# A Poor Grade for the IMF

By Martin Khor

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Doubts and criticisms are mounting in Asia about the role and policies of the International Monetary Fund. Regional economies continue to be buffeted despite the fund's "bailout" of Thailand, Indonesia and South Korea. One reason for this is its failure to restore market confidence or stability. As such, there are a number of criticisms that may justly be levelled at the IMF.

First, it is forcing the affected countries to open up to greater foreign ownership and probable domination in the financial sector and the economy as a whole. Malaysian Prime Minister Mahathir Mohamad recently warned that powerful nations had been given the opportunity to force open East Asia's developing economies, and in particular that IMF conditions would enable large foreign banks to take over the financial sector. These predictions are coming true.

The IMF has asked Thailand and Korea to remove or relax restrictions on foreign ownership. In Thailand, where laws were changed in October to allow foreign majority ownership of local financial institutions, Citibank plans to take a majority share in a Bangkok bank—the first case of what is expected to be a surge in foreign takeovers of Thai banks.

As part of its IMF deal, South Korea has to raise its limit of foreign ownership in local listed companies to as much as 55% by December 1998, paving the way for foreign takeovers of Korean firms. The IMF is also pushing Korea to allow foreign banks to establish subsidiaries and brokerage houses in the country by mid-1998 and to allow foreign companies access to domestic money-market instruments and the corporate-bond market. This could result in foreign firms dominating financial services in Korea in a few years.

Second, the IMF rescue packages have been significantly influenced—or even designed by—the United States to include conditions beyond normal macroeconomic targets, so that American companies can gain market access. Japan also has joined in. What the rich couldn't do through bilateral or multilateral pressures, they are now extracting by using the IMF loans as leverage.

In addition, the IMF practises double standards in favour of international banks and creditors, and against local financial institutions, companies, depositors and shareholders.

On one hand it piously insists that governments play by strict "market rules" and not rescue ailing local financial institutions and companies, thus putting local deposits and investments in jeopardy. On the other, it wants those same governments to ensure that external loans contracted from international banks are repaid in full—with, if need be, the governments assuming responsibility for the private sector's foreign loans.

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Foreign banks will, in short, be given large subsidies so that they don't have to carry the costs of their mistakes, while local banks and companies are forced to go under. No wonder the IMF's main role in Asia is increasingly seen as chief debt collector for international banks.

Other key IMF conditions—especially interest-rate hikes, the setting of low inflation targets despite currency depreciations, cuts in government spending and general economic contraction—are misplaced as they were originally designed for countries facing different problems.

As has been pointed out by many others, the IMF's standard policies were originally designed for economies with raging inflation and high budget deficits and public-sector external debts—mainly in Africa and Latin America. Here, these policies are counter-productive, as Asia's problems are centred on the private sector.

Moreover, inflation is relatively low. Together with the prohibition on aid to troubled local banks and companies, these fiscal and monetary policies will further weaken or kill off local private-sector institutions. Thus, instead of boosting public and investor confidence—what is most needed in Asia—they further erode confidence.

The fund's policies also are made by staff who do not adequately understand the countries they preside over. Yet these instant experts are asked to design, and even radically alter, policies of entire economies that up to now had apparently done so well that they were held up as models of economic success and macroeconomic management.

The IMF preaches about the need for governments, banks and companies to be open and transparent, but secrecy surrounds the conduct of its operations and its policymaking. The theoretical bases of its policy conditions are not revealed. Even the conditions themselves are not made public, and thus not subject to review by independent professionals.

The IMF talks about everyone else's need to be open, but the public is not given the chance to participate in its decisions. Even governments that are recipients of IMF loans have little leeway to negotiate on—let alone take part in the design of—the policies that are tied as conditions to the loans.

It is imperative that a review is carried out on the theoretical bases and practical implications of the IMF's Asia policy, on its decision-making process and its lack of openness and accountability. Moreover, the IMF's double standards in rescuing international banks and creditors while apparently insisting on a no-aid approach to local institutions should change. Foreign banks that made mistakes should bear the costs of their commercial risks. ■