

Hegemony: Explorations into Consensus, Coercion and Culture

**A workshop at the University of Wollongong
14 &15 Feb 2005**

Panel 5 Neo-liberalism as Hegemony (International)

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**The role of the International Monetary Fund and
World Bank in the construction and maintenance of
global neoliberal hegemony**

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The role of the International Monetary Fund and World Bank in the construction and maintenance of global neoliberal hegemony

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At an international level, the institutions, which are crucial to the production and reproduction of neoliberal hegemony, are those dominant international organisations such as the International Monetary Fund (IMF), World Bank and World Trade Organisation and the practices and policies these institutions promote. Together, the initiatives of the World Bank and IMF with regard to both developing and developed States constitute a determined effort to institutionalise neoliberal capitalism and to manage it to ensure that the interests of capital are prioritised and that the general conditions for capital accumulation are realised. These initiatives involve both aspects of consent building and discipline. The actions of the IMF and World Bank are heavily informed by neoliberal ideology and have helped create a global society in which economic deregulation is represented as being the natural economic order where alternatives are rejected on the assumption that only privatisation and deregulation will achieve the economic growth, liberty and prosperity of all States and peoples. This paper seeks to address the role played by the International Monetary Fund and World Bank in the construction and maintenance of global neoliberal hegemony.

Gramsci's conceptions of power and hegemony are useful in understanding the current trends of neoliberal globalisation. Gramsci conceived of power as a necessary combination of consent and coercion. Hegemony is more than simply the imposition of a world-view but is instead the creation of a new common sense, which appeals to those both within and outside the dominant alliance of social forces.¹ In considering neoliberal hegemony, the dominant force that provides political, intellectual and moral leadership is constituted by transnational capital controlled by transnational corporations, international institutions such as the IMF and World Bank and a loose alliance between western industrialised States. This global layer of

¹ R. Cox, 'Gramsci, Hegemony and International Relations: an Essay in Method' in S.Gill (ed.), Gramsci, Historical Materialism and International Relations, Cambridge University Press, Cambridge, 1993

hegemony indicates the re-scaling of State power upwards and is crucially important in providing institutional frameworks for the operation of the international economy and global politics. In addition, it provides an ideological framework directed towards legitimising the current neoliberal accumulation strategy and the hegemony of financial capital. Neoliberal hegemony has been characterised by the expansion of trans-governmental regulation, formal and informal structures of authority and private and public regimes, which operate autonomously from the State. The emergence of these structures has been referred to by Cox as a global *nebuleuse*. The role of the IMF and World Bank in providing direction to this *nebuleuse* is significant both through the articulation of ideas and the maintenance of neoliberalism as a coherent hegemonic project.

Global hegemony can be seen as an extension of the restructuring of internal relations of power by the dominant social class. The institutions of national hegemony become a model for other countries, especially for countries in the periphery, which have not undergone the same social revolution or economic development. These countries often adopt some of the principles and ideas from the hegemonic model without destroying old power structures. This leads Cox to conclude that “In the world hegemonic model, hegemony is more intense and consistent at the core and more laden with contradictions at the periphery.”² Hegemonies of the normal, systemic type are founded by powerful States, which have experienced social and economic revolution. Global hegemony is founded upon the exporting of the ideas and values of this ‘revolution’, which occurs when the methods of the hegemonic class are imitated in other States. In the case of neoliberalism, it was initially evident in western industrialised States such as Britain and America. It then led to structural changes within other States and in the international sphere, with most other countries undergoing similar reforms but in a more passive way where the impetus for change was not “a vast local economic development... but [was] instead the reflection of international developments which transmit their ideological currents to the periphery.”³ The role of the IMF and World Bank in the transmission of

² R. Cox, ‘Gramsci, hegemony and international relations: an essay in method’ in S. Gill (ed) Gramsci, Hegemony and International Relations, Cambridge University Press, Cambridge, 1993 p.61

³ R. Cox, ‘Gramsci, hegemony and international relations: an essay in method’ in S. Gill (ed) Gramsci, Hegemony and International Relations, Cambridge University Press, Cambridge, 1993 p.61

neoliberal ideas and practice has been greatly significant, especially through the use of conditionality in coercing indebted and developing States to adopt neoliberal reforms.

The transfer of neoliberal ideas from core to periphery and the enactment of neoliberal policy initiatives at an international level has focused on open trade, freedom of investment and the removal of regulations on capital movements and has been difficult to distinguish from the broader processes of globalisation which have characterised international political economy in the post-war period. Indeed, critical theorists such as Robert Cox argue that neoliberalism has become hegemonic largely through the mechanisms of globalisation⁴ and that neoliberal hegemony has been reproduced and secured through discourses of globalisation, open trade and market reform. These discourses have been central to World Bank and IMF rhetoric. Thus far, globalisation has been inextricably linked with the neoliberal agenda pursued by the international financial institutions, the increasing power and influence of multinational corporations, the increasing mobility of capital in global markets and the time-space compression, which results from technological advancement. Combined, these developments in international political economy are, Carchedi notes, aggressively ideological.⁵

As Cox has argued, the hegemonic importance of international institutions is based on several key characteristics:

- (1) they embody the rules which facilitate the expansion of hegemonic world orders
- (2) they are themselves the product of the hegemonic world order
- (3) they ideologically legitimate the norms of the world order
- (4) they co-opt the elites from peripheral countries and
- (5) they absorb counter-hegemonic ideas⁶

These characteristics are certainly illustrated by the World Bank and IMF. The hegemonic role of the World Bank and IMF is crucially important because while they are designed to

⁴ R. Cox, 'A perspective on Globalisation' in J.H. Mittleman (ed.), Globalisation: Critical Reflections, Lynne Rienner Publishers, 1996

⁵ G. Carchedi, 'Capitalist Globalisation and Economic and Monetary Union' in A. Vlachou (ed.), Contemporary Economic Theory: Radical Critiques of Neoliberalism, Macmillan, 1999

⁶ R. Cox, 'Gramsci, hegemony and international relations: an essay in method' in S. Gill (ed) Gramsci, Hegemony and International Relations, Cambridge University Press, Cambridge, 1993 p.62

support and facilitate the global expansion of the capitalism, they are also able to flexibly deal with changed circumstances and to adjust norms to incorporate subordinate interests and counter-hegemonic ideas. This was best highlighted by the adoption of the language of civil society opposition within IMF and World Bank rhetoric. This legitimises the norms of the international order, with opposition being limited by the co-opting of elites from peripheral countries, which must then work within the structures of passive revolution.

The emergence of neoliberalism has been accompanied by new forms of consensus and coercion or discipline. Coercion is increasingly exercised through market-based structures directly, such as capital's increased relative power over labour and States and indirectly through the disciplining of States and firms via IMF and World Bank control over financial markets and the use of conditionality. The IMF and World Bank attempt to secure the expansion of the neoliberal mode and the reproduction of neoliberal hegemony through coercing States into implementing a neoliberal policy agenda in return for receiving funds. At a simplistic level, the source of neoliberal discipline would seem to be the market - as the IMF recognised in their report *World Economic Outlook* (1997):

The discipline of global product and financial markets applies not only to policy-makers, via financial market pressures, but also to the private sector, making it more difficult to sustain unwarranted wage increases and mark ups. If markets adopt too sanguine a view of a country's economic policies and prospects, however, this could relax policy disciplines for a time and result in a high adjustment cost when market perceptions change ... [and then] markets will eventually exert their own discipline, in such a way that the time period for adjustment may be brutally shortened.⁷

Neoliberalism, as this suggests, relies upon the market to discipline economic agents. This reliance on market discipline is facilitated by the practices of the World Bank and IMF who promote market-oriented growth strategies, which limit the power of the State to challenge market-based forms of authority.

⁷ International Monetary Fund, 1997: 70-71

Within the market, investors and capital retain significant power and authority, and their power is being increased via the IMF and World Bank's emphasis on the need to governments to institute political, economic and legal reforms in order to obtain the confidence of investors.

As stated by the IMF:

In many emerging market economies and developing countries, raising growth rates on a lasting basis will require not only sustained growth in industrial sectors, but also key structural reforms. These include banking reform, corporate restructuring, tax reform and tax administration, establishment of effective legal systems, protection of property rights, and improved governance.²

The focus on governance issues such as credibility, certainty and transparency is another mechanism by which the World Bank and IMF reproduce neoliberal hegemony and ensure the security of neoliberal accumulation and expansion. It prioritises the concerns (or 'confidence') of investors over any other consideration, thus it represents a further transfer of power to the market. It also gives the IMF and World Bank an additional element on which to base conditionality: not only must States adopt the macroeconomic and fiscal recommendations of the IMF and World Bank, but they must also reform political, legal and banking institutions.

Conditionality and structural adjustment programs are part of the coercive or disciplinary elements of neoliberalism. Conditionality is used by the International Monetary Fund and World Bank to 'encourage' acceptance of their economic and political program, and tends to be founded on ensuring that recipient governments comply with a range of macroeconomic and fiscal conditions, which the IMF and World Bank argue will strengthen the economy and provide growth.

Conditionality has become an important tool in maintaining neoliberal hegemony at a global level. Much of the current literature on conditionality relies on a rationalist methodological approach, which assumes the voluntary nature of conditional agreements. Killick⁸, for example, suggests that in the process of negotiating a conditional agreement, both the

International Monetary Fund (the principal) and the recipient State (the agent) will use all their resources to achieve the outcome which best satisfies their interests. Using principal-agent theory, Killick suggests that the lending institution must “design a contract which embodies a structure of rewards and penalties that make in [the agent’s] interests to act in ways which further [the principal’s] utility and which punishes deviance from that course.”⁹ Mosley *et al*¹⁰ also use a rationalist, interests-based methodology to reach the similar conclusion that conditional lending is constituted by a series of bargaining ‘games’, the outcome of which depend on the bargaining power of the respective parties. As Mosley *et al* note, the lender attempts to “influence economic policy in the manner desired by it, whereas the recipient resists all such attempts which do not harmonise with its own political priorities.”¹¹

As the analyses provided by Killick and Mosley *et al* suggest, the dominant account of conditionality is based on the assumption that States can voluntarily determine whether or not to accept conditional contracts. This is a determination, which will be based on the State’s evaluation of the perceived benefits of the proposed agreement where “States agree to conditional contracts because and when it is in their interests to do so...”¹² In other words, the existence of an agreement is an expression of mutually-satisfied interests. Based on this view, conditionality cannot involve coercion because it is always within the capacity of the State to reject the conditions proposed by the lending institution.

