

# Focus on Trade

**No.58**

January 2001

Focus on the Global South  
c/o CUSRI, Chulalongkorn University,  
Bangkok 10330  
Thailand  
Ph: 66-2-2187363; Fax: 66-2-2559976  
Email: [admin@focusweb.org](mailto:admin@focusweb.org)  
web: <http://focusweb.org>

IN THIS ISSUE

*Looking back, looking forward...*

2000: The Year of Global Protest against  
Globalization

*1*

*by Walden Bello*

Washington's Political Transition Threatens  
Bretton Woods Twins

*4*

*by Walden Bello*

# 2000: The Year of Global Protest against Globalization

by *Walden Bello\**

The last year will probably go down as one of those defining moments in the history of the world economy, like 1929. Of course, the structures of global capitalism appear to be solid, with many in the global elite in Washington, Europe, and Asia congratulating themselves for containing the Asian financial crisis and trying to exude confidence about launching a new round of trade negotiations under the World Trade Organization (WTO). What we witnessed, nevertheless, was a dramatic series of events that might, in fact, lead to that time when, as the poet says, "all that is solid melts into thin air."

For global capitalism, the year began a month early, on Nov. 30-Dec. 1, 1999, when the Third Ministerial of the WTO collapsed in Seattle. It ended earlier this month with an equally momentous event: the unraveling of the Climate Change Conference in the Hague.

## Seattle: the Turning Point

The definitive history of the Seattle events still needs to be written, but they cannot be understood without the explosive interaction between the militant and unrelenting protests of some 50,000 people in the streets and the rebellion of developing country delegates inside the Seattle Convention Center. Much has been made about the different motivations of the street protesters and the Third World delegates and the differences within the ranks of the demonstrators themselves. True, some of their stands on key issues, such as the incorporation of labor standards into the WTO, were sometimes contradictory. But most of them were united by one thing: their opposition to the expansion of a system that promoted corporate-led globalization at the expense of social goals like justice, community, national sovereignty, cultural diversity, and ecological sustainability.

Still, the Seattle debacle would not have occurred without another development: the inability of the European Union and the United States to bridge their differences on key issues, like what rules should govern their monopolistic competition for global agricultural markets. And the fallout from Seattle might have been less massive were it not for the brutal behavior of the Seattle police. The assaults on largely peaceful demonstrators by police in their Darth Vader-like uniforms in full view of television cameras made Seattle's mean streets the grand symbol of the crisis of globalization.

When it was established in 1995, the WTO was regarded as the crown jewel of capitalism in the era of globalization. With the Seattle collapse, however,

realities that had been ignored or belittled were acknowledged even by the powers-that-be whose brazen confidence in their own creation had been shaken. For instance, that the supreme institution of globalization was, in fact, fundamentally undemocratic and its processes non-transparent was recognized even by representatives of some of its stoutest defenders pre-Seattle. The global elite's crisis of confidence was evident, for instance, in the words of Stephen Byers, the UK Secretary for Trade and Industry: "The WTO will not be able to continue in its present form. There has to be fundamental and radical change in order for it to meet the needs and aspirations of all 134 of its members."

Seattle was no one-off event. Bitter criticism of the WTO and the Bretton Woods institutions was the not-so-subtle undercurrent of the Tenth Assembly of the United Nations Conference on Trade and Development (UNCTAD X), held in Bangkok in February. Indeed, what brought an otherwise uneventful international meeting to the front pages of the world press was the pie-splattered face of outgoing IMF Managing Director Michel Camdessus, who was on the receiving end of a perfect pitch from anti-IMF activist Robert Naiman.

