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BRICS and the IMF Reform: on the Way to a Fair Multipolar World Order

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Summary

The global economic crisis of 2008–2009 showed the need for serious changes of the existing international financial architecture. As a response to this challenge a new group called BRICS* was formed. From the very beginning BRICS set restructuring of the international financial institutions, primarily the IMF, to its high-level priority.

These were the developed European nations which became the most frequent category of IMF's borrowers during and after the crisis, while many developing countries turned into the net lenders. Under these circumstances, the IMF had to apply for assistance to the major developing nations. They, in turn, posed a question of reconsidering their voting power in the IMF that would adequately reflect the changes in the global economy. In 2000 the share of BRICS in the aggregated G-20 member states' GDP was only 25,45%. But in 2014 the share raised to 41,16%, approaching the one of G-7 countries (43,96%).

The IMF reform package was agreed at G-20 summit in Seoul in 2010. But the USA insisted on the packet mode of the reform, implying that any component could come into force only together with approval of the other parts.

* BRICS is the abbreviation using first letters of 5 countries – Brazil, Russia, India, China and South Africa.

That gives Americans, the only nation with veto power in the IMF, the possibility to block the reform.

The IMF reform means the quota increase for every BRICS country, except South Africa. As a result, the total IMF quota of the BRICS will rise from 11,493% to 14,799%. That brings the group closer to the blocking stake (15%), which can be easily reached in case of coordinated voting with a country, sharing the BRICS position.

That point seems to be the real reason for the USA to block the IMF reform, while 164 other countries have already approved it. Even some American experts notice that Washington opposes ratification of the agreed reform because it is reluctant to yield authority in the IMF to the developing countries, which pursue autonomous policy and are hard to exert influence on.

The BRICS member states must increase their pressure on the IMF authorities to promote alternative scenarios of the reform. Still the ultimate goal is to achieve the balance of power, when none of IMF member states or group of states obtains disproportional influence on the decision-making process.

BRICS and the IMF Reform: on the Way to a Fair Multipolar World Order*

The global crisis of 2008–2009 showed the necessity of serious changes to the existing international financial architecture. As a response to this challenge Brazil, Russia, India and China formed a new group called BRIC (renamed to BRICS after the South Africa's entrance in 2011). From the very creation restructuring of the international financial institutes, primarily the IMF, became the high-level priority of the new association.

The IMF is a key institute designed to maintain financial markets stability and struggle against world economic crises. Established in 1945 as a key element of Bretton Woods system, it still remains under persistent control of the US and the EU. The IMF's governance structure does not fully correspond to changes that happened in the world economy for the last 70 years, the relative economic decline of the West and rise of the new economic powers.

The highest decision-making body of the IMF is the Board of Governors, in which every participant state is represented by a governor and his deputy (alternate governor). Usually these are the ministers of finance or the governors of the member countries' central banks. The Board's competence includes strategic issues such as alteration of the Articles of Agreement (organisation charter of the IMF), admittance and exclusion of member countries, determination and revision of their shares in the IMF's capital etc. The share of member countries in the IMF's capital stock, so-called "quota", determines the number of votes at the disposal of Board of Governors' members.

* The paper is based on the report in "Problems of National Strategy", № 3, 2015.

The Board of Governors appoints the members of the Executive Board, permanent body (directorate) in charge of development and implementation of the IMF's operating policy. In particular, the Executive Board decides on credit arrangement for sovereign borrowers, supervises their economic, financial and budgetary policies, provides the reforms directions and administers financial resources of the IMF.

Inter alia, the Executive Board elects for a five-year term the Managing Director who serves as a Board's chairman, directs the operating staff and acts as the IMF's main representative in negotiations with national governments and international organisations. Traditionally this position is occupied by the EU delegate (most often the French one), since June 2011 – Christine Lagarde.

