporate borrowers were squeezed

by higher debt-servicing costs. Although both commercial banks and finance firms were under significant pressure to raise new capital to help cope with declining asset quality and higher provisioning requirements, the process has been very slow.

During the period of the seventh LOI, more then 21 months after the crisis started, the government finally began to implement measures to stimulate the economy. These included tax reductions and the injection of B 53 billion from the "Miyazawa Initiative" into the economy.[9] The exchange rate had stabilised at around 37 to 39 baht to the US dollar so domestic interest rates were brought down to around pre-crisis levels. In a continuing attempt to attract foreign investment, the government converted the Alien Business Law into a more liberal Foreign Investment Law and amended related legislation to liberalise ownership of land and buildings.

In response, GDP grew by 0.2 percent in the second quarter of 1999 and by 4.2 percent for the whole year. Exports rose by 7.4 percent and inflation dropped to 0.4 percent. These positive trends have continued into 2000. GDP grew by 5.2 per cent in the first quarter of 2000 and GDP growth is expected to average not less than 4 percent for the whole year. Exports grew by 30.4 percent in US$ terms in the first quarter year-on-year. Private sector debt had fallen to US$ 35.4 billion by the end of March 2000, down from US$ 54.6 billion at the end of 1998. Private consumption expanded by 3.5 percent in 1999 and continued to expand by 2.7 percent in the first quarter of 2000. International reserves increased from US$ 29.5 billion at the end of 1998 to US$ 32.2 billion at the end of March 2000.

The crucial factor driving growth in 1999 was domestic demand, reflecting an expansion in both private and public expenditure. Despite the improvement in export performance, net exports recorded a smaller surplus then in the previous year because of a surge in imports. The growth in exports was due to a competitive exchange rate, low real wages that had fallen below pre-crisis levels, the recovery of the regional economy and the continued rapid growth of the US economy which is one of Thailand's biggest export markets. Any slowdown in the US will therefore pose a major risk to the Thai economy because the promised productivity improvements have not eventuated and nor has the Thai economy adopted a more diversified and sustainable export structure.

The main objective of the IMF-led program was to bring back foreign capital. In this regard, it has been a total failure. The 1999 capital account registered a deficit of more than US$ 6.0 billion. Whilst smaller than the deficit in 1998, this was only due to a US$ 6.8 billion surplus on the public sector capital account which resulted from the disbursement of loans under the Miyazawa Plan and the IMF package.

In the banking sector, non-performing loans decreased from 47.03 percent to 36.47 percent between March 1999 and March 2000. However, commercial bank credit declined by 2.8 per cent overall in 1999.

Whilst international reserves have increased and private debt has declined, public debt has increased dramatically. On the eve of the crisis, public debt was B 720 billion or 15.7 percent of GDP; by the end of April 2000, it had jumped to B 2613 billion or 51.9 percent of GDP. If the losses of the FIDF and debt of the Bank of Thailand (BoT) are included, then this figure increases to around B 3500 billion. The proportion of foreign debt has increased dramatically in the past three years due to government borrowings to fund reform and stimulus programs. While the total cost of financial restructuring has yet to be determined, it is obvious that debt servicing will take an increasingly higher share of the budget in years to come. If financial sector losses total B 1.2 trillion, as claimed by BoT, then total debt service costs will reach 19.2 percent of the fiscal budget by 2005.10 Since more than 70 percent of the budget is for routine expenditures such as the maintenance of buildings and payment of salaries, the increasing cost of debt servicing will have a severe impact on both the country's economic and social development in the long term.

Domestic demand grew in both 1999 and the first half of 2000, this in marked contrast to a contraction of 23.9 percent in 1998. Demand

grew much more strongly in the private sector then in the public sector. This was largely due to an increase in consumption by well-off groups who had reduced or withheld spending earlier in the crisis. Government measures to reduce interest rates, income taxes and the VAT rate prompted this increased consumption. However, people on lower salaries could not take advantage of these changes and continued to rely on accumulated savings. Any sustained improvement in private sector demand will require an increase in incomes. In any case, these measures do not bring any benefit to the poor who do not pay income tax and do not have accumulated savings.

As noted previously, financial sector restructuring is in part dependent on the rapid privatisation of state-owned enterprises (SOEs). The Third LOI with the IMF went as far as to identify and set a time frame for the privatisation of specific SOEs. For example, Thai National Airways and the Telephone Organisation of Thailand, two of the most profitable SOEs, were to have been privatised by 1998 and 1999 respectively. However, none of the SOEs had been privatised by September 2000. This was not only because of opposition from elite groups such as politicians and high ranking bureaucrats who benefit from government ownership of enterprises. There has also been growing opposition in Thai society to the sale of public assets, as can be seen in the case of Bangchak Petroleum and the Electricity Generating Authority of Thailand (EGAT). The stalled privatisation process shows how little the IMF understands the political economy of Thailand.

Progress with financial sector reform has also stalled. Few, if any steps have been taken to improve governance and efficiency. In effect, the IMF and the government have rescued rather then reformed the sector, at huge cost to the Thai taxpayer.

According to the IMF, Thailand "has impressively recovered" from the financial crisis. This recovery has occurred despite the failure of financial sector reform and the dearth of new foreign investment, two of the "essential pre-conditions" of an IMF-led recovery. Given this, it is fair to ask "does Thailand need the IMF program at all?".

Thailand: social impact

The IMF-led program in Thailand increased the negative impact of the economic crisis on the poor. Tight monetary policies led to a deep recession in the real economy and resulted in large increases in unemployment. The cuts in public expenditure required by the IMF further diminished the government's already limited ability to mitigate the social impacts of the crisis. In response, the government borrowed US$ 300 million from the World Bank for a "social investment project"; US$ 500 million from the Asian Development Bank (ADB) for a "social sector program loan" and US$ 1,450 million from the Miyazawa Plan for three programs: i) employment schemes; ii) restructuring of the agricultural sector; and iii) industrial credit. There were some immediate benefits from these programs. For example, jobs created through the Miyazawa Plan helped to reduce the number of unemployed. However, funding for these positions will end in September 2000. In addition, many of the public resources did not reach those who needed them the most.

Unemployment rose from 1.5 per cent in 1997 to 4.4 per cent in 1999 before falling slightly to 4.3 percent in 2000 (February round). As noted above, the 1999 and 2000 figures were influenced by the Miyazawa funded job creation scheme which is due to end in September 2000. As a result, the unemployment rate is likely to rise further in the latter part of 2000. Despite a surge in the GDP growth rate from minus 10.2 percent in 1998 to 4.2 percent in 1999, the unemployment rate has increased and will remained high in 2000.

For those still in employment, the nominal wage rate for private employees increased by only 6 percent per annum during the period 1995-1998, almost half the 11.7 percent per annum increases received during the 1992-1995 period.[11] Minimum wage rates for low-income groups have been frozen since January 1998 in all areas. According to official figures, more then 50,000 workers were laid off in 1998. This figure only includes the unemployed who requested job placements from state authorities. Many of the laid-off workers did not receive proper compensation from their employers. In 1998 alone, laid-off workers lodged complaints with

the government claiming about B 24 billion in severance payments from their employers, an increase of 22 percent from 1997.[12] Some of those laid off were re-employed in the formal sector but most became self-employed, home-based workers taking orders from factories or shops on a piece work basis. The increasing number of workers in the informal sector are not protected by law, do not receive welfare benefits and usually have a much lower income.

Since the crisis began, the number of people living under the poverty line has increased by at least 1.1 million and the percentage of Thailand's population living under the poverty line has increased from 11.4% in 1996 to 12.9% in 1998. The 1998 figure clearly understates the current extent of poverty because many people were able to avoid impoverishment by drawing on their savings or other traditional safety net measures during 1998 and 1999. Prices of agricultural outputs were also relatively high in 1998 but prices dropped sharply in 1999 and 2000, concomitant with a sharp increase in the cost of agricultural inputs. As a result, the number and proportion of poor people is expected to have increased significantly in 1999 and 2000.

Inequality has also jumped in Thailand as a result of the crisis, with the Gini index increasing from 0.477 in 1996 to 0.481 in 1998. An ADB regional technical assistance study has shown that the crisis has had the greatest negative impact on low-income and middle income groups. Women-headed households have been particularly badly affected because female incomes are, on average, 26 percent lower than for men and 54 percent of the unemployed are women. This clearly shows that the increase in private sector demand which had fuelled growth in 1999 and 2000 is due largely to increased consumption by upper income groups i.e. those who have suffered least from the recession. It is these groups, not the poor, which have been the principal beneficiaries of the IMF rescue programs to date.

Increasing inequality in incomes has been compounded by cuts in government services. Under the IMF program, the Ministry of Public Health (MOPH) budget was severely cut from B 68.93 billion in 1997 to B 61.69 billion in 1999, a reduction of 17.3 percent. The 2000 budget is lower than it was in 1996. Cuts in public health funding will have an inequitable impact on the health status of low-income groups who rely almost exclusively on publicly funded services compared to the well-off who are able to access private sector health care. The crisis and the cuts to health care funding have had a particularly negative impact on children's' health. The prevalence of underweight schoolchildren increased from 7.9 percent in 1996 to 11.8 and 12.3 percent in 1998 and 1999 respectively. The prevalence of low birth weight newborns also rose from 8.1 percent in 1995 to 8.5 and 8.9 percent in 1998 and 1999 respectively.[13]

Education budgets have also been cut as a result of the IMF austerity program. The education budget fell to around B 202 billion in 1997, down from B 214 billion in 1996, a drop of around 5.7 percent. The 1998 education budget increased slightly to B 207 billion but this was still lower than pre-crisis levels. School retention rates have fallen significantly since the onset of the crisis. The total number of children who dropped out of school from all levels during school year 1998/1999 was estimated at 676,221, an increase of 129,330 from the previous year (SY 1997/98) which in turn was more than 40,000 more than SY 1996/97. [14]

Spending on environmental protection had been increasing each year in the 1990s up until the onset of the crisis in mid 1997. The environmental protection budget for fiscal year 1997/1998 was originally set at B 13.6 billion but it was subsequently reduced to B 11.5 billion because of the austerity program. It was cut again to B 9.2 billion and B 6.9 billion in 1998 and 1999 respectively. After the crisis broke, the emphasis on sustainable development gave way to an emphasis on growth which will inevitably lead to environmental devastation. For example, prior to the economic crisis, the government spent one baht on marine conservation for every three baht it spent on aquaculture promotion. This ratio has been reduced to one baht for every five. Moreover, only B 1.2 billion has been allocated to the promotion of agricultural self-sufficiency whilst B 13.1 billion has been set aside for export-orientated agriculture.[15] These policies will magnify the negative impact of the economic crisis on the environment. Already there are reports of soil degradation due to

agricultural intensification in agro-industrial zones on the central plains.