## From Washington to Melbourne

Naiman's act helped set the stage for the first really big post-Seattle confrontation between pro-globalization and anti-globalization forces: the spring meeting of the IMF and the World Bank in Washington, DC. Some 30,000 protesters descended on America's capital in the middle of April and found a large section of the northwest part of the city walled off by some 10,000 policemen. For four rain-swept days, the protestors tried, unsuccessfully, to breach the police phalanx to reach the IMF-World Bank complex at 19th and H Sts., NW, resulting in hundreds of arrests. The police claimed victory. But it was a case of the protestors losing the battle but winning the war. Just the mere fact that 30,000 people had come to protest the Bretton Woods twins was already a massive victory according to organizers who said that the most one could mobilize in previous protests were a few hundred people. Moreover, the focus of the media was on Washington, and the first acquaintance of hundreds of millions of viewers throughout the world with the World Bank and IMF were as controversial institutions under siege from people accusing them of inflicting poverty and misery on the developing world.

From Washington, the struggle shifted to Chiang Mai in the highlands of Northern Thailand, where the Asian Development Bank (ADB), a multilateral body

notorious for funding gargantuan projects that disrupted communities and destabilized the environment, held its 33rd Annual Meeting in early May. So shaken was the ADB leadership by the sight of some 2000 people asking it to leave town that soon after the conference, ADB President Tadao Chino established an vice presidential level “NGO Task Force” to deal with civil society. Fearful of even more massive protests in 2001, the ADB also shifted the site of its next annual meeting from Seattle to Honolulu in the belief that the latter would be a secure site.

Chiang Mai had significance beyond the ADB, however. With a majority of the protesters being poor Thai farmers, the Chiang Mai demonstrations showed that the anti-globalization mass base went beyond middle class youth and organized labor in the advanced countries. Equally important, key organizers of the Chiang Mai actions, like Bamrung Kayotha, one of the leaders of the Forum of the Poor, had participated in the Seattle protest, and they saw Chiang Mai not as a discrete event but as a link in the chain of international protests against globalization.

The battle lines were next drawn Down Under, in Melbourne, Australia, in early September. The glittering Crown Casino by Melbourne’s upscale waterfront had been chosen as the site of the Asia-Pacific Summit of the World Economic Forum (Davos Forum) which had become a leading force in the effort to put a more liberal face to globalization. The casino, many activists felt, was a fitting symbol of finance-driven globalization. In nearly three days of street battles, some 5,000 protesters were at times able to seal off key entrances to the Casino, forcing the organizers to bring some delegates in and out by helicopter, again in full view of television. And again, as in Seattle, rough handling of demonstrators by the police, many of them mounted, magnified the global controversy over the event.

### **The Battle of Prague**

Later that month came Europe’s turn to serve as a battleground. Some 10,000 people came from all over the continent to Prague, prepared to engage in an apocalyptic confrontation with the Bretton Woods institutions during the latter’s annual meeting in that beautiful Eastern European city in the most beautiful of seasons. Prague lived up to its billing. With demonstrations and street battles trapping delegates at the Congress Center or swirling around them as they tried to make their way back to their quarters in Prague’s famed Old Town, the agenda of the meeting was, as one World Bank official put it, “effectively seized” by the anti-globalization protesters. When a large number of delegates refused to go to the Congress Center in the next two days, the convention had to be abruptly concluded, a day before its scheduled ending.

As important as the protests in Prague was the debate held on Sept. 23 at the famous Prague Castle between representatives of civil society and the leadership of the World Bank and the IMF, an event orchestrated by Czech President Vaclav Havel. Instead of bridging the gap between the two sides, the debate widened it, since, in response to concrete demands, World Bank President James Wolfensohn and IMF Managing Director Horst Koehler were not prepared to go beyond platitudes and generalities, as if worried that they might overstep the bounds set by their G-7 masters. George Soros, who defended the Bank and Fund at the debate, said it all when he admitted that Wolfensohn and Koehler had “performed terribly” and had blown their most important encounter with civil society.

After Seattle, much talk about reforming the global economic system to bring on board those “being left behind” by globalization was emitted by establishment personalities like Bill Gates, Bill Clinton, Tony Blair, Kofi Annan, and Nike CEO Phil Knight. The Davos Forum, in fact, placed the question of reform at the top of the agenda of the meetings it held for the global elite.

