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The International Monetary Fund, Power Politics, and the Changing Political Economy of the Twenty First Century

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THE INTERNATIONAL MONETARY FUND, POWER POLITICS, AND THE
CHANGING POLITICAL ECONOMY OF THE TWENTY FIRST CENTURY

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ABSTRACT

The International Monetary Fund, Power Politics, and the Changing Political Economy of the Twenty First Century.

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The governance of the global economy is in a constant state of change. Since the creation of the Bretton Woods system, the International Monetary Fund has had to pursue a series of reforms to meet the changing demands of the international monetary system. At times, the Fund's institutional design has been adjusted to reflect the rise and decline in economic fortunes of member states. Other times the Fund has been resistant to change. However, the original design has proved to be durable and has overcome a number of historical challenges. Currently, two realities are challenging the institutional design of the Fund leading to seriously consideration to reform the governance of the Fund. The first factor involves emerging market economies and developing countries which are demanding equitable representation commensurate with their new found economic strength. The second factor is the ongoing legitimacy problem. For the Fund this has been a problem the Fund has never fully been able to overcome and this problem originates in the governance of the Fund. Two factors contribute to this situation: informal governance and formal Articles of Agreement. The argument made in this thesis is that power politics explicitly or implicitly define the institutional design of the Fund. Reforms will become a reality but not at the expense of the major shareholders and non-

economic factors (i.e., politics) will continue to have a role in the governance of the Fund.

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Shma Yisraeil Adonai Eloheinu Adonai echad...

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CHAPTER 1

INTRODUCTION

Many observers claim recent shifts in the global economy may require rethinking the architecture of global economic governance (Stone 2011; Woods 2010). A myriad of changes have raised doubts about the effectiveness of extant international organizations. The Great Recession that began in the United States has highlighted the fragility of developed economies because of increased linkages between national economies resulting from financial globalization. Other changes, such as the rise of the BRICS and other emerging markets, increased regionalism and multilateralism, and the absence of a singular and clear economic doctrine to govern and regulate the global economy in the post-Washington Consensus era have raised questions about the legitimacy and effectiveness of the current global financial architecture. Today's global economy involves complex interconnected financial markets and rapid flows of capital often resulting in economic crises extending from one economy to another (Copelovitch 2010). The causes and consequences of the Great Recession will long be debated. The United States experienced a severe, complicated subprime mortgage crisis that impacted Europe and East Asia (Shirai 2009). In Germany, the IKB Deutsche Industriebank experienced financial losses related to the American subprime crisis and ultimately was rescued by domestic public and private banks (Shirai 2009). In 2008, the Asian Development Bank reported 965 billion dollars in total worldwide write downs by financial institutions, Europe accounted for 271 billion of this due to active investment in US capital markets (Shirai 2009).

Prior to the Great Recession, the International Monetary Fund was facing its own crisis. Large shares of its outstanding loans were paid back in early 2000s. While the IMF relies on the capital contributions of its members for loans, the day-to-day operating costs of the Fund are largely paid for by fees and interest from loans (Mohammed 2003). In other words, the IMF was losing customers and facing a cash-flow problem. Numerous observers pointed out that the Fund was at risk of losing its legitimacy (Griesgraber 2009; Seabrooke 2007; Torres 2007). Demand for IMF assistance due to the Great Recession mostly came from middle-income and wealthy economies. The Fund, along with the G20, took center stage in the policy responses of governments to the recession.

In the face of volatile situations, the IMF has often been the international lender of last resort seeking to manage crises and maintain global financial stability (Copelovitch 2010). Put differently, the Fund is among the world's most powerful multilateral institutions. The general research question asked in this thesis is: how has the IMF's internal governance responded to changes in the distribution of resources and power in the world political economy? This question is fundamentally important to international relations because it addresses issues of global governance, global economic networks, anarchy, and cooperation in an increasingly interdependent global economy (Stone 2011). Furthermore, this research question is important to the new financial architecture because international organizations promote legitimacy and credibility for effective multilateral cooperation. Both powerful and weak states can benefit from international organization membership (Stone 2011).

Why does it matter how the IMF's internal governance has responded to changes in the world political economy and power politics? It matters because the current wave of

globalization is unprecedented (Ranis, Vreeland, and Kosack 2006). Prominent scholars argue the OECD countries are no longer able to maintain positions of privilege in the hierarchy of the world economy. China, India, Brazil, and other emerging markets are deserving of louder voices in the international financial architecture. Some see it as inevitable that rising powers will supplant those of the old order in terms of both formal and informal internal policies of international organizations (Stone 2011). Others point to ideas associated with power transition theory. A rising challenger state will be dissatisfied with the existing global order (hierarchy) and prestige (Schweller 2011). Rising economic powers seek greater political influence. Applied to the IMF, such concerns focus on IMF quota calculations with some observers claiming quotas do not accurately reflect the economic power of many states. The IMF's internal governance procedures determine the order of the hierarchy pyramid for international economic governance, and which states determine the financial rules. Also, power transition has the potential to create violent international conflict and is costly for all parties involved (Rapkin and Thompson 2003; 2013). At some point, the ascending state will seek to be a status quo power or revisionist power (Schweller 2011).

The IMF can respond to the challenges of a changing world political economy by reforming its internal governance to meet the challenges of a changing financial architecture and the power politics associated with international organizations. In the face of these challenges, international regimes facilitate mutually beneficial agreements. Scholars argue these regimes produce lower transaction cost, provide legal frameworks for legal liability, improve information sharing and otherwise facilitate cooperation (Keohane 1982).

CHAPTER OVERVIEW

In order to understand the concept of the institutional design and governance of the Fund and be able to answer the question of the thesis it is important to understand the history of the Fund. Therefore, chapter two will proceed with a historical analysis of the Bretton Woods monetary system with a focus on the history of the Fund. In 1944 the Bretton Woods Conference established the International Monetary Fund and the World Bank. Ostensibly, the IMF was created to help avoid the economic turmoil of the 1930s and facilitate international economic cooperation in the post the World War II era. Establishing rules to avoid “beggar-thy-neighbor” policies was an important goal of the Fund (Gilpin 2001). Central to this goal was the establishment of the Bretton Woods Monetary System. Important subjects examined in chapter two will include the role of the Fund in the Latin American debt crisis and the Asian Financial Crisis. The last section of this chapter will examine how financial globalization is changing the international economic order.

Chapter three will focus on the internal governance and institutional design of the Fund. The chapter will highlight the complicated mechanisms of the Fund that make up the decision-making processes and the exercise of power within the Fund. Chapter three will begin by analyzing the Articles of Agreement that give the Fund its decision-making authority and will move into areas such as conditionality and Fund surveillance. Formal and informal governance will also be examined with an emphasis on loan conditionality requirements. The informal rules allow the Fund to be autonomous from its shareholders; these rules will be analyzed to explain how they influence the institutional design of the Fund and address how these respond to the changing world political economy.

Since the Fund's creation, the most important features of IMF governance are votes, quotas, selected representation, formal rules, and informal procedures. Votes are assigned based on economic strength measured by IMF quotas. The quotas largely are based on the relative economic size of member countries' economies. The variables used for quota calculations are shares of world output of products and services (GDP), purchasing power parity based on GDP, trade, international reserves, variability of exports and imports. In theory, voting rights are supposed to match the economic influence of a country and the financial contribution it makes to the IMF, but this is not the case for many emerging and low-income economies.

Chapter four will focus on significant cases of discord/reform regarding Fund governance to the end of the Cold War. Namely, this chapter will explore China's entry in the Fund and Russia assuming the preliminary Soviet seat at the end of the Cold War. China and Russia mark significant turning points in the governance of the Fund. Both countries helped the Fund become a universal institution, created changes in the institutional design of the Fund, and created adjustments of power within the Fund. The China case will review the Republic of China (ROC) and international institutions and then examine the discord between the ROC and the People's Republic of China (PRC) regarding Fund negotiations for the PRC's representation in the Fund.

The second case will focus on Russia joining during the early 1990s. By Russia gaining membership another 14 countries gained membership into the Fund (Boughton 2012; Stone 2002). Russia's membership was not without discord. Internal Fund documents were analyzed to examine the level of discord among Fund members and the power politics of Fund governance and quota allocation.

Chapter five will focus on the Fund's governance post-Cold War by analyzing three cases: Japan's ongoing influence in the Fund since the 1980s; European over-representation; and the BRICS emerging economies. Undoubtedly, Japan has been a major player in the Fund. Japan has served as financier to the Fund when many countries were reluctant to contribute to new financial facilities to assist debt stricken countries with balance of payment problems. The issue of European over-representation has been a concern that has caused much discord. This chapter will examine the power and effects of European over-representation on the institutional design of the Fund. Additionally, the chapter will examine the role of the BRICS in the institutional design and possible challenges for the Fund. The BRICS have not accepted unequal representation in the Fund with quite voice. Moreover, the BRICS and other emerging economies have begun to publically denounce the Fund for failure to reform its internal governance to give an equitable voice to emerging economies.

Chapter six will focus on internal governance and reform of the Fund. Review of cases from prior chapters will be examined and show why there is pressure from the international community for the Fund to reform its governance model. Data analysis will be conducted for major countries before and after recent quota reforms. This analysis reveals if the Fund has truly embarked on internal governance reform that reflects current economic realities. A section will focus on possible quota reforms and consideration of other governance reforms beyond quotas.

The thesis research design will focus on qualitative methods for country specific cases and institutional design cases. The cases selected are those that have presented significant challenges to the institutional design of the Fund and challenges to the

financial stability of the global economy. The cases selected have overtime created changes in the balance of power in the institutional design of the Fund and overtime have created and will continue to create challenges for international relations. For example, China's admittance into the Fund has facilitated Chinese economic growth. Stone (2011) argue rising powers will supplant those of the old order in terms of both in the formal and informal internal policies of international organizations. Others point to ideas associated with power transition theory. A rising challenger state will be dissatisfied with the existing global order (hierarchy) and prestige (Schweller 2011). Rising economic powers seek great political influence. In these cases, data will be used to measure gross domestic product (GDP), foreign exchange reserves, international trade, GDP per capita, openness of economic variability, and international reserves against the world totals of the different variables. This approach will be useful in analyzing the quota and voting share of member states and answer the thesis research question. The specific question of member state over- and under-representation will be answered by comparing members' relative weights in the world economy to their voting weights in the Fund.

This topic is important to the changing international monetary system because without a legitimate international framework to oversee international trade and cooperation dire consequence can result from international discord. Groups such as the foreign policy establishment, policymakers, and others should be concerned with the institutional design of an international organization that will acquiesce or prevent the benefits and consequence of unprecedented globalization. Some observers argue globalization is a benefit to rich and poor countries alike. Conversely, others argue globalization only benefits wealthy countries at the expense of poor countries.

Ultimately, the international political economy is changing and a Fund that can promote economic cooperation will be essential to the future changing international financial architecture.

CHAPTER 2

HISTORY OF THE INTERNATIONAL MONETARY FUND

The International Monetary Fund is one of the two intergovernmental organizations that resulted from the Bretton Woods Conference. This chapter will concentrate on the history of the International Monetary Fund (IMF) and lead into the discussion in the following chapter of the institutional design and governance of the Fund. The first section will detail the factors that contributed to the Bretton Woods Conference. The second section will focus on the history of the Fund leading up to the period of the recent Great Recession.

The factors that contributed to the success of the Conference were United States leadership and the collapse of the international monetary system due to World War I, the Great Depression, and the beginning of World War II. Lastly, another factor contributing to the Bretton Woods Conference success was the careful planning preceding the Conference, especially the blueprint for the International Monetary Fund (Garritsen De Vries 1986).

World War I had dire consequences for the international monetary system. During this period the gold standard was destroyed and became ineffective for sound monetary policy (Garritsen De Vries 1986). In the 1920s, several large industrial states attempted to reestablish the gold standard for exchange rate policies, but the exchange rates did not account for divergent macro-economic policies that fostered unequal balance of payments and high domestic unemployment rates (Garritsen De Vries 1986).

The Great Depression intensified the dire economic consequences of the latter period. Commodity prices and world trade plummeted to unprecedented levels. To

mitigate the currency devaluations of the 1930s and the Great depression, states applied restrictions to capital flows and protectionist policies became the standard. These factors aggravated the decline in world trade (Garritsen De Vries 1986; Joyce 2013). Large industrial and developing states suffered from deflationary pressures. States imposed their own parochial solutions by imposing competitive exchange rates; effectively states attempted to export their unemployment rates creating beggar-thy-neighbor policies (Garritsen de Vries 1986). No universal policies to prevent financial contagion existed. The gold standard was no longer effective, international monetary chaos was prevalent, and the outbreak of World War II worsened matters (Garritsen De Vries 1986).

The Bretton Woods System

In academic circles, the success of the Bretton Woods system is often debated. Prominent scholars argue the Bretton Woods Conference was one of the most successful economic achievements of the twentieth century (Eichengreen 2008; Garritsen De Vries 1986). The Conference consisted of representatives from 44 states who convened at Bretton Woods, New Hampshire in 1944 (Eichengreen 2008; Joyce 2013). The explicit goal of these governments was to prevent the economic and financial chaos of the past. It delivered a degree of exchange rate stability (Eichengreen 2008). During the Bretton Woods era, 1944 to 1973, living standards improved in Western Europe, North America, Australia, and developing countries experienced high rates of economic growth, along with unprecedented growth in international trade (Eichengreen 2008; Joyce 2013).

The success of the Bretton Woods System was not by capricious circumstances. Careful planning was essential to the creation of the IMF and other international organizations like the International Bank for Reconstruction and Development (World

Bank). Charters were constructed for the creation of a new international monetary system (Garritsen de Vries 1986). Historically, international organizations have facilitated cooperation based on agreements of mutual benefit. Some scholars claim this has reduced the potential for violent conflict among states (Keohane 1982). During this period, the United States assumed a leadership role. The “White Plan,” was sponsored by Henry Dexter White, Assistant to the Secretary of the US Treasury (Garritsen De Vries 1986; Steil 2013). John Maynard Keynes, from the British delegation, represented the British view for a new international monetary system.

The Keynes Plan was designed in 1943, it concentrated on an international currency union, a new International Clearing Bank (ICB), and bank money (Bancor) would be used in the ICB (Steil 2013). This plan was to be defined in terms of gold and national currencies where the value of the Bancor would be fixed in terms of gold. Member states would obtain Bancor in exchange for gold, but were prohibited from obtaining gold in exchange for Bancor (Bordo and Eichengreen 1993; Garritsen de Vries 1986). All countries adhering to the plan would be subject to fixed exchange rates, and a governing board vote would be required for amending the fixed rate (Garritsen de Vries 1986). At this point, countries would be permitted to change their exchange rate and apply trade and exchange rate policy fluctuations in order to generate full employment, which was a major goal for the British (Eichengreen 2008). Countries would be allowed to carry debt balances in the form of overdrafts rather than loans with the ICB and the Keynes’ system would finance balance of payment deficit (Eichengreen 2008; Garritsen De Vries 1986; Steil 2013). Central banks would manage the Keynes Plan. Countries would be permitted to settle debt imbalances with each other using the Bancor system

(Joyce 2013). For Keynes, a monetary system that revolved around money was inconsistent with the self-regulating forces of supply and demand in the economy (Steil 2013).

The Keynes Plan was very shrewd, it would allow the United Kingdom to attempt to re-establish and preserve its hegemonic position in the global order (Steil 2013). The Keynes Plan would shift the global economy from the gold standard and dependency on the US dollar. It was more liberal in conditionality requirements, would give debtor states more autonomy, and limit the freedoms of creditor states. The plan imposed strict regulations governing the balance of creditors and debtors. Inherently, this condition was intended to limit the US position in global foreign affairs because the U.S. would result as the global economic and military leader after World War II (Steil 2013). Also, Keynes' vision of a monetary institution revolved around Anglo-American ideals and advocated for a small selective group of finance ministers to approve the Bretton Woods system (Steil 2013).

According to IMF historians, the White Plan was most conducive for establishing perimeters for a new international monetary system (Garritsen De Vries 1986; Joyce 2013). Originally, White's plan intended the Fund to act as a bank, the first draft of the plan was called the United and Associated Nations Stabilization Fund. Eventually it took on the name the International Monetary Fund and became a geopolitical international institution (Steil 2013). The White Plan called for a contributory institution, with members making subscriptions in gold and national currencies. Member states would be permitted to draw loans based on their respective subscriptions; the total amount of drawing rights permitted in the beginning was a total of five billion US dollars

(Eichengreen 2008; Joyce 2013). The latter would help prevent inflationary consequences created by a new source of international liquidity (Joyce 2013). The White Plan was concentrated on establishing a cooperative post war monetary system. The plan was predicated on peaceful international relations. Henry Dexter White foresaw three potential problems for the United States if an international monetary system was not established. First, there was a clear need to prevent a collapse of foreign exchange, credit and monetary systems. Second, White wanted to see stability in monetary relations to help reestablish foreign trade. Lastly, White worried about the capital needed for reconstruction efforts after the war (Steil 2013).

The White Plan emphasized pegged exchange rates, an economic system unrestrained by unnecessary economic regulations, and an international organization with veto power for important monetary issues (Eichengreen 2008). White, like Keynes, also had a hidden motive for the new economic doctrine. White was determined to elevate the dollar as the only currency capable of being a replacement for gold as the anchor in the new system. The goal was to prevent other states from manipulating gold prices in order to manipulate U.S. monetary policy (Steil 2013).

Based on the Bretton Woods agreement gold, central banks, and the US dollar were essential to the success of the new international monetary system. Central banks maintained fixed values for their currencies based on the value of gold or US dollars. The United States would assist a member state by standing ready to sell or purchase gold to other member states at 35 US dollars per ounce of gold (Joyce 2013). The practice of purchasing gold only extended to official foreign creditors of the U.S. (Eichengreen 2008). The dollar was used as an intervention currency in lieu of gold. According to

Eichengreen, the Bretton Woods system indirectly became a gold-dollar based system. In 1971, the gold standard ended and the Bretton Woods system became a dollar-based system (Eichengreen 2008).

The Fund was designed to promote and monitor the new international monetary system and facilitate international cooperation. The IMF blueprint was based on a series of compromises agreed to by Keynes and White. Ultimately, the White Plan was more influential and congruent with the hegemonic position of the United States (Joyce 2013; Steil 2013). The Keynes Plan presented strong intellectual challenges to the White Plan. However, the British did not have much leverage over the U.S. as Britain was in need of financial assistance during the war and postwar reconstruction efforts would require financing. There was no other country willing and able to provide such support other than the U.S. (Steil 2013).

The Bretton Woods blueprint encouraged international trade and a response to the “impossible trinity” that was the status quo monetary system responsible for limiting independent policy-making (Joyce 2013). The impossible trinity involves three factors: fixed exchange rates, unregulated capital flows, and/or control of the domestic money supply. For example, the gold standard dictated that countries purchase or sell gold at fixed standards. Therefore, the values of currency reserves were universal for all countries (Joyce 2013). The Bretton Woods system was significantly different than the Gold Standard. Countries were allowed to implement capital controls and monetary policy to regulate economic cycles (Joyce 2013). The Bretton Woods system resulted in adjustable pegged exchange rates, conditionality for exchange rates, and the formation of

the IMF (Eichengreen 2008). Within the system all currencies except the dollar could be adjusted.

The Bretton Woods system was consolidated in the international monetary system in December of 1958 when European countries agreed to the conditions of Article VIII of the IMF's Articles of Agreement. The Article allowed convertibility of national currencies for current account transactions (Eichengreen 2008; Steil 2013; Joyce 2013). By 1961, two-thirds of the IMF's membership had adopted Article VIII. The Bretton Woods system was effective in promoting economic stability through the 1960s. Although, the Bretton Woods system provided stability and created the IMF, the foundation of the Bretton Woods system was unsustainable.

In due time after the Bretton Woods system was created, major shareholders realized the system based on the gold standard and the US dollar as reserve currency was not sustainable. The Bretton Woods system served as a gold-dollar standard system from 1959-1967. The U.S. pegged the dollar to gold, and other countries pegged their currencies to the dollar (Bordo 1995). During the 1950s and 1960s European states agreed to Article VIII, convertibility of national currencies for current account transactions, as long as the U.S. was willing to exchange these reserves for gold (Steil 2013; Joyce 2013).

The trilemma of international economics resurfaced during the Bretton Woods era. The impossible trinity is an inevitable limitation placed on policymakers and international organization bureaucrats. It was impossible to have free capital movements, fixed exchange rates, and autonomous monetary policy work together at the same time, there has to be a trade-off (Bordo and Eichengreen 1993; Joyce 2013). Countries like

Korea, Thailand, and Indonesia in 1997 in part suffered currency crisis because they failed to acknowledge the constraints of the impossible trinity (Fisher 2001).

The U.S. received criticism for the collapse of the Bretton Woods system. Contributing to the problem were the flaws of the gold exchange standard, the adjustable peg system, and the acceleration of world inflation due to an increase in the growth of money supply. In reality, the problem was how to achieve adjustment in a world with capital controls, fixed exchange rates, and domestic policy autonomy (Bordo and Eichengreen 1993). In 1960, economist Robert Triffin published his thesis called “Gold and the Dollar Crisis” (Williamson 2009). Triffin argued the Bretton Woods system was doomed to fail because the internal mechanisms were flawed with internal economic contradictions. The gold supply was small and volatile because commodities were linked to market forces. International liquidity was only sustainable if the U.S. ran a payment deficit in order to continue supplying dollars to foreign central banks (Steil 2013; Williamson 2009).

During this period, an abundant supply of US dollars became the norm, foreign central banks retained more dollars exceeding the value of U.S. gold holdings. Ultimately, this reduced confidence in the U.S. dollar (Strand 2014; Joyce 2013). The Triffin Dilemma suggests the global economy would lack adequate liquidity and undermining the confidence of the US dollar, which would create a financial crisis, as the amount of gold within the U.S. would be worth less than the value of dollars outside the U.S. (Williamson 2009). Steil documents during a Congressional testimony in 1959, Robert Triffin simply put it best, “there were absurdities associated with the use of

national currencies as international reserves, it constituted a built in de-stabilizer in the world monetary system” (Steil 2013, 333).

One factor undermining the Bretton Woods system was the discord from the European Union. Several EU members were not satisfied with the dollar as reserve currency. Another factor was that increased capital mobility was testing the legitimacy of the fixed exchange rate system (Bordo 1995). Third, global leaders were pressing the U.S. for a resolution to the monetary problem. In 1971, U.S. President Richard Nixon removed the U.S. from the gold-dollar link. Bordo (1995) argues that during this period the Fund was a weak institutional power, U.S. power was threatened, economic governance was ineffective, G-10 governors were in discord, and the breakdown of Bretton Woods signified the end of an era of U.S. financial dominance.

Historical Analysis of the International Monetary Fund

The IMF started with 44 governments in attendance at the Bretton Woods Conference. The IMF was first established in 1945 with 29 member countries signing the Articles of Agreement. While it was designed to help manage the Bretton Woods System, it never fully assumed this task and instead early in its history it served as a lender of last resort for members facing balance of payments problems. Although, the Fund was originally created to facilitate international exchange among industrial countries, it never truly performed that role (Vreeland 2007). Some argue the Fund was looking for a new role to play when it first began to assist developing countries (Vreeland 2007). In the 1970s the Fund began to become more involved with developing countries and also took on a larger role as an economic policy advisor and continued as a lender of last resort (Strand 2014). By the 1980s Fund membership was effectively bifurcated into the

wealthy governments who made the rules and borrowing countries who had to live by the rules. By rules, it is meant the policy conditions placed on loans made by the Fund. Highlighting this role polarization in the Fund is the simple observation that from the late 1970s until the Great Recession no wealthy economy utilized IMF lending facilities. The IMF charter advocated for collective action amongst countries in order to achieve benefits such as increased employment and real income, facilitate balanced growth of international trade, improve standards of living, and improve the domestic resources of member states (Woods 2006). In theory, the Fund was established to be an apolitical international organization created to maintain a stable international financial system, provide loans to member states so to offset short-term payment imbalances, and defend member state exchange rates (Gould 2006). In reality, the Fund's internal governance and policy outputs were inherently political (Rapkin and Strand 1997).

The Fund's blueprint consists of 31 Articles of Agreement (Joyce 2013; IMF 2013). The Articles address a broad range of areas, from quotas and subscriptions to operations and transactions of the Fund, to emergency provisions (Joyce 2013; IMF 2013). Quotas are designed to reflect the relative size of economies, the larger the country's economy the larger its quota. The subscriptions determine the amount of capital a member country must contribute to the Fund when joining the Fund and during capital increases. The Articles have been subject to revision as to reflect the ever-changing nature of the international monetary system. Since 1945, the Articles have been subject to six amendments, the most recent effective March 3, 2011 (IMF 2013). Article one highlights the purpose of the Fund. IMF Article of Agreement I:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange rate depreciation.
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
5. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus, providing them with opportunity to correct mal-adjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of members (IMF 2013).

Historically, since 1946, the Fund has experienced a number of changes such as the post Bretton Woods System, the Latin American debt crisis, the Asian financial crisis, the Fund's role with developing countries, poverty alleviation initiatives, and the Great Recession. This malleable Article set the groundwork for the Fund's ability to reinvent itself to address the constant changing international monetary system. Equally as important, the Article paved the groundwork for the collection of subscriptions, quota allocation, loan facility disbursement, and the ability for the Fund to serve as lender of last resort.

The historic role of the Fund in low-income countries evolved over time. According to Boughton and Lombardi (2009), the evolution of the Fund was forced by five interrelated factors. First, membership in the Fund increased from 40 countries in 1946 to over 180 member states by the 1990s. With the addition of the former Soviet countries the Fund obtained an almost universal membership (Boughton 2012). Second, changes in the world economy require changes to the Fund. Whereby, less developed countries began to take advantage of financial globalization. Third, changes in economic theory as the era of protectionism was being replaced by neoliberal market reforms. Fourth, there have been changes in IMF leadership. Lastly, changes in international factors such as an increased influence from civil society in world politics have impacted the Fund (Boughton and Lombardi 2009, 51). The Fund has extended an olive branch to civil society organizations as a method of acquiring important information

and sources of policy inputs (Strand 2014). The Fund's membership of low-income countries grew from 11 percent in 1946 to 40 percent by the 1960. In terms of developing countries that borrow from the Fund, by 1972, over 50 percent of Fund members obtained financial assistance from the Fund. By 2006, more than 80 percent of low income countries obtained Fund assistance, and more than 80 percent of all indebted countries were low income countries (Boughton and Lombardi 2009).

During the early 1960s the Fund established the Compensatory Financing Facility (CFF) dedicated to providing loans for countries dependent on commodity exports. Since the commodity markets for agricultural and mineral products were beyond the control of domestic structural policies, the Fund did not require domestic programs for economic policy adjustments as a condition to borrowing (Boughton and Lombardi 2009). The philosophy behind the CFF was that member countries did not have control over temporary external shocks, and the shocks were not created by inefficient state macroeconomic policies. The CFF was designed for low-income countries; however, other countries were also allowed to use the CFF. This program was the first step in a series of borrowing programs developed for poor countries, and the first step in implementing policy modifications at the Fund regarding low-income countries (Boughton and Lombardi 2009). Beginning in 1963 lending to low-income countries totaled 243 million US dollars and by 1967 lending totaled 723 million US dollars (Boughton and Lombardi 2009).

Phillips (1983) argues the Fund changed radically in the 1970s by implementing three significant changes. The changes allowed the Fund to influence domestic policies of borrowing member states. The first change was the amending of the Articles to give the

Fund more administrative power over the global economy, this was implemented in 1978. The second change was the creation of the oil facilities and the expansion of Stand-By-Arrangements. Lastly, there was an increase in the quota system. The implication of the latter was to empower the Fund to have more influence over domestic macroeconomic reforms of borrowing countries and to continue support for the world capitalist system (Phillips 1983).

