IMF and the North-South Divide

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Abstract

The study examines the IMF and the North- South Divide. The enclave economy is a historically significant kind of dependence in which foreign money is invested in a third-world country to extract a certain raw commodity in a specific location — generally a mine, oil well, or plantation. The cycle of capital accumulation begins with foreign capital, continues with local resources, and ends with the sale of products on international markets. Except for providing employment to a few local employees in the enclave and paying taxes to the state, such an agreement leaves the country's economy virtually unaffected (or line the pockets of some state officials). It depletes the state's natural resources over time. The study shows that, apart from the obvious fact that the conditionalities of the IMF to the South violates the sovereignty of the borrowing states which is the South through interference in their domestic policies, the conditionality affects the poorest of the poor the most in the loan-recipient countries. In most cases, IMF conditionality results in abolition of subsidy for the poor. In extreme cases, conditions for loan undermine social welfare and call for down- sizing of bureaucracy and reduction in the quality of life. Additionally, IMF operations promote the capitalist model by influencing borrower-nations which is the South to engage in privatization of stat-run enterprises; in the reduction of barriers to trade and investment, and in the devaluation of currencies to increase exports and decrease imports. These policies only exacerbate crises, inequalities and global poverty index. Closely related to the above is that with the control of IMF by the Euro-American world, a new-colonial relationship is promoted and deepened between the North and the South.

Key Words: IMF, Conditionalities, North, South, Divide.

Introduction

The Bretton Woods system, which concentrated enormous economic and political power in the centre nations of the North, allowing them to assume a leadership role in the international economic system through manipulation of the activities of multinational corporations and international organisations such as the United Nations, was codified in the twentieth century (IMF). The framework of uneven ties between the North and the South fosters growth in the North while causing underdevelopment in the South. As a result, development and underdevelopment are two sides of the same coin, as well as stages in the same historical process (Daniel, 2020) Amin (2019).

This is the reason why the social relations amongst and between the nations of the world are full of, and characterized by, clichés, statements and comments which serve only diversionary functions. So, the North refers to the pockets of highly industrialized, capitalist and heavily technological driven countries of Western Europe, Japan and North America. It includes the Oecd Countries and the extension of Europe in Australia and New Zealand. They are found in the Northern Hemisphere or temperature region of our world and are made up about 1/3 of the world's population and land surface. The average per capita income of these capitalist enclaves range between 2000 and 2500 Dollars Per Head. They are conventionally referred to as the 1st world – having been liberated politically prior the 1st World War (Ekpe and Akpan, 2020).

On the other hand, the south refers to the rest of us except the now defunct communist countries of Eastern Europe, and China which is the 2nd world following the October 1917 Leninist led Bolshevik revolution. In International Political Economy, the south is called the 3rd World and in contemporary discourses, the Less Development Countries (Ldcs). Barring perhaps some Latin American countries, countries of the south are found in Africa, Asia and the Caribbean. It is in the Southern Hemisphere South of the Equator and it constitutes 2/3 of the world's population and land surface.

Ekpe and Akpan, (2020) further asserted that, the south, in most part, were once colonies or colonial territories of some of the countries of the rich north. Each country of the North regards parts or substantial parts of the south as its backyard and thus its extension

- As a source of raw materials
- As a dumping ground for its manufactured goods and up to the closing days of the 1950s
- As a place to export surplus labour

The south's colonial history, along with the north's hubris, arrogant pride, and imperial supremacy, has resulted in skewed cultural, political, and economic ties (I.e North & South) inspite of the National Sovereignty which much of the south attained in the 1960s. This warped relationship following the phenomena of what Samir Amin calls Unequal Exchange (2019) and Essoh's Social (2018) Inequality among Nations gave rise to the discourage that comes on the North-South Dialogue.

Lewis. and. Webb. (2019) purported that, the IMF conditionality is sore area of the institution. Apart from the obvious fact that the conditionality violates the sovereignty of the borrowing states which is the South through interference in their domestic policies, the conditionality affects the poorest of the poor the most in the loan-recipient countries. In most cases, IMF conditionality results in abolition of subsidy for the poor. In extreme cases, conditions for loan undermine social welfare and call for down- sizing of bureaucracy and reduction in the quality of life.

