ST.GALLEN SYMPOSIUM

Global Essay Competition 2025

Title: **Carving New Paths: How International Institutions Can Mobilize to Produce Better Economic Outcomes for More People in Underdeveloped Countries**

Essay:

As the world becomes increasingly multi-polar, developing countries are gaining more eminence on the global stage, as evidenced by rapid GDP growth and international trade. Alliances like BRICS+ are serving as parallels to traditionally western dominated institutions like the G7[1]. As of 2020, the five core BRICS nations had surpassed the G7 in their share of global GDP at purchasing power parity[2,3].

For the world's most underdeveloped countries however, economic stability (much less growth) still remains out of reach. Nineteen of Africa's 35 low-income countries remain in debt distress and face mounting cost-of-living crises, compounded by geopolitical events such as the Russia-Ukraine war and international tariff disputes[4]. Underdeveloped countries are also the most vulnerable to climate change, due to high dependence on external aid, geographic exposure and weak infrastructure[5]. Additionally, while many countries face declining populations, Africa's population is projected to more than double throughout the 21rst century[6,7].

Institutions like the IMF have been active in underdeveloped countries for decades, but the effectiveness of their policy implementations is debatable. One study found that of the 89 underdeveloped countries that received IMF loans between 1965 and 1995, 48 are no better off economically today than before receiving loans, with 32 countries being poorer[8]. Meanwhile, alternative lending sources have also emerged. Through China's Belt and Road Initiative, loans have financed infrastructure projects in over 140 countries, boosting China's geopolitical influence[9]. These programs are not without risks for member countries however, which face losing control over key state-owned assets[10]. Most recently, Sri Lanka signed a debt-to-equity swap with China, leasing its Hambantota Port for 99 years after struggling with debt repayment[11].

Considering the mounting pressures facing underdeveloped countries, there is an opportunity to transform the way international institutions, such as the IMF, have been engaging with these countries. Many economic programs, while implemented with the best intentions, have resulted in unintended consequences that have made it harder for underdeveloped countries to sustain growing economies and consequently, their ability to pay back loans. Past policies have also been heavily influenced by Western ideals, rhetoric and representation[12]. With the rise of multi-polarity, there is now the eminence and demonstrated success of alternative working models to challenge past assumptions and carve out new paths that strive to produce better outcomes for more people. I believe the IMF can accomplish this by 1) focusing on local consultation, consensus building and more ownership with local populations, 2) promoting private-public partnerships, and 3) emphasizing less focus on conditionality and more on improved monitoring and public disclosures.

The IMF was originally formed to address economic instabilities, particularly balance of payment issues (i.e., insufficient reserves of foreign currency, debt defaults or currency devaluation) through its various lending programs[13,14]. But over time, the IMF's scope has expanded beyond managing crises to directly influencing economic policies of member countries[15]. The IMF does this through loan schedules, which specify conditions on strict targets a country must meet in order to continue receiving funding. The IMF places these conditions because it wants to ensure its funds are being used productively. But often, conditions can be too prescriptive and overly constrained, lacking consideration for the broader context of the local economies where they're applied. Meeting these conditions is also done at the expense of heavy social and short-term economic costs, leaving multi-generational impacts on communities[16]. The IMF often favors conditions that are based on long-term policy visions, but difficult to sustain in the near-term and can actually deepen downturns – creating patterns of dependency by making it harder for member countries to pay back debts.

One of the policies promoted by the IMF is privatization. Many industries in underdeveloped countries are dominated by state-owned monopolies, which can be prone to inefficient practices and corruption.

This was the case for commodity marketing boards (CMBs) in Nigeria and Zambia, which purchased agricultural products from farmers and marketed them internationally[17]. As part of its structural adjustment program by the IMF, Nigeria was pressured to dismantle CMBs to allow agricultural markets to operate more freely[18]. While the CMB was guilty of mismanaging funds on occasion, it did however serve several key functions, namely stabilizing prices for key agricultural commodities and providing market access. In Zambia, CMBs had also been enforcing uniform pricing policies, which had the effect of subsidizing farmers in more rural areas with higher transportation costs[19]. When CMBs were abolished, it left a gap in the market that was taken up by intermediaries who engaged in price manipulation, exploiting farmers by demanding low prices. Without the bargaining power or access to infrastructure (roads) to reach larger markets, farmers had little choice but to sell to these groups, leading to mass poverty, particularly in remote areas[16]. These policies in effect reduced both government and farmers‘ revenue, while leaving a few wealthy groups better off.

Trade liberalization is another such measure which has led to high job losses, flooding markets of underdeveloped countries with cheaper, foreign goods before local industries could be strong enough to compete. This was the case in Haiti when the removal of tariffs and flood of cheap US rice led to the collapse of the local rice indsutry[20]. Local farmers were unable to compete, with farmers declaring bankruptcy and subsequently abandoning farming altogether[21]. With its dependency on US rice, Haiti became more vulnerable to price shocks and following price spikes in 2008, Haitians struggled with food insecurity, having few local production centers to fall back on[22].

While both privatization and trade liberalization are generally good long-term policies because they are effective in removing inefficient jobs (e.g. such as farming in remote areas) from the economy and increasing supply of goods to consumers, they come at great social costs in undeveloped countries, which lack adequate job protections and social security measures like unemployment insurance. It is because of the lack of safety nets that they also tend to adopt strong social structures in communities; consequently, when large job losses and reduced incomes occur, children are often expected to leave school and support their families, which has long-term systemic impacts. Increased poverty also contributes to more violence and civil unrest, discouraging capital investments in those regions. Thus, underdeveloped countries are deprived of badly needed investments in human capital and infrastructure, both of which are needed to fuel economic growth.

