### Banking and Finance

#### IN THE summer of 1991. the news-and-gossip beat around The Bank and the IMF was remarkably plactd. Washington DC's stifling heat and consuming humidity persisted, but they were not focused on the seasonal recurrence of diplomatic battles to win a larger measure of money from an unwilling US. After the last General Capital Increase, the Bank, ( not satiated, remained

=Feature

reasonably satisfied. Nor, as was the case immediately after Barber Conable took office was the environment of The Bank sinking in the maelstrom of a stinking and often bitter debate. At that time four years ago, the retrenchment of a huge chunk of The Bank bureaucracy - and its impending restructuring . put Conable in the centre of an odious battle, where he was seen as an agent of the US Congressional and Treasury lobby, fighting to impose on The Bank a style and a face that most of its valued staff had resented.

The maestro was retiring earlier than expected, and the farewell music embraced the unmated note of compliments rising both from his friends and hitherto-converted foes.

The IMF Managing Directoo, was not unduly frustrated by the Quota Increase, which fell substantially below what he wanted the US to cough up. He even made it appear as though the recent increase was sufficient. This was however, Michel Camdessus' first round at quota negotiation, and first major tasting of the power, whims and intransigence of the US presence in the IMF. The question remained, quite aside from the quota issue: what lessons has he drawn from the encounter with the major shareholder?

Camdessus: I recognize that with this quota increase, as has been (approved) the proportion of the usable currency at the present time compared with any other period during the history of the IMF remains relatively high. We are reasonably confident that with the 50% increase we can go up to March 1993 without any extensive pressure on our resources.

The process of ratification is developing I think properly, and it will be over by the end of the year. And when we meet in Bangkok we shall not be far away from complete ratifica-

The summer in Washington DC, however, aid have other sultry preoccupations. Quite openly the US public opinion was divided on whether to go for the rescue of Gorbachev, or to wait out the turmoil in the USSR to see what finally emerges from a truncated

### See also Page 4

power centre. Neither President Bush, nor Congress, nor the CIA appeared to know what course to take.

The question has been hanging fire for nearly a year, although in the meantime, in the White House the sympathy barometer had risen in favotar of Gorbachev. But the US was finding it difficult to make a choice between what's good for it - a broken-up USSR, caught in an implosion, or a union which is slowly moving towards federalism.

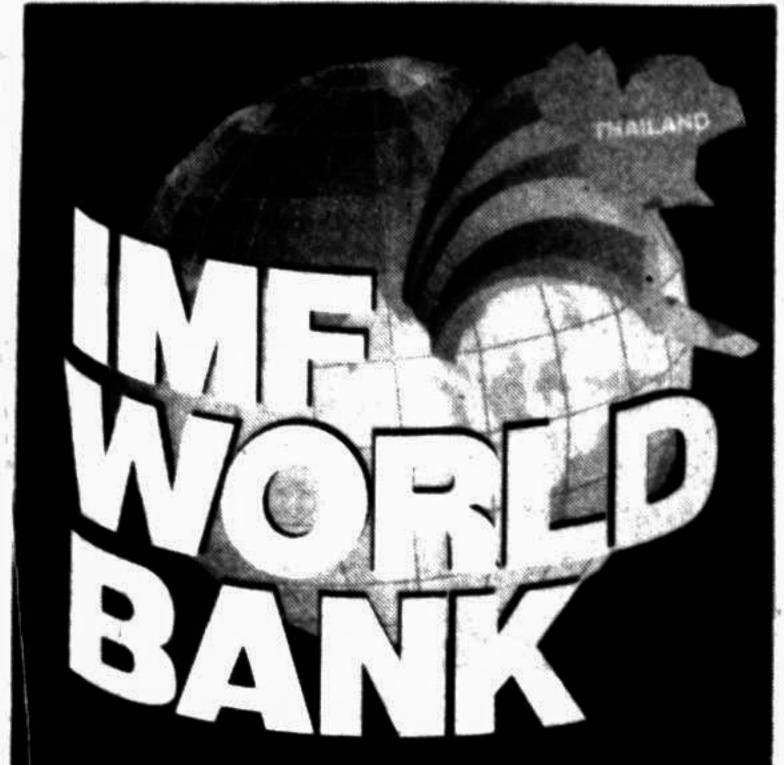
The Bank and the IMF were sizzling, as it would seem, in the indecision, even though the two bureaucractes found enough rules and sufficiently guarded phrases to cover up the to-be-or-not-to-be vacilla-

