BRIDGING THE GAP: IMF AND WORLD BANK MEMBERSHIP FOR SOCIALIST COUNTRIES

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Over the last two decades, a range of socialist and post-communist countries have become successfully integrated into the international financial system. This has occurred as the globalization of the world economy has increased the relevance of the international financial institutions (IFIs) as key arbiters of economic policy, the guardians of macroeconomic stability, and the leading resources for knowledge and technical advice on development issues. In particular, the International Monetary Fund (IMF) and the World Bank have played a central role in stemming financial crises and aiding in the economic transition of the post-communist countries of Eastern Europe and the former Soviet Union. While there are a range of other institutions that play a role in the international economic system—including regional development banks, the World Trade Organization, and various United Nations agencies—the IMF and the World Bank have been at the center of the major economic developments and the key institutional gatekeepers for countries that desire full participation in the global economy. Aside from granting access to financial resources, a country's membership in the IMF and World Bank facilitates access to funds from regional development organizations and provides an important signal to foreign investors that seek a stable economic climate. Although the free-market economic policies promoted by the IMF and World Bank occasionally come under fire, and the development strategies they promote remain a work in progress, the international financial institutions are undeniably vital actors in managing the global economy and promoting economic development. Countries as diverse as China, Vietnam, and the former Soviet Union have recognized this and sought out membership in the IFIs.

At first glance, socialist countries with centrally planned economies may seem to have little common ground with market-based institutions such as the IMF and World Bank. Indeed, many socialist and communist countries remained outside the international financial system for many years, and some, such as Cuba and North Korea, remain non-members today. However, the active participation of the Soviet Union in the original Bretton Woods conference in 1944, and the challenge of including socialist economies was an important consideration during the initial development of these institutions. As a result, there is little doubt that participants at the Bretton Woods conference were willing to accept socialist countries as members, and the resulting Articles of Agreement contain no formal obstacle that would prevent a communist or socialist country from joining the IMF and the institutions of the World Bank Group.[1]

The international financial system was conceived at the end of World War II to promote financial and

1. Joseph Gold, *Membership and Non-Membership in the International Monetary Fund* (Washington, D.C.: International Monetary Fund, 1974), p. 141.

monetary stability, aid in reconstruction, and broaden the reach of the market system by offering trade and market access to all countries. Initially consisting only of the IMF and World Bank, this system expanded to include the General Agreement on Tariffs and Trade in 1948 (which became the World Trade Organization in 1995). The IMF and World Bank are often referred to as the "Bretton Woods twins," and they share the same basic rules of governance (including weighted voting power), annual meetings, and a common development committee that advises their governors. The IMF was to provide exchange rate stability while the mission of the World Bank focused on long-term development, acting as an intermediary between the financial markets and developing countries, and providing favorable financing for development projects. In addition to their financial activities, the IMF and World Bank are engaged in establishing conditions for lending, providing surveillance of the monetary system, and generating intellectual contributions to understanding the processes of development and how policies can be improved.[2]

While the IMF is a single institution, the World Bank consists of a group of organizations in addition to its core component, the International Bank for Reconstruction and Development (IBRD). The IMF is the gatekeeper to the Bretton Woods twins. All countries must join the IMF before becoming a member of the World Bank and its affiliates; and no country has joined the IMF and declined membership in the World Bank. Furthermore, membership in the IBRD is required before a country can join the World Bank's four other affiliates: the International Development Association (IDA), International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for the Settlement of Investment Disputes (ICSID). Each of these organizations was created in the decades following the Bretton Woods convention to address needs beyond the original mandate of the IBRD. In addition to the IMF and World Bank group, other important economic actors include the regional development banks for Africa, the Americas and Asia, which supplement the main IFIs by providing loans and grants to aid development at the regional level.

In this universe of economic organizations, there are unique challenges facing the relationship between the IMF and World Bank and centrally planned economies. The first question is purely economic—countries with socialist economic systems may lack any meaningful relationship between the price of their exports and the domestic costs of production, or conversely, between the internal price of imports and foreign export prices. Under such a scenario, exchange rates are meaningless as instruments to allocate resources effectively, although some authors have argued that the Articles have been written in such a way to bypass this problem in socialist countries.[3] While the IMF may allow economic practices that are inconsistent with the Articles to persist for extensive periods, economic reform of a centrally planned economy will continue to be a continuous point of dialogue. In consultations, IFI officials can be expected to urge the benefits of eliminating multiple exchange rates and other practices inconsistent with the charter of the IMF.

Aside from the exchange rate price dilemma, the issues of transparency and information sharing can present a problem for countries used to keeping their economic data close to the vest. Article VIII of the IMF lists "furnishing of information" as one of the general obligations of members, and specifies several types of economic information including national income, price indices, buying and selling rates for foreign currencies, exchange controls, and international balance of payments and investment positions.[4] Many centrally planned economies prefer not to

2. Timothy King, "Requirements for Participation in the International Monetary Fund and the World Bank," *Soviet and Eastern European Foreign Trade*, vol. 26, no. 2, Summer 1990, p. 286.

3. Gold, 142.

4. *IMF Articles of Agreement*, Article VIII, Section 5.

share that information for security reasons, fear of demonstrating economic weakness, insufficient capacity to collect data, corruption, or bureaucratic competition. This was especially true during the Cold War period, but even today centrally planned economies often closely protect their economic data or use methods of dubious international validity.

Despite the potential economic and policy hurdles that can complicate IMF and World Bank membership for socialist and communist countries, the historical record shows that the primary obstacles to IFI accession have often been political. In particular, the Cold War created an environment where the Washington-based IMF and World Bank were political instruments of the West, with the United States as the most important shareholder. By contrast, most socialist and communist countries were bound together by their own trade and security arrangements, such as the Council for Mutual Economic Assistance (CMEA). This geopolitical division resulted in several important disincentives with regard to socialist members in the IFIs. On the side of communist countries, an ideological commitment to socialism precluded membership in institutions representing the "neoliberal international system," especially when there was little interest in market reform. Furthermore, there was trepidation about the political ramifications of joining an institution where the United States was both the largest shareholder and the leading proponent of the "international will" expressed through these organizations. Of course, from the perspective of the West, there was little interest in integrating and providing development finance for avowed enemies of the democratic world, especially with regard to the Soviet Union.

Nevertheless, the IMF has in practice admitted applicants with state-controlled economies, including Romania in 1972, and Hungary and Poland in 1982 and 1986 respectively. There were several rationales for socialist countries to join the IMF, and while the desire to incorporate more market mechanisms may not have been the primary motivation, this decision often led to some level of economic opening. Aside from the ability to borrow from the IMF to ease balance-of-payments bottlenecks, countries that join also improve the perception of their creditworthiness among foreign investors, leading to an increase of foreign direct investment. Access to research and technical expertise can also be an incentive, as well as the political desire to stake a claim in some of the world's key financial institutions. In the case of the People's Republic of China, for example, the desire to replace the Taiwanese government as the representative of China's seat at the IMF and World Bank was undoubtedly an additional motivator.