The IMF also promotes financial liberalization, which includes the entry of foreign banks. But while foreign banks bring better banking practices and attract more capital and credit for businesses, they also operate globally and are beholden to outside interests. When presented with increased global risks or lower than expected returns, they are often quick to withdraw, causing economic fluctuations that can deepen already worse conditions. This was the case in Bolivia, when foreign banks exited the country following heightened global risks[23]. The sudden change in credit supply caused an even deeper economic downturn. In comparison, local banks provide less credit and higher interest rates, but tend to be more responsive to local needs, such as taking cues from central banks (e.g. contracting credit when there are signs of overheating) and servicing gaps in the credit system, (e.g. underserved groups)[24].

Lastly the policies implemented by the IMF are often based on rigid conditionality, with limited local input. Often fiscal austerity measures (e.g. cutting spending on public services and increasing taxes) are used to reduce government deficits. While this can curb inflation and is essential for long-term economic health, when applied without consideration to local populations can lead to intense backlash and social unrest, such as the protests in Kenya following increased taxation on essential goods[25]. More importantly, policies without local ownership and consultation tend to be unsustainable as they are politically unpopular. When President Kibaki came into power in 2002, many of Kenya‘s strict austerity measures were reversed, leaving little to show in terms of results for the country's debt issues[26].

As a counter, several developing countries provide a stark contrast in results. The most remarkable example being China, which has succeeded in lifting 800 million people out of poverty[27]. Both Korea and China have implemented programs focused on new job creation, with heavy government involvement in developing new enterprises. They were also slower to lower trade barriers and resisted efforts to expand liberalization of financial markets too quickly, especially after the Asian Financial Crisis, which saw bank collapses following excessive reliance on short-term foreign loans and investments[28]. In comparison, China liberalized much more gradually with an emphasis on maintaining social stability and full employment. Privatization was rolled out incrementally for agriculture and programs were conducted in a way that engendered widespread support[16]. When China opened its borders for foreign investment, it did so through joint-ventures focusing more on access to markets and technology rather than purely capital investment. Both of the two largest developing countries in the world – China and India – emerged from environments with strong capital controls and a focus on maintaining internal stability.

The IMF has done important work in underdeveloped countries, but many of its policies while well intentioned, have led to unintended consequences that have exacerbated existing downturns and led to degraded social conditions. The issue is often not the validity of the policies but their application, short-term effects on local populations and pacing. While the IMF continues to operate in underdeveloped countries, there are several changes it can adopt to pursue better outcomes for more people:

1. *Focusing on local consultation, consensus building and more ownership with local populations:* One of the largest challenges to IMF policies is local populations‘ inability to absorb the short-term shocks of policy changes. As mentioned previously, austerity economic reforms and privatization must be managed carefully to avoid massive job losses and social unrest. Policies can often also be broadly applied without consideration or understanding of how local markets operate such as in the case of CMBs. It is also key that the policies adopted be widely accepted by local populations so that they are not reversed through political reforms. There are several actions the IMF can take to promote more consensus building. The first is to increase representation. IMF policies affect millions in the developing world, yet underdeveloped countries have few opportunities to participate in forums, as seats are based on financial contributions[29]. Representation (even without voting rights) is vital as members of host countries are often the most informed and well positioned to comment on economic reforms within their own countries. They can provide valuable input to promote the adoption of policies and insights to mitigate unintended effects. It is also key that initiatives are sponsored and promoted by local bodies. The IMF's own review of its lending programs found that programs tend to be most successful when country authorities maintained strong ownership of policy implementations[30].
2. *Promoting private-public partnerships*: As mentioned previously, foreign investment and participation can attract more capital and boost growth, but poses risks such as fluctuating credit supply and job losses. Here the IMF should encourage governments to directly partner with private institutions to encourage investment while trying to actively address and mitigate for unintended impacts. One recent example where this was done well was Unilever's round tables, which brought together farmers, governments and NGOs for discourse around palm oil production[31]. Key to this was the inclusion of smallholder farmers and corporate policy decisions to include training programs, access to financing and pathways to necessary certifications, which supported better economic outcomes for more people.
3. *Emphasizing less focus on conditionality and more on improved monitoring and public disclosures:* While conditionality on loans may be necessary, there is an opportunity to loosen strict schedules and conditions to avoid blanket applications of policies. Instead, loans should be extended with a focus on sustainable job growth. Austerity measures may be necessary but implementation should not overlook the importance of short-term stability and social outcomes. Monitoring of programs and disclosures can aid in ensuring programs are rolled out sustainably with regards to both economic and social measures.

International institutions have long been dominated by Western representation and ideals that have not led to their promised outcomes for millions in underdeveloped countries. Past case studies show that policy implementation is complex – job creation, political support, capital controls and social factors all come into play. The successes of East Asian economies in lifting millions out of poverty and gaining eminence in a multi-polar world serve as a stark contrast in outcomes and provide examples of policy implementations enacted well. With the increasing challenges facing underdeveloped countries, there is an urgent need for the IMF and other international institutions to mobilize in more impactful ways and carve out new pathways that strive to accomplish better economic outcomes for more people.

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