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IMF crisis opens the door to emerging nations

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WASHINGTON (AP) — The arrest of Dominique Strauss-Kahn has plunged the International Monetary Fund into a leadership dilemma just as it's playing a key role in addressing Europe's debt crisis and other global challenges.

It also hastens a likely confrontation between Europe and increasingly rich developing countries that have been angling for the top spot at either the IMF or its sister organization, the World Bank. Since their inception just after World War II, the IMF has been led by a European, the World Bank by an American.

Eswar Prasad, an expert in international economics at Cornell University, said the top jobs could become embroiled horse-trading, with the major countries trying to win positions for their top candidates.

"It will be a knock-down, dragged-out fight because there is a lot at stake," Prasad said.

Prasad said the United States would like to see a developing country official head the IMF. But Prasad noted that German Chancellor Angela Merkel has already said she wants to see the IMF post remain in

European hands. Many analysts expect developing nations to push for their own candidates.

Among those being mentioned as possible successors to Strauss-Kahn are Kemal Dervis, a former finance minister for Turkey who is now at the Brookings Institution, and Mohammad El-Erian, an Egyptian who heads the giant Pimco bond fund. El-Erian is a former IMF staffer.

Analysts note that Europe, whose debt crisis has consumed the IMF for more than a year, has a large bloc of

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voting shares in the IMF and won't be willing to yield the top job without a fight. Some suggested that French Finance Minister Christine Lagarde is most likely Europe's leading candidate.

The 187-member IMF lends money to countries unable to pay their debts. The World Bank provides loans to poor nations for building roads, dams and other development projects.

Strauss-Kahn's arrest isn't expected to impede the IMF's day-to-day functioning. The executive board can still approve loan packages. And it's expected to authorize rescue loans to Portugal as part of a larger package that European finance ministers negotiated Monday.

"There is a management team there, and a senior staff, and they will continue to make decisions and recommendations to the executive board," said Edwin Truman, a senior fellow at the Peterson Institute for International Economics.

Still, Strauss-Kahn's arrest complicates delicate negotiations among European leaders and the IMF over whether and under what conditions to send more aid to Greece. Last year's aid package hasn't been enough to resolve Greece's debt crisis. Speculation is rising that Greece may have to restructure its debts.

"An element of uncertainty has been injected at a time when the situation is extremely fragile," said James Rickards, senior managing director at Tangent Capital Partners.

Before his arrest, Strauss-Kahn was widely expected to step down within months and run for president of France. So the IMF's executive board has likely already been considering replacements.

A new managing director could be selected as early as June or July, Rickards said. A global financial summit will be held in November in Cannes, France, and the IMF will be under pressure to have a new permanent leader in place well before then.

The IMF's second-in-command, John Lipsky, who was named acting managing director, is viewed as more of a technocrat than Strauss-Kahn, with less political sway, particularly in Europe. And Lipsky has said he will step down in August, when his term ends.

"The combination leaves the IMF leaderless at the most critical time in its existence since the end of World



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War II," Rickards said.

Strauss-Kahn is regarded as one of the savviest leaders in the IMF's 64-year history, with deep ties to European policymakers. He played a vital role in negotiating last year's joint European Union-IMF bailout package for Greece and other struggling European countries.

He's also been viewed as an effective advocate for Europe's interests before the IMF's executive board, which represents its member countries.

"The ability of Strauss-Kahn to navigate those waters will not be easily replaced," said Uri Dadush, a senior associate at the Carnegie Endowment for International Peace and former director of economic policy at the World Bank.

Strauss-Kahn hasn't yet officially stepped down. But few analysts expect him to remain. The IMF's executive board had been scheduled to hold an informal meeting Monday afternoon.

Morris Goldstein, a top economist at the IMF for 25 years and now at the Peterson Institute, said the French will likely argue that Lagarde would be a wise choice because the IMF will need someone closely involved in negotiations over aid packages for Greece, Ireland and Portugal. If chosen, Lagarde would be the first woman to lead the IMF.

"They could argue that at this delicate state of negotiations on the European debt programs, the IMF needs somebody who is familiar with the issues," Goldstein said.

He said that if the Europeans lose the IMF post, they might insist that the United States also give up its long-standing hold on the World Bank job when Robert Zoellick's term as World Bank president ends.

Non-Europeans will likely argue that it's time to open up the leadership to major developing countries whose economies are expanding far faster than the developed world. Some, like China, have boosted their contributions to the IMF in recent years.

"There is growing disquiet, particularly among emerging nations," said Jan Randolph, an analyst at IHS Global Insight. "China could use its influence to support an emerging-market candidate for the top IMF job."

The United States, the largest donor to the IMF, is certain to weigh in.

"This will be a rather complicated game of musical chairs," said Uri Dadush, a senior associate at the Carnegie Endowment for International Peace and former head of economic policy at the World Bank.

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