INDONESIA

Both the implementation and the outcomes of IMF-prescribed macroeconomic policy in Indonesia have been hailed as success story, both by the IMF itself and other supporters of neo-liberalism. The IMF announced in early 1999 that "Policy implementation has continued to be satisfactory since the last review was completed in December 1998, and the major macroeconomic targets under the program for 1998/1999 have been met".[16] The World Bank joined in the chorus, arguing that the stability shown by key economic indicators was the result of the government's sustained commitment to conservative monetary policies.[17] Then, at the IMF's first review of Indonesia's performance under the three-year, US$ 5 billion Extended Fund Facility, Stanley Fischer stated "Executive Directors welcomed Indonesia's recent progress in implementing fiscal and structural reform measures. The key macroeconomic objectives for 2000 set out in the original program remain within reach. Prices are stable...[and] real GDP growth has become significantly positive".[18]

Official positions on the Indonesian recovery vary however. For example, the Asian Development Bank (ADB) went further then both the WB and the IMF in its own review of the Indonesian recovery, stating that "macroeconomic stability not only supported the economic recovery and reduced poverty, but also improved market sentiment towards Indonesia".[19] In contrast, the IMF believes that market sentiment has deteriorated.[20] It blames this on the government for inconsistent implementation of the structural reform program. Despite continuing pressure from the IMF and its sister organisations, only limited progress has in fact been made with structural reform to date. These competing interpretations, made at the same time and using the same information, reflect the different perspectives and political objectives of the two institutions.

As with Thailand, the claim that Indonesia is well on the way to an IMF-led recovery requires critical reexamination, particularly in relation to the social consequences of IMF policies, progress with structural reforms and the impact of the overall reform program on the Indonesian economy.

The IMF prescribed its now familiar tight macro-economic formula when it came to Indonesia: i.e. strict monetary policy to stabilise the exchange rate and a tight fiscal stance to facilitate external adjustment and provide at least some of the resources necessary for financial sector reform.

Interest rates were quickly increased in order to stabilise the rupiah. However, due to the negative impact of high interest rates on domestic businesses, the government lowered interest rates again and tried to adopt a more interventionist approach. The IMF, however, forced the government to abandon all such measures and return to a policy of high interest rates. As a result, the Bank Indonesia (BI) Certificate annual interest rate soared from around 10 percent in June 1997 to a peak of 70 percent in August 1998. The impact of high interest rates on the exchange rate was less then clear cut however.

Despite high interest rates, the rupiah depreciated dramatically from 2,599 to the U.S. dollar in July 1997 to 11,075 to the dollar in August 1998. Some observers argued that political risks, rather than purely economic factors, were influencing the exchange rate. This is probably partially correct because the rupiah plummeted to its lowest level at nearly the same time as wide spread social unrest in Indonesia led to the resignation of President Suharto on May 21, 1998. However, the IMF-prescribed macroeconomic policy was ineffective in retaining existing or attracting new foreign capital. Net private capital outflows in 1998 reached US$13.8 billion compared to US$0.4 billion in 1997.

Not only did the high interest rates fail to influence the exchange rate to any significant degree, tight monetary policy painfully squeezed the domestic economy. The real economy contracted continuously during this period. Each week brought additional reports of firms cutting back or ceasing operation, as inputs became unavailable and demand slumped. Construction

sites stood idle and factories empty. The official unemployment rate increased to 5.5 percent in August 1998 from 4.7 in August 1997.

Moreover, despite the Indonesian economy being in deep recession, the IMF and the Indonesian government maintained a deflationary fiscal stance. The fiscal deficit for 1998/1999 (April-March) was much lower than planned. Rather than the budgeted 8.5 percent of GDP, the actual deficit was only 2.2 percent of GDP. As a result, far from providing a fiscal stimulus to resuscitate domestic demand, the budget had a deflationary effect. Even the smaller then planned fiscal deficit was the result of drastic reduction in government revenue rather than an increase in spending linked to stimulus measures.

Given the decline in domestic demand, strong export performance was seen as being essential to Indonesia's recovery. The depreciation of the rupiah should have raised export competitiveness. Indeed, many businesses re-orientated their production to export markets in early 1998. However, exporting firms experienced difficulty getting trade credits which created shortages in key imported inputs. This, together with the slowdown in traditional Asian markets, resulted in a 10.5% fall in the US$ value of total exports in 1998. The only reason that the current account registered a US$ 4.1 billion surplus in 1998 was the drastic 30.9 percent drop in the value of imports in US$ terms.

Interest rates began to decline from the third quarter of 1998, reaching pre-crisis levels in late 1999 and have remained relatively stable in 2000. The exchange rate followed a similar pattern, with the rupiah appreciating against the dollar from the third quarter of 1998, albeit with a continuing high degree of volatility. For example, despite this general upward trend, the rupiah depreciated by 18 percent between July and September 1999 in the lead up to the presidential election. Following the election, it appreciated again to below 7000 per U.S. dollar. The standard deviation of the exchange rate averaged 5 percent per week in 1999, and even by May 2000 it was still fluctuating by as much as 5 percent per day. This pattern of exchange rate vibration is normally associated with currency speculation. The unstable exchange rate still poses a lot of difficulties in business management.

The IMF argues that macroeconomic stability has been maintained, despite the hiccups in the exchange rate, largely because of positive trends in both inflation and GDP. The inflation rate, which started to decline in the third quarter of 1998, has been relatively low since September 1999. GDP, following a fall of 13 percent in 1998, rose by 0.2 percent in 1999 and is expected to increase to around 3 percent in 2000.

Export growth also appears to have resumed in the first quarter of 2000 with the total value of exports reaching almost 100 percent of pre-crisis levels. However, this is largely due to higher world oil prices. There is no evidence to suggest that exporters have taken advantage of the depreciation of the rupiah to improve productivity. Instead, Bank Indonesia continues to support the gradual weakening of the rupiah in order to maintain export competitiveness.

Imports are also increasing although those of capital goods, particularly machinery and other equipment vital for manufacturing, are still at only 30 percent of their 1997 level. Whilst this was to be expected during the deep recession when much of Indonesia's manufacturing capacity was under-utilised, it now suggests that modernisation plans are still being postponed, despite the increase in the growth rate and the much trumpeted recovery

Private capital inflows in 1999 still registered minus 7.4 percent, although this was a substantial improvement on 1998 figures. FDI has continued to fall, declining from US$ 34 billion in 1997 to less than US$14 billion in 1998 and US$ 10.89 billion in 1999.

The international financial institutions argue that the continued fall in FDI is mainly due to corruption, collusion and nepotism amongst government officers and business players. No doubt such practices do worsen the economic situation. However, it is illogical to attribute the continuing fall in FDI to practices which were much more prevalent in the decades preceding the crisis when the Indonesian economy was buoyed by high and sustained inflows of foreign capital.

A more likely reason for the fall is continued political instability. As recently as mid-2000,

the U.S. government was still warning that: "American citizens travelling to Indonesia should exercise caution. Political activity, demonstrations, and localised hooliganism in Jakarta have increase recently and are expected to continue" and in some provinces "Violence has targeted American companies with growing frequency".[21] This information has probably increased nervousness among foreign investors.

Despite its economic and political difficulties, Indonesia has maintained a relatively open foreign investment regime and has even taken some concrete steps to further streamline its investment application and permit process in order to attract new foreign investors. Investment approval values are showing modest signs of recovery in 2000. According to recent statistics covering the period January 1 2000 through June 15 2000, FDI approvals are up 16.7 percent on the same period in 1999, rising from US$1.8 billion to US$2.1 billion.

The main foci of the structural reform program have been public sector reform, corporate sector restructuring and financial sector restructuring. Since the start of the program in 1997, the IMF has pushed the Indonesian government to further open its economy through the elimination of monopolies and cartels, reform of the wood sector, privatisation of state-owned enterprises (SOEs), and a dramatic downsizing of the National Logistics Agency (BULOG). Whilst monopolies and cartels have been eliminated, including those for cloves, paper, and plywood, the privatisation process has moved at a much slower pace. Whilst the IMF may have achieved its unstated political objectives, it is not clear whether there is a real economic benefit to the country, or the environmental cost of unregulated natural resources exploitation has increased.

Little progress has been made to date with corporate debt restructuring in Indonesia. In late 1998, corporate indebtedness was estimated at US$ 118 billion. In November 1998, the government launched the Jakarta Initiative Task Force (JITF) which aims to provide a framework for and facilitate voluntary out-of-court debt negotiations. Since then, at least 330 corporations holding more than US$ 23 billion in debt, have registered with the JITF. The results, however, have been very disappointing. Less then US$ 1 billion in debt held by only 6 companies has been restructured to date. A commercial court focussing on bankruptcy cases has also been established but as of June 2000, little has been done to address Indonesia's US$ 67 billion offshore corporate debt.

