Title

Strategies of Brazil, China, and India towards International Monetary Fund (IMF) Governance Reform, and Group of Seven (G7) Strategies of Reform: 1999 – 2011.

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COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Contents

Abstract

The rise of emerging powers from the global South and their calls for reform of international organisations (IOs) is a topical issue that has grabbed the attention of both policymakers and scholars. This study focuses on strategies that were adopted by Brazil, China, and India to increase their influence within the International Monetary Fund (IMF), and on Group of Seven (G7) strategies of reform put in place to accommodate these emerging powers. This study argues that since representation in the IMF is chiefly determined by a member's economic power, the IMF faced a legitimacy challenge from certain emerging powers due to the fact that their representation was not aligned with their relative global economic weight, while its policies were viewed as biased and negatively affecting developing countries and emerging powers. Brazil, China, and India therefore adopted global and regional multilateral strategies and collectively used their enhanced financial power to bargain for more influence within the organisation. The G7 also adopted global multilateral strategies, through Group of Twenty (G20) summit level negotiation and bargaining, to incrementally increase representation of these states. The outcome was their incorporation into a new club of IMF creditor states, the New Arrangements to Borrow (NAB), in which their NAB commitments amounted to an increase in their representation. The structural condition of Brazil, China, and India as emerging powers with enhanced material power capabilities in the form of increased economic weight and financial power, is therefore the major factor explaining their improved ranking in the IMF.

List of abbreviations

ABFI	Asian Bond Fund Initiative
ACU	Asian Currency Unit
AMF	Asian Monetary Fund
ASEAN	Association of South East Asian Nations
ASEAN+3	Association of South East Asian Nations plus China, Japan, and South Korea
BOS	Bank of the South
BWIs	Bretton Woods Institutions
BRICs	Brazil, Russia, India, China
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateral
EMDCs	Emerging Market Developing Countries
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
EU	European Union
FAO	Food and Agriculture Organisation
FLAR	Latin American Reserve Fund
GAB	General Arrangements to Borrow
GDP	Gross Domestic Product
G8	Group of Eight
G8+5	Group of Eight plus Brazil, China, India, Mexico, and South Africa
G11	Group of Eleven
G15	Group of Fifteen
G7	Group of Seven
G77	Group of Seventy Seven
G20 coalition	Group of Twenty Trade Coalition
G20 Finance	Group of Twenty Finance Ministers and Central Bank Governors
G20 Leaders	Group of Twenty Leaders' Summit
G24	Intergovernmental Group of Twenty-Four on International Monetary Affairs

	and Development
IBSA	India-Brazil-South Africa Dialogue Forum
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOs	International Organisations
IPE	International Political Economy
IR	International Relations
Mercosur	Southern Cone Common Market
NAB	New Arrangements to Borrow
NAM	Non-Aligned Movement
NGOs	Non Governmental Organisations
OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing Power Parity
PhDs	Doctoral degrees
QFRG	Quota Formula Review Group
SAARC	South Asian Association for Regional Co-operation
SAFE	State Administration of Foreign Exchange
SCO	Shanghai Cooperation Organisation
SWFs	Sovereign Wealth Funds
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSC	United Nations Security Council
US	United States of America
WTO	World Trade Organisation
WWII	World War II

Chapter 1: Introduction

1.1 Objective

The objective of this study is to analyse how the IMF functions and reasons why reform may be necessary, as well as to examine strategies of reform of Brazil, China, India, and the Group of Seven (G7) countries.[1] Brazil, China, and India featured more prominently than other emerging and developing countries in IMF governance reform, because the reform process that started in 2006 has since culminated in a package that will put these states amongst the ten biggest shareholders, subject to ratification.[2] Since these states arose as emerging powers from the late 1990s due to their status as rapidly growing developing countries, it is important to analyse the way in which their economic growth is reflected in their political positioning in international organisations (IOs).[3] In addition, the significance of these states is that they have a history of anti-liberal Western conceptions of international order, and, in contrast to other important "second-tier states and middle-sized powers", they are not part of the US-led Western alliance system.[4] It is also important to analyse strategies of the G7, because these countries have served as the informal steering committee of the global economy from the 1970s, by leading a highly developed coordination of policy, which has been very pertinent to international financial institutions (IFIs), and dominated the IMF in terms of voting power, leadership positions, and strategic direction.[5]

[1] The G7 consists of the United States of America (US), Japan, Germany, France, Britain, Italy and Canada. Dennis Leech and Robert Leech, "Power versus Weight in IMF Governance: The Possible Beneficial Implications of a United European Bloc Vote", in *Reforming the Governance of the IMF and the World Bank*, ed. Ariel Buira (London: Anthem Press, 2005), 260.
[2] IMF, International Monetary Fund Factsheet, *IMF Quotas* (Washington, D.C.: March 2011), 1. http://www.imf.org/external/np/exr/facts/quotas.htm (accessed February 8, 2013).
[3] Joan E. Spero and Jeffrey Hart, *The Politics of International Economic* Relations, 7th ed. (Wadsworth: Cengage Learning, 2010), 280; Robert H. Wade, "Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF", *Politics and Society* 39, 3 (2011): 347.
[4] Andrew Hurrell, "Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?", *International Affairs* 82, 1 (2006): 3.
[5] Eric Helleiner, "A Bretton Woods Moment? The 2007 – 2008 Crisis and the Future of Global Finance", *International* Affairs 86, 3 (2010): 627; Leech and Leech, 260 – 261; Murilo Portugal, "Improving IMF Governance and Increasing the Influence of Developing Countries in IMF Decision-Making", in *Reforming the Governance of the IMF and the World Bank*, ed. Ariel Buira (London:

1.2 Problem Statement and Research Questions

Since representation in the IMF is chiefly determined by a member's economic power, the IMF faced a legitimacy challenge from some emerging powers of the Global South, due to the fact that their representation was not aligned with their relative global economic weight; while its policies were viewed as biased, and as negatively affecting developing countries and emerging powers.[6] The subsequent governance reforms undertaken in the IMF to accommodate under-represented members were partly attributed to efforts by emerging powers to increase their representation.[7]

Against the backdrop of the increasing influence of emerging powers in IMF governance reform, the main research questions are: What strategies have Brazil, China, and India adopted to increase their quotas, voting shares, and representation in the Executive Board of the IMF? Have they cooperated in their efforts to reform the governance of the IMF? Have regional bodies such as Southern Cone Common Market (Mercosur), the Association of South East Asian Nations (ASEAN), and the South Asian Association for Regional Co-operation (SAARC) played any role? Have these emerging powers formulated reform proposals? Have they cooperated in proposing common candidates for leadership positions? What have been the G7 strategies of reform?

Anthem Press, 2005), 76, 88 – 89, Ngaire Woods, *The Globalizers: The IMF, the World Bank, and their Borrowers* (Ithaca and London: Cornell University Press, 2006), 191.

[6] Ariel Buira, "The Bretton Woods Institutions: Governance without Legitimacy?", in *Reforming the Governance of the IMF and the World Bank*, ed. Ariel Buira (London: Anthem Press, 2005), 7 – 8; Heribert Dieter, "The Decline of the IMF: Is It Reversible? Should It Be Reversed?", *Global Governance* 12, 4 (2006): 343 – 346.

[7] G. John Ikenberry and Thomas Wright, *Rising Powers and Global Institutions* (The Century Foundation: 2008), 4, 20 – 21. http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CEkQFjAD&url=http%3A%2F%2Fold.tcf.org%2Fpublications%2Fpdfs%2Fpb635%2Fikenberry.pdf&ei=kA4iUdbwHZSxhAedqYCwCQ&usg=AFQjCNE-zy3Jlg-tO8UTQ-p70jLGr7uxNw (accessed February 16, 2013).

1.3 Background and Motivation

The importance of IOs and power dynamics within them in the context of the changing global economic balance of power and demands for their reform by emerging powers has grown in recent years. The IMF is one of those IOs that have received a considerable amount of scholarly attention. Major areas of IMF reform that have been raised are governance issues such as quotas, voting shares, representation in the Executive Board, and the appointment of senior managers.[8] Other areas of IMF reform that have been highlighted include: mandate; economic policies; recruitment practices and staff competencies; and substantial increase of IMF resources. The focus of this study is on the core governance issues of political representation, namely: quotas; voting shares; the Executive Board; and the appointment of the Managing Director. Policy issues will also be briefly examined, because it is the effects of IMF policies that led to calls for governance reforms.

Quota subscriptions are a core governance issue, because they largely determine a member country's voting power, and this made the G7, as the seven wealthiest states, the most powerful group in the IMF.[9] The IMF's asymmetrical governance arrangement has thus largely taken the form of a North-South divide, with developed countries determining IMF policies, and with developing countries primarily affected by its decisions.[10] The IMF subsequently suffered a legitimacy crisis that damaged its integrity and constrained its ability to function effectively, while its democratic deficit was further worsened by the fast-paced economic growth and increased significance of developing countries, as well as emerging-market countries in the global economy.[11] This made a substantive increase in the voting shares of developing and emerging-market countries one of the main reform issues.

[8] Jo Marie Griesgraber, "Reforms for Major New Roles of the International Monetary Fund? The IMF Post – G-20 Summit", *Global Governance* 15, 2 (2009): 180 – 185.
[9] Ian Lamb, "The IMF and the World Bank – Time for Reform", *The New Presence* 9, 1 (Spring 2007): 29 – 30; Leech and Leech, 260, Portugal, 76.
[10] Dieter, 343.
[11] Buira, 7 – 9, 25, Endnote 2, 40.

The financial crisis that engulfed East Asia, Russia, and Brazil from 1997 to 1998 is regarded as a turning point in IMF governance reform, as it intensified grievances about the global financial architecture.[12] Subsequently, the G7 created the Group of Twenty Finance Ministers and Central Bank Governors (G20 Finance) that included Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, Singapore, South Africa, Taiwan, and Turkey, who were mobilised in order to manage the crisis.[13] However, the G20 Finance did not deal with IMF governance reform itself until 2005. In 1999, the IMF also created the Quota Formula Review Group (QFRG) that completed its work in 2000 with specific proposals on reform of the quota formula.[14] Some academics and policy experts criticised the recommendations of the QFRG for maintaining the status quo, but the Executive Board of the IMF nonetheless endorsed the report.

The report of the QFRG set in motion a process of deliberations and debate within and outside the IMF, while many important emerging-market and developing-country members avoided recourse to the IMF by, among other things, accumulating massive foreign exchange reserves for use during future financial crises.[15] Since the interest charged on loans to member states covers operating costs, the IMF subsequently experienced financial constraints due to lack of profit, as there was a substantial decline in lending.[16] Subsequently, an IMF governance reform process was initiated in 2006. The process is said to be partly the result of long-drawn out discussions both inside and outside the IMF, as well

[12] Richard Higgott, "Governing the Global Economy: Multilateral Economic Institutions", in *Issues in 21st Century World Politics*, eds. Mark Besson and Nick Bisley (Basingstoke: Palgrave Macmillan, 2010), 231.
[13] Leonardo Martinez-Diaz, "The G20 after Eight Years: How Effective a Vehicle for Developing-Country Influence?", The Brookings Institution: Working Paper No. 12, Global Economy and Development, (Washington, DC, October 2007), 6 – 7, 25.http://www.brookings.edu/~/media/research/files/papers/2007/10/17development/1017development.pdf (accessed February 16, 2013).
[14] Ariel Buira, introduction to *Reforming the Governance of the IMF and the World Bank*, ed. Ariel Buira (London: Anthem Press, 2005), Endnote 2, 4; Buira, 7, 13 – 14; Portugal, 85, John B. McLenaghan, "Purchasing Power Parities and Comparisons of GDP in IMF Quota Calculations", in *Reforming the Governance of the IMF and the World Bank*, ed. Ariel Buira (London: Anthem Press, 2005), 187 – 188.
[15] Celine Tan, "Review Essay: Reform or Reinvent? The IMF at a Crossroads", *Global Governance*, 12, 4 (2006): 507.
[16] Dieter, 343 – 346.

as campaigning by developing countries and NGOs.[17] Although there is apparent consensus that the financial constraints facing the IMF due to its loss of legitimacy – including its inability to address key global issues – catalysed the 2006 reform process,[18] the strategies of states to effect IMF reform have not been given enough attention.

Concerning strategies of states towards IMF reform, I argue that Brazil, China, and India adopted both global and regional multilateral[19] strategies and collectively used their enhanced financial power to bargain for IMF governance reforms. In their developing-country coalitions of the broader Global South, these emerging powers proposed reform of the quota formula so as to accurately reflect their relative economic weight, as well as for more representation for member states with smaller economies, by increasing the weight of votes that are allocated according to the principle of sovereign equality of states, as stipulated in the treaty that established the IMF. They did not make any specific proposals in their separate emerging-power coalition, except to call for reform of IMF governance in order to reflect their increased global economic weight. They also supported a proposal for an Executive Board in which all representatives are elected, and an open, merit-based process of selecting the Managing Director, irrespective of national or geographic origin. However, they failed to cooperate in proposing a common candidate when the opportunity arose. The G7 also adopted global multilateral strategies in order to incrementally increase the representation of these states.

[17] Tan, 514.
[18] Tan, 514; Dieter, 343 – 344, Lauren Phillips, "Closing the Deal: IMF Reform in 2007", Overseas Development Institute, Briefing Paper No. 26, (London: October 2007), 1. http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/554.pdf (accessed: February 16, 2013).
[19] Multilateralism is defined as a system of group action by three or more states by means of negotiation and membership in IOs. J. Samuel Barkin, *International Organization: Theories and Institutions* (New York: Palgrave Macmillan, 2006), 10; Jacqueline Anne Braveboy-Wagner, *Institutions of the Global South* (London and New York: Routledge, 2009), 1, 8.

1.4 Methodology, Theoretical Approach, and Structure

This research is of a descriptive nature, and therefore based on a survey of primary sources such as the IMF website, along with secondary sources, such as books and journal articles. The period covered by this study is from 1999, when the IMF and G7 initiated the QFRG and G20 Finance, respectively, up until the post-2010 reform package that improved the standing of these states in the IMF.

The central theoretical concern of this study is the nature of the strategies of states towards the reform of IOs. This study therefore uses the prism of International Relations (IR) theories on states and IOs, namely realism, liberalism, constructivism, and critical theory. Realists focus on states as the principal actors in the international system; on how states exercise their power in pursuit of their interests through IOs, and thus they view IOs as reflecting the balance of power among states.[20] Other theories question the realist notion of the state as the sole actor in the international system, along with the structural explanation of the conduct of states.[21] Liberals emphasise the role of IOs in facilitating cooperation among states, despite divergent interests.[22] Constructivists view IOs as agents of social construction with power independent of states.[23] Critical theorists conceive of states and IOs as weapons of

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[20] Margaret P. Karns and Karen A. Mingst, *International Organizations: The Politics and Processes of Global Governance* (Boulder and London: Lynne Rienner, 2010), 46; Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 4[th]ed. (New York: Alfred A. Knopf, 1967), 9, 11, 25, 265 – 266, 163 – 164; Kenneth N. Waltz, *Theory of International Politics* (Reading, Massachusetts: Addison Wesley, 1979), 114, 116, William C. Wohlforth, “Realism and Foreign Policy”, in *Foreign Policy*: *Theories, Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dunne (Oxford: Oxford University Press, 2008), 34.
[21] Hurrell, 6; S. Neil Macfarlane, “The ‘R’ in BRICs: Is Russia an Emerging Power?”, *International Affairs* 82, 1 (2006): 42.
[22] Walter Carlnaes, “Actors, Structures, and Foreign Policy Analysis”, in *Foreign Policy*: *Theories, Actors, Cases*, eds. Steve Smith et al. (Oxford: Oxford University Press, 2008), 92; Karns and Mingst, 37, Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism”, *International Organization* 42, 3 (Summer, 1988): 495.
[23] Vendulka Kubalkova, “Foreign Policy, International Politics, and Constructivism”, in *Foreign Policy in a Constructed World*, ed. Vendulka Kubalkova (New York: M. E. Sharpe, Inc., 2001), 21; Karns and Mingst, 51 – 52.

class power, and therefore see the role of IOs as ideological and practical, in the service of the interests of the dominant class.[24]

However, the study of IR is not necessarily the monopoly of theorists of IR, hence organisation theorists argue that the culture, norms, and values of IOs capacitate IOs to act in their own right, thus contesting the realist notion that choices are determined by external factors.[25] IR theories are also criticised by Susan Strange, for limiting their view to relational power of states exercised over other states, without taking into account structural power.[26] In this study the discussion of IR theories on states and IOs is therefore supplemented by a discussion of the realist theory of International Political Economy (IPE), in order to highlight the structural dimension of power between states and as reflected in IOs. The theoretical approach adopted here as most accurately describing state strategies towards IOs is realism, although the relevance of each of these theories will be demonstrated in the different sections of the study. This study is therefore intended to contribute to a theoretical understanding of strategies of states towards reform of IOs, so as to assist policymakers in improving international cooperation.

In order to answer the central questions of the study, Chapter 2 examines the research questions in a discussion based on theories outlined above, and considers the reasons behind taking a realist approach. Chapter 3 provides an analysis of the original mandate and ideology of the IMF, power of states and bureaucrats in the IMF, and how the power of the US, and later the G7, resulted in changed IMF policies that ultimately had a negative impact on developing countries and emerging powers. Chapter 3 also includes a discussion of feedback in the form of the consequences of IMF policies, measures that were adopted by important developing and emerging-power members of the IMF in order to avoid recourse to the IMF in times of crisis, as well as the subsequent financial constraints that weakened the

[24] Ian Taylor, "'The South Will Rise Again'? New Alliances and Global Governance: The India-Brazil-South Africa Dialogue Forum", *Politikon* 36, 1(April 2009): 46; Karns and Mingst, 54.
[25] Karns and Mingst, 56 – 57.
[26] Susan Strange, *States and Markets*, 2nd ed. (London: Pinter, 1994), 37.

IMF and have also been said to have catalysed governance reforms. Following such a treatment of the IMF, Chapter 4 presents a discussion of bilateral and regional strategic choices of emerging powers, regional and global strategies that Brazil, China, and India adopted in order to achieve IMF governance reforms, together with their specific proposals. Chapter 4 also analyses G7 strategies of reform, and further emerging-power strategies, in the context of the bargaining that culminated in the post-2010 reform package, and includes a discussion of the themes of diversity of interests of all states, and the utility of realism in understanding strategies and outcomes in this arena. Chapter 5 provides a conclusion.

Chapter 2: Theoretical Approach

2.1 Outline of Relevant Theories

According to realism, the structure of the international system is characterised by states' exercise of power, power perceived as the hierarchical allocation of material wherewithal among states, in pursuit of their interests in an anarchical environment that is characterised by little unanimity and trust, with no overarching authority to impose order.[27] Realists further argue that IOs reflect the balance of power among states, because the hierarchical distribution of power is institutionalised in IOs and the struggle for power is also pursued through IOs.

The pursuit of power and interests by states leads to a struggle to change the balance of power between emerging and status quo powers, whereby emerging powers adopt internal balancing strategies, such as increasing economic and military power, and external balancing strategies that include "aggregating" their power through building "alliances" with other countries.[28]

Since the hegemonic coalition desires control, it has the capacity to accommodate demands of rising states through incremental adjustments and bargaining, and this happens when there are shared values and interests.[29] Realism states that when the hegemon is faced with the strategic condition of decline, it pursues security through offshore balancing and multilateral strategies.[30] Offshore balancing includes the ability of the US, for example, to stand aside and let regional powers "enervate" themselves in regional rivalries, or to hand over the responsibility of balancing to a regional ally, while multilateralism is when the US

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[27] Karns and Mingst, 46 – 47; Morgenthau, 9, 11, 25, 163 – 164, 265 – 266; Waltz, 97, 105, 114 – 116, Wohlforth, 34.
[28] Morgenthau, 26, 106 – 139, 161; Waltz, 118 – 131; Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 15, 23, 48, 139; Carlnaes, 92; Gideon Rose, "Review Article: Neoclassical Realism and Theories of Foreign Policy", *World Politics* 51, 1 (October, 1998): 150, 152, 164 – 165, 171; MacFarlane, 42 – 43, Wohlforth, 36.
[29] Gilpin, *War and Change*, 13, 15, 37, 208.
[30] Kai He, "The Hegemon's Choice between Power and Security: Explaining US Policy toward Asia after the Cold War", *Review of International Studies* 36, 4 (2010): 1121 – 1129, 1134.

exercises its power through IOs. However, since realism is a state-centric theory, it fails to recognise the role of IOs in facilitating multilateral cooperation, despite divergent state interests.

Hence, realism faces a major challenge from liberalism,[31] which argues that the establishment of IOs allows for the exercise of state power in the context of rules and institutions. Furthermore, IOs facilitate cooperation through the provision of information; creation of rules; decreasing the costs of verifying compliance; punishment of those that cheat; creation of repeated interaction; and providing international spaces for forming alliances, thus facilitating the attainment of goals that cannot be attained by acting alone.

Since realism and liberalism share the rational choice theory, and are also criticised for their inclination to assume that the structure of the international system is determinist, the major difference between them is the degree to which IOs can make the effects of anarchy less severe.[32]

The neofunctionalist variant of liberalism, as applied to the discussion of regional organisations, explains the rationale of states banding together regionally, by emphasising that IOs have a functional utility to governments and that international economic and social cooperation is the basis for political cooperation; even though the political spillover is dependent on the ability of leaders to take decisive action at critical junctures of the regional integration project.[33]

Another theory relevant to regional strategies is new regionalism, which considers regional institutions to be a response to globalisation, and part of systemic change towards multipolarisation; and thus intended to create policy space for states within regional political

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[31] Karns and Mingst, 37 – 39; Robert O. Keohane and Lisa L. Martin, "The Promise of Institutionalist Theory", *International Security* 20, 1 (Summer 1995): 42, 49 – 50, Hurrell, 8.
[32] Kubalkova, 29, 32 – 3; Steve Smith, "Foreign Policy Is What States Make of It: Social Construction and International Relations Theory", in *Foreign Policy in a Constructed World*, ed. Vendulka Kubalkova (New York: M. E. Sharpe, Inc., 2001), 42.
[33] Karns and Mingst, 40 – 41, 60.

structures.[34] The critical perspective on new regionalism points out that it is a strategy for changing extant international structures and institutions in order to bring about new identities, opportunities and alliances.[35]

Critical theory, like realism, recognises state power, but also includes the role of economic factors and classes, whereby the class struggle between capitalists and workers is transferred into the international arena, as international capitalism that is characterised by a hierarchical relationship between developed and developing countries.[36] Marxists therefore view IOs as foreign policy tools of a hegemonic bloc of states for achieving goals of the capitalist class, and also as tools for the ideational and normative legitimation of the existing order, through socialisation and co-option of Southern elites; although IOs can also be the site of struggle whereby multilateralism, at specific historical junctures, challenges the dominant paradigm.

