

NOTE

RUSSIAN MEMBERSHIP IN THE IMF: A LOOK AT THE PROBLEMS, PAST AND PRESENT

I. INTRODUCTION

The former Soviet republic of Russia applied for full membership in the International Monetary Fund (IMF) on January 3, 1992.¹ Officials at the IMF believe the Russian application will be successful and full membership will be conferred upon Russia sometime this summer.²

¹ Lionel Barber, *Moscow Applies for Full Membership in the IMF*, FIN. TIMES (London), Jan. 8, 1992, § 1 at 2. The former Soviet Union had previously applied for membership in the IMF in July of 1991. Peter Riddell et al., *US Opposes Soviet Application to IMF*, FIN. TIMES (London), July 24, 1991, § 1, at 16. The Soviet application resulted in a special "associate" status being bestowed upon the Soviet Union on October 5, 1991. *USSR Signs Accord Providing for Special Association with IMF*, 20 IMF SURVEY 289 (1991). Associate status was meant to provide the Soviet Union with technical aid and financial advice for the development of a reform plan but would not provide any economic assistance in the form of loans. The technical assistance concerned the areas of energy development and conversion defense plants to commercial production, practical advice on developing a market economy, and advice concerning trade with the West and Eastern Europe. *MacNeil/Lehrer NewsHour*, Educational Broadcasting and GWETA broadcast, July 17, 1991, available in LEXIS, Nexis Library, Macleh File. Full membership status, however, was never granted to the Soviet Union.

² Michael Camdessus, the managing director of the IMF, stated in a speech before the U.S. Chamber of Commerce that he believes that Russia and the other former Soviet Republics "will be members of our institution . . . by the summer." *Camdessus Expects Soviet Republics' Membership Early, Urges Quota Hike*, Int'l Fin. Daily (BNA), Mar. 19, 1992, available in LEXIS, Banks Library, BNAIFD File [hereinafter *Camdessus Expects Soviet Republics' Membership Early*]. If membership is conferred in summer as expected, this will be one of the speediest applications to the IMF on record. *Russia's Application for IMF Membership Appears Set for April*, 2 E. EUR. REP. (Thomson Publishing Corp.) 1 (1992), available in LEXIS, Nexis Library, OMNI File [hereinafter *IMF Membership Appears Set for April*]. Poland, for example, waited for more than five years after it submitted its application until it became a full member of the IMF. Helen Womack, *Soviet Union Could Join IMF*, INDEPENDENT (London), Aug. 2, 1991, § Foreign News, at 12. The applications submitted last year from Czechoslovakia and Bulgaria were approved in nine months. *The Wolf at the Door*, ECONOMIST (London), Aug. 3, 1991, at 63 [hereinafter *Wolf at the Door*]. It is interesting to note that the Soviet Union was a major participant in the conference held in Bretton Woods, New Hampshire by

While Russia should rightly be accepted as a member of the IMF, membership is not a panacea for all of the ailments from which the Russian economy suffers. This Note will identify the prerequisites to membership and examine the membership process, analyze political and practical obstacles facing the past Soviet application and the present Russian application, and reach a conclusion about whether the application will be approved.

II. BACKGROUND

Russia is attempting to transform its economy from communism to capitalism,³ and is looking to the IMF, with its expertise and resources, to help with that transformation. Membership in the IMF will provide Russia access to the technical assistance and advice given by experienced IMF officials. The IMF has helped Poland, Hungary, Czechoslovakia, and others with this difficult conversion.⁴ The organization works with national governments to design and implement economic policies aimed at producing a free-market economy. Moreover, full membership in the IMF allows member countries to borrow from the organization's accounts,⁵ and Russia needs these hard currency loans to stimulate its faltering economy.⁶

the Allied powers in July 1944 to establish a framework for post-World War cooperation among nations in matters of financial and monetary concern. The conference produced the Articles of Agreement which created the IMF. The Soviet Union, however, elected at that time not to join. RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 821, introductory note at n.1 (Am. Law Inst. 1986) [hereinafter RESTATEMENT (THIRD)]. The Russian application to the IMF is truly a big step for a country whose former government disparaged the organization, calling it in a 1985 Soviet economics dictionary "a tool of supranational state monopoly regulation of the international monetary sphere." Peter Pringle, *Yeltsin Moves Gaidar Out of the Spotlight*, INDEPENDENT (London), Apr. 3, 1992, at 17.

³ This is an extremely difficult transition. Poland, which recently began the transformation, has experienced great hardships, and it was under Communist rule for a mere 40 years. Russia, on the other hand, has been under Communist rule for more than 70 years, and perhaps even more importantly, has never had a foundation for the concepts of private property and enterprise. One commentator has stated that Russia went straight from feudalism to communism. *Aiding the CIS: An Important Though Not at All an Easy Task*, WASH. TIMES, Mar. 22, 1992, at B2 [hereinafter *Aiding the CIS*].

⁴ *IMF Membership Appears Set for April*, *supra* note 2, at 1.

