Virtual Event | How Can the World Bank and IMF Assist Ukraine? A Conversation with Congressman French Hill

TRANSCRIPT

Discussion

- Congressman French Hill, U.S. Representative, Arkansas’s 2nd district
- Kenneth R. Weinstein, Walter P. Stern Distinguished Fellow, Hudson Institute

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Ken Weinstein:

Good afternoon and welcome to a special live Hudson Institute event. I'm Ken Weinstein, the Walter P. Stern Distinguished Fellow at Hudson Institute. I'm delighted to welcome Congressman French Hill, a member of the House Committee on Financial Services to Hudson Institute for a discussion on how can the World Bank and the IMF assist Ukraine. As the World Bank and IMF meetings take place this week in Washington, we're delighted to have Congressman Hill with us today to discuss how the U.S. and its allies can provide increased international development assistance to a cash-strapped Ukraine under Russian invasion.

Congressman Hill is a well-known voice on these issues in Washington and around the world. He's now in his fourth term in Congress. He served previously at the Department of Treasury and also at the White House. In particular, he helped design economic relief packages for newly emerging post-communist societies after the fall of the Berlin Wall. Congressman, it's a real pleasure to have you with us.

Congressman French Hill:

Well, Ken, it's great to be with you. I appreciate the invitation. This is such a timely and important topic. As the IMF and World Bank gather in Washington and the G20 today to talk about the future of Ukraine, our conversation is important. First let me say that. I look at this through the lens of that work I did 30 years ago on behalf of President H. W. Bush in looking at financial assistance into Central Europe.

It's amazing now to go back and see the success of those economies that dumped the shackles of the Iron Curtain and adopted free market principles and strong democracies on their own right. And so when you travel to Warsaw compared to 1989 and 1990, you're flabbergasted by the absolute beauty of the city and the investment made by the Poles and the success.

So that makes this action by Putin in Ukraine such a stark contrast from the hope that we all had three decades ago, when we were counting on Poland, Hungary, the Czech Republic, and others to become the Asian Tigers of the 2000s. We really had a lot of economic and political hopes for the region. And much of that has been achieved, but it's in jeopardy now as Putin attempts to systematically destroy Ukraine.

The second prism that I use in looking at this is Putin's own modus operandi for the past 22 years. He's a destroyer of everything he touches from Grozny and Chechnya to Northern Georgia, to his co-conspiratorship in Syria with Assad and mass murder. So it should be no surprise to people that he's taking the action he's taken in Ukraine.

The sad thing is that the West was taken in shock or off guard by this. Not by everybody in the west. Many of us have been warning about this action for years, and certainly since Putin waltzed into Crimea without firing a shot back in 2014, this next inevitable Grozny, Aleppo step was a real reality.

So let's talk a little bit about reconstruction and rebirth. Janet Yellen spoke earlier in the week, and she rightly described those meetings in Bretton Woods in New Hampshire, talking about the International Monetary future. Those meetings were held just a month after D-Day. And so the allies were thinking about the future, knowing then that they'd won in Europe. This week, we gather in Washington not knowing if we're going to win or not in Ukraine. And I that think that's a cloud that overhangs the meetings, but I'm glad to be with you and look forward to our discussion.
Ken Weinstein:

Well, that's a very rich answer, Congressman. Let me ask you. When you look at what you did 30 years ago, you were a young man, period, being given this huge assignment by President George H.W. Bush. What do you think worked best? And if you had to criticize yourself 30 years later, where do you think were the shortcomings. I do so in order to think about how to think about the challenge we're now facing.

Congressman French Hill:

Well, it was a multi-lateral effort when the Berlin Wall fell and the emphasis of the Treasury was in Central Europe. It was not per se about the efforts in the former Soviet republics. So we were focused on from Poland and the north on the Baltic down to Bulgaria on the Black Sea. Our approach was, first, make sure that market laws, the rule of law, private property rights, were enshrined in new constitutions and new laws. And that capital markets were put in place, accounting systems, that bankers after 40 years of poor education were given new life and new training about how to do things in a market-based economy, not a centrally planned economy. That was a cultural shift.

We didn't have physical decay per se in those countries, but we had moral and educational decay from World War II until 1989. And so a lot of our effort was there. Where that privatization rule of law and capital market system was quickly and promptly adopted, you see amazing benefits. You can look at Poland and you can look at the Czech Republic to see that. The same to some degree also in Hungary. But other countries struggled to maintain that rule of law, make sure there was no corruption endemic in their system.

