

# High hurdles for IMF on road to new world order

By Veronica Smith  
Agence France-Presse  
October 11, 2009

WASHINGTON — The International Monetary Fund, rising from villain to saviour through the fires of the global economic crisis, faces steep hurdles in trying to transform into the champion of the new world order.

The IMF's annual meetings with the World Bank in Istanbul last week showcased the newfound punching weight of the major emerging economies like China and India.

Only a week earlier the largest emerging countries joined with the seven richest at the Group of 20 Pittsburgh summit in agreeing a framework for sustainable recovery and financial system reform that considerably boosted IMF responsibilities.

The G20 recommended, and IMF policymakers approved, a shift in voting rights of "at least 5.0 percent" from the over-represented to the under-represented that mainly favours emerging countries; China would get the biggest share.

The increased prominence of the emerging nations at the power table marks a pivotal moment for the Washington-based institution, founded 65 years ago and dominated by the United States and Japan, the two largest economies, and European countries.

Before the worst crisis since the Great Depression struck a year ago, the IMF was widely seen as irrelevant and ineffective, and was hated around the world for harsh conditions on its loans.

IMF managing director Dominique Strauss-Kahn said the Istanbul meetings would usher in a "new IMF," an institution equipped to help create and shepherd a 21st century global economy.

But when the annual meetings closed Wednesday, the IMF was far from filling that tall order.

There was the issue of allocation of quota shares and voting power among the 186 members that currently gives more weight to some European countries, and less to emerging powers like China and Brazil.

Though IMF policymakers approved the G20 quota recommendations, it remains to be seen which countries give up some voting power and which get more, with negotiations set to continue to 2011.

Strauss-Kahn pointed out that "only 36 out of the needed 111 countries have passed the legislation" to bring the 2008 quota and vote reform into force.

The IMF also pledged to reform governance in an institution traditionally headed by a European.

Currently the managing director and chief economist are both French, the deputy managing director is, as always, an American, and the United States, as the biggest stakeholder, wields an effective veto.

"Signs, behind the scenes, from both Europe and the White House are not exactly encouraging in this regard; they just don't want to give up 'jobs for the boys'," said Simon Johnson, a former IMF chief economist.

"In some future crisis, you might want your guy in the managing director job, which comes with great discretion and no constraints under the usual rule of law."

Another important process under way is collecting the more than 500 billion dollars promised by member nations to triple the fund's resources to boost lending capacity to distressed economies.

Germany, a major donor, said at the Istanbul meetings the vast increase in the IMF reserves was only "temporary" to deal with the crisis.

The G20 London summit in April agreed that senior leadership at the international financial institutions should be chosen through an open, transparent, and merit-based selection process.

In light of this, Strauss-Kahn's nomination of a Japanese replacement, former finance ministry official Naoyuki Shinohara, for a departing Japanese deputy, raised eyebrows.

"To replace one Japanese national with another in this fashion is to break a critical symbolic and substantive G20 pledge -- the signal it sends is that the next managing director of the IMF will be European, the next president of the World Bank will be American, etc, as they have always been," said Johnson.

"This further undermines attempts to rebuild the legitimacy of these institutions.... The signal this sends to emerging market leaders is evident and, quite frankly, insulting," he added.

Johnson said that pro-IMF people among emerging countries had hoped for the nomination of a distinguished Chinese bureaucrat, which "would have been a brilliant gesture."