Camdessus: Things are very, very, very complicated, and there are no ambiguous views among the G-7, and even those who favour an earlier membership to the IMF are very concerned about the ability of the USSR to immediately discharge all its obligations as a member. All of them know that this economy being huge and all the information needed about it being what they are, the mere processing of the membership application of the USSR and negotiations with it

will take some time.

So, I think we should not take an ideological position about a country's transition. The process of membership takes in general about nine months to a year for a simple economy let us say, like Albania. Or Mongolia. The Soviet Union is a more complex economy. The Soviet Union doesn't know many things about itself or doesn't know in the language to which our countries are familiar. And, on the other hand, in the present situation of the Soviet Union, nine months is already very long. During this time it will need possibly performance assistance from various institutions, and here we go, naturally, from a pragmatic point of view to a system which the USA is proposing, namely, immediately to start helping them with technical assistance, to help them to prepare their staff to prepare their central bank to manage their monetary policy as we do in the market democracies, and so on and on.

## A STAR SPECIAL ON IMF-WORLD BANK MEETING



Now, although it has not been signed on paper, we know that nine Republics have more or less agreed on the structure of the federation with (the) power recognised as the centre and at the state levels. But what about the other six, we don't know what their position is or will be. This is also a prerequisite to finalising their membership. (Since then, at least eight Republics have declared their independence.)

All this means that the world will be reasonable in taking positive steps of the kind suggested by the US or the others for a temporary period, provided that it doesn't close the door to the membership.... things should proceed normally (until) the final votes of the 155 countries are submitted.

The G-7 nations have offered the Soviet Union Associate Membership without spelling out exactly what it means. As there is no such ambivalent category in the IMF caste system, it's difficult to anticipate what privileges the membership will offer to the USSR, and more importantly, whether it will offer too little and at the same time, ask for a huge surrender of the country's independent policy-making authority.

While the issue of USSR's entering the IMF remains undecided, some of its satellite economies - Poland and Hungary for example - are in the family of the international financial community.

An experiment to restructure their economies has begun, some claim, with an attendant enthusiasm. But will they be able to undergo what involves an IMF-type reform, putting faith in its ultimate triumph, while in the meantime going through a serves of pains accepting heavy bills and even perhaps upheavals of a major

Camdessus: If it were a traditional BoP problem of a country, or a group of countries - the ones you mention in Eastern Europe — in five years time it would probably have been ever and countries should have recovered the normal sustainability. And the IMF could turn its attention to

other countries. Here we are in uncharted waters, as it's the first me in the history of the IMF that we are trying to promote in such a short lapse of time a fundamental overhaul of economic management as well as the economic system of a country.

Well, we have started trying

to do) that with enthusiasm, and the strategy we are applying is equally strong and effective. They are in the demand management and demand control, adjustment control, and stabilisation of relations in the structural field. But the fact is that even if things were going reasonably well - with the caveat I shall introduce in a minute - the stabilisation in the financial field is moving too slowly, in my judgment. The problem is that it is much more difficult indeed to adapt the micro economy to change the overall economic and legal structure of a country, and readjust the country's BoP, and here the time-lag is certainly very difficult (to overcome). And our work during the next three-four years will be precisely to try to have these economies work like market economies while they aren' totally adapted to that

Of course, they will have voted for the role of private property, for privatisation, for bankruptcy, for the principles of accountability of enterprises and things like that. But where are the entrepreneurs? Are entrepreneurs prepared to do all that? Have they absorbed the basic behaviour of the market? Will the implicit cri-

(structure).

teria required by the market have changed? We don't know. Nobody knows.

