

## 6.4: Understanding How International Monetary Policy, the IMF, and the World Bank Impact Business Practices

### Learning Objectives

1. Understand how the current monetary environment, the IMF, and the World Bank impact business.
2. Explore how you can work in the international development arena with a business background.

### How Business Is Impacted by the Current Monetary Environment, the IMF, and the World Bank

All businesses seek to operate in a stable and predictable environment. International businesses make efforts to reduce risks and unexpected issues that can impact both operations and profitability. The global monetary system in essence provides a predictable mechanism for companies to exchange currencies. Global firms monitor the policies and discussions of the G20 and other economic organizations so that they can identify new opportunities and use their leverage to protect their markets and businesses.

#### Did You Know?

There's even an annual forum that the world's largest businesses attend with senior government officials from around the world and leaders of thought on economic, social, and political issues. The five-day meeting is known more commonly as Davos, in reference to the Swiss town in which it is held. Attendees must be invited; the price tag is rather hefty at about \$50,000, but the meeting attracts the world's business and political elite. Davos is run by the World Economic Forum ([www.weforum.org/en/index.htm](http://www.weforum.org/en/index.htm)). The event started in 1971 as the brainchild of Swiss economics professor Klaus Schwab. Originally it served as a small, private, and discreet way of bringing business and political leaders together to establish common ground and objectives. It has since grown exponentially in size and influence and now attracts media and celebrities—but still only by invitation.

The Bretton Woods Institutions have extensive global influence and occasionally use it to nudge countries to reduce trade barriers and adjust the value of their currency. One recent example involves the International Monetary Fund (IMF) and China. A July 2010 report from the IMF stated that China's trade surplus will increase unless the government takes steps to increase more domestic consumption by the Chinese and also by letting the Chinese currency, the **renminbi**, appreciate or increase in value. Andrew Batson, "IMF Report Urges China to Consume More," *Wall Street Journal*, July 30, 2010, accessed February 9, 2011, <http://online.wsj.com/article/SB10001424052748703578104575396953580078456.html>. China's export machine has been fueled in large part by the low value of the renminbi, as set and maintained by the government. Letting it currently trade with reduced or no government intervention would likely reduce the country's massive exports. "Both the IMF and China's government agree [that China] still depends too much on exports. Supporting domestic consumption instead 'will reduce China's reliance on external demand and better insulate the economy from shocks in overseas markets,' the IMF said. China gave domestic demand an enormous boost with its stimulus program to combat the effects of the financial crisis, resulting in a surge in imports of raw materials and equipment to feed a construction boom." Andrew Batson, "IMF Report Urges China to Consume More," *Wall Street Journal*, July 30, 2010, accessed February 9, 2011, <http://online.wsj.com/article/SB10001424052748703578104575396953580078456.html>.

While the IMF can only issue a report, action is completely at the discretion of the country's government. However, for global businesses, this can be encouraging in several ways. In this case, companies that are eager to enter the Chinese market to sell their goods and services may find it easier or the general climate more welcoming of foreign businesses. Second, if the renminbi increases in value, the Chinese can purchase more goods and services from overseas firms. On the flip side, companies that compete with Chinese firms in other markets may be frustrated by China's cheap costs and undervalued currency. If the Chinese currency increases in value, Chinese exports will become more expensive, allowing other companies to compete more effectively against Chinese firms. These are just a couple of simple scenarios, but they illustrate the range of issues and concerns that China may have with the IMF report and the opportunities that may arise for global businesses. IMF reports are based on years of research, and it's rare that markets, countries, and businesses are not already aware of the issues in any report. However, by actually releasing the report, the IMF is officially prioritizing and legitimizing the concerns. In this case, the initial report from the IMF was ready for release in 2006, but China effectively blocked the release until some changes were made. It was finally released in July 2010. The impact of the report will take several years to unfold. However, already in early 2011, China announced its intentions to let the renminbi begin to trade more freely. "The People's Bank of China...is pushing for a greater role for the renminbi in global trade and investment so that China can reduce its almost total reliance on the US dollar." "Singapore Aims to Be a Renminbi Hub," *Financial Times*, April 19, 2011, accessed May 7, 2011, <http://www.ft.com/cms/s/0/64bac520-6a4f-11e0-a464->