Despite a decade of ostensibly successful WB/IMF promoted financial liberalisation, the deepening crisis drew the Indonesian government into a protracted and costly rescue of the financial sector. At least 70 percent of bank loans were estimated to be non-performing in the wake of the financial crisis which hit Indonesia in 1997 and the banking system's total credit fell by almost 50 percent during 1999. At first, Bank Indonesia provided substantial liquidity credits to affected banks (more than Rp 140 trillion as of June 1998). However, as the extent of the problems in the banking sector became apparent, the government was forced to take more drastic steps and, under the supervision of the IMF and the World Bank, established the Indonesian Bank Restructuring Agency (IBRA). To date, IBRA has overseen the closure of more then 60 private banks, the government takeover of 11 others, and the recapitalisation of a further 7 (with government providing up to 80 percent of the required capital). The total number of banks has declined from 238 pre-crisis to 162 today. As of April 2000, IBRA held almost US$52 billion in assets, including a large number of NPLs. The Indonesian government has also issued around US$ 65 billion in bonds to support deposit guarantees and the recapitalisation of the surviving banks. The total cost of the recapitalisation program is likely to be in the vicinity of US$ 90 billion.[22] Much of this will be met through increasing public debt.

The economic crisis and more specifically the IMF-prescribed financial restructuring program have left Indonesia deeply in debt. Total public debt has risen sharply in the past three years. At end-June 1997, public debt totalled US$ 51 billion, a manageable 23 percent of GDP. However, debt levels jumped to 60 percent of GDP by the end of 1998 and to 93 percent by April 2000 when total public debt reached US$152 billion. This dramatic increase was due primarily to the issuance of bank restructuring bonds (US$ 85 billion, equivalent to about 52

percent of GDP). Debt servicing now accounts for 27 percent of FY2000 expenditures, eclipsing all development expenditure which takes up 21 percent of the budget. The costs of debt servicing will increase in the future, requiring further constraints on expenditure and increased revenue mobilisation. This debt service burden will cripple the capacity of the Indonesia government to mitigate the impact of the crisis on vulnerable groups for the foreseeable future.

Most of the costs arising from the failure of IMF/WB-supported liberalisation of Indonesia's financial market and the malfunction of the banking system have been transferred from private financial institutions - whether domestic or foreign - to the Indonesian public. This apportioning of costs between the public and private sector is highly inequitable and is now impeding long-term development. Cutting back public spending and increasing taxes in order to meet debt service obligations reduces household purchasing power which is a crucial factor in sustainable economic development. This is acknowledged in a recent World Bank report which stated that the recent increase in GDP "has primarily been driven by increased household consumption".[23]

Indonesia: social impact

As the Indonesia economy fell deep into recession, the number of unemployed and underemployed people surged. The total labour force is made up of about 95 million people, 40% of whom are women. Before the crisis began in 1997, the Indonesian government estimated "open" unemployment to be roughly 5 percent. In August 1999, the Labour Force Survey concluded that 6.03 million or 6.4 percent of the labour force were unemployed. However, "open" unemployment is narrowly defined as a person who is working less than one hour a week. If the high level of underemployment is taken into account, then 36 million persons or 38 percent of the labour force were unemployed or underemployed in March 2000. For this and other reasons, unions and non-governmental observers have criticised the official survey for understating real unemployment; these sources estimate that more than half of the labour force is in fact underemployed.

There has been a major shift in employment from the formal to the informal sector (the percentage of workers employed in the latter rose from 62.8 percent to 65.4 percent between 1997 and 1998); and from the modern to the agricultural sector (workers employed in the agriculture rose from 40.8 percent in 1997 to 45 percent of the labour force in August 1998).[24] The associated decline in real wages has had a significant impact on family welfare.

Faced with a sharp increase in the number of people who had fallen below the poverty line, the Indonesian government has sought to support the poor via three main measures: 1) temporary income transfers, through rice distribution to the poor at subsidised prices; 2) income support, through employment creation and by support for SMEs and co-operatives; and 3) preserving access to critical social services, particularly education and health. Nevertheless, most of the government efforts to mitigate the impact on the poor have been limited by severe budget constraints.

Before the crisis hit in 1997, the World Bank estimated that around 10.1 percent of the population lived below the poverty line. A government survey indicated that this had jumped to 20.3 percent by 1999 i.e. an additional 21 million people had fallen below the poverty line in just two years. This still understated the extent of absolute poverty in Indonesia because the Indonesian government uses an extremely low poverty line of 55 U.S. cents a day for urban areas, and 40 U.S. cents a day for rural areas, compared to the WB standard poverty line of US$ 1 per day. Many millions of people living just above the government defined poverty line are in fact poor and highly vulnerable to external shocks.

Although urban areas have been hardest hit by the crisis, rural areas have also suffered. Rural inequality has increased and there has been a significant increase in the vulnerability of rural households, with some groups such as agricultural labourers who are net consumers suffering a very large drop in incomes. Agricultural wages have fallen by around 40 percent in real terms between 1997 and 1998.

Indonesia has been unable to maintain public spending on social services, particularly education and health, at constant real levels. The 1998/99 education budget was cut by 27.65 percent relative to 97/98. Whilst official figures on enrolments for 1999/00 indicate that primary enrolment rates are at pre-crisis levels, the lower secondary enrolment rate has dropped by around 2 percentage points. A study on the correlation between per capita expenditure and enrolment rates indicates that while overall enrolment levels have not declined, poorer families have had more difficulty in keeping their children in school.

Total public health spending fell by 8 percent in 1997/1998 and a further 12 percent in 1998/1999. The health sector has also been severely affected by a sharp rise in the prices of imported drugs, vaccines, contraceptives, and other medical supplies due to the depreciation of the rupiah. An official survey showed that health care utilisation declined quite dramatically in 1998: whilst 53 percent of those reporting an illness sought modern medical care in 1997, only 41 percent did so in 1998. Amongst those who did seek health care, fewer people went to public health facilities (the decline trend was also observed in private facilities). More people turned to self-treatment or traditional healers.

In relation to the environment, a generalised slowdown in production may have resulted in a reduction in pollution but this has probably been counteracted by reduced utilisation of costly pollution controls and less stringent enforcement of regulations. The exploitation of natural resources by both large businesses and by individuals has increased with the latter struggling to maintain household incomes at pre-crisis levels. For example, the rate of forest clearance for farm use has increased. It is widely accepted that illegal logging has increased significantly as a result of the crisis. A U.K. report shows that the illegal supply of logs from native forests is now about equal to the legal supply[25]. Furthermore, a case study in Lampung province has found that the rate of illegal logging had increased to the point where local supplies of timber have been exhausted.[26]

SOUTH KOREA

The South Korean government and the IMF agreed on a rescue package worth US$ 57 billion on December 3, 1997. As with Indonesia and Thailand, South Korea implemented IMF-prescribed tight macroeconomic policy undertook far reaching structural reforms.

After the eighth review of the South Korea program, Stanley Fischer, First Deputy Managing Director, stated: “Directors commended the Korean authorities on the impressive recovery ... the rebound has been made possible by a combination of factors: supportive macroeconomic policies and ... a wide range of structural reforms that addressed the weakness that contributed to the 1997 crisis”.[27]

Fischer’s claim that the “impressive” recovery was due to IMF-led macro-economic policy and structural reforms was designed to deflect increasing international and domestic criticism of IMF programs in South Korea and the region. Serious weaknesses are hidden behind the fa?ade of a strong recovery, including problems arising from the IMF’s own conditions. These are now undermining the sustainability of the South Korean recovery.

By the third week of December 1997, the Bank of Korea (BoK) had sharply raised short-term interest rates from pre-crisis levels of around 12 percent to over 30 percent, in an attempt to secure foreign currency liquidity and stabilise the exchange rate. Fiscal policy was tightened at the same time to cover the cost of financial sector restructuring and to support stabilisation. Higher and more retrogressive taxes were also imposed on the IMF’s recommendation.[28]

It was assumed that these changes would retain existing and attract new foreign capital into the Korean market. After only one month, the program had already fallen well short of IMF expectations. Foreign investment in bonds - which was expected to surge due to high interest rates - barely increased at all. Foreign financial institutions accelerated their retrieval of short-term credits, nearly driving the country to sovereign bankruptcy. As a result of this continuous outflow of foreign capital, the exchange rate fell dramatically to 2,000 won per

U.S. dollar by the end of December 1997. It was only after the South Korean government extended a guarantee to cover most of the private sector's short-term debt that 96.5 percent of Korean commercial bank's debt was converted to medium and long-term loans. This provided the breathing room for Korean commercial banks to improve their foreign currency position.

In only a matter of months, the IMF shock therapy had transformed a financial crisis into an economic crisis. In a chain reaction, the credit crunch led to a dramatic increase in bankruptcies - both corporate and individual - and massive dismissals. For example, by February 1998, the number of bankruptcies had soared to more than three times the pre-crisis level. From the end of 1997 to the middle of 1998, an average of two to three thousand companies went bankrupt each month.

Surviving firms responded by slashing investment, reducing inventories and cutting labour costs. Consequently, the overall investment growth rate dropped from 4.3 percent in 1997 to minus 23.3 percent in 1998. The unemployment rate soared from 2.1 percent in the third quarter of 1997 to 8.6 percent in February 1999. In February 1998, the number of jobless exceeded one million for the first time.

As corporate bankruptcies increased and the economic recession deepened, the IMF gave the South Korean government permission to lower interest rates in May 1998. Since then, the government has been pursuing a low interest rate policy. The IMF also agreed to a fiscal deficit of 5 percent of GDP but only after a protracted series of readjustments. Initially, the IMF only accepted a deficit of 0.8 percent of the GDP, then as the recession continued, this was relaxed to 1.7 percent, 4.0 percent, and 5.0 percent in April, July and October respectively.