The rationalist, interests-based approach to conditionality is undermined if one considers the extent to which governments can be constrained by, and have their ‘interests’ shaped by, external economic and political actors. Rationalist methodology, with its assumption that the

⁸ T. Killick, ‘Principles, Agents and the Failings of Conditionality’, Journal of International Development 9, no. 4, 1997

⁹ T. Killick, Aid and the Political Economy of Policy Change, Routledge, London, 1998 p101

¹⁰ Mosley, Harrigan and Toye, Aid and Power: The World Bank and Policy-based lending, New York, 1991

¹¹ Mosley, Harrigan and Toye, Aid and Power: The World Bank and Policy-based lending, New York, 1991 , p67

¹² V. Collingwood, Power and Conditionality in Global Governance, as presented at The Fifth Pan-European International Relations Conference, 9-11 September, 2004, The Hague. Reproduced at www.tilburguniversity.nl, p11

parties to negotiations are autonomous and interest-maximising, fails to recognise that choices, interests and values, can be constrained by context. The rationalist approach outlined above relies on a one-dimensional view of power¹³, which ignores the importance of ‘constraining power’.¹⁴ The ability of the IMF and World Bank to constrain the actions and choices of States to the effect that the States have little choice but to accept the conditions put forward by the lending institution. While, in theory, States may be able to refuse a conditional agreement, as Collingwood notes: “there are circumstances in which refusal is not a viable option... What appears to be a free ‘choice’ - whether or not to accept conditions which are ostensibly attached to a ‘gift’ - can be coercive if the background conditions are such that the recipient government has no realistic option but to accept them.”¹⁵ In the cases of many recipient countries, this situation arguably exists where they are unable to obtain private credit and are dependant upon concessional funds and are not in a position to refuse funds when they are offered, nor can they refuse the conditions, which are attached to those funds.

The inequality of bargaining power in a specific case is then exacerbated by the broader meta-power of international political economy, which refers to “the power to choose and shape the structures of the global political economy, within which other States, their political institutions, their economic enterprises and their professional people have to operate”.¹⁶ This power is part of the hegemonic utility of the World Bank and IMF and is manifested in their ability to influence the context in which decisions are made, and to determine the issues that are included for consideration. As Bachrach and Baratz states, power includes “the means by which demands for change in the existing allocation of benefits and privileges in the community can be suffocated before they are even voiced; or kept covert; or killed before they gain access to the relevant decision-making arena.”¹⁷

¹³ S. Lukes, Power: A Radical View, Macmillan, London, 1974

¹⁴ J. Scott, Power, Routledge, London, 1993

¹⁵ V. Collingwood, Power and Conditionality in Global Governance, as presented at The Fifth Pan-European International Relations Conference, 9-11 September, 2004, The Hague. Reproduced at www.tilburguniversity.nl, p11

¹⁶ S. Strange, ‘The Persistent Myth of Lost Hegemony’, International Organisation 41, no.4 (1987), p565

¹⁷ As quoted in S. Lukes, Power: A Radical View, Macmillan, London, 1974 p21

The terms of most conditional agreements reflect the asymmetries of power that exist in global rules and structures as well as reflecting the ideas and values of the most powerful States, rather than the particular interests of those parties involved.¹⁸ Conditionality is another means of reproducing the norms and values of neoliberal hegemony. International negotiations do not take place in an ideologically neutral context but rather reflect structures of political and economic power within the global sphere. Conditionality constitutes part of what Gill refers to as disciplinary neoliberalism, in that it is used by the World Bank and IMF to exert pressure on States to comply with the particular norms of the neoliberal mode of accumulation. As Bullard has noted: “any government that tries to step outside the neoliberal magic circle will soon feel the cold wind of conditionality bearing down on them.”¹⁹

The World Bank and IMF have been fundamental forces in defining and enforcing the policies necessary for capitalist expansion and for ensuring that these policies are broadly accepted.²⁰ The ability of these institutions to promote the neoliberal policy agenda was strengthened by the changed role they assumed during the debt crisis of the 70s and 80s. For example, while the creators of the IMF intended it to primarily provide balance of payments support to countries who were in crisis, in the 1980s with the increasing problems of underdevelopment and debt in the developing world the IMF exercised greater control over the economic policies of developing States through tying funds to austerity programs, structural adjustment and other related conditions of loans. Indebtedness is an important part of the reproduction of neoliberal hegemony primarily because it confers enormous power on the IMF (and its shareholders) to determine the development strategies of debtor nations and more broadly, to continue the expansion of global capital.

¹⁸ N. Woods, ‘Making the IMF and the World Bank more accountable’, *International Affairs* 77, no. 1 (2001)

¹⁹ N. Bullard, *Global social principles: Crossing the line between conditionality and hegemony*, as reproduced at <http://www.gaspp.org/seminars/papers/pabullar.pdf>

²⁰ The IMF strategy is supported by the US dominance in the World Trade Organization (WTO) and in the World Bank. A developing country only has a few possibilities for resisting its demands. A land needs the approval of the IMF to receive foreign capital in its economic cycle. This means agreeing more or less with what is described as the Washington Consensus. The former chief economist of the World Bank, Joseph Stiglitz, laments that many countries in Latin America and Africa follow “the dictates of the ‘Washington Consensus’ – reduction of inflation and budget deficits, trade liberalization, privatisation of State enterprises – but still wait for development”.

The vulnerability of debtor countries to the external determination of their social and economic policies is evident in countries such as Argentina, where their defaulting on foreign debts of \$141 billion led the IMF to extend a \$48b rescue package, conditional on government agreement to a number of policy measures, including cuts in government spending, privatisation of natural resources and economic liberalisation. The IMF intervention in Argentina reflects the ‘one model for all’ mentality of the Fund and other international financial institutions. The IMF’s model for development is applied despite differences in domestic conditions but always conform to the principles of the ‘Washington Consensus.’²¹

Through attaching conditions to loans and aid, the IMF and World Bank can coerce indebted States to implement the neoliberal policy agenda and thus can maintain neoliberal hegemony. In this way, conditionality is an important disciplinary mechanism of global neoliberal hegemony. However, the forces and principles of disciplinary neoliberalism are complemented by mechanisms of consent-building, which are an attempt to ‘lock-in’ the power gains of capital on a world scale by incorporating popular forces into the ideology of globalisation in order to undermine potential opposition. This is part of Gramsci’s concept of *trasformismo*, or the processes of co-optation of left-wing opposition by bourgeois or right wing forces to offset the possibility of mass, direct democracy. The disciplinary aspects of the neoliberal order are complemented by various institutional attempts to elicit consent to the neoliberal agenda or at least to limit the potential for genuine opposition. For example, Gill suggests that the World Bank, through the separation of economics from democratic participation and accountability, attempts to ensure that policies to achieve the expansion of an externally prescribed model of capitalist development encounter little popular opposition. The notion of participation developed by the World Bank often represents an attempt to incorporate opposition and thus limit the effectiveness and ideological appeal of opposition groups, which makes the development of a counter-hegemony very difficult.

²¹ The Consensus as a political package forces a weak developing country like Indonesia or Zimbabwe to open its economy on all planes for the take-over of its most valuable resources by foreign powers. The Consensus contains technical descriptions that sound rational. In reality, it is the model for a foreign multinational rule called neo-colonialism by some critics. Once robbed of their defense and their protection, only a few countries can compete with enormous multinational businesses or banks.

The IMF and World Bank each play a dual role in the construction and maintenance of neoliberal hegemony. First, they are important in the creation of a capitalist world economy in which all subordinate modes of production are assimilated into a dominant mode of production. Second, their economic role is supplemented by their articulation of an ideology, which is expressed as a universal system of values and norms and which is represented as being in the universal interest. These values and norms are produced and reproduced through numerous mechanisms, including conditionality and State surveillance and help create the ideological and regulatory framework within which States operate.²²

Global hegemony involves not only the expansion of a dominant mode of production, which subordinates other socio-political forms, but also involves social relations of power and political institutions. The universal norms and values, the institutions created to enforce general rules of behaviour among States and the forces of civil society are all designed to support the dominant mode of production.²³ It is in this context that the IMF and World Bank are crucial conduits of neoliberal policy and practice. The IMF and World Bank have endorsed an open market ideology and regime of practices, which “runs in accordance with the interests of those entitled to make investment decisions in the capitalist market economy or, at least, have a lot of individual resources at their disposal.”²⁴

It was within the IMF and World Bank that a synthesis emerged at an international level between neoliberal ideas (derived from theorists such as Hayek and Friedman) and practice. Neoliberal ideologues both within and outside these institutions have successfully represented the principles of open markets, the minimal State and deregulated trade as if it were the natural and normal condition of humankind. This limits the framework in which opposition or the construction of a counter-hegemony can arise and despite its emerging empirical flaws it is represented as being the only possible economic and social order available to States and as

²² R. Cox (1993), 'Production and Security', in R. Cox & T. J. Sinclair, Approaches to World Order, Cambridge University Press, Cambridge, 1996

²³ R. Cox, 'Gramsci, hegemony and international relations: an essay in method' in S. Gill (ed) Gramsci, Hegemony and International Relations, Cambridge University Press, Cambridge, 1993 p.62

²⁴ H.Patomaki, Democratising Globalisation, Zed Books, London, 2001, p59

being in the universal interest.²⁵ Neoliberalism has become hegemonic partly because of its success in persuading States that neoliberal ideas are the only way by which capitalist development may be achieved. Alternatives, which are State-specific and directed towards the particular needs of a country are not considered, despite the fact that the creation of market relations often relies on the coercive capacities of the State.²⁶

The hegemonic utility of the IMF and World Bank has been highly significant, particularly in the promotion of the neoliberal agenda as an ideology which best serves the interests of all groups through its creation of the conditions for development.²⁷ Simply, they have exercised the intellectual and moral leadership (which Gramsci argued was an important part of social control) in explaining how open markets are in the general interest and thus, why alternative institutional arrangements are not viable. This is a vital part of hegemony, which can be defined simply as the power that exists beyond domination where a dominant group persuades subordinate groups that its rule serves not only its own interests but also those of the subordinate groups. This persuasion is based on a belief that the system of rule created by the dominant group is in the general interest and that the feasible alternatives are worse. Part of this persuasion process involves the creation of a new commonsense, in which the neoliberal foundations of deregulated trade, open markets and a minimal State are represented as being organic, and the natural condition of humankind.