Furthermore, many countries regard IMF membership as a necessary step in order to gain access to the World Bank's development loans. The World Bank's focus on development—including through its corollary institutions like the International Development Association, which provides concessionary lending for projects and programs in poor countries—often makes this the more attractive of the Bretton Woods twins. Socialist countries that are wary of the IMF requirements and conditionalities may nonetheless join to gain access to World Bank resources. In fact, as mentioned above, no country has joined the IMF and subsequently declined membership in the World Bank. More importantly, accession to the IFIs is an important stepping stone for countries to begin the process of opening to the world economy, especially after achieving political and economic reconciliation with the United States, a global economic power and key backer of these institutions.

IFI GOVERNANCE AND THE MECHANICS OF MEMBERSHIP

Despite the complexity of political and economic issues involved, the mechanics of accession to the International Monetary Fund and World Bank are quite straightforward. Since the IMF is the gatekeeper for membership in the Bretton Woods institutions, the process for joining the IMF is both the most rigorous and requires the most information. Once a country is admitted to the IMF, membership to the World Bank only requires approval of the Board of Governors and payment of the determined subscription. In order to become a member of the IMF, an applicant must meet three basic eligibility requirements: it must be a country; be in control of its foreign affairs; and capable and willing to assume the responsibilities of membership. Occasionally the IFIs will make exceptions to engage with regions outside their membership, as in the case of the Palestinian Authority, which receives support though it is not a country and thus not a member. Normally, however, if an applicant meets these three conditions, then upon submitting an application for membership to the Fund, the country receives a mission of IMF staff who will visit and collect the necessary data to prepare a background paper that describes the economy in detail and sets forth a recommended share for the country that is consistent with the relative positions of other countries. While the admission process requires a separate vote by the governors of the two organizations, after acceptance by the IMF a country only needs to accept responsibility for the World Bank's obligations up to the amount of its subscription and pay a small proportion of that amount to the Bank.

Once this first stage is completed, the Executive Board of the IMF establishes an ad hoc committee of 6 to 8 Executive Directors that is constituted on the recommendation of the Managing Director. This committee will consider the applicant's initial quota in the Fund as well as other standard terms and conditions of membership. Once the committee agrees to an initial quota, the chairman of the committee—typically one of the Fund's major shareholders—will contact the applicant to find out whether the government is in agreement with the findings of the committee. Once the applicant agrees, the chairman of the committee sets forth a report of recommendations for approval by the Executive Board. If approved, the proposed quota and related terms of membership are submitted to the Board of Governor's for a vote in the form of a Membership Resolution. A vote on membership requires a majority of Governors holding at least 85 percent of the votes in the Fund, and must be approved by a majority of votes cast. In practice, however, all membership decisions are made by consensus, and the membership vote is a pro forma decision, not an opportunity for open debate on the potential new member. After membership has been approved, applicants typically have six months to complete the required legal paperwork; once the documents are approved by the Fund, then a signing ceremony is arranged whereby the country becomes a formal member of the IMF. New members must appoint a Governor and Alternate Governor to the IMF's Board of Governors, posts typically held by the country's Minister of Finance or President of the Central Bank.

For communist countries, it is the juxtaposition of two central tenets of the membership process that can create frustration for those interested in IMF and World Bank accession. First, there is no inherent formal obstacle for membership by a socialist country—even one that has not undergone systemic reform. In theory, this means that the door should be open for application at any time. Second, although the rules allow for a member to join with only 85 percent vote of the shareholders, in practice all membership decisions are made by broad consensus. During the Cold War, and even today, it can be expectedly difficult to achieve consensus among the 185 member countries of the IMF and World Bank. However, in practice, it has typically been the United States—backed by its 18 percent voting share that effectively constitutes veto power over major decisions in IFI policy—that has helped to determine what consensus is in many key matters facing the international financial system.

In this context, the experiences of China, Russia, and Vietnam illustrate important lessons for Cuba and remaining socialist countries that may, at some point, contemplate accession to the IMF and World Bank. The People's Republic of China joined the Fund and the Bank as a communist country in 1980, while the Republic of Vietnam initially joined in 1956 but was replaced by its socialist successor in 1976 after reunification. Russia was an initial participant in the Bretton Woods conference but did not join the international financial institutions until 1992, after its communist political and economic system had already unraveled. While the following case studies demonstrate that each of these socialist countries experienced an idiosyncratic process of accession to the IMF and World Bank, there are several main themes that run through their experiences. First, in all cases, membership in the IFIs has been accompanied by significant economic reform; in no instance did a country become more heavily dependent on central-planning or more resistant to market mechanisms after joining the IFIs. Second, the pace of reform varied widely; Russia engaged in rapid transition to a market-based economy, while China and Vietnam opened their economies but remained essentially socialist states. Third, the timetable for mending the bilateral relationship with the United States greatly affected both the pace of accession as well as the trajectory of the subsequent relationship with the IFIs. Although each process of insertion into the international financial system was beset by its own unique circumstances, the experiences of China, Russia, and Vietnam all hold important lessons for Cuba.

CHINA'S ROBUST PARTNERSHIP WITH THE IFIs

China was both an initial signatory at the Bretton Woods conference in 1944 and a founding member of the IMF when the Article of Agreements entered into force on December 27, 1945. However, when the Chinese revolution led to communist control of mainland China in 1949, nationalist leader Chiang Kai-shek withdrew to the island province of Taiwan, which had only recently been released from half-a-century of Japanese rule. Taiwan occupied China's seat at the IMF and World Bank from the 1950s through the 1970s, as the island was seen as an important bulwark against communist expansionism. This arrangement resulted in occasional tension within the IFIs, as some countries rejected the legitimacy of the Taiwanese government to represent the seat of China. For example, at each annual meeting of the IMF's Board of Governors between 1950 and 1954, Czechoslovakia raised a challenge to the credentials of the governor from the Republic of China, as Taiwan was officially known, on the grounds that the country lacked authority to appoint a governor. The socialist People's Republic of China (PRC) registered its displeasure with the arrangement from the very beginning. In 1950, the foreign minister of the PRC sent a cable to the IMF's managing director, stating that the mainland government was the sole legal authority and that no other delegate was qualified to represent China in the Fund.[5] While the situation nevertheless endured for nearly thirty years, Taiwan eventually ceased borrowing from the international financial institutions, sensing the increasing precariousness of its position within the system.

In the late 1960s, Washington and Beijing began to develop closer ties to counter perceived Soviet expansionism, and in 1971, China's seat on the United Nations Security Council was taken over by the mainland government, thus removing Taiwan from the U.N. The historic visit of President Richard Nixon to Beijing in 1972 set the stage for closer relations between the U.S. and China, and rekindled the communist country's interest in taking over Taiwan's position at the IMF and World Bank. The People's Republic of China subsequently expressed interest in IMF and World Bank membership in 1973, when IMF officials received a cable at the annual meeting in Nairobi demanding the immediate expulsion of the "Chang Kai-shek clique."[6] However, when Bretton Woods officials asked if China would be interested in replacing Taiwan, the country did not follow through with an application. In 1976, China issued another protest in the annual meeting in Manila, but again did not apply for membership.

