

Asia eyes key stake in new global financial system



by P. Parameswaran
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WASHINGTON (AFP) – Asian leaders will find the first global summit on the current financial turmoil a perfect venue to demand a key stake for the region in any new international financial system, experts say.

As Europe and the United States clash over their leadership role in framing a new international financial architecture at the November 15 meeting in Washington, Asians feel they have much of a stake in the stability of the global system as the industrialized countries, the experts said.

"The big question is how you can restructure the international economic regime in a way that makes countries such as India and China feel that they not only have a stake but also have real influence," said Eswar Prasad, former head of the China division at the International Monetary Fund.

The Washington-based IMF has often been criticized as increasingly unrepresentative of the global economy, with emerging economies, especially Asian ones, chronically underweighted in their voting shares.

"The problem with the Bretton Woods institutions in the way they are currently structured is that these major economies feel that those institutions are still the fiefdoms of the US in particular and advanced economies in general," Prasad said.

The IMF and the World Bank are institutions established under the Bretton Woods agreement, which has guided international finance since World War II but which mainly European leaders want rewritten after a massive US home mortgage meltdown sparked the world's worst financial crisis since the Great Depression.

US President George W. Bush has called for a series of summits, beginning with the November 15 talks, to discuss the causes of the problems in the global financial system and begin developing reform for financial regulatory bodies and institutions.

Leaders from China, Japan, India, Australia, South Korea and Indonesia are the Asian regional invitees to the summit, that also include the United States, the European Union, Britain, France, Germany, Argentina, Brazil, Canada, Italy, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

"For the architecture of the international financial system, I certainly think they should be raising the whole question of the overrepresentation, particularly of Europe and to some extent the United States, and the extreme underrepresentation of emerging markets, many of which are in Asia," said Nicholas Lardy of the Washington-based Peterson Institute for International Economics.

He said that without some really fundamental changes, for example, in the distribution of voting rights in the IMF, "it is hard to see how it is going to remain a relevant international organization".

IMF member nations approved reforms earlier this year for developed countries to give up a small fraction of their voting rights -- equivalent to 1.6 percentage points -- to the benefit of emerging and developing countries. It was criticized by experts as inadequate.

"They are really moving at a snail's pace," Lardy said despite IMF chief Dominique Strauss-Kahn's pledge to restore what he called relevance and credibility to the heavily criticized multilateral institution.

While there is some agreement on the need for a powerful and effective multilateral institution that would bring everyone to the table and actually have some leverage over the key players, it is not clear whether the Washington summit would seek a new international financial framework, experts said.

"A big concern China and India have is that institutions, like the IMF, may not have leverage over the key advanced country players," said Prasad, now with the Washington-based Brookings Institution.

"So, how you correct that imbalance or at least the perception of that imbalance is going to be very critical," he said.

The current financial turmoil has inspired widespread speculation of a shifting balance of power away from the United States and other advanced economies of Europe toward the major emerging economies, said Sabina Dewan of the Washington-based Center for American Progress.

"Whether this is indeed the case is yet to be seen, but that emerging economies such as China and India are becoming critical players in the global economic game is clear," she said.