VOICES OF THE SOUTH ON GLOBALIZATION

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RATO QUITS – WILL IMF STAY PUT?

In this issue

Voices of the South on Globalization is a monthly newsletter intended to inspire a meaningful North-South Dialogue by raising awareness for global interdependences and by offering a forum for voices from the South in the globalization debate. Each edition will present short analyses or commentaries from a Southern perspective on one particular issue of the globalization process.
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Editorial

THE EU TRIO DEFENDS ITS INTERESTS

"I have the highest regard for this institution, its staff, its role in the global economic architecture, and its enviable ability to adapt to changing global circumstances to ensure that it can serve its members effectively," said IMF's managing director Rodrigo de Rato in a statement on June 28 announcing that he was resigning in late October, nearly two years before his term ends.

The hope that the Fund would adapt to "changing global circumstances" appeared dashed a few weeks later. According to reports, Britain, France and Germany have joined forces to fight against plans to reform the Fund which would give a bigger say to emerging economies such as China, India and Brazil "at the expense of European states".

Proposed reforms of the Fund are due to be agreed in September before Rato steps down. But senior IMF officials were quoted saying that countries are locked in a dispute which pits Europe against the U.S. and fast-growing economies. "What we hear from European colleagues [is] that they have the right of birth to run this institution indefinitely. This is very disappointing", an IMF official was quoted said.

The EU trio have rejected formulas which would award a country votes based on the size of their economy – an equation that would give a strong boost to the powers of Beijing for example. EU economies are seeking reforms that would not reduce their leading position on the board, the reports said.

"The UK, France and, to a lesser extent, Germany, have dug in their heels", a senior IMF official was cited as saying by the Financial Times, adding that "Japan also fears being eclipsed by its Asian rivals".

On the other hand, the U.S. – reportedly "annoyed with the Europeans' intransigence" – has pushed for more votes to the four most under-represented IMF members – Mexico, Turkey, South Korea and China. Washington is seen as a staunch ally of the first three, and wants to see Beijing change its currency policy.

A voting reform needs 85 percent of support in order to fly, but some point out that "[Mr] Rato doesn't have the votes" to push the policy through before he steps down.

An impasse could worsen the crisis of legitimacy for the IMF, as its structure and policies increasingly come under fire and emerging markets look elsewhere for credit. Outstanding credit fell to 20 billon dollar (14.5 billion euros) last year from about 100 billion dollar in 2003 – a drop that critics say reflects distrust of the fund. **- Ramesh Jaura** ☑

STRENGTHENING IMF'S SURVEILLANCE

Rodrigo de Rato *

In today's globalized economy, one country's economic and financial policies can reverberate far beyond its borders. Be it the spread of inflation or the impact of currency devaluation half a world away, global economic forces can have a direct impact on every person's livelihood.

Under such circumstances, international cooperation is essential to ensure stability and growth and prevent disruptive crises. But for such cooperation to be effective, the international community needs the right tools.

The IMF provides one of the most important tools. For many years, the fund has engaged its member countries in a process known as "surveillance," in which it monitors, analyzes and consults on each country's economic policies -- both exchange rate policies and relevant domestic policies.

These regular checkups help to identify potential vulnerabilities and to maintain economic stability.

However, the increasingly complex policy challenges of the globalized economy demand a fresh look at this process.

This June, the IMF's executive board did just that, reaching a broad consensus on updating surveillance to make it more focused and effective. This is one of the most important reforms to the fund's work in the 30 years since the surveillance process was designed.

Indeed, it is part of a much broader reform effort aimed at strengthening the IMF and will have implications extending well beyond the Fund's boardroom.
The new reform brings three critical changes.

First, it affirms that surveillance should focus on what matters for stability, and gives detailed guidance in this area. IMF advice should not be spread too thin.

Second, there is now clear advice to the fund's member countries on how they should run their exchange rate policies, and on what is acceptable to the international community.

Finally, the reform sets out clearly for the first time what is expected of surveillance, and so should promote candor and evenhanded treatment of every country.

In other words, the fund must ensure that it deals with every country the same way, including delivering clear and sometimes difficult policy messages and sharing its views with the international community.