I just got back from Romania and Bucharest as well as our troops down at MK Airbase. And I reflected that Bucharest today looks very similar to the way it looked, unfortunately, 30 years ago. I was reminded even under freedom, they haven't built a new highway since Ceausescu was assassinated. So it does take all those things to have a functioning, successful market economy.

Ken Weinstein:

Very, very, very interesting. Let me also ask you about, you talked about Putin's modus operandi and the uncertainty that hangs over what is going to be a massive rebuilding effort, a rebuilding effort we haven't seen in Europe, certainly obviously since World War II. And just simply, I guess there are really two questions I have. The first question is on the short term, short to medium term, what can the U.S. do? And what can the international financial institutions do to provide assistance to Ukraine at this dire moment? That's the first question.

Congressman French Hill:

Well, first we have to make sure that Ukraine can maintain a functioning economy. Every place that's not under direct siege by the Russians and direct destruction of the Russians, we want to try to see that economic system, that social system, the civil government functioning as best as possible. So the European Union allied nations, the G7, all have at their heart financial assistance, intermediate financial assistance to Ukraine for that functioning government, that balance of payments.
The World Bank, the IMF and those bilateral donors all can play a role there. We voted, for example, in Congress to suspend all payments by the multilateral agencies for Ukraine to give them breathing room. They'll also need structural assistance, even in this short period of time. So not related to rebuilding, but just maintaining their government structure now. That's number one at this minute.

Ken Weinstein:

And when you look at the situation and you look at this, let me ask you about the Ukrainian government first of all, and the reforms that Zelenskyy has undertaken in terms of their ability to handle some of these economic issues. Obviously on the security side, it's a massive change from 2014. We look at the way they're fighting, the courage of the Ukrainian people, the sense of national unity, but the challenge of corruption inside Ukraine has been a massive challenge for governance. It's been a massive challenge for businesses trying to operate there. What's your sense of things now? Where are they headed? And what does this mean for the potential rebuilding effort?

Congressman French Hill:

Zelenskyy and the parliament have an amazing opportunity to collaborate now, to come out of this crisis with a sound rule of law, private property rights, proper government engagement in the economy. I'm optimistic about that. This has been a stark reminder of what works right, and what has worked wrong, and I have every confidence that the Central Bank and the finance ministry, the IMF, the World Bank, the EU can all collaborate.

Look. Zelenskyy wants to join the West. They don't want to be a vassal state of the Russians. They want to reject all those bad habits of Russian intervention and Russian corruption, and I'd say the legacies of the 1990s and move forward. They can do that with support from the G7 and the EU, and I have confidence that that can happen.

Ken Weinstein:

Yeah. The EU membership looks like a real possibility as of now.

Congressman French Hill:

And that comes with strong sticks. You don't get EU financial support if you maintain significant failures on the corruption, and budgeting, and budgeting oversight and accountability. There are some existing central European countries that we won't name here that have suffered, and don't have the kind of financial support that they could have if they continued to improve their central government functions.

Ken Weinstein:

Let's shift gears a little bit. Let me ask you about the damages in Ukraine, the critical areas to rebuild as you start to think about this massive effort. How do you start to think about what to do first? There's so much infrastructure that's been destroyed. So many homes have been destroyed. Obviously we know of the millions of refugees living abroad, some of whom you saw in your trips when you were in Poland and Romania last week.
**Congressman French Hill:**

Well, this is a colossal project. I think all the estimates I've read from the geopolitical insurance company estimates and others are sorely understated. Again, I went back and looked at two places that were obliterated during the Yugoslavian wars, Sarajevo and Kosovo. And if you inflation adjust Sarajevo by itself after the NATO bombing campaign and related destruction it's in the 320 billion range in 2022 dollars, just that one location. Kosovo's something in the 50 billion dollar in 2022 dollars. So these estimates I've seen that could approach a trillion dollars in Ukraine based on Russian destruction, to me that could be possible, easily possible based on what we're seeing.

And it's critical in the rebuilding that we focus on logistics, we focus on the agricultural sector, the industrial sector, because that's where a lot of expensive infrastructure in the east will have been damaged. Our ports are critical, but 60% of the Ukrainian economy is still in services. So finding ways to support small business is going to be an immense task.

