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A Shaken Agency Looks to the Future

By LIZ ALDERMAN and GRAHAM BOWLEY

European officials moved quickly to assert their claim over the leadership of the **International Monetary Fund** on Thursday, suggesting a serious challenge is being mounted by emerging economic powers like China and India that believe the time has come to break Europe's historic grip on the post.

The abrupt resignation of **Dominique Strauss-Kahn** late Wednesday night has brought tensions long simmering beneath the surface at the powerful organization to a boil.

Nations like Brazil want a more open process that does not see the top position at the I.M.F. granted to a European, as has been the convention since the fund was founded 65 years ago. They hope instead to put forth a credible candidate from the emerging world to reflect its growing economic clout.

"We must establish meritocracy, so that the person leading the I.M.F. is selected for their merits and not for being European," Guido Mantega, Brazil's finance minister, said late Wednesday

China, too, publicly weighed in on the debate, suggesting that achieving a consensus on the successor to Mr. Strauss-Kahn may take several months. "In principle, we believe that emerging and developing countries should have representation at senior levels," a Chinese foreign ministry spokesman said Thursday, the second such statement in two days.

Politicians from across Europe closed ranks, appearing to coalesce behind Christine Lagarde, France's finance minister, as their preferred candidate to succeed Mr. Strauss-Kahn, who is also French.

Chancellor Angela Merkel of Germany publicly called for a European to assume the job, arguing that the Continent's festering economic problems required a European to stay in place. German

media reported that she favored Ms. Lagarde.

“Of course, developing nations are within their rights in the medium term to occupy the post of either I.M.F. head or World Bank chief,” Mrs. Merkel said, according to news reports. “But I think that in the current situation, with serious problems with the euro and the I.M.F. strongly involved, there is a lot in favor of a European candidate being put forward.”

In Washington, the I.M.F. said the 24-member executive board had begun discussions about the selection process for the new managing director. The board is scheduled to hold its regular weekly meeting on Friday when the timetable for succession, like deadlines for nominations, may be discussed. Countries will nominate their candidates, and then the board will vote, with large financial contributors like the United States and Japan getting a bigger share of voting rights. The entire process could take months, as it has in the past.

But the real negotiations and horse-trading have already shifted back to national capitals; one issue being discussed is whether a European would serve out the remaining year and a half of Mr. Strauss-Kahn’s term, before handing over to a candidate from the emerging nations, or, more likely, whether a new head should be elected to serve a full five-year term.

President Nicolas Sarkozy of France spoke with Mrs. Merkel by phone Wednesday and will speak with Prime Minister David Cameron of Britain on Friday about succession, said an official in Mr. Sarkozy’s office who spoke on condition of anonymity. President Obama and other heads of the Group of 8 industrial powers will also discuss the matter when they meet in Deauville, France, next week, the official said.

Support from the United States is crucial. At 16 percent, it has the single biggest voting share on the fund’s board. Together, the United States and numerous European countries control more than 50 percent of the voting shares.

On Thursday, Treasury Secretary Timothy F. Geithner said the United States wanted a “prompt succession,” perhaps suggesting the United States is interested in promoting a quick changeover that leaves a European in charge and does not disturb the status quo.

But he said the United States also wanted to see an “open process,” stopping short of endorsing Europe’s claim. The United States faces a sensitive task over the next few months, risking confrontation if it backs a European candidate, leaving room for countries with developing economies to come up with a credible candidate of their own.

“We haven’t taken a position on any candidate,” Lael Brainard, the Treasury under secretary for international affairs, said in a speech in Washington. “What is important at this juncture is that we move quickly to an open process.”

John Lipsky, acting managing director of the International Monetary Fund, told reporters in Washington on Thursday that the fund had continued to function effectively this week despite the turmoil that followed the arrest of its managing director.

“To think that the I.M.F. depends on one person is an illusion,” Mr. Lipsky said. “We can see already this week that the fund has been able to move forward in important areas,” including working on policies in Ireland, Greece, Egypt and Portugal.

Mr. Strauss-Kahn’s resignation comes at a tricky time for the United States, which by convention has taken the No. 2 job at the fund while occupying the most senior position at the World Bank.

The presidency of the World Bank comes up for election next year. Mr. Lipsky had already announced he planned to leave the I.M.F. in August.

Analysts say the United States wants to ensure that an American remains at the top of the World Bank and in the deputy position at the fund — the name of David Lipton, currently senior director for international economics in the White House, has been floated — but question whether it can credibly argue for a switch of the top job to the emerging world and still keep its claim on these positions.

Currently, several names are in the frame from emerging-market economics. But the effort may be hampered if the countries fail to put forward a single strong candidate.

The leading candidate from the emerging world, many analysts suggest, may be Kemal Dervis, a former finance minister of Turkey. Mr. Dervis is credited with rescuing the Turkish economy after it was hit by a devastating financial crisis in 2001. Before that, Mr. Dervis worked at the World Bank for 24 years.

Other possible candidates include Arminio Fraga Neto, former governor of the central bank of Brazil; Tharman Shanmugaratnam, finance minister of Singapore; Agustín Carstens, governor of the central bank of Mexico; and Montek Singh Ahluwalia, deputy chairman of India’s planning commission.

China's role will also be important. According to Eswar S. Prasad, a professor at Cornell and a 17-year veteran of the fund, China might actually benefit if no single candidate comes forward from the emerging world. Instead, he suggested, once a European is in place as managing director, China could push for a more formal role — perhaps deputy managing director, for its highest-ranking official, Zhu Min, now special adviser to the managing director.

The whole process, however, could take three or four months. When Mr. Strauss-Kahn, for example, was proposed in 2007, the selection took more than two months as he flew around the world garnering support and votes, even after the United States said it would support a prominent European for the post. He was formally nominated by Germany, and the board settled on him by consensus.

Ms. Lagarde is one of Europe's most highly regarded economic officials. The former head of the Chicago-based law firm Baker & McKenzie, she is as connected and as respected in Washington and on Wall Street as in Europe.

One of the most difficult issues facing the I.M.F. these days lies in what to do about China's major intervention in currency markets to slow the rise of [the renminbi](#). Beijing's currency policy has helped make Chinese exports more competitive, but it has angered countries that have large trade deficits with China or that have been losing foreign markets to China — notably the United States, Southern Europe, India and Southeast Asia.

As France's finance minister, Ms. Lagarde has been reluctant to question Chinese policies. During a visit to Beijing and Hong Kong in October 2009 — at a time when China was not allowing the renminbi to rise against [the dollar](#) — she said at two news conferences that the value of the renminbi was a question of China's sovereignty, and declined to offer any criticism of China. But in the same breath, she called for the United States to maintain the value of the dollar.

Katrin Bennhold, Keith Bradsher and Edward Wyatt contributed reporting.

This article has been revised to reflect the following correction:

Correction: May 26, 2011

An article last Thursday about Christine Lagarde, the French finance minister who is a candidate to

head the International Monetary Fund, misstated the length of time she lived in the United States. It was six years, from 1999 to 2005; not 25 years, though she was with the Chicago-based law firm Baker & McKenzie for nearly 25 years. The error was repeated in an article on Friday about an international dispute over whether to install a leader from Europe or an emerging-market nation as head of the fund.