The IMF Executive Board work features

The quota defines the number of votes at the disposal of an Executive Board's member while some members represent a group of countries. The IMF comprises 188 member states, but its Executive Board consists of 24 directors. Thus, only five countries possessing major quotas – the USA, Japan, Germany, France and the United Kingdom – have the right to appoint their own director. Other three nations – China, Russia and Saudi Arabia – actually appoint their own directors as well, because each of them forms a separate electoral group. The remaining states are distributed between 16 groups, electing one director per group, who possesses all the votes of his group members.

Generally, states are united in groups according to the rule of geographical distribution, but there are some exceptions. For instance, the group headed by Switzerland, includes Azerbaijan, Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan as well as Poland and Serbia (See Fig.). It is jokingly called "Helvetistan".

All the IMF quotas form the Fund's capital that is used to supply credits to the member states in need. Last time the capital was rebuilt at the times after the Asian financial crisis of 1998. As a result, relative financial power of the IMF and its capability to influence the global financial situation declined. According to *the Economist* estimates, the ratio of the Fund resources to the gross world product fell by one half if compared to 2000[1].

New IMF resources and the necessity of quotas alteration

The crisis of 2008–2009 demonstrated that the IMF lacked funds for granting aid to every state in need. Besides, the developed European countries turned out to be the most frequent category of the IMF's borrowers, while many "new economies" became net lenders. The developed countries couldn't provide enough funds, so the IMF had to apply for the major developing nations for assistance. They, in turn, posed a question of quotas reconsideration, which would adequately reflect the late changes in the world economy, namely the increase of the developing countries' share in the gross world product (Tab. 1).