[00144feab49a.html#ixzz1LgVcCJkM](http://00144feab49a.html#ixzz1LgVcCJkM). Recent efforts have included allowing for individuals and institutions to buy the renminbi outside of China and also to permit select trading of the currency in other countries, such as Russia and Singapore, as well as in its own territory of Hong Kong. The Chinese government hope is that by internationalizing the currency, it will eventually will be perceived as a reserve currency, a key component of its ambitions to be a global power. Wieland Wagner, “China Plans Path to Economic Hegemony,” *Spiegel Online International*, January 26, 2011, accessed May 7, 2011, <http://www.spiegel.de/international/business/0,1518,741303,00.html>.

## Working in the International Development Arena with a Business Background

Why would international businesses care about quasi-government institutions such as the World Bank and IMF? The opening case discusses how a management consulting firm links businesses, governments, and global institutions by advising on policy and strategy. What many people don’t realize at first glance is that the global business in the private sector is heavily impacted by the IMF, the World Bank, and other development organizations.

Many of the projects that the World Bank Group funds in specific countries are put up for competitive bidding by the government of the country receiving the funds; the projects are then managed by a government department. However, global companies in the private sector almost always carry out the actual work. Hence there is a vast industry focused on obtaining these often lucrative and secure contracts. The World Bank has worked hard to increase transparency in the bidding process and to closely monitor and audit how its monies are spent.

Let’s look at some of the companies and industries that get involved in World Bank projects. Consulting companies, particularly the large global firms—McKinsey, BearingPoint, and PricewaterhouseCoopers (PwC), for example—are high-profile examples of firms that actively solicit projects from the World Bank and other development organizations. Their capabilities range across diverse industries, from finance and regulation to project management and auditing of infrastructure development. Engineering, chemical, and telecommunications firms also have departments that solicit and bid on World Bank projects.

These firms routinely hire people with business degrees. Those with additional qualifications in foreign languages or technical skills have increased chances of being hired. So how do you find out which companies are getting contracts? Try the following method:

- Start by looking at the Devex site. While it’s the biggest and best-known website resource for development work, there are others.
- Explore organizational training programs, such as the World Bank’s Young Professionals Program, which is designed for highly qualified, experienced, and motivated individuals (under the age of thirty-two) who are skilled in areas relevant to the World Bank’s operations, such as economics, finance, education, public health, social sciences, engineering, urban planning, and natural resource management.
- Research the World Bank site and sites of the other institutions in the World Bank Group to identify which firms are winning bids; then apply to those firms. In an effort to combat the ethics issues, each of these organizations now requires complete transparency in contract awards and has sections where you can search. For example, use the following link for the World Bank contractors search:  
[web.worldbank.org/wbsite/external/projects/0,,menuPK:51565~pagePK:95864~piPK:95915~theSitePK:40941,00.html](http://web.worldbank.org/wbsite/external/projects/0,,menuPK:51565~pagePK:95864~piPK:95915~theSitePK:40941,00.html).
- Read the *Economist*, the *Wall Street Journal*, and other global business publications to learn more about projects, loans, and activities of the World Bank, private sector firms, and countries. Many of these publications have job ads. Even if it is for more senior positions, you can learn which companies are working in which sectors and countries.

## KEY TAKEAWAYS

- Businesses seek to operate in a stable and predictable environment by reducing risks and unexpected issues that can impact both operations and profitability.
- Global firms monitor the policies and discussions of the G20 and other economic organizations so that they can identify new opportunities and use their leverage to protect their markets and businesses.
- Global business in the private sector is heavily impacted by the IMF, the World Bank, and other development organizations.
- Many of the projects that the World Bank Group funds in specific countries are managed by the local governments, but the actual work is typically done by a private sector firm.

## EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Why are the World Bank and the IMF relevant for global businesses?
2. What types of entities carry out the projects funded by the World Bank?

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