However, the restoration of diplomatic relations between the U.S. and China in 1979 dramatically reduced the key political obstacle to China's accession to the IMF. In the run-up to membership, the United States transformed into a strong supporter of China's effort to join the international financial institutions. Nonetheless, there were significant doubts at the IMF as to whether the country would be capable to producing acceptable economic statistics, especially given the near absence of information after the late 1950s, owing in part to the upheaval of the Cultural Revolution. In order to address this concern, China began publishing a large amount of economic data in mid-1979 to build its case for membership. In April 1980, China joined the IMF in a decision that ended

5. Gold, 67.

6. Larry Gurwin and Stanley Wilson, "How Big a Splash Will China Make?," *IMF/World Bank IV*, September 1980.

Taiwan's thirty-one years of representation in the IFIs. Taiwan had represented China in the IMF since 1949, as one of 140 members.[7] The executive directors of the IMF voted to make the People's Republic of China a member, with a quota of 550 million special drawing rights (SDRs),[8] valued at about $700 million at the time.[9] According to the late Thomas Leddy, then-assistant secretary of the treasury, the United States backed the decision: "The United States position was to welcome and support the People's Republic of China's entry into the fund."[10]

As a result of this decision, China had to accept a number of conditions that the IMF requires of its members, including a complete survey of its economy, and annual consultations with the IMF under Article IV of the institutional charter. China's decision to join the IMF was thought to reflect its desire to enhance its international political position and guarantee access to large amounts of relatively inexpensive development credit. According to one observer, "The prime reason why China is keen to join is straightforward. China needs to achieve the Four Modernizations and understandably wants to obtain those funds on the most advantageous terms."[11] Membership benefited China in several concrete ways, including the ability to use various "special facilities" of the IMF; gaining access to IMF assistance in the case of difficulties in balance-of-payments; sharing in the profits of the IMF's gold auction; and improving its creditworthiness with commercial banks and export credit agencies.[12]

China's decision to join also had two favorable side effects: enhancing the country's credit-worthiness in the eyes of the private banking sector and increasing the diplomatic isolation of Taiwan. China's entry into the IMF hinged on a compromise forged between China and Taiwan about the return of Taiwan's subscription to the Fund and the subsequent restitution of the subscription in gold.[13] Taiwanese officials, anticipating the possible expulsion, had already eliminated any clauses from loan agreements that required IMF membership and boosted international reserves to nearly $7 billion.[14] While establishing the quota can often be the most contentious element of negotiating new membership, in China's case this was avoided by merely taking over Taiwan's financial position. China's decision to join was seen as an economic decision with important political implications, and it was widely interpreted as a policy decision to become an active member of the international community. IMF membership was closely followed by membership in the World Bank and sometime later in the Asian Development Bank (ADB). At the time of its acceptance, China became the largest communist country to be a member of the IMF.[15] Other communist countries included Vietnam, Cambodia, Laos, Romania, and Yugoslavia. In addition, China's membership came at a time when there was growing global demand for IMF and World Bank resources, and China's large claim on these resources meant less for other countries. However, in practice, China only used the IMF's financial resources once, in the mid-1980s. It was a first tranche-drawing, with limited conditionality, that was repaid on time a few years later.

7. "China Admitted to IMF," *New York Times*, 18 April 1980.

8. SDRs are an international reserve asset created by the countries of the IMF in order to support the expansion of world trade and economic development. SDRs were originally intended to supplement the gold and U.S. currency reserves, but today mainly serve as a unit of account for the IMF.

9. Oscar E. Naumann, "China Joins International Monetary Fund," *Journal of Commerce*, 18 April 1980.

10. "China Admitted to IMF."

11. Gurwin and Wilson.

12. Gurwin and Wilson.

13. Anthony Rowley, "Compromising on a Gold Cache," *Far Eastern Economic Review*, Vol. 108, April 25, 1980, p. 85.

14. Gurwin and Wilson, 176.

15. "Changing the Power Balance," *Far Eastern Economic Review*, Vol. 108, April 25, 1980, p. 85.

Although China joined both the IMF and World Bank, its relationship with the latter institution has proved to be the more robust partnership over the last twenty years. According to a written history of the World Bank, "in the first few years the Bank's role was primarily a didactic one of educating a cadre of senior Chinese officials in new economic ideas and technical systems."[16] In the process of moving from a centrally planned economy to a socialist market economy, China has intensively engaged several development agencies, including the World Bank, as well as active relations with the IMF, Asian Development Bank, and the Bank for International Settlements. However, the World Bank has emerged as China's pre-eminent development partner, with China as the largest client of the Bank since 1993, and the Bank as the biggest single source of long-term foreign capital.[17] The World Bank's programs in China were allocated about half for transportation and energy, a quarter for agriculture, a sixth for industry and finance and ten percent for education.[18] The portfolio is considered to be very high quality, with projects that are well implemented and a correspondingly low failure rate. In fact, China's creditworthiness has increased to the point that the country is no longer eligible for IDA loans, the concessional source of financing that is an attractive element of World Bank membership for lower-income countries.

As a member of the international financial institutions, Chinese authorities have set clear parameters on policy conditions from the very beginning of the relationship. In one memorandum from a 1984 meeting with the Chinese delegation, the World Bank official noted that Minister of Finance Wang Bingjian "explained China's view that assistance to developing countries should be unconditional . . . [T]his did not mean that the Bank could not offer advice and ideas. The World Bank could put these forward and they would be considered if they were useful. But the Bank should not impose its views."[19] China also set a policy of linking its IBRD borrowing to its IDA allocation that lasted until the late-1990s. In addition, the issue of Taiwan remained a constant source of friction between China and the World Bank, due to the long-standing sensitivities regarding what China regards as its renegade province. China, for example, demand that references to Taiwan be deleted from Bank documents or be rephrased as "Taiwan Province, China."[20] Evidently, the Bank felt that it had little option but to accommodate China on this point, lest the entire relationship be soured. Another set of issues arose regarding the relationship of China and India; boundary disputes between the two countries would resurface in discussions on how the countries were geographically represented in Bank documents. Furthermore, China's accession and subsequent use of IDA grants meant that less was available for India, especially during periods when the IDA coffers were declining.

After normalization of China's relations with the United States in the late 1970s, politics occasionally reemerged to influence IFI decisions relating to the country. Most notably, the Tiananmen Square massacre in 1989 prompted the U.S. to strongly pressure the World Bank to condition its lending arrangement on the respect for political liberties and human rights. The World Bank and other multilateral agencies froze dealings with China as a result of Tiananmen. Shielding the Bank's programs from the political fallout was a major priority for Bank staff at this time. The IFIs resisted these entreaties more successfully than in many other cases; perhaps because China's sheer size produces a form of pragmatism not necessary with smaller countries such as Vietnam or, certainly, Cuba. Nevertheless, the crackdown in Chi-

16. Devesh Kapur, John P. Lewis, and Richard Webb, *The World Bank: Its First Half Century* (Washington, D.C.: The Brookings Institution, 1997), p. 24.