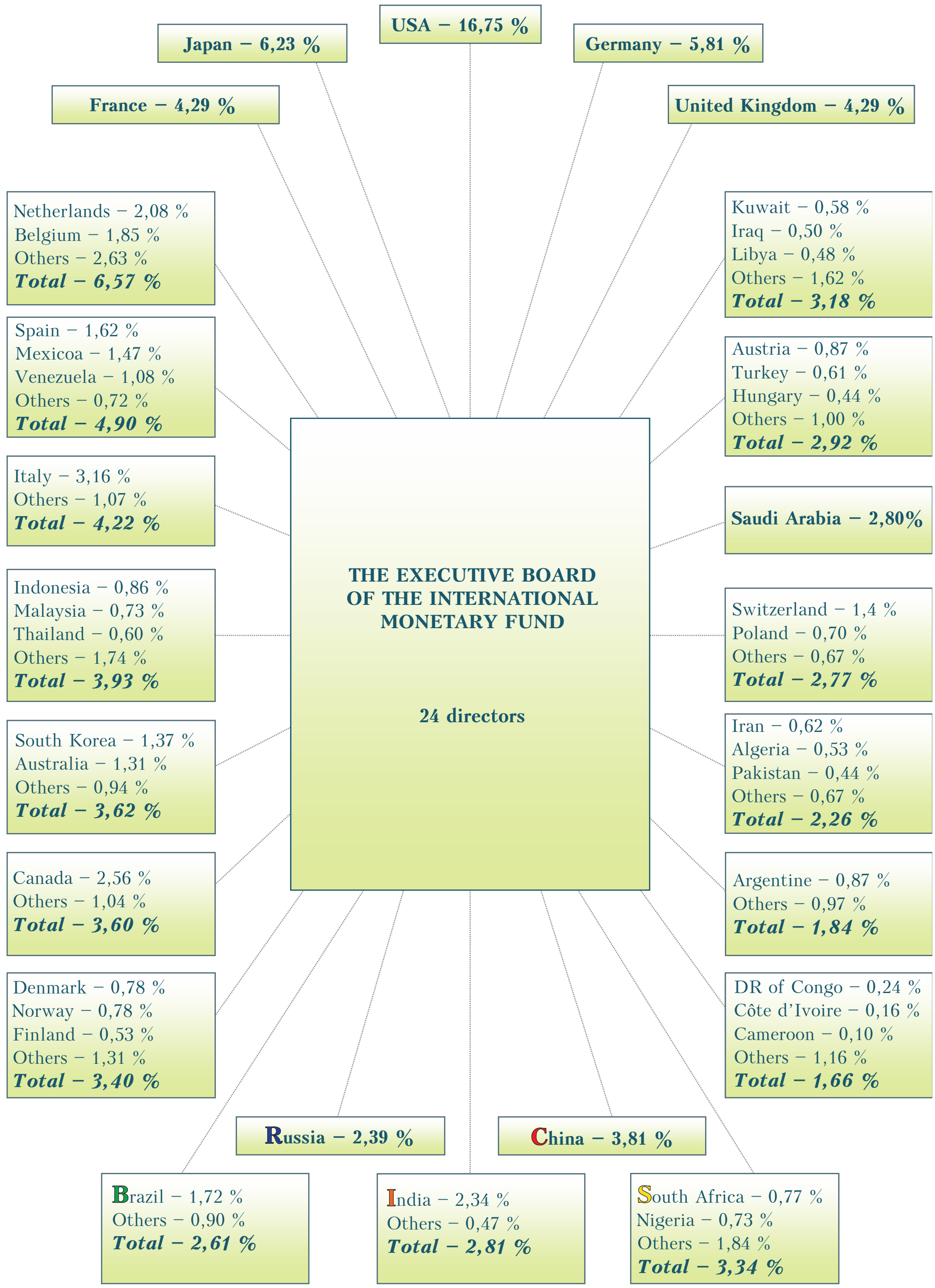

Fig. The IMF Executive Board structure (Source: the IMF data[2])

Table 1

GDP and international reserves of "G-20" states in 1990–2014, USD billions

Country	GDP by purchasing power parity								International reserves amount	
	1990	2000	2007	2008	2009	2010	2013	2014*	2008	2014
"G-7"										
USA	5 979,6	10 284,8	14 477,6	14 718,6	14 418,7	14 964,4	16 768,1	17 418,9	77,6	130,1
Japan	2 359,4	3 236,7	4 243,0	4 281,2	4 075,3	4 317,0	4 685,3	4 750,8	1 030,6	1 260,5
Germany	1 636,7	2 429,1	3 186,0	3 273,6	3 114,4	3 276,6	3 610,1	*3 721,6**	138,0	192,8
France	1 112,4	1 678,3	2 269,4	2 318,4	2 267,3	2 340,2	2 534,5	2 580,8	102,9	143,4
United Kingdom	979,8	1 522,4	2 209,8	2 245,6	2 165,1	2 233,5	2 449,7	2 548,9	53,0	107,7
Italy	1 134,8	1 628,8	2 100,0	2 118,8	2 017,8	2 077,4	2 106,0	2 127,7	105,3	142,2
Canada	558,4	908,1	1 281,0	1 321,5	1 295,4	1 355,5	1 530,0	1 591,6	43,9	74,7
Group total	***13 761,10***	***21 688,20***	***29 766,80***	***30 277,70***	***29 354,00***	***30 564,60***	***33 683,70***	***34 740,30***	***1 551,30***	***2 051,40***
% of G-20		***60,18%***	***52,48%***	***50,97%***	***49,15%***	***47,89%***	***44,76%***	***43,96%***	***28,96%***	***23,69%***
BRICS										
China	1 091,2	3 608,3	8 790,8	9 826,8	10 813,8	12 085,5	16 173,3	*17 617,3**	1 953,3	3 869,0
India	997,7	2 100,7	4 156,1	4 402,5	4 812,1	5 370,6	6 783,7	7 375,9	254,0	322,8
Russia	–	1 530,6	2 874,3	3 084,5	2 865,5	3 031,0	3 491,6	*3 564,5**	426,3	385,5
Brazil	1 004,0	1 585,2	2 392,3	2 561,7	2 575,1	2 803,9	3 212,3	3 263,8	193,8	363,6
South Africa	235,7	346,1	552,5	581,3	576,7	601,5	684,0	704,5	34,1	49,1
Group total	***3 328,60***	***9 170,90***	***18 766,00***	***20 456,80***	***21 643,20***	***23 892,50***	***30 344,90***	***32 526,00***	***2 861,50***	***4 990,00***
% of G-20		***25,45%***	***33,09%***	***34,44%***	***36,24%***	***37,43%***	***40,32%***	***41,16%***	***53,42%***	***57,64%***
Other "G-20" member states										
Australia	321,5	550,0	827,7	866,5	886,8	917,9	1 051,2	1 095,4	32,9	53,9
Argentine	234,7	435,1	668,2	702,2	707,9	784,3	929,6	*947,6**	46,4	31,4
Indonesia	526,3	958,5	1 610,3	1 764,1	1 861,1	2 004,0	2 511,4	2 676,1	51,6	111,9
Mexico	705,0	1 210,6	1 690,6	1 747,9	1 678,4	1 785,7	2 065,9	2 140,6	95,3	195,7
Republic of Korea	322,3	773,4	1 284,9	1 347,2	1 367,0	1 473,7	1 697,0	1 778,8	201,2	363,6
Saudi Arabia	373,7	599,3	1 012,4	1 119,3	1 148,4	1 217,8	1 527,7	1 605,7	442,7	732,4
Turkey	372,9	655,5	1 089,1	1 117,8	1 071,9	1 184,4	1 444,6	*1 508,1**	73,7	127,3
Group total	***2 856,40***	***5 182,40***	***8 183,20***	***8 665,00***	***8 721,50***	***9 367,80***	***11 227,40***	***11 752,30***	***943,80***	***1 616,20***
% of G-20	***14,38%***	***14,43%***	***14,59%***	***14,60%***	***14,68%***	***14,92%***	***14,87%***	***17,62%***	***18,67%***	***14,38%***

