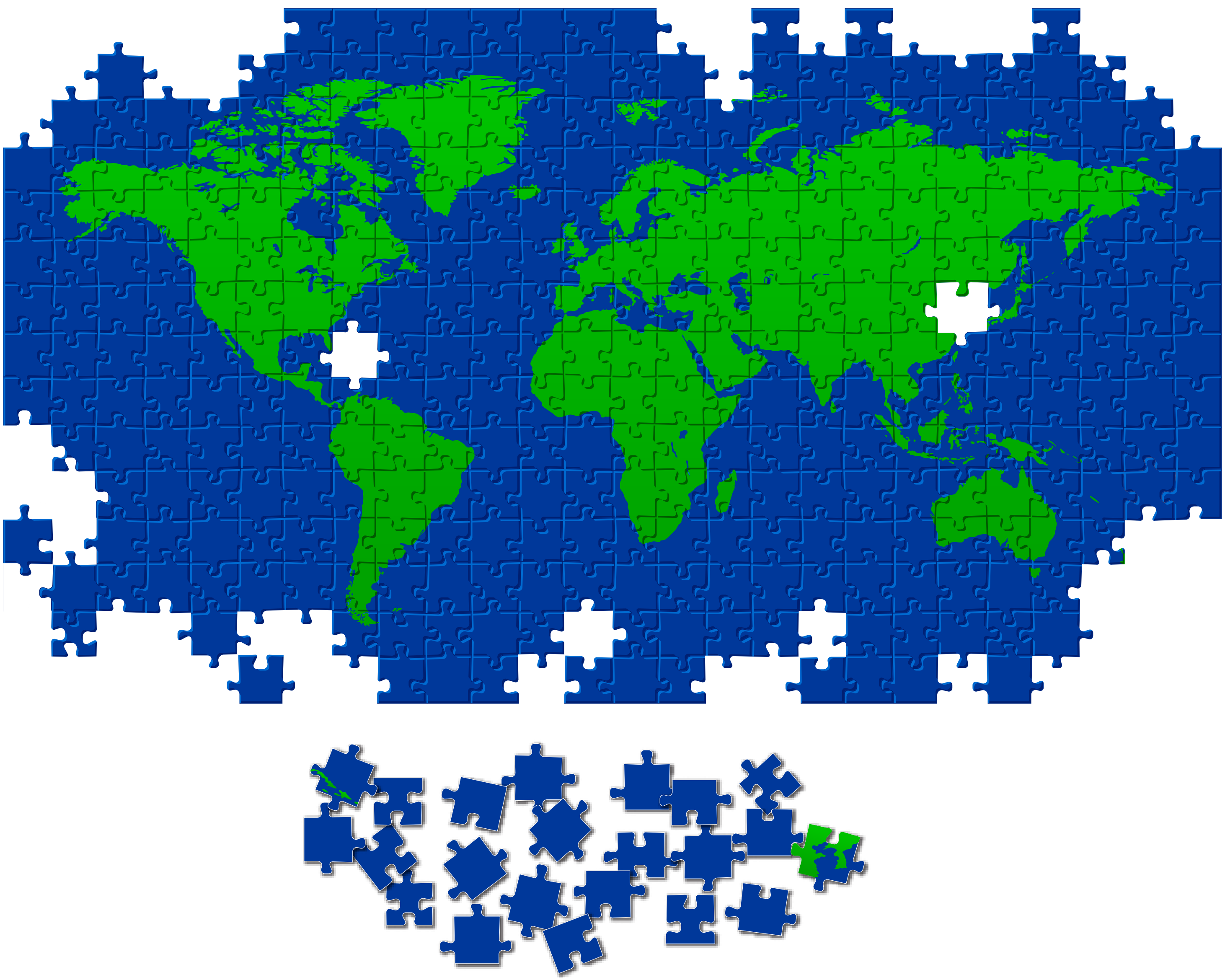
CIGI PAPERS

NO. 89 — FEBRUARY 2016

THE FINAL FEW
COMPLETING THE UNIVERSAL MEMBERSHIP OF THE IMF

JAMES M. BOUGHTON



THE FINAL FEW: COMPLETING THE UNIVERSAL MEMBERSHIP OF THE IMF

James M. Boughton

67 Erb Street West
Waterloo, Ontario N2L 6C2
Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org

TABLE OF CONTENTS

ABOUT THE GLOBAL ECONOMY PROGRAM

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China's role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

ABOUT THE AUTHOR

James M. Boughton is a CIGI senior fellow. He is a former historian of the IMF, a role he held from 1992 to 2012. From 2001 to 2010, he also served as assistant director in the Strategy, Policy, and Review Department at the IMF. From 1981 until he was appointed historian, he held various positions in the IMF's Research Department. Before joining the IMF, James was an economist in the Monetary Division at the Organisation for Economic Co-operation and Development in Paris and professor of economics at Indiana University.

James is the author of two volumes of IMF history: *Silent Revolution*, covering 1979–1989; and *Tearing Down Walls,* covering 1990–1999. His other publications include a textbook on money and banking, a book on the US Federal funds market, three books on IMF topics that he co-edited, and articles in professional journals on international finance, monetary theory and policy, international policy coordination and the history of economic thought.

EXECUTIVE SUMMARY

The International Monetary Fund (IMF) has 188 member countries. The United Nations has 193. The difference is not economically or politically trivial. Although none of the members missing from the IMF is a large country, two of the five are potentially important in their regions: Cuba and North Korea. What would it take to complete the process to have both countries included as IMF member countries? What are the obstacles to becoming members, and how can they be overcome?

For three years, 1997 to 2000, tentative moves toward membership for North Korea were encouraged by South Korea and were tolerated by most Western powers. The détente did not last, but the episode offers a model for a resumption of progress if conditions improve. Notably, the IMF could provide technical assistance and training, collect economic data and provide information on its membership requirements and obligations. Cuban membership faces additional hurdles because of US laws that were targeted specifically at the government of Fidel Castro. Moreover, to this date, neither country has applied to join the IMF. Because every other country in the world, aside from the very smallest and those not generally recognized as states, has joined the IMF, it is virtually certain that Cuba will apply eventually, as will North Korea, unless that prospect is preempted by reunification of the Korean Peninsula. When they do apply, a concerted political commitment will be needed to overcome the remaining technical obstacles.

INTRODUCTION

The founders of the IMF intended for it to be a universal institution, with membership open to all countries. Forty-four countries were invited to send delegations to Bretton Woods, New Hampshire, in July 1944, to help draft the Articles of Agreement and to become original members of the IMF. Those 44 constituted the "United and Associated Nations" that were allied in fighting the Axis countries in World War II. The largest among them were the Grand Alliance members: the United States, the United Kingdom, the Soviet Union and China. The intention was that other countries, including the "enemy states" in the soon-to-be-defeated Axis and the countries that would be "liberated" from Axis control, would be eligible to join in due course. The IMF and its institutional sibling, the World Bank,[1] would eventually become organizations with universal membership.