17. Presentation by Pieter Bottelier, "China and the International Financial Organizations," 1999.

18. Kapur et al., 24.

19. Kapur et al., 24.

20. Kapur et al., 25.

na did provoke limited repercussions, and some World Bank affiliates, such as the International Finance Corporation, did not resume investment in China until 1991.

Nevertheless, the partnership between the World Bank and China has been recognized as one of the most successful, as measured by the effectiveness of Bank projects in China and the fulfillment of the country's fiscal responsibilities. This success is ironic when one considers the fact that U.S. economic aid to Asian countries in the 1950s was geared to prevent "another China" by alleviating the poverty of the rural peasantry thought to be at high risk for communist mobilization.[21] A review of China's accession and subsequent relationship with the IMF and World Bank reveals both the advantages and the continuing challenges of having such a large, communist country take part in the international financial system. In 1980, China still had a great deal to learn about how the IFIs worked, especially with regard to substitution accounts, gold equivalents, SDR allocations, and the specifics of conditionality. In addition, there was considerable concern about China's ability to generate economic statistics that met IMF standards, as well as the willingness to share this information. (Some communist countries, such as Romania, had worked out confidentiality agreements with the IMF that restricted access to sensitive economic information.) By joining the IMF and World Bank and working through these issues, China both engaged in targeted economic reform at home while claiming an active role in the international economic community. In 2001, China finally became a member of the World Trade Organization. In retrospect, China's accession to the IMF and World Bank marked an important step towards substantial market-oriented reform, greater insertion in the global economy, and asserting itself in the larger international political arena. However, the relative absence of dysfunction in China's relations with the IFIs was by no means assured, as demonstrated by the experiences of Russia and Vietnam with the international financial system.

RUSSIA, THE IFIs, AND POST-COMMUNIST TRANSFORMATION

The Soviet Union—like China and Cuba—was a participant in the Bretton Woods meetings in 1944 that led to the creation of the IMF and World Bank. However, the Soviet Union was the only country represented at the conference that did not become a member of the IFIs for nearly 50 years. Most participating countries were either original members or joined shortly thereafter; the second longest holdout from the original conference, Liberia, joined in 1962. Although the Soviet Union ultimately declined to join, there is no doubt that the existence of such a large and influential communist state was taken into account by the leading architects of these international institutions. In April 1942, an early draft of the White Plan, which outlined the purpose of the proposed institutions, discussed the possible membership of USSR in detail: "No restrictions as to membership should be imposed on grounds of the particular economic structure adopted by any country . . . [T]o exclude a country such as Russia would be an egregious error. Russia, despite her socialist economy could both contribute and profit by participation . . . If the Russian Government is willing to participate, her counsel in the preliminary negotiations should be as eagerly sought as that of any other country, and her membership in both Fund and Bank equally welcome."[22] Similarly, an advanced draft of the Keynes Plan referred to the case of the USSR, stating that "[t]he position of Russia, which might be a third founder, if she can be party to so capitalist-looking an institution, would need special consideration."[23]

While the final versions of the Bretton Woods proposals contained no statement pertaining to the membership of the USSR, Russia continued to play in a role in the consultative process in 1943 and

21. Kapur et al., 112.
22. Gold, 129.
23. Gold, 129.

1944, and the head of the Russian delegation was one of four vice-chairmen of the Bretton Woods conference. Several historians have concluded that Russia's active participation in the process undoubtedly played a role in the decision to draw the charters of the Fund and the Bank broadly enough to encompass communist and socialist countries, even though the Soviet Union ultimately declined to join. While the Soviet government never set forth a formal refusal to join the IMF, several factors may have led to this decision. These may have included dissatisfaction with the formula for voting power, reluctance to release economic data, concerns about the transparency of the Fund's governance, and resistance to the Fund's views on economic and monetary policy.[24] Despite these concerns, there is no doubt that the Bretton Woods agreements were designed so that socialist countries could become members, and that this was primarily guided by the desire to accommodate the Soviet Union. As one analyst has noted, some of the Fund's Articles of Agreement "contain certain clauses that are completely unexplainable but from the angle of some Soviet idiosyncrasy."[25]

In the intervening decades, there was no formal contact and little informal communication between the Soviet Union and the IMF and World Bank. The heightened tensions of the Cold War prevented any type of policy dialogue and contributed to an atmosphere of mutual suspicion. This remained true even while the international financial institutions incorporated a growing number of communist members, including China, Vietnam, and several of the republics of Eastern Europe. However, in 1990, the economy of the Soviet Union began to unravel at the same time as the body politic lurched towards democracy. As a result, Soviet membership in the IMF and World Bank reemerged as a possibility.

Three interlocking narratives dominated the run-up to Russia's accession to the international financial institutions. First as the once super-power teetered both politically and economically on the edge of dissolution, the relationship of Russia to its fifteen republics presented a major legal and technical obstacle to membership in the IMF and World Bank. Finalizing the structure of the Soviet Union's successor—the Russian Federation—was essential to the decision of incorporating it into membership. Second, the question of economic reform in Russia became paramount; the United States pressed a clear interest in having Russia join the international financial system, but some also called for the country to abandon communism as a pre-requisite to succession. However, the desire to stabilize the government of Mikhail Gorbachev meant that quick action to help the Russian economy might in fact provide credit to sustain the communist system in the short-term, something that was anathema to conservative elements in the United States. Third, the issue of Soviet membership arose at a time when the United States was considering a major quota increase to the IMF. The convergence of these two sensitive issues complicated Russia's path to membership due to resistance by congressional conservatives who equated IFI support for Russia with extravagant foreign aid. This was a hot button issue in early 1992, and something that then President George H. W. Bush was reluctant to confront directly in an presidential election year unfolding amidst a recession.

The approach phase between the Soviet Union and the international financial institutions originated with the Houston Economic Summit of July 1990. At this gathering, the leaders of the G-7 countries—with the support of President Gorbachev—asked the IMF, World Bank, Organization for Economic Co-operation and Development (OECD), and the European Bank for Reconstruction and Development (EBRD) to initiate a collaborative study of the Soviet economy. This effort was expressly intended to provide recommendations for reform, guide external aid efforts, and prepare the Soviet Union for membership in the IFIs.[26] However, even behind this appar-

24. Gold, 134.

25. Gold, 142.

26. *Assisting Russia's Transition: An Unprecedented Challenge* (Washington D.C.: The World Bank, 2002), p. 6.

ent consensus, some shareholders retained lingering concerns. Japan, for example, was concerned that locking itself into a single aid strategy with Western countries would reduce its leverage to negotiate the return of the northern territories from Russia.[27] The United States was similarly cautious to embrace its old enemy, while West Germany and France were keen to extend substantial immediate aid to Gorbachev. As a result, the IMF-led study of the Russian economy represented a compromise that allowed some nations to proceed with bilateral aid while opening an economic policy dialogue between the Soviet Union and the IFIs, and by proxy, the United States.