Strange's criticism of critical theory is that its awareness of the importance of structural power is limited to the production and trade structures.[37] Strange argues that American power is based on four structures of the global political economy, namely: security, production, finance, and knowledge.[38] These four structures are related to and supportive of one another. For the purposes of this study, it is power in the finance and knowledge structures that is relevant. In the finance structure, the source of power is the ability to direct the availability and allocation of credit.[39] In the knowledge structure, the source of power is possession of knowledge and power over who gets it, including influencing the knowledge

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[34] Harry Stephan et al., *The Scramble for Africa in the 21st Century: A View from the South* (Cape Town: Renaissance Press, 2006), 17; 272.
[35] Ibid., 285.
[36] Karns and Mingst, 53 – 54; Robert W. Cox, "Social Forces, Sates and World Orders: Beyond International Relations Theory", *Millennium: Journal of International Studies* 10, 2 (1981): 128, 134, 136 – 137, Taylor, 46 – 47.
[37] Strange, *States and Markets*, 37.
[38] Roger Tooze and Christopher May, "Authority and Markets: Interpreting the Work of Susan Strange", in *Authority and Markets:Susan Strange's Writings on International Political Economy*, eds. Roger Tooze and Christopher May (London: Palgrave Macmillan, 2002), 13.
[39] Strange, *Sates and Markets*, 26, 90 – 91; Strange, "The Persistent Myth of Lost Hegemony", in *Authority and Market*, eds. Tooze and May, 132.

imparted to other peoples around the world, and a determination of social needs and strategies towards attaining them. The key factor of power in each of the structures is therefore the power required to determine the agenda and rules governing the system, like the IMF's weighted voting system.[40] These structures, taken together, give the US and the business enterprises reliant on it enduring power over the system.

However, by attributing internal conduct and policies of IOs to external factors, the above-outlined "system-based" theories are criticised for viewing IOs as mechanical tools, with no independent existence and agency.[41] Hence, organisation theorists argue that organisations as organisations have the capacity to make decisions and to "interact" with their contexts, as well as to create and change their objectives by means of "negotiations" amongst powerful states.[42] Organisational culture, defined as "rules", practices, and "beliefs" that are deeply entrenched in an organisation, and activist networks of experts, are some of the "concepts" of organisation theory that are relevant to the study of IOs.[43] Since organisational culture is deeply entrenched in the everyday, standard practices and procedures that confer "functional" independence on IOs, IOs are resistant to change because change demands the alteration of a deeply entrenched culture of the organisation. With regards to networks, organisation theorists argue that transnational networks of activists united by common values, a shared intellectual and policy agenda, as well as a sharing of knowledge, tend to influence political outcomes.

Similar to organisation theorists, constructivists argue that IOs are "bureaucratic entities" that can be agents of social construction because they can receive, generate, and impart norms and socialise states, in order to perceive their interests in new ways, although the culture of

[40] Strange, "Who Governs? Networks of Power in World Society", 1994, in *Authority and Market*, eds. Tooze and May, 176.
[41] Bessma Momani, "Streamlining Fund Conditionality: The International Monetary Fund's Organizational Culture", *Journal of International Relations and Development* 8, 2 (2005): 146, 144.
[42] Karns and Mingst, 56.
[43] Karns and Mingst, 56 – 57, 59; Barkin, 34 – 35, Momani, "Streamlining Fund Conditionality", 147.

the bureaucracy may also cause them to function abnormally, to generate more conflict than cooperation, and to fail to serve the interests of their members.[44]

Hence, constructivists have also borrowed from organisation theory concepts of organisational culture and networks, in order to argue that organisational culture influences the ideology of IO personnel.[45] They also argue that the specialist skills of, and possession of knowledge by IO personnel, confer "relative" independence on staff, thus making them believe that they are impartial, and foster an organisational culture that is impervious to the external environment.

With regards to networks, constructivists also contribute to the explanation of the influence of "epistemic communities" in diffusing "ideas and beliefs", thus impacting upon multilateral processes.[46] However, although constructivists and organisation theorists view IOs as having significant independence, they accept the significance of, and limitations imposed by state power and interests on the functioning of IOs.[47]

With regards to strategies of states, in contrast to realism and liberalism, constructivists assume that the international system is a socially constructed reality that is based on both ideational and material elements, and therefore argue that the interests of states, state identities, and interstate relationships, are socially constructed and dynamic; and that it is states' identities that shape their interests, rather than their capabilities.[48] The following section presents a discussion of the way in which the theories outlined above will be applied to themes related to an analysis of the IMF and the strategies of states towards IMF reform.

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[44] Karns and Mingst, 51 – 52; Momani, "Streamlining Fund Conditionality", 145 – 146, Michael N. Barnett and Martha Finnemore, "The Politics, Power, and Pathologies of International Organizations", *International Organization* 53, 4 (1999): 702.
[45] Momani, "Streamlining Fund Conditionality", 146 – 147; Karns and Mingst, 57.
[46] Karns and Mingst, 52.
[47] Jeffrey M. Chwieroth, *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princeton and Oxford: Princeton University Press, 2010), 33; Momani, "Streamlining Fund Conditionality", 145, Barnett and Finnemore, 717.
[48] Kubalkova, 21, 33; Edward Newman, *A Crisis of Global Institutions? Multilateralism and International Security* (London and New York: Routledge, 2007), 25, 27.

2.2 Themes

2.2.1 Analysis of the IMF

According to the realist theory of hegemonic stability, which emphasises the leading role and power of a dominant state or states in establishing a liberal global economy, the US created the Bretton Woods global trade and monetary order.[49] Realists would therefore argue that the IMF was created as part of the post-World War II (WWII) global order dominated by the US, while the specific domination of the global financial order by the G7 from the 1970s was reflected in the way that balance of power was institutionalised in the quota system and weighted voting in favour of the G7.[50] Moreover, since IOs are not financially independent, and their leaders are appointed by states, the same applies to the IMF, while the IMF was used to compel weaker states to adopt policies preferred by the G7, through enforcement of regime norms and principles.[51]

According to liberals, states invested[52] in the IMF as an IO, and the IMF facilitated cooperation among states, despite the power dynamics between and divergent interests of those states.

Critical theory contributes in explaining the relationship between private financial interests as the dominant fraction of the capitalist class, dominant states, IMF personnel, and IMF policies[53], as well as the role of the IMF in legitimising the neoliberal[54] version of

[49] Karns and Mingst, 48 – 49.
[50] Hurrell, 5, 10; Mark Beeson, "There Are Alternatives: The Washington Consensus versus State Capitalism", in *Issues in 21st Century World Politics*, eds. Mark Beeson and Nick Bisley, (London: Palgrave Macmillan, 2010), 88; Anthony Payne, "The G8 in a Changing Global Economic Order", *International Affairs* 84, 3 (2008): 521 – 522; Helleiner, 627; Jonathan R. Strand and David P. Rapkin, "Voting Power Implications of a Double Majority Voting Procedure in the IMF's Executive Board", in *Reforming the Governance of the IMF and the World Bank*, ed. Buira, 235 – 236, Guillermo Le Fort, "Issues on IMF Governance and Representation: An Evaluation of Alternative Options", in *Reforming the Governance of the IMF and the World Bank*, ed. Buira, 109, Portugal, 76.
[51] Robert Schrire, "The Duality of Globalisation: A View from the South", *Cambridge Review of International Affairs* 14, 1 (2000): 56 – 57; Barkin, 46, 95.
[52] Keohane and Martin, 47.
[53] Momani, "Streamlining Fund Conditionality", 144.
[54] The term refers to a version of economic liberalism that favours a limited role for the state in the economy and minimal restrictions on trade. Spero and Hart, 463.

globalisation[55] driven by the G7; as well as in the socialisation and co-option of Southern elites, evident in the Western-educated developing-country officials, who were adherents of a neoliberal economics as propagated by the IMF.

The analysis of structural power by Strange will be relevant to the discussion of the ability of the US to bypass the IMF and issue bilateral loans with attached conditions, coupled with the power of the US veto to block new loans for the purpose of instituting conditionality during the 1950s. Power in the finance structure will also be reflected in the ability of the US to force an end to fixed exchange rates, through control of the dollar as the top currency in which credit has been denominated in other currencies, and in America's ability to liberalise capital controls; changes that led to the 1980s debt crisis and an increased role for the IMF in the developing world. The power of the G7 in the finance structure – as the major creditor states – will be demonstrated in the way in which options available to developing countries during IMF interventions were almost eliminated, as well as in the way it influenced the decisions by Korea and Singapore to rely upon the US, due to the inability of East Asian financial and monetary institutions to help them during the 2007 to 2009 global financial crisis.

G7 power in the knowledge structure will be demonstrated in the IMF's policy of recruiting graduates with doctoral degrees (PhDs) in economics, mainly from Anglo-American and other Western universities, the domination of debt management consultancy services by US banks, and in IMF interventions that were backed by overwhelming technical details to the extent that some developing countries could not realistically offer alternatives to IMF policies. An analysis of structural power will also demonstrate that since socialist ideas of organising the economy were discredited in the context of the collapse of the former Soviet empire, G7 power in the knowledge structure was enhanced, and this created conditions in which

[55] Globalisation is defined as the complex of massive movements of goods, services, capital, knowledge, ideas, and people that led to more integration of the world after 1989 due to decreased expenses of communicating and transport. Spero and Hart, 453; Joseph Stiglitz, *Globalization and its Discontents* (London: Penguin Books, 2002), 9.

developing countries accepted their integration into the globalising world economy, through the IMF's market fundamentalist policies, known as the 'Washington Consensus'.

Organisation theorists and constructivists argue that epistemic communities contributed to shaping the ideological foundation of the IMF and its evolution over time.[56] Organisation theorists also argue that the functional independence and power of the bureaucracy fostered an organisational culture that was resistant to external influences and to challenges to the neoliberal economic ideology of the IMF.[57] According to constructivism, the IMF's culture influenced the neoliberal ideology of personnel, while organisation theorists argue that IMF culture was inclined to "expand" the remit of the IMF, as was demonstrated when the IMF extended its remit from macroeconomic to structural issues after fixed exchange rates were abandoned.[58]

Lastly, a synthesis of first, critical theory on the ideological role of IOs, second, the realist theory of power in the knowledge structure, and third, organisation theory and constructivist concepts of organisational culture and networks, strengthens the argument about the IMF's role in ideological legitimation. These thories will also be applied to themes related to the strategies of states towards IMF reform, as demonstrated in the following section.

2.2.2 Theoretical Perspectives on Strategies of States

The relevance of realism[59] is shown in the view that Brazil, China, and India developed material power capabilities that caused them to be strategically significant in the global

[56] Karns and Mingst, 52, 59; Peter M. Haas, ed. "Introduction: Epistemic Communities and International Policy Coordination", special issue,*International Organization* 46, 1 (Winter 1992), 2 – 3, 27, Bessma Momani, "Recruiting and Diversifying IMF Technocrats", *Global Society* 19, 2 (April 2005): 171 – 172.
[57] Momani, "Streamlining Fund Conditionality", 156 – 157.
[58] Karns and Mingst, 57; Barnett and Finnemore, 707 – 708; Barkin, 35; Chwieroth, *Capital Ideas*, 33; Momani, "Streamlining Fund Conditionality", 142 – 159, Barkin, 35 – 36.
[59] Hurrell, 1; Spero and Hart, 436 – 437; Nick Bisley, "Global Power Shift: The Decline of the West and the Rise of the Rest?", in *Issues in 21st Century World Politics*, eds. Beeson and Bisley, 66 – 67; Paola Subacchi, "New Power Centres: Are They Shaping a New Economic Order?", *International Affairs* 84, 3 (2008): 496; He, 1224; Ian Clark, "China and the United States: A Succession of Hegemonies?", *International Affairs* 87, 1 (2011): 26, Beeson, 89.

economy. However, since their role in the international economy was not aligned to their capacity and desire to have more influence in IOs, they adopted external balancing, through alliances with other developing countries. These alliances were also developed amongst themselves, in order to increase their influence in the IMF, and in order to tinker with the rules and norms through state-sponsored capitalism; whilst advocating non-interference from international financial institutions (IFIs), thereby challenging the neoliberal paradigm.

Liberalism[60] can demonstrate that, since institutionalism is the feasible and the least costly course for the South, these emerging powers used IOs to forge multilateral alliances with other developing countries in order to advance the agenda of reforming IOs. This despite the fact that IOs were also joined by powerful states, because they reduced the expenses and constraints imposed by acting alone. According to the liberal theory of neofunctionalism, regional strategies of developing countries and emerging powers have the objectives of far-reaching integration and policy and political spillover,[61] although in the majority of cases, there was no political spillover into cooperation to reform the IMF.

Commentators also argue that new regionalism provided emerging powers with an opportunity to consolidate regional hegemony, by means of regional institutions that serve as a base from which the demand for a greater role in IOs can be pursued.[62] However, it will be shown that in the majority of cases, the regions served to constrain the global ambitions of these emerging powers.

Constructivists would argue that the creation of shared identities that go beyond state boundaries was demonstrated in the collective identity of the South, due to its collective

[60] Braveboy-Wagner, 1 – 2, 5 – 6, 13, 216; Hurrell, 11 – 12.
[61] Braveboy-Wagner, 210.
[62] Chris Alden and Marco Antonio Vieira, "The New Diplomacy of the South: South Africa, Brazil, India and Trilateralism", *Third World Quarterly* 26, 7 (2005): 1080; Detlef Nolte, "How to Compare Regional Powers: Analytical Concepts and Research Topics", *Review of International Studies* 36, 4 (2010): 895, Philip Nel and Detlef Nolte, eds. "Introduction: Special Section on Regional Powers in a Changing Global Order", *Review of International Studies* 36, 4 (2010): 878 – 884.

sense of marginalisation that helped in sustaining South-South solidarity, despite differences such as increased economic differentiation.[63]

The link between critical theory and strategies of these emerging powers emerges when considering that there were constraints imposed on the actions of the South by the North, and that South-South multilateral strategies were adopted as a countervailing force to the negative impact of domination.[64]

With regards to the strategies of the G7, the realist theory of 'offshore balancing' is revealed in the G7 strategy towards East Asian financial and monetary regionalism, as the regional rivalry between China and Japan was allowed to play out in a manner that did not challenge the G7. It could also be argued that the US passed the responsibility of balancing[65] against China within regional institutions that excluded the US to Japan as its regional ally. At the global level, realism will demonstrate that during crises, the G7 adopted the strategy of multilateralism through the G20 Finance and G20 Leaders, in order to engage emerging powers on IMF reform.

Realism is also relevant in the discussion of the diversity of interests of all states that informed their divergent positions towards IMF reform, as well as in understanding strategies and outcomes. This is due to the fact that IMF governance reform proved to be a bargain among the world's major economic powers, whereby it was mostly emerging powers that gained, by additionally becoming creditor states; an arrangement that placed them into a new IMF hierarchy of power.

2.3 Conclusions

The above discussion of relevant theories shows that the study of IR demands an interdisciplinary or multi-theoretical approach. As demonstrated, for example, in the analysis

[63] Karns and Mingst, 52; Braveboy-Wagner, 211, 215.
[64] Braveboy-Wagner, 6 – 7; 214.
[65] He, 1125.

of foreign policy in Graham Allison's article on the Cuban missile crisis, IR is informed and understood best by different theoretical paradigms that are not necessarily "exclusive alternatives", but each partially focusing on one set of variables, inevitably downplaying "other important factors …"[66] This therefore requires a sufficient "synthesis" of the relevant theories.[67]

On the one hand, according to realism, the structural condition of emerging powers with enhanced material power capabilities in the form of increased economic weight and financial power is the major factor explaining the improved ranking of emerging powers in the IMF. According to liberalism, on the other hand, emerging powers legitimatised their calls for IMF governance reform through South-South multilateral strategies. Then again, constructivism evidences the contribution of the collective identity of the South in South-South solidarities, despite the differences among developing countries and emerging powers. Meanwhile, the contribution of critical theory is its ability to articulate the role played by South-South multilateralism.

However, the above discussion also demonstrates that realism provides the underlying set of opinions about international relations around which all others position themselves, and it is also the school of thought most closely informed by actual foreign policy behaviour.[68]

Lastly, since this study concerns the way in which power is a decisive factor in interstate relations, realism's emphasis on the role of power makes it the appropriate theoretical approach. The next chapter is a discussion of the IMF as a background to the challenge by emerging powers for the reform of its governance.

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[66] Graham T. Allison, "Conceptual Models and the Cuban Missile Crisis", *The American Political Science Review* LXIII, 3 (September 1969), 689, 716.
[67] Ibid., 717.
[68] Wohlforth, 28, 32.

Chapter 3: The IMF

Section 3.1 provides a discussion of the influence of the historical context of establishment of the IMF and the role of the Keynesian-based[69] epistemic community in shaping its original mandate and ideology, while section 3.2 covers a discussion of state power in the quota and voting structure. Section 3.3 discusses the functional independence, power, and culture of the IMF bureaucracy in facilitating implementation of policies preferred by the G7. Section 3.4 presents an analysis of the way in which G7 power facilitated evolution of IMF policies, while section 3.5 discusses the feedback that came in the form of negative consequences of IMF policies and calls for reform. This includes a discussion of how the rise of private and Chinese capital assisted developing and emerging-market countries in avoiding resorting to the IMF for financial assistance, and the subsequent decline of the IMF, which catalysed governance reforms.

3.1 Original Mandate and Ideology

At the close of WWII Western Europe was devastated by war, and the US emerged as the hegemonic power to create the post-war global economic order, which included establishment of the IMF.[70] The original mandate and ideology of the IMF was influenced by the experience of the Great Depression of the 1930s and the end of WWII, seen in the way the IMF was assigned the task of ensuring global economic stability and preventing another recession. This was to come about through its role in preventing governments from adopting competitive currency devaluations and trade protectionism; through approving intervention in the fixed exchange rates only during instances of fundamental imbalances; by issuing loans to states with balance-of-payments problems; and by encouraging Keynesian fiscal and monetary demand management policies designed to facilitate sustainable employment

[69] Keynesianism is an economic discipline that argues for government expenditure and investment to boost demand in the economy during economic downturns for the purpose of keeping sufficient employment levels. Spero and Hart, 459.
[70] Woods, *Globalizers*, 9; David Dodge and John Murray, "The Evolving International Monetary Order and the Need for an Evolving IMF", *Global Governance* 12, 4(2006): 362.

creation and economic development, including promotion of currency convertibility and free trade.[71] Furthermore, the IMF did not initially attach conditionality to its loans.[72]

Governments were also allowed to control capital flows, as liberalised capital controls would defeat the objective of the welfare state, as there would be capital flight from countries with high taxes.[73] Liberalised capital flows would also weaken national autonomy to determine monetary policy, while competitive pressures to liberalise capital controls would make financial regulatory systems weak. Support for these policies also came from developing countries, because they viewed them to be assisting their new state-led development efforts.[74]

The role of US hegemony in the creation of the post-war economic order was also facilitated by the contribution of the Keynesian-based economists' epistemic community, although the community's influence was conditioned by the then-prevailing balance of power and interests of states. The economic specialists were coalesced into a loosely organised expert community by the British and US dialogue process, whereby there was loss of faith in previous monetary and trade frameworks; states' uncertainty and disagreements about alternatives; the complexity of the monetary issues that created an opportunity for experts to shape the policy discourse and facilitate agreement on divergent policy positions; and the broader political context of the emergence of modern welfare states in which there was a general orientation towards a liberal order that provided social welfare.[75] This testifies to the

[71] Stiglitz, 11 – 12; Kelkar et al., "Reforming the International Monetary Fund: Towards Enhanced Accountability and Legitimacy", in *Reforming the Governance of the IMF and the World Bank*, ed. Buira, 46; Yilmaz Akyuz, *Reforming the IMF: Back to the Drawing Board* (New York and Geneva: United Nations Conference on Trade and Development, G24 Discussion Paper Series, No. 38, November 2005): 2 – 3; Buira, 27; Barkin, 94; Spero and Hart, 15; IMF, *Articles of Agreement of the International Monetary Fund* (1944), (Washington, D.C., 2011), Article 1 (i), (ii), (iii), and (v), 2. http://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf (accessed February 16, 2013), Woods, *Globalizers*, 20,

[72]Randall W. Stone, "How to Reform the IMF", *Current History* 109, 730 (November 2010): 343.

[73]Schrire, 56.

[74] Helleiner, 621.

[75] Haas, 4; G. John Ikenberry, "A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement", special issue, *International Organization* 46, 1 (Winter 1992):291 – 293, 296 – 297, 304, 321; Chwieroth, *Capital Ideas*, 5 – 7, 19.

power of political authorities to select who participates and who is excluded in the policymaking process, and also the necessary symmetry between epistemic communities and political authorities,[76] whereby epistemic communities may facilitate acceptance of the parameters set by a dominant power in the acquisition, distribution, and application of knowledge.

The original IMF ideology and policies changed only gradually, and in response to American initiatives, through the quota-based voting power of the US, and later the G7, that gave power to creditor states, with profound implications for debtor members,[77] who happened to be mostly developing countries. Below the structure of voting power in the IMF is discussed.