During the 1970s, the Fund continued to promote loan facility programs for low-income countries. The Oil Facility program was a direct derivative from the CFF. The rise in oil prices and the shortage of oil created dire international economic problems not seen since the 1930s (Garritsen De Vries 1986). In 1973, six members of OPEC increased the price for crude oil. This action created a disruption in the world economy. The same theory was applied to fuel importing countries that were affected by the sharp increase in oil prices. As a result, these countries experienced difficulty in meeting external debt obligations (Boughton and Lombardi 2009). The essence of this program was to provide an interest rate subsidy for loans. The subsidy was five percentage points below the prevailing market rate. Twenty-five member states qualified for this loan program on an automatic basis (Boughton 2012; Boughton and Lombardi 2009). The Managing Director, Hendricks Witteveen, traveled to the Middle East to personally lobby member states for contributions to establish the oil facility. On August 22, 1974 the oil facility was established (Garritsen De Vries 1986).

In 1976, the Trust Fund was created to provide long-term loans (10 year) at low interest rates of 0.5 percent and without policy adjustment requirements for low-income countries (Bordo and James 1999; Boughton and Lombardi 2009). The Trust Fund was

financed by selling Fund gold assets and provided balance of payments assistance (IMF 2013). From 1977 to 1980, the Trust Fund provided 3.3 billion in loans to 55 low-income countries (LICs) (Boughton and Lombardi 2009). The latter loan programs did little to elevate the poverty stricken condition of these member states and resulted in the Fund experimenting with loan conditionality programs.

The Extended Fund Facility (EFF) was established in 1974. This facility required borrowing countries to develop structural and investment reforms aimed at establishing long-term growth rates and had an emphasis on structural adjustments (Bordo and James 1999; Boughton and Lombardi 2009; IMF 2013). Countries that utilized the EFF had experienced serious long term payment imbalances and limits to private capital (Garritsen De Vries 1986). Conditionality was based on stand-by arrangements. This loan program was available to all member states and payable over a ten-year period with a seven-year grace period (Boughton and Lombardi 2009). In 1986, the Structural Adjustment Facility (SAF) was created with a concessionary interest rate of 0.5 percent with repayment options over a 5-10 year period (Bordo and James 1999). The SAF and the Enhanced Structural Adjustment Facility (ESAF) were modeled on the EFF, and conditionality was standardized for future loans (Bordo and James 1999; Boughton and Lombardi 2009). These two loan facilities paved the way for later collaborative bilateral efforts by the IMF and the World Bank to examine methods for debt reduction and poverty reduction programs.

Accordingly, the Heavily Indebted Poor Countries (HIPC) Initiative was established in 1996. The Fund's role was to provide grants to member countries to relieve poverty conditions and to manage debt burdens. The initiative was financed with

contributions of member states and gold sales by the Fund (IMF 2013). This initiative provided 30 HIPC's with over two billion US dollars for debt relief. The initiative was a joint program between the Fund and the World Bank (Boughton and Lombardi 2009; IMF 2013). The Multilateral Debt Relief Initiative (MDRI) replaced the HIPC providing total debt relief with conditionality requirements for domestic structural reforms. The debt relief is provided by the Fund, the World Bank, and other development banks. Country bureaucrats were required to prepare a Policy Framework Paper (PFP) establishing policies for poverty reduction, balancing international payments, sustainable strategies for economic growth, and stabilizing government finances (Boughton and Lombardi 2009; IMF 2013). Without this condition, IMF and World Bank loans would be denied to potential borrowers. Many of the country PFP's were prepared in Washington with U.S. Treasury assistance, facilitating criticism of the Fund by low income countries.

In 1999, the Fund created the Poverty Reduction Strategy Paper (PRSP) to supplant the ESAF and its PFP requirement (Boughton and Lombardi 2009). This policy authorized structural adjustment recommendations to be developed domestically with participation by local groups (Boughton and Lombardi 2009). East Asian countries and Latin American countries participated in these loan facilities that often imposed strict conditionality requirements during times of financial turbulence. Much debate has been generated about the role and success of the Fund in the Asian Financial Crisis and Latin American debt crisis.

For academics, international observers, and foreign government officials conditionality has been associated with the "Washington Consensus." John Williamson

defines the Washington Consensus as a group of American policy makers, think tanks, the Washington technocrat establishment, the executive branch, the International Monetary Fund and other international financial institutions that have a strong American influence on policy outcomes. The Washington Consensus is primarily focused on 10 policy reforms concerned with macroeconomic prudence on outward economic openness orientation, domestic liberalization, and economic growth (Williamson 1990). The policy instruments that make up the Washington Consensus include: fiscal deficit discipline, public expenditure priorities, tax reform, interest rates, exchange rate policies, trade policy, foreign direct investment, privatization, deregulation, and property rights (Williamson 1990). These proposed economic reforms were being urged in Latin America by Washington elites. The Latin America debt crisis consolidated the Washington Consensus as an idea, but these reforms also materialized in Eastern Europe and elsewhere (Williamson 1993).

Latin America and Fund Conditionality

The Latin American debt crisis compelled the Fund to loosen its conditionality requirements in order to better serve as of lender of last resort. During the early 1980s, Latin America was plagued with nearly half a trillion dollars in debt (Pastor 1989). Beginning in the 1960s Latin American experienced an economic growth surge of the, between 1979 and 1981, less than a third of Latin American countries obtained loans from the Fund. Through the 1970s Latin America's access to private international finance was on the rise. Due to the demise of the Bretton Woods system and the glut of American dollars private commercial banks turned to Latin America for maximizing their profits (Pastor 1989). For example, US commercial bank profits decreased due to a

decrease in real interest rates. By charging Latin American countries extra fees US banks were able to increase their profits (Pastor 1989). There was an abundance of capital available for borrowing. From 1977-1981, credit increased by 28 percent a year (French-Davis 1987). From 1966 to 1970, Fund facility program borrowing by developing states fell by two-thirds. From 1979 to 1981, Fund programs fell to one-third of their normal utilization by borrowing member states as private capital was more accessible. The latter aggravated the Latin American debt crisis which facilitated excessive public spending (Wiesner 1985) Domestic macro-economic policies contributed to the crisis as economies became more vulnerable to exogenous factors (Wiesner 1985).

Additionally, factors like volatility of terms for international trade placed macroeconomic restraints on countries with a high concentration on specific export products. Many Latin American countries that were categorized as small economies suffered more severe consequences (Goldstein and Turner 1996). A second factor contributing to the debt crisis was low levels of import diversification. A third factor was the volatility in interest rates and the effects the rates had on private capital. Interest rates affect the cost of borrowing and the flow of capital investment. For example, in 1981, many Latin American countries experienced an average investment flow of six percent. From 1983-1990 the average was estimated at below one percent (Goldstein and Turner 1996).

Member states, however, did not have to seek policy advice or financial assistance from the Fund anymore (Pastor 1989). The latter posed potential challenges for the Fund. This created an institutional power problem for the Fund and many Fund officials complained that Latin America was underutilizing Fund resources. In order to acquire

more market share the Fund eased conditionality requirements, implemented new Fund facilities, published empirical research to prove that Fund conditionality did not negatively impact domestic economic growth, and recognized that some Fund conditions created useful domestic political cleavages for borrowing countries (Pastor 1989; Phillips 1983).

The debt crisis of the early 1980s positioned the Fund to retake its prior position as lender of last resort. During this time, the boom-bust cycle of economics came to fruition. Foreign trade inflows decreased, nominal interest rates increased up to 13 percent, and there was a shortage of foreign capital (French-Davis 1987). Many countries experienced financial macro-economic hardships and could not sustain payments of the accumulated debt. Chile's debt level exceeded 90 percent of its GDP and the rest of Latin America averaged 50 percent debt level to GDP (French-Davis 1987).

Latin American countries were forced to seek help from the Fund. The Fund did not fully understand the difficult macroeconomic, regional financial environment, and pursued a strategy to bring Latin American countries under its direct or indirect supervision (Pastor 1989). By 1982, the Fund expanded lending to these countries experiencing capital liquidity problems. This was a major extension of the Fund's capital market program (Meltzer 1998). By 1983, 75 percent of Latin American member states were participating in some type of conditionality Fund program, Stand-by-Arrangements or the Extended Fund Facility (Pastor 1989). Due to the Fund loans and high interest charged to Latin countries by international commercial banks the Latin American countries essentially became permanently indebted to the Fund (Meltzer 1998). The Fund

and the private banks entered into agreements, the Baker Plan, that would facilitate bank payments and stricter conditionality.

The Baker Plan was established in 1985 to assist debtor countries in obtaining macroeconomic adjustment policies to support economic growth and reduce inflation. The Brady Plan increased official lending to 15 middle income countries (Sachs 1989). These countries were provided loans in return for reforms in structural adjustments and more lending by multilateral banks (Boughton 2012). As a result of the Baker Plan, multilateral banks provided 15 US billion for 1986-1988 to Latin American countries. The Fund served as catalyst for private sector lending.

The Baker Plan did not produce the anticipated results. From the beginning the Plan was flawed due to deficient operational understanding regarding issues such as surveillance, enforcement, and conditionality which were not defined clearly from the beginning of its implementation. The Brady Plan much like the Baker Plan focused on debt solution on a case-by-case basis and debt reduction assistance must be linked to economic reforms under the supervision of the Fund or World Bank (Sachs 1989).

The Brady Plan was established in 1989 as a debt forgiveness program whereby commercial banks established a debt reduction program by reducing the interest or principal on outstanding loans. In return commercial banks would be guaranteed a remaining portion of the debt by the Fund and the World Bank. Put differently, the Fund and the World Bank would serve as cosigners for the remaining balance (Sachs 1989). Four countries became the first to experience debt relief under the Brady plan: Costa Rica, Mexico, Philippines, and Venezuela. The Brady Plan focused on debt reduction for

a country to obtain positive credit ratings and for the debt to be repaid there must be a debt reduction (Sachs 1989).

It would take over a decade for Latin American countries to recover from the financial crisis and banks to recover their losses during this era. As a result, the Fund took steps to raise resources to facilitate debt reduction and financial institutions took a loss of the debt owed which ended the crisis after a decade of negotiations (FDIC 1997).

Economic liberalization approaches the Latin American countries implemented consisted of reducing state spending and rejecting economic policies that were based on arbitrary decisions by poorly trained bureaucrats. Other reforms included widespread deregulations of trade and investment, privatization, and the reduction of public spending (Naim 1994).

The IMF and the Asian Financial Crisis

In 1997 the Asia region suffered the most severe financial crisis not seen since the 1982 debt crisis. The countries most affected by the AFC were Thailand, Malaysia, Indonesia, and South Korea, but countries such as Brazil and Russia were also affected. The East Asian Tigers generated unprecedented economic growth in the region, with gross domestic product increased by five to seven percent per year (Eichengreen 2008; Fisher 2001; Katz 1999). Poverty alleviation increased as 350 million people no longer lived in poverty. Per capita incomes were increased by tenfold in Korea, fivefold in Thailand, and fourfold in Malaysia (Fisher 1998). For East Asian countries, price inflation was reasonable, saving rates were high, governments recorded budget surpluses, and account balances were positive (Katz 1999).

The flight of private foreign capital was the main culprit associated with the AFC. Liquidity was a major problem for the East Asian economies. Due to an increase in

capital mobility, developing countries were exposed to external pressure to allow capital inflows for investment. They opened their markets to the global economy. Debt was concentrated in short term liabilities and low reserve assets in central banks created a classic bank run (Bosworth 1998). Across the region the factors that contributed to the crisis included: governments encouraged short term lending when liberalizing capital accounts, government policies regarding fixed exchange rates, and the close relationship between business elites and government elites created the moral hazard syndrome (Thirkell-White 2005). Economic policy performance can be examined by utilizing the veto-player model of comparative institutional behavior by applying how the bureaucratic system can affect economic performance (St. Marie, Hansen, and Tuman 2007). The veto-player model is rooted in the policy rigidity approach. The greater the number of veto holders the greater likelihood for policy solutions for financial problems. This approach is influenced by internal cohesiveness, autonomy, and control of financial matters (St. Marie, Hansen, and Tuman 2007).

Goldstein (1998) argues the AFC was aggravated by the easy expansion of credit in the private sector. The loans obtained by easy credit were invested in real estate and equities. Many of the real estate bank loans accounted for 25-40 percent of the total bank loans in Thailand, Malaysia, Indonesia, Singapore, and Hong Kong (Goldstein 1998). The credit boom outpaced the real GDP growth of the region. This type of growth proved vulnerable to external shocks, shifts in investor sentiment, and proved unsustainable. Fisher (1998) narrows the crisis origins to three factors. First, there was a failure to contain the effects of the Thailand crisis. Second, many governments maintained a pegged exchange rate regime. Third, there was a lack of financial oversight.

The economic and structural framework of many Asian economies lacked experience with laws, protocols, administrative experiences, and regulatory institutions to deal with disruptive inflow of foreign capital (Katz 1999). However, other factors also contributed to the AFC such as weak financial institutions, fragile capital markets, vulnerable structural framework, and external economic influences (Katz 1999). The Fund, the U.S., Japan, and European countries encouraged East Asian countries to liberalize capital accounts for short and medium term capital transactions with long term transactions on the horizon (Katz 1999; Fisher 1998).

During the Asian Financial Crisis (AFC) of 1997-1998, the Fund was compelled to create new solutions that differed from past solutions. The AFC was quite different from the Latin American debt crisis (Katz 1999). During this period the Fund responded with programs that were limited in size, include questionable conditions, and proved ineffective in addressing all AFC challenges (Blustein 2001; Dervis et al 2011). Until this point, the Fund did not have an understanding of the domestic and international policy consequences of short-term capital flows (Dervis et al 2011; Fisher 2001; Katz 1999). Additionally, the Fund did not understand the effects of financial contagion on other economies created by an increased integration of emerging economies with global capital markets (Dervis et al 2011; Katz 1999).

For Fund technocrats the main problem with the AFC was concentrated on domestic institutions although international capital markets played a role in the crisis. However, the solution was to fix the institutions in order to restore confidence to the market (Thirkell-White 2005). Banks across the region were poorly regulated and

underdeveloped. When it became apparent that governments were unwilling to rescue the domestic corporate sector the crisis began (Thirkell-White 2005).

During 1997, Thailand's economic activity, exchange rate, and currency (the Baht) declined significantly. This was after a decade of economic growth of an average yearly rate of 9 percent (Blustein 2001). In Thailand, exports of electronic components took a downturn; a strong US dollar rebound hurt the Baht. In 1996, real estate investments declined and stocks plummeted 35 percent (Blustein 2001). As the Baht depreciated in value the Thai central bank depleted its currency reserves in an unsuccessful attempt to preserve the Baht-dollar par value (Katz 1999). During August of 1997 until 1998 the Fund issued Thailand a series of financial facilities. The facilities experienced a number of changes because the Fund did not properly understand or monitor the economic situation. The financial facility consisted of US 4 billion to be distributed over a 34-month period. The total package accounted for 17.2 US billion in multilateral organizations financial assistance, but also bilateral loans. For example, Japan was willing to assist the region: Tokyo matched the Fund's loan with a 4 billion dollar loan. Other Asian countries, the World Bank and Asian Development Bank worked collectively to raise 6 billion dollars (Blustein 2001; Dervis et al 2011; Katz 1999). Economic actors did not respond well to the financial assistance by the Fund because the financial package fell short of the 23.4 US billion owed by the Thai central bank (Dervis et al 2011). In November 1997, the Fund facility was amended to address the economic realities within the Thai economy. In December 1997, an additional 810 million dollars was distributed (Dervis et al 2011). The Fund had similar responses to other Asian countries.

In the case of Indonesia, the Fund considered the economy to be resilient to external shocks. Indonesia was not like Thailand in regards to currency reserves. Indonesia possessed 20 billion in hard currency reserves (Blustein 2001). The Fund attempted reassure international observers that Indonesia was resistant to external shocks to no avail. By 1997, 15 percent of Indonesian men were unemployed. In 1998, economic output decreased by 14 percent and the official currency, the Rupiah, would plummet to 15,000 per one US dollar from 2,400 in 1997 (Blustein 2001). Problems that contributed to the financial meltdown were Indonesian corruption and incompetent banking practices. For example, some borrowers continued to receive loans after defaulting on previous loans and obtaining a business license required a partnership agreement with the president's relatives (Blustein 2001) Also, the Fund's lack of a clearly detailed plan for the Indonesian economy stands out as problematic. As a result, the Fund would blame the Suharto government for the failed economic recovery.

In October of 1997, the Fund approved a 40 US billion dollar financial package with the caveat of releasing a major portion of the loan at the end of the three-year stand by-arrangement (Dervis et al 2011). The Fund provided ten billion with three billion dollars disbursed upfront, the remaining balance was provided by multilateral partners. In 1998, two additional economic facilities were ratified and dispersed, one in April and the other in June (Katz 1999).

The Fund's financial package failed to create much optimism for the domestic economy. After the first Fund disbursement, sixteen banks exited the market place, uncertainty increased regarding bank deposits, and the political will of the presidential administration to enforce conditionality was unknown (Dervis et al 2011). The latter

resulted in political, economic, and social constraints. President Suharto would resign amid violent protest that claimed 1,000 lives (Blustein 2001). The second Fund disbursement in 1998 did not alleviate previous concerns. The conditions attached to the financial package did not solve the root cause of the crisis and failed to address banking and corporate debt restructuring (Dervis et al 2011).

South Korea was also impacted by the AFC. During the 1990s, Korea witnessed impressive economic growth, moderate inflation, and had a small fiscal surplus (Joyce 2013). Much of the economic activity was due to the conglomerates (*Chaebol*) that were financed by domestic banks and government policies to encourage domestic industrialization. Due to relationships established between business groups, influential families, and government bureaucrats banking policies were poorly regulated (Thirkell-White 2005). The *Chaebol* system was based on patronage and was deeply rooted in South Korean society. The South Korean business conglomerates collaborated with government policymakers for the creation of regulatory processes. External influences also contributed to the crisis. For example, The Fund and U.S. business interests encouraged South Korean officials to liberalize foreign participation in manufacturing and banking sectors (Katz 1999). This permitted short term borrowing abroad, a banking environment with unsound investments, and structural deficiencies (Katz 1999). A reduction in exports in the mid-1990s created a growing current account deficit and weak corporate performance earnings. Eventually, this situation evolved into the beginning of the South Korean financial crisis. In November 1997, foreign investors universally refused to provide loans for the private domestic sector. The Bank of Korea depleted currency reserves as it tried to repay foreign loans (Dervis et al 2011).

The Fund's response was to curtail the power of the conglomerates, but in the face of poor market conditions and declining profitability banks continued to provide loans to the conglomerates (Thirkell-White 2005). The Fund attempted to implement conditionality based on Anglo-American norms. In response to dire economic circumstances in December of 1997, South Korea sent the Fund a Letter of Intent detailing its policy reforms. Policy reforms included monetary policy adjustment to prevent a breakdown of liquidity. Trade policy reforms accelerated measures to open the economy up to imports, eliminate trade subsidies, and follow WTO trade regulations (IMF 1997). Other areas of reform included capital market openness, financial sector restructuring, adjustment to exchange rate policy, labor market reforms, and transparency in data publication (IMF 1997).

In December of 1997, the Executive Board approved a disbursement from the recently established Supplemental Reserve Facility to South Korea in excess of 21 US billion. This facility was put into place on December 17, 1997 to provide financial assistance to Fund members experiencing exceptional balance of payment difficulties. This facility was an additional form of resources under the Stand-By or Extended Arrangement with access to large loans at penalty rates to countries in crisis. Also, the facility was available in two or more tranches and required repayment 12-18 months after the first tranche disbursement (Fisher 1999; IMF 1997).

Malaysia along with other East Asian economies showed signs of financial distress and an asset price bubbles by early 1997. Bankers responded by restricting lending for property purchases. This triggered a fall of the Malaysian stock market (Thirkell-White 2005). In June of 1997, the trade deficit was became a major economic

problem. The Malaysian Central Bank raised interest rates to support the value of the national currency, the Ringgit (Thirkell-White 2005). Unlike many East Asian countries Malaysia did not receive as much bank and private capital inflows. Portfolio inflows for every year in the 1990s were very short and at times negative (Radelet and Sachs 1998). Additionally, current account deficits and exchange reserves were also low. From 1990 to 1995, balance of trade for imports was averaged negative 70 percent. However, inflows of foreign direct investment averaged 6.6 percent of GDP and private sector borrowing averaged 3.6 percent of GDP (Radelet and Sachs 1998). Malaysia was part of the AFC due to financial contagion and international intervention. In 1999, Malaysia's Prime Minister broke with the Fund's economic orthodoxy, rejected an IMF bailout, and implemented capital controls on foreign capital (The Wall Street Journal 1999).

Due to the AFC, the Fund established three new programs: the Financial Sector Assessment Program (FSAP), the Reports on the Observance of Standards and Codes (ROSC), and, a new facility the Contingent Credit Line (CCL) (Dervis et al 2011; Fisher 1999). These programs were created to increase transparency, data dissemination, and improve regulatory structures. The FSAP was a joint venture between the IMF and the World Bank to promote the dependability of domestic economic structures of member countries (Dervis et al 2011). ROSC improved compliance for auditing, bank supervision, corporate governance, creditor rights, insolvency, monetary and financial policy transparency, payment systems, and securities regulation (Dervis et al 2011). The CCL was established to provide financial payouts to members with strong macroeconomic structures who were subject to financial contagion. A line of credit would be disbursed to countries as a method of insurance against financial contagion (Fisher 1999). The

conditionality of the facility was unattractive to many member states, and the facility was discontinued in 2003 (Dervis et al 2011). In essence the Fund operated as the international lender of last resort during the AFC.

The history of the Fund in Asia in the 1990s can be characterized by a lack of understanding about international capital flows and financial contagion. More importantly, the Fund exhibited a lack of understanding the macroeconomic structure of East Asian economies. Fund programs failed because of inadequate funding for big economic problems and a lack of easy access to additional financial payouts (Dervis et al 2011; Radlet and Sachs 1998). Prominent scholars argued that Fund's institutional culture of over self-confidence may have aggravated the AFC (Katz 1999). At no point were domestic economist consulted about the idiosyncrasies of the Asian economies. Fund staff preferred structural reforms in lieu of short-term quick fix solutions to diminish the intense financial crisis (Katz 1999). Many of the countries affected by the AFC categorized the Fund as illegitimate and opted to obtain loans from other multilateral organizations at higher loan rates (Woods 2010).

This created a serious legitimacy crisis for the Fund. Member states like Korea, Russia, Brazil, and Argentina who once paid high fees for Fund loans began to seek assistance elsewhere. Consequently, the Fund estimated a budget shortfall losing an estimated 400 million per year by 2010. One consequence was the layoff of 300-400 Fund staffers (Woods 2010). Another highlight of the legitimacy crisis was the Malaysian resistance to Fund policies. Prime Minister Mahathir hesitated in seeking Fund assistance during the AFC. A second key feature was the rejection of Fund approaches by

introducing capital controls. Lastly, the Prime Minister publically promoted alternative policies as part of a political attack on the Fund (Thirkell-White 2005).

The relationship the Fund established over decades was eroded as a result of the AFC. Some Asian countries became antagonistic toward the Fund and the hostility was associated with conditionality regarding macroeconomic and structural reforms negotiated in Fund financial packages (Henning and Khan 2011). The end result was a stigma associated with Fund lending.

The IMF and Globalization

The Fund has not been immune to the positive and negative influences of globalization. Today, because of financial globalization, the Fund has become more salient than ever. International markets have expanded over territorial boundaries; economic integration has become more complex and private international capital flows to developing countries have increased at an unprecedented level (Copelovitch 2010). For example, in 1970, international capital flows were estimated at net zero. By 2005, capital flows had increased to 491 US billion. In 1986, daily foreign exchange trading was 850 US billion; daily trading grew to 3.2 US trillion by 2007 (Copelovitch 2010). Today, scholars argue that the Great Recession demonstrates reforming the rules and institutions of global financial governance is needed more than ever. In particular, the Fund has faced an ongoing legitimacy crisis. Emerging economies are dissatisfied with the current governance model, voting shares are not commensurate with a members' economic strength, and the rise of multilateralism has created more options for assistance.

A number of factors compelled the Fund to initiate reforms. The Fund was in need of self-sustaining income. Low-income countries and middle-income countries were

distancing themselves from the Fund because they felt conditionality was oppressive and even counter-productive. The legitimacy problem was negatively affecting the confidence of member states and causing an identity problem for the Fund (Truman 2006; Woods 2010). The U.S. ceased to be the largest creditor (Woods 2010). A rising China and other emerging economies were changing the structure of the world economy, the international financial architecture of the Bretton Woods era had changed. As a result, many argue the Fund failed to fulfill its role to safeguard the international economy (Truman 2006). Emerging economies continue to lobby international partners for the creation of regional funds. Additionally, the BRICS financial strength and their role in the new financial architecture commanded new positions in the institutional design of the Fund (Lombardi and Woods 2008). Shortly after the Great Recession, the BRICS coalesced around the Fund to help with financial capital. Although, financial assistance was done with much reluctance the Fund was able to position itself as the de-facto lender of last resort (Copelovitch 2013).

In response of the global economic crisis, the Fund has increased its lending power, used international economic relationships to offer policy solutions, and has introduced reforms to respond to countries' needs (IMF 2013). Many of these reforms were encouraged by other multilateral organizations such as the World Bank. In response to the crisis, the G20 committed almost one trillion US dollars to the Fund's coffers. The outcome was an unprecedented level of loans in excess of 158 billion US (Woods 2010). The G20 has committed itself to a leadership role addressing the global financial system. Copelovitch (2013) argues the G20 will have to do much work to prove itself as a serious forum for international economic cooperation. However, the expansion of the G7 to the

G20 signals a move toward multipolar governance mandates. During the financial chaos caused by the financial crises of the 1990s, global leaders looked to foster a new international financial architecture. The G7 group was not sufficiently capable of such a task and it required the expansion of the G7 to the G20 (Wade 2011).

Conclusion

Overall, it appears the Fund has evolved in an attempt to meet the economic conditions of the day. However, much debate has been generated by the Fund's successes and failures. Overall, the Fund has had five major changes in its history. The first change was the cooperation and reconstruction of a new international monetary system after World War II. The second major change was the establishment of a currency exchange mechanism that would provide the needed liquidity in the market. The third major change when Eastern Europe expanded the Fund to a nearly universal organization. The Fund entry negotiations with the Russian Federation paved the way for other Eastern Bloc countries to join the Fund. The fourth change was encouraged by the severity of the AFC. This period was one of great institutional concern due to the legitimacy problem. Lastly, current financial globalization and crisis are creating international cleavages among the industrialized countries and emerging markets. Beginning with the collapse of the Bretton Woods system and the increase of world capital markets the Fund emerged as a lender of last resort (Jensen 2004). The role of the Fund became complicated with the end of the fixed exchange rate system and the beginning of the floating exchange rate after 1971 (Jensen 2004). Member states began to acquire current account deficits, the Fund was unsure if the account deficits were due to short-term fluctuations or macroeconomic state

policies. As a result, the Fund transitioned itself from the management of fixed exchange rates to country surveillance and macroeconomic consulting (Jensen 2004).

During the Bretton Woods era the Fund was an institution created to regulate the fixed exchange rate arrangements between countries, to provide short term loans for balance of payment problems, and encourage economic cooperation (Eichengreen 2008). When the Bretton Woods system collapsed floating exchange rates became the standard practice and more countries began to have current account deficit problems (Eichengreen 2008; Jensen 2004). The Fund turned to surveillance activities to monitor countries economic activity as a tool for resolving the account deficit problems. The latter indirectly shifted the Fund's focus to global macroeconomic consultant (Eichengreen 2008). Since the creation of the Fund, it has maintained its position as one of the most powerful international organizations. Today the Fund continues to initiate reforms designed to strengthen its powerful position in the world. The next chapter will focus on the institutional design of the Fund.

CHAPTER 3

THE FUND, INSTITUTIONAL DESIGN AND GOVERNANCE

Chapter three will examine the institutional design and governance of the Fund. The Fund's institutional design is complicated and includes mechanisms such as conditionality, decision making rules, managing director responsibilities, policy outputs, a weighted voting system, and quota rules (Lombardi and Woods 2008; Strand 2014). Understanding internal governance is important to understanding how the Fund operates. Internal governance concerns how member states obtain voting shares, the complex nature of the IMF, and even the future of the international financial architecture. The chapter will focus on the institutional design of the Fund that includes informal and formal procedures, governance structure of the Fund, country representation and voting shares, conditionality, surveillance mechanisms and a theoretical approach to the institutional design. Particularly important to this chapter is the consideration of formal and informal governance section. Stone (2002) has coined the term "informal governance." International organizations function according to two types of rules: formal rules and informal rules. Formal rules consist of consensual procedures and informal rules allow for special privilege for powerful states.