Neoliberal hegemony operates at different levels, in different ways and is reproduced through different mechanisms however it ultimately relies on the ability of the dominant force of America and other western industrialised nations, to convince other actors of the 'truth' of liberal open market ideology, that all will benefit in the longer run from competition, profit maximisation, deregulation and minimal State intervention. Free markets are, according to neoliberal ideology, in the general interest. Those who oppose free markets are thus discredited as acting in the narrow sectoral interests of a particular class or group.

²⁵ S. George, A Short History of Neoliberalism, Conference on Economic Sovereignty in a Globalising World, March 24-26, 1999

²⁶ S. Gill, 'Globalisation, Market Civilisation, and Disciplinary Neoliberalism', Millennium, 1995, 24:3.

²⁷ S. George, The Debt Boomerang, Pluto, 1992. p. 109

The World Bank and IMF also play a crucial ideological role, articulating neoliberal ideas of how an economy and a polity should be organised. A significant part of hegemony is the articulation of ideas and the World Bank has played a crucial role in the construction of neoliberal hegemony through the publication of its annual reports. These reports generally remain 'faithful' to neoliberal orthodoxy but in recent years have adopted the language of civil society in order to appear to be incorporating the concerns some have towards the policy agenda promoted by neoliberalism. The reports are the public 'face' of World Bank policy and discourse and present a coherent free-trade, free-market formula for economic growth and development.

Internally, deviation from neoliberal ideology is not tolerated. This is demonstrated by two recent cases in which senior employees of the World Bank argued against the reigning orthodoxy within the Bank and subsequently were forced to resign. Most notorious is the case of Joseph Stiglitz, Chief Economist from 1996 to 1999. The second case concerns the resignation of Ravi Kanbur, director of the *World Development Report 2000*, called *Attacking Poverty*. For the purposes of this paper, it is unnecessary to detail these instances of internal discipline, but it is important to note that even someone occupying a position as senior as Stiglitz felt that he was restricted. When announcing his resignation, he commented that "it became very clear to me that working from the inside was not leading to responses at the speed at which responses were needed. And when dealing with policies as misguided as I believe these policies were, you have to either speak out or resign...Rather than muzzle myself, or be muzzled, I decided to leave."²⁸ In drafting the *World Development Report 2000*, Kanbur was similarly restricted, being forced to replace the original emphasis on concepts such as empowerment, security and opportunity with a more orthodox growth-first approach.²⁹

²⁸ 15. Louis Uchitelle, "World Bank economist felt he had to silence his criticism or quit", *New York Times*, 2 December, 1999, C1.

²⁹ R.Wade, 'US Hegemony and the World Bank: Stiglitz's firing and Kanbur's resignation'

The economic dominance of neoliberal ideology does not constitute hegemony; rather, we must consider its intellectual and moral leadership. Through the concept of ‘good governance’ the World Bank and IMF have effectively incorporated institutions of civil society and the State in building an institutional support network for capital and markets. For example, the 2002 World Development Report, *Building Institutions for Markets*, was concerned with institution-building and good governance. Good governance extended the neoliberal agenda from economic concerns, and ensured the neoliberal policies are not restricted to the sphere of the economy but also encompass social regulation and political order:

Good governance includes the creation, protection, and enforcement of property rights, without which the scope for market transactions is limited. It includes the provision of a regulatory regime that works with the market to promote competition. And it includes the provision of sound macroeconomic policies that create a stable environment for market activity. Good governance also means the absence of corruption, which can subvert the goals of policy and undermine the legitimacy of the public institutions that support markets.³⁰

Neoliberalism and international financial institutions represent macroeconomic stability as being vital to the economic growth, which is the foundation of universally beneficial development. Such representations and the prioritisation of capitalist accumulation in shaping political and social institutions are underpinned by mechanisms of coercion and consensus. Ultimately, neoliberal hegemony rests on the fact that its agents have been successful in convincing the majority of people and States that there is no alternative and that deregulated trade and open markets are the natural outcome of abstract forces too powerful for humanity to resist.

The perceived strength of ideas is crucial to the construction of hegemony. It is in view of this that the World Bank and International Monetary Fund play such a fundamental ideological role in the constant legitimation and readjustment necessary for the reproduction of neoliberal

hegemony. The neoliberal paradigm has been so hegemonically successful in representing the neoliberal approach to political economy as the natural order of things that it admits no alternative and is therefore a difficult subject to challenge.

Discourse and vocabulary are tools of hegemony as they effectively determine the content of discussion and rules out effective debate. The discourse of neoliberal globalisation has extended its appeal by appropriating and redefining terms such as empowerment and participation. Neoliberal discourse also positions extreme poverty to be conceptually detached from extreme wealth. However, hegemony requires constant ideological adjustment and renewal so the new Bank/ Fund discourse on poverty reduction can be seen as an attempt to combat the effectiveness and appeal of opposition to neoliberal ideology. The strategy of incorporating the forces of civil society is also highly powerful in maintaining neoliberal hegemony. The World Bank speaks of the need for the general population (as represented in civil society) to 'own' their development strategies. This suggests a degree of empowerment, but it must be recognised that it takes place within a macroeconomic framework, which is seldom challenged or subject to democratic accountability.

The concept of incorporating opposition demonstrates Gramsci's idea of the need for a hegemonic group to move beyond its own corporate interests and to represent their ideology as being in the universal interest. The development of an ideology with universal appeal is supported by strategies of concession-making to groups among whom opposition is likely to form. The most prominent of these strategies has been offering material concessions to the poorer classes in order to give them the means by which they can enter the world of 'market civilisation' and by doing so, the likelihood of popular resistance is reduced.³¹ This aspect of consensus-building can best be seen in the increasing discourse on policy alleviation and the commitment of the World Bank and IMF to policies designed to combat the poverty and

³⁰ World Bank 2002. *World Development Report 2002: Building Institutions for Markets*, New York: OUP, p. 99.

³¹ S. Gill, *The Constitutions of Global Capitalism*, presented at the conference: Feminist Perspectives on the Paradoxes of Globalization. Heinrich Böll Stiftung, UFA-Fabrik, Viktoriastr. 13-18, Berlin-Tempelhof. Organised by the Research Group on Globalization Sustainability and Gender, Dept. of Political Science, Free

inequality which characterises the current world order. In addition to the traditional aims of economic growth and industrial development, the IMF and World Bank now speak of empowerment, equality and reducing poverty. In terms of empowerment, the World Bank encourages mechanisms which allows the participation of non-government organisations and the private sector in determining the shape and prioritisation of provision but which do not extend to the shaping of macroeconomic policy.

The consensual aspects of neoliberalism aim to reduce demands for reform and to ensure mainstream acceptance of the new economic order in which traditional forms of welfare and the structural power of labour is eroding. The construction of this new order has been legitimated by the articulation and dissemination of new ideas and practices which ultimately are an attempt to co-opt and channel forces of civil society: “a tactic to legitimate the attenuation of democracy in economic policy by increasing participation in safely channeled areas.”³² The separation of political and economic is thus a crucial part of neoliberal hegemony, as it limits the role of civil society to dealing with matter peripheral to the significant structural changes which are occurring. Hence, the power of capital is not directly challenged or questioned but merely some of its negative aspects or outcomes.

An example of these new practices, which are an attempt to co-opt the forces of civil society, is recent discussion by the World Bank and IMF regarding the issue of conditionality. The Bank and Fund have claimed a desire to make conditionality more reflective of the needs of the debtor nation by involving civil society:

In the coming years, we will be working also to improve our policies related to conditionality, seeking to streamline it and make it as practical, straightforward, and as helpful to our members, as possible. In addition, we are working together to strengthen further our capacity to reach out

University Berlin, Berlin November 5 –6, 1999, and at the British International Studies Association, Annual meeting, University of Manchester, 20-22 December, 1999.

³² S. Gill, The Constitutions of Global Capitalism, presented at the conference: Feminist Perspectives on the Paradoxes of Globalization. Heinrich Böll Stiftung, UFA-Fabrik, Viktoriastr. 13-18, Berlin-Tempelhof. Organised by the Research Group on Globalization Sustainability and Gender, Dept. of Political Science, Free University Berlin, Berlin November 5 –6, 1999, and at the British International Studies Association, Annual meeting, University of Manchester, 20-22 December, 1999.

and listen to the various actors involved in development – particularly at the local level where communities are often impacted by our actions. Our institutions must do a better job of engaging civil society in the development dialogue – and we will work to ensure that they do so.

This statement reflects the strategy of the Bank/ Fund to allow developing countries to ‘own’ development policies and thereby accept responsibility for their own development. This would enhance the legitimacy of these policies and engender broad-based consensus and is again an attempt by the Bank to co-opt opposition and thus undermine genuine opposition, which is a vital mechanism by which the hegemony of global capital can be reproduced.

Underlying the public commitment of the Bank and IMF to poverty reduction is a desire to create a framework in which transparency and accountability in financial transactions enhance market stability and limit the occurrence of crises and in which a more favourable climate for capital is created through the reform of contractual arrangements of debt:

We need to step up the reforms that will help create a new stability and purpose in the international financial system: first, a new framework for better economic decision-making and crisis prevention, based on greater openness, transparency and increased surveillance; second, effective, speedy and decisive procedures for crisis resolution; and third, helping the poorest countries compete and engage in the global economy by creating the right conditions for trade and investment, improving the frameworks for poverty reduction and putting in place mechanisms for a decisive transfer of additional resources from the richest to the poorest countries.³³

The symbolic and ideological importance of the poverty discourse cannot be underestimated as it is a fundamental part of acquiring consensus for economic restructuring and more broadly, neoliberal policies. This consensus is based on acceptance of the neoliberal argument that the answer to poverty is not “to retreat from on but to advance economic reform and

³³ G. Brown, ‘Statement by Rt Hon Gordon Brown MP, Chancellor of the Exchequer, United Kingdom’, Washington DC, 20 April, 2002

social justice on a global scale - and to do so with more global co-operation not less, and with stronger, not weaker, international institutions.”³⁴

In addition to the apparent reconsideration of conditionality, the new poverty alleviation discourses were incorporated into the World Bank’s Comprehensive Development Framework (CDF) which articulated a development framework based on good governance; an effective system of property, contract, labour, bankruptcy, commercial codes; and provision of personal rights laws and other elements of a comprehensive legal system that is effectively, impartially and cleanly administered by a well-functioning, impartial and honest judicial and legal system. The CDF called on low-income countries to ensure transparency in the banking and finance sectors in order to ensure overall financial stability and to develop and strengthen capital as resources allow.³⁵ The CDF also noted the importance of social initiatives in the areas of health, education, population control, infrastructural investment, environmental protection, and rural and urban development. However, such initiatives were subordinate to the need to promote the interests of the capital and private sectors. In order to promote the private sector, States had to implement favourable trade policies; tax schemes; and effective competition and regulatory frameworks. Ultimately, economic growth depends on investor confidence of stability and within the parameters of CDF, all other considerations were subordinate to the creation of conditions which would engender such confidence.