The first disappointment — and the one that led to most of the others — was that the Soviet Union (Union of the Soviet Socialist Republics [USSR]) declined to join. The Soviet delegation signed the Articles *ad referendum* at Bretton Woods, but at the end of 1945 — with the deadline for original membership looming — Joseph Stalin decided to stay out of an organization that was destined to be dominated by the United States. Four other countries also declined to become original members, although for different reasons: Australia, Haiti, Liberia and New Zealand. The initial membership comprised 40 countries.[2]

Since 1946, IMF membership has increased gradually — and occasionally in spurts — and now stands at 188 countries (Figure 1).[3] One spurt involved African countries in the wake of independence from colonialism. Only three African countries (Egypt, Ethiopia and South Africa) were original members. From 1957 (when newly independent Ghana joined) to 1990 (Namibia), all other African countries joined the IMF.[4] Another spurt came in the 1990s, in the wake of the dissolution of the Soviet Union. Although the USSR itself had not joined, all 15 of its successor states joined in quick succession, closing much of the gap between IMF and UN membership.

Today, the entire former Soviet bloc, including all of the former allies and satellites, are members, with two notable exceptions: the Republic of Cuba and the People's Republic of Korea (North Korea).[5] Both countries have shown occasional interest in becoming members, but the efforts have not yet come to fruition. The partial rapprochement in 2015 between Cuba and the United States has raised the possibility that at least one of the two missing countries might soon join the IMF. This paper examines that possibility, and reviews the potential obstacles in light of the history of IMF membership.

1 This paper focuses only on the IMF. Membership in the two organizations is identical, and Article II, Section 1, of the Articles of Agreement of the World Bank requires a country to be an IMF member as a condition for Bank membership.

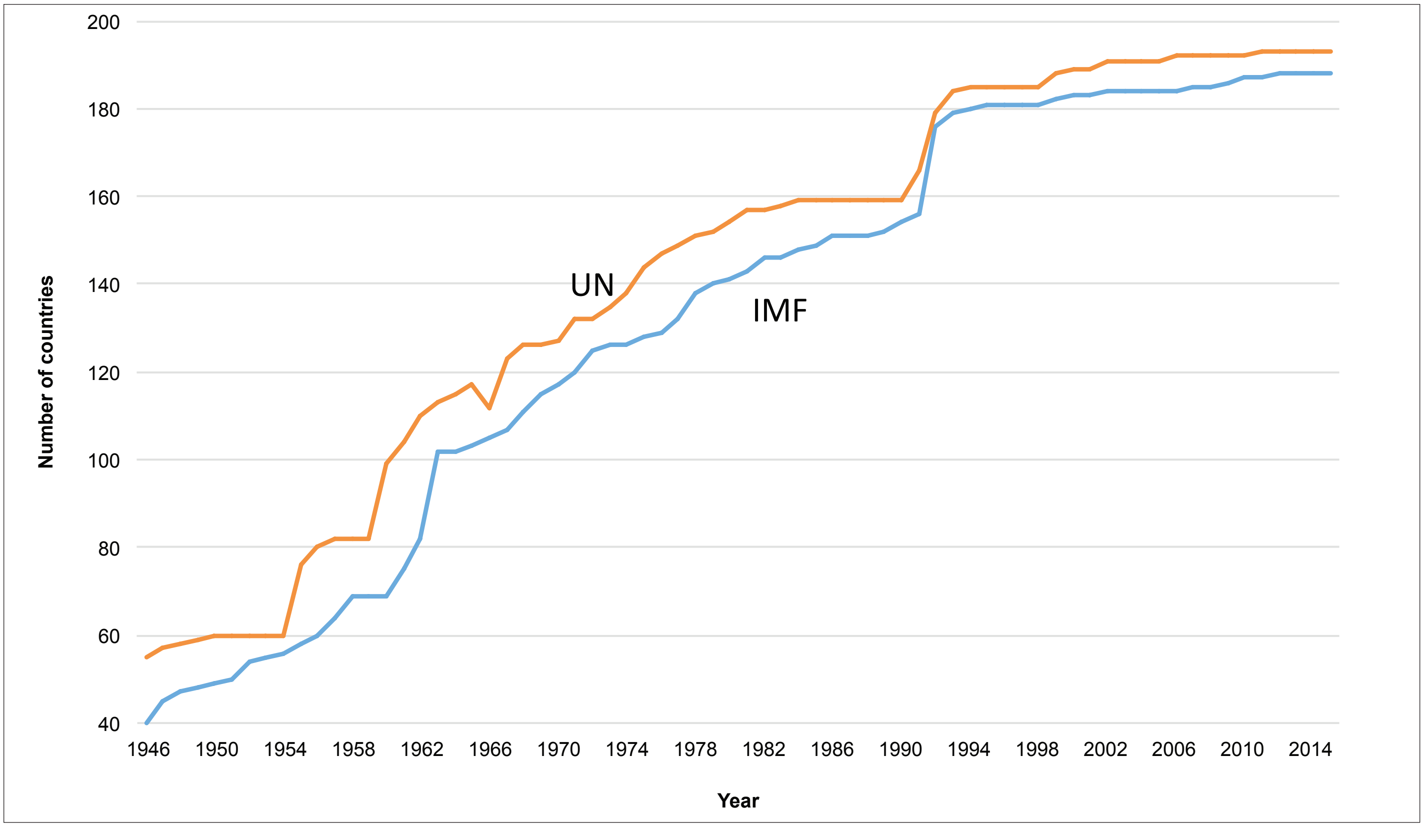
2 A forty-fifth country, Denmark, also had a presence at Bretton Woods in the form of two "observers" from the Danish Legation in Washington, DC. Because the allied nations did not fully recognize the Danish government-in-exile, it was not granted the status of a delegation. It was, however, allowed to join in 1946 as an original member.

3 The history of IMF membership up to the end of the twentieth century is recounted in Boughton (2001), Chapter 19, and Boughton (2012), Chapter 2.

4 In 1993, Eritrea split from Ethiopia and then joined the Fund, which added one more African member.

5 This discussion sets aside the case of Taiwan, which is not a member of the IMF, nor of the United Nations. Although an independent economy, Taiwan is not recognized diplomatically as a country, and the Taipei and Beijing governments both regard the island as an integral part of China and claim sovereignty over the whole territory. China's representation is discussed below.

Figure 1: Membership in the IMF and the United Nations, 1946–2015



Data sources: IMF and United Nations.