The first section of the chapter will analyze the formal rules of the Fund. Specifically, Articles III, IV, XII, and VX and how they contribute to the institutional design, governance, and decision making process of the Fund. The second section will move into the informal rules and practices of the Fund and examine the implications for governance, power politics, and the decision making process. Variations in loan

conditionality are then examined to assess the influence of power politics in the governance of the Fund.

IMF Articles of Agreement

The mandate of the Fund and its institutional design originate in the Articles of Agreement. The Articles were created to facilitate the cooperation of the international monetary system, promote exchange rate stability, and create a multilateral payment system for account transactions (Joyce 2013). The Fund has a total of 31 Articles. The Articles have been amended and approved by the Board of Governors to address the ever-changing problems in the international financial architecture.

The Articles of Agreement concentrate on a broad range of member state commitments. Issues addressed in the Articles range from the Fund's purpose to relations with other international organizations to quotas. The Articles are important and contribute to the formal and informal practices of the institutional design of the Fund. This section will emphasize the Articles that are fundamental to the formal decision making process. The articles important to the institutional design include Article III "Quotas and Subscriptions", Article IV "Obligations Regarding Exchange Arrangements", Article XII "Organization and Management", and Article XV "Special Drawing Rights" (IMF 2013). Scholars argue the Fund's Articles represent a distribution of power by political elites that hide the true nature of the Fund and its most powerful member, the U.S. This nature is rooted in a member-controlled organization that utilized three components to conceal its true purpose of being a tool of American hegemonic power (Stone 2008, 592). The Articles represent a system of representation of member states, its official lending criteria, and its weighted voting apparatus (Stone 2008).

Quota and Subscriptions

According to Buira (2000), three factors are important to the decision making process: the distribution of voting powers, decision-making rules, and the management structure within the IMF. In theory each Article details a specific function of the Fund. In practical terms the Articles overlap and work in conjunction with each other. For example, Article III pertains to quotas and subscriptions. Specifically, each member is assigned a quota expressed in Special Drawing Rights (SDR). The Board of Governors is responsible for approving quota adjustments, each member must pay its corresponding subscription in full to the Fund, and other stipulations relating to the quotas and subscriptions. The Fund is structured around the quota system. The quota system is very important because it determines the members' financial commitments to the IMF and influences members' access to Fund financing. Each member state is assigned a quota based on its relative position in the world economy.

According to the Articles of Agreement, the Fund is mandated to review members' quota at least every five years by examining economic positions of member states and the financial viability of the IMF and are specifically outlined in Article XV (Rapkin and Strand 2006; Strand 2014). The five-year review process is called a General Quota Review. Additionally, quotas are important because they determine how much money member states can borrow from the Fund and their access to Special Drawing Rights. In reality, members' global economic strength, quotas, basic votes, and political considerations determine the voting rights of governments.

Fund Surveillance and Conditionality

Article of IV, “Obligations Regarding Exchange Arrangements” is important to the information sharing process, conditionality, surveillance, and the quality of information provided by members (Lombardi and Woods 2008). More importantly, this Article influences the disbursement of loan facilities for member states. The Fund has the right to oversee the international monetary system and the compliance of each member to ensure all sections of the Articles are followed. The Fund has a unique position because it has access to 188 member states and their country information. Article VIII, “General Obligations of Members” compels members to provide the Fund with information necessary for Fund duties. Information that is shared on a regular basis include exchange rate policies, international balance of payments deficits/surpluses, trade in goods and services, gold transactions, capital transactions, and other macroeconomic data. This information is facilitated by section three of Article IV. This section specifically grants the Fund an exclusive right to oversee the compliance of member states.

The Fund maintains surveillance operations on two levels, multilateral and bilateral (Lombardi and Woods 2008). Multilateral surveillance is used to collect and distribute new information to member states and market participants. Two reports produced by multilateral surveillance are the World Economic Outlook (WEO) and the Global Financial Stability Report (GSFR) (Lombardi and Woods 2008). Additionally, the Fund has implemented discussions regarding international financial markets by promoting the world economy and market developments. In the early 2000s, the Fund launched surveillance on development financing and regional economic effects (Lombardi and Woods 2008).

Bilateral surveillance puts Fund technocrats in direct contact with member state government officials. These meetings are held to educate country officials on the universally agreed standards of international finance, market reforms, and other macroeconomic policies conducive to a strong international monetary system (Lombardi and Woods 2008). Countries agree to participate in country reports per Article IV. These reports are prepared by the Fund staff and contain outlook projections, economic policies, and staff appraisals of the country's economic performance.

Much debate has been generated about the effectiveness of bilateral consultations. There is a general consensus that Fund consultations are well prepared, academically valuable, and concentrated with technical expertise. However, criticism has been generated due to a lack of country specific analysis supporting exchange rate policies and a lack of knowledge understanding country constraints and implementation challenges (Lombardi and Woods 2008). The Fund's impact and success on policy reforms were based on the receiving country's economic strength. Large and advancing emerging economies were not as receptive to Fund advice. Smaller emerging economy and low-income economy government officials were more receptive to Fund consultations (Lombardi and Woods 2008)

Conditionality along with other Fund practices has been the subject of much criticism. As described above, Fund technocrats are responsible for structuring loan programs and conditionality requirements attached to the loan programs. Historically, the Fund has implemented one country fits all programs that have little to no sensitivity for domestic economic and political constraints (Stone 2008). Conditionality has been

viewed by some as to enrich major shareholder states and highly unjust (Steinwand and Stone 2007).

The conditionality is imposed on debt relief seeking member states closely associated with neo-liberal economic reform policies and access to Fund bailout packages (Soederberg 2003; Strand 2014). Conditionality requirements include: domestic market reforms, easy access for foreign direct investment, reductions in public sector spending, and structural reforms such as privatization, deregulation, and tax reform (Strand 2014; Stone 2008). In theory the Fund applies the same lending requirements for all member states based on the “Doctrine of Economic Neutrality and Financial Programming” (Thacker 1999). In reality, conditionality is different for member states. Broome (2010) argues the Fund became more flexible regarding loan conditionality during the 2008 financial crisis. For example, Iceland borrowed a program loan by agreeing to two main conditions: a dramatic tightening of monetary policy and starting a bank restructuring program. Broome also argues Belarus did not get the same treatment as Iceland.

It is legitimate to argue that Fund conditionality has been influenced and encouraged by the Washington Consensus model. The Washington Consensus is a set of ten policy reforms suggested for Latin America in the late 1980s. The emphasis was on macroeconomic stability based on sound fiscal and monetary policies. (Williamson 1993). These policy reforms allow the market a bigger role through privatization, trade, liberalization, and domestic market regulations (Williamson 1993). Fund economists are influenced by neo-liberal economic ideas associated with US foreign policy (Strand 2014). The Fund has two guiding principles associated with the approval of loans. First, trade liberalization is viewed as leading to increased economic growth. Second,

international financial openness compels debtor states to implement market-based solutions to economic and political problems (Soederberg 2003). In short, Washington Consensus ideas are grounded in neo-classical economic assumptions.

Decision-Making Bodies

Article XII outlines the Fund's institutional design and internal governance model. The Fund uses a weighted voting system, selective representation, special voting majorities, and a set of formal and informal rules and practices (Steinwand and Stone 2007; Strand 2014; Woods and Lombardi 2006). This section addresses the Fund's decision-making bodies, voting powers, and the inner workings of the Fund on a formal basis.

Board of Governors

The Board of Governors formally holds power of the Fund's operations (Strand 2014). Each of the 188 member countries has a representative on the Board, one seat per member state. The Board holds a meeting one or two times a year. The Executive Board may call a meeting of the Board of Governors for special circumstances. When this occurs, 15 member states or members who accumulate one-quarter of the voting power can request a meeting. All decisions made by the Board are binding on member states. The Board uses a weighted voting system and a variety of qualified majority rules to reach policy decisions (Strand 2014). Day-to-day operations usually are assigned to the smaller Executive Board. Logistically, it is easier to find consensus in a 24-member board than in a 188 member Governing Board (Woods and Lombardi 2006).

The Executive Board

The Executive Board is a powerful body within the Fund. The Executive Board consists of 24 seats and a system of selective representation determines the seats that many members occupy. The Executive Board is chaired by a Managing Director who delegates over the meetings (Strand 2014; Woods and Lombardi 2006). The largest five vote holders occupy appointed seats in the Executive Board. These governments include the U.S., United Kingdom, Japan, France, and Germany and these members appoint their own executive director (Strand 2014; Woods and Lombardi 2006). The other type of seat is reserved for members in voting groups that select a delegate to represent their constituency (Strand 2014; Woods and Lombardi 2006). Currently, 3 out of the 19 seats reserved for constituencies are occupied by a single country: China, Saudi Arabia, and the Russian Federation (Strand 2014; Woods and Lombardi 2006). The remaining 180 countries fall into 16 different voting groups that elect a director to represent them. For example, the director from the Netherlands represents 12 countries. Currently 25 European Union member states have a lot of influence for chair selections on the Executive Board. In the past, the EU selected ten of the 24 executive directors. During the early 2000s, the ten executive directors chosen by the EU consisted of six Executive Directors from the EU. Also, out of the alternate Executive Directors selected eight held European citizenship (Truman 2006). As a result, the European community has disproportionate influence on the Executive Board. Today, nine of the Executive Directors are from the European Union and seven senior officials are from the European Union (IMF 2013).

Fund Technocrats

Staff recruitment is a very important aspect of the Fund's operations with implications for management operations and international policy outcomes. Historically, the Fund has focused on employing technocrats. These individuals are highly skilled in scientific knowledge, specialize in academic training, particularly in economics and engineering, and theorize that most problems are solved with scientific and technical solutions (Momani 2005). For example, in the late 1990s, 32 percent of Economic Program recruits were from the top twenty economic departments in the United States. An additional 19 percent were from other lower ranked economic departments in the United States (Momani 2005). According to Buira (2002) many developing country nationals went from American universities directly to the Fund but lack real world policy experience. Rank and file staffers come from 127 of the 183 member countries. However, in 1996, 26 of 31 management and senior staffers came from industrialized countries (Buira 2000). In 2005, 38 percent of newly hired staff was recruited from the Economist Program (Momani 2007b).

There is a heavy emphasis on Anglo-American neoclassical economic training among the Fund staffers. As a result, reform and conditionality programs tend to be based on macroeconomic standards and quantitative targets that are universally applied to member states and that reflect the idiosyncrasies of Fund staffers (Momani 2007b; Soederberg 2003). Many universally applied loan facilities failed to improve macroeconomic conditions in countries. For instance, international observers argue the Fund failed to properly diagnose the problems of the Asian Financial Crisis of 1990s. The Fund was not able to manage a moderate adjustment problem arising in private capital markets and this turned into major financial chaos for the region (Radelet and Sachs 1998). Fund

staffers prepare policy reports and structural reform blueprints for member states. Also, economists negotiate loan conditions with debtor states (Momani 2005; Soederberg 2003)

Voting Power

Section Five of Article XII legitimizes the decision making process of the Fund by allocating voting weight to member states. It should be noted that quotas are the main factor determining voting rights (Buirra 2000). A small number of votes, called basic votes, are assigned to all members regardless of monetary contributions (Strand 2014).

1 The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes.

2 The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights (IMF Factsheet, website 2013).

Voting power within the Fund is a fundamental part of its institutional design and the topic of much controversy. Votes are based on two factors. First, votes are assigned based on economic strength measured by Fund quotas. The quota clause originates in Article III. The quota system is complicated. Quotas largely are based on the relative economic size of member countries' economies. The larger the quota the larger the voting share. In the past, factors used for quota calculations have been, (1) GDP at current market prices, (2) current payments as an indicator to economic openness and the possibility of requiring loan assistance, (3) official international reserves, (4) current

receipts, and (5) variability at currents receipts (Truman 2006). When an increase in total quotas is approved an adjustment may be implemented to bring the actual quota in line with the calculated quota (Truman 2006). In 2008, Fund members agreed to streamline the quota system. Today, the formula consists of measures of national product, economic openness, international reserves, and vulnerability of exogenous shocks (Strand 2014). Each variable has a weight designated in the calculation formula. National product is the most influential variable is a combination of GDP at market exchange rates (60 percent) and GDP at purchasing power parity (40 percent) (Strand 2014). The remain factors are economic openness accounting for 30 percent, economic variability accounts for 15 percent, and currency reserves account for five percent (IMF 2013; Strand 2014). As mentioned before, every five years the Fund conducts a quota review called the General Quota Review. Not every review results in a quota increase. In the past, only eight of thirteen GQR's have increased the size of the Fund (Truman 2006). Currently, the Fund is in the process of approving the 14th GQR which will give emerging economies a larger voice in the decision making process. Not all member state's domestic legislatures have approved the 14th GQR's. In September of 2013, Fund Managing Director, Christine Lagarde, addressed the U.S. Chamber of Commerce in an attempt to make the Fund's case for the U.S. Congress to approve the 2010 quota reform package (Yukhananov 2013). As of October 2013, U.S. policymakers have not approved the 2010 quota reform package.

In theory, voting rights are supposed to match the economic influence of a country and the financial contribution it makes to the Fund, but this is not the case for many emerging and low-income economies. This weighted voting system is a political

process (Strand 2014). Actual quotas are different than calculated quotas, many times quota decisions are reached by negotiations. Many member states have voting shares not justified by the quota calculation formula measuring the relative weight of their economies. Some states are over represented while others are under-represented (Rapkin and Strand 2005; Strand 2014; Stone 2008). To illustrate the point, Rapkin and Strand (2005) conducted a study examining the claim that developing countries are under-represented in the Fund. The results concluded that upper-middle income countries have quotas commensurate with their economic standing in the global economy. OPEC countries, low-income, and lower middle-income countries are over-represented in their quota shares. For example, Indonesia, had a current quota of 0.980, but the calculated quota based on Fund variables was only 0.753. Another assessment of quotas, the Quota Formula Review Group, estimated that Indonesia's calculated quota was 0.645 (Rapkin and Strand 2005). Clearly, Indonesia is over-represented in quota shares. According to Rapkin and Strand, major shareholders have attempted to provide low-income and middle-income countries a more important role in the Fund's governance structure. The transfer of quota shares from one country to another is a zero sum game and the politics of quota distribution has led to higher disparities between actual and calculated quotas (Rapkin and Strand 2005).

The institutional design regarding the distribution of votes has been a major problem for the legitimacy of the organization. Many member states argue that they lack a strong presence and voting power within the institutional design of the Fund (Truman 2006). Case in point, in 2004 European Union members were responsible for directly controlling 23 percent of the votes in the Fund (Truman 2006). In May 2004, ten newly

admitted European member states controlled 2.1 percent. Through coalition building with non-European states the EU added 12.5 percent to its voting weight; resulting in almost 45 percent of the Fund's voting power (Truman 2006). As stated above, the reallocation of voting shares is a zero sum game. In the case of Japan becoming the second largest economy, many European member states resisted Japan obtaining a larger share of voting power when it moved from fifth to second place in the 1990s (Rapkin, et al.1997).

All members of the IMF are assigned an equal share of basic votes. With the 2008 Fund reforms, basic votes were assessed at 5.502 percent of total votes (IMF 2013). There is some debate about the influence of basic votes. Some scholars argue the basic votes were intended to reflect a sense of equality among member states (Woods 2006). At the creation of the Fund, basic votes accounted for 11.3 percent of all votes (Rapkin and Strand 2005; Strand 2014). Since then, as membership in the Fund has increased the share of quota share votes has increased and this has diminished the effect of basic votes because the number of basic votes stayed about the same. The share of basic votes diminished to 2.1 percent prior to recent reforms (Strand 2014). This has affected the balance of power for small states. Japan has a total vote share of 157,022. St. Lucia has a total vote share of 890. Overall, the importance of basic votes is relative to the country's economic strength. St. Lucia cannot utilize basic votes as a counter-weight to the actual voting share of large states. Basic votes represent a higher proportion of voting power for small states (Buirra 2000). Without basic votes smaller states do not have much power attached to their votes. The proportion of basic votes has decreased over the years. In 1956 over 14 percent of votes were basic votes, by 1999 percentages of basic votes decreased to 2.1 percent (Leech 2002). The current pending reforms will account for

basic votes at 5.502 percent of the total ratio. Today, the total votes are calculated at 2,519.736. 5.502 percent of 2,519.736 will sum 138,635. With 188 members each member will have 737 basic votes.

Decision-Making

Decision-making procedures for the IMF are complicated. All members must adhere to legally binding decisions. However, these decisions do not require consensus. Special majorities and a weighted voting system are essential to the IMF. Most issues require a simple weighted majority while other more important issues require an 85 percent weighted majority (Truman 2006). The U.S. has the power to block some decision-making votes due to it possessing 17 percent of all votes (Stone 2011; Strand 2014). Special majorities during the voting process are needed for political, economic, or other major issues confronting major states or the Fund, over 50 categories require special majorities (Strand 2014).

Special Drawing Rights

The Bretton Woods era, 1945 to 1971, was weakened by the Triffin Dilemma (Steil 2013). Although, it did provide stability this was a time of economic uncertainty and turbulence, dependence on bilateral trade and inconvertible currencies was taking its toll on the Bretton Woods system. For example, in 1946, European import costs rose dramatically because of inflation. Between 1945-1949, a recession decreased the demand of US imports (Steil 2013). In 1949, Britain devalued the sterling by 30 percent. In the first half of 1950 the U.S. had a current account surplus of three billion. As a result, European allies began to express opposition to the international monetary system known as the gold exchange system (Steil 2013). Many foreign governments blamed the U.S. for

exporting inflation. Particularly, France led the opposition to the gold exchange system. During this time the Triffin Dilemma was becoming a reality. In the 1960s, foreign central banks exceeded the holding of U.S. dollars. The U.S. did not have sufficient reserves of gold to exchange for dollars (Joyce 2013). Eichengreen (2008) argues the appropriate solution to the Triffin Dilemma was to establish other forms of international liquidity reserves for the dollar so to prevent a future Triffin Dilemma. During the 1960s there was much debate about the winners and losers of a new reserve currency. The G10 took the lead in establishing committees and policy reviews for the new reserve asset. As a result, in 1968, the Fund's Board of Governors approved the first amendment to the Articles of Agreement, which created Special Drawing Rights (Eichengreen 2008; Steil 2013).

Article XV details the Special Drawing Rights (SDRs) allocated to members of the Fund. The system was created to serve as an interest bearing international reserve asset under the direction of the Fund (IMF 2013). SDRs are not official currencies or a claim to the Fund, but Fund members may utilize SDRs as useable currency (IMF 2013). In other words, SDRs cannot be used to purchase tangible goods, but member states can exchange them amongst themselves on a voluntary basis as a unit of account. SDRs serve to increase the official reserves of a country and once added to the official reserves the member state may exchange the SDRs for hard currency (International monetary Fund Data 2013). Beginning January 1, 1970 three billion SDRs were used to support the fixed exchange rate system (Williamson 2009). The use of gold and the U.S. dollar supported the exchange rate for SDRs. As the international monetary system has changed, so too has the role of SDRs. Today, SDRs are defined as a basket of currencies consisting of the

U.S. dollar, Japanese yen, Euro, and pound sterling. In 2011, a new SDR valuation and interest rate took effect. Currencies were assigned the following weight: U.S. dollar 41.9 percent, Euro 37.04 percent, Pound sterling 11.3 percent and the Japanese yen 9.4 percent (IMF 2013).

Member states may allocate SDRs in proportion to their Fund quotas. There is no interest charge or other fees associated with SDR allocation (IMF 2013). The SDR allocation serves as an international reserve asset that may serve as unconditional liquidity. Otherwise, distressed member states would be compelled to turn to expensive domestic or external debt to accumulate domestic reserves (IMF 2013). The allocation of SDRs is distributed to meet the goals of the Fund. SDR allocations have assisted in preventing economic stagnation, deflation, excess demand, and inflation. Based on the dates of SDR allocation, it appears that the distribution of general SDRs has been correlated to periods of financial uncertainty. The first allocation was distributed in 1970-1972 for a total amount of 9.3 billion (IMF 2013). The second allocation was distributed in 1978-1981 for a total amount of 12.1 billion. Finally, the third allocation was in 2008-2009 during the financial crisis for a total amount of 161.2 billion. A special one-time SDR allocation of 21.5 billion was enacted on September 9, 2009. The total SDR allocation since 1970 has been equivalent to 318 US billion dollars (IMF 2013).

Formal and Informal Governance

The balance of power between powerful and less powerful states has been a contentious issue since the beginning of the International Monetary Fund. Issues that concern the balance of power range from which countries sit on the Executive Board, to conditionality requirements to various decision-making protocols. For example,

transparency, the selection of the managing director, and the variations for loan requirements have generated debate about the Fund's decision-making process. This section will focus on the informal rules and how they influence the governance model of the Fund. This section will use the variations of loan conditionality to draw attention to the influence of informal rules and practices.

Copelovitch (2010) argues the Fund has been the de facto lender of last resort in the international monetary system. For example, between 1984 and 2003, the Fund disbursed more than 400 US billion to countries facing balance of payment and financial crises. As a result, some loans received more conditionality requirements than others. Many conditionality requirements have reflected the preferences of the G-5 countries. Thacker's (1999) seminal work on the Fund points to a strong correlation between politics and Fund lending. Stone's (2006; 2008) contribution focuses on the formal and informal practices that distribute benefits and loans within the Fund. Some like Gould (2006) argue private creditors have unprecedented power over the Fund conditionality.

The formal and informal procedures establish equilibrium and cooperation between powerful and weak states (Stone 2011). Regarding the institutional design of the Fund, major shareholder states have an interest in promoting policies such as trade openness and market orientated economic reforms (Stone 2011). Transparency is not a major consideration in the institutional design of the Fund. The Executive Board meetings, which approve funding for member states, are highly confidential in practice (Thacker 1999). The recent increase in transparency was due to criticism from emerging and low-income states (Gould 2006; Strand 2014). Another controversial example is the selection process for the Managing Director post. The European Union selects the

Managing Director of the Executive Board (Woods 2006). In return the U.S. appoints the president of the World Bank (Buirra 2000; Strand 2014). The selection process is by informal conventions, but these informal conventions play an important role in the selection of the Fund's Managing Director. Article XII offers little guidance over the selection of a Managing Director (Kahler 2001). The institutional design is created to avoid criticism of the major shareholders actions by not explicitly documenting the internal mechanisms of power manipulation of international institutions (Stone 2011).

The Fund's institutional design has been highly criticized for being a tool of US hegemonic power (Copelovitch 2010; Gould 2006). Stone (2008) argue the Fund utilizes the "informal governance" model for its institutional design. The model has four factors. The first factor is voluntary participation by strong and weak states to provide legitimacy for the international organization. The second factor is conditional delegation. The third factor concerns the conflicting short-term interests and mutual long-term interests between states. The fourth factor concerns the formal and informal governance of international organizations.

The Fund utilizes these four pillars of institutional design because international organizations must have some legitimacy in order to encourage participation, facilitate collective action, coordinate expectations, and define rules (Stone 2008). Necessary to the success of international organizations is that non-powerful states must share in the distribution of benefits. The allocation of voting rights must be attractive enough for weak states to resist exiting the system (Stone 2008). Ironically, the allocation of voting rights does not define the distribution of decision-making power, because strong states can use informal influence to influence decisions. When powerful states choose not to

interfere, the formal rules and standard procedures distribute power for all states in the organization (Stone 2008).

As a result, the Fund's institutional design employs a two-track model called conditional delegation (Stone 2008). There are two methods of operation. The first is the ordinary times method. The second method is the short-term strategic interest method. During ordinary times there is no compelling interest for major shareholders, particularly the United States, to be involved with conditionality programs and decision-making rules (Stone 2008). The major shareholders have sufficient confidence in the technocratic ability of the Fund to allow the Fund to be autonomous in day-to-day operations. Conversely, short-term strategic interests, between system leaders and other countries, override any autonomy the Fund has established. The short-term strategic method is utilized when the core interests of the U.S. are affected. The process functions smoothly because other major shareholders concur that the United States acquires temporary control of the organization (Stone 2008).

Informal practices and informal participation are necessary conditions required for the continuation of unequal power distribution and institutional design of the Fund (Stone 2008). For the case of the U.S. and its voting power within the Fund, the U.S. holds 17 percent of the voting power by acting as a minority shareholder analogous to the manner minority shareholders behave in publically held corporations. Minority shareholders control public corporations by informal participation. For the U.S. the two informal practices of the Fund that facilitate informal participation are voting unanimity and the centralization of information (Stone 2008).

Informal participation allows influential shareholders to manipulate the management proposals and set the formal agenda of the Managing Director (Stone 2008). This method is manipulative because the Managing Director has formal unprecedented proposal power and the Executive Board often votes in a unanimous or non-unanimous manner. It should be noted that the Managing Director leads the board meeting with an informal procedure called the “sense of the meeting” (Stone 2008). During the voting process amendments to country-lending items are not permitted because they are pre-negotiated with government bureaucrats. For the Fund, the U.S. has an organizational advantage over other countries. The advantages consist of the diplomatic core service, private financial institutions, information gathering, issuing the international reserve currency, and the advantages of the Fund located in Washington, D.C. (Stone 2008). These factors influence informal participation.

Centralized information increases the advantages of informal participation (Stone 2008). Formal rules do not allow Executive Directors to participate in the negotiating process for loan programs. Information sharing regarding loan conditionality, confidential documents, and other information regarding member state loans is prohibited from Fund staffers to Executive Directors. As a result, Executive Directors cannot easily influence conditionality (Stone 2008). This does not mean that other factors do not influence decisions made by the Executive Directors. Stakeholders that influence the Board of Governors, Executive Directors, and Managing Director are the G7, G20, and G24 (IMF 2013). In early 2000s, the Fund claimed to be inclusive of civil society organizations by publishing a policy and procedure guide book for effective civil society organization participation (Strand 2014). The Fund promoted civil society organization

engagement as a symbol of transparency and participates in public consultations via policy forums (IMF 2013).

Many members of the G20 hold seats on the Board of Governors and Executive Board of the Fund (Lombardi 2010). However, variation in loan conditionality begs the question, who or what informally influences loan conditionality? Fund approval for loans require a simple majority of Executive Board votes, the Board tries to avoid formal approvals on Fund lending decisions at all cost (Copelovitch 2010). Copelovitch argues this informal method of approving loans facilitates the interest of advanced industrialized countries on the Executive Board, the size and terms of the loans reflect the interest of the G5 countries. Controlling Fund lending decisions requires that the G5 countries secure three additional votes from Executive Directors from three wealthy countries. This type of cooperation is likely to occur because the interests of the G5, G7, and G10 countries often coincide with each other (Copelovitch 2010).

A number of loan practices conducted by the Fund have raised criticisms regarding the legitimacy of loan conditionality and the application of political motives for loan approval. Three factors account for the latter. The first factor deals with borrowers who fail to comply with loan conditions, but continue to have easy access and receive additional loans. The second factor is that a country's representative on the Executive Board is originally from the home government; representing the political interest of their domestic government. The third is the weighted voting system and decision making processed is inherently political and evolving special majorities help the major shareholders maintain influence. For example, the U.S. alone has veto power over many decisions (Thacker 1999). Thacker argues the Fund utilizes five economic requirements

for loans made to member states. First, the balance of payment position of a country is the starting baseline for determining the participation level of Fund programs. Put differently, if a country does not have a payment deficit problem it will not qualify for loan disbursement. Conversely, a balance of payment problem will facilitate Fund program participation. Second, many loans are distributed to member states regardless of the country's overall debt position. Third, the per capita income of a country is not considered as a contributing factor for future economic growth. Fourth, poor credit ratings are not heavily weighted in the loan approval process. Lastly, policymakers have different interpretations about how the international political economy operates. According to Thacker, (1999) neo-Marxist advocate that capitalist in the core country dictate Fund policy at the expense of the periphery countries. The periphery countries will be more likely to access loans from the Fund in order to expand global capitalism. Political economists concerned with the influence of domestic politics on international policy argue that multinational corporations and other lobbies pressure U.S. government policymakers to protect their interests on the Executive Board (Thacker 1999).