Theoretical Framework

Here, two theories applied to explain this work are the Neo bourgeois economic paradigm and development impossibility theory. The proponents of the Neo bourgeois economic paradigm see IMF as partners in development of South because they transfer foreign capital and technology to them and help to create jobs, pay high wages to workers and taxes to host governments and promote industrialization proponents of the Neo bourgeois economic paradigm conceal the stark reality of the issue at stake concerning the operations of IMF in the south. Proponents of the development impossibility theory debunk the argument of the Neo bourgeois economic paradigm as they see IMF as agents of underdevelopment because according to this theory, IMF occasion gross pillage of natural resources, net capital transfer from south countries to developed countries, super exploitation of labour, technological retardation, structural distortions, political instability, social disorder, death, corruption and ecological war in African countries. Based on these theories used here, the argument of this paper is that the effects of IMF on south countries are both bane and boon.

Methodology

To achieve success in this research, the researcher takes into consideration historical procedure of identifying specific problem of inquiry, critical analysis, synthesis and logical evaluation of verifiable data relevant to the topic for proper documentation and presentation of dependable account of historical reconstruction for the benefits of man both in the present the future.

Conceptual Clarification

The North. North refers to the pockets of highly industrialized, capitalist and heavily technological driven countries of Western Europe, Japan and North America. They are found in the Northern Hemisphere or temperature region of our world and are made up about 1/3 of the world's population and land surface

The South. The south refers to the less developed countries of the world, the south is called the 3rd World and in contemporary discourses, the Less Development Countries (Ldcs). Barring perhaps some Latin American countries, countries of the south are found in Africa, Asia and the Caribbean. It is in the Southern Hemisphere South of the Equator and it constitutes 2/3 of the world's population and land surface.

IMF. The International Monetary Fund (IMF) is a cooperative international monetary institution that now has 183 member countries. It was founded in 1945, with the World Bank, as part of the Bretton Woods conference, which was convened in the aftermath of World War II. The IMF's obligations stem from the institution's founding goals, as stated in Article I of the IMF Articles of Agreement—the charter that regulates all of the IMF's policies and activities:

Overview of the IMF as a Financial Institution

Role and Purposes of the IMF

The International Monetary Fund, according to Bordo and Eichengreen, Eds. (2019), is a cooperative international monetary institution whose members now comprise 183 nations from across the world. It was founded in 1945, with the World Bank, as part of the Bretton Woods conference, which was convened in the aftermath of World War II. The IMF's obligations stem from the institution's founding goals, as stated in Article I of the IMF Articles of Agreement—the charter that regulates all of the IMF's policies and activities:

- To encourage international cooperation by creating a permanent organisation that offers the infrastructure for international monetary dialogue and coordination.
- As major economic policy objectives, to promote the expansion and balanced growth of international commerce, therefore contributing to the promotion and preservation of high levels of employment and real income, as well as the development of productive resources of all members.
- To ensure orderly exchange arrangements among members and avoid competitive exchange depreciation by promoting exchange stability.

- Assist in the development of a multilateral payments system for current transactions between members, as well as the removal of foreign exchange limitations that stifle global trade growth.
- To instil trust in members by making the Fund's general resources temporarily accessible to them under sufficient safeguards, allowing countries to address balance-of-payments imbalances without resorting to actions that are harmful to national or international development.
- In accordance with the foregoing, to reduce the duration and severity of disequilibrium in members' international balances of payments.

According to Cornia, Jolly, and Sterwart (2020), the IMF provides funding to its members through three routes, all of which have the same goal of transferring reserve currency to member nations. Financing is given largely through "arrangements" with the IMF, which are comparable to lines of credit, in both its normal and concessional lending operations. The utilisation of these lines of credit is conditional on the borrower meeting agreed-upon economic stabilisation and structural reform goals with the IMF for the vast majority of IMF financing. By granting SDRs to members, the IMF can establish international reserve assets that can be used to purchase foreign exchange from other members. Although a market-based interest rate is paid, the use of SDRs is unconditional.