THE ROLE OF THE COLD WAR

The formal requirements for becoming a member of the IMF are technical and deceptively simple. Originally, membership was open to all countries that sent delegations to Bretton Woods. Once the institutions were operational, membership was "open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund" (Article II, Sec. 2).[6] The only formal requirements were that the government be "in full charge of its external affairs" and that it be capable of observing "all of the obligations of the Articles" (Gold 1969, 514).[7] A government desiring membership submits an application to the Fund via the managing director. The executive board considers the application and makes recommendations regarding the size of the quota subscription and other technical matters. If the executive board decides to proceed, then it forwards the application along with its recommendations to the board of governors.[8] A simple (weighted) majority vote by the governors is required to complete the process.[9]

In practice, membership decisions often are influenced by political considerations. Throughout the first 45 years of IMF history, the main political consideration was what was considered by many to be the nefarious effect of Soviet or other communist influence. In contrast, the divisiveness of World War II, although it had been a driving force behind the Bretton Woods conference, dissipated fairly quickly. Germany and Japan joined the IMF without controversy in 1952.

6 For the original IMF Articles of Agreement, see Horsefield (1969b, 185–214).

7 The executive board did not set out these requirements in a formal decision.

8 The board of governors, which generally meets once a year, is the highest governing body in the IMF. Each member country appoints a governor, often its finance minister or the head of its central bank. The 24-member executive board meets in continuous session as the resident decision-making body. Most member countries form constituencies to elect executive directors; the largest countries have their own directors. The managing director is the chief executive officer of the IMF and chairs the executive board.

9 Each IMF member has a number of votes determined by its quota, which is determined primarily by the size of its economy and of its international trade, plus a fixed number of "basic votes" that is identical for all countries. Because the number of basic votes is small, voting power is determined mostly by economic size except for very small states. The procedures for handling membership applications were set out in 1946 in Section 21 of the By-Laws and Rule D-1; see Horsefield (1969b, 286 and 290).

The leaders of the Soviet Union apparently intended to join when their delegates attended the Bretton Woods conference in 1944. In January of that year, the Soviet government accepted an invitation from the US administration to send a team of experts to Washington to discuss the draft Articles of Agreement for the Fund and the World Bank. Five officials plus an interpreter flew to Washington and spent the next three months in talks with their US counterparts — led by Harry Dexter White, a senior Treasury official — and then stayed for talks with other delegations.

For the Soviets, the object of those meetings was both to understand the proposal and to ensure that the institutions were designed to accommodate the peculiar features of the Soviet economy: central planning; bilateral trade and payments arrangements; and non-market pricing. Joining the Fund would potentially give access to credits, but not automatically, and would give the Soviet government access to information about the US and other economies. On the downside, membership would require the government to reveal to the world how weak the Soviet economy was at the end of the war. The balance between these considerations was not obvious, but White did his best to persuade the Soviets that it was in their interests to join. He personally felt very strongly that US-Soviet economic cooperation was critical to securing the peace, and that Soviet membership in the Bretton Woods institutions was essential for that cooperation to flower.[10]

White's diplomacy succeeded up to a point. At Bretton Woods, the Soviet delegation was satisfied with the outcome, and the head of the delegation — Mikhail S. Stepanov, the deputy minister of foreign trade — seconded the motion proposed by Britain's John Maynard Keynes to adopt the Articles as the Final Act of the conference. Along with all of the other 43 heads of delegations at Bretton Woods, Stepanov signed the Articles *ad referendum*. Soviet membership now depended only on the signature of Joseph Stalin as head of government, which was expected to be given before the ratification deadline at the end of December 1945. Although Stalin's advisers continued to recommend approval almost right up to the deadline, Stalin personally decided against joining an organization that would likely be dominated by the United States and its Western European allies.[11]

Throughout the Cold War, the absence of the Soviet Union and its allies meant that both the political leadership and the intellectual influence of the IMF was essentially capitalist. For its part, the Soviet Union formed and directed two overlapping groups of countries to act in opposition to the West: the Council for Mutual Economic Assistance (CMEA) and the Warsaw Pact for military cooperation. For a member of these groups to apply for membership in the IMF meant that it was seeking to be drawn more closely to the West, or at least that it would be drawn in if it hoped to participate in and benefit from its membership. Consequently, Soviet leaders looked warily at efforts to join the IMF, and Western leaders looked for assurances that applicants were ready. The IMF could not (and still cannot) act as an independent agency taking decisions only on technical grounds. In several instances, member countries, or countries applying for membership, were subjected to extra challenges because they were closely aligned to the Soviet Union through the CMEA and the Warsaw Pact.

Poland Leaves and Re-enters

Perhaps the clearest example of extra scrutiny occurred in the 1980s when Poland applied to rejoin the Fund after a 30-year hiatus. Poland was an original member of the IMF, but its interest in remaining a member waned after the Communist Party consolidated its power in 1948. Two years later, under pressure from Moscow, the Government of Poland declared that the IMF had become "a submissive instrument of the Government of the United States," and it withdrew from membership (Horsefield 1969a, 258). From 1957 on, successive Polish governments regretted that withdrawal and sought to rejoin. They were repeatedly rebuffed by the US government and were discouraged from applying by the Soviets. Consequently, they did not submit an application until November 1981. The government of Wojciech Jaruzelski was optimistic that its modest efforts to distance itself from Moscow and allow some public dissent would impress the Reagan administration in the United States enough to set US opposition aside, and that the potential for international financial support through the IMF would suffice to convince the Brezhnev government in Moscow to drop its objections. The latter hope was quickly dashed, and as soon as the Fund sent a staff team to Warsaw to begin discussions, Jaruzelski was forced by Moscow to declare martial law. The staff left as quickly as possible, and membership discussions were abandoned.

Once the security situation eased in Warsaw, the IMF could have resumed discussions, and the application could have proceeded normally. In fact, while secret talks between the staff and Polish officials did continue throughout 1982, political considerations intervened to prevent further action. The suppression of dissent and the caving in to Soviet demands outraged the Reagan administration. When Jaruzelski outlawed the popular Solidarity trade union movement in 1983, opposition in the United States and in some Western European countries hardened

10 For discussions of these negotiations and of White's interactions with Soviet officials, see Mikesell (1951, 2000); van Dormael (1978); Boughton (2002); and Boughton and Sandilands (2003).

11 See James and James (1994), which was based on previously unavailable archival documents.

further. The interesting question, though, is why the rest of the IMF membership declined to proceed.