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NEW APPRAOCH

The new approach to exchange rate policies represents one of the most significant advances. Under the IMF Articles of Agreement, members are required to collaborate to promote a stable system of exchange rates and to avoid manipulation with a view to gaining an unfair trade advantage. Past guidance in this area was limited, focusing entirely on manipulation and on avoidance of short-term volatility.

This guidance remains, but what we meant by manipulation is now clearer. We have also addressed those policies that have caused the most harm to the system in recent years, including overvalued or undervalued exchange rate pegs maintained for domestic reasons.

This change comes at a crucial time for the world economy. Countries are experiencing strong growth, inflation is low and the threat of crisis has receded considerably. Few countries need to borrow from the IMF -- a highly positive trend.

But improved surveillance is essential to ensure that the global economy remains on an even keel. By clarifying what surveillance entails, the new decision should help the IMF and its members see eye to eye on the fund's role, help those involved in surveillance do their job properly and make the fund more accountable for delivering on this key responsibility.

This reform represents a victory for multilateralism that demonstrates ownership of how fund surveillance will be strengthened and members' willingness to live up to their responsibilities in the process. Of course, it is critically important that it received very broad support from industrial countries, emerging economies, and developing countries.

The international community needs a setting where it can debate the most sensitive economic issues, including -- but certainly not limited to -- exchange rate issues. The IMF offers that venue. At the same time, it can provide the nonpartisan technical expertise that enables governments to define policies that will ensure continued economic stability.

The goal is to support policies that are good for each member country ? but also for other countries ? through dialogue and persuasion. This is the very essence of international cooperation. ☑

DEVELOPING COUNTRIES CHIDE EUROPEANS

Emad Mekay

A coalition of developing countries at the International Monetary Fund issued a tacit warning that the highly political process of selecting the next IMF chief may be intimidating non-European countries from putting forth candidates, and further discrediting the institution.

The July 23 statement by the Group of 24 (G24), which operates as an association of minority shareholders in the IMF and the World Bank and which has previously complained about the lack of democracy at the IMF, was also seen as one of the clearest signals of distrust in how the IMF is being run.

It came as sources at the IMF tell IPS that highly qualified candidates from developing nations are hesitating to apply for the managing director position because they see the process as skewed in favour of the European candidate, Dominique Strauss-Kahn.

They say that the near unanimous agreement among European finance ministers to back Strauss-Kahn makes the successful outcome of his nomination a done deal.

A source inside the Fund, who wished to remain anonymous, says South African Finance Minister Trevor Manuel is a favourite of some countries, even though he has not publicly expressed interest. They have confided that they do not want to put his name forward before receiving guarantees that transparency and democracy pledges by rich nations will be honoured.

Sources say that Manuel would be a highly competitive candidate given his long-term tenure as chairman of the Joint Development Committee, which coordinates activities of the IMF and the World Bank, and his credibility in dealing with many of the issues facing poor nations.

The 24-member Board of Executive Directors that helps run the day-to-day affairs of the Washington-based IMF recently asserted that the selection of the next managing director would be transparent and democratic, and that all 185 members of the Fund were free to nominate candidates.

The Board vowed that this time around, it would be a merit-based process with clear criteria, no geographic preference, and the objective of selecting the managing director by consensus rather than by a simple majority of votes.

But early July, the European nations, who together have the largest bloc of votes on the board, quickly rallied behind the French candidate, former finance minister Dominique Strauss-Kahn (58), effectively declaring that they will not even consider others. The immediate and unanimous support of the Europeans for his candidacy appears to have prompted the veiled rebuke from the G24.

"Non-European candidates will only be prepared to come forward if there is confidence that the spirit of the aforementioned Executive Board commitment will be respected by all members," the G24 said in a statement. "We therefore commit ourselves fully to these principles and call on advanced economies to do the same."

While the group worded their statement in diplomatic terms, they made it clear that they saw no strong support for the democratic principles initially propagated by the rich countries and the IMF's board.

"A strong commitment to an open, transparent and multilateral selection process will greatly enhance the legitimacy and effectiveness of the next Managing Director and of the institution at a time when the IMF is confronted with fundamental challenges to its relevance and viability," said the statement.

