

FINANCE MINISTERS OF IMF- WORLD BANK MEMBER COUNTRIES DISCUSS GLOBAL ECONOMIC ISSUES

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Dr Gamini Abeysekera, Additional Director, Economic Affairs Division, Ministry of Finance and Planning who was a member of the Sri Lankan delegation led by the Minister of Finance & Planning Mr Ronnie De Mel to the joint Annual Meetings of the International Monetary Fund and World Bank in Seoul, provides an on the spot assessment of these deliberations. The Finance Ministers of the member countries of the IMF and World Bank, who are also governors of these institutions, usually gather every year at the joint Annual Meeting of these two multilateral institutions in Washington DC, and once in three years the sessions are held in a member country. This year it was held in Seoul South Korea.

Prior to the formal meetings of the Governors of the Fund and Bank several other important meetings are held. These include the meetings of the Group of Ten (G-10) and Group of Twenty Four (G-24) which represents groups of industrial and developing countries respectively. At these meetings, each group formulates a statement summarising the major international economic and financial issues which they consider timely and vital for discussion as well as the stand that should be taken by each Group in regard to those issues. The G 10 and G 24 meetings are followed by the Interim Committee Meetings and Development Committee Meetings attended by the Ministers, Senior Officials of Finance Ministers and Central Banks. At the Interim Committee Meeting, matters pertaining to the IMF are discussed while the Development Committee Meeting focusses on World Bank related issues.

The main subjects dealt with and the key issues highlighted at the entire series of meetings held in Seoul, including the Joint Annual Meeting of the Fund and Bank may be summarised as follows:

(a) The world economic outlook in general, and its implications for growth and development of the developing countries in particular;

(b) The world debt problem and alternative approaches to find solutions;

(c) The problems in the international monetary and financial system, with special reference to allocation of SDRs by the IMF and the need for a General Capital Increase by the World Bank;

(d) The question of protectionism in international trade and the need for greater capital flows developing countries; and

public intervention. Perhaps with the exception of Hong Kong (which is not typical of developing countries), for other countries (and indeed for Japan) this view is in sharp contradiction with actual facts. As a number of studies have highlighted, the economic success of these countries is not so much the result of "natural" market forces as of determined government policy aimed at "creating comparative advantage of the future".

The explanation for this discrepancy between predictions of the neoclassical economic paradigms and the real economic experience of deve-

loping countries must be found in the peculiarities of their economic structures, in particular the lack of a dynamic industrial capitalist class with a declared industrialization mission as well as various imperfections in the market structures. In most of these countries capital is still at its mercantile stage of development. Trade and other non-tradable sectors are still its favoured fields of investment, and industrialization is usually considered as a "forced" alternative; added to this, the developing countries have inherited from their colonial era a very imperfect market structure where the "market" and "social" comparative advantages differ among themselves.

(e) The functioning of the exchange rate system and issues pertaining to surveillance and adjustments.

Most of these subjects have been dealt with by the Fund and the Bank on several previous occasions. Therefore, the meetings in Seoul reflected a continuation of the dialogue while taking stock of the current situation and focussing on possible policy action. Although no concrete decisions were made at the Seoul meetings, it was possible to observe a greater convergence of ideas expressed by industrial and developing countries on a number of key issues. According to a majority of speakers, successful resolution of the world debt crisis and other financial and monetary problems and attainment of sustainable development in all parts of the world would require a combination of appropriate policies by both industrial and developing countries. The consensus, expressed by the Governors, that the path to global prosperity lies in a coordinated strategy involving both industrial and developing countries, amounted to assigning the Fund and the Bank, a major role as co-ordinators of such a strategy. Furthermore, in regard to the need to support appropriate strategies with adequate financial flows, the roles of the Fund and the Bank were stressed more explicitly.

Global Outlook Not Encouraging

The world economic outlook was interpreted by several speakers as not very encouraging. They noted that the recovery of the industrial countries was fragile and faltering. Among the treats to sustainable world economic growth they cited the slowdown in investment, continuing high levels of real interest rates, weak commodity prices, structural budget deficits and volatile exchange rate movements. The speakers from developing countries argued that a global recovery cannot be attained and sus-

tained unless and until the economic base of developing countries is strengthened; and hence the importance of recognising the interdependence between industrial and developing countries was reiterated by these speakers. They elaborated on this argument by stating that developing countries ought to have greater access to trade, capital and technology also involving enhanced resource transfers from the developed world, if they are to efficiently take part as partners of development so that industrial countries can also expand their economies.