Source: World Economic Outlook Database WEO Data: April 2015 Edition URL: http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx (accessed: 19.04.2015), International Financial Statistics / IMF eLibrary Data: web-site. URL: http://data.imf.org/ (accessed: 19.04.2015).

* According to IMF estimates.

The changed role of the largest developing countries in the global economy pushed them to strive for more substantial representation in the IMF. The rise and progressive strengthening of the BRICS group gave the member states an impetus to more strident promotion of their interests, including their broader participation in the international financial institutions' governance.

In response to the growing misbalance between shares of some states in the gross world product and their IMF's quotas, as well as to the need in additional financial resources, the IMF's executives and the world leaders agreed a reform package at the G-20 summit in Seoul in 2010. The reform's aim, they stated, was the "legitimacy strengthening" of the IMF, as well as more adequate representation of the emerging counties[3].

The reform package included three main components:

1) A general quota review in accordance with the member countries' role in the world economy.

2) The double increase of the IMF capital (to 477 SDR billion or c. $737 billion) based on the quotas review.

3) The reorganisation of the Executive Board appointing system, which would make all of its Directors elected.

The IMF capital doubling implied additional contributions from every member state to replenish the IMF stock. In particular, the USA is to increase their share from $65 billion to about $128 billion and Russia – from $8,9 billion to $19,35 billion. However, the real payments will be significantly lower, due to the New Agreements to Borrow (NAB) – the temporary financial mechanism addressing the urgent needs of the IMF – which was established in 1997 and funded by donor countries. The reform package suggests that the NAB contributions would be converted into the common IMF stock. For example, the real US budget expenses should amount to $315 million only[4]. While Russia would not have to make additional payments, because the amount of funds reserved within its NAB donation exceeds the contribution required to double the IMF quotas.

Privileged position allows the USA to block the IMF reform

In accordance with the IMF charter, general quota review requires the approval of member states, holding at least 70% of total quota. At the same time to reform the Executive Board there should be accordance of 3/5 of total IMF participants (i.e. 133 states), holding 85% of total votes. Nevertheless the USA insisted on the packet mode of the IMF reform, so any of its components can come into force only with the approval of the rest of them. Thus, realisation of the reform was in fact undermined because it became dependent on the good will of a single country.

Only the USA possesses the quota exceeding 15% that allows it to impose a veto upon any strategic decision requiring 85% votes (such as alteration of the governing bodies structure or the IMF charter). Besides, the EU states obtain 30% of votes that allows them to block any decision requiring a 70 percent majority (becides approval of quotas revision, it is required for decisions on financial matters, notably interest rates on the IMF credits etc.[5]). Mainly this Western countries' capability made it possible for them to have inadequately great impact on the IMF policy.