⁵ The purpose of the IMF is to provide its members with both a framework for cooperation on global financial issues and a fund from which members could get short and medium term loans for the purpose of stabilizing currencies and economies. RESTATEMENT (THIRD), *supra* note 2, § 821 introductory note. Experience has shown

Russia's currency (ruble) is not convertible on foreign exchange markets, leaving the country without hard currency. Without hard currency at its disposal, Russia is having a difficult time purchasing machinery and technical assistance to reform its markets and modernize its industry.⁷

Teams of IMF officials have been in Moscow continually for several months helping to design a reform program. In order to become a member of the IMF, Russia must agree to follow certain IMF recommendations that are intended to stabilize the Russian economy.⁸

that private lenders are more likely to make loans to a country once the country has been able to establish the credit necessary to borrow from the IMF. Generally, one dollar borrowed from the IMF will enable a member to borrow six times that amount from private lenders. Edmund Pietrzak, *Poland Counts Cost of Joining IMF*, FIN. TIMES (London), Sept. 10, 1986, § I, at 2. Hungary is a good example of how IMF membership helps a country to obtain commercial loans. Two years ago, Hungary appeared unable to repay its debts on time. As a consequence, the nation lost many of its commercial lines of credit. Membership in the IMF restored the banking community's confidence in Hungary, and credit returned. *IMF Membership Appears Set for April*, supra note 2, at 1. Russia hopes to receive an initial \$4 billion loan from the IMF after membership is granted to help close Russia's \$12 billion balance of payments gap. *Russia Looks to Receive \$4 Billion IMF Loan This Spring*, Daily Rep. for Executives (BNA), Apr. 2, 1992, available in LEXIS, Nexis Library, Drexec File.

⁶ A senior leader in the former Soviet regime stated last July that the Soviet Union's economy is "teetering on the brink of collapse." Soviet economic figures from last summer show that foreign trade had declined 37.1% over the previous year (to a total of \$51.8 billion at the commercial rate of exchange). Exports of natural gas and oil, which are the most important sources of hard currency, dropped more than 45%. Imports from industrialized nations dropped by 47%, mostly due to the shortage of hard currency. Exports to industrialized countries fell 15.3%. Martin Sieff, *Soviet Union Applies for IMF Membership*, WASH. TIMES, July 24, 1991, at A7. The dissolution of the Soviet Union has done nothing to improve the economic situation. More recent figures confirm the desperate state of the Russian economy. Russia's current economic minister, Andrey Nechayev, recently commented that the Russian economy was still crumbling, but the rate of the collapse was slowing, stating that "while production continued to fall, there is a tendency towards slowing the process down." Production in Russia decreased by 15% in January 1992, compared to only a 12.5% decrease in February. *Economy Minister on Price Rises and IMF Membership*, Summary of World Broadcasts (BBC), Mar. 20, 1992, available in LEXIS, Intnew Library, BBCSWB File. The U.S. ambassador to Russia, Robert R. Strauss, believes that the economic situation is continuing to worsen, though not as fast as he thought it would. He stated "the situation, while it's worse [than three months ago], is not deteriorating nearly as much as I had expected." *Ambassador Strauss Calls Situation in Former Soviet Union "Chaotic"*, 9 Int'l Fin. Daily (BNA), Mar. 13, 1992, available in LEXIS, Bank Library, BNAIFD File.

⁷ *U.S. Intelligence Officials at JEC Hearing Rate Soviet Economic Performance "Abysmal"*, 7 Int'l Trade Rep. (BNA) 600 (1990).

⁸ The IMF is one of the world's strictest lenders. It would not allow Russia to

These recommendations are designed with the cooperation of the Russian government and are meant to be an acceptable and practical solution to the problem of conversion from communism to capitalism. An IMF official said, "We help to design reforms. But we want these reforms to be those of Russia."⁹

In early March 1992, the Russian government issued a memorandum to the IMF pledging to follow certain policies that had been recommended. These policies include:

1. Foreign investors will be allowed free access to hard currency so that profits and dividends earned in Russia can be repatriated.
2. A uniform system of taxation on exported fuels and minerals will replace the current system that requires enterprises to sell hard currency to the state.
3. Non-residents will be permitted to buy and sell hard currency at the Inter-bank market for routine transactions.
4. State tax revenues will be increased by reducing tax benefits and preferences throughout all sectors of the economy.
5. A dual ruble exchange rate will be introduced as an interim step aimed at reaching a single ruble exchange rate. The dual rate will have a fixed rate for all movements of capital and a floating rate for continuing transactions.
6. All export licenses and quotas will be abolished, excepting certain quotas for fuel and energy.
7. A single customs tariff will be initiated at a rate of approximately 15% of declared price.
8. All exports will be taxed on a value added basis.¹⁰

Officials at the IMF see the transformation of Russia and the other former Soviet republics as the most important challenge before the world economy. One official stated, "We have every right but to fail. This is history. This has to be done, and this has to be a success."¹¹

Until late last year, most of the industrial powers did not believe that the former Soviet Union was ready for full membership in the IMF.¹² The Bush Administration was particularly vocal in its opposition,¹³ believing that full membership would not be the most

borrow money without stringent supervision of Russia's reform process. *Russia Rescued or Russia Ruined?; Following Nixon's Lead, Bush Endorses Package*, L.A. TIMES, Apr. 2, 1992, at B6.

⁹ *Camdessus Expects Soviet Republics' Membership Early*, *supra* note 2.

¹⁰ *Russia Vows Monetary, Economic Reform in Memo to International Monetary Fund*, Int'l Fin. Daily (BNA), Mar. 24, 1992, available in LEXIS, Nexis Library, BNA File.

¹¹ *Camdessus Expects Soviet Republics' Membership Early*, *supra* note 2.