The key components of the structural reform program included corporate restructuring, financial sector restructuring, public sector restructuring and market liberalisation.

To accelerate corporate sector restructuring, all forms of mergers and acquisitions (M&As), including hostile takeovers, were liberalised in May 1998. Moreover, the IMF demanded the liquidation of cross-debt guarantees within a short period of time. The IMF argued that this previously common practice between affiliates belonging to the same conglomerate was a major cause of the banking sectors' huge losses because financial problems in one company could lead to the bankruptcy of the entire conglomerate. Nonetheless, the liquidation of cross-debt guarantees raised debt levels and depressed company investment, deepening an already severe recession.

On December 1998, the government and the top five Chaebal reached an agreement on the implementation of the "big deal" program. This was originally intended to alleviate over-investment and hence over-competition between big companies, principally through business swaps. However, rather then engage in business swaps, companies consolidated their position through takeovers or mergers. As a result, the number of affiliated companies belonging to the five largest Chaebal was significantly reduced from 262 in April 1997 to 177 in December 1999.

The restructuring of the financial sector has been driven by the government under the guidance of the IMF. The key components of the strategy were the closure of weak institutions and increased government support for surviving institutions. By the end of 1999, the number of commercial banks had declined from 27 to 17, and the number of employees had fallen by one-third28. In order to support the surviving institutions, the government established a "public fund" using W 64 trillion of taxpayer's money - W 32.5 trillion for purchasing NPLs and W 31.5 trillion for recapitalising financial institutions and deposit repayments. Many people dispute the reported success of financial sector restructuring in Korea. They argue that not only did the IMF strategy create "moral hazard" through the use of taxpayer funds to solve problems arising from the malfunction of the banking system and inappropriate financial sector liberalisation, they also believe that large amounts of public funds could have been saved through changes in macro-economic policy. This is because the excessively high interest rates and the bank's efforts to observe the Bank of International Settlements (BIS) capital adequacy ratio within a short period of time, both required

by the IMF, drove health as well as insolvent companies into bankruptcy in the first half of 1998. This raised the volume of NPLs and the cost of recapitalisation of the banking sector. As a result, the South Korean government actually spent more than the W 64 trillion outlined in the initial plan[30].

The key components of the IMF-led public sector restructuring program were the downsizing of government bodies and privatisation. According to the plan, more than 80,000 government personnel were to lose their jobs over a three year period, starting in February 1998.[31] In July 1998, the South Korean government announced that of the 108 state-owned enterprises (SOEs), 38 would be immediately privatised, 34 gradually privatised, 9 would be merged into others or liquidated and 21 would go through restructuring. As of November 1999, the government had sold SOE assets worth W 7.3 trillion and cut 32,005 of the 41,267 jobs targeted for elimination by the end of 2000.[32] A large part of the funds raised from the sale of SOEs was used to finance financial sector restructuring.

In relation to trade, the South Korean government agreed to the elimination of import diversification regulations and trade-related subsidies (which had been one of the main factors behind South Korean economic success for the past thirty years) in accordance with the World Trade Organisation (WTO) schedule.

In May 1998, foreign equity ownership ceilings were eliminated and M&As by foreigners were fully deregulated as part of process of liberalisation of the capital market. In addition, foreigners are now able to invest - without any restrictions - in local bond and short-term money market instruments. All limits and restrictions on the acquisition of non-business related property for the personnel of foreign companies have been eliminated and the ceiling on the lease of public properties has been raised from 20 years to 30 years. The tax system was also made favourable to FDI. The term for tax incentives has been extended from eight to ten years. Furthermore, 41business sectors which were previously closed to FDI have now been liberalised. Restrictions on FDI now only apply in a few very specific areas such as national security.

As a result, foreign direct investment increased significantly in 1999. From January to October, there were 1,591 cases of inbound FDI worth a total of US$ 10,249 million. This was an 85.3 percent increase in the total amount of FDI in comparison with the same period in the previous year. By the end of 1999, FDI inflows had set an all time record, surpassing US$ 15 billion. However, the benefits from hosting FDI are not automatic. Policies and regulations covering areas such as local content, technological upgrading and balance-of-payments stability are essential if countries are to benefit from FDI. As a result of rapid and far-reaching liberalisation, South Korea may no longer have the ability to bargain effectively with foreign investors.

The performance of the South Korean stock market has also improved spectacularly. It has attracted large foreign capital flows which pushed the share of foreign investment in the South Korean stock market from 13 percent to 21 percent in a one-year period ending in October 1999. This has significantly increased the influence of foreign investors in the stock market.

The inflow of foreign capital and the reorientation of macro-economic policy towards stimulating the domestic economy have played an important role in the so-called “spectacular economic rebound” of South Korea. In 1999, GDP grew by 10.2 percent compared to a contraction of 5.8 percent in 1998. Trade also grew strongly in 1999 because of the global economic recovery, the appreciation of the yen and the earthquakes in Taiwan. Exports grew by 8.6 percent in 1999, up from minus 2.8 percent in 1998. Imports also increased at the same time due to growing domestic demand, rising from minus 35.5 percent in 1998 to 28.4 percent in 1999. Despite this surge in imports, the current account still registered a surplus of US$ 25.0 billion in 1999.

By the end of 1999, South Korean foreign reserves had surged to more than US$ 74 billion, compared to only US$ 3.9 billion two years earlier. At the same time, South Korea’s total external liabilities had reduced by US$ 22.8 billion. Whilst the external debt of private sector financial institutions has decreased, that of the public sector has increased dramatically. The

ratio of public debt to GDP had increased from 12.0 percent in 1997 to 22.2 percent in 1999 whilst the ratio of total external debt to GDP remained at 35.0 percent. Although the unemployment rate has been declining since the first quarter of 1999, unemployment at the end of 1999 was still double the pre-crisis level, with more than one million people unemployed.

Problems with the restructuring of the corporate sector also began to emerge in the second half of 1999. For instance, only one third of the W 70 trillion which the Daewoo Group owes to domestic and foreign creditors is considered ultimately recoverable.[33]

South Korea had resisted the opening up of its stock and bond markets when it joined the OECD. However, these markets were fully opened as part of the IMF-led process of capital transaction liberalisation. Although these measures facilitated the entry of foreign capital into the market, they also increased the vulnerability of the South Korean economy.

Moreover, the IMF program has inflicted deep damage on domestic businesses, seriously impairing their contribution to the national economy both now and in the future. This has left South Korea heavily dependent on external factors, especially foreign capital. The flight of now uncontrollable and foot-loose transnational financial capital from South Korea could trigger another crisis in the future.

South Korea: social impact

Soon after the crisis started, a new labour law that facilitates lay-offs was introduced by the South Korean government on the advice of the IMF. As a result, unemployment rose sharply. By February 1999, a record 1.78 million people were unemployed. In response, the South Korean government allocated W 10.07 trillion for unemployment counter-measures and a further W 9.24 trillion for employment measures in the 1999 budget. This included support for job preservation, general job creation, vocational training, and social care.

The unemployment rate began to decline in the second quarter of 1999. Despite this, the structure of employment has changed for the worse since the crisis began. For example, the number of employees who work more than 36 hours a week has declined since November 1997 and the proportion of employees who work less than 36 hours a week has increased from 9.3 percent in December 1997 to 14.5 percent in December 1999.[34] In addition, the number of people in permanent employment has been in decline since the crisis started whilst the number of people employed on a daily basis has increased rapidly.

The definition of an unemployed person used by the government masks the extent of unemployment in South Korea. The government defines as unemployed "a person who worked under one hour in a week with the intention to earn income". This excludes the "discouraged" unemployed from the official statistics. If the discouraged unemployed were taken in to account then unemployment would jump to closer to four million in 1999. In October 1999, a South Korean trade union was the first organisation ever to attempt to sue the IMF for damages in response to the mass lay-offs caused by IMF policies.

Labour-management conflicts increased sharply after the economic crisis. The number of disputes in 1998 was 2.5 times greater then in 1997 and the number of workdays lost in 1998 as a result of the disputes was around three times that in 1997. The processes of the Tripartite Commission that was established by the government to resolve worker-management disputes are characterised by long delays and constraints on participation. As a result, some independent organisations and trade unions see the Commission as a powerless and hence meaningless body. Many believe that the Commission was designed primarily to transfer the cost of the economic crisis to workers.

From 1975 to 1995, high growth rates permitted a reduction in the poverty rate among urban households from 20.4 percent to 7.4 percent. However, in the first 12 months after the crisis, the number of people living under the absolute poverty line increased rapidly. The South Korean government admitted that "since the foreign exchange crisis struck Korea, Korea's mid- and low-income earners have suffered more

than any other class" and "the income gap between the rich and the poor has grown wider".[35] In the space of just one year, from 1997 to 1998, the number of homeless people increased ten fold and the number of students taking temporary absence increased by 70 percent. According to a Statistics Administration report issued in November 1998, families in the lowest 20 percent income bracket earned 24.4 percent less than the previous year while families in the highest 20 percent income bracket earned 8.0 percent less.[36]

The economic crisis has hurt the poor both by reducing incomes and increasing prices. Due to the depreciation of the won, the price of medical care has increased. This has occurred at a time when Koreans, especially the poor and unemployed, are least able to afford the high cost of health care. In September 1998, the national federation of medical insurance reported that 34 percent less people bought 20 percent less medicine then in the previous year.[37]

According to a health official in the Labour Ministry, "the sharp increase of occupational stress is seen to cause more occupational diseases since the days of the IMF, because workers are more worried of job loss, their labour intensity has increased, and new competition-inducing mechanisms have been introduced".[38] The suicide rate in 1998 was 59.4 percent higher than in 1997.