The changes in World Bank and IMF rhetoric have led some to conclude the beginning of a ‘post-Washington consensus’ in which the most negative elements of the neoliberal policy initiatives of the Washington consensus are replaced with a greater concern for poverty reduction and good governance. However, it is arguable that, in terms of global social policy discourse, the IFIs have simply co-opted the language of civil society opposition-empowerment, participation, transparency and good governance and have “locked it inside a

³⁴ G. Brown, ‘Statement from the Rt Hon Gordon Brown MP to the IMF on Sunday 29 April 2001’, Washington DC, 2001

³⁵ J. Wolfensohn, ‘A Proposal For A Comprehensive Development Framework’, Memo to the Board, Management and Staff of the World Bank Group, 21 January, 1999 pp. 10-11

neoliberal economic paradigm”.³⁶ By using discourses of poverty reduction, good governance and empowerment, the IMF and World Bank can repackage the same neoliberal development agenda in such a way that they appear to be incorporating the interests of concerns of subordinate groups, a technique which is a vital part of hegemony.

If we consider Stiglitz’s articulation of an alternative development strategy, while it is clear that he is critical of certain aspects of the neoliberal project and the Washington consensus, particularly the role of the IMF in Asia and the ‘shock treatments’ in the post-Communist States, he does not really challenge the broader ideological matrix in which global neoliberalism is facilitated and legitimised. As Soederberg states, the post-Washington consensus, as described by Stiglitz, is a ‘third way Washington Consensus’ - an example of the auto-critical function of the intellectual bloc within a hegemonic project. Stiglitz, and other proponents of a post-Washington consensus, clearly remain within the structural and discursive framework of neoliberalism, their role restricted to adapting the universal principles promoted by neoliberals, into a more acceptable form. This supports the reproduction of neoliberal hegemony as it ensures that genuine alternative development strategies are subverted and neutralised.

The adoption of the language of civil society should not be seen as a weakening in neoliberal hegemony but rather, it is important to recognise that the co-option of some elements of civil society opposition has expanded the hegemonic role of the World Bank. While poverty reduction and good governance are important social objectives, the fact that they continue to be framed by open market neoliberal policies undermines claims of that the World Bank and IMF are increasingly sensitive to the flaws in such policies. As Bullard notes “The main interface between the Washington based institutions and the larger social movement takes place in the ‘policy dialogue’ between Bank official and mainly Northern non-government organisations. Many of the well-intentioned reform proposals coming out of this sector have been co-opted, distorted and manipulated by the Bank and the Fund... In their infinitely

³⁶ N. Bullard, Global social principles: Crossing the line between conditionality and hegemony, as reproduced at <http://www.gaspp.org/seminars/papers/pabullar.pdf>

Chameleon-like way, the institutions have transformed themselves to accommodate the latest trends.”³⁷

The important point to note in terms of the potential influence of a ‘post-Washington’ consensus is that arguably the co-option of some of the language of civil society has not meant any real or significant change in World Bank or IMF practice:

Despite the expressions of deep concern about poverty and the measurable change in the Bank’s rhetorical approach to development, there are many, especially those on the ground, who see that nothing has changed. They ask, good governance for whom? participation for whom? democracy for whom?... Participation and democracy is top-down, mandated and constrained within a neoliberal economic straitjacket.³⁸

The hegemonic importance of the World Bank and IMF should not be underestimated. Through disciplinary aspects such as conditionality and consent-building mechanisms such as the representation of neoliberal ideology as being in the general interest of humankind, and the co-option of opposition through new discourses, neoliberal hegemony is produced and reproduced. This ultimately means that the interests of capital are secured and prioritised over other considerations. It is within the context of the neoliberal economic paradigm that issues such as poverty alleviation and democratic empowerment must be considered.

³⁷ N. Bullard, Global social principles: Crossing the line between conditionality and hegemony, as reproduced at <http://www.gaspp.org/seminars/papers/pabullar.pdf>

³⁸ N. Bullard, Global social principles: Crossing the line between conditionality and hegemony, as reproduced at <http://www.gaspp.org/seminars/papers/pabullar.pdf>

Hegemony: Explorations into Consensus, Coercion and Culture

**A workshop at the University of Wollongong
14 &15 Feb 2005**

The World Bank and Neo-liberal Hegemony in Vietnam

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The World Bank and Neo-liberal Hegemony in Vietnam

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Most of the assessments of World Bank policy conclude that the shift from the “Washington Consensus” (1980-1996) to the “post-Washington Consensus” (1997-current) is more a shift in style than substance. In the terms of Antonio Gramsci, the shift could be described as short-term and non-structural rather than a long-term, structural shift in development ideology and practice, which form part of the current international hegemony, *pax Americana*.¹ This paper analyses the Bank’s lending program, via a case study of Vietnam, to further shed light on the nature of the post-Washington Consensus (PWC).

The paper commences with a brief analysis of the shift to the PWC that highlights both the continuities and discontinuities with the Washington Consensus. The new components can be traced to two main sources, first the theoretical impact of New Institutional Economics (NIE) on neoliberalism and second, an incorporation of a number of themes and ideas from Bank critics, in particular non-governmental organisations (NGOs). The paper then shifts its attention to World Bank operations in Vietnam in two periods — 1993-1997 and 2000-2004 corresponding to the Bank’s Washington Consensus and PWC phases. Starting with an analysis of shifts in the overall loan program in the two periods, I then look in detail at loans in two key areas — structural adjustment lending and the power sector.

From Washington Consensus to Post-Washington Consensus

During the early 1980s, the Bank, the IMF and the US Government developed a shared belief in a range of economic policies, derived from neoliberalism, which centred on commitment to macroeconomic stability, outward orientation and domestic liberalisation. John Williamson

¹ On this theme in Gramsci see Roger Simon, *Gramsci's Political Thought: An Introduction* (London: Lawrence & Wishart Ltd, 1991), p. 39. The *pax Americana* theme is drawn from the work of Robert Cox, see Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," in *Neorealism and Its Critics*, ed. R Keohane (New York: Columbia University Press, 1986). and Andreas Bieler and Adam David Morton, "A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations," *Capital & Class* 82 (2004).

labelled these commitments and policies ‘the Washington Consensus’ in 1990.² The term stuck and since then much has been written about it. The broad commitments were associated with a common set of policies prescriptions used by the World Bank and IMF as conditions for their loans. Despite the Bank’s own protests to the contrary, there is little doubt that the Washington Consensus dominated the Bank up until the mid-1990s.³

The policies were implemented often quite simplistically and with some single-mindedness during the mid-1980s, however, by the early 1990s at the latest, it is generally conceded that variations between countries and policies increased. Although the process of change in the World Bank was gradual, 1997 was a key year. The Bank released a controversial World Development Report indicating its shifting politico-economic commitments; the early reforms of James D. Wolfensohn (appointed as President in 1995) were being felt; and the Asian Financial Crisis again put the Bank under the spotlight. *The State in a Changing World: World Development Report 1997* is a key marker of the Bank’s “reinvention of liberalism.”⁴ The Report maintains the neoclassical commitments to markets but recognises the importance of state intervention “in defining the structure of market-mediated economic relations.”⁵ It is indicative theoretically of the impact of new institutional economics (NIE) on the Bank and, politically, of the Clinton Administration in the U.S.

NIE is central to many of the changes in Bank rhetoric and policy from 1997, thus it is worth outlining its key elements. NIE expands economist’s view of what constitutes market failures — to problems of externalities, increasing returns to scale and monopolies, NIE adds issues of

² Ben Fine, *Social Capital Versus Social Theory: Political Economy and Social Science at the Turn of the Millennium* (London: Routledge, 2001), p. 132.

³ See Paul Cammack, "Attacking the Poor," *New Left Review* 13 (2002), Michel Chossudovsky, *The Globalisation of Poverty : Impacts of IMF and World Bank Reforms* (London ; Atlantic Highlands, N.J. : Penang, Malaysia :: Zed Books ; TWN,, 1997), William Easterly. *The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998*. Washington: The World Bank, February 2001), Susan George and Fabrizio Sabelli, *Faith and Credit: The World Bank's Secular Empire* (London: Penguin Books, 1994), Bruce Rich, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994), Joseph Stiglitz, *Globalization and Its Discontents* (London: Penguin Books, 2002), Eric Toussaint, *Your Money or Your Life! The Tyranny of Global Finance*, trans. Raghu Krishnan and Vicki Briault Manus (London: Pluto Press, 1999), Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: *The East Asian Miracle* in Political Perspective," *New Left Review* 217 (1996), Veronika Wodsak, "World Bank Reform — a Critical Investigation: Change and Continuity in the World Bank's Approach to Development in the 1990s" (Master of Arts, Queen's University, 2002).

⁴ Mark T. Berger and Mark Beeson, "Lineages of Liberalism and Miracles of Modernisation: The World Bank, the East Asian Trajectory and the International Development Debate," *Third World Quarterly* 19, no. 3 (1998), p. 499. See also Wodsak, "World Bank Reform — a Critical Investigation", pp. 71-74.