3.2 Quota and Voting Structure

In the IMF, a member state is allocated a quota proportionate to its relative position in the global economy.[78] Each member's quota size determines membership contributions, their entitlements to IMF resources, and voting power. Quotas are therefore the foundation of the relations of power between members, hence their importance in IMF decisions and representation on the Executive Board, which is an important permanent decision-making structure responsible for approval of all IMF policies; surveillance; approval and management of all loans; election of the Managing Director; and approval of the budget and administrative staff policies.[79]

Since the US was the hegemonic power when the IMF was established, it laid down the political parameters for the configuration of the IMF and ranking of quotas according to economic and geostrategic significance, in a manner that conferred veto power to itself over important decisions such as changes in quotas, in part to ensure that its allies had the

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[76] Emanuel Adler and Peter M. Haas, "Conclusion: Epistemic Communities, World Order, and the Creation of a Reflective Research Program", special issue, *International Organization* 46, 1 (Winter 1992): 381.
[77] Stone, 343; Barkin, 20.
[78] IMF Factsheet, 2.
[79] Kelkar et al., 55; McLenaghan, 183, Portugal, 78.

biggest quotas.[80] As a result, the IMF was dominated by advanced developed countries, and this later became a decisive factor in determining the structure of the IMF and the evolution of its policies.[81]

Although during the establishment of the IMF the principle of sovereign equality of members was upheld through the allocation of basic votes to each member without consideration of its contribution or size, the participation of basic votes declined from 11.3 percent of voting power to 2.1 percent by the late 1990s, thus ensuring control of the IMF by its biggest members.[82] The requirement of special majorities further enhances the power of these dominant members.

Although it does not have the voting majority, the significant voting share and greater material resources of the G7 enabled it to ensure that no issue is likely to be endorsed if the group is strongly against it, because it often works and votes as a coalition, and can mobilise a majority among the most powerful members and set the agenda.[83] Meanwhile, its greater material resources give it an advantage in managing IMF relations, as observed in IMF staff recommendations, while developing countries and emerging powers are not incentivised to use their Executive Board seats and to form coalitions to focus on strategic issues.

The G7's greater share of weighted votes in the Executive Board also gives it power to place its own people in strategic positions, and the ability to affect the structures of the bureaucracy in a manner that is tailored to its own ideology and interests. For example, the Managing Director, a strategic position that derives its power from control of personnel and recommendations to the Executive Board, is always held by a European, assisted by an

[80] Woods, *Globalizers*, 16 – 17, 22, 27; Akyuz, 3.
[81] J. Lawrence Broz, "Changing IMF Quotas: The Role of the United States Congress", in *Reforming the Governance of the IMF and the World Bank*, ed. Buira, 287; Akyuz, 3.
[82] Woods, *Globalizers*, 22 – 23, 27; Buira, 9; Broz, 286, Kelkar et al., 62.
[83] Woods, *Globalizers*, 26, 190 – 192, 205; Chwieroth, *Capital Ideas*, 27 – 28.

American deputy, while personnel are mostly from Europe and the US, and have European and US academic and work experience backgrounds.[84]

In addition to the big voting shares held by the G7, the European Union (EU) countries are overrepresented in the Executive Board, both relative to their share of global Gross Domestic Product (GDP[85]), as well as in comparison with the US.[86] EU votes are further enhanced by the fact that constituency[87] votes cannot be split, and therefore European countries that represent mixed constituencies that have non-European members constitute EU overrepresentation and vote in a manner that is against developing-country interests.[88] This creates a situation whereby it is difficult for emerging powers and Southern states to vote as a group and exercise veto, because many developing countries are spread over a number of constituencies, some of which are often led by European directors.

On policy issues, the Executive Board relies on consensus, although the weight of the vote of members is an important factor, as it is considered in ascertaining the level of consensus, while on lending issues the Executive Board usually accepts recommendations of the Managing Director.[89] The decision-making tradition of consensus is a product of self-restraint induced by voting power, where member states will normally be deterred from raising issues that have a likelihood of being vetoed by the US or defeated by the majority of votes. This is

[84] Portugal, 88; Woods, *Globalizers*, 190 – 192;Barkin, 19; IMF, *Articles of Agreement*, Section 4, 33 – 34, Chwieroth, *Capital Ideas*, 28.
[85] GDP is defined as the approximate calculation of the overall “final goods and services produced in a given” term of a single year “using the factors of production” situated inside a specific country. Spero and Hart, 454.
[86] Portugal, 78, 84; Leech and Leech, 259 – 260.
[87] Constituencies are clusters of countries that elect an Executive Director to represent them in the Executive Board. Ngaire Woods and Domenico Lombardi, “Effective Representation and the Role of Coalitions within the IMF” (Oxford University College, Department of Politics and International Relations: Global Governance Economic Programme, 20 October 2005), 4.http://www.globaleconomicgovernance.org/wp-content/uploads/Woods%20and%20Lombardi%20-%20Coalitions%20and%20IMF.pdf (accessed February 16, 2013).
[88] Broz, 26; Woods, *Globalizers*, 27; Portugal, 95 – 96, Buira, 25.
[89] Chwieroth, *Capital Ideas*, 25 – 26; Portugal, 90 – 91.

a demonstration of the covert impact of voting power on the type and range of issues put on the agenda.[90]

The structure of the Executive Board also leads to skewed accountability of Executive Directors.[91] The five appointed directors representing the US, Japan, Germany, Britain, and France, as member states with the biggest quotas, are closely monitored by their governments, and can be easily recalled. Those representing constituencies are entitled to hold office for two years, with no constituency member having the right to recall them. The workload of constituency directors is also more than that of appointed directors, and this gives appointed directors more time and resources to focus on strategic issues.

The governance structure thus took the form of the North-South divide, with the G7 dominating its decision-making and policy orientation, because the EU, together with the US, have a majority, and have almost always voted as a bloc, while the US Treasury is said to have the most influence.[92] Moreover, the location of the IMF, including the World Bank in Washington DC, alongside the US Treasury, US think tanks, and US capital and financial markets, networks, as well as the staff composition of the IMF, confers power to the G7.[93]

The G7 is also backed by strong private businesses that are affected by IMF actions, such as investment funds, which lobby their governments, particularly US policymakers and bureaucrats, who in turn exercise their power and influence on IMF personnel, especially during crisis management.[94] The role of financial interests in the exercise of state power is linked to IMF ideology that in turn informed policies towards developing countries and emerging powers. However, the beliefs of IMF personnel also played an important role in the

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[90] Kelkar et al., 56.
[91] Woods, *Globalizers*, 192; Portugal, 78 – 79, Barkin, 95.
[92] Tan, 508, 515; Stiglitz, 14 – 15; Gene M. Lyons, “International Organizations and National Interests”, *International Social Science Journal* 47, 2 (1995): 264, Mark Weisbrot and Jake Johnston, “IMF Voting Shares: No Plans for Significant Changes”, *Issue Brief* (Center for Economic and Policy Research, May 2009), 1. http://www.tr.boell.org/downloads/Turkey-CEPR-imf-voting-2009-05.pdf (accessed February 17, 2013).
[93] Barkin, 21; Woods, *Globalizers*, 53; Stephan et al, 241, Adler and Haas, 371 – 372.
[94] Broz, 284, Endnote 5, 305; Chwieroth, *Capital Ideas*, 25, Woods, *Globalizers*, 191.

ideology and policies of the IMF.[95] The following section discusses the role of the independence, power, and culture of bureaucracy.

3.3 Bureaucratic Independence, Power, and Culture

The "functional" independence of the IMF's bureaucracy, which is derived from its capacity to set the agenda by crafting proposals that are discussed by the Executive Board, as well as also from the mandate; financial resources; organisational structure; bureaucratic division of labor; personnel's advantaged position with regards to acquiring information, including the staff's professional expertise, and time, enabled it to determine conditionality.[96] Meanwhile, the function of negotiating loan agreements, especially during crises, and conducting consultations with member states, further enhanced its independence and power that is mostly exercised over developing countries.

The hierarchical, technocratic, bureaucratic, and homogeneous culture of the IMF also influenced its relationship with debtor countries, just as with the interests of its dominant members, because it was resistant to change and to external influence, as well as inclined to expand the remit of the IMF in a manner that neglected the concerns and different economic and political circumstances of affected countries, resulting in failed IMF operations.[97] The biased recruitment practices of the IMF, as will be demonstrated in the discussion of G7 power in the knowledge structure, whereby the IMF hired personnel with broad economics education from US institutions and agencies, also reinforced IMF culture and facilitated the eventual domination of neoliberalism throughout the IMF's policies.

As stated earlier, US power derived from the quota and voting structure enabled it, and later together with other members of the G7, to take initiatives that led to changes in IMF policies,

[95] Chwieroth, *Capital Ideas*, 29 – 30.
[96] Barkin, 34 – 35; Chwieroth, *Capital Ideas*, 30 – 32; Woods, *Globalizers*, 10, Portugal, 77.
[97] Tan, 511, 513; Chwieroth, *Capital Ideas*, 34 – 39; Momani, "Streamlining Fund Conditionality", 142; Woods, *Globalizers*, 7, 9, 55, 62 – 64, Momani, "Recruiting and Diversifying IMF Technocrats", 181 – 182.

with negative consequences for developing countries. Below is a discussion of IMF policies as they evolved and were shaped by US and G7 power.

3.4 Policies

Due to the fact that the IMF is one of the core institutions that gave support to the finance structure,[98] intensification of conditionality;[99] the transition from fixed to floating exchange rates; liberalisation of capital controls; and expansion of the remit of the IMF are key features of the way in which the US used its power in the finance and knowledge structures, unilaterally and through the IMF, to determine options available to other states and imposed its preferred economic ideology. For instance, although there was equivocation in the IMF's Articles of Agreement about conditionality, the US, as the biggest creditor state, successfully (although informally) instituted conditionality, against the preferences of debtor European countries that supported the idea of increasing IMF resources during the first ten years.[100] It did this by, among other things, blocking new loans and bypassing the IMF through bilateral lending that came with conditionality, while 'important' client states were made to adhere to less stringent conditions.

When Western European countries were no longer debtors, they began to support conditionality, which was subsequently intensified, while IMF resources were allowed to decrease through various measures, such as the use of the US veto to block increases in IMF resources, along with the General Arrangements to Borrow (GAB) that enabled the IMF to borrow from ten industrialised countries.[101] In 1983, the GAB was expanded to include Saudi Arabia.

The political significance of the GAB was the creation of broader political domination of the IMF by creditor states beyond the US, to include Western European countries, Japan, and

[98] Stephan et al., 15.
[99] Conditionality refers to "conditions attached to a loan, debt relief, bilateral aid or membership of international organizations …" Spero and Hart, 446.
[100] Woods, *Globalizers*,2, 33; Buira, 29; Stone, 343 – 344, 348; Stiglitz, 44, Akyuz, 3 – 4.
[101]Buira, 29, 34, Endnote 8, 41; Woods, *Globalizers*, 25, 29, 31 – 32.

Saudi Arabia, although the general condition of unchallenged US hegemony continued. On the other hand, reduced IMF resources led to more adjustment and conditionality than financing, and this raised the risk of failure, because it aggravated the severity of the economic and social consequences of adjustment and generated political resistance to the implementation of necessary policies.

The IMF also gradually became intolerant of capital controls. This was preceded by America's abandonment of the fixed exchange rate by suspending dollar convertibility into gold in 1971, which was done to protect its gold holdings following the expansion of its presence abroad at levels of expenditure that exceeded its international earnings, and imprudent domestic macroeconomic policies.[102]

The March 1973 decision to float exchange rates thus marked the effective end of fixed exchange rates, while the 1976 meeting of the most powerful members of the IMF held in Kingston, Jamaica, formalised the decision. During these crises, the G7, a US creation in response to the financial turmoil following the end of the Bretton Woods system, informally became the top body of international financial governance, and the 1976 IMF agreement to let exchange rates float was attributable to G7 pressure.[103] The Articles of Agreement were also amended in order to institute more IMF surveillance of exchange rates and domestic economic policies.

The end of fixed exchange rates freed the US from the responsibilities of the order without substantially losing advantages, while it also gained structural power to set the framework within which relevant spheres of political activity such as the IMF operated in a manner that served its interests.[104]

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[102] Robert Gilpin, *The Political Economy of International Relations* (Princeton, New Jersey: Princeton University Press, 1987), 140 – 141; Jonathan Kirshner, "Dollar Primacy and American Power: What's at Stake?", *Review of International Political Economy* 15, 3 (2008): 423, Buira, 27.
[103] Payne, 521 – 522; Helleiner, 627, Spero and Hart, 26.
[104] Wade, 350; Kirshner, 423 – 425.

Adoption of the floating exchange rate system by major currencies in 1973 was followed by a push for the liberalisation of capital controls, against Japan's and Europe's preferences, when the US liberalised capital controls in 1974 for the purpose of financing its current account and fiscal deficits.[105] Other advanced economies reluctantly deregulated their financial markets in competition for market share in debt rescheduling and consultancy services to debt-burdened developing countries. This competition led to more risks being taken by US lenders in the issuing of foreign loans; risk-taking that was made more permissible by the structural power of the US.

The 1970s thus marked the transition from the Bretton Woods system to the globalised neo-liberal financial system, domination of financing to developing countries by private lenders, and increased exposure of debtor countries to any change in the availability of foreign credit or export revenues; and these changes contributed to the 1980s debt crisis in the developing world.[106] Subsequently, the decline in export revenues, when commodity prices fell in 1981/1982, led to the inability of developing countries to secure foreign exchange for servicing debt. When Mexico failed to service its debt, the US intervened by providing funds upfront, and also used its power over the IMF and other central banks to make new money available to maintain Mexico's solvency, and to improve multilateral financial flows to developing countries. This was done because the vulnerability of major private lenders to default could lead to a financial crisis or economic downturn. The Third World debt crisis hit when private lenders from the advanced countries and Arab states panicked, and stopped issuing loans from 1982 onwards. Developing countries were subsequently faced with the high cost of debt servicing and scarce credit, due to reluctance by private lenders to issue

[105] Strange, "Finance, Information and Power", *Review of International Studies* 16, 3, (July 1990): 264, Strange, ""Towards a Theory of Transnational Empire", in *Authority and Markets*, eds. Tooze and May, 147; Strange, *States and Markets*, 104, 110 – 113, 135; Stone, 344, Schrire, 56.
[106] Helleiner, 626; Spero and Hart, 36, 218 – 219; Woods, *Globalizers*, 47, 111 – 112; Strange, "Finance, Information, and Power", 260 – 261, Strange, *States and Markets*, 108 – 109.

new loans, coupled with exposure to loose capital movements they could not contain.[107] These countries also found themselves in the grip of the IMF because access to other sources of finance was dependent on IMF consent.

The IMF's approach was however inappropriate, because it was designed to address short-term liquidity problems, whereas the high costs of credit, inappropriate investment decisions, international economic recession, and a huge debt, meant that repayment requirements for Latin American countries were far beyond their ability to repay.[108] The IMF, banks, and Northern governments thus issued loans to debtor countries for the purpose of enabling them to service their debts. Debtor countries were in return required to undertake stabilisation that entailed austere macroeconomic policies. The total debt of borrowers thus increased, because they were servicing their debt with new loans.[109] The debt crisis severely affected prospects for development in developing countries, where in economic terms, the decade from 1981 is regarded as a "lost decade" in much of the developing world due to the fact that even countries that were growing in the 1970s experienced substantial decline and insignificant subsequent recovery.[110]

During the period defined by the 1980s debt crisis and into the 1990s, the IMF bureaucracy used conditionality to expand the remit of the IMF beyond macroeconomic matters such as controlling exchange rate adjustments and financing balance of payments deficits to structural matters such as financing for development; alleviation of poverty in developing countries; and crisis management in emerging-market countries, while encroaching on the development mandate of the World Bank, whereby World Bank loans were subject to IMF

[107] Strange, "Finance, Information and Power", 261; Strange, *Sates and Markets*, 31; Strange, "Towards a Theory of Transnational Empire", 145; Tooze and May, "Authority and Markets in Theory and Practice: Introduction and Commentary", in *Authority and Markets*, eds. Tooze and May, 10; Ngaire Woods, "Understanding Pathways through Financial Crises and the Impact of the IMF: An Introduction", *Global Governance* 12, 4 (2006): 375 – 376; Woods, *Globalizers*, 70, Stiglitz, xiv, 31.
[108] Woods, *Globalizers*, 47 – 48.
[109] Ibid., 48 – 49.
[110] Strange, *States and Markets*, 112 – 113.

approval, with the accompanying conditions.[111] Such took place in a context in which one of the original purposes of the IMF, maintaining currency convertibility, had ceased to be a major issue in global financial and monetary affairs. It also happened in a context in which the dominant G7 coalition was driving globalisation of the world economy, through added liberalisation in developing countries, with the IMF being used as a tool for that purpose.[112]

These policy shifts marked a dramatic change from the IMF's original mandate and ideology, to a market fundamentalist economic ideology that had a very different approach to development and crisis management.[113] The G7 did not tolerate debate on alternative models. This undermined the legitimacy and accountability of the IMF, and efficiency in its competency areas suffered.[114]

The changed policies of adjustment and stabilisation characteristic of the IMF's overall approach from the beginning of the 1980s and throughout the 1990s were later called the 'Washington Consensus'; a new epistemic consensus between the IMF, World Bank, US Congress and Treasury, and policy think tanks about the "right" policies for developing countries.[115]

The Washington Consensus drove globalisation of the world economy and was intimately linked to G7 power in the knowledge structure and the notion of epistemic communities. For instance, information technology advances in the knowledge structure gave US banks

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[111] Akyuz, 2, 5; Jodie Keane and Dirk Willem te Velde, "The New Landscape of Global Economic Governance: Strengthening the Role of Emerging Economies" (European Development Cooperation: March 2011), 12. http://www.edc2020.eu/fileadmin/publications/EDC_2020_-_Working_Paper_no_13_-_The_New_Landscape_Of_Economic_Governance_-_Strengthening_the_Role_of_Emerging_Economies_v3.pdf (accessed February 16, 2013); Stiglitz, 14, Barkin, 35 – 36, 103; Braveboy-Wagner, 40, Woods, *Globalizers*, 8.
[112] Mark Beeson and Richard Higgott, "Hegemony, Institutionalism and US Foreign Policy: Theory and Practice in Comparative Historical Perspective", *Third World Quarterly* 26, 7 (2005): 1179; Woods, *Globalizers*, 1 – 3.
[113] Stiglitz, 12 – 15, 240; Keane and te Velde, 11, Griesgraber, 182.
[114] Portugal, 76 – 77.
[115] Woods, *Globalizers*, 48, 53; Strange, *States and Markets*, 112 – 113; Stiglitz, 16, Momani, "IMF Technocrats", 172.

immense power in the global financial system that manifested itself in their dominance of debt management, and was exercised through the IMF in times of crisis, by detailed programmes supported by technical reasons, while certain debtor countries did not have the capacity to draft and suggest alternatives.[116] Monetarism, or the austere policies of adjustment and stabilisation that were enforced by the IMF, thus became dominant, because of the part played by ideology in determining the purposes of social enquiry and knowledge.[117]

G7 power in the knowledge structure was also enhanced when socialist ideas of organising the economy were discredited at the end of the Cold War, and the collapse of the former Soviet empire, along with the concomitant dominance of the Western liberal political and capitalist economic model of organising human societies.[118] Lack of power in the knowledge structure on the part of developing countries caused by the intellectual decline of Marxism thus led to their acceptance of the Washington Consensus version of globalisation promoted by the IMF.

US power in the knowledge structure laid the basis for the influence of a monetarist epistemic community, which played a crucial part in the policies of the IMF during the 1980s debt crisis, under the circumstances of uncertainty and the need for technical expertise.[119] However, epistemic communities were guided by challenges and policy priorities facing the political leadership, where the dominant states set the parameters of the discourse in which the epistemic community became influential, because the Washington Consensus was compatible with the new neoliberal ideology prevalent in the industrialised creditor states.

[116] Strange, *States and Markets*, 134; Woods, *Globalizers*, 49, 71; Strange, “Transnational Empire”, 148; Woods, “Pathways through Financial Crises”, 376.
[117] Strange, *States and Markets*, 136.
[118] Schrire, 49, 59 – 60; Bisley, 67.
[119] Woods, *Globalizers*, 48, 66 – 69.

US and G7 power in the knowledge structure also helped to facilitate the influence of the Washington Consensus monetarist epistemic community within the IMF due to biased recruitment, which ensured that personnel and senior management originated from and were trained in English-speaking developed countries, with PhDs in economics obtained from mainly British and US universities, which tended to ensure that candidates were adherents of monetarism.[120] There was also exchange of personnel between the IMF and the private and public financial sectors and think tanks during the 1990s. The perspectives and ideology of the financial community thus informed IMF policies.

The scale, affluence, and flexibility of US universities also served as a source for US leadership and power in the knowledge structure, because American institutions of higher learning became dominant centres of learning, to which professionals of other countries were attracted.[121] This resulted in the dominant ideology being inculcated amongst the weak, to the extent that the weak assimilated the norms and values of the strong.[122] For instance, the Washington Consensus epistemic community was also spread through a "technocratic alignment", made possible by the common Western economics education between IMF staff and developing-country officials situated in the finance and monetary executive agencies in their countries, who together shared in a neo-liberal economic ideology.[123] This illustrates the nexus between US power in the knowledge structure and the notion of epistemic communities in the ideological and policy evolution of the IMF.

The role that was played by the IMF in legitimising the Washington Consensus version of globalisation also demonstrated the validity of the assertion made by critical theorists; that IOs played a role in the ideological legitimation of the dominant order. The following section is a discussion of how these policies elicited feedback regarding their consequences in

[120] Woods, *Globalizers*, 53 – 54; Chwieroth, *Capital Ideas*, 48 – 49; Momani, "IMF Technocrats", 169 – 173, 176, 178 – 179, 183, Stiglitz, 207, 225.
[121] Strange, "The Myth of Lost Hegemony", 137; Tooze and May, "Authority and Markets", 13; Strange, *States and Markets*, 137, Strange, "Transnational Empire", 148.
[122] Strange, "Who Governs?", 176; Strange, *States and Markets*, 119 – 120.
[123] Momani, "IMF Technocrats", 170; Woods, *Globalizers*, 65 – 66, 81.

developing countries, and delineates the measures adopted by developing and emerging-market countries to avoid being subjected to IMF policies.