Steps towards formal membership in the IMF and World Bank followed in mid-1991. On August 19, a coup by Soviet hard-liners led to the end of Soviet communism when Russian President Boris Yeltsin managed to rally Russian nationalism and passed a decree banning Communist party activities on Russian soil. Gorbachev resigned from the Communist Party shortly thereafter, thereby ending Communist control and setting in motion the dissolution of the Soviet Union. As a result, that month the World Bank approved the concept of "associate" membership for the Soviet Union, which entitled the country to technical assistance. However, this was quickly followed by a recommendation to approve $30 million in World Bank funds to support a program including research on the Soviet economy, and training of Russian personnel.[28] In September 1991, U.S. Treasury Secretary Nicholas Brady openly criticized the slow pace of the IMF in granting special membership status to the Soviet Union. Later that month, IMF officials proposed reductions in USSR arms expenditures to apply to economic needs; at that time Soviets had formally applied for full membership in IMF, and associate status soon followed at both the IMF and World Bank.

Due to the fast pace of events in the Soviet Union and the sensitive issues facing the IMF, World Bank and U.S. government in Washington, there was a strong push to move ahead with ties to Russia even though many principle issues of membership remained unresolved throughout 1991. In particular, the months between the "Group of Seven" summit in London in July and the October meetings of the IMF and World Bank in Bangkok proved to be critical both to the fate of the Soviet Union and to the process of IFI accession. On July 15, the Soviet Union applied for full membership in the IMF.[29] On October 5, 1991, the Managing Director of the IMF and President Gorbachev signed an agreement on the "special association" between the USSR and the IMF. This agreement provided for the IMF to examine economic developments in the USSR in a manner consistent with Article IV consultations[30]; the provision of technical assistance; Soviet representation at Executive Board meetings concerning the USSR or world economy as a whole; Soviet participation in IMF annual meetings. In return, the Soviet Union was required to provide regular economic data to the IMF consistent to that collected by member countries; allow for the IMF to establish a permanent office in Moscow and provide diplomatic immunity for IMF staff, and potentially contribute to the cost of Fund services. This special association status was intended to be in place until the USSR became a full member or the agreement was terminated by either party.[31]

While the World Bank's Articles of Agreement do not allow for the type of "special association" status granted by the IMF, the World Bank did sign a Technical Cooperation Agreement with Moscow on

27. Kenji Kitahara, "Japan Uneasy Over Economic Aid to Moscow," *The Daily Yomiuri*, July 2, 1990.

28. "A Bank Role for the Soviets," *The Journal of Commerce*, August 26, 1991.

29. Karl-Heinz Kleine and Ernst Thien, "The Role of the IMF and the World Bank in the Former Eastern Bloc Countries," *Intereconomics*, January/February 1992, p. 23.

30. Article IV consultations.

31. Kleine and Thien, 23.

November 15, 1991. This accord, signed by Bank president Lewis Preston and Gorbachev, allowed for the World Bank to provide technical assistance to the Soviet Union or its republics prior to membership. This included exchanges of the progress of the assistance program, and the establishment of a World Bank office in Moscow with the concomitant immunities and privileges for its staff. The technical assistance itself included advice on economic management and reforms, creation of a social security network and food aid assessment, advice in the fields of privatization, agriculture and energy, and personnel training. This agreement was underwritten by a $30 million trust fund established by the Bank's executive board, and financed by the institutions' net income.[32]

The associate membership and technical cooperation agreements paved the way for much more extensive consultations between IMF and World Bank staff and all fifteen republics of the Soviet Union. IMF missions began to travel frequently to the USSR, with five separate missions to Moscow alone in November and December of 1991.[33] The mission teams gathered economic data and negotiated technical assistance and stabilization and reform programs, which would lead to analytical reports similar to regular Article IV consultations with other IMF members. In particular, the IMF was responsible for developing reliable assessments of the external financing requirements of Russia and the other republics. However, there was also a perception gap on the side of Russia. Senior administrators in the USSR tended to focus on the issue of IMF membership through a quite narrow focus on the material costs and benefits, such as concern that payment of the IMF quota would deplete Russia's monetary reserves.[34] As a result, little weight was given to the non-material benefits of membership, such as an improved perception for foreign investment or access to research and technical expertise. In addition, there was considerable trepidation about several aspects of joining the Fund, including the use of the U.S. veto, the impact of stabilization programs on the Soviet economy, and the need to release economic data previously regarded as sensitive.[35]

For the international financial institutions, the dissolution of the Soviet Union and subsequent accession of all fifteen states was a watershed moment that fundamentally changed the way that the IMF and World Bank operated. The sheer size of the task, historic nature of the transition, and complexity of the economic issues involved, forced the IFIs to dramatically reorient their thinking towards the challenges facing transition economies. In December 1991, the IMF created a new area department called European II to work exclusively with the Baltic States and former members of the USSR. Over the course of a few months, the IMF radically reoriented its staff to this challenge, increasing from 2,000 to 2,200 employees and assigning 150 to work full-time on the ex-Soviet Union.[36] (In 2003, this department was eliminated and the fifteen countries were absorbed into other departments.)

In January 1992, a major stumbling block to Russia's accession was cleared when the IMF determined that the former Soviet republics would have a quota set at 4.5 percent of the global total, leaving Britain and France in their joint fourth-place position behind the United States, Japan, and Germany.[37] On April 27, 1992, the IMF formally offered membership to Russia, enabling the rich G-7 countries to release $24 billion in aid unveiled by President Bush and Chan-

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32. Kleine and Thien, p. 26.

33. Richard D. Erb, Deputy Managing Director of the International Monetary Fund, Remarks at the Conference on European Security and Regional Stability, Institute for Foreign Policy Analysis, Washington D.C., January 24, 1992.

34. Goergy Matyukhin, "The Union of Soviet Socialist Republics and Other Socialist Countries in the International Monetary and Financial System," *Journal of Development Planning*, Vol. 20, 1990, p. 273.

35. Matyukhin, 273.

36. Steven Greenhouse, "Point Man for the Rescue of the Century," *New York Times*, April 26, 1992.

37. Ben Laurence, "IMF Clears the way for ex-Soviet States," *Guardian*, January 24, 1992, p. 24.

cellor Helmut Kohl on April 1 at the London summit.[38] The package included $4.5 billion in aid from the IMF and World Bank in 1992, a $6 billion fund to stabilize the ruble, $2.5 billion in debt deferral and $11 billion in direct bilateral aid from wealthy countries.[39] The IMF accord was required not only for the multilateral aid, but most of the other components of the aid package. Of the fifteen Soviet republics, all but Azerbaijan were offered membership in the IMF at the 1992 Spring meetings, and the World Bank followed suit with all but Azerbaijan and Turkmenistan. (In both cases the delays were attributed to incomplete paperwork, and they joined subsequently.) The aid effort to the former Soviet republics represented by far the most ambitious undertaking in the history of the IMF. The Russian Federation joined the IMF on June 1, 1992; its accession to the World Bank followed on June 16. The IMF and World Bank made $1.6 billion available to Russia in mid-1992 with virtually no conditions, as authorized by their practice.[40]

However, the IMF also needed a capital increase of $60 billion, which had been provisionally approved by the membership in 1990 but had failed to fully materialize when the U.S. Congress balked at the $12 billion share due from the United States. President Bush favored the capital increase but did not want to go on record asking Congress to support it due to the political sensitivity surrounding foreign aid prior to the 1992 election. However, many Congressional Democrats were only willing to support an increase after a specific request by the White House; otherwise, they feared, they were being asked to take responsibility for effectively voting for aid for Russia, and face the political fallout alone. This unresolved issue shadowed most of Russia's membership negotiations, until President Bush finally conceded the point and formally took a stand in favor of the capital increase for the IMF.