⁵ Berger and Beeson, "Lineages of Liberalism and Miracles of Modernisation," p. 499.

information and transaction costs failures.⁶ The inclusions of these new dimensions leads to a picture of markets with extensive imperfections as opposed to the neoliberal view of perfectly working markets.⁷ As Douglass North states:

The new institutional economics is an attempt to incorporate a theory of institutions into economics. However, in contrast to the many earlier attempts to overturn or replace neo-classical theory, the new institutional economics *builds on, modifies and extends neo-classical theory* to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken.⁸

The new institutional economics does not question neoclassical economics' methodological individualism or the utility maximisation assumption, however it does reject its conception of instrumental rationality in favour of bounded rationality.⁹ It creates space to explain the existence of social structures and institutions via optimising individuals who create these "within and between market and non-market forms of organisation", and it allows institutions and non-market (i.e. social) factors a key role in mitigating market failure and thus improving the efficient functioning of markets.¹⁰

The second major source of change is the incorporation of themes and ideas of Bank critics, in particular NGOs. They have been particularly critical of the lack of local community participation in program design, implementation and evaluation and have publicised many examples of the results of the lack of local knowledge.¹¹ NGOs have also consistently argued for a greater focus on poverty reduction in development projects and have successfully demonstrated that some aid projects have left particular groups worse off. The success of NGOs in these two particular issues has resulted in the Bank engaging more with them but also adopting the language without the underlying commitments.¹²

⁶ The discussion here of new institutional economics is limited to those aspects that appear to have most impacted the World Bank. It has a broader research agenda including interest in: property rights, public choice, quantitative economic history and cognition.

⁷ Ben Fine, "Neither the Washington nor the Post-Washington Consensus: An Introduction," in *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus*, ed. Ben Fine, et al. (London: Routledge, 2003), pp. 4-5.

⁸ Douglass C. North, "The New Institutional Economics and Third World Development," in *The New Institutional Economics and Third World Development*, ed. John Harriss, et al. (London: Routledge, 1998), p. 17., emphasis added.

⁹ Fine, "Neither the Washington nor the Post-Washington Consensus," pp. 6-7, North, "The New Institutional Economics and Third World Development."

¹⁰ Fine, "Neither the Washington nor the Post-Washington Consensus," p. 9.

¹¹ See for example Structural Adjustment Participatory Review Initiative Network, (cited July 2004); available from <http://www.saprin.org/>.

¹² International Development Economics Associates (IDEAs), *The World Bank Engages Its Critics, and Backs Off, Book Review: Saprin (2004). Structural Adjustment: The Saprin Report, the Policy Roots of Economic*

In a longer paper, I have traced the shift of the Bank to the PWC in more detail via its major policy initiatives and reports. However, to briefly summarise, from the two key influences outlined above, the key differences that have led to the claim of a distinctive PWC are:

- A fundamental continuation of the neoliberal approach to monetary and fiscal policy, however, approaches to liberalisation, etc tend to be more cautious given concerns about market failure and applicability to local conditions.
- Following from above and the (supposed) abandonment of one-size-fits-all approaches to development, there should be greater attention to the specific country situation. This should include better developed socio-economic analysis of local conditions as well as consideration of global and regional impacts.
- An expansion of the role of state as a compliment to, rather than competition for, markets — in a weak form this only promotes a state that provides a good policy environment for business, in other words an active, pro-capitalist state.¹³ A further step would allow more space for state institutions to engage with market imperfections (information and transaction costs). A strong version would analyse actors and interests in the society and the distribution of power/resources between them as well as analysis of who wins and loses from policy proposals.¹⁴
- Increased concern with *market* failure to complement existing focus on government failure — this would be indicative of a stronger version of the PWC. Practical outcomes would include analysis of markets prior to promotion of privatisation.
- Increased attention to the sequencing of reform programs, in particular adequate regulatory frameworks relevant to local conditions prior to liberalisation.
- A greater concern for the social costs of adjustment and poverty in general.
- A seeming more genuine appreciation of local knowledge and practices tempered by a concern about coherence and coordination.¹⁵
- Expanded participation in the planning, design and implementation of activities, this needs to be considered both in terms of the type of participants involved (bilateral and multilateral organisation, levels of government, levels of civil society and the private sector) and the extent and nature of the participatory process.

Crisis, Poverty and Inequality. Zed Books London (2004 cited June 2004); available from <http://www.networkideas.org>.

¹³ Paul Cammack, "What the World Bank Means by Poverty Reduction" (paper presented at the Staying Poor: Chronic Poverty and Development Policy, IDPM, University of Manchester, 7-9 April 2003), p. 5.

¹⁴ Wodsak, "World Bank Reform — a Critical Investigation", p. 44.

¹⁵ *Ibid*, p. 91.

- Increased attention to decentralisation as a policy prescription for supposedly increasing participation, ensuring local needs are met and improving governance.
- A concern with and analysis of social capital —this extends to economists analysing social factors but not social scientists in the Bank analysing the economy and state.
- An increase concern with the role of information and education in development.
- A slightly broader approach to health and education.
- Interest in corruption understood as the result of government *and* market failure, thus transforming it from a political to an economic issue relevant to Bank programs.¹⁶
- A rejuvenated focus on property rights and institutions as NIE suggests they are essential to minimising transaction and information costs and thus to economic growth, they are a prerequisite to ‘getting the prices right’.¹⁷

This analysis draws on and confirms the analysis of scholars such as Ben Fine, who concludes that the PWC is, at core, a way of incorporating the “dissent against it neo-liberal predecessor” without fundamentally challenging its model and assumptions.¹⁸ Thus the Bank’s concern with social issues ultimately rests on their impact on “economic development or the functioning of markets.”¹⁹ All of this suggests that the term *post-Washington Consensus* is an appropriate description of the shift.

The paper turns now to an analysis of the World Bank program in Vietnam looking at two periods correlating to the Washington Consensus (1993-1997) and PWC (2000-2004) periods at the Bank. The case study commences by examining the overall Bank program, including its size and influence as a lender; the analysis underpinning its country program; and the sectors, sizes and types of loans. It then examines Bank specific loans in four sectors or areas — structural adjustment, power, water supply and sanitation and urban upgrading.

¹⁶ The Bank’s Articles of Agreement explicitly prohibits it from political activity (Article III, Section 5(b)).

¹⁷ North, "The New Institutional Economics and Third World Development," pp. 23-5.

¹⁸ Fine, *Social Capital Versus Social Theory*, p. 172. See also Fine, "Neither the Washington nor the Post-Washington Consensus.", Niels Hermes and Robert Lensink, "Changing the Conditions for Development Aid: A New Paradigm?," *Journal of Development Studies* 37, no. 6 (2001), Wodsak, "World Bank Reform — a Critical Investigation".

¹⁹ Wodsak, "World Bank Reform — a Critical Investigation", p. 98.

The World Bank Program in Vietnam

The World Bank is a very significant source of development funding for Vietnam.²⁰ Between 1993 (when it recommenced loans to Vietnam) and 2004 it committed just over USD \$5.125 billion to Vietnam. As a comparison, between 2000 and 2002, when the Bank lent significantly less than average at \$270 million per annum, it remained Vietnam's second largest provider of 'development assistance' behind Japan, who provided \$429 million per annum.²¹ Moreover, loans are planned to increase — the Bank's base case for loans for 2003–2006 is an average of \$581 million per annum. In 2003 the base case was met and in 2004, loans moved to the Bank's high scenario for lending (with loans totalling over \$744 million) — bringing the Bank to the top of the list of those providing development assistance.²²

However, the Bank's influence goes beyond the actual dollars it lends because of the key role it plays in 'donor' coordination. In Vietnam, this is an area the Bank has been active in, particularly after 1999 when Vietnam agreed to be part of the pilot Comprehensive Development Framework (CDF) process and the associated Poverty Reduction Strategy Paper (PRSP) process. Donor coordination includes the Bank coordinating other countries to focus on particular region or sectors and encouraging joint funding of loans. For example, the last structural adjustment loan, called Poverty Reduction Support Credit III, under which the Bank lent \$100 million, co-financing by others is estimated to total \$73 million. The Bank also plays a lead role in pushing a 'development' agenda. In Vietnam, a 2001 study by Irene Nørnlund confirmed this, noting however that for the most the response to the role of the Bank was positive as it was seen as having a "very open attitude in Vietnam."²³

²⁰ Figures are from OECD and World Bank sources. All figures are in USD.

²¹ Development assistance includes loans on concessionary terms (compared to market terms) as well as grants. To be included as development assistance, a loan must have concessionary component that can be very small, for example a longer grace period or rates half a percent below market rates.

²² The World Bank. *Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam*. 24621-VN, (September 16 2002). Note: the Bank provides three forecasts scenarios for the period of the CAS — low, base and high case. The figures quoted are the base case. The actual amount of loans in 2003 was \$518.35 million and in 2004, \$744.77 million.

²³ Irene Nørnlund. *Vietnam — a Country View of the Partnership Process*. July 2001).

The Country Assistance Strategy

There are references to a first CAS, dated September 1994, however despite requests I have not been able to obtain a copy. This may be because prior to 1998 the Bank tended to keep its country programming documents confidential (even from the recipient government). The first available *Vietnam: Country Assistance Strategy* (Vietnam CAS) is 1998-2002. The first Structural Adjustment Credit (SAC I) provided to Vietnam in 1994, does however, give some indications of earlier Bank priorities. Again available documentation is limited, however the “Program Information Document,” is very supportive of the program of reform that had already taken place in Vietnam, and indeed, in many respects it looks like the start of a Washington Consensus structural adjustment package — conservative monetary and fiscal policy combined with (some) price liberalisation to control the budget deficit and inflation and to ‘get the prices right’; currency devaluation and financial sector reforms; reforms to state enterprises; openness to foreign direct investment; de-collectivisation and property rights; limited and highly targeted social programs.²⁴ Conditionalities on the loan were focused in the areas of government budgeting, the program for state enterprise reform, the legal framework for property rights and commercial transactions and banking reforms.

It is also interesting to note that while SAC I praised the ‘ownership’ by the Government of Vietnam (GoV) of the program of reform (known in Vietnam as Doi Moi), the 1998-2002 CAS already notes the differences between the Bank and the GoV on the pace of reform, with the Bank urging a faster rate.²⁵ This issue frequently reappears in Bank documentation in the subsequent period, indeed I think it is not going too far to suggest that it is at the centre of Bank / GoV relations. The Bank’s overarching focus on pace is ultimately indicative too of the limited extent to which it has taken on board NIE warnings on the pace and timing of reform over the Washington Consensus concern with government failure.