The procedure for handling membership applications is set out in the IMF's Rule D-1, adopted by the executive board in September 1946 and amended in April 1978. The rule reads as follows:

> When a country applies for membership in the Fund, the application shall be placed promptly before the Executive Board, and a reasonable time shall be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. If this decision is in the affirmative the Fund may proceed to obtain all relevant information and discuss with the applicant any matters relating to its application. Any Executive Director may request such information to be added to the list requested of the applicant as in his opinion is relevant to the decision to be made. The Executive Board shall then decide whether to submit an application for membership with its views to the Board of Governors for a vote without meeting or hold the application until the next meeting of the Board of Governors.
>
> If the Executive Board decides not to proceed with its formal investigation of an application for membership, it shall report that decision to the Board of Governors with the reasons for the decision. (IMF 1946)[12]

In the case of Poland, IMF Managing Director Jacques de Larosière (1978–1986) seems to have interpreted "reasonable time" to mean whatever time it took for the political dispute to be resolved first. That delay could have been overruled by any of the IMF's executive directors (then numbering 22) under the terms of Rule C-6, which provides that the agenda for each meeting of the executive board "shall include any item requested by an Executive Director." No request to place the application on the agenda was ever made. Either Poland had no supporters in the IMF, which is unlikely, or no one wanted to force a decision on a matter that the United States deemed to be of national importance.

In 1984, Poland eased sanctions on Solidarity and released its political prisoners. That initiated a relaxation of tensions and a gradual resumption of discussions on possible terms for membership. Finally, in June 1986, four and a half years after submitting an application, Poland was allowed to rejoin the IMF.[13]

The other major Cold War cases were Czechoslovakia in 1954, Cuba in 1964 and Hungary in 1982.[14] In addition, some African countries — in particular, Mozambique (1984) and Angola (1989) — delayed joining the Fund until they moved at least partially away from the Soviet sphere of influence. China's representation in the Fund was also strongly affected by Cold War considerations.

Czechoslovakia Is Forced Out

Czechoslovakia, which participated in the Bretton Woods conference and became an original member of the IMF in 1945, is the only country that has been compelled to withdraw. The expressed basis for the Fund's action in 1954 was that the government had changed its exchange rate without consulting the Fund, as required by the Articles of Agreement, and that it had compounded the problem by refusing to provide the data that the Fund would need in order to assess whether the new exchange rate was economically appropriate. The back story was that ever since a Stalinist government had taken power in 1948, Czechoslovakia's willingness to cooperate with the IMF had declined sharply. By 1954, the only question was whether the country would withdraw voluntarily or be forced out. The Fund acted quickly and thus made the point that it was serious and capable of enforcing its rules.[15] Despite the acrimony, Czech authorities continued to cooperate with the IMF, and they repaid their loans in full over the next six years after their membership ended.

The Prague Spring of 1968 did not last long enough to change the status quo regarding the IMF, but Czechoslovakia did finally reapply for membership in January 1990, immediately after the success of the Velvet Revolution. As the restoration of democracy in Prague was being hailed internationally, that application was approved without controversy. Two years later, the peaceful split between the Czech Republic and Slovakia resulted in both

12 A 1978 amendment to the rule clarified the procedure in the first sentence, and it added the second paragraph. The original first sentence read, "When a country applies for membership in the Fund, and the application is placed before the Executive Board, the Chairman shall announce a reasonable time to be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with a formal investigation" (Horsefield 1969b, 290). The amendment also replaced the anachronistic phrase "for a telegraphic vote" with "for a vote without meeting."

13 For further details, see Boughton (2001, 986–91).

14 Two other countries in the Soviet orbit — Romania and Yugoslavia — had enough independence in economics and foreign policy that they were able to join and participate with less controversy. Romania, which joined the IMF in 1972, refused access by Soviet troops on its territory and was relatively independent. Yugoslavia was an original member of the IMF and remained in until the country dissolved in 1992. Yugoslavia was only an associate member of the CMEA and was not part of the Warsaw Pact.

15 After the IMF terminated Czechoslovakia's membership, it refused to accept an *ex post* request from Czechoslovakia to withdraw voluntarily. For the full story, see Horsefield (1969a, 359–64).

of those two new countries becoming successor states in the IMF (Boughton 2012, 51–56).

Cuba Withdraws

Cuba also was an original member of the IMF, having been represented at Bretton Woods by a delegation from the government of Fulgencia Batista, a close ally of the United States. It was involved in much of the preliminary planning as early as 1941, and it worked together (but unsuccessfully) with other Latin American countries to try to establish a monetary role for silver alongside that of gold. More successfully, Cuba worked to establish greater voting rights for small states and to secure a special status for Latin American states on the IMF executive board.

Batista's term in office ended soon after the conference, but his successors led Cuba into the Fund and continued until Batista returned via a military coup in 1952. In 1954, Cuba became just the tenth country to accept the full obligations of the Fund's Article VIII, eschewing the use of exchange restrictions on international trade. It made routine borrowings from the Fund in 1956, which it repaid the following year. Then the trouble began.

In 1958, while the Batista government was being besieged by rebel forces led by Fidel Castro, it borrowed a small amount of money (US$25 million, equivalent to 50 percent of Cuba's quota) that was due to be repaid within three months. When Castro's forces won control in January 1959, that loan was still outstanding. The IMF repeatedly granted repayment extensions to the Castro government, but by late 1962, the Fund was running short on options.

The IMF's standard policies at the time required loans to be repaid within five years, unless "unforeseen circumstances" made it "unreasonable" for the country to do so.[16] Cuba clearly had been hit by such unforeseen circumstances, in the form of a trade embargo and asset freeze imposed by the US government in 1960, the Bay of Pigs invasion in 1961 and the Cuban Missile Crisis of 1962. Nonetheless, in November 1962, IMF Managing Director Per Jacobsson, with the approval of the executive board, refused Cuba's request for a further postponement.[17]

After 18 months of further unsuccessful negotiations, during which time Cuba refused to provide data and other information requested by the IMF, the Fund was prepared to initiate procedures that could have led to compulsory withdrawal. To forestall that course of action, Cuba withdrew voluntarily in April 1964 while simultaneously signalling its willingness to repay the amount due on the loan on rescheduled terms. The Fund agreed to reschedule the loan with repayment amortized over a further five years at a sharply reduced interest rate (two percent instead of six percent). Cuba accepted and met those terms, and — like Czechoslovakia in the previous decade — it settled its accounts in full by January 1969.[18]

Hungary Joins

During World War II, Hungary was allied with Germany in the Axis. It therefore was not invited to the Bretton Woods conference and was not eligible to become an original member of the IMF. After the war, the victorious allies established a provisional government, but within two years the Communist Party consolidated its power. During that brief transitional period, the provisional government sought to become a member of the IMF.

The IMF Articles of Agreement give the existing membership the right to accept or reject a country's application to join it. When Hungary applied in 1946, a senior IMF official — Ernest D. Selliers, alternate executive director for Belgium — informed the government that "the entry of Hungary in the International Monetary Fund is a question which would have to be cleared with the Foreign Offices and the Ministries of the member countries." Therefore it was up to Hungary to establish some political support on its own before the IMF could consider its application.[19]

In the first weeks of 1948, following several months of increasingly authoritarian attacks on democracy in Hungary, the US State Department informed the Hungarian government that it would not support its membership application.[20] That sufficed to put the process on hold. After the Communist Party took complete control in 1949, a renewal of the application would have been hopeless. Despite the aspirations for openness evidenced by the uprising of 1956, Hungary made no further attempt to join during the next 17 years.