Concessional Financing

While impoverished nations reorganise their economies to boost growth and alleviate poverty, the IMF loans to them at a lower interest rate and for a longer payback period than nonconcessional IMF funding. The IMF also offers severely indebted developing nations with grant (no-cost) assistance to help them attain sustainable external debt situations. These activities are carried out in addition to the IMF's usual loan operations, with resources given voluntarily by members outside of their IMF capital subscriptions, as well as from the IMF's own resources. The IMF provides concessional assistance through two trusts: the Poverty Reduction and Growth Facility (PRGF) Trust and the PRGFHIPC Trust, both of which the IMF serves as Trustee (Eichengeen, 2018)

A cooperative effort comprising 94 nations is presently mobilising funding for the IMF's concessional loans and debt reduction. The majority of the principle for PRGF loans has been given by bilateral lenders at market-based interest rates. This loan principal is passed on at a reduced rate to PRGF-eligible borrowers. The IMF uses its own resources and bilateral contributions to make up the gap between the concessional interest rate paid by PRGF borrowers and the market-based rate obtained by PRGF lenders. The HIPC

Initiative's debt reduction is funded in part by donations from IMF members and the institution itself.

The PRGF structure calls for commitments to be made under the present PRGF Trust until late 2001 or early 2002, after which a four-year interim PRGF with a commitment capacity of roughly SDR 1 billion per year will be established. The continuance of concessional lending after 2005 will be funded by money accumulated in the PRGF Reserve Account as a result of earlier concessional loan repayments and investment returns on these funds. There would be no need for additional bilateral loan resources or subsidy contributions because the Reserve Account resources belong to the IMF. Because the PRGF is self-sustaining, it will be able to lend in perpetuity, making concessional financing a permanent part of the IMF's financial framework.

PRGF and HIPC resources are invested until they are needed, and the investment income is utilised to assist fulfil the PRGF and HIPC programmes' financial requirements. The IMF implemented a new investment strategy for the resources supporting these programmes in March 2000, with the goal of augmenting returns over time while maintaining appropriate risk limits.

Financial Organization and Operations of the IMF

- The debt problem in developing nations prompted a rapid rise in IMF support from 1981 to 1990, with larger amounts of assistance to individual countries, again financed in part with borrowed funds.
- From 1991 to 2000, the IMF established a temporary loan facility to help former centrally planned nations integrate into the global market system. The globalisation of financial markets also necessitated the adaptation of financing facilities designed for a world where large and sudden shifts in international capital flows resulted in payments imbalances originating in the capital account to a world where large and sudden shifts in international capital flows resulted in payments imbalances originating in the capital account.

Following a comprehensive review of its lending policies and facilities in 2000, the IMF made a number of significant adjustments in order to encourage early adoption of good economic policies as a method of averting crises and to limit the use of its resources for overly lengthy or large-scale purposes. In the future, the task will be to create and execute technologies to help members recognise financial problems early.

The majority of the above-mentioned developments were accommodated by policy adjustments in the IMF's regular loan operations, all while remaining inside the Bretton Woods financial system. This structure mirrored the IMF's primary goal of resolving short-term payment imbalances among member nations under the post-World War II fixed exchange rate regime. Due to the lack of integration of financial markets at the time, these payments imbalances resulted from trade and other current activities between countries. The General Department of the IMF, especially the General Resources Account, or GRA, is the financial instrument created to achieve this goal.

The GRA's finance system continues to operate in much the same way as it was intended. However, from early reliance on the United States and major European nations, the number of members providing resources for the IMF's financial operations has grown to include an ever-wider range of members whose balance of payments balances have become strong enough to sustain IMF financing. In mid-2001, 38 nations were using the GRA to fund IMF assistance. The nations borrowing from the IMF changed from mostly industrial countries in the IMF's first 25 years to developing and emerging market countries in the last 25 years as the group of IMF creditor countries grew.