¹² *Id.*

¹³ Japan had also announced its opposition to Soviet membership. Except for

efficient way to provide aid to their economies.¹⁴ However, the Bush Administration now contends that the IMF, as a neutral organization with vast financial resources, is the best suited organization to supply expert advice and financial aid to Russia.¹⁵ Most members of the IMF, including the member nations of the G-7, now support Russia's application.¹⁶

III. MEMBERSHIP: PREREQUISITES AND PROCESS

Membership in the IMF is available to all countries who can abide by the Fund's conditions.¹⁷ These conditions are not codified in the

¹³ Japan had also announced its opposition to Soviet membership. Except for Germany, the rest of the G-7 countries, while not openly opposing Soviet membership in the IMF, spoke of the application in pessimistic terms. The leaders of the industrialized nations highlighted the many obstacles that were in the way and pointed out the large amount of time that it would have taken to complete the application process. Womack, *supra* note 2, at 12. Germany, however, was extremely thankful to Gorbachev for allowing reunification. That gratitude, coupled with the fact that there were still a large number of Soviet troops on German soil, had made Germany a vocal proponent of Soviet aid. Germany cannot afford to provide the Soviet Union with a large amount of capital because of the funding requirements for East Germany, so Germany advocated a group effort, including full Soviet membership in the IMF. *Heritage Foundation Background Briefing on the G-7 London Economic Summit*, Fed. News Service, July 8, 1991, available in LEXIS, Nexis Library, Fednew File.

¹⁴ The Bush Administration had shown a great deal of political ambivalence toward any assistance to Russia. Terry Allen, *West Placing a Bet on Russian Future Aid will Help Ex-USSR Scrape Along*, CHI. TRIB., Apr. 5, 1992, at 21.

¹⁵ Lionel Barber, *Early Russian IMF Entry Urged; US Financial Aid for Yeltsin Hampered by Domestic Pressures*, FIN. TIMES (London), Feb. 3., 1992, at 1. In a recent White House briefing, a senior official in the Bush Administration confirmed Bush's support for Russian membership in the IMF. The official called membership in the IMF an "indispensable first step" for the reform process in Russia. *White House Background Briefing on the Visit by Chancellor Kohl of Germany to Camp David*, Fed. News Service, Mar. 20, 1992, available in LEXIS, Nexis Library, Fednew File.

¹⁶ Peter Pringle & Peter Torday, *£10 Billion Aid Plan for Russia*, INDEPENDENT (London), Mar. 13, 1992, at 1. The G-7, or Group of Seven, is an organization consisting of the seven leading industrial powers: the United States, Great Britain, France, Germany, Canada, Japan, and Italy. The G-7 does not have any direct relationship to the IMF, but its members possess controlling power in the IMF's organization, thus allowing the G-7 to make IMF policy decisions. Alver Johnson, *Soviet Associate IMF Membership, Lots of Advice, No Money*, Reuter Bus. Rep., June 25, 1991, available in LEXIS, Nexis Library, Busrpt File.

¹⁷ Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, art. II, § 2, 29 U.S.T. 2203, T.I.A.S. No. 8937 (effective Apr. 1, 1978). Currently, there are 155 members in the IMF. The list of members is extremely diverse, including a newly formed nation, Namibia, a nation emerging from isolation, Albania, and a nation that recently had its first multi-party election, Mongolia. Notable non-members include Cuba and North Korea. Marina Primorac, *How Does a Country Join the IMF*, 28 Int'l Monetary Fund (Information Access Co.) 2, at 34 (June 1991), available in LEXIS, Nexis Library, Findev File.

charter,¹⁸ but are prescribed by the Board of Governors.¹⁹ The charter requires the IMF to apply these conditions for membership consistently to all applicants.²⁰

Generally, the IMF's conditions for membership require that applicants be willing to conduct all economic and financial affairs in accordance with the principles and purposes²¹ of the IMF.²² Applicants must supply the IMF with specific financial and economic information in areas such as national accounts, gold and foreign exchange reserves,

¹⁸ Article II, § 2 of the Articles of Agreement states

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, 29 U.S.T. 2203, T.I.A.S. No. 8937.

¹⁹ The Articles of Agreement set out a detailed organizational chart for governance of the IMF. The Board of Governors has all powers that are not vested in some other entity within the IMF. This board consists of delegates from all member countries and meets at the Fund's annual meeting. RESTATEMENT (THIRD), *supra* note 2, § 821 reporters' note 2.

²⁰ Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, art. II, § 2, 29 U.S.T. 2203, T.I.A.S. No. 8937.

²¹ The purposes of the IMF are codified in Article I of the charter:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objects of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance systems without resorting to measures destructive to national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, art. I, 29 U.S.T. 2203, T.I.A.S. No. 8937.

