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World Bank told Vietnam: 'Follow the Tigers!' after global crisis hit

by Michael O. Billington

There are many, in London and elsewhere, who have tried to use the powers of the International Monetary Fund (IMF) and the World Bank to establish a new version of the British Empire. To some extent, they have succeeded, as the two UN agencies are imposing deadly conditions on subject nations, most recently in Southeast Asia, as a means of propping up the huge international financial bubble, and covering over the actual bankruptcy of the IMF system. But, this new "Emperor" was caught with its pants down recently, when the World Bank released a report on the Vietnamese economy, dated Oct. 31, 1997, just as the bubble was bursting. *Vietnam, Deepening Reform for Growth, an Economic Report,* was published well after the onset of the financial crisis in Asia last summer, but virtually simultaneously with the first severe international tremors emanating from that crisis during the closing days of October. Reading the report today is like watching a vaudeville act of absurd "sight-gags," as the World Bank, time after time, demands that Vietnam follow the "sustainable" model of growth: that of the Southeast Asian Tigers!

But this is not vaudeville. The hyper-rich hedge fund speculators, such as George Soros, riding the "deregulation" of financial markets, which was foisted upon the Asian economies by the IMF and British experts over the past decade, have decimated the economies of Asia over the past eight months—especially the three "tigers" of Thailand, Malaysia, and Indonesia. The IMF has stepped in to oversee the wreckage of Thailand and Indonesia (Malaysia has successfully resisted), imposing a "cure" which has been proven to be a bigger dose of the disease itself: more deregulation and vicious austerity, assuring payment to speculators at the expense of the real economies and the welfare of their populations.

World Bank: Indonesia is the model

Yet, the World Bank report reads, as if in another universe:

"Vietnam is fortunate to have the experiences of several countries both within and outside the region to draw on as it seeks to consolidate its economic takeoff. The experiences of the newly industrialized countries of Southeast Asia are perhaps of particular relevance given some of the initial similarities between their economies and the Vietnamese economy." (The lack of punctuation in all quotes from the report is as in the original.)

In particular, says the report, Indonesia must serve as the model! The World Bank had released another report in May 1997, *Indonesia: Sustaining High Growth with Equity,* proving, according to the World Bank, that Indonesia is the best example of "sustainable growth" through "outward-oriented, private sector driven, labor-absorbing growth." Today, only four months later, nearly every company on the Indonesian stock exchange is insolvent, unemployment is rapidly reaching catastrophic proportions, and the average income per capita, measured in dollar terms, has fallen from $570 per annum to $140 per annum, just in the past six months.

Nonetheless, the World Bank report scolds Vietnam for failing to take the same path. The report complains that the Vietnamese leadership, while continuing the reform process which began in 1986, has insisted on an "inward-looking, increasingly capital-intensive" policy aimed at the industrialization of their country, against the advice of the IMF and the World Bank. In 1989, there was no heavy industry whatsoever—the legacy of colonialism and 25 years of war against massive French and American military forces. After 1989, the government invested in cement, steel, fertilizer, and other heavy industry, such that today, heavy industry is 25% of industrial output. To achieve this, Vietnam has implemented preferential credits for targetted industries, protective tariffs and import restrictions, together with government investment in supporting infrastructure. This, of course, is no more "communist" than when the young United States, under Treasury Secretary Alexander Hamilton, used the same methods to free the country from British control.

The new colonial policy

In fact, the World Bank uses precisely the same arguments used by the British against the upstart Americans over 200 years ago: government-directed credit and protectionism are inefficient, wasteful of resources, unfair, and unsustainable. Vietnam, says the World Bank, must follow the methods of the primary opponent of the American System, Adam Smith, who insisted that industry be left to the British, while the colonies remain agricultural. Vietnam's industrialization, writes the Bank, must be based on "comparative advan-

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tage"—in other words, agriculture and light industries, which stress "increased use of the economy's abundant resource, labor."

This is exactly the new colonial policy, called globalization, whereby former colonies have been used as cheap labor pools for export-oriented, low-tech process industries. Hot money for globalization comes from unregulated foreign "off-shore" banking, which has expanded dramatically in the 1990s, but also from the dirty money of Asia itself, especially from prostitution, the drug trade, and gambling, which have exploded across Southeast Asia.