On the positive side, the Bank and other key donors in Vietnam have supported an increased focus on poverty in Vietnam. Initially through the Poverty Working Group, established in 1999, much work has been done on participatory poverty assessment and living standards surveys. This has mostly been at the behest of donors, in particular the World Bank who

²⁴ The World Bank. *Viet Nam - Structural Adjustment Credit I Program Information Document*. PIC1073, (1994).

²⁵ The World Bank. *Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam*. 18375, (August 20 1998).

continue to lead the donor coordination program.²⁶ This process was linked to the development of a PRSP in 1999, which the government was required to produce if it wished to access structural adjustment lending. The initial interim-PRSP, released in mid-2000, drew on the results of the Poverty Working Group and in particular, a report it released in December 1999, *Attacking Poverty*. Although the interim-PRSP itself was produced quickly in order to maintain access to structural adjustment lending and involved little public participation.

The full PRSP was called the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and was released in May 2002.²⁷ It did involve significant consultation with various levels of government, local non-governmental organisations (NGOs), international NGOs and donors. An evaluation of the overall partnership process concluded that initially it had little impact on the GoV or the broader community but has progressed to becoming “a ‘second-track’ policy forum, paralleling government and party policy” with limited broader impact.²⁸

The 2003-2006 CAS claims to be based on the CPRGS and sets out three broad objectives derived from this:

- (i) High growth through a transition to a market economy;
- (ii) An equitable, socially inclusive, and sustainable pattern of growth; and
- (iii) Adoption of a modern public administration, legal and governance system.²⁹

Although these three themes do appear in the CPRGS, the report they are not indicative of its structure or priorities. Further, the Bank’s presentation of the themes differs subtly but significantly from the CPRGS, which, drawing from overall objectives in the Government’s Five Year Plan, aims to:

Bring about a significant improvement in the people’s material, cultural and spiritual life, lay the foundations for the country’s industrialization and modernization, build a prosperous people, strong country and a just, equal, democratic and civilized society, and establish the institutions of a *socialist-oriented* market economy...³⁰

²⁶ Nørlund. *Vietnam — a Country View of the Partnership Process*.

²⁷ Socialist Republic of Vietnam. *The Comprehensive Poverty Reduction and Growth Strategy*. Hanoi: May 2002).

²⁸ Irene Nørlund et al., *Dealing with the Donors* (2004 cited December 2004); available from <http://www.eurodad.org>.

²⁹ The World Bank. *Vietnam CAS 2003-2006*.

³⁰ Socialist Republic of Vietnam. *Comprehensive Poverty Reduction and Growth Strategy*. p.6, emphasis added.

The Bank's version ignores the *socialist*-orientation of the market economy and changes the 'people's material, cultural and spiritual life' into an 'equitable... *pattern of growth*.'

Although a kinder reading suggests a significant degree of openness on behalf of the Bank to support a program based on a socialist-oriented economy. In terms of public administration and the legal environment, the Bank's key descriptor is 'modern,' the CPRGS on the other hand refers variously to a fair, level, transparent and efficient system.³¹ 'Modern' is clearly a synonym for Western / liberal capitalist system, which translates into a lending program part of which assists in the design of key laws of a "market-driven economy" for example, land, gas and electricity laws.³²

After the introductory remarks, the CAS examines Vietnam's social, economic and political context. Despite the order of the title, social aspects receive little attention and account for only one paragraph of fourteen. Indeed, the limited space generally means the economic analysis is limited. The focus is on the need for a faster pace of policy reform connected to building a market economy. The short section on the medium-term outlook focuses on the (presumed) link between continued policy reform and economic growth. Monetary and fiscal policy analysis is limited but emphasises prudence and soundness, which fits with the analysis of the PWC as continuing the Washington Consensus approach to monetary and fiscal policy. There is also no consideration of the potential impacts of the external environment.

As indicated earlier, the lending program contains three scenarios of lending volumes — low, base and high. The actual outcome is linked only to the "pace of progress on the Government's policy and institutional agenda."³³ It is not linked to performance on poverty outcomes or to the potential impact on Vietnam of regional or global events. There is also no suggestion of alternative scenarios in the case that the economy and poverty do not respond to the proposed policy prescriptions.

The Overall Lending Program

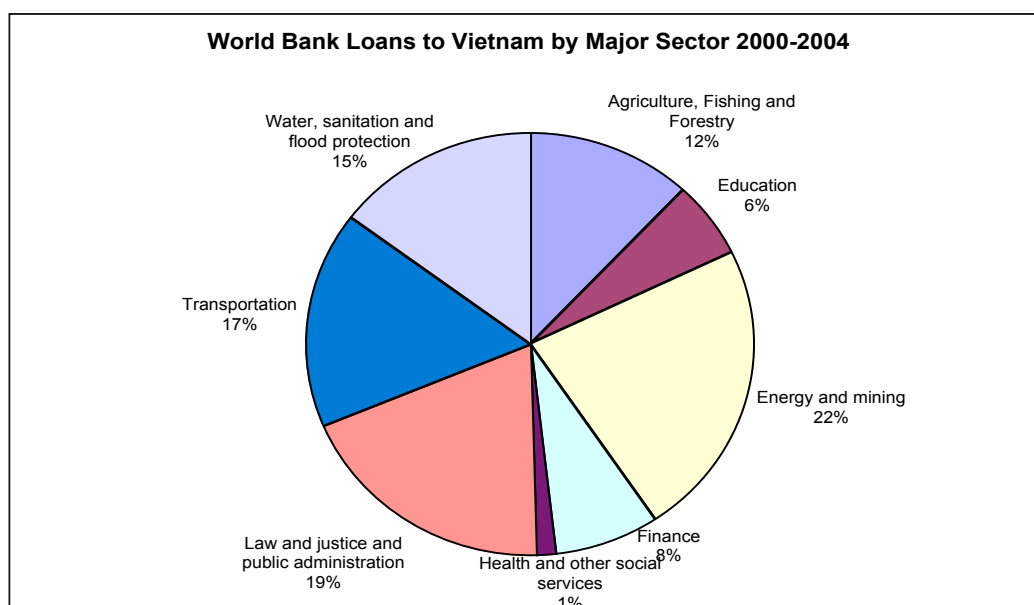
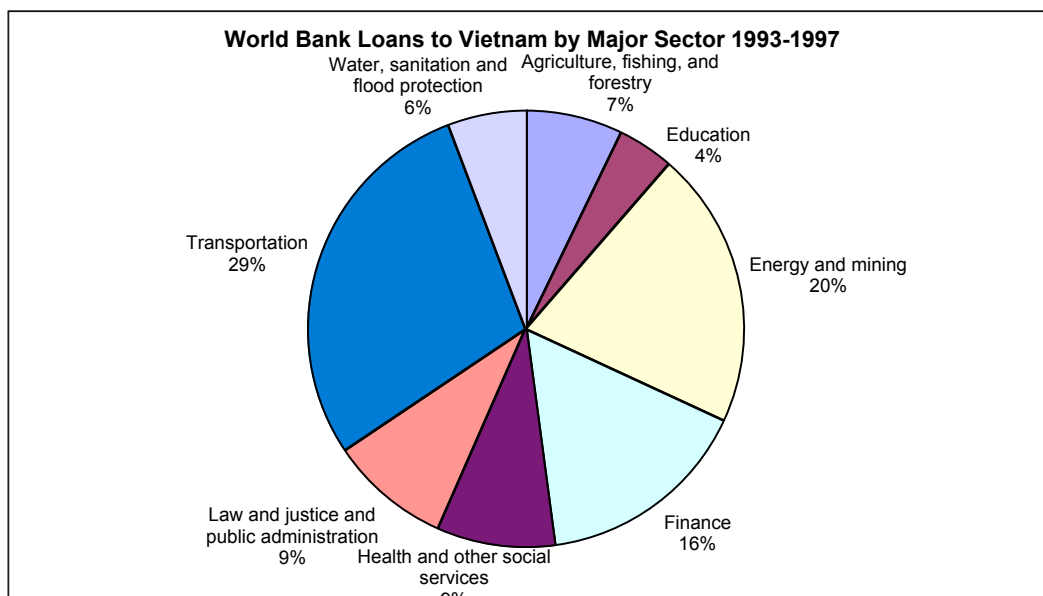
This section examines the evolution of Bank lending in terms of sectoral focus, types of loans and the size of loans in the two periods, 1993-1997 and 2000-2004. In 1993-1997, transportation and energy and mining were clearly the focus of Bank activities during its early

³¹ Ibid.

³² The World Bank. *Vietnam CAS 2003-2006*.

³³ Ibid.

lending (see chart), accounting for almost half of total lending. Transportation is comprised mainly of projects to rehabilitate highways and ports; energy and mining projects are predominately electricity generation, distribution and management; and finance is predominately banking reform projects. Health and education receive scant attention.³⁴



Data source: World Bank

In the 1998-2002 Vietnam CAS, the Bank indicates that its program will shift focus to poverty and social issues. Looking at the second chart, in terms of the relative focus on health

³⁴ Note that despite the focus on poverty reduction in the PWC, overall levels of lending for education, the environment and health have remained fairly stable since 1996 at a level lower than the first half of the 1990s and that social “sector lending has only increased marginally following the record low of 2.5% of Bank lending in 1996.” Wodsak, "World Bank Reform — a Critical Investigation", p. 90.

and education, that shift cannot be said to have occurred. The CAS also aimed to redirect lending to rural development. There are indications of some shift in such projects as the Northern Mountains Poverty Reduction Project and in sector projects, for example power, targeted to rural areas. Transport and energy (electricity) remain key sectors, though law, justice and public administration has now moved into second place. This focus was suggested by the analysis of the PWC, given its renewed emphasis on property rights and business and regulatory frameworks to reduce market and government failures.

Structural adjustment lending increased from almost nine per cent of lending in 1993-1997 to over 17 per cent in 2000-2004. This is substantially less than the current bank average of 33 per cent of lending.³⁵ Nevertheless, this is a substantial increase and most of the conditions attached to these loans are in the law, justice and public administration sector and to the privatisation of state owned enterprises (SOEs). This area will be further explored in the loans studies.