16 This policy, known as the "Rooth Plan," after IMF Managing Director Ivar Rooth (1951–1956), was adopted by Executive Board Decision No. 102-(52/11), February 13, 1952.

17 For the detailed story of the impasse with Cuba, see Horsefield (1969a, 548–50).

18 Half of the loan (US$12.5 million) was a drawing on Cuba's "gold tranche," the amount that Cuba had deposited with the Fund as the hard-currency portion (25 percent) of its membership subscription. On withdrawal from membership, Cuba was entitled to be reimbursed for the full amount of its subscription (US$50 million), but in its own currency rather than in gold or US dollars. Therefore, it had to repay the full US$25 million in gold or dollars. The terms of the settlement were set out in IMF documents, "Cuba—Settlement of Accounts," EBS/64/66 (April 22, 1964) and Supplement 1 (June 10, 1964). Those and other relevant documents are accessible from the IMF archives at http://archivescatalog.imf.org/default.aspx.

19 Letter from Selliers to A. Szasz (Economic Advisor, Legation of Hungary in Washington), October 17, 1946; in the IMF archives, C/Hungary/710, "Application for Membership."

20 Memorandum from Roman L. Horne to V. Frank Coe (Assistant Secretary and Secretary of the IMF, respectively), February 4, 1948; in the IMF archives, C/Hungary/710, "Application for Membership."

Beginning in 1966, as the government was preparing to initiate a program of outward-looking economic reforms, Hungarian officials met on numerous occasions with counterparts from the IMF to explore possibilities for joining the membership. The dominant obstacle was opposition from the Soviet Union. As long as Moscow was opposed, Hungary dared not take any overt steps toward greater integration with the West. US opposition probably would have thwarted them anyway, but that barrier was never tested until the 1980s.

In 1981, the Hungarian government decided that the time had come. The successful introduction of a bold economic reform program in 1978 had softened Western opposition; a weakening of the Soviet economy associated with falling oil prices and the disastrous after-effects of the invasion of Afghanistan meant that Soviet opposition was less to be feared; and a worsening debt crisis at home was increasing the urgency of obtaining international financial support. Hungary submitted an application to the IMF in November, and the process proceeded smoothly. Hungary became a member of the IMF in May 1982.

China Changes Hands

At the Bretton Woods conference in 1944, the Republic of China (ROC) participated as a key member of the Grand Alliance under the leadership of Chiang Kai-shek. Its delegation had key roles at the conference, and the country became an original member with the third-largest quota (after the United States and the United Kingdom).[21] China's quota, in recognition of the country's role in the war against Japan, was much larger than would have been warranted by the size of its economy.[22]

In 1949, the ROC government was defeated by Communist forces led by Mao Zedong. Mao established the People's Republic of China (PRoC) on the mainland, and the ROC took up residence on Taiwan. Most large countries considered the ROC to be the legitimate government, even though it controlled no territory in mainland China. The ROC continued to represent China in the IMF and the United Nations.

The disconnect between the international position on China and the facts on the ground necessitated a lengthy gradual adjustment in China's position in the IMF. From 1950 to 1971, the ROC continued to participate but with a low profile. It never received a quota increase; by 1971, its quota was down from the third largest to the twelfth. Consequently, China could no longer appoint an executive director, and it had to draw on the support of several small countries to elect a director jointly. This form of cooperation was jolted in 1971 when the UN General Assembly voted to recognize the PRoC as the legitimate representative in the United Nations. That action had no direct effect on the IMF, which functions as an independent specialized agency of the United Nations, but it did make the continued presence of the ROC even more awkward.

In March 1972, representatives of the ROC informed the IMF that they were considering withdrawing from membership and then reapplying as the government only of Taiwan.[23] That would have paved the way for the PRoC to apply as the government of China, although Mao might well have continued to insist that the ROC be barred from any form of membership. In any event, the ROC soon dropped the two-China option and agreed merely to further reduce its status. Soon afterward, the three countries that had been part of China's constituency on the executive board — the Philippines, the Republic of [South] Korea, and [South] Vietnam — moved to a new constituency headed by Indonesia. That left China off the executive board altogether.[24]

For nearly nine years, from October 1971 to May 1980, China was represented by the PRoC in the United Nations and by the ROC in the IMF. As time went on, opposition to completing the shift to Beijing diminished, but the process was short-circuited by a political standoff that may have been nothing more than a misunderstanding. Under the IMF's rules, because China was already a member, all that was needed was for the executive board to take a simple decision to recognize a different government as being in charge of the country. The government in Beijing, however, insisted for years that it could not discuss membership until the IMF first expelled the government in Taiwan. That would have meant terminating China's membership altogether, which neither the IMF nor the ROC was willing to do.[25]

In December 1978, US President Jimmy Carter announced that the United States was granting full diplomatic recognition to the PRoC and ending its recognition of the ROC. At the same time, China's leader, Deng Xiaoping,

21 The Soviet Union would have had the third-largest quota if it had joined; China then would have been fourth. The next two largest were France and India.

22 Raymond Mikesell, a US Treasury economist who was in charge of devising a mathematical formula for determining quotas, recalled 50 years later that White had asked him to ensure that China would get a quota "somewhat less" than the Soviet Union, which would be in third place. He confessed "to having exercised a certain amount of freedom" in estimating national income levels "in order to achieve the predetermined quotas." See Mikesell (1994, 22).

23 Memoranda for files by Joseph Gold (general counsel) and Frank A. Southard, Jr. (deputy managing director), February 3, 1972, and March 14, 1972, respectively; in the IMF archives, C/China/000 "Status of China in the Fund."

24 With no formal representation in the IMF from 1972 to 1980, the ROC dealt with the Fund primarily through its embassy (which eventually was downgraded to a representative office) in Washington.

25 That issue was complicated by the financial obligations of membership; see Boughton (2001, 977-78).

initiated a program of broad economic reforms. As would soon occur in Hungary and Poland, the combination of a softening of political tensions and tentative economic progress enabled talks to begin and led before long to an acceptance of representation in the IMF — the executive board so decided in May 1980. China remained in as an original member, but it was henceforth represented by the government in Beijing.[26]

AFTER THE COLD WAR

The dissolution of the Soviet Union in December 1991 ended the Cold War and gave rise to a new era of economic cooperation between longstanding adversaries. The groundwork was already underway.

