



## China is gaining weight in IMF

By CK Wong 2006.07.11

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### Introduction

China has the voting power of Belgium which plays minor economic role in the world. Change has been proposed to reform the American-Japan-Europe dominated IMF. This will give China the muscle and voice to speak for its monetary reform rather than bulldozed into.

### IMF Power Circle

IMF has a membership of 184 countries. According to its Articles of Agreement, its operations involve surveillance, financial assistance and technical assistance to meet the needs of its members. Its decision making process is divided into two tiers. The plenary level is represented by the Board of Governor which consists of one governor from each of the member countries. The policy work is done by the International Monetary Fund Committee (IMFC) which has members from 24 countries. Day-to-day work is carried out by its 24-member Executive Board guided by IMFC.

The Executive Board has an uneven voting power among the member countries:

Director Alternate	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Percent of Fund Total
<b>Appointed</b>				
Vacant <i>Meg Lundsager</i>	United States	371,743	371,743	17.08
Shigeo Kashiwagi <i>Michio Kitahara</i>	Japan	133,378	133,378	6.13
Klaus D. Stein <i>Stephan von Stenglin</i>	Germany	130,332	130,332	5.99
Pierre Duquesne <i>Olivier Cuny</i>	France	107,635	107,635	4.95
Tom Scholar <i>Jens Larsen</i>	United Kingdom	107,635	107,635	4.95

Source: IMF <http://www.imf.org/external/np/sec/memdir/eds.htm> More details could be found on the link provided above.

It is clear that US, Japan and Europe dominate the decisions. The combined voting power of these 5 countries constitutes 39.1% of the decision. While China is the world fourth largest economy after Germany (from World Economic Forum), it has the voting power of 2.94% which is behind the France and UK and about the same as Belgium.

With the growth of BRIC (Brazil, Russia, India, China), the decision making process has to be reformed to a more appropriate representation. Otherwise, the West will dominate the process.

## The Change

In the proposal to be tabled at the Annual Meeting in Singapore on September 19-20, 2006 involves China, South Korea, Mexico and Turkey. The changes have two parts. The first part is to raise their quota as following:

	Current Quota (in millions of SDRs)	Proposed Quota (in millions of SDRs)	Current Quota (in millions of US dollars)	Proposed Quota (in millions of US dollars)
China	6,369.2	8,090.1	9,465.5	12,023.0
S. Korea	1,633.6	2,927.3	2,427.7	4,350.4
Mexico	2,585.8	3,152.8	3,842.8	4,685.5
Turkey	964.0	1,191.3	1,432.6	1,770.4

Further more the Executive Board's proposal calls for at least a doubling of the basic votes that each IMF member possesses and thereby at a minimum protect the exiting voting share of low-income countries as a group. The objective is to enhance the capacity of African offices to effectively participate in the governance of the Fund.

This is a very convoluted proposal. Mathematically, when you double the vote for everyone, then the ratio remains thus nothing change. We can wait for the details to emerge.

## Fairness

The proposal is a still a long way to create a fair and square treatment for China. Simply put, China should have at least the same number of vote of Germany because you can trust China will by-pass Germany's economy soon and challenge Japan, i.e. 130,000. With all the flag waving and yelling that complain China export deflation and RMB is undervalue, the IMF is a machine that used by the dominated countries to influence other country's monetary system rather than taking the natural course to achieve it. For China, the joining of IMF becomes a whip to attack its human right position, intellectual property right handling and trade imbalance. This is not a fair treatment to China. I can bet China will be vocal in the Singapore meeting.

G7 has been setting up barrier for China's economy penetrating America and Europe rather than helping which was offered to Japan in the 1980's and 1990's. However, they rely on the Chinese exported deflation to survive. This will be backfired. China is using its ally of Russia, Middle East and South America as bargaining chip. When the West found that the energy supply is choked, the table will be turned. For the meantime, China

does not have to stage any major confrontation. It just has to walk the talk. Soon G7 will listen.

## Resources

- [1] *IMF reforms benefit China, other*, AFP, 2006.09.02, [http://www.chinadaily.com.cn/china/2006-09/02/content\\_679942.htm](http://www.chinadaily.com.cn/china/2006-09/02/content_679942.htm)
- [2] *International Monetary Fund*, <http://www.imf.org/>
- [3] *International Monetary Fund*, *Wikipedia*, <http://en.wikipedia.org/wiki/Imf>
- [4] *IMF Executive Board Recommends Quota and Related Governance Reforms*, Press Release No. 06/189, 2006.09.01, IMF, <http://www.imf.org/external/np/sec/pr/2006/pr06189.htm>