3.5 Feedback

The effects of the changed policies were dramatically demonstrated in the IMF's management of the East Asian crisis from 1997 to 1998.[124] Although weak institutions and highly indebted firms were considered to be the other major underlying problem in East Asia, liberalisation of capital markets is considered to be one of the major causes of the crisis, because 'foot-loose' capital[125] that often follows liberalisation of capital controls had a hugely destabilising effect, while the IMF's monetarist policy prescriptions are considered to have worsened the situation.[126] The movement of foot-loose capital plunged a region that was doing relatively well economically into recession within a short space of time, because decline in the economic growth of one country cut inter-state trade, and the knock-on effect led to a 'contagion'.[127]

The pressure for capital market liberalisation came from the US, host to the biggest cluster of financial capital markets.[128] Hence, commentators argued that liberalisation of capital controls enhanced market access for US financial capital, revived the wealth and power of the US, while the IMF was generally considered to promote policies linked to the interests of developed countries.

There was widespread unhappiness with the global financial order due to the way the IMF handled the Asian crisis, and East Asian countries subsequently accumulated foreign exchange reserves and sought to establish regional financial and monetary institutions to

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[124] Stiglitz, 16 – 17, 31.
[125] Stiglitz describes it as "money that comes in and out of a country, often overnight, often little more than betting on whether a currency is going to appreciate …" Stiglitz, 7.
[126] Stiglitz, 99, 105, 110; Higgott, 231, Dieter, 344.
[127] Stephan et al., 239; Stiglitz, 91, 107, 199.
[128] Stephan et al., 211, 241; Beeson, 87 – 88; Stiglitz, 100, 130,132, 207, Higgott, 231.

avoid resorting to the IMF in the future.[129] However, Japan's proposal of an Asian Monetary Fund (AMF) did not materialise, due to disagreement between Japan and the US, including China's and the IMF's rejection of the idea. However, ASEAN members created a watered down mechanism called the Chiang Mai Initiative (CMI) in 2000. Asian regional financial and monetary arrangements are discussed further in Chapter 4, under regional strategies of emerging powers.

Even after the East Asian crisis, the IMF did not change its monetarist approach to crisis management.[130] Emphasis and blame for financial crisis was placed on crisis-afflicted countries, while emerging powers did not have enough voting power to oppose the IMF's refusal to impose regulations on the behaviour of Western financial markets, and the IMF's focus and leverage on emerging powers' macroeconomic policies and institutions. Advocates of IMF reform thus made linkages between quota allocations and representation in the Executive Board, and disproportionate political influence on IMF policies, arguing that reform of quotas to improve representation of developing countries, and to reflect the enhanced financial power of emerging powers, would result in more efficient and fair policies.[131]

Meanwhile, in the midst of dissatisfaction of developing countries and emerging powers with IMF policies, while there was also dissatisfaction with efforts to reform the IMF since 1999

[129] Buira, 26 – 28; Andrew Baker, "Deliberative Equality and Transgovernmental Politics of the Global Financial Architecture", *Global Governance* 15, 2 (2009): 210; Kelkar et al., 51 – 52; William W. Grimes, "The Asian Monetary Fund Reborn? Implications of Chiang Mai Initiative Multilateralization", *Asia Policy* 11 (January 2011):86 – 87; Dirk Nabers, "Power, Leadership, and Hegemony in International Politics: The Case of East Asia", *Review of International Studies* 36, 4 (2010): 942, Stiglitz, 112 – 113.
[130] Jeffrey M. Chwieroth , "Controlling Capital after the Crisis of 2007-2009: The IMF and New Norms of Financial Governance" (paper presented at the conference on Myth and Reality: The Promise of Economic Multilateralism, Leonard Davis Institute for International Relations, Hebrew University, Jerusalem, Israel, 20 – 21 December 2010), 17 – 18. http://personal.lse.ac.uk/Chwierot/(accessed February 16, 2013); Baker, 195 – 196, 208, Stiglitz, 233.
[131] Buira, 1, End Note 1, 4; Buira, 10, 26; Chwieroth, "Controlling Capital after the Crisis of 2007-2009", 18; Akyuz, 2; Tan, 515, Stiglitz, 12.

through the QFRG and the G20 Finance,[132] the rise of private as well as Chinese capital as alternative sources of finance led to the decline of the IMF. Since globalisation led to domination of private capital flows in the global political economy, expanded capital markets in the context of increased capital market liberalisation in developing countries also meant that there were increased private capital flows relative to IMF loans.[133] The rise of private capital and financial markets, and the rapid growth and better credit worthiness of emerging-market countries (as they had developed macroeconomic indicators and policies that improved their credit rating and were thus able to borrow from private lenders), provided alternative sources of finance and led to the IMF losing customers, middle-income countries in particular.[134]

The IMF also became increasingly irrelevant due to self-insurance initiatives, such as accumulation of reserves, regional financing arrangements, and settling of IMF loans ahead of schedules by formerly crisis-hit countries of East Asia and Latin America.[135] The self-insurance initiatives of developing countries were supported by exporters of primary products, emboldened by rising prices for commodities in the context of general high global economic growth since 2002.[136] The IMF had thus not conducted substantial lending since 2003, and was left to deal largely with poorer countries.

The rise of China as a global economic power[137] also influenced developing countries' relations with the IMF. For instance, since the growth of China was based on demand for

[132] Buira, 11 – 13, 15, 20; McLenaghan, 187; Kelkar et al., 58; Martinez-Diaz, 7, 17 – 18, 25, Wade, 355.
[133] Kelkar et al., 47; McLenaghan, 185, Stone, 344.
[134] Tan, 507, 520; Buira, 1 – 2, Anton Malkin and Bessma Momani, "Emerging Powers and IMF Reform: Where Multipolarity in the World Economy is Leading the Fund", 7. http://www.arts.uwaterloo.ca/~bmomani/documents/StAnthony-MultipolarityandIMFReform.pdf (accessed February 16, 2013).
[135] Chwieroth, "Controlling Capital after the Crisis of 2007-2009", 27; Dieter, 343, 345.
[136] Richard N. Cooper, "Necessary Reform? The IMF and International Financial Architecture", *Harvard International Review* 30, 4 (Winter 2009): 52.
[137] Stephan et al., 25 – 26, 146, 180, 243 – 244.

primary commodities such as energy and mineral resources, resource-rich Sub-Saharan African countries benefited in terms of development support, trade, investments, debt relief, and strategic alliances.[138] The profits that were made by Chinese and Indian investment in Africa led to Western investors' pursuit of investment opportunities in Africa as well.[139]

Rising commodity prices and accumulation of foreign exchange surpluses by emerging powers also gave rise to "power brokers" such as sovereign wealth funds (SWFs), which include entities like the State Administration of Foreign Exchange (SAFE) of China.[140] The rise of SWFs had the impact of providing alternative sources of finance, hence the decline of the IMF. For instance, the China Development Bank issued huge concessional[141] financial support to many developing countries since 2005. This is how the rise of private and Chinese capital led to less reliance by other developing countries on financial support from the IMF and/or IMF controlled World Bank development finance. Since the IMF finances its operating costs from the profits generated by loans, it subsequently lost income and had to retrench staff.[142] As stated in Chapter 1, the shortfall in income, including the IMF's inability to address key global economic issues, are considered by some commentators to be the

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[138] Stephan et al., 10 – 11; Keane and te Velde, 25; Mzukisi Qobo, "Emerging Powers and the Changing Global Environment: Leadership, Norms and Institutions." South African Institute of International Affairs (SAIIA) Occasional Paper No. 91 (Emerging Powers and Global Governance Programme: September 2011), 25. http://www.saiia.org.za/occasional-papers/emerging-powers-and-the-changing-global-environment-leadership-norms-and-institutions.html (accessed 18, February 2013), Jerry Harris, "Emerging Third World Powers: China, India, and Brazil", *Race and Class* 46, 7 (2005): 24.
[139] Stephan et al., 29 – 30.
[140] Subacchi, 493; Daniel W. Drezner, "BRIC by BRIC: The Emergent Regime For Sovereign Wealth Funds."(paper prepared for the Princeton summer workshop on Rising States and Rising Institutions, August 2008), 4.
http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CDAQFjAA&url=http%3A%2F%2Fdanieldrezner.com%2Fresearch%2Fswf1.pdf&ei=mAMiUcn9LZC3hAfA6YDABg&usg=AFQjCNHmIdLAQB8G9AksHq9NtzyKFOdtAw&bvm=bv.42553238,d.ZG4 (accessed February 18, 2013), Gregory T. Chin, "Remaking the Architecture: The Emerging Powers, Self-insuring and Regional Insulation", *International Affairs* 86, 3 (2010): 697.
[141] "Loans that are made at lower than market interest rates and therefore have a subsidy element." Spero and Hart, 446.
[142] Stone, 343; Chwieroth, "Controlling Capital after the Crisis of 2007-2009", 27; Tan, 519, Ikenberry and Wright, 19.

catalyst for IMF governance reforms that were started in 2006. IMF governance reforms are discussed in the following chapter.

This chapter discussed the role of economic conditions, interests of dominant states, and the Keynesian-based epistemic community, in shaping the original mandate and ideology of the IMF, and the fact that it was supported by developing countries, because it allowed them policymaking autonomy for their mainly state-led development strategies. The chapter also demonstrated that the quota and voting structure of the IMF was skewed in favour of the G7, a condition that permitted the G7, once their economic conditions and interests had changed, to initiate changes in IMF policies; while the bureaucratic independence, power, and culture of the IMF facilitated the implementation of these policies, with negative consequences for developing countries. The analysis of power has also revealed the broad-based and extensive nature of the structural power of the US as the basis of G7 dominance over the IMF, while the analysis of IMF policies has shown that the structural power of the dominant coalition was used to implement policies that were largely regarded to have failed and to have led to calls for governance reform of the IMF. This chapter concluded with a discussion of the subsequent measures that were taken by important developing-country and emerging-power borrowers to avoid resorting to the IMF in future crises, and the consequent financial constraints that faced the IMF and considered to have catalysed the governance reforms. The following chapter presents a discussion of strategies that were adopted by Brazil, China, and India towards IMF governance reform, and G7 strategies of reform.

Chapter 4: Strategies of Brazil, China, and India towards IMF Governance Reform, and G7 Strategies of Reform

This chapter begins with a brief discussion of bilateral and regional strategic choices of emerging powers under section 4.1, while section 4.2 is a discussion of regional strategies of emerging powers. Section 4.3 is a discussion of global strategies of developing countries that included Brazil, China, and India, and the rise of emerging-power coalitions and strategies. Section 4.4 is a discussion of specific reform proposals of these emerging powers as part of the rest of the developing world, and the impact of strategies, including a discussion of G7 strategies of reform from 2006 to 2010, as well as exclusively emerging-power strategies of Brazil, China, and India in the context of G7 strategies, when their quotas were increased to become part of the top ten largest shareholders in the IMF. Section 4.5 is a discussion of the theme of diversity of interests of all states, while section 4.6 is a discussion of the utility of realism in understanding strategies and outcomes. Section 4.7 provides a brief conclusion of this chapter.

4.1 Strategic Choices of Emerging Powers

Since Brazil, China, and India became emerging powers, they adopted active foreign policies that were partly directed at increasing their influence in IOs. Some of the most important determinants of their foreign policies were the desire to pursue their economic development, and US hegemony.[143] Although these emerging powers had a range of strategic options, from bilateral to regional, that were available to them, and even though their size may have increased their strategic choices, including their sense of entitlement to play a bigger part, they were still conscious of their weaknesses, while US hegemony imposed "structural" limitations on their strategic options, and induced them to work together with the hegemonic state.[144] Bilateral disagreements between these emerging powers about

[143] Hurrell, 1, 13, 16.
[144] Hurrell, 18; Michael A. Glosny, "China and the BRICs: A Real (but Limited) Partnership in a Unipolar World", *Polity* 42, 1 (January 2010): 103.

a range of issues also inhibited bilateral action. For instance, there was a re-establishment of friendly relations between China and India, but that did not translate into bilateral action to reform the IMF, perhaps due to their border disagreements, and the general competition and mistrust between these two countries in the Asian context; including a potential arms race, and divergent positions on reform of the UN Security Council (UNSC).[145] Brazil and India want permanent seats at the UNSC, while China wants to maintain the status quo.

The fact that Brazil and India led the G20 coalition within the World Trade Organisation (WTO), and that both of them cooperated with Germany and Japan to reform the UNSC, including their membership of the India-Brazil-South Africa Dialogue Forum (IBSA), ought to have served as the basis for bilateral action to reform the IMF; but that did not materialise, because the seemingly "'strategic'" relationship between them is "relatively [thin]", while all these emerging powers are unable to trust each other.[146] Regarding economic limitations to their foreign policies, India has the priority of attracting more investment from the West, and Brazil needs to increase its export destinations, probably to counter its serious foreign economic weaknesses.[147] The relative geostrategic weakness of Brazil and India when compared to China is another factor that inhibited bilateral action, confirmed by the view that they should for some time to come be regarded as active middle-sized powers that are gaining more influence, rather than as big powers.[148]

Furthermore, although there was an increase in economic ties between Brazil, China, and India, no bilateral action was taken to reform the IMF, partly because the economic relationship between Brazil and China in particular was skewed in favour of China due to its mercantilist policies, at the expense of Brazilian industries, although Brazil was hoping that

[145] Hurrell, 3, 10, 15 – 16; Timothy M. Shaw, Andrew F. Cooper, and Agata Antkiewicz, "Global and/or Regional Development at the Start of the 21st Century? China, India and (South) Africa", *Third World Quarterly* 28, 7 (2007): 1264 – 1265; Glosny, 100, 127.
[146] Hurrell, 3, 16; Stephan A. Schirm, "Leaders in Need of Followers: Emerging Powers in Global Governance", *European Journal of International Relations* 16, 2 (2010): 198.
[147] Hurrell, 16 – 17.
[148] Ibid., 19.

the budding relationship would develop into a nascent commercial and diplomatic alliance.[149] Observed cooperation among emerging powers should therefore take into account their accommodation with the US, other constraints to cooperation, as well as continued mistrust among them, including the significant bilateral differences[150] that eliminated the bilateral option.

With regards to the regional option, the conventional view is that a region should serve as a power base for emerging powers from which to galvanise support for global objectives, while regional institutions offer benefits to emerging powers, such as increased power than they might exercise in IOs.[151] These emerging powers thus attempted to play leading roles in their respective regions.[152] However, the section on regional strategies will demonstrate that attempts by emerging powers to consolidate regional power bases met significant challenges. These include continuing regional disputes; regional volatility and the difficult challenge of sustaining regional sway; regional neighbours' hostility to, or anxieties about global ambitions of emerging powers; and attempts by the US to take advantage of regional disputes and to exercise offshore balancing. Consequently, it was only China's regional strategies that contributed to its increased influence in the IMF. The following section is a discussion of regional strategies of these emerging powers.

[149] Hurrell, 3; Denise Gregory and Paulo Roberto de Almeida, "Brazil and the G8 Heiligendamm Process", in *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process*, eds. Andrew F. Cooper and Agata Antkiewicz (Ontario: Wilfrid Laurier University Press, 2008), 149; Qobo, 17, Harris, 23 – 24.
[150] Hurrell, 4, 15 – 16.
[151] Hurrell, 8; Ikenberry and Wright, 6, 29.
[152] Hurrell, 8 – 9, 11; Maria Regina Soares de Lima and Monica Hirst, "Brazil as an Intermediate State and Regional Power: Action, Choice and Responsibilities", *International Affairs* 82, 1 (2006): 22.

4.2 Regional Strategies

The post-Cold War context of increased globalisation and the economic rise of emerging powers led to the emergence of new regionalism, evident in resumption of past regional integration initiatives and creation of new regional blocs.[153]

In the case of Latin America, challenges such as different levels of economic development of countries of the region; states' prioritisation of their individual sovereignty; Brazil's unilateralism; US trade and security relations with some states of the region; regional rivalries; and Brazil's lack of confidence in regional financial and monetary institutions;[154] prevented a Brazil-led South American strategy to reform the IMF or to establish viable regional alternatives. For instance, with regards to Mercosur, salient obstacles to Brazil's regional strategies were disagreements between Brazil and Argentina about concessions Brazil had to make – as the biggest economy – to evenly spread benefits of regional integration; disagreements that were fuelled by the historical rivalry between the two states, which thus effectively eliminated the option of regional trade initiatives that could evolve into regional political cooperation to reform the IMF.

Brazil also did not support regional financial and monetary initiatives such as the Latin American Reserve Fund (FLAR) established by the Andean Community, most probably because it failed to exert its political influence over the Andean region, and the Bank of the South (BOS) that was driven by Venezuela, due in part to competition and rivalry between Brazil and Venezuela for regional leadership.[155] Overall, Brazil was ambivalent towards South America, with little achieved in terms of regional institutions. Consequently, important

[153] Braveboy-Wagner, 8 – 9, 12; Stephan et al., 17, 278.
[154] de Lima and Hirst, 30 – 35, 37 – 38; Gregory and de Almeida, 146, 148 – 150, Endnote 11, 159; Braveboy-Wagner, 119 – 122, 124, 143; Alden and Vieira, 1085 – 1086; Harris, 22; Hurrell, 8; Philip Nel, "Redistribution *and* Recognition: What Emerging Regional Powers Want", *Review of International Studies* 36, 4 (2010): 959; Chin, "Remaking the Architecture",704 – 705, Grimes, 90.
[155] Hurrell, 9; de Lima and Hurst, 31, Sean W. Burges, "Building a Global Southern Coalition: The Competing Approaches of Brazil's Lula and Venezuela's Chavez", *Third World Quarterly* 28, 7 (2007): 1343 – 1358.

South American states such as Argentina, Mexico, and Venezuela are not part of the constituency led by Brazil in the IMF.[156]

Unlike Brazil, China became involved in regional cooperation initiatives whereby East Asian leaders adopted a counterweight strategy to create supporting arrangements or potential alternatives, thus putting regional actors in a better position in the reform of the global monetary system, without challenging major actors outside East Asia.[157] ASEAN+3, a new economic body that included China, Japan, and South Korea – created after the Asian crisis to shield economies of the region against future financial crises – became the main platform,[158] although attempts to establish potential regional alternatives were constrained by a number of factors.

The three most notable Asian regional financial arrangements in which China is participating are the Chiang Mai Initiative (CMI), the Asian Bond Fund Initiative (ABFI), and the Asian Currency Unit (ACU) initiative.[159] The CMI, of which China contributed in its formation in 2000 as an Asian support fund of bilateral currency swap and repurchase agreements among members of ASEAN+3, is the most highly developed component of East Asian financial initiatives.[160]

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156 IMF, *IMF Executive Directors and Voting Power* (19 November 2011). http://www.imf.org/external/np/sec/memdir/eds.aspx (accessed February 8, 2013).
157 Grimes, 83; Injoo Sohn, *East Asia's Counterweight Strategy: Asian Financial Cooperation and Evolving International Monetary Order*, United Nations Conference on Trade and Development, G-24 Discussion Paper Series, No 44 (New York and Geneva, March 2007), 2, 6 – 8. http://www.g24.org/Publications/Dpseries/44.pdf (accessed February 26, 2013).
158 Grimes, 81; Paul Bowles, "ASEAN and the G8: Potentially Productive Partners or Two Ships Passing in the Night?", in *Emerging Powers in Global Governance: Lessons from the Heiligendamm Process*, eds. Andrew F. Cooper and Agata Antkiewicz (Ontario: Wilfrid Laurier University Press, 2008), 223; Rosemary Foot, "Chinese Strategies in a US-Hegemonic Global Order: Accommodating and Hedging", *International Affairs* 82, 1 (2006): 85 – 86, Gregory Chin, "China's Evolving G8 Engagement: Complex Interests and Multiple Identity in Global Governance Reform", in *Emerging Powers in Global Governance*, eds. Cooper and Antkiewicz, 107.
159 Sohn, vii, 3, 6.
160 Sohn, 3; Buira, 26; Kelkar et al, 52; Helleiner, 628; Dieter, 345; Chin, "China's Evolving G8 Engagement", 107, Grimes, 81.

Although factors such as the ASEAN+3's lack of developed surveillance systems, the need to ensure that loans were more likely to be repaid, and concerns about US and EU possible rejection of a new Asian financial arrangement that is not linked to the IMF, compelled the CMI to maintain a link to the IMF through a requirement that its members in need of more than 10 percent be subjected to IMF conditionality through an IMF-approved loan program, the CMI was eventually multilateralised into the Chiang Mai Initiative Multilateral (CMIM) in 2009.[161]

Although some Asian policymakers considered the initiative to have the potential of becoming an Asian Monetary Fund (AMF), according to the "realist" explanation, CMIM dependence on the IMF is necessitated by the Sino-Japanese rivalry, because neither country is prepared to suffer the political cost of rejecting requests for financial assistance from their neighbours.[162] Neither can therefore commit to enforcing conditionality due to the mistrust and the desire to maintain allies, nor is either country prepared to incur the potential cost of spending money without getting any return on it, or of creating conditions for moral hazard.[163] Criticism of CMIM institutional surveillance measures is that they are also unable to eliminate the need for IMF enforcement, because it is a consequence of the rivalry and mistrust between China and Japan; a condition that cannot be overcome by institutional measures.[164] Overall, the CMIM maintained the role of enforcement of the IMF, due to the Sino-Japanese mistrust that prevents these countries from committing to enforcement of conditionality. The Sino-Japanese rivalry has also been described by other commentators as a significant obstacle to further regional cooperation that could balance against US dominance.[165]

[161] Sohn, 3 – 4; Grimes, 80, 82, 84, 87, 92 – 95, Chin, "Remaking the Architecture", 703 – 704.
[162] Buira, 26; Grimes, 85 – 86, 88 – 89, 96 – 97.
[163] Moral hazard is when states in need of financial intervention fail to pursue prudent macroeconomic policies because they are constantly bailed out, to the extent that economic and financial crises and the need for intervention overwhelm all parties concerned. Broz, 290; Spero and Hart, 462.
[164] Grimes, 97 – 98.
[165] Foot, 87.