In the context of the need for co-ordinated action by all countries, many speakers from developing countries argued that the burden of adjustment must be shared fairly and equitably by industrial countries as well, without passing it entirely on to the developing countries. Their grievance was that despite severe and continued adjustment efforts launched by developing countries, certain policies pursued by the developed economies or the absence of required policies in such countries have made adjustment efforts ineffective or even more difficult. Therefore, the Governors from the developing world urged the industrial countries to be more concerned with the global effects of their domestic macro economic policies and also to follow more enlightened policies towards trade and capital flows. In this context, many speakers called on the United States to reduce its fiscal budget deficit in the hope of reducing interest rates and accordingly the debt service burden of the indebted developing countries. On the other hand, some Governors appealed to the Federal Republic Germany and Japan to follow more expansionary fiscal policies to stimulate the growth rate of industrial countries caused by the slowdown in US growth in recent years. Virtually, all Governors cited protectionism in the industrial countries as a major threat to expansion of exports of developing countries and world trade and warned that it would aggra-

vate the problem of servicing their external debt and impair the achievement of sustainable and balanced growth in the world.

The Crisis of Overborrowed Latin America and Poverty Stricken Africa

One of the major issues which was debated at length during the Seoul meetings was the debt crisis faced by some of the developing countries. The difficulties of the over-borrowed Latin America and the poverty stricken Africa, and the resulting implications of their indebtedness to the international economy dominated the speeches of several key speakers. For instance, James Baker, the Secretary to the Treasury of USA went to the extent of putting forward a three point plan towards solving the debt problem. According to the Baker Plan, there are three main components that must get together in formulating a package deal; i.e. the Commercial Banks, the World Bank and the IMF. His plan is that first, Commercial Banks should provide \$ 20 Bn. in new money over three years to 15 big debtors including Mexico, Brazil and Yugoslavia who do not have access to borrowing. Second, an extra \$ 9 Bn. over three years should be provided by the World Bank together with the Inter American Development Bank mainly with a view to mobilising more private capital through co-financing arrangements. Third, another \$ 2.7 Bn. consisting of payments due to the IMF Trust Fund over the next six years, should be reserved for the poor countries faced with chronic balance of payments problems. The crux of the Baker plan appeared to be the belief that more official lending would encourage more private capital flows and facilitate re-scheduling of debt. However, the importance of Baker's plan lies in the readiness of USA to evolve an action oriented programme to resolve international debt problems with the assistance of both multilateral institutions and commercial bankers.

Another important issue that received the attention of the policy makers assembled in Seoul was the problem of stagnating Africa. The problem of Africa was recognized as much more deep seated than merely a debt problem. In the African context, the debt problem was viewed as a manifestation of more fundamental deficiencies related to a host of factors including climate, population growth and structural weaknesses in the economy. Hence, it was pointed out that a more broad based approach to Africa's problems has to be evolved by the multilateral agencies. The efforts of the World Bank in extending assistance to Sub-Saharan Africa were commended by many speakers. However it was felt that the new special three year facility for these countries started in July this year by the Bank, with about 1.2 billion dollars would not be adequate. Therefore it was suggested that the International Development Association (IDA), the soft-loan window of the World Bank for poor countries, should be directed to provide more resources to Sub-Saharan Africa. Another proposal made in this context, was to augment the World Bank's special facility with the IMF Trust Fund money.

Surveillance Asymmetrical

Every Governor who spoke at the joint annual meetings of the Fund and the Bank, dealt with the respective role that these two institutions should play in the international economy. In regard to the role of the Fund, the view point expressed by the developing countries in general, was that the Fund should be flexible in its dealings with individual countries in the face of a constantly changing international economic environment. They also argued that the "surveillance" of the Fund has been asymmetrical since it has been effective only in case of those developing countries who had to resort to assistance from the Fund, while it was not at all effective in regard to

the industrialised countries. The developing countries shared the view that both deficit and surplus countries should be subject to international monetary and financial discipline of a general nature. They pointed out that without such an agreement for strengthening and broad basing the surveillance function of the Fund, it would not be possible to maintain stability and growth in the international economy.