²² Primorac, *supra* note 17, at 34. To become a member of the IMF, a country must agree to be a "respectable member of the world financial community." Alver Carlson, *IMF Membership for Poland Could Take Six Months, Experts Say*, Reuter Bus. Rep., January 15, 1985, available in LEXIS, Nexis Library, Busrpt File.

and current payments and receipts of the nation's balance of payments.²³

The IMF gives all new members a quota when they join. The quota is equal to the subscription a new member must pay upon joining.²⁴ The quota reflects the country's relative position in the global economy. The quota also determines a member's relative voting strength and the size of future potential borrowings from the IMF. Additionally, one quarter of the subscription must be paid in a convertible currency.²⁵

Once a country applies for membership in the IMF, the admissions process begins almost immediately.²⁶ The IMF sends a membership mission to the prospective member's country to acquire all information that will be necessary in calculating the country's quota.²⁷ While the mission is collecting this information, it is also acting as a liaison between the IMF and the prospective member, supplying the prospective member with information concerning the obligations of membership.²⁸

The information gathered by the mission is used by the IMF to develop a recommended range for the applicant's quota, called a "quota paper."²⁹ This paper is presented to the Executive Board,³⁰

²³ Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, art. VIII, § 5, 29 U.S.T. 2203, T.I.A.S. No. 8937.

The size of the country's military budget must also be disclosed. Peter Riddell, *Moscow's Application for IMF Entry Angers U.S.*, FIN. TIMES (London), July 25, 1991, at 4. The information is used to determine the size of the applicant's economy and whether the member is complying with IMF guidelines for proper financial conduct. RESTATEMENT (THIRD), *supra* note 2, § 821 cmt. e.

²⁴ A member's quota may be changed from time to time, but only if consented to by the member. The sum total of all quotas (apart from Fund borrowing) establishes the resources available to the Fund. Overall quotas may be reviewed from time to time, but not more than every five years. The sum total of quotas in 1946 was \$8.8 billion. RESTATEMENT (THIRD), *supra* note 2, § 821 reporters' note 1(iv). A year ago, the IMF announced a quota increase of 50% to bring the projected total to \$180 billion. *Wolf at the Door*, *supra* note 2, at 63.

²⁵ *Wolf at the Door*, *supra* note 2, at 63.

²⁶ Primorac, *supra* note 17, at 34.

²⁷ *Id.* at 34.

²⁸ *Id.* at 34.

²⁹ *Id.* at 34.

³⁰ The Executive Board is responsible for making most of the decisions at the IMF. The Board consists of 22 Executive Directors, one each from the seven largest members, and 15 others who are elected every two years by other members in a procedure that groups members with compatible economic and geographic interests. The Executive Directors meet continually throughout the year. Votes on both the Executive Board and the Board of Governors are weighted differently for each

which establishes a recommended quota for the prospective member.³¹ A subcommittee of the Executive Board meets with the prospective member and negotiates the recommended quota with the applicant.³² When the subcommittee and the applicant have settled upon a mutually acceptable number, the proceedings move to the Board of Governors, which is presented with a "membership resolution" by the Executive Board.³³ The Board of Governors votes whether to approve the applicant, taking into consideration the recommended quota³⁴ and the means by which the applicant proposes to pay it.³⁵

Once the IMF approves the application and establishes a quota, the applicant must take the necessary steps required under its own law, such as ratification, in order to enter into an international organization. Once these procedures are completed, a ceremony is held at the State Department in Washington, where the applicant signs the original Articles of Agreement and deposits its own instrument of acceptance.³⁶

IV. HISTORY AND ANALYSIS OF THE SOVIET APPLICATION

The former Soviet Union applied for membership in the IMF in the summer of 1991. The IMF never conferred full membership to the former Soviet Union, choosing instead to grant it a special "as-

member according to the size of that member's quota. All members receive 250 votes, plus additional votes corresponding to the size of the member's quota. RESTATEMENT (THIRD), *supra* note 2, § 821 reporters' note 2.

³¹ Primorac, *supra* note 17, at 34.

³² This process is often quarrelsome because of the importance of the quota. *Id.* at 34. Switzerland recently was quite contentious concerning this issue. The membership mission recommended a \$2.4 billion quota, rather than the \$3 billion quota that Switzerland desired. A settlement was reached, but only after lengthy negotiations. David Christian-Edwards, *Switzerland Pursues IMF Membership Despite Voting Power Issue*, Reuter Libr. Rep., Mar. 5, 1991, available in LEXIS, Nexis Library, Lbyrpt File.

³³ *Soviet Union Applies to IMF, Other Multinational Agencies for Membership*, Int'l Bus. Daily (BNA), July 24, 1991, available in LEXIS, Nexis Library, Currnt File [hereinafter *Soviet Union Applies to IMF*].

³⁴ *Id.* The vote is either taken by mail or taken at the annual meeting. A quorum consists of two-thirds of the governors, representing over 50% of the total vote. A simple majority is needed to carry a vote. Articles of Agreement of the International Monetary Fund, Second Amendment, Apr. 30, 1976, art. XII, 29 U.S.T. 2203, 2229, T.I.A.S. No. 8937.

³⁵ *Soviet Union Applies to IMF, supra* note 33.