Observers say the statement from the G24 is not just a call for reform. It is evidence of how much developing nations have come to distrust the IMF.

"It (the statement) has big value in that it shows that G24 do not really trust the opening of the process as being presented by the major countries in the IMF," said Aldo Caliari of the Centre of Concern in Washington. "It's an important indicator of a real sense of distrust about the likelihood that someone who is not a European will be taken seriously into consideration," he said.

The G24 countries are Algeria, Egypt, Iran, Philippines, Argentina, Ethiopia, Lebanon, South Africa, Brazil, Gabon, Mexico, Sri Lanka, Colombia, Ghana, Nigeria, Syria, Cote D'Ivoire, Guatemala, Pakistan, Trinidad and Tobago, Democratic Republic of Congo, India, Peru and Venezuela.

The debate about the selection process is hardly a new one. Under an unwritten agreement with the United States, European countries choose the head of the IMF in return for Washington naming the president of the Fund's sister institution, the World Bank. The G24 has consistently called for a change of this practice.

Civil society groups, think tanks, some economists and developing nations have long urged a follow-up of recommendations made in April 2001 by a joint World Bank-IMF working group on how to choose the managing director. The recommendations called for opening up the process. But although the two institutions' executive boards adopted the recommendations as guidance for the future, they were never implemented.☑

ANTI-POVERTY CAMPAIGNERS DISAPPOINTED

David Cronin

Ever since its inception in 1945, the IMF has been headed by a European, and its sister institution, the World Bank, by someone from the United States. With poor countries now outnumbering rich ones in the 185-nation IMF, its critics have argued that the selection process for its managing director is anachronistic. Calls for the process to be reformed were, however, rebuffed by the EU July 10.

Anti-poverty campaigners reacted with disappointment to the finance ministers' decision.

Alex Wilks from the European Network on Debt and Development (Eurodad) said that failure to ensure an open competition for the IMF post would lead to the institution's "credibility spiralling downwards".

"Opening up the process would not be a totally symbolic move," he told IPS. "It is not about the colour of the skin of the managing director or the flag on his passport. It is about having competition. Who is to say that the Europeans have the best person and that there isn't someone better from elsewhere?"

Wilks criticised Britain for not taking a more vigorous stance. He noted that the UK government committed itself to seek reform to the selection process in a 2006 White Paper on 'making governance work for the poor'. That paper said that the top jobs at the IMF and World Bank should be awarded on the basis of merit, rather than nationality.

Peter Chowla from the Bretton Woods Project, which monitors the IMF's activities, described the EU move as "a missed opportunity" to reform the selection process. He acknowledged, though, that a more open selection process may not necessarily mean that the IMF would have a more benign influence in poor countries, where it has been criticised for advocating fiscal policies that limit expenditure on health and education.

"It would entirely depend who got the post," he told IPS. "If it was someone trained in the Chicago School of Economics, who believes in keeping the same way that the Fund works, then it would not make a huge difference. But it's equally possible, that you could get someone with a critical insight into emerging markets and developing countries, who could really think about developing a better system of global economic governance.

"One of the complaints the IMF has faced is that it has not been even-handed. It imposes its will on poor countries but not on rich countries. A leader from a developing country heading the fund could help to make its work more even-handed." Chowla also contended that Europeans have for the past two years been blocking proposals to reform the IMF's workings. The proposals have been designed to give poor countries a greater say in its operations.

"The failure of the Fund with the Russian, Argentinian and Asian crises meant it was seen to lose credibility in the eyes of its members," he argued. "If it is going to recover, the Fund needs a visionary leader. I doubt that a European who has been involved in domestic politics for so long is the person to offer that kind of leadership."

IMF directors from Latin America and the Middle East have been actively pushing for a reform of the selection process. Paulo Bautista, the Brazilian director, had said that the European governments were "trying to move quickly to try to reach agreement among themselves" so they could "avoid having to explain" why they refused to cast the recruitment net wider.

Both Ecuador and Venezuela announced their intention earlier this year to leave the IMF.

The institution has faced severe criticism over the Argentinian economic crisis of 2001. The Fund's detractors attribute this crisis to IMF-induced restrictions on spending that hampered the Buenos Aires government from maintaining essential services such as health, education and security.