So first, damage assessment, as you point out, and the United Nations and Europe and the Ukrainians themselves will lead that effort in doing that analysis. The UN satellite photography that you see routinely noted in their weekly reports indicates building damaging, industrial damage from that kind of scanning. That'll be key. But it's going to be a hands-on-deck of everybody. And that's why this idea the Poles have put forward of a donor conference, I think is the key first step.

**Ken Weinstein:**

Let me ask you. You represent Arkansas's Fourth District. It's Little Rock and its suburbs primarily. When you talk to constituents, are they concerned about who's going to pay for this? What concerns are you hearing when you talk Ukraine with your constituents?

**Congressman French Hill:**

Well, people are in shock. They're not unlike citizens in Brussels or Warsaw or Vienna who can't believe that Putin actually did this even though, as I argue, for 22 years this is precisely the Putin playbook. I know it flabbergasts hardworking Americans and hardworking Parisians that he's actually done this, and it's not off in some far away place. It's actually on the borders of Western Europe. So their shock is number one, Ken.

Secondly, yesterday at the Rotary Club of Little Rock, there was a spectacular presentation by a young man here in Sherwood, Arkansas, who's married to a Ukrainian who has taken it upon himself with his in-laws to feed Ukrainians in Ukraine. He has created a supply chain coming from Arkansas and from America to support that effort, and he's back there helping his wife's family's national citizens weather this storm. So Americans have of jumped in, I think, to the fray by billions of dollars and millions of hours in humanitarian support.

**Ken Weinstein:**

It's really been extraordinary to see. Americans aren't alone, but it's really been remarkable to see the depth of the volunteerism, the donations and the like. But as we both know, as important as these efforts are to keep people alive, to feed them, to cloth them, to house them, it's nowhere near what's
going to be needed on this. We're talking trillion dollar plus sums to rebuild places like Mariupol and the like. It's a massive challenge.

I guess sort of on Twitter you hear the easy answer, which is, well, let's just take money from the Russian kleptocrats and seize Russian assets. I mean, it's a political talking point. I'm skeptical that it's going to be able to pay for much. What's your thoughts on, on, on, on that, and how do we finance these efforts?

**Congressman French Hill:**

Right. Well, when you look at tradition from the past, you have the concept of war reparations. That involves having a peace conference and having a decision. You and I have trouble right now seeing how that's going to go. We do have the issue of frozen assets. In the past we have taken frozen assets from bad actors and distributed them for other purposes. Most recently, the controversy in President Biden's decision about some of the frozen Afghan assets, partially for victims and partially for rebuilding. We had the oil for food program after the invasion of Iraq.

So I do think Russian assets, Russian revenues will be a source of funds for the rebuilding. We'll just have to wait and see how that addresses, and to what scale it would be and over what period of years, a critical diplomatic and economic policy issue. Secondly, as I say, Europeans want to unite for their fellow Europeans in Ukraine, both on the equity capital side and on the lending.

And then finally the multilateral process. The G20 and the international financial institutions have to be engaged. I believe the Ukrainians have to take the lead on thinking this through President Zelenskyy gave a great talk earlier this week about the rebirth and rebuilding of his country, and his vision for really finally bringing the Ukrainian cities up to standard through this. And so it was a very op-

**Ken Weinstein:**

Congressman, we've lost you there for a second. You're frozen on us. See if you unfreeze. Let see if he unfreezes on us. Okay. We're going to see if you come back in. Okay. We're going to see about having the Congressman rejoin us. A minor technical challenge of going live on Zoom, but we'll have the Congressman back up in a second.

Okay. We were just chatting about the role of the international financial institutions and the G20 in what will have to be a massive rebuilding effort, God willing, once this war comes to an end. And so looking forward to having Congressman French Hill be with us. He's logging back in now as we speak. It's been a very insightful conversation by the Congressman so far. Looking forward to having more of his insights with us here at Hudson Institute momentarily.

Just as a reminder on the Congressman's background. As I noted, he represents the Second District of Little Rock and its suburbs. This is his fourth term in Congress. From 1989 to '91, he served as Deputy Assistant Secretary of Treasury for Corporate Finance. After the fall of the Berlin Wall, as was noted, he led the design of U.S. technical assistance to the emerging economies of Eastern and Central Europe in the areas of banking and security.

And in 1991, President George H.W. Bush appointed him to be Executive Secretary to the President's Economic Policy Council, where he coordinated all White House economic policy. Before being elected
to Congress, he was the founder, chairman and chief executive officer of the Little Rock-based Delta Trust and Banking Corporation, which subsequently merged with Arkansas-based Simmons First National Corporation.