The IMF is best recognised as a financial agency that lends money to member nations with temporary balance-of-payments problems in exchange for the borrower's commitment to implement economic adjustment measures to solve the problems. IMF financing has grown substantially in recent years as the organisation has played a key role in resolving a number of economic and financial crises in Asia, Latin America, and Europe. The IMF is also actively involved in supporting attempts to stabilise economies, undertake structural reforms, and attain sustainable external debt situations among its weaker countries by providing funding on concessional conditions. The larger environment in which this funding takes place, however, is frequently overlooked in popular perceptions of the IMF. The IMF is unique among international organisations in that it combines regulatory, advisory, and financial duties that stem from the institution's founding goals. The mission of the IMF and the informational functions that enable the fulfilment of its official responsibilities are outlined by Eichengreen, ed. (2020):

- The IMF has formal control over measures that restrict payments and transfers for current international transactions as part of its regulatory duties. Member nations must supply the IMF with any information and statistical data it considers essential for its operations, including the bare minimum required for the successful fulfilment of its responsibilities, as specified in the Articles of Agreement (Article VIII).

- Consultative functions come largely from the IMF's oversight of the international monetary system and strict surveillance of its members' actions, a duty given to the IMF when the Bretton Woods fixed exchange rate regime collapsed in the early 1970s.

2 Under Article IV of the Articles of Agreement, these activities include regular monitoring and peer review by other members of economic and financial developments and policies in each of its members, ongoing reviews of global economic and financial market developments, and semiannual consideration of the global economic outlook (Article IV).

- The IMF's financial functions are the focus of this booklet. They vary from providing short-term balance-of-payments funding and administering the SDR system to providing longer-term concessional credit and debt relief to the world's poorest people (Articles V and VI).
- Members' participation in the aforementioned three areas of IMF activities is mandatory, but service and supplemental informative roles are elective. These supporting functions include a comprehensive technical assistance programme that includes a wide range of statistical and non-statistical activities, including the collection and dissemination of economic and financial data on its member countries, reporting on country and global surveillance assessments, and disseminating policy and research findings. In many situations, the IMF is the most trustworthy and up-to-date source of economic data for specific countries. Members are increasingly asking the institution to create and monitor standards and best practises in a variety of sectors, including timely country economic and financial statistics, monetary and fiscal transparency, financial sector soundness evaluation, and the promotion of good governance.

As a result, the IMF is concerned not just with individual country concerns, but also with the overall operation of the international monetary system. Its operations are geared toward supporting policies and methods that allow its members to collaborate to maintain a stable global financial system and long-term economic prosperity. The IMF serves as a platform for international monetary cooperation and, as a result, for the system's orderly evolution, and it holds a wide range of international monetary issues to legal covenants, moral suasion, and understandings. The IMF must also be prepared to cope with crises that impact individual members as well as those that pose a danger to the international monetary system.

Decision-Making Structure of the IMF

The IMF has a Board of Governors, an Executive Board, a Managing Director, and a staff of over 3,000 people, which roughly matches its membership's diversity. The IMF's Board of Governors is the organization's highest policymaking body, consisting of one Governor and one Alternate selected by each member country.

The International Monetary and Financial Committee (IMFC) meets twice a year and is currently made up of 24 IMF Governors, ministers, or individuals of equivalent status (matching the makeup of the Executive Board and representing all IMF members). This committee advises and reports to the Board of Governors on the management and operation of the international monetary system, as well as recommendations from the Executive Board to alter the Articles of Agreement, and any abrupt disruptions that might undermine the system. The Development Committee, which has a similar composition, keeps track of the development process and reports to the World Bank and IMF Boards of Governors, as well as making recommendations on all areas of the broad subject of resource transfers to developing nations members. The Board of Governors, whose members are generally finance ministers, central bank presidents, or officials of equivalent status, meets once a year (Kindleberger, 2020)

The IMF Executive Board is in charge of running the organisation and exercising the responsibilities given to it by the Board of Governors. It is presently made up of 24 Executive Directors and is chaired by the Managing Director (or one of the three Deputy Managing Directors acting in the Managing Director's absence). The Executive Board appoints the Managing Director, who is the IMF's main operational officer. The Managing Director appoints the three Deputy Managing Directors with the Executive Board's consent (Kindleberger, C.P. 2020)

The number of votes a member can cast is proportional to the amount of its IMF quota. The five countries with the biggest quotas, as well as the two nations with the greatest creditor positions in the IMF, can each choose their Executive Directors in the two years leading up to an election if they are not among the five largest members. The remaining Directors are chosen from from the other member nations, which may form groupings or constituencies. A handful of key choices stipulated in the Articles of Agreement require either 70% or 85% of total voting power; other decisions are determined by a majority of votes cast (Kindleberger,. 2020).