ActionAid has also berated the IMF for attaching stringent macroeconomic conditions to the assistance it offers to African countries.

Recent case studies by ActionAid on Mozambique, Sierra Leone and Malawi concluded that the IMF was "partly responsible" for the chronic shortage in teachers facing those deeply impoverished states. By advocating a ceiling on the public sector wage bill, ActionAid said, the IMF was preventing Africa from hiring sufficient numbers of qualified teachers. ☑

AFRICAN CAUCUS HAILS STRAUSS-KAHN AND CALLS FOR "MORE VOICE"

Jaya Ramachadran

The African governors to the International Monetary Fund welcomed a commitment by Dominique Strauss-Kahn, the European Union's candidate to head the IMF, to focus on Africa. At the same time, they called for "more voice and representation" in the Bretton Woods instituions.

In a statement released by the IMF on behalf of the African Caucus, Mozambique's finance minister, Manuel Chang, gave a positive reading to an informal meeting in July between Strauss-Kahn and the African governors.

He said they discussed the challenges the IMF faces in helping the world's poorest continent improve economic growth and fight poverty.

"The African governors appreciated Mr. Strauss-Kahn's frankness and openness in responding to the various issues raised," Chang said.

"They welcomed his commitment to put Africa at the center stage of the reform process, to have regular consultations with them at the highest level, and to take into consideration their concerns should he be selected as managing director of the Fund. They wished him well in his candidature."

Strauss-Kahn was on a world tour seeking support for his bid to succeed IMF managing director Rodrigo Rato. He met informally with the African governors of the IMF and the World Bank, in Mozambique's capital Maputo, as they held a regular meeting to discuss the two sister institutions and Africa.

The Frenchman, a leading Socialist and the sole candidate for the IMF post to date, also visited the United States and Brazil in a tour that included visits to China, India, Japan, South Korea, Egypt and Saudi Arabia.

The Washington-based IMF launched on July 12 its search for a successor to Rato and is accepting nominations from any of its 185 members through August 31. It said the successful candidate would be chosen according to merit, without regard to nationality.

Three Frenchmen have held the managing director's job for more than 30 of the IMF's 61 years, and Frenchmen also currently head the World Trade Organization, the European Central Bank and the European Bank for Reconstruction and Development.

At the meeting the 'African Caucus' of finance ministers and central bank governors called for more "voice and representation" for Africa inside the World Bank and the IMF, declared Antonio Laice, National Director of the Treasury in the Mozambican Finance Ministry. He said the ministers are agreed on the need to increase the number of "basic votes" allocated to World Bank members.

The Bank's voting system is heavily skewed towards the rich countries of the north. All Bank members have 250 "basic votes" - but there are additional votes for every share in the Bank that members hold. This system gives the 23 countries classified as "developed" over 60 per cent of total votes. and the United States alone about 16.5 per cent.

Over the years the importance of the "basic votes" has steadily decreased. In 1970 Basic votes accounted for about 10 per cent of voting strength at the World Bank - today, that weight has fallen to less than two per cent.

Laice said the African Caucus wants to restore the weight of the basic votes to "at least" the 1970 position.

The Caucus also wants to increase the number of World Bank executive directors for Africa. Currently, while all five of the largest shareholders in the Bank (the U.S., Japan, Germany, Britain and France) appoint one executive director each, the 53 countries of Africa have just two executive directors between them.

"So at key meetings, these two directors have to respond for all of Africa", said Laice. "It's very heavy for them".

The Caucus is calling for an increase in the number of Africans employed at all levels of the World Bank and the IMF.

"There are very few Africans in these institutions", Laice pointed out. "Delegations sent by the Bank or the Fund to Africa should include African staff members. But most of the delegations don't have any Africans at all".

Yet Africa was the part of the world receiving most attention from the Bretton Woods Institutions, in the attempt to reduce poverty and implement the Millennium Development Goals (MDGs). It therefore made sense "to develop a formula to increase the voice of African countries", said Laice.