A year after Seattle, however, there has been precious little in the way of concrete action.

The most prominent reform initiative, the Group of Seven’s plan to lessen the servicing of the external debt of the 41 Highly Indebted Poor Countries (HIPC) has actually delivered a debt reduction of only \$US 1 billion since it began in 1996—or a reduction of their debt servicing by only 3 per cent in the past four and a half years!

One year after the Seattle collapse, talk about reforming the decision-making process at the WTO has vanished, with Director General Mike Moore, in fact, saying that that the non-transparent, undemocratic “Consensus/Green Room” system that triggered the developing country revolt in Seattle is “non-negotiable.”

When it comes to the question of the international financial architecture, serious discussion of controls on speculative capital like Tobin taxes has been avoided. An unreformed IMF continues to be at the center of the system’s “firefighting system.” A preemptive, pre-crisis credit line at the Fund (which no country wants to avail of) and a toothless Financial Stability Forum—where there is little developing country participation—appear to be the only “innovations” to emerge from the Asian, Russian, and Brazilian financial crises of the last three years.

At the IMF and the World Bank, similarly, there is

no longer any talk about diluting the voting shares of the US and European Union in favor of greater voting power for the Third World countries, much less of doing away with the feudal practices of always having a European head the Fund and an American to lead the Bank. The much-vaunted consultative process in the preparation of "Poverty Reduction Strategy Papers" (PRSP) by governments applying for loans is turning out to be nothing more than an effort to add a veneer of public participation to the same technocratic process that is churning out development strategies with the same old emphasis on growth via deregulation and liberalization of trade, with maybe a safety net here and there. At the Bank, strong resistance to innovations that would put the priority on social reforms led to the resignation of two reformers: Joseph Stiglitz, the chief economist, and Ravi Kanbur, the head of the World Development Report task force.

### **Debacle in the Hague**

The protests throughout the year had a strong anti-TNC strain, with the World Bank, IMF, and WTO regarded as servitors of the corporations. A strong distrust of TNC's had, in fact, developed, even in the United States, where over 70 per cent of people surveyed felt corporations had too much power over their lives. Distrust and opposition to TNC's could only be deepened by the collapse in early December of the Hague Conference on Climate Change, owing to US's industry's unwillingness to significantly cut back on its emission of greenhouse gases. At a time that most indicators are showing an acceleration of global warming trends, Washington's move has reinforced the conviction of the anti-globalization

movement that the US economic elite is determined to grab all the benefits of globalization while sticking the costs on the rest of the world.

Assessing the post-Seattle situation, C. Fred Bergsten, a prominent advocate of globalization, told a Trilateral Commission meeting in Tokyo last April that "the anti-globalization forces are now in the ascendancy." That description is even more accurate now. With the global elite itself having lost confidence in them, a classic crisis of legitimacy has overtaken the key institutions of global economic governance. If legitimacy is not regained, it is only a matter of time before structures collapse, no matter how seemingly solid they are, since legitimacy is the foundation of power structures. The process of delegitimation is difficult to reverse once it takes hold. Indeed, what we might call, following Gramsci, as the "withdrawal of consent" is likely to spread to the core institutions and practices of global capitalism, including the transnational corporation.

2001 promises to be an equally trying time for the globalist project.

\* Executive director of Focus on the Global South in Bangkok and professor at the University of the Philippines.

# Washington's Political Transition Threatens Bretton Woods Twins

by *Walden Bello\**

The coming to power of the Republicans in Washington, DC, spells deep trouble for the International Monetary Fund and the World Bank. The Bretton Woods institutions will lose their liberal internationalist protectors like Treasury Secretary Larry Summers who believe in using the Fund and Bank as central instruments to achieve US foreign economic policy objectives.