IMF and the North-South Divide

Even through the IMF has done much to stabilize international trade and the exchange market, it has been heavily criticized by the south over the years for been a means through which the North has turn the South to it appendage through the conditionalities of their loans and grant that were not part of its design in 1944. The pattern of criticism ranges from voting to neo – colonial relationship and generation of poverty instead of wealth.

Krugman, and Obstefeld. (2019) posits that, for one, the IMF decisions are always taken by its Board of Directors which operates the institution on the basis of vote. Voting in extent, the US has over 17 percent of the votes. Under the wealth-weighted system, the US and about seven European nations and Japan control a majority of the IMF votes. Through this voting pattern, the position of the Director-General of the institution is always cornered by a European. Overall, these imply that unlike the states which control the IMF, the institution itself is highly undemocratic and indeed and instrument of domination by the Euro-American world. It is the voting strength of these few states that they use to shape the world after their national interest

Lewis. and. Webb. (2019) purported that, the IMF conditionality is another sore area of the institution. Apart from the obvious fact that the conditionality violates the sovereignty of the borrowing states which is the South through interference in their domestic policies, the conditionality affects the poorest of the poor the most in the loan-recipient countries. In most cases, IMF conditionality results in abolition of subsidy for the poor. In extreme cases, conditions for loan undermine social welfare and call for down- sizing of bureaucracy and reduction in the quality of life.

Additionally, it is argued that IMF operations promote the capitalist model by influencing borrower-nations which is the South to engage in privatization of stat-run enterprises; in the reduction of barriers to trade and investment, and in the devaluation of currencies to increase exports and decrease imports. These policies only exacerbate crises, inequalities and global poverty index (Rourke, 2008). Closely related to the above is that with the control of IMF by the Euro-American world, a new-colonial relationship is promoted and deepened between the North and the South.

All of these conditions harm the economies of the developing nations (South) through fiscal austerity measures and several stringent conditions that are counterproductive. In some countries, such conditions trigger strikes by workers, mass protest and economic sabotage, thereby destabilizing government. Typical example abounds. IMF policy of structural Adjustment Programme (SAP) led to series of riots in Ghana, Nigeria, Argentina

and Brazil. In some African countries, for example, SAP led to state paralysis and collapse of governments. Painting a graphic picture of the political impact of IMF inspired SAP in general, Alex Thompson (2004:188) notes:

> In the mid-1980s, an IMF condition for a SAP loan to Sierra Leone required the government to reduce rice subsidies. President Siaka Stevens told the International Monetary Fund (IMF) that it was urging his government to commit political suicide. He believed that if his administration was forced to raise prices on this key commodity, his government's already stretched credibility would completely crumble. In this regard, Stevens' remark emphasises that what is rational in terms of economic development is not always sensible in terms of political change. Most African governments had a tough time rallying support for the SAP changes among their citizens. Many people failed terribly at this duty, and as a result, they were removed from office. The issue was that structural adjustment posed a direct threat to Africa's political order. The state was central to the political process on this continent, more so than in other regions of the world.

Therefore, a key element of SAP has always been "rolling back" the state and the political consequences of this "roll back" were traumatic (Thompson. 2004).

However, a major defence of the IMF has always been couched in Shakespearean words: He who goes a borrowing goes a sorrowing.

JOHN Rourke (2004:427) has further explained the mind-set of the IMF in the following way.

> As for conditionality the IMF acknowledges that it demands often cause hardship. However, it contends that the essential reforms are required to address the issues that led to the borrower-financial country's difficulties in the first place, in order to avoid a cycle of crises and loans. Taking this view during Argentina's economic meltdown, the head of the IMF, argued that "without pain (Argentina's) won't get out of this crisis, and the crisis at its root – is homemade

Conclusion

On the issue that the IMF has constituted itself into an instrument to foster capitalism and economic internationalism on the world, the defence of the IMF would seem to be that "he who pays the piper dictates the tune

The situation experienced by the South in the area of Economy, Politics and Social disparity between the North and South has remained a sore point in international politics. The South believe that its underdevelopment is further champion by the IMF that is control by the North.

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