Concerning East Asian financial and capital market initiatives, in June 2003 the Executives' Meeting of East Asia Pacific Central Banks (EMEAP) announced the ABFI, an attempt to develop a bond market for the region.[166] While the ABFI is viewed as a potential challenge to US and EU dominance in global capital markets, the EU supported the notion of an Asian Bond Market because many Asian leaders emphasised the Asian Bond-Euro Bond relationship, along with the establishment of a Euro Bond Market in Asia. However, the significance of the ABFI in relation to IMF governance reform is that it serves as another counterweight strategy allowing for alternatives to IMF or US handling of crisis or development financial aid; while the ABFI would also present another avenue through which East Asia can advance its agenda without challenging the G7 and the IMF.

Despite territorial disputes, the three biggest economies in the region, China, Japan, and South Korea, also agreed in May 2006 to deepen regional financial cooperation, through a feasibility study on an ACU that is viewed as a long term initiative to create an Asian regional currency similar to the Euro, and importantly, for the purpose of this study, reached consensus on IMF reform.[167]

The accommodating stance of the US and EU towards East Asian financial and monetary regionalism, in contrast to their rejection of the 1997 AMF proposal, is a reflection of the idea that East Asian financial regionalism is "non-revisionist", but is partly intended to compel the G7 to earnestly tackle IMF governance reform because, argues Injoo Sohn, East Asia wants to strengthen its policy position and bargaining power, through regional alternatives as a counterweight strategy.[168]

[166] Sohn, 1, 4 – 5.
[167] Foot, 85 – 86; Sohn, 7, Endnote 9, 8.
[168] Sohn, 1 – 2, 6 – 7.

East Asian financial and monetary regionalism proved not to be useful in preventing a currency crisis, because Korea and Singapore concluded swap agreements with the US to ward off potential effects of the 2007 to 2009 crisis, which posed a threat to dollar liquidity in their banking systems, despite exclusion of the US in regional financial and monetary arrangements.[169] This is related to the issue of whether China is offering an alternative paradigm to the hitherto dominant Western paradigm, and Sohn argues that despite China's growing reserves position, China has little "appealing knowledge, ideology, and vision for Asian financial cooperation".[170]

However, East Asian financial regionalism contributed to global stability, because it led to a change in the IMF with regards to how crises are managed, as was demonstrated by the fact that unlike during the Asian financial crisis, IMF support packages during the 2007 to 2009 crisis were large, and were not accompanied by strict conditionality on countries that were hit by spillover effects of the crisis.[171] The IMF also introduced the flexible credit line that exceeded limits based on quotas, and did not include punishing interest rates for crisis-hit countries that had pursued responsible policies.

Another global side effect of the contribution of East Asia in mitigating the effects of the crisis was the expedition of the process of increasing East Asian participation in international financial and monetary governance, partly through reallocation of quotas and the G20 leaders' summit.[172] This is particularly relevant to this study's discussion of regional strategies adopted by China to increase its influence in the IMF.

The Shanghai Cooperation Organisation (SCO) that was founded by China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan in 2001, is another important regional

[169] Grimes, 90 – 92.
[170] Sohn, 6.
[171] Grimes, 101.
[172] Ibid., 101 – 102.

strategy related to IMF reform.[173] Although it is a regional security arrangement, some of its members recognise China's leadership and support, as opposed to the IMF, while China also wants the SCO to expand its agenda to include economic issues.[174]

An observation of China's regional strategies is that unlike Brazil, China made efforts to be involved in some regional cooperation on IMF reform. Although China is a single-country constituency, in the IMF, China and India are also part of the Asia-Pacific Group that includes Australia, Indonesia, and Japan; an informal coalition that assembles for particular occasions only.[175] The group was constituted for sharing ideas and for unifying positions on matters of shared interest. However, the heterogeneity of the group is viewed as a constraint on creating shared opinions, although it has constantly demanded more representation for the Asia-Pacific region. ASEAN also successfully argued for a seat in the G20 Leaders'[176] and, as will be demonstrated in the discussion of the G20 Leaders' summits in section 4.4.3, the G20 dealt with IMF governance more decisively than previous attempts, with the result that ASEAN participated in IMF reform through its seat in the G20.

With regards to India's regional strategies, the climate of domestic and inter-state volatility in South Asia, most notably between India and Pakistan, which are the region's biggest states, including states' reluctance to cede certain of their sovereign powers to a regional institution, made it difficult to promote regional cooperation.[177] The SAARC is regarded as a generally weak arrangement, characterised by thin institutions and shallow coordination of policies, while its non-political character has had a negative effect on further regional integration. The

[173] Kelkar et al., 52.
[174] Kelkar et al., 52; Foot, 85 – 86.
[175] IMF, *IMF Executive Directors and Voting Power*; Woods and Lombardi, 25.
[176] Wade, 357.
[177] Amrita Narlikar, "Peculiar Chauvinism or Strategic Calculation? Explaining the Negotiating Strategy of a Rising India", *International Affairs* 82, 1 (2006): 68; Nel, 957; Braveboy-Wagner, 194 – 198, 208, Alden and Vieira, 1087 – 1088.

general observation is that since India prioritised Asian and global ambitions, rather than just as a South Asian power, it was not strong on the regional front.[178]

In the IMF, India leads a constituency of small South Asian states, and Pakistan, a major South Asian state that is also a member of SAARC, is not a member of the India-led constituency.[179] However, in the IMF, India is part of the Asia-Pacific Group, a coalition that, as has been mentioned in the discussion of China's regional strategies, was persistent in calling for greater representation for the region.

Concerning the role of IMF constituencies as part of these emerging powers' regional strategies, even though the increase in IMF membership over time and the shift of member states from one constituency to another changed the composition to more regionally constituted constituencies, regional politics has seen the impact of second-tier regional states and other emerging powers not endorsing the leadership of these emerging powers.[180] As a result, countries from the same region belong to different constituencies. This divergence between regions and IMF constituency membership is also influenced by a member state's desire for a more powerful position such as that of Executive Director, Alternate Executive Director, or Advisor, within a constituency.[181]

The preceding discussion has demonstrated that the regional strategies of Brazil, China, and India faced formidable challenges, and that it was only China's regional strategies that contributed to IMF reform. Although China's regional strategies achieved some considerable

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[178] Nel, 959; Abdul Nafey, "India and the G8: Reaching Out or Out of Reach?", in *Emerging Powers in Global Governance*, eds. Cooper and Antkiewicz, 116, Narlikar, 72.
[179] IMF, *IMF Executive Directors and Voting Power*.
[180] Lisa Martin and Ngaire Woods, "Multiple-State Constituencies in the IMF: An Agency Approach." (paper presented at the Sixth Jacques Polak Annual Research Conference Hosted by the International Monetary Fund, Washington, DC – November 3 – 4, 2005), 19. http://www.imf.org/external/ns/search.aspx?NewQuery=%E2%80%9CMultiple-State+Constituencies+in+the+IMF%3A+An+Agency+Approach%E2%80%9D&submit.x=16&submit.y=14&col= (accessed February 18, 2013); Hurrell, 8 – 9; Nolte, 892 – 898, Nel and Nolte, 878 – 884.
[181] Martin and Woods, 20 – 1.

degree of cooperation on IMF reform, the Sino-Japanese rivalry has demonstrably been the single most important challenge to greater regional cooperation on IMF reform. The general conclusion therefore is that regional dynamics served as a constraint to the foreign policy goals of these emerging powers.[182] Below is a discussion of the global strategies of Brazil, China, and India, together with the rest of the developing world, and their exclusively emerging-power strategies.

4.3 Global Strategies

Strategies that were adopted by Brazil, China, and India were influenced by both their historical identity with the broader South and their new identity as emerging powers. The Non-Aligned Movement (NAM), United Nations Conference on Trade and Development (UNCTAD), Group of 77 (G77), Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G24), and Group of 11 (G11), formed part of these emerging powers' strategies, together with the rest of the developing world, to reform the IMF, although it was the G24 that featured more prominently than the others, because it is the main, and only formal developing and emerging-market country coalition in the IMF, and all other developing countries are welcome to participate in its meetings.[183]

Although there were differences and divisions between developing countries and emerging powers – to the extent that even though emerging powers had become key to the functioning of the global system, they could no longer rely on full Third World support – the negative impact of liberal globalisation and continued marginalisation of the South in global economic decisionmaking revived broader South-South solidarity from the late 1990s, and the beginning of the 21st century,[184] and resulted in the South's increased activism, contributing

[182] Hurrell, 8.
[183] Braveboy-Wagner, 2 – 3, 13 – 15, 24, 32, 52; Jose Antonio Ocampo, foreword to *Reforming the Governance of the IMF and the World Bank*, ed. Buira, xv, Woods and Lombardi, 24 – 25.
[184] de Lima and Hirst, 27; Braveboy-Wagner, 29, 53, Kelkar et al., 46.

to a change in the attitude of the G7 towards demands for reform by 2005. For instance, from 1999 there was decisive action towards increased coordination between the G77 and G24 in preparation for IMF and World Bank meetings.[185]

The G77 and China also mobilised a broad coalition of developing countries outside the IMF to tackle issues relating to governance of the global economy, under the auspices of the NAM, by holding the first South Summit in Havana in 2000, and the Second South Summit in Doha in 2005.[186] At the first South Summit developing countries stated that defence of their sovereignty in the face of globalisation required equal and meaningful involvement by developing countries in the governance of IOs, particularly global economic institutions, and to avoid conditionality, as it narrows policy space.[187] They also advocated participation of developing countries in the BWIs on the basis of the principle of sovereign equality of states.

Group strategies of developing countries and emerging powers at the beginning of the 21st century also included participation in global conferences in which they advocated for a greater involvement of developing countries in decision-making of IOs. For instance, at the 2000 Millennium Summit and the 2002 International Conference on Financing for Development held in Monterrey, under the auspices of the UN, there was principled agreement on, among other things, meaningful involvement of the South in IOs.[188] Specifically, the 2002 Monterrey conference reached a consensus and a commitment to

[185] G77, *Havana Programme of Action*, in Letter dated 5 May 2000 from the Permanent Representative of Nigeria to the United Nations addressed to the President of the General Assembly, 19 – 20. http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CDAQFjAA&url=http%3A%2F%2Fwww.un.org%2Fdocuments%2Fga%2Fdocs%2F55%2Fa55581.pdf&ei=qgciUbPpGYSwhAeqloHIDg&usg=AFQjCNHXsqiFCobskn9p3ApZ-5jwtscp-Q&bvm=bv.42553238,d.ZG4 (accessed February 18, 2013).
[186] Braveboy-Wagner, 48 – 51; South Bulletin, (South Centre: 30 June 2005), 285 – 303. http://www.southcentre.org/index.php?option=com_content&view=article&id=547%3Asouth-bulletin-106-30-june-2005&catid=82%3Asouth-bulletin-2005&Itemid=109&lang=en (accessed February 18, 2013).
[187] *Declaration of the South Summit*, in Letter dated 5 May 2000 from the Permanent Representative of Nigeria to the United Nations addressed to the President of the General Assembly, 3 – 5; *Havana Programme of Action*, 19 – 20.
[188] Braveboy-Wagner, 49.

enhance developing-country involvement in institutions governing the global economy, as well as to reform that reflects the increasing significance of emerging powers.[189]

The developing-country G11 also featured in South-South advocacy inside the IMF. In the process of selecting a successor to Michel Camdessus, when he resigned in 2000, the G11 broke with tradition by publicly suggesting a merit-based and transparent process of selecting and appointing the Managing Director.[190] The selection principles that were proposed by the G11 formed part of the 2001 Joint Working Group of the IMF and World Bank Executive Directors' Report.[191] However, the recommendations were never implemented, and this could be attributed to weakness of the G11, due to constraints in its effective cooperation, such as geographic, economic and cultural diversity, a weak base, and a weak communication network.

Meanwhile, the economic and diplomatic rise of emerging powers from the South changed the complexion of engagement between the North and South on global economic issues.[192] Since the 1990s, where the administration of former president Bill Clinton recognised the stronger economic position of certain developing countries when compared to that of some Northern members of the Organisation for Economic Cooperation and Development (OECD), the US adopted a post-Cold War "hub and spokes" strategy that cultivated important relations with regional powers of the South in a way that caused the US to be more important to each of these countries than would be acooperation amongst themselves.[193] The 'hub and spokes' strategy shaped the way in which the G7 subsequently engaged emerging powers, and had a major impact on later separate emerging-power strategies, as well as on later EU and US disagreements on IMF reform.

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189 Ocampo, xv.
190 IMF, *Michel Camdessus: Biographical Information*. http://www.imf.org/external/np/omd/bios/mc.html (accessed October 19, 2012); Portugal, 89.
191 Woods, *Globalizers*, 211; Woods and Lombardi, 24.
192 Bisley, 66 – 67, 70 – 71, 75.
193 Alden and Vieira, 1082.

The engagement of these emerging powers by the G7 through the G20 of Finance, and their invitation to G8[194] summits, also reinforced a sense of common identity among them, although from time to time they like to identify themselves with the broader South, particularly when faced with unwillingness to compromise on the part of developed countries.[195] These states also exercised newly-found economic and political power in relation to the North, through new formal Southern relationships and alliances.[196] Commentators also argued that the likelihood of a global power shift would be greater if emerging powers cooperate to reform IOs.[197]

Strategies of Brazil, China, and India should therefore be understood in the context of the economic and political heterogeneity of the South, which manifested itself more prominently after the Cold War and continues to increase, even though a broad feeling of shared challenges and objectives persists.[198] This partly served as the basis for emerging-power-led coalitions of the South, such as the G20 trade coalition in the WTO, and separate emerging-power coalitions such as IBSA and the Brazil, Russia, India, China (BRICs) coalition.[199]

The BRICs[200] became the leading emerging-power coalition that engaged the G7 on IMF reform, with tangible results. After the meetings that took place between their foreign ministers as from 2006, and subsequent finance ministers' summits, they were converted

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[194] The G7 became the G8 ever since it began to meet together with Russia during the 1990s. Stiglitz, 15.
[195] Payne, 532.
[196] Taylor, 45.
[197] Shaw et al, "Global and/or Regional Development at the Start of the 21st Century?", 1268.
[198] Braveboy-Wagner, 3.
[199] Alden and Vieira, 1088; Andrew Hurrell and Amrita Narlikar, "A New Politics of Confrontation? Brazil and India in Multilateral Trade Negotiations", *Global Society* 20, 4 (October 2006): 415; Nel, 959, 961, Zaki Laidi, "The BRICS Against The West", *Ceri Strategy Papers*, No. 11 (November 2011), 2 – 3. http://www.ceri-sciences-po.org (accessed February, 17, 2013).
[200] The discussion of BRICs excludes South Africa because it is the newest member that formally joined only in April 2011, and also because it does not meet the economic criteria of the other BRICS. Andrew F. Cooper, "The Diplomatic Logic of South Africa's Entry Into BRICS", *World Politics Review* (Centre for International Governance Innovation (CIGI), 13 April 2011). http://www.cigionline.org/articles/2011/04/diplomatic-logic-south-africas-brics (accessed February 8, 2013).

"into a diplomatic reality", when on 16 June, 2009 they held their first summit in Russia.[201] The summit was regarded as a sign that these countries realised that they have the capacity to influence the global economy, and needed to identify their common interests as well as to strategise about how to pursue them.[202]

Concerning their diplomatic activism, cooperation, and identity, with the exception of Russia, all of the BRICs are members of the G20 trade coalition, and Brazil and India are leading members of the coalition, while they are also members of IBSA.[203] However, since realism considers that common interests are necessary to forge enduring bonds among states, there is scepticism about the sustainability of BRICs cooperation, because they have many differences that exceed their areas of convergence, such as different economic structures that have led to trade disputes, as well as different political systems, geopolitical significance and rank in the international system.[204] This includes the fact that they are competitors and geopolitical rivals, and these factors influence their divergent foreign policies, including their respective positions on the reform of IOs.

With regards to differences on multilateral reform and diplomatic relations with the West, for instance, Russia wants the G8 to continue functioning autonomously of the G20 Leaders' summit, even though the G20 is now the informal top body of global economic governance, and also wants to preserve its special relationship with the US, even at the expense of its BRICs partners.[205] Moreover, China and Russia are opposed to an expansion of UNSC

[201]Gregory and de Almeida, 138; Glosny, 109, Wade, 352.
[202] Spero and Hart, 282.
[203] Gregory and de Almeida, 140.
[204] Morgenthau, 8; Glosny, 126, 128; Laidi, 5, 10 – 11; Cynthia Roberts, "Building the New World Order BRIC by BRIC", *The European Financial Review* (February – March 2011), 4 – 5. http://www.mid.ru/brics.nsf/8aab06cc61208e47c325786800383727/0076861093dc5f86c32578bc0045fca4/$FILE/Cynthia%20Roberts.pdf (accessed February 26, 2013); Qobo, 17; Payne, 526; Ikenberry and Wright, 6; Marcos Galvao, "Brand BRIC Brings Change", *The World Today* 66, 8/9 (August – September 2010): 14; Timothy M. Shaw, Agata Antkiewicz, and Andrew F. Cooper, "The Logic of the B(R)ISAM Model for Global Governance", in *Emerging Powers in Global Governance*, eds. Cooper and Antkiewicz, 20, F. Joseph Dresen, "BRICS: Shaping the New Global Architecture." http://www.wilsoncenter.org/publication/brics-shaping-the-new-glob (accessed February 17, 2013).
[205] Laidi, 7 – 8.

permanent membership, because this can weaken their influence and monopoly of bargaining power vis-à-vis the US, whereas China is also concerned that permanent membership for India or Japan would give an advantage to a likely adversary.[206] In this sense, one of the BRICs contradictions is its members' desire "to neutralize each other in the most strategic areas of power."[207] However, the lack of UNSC reform has not negatively affected the essential interests of Brazil and India so far.[208] This raises the question as to whether differences among BRICs on UNSC reform indeed constitute a contentious issue that inhibits their cooperation on IMF reform.

The BRICs also compete among themselves.[209] They reportedly see each other as "potential threat", although this is far less the case with regards to Brazil. Some of the issues that divide BRICs are "historical" Sino-Indian and Sino-Russian rivalries, issues relating to border disagreements, China's backing of Pakistan, and China's belief that India is supporting Tibet. China's improved relations with Indian neighbours in South Asia have also rendered India insecure, while India's "Look East" policy is perceived as a threat to China's interests. There is also competition between China and India for influence in the same regions in the form of SAARC and SCO, including a potential arms race, with both building up their militaries, and there are indications of contested dominion over the Indian Ocean.[210]

There are also problems between China and Russia; "historical legacies" such as territorial disputes that involved war and other Cold War military disputes, and the ill-fated Cold War era alliance. In the post-Cold War era, Sino-Russian differences relate to their different positions in relation to the US on global military and security cooperation, as well as

[206] Ikenberry and Wright, 15.
[207] Laidi, 10.
[208] Ikenberry and Wright, 16.
[209] Glosny, 100, 127; Laidi, 1 – 2.
[210] Shaw et al., "Global and/or Regional Development at the Start of the 21st Century?", 1264 – 1265; Glosny, 127.

disagreements on oil trade.[211] However, the differences between China and Russia exist to a lesser extent than those that can be seen between China and India. The US is also very important to each of the BRICs because a majority of them have “closer” relations with the US than they have with one another.[212] The US is also the hegemon that serves as a key trading, investment, and technology partner, upon whom their economic growth is thus dependent.

Differences between BRICs have led commentators to argue that their likeness and converging interests are “shallow”, and therefore that they have no common outlook, referred to as “BRICS mentality”.[213] Other commentators have argued that the BRICs are united by a negative agenda of defending their sovereignty; hence they have failed to propose an alternative paradigm, and lack specificity in their summit declarations.[214] Even the “political significance” of the trade G20’s achievement is regarded as a demonstration of emerging powers’ ability to “agree on a defensive political agenda in relation to the West, despite their diverging long-term interests.”[215]

Commentators who counter scepticism about BRICs’ ability to cooperate argue that there is no need to overstate BRICs’ differences, because the coalition has “built-in flexibility” and “limited” objectives, while noting that they are also not intended to function as a “supranational” entity devoid of divergent policies on certain matters, and point out that there is in fact no such thing as a homogeneous “international” entity.[216]

Very importantly, in relation to this study, is the general opinion that the BRICs have a common alternative outlook on the international economic system, and the aspiration to

[211] Glosny, 127 – 128.
[212] Ibid., 126 – 127.
[213] Glosny, 126; Wade, 352.
[214] Laidi, 1, 8; Roberts, 5.
[215] Laidi, 5.
[216] Galvao, 14; Roberts, 5, 7.

exercise more power in global economic governance, since they have opposed a range of "Western liberal policies", including "conditionality."[217] Perhaps that is why the BRICs, as will be demonstrated in section 4.4.3, were able to effectively cooperate by collectively using their financial power to bargain for more influence in the IMF. This was an important aspect of BRIC cooperation, because the IMF is a major IO in the international economic system. For the purpose of this study, what matters therefore is BRICs cooperation on IMF reform. However, their failure to cooperate in proposing a common candidate for the position of Managing Director, as will also be demonstrated in section 4.4.3, was another major indicator of the BRICs' divergent interests and lack of cohesion. Perhaps that is why the general conclusion is that the BRICs are united by a common agenda of strictly defending sovereignty without "sharing" it, and therefore are not yet an alliance with the capacity to play a leading part in world geopolitics.[218] BRIC cooperation and lack of cooperation on IMF reform is discussed further in section 4.4.3.