And coming in with President-elect George W. Bush will be a set of conservative analysts and technocrats representing the thinking of the US Congress' Advisory Commission on International Financial Institutions. Also known as the "Meltzer Commission," after its chairman, banker Alan Meltzer, the body issued earlier this year a report condemning the IMF for promoting global macroeconomic instability and portraying the World Bank as irrelevant to the mission of promoting development and reducing global poverty.

Confronted with four years of Republican hegemony, James Wolfensohn, president of the World Bank, is rumoured to be contemplating resigning before the end of his second term in office.

## The IMF's Stalingrad

The Washington political transition catches the IMF and the World Bank at their most vulnerable state in years. If any event may be said to have contributed to undermining the Fund, it was the Asian financial crisis, whose legacy of collapsed financial systems, bankrupt corporations, and rising poverty and inequality continue to plague the region. Indeed, one can say that the Asian financial crisis was the Stalingrad of the IMF. Bearing in mind the limits of metaphor, the IMF during the Asian financial crisis acted like the German Sixth Army, making one wrong move after another on the way to disaster.

It was the IMF that helped trigger the massive flow of volatile speculative capital into the region by pressing the Asian governments for capital account liberalisation prior to the crisis, egged on itself by the US Treasury Department. It was the IMF that confidently moved in after the panicky flight of speculative capital began, with a tight fiscal and monetary formula that, by drastically reducing government's capacity to act as a counterforce to the downturn in private sector activity, converted the financial crisis into an economic collapse.

It was the IMF that assembled the high-profile multibillion-dollar rescue packages that were meant to rescue foreign creditors even as local banks, finance companies, and corporations were told to bite the bullet by accepting bankruptcy. It was the IMF that imposed on the fallen economies a program of radical deregulation and financial and trade liberalisation that was essentially Washington's pre-crisis agenda that the tigers had been able to frustrate during their days of prosperity. And it was the IMF that, at the urging of the US Treasury Department, killed the proposal for an Asian Monetary Fund (AMF), which would have pooled together the reserves from the more financially solid economies to serve as a fund from which those of them being subjected to speculative attack could draw to shore up their currencies. Among other things, this move contributed to widening the divergence in the policies toward the Asian region of the United States and Japan, the AMF's prime backer.

As the stricken economies registered negative growth rates and record unemployment rates in 1998, and over one million people in Thailand and 21 million in Indonesia fell below the poverty line, the IMF joined corrupt governments, banks, and George Soros as the villains of the piece in the view of millions of newly impoverished Koreans, Thais, and Indonesians.

But equally as consequential for its future as an institution was the fact that the IMF's actions brought the long simmering conflict over the role of the Fund within the US elite to a boil. The American right denounced the Fund for promoting moral hazard, with some personalities like former US Treasury Secretary George Shultz calling for its abolition, while orthodox liberals like Jeffrey Sachs and Jagdish Bhagwati attacked the Fund for being a threat to global macroeconomic stability and prosperity. Late in 1998, a conservative-liberal alliance in the US Congress came within a hair's breath of denying the IMF a \$14.5 billion increase in the US quota. The quota increase was salvaged, with arm-twisting on the part of the Clinton administration, but it was clear that the long-time internationalist consensus that had propped up the Fund for over five decades was unravelling.

## Another Disaster

The Fund's performance during the Asian financial crisis led to a widespread reappraisal of Fund's role in the Third World in the 1980s and early 1990's, when structural adjustment programs were imposed on over 90 developing and transition economies.

Judged by the extremely narrow criterion of promoting growth, structural adjustment programs were a failure, with a number of studies showing that adjustment had brought about a negative effect on growth. Indeed, after over 15 years, it was hard to point to more than a handful as having brought about stable growth, among them the very questionable case of Pinochet's Chile. What structural adjustment had done, instead, was to institutionalise stagnation in Africa, Latin America, and other parts of the Third World, a fact reflected in a study of the Centre for Economic and Policy Research which shows that 77 per cent of countries for which data is available saw their per capita rate of growth fall significantly from the period 1960-1980 to the period 1980-2000, the structural adjustment period. In Latin America, for one, income expanded by 75 per cent during the sixties and seventies, when the region's economies were relatively closed, but grew by only six per cent in the past two decades.