IMF scholars have produced political influence models to hypothesize why macroeconomic variables have little influence when loan conditionality is applied to relief seeking member states. These models include the political proximity model, political movement model, and the neutrality model (Thacker 1999). The political proximity model follows that the U.S. is more likely to influence the Fund to approve loans to countries aligned to the U.S. Conversely, the U.S. will influence the Fund to deny loans to anti U.S. countries like Vietnam (Thacker 1999). This model does not value the macroeconomic conditions of borrowing countries, but places more emphasis on the

foreign policy like-mindedness of borrowing countries. The latter can be measured by examining United Nations General Assembly voting records (Thacker 1999).

United Nations and Fund Votes

The United Nations Security Council (UNSC) has a 15-member board, five permanent members and ten elected seats that serve a two-year term. The elected seats are highly competitive and yield handsome returns for the seat holder. Countries elected to the Security Council on average obtain a 54 percent increase in U.S. foreign aid and a seven percent increase in U.N. development aid (Dreher, Strum, and Vreeland 2009). The UNSC mandate requires a majority of nine votes for important international security issues. Major shareholders seek to obtain unanimous votes because it reduces the cost of international campaigns, provides legitimacy for international causes, increases public support, and voting unanimity serves as insurance for countries who vote against the major shareholder (Dreher, Strum, and Vreeland 2009). UNSC members who vote against the U.S. are punished severely. Vreeland (2007) argues that Stone has successfully analyzed the connection between U.S. foreign aid and Fund punishment for non-compliance with conditions attached to Fund loans. For example, Russia was thought to be of strategic importance to the U.S. after the Cold War, as a result Russia received little to no punishment for non-compliance (Vreeland 2007).

The evidence for rewarding friends and punishing enemies has been researched by Dreher and Vreeland (2011, 10). They hypothesize that “elected UNSC members that vote with the United States are more likely to participate in IMF programs, and they receive larger IMF loans; elected UNSC members that vote against the United States are less likely to participate in IMF programs, and they receive smaller loans” (Dreher and

Vreeland 2011). Two dependent variables are used for empirical testing. The first variable is the dichotomous indicator of participation in IMF programs. The second variable is the size of the Fund loan. The data covers the time period from 1954-2004 and 122 out of 159 participating countries. The data set includes 1,656 country year observations under Fund programs out of a possible 4,694 general observations (Dreher and Vreeland 2011).

The researchers produce four models. Model one explains United Nations Security Council (UNSC) voting by UNSC members and their Fund participation for all Fund programs. Model two, UNSC voting practices and Fund participation for concessional Fund programs. Model three, UNSC voting practices and the size of the loan commitment in all Fund programs. Model four, UNSC voting and the size of the loan commitment for concessional loans (Dreher and Vreeland 2011).

Model one is representative of all Fund programs. For the authors the data best reflects the hypothesis when the U.S. votes “yes.” Therefore, when a UNSC member votes “yes” Fund participation is highest for these members. Conversely, when the U.S. votes “no” Fund participation is highest for countries that vote against the U.S. and low participation rates for countries that vote “no”. In general, countries that vote “yes” on the UNSC usually have a higher rate of participation in Fund programs. Model one does not show a clear pattern of behavior. However, when the U.S. votes “no” countries on the UNSC who also vote “no” have a higher rate of Fund participation. Conversely, when the U.S. votes “yes” and other countries vote “no” these countries voting “no” have a lower Fund participation rate (Dreher and Vreeland 2011). For this purpose, participation applies to countries who obtain loans. Model one is focused on all Fund facilities, there is

no distinction between oil facilities or heavily or indebted countries (Dreher and Vreeland 2011).

Model two focuses on concessional Fund programs only. The concessional Fund programs are obtained by less powerful states and usually requires strict conditionality requirements for long-term reforms (Dreher and Vreeland 2011). The concessional loans are attached with concessional interest rates. Usually they are favored by poorer states. The second model provides a straightforward picture. Countries who vote “yes” or “no” matter as long as they vote in line with the U.S. These less powerful states are more likely to obtain Fund financing. For Dreher and Vreeland this descriptive evidence is highly favorable to their hypotheses.

Models three and four both focus on the size of loan commitments. These models account for all fund programs including concessional lending. The results that emerge from these models support the author’s hypotheses. When a country votes “yes” or “no” as aligned with the U.S., these countries get the highest commitments in Fund lending. When a country votes in contrary to the U.S., these countries receive the lowest commitments from the Fund (Dreher and Vreeland 2011). Prior research does indicate that countries holding a UNSC seat are more likely to obtain Fund loans this may not be true for all UNSC seat holders. The latter depends if countries on the UNSC follow the voting pattern of the Fund’s largest shareholder, the U.S. (Dreher and Vreeland 2011).

In 1992, the Iraqi invasion of Kuwait took center stage at the United Nations. During this time Yemen voted against the U.S.-Iraq resolution in the UNSC, this is estimated to have cost Yemen 70 million in U.S. aid and Yemen failed to qualify for a Fund loan for six years (Dreher, Strum, and Vreeland 2009). Zimbabwe entered into a

Fund arrangement in 1992. During this time, Zimbabwe served on the UNSC, it failed to support one resolution against Iraq and Zimbabwe was threatened with strict conditionality for continued Fund loans. As a result, Zimbabwe supported 11 Security Council resolutions against Iraq (Dreher, Strum, and Vreeland 2009). In the case of Romania on the UNSC, Romania supported every US-supported resolution against Iraq. It then rescinded a generous loan package of 380.5 million SDRs, of which 318.1 million SDR was disbursed. Ecuador entered a Fund arrangement in 1991 and received 20 million SDRs. Ecuador abstained on two resolutions and voted on 12 supporting the U.S. (Dreher, Strum, and Vreeland 2009). Dreher, Strum, and Vreeland estimate that UNSC temporary members received programs with 20 percent fewer conditions. UNSC members received 17 conditions while those not on the UNSC received 21 conditions. The main contribution these scholars find is that permanent members of the UNSC care about how countries vote in the UNSC and some developing countries are willing and able to acquiesce to the permanent members. This previous empirical research supports Steinwand and Stone's (2007) as well as and Thacker's (1999) argument of the "Doctrine of Economic Neutrality and Financial Programming Model" are seldom utilized as baseline measurements for loan decisions. Non-economic variables are closely associated with lending and conditionality. Many loans distributed by the Fund for the period of 1952-1984 would not be justified on purely economic foundations (Thacker 1999, 47).

The political movement model states the absolute political alignment of a country to the U.S. is important, equally as important is the movement away or toward the U.S. on international political issues (Thacker 1999). For example, when Hungary, Yugoslavia, and Romania became more ideologically connected to the U.S. they obtained

favorable Fund loans. During the Cold War, Zaire and the Philippines obtained loans by the Fund while never meeting the macroeconomic criteria for Fund assistance (Steinwand and Stone 2007). On the other hand, Poland and Czechoslovakia did not obtain Fund loans during the period when they were closely aligned to the Soviet Union (Thacker 1999).

The neutrality model emphasizes political realignment by forcing major shareholder to compete for political realignment by the developing country toward the position of the major lender (Thacker 1999). The borrower has a set ideology and will only move to a new equilibrium point that will generate sufficient aid to offset the domestic political cost incurred by an ideology shift. Political movements toward the U.S. increase the possibility of favorable loan conditionality (Thacker 1999).

Due to the recent reforms, Fund conditionality requirements have become more transparent. The evidence concludes that Fund programs vary in degree of macroeconomic adjustments and structural reforms required (Steinwand and Stone 2007). Some borrowing countries must comply with macroeconomic performance goals. Other borrowing countries must comply with lower levels of economic freedom and more conditions. Yet other countries are only offered assistance based on strategic international benefits to major shareholders (Steinwand and Stone 2007).

Theoretical Approach to The Institutional Design

As described above, several factors contribute to the institutional design of the Fund. For example, loan conditionality, informal governance practices, and decision making rules are factors that have shaped the role of the Fund since its creation. It is important to examine what theoretical models have influenced the Fund's institutional

design, international behavior and decision making processes. Copelovitch (2010) argues that when it comes to loan conditionality and variation the Fund utilizes the principal-agent paradigm focusing on “common agency” framework. Common agency states that the G5 countries have de facto control over the Executive Board and the preference heterogeneity of the G5 will determine the variations and conditions of the loan. Steinwand and Stone (2007) argue recent research is moving from economic forecasting models to theoretically guided political economy models that utilize domestic politics and international strategic factors.

In order to be able to assign a theoretical model to international organizations, the purposes they serve must be examined (Steinwand and Stone 2007). Three major theories have dominated the debate: functionalism, structuralism, and public choice. Functionalism has been associated with collective action and cooperation as preconditions to resolving problems and political and economic failures (Steinwand and Stone 2007). The transaction cost, and enforcement variables derived from this perspective are used in the Fund’s institutional design.

Public choice advocates argue the goal of international officials is to increase their power, international organization skills, and prevent domestic political damage to the elected officials in their home countries. Much of this perspective is based around individual of decision-making at the staff level, private actors, lenders, and borrowing states (Gould 2006; Steinwand and Stone 2007). These international organizations are blamed for the failures of neoliberal market reforms imposed on emerging and low-income economies (Steinwand and Stone 2007).

The structural view emphasizes that states have different national interests and power capabilities. International conflict is natural for international politics. States have different interests that run contradictory to each other. Many times this conflict is between rich states that are strong and poor states that are weak. The structural view emphasizes that international organizations are created by powerful states to serve their interests. On many occasions, weaker states suffer the negative consequences of being associated with international organizations. The case of European over-representation over the BRICS can be viewed as a negative consequence of Fund membership. The international relations paradigm that best fits the institutional design of the Fund can be viewed as the structural paradigm that is derived from neorealism. Stone and Steinwand (2007) acknowledge the structural model has its flaws because of the potential interpretation as Marxist or realist. However, the utilization of power can be demonstrated in the United Nations Security Council voting records and loan conditionality. Also, Leech (2002) refers to the Coleman method of power analysis to explain the importance of power in voting systems. Furthermore, it is fundamental to acknowledge the relative power of each member and the absolute power the member has within the voting system (Strand and Rapkin 2005). In the case of the Fund, empirical research has attempted to explain which states benefit and which states are held to different standards for the distribution of Fund loans, conditionality, and Fund surveillance (Steinwand and Stone 2007).

Conclusion

The internal governance policies and institutional design of the Fund have facilitated the Fund's role in global governance. The Fund has become the most powerful

international institution (Copelovitch 2013). Consequently, the nature of its internal governance has fostered harsh criticism. On many occasions the Fund has lost legitimacy among emerging and low-income economies. These critics argue the Fund is a tool of American hegemonic power (Copelovitch 2010; Woods 2006). Additionally, the scope and timing of Fund's assistance is not always effective. Much of the current IMF literature points to three main conclusions. First, borrowing countries with foreign policy preferences that aligned to major shareholders obtain more Fund loans. Second, domestic political factors have a role in determining participation in Fund programs. Third, the Fund and borrowers have different motives for Fund participation, though these motives are hard to establish empirically (Steinwand and Stone 2007). Other scholars argue that functionalist and public choice theories still apply to the institutional design of the Fund. Based on the Fund's original intent, shrewd architects, and Articles of Agreement the Fund's institutional design was organized around the structuralism paradigm to promote a zero-sum environment and reflected the international power politics of a self-help international system.

The institutional design of the Fund is inherently political. Borro and Lee (2005) conclude the Fund to be a bureaucratic and political organization. Three factors explain Fund lending. First, loan approval and the size of the loan depend on the borrowing country's quota share, the larger the share, the larger the loan. Second, how many nationals does the borrowing country have on the Fund payroll? This will influence the probability of acquiring a loan. Lastly, a borrowing country's political and economic connections to the U.S. and major Europe countries will influence loan conditionality. Finally, quota shares are inherently political. The reallocation of quota shares in the Fund

has created much discord between members. Two example of discord are China's entry into the Fund and Russia assuming the preliminary Soviet seat at the end of the Cold War. The next chapter will explore the national strategies of China and Russia in assuming an equitable role in the Fund. These two turning points shifted the balance of power within the Fund and marked significant changes in the future of the international financial architecture that was unforeseen by the Fund.

CHAPTER 4

CHINA AND RUSSIA BALANCE OF POWER ADJUSTMENTS

Chapter four focuses on significant cases of discord and reform regarding Fund governance to the end of the Cold War. Namely, this chapter will explore China's entry to the Fund and Russia assuming the Soviet seat at the end of the Cold War. Both cases marked significant turning points in the International Monetary Fund. For example, the Fund achieved nearly universal membership and experienced changes in its institutional design. More generally there were adjustments in the balance of power within the Fund.

The first case study will deal with the People's Republic of China (Mainland China) and the Republic of China (Taiwan). The first section will highlight a brief historical account of the ROC and international organizations. The second section will highlight the beginning of the PRC's rise. Section three will examine the discord between the ROC and PRC regarding Fund negotiations for the PRC's representation.

The second case study will concentrate on Russia assuming the Soviet seat during the early 1990s. By Russia assuming the Soviet seat in the Fund a door was opened for another 14 countries to gain membership (Boughton 2012; Stone 2002). This accomplishment shifted the institutional design of the Fund and presented challenges and successes for the Fund. For example Stone (2002) and Sachs (1993) argue that Poland was a successful case of a transitional economy, while Russia was a clear failure. The first section will account for the parties that opposed the Soviet Union's membership in the Fund. The second section will analyze internal documents to account for discord amongst Executive Directors, Fund staff, and the power politics of Fund membership.

China, Taiwan and International Organizations

Beginning in 1945, the China's Nationalist Party established its sovereignty utilizing the name the Republic of China (ROC). For example, in October of 1947, Taiwan signed the agreement to enter the General Agreement on Tariffs and Trade (GATT). Taiwan was one of 23 original contracting parties to the GATT (Feng 1988). Also, the ROC was one of the founding members of the United Nations. In 1949, the ROC was defeated by forces that became the communist People's Republic of China (PRC) and was forced to retreat to the island of Taiwan.

Beginning in 1949, the ROC on Taiwan initiated reforms to achieve unprecedented economic growth. However, it faced two major challenges, the sudden increase in population and rising military expenses (Lin and Myers 1994). Inflation was high and per capita GNP was measured at 50 US dollars. As a result of a decade of structural reforms, between 1952 and 1960 the GNP growth rate was 7.5 percent. Between 1960 and 1970, GNP grew at an average rate of 9.6 percent and between 1970 to 1980 GNP grew at 7.8 percent (Lin and Meyers 1994). Taiwanese policymakers understood that to develop, international cooperation was essential to the future of economic growth. Taiwan liberalized export policies and increased access to international markets. Also, rapid growth was accompanied by international responsibility and Taiwan was willing to establish a foreign policy doctrine for integration and cooperation in the global economy (Lin and Meyers 1994).

From 1951 to 1960 Taiwan continued to hold a United Nations seat (Feng 1998; Hickey 1997). The ROC and its allies successfully blocked the PRC from occupying the UN seat on the premise that the PRC was not a peaceful state (Hickey 1997). In 1965,

nine communist and neutral countries asked the General Assembly to seat the PRC as the representative for mainland China. These countries consisted of Albania, Algeria, Burundi, Cambodia, the Congo, Cuba, Ghana, Mali, and Romania. In November of 1965, the U.S. and eight other countries opposed the resolution by communist countries. The U.S. and its allies submitted a resolution that a two-thirds voting majority was needed to expel Taiwan from the UN (Besser 1965). Taiwan's allies consisted of Australia, Brazil, Columbia, Gabon, Italy, Japan, the Philippines, and Thailand. In 1970, the PRC was gaining more support from the international community for the UN seat Canada and several African countries supported the PRC for a UN seat (Bundy 1970). In October 1971, the United Nations General Assembly voted 76 to 35 in favor of seating the PRC. There were 17 abstentions. This historic vote ended the 22 year battle over who would represent China at the UN (Shannon 1971). During this same time period, the Secretary General of the United Nations issued a text cable, Resolution 2758 (XXVI), to the Fund informing the Executive Board that all rights and privileges were restored to the People's Republic of China and recognizing its government representatives as the only legitimate representatives of China in the United Nations and expelled the ROC's representatives from the United Nations (IMF 1973a).

The World Bank representation issue for China was not as confrontational as at the United Nations. Beginning in 1960, Taiwan's relative quota and subscription size declined. As a result, Taiwan lost the right to appoint a Director to the Executive Board of the World Bank (Jacobsen and Okensberg 1999). In 1974 the PRC informed the United Nations that Taiwan should be expelled from all international institutions associated with the UN; and specifically, the World Bank. In response the World Bank

sent official correspondence to Beijing inquiring about future membership, representation, and the negotiating process. The PRC declined to answer the correspondence (Jacobsen and Okensberg 1999; Lynch 1974). In 1980, the PRC and World Bank negotiations concentrated on the issue of Taiwan needing to be expelled from the World Bank (Jacobsen and Okensberg 1999). Taiwan did not intensely oppose the World Bank decision. The World Bank would have to stop all forms of assistance to the ROC. On May 15, 1980 the Executive Board of the World Bank approved the People's Republic of China as the sole representative of China in the World Bank (Jacobsen and Okensberg 1999; Rowen 1980).

The International Monetary Fund and Taiwan experienced an efficient institutional relationship. Based on internal documents, the Fund granted Taiwan active support regarding technical assistance. The Fund also praised Taiwanese officials for steps adopted to establish a par value policy and continued reforms for eliminating trade restrictions (IMF 1974). In 1970, the Fund dispatched staffers from the Central Banking Service department to assist the ROC in modernizing its Central Banking Law. Two banking issues were addressed. The first issue involved assistance with revising legislation that would modernize the exchange system. The second issue related to the preparation of a policy and procedure manual for the Taiwanese Central Bank. The mission lasted three weeks and took place the first week of March (IMF 1974). During this time, Taiwan was receiving support from the U.S. In 1972, the U.S. urged Japan to support the Taiwanese government in continuing its membership in the Fund and World Bank even if Japan was forced to sever diplomatic relations with Taiwan in order to establish normal relations with China (Harrison 1972). Additionally, in November of

1978, the Fund continued to send staffers to Taiwan on technical missions. Staffers assisted Taiwanese officials regarding exchange control and exchange market matters (IMF 1973a).

The PRC's Rise and Discord at the Fund

The PRC's rise in the international political arena has been a fascinating subject for many scholars, policymakers, and international organization bureaucrats. Beginning in the early 1970s, China began slowly but systematically engage international institutions. Beginning in the 1960s China established economic contacts with Japan. China began to benefit from participation in the global economy with the U.S., Western Europe, and Japan (Hudson 1997). This led to a series of domestic macroeconomic and structural adjustments. At this point, China began to shift its ideological position toward international organizations. By 1980, the PRC had more than a fifth of the world's population, its GNP was the eighth largest, and it gained admission into the United Nations, International Monetary Fund and the World Bank (Jacobson and Oksenberg 1990).

The membership process with the Fund was not without disagreement. Two issues concerned the People's Republic of China. The first issue was over who would represent China in international institutions. The second issue was over the actual quota allocation for a new member state (Boughton 2001; Jacobsen and Oksenberg 1990). Developments within the Fund intensified the discord regarding Taiwan among member states. For example, in August of 1950, Chau Enlai Minister of Foreign Affairs for the PRC sent a cable to the Managing Director requesting the ROC not be allowed to participate in the 1950 Paris meeting and the PRC be recognized as the only legitimate voice of China

(IMF 1973a). This was followed by the Czechoslovakian delegation submitting a draft resolution supporting the PRC and requesting the expulsion of Taiwan by the September 6, 1950 meeting in Paris (Assetto 1988).

Consequently, the Czechoslovakian resolution led to a number of Governors to voice their opposition to the resolution. For example, directors for the ROC, the U.S., and the Philippines voted against the resolution. Czechoslovakia, India, and Yugoslavia voted for the resolution. The resolution was voted down by a show of hands (IMF 1973a). In 1951, the membership of the Fund voted to indefinitely postpone the issue. The vote was 43 to 3 in favor of tabling the issue (Assetto 1988). Czechoslovakia pressed the PRC issue until it was expelled from the Fund in 1954 for not following membership rules. The period of PRC non-involvement with the Fund would last until 1971 (Jacobsen and Okensberg 1999). The ROC, de facto, held the Fund seat for China.

The major opening for the PRC came with admission into the United Nations in 1971. The PRC utilized this opportunity to monitor global economic affairs (IMF 1973a; Jacobson and Oksenberg 1990). Ironically, in 1971 a week before the UN voted to expel Taiwan, the ROC withdrew 59.9 million in hard currency from the Fund. Many international observers viewed this action as a protective measure (Rowen 1971). As a result of the landmark decision, China began to be receptive toward membership in the International Monetary Fund, World Bank, and GATT (Boughton 2001; Hudson 1997; Jacobsen and Okensberg 1999).

On September 24, 1972, Taiwan expressed concerns over a possible expulsion from the Fund and the World Bank. Taiwanese officials worried about the possible financial consequences from expulsion from the two financial institutions. They worried

about the ROC's borrowing ability, international confidence in the Taiwanese economy, and the future disbursement of 100 million dollars in development loans from the World Bank (New York Times 1972).

On September 24, 1973, the PRC's Minister of Foreign Affairs, Chi Peng-Fei, issued a formal letter to the Fund managing director. Chi Peng-Fei specifically argued that China was a founding member of the Fund, that for 20 years the seat was illegally held by Taiwan, and that the seat should be returned to the PRC. The Fund responded by assuring the PRC that the matter would be examined by the Executive Directors of the Fund. Due to the legal complications an immediate response would not be issued (IMF 1973b; Rowen 1973). Fund documents reveal that Chi Peng-Fei utilized the UN General Assembly Resolution 2758 as legitimacy for his claim. Fund document EBM/73/317 states the following.

On October 25, 1971, the U.N. General Assembly adopted at its 26th Session Resolution 2758 (XXVI), in which it was explicitly resolved to restore all its rights to the People's Republic of China and to recognize the representatives of its Government as the only legitimate representatives of China to the United Nations, and expel forthwith the representatives of Chiang Kai-Shek from the place which they unlawfully occupy at the United Nations and all the organizations related to it. (IMF 1973b).

During this time frame, the Fund invited the PRC to the United Nations to discuss the possibility of the PRC assuming the obligations and rights associated with Fund membership. A November 2, 1973 meeting, however, failed to resolve the issue of representation (Boughton 2001).

In 1976 the Fund was faced with a decision to establish a Trust Fund facility for developing countries. The Trust Fund would be financed by selling 25 million ounces of the Fund's gold stock from 1976 to 1980 (Boughton 2001). This decision would force the PRC to move on its decision to seek membership because the gold sales raised the contentious issue of who would claim property rights and financial benefits from the sales (Hudson 1997; Jacobsen and Okensberg 1990). On September 30, 1976 the President of the People's Bank of China transmitted a cable to the Fund affirming the 1973 request for the expulsion of Taiwan. More importantly, the cable was to communicate that all rights, assets, and interests in the Fund belonged to the PRC. The state bank of China had the lawful right to deal with quotas, assets, and interests within the Fund (IMF 1976a). Ultimately, the official communication was to oppose the Taiwanese claims for the gold, property, rights, and obligations in the Fund (Jacobsen and Okensberg 1990). It should be noted that in previous correspondences to the Fund, the PRC failed to make clear its full intentions of joining the Fund (IMF 1977).

The Fund responded to the PRC's September 30, 1976 correspondence regarding the gold sales. It was communicated to the PRC that the Trust Fund and restitution of gold were not governed by the provisions of the Articles of Agreement. Any decision about the restitution of gold would be based on principle and not an arbitrary exercise of discretion (IMF 1976b). Additionally, the Executive Board recognized the ROC as the government of China and dismissed the claim by the PRC. The PRC did not meet a prima facie legal standard to deprive the ROC of the gold. The PRC had not expressed interest to be the representative of China in the Fund and there was little justification to withhold

gold to another member state based on an expectation that another government would be recognized in the future (IMF 1976b).

In 1977 the Fund attempted to find a solution that would be beneficial to all parties involved in the gold restitution dispute. The Fund continued to argue the PRC did not have a claim to the gold. However, the gold dispute would be postponed in order to give the PRC an opportunity to formally express its intention to join the Fund. If by April 1, 1977 the PRC did not respond with an explicit claim to join the Fund and assume the rights and obligations granted to member states by the Articles of Agreement then the first arrangement for the restitution of the gold to the ROC would be completed (IMF 1977; Rowen 1977). During the late 1970s, Romania and Yugoslavia, the only nonmarket economies in the Fund, encouraged China to enter the Fund (Jacobsen and Okensberg 1999).

In 1979, the ROC delegation accepted its fate and worked to make the transition process amicable for all parties. Negotiations for the gold tranche that the ROC had not repaid resumed. Ultimately, the solution was for the ROC to repay its debt to the Fund and repurchase the gold (Boughton 2001; Jacobsen and Okensberg 1999). On April 14, 1980 the Executive Board decided to return 470,708 ounces of gold and two purchases of SDR 77,632,715 and SDR 30,002,772 to Taiwan (IMF 1980a). Cooper (1981) argues Taiwan's financial position was strong and not hurt by the expulsion from the Fund. Consequently, Taiwan walked away with an 81 million dollar bonus.

The second problematic issue regarded voting power. If China agreed to enter the Fund it would only receive 1.68 percent of all the votes in the Fund as China would inherit the voting share of Taiwan (Jacobsen and Okensberg 1999). This was

unacceptable for China. The PRC's goal in joining the Fund was to promote its long-term foreign policy goals and the small quota did not reflect China's economic weight in the global economy (Boughton 2001; Jacobsen and Okensberg 1999).

The Fund conducted several years of research planning for China's entry. The Fund created a China desk, used CIA intelligence data and World Bank data to create an entrance policy for China. Also, Fund staffers were sent to China for entrance negotiations (Jacobson and Oksenberg 1990). Negotiation focused on the issue of Taiwan, voting power, the fate of the gold deposited by China, and the rights and obligations of Fund members under the Articles (Hudson 1997).

In 1980 the PRC was admitted into the International Monetary Fund with little opposition. As a result, China became eligible for development loans, gained legitimacy as a member of the international community, gained access to exercise all rights and obligations, and became eligible for Special Drawing Rights (IMF 1980b; The New York Times 1980, D1).

In 1944 the original quota for China was SDR of 550 million. On August 5, 1980, China used the influence of the Ad Hoc Committee on the Quota for China to request an increase in quota shares to commensurate its economic power, an additional 650 million SDR, totaling 1.2 million SDR (IMF 1980c). Chairman Jacques de Groot of the Ad Hoc committee on China's Request for an Increase in Quota delivered a special report to the Executive Board recommending the quota increase and an additional increase totaling 1.8 SDR. The report utilized a condition that China submit full payment no later than September 26, 1980 (IMF 1980c). In November of 1980 the Board of Governors honored a seventh quota retroactive adjustment and the quota was set to SDR 1.8 billion (IMF

1980c; Jacobson and Oksenberg 1990). In 1983, the Eighth General Quota Review set the quota at SDR 2.39 billion that translated into 18,250 votes and 2.82 percent of the total votes, ninth largest in the Fund (Hudson 1997; Jacobsen and Oksenberg 1990). As a result of China's growing economic power and voting weight the Executive Board was expanded from 21 to 22 seats to provide China a single constituent seat (Boughton 2001; Jacobsen and Oksenberg 1999). Eventually the Executive Board would be expanded to 24 seats to accommodate Saudi Arabia and Russia as the latter assumed a seat at the Fund.

Russia's Road to the Fund

In 1944 at the beginning of the Bretton Woods conference the Soviet Union was undecided about participation in the Fund. Participation in the Fund would have required the Soviet Union to meet conditionality requirements. The Soviet Union negotiated for four goals at the Bretton Woods conference: special consideration for state-trading nations and countries badly damaged by WW II, the size of quotas, status of deposits and gold reserves, and the type of information needed to be provided to the Fund (Assetto 1988). For the Soviets, the disclosure of information was the most sensitive issue at hand. Ultimately, the USSR would only commit to seven out of 12 requirements outlined in the Article VII (Assetto 1988). It is assumed by most that disclosure of economic data by the Soviet Union would have exposed its economic weaknesses to the international community (Boughton 2012). As a result, from 1945 to 1985 the Soviet Union was not given serious consideration for Fund membership.

