Anti-China moves behind attacks on IMF chief

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Well-known international economist Jeffrey Sachs, director of the Center for Sustainable Development at New York's Columbia University, has weighed into the controversy surrounding International Monetary Fund managing director, Kristalina Georgieva, saying she is being targeted because "she is not a sworn enemy of Beijing."

Sachs took up the issue in a comment published in the *Financial Times* on Monday entitled "Anti-China hysteria lies at heart of action against IMF's Georgieva."

The controversy erupted earlier this month when the high-powered US legal firm WilmerHale issued a finding which said that when Georgieva was chief executive of the World Bank she exerted pressure on staff to lift China's ranking from 85 to 78 in the bank's influential Doing Business report.

It said that three indicators of business conditions — starting a business, legal rights, and paying taxes — were modified to increase China's score and lift its place in the rankings.

It claimed that Georgieva had taken this action because at the time she was seeking additional funds for the World Bank, including from China. Upon the issuing of the WilmerHale report, the World Bank said that after pausing the Doing Business report in 2020, it had decided to discontinue it because of ethical concerns over the conduct of current and former members of its staff.

Georgieva issued an initial brief statement on the findings denying the allegations but as the pressure against her continued to mount, she issued a further, more detailed, statement last Friday as the IMF board considers the WilmerHale report.

"Let me be clear: the conclusions are wrong. I did not pressure anyone to alter any reports," she said.

"There was absolutely no quid pro quo related to the funding for the World Bank of any kind. Reviewing the integrity of these reports was within my professional responsibilities at that time and, unlike what has been reported, I followed all the protocols for editing the report."

But there appears to have been some reaction from IMF staff over the allegations and Georgieva's initial brief response which she acknowledged in her statement.

"As much as I have strived to be open and inclusive, I was very sorry to learn that some staffers felt their concerns were not heard," she said. "Moving forward, I will make sure to be even more attentive to hearing staff views."

In his FT comment, Sachs drew attention to a letter written by three Republican congressmen to US treasury secretary Janet Yellen which indicate the political forces at work in the Georgieva controversy.

It said that if the findings of the WilmerHale report were substantiated by the IMF Board then it should "reassess" Georgieva's position leading the fund. But the congressmen have not waited for any review before drawing conclusions.

"The findings by WilmerHale," they wrote, "illustrate how the Chinese Communist Party, in pursuing its self-interest undermines multilateral institutions such as the Fund, the World Health Organization and the United Nations. China feels entitled to a greater say in how these international organizations operate; its lack of commitment to multilateral values demonstrates why it must not be allowed to do so."

The letter called on the Treasury to report on Georgieva's interactions with Chinese representatives leading to the IMF decision on August 2 this year to approve a $650 billion increase in the IMF's Special Drawing Rights which included an allocation of $42 billion to China. The SDR allocations were determined by the country's shareholdings in the IMF.

It also called for a probe into advocacy by China regarding shareholding changes at the IMF and an

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assessment of "any inappropriate actions taken by Ms Georgieva as a result of such advocacy."

This is a highly sensitive issue for the US. By virtue of being the world's largest economy it has the greatest shareholding in the IMF and exercises a virtual veto power over its decisions. But as the Chinese economy grows — it may soon even overtake the size of the US in dollar terms — the balance of power can shift.

The attacks on Georgieva over China are not confined to the Republicans. Maxine Waters, the Democratic chair of the House financial services committee has also taken up the issue.

"This has undermined the reputation of the World Bank, and it has also called into question the current leadership at the IMF, where the integrity of data is critical to its mission, and where undue influence by any self-interested power could put the stability of the global financial system at risk," she said.

Sachs said the charge that Georgieva had violated the sanctity of the World Bank was hypocritical in view of the naked pressure applied by the US on the bank to send billions of dollars to American-backed regimes "while trying to block funds to cash-strapped governments closer to China and Russia."

He noted that after Georgieva left the World Bank, China's ranking continued to soar reaching 31st in 2020 and 25th in the unpublished 2021 report now cancelled by World Bank president, David Malpass.

Malpass, who was nominated for the position by the Trump administration in April 2019 under the tradition that the position is occupied by a US pick, is well known for his anti-China views.

A Bloomberg article published on Friday recalled that in November 2018 in testimony to a Senate subcommittee he had bemoaned the "substantial inroads" China had been making into multi development banks (MDBs) like the World Bank.

"We are working with allies and like-minded countries to guide the MDBs away from what could be viewed as endorsements of China's geopolitical ambitions," he said.

Georgieva has received strong support from Shanta Devarajan, the head of the World Bank Doing Business project in 2018.

Writing on Twitter last Thursday, the former acting chief economist at the World Bank said Georgieva had specified that China's data should be verified without compromising the integrity of the rankings.

"The changes to China's score were either correcting coding errors or judgement calls on questions where judgement was required," he said. "At no point did I feel I was being pressured," adding that the allegation that Georgieva had tampered with the data "is beyond credulity."

Former World Bank chief economist Joseph Stiglitz called the WilmerHale report "a hatchet job" and said he had been told by staff working on the Doing Business report they did not feel pressure from Georgieva. He also questioned why there was no mention of Malpass regarding irregularities concerning Saudi Arabia under his leadership.

Sachs pointed to "McCarthyite treatment" of Georgieva, warning of the "dangerous and costly capitulation to anti-Beijing hysteria" that her removal would represent, sanctioned by all on the basis that "for the good of the institution" she had to go, with pundits adding "weighty nods of approval."

The heads are already nodding. An editorial in *The Economist* said that the next time the IMF tried to referee a currency dispute or helped reschedule the debt of a country that had borrowed from China the critics were sure to cite the WilmerHale investigation. "That is why Ms Georgieva, an esteemed servant of several international institutions, should resign."

Sachs concluded that ousting Georgieva would "prove conclusively that the IMF is a US-directed institution with mere trappings of multilateralism."

The result would be that China, Russia and others would increasingly go their own way. "We would be soon back to the naked financial and monetary nationalism of the 1930s that deepened the Great Depressions and set the world on to the path to total war."

If Georgieva is removed it will be the second time in a decade that a political operation has been launched to oust an IMF chief. In 2011 the head of the IMF Dominque Strauss-Kahn was forced to resign in a sexual sting operation involving the then president of France Nicolas Sarkozy who feared Straus-Kahn's candidacy in the French presential elections of 2012. This time the stakes may be even higher.

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