

Feature

A STAR SPECIAL ON IMF-WORLD BANK MEETING

IN THE summer of 1991, the news-and-gossip beat around The Bank and the IMF was remarkably placid.

Nor, as was the case immediately after Barber Conable took office was the environment of The Bank stinking in the maelstrom of a stinking and often bitter debate.

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

The IMF Managing Director, too, was not unduly frustrated by the Quota Increase, which fell substantially below what he wanted the US to cough up.

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.

The process of ratification is developing I think properly, and it will be over by the end of the year.

The summer in Washington DC, however, add 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

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

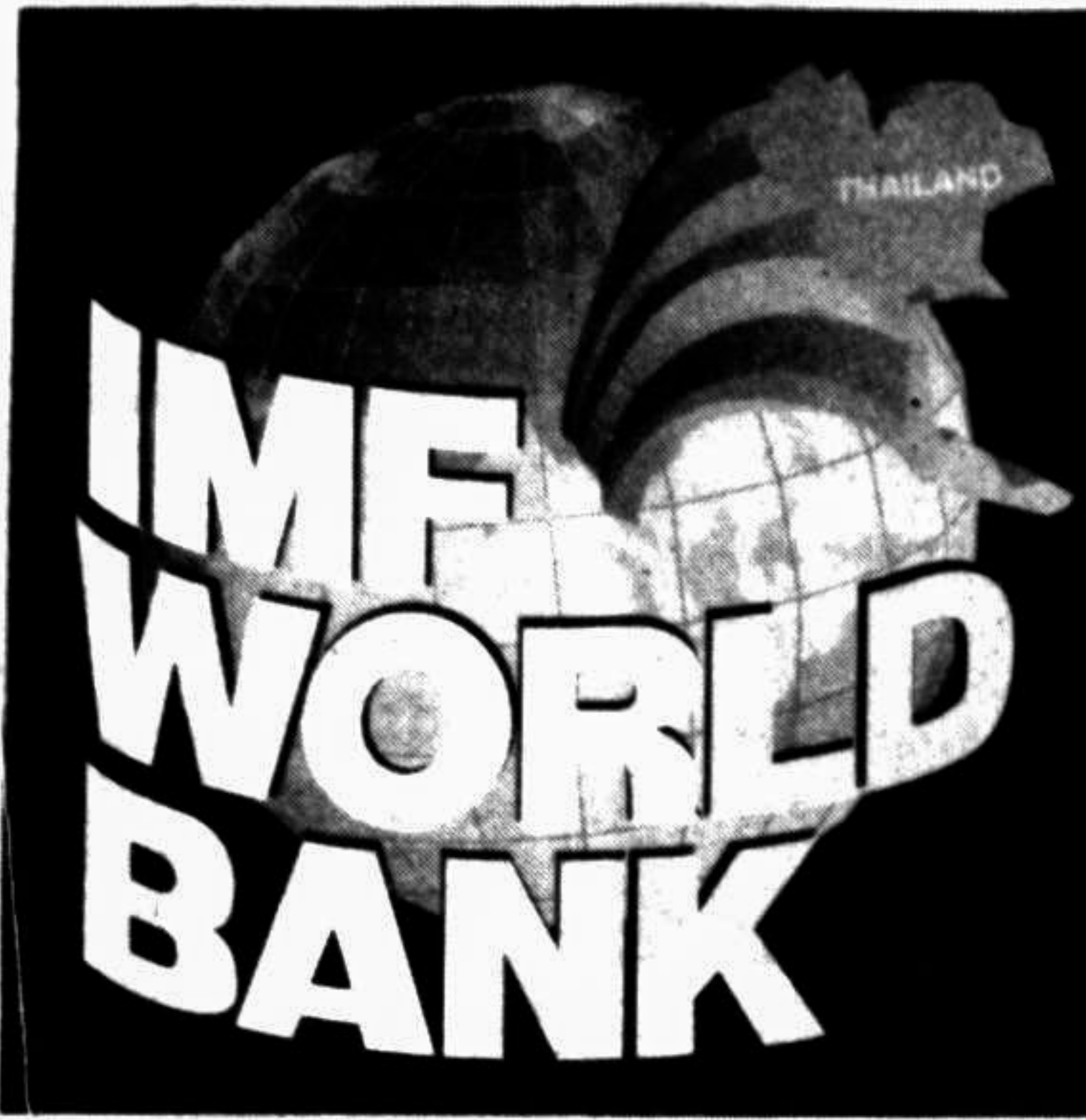
The question has been hanging fire for nearly a year, although in the meantime, in the White House the sympathy barometer has risen in favour of Gorbachev. But the US was finding it difficult to make a choice between what's good for it — a broken-up USSR, caught in an implosion, or a union which is slowly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

Camdessus: Things are very, very complicated, and there are no unambiguous 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.

