Opinion **Trade Secrets**

Why the ‘Global South’ isn’t running the IMF

China’s conflicted interests and strategic rivalries are helping to preserve the status quo of rich-country dominance

ALAN BEATTIE

President Luiz Inácio Lula da Silva of Brazil this year denounced the IMF for ‘asphyxiating’ economies with its tough lending conditions © Andressa Anholete/Bloomberg

Alan Beattie YESTERDAY

If there’s one song the purported voices of the self-styled “Global South” all like to sing, it’s that overbearing rich countries unjustly dominate international finance in general and the IMF in particular.

President Luiz Inácio Lula da Silva of Brazil this year denounced the fund for “asphyxiating” economies with its tough lending conditions, somewhat ignoring the IMF rescue that saved his country from sovereign bankruptcy in 2002 during his first presidency. More concretely, the Brics summit in August called for more representation at the fund for low and middle-income countries.

But this is a trickier issue than it looks. The debate over who should run the IMF — which holds its annual meetings in Marrakech next week — exposes deep flaws in the idea that developing countries have a common interest and identity.

Certainly, rich countries are over-represented on the fund’s board. The EU and other advanced European economies have around a third of the “quotas” that determine voting power but less than a quarter of global gross domestic product. The convention that the fund’s managing director is always European is also ridiculously outdated and sometimes farcical. One, the Spaniard Rodrigo de Rato, ended up jailed for embezzlement; another, the Frenchman Dominique Strauss-Kahn, blew up his career in a succession of sex scandals.

It’s also fair to argue that the IMF, especially during the 1980s and 1990s under pressure from the US Treasury, imposed excessive coercive deregulation on crisis-hit borrowers and was widely perceived as a debt collector for rich countries and investors.

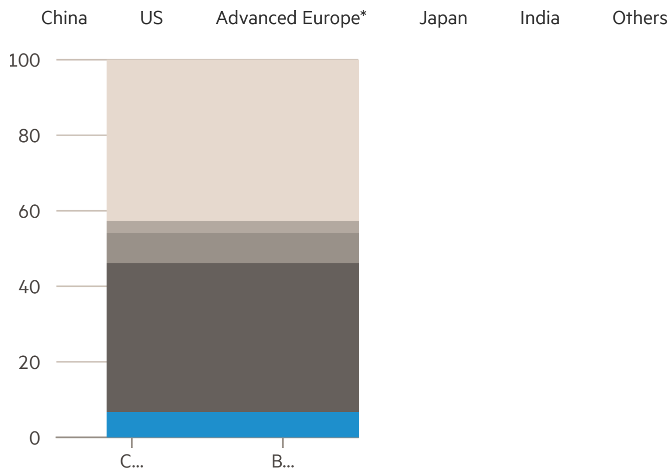
A review of IMF quotas is currently under way, and it seems fair and geopolitically astute for advanced economies to cede some voting power. But in reality that would open up divisions between emerging markets — and in particular present China with a serious dilemma about its role in the global financial safety net that protects developing countries from crisis.

A reshuffling of power in the IMF according to current economic heft would reveal a familiar lopsidedness — the disproportionate role of China in the rise of emerging economies. An admittedly mechanical exercise in updating quotas according to the latest data on GDP, economic openness, variability and currency reserves would increase China's voting share from 6.4 per cent to 14.1 per cent, while the US's quota would fall from 17.4 per cent to 14.8 per cent and advanced Europe's from around 32 per cent to 29 per cent.

The current US administration, unsurprisingly, wants to increase the IMF's overall lending firepower without changing the current voting weights. India, the second-ranked EM, would rise to just 3.5 per cent of total quota. Some middle-income countries, including Brazil and Mexico, would actually see their share fall.

Rising China, shrinking US

"Quotas" determining voting weights on IMF executive board (%)



Sources: IMF, FT calculations • *EU, Switzerland, UK, Norway

FINANCIAL TIMES

But with power should come responsibility. In recent years China, a major bilateral lender to developing countries, has prolonged the suffering of debt defaulters such as Sri Lanka and Suriname by refusing to participate in creditor committees backed by the IMF, holding back rescue lending programmes and attracting criticism from the US.

The fund correctly shifted tack around 20 years ago and became much more willing to press sovereign debt restructuring on reluctant private and public creditors. But China disingenuously portrays its loans as assistance from one developing country to another and resists writedowns. This is absurd and unjust. Beijing cannot credibly be a custodian of a multilateral institution while simultaneously undermining it with a vast opaque parallel system of bilateral lending.

Overall, China is an opportunistic multilateralist that participates enthusiastically in institutions it can influence (the Brics and parts of the UN system) and disengages from those it cannot (the G20). There is no guarantee it wants to play a constructive role in the IMF.

Now, it's true that US criticism of Chinese unilateralism in economic governance looks like rank hypocrisy. America itself acts unilaterally all over the place, imposing financial sanctions on its foes and undermining the WTO by openly defying international trade law. But the IMF performs an invaluable role and is one place where the US generally operates at least in the vicinity of multilateral principles. It would be wise to keep it that way.

On top of China's conflicted interests, political rivalries between EMs also hold up a shift of power at the IMF. One reason Europe keeps a lock on the fund's leadership, for example, is that developing countries have never united around a rival candidate.

As a strategic adversary of China, India is notably suspicious of Chinese influence. Eswar Prasad, professor of trade policy at Cornell University in the US, says: "India in particular has been wary of quota reforms because its share relative to that of China would shrink." A lack of consensus for change means the current review will probably end in the US getting its way and the voting shares remaining unchanged.

That's not the best outcome, but it's the only one that can command consensus. The rich countries have undoubtedly made mistakes, sometimes big ones, in running the IMF. But it's not just their defence of that historic privilege that holds back reform. The rivalries and conflicting interests among emerging markets play an important part, too.

alan.beattie@ft.com