That is why quota review is considered to be the crucial element of the reform. According to the IMF's regulations, general reviews should be conducted every 5 years. 15 December 2010 the Executive Board accomplished 14th general quota review and resolved to augment the developing countries representation and consequently to curb the share of the developed countries, which suffered from the crisis and following recession. As reported by the IMF's documents, the reform will "shift more than 6 percent of quota shares from over-represented to under-represented member countries"[6].

The greatest quote reduction is expected for the EU countries. The share of 27 member states of the European Union will decrease from 31,9% to 30,2% i.e. by 1,7 p.p. It is noteworthy that in 2006 the Europeans already agreed to concede 1% to China and a range of other rapidly growing economies (Republic of Korea, Mexico and Turkey)[7].

The U.S. share at the IMF has to contract from 17,661% to 17,398%, while their number of votes is to diminish from 16,718% to 16,471%. It is close enough to the threshold of 15% giving Washington the right to block significant institutional changes in the IMF.

The BRICS role in the IMF

The IMF reform means the quota increase for every BRICS country, except South Africa. The most significant growth will be the one of China (from 3,994% to 6,39%), that will shift from the sixth to the third place in the list of the major IMF stockholders (Table 2). Russia's quota is to increase from 2,493% to 2,705% (thereby almost recovering position, lost due to revision of 2008) and the number of votes – from 2,385% to 2,586%. India's quota is to grow from 2,441% to 2,749%, thus surpassing the Russian share a bit. The Brazilian share should augment as sufficiently, as India's one, by 30% (from 1,782 to 2,315%)[8].

As a result, the total IMF quota of the BRICS counties will increase from 11,493% to 14,799%. That brings the group closer to the

Table 2

IMF principle stakeholders by the quota size

Country and its rank	At present	Country and its rank	After the IMF reform entering into force
1. USA	17,661	1. USA	17,398
2. Japan	6,553	2. Japan	6,461
3. Germany	6,107	3. China	6,390
4. France	4,502	4. Germany	5,583
5. United Kingdom	4,502	5. France	4,225
6. China	3,994	6. United Kingdom	4,225
7. Italy	3,305	7. Italy	3,159
8. Saudi Arabia	2,929	8. India	2,749
9. Canada	2,670	9. Russia	2,705
10. Russia	2,493	10. Brazil	2,315

Source: the IMF statistics.

blocking stake, which can be easily reached in case of coordinated voting with the countries, sharing the BRICS position. For example, joining efforts with Argentine (present quota 0,888%, and after the reorganisation 0,668%), Venezuela (1,115% and 0,78% respectively) or Iran (0,628% and 0,748%)[9] will help the BRICS to block the IMF decisions, taking into account that Argentine and Iran definitely dominate in their groups in the Executive Board. Such a perspective seems to cause some anxiety in Washington.

At the same time, the BRICS countries consistently state the necessity to revise existing methodologies of quota's calculation and distribution of votes between the IMF's member states. At present, this calculation is performed under the formula adopted in 2006, which is the most beneficent for the developed states. Such criteria as "openness of economy" and "flexibility" lead to overestimation of the EU counties' quotas, as they trade with each other and exchange investments actively. And vice versa, the economies more focused on internal market with less extensive foreign ties (such as India, for instance) are placed in relatively worse position.

Developed countries preserve control over the IMF

GDP-specific conditions in the IMF's formula affect the countries' quotas ratio too. Market exchange rates of emerging countries' currencies are relatively low, so their GDP based on market rates is lower than the one valued at purchasing power parity (PPP). The IMF quota formula favors market exchange rates and therefore gives preferential treatment to the developed nations. Moreover, such factor as amount of international reserves because of its modest weight (5%) in formula does not allow to evaluate properly significant gold and foreign currency reserves accumulated in the developing countries.