The recession induced reduction in both production and consumption has had a positive effect on the environment because of a reduction in pollution. Pollution released as a result of production processes is estimated to have fallen by 10 to 20 percent.[39] The increased cost of imported materials coupled with a decline in purchasing power has also encouraged recycling in various sectors. On the other hand, a fall in profits may cause business corporations to ignore environmental regulations and the government may choose not to enforce pollution controls. The ratio of the Ministry of Environment's budget to total finance fell from 1.51 percent in 1997 to 1.38 percent and 1.36 percent in 1998 and 1999, respectively. In order to attract foreign investment the South Korean government, on the advice of the IMF, has abolished or weakened various regulations. For example the government has removed the Green Belt Regulation, reorganised National Parks and weakened the regulations protecting sources of drinking water.

Thus, the question remains: is it worth sacrificing so much in order to achieve the questionable benefits of externally-led economic growth?

CONCLUSION

The IMF has given practically the same set of medicines to all three crisis-affected countries. Thailand, Indonesia and South Korea have, however, implemented the IMF-prescribed macroeconomic policy and structural reforms to differing degrees and with far from identical outcomes.Yet, the IMF claims that each is a success. There is little evidence of any correlation between the IMF programs and the purported recovery in each country. In South Korea, very high capital inflows may in fact overheat the economy. In Thailand, increasing domestic demand has boosted GDP growth but the external sector is still characterized by a high degree of volatility. GDP growth is once again positive in Indonesia but foreign investors are staying away and there are still no signs of a stable recovery. There are some similarities in outcomes in each country which can, however, be attributed to the IMF i.e. severe social impact and huge public debt.

IMF shock therapy - currency devaluation and increased interest rates - squeezed the domestic economy and transformed the financial crisis in each country into an economic and social crisis. High levels of business bankruptcy led to a sharp increase in unemployment and underemployment. In South Korea in particular, unemployment jumped to unprecedented levels in a very short period of time. In Indonesia and Thailand, increases in unemployment were accompanied by a major shift in employment from the formal to the informal sector, the latter characterized by low wages, poor job security and inadequate or non-existent welfare benefits and legal protection. Those who were lucky enough to keep their jobs typically experienced a drop in real wages.

More than 20 million people in the three countries dropped below the poverty line in the space of less than two years both as a result of the financial crisis and, more significantly, as a consequence of macroeconomic reform and structural adjustment. .

The IMF transformed a financial crisis into an economic and social crisis not only by demanding tight macroeconomic policy but also by ensuring that the cost of financial sector restructuring was transferred from predominantly private institutions to the public purse. Private debt has become public debt. As a result, public debt has surged in each country, by: 10.2 per cent of GDP in South Korea, 36.2 per cent of GDP in Thailand and 70.0 per cent of GDP in Indonesia. Each is now struggling with debt servicing which in the case of Indonesia consumes a quarter of the fiscal budget. Not only does debt servicing diminish the countries already limited capacity to mitigate unemployment and other social problems, it also severely constrains policy choices. Countries are forced to both maintain and expand exports in order to generate hard currency receipts and to adhere to the prevailing economic orthodoxy which prescribes further liberalization, privatization and deregulation.

Public debt as percentage of GDP

Country	1997 (pre-crisis)	April 2000
Thailand	15.7	51.9
Indonesia	23.0	93.0
South Korea	12.0	22.2*
		*end-1999

The IMF recognized that public debt would increase but assumed that it could by quickly repaid through the privatization of state-owned enterprises (SOEs). This proved hopelessly unrealistic, particularly in Thailand and Indonesia.

Despite continuing high levels of NPLs, limited if any financial sector reform in Indonesia and Thailand and continuing low levels of investor confidence, the IMF continues to hail the recovery in each of the three countries. Financial sector reform has in fact achieved little more then increased foreign ownership and the effective transfer of some private debts to the public sector. If inefficiencies and weak governance in the financial sector were, as the IMF claimed, at the epi-centre of the crisis, how then has recovery occurred despite the evident failure of financial sector reform?

South Korea, the darling of the IMF, has - in IMF terms - experienced a "spectacular rebound", made possible by the huge inflows of foreign capital. Economists now fear overheating. Whilst GDP growth has jumped remarkably in only one year, South Korea is now heavily dependent on foreign capital and vulnerable to capital flight.

As a result of the inequitable distribution and unnecessarily high costs of stabilization and adjustment, the IMF has met growing resistance from both governments and civil society in each country. Calls for modest changes to IMF programs have been routinely ignored or incorporated only after protracted delays. More radical changes are now necessary. Crisis prevention and reduced vulnerability to external shocks in the future will depend on the introduction of capital controls, a debt stand still and de-linking of private and public debt.

---

[1] Stiglitz, "Protesters Are Right on the IMF," *The New Republic*, April 17, 2000.
[2] Fischer, quoted in *The Nation*, May 10, 2000.
[3] Stiglitz, quoted in *The Nation*, May 13, 2000.
[4] IMF, "The IMF's Response to the Economic Crisis," January 17, 1999
[5] Ibid.
[6] UNDP, "Human Development Report of Thailand 1999," 1999.
[7] Thai Government, "Thailand-Memorandum on Economic Policies," May 26, 1998.
[8] Ibid.
[9] The Miyazawa Initiative, named for the Japan Finance Minister Kiichi Miyazawa, is providing Baht 5.3 billion for strengthening social safety nets, increasing employment and addressing the credit crunch.
[10] Wichit Sirithaveeporn, "Public Debt Looms Large on Horizon," Bangkok Post Economic Review Mid-Year 2000, p. 8-9.

[11] Thai Government, "Social Development in Thailand," June, 2000.
[12] Ibid.
[13] Suwit Wibulpolprasert, "Economic Dynamicity and Health Implications: Lessons Learned from Thailand," 1999.
[14] Peter Brimble and Gary Suwannarat, "Seeking the real picture on school dropouts." Note prepared for the Asian Development Bank and the National Economic and Social Development Board, Thailand, 21 April 1999.
[15] Po Garden, "Environmental Implication of IMF Policy and Economic Crisis in Thailand," June, 1999 (unpublished research paper).
[16] IMF, "IMF Completes Review, Augments the Program by US$1 Billion and Approves Approves US$460 Million Credit Tranche for Indonesia," News Brief No. 99/13, March 25, 1999.
[17] World Bank, "Indonesia: From Crisis to Opportunity," July 21, 1999.
[18] IMF, "IMF Completes First Review of Indonesia Under its Extended Arrangement," News Brief No. 00/38, June,2 2000.
[19] ADB, Economic Review of Indonesia, May, 4 2000, (Downloaded form ADB website).
[20] IMF, "IMF Completes First Review of Indonesia Under its Extended Arrangement..."
[21] U.S. Government, "Indonesia: Investment Climate Statement 2000," July, 2000, (Downloaded from http://www.usembassyjakarta.org)
[22] World Bank, Quaterly Report, March, 20 2000, (Downloaded from World Bank website)
[23] Ibid.
[24] Ibid.
[25] Cited in Sunderlin, "The Effects of Economic Crisis and Political Change on Indonesia's Forest Sector, 1997-99," November 15, 1999.
[26] Ibid.
[27] IMF, "Completes Final Review of Korea Program," News Brief No. 00/72, August 23, 2000.
[28] IMF, "The IMF's Response to the ..."
[29] Jun Kwang Woo, "Beyond the Recovery", The 10th UNCTAD General Meeting: Symposium on Economic and Financial Recovery, Bangkok, February 17, 2000.
[30] Samsung Economic Research Institute, "Two Years after the IMF Bailout: A Review of the Korean Economy's Transformation," March 2000.
[31] Ibid.
[32] Jun Kwang Woo, "Beyond the Recovery", The 10th UNCTAD General Meeting: Symposium on Economic and Financial Recovery, Bangkok, February 17, 2000.
[33] Samsung Economic Research Institute, "Two Years after the IMF Bailout: A Review..."
[34] Ibid.
[35] Jun Kwang Woo, "Beyond the Recovery", The 10th UNCTAD General Meeting: Symposium on Economic and Financial Recovery, Bangkok, February 17, 2000 p. 21,25.
[36] Francis Daehoon Lee, "The IMF Intervention and Crisis of Human Rights," presented at the Project for the 21st century? 23-24 June, University of Sussex, Brighton, England.
[37] Ibid.
[38] Quoted in Ibid.
[39] Kim Ta-kyun, "Changes from Economic Crisis in Korea and Orientations to Take," August, 1999 (unpublished research paper).

The Armadillo and the Chameleon : a cautionary tale*

*by Nicola Bullard**

The International Monetary Fund's new managing director's intention to "drive change from within the institution rather than have it imposed from outside"[1] does not inspire confidence, given the Fund's dismal record of reform so far.

In the past three years a lot of ink has been spilled proposing ways for the Fund to recover from its spectacular fall from grace when its policy advice during the 1997 Asian crisis simply made matters worse.[2] Most of these reform proposals have been extremely modest but even so, on the Richter scale of change, the IMF has barely tipped the needle.[3]

The Fund's defenses stayed firmly in place so long as Michel Camdessus was still at the helm, but this is not surprising. To undertake institutional reforms in the dying days of a 13-year term would have been tantamount to admitting the errors of the past, something that Camdessus may now be doing in his new incarnation as special adviser on debt to Pope John Paul II.

IMF, 'heal thyself'

It is only now that the first rumblings of change are being heard from the new managing director Horst Koehler, the second choice German candidate who was selected through a highly political, non-transparent but strangely public round of horse-trading between the US and Europe. So murky was the process that even The Economist called for new selection procedures, including a suggestion that the Fund should promote "merit over nationality."[4]
Four months into the job, Koehler has signed an agreement with the World Bank aimed at reducing the overlap of responsibilities (US Treasury Secretary Larry Summers has been pushing this for some time), approved disclosure of the Bank's sources of financing, hinted that developing countries need a "larger voice" and pushed for faster debt relief "to get those 20 in" (referring to those countries earmarked for inclusion in the Highly Indebted Poor Countries (HIPC) debt relief initiative).