While appreciating the need for better co-ordination of the policies of the IMF and the Bank, several Governors warned that it should not result in cross-conditionality in regard to assistance of developing countries by the two institutions. In this context Sri Lanka's Finance Minister Mr. Ronnie de Mel, stressed that all country programmes of the Fund should be linked to financing. He also warned against the danger of the Fund becoming a "credit-rating agency". In other words, the developing countries emphasised the fact that there should be no enhanced surveillance by the Fund, if there is no recourse to additional fund resources. They also argued that conditionality should not be applied as a general principle to all borrowing countries alike. In regard to additional resources required for low income countries, the speakers welcomed the idea that the IMF should allow the Trust Fund reflows to be used for concessional balance of payments assistance. Nonetheless, they stressed that such an arrangement should not in anyway weaken the case for replenishing the resources of the multilateral agencies.

ENHANCING INTERNATIONAL CAPITAL FLOWS

Focussing on the role of the World Bank, many Governors particularly from the developing world, appreciated the need for increasing the capital base of the Bank. They argued that an expanding role of development financing can be undertaken by the

World Bank and its soft-loan window - IDA, only if their capital resources are expanded. It was also pointed out that efforts to increase private capital flows should not be treated as a substitute but only a supplement to the development finance that the World Bank can extend. While appreciating the efforts of the World Bank in assisting Sub-Saharan Africa affected mainly by natural calamity and the Latin American countries burdened with enormous debt servicing problems, the developing countries in Asia put forward another strong perspective in regard to development finance. Mr. Ronnie de Mel, Sri Lanka's Minister of Finance and Planning being a lead speaker on this subject, stressed that while the debt crisis deserved much attention it should not result in a shift of emphasis away from other developing countries. He argued that the countries which have shown satisfactory progress through the implementation of difficult adjustment programmes should be rewarded for their prudent economic management instead of being penalized for their efforts. In other words, he emphasised the need to ensure that concessional lending will not be curtailed to the developing countries particularly in Asia, which have shown a satisfactory progress, and that they will not be crowded out by the over-riding considerations related to the Latin American debt problem and the African situation.

A CONTROVERSIAL SUBJECT

In regard to the promotion of international capital flows, which is a major responsibility of the World Bank in its role of financing development, a proposal had been made to establish a Multilateral Investment Guarantee Agency (MIGA). This was another important issue that became the subject of a somewhat controversial discussion at the annual meetings of the Fund and the Bank in Seoul. The main objective of MIGA was

announced as the stimulation and expansion of private capital inflows or foreign direct investment into the developing countries. It was revealed that MIGA would cover non-commercial risks of the investors through a system of investment guarantees and provide an appropriate legal and policy environment conducive to private capital inflows. There was, however, no unanimity about the merits of this proposal as the responses of the developing countries, in particular, were mixed. Nonetheless, some countries signed the Draft Convention to establish the MIGA and it appeared that many others would fall in line.

Several other technical issues related to the operations of the Fund and the Bank such as a further allocation of Special Drawing Rights (SDRs) and Access Limits were also discussed during the meetings. Although no consensus was reached or no specific decisions were made, the exposure of a large number of issues related to the international monetary and financial system at these meetings proved to be useful to sensitise the policy makers and provoke their thinking about such issues. Practically every Governor agreed that improvements are needed in the functioning of the present system. They felt that the international community must create conditions that will make it possible to establish better relations among the countries in the world as well as speedier development in the low income countries with a view to achieving global prosperity. Similarly, they recognized the need to continue the efforts of the developing countries to restore their external balances and effect structural changes required for sustainable growth. They concluded that twin goals of 'adjustment' and 'development' were not incompatible, and that adjustment was a pre-requisite for longer term growth and development. The Governors in general, expressed their hopes regarding the ability and potential of the IMF and World Bank to help countries in achieving adjustment and development.