In retrospect, Russia's accession to the international financial institutions was characterized by an abbreviated period of non-lending assistance, from the fall of 1991 to the summer of 1992, followed by massive disbursements of aid. After reviewing the years 1991 to 2001, the World Bank's Country Assistance Evaluation report concluded that Russia would have benefited from a strategy oriented around analytical and advisory services with only limited financial support during the period from 1992 to 1998, instead of the large volumes of adjustment lending that were actually released.[41] World Bank assistance to Russia was rated unsatisfactory from 1992 to 1998. To facilitate Russia's transition, the Bank focused on helping to build the institutions of a market economy, develop the private sector, and alleviate the social costs of transition. The Bank committed 55 loans for $12.6 billion through 2001; at that time $7.8 billion had been disbursed and $2.4 billion cancelled. However, as described in the evaluation report, "at the behest of the international community, the Bank rushed the processing of many projects, both for investment and general budget support, even though the prospects for their success were highly uncertain. These high-risk/high-payoff operations did not succeed... Bank advice and lending played a positive but marginal role in the design of policies and in their implementation until 1998."[42] However, the report notes that some members of the World Bank group—such as the IFC and MIGA—were resistant to external pressure, selected their interventions carefully, and accrued an impressive record of technical assistance and service.

The Soviet Union, like China, only joined the international financial institutions once it had reconciled its relationship with the West and its membership application gained the support of the United States. However, the Russian experience also demonstrates the dangers inherent in a rapid transition to a mar-

38. Steven H. Hanke, "IMF Money Will Buy Trouble for Russia," *The Wall Street Journal*, April 29, 1992.

39. Steven Greenhouse, "World's Lenders Offer Membership to Ex-Soviet Lands," *New York Times*, April 28, 1992.

40. *Assisting Russia's Transition*, 59.

41. *Assisting Russia's Transition*, ix.

42. *Assisting Russia's Transition*, xii.

ket-economy and in particular how the political imperative to rapidly provide financing can overtake the need for well thought-out institutional reforms. In particular, the IMF emerged as the key channel for the United States to channel aid to Russia, and this pattern remained in place for most of the 1990s. In retrospect, Russia's accession to the IFIs may have benefited from a more extended period of technical assistance and economic policy dialogue, as opposed to the disbursement of large sums on money during the volatile transition phase, during which Russia went through a major financial crisis.

VIETNAM AND THE IMF: THE LONG WAIT FOR REUNIFICATION

While both China and Russia joined the IMF and World Bank and sustained active participation after accession, Vietnam illustrates another model of membership "in name only" that did not consolidate into a normal working relationship for nearly four decades. This state of limbo was driven by the difficult bilateral relationship with the United States, which initiated with the Vietnam War but persisted until the early 1990s.

Vietnam was established as a single state under the Geneva Agreements of July 1954, and free general elections were to be held under international supervision in July 1956. Vietnam entered its original application for membership to the Fund on December 21, 1955 and the application was considered in the period from March to May 1956. But the application was submitted by the government of Vietnam that only controlled the southern half of the country. The country was eventually admitted as the "Republic of Vietnam," although one Executive Director abstained on the decision to forward the application to the Board of Governors on the ground that the country lacked full sovereignty and instead consisted of two provisional governments.[43]

In 1959, a Bank mission decided that Vietnam's high level of dependence on foreign aid made it unable to qualify for an IBRD loan. Several years later, on May 7, 1964, the United States notified the Fund that it had placed restrictions on payments and transfers to North Vietnam, but the Fund took no subsequent action under the principle that North Vietnam was a non-member country.[44] Following the unification of Vietnam in 1976, the Socialist Republic of Vietnam assumed the membership previously held by the Republic of Vietnam. In 1978, IDA approved its first credit to Vietnam for rehabilitation of irrigation systems in the Mekong Delta. However, throughout most of the 1980s the Bank's interactions with Vietnam were limited to technical missions, due to the objections of the United States to a closer relationship. The policy prohibiting high level missions and the issuance of further credits lasted basically until 1993, when the IMF arrears were cleared and Vietnam reduced its spending on military activities in Cambodia.[45]

Perhaps more than any other country, Vietnam's relations with the IMF and World Bank were defined by its complex and difficult bilateral relationship with the United States. From the early 1960s to the mid 1970s, the United States and North Vietnam were locked in a long and bloody war intended to contain the spread of communism. On April 30, 1975, the United States withdrew its last batch of troops as the Viet Cong army successfully captured Saigon and unified the country under a socialist government. As a result, on April 30, 1975, the U.S. trade embargo in effect against North Vietnam since 1964 extended to the whole country. The broad U.S. sanctions included a prohibition on commercial, financial, and investment transactions. As a pivotal shareholder in the IMF, World Bank, and Asian Development Bank, the U.S. also blocked multilateral lending to Vietnam.

In 1977, the administration of U.S. President Jimmy Carter took steps to improve the bilateral relationship, agreeing to unconditional establishment of dip-

43. Gold, 50-51.

44. Gold, 51.

45. "Vietnam: Country Assistance Evaluation," Operations Evaluation Department, World Bank, November 21, 2001, p. 4, n. 6.

lomatic relations to be followed by the lifting of the embargo, renewed IFI support to Vietnam, and consideration of MFN status.[46] However, Vietnam refused this offer unless it included $3.25 billion in economic assistance that had been promised by President Richard Nixon as part of the 1973 Paris Accords. Washington rejected the claim to reparations, and the U.S. Congress passed legislation prohibiting aid to the North Vietnamese government that then controlled the country. Vietnam withdrew the demand in September 1978, but by that time the Carter administration was less inclined to opening with Hanoi because the attention had shifted to normalized relations with China.[47] The moment had passed.

The closing months of 1978 delivered the coup de grace to any détente between the United States and Vietnam. In October, the Soviet Union and Vietnam signed a mutual security treaty, and in December the government of Hanoi invaded neighboring Cambodia and breathed further life into the U.S. embargo. In 1979, the World Bank under Robert McNamara succumbed to pressure from congressional hard-liners and placed a one-year moratorium on loans to Vietnam during fiscal year 1980.[48] Vietnam's incursion into Cambodia in the 1980s produced the political rationale that strengthened the technical reasons that Vietnam had been blocked from borrowing from the IMF, namely a failure to pay arrears. The United States viewed the Vietnamese invasion of Cambodia as both an act of aggression and a proxy war between China and the Soviet Union. This situation persisted throughout the 1980s, freezing Vietnam's relations with the IFIs even while the country began a program of significant economic reform beginning in 1986 known as "doi-moi."