But even though Koehler has made great play of the Fund "withdrawing to its core competencies of fiscal, monetary and exchange rate policy,"[5] in reality the mission creep and expansion of powers continues.

First, in the realm of standard setting, codes of practice, surveillance, monitoring and information disclosure, the Fund's scope of activity - often in the name of transparency - has expanded. This is consistent with the Fund's view that the Asian crisis was a result of institutional failure, corruption and lack of information. In practice, this means that the Fund it is demanding more information from governments, that it is publishing more information about national economies, and that it is forecasting on the state of these economies. Given that the Fund is concerned principally with macroeconomic stability, it has, in effect, become a de facto international ratings agency.

** Nicola Bullard is the deputy director of Focus on the Global South, a policy research and advocacy organisation based in Bangkok, Thailand.
n.bullard@focusweb.org*

The Fund is also now talking about expanding its role in technical assistance, which means more Ivy League-educated economists giving more advice to more Third World ministries of finance. This hardly sounds like "withdrawal" but rather a strategic advance in the project of financial globalisation.

The Fund has also picked up new agendas along the way and is now dabbling in debt relief, poverty reduction, good governance and even tries to "engage" civil society from time to time. But for all their 70 staff in the field working with NGOs, the IMF remains somewhat gauche at public relations compared to the slick and savvy World Bankers.

Internal reform stalled

However, the proposals that go to the heart of the IMF power - such as democratising voting and decision-making, systematically engaging in external reviews of programmes, or questioning some basic assumptions about the benefits of financial liberalisation — have been shelved, ignored or changed beyond their original intention.

For example, the Fund's proposal to establish an Independent Evaluation Office (EVO) is a hopelessly inadequate response to demands that the IMF be more accountable both to its shareholders and clients. The EVO, recently approved by the Board, will be an entirely in-house operation, although it is envisaged that staff could be recruited from outside the Fund.

The background paper on the evaluation unit makes interesting reading.[6] For example, it states that one of the main purposes of the Office is to "enhance the learning culture within the Fund" yet further on warns that "management will need to commit to ensuring that EVO staff who return to regular Fund staff... are in no way discriminated against because of authorship of reports that are critical of potential receiving departments." So much for the learning culture.

Reform of the voting system seems unlikely. Although Koehler talks about giving developing countries a stronger voice, it is clear that this will not be at the expense of the majority shareholders, which makes one wonder how it might be achieved. At present, the US carries 17.5 per cent of the votes and the combined EU members 32 per cent.[7]

Developing countries themselves seem reluctant to press for reform. Trevor Manuel, South Africa's minister of finance and chair of the IMF World Bank Board of Governors, is concerned about voting rights for poor countries and "wants to prick the consciences of other government and persuade them that system [gives] too small a voice to the poor."[8] The main flaw in this approach is the assumption that there are consciences to be pricked.

Of course, it's early days and Koehler's reformist enthusiasm may capture the hearts and minds of Fund staff. However, he will be battling against a deeply entrenched, isolated and defensive institutional culture.

Former World Bank chief economist Joseph Stiglitz, writing about the IMF's role in the East Asian crisis, said:

> "Bad economics was only a symptom of the real problem: secrecy. Smart people are more likely to do stupid things when they close themselves off from outside criticism and advice... But, with the IMF insisting its policies were beyond reproach—and with no institutional structure to make it pay attention-our criticisms were of little use. More frightening, even internal critics, particularly those with direct democratic accountability, were kept in the dark."[9]

The IMF is like an armadillo, burrowing deep into its own reality and blinking when it steps into the daylight of public debate, but it also has a tough and impenetrable shell. There is no evidence that the "culture of reform" has taken root in the Fund, and it will take a lot more than Koehler's zeal to introduce some humility to the institution and dislodge the vested interests of its major shareholders.

The Chameleon

The World Bank, on the other hand, is a chameleon, a master at assuming the colours of its environment.

The World Bank public relations machinery is effective and efficient, regularly churning out op-ed pieces for their president which appear in the International Herald Tribune, co-authored by luminaries such as Nobel Prize Laureate Amytra Sen and former South Korean dissident (now president) Kim Dae Jung. Obviously it is important for a multi-millionaire former Wall Street banker and patron of the elite New York art scene to establish some "street-cred" in development circles by associating himself with the likes of Sen and Kim. Wolfensohn has also surrounded himself with a sophisticated army of vice-presidents who act as diplomatic emissaries, deployed to "engage" with the NGOs and schmooze with government officials and financiers (many of whom are their former colleagues).

While the Fund can be accused of mission creep, the Bank, in contrast, has pursued a strategy of hostile takeovers or, as one UN staffer described it "cherry picking." In the past years, everything from the Internet to AIDS has been consolidated under the Bank's expanding empire. A G24 discussion paper, writing about the international financial institutions' new mandate on "good governance" described it thus:

> "The new mission [good governance]... arrived at a moment when growing doubts regarding the purpose and effectiveness of the IFIs seemed to threaten their funding, and even their continued existence. Suddenly the IFIs have jumped in to the front lines of multiple wars being fought by humanity: against AIDS, human rights violations, gender discrimination, environmental degradation, drug trafficking, authoritarian governments, etc. To drive the point home, the World Bank has recently started to draw attention to those objectives, and to its own role, in CNN advertising."[10]

The Bank's latest additions to its self-determined terms of reference are signaled in this year's World Development Report (WDR), Attacking Poverty.[11] The report argues that "poverty is more than inadequate income or human development" and that opportunity, empowerment and security are key. True enough, but while taking up the mantle of institutional reform, social security, political democracy and participation in the fight against poverty, the Bank is pushing its own value-laden normative view of social relations and assuming ever-higher moral ground. All the while, deftly skirting the central issues of redistribution, economic democracy, and the unequal relationship between people and capital. So long as the central economic paradigm remains unquestioned, the World Bank will be peddling - with good or bad intentions — a hopelessly reformist programme which fails to move it any closer to its dream of "a world free of poverty."[12]

The limits of dissent

However, in spite of their obsession with poverty, good governance and "partnership with members of civil society"[13] the Bank has a heart of stone. The limits of its tolerance have been tested and they have proved to be very short.

For example, during the UNCTAD tenth ministerial meetings held in Bangkok in February of this year, farmers and fisherfolk effected by the World Bank financed Pak Mun Dam protested outside the Queen Sirikit Convention Centre. They also requested a meeting with President Wolfensohn or a representative from the Bank in order to present their demands in a letter. Their request was refused. Later, fresh from his speech to the plenary in which he had equated the proliferation of NGOs with the blossoming of democracy, Wolfensohn responded to a journalist's question about the protestors saying "We are very familiar with the local groups and the international groups who support them. There is nothing to be gained by going outside and being part of an incident."

Yet, just last week in Washington, Wolfensohn attacked what he called "the Berkeley mafia" saying, in reference to the controversial Chad

Cameroon pipeline, that "it's important that we have a proper balance between the Berkeley mafia and the Chadians, and I, for my part, am more interested in the Chadians."[14] Strange, therefore, that he refused to meet Thai fisherfolk and farmers.

The Bank has even less tolerance for dissent in the ranks. The "resignations" of chief economist Joseph Stiglitz and WDR team leader Ravi Kanbur (neither of whom could be classified as anything but mainstream albeit intelligent economists) show that the Bank culture does not abide deviation, especially when it challenges the authority of "The Bank" and its shareholders.

The limits of reform

Both the International Monetary Fund and the World Bank have shown a remarkable resistance to change, in spite of the tremendous external, and even internal, pressure to reform. The IMF's attempts to "heal itself" seem doomed from the start, given its extremely technocratic and isolationist mentality, the weight of vested interests and institutional entropy. The World Bank, on the other hand, is setting a cracking pace and at least is giving the illusion of reform. This is dangerous, especially for civil society groups who are being offered "pseudo-influence"[15] in implementing the Bank's " reform" agenda.

But, there should be no illusions. In both institutions, there has been no shift in their two pillars of power: the neo-liberal ideology which underpins their policies and programmes and the voting power and influence of their major shareholders. And, as we all know, he who writes the rules, rules.

---

[1] 'Koehler demonstrates a reformist zeal,' Stephen Fiddler, *Financial Times*, 14 September, 2000

[2] See 'The IMF's Asian Legacy' by Jacques Chai Chomtongdi in this collection.

[3] Among the better known - with apologies for the obvious Anglo-Saxon bias — are reports from the US (the Congress' Meltzer Committee, the Committee for Economic Development, The Council on Foreign relations, the Overseas Development Committee), the Financial Stability Forum (G20) and the G22, the UN' s Economic and Social Council, the United Nations Conference on Trade and Development, and select committees in several OECD countries including Australia, France and the UK. Countless academics have contributed to the debate, including Paul Krugman, Jagdish Baghwati, John Eatwelll, Lance Taylor, Milton Friedman and Jeffrey Sachs. Everyone in the financial sector has chipped in, from The Economist to George Soros and all sorts of civil society groups and NGOs, such as ATTAC in France, Oxfam UK, 50 Years is Enough in the US and Focus on the Global South in Thailand. There is no shortage of ideas - both good and bad.

[4] 'Picking winners,' *The Economist*, 19 February 2000

[5] Horst Koehler, 'Towards a more focused IMF,' address at the International Monetary Conference, Paris, 30 May 2000.

[6] 'Making the IMF's independent evaluation office (EVO) operational: A background paper,' August 2000. Downloaded from IMF website. The report notes that $2.5 million has been set aside for direct staffing costs, presumably for one year. With a projected staff of 11, that works out at $227,000 a head.

[7] IMF member's quotas and voting power, as at 13 September 2000. Downloaded from IMF website.