All of us are working a lot to promote that, to facilitate that, and all of these countries know very well this is the true challenge. How long it will take, once again, nobody knows. But my belief is (that) - in view of the enthusiasm expressed for this form of change, the perception they have that the old approach cannot work, that any mixed system runs the risk of resuscitating the behaviour of the old hated regime, even if the (process) is slow — it will be tolerated.

believe that it will be difficult, that we will have sooner the stabilisation elements working than the structural elements. But no one of them can work well without the other. We shall not complete the stabilisation chapter well enough without the chapter of the structural (having been) completed. So, for a few years five or seven years — it will be

To cut the story short,

adjustment process right away. But we are already seeing tance, while the country's the first results of the changes membership application went in these countries. We see that though the mill, as Camdessus hyperinflation in being conseems to suggest in this intertrolled, we see that the BoPs view? When members undergo are improving very well, we structural reforms, they are see that the budgets are in entitled to IMF aid. During the order, we see that the debts Associate Membership will the are being restructured, and if USSR be supported by the the fall of output is in the pro-IMF? Questions of this nature cess in the official sector — the remained unanswered until figures of the GNP only reflect late June, even though in the the official institutional sector meantime, the London Summit - we also see on the other had seen and heard an impashand a very brilliant informal stoned Gorbachev looking for sector starting to develop, Western friendship with some trading mushrooming around, amount of substance. and we believe that over time Chancellor Kohl was willing to

this informal, unstructured

sector will enter into the for-

mal economy. So, it will be

with the Western economy and

the Western market. But this is

not the ideal way for a country

to make its transition, and I

am certain that things would

have been easier for Poland,

Czecho-Slovakia, Hungary, if

the Soviet Union had been able

to avoid such an abrupt

destruction of its internal posi-

fiercely debating the question

not knowing, however, what

the IMF would prescribe, or

how long the trial period was

supposed to last. Was it only an

interim measure designed to

begin helping the USSR with

consultancy and short-term,

low-volume financial assis-

Washington DC in June was

the right path.

long, difficult, but we are on Camdessus: I don't see this the same way. First, in the What is needed now is perperiod before becoming a full severance, with wall the member they can do what they changes that have been want, and of course, we can ofstarted. The key difficulties fer in the meantime many that we are faced with — which forms of cooperation. And not were not expected - are of being a member, they can do such a magnitude (resulting anything they want. Second from) the collapse of the you are suggesting that any Soviet Union's economy; and form of adjustment process the total implosion, I would that we shall recommend dursay, of the intra-Easterning this time will become an European economy, which obligation to them and yet they puts additional pressure on will not get anything much in their BoP and also on their return. I disagree. output. This obliges them, as a If adjustment is needed, it matter of fact, to adjust further is in the interest of the Soviet

offer what Gorbachev was

pleading for, or something

Union to adjust, and as soon as possible. Of course, it is also in the interest of the world to have such an immense country - (possessing) such human and economic resources - to be in good shape. But it is first in the interest of the Soviet Union - and the responsibility

of its leadership - to put the

country in good shape. After observing this institution (the IMF) for five years, I fail to see that when it suggests, or advises, or even urges a country to take certain adjustment measures, they are an imposition on the party concerned. First, it's never imposed second, it's in the interest of the country.

Although we can and money to that (process), it's only a way of speeding up the facility of the process. But, if you are a leader of your country and mindful of its true interests, you should go ahead with the

Soviet Implosion Paves Way

for Market Economy

Global sympathy favours interim assistance and eventual membership, provided Moscow starts its

### Amitabha Chowdhury SPECIAL TO THE STAR

At the present time, about 70 countries are accepting this kind of discipline. Not because they like the IMF or because they believe we are, in general, accurate in our statement. But because, yes, there's a moment



Michel Camdessus: No confrontation, but a complex dialogue on Soviet membership.

when the leader of a country has to put the whole country in

These are merely ideas, we haven't discussed these with the Soviet Union, possibly they will not buy that, but if they were to go this way, we should discuss who would pay for it. We should discuss this, being