The significant real growth of the Asian Tigers over the past thirty years came *despite* the globalization process, due to the nationalist commitments of these nations, and the state-sponsored development of industry and infrastructure. The compromise of these nationalist sentiments during the 1980s and 1990s, in favor of off-shore banking, deregulated financial sectors, cheap-labor exports, and vast real estate speculation, allowed the speculators to pull the rug out from under them, whenever they so chose—just as *EIR* warned over the past several years. (See *EIR,* Feb. 7, 1997, "The Machine-Tool Principle.") The World Bank now wants Vietnam to forgo the nationalist policies which are what actually built up the Asian economies (including, especially, those of Japan, South Korea, and Taiwan), in exchange for the globalization policies which have brought their doom.

Vietnam's potential

The World Bank acknowledges Vietnam's success over the past decade. The first step in the reform process, beginning in 1986, was the elimination of the communes, allowing peasants control over their land, combined with increased government provision of improved seeds, tractors, pumps, and irrigation systems. Vietnam is now the world's second-largest rice exporter, having achieved a 37% increase in yield, and doubled output, since 1986. The northern part of the country produced a surplus, for the first time, in 1997.

Vietnam also reestablished relations with its old military opponents, the United States and China, and with its neighbors in Southeast Asia, becoming a member of the Association of Southeast Asian Nations (ASEAN) in 1996. It invited foreign investment, encouraged joint ventures, and reduced the total number of state-owned industries from 12,000 to 6,000. It even agreed to absorb a portion of the old debts, with interest, accrued by the defunct government of South Vietnam in the 1960s in the course of its war against the current government!

The IMF anticipated that the Vietnamese leadership would be passed on to younger technocrats at the Eighth Congress of the Communist Party of Vietnam, in the summer of 1996. The technocrats were expected to further deregulate and eliminate financial controls along the lines of the Southeast Asian Tigers. However, things did not go as expected by London and New York. With one eye on the collapse of the economies of Russia and eastern Europe under "shock therapy," and another eye on China's aggressive industrialization and nation-building, while maintaining exchange controls and limited convertibility, Vietnam opted for the latter. The Eighth Congress retained the old leadership, and focussed attention on education and human resource development rather than deregulation.

Over the following year, the government imposed new, strict controls on external borrowing and foreign exchange, attempting to limit the buildup of short-term debt for speculative ventures. As a result, Vietnam is generally better situated today to survive the financial collapse sweeping its ASEAN neighbors. New credit policies were also implemented, favoring state-sector heavy industries.

The World Bank is furious about these new policies. "These measures," says the report, "will at best have only temporary beneficial effects, and over the longer term, will increase existing distortions in the incentive regime, further raising returns to economically inefficient activities."

By "economically inefficient activities," the Bank means heavy industry *of any sort*. The Bank writes: "This trend [toward heavy industry] is a concern given that production in most of these capital-intensive import-substituting industries receives high rates of effective protections, suggesting that they are inefficient, yield low returns to the economy, and are uncompetitive at world market prices."

Luckily for the world, the American Founding Fathers rejected this same advice from the British 200 years ago, and determined to win real independence through the development of national industries.

The report adds: "The automobile industry is a case in point. . . . The typical efficient scale of operations for a motor vehicle manufacturing plant is some twenty times the size of the entire Vietnamese market, [and thus] automobile assembly in Vietnam cannot yield high returns to the economy and represents an extremely inefficient use of scarce Foreign Direct Investment (FDI) resources." In other words, Vietnam *should not produce* automobiles, nor steel, nor petrochemicals, and so on.

Dr. Mahathir bin Mohamad, Prime Minister of Malaysia, who has taken the lead in identifying the new colonialism of the IMF and its sponsors, addressed this issue in his book *The Challenge,* written in 1976. Dr. Mahathir singled out the auto industry, pointing out that as the market for cars grew, so would the efficiency of production in the advanced sector nations, so that, in the end, "we will never get to the stage where the volume is sufficiently big to justify the setting up of a motor car industry, which means, of course, that if we follow that argument, we will never have a motor car industry." But, he concluded, "industry gives rise to a lot of spin-off effects, experience and knowledge for our people. We have to be prepared to bear the costs."

Particularly humorous in the World Bank report, in light of the collapse of the Asian Tigers' financial systems, is the

Bank's argument that Vietnam must end exchange controls on their currency—precisely the "deregulation" that allowed the speculative destruction of its ASEAN neighbors. In the euphemistic phrases of the World Bank: "Government should push forward reforms to create a more neutral trade and exchange regime that will channel more resources into export-oriented activities [i.e., end protective measures and currency controls]. . . . Each year of delay will require larger and more painful adjustments in the economy."

It is now quite evident that "longer and more painful adjustments" are wrecking precisely those economies which followed the World Bank's advice!