³⁶ *Id.*

sociate” status.³⁷ The offer of associate status in the IMF was a blow to the pride of the Soviet Union, which viewed such status as a type of second class citizenship. Vladimir Shcherbakov, the USSR First Deputy Prime Minister, stated in TASS, “we wish to enter the world community not as a suppliant but as an equal partner. If so, we should enter all international organisations as an equal partner.”³⁸

The Western powers opposed the Soviet Union’s application for membership in the IMF. This opposition to Soviet membership centered on two arguments. First, the Western powers claimed that the Soviet Union’s economy was not yet sufficiently market oriented to become a member.³⁹ Second, opponents argued that the Soviet Union needed to take greater steps toward making the ruble a convertible currency.⁴⁰

Neither argument provided a basis for opposition to the former Soviet Union’s membership in the IMF under the IMF’s Articles of Agreement. The Articles do not require that a country possess a market economy to become a member.⁴¹ In fact, several members of the IMF, including Czechoslovakia, Yugoslavia, Bulgaria, Albania, Hungary, Laos, Romania, China, Viet Nam, and Mongolia, currently have a centrally planned or mixed economy. Additionally, the Articles do not require that a country maintain a convertible currency. Article XIV of the charter permits countries to maintain their current exchange rate arrangement, whatever it may be, so long as the country

³⁷ See *supra* note 1 and accompanying text. The Western countries were glad to see the reforms occurring in the Soviet Union. These countries do not want to deny the Soviet Union at a time when their relationships are improving so dramatically. At the time, there were, however, several issues that continued to strain the relationship between the United States and the Soviet Union, including aid to Cuba, independence of the Baltic states, and Soviet military spending. The United States was, therefore, interested in maintaining a degree of leverage to resolve these issues on favorable terms. Robin Knight et al., *Last of the Big Summits*, U.S. NEWS & WORLD REP., August 5, 1991, at 16.

³⁸ Yuri Sizov, *Some Results of U.S. President’s Visit Summed Up*, Telegraph Agency of the Soviet Union (TASS), Aug. 5, 1991, available in LEXIS, Nexis Library, TASS File.

³⁹ Senator Connie Mack, Republican of Florida, sponsored a bill in Congress requiring the United States to vote against Soviet membership in the IMF unless President Bush certified to Congress that the Soviet Union had initiated reform programs geared toward a free market, democratic institutions, and a reduction in military expenditures. Keith Bradsher, *Soviet Bid to Join the IMF Still a Puzzle*, N.Y. TIMES, July 29, 1991, at A6.

⁴⁰ *Wolf at the Door*, *supra* note 2, at 63.

⁴¹ Alver Carlson, *Prague Said Exploring IMF and World Bank Membership*, Reuter Bus. Rep., May 30, 1989, available in LEXIS, Nexis Library, Busrpt File.

does not violate the policies of the IMF and moves toward free convertibility as soon as possible.⁴² There is also no deadline for convertibility. The Articles permit "transitional arrangements" allowing the member to restrict convertibility. In the past, these arrangements have lasted for decades.⁴³

While many of the industrial nations predicated their opposition to the former Soviet Union's membership in the IMF on grounds concerning the necessity for convertibility of the ruble and a market economy, the underlying reason many of the industrial powers opposed the Soviet Union's membership was they did not believe the Soviet Union was able to shoulder more debt.⁴⁴ This argument has no pertinence to IMF membership, however, because credit-worthiness has never been a prerequisite for membership. It is true that one of the purposes of the IMF is to lend funds to its members, and the charter permits funds to be lent to members only under adequate safeguards.⁴⁵ Yet, credit-worthiness was not relevant to and should not have had any bearing on the admissions process employed by the IMF.

Many of the industrialized countries also opposed Soviet membership in the IMF because they sought to avoid disturbing the politically sensitive subject of their ranking within the IMF, the so called "pecking order."⁴⁶ Members are extremely conscious about

⁴² Primorac, *supra* note 17, at 34.

⁴³ RESTATEMENT (THIRD), *supra* note 2, § 821.

⁴⁴ The credit-worthiness of the Soviet Union (or any member country) would be a valid concern at some point. The IMF provides in theory that a member can borrow up to three times its quota over a period of three years. Assuming that the Soviet Union's quota would have been \$6 billion, equivalent to the proposed new quota for Italy, the Soviet Union could have been permitted to borrow up to \$18 billion in three years. This amount is quite large, even to the IMF, whose largest single outstanding loan is only \$6.1 billion, and whose total outstanding loans amount to only \$34 billion. *Wolf at the Door*, *supra* note 2, at 63.

⁴⁵ Articles of Agreement of the International Monetary Fund, Second Amendment, April 30, 1976, 29 U.S.T. 2203, T.I.A.S. No. 8937. The IMF examines the "economic situation" or credit-worthiness of member states prior to the approval of any loan in excess of the member's quota. If there is doubt about a country's ability to repay a loan, the loan is not extended. RESTATEMENT (THIRD), *supra* note 2, § 821.

⁴⁶ Countries are extremely concerned about their ranking within the IMF. Rank appears to be a matter of prestige for many of the members. *IMF Directors Close to Accord on Increasing Quotas*, FIN. TIMES (London), May 4, 1990, at 6.

The largest ten members according to proposed quotas are

<u>Country</u>	<u>Proposed Quota</u> <u>(in Millions of SDR's)</u>
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their ranking and usually are not receptive to alterations. The industrialized nations believed that it was possible that the Soviet Union's quota would have been large enough to entitle it to a seat on the Executive Board, thereby displacing a current member country. The Soviet Union's membership would have disturbed the established balance of quotas that was produced after what one commentator called years of "protracted haggling."⁴⁷ Opposition predicated on a desire to avoid unpleasant political bickering about the "pecking order" was peripheral to the Soviet Union's application and should not have been a reasonable basis for opposition.

