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Roadblocks to IMF Reform: Will Regional Arrangements Rise?

By Theresa Robles

Synopsis

US political brinksmanship and failure of leadership have once again stalled implementation of IMF quota and governance reform. Will this provide renewed impetus for regionalism?

Commentary

ALL ROADS lead to Washington, D.C. this week as the world's top financial policymakers gather for the G-20 Meeting of Finance Ministers and Central Bank Governors (10–11 April 2014) and the International Monetary Fund (IMF) and World Bank Spring Meeting (11–13 April 2014). The global economy may slowly be recovering after the crises in 2008 and 2010 but with growth and employment still shaky and reforms in a state of paralysis, it is clear that much work remains to be done.

There is no doubt that discussions will acknowledge this and cover the vast agenda of balanced and sustainable growth. Leaders will cite the progress that has been made and call for concerted action to move the agenda forward. IMF quota and governance reform is only one item in this long list but, as demonstrated by recent events, it is the one held hostage by continued political brinksmanship in Washington and the absence of decisive leadership from the United States. To be fair, effective global economic governance is not the responsibility of the US alone. Nonetheless, the delays have prompted the rest of the world to start thinking about how it can move forward in a global system where the US plays a smaller role.

Linking Ukraine aid with IMF reform

On 1 April 2014, the US House of Representatives voted on a package of aid and sanctions in response to Russia's occupation of Crimea. The bill includes US\$1 billion in loan guarantees, bringing the total from other lenders such the IMF and the European Union to US\$27 billion. The 378–34 count was a rare demonstration of bipartisanship but this was preceded by weeks of debate between Democrats and Republicans on the best way to help Ukraine.

Earlier versions of the legislation would have finally ratified the reforms agreed to in 2010. This involved, among others, a doubling of IMF quotas, a shift in quotas to emerging countries (after which the US will continue to have the largest voting share), and a change in the composition of the board of executive directors. The agreement needs to be ratified by 85 per cent of the Fund's membership for it to come into effect. Since the US holds veto power, these reforms still need to pass the US Congress.

As the Republicans maintained that the IMF reforms were unrelated to the Ukraine aid package, Democrats agreed to drop them from the bill to avoid further delays. In theory, the proposed IMF reforms will not have any effect on the size of the loans available to Ukraine as there are already existing provisions which can allow members to borrow beyond its limit. However, the quota reform would have increased Ukraine's quota and allow the country quick access to more funds from the IMF's emergency financing facility.

The US Congress also missed the opportunity to endorse the IMF reforms in March 2013 as the reforms called for the reallocation of US financial commitments to the IMF and passing the legislation was deemed "too politically sensitive in a tense budget environment" by members of the Senate Appropriations Committee. The issue is being used by the Republicans as a bargaining chip in debates with Democrats on health care and the budget.

Managing expectations and moving forward

Patience for US political processes is now wearing thin. The plan was to complete the 15th General Review of Quotas by January 2014; the IMF Board of Governors have now set the deadline to January 2015. In recent weeks, IMF Managing Director Christine Lagarde and UK Finance Minister George Osborne directly criticised the US Congress and urged US authorities to prioritise the bill. *Reuters* also reports that Russia is leading efforts to move without the United States if there is no progress before this week's meetings. However, it is unclear what kinds of "aggressive measures" are possible without changing IMF rules.

With US midterm elections coming up in November, it seems unlikely at this point that the Obama administration will be able to secure congressional support before January 2015. As frustration grows and confidence in US leadership declines, there is renewed interest in alternative arrangements. The BRICS bank first proposed in 2012 is once again surfacing in discussions while others believe that the impasse will give new momentum to regional alternatives such as the Chiang Mai Initiative Multilateralisation (CMIM).

While the traditional platforms for global economic governance may have failed, channelling momentum to regional commitment and sustained action will be just as difficult. Furthermore, unresolved issues regarding the lack of political unity and limited financial and institutional capacities, among others will inevitably resurface. It is unfortunate that other economies are held hostage by political tensions they have nothing to do with but walking away from the global system is not the solution. Much has been said about the shift of economic power to emerging economies but it should not be forgotten that economic interdependence is deeper than ever. Regional arrangements will only work if global economic governance is effective as well.

Ultimately, maintaining a stable global economy requires an effective IMF. As an additional incentive, the US should remember that its leverage in the IMF has allowed the country to use the Fund to promote its various economic, diplomatic and national security interests. The US should hold on to whatever political capital it has left and push Congress to finally endorse the IMF reforms.

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