The Bank has been criticised for many decades for its focus on project quantity rather than quality, loan size is a key indicator of this. Gustav Ranis, for example, suggests that the fact that average Bank loans are still around \$100 million indicates the continuing “trade-off between the quantity and quality of lending.”³⁶ Vietnam does not deviate from the model. The average loan size shifted only slightly in the case study periods, in 1993-1997 it was \$105 million and in 2000-2004, \$125 million. The mean moved from \$100 million to \$110 million.

Poverty Reduction Support Credits

Vietnam has had only four structural adjustment credits, one in the 1993-1997 period and three (now called PRSCs) in the 2000-2004 period. There is again limited information available on the 1994 credit (as this was prior to the Bank’s change in disclosure policy). From the limited documentation, conditionalities seem to focus on three areas: regulation and competition policy; tax policy and administration; and debt management and fiscal sustainability. The documentation is supportive of the initial program of Doi Moi undertaken by the GoV and emphasises those aspects that fit within the Washington Consensus –

³⁵ See The World Bank, *The World Bank Annual Report 2003* (World Bank, 2003 cited July 2004); available from <http://www.worldbank.org/>.

³⁶Gustav Ranis, "The World Bank near the Turn of the Century," in *Global Development Fifty Years after Bretton Woods: Essays in Honour of Gerald K. Helleiner*, ed. Roy Culpeper, et al. (London: North South Institute / Macmillan Press, 1997), p. 86.

conservative monetary and fiscal policy, devaluation, price liberalisation, land use rights, foreign trade and investment, etc. It defines the objective of the credit as assisting transition to the market sector.³⁷ It does include a section on the social costs of adjustments but concludes the Bank should focus on a “broader” approach to aiding the vulnerable, meaning presumably a continuation of its traditional focus on economic growth.³⁸ There were no other Bank adjustment loans until 2001 as the Bank was unable to reach consensus with GoV about a program.³⁹ As a result, the Bank attempted to implement aspects of its structural reform program through sector programs as demonstrated in the case study of the power sector below.

There is a significant shift from PRSC I to II / II whereby the policy reform agenda is expanded significantly mostly in terms of incorporating social reform issues.⁴⁰ PRSC I covers reform in five areas: the private sector climate; SOE reform; banking reform; trade reform; and public expenditure management. From PRSC II the agenda is expanded to include health, education, land use and transferability, environmental sustainability, government planning and legal reform. However, the five sectors from PRSC I — which conform to the Washington Consensus agenda — continue to receive the most attention. Decentralisation and corruption appear in PRSC II and become more prominent in PRSC III.

The number and types of conditions changes over the loans too — PRSC I for \$250 million contains 24 conditions for the two tranches in the five sectors mentioned above. By PRSC II (\$100 million), conditions are dropped in favour of “policy actions”, 19 of which are required across twelve sectors, plus a list of 14 “triggers” for PRSC III is included. By PRSC III (\$100 million) only triggers remain — 15 of them. Conditionality is a controversial area for the Bank particularly in relation to structural adjustment loans.⁴¹ The Bank claims that triggers “are not conditions,” however their explanation of what they are suggests otherwise: “[p]rogress on most triggers and no backtracking on any of them leads in principle to the

³⁷ The World Bank. *Viet Nam - Structural Adjustment Credit I PID*.

³⁸ Ibid.

³⁹ The World Bank. *Vietnam - Country Assistance Evaluation*. 23288, (Operations Evaluation Department, November 21 2001).

⁴⁰ The World Bank. *Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Second Poverty Reduction Support Credit*. P-7584, (May 30 2003), The World Bank. *Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Third Poverty Reduction Support Credit*. 28916-VN, (May 25 2004), The World Bank. *Report and Recommendation on a Proposed Poverty Reduction Support Credit to the Socialist Republic of Vietnam*. P-7446-VN, (April 23 2001).

⁴¹ In late 2004, structural adjustment lending was also renamed to development policy lending.

preparation of the next PRSC operation...⁴² The triggers for PRSC IV include such specific actions as drafting new “Enterprise and Investment Laws in accordance with the Guiding Concepts and Principles date April 26, 2004.”⁴³ It is difficult to see this as other than a condition.

One of the most controversial aspects of the PRSCs is the requirement for “equitisation” of state-owned enterprises (SOEs). GoV describes “equitisation” as transforming the ownership of the mode of production which can take place through one of four methods: maintaining the existing state capital value and issuing shares to attract capital; selling part of the existing state capital value of the enterprise; selling part of the enterprise; and selling the entire state capital value of an enterprise and turning it into a joint stock company.⁴⁴ Although a study of the forms of equitisation has suggested that is increasingly little more than privatisation.⁴⁵ From 1992 to 2000, pilot equitisation of about 450 firms took place. PRSC I required equitisation of more than 450 firms prior to the release of the first tranche of funding (which was obviously already the case) and adoption of a five-year SOE reform program covering one-third of SOEs. The second tranche release included five conditions (of 12) on equitising SOEs: streamlining the equitisation process, completing equitisation of 200 major and 200 minor SOEs, equitisation of non-core assets of General Corporations and modification of a redundancy fund for equitising SOEs.⁴⁶ PRSC II and III continued the Bank’s equitisation push, PRSC III gives an overall aim of equitising, selling or liquidating around 2,400 SOEs from 2004-2006.⁴⁷

The actual pace of equitisation has been slower than envisaged by the Bank and this has been a significant source of tension between the Bank and the Government. The Bank was also concerned that smaller, less strategic enterprises were being equitised to meet targets. Thus, from PRSC II the Bank shifted from broad numerical targets to a program listing enterprises and the target dates for equitisation. Nevertheless, the pace has continued to be slower than the Bank would like. This is not surprising given first, the complexity of the process, which

⁴² The World Bank. *PRSC III*.

⁴³ Ibid. The Guiding Concepts and Principles document having been formulated under a World Bank grant attached to PRSC II.

⁴⁴ Mark Evans, "Embedding Market Reform through Statecraft - the Case of Equitization in Vietnam" (paper presented at the Workshop on Equitisation in Vietnam, Institute of Social Science, Ho Chi Minh City, October 2004), p. 6.

⁴⁵ Ibid, p. 1.

⁴⁶ The World Bank. *PRSC I*.

⁴⁷ The World Bank. *PRSC III*.

has stretched the administrative and regulatory capacity of the government; and second, the sensitivity of the process itself, in particular the “considerable labour retrenchment.”⁴⁸

In terms of the actual process, one of the big issues is valuation of enterprises and in particular land. To speed up the process, the Bank pushed that a requirement for an independent audit before equitisation was dropped, which was done. The experience of equitisation to date suggests that companies are not appropriately valuing assets, in particular land (an easy task given that the market for land is undeveloped to say the least). This enables managers to deliberately undervalue assets in order to gain control over the enterprise.⁴⁹ The lack of reliable information also makes it more difficult for workers, who receive priority access in purchasing shares, to make judgements about the value of the company. Given their limited knowledge of share owning in the first place (again the process includes nothing to address worker education), it is not surprising that one survey indicates that, at best, 55 per cent of worker’s are taking up shares and only 24 per cent are holding on to them.⁵⁰ The point of this is that the Bank’s continuing pressure on the Government to equitise SOEs, despite its own judgement that “insider privatization” is taking place, is indicative of its judgement regarding the importance of government and market failures.⁵¹ Clearly both NIE’s ‘lessons’ about market failure and pace and sequencing of reform and the experience in Vietnam to date is second to the Washington Consensus agenda on privatisation.

The Bank policy for redundant workers is also interesting. As part of PRSC I, the Bank negotiated additional support for redundant workers under a specially established fund for SOEs. The fund provides more generous assistance than in the Labor Code in the form of lump-sum compensation plus a six-month vocational retraining voucher. Other than the

⁴⁸ Ibid.. The World Bank’s own estimates are that from 2004-2006, 300,000 to 400,000 workers will be made redundant.

⁴⁹ Evans, "Embedding Market Reform through Statecraft", p. 13. See also Nguyễn lan Hồng B, "Labour's Mastery through Owning of Shares" (paper presented at the Workshop on Equitisation in Vietnam, Institute of Social Science, Ho Chi Minh City, October 2004), p. 4, Truong Thi Minh Sam and Bui Duc Hai, "An Overview of the Most Crucial Period of Equitization in Vietnam" (paper presented at the Workshop on Equitisation in Vietnam, Institute of Social Sciences, Ho Chi Minh City, October 2004), pp. 4-5.

⁵⁰ Hồng B, "Labour's Mastery through Owning of Shares", p. 1. The survey was only of a couple of enterprises. Most researchers believe that the overall rates of purchase and ongoing shareholding is less than this.

⁵¹ Quoted in Sam and Hai, "Overview of the Most Crucial Period of Equitization in Vietnam", p. 3. It is also notable that the Bank documentation I have read includes no analysis of the impact of equitisation on new capital investments — as the process will attract the capital that may have otherwise gone to such new investments. This would also impact the pace of new job formation in the private sector which the Bank’s analysis counts on the absorb those made redundant from equitisation.

voucher, this is a passive labour market policy.⁵² The Bank's review of this program regards it as a success but an independent review highlights a number of emerging problems particularly amongst vulnerable groups. Around 75 per cent of redundant workers are women and:

middle-aged women are having an extremely difficult time finding employment. Most are poorly educated, low skilled workers and self-employment is the only option for them. 59 per cent become small vendors, wage labourers in household businesses, housemaids, nannies, or pursue other forms of low paid work in the informal sector... Since the majority work in the informal sector, the vast majority (74 percent) do not have social welfare, such as annual leave, maternity leave, social insurance, or health insurance... their family's living standards decline dramatically as a consequence.⁵³

This survey also found that there are problems in the administration of the fund as over half of the retrenched workers had only received half the compensation owed to them a year after retrenchment.⁵⁴

The form and implementation of the redundancy package is indicative of a view of a limited role for the state in social issues. Contrast this to the Bank's view of the government's role in private sector development in Vietnam — in justifying the inclusion of the number of new private enterprises registered each month as a trigger, it is argued that “[e]ssentially private sector development is the combined outcome of policy actions in many areas, from financial sector reform to better governance and public administration.”⁵⁵ This is the PWC with a weak version of the role of the state, limited to promoting business.