[8] 'Aiming to give poor countries a bigger voice,' Victor Mallet, *Financial Times*, 13 September 2000

[9] Joseph Stiglitz, 'What I learned at the world economic crisis,' in *The New Republic*, 17 April 2000

[10] Devesh Kapur and Richard Webb, 'Governance-related conditionalities of the international financial institutions.' *G-24 Discussion Paper Series*, UNCTAD, August 2000. Downloaded from website.

[11] World Bank, *World development report 2000/2001: Attacking poverty*, September 2000

[12] This is the opening line of the World Bank's mission statement, etched in glass in the splendid foyer of the Bank's Washington headquarters.

[13] World Bank Fact Sheet, 'The World Bank, NGOs and civil society,' April 2000. The Bank reports that more than fifty per cent of projects approved in 1999 involved NGOs and civil society "in some way" and that is has 64 representatives "on the ground" working with NGOs.

[14] 'World Bank chief takes a swipe at NGO groups,' IPS, 3 September 2000

[15] UNRISD, *Visible hands: Taking responsibility for social development*, July 2000, p.xvi.

All in the family : musical chairs in the neo-liberal establishment

*by Chris Adams**

Has the World Bank changed? In particular, do recent changes in senior management mark a significant break with the past? On the face of it, Wolfensohn has broken with tradition, appointing several "outsiders" to key positions which had previously been filled by staff who had risen through the ranks of the Bank itself. However, a closer examination of the careers of the President, Managing Directors and Chief Economists suggests that little has changed.

James Wolfensohn was first appointed President of the World Bank in 1995. Like all Bank Presidents, Wolfensohn is an American citizen1. Like his predecessor Lewis Preston (1991-95) Wolfensohn has a MBA from Harvard. Also like Preston, who was President and CEO of the US-based global investment firm JP Morgan for 11 years prior to joining the Bank, Wolfensohn was President and CEO of the investment firm James D Wolfensohn Inc. which he established in 1981. JP Morgan, incidentally, figures prominently in the CVs of many current and former senior Bank staff. To name but two: the current head of the International Finance Corporation (IFC - one of the many tentacles of the World Bank Group) Peter Woicke, was previously the Chairman of JP Morgan Securities Asia and Gerard Caprio, the lead economist of the Bank's Development Research Group, is the former vice-president and head of JP Morgan Global Economics.

James D Wolfensohn Inc. specialized in mergers and acquisitions on behalf of its many Fortune 200 corporate clients. While mergers and acquisitions may be good business, they are not good development. According to Susan George, "depending on the year, two thirds to three quarters of all that money labeled foreign direct investment is not devoted to new, job creating investment but to mergers and acquisitions which almost invariably result in job losses"[2]. Wolfensohn relinquished his interests in the company on joining the World Bank in 1995. He was replaced as CEO and Chairman by none other then Paul Volcker, former Professor of Economics at Princeton University and Chairman of the Board of Governors of the US Federal Reserve from 1979 to 1987. Following the 1996 merger of Wolfensohn Inc. with Bankers Trust to form BT Wolfensohn, Volcker retired as Chairman and CEO and became a Director of Bankers Trust. He was replaced by Jeffrey Goldstein as Co-Chair, the same Jeffrey Goldstein who in mid-1999 was appointed as one of the five managing directors in the World Bank, reporting directly to Wolfensohn. Goldstein was one of many BT Wolfensohn staff to leave the Bankers Trust group around the time of its acquisition by Deutsche Bank for $10 billion in 1999. This incidentally attracted the attention of public interest groups in the US, which accused Bankers Trust of predatory, high interest mortgage lending, and foreclosures in low-income areas in the United States.

What then of the chief economists, the World Bank's equivalent of Cardinal Ratzinger, prefect of the Vatican's Congregation for the Doctrine of the Faith? Four3 of the last five chief economists - Nicholas Stern (current), Joseph Stiglitz (1997-2000), Lawrence Summers (1991-93) and Stanley Fischer (1988-1990) - are academics with PhDs in economics from either MIT,

---

** Chris Adams is a visiting researcher with Focus on the Global South.*
c.adams@focusweb.org

Harvard or Oxford who have taught at MIT, Harvard, Stanford, Yale, Princeton, the University of Chicago and the London School of Economics. Without exception, the chief economists of the World Bank are products of the most elite Anglo-American universities.

The World Bank's regional chief economists share a similar pedigree. John Williamson (South Asia Region), John Page (Middle East and North Africa), Guillermo Perry (Latin America and the Caribbean) and Masahiro Kawai (East Asia and the Pacific) either have PhDs from or have taught at Princeton, LSE, Massachusetts Institute of Technology (MIT) and Stanford. According to the Bank, Masahiro Kawai's appointment "symbolises our commitment to place more leading people from Japan and other East Asian countries in senior positions within the Bank"[4]. This commitment was slow in coming however. Despite protracted lobbying by the Japanese government, the number of Japanese personnel in the World Bank is still far from commensurate with its financial contribution. This in part reflects the triumph of Anglo-American economic orthodoxy in the Bank and the IMF over Japan's preferred "Asian" development model. Not that Kawai is likely to pose a significant challenge to that orthodoxy. He remains, at least in academic terms, an "insider", taking his MS and PhD in Economics from Stanford and teaching for more then 11 years at US universities.

What happens then to chief economists when they leave the Bank? Stanley Fischer joined the IMF as First Deputy Managing Director in 1994 and from that position provided much of the intellectual justification for the Washington Consensus and the IMF's role in East Asia. Fischer was followed to the IMF in 1998 by World Bank Managing Director Jessica Einhorn who has a PhD from Princeton and worked with the US Treasury and US Department of State before joining the Bank and was a visiting fellow at the IMF in 1999. Einhorn was followed in turn by Masood Ahmed who has a Masters in Economics from LSE and was Vice President for Poverty Reduction at the Bank before joining the IMF as Deputy Director of the Policy Development and Review Department in January 2000. Ahmed's appointment suggests that the IMF is unlikely to abandon its new found interest in poverty in favour of a return to its original narrow focus on managing exchange rates and balance of payments support. (See articles by Shalmali Guttal and Nicola Bullard in this collection.)

Larry Summers moved from the Bank to the US Treasury first as Undersecretary for International Affairs and, following Robert Rubin's departure in 1999, was appointed Secretary of Treasury. Summers, Rubin, Fischer and Greenspan (Volcker's successor at the US Federal Reserve) have been dubbed the "Four Horsemen of the Apocalypse" by Walden Bello for their role in turning a conjunctural crisis in East Asia into a deep recession. One of Rubin's predecessors, Nicholas Brady, established Darby Overseas Investment Ltd, an emerging market investment firm, on his departure from Treasury. Brady was joined in 1997 by Richard Frank, former World Bank Managing Director and Chair of the Bank's Private Sector Group.

This is not to say that US Treasury, the IMF and the Bank's Chief Economist will always see eye to eye as Joseph Stiglitz discovered to his cost. Stiglitz dared challenge the US Treasury-IMF response to the East Asian financial crisis and as a result was forced to resign, apparently under pressure from US Treasury. According to Doug Henwood writing in *The Nation*, "Summers informed Wolfensohn that if he wanted another term as World Bank president, Stiglitz had to go - so Stiglitz went"[5]. Other more mundane factors may have been at play as well - Bank insiders say that Wolfensohn's and Stilitz's egos simply could not be accommodated in the Bank at the same time. Stiglitz went public with his criticism of the IMF and the US soon after his resignation, arguing that "All the IMF did was to make East Asia's recessions deeper, longer and harder". He described many IMF economists as "third rank students from first-rate universities"[6]. Stiglitz has now returned to teaching at Stanford.

Ravi Kanbur's fate is also illustrative of those who dare challenge the prevailing orthodoxy from within. Kanbur, a pre-eminent "insider" was recruited from Cornell University by the World Bank to lead the team drafting the *World Development Report 2000/2001: Attacking Poverty*. Kanbur oversaw a participatory process which resulted in a strong emphasis on

inequality and empowerment in the draft report, too strong it seems for the US Treasury, academic supporters of neo-liberalism and key senior figures within the Bank itself who wanted hold the line on "growth-first". And who reportedly delivered this message to Kanbur? None other then Wolfensohn's old comrade-in-arms, now Managing Director, Jeffrey Goldstein. After a meeting between Kanbur, Goldstein and Treasury officials in late May, Kanbur left the Bank and did not return.

If you want a top job at the Bank these days, a CV which includes an MBA from Harvard or a PhD in economics from an Ivy League university and a stint with an investment bank or major US law firm will stand you in good stead, perhaps more so than long and faithful service at the Bank itself. Non-Americans are encouraged to apply provided of course you are ideologically trained in the US or can be left safely to your own devices in a "soft" sector like health or education.

What to do after you leave a senior position at the Bank? If you haven't been ostracised by your former comrades for daring to question the prevailing ideological consensus, you could consider a return to Ivy League academia, a tour of duty at the IMF or even a step up to the mother ship, US Treasury. For those from the South, perhaps a posting to the Central Bank of a client state and for those from northern Europe a stint at an ideologically aligned Ministry of Finance could be on the cards. And if you're feeling a little more entrepreneurial, you could always use your extensive contacts to establish an emerging market investment company....

[1] Wolfensohn was born in Australia but is now an American citizen

[2] Susan George in *Global Finance: New Thinking on Regulating Speculative Capital Markets*, Eds. Walden Bello, Nicola Bullard and Kamal Malhotra, Zed Books, 2000, p. 30.

[3] A preliminary search of the WB web-site does provide any biographical data on the fifth Chief Economist, Michael Bruno (1994-96).

[4] Jean-Michael Severino, World Bank Group Press Release No. 98/1658/EAP, 20/2/1998

[5] Doug Henwood, "Stiglitz and the Limits of Reform", *The Nation*, October 2, 2000.

[6] Joseph Stiglitz in *The New Republic* magazine, 17-24 April 2000.