Meanwhile, 2004 witnessed continued increased activism by developing countries and emerging powers in their broader South coalitions,[219] including their specific proposals on IMF governance reform, while 2005 marked a change in G7 attitude towards IMF reform. Below is a discussion of reform proposals and the impact of strategies.

4.4 Reform Proposals and Impact of Strategies

The G24 called for an open and equal-opportunity process of selecting the Managing Director in 2000, while in 2002 it called for the reform of the IMF quota formula, as it viewed the formula as biased and inaccurate in its measuring of the economic weight of developing

[217] Dresen; Roberts, 5.
[218] Laidi, 12; Dresen.
[219] Buira, 22.

countries, and also called for a significant increase in basic votes.[220] In 2003 it called for a time-frame within which voting shares of developing countries ought to be increased. In October 2004, the G24 expressed disappointment on slow progress in plans to increase the voting shares of developing countries, proposed a simplified formula that gives more weight to calculations of GDP in purchasing power parity (PPP)[221] terms, and more representation for member states with smaller economies, by significantly increasing the weight of basic votes to its original weight of 11 percent of overall voting power.[222] Such a formula was considered to be catering for both emerging powers and developing countries, because GDP measurement is specifically important to emerging-market countries, while basic votes are specifically important to small and poor countries.

G24 proposals on IMF governance reform were further elaborated by academics and policy specialists, some of whom were serving or former Executive Directors of IFIs from developing countries.[223] For instance, at the 17 to 18 March 2005 G24 annual Technical Group Meeting (which was conducted according to the mandate of the October 2004 G24 ministerial meeting that made a specific proposal on reform of the quota formula mentioned above), participants supported the G24 proposal on reforming the quota formula, and also proposed special selective quota increases for emerging powers whose actual quotas were most misrepresented in terms of the new formula, adding that basic votes should be increased to 11.3 percent, regardless of future quota increases.

The criticism of the use of market exchange rates for the calculation of GDP in the quota formula was that market exchange rates are inappropriate due to their short-term volatility,

[220] Martinez-Diaz, 14 – 15, 27.
[221] "PPP is defined as the numbers of units of a country's currency needed to buy in the country the same amounts of goods and services as, say, one dollar would buy in the United States." Buira, Endnote 20, 41.
[222] Ocampo, xv – xvi; Buira, Endnote 3, 4 – 5; Buira, 22 – 23; G24, *Communique* (Washington, D.C., 1 October 2004), Paragraph 10, 3. http://www.g24.org/Communiques/comunique20.html (accessed February 18, 2013),
Martinez-Diaz, 14 – 15, 27.
[223] Kelkar et al., Endnote 1, 69, 62, 64; Ocampo, xvi; Tan, 515 – 516; Buira, 2, 8 – 9, Portugal, 84, 86 – 87.

their tendency to be misaligned for a prolonged time, and the probability of a premature and huge drop in GDP that is denominated in foreign currency in instances of sharp depreciation of the currency.[224] Thus the GDP of developing countries seemed less in relation to industrialised countries, because the increase in the GDP of developing countries is corroded by a decline in the value of the exchange rate. Meanwhile PPPs were more constant and widely endorsed as an instrument for international comparisons.

The IMF was also criticised for its apparent double standards, because it applied PPPs in other cases, but took a different approach to the calculation of quotas. Since the implications of the proposal to use PPP exchange rates would be the political problem of change in the hierarchy of quotas of important states (with the example of China replacing Japan as the second biggest shareholder), the use of both PPPs and market exchange rates was proposed.[225]

The proposals also excluded intra-euro zone trade as a variable in the calculation of GDP, because it unreasonably gave more weight to the quota shares of the European Monetary Union member states, whereas intra-currency union trade is not vulnerable to balance of payments crises, because members use the same currency.[226]

Others proposed enhancing the effectiveness and representation of constituencies[227] through an Executive Board in which all Executive Directors are elected, in which there is one European Executive Board seat, and also one Director for all countries using the dollar as their official currency. The proposal for an all-elected Executive Board was intended to make the Executive Directors independent, professional and non-political, as their autonomy from the power of their country's governments as a condition for becoming an Executive

[224] Buira, 11 – 12, 15, Endnote 6, 41, Endnote 45, 43; Portugal, 85, McLenaghan, 175, 177, 179, 187, 189.
[225] Portugal, 87.
[226] Ocampo, xvi; Portugal, 84 – 85; Buira, 11, 20 – 21, 33, Kelkar et al., 57.
[227] Portugal, 76; Buira, 2 – 3; Le Fort, 107, 122 – 123; Leech and Leech, 262 – 263, Kelkar et al., 66 – 67.

Director would be guaranteed. Others supported the proposal on democratising the process of selecting the Managing Director.

There were also proposals for double majority voting, that is, a majority of weighted votes and a majority of the number of members, as a means of harmonising the principle of sovereign equality of states and empowering creditor states to achieve legitimacy and a sense of ownership for successful policy cooperation between developed and developing members.[228]

Apparently, 2005 was a critical turning point in IMF governance reform. At a more general level, the period since around 2005 is regarded as having been characterised by a general feeling of significant change in the structure of the international economic system; a change that prominently featured the ascent of emerging powers and their serious engagement by the G8 in the outreach initiative called the "'G8+5' process."[229]

The G24 proposals and increased activism by developing and emerging-market countries inside and outside the IMF in 2005 also seem to have had an impact on the attitude of the G7, because it also began to be more open to the idea of governance reform.[230] For instance, although the US was against the discussion of governance in 2004, at the 16 April 2005 meeting of the IMF's International Monetary and Financial Committee (IMFC) the US and Japan supported reform, although the US had a counter-strategy to the pressure for the increase of IMF quotas, because it stated that reform would be undertaken without increasing IMF resources by "'rebalancing quotas from 'over-represented' to 'under-represented'" members.

Meanwhile, the G77 continued with mobilising developing countries outside the IMF. The 15 June, 2005 Second South Summit in Doha called for the reform of the Bretton Woods Institutions (BWIs) in a manner that effects meaningful involvement of the South in setting

[228] Buira, 3, Endnote 5, 5; Tan, 516, Strand and Rapkin, 237 – 239, 247 – 248.
[229] Payne, 520, 530.
[230] Buira, 22, 24.

norms, and for the G77 to devise a shared strategy for all-round policy autonomy of the South.[231] The Chairman of the G77 was also instructed to communicate deliberations and decisions of the Second South Summit to the G8 before the 2005 Gleneagles G8 summit. In its ongoing pursuit for involvement in global economic governance, the G77 continued to cooperate with the Development Committee of the World Bank and the IMF, the G24, and the Group of 15 (G15) developing-country coalition.[232]

Since the G7 managed to limit the agenda of the G20 Finance to exclude IMF governance reform until 2005, as their confidence grew with time, emerging powers took advantage of the exclusive composition of the G20 to side-step some of the policy divergences between them and the rest of the developing world prevalent in broader multilateral fora, and began to use their turns to chair the G20 to include IMF governance reform in the agenda.[233] For instance, it was in 2005, when China was holding the chair, that IMF governance reform was introduced and added as a "[k]ey public output" in a G20 Finance communiqué. At this time the G20 made a stronger call than the G7's mere recognition of the need to review the governance of the IMF.

Later in 2005, the US and Britain, through statements of the US Treasury and Governor of the Bank of England, respectively, signalled their support for IMF governance reform, and in a December 2005 G7 Finance Ministers and Central Bank Governors' Statement, the G7 began to acknowledge the need to reform IMF governance according to prevailing global economic realities.[234]

At the IMF and World Bank annual meeting that was held in Singapore in 2006, emerging powers strongly argued that their global economic weights were greater than those of some

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[231] South Bulletin, 285 – 303.
[232] Braveboy-Wagner, 51.
[233] Martinez-Diaz, 10 – 11, 17, 25.
[234] Phillips, 1; Martinez-Diaz, 15, 27.

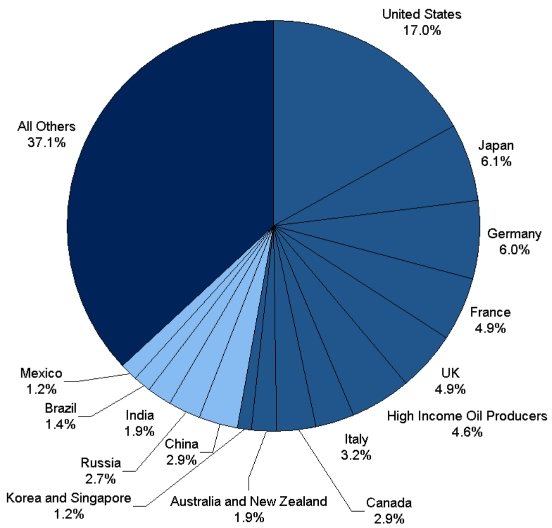
developed countries, and demanded more say in determination of policies.[235] Subsequently, in September 2006, the IMF adopted *ad hoc* reform of its governance structure in which the voting shares of China, Mexico, South Korea, and Turkey were increased.[236] According to Celine Tan, these reforms came after many years of deliberations within the IMF as well as outside the organisation, and after many years during which developing countries and NGOs advocated for reform of the IMF, although the loss of customers and income by the IMF is considered to have been the catalyst for these reforms.[237] The 2006 reform process was intended to be finalised in 2008.[238] Below is a discussion of the 2006 to 2008 reforms.

4.4.1 2006 to 2008 Reforms

Figures 1 and **2** illustrate voting shares in the IMF prior as well as subsequent to the 2006 reforms.

Figure 1

IMF voting shares prior to 2006 reforms



[235] Ikenberry and Wright, 4.
[236] Ibid., 20 – 21.
[237] Tan, 514.
[238] Phillips, 1.

* High Income Oil Producers Includes: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Brunei and Bahrain.

High Income Countries

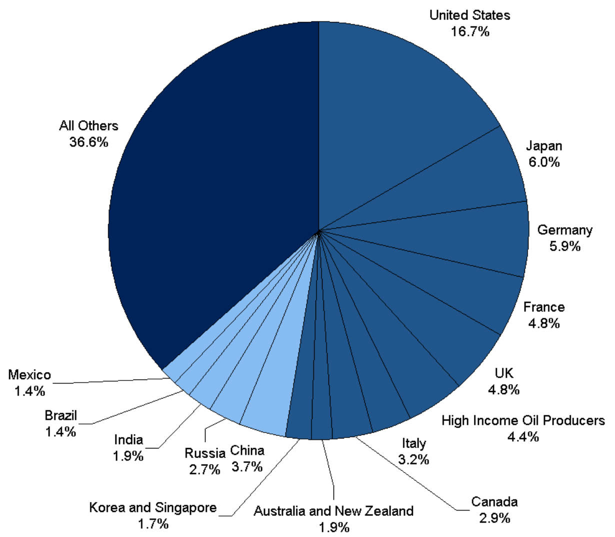
BRIC (Brazil, Russia, India, and China) countries plus Mexico

All other countries (163)

Source: Adapted from Weisbrot and Johnston, 2.

Figure 2

IMF voting shares after 2006 reforms



* High Income Oil Producers Includes: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Brunei and Bahrain.

High Income Countries

BRIC (Brazil, Russia, India, and China) countries plus Mexico

All other countries (163)

Source: Adapted from Weisbrot and Johnston, 3.

Some commentators argue that there was very little change,[239] because the percentage share of votes for the US dropped from 17 to 16.7, while that of high-income countries

[239] Weisbrot and Johnston, 1 – 3.

dropped from 52.7 to 52.3. The US and its allies thus kept their majority, due to the fact that the US's 16.7 percent lends it veto power on many important decisions, including proposed reforms. In addition, the remainder of the high-income countries generally vote together with the US. On the other hand, China, even though it has the second largest economy in the world, and a population of 1.3 billion people, received an increase of 2.9 to 3.7 percent. There was no change in Brazil's 1.4 percent and India's 1.9 percent, while the remaining 163 of 185 countries lost 0.5 percent as they dropped from 37.1 percent to 36.6 percent. This reform initiative was criticised as inadequate by other emerging powers, particularly Brazil and India.[240]

Although there is general consensus that the financial constraints that faced the IMF catalysed the reform process launched in 2006, Leonardo Martinez-Diaz acknowledges the apparent role of G24 pressure in the 2006 reforms, but further argues that the reforms were a small victory, because they transferred marginal gains to developing countries and were not a threat to the G7, while the G24 also criticised the 2006 reforms for not addressing the key issue of underrepresentation, while endorsing the agreement to amend the IMF Articles of Agreement to keep basic votes intact.[241]

Between the 2006 reforms and April 2008, there were negotiations within the IMF and the G20 Finance on a new quota formula as well as an overall reform package that would be acceptable to Europe, the US, and emerging powers.[242] The negotiations produced a new quota formula that was approved by the IMF in March 2008. The 2008 formula is a weighted average of GDP at 50 percent, 30 percent openness, 15 percent economic variability, and 5 percent international reserves.[243] The GDP is calculated as a combination of 60 percent at market exchange rates and 40 percent at PPP exchange rates. The formula was to be

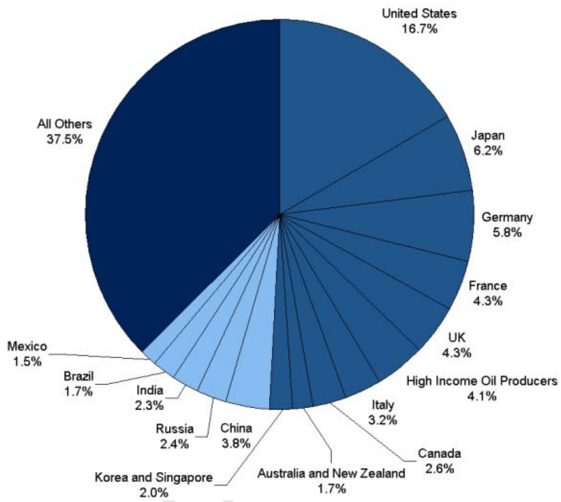
[240] Lamb, 32.
[241] Martinez-Diaz, 14 – 15, 27.
[242] Phillips, 1 – 4; Ngaire Woods, "Global Governance After the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?", *Global Policy* 1, 1 (January 2010): 53.
[243] IMF Factsheet, 2.

applied to the reform of quotas every five years, to reflect changing global economic realities, while also properly aligning current quotas with members' actual economic weights, as well as to increase the involvement of low-income countries.[244]

In April 2008, on the basis of the new formula, the IMF approved a package that increased the voting shares of dynamic economies – many of which are emerging powers – by increasing the quotas of 54 member states on an *ad hoc* basis, and increased the voting shares of low-income countries by nearly tripling basic votes.[245] **Figure 3** shows IMF voting shares after implementation of 2008 reforms.

Figure 3

IMF voting shares after implementation of 2008 reforms



* High Income Oil Producers Includes: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Brunei and Bahrain.

High Income Countries

BRIC (Brazil, Russia, India, and China) countries plus Mexico

All other countries (163)

Source: Adapted from Weisbrot and Johnston, 4.

[244] Phillips, 4.
[245] IMF Factsheet, 2.

The 2008 reforms were clearly a strategy by the G7 to accommodate emerging powers, by incrementally increasing the voting shares of Brazil, China, and India, and those of some other emerging powers, while remaining firmly in control of the IMF, but also seeking to restore its legitimacy among emerging powers at the same time. For instance, the reforms led to a total transfer of 5.4 percent of voting shares from traditional creditor states to Brazil, China, India, Mexico, Singapore, South Korea, and Turkey.[246] According to the 2008 reforms, when they came into effect on 3 March 2011, Brazil's voting shares increased from 1.4 to 1.7 percent, China's from 3.7 to 3.8 percent, while India's increased from 1.9 to 2.3 percent.[247] However, the US retained its 16.7 percent, while high-income countries still held a majority at 50.9 percent. This ensured their continued control of the IMF.

The fact that these reforms were a result of difficult and prolonged deliberations among the G7, (and even the fact that some developed countries such as Germany, Ireland, Italy, Japan, Luxembourg, and the US were committed to giving up a portion of the quota increases for which they qualified), demonstrates the "hegemonic incorporation" nature of the reforms whereby the G7 became more inclusive, but where the agreements were "scripted by the … hegemonic core."[248]

The G77 and China also argued that the 2008 reform package was not aligned to the prevailing global economic balance of power, and was merely a re-allocation of existing shares among developing and emerging-market countries.[249] They called for an improvement of the quota formula, because it distorted the real economic weight of developing countries, while the G24 had also criticised the quota formula as incorrectly

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[246] Keane and te Velde, 20.
[247] IMF,*Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010--By Member (In percent)*. http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf (accessed February 8, 2013); Weisbrot and Johnston, 4.
[248] Woods, "Global Governance after the Financial Crisis", 53, 56; Wade, 352.
[249] G77, *Position Paper of the G77 and China on the Reform of the International Financial and Economic System*. (New York: 26 May 2010), 1 – 5. www.un.org/esa/ffd/events/2010GAWGFC/6/Stmt_**G77**.pdf (accessed February 18, 2013).

designated.[250] The G77 and China wanted equality of voting power for developing-country members as a group.

Following the April 2008 reforms, there was a major reform package that was approved by the IMF in 2010 in favour of the BRICs. The following section is a discussion of the impact of the 2007 to 2009 global financial crisis in the convening of the G20 Leaders' summit, which addressed IMF governance reform more decisively than previous attempts.

4.4.2 The 2007 – 2009 Crisis and G20 Leaders' Summit

Commentators argue that crises create favourable conditions for a significant shift in the balance of power, because status quo powers are likely rendered more assailable, thus creating space for contenders for power to increase their influence.[251] The Western geographical roots of the crisis and its negative impact on the US thus confirmed a shift in the global economic balance of power from developed countries to emerging powers, and opened spaces for emerging powers to increase their influence in international economic and political governance.[252] Commentators argue that the crisis would have been more severe without emerging powers. Moreover, since the beginning of the crisis, the economic growth and foreign exchange reserves position of BRICs put the US in a position where it was no longer able to dictate the terms "in the transition to multipolarity", while the crisis also engendered a situation in which there was need for BRICs' financial resources by the IMF.[253] This was facilitated by many developing countries' and the BRICs' faster economic growth than the US from 2002 to 2008, which assisted emerging powers in "'catching up'" with developed countries.

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[250] Bretton Woods Project, "Implementing IMF Governance Reform: Baby Steps in Slow Motion." (29 November 2010). http://brettonwoodsproject.org/art.shtml?x=567219 (accessed February 8, 2013).
[251] Dante Mendes Aldrighi, "Cooperation and Coordination among BRIC countries: Potential and Constraints." (first part of a speech made at the Pre-BRIC Summit Preparatory Meeting, New Delhi, May 13 – 14 2009), 14. www.fipe.org.br/publicacoes/downloads/bif/.../6_13-18-**dante**.pdf (accessed February 17, 2013); Andrew F. Cooper and Paola Subacchi, "Overview", *International Affairs* 86, 3 (2010):610.
[252] Also see Roberts, 6.
[253] Laidi, 5; Roberts, 6 – 7.

Since the US had earlier resisted the idea of a G20 leaders' summit, the crisis arguably led to a breakthrough in summit reform, by compelling the US and the G7 to elevate the G20 Finance to the leaders' level through convening the first leaders' G20 summit in November 2008 to tackle the crisis, determine the agenda for reform, and serve as a "steering committee" for the global economy.[254] However, the US is still the dominant economic power.[255] The G7 is also still dominant, although it is much weaker than before.[256]

Since the G20 required more financial resources for the IMF to tackle the crisis, this gave the BRICs an opportunity to use their enhanced financial power to increase their influence within the IMF. The following is a discussion of BRICs' activism within the G20 and the IMF.

4.4.3 BRICs in the G20 and the IMF

BRICs' Executive Directors reportedly met regularly in the few years prior to their official launch in June 2009, and cooperated in their efforts to reform IMF governance, thus increasing their bargaining power.[257] For instance, they managed to pressurise the G20 leaders' summit to include in its November 2008 communiqué the issue of greater representation for emerging powers in line with their increasing weight in the global economy. Another gain for the BRICs was that since the onset of the crisis also brought the IMF back into issuing loans, according to the G20 November 2008 summit's concluding statement, new tasks to be delegated to the IMF, including boosting its financial resources, would be conditional on further governance reforms.[258] This agreement was finalised in April 2009, despite an earlier European refusal to go beyond the April 2008 reforms, and the US announcement that they were the "best possible" redistribution of quota and voting

[254] Colin I. Bradford, Jr., "The United States and Summit Reform in a Transformational Era", in *Emerging Powers in Global Governance*, eds. Cooper and Antkiewicz , 324; Helleiner, 630 - 631; Andrew F. Cooper, "The G20 as an Improvised Crisis Committee and/or Contested 'Steering Committee' for the World", *International Affairs* 86, 3 (2010): 741; Glosny, 124, Chwieroth, "Controlling Capital after the Crisis of 2007-2009", 26.
[255] Clark, 19 – 20; Roberts, 7.
[256] Wade, 347 – 348; Subacchi, 485, 490.
[257] Glosny, 102, 113; Wade, 352.
[258] Griesgraber, 179 – 180, Endnote 2, 184 – 185.

shares.[259] The increased bargaining power of the BRICs could be attributed to their better performance against the crisis, and the resultant need for their financial resources.[260]

The increase in resources made available to the IMF at the London summit of the G20 on 2 April, 2009, was mainly an agreement for the IMF to borrow from developed and emerging-market countries in the form of loans that could be made available in the event of a crisis.[261] The new resources were to be made available through the New Arrangements to Borrow (NAB) that did not contribute towards the IMF's permanent resources and, in contrast to the more significant GAB, were not conditional on changes in quota-based voting shares on the basis of contributions. As a result, the BRICs refused to directly participate in the NAB and took a united stand to buy the newly created IMF bonds at the end of the April 2009 meeting of the IMF, in order to avoid reinforcing the then-prevailing distribution of power.[262]

From the political bargaining that ensued, in September 2009 the BRICs proposed that the G7 transfer 7 percent of their share of quotas to emerging powers.[263] Before the November 2009 Pittsburgh G20 summit, a compromise of a 5 percent shift by January 2011 was reached. Part of the compromise included BRICs' agreement to allow their bond purchases to be transferred into a new NAB that admitted thirteen new participants, due to changes in post-crisis circumstances that required the financial contributions of emerging powers, along with a provision for more governance reform.[264] In this sense, the BRICs had thus bargained for a new deal for their membership in the NAB that amounted "to a repositioning of existing IMF resources from the […] NAB […] to quotas."[265] According to the agreement, the commitments of NAB participants would be proportionately decreased to pay for their quota increases.