As a result, even after the IMF's reorganisation approved in 2010, some Western states, mainly European ones, will preserve disproportionally significant presentation in the IMF's governance. For example, the GDP of France amounts to $2,8 trillion representing 3,63% of gross world product at market rates, but only 2,37% if calculated at PPP (according to the World Bank data for 2014[10]). However, the country's IMF quota is as great as 4,5% and will decrease only to 4,2% after the review (Table 3).

Thus, the 14th general quota review will not lead to dramatic changes in the IMF governance. That is why as of May 8, 2015 164 members with total quota of 80,34% accepted the increase in quota. That was more than enough to proceed with the quota review separately from other components of the IMF's reform package. But for the quota increase to become effective, the entry into force of the proposed amendment to reform the Executive Board is required. As of May 8, 2015 only 147 members having 77.25% of total voting power had accepted this amendment, short of the required 85% threshold[11].

According to the IMF press release, in the newly formed Executive Board the developed European countries are to lose 2 places[12], while they are currently possessing 8 ones. Yet some experts consider that there will rather be some kind of "cabinet shuffle" between "developed" (Western) Europe and "developing" (Eastern) Europe that strongly hinges on the EU[13]. Most likely European representatives will still be able to control the course of voting in their groups and consequently keep dominance in the Executive Board.

Besides, replacement of the Executive Board members' appointment with elections does not mean the procedure will be completely free and democratic. The Board composition will still be defined by offstage arrangements between various countries, as it is nowadays. The countries with the biggest quotas will remain in a privileged position and will be able to "elect" their representatives in the groups where the directors are now "appointed".

The developed nations are also more inclined to coordinate their activities, so they can elaborate and maintain the coordinated policy in the IMF's authorities. By contrast, the developing countries tend to act separately and so turn out to be in a minority and cannot influence the decision-making process.

Even for the BRICS, the IMF governance reorganisation will not bring any substantial changes to its role at the IMF. Nonetheless, the BRICS states officially support the transition to the Executive Board electiveness, because it can pave the way to the Board's transformation into a more technical authority and lowering the level of some countries' political representation.

Obstructive position of the U.S. Congress

The main obstacle to the IMF reform is the refusal of the U.S. Congress to ratify the agreement under consideration. The American legislature is controlled by the Republican party, which is in strident opposition to the Barack Obama's administration policy. Among the main declared reasons to refuse the ratification are the concerns to burden federal budget with additional liabilities in the context of high government debt and also reluctance to support any political project of the White House.

Meanwhile, the most competent congressional representatives oppose the ratification on the grounds of

Table 3

Worlds' biggest economies by their share in the world GDP as of 2014

Country and its rank	Share in the world GDP, at market prices (%)	Country and its rank	Share in the world GDP at PPP (%)
1. USA	22,37	1. China	16,62
2. China	13,30	2. USA	16,06
3. Japan	5,91	3. India	6,82
4. Germany	4,95	4. Japan	4,27
5. United Kingdom	3,78	5. Russia	3,45
6. France	3,63	6. Germany	3,40
7. Brazil	3,01	7. Brazil	3,01
8. Italy	2,75	8. Indonesia	2,47
9. India	2,65	9. France	2,37
10. Russia	2,39	10. United Kingdom	2,33

Source: the World Bank statistics.

undesirability to yield influence and authority to the developing countries, which discord with the USA on many crucial issues of politics and economy. In public such reluctance is motivated by "immaturity" of the developing nations and their ill-preparedness to take responsibility for important decisions concerning the world financial system[14].

At the same time, it would not be correct to attribute the stumble of the ratification process to the Republican opposition only. It seems that the Obama's administration decided to leave the reform to itself and only formally tried to pass knowingly rejectable bill through the unfriendly Congress, feeling the project futility.

The impediment of the IMF reorganisation arouse criticism not only from the developing countries, but even from Americans and other representatives of the developed world. They are worried about the decline of the IMF influence and the emergence of the alternative financial institutions, because the IMF is one of the key levers of the Western influence on the developing and the least developed countries[15].

