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Analysis: IMF power shift opens way for breakthroughs

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By [Lesley Wroughton](#)

WASHINGTON (Reuters) - A G20 agreement to give emerging market countries more power in the International Monetary Fund opens the door for breakthroughs on easing global tensions over trade imbalances.

The surprise deal reached at weekend meetings of finance ministers from the Group of 20 in South Korea shifts IMF voting power to under-represented emerging countries like China, India, Brazil and Turkey.

Countries like the United States are betting that with greater representation emerging economies such as China will be more willing to address the trade distortions causing currency volatility and threatening increased protectionism.

The deal avoided a widening of the gulf between emerging and developed nations and a chaotic ending to a G20 meeting in which the United States failed to convince China and others to agree to targets to limit current account imbalances.

The IMF agreement also spares the G20 from losing credibility, opening the way for G20 heads of state, meeting in Seoul on November 11 and 12, to handle more politically difficult decisions on fixing the trade imbalance problem.

Treasury Secretary Timothy Geithner flew to China on Sunday for further talks with Chinese authorities in the hopes of finalizing a currency deal before the Seoul summit.

Youssef Boutros-Ghali, Egypt's finance minister who heads the IMF's steering policy panel, the International Monetary and Financial Committee, said problems in the world economy could not be addressed without acknowledging the rising clout of emerging economies.

"This deal was necessary for us to get anywhere. This was a necessary condition, not a sufficient condition, for any further reform of the institution," he told Reuters by phone.

"Nobody got exactly what he wanted and nobody is going home with what he wished, but everybody walks home with a viable solution," said Boutros-Ghali, who attended the G20 meeting in Gyeongju.

Just hours after ministers signaled a deal was unlikely and would be left to G20 leaders summit in Seoul on November 12, IMF chief Dominique Strauss-Kahn declared a historic agreement had been reached.

Analysts said the deal was fairly similar to what ministers were unable to agree just two weeks earlier at IMF meetings in Washington and questioned what had triggered the about-turn.

"It raises a possibility there may be another side to this deal," said Domenico Lombardi, a former IMF board official and now a senior fellow at the Brookings Institution think tank in Washington. "It implies some sort of a commitment from emerging economies in terms of rebalancing the current accounts or in terms of greater exchange rate flexibility."

The G20 communique on Saturday called for more market-determined exchange rate systems and the avoidance of competitive devaluations of currencies but failed to get into specifics.

HOLDING OUT FOR BETTER DEAL

G20 officials said the breakthrough IMF deal came during a separate meeting of BRIC countries -- China, Russia, India and Brazil -- and the Group of Seven industrial nations made up of the United States, Britain, France, Italy, Japan, Canada and Germany.

One official said Russia and Brazil argued the deal did not go far enough in shifting power to emerging economies,



India was more conciliatory, while Turkey complained there was no deadline on achieving the shift.

In the end, the grand bargain transfers six percent of voting power to under-represented "dynamic" emerging economies, putting China below the United States and Japan in IMF voting power from sixth place. The changes will also see Europe give up two seats to emerging economies on the 24-member IMF board.

Analysts said the deal will increase the legitimacy of the IMF at a time when it is set to play a larger role in policing the global economy.

The IMF showed during the global financial crisis that it was an effective lender of last resort, but it still has to show its persuading powers on thornier issues, such as foreign exchange policies and current account imbalances.

Analysts said there were no guarantees that by giving emerging market economies more IMF voting power and stepping up IMF oversight of the world economy it will force them to change their policies.

"The lack of an enforcement mechanism makes it unlikely, however, that the enhanced surveillance procedures will work in getting countries to shift their policies -- this approach has been tried before and did not work," said Eswar Prasad, a former IMF official and now a senior fellow at Brookings Institution.

"The threat of 'additional surveillance' is unlikely to convince large countries to change their policies," he added.

(Editing by Paul Simao)

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