The industrialized countries were also wary of diluting their voting strength, for they have traditionally influenced the IMF through their voting control.⁴⁸ Industrialized nations were reluctant to support So-

1. United States	26,526.8
2. Japan	8,241.5
Germany	8,241.5
4. Great Britain	7,414.6
France	7,414.6
6. Saudi Arabia	5,130.6
7. Italy	4,590.7
8. Canada	4,320.3
9. Netherlands	3,444.2
10. China	3,385.2

International Monetary Fund Board Submits Resolution for Increase in Quotas, PR NEWSWIRE, June 1, 1990, available in LEXIS, Nexis Library, PRNews File.

SDR or Standard Drawing Right is a unit of account used by the IMF. The value of the SDR is based on a "basket" of currencies so that it would remain more steady than any single currency. RESTATEMENT (THIRD), *supra* note 2, § 821 reporter's note 1(iii). In March 1991, 1 SDR was equal to approximately \$1.38. Christian-Edwards, *supra* note 32.

⁴⁷ The last review of the member's financial ranking was recently completed after three years of "undignified squabbling" between France and Great Britain. Britain had been in the number two position since the Bretton Woods conference in 1944. Japan, however, replaced Great Britain in the number two position. Great Britain dropped a position behind Germany, which now shares the number two position with Japan, as well. The debate between Britain and France concerned which country would occupy the third and fourth positions. In a politically sensitive solution, the IMF announced Great Britain and France would share the position after Germany and Japan with "equal force." A commentator suggested this arrangement was concluded after Great Britain agreed to share its ranking with France in exchange for having the new European Bank for Reconstruction and Development located in London. *IMF Policy Arm Approves Quota Increase of 50 Percent, Arrears Plan*, Banking Rep. (BNA), May 14, 1991, available in LEXIS, Nexis Library, BNABnk File.

⁴⁸ Once the new quota increase takes effect, the United States will control 19.9% of the IMF's voting strength. Germany and Japan will each have 6% of the total

viet membership for fear that Soviet membership could threaten their control by swinging the voting power in favor of developing nations.⁴⁹ For example, the influence of the United States in the IMF has declined in recent years as the United States has lost many votes it once controlled.⁵⁰ Again, this was peripheral to the Soviet Union's application to join the IMF and should not have had any bearing on the application's merits.

In addition, practical obstacles posed a serious barrier to Soviet entry into the IMF. Perhaps the most consuming practical problem was assessing the Soviet Union's quota. The Soviet economy was an enigma to many experts. Establishing its true size would have been difficult and time consuming.⁵¹

The IMF requires member countries to disclose specific information, including the size of the country's gold reserves and defense budget, in order for the IMF to determine the size of the country's economy.⁵² It is possible that the Soviet Union would not have been helpful in this endeavor, especially in disclosing the size of its military budget and the extent to which the military controlled the Soviet economy.⁵³

V. FUTURE AND ANALYSIS OF THE RUSSIAN APPLICATION

By gaining Western support for its application for membership in the IMF, Russia has eliminated a key obstacle to full economic reform.

votes. Britain and France will each have 5.5%. *Id.* The United States and its allies have not hesitated in using this domination of voting power to block loans and to influence favored environmental and administrative policies. *Soviet Union: U.S. Opposes Full World Bank, IMF Membership*, Inter Press Service, July 24, 1991, available in LEXIS, Nexis Library, Inpres File.

⁴⁹ Martha M. Hamilton, *Soviets Ask Full Role in the IMF, World Bank; Membership Could Bring Large Loans*, WASH. POST, July 24, 1991, at F1.

⁵⁰ Heritage Foundation Panel Discussion: *Summing Up the Summit*, Fed. News Service, August 9, 1991, available in LEXIS, Nexis Library, Fednew File.

⁵¹ Estimates of the size of the Soviet economy varied. One source predicts that it is equivalent to that of a middle sized developing country. *Id.* United States Treasury Secretary Nicholas Brady said the size of the Soviet economy is "the most vexatious question of all: it ranges all the way from big to not very big." Some experts believed the Soviet economy was as small as India's, yet others believed it may have been as large as Italy's. Bradsher, *supra* note 39, at A6. Another source suggests that the size of the Soviet economy is equivalent to the economy of Great Britain or France. *Wolf at the Door*, *supra* note 2, at 63.

⁵² See *supra* note 24.

⁵³ Tony Barber, *Doomed Illusions of Soviet Reform*, INDEPENDENT (London), June 9, 1991, § Foreign News, at 12. The Soviet Union has not disclosed the size of its gold and foreign currency reserves since the 1930's. The IMF will face difficulty in attempting to ascertain the extent of these holdings. Riddell, *supra* note 23, at 4.

There remain other important obstacles that must be overcome, however. These include: the political machinations lying behind the quota increase, the ability of the IMF to be effective in its new role, and the difficulties inherent in trying to stabilize the ruble.

A. *Politics and Quotas*

The services of the IMF have never been in greater demand throughout the world.⁵⁴ With such great demand for its services, however, the IMF has become financially strapped, especially after providing a great deal of aid to Eastern Europe, Latin America, and Africa. In order to accommodate the excess demand on its accounts, the IMF has voted to increase its members' quotas by an aggregate total of \$60 billion. The United States Congress has not yet approved the United States' \$12 billion share of this increase. United States approval is necessary for the IMF to collect any of the increase, because the IMF's rules require that any quota increase be approved by 85% of the votes, and the United States has a 19% voting share. The managing director of the IMF has said that it is "absolutely critical" that the IMF receive the additional quota shares.⁵⁵ Without the quota increase, there is little that the IMF can do to help Russia.⁵⁶

President Bush, who has given conflicting signals concerning whether or not he wants to aid Russia, has now concluded that he must do so.⁵⁷ It appears that prompting by former Presidents Carter and Nixon may have influenced his decision.⁵⁸ Support in Congress for Russian

⁵⁴ Michael Prowse, *Is the IMF Really Working?*, FIN. POST (Toronto), Feb. 27, 1992, at 51.