Karaosmanoglu singled out

South Asia as a region ripe for

increased trade and financial

ties with Japan. He noted that

in 1989 Japanese aid and pri-

vate investment to all of South

Asia was less than that ex-

tended to Indonesia and pri-

vate investment was a negli-

gible part of this. On the other

hand he observed that Japan's

share of merchandise imports

of South Asian countries had

increased marginally in the

1980s, while falling in the

Meanwhile, Japan's share of

the region, while still

"South Asian countries are

undergoing major re-thinking

on their policies, and en-

hanced collaboration with

Japan could expedite the pace

of reform and also increase

the effectiveness of reforms

through provision of funds," he

In environmental protec-

tion, Karaosmanoglu praised

Japan's progress in emission

control, predicting the country

would become a leading sup-

plier of emission control

equipment to its Asian neigh-

bours. In the area of primary

education, he called on Japan

to join in an effort "to erase il-

literacy from Asia within a

Improving "development

project preparation capacity"

would involve extending plan-

ning and administrative assis-

tance to the least developed

Asian countries, including

Bangladesh, Nepal, Laos,

Vietnam and Myanmar.

Without this basic intellectual

capital, additional aid is likely

to be misused, resulting in

"consumption and/or policy

generation.'

distortions."

ronment.

net direct foreign investment

small, increased dramatically

from 5.4% in the 1970s to

16.8% in the 1980s.

rest of Asia.

mindful of the fact that, if it's in the interest of the Soviet Union, it's also in the interest of the whole world, and in particular in the interest of the developing world to have the USSR as soon as possible in a better shape. They have to pay a little bit for that.

Let's look at your country, Sir. (He referred the India.) Look at the net damage to your country resulting from the collapse of the Soviet economy. As soon as it is in a position to renew its trade relations with India as well as with Czechoslovakia, as well as Argentina, it's better for all of us. This is one reason for having a relaxed look at these issues. We have another reason for establishing this kind of cooperation with the Soviet Union, namely, our responsibility for assessing the global economy as a whole.

So far, we have 155 countries, which allow us to have yearly in-depth analysis of their economies. Thanks to that, we publish twice a year the World Economic Outlook. which is seen as an accurate document. It's so because before we make the report we go to each country.

But we have a black hole (in it), an immense black hole. If I were the Finance Minister of a country I would be ready to pay something to get rid of the black hole, and to have a good perception of what is happening in the Soviet Union, and of the way in which we can have this economy working, so as to make it conductve to more growth of the entire global system. So, I believe, our membership will take quite an open view of it, even if there's some cost involved.

During the week of this interview after a long lull the IMF-World- Bank gossip mill was working full steam. Not without some reliable grist, though. The issue of the capital increase for the IFC, for which the recommendation was for a US\$2 billion sent The World Bank board-room into turmoil of conscience - and a battle against what appeared to be a clear attempt by the US Treasury to impose its unilateral will. The US was not opposed to the increase. although it wanted the capital to go up by US\$1 billion only. But it insisted on certain conditions of how the IFC and The Bank would work in the future, asking the latter to veer its programmes in line with that of the IFC. In the debate that ensued in the board-room the issue was different, too. Can one country be allowed to dictate its policies on The Bank?

The triumphal conclusion of the Conable era seemed to be in serious jeopardy. People in The Bank and the IMF conjectured about the motive behind the US Treasury's ultimatum. Could it be that Deputy Secretary David Mulford was acting in petulance, because he was denied The World Bank President's job? Could it be the repetition of the old pattern that at the time of the appointment of a new President the US Treasury would insist on demonstrating where the power centre is - who's the

Finally, Conable won the battle, but only after marshalling the support of his erst-while friends on the Hill, and making two Congressional Committee chiefs to issue a counter-ultimatum against the US Treasury.

But, irrespective of the final outcome, the incident brought to the open once again an ugly sore - the whole issue of how much these two world bodies are dominated by the US. And, therefore, how much willynilly the two bodies impose on their members what is actually the will and policy of a single shareholder?

Camdessus: Here you have two problems. One is the dominance of the US. The other is: how it appears to the public.