Broadening the criteria of success to include reduction of inequality and bringing down poverty, the results were unquestionable: structural adjustment was a blight on the Third World. A study by Mattias Lundberg and Lyn Squire of the World Bank summed it up thus: "The poor are far more vulnerable to shifts in relative international prices, and this vulnerability is magnified by the country's openness to trade...[A]t least in the short term, globalisation appears to increase both poverty and inequality." Imposed at the start of the 1980's, adjustment was a central factor in the sharp rise in inequality globally, with one authoritative UNCTAD study covering 124 countries showing that the income share of the richest 20 per cent of the world's population rose from 69 to 83 per cent between 1965 and 1990.

Structural adjustment has also been a central cause of the lack of any progress in the campaign against poverty. The number of people globally living in poverty—that is, poverty according to the unrealistic and restrictive World Bank criterion of earning less than a dollar a day—increased from 1.1 billion in 1985 to 1.2 billion in 1998, and is expected to reach 1.3 billion this year. According to a recent World Bank study, the absolute number of people living in poverty rose in the 1990's in Eastern Europe, South Asia, Latin America and the Caribbean, and sub-Saharan Africa—all areas that came under the sway of adjustment programs.

As a consequence of greater public scrutiny following its disastrous policies in East Asia, the Fund could no longer pretend that adjustment had not been a massive failure in Africa, Latin America and South Asia. During the World Bank-IMF meetings in September 1999, the Fund conceded failure by renaming the ESAF the "Poverty Reduction and Growth Facility" and promised to learn from the World Bank in making the elimination of poverty the "centrepiece" of its programs. But this was too little, too late, and too incredible. Support for the IMF in Washington was down to the US Treasury. Indeed, so starved of legitimacy and support was the Fund at the end of the 20th century that US Treasury Secretary Larry Summers, who in an earlier incarnation as chief economist of the World Bank had been one of the chief backers of structural adjustment, found that he could only save it by damning it. The IMF, he told Congress, deserved to be preserved as a part of the international financial architecture, but when it came to dealing with developing countries, Washington would support "a new framework for providing international assistance...one that moves beyond a closed, IMF-centred process that has too often focused on narrow macroeconomic objectives at the expense of broader human development."

## Meltzer Torpedoes the Bank

The Asian financial crisis triggered the IMF's crisis of legitimacy. However, under Australian-turned-American Jim Wolfensohn's command, the World Bank seemed likely to escape the massive damage sustained by its sister institution. Since assuming office in 1996, Wolfensohn, by opening up channels of communication with the non-governmental organisations and with the help of a well-oiled public relations machine, tried to recast the Bank's image as an institution that was not only moving away from structural adjustment but was also making poverty-elimination its central mission, promoting good governance, and supporting environmentally-sensitive lending. The best defence, in short, was to expand the agency's agenda.

But the torpedo in the form of the Meltzer Commission found its mark in February of this year. Exhaustively examining documents and interviewing all kinds of experts, the Commission came up with a number of devastating findings that bear being pointed out: 70 per cent of the Bank's non-grant lending is concentrated in 11 countries, with 145 other member countries left to scramble for the remaining 30 per cent; 80 per cent of the bank's resources are devoted not to the poorest developing countries but to the better off ones that have positive credit ratings and, according to the Commission, can therefore raise their funds in international capital markets; the failure rate of Bank projects is 65-70 per cent in the poorest countries and 55-60 per cent

in all developing countries. The World Bank, in short, was irrelevant to the achievement of its avowed mission of global poverty alleviation.