In 1985 the Mikhail Gorbachev regime began to consider economic reforms (Boughton 2001). The Soviets witnessed the economic successes that Hungary and

Poland experienced during the 1980s (Boughton 2001; Boughton 2012; Stone 2002). As a result, Soviet bureaucrats informally approached the Fund to inquire about the possibilities of obtaining membership. Unfortunately, they were not successful because the U.S. was still in opposition to the Soviets joining the Fund. Not until November of 1988 did a Soviet working group visit Washington on an information gathering session. In 1989 Fund economists met with a mid-level Soviet delegation in Moscow to discuss and exchange information (Boughton 2012). During the information session officials never mentioned the possibility of the Soviet Union joining the Fund (Boughton 2012).

During 1986 to 1989 the Soviet economy was near collapse and foreign debt skyrocketed from 30.7 billion to 53.8 billion (Gould-Davies and Woods 1999). The looming financial crisis did not influence the parties opposing Fund admission. Boughton (2012) argues that Soviet efforts to join the Fund were futile until the Soviets overcame opposition from the U.S. government. For example, in 1986 U.S. Congressman Jack F. Kemp formally opposed the Soviet Union from joining the Fund. He urged Treasury Secretary James A. Baker III to reject a bid from the Soviet Union on the basis that the Soviet Union had a record of aggression abroad and oppression at home (Rowen 1986a). On November 22, 1986 Treasury Secretary Baker responded in a letter to Kemp stating that the Reagan Administration would oppose any such move by the Soviet Union. Additionally, the U.S. would work within the Executive Boards of the IMF and the World Bank to prevent the Soviet Union from joining the two financial institutions (Rowen 1986b). In 1989 the U.S. continued to oppose Soviet efforts to join the Bretton Woods institutions. Treasury Secretary James Baker continued to oppose the Soviet Union, this time claiming the Soviet economic system was completely incompatible with

capitalism. Furthermore, Soviet membership could become disruptive and could pose a challenge for the market orientated IMF (Toth 1989).

U.S. opposition to the Soviet Union would continue until mid-1990. On July 4, 1990 the Bush administration received official correspondence from the Soviet Union requesting high level talks with members of the G7 countries regarding the transition to a market economy (Boughton 2012). Gorbachev was seeking support for his efforts to reverse the 71 years of economic isolation (Mcnamus 1989). At this time, the Fund organized a multi-jurisdictional group to study the Soviet economy. The study concluded with a number of ideas for reforms for the Soviet economy. 1990 was a pivotal year for the Soviet Union as 12 to 15 Soviet officials were designated “special invitees” and assigned Fund office space. For the duration of their time they were allowed to attend Fund sessions, but were not allowed access to Interim Committee meetings. The Bush Administration was not opposed to the special “invitees” designation (Rowen 1990).

Gould-Davies and Woods (1999) argue the Fund took the opportunity to create a new role for itself in providing assistance for economies in transition. Since the demise of the Bretton Woods system the Fund no longer managed an exchange rate system. Beginning with the Latin America era of the 1980s the Fund increasingly served as lender of last resort and looked to expand its activities to the Soviet Bloc.

Russia’s Special Association with the Fund

As a result of a Fund study, in early 1991 the Special Association doctrine was placed on the agenda for Executive Board meeting discussions (IMF 1991c). Fund internal documents outlined the preconditions the Soviet Union needed to meet for the Special Association status to move forward. The preconditions discussed areas of advice

and technical assistance. More importantly the Fund formally informed the Soviet authorities that access to economic data on the Soviet economy was an important factor for approval of future membership (IMF 1991c). The Fund explained the Special Associate status as important to the Soviet Union because it would allow the Fund to work with the central government and at the request of individual Soviet republics to provide assistance (Chicago Tribune 1991).

On October 8, 1991 the Fund and President Mikhail Gorbachev signed an agreement establishing a special association between the USSR and the Fund (IMF 1991b). The special association consisted of cooperation between both parties where the Fund would provide reviews of the Soviet economy, technical assistance, educational courses, and Fund documents. It also allowed Soviet attendance at Fund meetings and gave favorable treatment to the republics of the Russian Federation. Under this agreement the Soviet Union would be mandated to provide financial information to the Fund and allow the Fund to establish a resident office in the Soviet Union. Moreover, Fund officials would have the privileges and immunities specified in Article IX of the Articles of Agreement. The Special Association would be terminated upon full membership or three months after a receipt of a written notice (IMF 1991b). On December, 27, 1991 the Fund received an official correspondence by the Soviet Ministry of Foreign Affairs requesting that the status of the Special Association be continued by the Russian Federation and the titled “Union of Soviet Socialist Republics” should be deleted by the Fund. During the Executive Board meeting a number of concerns were raised about the legal implications for the Russian Federation and the Fund. In particular, paragraph six that provided a framework for the Fund to have access to the republics of the USSR The

Executive Directors concluded that the Board would consider the submitted request (IMF 1991d).

The Soviet Union's membership application process was perplexing to many international observers, academics, and policymakers. During the July 1991 meeting of the G7 countries, President Gorbachev failed to disclose to the G7 that the Soviet Union had already applied for full membership with the Fund (Bradshers 1991). On July 23, 1991 a press release was issued informing member states that the matter would be under consideration. The Soviet approach to full membership caused criticism by U.S. Treasury Secretary Nicholas F. Brady, who stated "we were completely surprised by their move, Soviet membership in the institution is not going to happen" (Bradshers 1991).

On January 17, 1992 the Executive Board convened to approve two proposals for the Russian Federation. The first was to establish the "Committee of the Whole on membership; and Former Republics of the U.S.S.R.," to study the criteria and the impact of Fund membership. The second was an interim arrangement that would allow the Fund to continue cooperation with the former Soviet Republics (IMF 1992b). The meeting was not without debate as many directors supported both proposals. However, during the meeting Executive Directors representing less developed countries like Brazil and Argentina brought forward and argued the quota calculation formula was of immediate urgency for the current members because the allocation of quotas to the new members would affect the current representation on the Executive Board (IMF 1992b). Woods (2006) has documented the major opposition by developing countries toward Russia's admittance into the Fund. Developing countries argued that existing resources should not be transferred to Soviet Bloc at the expense of less developed countries.

In February of 1992 the Fund's treasury department proposed quota calculations for the former Soviet Union republics (Momani 2007a). This was a difficult task because Soviet economic data could not be considered as valid. The difficulty arose from not being able to accurately measure the economic weight of each independent republic. Ultimately, the Fund staff recommended the same variables to be used for the Eighth General Review to determine the quota allocation. As a result, under the Eighth General Review data the IMF treasury staff proposed the former Soviet Union Republics as a whole should obtain 3.66 percent of Fund quotas. The Ninth General Review data proposed the quota allocation should be 3.19 percent (Momani 2007a). When the quotas were to be allocated to each republic, the Russian Federation would obtain 2.34 percent of quota allocations as it made up 61 to 66 percent of the Soviet economy (Momani 2007a). The G7 Executive Directors were not satisfied by the 2.34 quota allocation for Russia. They recommended the staff to reconsider the quota allocation and reexamine the four quantitative factors: depreciated exchange rates, inter-republic trade, openness ratio, and the depreciation component of GDP used in calculating the former Soviet Union's quota allocation (Momani 2007a).

Reconsidering the variables used for quota allocation caused internal discord between the IMF Treasury staff and G7 Executive Directors. Treasury staff refused to change the formula for intra-republic trade and depreciation rates of GDP because the inconsistent data made it difficult to systematically apply the figures to quota calculations (Momani 2007a). After the Treasury staff adhered to the request of the Board, the quota allocation numbers still resulted in less than a three percent quota for Russia (Momani

2007a). As a result of Executive Director pressure the Fund treasury staff produced a quota allocation that satisfied the G7 Executive Directors.

On March 24, 1992 H.R. Bill 4547 “Freedom For Russia and Emerging Eurasia Democracies and Open Markets Support Act of 1992” was introduced in Congress. On April 1, 1992 the White House released a press release supporting the Freedom Support Act of 1992. The White House argued with the collapse of the Soviet Union the U.S. was in a position to assist Russia and Eurasia with democracy and open markets. The Freedom Support Act of 1992 provided a framework for the enhanced cooperation between the Soviet Republics and the U.S. As a result, business opportunities were created (IMF 1992c). On April 9, 1992 the Bush administration began a public relations campaign to gain public and Congressional support for the bill. The bill would be funded by a complex combination of credits, loans, and cash programs totaling three to four billion dollars. Congressional support was lukewarm for the bill. For instance, Senators Christopher Dodd and Jesse Helms publically criticized the White House for attempting to garner support for the bill (Friedman 1992).

During the March 31, 1992 Executive Board meeting, the Managing Director praised the Russian Federation for implementing macroeconomic reforms and proceeded to comment on the quota calculation for Russia. The issue of quota calculations generated much debate. The main issue was the 22.5 percent adjustment that considered intra-republic trade being applied to Russia. Executive Directors believed the quota calculation was a net adjustment that excluded inter-republic trade and included variables like the existing exchange rate and GDP figures. In a prior staff paper circulated to Executive Directors there was an implication that intra-republic trade was being calculated into the

formula. Some Directors argued the methodology for the quota calculation required clarification because an adjustment of 22.5 percent was being applied to Russia (IMF 1991a). Hiroo Fukui, Executive Director representing Japan supported the view the 22.5 percent adjustment was not based solely on intra-republic trade, the adjustment accounted for the exchange rate and GDP, but also included political factors (Momani 2007a; IMF 1991a). The Executive Director Renato Filosa, who represented Greece, Italy, Malta, Poland, and Portugal, argued there was no need to recalculate the quota figures and the recommendation under the Ninth General Review should stand. Executive Director Posthumus who represented Yugoslavia, Netherlands, Romania, Cyprus, and Israel did not oppose an increase in quota as long as it was applied fairly to other members. In the end, the Eight Quota Review for SDR 2,876 and the Ninth Quota Review for SDR 4,313 was provisionally approved (IMF 1992a).

During this meeting, a Russian Federation delegation was present and claimed that it would be difficult for the Russian parliament to ratify the membership conditions if the Russian Federation did not obtain at least a three percent quota (IMF 1992a; Momani 2007a). Furthermore, the Russian Federation was under the impression that the three percent quota was a symbol of support for difficult economic reforms implemented. The Russian delegation understood the quota calculation was based on an established Bretton Woods formula and political considerations may be taken into the quota allocation (IMF 1992a). In March of 1992 the Executive Board took a vote and approved the quota allocation for Russia. On the day of the Executive Board vote, the Fund issued a press release acknowledging the three percent quota allocation for Russia. However, the Board

of Governors had not approved the quota prior to the press release. The press release was an uncommon move by the Fund (Momani 2007a).

While the Soviet Union never became a member of the Fund, the 15 republics under its guidance applied for full membership as well as former allies of the USSR (Boughton 2012). The three Baltic countries applied first: Estonia, Latvia, and Lithuania. The U.S. did not oppose the membership of the three Baltic countries as long as they complied with Fund criteria. However, an official speaking on the condition of anonymity stated the U.S. favored a special relationship for the Soviet Union in lieu of full membership with the Fund (New York Times 1991). On June 1, 1992 the Russia Federation became a member of the International Monetary Fund with a quota allocation of SDR 2,789 million and quota share of 3.0048 (IMF 1992a). At this time, the Fund's membership totaled 165 countries and the Executive Board was expanded from 22 to 24 seats to accommodate Russia and Saudi Arabia.

Conclusion

The Fund's institutional design has changed over time in order to confront the challenges of a changing international economy. However, changes tend to generate cases of discord among member states and internal practices within the Fund. It is fundamental to the institutional design of the Fund that quota shares be reallocated when admitting new members and that states be concerned with preserving their power in the Fund. Essentially the Fund quota system means membership is a zero-sum-game.

For China, admission to the Fund meant it was a step closer to the World Bank and other international financial institutions. China could now be seen as a global player in international politics and have access to the Fund's data, technical assistance, and

training facilities (Boughton 2001). More importantly, it helped paved the way for China's unprecedented economic growth and raised prospects of major changes in the institutional design of the Fund

Russia's road to the Fund was influenced by the Soviet Union and the global Group of Seven Countries (G7) (Momani 2007a). As a result, Russia obtained a seat on the powerful Executive Board. Executive Board seats are reserved for the most powerful world economies, but Russia was not a powerful economy. Momani (2007a) argues the executive seat for Russia was offered as a consolation prize for a lack of a Marshall Plan style post-Soviet collapse solution. Today, the Executive Board consists of 24 Executive Directors. Based on these two case studies, Fund technocrats have attempted to apply economic and technical variables free of political factors in determining the quota allocation for potential member states. However, political influence has been the predominate factor deciding the final quota allocation and the position of the members in the Fund's hierarchy. Both case studies account for the influence of power politics, the universal membership of the Fund, changes in the institutional design, and an evolving financial architecture for the future.

CHAPTER 5

JAPAN, EUROPE, AND THE BRICS

Since the end of the Cold War, the Fund has experienced challenges to and changes in its institutional design. The decade of the 1990s witnessed impressive economic growth. World economic output in the 1990s was measured at 1.5 percent per capita higher than in the 1980s (Boughton 2012). In the 1980s and 1990s, Japan embarked on a mission to become a major stakeholder in the Bretton Woods system. Although Japan experienced a stagnant economy for much of the 1990s it was determined improve its position in the Fund. As the international monetary system experienced major changes, so too did the emerging economies. As a result, the BRICS experienced economic contractions and, eventually, impressive economic growth. As BRICS moved up in the global financial hierarchy they started to expect representation in the governance of the Fund commensurate with their economic strength. At the same time, European over-representation became an obstacle to a realignment of quota and voting shares.

This chapter will focus on cases of discord and reform regarding Fund governance. The three areas of concern will be Japan's role in the Fund beginning with the 1980s, European over-representation, and the changing role of the BRICS within the Fund. The next section will examine Japan's strategic role for obtaining the number two position at the Fund and more generally, the important role it has in the Fund. The next section will focus on European over-representation on the Executive Board and in voting shares. The section will examine the possibility of a consolidated European Union seat and the implications for Fund governance and institutional design. The following section

will focus on the BRICS and how they are attempting to influence the governance model of the Fund. Also, the challenges and benefits do the BRICS create for the Fund.

Japan's Ascension in the Fund

Beginning in the 1980s, Japan sought a larger role in the International Monetary Fund; one that would be commensurate with Japan's global economic position. Due to these efforts Japan increased its role in the decision making processes of the Fund (Rapkin and Strand 1996; Wan 2001). Japan overcame its institutional disadvantage in the Fund by negotiating with major economic powers to increase its financial contributions in order to obtain a larger quota share that would translate into more influence over the decision making process (Holroyd and Momani 2012; Wan 2001).

Japan was admitted into the International Monetary Fund in 1952. For Japan membership meant greater acceptance by the international community and access to policy advice. By the 1960s, Japan implemented an international strategy of passivity in lieu of power politics. Japan was a rule taker instead of a rule maker (Wan 2001). In 1957, Japan obtained a credit facility of 125 million and in 1967 another for 350 million from the Fund. By 1964, Japan hosted the Fund's annual meeting; this was a symbol of Japan's growing influence in the Fund. However, Japan continued to maintain a low profile in the Fund (Wan 2001). By 1970, Japan was the fifth largest vote holder in the Fund with a 4.25 percent voting share. Originally, Japan was allotted a Fund quota of 250 million, the ninth largest shareholder with 2.86 percent of the voting power. By the mid 1960s, Japan ranked seventh in the Fund hierarchy with a 3.44 percent voting share (Wan 2001). In 1970, Japan was given its own seat on the prestigious Executive Board, replacing India (Holroyd and Momani 2012).

Beginning in the early 1980s, Japan was making major financial contributions to the Fund, World Bank, and Asian Development Bank (Wan 2001). As a result, Japan began to compete with other member states for benefits, voting weight, and agenda setting influence. Japanese officials were not as focused on influencing policy formation. The main Japanese goal was to accumulate a greater voting share (Wan 2001). By the 1980s, Japan was a major economy. Japan's per capita GDP was only 31 percent below that of the U.S. (Hamada, Kashyap, and Weinstein 2011). In 1980, Japanese GDP was estimated at 1.1 US trillion dollars (World Bank 2013).

Japan occupied a stakeholder position in the Fund. As the Executive Director representing France acknowledged, Japan's impressive economic performance and macroeconomic adjustment deserved high praise. However, growing Japanese influence presented a problem (Boughton 2001). During this period, the Fund was in dire need of more capital as its loan commitments exceeded the capital reserves on hand. West Germany, Japan, Britain, Switzerland, and Saudi Arabia considered assisting the Fund (Farnsworth 1983). Ultimately, the Fund entered into four promissory note arrangements. The four entities providing capital to the Fund were the Bank of International Settlements for an amount of SDR 2,505 and the Bank of Japan for an amount of SDR 375 million. Also, the National Bank of Belgium and the Saudi Arabian Monetary Agency contributed to assist the Fund (IMF 1984a; IMF 1984b). Consequently, the Executive Board approved a new loan facility on April 24, 1984.

During 1986, the global economy was tumultuous and many member states still experienced balance of payment problems. At this time, the Fund became worried about its liquidity position. In November 1986 Japan extended a loan offer to the Fund in the

amount of SDR three billion (IMF 1986b). On December 1986, the Fund issued a press release explaining the details of the borrowing agreement. The Fund agreed to borrow SDR three billion from Japan with a total of six years to draw the funds (IMF 1986a).

The Enhanced Structural Adjustment Facility (ESAF) was established to provide temporary financing for countries with balance of payment difficulties. Managing Director Michel Camdessus proposed the new facility and in June of 1987 the facility was endorsed by the G7 economic summit in Venice (Pearson and Lachia 1987; Wan 2001). In March of 1988, the proposed borrowing agreement conditions were created where the Fund would borrow from the Export-Import Bank of Japan. The amount would be up to SDR 2.2 billion with an option of an increase to SDR 2.5 billion. On April 4, 1988 the agreement was approved by the Fund (IMF 1988c). Overall, Japan was the largest contributor to the original Enhanced Structural Adjustment Facility and continued to contribute to the enlargement of the facility in 1994. Japan committed 447 SDR million in grants and 2,200 SDR million in loans prior to 1994 (Wan 2001).

As a result of these large financial contributions, by the late 1980s Japan began to bargain for a larger percentage of voting shares in the Fund. Japan was determined not to engage in more burden sharing without added representation and voice on the Executive Board and within management (Rapkin et al. 1997). Japanese Finance Ministry officials indicated that Japan would attempt to seek a quota boost of at least eight percent from the then current 4.7 percent quota (The Wall Street Journal 1988). Japanese officials publically and privately disclosed they were unhappy with Japan's position in the Fund and Japan was seeking to occupy the second placed position in the Fund's hierarchy (Atlas 1989). These officials made a compelling argument as to why quota shares should

reflect relative world economic weight. Japanese officials argued that Japan surpassed the U.S. as the world's largest provider of foreign aid and that Japan was providing program assistance for middle income countries (Farnsworth 1989). On March 21, 1988 at an Executive Board meeting the Executive Director for Japan expressed that Japan was committed to assisting international financial institutions and the Fund would remain a priority for Japan. Japanese officials noted that a growing discontent in Japan toward its quota share could become a potential obstacle for future financial contributions (IMF 1988a; 1988b). In sum, Japan was disappointed its voting share in the Fund was not commensurate with its number two position in the world economy.

The U.S. opposed Japan's quota increase by arguing that no increase in Fund capital was needed and that the U.S. Congress would not approve additional financial contributions by the U.S. Also, four billion dollars of unpaid overdue loan payments had not been paid by the Fund's poorest members. The U.S. position on this issue created an additional obstacle for Japan. Eventually, the U.S. accepted Japan's request for an increased voting share (Rapkin et al. 1997). As a result, the Interim Committee agreed to increase the quota share. Japan would move up in position and this would cause other member states to lose their respective positions in the Fund's hierarchy (IMF Ninth General Review of Quotas Data). British Chancellor, Nigel Lawson, publically acknowledged Japan should be the second largest shareholder. This realignment, however, bruised some European egos (Atlas 1989). Britain and France opposed Japan's increase in voting share since they would be ranked below Japan (Rapkin et al. 1997). Due to France having a larger economy than the United Kingdom, France would not

accept a lower ranking position than the United Kingdom. As a result, France and Britain settled for 5.48 percent of the total voting share (Rapkin et al. 1997).

While France and Britain disagreed about rank ordering, the West German Finance Minister utilized an Olympic analogy to describe the future ranking order. The U.S. would be unopposed and granted the gold medal. Germany would not be opposed to sharing the silver medal with Japan, if Japan deemed it appropriate, and two bronze medals would be awarded to France and Britain (Atlas 1989). The Ninth General Review of Quotas increased Japan's share in the Fund from 4.7 percent to 6.1 percent of the total Fund shares. Japan would increase its voting share to the number two position, sharing second place with Germany. For Japan this was a step up from position when it was number five (Rapkin et al. 1997; Wan 2001). While Japan had a voting share of 4.7 percent, Japan was responsible for 4,223 billion SDRs. At this time, Japan's total GDP was 3.0 trillion, trade accounted for 19.0 percent of total GDP, total reserves were 93.7 billion, and its national product in PPP terms was 25,208 per capita (World Bank 2013). Holroyd and Momani (2012) argue that political and economic influence in the Fund is a zero-sum game. When one member gets a larger quota it is at the expense of other members and that no mutual benefits to quota realignment exist.

During the 1990s, Japan continued to support the Fund. During the extension of the Enhanced Structural Adjustment Facility Japan contributed SDR 2,150 million. In 1994 Japan was given one of three Deputy Managing Director positions (Holroyd and Momani 2012). In the mid-1990s Japan experienced an economic slowdown. In 1997 Japanese officials implemented policy reforms to restructure the banking system with added regulations and oversight (Holroyd and Momani 2012).

During this time, Japan was number two at the Fund and expressed its criticism and support for the U.S. when appropriate (Wan 2001). For example, during the Asian Financial Crisis Japan had a vested interest in assuring the regional economy would not collapse because of investment and external payments owed to Japanese firms and the fear of potential financial contagion to other Asian economies (Lincoln 2004; Wan 2001). Japan was disappointed with the response from the Fund and the U.S. during the Asian Financial Crisis. Asian countries requested assistance from the Fund in shoring up liquidity problems. The Fund argued the Asian crisis was a result of structural deficiencies and demanded intrusive conditionality requirements (Fisher 2001; Holroyd and Momani 2012; Katz 1999). Holroyd and Momani (2012) argue that Japan's relationship with the Fund has been tumultuous, particularly since the Asian Financial Crisis. Despite prior discord with the Fund, Japan was willing to continue its stakeholder and financier role during the global financial crisis that began in 2008.

The Asian Financial Crisis occurred in the late 1990s. Asian countries, policymakers, and scholars have been dissatisfied by the Fund's response to the regional crisis. Feldstein (1998) argues the Fund failed to advocate for measures to correct the balance of payment problems East Asian economies were experiencing. The Fund focused on domestic structural reforms instead of balance of payment policies. The Fund applied the same reforms used in Eastern Europe and the former Soviet Union (Feldstein 1998). Japan's frustration over the Fund's response to the AFC and the U.S. and Asian Pacific Economic Cooperation (APEC) response to the crisis motivated Japan to propose an Asian Monetary Fund (Rapkin 2001). During a World Bank and IMF meeting, Japan proposed the creation of an Asian Monetary Fund with pledges of 100 billion from Japan

and other Asian countries. The U.S. and other Asian countries discouraged the proposal for fear of a potential threat to American hegemony in the region (Lincoln 2004). This regional facility would have the power to assign and distribute pre-committed financial packages to its members in the case of financial emergencies (Rapkin 2001). The AMF would be a regional alternative to the Fund. This idea was quickly castigated by the Fund and the U.S. Treasury department. Japan had an interest in creating the AMF. First, Japan was highly exposed to regional financial contagion because of strong economic ties to Thailand. Second, Japan was the largest source of FDI into Thailand. Third, the AMF proposal was generated because of financial preference divergence between the U.S. and Japan and the U.S. domination of the Fund (Lipsy 2003).

During the global financial crisis of the 2008-2009 Japan demonstrated global leadership in responding to stabilize the global economy and financially assisting the Fund with a 100 billion loan (Grimes 2009). Prime Minister Taro Aso pledged the contribution as an interim measure before the G20 summit in Washington as a symbol of global leadership. The Fund was in dire financial straits as it only had 200 US billion available to lend troubled member states (Holroyd and Momani 2012).

What took scholars by surprised is that Japan allocated the 100 billion dollar loan to the Fund without preconditions or increase in quota (Holroyd and Momani 2012). This was a politically conscious move by Japan due to the zero-sum game approach to quota reallocation in the Fund. Three reasons account for Japan's contribution to the Fund. First, Japan's foreign policy has an element of responsibility to the international political economy. Second, Japanese policymakers prefer to utilize the Fund as a scapegoat for domestic reform policies. Policymakers can blame the Fund for the domestic economic,

political, or social problems that may develop due to structural reforms. Lastly, Japan's contribution is viewed as a safe investment that will not create costly domestic political cleavages (Holroyd and Momani 2012). Japan's ongoing role in the Fund since the 1980s has been one of a major stakeholder by providing financing to the Fund in times of need. During this time, Japan implemented a strategy of passivity while taking advantage of the Fund's economic weakness when it could. Japan gradually raised its profile, increased its voting share, and changed its rank order of the Fund to the number two position. While Japan was growing in influence this was not the same for emerging economies like the BRICS and Japan's growing influence caused discord among the over-represented European countries.

European Over-Representation

With the disintegration of the Soviet Union in 1992, the Fund increased its membership to an almost universal level. The Executive Board was expanded to accommodate 24 Executive Directors. For most observers, it is undeniable that Europe is over-represented on the Executive Board. The two main issues regarding European over-representation are the assignment of Executive Board seats and voting weights (Truman 2006).

As a result of the Ninth General Quota Review major shareholders accommodated Japan's increased quota. Little was done, however, to diminish European over-representation. France, Germany, and the United Kingdom held on to their appointed seats on the Executive Board (Rapkin, et al. 1997). During 1999, European countries occupied eight of the 24 seats on the Executive Board. During this time, U.S. Treasury Secretary Robert Rubin attempted to reshuffle the Fund's governing bodies to reflect the

changing dynamics of the international economy. Germany's Finance Minister quickly opposed the U.S. proposition (The Irish Times 1999).

During the late 1990s, European countries convened at the Vienna European Council to establish a strategy for Europe's future role in monitoring international monetary and economic policy within the G7 and the International Monetary Fund (Bini Smaghi 2004). As a result, a sophisticated informal practiced has allowed the European countries to speak with one voice, influencing the decision-making process and representation of the European community on the Fund's Executive Board.

The sophisticated informal mechanism consists of the European Central Bank, European Council of Ministers, the Economic and Financial Committee (EFC) (high ranking G7 officials from finance ministries and central banks), the Sub-Committee International Monetary Fund (SCIMF), and the European Countries Representatives in the IMF (EURIMF) (Bini Smaghi 2004). When issues affecting the European Union are debated in the Fund, the chair representing the Euro-group (EURIMF) makes the argument on behalf of all participating countries. Cooperation has been focused on monetary and exchange rate policies and Euro area issues (Bini Smaghi 2004).

In January of 1999 two arrangements were made for the European countries on the Executive Board: the creation of an EU observer and the EURIMF committee. A representative of the European Central Bank was allowed resident observer status during Executive Board meetings; this observer has no voting rights (Bini Smaghi 2004; Wessel and Blockmans 2013). The observer serves as a liaison and advisor to the Executive Directors, the Economic and Financial Committee (EFC), and the Council of EU Finance Ministers (Ecofin) (Bini Smaghi 2004; Wessel and Blockmans 2013). The Econfin is a

permanent committee which is made up of all Fund Executive Directors who represent European Union members (Wessel and Blockmans 2013). The EURIMF was established to present a unified European position on the Executive Board and to further the representation of the EU on the Executive Board (Bini Smaghi 2004; Wessel and Blockmans 2013). Also, the EURIMF selects a permanent chair for a two year period, the chair establishes a working relationship with the Fund management and staff with the intention of influencing the Fund's agenda and lobbying European Union positions (Bini Smaghi 2004). This relationship is based on an informal practice, cooperation, and an ad-hoc process. European over-representation has been a central issue of study for many scholars. The methodology used to measure European over-representation has included consideration of variables like trade openness, exchange reserves, and GDP.