After Mikhail Gorbachev took power in Moscow in 1985, occasional contacts took place quietly between Soviet and IMF officials, in Washington, Moscow, Budapest and other capitals. In 1990, Gorbachev wrote to US President George H. W. Bush, taking note of those fruitful contacts and proposing greater cooperation and deeper economic reforms.[27] Following a positive response from Bush, the IMF convened a multiagency task force to conduct the first major outside study of the Soviet economy, with the full cooperation of the Soviet Union (IMF et al. 1990, 1991). By then, however, the Soviet economy was crumbling, and the Bush administration and other Western leaders saw little reason to help it recover. They rebuffed an attempt by Gorbachev's domestic and Western advisers to assemble a "Grand Bargain," under which the Soviets would undertake more market-oriented reforms in exchange for substantial economic assistance from the West (Allison and Yavlinsky 1991). They also rejected a request from Gorbachev to join the IMF and the World Bank, but offered an unprecedented "special association" with the IMF as a consolation prize. The Soviet Union collapsed before that process could be completed.

By September 1992, all but one of the 15 states emerging from the Soviet cosmos had joined the IMF, along with all of the satellite countries that had held back (or had been held back) because of their affiliation with the Soviets. Tajikistan completed the process in April 1993. The economic and political aspirations of the new members ranged from those that wanted to become part of the European Union as quickly as possible (Estonia, Latvia and Lithuania, all of which joined the European Union in 2004 along with the Czech Republic, Hungary, Poland, Slovakia and others) to those that remained totalitarian and preferred to stay in the Russian orbit (notably Belarus; to a lesser extent, Tajikistan). Nonetheless, all of them worked with the IMF to develop functioning national economies. All of them joined Western-led constituencies on the executive board; except for Russia, which elected an executive director on its own. The IMF shifted both staff and financial resources substantially to accommodate the needs of this diverse group of new members.

Once this process of assimilation was complete, the IMF had moved very close to becoming the universal institution that the founders had envisioned at Bretton Woods in 1944. Nonetheless, tensions remained that prevented a complete closing of the gap. Both Russia and the United States had major long-standing differences in national interests and alliances, and each retained strong suspicions and distrust of the other. The ongoing breakup of the old Yugoslav federation provided a clear example of these differences.

Kosovo Is Admitted

Until 1999, Kosovo was an integral part of Serbia, and before that, of the Socialist Federal Republic of Yugoslavia. In response to human rights abuses and violence when Serbian authorities attempted to suppress an independence movement, North Atlantic Treaty Organization forces launched an air campaign on Serbia in March 1999, in support of Kosovo. That campaign lasted some three months, after which the United Nations accepted a proposal for it to administer Kosovo autonomously on an interim basis. In 2008, Kosovo formally declared its independence from Serbia. International reaction was mixed, as Russia and numerous other countries refused to recognize it as an independent state, while the United States and most other major powers offered their support.

The IMF began providing technical assistance and training services to Kosovo in 1999, just weeks after the start of the UN mandate. Another decade would pass before Kosovo would become a member of the IMF, but the Fund's rules permit it to provide services to non-members as long as such services are "consistent with the purposes of the Fund" (Article V, Section 2). In this case, the IMF was acting in support of the United Nations and of a coordinated donor response to the crisis in Kosovo, which was being led by members of the European Union.[28]

After Kosovo declared its independence in 2008, the number of countries recognizing it as a sovereign state increased only gradually. By the time the IMF considered Kosovo's application for membership, several constituencies on the executive board still had reservations. The strongest opposition was from Russia, which was also using its veto power in the Security Council to block Kosovo from joining

26 Because Taiwan functions as an independent economy, it is a member of several international economic organizations that do not require statehood as a condition of membership, including the Asian Development Bank, the Asia-Pacific Economic Cooperation Forum and the World Trade Organization.

27 Letter written by Gorbachev dated July 4, 1990, unofficial translation by USSR office; in the IMF archives, "USSR Mission and Reports by Mr. Whittome," Accession 91/118, OMD, Box 1, File 21.

28 The text of the decision is in "Kosovo — Fund Technical Assistance," EBD/99/80 (July 7, 1999), in the IMF archives.

the United Nations. The Russian executive director urged countries to boycott the vote on the application to join the IMF, in the hope that a quorum would not be attained in the board of governors. The directors from China and El Salvador also voted against the resolution, and three chairs abstained (India, Switzerland and Vietnam).[29] With majority support, the resolution was forwarded to the board of governors, where the boycott fell short of preventing a quorum. The membership resolution passed with a relatively small, but still comfortable, margin.[30] Kosovo became the only country in the post-Cold War era to be a member of the IMF but not a member of the United Nations.[31]

As of 2016, only two significant countries remain outside the otherwise universal membership of the IMF: North Korea and Cuba.[32] Both exceptions result primarily from US opposition.

North Korea Stays Out

The Democratic People's Republic of Korea has long been one of the most diplomatically isolated countries in the world. Only rarely have its leaders expressed any interest in joining multilateral organizations. North Korea did join the United Nations in September 1991, on the same day as South Korea. Previously, both countries had been frozen out of the United Nations because of Soviet support of North Korea's insistence on being acknowledged as the sole legitimate government of the Korean Peninsula. The United States rejected that view. Since both the Soviet Union and the United States had veto power as permanent members of the UN Security Council, neither of the Koreas could join on its own. In 1991, Gorbachev withdrew his support for North Korea's view. That opened the door for South Korea to join the United Nations and thus forced North Korea to join separately or risk being completely isolated diplomatically.

In April 1997, North Korea applied to join the Asian Development Bank (ADB). Staff at the IMF took the opportunity to begin seeking information on the country's economy through contacts in South Korea and at the ADB. Some weeks later, North Korean officials at their UN office in New York expressed an interest in learning more about the IMF. That led to a direct meeting between the head of the IMF's New York office and North Korea's ambassador to the United Nations on July 29. That meeting, in turn, led to a request from North Korea for the IMF to send a fact-finding mission to Pyongyang.

North Korea failed in its effort to join the ADB, owing to opposition from Japan as well as the United States, but the IMF did send a mission to Pyongyang. Before agreeing to do so, Fund management checked informally with the executive directors from China, Japan, South Korea and the United States, to be sure that they would not object. The full executive board was notified once plans for the trip were in place. On September 6, 1997, a team of three IMF economists, led by Margaret R. Kelly (senior adviser in the Asia and Pacific Department), arrived in Pyongyang, where they spent a week exchanging information with the North Korean authorities.[33]

During the meetings with the IMF team, North Korean officials "indicated strong interest in IMF membership so as to obtain access to its financial resources, technical assistance, and training."[34] Afterwards, they made sporadic efforts to follow up, but without success: for reasons that are not clear, and notwithstanding the positive responses from the IMF. For example, in April 1998, the IMF and the UN Development Programme made plans for a joint seminar for North Korean officials, to be held later that year in Beijing. In October, however, North Korea asked the Fund to postpone the seminar. It never took place. Then in 2000, the IMF and the World Bank invited North Korea to send observers (Special Guests) to the annual meetings of the institution's governors, which were to be held in Prague in October. A delegation attempted to go to Prague, but it was apparently detained and questioned at an intermediate stop. The officials never made it to the meetings.