And what to do with the Bank? The Commission urged that most of the Bank's lending activities be devolved to the regional developing banks. It does not take much, however, for readers of the report to realise that, as one of the Commission's members revealed, it "essentially wants to abolish the International Monetary Fund and the World Bank," a goal that had "significant pockets of support...in our Congress"

Much to the chagrin of Wolfensohn, few people came to the defence of the Bank. Instead, the realities of the Bank's expanded mission were exposed in the months leading up to the World Bank-IMF meeting in Prague in September. The claim that the Bank was concerned about "good governance" was contradicted by the exposure of its profound involvement with the Suharto regime in Indonesia, to which it had funnelled over \$30 billion in 30 years. According to several reports, including a World Bank internal report that came out in 1999, the bank tolerated corruption, accorded factual status to false government statistics, legitimised the dictatorship by passing it off as a model for other countries, and was complacent about the state of human rights and the monopolistic control of the economy. That this close embrace of the Suharto regime continued well into the Wolfensohn era was particularly damning.

The image of a new, environmentally sensitive Bank under Wolfensohn also evaporated in the avalanche of criticism that came after the Meltzer report. The Bank was a staunch backer of the controversial Chad-Cameroon Pipeline, which would seriously damage ecologically sensitive areas like Cameroon's Atlantic Littoral Forest, and Bank management was caught violating its own rules on environment and resettlement when it tried to push through the China Western Poverty Project that would have transformed an arid ecosystem supporting minority Tibetan and Mongolian shepherders into land for settled agriculture for people from other parts of China.

A look at the Bank's loan portfolio revealed the reality behind the rhetoric: loans for the environment as a percentage of the Bank's total loan portfolio declined from 3.6 per cent in FY 1994 to 1.02 per cent in 1998; funds allocated to environmental projects declined by 32.7 per cent between 1998 and 1999; and more than half of all lending by the World Bank's private sector divisions in 1998 was for environmentally harmful projects like dams, roads, and power. Indeed, so marginalized was the Bank's environmental staff within the bureaucracy that Herman Daly, the distinguished ecological economist, left the Bank staff because he felt that he and other

in-house environmentalists were having no impact at all on agency policy.

Confronted with a list of thoroughly documented charges from civil society groups during the now famous Prague Castle Debate sponsored by Czech President Vaclav Havel during the tumultuous IMF-World Bank meeting in Prague on September 23 of this year, Wolfensohn was reduced to giving the memorable answer, "I and my colleagues feel good about going to work everyday." It was an answer that, in underlining the depth of the Bretton Woods system crisis of legitimacy, was matched only by IMF Managing Director Horst Koehler's famous line at that same event: "I also have a heart, but I have to use my head in making decisions."

All this makes for interesting politics in the next few years. The motivation of the incoming Republicans in criticizing the IMF and World Bank lies in their belief in free-market solutions to development and growth. This may not coincide with that of progressives, who see the IMF and World Bank as a tool of US hegemony. But the two sides can unite behind one agenda at this point: the radical downsizing, if not dismantling, of the Bretton Woods twins.

\*Dr. Walden Bello is executive director of the Bangkok-based Focus on the Global South, a program of the Chulalongkorn University Social Research Institute.

*Focus-on-Trade* is a regular electronic bulletin providing updates and analysis of trends in regional and world trade and finance, with an emphasis on analysis of these trends from an integrative, interdisciplinary viewpoint that is sensitive not only to economic issues, but also to ecological, political, gender and social issues. Your contributions and comments are welcome. Please contact us c/o CUSRI, Wisit Prachuabmoh Building, Chulalongkorn University, Bangkok 10330 Thailand. Tel: (66 2) 218 7363/7364/7365, Fax: (66 2) 255 9976, E-Mail: [admin@focusweb.org](mailto:admin@focusweb.org), Website: <http://focusweb.org>. Focus on the Global South is an autonomous programme of policy research and action of the Chulalongkorn University Social Research Institute (CUSRI) based in Bangkok.