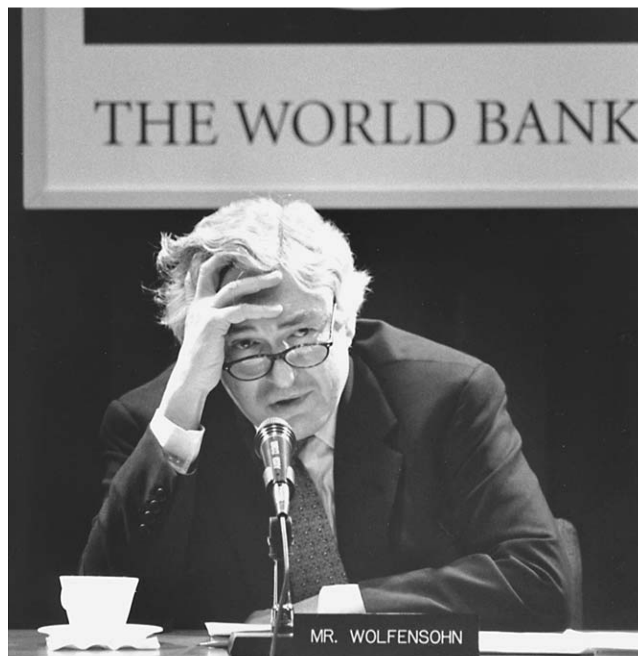
More recently, the World Bank has been trying to coerce Vietnam into a devaluation of its currency, the dong, by openly encouraging the hoarding of dollars by Vietnam-based businesses and speculators. According to Thailand's *Business Day* of Jan. 23, 1998, a World Bank official in Hanoi, who refused to be identified, told the press: "If everyone expects a depreciation of the dong, [the central bank] can't prevent that, and the people will act accordingly . . . by hoarding as a hedge. If I thought there would be a substantial depreciation, the return on holding dollars will be much bigger.

One last "sight gag" from the report: The World Bank repeats several dozen times that protective tariffs and directed credit to state-sector firms are not "fair" to the private sector (meaning foreign investors and speculators). There must be a "level playing field," says the report. It is again useful to quote Dr. Mahathir, who once quipped that the IMF demanded a level playing field, but they wanted to play American football, where the Western players all weigh 300 pounds, while the Asians weigh in at 150.

As to "fairness," it has been noted with anger across Asia over the past months that the IMF conditions require that national banks be allowed to fail, while international banks must be paid, even if the government must use taxpayer money to pay foreign debts held by private interests.

Target: China

The underlying target of the World Bank attack on Vietnam is the China model. China has focussed its national economic policy on *strengthening* the large-scale state-sector industries, while encouraging more private sector involvement in small and medium-size enterprises. Its approach to a "market economy with Chinese characteristics," centered on great projects, such as the Eurasian Land-Bridge, the Three Gorges Dam, and rapid nuclear power development, combined with strict controls on currency exchange and investment, has made China the only economy in the world that has a chance of surviving the current global financial collapse. The World Bank shows its anger at this fact, in the report on Vietnam: "China, like Vietnam, has also avoided mass privatizations of State Owned Enterprises (SOEs) in contrast with the transition economies of Eastern Europe [another model to emulate, says the World Bank]. A review of recent developments in China's SOE sector could perhaps provide useful lessons for policymakers in Vietnam. Overall, Chinese SOEs have remained largely uncompetitive against growing domestic and international competition and have become a drag on growth and employment creation."



James Wolfensohn, president of the World Bank. The Bank's reports, touting Indonesia and other Southeast Asia economies as the model to follow, were released after the global, systemic financial crisis had already begun to ravage Asia.

Perhaps the World Bank should instead review recent developments in both eastern Europe and Southeast Asia. The pathetic character of the World Bank's defense of the "globalization model," in the face of the collapse of that model, is further revealed in its strained attempt to criticize the Chinese economy: "Growth in China appears to have occurred despite, rather than because of, the continued dominance of the large-scale SOEs. Furthermore, while these enterprises may have been able to grow over the last fifteen or so years, the limits to this strategy may be approaching."

The World Bank pundits were most disappointed when the Vietnamese leadership recently chose a successor to party chief Do Muoi, rather than a young technocrat, who would do their bidding. The Vietnamese chose Gen. Le Kha Phieu, considered to be a nationalist, who will proceed with reform most cautiously. General Phieu confirmed the banks' concern when he announced in February that his first foreign visit will be to Beijing.

The ironic timing of this World Bank study should be encouragement to nations throughout the world to speak out with the truth about the IMF and the World Bank—like the little boy, too young to be "politically correct," it must be truthfully said that "this Emperor has no clothes."