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IMF policies come under fire

DOUBTS and criticisms are mounting about the role and policies of the International Monetary Fund in Asia as the region's economies continue to reel from currency and stock market declines despite the "bail-out" of Thailand, Indonesia and South Korea.

On Dec 14 last year, the political leaders of Thailand, Malaysia and China attending an Asean Summit meeting in Kuala Lumpur expressed concern that the recent IMF aid had not brought recovery to the region.

Reporting on the bilateral talks between Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad with Chinese President Jiang Zemin and Thai Prime Minister Chuan Leekpai, Foreign Minister Abdullah Badawi said: "The IMF has not brought immediate recovery ... It is a fact that the situation has worsened. We thought that when the IMF got in, things would improve. However, the situation is getting more difficult."

He added that questions were being raised whether the IMF was helping the situation or causing more problems.

"The IMF has been successful in Mexico but it doesn't seem to work for us. Maybe we can't give Panadol to everyone ... Some are allergic to it and the illness becomes worse."

Abdullah Badawi also reported that the Thai premier said the IMF's assistance to Thailand had not borne any significant result and that he feared the assistance may be "too late" to rejuvenate the country's economy.

In the past few weeks, there have been a torrent of increasingly sharp attacks on how the IMF is operating in Asia and the negative effects of its policies.

Even more significantly, the criticisms are coming not only from politicians, labour unions and consumer groups of the region, but also from establishment economists, international newspapers and magazines.

One reason for this swing in opinion is the spectacular failure of the IMF rescue packages in restoring confidence or stability in the currencies and stock markets of South Korea, Thailand and Indonesia, the three recipient countries.

It had been expected that a recovery process would begin once these countries fell under the discipline of the IMF.

Instead, the policies imposed on them by the IMF (including severe economic contraction and a prohibition on aiding troubled financial institutions and corporations) seem to have created more, rather than less, fears of impending economic collapse.

Last week, the region suffered further financial stress and turmoil as the currencies in South Korea, Thailand and Indonesia fell to new lows.

The South Korean won fell continuously on news of merchant bank closures and fears of coming collapses of its giant corporations.

Tough policies forbidding official help to ailing local institutions are part of the IMF's conditions.

Ironically, the fears fuelling the won's free-fall are becoming a self-fulfilling prophecy as the sharp decline in currency values is a main factor in driving the region's indebted companies and countries into deep trouble.

When Dr Mahathir declared his nation's intention to avoid seeking loans from the IMF, he became probably the first political leader in the region to criticise the policies the agency attaches to its rescue package for

Asian countries.

At an interview with senior journalists in Tokyo on Nov 28 last year, Dr Mahathir said that although he could not discount the possibility of having to seek IMF aid, "we will resist it as much as possible."

He criticised three conditions tied to IMF loans: that the country must open up its financial market, resulting in powerful foreign banks buying up local ones; interest rates would have to go up, stifling business growth; and higher taxes, burdening the people already hit by a depreciated currency.

"All these conditions are designed to enable the countries to pay back their debts to foreign banks and institutions so that they will get back their money but the people will suffer."

On Dec 1 last year, speaking at the Asean Finance Ministers meeting in Kuala Lumpur, Dr Mahathir said the IMF offers to lend money with which to repay loans to foreign lenders.

"But the loans come with a string of conditions, principal among which is the opening of the financial sector to full foreign participation. It is likely that this will result in foreign banks eventually dominating the finances of the country concerned."

Some observers felt the Prime Minister might have been too outspoken in attacking an institution that many people consider the oracle of economic truth and the guardian of financial prudence. Instead, it appears he started a trend.

The IMF is increasingly being blamed not only by the local people but also by the international media that normally support the kind of free-market orthodoxy championed by the IMF.

In South Korea, there have been almost daily demonstrations, street protests and signature campaigns by labour and consumer organisations against the IMF's policies, which are seen to be imposing a new imperial "trusteeship" on the country.

News reports and opinion pieces critical of the IMF's Asian policy have been appearing almost daily in the newspapers in South Korea, Thailand and Malaysia, as well as in international media such as the Financial Times, the Asian Wall Street Journal and the International Herald Tribune.

Even a recent issue of Time magazine had a critical cover story with a title that reflects the rising doubts: "The Great Asian Bailout: Will the IMF save the region's economies - or make things worse?"

The major criticisms being made by the wide range of critics include the following:

- \* Some of the IMF's conditions are forcing the countries to change their policies protecting domestic companies and instead to open up the economies to foreign domination in ownership and trade.

- \* The IMF has been influenced or manipulated by the US and other rich nations to put in these conditions so that their companies can gain market access. What the North was unable to do through bilateral or multilateral pressures it is now getting by using the IMF loans as leverage.

- \* The IMF practises double standards in favour of international banks and against local financial institutions, companies, depositors and shareholders.

On the one hand, it insists that the governments play by strict market rules and not put in money to rescue ailing local financial institutions and companies, but on the other hand it wants the governments to pay back all the external loans contracted from international banks, including the huge debts of the private sector that have gone sour.

The foreign banks will, in other words, be given gigantic subsidies so they do not have to suffer for their mistakes, whilst local banks and companies are forced to go under.

\* Other key IMF conditions, especially the raising of interest rates, cuts in government spending, forced closure of local banks and companies, are misplaced as they were designed for countries facing different problems.

Instead of helping, the policies will further weaken or kill off key local private-sector institutions.

\* The IMF's policies are made by staff who do not adequately understand the countries they are presiding over. Yet these staff members are put in a position to (in a very short period of days) design and even radically alter policies of whole economies which up to now have been doing so well they had long been held up as models of economic success.

\* The IMF preaches about the need for governments, banks and companies to be open and transparent, but its own operations are conducted and its policies are made in secrecy.

Independent economists and even market analysts are no longer willing to take the IMF prescription as sacred and are now warning governments and the public against accepting it on the basis of "blind faith".

Even more powerful than the critics in eroding confidence in the IMF's performance is the lack of progress of those economies that have been forced to undergo its medical treatment.

Whilst the markets initially welcomed their seeking IMF help, South Korea, Thailand and Indonesia are now facing no end to the agonies of falling currency and stock market levels, as recent events showed.

There is a lack of confidence in the market itself that the policy conditions tied to the IMF rescue will lead to recovery. - Third World Network Features

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