The Power Sector

The World Bank has, since its first loan in the electricity sector in early 1995, had as its main goal, a fully privatised electricity sector. It has pursued this fairly explicitly in its six loans and one guarantee in the sector, numerous linked technical assistance grants and conditions in the PRSCs. There were two loans during 1993-1997 and three plus the guarantee during 2000-2004. The Bank's program in Vietnam is similar to that it has followed in other Asian countries — it started with the introduction of Independent Power Producers (IPPs) in the

⁵² Bui Duc Hai. *New Focus on Redundant Workers*. Ho Chi Minh City: Institute of Social Sciences, 2003), Sam and Hai, "Overview of the Most Crucial Period of Equitization in Vietnam".

⁵³ Evans, "Embedding Market Reform through Statecraft", p. 10.

⁵⁴ Ibid.

⁵⁵ The World Bank. *PRSC III*.

generation side of the industry.⁵⁶ The preconditions for the introduction were set by the 1995 Power Sector Rehabilitation and Expansion Project and the associated technical assistance grants which assisted the power sector move toward a more commercial structure including the unbundling of the generation, transmission and distribution functions. Conditions on the loan included the GoV reviewing with the Bank and then implementing the outcomes of studies (funded by the World Bank and ADB) on industry structure and legislative requirements, financial management and electricity tariffs.⁵⁷

The introduction of an IPP at the Phu My power generation complex outside Ho Chi Minh City was a condition of the 1996 Power Sector Development loan. The World Bank's Staff Appraisal Report hailed this development as a "breakthrough in the introduction of private power in Viet Nam."⁵⁸ The loan included funding for the development of the technical, commercial and legal structure of the IPP. The associated technical assistance grant aimed to create "a legal and regulatory framework for the power sector that would be conducive to private sector participation."⁵⁹

Moving to 2000-2004, the construction of Phu My 2-2 by foreign investors was assisted by a USD \$75 million guarantee from the World Bank; much of the other capital was sourced from the Asian Development Bank and Japan Bank for International Cooperation.⁶⁰ The Bank guarantee is, in turn, guaranteed by the GoV. Further, the state owned electricity company, EVN, signed contracts to purchase the power produced by Phu My 2-2 under a 20 year Power Purchase Agreement. In other words, the private investors assume virtually no risk for the project — the risk is transferred to the GoV and EVN who must continue to purchase power at a set price even if technological or other breakthroughs result in a significant decline in the costs of generation. This begs the question of why have private companies in the first place.⁶¹

⁵⁶ Sharon Beder, *Power Play: The Fight for Control of the World's Electricity* (Melbourne: Sage Publications, 2003), pp. 86-100.

⁵⁷ The World Bank. *Staff Appraisal Report: Viet Nam Power Sector Rehabilitation and Expansion Project*. 13586-VN, (April 14 1995).

⁵⁸ The World Bank. *Staff Appraisal Report: Viet Nam Power Development Project*. 14893-VN, (January 2 1996).

⁵⁹ Ibid.

⁶⁰ The World Bank. *Project Appraisal Document on a Proposed International Development Association Partial Risk Guarantee to Mekong Energy Company Ltd in the Social Republic of Vietnam*. 24692, (August 2002).

⁶¹ Phu My 2-2 was constructed by the Meco Energy Company Ltd — a consortium of EDF International, Sumitomo Corporation and Tokyo Electric Power Company (TEPCO). A quick search on the internet revealed the following information about these companies: EDF International is a wholly owned subsidiary of Electricite de France, a French public enterprise. It is the largest nuclear power station operator and has been watched by Greenpeace for years in relations to concerns regarding its storage of nuclear waste. EDF has been heavily

The Phu My 2-2 Guarantee is a powerful statement of the Bank's views on the relative importance of state and market failures. Further, given that the project was approved two years before the new National Electricity Law was passed by the National Assembly, it is also indicative of the concern with the pace and sequencing of reform when it conflicts with the ongoing privatisation agenda.

Two of the Bank's three loans during the 2000-2004 period were in rural electrification (RE) and have expanded access to power in rural areas via grid extensions and alternative energy sources. The expanded the access of rural households to energy should have a significant impact on living standards. There are however, a couple of catches in the loans, the first is that connection to the national grid, the largest part of the program, is only provided to communes that demonstrate adequate rates of return from the connection.⁶² The focus on poverty reduction in the project is clearly second place to economic growth. The second issue is the distribution model. In rural areas, EVN has not been historically responsible for electricity distribution, it has been undertaken by a variety of commune and district level enterprises. The RE projects are formalising this system of well over a thousand communal and provincial electricity distributors and providing them with funds to address their technical and managerial deficiencies. One of the conditions of the RE projects (and the third Bank project during this period) is the commercialisation and subsequent equitisation of the distributors (and the equitisation of EVN assets as well).⁶³ The public documents contain very little analysis of the technical and financial viability of these small operations across different parts of the country. Indeed, there is little mention in Bank documentation of problems with

subsidised by the French government for years but, according to *The Economist*, has nevertheless rarely been able to make a profit. Further, they consider it has "questionable accounting practices" and have made "imprudent use of funds set aside for nuclear decommissioning and waste-management." "A Very Big French Turn-Off — Electricite De France," *The Economist*, July 3 2004, p. 77. Sumitomo is part of the Japanese Sumitomo keiretsu, in 1998 it offered a settlement of USD \$150 million to the USA Commodity Futures Trading Commission in response to manipulation of copper trading in 1995/96. USA Commodity Futures Trading Commission, (cited November 2004); available from <http://www.cftc.gov/ogc>. In October 2002, TEPCO was shown to have falsified inspection data on leak rate during containment tests in its nuclear power station to the Japanese regulatory agency. It was also shown to have concealed damage in three of its power plants.

⁶² The World Bank. *Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Rural Energy Project*. 20351-VN, (May 1 2000), The World Bank. *Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Second Rural Energy Project*. 29860-VN, (October 21 2004).

⁶³ The other project is outlined in The World Bank. *Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a System Efficiency Improvement, Equitization and Renewables Project*. 24192-VN, (June 4 2002).

either the privatisation process generally or specifically of electrical utilities across the globe, from California and the UK to India and Brazil, despite the many different models utilised.⁶⁴

Another theme that runs across all of the loans in both periods is electricity tariffs. The Bank has consistently pursued the GoV to raise tariffs. The Government actually slowed the pace of increase in 2001 after concerns about the pace of economic growth following September 11 (and with the Asian Financial Crisis and some civil disturbances still a recent memory). The Bank responded by changing its performance rating on two loans from satisfactory to unsatisfactory. This was only lifted after the Bank and GoV agreed to a Tariff Implementation Plan in May 2002.⁶⁵ The number of conditions in relation to tariffs increased from two in each of the two loans in 1993-1997 to five, four and two in the three loans in 2000-2004. This suggests that the concern with 'getting the prices right' that was so central to the Washington Consensus continues and that it is not tempered by analysis of, or concern for, the social and economic impacts of such price adjustments.

There are two notable new concerns in the loans in the second period of study, namely decentralisation and participation. Decentralisation is a key policy prescription in all three loans in the second period. It is a policy that superficially responds to critics of the one-size-fits-all view of Bank programs and also is assumed to provide more local participation in decision-making.⁶⁶ However, as in Vedi Hadiz's analysis of decentralisation in Indonesia, decentralisation in the three loan projects a technical issue regarding the most efficient level to manage and administer electricity enterprises. There is no analysis of local political and power conditions to determine where and how grid extension should take place, rather decisions are based on the estimated economic rate of return.

Participation makes a welcome appearance in the three loans in 2000-2004, although its purposes are limited. Communities in RE project as consulted to "determine the need for electrification" in other words to assist in the assessment of the economic rates of return and to confirm that 60 per cent of the local population are willing to pay for the service. This supports Paul Cammack's argument that the Bank's vision of civil society participation is a

⁶⁴ For an insight into the range and depth of problems associated with electricity privatisation in a range of countries see Beder, *Power Play*.

⁶⁵ The World Bank. *Appraisal Document — Partial Risk Guarantee to Mekong Energy Company Ltd.*

⁶⁶ Vedi R. Hadiz, "Decentralization and Democracy in Indonesia: A Critique of Neo-Institutionalist Perspectives," *Development and Change* 35, no. 4 (2004), pp. 700-1.

deliberate strategy “to induce people to experience tightly controlled and carefully delimited forms of market-supporting activity as empowerment.”⁶⁷

From Washington to post-Washington Consensus: A Limited Impact on Lending

While not comprehensive, this analysis of the Bank’s lending program in Vietnam suggests that the impact of the PWC on lending has been more limited than on Bank policy documents and research output. There are some notable influences such as the expansion of the structural adjustment agenda, concessions to potential impact of activities on poverty, decentralisation, corruption and the renewed focus on public and legal administration. However, when the two agendas conflict, the priorities of the Washington Consensus prevail over PWC concerns with, for example, market failures, the pace and sequencing of reform and the role of the state. This is particularly the case in the key Washington Consensus items of privatisation and liberalisation. In these areas too, it is clear that the Bank’s agenda is not driven a concern for economic efficiency and performance but rather by a political agenda of systematically removing control from government in favour of private interests.

The positive changes that have occurred such as the increase (though limited) in participation and the Bank’s support of a higher percentage of the national budget going to education can be traced to the Clinton administration, NIE and the NGO challenge. However, returning to Gramsci, it is clear that the shift in development ideology and practice represented by the PWC is short-term and non-structural in nature. It reflects the Clinton administration’s somewhat more internationalist approach to *pax Americana* rather than a notable challenge to it.

Given the impending change in the Presidency of the World Bank, it is likely that we will look back at the Bank’s PWC years with something of nostalgia. The Bush Administration will not re-appoint (the Clinton appointed) James D. Wolfensohn.⁶⁸ The current trend in Bush appointments suggests we are likely to see an insider and the information coming from the

⁶⁷ Cammack, "What the World Bank Means by Poverty Reduction", p. 12.

⁶⁸ Under an informal agreement dating from the formation of the Bretton Woods’ institutions, the European’s appoint the head of the IMF and the US the head of the World Bank. Other nations have been pushing for an open selection process but the Europeans resisted continuing their approach of rotating key posts amongst EU nation by appointment of former Spanish Finance Minister Rodrigo de Rato to the IMF in June 2004.

Administration suggests a return to a stricter version of the Washington Consensus, tied more strictly to rewarding the 'right' policies and to funding of traditional Bank infrastructure projects. Many Bank staff, particularly those in the lending division of the Bank, will not be unhappy with this change.

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