[259] Chwieroth, "Controlling Capital after the Crisis of 2007-2009", 27, Griesgraber, 180.
[260] Laidi, 5; Keane and te Velde, 15, Griesgraber, 180.
[261] Malkin and Momani, 8 – 9.
[262] Aldrighi, 17.
[263] Malkin and Momani, 10 – 11.
[264] Woods, "Global Governance after the Financial Crisis", 55 – 56, 59; Malkin and Momani, 9.
[265] Edwin M. Truman, "IMF Governance Reform: A "Pretty Good" Step in the Right Direction." (8 November 2010). http://www.piie.com/blogs/realtime/?p=1832 (accessed February 18, 2013).

Commentators argue that IMF dependence on its lenders constituted in the NAB in which the BRICs are participating is far greater than its dependence on borrowers and its independent sources, and say that this is set to enhance the power of IMF creditors without any commitment to improve the autonomy of the IMF from the short-term interests of economic powers.[266] Moreover, informal bargaining between emerging powers and developed countries within the G20 seemed to determine what was to happen inside the IMF. Commentators therefore argue that the 2010 reform package was more about satisfying the interests of creditor states than broad based legitimacy. The G20 processes were therefore a G7 strategy to include emerging powers in the IMF through the G20, instead of formal IMF procedures.

With regards to reform of representation in the Executive Board, in the negotiations and bargaining leading up to the 2010 reform package, the US joined the BRICs in wanting to reduce Western Europe's overrepresentation, and the EU agreed to give up two seats from the eight they originally had, to allow for greater representation of emerging powers.[267] It is reported that some big developing countries rejected EU proposals to eliminate the US veto, because they wanted to maintain their potential veto as a group.[268] However, by this act the BRICs defeated their aim of democratising the selection and appointment of the Managing Director, because the veto also allowed the US to influence the appointment of the Managing Director.[269]

The November 2009 G20 Pittsburgh summit thus launched another reform process that was completed in December 2010.[270] Since the 2008 quota formula entailed substantial losses to

[266] Woods, "Global Governance after the Financial Crisis", 55; Malkin and Momani, 9 – 13.
[267] Wade, 363 – 364.
[268] Bretton Woos Project, "Implementing IMF Governance Reform."
[269] Wade, 369.
[270] Malkin and Momani, 10 – 11; Bretton Woods Project, "Implementing IMF Governance Reform"; Wade, 363 – 364; Truman; Bob Davis, "Developing Nations Try to Build Long-Term Leverage at the IMF", *The Wall Street Journal* (27 April 2009), 1.http://online.wsj.com/article/SB124070499662656469.html#printMode[4/28/2009 (accessed February 8, 2013); IMF, *IMF Governance Reform: Important Milestone Reached to Reinforce IMF Legitimacy*, IMF Survey Magazine: In the News (3 March 2011).

the EU, it had to be set aside during the negotiations for the post-2010 governance reforms in order to produce an outcome that was politically practical. The formula was therefore applied together with other negotiated rules, whereby the 2008 quota formula would apply to 60 percent of quota allocation, while 40 percent would be allocated according to the negotiated rules.

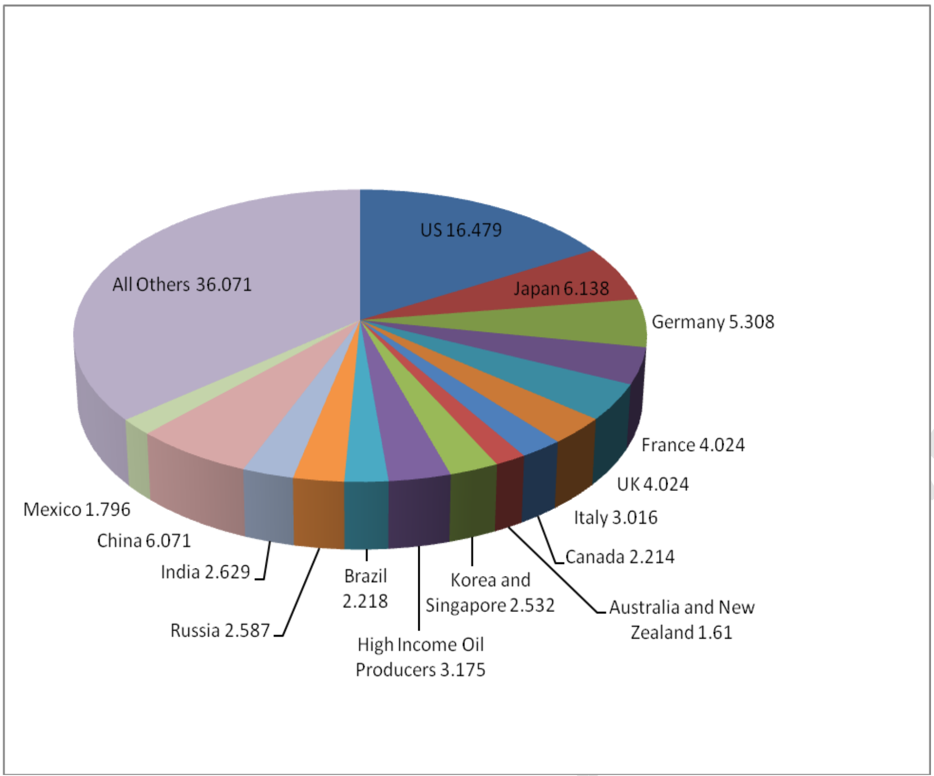
In October 2010, the G20 Finance agreed to more than a six percent transfer of quota shares to emerging market developing countries (EMDCs) and underrepresented members, while keeping intact low-income countries' voting share. It set 2012 as the date for completing the quota transfers, while also agreeing to review the quota formula by January, 2013. The G20 Finance also agreed to an Executive Board in which all Executive Directors are elected. The IMF Executive Board subsequently agreed on 5 November, 2010 to double the quotas of its members, to increase the shares of EMDCs in 2011 in a transfer of more than 6 percent of quota shares to emerging market economies, and to Europe's agreement to relinquish two Executive Board seats.

The IMF stated that the reallocation was a shift from over-represented to under-represented members, with BRICs making significant gains at the Executive Board. On 15 December 2010, the IMF formally endorsed the agreement, finalising the 14th General Review of Quotas. **Figure 4** illustrates percentages of members' voting shares, according to the 2010 governance reform package.

http://www.imf.org/external/pubs/ft/survey/so/2011/new030411a.htm (accessed February 8, 2013), IMF Factsheet, 1 – 3.

Figure 4

Percentages of IMF members' voting shares according to the 2010 governance reform



Source: IMF, *Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010--By Member (In percent)*.

The realigning of quota shares will see China becoming the third biggest shareholder, with BRICs becoming part of the ten countries with the biggest quotas, the other six all being members of the G7, namely: the US, Japan, Germany, Britain, France, and Italy.[271] According to the IMF, this realignment of quotas was made possible largely through a reduction in the shares of a number of developed countries and oil producing states.[272] Canada and Saudi Arabia would be replaced among the top ten shareholders, while Brazil and India would be the two new entrants.[273]

[271] Chwieroth, "Controlling Capital after the Crisis of 2007 – 2009," 28; IMF Fact Sheet, 1, Roberts, 5.
[272] IMF Survey Magazine.
[273] Truman.

When this package becomes effective, the BRICs voting share would be 13.45 percent, and 14.139 percent if South Africa's 0.634 percent[274] is included, meaning that they can veto decisions that require 85 percent majority, if they act in concert with like-minded countries, while there will be an all-elected Executive Board by the end of 2012 – if and when the 2010 package is ratified by all members with 85 percent of total voting power.[275]

The 2010 governance reform seemed to be a major submission to the demands of ascending economic actors, bringing to a close nearly ten years of deliberations on a major aspect of IMF reform.[276] This is because the demand of emerging-power creditors for increased representation is a key aspect of reform.

However, certain commentators argued that a drop from 57.9 percent to 55.3 percent, or 2.6 percent loss by advanced-country members, is minuscule, because the classification of dynamic emerging markets included South Korea and Singapore – countries that are normally grouped with advanced countries by the IMF.[277] This means that the gains made by Singapore and South Korea represent only a two percent loss to advanced countries. Commentators also point out that the voting share increases will have little impact on reform of IMF governance, because Europe and the US still dominate decision-making if they act together. According to Robert Wade, although the 2010 reforms were a "multilateral cooperation" form of engagement characterised by willingness to reach compromises between emerging and status quo powers, this was not a radical change, and the agreement in general, even though it was larger than the 2006 and 2008 reforms, was not significant compared to the level of multipolarity. However, the US expects diplomatic support from the beneficiaries of its stance 'against' EU overrepresentation.

[274] IMF, *Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010--By Member (In percent)*.
[275] Truman, Endnote 2.
[276] Malkin and Momani, 11 – 12.
[277] Wade, 352, 364 – 365; Bretton Woods Project, "Implementing IMF Governance Reform", Keane and te Velde, 20.

Even the gains made by emerging powers did not cover all the governance proposals that had enlivened the IMF for the decade of deliberations on governance reform, and the G24 is considered to have made little impact.[278] This is perhaps because it is mostly G24 proposals on – among other issues – the selection of senior managers, voting majorities, and reform of Executive Board procedures, which were not included in the governance reforms. Moreover, even though the G24 disputed the quota formula that the IMF temporarily used in 2008 as incorrectly designated, and the IMF's stated commitment to its subsequent reform, the 2010 agreement failed to abide by the commitment. However, the 2010 reform package also stated that the 2008 quota formula would be completely reviewed by January, 2013.[279]

Also important to note is that more than 3 percent of the 6 percent shift to EMDCs will be the result of a loss of voting shares by developing countries, while developed countries will lose only 2.6 percent.[280] This could be interpreted as evidence that certain emerging powers are being co-opted into the upper hierarchy of IMF governance at the expense of the developing world, especially since there is a question of whether the BRICs are not an "emerging aristocracy" seeking to be "co-opted" by the West, because they excluded many other rising states such as Mexico, Turkey, and Indonesia.[281]

These emerging powers also failed to cooperate in proposing a common candidate for the position of new Managing Director. As part of the G77 and G24, Brazil, China, and India proposed an open, merit-based process of selecting the Managing Director, irrespective of national or geographic origin.[282] The BRICs supported this position.[283] During the selection process following the resignation of former Managing Director Dominique Strauss-Khan,

[278] Malkin and Momani, 14; Truman; Bretton Woos Project, "Implementing IMF Governance Reform", Braveboy-Wagner, 43.
[279] IMF Factsheet, 1.
[280] Bretton Woods Project, "Implementing IMF Governance Reform"; Malkin and Momani, 11.
[281] Laidi, 5 – 6.
[282] G77, *Position Paper of the G77 and China on the Reform of the International Financial and Economic System*, Paragraph 16, 4; G24, *Communique*, Paragraph 11, 3.
[283] Qobo, 14.

Europe campaigned for its candidate, France's Christine Lagarde. The BRICs failed to agree on a common candidate of their own whom they could nominate for selection.[284]

Brazil and China are singled out for pursuing their national interests at the expense of proposing a common candidate, or supporting the Mexican candidate, Agustin Carstens, who was the only available candidate from the developing world. Since China was aware that it was too soon to put forward its candidate, and would be universally rejected, it opted to look forward to attaining the position of First Deputy Managing Director, and a speedy allocation of more voting rights to its voting share. Brazil's lack of a candidate, and the fact that it was constrained by its campaign to lead the Food and Agriculture Organisation (FAO), resulted in a lack of Brazilian support for the Mexican candidate, a decision that was also partly attributed to regional rivalry between Brazil and Mexico, along with the Mexican candidate's support for neoliberal economic orthodoxy.

This was not the first time emerging powers failed to cooperate on common candidates for leadership positions in IOs. In 2005, developing countries and emerging powers were divided, as they failed to propose a common candidate or support the Uruguayan candidate, Perez del Castillo, or the Brazilian candidate, Luiz Felipe de Seixas, for the position of Director General of the WTO.[285] This was attributed to divergent diplomatic positions in relation to developed countries; trade protectionism and other trade related disagreements; diplomatic blunders; and regional politics.

The failure of emerging powers to agree on common candidates to lead IOs is attributed to the idea that although emerging powers easily cooperate in challenging domination of global politics by the West, they become divided when the pursuit of power compels them to

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[284] Laidi, 6 – 7.
[285] Narlikar, 73 – 74; Schirm, 206 – 212, Mark S. Copelovitch, "Reforming Global Financial Governance: Opportunities and Challenges for the BRICs", (paper prepared for the workshop on States, Development, and Global Governance, sponsored by Global Legal Studies Center and the Center for World Affairs and the Global Economy (WAGE), University of Wisconsin – Madison, March 12 – 13, 2010), 29. http://128.104.94.54/gls/documents/copelovitch_ifis_brics.pdf (accessed February 17, 2013).

compete against one another.[286] This makes it easy for them to support the West at the expense of emerging-power partnerships when they pursue a specific ‘national advantage’. The argument therefore is that the BRICs’ ‘zero-sum game’, conventional and limited understanding of sovereignty cannot serve as a basis for ‘political’ cooperation.[287] The failure of emerging powers to cooperate for leadership positions in IOs because they compete in pursuit of narrow national interests, brings us to the theme of diversity of interests of all states, which forms the subject of the following section.

4.5 Diversity of Interests of all States

With regards to strategic options of emerging powers, the range of bilateral disagreements and disputes among them, for instance, between Brazil and China on trade-related matters, and between China and India on geopolitical issues as well as on reform of the UNSC, were a demonstration of the diversity of interests of emerging powers that inhibited bilateral action to reform the IMF. The different economic interests of Brazil and China, and China’s opposition to Brazil’s UNSC permanent membership aspirations, was also reported to have negatively affected Brazil’s initial commitment to a strategic partnership in BRICs.[288]

In respect of regional strategies, different levels of economic development[289] that engendered different interests of states also had a negative impact, with disputes over concessions that had to be made by Brazil, as the biggest economy in South America, for instance, leading to disagreements that weakened Mercosur.

East Asian attempts to reduce reliance on IMF surveillance were also said to be unlikely to function optimally, because they would be plagued by government economists loyal to the different policy choices of their governments.[290] The decision by Korea and Singapore to rely on the US, and not on East Asian regional institutions, to deal with the effects of the 2007 to

[286] Laidi, 7.
[287] Ibid., 2, 12.
[288] Ibid., 11.
[289] Braveboy-Wagner, 208.
[290] Grimes, 97 – 98.

2009 crisis, also illustrated that the national interests of Korea and Singapore, rather than loyalty to weak regional institutions, drove their foreign policy actions.

Concerning global multilateral strategies of emerging powers, the differences between developing countries and emerging powers – to the extent that emerging powers could no longer rely on full Third World support prior to the twenty-first century, due to the bandwagoning effect of post-Cold War conditions – testifies to the validity of the notion of diversity of interests of all states; that the political differences that led to the decline of the G77 prior to the late 1990s was as a result of the idea that interests of states, more than common principles, are a requirement for enduring alliances.[291] Even the weakness of the G11 developing-country coalition, which failed to ensure that agreed principles on the selection and appointment of the Managing Director were implemented, could be attributed to diversity of interests of all states due to the geographic, economic, and cultural diversity of the group.

The South's increased economic and political heterogeneity that contributed to separate emerging-power strategies could also be attributed to the idea of diversity of interests of all states. The South's heterogeneity also led to divergent positions between developing countries and emerging powers on how to reform the IMF, hence the G24 proposed reform of the quota formula in which GDP was measured in PPPs and an increase in basic votes, for the purpose of uniting emerging powers and small and poor countries.

Diverse developing-country and emerging-power interests were also demonstrated in the view that the exclusive composition of the G20 Finance helped emerging powers to avoid some of the policy divergences between them and the rest of the developing world, and in the opinion that developing countries were susceptible to even modest reform in the negotiations up to the 2008 reforms, because there was a divergence of policy positions

[291] de Lima and Hurst, 27.

among them.[292] BRICs' competition among themselves and their different geopolitical interests[293] also attest to the validity of the idea of diversity of interests of all states.

The US 'hub and spokes' strategy, whereby it recognised the stronger economic position of certain developing countries over that of certain other OECD members, and began to create important bilateral relations with emerging powers, demonstrated the divergence of interests of the US with those of its allies in the OECD. The US was implementing a strategy of maintaining the global order in its own interests by accommodating rising states that could challenge its hegemony, while the strategy was a potential threat to the OECD alliance. The potential threat of the 'hub and spokes' strategy was demonstrated in disagreements between the US and the EU on IMF reform when the US joined the BRICs in wanting to reduce EU over-representation.

Diversity of interests of all states was also demonstrated in the fact that PPPs favoured emerging powers, while GDP measurement at market exchange rates favoured developed countries. Hence, there was a compromise to use both PPPs and market exchange rates.

The last point in which diversity of interests of all states was clearly demonstrated was during the selection of a new Managing Director in the wake of the resignation of Strauss-Khan. The BRICs failed to agree on a common candidate or support the only available candidate from the developing world mainly because of the narrow national interests of Brazil and China. Realists have theorised the way in which the diversity of interests of all states leads to an exercise of power in pursuit of their interests in an anarchical environment, and the constancy of balance of power politics. Below is a discussion of the theme of utility of realism in understanding strategies and outcomes.

292 Philips, 3.
293 Dresen.

4.6 Utility of Realism in Understanding Strategies and Outcomes

With regards to strategic choices of these emerging powers, the general mistrust that inhibited bilateral action in reforming the IMF could be best understood through the realist lens; that there is a general mistrust among states in an anarchical environment.

The adoption of external balancing strategies by these emerging powers, such as regional institutions inspired by the concept of new regionalism (due to their increased material power capabilities in the form of strategic significance in the global economy), was a demonstration of the realist notion of rising states that broaden the scope and ambition of their foreign policies once they acquire more material power capabilities.[294]

Challenges to regional strategies, such as the unwillingness by states to surrender some of their sovereign powers to regional institutions, could also be most clearly understood through the realist notion of states' use of power, in this case, a defense of sovereignty in pursuit of their different interests. Regional rivalries that weakened regional strategies of these emerging powers also provided an indication of the realist notion of "relentless security competition" among states,[295] in the form of competition and rivalry to become regional hegemons.

Even the pragmatism that characterised East Asian financial and monetary regionalism was informed by realist balance of power calculations, where they would be rejected by the G7 if they challenged established institutions. The utility of realism in explaining strategies could also be observed in the institution of weighted voting for the disbursement of funds, when the CMI was multilateralised into the CMIM.[296] Weighted voting is the formalisation of the hierarchy of regional economic power.

[294] Rose, 152; MacFarlane, 43, Gilpin, *War and Change*, 23.
[295] John J. Mearsheimer, "The False Promise of International Institutions", *International Security* 19, 3 (Winter 1994/95): 9.
[296] Grimes, 80.

The unilateral self-insurance policies of East Asian countries through accumulation of foreign exchange reserves that contributed towards mitigating effects of the 2007 to 2009 crisis[297] also demonstrated the realist assertion; that internal balancing is a primary way of influencing the balance of power.[298] Furthermore, the contribution of East Asian regionalism to the expedition of the process of increasing East Asian participation in international financial and monetary governance was a demonstration of the impact of China's regional balancing strategies, through aggregation of power in East Asian regional alliances. The utility of realism in understanding strategies is likewise notable where it reveals that the divergence between regions and IMF constituency membership has also been influenced by states' desire for more powerful positions within constituencies.

The ability of the US to frustrate regional strategies of these emerging powers through trade and security relations with certain states in particular regions, along with offshore balancing, demonstrates the realist conceptualisation of the power of the hegemonic state in the current global order. For instance, it could be argued that the US exercised off-shore balancing towards East Asia by allowing the rivalry between China and Japan to play out in manner that did not challenge the global hegemon.[299] The accommodative stance of the US and EU towards the non-revisionist East Asian financial and monetary regionalism is also in line with the realist explanation that the hegemonic bloc can accommodate non-revisionist rising states. The inability of East Asian regionalism to help Korea and Singapore when they relied on US support during the 2007 to 2009 crisis is indicative of realist conceptualisation of lasting structural power of the US in the global monetary order and financial markets.[300] Another reference to the realist notion of the weakness of IOs is that East Asian economies

[297] Ibid., 92.
[298] Waltz, 118.
[299] He, 1134.
[300] Grimes, 91.

demonstrated that huge foreign exchange reserves are the main self-insurance policy in a "self-help" system with "institutions and commitments" that cannot be trusted.[301]

Concerning global strategies, the creation of both the G20 Finance and G20 Leaders' as G7 multilateral strategies that were pursued during financial crises could be understood through realist theorisation on perceptions of leaders, namely that when the US perceives itself to be in a strategic condition of declining hegemon, one of the strategies it tends to adopt is that of multilateralism.

Realism was useful in understanding how the increased material power capabilities of emerging powers led to their recognition and engagement by the hegemonic state through the 'hub and spokes' strategy. This was also demonstrated by serious engagement of emerging powers by the G7 during the period since around 2005, which was characterised by a significant change in the structure of the international economy and the rise of emerging powers, due to their increased global economic significance, and the subsequent change of attitude of the G7 towards IMF reform from 2005.

Realisation by these emerging powers that they had the capacity to influence the global economy and had to identify their common interests as well as strategise about how to pursue them when they launched the BRICs coalition, could also be explained by realist conceptualisation of how leaders' perceptions about the balance of power shape their foreign policies.[302]

The characteristic of BRICs as geopolitical rivals, seen for example in China's opposition to India's UNSC permanent membership and thus empowering a likely adversary, could also be understood by means of the realist view that possibilities for international cooperation are logically slim, as states' fear and mistrust of one another compels them to attempt to inhibit

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301 Mearsheimer, 7, 11; Grimes, 102.