The situation is even more disturbing to the IMF authorities themselves, whose voice is becoming gradually less important at solving problems of the global economy development. For a long time the IMF authorities exercised extreme caution, trying to avoid criticism in relation to their principle stockholder's policy. They have been only expressing hope that Washington would approve the reorganisation in the near future. However, with the ratification continuously delayed the IMF Managing Director C. Lagarde started to show growing impatience and open dissatisfaction with the USA position. In December 2014 the official statement of the IMF governor contained "disappointment" over behavior of the USA official bodies. On January 15, 2015, the Managing Director expressed "profound disappointment in the political powers who have so far failed to grasp the benefits of the reform both for their own country and for the world at large"[16].

Thereby the IMF administration somehow admitted that the reorganisation had got stuck for the long haul. The officials rushed to work out options to bypass the American veto. However until the present there has been no certain proposition from the IMF expressed. The impediment of the alternative reorganisation plans' creation witnesses the IMF incompetence or unwillingness to find solution to the emerged problems.

Further prospects of the reform in the context of the USA counteraction

The most obvious way to restart the IMF reorganisation is to divide the 2010 package into its separate components. As American scientist E. Truman denotes, the US law requires congressional approval to implement an increase in the US IMF quota, but congressional approval is not required for the United States to vote favorably on the IMF governors' resolution to increase its own quota, concerning other IMF members[17]. This decision leads to dilution of the US share in the IMF capital and thus to the loss of its veto power allowing implementation of the rest parts of the program. The approval could be given by the White House only without the congressional consent, in reliance upon the promise by other IMF members to restore the US share in the future, after implementing the reform. The Brazilian representative at the IMF P. Batista came forward with the same kind of proposition[18]. But it is hardly possible that Washington would agree to follow this course.

Ad hoc increase of quotas (out of the funds of developed countries or granting additional resources) will enable to raise the share of the selected group of states with insufficient representation level. That is what Deputy Managing Director Zhu Min stated in April 2015, saying that the IMF had already launched "plan B"[19]. Nevertheless, this option will require approval of the American administration as well and Washington may try to sow discord within the BRICS member states, proposing the share increase for only one or two countries from the five.

In these circumstances, the group members must stress that they stand for the complete implementation of the reorganisation plan and against any ad hoc decisions. This position was proved at the BRICS summit in Ufa where the leaders of member states stated that they "remain deeply disappointed with the prolonged failure by the United States to ratify the IMF 2010 reform package"[20].

In our view, the BRICS nations have to express more actively common position towards the American obstructionism, underlining Washington's unwillingness to fulfil earlier taken obligations. It should be taken into account that further delaying of the IMF reform will lead to the definitive loss of the Fund's legitimacy and its influence on the world financial system. It is also important to attain shifts in the IMF policy in order to prevent the Western countries from using the IMF resources in their own interests, in particular from pushing to change borrowers' economical paradigm and geopolitical orientation as well as buying their loyalty.

The BRICS member states must increase their pressure on the IMF authorities to promote alternative reform scenarios. One of such opportunities could be a nomination of BRICS candidate for the position of the IMF Managing Director (in 2016 the current Director C. Lagarde's term of office will expire).

The developed countries representatives seem to be less and less capable to valuate adequately the new challenges, emerging in the global economy. For the last decade the IMF was not able neither to avert global financial crises, nor to provide effective assistance to the states got into trouble (Greece, for instance), or to bring about a compromise between its member states regarding realisation of the agreed reforms. All that indicates the necessity of profound changes in the IMF authorities, which could begin with a BRICS nominee for the post of the IMF Managing Director.

The forthcoming China's G-20 presidency will facilitate the positions' unification, as it provides additional opportunities for determination of the Group's priorities for the next year. One of them can be formulated as overcoming the IMF legitimacy crisis.

It is reasonable for the BRICS to proceed from the assumption that the need for the IMF as an international lender of last resort will remain in the long run, hence the member states should strive for further reorganisation of its governance system. In particular, they could make some proposals concerning the review of quota calculation formula. Still the ultimate BRICS' goal is to achieve the balance of power, when none of the IMF member states or group of states obtains disproportional influence on the decision-making process.

Footnotes

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