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.

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.

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-



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.

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...

The G-7 nations have offered the Soviet Union Associate Membership without spelling out exactly what it means. As there is no such unambiguous 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 series of pains accepting heavy bills and even perhaps upheavals of a major order?

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 over 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.

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 Karasmanoglu'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.

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 and development.

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.

To cut the story short, I 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.

Washington DC in June was fiercely debating the question not knowing, however, what the IMF would prescribe, or how long the trial period was supposed to last.

adversarial relationship is a particularly important one. Such an emphasis is no coincidence, he believes, since Japan has gained "rich development experience" through "two long periods of industrialization and growth."

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

Rising Sun Holds Key to Asia's Development

By A Special Correspondent

When aid workers learned a surge of assistance to Eastern Europe at the expense of other developing regions, Atilla Karasmanoglu wasn't worried.

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

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 eight percent of the United States.

This role, he said, "tells us that there are things governments should do and how they can do it better."

Banking and Finance

Soviet Implosion Paves Way for Market Economy

Global sympathy favours interim assistance and eventual membership, provided Moscow starts its adjustment process right away.

But we are already seeing the first results of the changes in these countries. We see that hyperinflation is being controlled, we see that the BoPs are improving very well, we see that the budgets are in order, we see that the debts are being restructured, and if the fall of output is in the process in the official sector — the figures of the GNP only reflect the official institutional sector — we also see on the other hand a very brilliant informal sector starting to develop, trading mushrooming around, and we believe that over time this informal, unstructured sector will enter into the formal economy.

What is needed now is perseverance, with will the changes that have been started. The key difficulties that we are faced with — which were not expected — are of such a magnitude (resulting from) the collapse of the Soviet Union's economy; and the total implosion, I would say, of the Intra-Eastern-European economy, which puts additional pressure on their BoP and also on their output.