Buira (2005) utilized world GDP and population variables compared to those of the U.S. to determine the case for European over-representation in the Fund. On the Board of Governors the European Union with a total of 25 countries had 31.9 percent of votes while only accounting for 31.1 percent of world GDP and 7.2 percent of the world's population. The U.S. accounted for 17.1 percent voting weight, 29.3 percent of world GDP, and 4.6 percent of the world's population (Buira 2005). The 25 European countries had a six percent advantage in GDP compared to the United States, but had 86 percent more voting weight than the U.S. (Buira 2005). The Euro zone-12 countries accounted for 22.9 percent voting weight, 22.9 percent of world GDP, and 4.9 percent of the world's population. In sum, the Eurozone accounts for 33 percent more voting power than the U.S. Based on these measures the European Union is obviously over-represented.

During 2005, 25 European Union member states influenced the election of ten of the 24 Fund Executive Director seats (Truman 2006). Out of the ten seats the European Union helped elect six Executive Directors and eight alternates Executive Directors were European nationals. Germany, France, and the United Kingdom appoint their own director (Buire 2005). Overall, eight Executive Directors are appointed and 16 are elected by constituencies of member states. During this period, 19 Executive Directors were elected to represent four constituencies (the Nordic, Belgium, Dutch, and Italian), the four constituencies totaled 37 countries (Mahieu, Ooms, and Rottier 2005). Countries like Italy, Belgium, and the Netherlands can ensure their country officials are elected to represent their constituencies. These three Executive Directors represent other European and non-European members. For example, Italy represents Albania, Greece, Malta, Portugal, San Marino, and Timor-Leste. Although Timor-Leste is not a European country the votes for members belonging to the constituency are aggregated (Buire 2005). In other words, directors must cast votes as a bloc and constituencies cannot split votes. Currently, single country constituencies are held by the U.S., Japan, Germany, United Kingdom, China, Russia, and Saudi Arabia (Bini Smaghi 2004).

The above indicates that constituencies on the Executive Board are important for decision-making, there are no formal rules governing how constituencies coalesce. States change constituencies to obtain more influence within the Fund (Woods and Lombardi 2006). During the early 2000s, Poland left the constituency represented by Italy and joined the constituency chaired by Switzerland in order to keep the position of Alternate Executive Director (Woods and Lombardi 2006). Constituencies with the largest collective votes include Belgium with ten members and an aggregate of 5.15 percent total

voting power. The Netherlands and its constituency representing 12 members account for 4.86 percent of the total votes (Woods and Lombardi 2006).

Constituencies serve an important function in the Executive Board. In the Fund there is a clear distinction between interests of the rich and poor countries, industrialized and less developed, and creditor and debtor countries (Mahieu, Ooms, and Rottier 2005). For the most part, constituencies are formed on criteria like GDP, geographical terms, and creditor/debtor status of the country. In the Fund there are ten constituencies with homogeneous interest and six mixed constituencies. Developing countries will benefit from the influence of mixed constituencies because they tend to be more powerful than constituencies that are constructed of developing countries only (Mahieu, Ooms, and Rottier 2005). The reason for this has to do with the fact that influence is greater with mixed constituencies because they have established relationships due to their mediator role between powerful and weak states.

Consensus rather than formal voting is the tradition of the Executive Board resulting in disproportionate European influence on the board (Truman 2006). During this time, ten European countries accounted for 44.35 percent of the voting share. It should be noted that the U.S. also has unprecedented power on the Executive Board. The U.S. had the largest quota and 17.08 percent of the votes. Therefore, the U.S. has veto power regarding proposals that require 85 percent majority of weighted votes (Truman 2006). In the Fund more than 75 percent of the members are not directly represented on the Executive Board, or in senior management positions (Woods 2006).

In contrast, Bini Smaghi (2004) argues the current institutional design of the Fund undermines the effectiveness of the 15 European Union countries that are divided into

nine different constituencies. European countries give different priorities to different issues and some issues can best be solved at the national level in lieu of the European Union level. European Union influence is limited at the Fund. Having a single EU constituency does not necessarily imply that the EU would have stronger influence on Fund policies. On the other hand, emerging economies, Japan, and the U.S. have expressed concerns over European Union over-representation in the Fund (Bini Smaghi 2004; Truman 2006).

Frieden (2004) argues a single EU seat is great in theory, but in reality it is a controversial and complex issue. This would require the EU countries to collectively agree on common policy and bargaining position regarding EU international issues. Frieden puts it best: “Adopting a common international EU policy is analogous to adopting a common internal EU policy” (Frieden 2004, 262). The principle of subsidiarity will be a prevalent factor in determining the costs and benefits associated with the increased bargaining power and cost associated with compromise resulting from heterogeneous interest.

Two factors often highlighted the debate over the EU single seat issue at the Fund. First, the Euro is the official currency of the European Union, a common interest rate and exchange rate policy apply to European members, therefore, one single seat should apply to the EU (Buire 2005). The second issue is the institutional strengthening of European cooperation for economic policies (Mahieu, Ooms, and Rottier 2005). The implementation of a single EU seat would alter the institutional design and governance of the Fund (Strand and Rapkin 2005).

The creation of a single EU seat is like an international can of worms. It has the potential to increase the polarization of Fund governance because it would place two major shareholders as Fund decision-makers. The U.S. and the European Union would be able to each veto many decisions (Mahieu, Ooms, and Rottier 2005). An alliance between the major shareholders may aggravate the polarization problem between creditor/debtor states. Also, a single EU seat would have implications for constituencies; non EU member countries would be forced to seek new constituencies (Bini Smaghi 2005). Currently, based on the Articles of Agreement, the Fund is located in the country that is the major shareholder. If European countries merged their quotas in the Fund, such a merger could require the Fund be relocated to Europe (Bini Smaghi 2005). Conversely, a single seat could provide for a more equitable distribution of voting shares and Executive Board chairs for emerging economies and developing countries (Mahieu, Ooms, and Rottier 2005).

The establishment of a single EU seat would require a recalculation of quota and voting shares for the new EU constituency and the recalculation of quota and voting shares to other members (Mahieu, Ooms, and Rottier 2005; Bini Smaghi 2005). It is highly unlikely that major shareholders would allow the combined EU seat to keep the aggregated total of votes. During the early 2000s, the aggregated quota and voting share for the EU-25 countries was calculated at 38.44. The actual quota was 32.16, and percentage of votes was 31.92. For the United States, the calculated quota was 17.11, the actual quota 17.38, and percentage of votes was 17.11. Lastly, Japan's calculated quota was measured at 10.12, the actual quota was 6.23 and the percentage of votes was 3.14 (Bini Smaghi 2005).

A single EU seat would also effect the composition of the Executive Board. Five Fund members each appoint an Executive Director: U.S., Japan, Germany, France, and the UK. A single EU seat would open two Executive Board seats to emerging economies. All EU countries would remain Fund members, but Europe would speak as one voice and have one vote. The single EU seat would contribute financially to the Fund according the recalculated quota. Also, voting share would be based on the recalculated quota (Mahieu, Ooms, and Rottier 2005). Former Fund official Ariel Buira advocates that country representation on the Executive Board should consist of an equal number of directors representing developing countries and industrial countries. Europe is the perfect candidate for a reduction in chairs; the European countries could be well served by two or three chairs. No Executive Director, according to Buira, should represent more than 12 to 15 countries and staff working for Executive Director offices should reflect the member countries of the constituency (Buira 2005).

Another factor in Europe's disproportionate influence is the selection of the Managing Director. Historically the Fund Director has been from a European country. This is an important position because the Director serves as the chair and chief executive officer of the Fund. During 2007, the German Delegation formally nominated Dominique Strauss-Kahn; the future Managing Director traveled the globe in order to lobby member countries to support his candidacy. After the resignation of Strauss-Kahn the European Union rallied behind French Finance Minister Christine Lagarde for the position. She also traveled the global seeking support from emerging economies like Brazil, China, and India (Alderman and Bowley 2011). Lagarde supporters argued that a European was the best candidate to deal with the ongoing European economic crisis. Some international

observers argue this was a weak argument. If the latter were the case then a Latin American would have been the best candidate to deal with the Latin American debt crisis or an Asian for dealing with the Asian Financial Crisis (Batista 2010). Other candidates for the Managing Director seat were Agustin Carstens from Mexico and Stanley Fisher, the governor of Israel's central bank (Gjelten 2011).

Emerging economies have argued European influence in the Fund is explicitly biased. During the European crisis, the Fund distributed large amounts of financial resources to European member states. Greece was allotted 30 billion Euros, 26 billion Euros for Portugal, 24 times its quota, 22.5 billion for Ireland, which is 23 times its quota (Henning and Khan 2011). International observers have declared the Fund conditionality associated with the European financial facilities to be less severe than those imposed on Asian countries during the Asian Financial Crisis. For Asian countries this is a result of European over-representation in the Fund's governance (Henning and Khan 2011). For example, during the Asian Financial Crisis loan conditionality for these countries was more qualitatively and quantitatively strict. Fund loans to European countries incorporated fewer policy requirements and structural reforms than cases in Latin America (Broome 2010).

In March of 2008, the Reform of Quota and Voice in the International Monetary Fund was approved by the Board of Governors. This reform process required the amendment of the Article of Agreement and for member states to ratify the package of reforms (IMF 2011). In November of 2008 global leaders gathered in Washington to discuss the current international financial architecture. The French advocated for policy regulations to limit the dangers of unbridled global capitalism and French President

Sarkozy was lobbying for allies to support the French position. The United Kingdom argued for a new Bretton Woods system. The Chinese delegation pursued a quid pro quo strategy, more influence for China for more capital contributions to the Fund. Conditions were tied to the Chinese approach. This issue presented discord in the short term for the global leaders (Davis 2008).

The 2008 quotas were followed by further reforms in 2010 with the completion of 14th General Review of Quotas. The 2010 reform package implemented a doubling of quotas, six percent of quotas shares to emerging market and developing countries, and protects the voting share of the poorest member states. Equally as important was to make the BRICS among the ten largest shareholders (IMF 2011). In addition to the ten largest shareholders, the largest European countries (France, Germany, Italy, and the United Kingdom) kept their positions among the top 11 shareholders (IMF 2010).

When implementation of the 2010 Governance and Quota Reform package is complete, the European Union will still be over-represented. According to the post 2010 reform package the 27 European countries will account for 29.4 percent of the voting share. This is a clear case of rich developed countries versus emerging economies for decision-making influence in the Fund. This has been a contentious issue for Fund emerging economies, particularly the BRICS. Economic growth has allowed the BRICS to become global stakeholders. Today, they seek to influence the institutional design and governance of the Fund.

BRICS Challenges for Representation

Throughout the Fund's history membership has continued to increase. Brazil joined the Fund in 1946. India joined the Fund in 1945. The Russian Federation became a

member in 1992 and China rejoined in 1980. The BRICS abbreviation stands for Brazil, Russia, India, China, and South Africa. Many of these countries do not share national commonalities, but share the common trait of exceptional growth. The six largest emerging economies are Brazil, China, India, Indonesia, Mexico, and the Russian Federation (Das 2010). China is the largest and has the most influence in the global economy. For this section of the chapter BRICS refers to the emerging market economies of South Africa, China, India, Brazil, and the Russia Federation. Historically, there was confusion about the BRICs and BRICS. In the BRICs acronym African countries were not included. When the term BRICS is utilized this includes South African emerging markets (The Economist 2013). Together, in 2009, the BRICs accounted for a GDP in terms of PPP of 15 percent. By 2010, GDP growth exceeded 25 percent (The BRICS Report 2012; Das 2010). The BRICS account for more than 40 percent of the world population (The BRICS Report 2012).

Starting in the 2000s, the Fund faced three crises in general: legitimacy, relevance, and budgetary finance (Truman 2008). The Fund has two institutional challenges with the BRICS and other developing countries. One is the legitimacy issue. The second is the issue of European over-representation and how this affects the representation of the BRICS and low-income countries and the governance of the Fund (Truman 2006). The representation problem and the economic development of Fund members have created an environment of industrialized versus developing member states (Mahieu, Ooms, and Rottier 2005). The first two issues have caused much discord among the Fund and BRICS member states. The third issue focuses on how the legitimacy crisis has depleted the financial resources of the Fund.

Case in point, as described above, other member states made financial contributions directly to the Fund during the global recession of 2007-2008. However, China, Brazil, India, and Russia refused to contribute directly to the Fund. China, Russia, India, South Korea, and Brazil contributed through a new Special Drawing Rights bond system (Holroyd and Momani 2012). The bond fund was preferred by the BRICS because they would be able to recuperate their money, it was more flexibility, and easier to reserve if conditions changed. Also the bonds would be available on the secondary market (Davis 2009).

Many of the BRICS had financial transactions with the Fund since the early 1980s. Much of the discord between the Fund and the Asian economies was centered on the Asian Financial Crisis. Many Asian countries resented the Fund for not properly responding to the AFC (Katz 1999; Holroyd and Momani 2012). The resentment resonated with Latin American countries. Brazil and Argentina quickly paid off loans due to the Fund and promised to seek future financial assistance elsewhere (Lynch 2006). For example, in 2003 outstanding loans financed by quota subscriptions totaled 98.9 billion (Truman 2008). By December of 2005 the total for outstanding loans was 43.2 billion. As of September 30, 2008 outstanding loans totaled 11.5 billion and 21 out of 23 member states had repaid their loans in full (Truman 2008).

As a result of the Fund's response to the AFC, the Chiang Mai Initiative (CMI) was established by the ASEAN plus three (Japan, China, South Korea) to facilitate economic cooperation and self-help programs for regional members (Chey 2009). The CMI is an informal institution and less ambitious than the proposed Asian Monetary Fund. CMI provides liquidity assistance to its members and is a form of self-insurance,

however, the Fund has some informal influence over the CMI (Chey 2009). For the 13 founding countries monetary cooperation, transparency and building a stronger region were fundamental to the CMI (Washington Post 2000). Several founding members of the CMI belong to the BRICS and other emerging economies like the Philippines, Indonesia, Thailand, and Vietnam. The four mentioned countries account for a total of 2.09 percent voting share and 52,946 thousand votes in the Fund (IMF 2013).

Arrangements like the CMI and other regional institutions have not gone unnoticed by the Fund. From 1999 to 2009 Fund members continued voiced their opposition to the conditionality of the new financing vehicles (Truman 2008). Fund members utilized bilateral loans and regional lenders for loans. These arrangements reduced the use of lending facilities in the Fund. Some observers claim bilateralism and regionalism, if not administered by the Fund could weaken the international financial system (Truman 2008). As a consequence of resentment and unfair loan conditionality Asian countries are not discouraged from utilizing the Asian regional arrangements for solving future financial problems. The lack of legitimacy in global and regional arrangements will make the Asian countries rule makers rather than rule takers (Sohn 2005).

For Asian countries legitimacy is focused on three issues: inclusiveness, rule-governance, and fair returns (Sohn 2005). The BRICs have encountered legitimacy problems with the Fund on the account that the European Union has failed to recognize the importance of equal representation at the Fund and failed to be responsive to Asian regional economic concerns. This has been an area of much discord within the Fund. During the 2012 Fund meeting in Tokyo, the most obvious issue creating discomfort was

the lack of implementation of the governance and quota reforms agreed to in 2010. The topic of concern was the continued over-representation of the Euro area economies that share a common currency (Gros et al. 2012). Prior to the Tokyo meeting, at the G20 summit, the BRICS settled on a 70 billion dollar loan package for the ongoing financial crisis. European and US officials requested that emerging powers behave like responsible stakeholder during the time of need. In other words, emerging economies needed to financially contribute to the Fund. As a result of the continued lack of willingness to allow emerging economies a stronger voice in the Fund, the emerging economies proposed the creation of a BRICS Development Bank (Gros et al. 2012).

In June 2013, Russia pledged to use its influence of the G-20 presidency in 2014 to reorganize the institutional design of the Fund, in particular reforming the voting system to enhance the role of the BRICS (Rianovosti 2013). During this same time, the BRICS countries established a charter for a new development bank. The bank intends to facilitate loans for infrastructure development, modern day port facilities, and reliable power and rail services (Reuters 2013). This is an effort by emerging economic powers to establish institutions and forums that are an alternative to Western-dominated international financial institutions. Some international observers believe this is a direct challenge to the World Bank and International Monetary Fund (Polgreen 2013). However, Gros et al (2012) argue this is highly unlikely because the proposed 100 billion dollars for the reserve fund of the BRICS Development Bank is little compared to the established 780 billion reserve fund of the IMF. The development bank will be established with a 100 billion reserve fund. China will be the largest contributor with 41 billion. India, Brazil, and Russia will each contribute 18 billion and South Africa will

contribute five billion (BBC News 2013). Although, the development bank proposal is impressive in theory the practical applications may present challenges to the BRICS Development Bank. Symbolically, this represents a move away from the Washington Consensus to the Beijing Consensus. A number of questions remain unanswered. Where will the Bank be located? What will be the governance structure and criteria that will determine what projects are funded (Institute of Development Studies 2013).

Challenges derived from underlying political and economic differences between the BRICS can present obstacles to economic cooperation. For example, India is a democracy and China is a one-party state based on autocratic rule (O'Neill 2013). Historically, Indian and Chinese tensions have influenced military and security decisions, economic and diplomatic relationships (Malik 2012). In 1962, a short lived war occurred over a Himalayan border dispute, followed by brief conflicts in 1967 and 1987. Recent attempts to settle the border issue have been futile (Karackattu 2013; Malik 2012). In 2010, the Chinese government issued a communication that a border settlement would take a very long time. Recently the Chinese government provoked the Indian authorities by sending military troops into the mountains of Ladakh, about 30 Chinese troops erected overnight sleeping tents. Ultimately, Indian military officials protested the Chinese actions (Harris 2013).

The energy rich South China Sea has been an area of dispute among many Asian governments. India is located outside the South China Sea. However, India operates inside the South China Sea via naval deployments. India has interest in oil exploration, and growing strategic military cooperation with other South East Asian countries (Scott 2013). Recent disagreements between Vietnam and China regarding maritime navigation

have caused the ASEAN countries to use the U.S. Japan, and India as counterweights to China's power (Hong 2013). In 2011, China and India entered into a dispute over the Indian state oil company exploration with Vietnam. China claimed this was a violation of Chinese sovereignty. China's concerns are that future maritime exploration for natural resources by foreign governments will become a bargaining tool for future negotiations over the South China (Page and Wright 2011). India is not the only country that China has had border disputes with. Russia and China have different political and economic interests. The latter has the potential to create challenges in the newly formed BRICS Development Bank.

As trade has expanded Russia-China relations have improved. Beginning in the 1960s the relationship of the two countries was plagued with animosity. Russia and China do not share common cultures and territorial disputes date back to the 18th century (Dobriansky 2000). In 2001 both countries signed the Sino-Russian Treaty on Good Neighbor, Friendship, and Cooperation (Wishnick 2001). This alliance was due to mutual benefit and an attempt to diminish the global power of the U.S. post- Cold War and influence a multipolar international system (Wishnick 2001). However, this relationship was quickly strained by new challenges relating to different economic and political policies, legacies of mistrust, and changing domestic and international environments (Wishnick 2001).

Today, China is a rising power with a growing export driven economy. Russia has a stagnate petro economy with little potential export growth. Russia sells military hardware to Southeast Asia countries that claim territorial sovereignty in the South China Sea, including selling sophisticated attack submarines to Vietnam (Mankoff 2013). This

issue is creating much discord between Russia and China. Ongoing mistrust between India and China is also a continuing problem. In 2010, a four day conference was held between high ranking officials due to ongoing territorial disputes, a hotline between leaders of both countries was established to encourage communication over the issue (Ridge 2010). The ongoing history of mistrust and animosity between China, India, and Russia may be too big of a challenge for the BRICS Development Bank to overcome. Equally important, what role will Brazil and South Africa have in the BRICS Development Bank?

Brazil is considered to be a major player among emerging economies. In the 21st century global political economy Brazil and China have entered into a strategic partnership (Gouvea and Montoya 2013). The BRICS have changed the economic landscape of financial globalization. Moreover, China has become a major recipient of foreign direct investment, from 3.5 billion in 1990 to 106 billion in 2011. During the first decade of the 21st century Brazil became China's largest trading partner in Latin America (Cardoso 2012). In 2006, Brazil exported 11 million tons of coffee beans to China (Ding 2008). In 2010 China invested nearly US 12 billion in the Brazilian economy.

China has engaged Latin America with diplomatic and economic efforts. This has created opportunities and challenges in the region. China and Brazil have participated in trade negotiations, have been active stakeholders in global climate concerns, and worked collectively in the IMF, G20, and WTO (Gouvea and Montoya 2013). Despite the challenges that China and Brazil confront much of their relationship has been categorized by a comprehensive partnership that focuses on trade and prosperity. For example, areas of partnership include trade, energy, mining, finance, agriculture, information

technology, and innovation (Haibib 2010). Consequently, in 2009 China became Brazil's largest trading partner surpassing the U.S. and the European Union. However, both countries have had serious challenges over trade, investment, finance and political concerns. First, tensions have evolved over what Brazil considers Chinese neo-colonialist strategies. Brazilian political leader have claimed that China is pursuing a "North-South" paradigm instead of a "South-South" economic paradigm and fear that China is acting as Western powers did in accumulating natural resources (Cardoso 2013; Gouvea and Montoya 2013). This has impacted bilateral trade relations (Cardoso 2013). A second contentious issue is commercial competition between Latin America and Africa.

A political challenge at the United Nations in 2005 effected relations between China and Brazil. The failure of China to support Brazil's bid for a permanent seat on the United Nations Security Council created a political challenge for both countries. Also, during the 2009 United Nations Climate Change Conference and Copenhagen Summit there was discord regarding climate negotiations (Cardoso 2013; Gouvea and Montoya 2013).

Based on the strategic alliance between Brazil and China, Brazil may have a stabilizing role in the BRICS Development Bank. Brazil has too much invested to simply be a spoiler in the emerging economies reform agenda and BRICS Development Bank. Moreover, China's need for natural resources may benefit Brazil in the long term and China has much to lose if Brazil is not part of the development bank. China's has the second largest economy, four times larger than India and Russia and about 16 times larger than South Africa (Fletcher 2011). Will South Africa fall into the periphery-core model of the past as a member of the BRICS development Bank?

The relation the Fund has to the BRICS Development Bank may be difficult to categorize. However, significant differences appear to be prevalent with both institutions. For example, the BRICS Development Bank has been created as a counterpart to orthodox neoliberalism and promotes development by developing countries (Institute of Development Studies 2013). Another difference will be to promote greater cooperation between developing countries and to create arrangements on a global scale. The most important difference will be that the BRICS Development Bank will not have a link to the Fund (Institute of Development Studies 2013).

Conclusion

The Fund has experienced unprecedented changes with the ascension of Japan, the continued over-representation of the European Union, and the rise of the BRICS and other emerging economies. These three factors have forced the Fund to be more transparent, effective, and accountable. It is fair to mention that Japan has been a major contributor and financier to the Fund. Japan has earned a stakeholder role, the second position in the hierarchy of the Fund, and has been a trailblazer for attempting to break the strong hold of European representation on the Executive Board. The European Union has maintained a strangle hold on the Executive Board of the Fund and is not likely to relinquish the over-represented position without intense discord. The failure to implement 2008 and 2010 reforms is a prime example of how difficult it will be for emerging economies to obtain fair representation on the Executive Board and adequate voting shares. A reallocation of voting seats will be difficult to obtain because it will be hard for European countries to agree to a single foreign policy that is representative of their national interests in the international area. The BRICS with their economic power

will have to attempt to influence and promote financial regionalism and multilateralism as a counterweight to the Fund. Wade (2011) argues the rise of multilateralism is made possible by several factors. The first factor is the decline the G7 share of world GDP. In 2000 the G7 accounted for 72 percent of global GDP. In 2011 the percentage share declined to 53 percent. The second factor is China's rise is another important factor contributing to multilateralism. The third factor is monetary policy because today the major financial capitals in the world pay attention to China's monetary policy. The fourth factor is developing and transnational countries contribute more to global output. Between 2000 and 2009, global output by these countries rose by 10 percentage points and when measured by purchasing power parity there was an increase of 40 to 50 percent. The fifth factor is south to south trade. From 1997 to 2009 Asian exporters decreased from 46 to 36 percent to the U.S., the EU, and Japan. The sixth factor is the EU is becoming more cohesive and the Euro is becoming the second international reserve currency and this creates challenges for the international economic governance system (Wade 2011). Equally important, if the BRICS want more decision-making power in the Fund they will have to follow the Japanese model for obtaining a higher position in the hierarchy of the Fund. A strategic plan based on a cohesiveness approach to obtaining more influence will be fundamental to the BRICS. Also, the BRICS, at times, must be passive rule takers, and aggressive players utilizing economic leverage to alter the institutional design of the Fund toward their favor.

However, the U.S. position should not be over looked in terms of European over-representation and accommodations for the BRICS. For example, during the G20 meeting in November 2010, the U.S. informed the G20 that they would not support the

continuation of the twenty-four seat Executive Board in the Fund. This forced Europe to relinquish two. After ongoing diplomatic negotiations the U.S. agreed to approve the 24 seat Board. However, European representation on the Executive Board still diminished (Wade 2011). Consequently, this is a prime example of power politics and an attempt to retain U.S. veto power within the Fund.

CHAPTER 6

PRE-SINGAPORE, POST SINGAPORE, AND THE 14TH GQR

Chapter six will begin by analyzing the Fund's internal governance and reform initiatives. The first section will include a brief review of cases from prior chapters to provide a rationale for the idea that quota shares and internal governance should be commensurate with a country's economic strength. The next section will analyze data on quota reform from the pre-Singapore, post-Singapore, and 14th GQR time frames. World Bank country and lending group data will be utilized to classify Fund members into different income groups and examine quota allocations. This section will present descriptive data comparing low-income, middle-income, upper middle-income and high-income countries regarding quota allocation and GDP. Additionally, a brief comparison of the EU and the BRICS focusing on the voting power disparity due to the 14th GQR will be discussed. The following section will present data for the BRICS, G8, and G20, comparing the quotas before recent reforms and to UN contribution percentage and population variables to determine over or under-representation in the Fund. The chapter will conclude with a second section discussing possible reforms to the Fund.

Internal Governance and Reform

The Fund has evolved in order to address the changing global political economy. Along the way, the Fund has garnered many critics. International financial elites, government policy makers, and average citizens have expressed rebuke for the Fund. The case for Fund reform has been made and is long overdue. Many governments in the international financial architecture have been dissatisfied with their relative positions in the Fund's hierarchy and have made a push to reform the Fund. Three issues have

repeatedly promoted reform initiatives: the legitimacy crisis, under-representation that often encourages a rich versus poor states environment, and loan conditionality requirements. The under-represented problem experienced by emerging market economies has encouraged debate regarding European over-representation and the proper roles for emerging market economies and developing countries (Rapkin and Strand 2006). Many of these countries have experienced impressive growth and argue their economic contributions to the global economy are not reflected in their quota shares. Also, small economies argue their small quota do not give them a voice in the Fund. However, research conducted by Rapkin and Strand (2006) concludes that low-income countries are over-represented in the Fund when comparing their GDP shares to their quotas.

The main concern in the quota share debate has focused on the distribution of power within the Fund. Developing emerging market countries must have their economic strength reflect their voting weight to make the Fund a legitimate and effective international institution (Kelkar, Yadav, and Chaudhry 2004). The global political economy of the first half of the 20th century has changed. The Fund has the capacity to strengthen economic cooperation, enhance economic security, and promote globalization that will benefit different regions and groups (Kelkar, Chaudhry, and Vanduzer-Snow 2005).

The global political economy has changed due to seven factors. The first factor is the globalization of new technology. New technology enhances production and increases economic interaction. The second factor is the increase in private capital flows. When private capital flow is disrupted there is a potential to create economic shocks (Kelkar,

Chaudhry, and Vanduzer-Snow 2005). The third factor is the shifting of global demographic balances. Advanced economies are not producing working age populations as fast as developing economies. As a result, capital flows will go where younger populations exist. The fourth factor is the political influence of emerging market economies. The fifth factor is the increasing relative economic strength of Asia in the global economy. Three of the four largest economies are Japan, China, and India (Kelkar, Chaudhry, and Vanduzer-Snow 2005). The sixth factor is the growing regionalism in Asian and Europe in reaction to members' dissatisfaction with the Fund. The seventh factor is international institutions and governments are promoting greater transparency and accountability in global governance. Based on the changing forces of the global economy the Fund should promote reform initiatives beginning with the distribution of more institutional power to developing and emerging market economies (Kelkar, Chaudhry, and Vanduzer-Snow 2005).