Throughout this exploratory period (1997–2000), North Korea never made a formal request to join the IMF, although

29 "Republic of Kosovo — Report of the Committee on Membership," Executive Board Meeting 09/34-2 (April 6, 2009), in the IMF archives.

30 Out of 182 eligible governors, only 106 cast ballots. Of those, 96 voted in favour. The proposal passed with 70 percent of the total voting power. See "Membership for the Republic of Kosovo — Voting Results," EBD/09/27, Supplement 1 (May 6, 2009), in the IMF archives.

31 From 1955 to 1991, South Korea was a member of the IMF, but it was not in the United Nations, for reasons discussed below. As of 2015, Kosovo is still not a member of the United Nations. In November 2015, its application to join the UN Education, Scientific and Cultural Organization (which is not subject to a veto by permanent members of the Security Council) was opposed by Russia and Serbia, and it fell slightly short of receiving the necessary two-thirds majority vote by current members.

32 The criteria for membership are not identical in the IMF and the United Nations. The latter includes four very small states that either have not applied for IMF membership or are considered (for purposes of the IMF) not to be in full control of their foreign affairs: Andorra, Liechtenstein, Monaco and Nauru. Several independent territories, in addition to Taiwan, remain outside both institutions: Abkhazia and South Ossetia, both of which are breakaway provinces from Georgia; Sahrawi Arab Democratic Republic, originally a breakaway province from Spanish-controlled Western Sahara, which now claims territory also claimed by Morocco; Palestine; and Vatican City.

33 An official report on the mission was issued in November 1997. See "Democratic People's Republic of Korea — Fact-Finding Report," EBS/97/204 (November 12, 1997), in the IMF archives. Other information here is from internal documents and interviews with IMF officials. Also see Boughton (2012, 74–76).

34 See EBS/97/204 (November 12, 1997), p. 2, in the IMF archives.

they did apply again in 2000 to join the ADB. Remarkably, North Korea was encouraged to join these institutions by the Government of South Korea. At the annual meetings in Hong Kong in September 1997, the governor for South Korea, Finance Minister Kyong Shik Kang, stated publicly that IMF and World Bank membership: "would expedite [North Korea's] integration into the world economy and contribute significantly to the political and economic stability of East Asia. The Korean Government welcomes North Korea's future participation in these institutions and is ready to support and assist North Korea in the process of meeting the prerequisites of accession" (Kang 1997).

That support heralded a broader, although still quite tentative, thaw in international relations.[35] For three years beginning in August 1997, a series of four-party talks took place among representatives of the two Koreas plus China and the United States. That effort culminated in the famous summit meeting in Pyongyang between President Kim Dae-Jung of South Korea and President Kim Jong-Il of North Korea, in June 2000 (for which Kim Dae-Jung was awarded the Nobel Peace Prize).

In contrast, Japan and the United States remained opposed to North Korean membership. If the US administration under President Bill Clinton had wanted to be receptive, it would first have had to remove North Korea from the State Department's list of state sponsors of terrorism, which would have been politically difficult at that time.[36] In the face of that opposition, an application by North Korea would most likely have failed. And after 2000, prospects deteriorated markedly through a hardening attitude on the part of the new US administration under President George W. Bush. By 2003, North Korea would be branded by Bush as a member of an "axis of evil." The other countries in that axis — Iran and Libya — were long-standing members of the IMF, but it was increasingly evident that opposition from the United States, Japan and Western Europe was strong enough to prevent North Korea from joining. South Korea continued to urge progress in relations, but no further contacts were made between North Korea and the IMF.

Cuba Does Not Rejoin — Yet

As discussed above, Cuba withdrew from IMF membership in 1964, and then gradually repaid its loans over the next five years, including all rescheduled interest charges. Throughout the rest of the 1960s and up until the early 1990s, Cuba was heavily dependent on the Soviet Union for trade and financial support. That dependency, which was greatly increased by the US trade embargo, became a more serious problem when the Soviet Union was dissolved in 1991. The end of reliable financial support threw the Cuban economy into a severe recession that abated only after the government relaxed some restrictions on private enterprise. In an effort to strengthen economic relations with a broader range of countries, the Castro government then began putting out feelers toward the IMF.

In 1993, Cuba invited an IMF official, Executive Director Jacques de Groote (from Belgium), to visit Havana for secret meetings with Castro and other senior officials. De Groote, who had good relations and contacts with a number of Communist countries,[37] offered advice on a personal basis, and provided documents and other information about how the Fund operated and what it could offer. That led to a number of further contacts at a lower level and eventually to a request for technical assistance from the IMF. The Fund, bowing to opposition from the United States, declined the request. There the matter has rested.

It is difficult to know whether the Castro government was interested in rejoining the IMF in the 1990s. What is clear is that any effort in that direction would have been futile. The reasons, though, are complex. As noted above, approval of an application for membership requires only a simple majority of votes cast by the IMF board of governors. Opposition by the United States alone, which holds approximately 17 percent of the vote, would not have been decisive. In the case of an application from Cuba, most other countries probably would have been receptive, but — as had been the case with Poland's application in the 1980s — many would have been reluctant to vote in favour (or even to propose holding a vote) in the face of strong opposition from the United States. In such circumstances, the managing director would most likely have declined to bring the matter before the executive board. In that case, as with Poland, no vote would have been taken until the United States dropped its objections.

This situation is now changing, dramatically but incompletely. Since 2009, the US government has partially eased its restrictions on travel and the sending of remittances to Cuba. In May 2015, the Obama administration removed Cuba from the list of state sponsors of terrorism. In July, the two countries restored full diplomatic relations, closing a breach that had persisted since January 1961. The trade embargo remains, however, and it cannot be lifted without congressional action.

These recent changes crack open the door to a possible membership application from Cuba. Of course, Cuba might still decide not to apply for some time. Joining the

35 For a broader analysis, see Harrison (2002, Chapter 4).

36 The George W. Bush administration removed North Korea from the list in 2008, as part of a deal to be allowed to inspect some nuclear facilities.

37 At that time, the Belgian constituency on the IMF executive board included several countries that had had communist governments in the recent past: Belarus and Kazakhstan (both former Soviet republics), the Czech and Slovak republics, and Hungary.

IMF would give it access to information, advice and hard-currency loans, but it would also require the government to divulge data on its own economy that in the past it has been reluctant to share. At some point, though, it is reasonable to assume that Cuba will be ready. The issue will then hinge on the position taken by the US administration.