He is apparently having some electrical challenges at his house, but it's been a very interesting conversation. A man who has been both a practitioner in the financial sector, member of Congress now for four terms, and someone who travels widely in international financial circles, and very well regarded here in Washington on both sides of the aisle for a very substantive agenda in Congress, including a focus as, as we'll hear, on the challenge posed by both China and Russia's presence in the international financial institutions at the World Bank and the IMF, which we'll get into momentarily.

So please stay with us as the conversation continues. I know the Congressman was very much looking forward to being with us. And I was very much looking forward to the opportunity to have him address these critical issues. So I'm sure he'll be back within a moment or two. I'm sure that he'll be right back with us momentarily.

The Congressman has just returned, as he noted, from a trip to NATO bases in both Poland and Romania. He also had the opportunity to travel in both countries and to interact with refugees, with Ukrainian refugees both in Poland and in Romania. One of the interesting things that he noted was that he was very pleased to see a flow of refugees going back into Ukraine. This was a very positive development that he didn't see the huge lines of Ukrainians seeking to flee the country, but that they were returning.

He also noted, before our conversation, the special role that Romania plays in Moldova, that Moldovans many have dual citizenship with Romania, and that Romania acts as sort of as a protector for Moldovan citizens.

Here's the Congressman. He's back with us.

Congressman French Hill:

Well, sorry about that.

Ken Weinstein:

No, all good.

Congressman French Hill:

We had a thunderstorm here and all the power in my neighborhood just went out.

Ken Weinstein:

Wow. Wow. Okay.

Congressman French Hill:

But the power of technology is available to us, Ken.
Ken Weinstein:

Incredible that you’re able to get back on. Wow. Well thank you for coming back on.

You had just started talking about the role of the G20, the IMF, and the World Bank in the rebuilding effort. I wanted to get your sense of what they ought to focus on, what the challenges are. And also you’ve been open about this, about Russia’s role and China’s role in these institutions, and the challenges that they pose.

Congressman French Hill:

Well, this is a key issue, and there’s a lot of unanimity around this in Congress, that bad actors should not have access to the disproportionate powers and privileges of our international financial institutions. And yet, look. Here’s the facts. We have a P5 member, a member of the Security Council, a permanent member of the Security Council attacking a sovereign government, sovereign country, and trying to destroy it. So the whole balance inside our international system is off.

I know Janet Yellen is proposing to boycott, as are her other six colleagues from the G7, the G20 meeting. But we are scoring victories in the General Assembly by holding Russia accountable. We’ve set up an independent inquiry there for war crimes. We have thrown them out of the Human Rights Council. So this is hard work, and we need to do the hard work of in the same way inside the G20, and inside the governance bodies for the World Bank and the IFI. No one said it would be easy, but America has the clout to do this.

For example, we are proposing that Belarus and Russia have no access to the IMF, and no access to using their special drawing rights. They’re very important IMF assets that they could use for collateral, or they could use to make payments. They could use to secure a loan, for example, to someone who’s not complying with the sanctions, like another permanent Security Council member, China potentially it might be. I’m not saying that’s the case now, but it is a concern, I think, of the Western democracies that somehow China would finance Russia’s malfeasance here off the balance sheet, using gold or SDRs as collateral. So we need to have that leadership in those institutions and not allow these rogue actors continued privileges of membership at the IFIs.

Ken Weinstein:

Let me ask you about the special drawing rights that Russia and Moldova have. Any sense of what these sums might be? I know you’ve introduced legislation to prohibit Russia from having access to its SDRs. Do you have a dollar amount on it? And also where is the legislation standing now?

Congressman French Hill:

The legislation passed the House committee unanimously, and my colleagues over in the Senate have also introduced it, Rick Scott of Florida. So we got unanimity, bipartisan, to pass this. But here’s the point about SDRs. I’ve warned for two years not to do what’s called a general allocation of SDRs. That’s the easy way out. It means all 190 countries in the IMF get their proportionate share of these very valuable capital reserve assets. So even Assad gets $400 million worth. The Russians just last summer got $19 billion worth of SDRs, and that’s about 70% of their total SDR amount. Meaning we just gave it to them a year ago when we knew the direction.
So I support the IMF doing the hard job, which is doing a special allocation, which requires an amendment to the IMF process. But it would allow the IMF to only deliver SDRs to the poorest countries in the world that have suffered a balance of payments and GDP fall due to the pandemic to give them some additional resources.