Much of the current reform process has been due to the rise of China and India, which today are major global economies but are under-represented in the Fund (Kenen 2007). Also, the Fund's current governance model is complicated and does not allow for the Fund to focus on its original mandates of managing the international monetary system and the promotion of a stable and cooperative global economy (Kenen 2007).

As mentioned in the previous cases of discord, the issue has been concentrated on quota allocation and the shift in the balance of power. Japan's rise to the second position at the Fund was not automatic; it was a very political process. Initially, the U.S. was in opposition to a Japanese quota increase. France, the United Kingdom, and Germany opposed Japan's bid for a larger quota. Japan publically declared in a Fund Executive

Board meeting that continued opposition to a larger quota share for Japan may present opposition at home for Fund financial contributions (IMF 1988a). Eventually, Japan moved from 4.7 percent to 6.1 percent and obtained the second position at the Fund.

China's negotiations with the Fund over a quota that would reflect its economic weight in the global economy was an important factor when it joined the Fund (Boughton 2001; Jacobsen and Okensberg 1990). China's strategic plan for entry into the Fund reflects the importance of quota allocation. Beginning in the early 1970s China began a diplomatic effort to seek membership in the Fund. During 1980 China utilized diplomatic efforts to influence the Ad Hoc Committee to recommend an increase in quota share. Ultimately, China obtained 2.82 percent of votes (Jacobsen and Okensberg 1990).

The most current cases of discord have revolved around the BRICS. The BRICS' economic weight in the global economy is not commensurate with the quota share and decision making power at the Fund. As a result, the BRICS have started to implement a strategy for a BRICS Development Bank. However, there is much debate as to how successful the development bank will be because major shareholders have heterogeneous policy preferences that prevent cohesiveness among major shareholders.

Bryant argues (2008) a member's voting share in the Fund is the key factor determining its relative political influence at the Fund. When the Fund was created the quota formula was designed by the U.S. Treasury to produce a politically predetermined result. Political motives are at the heart of the quota system

Analysis for Various Country Groups

The 2010 reform package was approved by the Board of Governors in December of 2010. Four key components make up the reform package. The first reform is a

doubling of the Fund quotas. This will be the largest quota increase in the Fund's history. The last time a quota increase was adopted was in 1998 with the 11th GQR. The second reform is a shifting of six percent of quota share to emerging markets of six percent. This will increase their voting power and their relative financial commitment to the Fund. The third reform is to create an all elected Executive Board. The fourth reform is reducing the representation of advanced countries on the Executive Board. Currently, 10 seats are held by European countries (IMF 2013).

The pending 14th GQR will be important to determine the legitimacy of Fund reforms. In the Fund's Singapore meeting in 2006, the Managing Director proposed and the Directors approved a two-stage process for the reallocation of quotas. During the first stage of quota reforms, China, Korea, Mexico, and Turkey each received immediate small ad hoc increases (Kenen 2007). Their prior quotas never reflected their relative economic strength. The second stage of negotiations was held in mid-2008. The Fund would adopt a new formula for quota calculation. The revised quota formula accounts for a GDP measure that is a blended measure comprised of 60 percent market exchange rate GDP and 40 percent PPP GDP. The second variable is economic openness. This measures the average total of current payments and receipts for goods and services. This factor accounts for 30 percent of the formula. The third variable is economic variability. This measures the receipts for net capital flows for a three year period. This factor accounts for 15 percent. The fourth variable is international reserves and accounts for five percent of quotas. This measures the foreign exchanges, SDR holdings, the reserve position in the Fund and gold holdings. The new formula is intended to be simple and more transparent than the previous formula (IMF 2013).

All quota data information for this section will utilize Fund variables. GDP is considered the most important variable calculating quota shares because GDP is the most comprehensive measure of economic size (Chen 2013). The data are drawn from the Fund, UN, and World Bank. The data will be used to demonstrate the relationship between quota reform and Fund legitimacy. The pre-Singapore data dates back to 2006. The post-Singapore data accounts for the 2008 quota and voice reform changes and basic votes calculated at 5.502 percent of total votes. The 14th GQR data accounts for the 2010 reforms that will reflect new quota and voting shares that will be effective upon the acceptance of 85 percent of the Fund members (IMF 2013). In sum, quotas at three time periods are examined.

Table 1 represents 33 low-income countries as categorized by the World Bank. During the pre-Singapore period, the aggregate quota shares for the 33 countries totaled 1.7 percent of the total quota shares. During the post 2008 reform period, the same 33 countries accounted for 1.6 percent of the aggregate quota shares. When the 14th GQR is adopted the 33 countries will account for an aggregate share of 1.6 percent of the total Fund shares. Low-income countries are defined as countries with gross national income (GNI) of less than 1,035 U.S. dollars (World Bank 2013). Some of the low-income countries include Ethiopia, Afghanistan, and Burundi (See table 1).

For Burundi the pre-Singapore quota share was 0.036 percent. For post-Singapore and the pending 14th GQR quota share did not change from 0.032. Burundi has a population of 9.850 million people with a GDP of 2.472 billion (World Bank 2013). Burundi's GDP global percentage is 0.005; its PPP is measured at 160 US dollars, and is considered a Sub-Saharan African developing country. Afghanistan's pre-Singapore

quota share was 0.076 percent and the quota share for the post-Singapore and 14th GQR stayed the same at 0.068 percent. Afghanistan's population is measured at 29.87 million and has a GDP of 18.03 billion. Afghanistan accounts for 0.03 percent of global GDP with a PPP of 330 US dollars and is considered a South Asian developing country (World Bank 2013).

Table 2 presents quotas for lower middle income countries. For the pre-Singapore period aggregate quota share of 46 countries accounted for 6.7 percent of all quotas. The post-Singapore 2008 quota reforms decreased the aggregate total to 6.1 percent. The pending 14th GQR will further decrease the aggregate quota share to 5.7 percent of overall Fund shares.

Lower middle income countries are defined as countries with gross national income (GNI) between 1,036-4,085 US dollars (World Bank 2013). Based on the factors for the pending 14th GQR the 46 lower middle-income countries have an aggregate GDP 60/40 blend of 4.9 percent of global GDP. Hypothetically, if GDP was the benchmark factor determining quota shares then the lower middle income countries are over-represented in quota shares. For example, Honduras has a GDP of 0.033. During the pre-Singapore period Honduras had a quota share of 0.061 percent. During the post-Singapore time period the quota share decreased to 0.054 percent and during the pending 14th GQR the percentage quota share decreases to 0.052 percent (see table 2).

Table 3 presents data on the upper middle-income countries with gross national income of 4,086-12,615 (World Bank 2013). This group of countries includes developing and transition countries that often utilize Fund resources (Strand and Rapkin 2005). The aggregate quota share for the 52 countries during the pre-Singapore period was 16.7

percent. For the post-Singapore 2008 period the aggregate shares increased to 17.9 percent. For the pending 14th GQR aggregate quota shares will increase to 20.48. Quota shares for this country group have increased as a result of recent reforms.

According to the World Bank country and lending group data, China, Brazil, and South Africa are members of the upper middle-income country group. These three countries account for a majority of the quota shares and GDP within this country group. Together, China, Brazil, and South Africa account for 15.40 percent GDP and 9.34 percent of the quota share for this group. After the 14th GQR the voting share of the three countries will be 8.90 percent (IMF 2013).

Table 4 displays quotas for high-income countries. These countries have a larger percentage of the aggregate quota share. High income countries have a gross national income of over 12,616 US dollars (World Bank 2013). For the pre- Singapore period high income countries had an aggregate quota share of 72.13 percent. During the post-Singapore 2008 reforms these countries experienced a decrease in their quota share to 71.08 percent. After the pending 14th GQR the aggregate quota share will be 68.38 percent of the Fund shares. Many high income countries have smaller quota shares than their GDP shares justify. If economic variables utilized under the Fund formula are the only factors determining the quota share then high income countries are over-represented in the Fund.

The five largest shareholders of the Fund are also ranked among the high income country group. France, the U.K. the U.S., Germany, and Japan represent a combined total of 37.80 quota share. Once the 14th GQR is implemented this will translate into 35.90 voting share. 24 of the 28 European Union members are ranked within the high income

country group. Regarding the 14th GQR and the U.S. share, the U.S. would not suffer a major defeat by giving up a small percentage of its quota share because it still retains veto power with 17.40 percent voting quota share. Based on the GDP figures the U.S. is under-represented with a GDP blend of 21.50 percent. The U.S. is allowing its quota share to fall in order to distribute a more equitable quota share to emerging market economies.

Scholars and policymakers argue the European Union has been over-represented in the Fund. Table 5 includes the 28 countries that hold membership in the European Union and Fund. The data show that during the pre-Singapore period, the EU accounted for an aggregate quota share of 37.82 percent. During the post 2008 reform period the EU accounted for 36.80 percent of quota shares. For the 14th GQR the EU will account for an aggregate share of 35.22 percent of quotas (IMF 2013).

The EU members with the largest quota shares are Germany, France, U.K. Italy, Netherlands, and Spain. After the 14th GQR these countries will have an aggregate quota share of 16.7. The quota share translates into 20.04 percent of total votes (IMF 2013). If these countries coalesce around a particular issue to form a voting bloc it gives them veto power in the Fund over certain issues. The Netherlands and Spain represent other countries in their constituency. Vote splitting for constituency groups is not permitted in the Fund and this will slightly increase the EU's voting power. This indicates that some Fund Directors are better able to represent their constituencies because of the voting power and the voice of the constituency (Lombardi and Woods 2008). Constituencies with small voting shares can hardly influence the decision making processes of the Fund.

Table 6 displays data for the BRICS. A total of five countries are analyzed. During the pre-Singapore period Brazil accounted for 1.42 percent, Russia accounted for 2.78 percent, India 1.95 percent, China 2.98 percent and South Africa for 0.874 percent. The aggregate total for the BRICS is 10.00 percent of Fund quota shares. Today, based on the post-Singapore 2008 quota and voice reforms these countries account for an aggregate quota share of 11.49 percent. Upon implementation of the 14th GQR the aggregate quota share for the BRICS will be 14.79 percent. The 14th GQR will provide the BRICS with a voting share of 14.10. This sum is not sufficient to form a voting bloc for veto power. Major decisions require an 85 percent majority. In other words, if there is an issue that does not benefit the BRICS, this potential voting bloc would have to lobby another constituency to align itself with the BRICS in order to be able to prevent the passage of the proposed decision. The U.S. does not need to lobby other member states because in the current quota share it has 17.69 percent of the quota share and will have 17.40 percent if the 14th GQR is approved.

The 14th GQR reforms will continue the disparity between voting share and economic strength. Table 7 shows the voting shares on the Executive Board for Brazil, China, India, Germany, France, and the U.K. Table 7 examines the voting share for the three European advanced countries that have an appointed Executive Director compared with the advanced market economies that are supposed to obtain a significant vote share increase. During the post 2008 reform period Brazil, China, and India had an aggregate voting share of 7.87 percent on the Executive Board. The European countries like Germany, France, and the U.K. had a voting share of 14.36 percent on the Executive Board. For the 14th GQR Brazil, China, and India will have a voting share of 10.90

percent. The three European countries will have an aggregate voting share of 13.35 percent. However, the aggregate GDP for Brazil, China and India will account for 18.40 percent. The aggregate GDP for the three European countries will account for 11.80 percent of global GDP. This is a clear disparity in voting power on Executive Board and economic strength of a country (see table 7). The 14th GQR does not improve the governance model of the Fund because the quota share is not commensurate with the economic power of Brazil, India, and China. Virmani (2011) argues that China and India have been major contributors to global economic output. Since 2007, India has been the second largest contributor to global growth surpassing the European zone and in 2010 India surpassed China by a third in global growth.

The latter is directly in contradiction to the reforms that Kelkar, Chaudhry, and Vanduzer-Snow (2005, 47) have advocated. These scholars put it best by stating, “In our view, veto power determined by different coalitions of states would encourage cooperation. EU countries and a collation of states would encourage cooperation. EU countries and a collation of Japan, China, and India ought to have veto power. Similarly, a coalition of Asian, Africa, and Latin America would enjoy a veto.” The BRICS have accumulated a larger percentage of quotas than before, but the prevalent question still remains: do the BRICS have a quota share commensurate with their economic positions in the global economy?

Based on the GDP variable for the 14th GQR the BRICS are under-represented in quota shares and as a result in vote shares. Aggregate GDP for the BRICS accounted for 21.70 percent of global GDP (IMF 2013). In the case of China its GDP was 11.65

percent. However, the quota share assigned is 6.39 percent. This will give China a vote share of 6.06 percent and will make it the third largest member in the Fund.

The 14th GQR will not impose a drastic change on the Executive Board. The U.S. will remain the largest holder of quotas and votes and have de facto veto power. Japan will remain in the number two position with a GDP of 7.50 percent and quota share of 6.40 percent with a voting share of 6.10 percent. China will move up to the third position with 11.65 percent GDP contribution and a quota share of 6.39 percent with a voting share of 6.06 percent. Germany will be placed in the fourth position with a quota share of 5.50 percent and a voting share of 5.30 percent. France and the U.K. would have the same quota share of 4.20 percent and vote share of 4 percent. Based on the current reforms there are 20 shareholders that have the largest quota shares. Once the 14th GQR is implemented 19 of the current largest quota shareholders will still be among the largest shareholders. The only change will be that Turkey replaces Venezuela. During the post-2008 period Turkey had 0.61 percent quota share. For the 14th GQR Turkey will have 0.97 percent quota share. The six percent shift in quotas to emerging markets will not change the current top 20 country positions dramatically. Put differently, Malta with a post-2008 quota share of 0.043 will not see a two percent increase.

Implementing the 14th GQR may take longer than anticipated. During the October 2013 Fund meeting foreign officials expressed frustration over the lack of progress toward approving the 2010 reform package. The Indian finance minister, P. Chidambaram, stated, “Why does this problem remain with us in meeting after meeting. Also, there is no clarity, even after the passage of a year, as to when this will be finally achieved” (The New York Times 2013). Unfortunately, as of October 2013 the U.S.

Congress has failed to take up the reform issue. As of September 12, 2013 141 members have approved the proposed amendment on reforms of the Executive Board. Countries such as France, Germany, the U.K, Brazil, India, and China have approved the reform amendments. The 14th GQR reforms on quota share increase have been approved by 152 countries (IMF 2013).

Economic and Population Measures for the G8, EU, and BRICS

This section will present data comparing contributions to international institutions that provide public goods and to global population percentages. For the comparisons in this section the financial contributions to the U.N. and population numbers from the World Bank will be utilized. Contributions to global public goods determine the willingness of countries to participate in the international system. Population is another factor that some observers have suggested be included in the calculation of quotas.

Affluent OECD countries are experiencing a population aging problem. Populations are on average becoming older. The 65 and older groups will increase in numbers surpassing the working age (15-64) group. Younger generations will account for a smaller portion of the work force (Eberstadt 2006). The aging problem will have direct consequences for economic institutions and macroeconomic performance (Eberstadt 2006). Possible problems due to population aging are: increased healthcare expenditures, labor force pressures, and savings levels. These and other factors can pose adverse challenges for productivity and economic growth (Eberstadt 2006). Emerging economies are not immune from this problem. For example, India has two aging problems: one problem is the increase in youth over the next 20 years. The other problem is the fertility rate has dropped by more than two-fifths over the past three decades (Eberstadt 2006).

There is much debate about the legitimacy of the population and aging problem in the industrialized world. Population variables will be hard to implement as part of the quota formula because this would automatically give certain developing and emerging economies a sharp increase in quota shares. The problem of funding the increased quota share will also become problematic for developing and emerging market economies (Strand and Rapkin 2005).

Members should support the Fund according to the size of their economies. For example, a larger economy will use more resources and has a greater structural and systemic impact if a financial crisis occurs (Kelkar, Yadav, and Chaudhry 2004, 737). Financial contagion and the negative spillover effects are not limited to regions or specific international actors. A country's investment in the economic global system is reflected in part in its GDP. Hence, the willingness to contribute to global public goods based on its GDP is one important measure for determining Fund quota shares (Kelkar, Yadav, and Chaudhry 2004).

Table 8 displays the BRICS quota share for the years analyzed. The quota share for the pre-Singapore period is 10.00. The post-2008 period accounts for an aggregate quota share of 11.40. Based on the pending 14th GQR the aggregate amount is 14.70 percent. When global population percentages are utilized among the BRICS, China surpass all other countries with a percentage share of 18.90 for global population. India moves up to the second position with 17.30 percent. Brazil occupies the third position with 2.70 percent. Russia moves to the fourth position and South Africa remains in the fifth position (see table 8 and graph 1).

Based on UN contribution China remains at the number one position among BRICS with 3.10 percent of global contributions. Brazil moves into the second place. Russia occupies the third position, India the fourth position, and South Africa remains in fifth. The aggregate GDP share is 21.70, population share for the BRICS accounts for 41.80 percent of global population, and total UN contributions of 7.10 percent (see table 8 and graph 2).

Table 9 shows the G8 quotas with economic and population measures for pre-Singapore, post-Singapore and the 14th GQR time period. The measures utilized for this data analysis will be the percentage of a country's UN contribution and the population percentage compared to global population. For the pre-Singapore period, the aggregate quota sum for the G8 countries accounts for 48.80 percent. The post-2008 period accounts for 47.70 percent and the 14th GQR aggregate quota share is 46.00 percent.

If the percentage of global population is the dominant variable used among the G8 for the 14th GQR quota allocation, the U.S. would remain at number one among the G8 countries with 4.40 percent. Russia would move up to number two from its current number seven position for all time periods. Japan would move down to the number three position. Germany would move down to number four. The number five position would belong to France. By Germany moving into the number two position these would slightly re-shift the balance of power among the G8 (see graph 3).

When the percentage of UN contributions is utilized as the dominant variable for the 14th GQR quota allocation the U.S. will remain the number one position with 23.90 percent of UN Contributions. The U.K will move up to number four passing France (see graph 4). Italy will remain at its original position in number six. Canada will move into

number seven supplanting Russia into the last position. Aggregate GDP for the G8 accounts for 48.70 percent, aggregate population share accounts for 12.50 percent, and aggregate UN contributions account for 66.00 percent.

The G20 countries are displayed in table 10. The aggregate pre-Singapore quota share for the G20 accounts for 86.30 percent of all quota shares. The post 2008 reforms account for 78.80 percent and the pending 14th GQR account for 81.1 percent. Utilizing the population data as the main variable for quota reallocation China will surpass the U.S. to the number one position. China has a population share of 18.90 percent. India will supplant Japan and occupy the number two position at the Fund. The U.S. will remain in the top five positions with a population share of 4.40 percent. Indonesia will move up to fourth place from the 15th slot within the G20. Brazil will move up to the fifth position with 2.70 percent of the world's population.

Based on the population numbers the Executive Board would fundamentally change. Germany, France, the U.K. would be supplanted from the Executive Board. However, these same three countries along with Italy forming a voting bloc would have a combined quota share of 17.10 percent; this would be enough to form a constituency and veto major decisions. China and India would also have combined veto power. Based on the population variable the Fund headquarters would have to be moved from Washington, D.C. to Asia.

Table 10 also displays the quota share if the UN contribution variable were the factor determining quota allocation. The U.S. would remain at the number one position with 23.90 percent contribution. Japan would remain at the number two position due to its 12.20 percent contribution. Germany would remain at number three with 7.80 percent.

The U.K. would supplant France to occupy the fourth position with 6.40 percent and France would occupy the fifth position with 5.90 percent. The Executive Board would remain similar to today and Europe would continue to be over represented on the Executive Board. The BRICS would account for a total quota share of 6.80 percent. Based on the BRICS UN contribution they would be over represented in quota share. Although the BRICS UN contribution is impressive it is still far behind the U.S. and the European Union's total UN contribution of 12.9 percent (see table 10).

Twenty First Century Fund Reforms

Reforming the governance model and institutional design of the Fund will be a daunting task that will require amending the Articles of Agreement and ratification by 85 percent of the membership (Kelkar, Yadav, and Chaudhry 2004; Strand and Rapkin 2005). Fundamental reforms must be implemented for the Fund to be an effective international organization. Proponents of governance and quota reforms advocate for a balanced approach to Fund reform initiatives; this includes that creditor states must be given a stakeholder position in future reforms. Also, the quota formula should be more transparent and easier to understand. Expanding the Executive Board has been suggested as a possible reform. Amending the regulations for access to Fund loans is a reform that will create greater equality among Fund members. The last reform is the possibility of a variable to measure contributions to world growth.

Reform proponents must acknowledge the important role of creditor states. When creditor states have a majority of decision making power in the Fund this creates confidence in the system (Kelkar, Yadav, and Chaudhry 2004). Also, proponents must support a balanced approach that will benefit major shareholders as well as emerging and

developing countries (Dervis and Ozer 2005). Developing countries account for one-third of global trade. In 1992 developing countries GDP was estimated at 31.86. By 2001, GDP was estimated at 37.56 percent. During the same nine-year period the European countries GDP performances has declined from 34.20 to 29.04 percent (Kelkar, Yadav, and Chaudhry 2004).

Reform initiatives for the Fund must be rooted in principles, transparency, and democratic procedures to enhance legitimacy and effective global governance. Economic and political agreements have been embedded in the quota system, which is reflected in the governance structure. Reforms must maintain quota formulas that are simple to calculate and transparent. The second requirement is that creditors in financial institutions must have a decisive voice in the institution. Lastly, any proposed reforms must accept the veto power of the largest shareholder, the U.S. (Kelkar, Yadav, and Chaudhry 2004; Rapkin and Strand 2006). The latter is based on the Fund's formal and informal governance model. An 85 percent majority vote is required for major decisions and the U.S. has the potential to prevent major decision with 17.40 percent shares. Member states do not bring proposals up for votes that have not been approved by the U.S. (Woods 2006).

Fund reforms must be fundamentally different than the current quota regime. Quotas should be the sole factor deciding access to resources. Currently, quotas determine the contribution of member states in the Fund. Quotas determine how much money a member state can borrow and how much voting power the state assumes (Kelkar, Yadav, and Chaudhry 2004; Strand 2014). Quota reforms should remove the direct correlation between quota shares and the amount to be borrowed. Access to

facilities reserves should not be based on the 300 percent rule of a member's quota because this may not be sufficient for resolving a macroeconomic structural problem (Kelkar, Yadav, and Chaudhry 2004). Access to loans should be based on need with safety restrictions imposed and access to resources based on gross financing. In the past, the Contingent Credit Line and Supplemental Reserve Facility implied that distribution of loans was based on need not quota. Also, Fund members would have a sense of equality if the quota formula were not utilized because the current quota system creates a divide between rich and poor countries (Kelkar, Yadav, and Chaudhry 2004).

Expanding the Executive Board has been a controversial proposal. This would include the expansion of the Board to include representation for developing countries. This approach would be more viable, but obtaining consensus may become more difficult. Another proposal would be to limit the number of countries in a constituency group; this would allow for more effective representation by the Executive Director (Rapkin and Strand 2005).

As mentioned previously The Fund has embarked on a reform package that will improve governance. Beginning in 2008, the Fund embraced quota reform by reaching an agreement to increase the quotas of 54 member countries. China will see an increase of over 50 percent, South Korea will see a quota share increase of 106 percent, Turkey will increase by 51 percent, and Mexico will see an increase of 40 percent (IMF 2013).

The second major reform proposal was approved in 2010. According to International Monetary Fund data this reform package is historical because it will shift decision-making power to emerging market and developing countries. The top ten shareholders will represent the top ten economies in the international monetary system.

These countries will be the U.S. Japan, France, Germany, the U.K. Italy, Brazil, Russia, India, and China (IMF 2013).

The proposed reforms will provide 110 countries with a quota increase and will preserve the voting share of the poorest developing countries in the Fund. This will result in more than six percent in quota share to emerging and developing countries. Also, industrialized European economies will hold only two seats on the Executive Board and all Executive Directors will be elected (IMF 2013). The 14th GQR will double the current quotas to SDR 476.8 billion from SDR 238.4. Historically, the amendment process is not without discord and is often time consuming.

As of October 2013, as previously stated, the U.S. Congress has not approved the proposed quota and governance reforms. The U.S. is the largest shareholder and no country on the Executive Board will bring forward a proposal without U.S. approval. The U.S. has taken advantage of the formal governance structure of the Fund. Only large member states at the Fund have their own Executive Directors. The U.S. has the largest vote and has the opportunity to influence all decision it deems necessary (Woods and Lombardi 2006). The U.S. is strategically positioned at the Fund and Executive Board to maximize influence. The proposed reforms and the 14th GQR will not be implemented without U.S. approval. This is important because the U.S. is the only member states with the capacity to veto decisions requiring the 85 percent majority rule (Woods and Lombardi 2006).

Conclusion

The pending reforms and the 14th GQR have not diminished the disparity between the top ten economies in the international monetary system and their influence in the

Fund. Based on the data provided by the Fund for the pending 14th GQR the BRICS remain under-represented in terms of GDP and voting share when compared to the U.S., Japan, France, Germany, the U.K., and Italy (see table 10). The BRICS account for an aggregate 18.4 percent GDP that result in a total 14th GQR quota share of 11.5 percent. This will yield a combined voting share of 10.03 percent (IMF 2013).

Whether the reform process has gone far enough to diminish the disparity gap between rich and poor countries and the ongoing legitimacy problem is yet to be seen. Two pending reforms that cause concern are the all elected Executive Board and reducing the advanced European economies on the Executive Board. These reforms are problematic because there are no formal rules as to how members create constituencies. For example, if the EU members form one constituency, this will provide them with a quota share of 35.22 percent. Another hypothetical scenario that needs to be examined is the possibility of retribution for developing countries. If the European Union Executive Director candidate is not supported by small economies will this cause discord amongst members. It appears ongoing reforms have a number of unanswered questions that have the potential to create new problems. In sum, the Fund has not done enough to distribute quota shares to emerging market economies and reform governance in the Fund. Economic variables are not sufficient to replace the power politics ingrained in the institutional design of the Fund.