In February 1989, Vietnam received a bridge loan from France to pay off arrears of about U.S. $130 million.[49] However, in September 1989, the U.S. and Japan blocked Vietnam's reentry into the IFIs, despite a serious effort by Vietnam to achieve structural adjustment and economic stabilization. The withdrawal of troops in Cambodia had to be accompanied by a political settlement of the Cambodian crisis. This clash highlighted an underlying conflict between the technocrats that wanted to base their Vietnam lending decisions on the country's economic reform program, and the political rationale guiding some of the major shareholders. In March 1989, Vietnam had begun to implement an economic reform program after extensive consultations with the IMF, and the country was relying on a favorable consensus from the IMF board to receive a bridge loan from commercial banks that would allow the country to pay off its arrears and clear the way for an official IMF program. In the meeting with the Executive Directors, Managing Director Michel Camdessus elicited a positive response from most board members, including Britain, West Germany, and France—the second, third, and fourth largest quota holders.[50] Only the U.S. and Japan were opposed to moving ahead with a formal IMF program, and provided the economic rationale that the program had not been of sufficient duration and that was still burdened by "low-priority expenditures."[51]

In 1989, Vietnam withdrew troops from Cambodia only to discover that the goalposts had moved, with U.S. responding that it was unacceptable to leave Cambodia in a state of civil war.[52] Furthermore, the U.S. demanded progress on the full accounting of soldiers missing in action from the Vietnam conflict. At the time, the hold on lending to Vietnam caused

46. Frederick Z. Brown, "U.S.-Vietnam Normalization: Past, Present, Future" in James W. Morley and Masashi Nishihara, eds., *Vietnam Joins the World* (Armonk, New York: M.E. Sharpe, 1997), p. 204.

47. Brown, 204.

48. James Srodes, "An Enigma at the World Bank," *Far Eastern Economic Review*, November 16, 1979, p. 82.

49. Nayan Chanda, "Rewards of Retreat," *Far Eastern Economic Review*, July 6, 1989.

50. Susumu Awanohara, "Fiscal Interdiction," *Far Eastern Economic Review*, September 28, 1989, p. 22.

51. Awanohara, 1989, 22.

52. Charles P. Wallace, "15 Years After War's End, the U.S. Fights to Keep Vietnam Isolated," *Los Angeles Times*, April 29, 1990.

significant consternation within the IMF and World Bank, as summarized by one official quoted as saying that "the U.S. and Japan can do what they want with their bilateral aid, but they should not bring in their poorly disguised political agenda into multilateral institutions dedicated to solving economic problems."[53] In April 1991, the U.S. administration laid out a roadmap for normalization of relations with Vietnam, predicated on two main conditions: the satisfactory resolution of the Cambodian conflict and an effort to account for missing American servicemen in Vietnam. That October, four warring Cambodian factions signed a peace agreement in Paris, thereby ending the 12-year civil war. As a result, France, Sweden and Australia began lobbying for resources to help the country repay its debt of $150 million to the IMF. Vietnam had been in default of its IMF loans since 1985. In November 1991, China and Vietnam normalized relations

However, the issue of American prisoners of war in Vietnam was yet to be resolved. In April 1993, an unconfirmed report revealed that Vietnam had more POWs than it claimed publicly and failed to release 614 American POWs at the time of the 1973 Paris accords. This prompted the U.S. to delay granting Vietnam access to IFI loans that had been proposed at the annual meetings of the World Bank and IMF. That June, a Congressional delegation returned from Vietnam providing the impetus needed to break the deadlock, and President Bill Clinton announced that the U.S. had dropped its opposition to IFI loans to Vietnam.[54]

On July 2, 1993, President Clinton signaled that the United States would no longer block multilateral lending to Vietnam.[55] By ending the four years of opposition to lending, the U.S. allowed the "Friends of Vietnam" group to arrange for the clearance of Vietnam's arrears to the IMF and open the way for lending from the World Bank and Asian Development Bank. At the 1993 annual meeting, France and Japan were key players in clearing the arrears of both Vietnam and Cambodia—respectively $140 million and $51 million.[56] In September and October 1993, Vietnam cleared its $140 million in arrears with the IMF. Shortly thereafter, the World Bank and Asian Development Bank pledged loans valued at $800 million for infrastructure development, while the IMF provided an additional $223 million credit.[57] In November 1993, the first World Bank-chaired donors conference for Vietnam resulted in aid commitments of $1.86 billion in additional multilateral and bilateral aid.[58]

With the multilateral funds released, but the trade embargo maintained, the U.S. faced mounting pressure between two political constituencies: American business interests that wanted to invest and bid on IFI-financed projects, and veterans groups that resisted normalization without a full accounting of POWs and MIAs. However, by the end of 1993, the lifting of the trade embargo became increasingly inevitable. U.S. President Bill Clinton announced the lifting of the Vietnam trade embargo on February 3, 1994, several days after the Senate voted 62-38 to approve the move in a non-binding resolution. The support of Sen. John McCain (R-AZ), a former POW, and Sen. Bob Kerrey (D-NE), who was injured during the Vietnam War, was crucial to the bill's passing. On July 11, 1995, President Bill Clinton announced the attention to re-establish full diplomatic relations with Vietnam which was completed by August 5 of that year.

53. Awanohara, 1989, 23.

54. Brown, 210.

55. John Rogers, "Vietnam Getting Ready to Seek Infusion of Foreign Aid, Investment," *Journal of Commerce*, July 26, 1993, p. 5a.

56. Susumu Awanohara, "Open the Floodgates," *Far Eastern Economic Review*, October 7, 1993, p. 92.

57. Julie Marie Bunck, "Marxism and the Market: Vietnam and Cuba in Transition," *Cuba in Transition—Volume 6* (Washington: Association for the Study of the Cuban Economy, 1996), p. 237.

58. "Vietnam's Economic Options: Coping With Mounting Resources," *Transition*, Volume 5, No. 1, January 1994, p. 14.

Vietnam's subsequent relationship with the IFIs from 1994 on has garnered positive reviews, and the country's economic reform process has incorporated more market mechanisms. In retrospect, however, the period from 1989 to 1993 proved to be crucial for relations between Vietnam and the international financial institutions. Vietnam was forced to confront adjustment problems at a moment when political differences with major shareholders precluded any direct support from the IMF and World Bank. In the absence of lending, officials from the two institutions remained engaged in an economic policy dialogue with Vietnam's key policymakers, and also managed some of the technical assistance provided by the United Nations Development Programme. For example, in 1991, the World Bank and UNDP jointly organized a conference in Kuala Lampur where top Vietnamese economic officials met with ministers from Indonesia, South Korea, and Malaysia to discuss comparative reform processes.[59] This type of information sharing was complemented with the World Bank's provision of training courses and policy workshops with Vietnam. Due to the political obstacles to lending, this economic policy dialogue emerged as a key avenue to explore different ideas and reform mechanisms in the absence of conditionality. As a result, during the critical period from 1989 to 1993, the focus of Vietnam-IFI relations was on ideas instead of lending arrangements. While there is no way to value precisely the effect of this policy dialogue on Vietnam's economic reform process, there is a strong argument that the intensive time spent by World Bank and IMF staff made an important contribution to Vietnam's economic development.[60]

CUBA AND THE IFIs: A TALE INTERRUPTED

The experiences of China, Russia, and Vietnam demonstrate the benefits and pitfalls for socialist countries that wish to pursue accession to the IMF and World Bank at various stages of their economic transition. Despite the unique circumstances of each country, their membership processes share several features: the importance of normalizing relations with the United States and the West, the will to embrace at least limited market reform, and the importance of IFI membership as a step to opening up to the wider global economy. This insight will be important to the economic future of Cuba should the country choose to join the IFIs.