Are we or not imposing on

any country's policy-making freedom? In a certain way, I have to confess that there are instances in which we impose. There are instances when, in this office, I tell a Minister of Finance, Sir, if you only do that, that and that, to face such a huge imbalance, then, in my view as an honest economist you will not do the trick, and I cannot recommend the support of the international community to what you are doing, because you will fail. So, unless you do enough to get to the threshold of credibility, I don't recommend international financing for you. This is something, unfortunately, I have to say from time to time.

the threshold of credibility and the country really needs IMF money, then, yes, they have to accept to go to what call "the threshold of credibility" - the minimal amount of critical mass action - to deserve international support. This is not the dictat of the IMF. We are only a spokesperson of the international community, telling them that, look, if you want the support,

you need to present credible

actions. These are the situa-

tions when we are in a position

When the country is below

to impose something. But once a country is doing enough to be beyond this threshold, I would say it's frequent, because in general countries have good economies and leaders who want to address the real problems of the country, then, we are much more relaxed. Then, we discuss with them only the best mix of measures to maximise the efficiency of what they are doing. Take the case of Poland.

They came with a programme which could have been seen as much stronger than the ordinary standards of the IMF. From the beginning we knew that the programme would by far - with a comfortable margin - be above the threshold of credibility. In such a situation we do not impose anything. We only discuss, provide technical assistance, try to maximise the efficiency of a certain mix of policy. We don't impose and only ask, first, as a technical assistant, or a broker, or a catalyst of the international community, (how can this country) get the maximum amount of international support in order to back its major national effort.

Here you can put India, Brazil, the Soviet Union, Argentina, any of these counties. For them the problem is to get to the threshold.

Now, to the role of the US. By a long tradition — and l haven't created it - the attitude of the IMF about its relations with the shareholders (of IMF), in general, is not the same as it is seen in the (context) of The World Bank. The two traditions are differ-

The USA here is a share-

holder with 18% of the voting power, and capacity of vetoing a few things - when we change, when we increase or not our capital. In other cases it's just an 18% voting to block. You will not see so many instances of the US dictating things to the IMF. The fact is that there are plenty of things on which, I think, the US has the right perception of the need of the world. Then, there's an area of coincidence between what they are suggesting and what we have also decided (on our own) to do. But you could say this in respect of a great many of the countries of the world: an immense majority of our decisions are taken by a broad consensus of our Board, by a global consensus. In fact, the harshest of our decisions are, instance, conditionalities. They are set down every year by the Board, ... on a vote of consensus.

opposed the membership of the Soviet Union, will the membership go ahead? I don't think that things will develop this way. First of all, the Soviet Union is an agreed super power, never will the Soviet Union put itself in the position of being vetoed by another country. And no country will be in a position to feel that it can veto the Soviet Union. So, I presume, they will take great care in creating an atmosphere in connection with their membership and similarly the US will take great care to explain to the rest of the world the objective reasons for which they believe that the process shouldn't be over-precipitated.

Now, let's imagine if the US

This is what we are witnessing at the moment. You probably have seen that the Soviet Union is willingly going along with what the G-7 countries are proposing to them. I know that they very much want to join the IMF, but I also know that they have to have a good Union Treaty at home and there are plenty of things to discuss. In the meantime, they might need some form of assistance.

Possibly I am wrong, but I do not forecast a confrontational debate on that (subject), but certainly forecast a complex dialogue leading soon to a Soviet membership, probably, as soon as technicalities can be resolved.

By Arrangement with the Asian Finance, Hong Kong.

# Rising Sun Holds Key to Asia's Development

By A Special Correspondent

IIIS time last year, when aid workers feared a surge of assistance to Eastern Europe at the expense of other developing regions, Attila Karaosmanoglu wasn't worried. charismatic Karaosmanoglu, a former Deputy Prime Minister of Turkey and now the World Bank's Vice President, Asia Region, believed that geo graphical proximity - as well as cultural affinity - would contrive to keep most of Japan's foreign aid in its own

Karaosmanoglu has expanded his ideas considerably since then. In a speech delivered to the Japan Center for International Finance earlier this year, he saw the emer gence of a sophisticated and wide-ranging "partnership" between Japan and developing Asian countries, in which the former is not only the leading aid donor, but also a rich source of financial, technical and management expertise, and in many cases ultimately a major trading partner. He also called for more collaboration between Japan and the World

Currently, Japan accounts for about 9% of the World Bank's subscribed capital. Since 1970 it has contributed some US \$ 12.5 billion in financing toward World Bank assisted projects, of which about half have been in the Asian region.