The end of imagination : The World Bank, the International Monetary Fund and poverty reduction

*by Shalmali Guttal**

The latest policy product of the World Bank and International Monetary Fund (IMF) - the Poverty Reduction Strategy Papers (PRSP) - is unlikely to make a dent on either poverty or on the institutions as they are proving to be little more than hurriedly worked-over versions of standard World Bank-IMF policy papers.

Authority without responsibility

In theory, the PRSPs are intended to be a set of papers prepared by country governments- although under the supervision of World Bank-IMF teams-that identify the causes of poverty, who the poor are, and strategies for overcoming poverty. In reality, most governments are likely to have little control over the prescriptions that emerge from these papers. Over 70 countries have been identified by the World Bank-IMF as qualifying for this new initiative, and all of them are required to develop PRSPs by 2001in order to qualify for external assistance. Countries that urgently require World Bank-IMF credits or debt relief assistance can prepare an interim PRSP (IPRSP) for consideration at the World Bank-IMF meetings in September, 2000. All these papers feed into the PRGF (the old ESAF) and are a necessary precondition for any new loans and debt relief measures under the Enhanced HIPC (highly-indebted poor countries) Initiative.

The PRSPs have a leveraging role beyond debt relief and consequently, have grave implications for the economic sovereignty of low income, borrowing countries. Without an acceptable PRSP, a country can have little or no access to external assistance since the wider donor community will align their funding programmes and policies with the results of the PRSP. Also, it must be remembered that the majority of the major creditors and donors of the poorer countries are G7 members and practically own the Bretton Woods family. Without a PRSP that is accepted and approved by the Boards of the World Bank and IMF, a low-income borrowing country can be cut off from international aid, trade and finance.

Another side-effect of the PRGF framework is a further sidelining of UN agencies as key actors in national and international policy arenas. This sidelining was set in motion at least two decades ago, as the steady succession of World Bank and IMF structural adjustment programmes, structural adjustment lending, country assistance strategies and the ‘comprehensive development framework’ firmly paved the way towards globalisation, leaving the UN with little option or will to serve as anything other than a handmaiden of the G7 and its collection agencies. However, the positions taken by the UN at the recent Social Summit in Geneva show all too clearly that the UN cannot be relied upon to adequately represent the interests of less powerful or vulnerable nations, nor is it willing to serve as a counterweight to the Bretton Woods Institutions.[1]

**Shalmali Guttal is Coordinator of the Micro-Macro Issues Linking Programme at Focus on the Global South, a program of research, analysis and advocacy based at Chulalongkorn University in Bangkok. She works on development policy issues in South East Asia.*
s.guttal@focusweb.org

Internal contradictions

The World Bank-IMF PRGF and PRSP approach is seriously flawed in its assumptions of how to tackle poverty. It is also inherently contradictory.

In the PRGF framework, the "success" of a poverty reduction strategy is based on the borrowing government's macroeconomic and structural reform policies. And while a PRSP might even yield some useful information about how poverty should be addressed, it is unclear how poverty elimination measures will be linked to the standard array of macroeconomic and structural adjustment conditionalities that continue to form the mainstay of the IMF-World Bank reform programmes-no matter what name they choose to give it.

Evidence from interim PRSPs (IPRSPs) already undertaken in Africa, Latin America and Southeast Asia show striking similarities between the conditionalities that accompanied earlier PFPs and current IPRSPs. Not only is there no significant transformation of earlier SAP objectives, but there appears to be no space to examine the impact of past SAPs on the creation of poverty in borrowing countries. The papers continue to promote production, distribution and financing approaches that are oriented towards greater trade and market "openness," with scant attention to the historical causes of poverty. Social goals of equity and equality, although included in some strategies through education and health objectives, are largely relegated to the purview of social safety nets, which offer vulnerable populations too little support too late. Through the "globalisation for all" anthem of the World Bank, the IPRSPs continue to give the message that it's okay to have losers in society-they will be picked up by the safety nets.

Both the World Bank and IMF have made strident claims that this time round, it will all be different, that the process and strategies will be " owned" by governments. However, these claims fall flat when one considers the fact that the 70 odd countries that are included in the PRSP initiative were identified by the Bank and Fund to begin with, and did not necessarily choose to participate in the initiative. Further, the process of formulating the poverty reduction strategies must follow the guidelines outlined by the Bank and Fund in a huge (1000 page!) source book, which then necessitates the involvement of Bank-Fund preparatory missions to kick-off the process in targeted countries.

In order to qualify for further credits and assistance, a PRSP must be approved by the World Bank and IMF Board of Directors on the basis of their own internal policy criteria, and not according to the requirements of the country in question. The Bank-Fund Boards can veto the strategy, the paper and the entire process if they stray from the narrowly prescribed path of Bank-Fund structural reform. The conditionalities attached to new loans must also be clearly reflected in the poverty reduction strategies and assistance from other external donors would be contingent on Bank-Fund approval of the process and strategies. Under such conditions, talk about "ownership" of the poverty reduction process by governments would be laughable if it were not quite so objectionable.

The manipulation of consent

The World Bank and IMF also claim that in the PRGF-PRSP framework, there will be greater importance than before on the participation of civil society in the development, implementation and monitoring of poverty reduction strategies.

However, experience from countries where the process has already started shows that participation to date has involved little more than consultations with a few prominent CSOs, rather than broad based, substantive public dialogue about the causes or incidence of poverty. Local civil society organisations such as labour unions, peasant organisations, social movements, women's groups and indigenous peoples organisations have not been invited into the process, and the little public discussion that has taken place has been limited to well resourced national and international non-government organisations (NGOs). The insertion of foreign donors and creditors between civil society and capital deficit governments creates conditions whereby the influence of local civil society in setting national development agendas is weakened, and national governments become less accountable to their own citizens than to international creditors and donors.

History repeats itself

Reports from countries where the PRSP process has begun show that little has changed in the IMF-World Bank's approach to programming neither in content nor in process. Experiences from Bolivia, Nicaragua, Tanzania, Zambia and Mozambique indicate that PRSP processes continue to be based on existing structural adjustment frameworks and macroeconomic indicators, with little more than lip service to genuine public participation in poverty analyses and policy formulation.

In Cambodia, the Royal Cambodian Government (RCG) initially resisted the imposition of the PRGF and the PRSP process over its own five-year socio-economic development plan. However, due to a slow down in Foreign Direct Investment (FDI) and a decrease in government revenues, the RCG was eventually compelled to back down and accept the PRSP and PRGF frameworks. The experience thus far has remarkable similarities with experiences from Africa and South America in both content and process. Further, the macroeconomic framework for the IPRSP was determined ahead of poverty assessments or the formulation of poverty reduction strategies, and does not relate to international development targets. Local civil society was not involved in the design or development of the interim PRSP, and it appears unlikely that it will play more than a consultative role in future PRSP activities.[2]

The Aide Memoire for the PRSP in the Lao PDR reveals the fundamental growth bias that underpins poverty reduction strategies: "...recognising that growth will be the best means of poverty reduction but also that certain structural and sectoral policies expedite the process." The Aide Memoire also makes the importance of an acceptable (by Bank-Fund standards) three-year macroeconomic framework and policy matrix to future agreements abundantly clear. It unequivocally states that a country's poverty reduction strategies will be jointly assessed by staff from the IMF and the World Bank before they are presented to the respective Boards.[3]

In the Lao PDR, the IPRSP is being prepared by a consultant team recruited by the UNDP, and opportunities for local civil society and even broader government participation appear dim. Interviews with government officials in sectoral ministries at the national level and with provincial government staff revealed that they had little knowledge of the PRSP formulation process. Their role was to provide sector and area specific information to the never ending stream of consultants and Bank-Fund mission teams. In Vietnam, while the government retains significant control over the process at the national level, foreign donors and international NGOs continue to play a significant role in carrying out poverty assessments and identifying development strategies.

In many of the countries targeted for the PRSP, documentation and information about macroeconomic policies, the ways loans and development finance are structured, and the conditionalities that accompany IMF-WB credits are not easily accessible.Despite the lofty ideals in Bank, Fund and UN speak, little information is available in local languages and there have been few attempts to educate the public about the PRSP.

Linking the availability of foreign aid and credits with the adoption of the financial and economic frameworks prescribed by the Bank and the Fund weakens the capacities of national governments to formulate their own, nationally relevant plans for socio-economic development and poverty alleviation. Many countries included in the HIPC initiative have attempted to formulate and implement their own long term national development strategies (for example, Ghana, Nigeria, Uganda, Gambia, Vietnam and Cambodia), but these strategies have been undermined by the IMF and World Bank through the leverage provided by the PRGF and PRSP framework.

A time for new imaginations

Experience over the last 40 years has proved that the IMF and World Bank are at best irrelevant, and at worst inimical to the goals of poverty reduction in the Third World.

The development of appropriate strategies to tackle the various forms of poverty in a society is the business of the citizens of that society and their representative governments. Governments

and civil society need to evolve their own development approaches and plans that are locally and nationally relevant and sustainable, and which ensure that national policies serve human, social, and environmental goals rather the market and macroeconomic targets. While it is true that the international community can play a useful and beneficial role in strengthening national capacities for development and reducing poverty, governments and civil society need first to be accountable to each other, and second to external creditors and foreign donors.

It is within such frameworks that institutions such as the IMF and World Bank should operate, rather than dictating the grounds on which societies are built.

---

[1] See The United Nations Shows its True Colours, Nicola Bullard, *Focus on Trade,* Number 52, August 2000; Focus on the Global South (www.focusweb.org)

[2] Draft Report on the PRSP process in Cambodia, Chris Adams, Focus on the Global South, August, 2000

[3] The World Bank, The Lao PDR Poverty Reduction Strategy Paper Information Mission, February 29-March 16, 2000, Aide Memoire.