302 Morgenthau, 76; Rose, 155 – 156.

other states from acquiring increased capabilities.[303] The effectiveness of the 'hub and spokes' strategy in ensuring that the BRICs maintain individual special relations with the US, while they are also dependent on the US for their economic growth, should be understood as a US realist external balancing strategy of weakening an opposing alliance.[304]

With regards to the ability of the G7 to influence outcomes, realism was useful in understanding that although there was agreement on the need to reform quotas and representation, the US was still in a powerful position to dictate the fact that reform would be undertaken without increasing IMF resources, by reallocating quotas from over-represented to under-represented members.

The utility of realism in understanding outcomes was also apparent in the 2006 *ad hoc* quota and voting share increases only allocated to emerging powers, namely China, Mexico, South Korea, and Turkey. Realism was further useful in interpreting the 2006 to 2008 negotiations on a new quota formula, bringing to the fore the objective of ensuring that the outcome was acceptable to major economic powers, namely the US, EU, and emerging powers. The continued preponderance of the G7 was demonstrated in the fact that although developing countries proposed reform of the quota formula with GDP measured at PPP rates, the formula that was adopted in March 2008 gave more weight to a measurement that favours the G7, that is, 60 percent GDP at market exchange rates. Even the outcome of the 2008 reform reflected the continued dominance of the G7 and the hegemonic assimilatory nature of the reform, because it was an outcome of difficult negotiations amongst the G7 to incrementally increase representation of emerging powers, while the US and high-income countries remained in control of the IMF.

The realist theory of "differential growth of power" that engenders the rise of emerging powers was demonstrated by how the effect of growing global economic multipolarity led to

[303] Karns and Mingst, 47; Waltz, 105, Grieco, 487.
[304] Morgenthau, 161, Waltz, 118.

the growing influence of emerging-market countries in global economic multilateralism, including IMF reform.[305]

Realism also proves effective in understanding the way BRICs collectively used their enhanced financial power to bargain for more influence in the IMF, that is; through an alliance, they utilised their increased material power capabilities in the form of enhanced financial power to increase their influence. The power interests of emerging powers, at the expense of thoroughgoing IMF reform, were also demonstrated by their opposition to EU proposals to eliminate the US veto, because they wanted to maintain their potential veto as a group.

The political bargaining that resulted in the IMF becoming more financially dependent on creditor states, including the BRICs, than dependent on its borrowers and its independent sources, could also be understood through the realist assertion that IOs are not independent.

Realism was also useful in understanding the nature of the final outcome of the 2010 reform agreement, as one influenced by negotiated rules among global economic powers, and not only by technical quota adjustments based on the global economic weight of members. The outcome also reflected the formalisation of hierarchical distribution of power in IOs, because the ten largest economies are also at the top of the IMF hierarchy.[306]

The realist analysis of the "zero-sum" nature of the IMF's weighted voting system, whereby "one country's gain in quota must correspond to another country's loss of quota",[307] is observable where the EU was obliged to relinquish two Executive Board seats to make way for emerging powers, with Brazil and India replacing Canada and Saudi Arabia among the top ten shareholders. The zero-sum nature of the reforms was also evident in the fact that

[305] Gilpin, *War and Change*, 48; Dennis Florig, "Hegemonic Overreach vs. Imperial Overstretch", *Review of International Studies* 36, 4 (2010): 1104, Malkin and Momani, 1.
[306] Roberts, 5 – 6.
[307] Malkin and Momani, 14.

more than 3 percent of the 6 percent shift of voting shares to EMDCs would constitute a loss of voting shares by developing countries.

Although the global crisis and the enhanced financial power of emerging powers increased their bargaining power, the 2010 reform package did not result in the G7 relinquishing control of the IMF to emerging powers, and the reform was said to be insignificant when compared to the level of multipolarity, meaning that the G7, in realist terms, is still the preponderant group, with a greater influence on outcomes. This was also demonstrated in the continued domination of the selection and appointment of the Managing Director by Western Europe.

The above discussion of the utility of realism in understanding strategies and outcomes proves that realism, as forwarded in the review of literature, is considered to be the foundational theory most closely informed by actual foreign policy behaviour. The following section provides a brief conclusion of this chapter.

4.7 Conclusion

This chapter has provided a discussion of the strategic choices of emerging powers, and demonstrated that the options of these states were largely limited to global multilateral strategies, as they could not rely on either bilateral nor even regional strategies in the majority of cases, while the G7 could rely on such strategies.[308] This is attributable to the differences between emerging powers, as well as to other factors endemic to a US hegemonic global order.

With regards to regional strategies, this chapter demonstrated that emerging powers led regional cooperation strategies, although China was the only country that became involved in widespread regional cooperation that included financial and monetary arrangements, with the potential to becoming regional alternatives to the IMF. China's regional strategies also

[308] de Lima and Hirst, 27.

included diplomatic cooperation in the form of calls for IMF reform, hence contributing to IMF reform as well as to China's improved standing in the IMF hierarchy of power.

Concerning global strategies, these emerging powers participated in South-South multilateral alliances. In this regard, the NAM was the biggest diplomatic coalition of the South,[309] while global economic coalitions such as the G77 and G24 became active in working to reform the governance of the IMF, including putting forward specific proposals on reform of the quota formula, the Executive Board and the selection of management, amongst other aspects.

This chapter argued that the economic and diplomatic rise of these emerging powers also led to their separate engagement by the G7, a practice that arguably fostered a common emerging-power identity, and the subsequent formation of BRICs that made a decisive intervention in IMF reform. The discussion of BRICs also demonstrated that they did not make specific reform proposals, except to call for reform of IMF governance in order to reflect their increased global economic weight. These emerging powers also failed in proposing common candidates for leadership positions in IOs. Criticism of the failure of BRICs to propose common candidates for leadership positions in IOs has been based on their 'zero-sum' understanding of sovereignty, along with the fact that they are competitors, which are factors that cannot form the basis for political cooperation.

Analysis of G7 strategies of reform, such as the G20 Finance, G20 Leaders', and the IMF, established that they had elements of both hegemonic incorporation of emerging powers, evident in the 2006 to 2008 reforms, and "multilateral cooperation" that was characterised by willingness to reach compromises, due to the negative impact of the global financial crisis on the G7 and continued better performance of emerging market economies, as was

[309] Braveboy-Wagner, 24.

demonstrated in the bargaining that led to the 2010 reforms under the auspices of the G20 leaders' summits.

This chapter also discussed the theme of diversity of interests of all states, and demonstrated that both emerging powers and G7 alliance strategies were plagued by diverse interests of states, although to a lesser extent in the case of the G7. The diversity of interests of emerging powers was demonstrated to have had a negative impact on the development of a united coalition with a coherent worldview.

The last section of this chapter discussed the utility of realism in understanding strategies and outcomes, and demonstrated that both emerging powers and the G7 adopted balancing strategies that characterised the nature of IMF governance reform as an agreement among global economic powers. Realist considerations, such as competition and rivalry, were a prominent feature of emerging-power alliances. The following chapter is the conclusion.

Chapter 5: Conclusion

This study examined the challenge for legitimacy the IMF faced from emerging powers, due to their underrepresentation in the governance of the organisation. The objective was therefore to analyse how the IMF works and to ascertain why it is necessary to reform its governance; to examine the strategies of Brazil, China, and India towards IMF governance reform; as well as G7 strategies of reform. More specifically, the research questions on strategies of these states were: What strategies have Brazil, China, and India adopted to increase their quotas, voting shares, and representation in the Executive Board of the IMF?; Have they cooperated in their efforts to reform the governance of the IMF?; Have regional bodies such as Southern Cone Common Market (Mercosur), Association of South East Asian Nations (ASEAN), and South Asian Association for Regional Co-operation (SAARC) played any role?; Have these emerging powers formulated reform proposals?; Have they cooperated in proposing common candidates for leadership positions?; and, What have been G7 strategies of reform?

Analysis of how the IMF works, and why reform is necessary, demonstrated that although the original mandate of the IMF was informed by the Keynesian economic ideology and policies that permitted national policymaking autonomy, the US, as the hegemonic power during the establishment of the IMF, influenced the determination of quotas and institutional configuration of the IMF in a manner that gave it veto power and a large share of voting power for its allies. As a result, the governance structure of the IMF took the form of the North/South divide in which the G7 determined policies, with mostly developing countries affected by policies. Analysis of the IMF also established that the functional independence, power, and culture of the bureaucracy of the IMF also facilitated implementation of policies preferred by the G7.

Analysis of the evolution of IMF policies demonstrated that the US used its power as the main creditor state to institute conditionality, and later used its veto power and the financial power of its Western European allies, Japan and Saudi Arabia in the form of the GAB, to intensify conditionality, while ensuring that IMF resources were not increased. The intensification of conditionality without adequate financing thus increased the severity of the costs of adjustment on developing-country borrowers, and increased the risk of failure in IMF interventions.

The US also unilaterally abandoned the fixed exchange rate system part of the multilateral agreement that established the IMF when it suspended the convertibility of dollars into gold in 1971. Following the adoption of floating exchange rates, the US also pushed for liberalisation of capital controls, against the original mandate of the IMF, for the purpose of financing its current account and fiscal deficits. The push for liberalisation of capital controls led to domination of financing of developing countries by private banks and more risks for debtor countries, which led to the onset of the 1980s debt crisis in the developing world.

During the debt crisis and into the 1990s, the IMF expanded its remit from macroeconomic matters to structural matters, and drove the market fundamentalist integration of developing countries into the globalising world economy. The IMF's effectiveness in its core areas of competency and its legitimacy suffered, due to the expansion of its remit.

The negative effects of the changed IMF policies were dramatically demonstrated in the IMF's management of the East Asian crisis during 1997 and 1998, because speculative capital flows destabilised economies of the region, while the IMF's market fundamentalist policy prescriptions led to a recession in a region that was doing relatively well economically.

The Asian crisis led to increased calls for reform, while developing countries and emerging powers adopted self-insurance measures in order to avoid resorting to the IMF for financial assistance. The IMF subsequently suffered financial constraints due to loss of customers, and this condition is considered to have catalysed the governance reforms that were initiated in 2006.

With regards to strategies of states and reform proposals, the arguments put forward in this study were that Brazil, China, and India adopted global and regional multilateral strategies, and used their enhanced financial power to reform IMF governance. In their developing-country coalitions of the broader South, these emerging powers proposed reform of the quota formula in order to accurately reflect their relative economic weight, and more representation for member states with smaller economies, by increasing the weight of votes that are allocated according to the principle of sovereign equality of states as stipulated in the treaty that established the IMF; but did not make any specific proposals in their separate emerging-power coalition, except to call for reform of IMF governance in order to reflect their increased global economic weight. Among others, they also supported a proposal for an Executive Board in which all representatives are elected, and an open, merit-based process of selecting the Managing Director, irrespective of national or geographic origin. However, emerging powers failed to cooperate in proposing a common candidate when the opportunity came. Concerning G7 strategies, this study argued that the G7 also adopted global multilateral strategies in order to accommodate and engage these emerging powers through summit level negotiation and bargaining, which led to incremental increase of their representation.

Analysis of strategies established that the strategic choices of Brazil, China, and India were limited to mainly global, and to some extent, regional multilateral options, because factors such as US hegemony that constrained their options, along with their relative weakness, compelled them to cooperate with the US, while differences between them also contributed towards eliminating the bilateral option.

Regarding the regional option, this study demonstrated that these states became leading actors in their respective regions, but their regional strategies faced significant challenges, such as the negative effect of different levels of economic development on regional integration initiatives; continuing regional disputes; regional volatility; as well as the difficult challenge of sustaining regional dominance; regional neighbours hostility to, or anxieties about global ambitions of emerging powers; and attempts by the US to take advantage of regional disputes and to exercise offshore balancing. Hence, it is only East Asian regional financial and monetary institutions, particularly ASEAN+3 initiatives such as the CMIM, of which China has been one of the leading actors, that had an impact on IMF governance reform, by providing potential alternatives to the IMF, thus providing East Asian states with a bargaining tool to influence global financial and monetary reform. However, the Sino-Japanese rivalry constrained further regional cooperation, because it compelled China and Japan to rely on the IMF to enforce conditionality. This is due to the fact that these countries could not trust one another to commit to conditionality decisions, as they compete for allies in the region. The objective of avoiding the IMF was thus defeated.

At the global level, this study demonstrated that these emerging powers were part of developing-country coalitions, most notably the NAM, G77, and G24. The G24, as the main developing and emerging-market country coalition on global financial and monetary affairs, proposed a simplified formula that adds more weight to calculations of GDP in PPP terms, and also proposed more representation for member states with smaller economies, by significantly increasing the weight of basic votes to its original weight of 11 percent of overall voting power. The G24 also supported proposals that excluded intra-currency union trade as a variable in the quota formula so as to reduce EU over-representation; an-all elected Executive Board to improve representation and independence of Executive Directors; a transparent and inclusive process of selecting the Managing Director; and double-majority voting in order to harmonise the principles of sovereign equality of states and that of empowering creditor states.

This study also demonstrated that due to increased economic differentiation of the South, Brazil, China, and India rose as emerging powers, with enhanced economic power to the extent that they were exclusively engaged by the G7, a practice that led to a common identity, and thus formed BRICs as an exclusively emerging-power coalition. BRICs did not put forward specific reform proposals, except to call for their better representation according to their increased global economic weight. This study has established that BRICs collectively used their enhanced financial power to successfully bargain for more influence within the IMF, because they took advantage of the IMF's need for their financial resources in the context of the 2007 to 2009 global financial crisis in order to negotiate and bargain their inclusion into a new NAB, in which they became IMF creditor states with increased quotas and representation. However, the BRICs failed to cooperate in proposing a common candidate for the position of Managing Director, because some members of BRICs pursued narrow national interests. The failure of BRICs to cooperate was attributed to their conventional and limited conception of sovereignty; that the BRICs refusal to share their sovereignty cannot serve as the basis for political cooperation, because they become divided when the pursuit of power puts them in competition with each other.

Analysis of G7 strategies of reform established that the G20 Finance and G20 Leaders' became the multilateral arenas for negotiation and bargaining between emerging powers and developed countries about IMF reform in a way in which the G7 brought these emerging powers into the upper hierarchy of the IMF.

An overall analysis of both emerging-power and G7 strategies under the themes of diversity of interests of all states, and utility of realism in understanding strategies and outcomes, established that they were plagued by diverse interests of states that in turn led to disagreements between them on reform, although this was less the case in G7 alliance strategies. A discussion of the utility of realism in understanding strategies and outcomes demonstrated that both emerging powers and the G7 adopted external balancing alliance strategies, through BRICs and the G7, and that the nature of the outcome of IMF reform was a bargain between global economic powers, rather than a broad-based outcome.

With regards to the relevance of theories to analysis of the IMF, this study established that the realist emphasis on hierarchical distribution of power in the international system was reflected in the domination of the post World War II order by the US, and the specific domination of the global financial and monetary system by the G7 since the 1970s. The realist assertion that IOs such as the IMF reflect the balance of power among states has been observed in the way the quota system and weighted voting reflect institutionalisation of hierarchical distribution of power in favour of the G7, while the G7 used its "institutional power"[310] within the IMF to implement policies that were informed by its neoliberal economic ideology.

The relevance of liberalism was demonstrated in the role played by the IMF in facilitating cooperation of states on global financial and monetary matters, despite unequal power relations and divergent interests.

Critical theory contributed to an understanding that global financial interests such as investment funds influence and lobby their governments, particularly US policymakers and bureaucrats, who in turn exercise their power and exert influence on IMF personnel. These relationships have informed policies towards countries of the South, as was vividly demonstrated in the perceived role of financial capital markets in US pressure on East Asian countries, through the IMF, during the 1997 to 1998 crisis, to liberalise capital controls; a policy that enhanced market access for US financial capital and revived the wealth and power of the US, while speculative capital flows had a severe negative economic impact on the region.

The IPE realist theory of structural power contributed in understanding the way in which the US employed its power in the finance structure to intensify conditionality, by using its position as the main creditor state to block new loans, and bypassing the IMF through bilateral lending that came with conditionality. Together with other developed countries, the

[310] Barkin, 19.

US also allowed IMF resources to decrease through the GAB, while intensifying conditionality. The end of fixed exchange rates also demonstrated US power in the finance structure through control of the dollar as the top currency by which credit was denominated in other currencies,[311] and also in the push for liberalisation of capital controls after adoption of floating exchange rates by major currencies in 1973. These changes resulted in the 1980s debt crisis. Power in the finance structure later enabled the G7 to determine the framework that constrained developing-country options during debt negotiations with the IMF, because access to other sources of credit was determined by IMF approval.

Power in the knowledge structure was demonstrated by how information technology advances gave US banks immense power in the global financial system that manifested itself in their dominance of debt management through consultancy services, and detailed technical IMF programs that left some developing countries with no capacity to suggest alternatives. Hence, there was a domination of monetarism in IMF policies. The collapse of the former Soviet Union and the concomitant intellectual decline of Marxism, including developing countries' disappointment and disillusionment with socialist ideas, and the subsequent dominance of the Western liberal economic and political model, led to enhanced G7 power in the knowledge structure, and the resultant acceptance of the neoliberal version of globalisation by developing countries.

The affluence that enhanced the reputation of US universities, and the biased recruitment policies of the IMF, which favoured PhDs in economics from mainly English-speaking Western universities, private and public financial sectors and think tanks, and the technocratic alignment made possible by the common Western economics education between IMF staff and finance and monetary officials of developing countries, have also been demonstrated to have buttressed G7 power in the knowledge structure.

[311] Strange, *States and Markets*, 90.

The relevance of critical theory was also demonstrated in how it aided an understanding of the ideological role played by the IMF in legitimising the Washington Consensus version of globalisation.

Organisation theory and constructivism were relevant in understanding the part played by epistemic communities in shaping the Keynesian-based original mandate and ideology of the IMF and its evolution into neoliberalism during the 1980s and 1990s debt crisis and globalisation of the world economy. Organisation theory was also relevant in understanding the role played by the functional independence and power of the bureaucracy in fostering an organisational culture that was resistant to external influences, such as initiatives to change conditionality, and in resisting challenges to the neoliberal economic ideology of the IMF.[312] Constructivism also elucidated the way in which the IMF's culture shaped the neoliberal ideology of personnel, while organisation theory demonstrated that IMF bureaucracy pursued "self-preservation and […] institutional growth"[313] by expanding the remit of the IMF from macroeconomic to structural issues, after fixed exchange rates were abandoned. A synthesis of critical theory on the ideological role of IOs; realist theory of power in the knowledge structure; and organisation theory and constructivist concepts of organisational culture and networks; strengthened the argument on the ideological legitimation role of the IMF.

Since IMF policies had a negative impact on developing countries and emerging powers, they adopted strategies to reform the IMF. Realist theory on strategies of these emerging powers; that states embark on external balancing by aggregating their power through alliances with other states, was demonstrated in the coalitions of developing countries and emerging powers, such as the NAM, G77, G24, as well as the BRICs that worked to reform

[312] Momani, "Streamlining Fund Conditionality".
[313] Barkin, 35 – 36.

the IMF, including the collective use of enhanced financial power by BRICs to bargain for more influence in the IMF.

The relevance of realism to G7 strategies was demonstrated in the way that the impact of crises compelled the G7 to accommodate and bargain with emerging powers through multilateral strategies in the form of the G20 Finance and G20 Leaders'.

In terms of the relevance of other theoretical approaches to strategies of states, the multilateral strategies of these emerging powers, along with those of the G7, are a validation of the liberal assertion that IOs facilitate cooperation among states and serve as international spaces for creating alliances. The spirit of neofunctionalism also pervaded regional integration efforts of developing countries, as there was an expectation for a policy and political spillover.[314] However, Southern states are still reluctant to cede some national sovereignty and continue to subordinate regional integration to "national processes".[315] This was mainly evident in the South American and South Asian cases. Different levels of economic development among developing countries also negatively affected regional integration efforts to the extent that there was no political spillover to regional cooperation on IMF governance reform, with the exception of East Asia.

The political economy approach of new regionalism was also relevant,[316] especially with regard to the East Asian case, because the region's financial and monetary institutions were a reflection of growing multipolarity with an apparent political agenda; despite the fact that the rivalry between China and Japan, and the enduring structural power of the US, proved to be the biggest obstacles to further regional cooperation.

The critical institutionalist perspective was relevant to the phenomenon of institutional adaptation by the South in a global set up dominated by the North,[317] and in the role of

[314] Braveboy-Wagner, 211.
[315] Ibid, 212.
[316] Ibid, 211.
[317] Ibid, 214, 212.

South-South multilateralism in inducing a legitimacy crisis for the neoliberal paradigm, through sustained criticism of neoliberal policies.

Identity constructivism[318] was observable from continued South-South solidarity, despite increased economic differentiation of the South and the rise of emerging powers.

The above synthesis of theoretical perspectives on strategies of states shows that IR demands a multi-theoretical approach, because each theory focuses on one set of variables – inevitably backgrounding other significant factors, although these theoretical approaches are not exclusive alternatives to one another. However, since the structural condition of emerging powers with enhanced material power capabilities in the form of increased economic weight and financial power is the major factor explaining their improved ranking in the IMF, this shows that realism is the foundational approach most closely informed by actual foreign policy behaviour.

The implications of this study in the context of the literature are that since the G20 processes and IMF governance reforms are perhaps a reflection of a multilateral general agreement between emerging powers and the G7 – and if it is assumed that the structure and mandate of the IMF are co-constitutive – accommodating emerging powers remains incomplete, because the issue of reforming the mandate of the IMF has itself not been dealt with.[319] It is proposed here that the issue of reforming the mandate of the IMF therefore constitutes part a valid area for further research.

[318] Ibid, 211.
[319] Malkin and Momani, 1, 4 – 5, 8, 22.

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