US policy on this matter is circumscribed by the Helms-Burton Act of 1996. That act of Congress requires the Treasury secretary to "instruct the United States executive director … to use the voice and vote of the United States to oppose the admission of Cuba as a member [of the IMF] … until the President submits a determination … that a democratically elected government in Cuba is in power."[38] The act restricts the US vote, but it does not necessarily prevent the rest of the membership from approving the request. As discussed above, the United States does not have a veto over membership decisions.

The Obama administration is now on record as favouring the reintegration of Cuba into the world economy, but it cannot credibly assert that a "democratically elected government" is in power in Cuba. It therefore has to continue to oppose Cuban membership in the IMF by voting against any such proposal and by speaking out against it. Even so, the wording of the Helms-Burton Act does not appear to force the US administration to work actively to discourage other countries from voting in favour. If the membership as a whole were to understand that US opposition was pro forma and being expressed only because of the political difficulty of repealing or amending the 1996 law, it should not be difficult to secure simple majority votes in the executive board and then in the board of governors.

CONCLUSIONS

IMF membership has increased greatly since the institution was created in 1945. From 40 original members at a time when the United Nations was opening with 55, the IMF membership has grown to 188, just five shy of the United Nations. The separation of the globe into First, Second and Third worlds, with the Second almost entirely excluded from the IMF, has now all but vanished. And yet two challenging cases, Cuba and North Korea, remain on the outside.

The absence of these two countries has important geopolitical implications. The raison d'être for the IMF is to help countries interact economically and financially, and thereby to promote economic prosperity. If done properly and well, that benefit will in turn help reduce the incentives for conflict and war, as was clearly envisaged by the founders at Bretton Woods during World War II. Within the IMF membership today, representatives of countries with diverse and conflicting national interests meet regularly and work together to promote common interests.[39] Whatever the weaknesses of the IMF might be in practice, and whatever the weaknesses in economic structure or political practices of a country might be, the continuing exclusion of any country undermines, to some extent, the global public good that the institution is intended to provide.

This problem is solvable. For three years, 1997 to 2000, tentative moves toward membership for North Korea were encouraged by South Korea and were tolerated by most Western powers. The détente did not last, and North Korea did little to suggest that it was prepared to meet the conditions of IMF membership. Still, the episode offers a model for a resumption of progress if conditions improve. Notably, the IMF could provide technical assistance and training, collect economic data and provide information on its membership requirements and obligations.

Cuban membership faces additional hurdles because of US laws that were targeted specifically at the government of Fidel Castro. Moreover, to this date, neither country has applied to join the IMF. Because every other country in the world, aside from the very smallest and those not generally recognized as states, has joined the IMF, it is virtually certain that Cuba will apply eventually, as will North Korea, unless that prospect is preempted by reunification of the Korean Peninsula. When they do apply, a concerted political commitment will be needed to overcome the remaining technical obstacles.

Acknowledgements

I am grateful to Jack Boorman and anonymous referees for helpful comments on earlier drafts. All interpretations and any remaining errors are mine alone.

38 Formally, the "Cuban Liberty and Democratic Solidarity [LIBERTAD] Act of 1996," 22 USC 6034, March 12, 1996, Section 104; available at http://thomas.loc.gov/cgi-bin/thomas.

39 The executive board includes numerous diverse constituencies, with as many as 23 countries represented by a single executive director. Both Cuba and North Korea currently are small enough economies that they could join regional constituencies without substantially altering the groups' voting power or internal balance.

WORKS CITED

Allison, Graham and Grigory Yavlinsky. 1991. *Window of Opportunity: The Grand Bargain for Democracy in the Soviet Union*. New York: Pantheon Books.

Boughton, James M. 2001. *Silent Revolution: The International Monetary Fund, 1979–1989*. Washington, DC: IMF.

______. 2002. "Why White, Not Keynes? Inventing the Post-War International Monetary System." In *The Open-Economy Macro-Model: Past, Present and Future*, edited by Arie Arnon and Warren Young. Berlin: Kluwer Publishing.

______. 2012. *Tearing Down Walls: The International Monetary Fund 1990–1999*. Washington, DC: IMF.

Boughton, James M. and Roger J. Sandilands. 2003. "Politics and the Attack on FDR's Economists: From the Grand Alliance to the Cold War." *Intelligence and National Security* 18 (3): 73–99.

Gold, Joseph. 1969. "The Institution." In *The International Monetary Fund, 1945–1965, Volume II: Analysis,* edited by J. Keith Horsefield, 513–21. Washington, DC: IMF.

Harrison, Selig S., 2002. *Korean Endgame: A Strategy for Reunification and U.S. Disengagement*. Princeton, NJ: Princeton University Press.

Horsefield, J. Keith. 1969a. *The International Monetary Fund, 1945–1965, Volume I: Chronicle.* Washington, DC: IMF.

______. 1969b. *The International Monetary Fund, 1945–1965, Volume III: Documents.* Washington, DC: IMF.

IMF. 1946. *Rules and Regulations of the International Monetary Fund*. Section D-1. Application for Membership. www.imf.org/external/pubs/ft/bl/rr04.htm.

IMF, World Bank, Organization for Economic Cooperation and Development, and European Bank for Reconstruction and Development. 1990. *The Economy of the USSR: A Study Undertaken in Response to a Request by the Houston Summit: Summary and Recommendations*. Washington, DC: World Bank.

______. 1991. *A Study of the Soviet Economy*, three volumes. Washington, DC: World Bank.

James, Harold and Marzenna James. 1994. "The Origins of the Cold War: Some New Documents." *The Historical Journal* 37 (3): 615–22.

Kang, Kyong Shik. 1997. Statement by the Hon. Kyong Shik Kang, Governor of the Bank and the Fund for Korea, at the Joint Annual Discussion. Annual Meetings Press Release No. 42, September 23–25. www.imf.org/external/.../pr42kre.pdf.

Mikesell, Raymond F. 1951. "Negotiating at Bretton Woods, 1944." In *Negotiating with the Russians*, edited by Raymond Dennett and Joseph E. Johnson. World Peace Foundation.

______. 1994. *The Bretton Woods Debates: A Memoir*. Essays in International Finance No. 192, March. Princeton: Princeton University Department of Economics.

______. 2000. *Foreign Adventures of an Economist.* Eugene: University of Oregon Press.

Van Dormael, Armand. 1978. *Bretton Woods: Birth of a Monetary System*. New York: Holmes and Meier Publishers.

ABOUT CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

For more information, please visit www.cigionline.org.

CIGI MASTHEAD

Communications

For media enquiries, please contact communications@cigionline.org

67 Erb Street West
Waterloo, Ontario N2L 6C2, Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org