⁵⁵ Doyle McManus, *Administration Will Seek More Aid for Russia*, L.A. TIMES, Mar. 20, 1992, at 12. John Williamson, an expert on the Russian economy, stated "if the U.S. waits [to contribute its quota], things could turn terribly foul." David Wood, *Climate in U.S. Could Hold Up IMF Aid to Russia*, STAR TRIB. (Minneapolis), Mar. 20, 1992, at A17.

⁵⁶ In fact, if the IMF does not receive its replenishment, it may have to curtail new commitments by early 1993. George Graham, *Camdessus Pleads With US to Agree Increase*, FIN. TIMES (London), Mar. 19, 1992, at 7. The United States and Italy are the only two members of the IMF that have not yet agreed to their share of the quota increase. Wood, *supra* note 55, at A17. One official believes that of all the actions the western nations are taking to aid Russia, replenishment of the IMF's accounts is the most important. *Three Ex-Presidents, Bretton Woods Group Urge Congress to Approve Funding for IMF*, Int'l Fin. Daily (BNA), Apr. 3, 1992, available in LEXIS, Banks Library, BNAIFD File [hereinafter *Three Ex-Presidents*].

⁵⁷ *Aiding the CIS*, *supra* note 3, at B2.

⁵⁸ Ex-president Nixon has been extremely vocal in recent months in his support for aid to the former Soviet Union. Remarking on Nixon's harsh criticism of the Bush Administration's hesitancy to give aid to Russia, the Washington Times called

aid, however, remains questionable despite cries by many proponents who claim that the United States should be a leader in taking advantage of this "window of opportunity"⁵⁹ by helping Russia during their difficult period of transition.

Russia's attempt at transformation comes at an awkward time for the United States. The United States is in an election year and is suffering from a weak economy. Many incumbents fear that approving the increase will give their opponents ammunition with which to attack them for giving away money to foreigners.⁶⁰

The opposition to the quota increase by those who do not want to give money away is unfounded. The United States contribution to the Fund does not come out of the budgetary expenditure or increase the federal deficit. The money remains in federal reserves until it is needed by the IMF. Even then, it would be used only for short term loans, and would be repaid with interest at a market rate. The United States has earned over \$600 million per year in recent years in interest payments on IMF loans made from the Treasury.⁶¹

B. Great Expectations

Many of the Western leaders (including George Bush) now place a great deal of faith in the IMF's role in Russia's conversion to a market economy, and are advocating that the IMF play the principal role in providing assistance to Russia. In recent years, the IMF has

Nixon's move a "smart kick to its pin-stripped derriere." *Aiding the CIS*, *supra* note 3, at B2. A Bush Administration official stated that Nixon's criticism had "a real effect, . . . it got people moving." McManus, *supra* note 55, at 12.

⁵⁹ In an interview with TASS, the British Chancellor of the Exchequer and G-7 finance minister Norman Lamont stated the changes occurring in Russia are the most important since the end of the Second World War, and if all the opportunities are seized, all mankind will benefit. *Norman Lamont on Priorities for the Soviet Economy*, Summary of World Broadcasts (BBC), July 31, 1991, available in LEXIS, Intnew Library, BBCSWB File. President Bush has stated, "one by one, the cruel realities of the cold war flicker and fade and a new world of opportunities beckons us forward." *Bush is Pledging to Accord Soviets Best Trade Terms*, N.Y. TIMES, July 31, 1991, at A6.

⁶⁰ *Three Ex-Presidents*, *supra* note 56. Pat Buchanan has been very outspoken in his attacks on Bush for giving away dollars abroad. Wood, *supra* note 55, at A17. The United States currently faces a \$400 billion budget deficit. There is significant voter sentiment to spend money at home to counter the effects of the recession rather than spending money abroad. See Barber, *supra* note 15, at 1. Representative Toby Roth, Democrat from Wisconsin, laments that, "the State Department is shipping money all over the world while people in this country are suffering." Wood, *supra* note 55, at A17.

⁶¹ Wood, *supra* note 55, at A17.

developed into an essential agent for assisting many countries making the transition from a Communist to a capitalist economy.⁶² Western leaders believe that the IMF can provide the aid necessary to stabilize Russia. This faith may be unfounded, however, because the IMF was not designed to play this role.

The IMF was created at Bretton Woods as part of a system for overseeing international rates of exchange. After the collapse of the Bretton Woods system in the early 1970's, the IMF lacked an immediate purpose. It searched for a new *raison d'être* and soon found one as a provider of economic aid to developing countries.⁶³

The IMF's original role stands in contrast with its new role. In its original role, the IMF focused on fiscal and monetary policies that affected a country's short-term balance of payments. With its focus on short-term macroeconomic management, the more important role (in regards to Russia's needs) of long-term development "formed no part of its [original] terms of reference."⁶⁴

Among many economists, there is some doubt as to how successfully the IMF has performed in its new role. One former IMF official who recently reviewed the organization's performance commented that the results were "not as conclusive as one would like."⁶⁵ There is little evidence that IMF programs in developing countries have contributed to any substantial growth.⁶⁶ Results in Eastern Europe are similarly frustrating. Some countries, including Poland, are now backing away from the strict economic policies recommended by IMF officials.⁶⁷

East European economists who are familiar with the IMF believe that some of the organization's remedies have actually been counterproductive and have forestalled the types of change really needed within these countries. One commentator has stated that the IMF

⁶² Prowse, *supra* note 54, at 51.