Secondly, I do support wealthy countries like European countries or the United States transferring some of their SDRs to the Poverty Reduction Fund at the IMF, also to benefit those poorest countries, those 70 countries that have had their debt payment suspended due to the pandemic. But look, Janet Yellen did not ask that be done in advance of last summer’s allocation, so there's been really meaningless follow-up on that. And instead she bet on this common framework where all the debt suspension would be coordinated through the IMF and the G20. But that has not been successful either.

So we need to cut Russia and Belarus and other bad actors off access to the fund, and we need a mechanism to do that that's a lot more nimble and flexible than this current state of play we have at the IMF, which is everything’s either a general allocation benefiting every member, or it's not.

Ken Weinstein:

Now you've expressed some doubts about the head of the IMF, Kristalina Georgieva, and her abilities. You've questioned Treasury Secretary Yellen about inquiries into Georgieva's leadership. How do you see that as a challenge for the IMF?

Congressman French Hill:

Well, the IMF, again, is governed by its board of directors and our managing director serves at the pleasure of that board of directors. There have been a number of instances in the last few months where members of Congress on both sides of the aisle, and both sides of the Capitol, have raised questions about the current managing director's leadership style and capability leading the Fund at this time, based on some decisions that she made previously when she was at the World Bank. I believe that Congress should get answers those questions. My question to Secretary Yellen was very straightforward: Do you still have every confidence that she can lead the IMF at this critical time, and that she has the credibility to do that? I think that's an open question and I think Congress should have that answered to their satisfaction.

Ken Weinstein:

One of the issues that's been raised about the managing director was her relationship with China. I'm just wondering. Your concerns also, you raised your concerns about Russia quite openly, your concerns about China's role in the international financial institutions and what we need to do also to bring China into compliance in a whole bunch of multilateral areas?

Congressman French Hill:

China is being treated like on autopilot. First principle, going back to our whole career that we've shared in public life. We thought that by setting high stand standards and holding China to account that they would join the family of nations in every way, diplomatically and economically, while they grew their economy and benefited the living standards of the Chinese people. And for a couple of decades, I would
say there were really strong efforts there. But during the Obama administration under President Xi, that has turned and taken a very negative tack. They are no longer acting as a responsible member of the family of nations.

So when I say autopilot, I mean, well, they're now a large economy, so they should have their shareholdership reflect that at the World Bank or at the IMF. They're a large global economy. They now have more current account surplus, extra funding. So they should now fund the priorities of the UN. I would argue, like so many things in life, it's not how much money you have, it's what your moral standing. And China's moral standing, and the legitimate standing in these institutions needs to be earned. It's not automatic because their economy has grown to be the second largest in the world.

Secondly, they are using that clout to infiltrate both in the United Nations and in the multilateral lending process and dominate that. Think about this, Ken. The old Paris Club, the principal sovereign lenders of the world since World War II have had their lending around the world cut by a third. China has picked up much of that slack, but it's not transparent. China is not a member of the Paris Club. China has countries sign nondisclosure agreements not to share what the collateral or pricing on the credit is and its pernicious terms.

So if China wants these benefits of being a leader in society, then they need to join the Paris Club. They need to not have nondisclosure arrangements for their sovereign lending and for their development lending. And I think, again, Janet Yellen is our Treasury Secretary. The G7 finance ministers need to obtain that kind of leverage upfront in writing from China before we go about granting more privileges, more loans, or another allocation of SDRs. That's why my SDR Oversight Act would reform the process by which these reserve assets are issued.

Ken Weinstein:

Terrific. Well, Congressman, it's been an absolute pleasure being with you today. Sorry about the little technical glitch down there thanks to the thunderstorm, but you got back on very quickly with us. It's been a real pleasure. You are, as I said earlier, a widely respected figure on these international financial issues and on other issues, and it's a real pleasure to have you with us here at Hudson Institute. Look forward to welcoming you back, and keep us posted on the important work you're doing. Thank you so much.

Congressman French Hill:

Well, Ken, thank you for the invitation. It was great to have this dialogue with you. We all appreciate the outstanding leadership, research, and positions taken by Hudson. And I look forward to seeing you in person next time. Thanks for the visit.

Ken Weinstein:

Thank you so much, Congressman. Take care.