Table 1: Quota Shares for Low Income Countries

Country	Pre-Singapore	Post 2008	14th GQR	GDP Blend
Afghanistan	0.076	0.068	0.068	0.003
Bangladesh	0.250	0.224	0.224	0.238
Cambodia	0.041	0.037	0.037	0.028
Burundi	0.036	0.032	0.032	0.005
Benin	0.029	0.026	0.026	0.014
Guinea-Bissau	0.007	0.006	0.006	0.002
Central African Rep.	0.026	0.023	0.023	0.004
Chad	0.026	0.028	0.029	0.018
Ethiopia	0.063	0.056	0.063	0.074
Congo, Rep. of	0.040	0.035	0.034	0.025
Rwanda	0.037	0.034	0.034	0.012
Nepal	0.033	0.030	0.033	0.035
Malawi	0.032	0.029	0.029	0.012
Gambia, The	0.015	0.013	0.013	0.003
Mali	0.044	0.039	0.039	0.018
Haiti	0.038	0.034	0.034	0.013
Kenya	0.127	0.114	0.114	0.067
Liberia	0.060	0.054	0.054	0.002
Madagascar	0.057	0.051	0.051	0.019
Mozambique	0.053	0.048	0.048	0.022
Sierra Leone	0.049	0.043	0.043	0.006
Somalia	0.038	0.034	0.034	0.001
South Sudan	na	0.052	0.052	0.024
Tajikistan	0.041	0.036	0.036	0.013
Tanzania	0.093	0.083	0.083	0.055
Togo	0.034	0.031	0.031	0.006
Uganda	0.084	0.076	0.076	0.039
Zimbabwe	0.165	0.148	0.148	0.001
Comoros	0.004	0.004	0.004	0.001
Eritrea	0.007	0.008	0.008	0.004
Kyrgyz Republic	0.042	0.037	0.037	0.012
Guinea	0.050	0.045	0.045	0.011
Burkina Faso	0.028	0.025	0.025	0.020
Total N=33	1.730	1.600	1.610	0.852

Table 2: Quota Shares for Lower Middle Income Countries

Country	Pre-Singapore	Post- 2008	14th GQR	GDP Blend
Armenia	0.043	0.039	0.027	0.018
Bhutan	0.003	0.004	0.004	0.004
Bolivia	0.080	0.072	0.050	0.045
Cameroon	0.087	0.078	0.058	0.048
Cape Verde	0.004	0.005	0.005	0.003
Congo, Rep. of	0.040	0.035	0.034	0.020
Cote d'Ivoire	0.152	0.136	0.136	0.041
Djibouti	0.007	0.007	0.007	0.002
Egypt	0.442	0.396	0.427	0.481
El Salvador	0.080	0.072	0.060	0.044
Georgia	0.070	0.063	0.044	0.024
Ghana	0.173	0.155	0.155	0.067
Guatemala	0.098	0.088	0.090	0.078
Guyana	0.043	0.038	0.038	0.005
Honduras	0.061	0.054	0.052	0.033
Indonesia	0.973	0.872	0.974	1.222
Kenya	0.127	0.114	0.114	0.067
Kiribati	0.003	0.002	0.002	<0.001
Kosovo	n/a	0.025	0.017	0.012
Lao P.D.R.	0.025	0.022	0.022	0.015
Lesotho	0.016	0.015	0.015	0.004
Mauritania	0.030	0.027	0.027	0.007
Micronesia	0.003	0.002	0.002	0.001
Moldova	0.058	0.052	0.036	0.012
Mongolia	0.024	0.021	0.015	0.012
Morocco	0.275	0.247	0.187	0.172
Nicaragua	0.061	0.055	0.055	0.016
Nigeria	0.820	0.735	0.515	0.386
Pakistan	0.484	0.433	0.426	0.430
Papua New Guinea	0.062	0.055	0.055	0.018
Paraguay	0.047	0.042	0.042	0.038
Philippines	0.412	0.427	0.428	0.385
Sao Tome & Principe	0.004	0.003	0.003	<0.001
Swaziland	0.024	0.021	0.016	0.007
Senegal	0.076	0.068	0.086	0.025
Solomon Islands	0.005	0.004	0.004	0.002
Sri Lanka	0.193	0.173	0.121	0.105
Sudan	0.147	0.132	0.132	0.118
Syrian Arab Rep.	0.137	0.135	0.145	0.282
Timor-Leste	0.004	0.005	0.005	0.009
Ukraine	0.642	0.575	0.422	0.299
Uzbekistan	0.129	0.116	0.116	0.084
Vanuatu	0.008	0.007	0.005	0.001
Vietnam	0.154	0.193	0.242	0.253
Yemen	0.114	0.102	0.102	0.066
Zambia	0.229	0.205	0.205	0.010
Total N=46	6.667	6.127	5.723	4.972

Table 5: Quota Shares for EU Members

Country	Pre-Singapore	Post-2008 Reform	14th GRQ
Germany	6.086	6.107	5.583
France	5.024	4.502	4.225
Italy	3.301	3.305	3.159
Netherlands	2.415	2.164	1.831
Belgium	2.155	1.931	1.344
Sweden	1.121	1.004	0.929
Poland	0.640	0.708	0.859
Bulgaria	0.300	0.268	0.188
Austria	0.876	0.886	0.824
Ireland	0.392	0.527	0.723
Denmark	0.769	0.793	0.721
Greece	0.385	0.462	0.509
Finland	0.591	0.530	0.505
Czech Republic	0.383	0.420	0.457
Portugal	0.406	0.432	0.432
Hungary	0.486	0.435	0.407
Romania	0.482	0.432	0.380
Luxembourg	0.131	0.176	0.277
Slovakia	0.167	0.179	0.210
Croatia	0.171	0.153	0.150
Slovenia	0.108	0.115	0.123
Lithuania	0.067	0.077	0.093
Latvia	0.059	0.060	0.070
Cyprus	0.065	0.066	0.064
Estonia	0.031	0.039	0.051
Malta	0.048	0.043	0.035
U.K.	5.024	4.502	4.225
Spain	1.426	1.687	1.999
Total, N =28	37.82	36.80	35.22

Table 6: Quota and Voting Shares for the BRICS

Country	GDP Blend	Openness	Variability	Reserves	Pre-Singapore	Post-2008	14th GQR Quota share	14th GQR Voting Share
Brazil	3.134	1.142	1.502	3.382	1.420	1.782	2.315	2.217
Russia	2.681	2.106	2.822	4.803	2.782	2.493	2.705	2.586
India	3.680	1.793	1.607	2.900	1.945	2.441	2.749	2.627
China	11.65	8.534	5.882	32.20	2.980	3.994	6.390	6.068
South Africa	0.618	0.498	0.333	0.439	0.874	0.783	0.640	0.634
Total, N = 5	21.76	14.07	12.14	43.72	10.00	11.49	14.79	14.13

Table 7: Country Comparison for Voting Shares

Country	GDP Blend	Pre-Singapore Vote Share	Post-2008 Vote share	14th GQR Vote Share
China	11.65	2.928	3.651	6.068
Brazil	3.134	1.402	1.782	2.217
India	3.680	1.916	2.441	2.627
Sub-Total N=3	18.46	6.246	7.874	10.91
Germany	4.811	5.968	5.800	5.306
France	3.663	4.929	4.284	4.022
U.K.	3.369	4.929	4.284	4.022
Sub-Total N=3	11.84	15.82	14.36	13.35

Table 8: BRICS Population and UN Contributions

Country	GDP Blend	Pre-Singapore	Post-2008	14th GQR	Pop. % Share	UN %
China	11.65	2.980	3.994	6.390	18.96	3.118
Brazil	3.134	1.420	1.782	2.315	2.790	1.575
Russia	2.681	2.782	2.493	2.705	2.016	1.566
India	3.680	1.945	2.441	2.749	17.36	0.522
South Africa	0.618	0.874	0.783	0.640	0.719	0.376
Total, N=5	21.76	10.00	11.49	14.79	41.85	7.157

Figure 1: Population Percentages for the BRICS

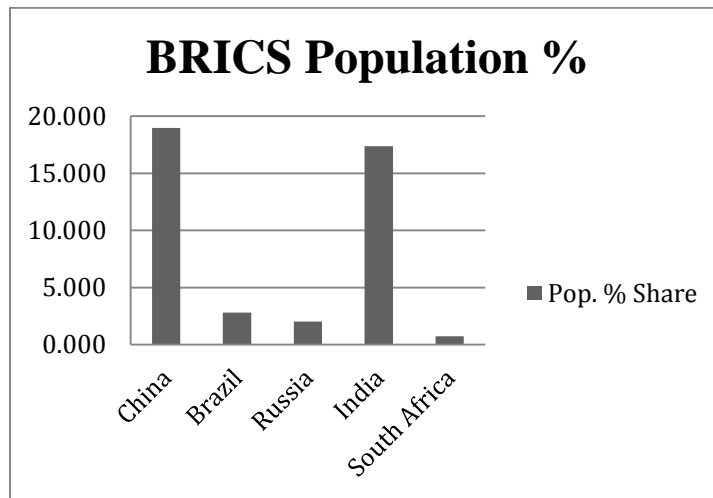


Figure 2: UN Contributions for the BRICS

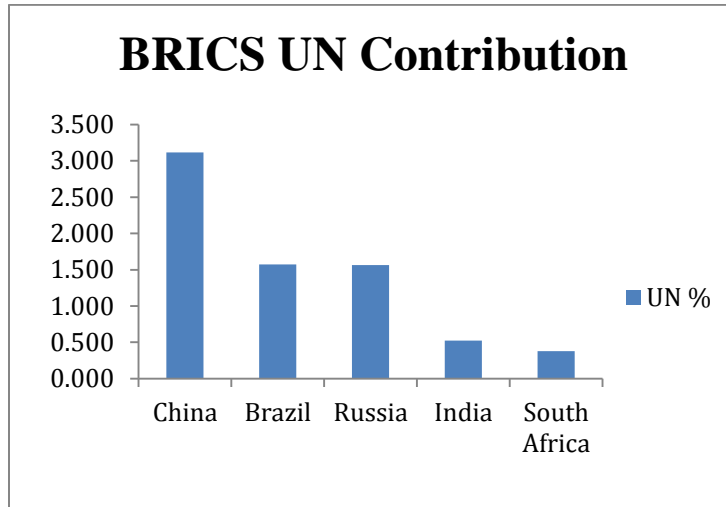


Table 9: G8 Population and UN Contributions

Country	GDP	Pre-Singapore Q. Share %	Post-2008	14th GQR	Pop. % Share	UN %
U.S.	21.57	17.38	17.66	17.40	4.408	23.91
Japan	7.512	6.228	6.553	6.461	1.791	12.25
Germany	4.811	6.086	6.107	5.583	1.150	7.838
U.K.	3.369	5.024	4.502	4.225	0.888	6.456
France	3.663	5.024	4.502	4.225	0.923	5.986
Italy	2.977	3.301	3.305	3.159	0.855	4.887
Canada	2.185	2.980	2.670	2.311	0.490	3.135
Russia	2.681	2.782	2.493	2.705	2.016	1.566
Total, N=8	48.77	48.81	47.79	46.07	12.52	66.03

Figure 3: G8 Population Share

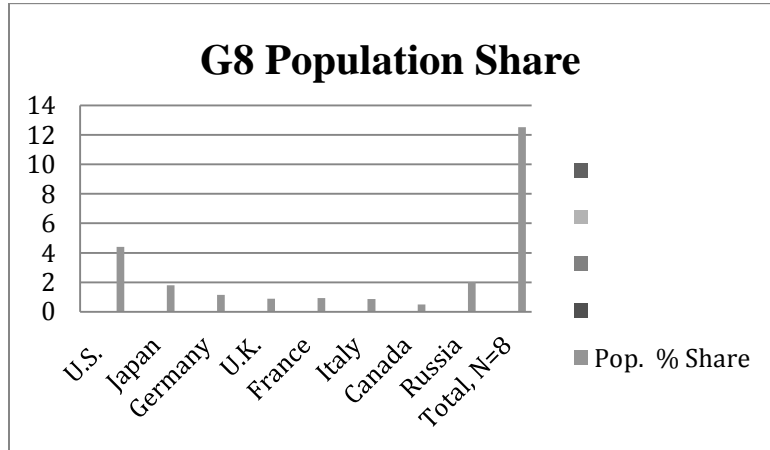


Figure 4: G8 UN Contribution Share

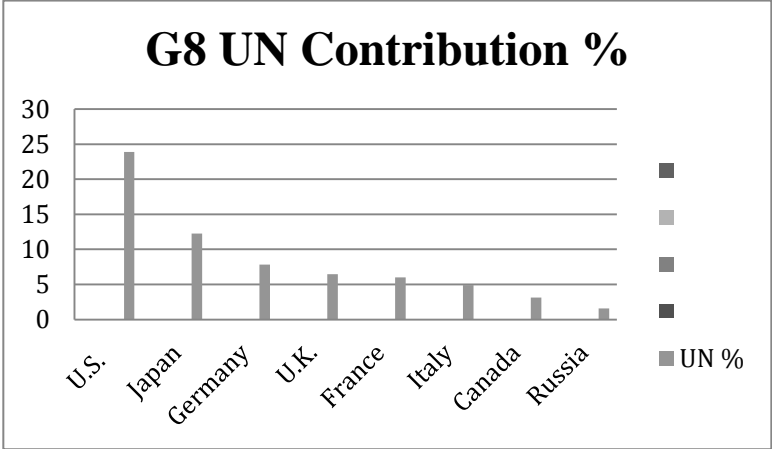


Table 10: G20 Population and UN Contribution

Country	GDP Blend	Pre-Singapore	Post-2008 Reform	14th GQR	Population % Share	UN %
China	11.65	2.980	3.994	6.390	18.96	3.118
India	3.680	1.945	2.441	2.749	17.36	0.522
U.S.	21.57	17.38	17.66	17.39	4.408	23.90
Indonesia	1.222	0.973	0.872	0.974	3.466	0.233
EU	9.358	13.67	13.58	13.18	3.332	12.90
Brazil	3.134	1.420	1.782	2.315	2.790	1.575
Russia	2.681	2.782	2.493	2.705	2.016	1.566
Japan	7.512	6.228	6.553	6.461	1.791	12.24
Mexico	1.814	1.210	1.520	1.868	1.697	2.303
Germany	4.811	6.086	6.107	5.583	1.150	7.838
Turkey	1.195	0.451	0.610	0.977	1.039	0.603
France	3.663	5.024	4.502	4.225	0.923	5.986
U.K.	3.369	5.024	4.502	4.225	0.888	6.456
Italy	2.977	3.301	3.305	3.159	0.855	4.887
South Africa	0.618	0.874	0.783	0.640	0.719	0.376
Korea, Rep.	1.725	0.764	1.411	1.799	0.702	2.209
Argentina	0.705	0.990	0.888	0.668	0.577	0.281
Canada	2.185	2.980	2.670	2.311	0.490	3.135
Saudi Arabia	0.786	3.268	2.929	2.095	0.397	0.811
Australia	1.643	1.514	1.357	1.378	0.319	1.890
Total, N=20	86.30	78.86	79.96	81.10	63.89	92.85

CHAPTER 7

CONCLUSION

This chapter summarizes the main aspects of the previous discussion to understand how the International Monetary Fund's institutional design has evolved over time and what steps need to be taken to ensure the Fund continues to fulfill its original mandate of overseeing the international monetary system. This thesis demonstrates power politics matters at every stage and level of Fund institutional design.

The Fund has two fundamental challenges. The first challenge is for the Fund to overcome the legitimacy crisis. The second challenge is for major shareholders to acknowledge the changing international monetary system. This acknowledgement must be inclusive of emerging markets and other developing economies. More than ever, emerging market economies are demanding Fund representation commensurate with their global economic strength.

The current legitimacy problem is rooted in the Fund's history. Recently, the legitimacy problem has been aggravated by the lack of reform implementation for equal representation for emerging economies. In the past, the Latin American debt crisis and the Asian Financial crisis created much resentment for the Fund. As mentioned in the previous chapters the Fund failed to respond adequately to macroeconomic and liquidity problems by applying the one size fit all approach.

This thesis examined the Fund's history and how global politics shaped the institutional design of the Fund. The original mandate was drafted by the U.S. and United Kingdom with the goal of establishing a post WW II international monetary system and encourages international trade. Bryant (2008) argues the Fund was originally established

to be political in nature. Dervis and Ozer (2005) argue the Bretton Woods system has been remarkably durable. The Fund has evolved over time and produced solutions to deal with ongoing problems of the time. For example, the creation of the SDR system was a response to the dollar not keeping up with the global need for liquidity.

Chapter two focused on the Bretton Woods System and how the architects of the system ingrained political factors into the institutional design of the Fund. The Bretton Woods System and the International Monetary Fund responded to changes in the international monetary system. For example, the creation of financial facilities and how the Fund took the lead in creating a new role for itself with assisting developing countries during global financial turbulence (Vreeland 2007). During this time the Fund became the de facto lender of last resort and embraced the role of policy advisor.

This chapter examined the historical analysis of Latin America and Fund conditionality. Also, it highlighted the Washington Consensus doctrine and the role it played in Latin America and future international financial crises. As Meltzer (1998) argues Latin American countries became indebted to the Fund due to high interest loans provided by private capital markets and Fund conditionality. Ultimately, other regions would also experience the frustration Latin American economies experienced due to the Fund's involvement.

The Asian Financial Crisis was highlighted in the chapter. The Asian Financial Crisis of the 1990s is important to the Fund's history because it explains the Fund's one size fits all approach to be fundamentally flawed in addressing international financial problems. This section examined a number of Asian countries and the policies advocated by the Fund. The end result was the Fund's conditionality failed to produce positive

financial solutions for the Asia region. As a result of the two regional cases highlighted in this chapter, the Fund's legitimacy problem became a serious ongoing challenge for the institutional design and governance of the Fund.

Chapter three focused on governance and the institutional design of the Fund. Areas of concern in the chapter included technical aspects like the Articles of Agreement, the quota and subscription power of the Fund, the weighted voting system, decision-making bodies, and formal and informal governance of the Fund. The quota share is correlated to the relative size of the country's economy; this determines voting shares, the amount of money available for borrowing, and SDRs. Also, important to Fund governance is the surveillance and conditionality powers the Fund has over member states.

Chapter three highlighted the formal and informal governance practices of the Fund to demonstrate the how power politics can override macroeconomic variables for loan approval and other important decisions for major shareholders of the Fund. Considerable time was dedicated to this section as it is most important for international organization scholars to understand the influence of formal and informal governance to decision making outcomes. Also, attention was given to studies conducted by Thacker (1999) Dreher, Strum, and Vreeland (2009), and Dreher and Vreeland (2011) regarding voting patterns of countries at the United Nations and how those votes correlated to favorable or unfavorable loan conditions.

Scholars like Stone (2002, 2008, 2011) and Thacker (1999) argue the Fund utilized non-economic variables to distribute loans for member states and that informal governance is part of the institutional design of the Fund. The formal rules of governance

solidify the power of major shareholders, particularly, the U.S. The ongoing legitimacy and resentment problem regarding loan conditionality dates back to the early 1980s during the crisis management role (Broome 2010).

Chapter four provided the reader with two case studies of power adjustment at the Fund. China's membership is an example of the Fund's ability to adjust to changes in the global political economy. After the modernization reforms in China, the Fund witnessed the membership of the most populated country. In 1983, China's admittance into the Fund would alter the future structure of the international monetary system. This case study examined internal Fund documents to detail the discord over quota allocations and the issue of China's representation.

The second case study for the chapter examined Russia joining at the end of the Cold War. The major shift for the Fund came when the road was paved for 14 regional countries to gain membership in the Fund. As a result, this made the Fund a nearly universal international organization. Russia's quota allocation also changed the Fund's institutional design. Russia obtained a seat on the powerful Executive Board with no obligations to represent a constituency. Overall, Russia's quota allocation resulted from informal governance and power politics at its best. More importantly, the Russia case study is an example of America unprecedented formal and informal influence at the Fund. Put differently, Russian membership was not a reality in the Fund until the U.S. allowed Russia to become a member.

Chapter five examined the institutional design post-Cold War with the emphasis on Japan, Europe, and the BRICS. Japan's role in the Fund has been one of financier, supporter, and power players within the institutional design of the Fund. This case

examines Japan's ascension through the hierarchy of the Fund. From the moments of passivity as rule takers to expecting a quota share commensurate with its global economic position. Japan also had a role in establishing the idea of multilateralism with the support of an Asian Monetary Fund.

This chapter addressed the problem of European over-representation and the institutional cleavages this has created between rich and poor states. Additionally, the European case study offers a glimpse of the power politics and informal governance at the Fund. For example, the European Council of Ministers and European Countries Representative in the Fund (EURIMF) have influence when speaking on issues that effect all participating countries (Bini Smaghi 2004). One issue that has been highly controversial is the issue of the Managing Director selection process. The selection process is a reflection of the implicit and explicit power political agenda manipulated by the EU.

Reform proposals have highlighted the debate over European over-representation in the Fund. The challenge for the European Union resides in how to simplify the complex and controversial issue of collectivity. If the EU renounces Executive Board seats, will this create polarization within the Fund? EU members will need to organize to obtain more voting power for their national interest. This may create an environment that is strictly political and confrontational in lieu of an environment that is supposed to be cooperative in nature. Also, this chapter examines the continued opposition to the European over-representation by the BRICS. The BRICS recognized the growing power of their economies and contributions to global economic growth. As a response in part to the growing representation issue at the Fund the BRICS have proposed a BRICS

Development Bank. However, much debate has been raised about the potential success of the proposed development bank.

Chapter six dealt with the descriptive data regarding quota and voting shares. The time periods examined were the pre-Singapore, Post-Singapore, and 14th GQR to make the observation between quota shares and the legitimacy of proposed reforms.

GDP was utilized as a standard measure to determine quota shares for the different country groups. Different income levels and groups of countries were examined including the EU, G8, and G20. Emerging economies like the BRICS were also examined to assess whether their quota shares are commensurate to their economic strength. Based on the data presented industrialized countries continue to be over-represented in the Fund. The main conclusion of this chapter was that the Fund did not go far enough to solve the problem of the ongoing legitimacy debate and a more equitable representation for emerging market economies. More importantly, the recent reforms send the implicit message that the Fund is not accountable to less powerful members. The findings in this thesis support the current theoretical literature that argue informal influence and governance in the Fund are more important than economic variables for the implementation of major decisions, loan conditionality, and decision making processes. The work highlighted by Thacker (1999) and Dreher and Vreeland (2011) provide examples of informal influence. The pending 14th GQR provides the most recent evidence that equality and burden sharing is not a major consideration of the major shareholders in the Fund. Table 1 indicates that low income countries are over-represented in quota allocation based on the aggregate GDP blend. Total GDP blend is 0.852 percent and the pending reforms will provide low income countries with 1.810

aggregate quota share. Table 7 compares voting shares for the three most powerful BRICS and the three European countries who are major shareholders in the Fund. China, Brazil, and India have an aggregate GDP blend of 18.46 which will result in a potential voting share of 10.91 percent of total Fund votes. Germany, France, and the U.K. account for a total GDP blend of 11.84 percent. This will result in a potential voting share of 13.35 percent. The evidence indicates that low income countries are over-represented with little potential to increase their GDP to significant levels that will move them into major shareholder status. The BRICS are under-represented with a GDP blend that justifies a larger quota share.

The previously mentioned reforms are responses to unprecedented economic times. The divide between rich states and poor states has been rarely so prevalent. Wade (2011) argues the industrialized economies are incorporating emerging economic actors into an industrialized Westernized concept of globalization. However, emerging economies are demanding more representation with little strategy and loyalty for their preferences. Perhaps, the case study of Japan's strategic ascension in the Fund will serve as a model for emerging and developing countries who seek a greater shift in the balance of power.

Ultimately, the 2010 reforms were a sign that developed economies, particularly the U.S. and EU members are not eager to cede decision-making influence to emerging market and developing countries. There is no denying the influence of formal and informal decision making processes and power politics within the institutional design of the Fund. The institutional design of the Fund will adjust to confront the challenges of a changing international political economy. However, adjustments in the Fund's

institutional design will reflect the legacy of John Maynard Keynes and Henry Dexter White that is rooted in power politics, institutional rules, and informal governance.

APPENDIX A: TABLE 3: UPPER MIDDLE INCOME COUNTRIES

Country	Pre-Singapore	Post 2008	14th GQR	GDP Blend
Algeria	0.587	0.526	0.411	0.293
Angola	0.134	0.132	0.120	0.143
Argentina	0.990	0.888	0.668	0.705
Azerbaijan	0.075	0.067	0.082	0.099
Belarus	0.181	0.162	0.143	0.121
Belize	0.008	0.009	0.010	0.003
Bosnia & Her.	0.079	0.071	0.056	0.035
Botswana	0.029	0.037	0.041	0.028
Brazil	1.420	1.782	2.315	3.134
Bulgaria	0.300	0.268	0.188	0.100
China	2.980	3.994	6.390	11.65
Colombia	0.362	0.325	0.429	0.507
Costa Rica	0.077	0.078	0.077	0.061
Dominica	0.004	0.003	0.003	<0.001
Dominican Republic	0.102	0.092	0.100	0.095
Ecuador	0.141	0.146	0.146	0.119
Fiji	0.033	0.029	0.021	0.005
Gabon	0.072	0.065	0.045	0.026
Grenada	0.005	0.005	0.003	0.020
Hungary	0.486	0.435	0.407	0.226
Iran	0.700	0.682	0.748	0.900
Iraq	0.556	0.498	0.349	0.214
Jamaica	0.128	0.115	0.080	0.026
Jordan	0.080	0.071	0.072	0.044
Kazakhstan	0.171	0.179	0.243	0.245
Lebanon	0.095	0.112	0.133	0.067
Libya	0.526	0.471	0.330	0.100
Malaysia	0.695	0.744	0.762	0.465
Maldives	0.038	0.041	0.004	0.003
Marshall Islands	0.020	0.025	0.001	<0.001
Mauritius	0.048	0.043	0.030	0.019
Mexico	1.210	1.520	1.868	1.814
Montenegro	0.013	0.012	0.013	0.008
Namibia	0.064	0.057	0.040	0.018
Palau	0.002	0.002	0.001	0.004
Panama	0.097	0.087	0.079	0.050
Peru	0.299	0.268	0.280	0.294
Romania	0.482	0.432	0.380	0.304
Samoa	0.005	0.005	0.003	<0.001
Serbia	0.219	0.196	0.137	0.079
Seychelles	0.004	0.005	0.005	0.002
South Africa	0.874	0.783	0.640	0.618
St. Lucia	0.007	0.006	0.004	0.002

St. Vincent	0.004	0.003	0.003	<0.001
Suriname	0.043	0.039	0.027	0.007
Thailand	0.506	0.604	0.673	0.605
Tonga	0.003	0.003	0.003	0.008
Tunisia	0.134	0.120	0.114	0.096
Turkey	0.451	0.610	0.977	1.195
Turkmenistan	0.035	0.041	0.050	0.043
Tuvalu	n/a	0.008	0.005	<0.001
Venezuela	1.244	1.115	0.780	0.522
Total, N=52	16.76	17.95	20.48	25.10

APPENDIX B: TABLE 4: HIGH INCOME COUNTRIES

Country	Pre-Singapore	Post-2008	14th GQR	GDP Blend
Antigua and Barbuda	0.006	0.006	0.004	0.002
Australia	1.514	1.357	1.378	1.643
Austria	0.876	0.886	0.824	0.553
Bahamas, The	0.061	0.055	0.038	0.013
Bahrain	0.063	0.074	0.083	0.038
Barbados	0.032	0.028	0.002	0.008
Belgium	2.155	1.931	1.344	0.675
Brunei	0.036	0.032	0.032	0.023
Canada	02.98	02.67	2.311	2.185
Chile	0.401	0.359	0.366	0.351
Croatia	0.171	0.153	0.015	0.100
Cyprus	0.065	0.066	0.064	0.035
Czech Republic	0.383	0.42	0.457	0.342
Denmark	0.769	0.793	0.721	0.041
Estonia	0.031	0.039	0.051	0.033
Equatorial Guinea	0.015	0.022	0.033	0.025
Finland	0.591	0.053	0.505	0.333
France	5.024	4.502	4.225	3.663
Germany	6.086	6.107	5.583	4.811
Greece	0.385	0.462	0.509	0.451
Iceland	0.055	0.049	0.067	0.019
Ireland	0.392	0.527	0.723	0.304
Israel	0.434	0.445	0.403	0.327
Italy	3.301	3.305	3.159	2.977
Japan	6.228	6.553	6.461	7.512
Korea, Republic of	0.764	1.411	1.080	1.725
Kuwait	0.646	0.635	0.579	0.327
Latvia	0.059	0.006	0.007	0.043
Lithuania	0.067	0.077	0.093	0.068
Luxembourg	0.131	0.176	0.277	0.073
Malta	0.048	0.043	0.035	0.014
Netherlands	2.415	2.164	1.831	1.128
New Zealand	0.419	0.375	0.262	0.196
Norway	0.782	0.079	0.787	0.545
Oman	0.091	0.099	0.114	0.100
Poland	0.064	0.708	0.859	0.839
Portugal	0.406	0.432	0.432	0.354
Qatar	0.123	0.127	0.154	0.207

Russia	2.782	2.493	2.705	2.681
San Marino	0.008	0.009	0.001	0.003
Saudi Arabia	3.268	2.929	2.095	0.786
Singapore	0.404	0.059	0.816	0.367
Slovak Republic	0.167	0.179	0.210	0.150
Slovenia	0.108	0.115	0.123	0.077
Spain	1.426	1.687	1.999	2.107
St. Kitts	0.004	0.004	0.003	0.001
Sweden	1.121	1.004	0.929	0.639
Switzerland	1.618	1.450	1.021	0.725
Trinidad and Tobago	0.157	0.141	0.098	0.034
U.A.E.	0.286	0.315	0.485	0.421
United Kingdom	5.024	4.502	4.225	3.369
United States	17.38	17.66	17.39	21.57
Uruguay	0.143	0.129	0.09	0.062
Total, N= 53	72.54	71.68	69.20	65.45

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