In Karaosmanoglu's vision, however, aid-giving is just one of many rungs in the Japanese ladder of assistance. Others include technology transfers, trade development and other "partnerships," as well as the adoption by recipient countries of a "Japanese approach" to certain management and social issues. These approaches can include the retraining and relocating of labour, better relations between the state and the private sector, and better labour rela-

"Japan's importance derives not only from its financial contribution. Equally important are the lessons to be learned from the Japanese approach to foreign assistance development. Karaosmanoglu said, adding that "the emphasis that the Japanese approach puts on partnership rather than on an

adversarial relationship is a particularly important one." Such an emphasis is no co-

incidence, he believes, since Japan has gained "rich development experience" through "two long periods of industrialization and growth." He pointed out that Japan was a World Bank aid recipient until 1966 - that is, for almost two decades after World War Two.

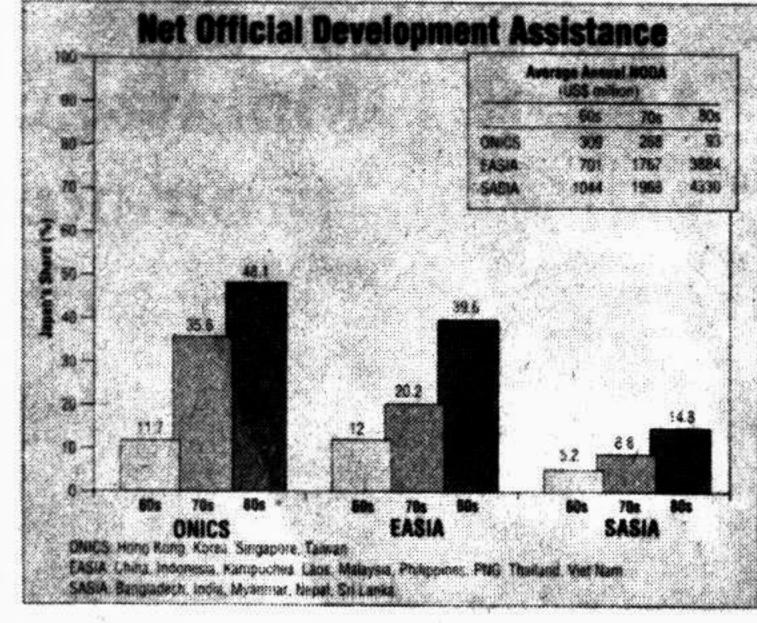
Noting that he was departing somewhat from the World Bank's prevailing ideology.

Japanese experience, according to Karaosmanoglu. At the same time, these countries are ensuring that what they adopt is "congruent with their own history and background."

He identified four areas for "enhanced cooperation" between Japan and developing Asia: primary education; environmental protection; trade and private sector development; and development project preparation capacity."

On trade and the private

For World Bank's Karaosmanoglu, learning from Japan is as important as receiving its



Karaosmanoglu had special praise for the Japanese government's positive role in the country's development.

This role, he said, "tells us that there are things governments should do and how they can do it better." He acknowledged that in recent years the World Bank had "talked a lot about which areas government should leave to the private sector." But he added that the view that government should swear off any and all selective involvement in the economy is "a bit naive."

Korea, Singapore and Thatland are the best examples of industrializing countries that have drawn upon the

sector - potentially the most controversial of the four areas. given its economic "bloc" connotations - he noted that Asia is now Japan's leading export market, taking more than either Europe or the United States. As trade with the latter two regions continues to decline proportionately, Japan will have to help its Asian trading partners to stabilize their balance of payments and thereby continue their importing programmes. To do this, Japan will have to import more from the Asian countries concerned, as well as increase capital investment from government and non-government sources. Opening Japan's financial markets to off-shore fund-raisers will also help.

Karaosmanoglu did not elaborate on the details of the strengthened cooperation between Japan and the World Bank, saying that these "will need to be worked out." However, he expressed a desire to see "joint studies" on "major regional issues" such as

By Special Arrangement with Asian Finance, Hongkong

labour relations and the envi-