⁶³ After the collapse of the Bretton Woods system, authorities believed that the IMF would gradually lose its significance as a world financial institution. The IMF, however, began to look for new purposes. During the 1970s, the IMF helped recycle surplus oil money from petroleum rich nations. In the 1980s, the IMF became involved with the Third World debt crisis. *Id.* at 51. The IMF was a leader during the 1980s in providing economic assistance to Latin America. One should note, however, that it has not always been successful. *Aiding the CIS*, *supra* note 3, at B2.

⁶⁴ Prowse, *supra* note 54, at 51.

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

prescriptions in Eastern Europe "seem to favor a socialist state."⁶⁸ For example, the IMF advised the Czechoslovakian government to continue to subsidize a large and very unprofitable steel industry at state expense, a move that bewildered the Czechs. Vaclav Klaus, Czechoslovakia's finance minister, has suggested that the IMF's agenda in Eastern Europe will lead the countries to a Third World type of existence.⁶⁹ The problem is that the IMF provides loans and assistance at the government level, thus supporting the institutions that are already in place. However, in order to facilitate substantive reform in Russia, state ownership and centralization must be abated.⁷⁰

The most effective aid Western countries could provide to Russia would be to fully open their markets to Russian goods. Should Western countries accept Russian exports, Russia would have a source of hard currency which does not bear an interest rate for rebuilding its own economy. Western consumers would also benefit from lower prices.⁷¹ Indeed, criticism is beginning to mount against the Western countries which instead of opening their markets prefer to lend money to countries making the transformation from communism to capitalism. Speaking of Czechoslovakia's desire to have access to Western markets, Vaclav Klaus stated, "[f]or us this is a much more realistic and tangible lesson on the market and free trade than the lessons by the U.S. professors who come to this country to lecture on liberalism and the advantages of the free market and free competition."⁷²

VI. Stability Problems

One major issue facing Russia involves the stabilization of its currency. According to a report released by the Deutsche Bank, it will be "virtually impossible" to stabilize the Russian ruble.⁷³ Under

⁶⁸ *Aiding the CIS*, *supra* note 3, at B2. Vaclav Klaus, Czechoslovakia's finance minister, stated that "The problems of [Central and Eastern Europe] cannot be solved through strategies and plans from the West. One of our main problems is socialist infiltration from the West." David Fairlamb, *Is What's Good for Attali Good for the Bank*, INSTITUTIONAL INVESTOR (Int'l Ed.), Mar. 1992, at 31.

⁶⁹ *Aiding the CIS*, *supra* note 3, at B2.

⁷⁰ *Id.*

⁷¹ By one estimate, for example, every American family pays a hidden \$500 annual tax due to the combined cost of textile tariffs and quotas. *Open Markets: The Best Aid There Is*, WASH. TIMES, Apr. 3, 1992, at F2.

⁷² *CSFR Minister Critical of USA, West for Not Opening Markets*, CTK Nat'l News Wire, Feb. 14, 1992, available in LEXIS, Nexis Library, CTK File.

⁷³ *Aiding the CIS*, *supra* note 3, at B2.

the current practices of the Commonwealth of Independent States (CIS), there is very little monetary coordination. The Central Bank of the CIS has no established monetary policy. Additionally, it is unclear at this time which republics will continue to utilize the ruble as their currency. This issue must be resolved in order to avoid "freeriding," the process whereby republics run large deficits and expect the Central Bank to pay for them.⁷⁴ Moreover, the republics that use the ruble must follow a uniform economic policy.⁷⁵

VII. CONCLUSION

Russia's application for membership in the International Monetary Fund tests the constituent members' dedication to "international monetary cooperation," the original purpose of the Fund as set out in Article I of the charter. Many of the industrialized nations openly support the application but are not giving the type of positive assistance that Russia truly needs.

The IMF can provide Russia with the valuable services necessary to help push the former superpower down the road to economic success. Economic assistance in stabilizing the ruble and its exchange rate will undoubtedly help the Russian economy. The IMF cannot, however, do the entire job by itself.

What Russia ultimately needs cannot be given by the IMF. The country needs to grasp the ideals and concepts of the free market and must learn the precepts of capitalism in their entirety. Russia as a country went directly from feudalism to socialism. Without an understanding of private property, Russia will remain economically stagnant. To give the Russians what they really need, the West should go beyond institutional help for the government and the ruble, and give the kind of help that will produce real change. The West should invest its efforts not only in the central government but also in the new decentralized private enterprises which are emerging from the new Russia.

Buck Wiley

⁷⁴ The Ukraine has already decided to adopt its own currency, the greivna. *Russians Slog it out in Davos*, E. Eur. Markets (Fin. Times Ltd.), Feb. 7, 1992, available in LEXIS, Nexis Library, Int'l File.

⁷⁵ *Id.*