The Caucus also wanted to see a scaling-up of resources, otherwise most of Africa was going to miss the deadline of 2015 for attaining the MDGs. These goals, approved by all world leaders at the United Nations Millennium Summit of 2000, include reducing by half, between 1990 and 2015, the number of people living on less than a dollar a day, ensuring that all children have a complete primary education, reducing the under-five mortality rate by two thirds and the maternal mortality rate by three quarters, and halting, then reversing, the spread of HIV/AIDS. ☑

APEC INSISTS ON REFORM

Raja Ram

Finance ministers from the Asia-Pacific region want the International Monetary Fund to be overhauled. At a meeting of the 21 Asia-Pacific Economic Cooperation (Apec) forum in Australia, finance ministers agreed that the Fund should be reformed to make it more relevant.

"There is a view in the Asia-Pacific that the IMF is not fully representative of the modern economy and there's a broad consensus that the IMF needs reform and needs a better focus on this region," Australian finance minister Peter Costello said briefing on the meeting early August.

"Countries in this region are emerging as great economic powers and they are going to be critical to the global economy in the years ahead," Castello said, adding: "I think the IMF reflects an economic order as it stood at the end of World War II, not the economic order as it stands at the end of the 21st Century."

The IMF was formed in 1944 to oversee the international monetary system, including exchange rates, and to provide temporary finance to countries struggling with balance of payments problems.

The Fund's deputy managing director, John Lipsky, defended the organisation. He said it was reforming its membership structure and that its existence had coincided with strong global growth. "The period since the formation of the IMF ... has been a period of some of the most sustained economic advance in the history of the world," he said.

"I'm not trying to claim it's because of the IMF but it's hard to say that that's a sign of failure or irrelevance."

Lipsky said the amount the IMF had loaned to struggling countries had declined in recent years but that it remained an important back-up for the international financial system. "It is possible that there could come a time in which the IMF's funding role would be relevant once again," he said. "It would be foolish to assume that the currently benign environment would be permanent."

But critics doubt that the Fund has the ability to show the way out.

Ten years after the Asian financial cataclysm of 1997, the economies of the Western Pacific Rim are growing, though not at the rates they enjoyed before the crisis. The region has been indelibly scarred by the crisis. There is greater poverty, inequality, and social destabilization than before the crisis. South Korea's painful labor market reforms, for instance, have produced the quiet desperation behind one of the highest suicide rates among developed countries, says Walden Bello a senior analyst at the advocacy institute Focus on the Global South.

But, despite all the talk about a "new global financial architecture," there is little in place to regulate the massive amounts of capital shooting through global financial networks at cyberspeed – one of the chief causes of the 1997 crisis, Bello says. "Leave-it-to-the-market enthusiasts tell us not to worry and confidently point out that there's been no major crisis since the Argentine bankruptcy in 2002."

But those who know better, like Wall Street insider and former treasury secretary Robert Rubin, are very worried even as they resist regulation, Bello points out.

"Future financial crises are almost surely inevitable and could be even more severe. The markets are getting bigger, information is moving faster, flows are larger, and trade and capital markets have continued to integrate," Rubin writes in his book In an Uncertain World. "It's also important to point out that no one can predict in what area—real estate, emerging markets, or whatever else—the next crisis will occur."

A recent study by the Brookings Institution confirms Rubin's fears: there have been over 100 financial crises over the last 30 years, says Bello in an article in the Foreign Policy in Focus on July 30.

With the absence of global financial regulation to tame the whirlwind of global finance, Asian countries have taken measures to defend themselves from the volatile global speculators that brought down their economies when in panic they pulled 100 billion dollars out of the region.

To protect their economies, the Association of South East Asian Nations (ASEAN) have banded together with China, South Korea, and Japan to form the 'ASEAN Plus Three' financial grouping. This arrangement enables member countries to swap reserves if speculators again target their currencies.

Bello writes: Asian countries have built up large reserves because of their bitter experience with the Fund. Governments recall the crisis as a one-two-three punch delivered by the IMF. First, the Fund, along with the U.S. Treasury Department, pushed them to liberalize their capital accounts, which resulted in the easy exit of foreign capital that brought down their currencies. Then, the IMF provided them with multibillion dollar loans, not to rescue their economies but to rescue foreign creditors. Then, as their economies wobbled, the Fund told them to adopt pro-cyclical expenditure-cutting policies that accelerated their plunge into deep recession. ☑