In fact, Cuba, and more specifically the Castro government, is no stranger to the international financial institutions, and the island was even one of the founding signatories of the Bretton Woods institutions in 1944. During the administration of Fulgencio Batista, Cuba criticized the "Wall Street" approach of the IFIs at the eleventh annual IMF-World Bank joint meetings in 1956. Joaquín A. Meyer, the alternate governor for Cuba, was quoted as saying "my government believes that the pressing needs of the less developed countries are so numerous and urgent that the bank ought to revise some of its present policies in order to make available its resources to its members on a much larger scale than it has done in the past or is doing now."[61] While the Cuban representative strongly criticized the policy of not granting loans to member countries in debt arrears, Meyer also noted that he was not speaking on behalf of Cuba, as the country had never tried to borrow from the Bank.

Beginning with Fidel Castro's ascension to power on January 1, 1959, relations between Cuba and the IFIs became increasingly strained. Initially, however, communication and exchange between Cuba and the IFIs actually represented an improvement over the end of Batista's term. Prior to Castro, the last IMF staff visit to Cuba occurred in March of 1957. By contrast, in the first few months of 1959, IMF staff traveled to Cuba twice—including a two-week mission to Havana—and three officers from the Cuban National Bank visited Washington. The initial IMF mission concluded that the new government inherit-

59. *Assessing Aid: What Works, What Doesn't and Why* (New York: Oxford University Press, 1998), p. 106.

60. *Assessing Aid*, p. 108.

61. Charles E. Egan, "Cuba and Jordan Charge Creditor Countries Run World Bank," *New York Times*, September 26, 1956.

ed a seriously weakened financial situation, with 13 percent unemployment at the end of 1958.[62] However, by 1960, communication between the IFIs and Cuba had almost completely broken down, with multiple pieces of IMF correspondence left unanswered. To further complicate matters, President Castro announced on several occasions that Cuba had withdrawn from the IFIs, sparking confusion among IMF and World Bank officials who had received no such notice through formal channels. On October 18, 1960, Cuba withdrew from the World Bank following a presidential decree stating that "the economic policy of that institution is far from being effective in regard to the development and expansion of the Cuban economy, which the Revolutionary Government is carrying out according to a definite plan."[63] The withdrawal became official on November 14, 1960, when the World Bank received written notification of the government's decision to withdraw.[64] At the time of withdrawal, Cuba's capital subscription to the Bank was equivalent to $70,000,000—with $700,000 paid in dollars, $6,700,000 available in pesos, and the remainder subject to call.[65]

Cuba's relationship with the IMF continued for three more years, until the country withdrew in 1964 and settled its remaining accounts over a five-year period ending in 1969. However, the voluntary withdrawal occurred merely days before an executive board meeting held to consider Cuba's failures to fulfill its obligations under the articles of agreement, including repurchasing IMF shares obtained by the previous government. Cuba had purchased $25 million from the Fund in 1958 and had negotiated a repurchasing agreement that was payable by September 12, 1963; thus five years had passed since the purchase without the complete repurchase completed by Cuba. In addition, Cuba had agreed in an increase of its quota from $50 million to $100 million, but had not paid the subscription that had come due in the fall of 1959. Cuba had also lapsed in furnishing the necessary financial information to the Fund that was required for the calculation of repurchase obligations. Monetary, banking and balance of payments data had not been forthcoming since July 1961, and information on monetary reserves had not been furnished since the fiscal year ending in April 1960.[66]

As a result of these and other lapses, the Managing Director sent a notice to Cuba on October 11, 1963, detailing the concerns of the Executive Directors. However, no reply was received from Cuba, prompting the directors to arrange a meeting on April 15, 1964, to determine whether Cuba should be declared ineligible. However, once Cuba learned of these complaints and the plan for the forthcoming meeting, it responded by notifying the Fund of its withdrawal from membership, effective April 2, 1964. On May 1, the Executive Directors approved a letter to Cuba that generally accepted a previous Cuban proposal for the settlement of accounts. The basic elements of the proposal included: Cuba's redemption of the Fund's holding of Cuban pesos valued at $12.5 million; payments were to be made in gold or convertible currency in five annual installments; the Fund would return 50 million pesos to Cuba and pay the balance in gold to an account with the National Bank of Cuba.[67] Cuba formally accepted the terms of settlement on May 29, 1964, and completed the agreement accordingly, after receiving a six-month extension on the last installment of payment, which was made in January 1969.

Today, nearly forty years after Cuba's initial withdrawal from the international financial system, the

62. *Review of Cuba's Financial Position and Problems*, International Monetary Fund Archives, April 6, 1959.

63. "Cuba Withdraws from World Bank," *The New York Times*, October 19, 1960.

64. "Cuba Withdraws from Membership," Joint Press Release by International Finance Corporation and World Bank, November 15, 1960.

65. "Cuba Withdraws from World Bank."

66. Gold, 343-344.

67. Gold 380-381.

Cuban government remains committed to maintaining the socialist revolution and the centrally planned economic system that this implies. Furthermore, the relations between the United States and Cuba remain a long way from the period of rapprochement that presaged IFI membership for China, Russia, and Vietnam. Nevertheless, the country's need for external financing for development projects remains critical, and the IMF and World Bank are much better positioned to address the challenges of post-communist transition than they were during the collapse of the Soviet Union in the early 1990s. Given the importance of economic policy dialogue in shaping successful transitions in China and Vietnam, Cuba and the IFIs would be well advised to initiate a formal policy discussion prior to membership and lending—regardless of whether the process of IFI accession begins while Fidel Castro is in power or under a successor government.

The recent experience of socialist countries also demonstrates that the IMF and World Bank, with the support of the United States, has pursued two distinct strategies towards centrally planned economies. The first model, illustrated by the Russian experience, favors the elimination of the communist system and rapid transition towards free-market democracy. This entailed massive financial flows from the IFIs to Russia, in the midst of severe economic decline, considerable corruption and wasted resources, accompanied by a parallel process of rapidly expanding freedom to express political and civil liberties and engagement in the democratic process. The second model, used with China and Vietnam, encouraged more limited financial flows, an expanded private sector and some market reform. This formula has achieved considerable economic success and rising living standards, but has also consolidated the strength of the communist governments at the expense of democratic reform. These considerations will be central in shaping the potential relationship between the post-Castro regime and the international financial institutions.