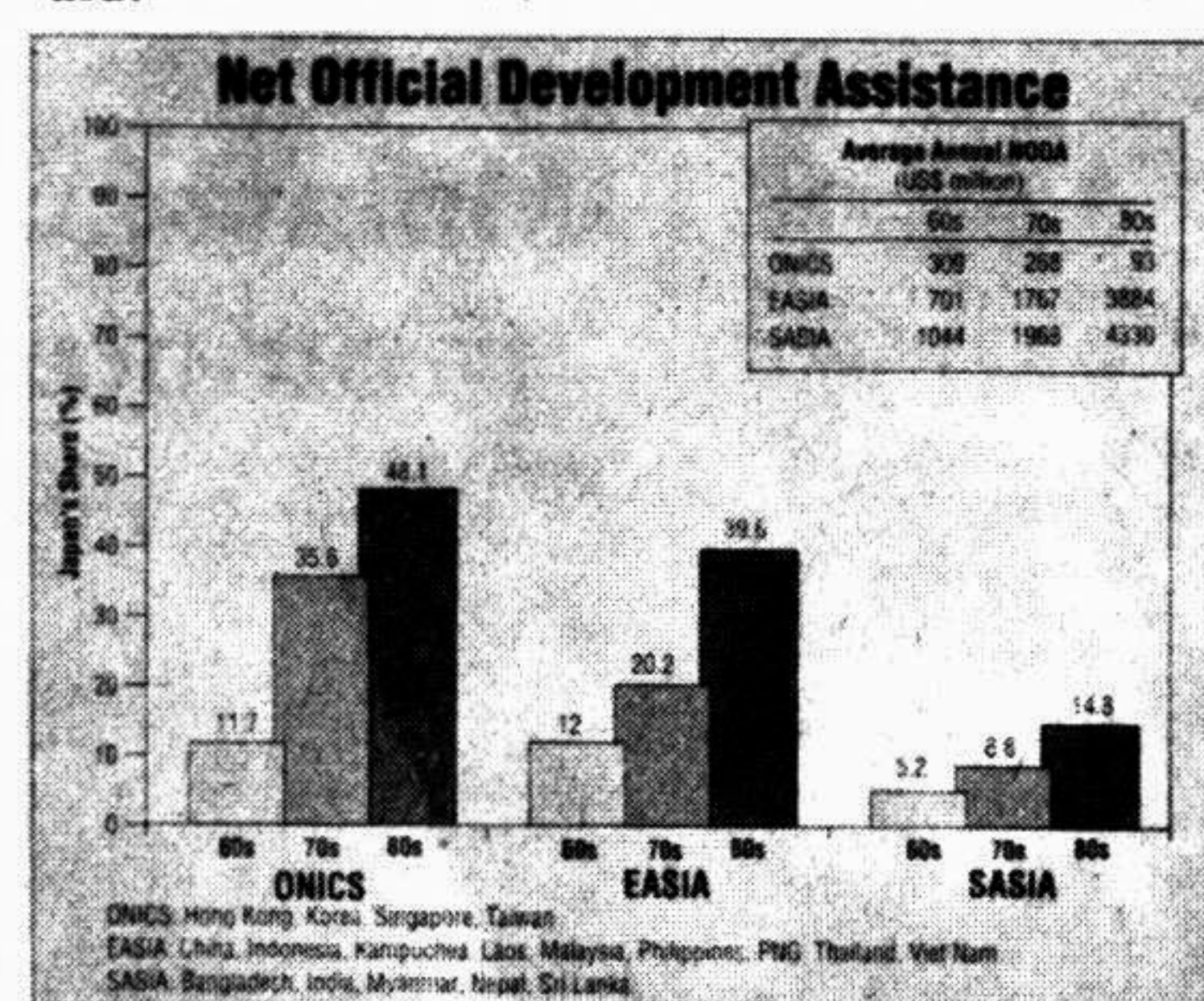
After observing this institution (the IMF) for five years, I fail to see that when it suggests, or advises, or even urges a country to take certain adjustment measures, they are an imposition on the party concerned.

Japanese experience, according to Karasmanoglu. 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 Karasmanoglu, learning from Japan is as important as receiving its aid.



Karasmanoglu praised 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."

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

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

Camdessus: I don't see this the same way. First, in the period before becoming a full member they can do what they want, and of course, we can offer in the meantime many forms of cooperation. And not being a member, they can do anything they want.

If adjustment is needed, it is in the interest of the Soviet 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.

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

Amitabha Chowdhury SPECIAL TO THE STAR

process. 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 order.

During the week of this interview after a long lull the IMF-World Bank gossip mill was working full steam.

Meanwhile, Japan's share of net direct foreign investment in the region, while still small, increased dramatically from 5.4% in the 1970s to 16.8% in the 1980s.

"South Asian countries are undergoing major re-thinking on their policies, and enhanced collaboration with Japan could expedite the pace of reform and also increase the effectiveness of reforms through provision of funds," he said.

In environmental protection, Karasmanoglu praised Japan's progress in emission control, predicting the country would become a leading supplier of emission control equipment to its Asian neighbours.

Improving "development project preparation capacity" would involve extending planning and administrative assistance to the least developed Asian countries, including Bangladesh, Nepal, Laos, Vietnam and Myanmar.

Karasmanoglu 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."

By Special Arrangement with Asian Finance, Hongkong

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.

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 conducive to more growth of the entire global system.

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 a 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.

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 boss?

Finally, Conable won the battle, but only after marshalling the support of his erstwhile 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 willy-nilly 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, 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.

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.

When the country is below the threshold of credibility, and the country really needs IMF money, then, yes, they have to accept to go to what I 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 situations when we are in a position 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 be 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 countries. For them the problem is to get to the threshold.

Now, to the role of the US. By a long tradition — and I 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 different.

The USA here is a shareholder 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 "harshness of our decisions are, for instance, the conditionalities. They are set down every year by the Board, ... on a vote of consensus."

Now, let's imagine if the US 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.

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.

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